

# INNOVATION -DRIVEN GROWTH



LOTOS Group  
Integrated Annual Report 2015

**PDF version**



LOTOS Group  
Integrated Annual Report 2015

01

# 2015 at the LOTOS Group

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# Letter from the President of the Board

*Ladies and Gentlemen, Dear Shareholders*

it is my pleasure to present the 2015 Integrated Annual Report of LOTOS Group.

Last year saw many political and economic developments with a significant bearing on the global macroeconomic situation. Despite oversupply, global oil output remains high, resulting in continued pressure on prices. Large oil and gas producers are faced with an unfavourable business environment, with the falling prices making them increase expenditure on production to generate expected revenues.

Grupa LOTOS remains a vital element of the national economy, with the overarching goal, as defined in our mission, to enhance Poland's energy security and foster the country's stable economic growth. We view this as our duty, which we fulfil by delivering the highest-quality fuels, oils and other refining products to the market.



In 2015, our LIFO-based EBITDA (operating profit before depreciation and amortisation) was PLN 2,156m (2014: PLN 1,391m), with operating profit (EBIT) at PLN 423m and LIFO-based EBIT at PLN 702m. Over the same period, we generated PLN 1,488m in cash flows from operating activities (2014: PLN 1,381m) – a visible proof of LOTOS' capability to generate cash on its core business.

Despite low oil prices, access to own sources remains fundamental to us. With each tonne of oil produced by our facilities, we become less dependent on imports, sudden price movements, and pressures from suppliers. LOTOS pursues a strategy designed to reduce Poland's dependence on imports from one source. This approach to national energy security is supported by the gradual increase in oil supplies by sea and expansion of our own upstream segment.

Efficient sustainable development of any large oil company is based on two pillars – upstream, which comprises own production of oil and gas, and downstream, with state-of-the-art refining technologies employed to obtain the highest possible amounts of products most valued by the market. Thanks to our consistently pursued investment projects and precisely defined growth programme, as well as our experienced and professional managers and employees, we now operate one of Europe's most advanced refineries and own growing reserves of hydrocarbons.

In 2015, LOTOS launched production from the B8 field using the LOTOS Petrobaltic platform. As a result, with the acquisitions in Norway and production from the B8 and B3 fields in the Baltic Sea and Lithuanian deposits, we have increased our hydrocarbon output to nearly 30 thousand boe/d.

In 2015, LOTOS also started construction of a delayed coking under the EFRA Project (Efficient Refining). The unit will produce an additional 900 thousand tonnes of fuels a year and will increase our margin by approximately USD 2 per barrel of crude processed. Thus, in line with the Polish government's current policy, LOTOS will boost its innovativeness and competitiveness on Europe's challenging refining market.

As at the end of 2015, the LOTOS retail network comprised 476 stations, up by 35 year on year. In 2016, we plan to see the network grow to more than 500 sites, gradually approaching the optimum saturation level. This year we will also open the 20th Motorway Service Area, thus becoming the second largest operator of such facilities in Poland. Last year, all LOTOS Optima stations and some premium stations underwent a change of their visual scheme. In 2016, we intend to proceed with standardization of our stores and expand our range of food services. We also plan to significantly increase the portfolio of goods offered at the stores and services available at the stations to expand our customer offering.

LOTOS employs a modern sports sponsorship model. In February 2015, Grupa LOTOS become the Major Sponsor of the Polish National Football Team. As evidenced by the team's performance at EURO 2016, this was a sound decision.

2016 will see LOTOS enter a path of new growth. We will prioritize research, development and innovation as part of the 'Responsible Development Plan' adopted by the Polish government. We intend to finish growth-oriented projects currently being implemented across various segments, optimize our operations and enhance our efficiency to achieve improved financial results and start paying dividends again.

*Kind regards,*



**Robert Pietryszyn**  
 President of the Board  
 Chief Executive Officer  
 Grupa LOTOS S.A.

# Letter from the Chairwoman of the Supervisory Board

2015 was a challenging year for the global oil industry. The largest international players on the oil and gas markets were forced to freeze planned or outright abandon pending investment programmes. In this difficult environment, Grupa LOTOS successfully demonstrated its organisational efficiency.

Nevertheless, it saw a drop in revenue and total sales, both obvious consequences of plummeting oil prices and product margins.

As at the end of 2015, LOTOS operated a chain of 476 service stations, with 35 new facilities added over the year. Last year was marked by stable growth and initiation of optimisation efforts, including measures geared towards increasing sales efficiency. Boasting 18 Motorway Service Areas, LOTOS is the second largest operator of such facilities in Poland. 2015 also saw growth in domestic sales of aviation fuel, with LOTOS-Air BP Polska having a presence at five Polish airports.



Another point of praise is the continued improvement of the operating efficiency of the Gdańsk refinery units. Leveraging state-of-the-art crude oil processing solutions and technologies, Grupa LOTOS was able to increase yields of high-margin products.


The Grupa LOTOS' consistent efforts to diversify supply sources, particularly focused on growing the share of oil from own deposits, reinforce Poland's energy security.

The main oil and gas deposits held by LOTOS are located under the Baltic and Northern Seas' bottoms, making their development all the more challenging both in terms of organisational and technical solutions. In 2015, our daily output nearly reached 30,000 boe/d, a notable result on the national economic scale. Coupled with resumed supplies from the Near East, this represents a major step towards building Poland's new, more independent energy policy.

Grupa LOTOS' model of operating as a 'corporate citizen' has proven itself successful. Fostering relations with local communities, supporting worthy cultural and social events, as well as sports sponsorships all go a long way in creating a climate which serves the interests of the Polish economy by establishing a feedback loop between the society and business. Grupa LOTOS' partnership with the Polish national football team and the latter's excellent performance during EURO 2016 final tournament is a case in point.

I believe that in 2016, the Company will introduce new, more effective ideas to innovate itself and, in the long-run, the entire Polish economy.

*With kind regards,*

A handwritten signature in black ink on a light background. The signature is written in a cursive style and reads "Beata Kozłowska-Chyłà".

**Beata Kozłowska-Chyłà**

Chairwoman of the Supervisory Board  
Grupa LOTOS S.A.

# Summary of 2015

# Summary of 2015

For the LOTOS Group, one of the leaders on the Polish fuel market, 2015 was devoted to well-thought investments in innovations, employees and sustainable development. This is adequately depicted by the below key financial and non-financial indicators na 2015:



**22.7** bn PLN

revenue



**2.2** bn PLN

clean LIFO-based EBITDA\*



**1.5** bn PLN

net cash from operating activities



**-0.3** bn PLN

net profit/(loss)



**1.4** bn PLN

LOTOS Group's capital expenditure in 2015



**10.5%**

share of the retail fuel market



**31.2%**

share of the total fuel market



**28.4**  
thousand boe\*\*  
per day

total volume of hydrocarbon production



**10.2** m tonnes

total volume of crude processed





**11.2** m

**tonnes**

total sales volume of products



**72** m PLN

expenditure on eco-friendly investments



**4,850**

headcount at the LOTOS Group



**476**

LOTOS service stations



**234**

internships and traineeships held during the year



from

**2009**

in the RESPECT Index



**1.4** bn PLN

brand value



**0**

serious accidents at the LOTOS Group in 2015



over

**5** m PLN

of expenditure on social projects

\* **EBITDA LIFO** – EBIT before depreciation and amortization, excluding one-off items and the LIFO effect (the difference arising from the application of the Last In First Out (LIFO) method and the weighted average cost method to account for inventory flows).

\*\* **boe** – barrel of oil equivalent.

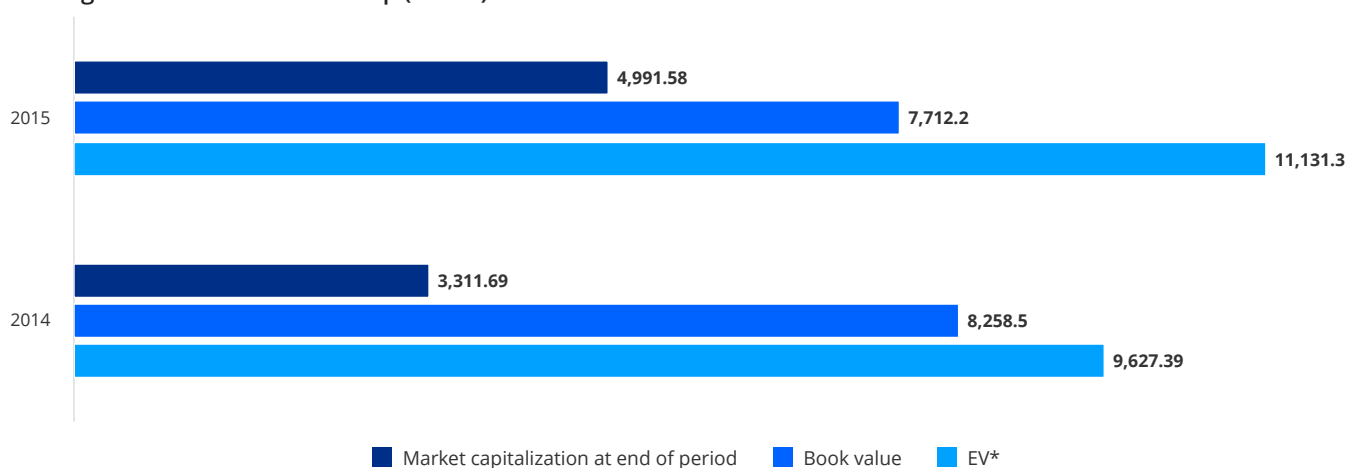
# Value growth of the LOTOS Group in 2015

2015 was a landmark year in the nearly 40-year history of the LOTOS Group. We were able to achieve the key strategic goals for the years 2011–2015 in our entire value chain. We are stronger while entering a new stage of growth, and we aim to achieve significant growth of the company value, further enhance Poland's security in the field of energy and help with the industrialization of the national economy. Our work towards implementation of these plans will be based on innovation, further development, improved efficiency and activities which support our business environment.

## Effects of strategy implementation in 2015

maximized integrated margin → increased production capacities and better operational efficiency → good operating results

### Value growth of the LOTOS Group (PLNm)



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

### Grupa LOTOS - basic data\*

FINANCIAL DETAILS	Unit	For year finished 31 December 2015	For year finished 31 December 2014
Revenue	thousand PLN	20,482,298	26,243,106
Operating loss	thousand PLN	183,757	(1,294,183)
Loss before tax	thousand PLN	-20,713	(1,545,869)
Net loss	thousand PLN	-37,102	(1,285,910)
Total income/(loss)	thousand PLN	-325,41	(1,726,097)
Net cash flows from operating activities	thousand PLN	653,963	561,327
Net cash flows from investment activities	thousand PLN	-689,725	-137,277
Net cash flows from financial activities	thousand PLN	192,758	-329,823
Total net cash flows	thousand PLN	156,996	31,227

Net basic profit per one share	PLN	-0.2	-8.87
Donations for social purposes	thousand PLN	1,066	705
Eco-friendly investments	thousand PLN	72,211	16,040

FINANCIAL DETAILS	Unit	As at 31 December 2015	As at 31 December 2014
Total shares	thousand PLN	13,909,915	14,339,743
Equity	thousand PLN	6,020,050	6,346,776

OTHER DETAILS	Unit	For year finished 31 December 2015	For year finished 31 December 2014 (comparative data)
Employees <sup>1/</sup>		1,351	1,343
Employee turnover <sup>2/</sup>	%	11.10	9.55
LTIF incidence rate (per 1 million hours worked) <sup>3/</sup>	-	6.0	0.9
Total water intake	m <sup>3</sup>	3,707,329	3,610,693
CO <sub>2</sub> emission	Thousand tonnes/year	1,903	1,820

### LOTOS Group – basic consolidated data\*\*

FINANCIAL DETAILS	Unit	For year finished 31 December 2015	For year finished 31 December 2014
Revenue	Thousand PLN	22,709,442	28,501,887
Operating profit/(loss)	Thousand PLN	423,398	(1,393,008)
Loss before tax	Thousand PLN	-195,274	(2,123,715)
Net profit/(loss)	Thousand PLN	-263,3	(1,466,372)
Net profit/(loss) allocated to the shareholders of the Parent Company	Thousand PLN	-263,263	(1,466,326)
Net profit/(loss) allocated to non-controlling interest	Thousand PLN	-37	-46
Total income/(loss)	Thousand PLN	-544,925	(1,902,137)
Total income/(loss) allocated to the shareholders of the Parent company	Thousand PLN	-544,888	(1,902,096)
Total income allocated to non-controlling interest	Thousand PLN	-37	-41
Net cash flows on operating activities	Thousand PLN	1,488,069	1,380,488
Net cash flows on investment activities	Thousand PLN	(1,161,975)	-958,338
Net cash flows on financial activities	Thousand PLN	114,719	-597,271
Net total cash flows	Thousand PLN	440,813	-175,121
Net basic profit/(loss) per one share	PLN	-1.42	-10.11
Donations for social purposes	Thousand PLN	1,866	1,169

FINANCIAL DETAILS	Unit	As at 31 December 2015	As at 31 December 2014
Total shares	Thousand PLN	19,169,332	18,947,157
Equity allocated to shareholders of the Parent Company	Thousand PLN	7,712,060	8,258,288

Non-controlling interest	Thousand PLN	138	175
Total equity	Thousand PLN	7,712,198	8,258,463

OTHER DETAILS	Unit of measure	For year finished 31 December 2015	For year finished 31 December 2014
Employees <sup>1/</sup>		4,965	5,024
LTIF Incidence rate (per 1 million hours worked) <sup>3/</sup>	-	3.4	2.3
Share in fuel market	%	31.2	33.1
Crude oil production <sup>4/</sup>	Thousand tonnes	542,2	305.2
Gas production <sup>4/</sup>	Million m <sup>3</sup>	999,6	239.2

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

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

<sup>1/</sup> Average annual headcount.

<sup>2/</sup> The ratio of the sum of the number of employees and workers made redundant in the year to the average employment in persons.

<sup>3/</sup> LTIF - number of occurrences resulting in inability to work x 106 / number of hours worked, for the average annual headcount.

<sup>4/</sup> Including annual production of Sleipner assets.

## Key projects of the LOTOS Group

### Acquisition of Sleipner assets in Norway

- Project cost: PLN 583.4m
- 2.5-times increase in hydrocarbons production per day
- Daily production volumes at the end of 2015: 16 thousand boe

### Development of the B8 field on the Baltic Sea

- The largest crude oil resources in the Polish zone of the Baltic Sea: 3.5 million tonnes of crude oil, i.e. 28 million bbl (2P reserves)
- Estimated test production in 2016: 3 thousand bbl per day
- Estimated full-scale production as of autumn 2017: 5 to 6 thousand bbl per day
- Market position: the third largest oil production facility in Poland

### Development of the B4/B6 fields on the Baltic Sea, a joint project with CalEnergy

- Proved reserves: 4.3 bcm of natural gas (2C resources)
- Estimated production: 350 mcm per year (ca. 6 thousand boe per day)
- Scheduled launch of production: 2019

**EFRA project- Delayed  
Coking Unit (DCU)**

- Estimated capex: PLN 2.3bn
- Increase in refining margin of USD 2 per barrel\* thanks to higher share of middle distillates in product mix
- Production: 900,000 tonnes more of incremental volumes of high-margin products per year (primarily diesel oil and aviation fuel)
- Scheduled completion date: 2018
- Market position: the Gdańsk plant is going to be one of the most advanced refineries in the world.

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**Expansion of the LOTOS  
service station chain**

- 10.5% share in Poland's retail market (in terms of sales volume) at the end of 2015
  - Number of service stations at the end of 2015: 476
  - By the end of 2016, the number of LOTOS service stations is planned to exceed 500
-

# What are the focal points of our sustainable development efforts?



**THE GLOBAL GOALS**  
For Sustainable Development



## Diversification and higher production



Production capital

In order to enhance Poland's security in the field of energy and to strengthen LOTOS Group position in the sector of exploration and production, with the opportunities for further growth in subsequent years, we seek to progressively diversify sources of raw materials and increase the size of our hydrocarbon production areas. In 2015, we exceeded the production target of 24 thousand boe per day, set in the LOTOS Group's Business Strategy for 2011–2015. This was made possible primarily by the acquisition of the [Sleipner](#) assets in Norway and launch of production from the [B8](#) field, which is the largest oil field in the Polish part of the Baltic Sea. Also, new fields in the Norwegian Continental Shelf offer prospective recovery of the capital frozen in the tax asset on the [YME project](#) in Norway. Within next years, our production potential may increase materially on the back of e.g. the completion of the development of B8 field and development of the gas-rich [B4 and B6](#) fields on the Baltic Sea, completion of inland projects in Poland, i.e. in Górowo Iławeckie and Kamień Pomorski, as well as the development of the fields in the portfolio in Norway (Utgard, former Alfa Sentral, and Frigg Gamma Delta), prospective new development projects.

## Increased innovation in production processes



Production capital

The Grupa LOTOS refinery has for a long time ranked among the most energy efficient European refineries, as confirmed by the SOLOMON Associates' ranking for 2014 comparing the energy efficiency of refineries all over the world. In 2015, the refinery's energy intensity remained largely flat on the previous year, which attests to Grupa LOTOS' consistent pursuit of efficient energy management. Our competitiveness is also evidenced by the fact that the Gdańsk plant belongs to the group of 25% of the best world's refineries in terms of the level of processing margin, effectiveness of the plant engineering services, and availability of processing units.



Intellectual capital

We owe our market advantages to efficient use of the refinery's expanded processing capacity. A turning point in terms of the capacity growth and improvement in the flexibility of the refinery units was the 10+ Programme, completed in 2011. Another milestone is the EFRA Project, commenced in 2015, which is expected to earn Grupa LOTOS a place among the most technologically advanced refineries in the world, with very high yields of high-margin products.

## Environmental dimension of our projects



Natural capital



Intellectual capital

As an oil business with potential for innovation, in order to improve the competitive edge of our individual business areas and to limit adverse environmental impacts, we engage in activities to develop technical and technological innovations based on our own research and in cooperation with partners. To this end we have partnered with both scientific institutions and energy sector companies. Grupa LOTOS is the leader of the HESTOR project designed to determine the efficiency of storing surplus electricity in the form of hydrogen obtained from electrolysis using renewable energy sources (RES) and then pumped into salt caverns for later use for power supply and technological purposes. The pro-environmental effect of the project will be a reduction in greenhouse gas emissions. This project has been carried out within [GEKON](#) scheme, i.e. Generator of Ecological Concepts.

We also conduct research on replacing fossil fuels. The analyses refer to the opportunities to use vegetable and animal oil in HVO technology, i.e. Hydrotreated Vegetable Oil.

## Improved creditworthiness



Financial capital

The considerable advancement in our operational efficiency is a proof that we successfully delivered on the objectives set in the Business Strategy for 2011–2015. Furthermore, the high refining margins allow us to generate robust cash flows from operating activities and to materially reduce the net interest-bearing debt to EBITDA ratio. The improved financial results, combined with a strong position on the liquid fuels market and stable and safe shareholding structure (with more than 50% of shares held by the State Treasury), have a positive effect on our creditworthiness. This is confirmed by the credit rating BBB- with a stable outlook assigned to Grupa LOTOS by the EuroRating agency.

## High-quality products and services



Manufactured capital



Social and relationship capital



Natural capital

In our operations, we make every effort to offer the highest quality of services and products. In 2015, we introduced innovative products to the Polish road construction market: rubber-modified bitumens (MODBIT CR) and WMA (Warm Mix Asphalt) road bitumens. WMA fits in with the world's most popular technological trends, aimed at minimizing negative environmental impacts and reducing energy consumption. One of our strategic objectives was to strengthen our position in the Polish retail fuel market. We closed 2015 with a 10.5% share of sales volumes in Poland, which puts us in a good, third place. We are committed to making the use of our service stations satisfying our customers' expectations. As a socially responsible business, we take steps to build value of not only our Company, but also of its environment. In 2015, we organized the ['Helping while Refuelling'](#) campaign, which proved a considerable success. It was the first-ever cause-related marketing project in the fuel industry in Poland that run on such a large scale.

## Professional approach to corporate social responsibility



Social and relationship capital

For almost ten years, the LOTOS Group has consistently worked to put corporate social responsibility principles in practice in all areas of its business, seeking to respond in the best way possible to the social challenges of its stakeholders. At Grupa LOTOS, we have comprehensively managed corporate social responsibility since 2008. A milestone in the process was the development of a complete long-term Corporate Social Responsibility strategy for the LOTOS Group for 2012–2015, and – further to that – putting in place an end-to-end sustainable development management system. Our commitment to social responsibility gained a further professional dimension with the establishment of the [LOTOS Foundation](#) in 2015. Its objective is to support initiatives to develop infrastructure and make a positive difference for local communities, particularly in regions where companies of the LOTOS Group operate.



# LOTOS Group's reserves

## Ample oil and gas resources

A well-diversified portfolio of production licences is what gives us a competitive advantage. Our hydrocarbon exploration, production and sale operations are located in **Poland** (mainly crude oil and small quantities of associated gas), **Norway** (gas and condensate, i.e. light crude), and **Lithuania** (crude oil).

At the LOTOS Group, the E&P activities are carried on through LOTOS Petrobaltic S.A. and its subsidiaries, LOTOS Exploration and Production Norge AS and AB LOTOS Geonafta.

## LOTOS Petrobaltic Group's crude oil and natural gas resources as at December 31st 2015

Classification	Crude oil [million tonnes]	Natural gas [bcm]	in [million boe*] equivalent
2P - proved and probable reserves (according to the SPE 2007 international classification)	6,724	2,755	66,834

\* Barrels of oil equivalent

## Crude oil and natural gas resources as at December 31st 2015, by country

Volume	Crude oil		Natural gas		Total
	[million tonnes]	[million boe]	[billion m <sup>3</sup> ]	[million boe]	[million boe]
Poland	4.815	37.38	0.509	3.2	40.581
Norway	0.982	4.99	2.246	14.125	19.115
Lithuania	0.927	7.138	n.m	0	7.138

## Production volumes of crude oil and natural gas as at 31 December 2015 by country

## LOTOS Petrobaltic Group's production volumes in 2015

LOTOS Petrobaltic Group's production volumes in 2015	Crude oil [million tonnes]	Natural gas [billion m <sup>3</sup> ]	Total [million boe]
Poland	0.162	0.018	1.374
Lithuania	0.063	n.m.	0.486
Norway	0.316	0.981	2.484
Aggregate production in LOTOS Petrobaltic Group for 2015	0.541	0.999	4.344

## Production volumes of crude oil and natural gas as at 31 December 2014 by country

### LOTOS Petrobaltic Group's production volumes in 2014

LOTOS Petrobaltic Group's production volumes in 2014	Crude oil [million tonnes]	Natural gas [billion m <sup>3</sup> ]	Total [million boe]
Poland	0.160	0.018	1.352
Lithuania	0.070	n.m.	0.537
Norway	0.075	0.221	1.957
Aggregate production in LOTOS Petrobaltic Group for 2014	0.305	0.239	3.846

Criteria and methodology used in the calculations: volumetric method, mass-balance approach and Monte Carlo method; resource audits carried out by external auditors.

# Our business

# Our fuel tradition – the history of the LOTOS Group

The LOTOS Group is an organization with a long-time history, which translates into extensive experience and credibility of the company as a participant of fuel markets in Poland and globally. Since 1975, we have developed organically by expanding the range of products and services, and grown through acquisitions in Poland and abroad to enhance our production and processing capacities.

It has been 40 years in 2015 since the Gdańsk refinery had its tanks filled with the first batch of crude oil to start up the fuel unit. The decision on the refinery construction was made in May 1971. In 1972, an enterprise under the name Rafineria Nafty Gdańsk w Budowie (Gdańsk Oil Refinery under Construction) was formed. Within four years, a modern facility occupying an area of 220 ha, with designed annual processing capacity of 3 million tonnes of crude oil (now, after expansion, it is more than three times higher), was built to supply the Polish market with fuel and oils.

In 1976, the refinery changed its name to Gdańskie Zakłady Rafineryjne and the manufacture of motor gasolines was launched. A year later, the plant started to manufacture motor oils, a flagship product of Grupa LOTOS to this day. In 1980, production of aviation fuel and industrial bitumens began, which is a continuing business as well. A decade later, the name of mineral oil manufactured since 1976 was changed to LOTOS. In 1991, Gdańskie Zakłady Rafineryjne was transformed into a joint-stock company under the name Rafineria Gdańska S.A.

The company changed its name to Grupa LOTOS S.A. in 2003, two years before the debut of its stock on the Warsaw Stock Exchange. The initial public offering allowed it to raise more than one billion złoty in proceeds, which were applied towards e.g. the implementation of the Comprehensive Technical Development Programme (10+ Programme) and the acquisition of controlling stakes in refineries in the south of Poland and in Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu PETROBALTIC S.A., an exploration and production company.

In the recent decade, one of the key developments driving the dynamic growth of Grupa LOTOS and its competitive edge was the 10+ Programme carried out in 2007–2010. Valued at PLN 5.6bn, it was one of the largest investments in the Polish economy in 2000–2010. The 10+ Programme enabled Grupa LOTOS to increase its annual crude oil processing capacity from 6m to 10.5m tonnes, and the technologies implemented as part of the project enhanced the quality of fuels and reduced negative impact on the environment.

In order to increase its production potential, the LOTOS Group made a series of acquisitions abroad. In 2011, it acquired LOTOS Geonafta, the leader of crude oil production from onshore deposits in Lithuania. In 2013, as a result of the acquisition of Heimdal assets, LOTOS Norge secured Grupa LOTOS an interest in 14 exploration and production licences, as well as direct access to one of the key gas hubs on the Norwegian Continental Shelf. The field is a strategic area for exporting natural gas from Norway to Western Europe and United Kingdom. The gas sold through the Heimdal platform represents 15–20% of total natural gas exports from Norway.

# Scale of operations

## International reach

The LOTOS Group is one of Central and Eastern Europe's major and most efficient oil companies and the second largest producer of fuels in Poland. The coastal location of its plants ensures direct access to the sea, resulting in higher flexibility in terms of feedstock supply and lower costs of logistics in maritime transport.

Grupa LOTOS is the only producer in Poland with access to hydrocarbons in Poland's Exclusive Economic Zone of the Baltic Sea. Other regions where we are engaged in petroleum production include the Norwegian Continental Shelf and Lithuania (onshore). As a vertically-integrated organization, the LOTOS Group operates based on two reporting segments: upstream and downstream.

### Upstream segment

comprises activities related to the acquisition of crude oil and natural gas reserves, and crude oil and natural gas production.

### The downstream segment

comprises production and processing of refined petroleum products and their wholesale and retail sale, as well as auxiliary, transport and service activities.

#### Production and exploration



Portfolio of assets in 3 countries: Norway, Poland and Lithuania



#### Refining operations



One of Europe's most technologically advanced refineries



#### Marketing operations



Poland's 3rd largest network of 476 service stations.

Wholesale of fuels and other petroleum products (bitumens and oils)



**28,369\***  
barrels per day\*

production of hydrocarbons



**10,2** million  
tonnes

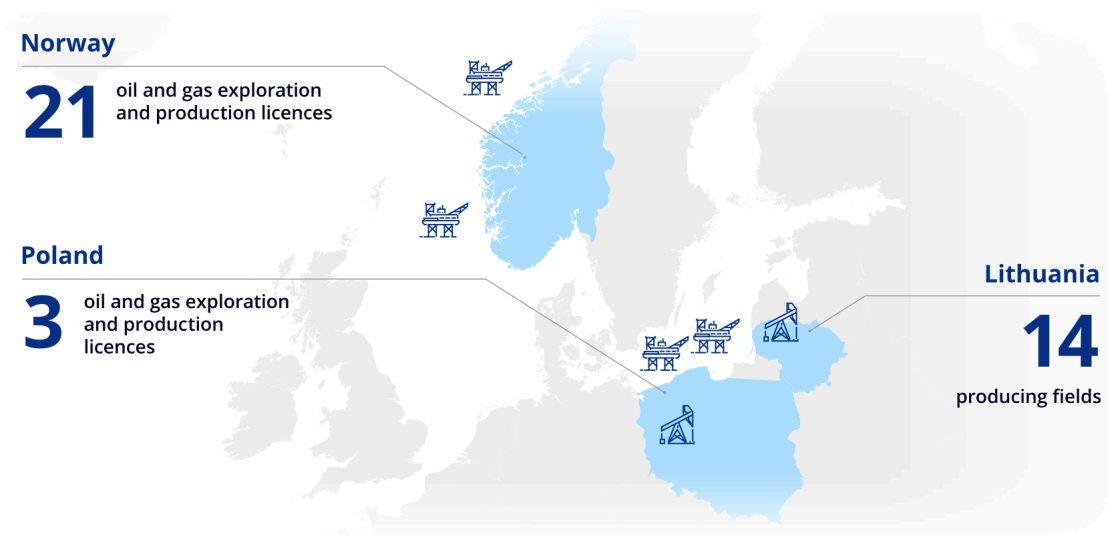
annual oil throughput

\* Including average daily output from the acquired Sleipner assets attributable to the LOTOS Group, as of the effective date of the acquisition (January 1st 2015)

## Geographical presence

As at the end of the period, apart from Grupa LOTOS (the Parent with registered office in Gdańsk, managing the Gdańsk refinery), the LOTOS Group included 15 other companies operating under the LOTOS brand, two of them seated abroad: in Lithuania (AB LOTOS Geonafta) and in Norway (LOTOS Exploration and Production Norge AS).

## Geographical reach of the LOTOS Group's operations



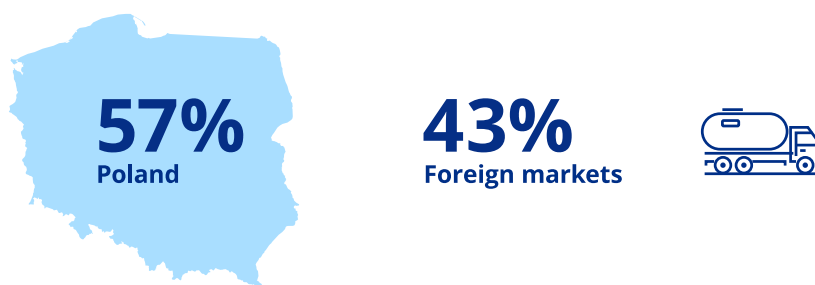
## Our products and markets

Key products offered by the LOTOS Group are: unleaded gasoline, diesel oil and light fuel oil, heavy fuel oil, bitumens, aviation fuel, naphtha, propane-butane LPG, base oils and lubricating oils, i.e. industrial and engine oils.

Key markets for our refined petroleum products include Poland and countries in Western and Northern Europe, such as Germany, the Netherlands, Belgium, Sweden, United Kingdom, France, Estonia, Denmark and the Czech Republic.

Most of the natural gas accompanying production is sold within the Capital Group. Natural gas produced in Norway is marketed to the United Kingdom and Continental Europe, with the entire condensate volume exported to the UK.

### LOTOS Group's revenue by market (%)



We have established a presence on 82 markets.

### Our export markets are as follows

**Naphtha**                      integrated fuel and petrochemical companies in Germany and Scandinavia, and the Amsterdam-Rotterdam-Antwerp (ARA) oil hub

**Motor gasolines**            the Amsterdam-Rotterdam-Antwerp (ARA) oil hub, Sweden, and United Kingdom

**Aviation fuel**                Scandinavian countries and the Czech Republic, where the products are transported by land

**Diesel oil**                    the United Kingdom, Germany and the Czech Republic

## Heavy fuel oil

storage depots of global trading companies in the Netherlands, Sweden, Estonia and Denmark (for re-sale outside of Europe)



A vast majority of exported products are transported by sea, using the P.P.P. Naftoport Sp. z o.o.'s infrastructure, and the rest is transported by land.

## Our brand

The [LOTOS brand](#) is one of our most valuable assets. In 2015, the *Rzeczpospolita* daily estimated its value at more than PLN 1.4bn.

Our service stations operate under the LOTOS brand, in the premium segment as LOTOS, and in the economy segment as LOTOS Optima. We manufacture and sell LOTOS Dynamic premium fuels, LOTOS Quazar premium oils and LOTOS Turdus oils.

[\(See more\)](#)

## Changes in the LOTOS Group structure

In 2015, significant changes were made to the corporate structure of Grupa LOTOS, triggering its transformation towards operating segments with a stronger focus on core business, supported by segments providing services to the business structures, all to ensure effective implementation of strategic objectives, process optimization, dynamism, greater operational flexibility, as well as strengthening of corporate functions and owner supervision. As a consequence of these changes, a [new organizational structure of Grupa LOTOS](#) was implemented.

## Ownership and legal form of Grupa LOTOS

Grupa LOTOS is a joint-stock company with the State Treasury as the majority shareholder (53.2% share).

As at December 31st 2015, the Grupa LOTOS' share capital totalled PLN 184,873,362 and comprised 184,873,362 shares, with a par value of PLN 1 per share, including:



- i. 78,700,000 Series A ordinary bearer shares,
- ii. 35,000,000 Series B ordinary bearer shares,
- iii. 16,173,362 Series C ordinary bearer shares,
- iv. 55,000,000 Series D ordinary bearer shares.

Each share confers the right to one vote at the Company's General Meeting.

## Shareholding structure of Grupa LOTOS as at December 31st 2015

### Shareholders holding 5% or more of total voting rights at the Annual General Meeting of Grupa LOTOS on June 30th 2015

Shareholder	Number of Grupa LOTOS shares held	% of total voting rights at GM	% of share capital held
State Treasury	98,329,515	75.82%	53.19%
ING OFE	11,740,000	9.05%	6.35%
OFE PZU Złota Jesień	9,100,000	7.02%	4.92%

### Shareholders holding 5% or more of total voting rights at the Extraordinary General Meeting of Grupa LOTOS on January 27th 2016

Shareholder	Number of Grupa LOTOS shares held	% of total voting rights at GM	% of share capital held
State Treasury	98,329,515	75.84%	53.19%
Nationale Nederlanden OFE*	10,584,287	8.16%	5.73%
OFE PZU Złota Jesień	9,100,000	7.02%	4.92%

\* Formerly ING OFE

In the reporting period, Grupa LOTOS did not issue any securities conferring special control powers. As at the date of release of this report, the Company had no information on any shareholder agreements on joint exercise of voting rights.

# The LOTOS Group operations

In 2011–2015, the LOTOS Group focused on its principal activities, i.e. exploration for and production of hydrocarbons, crude processing, and trading in petroleum products, while seeking to improve its marketing efficiency and optimize the refining and logistics processes. The goal of the strategy was to extend the value chain and boost product margins.

## Mission of the LOTOS Group

**Innovation-driven, sustainable development in the exploration, production and processing of hydrocarbons and marketing of high-quality products, which is conducive to creating lasting value for shareholders, ensuring customer satisfaction, enhancing and leveraging the employee potential, and which is responsible towards society and the environment and consistent with the energy security policy.**

# The LOTOS Group value chain

## The LOTOS Group value chain



In 2011–2015, the LOTOS Group focused on its core activities, i.e. hydrocarbon exploration and production, crude oil processing and trading in naphtha products, striving to improve its commercial efficiency, combined with optimised refinery processes and logistics. The strategy performed was aimed at extending the value chain and increasing margins of the products sold.

## Crude oil and natural gas exploration and production

### Strategic areas for the LOTOS Group’s upstream segment

#### Baltic Sea, Polish Economic Zone

All exploration, exploration and appraisal, and production licences in the Polish zone of the Baltic Sea are held by LOTOS Petrobaltic (or companies in which it holds equity interests). As at December 31st 2015, the upstream segment operated on the basis of:

#### Six oil and gas exploration and/or appraisal licences

covering the following areas in the Polish Economic Zone of the Baltic Sea: Gotland, Łeba, Rozewie (proceedings are pending to convert the Łeba and Rozewie licences into combined exploration, appraisal and production licences), Gaz Południe (the licence expired in June 2016), Słupsk W and Słupsk E. The total area of the company’s licences as at December 31st 2015 was over 6.2 thousand sq. km under exploration and appraisal licences.

**for hydrocarbon production in the Baltic Sea, namely:**

- Production licence for the B-3 field, valid until 2026 and covering extraction of crude oil and associated natural gas in an area located around 73 km north off Cape Rozewie. Production from the field started in 1992.
- Production licence for the B-8 field (held by an SPV, B8 Sp. z o.o. BALTIC S.K.A.), valid until 2031 and covering extraction of crude oil and associated natural gas in an area located approximately 70 km north of Jastarnia. The field is undergoing development and initial production of hydrocarbons has commenced.
- B4 and B6 production licences, valid until 2032 and covering extraction of natural gas north of Łeba. The licences are held by Baltic Gas Sp. z o.o. i Wspólnicy Sp. k., a joint venture established by LOTOS Petrobaltic S.A. and CalEnergy Resources Poland Sp. z o.o. Under a cooperation agreement between LOTOS Petrobaltic S.A. and CalEnergy Resources Poland Sp. z o.o., preparations are underway to develop the fields. The total area of the production licences as at December 31, 2015 was 147.84 km<sup>2</sup>.

In 2015, in the Baltic Sea, LOTOS Petrobaltic conducted production from the B3 field and launched initial production in the B8 field. Total output of crude oil from the Baltic Sea fields reached 162.4 thousand tonnes, while output of the associated natural gas was reported at 18.3 mcm.

[Information on the licences currently held](#)

**Poland – onshore operations**

In 2012, LOTOS Petrobaltic launched onshore operations in Poland in partnership with PGNiG S.A. In 2013, the companies signed an agreement for joint operations within the Kamień Pomorski licence area, in the north west of Poland, and in 2014 – an agreement for joint operations within the Górowo Iławeckie licence area in the north east of Poland. Exploration and appraisal work is under way in both licence areas.

**Onshore operations in Lithuania**

AB LOTOS Geonafta, a company operating in Lithuania as part of the LOTOS Group's exploration and production segment, is the leader of crude oil production from onshore deposits in the country. In aggregate, as at the end of 2015 AB LOTOS Geonafta Group companies conducted hydrocarbon production from 14 fields. The AB LOTOS Geonafta Group produced 63.4 thousand tonnes of crude oil in 2015.

**Norwegian Continental Shelf**

LOTOS Exploration & Production Norge AS of Stavanger, Norway, is the subsidiary responsible for the development of operations on the Norwegian Continental Shelf. As at December 31st 2015, following the acquisition of the Sleipner production assets, LOTOS Norge held interests in 27 licences for oil exploration and production on the Norwegian Continental Shelf. In 2015, production from the Norwegian Continental Shelf amounted to 89.1 thousand tonnes of crude and 288.9 mcm of gas (316.5 thousand tonnes of crude and 981.3 mcm of gas inclusive of the annual output from the Sleipner assets as of the effective date of the acquisition: January 1st 2015).

## Refining operations

Grupa LOTOS' refinery in Gdańsk, with a rated annual capacity of 10.5m tonnes of crude, is one of the newest and most advanced refineries in Europe in terms of applied technologies and environmental protection.

### Strengths of Grupa LOTOS' refinery:

- High distillate rate: a large share of fuels in the product mix and focus on light and medium distillates, which enables the Company to successfully adjust its output to the domestic demand structure and exports opportunities.
- Location: the refinery is located on the coast of the Baltic Sea, which is a strategic advantage given the proximity of and the direct pipeline connection with the handling infrastructure of Port Północny (a part of the Gdańsk Seaport located on the Gdańsk Bay), and gives the Company a major competitive edge in the region in terms of logistics (access to feedstock and product sales channels).
- Unique combination of supply channels, guaranteeing simultaneous access to feedstock supplies by road (from Russia) and via PERN Przyjaźń S.A.'s pipeline network, as well as by sea, from numerous countries and the LOTOS Group's own fields.

**With access to two supply channels, we are able to use different supply sources and respond flexibly to changes in petroleum product and crude oil prices, and can effectively diversify the types of crude processed at the refinery.**

## Sales and logistics

In 2015, the commercial activity of the LOTOS Group was carried out in the LOTOS Group and its subsidiaries, i.e. LOTOS Paliwa, LOTOS Oil, LOTOS Asphalt, LOTOS-Air BP Polska. The LOTOS Group sold in Poland (to foreign companies) and abroad, exporting by sea and land, while its subsidiaries produced and sold to particular sectors, i.e. fuel, oil and asphalt ones.

The LOTOS Group sells fuels on the Polish retail market solely by the agency of LOTOS Paliwa. On the wholesale market, the LOTOS Group sells both by the agency of the LOTOS Group, supplying to international companies and key customers (tenders for the Material Reserves Agency and the Military Property Agency), and by the agency of LOTOS Paliwa, in transactions contracted with wholesalers and independent operators.

In 2015, in the sector of production and sale, the LOTOS Group sold 10,924 thousand tonnes of products which is 8.1% more than in the analogous period in the previous year. The increased production and sale volumes of the LOTOS Group resulted from advantageous refinery margins remaining for the majority of 2015.

The highest increase in sale volumes was recorded for naphtha (+77.8%) and bunker fuel (+69.7%) though those products are not of key importance due to their relatively insignificant total production and sale volume in a year. The highest decrease in sale volumes was recorded in the sale of aviation fuel (-19.6%) which results from the changed development direction, i.e. departure from the wholesale market and focusing on more profitable retail channels.

Moreover, in 2015 the LOTOS Group sold crude oil (243 thousand tonnes) within the tender to the Material Reserves Agency.

The highest increase in sale volumes, just like in previous years, was recorded for diesel oil. Its sale volume was 4,853 thousand tonnes in 2015, reaching 44.1% share in total sale volume. The second largest item in the quantitative sale structure of the LOTOS Group was gasolines, with the share of 14.1%. In 2015, the gasoline sale volume reached 1,547 thousand tonnes which is 1.6% increase year-to-year. The last item for which the share in the total sale mass of the LOTOS Group reached more than 10% was heavy fuel oil, with the share in sale volume reaching 13.4%. The sale volumes for this group of products was 1,477 thousand tonnes in 2015, increasing 4.1% year-to-year.

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**Fuels:** The LOTOS Group sells fuels (unleaded gasoline, diesel oil and light fuel oil) in Poland and on foreign markets. LOTOS Paliwa operates solely on the domestic market, and its main customers include Polish fuel companies and the chain of LOTOS service stations.

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**Other petroleum products:** Sales of other petroleum products are managed by Grupa LOTOS, its subsidiaries and jointly-controlled entities. **LOTOS Oil** sells lubricating oils in Poland and abroad, chiefly through distributors and authorized customer service points. **LOTOS Asfalt** offers road bitumens to customers in Poland and abroad, mainly construction companies. LOTOS-Air BP Polska's offers aviation fuel in Poland only; the product is purchased by airlines (the 'into plane' segment) and wholesale market operators.

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More information on the LOTOS Group's [largest customers](#) and its effective logistics solutions

## Other business

The LOTOS Group performs also support activities auxiliary to the core operations. Key subsidiaries in this area include LOTOS Serwis, RCEkoenergia, Energobaltic, LOTOS Terminale, LOTOS Infrastruktura, LOTOS Lab, LOTOS Straż and Miliana Shipholding Group companies.

LOTOS Straż organizes and conducts rescue operations on the premises of the Grupa LOTOS refinery in order to protect human life and health as well as property, and to remove the consequences of fires, technical and transport disasters, chemical plant failures, ecological incidents and natural disasters.

As part of supervision of the Grupa LOTOS refinery's operational protection, LOTOS Straż performs inspections of the operational protection facilities and equipment with respect to:

- maintaining the roads and access roads passable and properly marked,
- water supply,

- operation of stationary and semi-stationary extinguishing and sprinkling systems,
- fire alarm system.

Services provided by LOTOS Lab consist in making tests and analyses of petroleum products, water, wastewater and work environment. LOTOS Lab is an eco-friendly company that fully respects and applies in practice the rules of occupational health and safety, and uses advanced and specialist instrumentation and control systems. Its laboratory is available on a 24/7 basis. Tests are performed within 24 hours from sample delivery. The company's customer base includes international inspection firms, state authorities, car servicing garages and individuals. In 2004, the company was awarded certificate No. AB 474 issued by the Polish Centre for Accreditation. The company also has certificates for 120 test methods.

LOTOS Ochrona provides people and property protection services to Grupa LOTOS and its subsidiaries, ensuring that appropriate security standards are met on the premises and remaining in constant contact with local police stations.

All security personnel are qualified physical security professionals and are licensed to use weapons.

Other auxiliary services provided by companies of the LOTOS Group include:

- Maintenance of mechanical and electric operations and controlling devices, overhaul and repair services,
- Manufacture and distribution of electricity, heat, liquid gas (LPG) and natural gas condensate,
- Storage and distribution of fuels,
- Renting and operating of own or leased real estate,
- Sea logistics services which consist in receipt and storage of crude oil in the production areas, transport of crude from the field to the port, and rescue assistance services for offshore rigs.

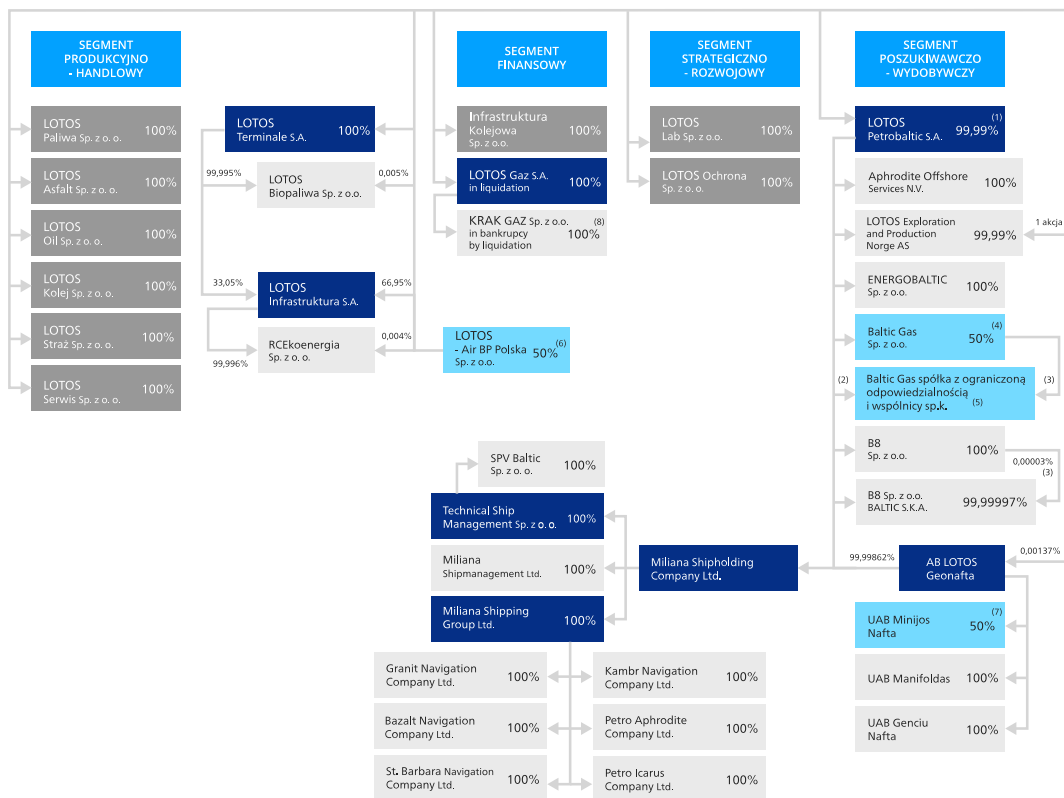
## Structure of the LOTOS Group

As at December 31st 2015, the LOTOS Group comprised Grupa LOTOS (the Parent), and 34 production and service companies, including:

- 13 direct subsidiaries of Grupa LOTOS,
- 21 indirect subsidiaries of Grupa LOTOS.

