The culture of values

Grupa LOTOS S.A.
Integrated Annual Report 2012

PDF version

The Organization and its Report

We are an oil concern, one of the largest and most efficient companies in Central and Eastern Europe. We are engaged in the exploration for and production of crude oil from the Baltic Sea and the Norwegian Continental Shelf and onshore deposits in Lithuania and we operate the 3rd largest chain of service stations in Poland. In 2012, we recorded PLN 33.1bn in sales revenue. LOTOS-branded products are currently available in 75 countries worldwide.

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The Organization

6

6th place

among the largest companies in CEE

CEE TOP 500, COFACE

Integrated Reporting

We report on the GRI A+ level

Stakeholders

Employees,
Local community,
Organizations,
Investors, Customers,
Administration

Awards and distinctions

LOTOS Optima

Consumer's Choice

Key data 2012

Key data 2012

Grupa LOTOS - selected information

FINANCIALS (*)	Unit	Year ended Dec 31 2012	Year ended Dec 31 2011	Change
Revenue	EUR'000	7,444,867	6,591,463	13%
Operating profit	EUR'000	133,290	145,745	-9%
Pre-tax profit	EUR'000	232,128	78,342	196%
Net profit	EUR'000	200,410	74,315	170%
Total comprehensive income	EUR'000	292,053	(26,959)	-
Net cash from operating activities	EUR'000	112,208	33,551	234%
Net cash from investing activities	EUR'000	16,373	(7,243)	-
Net cash from financing activities	EUR'000	(179,186)	(27,446)	-
Total net cash flow	EUR'000	(50,605)	(1,137)	-
Basic earnings per share	EUR	1.54	0.57	170%
Donations to social initiatives	EUR'000	333	171	95%
Environmental investments	EUR'000			%
		As at Dec 31 2012	**As at Dec 31 2011**	
Total assets	EUR'000	3,916,667	3,724,308	5%
Equity	EUR'000	1,725,051	1,320,739	31%

NON-FINANCIAL INFORMATION	Unit	Year ended Dec 31 2012	Year ended Dec 31 2011	Change
			(comparative data)	

Workforce **	No, of employees	1,323	1,318	0.4%
Employee turnover	%	9.2	12.4	-3.2 pp
Lost Time Injury Frequency LTIF index (per 1 million hours worked) ***		4.3	2.1	104,8%
Total water consumption	m^3	3,721,330	3,809,856	- 2%
CO_2 emissions	'000 tonnes/year	1,979	2,045	-3%

The LOTOS Group - selected consolidated data

FINANCIALS (****)	Unit	Year ended Dec 31 2012	Year ended Dec 31 2011	Change
Revenue	EUR'000	7,933,439	7,067,362	12%
Operating profit	EUR'000	72,137	262,185	-72%
Pre-tax profit	EUR'000	86,544	133,180	-35%
Net profit	EUR'000	221,145	156,837	41%
Net profit attributable to owners of the Parent	EUR'000	221,139	6156,758	41%
Net profit attributable to non-controlling interests	EUR'000	6	79	-92%
Total comprehensive income	EUR'000	306,747	67,058	357%
Total comprehensive income attributable to owners of the Parent	EUR'000	306,744	66,972	358%
Total comprehensive income attributable to non-controlling interests	EUR'000	3	86	-96%
Net cash from operating activities	EUR'000	322,762	217,956	48%
Net cash from investing activities	EUR'000	(200,798)	(204,571)	-
Net cash from financing activities	EUR'000	(211,635)	(8,594)	-
Total net cash flow	EUR'000	(89,671)	4,791	-1972%
Basic earnings per share	EUR	1.70	1.21	40%
Donations to social initiatives	EUR'000	372	202	84%
Environmental investments	EUR'000			%
		As at Dec 31 2012	**As at Dec 31 2011**	
Total assets	EUR'000	4,905,919	4,623,986	6%
Equity attributable to owners of the parent	EUR'000	2,215,560	1,761,781	26%
Non-controlling interests	EUR'000	171	214	-20%
Total equity	EUR'000	2,216,731	1,761,996	26%

NON-FINANCIAL INFORMATION	Unit	Year ended Dec 31 2012	Year ended Dec 31 2011	Change
			(comparative data)	
Workforce **	No, of employees	4,748	5,004	-5%
Lost Time Injury Frequency LTIF index (per 1 million hours worked) ***		3.3	3.3	-
Share in the fuel market	%	34	33.5	0.5 pp
Crude oil production	thousand tonnes	262.3	227.2	15%
Natural gas production	m Nm^3	20.9	16.1	30%

(*) Financials of Grupy LOTOS are presented in the Grupa LOTOS' Financial Statements (http://inwestor.lotos.pl/en/971/reports_and_key_data/annual_reports).
(**) Average annual employment.
(***) LTIF – number of accidents resulting in inability to work x106/number of working hours, calculated for the average annual workforce.
(****) Financials of the LOTOS Group are presented in the Consolidated Financial Statements of the LOTOS Group (http://inwestor.lotos.pl/en/971/reports_and_key_data/annual_reports).
The detailed review of the financial data is presented in the Directors' Report on the Operations of the LOTOS Group. (http://inwestor.lotos.pl/en/971/reports_and_key_data/annual_reports)

Business profile

This Integrated Annual Report provides an overview of the activities of the Group of Grupa LOTOS S.A. ("the LOTOS Group" or "the Group"), with a particular focus on the LOTOS Group's parent entity – Grupa LOTOS S.A. ("Grupa LOTOS", "the Company" or "concern").

Grupa LOTOS is one of Europe's largest and most efficient oil companies. In terms of revenue generated in 2011, it is second of the 500 largest companies in Poland and sixth among the 500 largest companies in Central and Eastern Europe.*

Grupa LOTOS is involved in the production and processing of crude oil as well as wholesale and retail sale of petroleum products. Our range includes unleaded gasoline, diesel oil, diesel oil for heating purposes (light fuel oil), aviation fuel and heavy fuel oil. We specialise in the production and sale of lubricating oils and bitumens. On average, every third vehicle in Poland is driven by fuel produced at the Grupa LOTOS refinery.

The 2011-2015 strategy provides for the consolidation of the LOTOS Group's position as a strong, innovative and successfully developing entity, which plays a crucial role in ensuring Poland's energy security and operates in compliance with the principles of social responsibility and sustainable growth.

Grupa LOTOS is a joint-stock company whose shares have been listed on the Warsaw Stock Exchange (WSE) since June 2005.

According to our Articles of Association, we operate in Poland and abroad. Apart from Grupa LOTOS (the parent entity and operator of the refinery in Gdańsk), the LOTOS Group comprises 17 other companies operating under the LOTOS name. Two of them are based outside Poland - one in Lithuania, and the other one in Norway. The LOTOS Group employs over 5,000 staff.

Territory covered by the LOTOS Group's operations

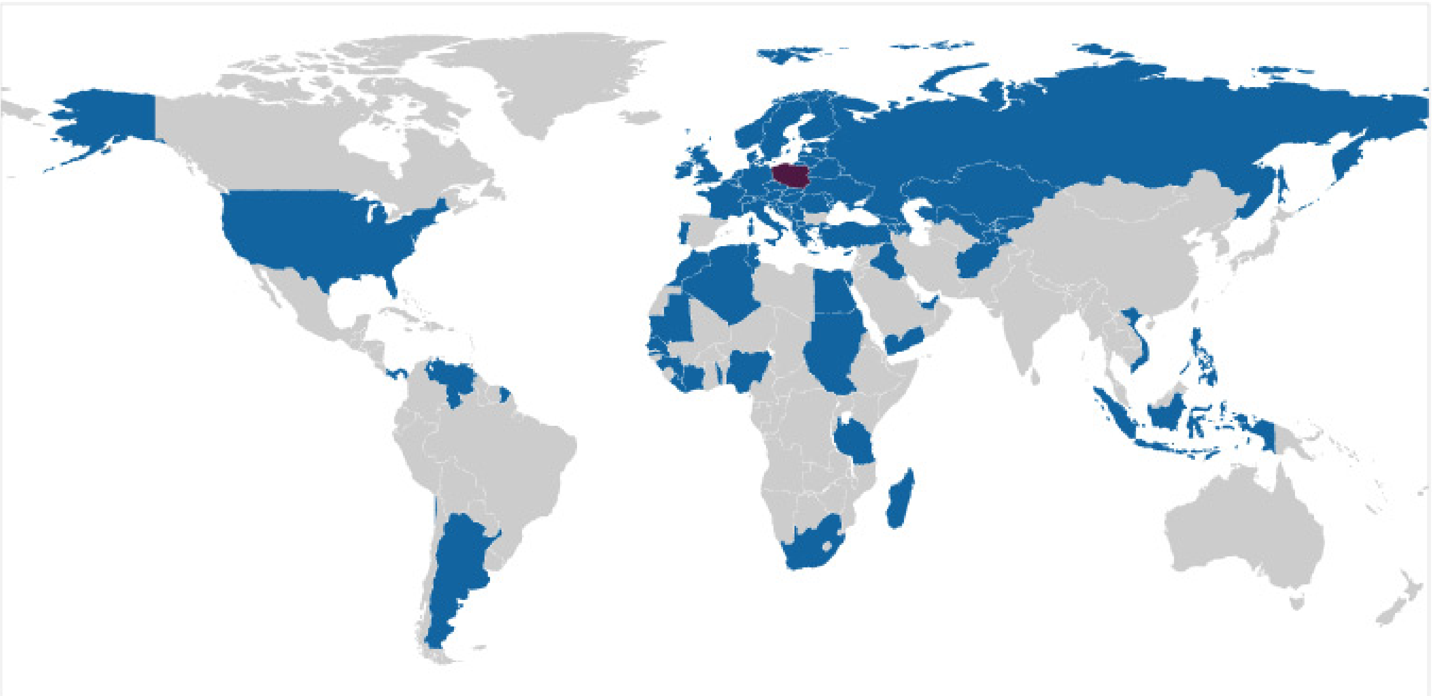
Through LOTOS Petrobaltic S.A. and LOTOS Exploration and Production Norge AS, we are engaged in the exploration for and production of crude oil from the Baltic Sea and the Norwegian Continental Shelf. We also have access to onshore oil deposits in Lithuania through the subsidiary AB LOTOS Geonafta. We are focusing our efforts on dynamically growing the hydrocarbon exploration and production segment, which is our strategic priority in the

years 2011-2015. In line with the strategy, crude oil production is expected to reach 1.2 million tonnes per year by 2015. In 2012, crude output was 262,300 tonnes, up 15.1% year on year. During the period under report, we had no plans for discontinuation of the production activities, we did not decommission any of the production sites nor are any of them in the process of being decommissioned.

In 2012, the LOTOS Group's net profit came in at nearly PLN 923m, a 42% increase on the previous year. In the same period, we recorded PLN 33.1bn in revenue, a 13% improvement on 2011. Our performance was driven by several factors, including a record-high crude oil throughput at the Gdańsk refinery of almost 9.7 million tonnes in 2012 (up 5.6% on 2011).

The LOTOS Group's main market is Poland, but our foreign sales also grow regularly. In 2012, export volumes accounted for 31% of the LOTOS Group's total sales - we distribute our products to 75 countries worldwide.

Exports of LOTOS brand products



LOTOS operates a country-wide chain of over 400 branded service stations (the third largest in Poland). Through our chain, we offer products and services in the premium segment, to which motorway service stations belong, and under the new LOTOS Optima brand in the economy segment. This is also the fastest growing chain of service stations in Poland. In 2012, the number of economy service stations doubled to 101 sites. As at the end of 2012, the LOTOS Group's share in retail fuel sales in Poland was 8%, while its share in the domestic fuel market stood at 34%.

Shareholder structure

The share capital of Grupa LOTOS comprises 129,873,362 ordinary shares, fully paid-up, with a par value of PLN 1 per share. Each share confers the right to one vote at the General Shareholders Meeting and carries the right to dividend.

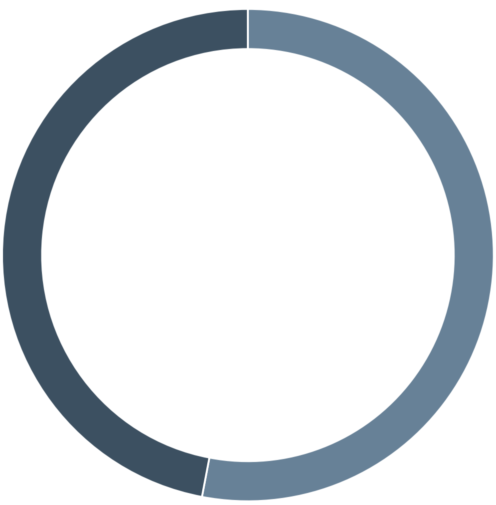
Structure of Grupa LOTOS' share capital
As at Dec 31st 2012 and Dec 31st 2011

Shareholders	Number of shares/votes	Par value of shares (PLN)	% of share capital held
State Treasury	69,076,392	69,076,392	53.19
Other shareholders	60,796,970	60,796,970	46.81
Total	129,873,362	129,873,362	100.00

At the end of 2011, the State Treasury held a total of 69,076,392 ordinary bearer shares in Grupa LOTOS, representing 53.19% of the share capital and the same proportion of votes at the Company's General Meeting.

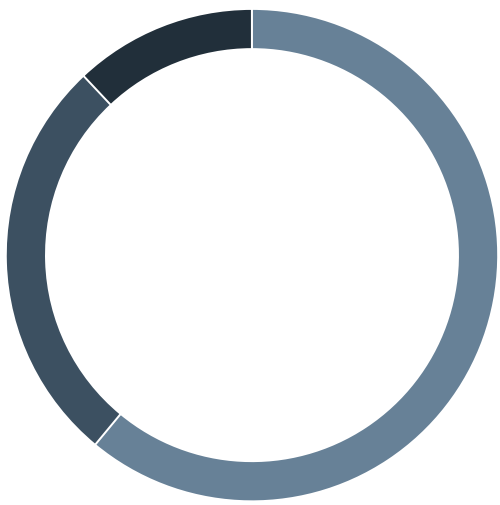
In the reporting period, no changes occurred in shareholder structure.

Shareholder structure of Grupa LOTOS



State Treasury, 53%
Other Shareholders, 47%

Grupa LOTOS shares by series



Series A shares, 61%
Series B shares, 27%
Series C shares, 12%

Shares in Grupa LOTOS held by the Company's management and supervisory personnel
As at December 31st 2012

Name	Number of shares	Par value of shares (PLN)
Board, including:	9,636	9,636
Marek Sokołowski	8,636	8,636
Zbigniew Paszkowicz	1,000	1,000
Supervisory Board	0	0
Total	9,636	9,636

Structure of the organization

As at December 31st 2012, the LOTOS Group comprised Grupa LOTOS (the parent entity), and 34 production and service companies, including:

- 14 direct subsidiaries of Grupa LOTOS,
- 20 indirect subsidiaries of Grupa LOTOS.

Grupa LOTOS also holds shares in a jointly-controlled entity.

Subsidiaries comprising the LOTOS Group

Company name	Registered office	Business profile	Method of consolidation	Percentage of share capital held by Grupa LOTOS	
				Dec 31 2012	Dec 31 2011
Parent					
Grupa LOTOS S.A.	Gdańsk	Production and processing of refined petroleum products (mainly fuels) and their wholesale	Not applicable	Not applicable	Not applicable
Direct subsidiaries					
LOTOS Paliwa Sp. z o.o.	Gdańsk	Wholesale and retail sale of fuels and light fuel oil, management of the LOTOS service station chain	full	100.00%	100.00%
LOTOS Gaz S.A. w likwidacji (in liquidation)	Kraków	Dormant	full	100.00%	100.00%
LOTOS Oil S.A.	Gdańsk	Production and sale of lubricating oils and lubricants, and sale of base oils	full	100.00%	100.00%
LOTOS Asfalt Sp. z o.o.	Gdańsk	Production and sale of bitumens	full	100.00%	100.00%
LOTOS Kolej Sp. z o.o.	Gdańsk	Rail transport	full	100.00%	100.00%
LOTOS Serwis Sp. z o.o.	Gdańsk	Maintenance of mechanical and electrical systems and controlling devices, overhaul and repair services	full	100.00%	100.00%

LOTOS Lab Sp. z o.o.	Gdańsk	Laboratory analyses	full	100.00%	100.00%
LOTOS Straż Sp. z o.o.	Gdańsk	Fire safety	full	100.00%	100.00%
LOTOS Ochrona Sp. z o.o.	Gdańsk	Personal and property protection	full	100.00%	100.00%
LOTOS Parafiny Sp. z o.o.	Jasło	Production and sale of paraffin	full	- (1)	100.00%
LOTOS Tank Sp. z o.o.	Gdańsk	Until October 16th 2011 - trading in aviation fuel, since January 1st 2013 - logistics services	full	100.00%	100.00%
LOTOS Czechowice S.A. (parent of another group: LOTOS Czechowice Group)	Czechowice-Dziedzice	Storage and distribution of fuels	full	100.00%	100.00%
LOTOS Jasło S.A.	Jasło	Storage and distribution of fuels Renting and operating of own or leased real estate	full	100.00%	100.00%
LOTOS Petrobaltic S.A. (parent of another group: LOTOS Petrobaltic Group)	Gdańsk	Acquisition of crude oil and natural gas deposits and their exploitation	full	99.96% (2)	99.95%
LOTOS Park Technologiczny Sp. z o.o.	Jasło	Dormant	full	100.00%	100.00%
Indirect subsidiaries					
RCEkoenergia Sp. z o.o.	Czechowice-Dziedzice	Production and distribution of electricity, heat and gas	full	100.00%	100.00%
LOTOS Biopaliwa Sp. z o.o.	Czechowice-Dziedzice	Production of fatty acid methyl esters (FAME)	full	100.00%	100.00%
Miliana Shipholding Company Ltd. (parent of another group: Miliana Shipholding Company Group)	Nicosia, Cyprus	Storage and transport of crude oil, other sea transport related services, and management of own financial assets	full	99.96% (3)	99.95%
Technical Ship Management Sp. z o.o. (4)	Gdańsk	On October 1st 2012, the company launched sea transport support activities involving advisory on the operation of ships,	full	99.96% (3.4)	100.00%
Miliana Shipmanagement Ltd.	Nicosia, Cyprus	Provision of sea transport and related services	full	99.96% (3)	99.95%
Miliana Shipping Group Ltd. (parent of another group: Miliana Shipping Group Group)	Nicosia, Cyprus	Management of own assets	full	99.96% (3)	99.95%
Bazalt Navigation Co. Ltd.	Nicosia, Cyprus	Ship chartering	full	99.96% (3)	99.95%
Granit Navigation Company Ltd.	Nicosia, Cyprus	Ship chartering		99.96% (3)	99.95%
Kambr Navigation	Nicosia,	Ship chartering	full	99.96% (3)	99.95%

Company Ltd.	Cyprus				
St. Barbara Navigation Company Ltd.	Nicosia, Cyprus	Ship chartering	full	99.96% (3)	99.95%
Petro Icarus Company Ltd.	Nicosia, Cyprus	Ship chartering	full	99.96% (3)	99.95%
Petro Aphrodite Company Ltd.	Nicosia, Cyprus	Ship chartering	full	99.96% (3)	99.95%
LOTOS Exploration and Production Norge AS	Stavanger, Norway	Oil exploration and production on the Norwegian Continental Shelf, provision of services related to oil exploration and production	full	99.96% (3)	99.95%
Aphrodite Offshore Services N.V.	Curaçao, Netherlands Antilles	Dormant since October 17th 2011	full	99.96% (3)	99.95%
Energobaltic Sp. z o.o.	Władysławowo	Production of electricity, heat, LPG and natural gas condensate	full	99.96% (3)	99.95%
AB LOTOS Geonafta (parent of another group: the AB LOTOS Geonafta Group)	Gargždai, Lithuania	Crude oil exploration and production, drilling services, and purchase and sale of crude oil	full	99.96% (3)	99.95%
UAB Genciu Nafta	Gargždai, Lithuania	Crude oil exploration and production	full	99.96% (3)	99.95%
UAB Manifoldas	Gargždai, Lithuania	Crude oil exploration and production	full	99.96% (3.5)	49.98%
Baltic Gas Sp. z o.o.	Gdańsk	The company has not commenced operations	non-consolidated (6)	99.96% (3.6)	-
Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k.	Gdańsk	The company has not commenced operations	non-consolidated (7)	99.96% (3.7)	-
Jointly-controlled companies					
UAB Minjos Nafta	Gargždai. Lithuania	Crude oil exploration and production	proportional	49.98% (3)	49.98%

(1) On January 10th 2012, 100% of shares in LOTOS Parafiny Sp. z o.o. were sold to a third party, Krokus Chem Sp. z o.o. As an additional element of the transaction, on November 29th 2011, the parties signed a seven year agreement for the supply of slack waxes by Grupa LOTOS S.A. to LOTOS Parafiny Sp. z o.o., for the period from January 1st 2012 to December 31st 2018. The estimated net value of the agreement is PLN 780m. The maximum net value of contractual penalties is estimated at PLN 98m. The agreement does not contain any provisions which would prevent the parties from seeking additional compensation beyond the contractual penalties. The other terms and conditions of the contract do not differ from the terms and conditions commonly applied in agreements of this kind.

(2) In exercise of its pre-emptive rights, on December 15th 2011 Grupa LOTOS S.A. subscribed for the newly issued Series C shares of LOTOS Petrobaltic S.A. Grupa LOTOS S.A. subscribed for 279,996 shares in the increased share capital of LOTOS Petrobaltic S.A., with a total value of PLN 53,980,000. The increase in the share capital of LOTOS Petrobaltic S.A. was registered on February 2nd 2012.

Grupa LOTOS S.A. also continued purchasing shares from non-controlling shareholders as part of the voluntary share purchase process, which was completed at the end of March 2012. From January 1st 2012 to the completion of the voluntary share purchase process, Grupa LOTOS S.A. acquired 26 shares in LOTOS Petrobaltic S.A. with an aggregate value of PLN 3,000, representing 0.0003% of the company's share capital.

With respect to the remaining shares held by non-controlling shareholders, excluding the shares held by the State Treasury, on May 8th 2012 the Extraordinary General Meeting of LOTOS Petrobaltic S.A. adopted a resolution on minority squeeze-out by the majority shareholder, that is Grupa LOTOS S.A.

As part of the squeeze-out process, by December 31st 2012 Grupa LOTOS S.A. acquired 1,421 shares in LOTOS Petrobaltic S.A. with an aggregate value of PLN 179,000, representing 0.0146% of the company's share capital, of which 218 shares with an aggregate value of PLN 28,000, representing 0.0022% of the company's share capital, were recorded in the share register.

Following the acquisition of shares in LOTOS Petrobaltic S.A. from non-controlling shareholders as part of the voluntary share purchase process and the minority squeeze-out, as well as the increase in the share capital of LOTOS Petrobaltic S.A., as at December 31st 2012 Grupa LOTOS S.A. held a 99.96% interest in the share capital of LOTOS Petrobaltic S.A., including 9,935,069 shares entered in the share register, and representing 99.95% of the share capital of LOTOS Petrobaltic S.A.

(3) The shareholding changes described in item (2) above also resulted in changes in Grupa LOTOS S.A.'s indirect interests in the share capitals of the subsidiaries and of the jointly-controlled company of LOTOS Petrobaltic S.A.

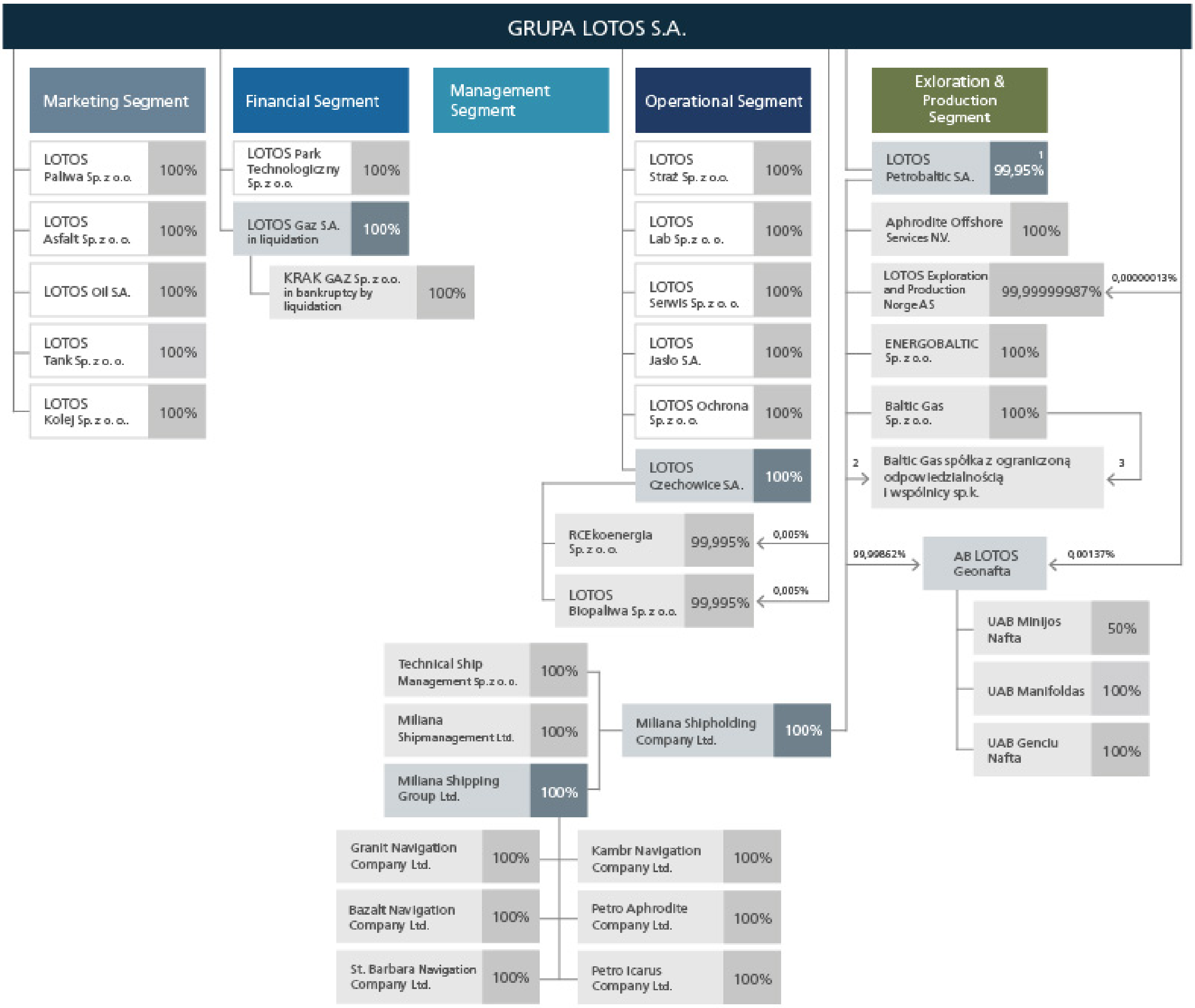
(4) On July 31st 2012, Grupa LOTOS S.A. sold 100% of its interests in LOTOS Ekoenergia Sp. z o.o. to the Miliana Shipholding Company Ltd. A change in the company name from LOTOS Ekoenergia Sp. z o.o. to Technical Ship Management Sp. z o.o. was then registered on October 17th 2012.

(5) On November 28th 2012, AB LOTOS Geonafta acquired a 50% interest in UAB Manifoldas. As a result of the transaction, AB LOTOS Geonafta now holds a 100% interest in UAB Manifoldas.

(6) On November 12th 2012, LOTOS Petrobaltic S.A. and Kancelaria Prawna Domański i Wspólnicy sp.k. executed a share purchase agreement whereby LOTOS Petrobaltic S.A. acquired a 100% interest in Baltic Gas Sp. z o.o. Baltic Gas Sp. z o.o. was excluded from consolidation due to the fact that the data disclosed in its financial statements as at December 31st 2012 is immaterial to the performance of the obligation specified in IAS 27 Consolidated and Separate Financial Statements.

(7) On November 12th 2012, LOTOS Petrobaltic S.A. purchased from Kancelaria Prawna Domański i Wspólnicy sp.k. all the rights and obligations in Baltic Gas Spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k., making it the sole limited partner in the company. The general partner in Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k. is Baltic Gas Sp. z o.o., which was excluded from consolidation due to the fact that the data disclosed in its financial statements as at December 31st 2012 is immaterial to the performance of the obligation specified in IAS 27 Consolidated and Separate Financial Statements.

Structure of the LOTOS Group
As at December 31st 2012



[1] State Treasury – 0.01%, employees – 0.04%
[2] Limited partner
[3] General partner
[4] Grupa LOTOS holds 8.97% of the share capital of P.P.P.P. NAFTOPORT Sp. z o.o., a company of the PERN Przyjaźń Group of Płock

Within the LOTOS Group, the role of Grupa LOTOS as the parent entity is to integrate the key management and support functions.

