

Grupa LOTOS S.A.  
Annual Report 2009  
Financial, social and environmental results

10+

Sustainable development in the 10+ perspective

## Table of contents

### ■ About this Report

- About the Annual Report
- Basic figures 2009
- Letter from the Chairman of the Supervisory Board
- Letter from the President of the Board

### ■ Organisation profile

- Subject and Scope of Activities
- Shareholding
- LOTOS Group
- Organisation
- Membership in organisations

### ■ Vision of development

- Sustainable development in view of 10+
- Operating strategy
- Progress in achieving strategic goals
- Key risks, opportunities and challenges

### ■ Achievements and outlook

- Operational conditions
  - External Conditions for Development
  - Internal Conditions for Development
  - Trends and Outlooks
- Financial and economic standing
- Stock exchange
  - Grupa LOTOS on the Warsaw Stock Exchange
  - RESPECT – new stock index
- Upstream operations
  - Management approach
  - Achievements
  - Development Plans
- Operational activities
  - Management approach
  - Achievements
  - Development Plans
- Market activities
  - Management approach
  - Achievements
  - Development Plans

### ■ Sustainability

- Basics of sustainable business
  - Mission, vision and values
  - Stakeholders participation
- Approach to management
  - People
  - Environment
  - Energy security

### ■ Management

- Corporate governance
- Management systems
  - Approach to management
  - Key norms and systems

- Development plans
- Risk management
  - Approach to management
  - Key instruments
  - Development plans
- The Supervisory Board of Grupa LOTOS
  - Responsibilities
  - Membership
  - Permanent committees
  - Remuneration
  - Independence
  - Conflict of interests policy
  - Sustainable development engagements
- The Management Board of Grupa LOTOS
  - Responsibilities
  - Membership
  - Remuneration
  - Conflict of interests policy

■ **Consolidated non-financial Statement 2009**

■ **Additional info**

- Agenda 2009
- The GRI Table of Contents and the UN Global Compact principles
- Sector glossary
- Glossary of social terms
- Contact

# About this Report

## About the Annual Report

This Annual Report pertains to the activities of the Capital Group of Grupa LOTOS S.A. (hereinafter: the LOTOS Group, the Capital Group, the Group), in particular of its dominant entity, Grupa LOTOS S.A. (hereinafter: Grupa LOTOS, the Company, the Concern).

Grupa LOTOS is the largest company in Pomerania, the second largest petroleum group in Poland and one of the most effective groups in Central and Eastern Europe. The LOTOS Group employs nearly 5,000 staff. As part of the 10+ Programme implementation, a number of new, technologically advanced facilities have been developed in the area of the Grupa LOTOS refinery in Gdańsk. These facilities will increase the petroleum processing capacity to 10.5 million tonnes per year by 2012. The refinery applies advanced technologies, which ensure a high level of desulphuring of petroleum derivatives and minimise the environmental impact.

Sustainable development is the central theme of the Report which assumes that the Company pursues its activities in a manner which involves the efficient use of economic, social and environmental resources, so that these could be used by future generations. Grupa LOTOS treats this aspect not only as a sign of the Company's responsibility for its social and environmental surrounding, but as a proof of being open to the future, to long-term planning and to an innovative approach to the business. Mapping the prospect of sustainable development towards the future, in the historical and business aspect, namely the "10+" perspective is an additional element of this publication. The description of the activities of the LOTOS Group should invoke the challenges, risks and opportunities posed by the beginning of the new decade and the forthcoming, successful completion of the 10+ Programme investment.

The 2009 Annual Report is the first integrated report by the Company. From 2007 to 2009 the Group published separate reports on environmental protection and corporate social responsibility, and then submitted the reports to the stakeholders along with the reports containing the consolidated financial statements prepared each year. In line with the CSR strategy of the LOTOS Group and the intention to pursue an open information policy, the Management Board decided to integrate the publications which regularly presented all the stakeholders with the management approach and results achieved by the organisation in all of its fields of operations: economic, social and environmental. This decision follows our wish to provide all the key stakeholders with a comprehensive description of the achievements of the LOTOS Group with regard to results of the basic activities, social-oriented activities, and mitigation of the environmental impact. The Management Board would like to enable the environment of the organisation to conduct a comprehensive, measurable and objective assessment of the organisation's involvement in sustainable development by means of an integrated presentation of financial and non-financial statements on activities performed during the financial year.

Grupa LOTOS preceded this decision by an extensive survey conducted among the key stakeholders of the Company, including opinion leaders, representatives of public administration, NGOs, stock market and the mass media. The consultations involved assessment of the existing reporting practices of the Company as well as related information needs of recipients. Inclusion of the stakeholders in the process of improving the reporting aimed at the best possible matching of their expectations and tools used by the Company to report on the progress of the CSR strategy implementation.

As a company listed on the Warsaw Stock Exchange and a participant of the first stock exchange index of socially responsible companies in Central and Eastern Europe, the RESPECT Index, Grupa LOTOS follows good practices of communication for public listed companies:

- in the financial reporting area, Grupa LOTOS follows the International Financial Reporting Standards (IFRS) ratified by the European Union, published and binding as at 31 December 2009;
- in the non-financial reporting area, Grupa LOTOS applies the G3 GRI (Global Reporting Initiative) Sustainability Reporting Framework and the UN Global Compact principles relating to the Universal Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development and the United Nations Declaration against Corruption and Bribery.

Since there are no generally recognized standards applicable to the preparation of integrated annual reports, Grupa LOTOS applied the best practices on the financial and non-financial reporting. The Company followed the universal principles of accuracy, relevancy, completeness, comparability, balance and reliability.

The 2009 Annual Report contains Consolidated Financial Statements of the LOTOS Group approved by the Grupa LOTOS Management Board on 26<sup>th</sup> April 2010 as well as Consolidated Non-Financial Statements. The non-financial statement contains links to the content and documents that supplement presented information, available on the Grupa LOTOS website. The result ratios presented in the consolidated statements are accompanied by descriptive content included in separate chapters of the Report; this content describes the management approach, strategic goals and development plans in various fields of activities.

The index, designed to facilitate search of specific results ratios and descriptive content corresponding to the issues discussed, is included in the [GRI Table of Contents](#) and the [UN Global Compact principles](#).



Operating profit/(loss)	k PLN	419,793	(145,828)	-	k EUR	96,713	(41,286)	-
Profit/(Loss) before tax	k PLN	1,109,608	(503,700)	-	k EUR	255,635	(142,606)	-
Profit/(Loss) on continued activity	k PLN	911,812	(389,415)	-	k EUR	210,066	(110,250)	-
Profit/(Loss) on continued activity ascribed to parent entity shareholders	k PLN	900,761	(453,549)	-	k EUR	207,520	(128,408)	-
Profit on continued activity ascribed to non-controlling interest	k PLN	11,051	64,134	-	k EUR	2,546	18,157	-
Total comprehensive income	k PLN	928,661	(362,559)	-	k EUR	213,948	(102,647)	-
Comprehensive income attributable to owners of the Parent	k PLN	908,083	(426,693)	-	k EUR	209,207	(120,804)	-
Comprehensive income attributable to non-controlling interests	k PLN	20,578	64,134	-	k EUR	4,741	18,157	-
Operating activity cash flows net	k PLN	694,498	311,670	123%	k EUR	160,000	88,239	81%
Investment activity cash flows net	k PLN	(3,339,669)	(2,417,112)	-	k EUR	(769,403)	(684,327)	-
Financial activity cash flows net	k PLN	2,155,844	1,963,145	10%	k EUR	496,670	555,801	-11%
Total cash flows net	k PLN	(486,988)	(138,751)	-	k EUR	(112,194)	(39,283)	-
Basic profit/(loss) per one common share	PLN	7.44	(3.74)	-	EUR	1.71	(1.06)	-
Social investments	k PLN	839	898	-7%	k EUR	193	254	-24%
		<b>as at 31.12.2009</b>	<b>as at 31.12.2008</b>			<b>as at 31.12.2009</b>	<b>as at 31.12.2008</b>	
		<b>(comparative data)</b>				<b>(comparative data)</b>		
Total assets	k PLN	15,062,506	12,187,558	24%	k EUR	3,666,449	2,920,995	26%
Equity ascribed to the parent entity's shareholders	k PLN	6,677,002	5,389,534	24%	k EUR	1,625,287	1,291,711	26%
Non-controlling interest	k PLN	36,752	396,078	-91%	k EUR	8,946	94,928	-91%
Total equity	k PLN	6,713,754	5,785,612	16%	k EUR	1,634,233	1,386,639	18%

Non-financial Data	Unit	For year ending 31.12.2009	For year ending 31.12.2008	Change
			(comparative data)	
Employees	No. of employees	4,949	4,878	1%
Lost Time Injury Frequency, LTIF (per 1m hours worked)		4.4	5.2	-15.4%
Fuel market share	%	28.3	25.4	2.9 pp
Oil exploitation	k tons	175.4	256.9	-32%
Gas exploitation	mn Nm <sup>3</sup>	19.5	29.3	-33%

<sup>(1)</sup> For a detailed presentation of financial results, see Consolidated Financial Statement.

<sup>(2)</sup> In order to convert an item of the report from a financial item in the table of "Basic figures" as at 31 December 2009, the NBP (National Bank of Poland) mid-rate of EUR was applied, binding on that day, i.e. 1 EUR = 4.1082 PLN. The items of the total income report and the cash flow statement presented in the table for the year ending 31 December 2009 were converted at the rate of 1 EUR = 4.3406 PLN (i.e. the rate being the arithmetic average of the mid-rates published by NBP on the last day of each finished month in the period from 1 January to 31 December 2009).

In order to convert an item of the report from a financial item in the table of "Basic figures" as at 31 December 2008, the NBP mid-rate of EUR was applied, binding on that day, i.e. 1 EUR = 4.1724 PLN. The items of the total income report and the cash flow statement presented in the table for the year ending 31 December 2008 were converted at the rate of 1 EUR = 3.5321 PLN (i.e. the rate being the arithmetic average of the mid-rates published by NBP on the last day of each finished month in the period from 1 January to 31 December 2008).

## Letter from the Chairman of the Supervisory Board



**Wiesław Skwarko**  
Chairman  
of the Supervisory Board

Dear All,

The increasing competition in the European and global markets and the volatile prices of raw materials resulted in a severe turmoil in the petroleum industry. A drop in demand for fuels negatively affected the refinery margins. The global economy underwent major changes, and although it seems the crisis has faded out, we cannot be certain that the economic revival is stable. The Polish economy coped with the slowdown much better; however, difficulties affected a number of domestic enterprises.

Grupa LOTOS is a prime example of successfully overcoming the crisis. The accord and dialogue established during less eventful times bore fruit. Trust, involvement and integration of employees in the strategic goals allowed the Company to complete difficult tasks under exceptionally difficult market conditions. The Company owes such a positive and stable internal situation to the well-developed communication culture in the Company. Planned anti-crisis activities were introduced after extensive consultations with the unions and the Council of Employees. At the beginning of 2009, a series of meetings with employees of the entire LOTOS Group took place. The subject of the meeting was the macroeconomic situation, the possible impact of the crisis on the Company and options to protect the Company from the crisis. As fears and doubts were dispelled a positive atmosphere of focusing on the Company's results was developed in the Company.

Thanks to this atmosphere and the employee's acceptance of the actions proposed by the Management Board, the LOTOS Group was able to implement the Anti-Crisis Package, a product of the social agreement in the company. The Package assumed a reduction in expenditures and the implementation of several streamlining programmes. The basic goal of the Package was to secure the financial liquidity of the Company at the last stage of the 10+ Programme implementation and to earn value for the stakeholders. Thanks to the outstanding employee involvement in the process of implementation the Package, objectives fixed were achieved and the existing workplaces preserved.

The cost-cutting and effectiveness-oriented actions as well as the flexible response to domestic and international economies' conditions contributed to the achievement of excellent operational results by Grupa LOTOS. The Company's performance on the stock exchange has also been satisfactory – Grupa LOTOS has more than compensated for the drops resulting from the financial crisis and a negative outlook recommendation from one of the equity researchers issued at the end of 2008.

The past year was particularly important for the implementation of the development strategy of the Company. An inherent part of the strategy for the refinery sector is the 10+ Programme. It is an investment project of unique scale, one of the largest not only in the region, but in Europe. The 10+ Programme was implemented in 2009 as scheduled, thus the first facilities have already been commissioned. As regards the exploration and exploitation sector, the Company continued activities aimed at launching production from the new deposits on the Norwegian Continental Shelf and in the Baltic Sea. These high-risk activities call for further intensification and will pose the greatest challenge to the Company in 2010 and the forthcoming years. As regards trade, it is worth stressing that 2009 was the year during which the Company began to build petrol stations and motorway service stations, contracted oil supplies for the forthcoming years and retained its leading position in the market of bitumen and lubricant oils in Poland. At the same time, Grupa LOTOS reduced its involvement in the LPG market.

Last year, some changes were introduced to the capital structure of the Company. The Treasury became the main direct majority shareholder. The Treasury also made a capital injection into Grupa LOTOS by means of a contribution in kind in the form of shares in three companies already belonging to the Capital Group.

2009 was also the year of the Company's management stabilization. The Management Board was elected in a competition for another three-year term of office. In addition to the three existing members, the Management Board now includes a petroleum industry specialist responsible for sales.

The Company is facing a number of challenges in the years to come. The use of greater processing capacity at the Gdańsk refinery and product placement on the market are challenges just as major as the investment process. When completed, we will be able to see the scale of the changes introduced by the 10+ Programme not only to Grupa LOTOS, but to the market in the region.

This year the Company needs to reformulate its strategic objectives and update its strategy. The upstream segment development will be of crucial importance. Exploration and exploitation of new deposits is necessary to increase the energy security of Poland and strengthen the position of Grupa LOTOS in the region. The new directions of development and ambitious objectives relating to the market activities and the financial result could mean that the Company has to seek new solutions, such as strategic alliances, project partners or investors. Strengthening is of particular importance given the privatisation planned by the Treasury.

2009 was for Grupa LOTOS a time of fulfilling ambitious projects. However, much effort is required in the years to come to build on the opportunity offered by the 10+ programme and to complete exploration and exploitation tasks. I believe that the Company will have no problems dealing with these challenges with the determination of the Management Board and support from the employees and the stakeholders.

Yours faithfully,



Wiesław Skwarko  
Chairman of the Supervisory Board  
Grupa LOTOS S.A

## Letter from the President of the Board



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

*Ladies and Gentlemen,*

2009 was an exceptionally difficult year for business. The petroleum industry witnessed some particularly unfavourable events. Very low global prices of oil, which at one time fell to \$30 per barrel, came along with exceptionally low refinery margin, a very unfavourable Brent/Ural differential and a rapidly changing exchange rate of the Polish currency.

Grupa LOTOS started the year well in terms of operating activities. However, growing market difficulties combined with negative equity research recommendations caused a dramatic fall in the share price to as little as PLN 7 at the beginning of February 2009. The toxic "expert" opinion of one of equity researchers who priced Grupa LOTOS shares at zero zlotys brought a major exposure to the Company's business. The Management Board undertook immediate communication and substantive preventive steps to reduce and eliminate the threat. The success of the crisis management operation was based on a timely and professional response of the Management Board, action and open communication, as well as direct relations with equity market and shareholders. These actions were positively appraised by those interested and facilitated a quick elimination of the crisis concerning the Company.

The stakes were very high. The Company was in the process of implementing the enormous 10+ investment project, which required more than PLN 2 bn in 2009. This called for perfect co-ordination of the works and the stream of finance, as well as harmonious and uninterrupted operation of the whole Group and a safe level of financial liquidity. The risk of negative consequences of the global crisis to the Company determined the need to undertake extraordinary preventive measures to secure the operating effectiveness of the Company. The Management Board of Grupa LOTOS, as the first Board in Poland, decided to implement the Anti-Crisis Package in February 2009. This was a direct response of the Company to unfavourable changes on the market. This document is not only a detailed plan for the reduction of costs and effectiveness-oriented activities but also a result of the Management Board dialogue with the Council of Employees and all the trade unions. The responsibility for the future of Grupa LOTOS was great in the face of crisis and other threats to the Company which was in the process of implementing an enormous investment programme. The Management Board of Grupa LOTOS took upon itself this responsibility supported by the Company's employees and their representatives.

Good communication with the team allowed us to make effective decisions which contributed to the ongoing development of the Company. This was a difficult test of effectiveness and responsibility. The Company managed to save workplaces and achieve good results while continuing its key investments.

I am certain that this was an important sign of the Group stable situation for external stakeholders. This was confirmed by the growing trend for the Company's shares on the WSE.

We built market trust with the effective implementation of decisions and the transparency of our actions. We have reason to be content. The Company made PLN 722.5 mln savings on the consistent implementation of the Anti-Crisis Package. This directly affected the Company's level of liquidity.

The good standing of the Company can be best demonstrated by consolidated net profit earned by Grupa LOTOS for 2009 at PLN 911.8 mln. Consolidated sales revenues totalled PLN 14.321 bn while the operating profit reached PLN 419.8 mln. Compared to the end of 2008, sales revenues decreased by PLN 1.974 bn, while the operating profit grew by PLN 0.566 bn. The result of the sales and manufacturing segment had the greatest impact on the operating level; this segment's contribution stood at PLN 479.6 mln.

As for the retail segment, the sale of fuels grew by 18.2%. Compared to 2008, the share of Grupa LOTOS in the fuel market increased from 25.4 % to 28.3 %. This means that in the difficult crisis year, the LOTOS Group increased its market share by effectively implementing the strategic programme which assumes achievement of a 30% share in the fuel market in 2012.

The effective asset restructuring and consolidation also had a positive impact on the financial results of Grupa LOTOS. This relates both to LOTOS Jaslo and LOTOS Czechowice, as well as the exploration and exploitation activities of Petrobaltic S.A. (currently LOTOS Petrobaltic).

Completion of the restructuring process of LOTOS Petrobaltic will facilitate the establishment of the key to the Concern's future oil exploration and exploitation segment.

The completion of the Anti-Crisis Package has been completed successfully. In 2010 Grupa LOTOS plans to continue the cost-effectiveness programmes. The experience of 2009 contributed to improvements in the organisational culture and the intensification of the system-wide activities aimed at improved management, operating effectiveness and security of the Company's operations.

I would also like to highlight another important context of our activities. We follow the concept of sustainable development paying attention to ensuring the highest environmental parameters of the new facilities and provide workplaces for employees of numerous companies in the entire supply chain.

The 10+ Programme has reached its final stage of implementation. At the end of March 2010, project completion reached 97%. In the last months of 2009, the construction of the Crude Distillation Unit/Vacuum Distillation Unit (CDU/VDU) was completed which increased the processing capacity of the refinery to 10 million tonnes p.a. The 10+ Programme

will not only increase the oil processing output but also the intensity of raw material utilisation. The first financial effects of refinery expansion will be visible in the Company's financial results this year. The potential will satisfy the domestic demand for the highest quality fuels and any surplus may be easily exported owing to the coastal location of the plant.

An update of the current Strategy of Grupa LOTOS planned in mid 2010 will be crucial for the definition of further development plans of the Concern. Provisions of the Strategy will be adjusted to the new economic situation and will be used to maximise the financial effects and increase the energy security of Poland of which LOTOS is an important participant. As part of the programme of raw material long term supplies, the Company has pursued the programme of diversifying the oil supplies. This is related both to diversification of procurement and an increase in own oil output.

In 2010 the LOTOS Group will continue activities which add value for the shareholders. The development of the exploration and exploitation sector and the strengthening of the market position will play a key role. The technological processes to be implemented will meet the highest innovation standards. A joint project with a strategic partner is possible.

Sustainable development and corporate social responsibility are the key criteria for development and for understanding the quality of managing the Corporation. We are well appraised by the market in this aspect and as a result highly ranked in the new RESPECT Index of the Warsaw Stock Exchange. I would like to assure you that we will consistently improve the quality and effectiveness of our management. I would also like to underline the key strengths of Grupa LOTOS: a devoted management and employees who create an important, positive strength. I am certain that these values are shared by our key stakeholders. These values contribute to building the market position of the LOTOS Group, to the energy security of Poland and to the strength of the Polish economy.

*Best regards,*  


Paweł Olechnowicz  
President of the Board  
CEO  
Grupa LOTOS S.A.

# Organisation profile

## Subject and scope of activities

Grupa LOTOS S.A. is a national petroleum concern which deals in oil exploitation and processing and the wholesale and retail trade of high quality petroleum products. The Company markets, among others, lead-free petrol, diesel oil and aviation fuel. The Concern is also the leader in the sales of engine oils, bitumen and paraffin in Poland. A nationwide petrol station chain operates under the LOTOS brand.

Grupa LOTOS is a joint-stock company listed on the Warsaw Stock Exchange (WSE) since June 2005.

According to the By-Laws, the Company operates in Poland and abroad. Besides Grupa LOTOS S.A. (the parent company which manages the Gdańsk refinery) and LOTOS Czechowice S.A., LOTOS Jasło S.A. and an exploration and exploitation company, Petrobaltic S.A., the national Capital Group also comprises 14 LOTOS companies. Through its Norway-based subsidiary, LOTOS Petrobaltic - LOTOS Exploration and Production Norge AS, the Concern is present on the Norwegian Continental Shelf, where it carries out oil exploration and exploitation.

At the end of 2009, the LOTOS Group employed 4,949 persons. Consolidated sales revenues exceeded PLN 14.3 bn. Thanks to the effective fulfilment of the 10+ Programme, the processing capacity of the Gdańsk refinery will grow to 7-8 million tonnes in 2010. The Group's share in the total fuel market grew from 25.4% in 2008 to 28.3% in 2009.

The ultimate strategic objective of Grupa LOTOS is to retain the regional competitiveness of the Company among the petroleum companies operating in the regions of the Baltic Sea and Central and Eastern Europe. The Company intends to remain competitive in the region by pursuing actions in the operating and market areas. The operating area includes the implementation of the 10+ Programme. When completed in 2010, the Programme will allow the Company to increase the general economic effectiveness of petroleum processing in the Grupa LOTOS Gdańsk refinery. Another major direction of development of the Capital Group is the expansion of the exploration and exploitation segment, so that the profits achieved by the Company fluctuate less in the future, as a result of incorporating the entire chain of value related to the sale of petroleum products. As regards the market area, Grupa LOTOS intends to fulfil the goal of retaining regional competitiveness by increasing and then stabilising market shares, the expanding the chain of own and partner petrol stations and using the leverage provided by the coastal location of the Gdańsk refinery.

The corporate strategy includes the development of the aforementioned areas in line with the concept of sustainable development: the aim to constantly reduce environmental impact with appreciation for intellectual capital and employee expertise.

## Shareholding

As at 30 June 2009, the Ordinary General Meeting of the Shareholders of Grupa LOTOS passed a resolution on increasing the share capital of the Company by means of issuing shares. As at 9 July 2009, the State Treasury and Grupa LOTOS signed an agreement for the State Treasury to acquire 16,173,362 new ordinary C series bearer shares of Grupa LOTOS at the issue price of PLN 22.07 through private subscription, with payment for the shares by a contribution made by the State Treasury in the form of shares of Petrobaltic, LOTOS Jaslo and LOTOS Czechowice. The subscription totalled PLN 356,946,099.30.

Following the increase in the share capital of the Company and the acquisition of a majority stake by the State Treasury, namely all the C series shares, the shareholders structure changed.

As at 17 July 2009 an increase in the share capital of Grupa LOTOS from PLN 113,700,000 to PLN 129,873,362 was registered. The total number of shares equivalent to the number of votes at the General Meeting of Shareholders resulting from all the shares issued by Grupa LOTOS after the registration of the change in the share capital amounts to 129,873,362 shares.

The structure of the share capital of Grupa LOTOS is as follows:

- 78,700,000 series A shares,
- 35,000,000 series B shares,
- 16,173,362 series C shares.

As at 22 July 2009, the State Treasury acquired another major stake of Grupa LOTOS shares under the agreement between Nafta Polska S.A. and the State Treasury of 16 July 2009. By fulfilling contractual provisions, Nafta Polska transferred a total of 59,025,000 Grupa LOTOS shares to the State Treasury.

Following the acquisition of the two aforementioned stakes of shares, the State Treasury had in its possession 83,076,392 shares of Grupa LOTOS.

Following acquisition of the Company's shares on the WSE, accounted for as at 19 November 2009, ING Open-End Pension Fund became the owner of 6,524,479 shares, constituting to 5.02% of the total shares at the General Meeting of Shareholders of Grupa LOTOS.

### The structure of the share capital of Grupa LOTOS

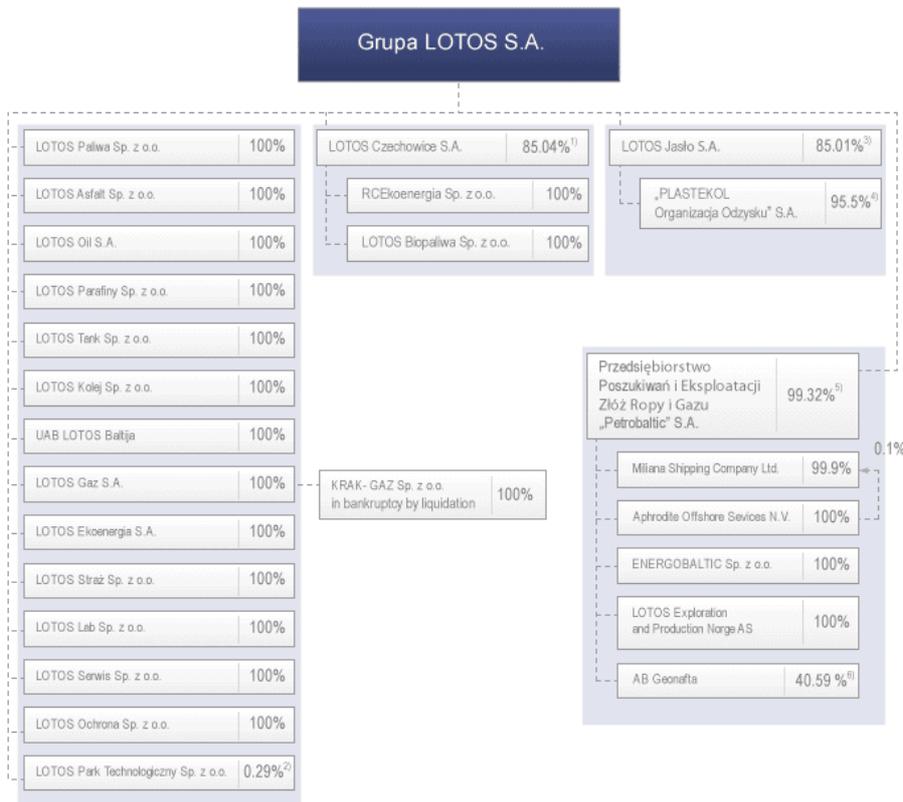
31 Dec 2009

Shareholders	No. of shares	No. of votes	Nominal value of shares	Per cent of the share capital
Treasury	83,076,392	83,076,392	83,076,392	63.97
ING OFE	6,524,479	6,524,479	6,524,479	5.02
Others	40,272,491	40,272,491	40,272,491	31.01
<b>Total</b>	<b>129,873,362</b>	<b>129,873,362</b>	<b>129,873,362</b>	<b>100.00</b>



## The LOTOS Group

Organisational chart of the LOTOS Group  
31 December 2009



<sup>(1)</sup> matching shares – 14.96%

<sup>(2)</sup> LOTOS Park Technologiczny Sp. z o.o. – 99.71% (own shares acquired for redemption)

<sup>(3)</sup> matching shares – 14.99%

<sup>(4)</sup> other shareholders – 4.5%

<sup>(5)</sup> State Treasury – 0.01%, matching shares – 0.67%

<sup>(6)</sup> UAB 'Meditus' – 59.41%.

Moreover, Grupa LOTOS holds 8.97% shares in the authorised capital of P.P.P.P. 'NAFTOPORT' Sp. z o.o. (a company of the PERN 'Przyjaźni' S.A. capital group from Plock).

Entities in which Grupa LOTOS has direct or indirect capital holdings or holds voting rights:

Entity	Registered Office	Subject of activities	Method of share pricing/ consolidation	Direct/Indirect per cent share of the Group in the share capital	
				31 Dec 2009	31 Dec 2008
<b>Parent entity</b>					
Grupa LOTOS S.A.	Gdańsk	Manufacture and processing of petroleum refining products (mostly fuels) and wholesale of such products	not applicable	not applicable	not applicable

**Direct subsidiaries**

LOTOS Paliwa Sp. z o.o.	Gdańsk	Wholesale and retail of fuels, light heating oil, management of LOTOS petrol station chain	full	100.00%	100.00%
LOTOS Gaz S.A. <sup>(1)</sup>	Mława	Manufacture, retail and wholesale of LPG. At present the Company is not engaged in any operations	full	100.00%	100.00%
LOTOS Oil S.A.	Gdańsk	Manufacture and sale of lubricant oils, lubricants and domestic sale of base oils	full	100.00%	100.00%
LOTOS Asfalt Sp. z o.o.	Gdańsk	Manufacture and sale of bitumen	full	100.00%	100.00%
LOTOS Ekoenergia S.A.	Gdańsk	The Company has not started operations yet	full	100.00%	100.00%
LOTOS Kolej Sp. z o.o.	Gdańsk	Railway transport	full	100.00%	100.00%
LOTOS Serwis Sp. z o.o.	Gdańsk	Maintenance of mechanical and electrical traffic, instrumentation and control; repairs	full	100.00%	100.00%
LOTOS Lab Sp. z o.o.	Gdańsk	Laboratory analyses	full	100.00%	100.00%
LOTOS Straż Sp. z o.o.	Gdańsk	Fire safety	full	100.00%	100.00%
LOTOS Ochrona Sp. z o.o.	Gdańsk	Personal and property security services	full	100.00%	100.00%
LOTOS Parafiny Sp. z o.o.	Jasło	Sale and manufacture of paraffin mass	full	100.00%	100.00%
LOTOS Tank Sp. z o.o.	Gdańsk <sup>(2)</sup>	Wholesale of petroleum products	full	100.00%	100.00%
LOTOS Czechowice S.A. (has its own capital group)	Czechowice-Dziedzice	Storage and distribution of fuels	full	85.04% <sup>(3)</sup>	80.04%
LOTOS Jasło S.A. (has its own capital group)	Jasło	Services related to distribution of petroleum derivative products, fuel storage, setting up and maintaining fuel reserves, manufacture and processing of petroleum refining products and retail and wholesale of such products	full	85.01% <sup>(3)</sup>	80.01%
Petrobaltic S.A. <sup>(4)</sup> (has its own capital group)	Gdańsk	Acquisition and exploitation of petroleum and gas deposits	full	99.32% <sup>(3)</sup>	69.00%
UAB LOTOS Baltija	Vilnius, Lithuania	Retail and wholesale of lubricant oils in Lithuania, Belarus, Ukraine and Latvia, trade and legal consultancy since Jan 2009	full	100.00%	100.00%
LOTOS Park Technologiczny Sp. z o.o.	Jasło	Business and management consultancy services. At present the Company is not engaged in any operations	full	0.29% <sup>(5)</sup>	86.91%
<b>Indirect subsidiaries</b>					
RCEkoenergia Sp. z o.o.	Czechowice-Dziedzice	Services	full	85.04% <sup>(6)</sup>	80.04%
LOTOS Biopaliwa Sp. z o.o.	Czechowice-Dziedzice	Manufacture of fatty acid methyl ester (FAME) <sup>(7)</sup>	full	85.04% <sup>(7)</sup>	80.04%
RCSerwis Sp. z o.o.	Czechowice-Dziedzice	Services	.. <sup>(8)</sup>	.. <sup>(9)</sup>	86.91%
PLASTEKOL Organizacja Odzysku S.A.	Jasło	Services	full	81.18% <sup>(6,10)</sup>	66.81% <sup>(10)</sup>
KRAK - GAZ Sp. z o.o. in liquidation bankructcy	Kraków	Retail and wholesale of LPG	.. <sup>(1)</sup>	.. <sup>(1)</sup>	100.00%
Miliana Shipping Company Ltd.	Cyprus	Services	full	99.32 % <sup>(6)</sup>	68.93%
LOTOS Exploration and Production Norge AS	Stavanger Norway	Petroleum exploration and exploitation on the Norwegian continental shelf; provision of services related to petroleum exploration and exploitation. The Company started operations in November 2007	full	99.32% <sup>(6)</sup>	69.00% <sup>(11)</sup>
Aphrodite Offshore Services N.V.	Curacao, the Netherlands Antilles	Services	full	99.32% <sup>(6)</sup>	69.00%
Energobaltic Sp. z o.o.	Gdańsk <sup>(13)</sup>	Manufacturing activities	full <sup>(12)</sup>	99,32%	32.16%

<sup>(1)</sup> By 23 July 2009 LOTOS Gaz controlled the KRAK-GAZ subsidiary. As at 30 April 2009, KRAK-GAZ applied for bankructcy to the District Court for Kraków-Śródmieście 8th Economic Division competent for bankructcy and recovery proceedings. As at 23 July 2009, the District Court for Kraków-Śródmieście 8th Economic Division competent for bankructcy and recovery proceedings issued a decision declaring bankructcy through the liquidation of KRAK-GAZ assets.

<sup>(2)</sup> As at 12 August 2009, the main offices of LOTOS Tank were moved from Jasło to Gdańsk.

<sup>(3)</sup> As at 9 July 2009, an agreement for acquiring shares in Grupa LOTOS by the Treasury was signed. In return, the Treasury made a non-pecuniary contribution to Grupa LOTOS comprising 30.32% shares in Petrobaltic, 5% shares in LOTOS Czechowice and 5% shares in LOTOS Jasło.

<sup>(4)</sup> As at 31 March 2010, the National Court Register recorded a change in the trading name from Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu "Petrobaltic"

Joint-Stock Company to LOTOS Petrobaltic Joint-Stock Company, abbreviated to LOTOS Petrobaltic S.A.

<sup>(6)</sup> As at 20 November 2009, the existing shareholders of LOTOS Park Technologiczny transferred the following shares to LOTOS Park Technologiczny:

- Grupa LOTOS – 9,400 shares out of 9,500,
- LOTOS Czechowice – all the 12,314 shares,
- LOTOS Jaslo – all the 9,866 shares,
- LOTOS Serwis – all the 2,834 shares,
- Partner Holding Management Sp. z o.o. – all the 100 shares.

LOTOS Park Technologiczny acquired its own shares for voluntary redemption by means of reducing the share capital. The structure of LOTOS Park Technologiczny shareholders after the transaction:

- LOTOS Park Technologiczny – 99.71%,
- Grupa LOTOS – 0.29%.

Grupa LOTOS controls LOTOS Park Technologiczny, based on the rights of the Meeting of Shareholders held by Grupa LOTOS as the sole shareholder entitled to the rights in shares. As at 31 March 2010, reduction in the share capital of LOTOS Park Technologiczny to PLN 50,000 was registered. The share capital of LOTOS Park Technologiczny is divided into 100 shares. After registration of the changes in the National Court Register, the share of Grupa LOTOS in the share capital of LOTOS Park Technologiczny is 100%.

<sup>(6)</sup> Equity changes referred to in point (3) affected the indirect per cent share of the Group in the share capital of subsidiaries of Petrobaltic S.A. (currently LOTOS Petrobaltic), LOTOS Czechowice and LOTOS Jaslo.

<sup>(7)</sup> As at 1 March 2009, LOTOS Biopaliwa commenced business activity.

<sup>(8)</sup> Shares contributed in kind as at 2 January 2006, by LOTOS Czechowice Capital Group to LOTOS Park Technologiczny.

<sup>(9)</sup> As at 6 November 2009, LOTOS Park Technologiczny sold 100% of RC Serwis shares to a third party for PLN 1,800,000. As a result of this transaction, the Group achieved profit of PLN 688,000.

<sup>(10)</sup> From May to June 2008 and January to December 2009 LOTOS Jaslo purchased shares of PLASTEKOL Organizacja Odzysku S.A. Following the transactions, the share of LOTOS Jaslo in the share capital of PLASTEKOL Organizacja Odzysku grew to 95.5%.

<sup>(11)</sup> As at 19 May 2008, the Management Board of Petrobaltic decided to commence the procedure of increasing the share capital and taking up 80% of shares in LOTOS Exploration and Production Norge AS by Petrobaltic. Petrobaltic paid for 32 million of new shares with cash, for the price equal to their nominal value, i.e. NOK 32 mln. (i.e. PLN 13,782,000 thsd at the average exchange rate published for NOK by NBP as at 19 May 2008). As at 12 June 2008, the LOTOS Group entered into a transfer agreement with Petrobaltic for 8 million shares in LOTOS Exploration and Production Norge, accounting for 20% of the share capital of the company. The shares being the subject of the agreement, with the total nominal value of NOK 8 mln (i.e. PLN 3,376,000 thsd at the average exchange rate published for NOK by NBP on 12 June 2008), entitling to 8 million votes, are equal, indivisible and account for 20% of the share capital of LOTOS Exploration and Production Norge. As a result of the transaction, Petrobaltic became the owner of 40 million shares accounting for 100% of the share capital of LOTOS Exploration and Production Norge.

<sup>(12)</sup> As at 27 November 2009, Petrobaltic took control over Energobaltic.

<sup>(13)</sup> As at 25 January 2010, the change of the registered office of Energobaltic from Gdańsk to Władysławowo was registered.

As at 31 December 2009, Grupa LOTOS indirectly held 40.31% of the share capital of its affiliate, GK AB Geonafta.

As at 31 December 2009 and 31 December 2008, the share in the total number of votes held by Grupa LOTOS in subsidiaries is equal to the Company's share in the capitals of those entities, except for the share in LOTOS Park Technologiczny.

## Organisation

In the LOTOS Group decisions on various business areas, including directions of development, assessment of activities and allocation of resources to such areas, are made by the Management Board of the parent entity. In Grupa LOTOS financial reporting pursuant to IFRS 8 for business areas is applied.

The criteria which define a business area:

1. involvement in economic activities which may generate costs and revenues,
2. operational results regularly reviewed by the parent entity's Management Board and used for taking decisions on resources allocated to the area and for the assessment of the operating results of the area,
3. availability of separate financial information.

The LOTOS Group comprises the following business areas:

- **oil and gas exploration and exploitation area**, which includes LOTOS Petrobaltic with the subsidiaries,
- **petroleum product sales and production area**, which includes other companies in the Group except LOTOS Park Technologiczny, LOTOS Gaz and LOTOS Ekoenergia,
- **other areas**, which include LOTOS Park Technologiczny, LOTOS Gaz and LOTOS Ekoenergia.

The LOTOS Group introduced the segment management model. A segment is a separated area of business activities, managed in the scale of the Capital Group by an appointed Member of the Management Board of Grupa LOTOS, as the parent entity. The segment management is a management model primarily aimed at: improving management efficiency, utilising benefits of scale, achieving cost and revenue synergies within the entire organisation. The segment management comprises, among others:

- implementation of a coherent strategy,
- co-ordination of investments in the Capital Group,
- co-ordinated planning and controlling,
- integrated operational management including compliance with coherent corporate standards in the Capital Group and synergies by setting out coherent goals and parameters of effectiveness,
- co-ordination of the support function.

The LOTOS Group consists of:

**The Management Segment:** managed by the President of the Board, the CEO, i.e. the head of the management segment. This segment works to increase the value of the Group by managing the overall activities, preparing and monitoring strategy implementation, setting out the direction of the development of various business areas, co-ordinating the support function (HR management, main business process management, system management, CSR policy, marketing and communication policy, legal and administration, IT, internal audit, physical security).

The following companies are assigned to the Management Segment:

- LOTOS Ochrona
- UAB LOTOS Baltija
- LOTOS Ekoenergia
- LOTOS Park Technologiczny.

**The Exploration and Exploitation Segment:** managed by the President of the Board, the CEO, i.e. the head of the exploration and exploitation segment. Key tasks of the segment include: preparation of the development strategy for activities of the Capital Group in the area of oil and gas exploration and exploitation, management and supervision over exploration and exploitation activities, and responsibility for the implementation of strategy in this area.

The following company is assigned to the Exploration and Exploitation Segment:

- LOTOS Petrobaltic with subsidiaries.

**The Operational Segment:** managed by the Vice-President of the Board, the COO, i.e. the head of the operational segment. Key tasks of the segment include: management, co-ordination and supervision over all the matters related to the refinery manufacturing and technology, including implementation of the 10+ Programme. The segment is responsible for preparing assumptions of the refinery manufacturing policy, supervising matters related to manufacturing R&D, co-ordinating investment projects on the technical and technological development, creating the strategy of the maintenance and expansion of the manufacturing facilities.

The following companies are assigned to the Operational Segment:

- LOTOS Straż
- LOTOS Serwis
- LOTOS Lab
- LOTOS Czechowice with subsidiaries
- LOTOS Jasło with subsidiaries.

**Sales Segment:** managed by the Vice-President of the Board, the CCO, i.e. the head of the sales segment. The segment is responsible for managing the sales, supply and distribution processes within the Capital Group, including creation and implementation of the sales policy, sales planning for all business sectors, distribution channel management, approval of sales plans and policies and development of the supply chain optimisation strategy.

The following companies are assigned to the Sales Segment:

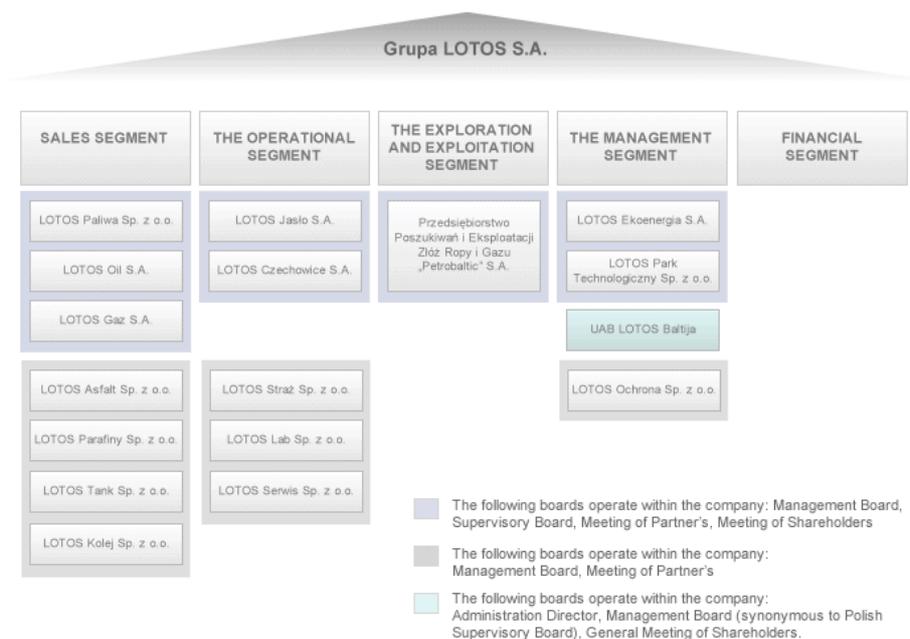
- LOTOS Paliwa
- LOTOS Oil
- LOTOS Asfalt
- LOTOS Parafiny
- LOTOS Gaz with subsidiaries
- LOTOS Kolej
- LOTOS Tank.

**Financial Segment:** managed by the Vice-President of the Board, the CFO, i.e. the head of the financial segment. The segment is responsible for managing the whole financial and accounting activities of the Capital Group, including the creation of policy and monitoring the area of internal equity flows and dividends, the creation and monitoring of the financial, tax and insurance strategy, supervision over the organisation of financing development programmes of the Capital Group, co-ordination of implementation of and compliance with the corporate governance, development and implementation of the financial risk management strategy.

Grupa LOTOS acts as the integrator of key management and supporting functions in the Capital Group companies.

#### Segments of activities

31 Dec 2009



Since Q1 2010, LOTOS Gaz S.A. falls under the Management Sector.

## Membership in organisations

Grupa LOTOS is a member of the following national and international organizations:

### Industry organisations

1. Conservation of Clean Air and Water In Europe (CONCAWE),
2. Institute for Fuels and Renewable Energy (Instytut Paliw i Energii Odnawialnej),
3. Polish Organisation of Oil Industry and Trade (Polska Organizacja Przemysłu i Handlu Naftowego),
4. Scientific and Technical Association of Engineers and Technicians of the Gas and Oil Industry (Stowarzyszenie Naukowo Techniczne Inżynierów i Techników Przemysłu Naftowego i Gazownictwa),
5. Windsor Energy Group,
6. World Petroleum Council – Polish National Committee.

### Business organisations

1. Business Center Club,
2. European League for Economic Cooperation – Polish section (Liga Europejskiej Współpracy Gospodarczej – Sekcja Polska),
3. Gdańsk Business Club (Gdański Klub Biznesu),
4. Polish Business Roundtable Club (Klub Polskiej Rady Biznesu),
5. Polish Higher Education-Business Forum (Polskie Forum Akademicko-Gospodarcze),
6. Pomeranian Chamber of Commerce and Industry (Pomorska Izba Przemysłowo-Handlowa).

### Organizations which popularise the concept of corporate social responsibility

1. Responsible Business Forum (Forum Odpowiedzialnego Biznesu),
2. UN Global Compact

### Specialised organisations

1. Confederation of Polish Employers (Konfederacja Pracodawców Polskich),
2. ISO 14000 Polish Forum Club (Klub Polskie Forum ISO 14000),
3. ISO 9000 Polish Forum (Polskie Forum ISO 9000),
4. Polish Economic Society (Polskie Towarzystwo Ekonomiczne),
5. Polish District Chamber of Civil Engineers (Polska Okręgowa Izba Inżynierów Budownictwa),
6. Association of Stock Exchange Issuers (Stowarzyszenie Emitentów Giełdowych),
7. Accountants Association in Poland (Stowarzyszenie Księgowych w Polsce).

### Membership in supervisory bodies of organisations

1. Gdańsk Business Club (Gdański Klub Biznesu): Paweł Olechnowicz, Member of the Club Council,
2. European League for Economic Cooperation – Polish Section: Paweł Olechnowicz, Member of the Management Board,
3. Polish Higher Education-Business Forum (Polskie Forum Akademicko-Gospodarcze): Paweł Olechnowicz, President of the Board.

# Vision of development

## Sustainable development in view of 10+

### An interview with Paweł Olechnowicz, President of the Board of Grupa LOTOS

**– Grupa LOTOS is changing its approach to reporting on sustainable development with its current Annual Report. What are the reasons for this decision?**

Transparency is of enormous importance for the organisation's proper operation, in particular for an organisation of the scale and nature of activities as Grupa LOTOS. We run an open information policy and undergo scrupulous reviews. Reporting is one of the social dialogue tools and a form of undergoing public evaluation and control. Trust in the Company comprises openness, transparency of activities and comprehensive communication. On one hand, comprehensive communication is understood as relations with all key stakeholders, those actively involved in activities of Grupa LOTOS as well as those interested in the effects of the Company's operations. On the other hand, comprehensive communication is understood as the presentation of all of our activities in view of sustainable development, namely the consequences of today's actions for future generations.

The Company has a rich tradition of reporting on its accomplishments. Since mid 2005, the Company has been listed on the Warsaw Stock Exchange. Thus, we are bound by certain information obligations to comply with the principles of good practices for public companies. Regardless of this, we have been presenting comprehensive reports on the social aspects of our activities since 2006. The 2006 Environmental Report was the first one published. The following two reports presented a full engagement in the aspects of social activities and sustainable development.

The corporate social responsibility Report of the LOTOS Group for 2006-2007 was voted the best CSR report in the nationwide contest organised by the Responsible Business Forum, PricewaterhouseCoopers and CSR Consulting. The next report which presented results for 2008 received an honourable mention in the same contest for the high standards of reporting and the application of innovative solutions in the process. The verdict of the jury, headed by Prof. W. Orłowski, as well as stakeholders' opinions received as a result of in-depth interviews, assured the Company of the validity of the adopted information policy. This policy assumes transparency for all aspects of operations: the economic, social and environmental aspects. Therefore Grupa LOTOS follows the Global Reporting Initiative (GRI) methodology, as the only one which allows such a comprehensive and objective presentation of the overall achievement of the Company while preparing the reports. During the publication of the first social report, Grupa LOTOS was only the second Polish company which used the GRI tool. It is a methodology which not only calls for a high level of information transparency, but also enormous involvement of the entire organisation.

