

Business strategy and model

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An efficiently managed, vertically-integrated oil concern



Building shareholder value



3rd year of our CSR strategy implementation



30.0 kg CO₂/CWT carbon emissions reduction



TRI*M Index 75% High customer satisfaction



Top Quality Human Resources

IN THIS CHAPTER:

Business model

Our operations consist in crude oil production and processing, as well as wholesale and retail sale of petroleum products, among which are: fuels (unleaded gasoline, diesel oil and light fuel oil), heavy fuel oil, bitumens, aviation fuel, naphtha, propane-butane LPG and base oils.

Strategic objectives

The LOTOS Group's Strategy is designed to strengthen our position as a strong, innovative and efficient business which plays a major role in ensuring national energy security.

Key objectives

We achieve our business objectives with due regard to corporate social responsibility and sustainable development by the best possible use of the organization's resources and capabilities to generate economic and social value for the benefit of the Company and its environment.

Employees

Our objective is to ensure the availability of highly qualified staff required for successful implementation of the LOTOS Group's business strategy and enhancement of the corporate culture based on adopted values. It is our priority to raise awareness and commitment among our employees and contractors to improving their work safety.

Environment

We seek to reduce the environmental risk of our operations and continually minimise our environmental impact. We support initiatives designed to enhance energy sector security in a socially and environmentally responsible manner.

Brand

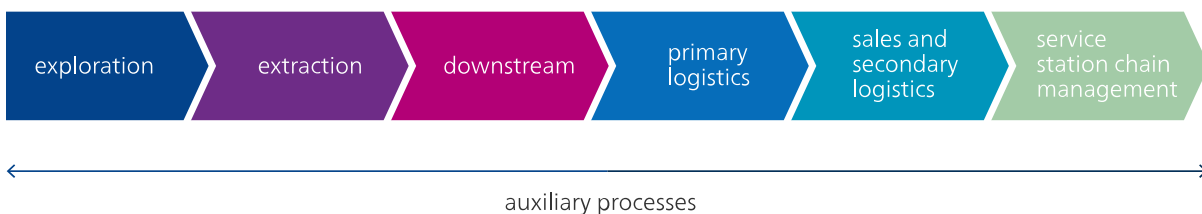
Our strategic goal is to build lasting customer relationships by focusing on understanding customers' needs and ensuring expected product quality and safety. Our ambition is to create a brand that is dynamic and competent, friendly and trustworthy for our customers.

Business model

The LOTOS Group operates in the upstream and downstream segments. The downstream segment comprises production and processing of refined petroleum products and their wholesale and retail sale, as well as auxiliary, transport and service activities. Key markets for refined petroleum products include Poland and countries in Western and Northern Europe, such as Germany, the Netherlands, Belgium, Sweden, United Kingdom, France, Estonia, Denmark and the Czech Republic.

The upstream segment comprises activities related to the exploration for and acquisition of crude oil and natural gas reserves, and crude oil and natural gas production and sale. Crude oil production is concentrated in Poland and Lithuania. All the natural gas produced is flared or sold to LOTOS Group companies. Natural gas produced in Norway is marketed to the United Kingdom and Continental Europe, with the entire condensate volume exported to the UK.

The LOTOS Group value chain



Crude oil and natural gas exploration and production

Through LOTOS Petrobaltic and its subsidiaries and jointly-controlled entities operating in Poland, the LOTOS Group held at the end of 2014 eleven licences for exploration or exploration and appraisal of hydrocarbons and hydrocarbon production from Baltic Sea deposits, with a total area of over 7.3 thousand km². At the same time, Grupa LOTOS is the only oil company producing hydrocarbons in the Polish exclusive economic zone of the Baltic Sea. Consequently, the LOTOS Group has exclusive rights to carry out exploration and production work in this area. Long experience in exploration and production activities in the Baltic, progress of the LOTOS Group's work in this area and the know-how about the methods, conditions and economic viability of exploration and production in the Polish exclusive economic zone of the Baltic Sea, paired with extensive technical resources, including own drilling rigs, offer an important edge over prospective competitors.

In addition, following the acquisition of Heimdal assets in 2013, the LOTOS Group acquired interests in 14 exploration and production licences through LOTOS Exploration and Production Norge AS and gained direct access to one of the key gas hubs on the Norwegian Continental Shelf, which is also one of the strategic areas for export of natural gas from Norway to Western Europe and the United Kingdom and accounts for some 15-20% of Norwegian natural gas exports. The acquisition of Heimdal assets allowed Grupa LOTOS to materially diversify its production assets, secured its ability to carry out exploration and production work in the promising and hydrocarbon-rich part of the Norwegian Continental Shelf, and increased its raw materials base and supply diversification options. They also contributed to the increase in crude oil and natural gas production in 2014.

Refining

The LOTOS Group operates one of the most advanced and youngest refineries in Europe.

Its plant in Gdańsk is a fuel and oil refinery integrated with bitumen production units, delivering a wide variety of products, including liquefied gases, petrochemical feedstock gasoline, unleaded motor gasolines, reformat, xylens, jet fuel, diesel oils, fuel oils, bitumens, base oils, paraffin products, plasticisers and sulfur.

The refinery has an annual processing capacity of approximately 10.5 million tonnes of crude oil and is one of the youngest and most advanced refineries in Europe. This has been confirmed by a number of distinctions: the World Refining Association named it the CEE Refinery of the Year in 2008, and in the Solomon Associates' ranking comparing the energy efficiency of refineries all over the world it was recognised as the most energy efficient refinery in Central and Southern Europe in 2012. Moreover, in 2013 the Company won the award of the World Refining Association for "outstanding contribution to the industry", granted based on the data on its performance, growth and market reputation.

The Gdańsk refinery also records a high distillate rate, i.e. a large share of fuels in the product mix, and focuses on medium distillates, which enables the Company to successfully adjust its output to the domestic demand structure and exports opportunities. The technological configuration of the refinery combined with its favourable location enable Grupa LOTOS to flexibly and efficiently process various types of crude, and thus vary the production volumes for particular finished product groups in line with changes in the domestic demand structure and export opportunities.

The refinery's location on the coast of the Baltic Sea is a strategic advantage given the proximity of and the direct pipeline connection with the handling infrastructure of Port Północny (a part of the Gdańsk Seaport located on the Gdańsk Bay), and gives the Company a major competitive edge in the region in terms of logistics (access to feedstock and product sales channels). The location close to the handling terminal gives Grupa LOTOS direct access to international markets, enabling it to export its petroleum products primarily to Scandinavia, north-western Europe and

Baltic states. It also supports optimisation of sales channels and efficient purchases of various types of crude oil and various petroleum products used by the refinery to manufacture finished goods.

