

Indirect economic impacts

In making business decisions, companies of the LOTOS Group are guided by the principles of the CSR strategy, which requires them to give due consideration to the indirect impact they may have on local communities and economic development of the respective regions. Grupa LOTOS focuses in particular on its impact on vocational education related to the industry's needs, as well as development of entrepreneurship and economic potential in the communities in which it operates.

LOTOS Scholarship programme

Grupa LOTOS supports higher education providers and research institutes, thus strengthening cooperation and building bridges between the industry and academic community. The Company cooperates with higher education institutions on a mutually beneficial basis.

In the academic year 2004/2005, Grupa LOTOS entered into cooperation with the Gdańsk University of Technology, which is involved in fostering a knowledge-based economy, as evidenced by the impressive publication, patent and implementation track record of the University's faculty, doctoral candidates and undergraduates. The cooperation has also delivered tangible benefits for the Company, which operates in the area of highly advanced technologies. As part of that cooperation, Grupa LOTOS sponsors scholarships, provides work placement opportunities under the supervision of industry experts and helps students write their MSc dissertations on topics connected with the Company's operations, which are later reviewed by the Company's experts.

In the academic year 2010/2011, the Company granted ten scholarships to the best students of the Gdańsk University of Technology from the Chemical Faculty, the Faculty of Electronics, Telecommunications and Informatics, the Faculty of Electrical and Control Engineering and the Faculty of Mechanical Engineering. Additionally, Grupa LOTOS granted two scholarships to doctoral students from the Chemical Faculty and two awards in recognition of the best Chemical Faculty MSc theses.

The recipients were selected by a special committee composed of representatives of Grupa LOTOS and the Gdańsk University of Technology. Scholarships for doctoral students from the Chemical Faculty were granted following a competition announced in the academic year 2009/2010.

In the academic year 2007/2008, similar cooperation was forged with the AGH University of Science and Technology in Kraków. In the academic year 2010/2011, the Company granted six scholarships for the outstanding students of the Faculty of Geology, Geophysics and Environment Protection, the Faculty of Mining Surveying and Environmental Engineering, the Faculty of Drilling, Oil and Gas and the Faculty of Energy and Fuels. The Company also granted two awards for the best MSc theses written at the Faculty of Drilling, Oil and Gas.

The LOTOS Scholarship Programme, run as a joint scheme with the Gdańsk University of Technology and the AGH University of Science and Technology in Kraków, is being continued in the academic year 2011/2012. This year, Grupa LOTOS is sponsoring ten scholarships for the best undergraduates and one doctoral scholarship, and will fund two awards for the best dissertations, at the Gdańsk University of Technology. The Company is also sponsoring five scholarships for the best students, and will fund two awards for the best dissertations, at the AGH University of Science and Technology in Kraków.

Since the academic year 2004/2005, Grupa LOTOS has granted a total of nearly PLN 1.1m to fund scholarships and awards for 212 undergraduates and doctoral students of the Gdańsk University of Technology and the AGH University of Science and Technology in Kraków.

An integral element of the Company's cooperation with higher education providers and its involvement in the higher education process are work placements, during which students have a chance to expand their knowledge under the supervision of a tutor – an industry expert. In 2011, work placements were provided to 143 university undergraduates and secondary school students, including 75 students of the Gdańsk University of Technology and 11 students of the AGH University of Science and Technology in Kraków.

In addition, as part of a joint scheme with the Food and Chemical Industry School Complex in Gdańsk, in 2011 Grupa LOTOS funded four scholarships for future chemical engineering technicians who distinguished themselves for the best

performance and activity for the school, and provided promotional materials as prizes in the "Chemistry is all around us" competition. Eight students of the school were invited to undertake work placements at the Company.

Impact on regional development

Grupa LOTOS estimates that approximately 52% of all contracts for the supply of goods or services are signed with suppliers operating in the Province of Gdańsk. This fact alone demonstrates our commitment to the local market and its economic prosperity.