We treat social responsibility as an indicator of our organisation management philosophy. Responsibility, ethics and openness are the fundamentals of our business activity principles. These are the premises which affected the current decision on changing the reporting model. Instead of the existing two reports, both; annual and social, Grupa LOTOS is submitting this year a report which integrates all fields of activities. We believe this decision fully confirms the fact that we treat social responsibility as the operational principle, and confirms the importance of sustainable development as an inherent element of the LOTOS Group strategy.

I am certain that the Report, prepared in accordance with international financial and non-financial reporting standards shall prove to be useful in assessing the situation of the Company, which is included in the first CSR index, the RESPECT Index, at the WSE.

**– How does Grupa LOTOS deal with sustainable development?**

We pay great attention to the implementation of the concept of corporate social responsibility and in a wider context to the application of the concept of sustainable development. This is relating all the business decisions to the prospect of development in three key dimensions for the LOTOS Group. Our goal is to:

**1. Achieve responsible, long-term economic growth, not only from the basic activities, but also from the quality of life in the social environment of the enterprise.** This is manifested, among others, by the scale of our direct economic impact in the aspect of the chain of supply and provided workplaces in particular. One example is the number of employees from external companies involved in the implementation of the strategic development project of Grupa LOTOS, the 10+ Programme. The Company did not abandon this investment despite the economic slowdown of the past months. Yet according to the International Energy Agency, more than 20 large projects were abandoned in the whole petroleum industry in 2009.

The impact of the LOTOS Group companies operating in the local markets is also important. The company I have in mind is LOTOS Asphalt, which operates in the Jasło region, an area with high unemployment rate. The Hydro-Insulating Material Plant built in the Tarnów Special Economic Zone in 2009 will create approx. 100 new workplaces. The Company is contributing not only to reduction of unemployment but also to bringing economic revival in regions with a dramatic economic situation.

**2. Protect the natural resources and environment.** An active approach to environmental protection stems from the obligation of the companies which represent the industry exploiting non-renewable natural resources, i.e. gas and oil. Grupa LOTOS plays a major role in the area of the national energy security of Poland. Yet in order to preserve the environmental heritage and natural resources for future generations we must make economically sound decisions and implement innovative solutions. The goal of such solutions is to reduce the impact of our activities on the natural environment and contribute to preserving the natural ecosystems of the region. This is of particular importance given the coastal location of the refinery.

There are many examples of such activities. One of them is Grupa LOTOS' involvement in the project of a natural gas-fired CHP plant, planned to be built in the partner system. The modern CHP plant will contribute to balancing the energy needs of the whole Pomeranian region. It is also important that the CO<sub>2</sub> emissions to the atmosphere will be 40% lower compared to the coal-fired facility of the same power and output. It should be also stressed that our development strategy for the refinery for the forthcoming years assumes reducing the plant noxious production to the environment. Among other ways, this will be achieved by:

- connecting a natural gas pipe to the refinery and using clean gas fuel as the source of energy for the manufacturing process,
- recovery of gas currently fed to the torches and using it as process fuel, to reduce the total CO<sub>2</sub> emissions.

Another priority is the energy consumption of processes, which is already lower. All the facilities built as part of the 10+ Programme were designed in a manner which not only guarantees compliance with the BAT (best available technology) ratios required by the EU, but often exceed the standard requirements. Continuous reduction of the environmental impact of the manufacturing processes and protection of natural resources are key elements of the development strategy of the Group, an indication of the innovativeness and involvement of the Group in sustainable development. It is worth mentioning that Grupa LOTOS has its own CHP plant with a technological system which supports the generation of electricity in cogeneration with heat output. This is the so-called red energy. In 2010 the Energy Regulatory Office awarded the company with a certificate that confirms the generation of such energy. In order to receive the certificate, the CHP plant had to meet stringent requirements and demonstrate a high level of saving of primary energy. This is one of the examples of the activities we undertake to achieve the environmental effect in a form of CO<sub>2</sub> emissions reduction.

The Gdańsk refinery is ranked 6<sup>th</sup> among 106 European refineries in the last edition of the ranking by SOLOMON, a company which benchmarks the 350 largest refineries in the world, which confirms a high appraisal of technological processes applied in Grupa LOTOS. Among other reasons, Grupa LOTOS owes such a high rank to energy effectiveness, the amount of fuel and electrical energy consumed by the refinery compared to its size.

**3. Social development.** Open information and mutual understanding is not restricted to relations between Grupa LOTOS and external stakeholders. These values can be also found in relations among employees and in vertical communication. These principles are also applied in the Capital Group, which consists of more than a dozen companies. A decision made by any of these companies is made in consideration of its effects on the activities of individuals responsible for results in another company. Yet corporate social responsibility is not only about the transparency of activities, but also the increased investments in human resources and environmental protection. Obviously, the quality of the social policy of Grupa LOTOS is also manifested in the processes of employment, remuneration, and new management methods.

Social activities are also a part of our strategy. Together with our stakeholders we wish to take part in major cultural, artistic, scientific or sports events, in particular if these are of major importance to our immediate neighbourhood. Grupa LOTOS takes into serious consideration environmental and personnel expectations. This allows for a creation of a friendly brand image. The social aspect is also closely related to strictly business decisions. The main strategy of the future Group development is oil exploration and exploitation. However, smaller investments, in particular those related to the petrol filling station chain, are more important to our customers. We have chosen the new model of LOTOS network management. Currently stations are managed by the dealers as we believe that the best results can be achieved when there is personal responsibility for the effects of work involved. We have devoted the past few years to reorganising the network, instead of increasing the number of new stations being commissioned. In accordance with our business philosophy, we have decided to measure the development not with quantity, but with quality. We would like to be perceived as one of the best in the customer service area. The results of regular consumer surveys seem to prove this decision to be the right one.

Prospects of sustainable development		
SOCIAL	ENVIRONMENTAL	ECONOMIC
Human rights, work safety, health protection, gender equality, diversity management	Natural resources, climate changes, biodiversity	Accountability, quality of management, value creation

**– Since quite recently Grupa LOTOS has joined InnoEnergy, the “knowledge and innovation community” project, a potential platform for totally new initiatives on sustainable development in Poland.**

The project is an answer to the European Commission’s initiative on establishing the European Institute of Innovation and Technology comprising a network of “Knowledge and Innovation Communities”. The task of such communities is to develop solutions for strategic and long-term challenges of major social and economic importance for Europe. The decision on the selection of the first three participating communities was made by the Institute in December 2009. InnoEnergy was one of the projects which qualified for co-operation. The project will be implemented by an international consortium co-ordinated by Karlsruhe Institute of Technology. The consortium consists of 6 centres (so-called Collocation Centres, CC) responsible for various topic areas. One of them is CC Poland Plus - Clean Coal Technologies and New Paradigm for Carbon Management. One of the main project initiators in Poland is the long-term partner of Grupa LOTOS, i.e. the University of Science and Technology (AGH) in Kraków. Grupa LOTOS is one of companies and organisations which supports the project’s implementation. This is a unique initiative: the Polish participants focused on the development of clean coal technologies, i.e. increasing effectiveness and reducing emissions, coal gasification processes, as well as nuclear and coal synergy which utilises the heat generated by the nuclear reactors in clean coal technologies and industry.

This is a long-term project and its key goals are grouped around the so-called Innovation Triangle (Scientific Research, Education and Innovation). The project assumption is to establish a lasting interaction among these three layers, by pursuing scientific research at the highest global level, implementing and commercialising research results in co-operating with enterprises, and establishing close links between entrepreneurship education, practice and training. The project results will focus on society and fulfilling its future needs based on permanent and sustainable development.

An obvious benefit of participation in the project is the initiation, participation and access to the effects of research, experience and technologies of partners who represent and create the highest European standards. Grupa LOTOS as an entity interested in reducing greenhouse gas emissions, in particular CO<sub>2</sub>, always looks for up to date methods to achieve this goal. The existing solutions call for immense financial support on the one hand, and on the other, are very energy consuming. Therefore, it is necessary to continue research on the new, cheaper and less energy-consuming technologies.

Grupa LOTOS by using its expertise and achievements, shall participate in this project of development and implementation of modern methods of education and building the skills, knowledge and entrepreneurship of young personnel wishing to work in the fuel sector. This conforms to the existing directions of development of the Company’s social policy.

## Operating strategy

### Management Approach

The LOTOS Group has been pursuing the development strategy adopted in 2006 and revised in 2008. The revision was made in connection with a re-definition of the key strategic programmes and initiatives undertaken by the Capital Group to increase the energy security of the State.

The adopted strategy defines the basic activity as oil exploration and exploitation, comprehensive oil processing for fuels, and trading in petroleum products. In its pursuit of continuous sustainable development, the LOTOS Group is open to innovative solutions resulting from new trends in the energy policy of Europe and flexibly responds to changing economic conditions.

**The strategy of the LOTOS Group assumes:**

- **an increase in the economic effectiveness of oil processing following optimum utilisation of the existing refinery plant and completion of the 10+ Programme,**
- **the development of activities related to oil exploration and exploitation,**
- **an increase in sales effectiveness,**
- **strengthening of the market position in the retail and wholesale fuel market.**

The ultimate strategic goal of the LOTOS Group is to build value for shareholders by means of the optimum use of the existing potential and the implementation of development programmes in the operating, sales and exploration-exploitation areas.

The strategic goal of the operating segment is the Group's optimal and effective use of the current assets located in Gdańsk, Jasło and Czechowice, as well as the assets acquired in the course of development activities. The 10+ Programme is the leading investment project. Evaluation of the operating activity and identification of areas which require activities related to improvements in safety and effectiveness are performed regularly by independent external auditors.

Strategic goals are achieved in the sales area by means of developing the sales of products with the highest qualitative parameters and focusing on the most profitable operating areas.

The goal of the exploration and exploitation activity is to create an international segment with a portfolio of assets carrying diversified risk, at various stages of development, operating mainly in the Baltic Sea, North Sea and Norwegian Sea areas. Selection of projects in various segment areas depends on their economic value and capital availability.

## Progress in achieving strategic goals

The LOTOS Group achieved the goals presented in the business strategy for sales and operational areas in 2009. However, in the exploration-exploitation area, given the considerable changes in the oil exploitation market, the goals were not achieved. Consequently, a different time horizon regarding the aforementioned is currently under consideration. Finally, as regards basic financial and economic ratios, values budgeted for 2009 were not achieved. Deviations to the values contained in the LOTOS Group's strategy by 2012 were caused by a number of factors, such as low oil prices, the extremely low refinery margin, the low Brent/Ural differential, as well as the fluctuating exchange rate.

At present, work is underway on another revision of the strategy until 2014 and a definition of the directions for development until 2022. Given the major changes resulting from the global financial crisis the following provisions of the strategy shall be revised:

- optimum use of manufacturing capabilities resulting from the 10+ Programme being completed,
- the most favourable use of the heavy residue,
- active use of changes in the petroleum product markets,
- improvement in the competitive position of Grupa LOTOS.

The LOTOS Group will continue to focus on activities aimed at increasing value for the shareholders. The key role is the development of the exploration and exploitation segment and strengthening of the market position. The technological processes being implemented as well as other technical solutions will be as innovative as possible. Decisions on the development activities shall be based on the analysis of economic effectiveness and their implementation shall depend on the financial capabilities of the Capital Group. Capital arrangements or the use of a joint-venture formula with a strategic partner will be acceptable.

The implementation of the strategy will enhance the position of the LOTOS Group as a strong, innovative and effectively developing entity, which plays a major role in ensuring the energy security of the state operating in compliance with the concept of corporate social responsibility.

## Key risks, opportunities and challenges in the aspect of sustainable development

Grupa LOTOS operates in an environment and under conditions which carry a number of risks. These risks are identified and evaluated in various areas of activity and constitute a basis for decisions on further activities. Compared to the previous reporting period, the operational, financial and market risks have not changed considerably, being still present and continuously monitored.

### Risks related to governmental strategy in the petroleum sector. Legal risks of strategic nature.

As part of its strategic analyses, Grupa LOTOS continuously monitors the policy directions pursued by the European Union. An examination of the draft directives and then the proper directives allows the Company to learn about the potential legal environment years in advance, before the transposition of Community solutions to the Polish law.

Grupa LOTOS co-operates with state administrative bodies responsible for governmental strategies in the petroleum sector. In addition, the Company participates in providing opinions on drafts of domestic legal acts and governing legal acts in the area of interest to the Company, in particular the provisions on oil and fuel mandatory reserves, biocomponents and biofuels. These opinions are prepared both directly and through organisations of which Grupa LOTOS is a member.

The biofuel and biocomponent area is dominated by the risks related to very slow proceedings of relevant Polish administrative bodies on the transposition of the Directive 2009/30/EC of the European Parliament and of the Council as of 23 April 2009 which facilitates the use of increased biocomponent amounts in fuels (B7, E10). Risk areas also include uncertainty as to the detailed scope of regulations to be adopted in domestic solutions during implementation of energy package directives, in particular Directive 2009/28/EC with regard to sustainable development.

A major risk factor is also the intention to set higher thresholds of the National Index Target (NCW) for the forthcoming years, given the lack of Polish legislative solutions which would enforce the implementation of such thresholds. This may lead to penalties imposed for non-achievement of the NCWs or economically detrimental action undertaken in order to achieve the NCWs.

As regards mandatory reserves, the direction of future regulations in this regard is uncertain. We do not know the starting date of the mandatory reserves takeover from the companies operating in the market by the competent governmental agencies or the pace of that process, which may take up to 10 years.

Another potential problem, which may occur as early as in 2011, will be insufficient storage capacity for the mandatory reserves, in particular for oil.

### Risks related to changes and interpretations of the tax law

Frequent changes in tax provisions occur in the legal environment of Grupa LOTOS. New regulations being enforced and changes in the application of the existing provisions affect the way the Company pursues activities, the type of actions undertaken and the size of tax liabilities. Given the incessant changes in provisions, which are often incoherent, complex and incompatible with the Community regulations and the method of application of the existing provisions, internal procedures have been implemented to ensure that provisions of the law are observed and the tax risk is identified, minimised and monitored for impact on the financial statements of Grupa LOTOS. It is necessary to monitor the changes in the tax provisions and actively respond to such changes by harmonizing the internal systems of tax returns.

Frequent changes of regulations on excise tax, value added tax (VAT), corporate income tax, personal income tax and social insurance result in a lack of reference to fixed regulations or legal precedents. The interpretations of the Minister of Finance conflicting with judgments of the administrative courts make it impossible to predict uniform fiscal consequences for specific transactions.

Frequently occurring differences in opinions on the legal interpretation of fiscal regulations, both within the state authorities as well as among various authorities and enterprises, create areas of uncertainty and conflicts and as such lead to the loss of reliable business partners in foreign transactions. This state of affairs may also lead to resigning from profitable projects and transactions only to ensure fiscal safety for the Company.

Given these circumstances, the tax risk related to economic activities in Poland is considerably higher than in other countries with a much more developed fiscal system.

Additional factors which call for adequate tax risk management are high potential penalties for a tax offence or misdemeanour and the generally pro-fiscal approach of the Polish tax authorities. Entities engaged in economic activities must take into account the fact that following a mistaken interpretation of the law, an employee error, or incompetence of the officials, the entity may inadvertently create an outstanding tax liability. The tax authorities may carry out inspections and verify records of economic operations posted in the accounting books for a period of up to 5 years of the end of the tax year in which the tax returns were submitted.

### Financial risks

The Financial Risk Management Committee operating in Grupa LOTOS is responsible for the supervision and co-ordination of the financial risk management process in the Company. The main goal of activities in this scope is to:

- reduce cash flow variability,
- increase the likelihood of achieving budgetary and strategic goals,
- ensure short-term financial liquidity,
- maximise results on market risk management with the assumed risk level,
- support projects aimed at organising financing for investment activities.

**Management of the petroleum product and raw material price risk** is of particular importance for Grupa LOTOS. The concept of the management of the petroleum product and raw material price risk covers the period to the end of 2010 which is in line with the completion horizon for the 10+ Programme.

In addition, the Committee works on the management of the **risk of prices of (CO<sub>2</sub>) emission allowances** in accordance with assumptions contained in the "Strategy for the management of the risk of prices of CO<sub>2</sub> emission allowances in Grupa LOTOS". Pursuant to various stages of the Kyoto Protocol, it currently covers the management horizon until the end of 2012.

**Foreign exchange risk** is managed in accordance with assumptions of the "Strategy for the management of the FX risk in Grupa LOTOS", and the management horizon is set in accordance with the rolled planning period.

The US dollar (USD) is the natural currency of the operating market of Grupa LOTOS. The currency is used in oil and petroleum product price quotations. Therefore, Grupa LOTOS has a structurally long position in USD in connection with its operational activities. For this reason it was decided that the USD was the most appropriate currency to incur and repay long-term loans and finance the 10+ Programme.

**Interest rate risk management** is based on the expected repayment schedule for the loan incurred to finance the stocks and the 10+ Programme. The interest rate risk pertains to the interest fixed on the LIBOR USD variable interest rate.

**Liquidity risk management** in Grupa LOTOS consists of the monitoring of expected cash flows and available sources of financing and adjusting asset and liability maturity dates, the analysis of the working capital and the provision of access to various sources of financing.

**Credit risk for financial transaction partners** is managed through ongoing monitoring of the credit exposure for the limits set. The transaction partners must hold the appropriate rating awarded by the leading rating agencies or hold guaranties from institutions which meet the minimum rating requirement. Grupa LOTOS enters into financial transactions with reputable companies of good creditworthiness.

As regards the management of credit risk for non-financial transaction partners, all customers applying for trade credits undergo a creditworthiness assessment. Limits are awarded on the basis of results achieved. The evaluation of customers and limit awards are reviewed by the Credit Committees of the Capital Group's companies.

Given the current macroeconomic situation resulting from the global economic slowdown, the Management Board of Grupa LOTOS decided to intensify actions aimed at ensuring financial liquidity of the Company. The Anti-Crisis Package implemented at the beginning of 2009 brought considerable savings and improved cash flows. In 2010 Grupa LOTOS assumes further implementation of the cost effectiveness programmes.

The principles and instruments of financial risk management and the impact of the most important risk elements on the development of various areas of the financial results are presented in the consolidated financial statements under Additional information and explanations.

## Risks related to exploration and exploitation activities

As a result of the global economic slowdown, the development strategy for the exploration and exploitation sector and plans for the implementation of the strategy could be verified and adapted to the economic operating conditions. Potential risks in the exploration and exploitation sector include:

- exploration risk for potential resources,
- limited access to external financing,
- variability of market conditions in terms of oil prices and US dollar and euro exchange rates,
- operational risks related to the exploitation of carbohydrates,
- low efficiency of the auxiliary activities which support the exploitation processes,
- the processing risk of deposit development.

It should also be stressed that as regards exploration and exploitation activities, preventive actions are being carried out on an ongoing basis. These actions involve the continuous monitoring of the market and macroeconomic factors, project evaluation, and the making of decisions on the basis of previous geological and deposit analyses.

## Risks related to the raw material supply

Grupa LOTOS continues activities related to the adopted strategy of oil supply diversification by focusing on two key aspects of this strategic goal:

- the safety of oil supplies: clearing the alternative oil supply channel by establishing a presence in the international oil market, regular contracting of supplies of various brands of marine oil – with the potential for a dramatic increase in the share of such oil in total oil supplies if the continuity of supplies from the basic source is endangered,
- an improvement in competitiveness – through complete utilisation of the coastal location of the Gdańsk refinery and the possibility of receiving supplies from two independent channels: Russian oil through the Druzhba pipeline and various types of oil available through Naftoport. The appropriate selection of oil brands is based on ongoing optimisation.

## Operating risks

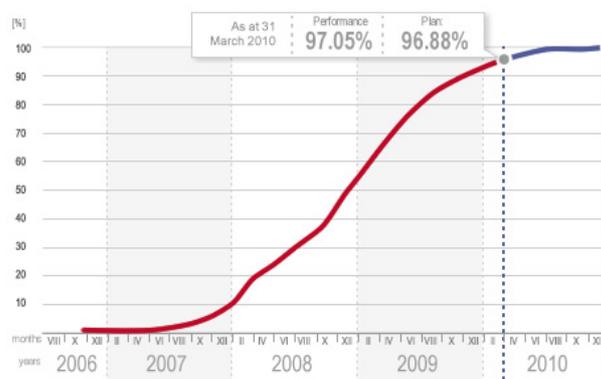
### Risks related to the 10+ Programme implementation

Given the fact that the implementation of the 10+ Programme is nearing its end, the related risks are reduced. Still, the risks are being monitored and controlled. These risks include, among others:

- supply or installation of faulty devices and materials which calls for repairs or replacement and increases the costs and causes delays,
- economic downturn of the subcontractors caused by various phenomena resulting from the global crisis and resulting in delays in investment completion, loss of advance

payments and the need to acquire additional materials,

- construction faults resulting from difficult working conditions or non-compliance with the procedures resulting in the suspension of works as well as budget delay and excess,
- failure to achieve full process parameters for the facilities being commissioned because of latent design defects resulting in lost profits or additional costs required to achieve the basic design parameters of the facility,
- adverse weather conditions resulting in delays and damage to the installed devices,
- protests and objections of persons or external institutions caused by the environmental impact of the investment resulting in the suspension of works and delays or the suspension of administrative decisions,
- accidents resulting from difficult working conditions or high intensity of work in the same area or OHS non-compliance,
- periodical suspension in lending resulting in the suspension of works from the lack of funds,
- the risk of euro appreciation when the majority of contracts is euro-denominated.



The progress of the 10+ Programme implementation

■ Performance ■ Plan

## Environmental risks

There are certain environmental risks to the operations of Grupa LOTOS, the key risks being:

- the risk of non-compliance with the environmental law provisions and requirements (domestic and Community),
- the risk of lack of CO<sub>2</sub> emission allowances,
- the risk of a major industrial failure.

The likelihood of the risk related to non-compliance with the national and Community law is minimised by ongoing monitoring of the environmental law requirements, efficient implementation, and active and effective participation in the legislative process involving legal acts. Identified legal requirements pertaining to environmental protection in the form of information or orders are provided to all locations in the LOTOS Group, to which the provisions of the law pertain. The process of obtaining all the permits is carried out with proper time reserve which takes into account the risk of prolonged administrative proceedings and guarantees obtaining the appropriate document in time or in advance.

Risk management in relation to legislative changes also involves activities related to obtaining the sufficient number of allowances in a given time for facilities participating in the EU CO<sub>2</sub> emissions trading system and obtaining new allowances. The Company is implementing this process as part of the 10+ Programme. The commissioning of new facilities requires additional emission credits which may be awarded when the adequate documents are submitted to confirm that the new or modernized facilities achieved full manufacturing capabilities and the commissioning process is complete.

Comprehensive identification and update of environmental risks as well as preparation of the method of eliminating consequences of potential technological faults is necessary to reduce the likelihood of threats and minimise the effects of unwanted situations involving an industrial failure causing excessive pollution to air, water and/or ground. Preventive tests are carried out in the refinery to check the technical condition of the devices. The refinery also applies numerous modern warning and fault-prevention techniques, involving carbohydrate, hydrogen sulphide and flame sensors or visual monitoring of the pipeline routes. Regular training in failure response is carried out to ensure fast and effective response to potential failures.

## Process and technical risks; risks related to occupational health and safety (OHS)

The process and technical risks involve threats related mainly to processed substances, technological processes, devices and equipment used, as well as operating conditions related to high pressure and temperature parameters.

The OHS risks are related to the exposure of personnel to onerous or harmful conditions connected with the performed work and the proximity of the technological processes which may ultimately lead to accidents at work or occupational diseases.

In accordance with the binding provisions of the law and internal regulations, the Company regularly identifies threats in each workplace and evaluates the occupational risk also for explosive atmosphere, noise, vibration, chemicals or biological substances in the working environment.

Generally used means and measures of work safety are aimed at minimising identified risks. Actions undertaken by the Company extend beyond the scope identified by the Polish legislation. In order to reduce the likelihood of unwanted events, Grupa LOTOS regularly implements new technical and organisational solutions to increase the awareness and involvement of the personnel and ensure safe working conditions for all the persons who remain and/or work in the vicinity of and for Grupa LOTOS.

The Concern also pays particular attention to procedural requirements obligating Grupa LOTOS to train the personnel in methods of operating complex devices and equipment or using hazardous substances. The system-wide principles and requirements, in particular employee compliance with rules of safe operation and work performance are strictly

controlled and enforced.

For years, Grupa LOTOS has applied Best Available Techniques in the manufacturing processes. The process installations are fitted with safety and protection systems and multi-layered protection systems in addition to BAT (i.e. prevention, protection and counteraction layers).

### **Risk of stricter quality requirements applicable to petroleum products**

Grupa LOTOS performs ongoing monitoring of drafts of new standards and ordinances affecting the sales and manufacturing activities of the Concern. The source of information about future changes in quality requirements is Technical Committee 222 of the Polish Committee for Standardization, competent for petroleum products and operating fluids. Through active participation in the works of the subcommittees of the Technical Committee 222, Grupa LOTOS is able to express its opinions on the new European standards when drafted.

Grupa LOTOS has an additional impact on the level of quality requirements, in particular requirements applicable to engine fuels, through participation in the works of an industry association, the Polish Organisation of Oil Industry and Trade. This participation considerably mitigates the risk of late adjustment to future quality standards applicable to petroleum products.

In 2010 a change in quality requirements for petrols and Diesel oil is planned, involving the modification of the permitted content of biocomponents. Work is underway to permit the marketing of petrols with an ethanol content of up to 10% and Diesel oil with a FAME content of up to 7%. Grupa LOTOS is already prepared for such changes which pose no threat to its continued operating activities.

### **Sales risks**

Grupa LOTOS' macroeconomic environment has an important impact on the sale of the Company's products, particularly in the time of economic slowdown. During the economic crisis, the reliability and liquidity of business partners which is determined by the liquidity of their payers, becomes essential. That is why a policy providing for transaction security and the control of receivables is of prime importance.

The extent to which rules for the establishment of collaterals are applied, and the current and future standing of market entities will be mainly determined by the policies of financial and insurance institutions. A more restrictive credit policy may mean that access to collaterals applicable to trade transactions such like insurance guarantees, insurances, letters of credit, working-capital and investment loans, will be limited or completely unavailable.

Thus, in 2009 and 2010, key risks of the trade activity of Grupa LOTOS comprise:

- reduced demand for fuels and other petroleum products resulting from the world-wide economic recession which may contribute to a smaller growth of sales than assumed;
- the appearance of new importers of petroleum products from various geographical territories, seeking sales opportunities in Poland and running aggressive pricing policies,
- competitors' aggressive pricing policies,
- reduced transit of goods through Poland,
- reduced number of air flights in the world,
- reduced number of road contracts and extending bid procedures related to road investments,
- reduced traffic of ships in Polish ports as a result of a drop in export/import,
- reduced industrial production resulting in smaller demand for lubricants, fuels and other petroleum products.

### **Risks and opportunities related to the Company's social situation**

The effects of the global economic slowdown observed in Poland resulted in changes in the Company's operations. In 2009, an Anti-Crisis Package was introduced and projects to improve the efficiency of operations were initiated, bringing savings in particular segments of the Company's activities. Meetings between staff and senior management, on-going information on the Company's standing, surveys among the employees of the Capital Group, as well as periodic meetings under the internal communication "Let's talk about LOTOS" programme produced active cooperation between the staff and the management in implementing the provisions of the Anti-Crisis Package. Owing to the significant commitment of the staff and the management, the cost discipline and the implementation of new system solutions, we managed to achieve the budgeted economic ratios and savings set out in the Anti-Crisis Package. The Company's situation is stable and employees have a great sense of responsibility for the results of their work. Currently, no significant risks of the social nature are identified. The implementation of the 10+ Programme resulted in the necessity of additional staffing in the production and technology divisions. The recruitment of young, educated and committed employees allowed a change in the age structure and the introduction of new innovative solutions.

### **Costs of the implementation of hedging strategies**

While planning strategies to secure against risks, the Company analyses necessary expenses and potential benefits arising therefrom. Such expenses should not exceed the financial consequences that Grupa LOTOS would have to bear if the risks materialised. Therefore, all risk reduction plans are implemented upon their profitability analysis.

### **Expected changes in identified risks**

Grupa LOTOS analysed how the identified risks might develop till 2012. It was evaluated to what extent the probability and financial consequences of such risks may change in that period. As an effect of the above analyses, it was observed that many risks would have a comparable impact on the Grupa LOTOS in the whole term of the strategy. When the 10+ Programme is completed, operational risks and the related risk of reduced access to external sources of finance will decrease. However, risks relating to competitive activities are likely to increase because of the bigger probability thereof. This is why Grupa LOTOS undertakes the relevant actions and implements adequate strategies to prevent risk consequences.

# Achievements and outlook

## Operational conditions

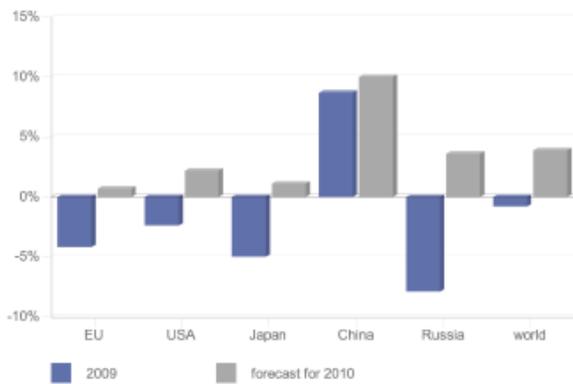
The economic situation in 2009 was better than expected by the market. The largest economies of the world started accelerating which slowed the drop in global GDP significantly. The global economy was, however, still very sensitive to any negative signals. The economic slowdown was reflected by the drop in demand for crude oil. For Grupa LOTOS, this was a very demanding period. Thanks to the implementation of the Anti-Crisis Package, covering cost-cutting measures and implementation of streamlining programmes, Grupa LOTOS managed to complete 10+ Programme investments as scheduled and its net financial result, although earned in difficult economic conditions, substantially exceeded the projections of analysts.

## External conditions for development

Economic indicators for the world economy for 2009 show, similarly to the previous year, that the economic environment is very volatile. Throughout 2009 the world economy shrunk by 0.8%, yet the specificity of that change was not uniform.

We could observe strong diversification of economic changes by geographical territory. On the one hand, the following key global economies recorded a significant drop in GDP: 2.4% for the USA, 5% for Japan, 4.2% for EU states, and 7.9% for Russia. On the other hand, economies of developing countries, including China (8.7%) and India (7%) grew by 2.1%.

### Rate of GDP growth in the years 2009-2010



Source: inhouse study based on IMF data (January 2010), Eurostat (March 2010)

The global economy ended 2009 with a negative growth in GDP, however, the rate of that drop was smaller than it had been expected in 2008. Economic improvement, faster than estimated, was mainly noticeable in the second half of the year in the USA and EU states, which resulted in the forecast growth of the global economy (by 3.9%) in 2010, including the USA (2.7%) and the EU (0.7%).

The better evaluation and macroeconomic perspective of the end of 2009 may be threatened by a number of economic risks, including, but not limited to, increasing unemployment (EU states), withdrawal of emergency government programmes, and the significant disproportion of the rate of growth.

## Poland – macroeconomic environment

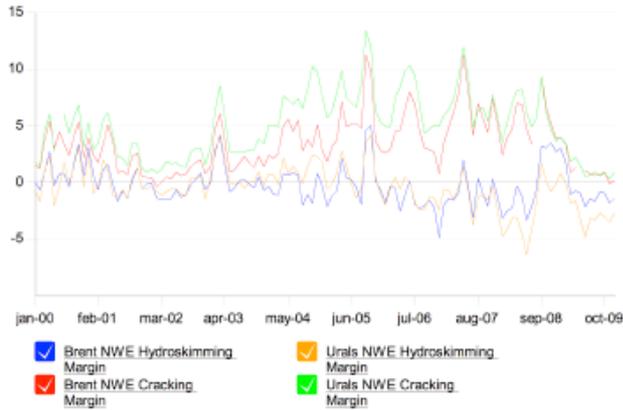
In 2009, the Polish economy recorded sound economic results in comparison to other EU member states. The annual growth in GDP was 1.8% and increased quarter by quarter. Domestic demand decreased by 0.9%, however, individual consumption increased by 2.3% in comparison to 2008.

In 2009, total retail sales grew by 4.3%. Good domestic sales could be achieved owing to a relatively stable situation in the labour market. The registered unemployment rate grew by 2.4 pp to 11.9% and the level of salaries in the economy was higher than in the previous year.

## Situation of the refinery sector

In 2009, this sector was mostly influenced by the global economic crisis which resulted in a decisive drop in demand for fuel, in particular diesel oil whose consumption is mainly determined by the economic standing of enterprises. Reduced demand had a negative impact on refinery margins which dropped to the smallest level for the first time ever since 2002.

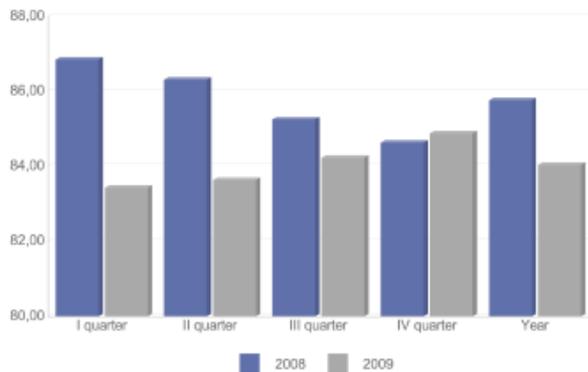
### Refinery margins (USD/bbl)



Source: International Energy Agency

The fall in global GDP directly contributed to the drop in demand for crude oil. This was mainly influenced by developed countries, while developing states recorded a growth in consumption. It is expected that in future developing states will have a bigger impact on the growth in consumption (Oil Market Report, February 2010, IEA). The market forecasts an average world demand for that raw material in 2009 of around 84.4 mb/d, i.e. by approximately 1.7% less than in 2008 (given the average estimated demand of 85.9 mb/d). While in the European market, the reported demand for crude oil was around 15.3 mb/d in 2009, in comparison to 16.1 mb/d in 2008. The rate of decrease in the consumption of the raw material in Europe was bigger than globally and reached 4.7%. It is important to note that, given the simultaneous drop in total demand, both global and European markets recorded a quarterly improvement in the consumption of the raw material (Own study based on OPEC data (Monthly Oil Market Report, February 2010), IEA (Oil Market Report, February 2010), EIA (Short-Term Energy Outlook, January 2010)).

#### Demand for crude oil in 2009 (mb/d)



Source: own study based on EIA data, March 2010

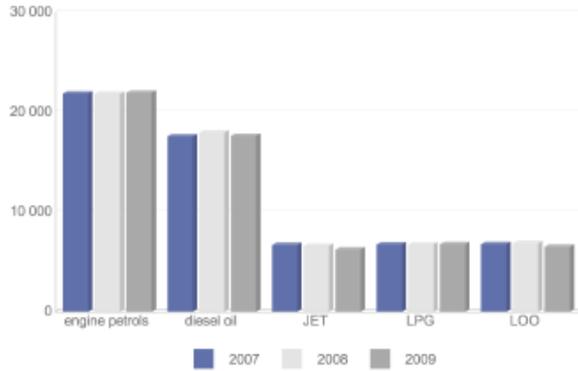
Year 2009 was characterised by quarterly growths in oil prices since the average raw material price was up to almost 37% smaller than in the previous year and amounted to 62 USD/b. Such a growth was, on the one hand, determined by the weakening American dollar and, on the other hand, increasing demand as a result of improvement in the economic situation. Oil prices changed from slightly over USD 40 in January to almost USD 80 at the end of the year. Such a trend is one incentive for taking up investments in the area of crude oil exploration and exploitation.

## International fuel market

(Market Report, January 2010, EIA (Short Term Energy Outlook, February 2010, Mid-Term Oil Market Outlook 2009-2014, JBC, October 2009)

It is estimated that in 2009 demand for oil refining products dropped by almost 1.8%. The biggest changes were recorded in the case of demand for air fuel JET (-5.3%) and light fuel oil (-4.9%). The global consumption of diesel oil, as initially estimated, decreased by 1.8%, while the consumption of petrols slightly increased. Such a global demand for fuels is an effect of the drop in demand in developed states

#### Fuel consumption in the world (thousand b/d)



Source: inhouse study based on JBC data, October 2009.

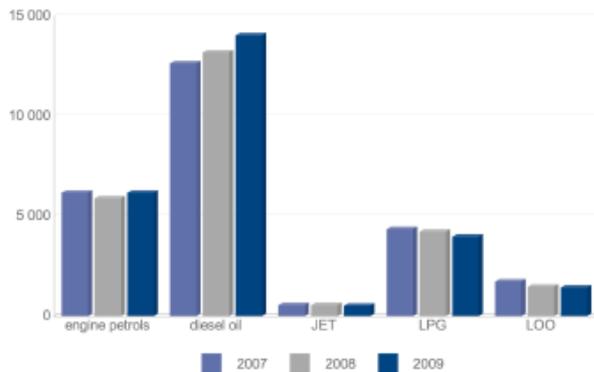
In the European market, the estimated drop in demand in 2009 was 3%, including a decrease in petrol consumption by 4%, JET fuel consumption by 4% and diesel oil consumption by almost 3%. Demand for diesel oil and air fuel is expected to increase.

## Polish fuel market

(The data source is POPIHN)

The consumption of liquid fuels in Poland in 2009 was rapidly growing (by 5.3% in comparison to 2008) and amounted to almost 21.7 million m<sup>3</sup> of products.

### Fuel consumption in Poland (thousand m<sup>3</sup>)



Source: inhouse study based on POPIHN data.

In Poland, petrol cars are the most popular and constitute 65% of the market. Demand for petrol is determined by individual customers, for whom an important factor is still the balance between retail prices of petrol and alternative diesel oil. Compared to 2008, the domestic fuel market recorded a growth in petrol consumption by 4.8%. The volume of demand for that product reached the level from 2007. Taking into consideration market maturity, such fluctuations should be considered as excessive.

The number of cars with diesel engines is much smaller than cars with petrol engines. However, given their purpose, such vehicles generate high diesel oil consumption. The share of diesel cars in the domestic market has been systematically increasing both globally and in the segment of passenger cars. The last year was another period in which the consumption of diesel oil in Poland increased. The growth in demand for that product was bigger than the rate of growth of the total fuel market and reached 6.4% in comparison to 4.3% in 2008. It is estimated that the growing trend in diesel oil consumption will be maintained in the nearest years, which should be supported by the development of road transport and diesel engine technologies. In accordance with world trends, the Polish fuel producers maximise the production of medium fractions, therefore they will be able to supply the market with domestic products to a much bigger extent.

In 2009 the sale of air fuel dropped by 5% and amounted to 0.5 million m<sup>3</sup>. The domestic consumption of this product resulted from the worse economic situation in Poland and in the world. Compared to the previous year, Polish airports served 8.2% less passengers and the number of paxes (number of departures and landings of aircrafts) decreased by 7.7%. Such a situation was a consequence of the global fall of passenger transport (by 2.9% in comparison to 2008) and cargo transport (by 11.1%). Air fuel is a product that is particularly sensitive to economic changes, therefore demand may grow significantly if macroeconomic conditions improve. In 2009, monopoly in the Polish air fuel market was broken – the subsidiary, LOTOS Tank, launched its own fuel base in the Gdańsk airport Rębiechowo.

In 2009, domestic sales of LPG amounted to over 3.9 million m<sup>3</sup> and was 6.1% smaller than in 2008. This was another year in which the consumption of that fuel dropped in spite of the growth in the number of vehicles equipped with a gas system. The growth in the number of cars run on LPG does not translate, however, into the growth of fuel sales since newer vehicle models consume less fuel. At the same time, older vehicles with gas installations are being scrapped. The shape of the LPG market shows that it is mature which means that product consumption should not change significantly in the following years.

In 2009, similarly to previous years, the consumption of light fuel oil decreased. However, that drop was smaller than in 2008, when it reached almost 15%. The consumption of that fuel in 2009 was 1.4 million m<sup>3</sup> and was 2.9% less than in the previous year. Smaller demand for the product results mainly from the growth in the importance of other energy sources whose prices are relatively small.

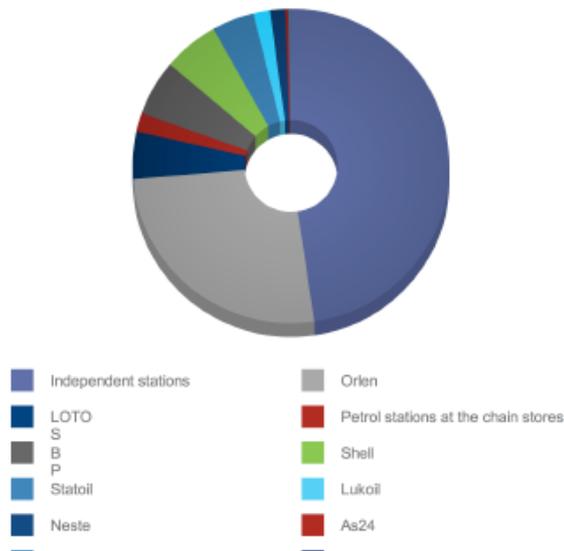
### Situation in the retail fuel market in Poland

In 2009, Poland continued actions aiming at the segmentation of the retail market of fuels and the adjustment of its offer to customer expectations. Market segmentation consisted of the visible separation of premium and economic stations. The Polish petrol station chains were streamlined mainly by way of the termination of patronage agreements. Particular activities are observed in the field of motorway petrol stations (Traveller Service Stations), where premium stations are located. As a part of the development of the motorway network in Poland, the General Directorate for National Roads and Motorways planned to fix around 100 Traveller Service Stations by 2015. However, the activity of fuel distributors in the economic sector, i.e. the sector of retail customers that are most sensitive to product prices, decreased noticeably. Although the price of fuel influences the choice of a station, customers mainly take into account a location criterion. In addition, still a small percentage of users declares that they use self-service stations (3% of customers use such stations regularly, 19% use them occasionally; 78% do not use them at all, source: Moto Scan 2009, Petrol Stations. December 2009).

At the end of 2009, the number of stations in Poland included over 6,700 facilities and was by 138 sales points bigger than in the previous year. Changes in the retail market of petrol stations in Poland may be defined in three basic areas:

- the drop in the number of stations and the reorganisation of the domestic sales network of petrol producers,
- the growth in the number of stations owned by foreign concerns,
- the permanent drop in the number of independent petrol station operators.

### The number of petrol stations in Poland



Source: inhouse study based on POPIHN data.

## Internal conditions for development

In 2009 Grupa LOTOS' development directions and actions were determined by two key concern projects: the 10+ Programme and the development and implementation of the Anti-Crisis Package. The major goal of both projects was, on the one hand, to ensure the financial liquidity of Grupa LOTOS and, on the other hand, to prepare the Company to market requirements in the time of economic recovery. All companies coming within the LOTOS Group were involved, to a different extent, in the execution of both the 10+ Programme and the Anti-Crisis Package. Undoubtedly, year 2009 required great commitment of all employees.

### 10+ Programme

The 10+ Programme is connected with the expansion of the refinery in Gdańsk. The total value of this investment programme exceeds PLN 5 bn. This is one of the biggest projects of this type in Central and Eastern Europe.

As at the end of 2009, the Company used approximately 81.8% of credit facilities allocated to the 10+ Programme. Apart from creditors' funds, Grupa LOTOS also used its own resources to finance the 10+ Programme to an extent defined by the credit facility agreement, generated by its operations. At the end of the fourth quarter of 2009, 94.74% of work under the 10+ Programme was completed. "The Human Resources 2009 – 10+ Programme" Project providing for the employment of 120 operating employees to operate the 10+ Programme installation was completed in 100%.

During the economic crisis, suspending investments and freezing expenses could seem to be the simplest and best solution. However, such a decision would weaken the competitive position of the concern and the Company would not be able to compete efficiently in the market in times of a better economic situation. To ensure financial liquidity and investment security in the Capital Group the Company implemented the Anti-Crisis Package.

### Anti-Crisis Package

On 10 February 2009, the Anti-Crisis Package was launched, the primary aim of which was to provide financial liquidity in 2009. The premises for the Package were the continuation of the 10+ Programme, no limitations in outlays on the Spring 2009 Overhaul Down-Time and the parallel reduction of all costs and expenditures that were not absolutely necessary.

The Package focused on cost cutting measures, rational reductions of investment outlays and the implementation of streamlining programmes. The actions taken involved revision and selection of planned and ongoing projects, based on which Grupa LOTOS took the decision to withdraw from any investment outlays that did not have to be borne in 2009.

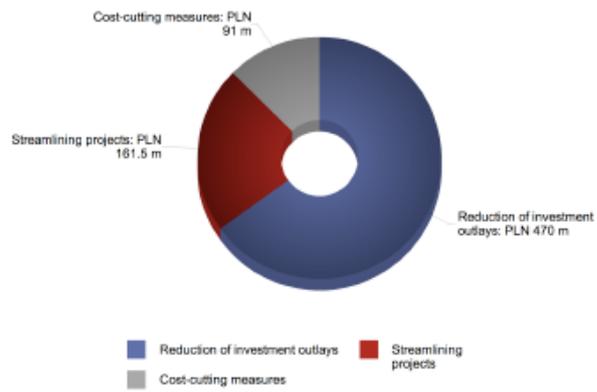
The introduction of the Package was preceded by broad consultations with lawyers and trade unions. In compliance with the transparency principle adopted in Grupa LOTOS, the objectives and premises of the Package were thoroughly communicated to all the stakeholders. After the implementation of all the measures provided for in the Package, Grupa LOTOS regularly monitored its execution and the tasks included therein were subject to systematic assessment and revision. The Package resulted in savings of PLN 722.5 m for the LOTOS Group, almost double the amount planned at its launching stage.

#### Execution of the Anti-Crisis Package

Investments	Cost cutting measures	Streamlining programmes
planned PLN 219 m	planned PLN 53 m	planned PLN 118 m
achieved PLN 470 m	achieved PLN 91 m	achieved PLN 161,5 m

The cost saving objectives of the Package were exceeded in all its areas, i.e. cost cutting measures, streamlining programmes and investments. The largest share in the savings made by its execution had the reductions of investment outlays, while more than one-fifth of the saved money came from the streamlining programmes.

#### Savings made by the execution of the Anti-Crisis Package (by source)



The launch of the Anti-Crisis Package was accompanied by the first social agreement ever to be concluded in Poland. The consensus on this agreement was reached by the Management Board, all corporate trade unions and the Council of Employees. In course of the negotiations, representatives of employees agreed to freeze remuneration in order to protect workplaces. Every month, special meetings of the Management Board of Grupa LOTOS and employee representatives were held to monitor the situation in the Company and the progress of the Package implementation.

## Trends and outlooks

The International Energy Agency (IEA) forecasts that the global demand for oil in 2010 will keep growing. According to IEA, the main source of this growth will be the surging demand for energy raw materials in two countries with the highest population potential, i.e. China and India. Moreover, IEA expects that the global economy will come out of the crisis so slowly that not earlier than in 2012 will the global oil consumption return to the 2008 level. Finally, experts project that countries that are not OPEC members, or so-called emerging markets, will account for 90% of the increased global energy consumption until 2030.

During a meeting at the end of 2009, the OPEC representatives decided to maintain the present production levels. The decision was based on the premise that the real oil price between 70-80 dollars is a fair price. According to the representative of Saudi Arabia, the largest global exporter of oil, the oil market is stable at present, its changeability is minimal and the price adequate. He also stated that the level of USD 75.00 was satisfying, both for the producers and consumers of oil.

The International Monetary Fund estimates that the average annual oil price in 2010 will be higher than in 2009 by 22% and it will amount to USD 76.00 per barrel (average for Brent, Dubai and WTI blends).