To this end, Grupa LOTOS has implemented a segmental management model. A segment is understood as a separate area of business activities managed at the Group level by a designated member of the Board of Grupa LOTOS. This model enhances management efficiency, delivering Group-wide cost and revenue synergies. Segmental management provides for consistent implementation of strategy, coordinated planning and controlling, integrated operational management and maintenance of uniform corporate standards.

In the operational activities of the LOTOS Group, the following two main reporting operational segments can be identified:

Extraction operational segment – comprising activities concerning exploration for and exploitation of crude oil and natural gas deposits;

Production and marketing operational segment – comprising activities of companies concerned with production and processing of refined petroleum products as well as their retail and wholesale, and support, transport and servicing activities.

For management purposes, the LOTOS Group is divided into the following business units based on the industry segments:

Management segment – falls within the remit of the President of the Board (i.e. the head of the management segment). The management segment's activities are focused on increasing the LOTOS Group value through overall management of its operations, including coordination of efforts to formulate corporate strategies, define development directions for individual business areas and coordinate the process support function.

Exploration & production segment – falls within the remit of the Vice-President of the Board in charge of Oil and Gas Exploration & Production (i.e. the head of the E&P segment). The scope of the E&P segment's activities includes formulation of development strategies for the LOTOS Group in the area of oil and gas exploration and production, as well as management and supervision of these activities.

LOTOS Petrobaltic and its affiliates are part of the exploration & production segment.

Operational segment – falls within the remit of the Vice-President of the Board, Chief Operation Officer (i.e. the head of the operational segment). The operational segment's tasks include formulation of strategies to maintain and expand production facilities, as well as supervision and coordination of all matters related to the processing of crude oil, refinery production and technologies. Beyond that, the operational segment prepares policy objectives for refinery production, supervises production-related R&D work, coordinates technical and technological development projects, and ensures the requisite technical performance of the LOTOS Group's assets, safety processes and physical protection.

LOTOS Ochrona, LOTOS Straż, LOTOS Serwis, LOTOS Lab, LOTOS Jasło and LOTOS Czechowice and its affiliates are all part of the operational segment. LOTOS Ochrona was transferred to the operational segment in October 2012. Previously, it had been allocated to the management segment;

Marketing segment – falls within the remit of the Vice-President of the Board, Chief Commercial Officer (i.e. the head of the marketing segment). The marketing segment's tasks include formulation of marketing strategies as well as effective management of sales, supplies and distribution of crude oil and petroleum products. It is also responsible for the development of trading and optimisation activities.

LOTOS Paliwa, LOTOS Oil, LOTOS Asfalt, LOTOS Kolej and LOTOS Tank are all part of the marketing segment;

Financial segment – falls within the remit of the Vice-President of the Board, Chief Financial Officer (i.e. the head of the financial segment). The Financial segment's tasks involve monitoring of the implementation of LOTOS Group strategies and overall management of financial and accounting processes. This includes formulation of financial, legal and insurance strategies and monitoring of their implementation, management of budgeting and controlling, development and implementation of financial risk management strategies and overall management of assets and restructuring processes.

LOTOS Park Technologiczny and LOTOS Gaz w likwidacji (in liquidation) and its affiliate are part of the financial segment.

In 2012, there were significant changes to the Grupa LOTOS' organizational structure, effected as a result of changes in the composition of the Company's Board. The changes were made to:

- Ensure implementation of the business strategy until 2015,
- Raise the standing, decision-making powers, responsibility and effectiveness of the segments,
- Enhance the management model,
- Minimise management costs,

- Improve segmental reporting,
- Enhance the communication process,
- Optimise areas related to financial and accounting support, CSR and sponsorship, IT management, financial risk management and asset management.

Breakdown of the operational segments
As at December 31st 2012

GRUPA LOTOS S.A.				
Marketing Segment	Operational Segment	Exloration & Production Segment	Management Segment	Financial Segment
LOTOS Paliwa Sp. z o.o.	LOTOS Straż Sp. z o.o.	LOTOS Petrobaltic S.A. with subordinated affiliates		LOTOS Park Technologiczny Sp. z o.o.
LOTOS Asfalt Sp. z o.o.	LOTOS Lab Sp. z o.o.			LOTOS Gaz S.A. *(in liquidation)* with subordinated affiliate
LOTOS Oil S.A.	LOTOS Serwis Sp. z o.o.			
LOTOS Tank Sp. z o.o.	LOTOS Ochrona Sp. z o.o.			
LOTOS Kolej Sp. z o.o.	LOTOS Jasło S.A.			
	LOTOS Czechowice S.A. with subordinated affiliates			

The corporate structure of Grupa LOTOS reflects its division of competences and the relationship between the various functions and tasks performed at the Company, and specifies the organizational and management hierarchy. As at the end of 2012, the corporate structure of Grupa LOTOS comprised the following units: 15 divisions, including 5 divisions reporting directly to the Chief Executive Officer, 35 offices, 19 departments, and 8 complexes.

Integrated Reporting

The Annual Report of the LOTOS Group for 2012 is an integrated report covering the organization's operations in the financial year 2012, which coincides with the calendar year. The previous integrated annual report was published in April 2012.

In 2007-2009, we published separate reports on the financial and non-financial aspects of our activity. In 2010, the Company's Board decided to integrate the reports for stakeholders presenting the organization's management approach and performance across all areas of its activity, i.e. economic, social and environmental. This publication is our fourth integrated report.

The Grupa LOTOS Board's intent is to enable stakeholders to make a comprehensive, measurable and objective assessment of our overall involvement in sustainable development through an integrated and reader-friendly presentation of our financial statements and non-financial reports for a given year. We follow the best communication practices applicable to public companies:

- For financial reporting, we adhere to the International Financial Reporting Standards (IFRS) as endorsed by the European Union, published and in effect as at December 31st 2012,
- For non-financial reporting, we adhere to the Sustainability Reporting Framework and Guidelines of the Global Reporting Initiative (G3.1 GRI, with the Oil and Gas Sector Supplement) and the United Nations Global Compact's Principles. We are at Application Level A+* in the three-level GRI reporting system.

* The individual Application Levels were assigned letters from C (the lowest), to C+ (where a "+" is given if a report has been verified by an independent assurance body), B, B+, A, through to A+. The reporting criteria used for each level measure the extent to which the Guidelines and the GRI Reporting Framework have been applied.

For integrated reporting, there are currently no uniform, internationally recognised standards. In 2010, the Global Reporting Initiative and the Prince's Accounting for Sustainability Project established the International Integrated Reporting Committee *(IIRC)*, whose aim is to establish an internationally recognised framework for integrated reporting. The IIRC believes that integrating financial analysis with analysis of the social, environmental and economic context of a company's operations is a valuable source of information, allowing its stakeholders to assess its long-term profitability. 2012 research conducted together by the Black Sun agency and the IIRC revealed that integrated reporting allows better insight into how an organisation will generate future value. The integrated reporting model offers improved coherence in corporate communication with third parties and improved quality of the data collected. Those bound to benefit the most from the new reporting models include analysts and corporate reporting staff.

As we wait for the new reporting standard to emerge, we consistently strive to improve the adopted model, using best available practice in financial and non-financial reporting.
In our work on this Report we embraced the key principles of accuracy, materiality, completeness, comparability, balance and reliability. All data contained in this Report was collected in a reliable and responsible manner, and verified as being consistent with the facts.

The consolidated financial statements of the LOTOS Group included in this Report were audited by qualified auditors at Ernst & Young, pursuant to the provisions of Chapter 7 of the Polish Accountancy Act of September 29th 1994 (Dz.U. of 2009, No. 152, item 1223, as amended), and the Polish financial auditing standards issued by the National Council of Statutory Auditors (Krajowa Rada Biegłych Rewidentów).

To ensure an appropriate level of transparency and credibility, in 2011 the Board of Grupa LOTOS decided that third-party assurance of non-financial data included in the Annual Report should be provided by an independent body. Limited assurance provided in 2013 by PwC complied with the International Standard on Assurance Engagements *(3000 ISAE, Assurance Engagements Other Than Audits or Reviews of Historical Financial Information)*. ISAE 3000 was issued by the International Federation of Accountants (IFAC). The standard is based on IFAC's Code of Conduct and the International Standard of Quality Control (ISQC-1), and is used to provide assurance with respect to CSR reports. The Standard defines the key principles and procedures for assurance engagements, including "limited assurance" engagements.

The Board of Grupa LOTOS has resolved to publish annual implementation progress reports on the LOTOS Group's CSR strategy. The Annual Report for 2012 is our second report with independently verified CSR information, and we have made every effort to ensure the quality of the data collection process which is supported by the organization's management systems.

Driven by environmental concerns, we are publishing this Report in electronic form only. This also serves the intention of providing readers with the most convenient range of solutions to making this publication a friendly tool, with which to perform their own analyses.

Part of this are the functional solutions embedded in the electronic format, which are updated regularly based on, for example, stakeholder opinion polls or the appraisal of traffic to the webpage featuring the Report. Readers can display selected numerical data by periods, GRI indicators, operating segments, etc. Information included in the Report is integrated with the contents of the Company's website, which includes reports from previous years. Accessibility options such as Narration, a high-contrast mode and text zoom, have been added for people with disabilities, the elderly and the vision impaired. Environmental friendliness is ensured by an economical printout option, and there is also an option for readers to leave feedback.

Previous reports are available from www.lotos.pl/en (http://www.lotos.pl/en/). For contact details, refer to the "Useful information" (http://raportroczny.lotos.pl/en/useful-information/contact) section of this Report.

Scope and reach

In determining the content of the non-financial sections of the Annual Report, we were guided by the GRI Reporting Framework. The information contained in the Report was selected based on the materiality criterion, which we define as being the potential to affect our enterprise's compliance with sustainable development principles, as well as our external stakeholders when looking for reliable, comparable and accurate information with which to inform their decisions.

The non-financial information of this Report was prepared using the majority of core and additional indicators provided for in the GRI Guidelines, including economic, environmental and social performance.

An important improvement on the previous report is our use, for the first time, of the newly established GRI Oil & Gas Sector Supplement. This adds additional indicators to the Report designed specifically for our industry. The Supplement itself was prepared using the G3.1 GRI Guidelines, which created the need to update the indicators reported in previous years based on G3 Guidelines. Although we had no obligation to do so, we wanted to include the Sector Supplement, so migration to the new revision of the Guidelines proved inevitable.

The methods used to calculate the figures presented in this Report were the same as those used in preparation of the LOTOS Group's consolidated financial statements for 2012. These methods are in accordance with the IFRS effective as at December 31st 2012.

For a vast majority of thematic areas, the facts and non-financial data presented in the Report pertain to Grupa LOTOS, the parent entity. However, all due care and consideration has been given on our part to account for the LOTOS Group's consolidated data where possible. Regarding areas of key importance to social and environmental responsibility, we have presented data on the largest commercial companies of the group and, as a natural addition to the Sector Supplement, on the LOTOS Petrobaltic Group. In each case, we make a clear distinction by specifically indicating the LOTOS Group entity currently being discussed in the Report.

Whenever we refer to the largest commercial companies of the LOTOS Group (both in terms of revenue and head count), this applies to LOTOS Asfalt, LOTOS Kolej, LOTOS Oil and LOTOS Paliwa. This Report is our first attempt at a comprehensive presentation of results from the largest of the LOTOS Petrobaltic Group companies active in the exploration and production business. After the parent, LOTOS Petrobaltic (operating in Poland), these include LOTOS Geonafta in Lithuania and LOTOS Norge in Norway. The Report also considers another vital company of the group, Energobaltic, which is a CHP operator in Władysławowo. Since this is the first reporting period following the implementation of the Sector Supplement, it has not been possible to present all results of the companies covered by the Report in a uniform and consistent manner. However, given the challenges of sustainable development that lie ahead for the production business, we decided to present the collected data anyway. In subsequent reports, we will strive to improve the aggregation method for non-financial data on entities operating in the exploration and production segment.

The current Report offers a larger pool of performance indicators reported by the above-mentioned commercial companies. This results from continuous improvements in non-financial reporting, now more geared towards the broadest-possible presentation of the scale and nature of the impact of our operations, products and services on key stakeholders and the environment.

In the previous reporting period, no material changes or other circumstances occurred with respect to the LOTOS Group's entities which would affect the overall assessment of the organisation, either in terms of its individual activities or in comparison with its domestic peers. In January 2012, Grupa LOTOS sold 100% of the shares in LOTOS Parafiny, one of its marketing segment companies. Results from LOTOS Parafiny are no longer presented in this Annual Report.

GRI indicators as reported by the LOTOS Group companies: LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, and the LOTOS Petrobaltic Group * (LOTOS Petrobaltic, LOTOS Geonafta, LOTOS Norge, Energobaltic)

GRI aspects	GRI indicators reported in 2012	Subsidiaries	GRI indicators reported in 2011	Subsidiaries
Products and services	EN26	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Petrobaltic, LOTOS Geonafta, LOTOS Norge	EN26	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Parafiny, LOTOS Petrobaltic (group)
	EN27	LOTOS Asfalt, LOTOS Oil, LOTOS Paliwa	EN27	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Parafiny
Transport	EN29	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Petrobaltic (group)	EN29	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Parafiny, LOTOS Petrobaltic (group)
Customer health and safety	PR1	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa	PR1	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Parafiny
Process safety	OG13	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Petrobaltic	-	-
Product and service labeling	PR3, PR5	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa	PR3, PR5	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Parafiny
Marketing communications	PR6	LOTOS Oil, LOTOS Paliwa	PR6	LOTOS Oil, LOTOS Paliwa, LOTOS Parafiny
	PR7	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa	PR7	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Parafiny
Customer privacy	PR8	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa	PR8	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Parafiny

Compliance	PR2, PR4, PR9	LOTOS Asfalt, LOTOS Oil, LOTOS Paliwa, LOTOS Kolej	PR2, PR4, PR9	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Parafiny
Biodiversity	EN11, EN12, EN13, EN14, OG4	LOTOS Asfalt, LOTOS Oil, LOTOS Paliwa, LOTOS Petrobaltic	EN11	LOTOS Asfalt, LOTOS Oil, LOTOS Paliwa LOTOS Petrobaltic (group)
			EN12	LOTOS Asfalt, LOTOS Paliwa, LOTOS Petrobaltic (group)
			EN13	LOTOS Paliwa
			EN14	LOTOS Asfalt, LOTOS Oil, LOTOS Paliwa LOTOS Petrobaltic (group)
Emissions, effluents, and waste	EN16, EN17, EN18, EN19, EN20, EN21, EN22, EN23, OG5, OG7	LOTOS Petrobaltic (group)	-	-
Indirect economic impacts	EC9	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Petrobaltic, LOTOS Geonafta	EC9	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa
Local community	OG11	LOTOS Petrobaltic (group)	-	-
Reserves	OG1	LOTOS Petrobaltic (group)	-	-
Materials	EN1	LOTOS Petrobaltic (group)	-	-
Energy	EN3, EN4	LOTOS Petrobaltic (group)	-	-
Water	EN8, EN9	LOTOS Petrobaltic (group)	-	-
Market presence	EC5, EC6, EC7	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Petrobaltic (group)	EC5, EC6, EC7	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Parafiny
Employment	LA1, LA2, LA8, LA14	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Petrobaltic (group)	LA1	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Petrobaltic
Human rights	HR1, HR2		-	-

	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Petrobaltic (group)

* Whenever results are reported for all companies, ‘LOTOS Petrobaltic (group)’ is listed. However, when not all companies of this group report the given indicator, the names of individual entities reporting the indicator are listed.

The Annual Report for 2012 accounts for a total of 84 GRI indicators, relative to 74 indicators in 2011. We decided to discontinue reporting of twelve indicators: HR5, HR6, HR7, HR9, HR10, HR11, EN2, OG2, OG3, OG9, OG12 core indicators, and the HR9 additional indicator, as the issues they cover were deemed immaterial to our organization.
An index for looking up specific performance indicators and descriptive parts relating to specific issues discussed in this Report is included in the GRI Performance Indicators and Global Compact Principles (http://raportroczny.lotos.pl/en/useful-information/table-of-content-of-the-gri-performance-indicators-and-global-compact), in the “Useful information” section of this Report.

Auditing and reviews

The Polish original should be referred to in matters of interpretation.
Translation of auditors' report originally issued in Polish.

INDEPENDENT AUDITORS' OPINION

To the Supervisory Board of Grupa LOTOS S.A.

1. We have audited the attached financial statements for the year ended 31 December 2012 of Grupa LOTOS S.A. ('the Company') located in Gdańsk at 135 Elbląska Street, containing statement of financial position as at 31 December 2012, the statement of comprehensive income, the statement of cash flow, the statement of changes in equity for the period from 1 January 2012 to 31 December 2012 and the additional notes and explanations ('the attached financial statements').

2. The truth and fairness[1] of the attached financial statements, the preparation of the attached financial statements in accordance with the required applicable accounting policies and the proper maintenance of the accounting records are the responsibility of the Company's Management Board. In addition, the Company's Management Board and Members of the Supervisory Board are required to ensure that the attached financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the attached financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies, whether they truly and fairly[2] reflect, in all material respects, the financial position and results of the operations of the Company and whether the accounting records that form the basis for their preparation are, in all material respects, properly maintained.

3. We conducted our audit of the attached financial statements in accordance with:
   - chapter 7 of the Accounting Act,
   - national auditing standards issued by the National Council of Statutory Auditors,

   in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.

[1] Translation of the following expression in Polish: '*rzetelność i jasność*'
[2] Translation of the following expression in Polish: '*rzetelnie i jasno*'

4. In our opinion, the attached financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Company's operations for the period from 1 January 2012 to 31 December 2012, as well as its financial position[3] as at 31 December 2012;
   - have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and based on properly maintained accounting records;
   - are in respect of the form and content, in accordance with legal regulations governing the preparation of financial statements and the Company's Articles of Association.
5. Without qualifying our opinion, we draw attention, that in the attached financial statements the Company has presented shares in the subsidiaries and associates at cost[4] less any impairment write down. In accordance with the accounting policies resulting from International Financial Reporting Standards, LOTOS Capital Group ('The LOTOS Group'), of which the Company is the dominant entity, prepared its consolidated financial statements dated 19 March 2013. The consolidated net profit from continuing operations of LOTOS Group for the year ended 31 December 2012 amounts to PLN 922 970 thousand, the consolidated equity as at 31 December 2012 amounts to PLN 9 062 439 thousand and the consolidated assets amounts to PLN 20 056 379 thousand.
6. We have read the 'Directors' Report for the period from 1 January 2012 to 31 December 2012 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259 with subsequent amendments).

on behalf of
Ernst & Young Audit sp. z o.o.
Rondo ONZ 1, 00-124 Warsaw
Reg. No 130

Key Certified Auditor

Maricin Zieliński
certified auditor
No. 10402

Warsaw, 19 March 2013

[3] Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'
[4] Translation of the following expression in Polish language: "*cena nabycia*"

The Polish original should be referred to in matters of interpretation.
Translation of auditors' report originally issued in Polish.

INDEPENDENT AUDITORS' OPINION

To the Supervisory Board of Grupa LOTOS S.A.

1. We have audited the attached consolidated financial statements of LOTOS Capital Group ('the Group'), for which the holding company is Grupa LOTOS S.A. ('the Company') located in Gdańsk at 135 Elbląska Street, for the year ended 31 December 2012 containing , the consolidated statement on financial position as at 31 December 2012, the consolidated statement of comprehensive income, the consolidated statement of cash flow, the consolidated statement of changes in equity for the period from 1 January 2012 to 31 December 2012 and the additional notes and explanations ('the attached consolidated financial statements').
2. The truth and fairness[1] of the attached consolidated financial statements, the preparation of the attached consolidated financial statements in accordance with the required applicable accounting policies and the proper maintenance of the consolidation documentation are the responsibility of the Company's Management Board. In addition, the Company's Management Board and Members of the Supervisory Board are required to ensure that the attached consolidated financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the attached consolidated financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies and whether they truly and fairly[2] reflect, in all material respects, the financial position and results of the operations of the Group.
3. We conducted our audit of the attached consolidated financial statements in accordance with:
   - chapter 7 of the Accounting Act,
   - national auditing standards issued by the National Council of Statutory Auditors,

   in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached consolidated financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.
4. The consolidated financial statements for the prior financial year ended 31 December 2011 were subject to our audit and on 17 April 2012 we have issued an unqualified opinion with an emphasis of matter on these financial statements concerning the uncertainty indicated by the Company's Management relating to the recoverability of the assets recognized due to the purchase of interest and exploration expenses incurred in respect of the YME oil field.

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[1] Translation of the following expression in Polish: '*rzetelność i jasność*'
[2] Translation of the following expression in Polish: '*rzetelne i jasne*'

5. In our opinion, the attached consolidated financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Group's operations for the period from 1 January 2012 to 31 December 2012, as well as its financial position[3] as at 31 December 2012;
   - have been prepared in accordance with International Financial Reporting Standards as adopted by the EU;
   - are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.
6. As disclosed in the note 13 of the additional notes and explanations to the attached consolidated financial statements, during 2012 the Group recognized an impairment allowance of assets relating to YME development project in Norway, in the amount of 928 million zloty (with an impact on the net financial result after deferred tax amounted to 285 million zloty). As of 31 December 2012 the Group calculated the recoverable value of YME project based on its expected fair value less costs to sell and on that basis it did not recognize further impairment of the assets amounting to 589 million zloty presented in the attached consolidated financial statement. Due to the previously recognized write-offs of capital expenditures incurred on YME project as well as previously incurred tax losses, as at 31 December 2012 deferred tax asset recognized in the consolidated financial statement of financial position amounts to 1077 million zloty. Without qualifying our opinion, we draw attention to the uncertainties indicated by the Company's Management concerning recoverability of the remaining assets recognized in the attached consolidated financial statements in respect of the YME project due to the fact that the forecasts and the Company's plans are determined by a series of futures events, in particular, by estimates of market values of hydrocarbons' reserves on YME field as well as the results of the final agreement announced on 12 March 2013 between YME Operator and the supplier and contractor of a drilling platform, which is described in note 38 of explanatory notes relating to post balance sheet events.
7. We have read the 'Directors' Report for the period from 1 January 2012 to 31 December 2012 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259 with subsequent amendments).

on behalf of
Ernst & Young Audit sp. z o.o.
Rondo ONZ 1, 00-124 Warsaw
Reg. No 130

Key Certified Auditor

Maricin Zieliński
certified auditor No. 10402

Warsaw, 19 March 2013

[3] Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'

2/2

TRANSLATION ONLY

Limited assurance report

To the Management Board of Grupa LOTOS S.A.

Subject matter and Criteria

As per terms of our Agreement dated 4 February 2013 (the "Agreement") we have been engaged to perform a limited assurance engagement on selected non-financial data presented in the "Grupa LOTOS S.A. 2012 Integrated Report – Economy, Society, Environment – Value Culture" ("2012 Integrated Report") for the financial year 2012. The selected data in the 2012 Integrated Report is marked with a check symbol ✓.

The Company's management prepared 2012 Integrated Report ensuring its adherence to the Sustainability Reporting Guidelines of the Global Reporting Initiative version 3.1 and Oil & Gas Sector Supplement (together the "GRI G3.1 criteria, "reporting criteria").

2012 Integrated Report presents quantitative and qualitative information on the Company's corporate responsibility practices in the period of 1 January 2012 to 31 December 2012.

Management's Responsibility

Grupa LOTOS S.A. ("the Company) management is responsible for the preparation of the 2012 Integrated Report in accordance with the GRI G3.1 criteria.

This responsibility includes the selection and application of appropriate methods to prepare the non-financial data and the design, implementation and maintenance of systems and processes which ensure the adherence to the GRI G3.1 criteria relevant for the preparation of the non-financial data using assumptions and estimates which are reasonable in the circumstances.

Practitioner's Responsibility

Our responsibility is to express a conclusion as to the selected indicators presented in 2012 Integrated Report. Performed procedures were chosen based on our judgment and take under consideration our judgment of the risk of material misstatement of the selected indicators marked with a check symbol ✓ in the 2012 Integrated Report.

We conducted our work in accordance with International Standard on Assurance Engagements 3000 "Assurance engagements other than audits or reviews of historical financial information" („ISAE 3000").

Summary of the work performed

Within the scope of our work we performed amongst others the following procedures:

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- Examination of the relevant documentation regarding relevant systems and processes for gathering and analyzing of the data for the selected indicators marked with the check symbol ,
- Inquiries of the appropriate management members as well as personnel responsible for the reporting of CSR information and performing of analytical procedures on selected indicators marked with the check symbol ,
- Obtaining sample evidence for the selected indicators marked with the check symbol . Sample analyzed documents included invoices/reports from external service providers, internal reports including data generated as reports from the Company's IT-systems.

In a limited assurance engagement the evidence-gathering procedures are more limited than in a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Conclusion

Based on our limited assurance engagement, nothing has come to our attention that causes us to believe that the selected indicators marked with the check symbol as presented in the 2012 Integrated Report have not been prepared, in all material respects, in accordance with the GRI C3.1 criteria.

Limitation of use and distribution

Our limited assurance report prepared by PricewaterhouseCoopers Sp. z o.o. („PwC") for Grupa LOTOS S.A. in respect of the Agreement is directed to sole use of the Grupa LOTOS S.A. Management Board . It should not be used to other purposes.

Thus PwC does not take any responsibility in respect of this report (contractual, tort (including that for negligence) or any other) in respect of any parties other than Grupa LOTOS S.A. Respectively, regardless of the form of the actions, whether in contract, tort or other, within the capacity allowed by the law, PwC does not take any responsibility, and any consequences coming out of the report for any person (excluding the Company, based on rules described above) or for any other decision taken based on this report.

The 2012 Integrated Report should be read together with the Sustainability Reporting Guidelines of the GRI G3.1.

TRANSLATION ONLY

PricewaterhouseCoopers Sp. z o.o.
Warsaw 26 April 2013

Stakeholders

We have defined three key stakeholder groups in the LOTOS Group's Corporate Social Responsibility Strategy for 2012-2015. Each is taken into account in the decision-making processes having an actual or potential impact on their representatives. We endeavour to build positive relations with all these groups, although the extent and nature of our impact on them, as well as their expectations of us, tend to differ.

We identified the individual stakeholder groups in the course of preparing our Corporate Social Responsibility Strategy in 2011. At that time, we invited their representatives to participate in the consultations on our strategic objectives in the area of corporate social responsibility. Further, in pursuit of our CSR Strategy, we also perform periodical assessment of individual social initiatives, e.g. surveys among the beneficiaries of our activities.

KEY STAKEHOLDER GROUPS OF THE LOTOS GROUP

INTERNAL ENVIRONMENT	SOCIAL ENVIRONMENT	MARKET ENVIRONMENT
Employees Group companies Trade unions Employee Council	Local communities NGOs Local government institutions Government administration Science and research institutes, and educational centres Employer organizations Media Natural environment	Contractors and subcontractors Suppliers Customers Trade partners Competitors Industry organizations and international institutions Regulatory and monitoring organizations Capital market participants

We employ various tools and means of communication to build our relationships with individual stakeholder groups in a responsible manner, in line with expectations. Our commitment to the improvement of communication practices is visible from our discussion of the issue in our Code of Ethics, in place since 2013.

> Effective communication, the aim of which is to facilitate understanding of assigned objectives and tasks, is key to strong employee performance. We make every effort to ensure that the rules governing the internal flow of information in the LOTOS Group are understandable and precise. In employee interactions, we value the willingness to cooperate and make concessions, exemplified by open and professional communication and active solicitation of feedback. We respond to proposed internal communications improvements and help build and enhance the interpersonal skills of our employees. We seek to maintain open and responsible communication with our external partners, without compromising their reputation or commitments.
>
> Source: The LOTOS Group’s Code of Ethics

Selected tools and methods for building relations with stakeholders in 2012

MAIN STAKEHOLDER CATEGORIES	RELATIONS MANAGEMENT FORMS	MATERIAL CHANGES RELATIVE TO 2011
Employees	In-person meetings, intranet platform, intranet kiosks, mobile service, corporate newsletter, training, opinion polls.	We have extended the intranet service to mobile devices and launched an English version to ensure that employees in Norway and Lithuania have access to current information. We have also made efforts to develop the public consultations system across the LOTOS Group.
Local communities	Social programmes and initiatives, internet service, opinion polls, consultations with members of local communities.	We improved our online communications by creating relevant corporate profiles on Facebook and YouTube. On our website, we created a section devoted to sustainable growth.
NGOs	In-person meetings, social programmes, internet service, annual report, opinion polls.	We joined the Development Initiation Forum – an innovative platform for cooperation between the three sectors in the Pomerania region. We also held a CSR workshop in conjunction with a specialised NGO.
Capital market participants	Current and periodic reports, annual reports, in-person meetings, conferences, conference calls, internet service, Analyst's Day and Investor's Day events.	We extended the statement of compliance with corporate governance standards in the annual report, and the Corporate Governance section under the Investor Relations tab of our website, to include issues of business ethics and activities initiated under the Ethical Conduct Programme.
Public authorities	Annual report, lobbying, in-person meetings, conferences.	We have actively participated in consultation and law-making processes for energy sector regulations in Poland and the EU.
Customers	Call service, internet service, information provided through products, direct contact, social campaigns as part of the loyalty programme, satisfaction surveys.	We have adopted a uniform model for our customer satisfaction surveys and have standardized the complaints procedure. We have also developed a project for the implementation of a customer relationship management system enabling determination of synthetic customer service indices.

