

## Participation in government policies

In line with its business strategy for 2011-2015 along with development directions until 2020, the LOTOS Group intends to increase its role in enhancing the security of Poland's energy sector, by intensifying activities aimed to increase hydrocarbon production and oil conversion ratio, improving the country's fuel balance and exploiting synergies between the refining and energy sectors.

The LOTOS Group will launch initiatives and engage in cooperation on the national and international arenas with a view to fostering integration of the energy sector as part of EU's common policy designed to ensure energy security.

The expansion of the LOTOS Group's distribution logistics base, currently under way, will be a factor enhancing Poland's energy security. The strategy implemented by the LOTOS Group is geared towards dynamic development of the upstream segment (hydrocarbon exploration and production). This is fully consistent with the policy envisaging the LOTOS Group's active participation in strengthening Poland's energy security.

In its mission statement, the LOTOS Group declares, among other things, innovative development, which must be consistent with the country's energy security policy. The inclusion of this element in the Company's mission statement, one of the crucial corporate documents, is clearly a manifestation of the importance which the Company and the entire LOTOS Group attach to this issue in their day-to-day activities.

### Efforts focusing on energy security

#### 1. Extension of the refinery – the 10+ Programme

The last two installations built as part of the 10+ Programme were placed in service on March 28th 2011, marking the completion of the several-year long investment effort. The programme was completed on schedule and below budget. The LOTOS Group has achieved a significant increase in its crude processing capacities (about 40%), while the Gdańsk refinery has joined the group of large European refineries with the highest conversion ratio (a measure of processing efficiency). Thanks to the 10+ Programme, the refinery's nominal throughput capacities have increased to 10.5 million tonnes per year. The new installations are capable of processing various types of crude. Thanks to the hydrodesulphurisation of middle distillates (HDS) unit, the output of diesel oil has risen by 2.5 million tonnes per year. The Gdańsk refinery has the capacities to produce about 2.3 million tonnes of gasoline and 5.5 million tonnes of diesel oil and aviation fuel per year.

#### 2. Crude oil exploration and production (upstream segment)

Throughout 2011, the LOTOS Group was developing its exploration and production business. Apart from enhancing Poland's security with respect to supplies of crude oil, which is a strategic commodity, the upstream business development is first and foremost a business venture. For many years, the LOTOS Group has procured mainly Russian oil. This is connected with the relative profitability of Russian supplies (Russian crude supplied via a pipeline remains less expensive than crude supplied by sea), and given the fact that Grupa LOTOS is listed on the Warsaw Stock Exchange, economic aspects must be and are the key considerations for shareholders.

Following licensing round awards, on January 18th 2011, LOTOS Exploration & Production Norge AS, a subsidiary of LOTOS Petrobaltic, was awarded the operator status with respect to, and a 25% interest in, a licence area located in the southern part of the North Sea. In total, the company holds interests in eight North Sea licences.

The LOTOS Group is also engaged in hydrocarbon exploration and production in Lithuania. In February 2011, Grupa LOTOS took control of AB Geonafta, which produces crude oil in the territory of Lithuania. In 2011, AB Geonafta produced 78.1 thousand tonnes of crude oil.

#### 3. Salt caverns

The GL-PERN cavern project working group, appointed on June 15th 2011 by the Boards of Grupa LOTOS and PERN Przyjaźń, has taken a number of steps to analyse the possibility of using underground salt structures present in the Pomerania region as crude oil and natural gas storage facilities. Such facilities could serve as an important security buffer enhancing Poland's energy security.

The surveys and analyses carried out by the working group have revealed that caverns are used for storage of crude oil and natural gas by a number of countries, to the largest extent by the US. A study of the storage requirements in Poland has demonstrated that the first thing needed would be underground storage facilities with capacities of at least 6-7 million cubic metres. Such storage facilities could also be used by other EU countries. The investigation made shows that the

governments of a number of countries get directly involved in the construction of cavern storage facilities. Relevant materials on the subject have been submitted to the Ministry of State Treasury for further decisions.

#### **4. Change of the mandatory stocks system**

Grupa LOTOS remains interested in participating in work aimed to change the mandatory stocks management system in Poland (the cavern project could be a significant element of such involvement), planned with a view to harmonising the laws and regulations effective in Poland with EU requirements (Directive 2009/119/EC).

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## **Lobbying for the energy sector**

The ethical principles embraced by the LOTOS Group stipulate a non-partisan policy and no support for any political groups.

Given the role that the Company plays in the energy sector, it becomes involved in projects supporting key initiatives designed to promote that sector's development.

#### **Central Europe Energy Partners AISBL (CEEP)**

In 2011, Grupa LOTOS actively participated in the activities of CEEP, an international think-tank representing the interests of the Central European energy sector on the EU forum. The organization's membership and geographical coverage have been steadily growing. As at January 1st 2012, it had 14 members, representing four Central European countries.

In 2011, CEEP brought up a number of issues of material importance for the energy sector in Central Europe, including vapour pressure in fuel production, promotion of coal in the European Union's energy mix, reduction of CO<sub>2</sub> emissions, derogations, and activities fostering integration of the Central European energy sector. The organization takes part in all consultations concerning the energy sector. In December 2011, it opened a representative office in Berlin.

#### **Energy and self-governance**

On May 23rd 2011, Grupa LOTOS joined Forum Dialogu i Współpracy Województwa Pomorskiego Energia i Samorządność (the Dialogue and Cooperation Forum of the Gdańsk Province – Energy and Self-Government). The forum was established with a view to ensuring that the local social and economic potential is properly leveraged in connection with the possible location of a nuclear power plant in the Gdańsk Province as well as investments in other energy sources, while guaranteeing optimum security to the region's inhabitants and maintaining high standards of social coherence, self-governance and entrepreneurship. The forum was established on the initiative of the Marshal and the Governor of the Gdańsk Province.

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## **Plans for the future**

Over the next few years, Grupa LOTOS will be implementing the strategy it has adopted for 2011-2015 along with development directions until 2020. The investment activity will concentrate primarily in the upstream segment. Hydrocarbon production from fields located on the Baltic Sea, as well as in Lithuania and on the Norwegian Sea, will continue. Production of crude from the YME field is planned to be launched in 2012, and work will be conducted with a view to developing the other licence areas within the Norwegian Economic Zone. In 2015, crude oil production is expected to reach 1.2 million tonnes per year.

Furthermore, work will be under way to explore for shale gas within the licence areas on the Baltic Sea and in Lithuania.

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