Achievements and forecasts

In 2011, the LOTOS Group managed to prove that, even amid extremely challenging circumstances, it could remain on track to achieving its strategic goals: strengthening the market position, adding value for shareholders and ensuring customer satisfaction.

Key data 2011

In 2011, sales revenues stood at PLN 29,259.5m, which was a nearly 49% increase on 2010.

Letter from the Chairman of the Supervisory Board

Vision, reason and flexibility are the keys to the LOTOS Group's business efficiency.

Letter from the President of the Board

Grupa LOTOS is a modern and dynamically managed company, driven by a realistic strategy, and highly qualified and motivated staff.

Progress in implementation of strategic objectives

The strategy consolidates the Company's position as an entity which plays a crucial role in ensuring security in the energy sector.

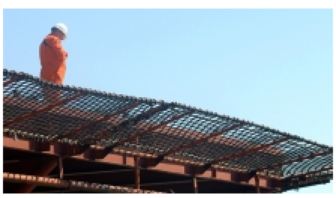
Key risks, opportunities and challenges in the context of sustainable development

Grupa LOTOS has adjusted its strategy to the changeable market conditions and global macroeconomic threats.

Interview with the President of the Board

The Company strives to build salt caverns in Pomerania, which is a perfect place for a regional energy hub.

Business environment

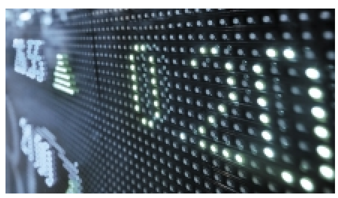


2011 brought an increase in geopolitical risks stemming from the regions which are major global oil suppliers.

Letter from the Vice-President of the Board

The 2011 economic results provide an excellent springboard for further development of the Company.

Stock market



In 2011, Grupa LOTOS won the 1st place in the “Investor relations” category of the annual ranking “Listed Company of the Year”.

Exploration and production

Further development of the exploration and production segment is the priority of the Company's 2011-2015 strategy.

Operating segment

The new installations of the 10+ Programme provide high quality products and offer the deepest level of conversion.

Market activities

A total of 63 new service stations launched by the Company in 2011 is a record-high annual increase on the Polish retail fuel market.

Key data 2011

In 2011, sales revenues stood at PLN 29,259.5m, which was a nearly 49% increase on 2010.

Grupa LOTOS – Selected Data

	Unit(**)	For year ending Dec 31st 2011	For year ending Dec 31st 2010	Change	Unit(**)	For year ending Dec 31st 2011	For year ending Dec 31st 2010	Change
Financial Data (*)			(restated)				(restated)	
Sales revenues	k PLN	27,289,314	18,124,675	51%	k EUR	6,591,463	4,526,190	46%
Operating profit	k PLN	603,398	606,305	0%	k EUR	145,745	151,410	-4%
Profit before tax	k PLN	324,345	520,433	-38%	k EUR	78,342	129,965	-40%
Profit on continued activity	k PLN	307,670	464,954	-34%	k EUR	74,315	116,111	-36%
Total comprehensive income	k PLN	(111,611)	464,954	-124%	k EUR	(26,959)	116,111	-123%
Net cash flows from operating activities	k PLN	138,906	282,395	-51%	k EUR	33,551	70,521	-52%
Net cash flows from investment activities	k PLN	(29,986)	(407,232)	-	k EUR	(7,243)	(101,696)	-
Net cash flows from financial activities	k PLN	(113,629)	401,470	-128%	k EUR	(27,446)	100,257	-127%
Total net cash flows	k PLN	21,079	273,685	-92%	k EUR	5,091	68,346	-93%
Basic profit per one common share	PLN	2.37	3.58	-34%	EUR	0.57	0.89	-36%
Social investments	k PLN	706	1,240	-43%	k EUR	171	310	-45%
Environmental investments	k PLN	12,116	16,812	-28%	k EUR	2,926	4,198	-30%
		As at Dec 31st 2011	**As at Dec 31st 2010**			**As at Dec 31st 2011**	**As at Dec 31st 2010**	
			(restated)				(restated)	
Total assets	k PLN	16,449,524	14,678,065	12%	k EUR	3,724,308	3,706,301	0%
Equities	k PLN	5,833,442	5,945,053	-2%	k EUR	1,320,739	1,501,162	-12%

	Unit	For year ending Dec 31st 2011	For year ending Dec 31st 2010	Change
Non-financial Data			(comparative data)	
Employees	No. of employees	1,329	1,310	1%
Employment rotation	%	12,4	10.6	1.8 p.p.
Lost Time Injury Frequency, LTIF (per 1m hours worked) (***)		2,4	3.4	-29.5%
Total water consumption	m^3	3,809,856	3,961,494	-3.8%
CO_2 emissions	k tonnes/year	2,045	1,607	27%

LOTOS Group – Selected Consolidated Data

	Unit(**)	For year ending Dec 31st 2011	For year ending Dec 31st 2010	Change	Unit(**)	For year ending Dec 31st 2011	For year ending Dec 31st 2010	Change
Financial Data (*)			(restated)				(restated)	
Sales revenues	k PLN	29,259,586	19,662,804	49%	k EUR	7,067,362	4,910,300	44%
Operating profit	k PLN	1,084,794	1,061,354	2%	k EUR	262,021	265,047	-1%
Profit before tax	k PLN	551,379	721,939	-24%	k EUR	133,180	180,286	-26%
Profit on continued activity	k PLN	649,322	681,353	-5%	k EUR	156,837	170,151	-8%
Profit on continued activity ascribed to parent entity shareholders	k PLN	648,994	679,180	-4%	k EUR	156,758	169,608	-8%
Profit on continued activity ascribed to non-controlling interest	k PLN	328	2,173	-85%	k EUR	79	543	-85%
Total comprehensive income	k PLN	277,628	678,609	-59%	k EUR	67,058	169,466	-60%
Comprehensive income attributable to owners of the Parent	k PLN	277,271	676,450	-59%	k EUR	66,972	168,927	-60%
Comprehensive income attributable to non-controlling interests	k PLN	357	2,159	-83%	k EUR	86	539	-84%
Operating activity cash flows net	k PLN	902,359	882,693	2%	k EUR	217,956	220,431	-1%
Investment activity cash flows net	k PLN	(846,943)	(1,055,590)	-	k EUR	(204,571)	(263,608)	-
Financial activity cash flows net	k PLN	(35,582)	458,688	-108%	k EUR	(8,594)	114,546	-108%
Total cash flows net	k PLN	43,319	283,821	-85%	k EUR	10,463	70,877	-85%
Basic profit per one common share	PLN	5.00	5.23	-4%	EUR	1.21	1.31	-8%
Social investments	k PLN	837	1,485	-44%	k EUR	202	371	-46%
Environmental investments	k PLN	34,709	33,648	3%	k EUR	8,384	8,403	0%
		As at Dec 31st 2011	As at Dec 31st 2010			As at Dec 31st 2011	As at Dec 31st 2010	
			(restated)				(restated)	
Total assets	k PLN	20,423,220	17,727,364	15%	k EUR	4,623,986	4,476,268	3%
Equity ascribed to the parent entity's shareholders	k PLN	7,781,436	7,498,819	4%	k EUR	1,761,781	1,893,498	-7%
Non-controlling interest	k PLN	947	14,658	-94%	k EUR	214	3,701	-94%
Total equity	k PLN	7,782,383	7,513,477	4%	k EUR	1,761,996	1,897,199	-7%

Non-financial Data	Unit	For year ending Dec 31st 2011	For year ending Dec 31st 2010	Change
			(comparative data)	
Employees	No. of employees	5,168	5,010	3%
Lost Time Injury Frequency, LTIF (per 1m		3.3	4.9	-44%

hours worked) (***)				
Fuel market share	%	33.5	31.7	1.8 p.p.
Oil exploitation	k tonnes	227.1	186.5	22%
Gas exploitation	mn Nm^3	16.1	20.7	-22%

(*) For a detailed presentation of financial results, see Consolidated Financial Statements Link→ (http://raportroczny.lotos.pl/en/financial-data/consolidated-financial-statements-2011/).

(**) In order to convert an item of the Statement of financial position in the table “Selected data” and “Consolidated selected data” as at December 31st 2011, the NBP (National Bank of Poland) mid-rate of EUR w as applied, binding on that day, i.e. 1 EUR = 4,4168 PLN. The items of the Statement of comprehensive income and the Statement of cash flow s presented in the table “Selected financial data” for the year ending December 31st 2011 w ere converted at the rate of 1 EUR = 4,1401 PLN (i.e. the rate being the arithmetic average of the mid-rates published by NBP on the last day of each finished month in the period from January 1st to December 31st 2011).

In order to convert an item of the Statement of finacial position in the table “Selected data” and “Consolidated selected data” as at December 31st 2010, the NBP mid-rate of EUR w as applied, binding on that day, i.e. 1 EUR = 3,9603 PLN. The items of the Statement of comprehensive income and the Statement of cash flow s presented in the table “Selected financial data” for the year ending December 31st 2010 w ere converted at the rate of 1 EUR = 4,0044 PLN (i.e. the rate being the arithmetic average of the mid-rates published by NBP on the last day of each finished month in the period from January 1st to December 31st 2010).

(***) LTIF – number of occurrences resulting in inability to w ork x106/number of w orking hours, as calculated for the average number of employees during the year.

Letter from the Chairman of the Supervisory Board

Vision, reason and flexibility are the keys to the LOTOS Group's business efficiency.

Dear All,

2011 was a year dominated by uncertainty and unpredictability. Anxieties resulting from the instability and possible insolvency of the eurozone shook both the European and global economy. Their impact was also felt in Poland. Our country's economy, however, continues to show great resilience in the face of the turmoil, and Grupa LOTOS has set an example of agile adaptation to the changing market conditions and operational efficiency amid threats and tensions.

It was a good year for Grupa LOTOS. First of all, it confirmed the soundness of the Company's strategy for 2011-2015, as the steps taken in its first year have laid down solid foundations for the future.

Moreover, 2011 was a year of several landmarks for Grupa LOTOS. In March, the Company officially celebrated the completion of the 10+ Programme. Also in the first quarter it signed an agreement on the acquisition of 100% of the shares in AB Geonafta, a Lithuanian company operating in the field of hydrocarbon exploration and production. This segment of the LOTOS Group's activity was further strengthened when LOTOS Exploration and Production Norge AS became the operator of, and acquired a 25% interest in, another North Sea licence.

The launch of a new, economy chain of service stations under the brand of LOTOS Optima has proved the right response to the situation faced by the retail fuel market in 2011. The brand was eagerly received by customers, who appreciated the combination of high product and service quality with the optimal pricing.

The Company's leading position was confirmed by the 2011 ranking of 500 largest CEE companies, in which it moved up eight places, to the eleventh position.

According to all analyses, the prices of crude oil will remain high. The trend will favour petroleum companies relying on their own oil resources and efficient refineries, as they are positioned to deliver the best performance. Therefore, it is all the more important to continue to pursue its strategy in the coming years, with the goal of increasing its own production of hydrocarbons, for instance by launching the exploitation of the YME field. The state-of-the art technologies introduced to the Gdańsk refinery as part of the 10+ Programme have opened up excellent growth prospects for Grupa LOTOS.

High quality management and human capital are the Company's major assets. By following global economic, financial and industry trends, it is able to flexibly adjust to the dynamically changing conditions. Keeping in mind the 2008-2009 financial crisis, in late 2011 the Company's managers developed the Optimal Expansion Programme, which envisages action plans for several scenarios, depending on how the market situation develops. I believe that the year 2012 will see Grupa LOTOS solidify its market position and role in the Polish economy, while contributing to the country's energy security.

Yours faithfully,

Wiesław Skwarko

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

Dear All,

2011 was yet another year of unstable conditions and volatility in the global markets connected with the international financial crisis. It was a time of dramatic developments in the European currency markets, which led to a significant weakening of the Polish złoty in relation to both the US dollar and the euro.

At the same time, the price of crude oil was also staying on a high level, which was accompanied by social and political anxieties related to the continuously rising prices of fuel. Under the pressure of unpredictable macroeconomic conditions and social sentiments, fuel companies found themselves in a situation of limited room for manoeuvre.

Grupa LOTOS, thanks to its communication openness and good management, did not record any negative impact of these sentiments on its sales and implementation of the development programme. Once again, we managed to prove that we were able to remain on track to achieving, even amid extremely challenging circumstances, our strategic goals, such as:

- strengthening of our market position,
- adding value for shareholders,
- ensuring customer satisfaction.

We also managed to enlarge our own resource base by purchasing 100% of the shares in AB Geonafta, a Lithuanian company producing 100 thousand tonnes of crude oil per year. Another stage of realigning the capital structure of LOTOS Petrobaltic was also completed, which brought significant economic and social benefits.

The efficient management, dynamic marketing policy but, first and foremost, superior quality of our fuels, achieved thanks to state-of-the-art installations at the Gdańsk refinery - all these factors contributed to our excellent performance in 2011. The perfectly planned and executed 10+ Programme - one of the biggest investment projects of the kind in the refining sector in Europe - has laid the perfect foundation for further healthy and dynamic development of Grupa LOTOS. It should be firmly stressed that the power of this foundation are the people.

However, despite external volatility and uncertainties troubling the Polish market, we managed to post robust sales results. 2011 was yet another growth period for the LOTOS Group’s consolidated sales. With more than 10 million tonnes of products sold, we recorded a 14% growth on the 2010 level. Thanks to the sales revenues of nearly PLN 30 million, LOTOS has become the second largest company in Poland in this respect. Further increase of our share in the fuel market to more than 33% testifies for the effectiveness of our market activities.

An important achievement of 2011, boosting both our market position and image, was the dynamic growth of our new chain of economy service stations branded as LOTOS Optima. The concept of providing high-quality fuels at optimal prices, adjusted to the reality of a market which is very sensitive to the level of retail prices, proved a positive success. This was also our proactive response to the social and economic situation in Poland, as well as a means of meeting the expectations of our partners and customers.

We also recorded successful results in the oils and bitumens segments, where - despite intense competition - the LOTOS Group retained its position as a market leader. Both engine and industrial oils supplied by the LOTOS Group occupy top positions in their respective sales groups.

Another strong aspect of our activities in 2011 was the operation of LOTOS Kolej, which is now the third largest rail freight operator in Poland with regard to the volume of the freight carried. It is one of the most dynamically developing railway transport companies in Poland.

In late 2011, the Board of Grupa LOTOS developed the Optimum Expansion Programme, with a view to adjusting the 2012 strategy to the changeable market conditions and threats brought about by the macrofinancial and macroeconomic processes worldwide. The estimated financial effect of the Programme is PLN 220 million. The Board of Grupa LOTOS managed to combine cost-cutting measures and postponement of selected projects in an optimum way, thus providing much needed support and focus on the achievement of the Company’s key strategic objectives.

We will continue to dynamically pursue our plans to develop the upstream (exploration and production) segment in all areas of our interest. The service station chains of both the economy (LOTOS Optima) and premium segments will be further developed.

The reasonable, realistic and extremely disciplined financial policy of the LOTOS Group has by now become a widely known benchmark of high-quality corporate management. We always focus our efforts on the objectives of sustainable development. On the one hand, this strategy safeguards continuous expansion of our Company and the whole LOTOS Group; on the other, it provides us with financial security.

Grupa LOTOS is currently occupying top positions in all rankings as a modern and dynamically managed company, driven by a realistic strategy and excellent managers leading highly qualified and motivated staff. The crisis affecting European finances and economy continues to breed an atmosphere of danger and uncertainty. However, I deeply believe that the perfectly executed investment effort, which we dubbed the 10+ Programme, has positioned Grupa LOTOS to derive great benefits from an expected improvement in the macroeconomic climate. Europe is now witnessing a shortage of modern crude oil processing capacities. The installations of Grupa LOTOS’ refinery provide high quality products while offering the deepest level of conversion, which makes the refining process more efficient in financial terms and strengthens the Company’s leading position in the market. These benefits will be even more visible in 2012.

In its operations, Grupa LOTOS follows the strategy of sustainable development, while carefully considering the criteria of corporate social responsibility. This approach is in line with modern trends in the management of large industrial organizations, where the social factor is playing an increasingly important part. On the one hand, it shapes the Company’s market environment; on the other, it affects those political decisions which are crucial for its development. Corporate social responsibility is thus a measure of efficient and modern management. In all CSR-related rankings, Grupa LOTOS occupies top positions, which is confirmed by the Company’s uninterrupted presence in the RESPECT Index of the Warsaw Stock Exchange.

According to all forecasts for 2012, crude oil prices will either remain unchanged (at approx. USD 100/barrel) or rise still further. It can be assumed that this is a permanent trend, and that crude oil is likely to become increasingly more expensive rather than cheaper. In such circumstances, oil companies which have their own resources and deep conversion technologies are set to be the market winners. Grupa LOTOS meets both these criteria. The coming year and the years to follow will thus be a time of our growth and activities aimed at increasing Poland’s energy security, strengthening our market position and boosting our financial performance. The process of further expansion and the strengthening of the Company's position on the European market will be accompanied by growing satisfaction of our customers, investors and shareholders, as well as with growing pride of working for LOTOS - of all our employees.

Yours faithfully,

Paweł Olechnowicz
President of the Board
Chief Executive Officer
Grupa LOTOS S.A.

Related content:

Interview with the President of the Board

Progress in implementation of strategic objectives

The strategy consolidates the Company's position as an entity which plays a crucial role in ensuring security in the energy sector.

The LOTOS Group's operational priorities are set forth in the LOTOS Group's strategy for 2011–2015 and development directions until 2020. Most efforts are focused on furthering the growth of the hydrocarbons exploration and production segment, as well as on improvement of trading efficiency and optimisation of the operating area. Implementation of the strategic objectives has significantly progressed following the successful completion of the 10+ Programme in 2010, which increased the Gdańsk refinery's annual capacity by over 10m tonnes of crude.