The refinery also benefits from a unique combination of supply channels, guaranteeing it simultaneous access to feedstock supplies by road (from Russia) and via PERN's pipeline network, as well as by sea, from numerous countries and the LOTOS Group's own fields. With access to two supply channels, the Company is able to use different supply sources and respond flexibly to changes in petroleum product and crude oil prices, and can effectively diversify the types of crude processed at the refinery. Maintaining two crude oil supply channels ensures stability of feedstock supplies at Grupa LOTOS. In particular, the Company can substitute the entire volume of onshore supplies with crude shipped by sea.

In 2014, the Company completed a project at the refinery consisting in construction of an unloading terminal for crude oil and other heavy hydrocarbon raw materials to enable their transport to the refinery by rail tank cars. Thanks to this investment, Grupa LOTOS will be able to further diversify its raw material supply sources, including in the event of availability of oil from unconventional sources or other raw materials which can be transported only by rail.

Products

Key groups of products offered by the LOTOS Group and obtained from crude oil processing at the refinery are fuels (unleaded gasoline, diesel oil and light fuel oil), heavy fuel oil, bitumens, aviation fuel, naphtha, propane-butane LPG and base oils.

Products
Unleaded gasoline is used in spark-ignition engines. Our unleaded gasolines include premium gasoline – LOTOS DYNAMIC 98 , containing antioxidants and washing additives which support better cleaning of the engine, lengthen its useful life and economise fuel consumption. The fuel is dedicated solely to LOTOS service stations.
Diesel oil is used in compression-ignition engines. This product group includes premium diesel oil – LOTOS DYNAMIC DIESEL , which, owing to the use of friction-reducing components, offers more power efficiency of the engine and guarantees start-up at -32°C. The fuel is dedicated solely to LOTOS service stations.
Light fuel oil is designed for use in heating equipment. With a low sulfur content and unique additives, the product shows great performance in terms of oxidation resistance, anti-corrosive action, maintaining cleanness of nozzles, and reduction of emissions of noxious combustion products.
LPG – mixture of liquefied hydrocarbons, consisting primarily of propane and butane. With both gasses mixed in correct proportions, the LPG can offer optimum working parameters.
Heavy fuel oil may be used for three purposes: as fuel for power generation, bunker fuel, and feedstock for further processing, including in coking units.
In the bitumens product group, the key product is road bitumen used in construction and maintenance of roads, airports and other hard surfaces. Apart from the road construction industry, bitumens are also used in the manufacturing of construction materials with waterproofing properties, with industrial bitumens being the most popular component.
Aviation fuel is designed for use in jet engines.
Naphtha is used as a raw material in the petrochemical industry and in production of motor gasolines. The entire naphtha output is exported.
Base oils – the key products include Group I base oils, which are used as feedstock in the production of lubricating oils, including motor and industrial oils.
The primary motor oil product lines include: LOTOS Quazar – premium synthetic oils for cars (distributed only in authorised service centres), LOTOS Thermal Control – mineral, semisynthetic and synthetic oils dedicated for cars, and LOTOS Turdus – mineral, semisynthetic and synthetic oils dedicated for HGVs.
The key product lines of industrial oils are Hydromil, Transmil and Remiz , which make up a full category of hydraulic, turbine and machine oils, as well as industrial lubricants.

Important new additions to the Grupa LOTOS product portfolio include xylenes and Group II base oils, introduced in 2012 and 2013, respectively. Xylene serves as feedstock for the production of polyesters which are used in the manufacture of plastics, including popular PET packaging and textile products. It is also used in the production of solvents for the paint and varnish industry. Group II base oils are used as feedstock for the production of high-quality lubricant oils. Group II base oils have sulfur content of less than 0.03%, viscosity index of 80-120 and saturator content of more than 90%.

Sales and logistics

Grupa LOTOS sells fuels and other petroleum products directly and through its subsidiaries.

Fuel sales are handled by Grupa LOTOS and LOTOS Paliwa (unleaded gasoline, diesel oil and light fuel oil). Fuels are sold by the Company on the domestic and international markets. Key customers in Poland include multinational fuel companies such as Shell, Statoil and BP, whereas internationally the Company supplies fuels to global trading companies and integrated fuel companies. LOTOS Paliwa operates solely on the domestic market, and its main customers include Polish fuel companies and LOTOS service station chain.

Sale of other petroleum products is carried out by the Company and its subsidiaries LOTOS Oil, LOTOS Asphalt and LOTOS-Air BP Polska. The Company offers heavy fuel oil, aviation fuel, naphtha and base oils, selling the products internationally, for instance to global trading companies. LOTOS Oil sells lubricating oils in Poland and abroad, chiefly through distributors and authorised customer service points. LOTOS Asphalt offers road bitumens to customers in Poland and abroad, mostly construction companies. LOTOS-Air BP focuses on domestic aviation fuel sales to airlines ('into plane' segment), but also operates on the Polish wholesale market for aviation fuel.

Naphtha is sold chiefly to integrated fuel companies and petrochemical companies in Germany and to the Amsterdam-Rotterdam-Antwerp oil hub (ARA), whereas motor gasoline is marketed to the ARA hub and to Sweden. Aviation fuel is exported mainly to Scandinavian and Baltic markets, but also to the Czech Republic (deliveries by land). Diesel oil is marketed chiefly to Germany, United Kingdom and France, whereas heavy fuel oil is delivered to storage depots of global trading companies in Estonia, Denmark and the Netherlands for further sale outside of Europe.

A vast majority of exported products are transported by sea, using the Naftoport's infrastructure, and the rest is transported by land.

Other business

Apart from exploration, production and processing of crude oil and natural gas, as well as sale and distribution of a wide range of petroleum products, LOTOS Group companies also perform support activities auxiliary to the core operations. Key subsidiaries in this area include RCEkoenergia, Energobaltic, LOTOS Serwis, LOTOS Infrastruktura, LOTOS Terminale and Miliana Shipholding Group companies.

The support activities include maintenance of plant, electrical installations and I&C systems, overhauls, generation and distribution of electricity, heat, LPG and gas condensate, fuel storage and distribution, rental and management of own or leased property, sea transport services consisting in the receipt and storage of crude oil from production areas, transport of crude from the field to the port and providing emergency rescue services for offshore rigs.

RELATED CONTENT:

About us

The LOTOS Group's main market is Poland, but our foreign sales are also steadily rising. In 2014, we ranked third among Poland's largest exporters.

Go to the page » <http://raportroczny.lotos.pl/en/the-organization-and-its-report/the-organization/about-us>

Structure

Within the LOTOS Group, the role of Grupa LOTOS is to integrate the key management and support functions. To perform its role, Grupa LOTOS has implemented a segmental management model.