Stakeholders' involvement

Discussions with stakeholders of issues relating to the social and environmental impact of our business are valuable opportunities for learning how to improve our performance. We also engage in extensive communications and public consultations in order to improve our corporate practices.

In 2011, a number of diverse stakeholder engagement methods were used in an in-depth manner and on a large scale during the public consultations in course of the work on the updated LOTOS Group's Corporate Social Rersponsibility Strategy. The process itself as well as the conclusions to be drawn from it were presented in detail in the 2011 Integrated Annual Report (http://2011.raportroczny.lotos.pl/en).

In 2012, we created an opportunity to meet with stakeholders using a variety of means at our disposal. These included:

- Public consultations,
- Knowledge-sharing workshops,
- Conferences promoting good practices,
- Multi-directional communication,
- Opinion polling.

Public consultations with employees

One of the key objectives of the LOTOS Group's CSR strategy is the improvement of management processes by ensuring ethical conduct and transparency of business processes. Achievement of this goal is dependent on the implementation of a significant project - our comprehensive Ethical Conduct Programme. In mid-2012, the Company's Board resolved to appoint a special team to formulate assumptions and develop the process and organization-related solutions necessary for successful implementation of the Ethical Conduct Programme.

The need to improve ethical standards at the LOTOS Group was confirmed by our employees, not only in the course of the work on the CSR Strategy, but also in an opinion poll on ethical issues conducted in the spring of 2012. Over 170 respondents indicated a risk of corruption and conflict of interests, the maintenance of professional secrecy and the transparency of business partner selection processes as issues which needed to be addressed in the Code of Ethics. Equal employment, advancement, and career development opportunities were identified as being equally important.

As the Code of Ethics is one of the most important elements of the Ethical Conduct Programme, in 2012 we began work on formulating its contents.

Ethical Conduct Programme

The programme is a means of implementing and monitoring ethical standards at the company, facilitating proper conduct and supporting the moral behaviour of employees. Ethical Conduct Programmes typically comprises a number of solutions and functions, such as a Code of Ethics, tools for reporting breaches of the Code, an Ethics Officer, and education on ethics-related issues.

Code of Ethics

A set of standards and principles of conduct applicable across the organization, based on adopted core values and issues identified by employees as needing regulation. As the foundation of the Ethical Conduct Programme, the Code of Ethics provides a kind of moral compass guiding employee's actions and motivations in their everyday work.

The LOTOS Group's Code of Ethics is addressed to all employees, regardless of their place within the organization, job title or type of work performed. Therefore, we decided to ensure the possibility of participating in the public consultations of the draft document to every one of our over five thousand employees, in Poland, Lithuania and Norway. Needless to say, these were the most extensive consultations on a document in the company.

Staff meetings were preferred as the means of sharing the contents of the draft Code, and we spent three weeks at the end of 2012 arranging the meetings. Over 400 members of the management were responsible for carrying out the consultations. At the staff meetings, we:

- Explained the importance of the Code of Ethics and its role as the key component of the Ethical Conduct Programme,
- Presented the drafting methodology for the document,
- Shared the contents of the Code of Ethics,
- Elicited comments, questions and amendment proposals from the employees,
- Clarified any doubts raised by the employees.

PILLARS OF THE LOTOS GROUP'S ETHICAL CONDUCT PROGRAMME

During the consultations, employees raised over 300 questions and comments, and made proposals for amendments to some of the provisions. The main page of the Ethical Conduct Programme sub-service was visited more than 2,300 times in its first three weeks. The letter posted on our intranet from the President of the Grupa LOTOS Board, encouraging active participation in the discussion on the document, received over 1,500 hits. 1,500 copies of a special publication accompanying the consultations were handed out. Such active, two-way communication ensured that all our employees had a strong influence on the final version of the Code of Ethics.

Once the consultation period had ended and the submitted comments taken into account, in December 2012 the Board of Grupa LOTOS finally adopted the LOTOS Group's Code of Ethics. The document became effective in January 2013 and is publicly available on the our website (http://odpowiedzialny.lotos.pl/en/912/our_responsibility).

Link to the Code of Ethics (http://odpowiedzialny.lotos.pl/repository/43051/)→ (http://odpowiedzialny.lotos.pl/repository/43051/)

Beata Ossowska-Lango

Head of the Internal Audit Office, Representative of the Board for Ethics, Grupa LOTOS S.A.

Broad-based public consultation with the involvement of people representing various areas and jobs was essential to the development and subsequent implementation of our Code of Ethics. It is one of the key conditions that needs to be met in order for the Code to prove an effective tool for developing the desired ethical corporate culture.

The objective behind the consultations was to convince those to whom the Code of Ethics applies that thanks to their influence on the wording of the document, they were also co-authors. This sense of contribution is, in the case of the Code, crucial to the quality of its future functioning at the organization. It should also be emphasised that the Code is not a document imposed by the Board, a move which would be alien to the employees and the corporate culture. It is instead a code of ethical standards, consistent with the values adopted by the organization, created to aid employees to the benefit of the whole LOTOS Group.

Successful implementation of the Code is also conditional upon creation of a comprehensive Ethical Conduct Programme, fostering the desired corporate culture and supporting the development of employees' knowledge and practices through an ethical education system. Such a broad, comprehensive approach is indispensable if the Code is to prove effective in helping with difficult or doubtful situations arising in the workplace.

Initiating the work on the Code of Ethics in 2012, the Board of Grupa LOTOS was guided by the conviction that the employees – having read and accepted the Code of Ethics – would have precise information on the attitude expected of them and the behaviour which the organization won't tolerate. The experience of numerous organizations shows that a Code of Ethics helps create a positive, encouraging atmosphere that mobilises employees around the pursuit of common goals, as well as increasing their commitment to their duties. It also strengthens their conviction of that they have a real opportunity to pursue their individual goals and professional plans.

Business benefits following from the establishment of an Ethical Conduct Programme are also a significant factor. Successful implementation of these kinds of programmes enables companies to consolidate the belief amongst its contractors and other partners that the company is worth working with, without the need to be concerned about the security of their own interests and reputation.

In the coming period, the LOTOS Group will be introducing a set of useful solutions, particularly organizational ones, in support of the effective implementation of its own Code of Ethics. It should be noted, however, that the document is also addressed to our environment: our customers, trading partners, and local communities. We encourage everyone to read the document, not only because it is a declaration by the company on its conduct in external relations, but also because it provides clear information on our expectations of our working partners in various areas.

Knowledge sharing

In 2012, in cooperation with a renowned NGO – Fundacja Sendzimira (Sendzimir Foundation), we became part of the Summer Academy "Challenges of Sustainable Development" project, one of the key training events on sustainable development in Poland. The Academy's lecturers and trainers include many specialists representing various fields of sustainable development, working in scientific and consulting partner institutions and organizations, both in Poland and abroad. The course is targeted at students, PhD candidates, members of NGOs, as well as representatives of local government and businesses. The Academy teaches how to put knowledge into practice, in accordance with the learning by doing concept that combines the transfer of knowledge with implementation of hands-on projects, and Grupa LOTOS became a partner in one such project. Together with a group of Academy trainees, we took part in workshops aimed at finding the best solution to one of the problems we identified during our work on the CSR Strategy of the LOTOS Group until 2015. The participants, supported by a team of trainers, analysed our company's performance from the perspective of sustainable development and came up with several possible solutions to the problem.

The aim of the project was to develop a joint proposal for a systematic approach to community relations management with Grupa LOTOS' local communities, based on best practice and in accordance with the principles of social dialogue. As part of our work with Fundacja Sendzimira, a report was developed by five members of the working group, invited to visit Grupa LOTOS. The document discusses recommended models for community relations and suggests a number of tools for their implementation.

Conferences focusing on the promotion of good practices

We take every opportunity to share good practices in corporate social responsibility with other businesses and NGOs, and in 2012 we took part in a number of important projects.

Last year, we co-hosted the **"Development of Responsible Business" conference as part of the CSR Academy**, under the auspices of the Ministry of the Treasury. The project, implemented in cooperation with the Puls Biznesu daily, was a reaction by Polish business circles to the need to promote the idea of corporate social responsibility, especially among SMEs. This joint effort between the state administration, businesses, and NGOs in organizing the CSR Academy increased the substantive value of the project and also served as an example of an effective CSR measure – integrating representatives of different sectors of the economy to achieve a common goal.

The uniqueness and outstanding quality of the project was quickly recognised – earning, for instance, a distinction in the XVI edition of Raport Społeczna Odpowiedzialność Biznesu (Corporate Social Responsibility Report) published by the Gazeta Finansowa weekly.

The conference was also attended by Paweł Olechnowicz, President of the Board of Grupa LOTOS. He made it very clear that CSR is no longer an option that may, but need not be, applied by a company. Instead, it is a standard and a necessity for companies that want to continue to develop. Jowita Twardowska, the Company's Communication & CSR Director, put the spotlight on the fact that CSR needs to be implemented as a corporate management method in order to be effective and productive. Beata Ossowska-Lango, Director of the Internal Audit Office, discussed our approach to business ethics, presenting the progress of works on the comprehensive Ethical Conduct Programme and abuse prevention system, which are also related to the CSR Strategy.

About 100 representatives of businesses, NGOs, and tertiary education institutions in the Pomerania region took part in the conference and workshops. The conference also included the first-ever study of the level of implementation of CSR standards in Polish companies, based on measures conforming to the ISO PN-26000 standard.

In 2012, we were involved in the **Fifth World Business Ethics Congress**, organised by the International Society of Business, Economics and Ethics (ISBEE), and by Akademia Leona Koźminskiego (Kozminski University). The Congress brought together a number of leading experts representing scientific and business circles from all around the world, and served as a forum in which we shared our first experiences in the implementation of the integrated reporting model based on the Global Reporting Initiative in Poland. The panel session, with the participation of a GRI representative, created an opportunity to share good practices in non-financial reporting – an important element of transparent and responsible business.

As the leading business in the Pomerania region, Grupa LOTOS is always willing and ready to exchange good CSR practices with other companies. One example of this was its participation in the **"Dialogue with Shareholders as a Tool of Sustainable Development"** discussion forum, organised in 2012 by the pharmaceutical corporation Polpharma. The goal of the meeting was to share knowledge and experience with regard to dialogue with stakeholders, to disseminate good examples, and to promote sustainable development. The list of participants included representatives of a number of businesses and institutions operating in the Pomerania region, and we took the opportunity to present our good practices in terms of responsible employee relations.

Multi-directional communication with the capital market

Grupa LOTOS is keen to ensure that its relations with stakeholders representing the capital market are forged and fostered based on the values of equality and dialogue to find solutions satisfactory to both parties. We are always open to new communication tools, and we constantly strive to perfect the form and content of our communications.

We present investors with a precise, reliable, transparent picture of the Company's operations and financial standing. We provide them with up-to-date information in compliance with the principles of involvement, availability, and equal treatment of all investors. To communicate that information to the investors, we use a broad range of IR tools, including mailing, shareholder conferences, conference calls, as well as open-house days for analysts and investors.

We also participate in Akcja Inwestor (Investor Campaign) organised by the Puls Biznesu daily. The goal of the Campaign, held under the auspices of Stowarzyszenie Inwestorów Indywidualnych (Association of Individual Investors), is to encourage the involvement of capital market participants and enhance their communication with listed companies. Investors can visit a dedicated website to send their questions to listed companies, with the task of the editorial team being to make sure that those questions are correctly forwarded to the addressee and answered.

In 2012, our Investor Relations Team supported the Company's Board in organizing meetings with investors and maintaining regular relations with analysts. On October 15th, the annual Analyst's Day was organised in Gdańsk, with the development of the LOTOS service station chain being its leading theme, taking into account the recent changes in our offer resulting from the dynamic growth of our new LOTOS Optima brand economy segment.

Grupa LOTOS' Internet Investor Relations Service is dedicated specifically to shareholders and investors and is published in Polish and English, with a view to reaching a broader range of investors and analysts.

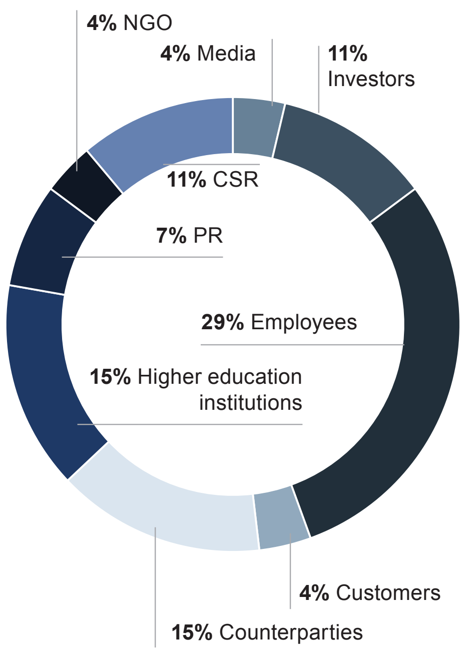
Additionally, the corporate events calendar, including the publication of quarterly reports, the activities of the General Meetings and other events in the LOTOS Group which might influence the price of the Company's shares is also published on the site, on the 'Investor's Calendar' page. The calendar links to various supplementary materials, such as periodic reports, Board presentations, .mp3 files with recordings of the Board's conference calls with analysts, and all documents relating to the organization and conduct of General Meetings.

In line with our CSR strategy, we attach great importance to the dissemination of information on all aspects of our operations connected with CSR among capital market participants. In 2012, as part of the Civic Ownership (Akcjonariat Obywatelski) campaign held by the Ministry of the Treasury, we organised a workshop with an analyst from the Parkiet daily on how to carry out technical analyses of listed companies to quickly obtain information, on them. The focus here was specifically on information concerning a company's ranking in the WSE's RESPECT Index, and the idea of corporate social responsibility.

Opinion polling

The opinions of key stakeholders are a valuable source of information. We make efforts to conduct opinion polls on a regular basis, with a view to improving our management processes, and the same applies to our reporting model. Since the adoption of the on-line reporting system, every single publication comes with tools for readers to share their opinions, give feedback, or ask questions regarding both the operations of the LOTOS Group and the reporting model itself. We make every effort to inform as many of our publications' readers as possible of the possibility of sharing their feedback with the Company, which could potentially improve the quality of our future reports.

Readers of the 2011 Integrated Annual Report



Employees of the LOTOS Group, investors, the company's business partners, as well as representatives of academic circles (university teachers and students) are the largest group of stakeholders that have used on-line reports to share their opinions with us.

According to the feedback received to date, the most useful functionalities of Grupa LOTOS annual reports include the ability to download selected chapters of the PDF, listen to recorded content, the social networking functionalities for the sharing of information with others, as well as a content browser facilitating easier access to information of particular interest to the reader. Readers also appreciated the interactive Table of Contents of GRI Performance Indicators and charts that can optionally compare selected data. All these functionalities are also offered in the current Integrated Annual Report.

In addition to on-line opinion polling tools, we also conduct regular real-world polling. Prior to the preparation of this current report, we invited the following key stakeholders to share their opinions and expectations of the Company's reporting model:

- External stakeholders: representatives of public administration authorities, NGOs, the local government in our main business location, academic circles, beneficiaries of the social programmes of Grupa LOTOS, and CSR experts;
- Internal stakeholders: employees of the LOTOS Group involved in the collection and analysis of data and information for the purposes of annual reports.

Assessment of previous Grupa LOTOS annual reports

Scoring on a five-point scale (1 – lowest, 5 – highest).

Assessment criteria	Internal stakeholders - average score	External stakeholders - average score
Was the information useful?	4.27	4.22
Was the language comprehensible?	4.53	4.33
Was the ratio of positive and negative information well balanced?	4.03	3.78
Was the report visually attractive?	4.44	4.44

According to opinions received by the Company, readers of the annual reports focus mainly on the actual results of the organization's social and environmental activities, its financial standing, and prospects for growth, as well as the degree to which the company meets the needs of its clients.

Information about the activities of Grupa LOTOS expected by readers of annual reports

Scoring on a five-point scale (1- least expected, 5 – most expected).

Information category	Internal stakeholders - average score	External stakeholders - average score
Information about the impact of climate change on the Company's operations	3.00	3.78
Information about the situation of the Company's employees	3.86	3.44
Information about feedback from the local community and their needs in the Company's location	3.63	4.33
Information about the Company's relationships with its suppliers and subcontractors	3.75	4.33
Information about the effectiveness and efficiency of the Company's social and environmental activities	4.00	4.44
Information about the social and environmental risks inherent in the Company's operations	3.92	4.22
Information about the Company's financial standing and business prospects	4.71	4.33
Information about the measures adopted by the Company to ensure the involvement of its stakeholders, and the outcomes of such measures	3.77	4.22
Information about the Company's response to the needs of its clients	4.19	4.44

Feedback from our stakeholders is one of the arguments for the continuous improvement of the financial and non-financial reporting model adopted by the Company.

Membership in organizations

Grupa LOTOS is a member of national and international industry, business, and specialist organizations.

Industry organizations

Conservation of Clean Air and Water in Europe, CONCAWE

We have been a member of CONCAWE since 2006. The organization was established by a group of leading oil companies to carry out research on environmental protection, quality of fuels, air, water, biofuels, soil contamination, occupational health and safety, and the management of products supplied via pipelines. The main objectives of CONCAWE are to acquire scientific, economic, and technical information, to the greatest possible extent, on environmental issues involved in the refining of crude oil and the distribution of petroleum products.

Polska Organizacja Przemysłu i Handlu Naftowego, POPiHN (Polish Organization of the Oil Industry and Trade)

The Company was a founding member of POPiHN at its inception in 2003. One of our objectives in the organization is to ensure the sustainable development of the competitive fuel market in Poland, by partly by taking measures aimed at the adoption of codes of business conduct in keeping with EU legislation, and by ensuring the equal treatment of all fuel market players in Poland. We are striving to achieve our objectives by initiating, assessing, and commenting on draft legislation proposed by Polish lawmakers and the draft measures of EU laws. As a member of POPiHN, we are also able to present our position to representatives of the Polish parliament, government, and other public administration authorities.

World Petroleum Council – Polish National Committee

We work on the Polish Steering Committee of the world's only organization representing all fields of the oil sector. Its main function is to facilitate dialogue between stakeholders, both internally within the sector and externally, with regard to key technical, social, environmental, and management aspects. The World Petroleum Council brings together 60 member countries, representing 95 per cent of the world's oil and gas production and consumption.

Central Europe Energy Partners, CEEP

We are the founding member of CEEP, together with Energa, Jastrzębska Spółka Węglowa, Kulczyk Investments, and PFAG. CEEP is an international regional non-profit organization, registered in 2010 in Belgium, with offices in Brussels and Berlin. It represents the Central European energy sector as it is broadly understood, including oil, natural gas, electrical energy, renewable energy sources, nuclear power, and interconnectors. The main objective of the organization, as specified in its statutes, is to support integration of the Central European energy sector under a common energy policy and security policy for the EU energy sector. To that end, CEEP cooperates with international think-tanks such as the Center for Strategic & International Studies, Windsor Energy Group, King's College, Atlantic Council, as well as international organizations, including the International Energy Agency, Euracoal, and Europia. The organization currently includes 18 members from Poland, Lithuania, the Czech Republic, Slovakia, Hungary, and

→ Maciej Szozda, Vice-President of the Board of Grupa LOTOS, has been a member of the POPiHN board since 2009.

Stowarzyszenie Naukowo-Techniczne Inżynierów i Techników Przemysłu Naftowego i Gazownictwa, SITPNiG (Polish Association of the Oil and Gas Industry Engineers and Technicians)

Together with LOTOS Petrobaltic and LOTOS Czechowice, we are supporting members of SITPNiG. The Association provides support to the oil and gas industry, acting towards the social utility of public projects. It inspires scientific, technical and organizational projects to the benefit of the country's economy, environmental protection, and sustainable development. The Association strives to improve the professional qualifications of its members, disseminates knowledge as well as technological and environmental culture, and promotes the tradition of the oil and gas industry.

Windsor Energy Group, WEG

We became members of the Windsor Energy Group in 2009. WEG is an independent think-tank headquartered in London that focuses on building the global order and on energy sector security, with a special emphasis on the oil and gas sector and the alternative energy sector. The organization brings together former politicians, former ambassadors in petroleum countries, government advisors, as well as CEOs of large corporations engaged in oil and gas exploration and production. As a member of WEG, we support the development of the European energy sector and promote the position of representatives of the Central European energy sector in the European Union.

→ Paweł Olechnowicz, President of the Board, is a member of WEG's International Advisory Panel.

Romania. They employ more than 250,000 employees and have an annual turnover in excess of EUR 32bn. Negotiations with new potential members from other Central European countries are well underway. As a member of CEEP, we participate in all major events, consultations, and preparation of expert materials about the energy sector in the European Union.

→ Paweł Olechnowicz, President of the Board, holds the position of Chairman of the Board of Directors of CEEP.

Organizacja Polskiego Przemysłu Poszukiwawczo-Wydobywczego (Polish Exploration and Production Industry Organization)

We are the founding member of the Polish Exploration and Production Industry Organization, which focuses mainly on unconventional gas. It is a forum for consultations between the hydrocarbons production industry and the Polish government on the planned legal framework for the taxation of hydrocarbons production. The organization was established in 2010.

Business organizations

Business Centre Club, BCC

The Company's membership in the BCC dates back to 2000. We focus on co-operation in projects whose main objective is to fuel the growth of the Polish economy,

Klub Polskiej Rady Biznesu (Polish Business Roundtable Club)

increase the number of jobs, and provide assistance to entrepreneurs. We support the BCC in the creation of communication platforms for different social groups on matters of key importance for the country's development, with particular emphasis on the promotion of corporate social responsibility.

European League for Economic Cooperation, ELEC – Polish Section

We have been a member of ELEC since 2002. It is an international NGO whose main objective is to support economic integration, foster the social and cultural identity of European societies, and enhance the role of Europe in the international arena.

→ Paweł Olechnowicz, President of the Board, is a member of the management board of ELEC – Polish Section.

Gdański Klub Biznesu (Gdańsk Business Club)

Since 2002, we have been a member of the Gdańsk Business Club, which brings together entrepreneurs, owners, and directors of leading companies in the Pomerania region. Its mission is to foster economic development in all areas that can potentially influence the financial standing of its members, to provide support in business projects on a reciprocal basis, and to act towards the development of entrepreneurship, infrastructure, culture and education in the Pomerania region, as well as the protection of the health of inhabitants.

→ Paweł Olechnowicz, President of the Board, is a member of the board of the Gdańsk Business Club.

We became a member of the Club back in 2005. The Club was established by the Polish Business Roundtable – an organization bringing together the crème de la crème of Polish entrepreneurs, working towards the economic development of Poland and consolidation of its business circles.

Polskie Forum Akademicko-Gospodarcze, PFAG (Polish Higher Education-Business Forum)

We have been a member of PFAG since 2004. Its objective is to work towards more intensive cooperation in the area of higher education and business, and to support innovations and knowledge-based economy. The organization was established for the purpose of building strong cooperation between academic and business circles for the development of innovative solutions using national and EU funds. The Forum is a platform for the exchange of views and formulation of opinions on matters of crucial importance to Poland. It brings together representatives of businesses and leading Polish tertiary education institutions.

→ Paweł Olechnowicz, President of the Board of Grupa LOTOS, holds the position of President of PFAG's Management Board.

Stowarzyszenie Pomorskie w Unii Europejskiej ("Pomorskie in the European Union" Association)

We became a member of the Association in 2010. Its main objective is to support the activities of the Pomerania region's local government, tertiary education units, institutions, and enterprises operating at the EU level.

Organizations dedicated to CSR promotion

Forum Odpowiedzialnego Biznesu FOB (Responsible Business Forum)

The Company has been a strategic partner of FOB since 2008. FOB's mission is to promote the idea of corporate responsibility as a standard in Poland, in order to increase the competitiveness of Polish businesses, enhance social well-being, and protect the natural environment. FOB

United Nations Global Compact

We became a member of the organization in 2009. A global initiative of the United Nations calling on businesses and social organizations to respect 10 basic principles in the areas of human rights, labour, the environment, and organises projects supporting the development of CSR in Poland and engages in initiatives promoting corporate social responsibility and sustainable development.

anti-corruption. More than 7,000 enterprises and 3,500 NGOs from 140 countries work together to attain those objectives.

Specialist organizations

Pracodawcy RP (Employers of Poland)

Our membership in the organization dates back to 2004. Its main objective is to act in the common interest of business circles, supporting initiatives aimed at enhancing the role of employers in Poland. By commenting on draft legislation, the organization strives to secure mutual benefits for both employers and employees, on the basis of economic development, and to ensure fair and stable terms of employment, workplace safety, and social order.

Stowarzyszenie Emitentów Giełdowych, SEG (Polish Association of Listed Companies)

We became a member of the SEG in 2006. As an organization of companies listed on the WSE, the SEG acts in their best interests, offering expertise and advice on stock market regulations and the rights and obligations of listed companies. Being an expert organization, it focuses on the dissemination and sharing of knowledge, with a view to supporting the development of the capital market and modern market economy in Poland. The SEG also serves as a hub for the integration of listed companies and promotes cooperation for the development of civic society.

Polskie Towarzystwo Ekonomiczne, PTE (Polish Economic Society)

We are a member of this independent professional national association bringing together both practitioners and theoreticians in the field of economics. Its main objectives are to disseminate economic knowledge, act as an opinion-former, improve the qualifications of economists, and integrate their community.

Klub Polskie Forum ISO 14000 (Polish ISO 14000 Forum Club)

Klub Polskie Forum ISO 9000 (Polish ISO 9000 Forum Club)

We became a member of the organization in 1993. The Club's mission is to support and promote the Polish conformity assessment system, in particular in terms of accreditation, certification, and testing.

Stowarzyszenie Księgowych w Polsce (Accountants Association in Poland)

We are a member of this Association, which brings together representatives of professions related to accounting and finance. It focuses on the development of accounting and financial audit systems in Poland to make sure they reflect the latest changes in, and meet the requirements of, internationally recognised standards.

Polska Okręgowa Izba Inżynierów Budownictwa (Polish District Chamber of Construction Engineers)

Our membership in the organization dates back to 2001. As a self-regulatory professional body, the Chamber represents its members and protects their interests, especially by submitting proposals to the legislative and executive bodies on creating conditions favourable to the development of the construction sector in Poland and the role of the engineering profession in that process, and by cooperating with other self-regulatory professional, scientific and technical bodies operating in the construction sector.

We became a member of the organization in 1997. The Club's mission is to popularise, initiate, support, and develop the roll-out of environmental management systems.

Awards and distinctions

Companies comprising the LOTOS Group have received numerous awards and distinctions in areas of key importance, such as corporate social responsibility, quality of products and services, and corporate management. Presented below are distinctions earned in 2012, by category.

Corporate social responsibility

1. In recognition of its socially responsible approach to business and compliance with exacting CSR standards, Grupa LOTOS was awarded a **Silver CSR Leaf**. This distinction is awarded by the Polityka weekly and PwC to companies whose CSR principles are consistent with ISO 26000.

2. LOTOS service stations received the **2012 European Trusted Brands Crystal Award** in the "Petrol Retailer" category. LOTOS stations gained the highest score in four areas: quality, strong image, understanding of customer needs, and corporate social responsibility. The European Trusted Brands survey, published by Reader's Digest is one of Europe's largest and most expansive consumer surveys.

3. Grupa LOTOS became the **2012 CSR Sector Leader**. In the annual poll published by the Dziennik Gazeta Prawna daily, the Company came third in the fuels, energy and production category. Winners are chosen from among the biggest Polish companies, ranked according to the quality of their CSR management. The poll is prepared by Bolesław Rok from the Business Ethics Centre of Akademia Leona Koźminskiego (Kozminski University), under the auspices of the Responsible Business Forum (FOB), and is verified by PwC.

4. Grupa LOTOS was included twice in the **RESPECT Index –** the index of the most socially responsible WSE-listed companies.

5. Grupa LOTOS was awarded a distinction in the **ESG Analysis of Companies in Poland**, prepared by the Polish Association of Listed Companies in cooperation with Accreo Taxand and GES. The goal of the project is to increase the transparency of non-financial data reporting in companies by building an interactive knowledge base covering all listed companies, and to provide reliable non-financial data to analysts, investors, and other stakeholders.

6. Grupa LOTOS won the main prize in the second edition of the **Eco-responsibility in business** contest organised by the Ecomanager monthly. The contest rewards companies that take special measures to minimise their environmental footprint. Its main goal is to recognise those companies operating in the industrial sector that have implemented environmentally-friendly projects in the preceding year (including investment, educational, and informational projects). The contest is open also to enterprises that place a special emphasis on their CSR policy. The evaluation focuses on activities aimed at minimising both the corporate environmental footprint and the product environmental footprint.