The overarching strategic objective pursued by the LOTOS Group is to create value for shareholders through optimised utilisation of human and material resources and implementation of development programmes in the area of oil exploration and production, processing and trading. It has been assumed that the development will comply with the principles of sustainable development, understood by the Company as striving to continuously reduce its environmental footprint, but always with due regard to the intellectual capital and experience of the personnel.

In the exploration and production area, the LOTOS Group intensifies efforts aimed at expanding its resource base, in order to take advantage of the high margins projected for this sector in the long term.

The primary strategic objectives in this area include:

- achieving in 2015 production volumes in the range of 24 thousand boe/d *(barrel of oil equivalent/day)* – equivalent to 1.2 million tonnes a year;
- increasing production of hydrocarbons in line with the priorities of Poland's energy policy until 2030.

In the operating area, the LOTOS Group focuses on efficient utilisation of its expanded refining capacities following the 10+ Programme, further increase of the conversion ratio and optimum use of synergies between the refining and the power sectors.

The primary strategic objectives in this area include:

- achieving the world-class standards of production and maintaining a strong competitive position among European refineries;
- making optimum use of assets held and acquired as part of its growth strategy;
- ensuring safe and stable operation of the production and ancillary facilities, as measured by the minimum availability of 98% during the year;
- further increasing the conversion ratio and intensifying processing.

In the marketing area, the LOTOS Group focuses on further development of its sales force, based on the expanding distribution network and efficient product logistics, as well as rapid development of trading activities in the area of crude oil and petroleum products.

The primary strategic objectives in this area include:

- maintaining a 30% share in the domestic fuel market;
- achieving fuel sales exceeding the fuel production capacities of the Company's refinery by 15%;
- securing a 10% share in the domestic retail market by the end of the period covered by the forecast;
- developing our chain of service stations and intensifying sales through the existing chain;
- maintaining the leading position on the Polish market for lubricant oils.

2011 was the first year of the strategy implementation. Despite the highly volatile market conditions and the first signs of economic slowdown, the strategic objectives set at the beginning of that year did not change. The strategy's long-term perspective supports a planned and comprehensive approach to execution of particular tasks, which allows flexibility in responding to potential new threats and opportunities.

In the operating and marketing areas, the LOTOS Group's implementation of the strategic objectives and achieving relevant ratios set for intermediate stages of the process progressed in line with the original assumptions in 2011. The LOTOS Group achieved a 33.5% share in the domestic fuel market (diesel oil, gasoline, light fuel oil), exceeding the minimum level set out in the strategy; the LOTOS Group's share in the retail market (diesel oil, gasoline) was 7.6%. The strategic objective will be implemented based on further consistent roll-out of the stations chain in the premium segment (including motorway stations) and dynamic development of the LOTOS Optima chain.

The key prerequisite for the success of the LOTOS Group's sustainable development strategy is to intensify the exploration and production activities. Achieving this objective by the end of 2015 will enable creation of a strong and stable oil conglomerate, with production activities contributing a significant portion of profits. In 2011, crude output was 227.1 thousand tonnes, including 78.1 thousand tonnes produced in Lithuania.

Development directions

The undertaken development activities are focused on increasing the LOTOS Group’s value through innovative and sustainable development with due regard to the stakeholders’ principles and values. Given the high oil prices and volatility of currency markets, a high share of own production relative to refinery’s processing volumes improves company’s stability and enhances profitability. The LOTOS Group strives to build a vertically integrated and economically efficient conglomerate, which requires commitment to optimal development of other segments of the business.

The primary development directions until 2020 remain the same as in 2010:

- further optimisation of the management model aimed at the best possible efficiency,
- access to proven recoverable reserves of hydrocarbons of approximately 330m boe in 2020,
- increasing production to approximately 110 thousand boe/day (equal to 5m tonnes of crude a year),
- maintaining a 30% share in the domestic fuel market,
- maintaining sales exceeding the fuel production capacities of the Company's refinery by 15%,
- maintaining a 10% share in the domestic retail market,
- further improving the economic efficiency of crude processing, ensuring full utilisation of the LOTOS Group’s assets,
- taking steps to optimise the power management processes at the LOTOS Group’s refinery through extension of its connections with other power systems.

Key risks, opportunities and challenges in the context of sustainable development

Grupa LOTOS has adjusted its strategy to the changeable market conditions and global macroeconomic threats.

Risks are inherent in the nature of Grupa LOTOS's business. The Company is gradually improving its tools and methods used to identify and assess the risks. It is worth noting that, relative to previous years, the Company has been able to consistently reduce the expected level of certain operational, financial and market risks. This has been possible thanks to such developments as the launch of new installations constructed as part of the 10+ Programme and progressive implementation of measures mitigating the identified operational risks.

Risks and opportunities in the context of the government's and the European Union's strategy for the petroleum sector

Legal risks in Grupa LOTOS' operations arise from the Polish government's normative acts and EU directives. In order to identify legal risks, the Company monitors the European Union's policy with respect to the petroleum sector and cooperates on a regular basis with government authorities responsible for the preparation and implementation of governmental strategies for the sector. The Company issues opinions on drafts of EU and Polish legal acts, and monitors relevant regulations, concerning in particular mandatory stocks of crude oil, fuels, bio-components and biofuels.

In 2011, the key risk in the area of **biofuels and bio-components** was associated, like in the previous year, with the failure of Polish authorities to transpose into national law the provisions of Directives 2009/30/EC and 2009/28/EC of the European Parliament and of the Council of April 23rd 2009. In January 2012, the notification procedure was completed for domestic regulations allowing a higher bio-component content in standard fuels (B7). Introduction of the possibility to use diesel oil with a 7% ester content (B7) had been long expected as in previous years the National Indicative Target (NIT) required by law exceeded the level possible to achieve by adding 5% of bio-components to diesel oil (B5) and gasoline (E5). Admission of the B7 diesel to the market significantly improves the economics of the Polish biofuels policy. As a result of amendments to the Polish regulations in 2011, the use of higher quantities of bio-components in gasoline (E10) is no longer allowed. Due to the lack of legal solutions in the directives and the annual increase of the National Indicative Target (NIT), Grupa LOTOS is forced to market higher volumes of unprofitable biofuel B100. The planned act allowing the use of the E10 gasoline in Poland should mitigate the risk in 2013. The 2011 statutory regulations enacting the NIT reduction as of 2012 entail the risk of imposing financial penalties on entities attaining the NIT for potential breach of the act by suppliers.

In Poland, the National Indicative Target is attained exclusively through the use of bio-components and biofuels. As bio-components and biofuels are more expensive than mineral fuels, achieving the target level has a tangible effect on transport energy costs, leading to higher fuel prices. The adverse effect of the biofuel policy on transport fuel prices is further exacerbated by the fact that the NIT set in Poland significantly exceeds the average target levels attained in other EU countries.

Pursuant to the amended Biofuels Act of May 2011, upon fulfilment of certain statutory requirements concerning the source of origin of bio-components, entities obliged to attain the NIT may in 2012 lower the target level by a reduction ratio of 0.85. Under this solution, it is possible to reduce (relative to the 2011 levels) the content of bio-components and biofuels in the total volume of transport fuels, which will have a positive impact on fuel prices in Poland.

Although the amendment is a step forward, Grupa LOTOS is convinced that stronger measures need to be taken and that the NIT should be determined on the basis of fuel quality standards, so that the legally required content of bio-components and biofuels in transport fuels in the coming years does not exceed the bio-component content in standard fuels. A level of the NIT higher than provided for in the fuel quality standards necessitates the introduction of 100 per cent biodiesel (B100) to the market, as it happened in previous years. Given the current fuel prices, the use of B100 must be minimised, as its market launch will have even more adverse financial effects than the use of bio-components in standard fuels.

While in 2012 the application of the NIT reduction ratio and approval of the B7 use since February will contribute to minimising the sale of B100, next year it will be impossible due to the growing NIT level.

Therefore, it is expected that the next step will involve launch of gasoline with a 10% bioethanol content (E10) and approval of the oil co-hydrogenation technology (co-HVO) in the production of diesel oil in Poland. It is also expected that the possibilities of achieving the NIT will be expanded to include the use of other renewable energy sources, such as biogas or green power. At the same time, the Company waits for new generation of bio-components to be commercially available at competitive prices.

The European Commission's proposals aimed at changing the **energy taxation system**, including transport energy, are designed to make tax rates depend on fuel's calorific value and CO_2 emissions. Such modifications may entail the risk of altering the structure of transport fuel demand by 2020, as a result of changing of diesel oil, gasoline and LPG prices. The new system assumes that the price of gasoline to be the base price, while diesel oil tax will be higher than gasoline tax by 15%. LPG taxation will increase fourfold relative to the current EU minimum tax rates.

The planned introduction of **new tax solutions concerning the extraction of minerals** involves the risk of deterioration of the E&P segment's performance.

Additionally, the European Commission is working on **improving safety of hydrocarbon off-shore production**, which may increase production costs.

The timing and scope of changes of the existing legal requirements concerning **mandatory stocks** are unknown. The date when mandatory stocks may start to be taken over from market operators by relevant governmental agencies, as well as the speed of the process have not been specified yet. Draft assumptions to the amended Act on Stocks of Crude Oil and Liquid Fuels have been included in the list of documents put on legislative hold, and by the Council of Ministers' decision of February 15th 2011, continued work on the draft requires approval by the Prime Minister. As the Act on Mandatory Stocks must be amended in 2012, following the implementation of Directive 2009/119/UC of the Council of the European Union, there is a significant risk that the legal regulations will not be aligned with the industry's requirements, given the short time left for preparing the amendment.

However, the risks associated with the implementation as of 2013 of **more stringent CO_2 emission requirements** and with changes to the rules governing the allocation of CO_2 emission allowances should be taken into account at this point.

Given the increasingly complex geopolitical situation, there is a potential risk of crude oil supplies becoming unavailable at acceptable prices due to **the lack of sufficient storage capacities**. Storage facilities in salt caverns may be a solution for the future. However, their construction depends on the decision of the Polish government administration.

The **prolonged legislative process** in Poland entails another serious risk – the impossibility to predict the dates when legal regulations become effective and the related consequences of such uncertainty for the Company and the entire industry.

Risks associated with changes in and interpretations of tax laws

Grupa LOTOS operates in a highly unstable legal environment. A source of risk, the instability affects our functioning, the course of action taken, our tax policies, and the amounts of tax payable.

Changes in the interpretations of tax laws may give rise to tax risk in transactions where such risk was non-existent before. An additional hurdle is the indolence of tax authorities in their handling of applications and conducting tax proceedings. The differing interpretations of tax rules increase business uncertainty and, as regards international trading, may tarnish our reputation as a reliable partner and force the Company to give up on valuable projects or transactions.

The tax risk faced by businesses in Poland is high. One of the risk factors is non-observance by the legislator of the *vacatio legis* principle while enacting amendments to tax laws. This prevents businesses from adjusting to the new requirements on time and increases the likelihood of incurring additional costs or sanctions. Rather strict standards of the Polish tax authorities are another factor that calls for extra caution when managing tax risks. In doing business, an entrepreneur has to reckon with the risk that an erroneous interpretation of the law, a human error on the part of its employee or incompetence of civil servants may inadvertently result in tax arrears, as a consequence of which it may face charges of committing an offence.

Given the frequent interpretive changes and enactment of new legal regulations, which are often inconsistent, convoluted or incompatible with the EU laws, Grupa LOTOS reviews and updates its internal procedures on an on-going basis to ensure compliance with the requirements and to identify and mitigate any tax risks, and in particular their effect on the Company's financial statements.

In situations where a tax risk related to a possibility of disparate interpretations is identified, Grupa LOTOS avails itself of the right to request a binding interpretation of tax law by the Minister of Finance. Furthermore, the Company, as a member of Poland's major organizations of employers and entrepreneurs, takes a role in issuing opinions on draft legislation. This is primarily aimed at improving the quality of tax legislation, but also allows to adequately respond to any changes in the legal environment.

Financial risks

In 2011, the former Financial Risk Management Committee at Grupa LOTOS was replaced by the Price Risk and Trading Committee responsible for the oversight and coordination of the price risk management process and for monitoring and coordination of trading activities requiring cross-segment interaction.

The powers of the Financial Risk Management Committee in the area of currency risk, interest rate risk and credit risk management have been vested directly in the Chief Financial Officer. In addition, a Team for liquidity optimisation and coordination of financing has been set up to coordinate and supervise key efforts in the area of liquidity risk management, arrangement of financing, and debt structure management at the LOTOS Group.

The key financial risk faced by Grupa LOTOS is **the risk related to prices of raw materials and petroleum products**. We continue research and work on a new policy for managing the risk, which ties in closely with our plans to upscale trading operations. Concurrently, to enable implementation of specific price risk management processes, streamline management functions and improve security of operations in the broad price risk and trading area, the Company has launched the process of selecting a new Energy Trading and Risk Management system.

Currency risk is managed in line with the Strategy of Currency Risk Management at Grupa LOTOS. The management horizon is determined in line with the rollover budgeting period. The US dollar (USD) is the currency of Grupa LOTOS' operating market. Consequently, the Company has a structurally long position in USD on its operating activities. Therefore, the US dollar was chosen as the most adequate currency for contracting and repaying long-term loans, including loans used to fund the 10+ Programme.

Interest rate risk management is connected with the expected schedule of payments under the loans taken out to finance inventories and the implementation of the 10+ Programme, and the resulting interest accruing at floating rates (LIBOR USD).

The risk related to prices of carbon dioxide (CO_2) allowances is managed in line with the objectives set forth in the Strategy for Managing the Risk Related to Prices of CO_2 Allowances by Grupa LOTOS. The management horizon is determined by the particular phases of the Kyoto protocol; the current management horizon runs until the end of 2012.

Liquidity risk is subject to weekday monitoring which involves collecting and analysing data in respect of projected cash flows and the financing sources available now or in the future.
Based on results of the analysis, appropriate working-capital decisions are taken whose aim is to match maturity dates of assets and liabilities as closely as possible and to secure and retain access to diverse sources and forms of internal and external financing. Efforts are currently being taken to centralise liquidity management within the LOTOS Group.

The risk of restricted access to external financing or changes in lending terms is minimised by entering into cooperation with a diversified group of creditworthy partners, using the largest possible range of financial instruments in day-to-day operations, the correct, complete and timely fulfilment of disclosure obligations, monitoring of and compliance with the financial ratios, covenants and any other obligations towards banks stipulated in the outstanding loan agreements. We also monitor the financial position and overall standing of the banks financing the activity of the LOTOS Group, as well as any factors driven by developments on the global financial markets that may threaten our ability to raise financing.

Management of counterparty credit risk in financial transactions consists in monitoring of credit exposures in relation to the limits granted. Our counterparties must have an appropriate credit rating, assigned by leading rating agencies, or hold guarantees from institutions meeting the minimum acceptable rating requirements. Grupa LOTOS enters into financial transactions with reputable firms with sound credit standing, and diversifies the group of institutions with which it cooperates.

As regards **management of credit risk relating to counterparties in non-financial transactions**, all customers who request trading on credit terms are subject to credit assessment, whose results determine credit eligibility. The responsibility for taking credit decisions rests with employees in charge of finance at the LOTOS Group companies.

In order to ensure that the financial risks are effectively managed and to minimise the risk of error, all data used to support the process are thoroughly verified, and decisions are based on in-depth analyses, in accordance with the adopted risk management policy, credit structure and operating procedures. The financial risk management policies and instruments and the impact of risk factors on the individual items of financial results are entered in the Notes to the financial statements. Link → (http://raportroczny.lotos.pl/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/)

Risks related to the exploration and production business

Risks related to the upstream business include production and technical risks, exploration risks, risks related to the geological characteristics of the fields and weather-related risks, all of which are monitored. The year 2011 saw continued implementation of adequate mitigation procedures.

Considering the nature of our operations, the LOTOS Group's key concern are the **risks associated with production of hydrocarbons** which have the potential for environmental contamination. These include risks of oil spills, marine collisions, fires, gas eruptions and other failures. A broad range of preventive measures are taken, such as leakage testing, monitoring of fire risks and blow-out risk prevention, for example by securing the boreholes. Additionally, procedures have been put in place applicable in day-to-day work and when a threat of failure occurs. An important measure helping to reduce the risk is the provision of regular training courses and practical exercises for the personnel. In the event of an incident or accident, a thorough analysis is conducted, and the event itself is discussed at the training courses, with a view to preventing its recurrence.

Technical risks are associated with the equipment used to explore and produce hydrocarbons. It is mitigated through monitoring of the condition and performance of the equipment, as well as technical supervision and performance of necessary tests. Regular training courses are also organised to teach the personnel how to operate the equipment. The production and process systems are subject to technical inspections, reliability testing and related risk assessment. With due regard paid to the nature of our operations, the maintenance management system is being developed and the prevention-centred approach is being furthered through on-going monitoring of the best available technical solutions.

Exploration risk follows largely from potentially incorrect estimation of in-place resources. Therefore, in line with the SPE 2007 rules three confidence levels are used to estimate a reserve: P10, P50 and P90 (with the estimated quantity having, respectively, a 10%, 50% and 90% probability of being recovered). Also, the internal chance-of-success indicator is analysed while estimating the potential of an area covered by geological survey. Moreover, in the design phase there is the risk of having to conduct additional, in-depth geological analyses of plays with high production potential. One example is the 3D seismic surveying carried out in the first half of 2011 on the PL 503 and PL 503B North Sea licenses.

Other risks in the upstream area are related to possible occurrence or intensification of phenomena which may cause loss of wells or declines in well rates (e.g. falling reservoir pressures, entry of water). The risk is reduced with the use of methods involving continuous monitoring of reserve parameters. Weather is a vital factor in offshore oil extraction. In extreme cases, unfavourable weather conditions may halt planned work or crude production. To reduce adverse effects of risks that materialise, systems have been deployed to monitor the weather conditions and to trigger appropriate safety procedures when necessary.

Guided by the need to increase the volumes of own production from new licenses and to implement projects under consortium agreements, the Company takes steps to secure as exhaustive data and research as possible. Project-related risk assessment, market research, due diligence, feasibility studies, and legal and financial risk analyses are performed to effectively minimise the risk inherent in joint ventures, particularly those in which LOTOS Petrobaltic holds minority interests.

