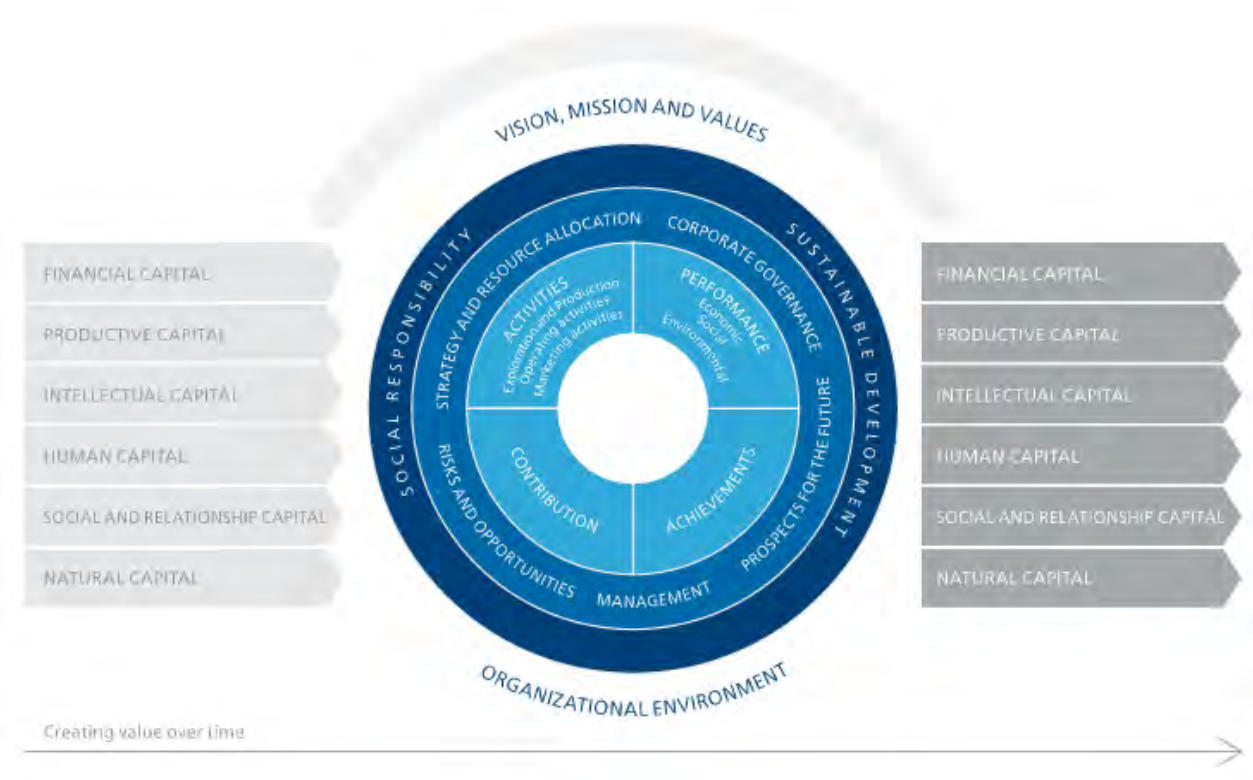


# Value growth strategy

# Value growth strategy

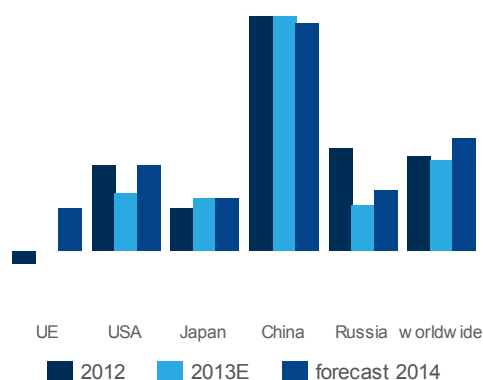
The LOTOS Group's overarching strategic objective is to create value for shareholders by optimising its utilisation of human and material resources and by continually developing its oil exploration and production, processing and trading activities. We decided to develop these areas in accordance with the principles of sustainable growth, which we define as the continuous effort to reduce our environmental footprint, and by paying due regard to the intellectual capital and experience of our personnel.

## Creating LOTOS value



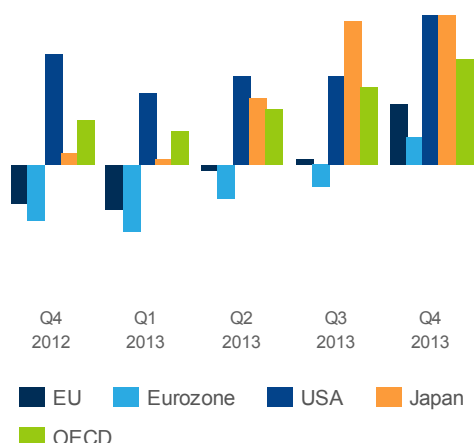
# Global macroeconomic situation

GDP growth in 2012-2014



Source: In-house analysis based on IMF data (October 2013 and January 2014).

GDP growth in 2012-2013  
(y-o-y change)



Source: In-house analysis based on Eurostat, OECD, and International Monetary Fund data.

The global economic situation in 2013 was below market expectations. The key economies of the world continued growing, often at rates lower than in previous years.

Developed economies were supported by loose monetary policies and efforts to maintain market liquidity.

While in 2013 the global economy continued to grow, the estimated growth rate (+3.0%) was lower than expected in the forecasts published in April and July 2013, though it did come in slightly above the October 2013 estimates. Similarly, the forecast for the 2014 global GDP growth rate has been revised upward by 0.1pp, and now stands at 3.7%.

Despite a number of remedial steps and reforms undertaken in the eurozone countries, they still suffered an estimated 0.4% decline in GDP in 2013. However, the GDP growth rate in the eurozone is expected to return to the positive territory in 2014. <sup>(1)</sup>

Developed countries may be expected to further stimulate economic growth with continued support from monetary policy (without further loosening), balanced fiscal policy and further structural reforms, to address key economic concerns, including unemployment.

<sup>(1)</sup> World Economic Outlook, IMF, April 2013 and January 2014.

# Macroeconomic situation in Poland

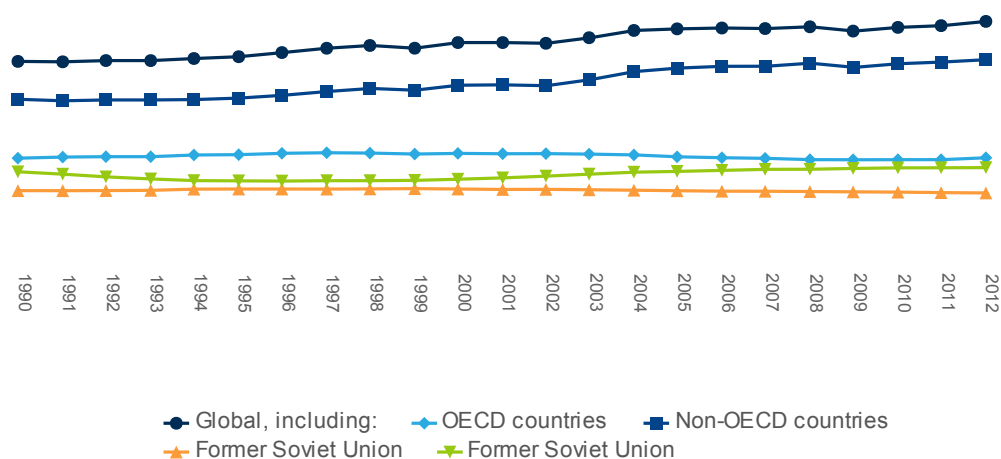
2013 proved to be another year of economic slowdown in Poland. According to preliminary estimates, in real terms Polish GDP grew by 1.6% over 2012, which is the lowest growth rate since 2009. This was chiefly attributable to weaker domestic demand, a fractional increase in sold industrial output and lower construction output. At the same time, inflation was visibly down to 0.9%.

The economic slowdown in Poland in 2013 is expected to be accompanied by higher unemployment. According to market estimates, the unemployment rate as at the end of 2013 was 13.4% and remained unchanged relative to the end of 2012. In 2013, salaries and wages in manufacturing were up nearly 3% compared with 2012.

# Global refining market

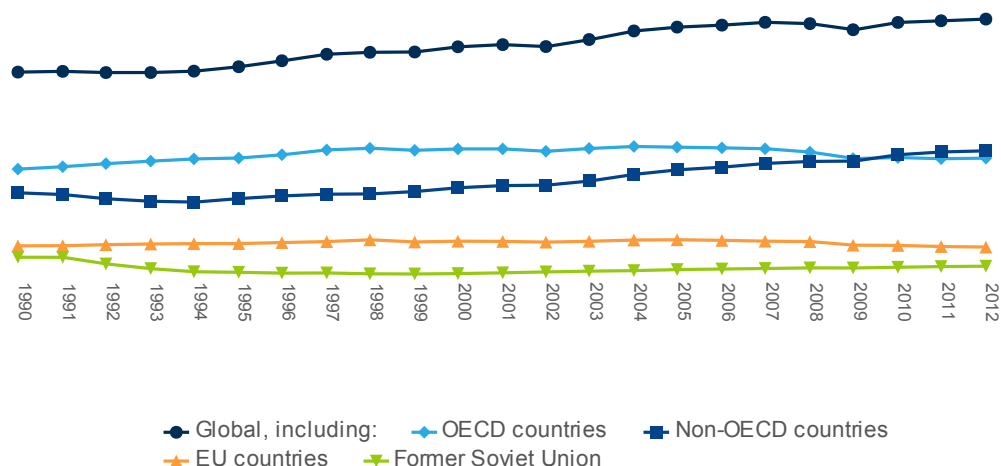
In 2013, crude oil production and processing increased worldwide. Global fuel consumption was driven chiefly by developing countries such as China and India, as well as Brazil and Russia, while fuel consumption in OECD countries fell off. Although the bulk of global demand for crude oil is satisfied by non-OECD producers, at the same time crude production has increased in OECD countries in recent years, mostly on the back of higher shale oil production in the US. Crude oil production in the European Union continues to fall, which has a negative effect on the energy security of the entire Community.

Crude output (million tonnes/year)

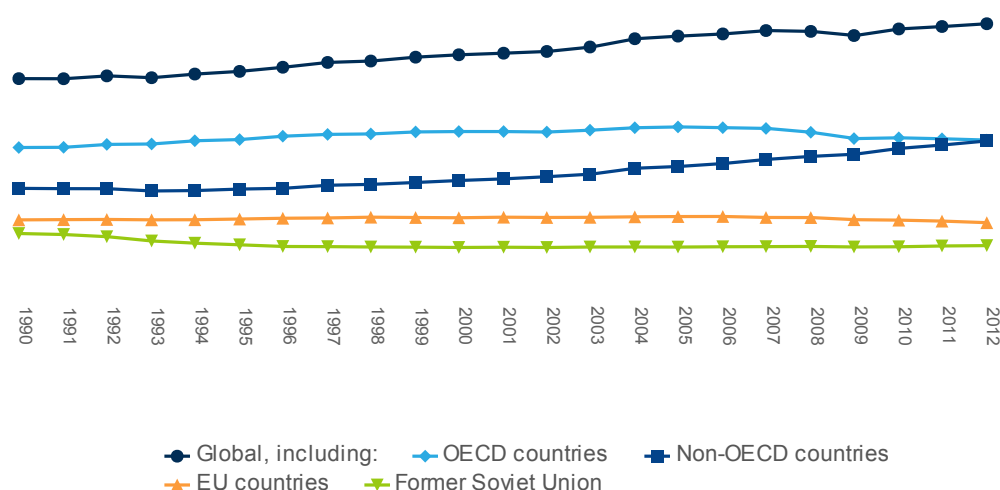


Source: In-house analysis based on BP data.

Crude processing volumes ('000 bbl/day)

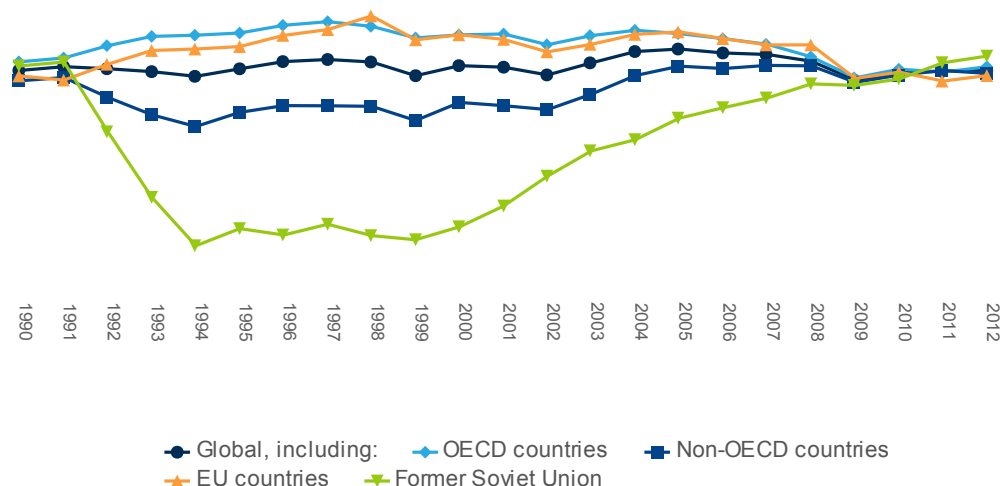


Źródło: Opracowanie własne na podstawie danych BP.



Source: In-house analysis based on BP data.

### Processing capacity utilisation (%)



Source: In-house analysis based on BP data.

2013 saw a further increase in global demand for crude oil, with differences in growth rates between individual continents continuing. Global demand grew by an estimated 0.9m bbl/d, while in Europe the demand fell by 0.22m bbl/d, on the back of the lingering economic crisis in several European countries. In 2013, crude oil supplies increased globally by an estimated 1.2m bbl/d, including approximately 1m bbl/d contributed by increased production in the US and Canada. At the same time, production in the EU declined.

The key drivers of the situation in the refining sector include the skyrocketing supply in North America and the increased demand seen in non-OECD countries. The rising supply accompanied by a decline in domestic consumption has transformed the United States from the largest global importer of refining products into the largest net exporter. Additionally, the shale revolution and low natural gas prices have further enhanced the competitiveness of US refineries.

# European refining market

In Europe, the refining sector changed significantly in the wake of the 2008 global financial crisis. The 2009 drop in demand for petroleum products forced European refineries to reduce their output. This coincided with the construction of several conversion projects, which meant that the gap between low- and high-margin products also began to narrow. Furthermore, the United States, the largest buyer of gasoline from Europe, reduced its imports on the back of substantial increases in its own shale oil production. All of these developments have had a negative impact on the financial situation of European manufacturers, and consequently the European downstream sector is experiencing a major crisis.

Since 2009, several refineries, with a combined processing capacity of 3.7m bbl/d, have been closed down in Europe. However, this scaling back still seems insufficient, as many European refineries continue to generate low returns, with their processing capacities still relatively underutilised.

A number of burdens resulting from EU legislation have been imposed on European refineries, which renders them less competitive as compared to those located outside the EU. In effect, the dip in production observed is bigger than that in demand.

The shutting down of European refineries poses a risk to Europe's energy security, rendering EU countries more dependent on imported refining products, which, in turn, may increase their susceptibility to supply disruptions and their dependence on import terminals and refining product storage facilities.

## Refinery shutdowns in Europe in 2011-2013 \*

Refinery	Owner	Country	Capacity ('000 bbl/d)	Date
Harburg	Shell	Germany	110	2013
Gela	Eni	Italy	105	2013
Falconara	API	Italy	83	2013
Porto Marghera	Eni	Italy	80	2013
Coryton	Petroplus	United Kingdom	220	2012
Petit Couronne	Petroplus	France	162	2012
Lisichansk	Rosneft	Ukraine	160	2012
Arpechim	Petrom	Romania	70	2012
Paramo	Unipetrol	Czech Republic	20	2012
Rome	Total	Italy	86	2012
Cremona	Tamoil	Italy	90	2011

\* Source: www.platts.com, Insight, December 2013

The average refining capacity utilisation in Europe was 71% in October 2013, with daily output falling below 9m bbl, one of the lowest levels in recent years. This change was a result of the decrease in refining margins in H2 2013, despite a large number of overhaul shutdowns at West European refineries (especially in Belgium and Sweden). By the end of 2013, European margins had become so low that even the most efficient refineries were recording them in the negative.

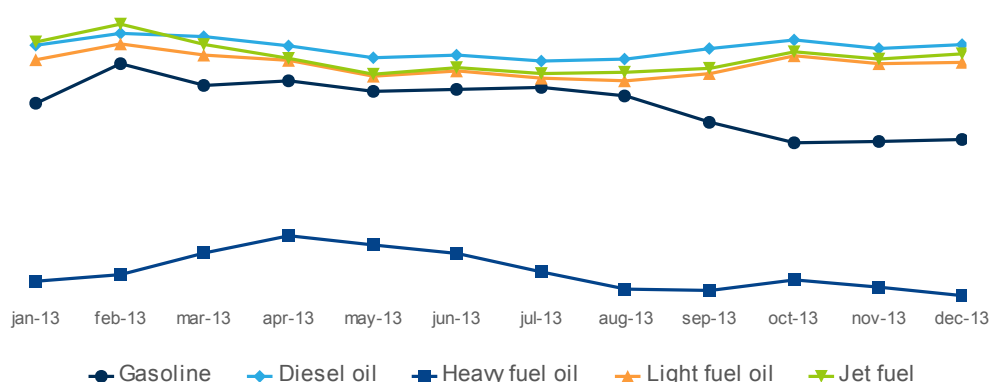
The average refining capacity utilisation in the US was 88.4% in November 2013, with several refineries brought back online following completion of their overhaul shutdowns.

Erosion of the crack margin was not equally spread between all product groups. Gasoline crack proved the weakest, which was a consequence of poor macroeconomic data from the US (including depressed fuel consumption). The lowest gasoline crack margin of USD 88.84 per tonne was recorded on October 10th 2013, while the highest crack of USD 245.73 per tonne was seen on February 19th 2013; the crack change for the year was -8.4% or USD -12.9 per tonne.

2013 crack margins for other products:

- Diesel oil – low: USD 96.18/t (February 28th 2013), high: USD 141.86/t (January 14th 2013) – annual change: +26.9% or USD +29.3/t
- Jet fuel – low: USD 120.75/t (May 3rd 2013), high: USD 213.16/t (February 11th 2013) – annual change: +9.8% or USD +16.3/t
- Light fuel oil – low: USD 69.25/t (May 3rd 2013), high: USD 133.49/t (February 15th 2013) – annual change: +30.2% or USD +26.3/t
- Heavy fuel oil – low USD -293.11/t (September 6th 2013), high: USD -170.37/t (April 17th 2013) – annual change: +4.3% or USD +11.6/t.

2013 crack margins (USD/t)



Source: In-house analysis based on Thomson Reuters data.

As its main feedstock, Grupa LOTOS uses Russian REBCO crude (Russian Export Blend Crude Oil). Compared with the global Brent benchmark, REBCO is a heavier crude, has greater density and a higher sulfur content, and yields more middle distillates (diesel oil, aviation fuel). On the other hand, REBCO processing produces



more residual fractions for use in the production of cheap heavy fuel oil. The economic viability of the Gdańsk refinery's processing work depends heavily on the Brent/REBCO differential. Given its slightly lower quality parameters, REBCO crude is usually marginally cheaper than Brent. However, the differential varies from time to time and is subject to seasonality. With a high negative differential, refineries which rely on REBCO crude record higher margins.

**Urals/Brent differential in 2010-2013**

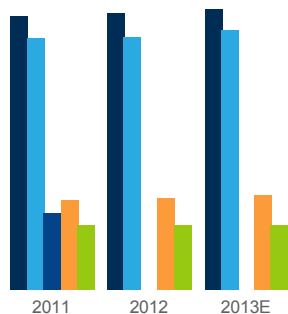


Source: In-house analysis based on Thomson Reuters data.

Industry analysts' predictions for the future of the European refining sector are not optimistic, as fuel consumption is expected to decline even further. This downward trend creates additional pressure on refineries, forcing them to reduce their processing costs. In this context, improvements in the refinery's efficiency by adjusting its configuration (depth of crude processing) and optimising its units become crucial.

# International fuel market <sup>(1)</sup>

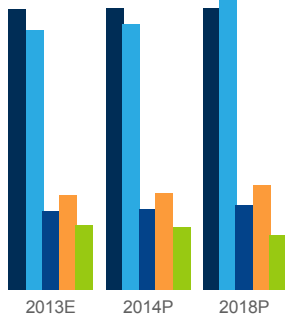
Global fuel consumption ('000 BBL/day)



Gasolines Diesel oil  
Jet fuel LPG  
Light fuel oil

Source: In-house analysis based on JBC data, November 2013.

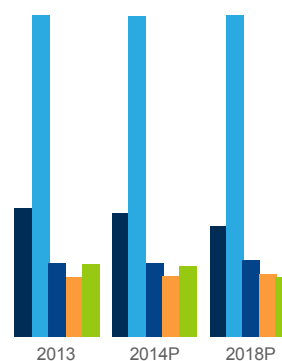
Forecast global fuel consumption ('000 BBL/day)



Gasolines Diesel oil  
Jet fuel LPG  
Light fuel oil

Source: In-house analysis based on JBC data, November 2013.

Forecast fuel consumption in Europe ('000 BBL/day)



Gasolines Diesel oil  
Jet fuel LPG  
Light fuel oil

Source: In-house analysis based on JBC data, November 2013.

Demand for oil refinery products in 2013 is estimated to have risen by 1.1% globally. Stronger demand was seen in the gasolines (1.0%) and diesel oil (2.5%) segments. The estimated consumption of LPG and jet fuel also increased (by 3.3% and 1.2%, respectively). However, the demand for light fuel oil slightly fell (by -1.5%).

According to forecasts, the overall global consumption of refinery products is expected to grow by over 5% until 2018. It is estimated that demand for diesel oil, LPG and JET fuel will grow significantly over 2013 consumption (up 12%, 11% and 8%, respectively). The global consumption of gasolines should remain relatively unchanged. Light fuel oil consumption is expected to fall by 13%.

According to estimates, consumption of petroleum products in Europe may have declined in 2013 by nearly 1.5%. However, LPG, diesel oil, and light fuel oil saw an increase of 2.8%, 0.2%, and 0.1%, respectively. Consumption of gasolines and JET fuel fell by 4.0% and 0.7%. The restrained growth of fuels consumption in Europe reflects the as-yet unresolved economic issues in certain EU Member States and in the eurozone.

The demand for oil refining products is forecast to fall in Europe by 3.7% until 2018. According to estimates, one of the reasons behind the decline will be a significant drop in consumption of gasolines, exceeding 13%. Lower consumption is also expected to affect the light fuel oil market (-16%). Concurrently, a strong increase is expected in consumption of JET fuel - by 3.0%, and LPG - by 4.8%.

In the European car market, new passenger car registrations fell by nearly 2% in 2013, to 12.3m new cars. However, in the utility vehicles segment new registrations increased by 1%, up to 1.8m vehicles. In terms of registered new passenger cars, there is continued growing interest in diesel-fuelled cars. Their share in total new car registrations in Western Europe was nearly 55% (compared with 46% in 2009). <sup>(2)</sup>

<sup>(1)</sup> Mid-Term Oil Market Outlook 2013-2018, JBC Energy, November 2013

<sup>(2)</sup> European Automobile Manufacturers' Association, [www.acea.be](http://www.acea.be)

# Polish fuel market

Domestic demand for fuels is shaped by the general economic situation in Poland and the region. In the last two years, the Polish fuel market has been challenged by a growing grey market, driven by high fuel prices and the economic slowdown. Illegally imported diesel oil, which fails to be captured by official statistics, is the main commodity on the grey market. Officially, the consumption of diesel oil in 2013 was 11.3m tonnes, 6% down on 2012. POPIHN estimates that in 2013 fuels sold on the grey market may have accounted for as much as 12% of total volumes. Despite the unfavourable domestic trends, diesel oil remained the primary transport fuel in Poland, with an estimated 65.5% share in domestic consumption in 2013.

Gasoline sales on the Polish market in 2013 followed prevalent trends in other parts of Europe and continued to fall. As in previous years, demand for gasolines in 2013 fell on the back of high retail prices, by over 2% (84 thousand tonnes), down to 3.7m tonnes. Other adverse economic trends helped depressed demand, such as high unemployment and the resulting limited use of motor vehicles, as well as improved fuel efficiency caused by wide-spread fleet upgrades.

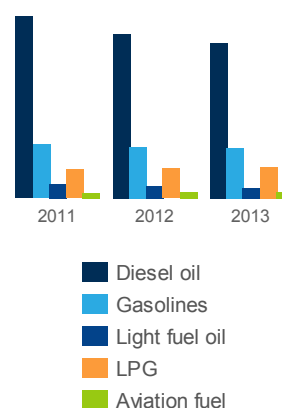
Given the high prices of gasoline in 2013, the less expensive alternative fuel, LPG, also gained in popularity. In 2013, estimated fuel consumption was 2.3m tonnes (up 4% year on year), with stronger demand seen in the LPG segment and other segments of the gas market (including for heating purposes).

Demand for light fuel oil in 2013 continued to decline, contracting by a further 10% to 843 thousand tonnes. This market segment was affected by increased interest in alternative heating fuels.

2013 also saw a growth in demand for aviation fuel. Its over 10% increase was caused by stronger competition on the domestic aviation fuel market with the toppling of Petrolot's dominance, which opened the door to aviation fuel from alternative markets.

Data 2013 suggest that consumption declined by 4% year on year for all engine fuels combined (gasoline, diesel oil and LPG).

**Fuel consumption in Poland ('000 tonnes)**

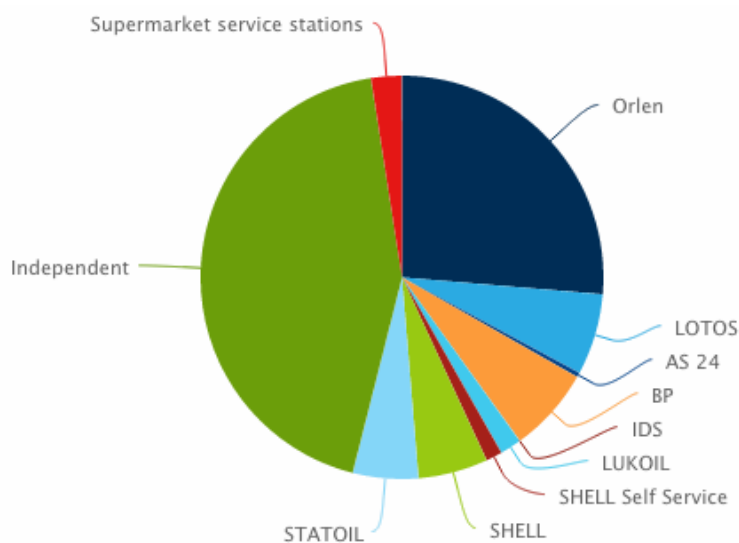


Source: In-house analysis of Polish Organization of Oil Industry and Trade (POPIHN) data.

## Polish retail fuel market

In 2013, there were 6.7 thousand service stations operating on the Polish fuel market. As in previous years, one-third of the stations belonged to domestic operators, 21% were owned by foreign corporations, while almost 44% were operated independently. Expansion of the service station chains owned by foreign corporations was centred around Company-Owned Dealer-Operated stations (own stations) – with Shell recording the largest increase in the number of stations following purchase of the Neste chain of 88 stations – as well as Dealer-Owned Franchise-Operated stations (partner stations). Relative to its competitors, LOTOS has the second fastest growing chain of service stations in Poland, surpassed only by Shell.

Service stations in Poland in 2013



Source: Polish Organization of Oil Industry and Trade (POPiHN).

The number of service stations in corporate chains continues to rise, while the network of independently-operated stations is gradually consolidating and shrinking.

These tendencies will be particularly apparent in the following year, as the Ministry of Economy's regulation mandating service stations to modernise their storage tanks comes into effect early in 2014.

Expansion of Poland's motorway network has been accompanied by a growing number of motorway service areas. At the end of 2013, there were 55 <sup>(1)</sup> Motorway Service Areas (MSAs) in Poland, including 14 under the LOTOS brand.

In recent years, Grupa LOTOS has adopted a brand development strategy based on two segments – premium and economy, which has led to 50 new stations added to the LOTOS Optima chain.

One-third of our service stations operate in the economy segment.

<sup>(1)</sup> Based on data from the Polish Organization of Oil Industry and Trade (POPiHN).

# Strategic goals

The LOTOS Group's operational priorities are set forth in its Strategy for 2011-2015, its Corporate Social Responsibility Strategy for 2012-2015, and its development directions until 2020.

## Strategic business objectives until 2015

### Exploration and production

Expansion of the resource base to take advantage of high margins projected for this sector in the long term.

#### Strategic objectives:

- achieve production volume of 24,000 boe/d (barrel of oil equivalent/day) in 2015 – equivalent to 1.2m tonnes a year,
- increase production of hydrocarbons, in line with the priorities of Poland's Energy Policy until 2030.

### Processing operations

Utilisation of expanded capacities, increasing the conversion ratio, use of synergies between refining and power generation.

#### Strategic objectives:

- achieve world-class production standards and maintain a strong competitive position among European refineries,
- make optimum use of assets held and acquired as part of the growth strategy,
- ensure safe and stable operation of production and ancillary facilities, with a target of 98% minimum annual availability,
- further increase the conversion ratio and intensify feedstock processing.

### Marketing operations

Development of the retail chain and marketing structures, based on an extended distribution network and efficient product logistics.

#### Strategic objectives:

- maintain a 30% share in the domestic fuel market,
- achieve fuel sales 15% above the refinery's fuel production capacity,
- secure a 10% share in the domestic retail market,
- develop service station chain and enhance the existing stations' sales,
- maintain the leading position on the Polish market for lubricating oils.

## Key objectives of the Corporate Social Responsibility Strategy until 2015.

### Investment in human resources

Ensuring the availability of highly qualified staff required to successfully implement the business strategy; enhancing corporate culture based on embraced values.

### Ethics and prevention of misconduct

Improvement of our management by ensuring ethical conduct and the transparency of business processes, and by protecting the organization from misconduct.

### Energy sector security

Support for initiatives designed to enhance energy sector security in a socially and environmentally responsible manner.

### Improvement of health and safety

Raising awareness and involvement in work safety improvement among management staff, employees and contractors.

### Management of natural resources in the production process

Reducing environmental risk and continually minimising the environmental impact of the LOTOS Group's operations.

### Partnership relations with the market environment

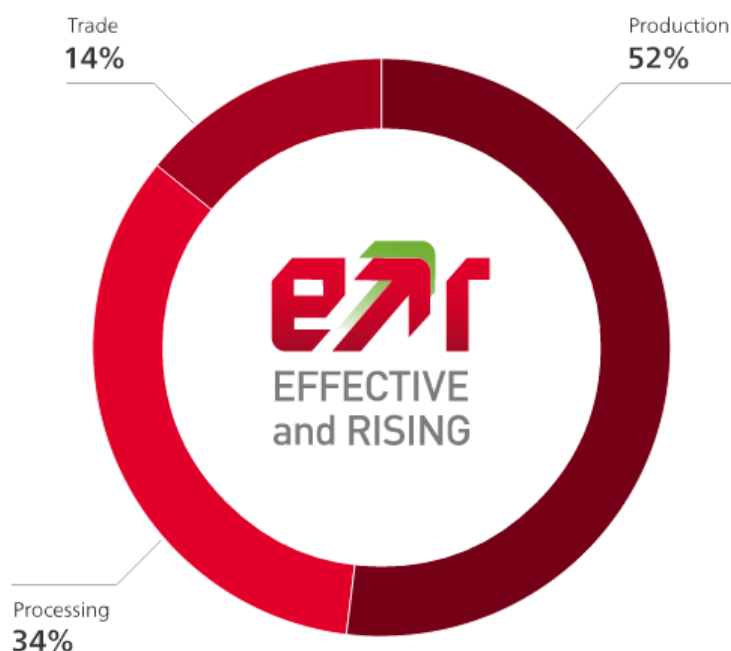
Building lasting customer relationships through a focus on understanding customers' needs and delivering expected product quality and safety.

### Integration with local communities

Undertaking initiatives to help ensure lasting solutions to social and environmental issues vital to our local communities.

### Communication

Ensuring that communication with employees is timely and appropriate to their various needs and to building organizational culture based on multi-directional, open communication, including through the development of a system of staff consultations within the LOTOS Group.



In our efforts to fully implement our CSR strategy, in 2013 we launched the Effective and Rising Programme, which comprises a number of economically viable development initiatives, chiefly in the area of our core business. The initiatives offer substantial benefits to the LOTOS Group, its shareholders and potential investment partners, and also contribute to the development of the regions in which they are to be implemented.

#### Expected benefits

**1. Innovative investment programme**

**2. Job creation**

**3. Investment in human capital and know-how**

**4. Improved vertical integration**

**5. Higher revenues**

**6. Higher dividends**

**7. Return on capital and increase in value**

#### Higher tax revenues

As with the +10 Programme, the newly planned investment programme will generate a substantial increase in revenue.

Consequently, the state's revenues from income, property and mineral taxes will go up by ca. PLN 550m annually after 2016.

Higher volumes of sales will also boost revenues from excise duty.

#### Energy security

52% of the investment programme's funds will be allocated to exploration for oil deposits, the majority

#### Business diversification

Investments in the upstream and petrochemical segments will improve the Group's vertical integration.

Diversification entails lower business risk, more stable margins and a stronger competitive position on domestic and foreign markets.

#### Job creation in the region

Implementation of the programme will increase employment at Grupa LOTOS and its DOFO operators

of which (73%) are located in the Baltic Sea.

These investments will help diversify Polish crude oil sources, improving domestic energy security.

by approximately 1,700 persons.

70% of the planned CAPEX will be spent regionally and in the Baltic Sea.

Technologically advanced projects will enhance the region's know-how and human capital.

Development activities and implementation of efficiency enhancement projects in identified areas are focused on increasing the LOTOS Group's value through innovative and sustainable development, with due regard for its stakeholders' principles and values.

In line with our own principles, as a socially responsible business we seek to:

- Always consider the social and environmental aspects of our decisions,
- Take responsibility for the impact of our decisions and actions on society and the environment,
- Build business models contributing additional value to the organization and its stakeholders,
- Integrate our business goals with important social and environmental issues.

#### Key areas of focus and development until 2020:

Further optimisation of the management model to achieve the highest available efficiency.

Access to proven recoverable reserves of hydrocarbons of approximately 330m boe in 2020.

Production growth to approximately 100 thousand boe/day (equivalent to 5m tonnes of crude a year),

Maintaining at least a 30% share in the domestic fuel market.

Maintaining fuel sales 15% above the refinery's fuel production capacity.

Maintaining at least a 10% share in the domestic retail market.

Further improvement of the economic efficiency of crude processing, ensuring full utilisation of our assets.

Steps to optimise the power management processes at Grupa LOTOS's refinery, by expanding its connections with other power systems.



# Effective and Rising. Interview with the President of the Board



## **Socially responsible business is...**

Our approach to corporate social responsibility goes back to the very beginnings of Grupa LOTOS when it took its shape, and is of fundamental character; whenever we speak of CSR, we mean doing business. We reckon that the biggest responsibility of business is simply to conduct its activities properly. Years ago, Milton Friedman, Nobel Prize winner in Economic Sciences, famously said that "there is one and only social responsibility of business – (...) to increase its profits". Today, however, one can say that its biggest responsibility is to be effective and efficient as, in fact, there is nothing worse for stakeholders than having to deal with an unprofitable company which does not pay its dues on time and cannot provide decent work environment for its employees due to its poor standing. As for my personal approach to CSR, I think that key are answers to the following questions: "how do we make a profit?", "how do we meet our obligations?" and "how do we manage the impact of our activities to ensure long-term growth for our company that is beneficial to both the company and its environment?". In other words, "how do we do our business to make sure that it is good business?", so that we can say – similarly as we would say of an individual – that it is solid and reliable; the business which, on the one hand, is economically efficient and at the same time is conducting its activities properly and meeting its duties, on the other. When defining CSR, one can speak a lot of responsibility, integrity and other qualities attributable to both people and companies; at LOTOS, however, at the heart of our approach to CSR is being solid and reliable as a properly managed and profitable business.

## **LOTOS places particular importance on the idea of sustainable development – what does it mean in practice?**

What we mean by saying that our company is being managed in line with the principles of sustainable development is that we take into account the needs and interests of the natural environment and of the community in which we operate. For our activities, one of the most important premises in both our everyday operations and running our production processes as well as in our investment and development plans are environmental issues. Therefore, we deploy such solutions as to allow us to minimize our environmental impact and to utilize natural resources as best we can; to make sure we achieve that, we employ Best Available Techniques adopted by the international community, especially across the EU. Adhering to the principles of sustainable development also means making a commitment to manufacture products whose environmental impact – when they are used by our customers – is mitigated as far as it is possible.

Corporate social responsibility is also about striving to achieve sustainable development while simultaneously respecting human rights, and building good relations with our neighbours, the local community, and – most importantly – with our employees. By engaging in a range of activities, we improve our employees' quality of life; by creating jobs, we improve the quality of life of the entire society. We treat responsibly all our stakeholders, both internal and external. Being an oil company, the responsibility we feel is crucial as our decisions affect the future of people and the natural environment; our customers get better products, the community has a neighbour who supports the local prosperity and the development of the young generation, and the national economy is provided with a solid foundation to function upon.

**Grupa LOTOS is a signatory to the 'Declaration of Polish Businesses for Sustainable Development'. In 2013, the Company got engaged in work on honing the 'Vision 2050', the document accompanying the Declaration, in the area of energy. However, it is not the only platform for cooperation aimed at meeting challenges this sector is facing, is it?**

We have repeatedly proven our engagement in dialogue with key sector stakeholders not only on the national but also on the international level; most recently, in April 2014 at the Energy Summit '29+1' in Bucharest, one of the periodical meetings of representatives of Central European energy sector companies with Guenther Oettinger, EU Commissioner for Energy. These meetings are organized by Central European Energy Partners, an association of which we are a founding member. This time, main subjects for discussion included issues such as energy prices and EU climate objectives which hold back the competitiveness of the EU economy as well as the energy sector security in view of the current events in Ukraine. As CEO of Grupa LOTOS, I expressed my strong conviction that we should considerably reduce Central Europe's dependence on gas supplies from one source and take action to protect and further develop our industry which shall be conducive to creating jobs. In the Bucharest Memorandum adopted at the end of the meeting, its participants called upon the EU not to strive to eliminate the use of fossil fuels but to support investment projects aimed at developing more effective technological solutions to reduce CO<sub>2</sub> emissions.

For the climate policy to produce discernible results on a large scale, pro-environmental actions need to cover the entire world; therefore, when determining the objectives for our climate policy, we should closely observe which direction rival world economies are taking. While fully standing by the EU 20-20-20 objective, we intend to promote optimal approach to pursuing its objectives on climate protection, sustainable development and the security of the energy sector. It means that we will support a common and comprehensive EU policy which takes into account the vital interests of Central European countries, including initiatives such as creation of an internal energy market or construction of the Central European Energy Corridor and the North-South Transport Corridor. At the same time, we consider it to be equally important to determine new climate and energy objectives until 2030 and to establish new guidelines on exploration for and production of shale gas.

Central European countries need to develop their industries in an effective and consistent manner with a view to creating jobs. The prerequisite for that is cheap energy, the production of which will be mostly based on easily available domestic energy resources. As CEEP, we consistently advocate striking the right balance

between the EU's economic development and its climate policy. The pace at which the objectives of the latter are to be met should not disregard economic realities of either the EU Member States or the global conditions. We strongly believe that the energy sector policy which does not take into account the differences in economic development between individual Member States will have a detrimental effect on Central European countries. The implementation of the climate policy targets, especially with regard to reducing CO<sub>2</sub> emissions, needs to be modified if we are concerned about keeping the European Union competitive as a whole.

### **Is the 'Effective and Rising' Programme announced by LOTOS in mid-2013 the Company's response to the challenges of the modern economy?**

When explaining to our stakeholders the baselines of our new strategic project, I declared: *'While everyone else is struggling to stay afloat, we know how to win the future'*. Today, I stand by what I said then entirely. Nowadays, most successful are these companies that possess the ability to react quickly and adapt to changes and that are experts in their respective fields. Such a business model allows them to focus more effectively on the tasks to be completed and to pool skills which help them stand out from the rest. It was this observation that guided our work on the 2013-2015 Effective and Rising Programme, the purpose of which is to restructure the LOTOS Group and to aid its further business expansion. It sets out the next stage of our development and serves as a guarantee for increased efficiency and effectiveness of our actions. While focusing on the key areas of our competence, we put main emphasis on our core business, simplify the structure of the LOTOS Group and free up funds for achieving our objectives. And when doing that, we take into account the interests of our key stakeholders groups as we are well aware of the impact we have on our environment in the economic, social and environmental aspects.

### **Does Grupa LOTOS see the chance to accomplish its objectives in its openness in communication with the market?**

This Integrated Annual Report is already our fifth report of that kind. In 2010, we decided to integrate our reports to present the management approach and performance in all aspects of our activities to all our stakeholders. These reports illustrate the scope and nature of our impacts on the environment but also answer the question how, by mitigating associated risks, we maximize the chances for our business to thrive in the long term. By responsibly managing the productive, financial, natural and human capital entrusted with us, we consistently implement our value growth strategy. By communicating to the market in an open and transparent manner the conditions for our operations, as well as our performance and future plans, we prove that we are a reliable and trustworthy partner. This fact found its confirmation in the high rating we achieved in the opinion survey conducted in 2013 on the quality of LOTOS communication with the capital market, which analyzed the Company's approach to presenting social and environmental aspects of its operations along with the corporate governance. Without a doubt, it is a significant factor that affects the value of our business.

# Key data

## Grupa LOTOS - selected information \*

FINANCIALS	Unit	For the year ended Dec 31 2013	For the year ended Dec 31 2012	Change [%]
(restated)				
Revenue	EUR '000	6,339,867	7,444,867	-14%
Operating profit/(loss)	EUR '000	(83,780)	133,850	-163%
Pre-tax profit/(loss)	EUR '000	(18,410)	232,128	-108%
Net profit/(loss)	EUR '000	(3,508)	200,410	-102%
Total comprehensive income	EUR '000	19,768	292,053	-93%
Net cash from operating activities	EUR '000	174,215	112,208	55%
Net cash from investing activities	EUR '000	12,117	16,373	-26%
Net cash from financing activities	EUR '000	(141,989)	(179,186)	-
Total net cash flow	EUR '000	44,343	(50,605)	-
Basic earnings/(loss) per share	EUR	(0.03)	1.54	-102%
Charitable donations	EUR '000	430	333	29%
Pro-environmental investments	EUR '000	14,964	16,198	-8%
FINANCIALS	Unit	As at December 31st 2013	As at December 31st 2012	Change [%]
(comparative data)				
Total assets	EUR '000	3,751,787	3,908,472	-4%
Equity	EUR '000	1,720,581	1,725,051	-0.26%

NON-FINANCIAL DATA	Unit	Year ended Dec 31 2013	Year ended Dec 31 2012	Change
(restated)				
Workforce <sup>(1)</sup>	number of employees	1,334	1,323	0.80%
Employee turnover	%	11.8	9.2	2.6 pp
Lost Time Injury Frequency LTIF index (per 1 million hours worked) <sup>(2)</sup>		4.5	4.3	-
Total water consumption	m <sup>3</sup>	3,737,302	3,721,330	0.40%
CO <sub>2</sub> emissions	thousand tonnes per year	1,689	1,979	-14.60%

## The LOTOS Group – Selected consolidated data \*\*

FINANCIALS	Unit	For the year ended Dec 31 2013	For the year ended Dec 31 2012	Change [%]
(restated)				
Revenue	EUR '000	6,791,105	7,933,439	-14%
Operating profit	EUR '000	34,788	74,937	-53%
Pre-tax profit/(loss)	EUR '000	(14,718)	87,776	-117%
Net profit	EUR '000	9,363	222,320	-96%
Net profit attributable to owners of the Parent	EUR '000	9,360	222,314	-96%
Net profit attributable to non-controlling interests	EUR '000	3	6	-52%
Total comprehensive income	EUR '000	29,316	307,702	-90%
Total comprehensive income attributable to owners of the Parent	EUR '000	29,313	307,699	-90%
Total comprehensive income attributable to non-controlling interests	EUR '000	3	3	-15%
Net cash from operating activities	EUR '000	341,129	322,762	7%
Net cash from investing activities	EUR '000	(222,848)	(200,798)	-
Net cash from financing activities	EUR '000	(59,630)	(211,635)	-
Total net cash flow	EUR '000	58,651	(89,671)	-
Basic earnings per share	EUR	0.07	1.71	-96%
Charitable donations	EUR '000	506	372	36%
Pro-environmental investments	EUR '000	15,897	18,094	-12%
FINANCIALS	Unit	As at December 31st 2013	As at December 31st 2012	Change (%)
(restated)				
Total assets	EUR '000	4,894,776	4,898,871	-0.08%
Equity attributable to owners of the Parent	EUR '000	2,215,786	2,217,535	-0.08%
Non-controlling interests	EUR '000	70	171	-59%
Total equity	EUR '000	2,215,856	2,217,706	-0.08%

NON-FINANCIAL DATA	Unit	Year ended Dec 31 2012	Year ended Dec 31 2011	Change
		(comparative data)		
Workforce <sup>(1)</sup>	number of employees	4,773	4,748	0,50%
Lost Time Injury Frequency LTIF index (per 1 million hours worked) <sup>(2)</sup>		4.4	3.3	-
Share in the fuel market	%	33.4	34	-0,6 pp
Crude oil production	thousand tonnes	219.1	262.3	-16 %
Natural gas production	million Nm <sup>3</sup>	16.0	20.9	-23,50%

\* For information on Grupa LOTOS' financial performance, please see our financial statements [\(more information\)](#)

\*\* For information on the LOTOS Group's financial performance, please see the LOTOS Group's financial statements. [\(more information\)](#)

(1) Average annual headcount.

(2) LTIF – number of accidents resulting in an inability to work x 10<sup>6</sup> number of working hours, calculated for the average annual headcount.

# Letter from the Vice-President of the Board



*Dear Stakeholders,*

2013 was a time of major challenges for the implementation of the LOTOS Group's business strategy. While intensifying and speeding up the completion of activities in the exploration and production segment, we were observing a significant deterioration in external conditions for the manufacture and sales of fuels. The European refining sector has been under a growing pressure of cheaper refining products flooding the market from different parts of the world and have been facing increasing challenges with regard to the competitiveness of its products on export markets.

Our response to this unfavourable situation was a number of initiatives we undertook in 2013, confirming our readiness to react to the dynamically changing external environment. Our refinery in Gdańsk ranked amongst the world's most state-of-the-art refineries in the prestigious study conducted by Solomon Associates, which testified to the effectiveness of the 10+ Programme. To enhance its efficiency even further, we commenced work on a preliminary feasibility study into the construction of a delayed coker unit (DCU); it will help us transform the refinery into a full conversion plant so that it will be able to produce only high-margin products and will be better prepared to face the growing pressure on refining margins. These harder conditions in the operating segment coincided with the accelerated implementation of our strategy in the exploration and production segment. Acquisition of production assets on the Norwegian Continental Shelf, speeding up the development of the B8 field as well as carrying out preparatory work on the development of the B4 and B6 gas fields – these were our major achievements in this segment, all of which have brought us closer to fully implement our strategy and to improve the balancing of the LOTOS Group's business model.

In 2013, our situation was further hindered by the overhaul shutdown performed at our refinery, connected with stopping the operation of its refining units, which in turn resulted in decreasing its annual output by around 8%. Consequently, the LOTOS Group's revenues were lower than in 2012 – in the twelve months of

2013 we generated consolidated sales of just under PLN 29bn, 14% less on 2012. The operating profit stood at PLN 146m and, with the one-off events distorting it being eliminated as well as the amortization and the LIFO effect accounted for, it amounted to PLN 1.3bn, as compared to PLN 2.0bn in 2012. This proves our ability to generate high cash flows even despite unfavourable conditions for our operations and eroding margins on the world fuel market.

Furthermore, to support the implementation of its business strategy, the LOTOS Group launched the 2013-2015 Effective and Rising Programme, which is mainly designed to improve financial indicators, to facilitate further development by carrying out investment projects in areas of the organization's core business and to restructure the LOTOS Group. In a nutshell, our main focus is to go to our core activities, limiting the engagement of our management in auxiliary activities and simplifying the structure of the LOTOS Group, which for subsidiaries conducting operations unrelated to our core business means that they will need to look for an investor who will allow them to unleash their potential for development and facilitate their access to new financing sources.

In the exploration and production segment, the LOTOS Group consistently pursued its investment and development plan, which was confirmed by the agreement we concluded with Centrica Norge for the purchase of interests in 14 licences on the Norwegian Continental Shelf (Heimdal portfolio). In the perspective of 2016, this transaction will help us recover two-thirds of our deferred tax assets. Following the acquisition of interests in the Norwegian licences, our annual production in Norway (relative to the shares acquired by LOTOS) amounts to around 240,000 toe (5,000 boe/d), with 70% of that amount being natural gas and 30% condensate (light crude oil). What is more, LOTOS recoverable resources have increased by 9 million boe for proved and probable resources and by 31 million boe for contingent resources.

In 2013, preparatory work continued on launching commercial production from the B8 field on the Baltic Sea – with a production potential of 3.5 million tonnes of crude oil - which is planned for 2015. It is worth mentioning here that in October 2013 we signed an agreement with Polskie Inwestycje Rozwojowe on the co-financing for this project. Also in October 2013, the repair of the PG-1 rig was completed which will enable us to increase production from the B3 field by 15,000 tonnes annually (Rozewie crude). We also carried on preparatory work on the B4/B6 gas fields (with a combined production potential of 4 billion m3) in partnership with CalEnergy Resources Poland. Further evidence for our intensified activity in the exploration and production segment was the purchase of the GSF Monitor jack-up drilling rig in December 2013, which will be conducting drilling operations under our exploration licences in the Baltic Sea.

The most important event in the operating and marketing segment was the overhaul shutdown performed in the spring of 2013, which was the first overhaul shutdown since the refinery's expansion under the 10+ Programme. In effect, the refinery processed 8.7m tonnes of crude, meaning that the average annual utilisation rate of its installed capacities was 82% in 2013.

Also in 2013, preparatory work continued on the construction of a delayed coking unit (DCU) which should directly increase the efficiency of crude processing at the refinery by eliminating from our production and sale the unprofitable heavy fuel oil. Once this project has been completed, the production of high-margin motor fuels will increase by 900,000 tonnes annually and a new product – petroleum coke (petcoke) – will be added to our product mix, with the production volume of around 350,000 tonnes annually. The unit is planned to be launched in 2017.

Another new development project launched in 2012, on which we continued to work in 2013, is the diversification of our activities towards a potential development of a petrochemical segment (in partnership



with Grupa Azoty). Based on the results of a preliminary feasibility study into the construction of a petrochemical production complex, the construction of a steam cracker unit was proposed as a recommended course of action. A full feasibility study will mark the next stage in the project, the results of which are expected at the end of 2014.

In 2013, Grupa LOTOS continued to expand dynamically its service station chain, especially in the economy segment, which puts us well on track to secure a 10% market share, the target set in our strategy.

Throughout the entire year, the LOTOS Group responded to the increasingly difficult conditions posed by our market environment. Thanks to the diversification of our activities and the acceleration of development in the exploration and production segment, we have shown that we try and react to these increasingly difficult market conditions. In 2014 and the coming years, we will keep intensifying our actions to increase the importance of the exploration and production segment, and to achieve operational excellence in the refining segment. Our efforts to date have proved that under the conditions of increasingly fierce competition LOTOS is a company oriented on further development. We strongly believe that our work on reinforcing the foundations for it will contribute to enhancing the value for our shareholders and will secure the proper development of the LOTOS Group in the years to come.

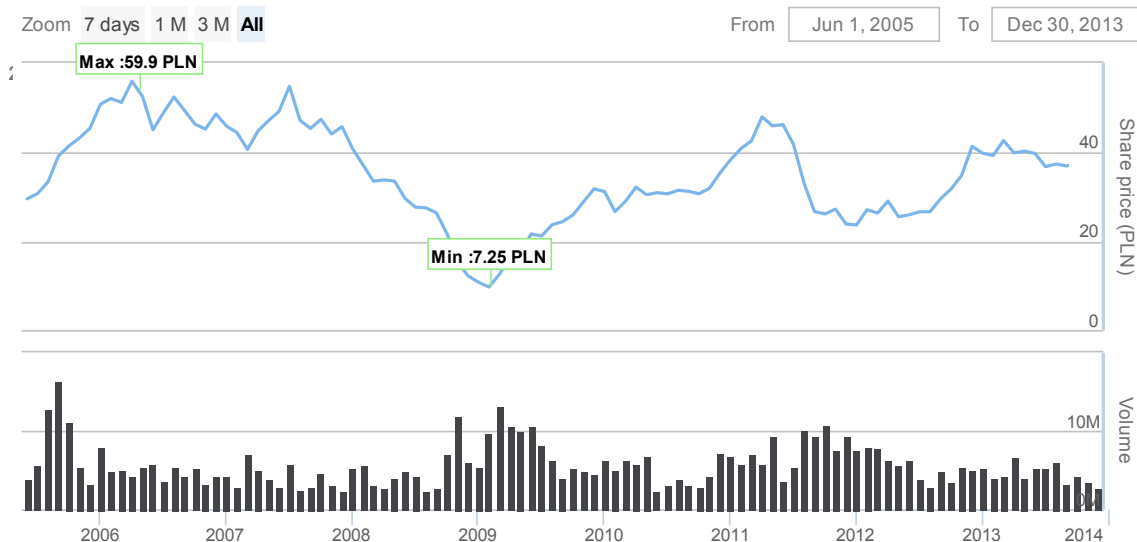
*Yours faithfully,*



**Mariusz Machajewski**  
**Vice-President of the Board**  
**Chief Financial Officer**  
**Grupa LOTOS**

# Capital market

Grupa LOTOS share price (PLN) and trading volume (number of shares) since their first listing on the WSE



Grupa LOTOS shares have been listed on the Warsaw Stock Exchange since June 9th 2005. At present, the total number of Company shares is 129,873,362.