The LOTOS Group's organisational chart as at December 31st 2015

**LOTOS** GRUPA LOTOS S.A.



- (1) State Treasury – 0.01%
- (2) Limited partner
- (3) General partner
- (4) CalEnergy Resources Poland Sp. z o.o. - 50%
- (5) CalEnergy Resources Poland Sp. z o.o. - Limited partner
- (6) BP Europa SE – 50%
- (7) Odin Energi A/S – 50%
- (8) Entity controlled by a bankruptcy administrator; a non-Group company

Entities classified as joint ventures accounted for using the equity method, which are non-Group companies

Additionally, Group LOTOS S.A. holds 8.97% shares in P.P.P. NAFTOPORT Sp. z o.o. (a company of the PERN Przyjaźń Group of Plock)

[More information on key companies of the LOTOS Group](#)



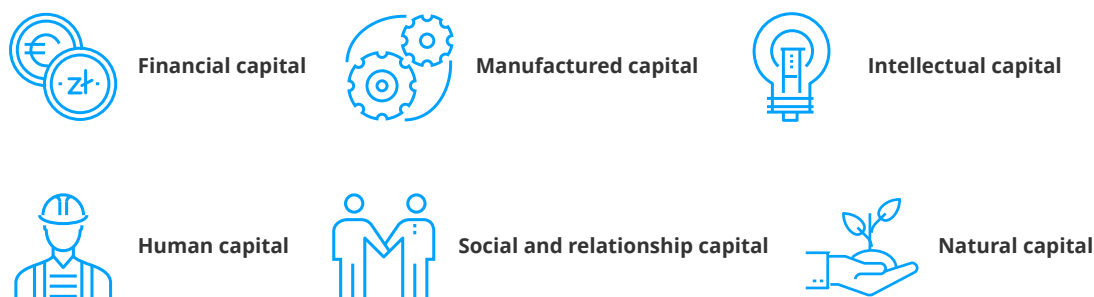
# Value creation model

## Six capitals, one model

Our responsible approach to doing business is expressed by the way we handle everyday challenges faced by our organization and by the way our achievements and plans are communicated. To address the upcoming changes in the reporting process defined at the European Union level, in 2015 we improved the methods and procedures we apply to create reports, define key areas for our company and its stakeholders, and present an integrated approach to building value for our stakeholders. As a result of our efforts, we developed a value creation model for the LOTOS Group and the related way of doing our business.

The model reflects the values considered as key for our company and its stakeholders, as well as the respective value drivers. We also identified the related financial and non-financial indicators to measure progress in achieving long-term goals in particular segments of our business.

The capitals used to define the value creation model were chosen by reference to the guidelines of the International Integrated Reporting Council (IIRC). They include:



## Advantages resulting from the adoption of the value creation model for the LOTOS Group

We have more knowledge of how to effectively use the capitals and relations between them in order to build value for our company and its stakeholders. This follows from better understanding of the relations between activities focused on the sustainable development of the LOTOS Group and activities undertaken to generate value in such areas as revenue and operating margin growth, asset efficiency improvement, or satisfaction of our owners' and other stakeholders' expectations.

## How do we build value at the LOTOS Group?

**OUR CAPITALS**



**BENEFITS**



**OUR RESULTS 2015**

Selected indicators showing progress towards our long-term goals under each capital.

[See our interactive value creation model](#)

# Corporate supervision

Corporate governance strengthens the credibility of Grupa LOTOS as a company listed on the regulated market of the Warsaw Stock Exchange, which enhances the competitive position of the entire LOTOS Group.

We make every effort to ensure that our disclosure policy is compliant with best practices and supports the objectives of corporate governance principles, i.e. transparency of the Company's operations as a listed company, trust in stakeholder relations, and consistency in creating shareholder value.

After its stock market debut in June 2005, Grupa LOTOS complied with most of the recommendations set out in the document 'Best Practices for Public Companies', and from the beginning of 2008 it followed the 'Code of Best Practice for WSE Listed Companies', as amended by the WSE Supervisory Board's Resolution of October 19th 2011. As of January 1st 2016, the Company adopted the revised 'Code of Best Practice for Listed Companies 2016'.

[More information on corporate governance](#)

## Disclosure policy of Grupa LOTOS

In line with the relevant disclosure requirements, we report on an ongoing basis instances of incidental or permanent non-compliance with corporate governance principles. The reports are published through the Electronic Information Base (EBI), similarly to current reports, and are available in two languages on the Company's investor relations website.

Our relations with investors and stakeholders are forged and fostered based on equality and dialogue, in a manner satisfactory to both parties. We review and gradually introduce new investor relation tools, and continually improve the content and form of communications. We use, inter alia, mailing, newsletters, our website, participation in conferences for institutional and individual shareholders and brokers, conference calls, one-on-one meetings, open-house days for analysts and investors, and inclusion in the RESPECT index.

In addition, Grupa LOTOS operates an [investor relations website](#). This bilingual (Polish-English) service is updated on an ongoing basis to provide foreign investors and analysts with equal access to information.

## General Meeting of Grupa LOTOS

The powers and responsibilities of the General Meeting are detailed in the Articles of Association of Grupa LOTOS. Any matters to be submitted to the General Meeting are first presented for consideration by the Supervisory Board. The rules of attendance and voting at General Meetings are set forth in the Rules of Procedure for General Meetings of Grupa LOTOS.

The key documents of Grupa LOTOS, including its Articles of Association and Rules of Procedure for General Meetings, are available on our [website](#).

[More information about the activities of General Meetings](#) (e.g. adopted resolutions and shareholders' questions).

## Corporate governance structure of Grupa LOTOS



### Supervisory Board

The Supervisory Board of Grupa LOTOS exercises ongoing supervision of the Company's business, across all areas of its operations. It performs its duties collectively, but may also set up ad hoc or standing committees to exercise supervision of specific areas of the Company's activities. The Supervisory Board may delegate its members to individually perform certain tasks or functions.

The procedures to be followed by the Supervisory Board of Grupa LOTOS are defined in the Company's [Articles of Association and Rules of Procedure for the Supervisory Board](#).

### Composition of the Supervisory Board of Grupa LOTOS (9th term)

- Beata Kozłowska-Chyła – Chairwoman, [Full profile](#)
- Katarzyna Lewandowska – Deputy Chairwoman, [Full profile](#)
- Agnieszka Szklarczyk-Mierzwa – Secretary, [Full profile](#)
- Dariusz Figura – Member, [Full profile](#)
- Mariusz Golecki – Member, [Full profile](#)
- Maria Sierpińska – Member, [Full profile](#)
- Katarzyna Witkowska – Member, [Full profile](#)

The following standing Supervisory Board committees operate at Grupa LOTOS:

- Audit Committee
- Strategy and Development Committee
- Organization and Management Committee

### [More information about Supervisory Board of Grupa LOTOS](#)

Changes made to the composition of the Supervisory Board of the 9th term during the reporting period are described in the [Directors' Report](#) of the operations of Grupa LOTOS in 2015.

As at December 31st 2015, the Supervisory Board of Grupa LOTOS consisted of:

- Wiesław Skwarko – Chairman
- Agnieszka Trzaskalska – Deputy Chairperson
- Oskar Pawłowski – Secretary
- Małgorzata Hirszel – Member
- Katarzyna Witkowska – Member
- Michał Rumiński – Member
- Robert Pietryszyn – Member

## The Management Board

The Management Board of Grupa LOTOS represents the Company before third parties and manages its corporate affairs. In addition, individual Board members perform their duties in line with the division of powers and responsibilities resulting from their operational functions within the Company. Each member of the Management Board is authorized to represent the Company in court and out of court in relation to its business, with the exception of matters reserved for the General Meeting or Supervisory Board under the Commercial Companies Code or the Company's Articles of Association, as well as matters falling outside of the ordinary scope business where they require the Board's prior resolution, and matters within the powers of another member of the Management Board.

The Management Board operates on the basis of the [Grupa LOTOS' Articles of Association and its Rules of Procedure](#).

## Composition of the Management Board of Grupa LOTOS (9th term)



**Robert Pietryszyn**  
President of the Board

Since May 13th 2016.

[Full profile](#)



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

Since June 19th 2006.

[Full profile](#)



**Marcin Jastrzębski**  
Vice-President of the Board, Chief Operating Officer

Since May 13th 2016.

[Full profile](#)



**Przemysław Marchlewicz**  
Vice-President of the Board for Corporate Affairs

Since May 17th 2016.

[Full profile](#)



**Mateusz Aleksander Bonca**  
Vice-President of the Board, Chief Strategy and Development Officer

Since June 1st 2016.

[Full profile](#)

### [More information about Management Board of Grupa LOTOS](#)

As at December 31st 2015, the Management Board of Grupa LOTOS consisted of:

- Paweł Olechnowicz – President of the Board, Chief Executive Officer,
- Mariusz Machajewski – Vice-President of the Board, Chief Financial Officer,
- Zbigniew Paszkowicz – Vice-President of the Board, Chief Exploration and Production Officer,
- Marek Sokołowski – Vice President of the Board, Chief Strategy and Development Officer,
- Maciej Szozda – Vice President of the Board, Chief Refining and Marketing Officer.

# The LOTOS Group as an active participant of the fuel market and initiator of regional development

## We create a platform for cooperation

We are a member of Polish and international trade, business and specialist associations. Our membership of those organizations allows us to create a cooperation platform for energy companies in Poland and in Europe, actively participate in legislative processes in Poland and the European Union, and act towards improving security in the energy sector and promoting best practices in the area of corporate social responsibility.

We also engage in initiatives that bring together companies from Pomerania, the region where we operate and exert a significant environmental impact. We seek to initiate regional development through our involvement with local organizations.

## Membership of trade, business and specialist associations in 2015

### Trade associations

#### Central Europe Energy Partners, CEEP

CEEP represents energy-intensive companies and the wider energy sector (including oil, gas, coal, power, power networks, renewable energy sources, nuclear energy, etc.) from Central Europe.

[More information](#)

#### FuelsEurope

Grupa LOTOS is a member of FuelsEurope, a Brussels-based organization formed by merging EUROPIA and CONCAWE (Grupa LOTOS was a member from 2006). FuelsEurope represents the interests of 41 companies operating oil refineries in the European Union that account for almost 100% of the EU's oil processing capacity.

[More information](#)

#### Polish Organization of Oil Industry and Trade (POPiHN)

We are a founding member of POPiHN, established in 2003, and are represented in its Board. One of the key objectives of Grupa LOTOS' activity within POPiHN is the sustainable development of a competitive fuel market in Poland, which we seek to achieve by promoting business standards compliant with EU law and equal rights for all participants of the Polish fuel market.

[More information](#)

## Polish Association of the Oil and Gas Industry Engineers and Technicians (SITPNiG)

LOTOS Petrobaltic and LOTOS Terminale are the supporting members of SITPNiG, an organization with a scientific and technical profile that serves the oil and gas industry and its members by promoting social utility in implementing public tasks.

[More information](#)

## Windsor Energy Group - WEG

In March 2009, Grupa LOTOS joined the Windsor Energy Group (WEG), an independent think-tank based in London that addresses issues related to the building of security and order within the international energy sector, with a particular focus on the oil and gas and alternative energy subsectors.

[More information](#)

## World Petroleum Council – Polish National Committee

We are part of the Polish Steering Committee. Formed in 1933, the World Petroleum Council is the only international organization which represents all branches of the oil industry.

[More information](#)

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

Grupa LOTOS is a founding member of this organization focusing on hydrocarbon exploration and production issues.

[More information](#)

## Atlantic Council

Since September 2013, we have been a member of Atlantic Council, a US-based organization promoting constructive leadership and engagement in international affairs in the areas of energy, environment, global economy and economics, as well as cooperation within the Atlantic Community.

[More information](#)

## Polish Member Committee of the World Energy Council

Since 2015, we have been a member of the Polish Committee of the World Energy Council (WEC). WEC is a global, non-governmental and non-commercial organization dealing with issues related to energy resources, production of various forms of energy, its use and environmental impact. WEC's overriding objective is to support sustainable development and peaceful use of energy resources for the greatest benefit of its members and the whole world. WEC was established in London in 1924, with Poland among its 40 founders. Today, it is accredited at the United Nations and represents over 90 member states and more than 3,000 energy sector players from those states.

[More information](#)



## Polish Chamber of Chemical Industry

In 2014, Grupa LOTOS became a member of the Polish Chamber of Chemical Industry, an organization supporting the development of the chemical sector and representing its members in relations with central government authorities and international organizations.

[More information](#)

## Business associations

### Business Centre Club – BCC

Grupa LOTOS focuses its work in BCC on initiatives designed to foster development of the Polish economy, create jobs and provide assistance to businesses.

[More information](#)

### European League for Economic Cooperation ELEC

The European League for Economic Cooperation is a non-governmental and non-partisan international organization with a mission to promote economic integration, strengthen the social and cultural identity of European societies and work towards increasing the role of Europe in the international arena. Grupa LOTOS has been a member of ELEC since 2002.

[More information](#)

### Gdańsk Business Club

Gdańsk Business Club brings together entrepreneurs, owners and leaders of key companies from the Pomerania region. It was founded in 1994. Grupa LOTOS has been a member of Gdańsk Business Club since 2002

[More information](#)

### Pomorskie in the European Union Association

The Association aims to support local government authorities, universities, institutions and businesses from the Gdańsk Province in the European Union. Grupa LOTOS joined the Association in 2010.

[More information](#)

### Polish Business Roundtable Club

The Club was founded in 1997 on the initiative of the Polish Business Roundtable, an organization formed by the elite of Polish entrepreneurs committed to promoting the economic development and integration of the business community in Poland. Grupa LOTOS has been a member of the organization since 2005.

[More information](#)

## Polish Higher Education-Business Forum (PFAG)

The Polish Higher Education-Business Forum (PFAG) is an association founded in 1992 to build closer ties between academic circles and business community with the ultimate goal of promoting innovative projects financed with domestic and EU funds. Through our membership of the Polish Higher Education-Business Forum since 2004, we have been involved in activities fostering development of cooperation between businesses and academic institutions.

[More information](#)

## CSR advocacy groups

### Responsible Business Forum

[More information](#)

### UN Global Compact

[More information](#)

## Specialist associations

Employers of Poland

[More information](#)

Polish Association of Listed Companies

[More information](#)

Polish Economic Society

[More information](#)

ISO 14000 Polish Forum Club

[More information](#)

SO 9000 Polish Forum Club

[More information](#)

Accountants Association in Poland

[More information](#)

Polish Chamber of Civil Engineers

[More information](#)

Polish Human Resources Management Association

[More information](#)

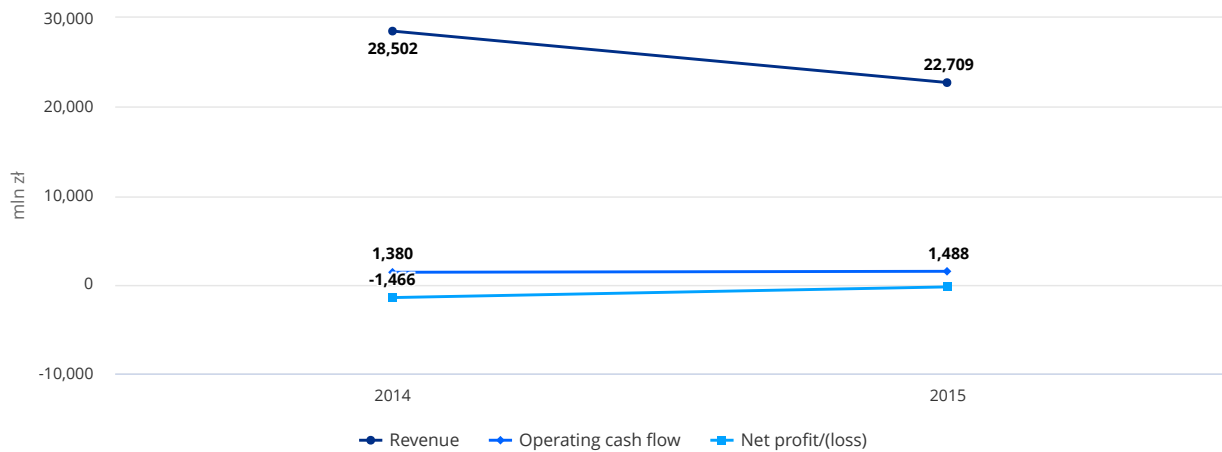
# **Financial performance of the LOTOS Group in 2015**

## Solid operating results

By consistently implementing its strategy aimed at maximizing the integrated margin, the LOTOS Group succeeded in increasing its production potential and operating efficiency, which contributed to its sound operating performance in 2015.

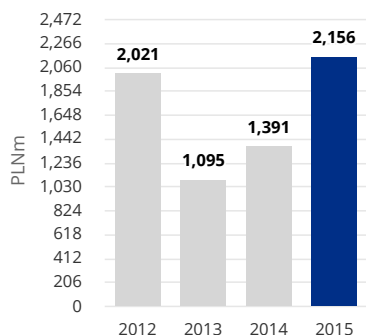
The adopted strategy of maximizing integrated margin translated into solid operating results for 2015. In 2012–2015, clean LIFO-based EBITDA averaged PLN 1.67bn, while in 2015 it reached a record high of PLN 2.16bn. This strong performance at the operating profit level was delivered despite a 20% year-on-year drop in revenue, to PLN 22,709m in 2015 in connection with the reduced prices of petroleum products on global markets. In 2015, the net result amounted to PLN -263.3m. Net cash from operating activities reached a stable level of PLN 1,408m. The Group reported a net loss for 2015, at PLN -263.3m. In 2015 the Company increased net cash from operating activities and improved its service debt capacity (lower ratio of net debt to clean LIFO-based EBITDA).

### Financial highlights of the LOTOS Group (PLNm)



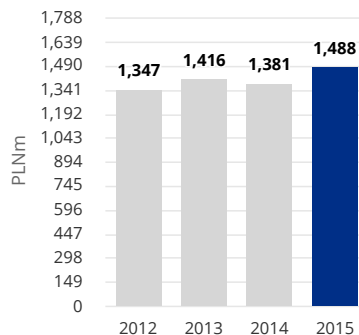
# More than 10 years of Grupa LOTOS' presence on the WSE

**Clean LIFO-based EBITDA (PLNm)**



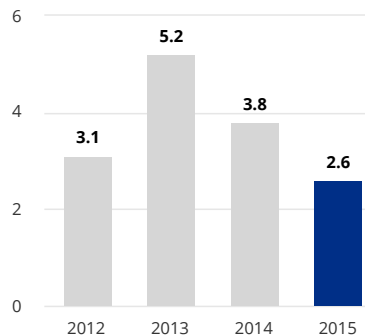
Fluctuations in financial performance due to changing macroeconomic environment; 2012–2015 average: PLN 1,666m.

**Cash flows from operating activities (PLNm)**



Stable levels of cash generated from operating activities; 2012–2015 average: PLN 1,408m.

**Net debt to clean LIFO-based EBITDA**



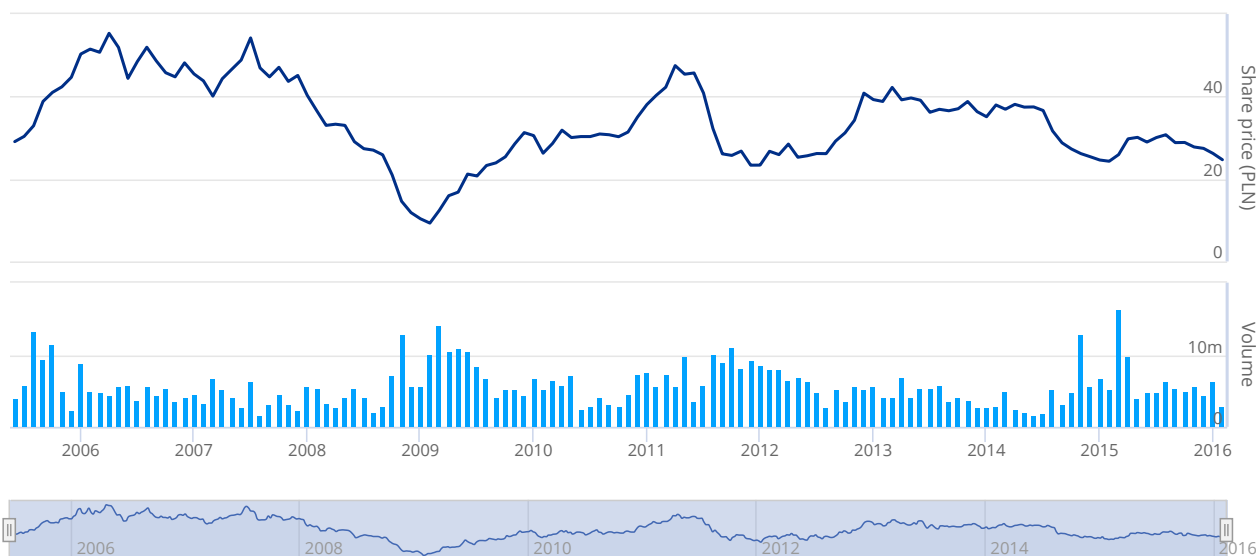
Improving ability to service the existing debt.

The Company shares have been listed on the Warsaw Stock Exchange (WSE) since June 2005, and are included in the WIG20 index of WSE's 20 blue chips., as well as in WIG-Paliwa and RESPECT Index.

## Grupa LOTOS stock performance since IPO

Zoom

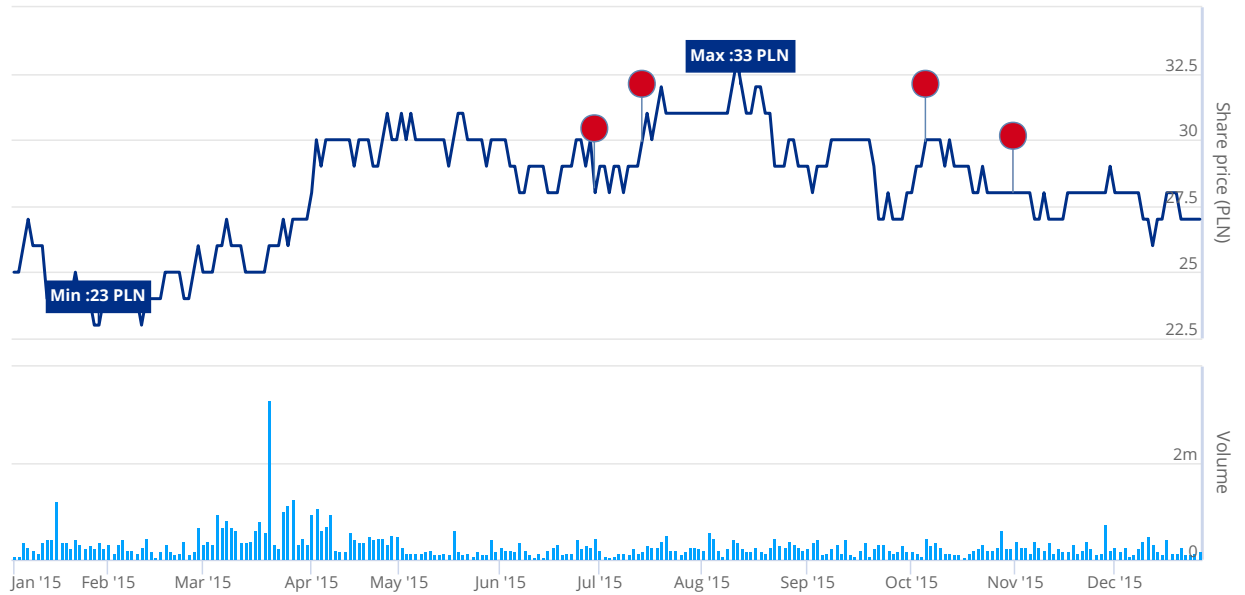
From  To



Share price (PLN) and trading volume (number of shares) since first listing on the WSE

In 2015, the Grupa LOTOS stock traded within the target price, as estimated by brokers, of PLN 22.90–33.50. Actually it belonged to the range of PLN 23.53 – 33.24. The lowest closing price was PLN 23.83, and the highest – PLN 33.15. The company closed the year at PLN 27.00.

**Factors affecting the price, including key events at Grupa LOTOS:**

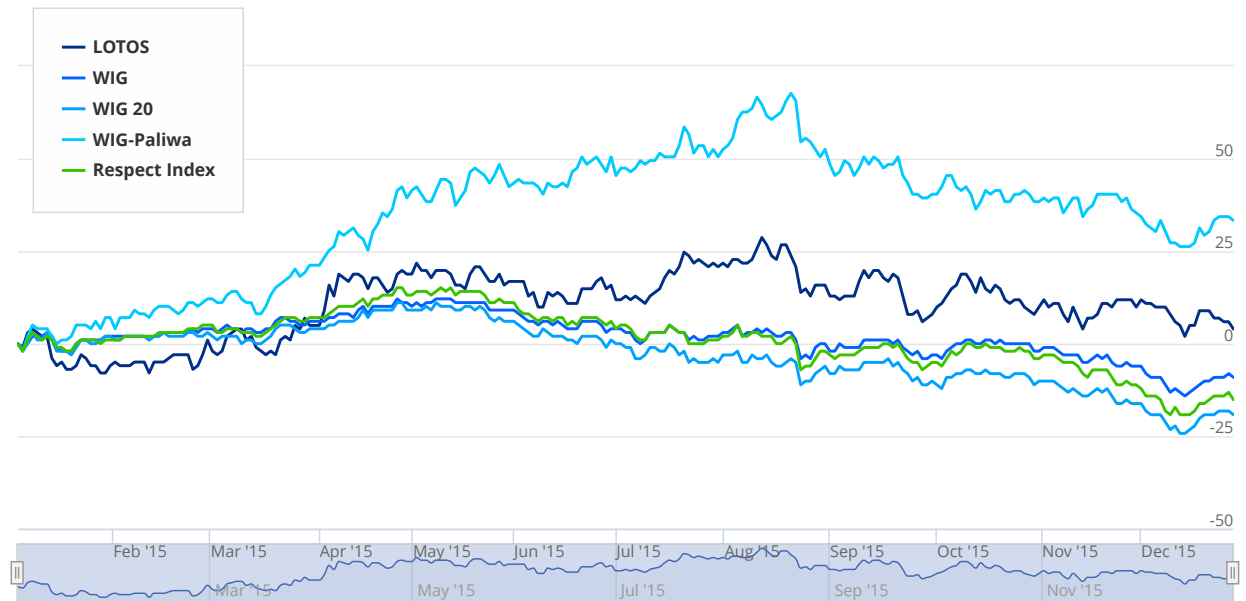


Despite the brokers' estimation medians above PLN 30.00 per one share of the LOTOS Group, the price of its shares did not react to the positive news communicated in H2 2015, including the launch of oil production from the B-8 field and the agreement with Exxon Mobil for acquisition of the Sleipner assets, and it decreased, which was indirectly evidenced by the muffled growth potential by opening short positions on the LOTOS securities in H2 2015.

**Structure of broker recommendations on Grupa LOTOS shares in 2015**

The target price of Grupa LOTOS shares in brokers' research reports ranged from PLN 22.90 to PLN 33.50, compared with PLN 25.80 to PLN 54.07 in 2014. The average target price in 2015 was PLN 30.47 (2014: PLN 37.90).

**Grupa LOTOS share price performance vs WIG, WIG20/WIG30, WIG Paliwa and RESPECT Index [%]**



In 2015, Grupa LOTOS shares outperformed the market. The index of all companies listed on the Main Market, WIG, dropped 9.6%, and WIG20 dipped by -19.7%. Looking at stock performance by sector, WIG-Paliwa gained 32.5% while WIG-Energetyka went down by 31.4%. The RESPECT corporate social responsibility index lost over 15.1% during 2015.

**Dividend policy at Grupa LOTOS**

Increased dividend distributions under the strategy for 2011–2015 resulted from the optimization of the financing structure of the LOTOS Group. Grupa LOTOS' financial strategy provided for potential distribution of up to 30% of net profit as dividend.

**Dividends and dividend yields in 2006–2015 (PLN)**

Financial year	Dividend	Dividend per share	Share price at year end when the dividend was distributed	Dividend yield*
2005	0.0	0.0	44.2	-
2006	40,932,000.0	0.4	49.3	0.7
2007	0.0	0.0	44.5	-
2008	0.0	0.0	12.0	-
2009	0.0	0.0	31.8	-
2010	0.0	0.0	36.4	-
2011	0.0	0.0	23.3	-
2012	0.0	0.0	41.2	-
2013	0.0	0.0	35.5	-
2014	0.0	0.0	27.0	-
2015	0.0	0.0	-	-

\* Dividend yield - dividend per share to price per share



## Historical dividend per share (PLN)

Financial year	Dividend per share	% of net profit	Dividend record date	Dividend payment date
2005	0.0	0.0	-	-
2006	0.4	10.1	Jun 11 2007	not later than Jul 31 2007
2007	0.0	0.0	-	-
2008	0.0	0.0	-	-
2009	0.0	0.0	-	-
2010	0.0	0.0	-	-
2011	0.0	0.0	-	-
2012	0.0	0.0	-	-
2013	0.0	0.0	-	-
2014	0.0	0.0	-	-
2015	0.0	0.0	-	-

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

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

The Board of Grupa LOTOS has no knowledge of any agreements which may give rise to future changes in the number of shares held by the existing shareholders and bondholders.

## The responsible ones awarded with inclusion in the RESPECT index

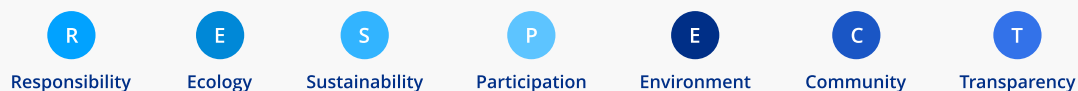
In 2015, for the ninth time Grupa LOTOS shares became a constituent of the WSE's RESPECT Index – Central and Eastern Europe's first index of socially responsible companies. It comprises stocks of companies that show commitment to best management standards in corporate and information governance, as well as investor relations, and that act responsibly on environmental, social, and labour issues.

Grupa LOTOS has been present in the RESPECT Index since its inception in 2009. To date, the WSE has announced nine editions of the RESPECT Index. The latest comprises 23 companies and will be valid until December 21st 2015.

[More information on the RESPECT Index](#)

### What does it mean to us to be included in the RESPECT Index?

For Grupa LOTOS, each of the values represented by the letters making up the word 'RESPECT' is reflected in its everyday business practices, and as a constituent of the RESPECT Index, we see them as central to our understanding of social responsibility on the capital market.



[More information](#)

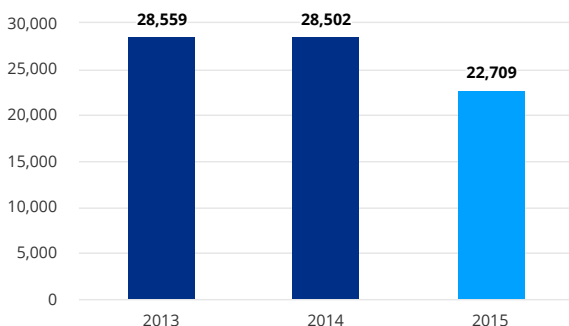
## Acting innovatively – financially stable

The drop in revenue in 2015 was caused primarily by falling prices of crude oil and petroleum products on global markets, driving down revenue in both upstream and downstream segments (average selling prices of petroleum products fell by 26.5%).

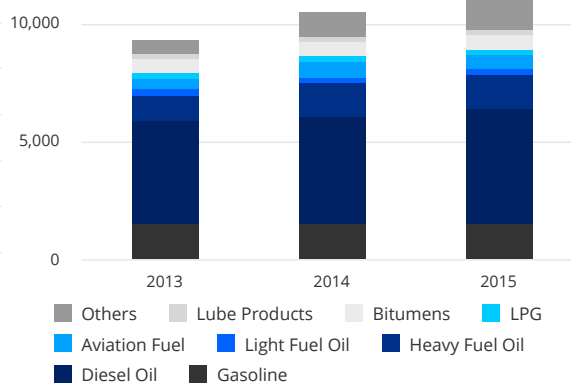
Sales volumes, however, were up. In Poland, the increase was mainly attributable to rising volumes of diesel oil sold through wholesale and retail channels, higher sales of bunker fuel following changes in the sulfur content requirements in the SECA area, and increased sales of LPG.

Export sales grew, supported by very attractive refining margins. As a result, in 2015, it was profitable to maximise production abroad even at prices lower than on the domestic market.

Revenue (PLNm)



LOTOS Group's sales by key products (in thousand tonnes)



**PLN 122.8m – year-on-year growth (+10.6% on 2014) in the LOTOS Group's distribution costs, chiefly driven by 8.4% higher sales volumes and higher average USD/PLN exchange rate during the year (up 19.7% on 2014)**

### What were the drivers of the LOTOS Group's operating result in 2015?

**A year-on-year increase of PLN 1,425m in gross profit achieved mainly thanks to higher decrease in the cost of sales than in the revenue**

In 2015, cost of sales reported by the LOTOS Group stood at **PLN 20,249.0m** (down 26.3% on 2014). In the same period, the estimated unit cost of sales was **PLN 1,803/tonne** (down 32.0% on 2014). The unit sales margin in 2015 came in at **PLN 219/tonne** (up 119.0% on 2014). The LOTOS Group's consolidated gross profit for 2015 was **PLN 2,460.4m** (up PLN 1,425.1m on 2014).

#### Higher distribution costs resulting from growing sales volumes and foreign exchange movements

Distribution costs grew by PLN 122.8m (up 10.6% on 2014), chiefly on the back of 8.4% higher sales volumes and higher average USD/PLN exchange rate during the year (up 19.7% on 2014).

#### Net other expenses

In 2015, the LOTOS Group reported net other expenses of PLN 293.0m, including chiefly PLN 161m in the provisions for the risk related to the challenging of the right to deduct VAT by the tax authorities.<sup>1</sup> Net other expenses were also strongly affected by the recognition of impairment losses of approximately PLN 69m on Lithuanian assets related to the AB LOTOS Geonafra Group's deposits, an impairment loss of approximately PLN 12m on the Sambia E area, and an impairment loss of PLN 8m on service stations. Other factors included the ca. PLN 15m charge to expenses representing the net value of liquidated intangible exploration and evaluation assets – Norwegian licences (PL362, PL035B, PL503), expenditure write-offs and costs related to the B8 project (ca. PLN 41m), and remeasurement of the decommissioning provision as a result of the ca. PLN 10m increase in the estimated cost of decommissioning of the MOPU (Mobile Production Offshore Unit) from the Yme field in Norway.

<sup>1</sup> Pursuant to the decision of the Tax Audit Office; see [Note 9.4](#) to the consolidated financial statements for 2015.

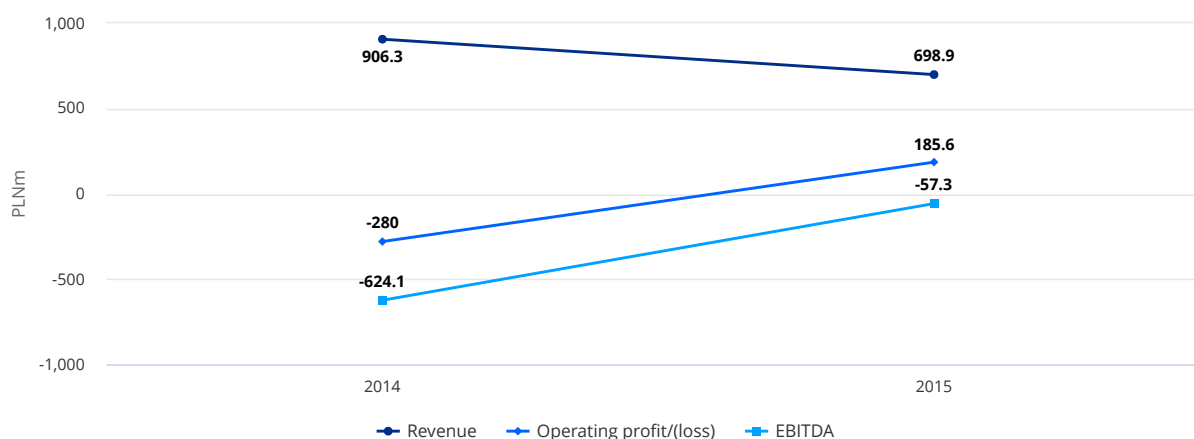
### Operating profit

The LOTOS Group's operating profit for 2015, totalling **PLN 423.4m**, included a PLN 449.0m operating profit in the downstream segment, offset by a PLN -57.3m operating loss in the upstream segment.

*In 2015, the LOTOS Group significantly reduced operating losses in the upstream segment and at the same time reported a profit in the downstream segment, despite lower revenue earned in both segments.*

### Upstream segment's key financial data

#### Upstream segment's key financial data (PLNm)

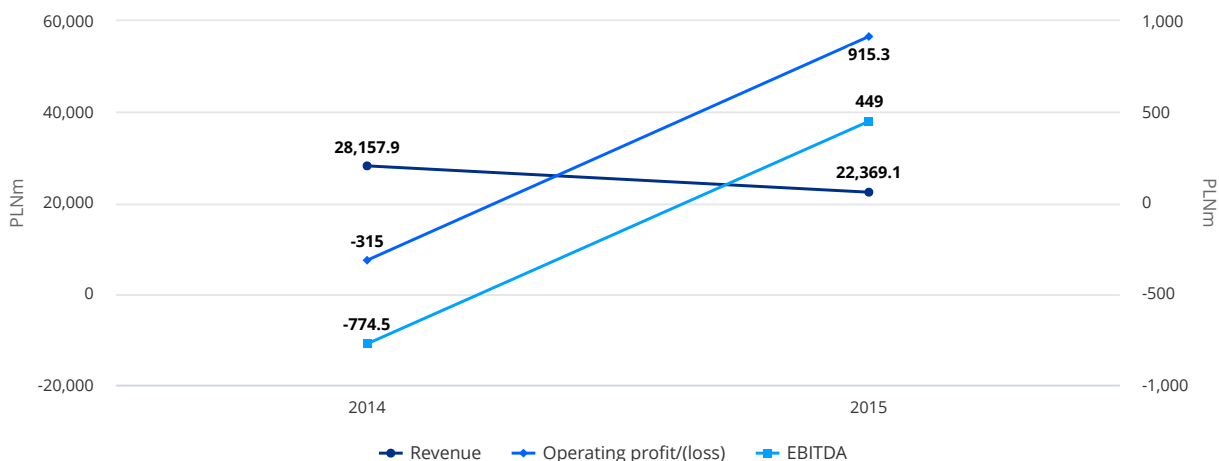


The decrease in the upstream segment's revenue in 2015 (down 22.9% on 2014) was driven primarily by falling prices of crude oil and petroleum products on global markets, offset by improved crude oil and natural gas sales volumes and a higher average annual USD/PLN exchange rate.

Weighing down on the upstream segment's 2015 operating result were non-recurring items (mainly impairment losses and asset liquidation), valued at some PLN 151m (2014: PLN 785m, including mainly impairment losses and write-offs on discontinued projects). The impact of non-recurring items was smaller than in 2014, which translated into the LOTOS Group's lower operating loss of PLN 57.3m. The year-on-year change in EBITDA followed from a PLN 101.2m reduction in depreciation and amortization.

### Downstream segment's key financial data

**Downstream segment's key financial data (PLNm)**



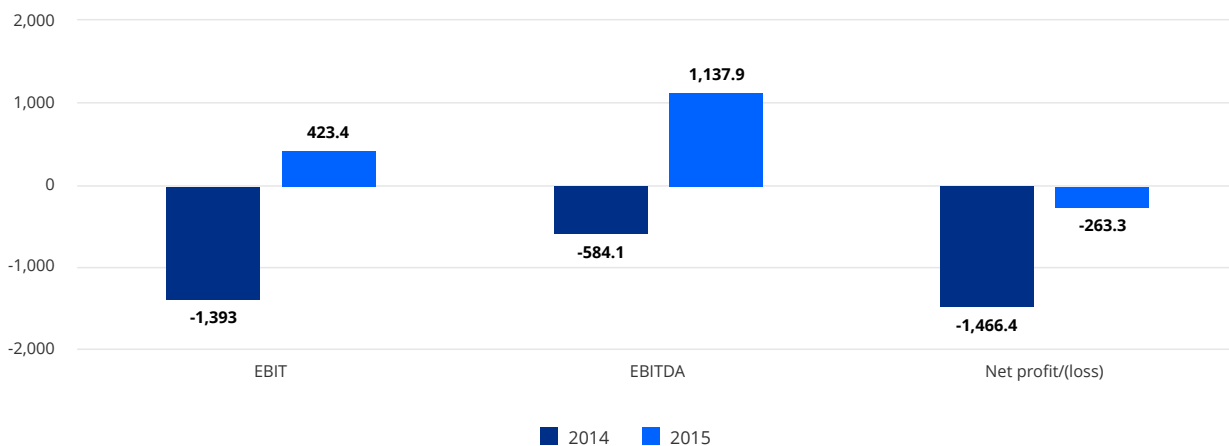
The lower revenue posted by the downstream segment in 2015 relative to 2014 was due mainly to a 26.5% fall in average selling prices, caused by lower prices of petroleum products on global markets, offset by a higher USD/PLN exchange rate.

In 2015, the LOTOS Group's downstream segment posted operating profit of PLN 499.0m. The key factors contributing to the year-on-year change in operating result included PLN 450.9m inventory write-downs recognized in 2014 and the related lower cost of products sold in H1 2015. At the same time, a plunge in crude oil and petroleum products prices in H2 2015, and remeasurement of inventories of raw materials, products, semi-finished products and merchandise held at the end of 2015, performed to reflect the current prices, reduced the operating result by PLN 264.2m (inventory write-down in 2015).

**LOTOS Group' net loss reduction**

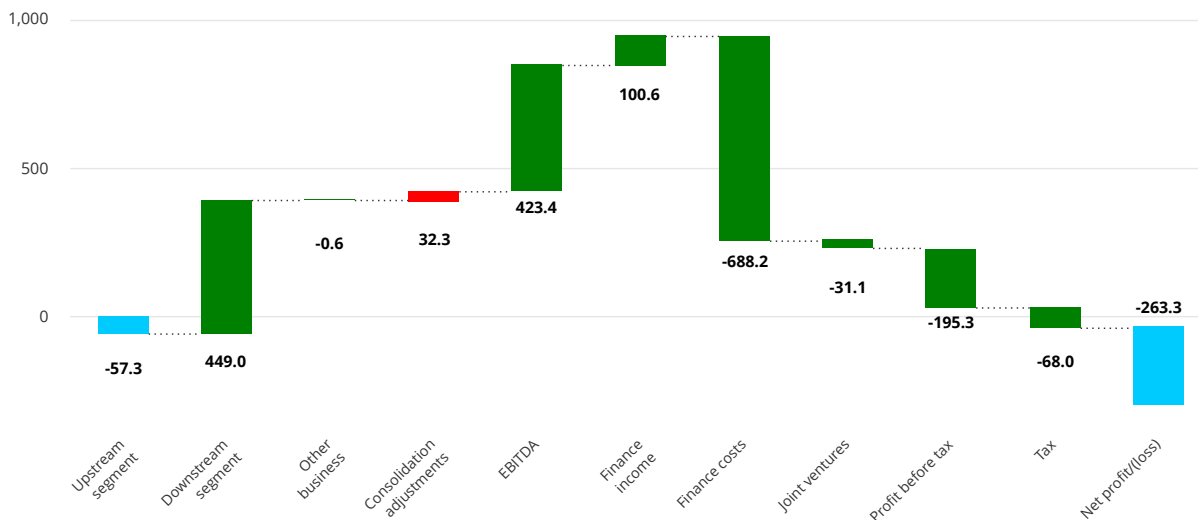
*In 2015, the LOTOS Group considerably improved its operating performance and reduced the net loss.*

**Key financial data**



The year-on-year improvement at the net profit/(loss) level was caused mainly by stronger operating performance in both business segments. In 2015, the negative effect of finance costs (mainly exchange differences and interest on debt and commissions) on the net profit/(loss) was amplified by a decrease in deferred tax assets, following from partial expiry and loss of the right to offset tax losses brought forward. In 2014, the adverse effect of finance activity totalling PLN 730.7m was partly offset by the positive impact of an increase in deferred tax assets.

**Consolidated financial performance of the LOTOS Group in 2015 (PLNm)**



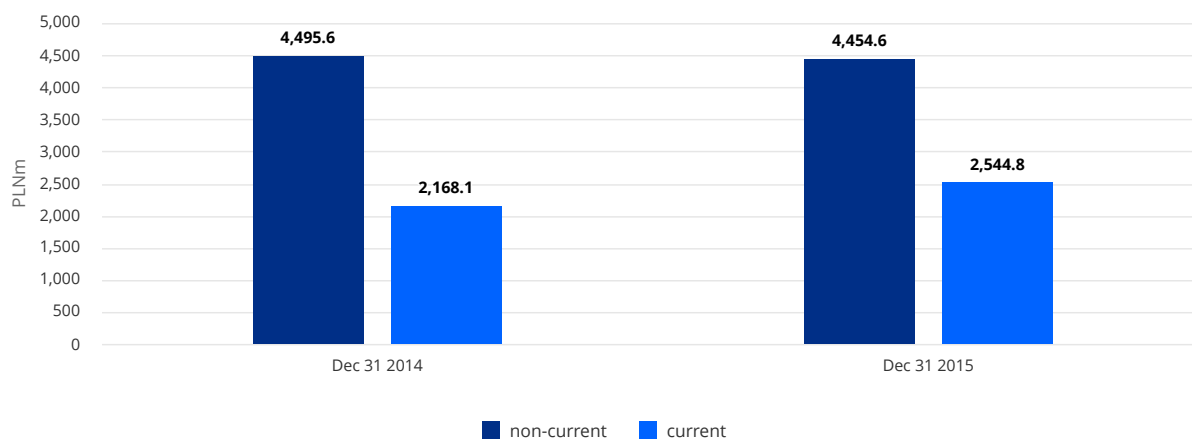
**Efficient debt management**

*Efficient debt management in 2015 translated into a lower rate of debt growth relative to the capital expenditure incurred.*

As at December 31st 2015, the LOTOS Group's financial debt totalled PLN 6,999.3m, up PLN 335.6m on December 31st 2014. The increase was chiefly related to a higher USD exchange rate (up PLN 0.39/USD on December 31st 2014.) The ratio of financial debt adjusted for free cash (including cash earmarked to pursue the objectives of the issue of Series D shares) to equity was 73.9% (up 9.5pp on December 31st 2014).

**Liabilities under borrowings, other debt instruments, and finance lease liabilities**

**Liabilities under borrowings, other debt instruments, and finance lease liabilities (PLNm)**



As at December 31st 2015 and December 31st 2014, the LOTOS Group complied with its financial covenants, including:

- requirement to maintain Tangible Consolidated Net Worth ratio at the level specified in the facility agreements or higher;
- requirement to maintain Loan to Pledged Inventory Value ratio at the level specified in the facility agreement or lower.

*In 2015, the LOTOS Group financed **investment projects** (negative cash flows from investing activities) with positive cash flows from operating activities and, to a lesser extent, with cash flows from financing activities, which is indicative of the Group's improving financial position.*

## Cash flows

(PLNm)	2015	2014
Cash flows from operating activities	1,488.1	1,380.5
Cash flows from investing activities	-1,162.0	-958.3
Cash flows from financing activities	114.7	-597.3

# Challenges of the fuel market

# Challenges of the fuel market

Recent years, including 2015, have witnessed significant instability on the global oil and gas markets. Despite a large oversupply, the global oil production has continued to rise, mainly in non-European countries, adding to the pressure on oil prices. The situation has been further aggravated by the high volatility of US dollar and euro exchange rates.

As upstream margins declined relative to those generated downstream, companies significantly reduced their exploration and production activity, which is demanding both financially (high capital expenditure) and in terms of access to the market (licence requirements).