The stability of oil prices will be reflected in the gradual improvement of refining margins and the differential, which will lead to the gradual improvement of profitability in fuel companies. However, this process is not going to be a rapid one, as a number of refineries all over the world are operating at reduced production capacities.

## Financial and economic standing



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

Dear Stakeholders,

The year 2009 was another period of difficult macroeconomic conditions around the world. The oil industry in particular was hit by low oil prices and decreasing margins, especially in relation to medium distillates. From the point of view of the LOTOS Group, the low processing efficiency of our basic grade of crude oil, manifesting itself in the very low level of the so-called Brent/Ural differential, also had a negative impact. In this unfavourable environment, enterprises around the world were forced to take cost-cutting measures and pay particular attention to their financial liquidity. The LOTOS Group was one of the leaders in these initiatives. Already in the first half of the year an Anti-Crisis Package was introduced, reducing investment projects and optimising costs. It should be emphasized that the implementation of this Package had no negative effects on the execution of the investment projects which are essential for the future value of the LOTOS Group; on the contrary – it ensured their uninterrupted execution and secured the Company's financial liquidity.

The unfavourable macroeconomic conditions did not disrupt the implementation of the strategy of the LOTOS Group. The year 2009 was yet another period of growing sales, especially in terms of medium distillates. This is of the utmost importance, considering the planned increase in our processing capacity upon completion of the 10+ Programme. This investment project, which is currently the most important project of the LOTOS Group, was carried out last year according to plan. The first production plants were commissioned: a hydro desulphuriser (HDS) and an atmospheric and vacuum distillation unit (CDU/VDU). The economic benefits resulting from the newly commissioned plants will be visible in 2010, as they will allow us to increase crude oil processing to approx. 8 m tonnes, with further increase to 10.5 m tonnes per year after the completion of 10+ Programme.

In terms of oil extraction and production, activities were carried out in the Baltic Sea and the Yme project on the Norwegian Shelf continued. We anticipate first financial effects of crude oil production from the Yme field to be registered after exploitation in the second half of 2010 is launched.

Despite the unfavourable impact of external factors - low oil prices, drops in refining margins and the Ural/Brent differential – in 2009 the LOTOS Group generated an operating profit of PLN 419.8 m. This result was a consequence of implementing efficiency-fostering initiatives, as well as the revaluing inventories resulting from a reversal of the decreasing trend in resource prices in the second half of the year. The positive balance of financial activity, attributable mainly to gains on FX differences resulting from the revaluation of loans and borrowing, had a positive impact on the net profit from continued operations from 2009 to the amount of PLN 911.8 m, and on the net profit attributable to shareholders of the parent company at PLN 900.8 m.

The introduction in 2009 of the Anti-Crisis Package and a number of initiatives improving our financial liquidity as well as availability of further tranches of long-term funding guaranteed in the preceding years, allowed for the uninterrupted implementation of key investment plans of the LOTOS Group. Despite the difficult market situation and the negative results reported in the first months of 2009, there was no need for debt restructuring, which demonstrates our financial strength and a robust and consistent management of the Company. It was not without significance for the perception of Grupa LOTOS that the Company received additional capital by a contribution in the form of shares in LOTOS Petrobaltic, LOTOS Jaslo and LOTOS Czechowice, formerly remaining in the hands of the State Treasury.

Dynamic growth caused the value of investment outlays incurred in 2009, particularly on the 10+ Programme, to approach PLN 3 bn. This certainly had its impact on the structure of liabilities of the LOTOS Group. Debt ratios reached elevated, though anticipated, values. One of the Company's key tasks for the future will be to lower the debt level to a benchmark industry level. We believe that the currently implemented development projects will have a positive impact on our future financial results and will result in dynamic growth in the value of the LOTOS Group to its shareholders.

Yours faithfully,



Mariusz Machajewski  
Vice-President of the Board  
Chief Financial Officer  
Grupa LOTOS S.A.

## Stock exchange

### Grupa LOTOS on the Warsaw Stock Exchange

The year 2009 at the Warsaw Stock Exchange can be divided into two principal periods. The first lasted until mid-February and was characterised by the fall of all stock prices and indexes. This falling trend was caused by the global economic crisis started in 2008. In case of the WIG20 index, the bottom of the crisis was reached on 17 February 2009, which marked the beginning of the second period, when stock prices started to recover their losses while the index of the twenty largest companies entered a rising trend.

#### Quotations of Grupa LOTOS shares



#### Quotations of Grupa LOTOS stocks vs. WIG, WIG20 and WIG-Fuels indexes



The economic crisis did not leave the prices of Grupa LOTOS stocks unscathed. The situation was not helped by the equity research recommendation issued by UniCredit in November 2008. Due to these factors, on 2 February 2009 shares of Grupa LOTOS reached their historic minimum of PLN 7.25 per share, i.e. a fall by more than 40% compared to the price at the beginning of the year (PLN 12.44).

For the remaining part of the year, the rising trend of Grupa LOTOS' stocks was significantly stronger than the trend of the WIG, WIG20 and WIG-Fuels indexes. This situation may have resulted from the good performance of the Company, the timely execution of the 10+ Programme and the Anti-Crisis Package. The annual maximum stock price was reached on 29 December 2009, amounting to PLN 32.75. At the end of the year, the price of Grupa LOTOS' stocks was only slightly lower and stood at PLN 31.80, which implied the

annual return rate of almost 156%. The average daily trading volume of Grupa LOTOS' stock sales reached 382 thousand stocks, while the capitalization as at the end of 2009 amounted to PLN 4.1 billion.

## RESPECT – new stock index

An important event for Grupa LOTOS was the announcement of the first Corporate Social Responsibility Index in Central and Eastern Europe – the RESPECT Index – at the Warsaw Stock Exchange. The first quotation of the RESPECT Index took place on 19 November 2009. The value of the new index, starting from the base day, is calculated twice daily and announced to the public.

RESPECT is a project aimed at promoting top standards of responsible management among the companies listed on the Warsaw Stock Exchange. Similar indexes operate on several dozen stock exchanges all over the world, the most important being the Dow Jones Sustainability Index and FTSE4Good. The basis for the RESPECT Index were the results of a rating that assessed companies committed to sustainable growth tenets. The analysis encompassed the companies listed on the regulated market of the Warsaw Stock Exchange that came highest in the ranking of social responsibility and are leaders of communication on the financial market, sustainability and information governance.



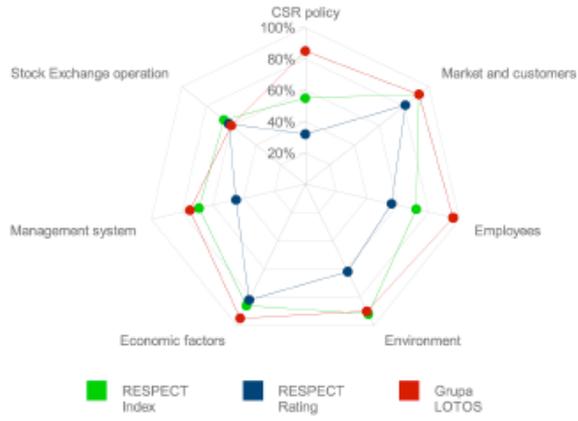
The social responsibility definition adopted to assess the companies listed at the Warsaw Stock Exchange (except for the NewConnect market, foreign companies and the companies whose stocks are listed outside the Warsaw Stock Exchange) and to create the RESPECT Rating which encapsulates management strategy and a particular approach to business. Grupa LOTOS joined the project as one of 120 firms that were assessed. Based on absolute criteria, Grupa LOTOS qualified to the A class of the RESPECT Rating. The companies that have obtained the highest rating were introduced into the sustainability index – the RESPECT Index. The index is an income index that takes account of the proceeds from dividends and pre-emptive rights, and is used to assess the situation of companies recognised as representing top corporate standards.

### The value of the RESPECT Index in 2009



The survey is to be repeated annually. The whole project is supervised by a steering committee comprising representatives of the organisers and a scientific council made up of independent authorities in science and economics. The process is also monitored by Deloitte, the company auditing the survey.

**Results of Grupa LOTOS vs. results of all companies in the RESPECT Rating and the companies included in the RESPECT Index**



## Upstream operations

### Management approach

LOTOS Petrobaltic (formerly Oil and Gas Exploration and Production Company 'Petrobaltic') is responsible for fulfilling the aims of the LOTOS Group within the exploration and extraction of oil and natural gas. LOTOS Petrobaltic is the only Polish firm involved in the exploration and extraction of oil in the Baltic Sea. It has been related to Grupa LOTOS since 2005, when Grupa LOTOS became its majority shareholder. LOTOS Petrobaltic operates in the Polish sea area covering about 29,000 km<sup>2</sup> and its licenses for the exploration and development of fields cover 8 zones of the total area of 8,054 km<sup>2</sup>. The capital group of LOTOS Petrobaltic encompasses 5 subsidiaries and affiliates. In 2009, LOTOS Petrobaltic's operation involved exploration and development in the Baltic Sea as well as acquiring licence for exploration on the Norwegian Shelf and the development of the Yme Production Project. In the North Sea, exploration and extraction is conducted on behalf of LOTOS Petrobaltic by LOTOS E&P Norge established in 2007 (LOTOS Norge Exploration & Production AS) with its registered office in Stavanger, Norway.

**Grupa LOTOS, through its subsidiary, LOTOS Petrobaltic, is the only Polish firm involved in oil extraction in the Baltic Sea**



LOTOS Petrobaltic focuses on executing the strategy of the LOTOS Group in the upstream segment. Goodwill is created in a sustainable manner, based on the management standards of the LOTOS Group, that is with respect for the rules of social interaction and protection of natural environment.

**The LOTOS Group focuses on two strategic aims within the upstream segment:**

- **enhancing the safety of supplies of oil processed by the refinery by obtaining access to hydrocarbon fields, and**
- **raising hydrocarbon production by executing programmes of increasing oil extraction from the Baltic Sea and the new projects outside Poland.**

In 2009, the strategic aims of the LOTOS Group in the upstream segment did not change, in spite of the global financial crisis. Only the pace of executing some of the tasks was reduced.

In 2009, LOTOS Petrobaltic started to improve its efficiency and business processes, taking account of the CSR strategy of the LOTOS Group. In 2009, reorganisation and restructuring processes of the Capital Group of the Oil and Gas Exploration and Production Company 'Petrobaltic', now LOTOS Petrobaltic were completed. The Treasury passed its stake in Petrobaltic to Grupa LOTOS, which is now a 99% shareholder in the entity. Moreover, LOTOS Petrobaltic took over total control of Energobaltic Sp. z o.o., and in December 2009 signed a letter of intent concerning the acquisition of the remaining shares in AB Geonafra. These projects, together with the implementation of the regulations and the organisational structure as well as the Anti-Crisis Package measures, resulted in an increase in income and profit generated by LOTOS Petrobaltic in 2009. Within sustainability, LOTOS Petrobaltic focused on social dialogue with the personnel, resulting in an agreement concluded with the trade unions that ended a collective dispute, as well as measures within H&S and ecology.

## Achievements

The beginning of 2009 was a period of deep crisis for the oil and gas production sector. The extremely low prices of oil on the global market – less than 30 dollars per barrel – were accompanied by technical problems of LOTOS Petrobaltic on the B3 field. In spite of these circumstances, LOTOS Petrobaltic managed to complete the difficult restructuring processes and implement streamlining programmes, and at the same generated profits from its core business activities.

### Oil and gas extraction

	2005	2006	2007	2008	2009
Oil [thousand tonnes]	233.5	265.5	190.6	256.9	175.4
Gas [million Nm <sup>3</sup> ]	25.5	29.9	21.0	29.3	19.5

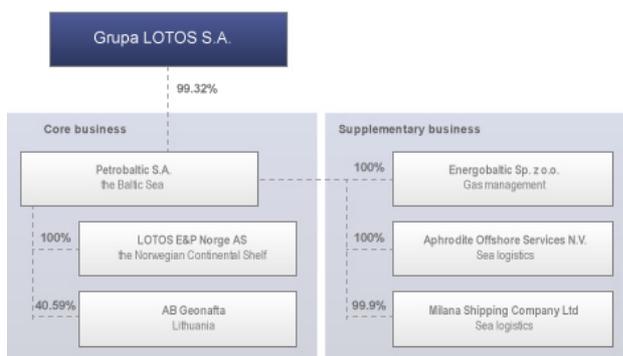
## Management at LOTOS Petrobaltic

The greatest management achievements in 2009 included:

- The Anti-Crisis Package – the revision of investments and selection of the most important and urgent ones. The pace of work was adapted to the economic conditions and the most important needs of LOTOS Petrobaltic and the LOTOS Group.
- Ownership changes were introduced within LOTOS Petrobaltic and the LOTOS Group:
  - taking over total control of Energobaltic by LOTOS Petrobaltic. On 29 October 2009, the Extraordinary Shareholders' Meeting of Energobaltic took the resolution to increase the authorised capital in compliance with the concluded Creditor's Agreement that had been approved by the Court. As a result, LOTOS Petrobaltic acquired 1,985 new shares for PLN 16,078,500, thus increasing its stake in Energobaltic from 46.61% to 50.92%. Subsequently, on November 27th, 2009, Petrobaltic acquired from Stablewood Power Ventures (Władysławowo) Ltd. and Stablewood Power Ventures Ltd remaining 49.08% stake in Energobaltic (2,512 and 217 shares respectively), becoming the owner of 100% shares in Energobaltic.
  - signing a letter of intent to take over total operational control of the Lithuanian oil company, AB Geonafra; and
  - passing of a 31% stake in Petrobaltic from the Treasury to Grupa LOTOS (at present Grupa LOTOS holds 99.32% of stocks in LOTOS Petrobaltic);
- Continued involvement in financing the production projects on the Norwegian Continental Shelf;
- Consolidation with the LOTOS Group – focusing on the upstream segment; transferring the departments that are not related to the core business to other companies; disposal of the land transport and warehouses department to LOTOS Serwis; and
- Signing a credit line agreement for up to PLN 150m with Nordea Bank Polska.

### Structure of the Petrobaltic Capital Group

31 December 2009



## Upstream segment of LOTOS Petrobaltic

The most important achievements of 2009 included:

- Maintaining oil extraction at the highest possible level – to this purpose the B3-9 and B3-10 holes were reconstructed; as a result, the output from B3-9 returned to the previous level and from B3-10 increased;
- Extending the licence for oil and natural gas extraction from B8 from 10 to 25 years – after preliminary tests the estimated resources of oil in this field increased to 3.5 million

tonnes;

- Further exploration of the potential fields located on the Polish shelf of the Baltic Sea:
  - Continuing 3D seismic studies on the B23 and B27 structures located within the Gotland licence and on the B28 structure located within the Rozewie licence as well as 2D seismic studies on the B101 structure situated within the Łeba licence and on the B22 structure included within the South Gas licence,
  - Making an exploratory well B22-1 on the B22 structure located within the South Gas licence, and
  - Drawing up the Field Development Study for the B8 field.

## Upstream segment of LOTOS E&P Norge

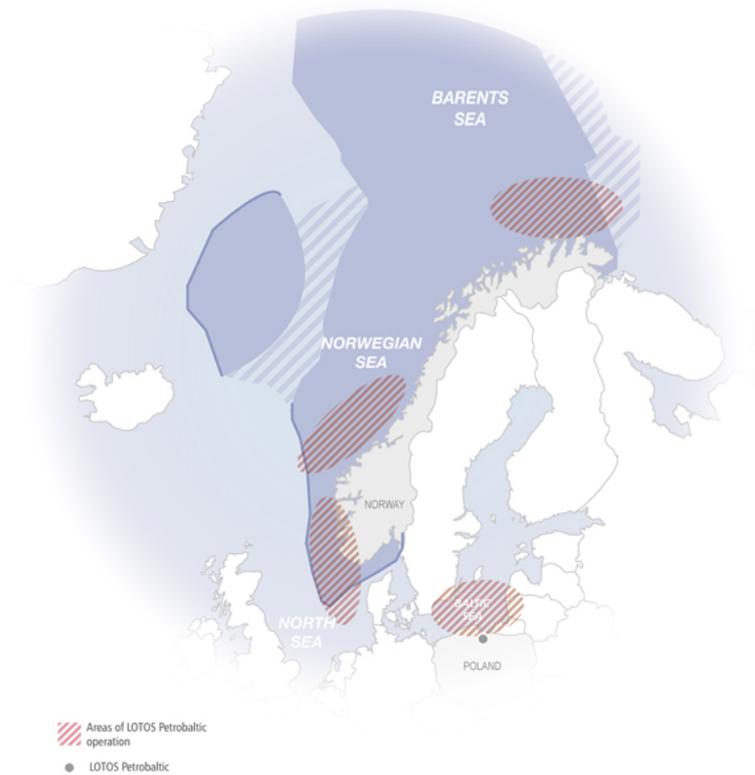
The most important achievements of 2009 included:

- Continuation of the Yme project – after purchasing another 10% of the Yme project, LOTOS Petrobaltic acquired 20% of shares in the Yme oil field development project. The project involves work with drilling and construction of a production platform and underground infrastructure. Six holes have been drilled and the underground infrastructure that provides the connection to the rig is progressing as planned. Extraction from the field is planned to commence in the second half of 2010. The pace of the project implementation is related to the expected delivery of the drilling rig, to be installed on the field;
- Obtaining consecutive licences under the contracts signed within the APA Licence Round 2008:
  - 10% shares in the PL 497 licence
  - 25% shares in the PL 503 licence
  - 20% shares in the PL 515 licence
  - 25% shares in the PL 498 licence
- Application within the APA 2009 Licence Round for:
  - 50% shares in the PL 556 licence (as an operator),
  - 10% shares in the PL 497B licence (extended licence PL 497)
- Work on the PL 503 and PL 515 licences – approval by the Norwegian Ministry of Energy and Oil for the first phase of operations and consent to the second phase, i.e. seismic studies and preparing the decision on the exploratory drills within these licences.

## Development plans

In the near future, the exploration and extraction of the LOTOS Group will focus on the Baltic Sea, the Norwegian Continental Shelf and Lithuania.

### Areas of operation



### Directions of the upstream segment:

- Poland – the Baltic Sea:
  - stabilising extraction from the B3 field
  - continuation of the B8 field development,
- Norway – the Norwegian Continental Shelf:
  - completing the development and the start of extraction from the Yme field
  - developing the exploration licence portfolio,
- Lithuania:
  - finalising the process of acquiring AB Geonafta
  - business integration of the acquired Company.

### Exploration areas

The exploration work within the licences in the Baltic Sea and on the Norwegian Shelf is aimed at discovering new fields of oil and gas that will replace the fields being developed and operated now.

### Resources of oil and natural gas of the LOTOS Group according to the classification of the Society of Petroleum Engineers and World Petroleum Council

---

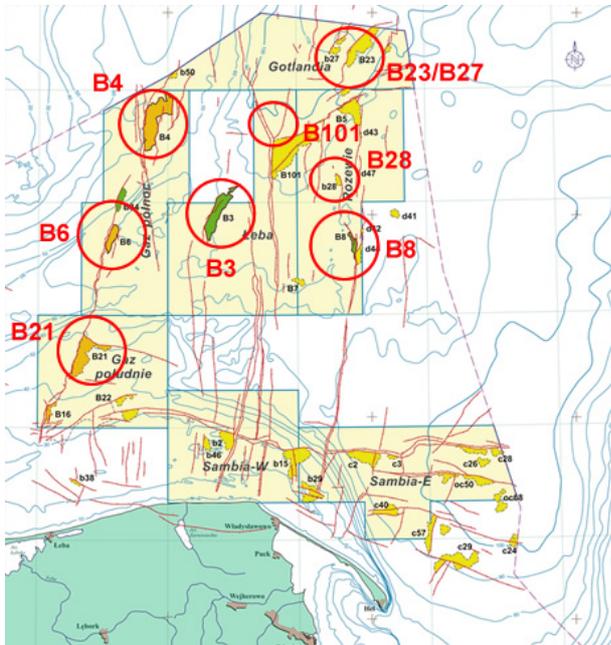
Category (*)	Total in the Baltic Sea and on the Norwegian Continental Shelf
--------------	--

---

	oil million tonnes	gas billion m <sup>3</sup>
Confirmed resources	6.4	4.5
Conditional resources	0.8	2.4

<sup>(1)</sup> The table does not include any prospect resources that may be discovered within the exploratory licences.

#### The Baltic Sea: 8 exploration licences



1. South Gas (34/2001/p)
2. North Gas (35/2001/p)
3. Gotlandia (36/2001/p)
4. Łeba (37/2001/p)
5. Rozewie (38/2001/p)
6. Sambia E (39/2001/p)
7. Sambia W (40/2001/p)
8. Wolin (41/2001/p)

#### 4 production licenses in the Baltic Sea:

<b>B3 Field</b>	production resources: 1.2 million tonnes of oil, a production licence valid until 2016
<b>B8 Field</b>	production resources: 3.5 million tonnes of oil, a production licence valid until 2034
<b>B6 Field</b>	production resources: 1.8 billion m <sup>3</sup> , a licence for natural gas (gas condensate) production valid until 2032
<b>B4 Field</b>	production resources: 2.0 billion m <sup>3</sup> , a licence for natural gas production valid until 2032

#### The Norwegian Continental Shelf : 9 exploration licences

1. PL 556 (LOTOS E&P)  
LOTOS E&P 50%  
Skele Energy 50%
2. PL 503 (LOTOS E&P)  
License valid until 1/23/2017  
LOTOS E&P 25%  
Skagen44 25%  
4Sea 25%  
Edison SPA 25%
3. PL 498 (LOTOS E&P)  
License valid until 1/23/2015  
LOTOS E&P 25%  
Skagen44 25%  
4Sea 25%  
Edison SPA 25%
- PL 497/497B (Det Norske)  
License valid until 1/23/2015  
Det Norske: 35%  
Bridge 30%  
Dana 25%  
LOTOS E&P 10%



- 4 PL 515 (Rocksourc)  
License valid until 1/23/2016  
Rocksourc 60%  
LOTOS E&P 20%  
Skagen44 20%
- 5 PL 455 (Noreco)  
Licence valid until 3/1/2014  
Noreco 50%  
Skele 30%  
LOTOS E&P 20%
- PL 316CS/316DS (Talisman)  
Licence valid until 6/18/2010  
Talisman 25% / 40%  
LOTOS E&P 20% / 20%  
Winthershall 10% / 10%  
CS: Noreco 35% / 0%  
DS: Bridge 0% / 20%  
AEDC 10% / 10%
- PL 316/316B Yme Field  
Talisman 60%  
LOTOS E&P 20%  
Winthershall 10%  
AEDC 10%

## Operational activities

### Management approach

The operating segment of the LOTOS Group focuses on refining and marketing high quality products, while optimising the use of the production capacities and minimising the unfavourable impact on the natural environment. The strategy of the LOTOS Group until 2012 for this segment provides for the increase of the economic efficiency of oil processing by increasing the scale of processing and obtaining a higher level of product conversion and desulphurization. Therefore, the refinery in Gdańsk is the scene of the 10+ Programme, which is a construction project of a complex system of refining installations.

**The strategic aims of the LOTOS Group within its operating activity include:**

- **increasing the volume of processed oil to 10.5 million tonnes/year and obtaining a higher level of conversion,**
- **research and development within oil products and biocomponents,**
- **optimising overhaul costs,**
- **energy savings and environmental protection, and**
- **expanding the storage depots and developing rail and sea logistics.**

The operating segment in the LOTOS Group encompasses the operation of the refinery in Gdańsk as well as the production and supporting subsidiaries. Such companies include LOTOS Czechowice, LOTOS Jasło, LOTOS Serwis, LOTOS Lab, LOTOS Straż and LOTOS Ochrona. The refinery of Grupa LOTOS is the largest production facility within the LOTOS Group.

## Achievements

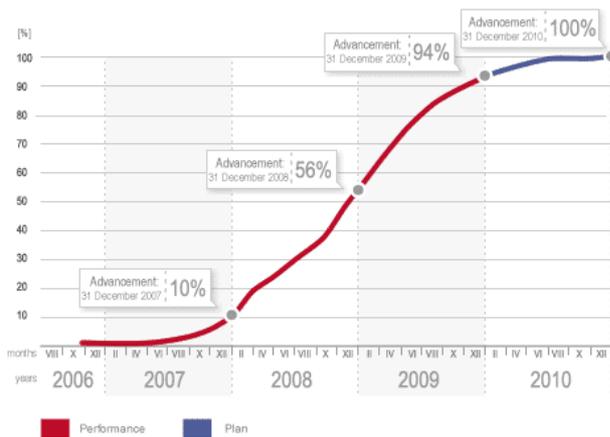
The greatest achievements of the LOTOS Group in the operating segment were within the implementation of the 10+ Programme and the Spring 2009 Overhaul Down-Time. The actions taken in 2009 belonged to the strategy for the operating segment and covered all the strategic objectives adopted for this part of business activities. Most other programmes and projects, due to the introduced Anti-Crisis Package, were postponed. As the Anti-Crisis Package was introduced at the beginning of the year for the projects planned in the budget for 2009, it resulted in the discontinuation of their preparation before the implementation stage. Grupa LOTOS stopped the preparation and limited the implementation of 27 projects, and the LOTOS Group of 38 projects.

The operation of the refinery of Grupa LOTOS was stable in 2009, except for the planned overhaul shut-down. No quality problems were experienced with regard to finished products.

### 10+ Programme

The 10+ Programme is the largest investment programme in the LOTOS Group. Its aim is to increase the production capacities of the refinery in Gdańsk and thus to improve the competitive position of Grupa LOTOS. In 2009, the construction of several key production systems within the 10+ Programme was completed and they were commissioned successively.

As at the end of December 2009, the advancement of work within the 10+ Programme stood at 94.47%.



The project is being implemented according to the timetable. The last system of the 10+ Programme is to be completed in November 2010 with the start-up of the heavy vacuum remnants processing ( ROSE ). The last system of the Programme will commence production at the earliest in 2011. In spite of the global economic slump, the work within the 10+ Programme was carried out in 2009 without any interruptions.

#### Status of work within the systems of the 10+ Programme in 2009

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Nitrogen system (1 <sup>st</sup> stage)				MC		RFSU						
Fan coolers				MC	RFSU							
Hydrocracking Diesel Desulphurization (HDS)					MC	RFSU						
Amine-Sulphur Complex ( KAS ) – ARU/SWS system					MC	RFSU						
Modernization of the condensate stations No. 1 and 5					MC	RFSU						
Air system					RFSU							
System of new and modernised trestle bridges					RFSU							
Sewage treatment plant						MC	RFSU					
Steam systems						RFSU						
Hydrogen Generation Unit (HGU)							MC	RFSU				
'Wild naphtha' System										PDU		

Amine-Sulphur Complex ( KAS) – sulphur systems (SRU)	MC	RFSU	
Power facilities GBDM, GPZ 2, GPZ 3 and redevelopment of the 110 kV line			PDU
Demi water tank	MC		RFSU
Boiler water system	MC		RFSU
Fuel gas system and HIPPS system	PDU		
Pipelines to the R7 port		MC	RFSU
HV, MV and LV cable networks			PDU
Discharge system			PDU
Warm cooling water system		MC	RFSU
Pyrolysis gasoline tanks (V=2x20,000m <sup>3</sup> )		MC	RFSU
Heavy fraction tanks VR/VGO (V=4x20,000m <sup>3</sup> )		MC	RFSU
Amine-Sulphur Complex ( KAS) – LPG amine washing system			MC RFSU
Modernization of water systems			MC
LPG tank (V=1,700m <sup>3</sup> )			MC RFSU
Atmospheric and vacuum oil distillation system (CDU/VDU)			RFSU
ICconnections between facilities – 2 <sup>nd</sup> phase of the IC pipelines			RFSU
Nitrogen system (2 <sup>nd</sup> stage)			MC
Diesel oil tanks (V=3x32,000m <sup>3</sup> )			RFSU

MC – Mechanical Completion

RFSU – Ready For Start Up

PDU – Transfer For Use

A critical moment in the implementation of the 10+ Programme was the end of Q1 2009. At the end of March on average 3,450 persons from 67 contracted companies were working on the 10+ Programme every day. This was the highest number of workers involved in the construction during the whole project.

## Maintenance and the Spring 2009 Overhaul Down-Time

The Spring 2009 Overhaul Down-Time, i.e. a comprehensive overhaul of refining systems, was implemented for the first time in four years (in opposition to standard three years) of non-stop operation of the refinery in Gdańsk. During the overhaul all the necessary production connections were built to integrate the newly constructed production systems with the existing refining infrastructure.

During the overhaul, a large volume of work was performed to restore the complete production capacities of the systems, which would not have been possible during the normal operation of the refinery. Such work included the cleaning of systems and elements of the production facilities (heat exchangers, production furnaces, columns, reactors, tanks and pipelines), exchange of the catalysts in reactors, repairs and exchange of worn-out accessories of the systems and reviews of the control and security systems.

It is noteworthy that during the overhaul down-time, the refinery kept delivering finished products, produced based on the stored and imported components, and no quality issues occurred during this period. As regards maintenance and overhaul management, the greatest achievement was to provide the operation of the basic production and auxiliary systems at the availability of more than 99.3%. According to the SOLOMON report, which is an assessment of 350 world refineries, by the American consulting company, in terms of system utilization and availability, this result ranked Grupa LOTOS among the best refineries operating in Europe.

The overhaul progressed smoothly and without any interruptions, owing to the high level of technical and technological operation of the systems, the focus on the systematic improvement of qualifications among the staff, implementing state-of-the-art methods of work organisation and information flow, the development of prophylactics and preventing failures as well as implementing the rules of project management in the performance of modernization and overhaul tasks. Due to the difficult economic situation, related to the implemented Anti-Crisis Package, the overhaul was conducted in compliance with the rules of cost streamlining. The operation was maintained owing to the maximum use of the potential of the LOTOS Group companies.

The success of the overhaul down-time was achieved mostly owing to half a year of careful planning in the preparatory period, which involved also external contractors. It is noteworthy that because of the commitment and effective cooperation of all the participants of this project, the overhaul was completed two days before the planned deadline. It was the shortest period of overhaul in the history of the Gdańsk refinery, after the longest failure-free period of operation.

### Spring 2009 Overhaul Down-Time in figures:



## Other projects

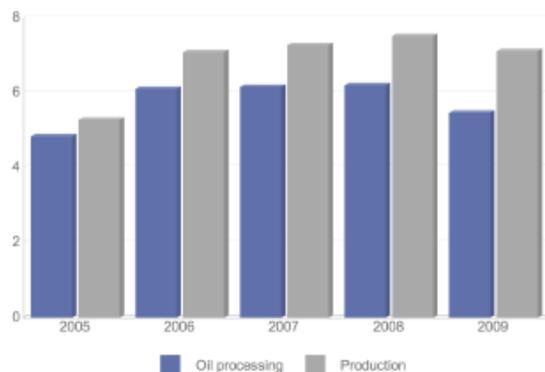
Apart from the 10+ Programme and the Spring 2009 Overhaul Down-Time, Grupa LOTOS implemented other projects related to improving the efficiency, safety and technical productivity of assets as well as the reduction of the environmental impact of Grupa LOTOS. The major investments in this period included:

- the air-tight sealing of the sewage treatment plant tanks: the aim of the project was to reduce the aromatic inconvenience for the environment. The work involved roofing and installation of bio-filters on all main tanks of the treatment plant. In 2010, the outgas recycling systems will be started and tested. Based on the operation experiences and if required, the premises will be prepared for the air-tight sealing of other tanks in the sewage treatment plant in 2011.
- the replacement of burners with low-emission ones in the heat and power plant: in 2009 the burners were exchanged in the first boiler and in 2010 the burners will be replaced also in the second boiler. The project will enhance the availability of steam for the production facilities taking into account the emission limits provided in the Integrated Permit,
- a computer system of energy consumption visualization and optimization – the system is used to optimise the power system of Grupa LOTOS and as a result to save fuels and energy. It provides ongoing monitoring of the energy system and analysis of the proposed changes of production settings to reduce costs due to the consumption of energy media, and
- a process simulator for the Hydrocracking 150 system: a simulation tool for the Hydrocracking Plant to provide training for system operators. The simulator will enable operators to maintain high control skills within the control of production processes and within responses to failures. Moreover, it will allow for testing of new production settings, thus contributing to the better use of the system potential.

## Refining activity

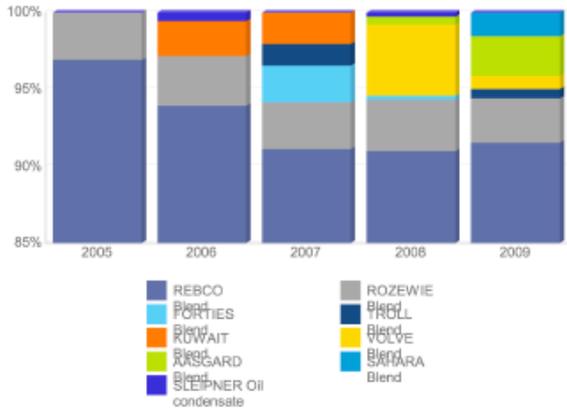
Oil processing in 2009 amounted to almost 5.5 million tonnes and was lower than in 2008 by about 740 thousand tonnes. This decrease was mostly the result of the overhaul down-time, which stopped oil processing in the refinery for more than thirty days.

**Oil processing and refining production (million tonnes)**



The dominant blend of oil processed by Grupa LOTOS remained the Russian REBCO oil; however, diversification was continued by introducing Saharan Blend, a new blend of oil from Northern Africa, into production, as well as the already tested blends such as Troll, Volve and Aasgard.

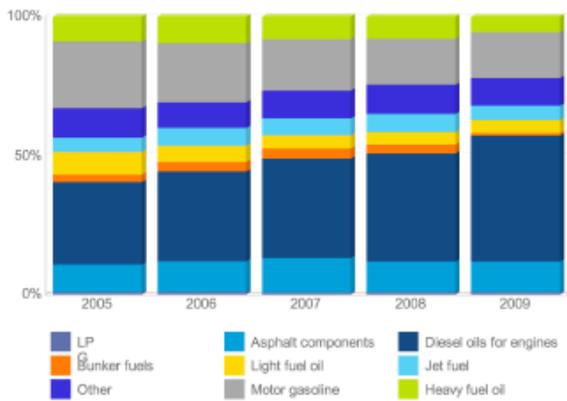
## Structure of processed oil blends



Apart from oil, the production uses components and raw materials purchased for further processing, and improvers. As a result, the total production of the Grupa LOTOS refinery is higher than the volume of processed oil.

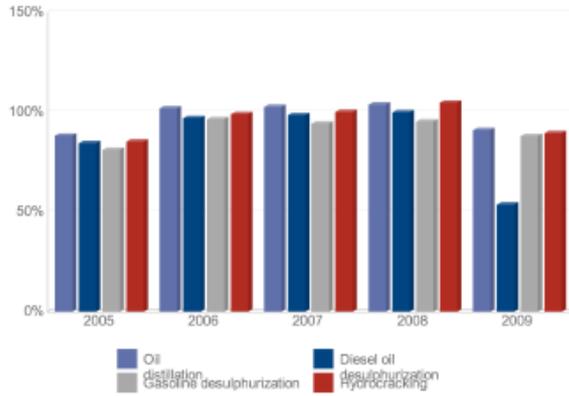
It is noteworthy that the share of diesel oil has increased in the total refining production in consecutive years. This situation follows the trend on the EU market, where the authorities promote diesel oils due to environmental considerations – such fuels provide lower emissions of carbon dioxide per energy unit obtained from combustion.

### Structure of products



The use of the installed production capacities at the refinery of Grupa LOTOS in 2009 was lower than in the previous years due to the overhaul down-time. However, even during the period outside the overhaul down-time the use of the refining systems was not maximal. The conscious reduction in the use of the production capacities was caused by the low refining margins in 2009.

### Use of production capacities



## National Index Target implementation by Grupa LOTOS

The level of using components from renewable sources required under the rules of law meant that almost every litre of fuel leaving the Gdańsk refinery of Grupa LOTOS contained the biocomponent addition. Biocomponents were added both to gasoline and diesel oils. To limit the costs of fulfilling the National Index Target, in the production of gasoline Grupa LOTOS applied both bioethanol and its equivalent, i.e. ethyl tertiary butyl ether ( ETBE ). In the production of diesel oils, fatty acid methyl esters ( FAME ) were used. In total, the Gdańsk refinery of Grupa LOTOS consumed about 46 thousand tonnes of bioethanol, about 57 thousand tonnes of ETBE and about 150 thousand tonnes of FAME in 2009.

A large part of methyl esters came from the production plant owned by LOTOS Biopaliwa, a subsidiary of LOTOS Czechowice. In March 2009, a newly constructed system for biocomponent production ( FAME ) came into operation in Czechowice-Dziedzice. Its planned capacity is 100 thousand tonnes of FAME per annum. After one year of operation, it can be concluded that most of its parameters, such as productivity, use of raw materials and chemicals, energy consumption and the quality of products, are better than the design values. In 2010, LOTOS Biopaliwa will focus on improving production processes to provide the stability of FAME production at the highest possible level and to obtain the most favourable performance levels of the system.

## Research and development

The research and development of Grupa LOTOS in 2009 focused on further development of fuel production with the addition of biocomponents and biofuels as well as on oil products made by LOTOS Oil. The greatest achievements within research and development in 2009 included:

- the launch of B100 fuel, i.e. clean methyl esters of fat acids. The production technology of this fuel is based on raw materials from the LOTOS Biopaliwa system and packages of improvers, which provide the fulfilment of quality requirements and the stability of production in time,
- the production of the first industrial batch of an oil plasticizer of reduced toxicity for rubber and rubber products. The new class of plasticizers belongs to the TDAE group (Treated Distillate Aromatic Extract) and fulfils the requirements for plasticizers in the rubber industry that have been applicable in the European Union since 1 January 2010,
- the test production of low-oil paraffin as the main component for paraffin waxes,
- the introduction of 8 new engine oils (e.g. TURDUS POWERTEC SYNTHETIC PLUS 10W40, Marinol RG CD 50, LOTOS DIESEL FLEET 10W40 and 5W40),
- obtaining Certificates of the Main Mining Institute for hydraulic oils, the gear oil and the emulsifying concentrate,
- obtaining 14 approvals for 7 oils for private cars (Mercedes Benz, BMW, Renault, Volkswagen and Opel),
- obtaining 9 approvals for 4 oils for trucks (VOLVO, Deutz, MAN, Mercedes Benz and TATRA), and
- obtaining 6 approvals for 2 oils for car transmission systems (ZF and MAN).

## Development plans

In the next few years, the LOTOS Group plans to focus on developing and implementing streamlining and ecological technologies. This year will see the start-up of the next systems within the 10+ Programme.

Within investments, the primary aim for 2010 is to complete the 10+ Programme. First, the preparation to start the Hydrocracking system is planned (MHC), followed by the heavy vacuum remnants processing ( ROSE ), which will crown the project implementation. At the same time, the construction of the nitrogen system, the P24 pumping station, the inter-facility connections (3<sup>rd</sup> phase), the kerosene pump and LON at the P20 and P3 pumping stations will be completed.

The 10+ Programme is a key project implemented by Grupa LOTOS. Therefore, all the risks are analysed in a systematic manner and the resulting actions are taken to provide the safe and timely completion of the investment.

The plans of the LOTOS Group within research, innovation and production focus on the following measures:

- developing the technology of production and a range of niche products based on paraffin and plasticizers of reduced toxicity applied in rubber and rubber products,
- developing the technology of fuel production with the addition of biocomponents with up to 10% of bioethanol in gasoline and 7% of FAME in diesel oil
- developing and improving the technology of the 2<sup>nd</sup> generation biocomponent production through the process of the co-hydrogenation of vegetable oils with diesel oil fractions.
- the reduction of CO<sub>2</sub> emissions with the project of assessing greenhouse gas emissions in the Life Cycle Assessment ( LCA ) of engine fuels according to the 2009/30/EC Directive, and
- confirming the quality of oil bases produced at Grupa LOTOS with reference to the requirements of the European Automobile Manufacturers Association (ACEA) for engine oils.

## Market activities

### Management approach

The commercial activity of the LOTOS Group is carried out both in the parent company and in the subsidiaries, i.e. LOTOS Paliwa, LOTOS Tank, LOTOS Oil, LOTOS Asfalt and LOTOS Parafiny.

The main aims within the market activities result from the long-term strategy of Grupa LOTOS in this area. The important factors that determine the commercial segment of the LOTOS Group include the regular analysis of changes that take place on the market, care for the comprehensive and constantly extended range of products of top quality as well as continuous improvement of trading processes.

**Strategic aims of the LOTOS Group within its market activities include:**

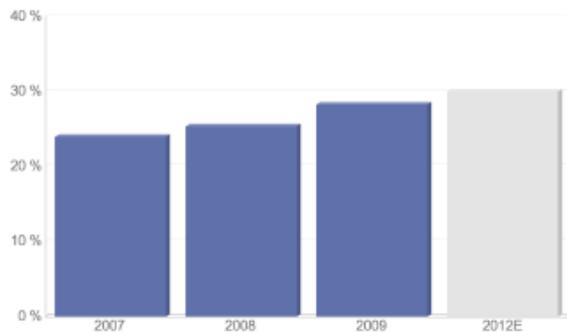
- maximising the integrated margin of the Group,
- trading products of the highest quality parameters,
- diversification of directions and sources of oil supplies, and
- streamlining logistic assets.

The objectives in specific areas of the market activities are as follows:

#### Fuels

- further and permanent strengthening of the market position,
- maximising the economic effect with flexible control of the product stream,
- achieving a 30% share in the Polish fuel market in 2012,
- developing aviation fuel sales in Poland, and
- increasing activity in Central, Eastern and Northern Europe.

#### Share of the LOTOS Group in the fuel market



#### Retail market

- obtaining a 10% share in the domestic fuel retail market in 2012,
- raising the efficiency of the fuel stations network, and
- strengthening the image of a modern and developing network of LOTOS fuel stations.

The LOTOS fuel stations network covers all of Poland and is being developed systematically in the premium segment, i.e. the stations of top standards both in terms of their offer and the level of services. Within the adopted strategy of positioning of the LOTOS brand, the franchise type stations that offer a basic standard and still operate under the banner of the Gdańsk refinery belong to the channel that is being reduced. The aim is to achieve complete quality and image consolidation under the well-known and widely recognised brand of LOTOS.

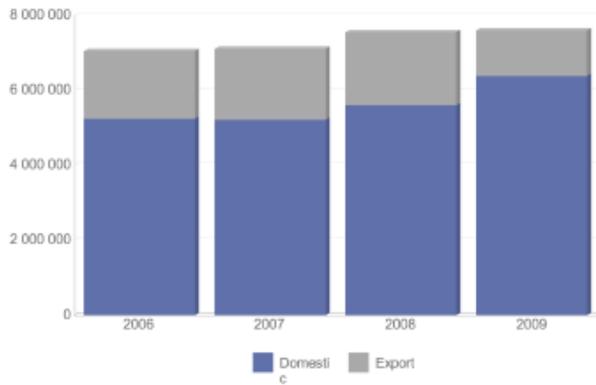
**Non-fuel products**

- maximising the economic effect by using the present market position and increasing the efficiency of sales,
- maintaining the position as the leader on the domestic market of lubricating oils,
- raising the share of oil services in sales,
- maintaining the leading position on the Polish market of modified bitumen, and
- a strong position on the market of Central and Eastern Europe.

## Achievements

Consolidated total sales of the LOTOS Group in 2009 remained at a similar level compared to the previous year; however, a significant rise (14%) was recorded in sales on the domestic market, mostly due to increased sales of diesel oils.

### Sales of the LOTOS Group (tonnes)



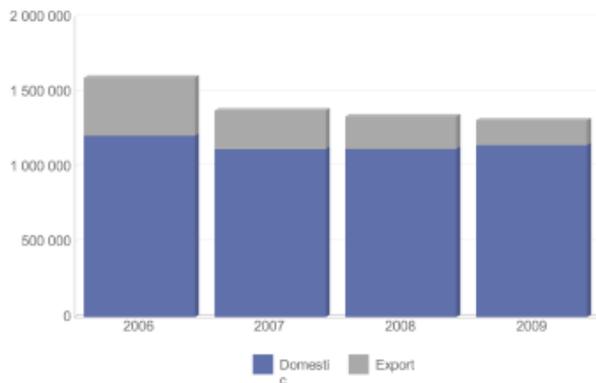
The share of the LOTOS Group in the fuel market throughout 2009 attained the level of 28.3% and was 2.9 percentage points higher as compared to the level reached in 2008.

### Sales of engine fuels

The sales of engine fuels in 2009 took place mostly in Poland and focused on retail customers, foreign concerns, institutional consumers and fuel station operators. Land export of engine fuels was directed mostly towards the Czech market (the state reserves of the Czech Republic) and to wholesale agents and distribution to end customers. Sea export of gasoline was directed towards the Swedish, UK and Baltic states markets.

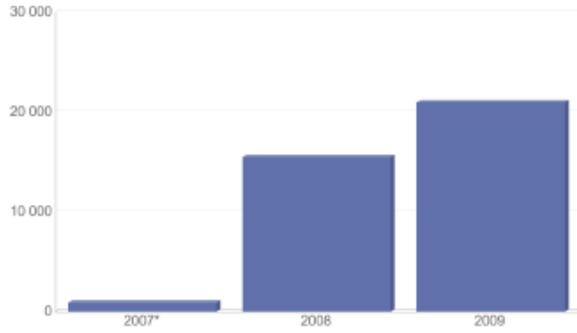
In 2009 total sales of engine gasoline of the LOTOS Group fell by 2% compared to the previous year. On the domestic market, sales increased by 2%.

### Sales of engine gasoline (tonnes)



Apart from the standard fuel for gasoline engines, the sales offer encompassed technologically advanced fuels that provided better performance and engine protection (LOTOS Dynamic 98). As compared to 2008, their sales grew by 35%.

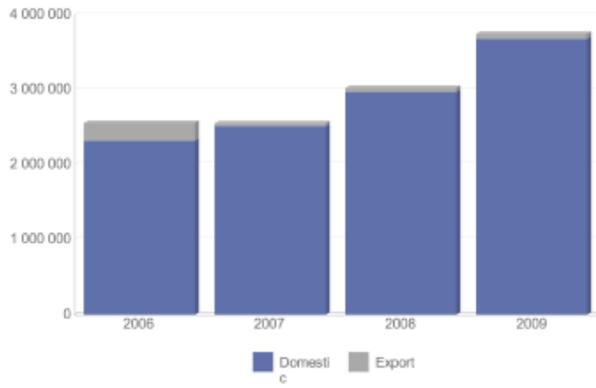
### Sales of LOTOS Dynamic 98 (tonnes)



(\*) In 2007, sales of LOTOS Dynamic 98 started in October.

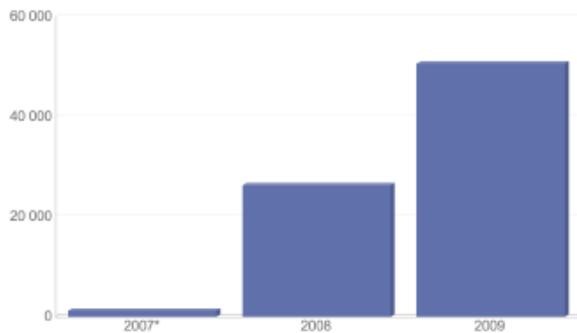
Total sales of diesel oil at the LOTOS Group in 2009 rose by 24% vs. the previous year. A similar growth was recorded in domestic sales of this product.

**Sales of diesel oil (tonnes)**



In the range of diesel oils, apart from the standard fuel for diesel engines that is highly appreciated by operators of delivery and truck fleets, a prominent role was played by the premium fuel – LOTOS Dynamic Diesel, which is recommended for modern Diesel engines. Owing to the use of components that reduce friction in the engine, it allows for better use of the engine dynamics and power, and enables starting at even -32°C. As compared to 2008, sales of this fuel grew by 93%.