Go to the page » <http://raportroczny.lotos.pl/en/the-organization-and-its-report/the-organization/structure>

Glossary of industry terms

Go to the page » <http://raportroczny.lotos.pl/en/useful-information/glossary-of-industry-terms>

Strategic objectives

The overriding strategic objective of the LOTOS Group is to create value for shareholders through optimised deployment of human and material resources and implementation of development programmes in exploration and production, processing and marketing. These programmes are pursued in compliance with the principles of sustainable growth.

The operational priorities and development directions for the LOTOS Group until 2020 are set forth in the strategy for 2011–2015.

Exploration and production

In the exploration and production area, the LOTOS Group is intensifying its efforts to expand the resource base in order to take advantage of the high margins projected for this sector in the long term.

Strategic objectives:

- Increase production of hydrocarbons in line with the priorities of Poland's energy policy until 2030,
- Increase the production potential to 24 thousand boe (barrel of oil equivalent) daily (or 1.2m tonnes of crude oil annually) in 2015.

The activities undertaken to meet these objectives are based on a continuous expansion of operations in the Baltic Sea, the Norwegian Continental Shelf and onshore areas in Poland and Lithuania, in particular by:

Poland:

- Increasing production from the existing fields,
- Fully appraising hydrocarbon potential of the Baltic Sea assets,
- Expanding onshore activities.

Norway:

- Exploring, developing and producing from the existing offshore licence areas,
- Acquiring new producing fields.

Lithuania:

- Developing the existing onshore licence areas.

Processing operations

As part of processing operations the LOTOS Group focuses on effective utilisation of the Gdańsk refinery's processing capacities. Growth-oriented activities are also undertaken to further enhance the refinery's efficiency and benefit from possible synergies with the Polish petrochemical industry.

Strategic objectives:

- Achieve world-class standards of production and maintain strong competitive position among European refineries,
- Make optimum use of assets held and acquired as part of the growth strategy,
- Ensure safe and stable operation of production and ancillary facilities, with a target of 98% minimum annual availability,
- Further increase the conversion ratio and intensify feedstock processing.

The overriding strategic objective is effective utilisation of the Gdańsk refinery's capacities.

Marketing operations

The LOTOS Group's strategy for its marketing operations assumes that all marketing activities should lead to improvement of the integrated margin and ultimately translate into higher shareholder value.

The strategic objectives are being pursued in many areas of operations.

- As regards fuel sales, the key objective is to further reinforce market presence and the key goals here are to:
 - Maintain a 30% share in the domestic fuel market,
 - Achieve sales 15% in excess of the fuel production capacities of the Grupa LOTOS refinery,
 - Secure a 10% share in the domestic retail market through development of the service station chain and enhanced sales from the existing chain.
- In sales of lubricating oils, the key objective is to retain our leading position on the domestic market.
- In sales of other products, the key objective is to optimise financial performance by leveraging our resources and market conditions.

The achievement of the above strategic objectives will be possible only with optimum management of the supply chain, including planning, procurement, production and distribution. Moreover, given its large processing capacities the LOTOS Group is continuing its policy of diversifying directions and sources of crude oil supplies.

Key areas of focus and development for the LOTOS Group until 2020:

- Further optimisation of the management model to achieve the highest available efficiency.
- Access to proven recoverable reserves of hydrocarbons of approximately 330m boe in 2020.
- Production growth to approximately 110 thousand boe/day (equivalent of 5m tonnes of crude a year).
- Maintaining at least 30% share in the domestic fuel market.
- Maintaining fuel sales 15% above the refinery's fuel production capacity.
- Maintaining at least 10% share in the domestic retail fuel market.
- Further improvement of the economic efficiency of crude processing, ensuring full utilisation of the assets.
- Steps to optimise energy management at the refinery by expanding connections with other power systems.

Our growth-oriented activities and efficiency improvement projects implemented in identified areas are geared towards increasing the LOTOS Group's value through innovative and sustainable development, with due regard to the principles and values supported by our stakeholders.



EFRA (Effective Refining)

One of the LOTOS Group's key investment projects undertaken with a view to achieving the objectives of its strategy for 2011–2015 and growth directions until 2020 is the EFRA Project.

Under the project, LOTOS Asphalt and Grupa LOTOS plan to construct a delayed coking unit with auxiliary infrastructure at the refinery, which would make it possible to convert the refinery's heavy residue output into final products for which there is a strong demand on the market, such as diesel oil, LPG and pyrolysis gasoline. As a result, the share of low-margin bitumens and heavy fuel oils produced from heavy residue in the total output would be reduced or even eliminated, while the share of high-margin final products would increase, adding 900,000 tonnes of high-margin products per annum.

In 2014, preparatory work under the EFRA Project was well advanced, both in the area of financing and awarding contracts for unit construction. A positive environmental decision was received, and a procedure to select contractors for the key units was completed. Final completion of the project and commissioning is planned for 2018.

In the near future, LOTOS Asphalt will play a vital role in the LOTOS Group's development plans. In addition to its current operations – bitumen production and sales – the company will be responsible for another crucial endeavour, namely the Effective Refining (EFRA) Project, designed to further modernise the Grupa LOTOS refinery in Gdańsk.

Piotr Przyborowski

President of the Management Board of LOTOS Asphalt



Given its technological structure, EFRA is highly consistent with LOTOS Asphalt's scope of operations. The project will enable more efficient and flexible use of heavy residue for production of bitumens or coking, which will help the company adjust to changing market conditions. For the LOTOS Group, it represents a natural and reasonable direction of sustainable and secure development.

EFRA will be carried out jointly by Grupa LOTOS and LOTOS Asphalt, acting as the main project owner. Following the project's completion in 2018, LOTOS Asphalt will be able to process vacuum residue and add liquid fuels to its product mix.

The company will still produce bitumens, but only in economically justified quantities meeting the current demand. The project will drive up LOTOS Asphalt's profits by reducing the seasonality effect related to bitumen sales, which reflect the cyclical nature of road construction works. EFRA is a great challenge for our company, requiring its reorganization and a wholly new strategy.

The Project, unprecedented on the Polish market, is a chance for the LOTOS Group to gain a technological edge. EFRA covers a number of key units, including the Delayed Coking Unit (DCU), the Coking Naphtha Hydrotreating Unit (CNHT), the Hydrogen Generation Unit (HGU) and the HCB Vacuum Distillation Unit (HVDU – at Grupa LOTOS). Total annual output of the project units will be approximately 800 thousand tonnes of fuels and 350 thousand tonnes of coke. Following EFRA's implementation, the LOTOS Group will phase out the production of heavy fuel oil.

