

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 Geonafra company into the LOTOS Petrobaltic Group, the LOTOS Group's sales volume included crude oil from Lithuanian fields, sold to third-party customers.

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.

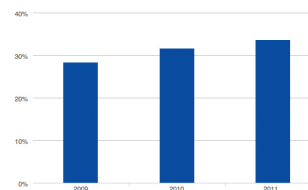
Sales of heating diesel oil

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.

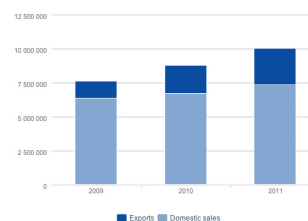
Sales of aviation fuels

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

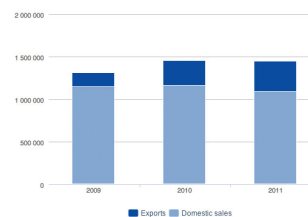
The LOTOS Group's share in the domestic fuels market (%)



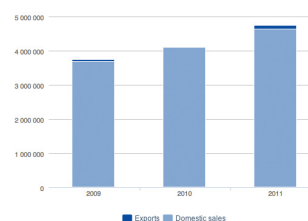
LOTOS Group's sales (tonnes)



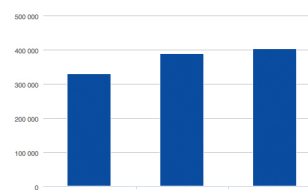
LOTOS Group's sales – gasolines (tonnes)



LOTOS Group's sales – diesel oils (tonnes)



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



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.

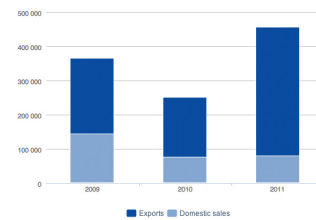
The main foreign markets for LOTOS Group's oil products were the EU countries, as well as countries in Central Asia and the Middle East.

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.

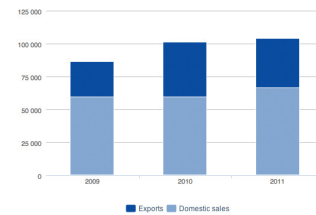
In an attempt to identify new growth opportunities, LOTOS Oil has continuously worked on developing the production of process oils, i.e. plasticizers. Owing to the consistent expansion of sales in 2011, the company entered the group of important major suppliers of modern TDAE plasticizers, both in Europe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

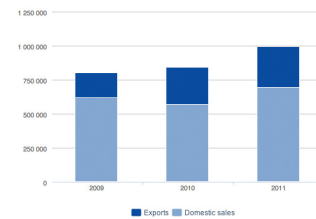
fuel (tonnes)



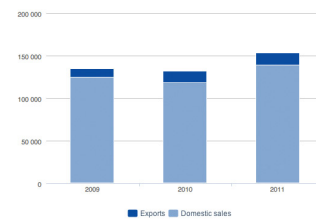
LOTOS Group's sales – oil products (tonnes)



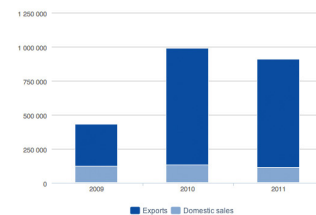
LOTOS Group's sales – bitumens (tonnes)



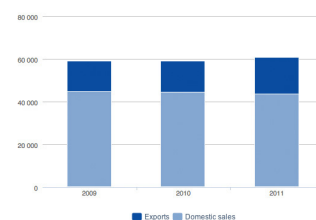
LOTOS Group's sales – modified bitumens (tonnes)



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



LOTOS Group's sales – paraffins (tonnes)



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 Asphalt'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

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.

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.

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:

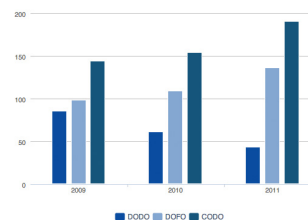
- self-service (touchfree) car washes,
- stores – bringing the outlets up to the current market standards by re-designing shop interiors, providing the stores with ergonomic furniture, display equipment and stalls with fast-food snacks and drinks for travellers, as well as increasing the number of stations 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).



Share in the domestic freight market in 2011 (%)



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

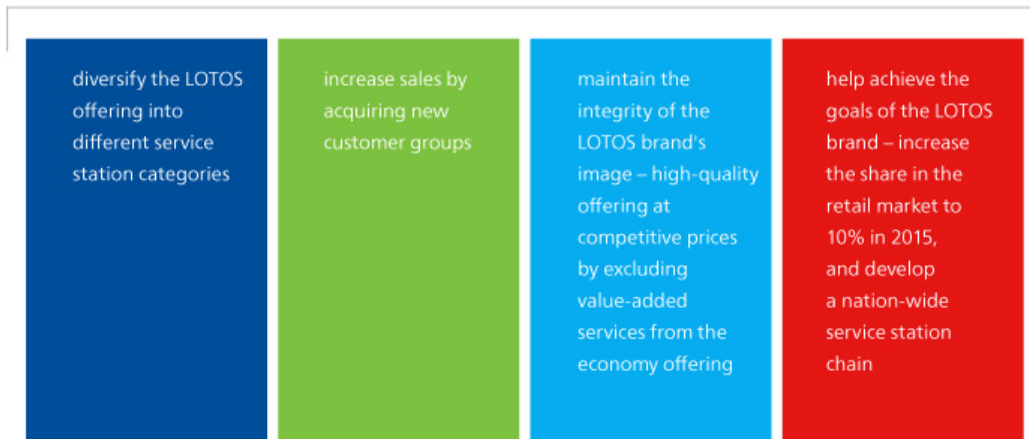
Changes taking place on the fuel market in Poland suggest an evolution of the latter sector, which grows at a much faster rate than the two other segments and already in 2010 accounted for 11% of the total retail sales volume.¹

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.

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