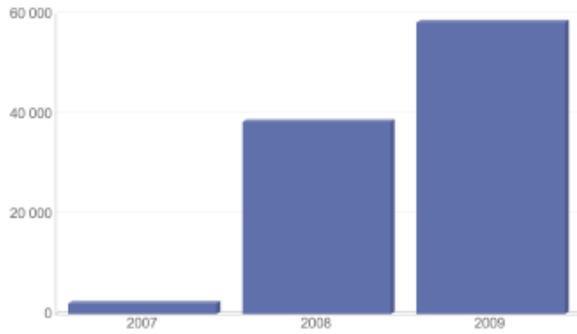
**Sales of LOTOS Dynamic Diesel (tonnes)**



(\*) In 2007, sales of LOTOS Dynamic 98 started in October.

As at the end of 2009, the Dynamic fuels were available at 139 own stations and more than 80 partner stations of LOTOS. Sales of these fuels grew at CODO stations compared to the previous year by more than 50%.

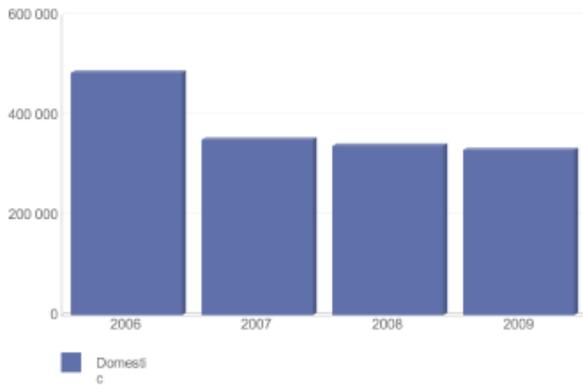
**Sales of LOTOS Dynamic fuels at own stations (tonnes)**



**Sales of light fuel oil**

In 2009, total sales of light fuel oil at the LOTOS Group fell by 3% as compared to the previous year. This falling trend reflected the reduced demand for this product on the domestic market.

**Sales of light fuel oil (tonnes)**



**Sales of aviation fuels**

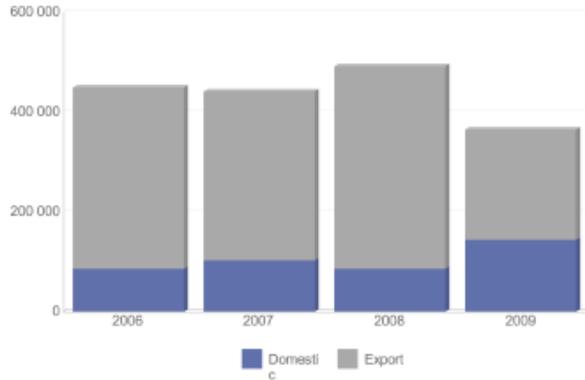
The aviation fuel produced at Grupa LOTOS in 2009 was used by aircraft in Poland, the Baltic Sea countries and at the Ruzyna airport near Prague. Trading took place within two areas:

- airport activity: sales in Gdańsk to Statoil, and
- wholesale activity: sales to the Aviation Emergency Service and Petrolot, which distributed this fuel all over Poland.

Aviation fuel was exported to the Scandinavian markets by sea.

In 2009, efforts were intensified to increase aviation fuel sales in Poland, resulting in the growth in domestic sales of this product by 67%. The lower demand for this fuel on the export markets due to the global economic crisis led to the decrease in the volume of the JET fuel sold by the Grupa LOTOS by 26%.

**Sales of aviation fuel (tonnes)**



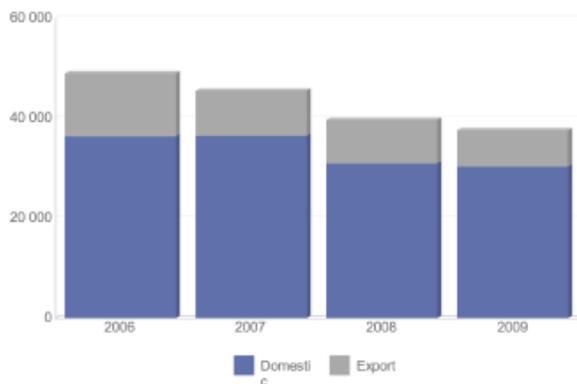
Among the most important successes achieved in 2009 the following can be named: the licence granted to LOTOS Tank for the sale of liquid fuels for 10 years and a commercial contract signed with Statoil ASA for deliveries of aviation fuel. Under this agreement, LOTOS Tank delivers the JET fuel from Grupa LOTOS and renders airport services, while Statoil, acting as the trader, buys the fuel at the wing of the plane and sells it directly to airlines.

## Sales of engine and industrial oils

On the domestic market, sales of engine and industrial oils were dedicated to the following direct customers: key accounts, garage networks, hypermarkets and Regional Distributors. These products were exported to e.g. Russia, the Baltic states, Ukraine, Belarus and Asia.

Engine oils are the group of products that are particularly sensitive to economic fluctuations. The impact of the economic crisis that started in 2007 was still visible in the volume of sales in this range of products. As compared to 2008, total sales of engine oils fell by 5% in 2009. The decrease in domestic sales amounted to 2%.

### Sales of engine oils (tonnes)



In 2009, the range of engine oils was optimised. In addition to the revitalization of the Turdus oil brand for trucks and the development of the LOTOS oil brand for private cars, modern synthetic engine oils LOTOS Quazar were launched in mid-year. These oils are designed for engines that operate in varied conditions. The premium line encompasses five synthetic engine oils:

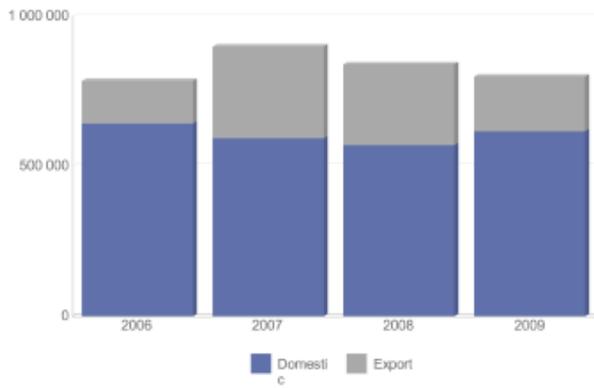
- LOTOS Quazar 0W30,
- LOTOS Quazar C3 5W30,
- LOTOS Quazar LLIII 5W30,
- LOTOS Quazar F 5W30,
- LOTOS Quazar 5W40.

Within the sales of LOTOS Quazar products, cooperation was started with Subaru Import Polska, which enabled the sales of oils within the dealership network of this firm.

## Bitumen sales

The domestic sales of bitumen were directed mostly at companies of the road sector that construct and modernise road pavements. Bitumen was exported to Germany, Switzerland, Scandinavia, Austria, the Baltic states, Russia, Romania, the Czech Republic, Slovakia and Hungary. As compared to 2008, total sales of bitumen fell by 5% in 2009; however, they increased on the domestic market by 8%.

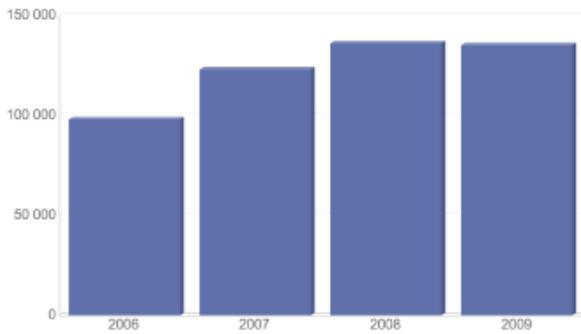
### Sales of bitumen (tonnes)



The offer of LOTOS Asfalt includes classic road bitumen as well as modified and industrial bitumen and bitumen emulsions. LOTOS Asfalt is the largest supplier of modified bitumen (MODBIT) on the domestic market. Such bitumen enhances the road surface resistance to the occurrence of wheel tracks and extends its life. It also strengthens the road's resistance in extreme weather conditions.

In 2009, sales of modified bitumen were maintained at the level from the previous year. Owing to the growth of production capacities resulting from the 10+ Programme, a significant increase in the sales of these products is planned until 2012.

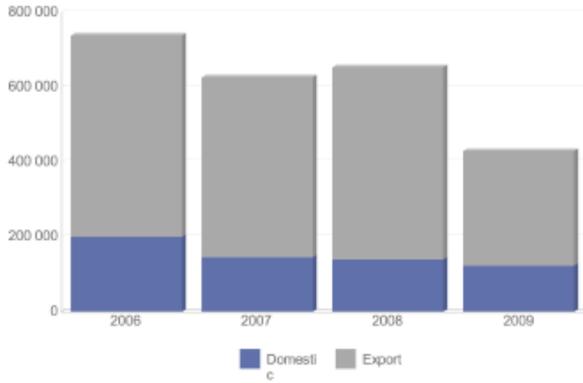
### Sales of MODBIT modified bitumen (tonnes)



### Sales of heavy fuel oil

The sales of heavy fuel oil in Poland focused on companies with their own thermal energy production (heating water or production steam). In 2009, sales of heavy fuel oil continued on the Scandinavian markets and to the tank warehouses in Estonia and the ARA market (ARA – the market outlined by the ports of Antwerp – Rotterdam – Amsterdam), to be exported in large batches to the Far East.

### Sales of heavy fuel oil (tonnes)



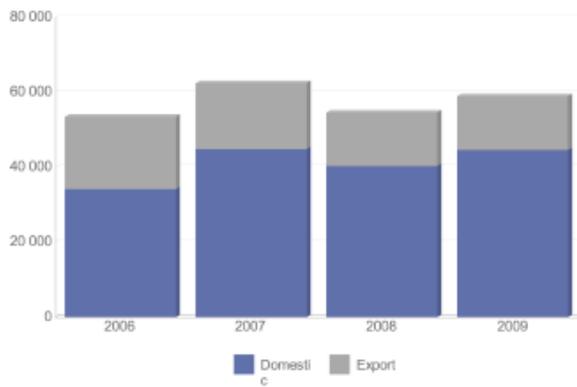
In 2009, total sales of heavy fuel oil by the LOTOS Group were 34% lower than in the previous year, which can be seen as a positive trend considering the negative margin on this product.

## Paraffin sales

The operation of LOTOS Parafiny concentrates on the production and sale of lights, candles, shopping centre products and hand-made decorative candles. Due to the high potential of the Polish market and favourable price relations compared to export sales, the sales of candles in 2009 focused mostly on the domestic market, primarily to the leading manufacturers of candles. The basic export sales markets in 2009 included Slovenia, Germany, the Czech Republic, Italy, Slovakia, the Netherlands and the Baltic States.

In 2009, an 8% growth in total paraffin sales was recorded, with an 11% increase in domestic sales.

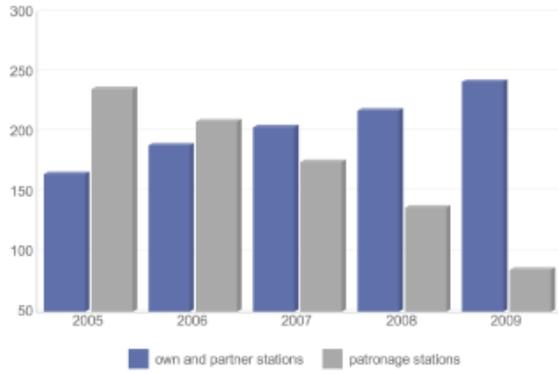
### Sales of paraffin (tonnes)



## Development of the fuel stations chain

In 2009, the LOTOS Group strengthened its position on the retail market by 0.4% to the level of 6.4%. The number of LOTOS stations at the end of the year amounted to 327, while the number of own stations and partner stations increased by 11% as compared to 2008.

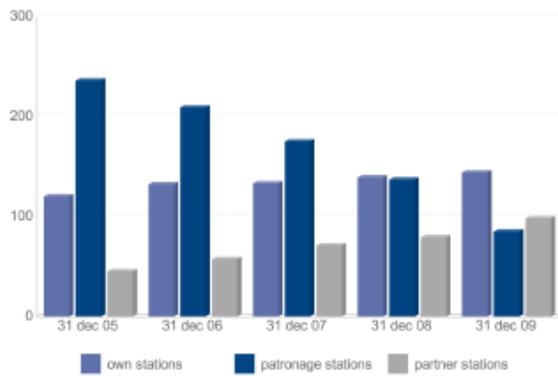
### Number of LOTOS stations



As at the end of 2009, the chain of LOTOS stations comprised:

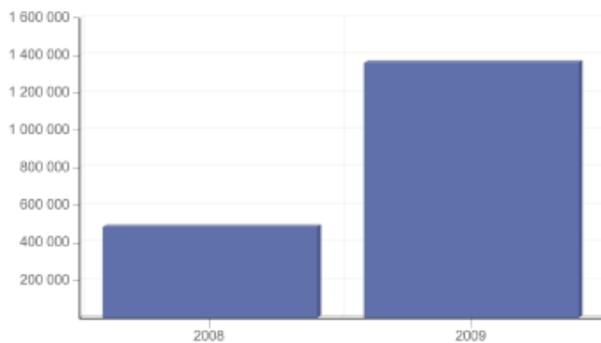
- 144 own stations operated under agency agreements,
- 98 partner stations managed in the commercial partnership system, and
- 85 patronage stations run on the basis of a patronage agreement.

#### Changes in the LOTOS retail structure



In 2009, the aim was to improve the dynamics of sales in the stations network through promotion activities, including the second edition of the Navigator loyalty programme.

#### Issued cards of the Navigator loyalty programme



## Investments

Investments on the market were dedicated to the strategic aims and depended on the current macroeconomic situation. The most important projects in this segment included:

- 26 new facilities within the LOTOS station chain,
- commenced construction of 3 pairs of Rest Areas in following locations: Police/Łęka on the A2 motorway as well as Witowice/Oleśnica and Rachowice/Kozłów on the A4 motorway. All these areas will be commissioned by the end of April 2010. According to the agreement with the General Directorate for National Roads and Motorways, these facilities will also house restaurants and hotels,
- completing the construction of the aviation fuel storage depot at the airport in Gdańsk-Rębiechowo,
- completing the construction of the system for producing compressed process air to supply the bitumen oxidation system; this investment will increase the production efficiency and improve H&S conditions,
- completing the construction of the mixer systems dedicated to two tank truck fillers in Jasło; the project will extend the range of offered road bitumen and improve access to the storage depots,
- completing the construction of the system for producing water-proof membranes at the Hydroinsulation Materials Plant in Jasło; the project will extend the range of products offered by LOTOS Asfalt and produced with own raw material, and
- launching the Plasticizer Mixing System at LOTOS Oil in Czechowice-Dziedzice; the project enables the mixing of products in clean production conditions and their distribution with rail and truck tankers, which will provide flexible supplies to customers.

## Logistics

The basic challenge for logistics in 2009 was to secure the continuity of product supplies during the 2009 spring Overhaul Down-Time of the refinery in Gdańsk and to adapt the logistic infrastructure used in transport, transshipping and storage of fuels and oil to the growing sales of Grupa LOTOS.

To secure sufficient volumes of products during the overhaul down-time, new supply sources were started, the obligatory stock structure was changed, the SWAP transaction scope was significantly extended and new, non-standard forms of cooperation with other oil sector companies were used. This provided major savings in logistic costs, finished product storage costs and the reduction of price risks.

In 2009, the streamlining of logistic assets was continued, including the warehousing bases and their adaptation to the needs resulting from commercial tasks. Because of the changed rules of cooperation, the LOTOS Group tax warehouses were opened in the fuel bases of LOTOS Jasło and LOTOS Czechowice, which are supervised by tax authorities and the logistic departments of the parent company. This project resulted in lower operating costs.

The growing volume of fuel sales achieved by the LOTOS Group necessitated an increase of obligatory stocks. In 2009, to store the obligatory stocks of oil, components and finished products, own capacities were used to the maximum extent. At the same time, the structure of the maintained obligatory stocks was changed by increasing the share of oil in the general pool of stocks. This operation allowed for the services to be rendered of creating and maintaining obligatory stocks in the oil processing potential for external entities. Such transactions reduce the general costs of meeting statutory obligations in this regard.

Changes in the structure of obligatory stocks and the rotation of product components necessitated the launch of external bases of fuel production with the addition of biocomponents, which had a positive impact on the fulfilment of the National Index Target.

Moreover, Grupa LOTOS keeps developing sea logistics. In 2009 the existing pipeline connections with the transshipping infrastructure in the Northern Port were joined by the new transmission pipeline dedicated to the transport of crude gasoline. This additional connection will facilitate exports resulting from the growing production capacities after completing the 10+ Programme.

## Storage depots

In 2009, Grupa LOTOS continued strengthening the role of its own fuel depots and transshipping terminals. The number of used external storage depots as well as the volume and type of fuels distributed by independent operators were adapted to market demands and new sources of supplies. The quality of services provided was checked, including the accuracy of measuring equipment and the provision of correct transshipping and storage conditions for high quality products of Grupa LOTOS. Particular emphasis was also placed on the supervision and control with regard to the fulfilment of H&S and environmental standards.

In 2009, within the 10+ Programme 11 new product tanks were constructed and commissioned at the tank park of the Grupa LOTOS Refinery.

## Railway transport

To optimise the use of own assets and provide the economically efficient, productive and safe distribution of its products, Grupa LOTOS contracts transport services from its subsidiary, LOTOS Kolej. In 2009, long-term contracts were signed with this company for railway transport services and the comprehensive services of railway sidings. These contracts meet all transport needs of Grupa LOTOS for the next years and reduce the resulting costs.

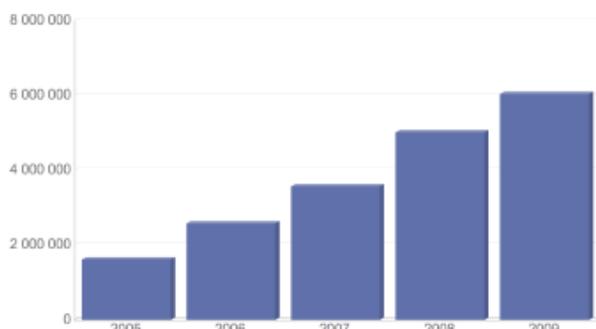
**The main routes of international railway shipping provided by LOTOS Kolej in 2009**



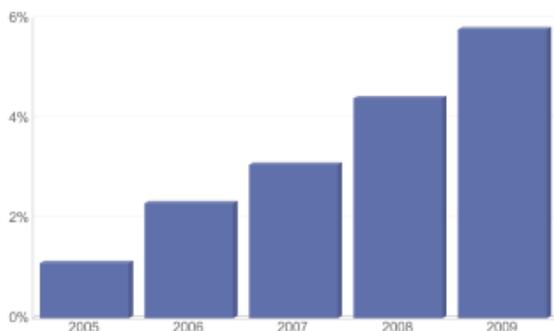
LOTOS Kolej made investments in rolling stock and infrastructure in 2009. The railway line between the plant station of Grupa LOTOS and the PKP PLK Gdańsk-Olszynka station was electrified, thus providing the modern fully-electrified connection for the railway siding at the refinery in Gdańsk with the national railway network. Moreover, the process of replacing locomotives with modern railway engines that can pull heavy block wagons was started. Furthermore, an IT system for railway logistics was developed, providing on-line contact with the shipper/consignee of shipments and optimising the shipping costs.

In 2009, LOTOS Kolej increased its market share and improved its shipping results significantly.

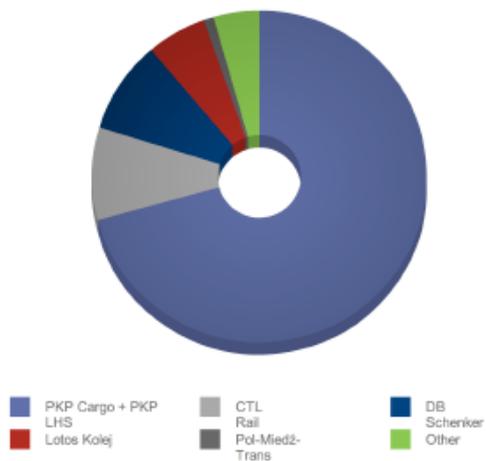
**Volume of shipping at LOTOS Kolej (tonnes)**



**Share of LOTOS Kolej in the domestic shipping market (NTKM)**



**Division of the railway cargo market in Poland among the main carriers in 2009**

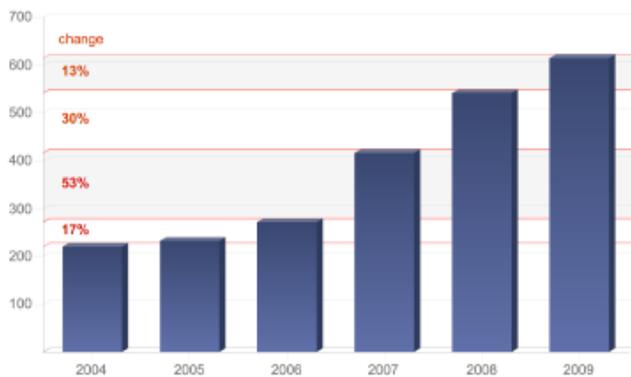


Source: own study based on 'Rynek Kolejowy' No. 3/2010

## LOTOS brand

The operations by the LOTOS Group within the market segment were also dedicated to boosting the value of the LOTOS brand. As compared to 2008, its value increased by 13%. At present, the LOTOS brand is appraised at more than PLN 614 million. Out of 330 companies classified in the annual ranking of the Most Valuable Brands, the LOTOS brand achieved the high 18<sup>th</sup> position.

### Value of the LOTOS brand (million PLN)



Source: MARQA ranking, Rzeczpospolita daily, December 2009

## Development plans

The development plans for 2010 in the market segment are related mostly to the development of the fuel station chain and the improved efficiency of trading and logistic processes.

### Development of the station chain

- acquiring real estates to develop the own station chain, mostly of premium stations,
- strengthening the presence of LOTOS stations on main communication routes, and
- expanding the Navigator loyalty programme.

### Raising the efficiency of business and logistic processes

- implementing the system of the Central Customer Database within the whole LOTOS Group,
- development of electronic invoice circulation, i.e. the so-called e-invoices,
- increasing the electronic functionality of sales and purchases, and
- developing the railway system and boosting the potential for rail dispatches from 5 to 6.5 m tonnes/year.

# Sustainability

## Basics of sustainable business

### Mission, vision and values

The mission of the LOTOS Group is innovative development in the field of petroleum extraction and processing and the distribution of top quality products in an environment-friendly manner in compliance with the energy security policy, to ensure full customer satisfaction, as well as the continuous improvement and use of the employee potential.

Grupa LOTOS strives to be the best appreciated oil company in the Baltic Sea region in terms of petroleum product quality, customer service and professional management.

The primary strategic goal of the LOTOS Group until 2012 is the development of the shareholder value, which the LOTOS Group intends to achieve through optimal use of the existing potential and the execution of development projects within the following three key areas of its operation: the upstream, refining and market activities.

Grupa LOTOS is committed to corporate social responsibility towards the community and natural environment, which translates into delivering products in such a manner so as not to allow for the degradation of the natural and social resources. The third strategic pillar is business responsibility for the product towards the State, the market, business partners, customers and employees. This responsibility is part of Grupa LOTOS management strategy that is aimed at increasing its value, and thus providing measurable social and business advantages.

Grupa LOTOS supports and applies in all its activities the ten principles of the UN Global Compact, the largest voluntary corporate citizenship initiative, in the world. As a participant of this organisation, the Company is committed to:

1. supporting and respecting internationally proclaimed human rights,
2. eliminating any instances of human rights abuses by the Company,
3. upholding the freedom of association,
4. eliminating all forms of forced and compulsory labour,
5. supporting the abolition of child labour,
6. effectively counteracting discrimination in respect of employment and occupation,
7. supporting a precautionary approach to environmental challenges,
8. undertaking initiatives to promote greater environmental responsibility,
9. applying and diffusing environmentally friendly technologies, and
10. working against corruption in all its forms, including extortion and bribery.

The superior values of the LOTOS Group's social responsibility are related to the most important needs, problems and challenges identified in the course of the Company's dialogue with the stakeholders groups that are key for its future:



#### TRANSPARENCY

*is the observance of the top environmental and ecological standards as well as a declaration of ethical and fair competition, counteracting corruption and human rights violations.*



#### OPENNESS

*is the approach to changes, needs of the world and people's expectations.*



#### INNOVATIVENESS

*is the appreciation of intellectual capital and competencies of the people, who stand behind the strength and market perspectives of the LOTOS brand.*



#### RESPONSIBILITY

*is the attitude to the future of the world community and the natural environment, towards the State and the safety of its position in the world.*

Grupa LOTOS addresses its responsible practices to four key groups of stakeholders:



## Stakeholders participation

### Shareholders' right to file recommendations

Shareholders of Grupa LOTOS have the right to file their recommendations and directions to the General Shareholders Meeting.

Rules for shareholders' participation in the General Meeting and execution of their voting rights are set out in the Polish Code of Commercial Companies and Partnerships (KSH), the Articles of Association of Grupa LOTOS, and the Rules of General Meetings of the Company. Shareholders representing at least 1/20 of the share capital may request that particular issues be placed on the agenda of the next General Meeting. Such a request should be submitted to the Company's Management Board not later than 21 days prior to the planned date of the next meeting. They also have the right to submit draft resolutions on issues already included or to be included in the agenda of the General Meeting in writing to the Company's office or by electronic communication media. The Company immediately publishes such motions on its website. In addition, each shareholder may, during the General Meeting, suggest draft resolutions on issues included in the agenda and lodge proposals of changes and supplementations to already submitted drafts. If several draft resolutions are submitted in relation to the same issue, the chairman of the General Meeting puts each of the drafts to a vote.

During the General Meeting, only issues included in the agenda may be discussed. Each shareholder has a right to take the floor and provide a response. Upon the request of a participant of the General Meeting, their written statement is entered in the minutes.

Responses to the questions asked by shareholders shall be provided by members of the Management Board. Pursuant to corporate governance rules, Grupa LOTOS publishes the questions asked by shareholders at the General Meeting and the responses given to such questions during or after the meeting on the Company's website. Shareholders requesting to enter their objections to a resolution in the minutes may justify their position.

In 2009, two minority shareholders exercised their right to speak during the meeting and file an objection to one of the resolutions. In the first quarter of 2010, one of the minority shareholders announced a candidate for a member of the Supervisory Board who was put to the vote at the General Meeting.

### Social understanding and freedom of association

The right of coalition and collective bargaining in the European legal system, as well as in the national legal systems of EU member states are guaranteed respectively by European primary law and internal legislation, including the constitutional law. Poland, as a signatory of the European Social Charter ratified in 1999, accepts all the provisions thereof as applicable, including the right to organise and the right to free collective bargaining. Grupa LOTOS respects and supports such standards, which provide for rights classified as human rights, in accordance with European standards.

Based on the right to establish their independent and free employee organisations, the Company's employees established 6 trade unions, which associate around 39% of all staff. The size of corporate trade unions at Grupa LOTOS differs, ranging from 1.1% to 18% of all employees.

The employer concluded an agreement with all these employee organisations. This agreement sets out rules for providing premises required to run trade union activities and means of telecommunication, which are executed in accordance with the same standards as those applicable to management staff. Rooms used by trade unions are located at the registered office of Grupa LOTOS and access thereto is not limited in any way. Each employee is able to anonymously contact their representatives personally, without a pass.

Available data show that the existing share of employees in trade unions allows for an individual choice out of the full spectrum of organisations related to all social trends. The share of employees in trade unions is close to average and owing to programme diversification employees may choose among organisations associated with all social standards.

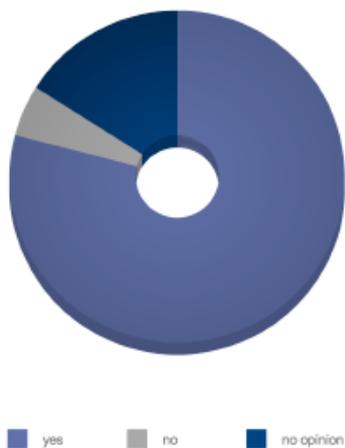
At Grupa LOTOS, apart from trade unions, a Council of Employees exists, composed of 7 members designated by the two biggest corporate trade unions. The employer concluded an agreement with the Council of Employees. Based on this agreement, the Council is able to perform its duties in accordance with the high standards applied by the employer. Each meeting of the Council, held in accordance with an autonomously agreed schedule, is attended by the employer's representative, who may provide information requested by employee representatives, respond to questions and take part in discussions, if necessary.

In 2004, five corporate trade unions finalised negotiations and signed the Corporate Collective Bargaining Agreement applicable to employees of Grupa LOTOS. In the course of 6 years of its existence, the Agreement has been updated by virtue of three annexes. At present, the fourth annex, incorporating regulations aimed at the growth of employees' personal involvement in the issues included in the strategy of the Company and its harmonious development, is being consulted.

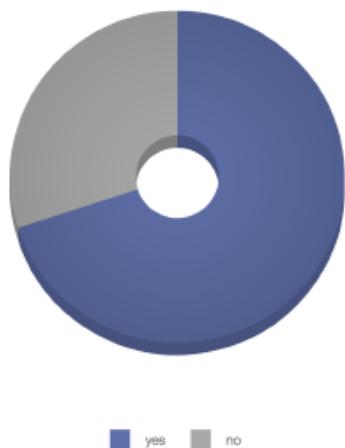
As a result of the Company's understanding of the idea of social dialogue, on 10 February 2009 an unprecedented agreement was concluded between the Council of Employees, all corporate trade unions and the Management Board of Grupa LOTOS on the Anti-Crisis Package for the LOTOS Capital Group. The purpose and success of that agreement was to have all trade unions accept an austerity package in response to the ongoing crisis. Thanks to the consensus, social parties agreed to suspend negotiations on pay rises and committed themselves to conduct permanent consultations in order to inform employee representatives about, for example, changes in the industry's macroeconomic outlook and the outcome of undertaken savings measures. The agreement expired on 31 December 2009.

It is necessary to point out that all six trade unions, which signed the agreement of 10 February, agreed that it was necessary to adopt savings rules equivalent to those implemented at Grupa LOTOS, including the suspension of pay rises, among all employers coming within the Capital Group.

*After one year, almost 80% of employees of Grupa LOTOS found that actions taken by the Company under the Anti-Crisis Package were necessary and efficient. (Employee survey, February 2010)*



Thanks to cyclical programmes of the Management Board's communication with employees and organisations representing employees, most employees found information about the Company's strategy sufficient.  
(Employee survey, February 2010)



## Participation in the public policy development and lobbying

Grupa LOTOS takes an active part in all forms of participation in the process of developing and creating public policies, within the frames provided by the Polish legislature. The Company's specialists were or are members of expert teams established by public institutions in order to develop new legislative solutions in the energy sector. This includes, for example, the team established by the Ministry of Economy to prepare the document entitled "Poland's Energy Policy till 2030".

Grupa LOTOS participates in work aimed at the development of policy and legal regulations on widely understood issues relating to the energy sector, including, in particular, the fuel market, also through organisations, of which it is a member. This refers, in particular, to the following organisations:

- **Business Centre Club (BCC):** Grupa LOTOS' activity under the BCC focuses on cooperation over lobbying initiatives aimed at the development of the Polish economy, the growth of jobs and helping entrepreneurs. The Company supports the BCC in creating platforms for communication between individual social groups on issues of paramount importance for the development of Poland, including, in particular, the promotion of corporate social responsibility.
- **Confederation of Polish Employers (Konfederacja Pracodawców Polskich, KPP):** under KPP, Grupa LOTOS acts to the benefit of joint interests of the business environment by supporting all initiatives aimed at reinforcing the role of Polish employers. By participating in the process of opinion-making on draft legal acts, it takes up actions to achieve mutual benefits for employers and employees from economic development, fair and stable employment conditions, safety at work and social peace.
- **Polish Organisation of Oil Industry and Trade (Polska Organizacja Przemysłu i Handlu Naftowego, POPIHN):** one of the key goals of Grupa LOTOS under POPIHN is the sustainable establishment and development of a competitive fuel market in Poland, for example, by taking up actions to implement business activity rules consistent with the EU law and equal rights for all players of the Polish fuel market. The Company achieves its goals by initiating, giving opinions and presenting comments on draft legal acts implementing EU solutions. Owing to its membership in POPIHN, Grupa LOTOS can also present its position in direct contact with representatives of the parliament, government, and other government administration authorities.
- **Polish Technology Platform for Biofuels and Biocomponents (Polska Platforma Technologiczna Biopaliw i Biokomponentów, PPTBiB):** under this organisation, Grupa LOTOS takes up actions to significantly increase the competitiveness of the Polish economy in the field of biocomponent and biofuel production technologies, for example by building a bridge between industry and science, by conducting R&D and other studies, as well as the commercialisation of innovative solutions relating to the production and use of biocomponents and biofuels. The Platform, as an important partner, runs international cooperation both in terms of scientific, as well as implementation and production potential. Grupa LOTOS is a founder member of the organisation.
- **"Pomorskie in the European Union" ("Pomorskie w Unii Europejskiej"):** the association supports actions taken by local governments of the Pomerania Voivodship,

universities, institutions and enterprises in the European Union. The association has taken an active part in supporting Grupa LOTOS in the CEEP (Central Europe Energy Partners) project.

- **Center for Strategic & International Studies (CSIS):** Grupa LOTOS closely cooperates with CSIS, which is a bipartisan non-profit organisation located in Washington. It deals with strategic analysis of defence, security, regional stability, international cooperation, energy sector safety, climate change, and economic cooperation covering the whole world. In addition, CSIS prepares recommendations for governments, international institutions, private entities and non-governmental organisations. Such great personalities as Zbigniew Brzezinski or Henry Kissinger and such companies as BP or Shell are connected with CSIS.
- **Central Europe Energy Partners (CEEP):** Grupa LOTOS initiates work connected with the CEEP project. The central idea of this newly established organisation is to act to the benefit of the integration of the Central European energy sector with other EU member states under a common energy and security policy of the European Union. Ultimately, the organisation is to be a regional entity cooperating with companies from the energy sector in Central Europe. CEEP's offices will be located in Brussels since basic regulations on the terms of operation for companies, including issues relating to energy, are adopted by the European Parliament and the European Commission, and domestic laws are harmonised.
- **Windsor Energy Group (WEG):** in March 2009, Grupa LOTOS joined WEG with its registered office in London, an independent think-tank dealing with issues connected with the establishment of international order and security in the energy sector, focusing, in particular, on the oil and gas as well as alternative energy sectors. WEG associates politicians, ambassadors who served their mission in oil countries, government advisers, and presidents of large oil and gas exploration and exploitation companies. Grupa LOTOS' participation in WEG is an important element of the company's activity supporting the development of the energy sector in Europe and promoting the position of energy sector representatives from Central and Eastern Europe in the European Union. One of the consequences of the Company's membership to WEG was the organisation of the international conference "North European Energy Security Forum", which was held in Gdańsk in February 2010. Its purpose was to present Poland's position and bolster our country's argumentation in the ongoing process of security establishment in the power sector for Europe. The honorary patronage of the chairman of the European Parliament, Mr. Jerzy Buzek, the participation of representatives of European institutions, as well as governments and diplomatic corps of the Baltic states confirmed the validity and relevance of that event.



Energy security is one of the most important tasks facing the international community. This is a truly global issue which requires global solutions – said Paweł Olechnowicz, President of the Board of Grupa LOTOS (second left) at the opening of the North European Energy Safety Forum in Gdańsk. The Forum was attended, among others, by (from the left): Lord David Howell, Chairman of the Windsor Energy Group (co-organizer of the debate), Jerzy Buzek, President of the European Parliament, and Janusz Lewandowski, European Commissioner for the Budget.

the process of opinion exchange and opinion-making on issues that are significant for Poland. It is attended by representatives of business and leading universities. Through its membership to PFAG, Grupa LOTOS acts to the benefit of the intensification of business and academic cooperation. It lobbies for support of innovativeness and the knowledge-based economy.

- **Polish Academic and Business Forum (Polskie Forum Akademicko-Gospodarcze, PFAG):** the purpose of this association is to establish close cooperation between the academia and business in order to promote innovative solutions using national and EU funds. The Forum is also a platform for
- **European League for Economic Cooperation (Liga Europejska Współpracy Gospodarczej, ELEC):** an international organisation established to promote and support economic cooperation within the European Union. Grupa LOTOS' actions taken under ELEC (the Polish section was founded by the Company) aim at establishing both the domestic and regional position of the Company as an entity operating to the benefit of the economic development of the European Union and taking care of the EU energy security.
- **Conservation of Clean Air and Water in Europe (CONCAWE):** a non-profit organisation associating European and non-European refineries to take care of clean water and air. Grupa LOTOS has had full member status since 2006. The Company's active participation in CONCAWE allows for the improvement of corporate awareness of the risks accompanying chemical substances, and the development of the chart of specifications in terms of threats for employees, customers and the natural environment. In addition, owing to its membership to CONCAWE, the Company has access to the interpretation of the latest and planned legal acts, technology development trends analyses, etc.

## Approach to management

### People

THE FIRST PILLAR OF THE SOCIAL RESPONSIBILITY STRATEGY OF THE LOTOS GROUP

#### HUMAN BEING = SOCIAL RESPONSIBILITY

duty = establishing social values  
working conditions, variety, human rights, counteracting exclusion

### Employees

The human resource management policy of Grupa LOTOS is based on a strategic and complex approach. In accordance with the strategy of transforming human resources into the Company's capital, a qualitative and quantitative structure is being adapted to changing external conditions, an internal labour market is being developed, and employees are awarded for effective work with different incentive tools.

#### Employment in companies of the LOTOS Group

Companies	31.12.2007	31.12.2008	31.12.2009
<b>The parent company</b>			
Grupa LOTOS	1098	1246	1305
<b>Direct subsidiaries</b>			
Petrobaltic	486	446	421
LOTOS Norge	2	12	13
LOTOS Czechowice with subsidiaries	252	268	250
LOTOS Jasło with subsidiaries	179	152	128
LOTOS Serwis	722	734	725
LOTOS Lab	185	168	153
LOTOS Straż	75	72	76
LOTOS Ochrona	156	176	194
LOTOS Park Technologiczny	118	31	15
LOTOS Paliwa	272	244	261
LOTOS Oil	322	327	331
LOTOS Asfalt	176	214	249
LOTOS Gaz	97	82	28
LOTOS Parafiny	265	279	274
LOTOS Kolej	345	407	504
LOTOS Tank	5	12	16
UAB LOTOS Baltija	9	8	6
<b>Total</b>	<b>4764</b>	<b>4878</b>	<b>4949</b>

Major goals of the Human Resource Management policy of Grupa LOTOS are as follows:

- allocating and using human resources at the LOTOS Group in an optimal manner;
- establishing appropriate conditions for the fulfilment of duties at an expected level: improving the organisational culture (changing employee behaviours, boosting motivation and involvement, promoting team work, improving communication), ensuring a sense of employment security (health care package, social benefits, investment and pension fund, etc.);

- using employee skills and knowledge to the maximum extent;
- improving the periodical employee appraisal system by additionally defining development goals and tasks;
- establishing appropriate conditions for effective development and a practical use of knowledge and skills gained (training and development project: LOTOS Academy);
- improving incentive schemes: linking financial and non-financial incentives to performance;
- analyzing employees' reviews.

The Management Board of Grupa LOTOS establishes the Human Resource Management policy in the LOTOS Group with regard to recruitment, professional excellence and development, administration, incentive systems, and social issues. The major premise of the human resource management strategy is to treat the employees as the most valuable asset of the Company.

## Conditions

In 2009, Grupa LOTOS continued the 10+ Programme, the biggest investment programme in Poland, which was connected with the development of new technologies and the expansion of the product range. These conditions had an impact on the Company's Human Resource Management policy. Thanks to the 10+ Programme, the Company created new jobs, strengthened its cooperation with universities to promote among prospective students faculties connected with the industry, and initiated together with employees and students of technical universities R&D studies as well as technical and technological projects. The Company also expanded its cooperation with secondary schools to develop youth interest in the petrochemical industry through a system of scholarships, thematic competitions, and dedicated placements in the Company. All these actions contributed to the optimisation of employment at the LOTOS Group and the focused professional development of employees.

## Remuneration

Grupa LOTOS tries to make remuneration in the Company competitive on the labour market and attractive to employees. For every job, a market median is determined, which is a target value for all employees whose incomes are below this level. The medians have been determined based on data received from external HR consulting agencies.

Every quarter, an analyses of employees' basic remuneration is carried out and compared with the market medians. Then, superiors can decide increase rates of their subordinates to the relevant level. As in 2009 the Company launched the Anti-Crisis Package, such an analysis was conducted only in the fourth quarter. Remuneration was adjusted in Grupa LOTOS in October 2009. In addition, in the second half of 2009, the basic salaries of employees of most LOTOS Group companies were raised.

## Welfare benefits

Grupa LOTOS and its subsidiaries covered by the agreement on joint welfare activity have increased their basic contribution to the Company Welfare Benefits Fund pursuant to the Act of 4 March 1994 up to 100% of the average monthly remuneration in the national economy per every employee and 6.25% per every retired person and pensioner. As a result, almost 100% of the draft budget for 2009 as approved by the Management Board and corporate trade unions was fulfilled.

Grupa LOTOS provides welfare benefits to all its employees and their children, retired employees and pensioners and spouses of the deceased employees. The Regulations of the Company Welfare Benefits Fund in Grupa LOTOS allows the granting of various forms of social aid to entitled employees: such as co-financing their summer holiday, rehabilitation of disabled children, granting loans for housing purposes and providing non-returnable subsistence allowances to persons in difficult situation.

The outlays for social purposes are growing due to the dynamic development of the Company and the increasing number of employees, who are additionally attracted to work in the Company by good salaries and the rich social offer.

## Recruitment under the 10+ Programme

In the recruitment process Grupa LOTOS always takes account of the high qualifications and skills of its employees and the necessity to provide them with development opportunities. Therefore, applications from the LOTOS Group's employees are given priority. This procedure allows for the effective transfer of knowledge between the LOTOS Group companies. At the same time, Grupa LOTOS runs external recruitment to attract new employees who will enrich the organisation with the qualifications necessary for performing the tasks ahead of the LOTOS Group.

Exceptional recruitment and training programmes, the "2009 Personnel – 10+ Programme" and "10+ Personnel", were completed in 2009. They were developed for the purpose of the 10+ Programme which was connected with the growth of Grupa LOTOS' processing capacity. As a result of this investment programme, the Company had to recruit, hire and prepare production and sales personnel. Project goals were achieved in accordance with the premises. Furthermore, in the context of human resource needs under the 10+ Programme, the Company popularised the idea of knowledge sharing in the organisation and the system of employee professional preparation via rotation. The recent appraisal of the competences of employees participating in the programmes let us assume that they are well prepared to new challenges related to increasing production and extending the offer. The project methodology developed and verified to this end will be used to carry out further such programmes efficiently.

The execution of the 10+ Programme required the recruitment of new operators. Therefore, the Company implemented the system of knowledge certification for the new production personnel. The objective of the training programme was to provide basic general knowledge necessary for the correct performance of the tasks of an operator. During the two-week training programme, employees get familiar with their work in the broad technical and technological context. Classes are given by a specially trained group of internal trainers including specialists/experts from specific areas.

## Internships and scholarships

The LOTOS Group actively supports the academic and professional development of university and secondary school students. Every year, more than one hundred of them undergo training both at Grupa LOTOS, as well as its subsidiaries: LOTOS Serwis, LOTOS Lab, LOTOS Oil, LOTOS Kolej, and LOTOS Asphalt. The largest group of trainees are students of Gdańsk Technical University from the Faculties of Management and Economics, Electronics, Telecommunications and IT, Mechanics, Chemistry, Civil and Environmental Engineering, Automation and Robotics, Technical Physics and Applied Mathematics. Other trainees come from the following universities: the University of Gdańsk, Gdańsk School of Banking, the Academy of International Economic and Political Relations, Gdynia Maritime University, the State Higher School of Vocational University in Elbląg, Gdańsk Higher School of Humanities, as well as Kraków University of Technology, the AGH University of Science and Technology, and Warsaw University of Technology. The Company also admits students of Tri-city secondary schools for training.

The Company tries to facilitate the transfer of students and graduates of Tri-city universities from the academic into the professional environment and helps them find their first job,

for example by participating every year in the "Holiday Internship" programme organised by the City Office in Gdańsk under the patronage of the Mayor of Gdańsk.

In order to strengthen the cooperation between business and the academia, the Company signed a trilateral agreement with Gdańsk University of Technology and the AGH University of Science and Technology in Kraków aimed at supporting talented, committed and creative students. This cooperation is sealed with scholarships founded for the students.

To strengthen contacts between students and business, the Company sponsors 15-20 internships for students and graduates every year. In 2009, the LOTOS Group organised 129 internships in total.

Starting from the academic year 2004/2005, the Company granted over PLN 700 000 for scientific scholarships and awards for 130 students and PhD students at Gdańsk University of Technology and the AGH University of Science and Technology in Kraków.

*Grupa LOTOS evaluated its cooperation with students who received scholarships from Grupa LOTOS by organising a survey. 15 persons responded to the survey. 12 of them stated that the scholarship sponsored by Grupa LOTOS contributed to their bigger motivation to learn and the achievement of the best results possible. 10 students responded that the scholarship influenced their scientific development and allowed for the performance and development of their scientific interests. 10 persons said that receiving a scholarship from the Company created better opportunities for job searching and was an advantage on the labour market. Among other effects resulting from the scholarship, students specified e.g. the possibility of focusing on work without the need to take up a paid job. Scholarships financed by Grupa LOTOS helped to motivate very good students to become even better in their field and contributed to the growth of their self-confidence.*

### LOTOS Academy

The key training and development project carried out since 2004 by the Capital Group is the LOTOS Academy. Its mission is the introduction of the work culture and management principles based on an employee model who participates consciously in creating the added value required by customers and shareholders. The purpose of the LOTOS Academy is to construct a partner team of employees establishing the structure of a transparent, modern, efficient and strong organisation, which is able to face its competitors, i.e. large companies in the European Union.



All planned and implemented training initiatives have to fulfil the key premises of the LOTOS Academy:

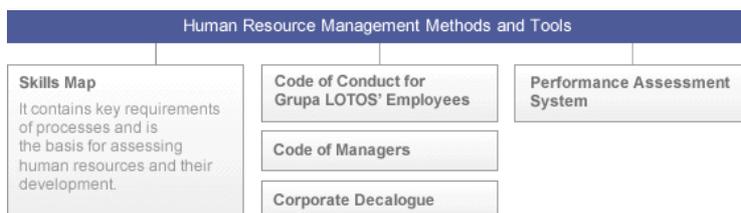
- **cohesion** – the system of training takes account of the mission and strategy of Grupa LOTOS, its long-term development plans, and its relations with other human resource management areas;
- **responsibility** – all participants of the process are responsible for the effects of training and development;
- **availability** – training is addressed to all groups of employees;
- **continuity** – the development planning is a continuous process connected with the outcome of periodical employee appraisals, career paths, succession plans, and development plans for individual groups of employees;
- **flexibility** – the plans for and performance of training is connected with the monitoring of the changing external environment of the Company and the changes in expectations regarding qualifications of the employees.