## Grupa LOTOS share price performance vs. market indices

2013 was a good year for investors in shares, with equities emerging as the best-performing asset class, particularly in the developed markets. Stock exchange indices in the US, the world's largest economy, soared by more than 30% (NASDAQ up 35% and S&P500 up approximately 30%). In Europe, the top performer was Germany's DAX, up 26%.

The year saw only slight movements in the main WSE indices. The WIG index of all Main Market listings gained 8%, with the annual change in the WIG20 being negative at -7%.

In September 2013, the WSE launched its new WIG30 index of the thirty largest and most liquid companies.

As at the end of the year, the index had fallen by almost 2%. Its two SME indices, the mWIG40 and sWIG80, rose 31% and 37% respectively, delivering the top rates of return.

Looking at stock performance by sector, the winning WIG-BUDOWNICTWO construction sector index gained 33%, with the WIG-PALIWA fuels sector index (down 10%) arriving at the other end of the spectrum.

The RESPECT corporate social responsibility index lost over 4% during 2013.

The price of Grupa LOTOS shares followed the general market trends in 2013, remaining within the PLN 33.15-PLN 44.95 range, closing for the year at PLN 35.45.

In the period under review, the number of Grupa LOTOS shares changing hands in an average trading session was 229,877, down 18% relative to the previous year. The total value of trading in its stock was in excess of PLN 2.2bn, representing 1% of total WSE trading, with an average of 877 trades per session.

The Company's market capitalisation as at the end of 2013 stood at just over PLN 4.6bn.

## Grupa LOTOS shares in 2011-2013 \*

	2011	2012	2013
<b>Free float shares (million shares)</b>	<b>129.87</b>	<b>129.87</b>	<b>129.87</b>
<b>Price of Grupa LOTOS shares (PLN)</b>			
Low	22.26	21.3	32.97
High	49.5	43.78	45.45
Closing price	23.3	41.2	35.45
Rate of return at end of period (%)	-35.9	76.82	-13.96
<b>Trade in Grupa LOTOS shares</b>			
Trading value (PLN m)	3,299.07	2,013.15	2,211.43
Share in trade (%)	13.1	1.07	1.00
Average trading volume per session	377,048	282,163	229,877
Average number of trades per session	967	810	877
<b>Company valuation</b>			
Market capitalisation at end of period (PLN m)	3,026.00	5,351.00	4,603.89
Book value (PLN m)	7,782.40	9,066.40	9,189.60
EV** (PLN m)	10,032.87	11,472.60	10,311.89
<b>Valuation ratios</b>			
Earnings per share (PLN)	5.03	7.14	0.30
P/E*** (x)	4.66	5.80	118.00
P/BV**** (x)	0.38	0.59	0.50
EV/EBITDA***** (x)	6.04	11.89	12.85

\* In-house analysis based on WSE and Company data.

\*\* EV (Enterprise Value) – market capitalisation plus debt, non-controlling interests, and preferred shares, minus cash and cash equivalents.

\*\*\* P/E – Price/Earnings

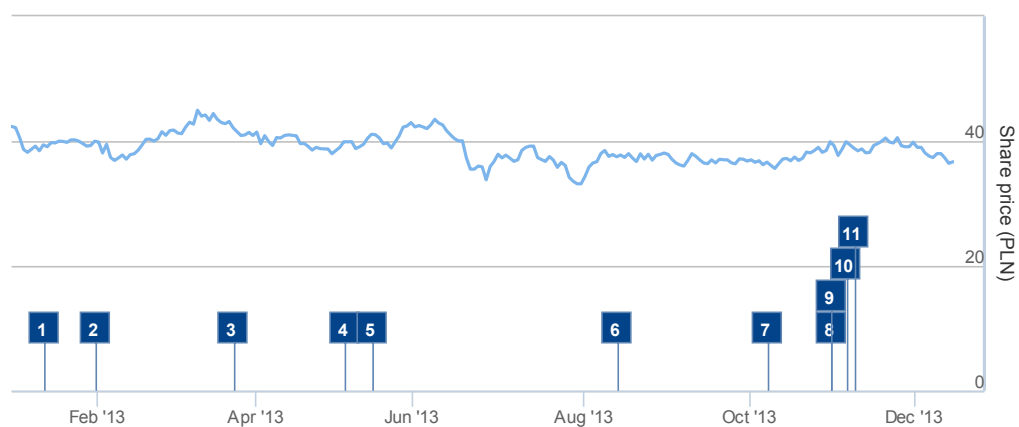
\*\*\*\* P/BV – Price/Book Value

\*\*\*\*\* EV/EBITDA – Enterprise Value/EBITDA

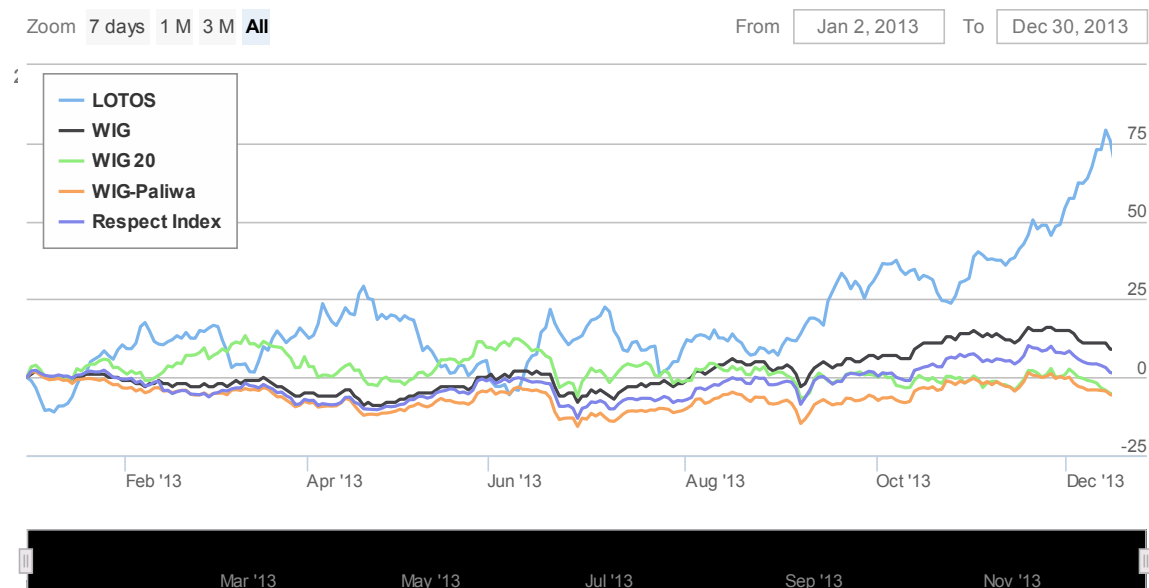
## Grupa LOTOS share price in 2013 (PLN)



## Effect of important events at the Company on the market price of Grupa LOTOS shares in 2013



## Grupa LOTOS share price performance vs. market indices in 2013 \*



\* Rebased (100 = closing price at December 28th 2012)

## Dividend policy

Dividend distributions for 2011-2015 are subject to the LOTOS Group's Strategy for 2011-2015, which provides for optimisation of the LOTOS Group financing. Grupa LOTOS' financial strategy provides for distribution of up to 30% of net profit as dividend.

However, the Board of Grupa LOTOS recommended that no part of the 2012 net profit be distributed to the Company's shareholders. On June 28th 2013, acting upon the Board's recommendation, the General Meeting resolved to allocate the 2012 profit as follows:

- PLN 834,931,320.89 was allocated to statutory reserve funds,
- PLN 1,500,000.00 was allocated to the Special Account designated for financing corporate social responsibility (CSR) projects.

### Dividend and dividend yield \*

Financial year	Dividend (PLN)	Dividend per share (PLN)	Share price at the year end (PLN)	Dividend yield (%)**
2005	0.00	0.00	44.20	-
2006	40,932,000.00	0.36	49.30	0.73
2007	0.00	0.00	44.50	-
2008	0.00	0.00	11.95	-
2009	0.00	0.00	31.80	-
2010	0.00	0.00	36.35	-

2011	0.00	0.00	23.30	-
2012	0.00	0.00	35.45	-

\* In-house analysis based on Company data.

\*\* Dividend yield – dividend per share to price per share.

### Historical dividend per share \*

Financial year	Dividend per share (PLN)	% of net profit	Dividend record date**	Dividend payment date***
2005	0.00	0.00	-	-
2006	0.36	10.06	June 11 2007	not later than Jul 31 2007
2007	0.00	0.00	-	-
2008	0.00	0.00	-	-
2009	0.00	0.00	-	-
2010	0.00	0.00	-	-
2011	0.00	0.00	-	-
2012	0.00	0.00	-	-

\* In-house analysis based on Company data.

\*\* Dividend record date – date on which the list of shareholders entitled to receive dividend for a given financial year is determined.

\*\*\* Dividend payment date – date on which dividend is paid to the Company's shareholders.

## Recommendations

Recommendations on Grupa LOTOS shares are issued by 13 investment houses (including brokerage houses and investment banks):

### Investment houses

Investment houses	
Based in Poland	Based abroad
DMmBanku	Societe Generale
DMBZWBK	Erste Bank
DMIDM	Wood & Co.
DMPKO BP	Deutsche Bank
DMBDM	Raiffeisen Centrobank
DI Investors	
ING Securities	
Espirito Santo Investment Bank	

To the best of the Company's knowledge, in 2013 brokers issued 25 recommendations on Company shares:

- 4 BUY recommendations \*
- 9 HOLD recommendations \*\*
- 3 REDUCE recommendations \*\*\*
- 9 SELL recommendations \*\*\*\*

of which:

- 6 recommendations were upgraded
- 10 recommendations were maintained
- 5 recommendations were downgraded.

Furthermore, there was:

- 1 coverage initiation; and
- 3 coverage re-initiations

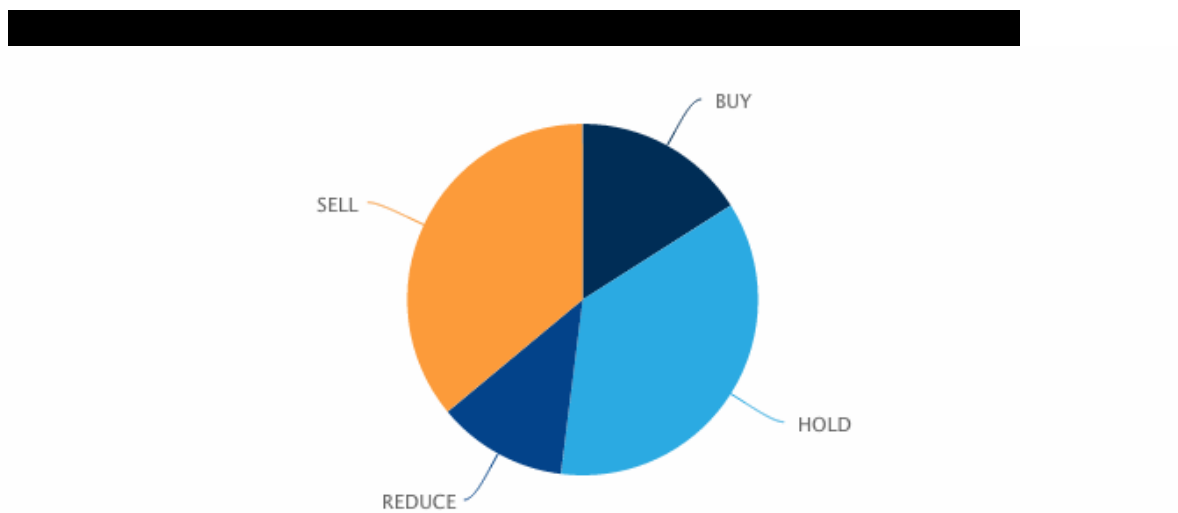
\* BUY – total expected rate of return will exceed 15% in 12 months

\*\* HOLD – total expected rate of return will be between -5% and +5% in 12 months

\*\*\* REDUCE – total expected rate of return will be between -5% and -15% in 12 months

\*\*\*\* SELL – total expected rate of return will be over -15% in 12 months.

#### Structure of broker recommendations on Grupa LOTOS shares in 2013 (%)



In brokers' research reports, the target price of Grupa LOTOS shares fluctuated from PLN 29.50 to PLN 56.30, compared with PLN 19.40 to PLN 38.90 in 2012. The average target price of its shares in 2013 was PLN 37.70 (2012: PLN 26.80). Grupa LOTOS shares traded within a range from PLN 33.15 to PLN 44.95. At the end of 2013, the price of Grupa LOTOS shares was PLN 35.45.

### Brokers' recommendations and average target price against the market price of Grupa LOTOS shares



\* Simple moving average – arithmetic mean of target prices in broker recommendations for 12 months (excluding recommendation updates older than six months).

## Grupa LOTOS in the RESPECT Index

Since November 19th 2009, Grupa LOTOS has been continuously included in the index of WSE-listed socially responsible companies, the RESPECT Index (*Responsibility, Ecology, Sustainability, Participation, Environment, Community, Transparency*).



The index includes those Polish and international companies listed on the WSE Main Market that uphold the best management standards in corporate and information governance, as well as investor relations, and that act responsibly in the social, governance and environmental areas.

In 2013, the Company underwent external review for compliance with the index's criteria twice. Since December 23rd 2013, we have been included in the index which comprises a record-breaking 23 companies. In the 7th edition of the RESPECT project, new criteria were applied to find the leaders of responsible business in Poland. The most important changes were in the survey's questions, which had been divided into three groups, each representing a different set of factors related to performance in the categories of Environmental, Social and Governance. Furthermore, the index's entry requirements were changed to accommodate specific characteristics of various industries. Starting from 2014, the organizational maturity assessment will be undertaken on a yearly basis.



# Natural and productive capital



## Natural capital of Grupa LOTOS

- **Energy sources:** crude oil (fuel gas and fuel oil from its processing), natural gas, electricity generated and bought from third parties;
- **Feedstock:** crude oil, natural gas;
- **Components of the environment/media with process applications:** water (steam production and cooling), air (as a control medium);
- **Components of the environment under direct and indirect impact from the LOTOS Group's operations:**
  - air;
  - water;
  - soil;
  - ecosystems and biodiversity;
  - local communities and employees;
  - landscape.

### Our objectives in natural capital management:

- Ensuring compliance with environmental law;
- Ensuring that the organization is perceived as being aware of local and global benefits of responsible use of natural resources and environmental protection;
- Striving to operate in conformity with best environmental practices, while ensuring responsible use of natural resources.

### Key activities:

- Monitoring the state of the natural environment and how it is affected, beyond the scope required by legal regulations;
- Consistently reducing the negative impact on the natural environment;
- Incorporating and implementing the best available techniques and best environmental practice for designing new process units, as well as operating and upgrading the existing ones;
- Mitigating the risk of sudden environmental contamination (preventing industrial failures);
- Supporting pro-environmental efforts of third-party institutions – environmental protection beyond the organization's direct sphere of influence;
- Pro-environmental education – raising the awareness of best environmental practices and responsible use of natural resources among employees and local communities.

## Results:

Increased share of natural gas in the organization's energy mix

Less fugitive emissions to the atmosphere

Gradual modernisation of service station facilities

Reduced water consumption – using closed-cycle systems and maintaining highest possible recirculation levels

Significant reduction of atmospheric emissions from the refinery in Gdańsk: SO<sub>2</sub>, NO<sub>x</sub> and dust emissions have been reduced ten, two and nearly four times, respectively, in comparison with 2011

Average annual wastewater emissions below 50% of admissible levels

Monitoring of bottom sediment and sea water quality within oil and gas production areas

Placing more emphasis on biodiversity in environmental impact assessment

End of preparations to a large-area inventory of elements comprising the environment within and surrounding our refinery in Gdańsk

Consistent reduction of gas flared at production sites

Achieving carbon intensity levels on a par with the leading European refineries

Construction and launch of a flare gas recovery unit – a 6,000 Mg reduction in CO<sub>2</sub> emissions and additional gas in the energy system

Running an educational campaign on waste segregation within the LOTOS Group



## Productive capital of Grupa LOTOS

- **Exploration:** licence areas, exploration infrastructure (drilling rigs);
- **Production:** production infrastructure (production platforms, transmission lines);
- **Downstream:** downstream infrastructure (refinery, production plants, port-refinery oil pipelines, gas pipelines, CHP plants);
- **Primary logistics:** product depots, road and rail loading stations, rail infrastructure, geographical location;
- **Secondary sales and distribution:** distribution networks, road infrastructure, rail infrastructure, geographical location, service station chain.

Our objective in productive capital management:

- Achieving production and technology standards on a par with global petrochemical trends, while ensuring compliance with environmental regulations.

Key activities:

- Increasing our own resource base based on fields in low- or medium-risk areas;
- Expanding operations on the Baltic Sea, the Norwegian Continental Shelf and onshore areas in Poland and Lithuania, in particular by:
  - Poland: increasing production from the existing fields, fully appraising the hydrocarbon potential of the Baltic Sea, developing operations on onshore licence areas;
  - Norway: exploring, developing and producing from the existing offshore licence areas, acquiring producing fields;
  - Lithuania: fully developing the existing onshore licence areas.
- Modernisation of exploration and production infrastructure;
- Optimum use of assets held and acquired as part of the growth strategy;
- Further increasing the conversion ratio and intensifying feedstock processing;
- Expanding the refinery's process lines (coking unit);
- Efficient use of the refinery's processing capacities expanded through the 10+ Programme;
- Maintaining high reliability of refinery installations – ensuring safe and stable operation of production and ancillary facilities, with a target of 98% minimum annual availability;
- Expanding the fuel, oil and bitumen sales networks.

Results:

Higher crude oil production

New licences

Higher processing volumes and efficiency

Technical availability of the refinery's installations of 99.7% achieved - the highest in the refinery's history, which is also one of the best results in the world

Increased share in the retail market

The total level of capital expenditure allocated to exploration and production in 2011–2015 is PLN 3.9bn, which represents almost 70% of the LOTOS Group's total CAPEX budget for the period.

## Statement by Zbigniew Paszkowicz

Vice-President of the Management Board, Exploration&Production, Grupa LOTOS



2013 saw strong development of the LOTOS Group's exploration and production segment at an unprecedented pace. The success is all the more remarkable for the fact that it was achieved despite macroeconomic challenges. In late 2013, the segment's annual production capacity exceeded 0.5m tonnes, more than 40% of the strategic target to be reached by the end of 2015.

**Zbigniew Paszkowicz**  
Vice-President of the Management Board,  
Exploration&Production, Grupa LOTOS

2013 saw strong development of the LOTOS Group's exploration and production segment at an unprecedented pace. The success is all the more remarkable for the fact that it was achieved despite macroeconomic challenges. In late 2013, the segment's annual production capacity exceeded 0.5m tonnes, more than 40% of the strategic target to be reached by the end of 2015.

The success was mainly driven by the high qualifications and strong commitment of our crews – employees of the upstream subsidiaries. Their expertise and determination in the pursuit of targets are our most valuable asset, which we will further enhance by investing in professional advancement of our employees.

At the top of the list of key 2013 events we should place the final resolution of the Yme project issue, which was addressed on our initiative and by our effort. The agreement signed in March 2013 between the Yme field operator and the owner of the rig sitting on the field removed a major impediment which had hindered the segment's growth. It was not long before we saw measurable effects.

LOTOS Norge acquired interests in a portfolio of 14 Heimdal licences on the Norwegian Continental Shelf. In accordance with the Norwegian tax law, thanks to the transaction we began to recover funds invested in the Yme project. We expect that by 2016 we will be able to recover two-thirds of our investment.

On the Baltic Sea, our production exceeded the 2013 target. Such strong performance was a result of resumed production at the PG-1 rig within the B3 field. The project was well planned and completed safely (with no accidents). The success is all the more significant given the complexity and technical challenges that were involved in the overhaul of the PG-1 rig.

The capital market took notice of, and reacted very positively to, these achievements. We enjoy the full confidence of financial institutions, which makes it easier for us to raise funds for further investments.

In December 2013, LOTOS Petrobaltic purchased the GSF Monitor drilling rig. Once placed in operation under the name 'LOTOS Petrobaltic', it will help us discover the remaining hydrocarbon accumulations under the Baltic Sea floor, particularly those which could not be reached earlier due to their location at depths of more than 90m below the seabed.

The new drilling rig will take over the role of the existing 'Petrobaltic' platform, which will be converted into a production centre for the B8 field. It is worth noting that the field development was so well prepared that Polskie Inwestycje Rozwojowe, the Polish state's SPV established to provide long-term financing for the most viable infrastructure projects, selected it – from among many others – as the first project to receive its support. This confirms the strong expertise of our crews and the financial institutions' confidence with our business.

We carried out seismic surveys over six offshore licences on the Baltic Sea, covering an area of more than 1,200 km<sup>2</sup>. We had not conducted exploration on such a large scale for many years. This is a good investment in the future, as are the two new licences we acquired in 2013. A final decision on the manner of developing the B4 and B6 gas fields is soon to be made. This project will combine our knowledge of the Baltic Sea with the competences and potential of CalEnergy, our partner in the project.

We are strengthening our presence on the Baltic Sea, while conducting operations under onshore licences in partnership with PGNiG. Our first joint projects were launched in 2013 in Kamień Pomorski and Górowo Iławeckie, and now we are preparing to develop our cooperation.

In Lithuania, our production stabilised at a level which nearly meets the target, while the seismic surveys carried out and five production wells drilled in 2013 are expected to further boost production in the future.

In 2013, we reorganized and restructured the segment companies under the Effective and Rising Programme. The companies whose core business consists in hydrocarbon exploration and production may now focus more closely on these operations. All assets and services with a support function are being transferred to other companies, mostly of the Miliana Group, part of the LOTOS Group.

In 2013, we built a strong foundation for even faster and more efficient development of the upstream segment. In 2014, for the first time ever, the value of the LOTOS Group's upstream CAPEX in a single year will exceed PLN 1.5bn, with nearly PLN 1bn allocated to Baltic Sea projects.

We are consistently striving to achieve our strategic target: a production capacity of 1.2m tonnes by the end of 2015.

# Exploration and production

Grupa LOTOS is engaged in exploration and production through the LOTOS Petrobaltic Group in the following countries:

- **Poland** – LOTOS Petrobaltic and its subsidiaries;
- **Lithuania** – AB LOTOS Geonafta and its subsidiaries;
- **Norway** – LOTOS Exploration and Production Norge AS.

The LOTOS Petrobaltic Group includes companies conducting support activities: the Miliana Group and Energobaltic Sp z o.o. The Miliana Group renders sea transport services to LOTOS Petrobaltic, while Energobaltic was established to manage associated gas produced from the B3 field and – in the future – from other hydrocarbon accumulations located in the Baltic Sea. At the Władysławowo CHP Plant, the company is involved in the production of electricity, heat, LPG and natural gas condensate, using associated gas from an offshore oil production facility (the B3 field).

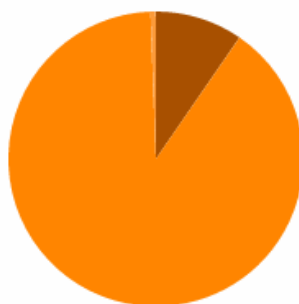
As at the end of 2013, crude oil reserves and resources held by the LOTOS Petrobaltic Group amounted to 8.08 million tonnes or 62.08 million boe (reserves classified as 2P), and 1.80 million tonnes or 13.63 million boe (resources classified as 2C), whereas its natural gas reserves and resources were 1.09 billion cubic metres (2P) and 6.49 billion cubic metres (2C).

Crude oil reserves classified as 2P  
(thousand tonnes)



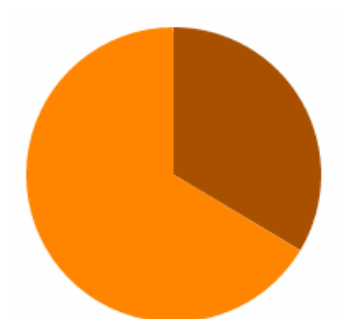
■ Baltic Sea  
■ Norwegian Continental Shelf  
■ Lithuania

Crude oil reserves classified as 2C  
(thousand tonnes)



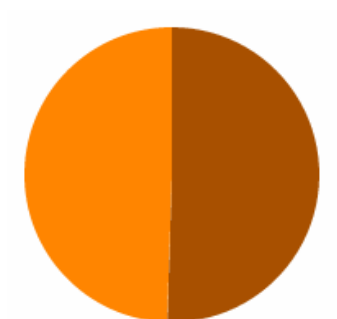
■ Baltic Sea  
■ Norwegian Continental Shelf  
■ Lithuania

Natural gas reserves classified as 2P (billion cubic metres)



■ Baltic Sea  
■ Norwegian Continental Shelf

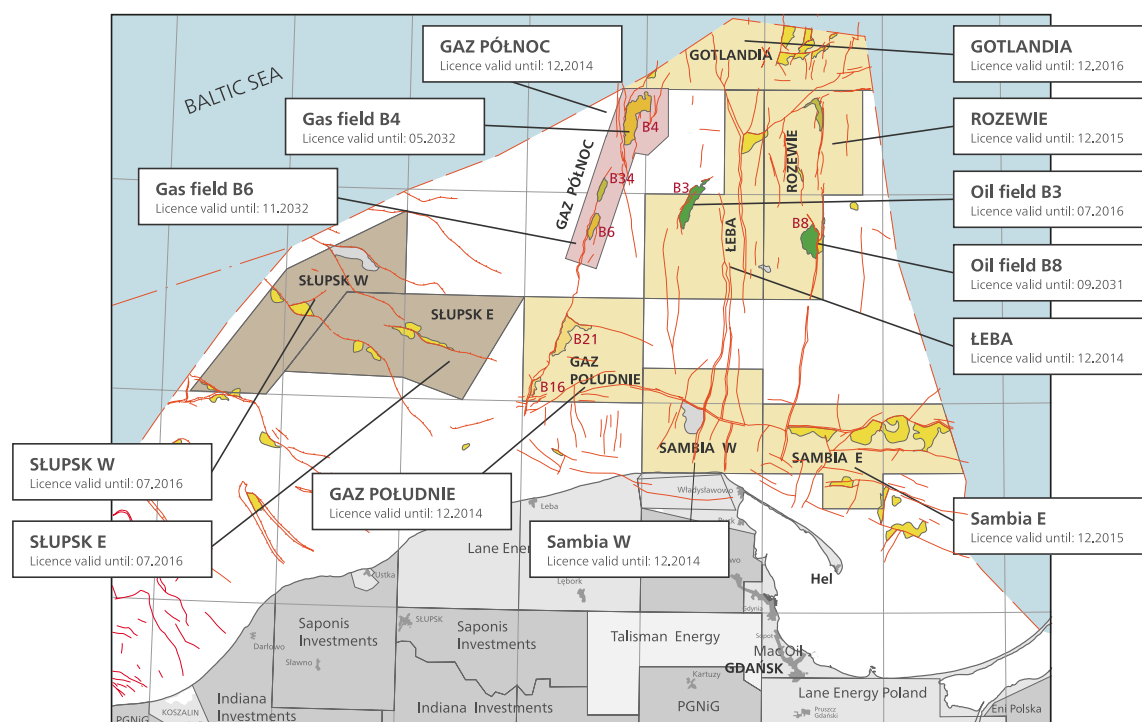
Natural gas resources classified as 2C (billion cubic metres)



■ Baltic Sea  
■ Norwegian Continental Shelf



## Poland – Baltic Sea



LOTOS Petrobaltic is the only Polish enterprise engaged in hydrocarbons production in the Polish economic zone of the Baltic Sea. At the end of 2013, the company held:

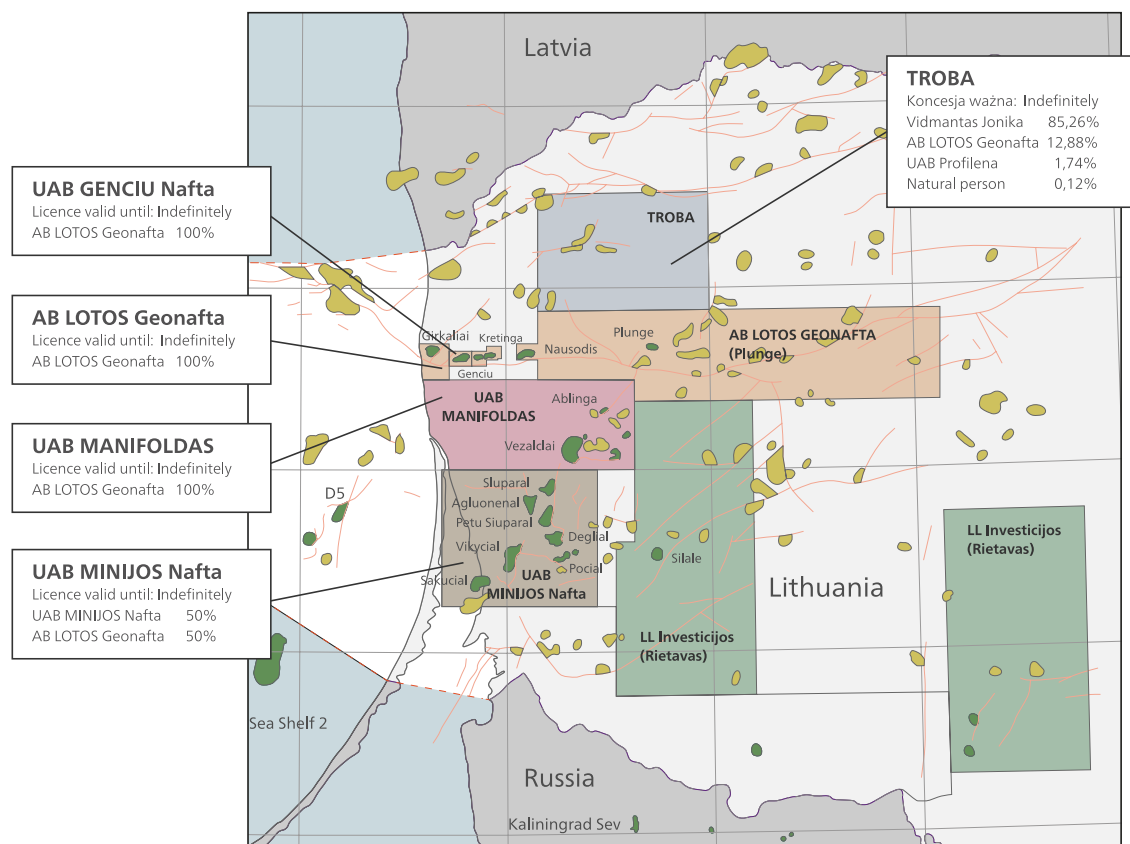
- Nine licences for the exploration for and appraisal of crude oil and natural gas deposits, with two of them, Słupsk E and Słupsk W, obtained in 2013. The total area of LOTOS Petrobaltic's licences is more than 8.5 thousand square kilometres.
- Four licences for hydrocarbons production:
  - on the B3 field, for the production of crude oil and associated natural gas, located 73 km north of Rozewie; the process of extending the licence until 2026 is currently under way;
  - on the B8 field, for the production of crude oil and associated natural gas, located 70 km north of Jastarnia; the field is currently being developed;
  - on the B4 and B6 fields, for the production of natural gas, located north of Łeba; a development project of the fields is being prepared in partnership with CalEnergy Resources Poland.
  - no application was filed for extending the Gaz Północ licence, which expired in April 2013.

In 2013, in the Baltic Sea, LOTOS Petrobaltic was extracting hydrocarbons from the B3 field.

Crude oil production from the Baltic Sea totalled 145.6 thousand tonnes (1,128.2 thousand bbl) in 2013. Output of associated natural gas totalled 16m Nm<sup>3</sup>.

As at the end of 2013, crude oil reserves and resources in the Baltic Sea amounted to 5.06 million tonnes or 39.28 million bbl (reserves classified as 2P), and 0.17 million tonnes or 1.44 million bbl (resources classified as 2C), whereas natural gas reserves and resources were 0.37 billion cubic metres (2P) and 3.28 billion cubic metres (2C).

## Lithuania



Crude oil production from the Lithuanian fields totalled 73.5 thousand tonnes (563.8 thousand bbl) in 2013.

As at the end 2013, crude oil reserves in Lithuania classified as 2P amounted to 0.98 million tonnes (7.5 million bbl).

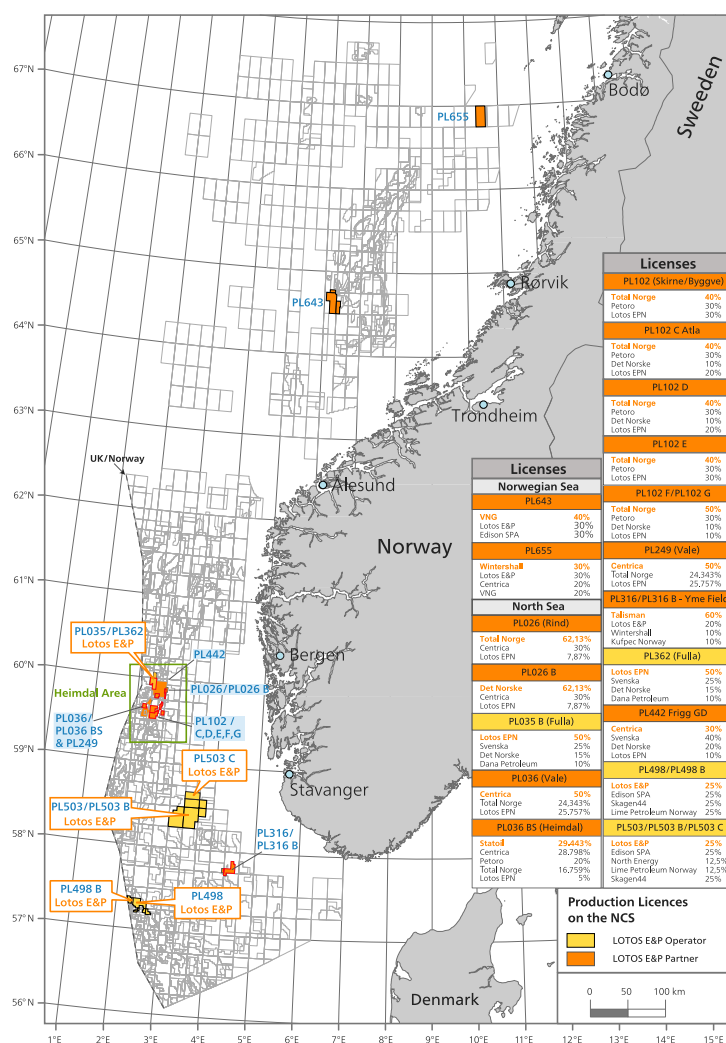
## Norway – Norwegian Continental Shelf:

LOTOS Exploration & Production Norge AS (LOTOS Norge) of Stavanger, Norway, is the subsidiary responsible for our operations on the Norwegian Continental Shelf. At the end of 2013, the company held interests in 24 licences for oil exploration and production: PL 316, PL316B, PL 455, PL 498, PL 497, PL497B, PL 503, PL503B, PL 643, PL 655; and licences acquired as part of the Heimdal portfolio: PL026, PL026B, PL035B, PL036BS, PL036, PL102, PL102D, PL102E, PL102G, PL102F, PL102C, PL249, PL362, and PL442. LOTOS Norge was the operator of six licences: PL035B and PL362 (since January 16th 2014), PL455, PL 498, PL 503 and PL503B.

On January 21st 2014, in the APA 2013 round (Awards in Pre-defined Areas) LOTOS Norge was awarded two licences: 503C and 498B, for which LOTOS Norge will act as the operator. Furthermore, the company resigned on January 23rd 2014 from two licences: PL 497 and PL 497B, and on March 1st 2014 from licence PL 455, due to lack of production prospects.

As a result of the changes described above, on the date of this Report LOTOS Norge holds 23 licences on the Norwegian Continental Shelf, including 7 for which it acts as the operator.

LOTOS Norge holds a 20% interest in PL316/316B – Yme licence, developed by a consortium which includes Talisman Energy as the operator.



On December 30th 2013, the ownership of the Vale, SkirneByggve and Atla fields on the Norwegian Continental Shelf was acquired. Production corresponding to LOTOS Norge's interest is estimated at 5 thousand boe/d (approximately 240 thousand toe – tonnes of oil equivalent – a year).

As at the end of 2013, crude oil reserves and resources of the Norwegian fields amounted to 2.04 million tonnes or 15.3 million bbl (reserves classified as 2P), and 1.61 million tonnes or 12.11 million bbl (resources classified as 2C), whereas natural gas reserves and resources were 0.72 billion cubic metres (2P) and 3.21 billion cubic metres (2C).

## Achievements

Major achievements in the hydrocarbon exploration and production business in 2013 included:

In Poland

### Relaunch of production from the PG-1 drilling rig

Repair of the PG-1 rig was completed as scheduled and production was resumed from the B3 oil and gas field in the Baltic Sea.

### Development of the B8 field

Plan for development and operation of the B8 field was implemented as scheduled. Drilling work was carried out on the B8-5K well, a contractor was selected for key design, procurement and management of shipyard operations, as well as construction design for the conversion of the 'Petrobaltic' rig into a production centre. In October 2013, Polskie Inwestycje Rozwojowe and LOTOS Petrobaltic executed an agreement on the development financing for the B8 oil field in the Baltic Sea.

### Development of the B4/B6 gas fields

Preparatory work on the B4/B6 gas fields was continued in partnership with CalEnergy Resources Poland. Upon the Ministry of Environment's consent, in March 2013 the Gaz Północ licence and production licences covering the B4 and B6 fields were transferred to the company. In April 2013, CalEnergy became a limited partner in Baltic Gas Sp. z o.o. i Wspólnicy Spółka Komandytowa, an SPV established by LOTOS Petrobaltic for the purposes of the investment agreement concluded with CalEnergy in 2012. In 2013, a 3D seismic survey was performed over the Gaz Północ licence area. Work was carried out to select a development concept, including assessment of the possibility of using existing offshore and onshore infrastructure, and negotiations were held with potential customers for natural gas.

### Seismic surveys in the Baltic Sea

Exploratory and appraisal activities were carried out. In 2013, 400 km of 2D seismic and 870 km<sup>2</sup> of 3D seismic were acquired over the Gaz Południe, Gaz Północ, Łeba, Rozewie, Sambia W and Sambia E licence areas. The Baltic production potential is estimated at 30m toe of hydrocarbons. Prospects are located beneath the seafloor at depths of more than 90 m.

## New licences in Poland

The Ministry of Environment awarded LOTOS Petrobaltic two new, three-year licences for the exploration of crude oil and natural gas in the Polish Economic Zone of the Baltic Sea: Słupsk W and Słupsk E. The licence areas cover 1,021 km<sup>2</sup> and 1,139 km<sup>2</sup>, respectively. At present, the total area of the Baltic Sea exploration and appraisal licences is over 8.5 thousand km<sup>2</sup>.

## Acquisition of a drilling rig

The company signed an agreement for purchase of the GSF Monitor jack-up drilling rig. In 2014 the platform, named 'LOTOS Petrobaltic', will take over the drilling operations after the existing 'Petrobaltic' rig is converted into a production centre for the B8 field. The drilling rig is capable of drilling in offshore areas at depths of 105 m, and, if its legs are extended, at depths of up to 120 m.

## Cooperation with PGNiG

With a view to expanding its operations in onshore areas, in August 2013 an agreement was signed with PGNiG on joint operations in the Kamień Pomorski licence area. Located in the Province of Szczecin, the licence is among the most prospective ones in the region and covers an area of 217 square kilometres. The exploratory work contemplated by the agreement will allow the partners to evaluate the reserves volumes and decide whether to launch production.

## In Norway

### Yme Project - agreement with SBM

To recover capital invested in the Yme project, in March 2013 an agreement was reached between Talisman Energy (Yme field operator) and SBM Offshore (rig manufacturer) on removal of the defective rig from the field. SBM Offshore paid the joint venture partners an amount of USD 470m. On behalf of the licence holders, Talisman Energy agreed to make the necessary preparations and remove the platform from the field. SBM Offshore will be responsible for towing and scrapping the platform onshore. Further, ownership of the subsea structure supplied by SBM Offshore will be transferred to the joint venture partners.

### Purchase of Heimdal assets

In October 2013, LOTOS Norge and Centrica entered into an agreement on acquisition of the Heimdal exploration and production assets. The transaction covers 14 licences in the central part of the North Sea, including: Heimdal gas hub (operated by Statoil), three producing fields (Byggve/Skirne, Atla, and Vale), three fields to be developed (Frigg GammaDelta, Fulla and Rind), as well as exploration prospects. As at the effective date of the transaction, i.e. January 1st 2013, proved recoverable volumes of the producing fields were estimated at 9m boe, with contingent resources of the fields to be developed amounting to 31m boe. The value of the transaction was USD 175.8m.

## In Lithuania

### Preparations for development of our licence areas

To fully develop our onshore licence areas, a production drilling programme was implemented. The drilling of five new wells was completed and the feasibility of increasing production using EOR (Enhanced Oil Recovery) techniques was analysed. Seismic surveys were carried out in Klaipėda, Ablinga, and Lizai/Auksoras areas.

Following these steps, in particular the transaction with Centrica and acquisition of the Heimdal assets, the annual production potential of our exploration and production segment has reached 0.5m tonnes, or 42% of the strategic target set for the end of 2015.

## Challenges in strategy implementation until 2015

The principal strategic goal for the exploration and production segment is to increase the production potential to 24 thousand boe (barrel of oil equivalent) daily (or 1.2m tonnes of crude oil annually) in 2015. In 2014, we plan to undertake the following key initiatives as part of our strategy:

### Poland

- Continued production from the B3 field on the Baltic Sea using the PG-1 rig.
- Development of the B8 field.
- Exploration and production work to fully appraise the production potential of the Baltic Sea.
- Continued work aimed at developing the B4/B6 gas fields together with CalEnergy Resources Poland.
- Further cooperation with PGNIG to participate in the exploration for and appraisal of conventional and unconventional oil and gas resources under onshore licences.

### Norway

- Development of and production from the fields forming part of the Heimdal portfolio.
- Further steps to recover capital invested in the Yme project.
- Evaluation of further asset purchase opportunities in the Norwegian Continental Shelf.

### Lithuania

- To fully develop our onshore licence areas, a production and exploration drilling programme will be implemented.
- Evaluation of possible licence acquisitions in Lithuania.
- Completion of feasibility analyses regarding a production increase using Enhanced Oil Recovery techniques and implementation of their results.

## Development prospects until 2020

The LOTOS Group's development directions until 2020 provide for increasing the production potential to approximately 100 thousand boe (barrel of oil equivalent) per day, or 5 million tonnes of oil per year, and securing approximately 330 million boe of proved recoverable reserves.

In 2016-2020, we plan to fully appraise the production potential of the Baltic Sea. Concurrently, we intend to intensify our onshore activity. On international markets, we plan to build a sustainable asset portfolio and gradually boost organic growth.

We also consider embarking on unconventional oil and gas projects.

The development of our exploration and production segment in 2016-2020 in Poland will involve:

- Continued oil production from the B3 and B8 fields on the Baltic Sea.
- Launch of gas production from the B4/B6 fields on the Baltic Sea.
- Full appraisal of the hydrocarbon potential of the Baltic Sea assets.
- Preparation and execution of projects to develop the Baltic Sea areas with confirmed resources.
- Production from onshore fields, expansion of onshore operations through faster development of oil and gas discoveries.
- Assessment of economic viability of potential involvement in unconventional projects.

Our international expansion plans for 2016–2020 envisage in particular:

- Projects to develop areas with confirmed resources.
- Acquisition of production assets and undeveloped assets with confirmed resources which can be brought on-stream by 2020.
- Production increase in Lithuania, e.g. by employing enhanced oil recovery (EOR) techniques and developing new prospects with confirmed resources.
- Evaluation of development opportunities in new geographies.

## Statement by Marek Sokołowski

Vice-President of the Management Board, Chief Operation Officer, Grupa LOTOS



**”** In the refining business, the key challenge in 2013 was to adjust the output mix to market expectations, while keeping operating expenses in check and utilising the production capacities in the optimal way.

**Marek Sokołowski**

Vice-President of the Management Board,  
Chief Operation Officer, Grupa LOTOS

In the refining business, the key challenge in 2013 was to adjust the output mix to market expectations, while keeping operating expenses in check and utilising the production capacities in the optimal way.

In the first place, our efforts were designed to:

- Maximise the use of natural gas as a fuel and feedstock for hydrogen production, especially that gas remained the cheapest available fuel throughout 2013;
- Optimise the use of refinery units. A major success in 2013 was an increase in the conversion ratio of one of the MHC hydrocracking units, built as part of the 10+ Programme. The 90% conversion ratio achieved in August 2013 was a further improvement on the 85% ratio recorded in 2012, and marked an enormous progress versus the nameplate ratio of 60%. It was reflected in the increase of the yearly-average conversion ratio from 83.8% in 2012 to 85.7%;
- Maximise the output of highest-margin products, especially diesel oils and aviation fuel.

An important aspect of a refinery's efficiency lies in the reliability of its units and installations. To ensure problem-free operation of refining units over a longer time, it is necessary to carry out periodic overhauls. In spring 2013, a large-scale overhaul shutdown was undertaken in our refinery in Gdańsk, the first one since the refinery was reconfigured under the 10+ Programme. Even though the scope of the overhaul was significantly more extensive than in the past, the refinery benefited from operating two independent crude distillation lines, the overhaul of which was phased. Thus, the overall downtime in feedstock processing was shorter than during past overhaul shutdowns.

Another important aspect of the refinery's operating efficiency is connected with its energy efficiency. Our complex in Gdańsk has for long been ranked among the most energy efficient European refineries. What is more, each improvement in energy efficiency leads to a noticeable reduction in operating expenses. In 2013, three process furnaces were replaced. The worn-out, low-efficiency furnaces were replaced with state-of-the-art units fitted with heat recovery systems, which further enhances their energy efficiency.

In 2013, projects were continued to increase the use of gas fuel by the refinery, including conversion of the third boiler of the CHP plant into a gas-fired unit. The last boiler will be upgraded in 2014 and from that time on all boilers of our CHP plant will be adapted to run on natural gas. In 2013, we also commenced the construction of a Hydrogen Recovery Unit. Once the project is completed, we will be able to recover hydrogen, LPG and naphtha from low-pressure refinery gases, currently burned in furnaces as a fuel. The recovery of hydrogen and its use in refining processes will reduce the overall cost of hydrogen production and help intensify the oil refining process. The other recovered streams will be marketed as LPG and pyrolysis gasoline. The project is to be implemented in 2013–2016.



To diversify crude oil supply sources and directions, we have launched the Oil Unloading Railway Terminal project, which will enable us to receive and unload oil delivered by rail cars to the refinery in Gdańsk. By developing the necessary infrastructure for unloading oil from rail cars, we will be able to use domestically produced oil in our units.

We are also continuing our plan designed to implement the strategic objective of increasing the conversion ratio and intensifying crude processing by building the coking complex to process the heavy residue from crude oil processing into high-value products. The front-end engineering design stage for the coking complex ended in August 2013. As part of that stage, a coking process licence and technologies for accompanying processes were selected and purchased, and a number of necessary technical analyses were performed. The selection of utility providers and product buyers was commenced. Steps were also taken to ensure adequate financing for the project. The coking unit will be completed in 2017.

In 2012, Grupa Azoty and Grupa LOTOS signed an agreement to jointly carry out a preliminary feasibility study into the construction of a petrochemical production complex. Based on the study results, construction of a steam cracker unit was proposed as a recommended course of action. In December 2013, the Boards of both companies entered into an agreement in which they defined the terms of cooperation and financing of further work. A full feasibility study will mark the next stage in our joint petrochemical project, to determine whether the investment is viable and identify its potential economic benefits.

In 2013, our refinery was once again included in the refining industry comparative performance analysis prepared by Solomon Associates. 2011-2012 were the compared years. For the purposes of the benchmarking study, the refinery is virtually divided into the fuels segment (fuels refinery) and the lubricant segment (lube refinery). The fuels refinery is subject to the Europe, Africa & The Middle East Fuels Refinery Performance Analysis, so the peer group is formed by refineries from those geographical regions. In 2013, the group numbered 107 refineries. The lube refinery is subject to the Worldwide Paraffinic Lube Refinery Performance Analysis, which in 2013 covered 42 refineries.

2012 was the first benchmarking year when all the refinery processes configured as part of the 10+ Programme were fully operational. The Grupa LOTOS fuels refinery performed very well against the peer group. The construction of modern facilities markedly enhanced the refinery's energy efficiency. At present, the Grupa LOTOS refinery is among the most energy efficient refineries in Europe, with only 5% or so of the refineries having scored better in this category. Further improvement was also seen in labour productivity, as the 10+ Programme had markedly enhanced the refinery's capacity, with only a slight increase in workforce. Since 2006, the labour productivity ratio has improved by approximately 30%.

Return on capital employed, the most synthetic of all ratios, places the Grupa LOTOS refinery among the 25% best refineries in the analysed region.

# Processing business

The LOTOS Group's operating activity is centred on refining operations and supplying the market with high quality products, while utilising the production capacities in the optimal way and minimising the adverse environmental impact.

The Group's operating segment comprises the operations of the refinery in Gdańsk - the largest production plant in the LOTOS Group, and those of subsidiaries involved in production or support functions. The subsidiaries include LOTOS Infrastruktura, LOTOS Serwis, LOTOS Lab, LOTOS Straż and LOTOS Ochrona.

## Achievements

The spring 2013 overhaul shutdown was the most important event of the year at the Grupa LOTOS refinery. It was the first major overhaul shutdown since the refinery's expansion under the 10+ Programme. The purpose of such shutdowns is to ensure safe operation of the refinery equipment by restoring them to full working order. It is only during these stoppages that certain inspections required by the Office of Technical Inspection can be carried out. In addition, they are an opportunity to implement a number of upgrades, which cannot be done while the units are operational. In the Grupa LOTOS refinery, overhaul shutdowns are carried out at four-year intervals.

The work slated for the 2013 overhaul shutdown was carried out in full. The overhaul work schedule was prepared in accordance with relevant benchmarks for the refining industry, with the target overhaul duration across key process units within the European average. Additionally, in the refinery's current configuration, it was possible to divide the work between two independent oil distillation lines, the overhaul of which was phased. As the total downtime in crude oil processing was reduced, the shutdown's impact on the market availability of the refinery's products was less significant than in previous years.

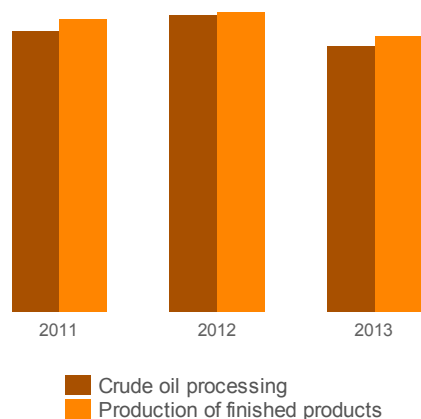
The overhaul shutdown was used as an occasion to carry out a number of efficiency improving projects, designed to optimise the refining processes and replace old units. The most important of these included:

- modernisation of the liquid gas separation facility, which increased the unit's capacity and raised the quality of liquid gas streams,
- modernisation of the gasoline hydrodesulphurisation and separation column, resulting in higher potential output of more expensive gasoline from naphtha processing and improving the process efficiency,
- launch of a flare gas recovery unit, designed to enable the use of flare gas as a fuel. The implementation of the project improved the Company's energy efficiency, reduced its environmental impact (CO<sub>2</sub> emissions and noise) and enhanced its image,
- replacement of old furnaces at the gasoline hydrodesulphurisation and oil refining units. Thanks to their high energy efficiency and enhanced operating profile, the new furnaces will improve the units' production performance.

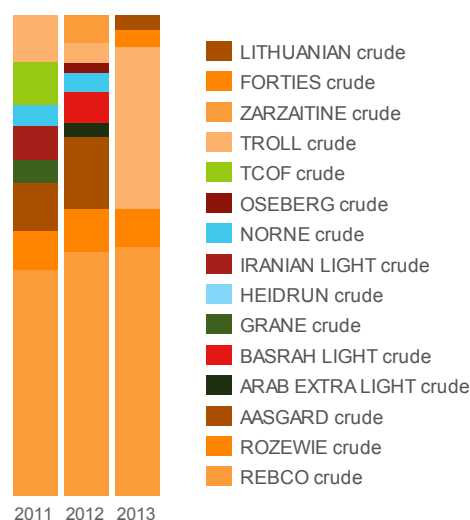
In 2013, the 30-day downtime led to a year-on-year decrease in the volume of crude oil processed. The refinery processed 8.7m tonnes of crude, which means that the average annual utilisation rate of its installed capacities was 82.9%. The refinery's workload was adjusted to market conditions, which remained challenging throughout the year.

In 2013, the 30-day downtime led to a year-on-year decrease in the volume of crude oil processed. The refinery processed 8.7m tonnes of crude, which means that the average annual utilisation rate of its installed capacities was 82.9%. The refinery's workload was adjusted to market conditions, which remained challenging throughout the year.

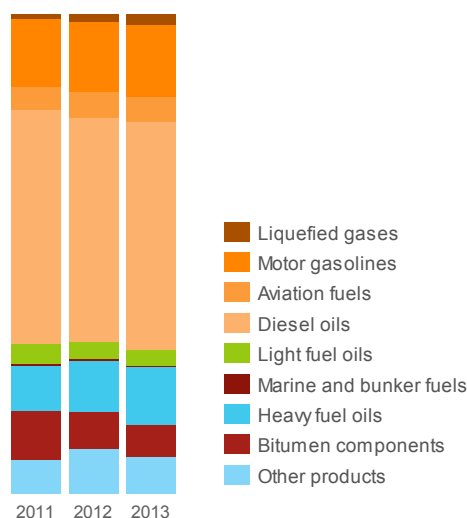
### Crude oil processing and production of finished products at the Grupa LOTOS refinery (million tonnes)



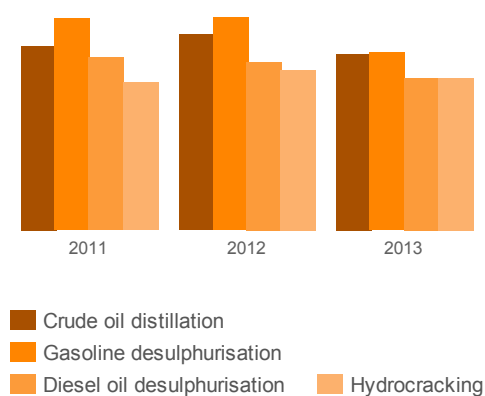
### Crude slate (%)



### Finished products (%)



### Utilisation of the refinery's capacities (%)



As in previous years, the main type of crude processed was Russian REBCO, whose share in the total volume was close to 90.4% and remained relatively flat on previous years. Crude oil imported by sea, including approximately 140 thousand tonnes of Rozewie crude supplied by LOTOS Petrobaltic, accounted for the balance of the crude feed. Following LOTOS Petrobaltic's acquisition of AB Geonafta, the refinery in Gdańsk also began processing crude oil supplied from Lithuania. In 2013, the volume of Lithuanian crude processed by our refinery was close to 48 thousand tonnes. Throughout the year, we recorded no supply disruptions which could affect the volumes of crude processed by the refinery.