The name EFRA (Effective Refining) refers to the project being currently implemented by the LOTOS Group which uses the delayed coking technology. Delayed coking is an effective refining technology which will enable deeper conversion of crude oil at our refinery, maximising the volume of high-margin products produced in our refinery, such as diesel oil and aviation fuel while reducing the output of low-margin products such as bitumens and heavy fuel oils.

Grzegorz Hrycina

Investment Project Director, Grupa LOTOS



The processing configuration of the refining units will allow for flexible optimization of production depending on the current market prices of raw materials and products – from discontinuing the production of heavy products altogether when the margins are low, up to producing substantial amounts of bitumen when customers willing to pay attractive prices place their orders.

While estimating the rate of return on our investment, we assumed cautiously that most streams of refinery products manufactured by the EFRA Project will be placed on international markets, which are more liquid than the Polish market. The location of the refinery in Gdańsk allows us to effect deliveries within the region of the Baltic Sea and Western Europe. However, given the right demand for fuels in Poland, there will not be any obstacles to place these products on the domestic market. The investment will therefore improve the organization's competitive position and allow it to secure a long-term foothold on the increasingly challenging fuel market in Europe, which must face growing pressures from refineries in the US, the Middle East and Russia.

The Project's key advantage is its ability to utilise the MHC capacities developed as part of the 10+ Programme. Consequently, our capital expenditure will be lower than that incurred by other refineries embarking on similar projects. As the project has been adapted to perfectly fit the refinery's existing infrastructure, only minor adjustments will be required to connect the new units.

The Project is also economically attractive, as confirmed by lending institutions, the owner and stock-exchange investors, who decided to acquire Grupa LOTOS new shares in 2014. Last but not least, the project will be based on tested and often innovative process licences developed by renowned companies, and the state-of-the-art solutions (e.g. hermetically sealed coke off take) will help us mitigate the environmental impact of Grupa LOTOS refinery.

EFRA Project will be carried out by an experienced team of experts which has successfully managed Grupa LOTOS' investment projects since the 1990s, including the recent 10+ Programme. For Grupa LOTOS and LOTOS Asphalt, the next three years will be a period of intensive work. We are prepared to handle the increased workload in terms of both technical and organizational resources. Initial and integration designs have all been completed, and we have the relevant personnel and a project schedule ready to be implemented.

Our objective is to deliver the project in such a way as to secure added value for the LOTOS Group and its key stakeholders, while also maintaining our ability to meet credit facility repayments. To ensure that this happens, we need to design and construct the project units so as to ensure their safe, efficient and flexible operation. The LOTOS Group is more than ready to handle this challenge.

RELATED CONTENT:

Letter from the President of the Board

The success of the Grupa LOTOS' SPO was a measure of trust of our shareholders and potential investors in our capacity to effectively operate amid economic and political turmoil. It was a resounding vote of trust of our shareholders and investors in the development strategy of Grupa LOTOS.

Go to the page » <http://raportroczny.lotos.pl/en/the-organization-and-its-report/letter-from-the-president-of-the-board>

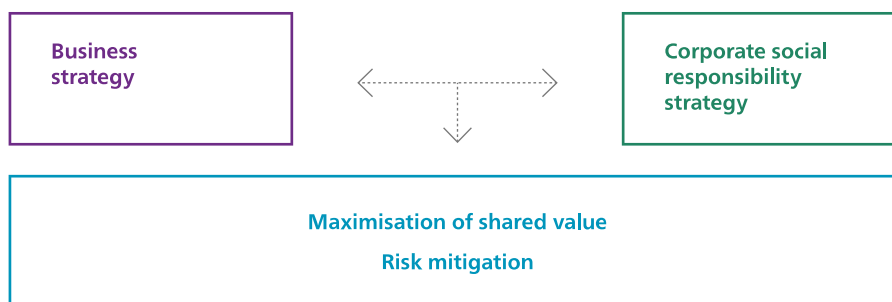
Key objectives

The concept of corporate social responsibility is a part of the vision of the LOTOS Group's operations, and is reflected in both the business strategy and the corporate social responsibility strategy. In 2012, the Board of Grupa LOTOS approved the revised corporate social responsibility strategy for the LOTOS Group, effective – just like the business strategy – until 2015.

The primary goal of the LOTOS Group's CSR strategy is to support the organization in meeting the objectives provided for in its business strategy by optimum use of the organization's resources and capabilities to generate economic and social value for the benefit of the LOTOS Group and its environment.

To ensure successful delivery of that goal, the social, environmental, ethical and human rights concerns included in the CSR strategy were incorporated into the LOTOS Group's core operations and business strategy. In this way, we have created a mechanism to:

- Maximise the building of shared value for the shareholders, our other stakeholders and society as a whole,
- Identify, prevent and mitigate the possible negative effects of our operations.



The efforts undertaken by the LOTOS Group in the social and business spheres, in our relations with key stakeholders and in corporate governance are aimed principally to:

- Ensure compliance with the law and ethical standards,
- Increase our positive contribution to social development,
- Mitigate possible adverse impacts of our operations and the associated risks,
- Maximise our chances for sustainable development over the long term.

The LOTOS Group's CSR strategy until 2015 defined the key objectives to be achieved in individual areas of activity. For each of these objectives, a set of targets and action plans has been developed to support the achievement of the results envisaged in the strategy.

- **In the area of investment** in human resources our objective is to ensure the availability of highly qualified staff required to successfully implement the business strategy and enhance the corporate culture based on adopted values.
- **As regards health and safety improvement**, our priority is to increase the awareness and involvement in work safety improvement among the management staff, employees and contractors.
- **As regards integration with the local community**, our principal goal is to undertake initiatives that help to ensure lasting solutions to social and environmental issues vital to our local communities.
- **In the area of management of natural resources in the production process**, we seek to reduce environmental risk and continually minimise the environmental impact of the LOTOS Group's operations.
- **In terms of ethics and the prevention of misconduct**, we seek to improve our management by ensuring ethical conduct and the transparency of business processes, as well as by protecting the organization against misconduct.
- **Our strategic goal with respect to partnership relations with the market environment** is to build lasting customer relationships by focusing on understanding customers' needs and ensuring expected product quality and safety.
- **As regards energy sector security**, our objective is to support initiatives designed to enhance energy sector security in a socially and environmentally responsible manner.
- **As regards communication**, we aim to ensure that communication with employees is timely and appropriate to their various needs. We also seek to build organizational culture based on multi-directional, open communication, including through the development of a system of public consultations within the LOTOS Group.

2014 was the third full year of implementation of the LOTOS Group's corporate social responsibility strategy, which, just like our business strategy, spans the period to 2015.