Risks related to the supply of raw materials

Grupa LOTOS continually strives to diversify the directions and sources of oil supply. The objectives of the diversification policy are attained by placing focus on security of supplies and improved competitiveness. Security of crude supplies is enhanced through progressive expansion of our presence on the international oil market, regular contracting of various types of crude transported by sea, creating conditions to radically increase their share in total supplies to the refinery, and increasing the role of own production. Our competitive position is improved by fully capitalising on the coastal location of the Gdańsk refinery and the possibility to source crude supplies through two independent channels: Russian oil through the Druzhba Pipeline and various types of oil available through Naftoport (offshore oil terminal).

An appropriate selection of types of crude and directions of supplies is the result of efforts to maximise the integrated margin. Moreover, diversification-related risks, including risks related to potential disruptions at multiple sources of oil supply, are identified and mitigated.

Risks related to operating activities

The management of risks related tothe Company's operating activities covers various areas: process- and technology-related risks, workplace safety and environmental risks, and legal risks relating to the respective areas.

The year 2011 was the first year when the Gdańsk refinery operated in the target configuration provided assumed in the 10+ Programme. This was possible following commissioning of the last two process units delivered as part of the 10+ Programme: the MHC hydrocracking unit (commissioned in January) and the SDA/ROSE unit (commissioned in March). Upon completion of the programme's implementation phase, the **operational risks related to the 10+ Programme** identified earlier were either reduced or eliminated. Measures taken to identify and minimise the key risks yielded the desired effect, as confirmed during the test run carried out in May in the presence of representatives of licensors and contractors.

A key risk of the 10+ Programme related to the operation of the Gdańsk refinery at the beginning of 2011 was the uncertainty of results of the integrated system test run at maximum capacity, as required under the loan agreements and supervised by bank inspection representatives and technical consultants. The results of the test run held in June 2011 were in line with the targets agreed with the banks.

However, it should be remembered that the risk of possible discovery of latent defects in procured materials or equipment during operation continues, although probability of any such occurrence is becoming increasingly lower. Any materialisation of the risk may disrupt the plant operation, pose threat to its safety and cause fire or explosion hazards. As no serious defects were discovered during commissioning, start-up, initial operation, and regular operation of the MHC and SDA/ROSE units until the end of 2011, the risk of latent defects has been reduced to low and is managed through planned maintenance and monitoring of the process infrastructure on a daily basis.

Grupa LOTOS' operating activities entail certain **environmental risks**, the most important of them being:

- risk of failure to comply with the requirements of the Polish and EU environmental laws,
- risk related to shortage of CO_2 emission allowances,
- risk of serious industrial failure (described in detail further in this Report).

The likelihood that the risk of non-compliance with the legal requirements might materialise is minimised through on-going monitoring of the Polish and EU laws, efficient implementation of their provisions and taking an active and effective role in the legislative process. The processes of obtaining permits are carried out with a sufficient time reserve, taking into account the risk that administrative proceedings might last longer than expected.

Grupa LOTOS makes every effort to mitigate the risk related to CO_2 emissions allowances. Legislative changes at the level of Polish and EU laws are monitored on a routine basis. Cooperation is also maintained with the National Administrator of the Emissions Trading Scheme.

For the refining units which participate in the EU Emissions Trading Scheme, including units constructed as part of the 10+ Programme and commissioned in 2010, the number of allowances will be sufficient until the end of the current trading period, i.e. 2012. Additional allowances were granted for the CHP, whose emissions have increased in connection with the need to supply heat necessary to support the operation of the above units. Grupa LOTOS applied for emissions allowances from the national reserve for the last two 10+ Programme units commissioned in 2011. The allowances were awarded in the middle of the year.

One of the key risks inherent in our day-to-day operations, addressed with specifically designed preventive and preparatory measures, is the **risk of industrial failure**. Emergency events may disrupt the work of refining units, cause fire, explosion, excessive emissions of pollutants into the environment or occupational work. Various comprehensive measures have been deployed to monitor the technical condition of the plant and equipment and to prevent failure. Appropriate technical standards and procedures are in place, including qualified supplier and technical service lists or deliveries collection and control procedures, to ensure high quality of overhaul and project delivery services and guarantee high quality of materials and spare parts used.

Grupa LOTOS also carries out criticality analyses of the equipment, as part of which it identifies and assesses risks and implements appropriate action plans for individual items of equipment, depending on their degree of criticality. Most of the equipment critical for the operational safety has been classified based on the following criteria: safety for people and the environment, significance relative to the entire unit or plant and failure probability. The classification of a piece of equipment to a specific criticality group determines the selection and application of an optimal strategy for the equipment maintenance.

The units delivered as part of the 10+ Programme have been in full commercial operation for more than a year now, and hence, thanks to experience gained so far and regular inspections, the risk of latent defects or maintenance or repair errors is gradually decreasing. Conveniently, the new units allow us to reserve large portions of the existing capacity. Hence, a failure occurring in one unit does not affect the operation of the entire plant, and the refinery may continue operation without any major disruption.

A factor contributing to an increased risk of failure on the new units is the personnel lacking adequate experience. A number of measures have been taken to address the risk, including a policy whereunder new unit operators are employed long, even two years, in advance to enable them to go through the entire training process before new units have been commisioned. As in 2010, Grupa LOTOS purchased training simulators, state-of-the-art operation training tools, an industrial equivalent of flight simulators used in aviation. The simulators are used to train personnel in unit operation under conditions very close to reality.

The refinery also uses technologies and equipment meeting the BAT *(Best Available Techniques)* criteria. Process units are equipped with safety and protection solutions, including multi-layered security systems (prevention, protection and counteraction layers). Alarm, emergency stop and shutdown systems are deployed in order to prevent uncontrolled development of an emergency situation and serious damage to the plant and equipment.

In order to mitigate the effects of failures, practical training and exercises are provided on a regular basis to all employees of the refinery, to ensure prompt and effective response to any actual failures. If a failure does occur, it is subject to a thorough analysis and relevant preventive measures are implemented as a follow-up. Gathered information is used in subsequent assessments of the technology-related risk.

Given the nature of the production processes, **workplace safety** is a matter of utmost importance for the Company. Many jobs are exposed to hazardous or noxious factors, which is why each job is assessed in terms of inherent occupational risks, including risks related to explosive atmosphere, noise or presence of hazardous chemical and biological substances. Based on such assessment, individual and collective security systems are deployed.

New technical and organizational measures are also in place to ensure safe working conditions for all persons staying or working on the premises of Grupa LOTOS. Regular checks of the correct implementation of relevant procedures are undertaken and follow-up requirements are enforced. In many cases, the rules implemented at Grupa LOTOS are more stringent than those required by law.

Risk of stricter quality requirements for petroleum products

Grupa LOTOS keeps a close eye on the proposed new standards and regulations relevant for its production and sales. The source of information about future changes in the quality requirements is Technical Committee 222 at the Polish Committee for Standardisation, responsible for petroleum products and process liquids. Through its participation in the work of the subcommittees of Technical Committee 222, the Company is able to present its opinions on proposed EU standards as early as at the stage of their development.

Grupa LOTOS may also have a say on quality requirements, in particular requirements applicable to engine fuels, through participation in the works of an industry association, the Polish Organisation of Oil Industry and Trade. The participation substantially reduces the risks of delayed compliance with future quality standards for petroleum products.

Marketing risks

The background for the LOTOS Group's marketing activities is the ever-present price competition and the fast-changing global macroeconomic environment. This requires constant refinement of tools used to monitor price- and margin-related parameters. As for retail sales, we pursue market diversification, including diversification into segments less prone to competitor-induced margin erosion, as well as other initiatives aimed at winning and retaining customers.

Grupa LOTOS also manages **the risk of reduced domestic demand** for its products. Lower demand may be an effect of increased price competition or overall decline in demand due to macroeconomic factors. The risk is managed using various techniques, including diversification of distribution channels, operation of a competitive pricing policy and optimisation of operating expenses.

Risk management in the marketing area is also focused on maintaining uninterrupted supplies of products to the market. These efforts are coordinated at the Company level by ensuring cooperation between marketing, logistics, production, trading and optimisation functions, and the objective behind these efforts is to set a coherent, most favourable course of action across the supply chain.

Costs of implementation of hedging strategies

For high-cost mitigation measures, we apply the ALARP *(As Low As Reasonably Practicable)* principle whereby risks are reduced to a level as low as reasonably practicable. Risks are considered acceptable if it is impossible to reduce them any further or if the costs of their reduction outweigh the benefits to be gained. Any hedging strategies, including plans to mitigate risks or transfer them (e.g. by way of insurance), are therefore implemented following careful analysis, focused especially on the expenditure that would need to be incurred.

Related content:

Risk management **Commitment to sustainable development**

LOTOS Annual Report 2011 / Home / Achievements and forecasts / Interview with the President of the Board

Optimum. Responsible decisions – interview with the President of the Board

The Company strives to build salt caverns in Pomerania, which is a perfect place for a regional energy hub.

Interview with Paweł Olechnowicz, President of the Board and CEO of Grupa LOTOS S.A.

- The Annual Report's title is "Optimum. Responsible Decisions". The main idea behind the publication is thus an optimum approach to pursuing goals, optimum meaning the best possible in given circumstances. Would that be your description of the activities carried out by the LOTOS Group in 2011?

2011 was the first year in which we could expect to see the measurable effects of the successfully completed 10+ Programme. However, it also brought a new wave of financial and economic uncertainties worldwide. The Company was focused on carrying out its business in a way ensuring that its potential is fully leveraged and sustainable growth is guaranteed, while maintaining market confidence. By making responsible decisions, we aimed to reduce excessive business risks, while at the same time delivering added social and economic value, much needed by the country in this difficult period.

As Grupa LOTOS takes a realistic and optimal view of its opportunities and business conditions, its market practice guarantees security, stability, confidence and trust – values that are particularly desirable in a crisis economy. This is intended to prove that we are firmly convinced of the enormous value of sustainable growth both for a business and for its social environment.

The Company's values and competences, which make us stand out against competitors, have further gained in importance amid these adverse circumstances. Not only are we open to the needs of our key stakeholders and have a thorough understanding of their expectations, but we also feel a sense of responsibility towards them. This approach prompts us to keep exploring novel solutions. Our adherence to those values was reflected in 2011 not only in transparent communication with the capital market, which enhanced our credibility, but also in sound performance of our core business and the fact that we were able to adjust our product and service offering to new economic and social challenges.

It was in 2011 that we brought to the market the new brand LOTOS Optima, designating a chain of economy service stations, which is being continually expanded. The value-oriented economy segment is now regarded as the most rapidly growing and prospective part of the market. As customers become increasingly more pragmatic, we provide them with products and services delivering maximum benefits and added value, tailored to the financial standing of most Poles. Optima is the Company's response to new expectations.

- The Company's strategy is also focused on environmental issues and energy security.

Grupa LOTOS strives to mitigate its impact on the environment on an ongoing basis, by following the applicable hydrocarbon mining, production and processing standards, and by complying with stringent environmental requirements related to the production, transportation and sale of petroleum products. Our production activities are carried out in reliance on the best available techniques and procedures, and the Company tries to keep abreast of opportunities offered by the latest technologies.

We strive to identify and develop the possibilities of producing energy from renewable and non-conventional sources. As early as in 2012, Grupa LOTOS wants to start exploring for shale gas and is planning to take part in new tenders for hydrocarbon exploration and production licences in Lithuania. But even now, thanks to the 10+ Programme completed in 2011, the refinery in Gdańsk has energy-efficient technologies in place. By applying methods designed to enhance energy efficiency, we intend to reduce our carbon footprint by 6% by the year 2020.

In the weeks to come, the refinery will be switched to a new fuel – natural gas. The switch-over will bring environmental benefits both to the Company and its surroundings, as natural gas emits less sulphur dioxide and nitrogen oxides, as well as greenhouse gases (mainly CO_2), than the currently used fuels.

Our responsibility is also manifest in the Company's approach to improving Poland's energy security. Grupa LOTOS supports the Polish government in its efforts to modify the existing system of mandatory stocks, which constitutes a pillar of the country's energy security. Not only do we ensure stable supplies of crude oil, which is an important energy resource, but we have also undertaken an initiative aimed at building storage facilities for crude oil and liquid fuels, such as diesel and light fuel oil, in salt caverns. Given its geological features, direct access to the sea as well as extensive port infrastructure, Pomerania is a perfect place for a regional energy hub.

- Grupa LOTOS is actively involved in the implementation of the Polish government's energy policy. What were the key activities carried out in this area in 2011, besides the projects you have just mentioned?

Our constant role is to take part in the work of expert teams appointed by the government in order to develop new legislative solutions for the energy sector, as well as in public consultations of draft legislation pertaining to the sector.

Grupa LOTOS cooperates with the Ministry of Economy in preparing information materials on the fuel industry for the International Energy Agency, and is involved in the work of the Inter-Ministerial Oil Law Group. The scope of legislative work in 2011 included issuing opinions on the draft act on bio-components and liquid bio-fuels and the act on crude oil and fuel reserves. In addition, we attend meetings of the Intergovernmental Committees of Russia, Kazakhstan, Azerbaijan, Ukraine and Belarus. The Company participates on a regular basis in the highest level meetings dedicated to the energy sector organized by the Ministries of Economy, State Treasury, Foreign Affairs and Environment. In 2011, Grupa LOTOS was engaged i.a. in a project, carried out together with several universities, entitled "Education and training of workforce for the Libyan energy sector" in connection with a visit to Libya of the Deputy Minister of Foreign Affairs with a group of Polish entrepreneurs.

In the second half of the year, we assisted the government in connection with the Polish presidency of the European Union Council. The Company was a host of two important meetings organized by the Ministry of Economy – a visit of Permanent Representatives of EU Member States and a visit of the energy attachés of Community Member States.

- You serve as Chairman of the Board of Directors of Central Europe Energy Partners, which in 2011 was very actively involved in efforts to develop an energy efficient economy of the European Union.

Modern day business wants to be actively involved in transformation processes. This is why it enters into discussions with social, business and government partners. A climate of openness to cooperation, aimed at building a better future for both businesses and their social and economic environment, prevails. The need to face global challenges, not only those related to climate change, is very conducive to cooperation. It evidences responsible and wise leadership at the level of managements, but also business entities regarded as industry leaders. By maintaining close links with scientific and research organizations and lobbying on the international arena, we contribute to the development of innovative solutions focusing on sustainable growth.

Our activity at Central Europe Energy Partners (CEEP), a non-profit organization of which Grupa LOTOS is a founding member, represents an example of such commitment on our part. This international association was established with the objective to help integrate the Central European energy sector around the European Union's common energy and energy security policy. To this end, CEEP closely cooperates with a number of recognized think-tanks, including the Center for Strategic & International Studies and the Atlantic Council in Washington, the Windsor Energy Group and King's College in London, as well as organizations such as the International Energy Agency in Paris and Europia in Brussels.

CEEP attends all major EU events related to the energy sector held by the European Commission, including also in various working groups. In 2011, CEEP joined in the discussion held by the European Commission regarding the outlook for the European Union's energy sector until 2050. As one of the members of CEEP, Grupa LOTOS is an active participant of consultations and helps prepare expert materials for EU institutions.

Related content:

Participation in government policies

Business environment

2011 brought an increase in geopolitical risks stemming from the regions which are major global oil suppliers.

The economic situation in 2011 was worse than expected. The largest world economies retained growth in the positive territory, but growth rates were lower than a year earlier. The key decelerating factors included slower recovery of retail demand in developed countries and the return to financial instability, particularly in the European markets.[1]

2011 was predominated by the sovereign debt crisis spreading in Europe. Rescue plans were implemented, often encountering strong social protests. Speculations abounded, both among economists and publicists, concerning a potential break-up of the eurozone, or even of the entire European Union. This uncertainty had a negative impact on the development prospects of the global economy. And there was the natural disaster - the earthquake and tsunami in Japan - which came as a blow to many markets, including the petroleum market.

There were also some significant geopolitical changes, entailing conflicts and unrest in North Africa, a region with a significant crude oil production potential. Social unrest and rebellions, e.g. in Saudi Arabia, Egypt, Syria, Yemen, Kuwait, and Nigeria have sparked serious concerns about disruptions of crude oil supplies to Europe. The revolt which led to a civil war in Libya reduced the supplies of crude from this country. The effects of limited production from Libyan oil fields will continue to be felt for a long time. The International Energy Agency (IEA) estimates the aggregate drop in oil production in Libya, Syria and Yemen in 2011 at approximately 450 million barrels[2]. This shortfall in supplies was partly offset through a release of IEA reserves. According to the Agency, the effects of the Libyan uprising would have been more acute if it were not for the economic crisis and limited demand for the commodity in Europe.

In the closing weeks of 2011 Iran, which pursues its own nuclear programme, emerged as another trouble point. The build-up of the conflict around the potential closing of the Strait of Hormuz, which concentrates a vast share of the global seaborne oil shipments, the possible EU embargo on Iranian crude and the risk of an armed conflict between Israel and Iran all sent oil prices soaring.

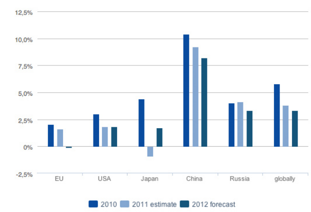
The geopolitical risks stemming from the regions which are major global oil suppliers lifted the average Dtd Brent prices in 2011 to a historical high of 111.5 USD/bbl (compared with 79.5 USD/bbl in 2010). Combined with a depreciation of the złoty against the dollar, the high prices of the commodity pushed fuel prices at Polish service stations to new historical highs.

But more than by anything else, the problems of the eurozone may become the most serious deterrent to the global economic recovery. The eurozone's problems are visible already in estimates of the 2011 GDP growth rate, which amounted to 3.8% for the global economy (0.2pp below September 2011 forecasts). The forecast for 2012 has been affected by a stronger downward correction (of 0.7pp), which has set the expected GDP growth rate at 3.3%. The new forecast takes into account a shallow recession (of -0.1% GDP) in the European Union[3].