Under the LOTOS Academy, in 2009, the Company carried out dedicated programmes, including:

- **Induction Programme for new employees:** new employees of Grupa LOTOS are covered by the programme as part of their employment; the aim of the programme is to make them effectively familiar with their job, integrate them with a team, as well as present them with the values and the organisational culture of the LOTOS Group, procedures and the operation of the refinery;
- **Future Leader 2007-2009 Programme:** a programme for the versatile development of employees with the greatest potential aimed at the selection of the most valuable employees of the Company and providing them with wide, but targeted, opportunities for intensive professional development;
- **Corporate edition of the Master of Business Administration (MBA).** The process of intensive development of the LOTOS Group is particularly demanding for management staff. In cooperation with the Gdańsk Foundation for Management Development, the Company prepared the corporate edition of the MBA course in accordance with a programme validated by RSM Erasmus University. Apart from gaining managerial qualifications corresponding to global requirements, the aim of the programme is also to facilitate the exchange of experiences and the integrating of managers of the entire LOTOS Group;
- **Auditor School:** the main aim of the programme is to prepare well-trained and experienced auditors who will carry out audit in all the companies of the LOTOS Group in compliance with highest uniform corporate standards. In 2009, the Company focused on internal workshops held by the Company's trainers. Auditors who obtained LOTOS Group Auditor Certificates after the cycle of training courses held in 2008 were invited to knowledge workshops on technology, products, trade, environmental protection, industrial safety, and the Company's audit rules. In addition, the Company prepared a cycle of improvement courses for its certified internal auditors. Classes will be held under a development project partially financed from the European Social Fund in 2010-2011.

More details on the Company's actions aimed at the improvement of the knowledge and skills of employees are presented in Polish in the Internet portal of Grupa LOTOS.

### Human Resources Management Methods and Tools



## Employee Training and Improvement



## Safety at work

Because of the character of its activity and, in particular, the scale of investments carried out under the 10+ Programme and the rate of construction and erection works, the LOTOS Group pays special attention to actions aimed at raising the awareness of employees of and their involvement in work safety continuously. The level of safety culture and the related responsibility of all employees are among the priorities of Grupa LOTOS. To achieve work safety goals, the Company takes up a number of non-standard initiatives aimed at promoting industrial safety issues in a legible manner and in a way that involves employees. This applies not only to duties that a production plant is obliged to fulfil by law, but actions arising from standards and the best world solutions relating to health care and work safety, as well. Some above-standard practices implemented by the Company in 2009 were as follows:

- using the best available techniques and top quality technical elements in production;
- informing employees about the situation of the Company, the world and domestic novelties by means of any available communication media. The most interesting initiatives taken to improve communication on industrial safety among employees of the LOTOS Group comprise:
  - publishing articles on safe work and health care in every issue of the employees' monthly;
  - publishing the industrial safety quarterly "Bezpiecznik";
  - dedicated „Safety at Work” displays cabinets promoting accident-free work, presenting dangerous situations reported by employees or answers to the questions received via industrial safety boxes or by e-mail;
  - "Accident Frequency" tables in the refinery, informing about the number of accidents at work, and registered dangerous situations within the territory of individual production plants and companies;
  - a „Safety at Work” panel in the Intranet that provides employees with access to e.g. materials promoting a healthy and hygienic lifestyle, training films, training materials, world novelties, knowledge competitions;
  - a „Safe Work” file at production plants with educational and teaching materials on safety;
- developing a system of training for employees, such as e.g.:
  - improvement exercises on adequate reactions to accidents at work, chemical alarm procedure, evacuation from buildings, practising emergency scenarios included in the Report on Safety, together with LOTOS Straż and Chemical Rescue;
  - training for a specialised production group on complex first aid to be provided before the arrival of medical help.

Trainers use, for example, training films, photos, multimedia presentations, educational games, practical workshops, based on individual and team work.

As regards safety at work, Grupa LOTOS enjoys a good reputation among representatives of world concerns, external auditors visiting the refinery, and representatives of insurance companies. The Company works to develop joint work safety standards for the whole Capital Group and achieve LTIF below the average for European refineries. The programme for the continuous improvement of working conditions applies its own ideas in this field, as well as world work, process and technical safety solutions.

Systematically, every year, Grupa LOTOS implements new technical and organisational solutions to improve employees' awareness and commitment and to ensure safe conditions at work for all persons staying or working within the territory of the Company.

### Short-term plans:

- a programme motivating management staff to motivate employees to work in accordance with applicable safety rules and procedures;
- the promotion of a work safety culture by organising and encouraging employees to take part in the World Safety Day;
- the implementation of an incentive system for employees of third party companies aimed at awarding them for safe behaviour and promote adequate attitudes and behaviours.

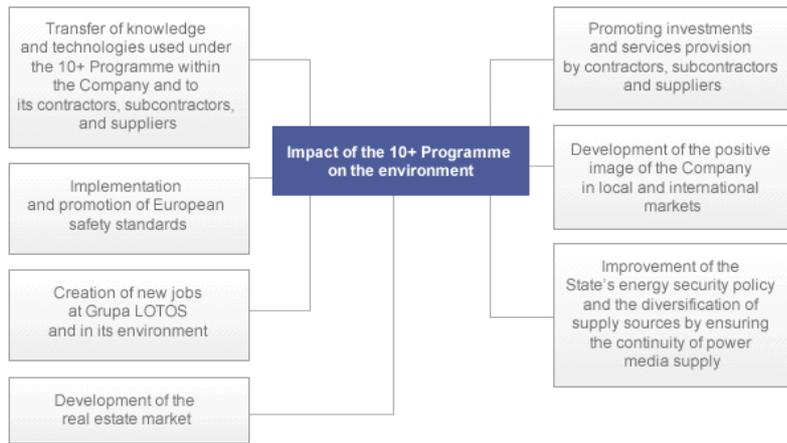
### Mid- and long-term programmes:

- the establishment of a work safety culture by involving management and employees of lower levels;
- the unification of work safety standards at the LOTOS Group;
- the achievement of a below average LTIF amongst European refineries by eliminating the risk of accidents, and implementing projects related to the improvement of working conditions by use of the best world solutions and techniques in this field.

## Society

### Impact of the 10+ Programme on the environment

By executing the 10+ Programme, Grupa LOTOS had a significant indirect economic impact on the Company's environment, including the following key areas:



**1. Transfer of knowledge and technologies used under the 10+ Programme within the Company and to its contractors, subcontractors, and suppliers;**

**2. Implementation and promotion of European safety standards;**

To ensure high levels of safety under the 10+ Programme, the Concern concluded an agreement with an international team of experts, the Project Managing Contractor (PMC), to coordinate all actions, including activities relating to health, safety and environment (HSE).

**HSE procedures and instructions**

Given the scale of actions carried out under the 10+ Programme and in order to ensure more efficient monitoring, the Company developed, together with the PMC, a number of HSE procedures and instructions. The purpose of these documents was to present both model and recommended solutions relating to the management of safety at work and environmental protection under such investments like the 10+ Programme. The documents were delivered in the form of appendices to agreements and orders.

**Best HSE practices**

To effectively promote issues relating to safety at work and environmental protection, the Company developed a number of booklets discussing such issues. They were delivered to all general contractors, which were obligated to make all their subcontractors familiar with the content thereof.

**Safety boards**

To shape the desired safety culture in the area connected with the 10+ Programme, the Company has to use relevant tools allowing for the monitoring and assessment of such a culture. To create an atmosphere of positive competition in safety at work among contractors, safety boards were fixed on construction sites.

**HSE controls on sites**

Under the monitoring of safety at work and environmental protection, the Company, together with the PMC, carried out weekly controls attended by construction management, contractors' HSE staff and supervisory inspectors. After every control, Grupa LOTOS drew up and sent a report to the contractor. If the protocol included duties to be performed by the contractor, the contractor returned the filled in report on amendments undertaken after the completion thereof.

**HSE reviews**

Pursuant to the requirements of procedures developed for the purpose of the 10+ programme, the Company, together with the PMC, carried out a cycle of HSE reviews among its major contractors to verify the actions taken by contractors and subcontractors based on documents developed for the purpose of the investment and actions implemented on sites.

**Monthly HSE coordination meetings**

To establish better cooperation between the investor and contractors, Grupa LOTOS, together with the PMC, organised meetings with personnel in charge of HSE monitoring. During the meetings, contractors delivered information on actions undertaken to improve HSE, provided an overview of past month's actions and advancements and prepared further actions mainly aimed at safety improvement.

**3. Creation of new jobs at Grupa LOTOS and in its environment;**

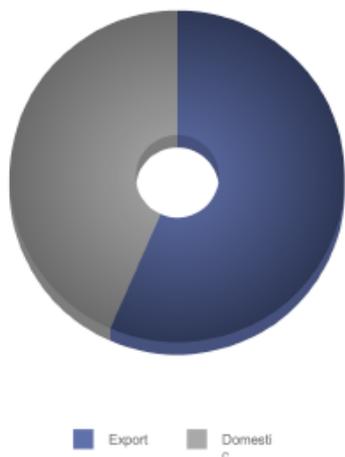
New installations contribute to creating new jobs. To cover human resource needs connected with future operations of installations constructed under the 10+ Programme, Grupa LOTOS recruited and trained 120 new employees, including 30 engineers. In addition, the 10+ Programme has been supported by 3 450 employees from third party companies.

**4. Promoting investments and services provision by contractors, subcontractors and suppliers;**

PLN 4.8 billion were transferred to contractors under the 10+ Programme by the end of 2009 as a result of the design, supply and construction contracts concluded with the Group.

**Value of services bought – P10+ (PLN billion)**

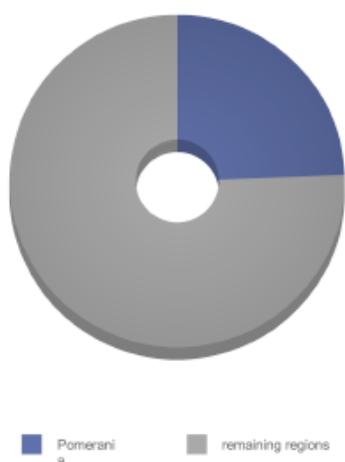
**31 December 2009**



It is necessary to point out that 43% of Grupa LOTOS expenses relative to works performed under the 10+ Programme by third party companies were spent in Poland. Out of that, 24%, i.e. PLN 0.51 billion, were paid to enterprises from the Pomerania Region, while 76%, i.e. PLN 1.58 billion, to other domestic entities.

**Value of services bought in Poland – P10+ (PLN billion)**

**31 December 2009**



**5. Development of the positive image of the Company in local and international markets;**

The Concern carries out bilateral projects under the 10+ Programme in cooperation with recognised suppliers of the most advanced and effective technologies, including such world leaders as: Shell, Kellogg, Lurgi, Chevron. The Programme has been joined moreover by the American concern, Lockheed Martin, which, under the offset agreement with the Polish Government related to the purchase of F-16 fighters, co-finances the transfer of technology and supports the entire Programme. The Programme involves mainly leading companies from the industrial construction sector, which have long-lasting experience in designing and building refinery and chemical complexes the world over: Technip (Italy), ABB Lummus Global (Germany), Lurgi (Germany/Poland), Fluor (Netherlands/Poland). At the same time, companies from Pomerania and construction enterprises from all over Poland have a significant share, particularly as suppliers and contractors of particular investments.

**6. Improvement of the State's energy security policy and the diversification of supply sources by ensuring the continuity of power media supply;**

The Gdańsk refinery's ability to process various types of oil, access to own deposits, and the close distance to sea transshipment terminals all support the advancements in energy security policies and raw material diversification.

**7. Development of the real estate market;**

The execution of the 10+ Programme has indirectly contributed to the growth of demand for apartment rental in the local market since employees hired by contractors/inspectors/PMC staff needed close-by accommodation.

**Pro-social actions**

The LOTOS Group's sponsoring and charity activity focuses mainly on pro-social actions consistent with the Concern's mission and development strategy, as well as values represented by the LOTOS brand in areas important for life of customers and residents of production plant surroundings. The Company achieves its business goals taking into consideration material social goals. Pro-social activities are carried out in two priority areas:

- environmental protection and ecology: initiatives relating to environmental protection and ecology, including, in particular, the protection of the natural assets of the Baltic Sea;
- people and their environment: support for health care institutions, actions to the benefit of the disabled, the development of science and education, physical culture and sports education of the young generation.

Key social programmes carried out in 2009:

## LOTOS Safety Academy

A programme comprising a number of actions aimed mainly at preventing road accidents involving children through educational actions and the promotion of road safety rules among children and adults. In 2009, these actions included the following elements:

- the "LOTOS – Safe Way to School" Programme;
- "Free Reflectors" art competition;
- joining the initiative of the European Commission "European Road Safety Charter";
- participation in the Automotive and Road Safety Picnic in Sopot;
- communication actions addressed to adults.

In 2009, Grupa LOTOS joined the European Road Safety Charter. This is a social initiative which purpose is to convince as many entities as possible to undertake active actions to the benefit of road safety. By joining the initiative, the Company declares to implement road safety initiatives for the next 3 years. In its membership declaration, Grupa LOTOS stated that it would continue its educational and prevention programme "LOTOS – Safe Way to School".

Actions taken under the LOTOS Safety Academy are addressed to External recipients (children youth and adults), as well as to employees of the LOTOS Group. In 2009, the Company's media published articles on road safety. Employees may verify their knowledge on road safety in specially prepared competitions announced in the corporate media. Similarly, the Tri-city press published addenda promoting the problems of safety. The purpose of these actions was mainly to improve adults' awareness of safe behaviour on roads and the significance of the education of the youngest road users.

"LOTOS – Safe Way to School" is an educational and prevention programme carried out together with the Police and road safety experts. It is to prevent road accidents involving children of an early school age. Actions addressed to pupils of first classes of primary schools are to turn their attention to road safety issues and teach the relevant behaviours and attitudes on roads. The safety of, in particular, pedestrians on Polish roads is a serious social problem. The programme includes classes held by policemen and road safety instructors to discuss safe movement on roads and appropriate places for children to play. All participants of these classes receive reflectors and road safety educational packages financed by the Concern.

The programme is carried out within the operating territory of selected entities coming within the LOTOS, i.e. in the Pomerania Region and counties directly influenced by LOTOS Czechowice and LOTOS Jasło. In the Pomerania Region, such actions have been taken since 2001, in Jasło since 1998 and in Czechowice since 2004.

For the last 4 years, the Company has distributed around 48 000 reflectors and 25 000 road safety packages to pupils.

### LOTOS Safety Academy – the Year 2009 in figures

- participants of "LOTOS – Safe Way to School": 12 000 children, including 8 000 in the Pomerania Region and 2 000 both in Jasło and Czechowice-Dziedzice;
- participants of the art competition "Free Reflectors": 60 schools;
- participants of the Automotive and Road Safety Picnic in Sopot: 5 000 persons.

## "Good Neighbour" Programme

This social programme commenced in 2006 and took place in the direct surroundings of Grupa LOTOS in Gdańsk. It is based on the problem of the co-existence of the refinery and residents of districts and settlements located in the direct neighbourhood. Residents consider the refinery's emission of gases to be a nuisance, which is felt in the form of unpleasant smells.

Social pathologies existing in the districts covered by the programme, as well as the fact that these are some of the poorest districts show that educating on the Company's specific character and organisation of the production plant may prove insufficient. Informing about the quality of installations protecting against the emission of hydrocarbons does not convince most inhabitants that the smells they feel are harmless. The Company has to get involved in actions supporting local communities, in order to compensate for the social differences visible in comparison to other city districts, by way of supporting actions taken mainly for the sake of children.

The strategic goal of the Good Neighbour programme is to enhance the awareness of the essence of environmental protection and actions by supporting the education of children. Such a goal proves that the Company is interested in problems relating to environmental protection and ecology and confirms that it is committed to the idea of sustainable development and wants pro-environmental messages to reach adults through children.

To achieve the programme goals, in 2009 Grupa LOTOS initiated the educational project "Sobieszewska Island and the Nature 2000 Area. Protection of birds and their habitats". The project was carried out together with the Ornithological Station of the Museum and Zoology Institute of the Polish Academy of Science. It provided for 15 lectures at the offices of the Ornithological Station to be ended with a competition for children and youths from schools subject to the "Good Neighbour" programme. The purpose of the project was to make the young generation interested in ecology and nature protection, promote the European Environmental Network Nature 2000, including, in particular, the role of protected sites on the Sobieszewska Island for the maintenance of world biological diversity. The project covered lectures that were attended by 349 students from 13 schools and a competition on knowledge gained during the lectures. The competition was entered by representatives from 12 schools.

## Ecological projects

Pursuant to the assumptions of its social responsibility strategy, Grupa LOTOS supports ecology, i.e. widely understood actions connected with the structure and operation of nature. As a part of its environmental actions, the Company runs and supports initiatives aimed at enhancing the awareness of the essence of environmental protection and environment-friendly actions by supporting the education of children and youths. Some of its activities include the organisation and co-finance of environmental competitions and events addressed mainly to the Company's closest neighbourhood.

### Protection of the biological diversity of the Baltic Sea

In 2009, Grupa LOTOS undertook cooperation with the Development Foundation of the University of Gdańsk and the Sea Station of the Oceanography Institute at the University of Gdańsk on the Hel Peninsula for the sake of the protection of the biological diversity of the Baltic Sea. These actions are to help to stop the extinction of the most endangered sea species, mainly the porpoise, called the Baltic dolphin. Apart from actions protecting endangered species, the cooperation covers educational actions and the promotion of knowledge about the biological diversity of the Baltic Sea, and information about methods of protecting endangered species. The Company provided funding for the purchase of

apparatus supporting the protection of porpoises against by-catch. Actions are carried out in the Pucka Bay under the "Active protection of porpoises against by-catch" project. The porpoise is the only whale permanently living in the Baltic Sea. Scientific studies show that these animals are dying faster than they are reproducing. Under joint actions for the sake of the protection of the natural resources of the Baltic Sea, in 2009, the Company participated in the organisation of the Porpoise Day, the purpose of which was to make people familiar with the life and protection of the Baltic porpoise. This is important since a lot in this field depends on the education of Polish fishermen. The Company's cooperation with partners resulted in the project "Let's get familiar with and protect the biological diversity of the Baltic Sea", which is to popularise knowledge about the protection of natural resources and problems of sea mammals living in this basin. Joint actions covered, for example, training for biology teachers, educational trips for children living in the vicinity of the refinery. The Company also initiated thematic articles in the regional press.

Since this is the first year that Grupa LOTOS has taken such active social actions for the sake of the protection of the biological diversity of the Baltic Sea, the project effectiveness has been measured by frequency, i.e. the scale of social interest. This, particularly, refers to learning and educational activities contributing to a change in awareness of and attitude to identified environmental problems. Studies show that the actions are greatly appreciated both by residents of the Pomerania region and tourists.

**The "Let's get familiar with and protect the biological diversity of the Baltic Sea" project in figures:**

- 14 000 persons visited information points in the second half of 2009;
- 20 000 copies of information and educational materials were distributed;
- 100 copies of an educational movie were prepared;
- the web site [www.morswin.pl](http://www.morswin.pl) was visited 1 400 times during six months;
- 70 biology teachers from secondary schools in the Pomerania region were trained;
- a competition held for secondary school students in March 2010 was attended by 53 persons;
- 60 children from children's homes and dysfunctional families being in the custody of non-governmental organisations from the nearest vicinity of the Concern took part in educational trips to the Hel Peninsula.

**Earth Day and International Baltic Clean-Up Day**

In 2009, the Concern got involved in the organisation of the Earth Day in Gdańsk. The idea of this cyclical event is to promote environment-friendly attitudes in the community. The Company also co-organised an initiative under the International Baltic Clean up Day. The project was initiated by the Our Earth Foundation. The purpose of the Day is to encourage Baltic states and all Polish communes located around the Baltic Sea to organise sea cleaning actions. On that Day in Gdańsk, a Tri-city partnership was established by the Municipal Office in Gdańsk, Grupa LOTOS, the State Fire Brigade, MOSiR, the Sea Office in Gdynia, and the Our Earth Foundation.

The purpose of the action was to clean beaches, coasts and the sea bottom, and, in particular, to stimulate the community's responsibility for the Baltic Sea. The sea bottom cleaning action was attended by the Company's employees and skin divers of LOTOS Straż. As far as the youngest participants were concerned, Grupa LOTOS prepared a special interactive educational programme with awards being granted for advanced knowledge on the Baltic Sea and the protection of its nature and biological diversity.

**"Energy wealth of nature"**

Under cooperation with the Respect for Energy Foundation, in 2009, Grupa LOTOS got involved in the organisation of the second edition of the "Energy wealth of nature" competition, which was addressed to secondary and high schools to activate local environments to the problem of renewable sources of energy. The competition was accompanied by a number of seminars, studio visits and meetings with experts. The competition was attended by 1 480 students from the entire voivodship.

**Sports education**

The major goal of sports and social projects carried out by Grupa LOTOS is youth education through sport. All so-called "small sports" projects are to encourage young people to practise sport actively and to identify sportsmen who will later on develop their skills in professionally managed sports clubs and unions. The biggest sports education programme of this type in Poland and CEE is "LOTOS Cup – Looking for Champion Successors" under the National Programme for the Development of Ski Jumping, which Grupa LOTOS organises together with the Polish Skiing Association.

**National Programme for the Development of Ski Jumping**

The programme "Looking for Champion Successors" under the National Programme for the Development of Ski Jumping was created in 2004. In subsequent seasons, it was a great organisational, sports and media success and became one of Poland's major sports and social projects. Key ideas of the project are to promote ski jumping among children and young people on a unique scale and search for the biggest talents among ski jumpers.

The basic objective of the programme is to launch a system of active support for young people training at clubs offering youth ski jumping. In the years 2004-2009, the Company financed 185 ski sets with bindings, 161 suits, 100 helmets and 150 pairs of shoes for the most skilled young ski jumpers from nineteen clubs of Poland. Through the delivery of 596 pieces of professional sports equipment, the programme allowed for the full training of the youngest groups. In such a manner, Grupa LOTOS launched the biggest social programme supporting able ski jumpers from Polish sports clubs. In addition, 60 ski sub junior and junior jumpers who won the first six places in the general classification of the LOTOS Cup in seasons 2004-2009 received annual sports scholarships.

In 2005-2009, over 150 ski jumpers competed in forty individual youth competitions of the LOTOS Cup organised in the form of the World Cup at ski jumps in Szczyrk, Wisła, Zagórze and Zakopane. In the third year of its existence, the "Looking for Champion Successors" programme trained the first ski jumper who was appointed for the national senior team. Maciej Kot from Start Krokiew Zakopane took part in the team competition of the FIS World Cup in Lahti, Finland (2007) thus bringing to life one of the major assumptions of the programme. In the 2009 season, 9 out of 20 ski jumpers training in the A and B teams of the Polish Skiing Association were former or present scholarship holders under the "Looking for Champion Successors" programme.

**Sports sponsoring**

Grupa LOTOS' participation in sports sponsoring is based on a strategic and long-term approach. Consistent actions bring about measurable effects for individual trade segments and support the communication of desired properties of the LOTOS brand. Grupa LOTOS' activities focus on motor sports, basket ball and winter sports: ski jumps and races.

**Basket ball**

For over 10 years, Grupa LOTOS has been a titular sponsor of the women's basket ball team LOTOS Gdynia, which was the Champion of Poland 10 times, the winner of the Polish Cup three times, the winner of the Polish Super Cup, the club vice-champion of the World League, the vice-champion of Europe in 2002 and 2004, and has been in the Euroleague since 1998.

**Skiing**

Since 5 years, the Concern has been the General Sponsor of Polish Skiing. Under its cooperation with the Polish Skiing Association, the Company supports ski jumpers in the A and youth team, as well as competitors of the A and youth ski race team and the Nordic team combined. Grupa LOTOS supports such prize-winning sportspersons like: Justyna

Kowalczyk, two-time world champion and winner of the World Cup 2009 and Adam Małysz, Olympic medallist, four-time individual world champion, four-time World Cup winner, three-time winner of the Summer Grand Prix.

**Motor sports**

Since 5 years, the Concern has been the titular sponsor of the speedway team LOTOS Wybrzeże Gdańsk. As a result of its activity, the Company is involved in motor sports. In 2009, Grupa LOTOS organised the yearly LOTOS Baltic Cup race and the cycle of car races KIA LOTOS Cup and Cee'd LOTOS Cup, whose titular sponsor is LOTOS Oil. The Cup holds the rank of the Championship of Poland, is organised together with the Polish Motor Association, and constitutes the most exhaustive racing class in Poland.

All the above sports disciplines, projects and clubs represent the top sports and organisational level.

More information about the Company's pro-social activities is presented in the [Internet portal of Grupa LOTOS](#).

## Environment

THE SECOND PILLAR OF THE SOCIAL RESPONSIBILITY STRATEGY OF THE LOTOS GROUP

### NATURAL ENVIRONMENT = ENVIRONMENTAL RESPONSIBILITY

target = establish environmental values  
eco-effectiveness, "doubly profitable" investments

#### Reduction of environmental impact

For many years, the purpose of the environmental policy of Grupa LOTOS is to ensure that the Company operates in accordance with the sustainable development rule and respects environmental conditions set out by law, as well as corporate social responsibility.

The goals are achieved since the policy focuses on:

- **clean production consisting of the continuous aspiration for the reduction of utility and raw material consumption;**
- **the reduction of pollution emissions;**
- **waste management;**
- **safety of industrial processes to efficiently prevent breakdowns.**

By applying the rule of sustainable development and corporate social responsibility, the Company produces high quality products that cause the least possible harm to the environment.

By cooperating, and through consultation with local authorities and social organisations dealing with environmental protection in the region, the Company carries out many actions to reduce the Company's environmental impact.

The Company minimises adverse impact by way of:

- continuous monitoring of the emission and immission of air and water pollution, and the concentration of carbohydrates around the refinery, so as to react fast with environmental impact measures in the case of adverse growth;
- disposing of wastes whose quality is fully adjusted to legal requirements owing to the three-stage sewage treatment plant;
- the repeated use of cleaned wastes to produce industrial water;
- detailed supervision of the waste management,
- the use of environment protective equipment like:
  - the system of double insulation installed in containers with floating roofs;
  - the hermetisation of all technological systems and connection to the system of emergency discharge, where carbohydrates are burnt in torches;
  - filling tankers and railway tanks by use of steam hermetisation and recovery.

At Grupa LOTOS all issues relative to environmental protection are handled by the Environmental Protection Bureau. Next to monitoring the manner and scope of the environmental impact of Grupa LOTOS' production facilities in Gdańsk and the analysis of the compliance of quantities and the quality of pollution emitted thereby, wastes, sewages and waters disposed of, and the emission of noise, the Bureau also coordinates actions aimed at the fulfilment of legal environmental requirements and the establishment of standards for environment-friendly activities at the whole LOTOS Group. The Bureau also monitors the emission of CO<sub>2</sub> and carries out actions relating to the Community emission trading system. The emission of CO<sub>2</sub> from Grupa LOTOS' installations is monitored and analysed correctly, which is confirmed by the annual positive assessment conducted by a licensed controller, the world leader in certification services.

Finally, with regard to the Company's approach to environment management, it is worthwhile to mention the improvement of employees' environmental awareness through internal communication on environmental protection issues understood as individual, company, regional and global initiatives.

#### Development plans

In the forthcoming years, the environmental impact of both single processes and the refinery as a whole will be reduced by the planned modernisation of boilers in the Company's thermal and power plant consisting, among others, of installing low NOx emission burners. The use of natural gas (as an energy medium and raw material for hydrogen production) as the basic fuel at the refinery, as well as the use of discharge gases, currently burnt in the torch system, are at the conceptual stage. After the execution of these projects, the emission of pollution to the air will decrease significantly.

Grupa LOTOS takes part in the construction of a highly efficient gas thermal and power plant which will partially replace the existing oil thermal and power plant.

## **Managing chemical substances**

Procedures applicable at the LOTOS Group require that the impact of all products on health and safety has to be identified. All products manufactured during oil processing are subject to classification and are assessed in terms of their impact on health and safety of use. Grupa LOTOS carries out intensive actions to fulfil the requirements of REACH (Registration Evaluation Authorisation of Chemicals). The decision to launch the REACH project was made at the beginning of 2007 and since spring 2007, in accordance with the assumptions of EU law, the entire LOTOS Group has been working on the implementation thereof. In the middle of November 2008, Grupa LOTOS closed the stage of preliminary chemicals registration in accordance with the schedule of the EU regulation.

The agenda of implementation is planned and carried out with a longer term horizon anticipating e.g. adequate registration, permits and limitations. It is necessary to point out that the commencement of the preparation for the implementation of REACH in the organisation, much in advance, proves that the Company has high awareness of the need to manage chemicals. The REACH project is to be implemented in 11 years.

To reduce project implementation expenses, the Company partnered with international organisations dealing with such products as base, diesel, fuel oil, petrols, asphalts and substances in paraffin products. In such a way, it will be able to reduce expenses by almost a half in comparison to independent research being carried out by the Company.

It is worth mentioning that in May 2006, Grupa LOTOS joined CONCAWE, the organisation associating refineries and dealing with the analysis of the cleanness of water and air. The organisation helps to prepare safety reports on testing substances of similar toxicologic and ecotoxicologic properties.

Grupa LOTOS has already preliminarily registered all its products, thereby it automatically joined information forums under SIEF (Scientific Information Exchange Forum). Thanks to this, the Concern's customers may be confident that they will still receive products and that supplies will be consistent with the chemical legislature. Information between enterprises under SIEF and with the European Chemicals Agency in Helsinki is exchanged electronically. At the LOTOS Group, the REACH system is operated via the integrated IT system, which may be used by all companies. It is compatible with other systems under product consortiums of other petrochemical companies. As IT tools, the Group uses: a free European data base and a portal used to transmit preliminary registration files. Grupa LOTOS analyses the progress of the development of Candidate Lists of SVHCs (substances of very high concern) on a current basis and takes all necessary actions to fulfil its obligations arising from the REACH regulation.

At present, none of the substances produced and marketed by Grupa LOTOS is included in the SVHC Candidate List published by the European Chemicals Agency.

## Energy security

THE THIRD PILLAR OF THE SOCIAL RESPONSIBILITY STRATEGY OF THE LOTOS CAPITAL GROUP

### ENERGY SECURITY = BUSINESS RESPONSIBILITY

target = establish economic values

risk management, intellectual capital, market share, brand value, reputation

The mission of Grupa LOTOS includes, without limitation, innovative development that must be consistent with the safety policy in the power sector. This element being included in the Company's key statement, i.e. its mission, clearly shows that it is an important issue in everyday operations of the Company and the entire Capital Group. It is necessary to note that at present, for the Company, "energy security" means safety in the power sector, covering all issues relative to the production of raw materials to generate energy, as well as the very media (conventional and non-conventional fuels, including fossil fuels like coal, gas, electricity, nuclear energy, heat, etc.).

The approach of Grupa LOTOS to energy security issues is depicted with the following elements:

- **Exploration of oil (upstream).** For many years, Grupa LOTOS has been consistently carrying out a programme of vertical integration of the Capital Group in order to preserve margins at each stage: from the exploration of raw materials (oil) through to the distribution of products in individual markets. The natural consequence of such a development concept was a strategy consisting of the maximisation of oil exploration in the Baltic Sea (the activity of LOTOS Petrobaltic) and the search for further development opportunities in other basins and onshore (Lithuania). As a result, the Company established LOTOS Exploration & Production Norge, the subsidiary of LOTOS Petrobaltic, which should commence production from the YME deposit in the second half of 2010 and is the owner (holding various percentages of shares) of nine other concessions in the Norwegian Shelf. Grupa LOTOS is also interested in other regions of the world, which are systematically monitored in terms of their development opportunities (e.g. the region of the Caspian Sea).
- Apart from ensuring the safety of the delivery of strategic raw material, i.e. oil, in Poland, upstream development is mainly a business project. In the next 10-20 years, oil prices are expected to stay within the range of USD 70–100 per barrel (OPEC's projection), which guarantees that exploration will be profitable. Moreover, all forecasts of the structure of the consumption of energy media clearly show, apart from the increasing role of renewable and unconventional fuels, that oil will be the major raw material at least till 2030 (OPEC, IEA).
- At present, Grupa LOTOS is mainly supplied with Russian raw material given this strategy's profitability (Russian oil is cheaper than oil from sea supplies), while shareholders pay attention mainly to economics since the Company is listed in the Warsaw Stock Exchange. At the same time, to fulfil its mission, the Concern bought spot (single) cargo of various types of oil supplied by sea in order to establish its portfolio of available raw materials and analyse the structure of proceeds coming from its processing. This means that if an economic trend changes (e.g. Russian oil becomes more expensive than sea supplies, the so-called differential disappears), Grupa LOTOS will be ready to buy raw materials from countries other than Russia without breaking the supply of fuel production and rapidly changing the structure of its proceeds.
- **Refinery expansion – 10+ Programme.** The Refinery development programme was developed as a result of thorough market studies. Their conclusions clearly pointed out to the emerging trend of the so-called dieselisation both in Europe and in Poland, with petrol-driven cars are more and more often replaced with diesel vehicles. In addition, the deficit in the production of fuel oil by Polish refineries reached 30% of demand. The Refinery of Grupa LOTOS in Gdańsk has been expanded in order to increase oil processing given the increasing consumption in Poland and to increase a share in the total pool of products of medium distillates, including in particular fuel oil. It is necessary to point out that before the finance of the 10+ Programme was effected (the consortium of 18 banks), recognised oil sector advisors (Wood MacKenzie) reviewed all the Company's projections on the development of the fuel market in Poland. The test was positive for Grupa LOTOS. Taking into account the year 2009, it is necessary to note that the general slow-down of economic development in Poland did not affect the consumption of fuel like it did in the 15 states of the old European Union. Demand is still expected to grow in 2010.
- **Market.** Grupa LOTOS, as a market-oriented and vertically integrated oil corporation, plans its actions on the basis of market analysis. This means that it takes on projects which fulfil market needs in an optimum manner and, at the same time, provide the Company with the maximum possible profit. As a result, the Company imports significant volumes, in particular of fuel oil, in order to balance the market (cover the deficit of consumption arising from too little home production of that assortment). In such a manner, the sales of Grupa LOTOS exceed its own output significantly. Volumes mentioned will be gradually replaced with products manufactured by the Refinery in Gdańsk. The growth of domestic production will automatically reduce the Company's dependence on foreign supplies, contributing to increases in energy security (understood as independence from third party supplies).
- **Logistics.** The accurate operation and safety of the fuel market are also determined by logistics connections. In Poland, this area is managed by specialised entities from the PERN Group: PERN Przyjaźń SA, Operator Logistyczny Paliw Płynnych (OLPP) and Naftoport. Logistics is not the core activity of Grupa LOTOS; however, it is fundamental for the Company's operations. This is why the Company closely cooperates with the abovementioned entities, presents its own initiatives on a parallel basis, including the construction of salt caverns in the Pomerania region. Poland has rich geological structures, in particular in the Pomerania region, which may be used to construct underground warehouses of oil and certain fuels in the form of salt caverns (leach extraction of salt deposits). The strategic location, the vicinity of Naftoport and the North Pipeline (connecting the Friendship pipeline with Naftoport in Gdańsk), as well as the Refinery in Gdańsk, means that such warehouses could be used as a strategic logistic centre not only in Poland, but in other countries of the region (Scandinavia, Baltic states, Germany) or alliances (NATO), as well. Additionally, as a result of the construction of the pipeline Odessa – Brody – Gdańsk, caverns will play the role of buffer warehouses. Grupa LOTOS took the initiative to carry out a project of constructing salt caverns in the Pomerania region; however, it is not able to complete it without acceptance of the Polish government.

# Management

## Corporate governance

### Management approach

The major goals of corporate governance at Grupa LOTOS are:

- transparency of its operation as a listed company,
- building confidence in relations with stakeholders,
- openness and consistent construction of its shareholder value.

Since its stock exchange debut in June 2005, Grupa LOTOS fulfilled most recommendations set out in the document entitled "Best practices for public companies". Since 1 January 2008, the Company has been applying most corporate governance rules published as "Best practices for companies listed in the Warsaw Stock Exchange" adopted by the Supervisory Board of Giełda Papierów Wartościowych w Warszawie S.A. (GPW) on 4 July 2007. The full text of the rules is publicly available on the web sites of GPW and the investor's profile in the Internet portal of Grupa LOTOS.

#### [Best practices for companies listed in the Warsaw Stock Exchange](#)

Every year Grupa LOTOS publishes the Management Board's statement on corporate governance. It is available on the Company's web site.

Pursuant to the rule "comply or explain", based on which public companies should comply with all best practices or report both incidental or permanent violation thereof, the Company Management Board published a list of corporate governance rules that were not applied, including comments on reasons for the existing discrepancies, in 2008 and in the following years.

#### [Management Board's statement on corporate governance in 2008](#)

In 2009, Grupa LOTOS did not report any non-adherence to rules set out in the "Best practices for companies listed in the Warsaw Stock Exchange".

Grupa LOTOS takes on actions to implement best practices for environmental protection, work safety and management systems which exceed the requirements set by national regulations. Since 19 November 2009, the Company has been a member of the first CEE index of socially responsible enterprises, the so-called RESPECT Index (Responsibility, Ecology, Sustainability, Participation, Environment, Community, Transparency), which comprises 16 A-rated companies listed in the regulated market of the Warsaw Stock Exchange, leaders in sustainable development, information order and communication in financial markets.

## Management systems

### Approach to management

To achieve the mission and strategic goals of Grupa LOTOS and ensure the stable growth of its goodwill, the Company shall be managed in accordance with standards, clearly defined authorisations and related responsibility and efficient communication.

Grupa LOTOS defines, and supervises the implementation of, management standards applicable to all companies of the LOTOS Group based on the following management rules:

- **customer orientation** – actions focus on professional customer service and learning both present and future customer needs so as to fulfil their needs and offer products and services of a quality exceeding their expectations;
- **leadership** – managers set objectives, directions and create and maintain an internal environment where employees may be involved in the achievement of aims;
- **commitment** – employees at all levels are the core and main asset of the organisation. Their commitment allows for their abilities to be used for the benefit of the organisation;
- **process approach** – the Company is committed to identifying processes and process owners. The course of processes is monitored on an on-going basis and the defined measures applied. Analysis results are presented to the Company Management Board during regular meetings;
- **management through goals** – a policy defined by the Management Board is reflected by specific long and short-term goals which accurate fulfilment provides efficient monitoring, evaluation and control tools. Thanks to the regular analysis of goal achievement, the Company obtains signals of irregularities in the organisation's operation and is able to initiate revising and remedy actions;
- **continuous improvement** – the improvement of operating quality is a permanent objective of the organisation;
- **fact-based decisions** – effective decisions are made based on data analysis and reliable information obtained through the implemented reporting system.

The following improvement tools are used for effective management purposes:

- **risk management** – acts as the basis for all systems, analysis of the probability of various threats which may weaken organisation management, and optimal decision making processes;
- **change management** – a modern management system consisting mainly of continuous market tracing and fast adjustment to ongoing changes, as well as the use of all types of market gaps;
- **knowledge management** – determines organisation development in accordance with world standards in a given field;
- **system tools** – characteristic for systems, based on ISO 9000, 14000 and other standards, i.e. internal audits, revising and preventive actions, system reviews, etc.

Management improvement is subject to continuous analysis of relations and interdependencies between processes. Adequate communication is an important element of the efficient maintenance and improvement of management systems. Grupa LOTOS holds meetings to discuss management system operation within all Capital Group companies and defines the directions of actions and development in forthcoming years.

To ensure the efficient operation of the LOTOS Group, the Company implemented an effective reporting system. One of its elements consists of cyclical information provision concerning the progress of duties and decisions made. Another element is the preparation and distribution of information allowing for the early identification of adverse trends or events which may impede the strategy implementation schedule and the safe operation and development of the Capital Group.

## Key norms and systems

The major goal of the Company's management is to act in accordance with the Company's interest, understood as the asset value growth entrusted thereto by shareholders, and including rights and interests of entities other than shareholders involved in the Company's operations, including, in particular, the Company's employees. Conduct is determined by the following principles:

- **honest intentions and non-abuse of authorisations** – the exercise of rights and the application of legal institutions are based on honest intentions and do not exceed the goal and business justification of such institutions;
- **independence of third party opinions** – the Company selects entities providing expert services, including, in particular, auditors, financial and tax advisers and lawyers, monitoring the risk of emergence of any possible circumstances limiting the independence of such entities during the performance of their duties.

The Management Board ensures that the Company's management system is transparent and effective and all the Company's affairs are managed in adherence to law and best practices. While making decisions on the Company's affairs, Management Board members act within the limits of a reasonable business risk, i.e. review all information, analyses and opinions, including those justified by the long-term perspective of expectations of key groups of stakeholders.

In order to unify management standards and behaviours, as well as ethical guidance, the Capital Group applies and complies with codified standards of conduct:

- **"Corporate Decalogue"**: the statement of values and principles considered as fundamental for the entire Capital Group by the Management Board of Grupa LOTOS. These principles apply both to business operations and interpersonal relations. The "Corporate Decalogue" indicates the necessity to follow the rules of corporate social responsibility and sustainable development. In addition, it stresses the need for continuous development of employees, promotes effective communication, employee commitment, and partnership relations.
- **"Employee Code of Conduct"**: confirms the organisation's principles and is a guide for employees and business partners of the LOTOS Group. It also applies to third parties acting on behalf of the Capital Group companies whenever the Company is liable for their behaviour. The Code refers, in particular, to professional ethics, attention to Company's interests, employees' attitudes towards their duties, relations among employees, as well as the reliability and transparency in dealing with customers and business partners. The full text of the Code is publicly available in Polish [in the corporate profile of Grupa LOTOS' web site](#).
- **"LOTOS Group Manager's Code"**: describes desired skills, personality strengths and rules of proceeding for managers. Managing both business processes and human capital is perceived as the most important and most difficult aspect of requirements managers need to face. The Code points out that the LOTOS Group's managers should build their authority by complying with ethics in professional contacts and interpersonal relations.

In 2003, Grupa LOTOS, as the first company in the chemical sector and the second entity in Poland, obtained the certificate of the Polish Research and Certification Centre for its Integrated Management System based on the requirements of the following standards:

- **PN-EN ISO 9001: 2001 Quality Management System,**
- **PN-EN ISO 14001: 2005 Environmental Management System,**
- **PN-N-18001: 2004 Health and Safety Management System.**

### Integrated Management System

- **For customers: guaranteed consideration for product and service quality**
- **For the environment: proven consideration for the environment**
- **For employees: ensured safety at work**

The Integrated Management System has been implemented and certified in 9 LOTOS Group companies. It is an integral part of the organisation management system and provides for the continuous improvement of the efficiency and effectiveness of the Company's operation.

### Management systems at the LOTOS Group 31.03.2010

Company name	Management systems in place
Grupa LOTOS	Implemented and certified Integrated Management System consistent with ISO 9001, ISO 14001, PN-N-18001. Implemented system consistent with the Allied Quality Assurance Publication (AQAP) 2110, as required by NATO.
LOTOS Asfalt	Implemented and certified Integrated Management System consistent with ISO 9001, ISO 14001, PN-N-18001. Implemented and certified Internal Production Control system.
LOTOS Kolej	Implemented and certified Integrated Management System consistent with ISO 9001, ISO 14001, PN-N-18001. Implemented Railway Transport Safety Management System (SMS).
LOTOS Lab	Implemented and certified Integrated Management System consistent with ISO 9001, ISO 14001, PN-N-18001. Accreditation of the Polish Centre for Accreditation consistent with PN-EN ISO/IEC 17025:2005.
LOTOS Ochrona	Implemented and certified Integrated Management System consistent with ISO 9001, ISO 14001, PN-N-18001.

LOTOS Oil	Implemented and certified Integrated Management System consistent with ISO 9001 (re: branches in Gdańsk, Czechowice, Jasło), ISO 14001, PN-N-18001. Implemented system consistent with the Allied Quality Assurance Publication (AQAP) 2110.
LOTOS Parafiny	Implemented and certified Integrated Management System consistent with ISO 9001, ISO 14001, PN-N-18001.
LOTOS Petrobaltic	Implemented and certified Integrated Management System consistent with ISO 9001, ISO 14001, PN-N-18001. Implemented systems: ISM Code (Safe Ship Operation and Pollution Prevention Management System), ISPS Code (Ship and Port Facility Security System).
LOTOS Serwis	Implemented and certified Integrated Management System consistent with ISO 9001, ISO 14001, PN-N-18001.
LOTOS Straż	Implemented and certified Integrated Management System consistent with ISO 9001, ISO 14001, PN-N-18001.
LOTOS Czechowice	Implemented Integrated Management System consistent with ISO 9001, ISO 14001, PN-N-18001.
LOTOS Paliwa	Implemented and certified Integrated Management System consistent with ISO 9001.
LOTOS Jasło	The Company is currently implementing the requirements of the Integrated Management System.
LOTOS Tank	The Company is currently implementing the requirements of the Integrated Management System.

The LOTOS Group carries out audits to evaluate its management system compliance with the requirements. Several types of audits exist:

- internal audits within Capital Group companies,
- corporate audits carried out by Grupa LOTOS' auditors at subsidiaries to verify whether corporate requirements are met,
- supplier audits.

Audits provide information, for example, on strengths and weaknesses of business processes, the efficiency of management systems, problems and threats, as well as irregularities in the Capital Group, in addition to flow of information gaps between individual companies. Audit conclusions enable relevant management decisions to be made aimed at further organisation improvement.

#### Number of audits carried out in the years 2005-2009

AUDIT TYPE	2005	2006	2007	2008	2009
Audits at Grupa LOTOS	26	16	38	37	37
Corporate audits at the Capital Group companies	11	5	16	13	17
Audits of suppliers working for Grupa LOTOS	-	15	6	7	10
	15	21	22	31	35
Number of auditors	(84 audit days)	(132 audit days)	(142 audit days)	(144 audit days)	(200 audit days)

## Development plans

In 2010, the Company will continue implementing processes aimed at establishing a strong organisation based on business processes and supported by the Integrated IT System, including:

- the implementation of the **Information Security System** based on ISO 27001:2005. The undisturbed implementation of management processes is crucial for the development of the Capital Group. The security of information and data processing systems is one of the key elements ensuring the continuity of operations and development. Developed and implemented information protection rules are consistent with applicable legal regulations imposing an obligation to protect defined types of information, in particular personal data, confidential data relative to business operations, information provided by business partners, stock exchange and data, information on protective rights as well as environmental data. System organisational mechanisms ensure that system quality is enhanced all the time and the systems meet the continuous improvement principle applicable to management systems;
- the implementation of **Enterprise Risk Management (ERM)** to efficiently prevent threats accompanying the Capital Group's activity and environment. The purpose of the system is to support the organisation in the execution of its strategy and business processes within the defined risk limits by effectively reacting to identified threats, as well as to chances and opportunities;
- the improvement and expansion of the Capital Group's **Integrated Management System Portal** used to publish documentation internal to the Company in a timely manner as well as provide employees with relevant information.

## Risk management

### Approach to management

At Grupa LOTOS, risk management is a decision making supporting process. Moreover, it allows for a threat prevention, reducing occurring threats impact and the selection of the most suitable solutions for the Company.

The implementation and operation of the corporate risk management system is supervised by the Strategy Committee. Furthermore, an internal audit unit in charge of, without limitation, the evaluation of risk management systems and the analysis of business processes exists. Relevant reports are submitted to the Management Board and the Audit Committee of the Supervisory Board of Grupa LOTOS.

Key rules and responsibilities relating to the system are defined in the "Capital Group Corporate Risk Management Policy of Grupa LOTOS S.A." Risk management is not only an element of business process management and operation, but also an integral part of the organisational culture., Risk management policies at the LOTOS Group stipulate that:

- risk management is an inherent element of management and business processes, as well as an element of the organisational culture;
- each Capital Group employee must report threats and risks, as well as chances and opportunities related to processes and likely to influence the achievement of goals defined;
- at the Capital Group, all decisions are made on the basis of relevant risk analysis;
- risks are identified, analysed and assessed in terms of their consequences;
- based on risk assessment, the Company prepares an aggregated risk map of the LOTOS Group;
- in the event of a risk being qualified as potentially significant for the Group, a risk management strategy and measures to be taken in case of its materialization are defined;
- any significant risks are supervised and monitored on a current basis by a delegated employee, a risk owner, according to monitoring policies set out; monitoring of the outcome is reported in accordance with the rules;
- disputable issues relating to risks and opportunities for the Capital Group are solved by the Strategy Committee or the Management Board of Grupa LOTOS on the basis of the Committee's recommendations;
- compliance with the Policy and the efficiency of the Risk Management System are verified at least once a year or in the event of changing circumstances. Results and recommendations are used for the purpose of continuous system improvement;
- risk management and detailed related responsibility are defined in the Integrated Management System documentation.

