



LOTOS Group
Integrated Annual Report 2015

04

Product, customer - Commitment to quality, safety and brand image

Product, customer – Commitment to quality, safety and brand image

At the LOTOS Group, we believe that commitment to high quality should begin with the supplier and remain a priority along the supply chain, until a product reaches the final customer. This belief has led to a strong focus on superior standards in both production and services, with the aim of building the LOTOS Group's value and enhancing our positive impact.

Through a number of initiatives, including development of key innovative technologies and solutions, we have been able to increase productivity and bring down costs. We have also become an increasingly trustworthy and reliable business partner. We stimulate local business.

Our efforts have also led to growing market shares and contributed to enhanced perception and value of the LOTOS brand.

- As at the end of the reporting period, our share in the Polish retail market of liquid fuels reached the target of 10%. Our effectively executed optimization measures led to a marked improvement of the LOTOS chain's financial results. Clean EBITDA (adjusted for one-off items) in 2015 amounted to PLN 112m, a new record high in the history of our service stations.
- Drawing on our long-standing experience in sports sponsorship, in 2015 we made a decision, with a full sense of responsibility for what that entails, to become the Main Sponsor of the national football team. For us, it is a grand, ambitious and emotionally significant undertaking, because we realize that our national team, its attitude and success engage all Polish people and positively reflect on the LOTOS brand.
- LOTOS is one of the strongest and most recognisable brands in the Polish market. In the 12th List of Poland's Most Valuable Brands compiled by the Rzeczpospolita daily, the brand ranked 8th, having advanced by one position over the year. However, since 2010 its value has more than doubled.

How do we create value for investors and customers?

Key financial indicators	Key non-financial indicators
<ul style="list-style-type: none"> ■ Share of the Polish fuel market: 31.2% ■ 10.5% share of the Polish retail fuel market ■ Value of brand: PLN 1.4bn 	<ul style="list-style-type: none"> ■ Customer satisfaction: ratio of the relationship and loyalty of the LOTOS Group's customers is 76 points according to TRIM ■ Increased station availability for customers: increased number of stations 2014⇒ 441, 2015⇒ 476 ■ Presence on 82 markets

Safety also remains our key priority, from feedstock procurement and processing to delivery of finished products to the market. Products of the LOTOS Group meet the applicable quality standards, as confirmed by relevant certificates required and recognized both on the local and international markets.

Conditions on the Polish fuel market in 2015

Domestic demand for fuels is shaped by the overall economic situation in Poland and the region. In 2015, Poland's GDP grew by 3.6%, 0.2 percentage point above the government's forecast. According to the Central Statistics Office data, the key drivers of growth were internal consumption and exports. Other supportive factors included a favourable business climate in the manufacturing and construction industries. The unemployment rate as at the year's end was 9.8%. The overall condition of the economy is reflected in fuel consumption data, with growth seen across all product categories during the period.

- Diesel oil: consumption of diesel oil in Poland reached 12.5 million tonnes, up 8.4% on the year before. Despite the growth – the volume of consumption in 2015 was down 800 thousand tonnes on 2011. Analysts attribute the downward trend prevailing until 2014 to the fast expanding shadow economy, which took advantage of the favourable business climate and high retail prices.
- Gasolines: for the first time in six years, the segment returned to a growth path. Demand for gasoline in 2015 grew by 4.3%, to 3.8 million tonnes, stimulated by the stronger business activity, falling unemployment, and lower prices at the pump.
- LPG: sales went up by 2%, to 2,351 thousand tonnes. The LPG market in Poland may be described as mature, with annual consumption volumes at 2.2-2.3 million tonnes in each of the last five years.
- Aviation fuel: demand increased by 3.4%. Thanks to the growing number of airline services, expansion of new airlines and steady increase in the number of passengers, the market is viewed as highly promising and is expected to grow in the coming years.

By 2012, the global demand may rise by:

- 11% for JET fuel,
- 9% for LPG,
- 9% for diesel oil,
- 5% for gasoline.

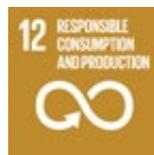
In the coming years, demand for light fuel oil is expected to decline slightly, by 1%.

Our products

Sustainable products



THE GLOBAL GOALS
For Sustainable Development



Adverse climate changes and environmental pollution, as well as growing consumer awareness and expectations, entail a need to expand the range of sustainable products. In the fuel industry, fossil fuels are replaced by renewable energy sources, which contribute to lowering emissions, including CO₂ emissions.

Energy of the future at Grupa LOTOS

Replacement of fossil fuels by other energy sources has long been a subject of strategic analyses at Grupa LOTOS. We see fossil fuel substitution not only as a threat to our principal activities associated with conventional energy, but also as an opportunity to further expand our business by leveraging long-term trends on the global energy market.

How do we contribute to fossil fuel substitution?

- We are engaged in work on possible applications at the Grupa LOTOS refinery of hydrogen generated through electrolysis of water with the use of renewable energy sources, which is part of the GEKON (Generator of Ecological Concepts) programme, a joint initiative of the National Fund for Environmental Protection and Water Management and the National Centre for Research and Development <http://program-gekon.pl/>.
- We are also looking into the possibility of processing vegetable oils and animal fats into bio-hydrocarbons in the HVO (Hydrotreated Vegetable Oil) process.

Further investments are conditional upon successful completion of [EFRA](#), our strategic project, which will significantly improve the competitive position of Grupa LOTOS and complexity of its refinery.

High quality standards of Grupa LOTOS fuels

All Grupa LOTOS fuel products meet the quality requirements prescribed by law, and in some environmentally relevant respects – even exceed the legally required standards.

The sulfur content of our key products, both gasolines and diesel oils manufactured by the Gdańsk refinery, is substantially below the legal limit. The average annual sulfur content in motor gasolines and diesel oils is 2.8 ppm and 6.7 ppm, respectively, considerably below the legal limit 10 ppm. This results in substantially lower sulfur dioxide emissions.