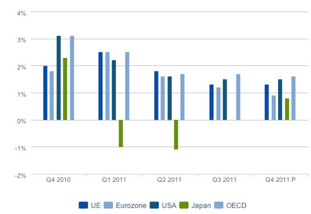
To overcome the economic problems in developed countries, reforms of budgetary policies will be needed in order to eliminate the financial imbalance in the public sector. This restricts the governments' ability to intervene in the real economy.

[1] World Economic Outlook, International Monetary Fund, September 2011.
[2] Oil&Gas Journal, January 2012.

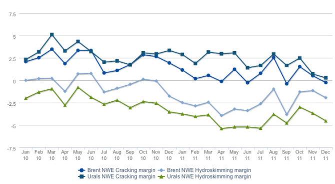
GDP growth in 2010-2012 (%)



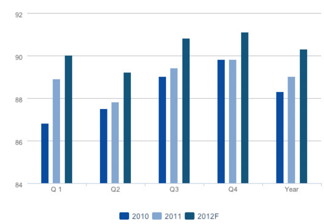
GDP growth in 2010 and 2011 (year-on-year change) (%)



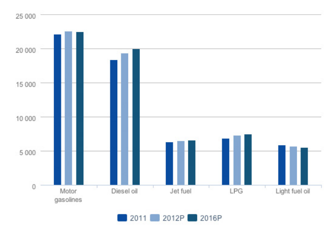
Refining margins (USD/bbl)



Demand for crude oil (mb/d)



Global consumption of fuels (thousand b/d)



Forecast global consumption of fuels (thousand b/d)

[3] World Economic Outlook Update, January 2012.

Condition of the refining industry

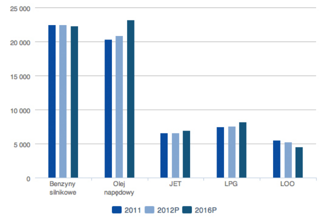
Due to the economic problems in Europe, the refining margins in the region were on a decline. In the first half of 2011, those refineries which could purchase and process Urals crude, enjoyed an additional premium on the Brent/Urals differential. However, in the second part of the year the differential was almost to zero, closing the gap between the margins generated by refineries processing Urals crude and the margins relying on Brent as the reference crude.

The difficult situation on the European refining market affected chiefly those refineries which are technologically less advanced (hydroskimming), and which produce less high-value-added fuels from crude than modern facilities (cracking). Many of the hydroskimming refineries generated negative margins. In late 2011, this negative tendency found its confirmation in the form of financial distress experienced by Petroplus, an independent refiner operating several refineries in Western Europe.

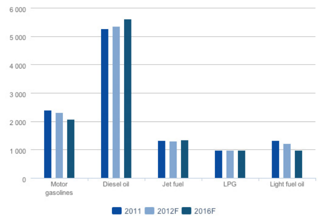
Gasoline was the product with the most volatile margins in 2011. It started the year with strong increases, but close to its end the refining margin contracted close to 0 USD/bbl. Gasoline reacts faster than other fuels to price changes or changes in the economic climate and financial situation of consumers. What is more, the European refining industry suffers from a structural excess of gasoline distillates. High supply of gasolines, combined with increasingly more limited possibilities to export them to the American continent, had a negative effect on the margins.

Margins on middle distillates, particularly on diesel oil, remained stable. Middle distillates are the group of products enjoying the highest demand in Europe, and stayed strong even in spite of the economic uncertainty. Another noteworthy development was the strengthening of margins on heavy fuel oil, seen close to the end of the year on the back of the introduction of new fiscal policies in Russia and the resulting drop in supply of the product from the East.

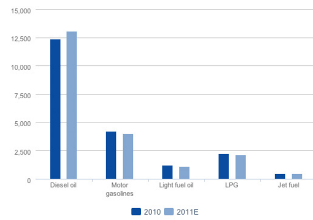
The economic growth seen in 2011 contributed to higher consumption of crude oil. There was an overall increase in demand for crude oil, especially due to higher consumption on the developing markets[4], as well as an increase in crude prices. Industry organizations are estimating average demand for the commodity in 2011 at 88.3 mb/d, which is about 1% (0.9 mb/d) more than a year earlier. At the same time, average consumption of crude in 2012 is expected to come in at 89.5 mb/d, up by 1.3%[5]. Medium-term forecasts by the International Energy Agency predict that demand for crude will reach 95 mb/d in 2016, meaning a compound average growth rate (CAGR) of 1.3%.



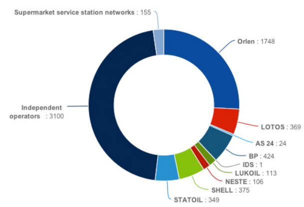
Forecast consumption of fuels in Europe (thousand b/d)



Consumption of fuels in Poland (thousand tonnes)



Service stations in Poland as at the end of 2011



IEA estimates indicate that the global growth is driven by rising demand for the commodity in developing countries. In 2011, the growth in non-OECD countries was 1.2 mb/d, and it may accelerate to 1.6 mb/d in 2012. Concurrently, consumption in developing countries fell by 0.5 mb/d (2011), and may decline by a further 0.3 mb/d in 2012.

Estimated demand for crude in Europe was 15 mb/d in 2011, against a forecast 2012 consumption figure of 14.8 mb/d.[6]

[4] Oil Market Report, IEA, December 2011.
[5] In-house compilation based on OPEC, IEA and US EIA data.
[6] Oil Market Report, IEA, December 2011.

International fuel market[7]

It is estimated that demand for oil refining products rose in 2011 by 1.2% globally. An increase in demand was seen primarily in the diesel oil and LPG segments (up by 3.3% and 2.3%, respectively), while consumption of engine fuels remained stable (down by 0.2%). Consumption of light fuel oil fell again (down by 2.8%). These changes in global consumption of fuels came as a result of the weak economic growth.

According to forecasts, global consumption of refining products is expected to grow by 6% until 2016. Relative to 2011, demand for diesel fuel and LPG is expected to surge by 14% and 10%, respectively. Consumption of gasolines may decline by a little short of 1%. A drop in consumption of light fuel oil (-17%) is also predicted.

Demand on the European market is expected to fall in 2011 by 0.8%. Higher consumption was recorded only with respect to middle distillates. Consumption of diesel fuel rose by 0.6%, and demand for JET fuel - by 1.2%. Consumption fell in the case of motor gasolines (-3.6%), LPG (-0.4%) and light fuel oil (-4.4%).

By 2016, demand for refining products in Europe is expected to fall by 3.2%, which will mostly be attributable to a considerable (over 13%) decline in consumption of gasolines. At the same time, demand for middle distillates is expected to grow significantly, by 6.4% in the case of diesel oils and by 2.0% in the case of jet fuel.

In the European car market, new passenger car registrations fell slightly (by 1.4%) in 2011, to 13.6m new cars, whereas in the utility vehicles segment new registrations rose by 10%, to 2m vehicles. In the group of registered new passenger cars, an increasing interest in diesel fuelled cars was visible. In Q1 2011, the share of such cars in the total new car registrations was 55%, compared with 52% in 2010 and 46% in 2009.

[7] Mid-Term Oil Market Outlook 2011-2016, JBC Energy, October 2011.
[8] European Automobile Manufacturers' Association.

Poland – macroeconomic environment

In 2011, the Polish economy recorded a good economic performance. Real GDP growth was 4.3% (against 3.9% in 2010) on higher internal consumption and investments. Last year's average annual inflation was 4.3%.

There were also positive signals from the labour market, where employment was up by 3.2%, and salaries in the non-financial corporate sector rising by 5%. At the end of 2011, unemployment was 12.5%, staying relatively flat over the previous year's figure.

Polish fuel market

In 2011, the Polish economy was in the growth phase of another economic cycle. According to initial estimates by the Central Statistics Office, GDP grew by 4.3%. Internal demand recovered (up by 3.8%), and investment projects (up by 8.7%) that had been postponed in the previous years now stimulated the economy.

The good economic conditions prevailing in the country throughout 2011 had a positive impact on demand for transport services and on growing capacities of the transport sector, contributing to stronger demand for diesel oil, the key fuel used in transport. In 2011, demand for diesel oil exceeded 13.3m tonnes, and was up year on year 8%.[9]

Growing demand for diesel oil, combined with such factors as increasing dieselisation of the market and price volatility on the global petroleum markets, resulted in a drop of demand for gasoline and a nearly 5% lower consumption of this fuel in 2011 relative to 2010 (4m tonnes in 2011). Similar trends in fuels consumption were observed across all of Europe.

In parallel with the drop in demand for gasoline, there was a 4% decline in consumption of LPG, which fell from 2.2m tonnes in 2010 to approximately 2.1m tonnes in 2011. There was also a decline in consumption of light fuel oil, which fell in 2011 mainly due to a relatively warmer winter close to the end of the year and due to permanent changes in heating fuel consumption patterns. Demand for light fuel oil fell by 11%.

In aggregate, demand for liquid fuels, including diesel oil, gasoline, LPG and light fuel oil, rose by 2.9% relative to 2010, on the back of high consumption of diesel oil and a dynamic development of this market segment.

Economic forecasts for Poland are fairly optimistic, so the economy's good performance may be expected to stimulate demand for fuels in the following years. According to forecasts, demand for fuels should be growing at an annual rate of about 3%.

Owing to the increased number of airline passengers and aviation operations, in 2011 demand for jet fuel rose by 3% year on year. Prospects for jet fuel for the following years are good – higher air passenger traffic in connection with the Euro 2012 championships and the growing mobility of Poles as they become increasingly wealthier provide grounds to expect future consumption of this fuel to grow by about 5% a year.

[9] Estimates based on the Polish Organisation of Oil Industry and Trade (POPiHN) data.

Retail fuel market in Poland

2011 saw further consolidation of the retail segment and optimisation of the service station chain. At the end of the year, there were 6,764 service stations operating on the Polish retail fuel market, a number similar to the 2010 figure.

Data show that there was a drop in the number of service stations owned by independent operators, while in the case of large Polish and foreign chains the numbers rose. There were also some changes in the segment of motorway service stations. At the end of the year, there were 38 such stations in Poland, operating as Motorway Service Areas. This market segment is expected to grow further over the next few years.

Important events in the retail market in 2011 include the launch of a new brand in the economy segment - LOTOS Optima. At the end of the year, there were 50 service stations operating under this brand.

Development prospects

Two confronting trends may be expected to affect the development of crude prices. On the one hand, growing consumption of crude oil and its derivatives in the developing countries, unstable geopolitical situation and commodity speculation may be driving prices upwards. On the other hand, relative stagnation of the developed economies, gradual launch of production from new reserves and the growing use of non-conventional energy sources may confine the price increase, balancing supply and demand.

KBC[1] forecasts presented in December 2011 show that in the near term the price of oil will be on an upward trend, creating favourable prospects for upstream operations, including exploration and production from offshore and unconventional reserves.

Prospects for development of the downstream (production and trading) operations will be determined by the demand for petroleum products and achievable margins. The European Commission predicts that the GDP growth in Poland over the next few years (2.5% in 2012, 2.8% in 2013) will be well above the EU average (0.6% in 2012, 1.5% in 2013), which will be a factor of paramount importance for the growth of demand for fuels. Therefore, in terms of demand for petroleum fuels, prospects for the producers in Poland are good. A steady upward trend is visible particularly in the case of diesel oil, which is the Gdańsk refinery's key product. Prospects for the gasoline market in Poland are neutral. However, the recent fiscal changes in Poland, i.e. increase of the excise duty and of the toll surcharge on diesel fuel and LPG, may prompt new car buyers to opt for spark ignition cars, and in consequence change the structure of demand in favour of gasoline.

[1] World Long-Term Oil & Energy Outlook 2011, December 2011.

Letter from the Vice-President of the Board

The 2011 economic results provide an excellent springboard for further development of the Company.

Dear Stakeholders,

2011 was a year of a much more difficult economic situation for the oil industry than the previous one. Amid harsh external conditions, high volatility in the financial markets and political upheaval in different parts of the world, which all resulted in rising crude oil prices, Grupa LOTOS managed to post healthy financial results. PLN 29,260 million – it is the sales revenue generated by the Company after all four quarters of 2011. As compared to 2010, it translates into an increase of almost 49%. The operating profit of the Company amounted to PLN 1,085 million and the net profit stood at PLN 649 million.

The Company's performance testifies to the efficiency of the 10+ Programme, which was completed in March 2011 and resulted in the expansion of processing capacities at the refinery in Gdańsk. Over the last 12 months, Grupa LOTOS has proved its ability to use the new installations effectively. High operational flexibility of the refinery achieved thanks to the expansion has also enabled the Company to adapt quickly to the dynamically changing market environment.

As a result of the completion of the 10+ Programme investment project, in 2011 a record-high volume of crude oil processed of 9.2 million tonnes was achieved, which is a 13% increase on 2010. Also, the structure of the our product mix has changed in favour of high-margin fuels, in particular diesel oil and aviation fuel. This in turn has boosted the profitability of the Gdańsk refinery, giving it a competitive edge over less technologically advanced facilities.

Moreover, when talking about the important changes brought about by the completion of the 10+ Programme, the financial security it provides should also be mentioned. As the 10+ Programme was very precisely and accurately defined, its execution guarantees long years of safe operation for the refinery in accordance with the highest technical parameters, while at the same time enabling Grupa LOTOS to achieve the expected financial results. Therefore, the decision to take out a bank loan to finance the 10+ Programme has more than proved to be a correct one. Although the loan servicing costs are affecting the financial result of the Company now, it allowed Grupa LOTOS to take advantage of the opportunity to join the ranks of the most technologically advanced and most efficient refineries in Europe.

The successful completion of the investment project which was the key element of the previous strategy has also allowed us to concentrate on the challenges of the new LOTOS Group Strategy for the years 2011-2015. Despite unfavourable macroeconomic conditions, significant steps have already been made towards achieving its main pillars.

In the marketing segment, the Company has significantly increased the number of the LOTOS service stations, i.a. by launching a total of 50 new stations in our newly-established LOTOS Optima economy chain in 2011. Amid rising fuel prices, providing our customers with a competitively-priced product has proved to be the right decision with regard to increasing the Company's market share.

In the exploration and production segment, an important step on the way to implementing the Strategy was the finalized acquisition of full control over the Lithuanian production company AB Geonafta, as well as further steady expansion of our activities in the Baltic Sea. Unfortunately, due to circumstances outside our control, Grupa LOTOS experienced another delay in the execution of the YME project on the Norwegian Continental Shelf, which forced us to make a revaluation write-off for the assets of this project.

Another important issue worth stressing is the fact that, in face of the prevailing difficult economic situation in Europe, we have decided to implement the Optimum Expansion Programme for 2012. The Programme provides for the launch of a number of projects designed to improve the efficiency of the Company's activities, while keeping the key strategic projects going as planned. Grupa LOTOS proved before its ability to enforce austerity measures when the Anti-Crisis Package was implemented in 2009. The success of the Anti-Crisis Package allows to believe that also this time the results will be even more than satisfactory.

All in all, the results achieved in 2011 and the stable financial situation provide an excellent springboard for achieving the objectives set out for the coming years, and the development projects completed in 2011 and their effects testify to the Company' ability to meet its most ambitious strategic goals.

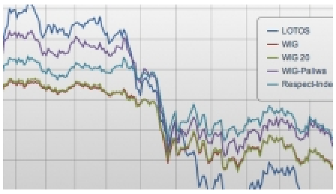
Yours faithfully,

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

Stock market

In 2011, Grupa LOTOS won the 1st place in the “Investor relations” category of the annual ranking “Listed Company of the Year”.

Grupa LOTOS on the stock market



As at the end of 2011, the market capitalization of Grupa LOTOS was PLN 3,026bn.

Grupa LOTOS in RESPECT Index

Taking into account the CSR criteria in the process of portfolio building can help reduce investment risk.

Grupa LOTOS on the stock market

As at the end of 2011, the market capitalization of Grupa LOTOS was PLN 3,026bn.

Grupa LOTOS debuted on the Warsaw Stock Exchange (WSE) on June 9th 2005. Under the Issue Prospectus, 78,700,000 ordinary Series A shares with a par value of PLN 1 per share and 35,000,000 ordinary Series B shares with a par value of PLN 1 per share were introduced to public trading. Following the issue of Series B shares, on June 28th 2005, the increase in Grupa LOTOS's share capital to PLN 113,700,000 was registered.

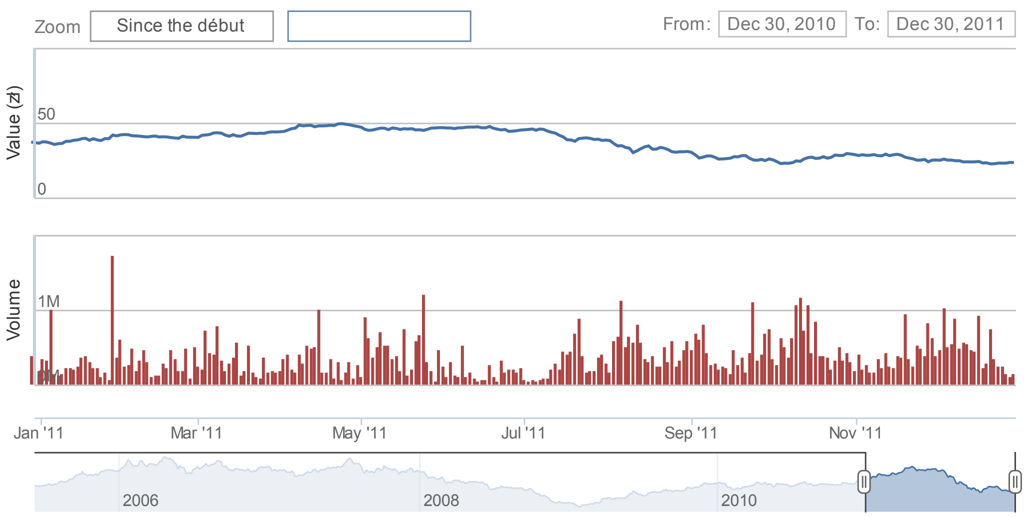
The issue price was set at PLN 29, and after the trading started, the market price rose to PLN 32, that is by 10.34%.