Oil producers were forced to adapt to the persistently low prices of oil. The adaptation measures focused chiefly on scaling down the planned investment projects and reducing operating expenses, with capital expenditure cuts in 2015 estimated at 20–30%. These adverse developments are taking place at the time when European companies are facing the problem of their exploration and production work moving to more difficult and less accessible deposits.

The uncertain macroeconomic situation may be exacerbated in the near future by continued slow economic growth of China, further appreciation of the US dollar, weak economic recovery in the eurozone, and development of the geopolitical situation.

A major challenge for the EU fuel industry is posed by the risks related to carbon (CO<sub>2</sub>) emission caps, including a possible increase in prices and insufficient allocation of CO<sub>2</sub> emission allowances, which will necessitate additional costs to be incurred to purchase allowances on the market to cover the deficit. The measures that have been implemented by the European Commission, affecting the operation of the EU ETS (Emissions Trading Scheme), will have a bearing on the price of allowances. The MSR (market stability reserve) mechanism introduced into the EU law in 2015, which will materially affect the number of allowances available on the market and, consequently, also their price, is to be put in place in 2019 instead of 2021 as originally proposed. As a result of the change of its effective date, rules of trading in the EU ETS will change materially in the course of a trading period (currently the third trading period – 2013–2020) rather than as of the beginning of the next one.

At present, proceedings are pending before the European Court of Justice to void the decision of the European Parliament and of the Council concerning the establishment and operation of the market stability reserve for the EU greenhouse gas emission trading scheme. The proceedings were instigated as a result of a complaint filed by Poland. Given the complexity of the case, it is expected that it may take as much as a year for the court to issue a judgment.

## Operating environment of our upstream business

According to the 'BP Statistical Review 2015', at the end of 2015 47.7% of crude oil reserves were in the Middle East: mainly Saudi Arabia (15.7% of global reserves), Iran (9.3%) and Kuwait (6.0%). The second largest region in terms of oil reserves is the South and Central America (19.4% of global reserves), with the dominant position of Venezuela (17.5% of global reserves). The highest reserves to production ratio (R/P) is recorded for Venezuela (almost 120), followed by Kuwait (89), the United Arab Emirates (72) and Saudi Arabia (63). Norway's reserves stand at 6.5bn barrels (0.4% of global reserves), with the R/P ratio at 9.5.



Global reserves of natural gas amount to 187 trillion cubic metres. In terms of the quantity of reserves, the Middle East ranks first among world regions, with 42.7% of global reserves, including primarily Iran (18.2%) and Qatar (13.1%). Next are Russia (17.4% of global reserves), Turkmenistan (9.3%) and the United States (5.2%). The highest reserves to production ratios (R/P) are recorded for Azerbaijan (68.8), Russia (56.4) and Algeria (54.1). However, this ranking may change after the economic sanctions imposed on gas production in Iran in response to its nuclear programme are lifted. Norway's natural gas reserves total 1.9 trillion cubic metres (1% of global reserves) and its R/P ratio is 17.7.

## How to meet the challenges?



**THE GLOBAL GOALS**  
For Sustainable Development



The LOTOS Group's overriding priority at all times is to ensure Poland's security in the energy sector. The challenging and unstable macroeconomic environment does not change the fundamental importance, as we see it, of access to own resources and independence from suppliers. With this in mind, we concentrate our efforts to increase the hydrocarbons production and oil distillate yields, improve Poland's fuel balance and exploit synergies between the refining industry and other industries in the energy sector. We also attach great importance to improving our efficiency and competitiveness by implementing the innovative EFRA Project.

We strive to ensure that our sustainable development, translating into shareholder value growth, is pursued with due respect for the environment in which we operate. Through our activities we want to stimulate regional development by putting in practice the principles of economic patriotism.

We strongly believe that this innovative and responsible approach to business may make us an important element of the government's 'Responsible Development Plan' prepared by Mateusz Morawiecki, Deputy Prime Minister and Minister of Development.

## How can Grupa LOTOS contribute to the implementation of the 'Responsible Development Plan'?



**THE GLOBAL GOALS**  
For Sustainable Development



### Pillars of economic patriotism

Reindustrialization	Development of innovative companies	Capital for growth	Capital for growth	Social and regional development
Increase purchases of raw materials/materials/products from Polish businesses	Make expenditure on research and development	Plan and implement investment projects contributing to the growth of other industries	Grow share of exports in revenue	Contribute to the development of regions where the LOTOS Group conducts its core activities, e.g. through

				investment and social innovation projects
Offer products supporting the development of industry, which is a natural environment for innovation	<b>Create an innovation-supportive environment within the organization</b>	Provide capital that facilitates growth of other businesses by paying taxes in Poland	Enter new, rapidly growing markets	Prevent the formation of exclusion areas and eliminate differences in access to work
Contribute to building a network for cooperation with local suppliers	<b>Partner with research centres, develop human resources</b>	Promote employee stock purchase plans (diversification of income sources)	Implement direct foreign investments	<b>Foster greater activity of local communities through cultural and sports initiatives</b>
Create jobs (contracts and taxes) in other sectors of the economy, in particular in the production sector	<b>Provide financial and non-financial involvement to the development of an ecosystem of innovations related to the Grupa LOTOS' value chain</b>			

## Efficiency as top priority

In view of the persistently unfavourable macroeconomic environment, including unstable conditions on the commodities market and sharp declines in crude oil prices, the LOTOS Group's upstream segment will focus on improving efficiency and financial stability. We plan to concentrate on our key strategic projects, including further development of the B8 oil field and of the B4/B6 gas fields, as well as on using cash flows from the Heimdal and Sleipner fields to recover the capital locked in the tax asset related to the YME field development project in Norway. ([See more](#))

**As part of the strategy-driven activities, a number of efficiency-improving initiatives are also planned, including:**

- Optimization of the operating costs (particularly important should the prolonged oil price crisis scenario materialize),
- Discipline in project implementation and operational excellence, to be achieved for instance through fully leveraging the potential of the LOTOS Group's assets, including both the hydrocarbon reserves (i.e. increasing recovery rates and extending field lives) and the technical assets (i.e. optimum use of platforms, vessels and other assets);
- Possible use of the current market situation and attractive prices to pursue asset acquisition opportunities.

# 934<sub>m</sub>

**the LOTOS Group's capex  
in the upstream  
segment in 2015**



LOTOS Group  
Integrated Annual Report 2015

02

## Our strategy

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## Our strategy

In 2015, we successfully completed implementation of the LOTOS Group's Business Strategy for 2011–2015. The key objectives we had set for ourselves in that important document were met. We increased our production potential and improved operational efficiency. We also consolidated our position in the retail fuels market. All of our development-oriented activities were pursued with due regard to the ideas of sustainable development and corporate social responsibility, the key propositions of which we defined in our CSR strategy for 2012–2015.

### Profits from the strategy implementation:

- Improved competitiveness as a result of increased distillate yields, more efficient management of energy, better access to own oil reserves, and implementation of optimization projects.
- Expansion into new markets.
- Increased loyalty of customers.
- Boost to the innovative potential of our organization.
- Development and constant improvement of the risk management process.
- Maintained long-term trust of our employees.

And we will not stop here. We perceive our achievements to date as the starting point for further development and improvement of our efficiency and innovativeness. In response to serious market challenges, we implemented a new segment management model. We have also started working on our new strategy, including the perspective till 2018 and long-term perspective "2018+".

# Business strategy of the LOTOS Group

The overriding strategic objective adopted by the LOTOS Group in its Business Strategy for 2011–2015 was to create value for shareholders through optimized deployment of human and material resources and implementation of development programmes in the following areas:

- exploration and production,
- crude processing,
- marketing.

As at the end of 2015, we accomplished as many as 10 out of the 11 strategic objectives formulated in the LOTOS Group's Business Strategy for 2011–2015. They included all development-related objectives for the areas that we consider to be of key importance.

Area	Strategic objective	The accomplishment of the objective
<b>Management segment</b>	Achieve growth of the LOTOS brand equity in 2011–2015, understood as the effect of synergies between image and strength among key target groups for the brand. A measure of success of our efforts in this area was the level of the aggregated LOTOS brand equity index as at the end of 2015, which stood at 140 pts.	
	Implement the CSR strategy to support achievement of the business strategy objectives.	
<b>Upstream segment</b>	Increase hydrocarbon production to 1.2 million toe in 2015, equivalent to 24 thousand boe per day. As a result of the measures we implemented, as at the end of 2015 daily production capacity on an annualized basis amounted to 30.3 thousand boe per day.	
<b>Marketing segment</b>	Maintain at least 30% share of the domestic fuel market.	
	Achieve 10% share of the domestic retail fuel market by the end of 2015.	
	Increase sales to a level exceeding by 15% the fuel production capacities of the Grupa LOTOS refinery.	
	Maintain leading position in the Polish lubricating oils market.	

**Refining segment**

Maintain high competitiveness of Grupa LOTOS' refinery.



Achieve best production standards in the refining industry with respect to energy management, use of the natural environment, and accident rates.



Ensure safety of the technological processes at Grupa LOTOS.



Increase depth of conversion and distillate yields.



objective accomplished



objective unaccomplished

At the end of 2015, the only item where our performance was slightly below the target was sales volume exceeding by 15% the fuel production capacities of the Grupa LOTOS refinery. We achieved 95% of the target volume, which followed from the Company's deliberate decisions. As margin levels towards the end of the period covered by the strategy no longer supported a further increase in production and sales volumes, the Company responded by adapting to the new macroeconomic environment.

The previous year was an important milestone on the LOTOS Group's growth path. We exceeded key strategic targets set for 2011–2015 in the upstream segment and the wholesale and retail fuel markets in Poland. 2016 opens a new chapter of growth for LOTOS, where our key goals will be to further enhance Poland's security in the energy sector, help with the industrialization of the national economy, and deliver substantial growth in company value.

Our hydrocarbon production rose to 28.4 thousand boe/d. The wholesale and retail fuel market shares we achieved at the end of 2015 were 31.1% and 10.5%, respectively.

Once completed, the deep oil conversion complex built under the EFRA Project will deliver numerous benefits, including an around USD 2/bbl increase in the refining margin. It will also enable LOTOS to produce an additional 900 thousand tonnes of fuels a year, mainly diesel oil, which will be placed on the Polish market. The work on the project launched last year is scheduled for completion in 2018.

**Solid performance despite external pressures**

The strong decline in crude prices (nearly 47% year on year) and the downward trend in the prices of petroleum products had an adverse effect on the results reported by the LOTOS Group. Last year, it booked PLN 22.7bn in consolidated revenue, with a net loss of PLN 263m.

The reported net loss was primarily driven by finance costs, including foreign exchange losses of close to PLN 345m, arising from the stronger USD/PLN exchange rate in 2015 at the end of the period, (+11.1% year on year), which affected the valuation of outstanding bank loans denominated in the US dollar.

In the reporting period the LOTOS Group generated PLN 1,488m in cash flows from operating activities (2014: PLN 1,381m) – a visible proof of its stable financial condition.

## Major increase in hydrocarbon production – Sleipner and B8

2015 saw LOTOS Petrobaltic's combined production in Poland, Norway and Lithuania rise to an all-time high of 28.4 thousand boe/d. Despite the depressed oil and natural gas prices, LOTOS Petrobaltic Group increased the volume of hydrocarbons produced from its assets, which included output from the recently purchased interests in the Sleipner gas field in Norway and initial production from the B8 field in the Baltic Sea.

B8 is now the largest oil extraction facility in the Polish economic zone of the Baltic Sea, with production potential estimated at 3.5m tonnes of crude. LOTOS Petrobaltic will produce up to 5 thousand boe/d from the B8 field once target production levels are reached.

Upstream EBITDA totalled PLN 185m in 2015, compared with a loss of PLN 280m the year before.

## Record throughput, rising sales

In 2015, the Grupa LOTOS refinery in Gdańsk processed a record volume of 10.2m tonnes of crude (2014: 9.5 million tonnes). The refinery's annual capacity utilization rate was 97%.

In 2015, in the production and sale sector, LOTOS sold a total of 10.9 million tonnes of products, which is approximately 8.1% more than in 2014. The rise in output and sales was an effect of refining margins remaining very strong for the most part of 2015.

## Clean EBITDA at record highs for LOTOS service stations

As at the end of 2015, the LOTOS retail chain comprised 476 stations. A total of 35 new service stations, including 25 sites in the LOTOS Optima economy segment, were added during the year. The financial performance of the LOTOS network was improved by successful optimization efforts, with clean 2015 EBITDA in the retail sector reaching PLN 112m, compared with PLN 95m in 2014 and PLN 44m in 2013.



## New goals for new times

**We started working on the new business structure including the new perspective. We have worked intensely on the short-term strategy up to 2018 and on the strategic development directions after 2018.**

**The key assumptions made for the strategy include:**

- Company's return to dividend distribution and retained capacities to distribute it in long term
- Stable and efficient development of complementary activity sectors
- Continued policy of optimising integrated margin
- Poland's security in the energy sector with economic advantages of material source diversification

**In the short term (by 2018), we plan:**

- To identify the strategic growth directions and plan development initiatives
- To analyse the current assets in terms of their long-term ability to generate value for the Group
- To include EFRA system into the process line, to achieve full production capacities of B8 field and complete the analyse of B4/B6 gas field profitability
- To start the projects related to organisational and saving improvements gradually
- To strengthen the innovative culture in line with the reindustrialization policy of Poland

**In the 2018+ perspective we assume:**

- Implementation of further development projects, retaining the ability to distribute dividends
- Ongoing optimization of the target operating, capital and legal infrastructure

# LOTOS Group's Corporate Social Responsibility Strategy

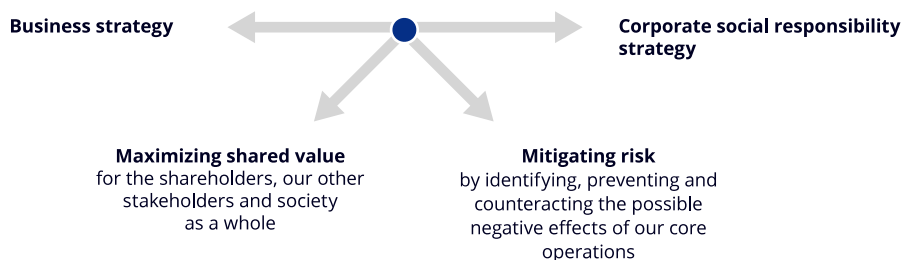
At the LOTOS Group, we approach CSR as an element of our management and improvement processes within our organization.

We believe that business should be conducted according to ethical standards, in harmony with the natural environment and social needs. This is why we have adopted a system of values which we see as a long-term pledge towards all our stakeholders.

## Development of the strategic approach:

Back in 2008, the awareness of how relevant social responsibility was to the pursuit of strategic goals prompted the Board of Grupa LOTOS to adopt the comprehensive LOTOS Group's Corporate Social Responsibility Strategy. In 2011, the document was reviewed in a process of wide-ranging consultations with our stakeholders. The outcome of the review was LOTOS Group's Corporate Social Responsibility Strategy for 2012–2015, whose overriding objective was to support the business strategy by use of the organization's resources and capabilities to generate economic and social value for the benefit of its environment.

Implementation of this objective was made possible through the use of the following mechanism:



**Our efforts in the social and business spheres, in our relations with key stakeholders and in corporate governance were aimed principally to:**

- Mitigate possible adverse impacts of our operations and the associated risks,
- Maximize chances for sustainable development over the long term,
- Ensure compliance with the law and ethical standards,
- Increase our positive contribution to social development.

The strategic approach to CSR at the LOTOS Group is manifest in each area of its business. The CSR strategy defined **13 key goals, 39 operational objectives** and **ca. 100 activities** to be undertaken each year in individual business areas.

### How was the implementation status measured?

The implementation of key goals and operational objectives and the related activities was supervised by the respective area leaders. One aspect of the concurrent focus on the business and social dimension was regular reporting to the Board of Grupa LOTOS on the progress of the CSR strategy, together with reports on the implementation of the business strategy. The measure of the CSR strategy implementation was its progress in individual areas, expressed in percentage terms.

### Implementation status:

At the **end of 2015**, the strategic objective was achieved in **90%**, and **95%** of the operational activities were completed.

## Key goals and activities related to the implementation of the CSR strategy in 2012–2015, by area:

### Investment in human resources

Key goals	Key activities and selected indicators
<ul style="list-style-type: none"> <li>■ Ensure availability of highly qualified resources required to successfully implement our business strategy</li> <li>■ Enhance our corporate culture based on adopted values</li> </ul>	We improved the human resource management standards, perfecting HR processes, e.g. the development of LOTOS Academy, induction programme, recruitment standards, new functionalities in the self-service employee portal, i.e. HR and SAP HCM Portal.
	We conducted an employee satisfaction/engagement survey across the LOTOS Group and performed the plans of improvement activities based on their results.
	We improved the periodic employee evaluation system – 96% of our employees meet key position-specific requirements.
	We increased the number of our 50+ staff members involved in the development of their colleagues.
	Each year we organized numerous internship and traineeship programmes.
	We were actively involved in activities designed to increase the quality of secondary-school education through partnership-based cooperation with schools, universities, students' associations and research clubs.
	Each employee was given a copy of the Code of Ethics.
	We developed a training system dedicated to the LOTOS service station managers and staff.
	We developed a "Strategy for LOTOS as Employer Brand".

## Improvement of health and safety

Key goal	Key activities and selected indicators
<ul style="list-style-type: none"> <li>■ Raise the awareness and degree of involvement in improving safety among the management and employees of all ranks, as well as contractors</li> </ul>	<p>In each year covered by the strategy, we organized the Occupational Health and Safety Day for the LOTOS Group employees.</p> <hr/> <p>We organized a number of information and education campaigns and projects promoting workplace safety.</p> <hr/> <p>We carried out in-house OSH training for the management, and checks of workplace safety standards at all of the LOTOS Group companies.</p> <hr/> <p>We developed uniform safety standards for our contractors.</p>

## Integration with local communities

Key goal	Key activities and selected indicators
<ul style="list-style-type: none"> <li>■ Ensure favourable attitudes among local communities and strengthen the organization's reputation as a socially conscious business by undertaking initiatives designed to provide lasting solutions to the locally relevant social and environmental issues</li> </ul>	<p>Each year, we pursued over a dozen projects with the participation of our social partners (some of which were based on the cross-sectoral partnership model), related to road traffic safety, protection of biodiversity, and fostering equal opportunities.</p> <hr/> <p>In order to improve cooperation, each year we held evaluation meetings with our social partners.</p> <hr/> <p>We organized the 'Open-House Day' at the refinery for residents living in the vicinity of our plant.</p> <hr/> <p>We carried out opinion surveys among people living near our plants, which included perception of the LOTOS Group as an organization with a positive influence on the quality of life of people living in the immediate neighbourhood of its plants.</p>

## Management of natural resources in the production process

Key goal	Key activities and selected indicators
<ul style="list-style-type: none"> <li>■ Reduce the environmental risk and make constant efforts to minimize the environmental impact of the LOTOS Group's operations</li> </ul>	<p>We did research on wildlife biodiversity in the vicinity of the Grupa LOTOS refinery in Gdańsk.</p> <hr/> <p>We assessed the environmental impact of our service stations.</p> <hr/> <p>Each year, as part of planning of all our investment projects, we improved energy efficiency ratios and reduced energy consumption by selected units.</p> <hr/> <p>We engaged in the promotion of best practices and environmental standards.</p>

## Ethics and corporate misconduct prevention

Key goal	Key activities and selected indicators
<ul style="list-style-type: none"> <li>■ Improve corporate management by ensuring ethical conduct and transparency of the business processes and protect the organization against the risk of irregularities that may threaten its operations</li> </ul>	<p>We assessed the organizational maturity with respect to the misconduct prevention system.</p> <hr/> <p>We adopted the Misconduct Prevention Policy.</p> <hr/> <p>We adopted and implemented the Code of Ethics.</p> <hr/> <p>We established the Ethics Board and appointed the Ethics Officer.</p> <hr/> <p>We set up a team responsible for the implementation of the Ethical Conduct Programme at our service stations.</p>

## Partnership with market participants

Key goals	Key activities and selected indicators
<ul style="list-style-type: none"> <li>■ Build lasting customer relationships through a focus on understanding customers' needs and delivering the expected product quality and safety</li> <li>■ Raise the awareness of LOTOS as a socially responsible brand</li> <li>■ Get across to capital market participants the message that corporate social responsibility is perceived by Grupa LOTOS as an essential part of its corporate management</li> </ul>	<p>In each year covered by the strategy, we carried out satisfaction surveys among the LOTOS Group customers.</p> <hr/> <p>We standardized commercial processes (including complaint handling) at the LOTOS Group, based on electronic tools.</p> <hr/> <p>We carried out a number of promotional activities addressed to the LOTOS Group employees in order to make them ambassadors of the LOTOS brand.</p> <hr/> <p>We completed the 'Helping while Refuelling' campaign – the first cause-related marketing project in the fuel industry in Poland.</p> <hr/> <p>We communicated our CSR initiatives to capital market participants.</p>

## Energy security

Key goals	Key activities and selected indicators
<ul style="list-style-type: none"> <li>■ Undertake and support initiatives designed to enhance security in the energy sector at home and in other countries where Grupa LOTOS has a business presence, in a socially and environmentally responsible manner</li> </ul>	<p>We had an active role in law-making processes relating to energy sector issues in Poland and the EU.</p>

## Communicating changes and access to information

Key goals	Key activities and selected indicators
<ul style="list-style-type: none"> <li>■ Ensure timely and targeted communication with stakeholders</li> <li>■ Foster an organizational culture that rests on the foundation of open, multi-way communication, including through development of a consultation system within the LOTOS Group</li> </ul>	We implemented new functional and graphical solutions in the employee intranet; we made our intranet available for employees outside the organization.
	We developed our social media platforms, such as 'Headed for the Baltic'.
	We implemented and developed the 'LOTOS dla Kierowcy' ('LOTOS for Motorists) and 'LOTOS Kids' mobile applications.

## With responsibility towards the future

At the end of 2015, during the annual 'CSR Day' event attended by the management of the **LOTOS Group**, we commenced work on the new **Corporate Social Responsibility Strategy** based on the experience gained in the course of the strategy development process in 2011 and will take into account the changes that followed as part of the natural evolution of the LOTOS Group's CSR activity in connection with its dynamic development in 2012–2015.

### The strategy development process involved:

- Internal assessment of the degree of achievement of the objectives set for 2012–2015,
- External evaluation of the changes that the implementation of the Strategy brought in the perception of the Company's CSR commitment by its key stakeholder groups,
- Evaluation of the results of implemented initiatives based on the benefits to the organization; opinions of key external beneficiaries,
- Development of the Strategy in close cooperation with the leaders responsible for implementing strategic CSR objectives in 2012–2015 and with specialists from within the organization indicated by the leaders, as well as with representatives of the team responsible for defining the new business outlook for the LOTOS Group.

The LOTOS Group's CSR Strategy will address the **challenges defined in the Sustainable Development Goals until 2030** published by the United Nations in September 2015, the [Vision of Sustainable Development of Polish Businesses until 2050](#), and the **10 Principles of UN Global Compact**. Those objectives have already been implemented by us by e.g. long-term programmes focused on employee development at all levels, and by the social and market environment. An example of this activity can be the first cause-related marketing campaign in the fuel sector in Poland, called "[Helping while refuelling](#)". The conscious and comprehensive approach to the management of natural resources and energy security are another example of the LOTOS Group's commitment to the Sustainable Development Goals. We have constantly been reducing energy efficiency ratios and energy consumption in selected systems.

By pursuing the goals set in the Strategy, we seek to increase our contribution towards meeting the challenges defined by the UN.

### The Ten Principles of the UN Global Compact:

1. Businesses should support and respect the protection of internationally proclaimed human rights; and
2. make sure that they are not complicit in human rights abuses.
3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
4. the elimination of all forms of forced and compulsory labour;
5. the effective abolition of child labour; and
6. the elimination of discrimination in respect of employment and occupation.
7. Businesses should support a precautionary approach to environmental challenges;
8. undertake initiatives to promote greater environmental responsibility; and
9. encourage the development and diffusion of environmentally friendly technologies.
10. Businesses should work against corruption in all its forms, including extortion and bribery.

The **Sustainable Development Goals** include 17 goals, 169 targets and 304 indicators to achieve by 2030, to ensure better, healthier and safer living conditions, in the social, environmental and economic spheres. In 2015, those goals replaced the previous eight millennium goals.



**Sustainable Development Goals (SDGs), which LOTOS Group supports by taking actions:**

- Goal 4 – Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
- Goal 6 – Ensure availability and sustainable management of water and sanitation for all
- Goal 7 – Ensure access to affordable, reliable, sustainable and modern energy for all
- Goal 8 – Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
- Goal 9 – Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
- Goal 10 – Reduce inequality within and among countries
- Goal 12 – Ensure sustainable consumption and production patterns
- Goal 14 – Conserve and sustainably use the oceans, seas and marine resources for sustainable development
- Goal 15 – Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
- Goal 17 – Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development



# Risk management

# Our approach to risk management

Because of the specific nature of the fuel sector, the LOTOS has a strategic approach to minimizing prospective risks likely to affect performance of our business objectives, as well as the social environment where we operate adversely. By identification, constant monitoring and strategic approach to management we reduce hazards day by day.

Throughout 2015, as part of the Enterprise Risk Management (ERM) system, we undertook a number of risk mitigation measures reducing the probability that specific risks may materialize. In the case of risks that did materialize, we applied the action plans prepared in advance, successfully limiting their adverse effects. We also defined new risks, mainly associated with projects of crucial importance to the LOTOS Group (such as [EFRA](#) or [B8 field](#) development). A number of measures were also being implemented to improve the risk management tools and risk identification, assessment and monitoring methodologies.

At the LOTOS Group, we identify a range of risks in all areas of our business. Many of them are interrelated, so we analyse their interactions and take steps to minimize their impact.

## Key risk groups for the LOTOS Group



Risks are identified in reference to the strategic and operational objectives pursued by the organization. Risk assessment is performed based on a defined and approved risk matrix, and includes analysis of the likelihood of the risk materialization and possible financial and reputational consequences, where the latter are understood as damage to reputation, environment or people's health. All identified risks are monitored, and those considered as material are subject to more stringent control requirements.

## Key elements of risk and opportunity management at the LOTOS Group



- **Risk identification** – risks are identified in reference to the strategic and operational objectives pursued by the organization.
- **Risk assessment** – risks are assessed in the annual and long-term perspectives in terms of their potential consequences for the LOTOS Group’s financial standing and reputation (including adverse impact on the LOTOS Group’s image, the environment and people’s health).
- **Risk analysis** – for each risk, we define the current management procedure as well as monitoring and protection measures, and if a risk is deemed material, detailed risk management charts are prepared. The charts specify how a given risk should be mitigated and what actions to take should it materialize. Key risk indicators (KRI) are defined, by means of which the risk and the level of exposure can be monitored in accordance with established guidelines. Risk owners are responsible for the above elements of risk analysis.
- **Risk reviews** – all identified risks are periodically reviewed and updated, twice as year as a minimum.
- **Process reporting** – appropriate standards have been implemented for communicating and reporting the results at each stage of the process.

## Roles in the risk management process:

- The Supervisory Board – monitors the effectiveness of the risk management system.
- The Board of Grupa LOTOS – makes key ERM decisions and approves risk maps.
- Segment heads – are responsible for overall monitoring and supervision of risk management in their segments.
- Enterprise Risk Management Committee – recommends ERM-related actions and monitors their progress. The Committee consists of representatives of each segment.
- Enterprise Risk Coordinator – coordinates and supports risk management activities within the LOTOS Group.
- Risk owners – manage individual risks, defining the course of action with respect to each risk and monitoring its levels.
- The LOTOS Group employees – implement risk mitigation activities and identify new risks.
- Internal Audit Office and Business Process Management Office – carry out audits at LOTOS Group companies to review the implemented controls and evaluate their effectiveness, identify and assess threats to the organization's operations, carry out annual evaluations of the risk management system's effectiveness as part of the organizational maturity assessment, and assess individual risk management procedures.

Enterprise risk management activities at the LOTOS Group are supported by a dedicated IT tool, the ERM Portal. The ERM Portal is used to record risks and risk assessment results and prepare risk maps, to monitor current risk indicators and the progress of planned actions, as well as for reporting purposes. Audit results are also recorded in the ERM Portal where the audit involves a review of the risk management procedures.

## How is the system's effectiveness evaluated?

The ERM system's effectiveness is evaluated every year, as part of our [organizational maturity assessment](#), the conclusions and recommendations of which are used to further improve the system. A final assessment score is expressed as a percentage and reflects:

- The degree to which the system designed at the Company conforms with best practices and standards for a given area, and
- Conformity of the system's operation in practice with the system's design.

In the period from 2011 (when the system was launched at the organization) to 2015, the assessment score rose to 96%. Risk is inherent in Grupa LOTOS' business. The risk management system, being a strategic business process at the organization, is subject to constant improvement.

## Implementation costs of hedging strategies

The costs of hedging strategies depend on the materiality of the risk and the potential benefits derived from hedging. Whenever possible, risk is reduced to a level considered economically acceptable. Furthermore, when preparing risk analyses or action plans, potential costs are among the factors considered in making the final decision. This approach enables us to deploy the financial resources required for risk management in the most efficient manner possible.

## What are other manifestations of our precautionary approach?

- The [Code of Ethics](#): sets the standards of conduct in line with the LOTOS Group values.
- Agreements: include appropriate provisions governing cooperation with partners.
- Environmental protection and OHS standards: ensure the highest standard of people's and process safety.
- Project management: ensures proper project implementation and budget control.
- Controlling: supervision over the current budgets.

# Key risk groups for the LOTOS Group and key risks identified within individual groups

## Risk groups

## Key risks

### Political and legal risks

- Tensions between Ukraine and Russia and the resulting EU sanctions on Moscow.
- Plans to implement new EU legislation, especially related to tighter EU climate policy until 2030. The European Union proposes that the greenhouse gas emissions reduction ratio be doubled to 40%, the share of RES in electricity generation be raised to 27%, and the annual CO<sub>2</sub> emissions reduction ratio in the ETS be increased from 1.7% to 2.2%.
- Lack of comprehensive legal framework for the oil sector.

### Reputational and social risks

- Events that may affect the perception of LOTOS and the LOTOS brand value. Factors beyond the Company's control include impairment of the reputation of our industry. Factors directly related to the Company's activities include delays in product supplies, deterioration of product quality, and industrial accidents.
- [Risk of misconduct](#) — related e.g. to all corrupt practices.

## Exploration and production risks

- Risks from estimating hydrocarbon resources and reserves discovered by exploration wells.
- Risk of drilling a dry well (without hydrocarbon flow).
- Risk of failure of production equipment and facilities due to their limited durability or improper operation.
- Risks from infrastructure operation, such as the risk of oil spill, sea collision, fire or blowout – which may cause environmental contamination, serious injury or death of an employee, downsizing or stoppage of production, as well as entail significant costs to remedy the resulting damage or pay fines.
- Risk of limited control of joint ventures as such projects involve at least two partners.
- Macroeconomic risk – in 2015 relating mainly to plunge in crude oil prices, resulting in deterioration of the economic parameters and profitability of investments in the upstream business, and affecting the availability and terms of external financing for such projects.
- [Risk of increased liabilities in relation to the YME project.](#)

## Refinery-related operational risks

- Technical risks related to possible occurrence of serious industrial accidents or irreparable damage to infrastructure.
- Work safety risk – relates to potential occurrence of accidents and other threats involving exposure of employees to dangerous and onerous factors.
- Risk related to legislative changes with respect to REACH (Regulation of the European Parliament and of the Council concerning safe use of chemical substances, which is to be achieved through registration and evaluation, and in some cases through introduction of permits and restrictions on trade).

## Environmental risks

- Risks related to CO<sub>2</sub> emission allowance limits – include the risk of an increase in prices and insufficient allocation of CO<sub>2</sub> emission allowances, which may necessitate additional costs to be incurred to purchase allowances on the market to cover the deficit.
- Risks related to the need to obtain new or amend existing permits.
- Risks related to compliance with new regulations on the implementation of Best Available Techniques (BAT).

## Financial risks

- Commodity and petroleum product price risk – operating results are largely dependent on the difference between the price of petroleum products and the price of crude oil. CO<sub>2</sub> allowances price risk – in 2015, Grupa LOTOS managed the risk associated with entire phase III of the EU CO<sub>2</sub> Emissions Trading Scheme covering the 2013–2020 trading period ([for more details, see the consolidated financial statements for 2015](#)).
- Liquidity risk – the risk relating to the ability to discharge all liabilities in a timely manner. It may result from a mismatch between streams of receivables and payables or inadequate sources of funding.
- Currency risk – the Polish złoty (PLN) is the reporting and functional currency for the Company and the majority of other LOTOS Group companies, while the trading prices of crude oil and petroleum products are generally denominated in, or tied to, the US dollar (USD).
- Interest rate risk – Grupa LOTOS is exposed to interest rate risk, with interest rates growth translating into increased costs of servicing debt under floating-rate borrowings.
- Counterparty risk in trade transactions – in the course of trading operations, products and services are sold to businesses on a deferred payment basis, which may give rise to a risk of the customer's default.
- Risk of limited access to or change in the terms of external financing – some of the investment projects pursued by Grupa LOTOS and its subsidiaries as well as their day-to-day operations are or may be financed with borrowings.
- Risk of adverse changes in tax regulations, interpretations or court rulings – this risk may result in higher tax burden (excise duty, property tax, CIT), and give rise to tax risk in transactions where such risk was previously non-existent.

## Trading risks

- Risk of crude supply interruptions or shortages – as the output from its own production assets does not fully cover its processing feedstock requirements, the LOTOS Group relies on crude oil purchased from external suppliers.
- Risk of changes in margins on product sales – the principal risk factors include progressing market consolidation leading to intensified price competition on the Polish fuel market, and the rapidly changing global macroeconomic environment.
- Risk of decline in domestic demand – negative trends related to macroeconomic factors (GDP, situation on the labour market, industrial production volume, etc.) may result in lower domestic demand for fuel products.
- Risk of grey market expansion – in recent years, Poland has seen an increase in illegal trade in fuels, especially in diesel oil. In 2015, the grey market was about 18% of diesel oil consumption in Poland, and in 2014 it was about 20%.



In addition, in 2015 the LOTOS Group identified two new enterprise risks:

■ **Risk of potential environmental damage caused in the course of upstream operations**

The risk was identified in connection with expansion of production activities in the Baltic Sea and the growing hydrocarbon output. Following a relevant assessment and analysis, the risk was classified as moderate, i.e. with a low likelihood of occurrence but with potentially severe financial and reputational consequences. We have defined a detailed risk management process for this risk and put in place appropriate controls along with methods and schedules of their review.

■ **Risk of financial losses that may be incurred as a result of trading activities in the event of potential participation in a carousel fraud**

The risk was included in the risk register following receipt of a decision by the Director of the Tax Audit Office in Bydgoszcz concerning failure to exercise due care in fuels trading. Grupa LOTOS as a direct seller of fuels has always exercised due care in selecting its partners in fuels trading business and drafting trade contracts. The identification of the risk prompted a systemic review of internal procedures and protocols. As a result, the counterparty selection and trading contract execution processes were optimized across the LOTOS Group. The improvements will prevent similar incidents from happening in the future and will contribute to curtailing the black market in fuels in Poland.

# Opportunities and strengths of the LOTOS Group

In 2015, like other oil companies, we faced a number of challenges and threats:

- Markedly lower prices of crude oil and gas,
- Uncertain market situation,
- Stagnant demand for petroleum products in Europe,
- Growing competition from the Middle East, the US, and Russia.

Value growth and positive long-term financial results can be achieved through our competitive advantages, such as:

- Large technological potential of the refinery, high distillate yields and complexity,
- Diversification of crude supplies and growing access to own sources of crude oil,
- Developed own sales channel – a service station chain that allows the LOTOS Group to increase its share in the retail market,
- Growing retail demand for fuels,
- Consistent pursuit of development strategy,
- Coastal location of the refinery facilitating imports of crude and exports of petroleum products,
- Optimum and full use of assets,
- Generating cash flows along the value chain,
- Positive image of the LOTOS Group as a socially conscious organization and a leader of sustainable development in Poland.

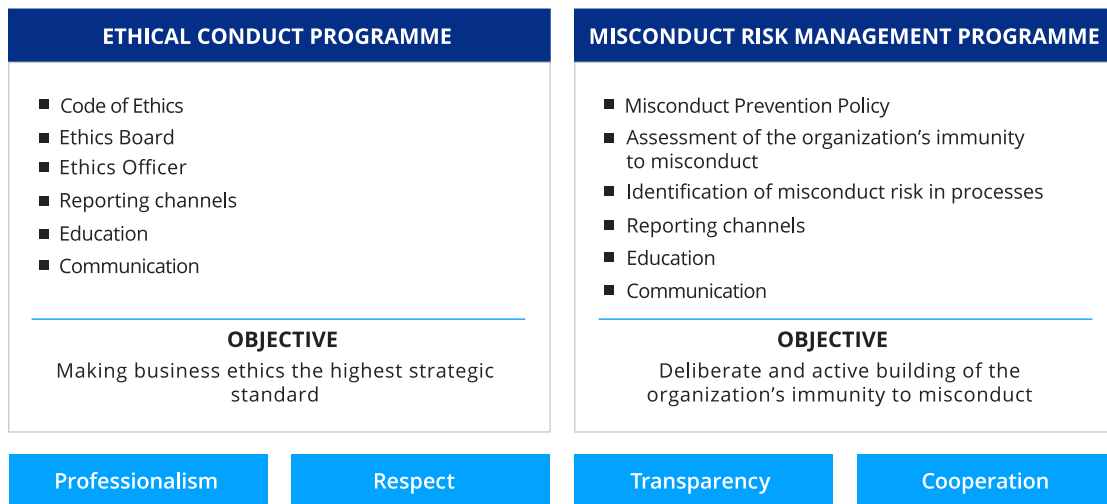
More information on risks and opportunities, and on how we manage them, see the [Directors' Report](#) Group on the operations of the LOTOS Group in 2015

# Values, ethics and misconduct prevention

# Our commitment to professionalism and transparency

In order to maintain the highest ethical standards and to actively prevent any potential misconduct, the LOTOS Group has adopted a consistent approach to ethics and misconduct management to ensure we operate with due regard to generally accepted social standards. The approach adopted by the LOTOS Group rests on the following two pillars:

- Active operation of the **Ethical Conduct Programme** at the LOTOS Group, addressed and applied in practice to both employees and external parties and constituting the foundation of the organizational and management culture.
- Improvement of business process safety within the organization through **comprehensive management of the misconduct risk** under a misconduct prevention system.



# Ethics and integrity

At the LOTOS Group, we are aware of the need to follow a code of ethics and clear-cut standards of behaviour both in social and workplace environments. Adherence to ethical standards improves the comfort and quality of our work, regardless of what responsibilities we hold or what place we occupy within the organization, which also plays an important role in shaping long-term and trust-based business relations, including commercial ones.

## Adherence to ethical standards + economic efficiency = value for the LOTOS Group shareholders

The LOTOS Group's Code of Ethics has been in place since 2013. This document is of key importance to us for the following reasons:

- It is a set of principles and standards of conduct rooted in the organization's ethical values.
- It is intended to govern behaviour within the organization, as well as external relations with key stakeholder groups, capital market participants, customers and trading partners, local communities and competitors.

We make every effort to communicate the LOTOS Group's ethical standards within and outside of our organization. All our existing and newly hired supervisory and management staff as well as employees and trading partners of the LOTOS Group are required to confirm with their signatures that they have read and are familiar with the Code of Ethics. The LOTOS Group's Code of Ethics has been translated into English and Lithuanian. Additionally, we organize training for all new hires, and the Ethics Officer holds regular meetings with the employees.

Number of downloads of the Code of Ethics in the Polish language version	2013	2014	2015
www.lotost.pl	1,107	889	2,804
Intranet	370	125	159

The full version of the LOTOS Group's Code of Ethics is available on our [website](#).

## Ethical Conduct Programme – objectives and implementation

The LOTOS Group's Code of Ethics is the cornerstone of our comprehensive Ethical Conduct Programme, designed to make business ethics the highest point of reference in the management of our organization.

As part of the Ethical Conduct Programme, in addition to ethics education, communication initiatives and channels for reporting violations of the Code of Ethics, an important role is played by the Ethics Officer, whose duty is to ensure that the accepted standards of ethical conduct are always upheld. The Ethics Officer was first appointed in 2014. Persons in this role perform their duties without remuneration.

## The voice of employees is heard:

Each employee of the LOTOS Group has access to the Ethics Officer. The management staff members have a special role to play in improving the organization's ethical culture: they support the employees by setting a good example to follow, and by discussing with them any doubts concerning ethical issues.

### The Ethics Office can be contacted by:

- A meeting, upon earlier phone contact (phone no. 505 050 218) at the time convenient for the interested party;
- A telephone conversation or recording the message (phone no. +48 58 308 80 70);
- An e-mail sent to [liniaetyki@grupalotos.pl](mailto:liniaetyki@grupalotos.pl);
- Filling in a Request form at [www.lotos.pl](http://www.lotos.pl) and in LOTOSTRADA, ETHICS PROGRAMME subservice;
- Sending communication by traditional mail.

## We listen to what others have to say:

The LOTOS Group's stakeholders may report any suspected or actual breaches of the Code of Ethics to the persons responsible for their prevention using dedicated channels of communication with the LOTOS Group's Ethics Officer. Relevant form is available on our website:

### [More information](#)

## Excellent ethical conduct and how to achieve it – as exemplified by LOTOS Paliwa

In 2015, LOTOS Paliwa set up the Ethical Conduct Programme Team responsible for the Programme's operation throughout the LOTOS service station network, which marked the end of a two-year phase of implementation of ethical standards at the LOTOS stations. The Team promotes the knowledge of the values, standards and rules of conduct defined in the Code of Ethics. One of the communication tools used to that end is the Dynamiczni quarterly, addressed to individuals working for the service stations. In addition to news on recent developments at the service stations, the quarterly also discusses the rules to be followed in their business. It also features articles presenting interpretation of the provisions of the Code of Ethics so that they are fully observed in day-to-day operations.

## What else did we do?

We organized the 'Monday with Ethics' competition for the LOTOS Group employees, which aimed to demonstrate that the provisions of the Code of Ethics should be a reference for decisions made in the course of our professional duties.

# Misconduct Prevention Policy of the LOTOS Group

Our approach to managing the risk of misconduct is defined in the Misconduct Prevention Policy of the LOTOS Group, adopted in 2012. Besides the Code of Ethics, the Policy is the primary source of rules and standards for misconduct prevention in our organization. The adoption of the two documents was in line with the objectives of the LOTOS Group Corporate Social Responsibility Strategy for 2012–2015.

## We are vigilant:

In 2015, the Board of Grupa LOTOS adopted the revised third edition of the Misconduct Prevention Policy – Zero Tolerance for Misconduct, under which each employee is required to immediately report any suspected instance of misconduct to the Head of the Internal Audit Office:

- directly or through their superior,
- by calling: +48 58 308 87 87,
- by email to: [audyt@grupalotos.pl](mailto:audyt@grupalotos.pl),
- by completing a form available on
- <http://www.lotos.pl> or in the Ethical Conduct Programme sub-service on LOTOSTRADA,
- by post, in a letter addressed to the Internal Audit Office.

## Cautious = more knowledgeable

Educating employees is the key to preventing misconduct. In September 2015, we began to regularly send emails with educational content to our employees. The initiative, continued in 2016, aimed at raising the employees' awareness of the risk of misconduct and its prevention. It was also an opportunity for us to distribute the Misconduct Prevention Policy to the LOTOS Group employees. Moreover, each email informed the employees of their obligation to report any instances of suspected misconduct through the channels set out in the Policy.



**627**  
employees

of LOTOS Group took part in training devoted to misconduct prevention (some employees attended more than one training session)



**1,896**  
hours of training

devoted to misconduct prevention

Titles of emails in 2015	Date sent	Number of emails sent
<i>Together we create an early warning system (Misconduct Prevention Policy attached to the email)</i>	<i>September 7th 2015</i>	1,812
<i>Together we protect our organization's intellectual property</i>	<i>November 26th 2015</i>	1,733

## 'NO' to misconduct

We are committed to increasing the degree of immunity to misconduct within the LOTOS Group, which means:

- Being aware of real and perceived misconduct threats arising in the course of our operations,
- Putting in place and using solutions that are best adapted to the scale and nature of the risk, and that are geared towards preventing, detecting and responding to such threats.

The purpose of these efforts is to secure the LOTOS Group's ability to:

- Mitigate the risk of misconduct,
- Reduce the harmful effects of misconduct,
- Gather resources which will accelerate the organization's return to pre-misconduct state.

## The threats we face



At the LOTOS Group, we have identified the risk of misconduct as one of the enterprise risks. We understand misconduct as an intentional act or omission which constitutes violation of the law or a breach of our organization's internal regulations, committed to secure an unlawful gain or causing a LOTOS Group company to sustain a loss. Misconduct includes any type of corrupt practices.

In 2015, we developed a map of misconduct risk, which shows that at the LOTOS Group companies – with a few exceptions – exposure to the risk is concentrated in the following areas:

- Investment project preparation and execution,
- Sales,
- Logistics,
- Procurement and inventory management.

Misconduct risk was assessed based on the following criteria:

- Significance of the area to the implementation of strategic objectives by a given company.
- A misconduct review or investigation carried out in a given area.
- Significance of the areas depending on misconduct risk exposure in defined categories.
- Level of misconduct risk as perceived by the management, based on survey findings.

## What else did we do?

- We published dedicated educational materials in the LOTOSFERA monthly for the LOTOS Group employees.
- We developed e-learning materials to be used by our new hires.
- We completed operational work on pilot reviews of misconduct categories related to unlawfully claimed remuneration and employee benefits, data and intellectual property theft as well as computer crime.

No instance of corruption was reported at the LOTOS Group in 2015.

At the LOTOS Group we seek to actively counteract computer crime. In 2015, we commenced a training programme under the name 'Security Awareness', devoted to the security of IT system users. The eight training sessions were attended by 468 LOTOS Group employees, including 344 management staff.

**100%**  
of the LOTOS Group  
companies were  
assessed in 2015 in  
terms of the risk of  
misconduct



LOTOS Group  
Integrated Annual Report 2015

03

# Innovation is key to lasting success

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# Innovation is key to lasting success

Development and innovative projects are a core element of investment efforts undertaken by the LOTOS Group. Encoded in our corporate DNA, they allow us to maximize our profits and drive value for our shareholders and other stakeholders. Thanks to an innovative and flexible approach to our operations, we are equipped to tackle major challenges facing the oil industry and bolster our competitiveness in a difficult market.

Innovation is ingrained in all of our business segments. By being innovative, we are capable of ensuring the superior quality of our products and services. As an organization that embraces new technologies and is very active in research and development efforts, we are also an attractive partner for scientific institutions.



**THE GLOBAL GOALS**  
For Sustainable Development



## Our key initiatives designed to increase competitiveness in 2015 included:

### EFRA Project

Initiation of the EFRA Project, another important endeavour in the LOTOS Group's history. The project will improve our financial efficiency and product margins. After its completion, Grupa LOTOS will become one of the most advanced refinery in the European Union. With the new units within EFRA project, the plants will produce an additional 900,000 tonnes of top quality high-margin fuels and 300,000 tonnes of petrochemical coke, without increasing crude input volumes.

### B8 field

We also started production from the B8 field using the LOTOS Petrobaltic drilling rig. Thus, LOTOS Petrobaltic has doubled its production of hydrocarbons in the Baltic Sea, and the incremental output generated by the field has a positive effect on its financial standing. The B8 field is situated in Poland's Exclusive Economic Zone of the Baltic Sea. It is the third largest oil production facility in Poland and the oil field holding the largest recoverable oil reserves in the Polish part of the Baltic Sea.

### Sleipner area

LOTOS Norge finalized the purchase of a portfolio of Sleipner assets located in central part of the North Sea. Being the second largest gas hub in the North Sea, the Sleipner area is of strategic importance to gas exports from Norway to Continental Europe and the United Kingdom.