Jowita Twardowska
Communication and CSR Director, Grupa LOTOS



Therefore, we are about to update our objectives concerning social and environmental impacts, corporate governance and human rights protection. This will be an excellent opportunity for us to review our more than eight-year performance, since analyses underlying the development of our first CSR strategy were started in early 2007, as part of a series of important changes driven by the growth of the LOTOS Group as an integrated oil corporation.

Our approach to CSR is long-term and comprehensive, since it has become an element of the management process. The synergy of its business and social aspects has been ensured through the development of detailed operational plans and measures of the CSR strategy performance against targets in all of its key areas. Performance against targets is supervised by leaders of particular areas, reporting to the Board. For the purpose of performance reporting, we have developed a method to monitor the implementation of the CSR strategy, similar to that used for analysing the effects of our business strategy. Our CSR practices, similarly to practices in other key management areas, are additionally assessed for maturity, and evaluated by the management on a regular basis during our yearly 'CSR Day'. Recent analyses show a high level of achievement of the CSR targets, in excess of 90%.

Our approach consistently strengthens the LOTOS Group's reputation as a desirable employer, trading partner of choice, and trusted capital market participant, as well as a responsible neighbour, a business in symbiosis with its environment, committed to improving the well-being of its neighbourhood, resolving issues and responding to the challenges that emerge in the vicinity of its plants.

We strongly support the approach set out in the PN-ISO 26000 standard, where corporate social responsibility is defined as an element of the management process which takes into consideration a company's responsibility for the environment in which it operates. We identify, assess, measure and mitigate our social and environmental impacts. It is worth noting here that the precautionary measures we take depend on the results of analyses of how particular risks affect the functioning of the organization and its surroundings. Therefore, we measure not only our impacts, but also the impacts of external factors on the operation and effectiveness of the LOTOS Group.

We perceive our involvement with the affairs of the environment in which we operate as our duty and commitment towards the stakeholders. We believe in building the LOTOS Group value while catering to the needs and expectations of local communities. In fact, one of the eight pillars of the LOTOS Group's CSR strategy is integration with local communities. We understand it as contribution to ensuring lasting solutions to social and environmental issues vital to our local communities.

To translate this approach into effective action, we need to identify actual needs and expectations of our key stakeholders. And this is how the LOTOS Group works – we consult our decisions and priorities with local communities. A case in point is the consultation of our CSR strategy with the stakeholders. Also, everyone can share their views on our integrated annual reports or report an incident that involves a potential violation of our Code of Ethics.

Transparent ongoing communication, being open to public dialogue and transparent reporting on the implementation of the CSR strategy are also vital to creating lasting relations with the stakeholders.

LOTOS' sound financial and market position proves that we successfully bring benefits to the organization and simultaneously build value for our environment.

Social impact

2014 was outstanding in terms of the number of CSR programmes and campaigns as well as activities undertaken by the LOTOS Group under the cross-sectoral cooperation model. It was also a period of initiatives aimed to establish a responsible supply chain.

Go to the page » <<http://raportroczny.lotos.pl/en/results-and-prospects/sustainable-development/social-impact>>

Awards and distinctions

According to the Chapter of the ninth edition of 'The Best Annual Report' contest, the 2013 Integrated Annual Report of Grupa LOTOS exemplifies a publication based on which investment decisions can be made at a relatively minimal risk.

Go to the page » <<http://raportroczny.lotos.pl/en/the-organization-and-its-report/awards-and-distinctions>>

Membership in organizations

Representatives of Grupa LOTOS take part in the work of different organizations and we treat our membership in them as strategically important. The goals of these organizations are e.g. to develop new legislative solutions for the energy sector and to actively participate in public consultation of draft acts regulating the sector.

Go to the page » <<http://raportroczny.lotos.pl/en/the-organization-and-its-report/membership-in-organizations>>

Employees

 Data has been verified > [See full text of the Independent Assurance Report](#)

STATEMENT

High competences and commitment of employees build our strength, and employee potential is reflected in the Company's development.

Joanna Tyszka

Human Resources Office Director, Grupa LOTOS, CSR Strategy Leader in the Investment in Human Resources area



Our concern for professional advancement and improvement of employees' skills and expertise goes hand in hand with our efforts to foster a good working atmosphere and friendly relations between colleagues. We value open communication, teamwork and partnership between the management and employees.

Employees are a company's most important asset. Therefore, effective human resources management involves due care for the advancement of their skills and qualifications and creation of opportunities for the employees to support the values crucial to our corporate culture. The Code of Ethics, which has been in place since 2013, reflects this approach.

As provided for in our CSR strategy for 2012–2015, the objective of the LOTOS Group's HR policy is to ensure the availability and development of highly qualified staff required for successful implementation of the LOTOS Group's business strategy and enhancement of the corporate culture based on adopted values. We seek to ensure growth of our organization through continuous development and use of our employees' potential.

In our human resources policy, we are guided by the principles of accessibility for employees, consistency across systems and solutions, flexibility in relation to business needs, and above all responsibility for work results. Our HR policy is long-term in nature and is based on good practices and best HR standards and tools, such as employer branding, responsible recruitment and employment, quick adaptation to the working environment, continuous improvement of employee training and professional advancement systems, creation of an engaging workplace, fair assessment, and appropriate motivation and rewarding of employees.

One of the key skill-raising tools are our in-house training programmes dedicated to specific employee groups, designed as part of the LOTOS Academy initiative, which has been carried out for 10 years. Our training and skill-raising activities are designed to improve the various competencies of our employees, identify talent across the organization, disseminate expert knowledge and foster increased involvement and job satisfaction.

Our staff education methods, techniques and tools include a broad range of open and closed training courses, both in hard and soft skills, which are run based on annual schedules in the form of conferences, seminars, workshops, symposia and forums. We rely on advanced education techniques and technologies, such as simulation games or e-learning.

Since accessibility is one of the main features of our training policy, the target groups of our training opportunities include senior and middle management, as well as supervisors, coordinators and specialists. Additionally, among the solutions applied are those based on coaching and mentoring, the latter chiefly in the production area, where skill learning is the longest process, requiring many years of experience. Our coaches and mentors are experienced instructors from the operating training team, who – by direct interaction – pass on their knowledge to younger colleagues working as equipment operators. Our employees are also familiar with knowledge sharing workshops, at which they can share knowledge relating to the organization's various operational areas. In addition, at least twice a year, we hold seminars dedicated to management staff, to acquaint them with the most recent solutions in management by attractively integrating theory with practice.

To ensure the continuity of management in key positions at the LOTOS Group, we train successors within the framework of the

Succession Programme, the Managers Academy and the Master Programme. In 2015, we intend to continue the initiatives already in place and develop objectives for a new advancement programme dedicated to employees with 3-5 years of service. We are going to promote the e-learning formula given the increasing percentage of employees aged 25-35, who prefer to use modern IT tools. Fostering of knowledge-sharing culture and age management will become essential components of our employee training policy.