7. Grupa LOTOS ranked third in the **Most Sought-After Employers in 2012 by Experts and Managers** survey in the energy, fuels and gas category. This survey was prepared by Antal International and the Business Center Club.

8. The crew of LOTOS Petrobaltic's 'Baltic Beta' platform received the 'Safe Unit' distinction in the **Safest Production Unit** competition. The competition is organised by the State Mining Authority and by Fundacja Bezpieczne Górnictwo im. prof. Wacława Cybulskiego (Wacław Cybulski Safe Mining Foundation).

9. Tadeusz Szkudlarski, the CEO of LOTOS Czechowice, received the **2012 Fair Play Company** certificate and was named a **Fair Play Ambassador in Business**. The programme is organised by the Institute for Private Enterprise and Democracy, and is affiliated with the Polish Chamber of Commerce. The goal of the programme is to promote business ethics, understood as a set of ethical conduct rules in relations between enterprises and their customers, business partners, employees, the local community, and local and central government authorities, as well as to support the development of enterprises by promoting those companies operating in accordance with the law and with the principles of business ethics.

The LOTOS brand – quality of products and services

1. The LOTOS brand received two prestigious **2012 Superbrands** awards in the 6th edition of the contest awarding the strongest consumer and business brands in Poland. The awards were granted to Grupa LOTOS in the Corporate brand category, and to LOTOS Paliwa for Service Station brand. Superbrands Ltd. is an organization operating in 85 countries worldwide that recognises the strongest, most successful brands in their sectors. The winners of the Polish edition were voted by members of the Rada Marek (Brands Board), including 39 leading Polish experts in branding, marketing, and advertising, and by a group of 2,700 respondents in a consumer survey. The criteria include brand recognition, unique benefits offered by the brand, and the quality of its links with customers.

2. The LOTOS Optima brand was awarded the **Good Product – Consumer's Choice** award in the New Brand of the Year category, in a survey carried out by Forum Biznesu, a supplement to the Dziennik Gazeta Prawna daily. The competition awards the companies that are most trusted by their consumers.

3. AB LOTOS Geonafta was awarded by the Polish Embassy in Lithuania with a prize for the **most recognisable Polish brands in Lithuania**.

4. MODBIT modified bitumens were given the **Najwyższa Jakość Quality International** award in the "product" category. The contest is organised by the Forum Biznesu editorial team. The judging panel decided that MODBIT modified bitumens meet the highest quality standards, and at the same time recognised the quality policy applied by LOTOS Asfalt to its products and services, which meet the highest standards.

5. LOTOS Quazar LLIII 5W-30 oil was given the **Najwyższa Jakość Quality International 2012** award. This award confirms the status of the brand and its owner as industry leaders, as well as having the highest quality, both highly trusted and widely renowned. The awards are organised by the Ministry of Regional Development, Klub Polskie Forum ISO 9000 (Polish ISO 9000 Forum Club), and the Polish Agency for Enterprise Development.

6. LOTOS Synthetic Plus 5W-40 oil was given the **Dobra Marka 2012 – Jakość, Zaufanie, Renoma (Good Brand 2012 – Quality, Confidence, Reputation)** award. The award is given by the Forum Biznesu editorial team to the best, most dynamic, and most recognised brands in Poland, under the auspices of the Institute of Philosophy and Sociology of the Polish Academy of Sciences.

7. LOTOS Quazar S 0W-20 and LOTOS Quazar S 5W-30 oils were given the **Europrodukt** award. This award recognises products meeting the highest quality and technology standards. The award programme is organised under the auspices of the Ministry of Economy and the Polish Agency for Enterprise Development.

8. LOTOS' partner station in Rogów Opolski won the **Service Station of the Year 2012** competition, organised by the Polski Traker monthly. Votes in the competition were cast by drivers, who were asked to choose the best service station.

9. The main prizes in the **Service Station of the Year 2012** competition were awarded to the LOTOS Optima service station located in Warsaw on Pułkowa Street (in the economy segment) and to the LOTOS service station located in Leszno on Poznańska Street (in the patronage service stations segment). The competition is organised by the publisher of Stacja Benzynowa monthly.

Management quality

1. Grupa LOTOS ranked third in the **TSR Golden Share 2012** stock-exchange ranking, organised by Grupa Onet.pl. Total Shareholder Return is a measure used to evaluate a company's ability to create shareholder value in a given period. It combines two perspectives from which a company's performance is evaluated – internal and external. The internal perspective includes decisions taken by a company as regards cash payments, or share splits and reverse splits. The external perspective is based on its share market price and takes into account the opinions of a large group of stock exchange investors. The survey covered two periods – of three years (2009-2011) and ten years (2002- 2011).

2. Grupa LOTOS ranked second in the annual rankings of Poland's biggest companies – **The 500 List**, moving up three places on last year's position. The 2011 rankings were prepared by the editorial teams of the Rzeczpospolita daily and the Polityka weekly. The Company also ranked among the top ten biggest Central and Eastern European companies, in rankings prepared by Deloitte and by the Rzeczpospolita daily, moving up from 11th to 7th. Grupa LOTOS also ranked 6th among the biggest Central European companies in a ranking published by COFACE.

3. Paweł Olechnowicz, President of the Board of Grupa LOTOS, was named one of the **Best Managers in Times of Crisis** in the Bloomberg Businessweek Polska TOP 20 ranking.

4. Paweł Olechnowicz, President of the Board of Grupa LOTOS, was awarded the **Polish Honorary Quality Award** in the XVIII edition of the Polish Quality Award competition. The award was established back in 1995 by the Polish Chamber of Commerce, the Polish Centre for Testing and Certification, and the Teraz Polska Foundation.

5. For the third time in a row, LOTOS Oil won the **Ambassador of the Polish Economy** award, in the "Foreign Business Partner" category. The competition is organised by the Business Centre Club under the auspices of the Minister of Foreign Affairs. The goal of the competition is to encourage Polish entrepreneurs to become more involved in promoting Poland internationally as a reliable business partner.

6. LOTOS Czechowice received a distinction in the XII edition of the "most dynamic SMEs in the Silesia region" ranking. The **Gazela Biznesu (Business Gazelle)** certificate was accepted by Tadeusz Szkudlarski, President of the Management Board.

7. LOTOS Asfalt was recognised as the **2012 Market Innovation Leader (Rynkowy Lider Innowacji 2012)**. This title is awarded by the Dziennik Gazeta Prawna daily. The company was recognised for its innovative solutions, investments, the top quality of its products, services, and customer service, and the highest quality of its management standards.

8. LOTOS Asfalt and LOTOS Serwis were awarded a **2012 Forbes' Diamond** title in the category for biggest companies with annual revenue exceeding PLN 250m. The Forbes' Diamonds ranking was prepared by Dun & Bradstreet, and drew on companies from all around Poland which had recorded the most dynamic value growth within the past several years.

9. The Accounting and Tax Institute (IRiP) announced the results of **The Best Annual Report 2011 in accordance with the IFRS/IAS** competition. The 2011 Integrated Annual Report of Grupa LOTOS ranked third in the "business" category.

10. Henryk Gruca, President of the Management Board of LOTOS Kolej, received the **Man of the Year – Friend of Railways** award. The competition is organised by PKP Polskie Linie Kolejowe and the Railway Business Forum, and recognises outstanding achievements in the railway sector. The criteria taken into account by the judging panel include successful performance and special achievements in several areas, including economic activity, roll-out of new technologies, development of passenger and freight rail systems, investments in infrastructure, promotion of rail transport, educational, scientific, and research activities, as well as measures taken to improve the safety of railway traffic.

11. LOTOS Kolej was awarded in the **2012 Leader of Rail Transport** competition organised by the editorial team of Transport i Komunikacja magazine, and by the Rail Transport Forum employers' association. The competition promotes companies and institutions whose activities, products, services, and finished goods are deserving of special

recognition and should serve as examples of their kind, contributing to the development, improvement of safety, increase in efficiency, and promotion of rail transport in Poland.

12. At the 2012 Railwayman Day gala held in the Congress Hall of the Palace of Culture and Science in Warsaw, President of the Republic of Poland medals were awarded, with a **Gold Medal for long-time service** going to Henryk Gruca, President of the Management Board of LOTOS Kolej, and Mirosław Łosiński, COO. Also, 10 employees of LOTOS Kolej received ministerial medals for outstanding service to the Polish transport industry.

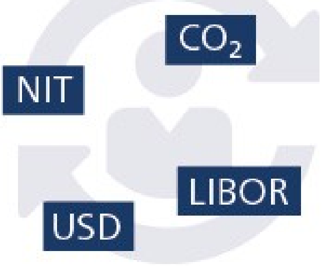
13. LOTOS Kolej received a **MediaKreator** award in the "event, ambient, conference" category for the "Find out more about the Railways with LOTOS Kolej" ("Poznaj Kolej z LOTOS Kolej") YouTube channel. The MediaKreator statuette is awarded to companies from the railway sector which maintain an active information and promotion policy and continue to implement new methods for communication with their internal and external stakeholders. The competition is organised by KOW media & marketing.

Risk management

In the LOTOS Group, an Enterprise Risk Management system has been implemented. We identify risks for the implementation of our strategic objectives along with process and operational risks. The strategy of dealing with the particular risks depends on our assessment of its importance for the company and for its environment. This assessment is done in the time perspective of the nearest year and until the end of the current business strategy. In our analyses, we pay particular attentionto the impact of the given risk on the security of people and the environment.

IN THIS CHAPTER

Key risks and opportunities



Approach to management

Preventing corporate misconduct

The system in place at the LOTOS Group supports fast, appropriate and informed decision-making based on prior risk analyses. The existing rules of risk identification and assessment allow us to promptly respond to threats and mitigate or eliminate them altogether. We have action plans prepared for particular types of risk. We also identify newly emerging opportunities and possibilities and strive to exploit them. Corporate risk management enables us to undertake the actions that best serve our business, while staying within acceptable risk limits.

In the LOTOS Group, we have identified dozens of risks, which have been assessed according to the methodology described in the Management systems (http://raportroczny.lotos.pl/en/corporate-governance/management-systems) chapter. Below, key risks from the point of view of our business activity and new risks which were not reported in previous years are described.

Key risks and opportunities

Risk is essentially inherent in LOTOS Group operations. For this reason, we continue to enhance our tools and methods for risk identification and assessment, as well as implement hedging strategies. Some of the measures we have taken enabled us to mitigate selected risks in 2012. As those risks materialised, we implemented previously developed plans to mitigate their impact. We also identified new risks, stemming both from changes within our organization and conditions prevailing in our general business environment.

Risks and opportunities in the context of the oil sector strategy prepared by the Polish government and the European Commission

In 2012, we undertook a number of initiatives to predict and minimise risks related to Polish and EU legislation. We monitored the EU policy for the oil sector, working closely with international organisations such as the CEEP (Central Europe Energy Partners) and CONCAWE (Conservation of Clean Air and Water in Europe), as well as the domestic POPiHN (Polish Organization of the Oil Industry and Trade). In addition, we continued to work with the state administration, taking part in consultations on drafts of Polish legal acts.

EU regulations for biofuels

2012 saw the publication of the European Commission's draft amendments to Directive 2009/28/EC. This draft contains a proposal to reduce the mandatory target for the share of renewable energy from biofuels in the transport sector to date from the current 10% to no more than 5%, with the mandatory target for overall use of renewable energy in the transport sector to be maintained at 10% until 2020. It also proposes to assign additional CO_2 emissions to selected biofuels, as a result of their indirect impact on changes in land use.

The proposal to amend the directive with respect to biofuels stems from a discussion, ongoing for a few years now, about the indirect impact of biofuels on changes of land use, and biofuels competing for land classified for cultivating food crops and animal feed.

The current draft amendments proposed by the European Commission confirm the possibility of considering twice the contribution made by biofuels produced from cellulose or lignocellulose, or four times the contribution made by biofuels produced from municipal waste and aquaculture to calculate the share of biofuels in the overall use of transport fuels. Solutions like this have already been implemented by 10 leading EU countries that decided not to wait for the directive. Having done so, those countries are now able to encourage the use of biomass waste.

Introduction of the proposed solutions in Poland will depend on the final shape of the directive. Their implementation into Polish legislation will also require strong expert support from the industry for the public administration bodies responsible for the process. Implementation of the directive may result in material changes to the amount of GHG emission reductions currently attributed to the biofuels used.

Domestic regulations concerning biofuels and NIT

In January 2012, the notification procedure for domestic regulations allowing higher biocomponent content in diesel oil was completed. Green light for the use of diesel oil with a 7% ester content (B7) had long been expected by the industry, as in previous years the National Indicative Target (NIT) required by law had exceeded the level achievable by adding 5% bio-components to diesel oil (B5) and gasoline (E5). Admission of B7 diesel to the market in 2012 slightly improved the economic aspects of the Polish biofuels policy.

Moreover, in 2012 the Group took advantage of the statutory regulations of 2011, which provided for a reduction of the NIT target level by a ratio of 0.85 upon fulfilment of certain statutory requirements concerning the origin of biocomponents. As the same regulation continues to apply in 2013, application of the reduction ratio may contribute to lower costs in meeting the NIT.

Regulations on mandatory stocks

Work continues on amendments to the Act on Mandatory Oil and Fuel Stocks that will allow for implementation of European Council Directive 2009/119/EC, and is at an advanced stage. Initially, its implementation may entail higher costs for the petroleum sector, but ultimately the companies will be released from the obligation of maintaining mandatory stocks. Companies associated within the Polish Organisation of Oil Industry and Trade (POPiHN) are postulating the need for urgent work on a comprehensive legal framework encompassing all segments of the petroleum sector in Poland.

Grupa LOTOS appointed a Workgroup on activities aimed at changing the mandatory stock system. The Workgroup has participated in public consultations on creating a new law by lodging motions favourable for the oil industry, part of which have been included in the proposed act.

Risks related to changes in and interpretations of tax law

Grupa LOTOS operates in a volatile legal environment. This instability is a source of risk that affects our functioning, the outcome of the actions we take, our tax policies, and the amount of tax we pay.

Changes in the interpretation of tax laws may give rise to tax risk in transactions where such risk was previously non-existent. An additional hurdle is the indolence of the tax authorities in their consideration of applications and conduct of tax proceedings. Differing legal interpretations of the tax regulations also increase uncertainty, and in international trading may affect our credibility and force us to withdraw from valuable projects and transactions.

The level of tax risk faced by businesses in Poland is high, and continues to grow. One of the risk factors is non-observance by the legislator of the principle of *vacatio legis* when enacting amendments to tax laws. This prevents businesses from adjusting to the new requirements in time and increases the likelihood of their incurring additional costs or sanctions. The strict standards of the tax authorities are another factor demanding extra caution when managing tax risks. In doing business, an enterprise has to accept that incorrect interpretation of the law or mistakes made may inadvertently result in their entering tax arrears, as a consequence of which the enterprise may be charged with committing an offence.

In light of the numerous changes in interpretation of the tax laws and the introduction of new regulations, we regularly update our internal procedures to ensure compliance with legal requirements and to identify and mitigate any tax risks, particularly their effect on our financial statements.

In situations where a tax risk arising from the possibility of disparate interpretations of a law is identified, we avail ourselves of the right to request a binding interpretation of that tax law by the Minister of Finance. As a member of respectable organisations of employers and entrepreneurs, we also take part in issuing opinions on proposed legal acts and are thus able to respond appropriately to the changing legal environment.

Financial risks

In 2012, Grupa LOTOS did not make any changes to the division of powers for coordination of management of individual risk types, as introduced in 2011.

With regards to **risk from prices of feedstock and petroleum products**, we are continuing work on preparation of a new risk management policy. Our efforts in this respect are dependent on the implementation of the Energy Trading and Risk Management (ETRM) system. In 2012, we signed an agreement with Allegro Development GmbH, thus initiating work on the implementation of Allegro 8.0, scheduled for completion in 2014.

Currency risk is managed in line with the Strategy of Currency Risk Management at Grupa LOTOS. The US dollar (USD) is the currency of the market on which we operate. Consequently, we have a structurally long position in US dollars. The US dollar was chosen as the most adequate currency for contracting and repaying long-term facilities, including those used to finance the 10+ Programme.

Interest rate risk management is connected with the expected schedule of payments under the facilities taken out to finance inventories and the implementation of the 10+ Programme, as well as the resulting interest accruing at the LIBOR USD floating rate.

As regards **liquidity risk**, in 2012 real cash pooling and IT tools enhancing the efficiency of liquidity management at the LOTOS Group were implemented.

The risk of restricted access to external financing or changes in lending terms is minimised through cooperation with a diversified group of creditworthy partners, use of a wide range of financial instruments, fulfilment of disclosure obligations, as well as monitoring of and compliance with financial ratios, covenants and any other obligations towards the banks. We also monitor the financial position and overall standing of the banks providing financing for the LOTOS Group, as well as any factors driven by developments on the global financial markets that may threaten our ability to raise financing.

In order to limit **counterparty credit risk in financial transactions**, we only enter into transactions with financial institutions or firms that:

- have the lowest acceptable rating assigned by a rating agency.
- If they lack the required rating, they must provide an appropriate guarantee issued by a financial institution or firm holding a minimum acceptable rating assigned by a rating agency and meeting the requirements set by Grupa LOTOS, as defined in relevant agreements.

Credit limits for counterparties in financial transactions are determined in reference to the Company's equity and a ratio calculated based on credit ratings updated on an ongoing basis. The utilisation of credit limits is monitored on a regular basis

Counterparty credit risk in trade transactions is managed at the LOTOS Group by an internal procedure that calls for verification of the creditworthiness of counterparties applying for open trade credit limits. Grupa LOTOS awards trade credit limits based on an assessment of the trade counterparties' creditworthiness, analysing the available data and information on that party. The final decision on the credit limit's amount is made by the person responsible for credit risk, in accordance with the area of their responsibilities. Utilisation of credit limits is monitored on a regular basis. In 2013, we plan to design an internal rating system for assessing the creditworthiness of business partners, and to adapt our IT system to ongoing monitoring of the use of credit facilities.

In order to ensure that financial risks are effectively managed and to minimise the risk of error, all data used to support the assessment process are thoroughly verified, and the decisions made are based on in-depth analyses in accordance with risk management policy, credit structure and operating procedures. Financial risk management policies, instruments and the impact of risk factors on individual items of the financial results are entered in the Additional information and clarifications (http://raportroczny.lotos.pl/en/financial-information/consolidated-financial-statements-2012/notes-to-the-financial-statements/33.-objectives-and-policies-of-financial-risk-management) to the Consolidated Financial Statements.

Risks related to the exploration and production business

Exploration and production involves high risk, identified during the exploration, development and production of a field. An action plan for limiting this risk is developed for each of the above phases. 2012 was another year in which we implemented appropriate actions to minimise individual threats in this area of our operations.

Exploration risk is inherent in upstream activities and follows largely from potentially incorrect estimation of in-place resources. For this reason, resources in a field are assessed using three options. Quantities of potentially recoverable resources are specified for each option together with certainty levels of 10%, 50% and 90%. Necessary geological work and analyses are then performed to document potential prospects to an extent providing a sufficient basis for deciding whether to drill exploration wells.

Another significant risk in the upstream segment is **production risk** - risk strictly connected with the process of extraction. This includes risks of oil spills, marine collisions, fires, gas eruptions or other failures, which can have major consequences for the company and the natural environment. Therefore, a number of measures have been implemented to mitigate this risk, such as leakage testing, blow-out risk prevention by securing boreholes, and monitoring of fire risks. An important factor helping to reduce these risks is the awareness and competence of our personnel. We design, implement and review procedures applicable in both our day-to-day work and in emergency situations, and organise regular hands-on training sessions. In the event of an incident or accident, a thorough review is conducted and the event itself is discussed during subsequent training courses, with a view to preventing its recurrence.

Production risk depends on the quality of the exploration and production infrastructure in place, as well as on the application of appropriate technological solutions. **Technical risk** is mitigated through monitoring of the condition and performance of equipment, as well as technical supervision and necessary testing. Regular training courses are also organised to teach personnel how to operate the equipment. The production and process systems are subject to technical inspections and reliability tests. The specific nature of upstream operations requires that we constantly develop our precautionary approach and operating maintenance system, and monitor the best technologies in this area.

Other risks in the upstream area lie in the possible occurrence or intensification of phenomena which may cause loss of wells or declining well rates (e.g. falling reservoir pressure, entry of water). Even so, continuous monitoring of reserve parameters helps to mitigate such risks.

Weather is a vital factor in offshore oil extraction. In extreme cases, unfavourable weather conditions can halt planned work or crude production. To minimise the adverse effect of such risks, systems are deployed to monitor weather conditions and trigger appropriate safety procedures when necessary.

Given the need to increase our own production volume under new licenses and production projects and the need to implement such projects under consortium agreements, we also take steps to secure in-depth data and analyses. We assess risks for individual projects and prepare documents such as feasibility studies and economic viability studies, as well as analyses of legal and financial risks, in order to effectively minimise a project's risk.

Risks related to the supply of feedstock

It is necessary to supply feedstock for production purposes in a timely manner. At Grupa LOTOS, feedstock is supplied mainly via a system of pipelines and by sea, which means that the key risks lie in the political situation of the countries exporting crude oil and the condition of the infrastructure. In order to limit their effect on our operations, we seek to diversify the directions and sources of our crude oil supplies. The objectives of the diversification policy are attained by focusing on the security of the supplies and improved competitiveness.

The security of crude supplies is enhanced through progressive expansion of our presence on the international oil market, regular contracting of various types of crude transported by sea, and the increased role of own production. Our competitive position is improved by capitalising on the coastal location of the Gdańsk refinery and the possibility of sourcing crude supplies through two independent channels: the Druzhba Pipeline and Naftoport (offshore oil terminal).

Risks related to operating activities

In its operating activities, Grupa LOTOS is required to effectively manage a variety of risks, including process risk, technical risk, technological risk, environmental risk, as well as risk related to safety at work.

In 2012, **technological changes** were made at the Company, which introduced high-pressure natural gas as the main energy carrier. Gas from a new pressure reduction station now flows to the refinery's fuel gas network, through which it fuels process furnaces and (separately) the CHP plant, as well as to two hydrogen production plants where it is used as production feedstock. The shift to using gas as fuel offers a wide range of benefits, such as:

- Environmental benefits – sulphur dioxide, nitrogen oxides, particulate and carbon dioxide emissions are lower than when using heavy fuel oil or LPG,
- Financial benefits – natural gas is a cheaper fuel and feedstock compared to its predecessors,
- Commercial benefits – additional quantities of oil components are distilled and placed on the market.

However, these changes carry new risks. The risk of sudden interruption of gas supplies, for example, as the result of an industrial failure, as well as the risk of limited gas availability in severe winter conditions, which may result in higher operating expenses and a periodic decrease in the sale of selected products. To reduce the impact of these threats, we maintain an infrastructure allowing us to return to the fuels used before the switch to natural gas.

Technical risk is further reduced by ensuring the continuous control and operation of production infrastructure. This also guarantees the safe operation and undisturbed functioning of the refinery. As part of these efforts, we assess and prioritise equipment in terms of its importance. Most of the equipment critical to operational safety has been classified based on the following criteria: safety for people and the environment, significance to the entire unit or plant, and probability of failure.

At the refinery, we also use technologies and equipment meeting BAT (*Best Available Techniques*) criteria. Industrial process installations have their own safety and protection systems, and emergency stop and shutdown systems are in place to prevent uncontrolled development of emergency situations and serious damage to the plant and equipment.

Human error also increases the risk of failure, especially in new installations. At the refinery, the risk of human error is minimised by improving the operational experience of the workforce. Training simulators are designed and implemented to train personnel under conditions very close to reality. Practical training and exercises are provided on a regular basis to all employees of the refinery, to ensure their prompt and effective response in case of emergency.

At our refinery we will also soon be carrying out the **Spring 2013 Overhaul Shutdown**, one of the largest projects we are currently implementing. The success of the project is a precondition for another four or even five years of stable operation of the plant, and will be a source of tangible financial benefit for the entire company. We have been engaged in planning to limit the risk of inappropriate preparation or execution of the project since 2011. Given the volatile conditions prevailing on the construction market, we have also taken into account the risk of adverse changes in the financial standing of the overhaul's contractors. A worsening of the contractors' financial situation could result in delays or non-performance of some of the planned work. We have therefore applied various controls and prevention measures with a view to limiting this risk.

Given the nature of the production processes involved, **workplace safety** is a matter of utmost importance to us. Many positions involve risks that expose employees to hazardous and burdensome substances or circumstances. Each work post is assessed for occupational risk, including for the presence of explosive atmospheres, noise, or exposure to hazardous biological or chemical substances. Based on these assessments, we continuously deploy and improve individual and collective security systems.

New technical and organizational measures are also in place to ensure safe working conditions for anyone visiting the premises or working there for or on behalf of the Company. Contractors are informed of our internal guidelines, which set out various documented procedures. We regularly check whether relevant rules of conduct are being followed correctly and enforce post-inspection requirements. In many cases, the rules implemented by us are more stringent than those required by law. In addition, we run programmes aimed at raising our employees' awareness and encouraging them to work in accordance with the safety rules. Detailed descriptions of risk minimisation activities in this area are presented in the Sustainable development/Employees (http://raportroczny.lotos.pl/en/sustainable-development/employees) chapter.

During the period of National Allocation Plan II (2008–2012) (KPRU II), a development programme was implemented which, over a two-year span, resulted in the launch of several new installations and the means of operation of existing installations being changed, leading to a significant increase in carbon dioxide emissions. Grupa LOTOS then faced the considerable challenge of having to acquire a large volume of additional allowances from the national reserve to cover the emissions from its new installations. Allocation uncertainty, or put another way, the risk that allocated allowances would not be sufficient to cover our emissions, was largely exacerbated by the fact that the 10+ Programme was launched half way through KPRU II, and so the likelihood of the national reserve being used up was high. However, our cooperation with the National Administrator and our involvement in the issuing of opinions on the proposed legislation brought the expected outcomes. Accordingly, for the entire five-year trading period under the emissions trading scheme, there was no need for the Company to purchase additional allowances to cater for its increased needs. The allowances held in the first year of KPRU II (2008) covered 1,135,348 tonnes of emissions (from the refinery and CHP plant combined), and last year (2012) – 1,964,925 tonnes.

We did not need to purchase additional carbon credits under KPRU II and were able to significantly reduce our deficit of allowances under KPRU III (2013–2020), thanks in part to current and completed investment and modernisation projects (introducing natural gas as the fuel and key feedstock in our hydrogen production, recovering our discharge gases and upgrading the furnaces), as well as an ongoing programme to enhance the energy efficiency of the refinery's production units. These projects are also important to the overall emissions balance to 2020, when carbon emissions will need to have been reduced by 20%, as stipulated by the EU.

The allocation rules for allowances in the period 2013–2020 have changed from those previously applied. Now, crude oil refineries receive allowances calculated on the basis of the CWT ("Complexity Weighted Tonne") benchmark. Under the new rules, we as Grupa LOTOS have no control over the number of credits we are allocated, but for the trading period until 2020 it will probably amount to 12,757,079 tonnes of CO_2, meaning that we will have to purchase additional allowances on the auction market.

There are many aspects of the LOTOS Group's activities that have or may have an environmental impact. This is inherent in the type of business operations we conduct, which requires that the majority of identified risks are also assessed for their potential environmental impact. The most serious are technical and production-related risks, which – if they materialise as serious industrial disasters – can have a detrimental effect on our external environment. The previously-mentioned measures for prevention of fires, failures and similar incidents also aim to minimise possible environmental impact.

We have also adopted safety standards in sea transport, which help mitigate various risks, including the risk of environmental disaster caused by tankers leaking oil or petroleum products. We also have established relationships with providers of sea shipping services operating fleets that meet high technical requirements and properly observe maritime safety conventions. Similarly, we use the services of ship owners who satisfy very strict requirements on the mitigation of the risk of maritime accidents.

We minimise the risk of non-compliance with legal requirements concerning environmental impact through ongoing monitoring of Polish and EU laws, ensuring their efficient implementation and by participating in legislative processes. The processes of obtaining permits is carried out with time to spare, in consideration of the risk that administrative proceedings may last longer than expected.

Risk of stricter quality requirements on petroleum products

We keep a close eye on proposed new standards and regulations relevant to our production and sales. Our work on three subcommittees of Technical Committee 222 at the Polish Committee for Standardisation, responsible for petroleum products and process liquids, has provided us with an opportunity to voice our opinions on proposed European standards during their drafting. We also have a say on quality requirements, in particular requirements applicable to engine fuels, through our participation in the work of the Polish Organisation of Oil Industry and Trade (POPiHN). This substantially reduces the risk of delays in compliance with future quality standards for petroleum products.

Risks related to marketing activities

The background to the LOTOS Group's marketing activities is the ever-present price competition and the fast-changing global macroeconomic environment. Therefore, we are continuously improving our tools for monitoring the parameters related to prices and margins.