Through the public offering, Grupa LOTOS raised proceeds of PLN 1,015,000 thousand. They were applied towards the acquisition of shares in Rafineria Czechowice S.A. (80.04% ownership interest), Rafineria Jasło S.A. (80.01%), Rafineria Nafty Glimar S.A. (91.54%) and Petrobaltic S.A. (69%), as well as for the execution of the Comprehensive Technological Development Programme of the Company's refinery in Gdańsk (later called the 10+ Programme).

On July 17th 2009, another increase in Grupa LOTOS's share capital was registered, effected by way of the issue of 16,173,362 ordinary Series C shares covered with a non-cash contribution in the form of shares in LOTOS Petrobaltic, LOTOS Jasło and LOTOS Czechowice.

The current total number of Company shares is 129,873,362.

Stock price performance and trading volume



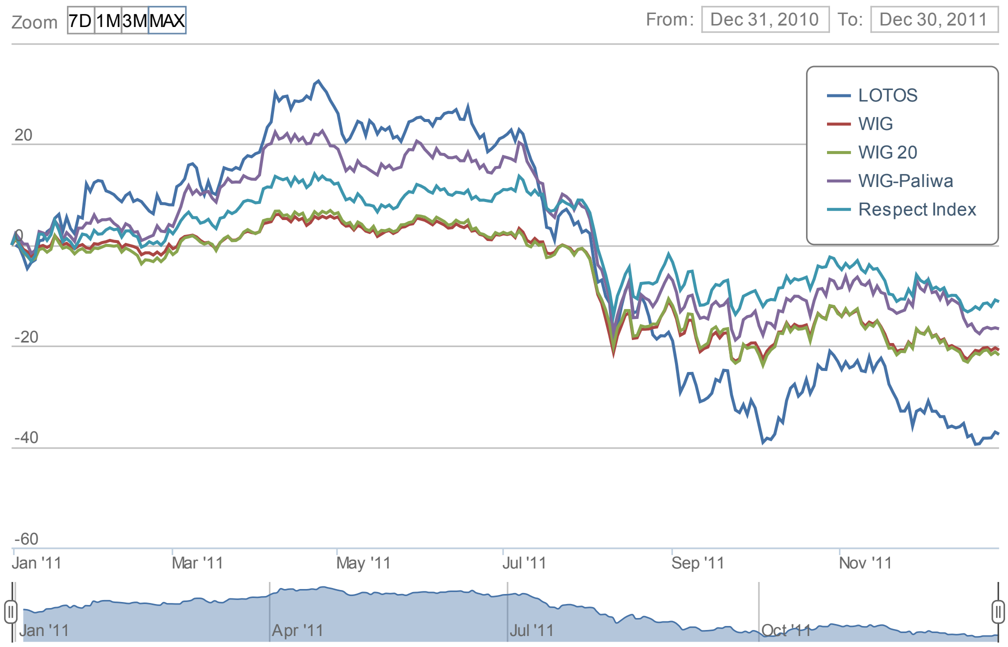
Shares' relative performance vs. stock-exchange indices

2011 was the time of falling stock prices and turbulences on the stock exchange. In the wake of the economic deceleration and the sovereign debt crisis in the eurozone, share prices on Warsaw Stock Exchange slid. Over the entire year, the WIG index lost 20.8% and WIG-20 - 21.9%. The index of fuel companies, WIG-PALIWA, fell by 16.6% in 2011 relative to 2010.

During the first half of the year, the price of Grupa LOTOS shares followed an uptrend, yielding a positive rate of return in the range from 10% to 30% at the beginning of the period. At the beginning of the year, the Company's shares outperformed significantly the WIG, WIG-20 and WIG-PALIWA indices. On April 21st 2011, the price of Company shares reached its all-year high of PLN 49.50 per share.

In the second half of 2011, the trend reversed and the Company's shares followed the market. At session close on December 31st 2011, the price was PLN 23.30 per share. The rate of return for the year 2011 was -35.90%. The Company's market capitalization as at the end of 2011 was PLN 3,026bn.

Grupa LOTOS price performance vs. market indices in 2011



All-year low and high closing prices of Grupa LOTOS shares and closing prices on the WSE

At year end

Year	Low (PLN)	High (PLN)	Closing price (PLN)
2009	7.21	32.80	31.80
2010	25.05	37.85	36.35
2011	22.26	49.50	23.30

Source: In-house analysis based on WSE data.

By month – 2011

Month	Low (PLN)	High (PLN)	Closing price (PLN)
January	35.01	42.69	41.25
February	39.12	43.15	40.27
March	40.09	44.30	44.15
April	44.00	49.50	47.51
May	43.10	48.00	46.70
June	43.57	47.80	45.15
July	37.00	46.43	38.23
August	28.00	39.49	30.84
September	23.70	31.00	25.24
October	22.32	30.00	28.68
November	22.89	29.24	25.00
December	22.26	26.45	23.30

Source: In-house analysis based on WSE data.

Rate of return

At year end

Year	Rate of return at end of period (%)	Rate of return at beginning of period (%)
2009	166.11	166.11
2010	14.31	14.31

2011	-35.90	-35.90

Source: In-house analysis based on WSE data.

By month – 2011

Month	Rate of return at end of period (%)	Rate of return at beginning of period (%)
January	13.48	13.48
February	-2.38	10.78
March	9.64	21.46
April	7.61	30.70
May	-1.70	28.47
June	-3.32	24.21
July	-15.33	5.17
August	-19.33	-15.16
September	-18.16	-30.56
October	13.63	-21.10
November	-12.83	-31.22
December	-6.80	-35.90

Source: In-house analysis based on WSE data.

According to data furnished by the WSE, the total value of trades on the Company shares, that is the aggregate value of all transactions on Grupa LOTOS securities concluded in 2011, was PLN 3,299.07m. 73.10% of Grupa LOTOS share were traded in 2011. The average daily trading volume was 377 thousand shares per session.

Company shares trading volume and value

At year end

Year	Trading value (PLN m)	Share in trade on the WSE (%)	Turnover rate (%)*	Average trading volume per session
2009	3642.56	1.11	173.00	381,938
2010	3684.33	0.88	53.40	234,464
2011	3299,.07	1.31	73,.10	377,048

* Turnover rate – the ratio of annualised trade for a current period to market capitalization at end of period.

Source: In-house analysis based on WSE data.

By month – 2011

Month	Trading value (PLN m)	Share in trade (%)	Turnover rate (%)	Average trading volume per session
January	272.12	1.33	5.50	350,709
February	248.99	1.26	4.70	303,908
March	305.68	1.28	5.60	313,718
April	285.75	1.51	4.60	315,443
May	445.54	1.94	7.50	464,260
June	171.52	0.77	2.90	177,348
July	230.24	1.19	4.40	274,450
August	345.68	1.29	8.10	478,356
September	258.08	1.18	7.50	442,567
October	287.72	1.41	8.60	532,307
November	209.86	1.06	6.00	391,731
December	237.88	1.57	7.60	467,967

Source: In-house analysis based on WSE data.

Stock market ratios

End of year, December 31

Year	Number of shares (million)	Weighted average number of shares (million)	Capitalisation at year end (PLN m)	Book value (PLN m)	Earnings per share (PLN)	P/E*	P/BV*
2009	129.87	121.144	4,130	6,809.4	7.44	4.28	0.61
2010	129.87	-	4,721	7,498.8	5.23	7.00	0.63
2011	129.87	-	3,026	7,781.4	5.00	4.66	0.39

* Based on the year-end price.

Source: In-house analysis based on the Company and WSE data.

Related content:

Shareholder structure **Corporate governance**

Grupa LOTOS in RESPECT Index

Taking into account the CSR criteria in the process of portfolio building can help reduce investment risk.

RESPECT Index

- R Responsibility
- E Ecology
- S Sustainability
- P Participation
- E Environment
- C Community
- T Transparency

Since November 19th 2009, Grupa LOTOS has been continuously included in the index of socially responsible companies listed on the Warsaw Stock Exchange – the RESPECT Index, which is the first such index in Central and Eastern Europe.

Since 2011, the composition of the index is updated twice a year. This means that in 2011 the Company has twice undergone external review for meeting the index criteria. The project is designed to identify companies managed in a responsible and sustainable manner. It also emphasises the attractiveness of investing in listed companies.

The analysis covers the companies listed on the WSE, except for companies listed on the NewConnect market, as well as foreign and dual-listed companies. Following the preliminary classification of companies against the free-float criterion, the further evaluation covers companies' corporate governance, information governance and investor relations practices, as well as practices in the area of environmental protection, social responsibility and employee relations. The correctness of the evaluation process is ensured by Deloitte, the audit firm.

We assess that the value *of Socially Responsible Investing (SRI)* has been constantly growing globally. The transparent and open information policy, which strengthens the Company's credibility among stakeholders and opens way for its assessment enabling by a broad range of entities, is an important element of the CSR strategy of Grupa LOTOS as a listed company.

Related content:

Awards and distinctions

Exploration and production (Upstream business)

Further development of the exploration and production segment is the priority of the Company's 2011-2015 strategy.

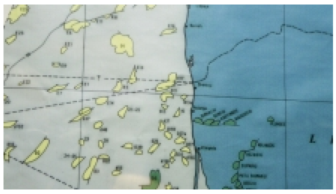
Management approach

LOTOS Petrobaltic implements the best solutions with respect to environmental protection, supporting the biodiversity of the Baltic Sea.

Achievements

In 2011, the acquisition of full control over the Lithuanian production company AB Geonafta was finalised.

Development plans

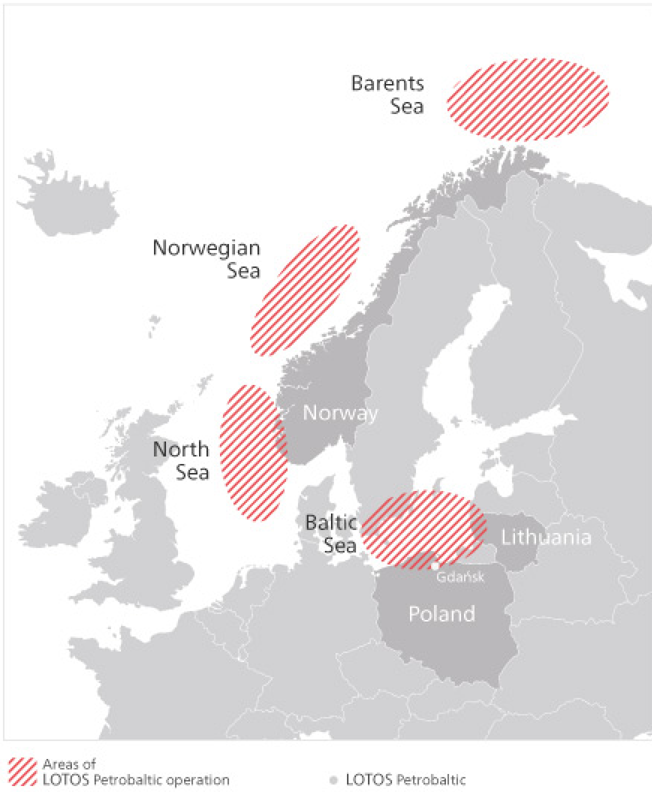


In Norway, the completion of development and launch of production from the YME field is planned in 2012.

Management approach

LOTOS Petrobaltic implements the best solutions with respect to environmental protection, supporting the biodiversity of the Baltic Sea.

Grupa LOTOS, through its subsidiary LOTOS Petrobaltic, is the only Polish enterprise engaged in hydrocarbons production in the Polish economic zone of the Baltic Sea. LOTOS Petrobaltic's equity links to Grupa LOTOS date back to 2005. The company operates in Poland, Lithuania and Norway.



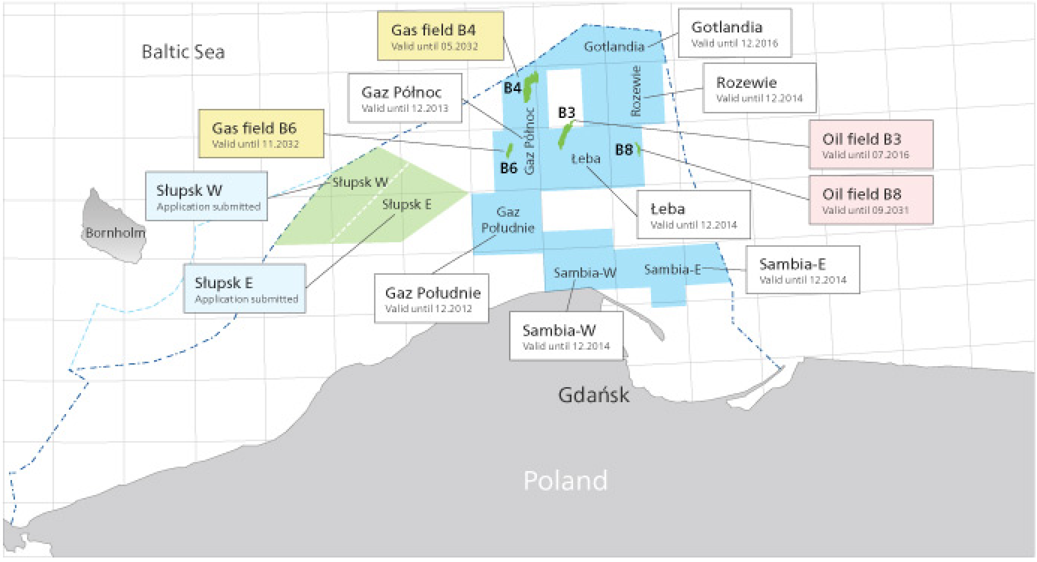
In Poland, exploration and production activities are conducted in seven exploration license areas (Gaz Północ, Gaz Południe, Gotlandia, Łeba, Rozewie, Sambia W and Sambia E) and four production license areas (Łeba, Smołdzino, Lubiatowo and Kuźnica). In the Baltic Sea, LOTOS Petrobaltic produces from the B3 field and develops the B8 field. LOTOS Petrobaltic operates offshore in Poland's economic area, over approximately 29 thousand sq. km.

Crude oil is also produced in Lithuania, through AB LOTOS Geonafta of Gargždai, Lithuania. LOTOS Petrobaltic is the sole shareholder in the company.

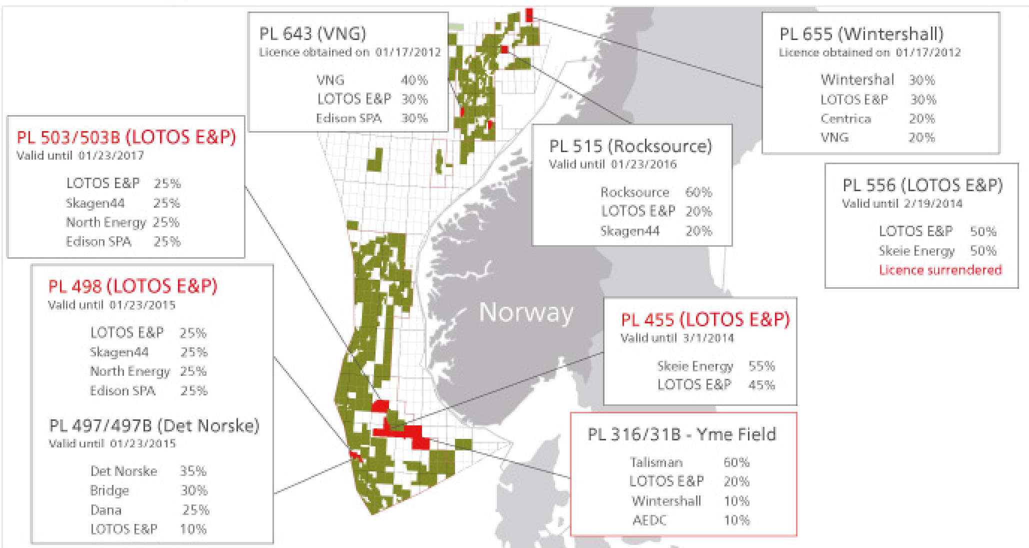
Intensive work is also on-going on the preparation of hydrocarbons production from the YME field in Norway, through LOTOS E&P Norge (LOTOS Exploration and Production Norge AS) of Stavanger, Norway, a company established in 2007.

Main areas of exploration and production operations

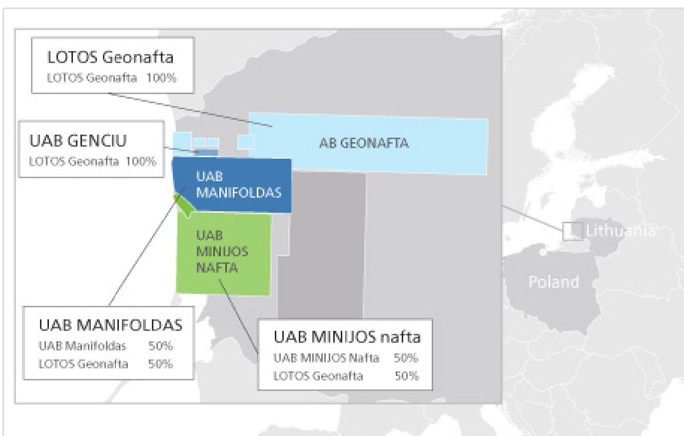
LOTOS Petrobaltic



LOTOS E&P Norge



AB LOTOS Geonafta



Strategic objectives in the area of exploration and production are pursued in line with the following development directions:

- continued operation in the Baltic Sea, on the Norwegian Continental Shelf and in Lithuania;
- identification of partially developed fields or fields in the closing stages of development, with a view to a prompt launch of production;
- joining growth projects and acquisition of new licenses, including onshore licenses;
- looking for growth opportunities in market niches, such as involvement in exploration and production in Lithuania;
- in acquiring hydrocarbon deposits, including shale gas - focusing on areas with low and moderate risk levels.

Related content:

Structure of the organization

Achievements

In 2011, the acquisition of full control over the Lithuanian production company AB Geonafta was finalised.