Hazardous substances in Grupa LOTOS fuels

Substance	Unit	2015 volume	2015 volume (average)	2014 volume	2014 volume (average)
Benzene (in gasolines)	% V/V	0.4 - 0.9	0.7	0.5 - 1.0	0.8
Sulfur (in gasolines)	mg/kg	0.3 - 10.0	2.8	0.1 - 8.7	3.3
Sulfur (in diesel oil)	mg/kg	2.0 - 9.6	6.7	2.4 - 9.9	5.7
Lead	mg/kg	<2.5	<2.5	<2.5	<2.5

Biocomponents in Grupa LOTOS fuels

Fuels manufactured at the Grupa LOTOS refinery contain biocomponents, i.e. renewable energy carriers, as required by the Polish Act on Biocomponents and Liquid Biofuels. According to the current quality requirements for liquid fuels, the permitted ethanol and ethyl tert-butyl ether content in gasoline is 5% and 15%, respectively. Similarly, the volume of fatty acid methyl esters in diesel oils must not exceed 7%.

In 2013, the Council of Ministers issued a Regulation on National Indicative Targets (NIT) for 2013–2018, setting NIT for 2013–2016 at 7.1%, which means that biocomponents must account for 7.1% of the energy content of fuels marketed in Poland (the national blending quota).

In 2015, Grupa LOTOS was allowed to meet a lower NIT of 6.035%, having fulfilled the statutory requirement whereby at least 70% of the total biocomponent volume used for liquid fuel and biofuel production must be supplied by producers listed in the register of the Agricultural Market Agency.

In 2015, Grupa LOTOS produced nearly 102.7 million litres of biocomponents meeting the sustainability criteria set forth in Directive 2009/28/EC of the European Parliament and of the Council on the promotion of the use of energy from renewable sources, and defined by recognized certification systems. They were produced in Czechowice-Dziedzice. We also purchased 397.5 million litres of biocomponents meeting the sustainability criteria.

Our products are appreciated by the market

Our products are appreciated by the market, as evidenced by the growing sales and strong market position of Grupa LOTOS. Our share in the Polish fuel market in 2015 was 31.2%, which was 1.2 percentage points above our strategic target for the year. We also managed to expand our share of the Polish retail fuel market to over 10%, meeting the target defined in our strategy for 2011–2015*

* Source: Polish Organization of Oil Industry and Trade (POPIHN)

LOTOS Group's share in the domestic fuel market (%)*



*Source: Polish Organization of Oil Industry and Trade (POPIHN)

Grupa LOTOS is a leading player on the Polish market of motor oils, and a significant exporter of the products.

We also among leaders in the domestic market of road bitumens.

What are our plans in the marketing area?

Retail segment

- Consistently increase share in the retail fuel market in Poland.
- Strengthen the perception of LOTOS service stations as a modern and fast developing retail chain.

Wholesale segment

- Expand sales of aviation fuel in Poland.
- Intensify our activities in Central/Eastern Europe and Northern Europe.

Non-fuel products

- Maintain our leading position in the lubricating oils market in Poland.
- Expand share of oil services in total sales.
- Maintain the leading position in the modified bitumens market in Poland.
- Secure strong position on the markets in Central and Eastern Europe.

Quality deserving of recognition

The quality and safety standards of our products were acknowledged by a number of awards and distinctions received by the LOTOS Group companies in 2015.

- **Golden Laurel** for LOTOS Asphalt in the Pomeranian Quality Award.
- **Quality International Golden Badge** in the product category for the WMA road bitumen delivered by LOTOS Asphalt. This innovative product, launched in 2015, helps extend the construction season and reduce the amount of energy consumed to produce bitumen blends.
- **Good Brand 2015 – Quality, Trust, Reputation** title in the Engine Oils category for the LOTOS brand. The award is granted to brands present on the Polish market that stand out for their development potential and enjoy the highest recognition.
- **2015 Innovation Award** granted to Grupa LOTOS during the SAP Forum conference in Sopot. More information

[More information](#)

Customers

Our key customers

In 2015, the oil products of Grupa LOTOS were sold mainly in Poland. The main export destinations were in Europe.

Main customers of Grupa LOTOS in Poland:

- Fuel products (gasoline, diesel oil, light fuel oil, aviation fuel):
 - multinational oil companies: BP, Shell Polska, Statoil
 - B2B fuel wholesalers
 - airlines
- Oil products (engine and industrial oils):
 - engine oil distributors
 - approved repair shops
 - production companies
- Bitumen products (road and modified bitumen):
 - road construction companies

Integrated fuel companies in Northern and Western Europe, international trading companies, and independent wholesalers and retailers were the main export customers for Grupa LOTOS products in 2015.

Export markets for the LOTOS Group's products:

- Naphtha: integrated fuel and petrochemical companies in Germany and Scandinavia, and the Amsterdam-Rotterdam-Antwerp (ARA) oil hub,
- Motor gasoline: the Amsterdam-Rotterdam-Antwerp (ARA) oil hub, Sweden, and the United Kingdom,
- Aviation fuel: Scandinavian countries and the Czech Republic, where the products were transported by land,
- Diesel oil: the United Kingdom, Germany and the Czech Republic,
- Heavy fuel oil: storage depots of global trading companies in the Netherlands, Sweden, Estonia and Denmark (for re-sale outside of Europe).

Most of exported products are transported by sea, mainly on a CIF basis through PPPP Naftoport's liquid fuel terminal, and on a CIP basis by land to the Czech Republic and Hungary.

With customer satisfaction in mind

Our primary objective defined in the LOTOS Group's Corporate Social Responsibility Strategy is to build lasting customer relationships. We do that by focusing on understanding customers' needs and offering them safe quality products. We measure our success in this respect by reference to the level of our customers' satisfaction with cooperation with the LOTOS Group's marketing companies.

Customer satisfaction survey – approach and results

Progress in customer relations is monitored through regular surveys. They focus on such factors as supplier selection process, cooperation with supplier staff, their accessibility and competences, quality and availability of products, time of response to call for offers, prices, and the image.

Satisfaction surveys among the LOTOS Group's customers

Company	Survey frequency in year	Customer segments
Grupa LOTOS	1	B2B
LOTOS Asfalt	1	B2B - bitumen
LOTOS Kolej	2	Grupa Kapitałowa LOTOS, forwarding companies, direct customers
LOTOS Oil	1	B2B
LOTOS Paliwa	1	B2B

At most of the marketing segment companies, customer satisfaction surveys are conducted using the CAWI (Computer-Assisted Web Interview) technique. The results are analysed based on the TRI⁺M method, developed by a research company TNS Polska, the TRI⁺M Index being a single number score which measures customer satisfaction and loyalty levels. The TRI⁺M Index questions relate to overall rating, probability of recommendation, likelihood of repeat purchasing of product/service, and competitive advantage. The TRI⁺M Index is a measure of customer retention levels – the higher it is, the greater the brand loyalty. The TRI⁺M Index figures reported for the LOTOS Group companies indicate that the overall satisfaction with their products is high. In 2015, the best result in the survey was achieved by Grupa LOTOS, with the score highest since 2012 (see the table below).