## How do we create value for investors?

Key financial indicators	Key non-financial indicators
<ul style="list-style-type: none"> <li>■ EFRA Project: <b>PLN 2.3bn</b></li> <li>■ Construction of the Hydrogen Recovery Unit: <b>PLN 44.4m</b></li> <li>■ Eco-friendly projects: PLN 72m</li> <li>■ Capital expenditure, in the strategic period 2011–2015: <b>PLN 4.2bn</b></li> <li>■ Refinery margin: <b>USD 7.77/bbl</b></li> <li>■ Annual expenditure on training: <b>PLN 4.9m</b></li> </ul>	<ul style="list-style-type: none"> <li>■ Record crude oil and gas production in the LOTOS Group (production volume includes the annual output of Sleipner assets, in line with the effective transaction date of January 1, 2015): <b>10.4m boe</b></li> <li>■ Number of R&amp;D projects: <b>31</b></li> <li>■ Number of newly-introduced/significantly modernised products: <b>12</b></li> <li>■ Number of cooperating R&amp;D units and research centres: <b>14</b></li> <li>■ 50% of water intake is reused or recycled</li> <li>■ CO2 emission intensity ratio for the refinery in Gdańsk: <b>29.8 kg CO<sub>2</sub>/CWT</b></li> <li>■ Yield of high-margin products in the refinery: <b>78.3%</b></li> <li>■ Crude oil diversification rate: <b>23%</b></li> <li>■ Refinery system availability: <b>99.4%</b></li> </ul>

The 10+ Programme triggered an intensification of our innovation efforts. Now, new advanced technologies are being rolled out under our key [EFRA Project](#). By investing in state-of-the-art deep oil processing technologies, we will be in a position to increase output of high-quality fuels and eliminate the products with a negative margin from our production structure, reducing their adverse environmental impact. This is something we find very important, as when selecting and implementing modern solutions, we always consider synergies between the needs of the company and benefits to the environment, especially the natural environment. The technologies we use are ahead of increasingly stringent environmental protection standards and regulations.

We realize that improving and seeking ever better solutions is a continuous process. Hence, our plans assume investing in new technologies across all business areas, improving our efficiency by developing business processes, leveraging advanced technological process optimization techniques, including by promoting innovation among employees, as well as our trading and social partners.

# **LOTOS Group's key projects in the exploration and production and refining segments**

## LOTOS Group's key projects in the exploration and production and refining segments

Key projects of the LOTOS Group in the exploration and production segment are focused on diversifying sources of raw materials and expanding the production area. This approach offers opportunities to grow further and brings us closer to one of our goals – ensuring Poland's security in the energy sector.

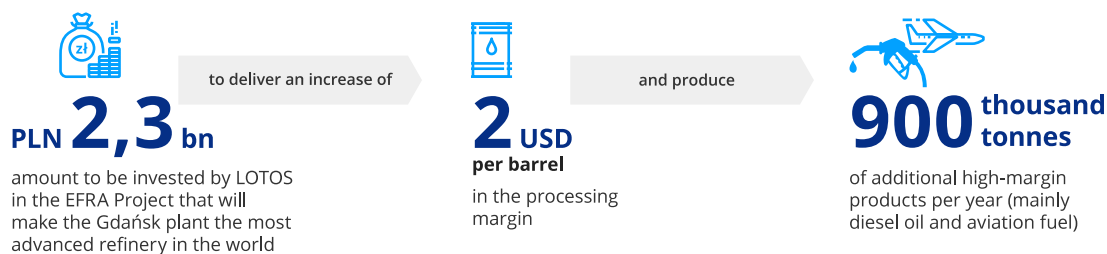
The projects initiated in 2015 in the refining segment are intended to enhance its profitability and efficiency and, consequently, improve competitiveness of the entire LOTOS Group in the challenging macroeconomic environment. Furthermore, they will also help us address the challenges imposed on the energy sector, including the petrochemical industry, by the European Union and Polish government.

# EFRA Project – Effective Refining, i.e. innovation of the 21st century

Initiated in 2015, the EFRA Project is a groundbreaking endeavour in Grupa LOTOS' history. The project will improve our financial efficiency and product margins, as well as reduce our dependence on crude oil price fluctuations. After its completion, Grupa LOTOS will become the most advanced refinery in the European Union and one of **the most technologically advanced in the world**.

With the new units, our Gdańsk refinery will produce an additional 900,000 tonnes of high quality high-margin fuels and 300,000 tonnes of petrochemical coke, without increasing crude input volumes.

The EFRA Project will facilitate the pursuit of sustainable development goals, and the cutting-edge technologies it involves will greatly reduce our environmental footprint.



EFRA Project's main benefits for Grupa LOTOS include:

- More efficient use of heavy residue, which is the heavy end of crude oil used to make heavy fuel oil or bitumens;
- Shift in the production structure from low-margin products towards increased share of engine fuels, mainly diesel oil and aviation fuel;
- Increased flexibility of the refinery, which will allow the LOTOS Group to remain competitive also in the event of movements in the prices of feedstock and petroleum products.

First results:



**7.7%**

total progress of work under the EFRA Project as at the end of 2015, against the planned 3.6%.



**31.3%**

total progress of work under the EFRA Project as at the end of August 2016. The plan assumed 25.9%.

The EFRA Project was started on June 26th 2015 and is expected to be completed in the second quarter of 2018.

Key events in 2015

**January/February**

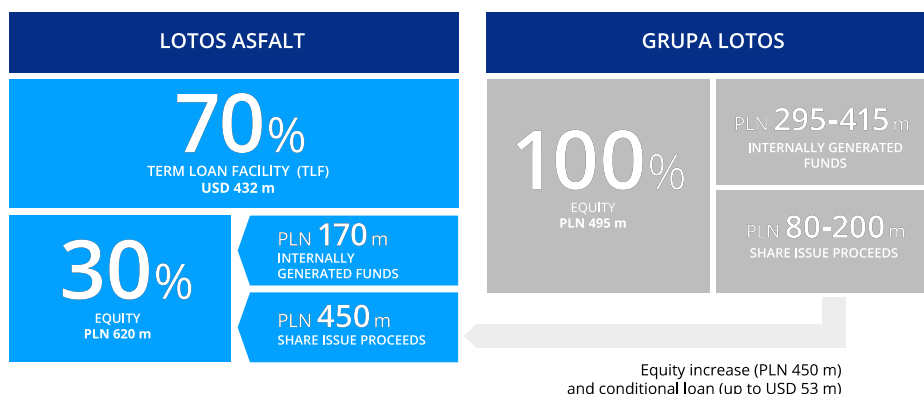
- The issue of series D shares is completed, with the proceeds of nearly PLN 1bn to be spent on the EFRA Project. The State Treasury subscribed for 53% of the new issue shares, and entered into an assistance agreement with Grupa LOTOS, committing PLN 530m to finance the investment.

**May/June**

- Grupa LOTOS launches the EFRA Project together with its subsidiary LOTOS Asphalt, following approval by the Company's Supervisory Board of the terms of financing and collateral, and a share capital increase at LOTOS Asphalt.
- LOTOS Asphalt signs credit facility agreements to finance 79% of the EFRA Project investments with a consortium of eight financial institutions.



## Financing structure of the EFRA Project \*



\* Together with borrowing costs and funds deposited in reserve accounts.

### July/August

- As part of the EFRA Project, LOTOS Asphalt signs a PLN 1.26bn EPC contract with Kinetics Technology of Italy for three key project units.
- The cornerstone is laid for the units to be built as part of the EFRA Project.
- LOTOS Asphalt signs a coke sale agreement with Oxbow Energy Solutions B.V. of the Netherlands. Oxbow agreed to buy coke from the Delayed Coking Unit, the main component of the process line to be built in the EFRA Project. In this way LOTOS Asphalt has ensured that the entire volume of output coke will be sold.

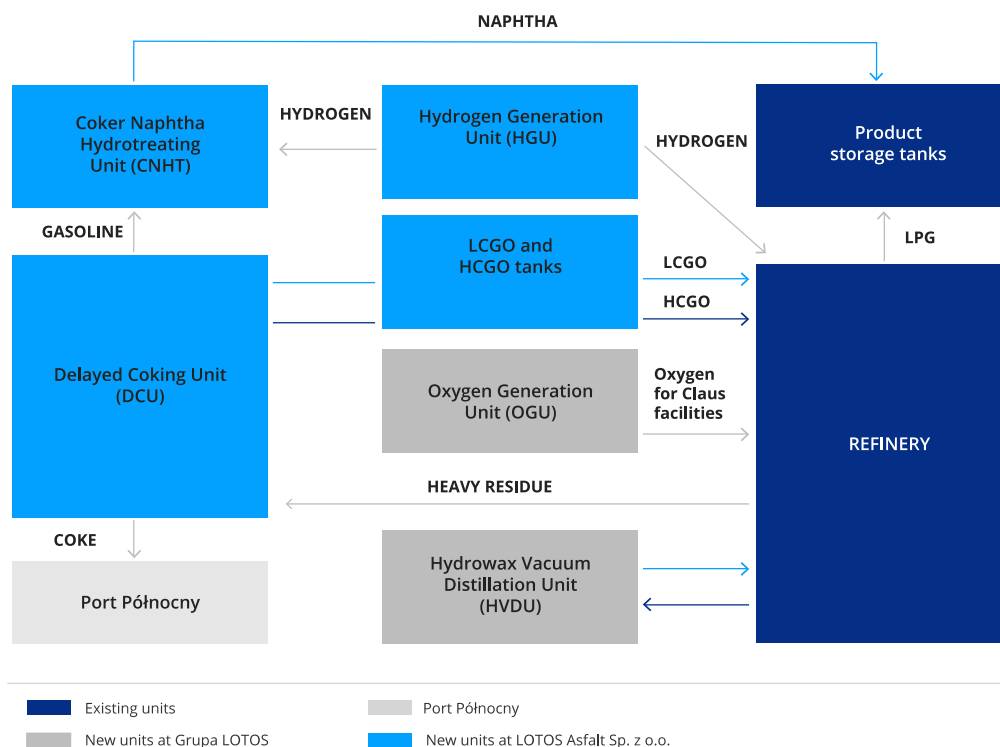
### September/October

- Lotos Asphalt enters into an agreement with Przembud Gdańsk on the construction of a power system facility as part of the EFRA Project. The company also signs a contract with Keller Polska for piling work at the site for a structure that will serve as a flyover linking the new units with the LOTOS refinery units and storage facilities.

### November

- At the EFRA Project complex, there has been an unique survey conducted, that allowed the proper preparation of support structures for the new units. The construction site has been thoroughly tested to a depth of approx. 30 meters using seismic studies by the German company Geotomographie.

## How the EFRA units work



The EFRA Project is consistent with the LOTOS Group's strategy for 2011–2015 for the refining segment, whose key objective is to ensure efficient use of the refinery's expanded processing capacities and further increase in distillate yields. The EFRA Project will allow us to fully harness the potential of production units built as part of the 10+ Programme, thus maximizing the use of Grupa LOTOS' existing assets.

The main facilities comprising the new EFRA complex will be the Delayed Coking Unit (DCU), Hydrogen Generation Unit (HGU), Coking Naphtha Hydrotreating Unit (CNHT), LPG Treatment Unit (LPGTU), Coke Logistics and Storage Facility (CS-LF), and Hydrowax Distillation Unit (HVDU).

The project is compliant with the Best Available Techniques (BAT) and carried out with respect for the natural and social environment. In some aspects, it even exceeds the BAT requirements, a case in point being the compressor to lower pressure in the coking reactor.

## Why did we select this solution?

Currently, coking units, including the one to be constructed under the EFRA Project, come with numerous enhancements which reduce their environmental impact. An additional advantage in the case of our compressor is that it will be equipped with a Closed Coke Slurry System (CCSS), a cutting-edge innovation designed to completely eliminate dust and hydrocarbon emissions during coke unloading. Furthermore, it will enable us to process hydrocarbon sediments and sludge created during sewage treatment.

## EFRA means new jobs

## EFRA means new jobs

As anticipated in the EFRA Staff Programme, staff with specialist qualifications will need to be recruited and trained to prepare and execute the project, and then, once it is completed, manage its operation and maintenance. This will also require transfer of capabilities and staff within the LOTOS Group. The EFRA Staff Programme is scheduled for gradual implementation in 2014–2019.

From 2014 to 2019, we plan to achieve the following goals in our personnel policy:

- Manning 40 workstations with employees from the LOTOS Group by reallocating them between organizational units and companies;
- Employing 80 additional staff from the market.

The general contractor for the EFRA Project is Kinetics Technology of Italy, a leading international contractor for such projects, but a number of Polish subcontractors are also involved, as the project assumed engaging proven Polish partners and employees in the construction process.

We estimate that at the height of activity under the EFRA Project in 2017, the site will see approximately 2,000 workers, predominantly from Polish-owned companies.

Already today, such companies as Przembud Gdańsk, P.R.I. Centrum, Mostostal Zabrze and Elektromontaż Gdańsk are involved in the Project activities. What is more, Polish specialists will be assigned to work on electrical systems, road infrastructure and inter-unit connections, with 50 Polish experts from Tebodin Polska performing supervision tasks on behalf of the project sponsor. Design work for auxiliary facilities and connections between the new project and the refinery was entrusted to the Polish branch of Fluor (approximately 80 persons). The construction process will require engaging regional transport, service, catering and hospitality companies.

[More information on the EFRA Project](#)

# Hydrogen Recovery Unit (HRU)

Before a new Hydrogen Generation Unit (HGU) is built as part of the EFRA Project, the Hydrogen Recovery Unit currently constructed at the Gdańsk refinery will increase hydrogen output by nearly 1 tonne per hour.

The annual production capacity of the new HRU will be:

- 100 thousand tonnes of LPG;
- 9 thousand tonnes of hydrogen;
- 40 thousand tonnes of naphtha.

Those valuable products will be obtained from hydrogen gasses that are currently used mostly in the fuel gas network. Additional benefits of the HRU include:

- Higher output from the hydrocracking and HDS units;
- Reduced costs of hydrogen production;
- More stable and secure gas supply to the fuel gas network thanks to replacing hydrogen gasses with natural gas;
- Reduced CO<sub>2</sub> emissions.

Construction of the Hydrogen Recovery Unit began in September 2015 and its completion is scheduled for the fourth quarter of 2016.

Grupa LOTOS' expenditure on key investment projects in 2015 included PLN 44.4m spent on the HRU.

## Operation of the HRU:

The central component of the unit is a coldbox, where hydrogen gas blend is cooled down to low temperatures and hydrogen is separated from hydrocarbons, which subsequently liquefy. Next to the HRU and the LPG tank, an LPG loading facility and a natural gas pressure reduction station will also be built.

# Development of the B8 field

As planned, on September 30th 2015 we started initial production from the B8 field using the LOTOS Petrobaltic drilling rig. Thus, LOTOS Petrobaltic has doubled its production of hydrocarbons in the Baltic Sea, and the incremental output generated by the field has a positive effect on its financial standing.

In mid-November 2015, daily production rate from the B8 field exceeded that of the B3 field, and on December 4th aggregate daily production from our two fields operated in the Baltic Sea exceeded 1,000 cubic metres.

## Importance of the B8 field to Grupa LOTOS:

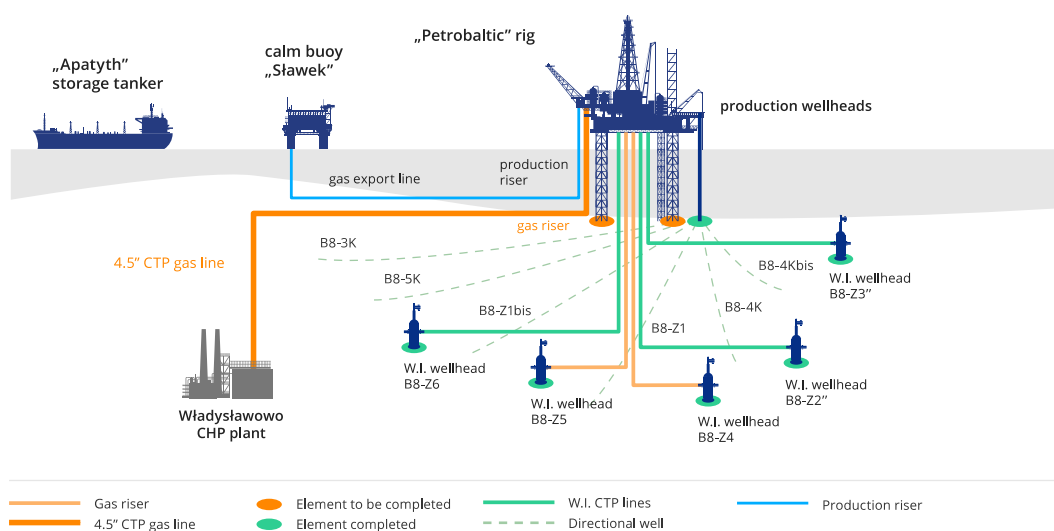
B8 is the third largest oil production facility in Poland and the oil field holding the largest recoverable oil reserves in the Polish part of the Baltic Sea. The field is situated in Poland's Exclusive Economic Zone of the Baltic Sea.

3.5 million tonnes = 28 million barrels

## estimate of the 2P production reserves of the B8 oil field

Once the Petrobaltic rig is converted into a production centre and placed in the B8 field, and after the pipeline to Władysławowo is completed, in the second half of 2017 we expect to launch full-scale production from the field at a daily rate of some 5 thousand barrels of crude oil (250 thousand tonnes annually).

## B8 Field development



In 2015, having carried out detailed technical analyses, LOTOS Petrobaltic resolved to optimize the Petrobaltic rig conversion project by reducing the weight of the hull. This will improve the economics of the B8 field development project in the difficult macroeconomic environment, with low oil prices.

In 2015, the LOTOS Petrobaltic Group spent PLN 304.3m on the development of the B8 field.

## Development of the B4/B6 gas fields

The purpose of the project is to develop and produce natural gas from the B4 and B6 fields in the Baltic Sea together with CalEnergy Resources Poland. In the summer of 2015, we began the third phase of the project, as part of which detailed technical solutions leading to the development of the fields are to be worked out.

Despite the technical complexity of the project and difficult macroeconomic conditions (significant decline in oil prices) we expect to complete that phase in 2016.

nearly  
**4.3 bcm**  
 estimated recoverable  
 gas resources of the  
 B4/B6 fields

The fields are planned to be put on stream between 2019 and 2020. The mixture of hydrocarbons (raw gas) will be transported via underwater pipelines on shore and processed into commercial products: natural gas, LPG and condensate, to be subsequently delivered to end users.

In 2015, the LOTOS Petrobaltic Group spent PLN 3.9m on activities continued under the B4/B6 gas field development project. In accordance with relevant agreement, at this stage the project is mainly financed by the partner, CalEnergy Resources Poland.

# Acquisition of the Sleipner field

On December 30th 2015, LOTOS Norge finalized the acquisition of a portfolio of Sleipner assets located in central part of the North Sea. Being the second largest gas hub in the North Sea, the Sleipner area is of strategic importance to gas exports from Norway to Continental Europe and the United Kingdom.



more than

**16** thousand  
boe/d

production volume  
attributable to LOTOS  
Norge's interest in the  
Sleipner assets towards  
the end of 2015



**9.5** thousand  
boe/d

estimate of the expected  
average oil and gas output  
from the Sleipner fields  
attributable to LOTOS  
Norge's interest in  
2016–2018

The base purchase price of the Sleipner portfolio was USD 160m (PLN 587.3m). The acquisition was a non-cash transaction executed by unlocking the tax asset generated from the YME Project.

The transaction covered interests in five licences, including four production fields and the Alfa Sentral field, discovered and scheduled for development. Statoil is the operator of all those licences, and the other consortium partners are Exxon and Total.

As at December 31st 2015, following the acquisition of the Sleipner assets, LOTOS Norge held interests in 27 licences for oil exploration and production on the Norwegian Continental Shelf.

\* Barrels of oil equivalent per day



## Recovery of the tax shield related to the YME field

In view of the persistently macroeconomic environment, including unstable conditions on the commodities market and sharp declines in crude oil prices, the LOTOS Group intends to initiate measures to improve the efficiency and ensure financial stability of its upstream segment. Apart from focus on the key projects, this will involve using cash flows from the Heimdal and Sleipner fields to recover the capital locked in the tax asset in Norway based on the cash flows from Heimdal and Sleipner fields.

In June 2015, the Norwegian Ministry of Petroleum and Energy (MPE) approved the request not to submit a Revised Development Plan and start the process of planning the field liquidation, made by Repsol of Spain, the operator of the YME licence. As at December 31st 2015, a decommissioning plan for the Yme field for 2016–2020 was to be provided to MPE for approval by the end of 2016. However, when OKEA, a new player on the Norwegian market, declared its intention to buy an interest in the YME field and proceed with its development, the decommissioning process was suspended and a reassessment of the field development options was commenced. The Operator has carried out efforts to prepare the Field Development Project (PDO), planned for 1Q 2017. The LOTOS Group supports the Operator in the activities likely to increase the market value of the YME asset by avoiding the field liquidation and return to the development.

Grupa LOTOS is monitoring the situation on an ongoing basis to choose the best solution for the YME project.

# **Innovation potential, cooperation and knowledge sharing**

# Innovation potential, cooperation and knowledge sharing

Innovative approach is a crucial element of our business. By investing in state-of-the-art oil refining technologies, obtaining patents and cooperating with research partners, we improve our competitiveness and the quality of our products, while supporting the environment in which we operate.

The LOTOS Group's research and development activities focus on crude oil production and refining.

## What do we do?

- In the upstream segment, in line with the trends set by European oil companies, our key R&D initiatives focus on technologies for hydrocarbon exploration and optimizing hydrocarbon production.
- In the downstream segment, we focus on effective utilization of the refinery's expanded processing capacities and refinery streams, further increase in oil conversion depth, and optimum use of synergies between the refining industry and the chemical, power and construction industries with a view to maximizing the refining margin.

### Our innovation objectives:

- Invest in new technologies across all business areas;
- Improve efficiency by further development of business and logistics processes;
- Use advanced technological process optimization methods;
- Promote innovation among employees as well as our trading and social partners.

## LOTOS Lab

The LOTOS Group's research and development activities are led and coordinated mainly by **LOTOS Lab**. In July 2015, the R&D Division and the R&D Team were appointed to support the LOTOS Group companies in the following areas:

- Identifying and keeping a record of project ideas on an ongoing basis;
- Improving access to the project portfolio for interested persons;
- Participating in advisory capacity in meetings held with a view to partnering with third parties in R&D projects;
- Analysing the documentation of R&D funding programmes to identify potential financing sources for project ideas;
- Intermediating in relations with institutions managing public funds for research and development initiatives as well as information centres for EU and national funds;
- Preparing relevant applications related to R&D projects.

LOTOS Lab has framework agreements on R&D cooperation with the following entities:

- Faculty of Chemistry of the Gdańsk University of Technology;
- Faculty of Civil and Environmental Engineering of the Gdańsk University of Technology;
- Oil and Gas Institute;
- Road and Bridge Research Institute.

# Key R&D projects

Grupa LOTOS is the leader of a consortium conducting the HESTOR research project **co-financed by the National Centre for Research and Development**.

## HESTOR project

### The project's objective:

Examine the efficiency of storing hydrogen obtained from surplus energy generated from renewable sources.

### The intended results:

The surplus electricity used to generate hydrogen through electrolysis would be delivered by wind farms and solar power plants. Hydrogen stored in caverns would be used:

- Directly in technological processes at the Grupa LOTOS' refinery, thus reducing the need to generate hydrogen from natural gas;
- For energy generation as a fuel firing gas turbines during peak demand hours.

## HESTOR and the environment

The pro-environmental effect of the project would be a reduction in greenhouse gas emissions by balancing the fluctuating supplies of electricity from renewable sources.

In a longer time horizon, hydrogen generation and storage on a larger scale would increase the share of RES in Poland's energy mix, owing to better utilization of the output of wind farms and solar power plants.

### Partners of Grupa LOTOS in the HESTOR project:

- Warsaw University of Technology;
- Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A.;
- Stanisław Staszic AGH University of Science and Technology of Kraków;
- Ośrodek Badawczo-Rozwojowy Górnictwa Surowców Chemicznych CHEMKOP Sp. z o.o.;
- Silesian University of Technology.

## Smart specializations of the Pomerania region

On April 9th 2015, the Local Government of the Gdańsk Province passed a resolution to establish smart specialization areas in the Pomerania region. One of the four approved specializations was 'Eco-efficient technologies in production, transmission, distribution and consumption of energy and fuels' recommended by a consortium whose members include LOTOS Group companies: Grupa LOTOS, LOTOS Asphalt, LOTOS Lab, LOTOS Oil, and LOTOS Petrobaltic.

Smart specializations of the Pomerania region cover business activity areas which may prove crucial to the region's future competitive position, and as such they are to be promoted by easier access to funds allocated as part of the Regional Operational Programme for the Gdańsk Province for 2014 –2020.

### The project's objectives:

- Obtain the smart specialization status to facilitate the commencement of innovative projects related to effective crude oil production technologies and production of state-of-the-art Group 2 base oils;
- Develop technologies for obtaining high-margin petroleum products, and production technologies for next generation biofuels, i.e. biofuels that do not compete with food production;
- Develop state-of-the-art building materials and their application technologies.

### Partners of the LOTOS Group companies in the project:

- Energa;
- Silesian University of Technology;
- University of Gdańsk;
- Polish Naval Academy;
- Gdynia Maritime University;
- Institute of Fluid-Flow Machinery – Polish Academy of Sciences;
- Institute of Power Engineering.

[More information on smart specializations of the Pomerania region](#)

## Best practices

### Cooperation with higher education and research institutions:

- In one of the projects planned for 2015–2016 LOTOS Petrobaltic is a member of a consortium which is among the four consortia that have obtained the status of smart specialization of the Pomerania region (the 'Off-shore and port and logistics technologies' project). 39 enterprises, 10 academic institutions and 10 business support organizations participate in the programme, run by the Marshal Office of the Gdańsk Province.

- Grupa LOTOS is conducting analyses to prepare a submission for a competition to obtain co-financing for R&D projects executed by large enterprises, announced by the National Centre for Research and Development. The project would be the continuation of a study implemented in 2014, focusing on hydrocarbon generation, expulsion, migration and accumulation, performed with the use of technologically advanced tools and techniques for modelling petroleum processes in exploration activity and the state-of-the-art methods for analysis of rock and porous media from the Baltic Sea basin.

### Cooperation with customers and suppliers, experience sharing in the industry:

- LOTOS Petrobaltic and Polskie Górnictwo Naftowe i Gazownictwo signed joint operating agreements concerning the Kamień Pomorski (in north-western Poland) and Górowo-Łławeckie (in north-eastern Poland) licences. Together the two companies performed a 3D seismic survey in the Kamień Pomorski licence area (survey area: 134.8 sq. km, area with receiver points: 267.5 sq. km), and processed and interpreted the image against a part of an archive 3D seismic image. The cooperation on the Górowo Łławeckie licence involved the acquisition of a total of 200.4 km of 2D seismic data and processing of archive data.
- Grupa LOTOS and Honeywell entered into an agreement on supervision of control systems (80% of the systems were developed by Honeywell). The agreement provides for effective management of the life cycle of individual units and ensures the highest level of safety at work.
- LOTOS-Air BP Polska and the Olsztyn Mazury Airport signed an agreement for the supply of aviation fuels (effective as of January 2016). From the commencement of talks on prospective cooperation, LOTOS-Air BP Polska's staff actively supported the airport in its work on fuel infrastructure, formal and technical aspects, as well as tax and legal matters, to ensure that the airport is ready to start operations on time.
- Grupa LOTOS held a meeting with heads of information divisions from more than a dozen companies based in the Pomerania region. The main theme of the meeting was data and system security issues. It was one of the regional meetings of the CIO Club.
- In May 2015, the LOTOS Group joined the Technology Transfer Platform, which collect the resources of companies willing to share their innovative solutions and information on the needs of entities that look for innovations. The search mechanism helps match technology providers with seekers. It is a helpful tool for inventors, research institutes and businesses. Other participants of the Technology Transfer Platform include: Enea, Polska Grupa Energetyczna (PGE), KGHM Polska Miedź, and Polska Grupa Zbrojeniowa.

# Eco-friendly growth



## Eco-friendly growth

We have taken a strategic approach to minimizing our environmental impacts, which is why the Grupa LOTOS refinery, our major plant, is now one of the most environmentally friendly refineries in Europe. We believe that reducing negative environmental impacts brings benefits to Grupa LOTOS, and thus to its shareholders. In this way, we create additional value for our other stakeholders, who support us as partners in pro-environmental activities.

One of the key objectives of our CSR strategy for 2012–2015 was to reduce the environmental risk and seek to continually minimize the environmental impact of the LOTOS Group's operations.

Four operational goals have been assigned to this objective:

- Promote environmental standards and best practices across the LOTOS Group;
- Monitor the environmental footprint of the LOTOS Group's infrastructure beyond mandatory obligations;
- Reduce the contamination level in the streams of treated wastewater and discharged water;
- Improve the ERM Portal supporting environmental risk management.

Environmental matters are also addressed in the LOTOS Group's Code of Ethics. The recommended approach is put into practice by:

- Adhering to internal procedures intended to ensure conformity of our processes with the requirements imposed by applicable environmental laws;
- Implementing solutions designed to mitigate the LOTOS Group's environmental impacts;
- Engaging in educational initiatives to raise environmental awareness within the organization and in a wider social environment;
- Care for the environment in and outside of the workplace.

The business activity of the LOTOS Group may involve significant environmental impacts resulting from emissions of pollutants into the air, generation of waste, use of water and discharge of wastewater. The scale and nature of our environmental impacts are regulated under the environmental protection laws. In connection with their activities, companies of the LOTOS Group hold a number of permits, including integrated permits, which govern the operational and environmental aspects of the LOTOS Group's installations.

The most critical source of environmental impact caused by our plants, both for the installations' immediate environment and areas located further away, are gas emissions. Therefore, we are most concerned to ensure that the processes involving gas emissions are based on Best Available Techniques and best practices reducing the plants' impact in that respect.

Accordingly, when selecting and implementing innovative solutions, we always seek synergies between the needs of the company and benefits to the environment, and especially to the natural world.

## Total environmental protection expenditures and investments

Waste disposal, emissions treatment, and remediation costs (PLN thousand)	33,523
Prevention and environmental management costs (PLN thousand)	84,839
Eco-friendly projects (PLN thousand)	72,211

The EFRA Project is not only a breakthrough initiative for Grupa LOTOS in terms of efficiency and competitiveness, but it also limits our environmental footprint.

When implementing the project, we decided to apply solutions that go beyond environmental protection regulations and BAT requirements:

- In the Delayed Coking Unit, before opening the DCU reactor, the water pressure will be reduced more than it is normally done, in order to achieve a maximum withdrawal of gaseous hydrocarbons still before the coke cutting and removal processes;
- All the processes related to coke unloading, transfer, storage, loading and transport out of the refinery will be carried out using a system that ensures above-standard environmental safety.

### [EFRA Project](#)

### Best practice:



**THE GLOBAL GOALS**  
For Sustainable Development



### Key projects and initiatives to minimize the environmental impact

- In 2015, the LOTOS Group became the Major Partner of the Baltic Programme, carried out by UN Global Compact in Poland. The Baltic Programme is aimed at developing optimised sustainable development directions in the Baltic Sea region by supporting the expansion of sea transport corridors and transport in the region, paying special attention to improved transport security and infrastructure, increased competitive advantage of the Baltic Sea region, and also to protecting its ecosystem. The environmental protection of the Baltic Sea, including prevention of the eutrophication process, were considered one of the key priorities of the Baltic Programme.
- In pursuance of the objective of reducing the environmental risk and seeking to continually minimize the environmental impact of the LOTOS Group's operations, in 2012–2015 we carried out a large-area wildlife survey in the vicinity of the refinery in Gdańsk, and revised the environmental documentation of our service stations across Poland. We organized environmental experts' meetings to discuss best practices in environmental protection and important protective activities.
- LOTOS Kolej received modern rolling stock, which eliminated leakage of lubricating oils. In 2015, we eliminated the process of gas removal from LPG tanks on the LOTOS Kolej's site in Gdańsk. The process was relocated to a Grupa LOTOS unit, where gas is recovered by sending to the fuel gas system.

- LOTOS Asphalt reduced production costs through the introduction of efficient energy management and feedstock optimization. Its products are manufactured with due care for the environment and transported using eco-friendly means. The company promotes tractors that comply with the highest emission standard (minimum Euro 5), reducing nitrogen oxides (NO<sub>x</sub>), hydrocarbons (HC), carbon oxides (CO) and particulate matter (PM) emissions. Transport is preferably arranged on safe, fast-traffic express roads and motorways, with non-collision crossroads, which leads to mitigation of social consequences of road accidents.
- Polskie Centrum Badań i Certyfikacji, a Polish certification body, awarded LOTOS Serwis the Integrated Management System Certificate, which covers maintenance activities, overhauls and upgrades, industrial plant construction and commissioning. The certificate also extends to works carried out on the oil and gas production installations.
- In order to minimize the risk of environmental disasters, LOTOS Petrobaltic has put in place procedures based on international regulations, and regularly conducts emergency spill response training in the sea. It is organized in cooperation with the Maritime Search and Rescue Service (SAR) and the Maritime Office in Gdynia.
- Our employees' engagement in numerous ecological initiatives testifies to the importance they attach to environmental protection. For instance, LOTOS Asphalt, partner of the 'Tree for a Tyre' campaign organized a collection of worn-out tyres in a facility of Grupa LOTOS in the Gdańsk Province. Within just a few hours, employees from our Gdańsk-based companies brought as many as 300 tyres, receiving 300 guelder-rose, bird cherries, dogwood, fir and spindle seedlings in exchange.
- During the conference 'TIME OF INNOVATION. OIL AND CHEMICAL INDUSTRIES 2015, Grupa LOTOS received an award for the development and implementation of a technology that prevents water in the storage reservoir serving as a source of water for the refinery from turning green with algae. With the new technology, the total amount of water abstracted from the environment was reduced by approximately 6%, despite increased volumes of oil processed. This innovative solution is a source of technological benefits (no problems with water treatment), economic benefits (stable production cost) and environmental benefits (improved water quality).

# Reduction of energy consumption

In 2015, companies of the LOTOS Group engaged in efficiency initiatives to reduce energy consumption.

At Grupa LOTOS, this goal was pursued as part of the currently implemented Energy Management System based on ISO 50001, and is in line with the Company's Energy Policy underlying the System. Activities improving energy efficiency are part of our constant development efforts and are carried out in compliance with established and documented procedures. They focus primarily on such matters as optimization of technological processes, maintenance of energy-consuming infrastructure in proper technical condition, investments to improve energy efficiency, and procurement of services and assets taking into account their energy intensity's effect on long-term costs of their use. In 2015, projects involving optimization of steam network performance and rotating machinery were conducted, which helped reduce energy consumption by 90,760 when converted GJ/MWh in total.

LOTOS Oil completed three initiatives resulting from its five-year overhaul schedule and consultations with the staff on the possible ways of reducing branch costs. The initiatives involved replacement of pipeline and tank heat insulation as part of ongoing maintenance activities, and employee-targeted information campaign on the importance of heat and energy saving.

As for LOTOS Asphalt, the company's activities under the Energy Management Systems produced efficiencies amounting to 63,139 when converted GJ/MWh.

Other companies of the LOTOS Group also take steps to minimize their energy and fuel consumption. In 2015, LOTOS Paliwa upgraded lighting of petrol pump canopies at 13 service stations. LOTOS Kolej reduced its fuel consumption – in 2015 it used 0.18 l/km less diesel oil than in 2014.

## Direct and indirect energy consumption within the organization

### LOTOS Group (Table 1a, 1b)

#### 1a) Primary energy

Total consumption of primary energy from non-renewable sources (own or purchased), by type of fuel	Amount (GJ) - GL S.A.
Natural gas	7 919 009
Fuel gas	11 650 729
Residual gases	3 595 562
LSFO	2 560 821
Light fuel oil (HON)	1 131
Resale of heat generated from waste primary energy to other entities	-118 907
<b>Total consumption</b>	<b>25 608 345</b>

## 1b) Useful energy

<b>Total consumption of useful energy purchased from other entities (including the affiliates of the LOTOS Group),: electricity and heat</b>	
Electricity	1 814 958
Heat (including steam and cooling)	0
<b>Total sales of useful energy to entities outside the LOTOS Group purchased outside the LOTOS Group or produced inside the LOTOS Group [electricity and heat]</b>	
Total electricity sales	6 048
Total heat sales (net)	660

## LOTOS Group (Tab.2)

### Primary energy

<b>Total consumption of primary energy from non-renewable sources (own or purchased), by type</b>	<b>Values (GJ) — draft report</b>
Natural gas	8 833 545
Fuel gas	11 650 729
Residual gases	3 595 562
Fuel oil (including LSFO fuel oil)	2 718 694
Diesel oil (including HON light oil)	462 319
<b>Total consumption</b>	<b>27 260 849</b>

Companies included in the calculations: Grupa LOTOS (Tab. 1), AB LOTOS Geonafta, LOTOS Oil, LOTOS Petrobaltic, Energobaltic, LOTOS Infrastruktura, LOTOS Kolej, LOTOS Asphalt, LOTOS Serwis, LOTOS Paliwa, LOTOS Ochrona, LOTOS Straż (Tab. 2).

# Emissions management

2015 was the last year covered by the LOTOS Group's Corporate Social Responsibility Strategy for 2012–2015. One of its objectives was to bring average annual carbon (CO<sub>2</sub>) emissions intensity ratio at the Grupa LOTOS refinery, expressed in kg CO<sub>2</sub>/CWT, below 90% of the 2011 levels in 2015.

**29.8** kg  
CO<sub>2</sub>/CWT\*

that low was the average carbon emissions intensity ratio at Grupa LOTOS installations, down 79% on 2011. The reduction was made possible by connecting the refinery to the gas grid in 2012 and use of natural gas as fuel in the CHP plant, and as feedstock for hydrogen generation, as well as a number of other upgrades and efficiency-promoting measures.

\* plant's total CO<sub>2</sub> emissions divided by the total throughput of all its installations emitting this gas

## Direct greenhouse gas emissions

Source	GHG emissions [tonnes of CO <sub>2</sub> ]
1 Emissions associated with electricity production	30 998
2 Emissions associated with heat production	1 336 835
3 Emissions associated with gas flaring	10 550
4 Emissions from processes	621 773
<b>Total direct emissions</b>	<b>2 000 156</b>

Operations/processes of particular relevance	GHG emissions [tonnes of CO <sub>2</sub> ]
<b>Refining production</b>	1 612 667
<b>Crude oil production</b>	44 277
<b>Emissions from CHP plants</b>	328 754

Companies included in the calculations: Grupa LOTOS, LOTOS Petrobaltic, LOTOS Asphalt, Energobaltic, RCEkoenergia.

## Indirect greenhouse gas emissions

Source	GHG emissions [tonnes of CO <sub>2</sub> ]
1 Emissions from electricity purchased for the organization's needs	554 755
2 Emissions from heat purchased for the organization's needs	13 027
<b>Total indirect emissions</b>	<b>567 782 </b>

Operations/processes of particular relevance (where they represent a material proportion of the organization's emissions profile)	Indirect GHG emissions [tonnes of CO <sub>2</sub> ]
Purchased electricity consumption at the onshore facility (LOTOS Petrobaltic)	1 611
Consumption of electricity purchased for refinery production purposes (Grupa LOTOS)	427 933
Pumping of water for power generation and wastewater treatment (RCEkoenergia)	289

Companies included in the calculations: Grupa LOTOS, LOTOS Oil, LOTOS Petrobaltic, LOTOS Infrastruktura, LOTOS Kolej, LOTOS Asphalt, LOTOS Serwis, LOTOS Paliwa, LOTOS Ochrona, LOTOS Straż, LOTOS Terminale, LOTOS Lab, LOTOS Biopaliwa, RCEkoenergia.

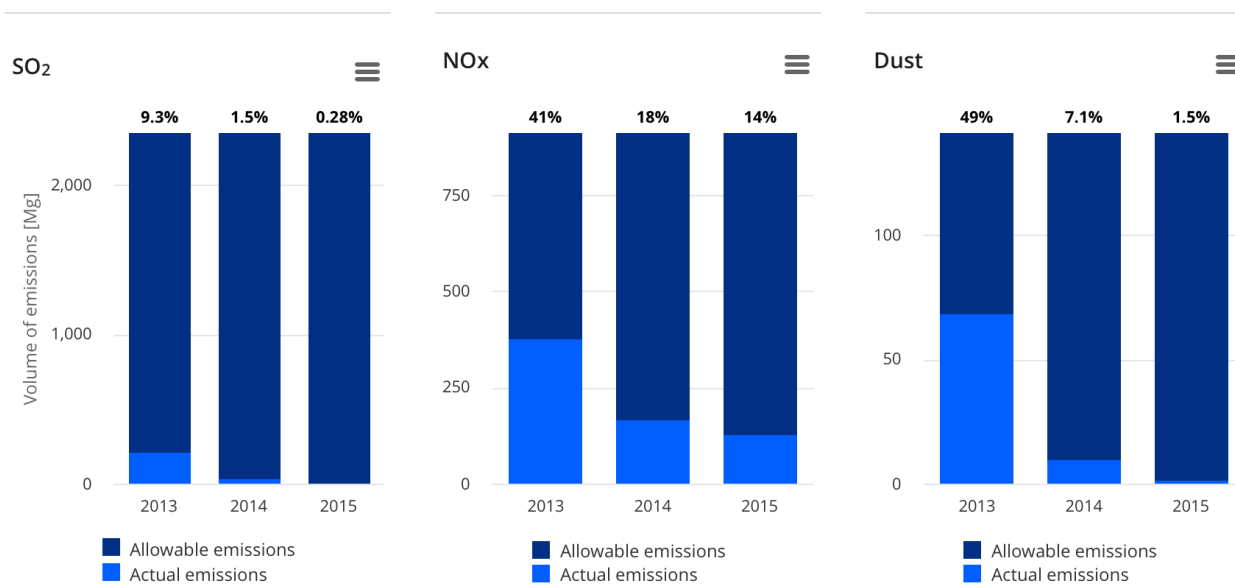
The 2015 CO<sub>2</sub> emissions intensity ratio (per production unit, direct emissions only) was:

- at Grupa LOTOS: 29.8 kg CO<sub>2</sub>/CWT
- at LOTOS Petrobaltic: 0.261 tCO<sub>2</sub>/toe
- at LOTOS Asphalt: Gdańsk plant – 0.018 t CO<sub>2</sub>/t of the product, Jasło plant – 0.11 t CO<sub>2</sub>/t of the product (various processes run at the Gdańsk plant and the Jasło plant characterised with different emission levels)
- at Energobaltic: 0.06 tonnes/GJ

Falling oil prices and the resulting decrease in prices of finished goods had a bearing on the environmental impact of the Grupa LOTOS refinery in Gdańsk in 2015. In the new price environment, the unit cost of energy generated from the refinery's finished goods turned out to be lower than the unit cost of energy from natural gas. This was an opportunity to reduce operating expenses and improve our competitive position.

The larger share of crude oil products, the so-called finished goods in the energy and feedstock mix at our Gdańsk refinery had a marked impact on sulfur dioxide (SO<sub>2</sub>) and particulate emissions from our installations. At one of the hydrogen generation units, we used LPG as feedstock on a temporary basis.. It is worth stressing that the quality of finished goods, and the amount of emissions into the air were within the permitted levels set out in the integrated permit.

### Air emissions of main pollutants from the Grupa LOTOS' CHP plant as percent of permitted values



### NO<sub>x</sub>, SO<sub>x</sub>, and other significant air emissions

NO <sub>x</sub> , SO <sub>x</sub> and other significant air emissions	Amount of air emissions (tonne)
NO <sub>x</sub>	1 135.33 ✓
SO <sub>x</sub>	2 578.88 ✓
Persistent organic pollutants (POP)	0.00
Volatile organic compounds (VOC)	230.81 ✓
Hazardous air pollutants (HAP)	1.81
Particulate matter (PM)	231.48 ✓
Other standard categories of air emissions	16.33 ✓

The emission intensity in the process of oil and gas production	The emission intensity (t/mboe)
NO <sub>x</sub>	29.71
SO <sub>x</sub>	3.47
Volatile organic compounds (VOC)	357.26
Particulate matter (PM)	3.66



Companies included in the calculations: Grupa LOTOS, AB LOTOS Geonafta, LOTOS Oil, LOTOS Petrobaltic, Energobaltic, LOTOS Kolej, LOTOS Asphalt, LOTOS Serwis, LOTOS Paliwa, LOTOS Terminale, LOTOS Lab, LOTOS Biopaliwa, RCEkoenergia.

## Volume of gases flared

Location	Amount of flare gas [thousand cubic metres]	Total volume of flared gases per production unit
	2015	
<b>LOTOS Petrobaltic (international waters, Polish Exclusive Economic Zone)</b>	3 552.5	2 586.1 thousand m <sup>3</sup> /Mboe
<b>Grupa LOTOS (Gdańsk refinery)</b>	5 448.0	
<b>AB LOTOS Geonafta (Lithuania)</b>	415.7	2 233.0 tys. thousand m <sup>3</sup> /Mboe

# Production of hydrocarbons

To reduce the environmental footprint of its operations, the LOTOS Group monitors the producing fields on an ongoing basis.

The main raw materials used in exploration and production drilling and well workovers include drilling mud components (which are environmentally neutral) and cement used to bind casing to the drilled rock. LOTOS Petrobaltic does not use oil-based muds for drilling, but relies only on water-based muds, which circulate within a closed-loop system.

The main raw materials used in the production process include chemical substances added to the formation and sea water pumping system, as well as methanol added to the gas transported to Energobaltic.

## Materials used, by weight and volume

Materials used	Total consumption
natural gas	31 020 258 m <sup>3</sup>
LPG	25 tonnes
crude oil	10 213 160 tonnes
fuel oil	367 tonnes
diesel oil	4 773 m <sup>3</sup>
gasoline	17 tonnes
materials and components	685 001 tonnes
enhancing additives	2 183 tonnes
hydrated lime	27 tonnes
other materials used for drilling and production	773 tonnes

Companies included in the calculations: Grupa LOTOS, AB LOTOS Geonafta, LOTOS Oil, LOTOS Petrobaltic, Energobaltic, LOTOS Infrastruktura, LOTOS Asphalt, LOTOS Serwis, LOTOS Paliwa.

LOTOS Petrobaltic used 6,988,225 cubic metres of natural gas, with 6,833,493 cubic metres of gas produced by the Baltic Beta platform on the B3 field through separation from the formation fluid and used to supply the platform systems). 154,732 cubic metres was gas purchased from a third-party provider to heat office buildings at the onshore facility of LOTOS Petrobaltic). Fuel gas used for heating offices accounts for 2.26% of the total gas consumed.

# Water and wastewater management



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The economic use of water resources at the LOTOS Group is based on relevant water use and integrated permits. Analyses of the environmental impact of our water abstraction activities confirm that they do not significantly affect any protected sites or areas of environmental value, and that the amount of water withdrawn is substantially below permitted volumes.

## Total water withdrawal by source

No.	Total volume of water withdrawn by the organization by source	Total volume [m <sup>3</sup> ]
1	Water from rivers	4 007 379
2	Seawater	334 002
3	Ground water	328 810
4	Water supplies from a third party	322 492
<b>TOTAL</b>		4 992 683

Companies included in the calculations: Grupa LOTOS, AB LOTOS Geonafra, LOTOS Oil, LOTOS Petrobaltic, Energobaltic, LOTOS Infrastruktura, LOTOS Kolej, LOTOS Asphalt, LOTOS Serwis, LOTOS Paliwa, LOTOS Ochrona, LOTOS Straż, LOTOS Terminale, LOTOS Lab, LOTOS Biopaliwa, RCEkoenergia.