As for retail sales, we pursue market diversification, including diversification into segments less prone to competitor-induced margin erosion, as well as other initiatives aimed at winning and retaining customers.

We are also aware that domestic demand for our products may soften, either on the back of price pressures or macroeconomic factors. Various factors, such as growing unemployment, could lead to reduced consumption of our products and services. Therefore we use a variety of distribution channels to sell our products while pursuing a pricing policy that guarantees their competitiveness, and seek to optimise our operating expenses.

Risk management in our marketing is also focused on ensuring an uninterrupted supply of products to the market. This process is coordinated through sales, logistics, production and trading and optimisation, with the purpose of setting coherent and optimised development directions for the entire supply chain.

Reputation and social risks

Risks to reputation are those whose occurrence may undermine the value of the LOTOS brand. All risks identified within the LOTOS Group are evaluated from the financial and reputational point of view, with relevant mitigation plans developed in accordance with adopted policy.

The LOTOS Group builds its corporate culture on the four pillars of responsibility, innovativeness, openness and transparency. We place emphasis on qualities such as loyalty, commitment, cooperation and ethical conduct in our interactions with others. We are in constant dialogue with our social partners on critical decisions concerning our organization or employees. This is reflected by the high level of activity of the company trade unions and the Employee Council. Frequent meetings, consultation sessions and information exchanges help build good mutual relations.

Despite the slowdown in the economy, social stability prevailed at the LOTOS Group in 2012, with no collective disputes or strike warnings announced. In February 2012, social dialogue led to the signing of an agreement on 2012 salaries between the Grupa LOTOS Board and the trade unions. Another example of commitment and open communication between employer and employees was the organization-wide public consultation on the draft LOTOS Group Code of Ethics held in 2012, which concluded with the Company's Board adopting the document in December 2012.

Risk of misconduct

Risks related to corporate misconduct pose a serious threat to any organization. Hence in 2012, we began to implement a comprehensive approach to misconduct prevention, which involves acting in a systematic and orderly manner to identify and assess the risk of misconduct. As part of the process, prevention and detection mechanisms have been designed and put into use, and are monitored and evaluated for effectiveness. Moreover, in April 2012 we announced the Misconduct Prevention Policy, which outlines our stand on misconduct and the rules for dealing with it, as well as describing our open-access reporting channels.Risks related to corporate misconduct pose a serious threat to any organization. Hence in 2012, we began to implement a comprehensive approach to misconduct prevention, which involves acting in a systematic and orderly manner to identify and assess the risk of misconduct. As part of the process, prevention and detection mechanisms have been designed and put into use, and are monitored and evaluated for effectiveness. Moreover, in April 2012 we announced the Misconduct Prevention Policy, which outlines our stand on misconduct and the rules for dealing with it, as well as describing our open-access reporting channels.

Approach to management

At the LOTOS Group we have implemented an enterprise risk management (ERM) system based on the COSO II integrated framework published in 2004, which is compliant with ISO 31 000 guidelines and requirements. As part of our ERM system, we developed and implemented a set of internal standards, which consists of:

- Enterprise risk management policy, which defines the general scope of responsibility within the system and key risk management policies operated by the organization,
- Enterprise risk management procedure, which specifies detailed rules for risk identification and assessment, as well as monitoring and reporting methods designed to check whether any mitigating actions taken have brought the expected results.

Additionally, an Enterprise Risk Management Committee operates at Grupa LOTOS, primarily as an advisory body. The Committee provides recommendations for enterprise risk management actions in accordance with internal regulations, resolves controversies in this respect, and monitors and evaluates the progress and effects of implemented risk mitigation measures. The Committee also checks whether proposed projects are in line with the LOTOS Group's policies and whether their implementation is likely to cause a dangerous increase in risk levels in any other areas of the LOTOS Group's activities.

Once a year, a review of our ERM system is undertaken as part of the organizational maturity assessment, and the findings are used to further refine the system's mechanisms. Information on the operation of the Enterprise Risk Management System is regularly provided to the Board and the Audit Committee of the Company's Supervisory Board.

Altogether, the systematic risk management framework helps the LOTOS Group attain its pre-set objectives. Regular identification of risks that may compromise the delivery of objectives provides extensive knowledge on threats and opportunities related to the LOTOS Group's business and improves its ability to respond to emerging risks. Active enterprise risk management also serves to secure stability in our day-to-day operations and promotes sustainable development.

Key instruments

Grupa LOTOS identifies risks which may affect the achievement of its strategic, process and operational objectives. Risks are assessed using a risk matrix approved by the Company’s Board. Based on the rating criteria of this matrix, we classify risks as high, moderate or low. The strategy for dealing with a particular risk is devised depending on the results of a detailed risk analysis and the extent of its possible impact on the Company and its environment.

Risk assessment is undertaken from two different perspectives – for the coming year, and until the end of the current LOTOS Group strategy period (currently the end of 2015). For each risk, the probability of its occurrence is estimated, followed by an assessment of its possible impact on the company’s financial standing and reputation. The assessment takes into account the expected impact on the safety of people, the environmental impact and the reception of the impact by key stakeholders.

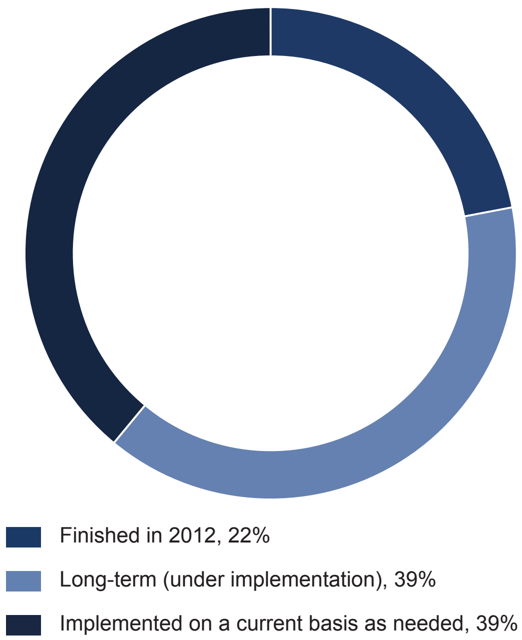
A risk map is constructed based on the identified and assessed risks, which is subject to approval by the Company's Board. Relevant controls and security measures are then indicated for these risks. Each risk is assigned an owner, who is responsible for overseeing the risk, monitoring it and implementing agreed mitigation plans.

Risks rated as high and selected risks classified as moderate have their own risk management charts prepared. These contain detailed risk descriptions, mitigation plans and relevant response procedures, as well as key risk indicators (KRIs), which are subject to periodic monitoring and reporting.

The LOTOS Group also manages risks for its individual projects, wherein the risk assessment procedures used are adjusted to the requirements of the project's management. Risk management procedures remain consistent for the entire LOTOS Group, enabling the effective execution of planned projects. With the adopted criteria applied, risks affecting our major projects are also entered in the ERM system to ensure their secure implementation through increased supervision.

The Company has also launched the ERM Portal, which is an IT tool designed to ensure automated support for enterprise risk management processes. In addition to functionality that records risks, incidents and indicators, work flow scenarios are created and implemented to systematise risk management processes. These scenarios cover the tasks performed by their users. The tool also enables linking of risks to various attributes, such as objectives pursued, processes implemented, persons involved or documents used, and generates risk maps in line with required criteria. Work flow procedures facilitate precise definition of risk management tasks and monitoring of their status. Key risk indicators can be calculated based on transactional and analytical data, which enables close monitoring and rational decision-making as regards risk management and possible allocation of financial resources.

Measures aimed at mititgating key risks



At the LOTOS Group we have identified and implemented measures aimed at mititgating key corporate risks. Part of these measures are of a long-term character, maximum three-year, which is consistent with our business strategy until 2015. Also of paramount importance to us is constant monitoring of risks and immediate reacting to prevent their negative impacts.

Development plans

We make a consistent effort to improve our ERM Portal, whose functionality develops as the enterprise risk management system matures. In 2013, we aim to focus on optimising the KRI base and integrating it with other systems, so that collected data can be sourced and used for the purpose of ongoing monitoring of various risks. We also plan to expand our incident database, to ensure that it is fully exploited in assessment and management of underlying risks.

Implementation costs of hedging strategies

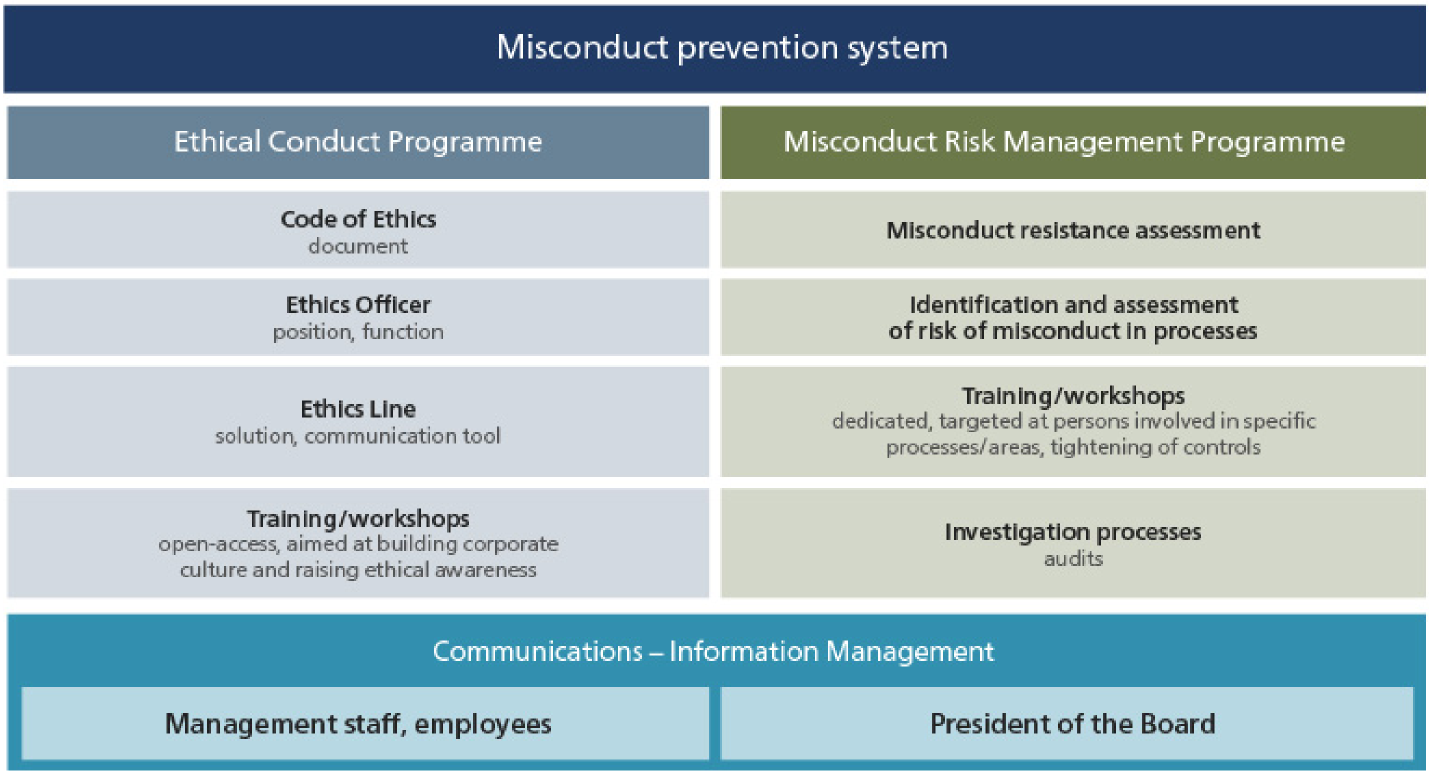
Risk mitigation strategies applied by Grupa LOTOS to individual risks are subject to cost analyses. In the process, the ALARP (As Low As Reasonably Practicable) principle is employed, whereby risks are reduced to a level as low as reasonably practicable. Risks are considered acceptable if it is impossible to reduce them any further or if the costs of their reduction outweigh the benefits of doing so. This approach enables Grupa LOTOS to deploy the financial resources required for risk management in the most efficient manner possible.

Preventing corporate misconduct

In 2012, we embarked on implementing a LOTOS Group-wide misconduct prevention system. In April of the reporting period, the Grupa LOTOS Board adopted the Misconduct Prevention Policy, which was made available to our employees and external stakeholders. Channels for reporting suspected misconduct were also established, together with adequate organizational arrangements, processes, and educational tools.

Efforts undertaken in misconduct prevention are geared towards devising and adopting such tools as will help the organization develop a resistance to misconduct, including bribery. These themes are addressed in the Ethical Conduct Programme and the Misconduct Risk Management Programme, which together make up the organization's misconduct prevention framework.

Misconduct prevention system



One component of the prevention system was a pilot assessment for 2011 of the organization’s resilience to misconduct, which is a source of information on how well we are prepared to effectively manage the risk of misconduct. As part of the assessment, the defined processes within Grupa LOTOS were graded, and the choice made as to which of those carry the greatest risk of misconduct in the Company as a whole. This assessment will be repeated periodically to monitor the effectiveness of the preventative measures taken.

Furthermore, reviews of selected process areas are conducted with a view to identifying and potentially modifying measures designed to reduce the likelihood of misconduct, both externally and internally. We also organize training sessions on issues related to counteracting such practices; in 2012, this subject was discussed at length by the management staff in connection with the work on the LOTOS Group’s Code of Ethics.

Percentage of Grupa LOTOS employees trained in the organization’s anti-corruption policies and procedures

Type of position	2010	2011	2012
Management positions	3.5%	8.9%	62.5%
Other positions	3.1%	7.4%	5.7%

Whenever suspected misconduct is reported, an investigation is carried out within the LOTOS Group, the principal goal of which is to collect the information necessary to correctly classify a given occurrence and determine the appropriate basis for action. In the reporting period there was one case of disciplinary action in Grupa LOTOS, concluded with a dismissal on charges of bribery.

In 2012 , no cases were identified when contracts with business partners had not been renewed because of breaking the rules for counteracting corruption.

Implementing the strategy

Our strategy until 2015 provides for the consolidation of the LOTOS Group’s position as a strong, innovative and successfully developing entity, which plays a crucial role in ensuring Poland’s energy security. We operate in compliance with the principles of social responsibility and sustainable growth. Our current priority is the dynamic growth of the hydrocarbons exploration and production segment. In 2012, we recorded a record-high crude oil throughput at our Gdańsk refinery of almost 9.7m tonnes, up 5.6% on 2011. We also saw 15.1% year-on-year growth in crude oil production, with volumes of 262,000 tonnes.

IN THIS CHAPTER

Letter from the Chairman of the Supervisory Board

PLN 446m

the effect of the efficiency programme

Letter from the President of the Board

42%

increase in net profit

Business environment

5%

increase in global consumption of refining products in 2017

Strategy

1.2 m

tonnes of crude production in 2015

Letter from the Vice-President of the Board

131%

increase in operating profit

Stock market

76.8%

increase of Grupa LOTOS share price in 2012

Exploration and production

Over 7,000 km²

total area of exploration licences

Operating activity

92%

utilisation of the refinery's processing capacities

Marketing activities

ON

Pb

34%

share in the Polish fuel market

Letter from the Chairman of the Supervisory Board

Dear All,

2012 was another successful year for Grupa LOTOS.
The Company maintained and developed its tradition of growth in a difficult macroeconomic climate. The results achieved by LOTOS in 2012 are remarkable, and give grounds for optimism for the future development of the company.

Grupa LOTOS saw PLN 33.1bn income last year, a more than 13% increase on 2011. We are also extremely satisfied with the increase of our crude oil processing to a record level of 9.7m tonnes. Even more significantly, extraction of crude oil increased by over 15% to 262,000 tonnes. This is not yet the target scale, but is strong proof of a consistently realised development strategy, whose fundamental direction is in increasing our own extraction rate. This should be helped enormously by our cooperation with PGNiG.

Our high tax contributions are also worth mentioning on this occasion. Poland's state budget received almost PLN 9.5bn from Grupa LOTOS in various forms of taxation. Local, municipal, county and provincial authorities all also received sizeable contributions from the Company.

The efficiency of our installations also rose systematically, with the uptime ratio now at 99.2%. LOTOS continues to successfully modernise the refinery, despite having already concluded the 10+ Programme. Thanks to the creative concepts devised by LOTOS engineers, the MHC hydrocracking installation was also improved, and conversion efficiency increased from the projected 60% to 85%. The Company also launched production of xylene, a high-margin petrochemical semi-product, which is currently in high demand.

Dynamic development of the service station chain systematically increased Grupa LOTOS' share in the retail market, which in 2012 was 8%. As at the end of 2012, altogether 405 stations operated under LOTOS colours, including 101 LOTOS Optima stations.

The Board of Grupa LOTOS operates with remarkable efficiency, even in difficult market environments. One of its defining traits is its ability to respond promptly to changes occurring in the economic environment. In 2012, the Board introduced an efficiency and savings enhancement plan, the Optimal Expansion Programme. As a result, savings of PLN 446m were made, although the plan had only envisaged a total of PLN 257m. It is important to note that the reduction of costs did not in any way interfere with the LOTOS Group's dynamic development.

Grupa LOTOS' measured development concepts also include a new area of growth, in the agreement with Zakłady Azotowe w Tarnowie Mościcach (Azoty Tarnów). This opens new prospects for the addition of a petrochemical complex to the refinery, creating a strong, beneficial synergy between LOTOS' and Azoty's technical resources.

I consider the high quality of the the LOTOS Group's management to be of primary importance and a key factor in the evaluation of the future perspectives for the development of the company, and it is maintained at a remarkably high level - not easy when faced with the challenges of an increasingly competitive market. This involves strong ethical accents, an understanding of the modern concept of social business responsibility, and very efficient communication with employees and the external world. Grupa LOTOS is a company based on a culture of values. Professionalism, respect, transparency and cooperation are all defined as the most important principles in the company. Taken together, they become a very strong asset of Grupa LOTOS.

With the increasingly uncertain macroeconomic situation we can be sure that the future of Grupa LOTOS is built on solid foundations. Application of the latest technology, efficient management and a strong community spirit shared by all employees opens new growth perspectives and guarantees market success.

Yours faithfully,

Wiesław Skwarko
Chairman of the Supervisory Board
Grupa LOTOS S.A.

LOTOS Integrated Annual Report 2012 / Implementing the strategy / Letter from the President of the Board

Letter from the President of the Board

Ladies and Gentlemen,

It is with a sense of pride and satisfaction that I present the Integrated Annual Report of Grupa LOTOS S.A. for the year 2012.

The economic slowdown which affected many countries across Europe began to deteriorate into a recession, and a spate of bad economic news put consumers on red alert, prompting them to significantly cut their spending on everyday essentials – including motor fuels. For 12 months, Western Europe lived in fear of imminent eurozone collapse, amid violent swings in currency exchange rates. For an enterprise importing crude oil, such swings can be detrimental. The price of crude oil remained high, hovering around USD 100/bbl, and given the strong currency volatility and flat demand for fuels, this presented an enormous challenge to the oil companies.

But in such an adverse environment, our strategy proved its worth. We were right in predicting that in a market riddled with challenges, with crude prices soaring, only those refineries with optimal plant and equipment would be well placed for success. Having completed the 10+ Programme, Grupa LOTOS is at the technological cutting edge of the European and global refining industries. Thanks to projects undertaken sufficiently in advance, 2012 allowed us to ramp up production and win market shares, while delivering robust financial performance. It was, by all means, another year in which we increased Company value and reinforced the foundations for further growth.

I am proud to admit that that inventory of our 2012 successes is a long one. We recorded PLN 33.1bn in revenue, a 13% improvement on the year before. This was generated by record high throughput volumes at the Gdańsk refinery, which processed 9.7 million tonnes of crude oil (up by 5.6% on 2011). We also saw 15.1% year-on-year growth in crude oil production, with volumes produced from our own sources running to 262,000 tonnes. Our net profit came in at PLN 923m, up 42% on 2011.

In 2012, Grupa LOTOS paid nearly PLN 9.5bn in taxes, the lion's share of which (PLN 9.37bn) went to the state budget. Our expanded refinery and growing output of fuels and other LOTOS products were also a bounty to local government (at the municipal, county and provincial levels). Last year, local government's tax receipts from Grupa LOTOS' operations totalled PLN 85.3m. There is a steady upward trend in our tax payments, which between 2009 and 2012 grew by nearly PLN 1.5bn.

Grupa LOTOS solidified its position on the retail fuel market, with LOTOS OPTIMA as the fastest growing chain in Poland. The total number of LOTOS branded stations operating in Poland at the end of 2012 was 401, including 101 sites branded as LOTOS OPTIMA. In addition to the prime quality of the fuels and oils on offer, customers of LOTOS stations highly value their friendly, helpful service, a fact confirmed by numerous customer satisfaction surveys.

The upstream business of Grupa LOTOS, integrated as LOTOS Petrobaltic, is also growing at a fairly brisk rate. LOTOS Petrobaltic has established its own group, with more than a dozen subsidiaries. They are engaged in ongoing production projects or will be used as vehicles through which Grupa LOTOS will gain access to oil reserves beneath the floor of the

Baltic Sea, on the Norwegian shelf of the North and Norwegian Seas, as well as in Lithuania. Our strategic plans set target production volumes at 1.2 million tonnes, to be achieved by 2015.

Based on the innovative ideas of the refinery's staff, the MHC unit has been enhanced to deliver a much larger output of high quality fuels than originally designed. The facility works at a conversion ratio of about 85%, significantly above the originally planned level of 60%.

We have also entered into production of xylene, a component used in making polyester. Given the rapidly increasing output of packaging materials world-wide, xylene is now in great demand on the international market.

Amongst Polish brands, the value of LOTOS has been estimated at more than PLN 1bn, a fourfold increase from 2004. The numerous awards and distinctions we have received, both in Poland and abroad, confirm that the LOTOS brand is excellently received by both the market and the general public. We have also been ranked sixth among the leading companies from Central and Eastern Europe.

In line with the LOTOS growth strategy, we will undertake activities aimed at leveraging our existing potential, while opening up new fields of expansion. To further this strategic objective, we have entered into an agreement with PGNiG on the joint exploration for and production of natural gas and crude oil, from both traditional and unconventional deposits. LOTOS Petrobaltic and CalEnergy Resources Poland will work together on the development of the B4 and B6 gas fields on the Baltic Sea, which are estimated to contain up to 4bn cubic metres of resources.

Towards the year's end, we also signed an agreement with Zakłady Azotowe w Tarnowie-Mościcach on a preliminary feasibility study for two alternative development directions: the first, by building a steam cracker and polyethylene production unit, and the second, by building an aromatics complex. These projects follow logically from the site and technical conditions, as well as the goal of utilising the refinery's semi-products to meet market demand.

At Grupa LOTOS, we attach great importance to the social implications and ethical aspects of our operations. In 2012, all our employees had a chance to contribute to LOTOS's ethical vision, which defines the system of values to be adhered to in every position at every level of the Company. The principles we singled out as the most important include professionalism, respect, transparency and cooperative spirit. Grupa LOTOS is widely acclaimed for its CSR actions, while its sponsorship of sports has come to be recognised as a paragon of modern relations between business and sports.

Despite the sheer size of our organization, Grupa LOTOS is able to act with a considerable degree of flexibility – a crucial factor in today's rapidly changing environment. We can respond quickly and implement solutions that ensure secure execution of the LOTOS Group's major growth-oriented projects, despite the challenging and volatile macroeconomic climate. A case in point is our new efficiency and savings initiative, rolled out in early 2012 as the Optimum Expansion Programme, which has delivered annual savings of PLN 220m. Another important element of our Development Strategy is the newly launched 2013-2015 Efficiency and Growth Programme, which focuses on delivering efficiency gains and putting all the companies of the LOTOS Group on track for further fast-paced growth.

Ladies and Gentlemen,

we are truly pleased with our strong performance as it reflects the soundness of our business decisions. Even so, given the low likelihood of the macroeconomic climate improving and Europe's economic growth recovering any time soon, I would like you to take careful note of last year's events, which are set to create LOTOS value in the years to come. We have entered the 2013 fiscal year 'armed' with the knowledge and experience of previous crises. Our team of qualified experts, dedicated to their work and the Company, the general understanding of our clear-cut and realistic development strategy and high quality business management, make it more than certain that Grupa LOTOS will survive the current turmoil in good shape – they guarantee that it will continue to grow, going from strength to strength in all its markets.

Best regards,

Paweł Olechnowicz
President of the Board
Chief Executive Officer
Grupa LOTOS S.A.

Business environment

The global economic situation in 2012 was below market expectations. The largest world economies retained a slight growth, but growth rates were lower than in previous years.

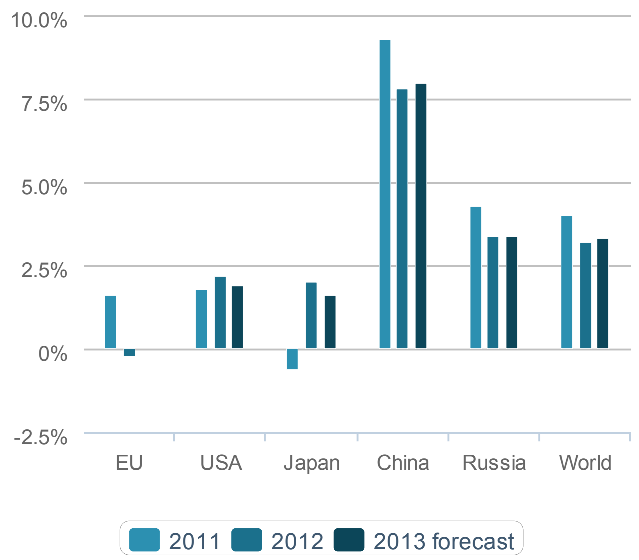
In the developed nations, financial stability, production growth and declining unemployment were supported by actions introducing a more relaxed monetary policy and enhancing market liquidity. The principal source of prevailing uncertainty was that many countries found it difficult to implement balanced fiscal policies.

In 2012, the global economy continued to grow, but the growth rate (3.2%) was lower than expected (0.3pp below the forecast from July 2011). The forecast for 2013 has been affected by a slightly stronger downward correction (of 0.6pp), which has set the expected GDP growth rate at 3.3%.

Despite the remedial action taken by its Member States, the crisis in the eurozone remains the largest threat to the global economic revival. In 2012, the eurozone recorded a negative GDP growth rate of (-) 0.6%. Concurrently, a slight pickup in economic growth of 0.3% is expected in the Member States in 2013. [1]

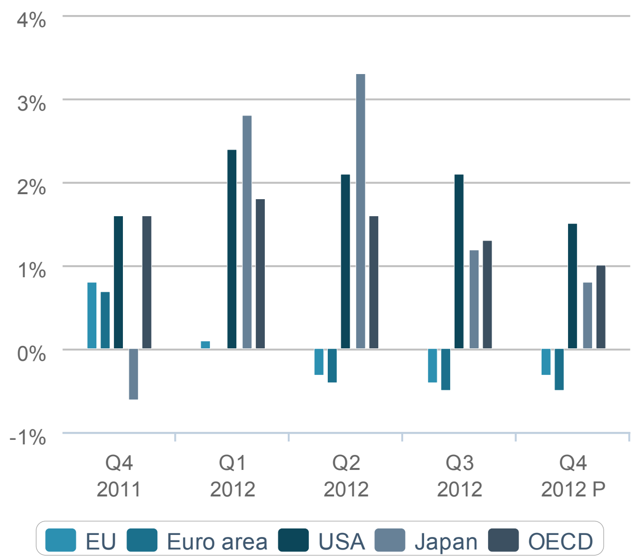
[1] World Economic Outlook, International Monetary Fund, April 2013.

GDP growth in 2011-2013 (%)



Source: In-house analysis based on IMF data (April 2013).

GDP growth in 2011 and 2012 (year-on-year change)



Source: In-house analysis based on Eurostat, OECD, and MFW data.

The economic difficulties and threats in the developed nations are to a large extent attributable to excess government debt, and will require further support in the form of appropriate monetary policy, conservative fiscal policy, and further structural reforms to overcome.

Situation in the refining sector

Despite adverse economic conditions, overall demand for crude oil increased (with a prevailing downward trend in consumption in the developed nations and higher consumption on the developing markets) [2], and crude prices went slightly up.