The initiatives we carry out have earned us reputation of a reliable and highly valued employer propagating the principles of corporate social responsibility, as confirmed by the Friendly Recruitment Zone certificate awarded to Grupa LOTOS. The certificate is granted to employers recruiting their staff in compliance with the standards of the Code of Good Recruitment Practices. What is more, having audited our recruitment practices, the Polish Human Resources Management Association awarded us the Top Quality Human Resources Certificate, thus acknowledging the top quality standards of our human resources management processes.

Workforce of the LOTOS Group companies

Company	Dec 31 2012	Dec 31 2013	Dec 31 2014
Grupa LOTOS – parent	1,349	1,345	1,350 ✓
LOTOS Asphalt	254	202	208 ✓
LOTOS Terminale ¹ and its subsidiaries	236	245	169 ✓
LOTOS Gaz in liquidation	1	1	1 ✓
LOTOS Infrastruktura ² and its subsidiaries	75	75	152 ✓
LOTOS Kolej	812	833	874 ✓
LOTOS Lab	153	156	160 ✓
LOTOS Ochrona	161	162	160 ✓
LOTOS Oil	338	317	318 ✓
LOTOS Paliwa	270	272	272 ✓
LOTOS Park Technologiczny	1	1	1 ✓
LOTOS Petrobaltic and its subsidiaries	553	557	624 ✓
LOTOS Serwis	697	684	678 ✓
LOTOS Straż	89	89	89 ✓
LOTOS-Air BP ³	26	44	50 ✓

¹ Before 2013 LOTOS Czechowice.

² Before 2013 LOTOS Jasło.

³ Before 2013 LOTOS Tank.

The LOTOS Group's workforce by type of employment contract (2014) ⁴ – men

Company	Fixed-term contracts: full-time employees	Fixed-term contracts: part-time employees	Open-ended contracts: full-time employees	Open-ended contracts: part-time employees
Grupa LOTOS	123 ✓	2 ✓	792 ✓	13 ✓
LOTOS Asphalt	14 ✓	0 ✓	148 ✓	0 ✓
LOTOS Kolej	156 ✓	9 ✓	621 ✓	1 ✓
LOTOS Oil	22 ✓	0 ✓	203 ✓	1 ✓
LOTOS Paliwa	22 ✓	0 ✓	111 ✓	0 ✓
LOTOS Petrobaltic and its subsidiaries	121 ✓	3 ✓	365 ✓	2 ✓
LOTOS-Air BP	32 ✓	0 ✓	10 ✓	0 ✓

⁴ Thanks to the implementation of the SAP HCM system across the LOTOS Group in 2013, we are gradually extending the scope of reported HR data. We intend to report HR data for all companies as of 2015.

The LOTOS Group's workforce by type of employment contract (2014) – women

Company	Fixed-term contracts: full-	Fixed-term contracts: part-	Open-ended contracts: full-	Open-ended contracts: part-
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Company	time employees	time employees	time employees	time employees
Grupa LOTOS	63 ✓	1 ✓	351 ✓	5 ✓
LOTOS Asphalt	9 ✓	0 ✓	37 ✓	0 ✓
LOTOS Kolej	23 ✓	1 ✓	63 ✓	0 ✓
LOTOS Oil	9 ✓	0 ✓	83 ✓	0 ✓
LOTOS Paliwa	34 ✓	0 ✓	102 ✓	3 ✓
LOTOS Petrobaltic and its subsidiaries	32 ✓	1 ✓	76 ✓	1 ✓
LOTOS-Air BP	4 ✓	0 ✓	4 ✓	0 ✓

The LOTOS Group's workforce by type of employment contract (2014) – total number of employees

Company	Fixed-term contracts	Open-ended contracts
Grupa LOTOS	189 ✓	1,161 ✓
LOTOS Asphalt	23 ✓	185 ✓
LOTOS Kolej	189 ✓	685 ✓
LOTOS Oil	31 ✓	287 ✓
LOTOS Paliwa	56 ✓	216 ✓
LOTOS Petrobaltic and its subsidiaries	157 ✓	444 ✓
LOTOS-Air BP	36 ✓	14 ✓

RELATED CONTENT:

Responsible employer

Our training policy is based around long-term, consistently implemented development plans. In 2014, we celebrated the tenth anniversary of the LOTOS Academy, our comprehensive employee training and development project, which is highly valued in the world of science and business.

Go to the page » <http://raportroczny.lotos.pl/en/results-and-prospects/sustainable-development/responsible-employer>

Safe workplace

In accordance with our strategy, safety at work and health protection, with respect to both our own employees and the employees of our cooperating partners, are priorities for the LOTOS Group. In 2014, we achieved a 46% decrease in the accident rate compared to 2013.

Go to the page » <http://raportroczny.lotos.pl/en/results-and-prospects/sustainable-development/safe-workplace>

Ethics

The LOTOS Group's Code of Ethics, which was put in place over two years ago, is the cornerstone of the organization's comprehensive Ethical Conduct Programme, designed to make business ethics the highest standard in the management of our organization.

Go to the page » <http://raportroczny.lotos.pl/en/ethics-and-corporate-governance/ethics>

Environment

STATEMENT

Further reduction of CO₂ emissions, with the current structure of (low emission) fuels, will be made possible through enhancement of the energy management system in accordance with the ISO 50001 standard.

Wojciech Blew

Technology Development and HSE Director, Grupa LOTOS, CSR Strategy Leader in the Management of Natural Resources in the Production Process area



Through continuous effort to mitigate our environmental footprint, implementation of solutions reducing energy consumption, cooperation with academic centres, open dialogue with all groups of stakeholders and other initiatives described above, we have been fulfilling the obligations resulting from the Declaration of Polish Businesses for Sustainable Development we signed three years ago, as well as the adopted United Nations Global Compact principles of preventive approach to the natural environment, undertaking initiatives aimed to promote eco-responsibility, and application and dissemination of environmentally friendly technologies.

In the fourth year of implementation of our current business strategy and the accompanying CSR strategy, we proved that mitigating environmental risks and seeking ways to minimise environmental impacts never cease to be our major goals.

In 2014, the last, fourth boiler in our CHP plant was upgraded, which means that now all the boilers of Grupa LOTOS are adapted to burning natural gas – the fuel which generates the least pollution.

The switchover to natural gas as a source of energy and a feedstock in the production of hydrogen has enabled us to considerably reduce emissions from our production units and CHP plant and cut carbon dioxide emissions, expressed in kg CO₂/CWT (complexity weighted tonne), relative to previous years. The right type of fuel and appropriate solutions have driven our performance to a level higher than the target set under the strategic objective of carbon emissions reduction (actual emission at 30.0 kg CO₂/CWT against the target of 33.6 CO₂/CWT).