Processes consuming large quantities of water	Water demand [m <sup>3</sup> ]	Company
CHP plant - utilities production	3 123 762	Grupa LOTOS
Refinery - circulatory cooling water	1 356 650	Grupa LOTOS
Injection of seawater into reservoir	334 002	LOTOS Petrobaltic
Production of decarbonized water	214 039	LOTOS Infrastruktura
Water consumption at the CHP plant (heating and process steam generation, cooling system)	152 365	RCEkoenergia
FAME production — circulating cooling water	41 754	LOTOS Biopaliwa
Technological processes of washing locomotives and tankers	35 094	LOTOS Kolej
Fire safety purposes	7 453	LOTOS Terminale
Production of fatty acid methyl esters (FAME)	6 714	LOTOS Biopaliwa
Water consumption at the treatment plant	3 612	RCEkoenergia

<b>Water treatment unit (water for heating systems)</b>	3 498	Energobaltic
<b>Cooling</b>	1 754	LOTOS Oil
<b>Fire safety purposes</b>	1 200	LOTOS Straż

## Percentage and total volume of water recycled and reused

Total volume of water withdrawn by the organization	7 879 566 m <sup>3</sup>
Volume of water recycled or reused	3 901 647 m <sup>3</sup>
Share of water recycled or reused in the total volume of water withdrawn by the organization	50%

Companies included in the calculations: Grupa LOTOS, LOTOS Asphalt, LOTOS Paliwa, LOTOS Biopaliwa. Total volume of water withdrawn by the companies was calculated as the volume of water that would have to be abstracted from the environment to satisfy the Company's needs (i.e. actual water withdrawal + reused water).

For years, Grupa LOTOS has maintained a high quality of treated wastewater. Regular monitoring has confirmed that the wastewater discharged meets the required parameters, with the majority of indicators below 50% of the maximum levels defined in our permit.

## Total volume of wastewater by quality and destination

Wastewater discharge destination	Volume (m <sup>3</sup> )
To surface water (lakes, rivers, etc.)	5 788 064
To third-party plants (including municipal utilities)	256 820
<b>Total wastewater volume</b>	<b>6 044 884 </b>

Wastewater treatment	Volume (m <sup>3</sup> )
<b>Through the Organization</b>	5 788 064
<b>Through the treatment plant</b>	256 820
<b>Total wastewater treatment</b>	<b>6 044 884 </b>

Companies included in the calculations: Grupa LOTOS, AB LOTOS Geonafta, LOTOS Oil, LOTOS Petrobaltic, Energobaltic, LOTOS Kolej, LOTOS Asphalt, LOTOS Serwis, LOTOS Paliwa, LOTOS Terminale, LOTOS Infrastruktura, LOTOS Ochrona, RCEkoenergia, LOTOS Biopaliwa.

## Wastewater discharged by Grupa LOTOS (mg/dm<sup>3</sup>)

BZT<sub>5</sub> (pięciodobowe biologiczne zapotrzebowanie na tlen) = 2.97

COD=44.53

suspended solids = 5.08

phenols = 0.001

ether extract = 0.54

petroleum hydrocarbons = 0.12

N<sub>og</sub>(Total Nitrogen) = 4.5

P<sub>og</sub>(Total Phosphorus) = 0.75

sulphides = 0.022

Ni (Nickel) = 0.0013

V (Vanadium) = 0.0039

Al (Aluminium) = 0.0703

petroleum = 0.12

Phenols, ether extract, hydrocarbons, nickel, vanadium and aluminium are typical pollutants in the refining industry. The other substances are very important for environmental protection in general. Wastewater discharged by Grupa LOTOS to the environment meets by a wide margin the parameters defined in the integrated permit granted to the company.

## Formation water

Until recently, formation water separated from the formation fluid as part of LOTOS Petrobaltic's operations used to be purified of oil components to a level below 15 ppm ("parts per million") and discharged into the sea. At present, in line with the requirements of the Baltic Sea Action Plan, developed by the Helsinki Commission (HELCOM) and approved in 2007 by the Environmental Protection Ministers of the Baltic States, the 'zero discharge' principle applies to offshore activities in the Baltic Sea. Therefore, a special water injection system was installed on the Baltic Beta platform to inject water back into the rock mass. This has a positive effect on the environment and raises the reservoir pressure, improving efficiency.

## Volume and disposal method for formation water and water produced in the oil extraction process

Disposal method	Volume of formation water and water produced in the oil extraction process [m <sup>3</sup> ]		Share of water produced in the oil extraction process	
	LOTOS Petrobaltic	AB LOTOS Geonafta	LOTOS Petrobaltic	AB LOTOS Geonafta
<b>Re-injection into reservoir</b>	183 518.2	249 449	98.63%	99.09%
<b>Other</b>	2 546.4	2 291.5	1.37%	0.91%
<b>TOTAL</b>	186 064.6	251 740.5	100%	100%

In 2015, formation water produced in the process of oil extraction from the B8 field was loaded into a tanker together with the oil. As production from the field was launched on September 30th 2015, the content of water in the formation fluid was negligible (1%). Once the Petrobaltic rig (currently undergoing conversion), with the formation water injection system installed, is placed on the B8 field, water will be injected back into the field.

In 2015, LOTOS Geonafta produced 251,741 cubic metres of formation water. The water was injected back into the formation and therefore is not subject to any specific requirements in terms of hydrocarbon content or salinity. The company intends to maintain the concentration of hydrocarbons in formation water below the level of 40 mg/litre. In 2015, 2,291.5 cubic metres of the produced brine was supplied to municipal utilities.

# Waste management

The LOTOS Group complies with all national and EU regulations and decisions, making every effort to manage its waste in an environmentally safe manner.

## Total weight of waste by type and disposal method

Weight of waste [Mg]		
Disposal method	Non-hazardous waste	Hazardous waste
Reuse of waste	148.93	0.00
Recycling (including organic recycling, e.g. composting)	6 343.92	10 038.46
Recovery (including energy recovery)	2 562.51	677.40
Burning (or use as fuel)	13.26	265.73
Landfilling	130.61	17.58
Discharge to deep wells	0.00	0.00
On-site storage	92.89	1 221.46
Other	2 815.54	864.12
<b>TOTAL</b>	<b>12 107.65</b>	<b>13 084.74</b>

Companies included in the calculations: Grupa LOTOS, AB LOTOS Geonafta, LOTOS Oil, LOTOS Petrobaltic, Energobaltic, LOTOS Kolej, LOTOS Infrastruktura, LOTOS Asfalt, LOTOS Serwis, LOTOS Paliwa, LOTOS Terminale, LOTOS Straż, LOTOS Lab, LOTOS Ochrona, LOTOS Biopaliwa, RCEkoenergia.

## Weight of transported, imported, exported, or treated waste deemed hazardous and share of transported waste shipped internationally

Hazardous waste (Mg)	
Total weight of hazardous waste transported, including:	11 689.88
Total weight of hazardous waste imported	0.00
Total weight of hazardous waste exported	31.88
Total weight of hazardous waste treated	3 226.04
Share of hazardous waste shipped internationally	0.27%

Companies included in the calculations: Grupa LOTOS, LOTOS Oil, LOTOS Petrobaltic, Energobaltic, LOTOS Kolej, LOTOS Infrastruktura, LOTOS Asfalt, LOTOS Serwis, LOTOS Paliwa, LOTOS Terminale, LOTOS Lab, LOTOS Ochrona, RCEkoenergia, LOTOS Biopaliwa.

Drilling mud and drill cuttings are the main waste products of the drilling process. Once carried to the surface, they are directed to the treatment system.

Total volume of drilling waste generated by LOTOS Petrobaltic using water-based drilling fluid was 235.76 Mg, of which 73.44 Mg of drill cuttings and 152.96 Mg of drilling mud was transferred for recovery, and 9.36 Mg of drill cuttings was burnt.

Total volume of drilling waste generated by AB LOTOS Geonafta using water-based drilling fluid was 2,206.84 Mg. Most of the compounds used in 2015 were biodegradable. All of the drilling waste (drilling mud and drill cuttings) was shipped to the waste treatment plant.

The LOTOS Group favours eco-friendly waste management methods, such as recycling and recovery, and takes firm steps to curb the use of methods that are harmful to the environment, such as burning without energy recovery, landfilling and other forms of disposal.



# Biodiversity



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The LOTOS Group operates close to areas of high environmental value and therefore makes every effort to continuously monitor potential hazards to biodiversity that may follow from its business growth. The LOTOS Group's sites neighbouring areas of environmental value include:

- The Słupsk E and Słupsk W licence areas (2,160.3 sq. km), owned by LOTOS Petrobaltic, located in the Polish Economic Zone of the Baltic Sea and bordering on a Natura 2000 site.
- Five sites of AB LOTOS Geonafta in the Kretinga region (with a total area of 0.06 sq. km), in close vicinity to areas of great natural value due to aquatic ecosystems (Natura 2000).
- Energobaltic's sites in Władysławowo (0.02 sq. km), bordering on the Coastal Landscape Park protected area (Natura 2000).
- The refinery in Gdańsk, located 2 km in a straight line from a protected area, unique on a European scale due to its location on a waterbird migration route (Natura 2000).

During uninterrupted operation, none of the units at the LOTOS Group companies has a major negative impact on the native species. Technical, organizational and systemic solutions have been put in place to ensure that immediate action is taken in the event of a failure involving, for example, an oil spill, in order to control any possible eruption or spill before it reaches the protected areas.

For several years, Grupa LOTOS has been investigating the impact of the Gdańsk refinery, which is its main plant, on biodiversity. As one of environmental protection tasks completed as part of our CSR strategy effective until 2015, in 2014 we carried out a voluntary comprehensive survey of wildlife within the refinery premises and in surrounding areas. The survey report serves as a basis for expanding our knowledge of biodiversity and as a starting point for monitoring sites identified as most valuable nature conservation areas.

Neither the wildlife survey carried out in 2014, nor the initial assessment of the refinery's impact on biodiversity, showed any negative effects of the refinery's operations on the surroundings. No investment projects are planned that could change this status.

Two endangered species included in the IUCN Red List have been identified in the vicinity of the Gdańsk refinery. However, the refinery's operations have been found to have no adverse effect on the protected species living in the surrounding area. Repairs of the CHP plant's chimney stack are carried out so as not to disrupt the breeding cycle of peregrine falcon nesting there.

[More information](#)

# Process safety

# Process safety management

The LOTOS Group places a strong focus on ensuring and maintaining a high process safety culture across the organization. The LOTOS Group companies monitor incident rates on an ongoing basis and eliminate all potential threats.

Grupa LOTOS has for many years been following best practices in preserving the integrity of its technical infrastructure. The practices include predictive and preventive maintenance, an inspection and supervisory test programme, non-destructive testing programme, risk-based inspection programme, regular repairs of process units, repair quality control, and a corrosion prevention programme.

**To ensure process safety and thus prevent plant failures and limit their consequences, Grupa LOTOS maintains an Industrial Accident Prevention Programme. In addition, as part of supervision of infrastructure and instrumentation and control systems we apply regulations that define the procedures for:**

- Selection and purchase of plant and equipment as well as instrumentation and control systems;
- Oversight of their operation, planning and execution of inspections and repairs;
- Control and certification of instrumentation and control systems and steps to be taken if any damage to the equipment is identified.

Energobaltic holds periodic preventive inspections with a frequency defined in the technical documentation for particular equipment. The operation and parameters of the equipment are constantly monitored by the company's employees.

At its facilities, LOTOS Infrastruktura has deployed CCTV, tank bottom leak tightness monitoring, tank loading monitoring to prevent overfilling, as well as monitoring of tank outflow trays to prevent soil contamination.

LOTOS Asphalt attaches great importance to identifying potential safety hazards. Its employees responsible for process control undergo training courses, and the company incorporates best engineering practices in its technological and job instruction manuals.

To ensure quick and effective crisis management, LOTOS Oil has introduced an accident and crisis response procedure. The procedure is designed to mitigate the effect of accidents on human health and life as well as the environment, ensure quick and effective management of the organization during an accident and a smooth return to normal operation, and also to limit and minimize loss of LOTOS Oil assets.

LOTOS Petrobaltic holds periodic preventive inspections with a frequency defined in the technical documentation for particular equipment and introduced into the SAP system. This inspection regime facilitates ongoing checks of key system elements and removal of weak links in the units. Platform crews also ensure ongoing supervision of the operating parameters of the units. If the permitted operating limits are exceeded, the system operators take appropriate steps to eliminate pressure overrun.

For the purpose of fire prevention, rules to minimize the risk of accidental fire during work and rest time on platforms have been implemented. For example, one of the rules is that works entailing a potential risk of fire are permitted only upon authorization. Such authorizations are issued in accordance with a special procedure. Smoking is prohibited on platforms and in port facilities, outside of designated areas, and use of open fire is prohibited in all buildings. All rules applicable at the facilities are consolidated in the Safety Policy manual for the organization.

To mitigate risks related to the activities of subcontractors, each subcontractor agreement includes a Safety Annex, binding on all subcontractor representatives working in the port facilities and on the organization's platforms.

## Process safety incidents reported in 2015

In 2015, Grupa LOTOS reported one incident classified as Tier 1 process safety event and two incidents classified as Tier 2 process safety event under Standard RP 754 of the American Petroleum Institute (API). Both events occurred in refining operations and had no environmental impact.

LOTOS Paliwa reported two Tier 2 safety events. The events were related to an LPG installation damage at the company's service stations. The following hazardous situations were also reported: 10 customer car fires at or near service stations, 2 fires, and 2 fuel spills.

All hazardous situations, and the above cases in particular, are reported by the station operators to the LOTOS Paliwa OHS staff. Next, the risk of similar situations occurring in the future and potential requirement for preventive measures are analysed.

In addition, three Tier 2 safety events were also reported at LOTOS Kolej. The events involved railcar and locomotive derailling without any environmental impact.

At LOTOS Kolej, an emergency preparedness and response procedure was put in place. It imposes the requirement to report the type of hazard, the place of incident, threat to human life, materials and objects involved in the accident, and their possible effect. The procedure lays down detailed rules to follow in case of emergency.

# RBI methodology – risk under control

In 2011, Grupa LOTOS was first in Poland to implement the Risk Based Inspection (RBI) methodology, a system for comprehensive management of risk related to the operation of pressure equipment. The system allows us to predict potential equipment failures.

In 2015, we completed an analysis of unit 250 (Hydrogen Generation Unit). Currently, we are analysing risks for 12 key units which, if stopped, may have extremely adverse consequences for the operation of the refinery as a whole.

## Key benefits of full RBI implementation:

- It results in greater reliability of unit operation;
- The period of uninterrupted operation of the refinery between maintenance shutdowns should extend from 4 to 5 years;
- Accident prevention is a source of savings counted in millions;
- Higher output.

## Why is RBI so important to Grupa LOTOS?

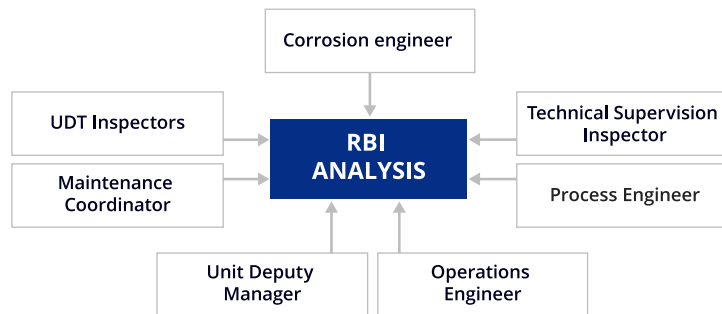
Most of the refinery's plant is pressure equipment: pipelines, columns, reactors, tanks. They are often subject to high pressures and temperatures and exposed to corrosion and erosion. Even though made of resistant metal alloys, their wear and tear is inevitable as time passes. The equipment is overseen by internal services and the Polish Office of Technical Inspection (UDT), which defines its safe operating lives and decides how long the equipment, units and refinery can operate without a maintenance break.

By Implementation of the RBI together with the UDT involves a check of nearly 8,500 pieces of equipment and determining which carry the highest risk of damage. By focusing on particular pieces of equipment we limit the risk of breakdown.

## What are our goals?

2017 will see a maintenance shutdown and our plan is that by that time the RBI methodology should cover as many key units as possible. In this way, during the shutdown we will be able to inspect the instruments and equipment that carry the highest risk of degradation, selected based on an RBI analysis.

## RBI Team



The RBI teams assigned to individual units comprise more than 40 staff. In addition to the team leader – a supervision inspector from Grupa LOTOS, each team includes two or three UDT inspectors, scientists from the Gdańsk University of Technology, corrosion engineers, plant engineering and maintenance engineers, as well as process and operations engineers from the production division.

Our teams include two engineers who are the only engineers in Poland holding certificates issued by the American Petroleum Institute (API).



LOTOS Group  
Integrated Annual Report 2015

04

## **Product, customer - Commitment to quality, safety and brand image**

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# Product, customer – Commitment to quality, safety and brand image

**At the LOTOS Group, we believe that commitment to high quality should begin with the supplier and remain a priority along the supply chain, until a product reaches the final customer. This belief has led to a strong focus on superior standards in both production and services, with the aim of building the LOTOS Group's value and enhancing our positive impact.**

Through a number of initiatives, including development of key innovative technologies and solutions, we have been able to increase productivity and bring down costs. We have also become an increasingly trustworthy and reliable business partner. We stimulate local business.

Our efforts have also led to growing market shares and contributed to enhanced perception and value of the LOTOS brand.

- As at the end of the reporting period, our share in the Polish retail market of liquid fuels reached the target of 10%. Our effectively executed optimization measures led to a marked improvement of the LOTOS chain's financial results. Clean EBITDA (adjusted for one-off items) in 2015 amounted to PLN 112m, a new record high in the history of our service stations.
- Drawing on our long-standing experience in sports sponsorship, in 2015 we made a decision, with a full sense of responsibility for what that entails, to become the Main Sponsor of the national football team. For us, it is a grand, ambitious and emotionally significant undertaking, because we realize that our national team, its attitude and success engage all Polish people and positively reflect on the LOTOS brand.
- LOTOS is one of the strongest and most recognisable brands in the Polish market. In the 12th List of Poland's Most Valuable Brands compiled by the Rzeczpospolita daily, the brand ranked 8th, having advanced by one position over the year. However, since 2010 its value has more than doubled.



## How do we create value for investors and customers?

Key financial indicators	Key non-financial indicators
<ul style="list-style-type: none"> <li>■ Share of the Polish fuel market: <b>31.2%</b></li> <li>■ <b>10.5%</b> share of the Polish retail fuel market</li> <li>■ Value of brand: <b>PLN 1.4bn</b></li> </ul>	<ul style="list-style-type: none"> <li>■ Customer satisfaction: ratio of the relationship and loyalty of the LOTOS Group's customers is <b>76</b> points according to TRIM</li> <li>■ Increased station availability for customers: increased number of stations 2014⇒ 441, 2015⇒ <b>476</b></li> <li>■ Presence on <b>82</b> markets</li> </ul>

Safety also remains our key priority, from feedstock procurement and processing to delivery of finished products to the market. Products of the LOTOS Group meet the applicable quality standards, as confirmed by relevant certificates required and recognized both on the local and international markets.

# Conditions on the Polish fuel market in 2015

Domestic demand for fuels is shaped by the overall economic situation in Poland and the region. In 2015, Poland's GDP grew by 3.6%, 0.2 percentage point above the government's forecast. According to the Central Statistics Office data, the key drivers of growth were internal consumption and exports. Other supportive factors included a favourable business climate in the manufacturing and construction industries. The unemployment rate as at the year's end was 9.8%. The overall condition of the economy is reflected in fuel consumption data, with growth seen across all product categories during the period.

- Diesel oil: consumption of diesel oil in Poland reached 12.5 million tonnes, up 8.4% on the year before. Despite the growth – the volume of consumption in 2015 was down 800 thousand tonnes on 2011. Analysts attribute the downward trend prevailing until 2014 to the fast expanding shadow economy, which took advantage of the favourable business climate and high retail prices.
- Gasolines: for the first time in six years, the segment returned to a growth path. Demand for gasoline in 2015 grew by 4.3%, to 3.8 million tonnes, stimulated by the stronger business activity, falling unemployment, and lower prices at the pump.
- LPG: sales went up by 2%, to 2,351 thousand tonnes. The LPG market in Poland may be described as mature, with annual consumption volumes at 2.2-2.3 million tonnes in each of the last five years.
- Aviation fuel: demand increased by 3.4%. Thanks to the growing number of airline services, expansion of new airlines and steady increase in the number of passengers, the market is viewed as highly promising and is expected to grow in the coming years.

By 2012, the global demand may rise by:

- 11% for JET fuel,
- 9% for LPG,
- 9% for diesel oil,
- 5% for gasoline.

In the coming years, demand for light fuel oil is expected to decline slightly, by 1%.

# Our products

# Sustainable products



**THE GLOBAL GOALS**  
For Sustainable Development



Adverse climate changes and environmental pollution, as well as growing consumer awareness and expectations, entail a need to expand the range of sustainable products. In the fuel industry, fossil fuels are replaced by renewable energy sources, which contribute to lowering emissions, including CO<sub>2</sub> emissions.

## Energy of the future at Grupa LOTOS

Replacement of fossil fuels by other energy sources has long been a subject of strategic analyses at Grupa LOTOS. We see fossil fuel substitution not only as a threat to our principal activities associated with conventional energy, but also as an opportunity to further expand our business by leveraging long-term trends on the global energy market.

### How do we contribute to fossil fuel substitution?

- We are engaged in work on possible applications at the Grupa LOTOS refinery of hydrogen generated through electrolysis of water with the use of renewable energy sources, which is part of the GEKON (Generator of Ecological Concepts) programme, a joint initiative of the National Fund for Environmental Protection and Water Management and the National Centre for Research and Development <http://program-gekon.pl/>.
- We are also looking into the possibility of processing vegetable oils and animal fats into bio-hydrocarbons in the HVO (Hydrotreated Vegetable Oil) process.

Further investments are conditional upon successful completion of [EFRA](#), our strategic project, which will significantly improve the competitive position of Grupa LOTOS and complexity of its refinery.

## High quality standards of Grupa LOTOS fuels

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

The sulfur content of our key products, both gasolines and diesel oils manufactured by the Gdańsk refinery, is substantially below the legal limit. The average annual sulfur content in motor gasolines and diesel oils is 2.8 ppm and 6.7 ppm, respectively, considerably below the legal limit 10 ppm. This results in substantially lower sulfur dioxide emissions.

## Hazardous substances in Grupa LOTOS fuels

Substance	Unit	2015 volume	2015 volume (average)	2014 volume	2014 volume (average)
<b>Benzene (in gasolines)</b>	% V/V	0.4 - 0.9	0.7	0.5 - 1.0	0.8
<b>Sulfur (in gasolines)</b>	mg/kg	0.3 - 10.0	2.8	0.1 - 8.7	3.3
<b>Sulfur (in diesel oil)</b>	mg/kg	2.0 - 9.6	6.7	2.4 - 9.9	5.7
<b>Lead</b>	mg/kg	<2.5	<2.5	<2.5	<2.5

## Biocomponents in Grupa LOTOS fuels

Fuels manufactured at the Grupa LOTOS refinery contain biocomponents, i.e. renewable energy carriers, as required by the Polish Act on Biocomponents and Liquid Biofuels. According to the current quality requirements for liquid fuels, the permitted ethanol and ethyl tert-butyl ether content in gasoline is 5% and 15%, respectively. Similarly, the volume of fatty acid methyl esters in diesel oils must not exceed 7%.

In 2013, the Council of Ministers issued a Regulation on National Indicative Targets (NIT) for 2013–2018, setting NIT for 2013–2016 at 7.1%, which means that biocomponents must account for 7.1% of the energy content of fuels marketed in Poland (the national blending quota).

In 2015, Grupa LOTOS was allowed to meet a lower NIT of 6.035%, having fulfilled the statutory requirement whereby at least 70% of the total biocomponent volume used for liquid fuel and biofuel production must be supplied by producers listed in the register of the Agricultural Market Agency.

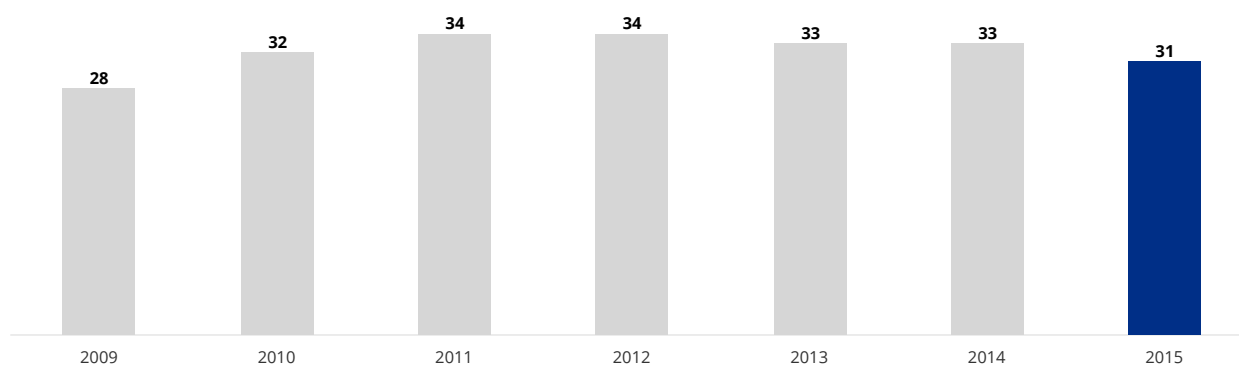
In 2015, Grupa LOTOS produced nearly 102.7 million litres of biocomponents meeting the sustainability criteria set forth in Directive 2009/28/EC of the European Parliament and of the Council on the promotion of the use of energy from renewable sources, and defined by recognized certification systems. They were produced in Czechowice-Dziedzice. We also purchased 397.5 million litres of biocomponents meeting the sustainability criteria.

## Our products are appreciated by the market

Our products are appreciated by the market, as evidenced by the growing sales and strong market position of Grupa LOTOS. Our share in the Polish fuel market in 2015 was 31.2%, which was 1.2 percentage points above our strategic target for the year. We also managed to expand our share of the Polish retail fuel market to over 10%, meeting the target defined in our strategy for 2011–2015\*

\* Source: Polish Organization of Oil Industry and Trade (POPIHN)

### LOTOS Group's share in the domestic fuel market (%)\*



\*Source: Polish Organization of Oil Industry and Trade (POPIHN)

Grupa LOTOS is a leading player on the Polish market of motor oils, and a significant exporter of the products.

We also among leaders in the domestic market of road bitumens.

### What are our plans in the marketing area?

#### Retail segment

- Consistently increase share in the retail fuel market in Poland.
- Strengthen the perception of LOTOS service stations as a modern and fast developing retail chain.

#### Wholesale segment

- Expand sales of aviation fuel in Poland.
- Intensify our activities in Central/Eastern Europe and Northern Europe.

#### Non-fuel products

- Maintain our leading position in the lubricating oils market in Poland.
- Expand share of oil services in total sales.
- Maintain the leading position in the modified bitumens market in Poland.
- Secure strong position on the markets in Central and Eastern Europe.

# Quality deserving of recognition

The quality and safety standards of our products were acknowledged by a number of awards and distinctions received by the LOTOS Group companies in 2015.

- **Golden Laurel** for LOTOS Asphalt in the Pomeranian Quality Award.
- **Quality International Golden Badge** in the product category for the WMA road bitumen delivered by LOTOS Asphalt. This innovative product, launched in 2015, helps extend the construction season and reduce the amount of energy consumed to produce bitumen blends.
- **Good Brand 2015 – Quality, Trust, Reputation** title in the Engine Oils category for the LOTOS brand. The award is granted to brands present on the Polish market that stand out for their development potential and enjoy the highest recognition.
- **2015 Innovation Award** granted to Grupa LOTOS during the SAP Forum conference in Sopot. More information

[More information](#)

# Customers



# Our key customers

In 2015, the oil products of Grupa LOTOS were sold mainly in Poland. The main export destinations were in Europe.

## Main customers of Grupa LOTOS in Poland:

- Fuel products (gasoline, diesel oil, light fuel oil, aviation fuel):
  - multinational oil companies: BP, Shell Polska, Statoil
  - B2B fuel wholesalers
  - airlines
- Oil products (engine and industrial oils):
  - engine oil distributors
  - approved repair shops
  - production companies
- Bitumen products (road and modified bitumen):
  - road construction companies

Integrated fuel companies in Northern and Western Europe, international trading companies, and independent wholesalers and retailers were the main export customers for Grupa LOTOS products in 2015.

## Export markets for the LOTOS Group's products:

- Naphtha: integrated fuel and petrochemical companies in Germany and Scandinavia, and the Amsterdam-Rotterdam-Antwerp (ARA) oil hub,
- Motor gasoline: the Amsterdam-Rotterdam-Antwerp (ARA) oil hub, Sweden, and the United Kingdom,
- Aviation fuel: Scandinavian countries and the Czech Republic, where the products were transported by land,
- Diesel oil: the United Kingdom, Germany and the Czech Republic,
- Heavy fuel oil: storage depots of global trading companies in the Netherlands, Sweden, Estonia and Denmark (for re-sale outside of Europe).

Most of exported products are transported by sea, mainly on a CIF basis through PPPP Naftoport's liquid fuel terminal, and on a CIP basis by land to the Czech Republic and Hungary.

# With customer satisfaction in mind

Our primary objective defined in the LOTOS Group's Corporate Social Responsibility Strategy is to build lasting customer relationships. We do that by focusing on understanding customers' needs and offering them safe quality products. We measure our success in this respect by reference to the level of our customers' satisfaction with cooperation with the LOTOS Group's marketing companies.

## Customer satisfaction survey – approach and results

Progress in customer relations is monitored through regular surveys. They focus on such factors as supplier selection process, cooperation with supplier staff, their accessibility and competences, quality and availability of products, time of response to call for offers, prices, and the image.



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

Company	Survey frequency in year	Customer segments
Grupa LOTOS	1	B2B
LOTOS Asfalt	1	B2B - bitumen
LOTOS Kolej	2	Grupa Kapitałowa LOTOS, forwarding companies, direct customers
LOTOS Oil	1	B2B
LOTOS Paliwa	1	B2B

At most of the marketing segment companies, customer satisfaction surveys are conducted using the CAWI (Computer-Assisted Web Interview) technique. The results are analysed based on the TRI<sup>+</sup>M method, developed by a research company TNS Polska, the TRI<sup>+</sup>M Index being a single number score which measures customer satisfaction and loyalty levels. The TRI<sup>+</sup>M Index questions relate to overall rating, probability of recommendation, likelihood of repeat purchasing of product/service, and competitive advantage. The TRI<sup>+</sup>M Index is a measure of customer retention levels – the higher it is, the greater the brand loyalty. The TRI<sup>+</sup>M Index figures reported for the LOTOS Group companies indicate that the overall satisfaction with their products is high. In 2015, the best result in the survey was achieved by Grupa LOTOS, with the score highest since 2012 (see the table below).

### Wartości TRI<sup>+</sup>M Index for the LOTOS Group companies

Company	2015	2014	2013	2012
Grupa LOTOS	87	82	86	80
LOTOS Paliwa	78	N/A	76	N/A

LOTOS Oil	69 	70	67	N/A
LOTOS Asfalt	80 	77	73	70

### Grupa LOTOS:

The customer relationship and loyalty score was 87 in 2015, indicating high customer satisfaction. Compared with 2014, TRI\*M increased 5 points. Improvement was seen not only in the overall rating of Grupa LOTOS but also in the scores for the probability of recommendation, repeat purchase, and competitive advantage. Grupa LOTOS customers are very loyal and attached to the LOTOS brand. The proportion of unsatisfied and disloyal customers declined, whereas the proportion of customers for whom the main selection criterion was the price increased.

### LOTOS Paliwa:

The customer satisfaction survey in 2015 was conducted using the CATI technique. The survey participants were fleet and B2B customers (wholesalers, independent service stations, and partner stations).

2015 results: overall TRI\*M rating (synthetic measure of customer satisfaction and loyalty) was 78, up 2pp on the previous wave of the survey.

### LOTOS Oil:

Analysis of the customer satisfaction survey findings was based on the TRI\*M method developed by TNS. The survey was conducted among authorized distributors, large customers operating as trade partners (wholesale channel), and end customers from the industrial and automotive segments, including approved repair shops and service providers, auto parts retailers, as well as businesses from various industries (direct sales channel).

2015 results: overall TRI\*M rating – 69, or 1 point down on 2014.

The scores for recommendation and competitive advantage remained similar as a year earlier, while the score for probability of repeat purchase decreased slightly. Relative to 2014, LOTOS Oil was more widely recognized as a company that cares for the environment – the score for this aspect improved the most.

## LOTOS Asphalt:



In 2015, the satisfaction survey was carried out among Polish and foreign customers and was based on TNS Polska's TRI\*M methodology. It focused, among other aspects, on relations with sales representatives and distribution teams, but also on product quality, bidding processes, and the company's image.

2015 score: TRI\*M rating – 80, or 3 points up on 2014.

Timeliness and reliability of deliveries were the strongest drivers of customer satisfaction – 68% of the respondents said that their orders were always delivered on time. Another strength of LOTOS Asphalt is the product quality – more than a half of all its customers gave the company the highest scores for this aspect. The next major advantage of LOTOS Asphalt is the quality of customer service. And LOTOS Asphalt's customers are loyal – 94% of the respondents would recommend the company to their trading partners.

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## How is customer satisfaction measured at the other companies of the LOTOS Group?

- **LOTOS Kolej:** Satisfaction ratings are obtained primarily through direct interaction with representatives of the customers. Another tool used to measure customer satisfaction is a voluntary questionnaire-based evaluation system. In 2015, the overall score given to the company was 8.51  out of 10.
- **LOTOS Lab:** To measure customer satisfaction, in 2015 the company sent questionnaires to its selected customers and to the companies of the LOTOS Group which use LOTOS Lab services. The overall level of customer satisfaction was 94% .

## With customer safety in mind

At Grupa LOTOS we take great care to ensure that our products and services meet the customers' expectations and pose no threat to health and safety. We are aware that our responsibility in this respect is not only to meet the obligatory legal requirements, but also to deliver on the initiatives we undertake and to follow our in-house rules.

By taking steps to minimize safety risks, we build up our reputation, a springboard for our steady development and value growth.

### Our products have no secrets

Product Sheets or Safety Data Sheets have been prepared for all products manufactured by the LOTOS Group. The materials are based on applicable international requirements (by law, dangerous substances and mixtures which are supplied without a Safety Data Sheet must not be marketed or used in professional applications). Product Sheets and Safety Data Sheets contain information on the product's impact on health and environment, hazardous ingredients, substances and chemicals, fire-fighting measures, accidental release measures, disposal, etc.

Every customer can access the information on safe use of our products, either online or directly at points of sale. Safety Data Sheets are delivered directly to each wholesale distributor and are available to retail customers at the LOTOS service stations. Where required, Safety Data Sheets for non-fuel products are also made available at LOTOS service stations.

[More information on Safety Data Sheets for products](#)

### We assess our impacts to deliver safer products and services

To improve the monitored indicators, Grupa LOTOS assesses the health and safety impacts of all its key product and service categories. The impact of fuels on human health and safety is monitored during production (except at LOTOS Paliwa).

In 2015, **LOTOS Asphalt** checked all its products (bitumens, bitumen products and bunker fuel) for health and safety impacts. The same was done by **LOTOS Oil** with respect to all of its products. All Safety Data Sheets were updated pursuant to Regulation (EC) No. 1272/2008 of the European Parliament and of the Council. With the Integrated Management System in place at Grupa LOTOS, LOTOS Oil can review the Safety Data Sheets on an ongoing basis. Introduction of any new product is preceded by the examination of its impact on health and safety. **LOTOS Kolej** assessed 44.44% of items in its offering for health and safety impacts in 2015 (transport of dangerous goods).

We have also taken relevant safety enhancing measures in our transport and distribution processes. Additionally, third-party providers of transport services are assessed for compliance with safety standards. As part of efforts to ensure the highest possible safety of transport processes, LOTOS Kolej concluded a cooperation agreement with railroad safety manager (Eisenbahn Betriebstleiter), who is responsible for ensuring that transport processes are performed properly and that the internal rules in place at LOTOS Kolej are aligned with the applicable laws of the Federal Republic of Germany.

Fuel distribution is subject to special safety supervision. For fuel sales by CODO stations, LOTOS Paliwa has set safety standards and monitors compliance by the station managers. This process is governed by separate agreements and procedures, with the latter being improved on an ongoing basis.

As part of our supervision of road transport, delegated employees of LOTOS Paliwa undertake regular field inspections to monitor:

- Loading operations at fuel depots,
- Safe passage of tank trucks over monitored routes, including correct cargo marking in compliance with the ADR requirements,
- Safety of unloading sites,
- Unloading operations, to ensure their compliance with the established procedure,
- Actions taken in case of spills or failures.

## What else did we do?

Grupa LOTOS has developed a product safety system (the SDS system) to facilitate the flow of information on chemical substances and mixtures present on the refinery premises, and to improve distribution of Safety Data Sheets to customers who buy LOTOS products.

All employees have access to the SDS Portal containing all up-to-date Safety Data Sheets. Furthermore, the staff of individual organizational units have assigned to them relevant sets of Safety Data Sheets pertaining to products they come to contact with.

# Best practices: for the convenience of service station customers

## LOTOS Biznes car fleet cards for micro-, small and medium-sized enterprises

Our business philosophy is to build the best possible offer for each, even the smallest, company. Therefore, we continuously develop our offer for micro-, small and medium-sized enterprises. A new type of the LOTOS Biznes car fleet card is an innovative solution designed with this customer group specifically in mind. It offers modern functionalities, many of which prove more valuable to small businesses than to large corporations.

**Benefits to customers:** LOTOS Biznes car fleet cards for micro-, small and medium-sized enterprises offer, among other benefits, simplified settlements, cost control and discounts on fuel and services; as a result, they help reduce the cost of accounting services as well as other operating costs, and save the time necessary for business development.

**Benefits to Grupa LOTOS:** With LOTOS Biznes cards used by businesses across a variety of industries, we are able to stabilize our fuel sales regardless of business cycles in individual sectors of the economy. Our service stations are the front line of our sales activities, enabling us to reach out to new procurement groups, e.g. taxi firms.

## What else do we offer to customers at LOTOS service stations?

- LOTOS Premium stations are equipped filling **facilities for the disabled** and baby changing stations.
- Many LOTOS service stations have **automatic car washes**, but we are also developing a network of manual car wash facilities, with a target of reaching more than 20 such locations by the end of 2016, which will represent one-fifth of all car washes in our chain. All our automatic car washes have wastewater treatment facilities and closed water circulation systems reducing water consumption to approximately 15 litres of clean water per cycle.
- LOTOS Paliwa joined the **eMobility** project run by Energa to create a network of charging stations for electric vehicles in the Gdańsk-Gdynia-Sopot agglomeration. Our stations use the **CHAdEMO** charging standard. With 39 kW of power, the system takes 25 to 45 minutes to charge the most popular electric and hybrid cars. In 2015, two quick charge points were opened in Gdańsk.
- By opening the first **SUBWAY** restaurant at our service station (in Rumia in the Gdańsk Province) in December 2015, we teamed up with this largest fast food chain in the world. We intend to develop the cooperation to support our food and beverage brand Cafe Punkt.
- Motorcyclists are an important and growing group of LOTOS customers. In 2015, we removed the lower limit on the amount of fuel motorists must buy to earn points in the LOTOS Navigator loyalty programme. Holders of **Navigator Motorcycle Rider Cards** can collect points also when buying fuel for cars, a feature appreciated particularly by those motorcyclists who in autumn and winter prefer to travel by car.

- LOTOS service stations are equipped with various facilities for the disabled: access ramps and lowered kerbs at the entrance to station buildings, designated parking spaces, toilets with disabled facilities, convenient spaces with ramps at new Premium stations, special posts with buttons to press to ask station staff for assistance, sufficient space to use wheelchair at station shops, wide spaces between shelving units with easy **access to cash desk**.
  
- To meet the needs of customers travelling with **pets**, from April to September we **provide bowls of fresh water** at selected LOTOS service stations. Additionally, throughout the year at each LOTOS station motorists can receive free plastic bowls for their animals. 2015 was the third year when we ran the campaign.
  
- In 2015, **mobile charging** points were installed at some of LOTOS service stations. In response to our customers' needs, we offered the possibility of free charging of most popular types of mobile phones and tablets. When waiting for their device to charge, customers have an opportunity to enjoy Café Punkt services.



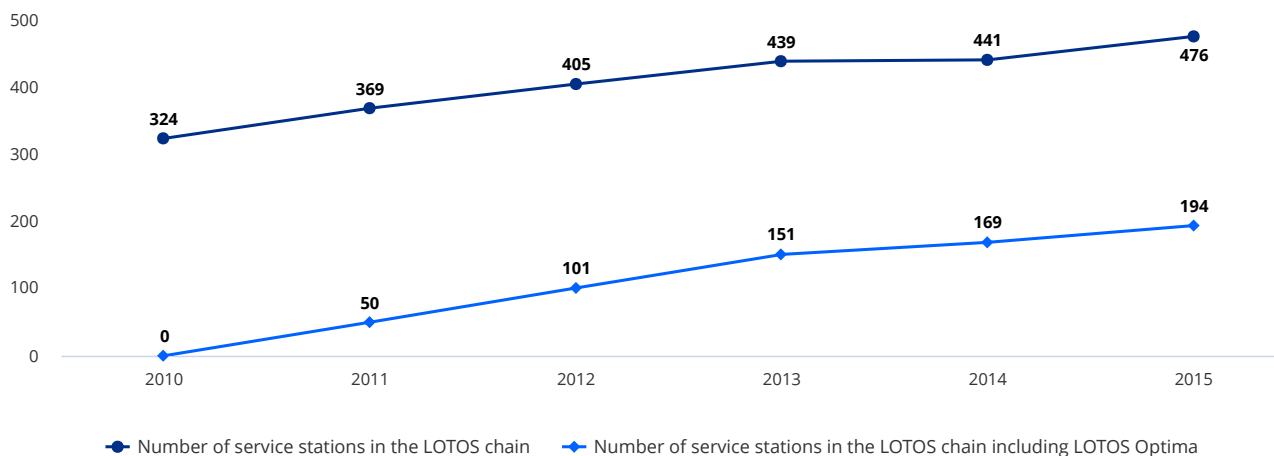
# **Grupa LOTOS service station chain**

## Grupa LOTOS service station chain

A growing chain of service stations operating in two segments: premium (LOTOS) and economy (LOTOS Optima) is an important part of our business. At the end of 2015, 476 service stations operated as part of the chain, that is 35 more than the year before (25 of the new service stations operate under the LOTOS Optima brand).

[See the current network of LOTOS service stations](#)

### How did the number of LOTOS service stations grow?



As at the end of the reporting period, our share in the Polish retail market of liquid fuels was 10%.<sup>\*</sup> We have consistently pursued this growth strategy for the last five years, starting from a 7% market share. In that period, we increased sales by 50% and added more than 280 new service stations to the chain.

A solid, third place in the domestic retail market allows us to pursue an effective market policy.

<sup>\*</sup> Source: Polish Organization of Oil Industry and Trade (POPIHN)

Grupa LOTOS is also the second largest operator in the Motorway Service Area (MSA) segment in Poland. At present, the all-inclusive offering of the LOTOS service station chain is available to motorists using the A1, A2, A4, A6 motorways and the S3 and S7 expressways. In 2015, LOTOS opened its 18th Motorway Service Area, located by the A4 motorway in Komorowo near Tarnów.

### Record-high profits earned by the LOTOS service station chain

Our effective optimization measures led to improvement of the LOTOS chain's financial results. Clean EBITDA (adjusted for one-off items) in 2015 amounted to PLN 112m, compared with PLN 95m in 2014 and PLN 44m in 2013.



**476** LOTOS service stations  
at the end of 2015

**282**

LOTOS Premium service stations

**194**

LOTOS Optima service stations

**LOTOS service stations at the end of 2015**

**282 LOTOS Premium service stations**

- 151 own stations (CODO),
- 18 service stations at the Motorway Service Areas (MSAs),
- 113 franchise stations (DOFO).

**194 LOTOS Optima service stations**

- 121 own stations (CODO),
- 73 franchise stations (DOFO).

**Targets for the LOTOS service station chain in 2016:**

- 11% sales growth vs 2015,
- Number of operating service stations to exceed 500.

# Expansion and standardization of the LOTOS service station chain – new services, overview of 2015

## New look of the LOTOS service stations

Year by year, we work to improve not only the scale but also the quality of our services and the visual design of our service station chain. We standardized the visual identification of a large number of the service stations, both in the premium and the economy segments.

# 118

**LOTOS Premium and LOTOS Optima service stations were standardized in 2015**

## Our achievements so far:

As part of the standardization effort, we unified and improved the look of our service stations. We have also placed strong emphasis on the customer service quality. Having defined the standards, we make every effort to ensure that they are observed by the staff. Thanks to the commitment of our sales personnel and the attractive offering, we have also been highly successful in expanding our fleet customer base.

## Our plans:

2016 will see further optimization of the service station chain, with an even stronger focus on stable expansion, improvement of customer service quality, and enhancing of sales efficiency. We intend to proceed with the standardization of our stores and to expand our range of food services. We also plan to significantly diversify the stores' offering and to markedly increase the range of services available at the stations.

# Management of the service station chain – best practicesd

## Our stations are more eco-friendly

In 2015, at 28 LOTOS DOFO service stations we carried out the Ecoacademy project, implemented as part of the European Social Fund: Human capital – the best investment, with the objective to improve competences of the staff of micro-, small and medium-sized enterprises with respect to environmental protection.

Following the execution of environmental reviews (April–June 2015), each participant received an audit report specifying the scope of legal requirements for service stations related to environmental protection, and containing assessment of their implementation, and recommendations to take corrective measures, if any.

In addition, in June 2015, six training sessions were organized for service station personnel, devoted to environmental protection at service stations. Over 100 staff participated in the training held as part of meetings of regional LOTOS partner stations in Tarnów, Tychy, Uniejów, Opalenica, Majdan and Olsztyn.

## Safe refuelling

Safety at the LOTOS service stations is our priority, which we ensure with the help of qualified staff using modern technologies and procedures. OSH trainings, which are regularly attended by our employees, serve to enhance their knowledge and skills in responding to dangerous situations, fires, and other hazards.

Modern technological solutions employed at the LOTOS service stations not only promote safety, but also generate savings. The fuel pumps are equipped with vapour recovery nozzles capturing fuel vapours from cars' tanks. With this technology we protect the environment by preventing hydrocarbon emissions, and also recover fuel vapours, directing them to an underground tank.

# Efficient distribution and logistics

## Efficient distribution and logistics

At the LOTOS Group, we are consistently adapting logistics solutions to the changing requirements of our trading business. We also develop an efficient distribution system that meets the expectations of customers, but also helps reduce costs.

To build an optimum logistics chain that would efficiently operate in the constantly changing external and internal environments, in 2015:

- The LOTOS Group continued consolidation of its assets. On April 1st 2015, Grupa LOTOS sold its fuel terminal in Poznań to LOTOS Terminale.
- The structure of mandatory stocks was optimized to minimize the cost of holding the stocks.
- We derived additional revenue from the provision of logistics services to third-party customers.
- The scope of the marine cargo terminal project on the Martwa Wisła river, in the immediate vicinity of the Gdańsk refinery, was regularly reviewed in the context of the planned volumes and structure of Grupa LOTOS' products following completion of the EFRA project.
- The logistics services market was being monitored to identify any alternative low-tonnage sea cargo handling solutions.