In 2013, the margin levels and demand conditions favoured maximised production of middle distillates such as diesel oil, aviation fuel and light fuel oil, with these products accounting for nearly 56% of the refinery's total output.

The refinery's utilisation rate fell as a result of the overhaul shutdown. However, the hydrocracking unit's 2013 workloads were comparable to those recorded in 2012. This was attributable chiefly to a very short downtime of the 390 hydrocracking unit, which was built as part of the 10+ Programme and launched in 2011, and so did not require any substantial repairs.

Throughout 2013, the focus was on maximising the use of natural gas as a fuel and feedstock in hydrogen production. Natural gas consumption rose by 75% year on year, to reach 372 thousand tonnes. As a result, the output of products previously consumed at the refinery instead of natural gas, such as liquefied gas, gasolines and fuel oil, went up.

## Research and development

The focus of our research and development activities was on further optimisation of technologies for the oils unit's products manufactured at our refinery in Gdańsk. The most important R&D achievement in 2013 was the development of production technology for bright stock oil with an increased viscosity index of 95 or more, followed by successful production launch and marketing of the product. The viscosity index was increased by using paraffin fraction residue.

As regards road bitumen and oil production technologies, in 2013:

- industrial validation was obtained for MODBIT 45/80-55 CR, a new polymer-modified bitumen with added rubber recovered from waste rubber, designed for construction of hard-wearing and environmentally friendly roads;
- laboratory validation was performed for MODBIT 25/55-60 CR, a new bitumen minimising the effects of road structure stiffening at very low temperatures;
- testing was completed for L-HV hydraulic oils for compliance with the Denison HF-0 requirements, to obtain the required Approvals;
- field tests were carried out for oils to be used in stationary gas engines, to obtain formal approval for use by selected engine manufacturers;
- new classes of motor and industrial oils were introduced, to offer a range of products suitable for various climate conditions in export countries;
- 27 Approvals for lubricants were extended, and 16 new Approvals were secured.

## Challenges in strategy implementation until 2015

Actions taken in 2013 were consistent with the objectives of the LOTOS Group's business and CSR strategies until 2015. In the years to come, our efforts to further increase the efficiency of the refinery in Gdańsk will be continued. The key plans for the coming years include:

- Increasing the effectiveness of hydrocarbon production in the refinery through the construction of a Hydrogen Recovery Unit;
- Upgrading the fourth boiler of the refinery's CHP plant by converting it into a gas-fired unit;
- Continuing work on the design of the coking complex;
- Refining our plans for producing high-quality base oils using paraffin fraction from MHC hydrocracking units;
- Further work on the construction of a petrochemical production complex;
- Developing the infrastructure for unloading oil from rail cars.

## Development prospects until 2020

Development directions until 2020 in the processing business concern mostly projects that have already been commenced and are aimed at improving the economic efficiency of feedstock processing at the refinery in Gdańsk. The most important challenges in this area will be:

- The project of a coking complex together with accompanying installations. So far, the technical aspect of the project is quite advanced. However, the real challenge will be to ensure financing for the project as well as the smooth implementation of all its stages. Our experiences gained during the implementation of the 10+ Programme shall prove useful for smooth completion of the coking project.
- The project of a petrochemical production complex, which is currently at the stage of conducting feasibility studies. Shall the project prove to be economically beneficial and financially viable, then its completion will pose a major challenge and will open up a new chapter in the LOTOS Group's activities.

## Statement by Marcin Bodio

International Relations Office Director, Grupa LOTOS, CSR Strategy Leader in the Energy Sector Security area



” In line with the business strategy of the LOTOS Group for 2011-2015, we will be seeking to increase our role in enhancing the security of Poland’s energy sector by increasing hydrocarbon production and the oil conversion ratio, improving Poland’s fuel balance and exploiting synergies between the refining and other segments of the energy sector.

### Marcin Bodio

International Relations Office Director, Grupa LOTOS, CSR Strategy Leader in the Energy Sector Security area

In line with the business strategy of the LOTOS Group for 2011-2015, we will be seeking to increase our role in enhancing the security of Poland’s energy sector by increasing hydrocarbon production and the oil conversion ratio, improving Poland’s fuel balance and exploiting synergies between the refining and other segments of the energy sector.

Enhancing the energy sector’s security in a socially and environmentally responsible manner is also one of the key objectives of our CSR Strategy for 2012-2015. It is one of the reasons why we signed the declaration accompanying the ‘Vision of Sustainable Development of Polish Businesses until 2050’ initiative. The importance of the energy sector is underlined by its being one of the six focus areas indicated in the document as an area where initiatives by business, the government and other groups are necessary to ensure the country’s successful long-term development.

In line with our strategy and acting in accordance with the principles of transparency, we take part as experts in government-initiated activities to improve the energy sector’s security. We take an active role in the law-making process regarding key energy issues in Poland and the EU. We also actively work with dedicated organizations in Poland and abroad to build platforms for cooperation between the world of business and public authorities.

The promotion of corporate social responsibility manifests our need to stand for common values, which is why Grupa LOTOS actively pursues international efforts, to build a strong position for itself not only in business terms but also as a corporate citizen. Especially worth pointing out is our work within two international organizations, Central Europe Energy Partners (CEEP) and the Atlantic Council.

Grupa LOTOS is an initiator and founding member of CEEP, a regional non-profit organization whose objective is to support integration of the Central European energy sector under the EU’s common policy for the energy sector and its security. At present, CEEP represents 22 companies from six Central European countries, which employ more than 300,000 staff and whose total annual revenues are in excess of EUR 40 bn. Thanks to CEEP membership, Grupa LOTOS is able to effectively voice its interests in the EU. The Atlantic Council is one of the most internationally recognisable US think-tanks, pursuing programmes in the fields of energy, the environment as well as global business and economics. As a partner of an organization with the transatlantic reach, we have gained extensive networking opportunities to work towards international security and global economic prosperity.

# Energy sector security

In 2013, the goal of ensuring stable supplies of fuel and energy at prices acceptable to the industry and society at large, with the most efficient use of domestic energy resources, was the most important aspect of our efforts towards the energy sector's security. Accordingly, these efforts focused on the following two areas:

- dynamic development of the upstream segment and active participation of Grupa LOTOS in the law-making processes to support the exploration and production of hydrocarbons;
- contribution to the Polish and EU energy policy - by trying to make the governments, parliaments and the public clearly see that the cost-benefit considerations and social costs should be taken into account when building the energy security.

In 2013, Grupa LOTOS and Central Europe Energy Partners (CEEP) were involved in promoting the energy security policy, in particular the issue of affordable energy and support for the development of indigenous energy resources.

At the 3rd European Economic Congress in Katowice, Grupa LOTOS and CEEP co-hosted *'The role of energy in a competitive Europe'* discussion panel, held chiefly to highlight the fact that recovery and development of the industry is the key challenge which needs to be addressed in order to restore economic growth and create new jobs. However, this will not be possible if the energy costs keep growing.

A number of politicians and businessmen attended *'The Internal Energy Market in the EU – A Chance for Central Europe?'* discussion panel organised by CEEP at the 23rd Economic Forum in Krynica. The participants unanimously agreed that a unified internal market would bring up a number of opportunities for Central Europe, in particular in the area of cohesion policy, but also certain challenges, which need to be monitored and taken into account when creating an internal energy market.

Representatives of Grupa LOTOS and CEEP also took part in the Global Security Forum conference in Bratislava, which was a major event organised as part of the Polish presidency of the Visegrád Group, featuring, among other things, a presentation of the *'What Energy, Price, Growth'* report commissioned by CEEP from Roland Berger Consultants. It was noted that the EU's unified energy sector policy which does not account for differences in economic development or the sector's specific nature would be damaging to Central European countries.

One of the key events to inaugurate the Lithuanian presidency of the EU was the '29+1' debate held in Vilnius. The formula for the '29+1' energy summit was already successfully tested in 2012 in Budapest. Representatives of the 29 leading energy sector companies from Central Europe participating in the summit had an opportunity to present their views and discuss certain issues facing the sector with Günther Oettinger, EU Commissioner for Energy. The idea behind the '29+1' meetings is to ensure that Central European energy companies have a say in developing the EU's joint position and energy security policy.

Grupa LOTOS also took part in the Refining Roundtable organised by the European Commission's Directorate-General for Energy (DG Energy), placing emphasis on the impact of EU legislation on the refining sector's competitiveness.

As a CEEP member, in 2013 we were involved (as part of the public consultation process) in preparing the EU's position on the following issues:

- 2015 International Climate Change Agreement: Shaping international climate policy beyond 2020;
- Exploration and production of unconventional hydrocarbons in Europe;
- Energy prices in Europe.



## Statement by Wojciech Blew

Technology Development and HSE Director, Grupa LOTOS, CSR Strategy Leader in the Management of Natural Resources in the Production Process area



In Grupa LOTOS' environmental policy, we have been pursuing the commitments embedded in the Global Compact Principles. We reconfirmed this again in 2012 by signing the Declaration of Polish Businesses for Sustainable Development. We put in practice the provisions of the two documents by ensuring that our production installations always operate in strict conformity with the most stringent environmental requirements, and by opting for innovative technological solutions when it comes to development and new projects. We also implement such technical solutions that meet the stringent requirements of best available techniques in terms of environmental impact and rational use of natural resources.

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We take care to design and conduct our production processes with a primary focus on prevention, so that the generation of pollution and other nuisances is prevented at source, and if that is not sufficient to minimise the impacts – we make investments necessary to protect the environment. Such an approach is reflected in the LOTOS Group's business strategy as part of an operating objective to limit the environmental risk and to constantly strive to minimise the negative environmental impact, and in the organization's CSR supporting its business objectives.

Our advancement in attaining another objective identified in our business strategy, which is to meet the best global production standards and remain highly competitive among European refineries, is well characterised by the results of a comparative study by Solomon Associates, presented in 2013. In the 'energy efficiency' category, we ranked at the beginning of the first quartile among global refineries, and first in Central and Southern Europe. Thanks to creative solutions proposed by our Gdańsk-based engineers, Grupa LOTOS' hydrocracking unit (MHC) achieves a conversion ratio of 90%, compared with a 60% licensor-rated conversion ratio for the same type of feedstock.

We have seen good progress in the pursuit of a key objective of our CSR strategy – to reduce the environmental risk and make constant efforts to minimise the negative environmental impact of the LOTOS Group's operations.

Throughout 2013, we were successfully expanding the use of natural gas in the refinery's fuel gas network. A substantial increase in the use of gas in the refinery's energy system and as feedstock for production of hydrogen, replacement of old inefficient furnaces at two production units, and redirecting of flare gas to the heating network have all allowed us to achieve better-than-expected results in the implementation of our strategic CSR objective for carbon dioxide emissions. The average emissions volume in 2013 was 30.4kg CO<sub>2</sub>/CWT versus the 33.8kg CO<sub>2</sub>/CWT targeted at the end of the year.

### Wojciech Blew

Technology Development and HSE Director,  
Grupa LOTOS, CSR Strategy Leader in the  
Management of Natural Resources in the  
Production Process area

We promote the awareness of best environmental practices and standards among our employees as well as the local communities. Our activities in this area include meetings, reunions, debates and conferences, publications in our internal media, as well as reaching our employees directly with information to raise their environmental awareness and popularise good environmental practices and standards. A notable event among those organised in 2013 consisted in a comprehensive survey carried out among the LOTOS Group's employees, which on the one hand allowed us to evaluate the degree of their environmental awareness in the workplace and at home, and on the other hand had an educational value. Another important event was an integrating meeting for environmental protection specialists from all major industrial plants in Pomerania, the first of its kind. The meeting was devoted to environmental management, including industrial failures and mitigation of the risk of such failures, implementation of the IED directive into the Polish law and monitoring of how industrial operations affect the natural environment. We also continued to host trips to our refinery with a view to popularizing information on how the environmental impact of our facilities is being reduced, and we carried out other educational campaigns.

We invariably monitor the environmental footprint of the LOTOS Group's infrastructure beyond our mandatory obligations. In order to limit the risk of uncontrolled environmental impact, we continued the review of our service stations' documentation, an exercise commenced in 2012. In 2013, the review covered 70% of the service stations (compared with 30% a year earlier). We also identified the stations (with a particular focus on stations located in Natura 2000 sites) for which we will procure environmental impact assessments.

In 2013, we selected the contractor to perform the large-area environmental inventory of the refinery grounds in Gdańsk and its surrounding areas. The results of this analysis, due to be completed in early 2015, will provide information on the condition of the environment within the refinery grounds and in adjacent areas.

We also seek to maintain the content of pollutants in treated wastewater and discharged water at the lowest possible levels. Just like in previous years, in 2013 the average annual ratio of pollutant charge introduced to the Rozwójka and Martwa Wisła rivers did not exceed the admissible level for all of the monitored indicators except one. The one exception was the boron content, an indicator added to our permit in view of the fact that we began to receive wastewater from the Eko Dolina landfill site. The recorded level of this indicator, which exceeded the permitted level by 50%, is attributable to the composition of the received wastewater.

# Environmental impact

✔ - data has been verified

[See full text of the Independent Assurance Report >](#)

When considering our environmental impacts, at the LOTOS Group we are especially concerned with gas emissions, which are the most critical source of environmental nuisance, both for the immediate environment of our plants and other areas located further away. The approach to emissions of greenhouse gases, including carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), fluorinated hydrocarbons (HFC<sub>s</sub>), perfluorinated hydrocarbons (PFC<sub>s</sub>) and sulphur hexafluoride (SF<sub>6</sub>), is becoming an increasingly more important element of the assessment whether a company operates in accordance with the principles of sustainable development and corporate social responsibility. Recently, we have also seen a wave of increased stakeholder interest in these issues, especially after the 19th edition of the Conference of *Parties* (COP19) organized by Poland, during which representatives of many countries from around the world were discussing the risks entailed by climate change, as well as ways of preparing for and possibly counteracting such change.

At Grupa LOTOS, given that we participate in the EU Emissions Trading Scheme and have a sense of our material contribution to the country's climate policy, we attach great importance to all issues related to the emissions of greenhouse gases as a result of the processes taking place in our installations. In all our projects we consistently stick to the policy of taking into consideration and implementing the Best Available Technologies for our processes.

CO<sub>2</sub> is the only greenhouse gas discharged from Grupa LOTOS' installations ✔. As in the previous year, we did not take continuous measurements of carbon dioxide emission volumes, but instead used a methodology based on calculating those volumes.

2013 was the first year when the manner of monitoring emission volumes of carbon dioxide and other greenhouse gases was centrally regulated – by the EU. This centrally imposed methodology compelled us to introduce some modifications in our approach to the assessment of measurement uncertainty and risk involved in the monitoring process. The consumption of input fuels and materials classified as main streams, namely fuel gas, natural gas and fuel oils, is measured using the most advanced and accurate Coriolis mass flowmeters, which guarantee that the highest accuracy standards are met. In turn, analyses of the parameters (calculation coefficients) of those fuels and materials are performed by an accredited LOTOS Lab laboratory. There was a slight change in the reference calculation coefficients we use for certain smaller streams of fuels and materials. We consult these, as well as any other, changes in the method of monitoring carbon dioxide emissions with a reputable, accredited EU ETS verifier.

The Diesel-powered internal combustion engines of the energy generation system, the steam boilers and crane engines are all sources of greenhouse gas emissions. On the Baltic Beta platform, gases are emitted by the turbines running on gas separated from crude oil. An additional source of greenhouse gas emissions comes from the gas flared on the platform. On the Baltic Beta platform, most excess gas is compressed and returned to shore where it is used for powering other turbines, hence flaring is reduced to a minimum. All the gas produced on the 'Petrobaltic' platform is burned in flare stacks, which are designed to minimise the emission of harmful substances. All of its CO<sub>2</sub> emissions come from the combustion of natural gas and fuel oil in the generation of electricity and heat.

Natural gas extracted from under the Baltic Sea bed does not contain any chemical compounds or substances which could produce emissions of any greenhouse gases other than CO<sub>2</sub> during combustion. The methane which is a component of fuel gas is burnt up and is not emitted into the atmosphere. Other products of gas separation (liquefied petroleum gas (LPG) and natural gas condensate (NGC)) do not contain greenhouse gases and do not produce emissions of any gases other than CO<sub>2</sub> when used by end users.

LOTOS Geonafra's hydrocarbon production operations in Lithuania generate relatively low emissions of harmful substances, which is why no emissions monitoring is undertaken there. As for LOTOS Norge, in 2013 it did not conduct any operations which could be a source of greenhouse gas emissions.

CO <sub>2</sub> emissions in 2013	Unit.	Volume
LOTOS Petrobaltic*	tonne	17,599 ✓
Energobaltic	tonne	11,784 ✓

Emission volumes including offshore activities.

During the overhaul shutdown performed at the refinery in 2013, we introduced a number of low-emission improvements, which have contributed positively to our performance.

#### Type of CO<sub>2</sub> emissions in Grupa LOTOS [thousands of tonnes per year]

Type of emission	2011	2012	2013
Direct	2,045	1,979	1,689 ✓
Indirect	365	400	373 ✓
Total	2,410	2,379	2,062 ✓

A reduction in emissions of carbon dioxide and other pollutants into the atmosphere was achieved also thanks to the completion in 2013 of the following projects:

- **Replacement of process furnaces at the gasoline hydrorefining and oils refining units** – the new furnaces are much more energy efficient compared with the old units;
- **Upgrade of the third boiler at our CHP plant** and its adaptation to the burning of natural gas;
- **Construction of a flare gas recovery unit**, which redirected 45% of the total volume of flare gases to the fuel gas network between the beginning of September and the end of the year.

The only significant source of indirect emissions in Grupa LOTOS is in the purchase and use of electricity ✓. It should be noted that in 2013 we significantly reduced the use of heavy fuel oil as a fuel for heat generation, replacing it with more environmentally friendly fuel gas, the main ingredient of which is natural gas.

These projects allowed Grupa LOTOS to reduce its carbon dioxide emissions by approximately 185 thousand tonnes in 2013.

Apart from carbon dioxide, Grupa LOTOS is also required to monitor emissions of such substances as sulphur dioxide (SO<sub>2</sub>), nitrogen oxides (NO<sub>x</sub>), and particulate matter (PM). The method of monitoring these pollutant emissions remained unchanged from the previous year. Measurements are performed separately for two installations: the CHP plant and the refinery. An online measurement system has been fitted inside the flue gas stack of the CHP plant, which continuously indicates the average concentrations of emitted oxides and particulate matter. Emissions from the refinery are calculated based on periodic measurements.

### Pollutant emissions in Grupa LOTOS [tonnes per year]:

Substance	2011 E <sub>s</sub>	2011 E <sub>d</sub>	2012 E <sub>s</sub>	2012 E <sub>d</sub>	2013 E <sub>s</sub>	2013 E <sub>d</sub>
SO <sub>2</sub>	5,708	7,137	3,370	6,342	548 ✓	5,169
NO <sub>2</sub>	1,620	2,650	1,308	2,501	843 ✓	2,264
PM	344	556	264	461	91 ✓	366

E<sub>s</sub> - actual level of emissions from Grupa LOTOS installations

E<sub>d</sub> - permissible level of emissions

In LOTOS Petrobaltic, fuel combustion emissions of such substances as nitrogen and sulphur oxides are due mainly to the combustion of fuel oils. It needs to be emphasised that none of the emissions from the LOTOS Petrobaltic Group's production operations contain any ozone-depleting substances.

### Pollutant emissions in the LOTOS Petrobaltic Group in 2013 [tonnes]

Substance	Unit	Volume
<b>LOTOS Petrobaltic</b>		
SO <sub>x</sub>	tonne	4.53 ✓
NO <sub>x</sub>	tonne	26.88 ✓
Dust	tonne	2.88 ✓
<b>LOTOS Geonafra</b>		
SO <sub>x</sub>	tonne	0.46 ✓
NO <sub>x</sub>	tonne	2.95 ✓
VOC (volatile organic compounds)	tonne	69.54 ✓
Dus	tonne	0.29 ✓
<b>Energobaltic</b>		
SO <sub>x</sub>	tonne	0.004 ✓
NO <sub>x</sub>	tonne	11.23 ✓
Dust	tonne	0.005 ✓

In 2013, a flare gas recovery unit was put in service at the Grupa LOTOS refinery in Gdańsk. The unit was fitted on one of the two discharge ducts leading to flare 3500. To achieve the greatest possible mitigation of environmental nuisance while ensuring that the project remains economically viable, the unit's connection point was located on the duct which carries the vast majority of all flare gases produced in Grupa LOTOS.

### Amount of discharge – amount of flare gas in Grupa LOTOS [thousand cubic metres per year]

Source	Unit	2011	2012	2013
Flare 3500	thousand cubic metres	21,036	19,388	16,363 ✓
Flare 3550	thousand cubic metres	10,819	3,603	5,499 ✓
<b>Total</b>	<b>thousand cubic metres</b>	<b>31,855</b>	<b>22,991</b>	<b>21,862 ✓</b>

Significant volumes of flare gases are produced at shutdowns and startups of installations. Given that an overhaul shutdown was performed in our refinery in 2013, the aggregate volumes of gas being burned in flares should have been significantly higher than in previous years. However, the construction of a flare gas recovery unit, in addition to many other minor improvements, reduced the aggregate annual volumes of flared gases.

The extent to which Grupa LOTOS managed to reduce its environmental impact is also reflected by the figures showing a reduction in our air emissions.

Action	Emission reduction in 2013 [tonne]*			
	CO <sub>2</sub>	SO <sub>2</sub>	Pył	NO <sub>x</sub>
Replacement of fuel oil with natural gas in the fuel gas network	35,000	1,960	150	190
Replacement of fuel oil with natural gas at the CHP plant	68,000	1,420	60	220
Replacement of light petrol/LPG with natural gas in the Hydrogen Generation Unit (HGU)	82,000	0	0	0
<b>Total</b>	<b>185,000</b>	<b>3,380</b>	<b>210</b>	<b>410</b>

\* compared with production conditions of 2011.

In 2013, as in previous years, we did not use any ozone-depleting substances, neither did we introduce any products the use of which would cause atmospheric emissions of such compounds.

In the years to come, we want to continue our efforts to gradually reduce emissions of carbon dioxide and other pollutants into the atmosphere, through further:

- increasing the share of natural gas in our fuel gas network;
- reducing the consumption of heavy fuel oil by replacing it with fuel gas.

## Energy efficiency

The energy efficiency of all production units used by Grupa LOTOS is one of our top priorities. Our steady progress in this area is reflected in the comparative performance analyses of the refining industry published by Solomon Associates.

In the latest Solomon report for 2012, Grupa LOTOS was named the most energy efficient fuels refinery in Central Europe and Southern Europe, and secured one of the top positions in Europe.

We constantly undertake new initiatives to improve the refinery's energy efficiency. In 2013, the key project consisted in replacing process furnaces at two refining units, i.e. the gasoline hydrosulphurisation unit and the oils refining unit.

The new furnaces are highly efficient, with an energy efficiency ratio of over 90%. By using advanced, highly efficient technological solutions, we also reduced the consumption of primary energy, which relative to 2012 was down 28% and 30% in the fuel and lube complexes, respectively.

As a result of the work performed during the overhaul shutdown and rational management of process media, we managed to permanently reduce the refinery's consumption of compressed (control) air by 20%.

In 2013, we also took steps to lower the indirect use of energy by the refinery. To this end, low voltage switchgears were modernised and inverters were installed on the supplies of the motors of all cooling fans in one of the cooling water units. This solution enhances the cooling efficiency and saves electricity through flexible control of the rotational speed of the fan motors in individual cooling units. The system was put in service in late 2013. We also continued to use LED lights on a test basis.

Given the requirements of the Act on Liquid Biocomponents and Biofuels, the Grupa LOTOS refinery's fuel products contain biocomponents (renewable energy carriers): ethanol and ethyl tert-butyl ether are used in gasoline production, whereas fatty acid methyl esters are added to diesel oils. According to the current quality requirements for liquid fuels, the permitted ethanol and ethyl tert-butyl ether content in gasoline is 5% and 15%, respectively. Similarly, the volume of fatty acid methyl esters in diesel oils must not exceed 7%. The total required content of biocomponents in motor fuels is set by the state. In 2013, the Council of Ministers issued a Regulation on National Indicative Targets for 2013-2018, whereby the NIT was set at 7.10%, which means that biocomponents must account for 7.10% of the energy content of fuels marketed in Poland. Grupa LOTOS has met this requirement.

#### Direct energy consumption of Grupa LOTOS in 2013, by primary energy source [GJ]

Item	Unit	Direct – purchased energy	Direct – produced energy	Direct – sold energy	Direct – total energy consumption
Natural gas	GJ	7,943,250 ✓	0 ✓	0 ✓	7,943,250 ✓
Fuel gas	GJ	0 ✓	9,542,926 ✓	140,807 ✓	9,402,119 ✓
HSFO+Bleed fuel oil	GJ	0 ✓	0 ✓	0 ✓	0 ✓
LSFO	GJ	0 ✓	1,952,920 ✓	0 ✓	1,952,920 ✓
Light fuel oil (HON)	GJ	0 ✓	25,043 ✓	0 ✓	25,043 ✓
Electricity	GJ	0 ✓	0 ✓	0 ✓	0 ✓
Heat	GJ	0 ✓	0 ✓	118,054 ✓	-118,054 ✓
Residual gas	GJ	0 ✓	3,258,653 ✓	0 ✓	3,258,653 ✓
<b>Total</b>		<b>7,943,250 ✓</b>	<b>14,779,542 ✓</b>	<b>258,861 ✓</b>	<b>22,463,931 ✓</b>

## Indirect energy consumption of Grupa LOTOS, by primary energy source

Year	Unit	Amount of electricity purchased from the National Power Grid
2011	GJ	4,163,239
2012	GJ	4,407,590
2013	GJ	4,036,944 ✓

The main source of energy used on the drilling platforms is diesel oil, supplied by ships, as well as natural gas extracted together with oil.

On the 'Petrobaltic' platform, energy is generated by a system of power engines and generators running on diesel oil, which meets the requirement to keep sulphur content below 1%. Energy generated in this way is then distributed throughout the platform. On the 'Baltic Beta' platform, energy is additionally generated by gas turbines powered by gas separated from the formation fluid, composed chiefly of crude oil. In LOTOS Geonafta, energy on the rigs is produced by a diesel generator.

## Direct energy consumption of LOTOS Petrobaltic in 2013, by primary energy source

Item	Unit	Direct – purchased energy	Direct – produced energy	Direct – sold energy	Direct – total energy consumption
Natural gas	GJ	0 ✓	53,048 ✓	25,139 ✓	27,910 ✓
Diesel oil	GJ	106,733 ✓	0 ✓	0 ✓	106,733 ✓
Total	GJ	106,733 ✓	53,048 ✓	25,139 ✓	134,643 ✓

## Direct energy consumption of LOTOS Geonafta in 2013, by primary energy source

Item	Unit	Direct – purchased energy	Direct – produced energy	Direct – sold energy	Direct – total energy consumption
Natural gas	GJ	2,521 ✓	0 ✓	0 ✓	2,521 ✓
Fuel gas	GJ	0 ✓	17,056 ✓	0 ✓	17,056 ✓
Diesel oil	GJ	24,874 ✓	0 ✓	0 ✓	24,874 ✓
Total	GJ	27,395 ✓	17,056 ✓	0 ✓	44,451 ✓

## Direct energy consumption of Energobaltic in 2013, by primary energy source

Item	Unit	Direct – purchased energy	Direct – produced energy	Direct – sold energy	Direct – total energy consumption
Natural gas type E (GZ 50)	GJ	17,679 ✓	0 ✓	0 ✓	17,679 ✓
Natural fuel gas (dry)	GJ	262,519 ✓	0 ✓	0 ✓	262,519 ✓
Light fuel oil	GJ	116 ✓	0 ✓	0 ✓	116 ✓
Electricity	GJ	0 ✓	50,033 ✓	47,968 ✓	2,065 ✓
Heat	GJ	0 ✓	134,163 ✓	102,275 ✓	31,887 ✓
Total	GJ	280,314 ✓	184,196 ✓	150,243 ✓	314,266 ✓



### Indirect energy consumption of LOTOS Petrobaltic in 2013, by primary energy source

	Unit	Quantity
Energy purchased for the land base's operations	GJ	5,948 ✓

### Indirect energy consumption of LOTOS Geonafta in 2013, by primary energy source

Item	Unit	Quantity
Energy purchased for administrative purposes	GJ	1,256 ✓
Energy for production purposes	GJ	11,826 ✓
<b>Total</b>	<b>GJ</b>	<b>13,082 ✓</b>

### Indirect energy consumption of Energobaltic in 2013, by primary energy source

	Unit	Quantity
Energy purchased	GJ	26,539 ✓

## Raw materials and consumables used

Raw materials used in exploration and production are substances used in the drilling and production processes. In the case of drilling, these include:

- Drilling mud components (materials),
- Cement used to bond well casing to the drilled rock.

LOTOS Petrobaltic does not use oil-based muds for drilling. All muds used on the drilling rig are water-based. Drilling mud components are brought to the platform, where they are added to water to obtain drilling mud of the required physical and chemical properties. The main ingredients of drilling mud are bentonite or metal salts (KCl, NaCl), with baryte or galena as weighting agents. Various other chemical substances are added to achieve the required properties.

The main raw materials used in the production process include also:

- Chemical substances (materials) added to the formation and produced water injection system,
- Materials used as filter inserts (anthracite, ground nut shells, gravel of different grain size, metal and fibrous filter inserts).

Formation water is saturated brine, mostly chlorine, sodium and calcium brine.

From the point of view of environmental protection, injection of water into a deposit does not pose any environmental threat because the applied pressure does not exceed the fracture pressure of the rock layer, and so does not affect its structure. However, the presence of water in extracted crude oil poses the problem of its disposal or recycling by further technological process. So far, the main method of managing this highly mineralised formation water, extracted together with oil, consists in separating it from the oil in separators, and discharging it into the sea after cleaning it to a level below 15 ppm of oil components (in accordance with the requirements of MARPOL 73/78 and HELCOM).

In order to protect the Baltic Sea and meet the environmental requirements set forth in the Baltic Sea Action Plan, such as those imposing a total ban on discharge of waters, including treated formation water, directly into the sea, LOTOS Petrobaltic has built an installation which pumps produced waters back into the deposit. Consequently, all formation water is pumped back to the deposit it came from, together with the sea water. This solution does not interfere with the marine environment or with the formation of oil-bearing strata, but merely returns the extracted substance.

Water parameters around the platforms are continually monitored in order to ensure that they meet the relevant environmental requirements. We carry out regular monitoring of multiple parameters, including hydrocarbon content in the water, chemical and biological oxygen demand, chlorides, sulphides, bacteria, surfactants and others.

The cementing process uses water-based slurry with chemical additives which delay the setting time. The purpose here is to bond the casing pipes to the drilled levels, prevent contact between drilled rock layers of different pressure gradients, and ensure tightness of the uncased section to prevent the overflow of drilling mud or substances extracted during operations. The parameters are monitored before, during and after drilling, in accordance with the relevant environmental decisions and approvals. Any variations that may occur are due to country-specific regulations. The Baltic Sea is particularly sensitive, which is why operations on the Baltic Sea are governed by more rigorous regulations than those applicable in other areas.

#### Raw materials and consumables used in 2013 by the LOTOS Petrobaltic Group, by weight and volume (tonnes)

LOTOS Petrobaltic	
<b>Injected and formation water</b>	<b>Volume</b>
Biocides	10.17 [t] ✓
Coagulants	1.69 [t] ✓
Other	15.16 [t] ✓
<b>Total</b>	<b>35.9 [t] ✓</b>
<b>Drilling mud</b>	<b>Volume</b>
Bentonite	19.3 [t] ✓
Salts (drilling mud and packer fluid)	78.8 [t] ✓
Hydroxides	2.9 [t] ✓
Other (for maintaining appropriate properties - viscosity, filtration, etc)	22.8 [t] ✓
<b>Total</b>	<b>123.8 [t] ✓</b>
<b>Cement slurry</b>	<b>Volume</b>
Cement	430.6 [t] ✓
Processing agents	14.4 [t] ✓
<b>Total</b>	<b>445.0 [t] ✓</b>
<b>Total</b>	<b>604.7 [t] ✓</b>
<b>Transport of gas from the platform via pipeline to Władysławowo</b>	<b>Volume</b>

Methanol	8.08 [t] ✓
LOTOS Geonafta	
Substances used in the drilling process	Volume
Acid inhibitors	6.95[t] ✓
Drilling mud additives	111.40[t] ✓
Polymers	48.31[t] ✓
Blokiers	29.25[t] ✓
Lubricants	1.40[t] ✓
Cement	162.42 [t] ✓
Extraction additives	111.40[t] ✓
Total	471.13 [t] ✓
Substances used in the production process	Volume
Corrosion inhibitors	2.16 [t] ✓
De-emulsifiers	29.28 [t] ✓
Oxidants	0.20[t] ✓
Total	31.65 [t] ✓
Total	502.78 [t] ✓
Energobaltic	
Stage I - Gas Compressor Station	Volume
Input material: waste gas	9,790,352 [Nm <sup>3</sup> ] ✓
Indirect production material: methanol	10,200 [l] ✓
Stage II - Gas/Input Material Separator Station	Volume
Input material: waste gas (wet) for LPG production	4,966.58 [t] ✓
Input material: natural gas condensate	1,613.51 [t] ✓
Obtained natural fuel gas (dry) as a fuel for heat and electricity generation	5,250,374 [Nm <sup>3</sup> ] ✓

### Raw materials and consumables used by Grupa LOTOS, by weight and volume (tonnes)

Raw materials	Unit	2011	2012	2013
Crude oil	tonne	9,163,836	9,673,647	8,702,622 ✓
Raw materials and components	tonne	1,062,156	833,610	834,114 ✓
Enhancing additives	tonne	2,254	2,091	1,994 ✓

## Water consumption

The refinery draws water from the nearby Motława river, which is its only source of surface water. Given the risk of seawater influx into the river near our intake, to ensure an adequate supply of freshwater the refinery draws water into a retention tank with a capacity of 350,000 m<sup>3</sup>, constructed in the Motława oxbow lake. Underground water is sourced from Cretaceous and Quaternary formations. Cretaceous water drawn by means of two wells is an important source of water for human use. Because of its quality, Quaternary water is used solely for industrial purposes, and given that our intake from these formations is relatively small, the source is classified as immaterial.

Economic use of the natural environment, including water resources, is based on relevant water-law permits and an integrated permit for drawing water from Cretaceous wells. The environmental impact of water intake is assessed during each permit application procedure. Inspections carried out near the refinery's underground and surface water intakes confirm that our water intake does not affect any protected sites or areas of great environmental value.

We consistently maintain water consumption substantially below the prescribed volumes. In 2013, the volume of surface water drawn by the refinery represented 28.9% of the permitted volume, with Quaternary and Cretaceous waters at 0.4% and 59.2% of the respective limits.

### Total freshwater drawn by Grupa LOTOS, by source (m<sup>3</sup>/year)

Source	Unit	2011	2012	2013
Underground water	m <sup>3</sup>	202,429	189,217	162,511 ✓
Surface water	m <sup>3</sup>	3,607,427	3,532,113	3,574,791 ✓
<b>Total</b>	<b>m<sup>3</sup></b>	<b>3,809,856</b>	<b>3,721,330</b>	<b>3,737,302 ✓</b>

### Grupa LOTOS processes consuming large quantities of water

Source	Unit	2011	2012	2013
CHP plant – production of utilities	m <sup>3</sup> /year	2,929,811	2,936,080	2,778,592
Refinery – circulatory cooling water	m <sup>3</sup> /year	1,386,304	1,503,995	1,418,925

Freshwater for the needs of the LOTOS Petrobaltic platforms is extracted from a deep well, for which the company holds the required permit. The amount of water drawn is closely monitored and remains below permitted levels. The amount of water drawn from the Baltic Sea for the needs of the rigs is negligible in relation to its total water resources – 303,121 m<sup>3</sup> out of 21,727 m<sup>3</sup>. It should also be noted that none of the other companies of the LOTOS Petrobaltic Group are depleting water resources through excessive withdrawal.

Water is used on the platforms for human use and for technological purposes. In addition to freshwater, seawater is also used for production purposes, for example in the water injection system. This water is drawn directly from the sea by means of deep-well pumps.

**Total freshwater drawn by LOTOS Petrobaltic in 2013, by source (m<sup>3</sup>)**

Source	Unit	Amount of water drawn
Freshwater – own intake	m <sup>3</sup>	27,645 ✓
Freshwater – municipal water supply	m <sup>3</sup>	2,467 ✓
Seawater	m <sup>3</sup>	303,121 ✓
Formation water	m <sup>3</sup>	94,366 ✓
<b>Total</b>	<b>m<sup>3</sup></b>	<b>427,599 ✓</b>

**Total freshwater drawn by LOTOS Geonafra in 2013, by source (m<sup>3</sup>)**

Source	Unit	Amount of water drawn
Freshwater	m <sup>3</sup>	3,012 ✓
Water for technological purposes	m <sup>3</sup>	1,855 ✓
<b>Total</b>	<b>m<sup>3</sup></b>	<b>4,867 ✓</b>

**Total freshwater drawn by Energobaltic in 2013, by source (m<sup>3</sup>)**

Source	Unit	Amount of water drawn
Water drawn from municipal network	m <sup>3</sup>	4,853 ✓

Grupa LOTOS seeks to increase the volume of reused water and wastewater. Our goal is to increase the share of recycled water in our overall process water consumption. In this way, we keep the use of natural resources to a necessary minimum. For a number of years now, we have been witnessing measurable effects of our efforts, as the percentage of reused water in our overall water consumption continues to rise. Recycled water includes industrial water produced from treated wastewater as well as condensate returned to the boiler feedwater.

**Volume of water recycled in Grupa LOTOS (m<sup>3</sup>)**

	Unit	2011	2012	2013
Industrial water produced from treated wastewater	m <sup>3</sup>	1,179,317	1,254,556	1,368,844 ✓
Pure condensate volume	m <sup>3</sup>	2,030,131	2,207,217	2,237,300 ✓

**Total volume of water recycled in Grupa LOTOS**

	Unit	2011	2012	2013
Total volume of recycled water	m <sup>3</sup>	3,209,448	3,461,773	3,606,144 ✓
Percentage of recycled water	%	45.7	48.2	49.1 ✓

Treated wastewater from the Grupa LOTOS treatment plant is discharged to the Martwa Wisła river. The receiving body was historically a part of the Wisła Leniwka river. The reservoir was cut off from the main course of the Wisła in the 19th century, following construction of the Wisła cutting and the Przegalina sluice. The Martwa Wisła waters in the refinery area are classified as internal seawaters.

The second stream of water discharged from the plant consists of treated drainage water and clean rainwater, which are directed to the Rozwójka river, an element of the Żuławy Gdańskie hydrological improvement system and a tributary of the Martwa Wisła.

Neither of these receiving waters are protected or have high biodiversity value in the discharge area. Furthermore, long-term monitoring has confirmed that wastewater discharged by Grupa LOTOS has no material impact on them. Additionally, despite many years of operation, the refinery does not seem to materially affect any of the habitats located in the vicinity of its discharge areas.

The separate treatment lines allow us to redirect almost all oily rainwater after treatment, to produce industrial water which is fed back to the plant and reused. Only excess volumes of treated oily rainwater are discharged, together with technical wastewater and greywater/blackwater, to the receiving body.

### Total volume of wastewater from Grupa LOTOS, by quality and destination (m<sup>3</sup>)

	Unit	2011	2012	2013
Rozwójka	m <sup>3</sup>	3,874,089	4,305,910	4,220,723 ✓
Martwa Wisła	m <sup>3</sup>	1,354,015	1,293,596	1,273,851 ✓
Total	m <sup>3</sup>	5,228,104	5,599,506	5,494,574 ✓

### Treated wastewater discharged by Grupa LOTOS into the Martwa Wisła river

Measure	Unit	2011 W <sub>r</sub>	2011 W <sub>d</sub>	2012 W <sub>r</sub>	2012 W <sub>d</sub>	2013 W <sub>r</sub>	2013 W <sub>d</sub>
pH	-	7.81	6.50-9.00	7.79	6.50-9.00	7.56	6.50-9.00
Biological Oxygen Demand	mg O <sub>2</sub> /dm <sup>3</sup>	2.68	25.00	2.56	25.00	2.99	25.00
Chemical Oxygen Demand	mg O <sub>2</sub> /dm <sup>3</sup>	34.00	125.00	30.20	125.00	44.10	125.00
Suspended solids	mg/dm <sup>3</sup>	7.89	35.00	6.38	35.00	7.89	35.00
Volatile phenols	µg/dm <sup>3</sup>	1.00	100.00	<5.00*	100.00	<0.005*	100.00
Substances extractable with petroleum ether	mg/dm <sup>3</sup>	0.58	50.00	0.74	50.00	0.73	50.00
Petroleum hydrocarbons	mg/dm <sup>3</sup>	0.83	5.00	1.93	5.00	0.23	5.00
Total Nitrogen	mg/dm <sup>3</sup>	2.90	30.00	2.40	30.00	4.30	30.00
Total Phosphorus	mg/dm <sup>3</sup>	1.07	3.00	1.03	3.00	0.57	3.00
Sulphides	µg/dm <sup>3</sup>	2.00	200.00	6.00	200.00	9.00	200.00
Nickel	µg/dm <sup>3</sup>	10.10	500.00	10.20	500.00	17.05	500.00
Vanadium	µg/dm <sup>3</sup>	36.30	2,000.00	28.90	2,000.00	19.10	2,000.00
Aluminium	µg/dm <sup>3</sup>	92.20	3,000.00	62.40	3,000.00	69.00	3,000.00

W<sub>r</sub> - actual average annual level

W<sub>d</sub> - permissible average annual level

\* result below the quantification limit for the analytical method used in a given year

### Treated wastewater discharged by Grupa LOTOS into the Rozwójka river

Measure	Unit	2011 W <sub>r</sub>	2011 W <sub>d</sub>	2012 W <sub>r</sub>	2012 W <sub>d</sub>	2013 W <sub>r</sub>	2013 W <sub>d</sub>
Suspended solids	mg/dm <sup>3</sup>	11.92	35.00	10.71	35.00	9.50	35.00
Petroleum hydrocarbons	mg/dm <sup>3</sup>	1.64	5.00	2.15	5.00	0.74	5.00

W<sub>r</sub> - real average annual value

W<sub>d</sub> - permissible average annual value

All oily wastewater is stored on the LOTOS Petrobaltic platforms in special containers, and later taken ashore for disposal. Greywater/blackwater is processed in a biological treatment station and then released to the sea. The condition of seawater around the platform is monitored on a daily basis. Similarly, no wastewater produced by LOTOS Geonafta in its drilling operations is discharged directly into natural bodies of water (lakes and rivers). All technological wastewater and greywater/blackwater is stored and subsequently transported to a wastewater treatment plant.

### Volume of wastewater produced in 2013, by destination (m<sup>3</sup>)

LOTOS Petrobaltic	Unit	Volume
Greywater/blackwater	m <sup>3</sup>	7,546 ✓
LOTOS Geonafta	Unit	Volume
Greywater/blackwater	m <sup>3</sup>	3,012 ✓
Energobaltic	Unit	Volume
Greywater/blackwater	m <sup>3</sup>	617 ✓

All formation water produced by LOTOS Petrobaltic in the oil extraction process is pumped back to the reservoir it came from.

### Volume and disposal method of formation water and water produced by LOTOS Petrobaltic in 2013

Item	Unit	Volume
Degree of oil contamination of formation water	ppm	7.64 ✓
Water injected back to the reservoir	m <sup>3</sup>	94,366 ✓

### Volume and disposal method of formation water and water produced by LOTOS Geonafta in 2013

	Unit	Volume
Formation water	m <sup>3</sup>	246,333 ✓

In LOTOS Geonafta, all formation water produced in the oil extraction process is stored on the rig and then transferred for disposal.

# Waste management

Management of waste generated by Grupa LOTOS is carried out in compliance with EU and national regulations, ensuring maximum safety for the environment. As a result of the work performed during the overhaul shutdown in 2013, noticeably more waste was produced, which, however, comprised mostly non-hazardous waste.

## Waste generated by Grupa LOTOS – quantity [tonnes/year]

Waste generated by Grupa LOTOS	2011	2012	2013
Waste stored at the end of the previous year	2,244	2,195	1,777 ✓
Generated hazardous waste	7,338	6,784	6,478 ✓
Generated non-hazardous waste	5,046	5,574	6,659 ✓
Total generated waste	12,384	12,358	13,137 ✓
Volumes permitted by the integrated permit	89,627	89,627	89,627 ✓
Waste generated by service providers	N/A	4,154	3,170 ✓

Our endeavours towards environmentally friendly waste management is evidenced by the fact that in 2013 we managed to recycle all waste produced by the Grupa LOTOS refinery.

## Waste management methods applied by Grupa LOTOS – quantity [tonnes/year]

Waste management method	2011.	2012	2013
Waste recycled	12,428	12,749	13,504 ✓
Waste treated or disposed of	4	28	0 ✓
Incineration	4	27	0 ✓
Landfilling	0	1	0 ✓
Waste stored on site at the end of the year	2,196	1,777	1,410 ✓
Hazardous	1,977	1,503	1,376 ✓
Non-hazardous	219	274	34 ✓

The only hazardous waste sent abroad by Grupa LOTOS are used catalytic converters. Foreign companies have the appropriate technologies to manage such waste in an environmentally friendly way.

## Type of hazardous waste generated by Grupa LOTOS

Type of waste	Unit	2011	2012	2013
Hazardous waste transported from external sources (from outside the LOTOS Group) to the refinery	tonne	21	0	0 ✓
Hazardous waste transported from the refinery to external sites in Poland	tonne	6,286	7,258	6,352 ✓



Hazardous waste transported from the refinery to external sites outside of Poland	tonne	119	0	253	✓
Total hazardous waste transported	tonne	6,426	7,258	6,605	✓
Percentage of waste transported across international borders	%	2	0	3.8	✓

In 2013, there were two incidents involving hazardous substances at the Grupa LOTOS refinery ✓, but their potential impact was limited to the immediate area and neither of them resulted in environmental pollution, as confirmed by appropriate tests carried out under the inspection of the Pomeranian District Inspector for Environmental Protection.

In 2013, the LOTOS Petrobaltic Group did not report any significant spills into the environment ✓.

Drill cuttings (small pieces of rock fragmented by the advancing drill bit) are the main waste product of the drilling process. Once carried to the surface, they are directed to the drilling mud treatment system. Drill cuttings do not contain any of the substances listed in Annex 1 to the Helsinki Convention. Drill cuttings with drilling mud from primary and secondary treatment are discharged to the seabed after being separated and washed, whereas drill cuttings from tertiary treatment are carried ashore and transferred to a waste management company. Every batch of disposed drill cuttings is tested for toxic content. Drilling mud, on the other hand, is recycled so it can be reused in the drilling process. When drilling mud is not suitable for recycling, it is also taken ashore and transferred to a waste management company.

#### Waste generated by LOTOS Petrobaltic – quantity [tonnes/year]

Generated waste	2013
Generated hazardous waste	38 ✓
Generated non-hazardous waste	644 ✓
Total generated waste	682 ✓

#### Waste generated by LOTOS Geonafta – quantity [tonnes/year]

Generated waste	2013
Generated hazardous waste	22 ✓
Generated non-hazardous waste	3,966 ✓
Total generated waste	3,988 ✓

#### Waste generated by Energobaltic – quantity [tonnes/year]

Generated waste	2013
Waste stored at the end of the previous year	0.07 ✓
Generated hazardous waste	0.42 ✓
Generated non-hazardous waste	0.808 ✓
Total generated waste	1.30 ✓

**Waste management methods applied by LOTOS Petrobaltic – quantity [tonnes/year]**

Waste management method	2013
Waste recycled	141
Landfilling	541
Waste stored on site at the end of the year:	0
hazardous	0
non-hazardous	0

**Waste management methods applied by LOTOS Geonafta – quantity [tonnes/year]**

Waste management method	2013
Waste treated or disposed of	3,988
Landfilling	0
Waste stored on site at the end of the year:	0
hazardous	0
non-hazardous	0

**Waste management methods applied by Energobaltic - quantity [tonnes/year]**

Waste management method	2013
Waste treated or disposed of	065
Waste recycled	040
Landfilling	025
Waste stored on site at the end of the year:	0.146
hazardous	0.101
non-hazardous	0.045

All drilling mud and drill cuttings generated by LOTOS Petrobaltic are produced using water-based drilling fluid. In the process of drilling, drill cuttings (small pieces of drilled rock, containing 5%-10% of drilling mud) are separated from drilling mud. The quantity of drill cuttings differs depending on the drilling interval and its diameter.

The chemical composition and environmental impact of drill cuttings depend on the type of drilling mud being used. In order to completely eliminate the chemical activity of produced waste, the use of the simplest type of drilling muds was designed for the process. The drilling muds were tested for their impact on the marine environment (a study entitled 'Determination of the potential impact of drilling mud on the marine environment of the Baltic Sea' prepared at the Gdańsk University of Technology) and considered environmentally non-toxic.

LOTOS Geonafta used only water-based drilling mud in its production operations. Most of its ingredients are biodegradable. All technological water, drilling mud and drill cuttings are carried away for disposal.

### Waste generated in 2013 - Drill cuttings [tonne] (LOTOS Petrobaltic)

Drill cuttings	Unit	Total weight
transferred as waste	tonne	94 ✓
discharged to the sea	tonne	1,054
<b>Total</b>	<b>tonne</b>	<b>1,148</b>

### Waste generated in 2013 [tonne] (LOTOS Petrobaltic)

Drilling mud	Unit	Total weight
in circulation	tonne	1,141
transferred as waste	tonne	340 ✓
discharged to the sea	tonne	144
<b>Total</b>	<b>tonne</b>	<b>1,625</b>

### Waste generated in 2013 [tonne] (LOTOS Geonafta)

	Unit	Total weight
Drill cuttings	tonne	1,601 ✓
Drilling mud and technological water	tonne	2,322 ✓
<b>Total</b>	<b>tonne</b>	<b>3,924 ✓</b>

In accordance with applicable regulations, the LOTOS Group companies have engaged recycling contractors for recovery and recycling of packaging introduced to the domestic market.

At **Grupa LOTOS**, **LOTOS Oil** and **LOTOS Paliwa**, the aggregate recovery rates for packaging waste were in line with the statutory requirements and in 2013 stood at 58.5% ✓ for recovery and 50% ✓ for recycling. Tar papers were a product sold by **LOTOS Asphalt** in packaging until mid-2013. Altogether, the recovery rate for used packaging waste for this company was 58.5% ✓, with the recycling rate at 15.8%. ✓

## Transport

Transport is another key area in which we seek to mitigate our environmental impact.

All bitumen and heavy fuel oil transport for the Polish market is coordinated by LOTOS Asphalt. In 2013, road tankers carried nearly 510 thousand tonnes of products, covering more than 11.5 million kilometres and consuming more than 3.5 million litres of fuel. To limit exhaust gas emissions, the company's products are first transported to distribution centres by rail, and only then dispatched to customers in road tankers. The products are reloaded in modern handling terminals, where harmful vapour emissions are minimised.

Seeking to protect the environment, LOTOS Kolej, the company providing transport services i. a. to the LOTOS Group's companies, keeps increasing the share of electric traction transport, gradually replacing diesel locomotives. As at the end of 2013, the company used 91 locomotives, including 54 electric vehicles.

Due to traction issues, a portion of transport and shunting work is still carried out using diesel locomotives.

Share of electric and diesel traction in overall transport (%)



Diesel oil consumption by LOTOS Kolej diesel locomotives in 2011-2013 (thousand litres)



Traction electricity consumption by LOTOS Kolej electric locomotives in 2011-2013 (MWh)



Out of the total volume of fuels sold by LOTOS Paliwa in 2013, 7% was transported by rail and 26% by road tankers, with the balance represented by fuels collected from storage depots by customers using their own means of transport. In 2013, no fuel spills were reported in road or rail transport.

## Mitigation of environmental impact

### Refinery

The environmental impact of Grupa LOTOS products is unavoidable. Fuels provide energy which is released through combustion, emitting exhaust gas. The efficiency of chemical energy conversion into usable forms of energy (mechanical or thermal) depends on the design of the engine, rather than the fuel itself. Even so, we take steps to make sure that our fuels do not have a significant environmental impact.

All Grupa LOTOS products meet the quality requirements prescribed by law, and in some environmentally relevant respects they even exceed the legally required standards.

- The sulphur content in Grupa LOTOS gasolines and diesel oils is substantially below the legal threshold. In 2013, the average annual sulphur content in motor gasolines and diesel oils was 3.3 ppm and 5.5 ppm, respectively, considerably beneath the required maximum of 10 ppm. This results in substantially lower sulphur dioxide emissions.
- The aromatics content in Grupa LOTOS fuels is also considerably lower than that prescribed by applicable laws. In the case of unleaded gasoline type 95, the average aromatics content in 2013 was 29.7%, less than the legal threshold of 35%. For diesel oils, the content of polycyclic aromatic hydrocarbons is limited to 8% of the fuel's weight. However, in 2013 the average PAH content in our B7 diesel oil was only 0.8% in weight terms. Consequently, this oil produces less soot during combustion, which translates into lower particulate emissions in exhaust fumes.

## Benzene, sulphur and lead content in Grupa LOTOS fuels

Substance	j.m.	2012 - volume	2012 - volume (average)	2013 - volume	2013 - volume (average)
Benzene (in gasolines)	% V/V	0.5 - 1.0	0.8	0.4 - 1.0 ✓	0.9 ✓
Sulphur (in gasolines)	mg/kg	1.0 - 9.9	3.9	0.1 - 7.9 ✓	3.3 ✓
Sulphur (in diesel oil)	mg/kg	1.4 - 9.5	5.5	2.0 - 10.0 ✓	5.5 ✓
Lead (in gasolines)	mg/kg	0	0	0 ✓	0 ✓

Detailed information regarding the properties and composition of fuel products are available for our customers at [www.lotos.pl/en](http://www.lotos.pl/en), where descriptions of all our products along with their Safety Data Sheets are published. On request, the Sheets are also available at LOTOS service stations.