## Key instruments

In 2009, Grupa LOTOS defined ranges used to quantify risks, rules for responding to risks, and assumptions for risk monitoring and reporting. The risk was re-assessed and the risk map was updated to cover 2010 and the business strategy till 2012. Out of the identified risks that are significant for the LOTOS Group, the Company selected four, each relative to various activity areas, and analysed them in detail. Those risks were described in Risk Management Sheets, including, but not limited to, risk factors, risk management rules, monitoring measures, reduction plans, plans of procedure in case of risk materialisation, as well as related incidents.

At present, the Company is preparing Risk Management Sheets for other significant risks existing in the Capital Group. Moderate risks are monitored on a current basis. In the case of risks that are the most likely to occur, procedure plans in case of risk materialisation are developed on the basis of the risk owner's decision.

In 2009, Grupa LOTOS regulated project risk assessment rules by ensuring a consistent and unified methodology. At present, one of the major elements of project analysis, before the project is launched, is the identification and evaluation of related threats in order to recommend actions aimed at reducing significant and moderate risks and identifying risk owners responsible for the fulfilment of duties, project risk monitoring and potential consequences.

## Development plans

Grupa LOTOS is preparing for the implementation of an IT tool designed to support corporate risk management. The software supplier is being selected. The Company will also prepare a procedure defining risk management in detail. The purpose of such a document will be to ensure risk identification and assessment is carried out periodically at the Capital Group, relevant tools are optimally selected in various activity areas, and the entire process is consistent and efficient.

## Responsibilities

The Supervisory Board supervises the activities of Grupa LOTOS in all fields on a continuous basis. The Supervisory Board fulfils its duties collectively. The Supervisory Board may delegate its members to perform defined functions on their own and establish permanent or ad-hoc committees supervising particular zones of the Company's activity. Permanent Supervisory Board committees are: the Audit Committee, the Strategy and Development Committee, and the Organisation and Management Committee. The Supervisory Board is appointed by the General Shareholders Meeting. Principles for the operation of the Supervisory Board are set out by the Statute of Grupa LOTOS and By-laws of the Supervisory Board. These documents are publicly available on the web site of Grupa LOTOS.

[Statute of Grupa LOTOS](#)

[Regulations of General Shareholders Meeting of Grupa LOTOS](#)

[By-laws of the Supervisory Board of Grupa LOTOS](#)

## Membership

Pursuant to the Statute of Grupa LOTOS, the Supervisory Board is composed of six to nine members, including a Chairman, a Vice-Chairman and a Secretary. The number of Supervisory Board members is determined by shareholders at the General Shareholders Meeting. The Supervisory Board is appointed and dismissed by shareholders at the General Shareholders Meeting by the absolute majority of votes cast by secret ballot from among an unlimited number of candidates. Notwithstanding the above, as long as the State Treasury is the Company's shareholder, it has the right to appoint and dismiss one Supervisory Board member. The Chairman of the Supervisory Board is appointed by shareholders at the General Shareholders Meeting. The term of the Supervisory Board is joint and lasts three years.



### **Wiesław Skwarko**

Chairman of the Supervisory Board

Appointed to the Supervisory Board of Grupa LOTOS on 30 June 2008 as the Chairman of the Supervisory Board. He administers and manages the Supervisory Board's work and represents the Supervisory Board in relations with other authorities of the Company and other persons. At the same time, he is the Chairman of the Strategy and Development Committee of the Supervisory Board. Since 19 March 2009, he is also a member of the Audit Committee of the Supervisory Board.

Pursuant to the Supervisory Board's decision of 12 August 2008, he supervises the 10+ Programme, i.e. in particular he:

- monitors work progress and adherence to the schedule;
- supervises the implementation of the raw material acquisition strategy;
- supervises the implementation of the sales strategy for products manufactured under the project;
- supervises the consistency of logistic activities.

Graduate of the Faculty of Foreign Trade at the Warsaw School of Economics (SGH).

In 1987-1994, Assistant Professor at the Warsaw School of Economics. From 1990 to 1999, Partner of Access Sp. z o.o., afterwards a member of the Management Board of Rothschild Polska Sp. z o.o. In 2005-2006, head of the Privatisation Office at Nafta Polska S.A. From 2006, Director for Financial Strategies and Capital Development at CTL Maczki Bór in Sosnowiec, and subsequently at CTL Logistics S.A. in Warsaw. In 2008-2009, member of the Management Board of Nafta Polska S.A., and since 1 January 2010, the liquidator of Nafta Polska S.A. under liquidation. Chairman of the Supervisory Board of ZAK S.A.



### **Leszek Starosta**

Vice-chairman of the Supervisory Board

Appointed to the Supervisory Board of Grupa LOTOS on 30 June 2008. Since 12 August 2008, Vice-Chairman of the Supervisory Board. As the Vice-Chairman, he is authorised to exercise all rights of the Chairman of the Supervisory Board as arising from the Company's Statute and the By-laws of the Supervisory Board, if authorised thereto by the Chairman or in the case of the Chairman's absence. He is also the Chairman of the Organisation and Management Committee and a member of the Strategy and Development Committee of the Supervisory Board.

Pursuant to the Supervisory Board's decision of 12 August 2008, he individually supervises the investment project of Grupa LOTOS, i.e. the 10+ Programme, including in particular contract procedures and compliance with the investment law.

Graduate of the Faculty of Law and Administration at Poznań University. Associate Professor, PhD in Law, Dean of the Faculty of Law and Pro-Rector for Development of the Academy of International Economic and Political Relations in Gdynia, Director of the Institute for European Studies in Gdynia. In the years 1991-2000, consultant to the Management Board of Rafineria Gdańska S.A., in the years 1995-1998, adviser to and consultant of the President of the Management Board of Petrochemia Płock S.A. Author of over 20 studies and analyses related to the crude oil and fuel sectors, prepared for central authorities of public administration. In 1998-2007, member and Vice-Chairman of the Supervisory Board of Prokom Software S.A. Attorney, member of the Chamber of Attorneys in Gdańsk, Vice-President of the Polish Employers' Association, arbitrator at the Arbitration Court for Sport at the Polish Olympic Committee.



### **Oskar Pawłowski**

Secretary of the Supervisory Board

Appointed to the Supervisory Board of Grupa LOTOS on 11 February 2010. Since 2 March 2010, Secretary of the Supervisory Board. As the Secretary, he organises and evidences the operation of the Supervisory Board and takes care of its organisational and technical service. Since 2 March 2010, member of the Organisation and Management Committee and the Audit Committee of the Supervisory Board.



Graduate of the Faculty of Law and Administration at Poznań University and British and EU Law at Cambridge University. In 2006, completed legal counsel training held by the District Chamber of Legal Counsels in Poznań and was entered in the list of legal counsels. Currently, Managing Partner at the Oskar Pawłowski i Wspólnicy Sp.k. law firm, formerly a lawyer at, among others, D. Janczak i Wspólnicy Sp.k./Domański Zakrzewski Palinka Sp.k. law firm – Ernst & Young Law Alliance – Grupa Energetyczna, and Prawna Głowacki, Grynhoff, Hałaziński s.j. law firm. He specialises in the regulatory environment of the energy sector and legal services for transactions in real estate and investment processes. He has extensive experience in the field of company law, mergers and acquisitions. The author of the following publications: "The Rights of Electricity Consumers and the Methods of Protecting Them" (*Rynek Energii*, 2/2009), "Legal Due Diligence of Real Estate" (*Inwestor*, 1/2010).



### **Małgorzata Hirszel**

member of the Supervisory Board

Appointed to the Supervisory Board of Grupa LOTOS in accordance with §11.2 of the Company's Statute on 1 July 2008. Member of the Strategy and Development Committee and the Organisation and Management Committee of the Supervisory Board.

Graduate of the Faculty of Law and Administration at the University of Warsaw and Post-Graduate Course at the Faculty of Journalism and Political Science of the University of Warsaw (specialisation: European Studies). PhD candidate of the Polish Academy of Science, the Institute of Legal Science. Since 2000, member of the Prime Minister Chancellery; where until 2002 she worked as a Chief Specialist/Legal Advisor of the Head of the Polish Cabinet to later become the Legal Advisor of the Vice-president of the Council of Ministers and the Legal Advisor of the President of the Council of Ministers at the Department of Economics and Social Issues (then transformed into the Council of Ministers Committee Department). From 2002 to 2006, acted as Deputy Director of the Department of Economic Issues. Then, acted as Director of the Programme Department of KPRM. Since 2007, the Head of the Council of Ministers Committee Department and Secretary of the Fixed Committee of the Council of Ministers. She passed an examination for candidates for supervisory board members in State Treasury companies in 2002.



### **Michał Rumiński**

member of the Supervisory Board

Appointed to the Supervisory Board of Grupa LOTOS on 11 February 2010. Since 2 March 2010, member of the Strategy and Development Committee and the Organisation and Management Committee of the Supervisory Board.

MBA graduate of the University of Chicago, Booth School of Business, Economics at Warsaw School of Economics, and Law at the University of Warsaw. Since 2007, he has cooperated with MCI Euroventures (investment fund), holding the following positions: Investment Partner, member of the Management Board of ABC Data Holding S.A., President of the Management Board, and Managing Partner of Cleantech Venture Partners, and member of the Supervisory Board of Grupa Lew Sp. z o.o. In 2000-2007, worked for KBC Group; in 2004, served as Corporate Finance Director at the investment bank, KBC Securities N.V. The author of "The 1997 Currency Crisis vs. Restructuring of Financial and Enterprise Sectors in South Korea" (National Bank of Poland, 2004) and "Free Flow of Capital in the European Community" (INFOR, 2000).



### **Rafał Wardziński**

member of the Supervisory Board

Appointed to the Supervisory Board of Grupa LOTOS on 11 February 2010. Since 2 March 2010, member of the Strategy and Development Committee of the Supervisory Board.

Graduated from MA. studies at the University of Szczecin, European Integration Faculty, and supplementary studies in Law at the University of Liege (Belgium), scholarship holder of the European Commission. In 2003–2004, worked with the European Integration Department of the Marshal's Office of the Zachodniopomorskie Voivodship. From 2004 to 2007, parliamentary adviser at the Committee of Industry, Research and Energy of the European Parliament in Brussels. In 2007–2008, Director of the Regional Office of the Zachodniopomorskie Voivodship in Brussels. Since 2008, employed at the Ministry of the State Treasury, at present as Deputy Director of the Corporate Supervision and Privatisation Department I, in charge of supervision over gas and oil enterprises. Former Chairman of the Supervisory Board of PERN "Przyjaźń" and member of the Supervisory Board of Kopalnia i Zakłady Chemiczne Siarki "Siarkopol" S.A. At present, member of the Supervisory Board of Operator Gazociągów Przesyłowych GAZ–SYSTEM S.A.

In 2009 and in the first quarter of 2010, the Supervisory Board of Grupa LOTOS of the 7<sup>th</sup> term was composed of:

As at 1 January 2009:

- Wiesław Skwarko, Chairman
- Leszek Starosta, Vice-chairman
- Mariusz Obszyński, Secretary
- Radosław Barszcz, Member
- Piotr Chajderowski, Member
- Małgorzata Hirszel, Member

- Jan Stefanowicz, Member.

On 10 March 2009, Piotr Chajderowski resigned from the Supervisory Board. On 27 April 2009, Shareholders at the General Shareholders Meeting of Grupa LOTOS resolved to appoint Ireneusz Fąfara as a member of the Supervisory Board of the 7<sup>th</sup> term.

As at 31 December 2009:

- Wiesław Skwarko, Chairman
- Leszek Starosta, Vice-chairman
- Mariusz Obszyński, Secretary
- Radosław Barszcz, Member
- Małgorzata Hirszel, Member
- Jan Stefanowicz, Member
- Ireneusz Fąfara, Member.

On 11 February 2010, shareholders at the Extraordinary Shareholders Meeting of Grupa LOTOS dismissed Mariusz Obszyński, Radosław Barszcz and Jan Stefanowicz from the Supervisory Board and then appointed Oskar Pawłowski, Michał Rumiński and Rafał Wardziński as members of the Company's Supervisory Board of the 7<sup>th</sup> term. Justifying their decision, shareholders stated that changes in the composition of the Supervisory Board were to strengthen the Supervisory Board's supervision over the Company's activities.

On 29 March 2010, Ireneusz Fąfara resigned from the Supervisory Board of the Company.

As at 31 March 2010:

- Wiesław Skwarko, Chairman
- Leszek Starosta, Vice-chairman
- Oskar Pawłowski, Secretary
- Małgorzata Hirszel, Member
- Michał Rumiński, Member
- Rafał Wardziński, Member.

## Permanent Committees

### Strategy and Development Committee

The Strategy and Development Committee gives opinions and presents the Supervisory Board with recommendations on planned investments which have a significant impact on the Company's assets.

In 2009 and in the first quarter of 2010, the Strategy and Development Committee was composed of the following members:

From 1 January to 31 December 2009:

- Wiesław Skwarko, Chairman
- Radosław Barszcz
- Leszek Starosta
- Jan Stefanowicz
- Małgorzata Hirszel

Since, on 11 February 2010, shareholders at the General Shareholders Meeting changed the composition of the Supervisory Board, at their first meeting, the Supervisory Board supplemented the Strategy and Development Committee by appointing Rafał Wardziński and Michał Rumiński as Committee members.

From 2 March 2010:

- Wiesław Skwarko, Chairman
- Rafał Wardziński
- Leszek Starosta
- Michał Rumiński
- Małgorzata Hirszel

### Organisation and Management Committee

The Organisation and Management Committee presents the Supervisory Board with opinions and recommendations on management structures, including organisational solutions, the remuneration system and selection of personnel, to enable the achievement of the Company's strategic goals.

In 2009 and in the first quarter of 2010, the Organisation and Management Committee was composed of the following members:

From 1 January to 31 December 2009:

- Leszek Starosta, Chairman
- Małgorzata Hirszel
- Mariusz Obszyński

Since, on 11 February 2010, shareholders at the General Shareholders Meeting changed the composition of the Supervisory Board, at their first meeting, the Supervisory Board supplemented the Organisation and Management Committee by appointing Michał Rumiński and Oskar Pawłowski as Committee members.

From 2 March 2010:

- Leszek Starosta, Chairman
- Małgorzata Hirszel
- Michał Rumiński
- Oskar Pawłowski

### Audit Committee

The Audit Committee advises the Supervisory Board on the adequate implementation of budget and financial reporting rules, internal control, and cooperation with the Company's auditors.

In 2009 and in the first quarter of 2010, the Audit Committee was composed of the following members:

From 1 January to 10 March 2009:

- Jan Stefanowicz, Chairman
- Mariusz Obszyński
- Piotr Chajderowski

Since, on 10 March 2009, Piotr Chajderowski filed his resignation from the Supervisory Board, on 19 March 2009, the Supervisory Board decided to supplement the Audit Committee by appointing Wiesław Skwarko and Radosław Barszcz as new Committee members.

From 19 March to 7 May 2009:

- Jan Stefanowicz, Chairman
- Mariusz Obszyński
- Wiesław Skwarko
- Radosław Barszcz

On 7 May 2009, the Supervisory Board decided to expand the Audit Committee with Ireneusz Fąfara, appointed to the Supervisory Board by shareholders at the General Shareholders Meeting on 27 April 2009.

From 7 May to 31 December 2009:

- Jan Stefanowicz, Chairman
- Mariusz Obszyński
- Wiesław Skwarko
- Radosław Barszcz
- Ireneusz Fąfara

Since, on 11 February 2010, shareholders at the General Shareholders Meeting changed the composition of the Supervisory Board, at their first meeting, the Supervisory Board supplemented the Audit Committee by appointing Oskar Pawłowski and Rafał Wardziński as Committee members.

From 2 March 2010:

- Ireneusz Fąfara, Chairman (till 29 March 2010)
- Wiesław Skwarko
- Oskar Pawłowski
- Rafał Wardziński

## Remuneration

Remuneration rules for Supervisory Board members are defined by shareholders at the General Shareholders Meeting.

In accordance with the statement of the Management Board of Grupa LOTOS on corporate governance at the Company, the Supervisory Board members' remuneration should be defined on the basis of transparent procedures and rules. Remuneration should be fair, but it should neither constitute an important item of the Company's expenses nor substantially influence the Company's performance. It should be reasonably related to the remuneration of Management Board members.

Remuneration payable to Supervisory Board members is subject to limitations and rules set out in the Act on remunerating persons managing certain legal entities of 3 March 2000 (Journal of Laws No 26 of 2000, item 306, as amended). Pursuant to that Act, in 2000, shareholders, at the Extraordinary Shareholders Meeting, defined the following rules for remunerating Supervisory Board members:

- Supervisory Board members are entitled to a monthly pay amounting to one average monthly salary in the sector of enterprises without awards payable from profit in the fourth quarter of a previous year, as published by the President of the Polish Statistical Office;
- remuneration is payable regardless of the frequency of meetings; however, it does not cover months in which a Supervisory Board member is absent for unexcused reasons at any meeting;
- remuneration is calculated proportionally to the number of days in which a Supervisory Board member's function is performed in the event that such a Supervisory Board member has been appointed or dismissed in the course of a calendar month;
- the Company reimburses expenses borne in relation to the performance of the functions of Supervisory Board Members, as well as calculates and deducts income tax charges in accordance with the individual income tax act.

### Remuneration of Supervisory Board members in 2009

Supervisory Board member	Amount [PLN]
Wiesław Skwarko	(*)
Leszek Starosta	39,621
Mariusz Obszyński	39,621
Radosław Barszcz	39,621
Piotr Chajderowski	10,813
Małgorzata Hirszel	39,621
Jan Stefanowicz	39,621
Ireneusz Fąfara	23,681

(\*) Wiesław Skwarko waived (till further notice) his remuneration for membership to the Supervisory Board of Grupa LOTOS and does not obtain any financial benefits.

None of the Supervisory Board members holds shares of Grupa LOTOS.

## Independence

Rule No 6, Section 3 of "Best Practices for Companies Listed on the Warsaw Stock Exchange" sets out that: "At least two members of the Supervisory Board should meet the criteria of independence from the company and entities substantially related to the company. Criteria of independence of Supervisory Board members are governed by Appendix 2 to the European Commission's Recommendation of 15 February 2005 on the role of non-executive directors or directors being members of supervisory boards of stock exchange companies and supervisory board commissions. Notwithstanding the provisions of art. b) of the Appendix, a person being an employee of a company, a subsidiary or an associate may not be considered as meeting the criteria of independence referred therein. In addition, any actual and significant relation with a shareholder having a right to exercise 5% and more of the total number of rights of vote at the General Shareholders Meeting is considered as a relation excluding the independence of a Supervisory Board member within the meaning of this rule."

The above rule is not applied by the Company because Grupa LOTOS does not have any information on the independence of Supervisory Board members. The Company will start applying that rule after obtaining relevant information on the appointment or acknowledgement of at least two Supervisory Board members as independent members in accordance with Appendix 2 to the European Commission's Recommendation of 15 February 2005.

## Conflict of interests policy

Art. 387 of the Commercial Companies Code sets out that a management board member, a proxy, a liquidator, the head of a branch or a division, as well as a chief accountant, a legal adviser or attorney employed by the company should not perform functions of a supervisory board member on a parallel basis. In addition, members of the Supervisory Board of Grupa LOTOS have to submit, as of being appointed as Supervisory Board members, their statements confirming that they do not perform any competitive activities in relation to the Company and are not shareholders of a competitive partnership or a personal company or members of authorities of a capital company or members of authorities of any other competitive legal entity.

## Sustainable development engagements

In 2009, the Supervisory Board held 13 meetings, adopted 53 resolutions, including one resolution adopted in writing. The Supervisory Board analysed Grupa LOTOS' key areas and issues, including, without limitation, the evaluation of the Company's performance, opportunities and risks relating to sustainable development. Major issues in this area include:

- the progress of the 10+ Programme;
- exploration and extraction;
- oil supply;
- the performance of the Anti-Crisis Package;
- restructuring of Rafinerie Południowe;
- the Company's sponsoring activities in the light of new regulations;
- financing social projects by Grupa LOTOS.

## Responsibilities

The Management Board represents Grupa LOTOS and runs all the corporate businesses of Grupa LOTOS. This does not concern any issues that are reserved for the competences of the Shareholders' Meeting or the Supervisory Board or that exceed the scope of the regular management for individual Members. The Management Board of Grupa LOTOS operates pursuant to the Statute of Grupa LOTOS and the Regulations of the Management Board. Documents listed are available on the website of Grupa LOTOS.

[Regulations of the Management Board of Grupa LOTOS](#)

In 2009, the Management Board held 57 meetings and passed 155 resolutions (including the Management Board of 6<sup>th</sup> term – 31 meetings and 83 resolutions and of the 7<sup>th</sup> term – 26 meetings and 72 resolutions).

## Membership

According to the Statute of Grupa LOTOS, its Management Board comprises from three to seven Members, including the President and the Vice-Presidents. The number of Members of Management Board is determined with the resolution of the Supervisory Board. The Management Board is appointed by the Supervisory Board. The Supervisory Board appoints the President of the Board and afterwards, upon the President's motion, the Vice-Presidents and other Members of the Board. The common term of office for the Management Board continues for three years.



### **Paweł Olechnowicz**

President of the Board, Chief Executive Officer

Mr Olechnowicz has served as President of the Board of Grupa LOTOS since 12 March 2002. He manages and is responsible for all operations of Grupa LOTOS. He is also serving as Vice-President for Exploration and Production.

Mr Olechnowicz graduated from Cracow University of Technology (the Faculty of Technology and Mechanisation of Foundry Engineering), completed a post-graduate course in Organization, Economics and Industrial Management at Gdańsk University of Technology and the MBA INSEAD and attended many specialist courses in management, both in Poland and abroad. He started his professional career in 1977 in Zakłady Mechaniczne 'Zamech' in Elbląg (since 1990 ABB Zamech Sp. z o.o.). In 1990-1996, he was President of the Management Board and Director General of ABB Zamech Ltd. Subsequently, for two years, Mr Olechnowicz worked at the headquarters of ABB Ltd Zurich in Switzerland as Vice-President for Central and Eastern Europe. In 1999-2000, Mr Olechnowicz was Vice-President and Deputy Director General of ZML Kęty S.A., and from 2001, managed his own consulting company: Paweł Olechnowicz-Consulting. He is President of the Polish Academic-Economic Forum.



### **Marek Paweł Sokołowski**

Vice-President of the Board, Chief Operation Officer

Mr Sokołowski has served as Vice-President of the Board of Grupa LOTOS since 19 April 2002. He manages, coordinates and supervises all issues of the Production Division, the Technical Division, the Technology Development Division and the Refinery Development Division, which is implementing the 10+ Programme and he bears all the related responsibilities.

Mr Sokołowski graduated from Gdańsk University of Technology (the Faculty of Electrical Engineering), completed a post-graduate course in Industrial Investments and attended a number of specialist management courses in Poland and abroad. Mr Sokołowski has worked at Rafineria Gdańska S.A. (currently Grupa LOTOS S.A.) since 1973. In 1990, Mr Sokołowski became Technical Director and a Management Board member. For three consecutive terms in office, he was in charge of plant engineering at the refinery and execution of investment projects. Throughout 1996-2000, he managed the development and modernization plan of the Gdańsk refinery – PRT. Since mid-2000, he worked as Chief of Technical Services and attorney of Grupa LOTOS. During his service as Vice-President of the Board, he executed a wide programme of operating segment restructuring. In the consecutive years, he worked on the 10+ Programme and the organization of its implementation.



### **Mariusz Machajewski**

Vice-President of the Board, Chief Financial Officer

Mr Machajewski has been Vice-President of the Board at Grupa LOTOS since 19 June 2006. He manages and bears the responsibility for all economic, financial and accounting issues of Grupa LOTOS.

Mr Machajewski is a graduate of the Faculty of Economics at the University of Gdańsk. Moreover, he attended a number of specialist training courses in management and economics in Poland and abroad. In 1994-1997, he worked at Stocznia Gdynia S.A. (Gdynia Shipyard). In 1997, he joined Rafineria Gdańska S.A. (currently Grupa LOTOS), and in 1999, he was placed in charge of managing Grupa LOTOS's controlling functions. Since mid-2002, he has held the position of Economic-Finance Director. In the period from April 2005 to June 2006, he also served as Grupa LOTOS's attorney.



## Maciej Szozda

Vice-President of the Board, Chief Commercial Officer

Mr Szozda has served as Vice-President of the Board at Grupa LOTOS since 1 July 2009. He is in charge of the entire trading segment of the LOTOS Group and bears all the responsibilities in this regard. Mr Szozda graduated from the Faculty of Trade at the Warsaw School of Economics. Since 1980, he has worked for PHZ Labimex. In 1983-1984 he was Managing Director at KWM Engineering. Next until 1986 he worked in the USA as the contract manager. In 1986 he commenced to work as the director at Przedsiębiorstwo Zagraniczne Ipaco, and in 1987-1989 he was export manager at Sinexim GmbH in Western Berlin. After 1989 he was self-employed, e.g. in Easey Garments UK Ltd. (Easy Jeans) as Representative for Poland and CIS countries. In 2002 he joined PKN Orlen S.A., serving as Retail Network Planning and Development Office Director, Retail Network Development – Europe Office Director and executive director for retail. From October 2008 to February 2009 he was a member of the

Supervisory Board of Orlen Deutschland AG. From 2007 to March 2009 he was a member of the Management Board and after that the President of the Management Board of a company from the PKN Orlen S.A. Capital Group – AB VENTUS NAFTA with its registered office in Vilnius.

### Positions and functions of the Management Board members of Grupa LOTOS in the LOTOS Group 31 December 2009

<b>Paweł Olechnowicz</b>	Chairman of the Supervisory Board	Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu Petrobaltic S.A.
	Chairman of the Board of Directors	LOTOS Exploration and Production Norge AS
<b>Marek Sokołowski</b>	Chairman of the Supervisory Board	LOTOS Czechowice S.A.
<b>Mariusz Machajewski</b>	Chairman of the Supervisory Board	LOTOS Paliwa Sp. z o.o.
<b>Maciej Szozda</b>	Chairman of the Supervisory Board	LOTOS Paliwa Sp. z o.o.

In 2009 and in Q1 2010 the Management Board of Grupa LOTOS comprised:

From 1 January 2009 to the end of the 6<sup>th</sup> term:

1. Paweł Olechnowicz – President of the Board, Chief Executive Officer,
2. Mariusz Machajewski – Vice-President of the Board, Chief Financial Officer,
3. Marek Sokołowski – Vice-President of the Board, Chief Operation Officer.

In the qualification proceedings for the positions of a Member of the Management Board of Grupa LOTOS of the 7<sup>th</sup> joint term, the Supervisory Board selected 4 members. On 25 June 2009 the Supervisory Board adopted a resolution to appoint the following Management Board of Grupa LOTOS for the joint 7<sup>th</sup> term:

- Paweł Olechnowicz – President of the Board, Chief Executive Officer,
- Mariusz Machajewski – Vice-President of the Board, Chief Financial Officer,
- Marek Sokołowski – Vice-President of the Board, Chief Operation Officer,
- Maciej Szozda – Vice-President of the Board, Chief Commercial Officer.

As the President of the Board did not submit a motion presenting a candidate for the position of the Vice-President for development, exploration and production, the supplementation of the Board's composition may be decided upon the Supervisory Board at a later stage, and thus the proceedings were not closed. Therefore, until the day of drawing up this Report, according to the decision of the Supervisory Board, President of the Board of Grupa LOTOS is in charge of the abovementioned areas until the appointment of a new member of the Management Board.

As of 31 December 2009 and 31 March 2010 the Management Board of Grupa LOTOS comprised:

- Paweł Olechnowicz – President of the Board, Chief Executive Officer,
- Mariusz Machajewski – Vice-President of the Board, Chief Financial Officer,
- Marek Sokołowski – Vice-President of the Board, Chief Operation Officer,
- Maciej Szozda – Vice-President of the Board, Chief Commercial Officer.

## Remuneration

In 2000 the Shareholders' Meeting was entitled to determine the remunerations of the Members of the Management Board. It adopted a resolution in this regard during the Extraordinary Shareholders' Meeting in August 2000, by determining the rules of remuneration and employment for the Members of the Management Board. These rules applied until mid-2009. According to the adopted regulations:

- Members of the Management Board were entitled exclusively to a monthly remuneration amounting to:
  - President of the Management Board – not exceeding 4-times the average monthly remuneration in the sector of enterprises without a profit share in the fourth quarter of the preceding year as announced by the President of the Main Statistical Office. The value of the monthly remuneration of the President of the Management Board was determined in a separate resolution of the Shareholders' Meeting,
  - Vice-President of the Management Board – not exceeding 3.9-times the average monthly remuneration in the sector of enterprises without a profit share in the fourth quarter of the preceding year as announced by the President of the Main Statistical Office. The value of the monthly remuneration of the Vice-President of the Management Board was determined in a separate resolution of the Shareholders' Meeting,
  - Member of the Management Board – not exceeding 3.9-times the average monthly remuneration in the sector of enterprises without a profit share in the fourth quarter of the preceding year as announced by the President of the Main Statistical Office. The value of the monthly remuneration of a Member of the Management Board was determined in a separate resolution of the Shareholders' Meeting,
- Should Grupa LOTOS be classified as an entity of special importance for the State, the above-mentioned value of the remuneration shall be increased by 50% according to the procedure specified in Article 9 of the Act on remunerating persons managing certain legal entities.
- The amounts of remuneration, irrespective of the basis of the employment relation or the type of job contracts, encompassed all elements of remuneration resulting from the rules of labour law.
- In the event of a dismissal from a position or dissolving of a job agreement for reasons other than the violation of basic employee obligations, the President, the Vice-President and the Members of the Management Board might be granted severance pay amounting to not more than three-times the monthly remuneration.

The Ordinary Shareholders' Meeting held on 30 June 2009 amended the By-Laws of Grupa LOTOS within the division of competences between the Shareholders' Meeting and the Supervisory Board, by transferring the determination of remunerations for the Management Board Members, the value of the monthly remuneration for a Member of the Management Board and the value of the annual bonus for the President of the Management Board from the competences of the Shareholders' Meeting to the Supervisory Board. Such changes were aimed at making the provisions of the By-Laws more flexible, to meet the general provisions given in Article 378(1) of the Code of Commercial Companies, according to which the Supervisory Board determines the remuneration of the Management Board, 'unless special rules of law provide for otherwise', by referring to the provisions of the Act of 3 March 2000 on the remuneration of persons managing certain legal entities (Journal of Laws from 2000, No. 26, Item 306 with subsequent amendments).

The motion of the Supervisory Board that was put to vote at the Shareholders' Meeting, transferring the competences from the Shareholders' Meeting to the Supervisory Board in the above-mentioned question was justified and was not contradictory with the rules of the so-called 'chimney act' that applies to Grupa LOTOS, as the Shareholders consented during the Meeting to the increase of the authorised capital of Grupa LOTOS by making contributions in kind comprising stakes held in Petrobaltic, LOTOS Czechowice and LOTOS Jaslo owned by the Treasury. According to the decision, the authorised capital of Grupa LOTOS was increased from PLN 113,700,000.00 to PLN 129,873,362.00. Grupa LOTOS issued 16,173,362 new ordinary bearer shares of the C series, which were offered to the Treasury within private subscription, without the preemptive rights of the other shareholders. On the other hand, the Treasury transferred to Grupa LOTOS 2,801,400 shares of Petrobaltic, 375,000 shares of LOTOS Czechowice and 300,000 shares of LOTOS Jaslo. As a result of the abovementioned transactions, upon the registration of the increased authorised capital by the Court, i.e. on 17 July 2009, the ownership structure changed. The share of the shareholder – Nafta Polska S.A. fell from 51.91% to 45.45%, and thus Grupa LOTOS ceased to be subject to the so-called 'chimney act'.

However, on 22 July 2009 the Treasury acquired another major stake in Grupa LOTOS under the agreement concluded on 16 July 2009 between Nafta Polska and the Ministry of the Treasury. Within the execution of the agreement, Nafta Polska transferred to the Treasury 59,025,000 shares of Grupa LOTOS, and holds no more shares of Grupa LOTOS, while the Treasury holds 63.97% shares in the authorised capital of Grupa LOTOS.

In a consequence, Grupa LOTOS is again subject to provisions of the so-called 'chimney act'. According to the law in question, the remuneration of President of the Management Board is determined by the Shareholders' Meeting upon the motion of the Supervisory Board. On the other hand, all issues related to the remuneration policy for other members of the Management Board remain within the competences of the Supervisory Board.

As the share of the Treasury exceeds 50% in the authorised capital of Grupa LOTOS (50% number of shares), provisions of Article 8(4) of the Act apply to Grupa LOTOS.

Therefore, the Supervisory Board, acting within its competences under Article 14(2)(1) of the By-Laws of Grupa LOTOS and pursuant to the Act of 3 March 2000, determined the value of remuneration for the Vice-Presidents of the Board on 13 November 2009 at 6-timex value of the monthly remuneration in the sector of enterprises without a profit share in the fourth quarter of the preceding year as announced by President of the Main Statistical Office and submitted to the Shareholders' Meeting to determine the value of the monthly remuneration of the President of the Management Board on the same level.

The Shareholders' Meeting, having examined the motion of the Supervisory Board submitted in the Resolution No. 63/VII/2009 of 13 November 2009, determined the following rules of remuneration concerning President of the Management Board:

- President of the Management Board is entitled to a monthly remuneration not exceeding 6-times the average monthly remuneration in the sector of enterprises without a profit share in the fourth quarter of the preceding year as announced by the President of the Main Statistical Office,
- shall Grupa LOTOS be classified among the entities of special importance for the State, in compliance with Article 9 of the Act of 3 March 2000 on remuneration of persons managing certain legal entities, the Shareholders' Meeting has authorised the Supervisory Board to increase the above-mentioned monthly remuneration of President of the Management Board by 50% in compliance with the provisions of the above-mentioned Act.

Moreover, the Shareholders' Meeting repealed the resolution of the Shareholders' Meeting of 18 August 2000 that governed the remunerations due to the Members of the Management Board.

According to individual employment agreements, members of the Management Board of Grupa LOTOS are entitled to the following additional benefits:

- costs of life insurance policy (including monthly insurance premiums),
- above-standard medical care provided by a private healthcare centre, both in Poland and abroad, for a member of the Management Board and his family.

Moreover, President of the Board and Vice-President of the Board (CCO) are entitled to additional benefits, namely accommodation in the TriCity (covering additional costs of rent and utilities), which they do not use.

Moreover, according to the Act of 3 March 2000 on the remuneration of persons managing certain legal entities (Journal of Laws from 2000, No. 26, Item 306 with subsequent amendments) and the Regulation by the Minister of the Treasury of 12 March 2001 on the detailed rules and mode of granting annual bonuses to persons managing certain legal entities (Journal of Laws from 2001, No. 22, Item 259), members of the Management Board may receive an annual bonus. The bonus may be granted if the Company:

- has improved its financial results,
- has strengthened its market or sectoral position,
- has effectively implemented a restructuring or development plan,
- has not exceeded the maximum annual index of increasing an average monthly remuneration, and
- pays all its public and legal liabilities in a timely manner.

A bonus may be granted once all financial statements are approved. A Member of the Management Board is entitled to a bonus if he/she worked in this position for the entire financial year and did not violate his/her obligations in this period, the job contract was not terminated by his/her fault and the management agreement was not terminated and he/she was not dismissed for reasons that are the basis for the termination of the job contract without notice. According to the regulations, the maximum bonus equals 3-times the average monthly remuneration in the preceding year. The decision to grant the annual bonus to President of the Management Board is taken by the Shareholders' Meeting upon the motion of the Supervisory Board, while for other members of the Management Board by the Supervisory Board.

According to the declaration of the Management Board of Grupa LOTOS on the compliance with the corporate governance, the remuneration of members of the Management Board should be determined in compliance with transparent procedures and rules, taking into account its motivating nature, and to stimulate further effective management of Grupa LOTOS. The remuneration should correspond to the size of the enterprise and be reasonably correlated to its financial results. It should be also related to the scope of responsibilities resulting from the function and take account of remunerations of members of the Management Board in similar companies in a comparable market.

#### Value of remuneration of members of the Management Board of Grupa LOTOS in 2009

Member of the Management Board	Amount [in PLN]
Paweł Olechnowicz	199,862
Marek Sokółowski	196,565
Mariusz Machajewski	197,625
Maciej Szozda	118,947

Marek Sokółowski, Vice-President of the Board, holds 8,638 shares of Grupa LOTOS. Other members of the Management Board do not own any shares of Grupa LOTOS.

## Conflict of interests policy

To avoid the conflict of interests, Grupa LOTOS follows the provisions of the Code of Commercial Companies, the Regulations of the Management Board and the 'Best Practices for Companies Listed on the Warsaw Stock Exchange'. According to the Regulations of the Management Board and in relation to Article 377 of the Code, in case of any conflicts of interests of Grupa LOTOS with the personal interests of a member of the Management Board or any persons they are related to, a member of Management Board should refrain from participating in resolving such issues. Moreover, according to the 'Best Practices for Companies Listed on the Warsaw Stock Exchange', a member of the Management Board should advise the Management Board of the existing conflict of interests or its potential occurrence and refrain from participating in the discussion and voting on a resolution that concerns this issue. According to the Regulations of the Management Board, accepting positions by the members of the Management Board in supervising or managing authorities of other entities requires consent of the Supervisory Board. Furthermore, the provisions of the Code apply, which ban members of the Management Board from being a member of the Supervisory Board at the same time. This provisions concerns also other persons who are directly subordinate to a member of the Management Board.

# Consolidated non-financial Statement 2009

## Profile of the statement

The Consolidated Non-Financial Statement for 2009 is based on the Reporting Framework and the third version of the Guidelines of the Global Reporting Initiative (G3 GRI). Grupa LOTOS declares that within the three-level system of the Application Levels it has achieved Level A<sup>(\*)</sup>.

<sup>(\*)</sup> Specific Application Levels have been marked with letters from C (the lowest level), through C+ (where „+” stands for the external verification of the statements by independent certifying authorities), B, B+, A to A+. The criteria of reporting attributed to every Level provide the measurement of the application level of the Guidelines and implementation of [GRI Reporting Framework Guidelines](#).

GRI Application Level	C	C+	B	B+	A	A+
Company's assessment					✓	

The Statement of the LOTOS Group concerns operations of the organization throughout the financial year 2009. In relevant cases, information concerns also the events material for the Company that took place in the period preceding the publication of the Statement, i.e. in Q1 2010.

This Consolidated Non-Financial Statement constitutes the third publication of Grupa LOTOS concerning the non-financial aspects of its operations. Moreover, it is the first publication that constitutes an integral part of the Annual Report of Grupa LOTOS. The previous reports on sustainability were published by Grupa LOTOS independently of the annual reports.

In June 2008 the first [corporate social responsibility](#) Report was published for the LOTOS Group. It contained information for the years 2006-2007. The second CSR Report was published in mid-2009 and dealt with results achieved in the financial year 2008. In 2007 the Environmental Report of Grupa LOTOS was published covering the year 2006. Starting from the CSR Report for 2008, the environmental protection issues have been incorporated into the CSR Report of Grupa LOTOS. The reports are available on the dedicated website of Grupa LOTOS at [www.csr.lotos.pl](http://www.csr.lotos.pl).

Pursuant to the decision of the Management Board of Grupa LOTOS, the organization adopted the annual reporting procedures monitoring the implementation of the CSR strategy. The consecutive reports are to present the situation of Grupa LOTOS in specific years. Starting from this issue Grupa LOTOS intends to publish integrated reports that contain both consolidated financial and non-financial statements.

The Communication and CSR Office is responsible for coordinating [social reporting](#) procedures in the LOTOS Group. All the parties concerned can contact the Office at: [csr@grupalotos.pl](mailto:csr@grupalotos.pl). Detailed contact data are available in [Additional Info](#).

## Scope and framework of the Report

In the process of defining the content of the Consolidated Non-Financial Statement and other chapters of the Annual Report that present the non-financial results of the operations, the [GRI Reporting Framework Guidelines](#) were followed. The selection on both non-financial measurable indexes and the descriptive aspects contained in the Report was based on the significance rule. By significance, Grupa LOTOS understands the importance and weight of a factor not only for the Concern's operation compliant with sustainability practices but also for all external [stakeholders](#) who expect and look for reliable, comparable and realistic data and information that affect their choices and decisions.

This Report uses all the basic result indexes concerning separate aspects of operations, i.e. economic, environmental and social ratios as well as major non-obligatory ratios included in the [GRI Guidelines](#). As there is no separate Sectoral Supplement covering the period of the Report, no indexes dedicated to the sector have been applied other than provided for in the basic list. For the calculation of financial data presented in the Report, same methods have been used as applied in the Consolidated Financial Statement of the LOTOS Group for 2009, i.e. in compliance with the International Financial Reporting Standards applicable as of 31 December 2009.

In most problem areas presented in the Report, information concerns the dominant entity, i.e. Grupa LOTOS. However, as far as possible all efforts have been made to consolidate data for the LOTOS Group. In the areas of key importance for the product responsibility, data have been presented for the commercial companies of the LOTOS Group. In all instances the differentiation has been made in the Report by adding information on the specific subsidiary of the LOTOS Group. Both scope and framework of the Report are being successively extended, in particular by increasing the number of economic, environmental and social indexes of the companies in the LOTOS Group, i.e. the entities that play the most important role in developing the value chain through their individual and institutional customers, suppliers and partners.

In the previous period there have been no changes or any other material circumstances with reference to the subsidiaries of the LOTOS Group that might affect the general assessment of the organization in individual aspects or in the comparison with other domestic entities from this sector. This Report does not provide any revisions to information given in the previous report for 2008.

The scope of this Report has been extended with regard to the Social Responsibility Report of the LOTOS Group 2008 in two aspects:

1. according to the declaration made in the previous reporting period, the number of result indexes has been augmented to comprise achievements of individual companies of the LOTOS Group, furthermore adding one more reporting entity (5 instead of 4);

**The GRI indexes reported by the commercial companies: LOTOS Asphalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa and LOTOS Parafiny for their operation in 2008-2009**

2008		2009	
Aspect	Index	Aspect	Index
Products and services	EN26, EN27	Products and services	EN26, EN27
Transport	EN29	Transport	EN29
Health and safety of consumers	PR1	Health and safety of consumers	PR1
Product and service labelling	PR3, PR5	Product and service labelling	PR3, PR5
Marketing communication	PR7, PR8	Marketing communication	PR7, PR8
Privacy of customers	PR8	Privacy of customers	PR8
Compliance with law	PR9	Compliance with law	PR2, PR4, PR9
-	-	Biodiversity	EN11
-	-	Intermediate economic impact	EC9
-	-	Market position	EC5, EC6, EC7

2. the description of Grupa LOTOS operations has been completed by adding information on the EC9 index, relative to the scale of the indirect economic impact of the enterprise. The basis for presenting the results in this regard have been the analysis conducted by Grupa LOTOS with regard to the indirect effects of the key investment project of Grupa LOTOS, the 10+ Programme.

74 GRI reporting indexes have been considered when drawing up the Annual Report 2009.

## Verification

Any and all data presented in the Report have been collected in a reliable and responsible manner and have been certified as conforming to the actual data by the senior management of Grupa LOTOS and the selected subsidiaries of the LOTOS Group supervising the individual reported areas of operation. The financial data comply with information provided in Consolidated Financial Statements for individual periods.

This Consolidated Non-Financial Statement has not undergone any external verifications by an independent certifying authority. However, it is noteworthy that a large part of financial data concerning the previous financial year that is the subject matter of this Report, have been appraised by the licensed auditors of Deloitte, who audited the Consolidated Financial Statement of the LOTOS Group.

Grupa LOTOS has implemented the Integrated Management System based on the requirements of: PN-EN ISO 9001:2001 Quality Management System, PN-EN ISO 14001:2005 Environmental Management System and PN-N-18001:2004 Health and Safety Management System. In June 2007 Grupa LOTOS underwent the re-certifying audit aimed at assessing compliance of the management system with the requirements of the standard. The re-certifying audit is conducted every three years. Both the re-certifying audit and the supervision audit (conducted annually in Grupa LOTOS) are carried out by the external independent certifying body. According to the implemented procedures of the IMS, the LOTOS Group carries out planned internal audits to verify if the IMS is implemented and maintained effectively and if it corresponds with the planned actions and standard requirements. Therefore, regular audits cover individual aspects of the operations within environmental protection, health and safety and quality standards presented in this Report.

Moreover, in compliance with the adopted communication transparency policy with [stakeholders](#), Grupa LOTOS undergoes external assessment of its commitment to CSR by participating in professional audits that compare achievements of companies involved in developing CSR ideas. The most important actions executed in this area in 2009 include the participation of Grupa LOTOS in:

1. Ranking of Responsible Firms 2009, organised by the Centre of [business ethics](#) of Kozminski University and the Forum of Responsible Business. The results and achievements of Grupa LOTOS that are the basis for assessment were verified by the auditors of PricewaterhouseCoopers – a partner of the ranking;
2. RESPECT Rating that has been prepared as the basis for selecting companies to be included in the sustainability stock exchange index, the RESPECT Index, a result of joint cooperation of the 'Forbes' monthly, the Warsaw Stock Exchange and the experts of Kulczyk Investments. The actions taken by Grupa LOTOS within CSR have been verified by Deloitte who prepared the results of the Rating.

In both cases mentioned above, auditors revised the information provided by Grupa LOTOS by interviewing Grupa LOTOS representatives but first and foremost based on the presented documentation.

## Economic aspects of operation

### Economic results

GRI No.	AREA
EC 1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, <a href="#">donations</a> and other community investments, retained earnings, and payments to capital providers and governments.

Grupa LOTOS	2005	2006	2007	2008	2009
Thousand PLN					
Net income	8,547,293	11,630,382	11,867,884	14,900,794	12,711,611
Operating costs	7,549,452	10,712,102	10,851,429	14,867,282	12,116,519
Remuneration of employees and other benefits	77,859	82,771	94,724	115,587	131,585
Payments to the investors	29,553	3,093	65,680	61,497	127,114
Payments to the public sector	4,135,495	5,249,087	6,730,682	7,108,738	8,557,314
Social investments	939	1,876	1,121	651	793

On 30 June 2008, the Shareholders' Meeting of Grupa LOTOS took the resolution on the distribution of net profit for 2007. According to the resolution, a part of the net profit of Grupa LOTOS amounting to PLN 2,500 thousand was allocated to the special purpose fund of Grupa LOTOS for financing social projects of Grupa LOTOS.

The LOTOS Group	2005	2006	2007	2008	2009
Thousand PLN					
Net income	9,707,829	12,834,708	13,143,463	16,309,960	14,344,851
Operating costs	8,053,554	10,978,033	11,346,692	15,287,258	12,750,542
Remuneration of employees and other benefits	320,502	359,998	388,418	422,506	462,948
Payments to the investors	47,783	32,845	96,768	99,729	176,338
Payments to the public sector	4,720,673	5,968,567	7,194,536	7,519,904	8,951,791
Social investments	1,644	2,352	1,362	898	839

GRI No.	AREA
EC 3	Coverage of the organization's defined pension plan and allowance obligations

Due to the liabilities of the employer resulting from the Collective Agreement, Grupa LOTOS creates reserves for pensions, disability pensions and anniversary bonuses.