# Rail transport

Rail transport of products from the Gdańsk refinery is a mainstay of the LOTOS Group's production security. LOTOS Kolej, a specialist rail freight operator, provides comprehensive rail logistics services to the entire Group. One of the elements of the company's strategy is to develop both domestic and international transport activities.

In 2015, LOTOS Kolej provided the following railway services:

- Rail freight transport in Poland,
- Freight transport services in Germany (from November),
- Trainload and non-trainload services,
- Maintenance of rolling stock,
- Eco-friendly cleaning of rail tank cars,
- International rail freight and forwarding services,
- Management of railway sidings for the LOTOS Group and maintenance of railway infrastructure.

LOTOS Kolej's transported volumes rose by 2m tonnes, from 10.6m tonnes in 2014 to 12.6m tonnes in 2015. The increase was mainly driven by larger volumes transported for clients from outside the LOTOS Group – up by 1.8m tonnes, from 5.6m to 7.4m. The transport volumes within the LOTOS Group also grew, from 5m to 5.2m tonnes.

over

**12.6** m  
tonnes

amount of cargo  
transported by LOTOS  
Kolej in 2015

In 2015, LOTOS Kolej increased its share in the Polish rail freight market from 8.87% to 9.92%, thus maintaining the second position among rail cargo operators. The company also increased its share in the intermodal transport segment – from 19.17% to 23.17%.\*

\* In terms of tonne-kilometres, according to the Office of Rail Transport data for 2014 and 2015



In 2015, LOTOS Kolej obtained the safety certificate, part B, for Germany, and started transport services in that country. The German market is the largest transport market in the European Union, with high share of the railway transport (above 20%). This is also the one with the highest potential resulting from the economy size and its stability. Until recently, the Company transported within the former Federal Republic of Germany only in the border traffic, i.e. to the first German station where the train was handed over to the subcontractor. Since 2015, the Company has been allowed to provide own transport services in the territory of Germany, thus being able to compete with other carriers offering international rail transport, and to strengthen its relations with the existing customers looking for fast rail connections between Poland and Germany.

Year on year, LOTOS Kolej has been steadily increasing the number of services for external customers, from outside the LOTOS Group, with the number of transport for external customers exceeding the numbers recorded for LOTOS Group in 2015.

## Sea transport

Transport by sea is a vital component of the LOTOS Group's logistics chain. Having direct access to the product pipelines linking our refinery in Gdańsk to the liquid fuel handling facilities at Port Póńocny, we enjoy a considerable advantage of lower transport costs.

Transport by the Baltic Sea is offered by the companies belonging to Miliana Shipholding Company Ltd. Group. The services consist in crude oil collection and warehousing in the production area its transport from the field to the harbour and rescue assistance for the oil platforms.

2015 was yet another record year for Grupa LOTOS both in terms of the volume of cargo handled at sea ports and the number of tankers handled at the ports.

over

**8.5 million**  
tonnes

**volume of crude oil,  
petroleum products and  
fuel components  
handled by Grupa LOTOS  
at sea ports in 2015**

More than  
**400**

**number of tankers  
handled by Grupa LOTOS  
in 2015**

Maritime transport is Grupa LOTOS' main mode of exporting petroleum products and also accounts for a significant portion of deliveries of feedstock, raw materials and components. The coastal location allows Grupa LOTOS to respond to changing market conditions in a quick and flexible manner.

The liquid fuel terminal, owned by Naftoport, has the capacity to handle tankers with a maximum draught of 15 metres and a freight capacity up to 150,000 tonnes of crude oil or petroleum products. This allows Grupa LOTOS to export surplus products and sell them mainly on the markets of Scandinavia, northern and western Europe and the Baltic states. The direct connection to the port also facilitates imports of additional feedstock, including intermediate products for further, deep processing at the Gdańsk refinery, as well as fuel components.

We also use the Maritime Bulk Terminal in Gdynia and the Siarkopol terminal in Gdańsk to handle smaller cargoes. With its refinery's close proximity to the cargo handling terminal, Grupa LOTOS is able to diversify its supply sources and to receive shipments of crude oil from the Company's own fields under the Baltic Sea and in Lithuania, and – in the future – from the North Sea.

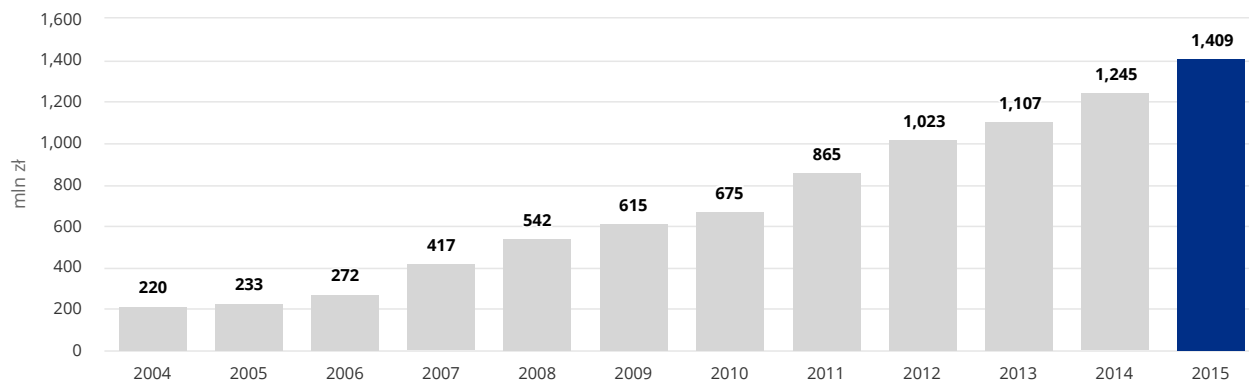
# LOTOS brand and image

## LOTOS brand and image

A strong brand is a valuable component of Grupa LOTOS' assets, playing an important role in building our market advantage and enhancing our value to the Shareholders and other Stakeholders. We believe that strong brands, such as ours, are associated with a good offering for customers, fair treatment of employees, and positive CSR performance.

LOTOS is one of the strongest and most recognizable brands in the Polish market. In the 12th List of Poland's Most Valuable Brands compiled and published in December 2015 by the Rzeczpospolita daily, the brand ranked 8th, having advanced by one position over the year. Since 2010, the value of LOTOS brand has more than doubled.

### LOTOS brand value (PLNm)\*



\* In-house analysis

# Image management, visual identity system, e-VIS

In order to build the market position of the LOTOS brand and to enhance its awareness and recognizability, we have created a Visual Identity System (VIS). The system defines uniform standards and the permitted ways to use its elements. Consistent application of the established rules ensures that a coherent and desirable image of the LOTOS brand is disseminated.

In 2015, the LOTOS Group commenced implementation of the e-VIS platform, a modern and innovative solution that has so far remained unmatched in Poland. Our priorities for the project were to ensure that all relevant data is collected in a centralized location, that it is always up to date, and that it is accessible online to the users.

## The key advantages of and benefits offered by e-VIS:

- The rules of use of the LOTOS brand are now available to all users of our visual identity system more easily and more quickly.
- Traditional paper copies of documents were replaced with their digital versions and their printing is no longer necessary, which reduces costs and makes us more eco-friendly.

In a single application e-VIS combines the best practice of visual identity system with group work solutions. By properly using modern technologies we can now further develop the system and be prepared to perform new tasks in the future.

## New look of the LOTOS service stations

With a view to modernizing and harmonizing our image, in 2015 we gave the LOTOS service stations a new look. All of the LOTOS Optima economy stations and some of the premium locations underwent visual transformation. This involved primarily changes to the colour scheme and to the manner of presenting the LOTOS logotype. The applied solutions will reduce costs of constructing new and renovating the existing service stations. The standardization made it possible to extend the Cafe Punkt food and beverage offering and adjust the stations to meet customer needs, which had a positive impact on sales. These measures were a part of the programme of operational optimization of our service station chain which we embarked upon in 2014.

## Image and advertising campaigns

'Everything you need' was the title of an image campaign conducted in 2015 and featuring the Polish national football team and racing driver Robert Kubica, with whom we also cooperated as part of our sports sponsorship activities. The campaign demonstrated how LOTOS supports travellers by offering them numerous services and amenities available at our service stations. 'Everything you need' is not only a pledge we make to our customers, but also our business motto.

[See on our youtube channel](#)

# Sponsorship activities

We conduct our sponsorship activities in accordance with the sponsorship rules and directions adopted by the LOTOS Group, and in line with the Group's corporate social responsibility strategy. Cooperation with beneficiaries is pursued primarily in Poland, in towns and provinces where the LOTOS Group companies are headquartered or trade. **We provide sponsorship support to various initiatives and events, primarily in the area of sports, culture, and art.**

## LOTOS as the major sponsor of the Polish national football team

Drawing on our long-standing experience in sports sponsorship, in 2015 we made a decision, with a full sense of responsibility for what that entails, to become the Main Sponsor of the national football team. For us, it is a grand, ambitious and emotionally significant undertaking, because we realize that our national team, its attitude and success engage all Polish people and positively reflect on the LOTOS brand. We are very proud that in June this year, the Polish football team achieved a historical result during the European Football Championship 2016, entering the top eight of the European teams.

Grupa LOTOS signed a sponsorship contract with the Polish Football Association on at the National Stadium in Warsaw, on February 17th 2015. The contract will continue in force until December 31st 2018, with priority given to Grupa LOTOS after its expiry.

As part of our cooperation with the Polish Football Association, we obtained the right to use the title of the Main Sponsor of the Polish National Football Team and to use the official logotype of the Polish national football team in our marketing materials. The contract guarantees display of the LOTOS logotype on the team's training kits. The LOTOS logo will also be displayed on advertising boards during the national team's home matches. The Grupa LOTOS logotype will also appear in the central place of sponsorship boards during press conferences, on the Polish Football Association's website, on tickets, and in football programmes.

Our commitment to football, a discipline so close to Polish people's hearts, is further corroborated by our decision to include Poland's national Under-21 football team in the sponsorship package.

## What else do we do for Polish sports?

- Grupa LOTOS is a strategic partner of the LOTOS Rally Team, featuring racing drivers Kajetan Kajetanowicz and Jarosław Baran. [More information](#)
- Grupa LOTOS is the title sponsor of the Polish volleyball club LOTOS Trefl Gdańsk. [More information](#)

For more examples of Grupa LOTOS' sponsorship activities, see:

[Sponsorship activities](#)



# LOTOS Group's supply chain

# Presentation of the supply chain

Key areas of the LOTOS Group's supply chain include:

- Production and logistics planning,
- Procurement of raw materials and other production inputs,
- Production process,
- Distribution of products.

All the business processes comprising the supply chain make up the core of our organization's value chain. In accordance with the strategy for 2011–2015, in order to maximize our integrated margin, the LOTOS Group focused on the optimum use of its assets and on coordination of activities along the entire supply chain.

Given the scale of our business, our network of relationships with suppliers and customers is a complex structure spanning various aspects, both at the operational level and, in the case of certain partners, the strategic level. When engaging in long-term business relationships, Grupa LOTOS pays attention to the market position and CSR record of its prospective partners.

Many of our partners are international oil companies which have pioneered the industry's commitment to corporate social responsibility and business ethics.

As a vertically-integrated oil company, we take active steps to control the flow of raw materials, products, information, and cash within the organization, from the moment a raw material is extracted, through production and distribution, to consumption of the final product by its end user.

## Crude oil supply

In 2015, crude oil was the key feedstock in the LOTOS Group's procurement mix.

REBCO (Russian Export Blend Crude Oil) accounted for 77% of the total crude procurement volume, while in 2014 it was 92.5%. The remainder of the oil procurement volume was made up of other varieties, including the Kirkuk or Arab Light crudes. In addition, the LOTOS Group processed crude produced in Poland by LOTOS Petrobaltic and B8 sp. z o.o. Baltic s.k.a, as well as crude produced in Lithuania by AB LOTOS Geonafta. Besides oil supplied by sea and by pipeline, the Grupa LOTOS refinery also processed oil produced by PGNiG, which was supplied by rail.

**10.9<sub>m</sub>**  
tonnes

**amount of crude oil  
purchased by the LOTOS  
Group in 2015, up 15%  
relative to 2014**

## Our objective: to optimize and diversify the directions and sources of crude supply

As the output from its own producing assets does not fully cover feedstock requirements, the LOTOS Group relies on crude oil purchased from external suppliers. Crude oil is supplied mainly from the Russian Federation via the network of pipelines operated by PERN (the Druzhba and Pomorski pipelines), by sea through the Naftoport oil terminal, and by rail.

Possible causes of disruptions in crude oil supplies to the refinery include:

- Technical failures, including technical failures of the pipeline system used to supply crude oil, terrorist acts, acts of sabotage, riots, revolutions, war, natural disasters, adverse weather conditions, and other events of force majeure,
- Irregular crude oil deliveries leading to a temporary reduction in work-in-process inventory, which in turn is likely to affect the refinery's throughput volumes.

In response to the risk of supply disruptions, we consistently pursue our policy to diversify the directions and sources of crude oil supplies by focusing on the following aspects:

- ensuring security of supplies – through progressive expansion of our presence on the international oil markets, regular contracting of various crudes transported by sea, creating conditions to increase the share of such crudes in total supplies to the refinery in case of any disruption of supplies from the main import market.
- expanding the share of own production in total feedstock volumes.
- improving competitive position – by fully capitalizing on the coastal location of the Gdańsk refinery and the possibility of sourcing crude supplies through two independent channels: Russian oil through the Druzhba Pipeline and various types of crudes through the Naftoport oil terminal.
- regular use of crude oil transport by rail, with crude oil rail unloading facilities available at the refinery.

The appropriate selection of crude types and supply directions is a result of continuous efforts to maximize the integrated margin.

## What else did we do?

Following the launch of delivery by rail, in early 2015, of crude oil produced by Polskie Górnictwo Naftowe i Gazownictwo (PGNiG), the Gdańsk refinery operated by Grupa LOTOS now processes crudes delivered using three modes of transport:

- by pipeline,
- by sea,
- by rail.

The crude oil supplied by PGNiG comes from its production facilities in Lubiatów (estimated reserves of 7.25 million tonnes), Wierzbno and Barnówko. The crude is transported to Gdańsk by LOTOS Kolej from PGNiG's rail terminals in Barnówko and Wierzbno.

nearly

**275**

**thousand tonnes  
annually**

**amount of crude to be  
delivered to the Gdańsk  
refinery under a five-  
year contract with  
PGNiG**

## Cooperation with suppliers

In its relations with trading partners, Grupa LOTOS adheres to the principles of honest competition, openness to their expectations, and appreciation of people's intellectual capital and competences. The LOTOS Group's mission and system of values incorporate the principles of ethical, responsible and transparent business.

By trading with due respect for the law and a sense of responsibility for the consequences of its actions, the LOTOS Group:

- Promotes attitudes based on a strong ethical culture and seeks to continuously improve of that culture, both internally and in relations with its external trading partners,
- Makes sure that employee rights are respected and that the employees are guaranteed safe and healthy working conditions,
- Seeks to reduce its adverse environmental impact through rational use of resources and use of environmentally friendly technological solutions,
- Remains objective and impartial in business relations, trying to avoid conflicts of interest and prevent malpractice.

In 2015, our key suppliers whose supplies accounted for more than 10% of the Group's total revenue were VITOL SA of Switzerland, Rosneft Oil Company of Russia, and Tatneft Europe AG of Switzerland.

Their shares in Grupa LOTOS' purchases were 26.00%, 18.33%, and 15.79%, respectively.

## Supplier selection and evaluation criteria

In 2015, as in the previous years, the LOTOS Group sought to ensure that calls for offer in every contractor selection process, and all contracts entered into with the existing or new suppliers, contained CSR clauses pertaining to:

- OHS,
- Rules and standards of conduct,
- Ethics,
- Conflicts of interests,
- Anti-bribery and corruption,
- Environmental protection,
- Respect for human rights,
- Social impacts (social integration measures).

All LOTOS Group companies must obligatorily use these clauses in contracts with suppliers.

Aware of the importance of working with a local supplier base, we strive to partner with companies which offer the competencies we expect and meet our standards of cooperation. We seek to minimize the negative impact of fossil fuels in transport by sourcing 72% of the biocomponents (bioethanol and FAME) we use to produce our fuels from local suppliers.

## LOTOS Groups' spending on local suppliers

Company name	Total spending on supplier products/services	Spending on local supplier products/services	Share of spending on local supplier products/services in total spending on products/services
Poland (PLN)			

LOTOS Oil	523,135,000	471,756,000	90.18%
LOTOS Kolej	601,068,503	562,755,215	93.63%
LOTOS Paliwa	14,513,537,588	14,466,861,659	99.68%
LOTOS Lab	7165,609	7,149,022	99.77%
LOTOS Infrastruktura	15,255,636	15,255,636	100.00%
LOTOS Serwis	29,413,360	29,048,667	98.76%
LOTOS Ochrona	1,263,000	1,263,000	100.00%
LOTOS Asfalt	884,046,613	809,684,808	91.59%
LOTOS Petrobaltic	378,574,417	79,076,297	20.89%
LOTOS Straż	4,201,591	4,150,466	98.78%
GRUPA LOTOS	19,695,990,000	4,873,130,000	24.74%
Energobaltic	9,665,167	311,362	3.22%
<b>TOTAL</b>	<b>36,663,316,485</b>	<b>21,320,442,132</b>	<b>58.15%</b>
<b>Norway (NOK)</b>			
LOTOS Norge	21,409,000	21,409,000	100.00%
<b>Lithuania (EUR)</b>			
LOTOS Geonafta	16,522,678	14,146,350	85.62%

- The data does not account for settlements with employees, tax settlements related to VAT, excise duty and income tax, settlements with the Social Insurance Institution, customs duties, stockholding fee, local taxes and charges, and payments for perpetual usufruct of land.
- Grupa LOTOS' domestic spending includes purchases from related entities (e.g. LOTOS Petrobaltic, LOTOS Kolej, LOTOS Serwis, LOTOS Straż, LOTOS Ochrona, LOTOS Lab, etc.)
- It needs to be emphasized, though, that the products which are essential to the Group's operations and represent the largest proportion of its procurement costs are not available in sufficient quantities in the local market understood as the whole of Poland (crude oil, petroleum products and specialist equipment), this being the reason for the low share of local spending in total spending.

## Our procurement practices

The LOTOS Group companies (excluding LOTOS Petrobaltic) are not required to conduct their tenders in accordance with the provisions of the Public Procurement Act. Nevertheless, we have decided to internally impose a certain order in this respect and to internally regulate our procurement processes. We have put in place certain instructions, procedures and directives the purpose of which is to enhance the legal security and efficiency of our procurement processes. Furthermore, we have introduced standardized contract forms to facilitate and optimize the process of entering into and pursuing business relationships.

In accordance with our internal procedure, each contract must contain corporate social responsibility clauses. The obligation to include such clauses in their contracts has also been imposed on other LOTOS Group companies by way of a relevant directive.

### Environment

It is important to us to make every supplier of goods or services aware of our priorities with respect to minimizing the adverse impact of our business on the environment.

As part of the Integrated Management System (IMS) we have implemented and certified, we have in place a formalized procedure (applied at every stage of the procurement process) to analyse energy efficiency of solutions we select for our new projects or upgrades and of goods we intend to purchase (e.g. white appliances, car leases).

Our service providers are contractually obligated to ensure proper management of waste generated during the work they perform for us. This also applies to contractors and service providers in our key EFRA Project.

**Employee-related issues**

As part of its trading partner selection processes, Grupa LOTOS requires that all potential suppliers involved provide documents certifying that they pay the required social insurance contributions for their employees. In 2015, 100% of our trading partners met this requirement.

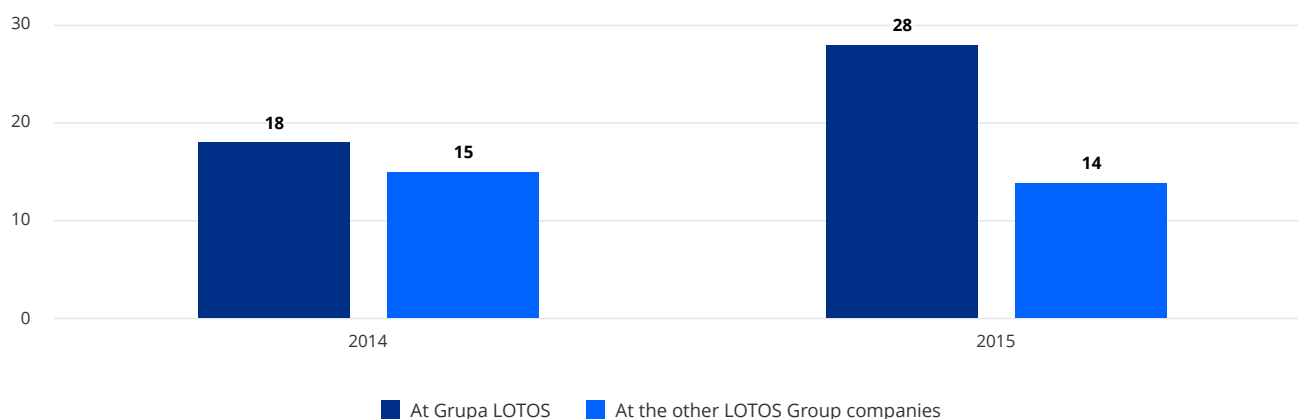
Contracts signed by the LOTOS Group contain OHS clauses whereby employees are guaranteed appropriate working and resting conditions, clauses concerning rules and standards of conduct, ethics-related clauses, and clauses concerning respect for human rights.

**How we evaluate our suppliers**

Supplier audits provide us with information on the degree to which our suppliers meet the quality requirements, as well as occupational safety and environmental protection standards, which are high on our list of priorities. With these audits we can be sure that all work is conducted in a safe manner, and we are also able to identify areas where improvement is needed.

We realize that satisfying our expectations may be a demanding task for suppliers, and therefore we provide them with detailed and accurate information on all audited areas.

**Supplier audits**



**Plans for the future**

At Grupa LOTOS, we are currently embarking on **an analysis of the organization's indirect environmental impact**; the analysis will also cover our suppliers. We hope that the methodology we develop and the analysis we will carry out will provide us with a useful insight into our suppliers' environmental impacts. As a result of these efforts, we should be able to more effectively manage the environmental impact across our entire supply chain.

In 2016, we intend to ask every new supplier to fill out a survey containing questions on human rights, employment policies, and responsible business management. In this way we want to check whether our new contractors' value systems and business conduct vision are consistent with the LOTOS Group's vision and CSR principles.

**Rules of cooperation that are clear for all**

We make every effort to ensure that the standards and rules of conduct we impose are comprehensible to the trading partners we work or want to work with. This is why we have published a catalogue of CSR clauses and other documents on our [website](#) for stakeholders.

The published documents include a Declaration of Cooperation with Trading Partners, an electronic version of the Code of Ethics, the Catalogue of CSR Clauses, the Policy for Counteracting Malpractice, and the current Corporate Social Responsibility Strategy. Other materials published on the website include standard contract forms most frequently used by the LOTOS Group that suppliers may use in their business.

Activities undertaken by the LOTOS Group as part of the efforts to evaluate suppliers' employment practices, respect for human rights, or impacts on local communities also include regular meetings with the trading partners. During such meetings we present our principles and standards; by exchanging experience we improve their knowledge on responsible business management, thus also contributing to the consolidation of good practice in the market.

We want to work only with partners who make every effort to ensure compliance with the law, and therefore we communicate our requirements to potential suppliers already at the stage of announcing a call for offers.

## Good practice:

**Grupa LOTOS operates an electronic Procurement Platform. The platform is an innovative tool supporting the procurement process in its vital aspects where great precision and the necessity to document taken steps are needed.**

**With the Procurement Platform we are able to shorten the time needed to announce calls for offers and reduce costs of tenders. The system also helps considerably speed up the preparation of various types of reports.**





LOTOS Group  
Integrated Annual Report 2015

05

## Efficient and stable organization

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# Efficient and stable organization

The LOTOS Group is one of the largest enterprises in Central and Eastern Europe. We are also a leading employer in the Gdańsk Province, which allows numerous residents of the region and their families to earn a good living. We conduct our business with a great sense of responsibility, having in mind also the need to create value for other stakeholders of the organization.

**Responsible recruitment + professional development of employees + high security standards = competitive advantage**

The employees are the most important capital of the LOTOS Group. Qualified staff are a source of competitive advantage on the market. Because of that, as a modern and dynamically growing business, we take proper care to ensure continuous professional development of employees. One of our priorities is the safety and health of our employees and those employed by our subcontractors who work for the LOTOS Group.

## Our key initiatives and achievements in building an efficient and stable organization in 2015:

- In response to the market challenges (oil price movements, risk of growing competition from outside Europe, and expected decline in fuel consumption), in 2015 we introduced a new organizational structure to the LOTOS Group. It was the most extensive change in the structure of our organization in many years.
- By the end of 2015, the LOTOS Group had achieved all its organizational security targets set for 2012-2015.
- We developed a 'Strategy for LOTOS as Employer Brand', together with an 'Operational Plan' and a set of efficiency measures. Our activities in this area are to help us find, hire and retain competent employees who will support us in the delivery of the LOTOS business strategy. The strategy is centered on the creation of an engaging and friendly workplace based on communication, positive relations and values.

## How do we create value for investors, employees and other stakeholders?

Key financial indicators	Key non-financial indicators
<ul style="list-style-type: none"> <li>■ Training expenditure (<b>PLN 4.9m per year</b>)</li> <li>■ Training expenditure per 1 employee: <b>PLN 1,003.85</b></li> </ul>	<ul style="list-style-type: none"> <li>■ Number of employees: <b>4,850</b></li> <li>■ Number of training participants: <b>7,516</b></li> <li>■ Average number of training hours per employee: <b>about 22 hours</b></li> <li>■ Number of applications submitted: <b>15,780</b>, including <b>8,500</b> via <a href="http://www.kariera.lotos.pl">www.kariera.lotos.pl</a> service</li> <li>■ Number of internship and traineeships: <b>234</b></li> <li>■ LTIF index: <b>3.4</b></li> <li>■ Accident frequency and severity rates: severity rate: <b>47.39</b>; frequency rate: <b>6.96</b></li> <li>■ Number of incidents, failures, fires per year. Total number of accidents at work: <b>33</b></li> <li>■ Number of audits in the LOTOS Group in 2014–2015: <b>over 500</b></li> </ul>

### With high standards in mind

At the LOTOS Group, we combine efforts to improve employees' knowledge, skills and competences with efforts to create a friendly and stable workplace. We value open communication, teamwork, and partnership between the management and employees. In the area of safety, we attach particular importance to maintaining high safety standards, minimizing potential risks, and promoting a safe working culture.

### What we gain through such approach:

## What we gain through such approach:

Those activities have helped Grupa LOTOS to earn the reputation of an employer offering a safe, well-appointed, and well-organized workplace, with career development opportunities. As an attractive employer, we are able to retain valuable specialists and hire best professionals both in Poland and on foreign markets. Thus the organization's staff stability is guaranteed, which in turn ensures business stability and reduces operating expenses. It is also beneficial to our trading partners who, in their dealings with LOTOS, work with the best experts in their respective fields.

# Employees – human capital

# Our specialists make us more competitive and innovative



**THE GLOBAL GOALS**  
For Sustainable Development



## LOTOS Group employees in 2015



**4,850** staff  
employed by LOTOS Group  
in 2015



WOMEN  
**23%**  
of employees



MEN  
**77%**  
of employees

**63%**  
employees  
were 30 to 50  
years old

**99%**  
of employees  
work under full-time  
contracts

**84%**  
of employees  
had contracts  
for indefinite term

The strategic objective of our HR policy is to ensure optimum employment adjusted to the LOTOS Group's business objectives. We believe that having highly-qualified, motivated, and committed employees improves productivity and is a source of our organization's competitive advantage.

LOTOS Group's HR policy is based on internal procedures governing various aspects of the recruitment and employee management processes:



Our standards of conduct at work and in business relationships are described in the [LOTOS Group's Code of Ethics](#). In our relations with employees and other stakeholders we are also guided by the ten corporate responsibility principles of the United Nations Global Compact, which cover the areas of human rights, labour, environment, and anti-corruption.

Our priority is to build a sense of trust between the management and the rest of the employees, and to treat fairly everyone regardless of their position, length of service, trade union membership, physical appearance, age, gender, sexual orientation, religion, nationality, or political views.

Additional tools which support building good relations between the employees and the management are the Collective Bargaining Agreement and internal procedures which standardize the HR management processes.

Under the Collective Bargaining Agreement, we provide all our employees – regardless of the form of employment and length of service – with the same social benefit package (the package is also guaranteed under the Rules of Participation in the Company Social Benefits Fund). In 2015, 98% of the LOTOS Group's employees were covered by the Collective Bargaining Agreement.

In case of redundancies resulting from operational changes at the LOTOS Group the minimum notice period is 30 days. This period is not specified in the Collective Bargaining Agreements; it is prescribed in the labour law.




In the case of women employed at the LOTOS Group, the ratio of the lowest pay at the lowest pay to statutory minimum pay in Poland in 2015 was 1.14 . In the case of men, it was slightly above 1 .

## How do we create organizational culture which improves productivity?

- We undertake initiatives aimed at building the desired corporate culture, which include cooperation with the [Ethics Officer as part of the Ethical Conduct Programme](#).
- We promote ethical values which are in line with the Code of Ethics; we also conduct communication activities aimed at improving the awareness of employees and management. Examples include e-learning training on how to avoid conflicts of interest in the workplace.
- We use [annual employee evaluation](#) for open communication between managers and employees, and for joint setting and evaluating of professional and development objectives.
- We build an employee engagement culture and improvement activities by conducting surveys of employee satisfaction. They provide an insight into our employees' attitudes and help us monitor employee satisfaction, engagement, and opinions. We try to use the information to create a friendly environment at the organization and to achieve business objectives.
- We maintain good relations and we cooperate with trade unions and Employee Councils.

## Number of employees

In 2015, the LOTOS Group employed 4,850 people, which puts us among the largest employers in the Gdańsk Province. As a reliable employer, we ensure that our employees have full-time contracts (99% of the employees) and contracts for indefinite term (84% of the employees).

		Number of employees
No.	Total number of employees (FTEs) by gender:	2015
1	Women	1,116 
2	Men	3,707 
	Total	4,823 

		Number of employees
No.	Total number of employees (actual headcount) by gender:	2015

1	Women	1,120	
2	Men	3,730	
	Total	4,850	

		Number of employees		
		2015		
No.	Number of employees (actual headcount) by employment type:	Women	Men	Total
1	full-time	1,107	3,691	4,798
2	part-time	13	39	52
	Total	1,120	3,730	4,850

		Number of employees		
		2015		
No.	Number of employees and associates (actual headcount) by employment contract:	Women	Men	Total
1	fixed term contracts	205	574	779
2	contracts for indefinite term	915	3,156	4,071
	Total	1,120	3,730	4,850

		Number of employees		
		2015		
No.	Number of employees and associates (actual headcount):	Women	Men	Total
1	under civil-law contracts for specified activity ( <i>umowa zlecenie</i> )	29	56	85
2	under civil-law contracts for specified task ( <i>umowa o dzieło</i> )	0	3	3
3	under internship contracts	0	0	0
4	self-employed	0	0	0
5	supervised employees and/or seasonal workers	1	3	4



Total	30	62	92
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## Total number and rates of new employee hires and employee turnover by age group, gender and region













Most of our employees are men (77%). People aged 30 to 50 account for over 60% of the workforce. In 2015, new hires represented over 7.8% of the total number of employees. The rate of employee departures was nearly 13.6%. The departures were mainly transfers within the LOTOS Group. They were related to reorganization and internal recruitment (e.g. in connection with the EFRA Project), the latter considered priority by us over outside recruitment.

1. New hires (actual headcount) by gender:	Number of employees	Number of new hires	New hires as percentage of total number of employees, by gender	Gender composition of new hires
	2015	2015	2015	2015
1 Women	1,120	86	7.68%	22.63%
2 Men	3,730	294	7.88%	77.37%
Total	4,850	380	7.84%	

2. New hires (actual headcount) by age:	Number of employees	New hires in age group	New hires as percentage of total number of employees, by age	Age composition of new hires
	2015	2015	2015	2015
1 <30	467	147	31.48%	38.68%
2 30-50	3,047	188	6.17%	49.47%
3 >50	1,336	45	3.37%	11.84%

3. Total number of departures (actual headcount) by:	Number of employees	Number of departures	Departures as percentage of total number of employees, by gender	Gender composition of departures
	2015	2015	2015	2015
1 Women	1,120	126	11.25%	19.72%
2 Men	3,730	513	13.75%	80.28%

Total	4,850 	639 	13.18% 
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4.	Departures (actual headcount) by age:	Number of employees	Number of departures in a given age group	Departures as percentage of total number of employees, by age	Age composition of departures
		2015	2015	2015	2015
1	<30	467 	61 	13.06% 	9.55% 
2	30-50	3,047 	285 	9.35% 	44.60% 
3	>50	1,336 	293 	21.93% 	45.85% 

# Competencies for success

The LOTOS Group's key competencies are:

→ **cooperation** → **commitment** → **openness to change**

At the LOTOS Group, we attach great importance to key competencies, that is the skills, attitudes, knowledge, and experience necessary for the successful performance of tasks. In our case, the competencies include cooperation, commitment, and openness to change. We believe that all our employees should have them, regardless of their role or position.

What do key competencies mean to us?

## Cooperation:

- Relationship building, e.g. through respect for others, kindness, support, and positive attitude towards cooperation,
- Teamwork,
- Good manners.

## Commitment:

- Initiative,
- Focusing on goals and tasks,
- Improving the way the organization operates, e.g. through reporting difficulties and searching for solutions, suggesting improvements, improving one's productivity and the productivity in one's area of responsibility,
- Identifying with the organization, e.g. acting in line with its values and promoting its image,
- Complying with the rules, procedures, and standards.

## Openness to change:

- Accepting and showing positive attitude towards change,
- Showing interest in new solutions,
- Adapting to changes,
- Signalling the need for changes within one's area of responsibility and actively participating in change implementation.

The key competencies of LOTOS Group employees are assessed during periodic employee evaluations. The management staff is additionally evaluated for their managerial skills in such areas as teamwork management, leadership, team potential building, strategic thinking, and decision making. Non-management staff are evaluated for their functional competencies required by a given position, e.g. work discipline, resistance to stress, negotiation skills, and project work.

## **Successors to take over**

In 2015, the LOTOS Group continued its Succession Programme. As part of the programme, we coordinated the process of selecting the forms and methods of successors' development in line with the awarded development vouchers. We also monitored and updated their individual development plans. The following were most often chosen by the successors covered by the programme: the Management programme run by the ICAN Institute, in partnership with the Harvard Business Review, language seminars, individual coaching, and post-graduate programmes. Also popular were specialist courses (e.g. HR Business Partner Academy, Gas and Renewable Energy Technologies, Summer Leader School, Art of Negotiation, Interpersonal Training, Assertiveness and Communication, Logistics Forum and Project Management) and foreign training courses and conferences (such as the Water Technology Conference, Price Risk Management in the Oil Industry, or Advanced Project Management for Oil & Gas Industry).

## **Effects of the Succession Programme**

within three years from selecting the programme participants, six out of the twenty successors took up senior managerial positions at the LOTOS Group.

# At LOTOS, we develop together



**THE GLOBAL GOALS**  
For Sustainable Development



The training and development policy of the LOTOS Group is focused on creating the best conditions for professional development of its employees, which involves learning and updating knowledge necessary to efficiently perform the current and future tasks.

## Objectives of our training policy:






- Increase the company value through a continuous drive towards excellence and leveraging the potential of our employees;
- Secure resources necessary to perform the key tasks defined in our strategy;
- Focus on the current and future requirements for individual positions;
- Seek organizational excellence through productivity improvements and knowledge sharing;
- Identify and analyse training needs, plan new training and assess its effectiveness; • Improve the tools used in the training management process.

## Features of the LOTOS Group's training policy:

- **Availability** – training is intended for all employee groups;
- **Cohesion** – the training system takes into account the mission and strategy of the LOTOS Group;
- **Responsibility** – all participants are responsible for training results and development;
- **Continuity** – training course planning takes into account results of the Periodic Employee Evaluation System (PEES), career paths, succession plans, and development programmes for particular employee groups; • **Flexibility** – training courses are planned and organized to respond to the evolving external conditions and changes in employees' qualifications.

# The way to achieve the goal: how do we motivate and develop our staff?

The LOTOS Group has in place a standardized Periodic Employee Evaluation System (PEES) to ensure objectivity and comparability of employee evaluation results.

In 2015, PEES reviews covered 97%  of qualifying employees of the LOTOS Group. Among the reviewed employees, there was 21%  of women and 76%  of men. The lower proportion of women reflects the employment structure at the LOTOS Group: most of our employees are men. The evaluated women amounted to close to 29%  of eligible employees, and the share of men was 67% .

## Other advantages of PEES:

Meetings between managers and employees are an opportunity to receive feedback on employees' competencies and achievement of professional and development goals. The data thus collected helps the managers to better plan future steps (such as division of tasks or definition of employee development paths) and to motivate staff to pursue their professional goals.



**89.4%**

percentage of LOTOS Group employees meeting all requirements for their respective positions in 2015\*



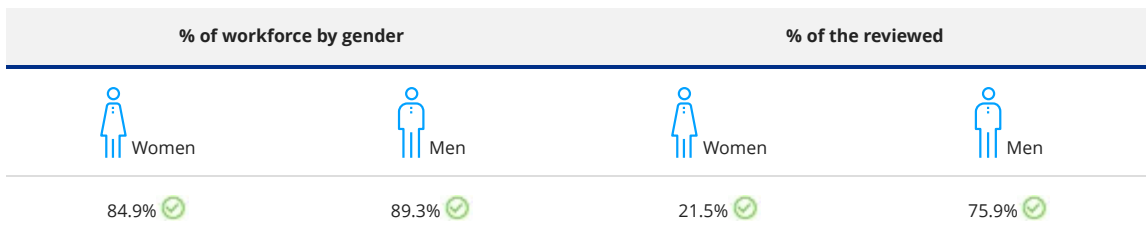
**6.1%**

percentage of employees whose qualifications exceed the requirements for their positions in 2015\*

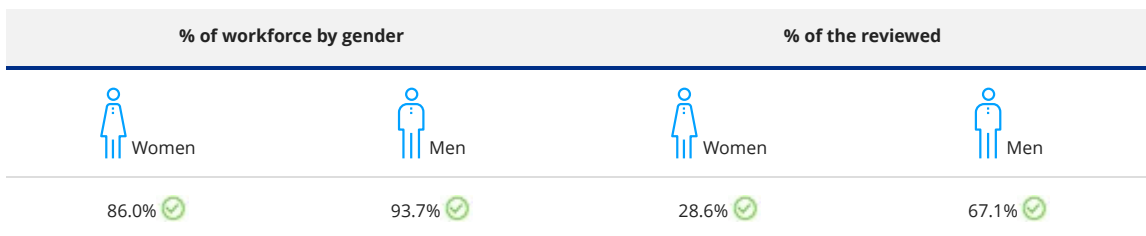
\* Source: PEES, 2015

Results of periodic employee evaluation are also a valuable source of information for the HR department. Each company of the LOTOS Group reviews the results individually, to quickly obtain such information as who the best performing employees are, or to identify competencies which are at the highest level of development and those which need to be worked on, and to find out to what degree professional and development goals have been achieved. PEES is closely connected with the process of training course planning and budgeting.

### Percentage of LOTOS Group employees who underwent evaluation in 2015



### Percentage of Grupa LOTOS employees who underwent evaluation in 2015



(Percentage of employees receiving regular performance and career development reviews, by gender and by employee category)

# Safety first



# Safety first

Safety at work and health protection are our priorities at the LOTOS Group, with respect to both our own employees and the employees of our partners. OSH-related initiatives are central to our CSR strategy.

In order to achieve the OSH objectives, not only do we abide by the generally applicable regulations, but we also implement our own standards of conduct.

At the LOTOS Group we believe in consistent and continued building of awareness of the importance of occupational safety across the organization. Therefore, we make sure that each employee – irrespective of their position – understands that they are responsible for their own safety as well as the safety of their environment. We stress the importance of situational awareness, knowledge of risks and relevant mitigation measures, compliance with procedures, appropriate use of protection systems and measures, and timely reporting of any observations and conclusions related to hazardous situations.

## We achieve our OSH objectives through:

- Effective internal communication;
- Gaining and promoting knowledge about potential hazards;
- Sharing experience with our partners;
- Programmes and initiatives, special reviews and audits in the OHS area.

# Personnel safety management at the LOTOS Group

Every year, goals and targets are set for the LOTOS Group companies aimed at improving safety at work, adopting uniform standards across the LOTOS Group, and sharing expertise and experience between the OSH specialists.

The key objective of our OSH policy is to raise the awareness and degree of involvement in improving safety among the management and employees of all ranks, as well as contractors.

## Good measures of our achievements in this area are:

- Absence of fatalities;
- Lost Time Injury Frequency LTIF – number of occurrences resulting in inability to work x 106/number of manhours worked;
- Number of implemented projects to improve safety at work and protect health; and
- Number of information and education campaigns promoting workplace safety.

## Operational objectives with regard to safety, defined in the LOTOS Group's Corporate Social Responsibility Strategy for 2012–2015:

- Implement projects improving safety at work and health protection;
- Increase employees' ability to influence the safety and ergonomics of their working environment;
- Reduce the accident rate;
- Build a safety-at-work culture at the LOTOS Group, based on the management's increased involvement in promoting proper attitudes.

By the end of 2015, the LOTOS Group had achieved all its safety targets set for 2012-2015.



## Plans for the future:

We have taken steps to build a process safety management system which combines the engineering practice with the best management techniques. Its purpose is to prevent any process incidents, in particular those resulting in leakage of dangerous substances to the environment. In an organization such as the LOTOS Group, the appropriate process safety management is a standard and a necessity, both in the upstream segment and at the refinery.

## Working conditions under control

At the LOTOS Group, we have in place an integrated quality, environment and occupational safety management system. Our Integrated Management System policy addresses issues related to fostering an occupational safety culture through clear leadership, responsibility and engagement of all employees, preventing accidents at work, occupational diseases and hazards. There are a number of internal procedures in this respect applicable within the organization.

Using modern technologies also adds to improved safety. To protect humans and the environment from an accidental release of energy from machinery and production units, we have implemented the Lockout-Tagout system, also called the LOTO system, for hazardous power lockout and labelling. The system is used during maintenance shutdowns, maintenance works and capex projects and to prevent an accidental start-up of machinery by unauthorized persons. In 2015, the Lockout-Tagout system was implemented at all the production plants of the LOTOS Group refinery in Gdańsk.

In our opinion, the occupational safety and health is strictly correlated with respect for human rights. In 2015, as part of quarterly trainings, 81%  of the 136  employees of LOTOS Ochrona attended a lecture devoted to human rights. They also participated in classes devoted to intervention techniques and use of physical force.

## What else do we do?

We run regular educational programmes focusing on: stress management, healthy eating habits, quitting smoking, safety when handling heavy objects, physical exercise and activity, office ergonomics, organization of work at the workstation, safe use of chemicals, and noise protection. Taking care of our employees' health, we provide them with a wide range of medical services.

## Cooperation obliges

At the LOTOS Group, we attach great importance to maintaining a high level of occupational safety also at our cooperating partners. An example of initiatives we have undertaken in this respect is the 'LOTOS Serwis Declaration of Safety', prepared by LOTOS Serwis for investment and upgrade projects, ad-hoc repairs and plant engineering in the mechanical, electrical, and automatics sectors. By reading this document, prospective business partners may familiarize themselves with a system developed at the company to ensure occupational safety and health while work is performed.

## Best OSH practices

- In 2015, LOTOS Asphalt organized three **training sessions to educate** its clients about safe work with bitumen products and to encourage them to observe the safety rules promoted by LOTOS Asphalt in their everyday work. The training session at the company's head office in Gdańsk (combined with the possibility of visiting the refinery) was attended by about 30 people. LOTOS Asphalt was represented by members of its distribution, sales and OHS teams. The company also continued a best practice project with its clients (originally launched in 2014), consisting in displaying information boards at bitumen mastic production plants. In total, 80 information boards were put up in 2014–2015.
- The OSH staff hold regular meetings as part of **Programme for Work Safety System Standardization at the LOTOS Group**, which serves as an opportunity for experience sharing and discussing plans for the future. The key issues addressed in 2015 include: the new CSR strategy regarding improvement in health and safety, application of the 'Golden Rules for Occupational Safety to be Followed by the LOTOS Group Employees', new indicators for measuring safety at work across the organization, and further development of the electronic OSH Portal.
- OSH trainings and drills – in our actions, we **place emphasis on education, employee engagement** and stimulating the involvement of our management, who are responsible for ensuring safe working conditions to all employees and for encouraging their commitment to building a safe work culture.
- The Grupa LOTOS refinery, as an upper tier establishment in terms of risk, is obliged to implement a process **safety management system**. Therefore, in December 2015, a two-day training devoted to explosion prevention was organized at the Company, attended by, among others, OSH staff, engineers and offices whose daily operations involve the implementation of safety systems. They learnt about explosion prevention techniques, appropriate labelling and operation of electrical and non-electrical apparatuses in explosive atmospheres.
- In 2015, the Grupa LOTOS Health & Safety Office was engaged in the preparation of periodic OSH **e-learning trainings for employees holding managerial positions**, engineers, technicians, as well as administration and office staff members. Following the completion of the theoretical part of the training, its participants are required to take a test and, having passed it, they have a practical training related to giving first aid and fire safety.
- In 2015, the Grupa LOTOS Health & Safety Office, in partnership with Robod, organized **workshops focusing on personal protective equipment** and (appropriate selection of) protective clothing.
- Every three months, the employees of LOTOS Lab undergo training on correct **responding to failures and fires**. They need to be familiar with evacuation routes and know what to do in emergency situations.
- On January 1st 2015, as part of modifying the structure of LOTOS Serwis, **79 specialists** that had worked as technical coordinators were **officially nominated as foremen**, who represent the company vis-a-vis customers and partners. This change is to streamline work organization and improve occupational safety and health. Before commencing work, the foremen must assess work safety risk, brief the crew on their findings and optimally divide tasks among them. The psychological aspect is also important – creating the position of a foreman in an organization's structure helps build the authority of a leader managing the team's day-to-day work.
- To facilitate communication between the company and its employees, LOTOS Serwis has put in place **'Hazardous Situation Reporting Logs'** with self-copy paper sheets allowing the employee to keep a proof of report. Each such report is analysed and the reporting party is sure to receive feedback on any actions taken.

- Employees of LOTOS Straż received **new specialist uniforms**, which, in view of the safety they offer, their unique qualities and special way in which they are made, are used in all operations in which the rescue and fire-fighting unit is involved.

## What else do we do to improve safety?

The LOTOS Group key project which we strive to carry out with zero accidents at work is the EFRA project. Therefore, the preparation and implementation of relevant safety procedures during the project execution are high on our agenda.

### Our OSH-related achievements under the EFRA Project so far:

- We have agreed on the key safety rules to be followed by us and all the contractors working on our premises. The rules have been compiled and are available at the [www.kontrahenci.lotos.pl](http://www.kontrahenci.lotos.pl) portal.
- We have launched a HSE Portal for a system-based approach to managing issues related to safety and health at work. It is an innovative IT tool which will support our safety management efforts.
- We have prepared an OSH newsletter. We provide the key information on safety at the sites where new production units are being constructed.
- We issue opinions on Occupational Health and Safety plans and instructions for safety at work.
- We are working on the implementation of an incentive programme for employees involved in promoting safety issues.

### Other safety measures we take as part of the EFRA Project:

Each contractor is obligated to organize weekly meetings devoted solely to OSH issues, and to perform weekly inspections at a given construction site, attended by its site manager. Before employees enter the construction site, they undergo a special induction training (lasting at least four hours) into the EFRA Project. Additionally, each day before starting their shift, they are briefed on the most vital matters pertaining to safety at work.