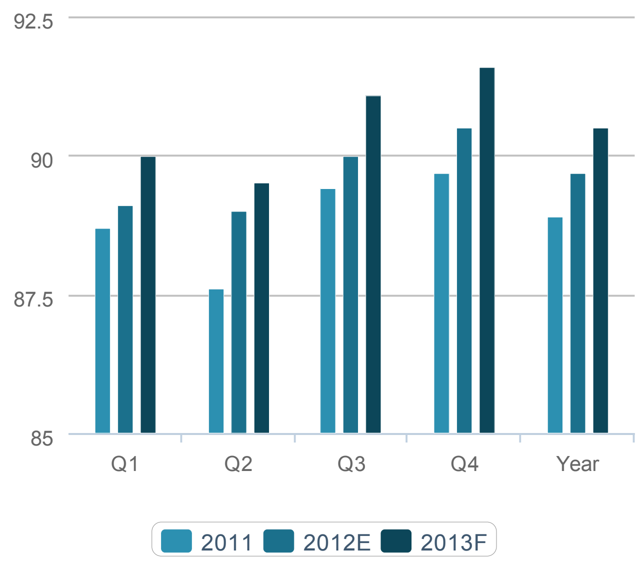
Industry organisations are estimating average demand for the commodity in 2012 at 89.2 mb/d, which is about 0.9% (0.8 mb/d) more than a year earlier. The average consumption of crude in 2013 is expected to come in at 90.1 mb/d, up 0.9%. [3] Medium-term forecasts by the International Energy Agency (IEA) predict that demand for crude will exceed 95 mb/d in 2017, meaning a compound annual growth rate (CAGR) of 1.3%.

[2] Oil Market Report, IEA, November 2012.
[3] In-house compilation based on OPEC, IEA and US EIA data.

IEA estimates indicate that the global growth is driven by rising demand for the commodity in developing countries. It is estimated that growth in non-OECD countries was 2.8% in 2012, and it is expected to remain at 2.6% (or 44.7 mb/d) in 2013. On the other hand, consumption in developing countries, which was down 1.1% in 2012, may decline by a further 0.7% (to 45.8 mb/d) in 2013. The IEA estimates indicate that these trends will prevail in the mid-term, that is, until 2017.

In 2012, crude oil consumption in Europe was estimated at 14.5 mb/d, while in 2013 it is expected that demand will drop to 14.3 mb/d. [4]

Movements in oil demend (mb/d)



Source: In-house analysis based on IEA data (December 2012).

Factors with a heavy bearing on the upstream sector in 2012 were oil and gas prices on the global markets, and fluctuating exchange rates.

A progressive change in the global energy mix, notably the expanding share of natural gas in US power generation, increased use of alternative, renewable energy sources, and the developing shale exploration and production industry, pushed gas prices significantly down. A similar trend may also be developing in crude oil supply and demand, particularly in that unconventional oil projects are apparently on the rise.

In addition, resources available at low production cost are being increasingly depleted. New deposits require a lot more capital outlay, which drives up the per-barrel price of the oil produced. At present, hydrocarbon exploration and production activity is concentrated in the US shale plays, offshore areas with deposits located at great depths, and offshore polar regions. The expected increase in production of oil and gas from said sources will require higher expenditure incurred per barrel of oil equivalent, which may find a reflection in hydrocarbon market prices.

The prices of crude oil and natural gas on the global markets will depend on how strong each of the two opposing trends become, bearing in mind the overall economic climate.

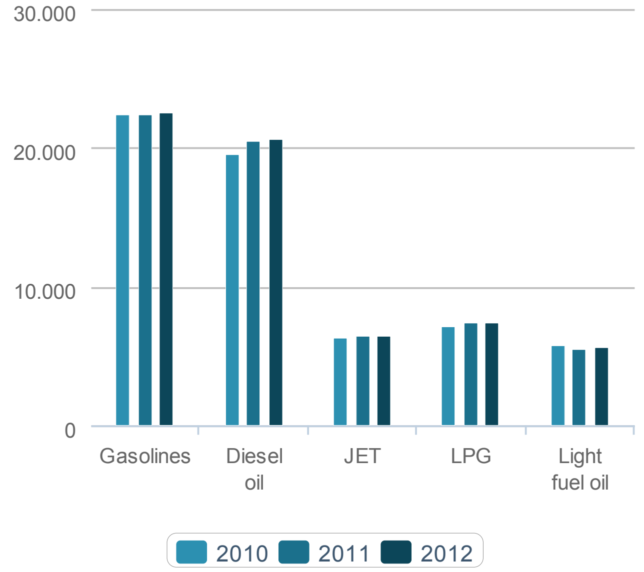
International fuel market [5]

It is estimated that the demand for oil refining products rose in 2012 by 0.7% globally, while stronger demand will be recorded in the gasolines (0.6%) and diesel oil (0.8%) segments. The estimated consumption of LPG and light fuel oil also increased (by 1.2% and 1.8%, respectively). However, the demand for JET fuel will fall slightly (-0.4%).

[4] Oil Market Report, IEA, November/December 2012.

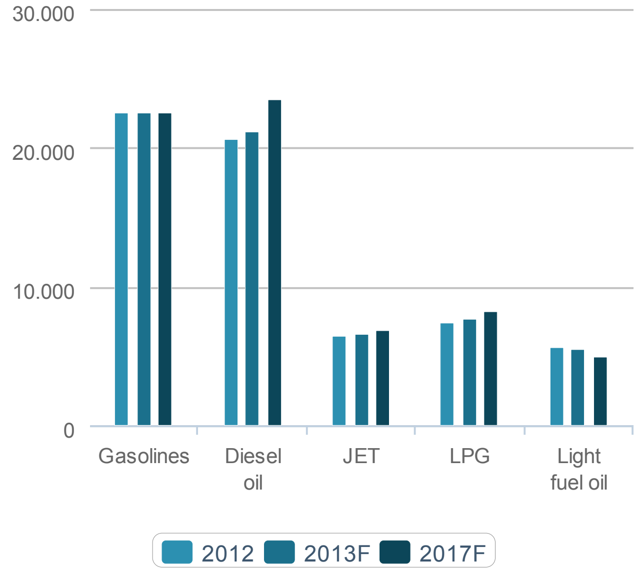
[5] Mid-Term Oil Market Outlook 2012-2017, JBC Energy, October 2012.

Global consumption of fuels (thousand b/d)



Source: In-house analysis based on JBC data, October 2012.

Projected global consumption of fuels (thousand b/d)



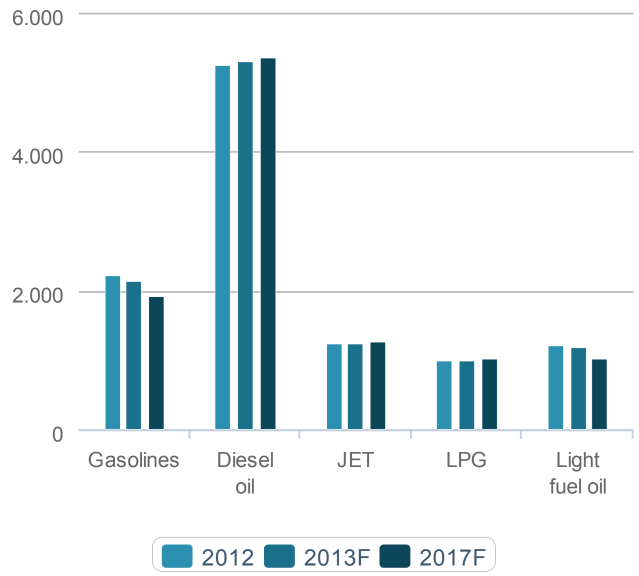
Source: In-house analysis based on JBC data, October 2012.

According to forecasts, the overall global consumption of refining products is expected to grow by over 5% until 2017. A significantly higher demand for diesel oil, LPG and JET fuel has been estimated (up by 14%, 10% and 8%, respectively, with 2012 as a point of reference). The consumption of gasoline should remain relatively unchanged, while a drop in consumption of light fuel oil (-13%) is also predicted.

Consumption of petroleum products in Europe is estimated to decline in 2013 by nearly 3%, affecting all product groups: gasolines (-4.9%), diesel oil (-1.2%), JET fuel (-2.9%), LPG (-2.7%) and light fuel oil (-2.2%). The lower consumption of petroleum products in Europe reflects the economic difficulties in the EU Member States and the eurozone.

The demand for oil refining products is forecast to fall in Europe by 3% until 2017. According to estimates, one of the reasons behind this decline will be a significant drop - of nearly 14% - in consumption of gasolines. Lower consumption is also expected on the light fuel oil market (-16%). Concurrently, a strong increase in consumption of middle distillates is expected: diesel oil by 2.1%, and JET fuel by 2.8%.

Projected consumption of fuels in Europe (thousand b/d)



Source: In-house analysis based on JBC data, October 2012.

In the European car market, new passenger car registrations fell significantly (by 7.8%) in 2012, to 12.5m new cars, whereas in the utility vehicles segment, new registrations declined 11% to 1.6m vehicles (for January-November). In the registered new passenger cars group, increasing interest in diesel cars has been observed since 2009. The share of diesel cars in total new car registrations in Western Europe was nearly 60% (compared with 46% in 2009). [6]

[6] European Automobile Manufacturers' Association, www.acea.be

Poland – macroeconomic environment

In 2012, GDP growth in Poland slowed down. According to estimates, in real terms the GDP grew by just 2.3% over 2011, the slowest growth rate since 2009. This is chiefly attributable to weaker domestic demand and lower industry and construction output sold. Additionally, inflation was down to 3.7%.

The economic slowdown in Poland in 2012 is expected to be accompanied by higher unemployment. According to market estimates, the jobless rate was 13.4% in 2012, which represents a 0.9pp rise on the previous year. In 2012, salaries and wages in the non-financial corporate sector increased by 3.4% compared with 2011, which did not translate into stronger purchasing power.

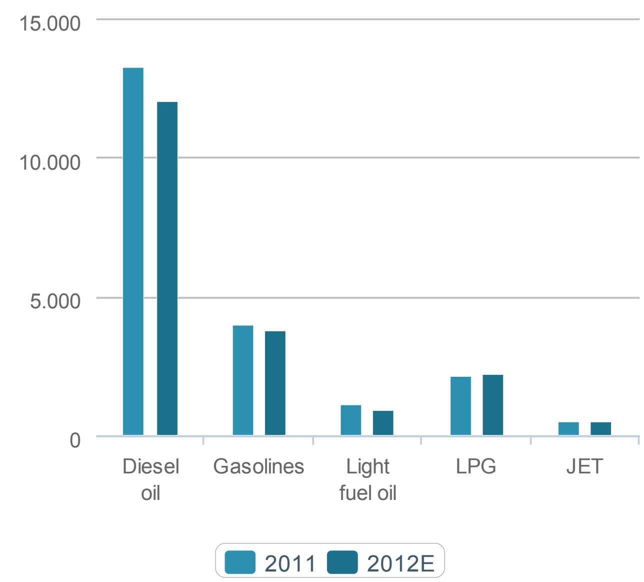
Polish fuel market

Despite the previous upward trend in diesel oil consumption in Poland, growth of demand for the fuel was negative in 2012. This is believed to have been caused by the economic slowdown, and in particular by the weaker performance from the construction and transport industry than in prior years, as well as lower growth of domestic demand. The average annual retail price of diesel oil has grown rapidly over the last few years. In 2011, the growth rate was 18.1% and a year later 12.5% (according to preliminary data). As a consequence, the price per litre as at the end of 2011 soared to almost PLN 5.60, which proved to be the point beyond which consumers cut back on their diesel oil consumption. Preliminary estimates show that compared with 2011, diesel oil consumption fell 9.4% in 2012, to just above 12m tonnes.

Similarly to other European countries, the demand for gasoline declined for another consecutive year, driven by continuous price growth since 2009, weaker purchasing power and better fuel efficiency of vehicles in Poland. Another factor was the dieselisation of vehicles. For 2012, the demand for gasoline in Poland was estimated at 3.8 million tonnes. Accordingly, negative growth is projected at (-)5.1%, down 0.6pp relative to a year ago.

Given the high prices of gasoline, the less expensive LPG alternative fuel has gained popularity. More than 2.2m tonnes of LPG are estimated to have been sold in 2012, which means that, contrary to 2011, demand for the fuel is up (2.9% growth). For several years now, the demand for light fuel oil has weakened following the popularity and availability of other heating fuels in Poland. According to preliminary estimates, light fuel oil consumption in Poland in 2012 was just under 950,000 tonnes, down 13.9% on 2011.

Consumption of fuels in Poland (thousand tonnes)



The demand for diesel oil, gasoline, LPG and light fuel oil is estimated to drop in aggregate by approximately 7% in 2012. No significant improvement is expected in this area in 2013.

It is estimated that growth in the number of passengers served by Polish airports in 2012 accelerated compared to 2011, mainly as a result of the EURO 2012 football championship. This increase precipitated a rise in aviation fuel consumption. Preliminary data shows that in 2012, demand for aviation fuel pushed past 490,000 tonnes, which is 1.4% more than in 2011. Over the last few years, the number of passengers using Polish airports has grown, which has resulted in an average annual growth rate of JET fuel consumption of 5%..

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

Polish retail fuel market

At the end of 2012, there were about 6,700,000 service stations in Poland. [7] The year saw continued consolidation of the retail segment and optimisation of the station chain in Poland. Major moves in that direction included the acquisition by Shell of 106 Neste service stations.

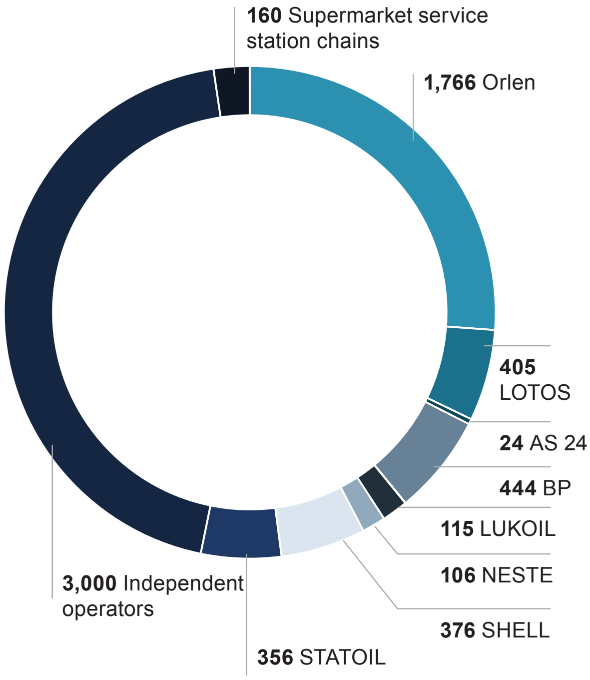
Compared with the preceding year, the number of stations owned by both Polish and international corporations increased, while concurrently there was a drop in the number of stations owned by independent operators. Among those who remained on the market, there was a marked trend to join large service station chains.

Expansion of Poland's motorway network has been accompanied by the appearance of a growing number of motorway stations. At the end of the year, there were 43 Motorway Service Areas (MSAs) in Poland. [8]

LOTOS Optima recorded a marked growth in the economy segment. At the end of 2012, there were 101 stations operating under this brand, nearly twice as many as at the end of 2011.

[7] Based on data from the Polish Organisation of Oil Industry and Trade (POPiHN).
[8] Based on data from the Polish Organisation of Oil Industry and Trade (POPiHN).

Fuel stations in Poland as at the end of 2012



Source: Polish Organisation of Oil Industry and Trade (POPiHN).

Strategy

LOTOS Group operational priorities are set forth in the LOTOS Group strategy for 2011–2015 and development directions until 2020. In line with the strategy, most of our efforts are focused on the dynamic growth of the hydrocarbons exploration and production segment, and improvement of trading efficiency combined with optimisation of the operating area. Implementation of the strategic objectives has significantly progressed thanks to the 10+ Programme, which has increased the Gdańsk refinery's annual capacity to over 10m tonnes of crude.

Our overarching strategic objective is to create value for shareholders through optimised utilisation of human and material resources and implementation of development programmes in the areas of oil exploration and production, processing and trading. These programmes are pursued in compliance with the principles of sustainable growth, which we understand as the continuous effort to reduce our environmental footprint, and paying due regard to the intellectual capital and experience of our personnel.

In the exploration and production area, we have intensified our efforts to expand our resource base, in order to take advantage of the high margins projected for this sector in the long term.

Strategic objectives for the exploration and production business:

- Achievement in 2015 of production volumes in the range of 24,000 boe/d *(barrel of oil equivalent/day)* – equivalent to 1.2 million tonnes a year;
- Increased production of hydrocarbons in line with the priorities of Poland's energy policy until 2030;

In the operating area, we are focused on the efficient utilisation of our expanded refining capacities following the 10+ Programme, further increase of the conversion ratio and optimum use of synergies between the refining and power sectors.

Strategic operating goals:

- Achieving world-class production standards and maintaining a strong competitive position among the European refineries;
- Making optimum use of assets held and acquired as part of the growth strategy;
- Ensuring safe and stable operation of the production and ancillary facilities, as measured by the minimum annual availability of 98%;
- Further increasing the conversion ratio and intensifying feedstock processing.

The objective behind our marketing activities is to further develop our retail chain and marketing structures, based on the extended distribution network and efficient product logistics.

Strategic marketing goals:

- Maintain a 30% share in the domestic fuel market;
- Achieve fuel sales exceeding the fuel production capacities of the Grupa LOTOS refinery by 15%;
- Secure a 10% share in the domestic retail market by the end of the forecast period;
- Develop a chain of service stations and intensify sales through the existing chain;
- Maintain the leading position on the Polish lubricants market.

Implementation progress

In 2012, we continued to implement our strategy. Despite the volatile market conditions and perceived economic slowdown, the strategic objectives set at the beginning of that year did not change. The long-term perspective of our strategy permits us to flexibly respond to threats and opportunities as they arise.

The key prerequisite for the success of our strategy is intensification of our exploration and production activities. Achieving this objective by the end of 2015 will enable creation of a strong and stable oil conglomerate, with production activities contributing a significant portion of profits. In 2012, crude output was 262,300 tonnes, including 74,600 tonnes produced in Lithuania. This represents a 15.4% increase (by 35,100 tonnes) compared to the 2011 output of 227,200 tonnes. Last year, crude oil was produced from the B3 field and from the B8 field (test production) in the Baltic Sea, and from onshore fields in Lithuania. Output of associated natural gas produced from the Baltic Sea totalled 20.9m Nm3. Production levels were adversely affected by delays on the Yme project, which prevented us from producing any oil from it.

Our work toward attaining strategic goals in the upstream segment will focus on further consistent development of our operations in the Baltic Sea, on the Norwegian Continental Shelf and in Lithuania. Key tasks in the delivery of our strategy for the segment include: continued production from the B3 field, development and launching of production from the B8 field, development of new assets in the Baltic Sea and onshore, following completion of an exploration programme, acquisition of new production assets in Norway, recovery of capital invested in the Yme project, and continued production growth in Lithuania.

In the operating and marketing areas, the LOTOS Group's implementation of strategic objectives and achievement of relevant ratios in 2012 progressed in accordance with the original assumptions. The LOTOS Group's share in the domestic market for fuels (diesel oil, gasoline, light fuel oil) expanded by 0.4pp on the previous year to 34%, thus exceeding its strategic target. The LOTOS Group's share in the retail market (diesel oil, gasoline) grew to 8%. Strategic objectives here will be pursued based on further consistent roll-out of stations in the premium segment (including motorway stations) and dynamic development of the budget LOTOS Optima chain.

Development activities undertaken here are focused on increasing the LOTOS Group’s value through innovative and sustainable development with due regard to its stakeholders’ principles and values. Given the high price of oil and the volatility of the currency markets, a high share of own production relative to the refinery’s processing volumes will improve our stability and enhance profitability. We are striving to build a vertically integrated and economically efficient conglomerate. This requires a commitment to the optimal development of other segments of the business.

Prospects

The LOTOS Group's primary development directions until 2020 are consistent with those set for 2010, and include:

- 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,
- Increasing production to approximately 110,000 boe/day (equal to 5m tonnes of crude a year),
- Maintaining a 30% share in the domestic fuel market,
- Sales exceeding the fuel production capacities of Grupa LOTOS refinery by 15%,
- Getting an at least 10% share in the domestic retail market,
- Further improving the economic efficiency of crude processing, ensuring full utilisation of the LOTOS Group's assets,
- Taking steps to optimise power management processes at our refinery, by increasing its connection to other power systems.

The key tasks geared towards building our production potential after 2015 are to:

- Continue production from current fields,
- Develop the B4 and B6 gas fields in partnership with CalEnergy Resources Poland, and put the fields on stream,
- Continue exploration of our licences in order to identify prospective geological structures and subsequently develop and launch production from identified prospects,
- Expand our portfolio of exploration assets – secure new licences by filing relevant applications and participating in licensing rounds, and monitor areas covered by unconventional hydrocarbon exploration licences in Poland for opportunities to acquire shares in selected prospects,
- Maintain and enhance production potential in Lithuania – accelerate drilling in existing fields and pursue exploration activities with a view to developing new areas and evaluating their unconventional potential.

Letter from the Vice-President of the Board

Dear Stakeholders,

2012 proved to be a year of economic slowdown, fluctuations in exchange rates and varying margins on petroleum products. Yet in spite of the difficult external conditions, the EU economies being torn apart by recession and wrecked by financial liquidity problems, moderately sceptical global financial markets and political struggles in various parts of the world that caused oil prices to fluctuate, we managed to achieve a solid net profit of approximately PLN 923m.

In the four quarters of 2012 we generated consolidated sales revenue of PLN 33bn, which represents a 13% increase on the previous year. The reported operating profit of the concern is PLN 301m, whereas the operating profit (once the events distorting it are eliminated and the LIFO effect accounted for) is PLN 1.3bn - 131% higher than in 2011.

The exploration and production segment, whose development is a crucial element of our business strategy, was affected by a number of significant events. We entered into an investment contract with CalEnergy Resources on the common development of our B4 and B6 gas deposits in the Baltic Sea. In Lithuania, we took full control of the UAB Manifoldas extraction company, which belongs to the AB Geonafta Group, the purchase of which we had finalised in 2011.

2012 profit was also charged with, and therefore considerably affected by, an impairment loss of PLN 935m, with respect to the value of Grupa LOTOS' shares in the Yme project on the Norwegian Continental Shelf - the result of a significant delay in its implementation. It is also worth noting that in 2013, the operator of the deposit, Talisman Energy, and the owner the platform, SBM Offshore, concluded a contract for removal of the faulty platform from the field, which opens the possibility for us to further develop this project or sell our shares.

Another essential pillar of our strategy is the downstream segment. Throughout the year Grupa LOTOS used the processing capacity of its modern refinery at a level in excess of 92%. The operational flexibility of the refinery's installations, configured under the 10+ Programme of expansion, enabled us to adapt quickly to the market environment. Crude oil processing then reached another record level of 9.7m tonnes, which is a 6% increase on the previous year. The profit structure was improved again to the advantage of high-margin products, especially gasolines, aviation fuel and LPG. While stressing the significance of the 10+ Programme, it is also worth emphasising our financial security. In spite of the fact that the servicing of debt incurred on the financing of the 10+ Programme is still affecting the Company's finances, the modernisation has earned Grupa LOTOS a leading position among the most technologically advanced and effective European refineries. In 2012, we managed to reduce our debt considerably, which means that our net debt to assets ratio decreased to 68% from 2011's 90%.

Another important factor was the 2012 connection of the Gdańsk refinery to a natural gas power system, which is now the basis for the creation of new initiatives aimed at raising the power efficiency of the plant and the profitability of its crude oil processing.

Additionally, we have consolidated our leading sales channels and are actively searching for new ways to increase sales. In 2012, these activities saw the LOTOS brand's share in the national fuel market increase to 34.3%.

By the end of 2012, we had expanded the LOTOS service station chain to 405 facilities, including 101 stations under the LOTOS Optima economy brand - doubling of the number of stations in this segment since 2012. Our share in the retail market as at the end of 2012 was 8%. Because the economic situation in Europe is still unstable, the Company decided to introduce the Optimal Expansion Programme for 2012, with plans to launch a number of projects improving the overall efficiency of the concern, while still keeping an eye on the realisation of key strategic projects. By the end of 2012, the programme had realised savings of PLN 446m as a result of pro-efficiency actions, cost savings and other planned investments by the LOTOS Group.

The profit achieved in 2012 together with our stable financial situation will become a safe base for the implementation of ambitious development projects in the years to come, which will contribute to improving the competitiveness of Grupa LOTOS while also consolidating our foundations for creating better value for the Company's shareholders.

Yours faithfully,

Mariusz Machajewski
Vice-President of the Board
Chief Financial Officer
Grupa LOTOS S.A.

Stock market

Grupa LOTOS S.A. debuted on the Warsaw Stock Exchange (WSE) on June 9th 2005. Under the Issue Prospectus, 78,700,000 ordinary Series A shares with a par value of PLN 1 per share and 35,000,000 ordinary Series B shares with a par value of PLN 1 per share were introduced to public trading. Following the issue of the Series B shares, on June 28th 2005, the increase in the Company's share capital to PLN 113,700,000 was noted.

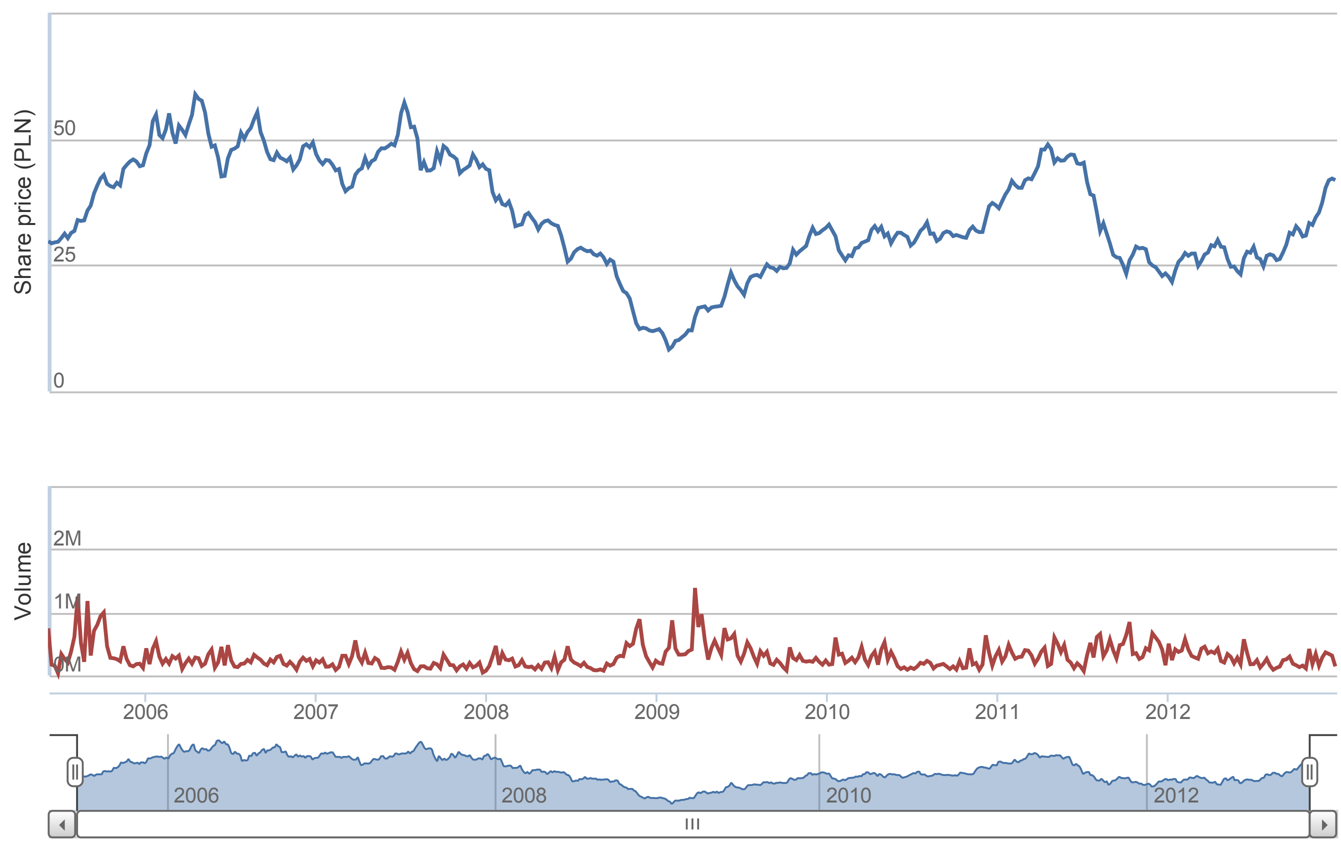
The issue price was set at PLN 29, and after trading started, the market price rose to PLN 32 - that is, by 10.34%.

Through the public offering, Grupa LOTOS raised proceeds of PLN 1,015,000,000. These were applied towards the acquisition of shares in Rafineria Czechowice S.A. (80.04% ownership interest), Rafineria Jasło S.A. (80.01%), Rafineria Nafty Glimar S.A. (91.54%) and Petrobaltic S.A. (69%), as well as to implementation of the 10+ Programme at the Company’s refinery in Gdańsk.

On July 17th 2009, another increase in Grupa LOTOS' share capital was registered, after the issue of 16,173,362 ordinary Series C shares covered by a non-cash contribution in the form of shares in LOTOS Petrobaltic, LOTOS Jasło and LOTOS Czechowice.

The current total number of Company shares is 129,873,362.