Another long-used method of mitigating the environmental impact of fuels is the use of biocomponents, which can be considered renewable energy sources, and therefore limit the impact of fuel combustion on the environment.

Logistics is another area where the environmental impact of fuel products may be mitigated, by preventing product losses into the environment. In 2013, we launched a new Vapour Recovery Unit (VRU) at the refinery in Gdańsk, to recover the vapours of gasoline. The new unit enables more efficient removal of gasoline vapours from the air pushed out of rail tankers during loading, with three times the capacity of the old one (3,000 m<sup>3</sup>/h). Thanks to the investment, the volume of hydrocarbons released into the atmosphere is minimised, which reduces the environmental impact of logistics operations related to gasoline handling.

### Bitumens

We take steps to eliminate hydrocarbon release related to the production, storage and transport of bitumens, which produce olfactory nuisance, especially within the production plants. Completed projects which are part of this strategy include in particular:

- Jasło: construction of a thermal afterburner, air-tightening of tanks and connecting the air-tight tanks and bitumen nozzles to the thermal afterburner;
- Gdańsk: connection of all road and rail tank nozzles to a vapour extraction system, air-tightening of tanks, connection enabling treatment of extracted vapours in thermal afterburners, construction of an auxiliary unit for treatment of vapours collected from the nozzles with activated charcoal.

Following completion of the project in 2013, the aerosanitary conditions in the area improved substantially.

### Rail operations

In 2013, we completed an overhaul and modernisation of the advanced rail tanker cleaning facility, operated by LOTOS Kolej in Gdańsk. Apart from the main facility, the project involved the construction of a specially designed track fitted with an additional station for removing LPG residues from tankers and feeding them to flare stacks. The range of services was also extended to include shot blasting of internal tanker surfaces.

### Oils

In 2013, the LOTOS Oil production branch in Czechowice-Dziedzice was working on solutions designed to limit soil, surface water and groundwater contamination. As a result of this work, double bottoms were installed in selected tanks.

## Fuels

In 2013, we continued to invest in mitigating the environmental impact of existing LOTOS service stations. These activities included modernising the fuel facilities by installing gasoline vapour recovery units, adding new equipment for measuring and monitoring petroleum product stocks, as well as detecting and signalling any petroleum product leaks to surface water and groundwater, and replacing single-shell tanks with double-shell units.

## Production

One of the most important elements in mitigating the impact of production operations on the natural environment consists in protecting the sea from possible pollution by extracted oil and accompanying substances, and minimising the environmental damage should such an emergency occur. To remain prepared for response to potential emergencies, every year we run obligatory drill exercises on tackling oil spills. In 2013, such training was carried out in the Gdańsk Bay, with the participation of Maritime Search and Rescue services and the Maritime Office in Gdynia. At the same time, LOTOS Petrobaltic updated its *Oil Spill Response Plan for spills resulting from exploration and production work conducted within its licence areas, which is part of the National Plan to Combat Pollution of the Marine Environment*.

One of the most important activities to ensure a clean environment and mitigate adverse impacts is environmental monitoring, which is the study of the environment before, during and after operations. This relates chiefly to seawater and bottom sediment testing. Another important aspect of the process is the management of waste generated on the rigs, based on the 'zero discharge' policy, covering both post-consumer and production waste.

Chemicals used in the drilling process circulate within a closed system, not entering in any contact with the environment. In order to ensure that the arrangements set out in the *Baltic Sea Action Plan* are followed, in 2013 LOTOS Petrobaltic equipped the production rig with an installation for pumping oily formation waters.

# Biodiversity

## Marine environment

As at the end of 2013, LOTOS Petrobaltic held eight crude oil and natural gas exploration and production licences in Polish marine areas. Previously, only one of them, SAMBIA W, bordered on conservation areas of the Baltic Sea coast, protected under the EU Birds Directive. Currently, the newly acquired licences Słupsk W and Słupsk E border on the Słupsk Shoal (Ławica Słupska), which is a marine site of the NATURA 2000 network as defined by the Birds and Habitats Directives.

One of the most important elements in mitigating the impact of production operations on the natural environment consists in protecting the sea from possible pollution by extracted oil and substances accompanying the drilling process, and minimising the environmental damage should such an emergency occur.

Surveys have shown seabed degradation over vast stretches of the central Baltic Sea, caused primarily by accumulations of undegradable organic matter, as well as reduced oxygen content at depths of more than 60 metres. An animal that can be found in this area, although irregularly and very rarely, is the harbour porpoise. In 2013, we took samples for the purpose of biodiversity testing together with bottom sediment samples. The samples, however, contained too little fauna and flora material to perform biodiversity tests.

Our activities in the Baltic Sea consist in exploration for and production of crude oil from the seabed. Exploration work can be divided into two stages:

1. Seismic surveys, which show where hydrocarbons can be found;
2. Test drilling to make a preliminary estimate of the size of a reservoir and its resources, which helps evaluate the economic viability of future production.

Seismic surveys involve generating acoustic waves, which affect the sea fauna. An environmental decision issued by the Regional Directorate for Environmental Protection is required to commence such work. An opinion from the Director of the relevant Maritime Office is also needed. The environmental decision specifies the requirements which must be met in conducting the planned work. In this respect, LOTOS Petrobaltic strictly complies with all the procedures and requirements laid down in the applicable laws and regulations. The *Soft Entrance* procedures are applied in seismic work, under which the intensity of a seismic source is gradually ramped up so as to allow the fish and porpoises inhabiting the area to leave the affected region.

Although the oil deposits beneath the Baltic Sea floor are low-pressure reservoirs, the risk of an eruption during appraisal work and test drilling must be taken into account. Therefore, the procedures to be followed during such operations are very detailed, and provide for all safety measures following from best practice and best technology solutions to reduce, insofar as practically possible, the risk of an eruption. An oil spill would have negative consequences, especially for the bird populations. However, considering that crude oil produced from the Baltic Sea is light oil and 30% of its volatile fractions would evaporate within the first few hours of a spill, and that HELCOM recommends mechanical collection of oil contamination from the sea surface while restricting the use of dispersants causing the clumping and sinking of oil particulates, the impact of a spill on the environment would be minimised.

The main output of the production process is formation fluid, which is separated on the drilling rig into crude oil, natural gas and formation water, the latter being injected back into the reservoir to an appropriate depth in order to maintain the reservoir pressure. Natural gas is transported to LOTOS Energobaltic, where it is used to generate electricity. Such measures also help protect the air, in line with the requirements of Annex VI to MARPOL Convention 73/78 and the *Baltic Sea Action Plan*.

The licence areas where LOTOS Petrobaltic may explore for and produce crude oil and natural gas are located outside the so-called Baltic Sea Protected Areas. As a result, the exploration and production operations conducted within the licence areas pose a negligible threat to protected areas and the maritime environment. The Baltic Sea Protected Areas are given priority when it comes to tackling oil spills in sea waters, with the key objective to prevent any contamination from entering those areas.

Onshore areas controlled by LOTOS Geonafta are located approximately 700 metres from NATURA 2000 sites. The company manages surface water runoff in a comprehensive way, by using, among other measures, an appropriate system of drainage canals. The level of air and groundwater pollution is also monitored. All projects are preceded by environmental impact reports, with data for the purpose of environmental impact assessment provided by continuous monitoring. Periodic analyses have not shown any impact of the exploration and production operations on the biodiversity of the neighbouring conservation areas.

#### Refinery's surroundings

We are consistent in making biodiversity protection a priority for our planned and ongoing investment projects. In order to obtain an environmental decision, an environmental impact assessment must be performed for every major project which may have a significant effect on the environment. As part of this process, a comprehensive environmental impact assessment report is prepared, containing an obligatory description of the project's effect on biodiversity. In our effort to uphold the principles of corporate social responsibility, Grupa LOTOS goes above and beyond the statutory requirements, thoroughly covering biodiversity issues in such reports.

Our commitment to mitigating the adverse impact of our operations on the local fauna and flora is also evidenced by the fact that one of our key environmental objectives for 2014 is to perform a large-area inventory of elements comprising the environment within and surrounding our refinery in Gdańsk. We intend to use the inventory data as a basis for future initiatives to help us manage the biodiversity risks in the refinery's vicinity.

In 2013, our standing with respect to the protection of species included in any category of the IUCN Red List of endangered species did not change relative to previous years. [{link to the 2012 Report}](#) So far, the only protected animal species identified as living in the vicinity of our refinery have been peregrine falcon and kestrel.

In 2013, a pair of peregrine falcons built a nest on the platform attached to the stack of the refinery's CHP plant. The birds are under strict protection in Poland, with only ca. 70 nesting pairs left in the country.

We have also been recording an increasing number of kestrels nesting within the refinery's premises. In 2013, two such nests were found on refining units – the first one was located on one of the flares, while the second one was situated on the bearing of the flue gas duct in the oils refining furnace. The second nest is particularly worth mentioning, because the area around the duct was to be modernised in connection with the replacement of the unit's furnace, as announced the year before. However, to allow the protected birds to raise their young until they were ready to leave the nest, we rescheduled the work by nearly a month.

#### Service station areas

In 2013, the LOTOS service station chain was expanded to include 34 locations operating under the CODO model. 12 of them are newly built stations, with state-of-the-art facilities ensuring environmentally safe operation. In accordance with the applicable regulations, each service station was assessed for environmental impact at the design phase to determine its potential impact on the neighbouring areas, in particular protected sites and areas of high biodiversity value. All the stations were approved for operation and have no impact on protected areas.

The other 22 service stations were acquired on the market from private owners and made compliant with LOTOS standards not only in terms of visual identity and service quality, but also in technological terms.

All the locations selected to be included in the LOTOS service station chain were inspected, with special attention paid to technological solutions and environmental protection documentation. We also reviewed their location in relation to protected areas and any other areas of biodiversity, and performed a risk analysis of the possible impact of each station on the environment. Based on the reviewed documentation and site visits, it was concluded that the service stations newly included in the LOTOS chain were mostly located within towns and cities, away from protected areas.

As at the end of 2013, the chain comprised 256 service stations owned by LOTOS Paliwa. To mitigate the risk of uncontrolled environmental impact, we undertook to monitor each station's environmental impact beyond the scope of mandatory measures. In line with the CSR strategy for 2012-2015, we reviewed the archived documentation of all service stations. In 2012, the review was carried out for 30% of them, with the remaining 70% covered in 2013.



In some cases, additional assessments were commissioned to review their impact on the local environment and protected areas. These efforts will be spread over two years, with subcontractors (experts with relevant expertise and experience in assessing fuel sector facilities) to be engaged in the first year. We expect that reports produced as part of this initiative, covering ca. 50 service stations, will provide us with detailed information about the facilities' location with respect to protected areas, and identify potential hazards for the protected areas arising from their operations.

In 2013, no revitalisation work was carried out on areas managed by LOTOS Paliwa.

Land owned by the LOTOS Group is discussed in more detail in the 2012 Report . {link}

## Capital expenditure on environmental protection

A substantial decrease in charges for economic use of the natural environment proves that the changes we introduce materially reduce the environmental impact of entities operating as part of the LOTOS Group.

Item	Costs and expenditure (PLN '000)		
	2011	2012	2013
<b>Grupa LOTOS</b>			
Costs			
Environmental management costs	2,685	3,143	2,137 ✓
Environmental protection spending	20,011	23,555*	22,336 ✓
Financing of pro-environmental activities of external institutions	285	525	509 ✓
Expenditure			
Pro-environmental investment	12,116	67,606	63,012 ✓
Expenditure on property, plant and equipment**	114,733	141,913	202,314 ✓
<b>LOTOS Group</b>			
Costs			
Environmental management costs	25,450	4,729	4,695 ✓
Environmental protection spending	34,564	26,716	28,336 ✓
Financing of pro-environmental activities of external institutions	295	547	509 ✓
Environmental insurance***	104	105	194 ✓
Expenditure			
Pro-environmental investment	34,709	75,515	66,348 ✓
Expenditure on property, plant and equipment**	805,265	814,264	1,130,446 ✓

\* In 2013, there was a change in our approach to calculating our expenditures on environmental protection, which were extended to include also such costs as were associated with ensuring the proper functioning of the sewage system on the premises of refinery in Gdańsk, etc. Therefore, for the sake of comparability, we have also updated the figures representing our expenditures on environmental protection for 2012 accordingly.

\*\* In 2012 the approach was changed, with property, plant and equipment presented in accordance with the financial statements.

\*\*\* Environmental insurance premiums are paid at the LOTOS Group level.

Item	Expenditure [PLN '000]		
	2011	2012	2013
<b>Grupa LOTOS</b>			
Air emissions	4,268	2,980	1,256 ✓
Water withdrawal	144	140	162 ✓
Wastewater discharge	313	298	316 ✓
Waste landfilling	0	0	0 ✓
<b>Total</b>	<b>4,725</b>	<b>3,418</b>	<b>1,734 ✓</b>
<b>LOTOS Group</b>			
Air emissions	4,805	3,218	1,651 ✓
Water withdrawal	210	173	240 ✓
Wastewater discharge	487	388	511 ✓
Waste landfilling	0	0	0 ✓
<b>Total</b>	<b>5,502</b>	<b>3,779</b>	<b>2,402 ✓</b>

## Challenges in strategy implementation until 2015

The investment projects completed in 2013 (upgrading one boiler of the CHP plant by converting it into a gas-fired unit, replacing old process furnaces with new and more energy efficient ones at two units, a flare gas redirection system) are fully consistent with our efforts to meet the key objective of the LOTOS Group's CSR strategy in the Management of natural resources in the production process area, which is *to reduce the environmental risk and seek to continually minimise the environmental impact of the LOTOS Group's operations*.

Actions mitigating the LOTOS Group's negative impact will be continued. In 2014, the fourth, and last, boiler of the Grupa LOTOS CHP plant is to be converted to a gas-fired unit. The completion of this task will allow us to fully meet the stringent emission standards regarding large gas combustion units (power plants/CHP plants), which are to come into force as of January 1st 2016.

## Development prospects until 2020

Further reduction of the LOTOS Group's negative environmental impact will be possible thanks to the implementation of two more environmental objectives set for the coming years, which are:

- To improve the energy efficiency of the steam heating system of pipelines connecting units;
- To decrease the primary energy consumption of the Grupa LOTOS refinery through modernising further process furnaces.

These actions contribute to further improvement of the energy efficiency, and thus are in line with the objective of mitigating our negative impact on the natural environment.

# Relationship capital



## Relationship capital of Grupa LOTOS

- Well-established sales channels and distribution system ensuring customer satisfaction;
- Solid market position;
- Reputation of a reliable supplier of prime quality products;
- High level of customer service;
- Well-earned trust and commitment, which support our relationships with customers, suppliers and business partners;
- Sustainable supply chain.

Our objectives in the management of relationship capital:

- Maximise financial performance by optimally leveraging our resources and market opportunities, leading to enhancement of shareholder value.
- Build lasting customer relationships through a focus on understanding customers' needs and delivering the expected product quality and safety.

Key activities:

- Consolidate our reputation of a reliable product supplier.
- Improve customer satisfaction by enhancing our service and sale processes to meet customer expectations, introducing a uniform group-wide complaint handling procedure, designing the implementation of a recording system and system for active management of customer relationships, developing the chain of LOTOS Optim a economy service stations, and other initiatives.
- Optimally manage the supply chain (planning, procurement, production and distribution).
- Continue the policy of diversifying directions and sources of crude oil supplies.

Results:

Steady improvement in customer satisfaction levels

Export of LOTOS-branded products to 75 countries around the world

Strong growth of the chain of economy service stations

Promotion of the best commercial practices among the supply chain actors

Leadership in key product categories

## Statement by Paweł Maślakiewicz

Sales Director, Grupa LOTOS, CSR Strategy Leader in the Market Partnership to Build Lasting Customer Relationships area



Grupa LOTOS ranks among Poland's major industrial producers. Every day, we process thousands of tonnes of crude oil and deliver thousands of tonnes of oil products to the market. Mobility is the good we offer. Since it would be impossible for us to reach our customers directly, it is key that we build lasting relationships with business partners, whose distribution networks help channel our products to end users. We have the pleasure of working with the industry's leaders as well as - what is equally important - a number of smaller players, who guarantee stable supplies of LOTOS products to the market.

### Paweł Maślakiewicz

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In our effort to build lasting relationships with customers, it is key that we create and strengthen our image of a reliable, responsible supplier, who seeks to identify and satisfy market needs, while proposing innovative solutions that set positive standards for the entire industry. It is important that we demonstrate our maturity in the approach to commercial matters, but also to our role as one of the market's major players.

In 2013, at an annual meeting with our key partners, we unveiled the LOTOS Group's CSR strategy and showcased the achievements reinforcing our image of a responsible business partner. I am pleased to say that the presentation was very warmly received. We showed how, by combining our business capabilities with innovative ideas from other spheres of life, we can generate a whole new quality. Our activities for the support of culture, sport and the environment make us a partner of choice for our customers.

Last year, we also had the pleasure of presenting the LOTOS Group's Code of Ethics, which provides a systematic framework for our corporate values. This landmark event, clearly communicated to hundreds of our business partners, has allowed us to establish a transparent platform of cooperation, providing a crucial tool for building our relationships with the market environment.

Another thing worth noting is the role we play in supporting the government in the law-making process concerning the energy sector. We take an active part in consultations over proposed amendments to the Mandatory Stocks Act and the Energy Law, and have whole-heartedly supported the introduction of legal measures aimed to eradicate criminal practices from our industry.

Thanks to our initiatives, the LOTOS brand has come to be associated not only with premier quality oil products, but also with safety, environmental-mindedness and responsibility for the market on which we operate.

## Marketing segment

Our marketing business is conducted domestically (sales to foreign companies) and through export sales, by sea and by land. In 2013, the LOTOS Group's activities involving production and sales to the fuel, lube and bitumen industries were carried out through:

- Grupa LOTOS and
- subsidiaries: LOTOS Paliwa, LOTOS Oil, LOTOS Asfalt and LOTOS-Air BP Polska.

We also provided logistics services through Grupa LOTOS (management of storage capacities) and LOTOS Kolej (primary logistics).

In the area of aviation fuel, November 2013 saw the closing of a joint-venture transaction with BP Europe SE, concerning sale of a 50% equity interest in LOTOS Tank, which led to the establishment of LOTOS-Air BP Polska.

## Achievements

Our 2013 performance relative to strategic objectives for the marketing segment was in line with plans.

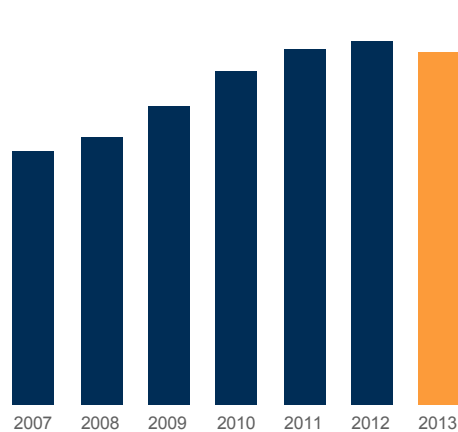
The LOTOS Group secured a **33.4% share in the domestic fuel market**, 3.4 pp above the target set in the business strategy for 2015. The market share fell by 0,9 pp on 2012, due to increased activity of the grey market, whose volume in 2013 was estimated at around 1.6 million tonnes.

The LOTOS Group's share in the **Polish retail fuel market reached 8.5%** - which means we are on track to meet our strategic target for 2015. In 2013, our share of the retail market rose by 0.5 pp on 2012. The achievement of our strategic target, to gain a 10% share in the domestic retail fuel market by 2015, will be supported by sustainable development of the service station chain both in the premium and economy segments, and by increasing sales through the existing chain.

The target of **generating sales in excess of our fuel production capacities, forecast for the end of 2013, was achieved at 8.7%** - which puts us well on track to meet the 15% target by 2015.

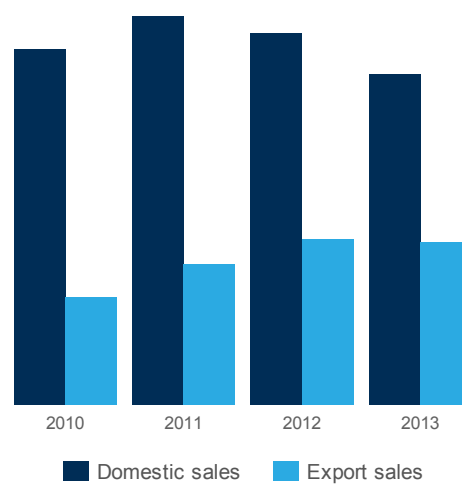
In 2013, the volume of products sold by the LOTOS Group ran to 9.3 million tonnes, 8.1% down year on year. The greatest decline was seen in domestic sales of diesel oil, as the increased activity of the grey market took away some of the demand for the fuel, which was further sapped by the economic slowdown. A decline in export sales was due mainly to the overhaul shutdown of our refinery in the first half of the year, and ongoing efforts to optimise the sales mix in response to different refining margins spreads.

**LOTOS Group's share in the domestic market of liquid fuels (%)**



Source: In-house analysis of Polish Organization of Oil Industry and Trade (POPiHN) data.

**LOTOS Group's sales [tonnes]**



Source: The LOTOS Group in-house data.

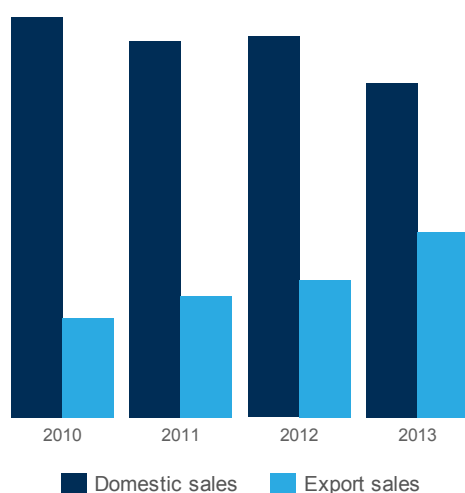
# Value chain – logistics and sales

## Sales of motor fuels

The volume of the LOTOS Group's gasoline sales amounted to 1.5 million tonnes, up by 0.4% over the year before. Relative to 2012, there was a shift in the structure of gasoline sales – in view of the economic downturn and falling demand for gasoline seen in recent years on the Polish market, the product was sold on the receptive export markets of the Netherlands, Sweden and the UK.

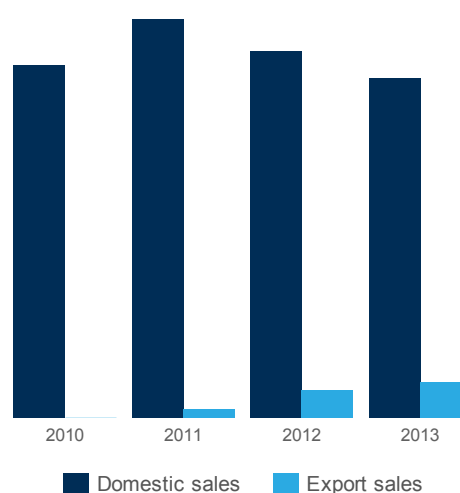
In 2013, a 6% decline in demand for diesel oil led to a 4.8% decrease in total sales of that fuel by the LOTOS Group. A drop in domestic sales was largely compensated by exports, which grew 25% year on year, with Germany, the UK, the Netherlands, France, Denmark and the Czech Republic accounting for the bulk of foreign sales.

Source: The LOTOS Group in-house data.



Source: The LOTOS Group in-house data.

Sales of diesel oil [tonnes]



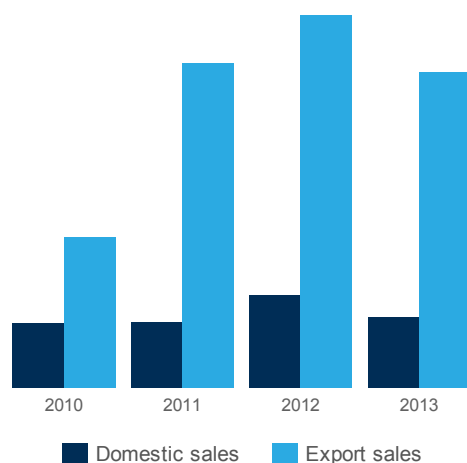
Source: The LOTOS Group in-house data.

## Sales of aviation fuel

In 2013, the LOTOS Group recorded a 17% drop in sales of aviation fuel, while still remaining the main Polish exporter of that fuel. Intra-Community sales accounted for the majority of exports, with the main customers located in Sweden, the Czech Republic, Finland, Denmark and Switzerland. Domestic sales were conducted via two channels: *into plane* and wholesale. As part of the *into plane* fuelling service, fuel was delivered to airline customers operating on the Polish airports in Gdańsk, Warsaw and Kraków. In the wholesale channel, sales were mainly to the aviation industry.



### Sales of aviation fuel [tonnes]



Source: The LOTOS Group in-house data.

## Sales of LPG

In 2013, for another year running, Grupa LOTOS recorded an increase in LPG sales both in Poland and on foreign markets. The increase was linked to the introduction of natural gas as a production feedstock, which had taken place a year earlier. The Polish LPG market is characterised by a huge deficit, with almost 90% of total demand being satisfied by imports, and thus our additional LPG output was channelled to the Polish market. The key export markets for the product included Germany and Serbia.

### Sales of LPG [tonnes]



Source: The LOTOS Group in-house data.

The impact of our fuels on human health and safety is assessed at the production stage. For each type of fuel, a Safety Data Sheet (SDS) for hazardous substances is prepared, including information on all potential hazards associated with the use of the fuel and required precautions. An SDS is delivered directly to each wholesale customer and is available to retail customers at the LOTOS service stations.

Given the fact that we use road or railway transport to supply fuels to customers, internal procedures have been developed to ensure safety and limit the adverse effect of fuels in transit on human health. Railway transport is handled and supervised in terms of safety and health protection by LOTOS Kolej, whereas road transport is fully outsourced to third parties. Nevertheless, we still oversee the safety of this stage of distribution, by providing tank truck drivers with procedures on how to handle their cargoes and the hazard class of the fuels they carry.

As part of our supervision of road transport in terms of safety and health protection, we undertake regular field inspections. The monitoring covers:

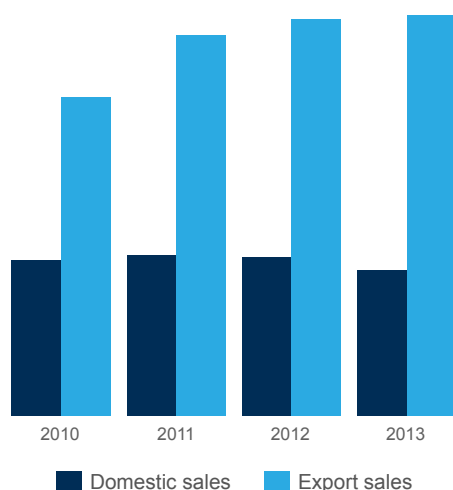
- Loading operations at depots,
- Safe passage of tank trucks over monitored routes, including correct cargo marking as required by applicable regulations,
- Safety of unloading sites,
- Unloading in line with the established procedure and conformity with the procedure,
- Procedure in case of spills, failures.

## Sales of lube products

In 2013, the LOTOS Group sold 254 thousand tonnes of lube products. The principal distribution channels on the Polish market included wholesale and direct sales. The main foreign markets for our lubricating oils were EU countries, as well as countries in Central and Middle Asia, the Middle East, and Africa. In 2013, newly acquired customers for LOTOS Oil products included partners from China, France, the Netherlands, Iran, Tunisia, Turkey and UAE.

In 2013, LOTOS-branded oil products were sold in 59 countries.

Sales of lube products [tonnes]



Source: The LOTOS Group in-house data.

All products manufactured by LOTOS Oil are appropriately labelled with information about their potential health impacts and environmental hazards.

### Extent of the product and service information required by LOTOS Oil's internal procedures:

<b>Source of the product or service components</b>	Thanks to the provision of registration numbers for hazardous substances, it is possible to access information on each product's health impacts and environmental hazards, such as carcinogenic effects, fertility impact, bioaccumulations, etc. Information on the commercial source of a product, i.e. its supplier, is not provided.
<b>Content, particularly substances that might have an environmental or social impact</b>	
<b>Safe use of the product or service</b>	Guidelines on how to safely use and handle hazardous substances are also included in the Safety Data Sheets. In addition, labels on packaged products include pictograms providing information about the risks posed by the product. Safety Data Sheets are available on LOTOS Oil's website.
<b>Disposal of the product and its environmental/social impact</b>	Lubricating oils are subject to the Act on Obligations of Entrepreneurs in Respect of Management of Certain Waste and Product Charges, dated May 11th 2001 and secondary regulations, and thus are collected and transferred for disposal in quantities required by the Act.
<b>Product policy</b>	In line with LOTOS Oil's product policy, products marketed by the company exceed the statutory requirements with respect to environment and health protection. The QUANTILUS T50 and QUANTILUS 60 plasticisers, placed on the market over the last three years, may serve as a case in point, since they meet all requirements related to mutagenicity level and content of carcinogenic agents, as confirmed by independent laboratories. Another example is the upgrading of motor oil lines in accordance with the ACEA specifications, requiring such products' conformity with the exhaust after treatment systems in passenger cars and trucks. Approximately 22% of the company's oil products bear special labelling.

#### Life cycle stages at which the impact of LOTOS Oil's products on health and safety is assessed

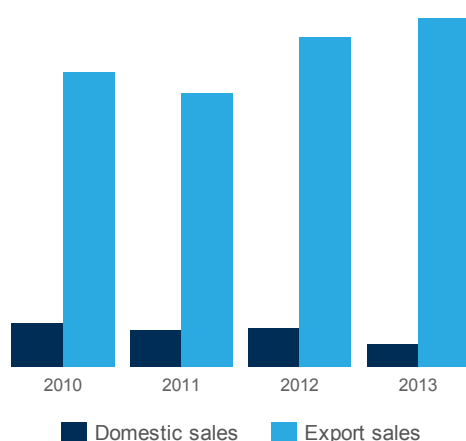
- ✓ Concept of product development
- ✓ Research and development
- ✓ Certification
- ✓ Manufacturing and production
- ✓ Marketing and promotion
- ✓ Stocks distribution and supply
- ✓ Use and service
- ✓ Disposal, reuse or recycling

In 2013, LOTOS Oil recorded no incidents of non-compliance with applicable regulations, rules and codes concerning health and safety impacts of the company's products and services. Similarly, there were no incidents of non-compliance with the regulations and voluntarily applied procedures concerning the marking and provision of information on products and services. No sanctions were imposed on LOTOS Oil resulting from its non-compliance with the applicable laws or regulations pertaining to the provision and use of the company's services and products.

## Sales of heavy fuel oil

2013 saw a 1% overall increase in sales of heavy fuel oil, which – next to diesel oil and gasoline – is a key product sold by the LOTOS Group. The increase came on the back of a 6% growth in exports, mainly to international trading companies. In Poland, the product was sold primarily to power sector companies.

Sales of heavy fuel oil [tonnes]

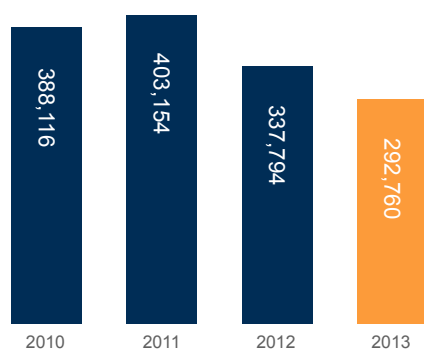


Source: The LOTOS Group in-house data.

## Sales of heating diesel oil

A slide in domestic demand for light fuel oil in favour of alternative heating fuels, caused our 2013 sales of the product to shrink 13% year on year, to 293 thousand tonnes.

Sales of heating diesel oil [tonnes]

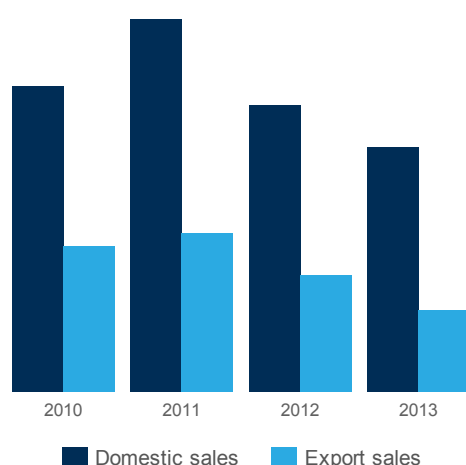


Source: The LOTOS Group in-house data.

## Sales of bitumens

In 2013, there was a 19% year-on-year drop in total bitumen sales, attributable to weaker financial performance of construction companies, as well as the economic crisis prevailing across the EU with a resulting decline in infrastructure investment. Similarly to previous years, road bitumen had the largest share in total bitumen sales (around 80%). The remaining volume of bitumens sold by the LOTOS Group included modified and industrial bitumens. Only road (90%) and modified (10%) bitumens were exported, chiefly to European countries, including Sweden, the UK, Germany, Switzerland, Lithuania, Romania and the Czech Republic. Record sales were recorded in Germany, and in Romania LOTOS Asphalt established its first foreign terminal, which will strengthen its foothold in the market thanks to markedly improved logistics and measurable economic benefits.

Sales of bitumens [tonnes]



Source: The LOTOS Group in-house data.

**LOTOS Asphalt** manufactures construction materials which include such product categories as paving grade bitumens, modified bitumens, bituminous emulsions and waterproofing materials (until June 2013). The manufacturer is required to provide full product information for each product classified into a given category. Mandatory provision of product-related information is required for over 98% of the total volume of products sold by LOTOS Asphalt.

In addition, although petroleum bitumens are not listed among hazardous substances, bitumen products manufactured by LOTOS Asphalt are sold with the Information Sheet for substances or admixtures for which a Safety Data Sheet (SDS) is not required. It contains information on the product ingredients and up-to-date recommendations on its safe handling.

Extent of the product and service information required by LOTOS Asphalt's internal procedures:

- ✓ Source of the product or service components
- ✓ Content, particularly substances that might have an environmental or social impact
- ✓ Safe use of the product or service
- ✓ Disposal of the product and its environmental/social impact

At LOTOS Asphalt, health impact and safety assessments are performed virtually throughout a product's life cycle. If the assessments identify any issue, steps are taken to fully eliminate or at least minimise potential hazards to the natural environment and human safety.

Paving grade bitumens, which account for more than 95% of the company's production volume, are subject to conformity assessment, whose outcome is a warranty for the consumer that the product has appropriate functional properties and meets the relevant requirements for construction products. Declarations of Performance (DoP) have been drawn up for LOTOS Asphalt products.

To ensure the safe use of the products – safety enhancement measures have also been extended to their transport and distribution. There are written manuals and videos on how to safely handle bitumens during loading, unloading and transport. The providers of transport services are also assessed for compliance with LOTOS Asphalt's safety standards.

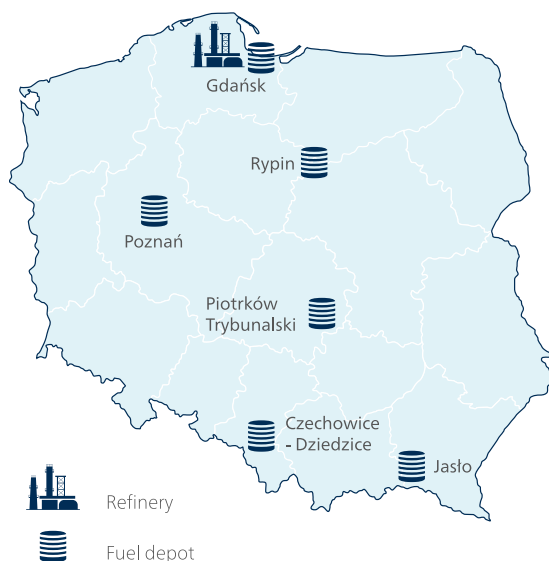
Life cycle stages at which the impact of LOTOS Asphalt's products on health and safety is assessed

- ✓ Concept of product development
- ✓ Research and development
- ✓ Certification
- ✓ Manufacturing and production
- ✓ Marketing and promotion
- ✓ Stocks distribution and supply
- ✓ Use and service

In 2013, LOTOS Asphalt recorded no incidents of non-compliance with the applicable regulations concerning product health impacts, markings or provision of information on products and services. No significant penalties for non-compliance with laws or regulations concerning the provision and use of products and services were imposed on the company, either.

## Logistics

Logistics is consistently adapted to the requirements of our trading operations, while we keep building an efficient distribution system that meets the expectations of customers, but also helps reduce costs. The purpose of these measures is to build a logistics chain that would function optimally in the constantly changing external and internal environments.



To ensure that our logistics assets operate more efficiently, in 2013 we began to consolidate fuel depots within the LOTOS Group. The first stage of the process consisted in reorganising companies in the south of Poland, changing their business profiles and, consequently, changing their names to LOTOS Terminale and LOTOS Infrastruktura. The next stage culminated in the transfer of ownership of the Rypin and Piotrków Trybunalski fuel depots to LOTOS Terminale. Also, construction work on comprehensive upgrading of the Grupa LOTOS fuel depot in Poznań was begun. The consolidation process is expected to be completed in 2014.

In 2013, work continued on fully automating and centralising road tanker filling operations at our own depots. A self-service road tanker filling unit was commissioned at the terminal in Gdańsk, and we plan to gradually roll out similar systems at other locations throughout 2014. The introduction of homogeneous solutions will help us achieve work standardisation and implement uniform interfaces for the exchange of data and reporting of processes related to release of products at the LOTOS Group's fuel depots.

In the area of secondary logistics, we launched supplies of the JET A-1 aviation fuel for the Warsaw airport. Motor fuel deliveries to hypermarket service station operators were also begun.

Preparations continued for the construction of a petroleum product handling terminal on the Martwa Wisła river in Gdańsk. When completed, the terminal will handle exports and imports of feedstock components and product loads of up to 5,000 tonnes from our own wharf.

## Rail transport

Rail transport of products from the Grupa LOTOS refinery in Gdańsk is a mainstay of our production security. Comprehensive services in the area of rail logistics are provided by LOTOS Kolej, which ensures economically viable, efficient and safe rail freight throughout Poland, and – relying on its well-established forwarding capabilities – can also arrange rail transport across the EU. LOTOS Kolej's services involve:

- Management and operation of railroad sidings;
- Rail freight;
- Maintenance of railway infrastructure and rolling stock;
- Eco-friendly cleaning of rail tank cars.

LOTOS Kolej leads the industry in use of advanced technology solutions, deploying and refining a number of IT systems designed to optimise the logistics processes. All loading and unloading operations are controlled by the Rail Logistics System, which ensures that rail transport is efficiently managed. Trains are monitored in real time in conjunction with the Operational Work Recording System of PKP Polskie Linie Kolejowe.

All LOTOS Kolej's locomotives are fitted with mobile IT systems allowing to transmit operational data and train documents from any place within the PKP network, which is a pioneer solution in Poland. The applied solutions are highly appreciated by customers, as they give them real-time access to reliable information on service status.

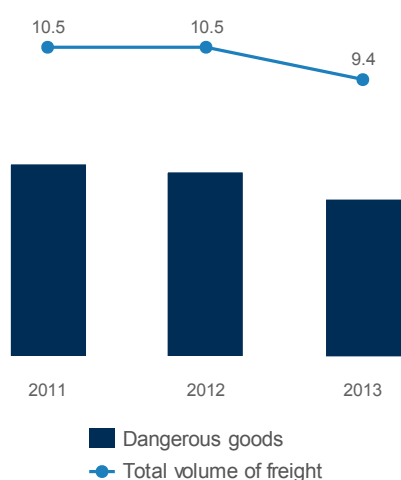
Thanks to cutting-edge technologies combined with innovative rail logistics, the company is able to offer both full-train and single-car freight services, which positions it strongly against competition.

LOTOS Kolej is among the market leaders in terms of using the most modern locomotive fleets in Poland, which increases the efficiency of its transport services, guaranteeing their high quality.

As at the end of 2013, modern locomotives represented 28% of the company's rolling stock, securing it a firm position among rail operators with the most advanced locomotive fleets in Poland.

As a result of its continuous development, LOTOS Kolej has the potential to fully satisfy the transportation needs of LOTOS Group companies and, increasingly, to render transport services to third-party customers.

Volume of freight transported [million tonnes]

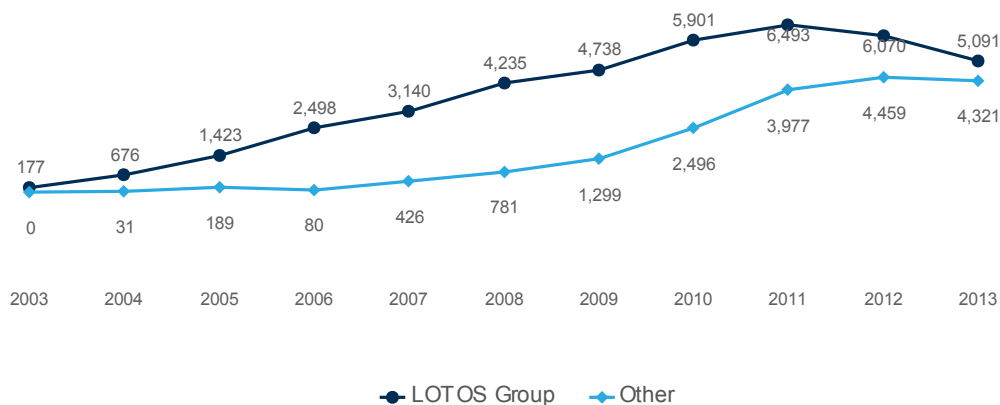


In 2013, LOTOS Kolej transported a total of over 9.4m tonnes, including cargoes of over 4.3m tonnes hauled for third-party customers.



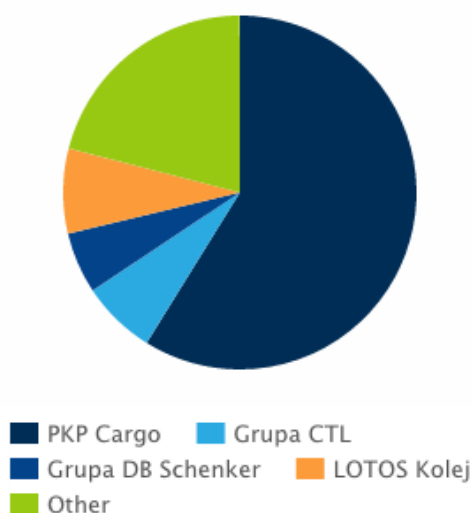
LOTOS Kolej ranks among Poland's leading rail carriers, whose share in the domestic market of 7.76%, measured in terms of rail freight volumes, makes it the number two player on the market.

#### Increase in the volume of rail freight hauled by LOTOS Kolej over a decade [thousand tonnes]



Source: The LOTOS Group in-house data.

#### LOTOS Kolej's share in the domestic freight market in 2013 (%)



Source: In-house analysis of the LOTOS Group based on data from the Railway Transport Authority (Urząd Transportu Kolejowego).

As a rail carrier, LOTOS Kolej has a specialist focus on transport of dangerous goods<sup>(1)</sup>. Consignors of dangerous goods are required to place relevant information plates on each side of the rail cars carrying such goods, specifying the good's identification number (UN number) and hazard identifier, as well as warning labels for a given good. This obligation also applies to empty, uncleaned rail cars and containers in which hazardous substances had been carried, as well as rail cars carrying hazardous waste.

<sup>(1)</sup> Dangerous goods are products and materials which – given their physical, chemical or biological properties – pose a potential safety threat if not properly handled during transport, or, in cases of failure or accidents, may cause a risk to human health or life, the natural environment or property.

In 2013 – as in previous years – LOTOS Kolej recorded no incidents of incorrect or defective marking of consignments of dangerous goods, or any penalties imposed on it for non-compliance with the applicable laws and regulations pertaining to the marking of such consignments.

Extent of the product and service information required by LOTOS Kolej's internal procedures:

- ✓ Source of the product or service components
- ✓ Content, particularly substances that might have an environmental or social impact
- ✓ Safe use of the product or service
- ✓ Disposal of the product and its environmental/social impact

Life cycle stages at which the impact of LOTOS Kolej's products on health and safety is improved

- ✓ Concept of product development
- ✓ Certification
- ✓ Manufacturing and production
- ✓ Marketing and promotion
- ✓ Stocks distribution and supply
- ✓ Use and service
- ✓ Disposal, reuse or recycling.

In 2013, there were 17 accidents involving LOTOS Kolej's staff and rolling stock (against 13 a year earlier) and one incident (against 5 in 2012).<sup>(2)</sup> As in 2012, one accident occurred by fault of the company's employee. The downward trend in those statistics confirms the effectiveness of our steady efforts to improve the safety and quality of services provided.

<sup>(2)</sup> According to the classification provided for in the Regulation of the Minister of Transport, dated April 30th 2007

## Sea transport

Freight transport by sea is a vital element of the LOTOS Group's logistics chain. Having direct access to the product pipelines linking the refinery in Gdańsk to the liquid fuel handling facilities at Port Północny, we enjoy the considerable advantage of lower transportation costs. It is through maritime transport that we export the majority of petroleum products, and are supplied with a significant portion of raw materials and components for production.

2013 was a record year for Grupa LOTOS both in terms of the volume of cargo handled at sea ports and the number of tanker ships handled, which for the first time in the Company's history exceeded 300.

The liquid fuel handling terminal owned by Naftoport is able to handle tankers with a maximum draught of 15 metres and a capacity to load up to 150,000 tonnes of crude oil or petroleum products. This allows Grupa LOTOS to export surplus products and sell them on the markets of Scandinavia, Northern and Western Europe and the Baltics. The direct connection to the port also facilitates imports of additional feedstock, including intermediate products for further deep processing at the refinery in Gdańsk, as well as fuel components. The coastal location allows us to respond quickly and flexibly to changing market conditions. Apart from the Naftoport fuel depot, we also use the Maritime Bulk Terminal in Gdynia and the Siarkopol terminal in Gdańsk to handle smaller cargoes.

Grupa LOTOS enjoys the advantage of having a refinery at a short distance from a cargo handling terminal, which allows it to diversify its supply sources and facilitates the shipping of crude oil from the Company's own fields under the Baltic Sea and in Lithuania, and – in the future – crude oil produced from under the North Sea.

We are consistent in our efforts to take over the management of cargo transportation by sea, or to control the transportation process on the longest possible section of the supply chain, from the affreightment of ships to the formal handling of sea transport. This ensures greater control and helps streamline the planning of cargo handling at sea ports, thus allowing us to reduce the frequency of ship detention and optimise the related costs.

## Petroleum product exports

In 2013, Grupa LOTOS exported 2,806 thousand tonnes of petroleum products, with a total value of PLN 7,445m.

Export revenue fell 5.1% year on year, chiefly on the back of lower refining margins in Europe. Despite the overhaul shutdown at the refinery in Gdańsk in 2013, the volume of exports went up 2.6%.

## Grupa LOTOS petroleum products were exported mainly to Northern and Western Europe.

<b>Naphtha</b>	>	integrated oil and petrochemical companies in the Netherlands, Germany and Belgium
<b>Motor gasoline</b>	>	petroleum hub in Rotterdam, Sweden and the UK
<b>Aviation fuel</b>	>	Sweden, the Czech Republic, Finland, Denmark and Switzerland
<b>Diesel oil</b>	>	Germany, the Netherlands, the UK and France
<b>Heavy fuel oil</b>	>	storage depots of global trading companies in Estonia, Denmark and the Netherlands, and for further sale outside of Europe

There was a considerable, 25%, year-on-year increase in diesel oil exports. Heavy fuel oil was the Company's key export product in volume terms (over 1m tonnes in 2013).

Export sales by land have gained importance. The value of exports delivered by land in 2013 was up by almost 17% year on year, though export by land still accounts for a little more than 3% of the Company's total export sales. Most of Grupa LOTOS' export customers were international vertically integrated oil companies and trading houses. None of the customers accounted for more than 5% of total revenue.

## LOTOS service stations

In 2013, work continued on expanding the LOTOS retail network by adding new stations to the CODO (company owned) and DOFO (franchise operated) chains. In the economy segment, we were rapidly developing the LOTOS Optima business concept. As a consequence of decisions made in previous years, 2013 was another period in which we curtailed retail sales through DODO service stations.

### Number of LOTOS and LOTOS Optima service stations at the end of 2013

<b>LOTOS</b>	142 CODO stations
<b>Premium segment</b>	14 MSAs
	115 DOFO stations
	17 DODO stations
<b>LOTOS Optima</b>	100 CODO stations
<b>Economy segment</b>	51 DOFO stations

In an effort to expand the chain of CODO stations, properties are acquired, with the most important criterion for selecting a location being the sales potential of the local market. In 2013, we added 34 new locations to the CODO chain, including 3 MSAs (Motor Service Areas). Over the same time, the DOFO chain was expanded to include 11 new service stations.

Non-fuel sales represent a significant part of the business of the LOTOS service station chain. In 2013, we continued to develop the Cafe Punkt food service concept, expanding its food and product offering. Among the key initiatives launched in 2013 and continued in 2014 is the standardisation project, aimed to establish a uniform visual identity for the LOTOS retail chain.

Other achievements in the service station chain segment in 2013 included:

- Promotion of sales activity,
- Optimisation of margin on product sales from service station shops,
- Enhancement of the coffee offering at service stations, by

- Opening new cafés at more than 100 locations,
- Use of a special blend of freshly ground coffee exclusively for the LOTOS chain and introduction of larger, 300 ml coffee cups,
- Implementation of a financial efficiency improvement programme for the retail chain.

LOTOS Paliwa markets ready-made fuels, meeting the quality requirements provided for in industrial standards and legal regulations. To ensure compliance, we regularly monitor the quality of fuels sold through the service station chain in terms of their conformity with the relevant requirements. Annual inspections of all fuel types are carried out at each station operating within the LOTOS chain.

In the case of fuel sales from CODO stations, LOTOS Paliwa sets the standards, and supervises adherence to those standards by the station managers. The process is governed by separate agreements and procedures, which are improved on a regular basis. As part of the established health and safety-related standards, the following areas are overseen and assessed for conformity with the applicable requirements:

- Fuel supplies,
- Supervision over the stations' fuel infrastructure,
- Procedures in case of accidents and failures,
- Standards of safety with respect to customer service and fuel sales,
- Environmental management in accordance with the PN-EN ISO 14001:2005 standard,
- Occupational health and safety management in accordance with the PN-N-18001:2004 standard.

LOTOS Paliwa's activity involving retail sales through CODO stations, conducted by the station managers, is strongly connected with the safety of service station personnel and customers. Given their nature, service stations are retail facilities exposed to the risk of aggressive behaviour by persons who are not customers. This kind of behaviour may pose a threat to the physical safety of the station's employees. In 2013, 11 such instances were recorded.

We attach great importance to the safety of the personnel and customers of our service stations. With that end in mind, we have been taking and enhancing various technical, organizational and HR measures designed to prevent any potentially dangerous incidents.

**Technical measures** - protecting the service stations through:

- Appropriate lighting,
- Surveillance with the use of video cameras,
- Technical protection of building entrances and passageways,
- Alarm systems.

**Organizational measures:**

- Establishment and enhancement of procedures and instructions for service station managers and personnel telling them how to behave in case of specific hazards,
- Establishment and enhancement of physical security procedures,
- Employment of specialist providers of security services,
- Investigating incidents that have taken place at service stations and taking appropriate preventive measures.

In 2013, we reviewed our procedures relating to property security and provision of third-party security services.

#### HR measures:

- Provision of station managers with instructions on how to behave in case of hazards related to dangerous incidents and how to prevent such hazards,
- Provision of training to managers and personnel of new service stations. In 2013, training in safety procedures was provided to personnel of a few dozen service stations.

Last year, no instances were recorded of our products or services negatively affecting the health of LOTOS Paliwa's employees. The managers of service stations, in their capacity of employers, are required by law to monitor the work environment at the stations and to ensure that all employees undergo medical check-ups.

In retail sales, information concerning the properties of fuels sold by the company is provided at a customer's request in the form of Safety Data Sheets for hazardous substances. Service station dealers are required to provide, at a customer's request, Safety Data Sheets for hazardous substances included in goods available from their stations.

#### Extent of the product and service information required by LOTOS Paliwa's internal procedures

- ✓ Source of the product or service components
- ✓ Content, particularly substances that might have an environmental/social impact
- ✓ Safe use of the product or service
- ✓ Disposal of the product and its environmental/social impact

In 2013, LOTOS Paliwa identified no incidents of non-compliance with the regulations and voluntary codes concerning the marking and provision of information on fuel products. No significant penalties for non-compliance with laws or regulations concerning the provision and use of products and services were imposed on the company, either.

## Challenges in strategy implementation until 2015

In line with our business strategy for fuel sales, we will primarily aim to further reinforce our market presence by:

- Maintaining a 30% share in the domestic fuel market;
- Achieving sales 15% in excess of the fuel production capacities of the Grupa LOTOS refinery;
- Securing a 10% share in the domestic retail market through sustainable development of the service station chain and enhanced sales from the existing chain.

In sales of lubricating oils, the key objective is to retain our leading position on the domestic market.

In sales of other products, the key objective is to optimise financial performance by leveraging our resources and market conditions.

## Customer satisfaction

In line with our CSR strategy, which supports the effective pursuit of our business strategy, the primary objective is to build lasting customer relationships through a focus on understanding customers' needs and delivering the expected product quality and safety, measured as the level of customer satisfaction with the LOTOS Group's marketing companies.

Progress in this area is monitored by means of regular surveys. Customer satisfaction surveys are intended to gauge the level of customer satisfaction with the quality of their relationships with the LOTOS Group. Their scope covers:

- Factors behind the choice of a supplier,
- Interactions with staff, staff accessibility and competences,
- Quality and availability of products,
- Response times to RFQs,
- Pricing relative to peers,
- LOTOS Group's perception.