Wartości TRI⁺M Index for the LOTOS Group companies

Company	2015	2014	2013	2012
Grupa LOTOS	87	82	86	80
LOTOS Paliwa	78	N/A	76	N/A

LOTOS Oil	69 	70	67	N/A
LOTOS Asfalt	80 	77	73	70

Grupa LOTOS:

The customer relationship and loyalty score was 87 in 2015, indicating high customer satisfaction. Compared with 2014, TRI*M increased 5 points. Improvement was seen not only in the overall rating of Grupa LOTOS but also in the scores for the probability of recommendation, repeat purchase, and competitive advantage. Grupa LOTOS customers are very loyal and attached to the LOTOS brand. The proportion of unsatisfied and disloyal customers declined, whereas the proportion of customers for whom the main selection criterion was the price increased.

LOTOS Paliwa:

The customer satisfaction survey in 2015 was conducted using the CATI technique. The survey participants were fleet and B2B customers (wholesalers, independent service stations, and partner stations).

2015 results: overall TRI*M rating (synthetic measure of customer satisfaction and loyalty) was 78, up 2pp on the previous wave of the survey.

LOTOS Oil:

Analysis of the customer satisfaction survey findings was based on the TRI*M method developed by TNS. The survey was conducted among authorized distributors, large customers operating as trade partners (wholesale channel), and end customers from the industrial and automotive segments, including approved repair shops and service providers, auto parts retailers, as well as businesses from various industries (direct sales channel).

2015 results: overall TRI*M rating – 69, or 1 point down on 2014.

The scores for recommendation and competitive advantage remained similar as a year earlier, while the score for probability of repeat purchase decreased slightly. Relative to 2014, LOTOS Oil was more widely recognized as a company that cares for the environment – the score for this aspect improved the most.

LOTOS Asphalt:

In 2015, the satisfaction survey was carried out among Polish and foreign customers and was based on TNS Polska's TRI*M methodology. It focused, among other aspects, on relations with sales representatives and distribution teams, but also on product quality, bidding processes, and the company's image.

2015 score: TRI*M rating – 80, or 3 points up on 2014.

Timeliness and reliability of deliveries were the strongest drivers of customer satisfaction – 68% of the respondents said that their orders were always delivered on time. Another strength of LOTOS Asphalt is the product quality – more than a half of all its customers gave the company the highest scores for this aspect. The next major advantage of LOTOS Asphalt is the quality of customer service. And LOTOS Asphalt's customers are loyal – 94% of the respondents would recommend the company to their trading partners.

How is customer satisfaction measured at the other companies of the LOTOS Group?

- **LOTOS Kolej:** Satisfaction ratings are obtained primarily through direct interaction with representatives of the customers. Another tool used to measure customer satisfaction is a voluntary questionnaire-based evaluation system. In 2015, the overall score given to the company was 8.51  out of 10.
- **LOTOS Lab:** To measure customer satisfaction, in 2015 the company sent questionnaires to its selected customers and to the companies of the LOTOS Group which use LOTOS Lab services. The overall level of customer satisfaction was 94% .

With customer safety in mind

At Grupa LOTOS we take great care to ensure that our products and services meet the customers' expectations and pose no threat to health and safety. We are aware that our responsibility in this respect is not only to meet the obligatory legal requirements, but also to deliver on the initiatives we undertake and to follow our in-house rules.

By taking steps to minimize safety risks, we build up our reputation, a springboard for our steady development and value growth.

Our products have no secrets

Product Sheets or Safety Data Sheets have been prepared for all products manufactured by the LOTOS Group. The materials are based on applicable international requirements (by law, dangerous substances and mixtures which are supplied without a Safety Data Sheet must not be marketed or used in professional applications). Product Sheets and Safety Data Sheets contain information on the product's impact on health and environment, hazardous ingredients, substances and chemicals, fire-fighting measures, accidental release measures, disposal, etc.

Every customer can access the information on safe use of our products, either online or directly at points of sale. Safety Data Sheets are delivered directly to each wholesale distributor and are available to retail customers at the LOTOS service stations. Where required, Safety Data Sheets for non-fuel products are also made available at LOTOS service stations.

[More information on Safety Data Sheets for products](#)

We assess our impacts to deliver safer products and services

To improve the monitored indicators, Grupa LOTOS assesses the health and safety impacts of all its key product and service categories. The impact of fuels on human health and safety is monitored during production (except at LOTOS Paliwa).

In 2015, **LOTOS Asphalt** checked all its products (bitumens, bitumen products and bunker fuel) for health and safety impacts. The same was done by **LOTOS Oil** with respect to all of its products. All Safety Data Sheets were updated pursuant to Regulation (EC) No. 1272/2008 of the European Parliament and of the Council. With the Integrated Management System in place at Grupa LOTOS, LOTOS Oil can review the Safety Data Sheets on an ongoing basis. Introduction of any new product is preceded by the examination of its impact on health and safety. **LOTOS Kolej** assessed 44.44% of items in its offering for health and safety impacts in 2015 (transport of dangerous goods).

We have also taken relevant safety enhancing measures in our transport and distribution processes. Additionally, third-party providers of transport services are assessed for compliance with safety standards. As part of efforts to ensure the highest possible safety of transport processes, LOTOS Kolej concluded a cooperation agreement with railroad safety manager (Eisenbahn Betriebstleiter), who is responsible for ensuring that transport processes are performed properly and that the internal rules in place at LOTOS Kolej are aligned with the applicable laws of the Federal Republic of Germany.

Fuel distribution is subject to special safety supervision. For fuel sales by CODO stations, LOTOS Paliwa has set safety standards and monitors compliance by the station managers. This process is governed by separate agreements and procedures, with the latter being improved on an ongoing basis.

