

Employment

Responsible recruitment policy

Recruitment at the LOTOS Group is carried out based on clearly defined procedures and objective criteria. In 2009, uniform rules for recruitment, selection and employment were established by introducing solutions previously adopted by Grupa LOTOS at all the LOTOS Group's companies.

As qualifications and skills are valued the most by the LOTOS Group's companies, applications from employees of the LOTOS Group are given priority in the internal recruitment process. This approach facilitates knowledge transfers across the LOTOS Group. Simultaneously, a database is maintained of candidates from outside the LOTOS Group who would like to join it.

Information on recruitment procedures and current vacancies is available on the Company's website and intranet site. Applications are selected based on precisely defined recruitment criteria described in job offers. Each job requires specialist knowledge and skills necessary to perform tasks assigned to a given position. However, there are certain abilities which must be possessed by all employees of the LOTOS Group and which are required from candidates for any position at the LOTOS Group. These include business awareness, creativity and innovativeness, ease of adaptation and communication, and ability to work in a team.

The recruitment and selection process involves several stages, whose number and level depend on competences sought for a given position. The process comprises three stages and involves an analysis of candidates' theoretical knowledge, practical skills and development potential. The first two stages consist in a review of documents and an interview with the candidate. The third stage, involving a case study as well as a set of theoretical, psychological and specialist linguistic tests, is designed and performed with respect to specialist and managerial positions. At this stage, the tools applied to examine candidates' abilities are tailored and specifically designed to match the main tasks to be performed in a given position.

Before a recruitment meeting, candidates receive full information concerning the form of the meeting and advice on how to prepare for the interview.

Headcount at the LOTOS Group

Company	Dec 31st 2009	Dec 31st 2010	Dec 31st 2011
Parent			
Grupa LOTOS	1,305	1,310	1,329
Direct subsidiaries			
LOTOS Petrobaltic and subsidiaries	440	472	550
LOTOS Czechowice and subsidiaries	250	240	236
LOTOS Jasło and subsidiaries	152	104	74
LOTOS Serwis	725	711	697
LOTOS Lab	153	153	152
LOTOS Straż	76	86	88
LOTOS Ochrona	194	159	160
LOTOS Park Technologiczny	15	1	1
LOTOS Paliwa	261	261	263
LOTOS Oil	331	341	340
LOTOS Asfalt	249	290	301
LOTOS Gaz (in liquidation)	28	5	1
LOTOS Parafiny	274	259	248
LOTOS Kolej	504	582	217

LOTOS Tank	16	18	11
Total	4,949	5,010	5,168

Workforce of Grupa LOTOS by employment type and region

Item	Total Dec 31st 2011
Indefinite-term employment	
Gdańsk	1,081
Czechowice	33
Jasło	9
Kraków	4
Piotrków Trybunalski	9
Poznań	5
Rypin	10
Warszawa	14
Total:	1,165
Fixed-term or temporary employment	
Gdańsk	158
Czechowice	0
Jasło	0
Kraków	0
Piotrków Trybunalski	0
Poznań	1
Rypin	1
Warszawa	4
Total:	164

Item	Total Dec 31st 2011
Full-time employees	
Gdańsk	1,227
Czechowice	32
Jasło	7
Kraków	0
Piotrków Trybunalski	9
Poznań	6
Rypin	11
Warszawa	18
Total:	1,310
Part-time employees	
Gdańsk	12
Czechowice	1
Jasło	2
Kraków	4
Piotrków Trybunalski	0
Poznań	0
Rypin	0

Warszawa	0
Total:	19

In 2011, the employment turnover rate at Grupa LOTOS was relatively low at 12.41% (women: 3.91%, men: 8.50%¹). Employees usually left through natural attrition, related to retirement of people who were over 50 years of age due to disability or old age.

¹ calculated according to the formula:

$$\frac{\text{Number of employees who left} + \text{Number of new people employed in 2011}}{\text{Number of all employees as at the end of 2011}} \times 100$$

Total number and percentage of Grupa LOTOS employees who left in 2011

Age of employees	Number of employees	Percentage
up to 30 years old	15	20
30-50 years old	26	35
over 50 years old	34	45
Total	75	100

The LOTOS Group offers all its employees, i.e. employees working under indefinite-term (permanent) contracts or fixed-term (temporary) contracts, on a full-time or part-time basis, the same package of social benefits, guaranteed under the Collective Bargaining Agreement for Employees of Grupa LOTOS and Rules of Participation in the Company Social Benefits Fund.

The benefits offered to employees include a unit-linked life insurance, additional medical care provided by non-public healthcare establishments, dental care, parental leave for mothers and fathers, additional maternity leave and social benefits in the form of loans, allowances, and partial financing of holidays for employees and their children. Additionally, employees who retire due to disability or old age receive retirement severance pay on terms more favourable than those provided for in the Polish Labour Code. Old age and disability pensioners have also access to additional medical care provided by non-public healthcare establishments and dental care at their former employer's cost.

Incentive schemes

The LOTOS Group has a transparent remuneration system in place, whose key components are base salary and annual bonus. The base salary is determined on the basis of national payroll reports compiled by professional HR consultancies.

Base salaries received by the LOTOS Group's employees have risen by 4.5% since January 2011. It is the Company's aim to ensure that the remuneration paid is market-competitive and attractive to employees. For each position, a market median has been set as a target against which the remuneration should be benchmarked. If performance targets set by the Board (i.e. financial criteria defined in the budget) are met, employees are entitled to annual bonus equal to 10% of their annual salary.