### Other examples of best practices:

- To improve the safety of employees of and visitors to the LOTOS Group, defibrillators have been installed at the head offices of selected companies. Some of the companies where these additional rescue tools are available include LOTOS Lab, LOTOS Ochrona and LOTOS Kolej. Employees of those companies were trained to use defibrillators.
- Caring for our employees' health, each year at Grupa LOTOS we organize the Occupational Health and Safety Day. Each staff member can undergo medical check-ups, join workshops to enhance their knowledge and skills in health protection, and take part in OSH and health protection related contests.

- At Grupa LOTOS, there is an Occupational Safety and Health Committee (OSH Committee), serving as an advisory and consultative body to the employer. The Committee is composed of employer representatives, an occupational physician and workforce representatives selected by trade unions active at the Company. It reviews working conditions, evaluates the status of occupational safety and advises on measures to be taken by the employer to prevent accidents at work and occupational diseases.

# Results – number of accidents

In 2015, no fatal, severe or group accidents were reported at the LOTOS Group. The recorded minor injuries were mostly related to moving on foot. We have already taken actions to minimize their number in the future, by, for instance, implementing technical solutions to improve safety.

	2015	
	Women	Men
Total workplace accidents	5	28
Fatalities	0	0
Severe injuries	0	0
Minor injuries	5	28
Total accident victims		33
WLTIF incidence rate (per 1 million hours worked) <sup>1)</sup>		3.4
LDR incidence rate (per 200 thousand hours worked) <sup>2)</sup>		0.7

<sup>1)</sup> LTIF rate — number of occurrences resulting in inability to work x10<sup>6</sup>/number of manhours worked.

<sup>2)</sup> LDR rate — number of occurrences resulting in inability to work x2\*10<sup>5</sup>/number of manhours.

## Number of accidents by activity (e.g. road transport, air transport, construction activities, etc.)

Cause:	Number of accidents	Measures taken to prevent accident occurrence in the future
Moving on foot	12	<ul style="list-style-type: none"> <li>■ All the Group company employees were informed, in monthly reports, about the circumstances of the accidents. Heads of the organizational units where the accidents had occurred discussed them in detail with all the subordinates</li> <li>■ In places where it was feasible and justified, technical solutions were implemented to improve safety, for example, the condensate drainage system over which the employee tripped and sustained injury, was revamped; stairs in selected buildings were covered with anti-slip paint; employees working in the vicinity of railway tracks can only wear sturdy boots with ankle support</li> <li>■ The cleaning staff were trained on how to properly mark slippery floors</li> </ul>
Use of machinery and equipment	7	<ul style="list-style-type: none"> <li>■ Cutting machine tools were checked for swarf removal equipment</li> <li>■ All the Group company employees were informed, in monthly reports, about the circumstances of the accidents</li> <li>■ The choice/efficiency of personal protective equipment was analysed in terms of preventing the risk of capture at the equipment operator workplace at the Railcars Loading Complex</li> </ul>

- Uniform guidelines for the entire production area were developed, concerning: methods of work and procedures for all operations involving the use of rubber hoses (steaming, drainage, blowdown, rinsing, cleaning) as well as places for and manner of rubber hose storage

Driving, using means of transport

5

- All the Group company employees were informed, in monthly reports, about the circumstances of the accidents
- Heads of the organizational units where the accidents had occurred discussed them in detail with all the subordinates
- Employees responsible for vehicle fleet management attended an additional safe driving course to learn more about the rules and factors for safe driving, as well as identifying, predicting and avoiding dangerous situations

Handling, storage, transportation work

4

- Metal cases were checked for the firmness of their sides
- All the Group company employees were informed, in monthly reports, about the circumstances of the accidents
- An OSH manual for engine oil low-tonnage loading was updated

### Incidence rate (total accident victims/headcount x 1,000)







2015		
Women	Men	Total
4.6	7.7	7.0

### Severity rate (days lost/number of accidents)

2015		
Women	Men	Total
53.6	46.2	47.4

### Reported cases of occupational disease (ODR, calculated as \* 200,000)



2015		
 Women	 Men	 Total
0 	0.064 	0.049 

**We are an attractive employer**

# We are building a strong employer brand

Recruitment and employment processes at the LOTOS Group are carried out in a responsible and fair manner, with due respect for the applicants. We care for a good atmosphere during job interviews and provide feedback. We guarantee confidentiality and information security to all candidates applying for a job at our organization.

In 2015, we commenced work on a new strategy of building employer brand. The effect is a 'Strategy for LOTOS as Employer Brand', together with an 'Operational Plan' and a set of efficiency measures.

## Strategic objectives behind the LOTOS employer brand:

- Ensure availability of highly qualified resources required to successfully implement the business strategy;
- Create an engaging workplace based on communication, positive relations and values.

## The steps taken to develop a strategy for LOTOS as an employer brand came in response to the following needs:

- Ensure continuity in the implementation of business goals, where employees and their expertise are the most valuable assets;
- Recruit best talent on the Polish market, which requires communication of the LOTOS employee brand to a wider audience;

## Thanks to the actions taken, LOTOS intends to build an employer brand with the following features:

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### Nationwide reach

#### What are the benefits?

Broader range of competent candidates to acquire.

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### Well-defined identity

#### What are the benefits?

We will establish a lasting relationship with the brand's target group.

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### Transparent communication of job offers

#### What are the benefits?

More suitable candidates will be recruited.

## High engagement potential

### What are the benefits?

Lower risk of employee turnover in case of strong competition on the local labour market.

## Clear referral rules

### What are the benefits?

It will be easier to reach valuable candidates. Employees will become active ambassadors of the LOTOS brand outside the organization.

## The employer brand is important to all:

We engaged our employees in efforts to develop the employer branding strategy for LOTOS. We invited employees from all segments of the LOTOS Group's operations to workshops, in which we learnt, among other things, which positive features are common for all areas of our activity and what are the distinctive qualities that represent the unique strength of LOTOS.

In the case of women employed at the LOTOS Group, the ratio of the lowest pay at the lowest pay to statutory minimum pay in Poland in 2015 was 1.14. In the case of men, it was slightly above 1.

## Our efforts to build employer brand

We seek to create the image of an attractive and reliable employer through:

- Pursuing the adopted HR policy and implementing the improvement action plan following an employee opinion survey;
- Creating an engaging workplace and communicating with our employees through the LOTOSFERA monthly magazine and the LOTOSTRADA website;
- Actively communicating our values and the benefits we offer to potential job candidates, using various communication channels, e.g. a website ([www.kariera.lotos.pl](http://www.kariera.lotos.pl)), advertising on recruitment websites Pracuj.pl and LinkedIn., running a Facebook fanpage 'Start with LOTOS', participating in job fairs, appointing the LOTOS ambassador from among students to promote our corporate values and liaise with the student community. [More information](#)
- Cooperation with schools and universities, student organizations, research clubs and circles, and central and local government authorities, aimed to promote vocational training, support education and create jobs.

## What else did we do?

The LOTOS Group has provided opportunities for both horizontal and vertical promotions and has ensured transfer of knowledge and skills between its companies. Moving an employee to another department, company or position creates a chance for continuous professional advancement and learning new skills. In terms of internal recruitment, the EFRA Project is a key initiative. We have developed a dedicated EFRA Staff Programme to select, recruit, train, prepare and retain properly qualified employees to complete the objectives of the EFRA (Effective Refining) operational excellence project, implemented as part of Grupa LOTOS's wider Efficiency and Growth programme. Implementation of the EFRA Staff Programme has been planned for the years 2014–2019. The Programme is based on reallocation of approximately 40 employees and provides for the additional employment from outside.

# Recruiting qualified staff

At the LOTOS Group, we believe that education is an asset worth investing in, and that by doing so we not only support our local communities, but also improve our chances for sourcing talented staff willing to develop together with us.

In 2015, as part of efforts to standardize and raise recruitment standards at the LOTOS Group, we implemented 'Standards of the Recruitment and Selection Process at the LOTOS Group – Guidelines for Managers Requesting Staff Recruitment' and 'Standards of the Recruitment and Selection Process at the LOTOS Group – Guidelines for Recruitment Specialists'.

## Certified recruitment practices

Having audited our recruitment practices, the Polish Human Resources Management Association awarded us the Top-Quality Human Resources Certificate, thus acknowledging the top quality standards of our human resources management processes.

Grupa LOTOS is a member of the [Coalition for Friendly Recruitment](#), established in 2013. The Code of Good Recruitment Practices developed by the organization is used as guidance for our HR officers on the principles that should be applied in recruitment processes across the LOTOS Group, and its application in practice has been confirmed by the 'Friendly Recruitment Zone' certificate awarded to Grupa LOTOS. It earned us reputation of a reliable and highly valued employer propagating the principles of corporate social responsibility.

## Education – a profitable investment



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For Sustainable Development



We engage in promoting education, with special emphasis on engineering and technical disciplines, by supporting vocational schools, including through our active participation in the Gdańsk Professionals' Week. In recognition of outstanding achievements in the promotion and sponsorship of vocational education and successful cooperation in the field of education to the benefit of the local labour market, Grupa LOTOS was awarded the 'Gdańsk Vocational School-Friendly Employer' title, and LOTOS Serwis received a distinction. We offer a range of internships and traineeships and, as far as possible, we provide access to data that may be useful in writing university dissertations.

Grupa LOTOS employees share their knowledge with students and teachers during workshops and classes they give at schools (e.g. LOTOS Serwis's activity at the Communications School Complex in Gdańsk, or LOTOS Kolej's at Technical Secondary School No. 3 of the K. Kałużewski and J. Sylla School Complex in Zduńska Wola). We have appointed a LOTOS ambassador for students, who helps them access educational and industry-related information and liaises with the Company as an employer through a Facebook fanpage 'Start with LOTOS'.

# 234

**number of internships  
and traineeships  
organized by Grupa  
LOTOS in 2015**

In line with our business profile, we focus on partnerships with technical schools such as Gdańsk University of Technology, the AGH University of Science and Technology, Cracow University of Economics, and Faculty of Chemistry of the University of Gdańsk.

We have engaged in cooperation with the largest global student organization AIESEC and the international organization of technology students BEST, under which we organized meetings with experts who shared with students practical knowledge on their field of study; also, we promoted jobs and internships at LOTOS. We also work with HR organizations, sharing our expertise and teaching HR standards, for example we cooperated with the Polish Human Resources Management Association by organizing and administering a HR Executive Meeting at LOTOS to discuss cooperation with universities and schools.

## What else did we do in 2015?

- It was for the thirteenth time that the LOTOS Group joined 'Summer Internship', a local project initiated by the Mayor of Gdańsk to support students and graduates in acquiring new skills and finding their place on the labour market. In 2015, Grupa LOTOS, LOTOS Kolej and LOTOS Petrobaltic financed 16 internship placements.
- We became one of Internship Founders as part of the 'We Build the Value of the Polish Economy. Work for Us' contest organized by the Ministry of State Treasury and we offered students five internship placements with our organization. The key objective of the internships was to help the contest winners gain experience and enable them to use their knowledge and skills in practice.
- We were a partner to the 'Go4Poland. Wybierz Polskę' internship programme of the Warsaw Stock Exchange Foundation.
- We organized meetings of our practising specialists with students representing numerous associations, including the Brevi Manu Student Scientific Association of Organization and Management Psychology, Scientific Association of Chemistry Students of the Gdańsk University of Technology, Euro-Initiative Student Scientific Association and Scientific Association of Electrical Engineering Students of the Gdańsk University of Technology. LOTOS Serwis has under its auspices the industrial automatics class at the Communication School Complex of Gdańsk. Its lecturers include heads of the I&C Maintenance and Repairs Departments.
- We continued cooperation with Vocational and Lifelong Learning Centre No. 2 in Gdańsk, the agreement on which has been renewed every three years since 2009. So far, 58 students completed their traineeships at Grupa LOTOS, and more than 30 best ones were awarded grants.

## LOTOS for kids

It was the third time we became the patron of the E(x)plory programme supporting young scientists. Its 2015 winners represent Poland in international scientific competitions in the US, the Netherlands, Romania and France. In 2015, we also continued the 'Talent with LOTOS' project, including the 'Pomeranian Talent' programme implemented jointly with the Teacher Education Centre in Gdańsk, and 'Jasło Science League with LOTOS' run with the town of Jasło.

For more information on the 'Talent with LOTOS' project, visit:

['Talent with LOTOS' website](#)



# Efficient organization management

# Robust structure

It is our strong opinion that strategic business objectives cannot be met without efficient organization, assessment of risks inherent in the business, and productive processes supported by effective management systems.

## New organizational structure of the LOTOS Group

In response to the market challenges (oil price movements, risk of growing competition from outside Europe, and expected decline in fuel consumption), in 2015 we introduced a new organizational structure to the LOTOS Group. It was the most extensive change in the structure of our organization in many years. The new organizational structure will help implement our business strategy.

### Thanks to its new organizational structure the LOTOS Group will:

- Improve the efficiency and flexibility of its operations by, among other things, accelerating the decision-making processes and simplifying procedures;
- Integrate the most important areas of its operations;
- Reduce operating costs, for instance by identifying the areas with overlapping responsibilities and scopes of activity;
- In the long term – achieve synergies as a result of greater integration and improved coordination of activities in the operational, management and support areas.

### What else will we do?

As part of the organizational changes, we will review the scope of activity of individual divisions and organizational units at the LOTOS Group companies. In this way we intend to optimize processes and interactions between Grupa LOTOS and its subsidiaries, and centralize certain functions. As a result, best practices will be transferred between LOTOS Group companies and uniform corporate standards will be introduced without building additional capabilities at each company.

# Diversity



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For Sustainable Development



Nearly every fifth person employed at the LOTOS Group is a member of the management staff. Most of them hold lower management positions. Management positions are mainly occupied by men aged 30-50, which reflects the total workforce structure.

1. Employees by age and diversity category	Employees in each category to total number of employees within the organization, 2015 [%]		Total number of employees in a given group, 2015 [%]
	Women	Men	
1. Below 30	2.5	7.2	9.7
2. 30 to 50	15.6	47.2	62.8
3. Over 50	5.0	22.5	27.5
<b>Total [%]</b>	23.1	76.9	100.0
Foreign nationals	0.0	0.3	0.3

2. Employees by job category	Employees in each category to total number of employees within the organization, 2015 [%]		Total number of employees in a given group, 2015 [%]
	Women	Men	
1. KW – senior management (management board + directors)	0.3	1.7	2.0
2. KN – lower management (all other management positions)	3.3	13.5	16.8
3. P – other employees	19.5	61.7	81.2

3. Supervisory Board members by age group and diversity category	% share of each category, 2015		Employees in a given group in the Supervisory Board, 2015 [%]
	Women	Men	
1. Below 30	0.0	0.0	0.0
2. 30 to 50	42.9	42.9	85.8

3.	Over 50	0.0	14.2	14.2
<b>Total [%]</b>		42.9	57.1	100.0
	Foreign nationals	0.0	0.0	0.0

4.	Management Board members by age group and diversity category	% share of each category, 2015		Employees in a given group in the Management Board, 2015 [%]
		Women	Men	
1.	Below 30	0.0	0.0	0.0
2.	30 to 50	0.0	40.0	40.0
3.	Over 50	0.0	60.0	60.0
<b>Total [%]</b>		0.0	100.0	100.0
	Foreign nationals	0.0	0.0	0.0

# Integrated management system

Grupa LOTOS was the first company in the chemical industry and the second company in Poland to receive the Integrated Management System certificate, as early as in 2003.

With our expertise and experience, we know that properly designed and consistent management and operational processes must be oriented towards:

- Customers – guaranteeing commitment to the quality of products and services;
- Environment – evidencing environmental awareness;
- Employees – bringing benefits in the form of safe working conditions.

## Management systems at the LOTOS Group as at December 31st 2015

Company name	Management systems in place
Grupa LOTOS	Implemented and certified Integrated Management System compliant with the ISO 9001, ISO 14001, and PN-N-18001 standards. Implemented requirements of AQAP 2110 (Allied Quality Assurance Publication) and requirements of the Internal Control System for trading in strategic materials (conforming with the PN-N-19001 standard).
LOTOS Asfalt	Implemented and certified Integrated Management System compliant with the ISO 9001, ISO 14001, and PN-N-18001 standards. Implemented and certified Site Production Control System.
LOTOS Kolej	Implemented and certified Integrated Management System compliant with the ISO 9001, ISO 14001, and PN-N-18001 standards, Railway Transport Security Management System (SMS) compliant with Directive 2004/49/EC and national regulations, Rail Vehicle Maintenance Management System (MMS) compliant with Directive 2004/49/EC and Regulation (EU) 445/2011, Quality in Welding Management System compliant with the DIN EN ISO 3834-2 (EN 729-2) and EN 15085-2 standards, and system of Maintaining Freight Cars in accordance with the VPI requirements. In 2015, LOTOS Kolej's Railway Transport Security Management System (SMS) received Safety Certificate - PART B, compliant with Directive 2004/49/EC and national regulations, enabling the company to carry out rail freight operations using German rail infrastructure.
LOTOS Lab	Implemented and certified Integrated Management System compliant with the ISO 9001, ISO 14001, and PN-N-18001 standards. Polish Centre for Accreditation certificate of compliance with the PN-EN ISO/IEC 17025:2005 standard.
LOTOS Ochrona	Implemented and certified Integrated Management System compliant with the ISO 9001, ISO 14001, and PN-N-18001 standards.
LOTOS Oil	Implemented and certified Integrated Quality Management System compliant with the ISO 9001 standard and AQAP 2110 (Allied Quality Assurance Publication). Implemented requirements of the ISO 14001 and PN-N-18001 standards.
LOTOS Petrobaltic	Implemented and certified Integrated Management System compliant with the ISO 9001, ISO 14001, and PN-N-18001 standards. Implemented ISM Code (for compliance with the International Management Code for the Safe Operation of Ships and for Pollution Prevention) and ISPS Code (International Ship and Port Facility Security System).
LOTOS Serwis	Implemented and certified Integrated Management System compliant with the ISO 9001, ISO 14001, and PN-N-18001 standards. Implemented and certified requirements of Quality in Welding Management System, compliant with the PN-EN ISO 3834-2:2007 standard, covering the construction of metal structures and auxiliary elements, EXC1, EXC2, EXC3 class steel structures in accordance with the PN-EN ISO 1090-1:2009+A1:2012 IDT EN 1090-1:2009+A:2011 standard, and covering the requirements for the competence of testing and calibration laboratories in accordance with the PN-EN ISO/IEC 17025:2005 standard.
LOTOS Straż	Implemented and certified Integrated Management System compliant with the ISO 9001, ISO 14001, and PN-N-18001 standards.
LOTOS Terminale	Implemented Integrated Management System compliant with the ISO 9001, ISO 14001, and PN-N-18001 standards.
LOTOS Paliwa	Implemented and certified Integrated Management System compliant with the ISO 9001 standard. Implemented requirements of the ISO 14001 and PN-N-18001 standards.
LOTOS Infrastruktura	The company is in the process of implementing the Integrated Management System.
LOTOS - Air BP Polska	The company is in the process of implementing the Integrated Management System.

## Key changes in the process management systems and structures that had a bearing on the LOTOS Group's performance in 2015

In 2015, we worked to find innovative solutions for the processes and systems supporting the LOTOS Group's operations. Our activities in that area included performing analyses and holding benchmark meetings to discuss deployment of selected management models and process tools. Additionally, we engaged in the following process management activities:

- We upgraded our web application supporting process monitoring so that it can be more effectively used, for instance in reviews of the Integrated Management System, or as a tool facilitating process management at other LOTOS Group companies.

- We continued regular meetings with heads of organizational units and the LOTOS Group companies to discuss selected regulations and processes.
- We implemented an optimum model for the Company, based on a matrix structure with Grupa LOTOS divided into functional areas, which is consistent with the Grupa LOTOS process map.
- We implemented an Integrated Management System web application to facilitate circulation of documents at the LOTOS Group companies, and an electronic system for circulation of corrective action instructions (using the SharePoint platform).
- We began work to optimize the reporting system.

### Energy Management System (EnMS)

- We performed energy consumption reviews at production plants based on Grupa LOTOS' internal regulations.
- We continued activities towards meeting the assumed environmental and energy goals.
- We monitored progress of the legislation process related to amendments to the Energy Efficiency Act and its potential effect on the environment and energy management system at Grupa LOTOS.

#### Planned activities in relation to the Integrated Management System:

- Adjust the existing systems to amended international standards, including ISO 9001 and ISO 14001;
- Adjust the energy management system to the new requirements of the Energy Efficiency Act;
- Make an explicit allocation of duties to units responsible for corporate tasks within the LOTOS Group structure – development and implementation of a new internal cooperation model (going beyond reporting);
- Foster the image of an organization with management culture that meets global standards by knowledge sharing (at industry meetings);
- Monitor key management indicators – determine and select unique and innovative indicators, based on which relevant measures will be taken to ensure improved performance.

### Audits at the LOTOS Group

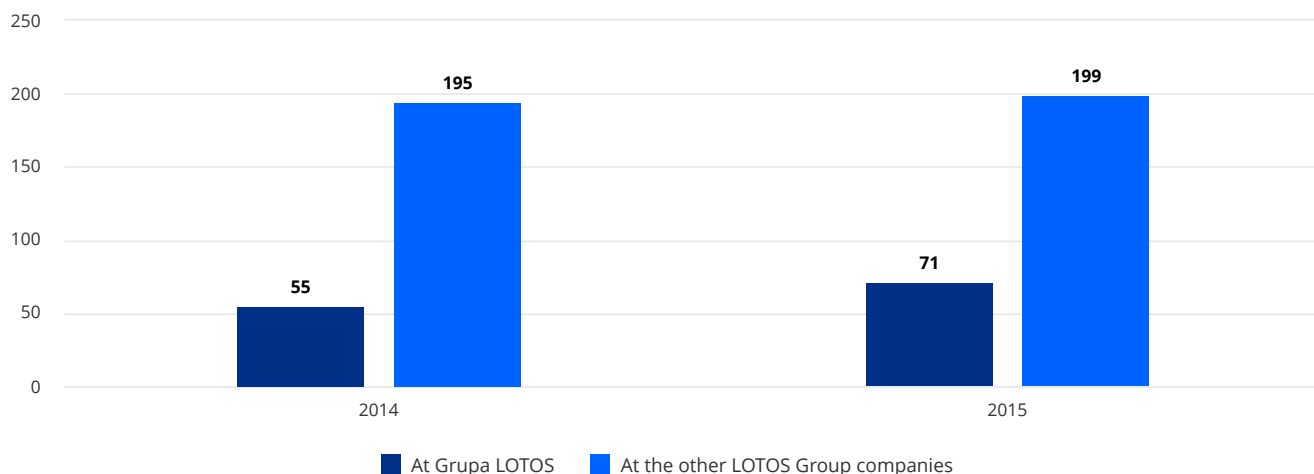
Audits of the LOTOS Group's Integrated Management System provide valuable and objective feedback on the operation of individual areas of the organization.

over

**500**

number of audits performed at the LOTOS Group in 2014–2015

**Audits carried out at LOTOS Group**



[More information on the management system](#)

**VPN solution improving safety and supporting communication with LOTOS Petrobaltic's platforms**

To improve safety on the platforms operated by LOTOS Petrobaltic in the Baltic Sea and to facilitate communication, the company – in cooperation with Orange Polska – created an IP VPN network with a capacity of 10 Mbps. The key objectives of this project were to implement security standards for the network, servers and workstations, and to ensure continuity of operation by using redundant radio and satellite links. The project standardized the applied solutions and made it possible to use the systems and applications on platforms online, just like at Grupa LOTOS' offices. Importantly, the new network allows employees on platforms to keep in contact with their families and friends on land.



LOTOS Group  
Integrated Annual Report 2015

06

## Our social impact

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# Our social impact

**We are responsible for our impact on the environment and for the way we build our relations with key community groups in that environment.**

With a CSR strategy in place, from 2012 we consistently monitored progress towards our key objective in the area of integration with the local environment set for the period until 2015, namely ensuring favourable attitudes among local communities and strengthening the Company's image as a business committed to CSR practices involving a wide range of programmes, long-term initiatives, social dialogue, and research designed to eliminate and provide lasting solutions to locally relevant social and environmental problems. In the process of strategy development and implementation, local environment was defined as the areas located in the vicinity of the LOTOS Group's production plants, including the local communities, employees, customers and the natural environment within those areas. Although many of our projects extended beyond the local sphere, the local effect was an important factor during the assessment and selection of new CSR projects completed in the last few years.

Our social impact is not limited to creating jobs and the environmental footprint of our operations, but it also involves programmes, initiatives, public consultations and activities undertaken to address the expectations of specific target beneficiary groups of the newly established [LOTOS Foundation](#). We strive to manage each of those areas effectively. That is why, as in the previous years, in early 2016 we carried out an assessment of the impact of our CSR activities, as well as of the awareness of and attitudes towards our activities intended to limit our environmental impacts in the immediate neighbourhood, being the key target of our initiatives, as well in the wider group of inhabitants of the Gdańsk Province and the Bielsko-Biała and Jasło Counties, who benefit from our broader social and environmental projects.

## Our key social activities in 2015:

- We completed major multi-aspect **social projects** in each of our commitment areas – road traffic safety ('LOTOS Safety Belt Champions'), environmental protection and education ('Headed for the Baltic'), and ensuring equal opportunities ('Talent with LOTOS', 'E(x)plory');
- We also furthered **cross-sectoral cooperation**. Apart from participating in working groups appointed to develop strategies for the Gdańsk Province and the metropolitan area concept, we continued our involvement with the Development Initiation Forum, and we held meetings with representatives of local governments, SMEs and NGOs as part of workshop and networking groups organized under the Forum;
- We provided funds to support cross-sectoral **partnership programmes** in the Gdańsk Province;
- We provided further support to entities in the **social economy** sector. In 2015, social enterprises, which are often beneficiaries of our grants, completed five interesting social initiatives undertaken in response to the identified needs of local communities.
- In 2015, we established the [LOTOS Foundation](#). Its overriding objective is to **support initiatives to develop infrastructure and make a positive difference for local communities, particularly in regions where companies of the LOTOS Group operate**. In 2015, the Foundation's charitable donations totalled PLN 762 thousand, of which nearly PLN 320 thousand was spent on charity and support to non-governmental organizations operating in the closest neighbourhood of Grupa LOTOS.

- We successfully completed the first edition of the **'Helping while Refuelling'** campaign as the Foundation's first major project. It was the first-ever cause-related marketing project in the fuel industry in Poland run on such a large scale. The campaign proceeds of **PLN 318,388** were used to meet the infrastructural needs and fulfil the passions and dreams of persons under the care of the LOTOS Foundation's social partners.
- We initiated a systematic **employee volunteering** programme. We carried out a number of initiatives started by our employees, such as 'LOTOS Collects Screw Caps', consisting in collection and sale of plastic bottle caps, with the proceeds transferred as financial support to a grandson of one of the LOTOS Group's employees, who suffers from a chronic disease of muscular atrophy and requires constant rehabilitation and medical equipment. Moreover, in the Easter and Christmas periods we sell cakes baked by the 'JA TEŻ' Foundation for Development to our employees and use the proceeds to support the Foundation's activities carried out for the benefit of people with the Down's syndrome. As part of employee volunteer work, one of our teams erected a fence and performed repairs at a foster care home in cooperation with the Gdańsk Social Innovation Foundation.

## How do we create value for the environment in which we operate?

Key financial indicators	Key non-financial indicators
<ul style="list-style-type: none"> <li>■ Expenditure on social programmes: over <b>PLN 5m</b></li> <li>■ Value of donations handed over by the LOTOS Foundation: <b>PLN 762 thousand</b></li> <li>■ The amount collected during the "Helping while refuelling" campaign: <b>PLN 318 thousand</b></li> </ul>	<ul style="list-style-type: none"> <li>■ Number of cross-sectoral social programmes and initiatives delivered by Grupa LOTOS: <b>23</b></li> <li>■ Awareness of Grupa LOTOS social and environmental projects: <b>40% of all respondents</b></li> <li>■ Assessment of our social and environmental impacts by Grupa LOTOS social partners: <b>80%</b></li> </ul>

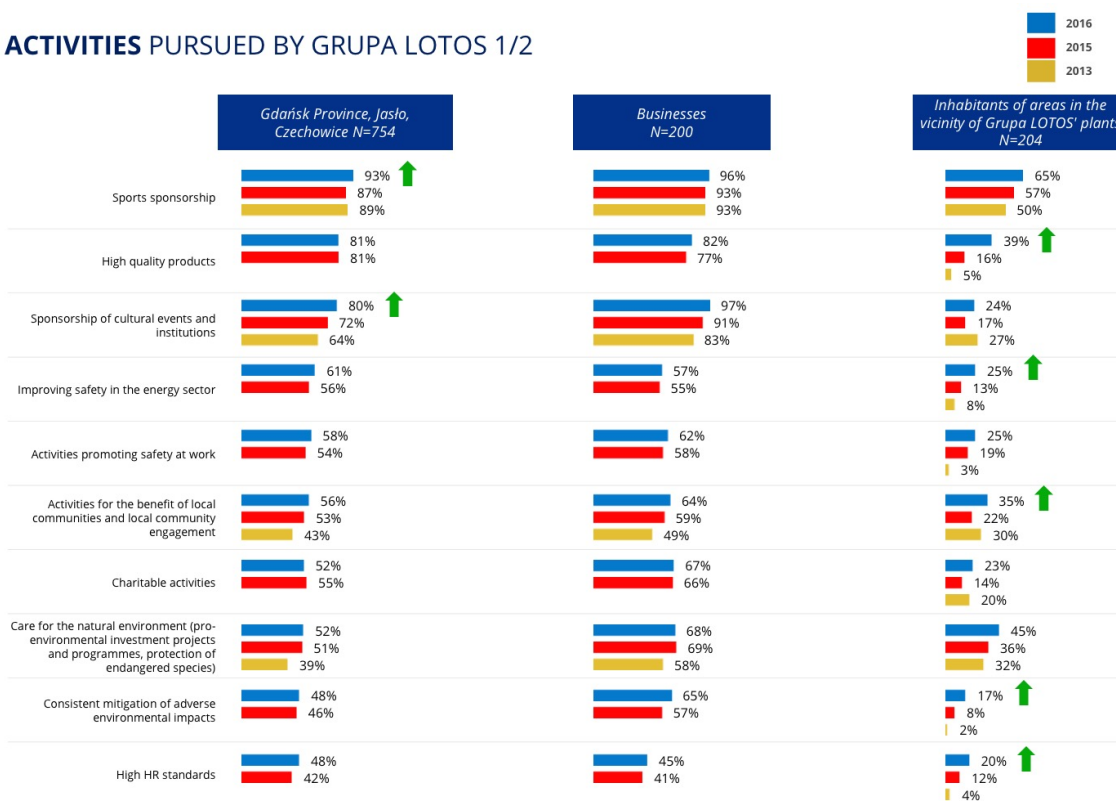
At the LOTOS Group, we believe that the main purpose of CSR activities is to translate the success of the company into benefits for the society in general. That is why in our business we take into account the needs of local communities and environmental challenges in the areas affected by our operations. As we are responsible for the quality of life in the vicinity of our production plants, we make every effort to ensure that it is as high as possible.

Our capabilities are a function of our knowledge on various social and environmental aspects related to our business, as well as of the available human, technological and organizational potential. These factors largely shape our decisions on the direction and nature of our social impacts.

In annual surveys carried out in our environment, covering both the closest neighbourhood of our production plants and a wider area of the Gdańsk Province and the Bielsko-Biała and Jasło Counties, as well as 200 businesses operating in those three areas, we place a particular focus on the positive and negative aspects of living near Grupa LOTOS's facilities. We check the effectiveness of our communication activities related to CSR initiatives in educating and rising environmental and social awareness of the target groups. We analyse the degree of interest in our operations, including the business, sponsorship and social activities. Last but not least, we ask whether the directions followed by the LOTOS Group are correct and what other issues we should address, and the answers to those questions serve as the basis for modifications and a discussion of the usefulness of our activities.

## The survey results, part 1

### ACTIVITIES PURSUED BY GRUPA LOTOS 1/2



Q6. Which of those activities are, to your knowledge, pursued by LOTOS?

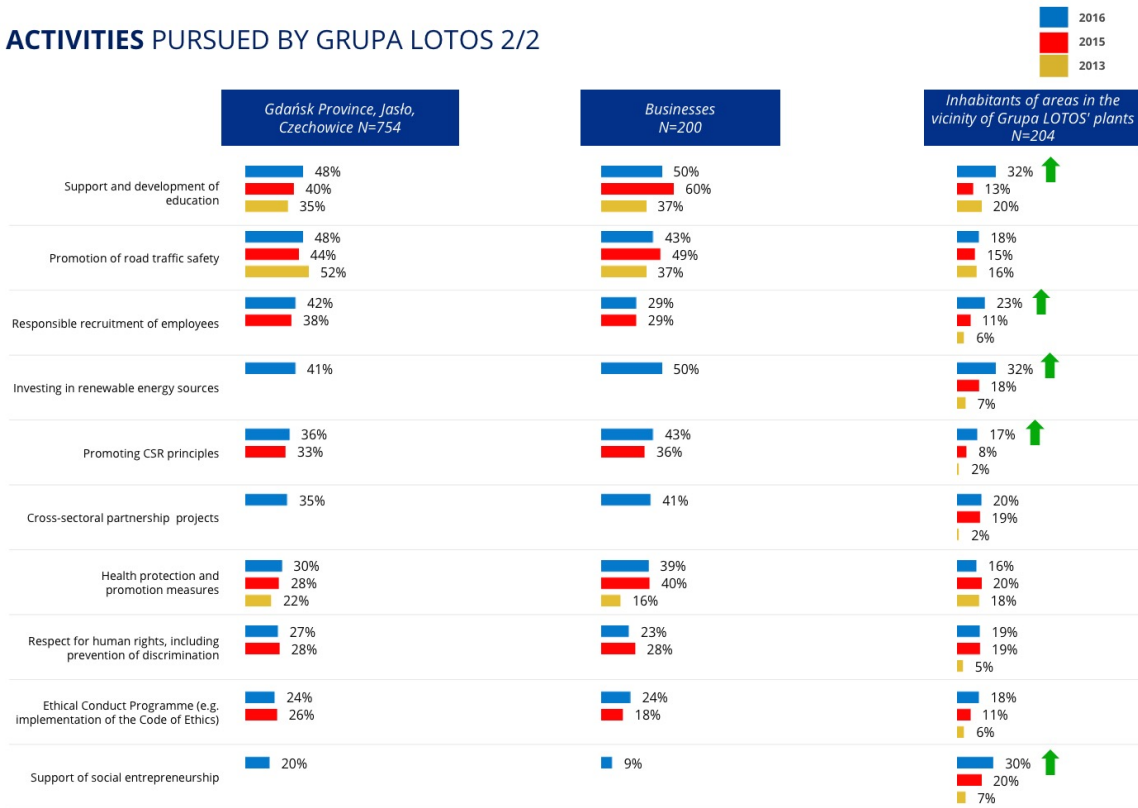
Data sorted for the Gdańsk Province, Jasło, and Czechowice – 2016

↑↓ statistically significant difference between 2016 and 2015 results

The level of awareness, and the resulting self-assessment of our CSR activities improved compared with the 2013 and 2015 surveys. Particularly important data is that pertaining to the social activities addressed to the communities living close to Grupa LOTOS' facilities, as well as the awareness of our initiatives designed to mitigate adverse environmental impacts (up from 2% to 17% of inhabitants in the areas located in the vicinity of our production plants).

## The survey results, part 2

### ACTIVITIES PURSUED BY GRUPA LOTOS 2/2



Q6. Which of those activities are, to your knowledge, pursued by LOTOS?

↑ ↓ statistically significant difference between 2016 and 2015 results

Data sorted for the Gdańsk Province, Jasło, and Czechowice – 2016

In other important areas, the awareness of our activities, including promotion of the CSR concept, support to social economy entities and education, improved by at least 10 percentage points among respondents living near the refinery and our key companies in southern Poland.

We also hold consultations to verify if the directions of our activities are correct. Asked about what activities the LOTOS Group should engage in, the respondents most often pointed to the areas on which we have consistently focused under our CSR strategy since 2011.

## The survey results, part 3

### ACTIVITIES IN WHICH GRUPA LOTOS SHOULD ENGAGE (TOP2 BOXES)

	Gdańsk Province, Jasło, Czechowice N=754			Businesses N=200			Inhabitants of areas in the vicinity of Grupa LOTOS' plants N=204		
	2016	2015	2013	2016	2015	2013	2016	2015	2013
Care for natural environment, ecology	83%	81%	78%	95%	95%	94%	61%	58%	74%
Mitigation of adverse environmental impacts	76%	75%	-	93%	96%	-	64%	63%	14%
Investing in renewable energy	71%	69%	62%	86%	89%	85%	61%	61%	71%
Support to the development of research and science	60%	63%	51%	85%	85%	89%	61%	63%	76%
Sports programmes for children and youth	60% 	50%	53%	75%	80%	82%	67%	64%	70%
Promotion of road traffic safety	56%	56%	58%	64%	69%	77%	59%	62%	61%
Monitoring of compliance with ethical conduct rules, social intercourse principles and environmental protection standards by suppliers and contractors	55%	48%	-	71%	76%	-	62%	65%	15%
Support and development of education	51%	49%	44%	68%	73%	72%	61%	58%	71%
Sports sponsorship	51%	51%	44%	75%	80%	85%	74%	66%	75%
Application of ethical, social and environmental criteria when selecting trading partners	51%	44%	-	68%	74%	-	57%	57%	14%
Support to local communities	50%	44%	35%	78%	80%	85%	62%	54%	66%
Health protection and promotion measures	49%	48%	45%	67%	70%	62%	63%	59%	66%
Support to the poor and people in need	44%	47%	49%	60%	58%	58%	61%	58%	63%
Sponsorship of cultural events and institutions	41%	43%	31%	70%	73%	76%	52%	52%	70%
Construction of sports fields near schools	39%	46%	37%	46% 	63%	60%	59%	56%	58%
Construction of playgrounds in town districts	36%	40%	36%	52%	46%	49%	60%	58%	63%
Inclusion of service station customers in CSR programmes organized by the Company	35%	--	-	60%	--	-	55% 	41%	12%
Fostering CSR principles among other companies	33%	30%	-	63%	69%	-	69%	67%	14%
Promoting Polish artists/culture	30%	28%	17%	52%	46%	38%	55%	55%	62%

Q15/ Q16. Which activities do you think Grupa LOTOS should engage in?

Data sorted for the Gdańsk Province, Jasło, and Czechowice - 2016

  statistically significant difference between 2016 and 2015 results

# **Our indirect economic impacts**

# How do we affect the environment?

The impact of our business and the programmes we implement extends to:

## The labour market



**THE GLOBAL GOALS**  
For Sustainable Development



- We create new jobs and opportunities for employment and professional advancement, a case in point being the EFRA Staff Programme.
- We facilitate first steps on the labour market by organizing internships and traineeships as well as workshops for students.
- We support state and local government administration bodies in developing the labour market by sharing best practices related to the employment process.
- We establish recruitment and selection standards and we share our knowledge with third parties, for example by being a member of the Coalition for Friendly Recruitment.

More information: [ [1](#), [2](#) ]

## Quality of education



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For Sustainable Development



- **We promote and support vocational education** and we cooperate with technical schools by granting scholarships for the most talented students, offering traineeship programmes at the LOTOS Group companies, purchasing equipment for research labs, knowledge sharing, and support of our specialists of various fields in educational activities. Last year, we closely cooperated with Vocational Education Centre No. 2 in Gdańsk that teaches mainly future chemical engineering technicians and laboratory staff. LOTOS Serwis has partnered with the Communications School Complex in Gdańsk, where its employees give classes for the students and a dedicated class has been created with a curriculum focusing on skills and subjects relevant to work at LOTOS Serwis.
- We are a partner in programmes **aimed at discovering talented youth and supporting their development**, such as 'Talent with LOTOS', including three projects run concurrently in the Gdańsk Province ('Pomeranian Talent'), in Jasło ('Jasło Science League with LOTOS') and, since 2016, in Czechowice-Dziedzice, the home town of a few LOTOS Group companies ('Talent from Czechowice-Dziedzice, a Town of Fierly Enthusiasm').

- For several years now, we have been involved in the E(x)plory programme, which seeks to identify and reward innovative interdisciplinary projects focusing on medicine, IT or design of services. The projects are carried out by junior-high and high school students. The winners are awarded for the best ideas with scholarships of PLN 10,000, PLN 8,000 and PLN 5,000.
- We undertake activities to present the Gdańsk refinery, our management systems, and potential future workplaces to those young people who are interested in crude oil processing or who study in related fields. We organize guided tours on the plant's premises, our employees attend conferences, our product companies, such as LOTOS Lab, regularly take part in outdoor events for local communities, where they demonstrate the nature of their work.

More information: [ [1](#) ]

## Business growth



**THE GLOBAL GOALS**  
For Sustainable Development



- We cooperate with local contractors and dealers operating LOTOS service stations, and organize training programmes for them.
- We cooperate with social economy entities that offer services involving the provision of advertising products, which we give to our customers and partners during holidays, or event and catering services.

More information: [ [1](#), [2](#) ]

**The area where we identify a particularly strong impact is the development of the local labour market.**

**LOTOS Petrobaltic** has more than 380 employees, over 70% of whom are residents of the Gdańsk Province. Moreover, the company runs a programme of unpaid traineeships, undertaken mainly by young people studying disciplines related to the company's core business, including from the Faculty of Drilling, Oil and Gas of the AGH University of Science and Technology of Kraków, students of mechanical engineering at the Gdańsk University of Technology, as well as students from the Faculty of Oceanography and Geography of the University of Gdańsk. The experience they gain during such traineeships may be helpful in their further professional careers.

By increasing the number of service stations in 2015 **LOTOS Paliwa** contributed to a rise in employment. At CODO stations, the staff are employed by the station manager, whereas at DOFO stations they are employed by the franchisee running the station. The average headcount is 11 persons for a LOTOS premium station and 8 persons for an economy station. In 2015, 248 new staff were hired at CODO stations; at the year end, the total headcount was 2,844. The service station staff are offered training opportunities to improve their qualifications.

A definite majority of **LOTOS Kolej's** employees were recruited from the local labour market, i.e. Poland. Senior management staff are all local residents. In 2015, LOTOS Kolej employed 139 new staff members. Also, 20 persons completed internships at the company, 6 participated in the Graduate Programme, and 2 in summer internships. Five of those persons were later employed at the company.



# Our CSR strategy

The LOTOS Group's responsible approach to activities undertaken in various spheres brings measurable effects. Our achievements in this area are possible thanks to the clear long-term objectives defined in our CSR strategy, which is closely related to our business strategy.

The efforts undertaken by the LOTOS Group in the social and business spheres, in our relations with key stakeholders and in corporate governance are aimed principally to:

- Ensure compliance with the law and ethical standards;
- Increase our positive contribution to social development;
- Mitigate possible adverse impacts of our operations and the associated risks;
- Maximize our chances for sustainable development over the long term.

Key CSR activities:

- **Ensuring equal opportunities and supporting the education and development of children and young people** – who are the target group of our social and educational programmes and various sports and social projects focusing on the support of both talented and underprivileged youth;
- **Road traffic safety** – to which the LOTOS Group contributes through the quality of its products and comprehensive educational campaigns;
- **Environmental protection and ecology** – with special focus on the biodiversity of the Baltic Sea (given the seaboard location of the Gdańsk refinery), as well as other areas of outstanding natural value, including NATURA 2000 sites, located in the Company's immediate vicinity.

In 2015 we commenced work on the new Corporate Social Responsibility Strategy whose overriding objective will be supporting the new business perspective.

[More information about LOTOS Group's Business Strategy](#)

[More information about LOTOS Group's CSR Strategy](#)

# Effective support

LOTOS Group's CSR programmes and initiatives are a response to identified needs of local communities, and many of them are implemented within the framework of cross-sectoral partnerships. We monitor the effects of our efforts by running surveys of a group of over 1,000 respondents living in the regions where we operate, and, more specifically, in the vicinity of the LOTOS Group's production plants. Each year, we prepare surveys for our long-term social partners so they can evaluate us in terms of dialogue, the quality of cooperation, and openness to communicate. In addition to questions about the quality of cooperation with Grupa LOTOS and the [LOTOS Foundation](#) (where more than 90% of the surveyed responded with 'good' or 'very good'), we also ask about the implementation of the objective underlying our CSR strategy. In answer to the following question: 'In your opinion, does Grupa LOTOS, through its initiatives, contribute to providing lasting solutions to the locally relevant social and environmental issues?', 81% of the respondents answered 'definitely yes' and 'yes'.

Social diagnosis is based on meetings with our social partners and on participation in consultations, working groups and conferences attended by various entities from the local government, business and NGO sectors. A flagship project under which new partnerships are forged and projects are implemented, including those focusing on social entrepreneurship or supporting local initiatives, is the **Development Initiation Forum**.

As part of activities undertaken in 2012–2015 under the CSR strategy in the area of integration with local communities, we focused on ensuring favourable attitudes among local communities and fostering our reputation as a socially conscious business. We achieved our goals by undertaking initiatives that address and successfully solve social and environmental problems. The positive effects of our efforts can be seen across Poland and in the particular regions where we operate, i.e. mainly in the Gdańsk Province, and in the counties of Bielsko-Biała and Jasło.

## Grupa LOTOS' lucky thirteen

As the strategic partner of the [Responsible Business Forum](#), Grupa LOTOS submits its projects to the 'Responsible Business in Poland. Best Practices' report. The 2015 report included as many as 13 best practices submitted by Grupa LOTOS.

# How do we measure the effectiveness of our support?

For each initiative, whether it is a long-term project or a single-occasion event addressed to a specific social group, we carry out an assessment of the impact on local communities. In this way we verify whether a given project positively contributes to resolving social and environmental issues.

In the case of educational projects for children and young people, we verify the number of students joining the projects and the number of winners of external competitions. As part of many of our initiatives we carry out evaluation surveys that gauge the participants' satisfaction with the proposed offer and provide comments on future assumptions and objectives which we then take into account. Apart from the information on the turnout in all of our projects and programmes, some of our partners provide us with information on further educational careers of the participants of a given programme, or the results of nationwide surveys on the usefulness of a social programme, e.g. the National Road Traffic Safety Centre sends us results of research on the number of accidents caused by failure to use seat belts and child safety seats or by their incorrect fastening and use. The findings serve as a basis for carrying out inspections among drivers and stepping up educational campaigns.

Apart from the impact on local communities, we measure the reach of media or information campaigns executed as part of the programmes, and how successful they are in getting across to potential recipients of our message, who through our ads, articles, or posters can broaden their knowledge about, for instance, the Baltic's biodiversity and its active preservation.

One of the indicators of the our CSR activities' is the number of site visits by unique visitors (individual IP addresses) at the websites of our projects and programmes.

Number of page views at websites dedicated the LOTOS Group's projects in 2015:

- [www.kierunekbaltyk.pl](http://www.kierunekbaltyk.pl) – 152 thousand users and 514 thousand page views; the 'Kierunek Bałtyk' profile (Headed for the Baltic) on Facebook – 56 thousand users;
- the „[Emocje do pełna](#)” profile (Emotions to the Full) on Facebook – 130 thousand users;
- [www.sledzfoki.pl](http://www.sledzfoki.pl) – 90 thousand users and 271 thousand page views;
- [www.sokoly.lotos.pl](http://www.sokoly.lotos.pl) – 40 thousand users and 150 thousand page views;
- [www.piikalotos.pl](http://www.piikalotos.pl) – 17 thousand users and 43 thousand page views;
- [www.lotoscup.pl](http://www.lotoscup.pl) – 2 thousand users and 4 thousand page views.