As part of our supervision of road transport, delegated employees of LOTOS Paliwa undertake regular field inspections to monitor:

- Loading operations at fuel depots,
- Safe passage of tank trucks over monitored routes, including correct cargo marking in compliance with the ADR requirements,
- Safety of unloading sites,
- Unloading operations, to ensure their compliance with the established procedure,
- Actions taken in case of spills or failures.

What else did we do?

Grupa LOTOS has developed a product safety system (the SDS system) to facilitate the flow of information on chemical substances and mixtures present on the refinery premises, and to improve distribution of Safety Data Sheets to customers who buy LOTOS products.

All employees have access to the SDS Portal containing all up-to-date Safety Data Sheets. Furthermore, the staff of individual organizational units have assigned to them relevant sets of Safety Data Sheets pertaining to products they come to contact with.

Best practices: for the convenience of service station customers

LOTOS Biznes car fleet cards for micro-, small and medium-sized enterprises

Our business philosophy is to build the best possible offer for each, even the smallest, company. Therefore, we continuously develop our offer for micro-, small and medium-sized enterprises. A new type of the LOTOS Biznes car fleet card is an innovative solution designed with this customer group specifically in mind. It offers modern functionalities, many of which prove more valuable to small businesses than to large corporations.

Benefits to customers: LOTOS Biznes car fleet cards for micro-, small and medium-sized enterprises offer, among other benefits, simplified settlements, cost control and discounts on fuel and services; as a result, they help reduce the cost of accounting services as well as other operating costs, and save the time necessary for business development.

Benefits to Grupa LOTOS: With LOTOS Biznes cards used by businesses across a variety of industries, we are able to stabilize our fuel sales regardless of business cycles in individual sectors of the economy. Our service stations are the front line of our sales activities, enabling us to reach out to new procurement groups, e.g. taxi firms.

What else do we offer to customers at LOTOS service stations?

- LOTOS Premium stations are equipped filling **facilities for the disabled** and baby changing stations.
- Many LOTOS service stations have **automatic car washes**, but we are also developing a network of manual car wash facilities, with a target of reaching more than 20 such locations by the end of 2016, which will represent one-fifth of all car washes in our chain. All our automatic car washes have wastewater treatment facilities and closed water circulation systems reducing water consumption to approximately 15 litres of clean water per cycle.
- LOTOS Paliwa joined the **eMobility** project run by Energa to create a network of charging stations for electric vehicles in the Gdańsk-Gdynia-Sopot agglomeration. Our stations use the **CHAdEMO** charging standard. With 39 kW of power, the system takes 25 to 45 minutes to charge the most popular electric and hybrid cars. In 2015, two quick charge points were opened in Gdańsk.
- By opening the first **SUBWAY** restaurant at our service station (in Rumia in the Gdańsk Province) in December 2015, we teamed up with this largest fast food chain in the world. We intend to develop the cooperation to support our food and beverage brand Cafe Punkt.
- Motorcyclists are an important and growing group of LOTOS customers. In 2015, we removed the lower limit on the amount of fuel motorists must buy to earn points in the LOTOS Navigator loyalty programme. Holders of **Navigator Motorcycle Rider Cards** can collect points also when buying fuel for cars, a feature appreciated particularly by those motorcyclists who in autumn and winter prefer to travel by car.

- LOTOS service stations are equipped with various facilities for the disabled: access ramps and lowered kerbs at the entrance to station buildings, designated parking spaces, toilets with disabled facilities, convenient spaces with ramps at new Premium stations, special posts with buttons to press to ask station staff for assistance, sufficient space to use wheelchair at station shops, wide spaces between shelving units with easy **access to cash desk**.
- To meet the needs of customers travelling with **pets**, from April to September we **provide bowls of fresh water** at selected LOTOS service stations. Additionally, throughout the year at each LOTOS station motorists can receive free plastic bowls for their animals. 2015 was the third year when we ran the campaign.
- In 2015, **mobile charging** points were installed at some of LOTOS service stations. In response to our customers' needs, we offered the possibility of free charging of most popular types of mobile phones and tablets. When waiting for their device to charge, customers have an opportunity to enjoy Café Punkt services.

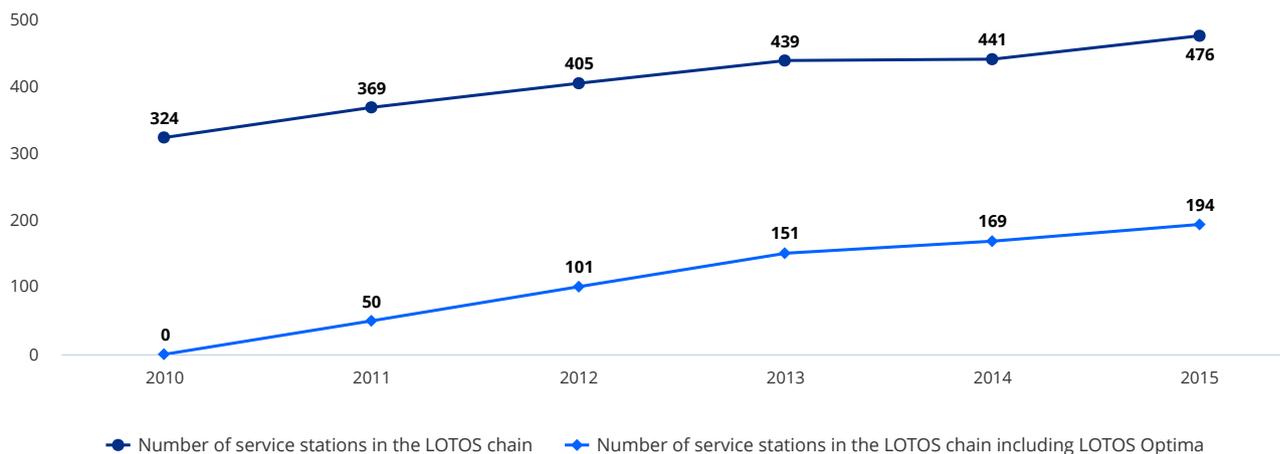
Grupa LOTOS service station chain

Grupa LOTOS service station chain

A growing chain of service stations operating in two segments: premium (LOTOS) and economy (LOTOS Optima) is an important part of our business. At the end of 2015, 476 service stations operated as part of the chain, that is 35 more than the year before (25 of the new service stations operate under the LOTOS Optima brand).