Another component of the incentive system are special awards, granted by the CEO in recognition of outstanding effort and commitment. To reward long service and experience, length-of-service awards are granted to employees in keeping with the rules laid down in the Collective Bargaining Agreement. Length-of-service awards are paid at five-year intervals after 15 years of service. Employees retiring due to old age or ill health are entitled to receive severance pay. In H2 2010, the LOTOS Group introduced one more remuneration component – a quarterly incentive bonus awarded to employees by their immediate superior. In 2011, the amount allocated to quarterly incentive bonus payments amounted to 5% of the total base pay.

The employee remuneration policy, set out in the Collective Bargaining Agreement for Employees of Grupa LOTOS, has been in place since 2005 and provides for the following remuneration constituents:

- monthly base salary,
- allowances under the labour law,
- annual bonus of up to 10% of the annual remuneration, paid in the first half of the year following the year for which it is due, provided that certain corporate performance targets (such as revenues or net profit) are achieved,
- quarterly incentive bonus allocated per organisational unit, whose amount ranges from 3% to 10% of the total monthly base pay.

Twice a year, base salary levels are compared against the pre-determined market medians and raised by the superiors, as appropriate.

In 2011, this benchmarking procedure was combined with the periodic remuneration review stipulated under the Collective Bargaining Agreement, which provided a good opportunity to increase the salaries of employees whose performance was above average. The remuneration benchmarking and reviews were also carried out at the LOTOS Group's subsidiaries.

Social benefits scheme

Grupa LOTOS and other LOTOS Group companies (LOTOS Lab, LOTOS Serwis, LOTOS Straż, LOTOS Ochrona, LOTOS Oil, LOTOS Asphalt, LOTOS Tank, and LOTOS Kolej) are covered by an agreement whereby they run a common social benefits scheme. A clause was written into their Collective Bargaining Agreements to increase the base contribution to the company social benefits fund to 100% of the average monthly salary in Poland per each employee and to 6.25% of the average monthly salary per each retiree. As a result, holiday allowance for the lowest-income employees was raised to PLN 2,222, a level higher than that prescribed by applicable laws (in 2010, the figure was PLN 1,980).

Under the Rules of Participation in the Company Social Benefits Fund, persons covered by the social benefits scheme include: employees of the LOTOS Group, their children aged from six to eighteen, retired employees, spouses of deceased employees and retired employees, and persons eligible for pre-retirement allowances. The eligible persons are offered various forms of social support provided for in the budget approved by the companies' boards and trade unions: holiday allowances, rehabilitation allowances for children with disabilities confirmed by a doctor certificate, housing loans, and non-refundable financial aid to persons in difficult personal circumstances.

Thanks to sound management of the Company Social Benefits Fund, the actual expenditure was 93% of the management- and union-approved social expenditure budget for 2011.

Expenditure on the Company Social Benefits Fund in 2011

Type of benefit	No.	Allowance amount [PLN]
Summer holidays – employees	4,590	8,368,492
Summer holidays – children of employees	1,952	2,063,852
Non-refundable financial aid	250	570,600
Housing loans	19	507,500
Leisure activities for employees and their families, and Christmas goodie bags for children	2,200	437,472

The LOTOS Group provides its employees with a selection of pension plans to choose from, as it considers the Pillar 3 retirement saving scheme an important aspect of responsible planning for one's financial future.

	2009	2010	2011
Grupa LOTOS (PLN thousand)			
Premiums under unit-linked insurance policies (Pillar 3 of the Polish pension system)	3,439	3,800	3,465
LOTOS Group (PLN thousand)			
	10,195	10,174	10,339

Most companies take out group insurance coverage, which for the last ten years has been provided by one of insurance companies in the form of unit-linked life insurance. The history of capital markets shows that investment funds, despite short-term fluctuations in unit values, always deliver attractive returns in the long term. Regular payments made by the employer towards the unit-linked scheme protect the invested money against market fluctuations. The option to pay additional monthly contributions over long-term horizon will enable employees to benefit from more generous pensions than those offered by the state, helping to close the salary-pension gap, or the difference between the final salary and retirement income.

At present, individual employee accounts are credited with premiums paid by the employer. The scheme participation is voluntary and available to insurable employees under 70 years of age, employed under employment contracts other than temporary substitute employment contracts. Employees who have previously terminated insurance coverage are not eligible to participate in the scheme.

Premiums paid by the employer are accumulated in individual employee accounts. Their value is expressed in the Polish zloty. Investment returns are a percentage of the accumulated capital. This transparent and easy to understand fund structure offers clear information on the cash value of each individual account, with no need to convert the values of financial instruments (fund units) into cash. The individual accounts are brought together into one Accounts Fund administered by one of insurance companies. Once a year, in the first quarter of each year, the employees receive statements of their investment accounts. The scheme is flexible and tailored to employee needs.

- As at December 31st 2011, 87.9% of Grupa LOTOS' employees and 61.5% of the LOTOS Group's employees were covered by the group insurance scheme.
- LOTOS Paliwa employees may participate in a group pension insurance scheme. The insurance policy is unit-linked, with premiums being invested in line with the general insurance policy terms. The unit-linked fund aims to achieve steady capital appreciation over long-term horizon, while seeking to preserve the value of invested capital in real terms and minimise investment risks, by investing assets in low-risk securities and bank deposits. As at December 31st 2011, 61.22% of LOTOS

Paliwa's employees were covered by the pension plan.

- At LOTOS Petrobaltic, 76% of all employees participate in the employee pension plan managed by one of insurance companies.