Grupa LOTOS	2005	2006	2007	2008	2009
Thousand PLN					
Reserves for anniversary bonuses and pension and disability pension pays:					
- long-term	14,288	15,150	19,072	27,612	28,820

- short-term	2,193	2,189	2,753	3,666	4,348
<b>Total reserves</b>	<b>16,481</b>	<b>17,339</b>	<b>21,825</b>	<b>31,278</b>	<b>33,168</b>
Payments within the Grupa LOTOS employee insurance plans within the so called 3rd pillar of insurance investment funds	897	1,453	2,496	3,105	3,439
<b>The LOTOS Group</b>					
Thousand PLN					
Reserves for anniversary bonuses and pension and disability pension pays:					
- long-term	49,771	54,232	60,295	82,587	87,961
- short-term	12,751	7,472	8,888	9,505	10,733
<b>Total reserves</b>	<b>62,522</b>	<b>61,704</b>	<b>69,183</b>	<b>92,092</b>	<b>98,694</b>
Payments within the LOTOS Group employee insurance plans within the so called 3rd pillar of insurance investment funds	3,024	4,524	7,068	8,720	10,195

GRI No.	AREA
EC 4	Material financial support granted by State

Grupa LOTOS	2005	2006	2007	2008	2009
Thousand PLN					
Received subsidies	13,144	3,416	2,808	-	5,908
Subsidies accounted for	-	-	-	-	-
Value of subsidies as of the year end	13,144	16,560	19,368	19,368	25,276
<b>The LOTOS Group</b>					
Thousand PLN					
Received subsidies	13,144	3,486	4,322	19	5,908
Subsidies accounted for	732	634	601	663	744
Value of subsidies as of the year end	17,967	20,819	24,540	23,896	40,343

LOTOS Asphalt operates in the Tarnobrzeg Special Economic Zone EURO-PARK WISŁOSAN pursuant to the Permit No. 158/ARP S.A./2008 of 23 January 2008. The permission was granted until 15 November 2017. Under applicable regulations LOTOS Asphalt is exempt from the corporate income tax within the operations covered by the permission. LOTOS Asphalt calculates the tax basis according to the Act on corporate income tax of 15 February 1992. For the purpose of calculating the tax basis, the exempt income and the taxable income, LOTOS Asphalt allocates its income and costs according to either operations in the zone or outside the zone. The exemption from the income tax is effected under the Act on special economic zones of 20 October 1994 and the Permit No. 158/ARP S.A./2008 of 23 January 2008.

## Presence on the market

GRI No.	AREA
EC 5	Relation of the standard basic remuneration to the minimum remuneration granted in the main locations of Grupa LOTOS's operations

Value of minimum salaries in Poland in 2009 (in PLN)	1,276
--	-------

	Grupa LOTOS	LOTOS Asphalt	LOTOS Kolej	LOTOS Oil	LOTOS Paliwa	LOTOS Parafiny
Value of minimum remuneration (basic) on the lowest level of remunerations (in PLN)	2,189	2,150	2,373	2,155	2,500	1,400
Ratio of the lowest basic remuneration to the minimum domestic	172	168	186	169	196	110

GRI No.	AREA
EC 6	Policy, practices and proportion of spending on locally-based suppliers at the main locations of operation

The LOTOS Group is interested in economic development of all the areas where its entities operate. Grupa LOTOS runs its business in compliance with the rules of [corporate social responsibility](#) and sustainability.

Strict procurement policies apply in the LOTOS Group. Companies prefer buying from local suppliers provided their prices and qualities, as well as quality certificates held, are comparable to the offers of other potential suppliers. The factors that affect the selection of a supplier, apart from the location, depend on the type of services/goods that are to be procured and include:

- competitive price,
- comprehensive offer,
- quality of offer,
- letters of reference and the experience of the supplier and its team in implementing projects similar to the one enquired about,
- certificates held,
- lead time,
- payment terms,
- aesthetics (visual attractiveness), quality of production, diversity and functionality of sold products, and
- attractiveness of designs and functionality of solutions.

Grupa LOTOS: 80% of suppliers are local businesses operating in the main locations of Grupa LOTOS's presence, i.e. from Gdańsk, Warsaw and Krakow. About 60% of contracts are concluded with suppliers who run operate in the Pomorskie Voivodeship.

LOTOS Asfalt: The strategic supplier of raw materials to LOTOS Asfalt at its main locations (Gdańsk, Jasło and Czechowice) is Grupa LOTOS. 95% of suppliers are local companies that have their branches or warehouses located all over Poland. Due to the shortage of the main raw materials for the production of bitumen made by the domestic companies, some of raw materials are procured from Polish agents or representatives who import products from Europe and countries from outside Europe, having their warehouses in Europe or Poland. The products and materials available in Poland are procured from local suppliers who deliver their products to a production plant. In Jasło and Czechowice, the suppliers come from the south of Poland.

LOTOS Kolej: The largest costs of material are incurred by Grupa LOTOS due to spare parts for the rolling stock. All firms that provide such parts are located in the south of Poland, therefore only some of the consumables can be bought from local firms, i.e. in the Pomeranian Voivodeship.

LOTOS Parafiny: Grupa LOTOS has its production facilities in Czechosławice and Jasło, therefore local suppliers come from southern Poland. More than 50% of suppliers come from this part of Poland, exclusive of suppliers of strategic raw materials. About 60% of Jasło supplies are provided by local shipping companies.

LOTOS Oil: Grupa LOTOS makes an effort to apply the policy of selecting supplies so as to purchase from at least two sources in each category of products. In case of a monopoly supplier, Grupa LOTOS intends to subject such a monopoly to regular revisions. The ongoing procurement policy is based on penetration of local markets to in order to identify suppliers. Shall a reliable and prospective supplier be found, Grupa LOTOS invites it to the tender procedure. There are certain categories of procurement, in particular at low prices, where the local suppliers cannot meet expectations of Grupa LOTOS with regard to prices and delivery times – such suppliers are invited to the tender process anyway. It has been assumed that a local supplier is a supplier who issues invoices in the voivodeship where the production plan and the distribution centre of Grupa LOTOS is located. The main plants are located in Gdańsk, Czechowice, Jasło and Piotrków Trybunalski.

GRI No.	AREA
EC 7	Procedures for local employment and proportion of senior management employees from the <a href="#">local community</a> , at the main locations of operation

The LOTOS Group employs senior management according to the profile and requirements of positions. Such managers have to fulfil the set requirements to the maximum level. The HR policy does not give any special preferences to persons from the local labour market. Employees of Grupa LOTOS are often promoted to the higher positions in Grupa LOTOS.

Grupa LOTOS: The ratio of senior management from the [local community](#) at the main locations of Grupa LOTOS is as follows: 83% in Gdańsk, 100% in Warsaw and 0% in Krakow, where Grupa LOTOS does not employ any senior managers.

LOTOS Asfalt: The ratio of senior management from the [local community](#) at the main locations of Grupa LOTOS is as follows: 100% in Czechowice, 71% in Jasło and 79% in Gdańsk.

LOTOS Kolej: 100% of senior managers come from the [local community](#), i.e. from the Pomeranian Voivodeship.

LOTOS Oil: At the main locations of its operations, i.e. in Gdańsk, Czechowice, Jasło and Piotrków Trybunalski, the ratio of employment of the senior management from the [local community](#) amounts to 100%.

LOTOS Parafiny: The ratio of senior management from the [local community](#) at the main locations of Grupa LOTOS is as follows: in Czechowice 86.7% and in Jasło 87.5%.

## Indirect financial impact

GRI No.	AREA
EC 8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement

In 2009, Grupa LOTOS provided financial support to initiatives serving the general public. The total value of subsidies amounted to PLN 277 thousand. Such projects are not aimed at developing the business activity, but they are the proof of commitment of Grupa LOTOS for the local communities and local economies.

The support for the above-mentioned projects is aimed at:

- for investments in educational institutions: improving educational premises for children and youth and the quality of education,
- for investments in medicine and the disabled: raising the quality and efficiency of therapy, and
- for investments in safety: improving the safety of traffic.

Entity	City / town	Voivodeship	Scope
2009			
Foundation for Surgery Development VIRIBUS UNITIS	Gdynia	Pomorskie	Purchase of medical equipment – an ultrasonograph appliance Pro Focus 2202 for the Oncologic Surgery ward at the Red Cross City Hospital
Specialist Hospital	Jasło	Podkarpackie	Co-financing of medical equipment purchases – a harmonic knife and accessories
Powiatowe Centrum Zdrowia Sp. z o.o.	Kartuzy	Pomorskie	Procurement of medical equipment – 4 cardiomonitors
Gmina of the City of Gdańsk – Roads and Green Areas Administration	Gdańsk	Pomorskie	Co-financing the repairs of the pavement in Gdańskiego Kolejarsza Street in Gdańsk Rudniki
Complex of Food Industry and Chemical Schools	Gdańsk	Pomorskie	Procurement of equipment for the chemical laboratory – a laboratory drier with the air circulation and the water-steam bath
Faculty of Drilling, Oil and Gas at the AGH University of Science and Technology	Kraków	Małopolskie	Procurement of teaching aids – ball Hoppler viscometer and a printer
Special Education Centre	Jasło	Podkarpackie	Purchase of 100 chairs for the disabled students
Rev. E Dutkiewiczza	Gdańsk	Pomorskie	Purchase of 4 specialist beds

## Social aspects of operation

### Labour practices and decent work

#### Employment

GRI No.	AREA
LA 1	The total number of employees by types of employment, type of employment agreements and regions

Employment	31.12.2005		31.12.2006		31.12.2007		31.12.2008		31.12.2009	
	Number	%	Number	%	Number	%	Number	%	Number	%
Grupa LOTOS	823	-	945	15	1,098	16	1,246	13	1,305	5
The LOTOS Group	5,435	-	5,624	3	4,764	-15	4,878	2	4,949	1

The number of employees by type of agreement and region.:

Specification	31.12.2009
<b>- for an indefinite period of time</b>	
Gdańsk	907
Czechowice	29
Jasło	15
Krakow	3
Piotrków Trybunalski	9
Poznań	4
Rypin	9
Warsaw	15
<b>Total:</b>	<b>991</b>
<b>- for a definite period of time</b>	
Gdańsk	303
Czechowice	0
Jasło	2
Krakow	0
Piotrków Trybunalski	0
Poznań	1
Rypin	2
Warsaw	6
<b>Total:</b>	<b>314</b>

Specification	31.12.2009
<b>- full-time jobs</b>	
Gdańsk	1,206
Czechowice	29

Jasło	16
Krakow	3
Piotrków Trybunalski	9
Poznań	5
Rypin	11
Warsaw	20
<b>Total:</b>	<b>1,299</b>
<b>- part-time jobs</b>	
Gdańsk	4
Czechowice	0
Jasło	1
Krakow	0
Piotrków Trybunalski	0
Poznań	0
Rypin	0
Warsaw	1
<b>Total:</b>	<b>6</b>

GRI No.	AREA
LA 2	Total number of resignations and the employee rotation index by age groups, sex and region

The index of rotation (fluctuation) of employees in Grupa LOTOS amounted to 13.13% in 2009.

GRI No.	AREA
LA 3	Additional benefits guaranteed to full-time employees that are not provided to temporary or part-time employees, by main organizational units

Grupa LOTOS provides all employees, i.e. employed for an indefinite period of time, for a definite period of time (temporary), full-time workers and part-time workers, the option to use the package of the same social benefits guaranteed under the Collective Bargaining Agreement and the Regulations of the Social Benefits Fund. Grupa LOTOS provides life insurance (managed in a partnership with an investment fund), additional medical care, maternal or paternal leaves, social aid with loans, subsidies and co-financing of holidays for employees and their children.

### Labour and management relations

GRI No.	AREA
LA 4	Percentage of employees covered by the collective agreement

The Collective Agreement covers 96.4% of Grupa LOTOS employees.

GRI No.	AREA
LA 5	Minimum notice due to material changes to the business, taking account of the provisions of the Collective Bargaining Agreement

The minimum notice relative to indefinite period of time employment agreements is stipulated by the regulations of the labour law, dependent on the period of service with the employer, and amounts to 2 weeks should an employee have worked less than 6 months, or 3 days in case of so-called 'replacement' contract.

### Occupational Health and Safety

GRI No.	AREA
LA 6	Percentage of the total number of employees represented in the official joint management / staff committees for H&S that provide monitoring and consulting within the H&S employee programmes

According to the regulations of labour law, the H&S Committee has been established in Grupa LOTOS, comprising:

- trade unions attorney,
- H&S services,
- physician who provides prophylactic health care to employees,
- Corporate Social Labour Inspectorate, and
- trade union representatives.

GRI No.	AREA
<b>LA 7</b>	Rate of injuries, occupational diseases, lost days, absenteeism and a total number of work-related fatalities by region

The main injuries are limb injuries – spraining, bruises and fractures. In 2009, no serious or fatal accidents occurred.

2009 saw the growing LTIF index trend in Grupa LOTOS compared to the previous years. This situation resulted from the higher awareness among employees with regard to H&S being a consequence of e.g. extensive awareness raising campaigns, higher commitment and developing healthy work culture. Employees participated in trainings and meetings on health and safety and other communication channels were provided for this purpose. Such measures gave the expected results and keep raising the knowledge of the employees every day. However, this planned process of raising the awareness and the safety culture of work is a long-term process and is the direction for work to be performed in the coming years. Irrespective of the rise of the LTIF index in 2009, during the last several years Grupa LOTOS has recorded a positive falling trend, which proves the right direction of measures taken for H&S. The existing problem is the lack of cohesion between the Polish and EU legal regulations. The elimination of legal gaps in the area of incidents would allow for their uniform classification and reported statistics. It would also definitely reduce the number of incidents recorded at Grupa LOTOS and the fair benchmarking in H&S between the LOTOS Group and other companies of the chemical sector in the world.

Grupa LOTOS	2005	2006	2007	2008	2009
Number of employees	823	945	1,098	1,246	1,305
Accidents at work	5	7	6	7	13
Absence (calendar days) Lost days are calculated since the date of reception of a doctor's leave	161	177	133	171	537
Occupational diseases	none	none	none	none	none
LTIF index (per 1 million working hours)	5.5	4.5	3.1	2.86	5.6
LIDIR index (per 200 thousand working hours)	0.7	0.8	0.6	0.6	1.1
the LOTOS Group	2005	2006	2007	2008	2009.
Number of employees	4,841	5,624	4,764	4,878	4,949
Accidents at work	74	70	50	49	45
Absence (calendar days)	2,685	2,819	2,008	1,375	1,257
Occupational diseases	none	none	none	none	none
LTIF index (per 1 million working hours)	9.5	6.9	5.6	5,2	4.4
LIDIR index (per 200 thousand working hours)	1.7	1.4	1.2	0.9	0.9

The LOTOS Group classifies accidents according to Polish legislation. Moreover, incidents are registered and statistics are held according to the European scale, i.e. of hazardous situations (including hazardous conditions and near misses), accidents that cause the LTI (lost time injury) above one day, used to calculate the LTIF index (Lost Time Injury Frequency), incidents of first aid and road accidents.

According to guidelines laid out in the Code of Practice of the International Labour Organization 'Registration and reporting accidents at work and occupations diseases', the entities of the LOTOS Group:

- follow a uniform procedure for accidents at the site of Grupa LOTOS,
- analyse the causes and effects of accidents,
- draw conclusions and introduce required corrective and preventive measures to eliminate the possibility of reoccurrence of such events in the future,
- document accidents and other hazardous situations, and
- identify and analyse hazardous situations to take required proactive and reactive measures that are aimed at preventing the reoccurrence of similar situations in the future.

GRI No.	AREA
<b>LA 8</b>	Education, trainings, consultation, prevention programmes and risk control programmes available to support employees, their families or members of the community due to the occurrence of serious diseases

All obligatory actions in this regard resulting from the H&S and health care regulations as well as the production-technical safety have been presented [on the website of Grupa](#)

GRI No.	AREA
LA 9	Health and safety issues included in the formal agreements with trade unions

Healthcare and safety at work leave little room for introducing agreements with personnel representatives in the system of applicable laws. This fact results from the full responsibility born by the employer for all H&S issues, while the nature of any agreements is to transfer certain competences and related obligations, which is not possible in this case.

Multiparty consultations within H&S remain the sole and best solution with regards to this issue. The rules of law that introduce this institution require an employer to submit for discussion with employees any and all issues related to H&S. In Grupa LOTOS the consultation procedures are followed within the H&S Commission, which is formed of the representatives of employees and the employer. According to regulations, the Commission should hold meetings at least once a quarter. To reach the objective of a consultation, such consultation meetings at Grupa LOTOS are held more often and follow the initiative both of the employer and the representatives of the employees. Owing to the popularity of the consultation and extending its scope by transferring the initiatives to convene the meetings by the representatives of the personnel, the H&S Committee presents postulates to the management with regard to the improvement of safety, in particular the comfort of work. As a result, the employer may take account of such postulates to fulfil its obligations within H&S, which come from the public discussions with employees. In this way the employer goes beyond the minimum requirements set by the legal standards.

For example, the H&S Office and the H&S Committee have developed the practice of testing the personal protection equipment, working clothes and footwear by the employees, to take decisions on buying after receiving opinions from the staff that will use the tested equipment in the future. Another practice resulting from the above-mentioned cooperation involves regular meetings with producers of equipment and accessories used at work that affect safety, to improve the comfort of work. To change such practices into formal procedures, the H&S Committee has requested to include such proven solutions in the regulations issued by the employer. The efficiency of such actions and the adopted direction is proven by the fact that Grupa LOTOS Social Labour Inspector has not had to use its authorities within H&S for more than a year, since the practice of cooperation in this regard provides the early elimination of problems.

### Training and education

GRI No.	AREA
LA 10	Average number of training hours per employee by types of employment in an annual system

Kategoria zatrudnienia	2005	2006	2007.	2008	2009
Senior management	20.1	51.6	41.5	45.8	35.2
Junior management	21.5	60.6	38.3	44.7	51.9
Administration	11	24.8	35.9	33.1	38.7
Production	11.3	13.4	13.8	10.2	10.3

GRI No.	AREA
LA 11	Programmes of developing managerial skills and adult education that support the continuity of employment and facilitate retirement

All employees of Grupa LOTOS, irrespective of their age or retirement time, can participate in the programmes aimed at gaining and extending their knowledge, professional skills and general abilities, both in internal and external trainings. The development of skills is facilitated by co-financing the education as well as with training leaves.

Moreover, employees of Grupa LOTOS may declare their intention of early retirement. Those employees who decide to change their employment agreement for an indefinite term to a definite term within two years before obtaining the statutory right to retire, receive a one-off increase of basic salaries by 8.5% per month under the amended employment agreement.

The employees are entitled to a single severance pay due at retirement and its value depends on the period of service. The severance pay may vary from a one-month salary if the service period amounts up to 15 years to 500% of the basic salary after 35 years of work.

GRI No.	AREA
LA 12	Percentage of employees subject to regular performance assessment and career development reviews

	2005	2006	2007	2008	2009
Employees subject to regular performance assessment and career development reviews (in %)	85	69	86	79	(*)

(\*) The assessment for 2009 will be carried out in Q3 2010.

According to the procedure entitled 'Regular assessment of Grupa LOTOS employees', all employees of Grupa LOTOS under employment agreements (except for the Management Board) who have worked for at least 6 months in the organization unit on the day of the regular assessment, are subject to the assessment. When assessing an employee, a line manager has to have worked for at least 6 months in the position before conducting the assessment. Therefore, depending on the intensity of organizational changes and the number of new employees, the percentage of assessed persons will change every year. The results obtained fulfil the objectives.

## Diversity and equal opportunities

GRI No.	AREA
LA 13	by gender, age, minority group membership and other indicators of diversity

### The composition of managing and supervising authorities of Grupa LOTOS by sex:

Specification	31.12.2009	%
<b>- men</b>		
Management Board	4	0,31
Senior management	25	1.92
Mid-management	49	3.75
<b>Total:</b>	<b>78</b>	<b>5.98</b>
<b>- women</b>		
Management Board	0	0
Senior management	8	0.61
Mid-management	14	1.07
<b>Total:</b>	<b>22</b>	<b>1.69</b>

### The composition of managing and supervising authorities of Grupa LOTOS by age:

Specification	31.12.2009	%
<b>below 30 years old</b>		
Management Board	0	0
Senior management	0	0
Mid-management	5	0.38
<b>Total:</b>	<b>5</b>	<b>0.38</b>
<b>30 – 50 years old</b>		
Management Board	1	0.08
Senior management	21	1.61
Mid-management	40	3.07
<b>Total:</b>	<b>62</b>	<b>4.75</b>
<b>above 50 years old</b>		
Management Board	3	0.23
Senior management	11	0.84
Mid-management	19	1.46
<b>Total:</b>	<b>33</b>	<b>2.53</b>

GRI No.	AREA
LA 14	Ratio of basic salary of men and women by employment category

## Basic salaries by gender

31 December 2009

Employment categories	Women		Men		Ratio of average basic salary of women to average basic salary of men (in %)	Ratio of basic salary of men to basic salary of women (in %)
	Quantity	Average basic salary	Quantity	Average basic salary		
Management Board	0	-	4	19,919	-	-
Senior management	8	16,375	25	20,490	80	115
Lower management	40	9,819	89	11,583	85	118
Administration	355	5,093	249	7,201	71	132
Production	1	3,581	534	6,119	59	78
<b>Total</b>	<b>404</b>	<b>5,628</b>	<b>901</b>	<b>7,029</b>	<b>80</b>	<b>128</b>

## Human rights

### Practices within investments and procurement

GRI No.	AREA
HR 1	Percentage and total number of material investment contracts that include human right clauses or have been revised in this regard

Grupa LOTOS has not included human rights clauses in its contracts so far. However, due to the requirement to develop the relevant provisions in this regard, the management of Grupa LOTOS has decided to establish the Social Responsibility Committee that will be responsible for developing a coherent policy of Grupa LOTOS with regard to human rights and their control, including the relevant clauses in investment contracts concluded by Grupa LOTOS.

GRI No.	AREA
HR 2	Percentage of material suppliers and contractors that have been controlled with regard to the compliance with human rights and actions taken in this regard

Grupa LOTOS has not controlled the compliance with human rights by suppliers and contractors, either during their selection or subsequent cooperation.

GRI No.	AREA
HR 3	Total number of training hours of employees within human rights policy and procedures that are important for the business and the percentage of trained employees

Grupa LOTOS has designated 364 hours for training within human rights policy and procedures of importance for the business. In total, 11% of employees have undergone the training.

### Counteracting discrimination

GRI No.	AREA
HR 4	Total number of instances of discrimination and actions taken in this regard

Grupa LOTOS has recorded no instances of discrimination due to race, colour, gender, religion, political affiliation, nationality or social background.

### Freedom of association and collective bargaining

GRI No.	AREA
HR 5	Actions identified as the potential risk of violating the freedom of association and collective bargaining and actions taken to support the exercise of such rights

Grupa LOTOS has recorded no actions that might threaten the freedom of association or collective bargaining.

### Child labour

GRI No.	AREA

<b>HR 6</b>	Actions identified as resulting in material risk of using child labour and actions taken to eliminate such cases
-------------	--

Grupa LOTOS has recorded no actions that could be recognised as the material risk of child labour or labour of young workers exposed to hazardous working conditions.

### Forced or compulsory labour

<b>GRI No.</b>	<b>AREA</b>
<b>HR 7</b>	Actions identified as the material risk of enforced or compulsory labour and means taken to eliminate such cases

No incidents of forced or compulsory labour have occurred in Grupa LOTOS.

### Security procedures

<b>GRI No.</b>	<b>AREA</b>
<b>HR 8</b>	Percentage of security employees trained according to the policy or procedures applicable in the organization and concerning human rights, which are important for the business

According to the human rights policy and procedures that are material for the business. 91% of security employees have attended training. As regards contracted companies providing security services for Grupa LOTOS such training was attended by 88% employees.

### Product liability

<b>GRI No.</b>	<b>AREA</b>
<b>PR 1</b>	The stages of the product life cycle on which the impact of products and services is assessed on the health and safety, to improve the indexes and the percentage of material categories of products and services subject to such procedures

The procedures applied in Grupa LOTOS require determining the possible impact on health and safety. All products manufactured when processing oil are subject to classification, which includes the assessment of their impact on the health and safety of use. Such actions are determined in the [REACH](#) regulation (Registration Evaluation Authorisation of Chemicals), which concerns chemical substances. The [REACH](#) regulation is the EU initiative used to systematize and order the rules of launching chemical substances [EC 1907/2006 Regulation of the European Parliament and Council of 18 December 2006].

The data presenting the fulfilment of the obligation to assess the impact of products on health and safety during all stages of the cycle of use by individual trading companies of the LOTOS Group are available [on the website of Grupa LOTOS](#).

<b>GRI No.</b>	<b>AREA</b>
<b>PR 2</b>	Total number of instances of non-compliance with regulations and the voluntary code of practice with regard to the impact of products and services on health and safety

During the reporting period, no instances of non-compliance with the regulations that concern the impact of products on health and safety have been recorded in the LOTOS Group.

### Marking of products and services

<b>GRI No.</b>	<b>AREA</b>
<b>PR 3</b>	Type of information on products and services required under the procedures and the percentage of material products and services subject to such requirements

For all products manufactured at Grupa LOTOS, Data Sheets are drawn up based on the applicable legal requirements (REACH Regulation). Such documents include information on the impact of the product on health and environment, the hazardous ingredients, exposure control, procedures in case of fire and emission to the environment as well as disposal of waste.

Product Data Sheets are available in Polish [on the website of Grupa LOTOS](#).

The data including the type of information on products and services required under the procedures and provided by individual trading companies of the LOTOS Group are available on the website of Grupa LOTOS.

Scope of available information concerning products and services required by external procedures	Yes
Origin of ingredients of a product or service	x
Composition, in particular including the substances that may affect the environment or the society	x
Safety of using the product or service	x
Disposal of products and impact on the environment / society	x
Other: procedures for storage and transport physical and chemical properties, stability and reactivity waste management	x

Commercial companies of the LOTOS Group fulfill the obligation to provide information on products according to guidelines resulting from the rules of law and the binding internal procedures.

- General rules of packaging marking have been determined in the Act on packed goods. According to the Act, packaging should include the name of the product, its nominal quantities and the marking of the operator.
- The Act on general safety of products requires a producer to provide a consumer with information that enables to assess hazards related to a product during the ordinary and predictable period of its use, if such hazards are not visible without the relevant warning, as well as to counteract such hazards. According to applicable rules of law, the marking of every manufactured product with the PKWiU code enables sellers to tax the product correctly.
- The Act on the liberty of economic activity requires the entity that launches a product to place on the product, i.e. its packaging, label or instructions, the name and address of the distributor, the name of the goods and other marking and information required under other regulations.
- The Act on chemical substances and preparations imposes the obligation to mark hazardous substances and preparations. The regulations require to label all hazardous preparations and some preparations that are not classified as hazardous, but contain at least one hazardous substance.

The data on the products and services required under the procedures and provided by the commercial companies of the LOTOS Group are available [on the website of Grupa LOTOS](#).

GRI No.	AREA
PR 4	Total number of instances of non-compliance with regulations and the voluntary codes of practice with regard to information on products and services and their labelling

During the reporting period, no instances of non-compliance with the regulations, rules and codes within production information have been recorded in the LOTOS Group.

GRI No.	AREA
PR 5	Practices concerning customer satisfaction including the results of questionnaires to test such satisfaction

The largest commercial companies of the LOTOS Group conduct regular polls and questionnaires of customer satisfaction. The methodology and the scope of such tests and their results are presented [on the website of Grupa LOTOS](#).

## Marketing communication

GRI No.	AREA
PR 6	Compliance programmes, standards and voluntary codes of conduct concerning marketing communication, including advertisement, promotion and sponsoring

In the process of managing all issues related to the corporate brand strategy, product brands, promotion strategy and building the brand value and the LOTOS brand image, the following rules are strictly followed in the distribution of promotional materials and marketing work:

- compliance with applicable regulations,
- causing no intentional damage,
- bearing the responsibilities for the consequences of actions, and
- the appropriate use of education, professional skills and experience of employees.

All actions are taken in compliance with human dignity, equality of sexes and without using any controversial content that may offend any social groups or provoke negative emotions. These rules are the supplement to the applicable and strictly followed rules of law, in particular the Constitution of Republic of Poland, the Civil Code and the Act on counteracting unfair competition, the Act on press law, the Act on radio and television, the Act on protecting certain consumer rights, the Act on rendering electronic services, the Act on protecting personal data, the Act on copyrights and related rights, the Act on industrial ownership and the Code of Advertisement Ethics.

By respecting the right to the protection of privacy in its marketing, Grupa LOTOS follows all the regulations that result from constitutional standards and the regulations stemming from the Act on the protection of personal data.

The internal procedures are governed by the Regulations of the Committee for Marketing and Communication, whose purpose is to provide the suitable marketing in the whole

Entities that cooperate with the LOTOS Group within the marketing cooperation are obliged to follow the International Code of Marketing Practises, as adopted by the International Chamber of Commerce (ICC).

In its [sponsoring](#) activities, Grupa LOTOS follows the rules given in the voluntary codes of practices developed e.g. by business organizations of the promotion, advertising and [sponsoring](#) sector as well as the organizations that promote good practices in business.

Concluded [sponsoring](#) agreements have to clearly and transparently define their type and have to accurately determine all the parties involved and the obligations of the sponsored party. Grupa LOTOS does not get involved in any events that might damage any historical or artistic objects or in any events that might have any negative impact on the natural environment.

Grupa LOTOS, being a member of Global Compact and following the rules of this organization related to the responsibility for the natural environment, within the marketing communication and [sponsoring](#) complies with Principle 7, i.e. supporting the precautionary approach to environmental challenges, and Principle 8, i.e. undertaking initiatives to promote greater environmental responsibility.

GRI No.	AREA
PR 7	Total number of instances of non-compliance with regulations and the voluntary codes of practice that govern the issues of marketing communication, including advertisement, promotion and <a href="#">sponsoring</a> according to the types of effects

During the reporting period, no instances of non-compliance with the regulations and codes that concern marketing communication have been recorded.

### Privacy of customers

GRI No.	AREA
PR 8	Total number of justified complains related to the breach of privacy of customers and the loss of data

No complaints due to the violation of the privacy of customers or the loss of data have been recorded in the commercial companies of the LOTOS Group.

### Compliance with applicable laws and regulations

GRI No.	AREA
PR 9	Value of financial penalties due to instances of non-compliance with law and regulations concerning deliveries and use of products and services

During the reporting period, no incidents related to the deliveries or use of products or provision of services have been recorded. Therefore, no administrative or court sanctions have been imposed on any entities of the LOTOS Group due to the non-compliance with law or the regulations concerning deliveries and use of products and provision of services.

## Society

### Corruption

GRI No.	AREA
SO 2	Percentage and total number of business entities exposed to the risk of corruption

Internal regulations, procedures and instructions introduced in Grupa LOTOS contain a built-in system of control mechanism that are aimed at minimising the risk of abuse or corruption. The second element of counteracting corruption are the generally available internal regulations that determine the desirable ethical and moral attitudes:

- Codes of Conduct for employees,
- Code of Managers,
- Corporate Decalogue, and
- [code of ethics](#) for internal auditors.

To verify the efficiency of the internal control system, Grupa LOTOS prepares the annual and long-term audit plan based on the internal analysis of risks and encompassing also the possibility of corruption practices. If any events or areas exposed to the corruption practices are identified, Grupa LOTOS has a defined path of launching ad hoc audits aimed at reacting quickly to such risks/practices.

GRI No.	AREA
---------	------

SO 3	Percentage of employees trained within the area of anticorruption policies and procedures of the organization
------	---

Position	Employees trained (w %)
Managerial	24.1
Other	6.7

GRI No.	AREA
SO 4	Actions taken in response to the instances of corruption

During the reporting period, any corruption practices were identified that could potentially result in legal charges.

## State policy

GRI No.	AREA
SO 6	Total value of funds and contributions donated to political parties, politicians and similar institutions

The ethical principles adopted by Grupa LOTOS prevent any political involvement of Grupa LOTOS, which cannot support any political groups.

## Anti-competitive behaviour

GRI No.	AREA
SO 7	Total number of legal actions, anti-competition or anti-trust behaviour and monopolist practices taken against the organization and their final result

**1. Pursuant to the decision of the President of the Office of Competition and Consumer Protection of 21 March 2005, the anti-monopoly proceedings were initiated due to the suspected non-market agreement concluded between Polski Koncern Naftowy ORLEN S.A. in Plock and Grupa LOTOS in Gdańsk concerning the simultaneous discontinuation of the production and distribution of the universal U95 gasoline.** According to the Management Board of Grupa LOTOS, due to the continuation of the production and sale of the U95 universal gasoline, the accusations of the Office are groundless and in April 2005 the Management Board requested issuing a statement proving that Grupa LOTOS has not undertaken any actions aimed at uncompetitive practices.

In July 2005 Grupa LOTOS submitted to the Anti-Monopoly Court the complaint against the decision of the Office concerning the limited access to some of the evidence collected in this case. Irrespective of this complaint, Grupa LOTOS filed another motion in September 2005 requesting issuance of a statement proving that Grupa LOTOS has not undertaken any actions aimed at uncompetitive practices. In October 2005 another decision of the Office was received that limited access to some of the collected evidence and Grupa LOTOS appealed against it to the Anti-Monopoly Court. The District Court – the Court of Competition and Consumer Protection rejected the complaint. Grupa LOTOS complained against this decision to the Appeal Court in Warsaw, which was rejected.

Pursuant to the decision of 18 April 2007 which followed the motion of PKN ORLEN, the right of Grupa LOTOS to access the evidence material in the anti-monopoly proceedings was limited. It concerned the materials collected during the control of PKN OLREN in the part of schedules to the reports on controls of offices in Plock. Moreover, the access to the report on the control of offices in Warsaw with schedules was limited. In the same decision the motion of PKN ORLEN was rejected, which applied for limiting access to the evidence material within the control of offices in Plock. On 26 April 2007 Grupa LOTOS complained against the decision that limited the right of Grupa LOTOS to access the evidence material. On 9 May 2007, Grupa LOTOS received the summons from the Office to provide information concerning changes of prices of U95 and Pb95 gasoline. The same day, Grupa LOTOS sent the required information to the Office. On 2 August 2007 Grupa LOTOS sent information to the Office on completing the production of U95 gasoline. On 31 December 2007 the President of the Office imposed a 1,000 thousand PLN fined on Grupa LOTOS. Therefore, on 17 January 2008 this decision was appealed against at the District Court in Warsaw.

On 23 September 2008 the District Court in Warsaw, the Court of Competition and Consumer Protection, sent the response of the President of Office to the appeal of Grupa LOTOS against the decision. In response to the appeal of Grupa LOTOS the President ascertained that the complaint of Grupa LOTOS was unjustified, both with regard to material and formal regulations, and he motioned for the rejection of the appeal in whole and charging the defendant with costs of court proceedings. The hearing is to take place on 27 April 2010. As of day of approving the Financial Statements, the case was pending.

According to the Management Board, the risk related to the loss of the dispute is low, therefore no reserve for any damages have been created in the financial statements.

## **2. Action brought by PETROECCO JV Sp. z o.o. for damages due to the use of monopolistic practices.**

With the action of 18 May 2001 PETROECCO JV Sp. z o.o. made the claim against Grupa LOTOS for damages amounting to PLN 6,975 thousand with statutory interest since 1 May 1999 for losses incurred because of the monopolistic practices that involved the sale of BS base oils in the manner that gives preferences to certain customers, by fulfilling their orders on a much larger scale than the orders filed by PETROECCO JV. The use of monopolistic practices was ascertained with the decision of the Anti-monopoly Office of 26 September 1996, wherein the Office ordered Grupa LOTOS to discontinue such practices.

Grupa LOTOS appealed against the decision. The Voivodeship Court in Warsaw, the Anti-monopoly Court, issued the sentence of 22 October 1997 that changed only the justification to the decision and also ordered Grupa LOTOS to discontinue such monopolistic practices. The final appeal against this sentence was also rejected by the Supreme

Court with the sentence of 2 June 1999. The District Court in Gdańsk, with the sentence of 21 December 2002, rejected the claim for damages, accepting the claim of limitation submitted by Grupa LOTOS. However, this sentence was quashed by the Appeal Court in Gdansk in the case I ACa 824/03 and referred back to the District Court in Gdańsk. The Appeal Court decided that the limitation argument was incorrect. According to this Court, it was only on 2 June 1999 (the date of the ruling by the Supreme Court) that PETROECCO JV learnt that its losses were the result of monopolistic practices, which were related to the tort liability of Grupa LOTOS, and since that date, according to the Court, the three-year limitation period for claims for damages ran. The case was held at the District Court in Gdańsk (1st instance court), ref. No. IX GC 134/04. Grupa LOTOS also used the content-related arguments (questioning any losses incurred by PETROECCO JV, their value and the cause and effect relation between the monopolistic practice and the loss). After the hearing in June 2005, the District Court ordered an opinion from an expert in accounting and economics with regard to losses incurred by the claimant due to the actions of Grupa LOTOS. In the opinion the expert argued that it was not possible to calculate the value of losses or their incurrence with the materials submitted by PETROECCO JV. The expert also recommended that another opinion should be contracted from another expert in accounting. The shortage of evidence for issuing such an opinion enabled the claimant to make the court select another expert. The hearing was held on 27 March 2007. The sentence was to be issued on 10 April 2007, however it was delayed until 20 April 2007. The suit was dismissed with the sentence of 20 April 2007. On 17 May 2007 Grupa LOTOS made a complaint against the decision on the costs of proceedings. On 4 June 2007 PETROECCO JV appealed against the sentence of 20 April 2007. On 12 August 2007 Grupa LOTOS responded to the appeal. On 20 December 2007 the Court dismissed the appeal of PETROECCO JV against the sentence of the District Court. On 19 March 2008 the application for execution was submitted to the court collector against PETROECCO JV. On 17 April 2008 PETROECCO JV made the final appeal against the sentence of 20 December 2007. The appeal was delivered to Grupa LOTOS on 17 June 2008. The response was sent on 30 June 2008. The case was submitted to court on 14 November 2008. On 14 January 2009 the Supreme Court decided to reverse quash the sentence and directed the case to the Appeal Court in Gdańsk again. The files of the case were submitted to the Appeal Court on 10 March 2009 and on 3 April 2009 the court collector delivered the decision on discontinuing the execution proceedings. On 14 May 2009 the Appeal Court transferred the court back to the District Court. At the hearing on 3 November 2009 the Court obliged PETROECCO JV to appoint an expert. Another date of the hearing is to be set. As of the day of approving the financial statements, the case was pending.

According to the Management Board, the risk related to the loss of the dispute is low, therefore no reserve for any damages have been created in the financial statements.

### Compliance with applicable laws and regulations

GRI No.	AREA
SO 8	Value of material financial penalties and the total number of non-financial sanctions due to non-compliance with applicable law and regulations

During the reporting period companies of the LOTOS Group did not pay any material fines and were not charged with any non-financial sanctions due to the non-compliance with applicable law and regulations.

## Environmental aspects of operation

### Materials

GRI No.	AREA
EN 1	Used raw materials/materials by weight and volume

#### Oil processing [tonnes]

Specification	2005	2006	2007	2008	2009
Total oil	4,836,900	6,098,600	6,156,431	6,203,414	5,461,540
Raw materials and components			1,088,605	1,146,989	1,699,034
Improvers			2,052	1,825	2,229

GRI No.	AREA
EN 2	Percentage of materials stemming from recycling used in the production process

Due to the nature of Grupa LOTOS operations, it may use recycled products only to a limited extent. Each of the LOTOS Group companies involved in production activity is subject to the statutory obligation of disposing of the used material for recycling via external Recycling Organizations. However, the potential of reuse of the recycled products is also very limited in this case.

### Energy

GRI No.	AREA
EN 3	Direct energy consumption by original energy sources

Specification	u.o.m.	Direct, purchased sources of energy	Direct, produced sources of energy	Direct, sold sources of energy	Direct, total consumption of energy
Natural gas	GJ	801,742			801,742
Fuel gas	GJ		6,092,455		6,092,455
Fuel oil HSFO	GJ		2,553,180		2,553,180
Fuel oil LSFO	GJ	3,694,288			3,694,288
Electricity	GJ			6,912	-6,912
Thermal energy	GJ			25,442	-25,442
Total	GJ	4,496,030	8,645,635	32,354	13,109,311

GRI No.	AREA
EN 4	Indirect energy consumption by original sources of energy

Specification	Unit of measure	Average-advanced purchased energy
Electricity	GJ	963,277

GRI No.	AREA
EN 5	Volume of energy saved through maintenance/overhauls of infrastructure and the improved energy efficiency of tools used before

In 2009, an IT system of energy consumption visualization and optimization – Visual Mesa by Soteica – was launched at the refinery in Gdańsk. The programme provides non-stop monitoring of the power infrastructure of the refinery – the systems of gas and fuel oil as well as process steam – and suggest changes to the power system based on optimization algorithms, which result in the reduced costs of operations. It is difficult to estimate the impact of the programme for optimising the energy system of the refinery on the savings in energy consumption, because 2009 was the year of continuous changes in the power system – new production systems were started together with new elements of the power media and auxiliary system. It is not possible to estimate the energy consumption had the system not been introduced. According to estimates before the launch, the optimization reduces energy consumption by 2-3%, which for 2009 would mean the reduction of energy consumption by almost 300,000 GJ, i.e. burning about 6,800 tonnes of fuel oil less.

GRI No.	AREA
EN 6	Initiatives undertaken to provide products and services that are energy efficient and based on renewable energy and reductions of power requirements due to such measures

Fuel products produced by Grupa LOTOS are composed according to the requirements of the [National Index Target](#) concerning the share of renewable raw materials in road fuels. Both gasoline and diesel oil contain biocomponents produced with renewable sources. A scientific discussion continues about the impact of biocomponent application on the reduction of emission, therefore Grupa LOTOS will introduce the Life Cycle Assessment (LCA) analysis, which tests energy consumption during the whole production chain.

## Water

GRI No.	AREA
EN 8	Total water consumption by sources

[m <sup>3</sup> ]	2005	2006	2007	2008	2009
underground	136,065	168,110	144,907	179,735	209,147
surface	2,252,811	2,559,165	2,598,158	2,520,603	3,557,093
Total	2,388,876	2,727,275	2,743,065	2,700,338	3,766,240

NR GRI	AREA
EN 9	Water sources depleted due to excessive consumption

Grupa LOTOS does not affect significantly any sources of surface water, i.e. it does not exceed the value of so-called unalterable flow in the Motława River (0.56 m<sup>3</sup>/s). The average water consumption is below 5% of the average flow in the river.

GRI No.	AREA
EN 10	Percentage and total volume of treated and recycled water

[m <sup>3</sup> ]	2005	2006	2007	2008	2009
Production of process water from treated sewage	989,710	801,575	891,708	845,397	870,230

## Biodiversity

GRI No.	AREA

<b>EN 11</b>	The location and area of owned, leased or rented land located in protected land or land of high value in terms of biodiversity outside the protected areas or adjacent to such areas
--------------	--

Detailed information on the locations and areas of owned, leased or rented by Grupa LOTOS and commercial companies of the LOTOS Group land located in protected areas or land of high value in terms of biodiversity outside the protected areas or adjacent to such areas is available [on the website of Grupa LOTOS](#).

<b>GRI No.</b>	<b>AREA</b>
<b>EN 12</b>	Description of material impact of operation, products and services on biodiversity of protected areas and areas of high biodiversity outside protected areas

The proper use of Grupa LOTOS products does not cause any material impact on the environment.

<b>GRI No.</b>	<b>AREA</b>
<b>EN 14</b>	Strategy, actions and management plan for the impact on biodiversity

No negative impact of the production activity by Grupa LOTOS has been found on the biodiversity level in the land, fresh water and sea environment. Actions taken by the commercial companies of the LOTOS Group have been presented [on the website of Grupa LOTOS](#).

<b>GRI No.</b>	<b>AREA</b>
<b>EN 15</b>	Number of species listed in the Red Book of the International Union for Conservation of Nature and the domestic lists of endangered species identified on the area affected by the organization according to the level of extinction hazard

The operation of Grupa LOTOS does not cause any hazard to species listed in the Red Book of IUCN.

## Emission, sewage and waste

<b>GRI No.</b>	<b>AREA</b>
<b>EN 16</b>	Total direct and indirect emission of greenhouse gases by weight

Emission [thousand tonnes / year]

	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
CO <sub>2</sub>	979	1,154	1,153	1,135	1,121

<b>GRI No.</b>	<b>AREA</b>
<b>EN 18</b>	Initiatives taken to reduce the emission of greenhouse gases and the effects

Grupa LOTOS has taken several initiatives to achieve this aim, namely:

- computer system of energy consumption visualization and optimization,
- recovering and reusing flared gases – the initial stage is being implemented (concept, profitability, etc.),
- analysis of the potential application of CO<sub>2</sub> sequestration techniques combined with the operation of LOTOS Petrobaltic, and
- introducing natural gas to the power supply system of Grupa LOTOS.

<b>GRI No.</b>	<b>AREA</b>
<b>EN 19</b>	Emission of substances that deplete the ozone layer by weight

Grupa LOTOS does not use or emit any substances that deplete the ozone layer.

<b>GRI No.</b>	<b>AREA</b>

EN 20	Emission of NO <sub>x</sub> and SO <sub>x</sub> compounds and other material compounds emitted to air by type and weight
-------	--

**Emission [tonnes/year]**

	2005	2006	2007	2008	2009
<b>SO<sub>2</sub></b>	6,216	4,859	4,808	5,022	4,170
Maximum acceptable value of SO <sub>2</sub>	8,256	8,256	6,056	6,056	6,470
<b>NO<sub>2</sub></b>	1,442	1,601	1,583	1,317	1,132
Maximum acceptable value of NO <sub>2</sub>	2,262	2,262	2,262	2,095	2,405
<b>Dust</b>	339	364	282	306	220
<b>/Dust from the power plant</b>	97	94	82	86	84
Maximum value of dust / maximum value for the power plant	448	-	-	-	521
	163	163	163	163	209

GRI No.	AREA
EN 21	Total volume of discharged sewage by quality and target destination

**Volume of discharged sewage [m<sup>3</sup>]**

Receiver	2005	2006	2007	2008	2009
Rozwójka	3,837,217	3,960,830	3,873,534	3,294,540	4,083,604
Martwa Wisła			379,080	724,249	1,094,220
<b>Total</b>	<b>3,837,217</b>	<b>3,960,830</b>	<b>4,252,614</b>	<b>4,018,789</b>	<b>5,177,824</b>

Parameters of treated sewage discharged to the receivers from Grupa LOTOS by years were as follows:

**Rozwójka**

	2005	2006	2007	2008	2009
pH	7.9	7.9	7.8	--	--
maximum acceptable values	6.5 – 9.0	6.5 – 9.0	6.5 – 9.0	--	--
BZT [mg O <sub>2</sub> /dm <sup>3</sup> ]	11.6	7.4	7.5	--	--
maximum acceptable value	15	20	20	--	--
ChZT [mg O <sub>2</sub> /dm <sup>3</sup> ]	46.3	43.4	50.9	--	--
maximum acceptable value	70	100	100	--	--
General suspensions [mg /dm <sup>3</sup> ]	12.1	7.2	7.3	9	9.6
maximum acceptable value	30	35	35	35	35
Volatile phenols [mg /dm <sup>3</sup> ]	0.011	0.009	0.011	--	--
maximum acceptable value	0.3	0.08	0.08	--	--
Substances extracted with oil ester [mg /dm <sup>3</sup> ]	1.1	1.1	2.2	--	--
maximum acceptable value	40	40	40	--	--
Oil hydrocarbons [mg /dm <sup>3</sup> ]	--	1.7	1.25	1.54	1.64
maximum acceptable value	--	5	5	5	5
General nitrogen [mg N/dm <sup>3</sup> ]	6.8	5.7	4.9	--	--
maximum acceptable value	25	25	25	--	--
General phosphorus [mg P/dm <sup>3</sup> ]	0.65	0.5	0.4	--	--
maximum acceptable value	2.5	2.5	2.5	--	--
Sulphides [mg S/dm <sup>3</sup> ]	0.027	0.008	0.01	--	--
maximum acceptable value	0.2	0.16	0.16	--	--
Nickel [mg Ni/dm <sup>3</sup> ]	--	0.0158	0.0127	--	--

maximum acceptable value	--	0.4	0.4	--	--
Vanadium [mg V/dm <sup>3</sup> ]	--	0.066	0.0243	--	--
maximum acceptable value	--	1.6	1.6		
Aluminium [mg Al/dm <sup>3</sup> ]	--	0.0712	0.0867		
maximum acceptable value	--	2.4	2.4		

#### Martwa Wisła

	2005	2006	2007	2008	2009
pH	--	--	7.5	7.9	7.5
maximum acceptable value	--	--	6.5 – 9.0	6.5 – 9.0	6.5 – 9.0
BZT [mg O <sub>2</sub> /dm <sup>3</sup> ]	--	--	2.6	3.9	5.5
maximum acceptable value	--	--	20	20	25
ChZT [mg O <sub>2</sub> /dm <sup>3</sup> ]	--	--	56.4	54.8	51.5
maximum acceptable value	--	--	100	100	125
General suspensions [mg /dm <sup>3</sup> ]	--	--	5.6	8.6	12.5
maximum acceptable value	--	--	35	35	35
Volatile phenols [mg /dm <sup>3</sup> ]	--	--	0.002	0.003	0.005
maximum acceptable value	--	--	0.08	0.08	0.1
Substances extracted with oil ester [mg /dm <sup>3</sup> ]	--	--	2.7	1.2	1.21
maximum acceptable value	--	--	40	40	50
Oil hydrocarbons [mg /dm <sup>3</sup> ]	--	--	1.1	0.51	0.73
maximum acceptable value	--	--	5	5	5
General nitrogen [mg N/dm <sup>3</sup> ]	--	--	3.1	4	4.3
maximum acceptable value	--	--	25	25	30
General phosphorus [mg P/dm <sup>3</sup> ]	--	--	0.4	0.4	0.9
maximum acceptable value	--	--	2.5	2,5	3
Sulphides [mg S/dm <sup>3</sup> ]	--	--	0.004	0.01	0.01
maximum acceptable value	--	--	0.16	0.16	2
Nickel [mg Ni/dm <sup>3</sup> ]	--	--	0.0124	0.0089	0.0548
maximum acceptable value	--	--	0.4	0.4	0.5
Vanadium [mg V/dm <sup>3</sup> ]	--	--	0.0296	0.0254	0.0679
maximum acceptable value	--	--	1.6	1.6	2
Aluminium [mg Al/dm <sup>3</sup> ]	--	--	0.032	0.0383	0.0420
maximum acceptable value	--	--	2.4	2.4	3.0

In 2005–2007 (first half year) the precipitation and drainage waters as well as production sewage, oiled water and sanitary sewage, after treatment, were discharged with one outlet to the receiver, i.e. the Rozwójka River. In the second half of 2007, the discharged streams were separated. The precipitation and drainage water is discharged to the Rozwójka River, while the production sewage, sanitary sewage and oiled water, after treatment, is discharged to the Martwa Wisła.