### Satisfaction surveys among the LOTOS Group's customers

Company	Survey frequency (number / year)	Customer segments
Grupa LOTOS	1	B2B
LOTOS Asfalt	1	B2B – bitumen and heavy fuel oil
LOTOS Kolej	2	LOTOS Group, forwarding companies, direct customers
LOTOS Oil	1	B2B
LOTOS Paliwa	1	B2B, B2C – every year, alternately

At most of the marketing segment's companies, satisfaction surveys are conducted using the CAWI (Computer-Assisted Web Interview) technique. Their results are then analysed based on the TRI\*M methodology (the TRI\*M Index being a single number score which measures customer satisfaction and loyalty levels, and the key tool of the licensed TNS Global methodology). In mathematical terms, the TRI\*M Index represents a weighted average of scores derived from answers to four questions, selected by TNS over 20 years ago in the course of evaluation surveys. They have been used consistently ever since in satisfaction surveys on a number of different markets, which has allowed TNS to build up one of the largest sets of benchmarks. The TRI\*M Index questions cover:

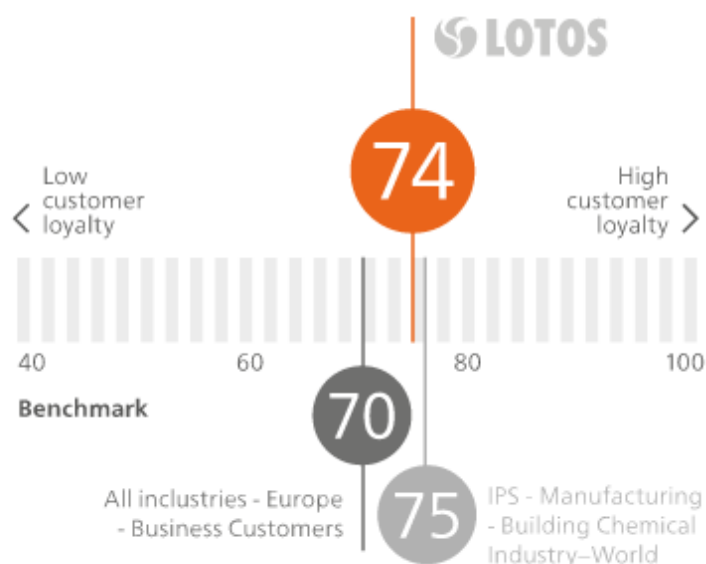
1. Overall satisfaction.
2. Probability of recommendation.
3. Repurchase intent.
4. Competitive advantage.

The TRI\*M Index is a measure of customer retention levels – the higher it is, the more customers are attached to the brand and the less likely to transfer their business to competition.

The TNS Poland Report summarizes the combined results of surveys measuring the satisfaction of the LOTOS Group's customers which were conducted at the beginning of 2014 in:

1. Grupa LOTOS,
2. LOTOS Asphalt,
3. LOTOS Oil,
4. LOTOS Paliwa.

The 2013 overall customer satisfaction rating, as captured by the TRI\*M Index, reached the level of 74 points, which should be considered a good score and testifies to strong brand loyalty. Also, the survey confirmed the high level of customer satisfaction among the LOTOS Group's business clients.



The customer satisfaction surveys included in the overall customer satisfaction rating were conducted at the following LOTOS Group companies

1. **Grupa LOTOS** - the 2013 customer satisfaction rating, as rendered by the TRI\*M Index, indicates a rise in the satisfaction level among Grupa LOTOS customers year on year.

The points awarded by the respondents to the individual aspects constituting the TRI\*M Index suggest an overall rise in the customer satisfaction level among the Company's customers. In other aspects (recommendation, repurchase intent and competitive advantage), the 2013 score remained on a par with the 2012 one. A positive thing worth noting is the fact that the survey revealed no disloyal or dissatisfied customers.

2. **LOTOS Asphalt** conducts its satisfaction surveys in the area of customer service and delivered products. In 2013, its rating of customer experience, as measured by the TRI\*M Index, improved year on year, which suggests that customers are significantly more satisfied with the company as compared to 2012.

Looking at the average scores across the TRI\*M Index dimensions, customers seem ready to recommend LOTOS Asphalt to others and very likely to choose it again as their supplier. On the other hand, the competitive advantage score is relatively low. Compared with the previous survey, a shift can be noted in the structure of the company's customer base. While being largely price-oriented, it no longer includes any strongly dissatisfied or disloyal customers, who had previously represented 30% of the total. The respondents view the company as trustworthy, innovative and committed to customer care, with very high scores achieved for the quality of interaction with the company's sales force and distribution department, as well as the timeliness of deliveries.



3. **LOTOS Oil** conducts customer satisfaction surveys covering two primary areas of the company's operations: the indirect sales channel, whose respondents are Authorised Distributors and major customers operating as Trade Partners, and the direct sales channel, where those surveyed include end customers from the industrial and automotive segments (car mechanics, authorised service providers, car shops, as well as companies and plants representing various branches of the industry).

Customers appear to value LOTOS Oil primarily for its efforts to ensure the high quality of services, high and consistent quality of products, as well as good sales and aftersales support. One of the most important aspects of these efforts is the company's value-added offering, including investment and visual identity support, the oil services for customers from the industrial and automotive segments, which consist in oil consultancy, analysis and comprehensive oil management monitoring.

4. **LOTOS Paliwa** also measures customer satisfaction on a systematic basis, as required by the Integrated Management System and the ISO 9001 standard, which has customer focus at its core. 2013 was a year of surveying the company's institutional customers. The satisfaction rating at LOTOS Paliwa, as captured by the

TRI\*M Index, indicates a high level of satisfaction among its customers, which should be considered a good score and testifies to their strong brand loyalty.

As regards functional aspects, the highest scores given by institutional customers were for product availability, clarity of invoices, number and location of service stations, and consistency between their orders and deliveries. Customers value the high quality of their relationship with LOTOS Paliwa, which follows from the company's efforts to promote its image as an innovative, customer-oriented partner, standing out from competitors. The company's strengths reside in its comprehensive range of fuels and environmental awareness.

For **LOTOS Kolej**, a thing of key importance is the superior quality of its freight services, as a factor in further development of the Polish rail freight market. Customer satisfaction ratings are obtained primarily by direct interaction with the customers. Another tool used for measuring customer satisfaction is the questionnaire-based evaluation system, which covers such areas as:

- Timeliness of deliveries,
- Rolling stock quality,
- Quality and comprehensiveness of services offered,
- Customer interactions with the management and technical personnel operating the rolling stock,
- Service prices, payment methods and deadlines, discount policy,
- Response to complaints,
- Reliability.

#### Overall evaluation of LOTOS Kolej

Period	2013 (H1)	2012 (H1)	2011
Average score (2-5 scale)	4.57	4.59	4.63
Sample	11 customers	12 customers	13 customers

In 2013, the company received the highest scores for:

- Reliability (5.00),
- Customer interactions with management staff (4.90),
- Customer service quality (5.0).

The aspects which received the lowest scores compared with previous years included: payment methods and deadlines, discount policy (4.10), service prices compared with companies with similar business profiles (4.00) and rolling stock quality (4.13).

Looking at the survey results over the period 2011-2013, LOTOS Kolej continues to score highly in most of the surveyed areas, especially in terms of reliability and service quality, which is important in building relationships with its customers.

Findings derived from the summary survey scores allow the companies to assess the work of their individual departments, and to define further steps to be taken in order to ensure that their business partners are fully satisfied. Comments and feedback from customers are always verified, and if any failures on our part are confirmed, corrective measures are implemented.

## Statement by Monika Hinc

President of the UP Foundation – the Development Initiation Forum



“ ‘Let us all together build the atmosphere of cooperation in Pomerania’ – this is the central idea of the Development Initiation Forum. It is also a statement made two years ago by Paweł Olechnowicz, President of Grupa LOTOS Board, at one of the conferences organized in the ‘CSR Academy’ series, which went on to become the source of inspiration behind this extraordinary initiative.

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‘Let us all together build the atmosphere of cooperation in Pomerania’ – this is the central idea of the Development Initiation Forum. It is also a statement made two years ago by Paweł Olechnowicz, President of Grupa LOTOS Board, at one of the conferences organized in the ‘CSR Academy’ series, which went on to become the source of inspiration behind this extraordinary initiative.

The Development Initiation Forum takes efforts to bring about sustainable development of the Pomerania region, based on strong inter-sectoral cooperation of business, local government and NGOs. That is the development as it is seen through the eyes of local communities. Social engagement of the residents of Pomerania is very high; fourth position nationwide in terms of the number of NGOs in relation to its population constitutes a huge potential. What will pose the biggest challenge to all of us, however, is a systemic approach to providing best-quality services to the excluded and to those at risk of social exclusion. Ensuring equal opportunities in the areas of culture and education, counteracting exclusion and supporting local communities – for a long time to come, these challenges will not be seen as legitimate objectives for representatives of business as such.

The Development Initiation Forum represents the practical approach to such cooperation; it is about bringing about benefits to each of the groups represented in it and, consequently, about building one consistent coalition. The Forum provides tangible opportunities and guarantees equal access for all parties to its resources – sharing experiences, the knowledge and financing under its Grant Fund.

It would not be possible without the contribution and active participation of all our Partners, each of whom is an important element of the whole undertaking.

At the same time, it is worth stressing the exceptional role of our special Partner, which is without a doubt Grupa LOTOS. Our cooperation with the Company combines all the elements which are necessary to build all inter-sectoral partnerships. Grupa LOTOS is a professional Partner, actively providing content-related contribution along with the financial one, which is so important for our initiative. It is also a Partner who actively participates in the work of our Programme Council.

As a large company, Grupa LOTOS serves as the Ambassador of the Forum, being in and of itself a perfect example to other companies, both large and small. It is the Ambassador who promotes the idea of inter-sectoral cooperation among representatives of business in the Pomerania region. Furthermore, Grupa LOTOS supports other inter-sectoral projects run in accordance with the principles of partnership, providing an example of effective cooperation between business, and the NGOs and local government sectors, with the development of local

communities in mind.

Such a Partner as Grupa LOTOS gives a guarantee for the quality and stability of our initiative. Thanks to such Partners, we have a chance to deliver on our objectives and to achieve the expected outcomes. And, at the end of the day, it is owing to such Partners that we build together the atmosphere of cooperation in Pomerania.

# Economic impact

In accordance with our CSR strategy, we pursue long-term, comprehensive initiatives across all areas of our operations, with a particular focus on systemic approach to any issues that may occur in the organization's business environment. By entering into agreements and contracting works with companies from the Province of Gdańsk and from the south of Poland, where some of the LOTOS Group companies operate, we have a substantial impact on the local communities, their economic development and rate of growth. We aspire to be the region's ambassadors based on our culture of doing business, e.g. meeting liabilities in a timely manner and fostering mutual relations with suppliers by best practice sharing, support and propagation of investment technologies.

In 2013, we launched the 'For suppliers' sub-page of the [www.lotos.pl](http://www.lotos.pl) website, with the aim of promoting the best practices, principles and values by which Grupa LOTOS abides in its dealings with prospective and existing suppliers.

Divided into several sections, the web page outlines the principles we are guided by in working with our suppliers. Along with a list of commitments, they provide an insight into the requirements and expectations we set before ourselves and before our existing and prospective suppliers, defining the values we adhere to in our activities. Visitors to the page can also study and download standard agreement forms used in dealings with Grupa LOTOS business partners, as well as General Terms and Conditions of Agreements. We have also posted there an electronic version of the LOTOS Group's Code of Ethics. In addition, suppliers have a chance to read the currently effective CSR strategy and Misconduct Prevention Policy.

To expedite trade, protect the environment and cut down costs, we encourage our suppliers to send their invoices in electronic form, and help them correctly fill out invoices by exactly specifying the data which need to be entered in our settlement system. Thanks to easy access to a wide range of data and documents, suppliers are able to get all information they need. By sharing best practice, we impart knowledge, raise awareness and communicate regulations which govern day-to-day business dealings.

We are also aware of the importance of proper, honest business relations, which is why we settle all amounts owed to our trading partners in a timely manner. In order to control procurement costs, we assess the potential of our suppliers and make an effort to accurately estimate the cost of each order. By executing agreements with due care, we can always be sure to act in compliance with the law, including legal regulations on public levies and taxes. We expect the same of our trading partners, as reflected in the provisions of our agreements.

Our best trading practices influence the awareness of suppliers in the area of occupational health and safety, fire security, environmental protection and the supply chain. In certain cases, we take steps to ensure that our contractors settle their liabilities towards subcontractors, which is important to us both in commercial terms and as an element of our image. By selecting locally-based suppliers, we indirectly contribute to the affluence of local communities. Benefits of this policy include creation of new jobs by suppliers in the principal area of our business, reduction of the size of local grey markets and higher tax revenues for the state, which can be used to fund new investment projects, also in the region.

We contribute to the development of small and medium-sized companies by:

- Cooperation and subcontractor services,
- Improvement of living standards in the Province of Gdańsk,
- Increase in consumer spending, including on luxury goods,
- Transfer of knowledge and experience thanks to visits of foreign contractors, subcontractors and consultants,
- Higher spending on vocational education.

In making business decisions, companies of the LOTOS Group are guided by the organization's CSR strategy, which requires them to give due consideration to the indirect impact they may have on local communities and economic development of their respective regions. This is particularly true in the case of provinces and counties where we are the largest employer, and therefore have the ability to affect the local labour market and vocational education in fields related to the industry's needs. Through the substantial amount of taxes we pay and our choice of trading partners, we also contribute to the development of entrepreneurship and economic potential of the communities in which we operate.

Given the nature of our operations and production facilities, we have developed precise procurement procedures, which cover both the selection of business partners and the contracting process. As a result of legal and procedural considerations, including the principle of equal treatment of all business entities, the selection of suppliers is chiefly based on their business profile, contract delivery potential, knowledge and experience, lead times and pricing. The Polish law precludes any explicit preference for local suppliers, understood as trading partners based in the provinces where companies of the LOTOS Group are located. Accordingly, local suppliers who take part in competitive bid procedures may only do so on terms equal with other bidders. Nevertheless, we keep monitoring the markets, including local markets, as a result of which we invite and select local suppliers to do business with. We evaluate them on the basis of work performed, creating a list of eligible suppliers of goods and services that meet our requirements.

To support Pomerania and our affiliation with the region, Grupa LOTOS enters into agreements concerning vehicle fleets on condition that all vehicles have Gdańsk registration plates, which has even prompted one of our contractors to open an office in Gdańsk. While perpetuating the association of the LOTOS brand with the local market, this policy enhances the municipality's tax receipts.

We apply the most exacting quality and safety standards. Entities, including local businesses, which render services at our production facilities receive technical standards applicable to the works they are to perform, which provides them with detailed information on the relevant technologies. Also, personnel employed by those companies undergo regular, mandatory training in safety awareness.

Our trading partners are invited to meetings at which they learn about the standards and values we adhere to. For example, we have held meetings on the LOTOS Group's Code of Ethics, as well as individual meetings with contractors with the purpose of fostering our mutual business relationships. Such meetings are an important platform for knowledge and experience sharing and an excellent opportunity to showcase the practices followed by our organization.

In order to strengthen our relationships with suppliers and to communicate our contractor selection criteria to current and potential business partners, we have developed and distributed our Code of Ethics, effective from January 2013. The fact that we forge and maintain transparent relationships brings value to both the Company and its suppliers, consistent with the ethical and social values of Grupa LOTOS.

We conclude annual contracts and framework agreements in order to contract services in the long term, without the need to constantly renegotiate the terms of business. In this way, our trading partners learn the standards of work with large business organizations, which they can then apply internally and pass on in the course of their local market operations, thus enhancing the quality of services provided. This particularly applies to SMEs, giving them an insight into the market trends, which are naturally first implemented by large organizations.

In the process of executing contracts for products and services, Grupa LOTOS takes into account all business entities, including those operating locally in the Province of Gdańsk. Purchases made with local suppliers accounted for 27% of all orders in 2013, while purchases from related entities (the Company's subsidiaries based in Pomerania) represented 93% of total purchases from related parties.

In purchases of energy utilities, such as electricity and gas, favourable terms of business are the primary factor behind the choice of a supplier. It is worth noting that a significant amount is allocated on electricity purchases, all of which were supplied by Energa Obrót, a company based in the Province of Gdańsk, while all gas purchases, associated with PGNiG, were made in the Province of Warsaw.

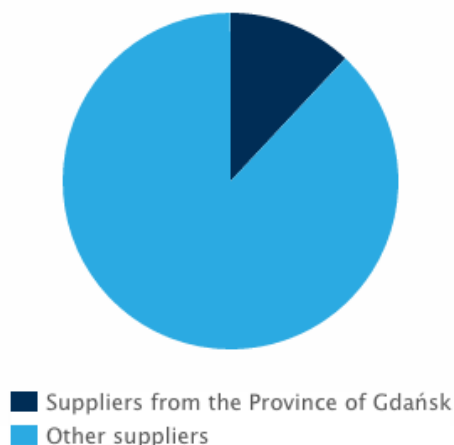
In 2013, the business of **LOTOS Asphalt** focused on the manufacture and sales of bitumens, heavy fuel oil, bunker fuel and waterproofing materials. As these products are sold on a B2B basis, the company – by maintaining relations with its business partners – makes an indirect contribution to their development and improvement of their economic standing. The company's activity also has an impact on employment levels in the areas where it operates, which has spurred an economic recovery in the region of Jasło, where LOTOS Asphalt has an existing bitumen plant and where, from 2009 to June 2013, it operated a Waterproofing Materials Plant. In mid-2013, the latter was sold to a new investor, who plans to develop it further and hire new staff.

Similarly, LOTOS Kolej tries to optimise its procurement processes by contracting local suppliers based in the Province of Gdańsk. This is not always possible, as in the case of spare parts for locomotives the relevant warranty provisions require the company to purchase them from suppliers specified by the rolling stock manufacturer. However, whenever it has the opportunity and permission to substitute spare parts or consumables, LOTOS Kolej always buys them from local suppliers. In other cases, when faced with a choice between prospective suppliers offering similar terms of business, LOTOS Kolej opts for local companies, because this enhances its image in the local community.

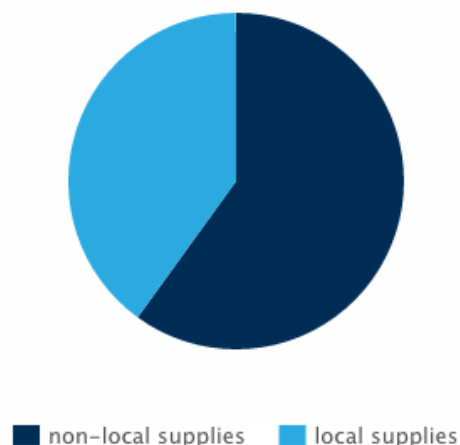
Given the nature of its activity, **LOTOS Petrobaltic** is not guided by the criterion of locality when selecting suppliers, doing business with both Polish and foreign partners. In 2013, the supplies of goods and services by local contractors accounted for approximately 8% of all its orders.

Also in the case of **LOTOS Oil**, any business entity registered in Poland will be considered a local supplier. This is due to the specific nature of the company's activities, for which it procures raw materials (enhancing additives and other inputs needed for the production of lubricants, with the exception of base oils), packaging (to package lubricants), car cosmetics and fluids for vehicle applications.

LOTOS Kolej's trade payables in 2013



Structure of supplies to LOTOS Oil in 2013, excluding supplies from Grupa LOTOS



In the case of repairs and maintenance work, the company prefers to employ Polish companies, which account for 90% of all related purchases. LOTOS Oil does not have its own fleet, and therefore works with many providers of forwarding and transport services. Given the location of the company's production and distribution branches and the specific nature of supplies and services involved, it was assumed that forwarding and transport services should be contracted from local companies, defined as enterprises registered in Poland. In accordance with this definition, 100% of all forwarding and transport services for LOTOS Oil are provided by local companies. Indirectly, the company is instrumental in improving the quality of transport services on the local market by establishing procedures which have to be followed by the carriers themselves and their subcontractors (e.g. expanded checks of tanker purity, ensuring that drivers know foreign languages, strict adherence to occupational health and safety, improvement of information flow relating to the current position of transported products).

**LOTOS Paliwa** has a policy of purchasing almost 100% of its fuel stocks for resale from Grupa LOTOS, with the vast majority of the fuel being produced domestically, at the refinery in Gdańsk. Rail transport of fuels is handled entirely by LOTOS Kolej, also based in Gdańsk, while road transport is fully outsourced to third parties. In the case of fuel shipments to LOTOS service stations, the company works with entities with a countrywide presence. Fuel deliveries to wholesalers are additionally handled by local carriers, because they are familiar with their regions and local transport considerations. LOTOS Paliwa's wholesale deliveries were outsourced to local freight service providers in the Provinces of Wrocław, Rzeszów, Gdańsk, Szczecin and Olsztyn. In all these cases, the services are provided by locally-based companies.



# Social capital



## Social capital of Grupa LOTOS

- Good, long-standing relations within and between communities and key groups of the LOTOS Group's stakeholders.
- Ability to cooperate and share information in order to improve the quality of life of individuals and communities in the organization's environment.
- Legitimacy for conducting business activities in areas of the organization's immediate impact.
- Good knowledge of the social conditions, needs and challenges present in the areas affected by the LOTOS Group's operations as well as properly addressing our support to them.
- Public trust built on consistent engagement in the region's development.

### Our objectives in social capital management:

- Stronger integration with local communities by means of increasing the organization's positive contribution into the region's development and minimizing the negative impact of our activities.
- Respect for the social capital and diversity, observing human rights, including the freedom of speech and the freedom of association.
- Contributing to creating jobs and to improving the quality of social capital in the area of the LOTOS Group's impact.
- Counteracting exclusion and other social problems in areas that fit with our competence.
- Streamlining the multi-directional communication with stakeholders, including further development of our system of public consultations.

### Key activities:

- Focusing our social activities on areas that fit with our competence, i.e. road safety, especially among the youngest road traffic participants, ensuring equal social opportunities for gifted youth from areas of lower economic potential as well as environmental protection and ecology, placing particular emphasis on the biodiversity of the Baltic Sea due to the coastal location of our refinery.
- Performing regular evaluations of projects carried out for the benefit of local communities.
- Conducting opinion polls, public consultations and other activities engaging key stakeholders in shaping the organization's policies.
- Streamlining our procurement procedures by means of introducing social, environmental and ethical clauses into contracts, by applying appropriate requirements in bidding procedures, conducting checks and audits of suppliers as well as propagating the LOTOS Group's Code of Ethics.
- Organizing training sessions in the area of human rights protection for our security personnel.
- Creating new jobs in connection with the organization's investment projects, including in the supply chain.

## Results:

Positive feedback from partners and beneficiaries achieved in the evaluation processes accompanying the organization's social and environmental projects

Low level of social risk connected with the organization's relations with its local environment

Mitigated risk connected with the organization's process safety

Rising number of beneficiaries of the organization's community development programmes

Development of the research conducted by the organization's social partners with regard to preserving the biodiversity of the Baltic Sea and protecting the natural riches of areas neighbouring with Grupa LOTOS in the Pomerania region

140 trade partners of the LOTOS Group have become acquainted with the LOTOS Group's Code of Ethics and the organization's requirements in this area

Over 1,500 training hours on human rights issues conducted at the LOTOS Group during the year

## Statement by Marcin Zachowicz

Communication Office Director, Spokesman, Grupa LOTOS, CSR Strategy Leader in the Communicating Changes and Access to Information area



” As the person responsible for the implementation of the LOTOS Group’s CSR Strategy in the Communication area, I believe that no company can be called a really socially responsible one without having established proper communication. The company may carry out multiple projects, and have an excellent vision and objectives but without communicating effectively with its key stakeholders it will not be successful.

### Marcin Zachowicz

Communication Office Director, Spokesman, Grupa LOTOS, CSR Strategy Leader in the Communicating Changes and Access to Information area

As the person responsible for the implementation of the LOTOS Group’s CSR Strategy in the Communication area, I believe that no company can be called a really socially responsible one without having established proper communication. The company may carry out multiple projects, and have an excellent vision and objectives but without communicating effectively with its key stakeholders it will not be successful.

Today, this aspect of communication is very well developed at the LOTOS Group. Our environment treats us as a predictable and responsible market participant and our stakeholders are well-informed about all our plans and achievements. What poses the biggest challenge for us for the years to come is the development of a public culture of communication by means of dialogue. Nowadays, a company’s value is no longer built by unilateral communication but by dialogue, and by competent and intent listening to the voices of social groups which are key for its future. This is in line with the policy of Grupa LOTOS, which has all the suitable tools and proven methods of dialogue and consultations at its disposal.

We strive to listen to what is happening around our organization and to respond quickly and adequately. The groups that I mean here are our stakeholders, who invest in our shares and assess our business activities, but also our customers, who comment on the quality of our products and services at the LOTOS service station chain. In the communication with our stakeholders we can find the best confirmation for our openness, which is one of the CSR values of the LOTOS Group.

Our objective in the corporate social responsibility area is to keep up the dialogue with our stakeholders and to develop our communication tools necessary for it. The LOTOS Group is a complex international organization whose activities are spread geographically; therefore, we are striving to develop e-communication. In 2013, we launched a new version of our website, in which – apart from a totally new approach to presenting information on the social aspect of our activities, etc. – we also introduced sections dedicated to individual stakeholder groups. The first one is addressed to job applicants; the other one to our suppliers. Both these sections ensure access to information significant for key business processes – recruitment and procurement – whereas at the same time they facilitate direct contact with the appropriate LOTOS specialists.

In 2013, we introduced a new self-service HR platform for employees on our Intranet and further significant changes to this platform are planned for 2014. More and more important information for and about the company is provided using mobile devices, also for our employees, whose performance of their work tasks is greatly enhanced by that in effect.

Apart from multi-directional communication which is adequate to the information needs, we also place great emphasis on organizing properly the system and culture of internal communication, especially in its direct dimension. It is in line with the LOTOS ethical values of cooperation, professionalism and responsibility. A good example of such an approach is the continuous improvement of our system of public consultations in the implementation process of the comprehensive Ethical Conduct Programme of the LOTOS Group.

In late 2012, we conducted pioneering consultations on the draft of the LOTOS Group's Code of Ethics, a document of paramount importance to the organization. All employees of the LOTOS Group were invited to take part in these consultations. In 2013, we consulted with our employees the question of the preferred model of selecting the LOTOS Group's Ethics Officer and we evaluated the current level of development of the ethical culture in the organization. Also in 2013, we completed yet another edition of the 'Let's talk about LOTOS' internal communication programme; this time it was devoted to our new strategic project, the Effective and Rising Programme. Although the participation of employees in these meetings with the Board is voluntary, every year they enjoy high attendance. In 2013, the meetings were attended by 3,200 employees, which is almost a 15% increase on the previous edition. In total, at the 'Let's talk about LOTOS' meetings, 400 questions were asked, and then answered by us, and the response rate of the evaluation questionnaires stood at 90%.

All these actions testify to the fact that dialogue and communication are deeply ingrained in the organizational culture of the LOTOS Group and significantly contribute to building its value in the long-term perspective.

# Stakeholders engagement

For the LOTOS Group's activities, maintaining good relations with three stakeholders groups is of key importance. They have been identified in the course of strategic workshops, which were attended by representatives of all business areas of the organization. Each group is taken into account in the decision-making processes having an actual or potential impact on their members. And we strive to build positive relations with all of them, although the scale and character of our impact and their expectations addressed towards us can differ greatly.

## Key Stakeholders groups of the LOTOS Group

Internal Environment	Social Environment	Market Environment
Employees	Local communities	Contractors and subcontractors
LOTOS Group companies	NGOs	Suppliers
Trade unions	Local government institutions	Customers
Employee Council	Government administration	Trade partners
	Science and research institutes, and educational centres	Competitors
	Employer organizations	Industry organizations and international institutions
	Media	Regulatory and monitoring organizations
	Natural environment	Capital market participants

We employ various tools and means of communication to build our relationships with individual stakeholder groups in a responsible manner and in line with expectations.

## Selected tools and methods for building relations with stakeholders in 2013

Main Stakeholder categories	Relations Management forms
Employees	In-person meetings, intranet platform, intranet kiosks, mobile service, corporate newsletter, training, opinion polls, public consultation system, relations with corporate trade unions and with the Employee Council.
Local communities	Social programmes and initiatives, internet service, opinion polls, consultations with members of local communities.
NGOs	In-person meetings, social programmes, internet service, annual report, opinion polls, consultations.
Capital market participants	Current and periodic reports, annual reports, in-person meetings, conferences, conference calls, webcasts, internet service, Analyst's Day and Investor's Day events.
Public authorities	Annual report, lobbying, in-person meetings, conferences.
Customers	Call service, internet service, information provided through product packaging, direct contact, social campaigns as part of the loyalty programme, satisfaction surveys.

Discussions with stakeholders of issues relating to the social and environmental impact of our business are valuable opportunities for learning how to improve our performance. In 2013, we created opportunities to meet our stakeholders using a variety of relationship-building means. These included:

- Public consultations with employees,
- Conferences promoting good practices,
- Multi-directional communication with the capital market,
- Opinion polling.

## 1. Public consultations with employees

In 2013, we conducted public consultations among the LOTOS Group's employees on the ethical culture of the organization and the preferred model of selecting the Ethics Officer. These consultations, in which more than 500 persons took part, came one year after the implementation of the Ethical Conduct Programme together with its key element, the LOTOS Group's Code of Ethics.

### Environment

The Ethical Conduct Programme of the LOTOS Group promotes desirable behaviour and conduct both within the organization and in its relations with investors, customers and partners, as well as with the local community and competitors.



The LOTOS Group should promote the adopted ethical standards among its trade and business partners.

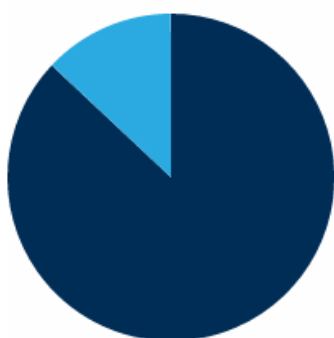


The LOTOS Group should cooperate only with the companies that commit themselves to respecting LOTOS ethical values.



■ NO ■ I HAVE NO OPINION ■ YES

In my opinion, the ethical culture of the LOTOS Group is: (%)



■ Needed for everyday work  
■ Irrelevant

In the course of the consultations, most employees agreed that the Ethical Conduct Programme of the LOTOS also in its relations with its external stakeholders. The majority of the participants confirmed their high awareness of the importance of ethical conduct in everyday business activities.

## 2. Conferences promoting good practices

We participate in projects allowing us to share our experiences and good practices in the area of corporate social responsibility with other businesses and NGOs.

In 2013, we co-hosted the second edition of the **"Development of Responsible Business" conference as part of the CSR Academy**, organized under the auspices of the Ministry of the Treasury. The project, implemented in cooperation with the Puls Biznesu daily, was a response of Polish business circles to the need to promote the idea of corporate social responsibility, especially among SMEs. This joint effort between the state administration, businesses, and NGOs in organizing the CSR Academy increased the substantive value of the project. At the meeting, good CSR practices were presented by several representatives of the LOTOS Group; Zbigniew Paszkowicz, President of the Management Board of LOTOS Petrobaltic, discussed environmental and social conditions of exploration and production, whereas Jowita Twardowska, Communication and CSR Director, Grupa LOTOS, and Joanna Tyszka, Human Resources Office Director, Grupa LOTOS, presented social programmes and the strategic approach to shaping a responsible HR policy, respectively. 100 representatives of businesses, NGOs and tertiary education institutions in the Pomerania region took part in the conference and accompanying workshops.

Another opportunity we took to share our good practices was the annual conference, the **Development Initiation Forum**, held in Gdańsk, which gathered 300 participants representing business, social organizations and local government. As an active participant and partner of the Forum, Grupa LOTOS presented the process of developing its CSR Strategy for the LOTOS Group.

Both events were evaluated by their participants, who rated highly our contribution to promoting the idea of CSR.

## 3. Communication with the capital market

Grupa LOTOS is keen to ensure that its relations with investors are forged and fostered in a manner of partnership and based on dialogue to find solutions satisfactory to both parties. We analyze and gradually implement new communication tools, and we constantly strive to perfect the form and content of our communications. We strive to present investors with a precise, reliable, transparent picture of the Company's operations, its strategy and financial standing, in compliance with the principles of involvement, availability, and equal treatment of all investors.

To communicate that information to investors, we use a broad range of IR tools, including mailing, newsletters, webcasts, participation in conferences addressed to institutional and individual shareholders as well as representatives of brokerage houses, conference calls, one-on-one meetings, open-house days for analysts and investors, and participation in the RESPECT Index.

In 2013, the Company's Board attended meetings with investors and maintained regular relations with capital market participants. After every release of an interim report presenting the LOTOS Group's performance, a meeting was held between financial analysts and Mariusz Machajewski, Vice-President of the Board, Chief Financial Officer, Grupa LOTOS.

On November 27th 2013, the International Capital Markets Day was held in Gdańsk, focused primarily on the performance of the LOTOS Group's strategy.

As part of its relations with individual shareholders, the Company collaborates with the Polish Association of Retail Investors. In 2013, Grupa LOTOS attended the 17th Wall Street Conference of retail investors, organized by the Polish Association of Retail Investors in Karpacz.

The Grupa LOTOS investor relations website ([link](#)) is dedicated to market participants, the Company stakeholders. This bilingual (Polish-English) service is updated on an ongoing basis to provide foreign investors and analysts with equal access to information. The website contains information and tools grouped in four thematic sections:

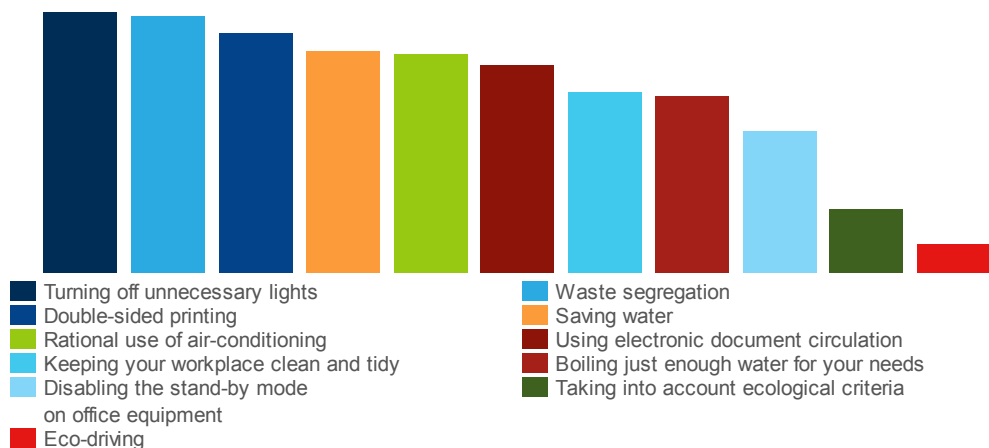
1. LOTOS Group ([link](#)) - this section of the LOTOS website presents the LOTOS Group, its strategy, share capital structure and CSR activities.
2. Reports and Key Data ([link](#)) - this section organizes financial and non-financial information (includes an easily downloadable excel file databook), as well as the LOTOS Group's current and periodic reports published via the Warsaw Stock Exchange.
3. Investors ([link](#)) – this section contains information on the method of calculating the model refining margin of Grupa LOTOS and its quarterly updated values, information on the Company's dividend policy and dividend payouts, investor tools (calculator, historical Grupa LOTOS stock prices). It also groups downloadable files, i.e. periodic reports, strategy and efficiency improvement presentations, and the issue prospectus. This section also lists of equity analysts covering the Company and their most recent recommendations for the Grupa LOTOS securities traded on the WSE. The corporate events calendar (quarterly reports, General Meeting dates, open-house days, and other events which, in shareholders' opinion, might impact the price of the Company shares) is published in the 'Investor's Calendar' tab ([link](#)).
4. Corporate Governance ([link](#)) – this section contains information concerning the Company's compliance with the requirements of the Best Practice for WSE Listed Companies. It also provides information on the composition, powers and rules of procedure of the Board, Supervisory Board and General Meeting of Grupa LOTOS, and contains the Company's constitutional documents.

## 4. Opinion polling

We make efforts to conduct opinion polls among our key stakeholders on a regular basis, with a view to improving our management of the aspects of social responsibility and sustainable development. In 2013, one of these efforts was devoted to learning about our employees' approach to environmental protection and ecology both in their workplace and in their private lives.



**What can you do/What do you do personally when performing your work duties to reduce the negative impact on the natural environment? (%)**

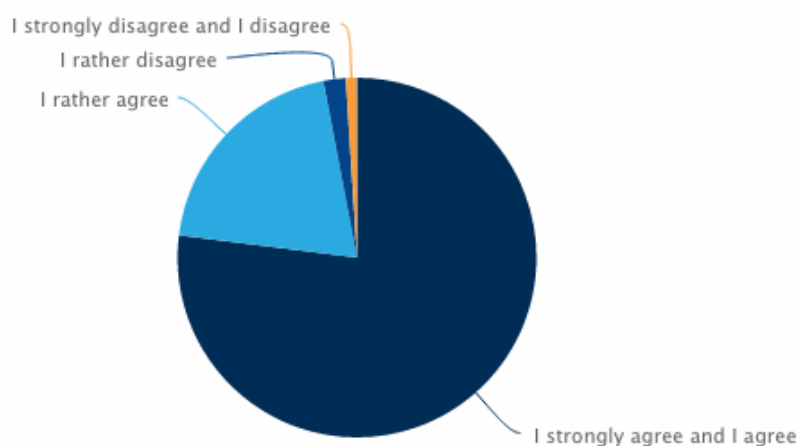


The results of the survey, called the 'Green Barometer of Grupa LOTOS', will be further used to better shape our information policy on environmental issues as well as to provide our employees with useful tips concerning ecology.

In 2013, we conducted an opinion survey among Grupa LOTOS employees to find out about their engagement and satisfaction levels. They were asked for their opinion about 16 factors determining employee engagement – what makes their work at the Company special and what still needs improvement, what motivates them and what poses an obstacle that needs to be removed. The survey was anonymous and contained a list of standard questions that have been used by our consultant, Aon Hewitt, in 600 similar surveys so far conducted across Poland.

The survey results show that most employees are satisfied with their work at our Company.

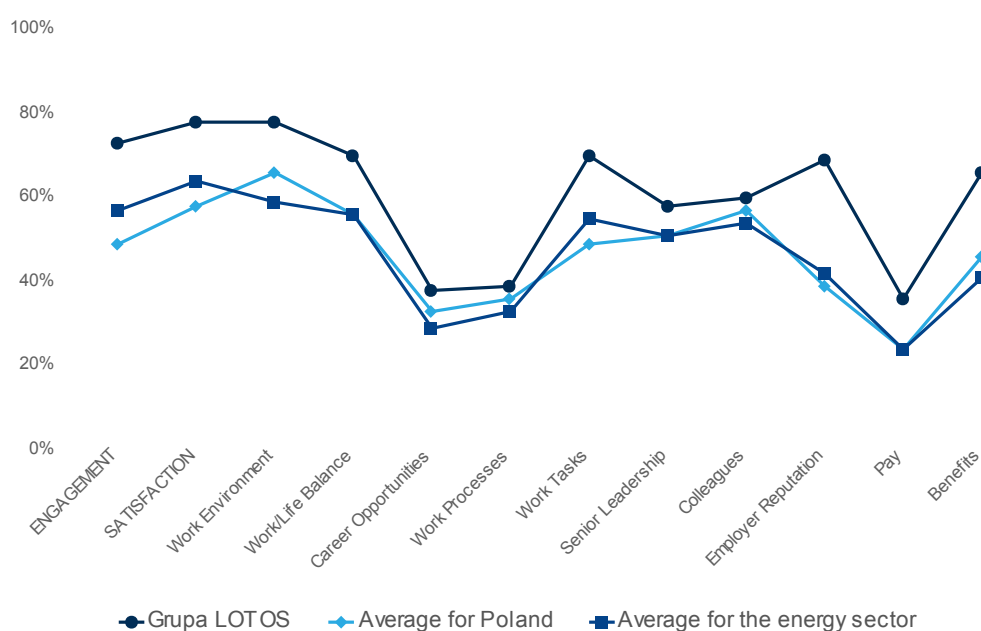
**I am satisfied with my work at Grupa LOTOS (%)**



At Grupa LOTOS, employee engagement level was rated at 72%. This is the percentage of survey participants who concurrently:

- Say about good working conditions within the Company and would recommend Grupa LOTOS to their friends and family members seeking employment,
- Stay at the Company, rarely consider leaving and are convinced that there would have to be some important reasons for them to start consider leaving,
- Strive because the Company encourages them to give their best and appropriately motivates them to go beyond what is normally expected of them at work.

This result is considerably higher than the average for Polish companies and than the average for the energy sector; very similar results were achieved by best rated companies with highest employee satisfaction and engagement levels.



The survey results show that most employees are satisfied with their everyday work tasks and that the environment (work environment, colleagues) favours engagement. Also, the work areas needing improvement have been identified. These results will be used to further improve the work environment at Grupa LOTOS.

Effective implementation of the LOTOS Group's CSR Strategy requires that our relations with social partners, such as NGOs, expert advisers, local government and local communities, are managed responsibly.

In order to reach the most effective level of monitoring the implementation of the LOTOS Group's CSR Strategy, we developed a number of actions to be introduced in each year of its being in effect. In 2013, we conducted a survey among all our partners involved in mutual social, cultural and pro-environmental projects as well as with whom we cooperate in charity initiatives in the regions of our activities. Under the survey, an electronic questionnaire containing 13 questions designed to evaluate the cooperation and communication with Grupa LOTOS as well as to assess the direction and effectiveness of actions taken under the Strategy was sent to our 50 social partners; in total, 37 organizations took part in the survey and they evaluated the level of communication and cooperation with the organization as very high.

In response to the question: „How do you rate the quality of communication and information flow in your cooperation with Grupa LOTOS to date?“, more than 65% of respondents stated that it is very high, whereas 27% assessed it as high. When asked: “ How do you evaluate the effectiveness of actions taken by Grupa LOTOS to address social needs identified in the areas of the organization's activities?”, 59% of the persons surveyed rated the effectiveness of the actions taken as very good and 28% as good. In response to the questions regarding the improvement of the quality of their cooperation with Grupa LOTOS, more than half of the respondents said that the cooperation was very satisfactory; however, 15% of the surveyed partners claimed that they saw room for improvement, which should pose a challenge for us in as far as how to plan our future cooperation with them.

# Membership in organizations

Grupa LOTOS is a member of national and international industry, business, and specialist organizations. As their members, we can take active part in e.g. shaping the government's policies and creating laws on energy sector issues, with a particular focus on the fuel sector.

## Industry organizations

### **Conservation of Clean Air and Water in Europe, CONCAWE**

We have been a member of CONCAWE since 2006. The organization was established in 1963 by a group of leading oil companies to carry out research on environmental protection, quality of fuels, air, water, biofuels, soil contamination, occupational health and safety, and the management of products supplied via pipelines. The main objectives of CONCAWE are to acquire scientific, economic, and technical information, to the greatest possible extent, on environmental issues involved in the refining of crude oil and the distribution of petroleum products.

In 2013, the process of merging CONCAWE with another big European industry organizations, EUROPIA, commenced.

### **Polska Organizacja Przemysłu i Handlu Naftowego, POPiHN (Polish Organization of the Oil Industry and Trade)**

The Company was a founding member of POPiHN at its inception in 2003. One of our objectives in the organization is to ensure the sustainable development of the competitive fuel market in Poland, by taking measures aimed at the adoption of codes of business conduct in keeping with EU legislation, and by ensuring the equal treatment of all fuel market players in Poland, etc. We are striving to achieve our objectives by initiating, assessing, and commenting on draft legislation proposed by Polish lawmakers and the draft measures of EU laws. As a member of POPiHN, we are also able to present our position to representatives of the Polish parliament, government, and other public administration authorities.

### **Stowarzyszenie Naukowo-Techniczne Inżynierów i Techników Przemysłu Naftowego i Gazownictwa, SITPNIg (Polish Association of the Oil and Gas Industry Engineers and Technicians)**

Together with LOTOS Petrobaltic and LOTOS Terminale, we are supporting members of SITPNIg. The Association provides support to the oil and gas industry, acting towards the social utility of public projects. It inspires scientific, technical and organizational projects to the benefit of the country's economy, environmental protection, and sustainable development. The Association strives to improve the professional qualifications of its members, disseminates knowledge as well as technological and environmental culture, and promotes the tradition of the oil and gas industry.

### **Windsor Energy Group, WEG**

We became members of the Windsor Energy Group in 2009. WEG is an independent think-tank headquartered in London that focuses on building the global order and on energy sector security, with a special emphasis on the oil and gas sector and the alternative energy sector. The organization brings together former politicians, former ambassadors in petroleum countries, government advisors, as well as CEOs of large corporations engaged in oil and gas exploration and production. As a member of WEG, we support the development of the European energy sector and promote the position of representatives of the Central European energy sector in the European Union.

Paweł Olechnowicz, President of the Board of Grupa LOTOS, is a member of WEG's International Advisory Panel.

### **World Petroleum Council – Polish National Committee**

We work on the Polish Steering Committee of the world's only organization representing all fields of the oil sector. Its main function is to facilitate dialogue between stakeholders, both internally within the sector and externally, with regard to key technical, social, environmental, and management aspects. The World Petroleum Council brings together 60 member countries, representing 95 per cent of the world's oil and gas production and consumption.

### **Central Europe Energy Partners, CEEP**

We are the founding member of CEEP, together with Energa, Jastrzębska Spółka Węglowa, Kulczyk Investments, and PFAG. CEEP is an international regional non-profit organization, registered in 2010 in Belgium, with offices in Brussels and Berlin. It represents the Central European energy sector as it is broadly understood, including oil, natural gas, electrical energy, renewable energy sources, nuclear power, and interconnectors. The main objective of the organization, as specified in its statutes, is to support integration of the Central European energy sector under a common energy policy and security policy for the EU energy sector. To that end, CEEP cooperates with international think-tanks such as the Center for Strategic & International Studies (Washington), Windsor Energy Group (London), King's College (London), Atlantic Council (Washington), as well as international organizations, including the International Energy Agency (Paris), Euracoal (Brussels), and EUROPIA (Brussels). The organization currently includes 22 members from Poland, Lithuania, the Czech Republic, Slovakia, Hungary, and Romania. As at the end of 2013, they employed more than 300,000 employees and had an annual turnover in excess of EUR 42bn. Negotiations with new potential members from other Central European countries are well underway. As a member of CEEP, we participate in all major events, consultations, and preparation of expert materials about the energy sector in the European Union.

Paweł Olechnowicz, President of the Board of Grupa LOTOS, holds the position of Chairman of the Board of Directors of CEEP.

### **Organizacja Polskiego Przemysłu Poszukiwawczo-Wydobywczego (Polish Exploration and Production Industries Organization)**

We are the founding member of the Polish Exploration and Production Industry Organization, which focuses mainly on unconventional gas. It is a forum for consultations between the hydrocarbons production industry and the Polish government on the planned legal framework for the taxation of hydrocarbons production. The organization was established in 2010.

### **Atlantic Council**

We have been a member of the Atlantic Council since September 2013. This American organization promotes constructive leadership and engagement in international affairs regarding the energy sector, the environment, world economy and economics as well as the transatlantic cooperation. Through its papers, functional programmes, supporting ideas, building relations and communities, it fosters transatlantic strategies to advance international security and global economic prosperity. The Atlantic Council is one of the most recognizable think-tanks in Washington, which not only has wide experience in issues regarding transatlantic cooperation but is also mainly known for its effectiveness in persuading key decision-makers to accept its arguments. As a member of the Atlantic Council, we take part in international thematic conferences and cooperate in drawing up regional analyses, which will allow us to build a strong position of the LOTOS brand on the American market.

## Business organizations

### **Business Centre Club, BCC**

The Company's membership in the BCC dates back to 2000. We focus on co-operation in projects whose main objective is to fuel the growth of the Polish economy, increase the number of jobs, and provide assistance to entrepreneurs. We support the BCC in the creation of communication platforms for different social groups on matters of key importance for the country's development, with particular emphasis on the promotion of corporate social responsibility.

### **European League for Economic Cooperation, ELEC - Polish section**

We have been a member of ELEC since 2002. It is an international NGO whose main objective is to support economic integration, foster the social and cultural identity of European societies, and enhance the role of Europe in the international arena.

Paweł Olechnowicz, President of the Board of Grupa LOTOS, is a member of the management board of ELEC – Polish Section.

### **Gdański Klub Biznesu (Gdańsk Business Club)**

Since 2002, we have been a member of the Gdańsk Business Club, which brings together entrepreneurs, owners, and directors of leading companies in the Pomerania region. Its mission is to foster economic development in all areas that can potentially influence the financial standing of its members, to provide support in business projects on a reciprocal basis, and to act towards the development of entrepreneurship, infrastructure, culture and education in the Pomerania region, as well as the protection of the health of its inhabitants.

Paweł Olechnowicz, President of the Board of Grupa LOTOS, is a member of the board of the Gdańsk Business Club.

### **Klub Polskiej Rady Biznesu (Polish Business Roundtable Club)**

We became a member of the Club back in 2005. The Club was established by the Polish Business Roundtable – an organization bringing together the crème de la crème of Polish entrepreneurs, working towards the economic development of Poland and consolidation of its business circles.

### **Polskie Forum Akademicko-Gospodarcze, PFAG (Polish Higher Education-Business Forum)**

We have been a member of PFAG since 2004. Its objective is to work towards more intensive cooperation in the area of higher education and business, and to support innovations and knowledge-based economy. The organization was established for the purpose of building strong cooperation between academic and business circles for the development of innovative solutions using national and EU funds. The Forum is a platform for the exchange of views and formulation of opinions on matters of crucial importance to Poland. It brings together representatives of businesses and leading Polish tertiary education institutions.

Paweł Olechnowicz, President of the Board of Grupa LOTOS, holds the position of President of PFAG's Management Board.

### **Stowarzyszenie Pomorskie w Unii Europejskiej ("Pomorskie in the European Union" Association)**

We became a member of the Association in 2010. Its main objective is to support the activities of the Pomerania region's local government, tertiary education units, institutions, and enterprises operating at the EU level.

Organizations dedicated to CSR promotion

#### **Forum Odpowiedzialnego Biznesu, FOB (Responsible Business Forum)**

The Company has been a strategic partner of FOB since 2008. FOB's mission is to promote the idea of corporate responsibility as a standard in Poland, in order to increase the competitiveness of Polish businesses, enhance social well-being, and protect the natural environment. FOB organises projects supporting the development of CSR in Poland and engages in initiatives promoting corporate social responsibility and sustainable development.

#### **United Nations Global Compact**

We became a member of the organization in 2009. It is a global initiative of the United Nations calling on businesses and social organizations to respect 10 basic principles in the areas of human rights, labour, the environment, and anti-corruption. The organization also supports the accomplishment of the general objectives of the United Nations, including the Millennium Development Goals. More than 12,000 enterprises and NGOs from 145 countries belong to the organization.

Specialist organizations

#### **Pracodawcy RP (Employers of Poland)**

Our membership in the organization dates back to 2004. Its main objective is to act in the common interest of business circles, supporting initiatives aimed at enhancing the role of employers in Poland. By commenting on draft legislation, the organization strives to secure mutual benefits for both employers and employees, on the basis of economic development, and to ensure fair and stable terms of employment, workplace safety, and social order.

#### **Polskie Stowarzyszenie Zarządzania Kadrami, PSZK (Polish Association of Human Resources Management)**

Since 2013, we have been a strategic member of the biggest and oldest professional association focused on developing and promoting top human capital management standards in companies and organizations active in Poland. PSZK has built a member network for HRM practitioners by organizing nationwide conferences, campaigns, programmes and expert meetings dealing with issues connected with the labour market and HR Management, etc.

#### **Stowarzyszenie Emitentów Giełdowych, SEG (Polish Association of Listed Companies)**

We became a member of the SEG in 2006. As an organization of companies listed on the WSE, the SEG acts in their best interests, offering expertise and advice on stock market regulations and the rights and obligations of listed companies. Being an expert organization, it focuses on the dissemination and sharing of knowledge, with a view to supporting the development of the capital market and modern market economy in Poland. The SEG also serves as a hub for the integration of listed companies and promotes cooperation for the development of civic society.

#### **Polskie Towarzystwo Ekonomiczne, PTE (Polish Economic Society)**

We are a member of this independent professional national association bringing together both practitioners and theoreticians in the field of economics. Its main objectives are to disseminate economic knowledge, act as an opinion-former, improve the qualifications of economists, and integrate their community.

### **Klub Polskie Forum ISO 14000 (Polish ISO 14000 Forum Club)**

We became a member of the organization in 1997. The Club's mission is to develop and promote initiatives, attitudes and activities conducive to development and popularisation of environmental management systems, in particular those based on the ISO 14001 standard and the EMAS Directive. The organization also conducts educational activities in the area of environmental protection and management, integrates circles dealing with environmental management issues, and supports organizations implementing environmental management systems. The Club is fully independent and acts on a voluntary basis.

### **Klub Polskie Forum ISO 9000 (Polish ISO 9000 Forum Club)**

We became a member of the organization in 1993. The organization associates suppliers of products and services interested in implementing, perfecting and developing their management systems and the conformity assessment system, based on the ISO 9000 standard, concerning quality management systems, other standardisation documents dealing with organizational systems and management as well as new approach directives. The Club is fully independent and acts on a voluntary basis.

### **Stowarzyszenie Księgowych w Polsce (Accountants Association in Poland)**

We are a member of this Association, which brings together representatives of professions related to accounting and finance. It focuses on the development of accounting and financial audit systems in Poland to make sure they reflect the latest changes in, and meet the requirements of, internationally recognised standards.

### **Polska Okręgowa Izba Inżynierów Budownictwa (Polish District Chamber of Construction Engineers)**

Our membership in the organization dates back to 2001. As a self-regulatory professional body, the Chamber represents its members and protects their interests, especially by submitting proposals to the legislative and executive bodies on creating conditions favourable to the development of the construction sector in Poland and the role of the engineering profession in that process, and by cooperating with other self-regulatory professional, scientific and technical bodies operating in the construction sector.



## Statement by Jowita Twardowska

Communication and CSR Director, Grupa LOTOS, CSR Strategy Leader in the Integration with Local Communities area



” The implementation of the CSR Strategy helps us significantly in the process of meeting the objectives of the LOTOS Group’s business strategy. With regard to the effectiveness and efficacy of a CSR strategy, several factors are at play, the most important of which are the involvement of the organization’s top-level management, a connection of the actions taken with its strategic objectives, and determining how success should be measured along with providing an evaluation mechanism. All of these elements have been successfully implemented by LOTOS.

