

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.