

Market presence

In line with the corporate social responsibility strategy in place at Grupa LOTOS, the Company, as one of the fastest growing oil companies in Central Europe and one of the largest corporations in Poland and the Province of Gdańsk, feels responsible for its surroundings – the natural environment and society, as well as the Company's employees and business partners. Grupa LOTOS is committed to ensuring strong economic growth of the entire region. Seeing corporate social responsibility as a management philosophy and organizational improvement process, the Company strives to make business ethics, transparency and openness its distinguishing features.

According to estimates, local suppliers account for 83% of all **Grupa LOTOS'** business partners in key locations (Gdańsk and the Province of Gdańsk, Warsaw and Kraków). Moreover, 52% of all contracts are signed with suppliers operating in the Province of Gdańsk, 31.5% of which are based in Gdańsk.

Given the nature of the production operations in place at companies of the LOTOS Group, the locality criterion is not always applicable to their procurement policy. Similarly, it is difficult to establish a uniform definition of this criterion at the entire LOTOS Group.

As in previous years, **LOTOS Kolej** is taking steps to optimise its purchasing process, for example by choosing local suppliers from the Province of Gdańsk, Czechowice, Jasło, Zduńska Wola and Wrocław. Despite delivering certain economic benefits, such as lower delivery costs, shorter delivery times and lower costs related to handling complaints, if any, cooperation with local suppliers is not always possible.

The company is not able to estimate the volume of purchases from local suppliers.

In the case of its largest cost items, purchases cannot be made locally. The largest cost items of LOTOS Kolej are fees for access to railway infrastructure and payments for traction electricity, payable to PKP Polskie Linie Kolejowe and PKP Energetyka, respectively. Both companies are state-controlled monopolies. Locomotive fuel is bought in different parts of Poland, depending on the current requirements and location of a given engine.

In most cases it is also impossible to purchase spare parts and consumables used in newer locomotives on local markets, given that during warranty periods the company is forced to choose suppliers specified by the manufacturer. However, whenever it has the opportunity and permission to substitute spare parts or consumables, LOTOS Kolej always tries to buy them from local suppliers.

In the case of other purchases, when faced with prospective suppliers offering similar business terms, the company gives priority to local enterprises. In the company's opinion, such decisions have a positive impact on local markets.

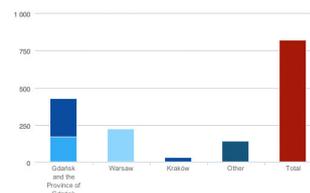
LOTOS Oil's suppliers are based in Poland and Europe. Given that the company has branches throughout Poland and taking into consideration the specific nature of supplies and services involved, any supplier operating in Poland will be considered a local supplier. Purchases include raw materials, packaging, car-care products and consumable fluids for vehicles, base oils, base oil and brightstock extracts, plasticizers, as well as repair and investment services.

Purchases at the company are made on the basis of an internal tender procedure. As purchases of base oils and additives depend on the formulas for finished products meeting certain quality standards, suppliers are usually selected through negotiations. Depending on the product or service in question, the main criteria for selecting suppliers include: the price (at least 50% of the overall score), technological usefulness, delivery times, payment deadlines, buffer warehouse and warranties. The criteria are based on the premise that all suppliers fully meet the quality requirements set by the company.

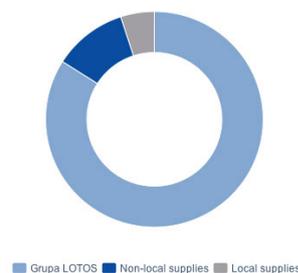
The company follows a supplier selection policy whereby it seeks to secure at least two sources of supplies in each product category. In the case of a monopoly, the company periodically takes steps to verify its monopoly status by looking for an alternative supplier. In line with the currently applied procurement policy, the company searches local markets for potential suppliers, and, if a reliable prospective partner is found, it is invited to participate in a tender procedure.