[See the current network of LOTOS service stations](#)

How did the number of LOTOS service stations grow?



As at the end of the reporting period, our share in the Polish retail market of liquid fuels was 10%.^{*} We have consistently pursued this growth strategy for the last five years, starting from a 7% market share. In that period, we increased sales by 50% and added more than 280 new service stations to the chain.

A solid, third place in the domestic retail market allows us to pursue an effective market policy.

^{*} Source: Polish Organization of Oil Industry and Trade (POPIHN)

Grupa LOTOS is also the second largest operator in the Motorway Service Area (MSA) segment in Poland. At present, the all-inclusive offering of the LOTOS service station chain is available to motorists using the A1, A2, A4, A6 motorways and the S3 and S7 expressways. In 2015, LOTOS opened its 18th Motorway Service Area, located by the A4 motorway in Komorowo near Tarnów.

Record-high profits earned by the LOTOS service station chain

Our effective optimization measures led to improvement of the LOTOS chain's financial results. Clean EBITDA (adjusted for one-off items) in 2015 amounted to PLN 112m, compared with PLN 95m in 2014 and PLN 44m in 2013.



476 LOTOS service stations
at the end of 2015

282

LOTOS Premium service stations

194

LOTOS Optima service stations

LOTOS service stations at the end of 2015

282 LOTOS Premium service stations

- 151 own stations (CODO),
- 18 service stations at the Motorway Service Areas (MSAs),
- 113 franchise stations (DOFO).

194 LOTOS Optima service stations

- 121 own stations (CODO),
- 73 franchise stations (DOFO).

Targets for the LOTOS service station chain in 2016:

- 11% sales growth vs 2015,
- Number of operating service stations to exceed 500.

Expansion and standardization of the LOTOS service station chain – new services, overview of 2015

New look of the LOTOS service stations

Year by year, we work to improve not only the scale but also the quality of our services and the visual design of our service station chain. We standardized the visual identification of a large number of the service stations, both in the premium and the economy segments.

118

LOTOS Premium and LOTOS Optima service stations were standardized in 2015

Our achievements so far:

As part of the standardization effort, we unified and improved the look of our service stations. We have also placed strong emphasis on the customer service quality. Having defined the standards, we make every effort to ensure that they are observed by the staff. Thanks to the commitment of our sales personnel and the attractive offering, we have also been highly successful in expanding our fleet customer base.

Our plans:

2016 will see further optimization of the service station chain, with an even stronger focus on stable expansion, improvement of customer service quality, and enhancing of sales efficiency. We intend to proceed with the standardization of our stores and to expand our range of food services. We also plan to significantly diversify the stores' offering and to markedly increase the range of services available at the stations.

Management of the service station chain – best practices

Our stations are more eco-friendly

In 2015, at 28 LOTOS DOFO service stations we carried out the Ecoacademy project, implemented as part of the European Social Fund: Human capital – the best investment, with the objective to improve competences of the staff of micro-, small and medium-sized enterprises with respect to environmental protection.

Following the execution of environmental reviews (April–June 2015), each participant received an audit report specifying the scope of legal requirements for service stations related to environmental protection, and containing assessment of their implementation, and recommendations to take corrective measures, if any.

In addition, in June 2015, six training sessions were organized for service station personnel, devoted to environmental protection at service stations. Over 100 staff participated in the training held as part of meetings of regional LOTOS partner stations in Tarnów, Tychy, Uniejów, Opalenica, Majdan and Olsztyn.

Safe refuelling

Safety at the LOTOS service stations is our priority, which we ensure with the help of qualified staff using modern technologies and procedures. OSH trainings, which are regularly attended by our employees, serve to enhance their knowledge and skills in responding to dangerous situations, fires, and other hazards.

Modern technological solutions employed at the LOTOS service stations not only promote safety, but also generate savings. The fuel pumps are equipped with vapour recovery nozzles capturing fuel vapours from cars' tanks. With this technology we protect the environment by preventing hydrocarbon emissions, and also recover fuel vapours, directing them to an underground tank.

Efficient distribution and logistics

Efficient distribution and logistics

At the LOTOS Group, we are consistently adapting logistics solutions to the changing requirements of our trading business. We also develop an efficient distribution system that meets the expectations of customers, but also helps reduce costs.

To build an optimum logistics chain that would efficiently operate in the constantly changing external and internal environments, in 2015:

- The LOTOS Group continued consolidation of its assets. On April 1st 2015, Grupa LOTOS sold its fuel terminal in Poznań to LOTOS Terminale.
- The structure of mandatory stocks was optimized to minimize the cost of holding the stocks.
- We derived additional revenue from the provision of logistics services to third-party customers.
- The scope of the marine cargo terminal project on the Martwa Wisła river, in the immediate vicinity of the Gdańsk refinery, was regularly reviewed in the context of the planned volumes and structure of Grupa LOTOS' products following completion of the EFRA project.
- The logistics services market was being monitored to identify any alternative low-tonnage sea cargo handling solutions.

Rail transport

Rail transport of products from the Gdańsk refinery is a mainstay of the LOTOS Group's production security. LOTOS Kolej, a specialist rail freight operator, provides comprehensive rail logistics services to the entire Group. One of the elements of the company's strategy is to develop both domestic and international transport activities.

In 2015, LOTOS Kolej provided the following railway services:

- Rail freight transport in Poland,
- Freight transport services in Germany (from November),
- Trainload and non-trainload services,
- Maintenance of rolling stock,
- Eco-friendly cleaning of rail tank cars,
- International rail freight and forwarding services,
- Management of railway sidings for the LOTOS Group and maintenance of railway infrastructure.

