

## Marketing segment

### 1. Risk of crude supply interruptions or reduced crude supply

As the output from its own production assets does not fully cover its processing feedstock requirements, Grupa LOTOS relies on crude oil purchased from external suppliers. Approximately 92% of oil supplies are sourced from Russia. Crude oil is supplied via the network of pipelines operated by PERN (the Druzhba and Pomorski pipelines) and by sea through the Naftoport oil terminal; in 2014 we also made our first purchase of crude oil shipped by rail. Considering the above, the key risks that may cause uncertainty in crude oil supply include the political situation in oil exporting and transit countries, as well as the availability and the working condition of transport infrastructure.

The possible causes of disruptions to Grupa LOTOS' crude oil supplies include:

- technical failures, including failures of the pipeline system used to supply crude oil, terrorist acts, acts of sabotage, riots, wars, natural disasters, adverse weather conditions and other force majeure events,
- irregular crude oil deliveries leading to a temporary reduction in work-in-process inventory, which in turn is likely to affect the refinery's throughput volumes.

We are consistently pursuing our policy to diversify the directions and sources of our crude oil supplies by focusing on:

- security of supplies – through progressive expansion of its presence on the international oil markets, regular contracting of various crudes transported by sea, creating conditions to increase the share of such crudes in total supplies to the refinery in case of any disruption of supplies from the main import market, and expanding the share of own production in total feedstock volumes,
- improvement of competitive position – by fully capitalising on the coastal location of our refinery in Gdańsk and the possibility of sourcing crude supplies through two independent channels: Russian oil through the Druzhba Pipeline and various types of oil available through Naftoport (an offshore oil terminal),
- use of crude oil transport by rail, with new crude oil rail unloading stations built at the refinery in 2014.

An appropriate selection of crude types and supply directions is a result of continuous efforts to maximise the integrated margin.

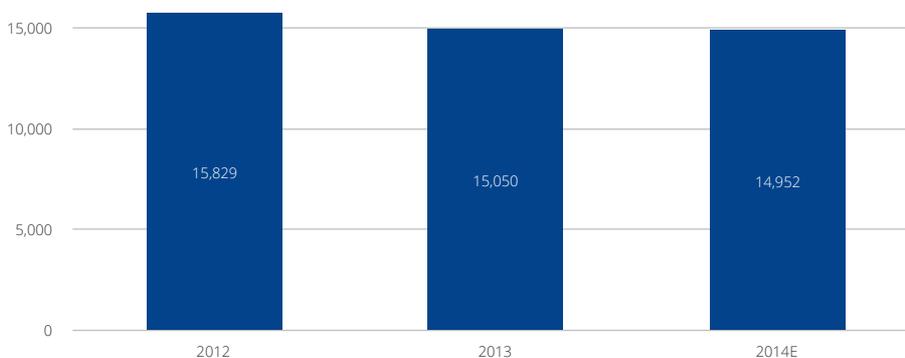
### 2. Risk of changes in margins on product sale

The principal risk factors include progressing market consolidation leading to intensified price competition on the Polish fuel market, and the rapidly changing global macroeconomic environment. In order to mitigate this risk, we are continuously refining our tools for monitoring variables affecting prices and margins. In retail sales, we are pursuing market diversification, including diversification into segments less prone to competition-induced margin erosion, as well as other initiatives aimed at building lasting relationships with customers.

### 3. Risk of decline in domestic demand

Certain macroeconomic factors, such as slow economy, declining industrial output and investment, and high unemployment, have been driving down fuel consumption in Poland since 2012 while at the same time an increased activity of the grey market, in which fuel is sold, is observed. Diversification of the available distribution channels, implementation of a pro-active pricing policy for price-competitive products, and optimisation of operating costs are the key elements of the strategy aimed at minimising the impact of this risk on our operations.

Gasoline and diesel oil consumption in Poland ('000 tonnes)



Source: In-house analysis of Polish Organization of Oil Industry and Trade (POPiHN) data.

## RELATED CONTENT:

---

### 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>

### Glossary of industry terms

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