Major achievements in the hydrocarbon exploration and production business in 2011 included:

Poland:

- continued production from the B3 field,
- work aimed at developing the B8 field, including positive results obtained from the B8-Z5 injection well, which confirmed parameters of the assumed development concept,
- work, in partnership with other companies, on developing the gas fields (the B4 and B6 fields and the B21 prospect) in the Gaz Północ and Gaz Południe license areas,
- building competence in the shale gas exploration in Poland,
- submitting two license applications, concerning Słupsk W and Słupsk E license areas,
- performing a restructuring of the maritime transport area.

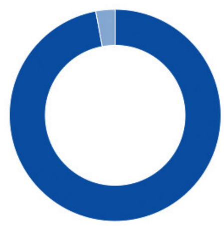
Lithuania:

- closing of the transaction of acquisition of control over the Lithuanian assets - the interest in AB LOTOS Geonafta increased from 40.59% to 100%,
- five production wells were drilled in by companies of the AB LOTOS Geonafta Group.

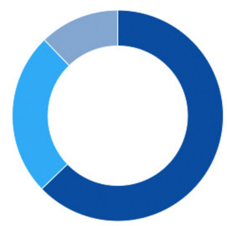
Norway – Norwegian Continental Shelf:

- LOTOS E&P Norge's continued participation in development of the YME field,
- acquisition of seismic data for the PL 503 license, where LOTOS E&P Norge is the operator,
- award of a 25% interest in the PL 503B license in January 2011,
- licenses PL 497/PL 497B and PL 498 – preparations for drilling of exploration wells,
- license PL 556: based on the estimates of potential reserves and assessment of the risk with respect to drilling a well in the Snowlion prospect, the operator, acting in agreement with its partners, made a decision not to recommend entry into the second stage of exploration (drilling of a well) – an application was made to abandon the license,
- license PL 455: based on the findings made by the license partners, a decision was made to submit a letter to the Ministry of Petroleum and Energy requesting a change of duration (prolongation) of stage I of the exploration work by 12 months, i.e. until information is available from the Gafdorfa well, planned to be drilled in 2011 in a neighbouring license area (PL 406). The ministry accepted the application for extension by 12 months of the time to make a decision whether to drill a well or abandon the license, and it also changed the structure of the license interests (Skeie 55%, LOTOS E&P Norge 45%), awarding operatorship of the license to LOTOS E&P Norge,
- continuation of exploration projects – following submission of license applications in 2011, two new licenses were awarded in January 2012, in which LOTOS E&P Norge holds an interest (PL 643 – LOTOS E&P Norge 30%; PL 655 – LOTOS E&P Norge 30%).

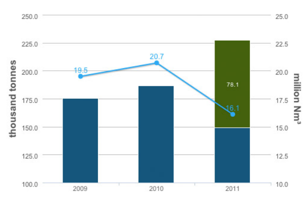
2C crude oil resources (thousand tonnes)



2P crude oil reserves (thousand tonnes)



Oil and gas production



In 2011, crude oil output totalled 227.1 thousand tonnes, of which:

- 78.1 thousand tonnes were produced in Lithuania,
- 149 thousand tonnes were produced in Poland.

As at December 31st 2011, crude oil reserves and resources held by the LOTOS Petrobaltic Group classified as 2P - amounted to 6.9 million tonnes (53.5m bbl) and those classified as 2C - 1.4 million tonnes (10.8m bbl), whereas its natural gas reserves and resources were 0.5 billion cubic metres (classified as 2P) and 6.4 billion cubic metres (classified as 2C).

In 2011, the situation of the LOTOS Group and the entire hydrocarbon exploration and production sector was determined mostly by the level of crude oil prices on global markets and the situation on the currency market. As a result of the crisis on the global financial markets, capital was withdrawn from stock exchanges and invested in non-financial assets, such as commodities, driving upwards the prices of crude. High prices of crude oil translated directly into higher revenues generated by LOTOS Petrobaltic. The economic slowdown and uncertainty as to whether eurozone countries such as Greece, Italy or Spain will be able to repay their debt, resulted in a significant depreciation of the developing countries' currencies, including the Polish currency. The uncertainty in the region also affects the perception of risk inherent in the upstream business development projects and an assessment of attractiveness of such projects by financing institutions.

Related content:

Progress in implementation of strategic objectives **Glossary of industry terms**

Development plans

In Norway, the completion of development and launch of production from the YME field is planned in 2012.

The following action plan has been adopted for the hydrocarbon exploration and production business for 2012:

Poland:

- stabilising the production rate from the B3 field,
- continued development of the B8 field,
- involvement in exploration for oil and gas in onshore Poland, including exploration for unconventional deposits,
- search for a potential partner to enter into cooperation in order to accelerate exploration activities and development of the gas reserves under the licenses held.

Lithuania:

- business consolidation of AB LOTOS Geonafta.

Norway – Norwegian Continental Shelf:

- completion of development and launch of production from the YME field,
- development of the portfolio of exploration licenses.

The plans also include monitoring other areas with a view to identifying potential projects with a low or moderate risk profile in North Africa, the Caspian Sea basin and Central and Eastern Europe.

AB LOTOS Geonafta

The LOTOS Geonafta Group comprises the following companies: AB LOTOS Geonafta, UAB Genciu, UAB Manifoldas and UAB Minijos Nafta. The transaction aimed at acquiring full control of AB Geonafta was closed on February 3rd 2011. In 2011, the Lithuanian assets were consolidated with a view to streamlining the structure of the LOTOS Petrobaltic Group.

LOTOS E&P Norge

At the end of 2011, activities were conducted in Norway in six exploration and appraisal license areas. Work was also under way to launch production from the YME field. After leaving the Abu Dhabi port on August 16th 2010, the production platform arrived at Stavanger on September 19th 2010, and then was towed to the YME 24 field on June 24th 2011. The operation of anchoring and installing the platform on location was carried out on June 26th 2011. Work is now under way to hook up the connections and prepare the platform for start-up and launch of production.

External factors material for the development priorities of the LOTOS Group in the upstream segment include:

- economic conditions on the global markets, including the commodity market, particularly with respect to oil and gas,
- political, fiscal and economic stability of Poland and of those countries where the LOTOS Group conducts or plans to conduct operations,
- legislative changes in the area of exploration and production,
- prices of materials and services offered in the oil and gas production industry, as well as their availability,
- currency exchange rates, including chiefly USD, LTL, NOK as well as EUR and GBP exchange rates,
- risk aversion by financing institutions and potential LOTOS Petrobaltic's business partners,
- sufficient market supply of potential assets which meet LOTOS Petrobaltic's criteria, and the assets' liquidity,
- level of activity on the M&A market.

Internal factors material from the point of view of the development and priorities of the LOTOS Group in the upstream segment include ensuring sufficient financial and human resources and know-how in the segment's competence centre.

Operating segment

The new installations of the 10+ Programme provide high quality products and offer the deepest level of conversion.

Management approach

High operational flexibility of the refinery enables the Company to adapt quickly to the dynamically changing market environment.

Achievements

The volume of crude oil processed in 2011 reached 9.2 million tonnes, the highest in the history of Grupa LOTOS' refinery in Gdańsk.

Development plans

The most important challenges for the refinery business are related to the climate and energy package of the European Union.

Management approach

High operational flexibility of the refinery enables the Company to adapt quickly to the dynamically changing market environment.

The LOTOS Group's operating activity focuses on refining operations and supplying the market with high quality products, while making optimum use of the LOTOS Group's production capacities and minimising its adverse environmental impact.

The LOTOS Group's operating segment comprises the operations of the Gdańsk refinery and of its production or support subsidiaries, including: LOTOS Czechowice, LOTOS Jasło, LOTOS Serwis, LOTOS Lab and LOTOS Straż. The refinery operated by Grupa LOTOS is the largest of the LOTOS Group's production plants.

Related content:

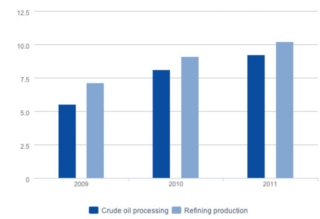
Occupational health and safety **Structure of the organization**

Achievements

The volume of crude oil processed in 2011 reached 9.2 million tonnes, the highest in the history of Grupa LOTOS' refinery in Gdańsk.

In 2011, LOTOS Group's activities in the operating segment were centred around the finalisation of the 10+ Programme. In December 2010, construction of all the production units was completed. At the beginning of the second quarter of 2011, the last key installation built as part of the programme was launched, and the Gdańsk refinery started working in a complete technological configuration designed as part of the 10+ Programme.

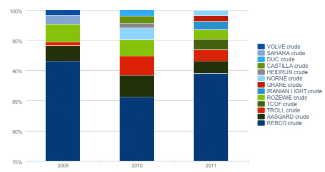
Crude oil processing and refining production (m tonnes)



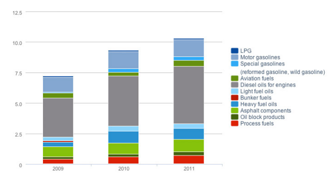
10+ Programme

The 10+ Programme was the largest CAPEX project to have ever been undertaken by Grupa LOTOS. Its goal was to increase the throughput capacities and depth of conversion of the Gdańsk refinery, and consequently to improve the Company's competitive position. In 2011, the last two of the 10+ Programme installations - hydrocracking and solvent deasphalting - were launched. In line with the license and construction agreements, test operation of the two installations was carried out, and in June 2011 a 72-hour test run of the entire refinery was conducted. This test was one of the key requirements of the credit facility agreement executed for the purposes of the 10+ Programme. All test runs confirmed the correctness of the assumptions adopted for construction of the installations and implementation of the entire project.

Types of crude oil processed (%)



Refinery's products

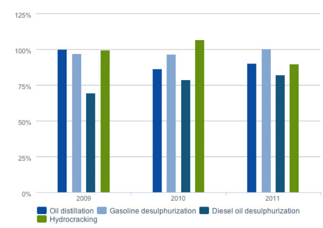


Other projects

In addition to the 10+ Programme, Grupa LOTOS was implementing other projects designed to enhance the efficiency, safety and technical performance of its assets, while mitigating their environmental impact. The key projects included:

- modernisation of the catalyser regeneration control system on the reforming installation: the purpose of the project was to improve the reliability of the system,
- Computerised Maintenance Management Systems: the purpose of the project was to improve the safety and reliability of the installations' operation by integrating information on the units' technical condition, the manner of implementing preventive measures for particular units, and the cost of such measures. The system provides for optimisation of the costs of maintenance of equipment, and for improving the effectiveness of planning and managing continuity of the refinery's operations.
- modernisation of the 2000 S-20 tank: the purpose of the project was to adapt the tank to and ensure its compliance with the jet fuel storage standards.

Utilization of production capacities of the refinery's main production units (%)



Refining

The volume of crude oil processed in 2011 reached 9.2 million tonnes, the highest in the history of the Gdańsk refinery.

The volatility of refining margins in 2011 and dynamic changes of the market conditions were not conducive to maximising the throughput. The refinery worked at a load factor that was optimum given the market situation.

The main type of crude processed by Grupa LOTOS was Russian REBCO crude, however processing of other crude oil types, particularly those originating from the North Sea, was intensified. With two independent crude distillation lines, the refinery had more flexibility in selecting crude blends, as a result of which it was able to optimise its output. Depending on the market environment, by appropriately selecting the crudes, the refinery maximised its diesel- and gasoline-production capacities, and limited the heavy fuel oil output.

As in the previous years, the crude transported by sea had a considerable share in the total refining volume.

In 2011, Russian REBCO crude continued to have the largest share in the total volume of crude refined by Grupa LOTOS, but a notable portion of the total refining volume was also represented by other crude types, namely Aasgard, Troll, Grane and Norne, produced from wells in the North Sea. Besides those crude types, the refinery processed also one shipment of crude originating from the Middle East - Iranian Light. This way the sources of feedstock were more broadly diversified, which in the context of the Grupa LOTOS's involvement in implementation of national policies had an added benefit of significantly enhancing Poland's energy security.

Apart from crude oil, other production inputs included components and feedstock purchased for further processing, as well as enhancing additives. Fuel components (such as ethanol, ETBE and FAME) and enhancing additives still remain indispensable production inputs.

The increase in the volume of crude processed by the Gdańsk refinery led to a significant reduction of diesel oil imports to Poland. In previous years, Grupa LOTOS was a major importer of diesel oils so as to – through higher supply – build a market for its own product, which was then introduced in 2010. Following the launch of new installations, built as part of the 10+ Programme, it was possible to replace imported diesel oil with diesel oil produced at the Gdańsk refinery of Grupa LOTOS.

One of the major successes in 2011 was reaching a record high share of diesel oils and jet fuel in the total fuels output (the combined share of diesel oils and jet fuel was 56.5%).

Utilisation of the refinery's installed capacity in 2011 was adjusted to the current market situation, and maximising the refining margin volume was the overarching operational objective, reflected in the optimised - from the economic point of view - crude throughput volume.

Another major achievement related to high utilisation (89.9%) of the production capacities of the two hydrocracking installations which are operational. Similarly, the refinery also reported record high utilisation of processing capacities of the gasolines desulphurisation installations (100.1%).

Solomon – comparative study

In 2011, Grupa LOTOS's refinery once again took part in the Solomon Associates comparative study of the refining industry, for the financial year 2010. The fuel refinery was included in the *Europe, Africa & The Middle East Fuels Refinery Performance Analysis*, which in 2011 covered 111 refineries from these geographical regions. The lube refinery of Grupa LOTOS was included in the *Worldwide Paraffinic Lube Refinery Performance Analysis*, which addressed 38 refineries in 2011.

2010 was a breakthrough period for Grupa LOTOS' fuel refinery. For the first time, the Solomon Associates study featured data on new refinery units erected as part of the 10+ Programme. However, due to the start up schedule, two key units, namely the mild hydrocracking unit (MHC) and solvent deasphalting unit (ROSE), were not yet operational in 2010. Therefore, the Solomon study for 2010 does not reflect the full potential of the Gdańsk refinery.

Yet, Grupa LOTOS's refinery scored very high among its peers. Despite limited utilisation of its processing capacity, the refinery managed to retain very high energy efficiency, while several key organizational initiatives brought positive results. Notably, the period between overhaul shutdowns was extended from three to four years. In addition, the overhaul shutdown carried out in 2009 was more efficient than the previous one and took 30% less time to complete, at reduced maintenance costs. All these factors contributed to the significant improvement of the Grupa LOTOS's refinery's position in mechanical availability and maintenance costs.

The Staff 2009 programme was also important for the refinery's efficiency. The programme envisaged hiring and training of personnel to operate the new units. Thanks to organizational changes at the Production Division and the fact that the new built units had their previous equivalents at the refinery, the number of new hires was not substantial, which led to an improvement of employment ratios at the plant.

As the refinery was not fully operational in 2010, maintaining the net cash margin and return on equity at levels similar to those posted in 2008 was a fully satisfactory result.

Extension of the period between overhaul shutdowns had also a positive effect on the performance of Grupa LOTOS's lube refinery (the line where oil bases, slack waxes, and paraffin products are produced). Although the oil unit has not been modernised for years, production technologies are optimised on a regular basis and new products are launched, which leads to improvements of individual ratios. The changes resulting from the start-up of new units built under the 10+ Programme are also of significance for the oil unit's future. The 10+ Programme had no effect on the oil unit's infrastructure, but the integration of new units within the refinery offered new opportunities for the oil unit as well.

Grupa LOTOS meets the National Indicative Target

Methyl esters produced by LOTOS Biopaliwa in Czechowice-Dziedzice play an important role in implementation of the

National Indicative Target. In 2011, the FAME plant operated in a stable manner, and produced 103.6 thousand tonnes of bio-components, thus exceeding the project assumptions. The consumption of materials, chemicals and energy was more advantageous than originally assumed. The quality of FAME produced was markedly higher than the applicable standards.

Research and Development

Following the launch of the mild hydrocracking unit (MHC) built under the 10+ Programme, in 2011 Grupa LOTOS started to produce and market a new product, namely paraffin fraction. Additionally, Grupa LOTOS's R&D efforts focused on developing technologies for the Oil Unit's products. The key R&D achievements in 2011 included:

- R&D work on production of Group II base oils from paraffin fraction,
- production and sale of the first batch of base oils with sulphur residue below 0.5%m/m, to be used as feedstock for production of higher quality engine oils,
- upgrade of Group I base oils production technology using the new product – paraffin fraction, which led to improved oil efficiency and enabled production of SAE 30/95 base oil with kinematic viscosity of >90cSt at 40^0C. Physical and chemical properties of base oils were improved (viscosity coefficient in particular),
- upgrade of heavy extract production technology using the new product – paraffin fraction, which has higher share of aromatic hydrocarbons, an advantage in synthetic rubber and rubber compounds production,
- launch of regular production and sale of ceresin as a component for production of white ceresin meeting the requirements set by the American Food and Drug Administration (FDA).

In the area of road bitumen production technologies, R&D work was carried out to design production technology for environmentally friendly bitumen-rubber binders for use with road mineral-bitumen compounds. In addition, the efficiency of demulsification of oxidation waste at LOTOS Asfalt's production units was reviewed with a view to improving its quality.

In 2011, development work also focused on oil products produced by LOTOS Oil. The most important lubricant-related R&D activities included:

- completion of research into ways of improving the quality of oils for passenger cars, in reliance on the Company's own base oils, to meet the ACEA 2008 specification, and commencement of research to meet the ACEA 2010 specification – the research and Approval procedures are scheduled for completion in 2012,
- commencement of research into ways of improving the quality of oils for trucks, in reliance on the Company's own base oils, and obtaining of Approvals – the research is scheduled for completion in 2012,
- completion of compliance tests of industrial transmission oils – made with the Company's own base oils – with the Flender/Siemens MD issue 13 specification. It was the first mineral oil to meet the Flender/Siemens MD quality requirements,
- introduction of six new engine oil types (incl.: LOTOS Quazar S 0W-20, LOTOS Quazar K/FE, LOTOS Synthetic Plus),
- extension of 40 Approvals for lubricant oils,
- obtaining of 16 Approvals for new oils.