LOTOS Kolej's transported volumes rose by 2m tonnes, from 10.6m tonnes in 2014 to 12.6m tonnes in 2015. The increase was mainly driven by larger volumes transported for clients from outside the LOTOS Group – up by 1.8m tonnes, from 5.6m to 7.4m. The transport volumes within the LOTOS Group also grew, from 5m to 5.2m tonnes.

over

12.6 m
tonnes

amount of cargo
transported by LOTOS
Kolej in 2015

In 2015, LOTOS Kolej increased its share in the Polish rail freight market from 8.87% to 9.92%, thus maintaining the second position among rail cargo operators. The company also increased its share in the intermodal transport segment – from 19.17% to 23.17%.*

* In terms of tonne-kilometres, according to the Office of Rail Transport data for 2014 and 2015

In 2015, LOTOS Kolej obtained the safety certificate, part B, for Germany, and started transport services in that country. The German market is the largest transport market in the European Union, with high share of the railway transport (above 20%). This is also the one with the highest potential resulting from the economy size and its stability. Until recently, the Company transported within the former Federal Republic of Germany only in the border traffic, i.e. to the first German station where the train was handed over to the subcontractor. Since 2015, the Company has been allowed to provide own transport services in the territory of Germany, thus being able to compete with other carriers offering international rail transport, and to strengthen its relations with the existing customers looking for fast rail connections between Poland and Germany.

Year on year, LOTOS Kolej has been steadily increasing the number of services for external customers, from outside the LOTOS Group, with the number of transport for external customers exceeding the numbers recorded for LOTOS Group in 2015.

Sea transport

Transport by sea is a vital component of the LOTOS Group's logistics chain. Having direct access to the product pipelines linking our refinery in Gdańsk to the liquid fuel handling facilities at Port Północny, we enjoy a considerable advantage of lower transport costs.

Transport by the Baltic Sea is offered by the companies belonging to Miliana Shipholding Company Ltd. Group. The services consist in crude oil collection and warehousing in the production area its transport from the field to the harbour and rescue assistance for the oil platforms.

2015 was yet another record year for Grupa LOTOS both in terms of the volume of cargo handled at sea ports and the number of tankers handled at the ports.

over

8.5 million
tonnes

**volume of crude oil,
petroleum products and
fuel components
handled by Grupa LOTOS
at sea ports in 2015**

More than
400

**number of tankers
handled by Grupa LOTOS
in 2015**

Maritime transport is Grupa LOTOS' main mode of exporting petroleum products and also accounts for a significant portion of deliveries of feedstock, raw materials and components. The coastal location allows Grupa LOTOS to respond to changing market conditions in a quick and flexible manner.

The liquid fuel terminal, owned by Naftoport, has the capacity to handle tankers with a maximum draught of 15 metres and a freight capacity up to 150,000 tonnes of crude oil or petroleum products. This allows Grupa LOTOS to export surplus products and sell them mainly on the markets of Scandinavia, northern and western Europe and the Baltic states. The direct connection to the port also facilitates imports of additional feedstock, including intermediate products for further, deep processing at the Gdańsk refinery, as well as fuel components.

We also use the Maritime Bulk Terminal in Gdynia and the Siarkopol terminal in Gdańsk to handle smaller cargoes. With its refinery's close proximity to the cargo handling terminal, Grupa LOTOS is able to diversify its supply sources and to receive shipments of crude oil from the Company's own fields under the Baltic Sea and in Lithuania, and – in the future – from the North Sea.

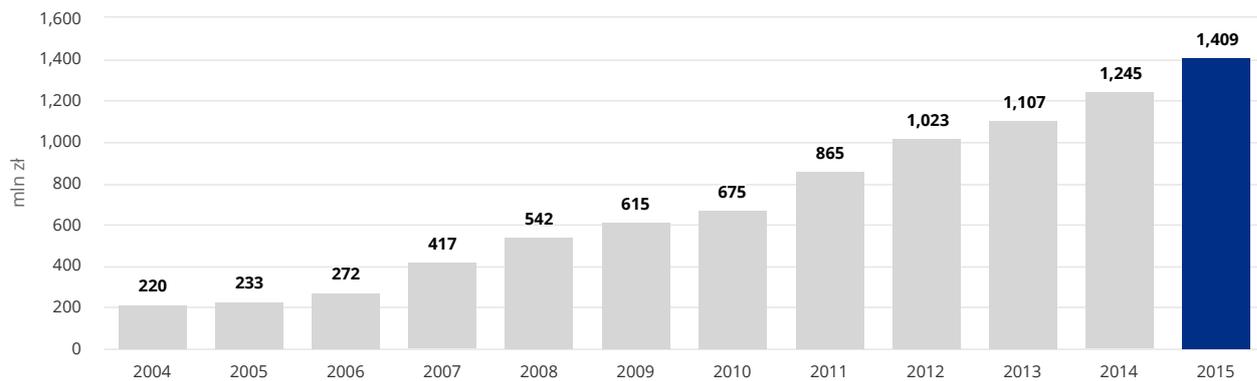
LOTOS brand and image

LOTOS brand and image

A strong brand is a valuable component of Grupa LOTOS' assets, playing an important role in building our market advantage and enhancing our value to the Shareholders and other Stakeholders. We believe that strong brands, such as ours, are associated with a good offering for customers, fair treatment of employees, and positive CSR performance.

LOTOS is one of the strongest and most recognizable brands in the Polish market. In the 12th List of Poland's Most Valuable Brands compiled and published in December 2015 by the Rzeczpospolita daily, the brand ranked 8th, having advanced by one position over the year. Since 2010, the value of LOTOS brand has more than doubled.

LOTOS brand value (PLNm)*



* In-house analysis

Image management, visual identity system, e-VIS

In order to build the market position of the LOTOS brand and to enhance its awareness and recognizability, we have created a Visual Identity System (VIS). The system defines uniform standards and the permitted ways to use its elements. Consistent application of the established rules ensures that a coherent and desirable image of the LOTOS brand is disseminated.

In 2015, the LOTOS Group commenced implementation of the e-VIS platform, a modern and innovative solution that has so far remained unmatched in Poland. Our priorities for the project were to ensure that all relevant data is collected in a centralized location, that it is always up to date, and that it is accessible online to the users.

The key advantages of and benefits offered by e-VIS:

- The rules of use of the LOTOS brand are now available to all users of our visual identity system more easily and more quickly.
- Traditional paper copies of documents were replaced with their digital versions and their printing is no longer necessary, which reduces costs and makes us more eco-friendly.

In a single application e-VIS combines the best practice of visual identity system with group work solutions. By properly using modern technologies we can now further develop the system and be prepared to perform new tasks in the future.