### Jowita Twardowska

Communication and CSR Director, Grupa LOTOS, CSR Strategy Leader in the Integration with Local Communities area

The implementation of the CSR Strategy helps us significantly in the process of meeting the objectives of the LOTOS Group’s business strategy. With regard to the effectiveness and efficacy of a CSR strategy, several factors are at play, the most important of which are the involvement of the organization’s top-level management, a connection of the actions taken with its strategic objectives, and determining how success should be measured along with providing an evaluation mechanism. All of these elements have been successfully implemented by LOTOS.

Our current CSR Strategy for the years 2012-2015 was formulated using a mechanism engaging a wide representation of our employees, including the top-level management, who have been taking part for several years in our pioneering initiative, which is the ‘CSR Day’. It is an annual event gathering managers for the purposes of holding discussions on possible directions of development and opportunities of further streamlining of the organization’s social responsibility.

A lot of attention was also given to a thorough analysis of expectations and needs reported to the organization by its key stakeholders. Thanks to the review of the effects of our initiatives and practices in the CSR area so far and to the assessment of the conditions of our activities, we succeeded in developing our strategy for this area until 2015.

The 2015 perspective of the CSR Strategy is congruent with the term of the current business strategy of the LOTOS Group. The objectives identified in both these documents complement and support each other, which ensures the sustainable development of the organization and enhances its contribution to the improvement of many social processes. It is all the more important for us as the biggest employer in the Pomerania region but also as a representative of the oil industry, which is bound by the law to apply the highest standards of ensuring safety for people and environmental protection.

The co-existence of the business and social perspective has been guaranteed by working out detailed operational plans and performance measures in all key areas identified in the CSR Strategy. Leaders of each area, reporting to the Board of Grupa LOTOS, shall be responsible for the supervision of their achievement.

The internal reporting of our performance has been assured by establishing a method of monitoring our progress in the implementation of the CSR Strategy in the successive years. We made all effort for this monitoring to most fully meet our current needs related to the Company’s business reporting. Additionally, the mechanisms of social responsibility undergo a maturity assessment along with other key management areas. One should not forget, however, that it is also the CSR Strategy itself that supports the streamlining of many of our practices and contributes to the increased effectiveness of our activities. By applying consistent

solutions in this area, it also enhances the effectiveness of these processes and allows for a most comprehensive approach to the assessment of our performance.

As far as the integration with local communities area of the CSR Strategy is concerned, it is clearly visible that over the course of the last 30 years we have changed from a local company to a significant player not only in Poland but also on the international arena. We are now a highly sought-after employer as well as a highly-desirable trade and business partner for companies in our environment. We enjoy a good reputation among people living in the vicinity of our facilities; as a big company, we pay taxes which significantly contribute to the development of the region we operate in. Also, we commission local companies to perform many tasks for us, which ensures their ongoing functioning. We understand our integration with local communities as constituting a value not just for ourselves but also for everybody who lives in the neighbouring areas of our facilities. In order to build such an understanding of our activities, we take different kinds of actions, which exceed greatly what we are obliged to do by law. We make efforts to help people in need in our surroundings, as counteracting exclusion of those who have not been successful in life is part of our CSR Strategy. We continuously mitigate our negative impact on the natural environment and increase our positive impact on the quality of life in our region. Many of our initiatives can be regarded as a sign of our interest in and concern about the local community, which is noticed and appreciated by our environment.

In conclusion, it is noteworthy that Grupa LOTOS' reputation for being a socially responsible company enables us to build lasting relations and long-term cooperation based on trust and professionalism. It also helps us attract the best specialists on the market, which further contributes to our constant development for the benefit of the key groups of our stakeholders.

## Contribution to the society

Our key community development programmes are aimed at the residents of three provinces (Gdańsk, Katowice and Rzeszów), where our production plants, warehousing facilities and other installations are located. It is also where several subsidiaries of the LOTOS Group operate, including the Grupa LOTOS refinery in Gdańsk and the biggest facilities in the south of Poland belonging to LOTOS Terminale in Czechowice-Dziedzice and LOTOS Infrastruktura in Jasło.

The key objective of the LOTOS Group's CSR Strategy until 2015 with respect to integration with local communities, is to ensure favourable attitudes among local communities and strengthen the company's image as a socially committed business, by undertaking initiatives designed to provide lasting solutions to social and environmental issues.

The project which is directed at counteracting and overcoming problems in the Pomerania region and to which we contribute most is the **Development Initiation Forum**, inaugurated in Gdańsk in 2012. It is an initiative born of the experiences and needs of the representatives of three sectors: local government, business and NGOs. The project deals with the effective social and economic development of the region, based on the implementation of inter-sectoral projects.

The idea of the Development Initiation Forum:

- Learning the practicalities of inter-sectoral cooperation;
- Providing opportunities for the exchange of good practices;
- Using tried and tested cooperation and activation strategies;
- Providing opportunities for building informal contacts and actively searching for partners to cooperate with.

The most important results achieved under this initiative in 2013 include:

- Creating more than a dozen partnerships gathering around 20 entities, represented by the very active Programme Council, in which representatives of NGOs, business and public institutions are associated;
- Organizing a conference in Gdańsk dedicated to inter-sectoral cooperation, which was attended by 300 delegates representing around 80 organizations, companies and institutions;
- Conducting the first edition of inter-sectoral cooperation workshops in the County of Bielsko-Biała;
- Promoting the activities of the Forum at two conferences in the *CSR Academy. Responsible Business Development* series, addressed to SMEs in the Pomerania and Olsztyn region.

The contribution of Grupa LOTOS into the Forum's work is not only financial but we also share our experiences in the areas of infrastructure, educational, environmental and cultural initiatives, which have supported the development of the Pomerania region for years. The launch of **the Grant Fund – Development Initiation Forum**, whose aim is to support the completion of several developmental projects, is planned for 2014.

In the LOTOS Group, we place great emphasis on maintaining good relations with groups of stakeholders, which for any reason whatsoever are or can be affected by our operational activities.

For all infrastructure investments, before obtaining the building permit, we perform environmental impact assessment reports. Polish law requires for such reports to be consulted with the community – and their results are made publicly available so that all interested parties have access to the prepared documentation and can, in case of doubt, voice their objection. For investments potentially increasing our impact on the environment, we always conduct consultations with the local community.

## Public consultations

In 2013, we conducted public consultations in connection with the planned construction of the complex of heavy-fraction oil distillates deep-processing installations at Grupa LOTOS refinery in Gdańsk. As part of them, a number of meetings with authorities, representatives of the industry and potentially most concerned local residents were organized, during which we tried to give as much information as possible about the planned investment and respond to all queries. The consultations were accompanied by an information campaign in the press, on the radio and TV. The participants were interested in the investment's impact on the refinery's surroundings, and its potential benefits. In the first case, the only environmental factor that may change is the level of noise. However, the environmental impact assessment report shows that both daytime and nighttime noise limits will not be exceeded. What interested the participants the most were the employment possibilities both at the construction stage and after the new installations are launched. It was stated that at the construction stage alone will require Grupa LOTOS to employ further 1,000 – 1,500 workers and for the purposes of the planned installations we will also be looking for operators.

In 2013, LOTOS Petrobaltic performed environmental impact assessments of its exploration, appraisal and production activities from oil and natural gas deposits in the areas of its licences in the Polish sea territory. Like Grupa LOTOS, LOTOS Group's companies from South Poland – LOTOS Biopaliwa, LOTOS Terminale and LOTOS Infrastruktura – continued their active cooperation with local government institutions in the area of preventing and reacting to failures also in 2013. As facilities of above-regular and high risk of failures, the companies passed on to mayors of towns in which they operate information on safety measures taken and emergency response plans, and their representatives attended Town Hall meetings.

We realize that the operational activities, particularly of the Grupa LOTOS refinery, the LOTOS Kolej manoeuvre area and the production facilities of LOTOS Oil, LOTOS Asfalt, LOTOS Biopaliwa and RCEkoenergia, does have an impact on the life quality of the local communities. However, it should be noted that these activities have no negative environmental impact on their neighbours – all companies abide by the emission limit values provided for in environmental permits.

Also, oil extraction carried out in Lithuania by LOTOS Geonafta does not have any potential or real environmental impact on the local environment. The company has pursued its activity in the same locations for years so the environmental impact of both current and planned activities in these locations is very well-researched. Also, the quality of all environmental media – air, surface and underground water, and soil – is monitored at all locations of oil extraction and the monitoring results are regularly sent to supervisory bodies, where all representatives of the local authorities and communication have easy access to them.

We have not received any information suggesting excessive use of natural resources in the vicinity of our facilities nor any possible threats to the local communities associated with such use.

We place great emphasis on the identification of potential safety threats to people and to the natural environment. To this aim, our employees responsible for process control attend special training sessions and we implement best engineering practices by including them in their job and process manuals. All these efforts attest to the high process safety culture in the organization. In 2013, only two companies reported occurrences of process safety threats.

At **LOTOS Asphalt**, there were two incidents posing a threat to health, which highlighted to us the areas needing improvement. The identified threats were examined by the Accident Committee, which recommended post-failure preventive and improvement measures. At LOTOS Oil, one Tier 1 process safety threat was recorded, which resulted in one employee getting injured. Apart from that, 15 incidents which can be classified as Tier 2 process safety threats were recorded at **LOTOS Oil**. Their identification made it possible to take early safety measures and prevent their transformation into Tier 1 threats. To maintain an appropriate level of process safety, LOTOS Oil develops inspection timetables for key equipment, supporting prevention of accidental emission of substances, including non-toxic and non-flammable materials. Also, the company keeps records of events which might potentially affect process safety. In 2013, there were several incidents which can be classified as safety threats at **LOTOS Paliwa**. 13 incidents involved fires in customers' vehicles at service stations, in one case a customer's car damaged an LPG pump, and in 3 cases there were fires in the facilities neighbouring with a service station or in a service station itself. In each instance, the employees responded properly, following the applicable procedures. The situation was assessed, the emergency was reported to relevant persons, the premises of the station were closed and secured, and, where necessary, fire-fighting measures were taken and the relevant emergency services were alerted in order to remedy the threat and secure the premises.

Managers of the affected stations analyze each dangerous incident and report it to LOTOS Paliwa's OSH team, where it is again analyzed for the possibility of a recurrence and the formulation of preventative measures.

For years, we have supported initiatives aimed at improving the life quality in our neighbouring communities, and which are local to our employees. Education and healthcare systems are well developed in our environment; however, we are particularly involved in initiatives that support our social partners in the area of access to appropriate professional equipment. Selection of such projects is usually preceded by consultations with the local authorities or social partners with the relevant competencies.

In 2013, we cooperated with NGOs and social organizations with regard to purchasing advertising materials; money raised by selling advertising gadgets was used to support the statutory activities of these organizations.

We supported a number of initiatives which had an impact on the infrastructural development of our local communities, bringing positive effects to many spheres of their life. It is worth emphasizing that in June 2013, the General Shareholders Meeting of Grupa LOTOS adopted a resolution on distribution of profit for 2012. Under the resolution, part of Grupa LOTOS' net profit in the amount of PLN 1,500,000 was earmarked for the Company's special account for financing of Grupa LOTOS' CSR projects.

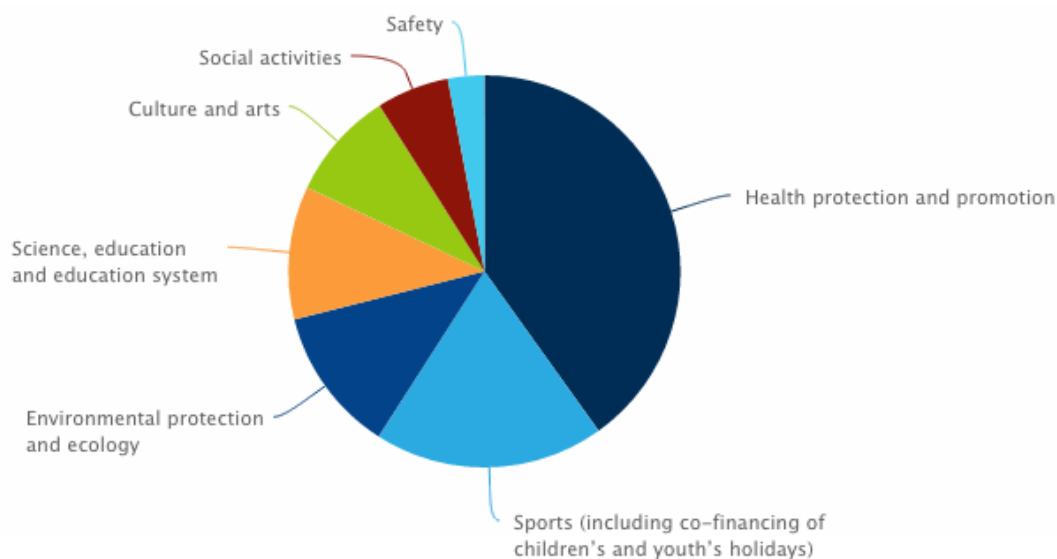
Money donated by us in 2013 was invested in medical equipment for public healthcare institutions, necessary equipment related to environmental protection and ecology, investments aimed at the improvement of residents' quality of life and road safety education. These investments were realised pro publico bono.

#### LOTOS Group's involvement in initiatives serving the development of its local communities in 2013

No.	Institution	City/town	Purpose of grant
1.	Municipality of Gdańsk	Gdańsk	Co-financing of the modernization of a playground.
2.	Social Care Association 'Bank of the Open Hearts'	Gdańsk	Co-financing of the equipment for the playground.
3.	Primary School No. 11	Gdańsk	Purchase of educational equipment.

4.	ENDOSIGMA Association for Supporting the Gdańsk Gastroenterology	Gdańsk	Co-financing of the purchase of medical equipment.
5.	Specialist Hospital in Jasło	Jasło	Purchase of medical equipment.
6.	Pomorskie Centrum Chorób Zakaźnych i Gruźlicy (Pomeranian Infectious Disease and TB Centre)	Gdańsk	Purchase of medical equipment.
7.	Uniwersyteckie Centrum Kliniczne (University Clinical Centre)	Gdańsk	Purchase of medical equipment.
8.	Stowarzyszenie COR Kardiochirurgia (COR Cardiac Surgery Association)	Gdańsk	Purchase of medical equipment.
9.	Fundacja z Pomą – Pomóż Dzieciom z Białą czką (Help Children with Leukemia Foundation)	Gdańsk	Purchase of medical equipment.
10.	Pomorskie Centrum Traumatologii im. M. Kopernika (Copernicus Pomeranian Centre of Traumatology)	Gdańsk	Purchase of medical equipment.
11.	Stowarzyszenie Na Rzecz Osób z Upośledzeniem Umysłowym RAZEM ('Together' Association for Persons with Mental Disability)	Bielsko-Biała	Co-financing of the construction of the infrastructure for the disabled.
12.	Jesteśmy Razem Stowarzyszenie Przyjaciół Szkoły ('We are Together' Association of Friends of School)	Gdańsk	Purchase of the playground equipment.
13.	Poszukiwawcze Ochotnicze Pogotowie Ratunkowe (Volunteer Search and Rescue)	Gdynia	Purchase of rescue and training equipment.
14.	Zespół Szkół Ogólnokształcących nr 3 (Comprehensive Secondary School Complex No. 3)	Gdynia	Co-financing of the conversion of a classroom into a chemical laboratory.
15.	Szkoła Podstawowa im. Obrońców Ziemi Polskich (Defenders of the Polish Lands Primary School)	Cedry Wielkie	Purchase of educational equipment.
16.	Zespół Szkół Przemysłu Spożywczego i Chemicznego im. M. Skłodowskiej-Curie (Maria Skłodowska-Curie Food and Chemical Industry Schools Complex)	Gdańsk	Purchase of educational equipment.
17.	Primary School No. 61	Gdańsk	Purchase of educational equipment.
18.	Stowarzyszenie Przyjaciół Pomorza (Friendly Pomerania Association)	Gdańsk	Co-financing of the renovation of the facilities and purchase of equipment.
19.	Fundacja Agencja Regionalnego Monitoringu Aglomeracji Gdańskiej (Agency of Regional Air Quality Monitoring of Gdańsk Agglomeration)	Gdańsk	Co-financing of the modernization and replacement of the air quality monitoring network.
20.	Stacja Ornitologiczna Muzeum i Instytut Zoologii PAN (Ornithological Station at the Museum and Institute of Zoology of the Polish Academy of Science)	Gdańsk	Co-financing of statutory activities, including the purchase of teaching materials.
21.	Fundacja Rozwoju Uniwersytetu Gdańskiego (Foundation for the Development of Gdańsk University)	Gdańsk	Co-financing of statutory activities connected with research objectives.
22.	Grupa Badawcza Ptaków Wodnych KULING (Kuling Waterbird Research Group)	Gdańsk	Co-financing of statutory activities, including the creation of teaching infrastructure in the 'Mewia Łacha' Reserve.
23.	Stowarzyszenie Przyjaciół Wyspy Sobieszewskiej (Association of Sobieszewo Island Lovers)	Gdańsk	Co-financing of the purchase of sports and recreational infrastructure.

### Structure of 2013 LOTOS Group's support in the form of grants, broken down by sphere of life (%)



In 2013, we took a number of preventive measures and activities contributing to the development of the local communities living in the vicinity of LOTOS Group facilities. Many of these are long-term programmes that have already been in place for several years. As they fit with the areas of our competence, determined in consultation with our stakeholders, they are indeed likely to improve aspects of life that are important to the communities' members.

#### Road safety

The low level of traffic safety has been one of the major social problems in Poland for many years. According to preliminary reports of the Polish National Police Headquarters, there were around 35,400 road accidents in 2013, in which almost 3,300 people were killed and roughly 43,500 people were injured – as compared to 2012, these numbers have fallen by a few percentage points but they still illustrate a serious danger to people's lives and health. It means that despite a gradual improvement of the road safety the situation still remains very bad as compared to other EU members. The road traffic mortality in Poland (the number of fatalities per 1 million residents) is almost twice as high as the EU average. In 2013, 28,000 people lost their lives on EU roads, 13% of which were Polish although Poles make up only 8% of EU residents.

Given the scale of the risk, educational campaigns should be run among the very youngest pupils of primary schools, as it is at this stage that the right attitudes and behaviour are shaped most effectively.

Grupa LOTOS sees its involvement in the enhancement of road traffic safety as a priority. To this end, we established '**Akademia Bezpieczeństwa LOTOS**' ('LOTOS Safety Academy') – a programme dedicated chiefly to educating children and teenagers. Events organized by the LOTOS Safety Academy in 2013 included another iteration of the 'LOTOS – Bezpieczna droga do szkoły' ('LOTOS – Safe Journey to School') programme, the 'Uwolnić odbłaski' art competition ('Free Reflectors - to promote reflective clothing and accessories') and the 'W drodze do prawa jazdy' ('On the Way to a Driving Licence') initiative.

1. '**LOTOS – Safe Journey to School**' is a social education and accident prevention programme run jointly with Polish Police and road traffic safety experts, designed to educate and promote safe road behaviour, thus preventing traffic accidents involving young schoolchildren. The idea behind the programme is to make children conscious and safety-minded road traffic participants. The programme is addressed to primary-



school first year pupils, and is designed to draw their attention to safe use of roads by both pedestrians and drivers, including their parents. At the beginning of every school year, the programme offers an opportunity to participate in classes with police officers and road safety instructors to learn about road traffic safety and safe places to play. Participants are presented with road safety reflectors and special road safety educational packages funded by our Company. Major partners in this programme include the Gdańsk Province Police Headquarters, the Bielsko-Biała City Police Headquarters and the Jasło Motor and Road Rescue Club. The programme is run in the areas of selected LOTOS Group subsidiaries, including in the Province of Gdańsk and the municipalities lying within the sphere of influence of LOTOS Terminale and LOTOS Infrastruktura. It was first implemented in Jasło, in 1998.

In the 2013/2014 school year, we distributed a total of 14,000 road safety reflectors and the same number of educational packages to primary school first-year pupils of the Gdańsk Province, and of the Counties of Jasło and Bielsko-Biała. In total, we have distributed 100,000 road safety reflectors and 80,000 educational packages over the course of the last 8 years.

2. The **'Free Reflectors'** competition was devised for first-grade pupils, particularly those participating in the 'LOTOS – Safe Journey to School' programme. Its overall aim is to remind and warn children about road traffic risks and to help them get into the habit of wearing reflective accessories, which reduces the likelihood of accidents. The competition is open to schoolchildren of the Gdańsk Province and the Counties of Bielsko-Biała and Jasło. Its partners make joint efforts to encourage parents, carers and teachers to equip children with reflective accessories. The competition is held in the summer semester and the finale takes place in June, just before the end of the school year and the beginning of the holidays. Each participating school selects and submits up to ten pieces of art by their children. From among all the entries, the three best works are selected in each region. First-place winners are awarded bicycles with safety enhancing accessories. Additionally, the schools of the winners are awarded mini road-sign kits and bicycles with safety enhancing accessories. Second-place winners receive roller blade sets with accessories, while third-place winners receive educational game sets.

In 2013, a total of 712 pieces of art from 124 schools were submitted as part of the 'Free Reflectors' competition. First prizes were awarded to the pupils of Dr Leon Heyke Primary School No. 2 in Kościerzyna (Gdańsk Province), the Primary School No. 26 in Bielsko-Biała (County of Bielsko-Biała) and the Community Primary School in Lipnica Dolna, Commune of Brzyska (County of Jasło). Between 2010-2013, a total of more than 2,000 students took part in the contest.

3. The **'On the Way to a Driving Licence'** project, of which we are a partner, is run in cooperation with the Road Traffic Department of the Gdańsk Province Police Headquarters. It is aimed at promoting the rules of safe behaviour on the road among students of secondary schools, thus preventing accidents involving young drivers. The project focused on meetings with students of selected junior high schools. These meetings involved lectures on the rules of road safety, delivered by a police officer, as well as lectures on first aid and the medical consequences of road accidents, delivered by a medical rescue expert. The theoretical part was followed by a practical one, which was aimed at increasing the participants' awareness of safe behaviour on the road both as pedestrians and future drivers. The main emphasis was placed on such risks as speeding, reckless driving, and not wearing seat belts.

In 2012-2013, the 'On the Way to a Driving Licence' project, was attended by 600 junior high school students in Gdańsk.



4. Grupa LOTOS is also a partner of the **'On the Road to Safety'** programme run by the Governor of the Gdańsk Province. This initiative is aimed at selecting the best original road safety programmes completed in the Pomerania region in the given school year. The competition participants include local government institutions, central government institutions, NGOs and associations. The prize is the co-funding for the winning projects.

In 2013, two joint first prizes were awarded to the Special Purpose School and Education Centre in Puck and the 'Safe Region of Słupsk' Association. The Junior High School in Żukowo was awarded an honorable distinction.

#### Equal opportunity initiatives and preventing exclusion

Openness to the future is among the key social values of the LOTOS brand, which is why we place a special emphasis on projects promoting young people's personal development, especially of the children and youth living in the immediate vicinity of our production facilities.

#### **'Dobry Sąsiad' ('Good Neighbour') Programme**

We have developed a dedicated programme for the inhabitants of Grupa LOTOS' neighbouring areas. Its strategic objective is to ensure equal opportunities, prevent social exclusion, to activate and integrate the local communities and to support the education of the youngest. As part of the programme, we:

- Get involved in the life of local communities by organizing family events, sporting events, co-financing summer and winter holidays for children ;
- Support selected local government projects improving the quality of life of people residing in the districts covered by the programme;
- Develop local inhabitants' understanding of our operations and assure them that the refinery has state-of-the-art environmental security controls;
- Tackle social inequalities by providing support to public benefit institutions;
- Get involved in long-standing initiatives aimed at the inhabitants of Grupa LOTOS' neighbouring districts.

#### **1. Family picnics and sports events**

In 2013, we organized the **'Ekologiczny Dzień Dziecka'** ('Ecological Children Day') family event in the Sobieszewo Island district, neighbouring our facility in Gdańsk. The ecological subject of the event was connected with our 'Chronimy NATURE na Wyspie Sobieszewskiej' ('Protect the Wildlife of the Sobieszewo Island') programme, run by Grupa LOTOS for several years in this part of Gdańsk. The event, which apart from a number of games for the youngest participants also included educational activities about the areas of outstanding natural value present in the district (the 'Mewia Łacha' and 'Ptasi raj' nature reserves), attracted around a thousand participants. The festival took place on the premises of the Special Primary and Junior High School Complex No.1 in Sobieszewo and its pupils were involved in the organizational activities. We asked the adult participants to assess the event in a survey. Their opinions concerning the venue, the programme of the event and its organization, as well as the quality of the service, overall satisfaction and quality of the gifts distributed were all at the top of the scale (99% of respondents).

85% of the respondents said Grupa LOTOS was taking care of the immediate surroundings, and 83% of the people asked felt the event met their social needs and expectations.

As for the sport and recreational initiatives, we were involved in the **'Bieg Wyspy Sobieszewskiej im. Wincentego Pola'** ('Sobieszewo Island Wincenty Pol Run'), which was organized in the vicinity of the Grupa LOTOS refinery. This half-marathon attracted more than 400 competitors, who followed an untypical route, through a forest, a beach and along a recreational path for runners, cyclists and ramblers, which was prepared under our cooperation with 'Stowarzyszenie Przyjaciół Wyspy Sobieszewskiej' ('The Association of Sobieszewo Island Lovers') – the organizer of the half-marathon and administrator of the path.

## 2. The Open Day at Grupa LOTOS

In August 2013, we organized an 'Open Day', the purpose of which was to allow organized groups accompanied by guides, the Company's employees, who talked about the installations and processes employed by the refinery, and protections strictly observed by it and answered queries, to go on a sightseeing bus-tour of the refinery's premises, which are not generally accessible to the public.

During 5 hours of the Open Day, 5 bus lines did 19 tours on the premises of the Grupa LOTOS refinery, enabling almost 900 persons to see our facilities.

We provided free-of-charge bus lines, which enabled residents of the neighbouring districts to get to the refinery itself. During the event, a multitude of attractions were organized for people of all ages. A parade of uniformed forces cooperating with the Company was held. Also, Kuling Waterbird Research Group and the Ornithological Station at the Museum and Institute of Zoology of the Polish Academy of Sciences, our partners in the 'Protect the Wildlife of the Sobieszewo Island' programme and the 'LOTOS Protects the Baltic Sea's Wildlife' programme, presented their activities during the event. The 'Open Day' attracted more than 2,000 participants, who were also asked to assess the event in a survey. Their opinions concerning the venue, the attractiveness of the event's programme and its date, as well as the quality of the service were all very good (80% of respondents expressed a positive opinion), and 87% of the respondents felt that the 'Open Day at Grupa LOTOS' met their expectations and they would like to participate again in a similar event organized by the Company in future.

## 3. Charity initiatives

As part of the 'Good Neighbour' programme, we work together with non-governmental organizations, offering assistance to the neediest in our closest neighbourhood. In 2013, we supported persons under the care of the Municipal Family Support Centre in the Gdańsk district of Rudniki, 'Stowarzyszenie Przyjazne Pomorze' ('Friendly Pomerania Association'), which runs a community library in the Gdańsk district of Stogi, 'Fundacja Pomóż Sobie i Innym' ('Help Yourself and Others Foundation'), 'Stowarzyszenie Pedagogów Praktyków' ('Association of Practising Educators') and Parafia p.w. Matki Boskiej Bolesnej w Gdańsku (Our Lady of Dolours Parish in Gdańsk). We co-financed summer and winter holidays for more than 100 children under the care of these organizations and purchased equipment for rooms where educational activities for children take place. We also organized Santa Claus gift-giving events for children under the care of these organizations and in family-type children's homes. In total, Christmas packages were distributed to 270 children from 13 organizations and children's homes, including 9 from the Gdańsk area, 2 from Jasło and 2 from Czechowice-Dziedzice.

## The 'Skrzydła z Grupą LOTOS' ('Wings with Grupa LOTOS') Programme

We have adopted a strategic approach to equal opportunity initiatives addressed to talented children at risk of social exclusion, not only from Pomerania, but also from other regions where the LOTOS Group conducts its business. This was possible thanks to our participation in the group of strategic partners of the 'Skrzydła' ('Wings') programme run by **Caritas Polska** in the years 2013-2013. Under the 'Skrzydła z Grupą LOTOS'

programme, we have assisted 70 pupils from low-income families in three regions of Poland. 'Skrzydła' is a programme of long-term assistance for pupils of primary, junior high and high schools who, given the insufficient means of their families, need assistance. Under the programme, the form of assistance can be tailored to the needs of a child. We have extended assistance to the neediest junior high and high school pupils from the Gdańsk Province, Jasło County and the Czechowice-Dziedzice Municipality. This assistance is rendered by the associated 'Skrzydła na przyszłość' ('Wings for the Future') programme, ensuring equal opportunities for all children to pursue their plans and ambitions. 'Skrzydła' has had a positive influence on its participants and has helped them achieve their objectives. The pupils covered by the programme have improved their grades in multiple subjects and their behaviour, and are now more involved in lessons, the work for the benefit of their schools and their own development.

## Sports education programmes

We are also involved in community-oriented sports projects supporting the development of sports skills among children and youth, to train future generations of sportsmen who would like to join their local or national teams. We believe that education through sports is also a good way to spend leisure time, educate young people in the spirit of healthy competition and fair play, and counteract social pathologies.

For the last 10 years, Grupa LOTOS, together with its partner the Polish Skiing Association, has run one of the widest-ranging projects in the area of sports education – the National Ski Jumping Development Programme, 'In Search for the Champion's Successors'. The programme's main objective is to support young athletes practising ski-jumping and to discover the finest Polish ski-jumping talents.

Till the end of 2013, more than 800 pieces of skiing equipment (skis complete with bindings, suits, ski-jumping boots, and helmets) were given to the most talented young ski jumpers. One of the talents discovered through the 'In Search for the Champion's Successors' programme is Kamil Stoch, double gold medalist of the Sochi Winter Olympic Games, winner of multiple World Cup competitions and Polish Champion, who is also the Ambassador of the Programme. Other talented ski-jumpers who got support through the Programme include Jakub Wolny (Individual and Team World Junior Champion), and Klemens Murańka, Aleksander Zniszczoł and Krzysztof Biegun – Team World Junior Champions.

Another field of the Company's activities supporting young sportsmen is our work with youth groups practising with the **Lechia Gdańsk Football Academy**. In 2012, the Company and the Academy jointly launched the '**White and Green Future with LOTOS**' programme. Ultimately, the programme will cover a total of 3,000 children from 13 Academy's branches outside Gdańsk, at locations across Pomerania and the neighbouring provinces. Till the end of 2013, 10 regional branches were opened, which, together with the Gdańsk central branch, look after 1,800 children aged 6-14. Around 70 trainers work under the programme, using a comprehensive training programme developed by the Lechia Gdańsk Football Academy. The children are monitored through the Junior Database, where all information about each participant and about the teams they represent is gathered.

In 2013, we continued our support of the training of girls basketball teams at the **Gdynia Basketball Society** (GTK). A total of around 300 young basketballers practise with the GTK, who won the Polish U-18 National Championship in 2013. We also cooperated with the **Wybrzeże Gdańsk Speedway Club Association**, which trains children and youth. The aim of the **Speedway Youth School** is to develop young riders to join the first team of GKS Wybrzeże – the LOTOS Wybrzeże Gdańsk club. One of the beneficiaries is Krystian Pieszczyk, called the hope of Gdańsk speedway and winner of the Brown Helmet in 2013. Additionally, we acted as the main sponsor of the **Gdańsk Sailing Club**, which promotes water sports among large groups of children and youths representing different sailing and windsurfing classes.

## Protection of the environment and ecology

As our refinery is located on the coast of the Baltic Sea, many of our initiatives are related to the protection of its resources. Our partners include: **the Foundation for the Development of Gdańsk University (FRUG)** and the **Marine Station of the University's Institute of Oceanography (IOUG) in Hel**. Together with these institutions, we have implemented projects, under the name of the 'LOTOS Protects the Baltic Sea's Wildlife', aimed at protecting the natural riches of the Baltic Sea. Another programme we pursue in the areas of great natural value NATURA 2000, together with the Kuling Waterbird Research Group, the Ornithological Station at the Museum and Institute of Zoology of the Polish Academy of Sciences and the Association of Sobieszewo Island Lovers, is the long-term 'Chronimy NATURE na Wyspie Sobieszewskiej' (Protect the Wildlife of the Sobieszewo Island) programme.

### The 'LOTOS Protects the Baltic Sea's Wildlife' programme

Grupa LOTOS cooperates with the FRUG Foundation and the IOUG Marine Station on protection of, research on and communication about the biodiversity of the Baltic Sea. The IOUG Marine Station conducts research projects on the biology and ecology of coastal fish in the Baltic Sea as well as of marine mammals and their habitats. In 2013, we were involved in actions designed to prevent the extinction of the endangered harbour porpoise, the only cetaceans permanently inhabiting the Baltic Sea.

The equipment purchased in the course of our cooperation, which already goes back several years, has also been used to support the statutory research of the Marine Station on the presence of harbour porpoises under the action point entitled **'Biological and ecological research of marine organisms and habitats with view to implementing more effective methods of managing their resources and protection'**. Our support was used for making construction and technical improvements to the Zelint research unit which allow for its all-year-round use for exploration of the Baltic basin. Our activities also led to the purchase of special cod pots for testing purposes, which are safe for harbour porpoises and seals and also make it possible to catch living fish. In the course of several years of our cooperation, more than 25 articles and scientific papers reflecting the researching, as well as the scientific and educational potential of the Station's employees have been published.

Furthermore, Grupa LOTOS supported the SAMBAH (Static Acoustic Monitoring of the Baltic Sea Harbour Porpoise) project by co-financing the equipment and modernization of the Zelint research unit, which significantly aided the research on presence, distribution and habitat preferences of harbour porpoises. SAMBAH is the biggest static acoustic monitoring project regarding harbour porpoises, whose study area stretches from the Darss and Limhamn ridges in the southwest to the northern border of the Åland archipelago in the north. Data reflecting changes in the distribution and density of these mammals are necessary to identify areas of their presence and their habitat preferences as well as areas with higher risk of conflicts with anthropogenic conflicts.

An important element of the project is to develop best practice methods for research of harbour porpoises in a low density area and to increase the awareness among the communities of the presence of this endangered species. The knowledge acquired should also serve to develop and later implement the most efficient methods of monitoring the presence of these rare animals. The grant from Grupa LOTOS was used to upgrade, to provide additional equipment to and to purchase elements of the research apparatus. In effect, it is possible to preserve the continuity of research in all measuring units of the Marine Stations. The data acquired will be analyzed and the results will be published in 2014.

In 2013, a number of educational campaigns informing about the threats to the biodiversity of the Baltic Sea were launched in the Tri-city area. Such projects include the **'Blue Schools'** on the Hel Peninsula where children and teenagers can meet with educators teaching about the biodiversity of the Baltic Sea. In 2013, courses offered by the 'Blue Schools' were attended by 4,300 students, while the Seal Centre (Fokarium), one of the most important facilities of the Blue Village complex, attracted more than 400,000 visitors. During the year, some 18,000 items of informational and educational materials were handed out by the IOUG Marine Station and the FRUG Foundation at a number of their events. One of the most important events in 2013 was the opening of the newly-built **'House of the Harbour Porpoise'**, a building serving academic and school education purposes, with an exhibition hall and an outdoor exhibition area to be gradually extended in the coming years. It is a unique bank of materials on the presence of harbour porpoises, sources of scientific information as well as of scientific materials tailored for the general public which all promote knowledge on this species.

In 2013, we once again engaged in the **'Clean Up the World'** campaign, with our organization of the **'Let's clean up the Baltic Sea! Let's clean up the world!'** event. 700 children from 70 Tricity primary schools were invited to join the initiative, which took place on Gdańsk beach. During the collective cleaning event, 18,000 litres of waste was collected in compliance with the rules of waste segregation, which is triple the amount collected as compared to 2012. The initiative was inaugurated with a ceremony of planting a tree of 'Lovers of the Baltic Nature', which was part of the jubilee celebrations of the 20th edition of the 'Clean Up the World' campaign in Poland, to which we were invited by the Our Earth Foundation. Divers of LOTOS Straż took part in the cleaning of the seabed. The purpose of the event was to develop a sense of responsibility for the world around us, particularly for protecting the Baltic Sea and keeping it clean.

### **The 'Chronimy NATURE na Wyspie Sobieszewskiej' ('Protect the Wildlife of the Sobieszewo Island') programme**

Together with the Ornithological Station at the Museum and Institute of Zoology (MIZ) of the Polish Academy of Sciences, the Kuling Waterbird Research Group and the Association of Sobieszewo Island Lovers, we pursue the 'Chronimy NATURE na Wyspie Sobieszewskiej' ('Protect the Wildlife of the Sobieszewo Island') programme. The programme provides for comprehensive initiatives undertaken on Sobieszewo Island to preserve its natural riches and provide for pro-environmental education. The work of the programme, which was launched in 2009, has resulted in construction of protective infrastructure, for instance the development of an educational eco-route within the 'Mewia Łacha' Reserve. The specially designed route, far away from areas where birds' breeding grounds and protected flora are located, is marked with educational info-boards and enables visitors to see the reserve all year round.

Under the programme, we also pursue on-going ecological education activities for the residents and tourists. The Kuling Group actively conducts educational sessions at its events such as 'Biodiversity – learn to preserve', 'Baltic Science Festival' and 'Edu-picnic'. Apart from that, it also constantly monitors the 'Mewia Łacha' Nature Reserve and, in 2013, it recorded 2,500 visitors, who were informed about the natural riches of the reserve, the protected species residing in it and its habitats. As the administrator of the 'Mewia Łacha' Nature Reserve, Kuling also conducts an annual survey among the residents of Sobieszewo Island to test their knowledge of the reserve and of the protected species residing in it. The level of knowledge about the natural riches of the reserve is very high – 94% of respondents said that they heard of and were in this place, and 63% heard of and could name actions taken to protect the environment under the 'Protect the Wildlife of the Sobieszewo Island' programme.

Our engagement in the protection of the reserve brings measurable effects such as successful clutches of terns and other species of water birds. In 2013, 244 chicks of sandwich tern (*Sterna Sandvicensis*) were

ringed, as compared to 62 in 2012, and the number of sandwich tern nests also almost doubled, from 276 in 2012 to 415 in 2013. An important action undertaken in the 'Mewia Łacha' Reserve, which helps us enhance our knowledge on protected bird species and those decreasing in population, is ringing. In 2013, the record number of 196 common ringed plovers (*Charadrius hiaticula*) was ringed, whereas in 2012 there were only 77. Since 2010, i.e. since the launch of the protective measures in the reserve under the 'Protect the Wildlife of the Sobieszewo Island' programme, more than 8,500 birds of different species have been ringed.

In conjunction with the Ornithological Station, we also organize free-of-charge lectures for students of Gdańsk schools. The idea of these lectures is to develop the young generation's interest in ecology and environmental protection, and to promote the Natura 2000 European Ecological Network. The lectures entitled 'Sobieszewo Island vs. Natura 2000 areas. Protection of birds and their habitats' concern not only the areas of natural beauty but also biology, ecology and recognizing different bird species with particular emphasis on these species which reside on the Sobieszewo Island, including the birds migrating along the Baltic coast.

In 2013, over 2,500 people benefited from the educational classes developed in the 'Mewia Łacha' Nature Reserve as part of the 'Protect the Wildlife of the Sobieszewo Island' programme. In the educational activities organized by the Ornithological Station were attended by almost 2,000 pupils from 34 primary and junior high schools in the Tri-city.

## Maritime Education Programme

Another programme we support, implemented by the Gdańsk Foundation at the request of the Mayor of Gdańsk, the Maritime Education Programme was initiated by Mateusz Kusznierevicz, the Ambassador for Maritime Affairs of the City of Gdańsk. Its purpose is to expand young people's knowledge of the natural environment, sailing, the maritime heritage of Gdańsk and water safety rules. Each year, all first class students of junior high schools from Gdańsk (totaling approximately 3,500) take educational cruises along the Gdańsk harbour channel and around the Gdańsk Bay, which last several hours at a time. Participation in the cruises is free of charge. As part of the Maritime Education Programme, an environmental competition is also organized, which in 2013 was held under the slogan 'Don't Pollute the Water'.

2013 was declared by the United Nations the International Year of Water Cooperation. The organizers of the Maritime Education Programme in Gdańsk decided to join this international action and the 2013 edition of the environmental competition was dedicated to the problem of water deficit.

The competition was addressed to students of all Polish junior high and high schools, who recorded short films encouraging people to use water resources rationally – not to waste or pollute them. On the first stage, the jury chose 10 films from among almost 90 competition entries. Then, the finalists were competing for the votes of Internet users and the vote was closed on 17th June, the World Day to Combat Desertification and Drought. In total, 12,000 votes were sent and the most popular among the viewers was the film entitled "The Apocalypse", prepared by pupils of the John Paul II Public Junior High School No. 2 in Świąta. The competition laureates representing the distinguished schools were awarded a summer holiday cruise on board the General Zaruski sailing ship, and a sailing picnic attended by Mateusz Kusznierevicz was organized in the school of the winning team.

In 2013, 71 teachers took part in evaluation of the programme, 99% of whom rated its attractiveness as very high and stated that it should definitely be continued. 93% of respondents expressed the opinion that commercial companies should engage in activities supporting local communities and the environment.



In all editions of the Maritime Education Programme between 2010-2013, around 14,000 people took part in the cruises along the Gdańsk Bay, during which they covered a total distance of over 28,000 nautical miles.

## Social innovations

### E(x)plory Festival

In 2013, Grupa LOTOS was the main partner of the nationwide E(x)plory Festival, a programme aimed at developing scientific innovations, creativity and interest in the world in an attractive and modern way. The initiative promotes scientific achievements among children and teenagers, at the same time responding to the contemporary challenges connected with the need for developing innovation and ensuring workforce for future. As part of the festival, a competition for young scientists, a fair and shows of technological projects, workshops for pupils and teachers and scientific conferences were held. The E(x)plory Festival is dedicated to pupils, students, teachers and school principals. It attracted almost 12,000 persons.

### Enactus Poland

In the 2013/2013 academic year, Grupa LOTOS launched its cooperation with the Enactus Poland programme. Enactus, formerly known as SIFE, is an international organization associating students, and academic and business leaders. Under the programme, students carry out business projects supporting the development of local communities. These projects address economic, ecological and social challenges, and are aimed at improving the quality of life and standard of living of their target groups. The best projects then take part in the Enactus National Competition and get the chance to represent Poland in the Enactus World Cup. When preparing their projects, the students can use help and advice from their academic tutors and managers, business representatives, who all act as mentors for the projects. Currently, there are 12 university teams in Poland, which are involved in around 40 projects. In 2013, almost 60 jurors and 200 students took part in the Polish National Competition.

As part of our cooperation with Enactus, we announced a grant competition called **'Responsibly with LOTOS'** in 2013, targeted at students associated in Enactus Poland. Its purpose was to select the best projects carried out by students of Polish universities in the area of CSR, which will fit in the framework of the LOTOS Group's CSR Strategy and bring measurable outcomes to the target community. At the beginning of 2014, the Competition Committee chose the project "Eco-competition" entered by Enactus University of Gdańsk (STRATEG Student Circle) and decided to grant PLN 10,000 for its completion. The project is a follow-up to the SLOW (Second Life of Waste) project completed by STRATEG in 2013 and is to organize an educational campaign, one stage of which will be the collection of PET bottles in schools, gyms and during ecological events held in Gdańsk. In the course of the pilot version of the project, 25,000 PET bottles were collected, which were then processed and 200 quilts were made. The quilts were passed on to night shelters in the Pomerania region. In 2014, the project will be extended to include a 'Day with Ecology', directed at 30 schools in Gdańsk, and information campaigns.

## Human rights

In our social and economic relations, we place great emphasis on human rights issues. There are no formal or systemic measures in place at LOTOS Group companies to verify whether our trading partners respect human rights. In the business landscape in which we operate, human rights issues are governed by a legal framework. We maintain relations only with those entities that operate legally and are required to comply with the law, including human rights regulations. However, due to the priority given by Grupa LOTOS to occupational health and safety, fire protection and physical security in our relations with our trading partners, agreements executed with our suppliers include mandatory provisions requiring these entities to comply with the relevant laws, which compliance is then monitored.

At Grupa LOTOS, 100% of agreements with our trading partners include clauses requiring them to ensure safe working conditions, whose observance is verified by our audits, and, in case of commercial companies, the same applies to the majority of significant agreements, which shapes our everyday cooperation with suppliers.

We also constantly add to our agreements and bidding offers new provisions regarding human rights issues and ethics. Due to the great emphasis we place on ethical behaviour and transparency of business processes, most of our agreements include a reference to [www.odpowiedzialny.lotost.pl/en](http://www.odpowiedzialny.lotost.pl/en), where the LOTOS Group's Code of Ethics has been published. The Code is also sent and passed on in paper version to our trading partners from Poland and abroad. In connection with the implementation of the idea of responsible business, Grupa LOTOS in its requests for proposals when selecting a trading partner has included two ethical clauses pertaining to respecting human rights, observing employee rights and protecting the natural environment. Further, in Grupa LOTOS' requests for proposals, bidders are required to submit a representation to the effect that they are not in default of payment of any due taxes, charges or social security premiums

Although in 2013 more than a dozen significant agreements were concluded at Grupa LOTOS, none of them has undergone human rights screening.

As for secondary logistics, in 2013 employees of LOTOS Paliwa carried out a total of 901 inspections of fuel supplies delivered by external carriers providing services to the company, including 611 checks on drivers having abided by the rules regarding occupational health and safety, and fire and environmental protection, etc. The inspections also examined whether the drivers used appropriate work wear, protective wear and personal protective equipment, as well as whether they had carried the required documentation while transporting hazardous goods. Whenever the rules regulating a driver's work time or the use of protective wear and personal protective equipment were not followed, the company requested the carrier to promptly restore compliance.





In the case of construction projects, compliance with the requirements stipulated in the agreements with the contractors with regard to operational safety and occupational health and safety is monitored on an ongoing basis during a project's execution.

Additionally, 138 employees responsible for people and property protection employed by LOTOS Ochrona have attended lectures on human rights and workshops on intervention techniques and the use of coercive means. In monthly tests they undergo, the issues regulated in the LOTOS Group's Code of Ethics are included.

In 2013, 77% of the Company's employees attended lectures devoted to basic human rights and their kinds, the Universal Declaration of Human Rights, the European Court of Human Rights, the Charter of Fundamental Rights of the European Union and the violations of human rights. Also, external organizations providing security to us are required to hold training sessions in human rights issues for their employees.

Human rights issues are also discussed within our adaptation programme for new employees and at periodical training sessions on occupational health and safety.

## Training in human rights issues in 2013

	LOTOS Group*	Grupa LOTOS
Percentage of employees trained in human rights issues and in the organization's human rights policies and procedures and their application at work	15.2% 	19.1% 
Total number of training hours in human rights issues	1,503 	578 

\* Data for the LOTOS Group, excluding LOTOS Petrobaltic subsidiaries.



# Human capital



## Human capital of Grupa LOTOS

- Employees' knowledge, competence, experience and motivation to involve themselves in developing the organization.
- Stable system of common values as the foundation of organizational culture.
- Motivation to improve and develop processes, products and services, including employees' leadership, management and cooperation skills.
- High safety culture.

Our objectives in the management of human capital:

- Ensure availability and development of highly qualified resources required to successfully implement our business strategy.
- Continuously enhance our organizational culture based on adopted values.
- Continuously raise awareness and involvement in work safety improvement among management staff, employees and contractors.

Key activities:

- Responsible recruitment and employment, quick adaptation to the workplace.
- Enhancement of employee training and development schemes.
- Creation of an involving workplace.
- Reliable evaluation and good motivation of employees.
- Adherence to ethics in business.
- Dissemination of values embraced by the organization among employees of the LOTOS service stations.
- Implementation of projects to improve safety at work and health protection.
- Involvement of management personnel in the promotion of OSH awareness among employees.

Results:

The Best Employer 2013 title

Effectiveness of internal staff development process confirmed by 80% of participants having been promoted

The title of the Human Resources Management Leader for outstanding achievements in all HR management areas

Employment optimisation through the creation of an environment where staff's competence and potential can be utilised in the best possible way (in 2004–2013, more than one thousand people changed employer within the LOTOS Group)

High employee involvement (72 %), with 77% of workforce declaring satisfaction with their jobs

Increasing employees' influence on the safety and ergonomics of their working environment

Strengthening safety-at-work culture based on the management's increased involvement in promotion of relevant attitudes

# System of values

In our activities, we are guided by the key principle of legal compliance and responsibility for the impact of our operations on the world around us. Our system of social values comprises transparency, openness, innovativeness and responsibility.

The LOTOS Group's mission is to pursue innovation-driven, sustainable development in the exploration, production and processing of hydrocarbons and marketing of high-quality products, which is conducive to creating lasting value for shareholders, ensuring customer satisfaction, enhancing and leveraging the employee potential, and which is responsible towards society, environmentally friendly and consistent with the energy security policy.

In 2013, we implemented our Code of Ethics, in which employees of the LOTOS Group additionally committed to behave in accordance with the following ethical values:



## Professionalism

– we try to make the most of our knowledge and skills by actively applying them in our work. We build the organization's value primarily on the professionalism of our staff, who all aspire to being experts in their respective fields. We perform our duties to the highest standards of care and objectivity, striving to continually improve our skills and professional qualifications.

## Transparency

- we act and communicate transparently in our relations with employees, clearly and intelligibly defining their rights and obligations, and justifying decisions that affect them. We make sure that our employees have access to information they need to properly perform their duties. In our external relations, we openly communicate our decisions, actions and reasons by which we are guided in mutual relations, especially with customers, suppliers, participants of the capital market and local communities.

## Respect

– manifests itself in decisions and actions that do not infringe the dignity of other individuals and entities. We follow the principle of respect in building our relations with employees, as well as with business and social partners. We respect the diversity and equality of all our associates and representatives of the LOTOS Group partners, irrespective of their nationality, race, sex, age, disability, religious denomination, political convictions or sexual orientation.

## Cooperation

– cooperation is a defining feature of our approach to building mutual relations in such a way as to maximise benefits for the LOTOS Group, with due regard to the interests of the other party. Cooperation is based on open communication, trust and strong focus on the achievement of common goals. We practise the values of cooperation in our relations with both internal and external parties.

As a corporate citizen, in all areas of our activity we endorse and abide by the principles of **United Nations Global Compact**, a voluntary international corporate citizenship initiative of unprecedented reach.



#### Principles of UN Global Compact

1. Support and respect the protection of internationally proclaimed human rights.
2. Eliminate human rights abuse.
3. Uphold the freedom of association.
4. Eliminate all forms of forced or compulsory labour.
5. Support the effective abolition of child labour.
6. Effectively eliminate discrimination in employment.
7. Support a precautionary approach to environmental challenges.
8. Undertake initiatives designed to promote environmental responsibility.
9. Encourage development and diffusion of environmentally-friendly technologies.
10. Work against all forms of corruption, including extortion and bribery.

## Responsible employer

Statement by Joanna Tyszka, Human Resources Office Director, Grupa LOTOS, CSR Strategy Leader in the Investment in Human Resources area



” As provided for in its CSR Strategy for 2012–2015, the objective of the LOTOS Group’s HR policy is to ensure the availability and development of highly qualified staff required to successfully implement its business strategy and enhance the organizational culture based on adopted values. Employees are regarded as our key asset, which is why our practices in employment relations are geared towards developing their competences, encouraging their involvement and creating conditions conducive to their increased identification with the fundamental values underlying the LOTOS Group’s organizational culture.

### Joanna Tyszka

Statement by Joanna Tyszka, Human Resources Office Director, Grupa LOTOS, CSR Strategy Leader in the Investment in Human Resources area

As provided for in its CSR Strategy for 2012–2015, the objective of the LOTOS Group’s HR policy is to ensure the availability and development of highly qualified staff required to successfully implement its business strategy and enhance the organizational culture based on adopted values. Employees are regarded as our key asset, which is why our practices in employment relations are geared towards developing their competences, encouraging their involvement and creating conditions conducive to their increased identification with the fundamental values underlying the LOTOS Group’s organizational culture.

Our HR policy is carried out in a comprehensive and strategic manner, in line with the principles of accessibility for employees, consistency across systems and solutions, flexibility in relation to business needs, and above all responsibility for work results. Our HR policy is long-term and based on continued application and improvement of best practices in responsible recruitment and employment, facilitating employees’ adaptation to work environment, qualification raising systems, evaluation and motivation of employees, compliance with ethical principles and rules of occupational health and safety.

With a focus on filling the positions within the LOTOS Group in a manner that reflects our business needs, we take every care to communicate with potential candidates by providing good access to information, for example during job fairs, through cooperation with universities and technical colleges, as well as internships, work placements, and grant programmes. We carry out our recruitment processes in a transparent and objective way, taking advantage of the most up-to-date candidate evaluation methods. We create opportunities for horizontal and vertical promotions, by encouraging employees to apply for vacancies in our internal recruitment process, which is given priority over external recruitment.

We improve our organizational culture based on the adopted values, not only by presenting them in our programmes and activities, but also by their promotion during our internal training (including induction training), underlining their importance and assessing the level of adherence during periodic employee evaluations, and also by describing and promoting them through the LOTOS Group’s Code of Ethics. We have a positive impact on employment practices, incentives and organizational culture building, by introducing optimised solutions across the LOTOS Group.

In 2013, we implemented the SAP HCM IT system across the entire LOTOS Group. The system has streamlined the process of managing and reporting employee data. It also meets the needs of both management and employees, facilitating their access to information and use of tools supporting HR matters through the self-service HR Portal.

All those systemic and continuous initiatives reflect our strong belief that employees are LOTOS Group's crucial asset. Their high competences and involvement are our strength, while their potential is reflected in the organization's innovation-driven development. We are recognised as a reliable and respected employer, promoting social responsibility standards, adhering to rules in every sphere of social life, and counteracting discrimination in employment and promotion. Our concern for professional advancement and improvement of employees' skills and expertise goes hand in hand with our efforts to foster a good working atmosphere and friendly relations between colleagues. We value open communication, teamwork and partnership between the management and employees.