Stock price performance and trading volume since the Company's stock-exchange début



Grupa LOTOS on the stock exchange

The world's key markets closed out the year 2012 on a bullish note. London's S&P100, New York's NASDAQ Composite and France's CAC40 indices all posted gains of more than a dozen per cent, and the Warsaw Stock Exchange also saw an uptrend. The annual increase on the WIG (all-caps index of the main market) was 26.2%, while the WIG-20 rose by slightly over 20%. WIG-PALIWA (the index of fuel companies) advanced by 39.0%. Against the background of the economic deceleration in Europe, debt crisis in the eurozone and economic problems in the US, investor sentiment was improved by the decisions of bodies responsible for monetary policy (the Monetary Policy Council, European Central Bank and the US Federal Reserve).

Two major trends were observed in Grupa LOTOS stock price dynamics in 2012. In the first half of the year, there was a horizontal movement in the stock price, amid increased trading volumes. The strong price rebound in early June provided the catalyst for a strong uptrend: over the year, the price of Grupa LOTOS stock went up by 76.8%. This price reached a low on January 11st 2012 (PLN 21.33 per share) and peaked on December 11th 2012 (PLN 43.00 per share).

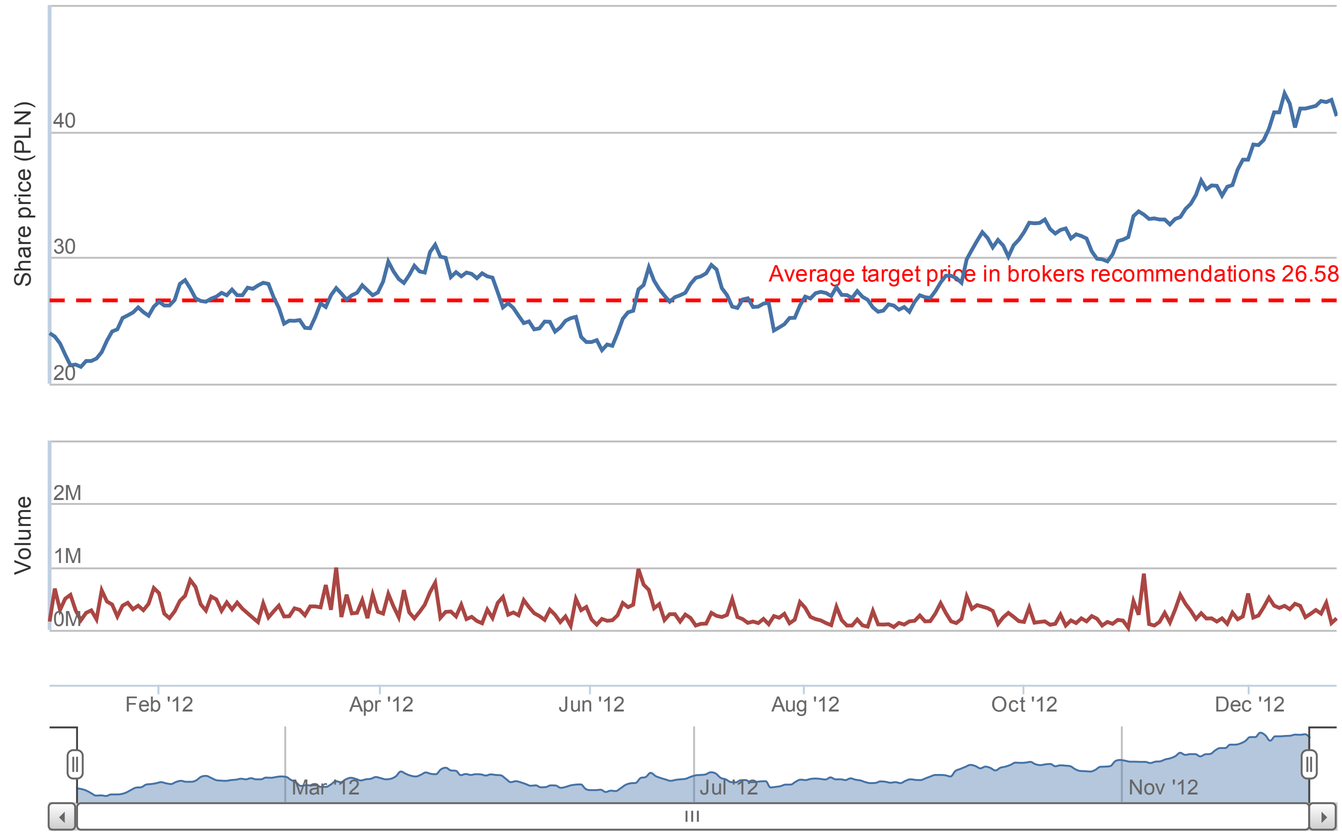
In 2012, the uptrend in Grupa LOTOS share price was stronger than in the WIG, WIG20 and WIG-PALIWA (fuel sector index) exchange indices; the price growth had significantly overtaken the market. Over 2012, the RESPECT index of socially responsible companies grew by 29.2%.

In the period under review, the number of the Company’s shares which changed hands in an average trading session was 282,163, down by 25% relative to the previous period. The total value of trading on the Company’s shares was PLN 2,013m, representing 1.07% of the total trading value on the WSE.

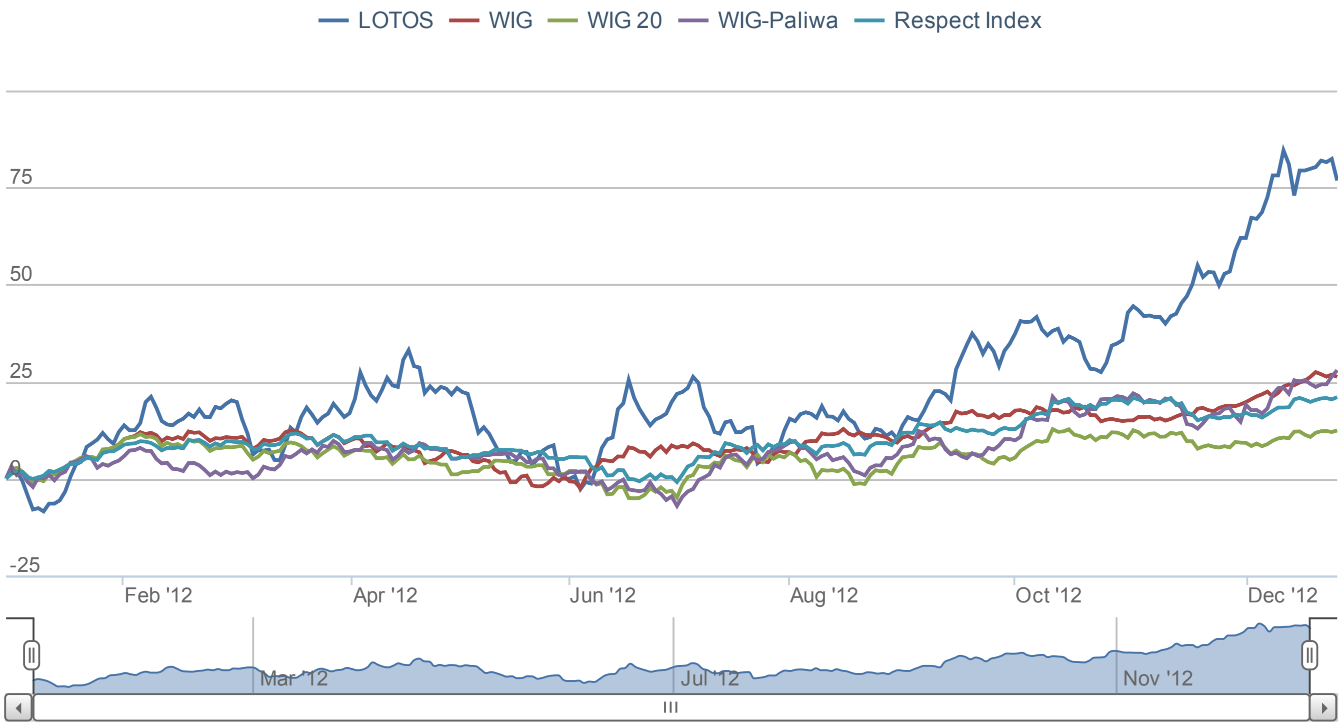
Grupa LOTOS’ market capitalisation as at the end of 2012 was PLN 5,351bn.

At the end of 2012, the closing price was PLN 41.20 per Company’s share. The rate of return for the year was 76.82%.

Grupa LOTOS' stock price performance and trading volume in 2012



Grupa LOTOS price performance vs. market indices in 2012



All-year low and high closing prices of Grupa LOTOS shares and closing prices on the WSE

End of year, December 31

	Low (PLN)	High (PLN)	Closing price (PLN)
2009	7.21	32.80	31.80

2010	25.05	37.85	36.35
2011	22.26	49.50	23.30
2012	21.30	43.78	41.20

Source: In-house analysis based on WSE data.

Months, 2012

Month	Low (PLN)	High (PLN)	Closing price (PLN)
January	21.30	26.37	26.10
February	25.72	28.98	28.00
March	24.36	28.19	27.23
April	27.33	31.90	28.35
May	23.30	28.92	23.30
June	22.66	29.57	27.90
July	24.02	29.49	26.19
August	25.55	27.65	26.48
September	26.60	32.00	31.40
October	29.50	33.98	33.65
November	32.27	38.55	37.75
December	37.81	43.78	41.20

Source: In-house analysis based on WSE data.

Rate of return

End of year, December 31st

Year	Rate of return at end of period (%)	Rate of return from beginning of year (%)
2009	166.11	166.11
2010	14.31	14.31
2011	-35.90	-35.90
2012	76.82	76.82

Source: In-house analysis based on WSE data.

Months, 2012

Month	Rate of return at end of period (%)	Rate of return from beginning of year (%)
January	12.02	12.02
February	10.28	20.17
March	-2.02	16.87
April	4.11	21.67
May	-17.81	0.00
June	17.67	19.74
July	-6.13	12.40
August	5.00	13.65
September	18.58	34.76
October	7.17	44.42
November	12.18	62.02
December	9.14	76.82

Source: In-house analysis based on WSE data.

Volume

According to data furnished by the WSE, the total value of trading on Company's shares - that is, the aggregate value of all transactions on Grupa LOTOS securities concluded in 2012 - was PLN 2,013.15m. 54.10% of Company's shares were traded in 2012. The average daily trading volume was 282,000 shares per session.

As at the end of the year

Year	Trading value (PLN m)	Share in trade on the WSE (%)	Turnover rate (%) *	Average trading volume per session
2009	3,642.56	1.11	173.00	381,938
2010	3,684.33	0.88	53.40	234,464
2011	3,299.07	1.31	73.10	377,048
2012	2,013.15	1.07	54.10	282,163

Source: In-house analysis based on WSE data.

* Turnover rate – the ratio of annualised trade for a current period to market capitalisation at end of period.

Months, 2012

Month	Trading value (PLN m)	Share in trade (%)	Turnover rate (%)	Average trading volume per session

January	189.46	1.06	6.10	379,430
February	225.38	1.25	6.40	397,127
March	214.68	1.11	6.20	368,315
April	187.20	1.48	5.00	338,203
May	150.55	1.05	4.60	281,384
June	170.11	1.10	5.00	321,139
July	116.84	0.74	3.40	201,949
August	82.41	0.57	2.40	140,576
September	148.96	0.99	3.90	252,139
October	116.61	0.73	2.80	158,500
November	193.81	1.29	4.30	266,366
December	217.14	1.50	4.10	310,169

Source: In-house analysis based on WSE data.

Stock market ratios

End of year, December 31st

Year	Number of shares	Capitalisation at year end (PLN m)	Book value (PLN m)	Earnings per share (PLN)	P/E **	P/BV **
2009	129.87	4,130	6,489.76	7.44	4.60	0.61
2010	129.87	4,721	7,266.09	5.23	7.00	0.63
2011	129.87	3,026	7,829.99	5.03	4.63	0.38
2012	129.87	5,351				

Source: In-house analysis based on WSE and Company data.

** Based on the year-end price.

Dividend Policy

Distributions of dividend for the years covered by the current strategy, i.e. for 2011–2015, are subject to the optimisation of LOTOS Group financing. Grupa LOTOS' financial strategy provides for distribution of up to 30% of net profit as dividend.

The Company’s Board recommended that no part of the 2011 net profit be distributed among the Company’s shareholders.

On June 28th 2012, acting upon the Board's recommendation, the General Meeting resolved to distribute the 2011 profit as follows:

- PLN 306,169,935.90 was transferred to statutory reserve funds,
- PLN 1,500,000.00 was transferred to the Special Account designated for financing corporate social responsibility (CSR) projects.

Dividend and dividend yield

Financial year	Dividend per share (PLN)	Dividend per share (PLN)	Share price at the year end (PLN)	Dividend yield* (%)
2005	0.00	0.00	44.20	
2006	40,932,000.00	0.36	49.30	0.73
2007	0.00	0.00	44.50	
2008	0.00	0.00	11.95	
2009	0.00	0.00	31.80	
2010	0.00	0.00	36.35	
2011	0.00	0.00	23.30	

* Dividend yield – dividend per share to price per share.

Historical dividend per share

Financial year	Dividend per share (PLN)	% of net profit	Dividend record date*	Dividend payment date**
2005	0.00	0.00		
2006	0.36	10.06	June 11 2007	not later than July 31 2007
2007	0.00	0.00		
2008	0.00	0.00		
2009	0.00	0.00		
2010	0.00	0.00		
2011	0.00	0.00		

* Dividend record date – date on which the list of shareholders entitled to receive dividend for a given financial year is determined.
** Dividend payment date – date on which dividend is paid to the Company's shareholders.

Brokers' recommendations

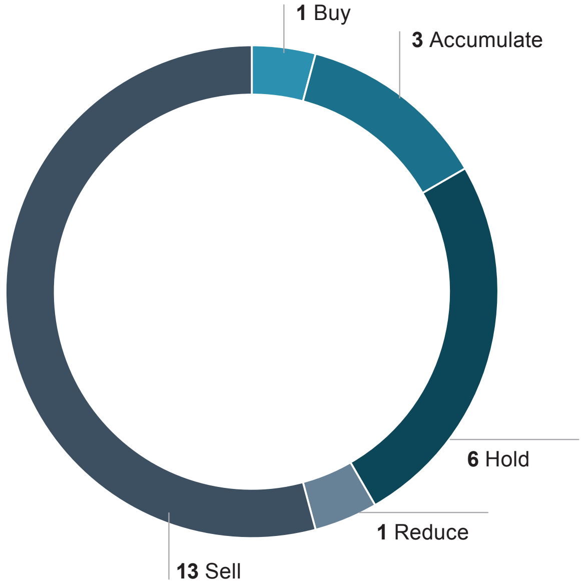
According to the Company's knowledge, in 2012 brokers issued 24 recommendations (including also updates to recommendations), as follows:

- 1 recommendation "Buy",
- 3 recommendations "Accumulate",
- 6 recommendations "Hold",
- 1 recommendation "Reduce",
- 13 recommendations "Sell".

According to the brokers, the target price of Grupa LOTOS shares fluctuated from PLN 19.40 to PLN 38.90. The average price of Grupa LOTOS shares was PLN 26.58 in 2012.

The market value of Grupa LOTOS shares fluctuated from PLN 21.30 to PLN 43.78. At the end of 2012, the price stood at PLN 41.20.

Structure of brokers' recommendations for Grupa LOTOS shares



Grupa LOTOS in the RESPECT Index

Since November 19th 2009, Grupa LOTOS has been continuously included in the index of WSE-listed socially responsible companies – the RESPECT Index (*Responsibility, Ecology, Sustainability, Participation, Environment, Community, Transparency*). The index comprises businesses managed in a sustainable and responsible manner, offering highly attractive investment opportunities.

In 2012, the Company twice (every six months) underwent external review for compliance with the index's criteria. Following the preliminary classification of companies against the free-float criterion, this further evaluation covers corporate governance, information governance and investor relations practices, as well as practices in the area of environmental protection, social responsibility, and employee and customer relations.

On January 24th 2013, Grupa LOTOS was selected for inclusion in the RESPECT Index for the sixth time. The index currently consists of 20 listed names.

The RESPECT Index is an income index, taking into account income from dividends and pre-emptive rights. The interests of the companies listed as part of the index (their weights) represent their number of free float shares less the number of shares introduced to trading. The numbers are rounded to the nearest thousand. The shares of major index companies are limited to 25% when the index includes fewer than 20 companies, and to 10% when it exceeds 20. The index is calculated continuously at one-minute intervals. The index's opening value is published after session opening, when the companies' stock prices enable valuation of at least 65% of the index's portfolio during the session. Its closing value is broadcast once the session has been closed.

Exploration and production

The LOTOS Group views further development of the exploration and production segment as a priority. The LOTOS Group's development directions until 2020 provide for:

- Increased production of hydrocarbons to approximately 100,000 boe/day (equal to 5m tonnes of crude a year),
- Access to proven recoverable reserves of hydrocarbons of approximately 330m boe in 2020.

Strategic objectives for the exploration and production business are achieved through:

- Continued operations in the Baltic Sea, in Lithuania, on the Norwegian Continental Shelf and in the North Sea,
- Acquisition of hydrocarbon deposits with a low or moderate risk profile,
- In the short term, projects in their final stage of development and/or in the production phase; in the long term, growth projects and acquisition of new licences,
- Looking for growth opportunities in market niches beyond the oil majors' interests,
- Acquisition of new licences as part of the development of the onshore and offshore exploration and production business, including in the area of unconventional hydrocarbon exploration.

Management approach

Grupa LOTOS is engaged in exploration and production in Poland, Lithuania, and Norway through its subsidiary, LOTOS Petrobaltic S.A.

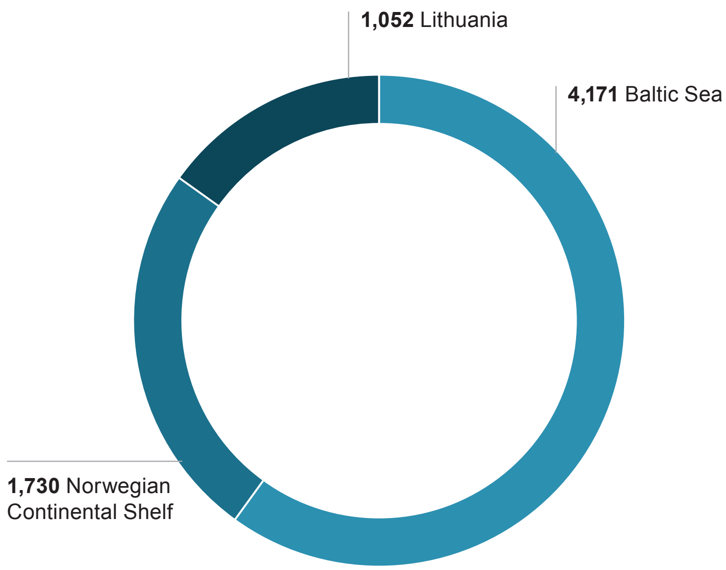
LOTOS Petrobaltic is directly responsible for operating activities at home. In Lithuania, it conducts operations through AB LOTOS Geonafta of Gargždai and its subsidiaries, while Norwegian operations are carried out by LOTOS Exploration and Production Norge AS of Stavanger. The LOTOS Petrobaltic Group includes also two companies conducting support activities: Grupa Miliana and Energobaltic Sp z o.o.

Grupa Miliana renders sea transport services, using six company-owned vessels: a tanker, two surveillance ships, two tugboats and a research vessel. Additionally, Grupa Miliana charters third-party vessels, such as tankers and tug/supply vessels.

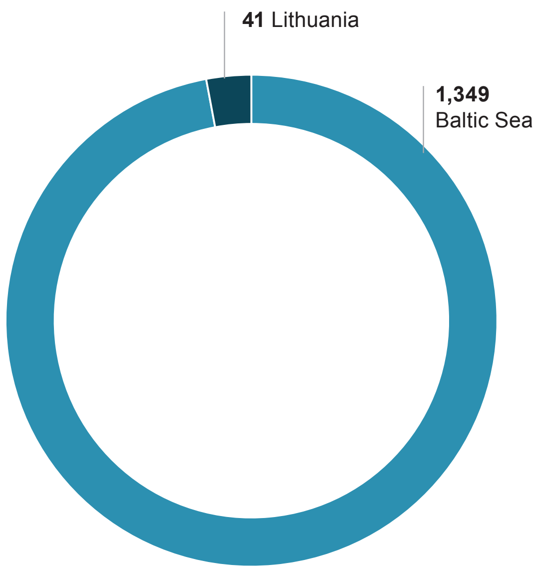
Energobaltic was established to manage associated gas generated in the process of oil production from fields located in the Baltic Sea. The company, which has its registered office in Władysławowo, is involved in the production of electricity, heat, LPG and natural gas condensate, using waste gas from an offshore oil production facility (the B3 field).

As at December 31st 2012, crude oil reserves and resources held by the LOTOS Petrobaltic Group amounted to 6.95 million tonnes, or 53.2m bbl (reserves classified as 2P), and 1.39 million tonnes or 10.6m bbl (resources classified as 2C), whereas its natural gas reserves and resources were 0.48 billion cubic metres (2P) and 6.46 billion cubic metres (2C).

Crude oil reserves classified as 2P (thousand tonnes)



Crude oil reserves classified as 2C (thousand tonnes)



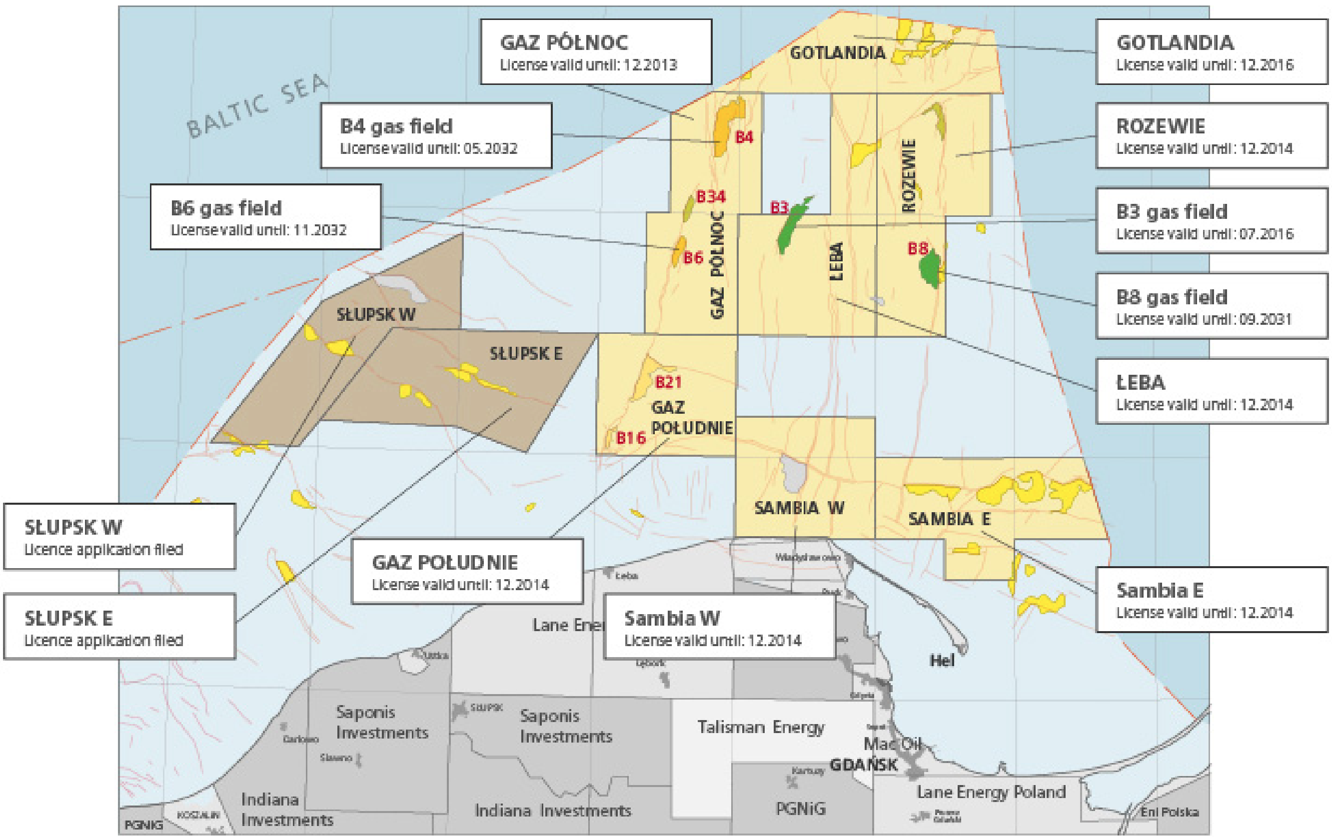
Upstream business in Poland – Baltic Sea

LOTOS Petrobaltic holds seven licences for exploration and appraisal of mineral deposits in the Polish economic zone of the Baltic Sea. These are the Gotlandia, Łeba, Rozewie, Gaz Północ, Gaz Południe, Sambia E and Sambia W exploration licences, covering a total area of more than 7,000 km2. Two applications for exploration licences for the Słupsk E and Słupsk W areas are currently awaiting decisions from the Ministry of Environment.

LOTOS Petrobaltic holds four hydrocarbon production licences:

- For the B3 field: a field of crude oil and associated natural gas located around 73 km north of Cape Rozewie; in production since 1992. An option to extend the period of oil production beyond 2016 is currently being analysed.
- For the B8 field: crude oil and associated natural gas, located around 70 km north of Jastarnia (B8). The B8 licence is valid until 2031. The field is currently being developed.
- For the B4 and B6 natural gas fields: valid until 2032. Preparations are underway for development of the fields in partnership with CalEnergy Resources Poland, as part of a cooperation agreement signed in 2012.

As at December 31st 2012, LOTOS Petrobaltic's crude oil reserves and resources in the Baltic Sea amounted to 4.17 million tonnes, or 32.3m bbl (reserves classified as 2P) and 1.35 million tonnes or 10.4m bbl (resources classified as 2C), whereas its natural gas reserves and resources were 0.48 billion cubic metres (2P) and 6.46 billion cubic metres (2C).

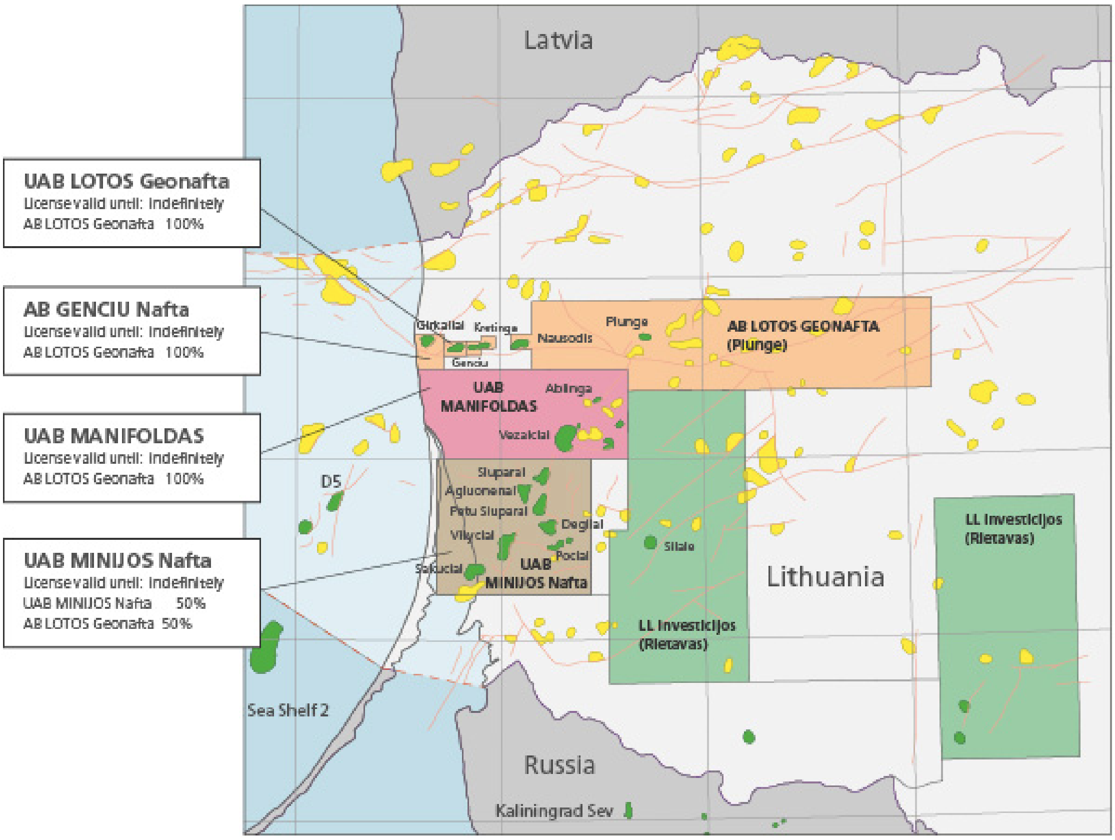


In the Baltic Sea in 2012, LOTOS Petrobaltic produced from the B3 field and, as part of production tests, from the B8 field. In the reporting period, total production from the fields in the Baltic Sea reached 187,700 tonnes of crude oil and 20.9 million Nm3 of natural gas.