New look of the LOTOS service stations

With a view to modernizing and harmonizing our image, in 2015 we gave the LOTOS service stations a new look. All of the LOTOS Optima economy stations and some of the premium locations underwent visual transformation. This involved primarily changes to the colour scheme and to the manner of presenting the LOTOS logotype. The applied solutions will reduce costs of constructing new and renovating the existing service stations. The standardization made it possible to extend the Cafe Punkt food and beverage offering and adjust the stations to meet customer needs, which had a positive impact on sales. These measures were a part of the programme of operational optimization of our service station chain which we embarked upon in 2014.

Image and advertising campaigns

'Everything you need' was the title of an image campaign conducted in 2015 and featuring the Polish national football team and racing driver Robert Kubica, with whom we also cooperated as part of our sports sponsorship activities. The campaign demonstrated how LOTOS supports travellers by offering them numerous services and amenities available at our service stations. 'Everything you need' is not only a pledge we make to our customers, but also our business motto.

[See on our youtube channel](#)

Sponsorship activities

We conduct our sponsorship activities in accordance with the sponsorship rules and directions adopted by the LOTOS Group, and in line with the Group's corporate social responsibility strategy. Cooperation with beneficiaries is pursued primarily in Poland, in towns and provinces where the LOTOS Group companies are headquartered or trade. **We provide sponsorship support to various initiatives and events, primarily in the area of sports, culture, and art.**

LOTOS as the major sponsor of the Polish national football team

Drawing on our long-standing experience in sports sponsorship, in 2015 we made a decision, with a full sense of responsibility for what that entails, to become the Main Sponsor of the national football team. For us, it is a grand, ambitious and emotionally significant undertaking, because we realize that our national team, its attitude and success engage all Polish people and positively reflect on the LOTOS brand. We are very proud that in June this year, the Polish football team achieved a historical result during the European Football Championship 2016, entering the top eight of the European teams.

Grupa LOTOS signed a sponsorship contract with the Polish Football Association on at the National Stadium in Warsaw, on February 17th 2015. The contract will continue in force until December 31st 2018, with priority given to Grupa LOTOS after its expiry.

As part of our cooperation with the Polish Football Association, we obtained the right to use the title of the Main Sponsor of the Polish National Football Team and to use the official logotype of the Polish national football team in our marketing materials. The contract guarantees display of the LOTOS logotype on the team's training kits. The LOTOS logo will also be displayed on advertising boards during the national team's home matches. The Grupa LOTOS logotype will also appear in the central place of sponsorship boards during press conferences, on the Polish Football Association's website, on tickets, and in football programmes.

Our commitment to football, a discipline so close to Polish people's hearts, is further corroborated by our decision to include Poland's national Under-21 football team in the sponsorship package.

What else do we do for Polish sports?

- Grupa LOTOS is a strategic partner of the LOTOS Rally Team, featuring racing drivers Kajetan Kajetanowicz and Jarosław Baran. [More information](#)
- Grupa LOTOS is the title sponsor of the Polish volleyball club LOTOS Trefl Gdańsk. [More information](#)

For more examples of Grupa LOTOS' sponsorship activities, see:

[Sponsorship activities](#)

LOTOS Group's supply chain

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**

Cooperation with suppliers

In its relations with trading partners, Grupa LOTOS adheres to the principles of honest competition, openness to their expectations, and appreciation of people's intellectual capital and competences. The LOTOS Group's mission and system of values incorporate the principles of ethical, responsible and transparent business.

By trading with due respect for the law and a sense of responsibility for the consequences of its actions, the LOTOS Group:

- Promotes attitudes based on a strong ethical culture and seeks to continuously improve of that culture, both internally and in relations with its external trading partners,
- Makes sure that employee rights are respected and that the employees are guaranteed safe and healthy working conditions,
- Seeks to reduce its adverse environmental impact through rational use of resources and use of environmentally friendly technological solutions,
- Remains objective and impartial in business relations, trying to avoid conflicts of interest and prevent malpractice.

In 2015, our key suppliers whose supplies accounted for more than 10% of the Group's total revenue were VITOL SA of Switzerland, Rosneft Oil Company of Russia, and Tatneft Europe AG of Switzerland.

Their shares in Grupa LOTOS' purchases were 26.00%, 18.33%, and 15.79%, respectively.

Supplier selection and evaluation criteria

In 2015, as in the previous years, the LOTOS Group sought to ensure that calls for offer in every contractor selection process, and all contracts entered into with the existing or new suppliers, contained CSR clauses pertaining to:

- OHS,
- Rules and standards of conduct,
- Ethics,
- Conflicts of interests,
- Anti-bribery and corruption,
- Environmental protection,
- Respect for human rights,
- Social impacts (social integration measures).

All LOTOS Group companies must obligatorily use these clauses in contracts with suppliers.

Aware of the importance of working with a local supplier base, we strive to partner with companies which offer the competencies we expect and meet our standards of cooperation. We seek to minimize the negative impact of fossil fuels in transport by sourcing 72% of the biocomponents (bioethanol and FAME) we use to produce our fuels from local suppliers.

LOTOS Groups' spending on local suppliers

Company name	Total spending on supplier products/services	Spending on local supplier products/services	Share of spending on local supplier products/services in total spending on products/services
Poland (PLN)			

LOTOS Oil	523,135,000	471,756,000	90.18%
LOTOS Kolej	601,068,503	562,755,215	93.63%
LOTOS Paliwa	14,513,537,588	14,466,861,659	99.68%
LOTOS Lab	7165,609	7,149,022	99.77%
LOTOS Infrastruktura	15,255,636	15,255,636	100.00%
LOTOS Serwis	29,413,360	29,048,667	98.76%
LOTOS Ochrona	1,263,000	1,263,000	100.00%
LOTOS Asfalt	884,046,613	809,684,808	91.59%
LOTOS Petrobaltic	378,574,417	79,076,297	20.89%
LOTOS Straż	4,201,591	4,150,466	98.78%
GRUPA LOTOS	19,695,990,000	4,873,130,000	24.74%
Energobaltic	9,665,167	311,362	3.22%
TOTAL	36,663,316,485	21,320,442,132	58.15%
Norway (NOK)			
LOTOS Norge	21,409,000	21,409,000	100.00%
Lithuania (EUR)			
LOTOS Geonafta	16,522,678	14,146,350	85.62%

- The data does not account for settlements with employees, tax settlements related to VAT, excise duty and income tax, settlements with the Social Insurance Institution, customs duties, stockholding fee, local taxes and charges, and payments for perpetual usufruct of land.
- Grupa LOTOS' domestic spending includes purchases from related entities (e.g. LOTOS Petrobaltic, LOTOS Kolej, LOTOS Serwis, LOTOS Straż, LOTOS Ochrona, LOTOS Lab, etc.)
- It needs to be emphasized, though, that the products which are essential to the Group's operations and represent the largest proportion of its procurement costs are not available in sufficient quantities in the local market understood as the whole of Poland (crude oil, petroleum products and specialist equipment), this being the reason for the low share of local spending in total spending.

