

Presentation of the supply chain

Key areas of the LOTOS Group's supply chain include:

- Production and logistics planning,
- Procurement of raw materials and other production inputs,
- Production process,
- Distribution of products.

All the business processes comprising the supply chain make up the core of our organization's value chain. In accordance with the strategy for 2011–2015, in order to maximize our integrated margin, the LOTOS Group focused on the optimum use of its assets and on coordination of activities along the entire supply chain.

Given the scale of our business, our network of relationships with suppliers and customers is a complex structure spanning various aspects, both at the operational level and, in the case of certain partners, the strategic level. When engaging in long-term business relationships, Grupa LOTOS pays attention to the market position and CSR record of its prospective partners.

Many of our partners are international oil companies which have pioneered the industry's commitment to corporate social responsibility and business ethics.

As a vertically-integrated oil company, we take active steps to control the flow of raw materials, products, information, and cash within the organization, from the moment a raw material is extracted, through production and distribution, to consumption of the final product by its end user.

Crude oil supply

In 2015, crude oil was the key feedstock in the LOTOS Group's procurement mix.

REBCO (Russian Export Blend Crude Oil) accounted for 77% of the total crude procurement volume, while in 2014 it was 92.5%. The remainder of the oil procurement volume was made up of other varieties, including the Kirkuk or Arab Light crudes. In addition, the LOTOS Group processed crude produced in Poland by LOTOS Petrobaltic and B8 sp. z o.o. Baltic s.k.a, as well as crude produced in Lithuania by AB LOTOS Geonafta. Besides oil supplied by sea and by pipeline, the Grupa LOTOS refinery also processed oil produced by PGNiG, which was supplied by rail.

10.9 m
tonnes

**amount of crude oil
purchased by the LOTOS
Group in 2015, up 15%
relative to 2014**

Our objective: to optimize and diversify the directions and sources of crude supply

As the output from its own producing assets does not fully cover feedstock requirements, the LOTOS Group relies on crude oil purchased from external suppliers. Crude oil is supplied mainly from the Russian Federation via the network of pipelines operated by PERN (the Druzhba and Pomorski pipelines), by sea through the Naftoport oil terminal, and by rail.

Possible causes of disruptions in crude oil supplies to the refinery include:

- Technical failures, including technical failures of the pipeline system used to supply crude oil, terrorist acts, acts of sabotage, riots, revolutions, war, natural disasters, adverse weather conditions, and other events of force majeure,
- 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.

In response to the risk of supply disruptions, we consistently pursue our policy to diversify the directions and sources of crude oil supplies by focusing on the following aspects:

- ensuring security of supplies – through progressive expansion of our 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.
- expanding the share of own production in total feedstock volumes.
- improving competitive position – by fully capitalizing on the coastal location of the Gdańsk refinery and the possibility of sourcing crude supplies through two independent channels: Russian oil through the Druzhba Pipeline and various types of crudes through the Naftoport oil terminal.
- regular use of crude oil transport by rail, with crude oil rail unloading facilities available at the refinery.

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

What else did we do?

Following the launch of delivery by rail, in early 2015, of crude oil produced by Polskie Górnictwo Naftowe i Gazownictwo (PGNiG), the Gdańsk refinery operated by Grupa LOTOS now processes crudes delivered using three modes of transport:

- by pipeline,
- by sea,
- by rail.

The crude oil supplied by PGNiG comes from its production facilities in Lubiatów (estimated reserves of 7.25 million tonnes), Wierzbno and Barnówko. The crude is transported to Gdańsk by LOTOS Kolej from PGNiG's rail terminals in Barnówko and Wierzbno.

nearly

275

**thousand tonnes
annually**

**amount of crude to be
delivered to the Gdańsk
refinery under a five-
year contract with
PGNiG**