The quality of our initiatives was recognised and appreciated by the Selection Committee of the Human Resources Management Leader award organized by the Institute of Labour and Social Studies. In 2013, the Committee awarded Grupa LOTOS with the Human Resources Management Leader title and Golden Statuette for our outstanding achievements in all areas of HR management. The grant of the Best Employer 2013 title was also based on the results of the Employee Satisfaction and Engagement Survey carried out using Aon Hewitt's methodology. The majority of our employees see Grupa LOTOS as one of the best employers for people with comparable skills and professional experience. According to these results, our Company clearly stands out among industry peers and other major Polish companies.

# Responsible employer

✓ - data has been verified

[See full text of the Independent Assurance Report >](#)

## Workforce of the LOTOS Group

Company	Dec 31 2011	Dec 31 2012	Dec 31 2013
Grupa LOTOS	1329	1349	1345 ✓
LOTOS Asfalt	301	254	202 ✓
LOTOS Terminale <sup>(1)</sup> and its subsidiaries	236	236	245 ✓
LOTOS Gaz w likwidacji (in liquidation)	1	1	1 ✓
LOTOS Infrastruktura <sup>(2)</sup>	74	75	75 ✓
LOTOS Kolej	717	812	833 ✓
LOTOS Lab	152	153	156 ✓
LOTOS Ochrona	160	161	162 ✓
LOTOS Oil	340	338	317 ✓
LOTOS Paliwa	263	270	272 ✓
LOTOS Park Technologiczny	1	1	1 ✓
LOTOS Petrobaltic and all its subsidiaries	549	546	557 ✓
LOTOS Serwis	697	697	684 ✓
LOTOS Straż	88	89	89 ✓
LOTOS-Air BP <sup>(3)</sup>	11	26	44 ✓

<sup>(1)</sup> Before 2013: LOTOS Czechowice.

<sup>(2)</sup> Before 2013: LOTOS Jasło.

<sup>(3)</sup> Before 2013: LOTOS Tank.

### The LOTOS Group's workforce by type of employment contract in 2013 – men <sup>(4)</sup>

Company	Fixed-term contracts		Open-ended contracts	
	Full-time employees	Part-time employees	Full-time employees	Part-time employees
Grupa LOTOS	133 ✓	3 ✓	778 ✓	15 ✓
LOTOS Asphalt	15 ✓	0 ✓	146 ✓	0 ✓
LOTOS Kolej	204 ✓	9 ✓	539 ✓	0 ✓
LOTOS Oil	27 ✓	0 ✓	197 ✓	1 ✓
LOTOS Petrobaltic with its subsidiaries: LOTOS Geonafita, LOTOS Norge and Energobaltic	80	1	371	1
LOTOS Air BP	30 ✓	0 ✓	10 ✓	0 ✓

<sup>(4)</sup> Thanks to the implementation of the SAP HCM IT system in the LOTOS Group, we are gradually expanding the scope of reporting of HR data. We are planning to be able to report full HR data for all companies starting from 2015.

### The LOTOS Group's workforce by type of employment contract in 2013 – women

Company	Fixed-term contracts		Open-ended contracts	
	Full-time employees	Part-time employees	Full-time employees	Part-time employees
Grupa LOTOS	71 ✓	0 ✓	344 ✓	1 ✓
LOTOS Asphalt	6 ✓	0 ✓	35 ✓	0 ✓
LOTOS Kolej	36 ✓	0 ✓	45 ✓	0 ✓
LOTOS Oil	11 ✓	0 ✓	81 ✓	0 ✓
LOTOS Petrobaltic with its subsidiaries: LOTOS Geonafita, LOTOS Norge and Energobaltic	22	0	67	3
LOTOS-Air BP	1 ✓	0 ✓	3 ✓	0 ✓

Our 2013 HR policy objectives, as set out in the business strategy and CSR strategy, were achieved.

### We managed to ensure the availability of a sufficient number of highly qualified resources required to successfully implement our business strategy.

The *e-recruitment* system enhanced the objectiveness and efficiency of recruitment processes across the LOTOS Group thanks to fast publication of announcements in several media at the same time, efficient searches in the candidate database thanks to the use of a digital application form and browsers, collection and exchange of information on candidates with the highest security standards in place, and monitoring of statistics on the effectiveness of announcements. This recruitment process allowed us to employ persons with the required qualifications. Next year, we intend to publish the 'Guidelines for recruitment specialists', to be distributed to persons responsible for coordinating the selection of employees at the LOTOS Group companies, as well as the heads of organizational units planning to hire new employees. Moreover, as part of our effort to share knowledge and best practices in the area of employee selection and assessment of candidates' qualifications in order to build effectively working teams, we will organise internal training.




Our key development activities in 2013 were related to the Succession Programme, designed to ensure the continuity of management in key positions at the LOTOS Group, identify and improve leadership potential at LOTOS Kolej (the Managers Academy Development Programme) and coaching of key personnel at LOTOS Terminale. Besides being given training and development opportunities as part of the LOTOS Academy, employees gain and expand their expertise and job-related qualifications in line with the training schedules for individual years in place at each company, prepared taking into account the development targets set on the basis of periodic employee evaluations.

Costs of specialist training and postgraduate education of employees are fully financed by Grupa LOTOS. We also cover 50% of costs of employees' studies at higher education institutions, taken up to complement their education, and 50% of costs of foreign language courses, if the command of a given language is recommended in a given position.

We fully utilise the potential of our employees. We have created a knowledge sharing culture, drawing on the experience and expertise of employees aged over 50, involving them in the professional advancement of other staff. They can pass on their valuable knowledge during Induction Training, and are engaged as tutors of new employees and as coaches in internal training programmes.

In 2013, we expanded the induction training programme to cover CSR issues and the principles of ethical conduct set out in the Code of Ethics. We implemented the Employee Induction Programme at further companies: LOTOS Lab, LOTOS Straż and LOTOS Asphalt, and we also plan to introduce it at LOTOS Paliwa, LOTOS-Air BP and LOTOS Ochrona, based on e-learning techniques.

The strong results of the most recent Periodic Employee Evaluation, which covered most employees of the LOTOS Group, confirm the effectiveness of our tools used for recruitment, induction, training, development and motivation of staff. Periodic evaluation is performed with respect to all employees working under employment contracts whose length of service in a given organizational unit at the time of the evaluation is at least six months. The person performing the evaluation must likewise have at least six months' experience in a given position.

At the LOTOS Group companies in which the Periodic Employee Evaluation System was implemented, an average of 91.8% , or around 4,500, employees of both sexes were subject to evaluation in 2013 (94.6% at Grupa LOTOS).

The Periodic Employee Evaluation System coverage rate was in the assumed range of 75%–100%. In 2013, employee evaluation was performed at Grupa LOTOS and the following companies: LOTOS Paliwa, LOTOS Asphalt, LOTOS Oil, LOTOS Kolej, LOTOS Ochrona, LOTOS Straż, LOTOS Lab, LOTOS Serwis and LOTOS Petrobaltic. As of 2014, all the LOTOS Group companies will be covered by a new Periodic Employee Evaluation System supported by the SAP/HCM IT solution, with the evaluation process performed electronically via the new HR website.

## **We have enhanced our organizational culture based on the adopted values.**

In 2013, our efforts in this area were focused on developing a new system for periodic evaluation of employees that would promote conduct in accordance with the values embraced by the Company. We developed a *Competence Model* uniform for the entire LOTOS Group, and a related *Positions Map*. The model defines the competences required to perform each function within the LOTOS Group, which are also used as criteria in the evaluation of both employees and candidates taking part in the recruitment process. The first evaluation of ca. 5,000 employees according to the new uniform rules will be performed in 2014 and

will be preceded by workshops for evaluators, as well as briefing meetings with all employees concerned. Once the Periodic Employee Evaluation System is implemented across the entire LOTOS Group, it will be delivering objective and comparable evaluation results, making it possible to set professional goals and development targets for employees and monitor their achievement.

In 2013, we conducted a *Survey of Engagement and Satisfaction of Grupa LOTOS Employees*. The result was 72% for engagement and 77% for satisfaction, placing us at the top end of the *Best Employers 2013* ranking compiled by Aon Hewitt.

In 2014, the survey will cover all the LOTOS Group companies and will employ a method Grupa LOTOS has adopted to ensure anonymity of data and comparability of results both across the organization and with the results of other companies operating in Poland.

Satisfied and committed employees are the key element of any organization's effort to deliver stable business performance. In the engagement and satisfaction survey, our employees gave the highest score to working conditions, appreciating the fact that their workplace is appropriately prepared to support the tasks performed. Moreover, they appreciate the possibility of keeping a balance between work and private life, and view their professional duties as interesting and conducive to personal development. They also appreciate the support of their superiors and a healthy working atmosphere in their teams.

### Parental leaves at Grupa LOTOS

Year	Number of employees who took parental leave		Number of employees who returned to work after parental leave		Number of employees whose employment was terminated within twelve months after return to work	
	Women	Men	Women	Men	Women	Men
2011	14	-	13	-	2	-
2012	19	2	14	2	-	-
2013	22	0	17	0	0	0

The LOTOS Group has a remuneration system ensuring that the pay reflects the position held and the scope of duties. As additional remuneration, employees receive an annual bonus based on the financial performance of the LOTOS Group. Employees who achieve their individually set targets in a given period may also receive a quarterly incentive bonus. The most committed and outstanding employees receive financial bonuses awarded by the Chief Executive Officer. We try to offer attractive base salaries, but we also need to take into account the conditions on the Polish labour market and internal factors involved in our operations. In 2013, the ratio of average salary of men to that of women at Grupa LOTOS was 130%.

### Ratio of the base and actual salary of women to men by position held [as at December 31st 2013]

Employment category	Ratio of base salary of men to base salary of women [%]	Ratio of average/actual salary of men to average salary of women [%]
<b>Grupa LOTOS</b>		
Senior management	75	96
Lower management	108	124

Back-office staff	110	148
Production staff	71	166
<b>TOTAL</b>	<b>110</b>	<b>130</b>
<b>LOTOS Asphalt</b>		
Senior management	63	82
Lower management	102	119
Back-office staff	97	139
Production staff	57	121
<b>TOTAL</b>	<b>71</b>	<b>121</b>
<b>LOTOS Kolej</b>		
Senior management	117	123
Lower management	98	125
Back-office staff	105	128
Production staff	100	162
<b>TOTAL</b>	<b>100</b>	<b>137</b>
<b>LOTOS Oil</b>		
Lower management	100	98
Back-office staff	136	121
Production staff	91	150
<b>TOTAL</b>	<b>98</b>	<b>128</b>
<b>LOTOS-Air BP</b>		
Senior management	96	89
Lower management	68	84
Back-office staff	148	113
<b>TOTAL</b>	<b>114</b>	<b>71</b>
<b>LOTOS Petrobaltic</b>		
Senior management	89	139
Lower management	111	147
Back-office staff	131	147
<b>TOTAL</b>	<b>131</b>	<b>157</b>

LOTOS Geonaftha		
Senior management	91	144
Lower management	58	81
Back-office staff	123	112
Production staff	51	108
<b>TOTAL</b>	<b>51</b>	<b>99</b>
LOTOS Norge		
Management Board	100	0
Senior management	90	0
Lower management	194	0
Back-office staff	0	0
Production staff	0	0
<b>TOTAL</b>	<b>0</b>	<b>0</b>
Energobaltic		
Production staff	74	108
<b>TOTAL</b>	<b>92</b>	<b>133</b>

The LOTOS Group offers an attractive work environment and career development opportunities, plus a good benefits package, to all employees regardless of their gender and age. Our employees, whether working on a fixed-term or open-ended basis, full time or part time, are offered the same package of fringe benefits guaranteed by the Collective Bargaining Agreement for Grupa LOTOS employees and by the Rules of Participation in the Company Social Benefits Fund. The Collective Bargaining Agreement covers 95.3% of all Grupa LOTOS employees. The remaining employees are part of the Company's top management, whose terms and conditions of employment and remuneration are agreed individually with the Board, in consideration of the applicable labour laws. All companies of the LOTOS Group have their own Collective Bargaining Agreements or remuneration policies identical with the relevant provisions of the Collective Bargaining Agreement of Grupa LOTOS, and the percentage of employees covered by these documents ranges between 99.5% and 99.9%.

Every employee can take advantage of additional medical care provided by private healthcare institutions and dental care within the prepaid medical care package paid for by the employer. All parental leaves for mothers and fathers and additional maternity leaves are granted in accordance with legal regulations. The organization offers other social support in the form of loans, allowances, and partial financing of holidays for employees and their children. Additionally, employees who retire due to disability or old age receive retirement severance pay on terms more favourable than those provided for in the Polish Labour Law. Old age and disability pensioners also have access to additional medical care provided by private healthcare establishments and dental care at their former employer's cost.

Under the Benefit Programme, the LOTOS Group also offers membership cards for sports clubs and gyms to its employees, giving them access to sports facilities and activities at discounted prices.

We also provide our employees with the opportunity to join pension plans. Currently, 13 LOTOS Group companies take advantage of unit-linked group life insurance cover, developed especially for LOTOS Group employees, which is fully funded by the employer. Participation in the scheme is voluntary and available to all insurable employees under 70 years of age, employed under employment contracts. Saving with a Pillar 3 retirement savings scheme is an essential aspect of responsible planning for one's financial future, and we make every effort to secure our employees' future.

As at the end of 2013, 79.7% of the LOTOS Group employees and 89.2% of Grupa LOTOS employees were covered by the group insurance.

#### Premiums paid under unit-linked insurance policies (Pillar 3 of the Polish pension system) in PLN '000

	2011	2012	2013
Grupa LOTOS	3,465	3,519	3,587
Grupa Kapitałowa LOTOS	10,339	11,182	11,261

The LOTOS Group provides adequate conditions for effective development and practical application of the knowledge and skills required of all employees throughout their employment. Goals and objectives defined in the LOTOS Group's short- and long-term development plans are reflected in personal development plans, agreed with the employees on an annual basis during their periodic evaluation. All employees, irrespective of their age and time of planned retirement, are offered opportunities to take part in training designed to help them acquire and enhance their knowledge and professional qualifications, and develop general skill sets. The base monthly salary of employees who decide to retire within two years prior to their acquisition of pension rights can be raised by 8.5% under a relevant amendment to employment contracts. Moreover, retiring employees are entitled to a one-off cash severance payment, in an amount depending on their length of service. This payment may range from an amount equal to an employee's monthly pay when their length of service is up to 15 years, to 500% of the base pay amount if the employee has worked for 35 years.

For the past 30 years, former employees of the LOTOS Group have been associated in the Senior Employees and Pensioners Club. The Board of Grupa LOTOS earmarks considerable funds to support the Club. The Club's board organises trips around Poland and to other regions of Europe, giving the pensioners an opportunity to visit new places and at the same time promote a healthy lifestyle. Every year around Christmas, the Board of Grupa LOTOS organizes annual meetings with about 600 of its pensioners, in recognition of their contribution to the Company's growth.

In 2013, in order to exert a positive impact on employment practices, incentives and value-based work ethics at LOTOS service stations, we undertook initiatives to support the processes of recruitment, provision of incentives and fostering a work culture based on the adopted values. We developed profiles for an 'ideal' sales assistant and station manager, which – combined with the adopted standards for job interviews and training for area managers – facilitates the process of recruitment and selection of our service station staff. The LOTOS Paliwa website provides clear information on how to apply for work at our service stations. As part of the incentive scheme for service station staff, in 2013 we held 15 competitions to improve their sales performance.

We have analysed our methods for fostering sound work ethics and developed a programme entitled *One Day at a Service Station*. The programme is based on the idea that each employee of LOTOS Paliwa works at a service station for one day, participating in customer service, encouraging customers to buy products, replenishing stocks, and assisting in the operation of fuel dispensers, thus stressing the importance of work performed by service station attendants. Approximately 200 employees took part in the programme in 2013 to show the service station staff that their work is very important and that LOTOS is an organization they can identify with and be proud of.

Incentive competitions and schemes are to be continued at LOTOS service stations in 2014, and around the end of 2014 and beginning of 2015 an e-learning training programme will be implemented to improve professional skills and motivation of employees of the LOTOS service station chain.

### The process of building business awareness of the LOTOS Group's management is ongoing,

taking into consideration the importance of social, environmental and corporate governance factors. The effectiveness of this process is confirmed by the results of our periodic employee evaluations.

In 2013, more than 90% of all evaluated employees obtained good and very good scores with regard to the criterion involving the importance of social and corporate governance factors, with 96% of the management achieving very good grades.

Our training policy is distinguished by long-term, consistently implemented development plans, supported by renowned authorities, members of the LOTOS Academy Scientific Council, including Prof. Jerzy Hausner, Prof. Witold Orłowski, Prof. Janusz Rachoń, Dr. Mirosław Gronicki, Prof. Wojciech Rybowski, Dr. Jan Szomburg, and Prof. Edmund Wittbrodt.

In 2014, we will celebrate the tenth anniversary of LOTOS Academy, a comprehensive employee training and development project, whose goal is to create a partnership-based team and build a modern, efficient and competitive organization.

This initiative is highly valued in the world of science and business. In 2013, we implemented a number of training and development projects under the LOTOS Academy banner.

- **The LOTOS Group Succession Programme**, which guarantees the implementation of our business strategy by ensuring continuity of management processes in key positions, clearly defining promotion paths and reducing the risk of choosing the wrong candidate for promotion.
- **The 'LOTOS Kolej Managers Academy' Development Programme**, the main goal of which is to ensure the implementation of the company's strategy by retaining and accelerating the development of key employees. Its implementation will enable LOTOS Kolej to identify and make better use of the potential of its employees, increase their productivity and provide an incentive to develop the competences essential from the employer's point of view, to better prepare them for assuming key positions with the company, and to meet their promotion needs.
- **Coaching at LOTOS Terminale** as a tool for developing competences relevant to functions performed by the company's senior management. The main objective of the development activities was to enhance the management skills of specific employees with better knowledge about themselves, their strengths and weaknesses, and their role within the organization, and to develop personalised solutions and new strategies for action in cooperation with the coach.

- **'Situational Team Leadership' training programme.** The main objective of this two-day, licence-based workshop was to increase the productivity of work teams through development of the leadership skills of management staff.
- **Internal training projects – Knowledge sharing in the LOTOS Academy:**
  - Induction training at which senior colleagues share information regarding the organization itself, its Code of Ethics, CSR, processes and procedures, and the technologies for processing of crude oil and other refinery products,
  - Basic training for production workers within the production knowledge certification process, wherein our internal coaches share their knowledge of the techniques and technologies necessary for working as an equipment operator,
  - Internal knowledge-sharing workshops – group training focusing on various aspects of our operations, drawing on the knowledge and experience of employees aged 50 or more.
- **Training schedule – development of employees' individual competences** through participation in training sessions, courses and workshops that cover issues arising from analysis of the results of periodic employee evaluations, development targets for employees working at individual organizational units and our business development needs.

#### Challenges in strategy implementation until 2015

In addition to the continuation of our current staff training and development programmes, our plans include:

- Implementation of the 2nd edition of the Master Programme to train another group of back-up production staff. Our plan is to carry out a Development Center survey to determine the potential of our staff in key competences for the job of a supervisor and to implement a soft training programme based on 7 modules;
- Preparation of a new development programme for employees whose length of service with the LOTOS Group ranges from 3 to 5 years. Its objective is to prevent a decline in commitment and reduce staff turnover in this group of employees. The programme will rely on various development stimulation tools, such as training and team-building projects, simulation games, job rotation, and e-learning;
- Implementation of a dedicated programme for the LOTOS Group internal coaches, aimed to build a group of employees with unique expertise, useful to other employees, who are ready to share their knowledge and have the necessary knowledge-sharing skills.

#### Development prospects until 2020

We will continuously take actions to ensure the provision of qualified employees necessary for the effective implementation of our business strategy and for the enhancement of our organizational culture based on the adopted values.

Our main activities planned for the coming years include:

- Optimization of the employment level across the LOTOS Group in connection with the implementation of the 2013-2015 Efficiency and Growth Programme, supporting the restructuring processes, and employee allocation under the continuation of the job rotation project.
- Building such an image of the LOTOS Group as an employer which ensures access to the best job candidates and guarantees the attraction and retention of the best employees in the organization, with view to the changing job market situation. Active participation in the activities of the

Coalition for Friendly Recruitment, observing the Code of Best Practice, promoting recruitment standards of Grupa LOTOS in the external environment as well as adopting uniform recruitment standards and enhancing them within the LOTOS Group, implementing 'The LOTOS Recruiter's Manual' and 'The Recruitment Guidebook for LOTOS Managers', developing e-recruitment, using social networking sites for the purposes of communication with our environment.

- Improvement of the commitment culture by regular employee opinion polling in order to identify their attitudes and conduct, monitor their satisfaction and commitment to develop a work environment conducive to meeting business targets. Promoting HR activities within the LOTOS Group, streamlining communication regarding the rules of promotion, remuneration, and motivation of the employees and their development prospects. Building the business awareness of the employees and the management staff of the LOTOS Group, taking into account the importance of the social, environmental and corporate governance factors for the organization's activity.
- Streamlining the Periodic Employee Evaluation System – the tool used by the management and HR staff, based on the evaluation of the key management and functional competences as well as the progress in reaching the employees' work and development objectives.
- Development of the LOTOS Academy – undertaken training and development activities will serve the improvement of the employees' priority competences, identification of talents within the areas of the organization needing enhancement and further development, and the popularisation of the expert knowledge. The subjects of the closed training sessions undertaken under the Training schedule of the LOTOS Academy for all employees of the LOTOS Group will be adapted to the developmental needs of the particular segments of the organization. The e-learning form will be promoted in response to the growing percentage of the organization's employees aged 25-34, who prefer using modern IT tools. Dissemination of the knowledge-sharing culture in the organization will become an important element of our training policy.
- Perfecting our employee motivational system with regard to remuneration and fringe benefits. Upholding the leading position in the Pomeranian job market, monitoring the remuneration market and participation in remuneration surveys conducted by specialized companies in the area of personnel consultancy, including the survey assessing the refinery's efficiency conducted by Solomon Associates.
- Developing the SAP HCM system – streamlining the functionality of this HR supporting system across the LOTOS Group and of the HR portal – the self-service tool for employees and managers.

The overriding objective of our activities planned for the coming years will be to enhance the strategic role of HR in the organization, to strengthen the cooperation with line managers, to stress the HR role in management and to point out possibilities of gaining a competitive advantage in the Human Resources Management area.



## Useful information

### Newly hired employees in 2013

Grupa LOTOS	LOTOS Asphalt	LOTOS Kolej	LOTOS Oil	LOTOS-Air BP	LOTOS Paliwa	LOTOS Petrobaltic with its subsidiaries LOTOS Geonafta, LOTOS Norge, and Energobaltic
73	11	41	11	20	28	109

### Employees hired and dismissed in 2013 and staff turnover rate

	Grupa LOTOS		LOTOS Asphalt		LOTOS Kolej		LOTOS Oil		LOTOS-Air BP		LOTOS Paliwa	
	number	turnover rate [%]	number	turnover rate [%]	number	turnover rate [%]	number	turnover rate [%]	number	turnover rate [%]	number	turnover rate [%]
<b>Gender</b>												
Women	48	3.57	19	9.41	13	1.56	11	3.47	3	6.82	23	8.46
Men	101	7.51	56	27.72	50	6	35	11.04	18	40.91	25	9.19
<b>Age</b>												
Below 30	31	2.3	9	4.46	14	1.68	5	1.58	8	18.18	11	4.04
30 to 50	80	5.95	52	27.54	35	4.2	25	7.88	13	29.55	33	12.13
Over 50	38	2.83	14	6.93	14	1.68	16	5.05	0	0	4	1.47
<b>Total</b>	<b>149</b>	<b>11.08</b>	<b>75</b>	<b>37.13</b>	<b>63</b>	<b>7.56</b>	<b>46</b>	<b>14.51</b>	<b>21</b>	<b>47.73</b>	<b>48</b>	<b>17.65</b>

### Employees hired and dismissed in 2013 and staff turnover rate at the LOTOS Petrobaltic Group

	LOTOS Petrobaltic		LOTOS Geonafta		LOTOS Norge		Energobaltic	
	number	turnover rate [%]	number	v [%]	number	turnover rate [%]	number	turnover rate [%]
<b>Gender</b>								
Women	1		0		0		1	
Men	50		2		1		0	
<b>Age</b>								
Below 30	11		1		0		1	
30 to 50	8		1		1		0	
Over 50	32		0		0		0	
<b>Total</b>	<b>51</b>				<b>1</b>		<b>1</b>	

Due to the specific nature of LOTOS Petrobaltic's business activity (work performed in a continuous system on drilling rigs), external back-up staff must be hired every year as temporary replacement of rig operators. It often happens that one person is hired more than once under the same or different terms of employment. As a result, the company reports high staff turnover rates.

## Workforce, by gender and age [as at December 31st 2013]

Employee age	Employment category	Number of employees	Percentage of total workforce	Percentage of total workforce in the age category	Number /women/	Percentage of total women	Percentage of total women in the age category	Number /women/	Percentage of total men	Percentage of total men in the age category
Grupa LOTOS										
Below 30	Back-office staff	57 ✓	4.24 ✓	38.26 ✓	37 ✓	8.89 ✓	100 ✓	20 ✓	2.16 ✓	17.86 ✓
Below 30	Production staff	92 ✓	6.84 ✓	61.74 ✓	0 ✓	0 ✓	0 ✓	92 ✓	9.9 ✓	82.14 ✓
Below 30	TOTAL	149 ✓	11.08 ✓	100 ✓	37 ✓	8.89 ✓	100 ✓	112 ✓	12.06 ✓	100 ✓
30 to 50	Board	2 ✓	0.15 ✓	0.25 ✓	0 ✓	0 ✓	0 ✓	2 ✓	0.22 ✓	0.36 ✓
30 to 50	Senior management	27 ✓	2.01 ✓	3.31 ✓	4 ✓	0.96 ✓	1.51 ✓	23 ✓	2.48 ✓	4.18 ✓
30 to 50	Lower management	74 ✓	5.50 ✓	9.08 ✓	31 ✓	7.45 ✓	11.7 ✓	43 ✓	4.63 ✓	7.82 ✓
30 to 50	Back-office staff	399 ✓	29.66 ✓	48.96 ✓	230 ✓	55.30 ✓	86.79 ✓	169 ✓	18.19 ✓	30.73 ✓
30 to 50	Production staff	313 ✓	23.37 ✓	38.40 ✓	0 ✓	0 ✓	0 ✓	313 ✓	33.68 ✓	56.91 ✓
30 to 50	TOTAL	815 ✓	60.59 ✓	100 ✓	265 ✓	63.71 ✓	100 ✓	550 ✓	59.20 ✓	100 ✓
Over 50	Board	3 ✓	0.22 ✓	0.79 ✓	0 ✓	0 ✓	0 ✓	3 ✓	0.32 ✓	1.12 ✓
Over 50	Senior management	15 ✓	1.12 ✓	3.94 ✓	3 ✓	0.72 ✓	2.63 ✓	12 ✓	1.29 ✓	4.49 ✓
Over 50	Lower management	47 ✓	3.49 ✓	12.34 ✓	11 ✓	2.64 ✓	9.65 ✓	36 ✓	3.88 ✓	13.48 ✓
Over 50	Back-office staff	174 ✓	12.94 ✓	45.67 ✓	99 ✓	23.80 ✓	86.84 ✓	75 ✓	8.07 ✓	28.09 ✓
Over 50	Production staff	142 ✓	10.56 ✓	37.27 ✓	1 ✓	0.24 ✓	0.88 ✓	141 ✓	15.18 ✓	52.81 ✓
Over 50	TOTAL	381 ✓	28.33 ✓	100 ✓	114 ✓	27.40 ✓	100 ✓	267 ✓	28.74 ✓	100 ✓
-	TOTAL	1,345 ✓	100 ✓	- ✓	416 ✓	100 ✓	- ✓	929 ✓	100 ✓	- ✓

Employee age	Employment category	Number of employees	Percentage of total workforce	Percentage of total workforce in the age category	Number of women	Percentage of total women	Percentage of total women in the age category	Number of men	Percentage of total men	Percentage of total men in the age category
<b>LOTOS Asfalt</b>										
Below 30	Back-office staff	6 ✓	2.97 ✓	42.86 ✓	3 ✓	7.32 ✓	100 ✓	3 ✓	1.86 ✓	27.27 ✓
Below 30	Production staff	8 ✓	3.96 ✓	57.14 ✓	0 ✓	0 ✓	0 ✓	8 ✓	4.97 ✓	72.73 ✓
Below 30	TOTAL	14 ✓	100 ✓	100 ✓	3 ✓	7.32 ✓	100 ✓	11 ✓	6.83 ✓	100 ✓
30 to 50	Management Board	0 ✓	0 ✓	0 ✓	0 ✓	0 ✓	0 ✓	0 ✓	0 ✓	0 ✓
30 to 50	Senior management	11 ✓	5.45 ✓	6.75 ✓	1 ✓	2.44 ✓	2.86 ✓	10 ✓	6.21 ✓	7.81 ✓
30 to 50	Lower management	12 ✓	5.94 ✓	7.36 ✓	2 ✓	4.88 ✓	5.71 ✓	10 ✓	6.21 ✓	7.81 ✓
30 to 50	Back-office staff	62 ✓	30.69 ✓	38.04 ✓	31 ✓	75.60 ✓	88.57 ✓	31 ✓	19.25 ✓	24.22 ✓
30 to 50	Production staff	78 ✓	38.61 ✓	47.85 ✓	1 ✓	2.44 ✓	2.86 ✓	77 ✓	47.84 ✓	60.16 ✓
30 to 50	TOTAL	163 ✓	80.69 ✓	100 ✓	35 ✓	85.36 ✓	100 ✓	128 ✓	79.51 ✓	100 ✓
Over 50	Management Board	1 ✓	0.50 ✓	4.00 ✓	0 ✓	0 ✓	0 ✓	1 ✓	0.62 ✓	4.55 ✓
Over 50	Senior management	2 ✓	0.99 ✓	8.00 ✓	0 ✓	0 ✓	0 ✓	2 ✓	1.24 ✓	9.09 ✓
Over 50	Lower management	2 ✓	0.99 ✓	8.00 ✓	0 ✓	0 ✓	0 ✓	2 ✓	1.24 ✓	9.09 ✓
Over 50	Back-office staff	5 ✓	2.48 ✓	20.00 ✓	3 ✓	7.32 ✓	100 ✓	2 ✓	1.24 ✓	9.09 ✓
Over 50	Production staff	15 ✓	7.42 ✓	60.00 ✓	0 ✓	0 ✓	0 ✓	15 ✓	9.32 ✓	68.18 ✓
Over 50	TOTAL	25 ✓	12.38 ✓	100 ✓	3 ✓	7.32 ✓	100 ✓	22 ✓	13.66 ✓	100 ✓
-	TOTAL	202 ✓	100 ✓	- ✓	41 ✓	100 ✓	- ✓	161 ✓	100 ✓	- ✓

Employee age	Employment category	Number of employees	Percentage of total workforce	Percentage of total workforce in the age category	Number of women	Percentage of total women	Percentage of total women in the age category	Number of men	Percentage of total men	Percentage of total men in the age category
<b>LOTOS Kolej</b>										
Below 30	Lower management	1 ✓	0.12 ✓	1.05 ✓	0 ✓	0 ✓	0 ✓	1 ✓	0.13 ✓	1.39 ✓
Below 30	Back-office staff	14 ✓	1.68 ✓	14.74 ✓	9 ✓	11.11 ✓	39.13 ✓	5 ✓	0.66 ✓	6.94 ✓
Below 30	Production staff	80 ✓	9.60 ✓	84.21 ✓	14 ✓	17.29 ✓	60.87 ✓	66 ✓	8.78 ✓	91.76 ✓
Below 30	<b>TOTAL</b>	95 ✓	11.40 ✓	100 ✓	23 ✓	28.40 ✓	100 ✓	72 ✓	9.57 ✓	100 ✓
30 to 50	Management Board	0 ✓	0 ✓	0 ✓	0 ✓	0 ✓	0 ✓	0 ✓	0 ✓	0 ✓
30 to 50	Senior management	2 ✓	0.24 ✓	0.41 ✓	1 ✓	1.23 ✓	2.13 ✓	1 ✓	0.13 ✓	0.22 ✓
30 to 50	Lower management	17 ✓	2.04 ✓	3.45 ✓	5 ✓	6.17 ✓	10.64 ✓	12 ✓	1.60 ✓	2.69 ✓
30 to 50	Back-office staff	45 ✓	5.40 ✓	9.13 ✓	19 ✓	23.46 ✓	40.43 ✓	26 ✓	3.46 ✓	5.83 ✓
30 to 50	Production staff	429 ✓	51.51 ✓	87.02 ✓	22 ✓	27.16 ✓	46.81 ✓	407 ✓	54.12 ✓	91.26 ✓
30 to 50	<b>TOTAL</b>	493 ✓	59.19 ✓	100 ✓	47 ✓	58.02 ✓	100 ✓	446 ✓	59.31 ✓	100 ✓
Over 50	Management Board	1 ✓	0.12 ✓	0.41 ✓	0 ✓	0 ✓	0 ✓	1 ✓	0.13 ✓	0.43 ✓
Over 50	Senior management	4 ✓	0.48 ✓	1.63 ✓	1 ✓	1.23 ✓	9.09 ✓	3 ✓	0.40 ✓	1.28 ✓
Over 50	Lower management	9 ✓	1.08 ✓	3.67 ✓	1 ✓	1.23 ✓	9.09 ✓	8 ✓	1.06 ✓	3.42 ✓
Over 50	Back-office staff	26 ✓	3.12 ✓	10.61 ✓	5 ✓	6.18 ✓	45.45 ✓	21 ✓	2.79 ✓	8.97 ✓
Over 50	Production staff	205 ✓	24.61 ✓	83.67 ✓	4 ✓	4.94 ✓	36.36 ✓	201 ✓	26.74 ✓	85.90 ✓
Over 50	<b>TOTAL</b>	245 ✓	29.41 ✓	100 ✓	11 ✓	13.58 ✓	100 ✓	234 ✓	31.12 ✓	100 ✓
-	<b>TOTAL</b>	813 ✓	100 ✓	- ✓	81 ✓	100 ✓	- ✓	752 ✓	100 ✓	- ✓

Employee age	Employment category	Number of employees	Percentage of total workforce	Percentage of total workforce in the age category	Number of women	Percentage of total women	Percentage of total women in the age category	Number of men	Percentage of total men	Percentage of total men in the age category
<b>LOTOS Oil</b>										
Below 30	Back-office staff	20 ✓	6.30 ✓	62.50 ✓	12 ✓	13.04 ✓	100 ✓	8 ✓	3.56 ✓	40.00 ✓
Below 30	Production staff	12 ✓	3.79 ✓	37.50 ✓	0 ✓	0 ✓	0 ✓	12 ✓	5.33 ✓	60.00 ✓
Below 30	<b>TOTAL</b>	32 ✓	10.09 ✓	100 ✓	12 ✓	13.04 ✓	100 ✓	20 ✓	8.89 ✓	100 ✓
30 to 50	Management Board	1 ✓	0.32 ✓	0.47 ✓	0 ✓	0 ✓	0 ✓	1 ✓	0.44 ✓	0.69 ✓
30 to 50	Senior management	5 ✓	1.58 ✓	2.36 ✓	0 ✓	0 ✓	0 ✓	5 ✓	2.22 ✓	3.45 ✓
30 to 50	Lower management	20 ✓	6.31 ✓	9.43 ✓	5 ✓	5.43 ✓	7.46 ✓	15 ✓	6.67 ✓	10.34 ✓
30 to 50	Back-office staff	106 ✓	33.44 ✓	50.00 ✓	46 ✓	50 ✓	68.66 ✓	60 ✓	26.67 ✓	41.38 ✓
30 to 50	Production staff	80 ✓	25.23 ✓	37.74 ✓	16 ✓	17.4 ✓	23.88 ✓	64 ✓	28.44 ✓	44.14 ✓
30 to 50	<b>TOTAL</b>	212 ✓	66.88 ✓	100 ✓	67 ✓	72.83 ✓	100 ✓	145 ✓	64.44 ✓	100 ✓
Over 50	Management Board	0 ✓	0 ✓	0 ✓	0 ✓	0 ✓	0 ✓	0 ✓	0 ✓	0 ✓
Over 50	Senior management	2 ✓	0.63 ✓	2.74 ✓	0 ✓	0 ✓	0 ✓	2 ✓	0.89 ✓	3.33 ✓
Over 50	Lower management	6 ✓	1.89 ✓	8.22 ✓	1 ✓	1.08 ✓	7.69 ✓	5 ✓	2.22 ✓	8.33 ✓
Over 50	Back-office staff	16 ✓	5.05 ✓	21.92 ✓	8 ✓	8.70 ✓	61.54 ✓	8 ✓	3.56 ✓	13.33 ✓
Over 50	Production staff	49 ✓	15.46 ✓	67.12 ✓	4 ✓	4.35 ✓	30.77 ✓	45 ✓	20 ✓	75.00 ✓
Over 50	<b>TOTAL</b>	73 ✓	23.03 ✓	100 ✓	13 ✓	14.13 ✓	100 ✓	60 ✓	26.67 ✓	100 ✓
-	<b>TOTAL</b>	317 ✓	100 ✓	- ✓	92 ✓	100 ✓	- ✓	225 ✓	100 ✓	- ✓

Employee age	Employment category	Number of employees	Percentage of total workforce	Percentage of total workforce in the age category	Number of women	Percentage of total women	Percentage of total women in the age category	Number of men	Percentage of total men	Percentage of total men in the age category
<b>LOTOS - Air BP</b>										
Below 30	Back-office staff	1 ✓	2.27 ✓	9.09 ✓	1 ✓	25.00 ✓	100 ✓	0 ✓	0 ✓	0 ✓
Below 30	Production staff	10 ✓	22.73 ✓	90.91 ✓	0 ✓	0 ✓	0 ✓	10 ✓	25.00 ✓	100 ✓
Below 30	<b>TOTAL</b>	11 ✓	25.00 ✓	100 ✓	1 ✓	25.00 ✓	100 ✓	10 ✓	25.00 ✓	100 ✓
30 to 50	Management Board	1 ✓	2.27 ✓	3.23 ✓	0 ✓	0 ✓	0 ✓	1 ✓	2.5 ✓	3.57 ✓
30 to 50	Senior management	3 ✓	6.82 ✓	9.68 ✓	1 ✓	25.00 ✓	33.33 ✓	2 ✓	5.00 ✓	7.14 ✓
30 to 50	Lower management	3 ✓	6.82 ✓	9.68 ✓	1 ✓	25.00 ✓	33.33 ✓	2 ✓	5.00 ✓	7.14 ✓
30 to 50	Back-office staff	2 ✓	4.55 ✓	6.45 ✓	1 ✓	25.00 ✓	33.33 ✓	1 ✓	2.50 ✓	3.57 ✓
30 to 50	Production staff	22 ✓	50.00 ✓	70.97 ✓	0 ✓	0 ✓	0 ✓	22 ✓	55.00 ✓	78.57 ✓
30 to 50	<b>TOTAL</b>	31 ✓	70.46 ✓	100 ✓	3 ✓	75.00 ✓	100 ✓	28 ✓	70.00 ✓	100 ✓
Over 50	Management Board	0 ✓	0 ✓	0 ✓	0 ✓	0 ✓	- ✓	0 ✓	0 ✓	0 ✓
Over 50	Senior management	0 ✓	0 ✓	0 ✓	0 ✓	0 ✓	- ✓	0 ✓	0 ✓	0 ✓
Over 50	Lower management	1 ✓	2.27 ✓	50.00 ✓	0 ✓	0 ✓	- ✓	1 ✓	2.50 ✓	50.00 ✓
Over 50	Back-office staff	0 ✓	0 ✓	0 ✓	0 ✓	0 ✓	- ✓	0 ✓	0 ✓	0 ✓
Over 50	Production staff	1 ✓	2.27 ✓	50.00 ✓	0 ✓	0 ✓	- ✓	1 ✓	2.50 ✓	50.00 ✓
Over 50	<b>TOTAL</b>	2 ✓	4.54 ✓	100 ✓	0 ✓	0 ✓	100 ✓	2 ✓	5.00 ✓	100 ✓
-	<b>TOTAL</b>	44 ✓	100 ✓	- ✓	0 ✓	100 ✓	- ✓	40 ✓	100 ✓	- ✓

The LOTOS Group employs its senior management according to the profile and requirements of the position. Only candidates best meeting the employment criteria are recruited. Senior management positions include those of director, chief accountant, plant manager and office manager. Senior management positions are often filled by persons selected in an internal recruitment process.

In the case of Grupa LOTOS, 95.2% of senior management staff employed in the Company's main business location were recruited from the local employment market, understood as the Province of Gdańsk.

Pomerania is also the local recruitment market for LOTOS Kolej, for which 100% of its senior staff are from the area.

The companies' key locations are locations where the number of employees represents a significant percentage of the total headcount.

For LOTOS Asphalt and LOTOS Oil, it is the counties where their business is located and neighbouring towns up to 100km away from their business locations which are considered to be their local employment markets. In 2013, both companies run their business in three locations: Southern Poland (Jasło, Czechowice) and Northern Poland (Gdańsk). At LOTOS Asphalt, 100% of staff are recruited from the local communities of the Jasło and Czechowice regions and 82% from Gdańsk. At LOTOS Oil, the indicator is 100% in all locations. Given the nature of LOTOS Paliwa's operations, its management staff are recruited on an as-needed basis

across Poland. At LOTOS Petrobaltic, 40% of the company's senior management is sourced from Gdańsk, where the company is located. LOTOS Geonafra recruits its staff from Gargždai, where it is based, whereas LOTOS Norge, which did not start its operations in 2013, did not report any information. Energobaltic, which is based in Władysławowo, did not analyze where its staff is sourced from last year.

#### Ratio of minimum base pay at Grupa LOTOS to minimum national base pay

/1/	/2/	/3/	/4/	/5/	/6/	/7/	/8/
	Minimum base pay at Grupa LOTOS /all employees/	Minimum base pay at Grupa LOTOS /women/	Minimum base pay at Grupa LOTOS /men/	Minimum national pay	Ratio /2/ to /5/	Ratio /3/ to /5/	Ratio /4/ to /5/
Dec 31 2013	PLN 2,715	PLN 2,715	PLN 3,000	PLN 1,600	170%	170%	188%
Dec 31 2012	PLN 2,500	PLN 2,500	PLN 3,000	PLN 1,500	167%	167%	200%
Dec 31 2011	PLN 2,400	PLN 2,400	PLN 3,000	PLN 1,386	173%	173%	216%

#### Ratio of minimum base pay at LOTOS Kolej to minimum national base pay

/1/	/2/	/3/	/4/	/5/	/6/	/7/	/8/
	Minimum base pay at LOTOS Kolej /all employees/	Minimum base pay at LOTOS Kolej /women/	Minimum base pay at LOTOS Kolej /men/	Minimum national pay	Ratio /2/ to /5/	Ratio /3/ to /5/	Ratio /4/ to /5/
Dec 31 2013	PLN 2,700	PLN 2,700	PLN 2,700	PLN 1,600	169%	169%	169%
Dec 31 2012	PLN 2,657	PLN 2,700	PLN 2,657	PLN 1,500	177%	180%	177%
Dec 31 2011	PLN 2,530	PLN 2,700	PLN 2,530	PLN 1,386	183%	195%	183%

## Ratio of minimum base pay at LOTOS Asphalt to minimum national base pay

/1/	/2/	/3/	/4/	/5/	/6/	/7/	/8/
	Minimum base pay at LOTOS Asphalt /all employees/	Minimum base pay at LOTOS Asphalt /women/	Minimum base pay at LOTOS Asphalt /men/	Minimum national pay	Ratio /2/ to /5/	Ratio /3/ to /5/	Ratio /4/ to /5/
<b>Dec 31 2013 Gdańsk</b>	PLN 3,160	PLN 3,400	PLN 3,160	PLN 1,600	198 %	213 %	198 %
<b>Dec 31 2013 Czechowice- Dziedzice</b>	PLN 2,960	PLN 3,923	PLN 2,960	PLN 1,600	185 %	245 %	185 %
<b>Dec 31 2013 Jasło</b>	PLN 2,400	PLN 4,060	PLN 2,400	PLN 1,600	150 %	245 %	150 %
<b>Dec 31 2012 Gdańsk</b>	PLN 2,800	PLN 2,800	PLN 3,000	PLN 1,500	187 %	187 %	200 %
<b>Dec 31 2012 Czechowice- Dziedzice</b>	PLN 2,500	PLN 3,763	PLN 2,500	PLN 1,500	167 %	251 %	167 %
<b>Dec 31 2012 Jasło</b>	PLN 1,976	PLN 1,976	PLN 2,000	PLN 1,500	132 %	132 %	133 %
<b>Dec 31 2011 Gdańsk</b>	PLN 3,190	PLN 3,500	PLN 3,190	PLN 1,386	230 %	253 %	230 %
<b>Dec 31 2011 Czechowice- Dziedzice</b>	PLN 2,750	PLN 3,583	PLN 2,750	PLN 1,386	198 %	259 %	198 %
<b>Dec 31 2011 Jasło</b>	PLN 1,500 *	PLN 1,568	PLN 1,500	PLN 1,386	108 %	113 %	108 %



## Ratio of minimum base pay at LOTOS Oil to minimum national base pay

/1/	/2/	/3/	/4/	/5/	/6/	/7/	/8/
	Minimum base pay at LOTOS Oil /all employees/	Minimum base pay at LOTOS Oil /women/	Minimum base pay at LOTOS Oil /men/	Minimum national pay	Ratio /2/ to /5/	Ratio /3/ to /5/	Ratio /4/ to /5/
<b>Dec 31 2013 Gdańsk</b>	PLN 2,700	PLN 2,700	PLN 3,030	PLN 1,600	169%	169%	189%
<b>Dec 31 2013 Czechowice- Dziedzice</b>	PLN 2,652	PLN 2,906	PLN 2,652	PLN 1,600	166%	182%	166%
<b>Dec 31 2013 Jasło</b>	-	-	-	-	-	-	-
<b>Dec 31 2012 Gdańsk</b>	PLN 2,760	PLN 3,402	PLN 2,760	PLN 1,500	184%	227%	184%
<b>Dec 31 2012 Czechowice- Dziedzice</b>	PLN 2,491	PLN 2,745	PLN 2,491	PLN 1,500	166%	183%	166%
<b>Dec 31 2012 Jasło</b>	PLN 2 413	PLN 3,247	PLN 2,413	PLN 1,500	161%	216%	161%
<b>Dec 31 2011 Gdańsk</b>	PLN 2,732	PLN 3,240	PLN 2,372	PLN 1,386	197%	234%	197%
<b>Dec 31 2011 Czechowice- Dziedzice</b>	PLN 2,372	PLN 2,614	PLN 2,372	PLN 1,386	171%	189%	171%
<b>Dec 31 2011 Jasło</b>	PLN 2,298	PLN 3,092	PLN 2,298	PLN 1,386	166%	223%	166%

### Ratio of minimum base pay at LOTOS Paliwa to national minimum base pay

/1/	/2/	/3/	/4/	/5/	/6/	/7/	/8/
	Minimum base pay at LOTOS Paliwa /all employees/	Minimum base pay at LOTOS Paliwa /women/	Minimum base pay at LOTOS Paliwa /men/	Minimum national pay	Relacja /2/ to /5/	Ratio /3/ to /5/	Ratio /4/ to /5/
Dec 31 2013	PLN 2,760	PLN 2,760	PLN 2,760	PLN 1,600	172,50%	172,50%	172,50%
Dec 31 2012	PLN 2,760	PLN 2,760	PLN 2,898	PLN 1,500	184%	184%	189%
Dec 31 2011	PLN 2,665	PLN 2,665	PLN 2,760	PLN 1,386	192%	192%	199%

### Ratio of minimum base pay at LOTOS Petrobaltic to national minimum base pay

/1/	/2/	/3/	/4/	/5/	/6/	/7/	/8/
	LOTOS Petrobaltic /all employees/	Minimum base pay at LOTOS Petrobaltic /women/	Minimum base pay at LOTOS Petrobaltic /men/	Minimum national pay	Ratio /2/ to /5/	Ratio /3/ to /5/	Ratio /4/ to /5/
Dec 31 2013	PLN 3,064	PLN 3,064	PLN 4,000	PLN 1,600	1,92	1,92	2,5
Dec 31 2012	PLN 3,000	PLN 3,000	PLN 3,500	PLN 1,500	200%	200%	233%
Dec 31 2011	PLN 2,500	PLN 2,500	PLN 2,500	PLN 1,386	180%	180%	180%

### Ratio of minimum base pay at LOTOS Geonafta to national minimum base pay in Lithuania

/1/	/2/	/3/	/4/	/5/	/6/	/7/	/8/
	Minimum base pay at LOTOS Geonafta /all employees/	Minimum base pay at LOTOS Geonafta /women/	Minimum base pay at LOTOS Geonafta /men/	Minimum national pay	Ratio /2/ to /5/	Ratio /3/ to /5/	Ratio /4/ to /5/
Dec 31 2013	1,000 LTL	1,950 LTL	1,000 LTL	1,000 LTL	100%	195%	100%
Dec 31 2012	910 LTL	910 LTL	2,486 LTL	850 LTL	107%	107%	292%
Dec 31 2011	910 LTL	910 LTL	2,810 LTL	800 LTL	114%	114%	351%

### Ratio of minimum base pay at Energobaltic to national minimum base pay

/1/	/2/	/3/	/4/	/5/	/6/	/7/	/8/
	Minimum base pay at Energobaltic /all employees/	Minimum base pay at Energobaltic /women/	Minimum base pay at Energobaltic /men/	Minimum national pay	Ratio /2/ to /5/	Ratio /3/ to /5/	Ratio /4/ to /5/
<b>Dec 31 2013</b>	PLN 3,585	PLN 3,880	PLN 3,585	PLN 1,600	243 %	224 %	242 %
<b>Dec 31 2012</b>	PLN 3,465	PLN 3,780	PLN 3,465	PLN 1,500	231 %	252 %	231 %
<b>Dec 31 2011</b>	PLN 3,300	PLN 3,600	PLN 3,300	PLN 1,386	238 %	259 %	238 %

The indicator does not apply to LOTOS Norge. According to Norwegian law, there is no minimum pay. Additionally, the company employs only highly qualified personnel in independent positions.

## Statement by Jarosław Józwiak

Occupational Safety and Health Office Head, Grupa LOTOS, CSR Strategy Leader in the Improvement of Health and Safety area.



Occupational safety has long been a cornerstone of all business activities pursued by the LOTOS Group. Our employees perform particularly hazardous work, in workshops, at active production units, on offshore rigs, in chemical laboratories, or on railway tracks. Therefore, we treat occupational safety as our priority and make every effort to ensure safety at work, especially by implementing solutions which go beyond the legal requirements and draw on the world's best practices. Their effectiveness was recognised with an award we received in 2011 from Poland's Chief Labour Inspector in the nationwide "Employer – Provider of Safe Work" competition.

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Awareness of workplace hazards is the basis of their prevention, and therefore better awareness can improve workplace safety at the LOTOS Group. This must be always borne in mind not only by employees directly involved in the OSH area, but also other staff performing their routine work on site.

We must remember that an organization with a highly developed safety culture is characterised by trust-based communication. Accordingly, in addition to an appropriate work environment and solutions protecting staff from workplace hazards or accidents, safety at work involves primarily the development of a safety culture and responsible approach to occupational safety and health by all employees. In a company with a well-developed safety culture, workplace safety should be given the highest priority, staff should have confidence in the safety measures protecting them against various workplace hazards, and each employee should feel personally responsible for safety at work on a daily basis.

Being aware that occupational safety and health is an area for continuous improvement, the LOTOS Group's OSH team are consistently striving to ingrain the OSH rules and guidelines in the minds of our employees, contractors, and visitors.

There are two ways to enhance knowledge and awareness. The first method is based on employee education and commitment, while the second focuses on senior, middle and lower management, who are responsible for ensuring safe work conditions to all employees and for encouraging their commitment to developing a safe work culture.

At LOTOS, we make use of both these methods. Examples of measures targeted at LOTOS Group employees include the Occupational Safety and Health Day and educational programmes promoting safe work practices and the importance of reporting workplace hazards to supervisors. For our management staff, we implement a number of incentive and involvement projects, including training sessions and meetings focusing on occupational safety and health as an

### Jarosław Józwiak

Occupational Safety and Health Office Head,  
Grupa LOTOS, CSR Strategy Leader in the  
Improvement of Health and Safety area

important area of management. By working closely with contractors and undertaking a number of initiatives in the area of safety, the LOTOS Group improves, both directly and indirectly, the standards of safe work also for its contractors and their subcontractors.

In 2013, the 'Spring 2013 Overhaul Shutdown' was carried out at the Grupa LOTOS refinery. It was a very challenging time for us, as the preparation and execution of a major overhaul is a complex project from the logistics, technical and operational perspectives. More than 2 thousand contractors were carrying out complex checks, repairs, maintenance or construction work at the same time, in the same small place. Safety at work was one of the priorities of the project. Based on the lessons learned from previous overhauls and installation of new plant and equipment, but also from daily observation of contractors performing their maintenance work at active production units, we prepared OSH Guidelines for the 'Spring 2013 Overhaul Shutdown'. The Guidelines contained provisions on how to perform various works during the challenging shutdown period. They often referred to existing procedures and instructions, but on a more detailed level, and also introduced new requirements applicable only during the shutdown. One example of such temporary measures were weekly meetings with the work managers and representatives of OSH services of individual contractors, at which we discussed dangerous incidents and situations reported in the preceding week, to ensure they are prevented in the future.

Prior to the overhaul shutdown, we also held many meetings with contractors, organised training sessions, and assessed proposed work instructions, especially those relating to work in confined spaces where, the risk of workplace hazards is high. All the above (and many other) measures were implemented in the best interest of each employee. Our OSH services performed on-site checks and offered advice on how to perform works in a safe manner. Additional support was provided by OSH services of our contractors participating in the maintenance works.

We want to make sure our employees and contractors remain interested in occupational safety and health, and we must keep abreast of the changing legal regulations. We are full of new ideas for interesting OSH projects. Obviously, they can be put into practice only within our own corporate social responsibility policy, in cooperation with and with the involvement of all employees. We will continue to do our best to make sure that all employees, contractors and visitors at the LOTOS Group feel safe on our premises. We want them to take care of their health, participate in our OSH initiatives, educational projects and training, make use of available consultancy and advice, and report any issues in the area of work safety so we can resolve them on an ongoing basis.