The strategy of **LOTOS Paliwa** assumes that the company will purchase nearly 100% of its fuel stocks for resale from

Shares of liabilities to business partners having registered offices in Grupa LOTOS' key business locations (2011)



Structure of supplies to LOTOS Oil in 2011 (%)



Grupa LOTOS, the vast majority of the fuel being produced domestically, at the Gdańsk refinery.

The company purchases 100% of its LPG stocks for wholesale from Grupa LOTOS and other members of the LOTOS Group, e.g. Energobaltic – a subsidiary of LOTOS Petrobaltic, while approx. 50% of LPG sold through LOTOS own service stations comes from external suppliers, with no preference given to suppliers located in the Province of Gdańsk.

Due to the nature of its operations, **LOTOS Asfalt** does not apply the locality criterion in its procurement policy. Internal procedures define the rules to be applied when purchasing products and services, with the key criteria being the quality and environmental impact of the product or service, compliance with occupational health and safety regulations by the supplier, and the proposed terms of payment and warranty.

As one of the largest companies in the Provinces of Rzeszów and Katowice, **LOTOS Parafiny** strives to support local enterprises. At the company's key locations, i.e. Czechowice-Dziedzice and Jasło, 100% of the services contracted in 2011, including acquisition of pallets, cartons and steel packaging (barrels), were sourced from local companies.

The LOTOS Group employs members of its senior management staff according to the job profile and description. Only candidates best satisfying the employment criteria are recruited. The Company has in place a set of standards related to recruitment and selection. In the light of these guidelines, candidates are compared based on their expertise, experience and skills required for a given position. Senior management positions are often filled by persons selected in an internal recruitment process. The Company does not have any global policy of favouring local community members in the recruitment for management positions.

The companies' key locations are locations where the number of employees represents a significant percentage of the total headcount.

Senior management positions at **Grupa LOTOS** include the positions of director, chief accountant, plant manager, CEO proxy and fuel depot manager. In 2011, 82.19% of senior management staff at the Company's key locations were members of local communities.

Ratio of minimum national monthly pay to minimum base pay at key locations of Grupa LOTOS in 2011

Location	Minimum base pay at Grupa LOTOS [PLN]	Minimum national pay in Poland* [PLN]	Ratio of /2/ to /3/ [%]
/1/	/2/	/3/	/4/
Gdańsk	2,400	1,386	173
Kraków	4,477	1,386	323
Warszawa	5,373	1,386	388

* Source: in-house data and: Journal of Law s (Dz. U.) of 2007 No. 171 item 1209, M.P. of 2008 No. 55 item 499, M.P. of 2009 No. 48 item 709. [Link → \(http://www.infor.pl/wskazniki/prawo-pracy-i-ubezpieczen-spoecznych/1591/809,Minimalne-w-ynagrodzenie-za-prace-.html\)](http://www.infor.pl/wskazniki/prawo-pracy-i-ubezpieczen-spoecznych/1591/809,Minimalne-w-ynagrodzenie-za-prace-.html)

LOTOS Kolej recruits senior managers (e.g. directors) on the basis of a pragmatic evaluation of candidates, their expertise and skills required for a given position. Internal candidates, that is the company's or the LOTOS Group's current employees, are given preference during the recruitment process.

In 2011, 100% of senior management staff at the company's key locations were members of local communities.

The payroll policy in place at LOTOS Kolej is compliant with applicable procedures and best practices implemented at all the LOTOS Group companies. Poland is the company's key and only location. Apart from its registered office in Gdańsk, LOTOS Kolej has departments in Zduńska Wola, Czechowice-Dziedzice and Jasło, as well as a dispatching office in Wrocław. In 2011, there were no differences in remuneration levels at LOTOS Kolej depending on the location.

Ratio of minimum national monthly pay to minimum base pay at key locations of LOTOS Kolej in 2011

Minimum national pay in Poland [PLN]	1,386
Minimum base pay at LOTOS Kolej [PLN]	2,530
LOTOS Kolej / Poland [%]	182.54

Regardless of the location of its branches, **LOTOS Oil** follows a uniform recruitment policy. The policy, set forth in the company's internal documents, provides for no special treatment of candidates from the local labour market, the local labour market being defined as the area within a distance of 100 km from a branch or an office.