Related content:

Progress in implementation of strategic objectives **Glossary of industry terms**

Development plans

The most important challenges for the refinery business are related to the climate and energy package of the European Union.

In the coming years, the operating segment's activities will focus on efficient use of the expanded processing capacities brought by the successfully completed investment programme. Additionally, efforts to introduce natural gas as a process fuel at the refinery's units are to be completed, which will have a positive effect on greenhouse gas emissions and will allow us to launch new petroleum products.

The Company is also preparing for an overhaul shutdown in 2013, i.e. shutdown of primary and auxiliary units in order to carry out periodical maintenance, cleaning, equipment repairs and replacement, technical inspection, and catalysts replacement.

For the refinery business, the most important challenges at the moment are those related to the climate and energy package. Regulations comprising this package introduce comprehensive approach to greenhouse emissions management across in the entire EU and are aimed at achieving EU's objectives for prevention of climate change adopted by the European Council in March 2007. Implementation of the directive of November 24th 2010 on industrial emissions (2010/75/EU) and review of the BREF reference documentation and BATs outlined therein may necessitate changes to the maximum values of harmful emissions from process furnaces allowed under the integrated permit.

In 2012, the new legal framework related to meeting of the National Indicative Target will be important for Grupa LOTOS, as will other regulations, including proposed directives relating to the climate package, i.e. amendments to the energy law, amendments to the act on biofuels or the act on renewable energy sources. Also, new taxation on minerals' production is expected, which may have a significant impact on the performance of the upstream segment.

For the implementation of renewable energy sources in transport, Grupa LOTOS will pursue the National Indicative Target within the limits set by relevant regulations. Planned introduction of diesel oil with the 7% admixture of bio-components will help reduce the costs of meeting this statutory obligation.

It seems probable that, due to new regulations enabling a reduction of the National Indicative Targets, a significant number of entities will take advantage of their statutory rights, which will result in a decreased amount of bio-components and biofuels made available on the market in 2012 compared to 2011. This may favourably affect fuel prices, as there will be less pressure to offset the high prices of bio-components added to fuels.

Projects launched in 2011 will be continued in the coming years. The key projects include:

- construction of xylene separation and reformate splitter unit: separation of xylene fraction from reformate will reduce the share of noxious aromatics in engine gasolines blended at the refinery, in line with prescribed standards and environmental protection trends. Sales of xylene will complement or replace sales of reformate, which is currently the method of reducing the share of noxious aromatics in gasoline products,
- replacement of furnaces at the furfural extraction unit and the hydrodesulphurisation and gasolines separation unit: both projects are aimed at improvement of energy efficiency and safety levels of the units and the entire refinery,
- extension of a high pressure gas pipeline to connect it to the refinery: the project is designed to connect the refinery with the high pressure gas grid and use gas as a component for hydrogen generation and a fuel for the refinery's fuel gas network and CHP plant; use of natural gas will significantly reduce emissions of gases (CO_2, SO_2, NO_x) and dust to the atmosphere,
- construction of a flare gas recovery unit designed to reduce atmospheric emissions of gas pollutants and the plant's energy intensity. The project will consist in construction of a unit redirecting part of the gases from the discharge pipeline to the refinery's fuel gas system to fuel process furnaces,
- air-tight sealing for tanks of the wastewater treatment plant – stage 2: the project, which is the continuation of the project executed in 2009-2010, is designed to mitigate the odour nuisance by sealing the air space of open tanks of the wastewater treatment plant and utilisation of degassing products on bio-filters.

The most important new projects launched in the previous years and continued in 2012 include:

- construction of a Vapour Recovery Unit (VRU) at the railway tank filling facility in Gdańsk: the project involves construction of a recovery unit for vapours originating during the filling process and improvement of the existing VRU's capacity. The project is implemented in connection with the expected increased utilisation of the filling facility, as well as of environmental protection regulations imposing new obligations for air-tight sealing of petroleum products filling process, including filling of products other than gasolines (Regulation of the Minister of Economy of November 21st 2005 on technical conditions to be met by liquid fuel bases and stations, long-distance transmission pipelines which transport petroleum and petroleum products, and their locations),

- Energy Trading Risk Management: the ETSM system is the key element enabling efficient trading and risk management activities, which significantly reduces the operational risk inherent in real and financial transactions related to trading in raw materials and products, as well as currency hedging,
- transfer of production control systems from the Central Control House to a building that can withstand an outside explosion. Apart from the concentration of control station and operator equipment in one place, the project involves construction of a building with cloakroom for 290 shift employees of three complexes,
- upgrade of the liquid gases separation unit: the project is to increase the unit's production capacity, which will in turn enable the use of all process liquid gases to produce LPG suitable for use in winter conditions,
- construction of a river bank loading and unloading terminal: the project is to increase logistic capability and efficiency through the use of barges and small vessels to transport refinery products and imported fuel components. Completion of the project will facilitate dispatch and collection of certain products in quantities larger than it is possible with the use of rail tanks. The project will also relief the current load on the filling facilities and rail transport, and will enhance flexibility of our efforts to attract new customers (both domestic and foreign).

Design and concept work will be continued to define the scope of further expansion of the Gdańsk refinery, which is to involve the addition of a heavy residue gasification unit. Its aim is minimise the production of heavy fractions, as it has a negative impact on the refinery's margin. The concept work will focus on better use of paraffin fraction from mild hydrocracking (MHC) in production of fuels and lubricant oils, through construction of a new unit to separate paraffin fraction and include it in the refinery's technological configuration, which will be related to future work designed to upgrade and change the manner in which the Oils Unit is utilised.

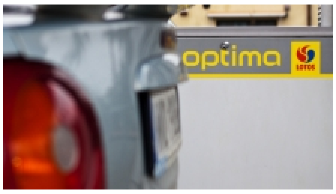
Market activities

A total of 63 new service stations launched by the Company in 2011 is a record-high annual increase on the Polish retail fuel market.

Management approach

New processing capacities enabled changes in the volume and structure of the Company's petroleum product sales in 2011.

Achievements



In 2011, the LOTOS Group's share in the domestic fuel market increased to 33.5%, whereas total sales exceeded 10 million tonnes.

Development plans

As for the position on the retail market, the strategic objective is to develop consistently the premium and value segments.

Management approach

New processing capacities enabled changes in the volume and structure of the Company's petroleum product sales in 2011.

In 2001, marketing activities were carried out by the LOTOS Group’s parent as well as its subsidiaries: LOTOS Paliwa, LOTOS Tank, LOTOS Oil, LOTOS Asfalt, LOTOS Parafiny and LOTOS Kolej.

Key products of the marketing segment

Fuel products	
	LOTOS DYNAMIC 98 gasoline – modern fuel offering better performance and engine protection than standard products. It contains antioxidants and washing additives. The increased content of the washing additive supports better cleaning of the engine, lengthens its useful life and economises fuel consumption.
	LOTOS DYNAMIC DIESEL diesel oil – perfect fuel for modern diesel engines. Owing to the use of friction-reducing components, it offers more power efficiency of the engine and guarantees start-up even at -32°C. The additives significantly improve nozzle flow capacity and engine lubricity, extends useful life and improves performance of the engine.
	LOTOS RED heating diesel oil (ONDCO) – owing to its unique additives and low sulphur content, the product has the best-in-the-class parameters in terms of oxidation resistance, anti-corrosive action and maintaining cleanness of nozzles, thus extending the useful life of heating equipment. Owing to its features, the product guarantees optimised combustion process and meets all requirements of furnaces of the newest generation. These properties are also highly environment friendly, owing to significantly reduced emissions of noxious combustion products.
	IZ40 diesel oil – meets the requirements of arctic fuels, guarantees engine start-up at very low temperatures (CFPP of -32°C).
Non-fuel products	
Engine oils	**LOTOS Quazar** – premium engine oil, high-end product line in the LOTOS Oil product offering, designed for distribution through the chain of Authorised Service Stations, mostly of the Subaru and KIA brands, but also for a broad range of other customers.
	LOTOS Thermal Control – product line dedicated to passenger cars and comprising synthetic semi-synthetic and mineral products. The automotive product line is supplemented by products dedicated to older cars (City line), as well as gear oils and consumable fluids.
	Turdus – product for modern lorries.
	RG Trans – product for older lorries.
	Superol and Agrol – products for the agriculture segment.
	Marinol – highly specialised marine oils.
Industrial oils	**Transmil** – gear oils.
	Hydromil – hydraulic oils.
	Remiz turbine oils, as well as machine oils and industrial lubricants.
Plasticizers	**TDAE** and **RAE** class plasticizers offered under the QUANTILUS T50 and QUANTILUS T60 brands, used by tire and rubber manufacturers. These products meet the requirements of the EU REACH directive concerning the registration of chemical products and have been approved by global tire manufacturers.
Bitumens	**MODBIT** – modified bitumens, enhancing pavement resistance to rutting, extending pavement durability and increasing resistance to extreme weather conditions. These bitumens have been used in the construction of A1, A2 and A4 Motorways, as well as numerous national roads and airport pavements (e.g., at the Warsaw Chopin Airport).

The LOTOS Group operates on both the domestic and foreign markets. In 2011, the geographical coverage of individual product groups was as follows:

Engine fuels – sales mainly focused in Poland, principally to retail customers, international corporations, institutional customers, service station dealers and wholesalers supplying local markets.

Additionally, as part of LOTOS Biznes's fleet operation, the LOTOS Group acquired customers, mainly road carriers in the Baltic states (Lithuania, Latvia and Estonia), with a view to encourage foreign entities to purchase fuels at LOTOS service stations. In those countries, LOTOS Paliwa also operated as ExxonMobil Deutschland's sales agent, acquiring customers for a fleet product, the LOTOS/ESSO card. As part of cooperation with WOG, a Ukrainian company, whereby LOTOS accepts fuel cards issued by WOG, LOTOS Paliwa sells fuels to Ukrainian and Russian road carriers through its station chain.

Fuel products manufactured by Grupa LOTOS's refinery in 2011 were also exported to the United Kingdom, Sweden, the Netherlands, France, the Baltic states, the Czech Republic and even as far as Spain.

Aviation fuel – combusted in plane engines both in Poland and in the Baltic area, as well as planes using the Prague Ruzyne Airport. Aviation fuel was sold in Poland through two distribution channels: at the Gdańsk airport in cooperation with Statoil and through the wholesale channel, where the customers included the Polish Helicopter Emergency Medical Service and Petrolot, a national distributor of aviation fuel. Seaborne exports were performed under forward contracts and spot transactions, mostly to Scandinavia (Sweden, Finland and Norway).

Engine and industrial oils – domestically, sales were performed through the wholesale channel – Regional Distributors – and directly to end customers, which enabled the Company to gather knowledge of the market and thus to promptly and effectively respond to the market needs. In this channel, customers included industry, transport depots, authorised and non-authorised garages, service station chains, automotive part distributors and large-area retail chains.
In 2011, the Company recorded material increase in sales on all most important foreign markets, including primarily EU countries, Central Asia and the Middle East. However, the strongest growth was seen in exports to the neighbouring countries. Oils and lubricants under the LOTOS brand are sold to over 45 countries all over the world. On some of the foreign markets, support services are being actively developed through Oil Service of LOTOS Oil. Intensive support of the Authorised Distributors' sales on foreign markets has strengthened LOTOS Oil's image abroad.

Bitumens – main customers are road and bridge contractors, using bitumen to produce mineral and bituminous mixtures. Other customers include manufacturers of road emulsions, bitumen felts and waterstop materials. The European Union is the main market for the LOTOS Group's bitumens. In 2011, the key markets were: Poland, Germany, Scandinavia, Austria, Baltic states, Russia, Romania, the Czech Republic, Slovakia, Hungary, Ukraine, the Netherlands, Switzerland, France, the United Kingdom and Moldova.

Heavy fuel oil – domestic sales were mainly to entities with their own generators of heat in the form of heat water and process steam.
2011 saw continued sales of heavy fuel oil to the Scandinavian countries. The product was also sold at ports on the Baltic Sea, whence it was re-exported to distant markets, mainly the US.

Paraffins – in 2011, products in this group were sold to the following customers on the domestic market:

- candle paraffins – candle and votive candle manufacturers;
- dedicated industrial paraffins and waxes:
  - paraffin emulsions – chipboard manufacturers,
  - anti-caking agents – artificial fertiliser manufacturers,
  - low-oil waxes WOSKOP – rubber and tire manufacturers.

In 2011, paraffins were exported mainly to Germany, the Netherlands and Slovenia, as well as to Ukraine, Lithuania, Hungary, Italy, the Czech Republic, France, Belgium, the United Kingdom and Spain.

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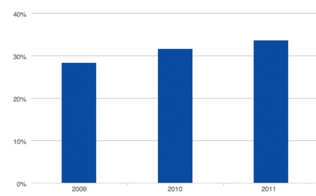
Achievements

In 2011, the LOTOS Group’s share in the domestic fuel market increased to 33.5%, whereas total sales exceeded 10 million tonnes.

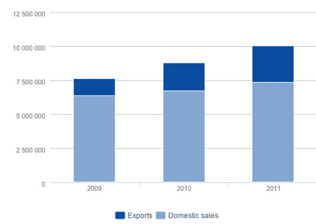
Through strengthening its main sales channels and searching for new growth opportunities, the LOTOS Group has been steadily strengthening its market position. Emphasis on high service quality, meant as not only reliable uninterrupted supplies and appropriate logistics infrastructure, but also openness to solutions facilitating cooperation and settlements (e.g. electronic data transfer and e-invoices), brought about a further increase in the LOTOS Group's market share. The LOTOS Group's share in the domestic fuels market was 33.5% in 2011.

2011 saw further increase in LOTOS Group's consolidated sales. Total sales exceeded 10 million tonnes, up 14% higher year on year. Sales of diesel oils and bitumens were the largest contributors to the increase. The launch of new processing capacities under the 10+ Programme resulted in changes in the volume and structure of the LOTOS Group's sales. Following the expansion of crude processing capacities, the volumes of petroleum products sold in Poland and abroad. Increased exports volumes were recorded chiefly for diesel oils, aviation fuels and engine gasolines.
In 2011, Grupa LOTOS launched a new product: paraffin fraction. Following the inclusion of the Lithuanian AB Geonafta company into the LOTOS Petrobaltic Group, the LOTOS Group's sales volume included crude oil from Lithuanian fields, sold to third-party customers.

The LOTOS Group’s share in the domestic fuels market (%)



LOTOS Group’s sales (tonnes)

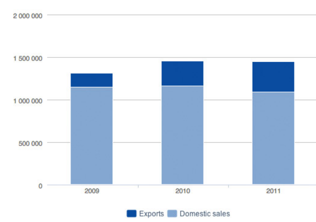


Sales of engine fuels

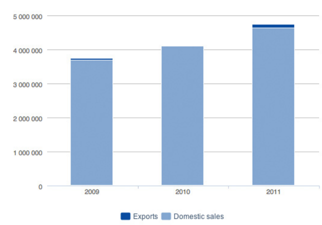
Domestic sales of LOTOS Group's gasolines went down by 6% on 2010, mainly due to weaker demand for the products suppressed chiefly by higher fuel prices. Exports of engine gasolines grew by 22% (65 thousand tonnes) year on year. The products were transported by sea to the UK, Sweden, the Netherlands and Estonia.

The highest sales increase was recorded for diesel oil; it was another year of the uptrend observed for a number of years. Grupa LOTOS effectively exploits the growing demand for diesel oil from the growing domestic freight services sector. In 2011, there was a 16% year-on-year growth in total sales of diesel oil. Domestic sales of the product grew by 13%. In 2011, the share of diesel oil exports in total exports was over 2%, compared with 0.4% in 2010. The key export markets were the United Kingdom, France, Spain, the Czech Republic and Denmark.

LOTOS Group’s sales – gasolines (tonnes)



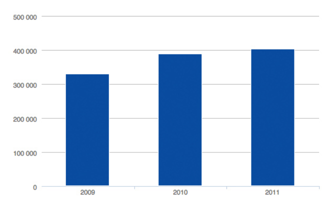
LOTOS Group’s sales – diesel oils (tonnes)



Sales of heating diesel oil

In 2011, sales of heating diesel oil increased by 4% year on year. As in 2010, the product was sold only in Poland. The sales increase was attributable to stronger demand driven by the weather conditions which lengthened the heating season. Other contributing factors included extension of the network of regional dealers of heating diesel oil and enhanced availability of the product at fuel depots, which helped optimise the distribution.

LOTOS Group’s sales – heating diesel oil (tonnes)



Sales of aviation fuels

Relative to 2010, total sales volume of JET fuel by the LOTOS Group grew by

LOTOS Group’s sales – aviation

82%. The key distribution channel for the product was seaborne export, mainly to the Scandinavian markets. Aviation fuel was sold in Poland through two distribution channels: at the Gdańsk airport in cooperation with Statoil and through the wholesale channel, where the customers included Petrolot, a national distributor of aviation fuel.

Sales of oil products

Total volume of oil product sales increased by 14% relative to 2010, thus exceeding 262 thousand tonnes. Domestic sales and exports grew by 4% and 19%, respectively.

The main foreign markets for LOTOS Group's oil products were the EU countries, as well as countries in Central Asia and the Middle East.

On the market of engine oils, interest in single-grade mineral oils weakened further, chiefly on the back of the modernisation of agricultural machinery. Similarly in the automotive market, a shift of demand from mineral engine oils to semi-synthetic or synthetic oils was seen. As the leader of the mineral oils segment, LOTOS Oil was hit the hardest by the falling demand for that product category.

In an attempt to identify new growth opportunities, LOTOS Oil has continuously worked on developing the production of process oils, i.e. plasticizers. Owing to the consistent expansion of sales in 2011, the company entered the group of important major suppliers of modern TDAE plasticizers, both in Europe and beyond.

The positive dynamics of base oils sales was attributable to the global economic situation, with growing prices and limited supply of these products.