# Occupational safety

✓ - data has been verified

[See full text of the Independent Assurance Report >](#)

In order to provide optimum occupational safety and health conditions, we spare no effort to maintain our current safety levels and to continuously raise the bar on our OSH standards, and we do our best to systematically improve our performance in this area.

These objectives are advanced by ensuring that:

- Workplaces are properly organised,
- Environmental surveys are performed on a regular basis,
- The best possible precautions are applied with respect to technical processes and people's health,
- The man-machine-environment hazard identification and risk assessment system is enhanced on an ongoing basis,
- Consulting, oversight and inspection tasks are consistently implemented,
- Hands-on training sessions and workshops are held to improve our employees' professional skills,
- Employee awareness and commitment are raised to achieve a culture of safe work.

We have for years followed the principle that building the awareness and commitment of both management and staff, promoting their culture and sense of occupational safety, and promoting appropriate attitudes and behaviour under normal working conditions and in crisis situations is the key factor in maximising the effects of the occupational safety system in place at the LOTOS Group.

We try to raise the workplace safety awareness by:

- Training and other development initiatives for employees,
- Education on OSH-related matters,
- Encouraging staff's involvement in developing and implementing the corporate OSH policy,
- Advisory, practical support and partnership.

As part of our Corporate Social Responsibility strategy, **we undertake initiatives aimed at promoting cooperation with third-party stakeholders**. Such initiatives include:

- Cooperation with a view to improving occupational safety in the oil and gas industry, in accordance with the declaration signed at the General Labour Inspectorate in 2011 by Grupa LOTOS and other sector companies,
- Joint, regular exercises involving response to crisis situations (industrial failures) and evacuation, performed together with external units of the National Fire Service and Police,
- Sharing OSH experience with representatives of other companies,
- Cooperation with research institutions, e.g. through a project of learning from actual events occurring at the refineries of Statoil and Grupa LOTOS,
- Participation in external conferences in the role of speakers promoting a culture of occupational safety culture and sharing their experience,
- Participation in competitions organised by such institutions as the State Labour Inspection Authority, the Central Institute for Labour Protection, and the Polish National OSH Association.

We are committed to ensuring the safety of our visitors and contractors. Considering that we are involved in multifaceted projects, and given the pace of related construction and assembly work and the number of external contractors' staff performing services on our premises, there is a permanent need to raise the

workers' awareness regarding such issues as correct behaviour, workplace safety and compliance with our internal Occupational Health and Safety and Fire Protection requirements. The OSH services of the LOTOS Group and representatives of external contractors exercise supervision over the ongoing repair, maintenance and construction works. Our representatives are present at work sites to offer advice, especially to supervisors appointed by the Company or by the contractors.

Our agreements with contractors contain clauses under which they are required to respect the applicable occupational safety rules and regulations, as well as other requirements and standards applicable on our premises. In this way, the contractors' undertaking to protect the rights of their staff becomes a prerequisite condition for the performance of contracts. During regular OSH inspections and audits performed at the refinery, we check whether the OSH regulations are being adhered to by contractors, and thus whether human rights are being observed in the relations between employees, employers and the LOTOS Group. Those activities are an essential part of risk management. Each on-site check of whether external contractors are observing employee rights has a bearing on our further relations and is also reflected in the annual assessment of contractors, where safety at work, protection of health, and respect for human rights are among the key criteria.

Thanks to strictly enforced compliance with the national OSH regulations and our internal standards applicable to work performed at the facilities of the LOTOS Group:

- Employees have a better chance that legal requirements pertaining to their safety will be met by contractors, who at our facilities are obliged to meet work safety standards beyond the mandatory,
- Contractors have to provide their employees with the necessary collective and personal protection equipment, including protective workwear appropriate to the hazards identified at the refinery,
- Contractors must properly cooperate with their subcontractors, for whom they are as responsible at the LOTOS Group's sites as for their own employees,
- Our OSH training, the sharing of work safety standards with contractors and assessments performed during inspections of their compliance with our OSH rules result in increased awareness of and improved ability to correctly identify threats and employ safe work methods.

As a result of the opportunities our contractors are offered, after their work for us is completed, they will have aware and committed employees, who are more alert to potential hazards at work, and take more care to ensure workplace safety. Such cooperation involving the transfer of requirements, knowledge and best practices results in lower accident rates, incidence of occupational diseases, and sickness absence among the contractors' employees, which brings them measurable financial benefits in the form of lower social security contributions or a reduction in the cost of post-accident compensation.

As a socially responsible business, the LOTOS Group benefits from investments in OSH, which:

- Improve working conditions,
- Minimise the number of accidents at work,
- Reduce accident rates, including LTIF,
- Reduce costs related to accidents at work and occupational diseases,
- Eliminate burdensome, harmful and dangerous factors in the workplace,
- Eliminate threats and any irregularities which may arise,
- Raise personnel's awareness and commitment,
- Improve personnel's skills and qualifications,
- Increase employee satisfaction,
- Reduce operating costs and work disruption costs,
- Increase investors' and insurers' confidence,
- Increase employees' confidence in the employer,
- Strengthen the brand's image and value,
- Improve the Company's reputation,
- Reduce potential exposure to criminal or civil litigation, and
- Allow the Company to match the benchmarks set by HSE leaders in the refinery sector.

In accordance with our business and CSR strategy, safety at work and employee health protection are priorities for the LOTOS Group, with respect to both our employees and the employees of our cooperating partners. Particular attention is given to efforts aimed at maintaining high safety standards, minimising risks and reducing accident rates.

A major challenge for us is to raise the awareness of how important it is to demonstrate personal commitment to compliance with OSH standards, in particular in the case of the middle management's interactions with subordinate employees, who watch their behaviour. Increasing the awareness and commitment of the management staff and other employees is a priority, being one of the key determinants of a company's accident rate.

As we work closely together with the OSH teams of the LOTOS Group companies, every year goals and targets are set aimed at improving safety at work, adopting uniform standards across the LOTOS Group, and sharing expertise and experience between the OSH specialists.

**The key objective in our OSH approach is to raise the awareness and degree of involvement in improving safety among the management and employees of all ranks, as well as contractors.**

In 2013, we pursued this objective through:

- Introduction of a system of quarterly OSH goals for the LOTOS Group companies,
- Cross-checking of workplace safety standards at the LOTOS Group companies operating in Poland,
- Information and education campaigns promoting workplace safety and health prophylaxis,
- Preparing grounds for the Board's decision to include an OSH criterion in the Periodic Employee Evaluation System,
- Developing an electronic database from the monitoring of accidents at work and dangerous situations at the LOTOS Group,
- Drafting educational materials concerning accidents and safety threats at work,
- Internal training sessions for the LOTOS Group management, designed to remind them of their OSH responsibilities and duties conducted by a specialised training centre,
- OSH workshops for employees, covering the rules for handling AED defibrillators, extinguishing fires using fire-fighting equipment and giving first aid as well as reacting appropriately in emergency situations.



We are involved in a number of initiatives, beyond those mandatorily required, designed to promote occupational health and safety and disease prevention in a manner which our employees find engaging and attractive. In 2013, we:

- Organised the **4th Occupational Safety and Health Day** accompanied by an eyesight awareness event, during which the employees had an opportunity to be tested for ocular diseases, have their sight defects checked using state-of-the-art ophthalmologic equipment, and consult a specialist doctor. Based on the results of the tests, a report on employee health was prepared covering ocular diseases and eyesight loss prevention.
- **Selected the safest production plant of Grupa LOTOS and the safest LOTOS Group company – in 2012, the titles were awarded to the Lube Oil Complex and LOTOS Petrobaltic, respectively.**
- Carried out a campaign promoting occupational health and safety as part of the **Occupational Safety and Health Promotion Schedule**, with each month devoted to a different health-related issue. To further this campaign, we also published brochures on spinal disorders, diabetes, sight and hearing defects and viral hepatitis.
- **Organised safe driving classes** for employees who make frequent business trips because of their duties related to management of the LOTOS service station chain.
- **Identified threats and assessed occupational risks related to specific workstations** by carefully checking and evaluating workplace factors which could potentially harm or injure employees. Such systematic assessment allows us to continuously monitor whether threat mitigation measures applied at a specific station are adequate, and to determine what steps need to be taken to ensure successful threat mitigation.
- **Made employees aware of chemical hazards** every time a new chemical substance is introduced to the workplace. Our constantly updated electronic record stores Safety Data Sheets and information on LOTOS products and chemicals purchased for the Company's needs. This solution enables almost immediate retrieval of information on chemicals by employees who come into contact with such substances while performing their duties.
- **Implemented a pilot Lockout-Tagout (LOTO) safety system for blocking the flow of hazardous energies and marking blockages of energy** at selected Grupa LOTOS production units. The system is aimed at preventing an accidental start-up of the installations by an unauthorised person during maintenance or servicing works carried out on them and its objective is to protect people who happen to be in their surroundings and the surroundings themselves from uncontrolled release of energy from the production unit installations.

Every year, we monitor the health of our employees, while also providing them with preventive medical care in line with applicable laws. We place strong emphasis on prevention and education, by means of training, awareness and prophylactic initiatives designed to minimise the consequences of diseases which may affect our staff.

## Occupational Health and Safety Committee

An **Occupational Health and Safety Committee (OHS Committee)** operates at Grupa LOTOS, serving as an advisory and consultative body to the employer. In accordance with the labour law, the committee is composed of employer representatives, workforce representatives (selected by trade unions active at the Company) and an occupational physician. The Committee reviews working conditions, evaluates the status of occupational safety and advises on measures taken by the employer to prevent accidents at work and occupational diseases.

In 2013, the OHS Committee was involved in a review of the working conditions at the Hydrogen and Sulphur Production Complex of Grupa LOTOS, as well as consultations on:

- occupational risk scorecards for individual positions at the Company,
- the content of updated internal regulations and rules, including implementing the rules governing the operation of the First-Aid Rescue Team, the establishment of first-aid dispensary posts and rules for performing works based on written permits.

In the existing legal environment, both Polish and EU legislators point to dialogue, understood as organised exchange of information and opinions, as the only acceptable channel of workforce influence over occupational safety matters. The dialogue takes the form of OSH consultations. In accordance with an internal regulation in place at Grupa LOTOS, employees and their representatives are able to participate in OSH consultations by getting to know, discussing, commenting and presenting their proposals on matters at hand. Consultations are carried out with respect to matters which may pose an immediate threat to the workforce's safety and occupational hazards which the employees requested to be eliminated or limited. The area is regulated by internal measures, procedures, orders and instructions, which are always first subject to employee consultations. At present, there are 8 regulations and 15 procedures and instructions in place at Grupa LOTOS to ensure workplace safety.

## Accident rates

Both strategies pursued by the LOTOS Group, i.e. its business strategy and corporate social responsibility strategy, posit the achievement of specific LTIF rates. The LTIF rate measures the number of accidents at work per million hours worked. In 2013, the LOTOS Group's LTIF rate stood at 4.4 – a total of 39 accidents were recorded, of which 35 required medical leave. Approximately 40% of all accidents recorded at the organization in 2013 happened when employees were moving on foot; these included mostly stumblings and slippings.

Those accidents could have been avoided if the employees had exercised more caution. Accidents of this type are difficult to prevent – the employer has little ability to limit their occurrence beyond educating and raising the general safety awareness of staff. An additional analysis was undertaken to identify the causes of accidents, revealing that nearly 60% of them were directly attributable to human error, while technical and organizational factors accounted for approximately 20% of the total.

Accidents recorded at the LOTOS Group in 2013 were mainly caused by:

- Inappropriate employee behaviour consisting of e.g. crossing the road or driving where it is banned, entering potentially dangerous areas without making sure if they are safe, etc.;
- Loss of balance or insufficient focus on the task at hand especially when moving around;
- Infrequent reporting of irregularities at the workplace. If dangerous situations are not reported, the employer may be unable to remove the related hazards;
- Routine or rushed approach to work compromising vigilance against potential hazards at the workplace;
- Lack or improper use of personal and collective protection measures by employees;
- Incorrectly organised workstations;
- Incorrect general organisation of work;
- Atypical construction of certain technical components, latent defects of equipment used.

## Accidents at work

Grupa LOTOS	2011	2012	2013
<b>Number of employees <sup>(1)</sup></b>	1,318	1,323	1,344 ✓
<b>Accidents at work, including:</b>	5	13 <sup>(2)</sup>	12 ✓
Women	No data available <sup>(3)</sup>	2	1 ✓
Men	No data available <sup>(3)</sup>	11	11 ✓
<b>Post-accident absenteeism (calendar days) <sup>(4)</sup>, including:</b>	168	253	302 ✓
Women	No data available <sup>(3)</sup>	28	11 ✓
Men	No data available <sup>(3)</sup>	225	291 ✓
<b>Occupational diseases</b>	None	None	None ✓
<b>Lost Time Injury Frequency (LTIF) <sup>(5)</sup> (per 1 million hours worked)</b>	2.1	4.3	4.5 ✓
<b>Lost Day Rate (LDR) <sup>(6)</sup> (per 200,000 hours worked)</b>	0.42	0.9	0.9 ✓
LOTOS Group <sup>(7)</sup>	2011	2012	2013
<b>Number of employees <sup>(1)</sup></b>	5,004	4,795	4,773 ✓
<b>Accidents at work, including:</b>	31	34	39 <sup>(8)</sup> ✓
Women	No data available <sup>(3)</sup>	5	7 ✓
Men	No data available <sup>(3)</sup>	29	32 ✓
<b>Post-accident absenteeism (calendar days) <sup>(4)</sup>, including:</b>	1,826	1,651 <sup>(9)</sup>	1,238 ✓
Women	No data available <sup>(3)</sup>	196	174 ✓
Men	No data available <sup>(3)</sup>	1,455	1,064 ✓
<b>Occupational diseases</b>	None	None	None ✓
<b>Lost Time Injury Frequency (LTIF) <sup>(5)</sup> (per 1 million hours worked)</b>	3.3	3.3	4.4 ✓
<b>Lost Day Rate (LDR) <sup>(6)</sup> (per 200,000 hours worked)</b>	0.7	0.7	0.9 ✓

(1) Average number of employees at companies reporting OSH metrics.

(2) Including 1 accident treated as an accident at work.

(3) Data collected since 2012.

(4) Lost days are counted from the day when medical leave is taken.

(5) LTIF – number of occurrences resulting in inability to work  $\times 10^6$  / number of hours worked.

(6) LDR – number of occurrences resulting in inability to work  $\times 2 \times 10^5$  / number of hours worked.

(7) Companies reporting OSH metrics: Grupa LOTOS, LOTOS Asphalt, LOTOS Kolej, LOTOS Lab, LOTOS Oil, LOTOS Serwis, LOTOS Straż, LOTOS-Air BP, LOTOS Ochrona, LOTOS Paliwa, LOTOS Infrastruktura, LOTOS Terminale, RCEkoenergia, LOTOS Biopaliwa, LOTOS Petrobaltic.

(8) In 2013, the LOTOS Group recorded 39 accidents at work (including 5 accidents treated as accidents at work), with medical leave taken in 36 cases.

(9) Including 380 days of absence due to accidents which occurred in 2011.

In 2013, no severe, group or fatal accidents or confirmed occupational diseases were recorded at the LOTOS Group.

## Challenges in strategy implementation until 2015

- Implementation of the Lockout-Tagout safety system for certain types of work at active production units of Grupa LOTOS.
- Introduction of the fundamental HSE standards aimed at shaping proper conduct among the employees and contractors.
- Implementation of a revised work permit system with the use of IT tools as part of the overall improvement measures.
- Promotion of workplace safety by organising an annual Occupational Safety and Health Day and encouraging employee participation.
- Provision of OSH workshops to administration and office staff.
- Implementation of a workstation self-check system based on thematic checklists.
- Perfectioning of an electronic tool for monitoring the work safety system at the organization – the OSH Portal.
- Modification of the programme of exercises teaching employees how to react to accidents at work, chemical hazard alerts and evacuation, and conduct of emergency drills using simulated threats.
- Development of a methodology for calculating accident costs taking into account technical, organisational and human causes.

## Development prospects until 2020

- Implementation of periodic and additional OSH training based on e-learning tools, with practical training sessions.
- Implementation of a learning project based on actual incidents occurring at Grupa LOTOS and other companies around the world
- Adoption of uniform occupational health and safety standards across the LOTOS Group.
- Revision of OSH and fire safety requirements and standards for contractors.
- Continuation of training and preventive programmes regarding workplace safety and health protection, including implementation of new educational projects.
- Development of a work safety culture centred around the commitment of management, lower-tier staff and contractors working with the Company.
- Cooperation with international HSE corporations and consultants with the view to promoting and implementing world best HSE practices.
- Occupational safety best practice benchmarking.

# Intellectual capital



## Intellectual capital of Grupa LOTOS

- Intangible resources associated with the LOTOS brand.
- Intangible resources associated with the LOTOS Group's reputation.
- Intangible resources associated with product brands and trademarks.
- Intangible resources based on staff's expertise and competence.
- Management systems, internal procedures, policies.
- Intellectual property.

Our objectives in the management of intellectual capital:

- Enhance the LOTOS brand value.
- Raise the awareness of LOTOS as a socially responsible brand.
- Get across to capital market participants the message that corporate social responsibility is perceived by the LOTOS Group as an essential part of its corporate management.
- Continually develop staff's qualifications.
- Improve corporate management by ensuring transparency of the business processes and protecting the organization against the risk of irregularities that may threaten its operations.

Key activities:

- Incorporating solutions and technologies developed outside the organization – by acquiring patents, licences and know-how, liaising with academic communities and forming strategic alliances between businesses;
- Product, process, marketing and organizational innovations;
- Comprehensive staff development programmes;
- R&D activities.
- Wide-ranging assessment of organizational maturity.

Results:

LOTOS brand value in excess of PLN 1 billion

Introduction of innovative technology, product and management solutions which bring down costs, mitigate the Company's adverse impact on its environment, help achieve anticipatory compliance with stringent legal requirements, improve customer satisfaction and optimise processes

Highly qualified staff prepared to implement advanced technologies and apply the best available operational practices. At Grupa LOTOS, 57% of employees have a university diploma, and 1% hold a PhD degree

Own product and technological patents

Growth of the intellectual capital in regions where the Company maintains long-term relationships with higher education institutions, which have been granted PLN 1.2m on scholarships and awards for 234 undergraduate and doctoral students, and with secondary schools, where submissions to the 'Jasło Science League with LOTOS' in 2013 included 91 R&D projects

## Statement by Anna Goliszewska

Brand Management Office Director, Grupa LOTOS, CSR Strategy Leader in the Market Partnership to Raise LOTOS Brand Awareness area



” In modern economy, a company's value is derived not only from its ability to generate earnings, but also from how it is perceived by its external and internal stakeholders. That is why an approach to corporate social responsibility is now increasingly used as one of the variables in a company's overall assessment, with intangible assets contributing as much as 50% of the company's value. These may include assets which drive up the company's market value, such as patents, utility models, know how and technologies, but also strong brand, wide customer base, sound relationships with stakeholders, all kinds of strategic partnerships and professional approach to CSR. According to current estimates, brand values may account for as much as a third of the global wealth. A strong brand is a valuable corporate asset, playing an important part as a source of permanent competitive advantage and value growth.

In modern economy, a company's value is derived not only from its ability to generate earnings, but also from how it is perceived by its external and internal stakeholders. That is why an approach to corporate social responsibility is now increasingly used as one of the variables in a company's overall assessment, with intangible assets contributing as much as 50% of the company's value. These may include assets which drive up the company's market value, such as patents, utility models, know how and technologies, but also strong brand, wide customer base, sound relationships with stakeholders, all kinds of strategic partnerships and professional approach to CSR. According to current estimates, brand values may account for as much as a third of the global wealth. A strong brand is a valuable corporate asset, playing an important part as a source of permanent competitive advantage and value growth.

Higher shareholder value is delivered by companies with strong brands, but also those associated with positive CSR performance, fair treatment of employees and good offering for customers. Responsible CSR activities combined with capable management of customer relationships and community outreach initiatives may yield measurable benefits to the company, by strengthening its reputation and image. Promoting the perception of LOTOS as a socially responsible brand is one of the key efforts we take to position LOTOS on the market.

We seek to support every area of the LOTOS Group's activities, be they of strategic importance, such as the recent 10+ and the currently pursued 2013-2015 Effective and Rising programmes, or non-strategic outreach and sports projects, with an advertising drive. We take advantage of the brand promotion as an occasion to communicate our community-oriented and sports projects, such as 'In Search for the Champion's Successors – LOTOS Cup' in ski jumping, to the general public. We try to use the title sponsor strategy, which additionally weaves the brand into the emotions accompanying a given event. The advertising campaign run in 2013 around the image of world-class rally driver Robert Kubica was also aimed to highlight our involvement in the support of sports, building an association between the LOTOS brand and the spirit of fair play. With equal consistency, we engage in the promotion of product brands, by linking the respective brand messages with areas of our core expertise as an oil company. The effects of our image building efforts are reflected in a concrete financial

#### Anna Goliszewska

Brand Management Office Director, Grupa LOTOS, CSR Strategy Leader in the Market Partnership to Raise LOTOS Brand Awareness area

metric, i.e. the value of the LOTOS brand. As at the end of 2013, it was estimated at over PLN 1bn according to a ranking prepared by the Rzeczpospolita daily, which means a cumulative growth of more than 500% since 2007.

Another important measure of the brand condition is our proprietary brand equity index based around four crucial assets, including brand awareness, attitudes, knowledge and image. In 2013, we recorded a 6% rise in the brand equity metric. In monitoring the progress of our CSR strategy, we also measure the socially responsible brand index, defined by three variables reflecting the LOTOS Group's CSR commitment, which include the perception of LOTOS as an environmentally-minded business, supporting culture and engaging in community outreach projects. In 2013, we posted a 30% rise in this measure of the brand's social capital.

Our efforts to enhance brand value were recognised by the Business Superbrand 2013 title in the seventh reiteration of a programme designed to select Poland's strongest brands. Grupa LOTOS received the award again in the corporate brand category.



# Intangible resources

✓ - data has been verified

[See full text of the Independent Assurance Report](#)

## Brand

In the LOTOS Group strategy for 2011-2015, along with the development directions until 2020, the fostering of a strong LOTOS brand and distinctive brand image is named as a key element of corporate management. All individual product brands are subordinated to the corporate brand strategy, which is consistent with the business strategy of Grupa LOTOS.

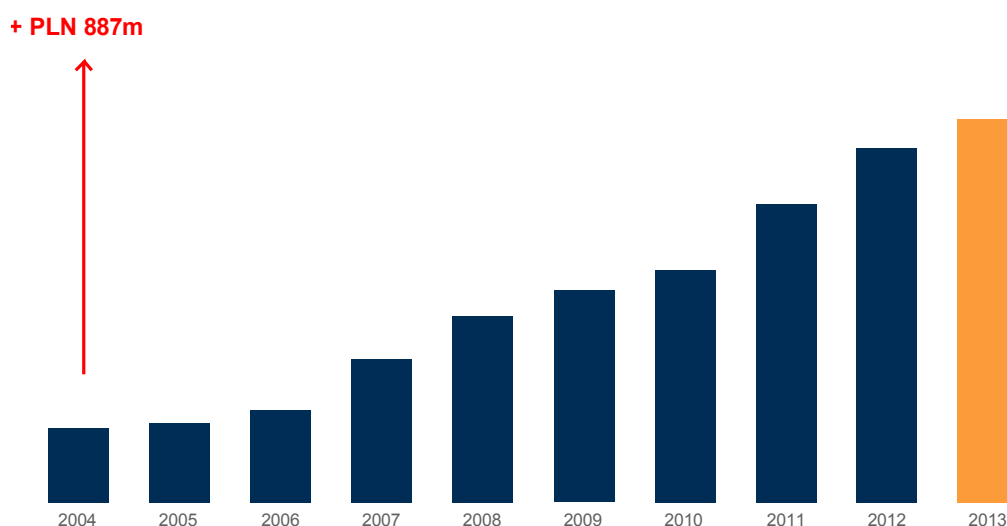
Our strategic goal is to enhance the LOTOS brand value by building its image as a brand which:

- Relies on the key values of state-of-the-art solutions, development and partnership,
- Has an international presence,
- Represents top quality products,
- Is socially responsible.

Fostering the image and strength of the LOTOS brand is one of the priorities for Grupa LOTOS. Efforts are always being made to increase the brand awareness and to position Grupa LOTOS as an organization recognised for its professional management style that builds on its quality, innovation, environmental awareness and security.

In the 10th edition of Poland's Most Valuable Brands ranking, published by the Rzeczpospolita daily in 2013, the LOTOS brand was valued at PLN 1,107.3m. Since the ranking's inception in 2004, its value has risen by PLN 887m. Last year, LOTOS was ranked 9th among the 330 brands covered by the listing, driven by our consistent efforts, our mindset focused on maximising the brand's strength, and our innovative approach to image building, which have helped forge lasting relationships with our customers.

Value of the LOTOS brand (PLNm)



Source: Rzeczpospolita daily, December 2013.

The following rules are applied in the overall management of corporate brand strategy, product brands, promotion strategies, value creation, creation of the desired image of the LOTOS brand, advertising, promotion and sponsorship activities, as well as the marketing research of the LOTOS Group:

- Compliance with applicable laws,
- Avoidance of deliberate harm or damage,
- Accountability,
- Education, professional background and experience of personnel put to good use.

We conduct our operations without using any discriminatory or controversial content that might offend certain social groups or abuse the trust of recipients of our communications, and without inciting negative emotions. These rules complement the applicable laws and regulations, which include the Constitution of the Republic of Poland and the following Polish Acts: the Civil Code, the Act on Combating Unfair Competition, the Press Law Act, the Radio and Television Act, the Act on Protection of Certain Consumer Rights, the Act on Provision of Electronic Services, the Act on Personal Data Protection, the Act on Copyrights and Neighbouring Rights, and the Act on Industrial Property.

In our sponsorship efforts, we adhere to standards spelled out in voluntary codes of conduct, e.g. those published by business organizations. As a member of the Polish Confederation of Private Employers Lewiatan, we engage in sponsorship activities in a manner compliant with the code of ethics drawn up by that body. All our sponsorship contracts are transparent and clear, and precisely identify all stakeholders and obligations. We do not engage in any events which might cause damage to objects or facilities of historic or artistic value, or events which could have an adverse environmental impact. We observe the guidelines set out in the Culture Sponsorship Code - an initiative of the National Centre for Culture, the PKPP Lewiatan association of employers and the Warsaw Stock Exchange. The quality of our communications with the market is also subject to the standards of conduct defined in the LOTOS Group's Code of Ethics.

The above corporate practices in the area of marketing communications are applicable to Grupa LOTOS and all its marketing companies, i.e. those companies which, given their business profiles, target communications regarding their products and services at wider audiences. LOTOS Oil and LOTOS Paliwa, which are responsible for product brand communications, have adopted their own supplementary regulations.

At LOTOS Paliwa, the development of marketing content and standards of conduct, including standards of communication with customers, are regulated by the following documents:

- Communication and Positioning Strategy for the LOTOS and LOTOS Optima Service Stations,
- Communication and Positioning Strategy for the LOTOS Dynamic brand,
- Strategy of Sponsorship and MotorSports Involvement.

LOTOS Oil and LOTOS Paliwa, in their marketing communication activities, including advertising, promotion and sponsorship, adhere (on a voluntary basis) to the standards of the Code of Ethics in Advertising, developed by the Polish Board of Advertising and the Polish Advertising Standards Committee. Due to the specific nature of the market on which LOTOS Asphalt and LOTOS Kolej are present, the companies have not implemented separate procedures for marketing communications.

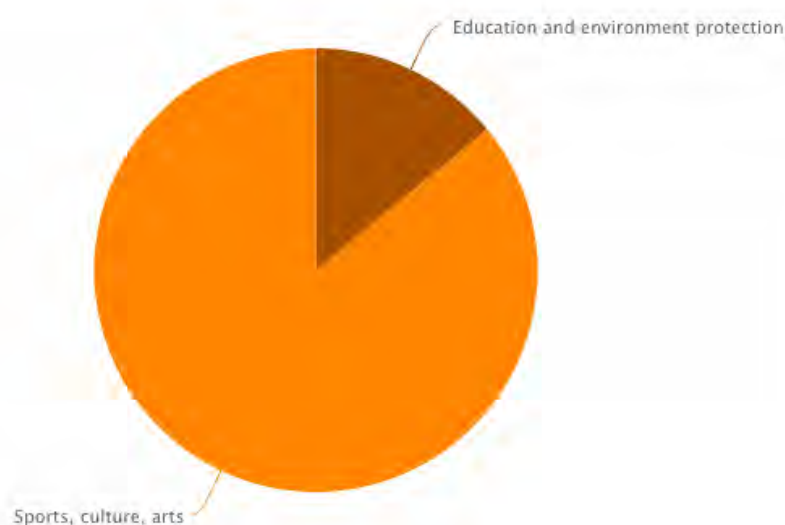
In 2013, no cases of inconsistencies in the promotional and advertising activities with the provisions of law, regulations and voluntary codes on marketing communications were found to have occurred at Grupa LOTOS or at its marketing companies: LOTOS Asphalt, LOTOS Kolej, LOTOS Oil and LOTOS Paliwa.

## Sponsorship

Key objectives of our sponsorship activities include the promotion and raising of brand awareness of LOTOS Group products, improving their recognition, building their positive image and supporting advertising activities focused on boosting product and service sales. Our sponsorship activities are carried out in accordance with the Sponsorship Plan approved each year by the Company's Supervisory Board.

We are the main sponsor of sports clubs, sporting events, cultural institutions and cultural events in the regions where LOTOS Group companies operate.

### Areas sponsored by Grupa LOTOS in 2013



One of the criteria we use when choosing which activities to sponsor is their social dimension, their significance to local communities and their impact on the region's national and international reputation. If we were to cease our sponsorship activities, the cultural sphere might suffer and the young people's potential to become involved in sports might deteriorate.

In 2013, we sponsored a number of professional sports, including such key disciplines as motor rallying and racing, football, skiing, basketball, volleyball and cycling. The highest returns on funds earmarked for sponsorship activities, as measured by media presence, were recorded for winter sports (ski jumping and cross-country skiing), as well as cycling, football and motor rallying. The value of media returns exceeded the value of our sponsorship spending almost seven times over.

For ten years now, we have also been Poland's General Nordic Skiing Sponsor. As part of our work with the Polish Nordic Skiing Association, we support ski jumpers from the national and youth teams, cross-country skiers from the national and youth teams, as well as the Nordic combined team. Kamil Stoch, this year's winner of two gold medals at the Sochi Winter Olympics, thirteen-time winner of the World Cup and multiple Polish champion, was the first person awarded a grant under our 'In Search for the Champion's Successors' CSR project. Since 2004, we have supported the National Ski Jumping Development Programme, run together with the Polish Nordic Skiing Association.

Since 2013, Grupa LOTOS has been an official partner of Robert Kubica, who is among the top drivers chasing the crown in the World Rally Championship and who succeeded in winning the title of the WRC2 World Champion in his very first season. In 2013, the Company was involved in the LOTOS Rally Team project, represented by four-time Polish Champion Kajetan Kajetanowicz and his navigator Jarek Baran in the Polish Rally Championship and by Michał Kościuszko and his navigator Maciej Szczepaniak in the WRC. The promotion of the LOTOS Dynamic fuel brand in motorsports by this Team lends credibility to its communicated benefits, including improved performance and dynamics and better harnessing of a car's power. Related actions support the image of the entire chain of LOTOS service stations and improve the reliability of the stations' marketing message. In 2013, Grupa LOTOS was the sponsor and main technological partner of the KIA LOTOS Race (an event with the status of Polish Motor Racing Championship), where the car make lends credibility to the formula and quality of the company's oil products.

2013 saw the conclusion of another three-year sponsorship agreement between Grupa LOTOS and Lechia Gdańsk (the Company is the main sponsor of Lechia Gdańsk, an Ekstraklasa League football club, since 2010). In the Gdańsk-Gdynia-Sopot conglomeration, we also support the LOTOS TREFL Gdańsk volleyball team and the Trefl Sopot basketball team.

Apart from sports sponsorship, we are also involved in sponsorship of cultural events, focusing our efforts in the latter area on increasing corporate value through the promotion of intellectual and cultural potential of regions close to the organization. Some of our key cultural sponsorships in 2013 included the Strategic Partnership of the Baltic Opera House, sponsorship of the Solidarity of Arts Festival, the Shakespearian Festival, the Siesta Festival, the open-air event „CudaWianki – Lato zaczyna się w Gdyni” (“The Summer Begins in Gdynia – CudaWianki”), the ‘SOPOT Theatrical Summer’, the concert of the band Bon Jovi and the LOTOS Jazz Festival – Bielsko Jazz Blizzard.

### Socially engaged marketing

In 2013, LOTOS Paliwa continued its work, begun three years earlier, with the SOS Children's Villages Association in Poland. Each member of the LOTOS Navigator loyalty programme, available from LOTOS service stations, could donate their credits to orphaned or abandoned children under the care of SOS Children's Villages. This initiative is in line with the objectives of our CSR strategy.

The funds raised from credits donated by our customers are applied towards the costs of living, health care and education of children. In 2013, the usual range of awards available under the LOTOS Navigator programme was extended to include the SOS Children's Villages Association cup. One cup collected by a customer (250 credits) represents PLN 2 for the Association.

The SOS Children's Villages Association in Poland provides care for abandoned children, orphans and children at risk of losing parental care. The Association, which has been active for 29 years and currently helps 1,250 children, is part of SOS-Kinderdorf International, an international organization present in 132 countries.

## Staff's expertise and competence

In order to fully leverage our intellectual capital to enhance the corporate value, we consider it necessary to create systemic solutions designed to stimulate innovation. We also attach great importance to knowledge sharing between employees in the course of project works conducted across the organization, including team projects, in which they have a chance to apply knowledge from various fields in which the LOTOS Group is active, while bringing in new perspectives and ideas on existing tasks.

We strive to improve the staff's qualifications by offering them training opportunities, courses, studies, symposia, conferences, as well as newly established and regularly run programmes within our in-house **Akademia LOTOS** (LOTOS Academy) Training Schedule.



LOTOS Academy was established to improve the staff's competences in various fields, to identify and develop talent, to disseminate expert knowledge and to foster a culture conducive to increasing the staff's satisfaction and involvement.

As part of the LOTOS Academy project, we have developed a culture of knowledge sharing, an induction training programme, a certification process for production-related training and 'On the Road to Perfection' training schedule. We have engaged senior employees, aged 50+, in the development of younger staff. The Academy initiates and runs talent development programmes targeted at various employee groups, including the Leader Programme, the Master Programme, the Managers Academy, the Management Skills Development Programme for Technical Staff and the LOTOS Group Succession Programme. The organization invests in professional development of its staff, by making them acquire and strengthen their expert knowledge, as well as their interpersonal, communication, negotiation, management, IT and linguistic skills.

Its comprehensive staff development programme brings Grupa LOTOS closer to meriting the label of a Learning Organization.

#### Average annual number of training hours per person, by Grupa LOTOS employment category

Employment category	2011	2012	2013
Senior management	40	41.9	43 ✓
Lower management	38	42.8	43.7 ✓
Back-office staff	30.7	25.8	25.4 ✓
Production staff	13.2	17.7	12.1 ✓

#### Average annual number of training hours in Grupa LOTOS, by gender

Gender	Year	Number of employees	Number of training hours	Average number of training hours
Women	2012	417	11,096	26.6
Men	2012	932	21,936	23.5
Women	2013	416 ✓	12,039 ✓	28.9 ✓
Men	2013	929 ✓	17,811 ✓	19.2 ✓

Our staff education methods, techniques and tools include a broad range of open and closed training courses, both in hard and soft skills, which are run based on annual schedules in the form of conferences, seminars, workshops, symposia and forums.

We rely on advanced education techniques and technologies, such as simulation games, e-learning and blended learning. Equally important are our in-house training programmes dedicated to specific employee groups, carried out under the LOTOS Academy banner. Since accessibility is one of the main features of our training policy, the target groups of our training opportunities include senior and middle management, as well as supervisors, coordinators and specialists.

Among the solutions applied are those based on coaching and mentoring, the latter chiefly in the production area, where skills learning is the longest process, requiring many years of experience. Our coaches and mentors are experienced instructors from the operating training team, who – by direct interaction – pass on their knowledge to younger colleagues working as equipment operators.

Our employees are also familiar with knowledge sharing workshops, at which they can share knowledge relating to the organization's various operational areas. In addition, at least twice a year, we hold seminars dedicated to management staff, to acquaint them with the most recent solutions in the management area by attractively integrating theory with practice.

Innovative development, involving continuous improvement and use of the staff's intellectual capital and experience, is an inherent element of Grupa LOTOS' mission, stemming from our conviction that innovation plays a key strategic role for a business geared towards sustainable development.

Grupa LOTOS' innovative approach works on several levels:

- Development of intellectual capital
- Deployment of cutting-edge technologies
- Inter-sectoral cooperation and stakeholder involvement

As a player in the high-tech industry, we have for years worked with academic and research institutions of key relevance to the industry, thus contributing to the development of solutions which are beneficial not only to us and other industry players, but also to the academic community.

## LOTOS Scholarship

We work with higher education institutions as part of the LOTOS Scholarship programme. Given the nature of our business and the key role we play in ensuring Poland's energy security, we share the knowledge and experience of our employees with students, because we feel committed to securing the future of our industry by training the next generation of experts.

In the academic year 2004/2005, we began working with the Gdańsk University of Technology, as part of which we sponsor scholarships, provide work placement opportunities under the supervision of industry experts, and help students write their MSc dissertations on topics connected with the Company's operations, which are later reviewed by the Company's experts. In the academic year 2012/2013, we granted 13 scholarships to the best students from the Chemical Faculty, the Faculty of Electronics, Telecommunications and Informatics, the Faculty of Electrical and Control Engineering and the Faculty of Mechanical Engineering, as well as 2 awards for the best MSc theses at the Chemical Faculty.

In the academic year 2007/2008, a similar relationship was forged with the AGH University of Science and Technology in Kraków, leading to five scholarships being granted in the academic year 2012/2013 to outstanding students from the Faculty of Geology, Geophysics and Environment Protection, the Faculty of Mining Surveying and Environmental Engineering, the Faculty of Drilling, Oil and Gas and the Faculty of Energy and Fuels. We also granted two awards for the best MSc theses written at the Faculty of Drilling, Oil and Gas.

Since the programme's inception, we have granted some PLN 1.2m to fund scholarships and awards for 234 undergraduate and doctoral students.

As part of our cooperation with higher education providers, we also offer unpaid internships and summer work placements, during which students have a chance to expand their knowledge under the supervision of a tutor – an industry expert.

In 2013, internships and work placements at Grupa LOTOS were provided to 162 undergraduates, including 73 students of the Gdańsk University of Technology and 16 students of the AGH University of Science and Technology in Kraków. Additionally, work placements at LOTOS Petrobaltic were offered to 20 students from various universities, who had an opportunity to gain valuable experience by working both on drilling rigs and at the operation maintenance unit.

For the eleventh time, we participated in the local programme **Summer Holiday Internship** initiated by the Mayor of Gdańsk and addressed to students and graduates. We funded two-month internships for participants of the Energy Academy Programme - an educational project started by Lesław A. Paga Foundation 2065, which is addressed to persons interested in the power industry who consider starting their future professional career in this sector. Additionally, we entered the prestigious nationwide programme organized by PwC and Gazeta Wyborcza daily - **Win an Internship**.

In 2013, LOTOS Petrobaltic was a partner to the DRILLING - OIL – GAS AGH International Scientific and Technical Conference, organised by Fundacja Wiertnictwo-Nafta-Gaz, Nauka i Tradycje (Drilling-Oil-Gas, Science and Traditions Foundation). As part of the Baltic Science Festival, to which we were also a partner, LOTOS Petrobaltic ran an information and education campaign on the specific features of the petroleum upstream industry.

In addition, as part of a joint scheme with the Food and Chemical Industry Vocational School in Gdańsk, in 2013 we funded seven scholarships for future chemical engineering technicians and analytical chemists who distinguished themselves for the best school performance, provided prizes in the 'Chemistry is all around us' competition and organised work placements for students.

In 2013, in association with the Jasło Municipality, we launched a project entitled 'The Jasło Scientific League with LOTOS', a unique educational initiative aiming to find Jasło's most able schoolchildren and give them an opportunity to foster their talents.

Entrants to the 'The Jasło Scientific League with LOTOS' in 2013 included 299 children from 9 elementary schools and 4 junior high schools from Jasło, who submitted a total of 91 research projects.

The project encourages schoolchildren to seek for their own answers to a given set of questions, through a number of research activities carried out under the eye of their teachers, with their work evaluated by a panel of experts and prominent academics.



# Management systems

The Integrated Management System (IMS) is regularly reviewed and updated as our needs change, supporting the delivery of the LOTOS Group's strategy. Since the 1990s, when we first began to deploy management systems, the well-designed and coherent management and operational processes provide the foundation for our business, while concurrently undergoing some major changes.

Every year, new needs are identified which must be addressed by our management systems. We invariably strive to work out uniform policies and to implement new systems effectively, so we can derive measurable benefits from their operation. By streamlining and modifying the processes, we seek to exploit synergies across the entire LOTOS Group.

## Integrated Management System

For customers - quality of products and services

For the external environment - environment protection

For employees - occupational safety

## Management systems at the LOTOS Group As at December 31st 2013

Company	Management systems in place
Grupa LOTOS	Implemented and certified Integrated Management System compliant with the ISO 9001, ISO 14001, and PN-N-18001 standards. Implemented requirements of the energy management system in line with the ISO 50001 standard, requirements of AQAP 2110 (Allied Quality Assurance Publication) and requirements of the Internal Control System for trading in strategic materials (consistent with the PN-N-19001 standard).
LOTOS Asfalt	Implemented and certified Integrated Management System compliant with the ISO 9001, ISO 14001, and PN-N-18001 standards. Implemented and certified Site Production Control system.
LOTOS Kolej	Implemented and certified Integrated Management System compliant with ISO 9001, ISO 14001, and PN-N-18001, Railway Transport Security Management System (SMS) compliant with Directive 2004/49/EC and national regulations, Rail Vehicle Maintenance Management System (MMS) compliant with Directive 2004/49/EC and Regulation (EU) 445/2011, quality in welding management system compliant with the EN 15085-2 standard, and system of Maintaining Freight Cars in accordance with the VPI requirements.
LOTOS Lab	Implemented and certified Integrated Management System compliant with the ISO 9001, ISO 14001, and PN-N-18001 standards. Certificate of compliance with PN-EN ISO / IEC 17025:2005 issued by the Polish Centre for Accreditation.
LOTOS Ochrona	Implemented and certified Integrated Management System compliant with the ISO 9001, ISO 14001, and PN-N-18001 standards.
LOTOS Oil	Implemented and certified Integrated Quality Management System compliant with the ISO 9001 standard and AQAP 2110 (Allied Quality Assurance Publication). Implemented requirements of ISO 14001 and PN-N-18001.
LOTOS Petrobaltic	Implemented and certified Integrated Management System compliant with the ISO 9001, ISO 14001, and PN-N-18001 standards. Implemented ISM Code (for compliance with the International Management Code for the Safe Operation of Ships and for Pollution Prevention) and ISPS Code (International Ship and Port Facility Security System).
LOTOS Serwis	Implemented and certified Integrated Management System compliant with the ISO 9001, ISO 14001, and PN-N-18001 standards. Implemented and certified quality in welding management system compliant with the PN-EN ISO 3834-2:2007 standard.
LOTOS Straż	Implemented and certified Integrated Management System compliant with the ISO 9001, ISO 14001, and PN-N-18001 standards.
LOTOS Terminale	Implemented Integrated Management System compliant with the ISO 9001, ISO 14001, and PN-N-18001 standards.
LOTOS Paliwa	Implemented and certified Integrated Management System compliant with the ISO 9001 standard. Implemented requirements of ISO 14001 and PN-N-18001.

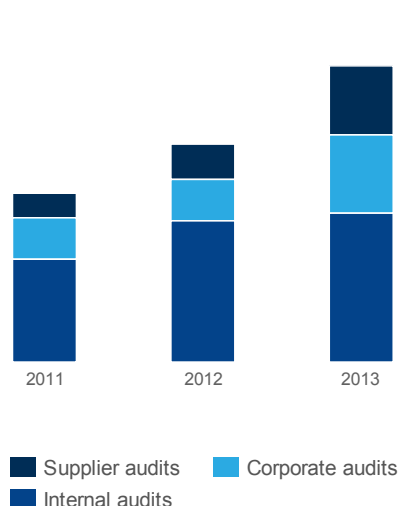
<b>LOTOS Infrastruktura</b>	The company is in the process of implementing the Integrated Management System.
<b>LOTOS-Air BP Polska</b>	The company is in the process of implementing the Integrated Management System.

Source: Grupa LOTOS in-house data.

Audits of the Integrated Management System provide valuable and objective feedback on the operation of individual areas of the organization.

Between 2011 and 2013, we performed nearly 200 internal, corporate and supplier audits at Grupa LOTOS.

Audits in 2011-2013



Source: Grupa LOTOS in-house data.

Structure of internal audits in 2011-2013

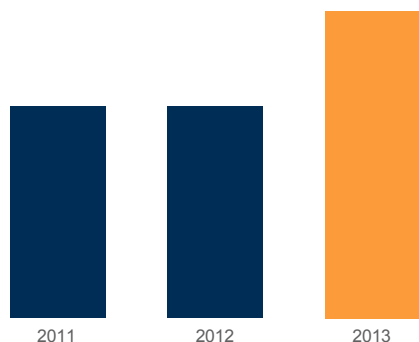


Source: Grupa LOTOS in-house data.

The findings of internal audits provide information on the effectiveness of our system, but also help identify areas which still need improvement, allowing the management to make informed decisions on corrective, preventive or adjusting measures.

Corporate audits carried out at subsidiaries of Grupa LOTOS assess the degree to which they have implemented corporate requirements and standards. In 2013, additional audits were performed to assess the degree of implementation of personal data protection requirements.

### Corporate audits in 2011-2013



Source: Grupa LOTOS in-house data.

Following the audits, in many areas we have undertaken long-term improvement work, requiring the involvement of persons from different organizational units, which proves that we are an organization that can learn from feedback.

We adapt our audits to any changes relevant to the LOTOS Group's operation and any identified needs.

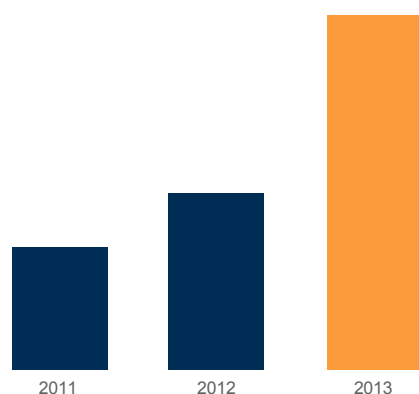
We also seek to standardise the qualifications of our auditors through the Auditor School initiative, hands-on exercises and exchange of auditors between companies, which helps them gain new experience.

## Requirements for business partners

The findings of supplier audits provide information on the degree to which our suppliers meet the quality requirements, as well as occupational safety and environmental protection requirements, which are high on our list of priorities. They offer assurance that all works on the premises of Grupa LOTOS are carried out safely and identify areas which still need improvement.

Realising that compliance with our requirements may be a demanding task for suppliers, we make sure that our audit reports contain detailed and accurate information on all audited areas.

### Supplier audits in 2011-2013



Source: Grupa LOTOS in-house data.

# Key changes in process management systems and structures in 2013

## Enterprise Risk Management (ERM)

To ensure secure and effective pursuit of our strategic and operational objectives, we have successfully implemented the enterprise risk management system at the LOTOS Group. Measures taken in 2013 as part of the ERM system were designed to mitigate the identified risks, and to enhance the system itself and its risk management process. ([More details](#))

## Process management

In 2013, we started to communicate the findings of process monitoring within the organization via a dedicated portal, which serves as a platform for direct communication of various follow-up measures based on reviews of the Integrated Management System and tasks related to our day-to-day operations. We have also successfully completed one of the projects designed to improve efficiencies along the supply chain.

## Project management

In implementing project management at the LOTOS Group in 2013, our objective was to ensure efficient project execution, effective monitoring of project status and deliverables and proper reporting for projects run in accordance with established corporate policies. We also began to deploy an IT tool to support project management throughout the organization.

## Energy Management System (EnMS)

In 2013, we successfully put in place the energy management system compliant with ISO 50001, which aims to establish uniform standards for a range of measures designed to improve Grupa LOTOS' energy efficiency through:

- Systematised and standardised approach to energy management (with respect to all forms of energy) across different operating areas,
- Identification of significant energy aspects of the Company's operations,
- Documentation of sub-tasks undertaken in areas covered by the EnMS,
- Identification of upgrade and development work required to achieve energy efficiency.

# Development until 2015

Faced by the highly complex nature of processes, projects and tasks we need to undertake in the fast-changing environment, we will focus on ensuring efficient communication within the LOTOS Group.

We want to pursue that objective by deploying advanced IT tools, suited to the organization's needs and friendly for users. As part of our plans, we intend to:

- Enhance the enterprise risk management (ERM) system by developing the ERM portal in response to any needs that may emerge in connection with the growing maturity of the ERM system;
- In the energy management area: satisfy training needs, raise the overall awareness of energy issues among our staff, and improve the auditing qualifications of the LOTOS Group's employees. 2014 will be the first effective year of our new internal regulations pertaining to the Company's energy management system and the first year of refining the system based on regularly obtained findings of production process monitoring, audits and needs reported by those involved in energy efficiency processes;

- Maintain and improve the project management system, deploy an IT tool designed to support project management within the LOTOS Group and raise the competences of staff involved in project management and execution;
- Identify on an ongoing basis any processes needing improvement and take relevant actions, and develop process management based on the best global practice. We also plan to launch a new channel for communication with employees to expedite feedback reporting and a tool for visual representation of the summary findings of process monitoring, referenced to risks as well as to strategic and operational objectives;
- Implement an effective and user-friendly IT tool supporting the circulation of documents related to internal regulations.

Over the period 2014-2015, we will implement our Effective and Rising Programme, whose success will be supported by the correctly-designed and effective Integrated Management System.

# Organizational maturity

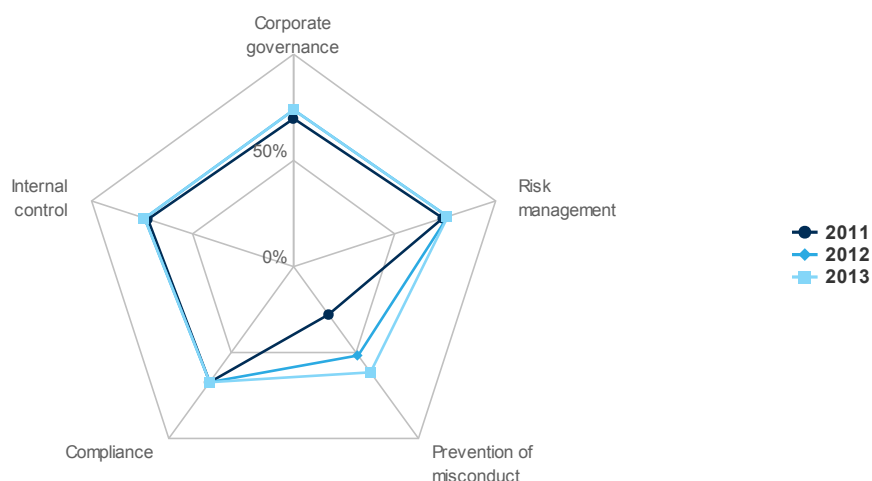
At Grupa LOTOS, we undertake annual assessments of our organizational maturity.

Organizational maturity is understood as the level of professionalism of key organizational solutions, processes and activities, as well as their consistency with the best operating and management practices, which underpin the organization's potential to achieve success in terms of protection and creation of value for its stakeholders.

Organizational maturity depends on the company's systems and their constituent solutions which are crucial to the creation of value for stakeholders, relevant to the protection of company value, and key to its ability to operate on a day-to-day basis without any disruptions and in compliance with the law.

The following systems at Grupa LOTOS meet these criteria to the greatest extent: internal control, risk management, compliance, misconduct prevention and corporate governance.

## Overall assessment of the systems



## Results of the assessment of the LOTOS Group's organizational maturity in 2013

- As part of the **internal control system**, key organizational and process solutions have been put in place. The processes defined and deployed by the Company are characterised by a high level of organizational maturity, as evidenced by the fact that the controls have been designed in alignment with the objectives. The key control solutions have been formally established and written into the Company's internal regulations. They work efficiently towards protecting Company value and allowing the Company to operate in a systematic and effective manner.
- **As part of the risk management system**, we have established solutions of key importance to correctly designing its operation, which play a crucial part in ensuring the delivery of the system's main objective to support the management process and creation of added value. To ensure that the system operates properly, the Enterprise Risk Management Policy has been communicated, and participants of the risk management process, including risk owners, Risk Management Coordinator and Risk Management Committee, have been appointed. Detailed internal regulations defining the manner in which appropriate actions should be taken within the framework of the risk management system have also been established.
- As part of the **compliance system**, active steps are taken to ensure compliance of the Company's activities and internal regulations with applicable laws. The Company also takes care to ensure the compliance of its actions with the requirements laid down in the organization's internal regulations.
- **As part of the misconduct prevention system**, we continued managing the risk of misconduct in a comprehensive and structured manner, while fostering a corporate culture of ethics. Solutions are in place to mitigate the risk of both external and internal misconduct. The organization is building up its knowledge of misconduct involved in its activities and is developing a systemic approach to identifying and monitoring solutions to prevent and detect misconduct. Our consistent efforts to foster a culture of ethics by raising the awareness of desirable attitudes fully support and help develop the misconduct prevention system. It takes time and consistency to achieve the expected outcomes.
- As part of the **corporate governance system**, we have established most of our key solutions, including those governing the relations between the Company's corporate bodies and other internal relations (connected with the approach to managing the organization and its resources), which are to be consistent with applicable standards and best practices. The solutions adopted with respect to the Company's corporate bodies and their mutual relations are generally consistent with the requirements defined in the Code of Best Practice for WSE Listed Companies.

The results of the overall assessment of the Company's organizational maturity testify to the fact that we are an organization oriented towards professionalism and adoption of the best operating and management practices. We take steps to protect Company value, as evidenced by our well-developed internal control system and corporate governance solutions, as well as by our implementation of the misconduct prevention system. We focus on being able to operate without disruptions and in compliance with the law.