According to an analysis of the employment structure of senior management staff (directors, plant managers, office directors), by locations of the company's operations (Gdańsk Branch, Czechowice-Dziedzice Branch, Jasło Branch and the Distribution Office in Piotrków Trybunalski), in 2011 100% of the employees were from the local labour markets. The company employs members of its senior management staff according to the job profile and description.

Ratio of minimum national monthly pay to minimum base pay at key locations of LOTOS Oil in 2011

Minimum national pay in Poland [PLN]	1,386
Minimum base pay at LOTOS Oil [PLN]	2,298

LOTOS Paliwa selects its staff and senior managers (directors, deputy directors, office directors) based on a number of criteria. Given the nature of the company's operations, management staff across Poland are recruited on an as-needed basis. In 2011, there were no differences in remuneration levels at LOTOS Paliwa depending on the location.

Ratio of minimum national monthly pay to minimum base pay at key locations of LOTOS Paliwa in 2011

Minimum national pay in Poland [PLN]	1,386
Minimum base pay at LOTOS Paliwa [PLN]	2,760
LOTOS Paliwa / Poland [%]	199

LOTOS Asfalt operates at three key locations: Jasło and Czechowice-Dziedzice in the south, and Gdańsk in the north of Poland. The recruitment process for newly created positions gives precedence to members of the local community (the relevant county and towns within a distance of 100 km), provided that the initial requirements related to candidates' qualifications are met. Similar rules apply to candidates for management positions at LOTOS Asfalt, which include directors, heads, managers, and deputy managers.

In 2011, local community members represented the following percentages of senior management staff: Jasło – 78% Gdańsk – 82%, and Czechowice-Dziedzice – 100%.

Ratio of minimum national monthly pay to minimum base pay at key locations of LOTOS Asfalt in 2011

Location	Minimum base pay at LOTOS Asfalt [PLN]	Minimum national pay in Poland* [PLN]	Ratio of /2/ to /3/
/1/	/2/	/3/	/4/
Gdańsk	3,190	1,386	230
Czechowice	2,750	1,386	198
Jasło	1,500**	1,386	108

* Source: in-house data and: Journal of Law s (Dz. U.) of 2007 No. 171 item 1209, M.P. of 2008 No. 55 item 499, M.P. of 2009 No. 48 item 709. [Link → \(http://www.infor.pl/wskazniki/prawo-pracy-i-ubezpieczen-spoecznych/1591/809,Minimalne-w-ynagrodzenie-za-prace-.html\)](http://www.infor.pl/wskazniki/prawo-pracy-i-ubezpieczen-spoecznych/1591/809,Minimalne-w-ynagrodzenie-za-prace-.html)

** The lowest pay in Jasło is received by first-time employees in auxiliary positions.

LOTOS Parafiny's recruitment policy related to senior management positions (directors, office directors, plant managers, organizational unit managers) provides for no special treatment of local community members. Local community members represent the following percentages of senior management staff employed at the company's key locations: Jasło – 100%, Czechowice – 100%, and Kraków – 50%.

Ratio of minimum national monthly pay to minimum base pay at key locations of LOTOS Parafiny in 2011

Location	Minimum base pay at LOTOS Parafiny [PLN]	Minimum national pay in Poland* [PLN]	Ratio of /2/ to /3/
/1/	/2/	/3/	/4/
Czechowice	1,667	1,386	120
Jasło	1,967	1,386	142

* Source: in-house data and: Journal of Law s (Dz. U.) of 2007 No. 171 item 1209, M.P. of 2008 No. 55 item 499, M.P. of 2009 No. 48 item 709. [Link → \(http://www.infor.pl/wskazniki/prawo-pracy-i-ubezpieczen-spoecznych/1591/809,Minimalne-w-ynagrodzenie-za-prace-.html\)](http://www.infor.pl/wskazniki/prawo-pracy-i-ubezpieczen-spoecznych/1591/809,Minimalne-w-ynagrodzenie-za-prace-.html)

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