By contracting locally, the Company indirectly contributes to increasing the affluence of local populations, offers stable and secure employment to local workforce and thus reduces social inequalities. For many small and medium-sized businesses in the region, Grupa LOTOS is an important source of capital, which fuels their operations, helps increase employment in the SME sector and, in consequence, materially improves the financial standing of local communities. This, in turn, helps improve the living standards, stimulates consumer spending, including on luxury goods and services, and encourages investment in education and intellectual resources, active support of academic communities as well as staff-development initiatives, all of which are elements crucial for the Company. Development of intellectual assets offers the Company measurable benefits: hired by Grupa LOTOS, competent and well-educated members of the Gdańsk region community help build the Company's potential and innovation at the local, national and international levels, forming the regional pool of future business leaders.

The other companies of the LOTOS Group have similar indirect impact on Pomerania and the south of Poland.

LOTOS Asphalt manufactures and sells bitumens, heavy fuel oil, bunker fuel and waterproofing materials. The products are sold under business-to-business (B2B) arrangements. Thus, by maintaining business links with its partners, the company indirectly contributes to their growth prospects and economic standing. LOTOS Asphalt contributes to employment growth on its local markets and stimulates economic activity in the region of Jasło, where apart from the bitumen production facility operated for many years, the company built a modern Waterproofing Materials Production Plant, operated since 2009. The large-scale project located within the Tarnobrzeg Special Economic Zone in the south-east of Poland has improved the situation on the local labour market, affected by unemployment concerns. Launched in 2009, the plant had 101 employees as at the end of 2011. To compare, two years before the headcount was 69 persons.

LOTOS Kolej has been gradually increasing the number of locomotives in service and taking consistent efforts to upgrade its motive power units. Purchases of new, technologically advanced locomotives strengthen the company's competitive edge and position it among leading carriers investing in new technologies. These efforts have been steadily increasing the company's transport capacity. In the last few years, LOTOS Kolej has focused on purchases of modern locomotives, both electric and Diesel-powered, which now account for approximately 35% of the motive power units. As a result, the company owns one of the most modern locomotive fleets in Poland.

The upgrade of the operated motive power stock required the company to adapt its existing technology infrastructure to be able to service the advanced equipment. One of the crucial steps to that end was to develop the expertise and skills of the technical staff responsible for engine overhauls and repairs. As their qualifications were raised, the company was able to partially service the advanced locomotives on its own.

Furthermore, in 2011, the company launched the **Graduate at LOTOS Kolej** programme, addressed to graduates and fifth-year students of selected technical universities from all over Poland. The programme provides them with an opportunity to gain the first professional experience through work placements at the Engine or Car Maintenance Units. A number of trainees demonstrating both extensive knowledge and strong work motivation were then employed by the company.

LOTOS Oil has been the leader on the Polish engine oil market for several years. Apart from high-quality technologically advanced lubricants, the company offers less expensive products to satisfy the market's needs. As a result, lubricants are easily available and purchased by a wide group of customers. By distributing its products, LOTOS Oil supports employment at its business partners operating locally and nationally.

Thanks to cooperation agreements executed at home and abroad, LOTOS Oil secures access to new technologies. The company undertakes efforts to upgrade its processes, enhance the quality of its products and services, and provide employees with opportunities to improve their professional qualifications through training. These efforts make the company an employer of choice, offering prospects for improvement and development and attracting specialists with extensive professional experience. LOTOS Oil's positive image as an employer is indirectly reflected in high opinions on the company's products among customers.

In 2011, **LOTOS Paliwa** considerably broadened the scope of its operations, through dynamic expansion of the LOTOS service stations chain, thus creating new jobs.

The chain development involved both the construction of new service stations and acquisition of existing sites. After taking over an existing service station, LOTOS Paliwa expands its business through sales-boosting techniques, such as addition of new services, introduction of modern management methods and improvement of customer service quality. In the end, all these efforts translate into higher employment at the stations, which is of particular importance in regions affected by high jobless rates.