Further reduction of CO₂ emissions, with the current structure of (low emission) fuels, will be made possible through enhancement of the energy management system in accordance with the 50001 standard.

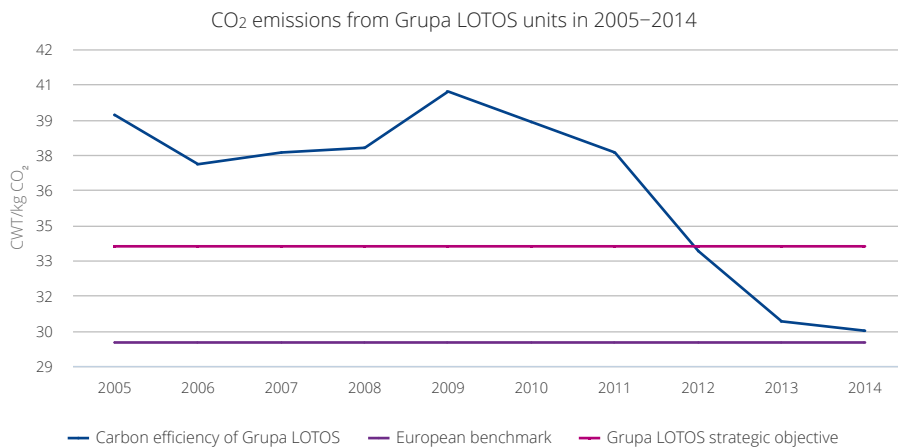
For this purpose, we have appointed the Energy Efficiency Team, whose responsibilities will include implementation of two closely related environmental objectives: improvement of energy efficiency of the interplant pipeline steam heating system (to be achieved in 2015) and reduction of primary energy consumption at the Grupa LOTOS refinery – analysis of energy efficiency of the plant and equipment, with a special focus on some of the older process furnaces and their possible replacement (to be achieved, possibly, by 2019).

We continue promoting awareness of best environmental practices and standards among all LOTOS Group employees as well as local communities. One of the initiatives worth mentioning here is the voluntary comprehensive environmental survey carried out in the area of operation of Grupa LOTOS (the refinery, 2.5 km² and its surroundings (ca. 12.1 km²) as well as the surroundings of the raw water retention reservoir, located ca. 2.5 km from the refinery (area of 2.4 km²). The product of the survey was a report detailing all the identified fungi, lichen, plant and animal species, with a particular focus on species or natural habitats protected by Polish and EU laws. The environmental survey performed voluntarily and on such a large scale was one of the first such projects to be completed in Poland.

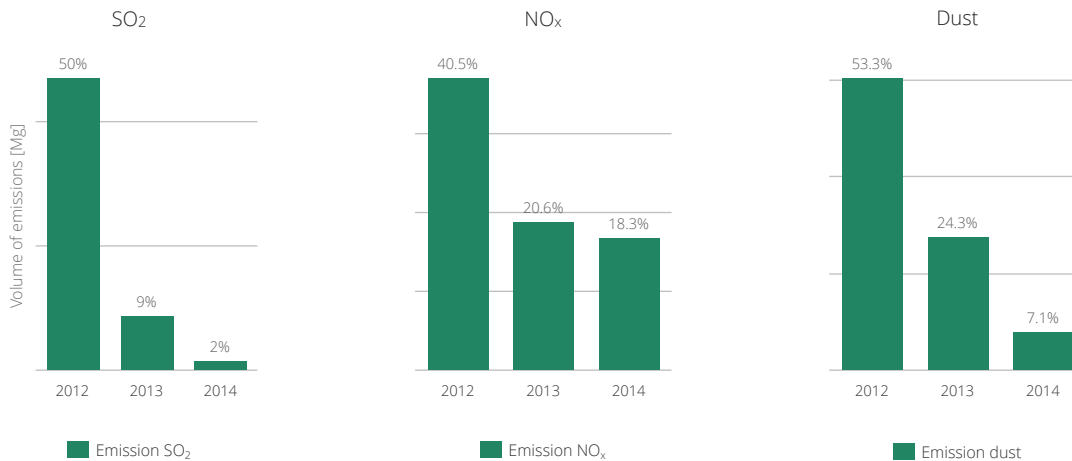
Apart from many trips for secondary school and university students, we organized a series of lectures and seminars at the Faculty of Chemistry of the Gdańsk University of Technology, during which environmental protection experts discussed a number of environmental aspects of the refinery's operation, including the legal requirements and the actual security measures taken to protect the environment from negative impacts of our operation and enabling us to fulfil, by a wide

margin, the requirements of the environmental license (integrated permit).

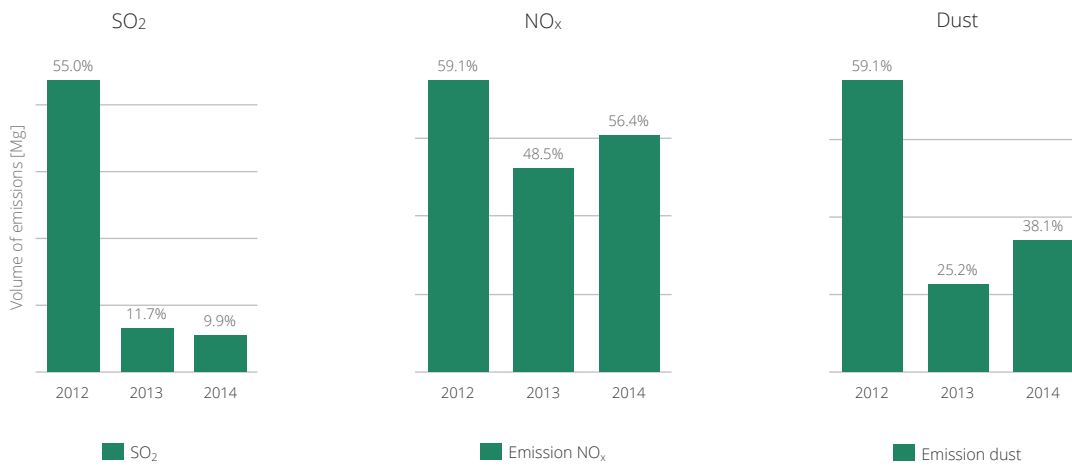
Grupa LOTOS was the first company in the Gdańsk Province to fulfil one of the new obligations on protection of soil and underground water, imposed on the operators of IPPC installations by the Industrial Emissions Directive (Directive 2010/75/EU of the European Parliament and of the Council of November 14th 2010) and by new Polish legislation – Act of July 21st 2014 on amendment of the Environment Protection Law and certain other acts. The IED Directive and the aforementioned Polish legislation imposed a new requirement that an application for an integrated permit or amendment of an existing integrated permit must be accompanied by a baseline report containing information on contamination of the soil and water environment with hazardous substances. In December 2014, the Company applied for amendment of the integrated permit regulating its operations and submitted a baseline report, as an integral part of the application, to the Marshall Office. As of the effective date of the new requirement, no integrated permit may be issued if the baseline report is not provided. The amendment was required following extension of the infrastructure for unloading rail cars, construction of a hydrogen recovery unit, changes in the types and volumes of emissions from one of the emission sources, and changes in land plot boundaries and numbers caused by new investment projects carried out on the refinery’s premises. In January 2015, the Marshall Office issued a decision amending the existing integrated permit.