Sales of bitumens

There was an 18% year-on-year growth in total bitumen sales in 2011. Advanced sale supporting tools, carefully planned logistics and excellent distribution of bitumens for road construction projects in Poland and for exports, all materially contributed to the increase. The exports markets included Switzerland, Sweden and Romania. The volume of domestic sales of bitumens increased by 22% (or by nearly 124 thousand tonnes) year on year. Such high demand was driven by the execution of road construction projects planned in line with the Programme for Construction of National Roads and Motorways in Poland, as part of the country's preparation to EURO 2012. LOTOS Asfalt's products were supplied for the most prestigious road construction projects in Poland, including the completed Nowe Marzy-Toruń section of A1 Motorway.

A 16% year-on-year increase was also in sales of modified bitumens. The high sales volume was possible owing to the completion of an investment project in Jasło, where the third (after Gdańsk and Czechowice) modified bitumen unit was launched, with production capacity of 300 thousand tonnes of road bitumens per year.

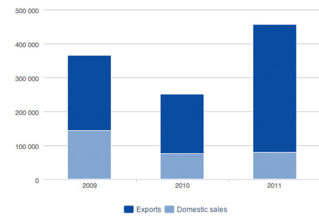
Sales of heavy fuel oil

In 2011, total volume of heavy fuel oil sales dropped by 8% year on year. The volume decreased by 12% on the domestic market and by 7% on export markets. This resulted mainly from redirecting heavy residue flows to a new product group, i.e. bitumens. Heavy fuel oil was exported to Norway and Estonia, as well as to ports on the Baltic Sea, whence the product was re-exported.

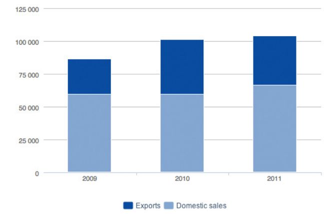
Sales of paraffins

In 2011, total sales of paraffins remained practically unchanged year on year. Products marketed domestically were mainly candle paraffins sold to leading

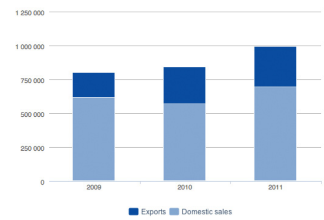
fuel (tonnes)



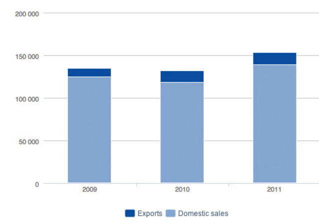
LOTOS Group's sales – oil products (tonnes)



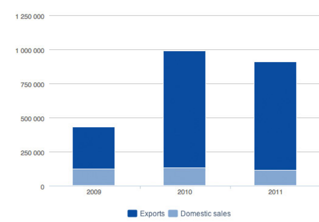
LOTOS Group's sales – bitumens (tonnes)



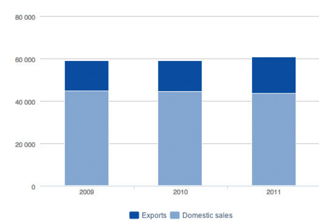
LOTOS Group's sales – modified bitumens (tonnes)



LOTOS Group's sales – heavy fuel oil (tonnes)

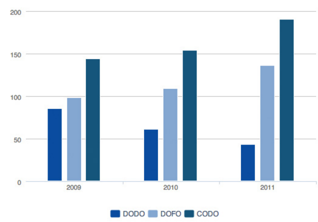


LOTOS Group's sales – paraffins (tonnes)



Changing structure of the LOTOS retail chain

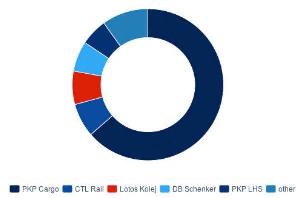
manufacturers of candles and votive candles. The main export markets were Germany, the Netherlands and Slovenia.



Development of the service station chain

The LOTOS Group's efforts in the Polish retail market are focused on achieving sales allowing it to meet its strategic objective for that business area, which has been defined as achieving a 10% market share in 2015. The LOTOS Group closed 2011 with a 7.6% market share, which confirmed the continued trend of strengthening of its market position.

Share in the domestic freight market in 2011 (%)

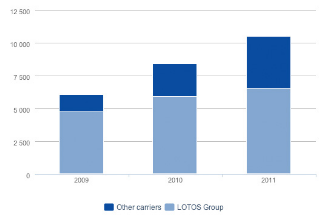


As at the end of 2011, the chain of LOTOS service stations comprised 369 outlets, including:

- 190 own stations,
- 136 partner stations, and
- 43 patronage stations.

The total number of own and partner stations rose by 63 relative to 2010.

Volume of rail freight in 2009-2011 (thousand tonnes)



A new chain of service stations, which will operate as either own or partner outlets, is being built under the LOTOS Optima economy brand.

The chain of partner stations, operating under the LOTOS Family Commercial Partnership Programme, has been dynamically expanded. In 2011, ten new premium stations and 17 new LOTOS Optima economy stations were added to the partner chain. In most cases, these were inclusions which, apart from taking over the sales volumes of acquired locations, also provided an opportunity for taking over the sales of other stations operating in the respective local markets.

In 2011, three new Premium stations operating in the Motorway Service Areas and 33 LOTOS Optima economy stations were added to the own station chain. As regards the expansion of the chain of own stations, the process of acquiring properties is currently in progress, with the most important criterion for selecting a location being the sales potential of the local market.

The fuel offering of the LOTOS stations is targeted at two main customer groups: retail customers and fleet customers who use their LOTOS Biznes fleet cards to purchase fuel.

To supplement their fleet operations, LOTOS stations also try to attract foreign customers, mainly from among road transport companies in the Baltic states. In those countries, LOTOS Paliwa also operates as a sales agent for ExxonMobil Deutschland. As part of cooperation with WOG, a Ukrainian company, whereby LOTOS accepts fuel cards issued by WOG, LOTOS Paliwa sells fuels to Ukrainian and Russian road carriers through its station chain.

In addition to fuels, LOTOS service stations also sell a wide range of products typically offered by convenience-style outlets. Some stations have dedicated food service areas where snacks and refreshments are sold. The offering is complemented by additional services, such as car wash or tire air compressor services.

In the Premium segment, the main areas of expansion in 2012 will be:

- self-service (touchfree) car washes,
- stores – bringing the outlets up to the current market standards by re-designing shop interiors, providing the stores with ergonomic furniture, display equipment and stalls with fast-food snacks and drinks for travellers, as well as increasing the number of stations with the *Pierożkowy Kubek* (*Pierogi Mug* - with traditional Polish cuisine specialties) offering;
- more effective management of non-fuel product lines through the development of professional IT tools.

Plans also include further, gradual withdrawal from the patronage channel, assuming that cooperation with selected stations would be carried on under the partner formula.

The strategy of the LOTOS Group provides for continued roll out of the chain. In 2012, another 50 LOTOS Optima stations are planned to be opened. Further consistent development of the Premium segment (including motorway stations) is also planned.

The market of service stations in Poland is divided into three segments:

- premium,
- supermarket stations/self-service stations, and
- economy (value).

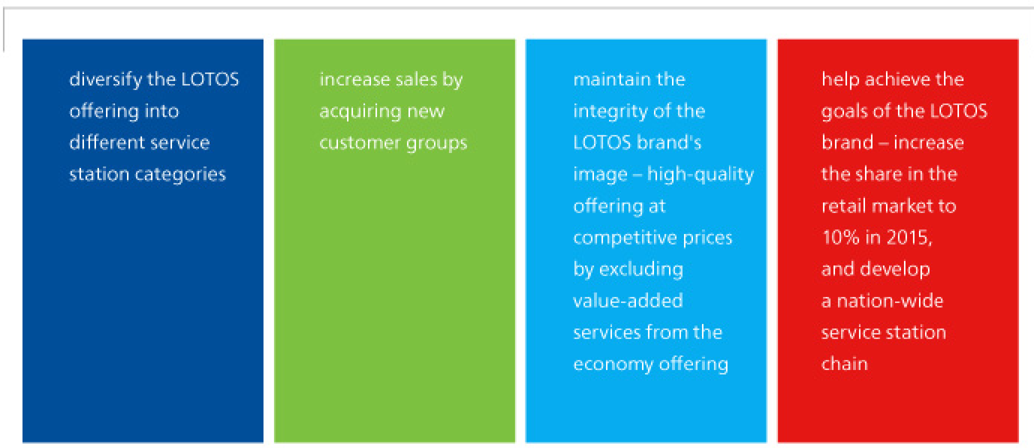
Changes taking place on the fuel market in Poland suggest an evolution of the latter sector, which grows at a much faster rate than the two other segments and already in 2010 accounted for 11% of the total retail sales volume.[1]

The value segment is defined as stations which attract pragmatic customers looking for quality products at attractive prices.

Responding to the needs of the market, the LOTOS Group began to develop a new formula of service stations under the LOTOS Optima economy brand. As part of the effort, the LOTOS Group will implement its strategic objective: to be present on and develop two retail segments – the premium and value segments.

[1] Nation-wide PENTOR survey, 2010.

The role and goals of the LOTOS Optima brand are to:



The new concept of LOTOS Optima economy stations was presented at the eighteenth edition of the Stacja Paliw trade fair in May 2011. In July, the first three LOTOS Optima stations were officially opened in Warsaw. Further stations were built in the Masuria region. By the end of 2011 r., as many as 50 LOTOS Optima stations were already operational, in line with the roll-out strategy.
LOTOS Optima stations are located in regions with varied sales growth potentials in order to ensure the optimal development of the entire chain. Optima outlets operate in in most of the Polish provinces, i.e. the provinces of Gdańsk, Olsztyn, Białystok, Poznań, Bydgoszcz, Warsaw, Wrocław, Łódź, Kielce, Opole, Katowice and Kraków. The roll-out of the economy segment allowed the LOTOS Group to effectively take over locations in the areas with a relatively lower purchasing power of the population.

Logistics

The increase in the volume of fuels sold by Grupa LOTOS in 2011 and the need to constantly adapt to the requirements of the changing market environment prompted the Company to step up its efforts to expand its distribution network and the network of depots. The entire logistics chain was optimised based on the assessment of economic gains and losses, including through the integration of primary and secondary logistics. The quality of customer service was constantly improved and the flexibility of the logistics system was enhanced. The necessary back-up facilities were provided to handle the distribution of an increased volume of products as well as the new products following from the completion of the 10+ Programme.

In 2011, the plan providing for mandatory stock replacement and building of new mandatory stocks was fully implemented. The plan of increasing the volumes of mandatory stocks provided for the highest possible share of moving stocks in total mandatory stocks. The structure of mandatory stocks was optimised on an on-going basis to minimise costs and steadily increase revenue from the provision of the stock ticket service, based on the crude oil production capacity.

The network of depots was fully monitored to meet all the requirements of the fuel trading activities. Thorough quality tests performed at each stage of the transport and storage processes ensured high and consistent quality of the fuels offered to the customers.

Work was continued to control and minimise losses throughout the supply chain. Appropriate logistics support, necessary to meet the National Indicative Target, was also provided.

Rail transport

In order to ensure highly effective use of their assets, as well as economically efficient, smooth and secure distribution of their products, the LOTOS Group companies commission rail transport services from LOTOS Kolej.

The key strategic objective of LOTOS Kolej is to provide comprehensive railway services to the LOTOS Group and to diversify its revenue structure into internal and external sources of income.

LOTOS Kolej offers one of the most comprehensive services among all railway carriers in Poland. Its offering covers all stages of the freight rail transport, from forwarding services, to transport and rail siding management services (offered in Gdańsk, Czechowice, Jasło, Rypin, Poznań, Górczyn and Piotrków Trybunalski), to technical maintenance services for rolling stock combined with rail tanker washing and cleaning services. As the only non-PKP S.A. Group rail carrier in Poland, LOTOS Kolej is able to offer both single-car and full-train freight services on most railway lines, which is a significant competitive advantage on the market. LOTOS Kolej operates an innovative rail logistics system and the most modern locomotive fleet in Poland. This guarantees high quality, efficiency and safety of freight services offered, as well as cost optimisation.

LOTOS Kolej provides rail transport services in Poland and, in cooperation with foreign carriers, also internationally.

Domestic rail connection network of LOTOS Kolej

Source: In-house analysis based on the data sourced from the LOTOS Group.

International rail connection network of LOTOS Kolej

Source: In-house analysis based on the data sourced from the LOTOS Group.

LOTOS Kolej is one of the leading freight rail carriers in Poland, ranking third with a 7.13% market share (second among non-PKP S.A. Group carriers). According to the data of the Railway Transport Authority (*Urząd Transportu Kolejowego*), following the first three quarters of 2011, LOTOS Kolej was also the second largest intermodal freight carrier in Poland, with a 22.56% share in the market for intermodal freight services (both figures as measured by freight work done).

Sea transport

Freight transport by sea is a vital element of the LOTOS Group's logistics chain. The Company enjoys a considerable advantage offered by the direct access to product pipelines linking the Gdańsk refinery to the liquid fuel handling facilities at Port Północny. In 2010, 370 tankers docked at the ports of Gdańsk and Gdynia to unload crude oil, petroleum products and components, and to load petroleum products intended for exports. A major year-on-year rise in the number of ships handled at the facilities in 2011 was caused by stronger fuel export sales driven by the projects implemented as part of the 10+ Programme.

The liquid fuel handling terminal operated by Naftoport handles tankers with maximum draught of 15 metres and the capacity to load up to 150 thousand tonnes of crude oil or petroleum products. This allows Grupa LOTOS to export the 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 makes it easier to arrange for and carry out import deliveries of petroleum products, mainly the light fuel oil component.

Grupa LOTOS is in an advantageous position of having a refinery in a short distance from a cargo handling terminal, which allows it to diversify the sources of supply and facilitates the shipping of crude oil from the Company’s own reserves under the Baltic Sea and, in the near future, crude oil produced from the reserves under the North Sea.

Grupa LOTOS is consistent in its efforts to take over the management of marine cargo transport, or to control the transport process on the longest possible section of the supply chain, from the affreightment of ships to the formal handling of sea transport. This ensures greater control and helps streamline the planning process as regards cargo handling at sea ports, allowing the Company to reduce the frequency of ship detention and optimise the related costs.

Related content:

Progress in implementation of strategic objectives **Marketing communication**

Development plans

As for the position on the retail market, the strategic objective is to develop consistently the premium and value segments.

The development prospects of the LOTOS Group in the current market environment should be viewed as good. This results from the adjustment of the LOTOS Group's business profile to the needs of the market.

Grupa LOTOS expects changes in the laws regulating the creation and financing of the intervention stocks of crude oil and petroleum products, resulting from the need requirement to implement Directive 2009/119/EC. The Company expects that relevant systemic solutions will be adopted, which will guarantee sufficient level of stocks and reduce, as of 2013, the requirement to finance 1/10th of the value of stocks. As regards the new mandatory stock regulations, Grupa LOTOS is interested in regulatory changes, as well as in the development of new hydrocarbon storage capacities in salt caverns.

Following the completion of the 10+ Programme, Grupa LOTOS produces and sells higher fuel volumes, with an increased share of middle distillates. This product group accounts for the largest share of the consumption of fuels in Europe and has demonstrated an upward trend. Diesel oil consumption increases not only as a reaction to the growing demand from business customers, but also due to the increasingly stronger demand from the segment of passenger cars. As the economy recovers, the demand for aviation fuel is also expected to grow, not only domestically, but also on international markets.

Higher industrial output as well as the expansion and operation of the car fleet drive the demand for different types of industrial and motor oils - the market where the LOTOS Group is a major player. The sustained and high demand for bitumens, which follows from the implementation of the government's programme of construction and modernisation of national and local roads in Poland, is also an important factor.

The development plans of the marketing segment for 2012 and the following years result from the performance of the objectives set for the marketing segment in the LOTOS Group's 2011-2015 strategy.

Engine fuels

Following the completion of the 10+ Programme, the volume of products sold will increase in 2012 relative to the previous years. Grupa LOTOS will continue and expand its cooperation with international operators. The Company will also actively cooperate with wholesalers in the B2B distribution channel. Grupa LOTOS also considers plans to supply fuels to service station chains operated by hypermarkets. Commodity trading will be intensified as part of the development of the trading activities.

Development of the service station chain

LOTOS Paliwa, in performance of the LOTOS Group's strategy for retail sales of fuels, will continue its efforts to achieve the strategic objective in that segment. The key tasks include:

- launching new stations,
- development of the LOTOS Optima sales channel,
- promotion of the premium fuels LOTOS Dynamic 98 and LOTOS Dynamic Diesel,
- extension of the LOTOS Biznes fleet programme,
- sustained improvement and monitoring of customer service,
- gradual phase-out of the patronage model, assuming continued cooperation with selected stations under the partner formula,
- ensuring uniform interior design across the chain,
- development of the stations' offering of foods and beverages.

Aviation fuel

The LOTOS Group plans to step up its jet fuel sales by strengthening relations with the existing customers and acquiring new customers. As regards airport sales, the LOTOS Group will take steps to increase sales at domestic airports.

Lubricant oils

In the coming year, LOTOS Oil will focus on two major tasks: enhancing its marketing activities and building and strengthening the LOTOS brand. In addition, the company will continue to be actively involved in the efforts undertaken by the corporate sales teams and Authorised Distributors, particularly those targeted at garages, motor oil changing stations, and automotive chains (service stations, garages, KIA Motors Polska, Subaru Import Polska and other strategic partners).

Bitumens

In the bitumens segment, complementary efforts will be undertaken with a view to optimising the existing processes in the areas of production, logistics and marketing, particularly with respect to cost base, product availability and bitumen technologies.

Logistics

The key tasks in the logistics area include optimisation of the logistics chain based on the assessment of economic costs and benefits, further integration of primary and secondary logistics, securing necessary tank capacities, consistent improvement of the customer service standards and ensuring security of product distribution at the LOTOS Group.
LOTOS Kolej focuses primarily on securing resources necessary to handle the increased freight activity of the LOTOS Group companies following the completion of the 10+ Programme, and on developing further its transport operations for external customers, including international freight transport.