At LOTOS Paliwa we seek to give due consideration to social aspects at each stage of our operations. In our business approach, we are guided by the conviction that business is done by people with people and for people, and that all our decisions affect the company's environment.

Paweł Lisowski
President of the Board of LOTOS Paliwa

At LOTOS Paliwa we seek to give due consideration to social aspects at each stage of our operations. In our business approach, we are guided by the conviction that business is done by people with people and for people, and that all our decisions affect the company's environment. And by that I mean not only local communities, employees, dealers and business partners, but also the natural environment. What matters in business is ethics, as the basis of relations with business partners, end customers, intermediaries and wholesalers. I believe that this management approach distinguishes the entire LOTOS Group.

Our business philosophy was reflected in the brand concept for new economy service stations. Launched in 2011, the LOTOS Optima chain is our response to Poland's social and economic situation, in particular to the yet unmet expectations of the highest quality products at competitive prices.

Already a month after the launch of the first LOTOS Optima stations, we posted sales results ahead of initial estimates, which clearly demonstrates that the stations are perfectly tailored to the market's needs and their offering has been very well received by customers, both in terms of prices and quality. LOTOS Optima stations are located primarily in areas with lower potential, micro-markets, where customers base their decisions chiefly on these two criteria.

Given the key objectives of the LOTOS Group's CSR strategy, the launch of the LOTOS Optima brand has also had significant social implications. The new chain has created some 360 jobs on local markets.

It is worth mentioning that our new offering provides for special franchise arrangements, which may indirectly affect local labour markets in this service segment.

The LOTOS Optima chain may be joined by every owner or lessee of a service station or by land owners with a permit to construct a service station. First and foremost, the company can guarantee them stable supplies of high-quality fuels. Business partners can count on our help in running their stations, in the form of personnel training, as well as support and assistance of the manager responsible for cooperation with a given outlet. LOTOS Optima partner stations will soon accept Biznes fleet cards offered by LOTOS Paliwa. All partners are free to decide about their non-fuel product offering and choose their own suppliers, including local ones.

They can also improve the standard of their stations thanks to an investment package we offer. It covers alterations to ensure a uniform design of the entire chain, redesigning the store area to match the LOTOS standard, as well as the installation of advanced sales-support systems and computer equipment.

It is also worth noting that LOTOS Paliwa has prepared a clear and easy to understand franchise agreement and offers competitive fees. The terms of cooperation allow the company's business partners to display their names or logos next to the LOTOS trademark on forecourt totems, which strengthens their position on local markets.

In line with our plans, by the end of 2011 we had launched 50 LOTOS Optima service stations. Thus, LOTOS Paliwa celebrated a double success as in the same period it also opened 13 new outlets in the premium segment. A total of 63 newly opened service stations is a record-high annual increase on the Polish retail fuel market, according to the Polish Organisation of Oil Industry and Trade, which has been monitoring the market since 2005. The record confirms the commitment and responsibility of LOTOS Paliwa's employees, as well as the trust of and good relations with our business partners. I hope this will also be appreciated by customers, because our business model has been developed with their needs in mind.

Paweł Lisowski
– President of the Board of LOTOS Paliwa

LOTOS Optima stations complement the premium chain in terms of geographical coverage. Moreover, the LOTOS Optima offering was prepared to ensure optimum co-existence of the two chains. As a rule, LOTOS Optima stations do not sell LOTOS Dynamic fuels and do not run the Navigator loyalty scheme. However, they offer basic travel-related services and accept LOTOS Biznes fleet cards and payment cards. By optimising the offering in this way, the company was able to bring down costs and offer more competitive prices to those customers who focus on economical travel rather than additional services available at premium stations.

In 2012, we plan to open 50 new stations in the economy segment.

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