Emissions of main pollutants from Grupa LOTOS CHP plant to the air relative to permitted values



Emissions of main pollutants from Grupa LOTOS refinery units to the air relative to permitted values



RELATED CONTENT:

Environmental impact

Our carbon emissions were reduced to levels seen only at the best European refineries. Grupa LOTOS refinery's advanced environmental solutions have curbed our environmental impacts while delivering notable financial benefits, in the form of lower fees for the use of the environment, resulting from our commitment to reducing the amount of emitted pollutants.

Go to the page » <http://raportroczny.lotos.pl/en/results-and-prospects/sustainable-development/environmental-impact>

Operational (refining) segment

In the operational (refining) sector, we identify operational risks related to the refinery and environmental risks, including risks related to carbon emission caps.

Go to the page » <http://raportroczny.lotos.pl/en/risk-and-opportunities/operational-refining-segment>

Brand

STATEMENT

A strong brand is a valuable corporate asset, playing an important part as a source of competitive advantage and value growth. Higher shareholder value is delivered by companies with strong brands, which are associated with good offering for customers, fair treatment of employees and positive CSR performance.

Anna Goliszewska

Brand Management Office Director, Grupa LOTOS, CSR Strategy Leader in the Market Partnership to Raise LOTOS Brand Awareness area



Appropriate management of customer relationships, good relations with stakeholders and community outreach initiatives may yield measurable benefits to a company by strengthening its reputation and image.

Fostering the image and strength of the LOTOS brand is one of the priorities for Grupa LOTOS. Our ambition is to create a brand that is dynamic and competent, friendly and trustworthy, and associated not only with offering top quality goods and services, but also with striving to meet the expectations of its stakeholders so they can pursue their own goals and dreams. The LOTOS brand has been consistently supporting promotion of product brands by establishing lasting relations with customers and linking the respective brand messages with areas of our core expertise as an oil company.

We support every area of the LOTOS Group's activities, be they of strategic importance, such as the '2013–2015 Effective and Rising' Programme, or non-strategic outreach and sports projects. Seeking to associate the LOTOS brand with positive emotions, we sponsor the National Ski Jumping Development Programme for the youngest ski-jumping hopefuls, entitled 'In Search of the Champion's Successors'. We are proud to say that last year its beneficiaries proved their worth by competing successfully during the winter Olympics. Another ambitious and exciting initiative spearheaded by the LOTOS brand is the newly launched cooperation with the Polish Football Association and the support for the Polish national football team, whose attitude and successful performance unite all Poles.

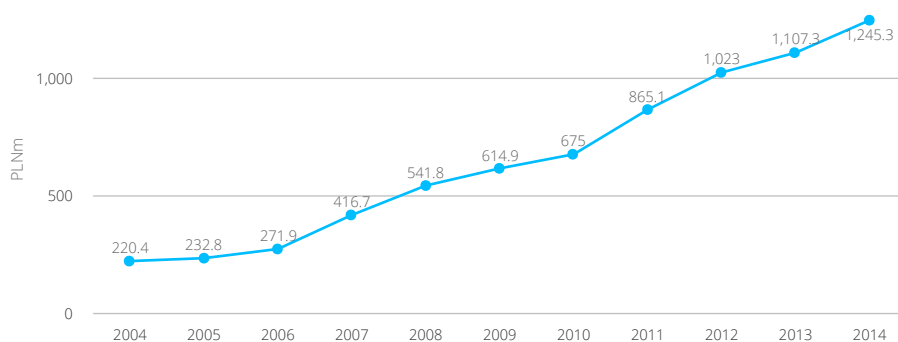
The 2014 image campaign 'LOTOSTORY – The world of the LOTOS brand' shows the brand's close relationship with people and their needs. Our story combined the spectacular scale of the Company's operations with sincere human feelings, because we want our customers to see that the LOTOS brand is more than the refinery, service stations and drilling rigs – it is also an innovative, helpful and friendly business supporting people in their everyday travels.

All of these image-building initiatives are reflected in the brand's value. In the 11th edition of Poland's Most Valuable Brands ranking, published by the Rzeczpospolita daily, the LOTOS brand was valued at PLN 1.245bn. Since 2014, its value has increased by over one billion zloty, driven by our consistent efforts to maximise the brand's strength, and our innovative approach to image building. LOTOS entrenched its position among Poland's top ten most valuable brands.

In monitoring the brand's standing and the progress of our CSR strategy, we also measure the social capital index which indicates whether the LOTOS Group is considered an environmentally-minded business, supporting culture and engaging in community outreach projects.

Our policy of enhancing brand value and image was fully acknowledged in 2014, when Grupa LOTOS received two Superbrand titles for the strongest and most recognisable brands in Poland – the Business Superbrand award for the best business brand, and the '2013/2014 Created in Poland' award, given to Polish brands that have developed an outstanding public image enabling them to compete against foreign brands.

Value of the LOTOS brand (PLNm)



Source: Rzeczpospolita daily, November 2014.

RELATED CONTENT:

Management segment

In the management segment, we identify political, legal, reputation and social risks as well as the risk of misconduct.

Go to the page » <http://raportroczny.lotos.pl/en/risk-and-opportunities/management-segment>

Social impact

2014 was outstanding in terms of the number of CSR programmes and campaigns as well as activities undertaken by the LOTOS Group under the cross-sectoral cooperation model. It was also a period of initiatives aimed to establish a responsible supply chain.

Go to the page » <http://raportroczny.lotos.pl/en/results-and-prospects/sustainable-development/social-impact>

Marketing operations

The expansion of the LOTOS service station chain and increased efficiency of sales strengthened our presence on the retail market, pushing our share up to 9% at the end of 2014 (against 8.5% in 2013).

Go to the page » <http://raportroczny.lotos.pl/en/results-and-prospects/segment-performance/marketing-operations>