# **Key areas of the LOTOS Group's CSR activities**

# Fostering equal opportunities



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For Sustainable Development



One of the areas of focus for our CSR initiatives is creating equal opportunities for children and young people by supporting their education. The projects we engage in are selected based on the assessment of their effectiveness and of how adequately they address the needs and actual problems. What enables us to make informed decisions about which projects to choose is the close and good relations with the local communities and social partners in the areas where our plants are located.

## Our flagship projects

### We engage our clients in the 'Helping while Refuelling' programme

In November 2015, LOTOS Paliwa launched the company's and the fuel industry's first ever sales support project combining charity with image building, under the name 'Helping while Refuelling'. The joint initiative of LOTOS Paliwa, Grupa LOTOS and the LOTOS Foundation was the first cause-related marketing scheme organized on such a large scale in the fuel sector in Poland. The main objective of the campaign was to encourage motorists to buy fuel at LOTOS and LOTOS Optima service stations as each litre of fuel they purchased meant funds transferred to the LOTOS Foundation's account.

Our cooperation in the venture demonstrated that business efforts can be effectively combined with marketing and social activities to help those who need it the most. This landmark event opened a new stage in the LOTOS Group's long-term Corporate Social Responsibility Strategy.

### The goal we set ourselves

In addition to improving sales performance, we wanted to offer tangible support to the beneficiaries of the LOTOS Foundation's long-term social partners in the pursuit of their passions and dreams.

### Who received our help?

- [Gdańsk Social Innovation Foundation](#) (Gdańska Fundacja Innowacji Społecznej)  
The campaign proceeds totalling PLN 218,388 were used to organize winter holidays for 20 children and refurbish five supported flats for former residents of children's homes who begin independent living.
- The '[Osiedle Sitowie](#)' (Sitowie Housing Estate) project run by the Municipal Centre for Family Support in Gdańsk (Miejski Ośrodek Pomocy Rodzinie w Gdańsku)  
PLN 100 thousand helped fulfil the dreams of 14 residents of the 'Osiedle Sitowie' project. We bought toys, bikes, computers and vouchers for clothes and books. The collected funds were also spent on driving courses as well as judo and dancing classes for the older youth. Further, we helped finance purchases of various fittings and equipment for the flats occupied by the 'Osiedle Sitowie' beneficiaries.

### How was the money collected?

From November 16th to December 5th 2015, the LOTOS Foundation's account was credited with PLN 0.01 for each litre of ON Dynamic and PB98 Dynamic fuels purchased at LOTOS and LOTOS Optima service stations. Each litre of diesel oil, PB95, PB98 and LPG sold at the stations meant another PLN 0.005 transferred to the account. The project's ambassador was Robert Kubica, a rally driver. Other famous athletes who encouraged motorists to help while refuelling included Kamil Stoch, Piotr Żyła, Kajetan Kajetanowicz, Sebastian Mila, Piotr Gacek, Mateusz Mika, and Robert Lewandowski. The programme was accompanied by radio and television campaigns and distribution of BTL sales support materials at the LOTOS service stations. What made this campaign unique was the use of non-standard communications media at all LOTOS and LOTOS Optima service stations, that is dedicated meters showing the amount collected since the beginning of the campaign.

## What else did we do?

The second phase of the campaign was the 'Winning while Refuelling' lottery started on December 7th 2015. It was a way for LOTOS Paliwa to thank its clients for contributing to the pool of funds for children. They were offered a chance to win PLN 500 in a draw held every hour as part of a special lottery on RMF FM radio.

## Business effect

Apart from helping our social partners to carry out valuable social projects, the 'Helping while Refuelling' and 'Winning while Refuelling' projects vastly enhanced our sales. We saw a double-digit year-on-year growth in the volumes of fuels sold: [\(1, 2\)](#)

## Support for the talented ones

'Talent with LOTOS' is an initiative by which we seek to contribute to the development and education of children and youth in the regions where LOTOS Group companies are present. It is our response to the need for increased support to talented students in the Polish education system. We have implemented the 'Pomeranian Talent' programme in the Gdańsk Province and, in cooperation with the town of Jasło, the 'Jasło Science League with LOTOS' in the Jasło region. 'Talent with LOTOS' is targeted at elementary and junior-high schools as well as kindergartens.

In the 2014/2015 school year, 131 league teams were set up as part of Jasło Science League with LOTOS, including 500 children and 60 teachers. Within the framework of the 'Pomeranian Talent' project, 1,332 students from the Gdańsk Province took part in education and development activities. In 2016, another initiative was incorporated in the 'Talent with LOTOS' scheme, this time targeted at talented children and youth from the region of Czechowice-Dziedzice, a third location of key importance to the LOTOS Group's engagement with local communities. 'Talent from Czechowice-Dziedzice, a Town of Fiery Enthusiasm'. This project is to enhance systematic patronage of talented students from elementary and junior-high schools, and in particular identify the most promising talent and support their teachers, shaping scientific thinking and promoting project-based methods in education. It will see 92 students from elementary and junior-high schools work under supervision of 18 teachers on scientific and research projects, which will be then assessed by experts and rewarded with prizes sponsored by the Mayor of the Czechowice-Dziedzice Municipality and Grupa LOTOS. The project will be implemented under direct patronage of LOTOS Terminale.

[More information about the 'Pomeranian Talent' project](#)

[More information about 'Talent with LOTOS'](#)

## E(x)plory

For five years, the Advanced Technologies Foundation has successfully run the E(x)plory programme, a unique initiative creating and promoting scientific culture and innovations in Poland and globally. The guiding idea of E(x)plory is to support talented scientists in the pursuance of innovative projects, develop businesses', organizations' and institutions' best practices in the areas of innovation and modern technologies, expand cooperation with talented young people, and encourage curiosity and interest in science among local communities.

The E(x)plory programme consists of a number of modules:

- The E(x)plory scientific competition, joined by ca. two million students each year, who submit approximately 150–200 projects. The competition consists of the regional stage and the nationwide finals, which ends the programme in a given year. The projects are evaluated by more than 50 jury members (academics and managers), representing the most prestigious universities and scientific institutions as well as innovative companies from across Poland.
- Regional Science Festivals, attended each year by more than two thousand participants, mainly junior-high and high school students. The festivals are the venue of open workshops and shows for children and the youth.
- The closing event – Gdynia E(x)plory Week – a great celebration of science and innovation for more than three thousand students. The Nationwide Finals of the E(x)plory Science Competition and the E(x)plory and Innovations Congress for representatives of business and science are held during the closing event.
- The winners' participation in international competitions, such as Intel ISEF in the US and INESPO in the Netherlands. 2015 saw 11 programme winners participate in international competitions.
- Internship programme for the youth: the Foundation organizes internships at prestigious universities in Poland, attended by 18 students in 2015.

[More information about E\(x\)plory](#)

## Good Neighbour programme

The programme comprises numerous activities, which are sometimes area-specific and dispersed but which share one basic feature: they are addressed to communities living in the immediate vicinity of Grupa LOTOS. Most of the activities are centred around the objectives defined in our strategy, that is equal opportunities, road traffic safety, ecology and environmental protection.

The programme involves the following activities:

- Supporting picnics, sports events, summer camps, etc.,
- Supporting educational activities in the area of environmental protection and road traffic safety,
- Developing the residents' understanding of our refinery's operation and assuring them that it has state-of-the-art environmental security controls,
- Providing assistance to public benefit institutions and organizations, especially those helping children and young people,
- Organizing Children's Day and Santa Claus gift-giving events for local community children,
- Supporting social initiatives, capital investments or repair works at educational institutions.

## Children's Day at LOTOS Kolej

In 2015, the Children's Day was celebrated with the Rail Technology Day, co-organised by the LOTOS Group and LOTOS Kolej. In previous years, LOTOS Kolej organised the Rail Technology Days in cooperation with SKM Trójmiasto, and with PKP Energetyka and PKP Intercity. The event attracted railway lovers, company employees and the local community. The LOTOS Group organised the event alone to celebrate the Children's Day as the initiative for the local community in a selected district nearby, in accordance with the assumptions of the "Good Neighbour" programme. Having analysed the facts, both LOTOS Kolej and the LOTOS Group decided it was possible to organise a single event addressed to all the addressees of the two events. The event attracted more than three thousand people, including the LOTOS Group's employees and their families as well as children living in the nearby districts, i.e. Olszynka, Rudnik, Przejazdów, children from LEONARDO school and nursery school, and children from the parish of Our Lady of Sorrows in Gdańsk.

The event was to present the LOTOS Group as a socially responsible company in line with the CSR strategy assumed, and LOTOS Kolej as an eco-friendly one, meeting the highest standards, i.e. high-tech locomotives, tight cleaning of rail tankers, taking care of the environmental protection.

The assumption was to give children an insight into everyday work of a modern company such as LOTOS Kolej and present it in an understandable and attractive manner, to show places which are usually not accessible, e.g. Traffic Management Center, Signalling Center, Depot, Rail Tanker Cleaning Station. There were many attractions prepared for the participants, e.g. the opportunity to take a handcar or locomotive ride, competitions on the stage. There were also games related to the areas supported by the LOTOS Group, e.g. football matches on a professional pitch and traffic safety. We also used the opportunity to ask those present for their opinions on the event. 91% of the respondents were very happy with the way the event was run and the attractions it offered. 70% of the respondents were able to spontaneously enumerate a few areas and names of CSR programmes carried out by the LOTOS Group, such as 'Safety Belt Champions', 'Headed for the Baltic' or granting scholarships for students.

## Good climate for cooperation

Grupa LOTOS and the UP **Foundation for Initiating Development** have partnered in a flagship cross-sector programme, Development Initiation Forum (FIR). The organization was created on the initiative of individuals who are aware of the need for social and economic changes in the Pomerania region, and has a mission of initiating and supporting social and economic development using the potential created by cross-sector partnerships. Since 2014, Grupa LOTOS has also been the general partner of the FIR's Grant Fund, which helps partnerships that bring together the public, private and NGO sectors. In 2015, PLN 240 thousand was spent on grants for nine cross-sector projects aimed at promoting social entrepreneurship, employment of individuals at risk of social exclusion, physical activity and healthy diet. The co-financing grant was up to PLN 25 thousand. The judging panel composed of representatives of business circles, local governments and non-government organizations selected five initiatives in the first round of the competition, and four initiatives in its second edition.

[More information about FIR](#)

## Grants go to the responsible ones

In 2015, Grupa LOTOS selected the winners of the second edition of the 'Responsibly with LOTOS' grant contest addressed to student organizations – members of ENACTUS Poland. The contest is designed to support interesting projects that correspond to the objectives of Grupa LOTOS' CSR strategy in the area of society, natural environment or road traffic safety. Its second edition was open to student societies and organizations registered in Poland and there was no requirement for the submitted projects to be confined to the regions where Grupa LOTOS is implementing its CSR strategy. The participants competed for a grant of PLN 10,000.

[More information about 'Responsibly with LOTOS'](#)



[More information about ENACTUS](#)

## Involvement of LOTOS Straż fire brigades in rescue operations in the city of Gdańsk

At the request of the State Fire Service, the LOTOS Straż rescue and fire-fighting brigade takes part in rescue operations outside the LOTOS Group's refinery. In 2015, the firefighters were involved in an operation in Gdańsk Śródmieście where an injured crane operator required assistance. They also responded to an accident involving two passenger cars on the S7 national road near the entrance to the premises of the LOTOS Group.

The LOTOS Straż rescue and fire-fighting brigade engages in promoting fire safety among the local community during the 'Żuławski Tulipan' event in Pruszcz Gdański, and each year, the brigade divers take part in cleaning up the Baltic.

[Other initiatives for the benefit of local communities](#)

# Road traffic safety

The high degree of danger in road traffic is a serious social issue both in Poland and globally. Aware of the social importance of the problem, for more than a decade we have been pursuing internally-developed social and educational programmes, supporting numerous initiatives aimed at promoting road safety in Poland.

## Safe with the seat belt

In 2015, Grupa LOTOS and the National Road Traffic Safety Centre held the second, nationwide edition of the 'LOTOS Safety Belt Champions' programme. The project's ambassador is a LOTOS Rally Team racing driver who won the European Rally Championship in 2015. 'LOTOS Safety Belt Champions' is a prevention and awareness programme focusing on the proper fastening of seat belts, and selection and correct use of child safety seats. During special PIT STOP sessions, most of which were held at LOTOS service stations, more than 3,500 motorists took part in individual tutorials provided by experts. Our activities also included three 'Stay Safe – It's Good to Be Alive!' seminars and safety training at three elementary schools. For more information about the programme: ['LOTOS Safety Belt Champions'](#).

### **LOTOS Geonafta:**

the company repaired 11.3 km of local roads between its facilities.  
The project cost was nearly EUR 4.2 thousand.

# Environmental protection and ecology



**THE GLOBAL GOALS**  
For Sustainable Development



The key area where our environmental protection capabilities are put to use is the preservation of the Baltic Sea's biodiversity, which follows primarily from the coastal location of the Grupa LOTOS' refinery. We are also strongly committed to raising the environmental awareness of our employees.

The flagship project in this area is 'Headed for the Baltic', an initiative bringing together organizations involved in research on environmental protection, nature conservation activities and environmental education. Our joint efforts focus on the areas in direct proximity to the Gdańsk refinery, which are of great natural value, the local animal species, and the biodiversity of the marine fauna and flora.

## 'Headed for the Baltic'

Since 2009, Grupa LOTOS has worked with the Foundation for the Development of the University of Gdańsk and the Marine Station of the University's Oceanography Institute in Hel as part of a programme which until 2014 was conducted as 'LOTOS Protects the Baltic Sea Wildlife', and in 2015 was renamed as 'Headed for the Baltic'. Our joint goal is to halt the extinction of the most endangered sea animal species in the Baltic waters, with our efforts focused on porpoises, which are often referred to as the 'Baltic cousin' of the dolphin (currently their population is estimated at 100). Apart from measures designed to protect the endangered species, other projects pursued jointly by the programme partners include awareness raising initiatives and promotion of the knowledge of the Baltic's biodiversity.

## 'Protect the Wildlife of the Sobieszewo Island'

Initiated in 2010, the programme 'Protect the Wildlife of the Sobieszewo Island' is run together with the Ornithology Station of the Museum and Institute of Zoology of the Polish Academy of Sciences, the KULING Waterbird Research Group, and the Association of Sobieszewo Island Lovers. The project provides for comprehensive initiatives on the Sobieszewo Island, especially in the Mewia Łacha Reserve, with the key goal of preserving the island's natural riches and pro-environmental education aimed to promote the respect for and understanding of the natural environment. The programme contributed to building new tourist infrastructure, including an educational trail across the Mewia Łacha Reserve, which minimizes the threats to the local avian population.

Grupa LOTOS has initiated the 'Buy the Seal a Herring' campaign. The project participants can finance a meal for one or more seals by contributing any amount through the ['Headed for Baltic' platform](#).

[See more on Facebook](#)

[More information about "LOTOS pomaga bałtyckiej przyrodzie" programme](#)

# Social and sports programmes addressed to children and youth

The social programmes we engage in go beyond the three priority areas of fostering equal opportunities, road traffic safety, and environmental protection. A significant part of our efforts is devoted to initiatives intended to promote active and healthy lifestyles among children and youth. We attach great importance to supporting young sports talent.

## Our flagship projects

### 'In Search for the Champion's Successors'

#### Ski jump to the top

With the assistance of the Polish Skiing Association, in 2004 we initiated the National Ski Jumping Development Programme ['In Search for the Champion's Successors'](#) to support the most promising young ski jumpers. As part of this largest social and sports project in the history of Polish skiing, since 2005 we have held LOTOS Cup ski jumping tournaments in Zagórz, Zakopane, Wisła and Szczyrk. We also finance sports equipment for clubs that train young ski jumpers. Since 2004, the most talented jumpers from 19 clubs in different parts of Poland received, among other things, 261 sets of skis and bindings, 237 skiing suits, 100 helmets, and 210 pairs of ski jumping shoes. By providing the clubs with professional sports equipment, we enable them to offer full training to children from the youngest age groups. Each year, after the end of the LOTOS Cup competition, the programme funds scholarships and awards for the best young jumpers who top the general classification of the tournament.

### 'Football Future with LOTOS'

#### Football in a fair-play environment

['Football Future with LOTOS'](#) (renamed 'White and Green Future with LOTOS' as of the end of 2015) is a programme we run with the New Lechia Gdańsk Football Academy to promote football among the youngest inhabitants of the Pomerania region. There are 14 centres cooperating with the New Lechia Gdańsk Football Academy as partner clubs or affiliated clubs within the framework of the project, which includes a common training programme for all the centres, training courses for the coaches, purchases of training and sports equipment, jointly organized football camps, and sports scholarships for the most promising players and for those in a difficult financial situation. Currently, the systematic long-term training programme covers more than 3,000 children, who train for and regularly take part in football games organized by the Regional Football Associations. The New Lechia Gdańsk Football Academy is expected to be a pool of talent for junior national teams and professional sports clubs.

# Sponsorship of cultural events

Our commitment to the development of arts and culture is manifest in the support we offer primarily to the institutions of culture and cultural events in the regions where we are present – in the Gdańsk Province, and in the administrative districts of Bielsko-Biała and Jasło. We contribute to long-term projects that have a social dimension. We also support those initiatives which build the regions' potential and attractiveness in terms of cultural events in the national scale.

## Flagship projects pursued by Grupa LOTOS in the area of patronage of culture in 2015

### Jazz flavours

2015 saw the [17th edition of LOTOS Jazz Festival – Bielska Zadymka Jazzowa](#), Grupa LOTOS holds naming rights for this event, representing the most important jazz festival in the south of Poland and attracting music lovers from Poland and other countries alike. For nearly 10 years, it has been accompanied by a competition for young jazz musicians, where the main prize is an opportunity to record, release and promote their debut albums.

### On the big stage

Grupa LOTOS lends support to the Gdańsk [Shakespeare Festival](#) organized since 1997 and counting among the largest international theatrical festivals in Europe. For many years, the event has also featured an attractive educational programme of the Summer Shakespeare Academy, targeted at young people from Poland and abroad, for whom it is an opportunity to experience world class theatre and meet with the people who create it.

### Two Theatres – a festival organized by Polish Radio and Television

This non-commercial event organized by TVP and available to wide audiences is an opportunity to watch theatre plays and participate in meetings with the stars of the Polish theatre free of charge. The event is unique in Europe as it combines a festival of theatrical performances produced by the public media with a competition of theatre plays staged by the Television Theatre and radio dramas of the Polish Radio Theatre, promoting Polish culture. The performances shown during the Festival are assessed by a jury. The participants can enjoy the creative output of the radio and television theatre by watching and listening to the plays and dramas registered for the competition. The festival features live performances, concerts and discussion panels with the authors.

# LOTOS Foundation

# LOTOS Foundation

The LOTOS Group is strongly committed to ensure efficiency and effectiveness of what it does, both at the business level and in CSR initiatives. That is why in June 2015 we established the LOTOS Foundation to manage our philanthropic policy. This was done to ensure professionalism in our charity and social activities, development of our philanthropic initiatives, support to our CSR strategy and business, as well as greater involvement of our staff in social work.

## LOTOS Foundation's mission:

**wide-ranging social activity to make a positive contribution to the social and natural environment.**

## LOTOS Foundation's aims:

**to support initiatives that help develop infrastructure and make a positive difference for local communities, particularly in regions where companies of the LOTOS Group operate.**

To meet the expectations concerning the directions of our philanthropic activities, the Foundation focuses on **the environment and its protection (particularly in the Baltic Sea) and reduction of social inequalities, especially among children and teenagers, for example by supporting education, science etc.**

During the first six months of its operation, the Foundation spent more than PLN 760,000, providing support to 47 entities.

Area	Amount spent (PLN)	Number of entities
Social and charity activity	329,388.13*	9
Science and education	151,885.00	3
Sport	110,200.00	17
Environmental protection and ecology	109,300.00	5
Health protection and promotion	30,000.00	5
Culture and art	21,000.00	5
Preservation of tradition	10,500.00	3
Total	762,273.13	47

\* Including support provided to social partners under the 'Helping while Refuelling' programme

Owing to the funds provided by the LOTOS Foundation, more than 170 children from low-income families participated in leisure activities organized for them and received Christmas gifts.



As regards science and education, the Foundation supported several initiatives with exceptional social contribution and reach. Caring for Poles living in countries east of Poland, the Foundation co-financed the purchase of four school buses for Polish schools in the Vilnius region in Lithuania, bought equipment for selected schools and awarded grants to the best students.

The Foundation co-financed summer holidays for more than 320 children and teenagers. Those initiatives were mainly addressed at low-income families living in the vicinity of the LOTOS Group refinery in Gdańsk as well as at children from children's homes and childcare facilities. In addition, the LOTOS Foundation supported several initiatives promoting physical culture and sport among children and the youth, including with disabilities.

With a view to preserving the natural riches around the LOTOS refinery in Gdańsk and offering pro-environmental education aimed to promote the respect for and understanding of the natural environment, the LOTOS Foundation ensured financial support to the 'Protect the WILDLIFE of the Sobieszewo Island' programme, executed in cooperation with the Ornithology Station of the Museum and Institute of Zoology of the Polish Academy of Sciences, Biologic Station of the Gdańsk University Development Foundation, the KULING Waterbird Research Group and the Association of Sobieszewo Island Lovers. The project provides for comprehensive initiatives on the Sobieszewo Island, especially in the Mewia Łacha Reserve.

The LOTOS Foundation also cares for endangered species of marine fauna of the Baltic Sea, notably the harbour porpoise and seal – it made a donation to the Gdańsk University Development Foundation to finance the purchase of specialist research equipment to be used in the scientific and research operations of the Marine Station of the Gdańsk University's Institute of Oceanography in Hel.

Furthermore, the Foundation supported initiatives for health promotion and protection, culture and art, as well as preservation of tradition.

In 2015, the LOTOS Foundation co-organized the 'Helping while Refuelling' campaign – funds raised from fuel sales at LOTOS service stations were used to help beneficiaries of the support provided by the LOTOS Foundation's social partners fulfil their dreams and needs.

We make sure the LOTOS Foundation is a transparent organization which openly communicates its operations and their effects.

[Learn more about the LOTOS Foundation](#)

**Large corporations started to establish their own foundations in Western Europe and the United States in the 1990s, when the responsible business concept was developed and the idea of businesses playing social role too was promoted – according to a report by the Benefactors Forum.**



LOTOS Group  
Integrated Annual Report 2015

07

# Our Report

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# Integrated reporting at the LOTOS Group

The 2015 Integrated Annual Report of the LOTOS Group presents the organization's operations in the 2015 financial year, which coincides with the calendar year. The previous integrated annual report was released in 2014. As part of the new reporting process, the 2014 report was reviewed for its adherence to the IIRC guidelines. Based on the review, recommendations were produced to improve the process. **This 2015 report is the seventh integrated report of the LOTOS Group.**

## INTEGRATED REPORTS OF THE LOTOS GROUP



### What sets it apart?

- The LOTOS Group's non-financial report participated in eight of the nine editions of the CSR Reports contests held so far.
- In 2008, Grupa LOTOS was the winner of the CSR Reports competition, and in 2009, 2010 and 2015 its reports were awarded distinctions.
- Grupa LOTOS was one of the first companies (both in the industry and among the contest participants) to adopt integrated approach to reporting. In the nine editions of the CSR Reports competition, from 2007 to 2015, 13 integrated reports were presented, including three from Grupa LOTOS.

The 2015 Report is the first to cover all direct subsidiaries, where it is relevant, of Grupa LOTOS S.A.:

- |                            |                             |
|----------------------------|-----------------------------|
| ■ LOTOS Petrobaltic S.A.   | ■ LOTOS Infrastruktura S.A. |
| ■ LOTOS Oil Sp. z o.o.     | ■ LOTOS Terminale S.A.      |
| ■ LOTOS Asphalt Sp. z o.o. | ■ LOTOS Kolej Sp. z o.o.    |
| ■ LOTOS Serwis Sp. z o.o.  | ■ LOTOS Ochrona Sp. z o.o.  |
| ■ LOTOS Paliwa Sp. z o.o.  | ■ LOTOS Straż Sp. z o.o.    |
| ■ LOTOS Lab Sp. z o.o.     |                             |

Additionally, the following indirect subsidiaries were included in the reporting of certain indicators because of their special role, nature of business, and scale of environmental impacts:

- AB LOTOS Geonafta
- LOTOS Biopaliwa Sp. z o.o.
- RCEkoenergia Sp. z o.o.
- Energobaltic Sp. z o.o.
- LOTOS Exploration and Production Norge AS.

However, the scope of reported data for LOTOS E&P Norge AS is limited compared with other companies as LOTOS E&P Norge is a licensee, so all environmental (and operational) matters are reported by the licence operators.

A consequence of these changes are differences in presentation of certain indicators and their limited comparability.

# Stakeholders' say – important element of reporting process

## Why are stakeholders important to us and how do we identify them?

Our strategic approach to corporate social responsibility is best expressed in building positive relations with all stakeholders, which – to our satisfaction – leads to their growing engagement. We want decision-making processes concerning economic, social and environmental matters to take into account the interests of various stakeholder groups, which are important to our business. We also make sure that our stakeholders have access to timely information that meets their various needs.

We are aware of how important relations with stakeholders are in building company value. By working together with them and being open to communication, we gain valuable understanding of how to develop our organization and build its positive corporate image.

### Our key stakeholders are identified based on:

- their influence on the organization,
- the organization's influence on them,
- our key business regions: Gdańsk Province in the north of Poland, and Czechowice-Dziedzice and Jasło regions in the south.

## Our stakeholders

Internal stakeholders	External stakeholders	Market environment
<b>Employees</b>	<b>Local communities</b>	Contractors and subcontractors
LOTOS Group companies	Non-governmental organizations	Suppliers
Trade unions	Local government institutions	<b>Customers</b>
Works Council	Government administration	<b>Trading partners</b>
	Scientific and research institutions, education centres	Competitive companies
	Employer associations	Industry organizations and international institutions
	The media	Regulatory and monitoring organizations
	Natural environment	<b>Capital market participants</b>
	<b>Potential employees</b>	

## How do we engage our stakeholders?

Discussions with the stakeholders about our organization's influence on the community and environment give us valuable hints on how to improve our performance and better understand the needs of our environment. To gain extensive knowledge of these matters, we conduct surveys among our stakeholders, both internal (employees) and external.

In late 2015 and early 2016, we carried out an opinion survey among the key stakeholder groups of the LOTOS Group. Its ultimate goal was to provide information which would help prepare the new Corporate Social Responsibility Strategy of the LOTOS Group.

In addition, we gained information on how our CSR approach and initiatives were received and assessed. We also learned what our stakeholders expect and need from the LOTOS Group's business.

This qualitative study used in-depth interviews with representatives of the following key stakeholders of the LOTOS Group:

- Public administration and local governments
- Employer associations
- Non-governmental organizations
- Entrepreneurs
- Consultancy firms
- Non-profit public organizations.

The qualitative study complemented the quantitative one carried out in 2015 and 2016 among:

- Inhabitants of Jasło, Czechowice-Dziedzice, and the Gdańsk Province
- Entrepreneurs in the Gdańsk Province
- Residents of districts located in the vicinity of the LOTOS Group's plants in Gdańsk, Jasło and Czechowice-Dziedzice
- Employees of the LOTOS Group companies.

Furthermore, during the 'CSR Day', we talked with representatives of the management staff about the LOTOS Group's approach to CSR issues and other matters significant to our sustainable development.

# Process of defining the Report content

This year's report is based on the Global Reporting Initiative's Sustainability Reporting Framework and Guidelines (GRI G4, core level), together with the Oil and Gas Sector Supplement. This represents a change in Grupa LOTOS's approach to reporting – the previous report was based on the GRI G3.1 guidelines at application level A+ (so all GRI indicators were reported, including 43 profile indicators and 98 subjects). Currently, in accordance with the GRI G4 framework, we report only significant topics (39 profile indicators and 42 subjects).

In the process of defining the content of the 2015 Integrated Annual Report of the LOTOS Group, we consulted many key stakeholder groups, internal and external, and thoroughly analysed the external sources. This helped draw up the final list of GRI aspects to be included in this Integrated Report.

In accordance with GRI guidelines, the process had three steps:

**1. Identification** – determination of key topics in corporate social responsibility and business. Internal documents and materials of the LOTOS Group were analysed, including in particular reports from opinion surveys conducted among employees.

We also reviewed many external publications and media information about our company. We took into account the trends and guidelines of international standards for corporate social responsibility and non-financial reporting and made an in-depth analysis of the challenges, opportunities and risks facing the industry and its players. We analysed:

- GRI Sustainability topics for sectors
- Sustainability Yearbook 2016
- Findings of CSR survey carried out among local communities and entrepreneurs
- Comparison of fuel companies.

**2. Prioritization** – in a dialogue with internal stakeholders, the materiality of key aspects for the organization was identified.

**3. Validation** – during validation workshops with management staff, we defined the final list of material aspects to be included in the 2015 report. 49 persons representing 11 companies participated in the workshops. The following matrix shows the significance of these issues divided into aspects (economic, social and environmental) and simultaneously leads directly to the chapter describing our approach and activities connected with the subject. The size of the tile indicates whether a subject has been defined as an important or very important.

## Materiality Analysis

<b>Aspects:</b>	Economic aspects	Environmental aspects	Social aspects
<b>Significance:</b>	significant	very significant	

Financial standing, stock exchange performance, condition of LOTOS companies	Charitable activity – LOTOS Foundation Employee volunteering	Supply chain	Consumption of raw materials and consumables
Communication with and support to local communities Spending on social initiatives	Reserves and consumption of oil and gas	Development of local supply chains, employment at local level	The organization's stance on shrinking natural resources (oil and gas)

		Spills, explosions, accidents – prevention, crisis management	Anti-corruption Corporate governance – ethics
Energy security	Indirect economic impacts (infrastructure, services, impact on local economy)		Support to research and science development
Impact on biodiversity and ecosystem services (water and land)		CO <sub>2</sub> emissions management Air emissions	Managing the risk of water contamination in drilling, refining, transport and other processes
Cooperation with suppliers – ethical, social and environmental criteria taken into account in procurement processes	Public policy – relations with public administration		
	Overall reduction of environmental impacts	Key investment projects – innovation potential	Ensuring highly-qualified staff, acquiring and retaining talents
Ensuring highly-qualified staff, acquiring and retaining talents		HR policy, future of employment Dialogue with staff Diversity and equal opportunities, non-discrimination	Fuel quality
Employee training and development	Safety and accident prevention Health protection and promotion measures	Fines and sanctions for non-compliance with environmental protection laws	
			Sponsorship – support to sports, culture and education



Innovative technological solutions, eco-efficiency Energy consumption, energy efficiency of processes and products	Business strategy, future growth forecasts	Key investment projects in the exploration and production and refining segments	
		Customer relations	Climate change strategy (opportunities and risks)


## Our value creation model

The [value creation model](#) presented in the report was developed as a result of internal consultations and workshops with the management. One of the objectives of the workshops was to identify the value drivers at the LOTOS Group under the six capitals defined by IIRC, and to determine what benefits to the LOTOS Group and its stakeholders can be derived from the adopted business model. Moreover, last year, we decided to supplement our business model with indicators which allow us to reliably measure our impact on the environment. The choice of indicators was subject to internal consultations. We want to use the experience gained this year while developing the model in the future, presenting our impacts in the most transparent and measurable manner possible.

Benefits to both the LOTOS Group and its stakeholders are presented on the basis of six capitals. We are aware that some of the benefits are generated as part of more than one capital. For the sake of transparency of our model, we have decided to present such benefits only once and attribute them to the capital to which they are most specific.

# Assurance letter

**To ensure appropriate transparency and reliability of the non-financial data, independent limited-scope external assurance was carried out.**

The 2015 Integrated Annual Report is our fifth report to undergo independent assurance of CSR data. Non-financial data, which have been externally verified, were marked in the report with a check symbol .

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## TRANSLATION ONLY


**Limited assurance report**
**To the Management Board of LOTOS Group S.A.**
***Subject matter and criteria***

We have been engaged by the Management Board of LOTOS Group S.A. ("the Company") in accordance with our agreement dated 4 February 2013 (the "Agreement") to perform a limited assurance engagement of selected non-financial data presented in the "Integrated Annual Report 2015, Innovation-Driven Growth" ("2015 Integrated Report") prepared for the period of 1 January 2015 to 31 December 2015 and marked with a check symbol ☑ in a column "Review" in GRI Index table, that is selected general standard disclosures and specific standard disclosures : G4-10, G4-EC5, G4-EN8, G4-EN15, G4-EN16, G4-EN21, G4-EN22, G4-EN25, G4-LA1, G4-LA6, G4-LA9, G4-LA11, G4-LA12, G4-HR7, G4-PR5 ("Reviewed Indicators"). Indicators definition and reference to the place of presentation can be found in GRI Index table in the 2015 Integrated Report.

The subject to our review are only Reviewed Indicators for the period ended 31 December 2015 and we did not perform procedures in respect of any other data or information that is contained in the 2015 Integrated Report and that is why we do not express an opinion or conclusion on the 2015 Integrated Report as a whole.

The Company's management prepared 2015 Integrated Report ensuring its adherence to the Sustainability Reporting Guidelines of the Global Reporting Initiative version 4 Core ("GRI G4 criteria").

***Management's Responsibility***

The Company's Management is responsible for the preparation of the 2015 Integrated Report in accordance with the GRI 4 criteria.

The responsibility of the Company's Management includes the selection and application of appropriate methods to prepare the non-financial data and the design, implementation and maintenance of systems and processes which ensure the adherence to the GRI G4 criteria relevant for the preparation of the non-financial data using assumptions and estimates which are reasonable in the circumstances.

***Our Responsibility***

Our responsibility is to formulate a limited assurance conclusion as to the Reviewed Indicators presented in 2015 Integrated Report. We chose performed procedures based on our judgment and taking under consideration our assessment of the risk of material misstatement of the Reviewed Indicators and general assessment of presentation of these indicators.

We conducted our work in accordance with International Standard on Assurance Engagements 3000 "Assurance engagements other than audits or reviews of historical financial information" („ISAE 3000") issued by International Auditing and Assurance Standards Board. The standard requires us to plan and perform procedures in order to obtain limited assurance that Reviewed Indicators do not contain material misstatements.

***Summary of work performed***

Our limited assurance procedures included:

*PricewaterhouseCoopers Sp. z o.o.,  
Al. Armii Ludowej 14, 00-638 Warszawa, Poland  
T: +48 (22) 523 4000, F: +48 (22) 523 4040, www.pwc.com*

PricewaterhouseCoopers Sp. z o.o. is entered into the National Court Register maintained by the District Court for the Capital City of Warsaw, under KRS number 000044655, NIP 526-021-02-28. The share capital is PLN 10,363,900. The seat of the Company is in Warsaw at Al. Armii Ludowej 14.

**TRANSLATION ONLY**



- Interviews with management and persons responsible for the reporting of the non-financial data,
- Analytical procedures for the selected non-financial information,
- Agreeing of the values to the summary documents such as internal reports of the entities within LOTOS Group that have been a basis for preparation on the Reviewed Indicators, as well as analysis of these documents, and where it was justified, their connection to the source documents such as external reports or invoices.

In a limited assurance engagement, the evidence-gathering procedures are more limited than in a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

***Our Independence and Quality Control***

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

We apply International Standard on Quality Control 1 and accordingly maintains a system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory.

***Conclusion***

Based on performed procedures, nothing has come to our attention that causes us to believe that the Reviewed Indicators as presented in the 2015 Integrated Report have not been prepared, in all material respects, in accordance with the GRI G4 criteria.

***Limitation of use and distribution***

Our limited assurance report prepared by PricewaterhouseCoopers Sp. z o.o. („PwC”) for LOTOS Group S.A. in respect of the Agreement is directed to sole use of the LOTOS Group S.A. Management Board. It should not be used to other purposes.

PwC does not take any responsibility in respect of this report (contractual, tort (including that for negligence) or any other) in respect of any parties other than LOTOS Group S.A. Respectively, regardless of the form of the actions, whether in contract, tort or other, within the capacity allowed by the law, PwC does not take any responsibility, and any consequences coming out of the report for any person (excluding the Company, based on rules described above) or for any other decision taken based on this report.

The 2015 Integrated Report should be read together with the Sustainability Reporting Guidelines GRI G4 Core.

**TRANSLATION ONLY**

PricewaterhouseCoopers Sp. z o.o.  
Warsaw 14 September 2016

# Contact

Additional information about the economic activity as well as the social and environmental aspects of the LOTOS Group's activities are available on the Grupa LOTOS website - [www.lotos.pl/en](http://www.lotos.pl/en)

Please contact the Company at its main office under the following address:

**Grupa LOTOS S.A.**  
ul. Elbląska 135  
PL 80-718 Gdańsk

Please direct your questions concerning the CSR of the Company to Grupa LOTOS to:  
**Patrycja Zbytniewska**  
**Head of CSR Team**  
e-mail: [csr@grupalotos.pl](mailto:csr@grupalotos.pl)

Please direct your questions about investor relations of the Company to Grupa LOTOS to:  
**Investor Relations Office**  
e-mail: [ir@grupalotos.pl](mailto:ir@grupalotos.pl)

Please send your questions concerning media relations of the Company to Grupa LOTOS to:  
**Communication Office**  
e-mail: [media@grupalotos.pl](mailto:media@grupalotos.pl)

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# GRI Index

## Strategy and analysis

Indicator		Section of the report	Global Compact principles	Review	Comments
G4-1	Statement from the most senior decision-maker of the organization (such as CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability	<a href="#">Letter from the President of the Board</a> <a href="#">Letter from the Chairwoman of the Supervisory Board</a>			

## Organizational profile

Indicator	Section of the report	Global Compact principles	Review	Comments
G4-2	Description of key impacts, risks, and opportunities	Our approach to risk management		
G4-3	Name of the organization	Scale of operations		
G4-4	Primary brands, products, and services	Scale of operations		
G4-5	Location of the organization's headquarters	Scale of operations		
G4-6	Number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report	Scale of operations		
G4-7	Nature of ownership and legal form	Scale of operations More than 10 years of Grupa LOTOS' presence on the WSE		
G4-8	Markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries)	Scale of operations		
G4-9	Scale of the organization	Scale of operations		
G4-10	Total number of employees by employment contract and gender	Our specialists make us more competitive and innovative		
G4-11	Percentage of total employees covered by collective bargaining agreements	Our specialists make us more competitive and innovative		
G4-12	Organization's supply chain	The LOTOS Group value chain		
G4-13	Significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain	Scale of operations		
G4-14	Explanation of whether and how the precautionary approach or principle is addressed by the organization	Our approach to risk management Ethics and integrity		
G4-15	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses	The LOTOS Group as an active participant of the fuel market and initiator of regional development		
G4-16	Memberships of associations (such as industry associations) and national or international advocacy organizations	The LOTOS Group as an active participant of the fuel market and initiator of regional development		

## Identified material aspects and boundaries

Indicator	Section of the report	Global Compact principles	Review	Comments
<b>G4-17</b>	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures	<a href="#">Integrated reporting at the LOTOS Group</a>		
<b>G4-18</b>	Process for defining the report content and the aspect boundaries and how the organization has implemented the reporting principles for defining report content	<a href="#">Process of defining the report content</a>		
<b>G4-19</b>	Material aspects identified in the process for defining report content	<a href="#">Process of defining the report content</a>		
<b>G4-20</b>	Aspect boundary within the organization for each material aspect			All aspects have been identified as material in terms of activities and impact of all or certain Grupa LOTOS companies. The relevance for selected companies has been appropriately marked in the report.
<b>G4-21</b>	Aspect boundary outside the organization for each material aspect			The indicator has been reported except for emissions intensity ratio – it has not been included because of incomparability of data between the companies.
<b>G4-22</b>	Effect of any restatements of information provided in previous reports, and the reasons for such restatements			No restatements were made.
<b>G4-23</b>	Significant changes from previous reporting periods in the scope and aspect boundaries	<a href="#">Integrated reporting at the LOTOS Group</a>		



## Stakeholder engagement

Indicator	Section of the report	Global Compact principles	Review	Comments
<b>G4-24</b>	List of stakeholder groups engaged by the organization			
<b>G4-25</b>	Basis for identification and selection of stakeholders with whom to engage			
<b>G4-26</b>	Organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process			
<b>G4-27</b>	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting			

## Report profile

Indicator	Section of the report	Global Compact principles	Review	Comments
<b>G4-28</b>	Reporting period for information provided			
<b>G4-29</b>	Date of most recent previous report			
<b>G4-30</b>	Reporting cycle			
<b>G4-31</b>	Contact point for questions regarding the report or its contents			
<b>G4-32</b>	GRI content index			
<b>G4-33</b>	Organization's policy and current practice with regard to seeking external assurance for the report			

## Governance

Indicator	Section of the report	Global Compact principles	Review	Comments
G4-34	Governance structure of the organization, including committees of the highest governance body			
G4-38	Composition of the highest governance body and its committees			
G4-39	Information whether the Chair of the highest governance body is also an executive officer			

## Ethics and integrity

Indicator	Section of the report	Global Compact principles	Review	Comments
G4-56	Organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics			
G4-57	Internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organizational integrity, such as helplines or advice lines			
G4-58	Internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organizational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines			

## Economic aspect

Indicator	Section of the report	Global Compact principles	Review	Comments
ECONOMIC PERFORMANCE	Financial performance of the LOTOS Group in 2015			
<b>G4-EC1</b> Direct economic value generated and distributed	Summary of 2015			
MARKET PRESENCE	Our strategy			
<b>G4-EC5</b> Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	Our specialists make us more competitive and innovative		✓	
INDIRECT ECONOMIC IMPACTS	LOTOS Group's Corporate Social Responsibility Strategy			
<b>G4-EC7</b> Development and impact of infrastructure investments and services supported	Our social impact			
<b>G4-EC8</b> Significant indirect economic impacts, including the extent of impacts	Our indirect economic impacts			
PROCUREMENT PRACTICES	Cooperation with suppliers			
<b>G4-EC9</b> Proportion of spending on local suppliers at significant locations of operation	Cooperation with suppliers			
RESERVES	What are the focal points of our sustainable development efforts?			
<b>OG1</b> Volume and type of estimated proved reserves and production	LOTOS Group's reserves			

## Environmental aspect

Indicator	Section of the report	Global Compact principles	Review	Comments
MATERIALS	Eco-friendly growth			
<b>G4-EN1</b> Materials used by weight or volume	Production of hydrocarbons	8		
ENERGY	Eco-friendly growth			
<b>G4-EN3</b> Energy consumption within the organization	Reduction of energy consumption	8		
<b>G4-EN6</b> Reduction of energy consumption	Reduction of energy consumption	8		
WATER	Eco-friendly growth			
<b>G4-EN8</b> Total water withdrawal by source	Water and wastewater management	8	✓	

<b>G4-EN10</b>	Percentage and total volume of water recycled and reused	<b>Water and wastewater management</b>			
BIODIVERSITY		<b>Eco-friendly growth</b>			
<b>G4-EN11</b>	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	<b>Biodiversity</b>	8		
<b>G4-EN14</b>	Total number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	<b>Biodiversity</b>			
<b>OG4</b>	Number and percentage of significant operating sites in which biodiversity risk has been assessed and monitored	<b>Biodiversity</b>	8		
EMISSIONS		<b>Eco-friendly growth</b>			
<b>G4-EN15</b>	Direct greenhouse gas (GHG) emissions	<b>Emissions management</b>	8		
<b>G4-EN16</b>	Energy indirect greenhouse gas (GHG) emissions	<b>Emissions management</b>	8		
<b>G4-EN18</b>	greenhouse gas (GHG) emissions intensity	<b>Emissions management</b>	8		
<b>G4-EN21</b>	NO <sub>x</sub> , SO <sub>x</sub> , and other significant air emissions	<b>Emissions management</b>	8		The indicator has been reported except for emissions intensity ratio – it has not been included because of incomparability of data between the companies.
<b>OG-6</b>	Volume of flared and vented hydrocarbon	<b>Emissions management</b>	8		
EFFLUENTS AND WASTE		<b>Eco-friendly growth</b>			
<b>G4-EN22</b>	Total water discharge by quality and destination	<b>Water and wastewater management</b>	8		
<b>OG5</b>	Volume and disposal of formation or produced water	<b>Water and wastewater management</b>			
<b>G4-EN23</b>	Total weight of waste by type and disposal method	<b>Waste management</b>	8		
<b>G4-EN24</b>	Total number and volume of significant spills	<b>Process safety management</b>	8		
<b>OG7</b>	Amount of drilling waste (drill mud and cuttings) and strategies for treatment and disposal	<b>Waste management</b>	8		
<b>G4-EN25</b>	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally	<b>Waste management</b>	8		
COMPLIANCE		-			

<b>G4-EN29</b>	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations		8	The only fine payable by the LOTOS Group companies in 2015 was a fine of PLN 5,344 imposed on LOTOS Paliwa in connection with exceeding the noise limit from a service station. Relevant proceedings are currently pending before the Provincial Inspectorate for Environmental Protection (WIOŚ) for postponement of the fine until a project intended to reduce the noise is completed.
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OVERALL	<b>Eco-friendly growth</b>
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<b>G4-EN31</b>	Total environmental protection expenditures and investments by type	<b>Eco-friendly growth</b>	8
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PRODUCTS AND SERVICES	<b>Sustainable products</b>
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<b>OG8</b>	Benzene, lead and sulfur content in fuels	<b>Sustainable products</b>
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## Social aspect

Indicator: labor practices and decent work	Section of the report	Global Compact principles	Review	Comments
EMPLOYMENT		Our specialists make us more competitive and innovative		
<b>G4-LA1</b>	Total number and rates of new employee hires and employee turnover by age group, gender and region	Our specialists make us more competitive and innovative [1, 2]	6	
<b>G4-LA4</b>	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	Our specialists make us more competitive and innovative	3	
OCCUPATIONAL HEALTH AND SAFETY		Personnel safety management at the LOTOS Group		
<b>G4-LA6</b>	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	Results: number of accidents	6	
TRAINING AND EDUCATION		Our specialists make us more competitive and innovative		
<b>G4-LA9</b>	Average hours of training per year per employee by gender, and by employee category	At LOTOS, we develop together	6	
<b>G4-LA11</b>	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	The way to achieve the goal: how do we motivate and develop our staff?	6	
DIVERSITY AND EQUAL OPPORTUNITY		Our specialists make us more competitive and innovative		
<b>G4-LA12</b>	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	Diversity	6	

## Human rights

Indicator	Section of the report	Global Compact principles	Review	Comments
SECURITY PRACTICES		Safety first		
<b>G4-HR7</b>	Percentage of security personnel trained in the organization's human rights policies or procedures that are relevant to operations	Personnel safety management at the LOTOS Group	1,2	

## Society

Indicator	Section of the report	Global Compact principles	Review	Comments
ANTI-CORRUPTION	Misconduct Prevention Policy of the LOTOS Group			
<b>G4-S03</b>	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	Misconduct prevention policy of the LOTOS Group	10	
<b>G4-S04</b>	Communication and training on anti-corruption policies and procedures	Misconduct prevention policy of the LOTOS Group	10	
<b>G4-S05</b>	Confirmed incidents of corruption and actions taken	Misconduct prevention policy of the LOTOS Group	10	
ASSET INTEGRITY AND PROCESS SAFETY (OG)	Process safety			
<b>OG13</b>	Number of process safety events, by business activity	Process safety		

## Product responsibility

Indicator	Section of the report	Global Compact principles	Review	Comments
CUSTOMER HEALTH AND SAFETY	With customer safety in mind			
<b>G4-PR1</b>	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement	With customer safety in mind	10	
PRODUCT AND SERVICE LABELING	With customer satisfaction in mind			
<b>G4-PR5</b>	Results of surveys measuring customer satisfaction	With customer satisfaction in mind		
FOSSIL FUEL SUBSTITUTES (OG)	Sustainable products			
<b>OG14</b>	Volume of biofuels produced and purchased meeting sustainability criteria	Sustainable products		



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