GRI No.	AREA
EN 22	Total: waste to be managed during the year

Year	2005	2006	2007	2008	2009
Waste produced in year	8,280	8,294	9,100	8,06	10,305
including:					
Hazardous waste	4,327	3,919	4,151	4,126	4,242
Waste other than hazardous	3,953	4,375	4,949	4,680	6,063
Waste stored as of the end of the previous year	4,672	3,882	3,446	3,680	3,367
Total: waste to be managed during the year	12,952	12,176	12,546	12,486	13,672

Maximum acceptable value (data from the integrated permit)	57,991	57,991	57,991	57,991	89,627
Recycled waste (recycling)	8,012	8,69	8,765	8,964	10,215
Neutralized waste, including:			101	155	1,243
Incineration	1,058	361	36	99	966
Disposal to a storage facility			65	56	277
Waste stored at the site as of the end of the year	3,882	3,446	3,680	3,367	2,214
including:					
hazardous	1,249	1,119	970	988	953
other	2,633	2,327	2,710	2,379	1,261

GRI No.	AREA
EN 23	Total number and volume of material leakage

In 2009, out of 16 failures that occurred, there was one of significance for the environment, namely the leakage of product/diesel oil due to the criminal drill on the pipeline transporting the product to the port. It is not possible to determine the volume of diesel oil that leaked. The scale of the event and the method of repairs were determined.

GRI No.	AREA
EN 24	Weight of transported, imported, exported and processed waste classified as hazardous (according to Annexes I, II, III and VIII of the Basel Convention) and the percentage of waste in transboundary movement

In 2009, Grupa LOTOS exported 286,768 tonnes of hazardous recycled waste. Moreover, 4,277 tonnes of hazardous waste were disposed of domestically, including 3,330 tonnes to be recycled and 947 tonnes to be neutralized.

GRI No.	AREA
EN 25	Type, size, protective status and importance for biodiversity of water regions and habitats that are affected significantly by water discharged by the organization and leakage

The receivers of water and sewage from Grupa LOTOS do not hold the status of protected water regions. There is no hazard for the biodiversity in these receivers.

## Products and services

GRI No.	AREA
EN 26	Initiatives aimed at minimising the impact of products and services on the environment and the effect of such initiatives

Initiatives aimed at limiting the negative impact of products and services on the environment, due to the nature of the business, are taken by individual companies of the LOTOS Group, in particular by: LOTOS Asphalt, LOTOS Oil, LOTOS Paliwa, LOTOS Parafiny and LOTOS Kolej. Projects implemented by the entities of the LOTOS Group have been presented [on the website of Grupa LOTOS](#).

GRI No.	AREA
EN 27	Percentage of recovered materials from the sold products and their packaging by categories of materials

According to the Act of 11 May 2001 on the obligations of entrepreneurs within management of certain waste and the product charges and the deposit charges, the management relative to recovery and recycling of packaging waste and used products as well as the recovery and regeneration of lubricating oils as falling under obligations of selected companies within achieving the aforementioned required levels, have been transferred to specialist recycling organizations. The detailed data for 2009 concerning the fulfillment of the waste management by the commercial companies of the LOTOS Group have been presented [on the website of Grupa LOTOS](#).

## Compliance

GRI No.	AREA

<b>EN 28</b>	Value of material fines and the total value of non-financial sanctions for non-compliance with laws and regulations concerning environmental protection
--------------	---

No cases of violations of and/or non-compliance with environmental laws and regulations by Grupa LOTOS occurred in the period given analysed.

## Transport

<b>GRI No.</b>	<b>AREA</b>
<b>EN 29</b>	Material impact on the environment due to transport of products, other goods and materials used in the operation of the organization and the transport of employees

Commercial companies of the LOTOS Group contract the transport of their products from specialist companies. The description of the procedures and requirements applied when ordering such services by individual companies has been detailed [on the website of Grupa LOTOS](#).

## Outlays on environmental protection

<b>GRI No.</b>	<b>AREA</b>
<b>EN 30</b>	Total expenses on environmental protection and investments by type

### Costs incurred by exploiting the right to use the environment for economic purposes incurred by Grupa LOTOS

Emissions [thousand PLN]					
	2005	2006	2007	2008	2009
Emission to air	3,594	3,518	3,521	3,181	3,046
Water intake	87	109	100	113	211
Sewage discharge	295	266	280	213	254
<b>Total</b>	<b>3,940</b>	<b>3,893</b>	<b>3,902</b>	<b>3,508</b>	<b>3,511</b>

### Investment outlays on environmental protection incurred by Grupa LOTOS:

Outlays [thousand PLN]					
	2005	2006	2007	2008	2009
Total investments	246,123	284,104	858,462	1,910,687	2,271,034
Environmental investments	7,265	34,387	99,880	224,723	138,818

# Additional info

## Agenda 2009

2009

### January

#### Events



A fractionating column for the mild hydrocracking system constructed within the 10+ Programme reaches Gdańsk. The column is 46 m high and weighs 172 tonnes.

#### Awards

Grupa LOTOS receives the 'Oil Deal of the Year' title for the credit agreement for financing the 10+ Programme. The title was granted by the specialist magazine Project Finance International (Thomson Reuters Group).

CGG Veritas completes seismic tests on the area of four licences of Petrobaltic located in the Baltic Sea. CGG Veritas, a world leader in seismic tests, carried out 2D and 3D studies.

LOTOS Paliwa and the McDonald's chain decide to jointly develop 6 rest areas along the A2 and A4 motorways.

### February

#### Events

The Anti-Crisis Package is launched in the LOTOS Group due to the global crisis. It provided savings of PLN 722.5 m in 2009 alone, compared to the plan of PLN 390 m.



Four columns of the crude/vacuum distillation unit (CUD/VDU) are placed. The work was completed within the 10+ Programme.

#### Awards

Grupa LOTOS receives the 'European Petrochemicals Deal of the Year 2008' title for the organization of financing the 10+ Programme from the Project Finance Magazine owned by the Euromoney agency.

The approval of the multi-functional LOTOS Oil is issued by the Command of Tank and Truck Services and Support of Polish Armed Forces. The oil may be applied in the basic tank of the Polish army – PT-91 'Twardy'.



Grupa LOTOS becomes a participant of the UN Global Compact organization, established upon the initiative of the UN Secretary General. The main aim of the organization is to promote the rules related to compliance with worker rights, support for environmental protection and counteracting corruption.

### March

#### Events

The planned production overhaul of the Gdańsk refinery commences.

#### Awards



LOTOS Kolej receives the 'Forbes Diamond 2009' award in the category of companies with sales above PLN 200 mln per year. 'Forbes Diamonds' are awarded on the basis of a Swiss method of appraising goodwill, which provides a measurement of the business potential taking account of the value of investments and the capacity to increase sales and profits. The 'Forbes Diamonds' list is the result of cooperation between the Forbes monthly and Dun & Bradstreet.

LOTOS Oil becomes a member of Association Technique de L'Industrie Européenne des Lubrifiants, the association of the leading producers and sellers of engine oils in Europe.



Grupa LOTOS becomes a strategic partner of the Responsible Business Forum, the first and only NGO in Poland committed to the popularization of CSR ideas in Poland.

### April

Events	Awards
<p>After 33 days of down-time, the revisions and modernizations of the Gdańsk refinery are completed successfully. The record pace of the overhaul has provided an increase in the refining margin of the plant.</p>	<p>7<sup>th</sup> place for Grupa LOTOS in the ranking of Rzeczpospolita daily presenting the five hundred largest companies operating in Poland.</p>
 <p>Petrobaltic purchases a remote control vehicle, SeaEye Falcon, to carry out advanced tests on the Baltic Sea bed, important in the process of developing submarine fields of oil and gas.</p>	<p>6<sup>th</sup> place for Grupa LOTOS in the ranking of Polityka weekly presenting the five hundred largest companies in Poland.</p>

LOTOS Gdynia Team wins the Polish Cup in women's basketball, the 10<sup>th</sup> championship title in the history of the club from Gdynia.

**CSR24/7**  Grupa LOTOS wins in the 'CSR 24/7' national ranking that assesses the social responsibility of companies. The ranking summed up the tests of responsible business campaigns among the 39 largest firms from 13 sectors. Grupa LOTOS was recognised as the leader in relations with stakeholders and in responsibility for the environment. The good result of Grupa LOTOS was affected by the Social Responsibility Report published in 2008, which was one of the few reports in Poland that fulfilled the international reporting standards of the Global Reporting Initiative. The ranking is organised by the consulting firm Braun & Partners in cooperation with the Polish Confederation of Private Employers 'Lewiatan'.

## May

Events	Awards
<p>Grupa LOTOS, ENERGA and PGNiG establish a consortium to develop a feasibility study for the construction and operation of a modern heat and power plant supplied with gas of the electrical power of 200 MW. The facility is to be built at the Gdańsk refinery. The estimated cost of the project is about PLN 800 million and its launch is planned in 2013.</p>	 <p>LOTOS Paliwa and its Dynamic brand receive the 'Europrodukt' title in the 14<sup>th</sup> edition of the Polish 'Europrodukt' competition. The programme awards firms and companies that may compete with European producers in terms of quality, production technology and professional customer service.</p>

The first Rest Areas managed by LOTOS Paliwa are launched, located in Kolbaskowo on the A6 motorway.

Grupa LOTOS receives a new power supply system. The new system gives the capacity to connect additional 40 MW power for the new refining systems constructed within the 10+ Programme.

## June

Events	Awards
<p>Grupa LOTOS launches a modern fuel base in the Gdańsk airport. The project involves the construction of a new system and tanks for storing top quality aviation fuel to be delivered to the airport directly from the Gdańsk refinery. The investment is completed in six months.</p>	 <p>LOTOS Dynamic fuels rank 1<sup>st</sup> in the fifth edition of the 'Consumer Laurel 2009' programme in the 'Premium Fuels' category. The winning products are selected in a national consumer poll.</p>
<p>The new fan cooler system constructed in the Gdańsk refinery is started. It provides cooling of the new systems of the 10+ Programme that is more economical and safer for the environment.</p>	 <p>Grupa LOTOS receives the 'Business Superbrand Polska' title in the second edition of the prestigious Business Superbrands project aimed at selecting the strongest and best recognised business-to-business brands available on the Polish market. This is already the second award for Grupa LOTOS. The title is granted by the international organization Superbrands, which assessed more than 1 thousand Polish consumer brands.</p>

LOTOS Kolej and Bombardier Transportation conclude an agreement on the delivery of 6 diesel locomotives Bombardier TRAXX F140 DE of the estimated value of EUR 18.6 million. The agreement provides for the option to buy 4 more locomotives (optional engines). The planned delivery date of the locomotives – 2<sup>nd</sup> half of 2011.

 Grupa LOTOS becomes the winner of the 10<sup>th</sup> edition of the HR Management Leader competition organised by the Institute of Labour and Social Issues. The distinction is granted for comprehensive solutions within training and employee development. Grupa LOTOS was among the winners for the third time.

The 5<sup>th</sup> LOTOS Baltic Cup Rally is held. Leading Polish rally drivers competed on Kashubian roads for points in the Polish Cup.

**CSR24/7**  Grupa LOTOS is ranked 5<sup>th</sup> in the CSR24/7 Rating in Central and Eastern Europe, the highest position among Polish firms. CSR 24/7 is a rating tool developed by Braun & Partners designed to assess the reliability of CSR projects based on information available to the general public. The rating is based on the AccountAbility standards, the GRI indexes, the basic principles of good practices and the extended reporting of the social responsibility encompassing environmental, ethical, social and economic commitments.



QUAZAR is launched – the offer of LOTOS Oil has become richer with the new separate line of brand oils.

A modern factory for producing hydro-insulation materials is opened in the Tarnobrzeg Special Economic Zone. LOTOS Asfalt is the investor of this project.

## July

### Events

Grupa LOTOS issues the 'Social Responsibility Report 2008'. The publication is the first report of a firm with solely Polish capital, based on the latest version of the Global Reporting Initiative methodology – the international organization that promotes standards of non-financial reporting.

SOCAR, a state oil concern from Azerbaijan, and Grupa LOTOS sign a letter of intent in Baku concerning cooperation in technical and economic analyses within potential business projects in Azerbaijan, Poland and other third countries.

Nafta Polska transfers all its stocks of Grupa LOTOS to the State Treasury.

### Awards

Grupa LOTOS is 15<sup>th</sup> in the ranking of the most interesting employers in Poland. The 'Poland's 100 – Top Employers' ranking was prepared based on annual opinions given by graduates of economic and technical universities. The all-European poll encompassed 200 thousand respondents. The questionnaire in 22 countries was administered by the German Trendence Institute.

## August

### Events

**PROGRAM 10+** A 1200-tonne reactor, the largest in the history of the Gdańsk refinery, is founded within the 10+ Programme on the building site of the mild hydrocracking system.

**PROGRAM 10+** Production with the diesel oil hydrodesulphurization system (HDS) commences. This is the first system started within the 10+ Programme.

Grupa LOTOS and LOTOS Kolej sign an agreement concerning shipping and other services related to railway transport. Its estimated net value amounts to more than PLN 2.1 bn. The agreement will be in force until 31 December 2019.

The construction of a modern transport pipeline connecting the Gdańsk refinery with Naftoport is completed. Its design transition capacity amounts to 9 million tonnes of crude gasoline per year.

LOTOS Paliwa signs a contract with ESSO Deutschland/ExxonMobil to extend the fleet cooperation within the international programme of LOTOS/ESSO cards. As a result, Grupa LOTOS becomes the exclusive representative of ExxonMobil and receives the right to acquire and service transport companies from Lithuania, Latvia and Estonia.

### Awards

## September

### Events

**PROGRAM 10+** Construction of the hydrogen system is completed – another installation commissioned in Gdańsk within the 10+ Programme.



LOTOS Tank receives an award in the 1<sup>st</sup> edition of the 'Awionetka' competition for remarkable achievements on the aviation market. The jury of the competition recognised Grupa LOTOS for opening the first fuel base at the Lech Wałęsa Gdańsk Airport in 2009.



A new brand of building paper is launched – NEXLER owned by LOTOS Asfalt.

The Programme Council of the Economic Forum in Krynica grants Grupa LOTOS the title of the 'Investor of Central and Eastern Europe 2009'. The President of the Board, Paweł Olechnowicz, received the award from the Minister of the State Treasury, Aleksander Grad. The award was granted for the efficient and timely implementation of the 10+ Programme.

LOTOS Tank receives the Certificate of the Ground Service Agent issued by the Civil Aviation Agency.

## October

### Events

Grupa LOTOS confirms that it is the general sponsor of Polish skiing before the Olympic Games in Vancouver. The relevant agreement was signed between the presidents of the management boards of Grupa LOTOS and the Polish Skiing Association.

### Awards



Grupa LOTOS is awarded in the 'Well Perceived Company' competition. Grupa LOTOS received the prize for the best social image in the Pomorskie Voivodeship. The competition is a part of the project entitled 'CSR – a tool for building a positive image of an enterprise' implemented all over Poland by BCC in partnership with the Forum of Trade Unions and the Academy of Charity Development in Poland.



Grupa LOTOS receives a special award during the Globe Forum in Gdańsk for implementing the 10+ Programme. The award was given to the President, Paweł Olechnowicz, by the President of the European Parliament, Jerzy Buzek. The Globe Forum is an international meeting dedicated to the promotion of valuable initiatives within sustainability.

## November

### Events



Grupa LOTOS, being a part of the WIG20 index, qualifies for the first SCR index in Central and Eastern Europe – the RESPECT Index at the Warsaw Stock Exchange.

### Awards

Grupa LOTOS wins the first edition of the competition for the 'Award of the President of the Management Board of the Polish Centre of Tests and Certification Joint Stock Company' for improvement, popularization and promotion of quality issues and management with respect for the natural environment. The award serves to promote organizations committed to environmental protection, improving their management processes and propagating and promoting quality management.

LOTOS Kolej signs an agreement with Railpool GmbH for the five-year lease of electrical locomotives manufactured by Bombardier of the TRAXX F140 MS type. The locomotives may be operated on the railways in Poland, Germany and Austria.



Grupa LOTOS receives a distinction in 'Social Reports 2009' the competition for its CSR report published that year. The jury emphasized the maintenance of a high level of reporting information within CSR and the innovative solutions applied in this process. Forum of Responsible Business, PricewaterhouseCoopers and CSR Consulting are the competition organizers.

LOTOS Tank delivers fuel to an aircraft at the Lech Walesa Gdansk Airport for the first time. A plane flying from Gdańsk to Oslo refueled with 8 thousand litres of aviation fuel.



Grupa LOTOS receives the main award in the competition organised by the Consortium 'Pomorski Klaster 3x20' for the construction of the hydrogen production plant within the 10+ Programme. The competition jury stressed the consistent efforts of Grupa LOTOS in implementing modern technologies and its focus on sustainability and reducing the environmental impact.

The National Ski Jump Development Programme 'In Search for the Master's Successor' implemented by Grupa LOTOS and the Polish Skiing Association becomes the winner of the Sport Business Awards DEMES 2009 in the category 'Sport of Children and Youth'.

## December

### Events



The construction of the integrated crude-vacuum distillation unit (CDU-VDU) is completed, the most important production system built within the 10+ Programme. CDU/VDU has increased the rated processing capacities of oil in Gdańsk to 10.5 million tonnes per year.

### Awards

Grupa LOTOS is ranked 18<sup>th</sup> in the 'Ranking of the Most Valuable Brands' published by the Rzeczpospolita daily. Grupa LOTOS has improved its position from last year by one. The value of the LOTOS brand is appraised at almost PLN 615 mln, i.e. 13% more than in 2008. In the classification according to the values, LOTOS is ahead of e.g. Citi Handlowy, TVP1, Bank Millennium, Warta, Reserved, Heyah, Ergo Hestia and LOT.

Grupa LOTOS concludes forward contracts with Mercuria Energy Trading and Petraco for the delivery of 5.4 million tonnes of Russian oil per year. Moreover, Grupa LOTOS will buy at least 320 thousand tonnes of raw material from the Norwegian Statoil.



LOTOS Parafiny receives the 'Business Gazelle 2009' award. The award is given to dynamically developing SMEs. The awards are granted by the Puls Biznesu daily and Coface Poland.

LOTOS Paliwa and PUHIT from Warsaw conclude an agreement on operating a hotel infrastructure at rest areas. Start brand hotels are to be launched at the LOTOS stations under the agreement.

The LOTOS brand is recognised to be one of the strongest brands on the Polish consumer market in the fourth edition of the Superbrands project and receives the title of the 'Superbrand Polska 2010'. The programme is organised by Superbrands, the organization that has operated in 80 countries for 14 years. The consumers and members of the Brand Council appraised almost 1.5 thousand Polish brands in the project.

## 2010

## January

### Events

LOTOS E&P Norge acquires 50% and the position of operator in the PL 556 production licence. The shares were distributed by the Norwegian Ministry of Oil and Energy within the APA 2009 round. The PL 556 licence is located in the Norwegian Sea.

### Awards

For the second time Grupa LOTOS receives the award and title of the 'Polish Industry Changing Force'. In the 10<sup>th</sup> edition of the award Grupa LOTOS was awarded for the 10+ Programme. The organiser of the programme is the Nowy Przemysł monthly and the business portal WNP.pl.

Inter Cars and LOTOS Oil conclude an agreement on strategic cooperation within the development of trading and distribution.

Grupa LOTOS, LOTOS Tank and Przedsiębiorstwo Państwowe 'Porty Lotnicze' sign a letter of intent concerning cooperation in delivering aviation fuel, lubricants and other technical materials for aircraft operating at the Okęcie Airport in Warsaw.

## February

### Events

Grupa LOTOS and Windsor Energy Group organise the North European Energy Security Forum in Gdańsk. It was the first so prestigious meeting of the representatives of the EU, Polish government, business and experts of the energy sector from all over the world held in Gdańsk.

### Awards



Pawel Olechnowicz, who has managed Grupa LOTOS for 8 years, receives the title of the 'President of 2009'. The award is granted by the 'Parkiet' daily. The President of the Board of Grupa LOTOS received the statuette of the 'Bulls and Bears' in the listing hall of the Warsaw Stock Exchange. The annual ceremony is to award and thus promote institutions and professionals who contribute to the development, propagation and development of the capital market.

LOTOS Paliwa launches the first pair of Rest Areas at the A4 motorway near Gliwice.



LOTOS Kolej receives the 'Forbes Diamonds 2010' title. The winning companies are awarded for the most dynamic growth in the last 3 years. This is the second diamond from Forbes for LOTOS Kolej.

The Dynamic World Rally Team is presented, which starts in the WRC World Cup in the 2010 season. The colours of LOTOS Dynamic fuels will be represented by Michał Kościuszko and Maciej Szczepaniak in a Ford Fiesta.

## March

### Events

The CDU/VDU system of the 10+ Programme is put into operation at the Gdańsk refinery. With the new system Grupa LOTOS will increase its production capacities of top quality diesel fuel to 5.5 million tonnes per year.

### Awards



During the international Intellectual Property Management Forum, Grupa LOTOS receives the 1<sup>st</sup> award for professional management of intellectual property and building a competitive advantage based on intellectual capital.

LOTOS Kolej starts the lease of 6 consecutive (out of 9) modern Bombardier TRAXX F140 MS locomotives with an electrical drive.



The network of LOTOS fuel stations is recognised in the ranking of 'Service Quality 2009', which summarizes the observations of customer service at fuel stations. According to the consumers, last year the LOTOS station network improved the quality of its services almost twofold, deserving the 1<sup>st</sup> place among all assessed stations, including for service time and the competences of its personnel. The ranking was published by the Rzeczpospolita daily. The organisers of the report collected opinions from 200 thousand customers who filled in questionnaires after a visit to a shop or a fuel station.

The basketball players of LOTOS Gdynia win the Polish Cup for the 11<sup>th</sup> time in a row in the history of the club.



LOTOS Oil service is awarded with the European Medal granted by the European Integration Committee Office, the Business Centre Club and the European Economic-Social Committee.

## The GRI Table of Contents and the UN Global Compact principles

The following table may help determine the location of content concerning specific information or performance data required by the Global Reporting Initiative and resulting from Grupa LOTOS adopting and applying the ten fundamental principles of the UN Global Compact.

Issue	Place of publication	Global Reporting Initiative Index	UN Global Compact Principles	More
<b>Strategy and analysis within sustainability:</b>				
Statement from the senior management	Letter from the President of the Board			
Key impacts, opportunities and risks	An interview with the President of the Board	[1.1]		
	Key risks, opportunities and challenges in the aspect of sustainable development	[1.2]		
<b>Organization profile:</b>				
Name of the organization	Organization profile			
Primary products				
Location of the headquarters				
Number of countries where the firm operates				Achievements and outlook
Type of ownership		[2.1]-[2.9]		Basic Figures 2009
Operational structure				
Markets served				
Scale of operation				
Changes during the reporting period				
Awards and distinctions				
	Additional info	[2.10]		
<b>Report parameters:</b>				
Reporting period	Consolidated Non-Financial Statement /Profile of the statement			
Date of the most recent report				
Reporting cycle				
Scope of reporting				
Content defining		[3.1]-[3.3], [3.5]-[3.13]		About the Annual Report
Applied GRI indexes				
Explanation of any revisions/ changes from previous reports				
Verification				
GRI Table of Contents				
Contact				
	Additional info	[3.4]		
<b>Governance:</b>				
Governance structure	Management			
Independence status				
Remuneration		[4.1]-[4.3], [4.5]-[4.7], [4.9], [4.10]		
Avoiding conflict of interest				
Qualifications of the members of the supervising authority				
Evaluation of actions				

<b>Commitment:</b>	Management/Key norms and systems		
Mission, values and codes of conduct		[4.8]	
Approach to risk management	Sustainability/Basics of sustainable business		
			[4.11]
<b>Sustainability:</b>	Sustainability/Mission, vision and values		
Supported external activities		[4.12]	<b>Principles 1-10</b>
Membership in organizations	Sustainability/Management Approach		
	Organization profile/Membership in organizations	[4.13]	Sustainability / Participation in the public policy development and lobbying
<b>Stakeholder engagement:</b>	Sustainability/Basics of sustainable business	[4.14]	
Mechanism of filing recommendations			
Approach		[4.15]-[4.17]	About the Annual Report
Issues discussed			

## Performance indicators

### Economic performance indicators

<b>Economic indicators</b>	Consolidated Non-Financial Statement	[EC 1]-[EC 4]	
<b>Presence on the market</b>	Consolidated Non-Financial Statement	[EC 5]-[EC 7]	<b>6</b>
<b>Indirect financial impact</b>	Consolidated Non-Financial Statement	[EC 8]	
	Sustainability/Impact of the 10+ Programme on the environment	[EC 9]	

### Social performance indicators

<b>Society</b>			
Local community	Sustainability/Pro-social actions		
	Sustainability/Ecological projects	[SO 1]	<b>8</b>
Corruption	Management/Key norms and systems		
	Consolidated Non-Financial Statement	[SO 2]-[SO 4]	<b>10</b>
State policy	Sustainability/ Participation in the public policy development and lobbying	[SO 5]	
	Consolidated Non-Financial Statement	[SO 6]	
Anti-competitive behaviour	Consolidated Non-Financial Statement	[SO 7]	
Compliance with applicable laws and regulations	Consolidated Non-Financial Statement	[SO 8]	
<b>Product responsibility</b>			
Safety and health of practices	Consolidated Non-Financial Statement	[PR 1], [PR 2]	
Product and service information and labelling	Consolidated Non-Financial Statement	[PR 3]-[PR 5]	
Marketing communication	Consolidated Non-Financial Statement	[PR 6], [PR 7]	<b>7,8</b>
Respect for privacy of customers	Consolidated Non-Financial Statement	[PR 8]	
Compliance with applicable laws and regulations	Consolidated Non-Financial Statement	[PR 9]	
<b>Human rights</b>			
Investment and procurement practices	Consolidated Non-Financial Statement	[HR 1]-[HR 3]	<b>1,2</b>
Counteracting discrimination	Consolidated Non-Financial Statement	[HR 4]	<b>6</b>
Freedom of association and collective bargaining	Consolidated Non-Financial Statement		
	Sustainability/Social understanding and freedom of association	[HR 5]	<b>3</b>
Child labour	Consolidated Non-Financial Statement	[HR 6]	<b>5</b>

Forced and compulsory labour	Consolidated Non-Financial Statement	[HR 7]	4	
Safety practices	Consolidated Non-Financial Statement	[HR 8]	1,2	
<b>Labour relations and decent work</b>				
Employment	Consolidated Non-Financial Statement	[LA 1]-[LA 3]	1,2	Sustainability /Employees
Employment and management relations	Consolidated Non-Financial Statement	[LA 4], [LA 5]	1,2	
Health and safety	Consolidated Non-Financial Statement	[LA 6]-[LA 9]		Sustainability /Safety at work Sustainability /Implementation and promotion of European standards
Training and education	Consolidated Non-Financial Statement	[LA 10]-[LA 12]		Sustainability /Employees
Diversity and equal opportunities	Consolidated Non-Financial Statement	[LA 13], [LA 14]		

## Environmental performance

<b>Materials</b>	Consolidated Non-Financial Statement	[EN 1], [EN 2]		
<b>Energy</b>	Consolidated Non-Financial Statement	[EN 3]-[EN 6]	7,9	
<b>Water</b>	Consolidated Non-Financial Statement	[EN 8]-[EN 10]		
<b>Biodiversity</b>	Consolidated Non-Financial Statement	[EN 11], [EN 12], [EN 14], [EN 15]		
<b>Emission, sewage and waste</b>	Consolidated Non-Financial Statement Sustainability/ Environment	[EN 16], [EN 18]-[EN 25]	7,9	
<b>Products and services</b>	Consolidated Non-Financial Statement Sustainability/ Environment	[EN 26], [EN 27]	7,9	
<b>Compliance with regulations</b>	Consolidated Non-Financial Statement	[EN 28]		
<b>Transport</b>	Consolidated Non-Financial Statement	[EN 29]		
<b>Expenditures on environmental protection</b>	Consolidated Non-Financial Statement Sustainability/ Environment	[EN 30]		

## Sector glossary

### A

#### **APC**

(Advanced Process Control) is a computerized manufacturing process control system in place in the Gdańsk refinery since 2001. APC simultaneously controls a large number of technological process parameters at the industrial plant. With the help of this system, one can optimize the plant operations, increasing the yield of the desired products and keep the plant working safely.

#### **ARA**

The market with its territory delineated by the ports of Antwerp – Rotterdam – Amsterdam.

#### **Atmospheric distillation**

A physicochemical process used to separate component products of a mixture, using differences in the boiling point temperatures of individual components. In the process of atmospheric distillation, individual fractions of gases, benzene, paraffin and diesel oils become separated. Heavier hydrocarbons constitute so-called atmospheric remnants. Atmospheric distillation is a process carried out at a pressure close to atmospheric pressure.

#### **Audit recertifying the Integrated Management System (renewal)**

An audit aimed at assessing the compliance of the management system with the requirements of the standards. A recertifying audit is carried out in the period determined by the certifying entity to extend the validity or issue a new IMS certificate.

### B

#### **Barrel (of crude oil)**

A primary unit of measure used in crude oil production. One barrel encompasses 159 litres.

#### **Base oil**

Unrefined oil, without improvers, obtained in the processing of crude oil. It represents the base raw material in the manufacture of lubricant oils.

#### **Biofuel**

Fuel manufactured by adding more than 5% biocomponents to gasoline or diesel oil.

#### **Biocomponent**

An additive used in fuel production made in biomass processing of e.g. oil plants or corn.

#### **B100 (fuels)**

A determination of fuels produced solely from a biocomponent.

### **B3 Oil Field**

A marine natural gas and oil field located about 73 km north of Rozewie. In operation since 1992, it hosts the Marine Oil Mine (*Morska Kopalnia Ropy*). It is the main source of crude oil produced by LOTOS Petrobaltic.

### **B8 Oil Field**

A marine natural gas and oil field located about 68 km northeast of Rozewie.

## **C**

### **CD Process** (Continuous Deglycerolization Process)

A manufacturing process of fatty acid methyl esters used at the installation located in Czechowice-Dziedzice.

### **CDU/VDU** (installation)

A basic installation system used for crude oil processing comprising a Crude Distillation Unit (CDU) and Vacuum Distillation Unit (VDU).

### **CODO stations (company-owned, dealer-operated)**

See: own (petrol) stations.

### **Component for bitumen production**

Usually a heavy vacuum distillate fraction obtained from crude oil, which can be further processed at the installation for bitumen manufacture.

### **Confirmed resources**

The volume of oil production that may be estimated based on geological analyses and engineering data with reasonable certainty as commercially available for production since a specific date, from the known deposit horizons and in specific economic conditions, using the defined operational methods and based on determined administrative regulations.

### **Conversion**

Conversion processes usually involve technological cracking processes. In such processes, components with high boiling temperatures (heavy distillates) are used to manufacture light products used for fuel production. The most common conversion processes are thermal cracking, catalytic cracking and hydrocracking.

### **Crack**

A refining margin.

## **D**

### **DAO** (De-Asphalted Oil)

Oil produced with an SDA installation used as a raw material for further refining. It may be the basis for producing base oils or an input for a cracking process.

**DODO stations (dealer-owned, dealer-operated)**

See: patronage (petrol) stations.

**DOFO stations (dealer-owned, franchise-operated)**

See: partner (petrol) stations.

**E****ETBE (Ethyl Tert-Butyl Ether)**

The name of a high-octane biocomponent used in gasoline production. It is manufactured in petrochemical complexes with ethanol and isobutylene.

**Ethanol**

Ethyl alcohol used e.g. as a biocomponent for producing fuels and biofuels used in cars with ignition engines.

**F****FAME (Fatty Acid Methyl Ester)**

Such esters are biocomponents used to manufacture fuels and biofuels for diesel engine vehicles. FAME is manufactured by the transesterification of oil with methanol in the presence of a catalyst.

**Forties Blend**

A type of crude oil from the North Sea. Forties Blend is light petroleum with a low content of sulphur and a high potential in gasoline production.

**Furfurol extraction**

A technology applied to increase the quality of base mineral oils. During the process unfavourable aromatic hydrocarbons are separated, which increases the so-called viscosity index.

**G****Gasoline isomerisation**

A refining process that creates a higher octane number of the gasoline fraction by changing the chemical structure of particles.

**Gasoline natural gas**

Natural gas that contains, apart from methane and ethane, a certain quantity of heavier hydrocarbons.

**Gasoline reforming**

A refining process that involves a reaction with a catalyst creating high-octane aromatic hydrocarbons and hydrogen.

## **General nitrogen**

The content of nitrogen for nitrogen bound in all possible chemical forms.

## **H**

### **HDS (Hydrodesulphurisation Diesel Unit)**

A system for the hydrodesulphurization of diesel oils.

### **Heavy fuel oil (HFO)**

An oily liquid representing a residue from the distillation of crude oil. Heavy fuel oil finds its use in industrial installations of large manufacturing or processing facilities, as well as in combined power plants. It is also used as bunker fuel for ships.

### **HGU (Hydrogen Generation Unit)**

A system for hydrogen production.

### **Hydrocracking**

A refining process used to produce high quality fuel components during the reaction of vacuum distillates with hydrogen with a catalyst. Hydrocracking processes usually take place at a very high pressure and provide components that are free of sulphur and contaminations.

### **Hydrotreating (of slack wax)**

A process of purifying paraffin during the reaction with hydrogen in a catalyst.

## **I**

### **ISO**

International Organization for Standardization.

## **J**

### **Jet A1**

Aviation fuel for jet and turbine engines.

## **K**

### **KAS (installation)**

An amine-sulphur complex of installations for purifying refining gases of hydrogen sulphide and for the production of liquid sulphur.

## L

### **LCA (Life Cycle Assessment)**

The assessment of a product life aimed at determining the environmental impact (emission of greenhouse gases during individual stages of production, processing and transport). LCA also determines the environmental impact resulting from obtaining biomass, transport and its processing into biofuels vs. the impacts that occur in the life cycle of fossil fuels.

### **Light fuel oil**

A product obtained in crude oil processing characterized by a lower sulphur content and density than heavy heating oil. The light fuel oil is mainly used in household boiler rooms, in SMEs and institutions. It is also successfully used as the heating fuel in the boiler rooms of residential estates.

### **LPG (Liquefied Petroleum Gas)**

A liquefied gas, being a mixture of propane and butane, obtained in the processing of crude oil. Among its other applications, LPG is used as engine fuel or as fuel for household gas stoves.

### **LPG amine washing installation**

A system for removing sulphur from liquid gas fractions in the form of hydrogen sulphide.

### **Lubricant oil**

A composition of base oil and improvers. The quantity, type and relative proportions of these components are decisive for the class of the oil manufactured. Their main task is to reduce friction between the surfaces of the movable parts of mechanical devices that touch each other and work together. Lubricant oils are used in the automotive industry and for industrial applications.

## M

### **Materiality (according to the IFRS)**

According to the conceptual guidelines of the International Financial Reporting Standards, information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statement. Materiality of information depends on the size of the item judged in the particular circumstances of its omission or misstatement. According to the International Accounting Standards (in particular IAS 1 Presentation of financial statements), omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statement.

### **Mechanical Completion (MC)**

Completing building-assembly work by signing a protocol between the Refinery Development Division and the contractor, which confirms that all work has been completed in compliance with the design and applicable regulations. A so-called Punch List may be enclosed with the protocol, i.e. a list of work to be performed at later stages, which does not prevent the start of the next process phase, i.e. precommissioning and the introduction of start-up assemblies.

### **MHC (Mild Hydrocracking)**

A hydrocracking installation that operates in slightly milder conditions than a standard hydrocracking system.

### **Modified asphalts**

Asphalts characterized by improved quality parameters, thanks to the interaction between asphalt and an applied modifier.

### **MTBE (Methyl Tert-Butyl Ether)**

A high-octane component used for gasoline production. Unlike ETBE, it is not a biocomponent.

## N

### **Naphtha**

A fluid fraction of crude oil composed of hydrocarbons whose particles contain 9-16 atoms of carbon. Naphtha can be processed into aviation fuel and diesel oils.

### **National Index Target**

A minimum share of biocomponents in the total volume of liquid fuels and liquid biofuels used during a calendar year in transport, calculated according to the caloric value.

## O

### **Oil transesterification**

A chemical reaction resulting in the formation of fatty acid methyl esters. The transesterification reaction of oils is a reaction of oil with methanol in the presence of a catalyst.

### **Own (petrol) stations**

Also known as CODO stations (company owned, dealer-operated).

Stations owned by LOTOS Paliwa and managed by external companies.

## P

### **Paraffin**

A mixture of solid saturated hydrocarbons, separated from the fractions of crude oil. It is used, among others, to manufacture candles, as a floor polish and as an insulation material.

### **Partner (petrol) stations**

Also known as DOFO stations (dealer-owned, franchise-operated).

Stations operating under the LOTOS brand within trading partnership under long-term franchise agreements.

### **Patronage (petrol) stations**

Also known as DODO stations (dealer-owned, dealer-operated).

Stations operating under the logo of the Gdańsk Refinery under patronage agreement.

### **Plasticizers**

Plasticizing improvers added to polymer products. Grupa LOTOS manufactures hydrocarbon plasticizers for the rubber industry.

### **Ppm (parts per million)**

A popular measuring method used to express the concentration of extremely diluted solutions of chemical compounds. This measure tells how many particles of a chemical

compound are to be found among one million particles of the solution.

#### **Provisional Acceptance Protocol**

A document signed with a contractor that confirms the achievement of the guaranteed parameters by a system, while any other contractual obligations have also been fulfilled.

## **R**

#### **REACH**

Regulation of the European Parliament and Council concerning the safe application of chemicals through their registration and assessment and in some cases granting commercial permits and restrictions as regards the application. It came into force on 1 June 2007 and replaces several dozen previous community legal acts, both regulations and directives introduced into Polish legislation with the Act of 11 January 2001 on chemical substances and preparations.

#### **Ready For Start Up (RFSU)**

The condition of readiness for start-up achieved by the system (introduction of production media) confirmed with a formal protocol approved by the Refinery Development Division.

#### **REBCO (Russian Export Blend Crude Oil)**

A commercial name of Russian crude oil from the Ural.

#### **ROSE (Residual Oil Supercritical Extraction)**

A technology used at the Gdańsk refinery in the SDA installation under construction.

## **S**

#### **SDA (Solvent Deasphalting)**

An installation used to separate vacuum remnants after crude oil processing into lighter fractions, i.e. deasphalted oil (DAO) and heavier fractions, namely a bitumen component.

#### **Slack wax**

A semi-product received in crude oil processing. It is used to produce wax.

## **T**

#### **Transfer for tests**

The synonym of transferring the responsibility and the right to manage the facility by the Production Division/Technical Division. The transfer for tests does not end the investment process (the system remains an investment facility in the Refinery Development Division). The acceptance protocol enables a user to commence all work related to the start of the system. The Refinery Development Division remains responsible for any contacts with the main contractor with regard to remedying defects and the performance of any postponed work, for obtaining opinions or decisions of any external institutions as well as for any contractual consultation related to the test start-up.

#### **Transfer for use**

The last stage of the investment process that is confirmed formally with the acceptance protocol (from the Refinery Development Division to the Production Division/Technical

Division) by the Acceptance Commission. The document ends the investment process based on the requirements of the construction law and the law on environmental protection.

### **Troll Blend**

A type of crude oil from the North Sea. The Troll Blend is an average crude oil with a low sulphur content and a high potential within the production of diesel oils.

## **V**

### **Vacuum distillate**

A fraction of hydrocarbons separated from a more complex mixture with distillation under a reduced atmospheric pressure. Vacuum distillates produced from crude oil are usually used to produce base oil, and also as input for cracking processes.

### **Vacuum distillation**

A process analogical to the process of atmospheric distillation, conducted, however, at a reduced ambient pressure. It uses a physical property, whereby the boiling point decreases as the ambient pressure is reduced. It makes it possible to separate vacuum distillates in the atmospheric residuals. Heavy remnants of the distillation process are so-called vacuum residuals.

According to the conceptual guidelines of the International Financial Reporting Standards, information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statement. Materiality of information depends on the size of the item judged in the particular circumstances of its omission or misstatement. According to the International Accounting Standards (in particular IAS 1 Presentation of financial statements), omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statement.

## Glossary of social terms

### B

#### **Business ethics**

Taking account of the moral aspect in business, i.e. applying solutions that combine moral requirements with the strategic interests of a firm. Business ethics determines ethical standards of behaviour, norms and values as well as conduct in a business.

### C

#### **Code of ethics**

A set of rules that regulate moral life. A code of ethics in business indicates specific 'behaviours' of an organization, in addition to general guidelines concerning reliability and integrity required in business and actions that are conducive to social development and not contradictory to moral standards and collective customs.

#### **Corporate community involvement**

Involvement of a firm in social issues and participating in solutions of social problems. This concept is narrower than corporate social responsibility and it refers to different activities of a company in a community. It includes various forms of involvement, such as financial support, material assistance and voluntary work of employees. Community involvement makes a firm more reliable in the eyes of the general public and builds a positive image.

#### **Corporate social responsibility**

The strategy that provides for a firm to take account voluntarily of social interests while trying to achieve its economic aims, taking decisions and actions. CSR includes the consideration for ethical rules, rights of employees and human rights as well as the social and natural environment. It is assumed that the corporate social responsibility should be an integral part of the business policy, together with its economic objectives.

#### **Corporate volunteering**

This involves employees of a firm in voluntary work for social organizations. Employees (volunteers) perform various types of work for those in need, by using their skills and abilities and developing their talents in such areas. A firm supports its employees in such actions and, depending on its organizational culture, appoints employees to work as a volunteers during working time or provides material assistance or logistic and financial support.

### D

#### **Donation**

A form of an agreement by which a donor undertakes to provide free-of-charge performance with its assets. A donation may be granted by individuals or corporations. The subject matter of the donation may include real properties, movables, money as well as rights or may involve free provision of services.

# G

## **GRI**

The Global Reporting Initiative (GRI) is an independent institution with its seat in the Netherlands that develops and promotes so-called Sustainability Reporting Guidelines. GRI Guidelines are applied all over the world. They may be used by all companies that are ready to submit comprehensive reports on their economic, environmental and social activity. Since 2006, the third version of the GRI Guidelines applies, so-called G3. The organization has introduced a three-level system of applications: from the highest that includes the largest scope of revealed information, i.e. about 80 reporting indexes (A, A+), to the smallest, with less than 40 indexes (C, C+). A plus before each level means the external verification of the report by an independent certifying authority.

# H

## **Human capital**

Employees of a firm who contribute to its operation and development and have specific knowledge, skills and talents.

# L

## **Local community**

The group of people who live in the area and are connected by social bonds, common tradition and culture. A local community is formed by inhabitants of villages, towns, cities or municipalities.

# M

## **Mission**

A set of fixed aims and targets of a firm. It contains values that are upheld by the management board and are the basis for determining its actions. The mission determines the identity of a firm and its organizational culture.

# N

## **Non-governmental organization (NGO)**

A voluntary organization that operates independently of state or political structures and whose operation is not profit oriented. It works for social issues and development. Its operation is based mostly on voluntary work.

# O

## **Organizational culture**

A set of standards, values, forms of behaviour, attitudes, premises and symbols that determine the mode of thinking and acting in a company and define standards of communication and conduct.

# S

## **Social dialogue**

The exchange of information and presentation of positions concerning social problems and issues between parties that may be public institutions, entrepreneurs or NGOs. It is a form of representing the interests of parties. The source of success is reliable information exchanged between the parties and cooperation.

## **Social programme**

Planned actions aimed at solving or counteracting a specific social problem. They may be implemented jointly or independently by public institutions, businesses or social organizations.

## **Social report**

A report issued by a firm that presents its whole strategy and social policy. It takes account of economic, social and ecological aspects of its operations.

## **Sponsoring**

Joint obligations of two parties – a sponsor and a sponsoree. A sponsor provides funds, material assistance or services to the sponsoree in return for promotion. Sponsoring is a planned and conscious act aimed at creating a positive image of a firm. It is often a part of the long-term marketing strategy of a business.

## **Stakeholder**

A person or entity interested in the operation of a firm and incurring various types of risks related to its business or the persons or entities that are affected by a firm through its activities. Unlike shareholders, who are primarily interested in the profits of the company, stakeholders include a much wider group, e.g. employees, customers, creditors, suppliers, government administration and, in a wider context, local communities, the natural environment and public opinion. The term was first introduced by the Stanford Research Institute in 1963.

## **Sustainable development**

The path of social and economic development that is in harmony with the natural environment. The idea of sustainability provides for the skilful use of resources (social, human and natural), so that they can be used in the future.

The social responsibility terms have been prepared based on information from the web sites: [www.filantropia.org.pl](http://www.filantropia.org.pl), [www.fob.org.pl](http://www.fob.org.pl) and [www.pfcg.org.pl](http://www.pfcg.org.pl)

## Contact details

To learn more about the economic activity as well as the social and environmental aspects of the LOTOS Group, please visit the website of Grupa LOTOS at [www.lotos.pl](http://www.lotos.pl)

Please send your questions concerning the social responsibility of the Company to:

**Grupa LOTOS S.A.**

Communication and CSR Office

ul. Elbląska 135

PL 80-718 Gdańsk

tel. 48 58 308 75 70

fax 48 58 308 84 81

e-mail: [csr@grupalotos.pl](mailto:csr@grupalotos.pl)