Our procurement practices

The LOTOS Group companies (excluding LOTOS Petrobaltic) are not required to conduct their tenders in accordance with the provisions of the Public Procurement Act. Nevertheless, we have decided to internally impose a certain order in this respect and to internally regulate our procurement processes. We have put in place certain instructions, procedures and directives the purpose of which is to enhance the legal security and efficiency of our procurement processes. Furthermore, we have introduced standardized contract forms to facilitate and optimize the process of entering into and pursuing business relationships.

In accordance with our internal procedure, each contract must contain corporate social responsibility clauses. The obligation to include such clauses in their contracts has also been imposed on other LOTOS Group companies by way of a relevant directive.

Environment

It is important to us to make every supplier of goods or services aware of our priorities with respect to minimizing the adverse impact of our business on the environment.

As part of the Integrated Management System (IMS) we have implemented and certified, we have in place a formalized procedure (applied at every stage of the procurement process) to analyse energy efficiency of solutions we select for our new projects or upgrades and of goods we intend to purchase (e.g. white appliances, car leases).

Our service providers are contractually obligated to ensure proper management of waste generated during the work they perform for us. This also applies to contractors and service providers in our key EFRA Project.

Employee-related issues

As part of its trading partner selection processes, Grupa LOTOS requires that all potential suppliers involved provide documents certifying that they pay the required social insurance contributions for their employees. In 2015, 100% of our trading partners met this requirement.

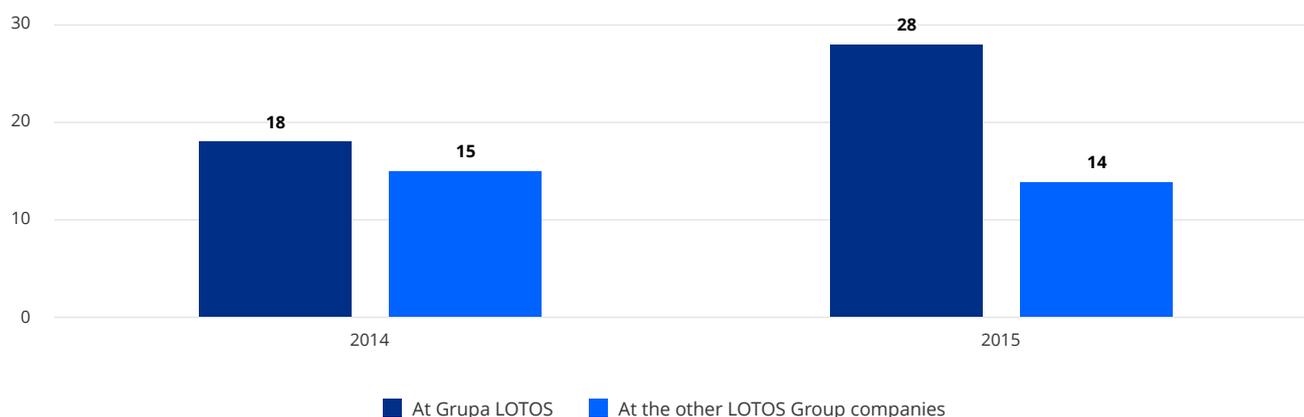
Contracts signed by the LOTOS Group contain OHS clauses whereby employees are guaranteed appropriate working and resting conditions, clauses concerning rules and standards of conduct, ethics-related clauses, and clauses concerning respect for human rights.

How we evaluate our suppliers

Supplier audits provide us with information on the degree to which our suppliers meet the quality requirements, as well as occupational safety and environmental protection standards, which are high on our list of priorities. With these audits we can be sure that all work is conducted in a safe manner, and we are also able to identify areas where improvement is needed.

We realize that satisfying our expectations may be a demanding task for suppliers, and therefore we provide them with detailed and accurate information on all audited areas.

Supplier audits



Plans for the future

At Grupa LOTOS, we are currently embarking on **an analysis of the organization's indirect environmental impact**; the analysis will also cover our suppliers. We hope that the methodology we develop and the analysis we will carry out will provide us with a useful insight into our suppliers' environmental impacts. As a result of these efforts, we should be able to more effectively manage the environmental impact across our entire supply chain.

In 2016, we intend to ask every new supplier to fill out a survey containing questions on human rights, employment policies, and responsible business management. In this way we want to check whether our new contractors' value systems and business conduct vision are consistent with the LOTOS Group's vision and CSR principles.

Rules of cooperation that are clear for all

We make every effort to ensure that the standards and rules of conduct we impose are comprehensible to the trading partners we work or want to work with. This is why we have published a catalogue of CSR clauses and other documents on our [website](#) for stakeholders.

The published documents include a Declaration of Cooperation with Trading Partners, an electronic version of the Code of Ethics, the Catalogue of CSR Clauses, the Policy for Counteracting Malpractice, and the current Corporate Social Responsibility Strategy. Other materials published on the website include standard contract forms most frequently used by the LOTOS Group that suppliers may use in their business.

Activities undertaken by the LOTOS Group as part of the efforts to evaluate suppliers' employment practices, respect for human rights, or impacts on local communities also include regular meetings with the trading partners. During such meetings we present our principles and standards; by exchanging experience we improve their knowledge on responsible business management, thus also contributing to the consolidation of good practice in the market.

We want to work only with partners who make every effort to ensure compliance with the law, and therefore we communicate our requirements to potential suppliers already at the stage of announcing a call for offers.

Good practice:

Grupa LOTOS operates an electronic Procurement Platform. The platform is an innovative tool supporting the procurement process in its vital aspects where great precision and the necessity to document taken steps are needed.

With the Procurement Platform we are able to shorten the time needed to announce calls for offers and reduce costs of tenders. The system also helps considerably speed up the preparation of various types of reports.