Upstream business in Lithuania

In Lithuania, LOTOS Petrobaltic operates through its wholly-owned subsidiary, AB LOTOS Geonafta. The AB LOTOS Geonafta Group comprises UAB Genciu Nafta, UAB Manifoldas and UAB Minijos Nafta.

The AB LOTOS Geonafta Group's core business consists in the exploration for and production of crude oil, and the provision of drilling services in Lithuania. The company is also engaged in crude oil trading. The AB LOTOS Geonafta Group produces from 15 oil fields.



As at December 31st 2012, crude oil reserves classified as 2P held by the AB LOTOS Geonafta Group amounted to 1.1 million tonnes (8.1 mn bbl).

The AB LOTOS Geonafta Group's crude oil production totalled 74,600 tonnes in 2012. The Lithuanian companies aim to achieve a total annual crude oil output of approximately 100,000 tonnes in 2015.

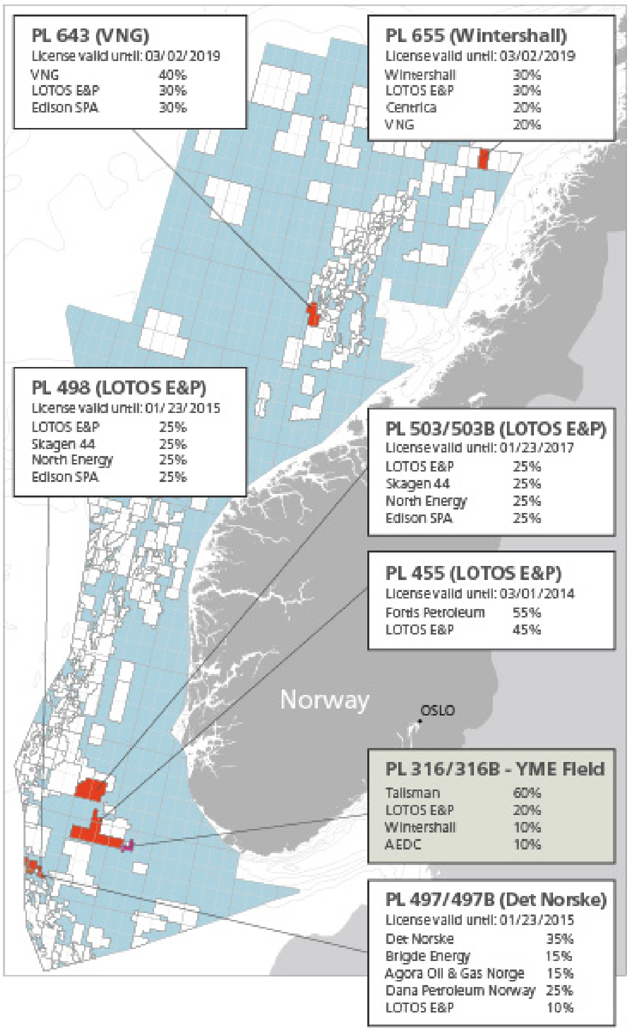
Upstream business in Norway – Norwegian Continental Shelf

LOTOS Exploration & Production Norge (LOTOS Norge) is the subsidiary responsible for the development of operations on the Norwegian Continental Shelf. LOTOS Norge presently has interests in seven licences for exploration for and production of crude oil: (PL 643, PL 503/503B, PL 498, PL 497/497B, PL 655, PL 455, PL 316/316B), acting as the operator for three of them (PL 503/503B, PL 498 and PL 455).

LOTOS Norge's assets include a 20% interest in licence PL 316/316B, under which the YME field is being developed by a consortium which includes Talisman Energy, a Canadian company, as the operator. A number of problems have been encountered in the course of the development process that have prevented the start of production from the Yme field. In 2012, after identification of cracks in the supports of the platform legs and due to the failure by SBM, the platform’s owner and supplier, to provide relevant safety certificates, the operator evacuated the platform's staff and suspended work. Currently, Grupa LOTOS activities in the YME project are focused on securing the Company's strategic interests and recovering the capital invested so far in the project.

In the area covered by the remaining six licences, exploration work is in progress to evaluate their potential and identify any in-place resources. LOTOS Norge also participated in the APA licensing rounds organised by the Norwegian Ministry of Petroleum and Energy.

As at December 31st 2012, crude oil reserves classified as 2P held by LOTOS Norge amounted to 1.73 million tonnes (12.9 mln bbl). Due to the delays in the execution of the YME project, there has been no production from the Norwegian Continental Shelf as yet.



Achievements

Major achievements in the hydrocarbon exploration and production business in 2012 included:

Poland

Baltic Sea

- Oil production from the B3 field continued,
- Development of the B8 oil field continued. This included drilling of two injection wells and running of a test production,
- An investment agreement was executed with CalEnergy Resources Poland, for joint development of and production from the B4 and B6 gas fields,
- Analyses and exploration work were conducted to examine the possibility of developing new areas.

Onshore:

- An agreement was signed with PGNiG on cooperation in exploration for and production of conventional and unconventional oil and gas, as well as commercial cooperation on PGNiG's onshore licences.

Lithuania

- LOTOS Petrobaltic purchased the remaining 50% interest in UAB Manifoldas, gaining full control of the company,
- Six production wells were drilled,
- The unconventional potential of the Lithuanian licences was analysed.

Norway

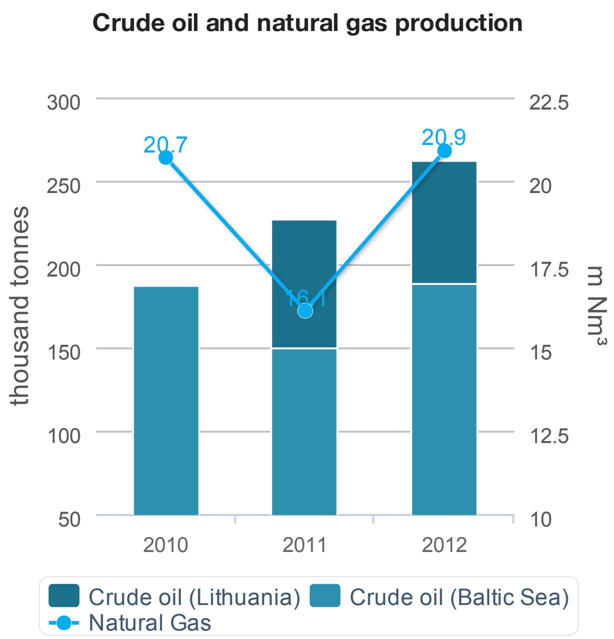
- Steps were taken to recover capital invested so far in the YME project,
- Steps were taken to acquire interests in a production field on the Norwegian Continental Shelf,
- Two exploration wells were drilled on the PL 497 and PL 498 licences,
- Two exploration licences (PL 643 and PL 655) were awarded in licensing round APA 2011.

In 2012, the crude output of the LOTOS Petrobaltic Group totalled 262,300 tonnes, including:

- 187,700 tonnes produced in Poland,
- 74,600 tonnes produced in Lithuania.

Natural gas output in 2012 totalled 20.9m Nm^3.

In the upstream segment, ongoing efforts are being made to identify new oil and gas prospects. Current exploration activities, including seismic surveys and exploration drilling, are being carried out to confirm the presence of hydrocarbons prior to further field development.



Exploration activities under way on the Baltic Sea are focused on evaluating the resource potential of the Gotland, Łeba, Sambia E and Sambia W licence areas, and the possibility of developing the prospects there. Preparations are also being made for the drilling of an exploration well on the Rozewie licence.

In 2012, two exploration wells were drilled in the Norwegian Continental Shelf, neither of which provided a flow of hydrocarbons. Other exploration work being carried out in Norway is focused on the acquisition of seismic data.

In Lithuania, planned exploration activities include the drilling of exploration wells under licences held by UAB Manifoldas, conduct of an extensive seismic acquisition programme, analysis of the possibility of intensifying production by carbon dioxide injection, and continued evaluation of unconventional resources.

Development plans

In 2012, we entered into two material agreements that will support implementation of our strategy in the area of crude oil exploration and production in the near future.

Cooperation with PGNiG

In September 2012, we initiated cooperation with PGNiG in the area of exploration for and production of crude oil and natural gas from conventional and unconventional deposits, as well as trading activities. The agreement's objective is intensification of exploration work in Poland. After analysis of the production potential of seven of PGNiG's licenses, four of the licence areas, situated in the Gdańsk and Szczecin Provinces, were identified for further exploration. The next phase of our work together will involve development of an action plan for the selected licences and assessment of the projects' economic viability. The action plan will define the extent of necessary seismic surveys and exploration and production drilling to be made with a view to discovering and proving the reserves, and pursuing joint development of the conventional and unconventional hydrocarbon fields.

Agreement with CalEnergy Resources

In October 2012, LOTOS Petrobaltic and CalEnergy Resources Poland entered into a joint operation agreement with respect to the B4 and B6 gas fields. Their projects will be executed through a special purpose vehicle, to which a license will be contributed. LOTOS Petrobaltic and CalEnergy Resources will share profits and costs in the SPV on a 51:49 basis (51% for LOTOS Petrobaltic and 49% for CalEnergy Resources). Under the preparatory work schedule, acquisition of seismics and selection of a preliminary field development concept are scheduled for 2013–2014. Upon completion, the partners will be able to make a final investment decision concerning development of the fields. The project will also enable LOTOS Petrobaltic to pursue exploration and development work on other resources, which may potentially be combined with the B4 and B6 fields.

Plans for 2013 provide for the following exploration and production operations:

Poland

Baltic Sea

- Continued development of the B8 crude oil field: drilling of two production wells, financing arrangement process, preparation of technical designs and execution of contracts,
- Ensuring the safety of further oil production from the B3 field: repair of the PG-1 unmanned drilling rig and re-start of production from the PG-1 node,
- Preparation of the B4 and B6 gas fields for their development in cooperation with CalEnergy Resources: seismics acquisition work on the Gaz Południe and Gaz Północ licences, which cover the B4 and B6 gas fields, in order to modify and refine the field development concept,

- Development of the B28S site: drilling of an exploratory well to prove the presence of hydrocarbons and, if the well is drilled with positive results, commencement of the site's development,
- Continued exploration work to identify structures with the potential for discovery of hydrocarbons in other licence areas.

Onshore:

- Cooperation with PGNiG on exploration and production of conventional and unconventional natural gas and crude oil.

Norway

- Securing the LOTOS Group's strategic interests in the YME project and taking steps to recover the capital invested in the project,
- Efforts aimed at acquiring a producing field as part of the strategy for increasing oil production, which provides the optimal scenario for recovering funds tied up in the Yme project.

Lithuania

- Increasing and maintaining crude oil production at approximately 100,000 tonnes a year,
- Continuation of drilling projects (drilling of five new production wells) and continuation of exploration work, also for unconventional resources.

Operating activity

In line with the LOTOS Group's strategic objectives, we are committed to maintaining the highly competitive position of the Grupa LOTOS' refinery in Gdańsk. In 2012, we met the targets of our policy for improving the efficiency of the refinery's production process, whose chief elements were:

- connection, successful start-up and continuous utilisation of natural gas for the production of hydrogen gas and steam in the CHP plant, and as fuel for process furnaces,
- hydrowax use,
- efficient use of the ROSE unit and MHC hydrocracking to process heavy vacuum residue,
- an increase in the conversion rate at the MHC unit, and
- the launch of xylene production at the newly constructed unit.

In 2013, we plan to execute further projects designed to enhance the efficiency of our production processes, one of which will consist in improving the technical condition of all the refinery's production units as part of the Spring 2013 periodic overhaul. We also intend to complete implementation of the Energy Management System.

Management approach

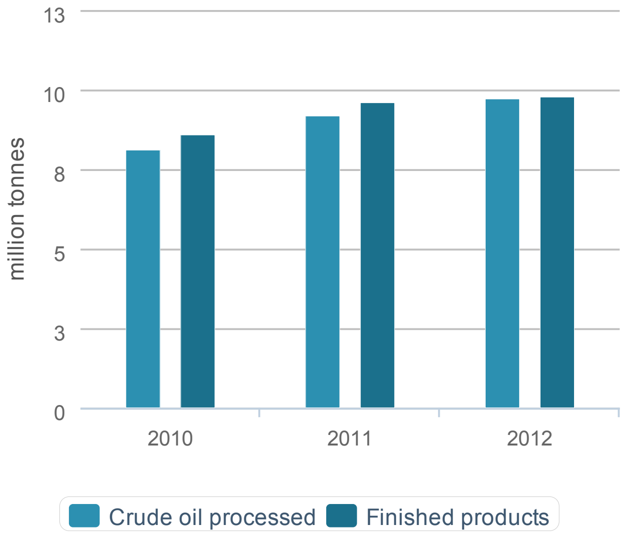
The LOTOS Group's operating activity is centred on refining operations and supplying the market with high quality products, maximising the LOTOS Group's production capacities and minimising its adverse environmental impact.

The LOTOS Group's operating segment comprises the operations of the Gdańsk refinery and subsidiaries involved in production or support functions. These include LOTOS Czechowice, LOTOS Jasło, LOTOS Serwis, LOTOS Lab and LOTOS Straż. The Grupa LOTOS refinery is the largest of the LOTOS Group's production plants.

Achievements

2012 was another record year for the Grupa LOTOS refinery. The Gdańsk refinery processed 9.67m tonnes of crude, the highest in the refinery's history and equal to an average annual utilisation rate of its installed capacities slightly exceeding 92%. Utilisation was adjusted during the year to reflect the prevailing market conditions. Throughput was increased in periods with high refining margins, for example in September and October 2012, when the utilisation rate exceeded 100%.

Crude oil processing and production of finished products at the refinery (million tonnes)



Source: Grupa LOTOS in-house data.

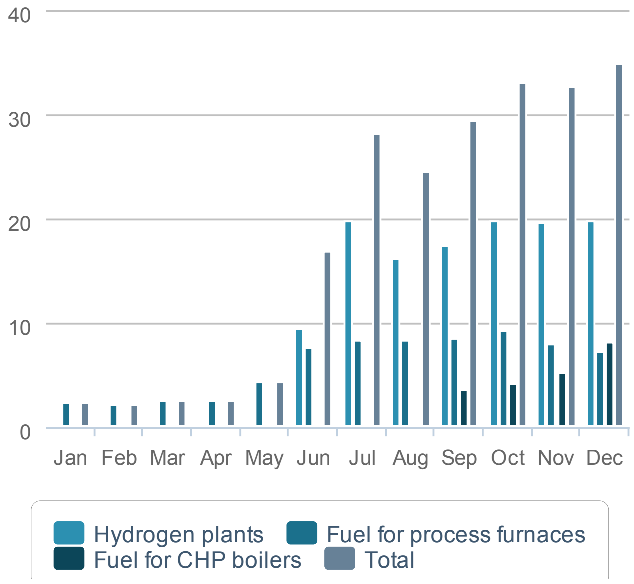
As in previous years, the main type of crude processed was Russian REBCO. Its share in the total volume was approx. 90.2%, which remained relatively flat in 2011. Crude oil imported by sea, including approx. 180,000 tonnes of Rozewie crude supplied by LOTOS Petrobaltic, accounted for the balance of the crude used. The selection of crudes for processing was based on output optimisation, using emerging opportunities to increase the refinery's processing margin.

Apart from crude oil, other production inputs included fuel components and feedstock purchased for further processing, as well as enhancing additives. This last category consists of biofuels (ethanol, ETBE and FAME), which are added to fuels to achieve the National Indicative Target. In 2012, the long-awaited change in quality requirements applicable to liquid fuels finally came into force. On February 7th 2012, quality requirements for liquid fuels were changed by virtue of the Minister of Economy's regulation, whereby the permitted content of fatty acid methyl esters (FAME) in diesel oil was increased from 5% to 7%. As a result, on February 14th 2012, the first batch of diesel oil with a 7% FAME content (B7) was produced at the refinery. This change made it possible to attain the National Indicative Target in 2012 with minimum sales of 100 per cent biodiesel (B100).

Another significant event in our refining operations was the commissioning of a high pressure gas pipeline, constructed in partnership with Polskie Górnictwo Naftowe i Gazownictwo and Pomorska Spółka Gazownictwa. Prior to this, the Gdańsk refinery had very limited access to natural gas. Connection of the pipeline, along with pressure reduction stations, enabled the refinery to considerably increase consumption of this environmentally-friendly and cost-efficient fuel. Natural gas is used at the Grupa LOTOS refinery as fuel in process furnaces, the Company's CHP plant boilers, and as feedstock for hydrogen production. In the production of hydrogen, it replaces the previously used fuel oil and liquid gas. As a result, the carbon footprint of our refining operations was substantially reduced.

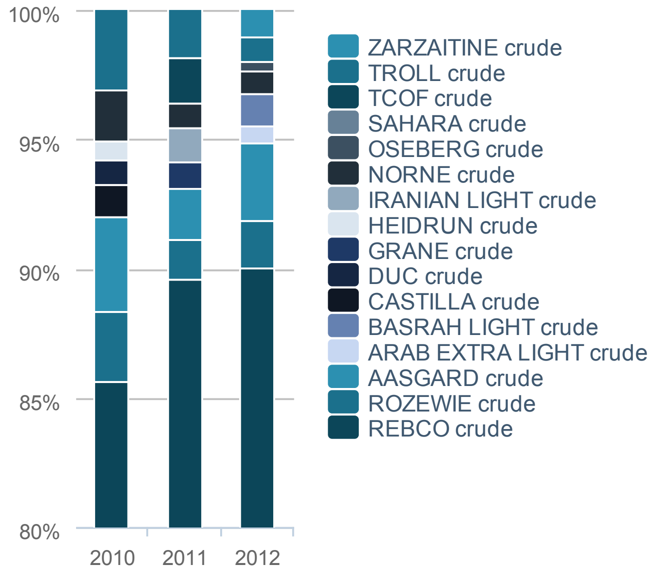
In 2012, the refinery's monthly gas consumption had increased from 2,500 tonnes to approximately 35,000 tonnes. By the end of the year, two out of four boilers in the CHP plant had been switched to gas. Following modernisation of the other two boilers, natural gas consumption will increase even further.

Natural gas consumption in 2012 (thousand tonnes)



Source: Grupa LOTOS in-house data.

Throughput by types of crudes (% by weight)

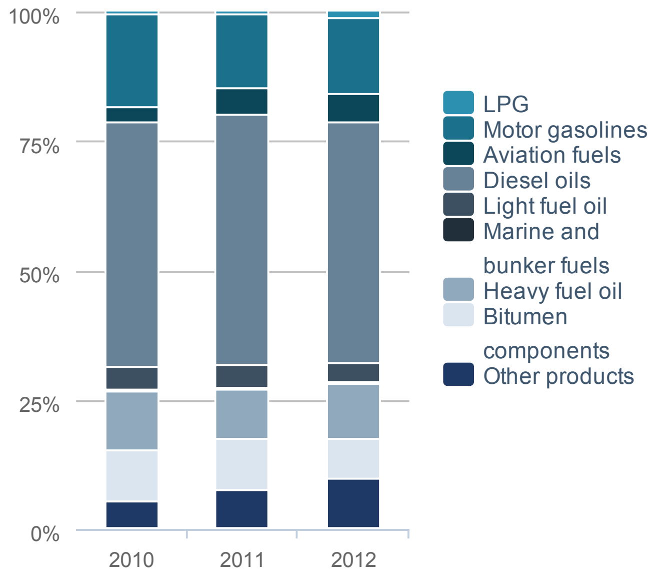


Source: Grupa LOTOS in-house data.

In terms of product portfolio diversification, the May 2012 launch of the xylene separation unit at the Grupa LOTOS refinery was also a major event. The unit relies on reformate as feedstock (the high-octane value components used in the manufacture of gasolines). From the reformate, the xylene fraction is recovered – hydrocarbons used in the petrochemical industry. This helps reduce the number of motor gasoline components, which tend to be less in demand in Poland and Europe, while obtaining a valuable non-fuel raw material. In 2012, the xylene separation unit produced some 28,000 tonnes of xylene fraction.

The total output of finished products in 2012 was approximately 9.8m tonnes. As usual, diesel oils accounted for the largest share in total sales (nearly 47%).

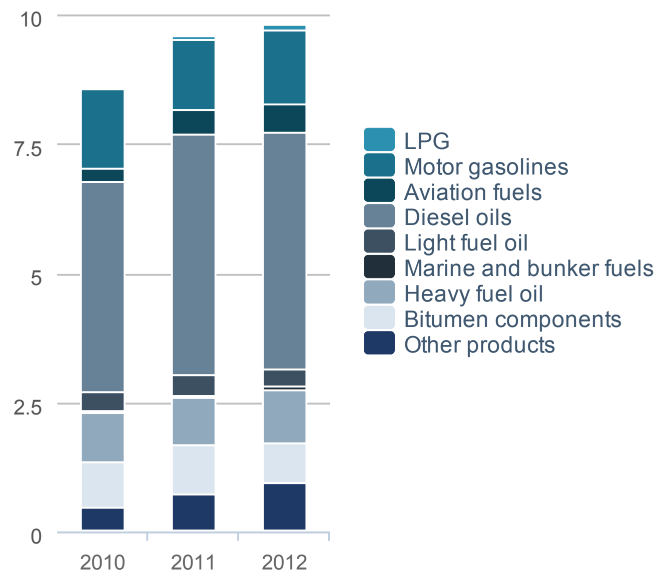
Finished products by weight



Source: Grupa LOTOS in-house data.

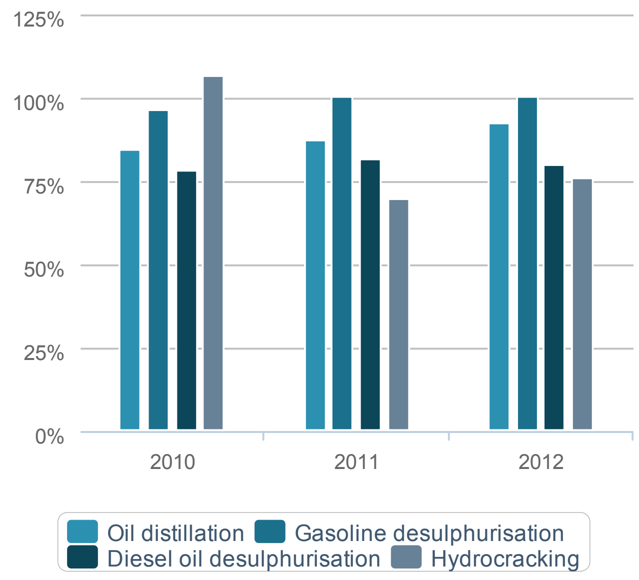
Utilisation of the refinery's installed capacity was primarily dependant on the optimum crude processing volumes in the period, as well as the potential of the processed crudes. The higher volumes of crude processed and the lower production of bitumen components led to increased load on the hydrocracking units. Thanks to the unique process system in place at the unit for vacuum residue deasphalting, the Gdańsk refinery is capable of earning an additional margin on the processing of vacuum residue into fuel.

Manufacture of finished products (million tonnes)



Source: Grupa LOTOS in-house data.

Utilisation of the refinery's processing capacities



Source: Grupa LOTOS in-house data.

Maintenance

As regards maintenance and overhaul management, our major achievement in 2012 was maintaining the main and ancillary process units' availability at above 99.2%, placing Grupa LOTOS among the best performing refineries in Europe according to the Solomon Report. This strong service factor helped us deliver on production plans.

The safe, stable operation of the main and ancillary processing units was achieved with professional technical and process support, consistent improvement of personnel qualifications, introduction of modern workplace organisation and information flow methods, use of project management techniques in our modernisation and overhaul projects, and development of technical failure prevention strategies. Overhaul and maintenance costs for all these tasks were fully optimised through leveraging of the potential of the LOTOS Group's subsidiaries.

In 2012, we also launched our technical risk management programme. Working with the Office of Technical Inspection we ran a pilot test of the RBI (Risk Based Inspection) methodology – used for planning inspections by analysing identified risks – on the CCR reforming unit and the atmospheric distillation unit. Implementation work continues on other units.

Grupa LOTOS' refinery is one of the newest and most advanced production plants in Europe. Its excellent condition is chiefly attributable to the 10+ Programme, which was completed in 2011. Even though the refinery has been in operation for nearly 40 years, the average in-service life of its installed units is approximately 11 years.

Capital expenditure

Two of the most important projects completed by Grupa LOTOS in 2012 were:

- The connection of the refinery to a natural gas supply (introducing natural gas as a fuel in the process furnaces and as feedstock in hydrogen production). This project has delivered substantial economic and environmental benefits - we are now able to place three times as much LPG on the market and significantly reduce the refinery's environmental footprint;
- The construction of a xylene separation unit, which enabled us to market a new product, xylenes, which may be used as intermediate petrochemical feedstocks (in polyester production), or as paint and varnish thinners. This project

helped us reduce the content of harmful aromatics in the gasolines we produce, minimising the operating costs associated with the requirement to meet norm limits on aromatics content in gasolines.

Research and development

Following changes in the law, in 2012 Grupa LOTOS developed and launched a new type of diesel oil with a FAME content of up to 7%.

The Company's R&D activities also focused on developing technologies for producing and optimising processes at the oils unit. Key R&D achievements in 2012 included:

- R&D work on production of high viscosity Group II base oils of >10 cSt at 100 ^{0}C, from paraffin fraction;
- Development, production and sale of a low viscosity Group II base oil of <5.6 cSt at 100 ^{0}C, for use as feedstock in the production of enhanced-quality engine oils;
- Development, production and sale of Group I base oils using a new intermediate product - paraffin fraction. This improved oil efficiency, which helped enhance the energy profile and utilisation rates of the oils unit. Group I+ base oils have low sulphur content, a better evaporation rate as tested by the Noack method, higher content of saturated hydrocarbons, and a very high viscosity index (99–110);
- Development, production and sale of low-sulphur light paraffin wax using the new paraffin fraction product. Low-sulphur paraffin wax is used to manufacture various types of paraffin and paraffin products;
- Production and sale of Base Oil SAE 10 LS and Base Oil SAE 30 LS with sulphur residue below 0.5% m/m, to be used as feedstock for production of higher quality engine oils.

In road bitumen production technologies:

- R&D work continued on designing a production technology for environmentally friendly bitumen binders with scrap rubber added, for use with road mineral-bitumen compounds. The final stage of the research was completed in 2012, involving validation of product properties in final application; test sections were laid using rubber-modified bitumen MODBIT 45/80-55 CR. The thermostability and rheological properties of the bitumen binder in the new mineral-bitumen compounds were confirmed, and the product will be brought to market in 2013,

In 2012, development work also focused on oil products produced by LOTOS Oil. The most important lubricant-related R&D activities included:

- Completion of research on passenger car oils containing our own base oils, for compliance with the ACEA (European Automobile Manufacturers Association) 2010 sequences. Approvals will be secured in 2013;
- Completion of research into ways of improving the quality of oils for trucks, also based on our own base oils. Approvals will be secured in 2013;
- Completion of research on 4T motorcycle oils for compliance with JASO (*Japanese Automobile Standards Organization*) standards. Licences will be secured in 2013;
- Launch of new engine oils for trucks (Turdus Powertec 3000,Turdus Powertec 5100);
- Extension of 44 Approvals for lubricants,
- Obtaining of 21 Approvals for new oils.

Development plans

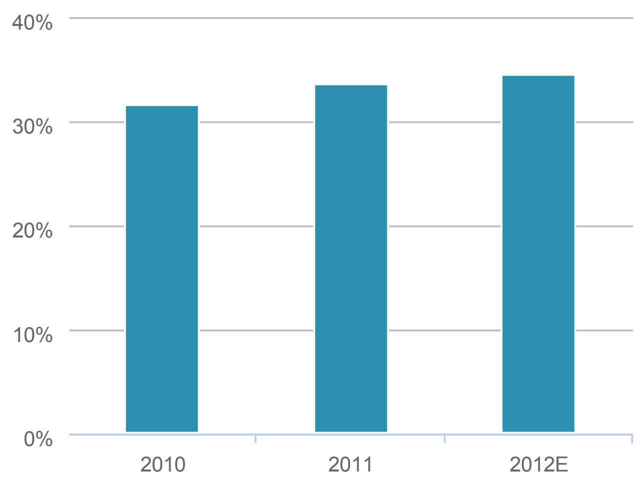
Our plan of action is to implement the strategic objective of increasing the conversion ratio and intensifying crude processing, provided that in 2012 the front-end engineering design phase is begun for the complex of refining units which would be processing the heavy residue from crude oil processing into high-value products. Towards the end of 2011, a growth option was selected that consists in the construction of a coking unit. Then, in 2012, a licence for the coking process was selected and purchased, and the front-end engineering design for the unit was developed. Technologies for the accompanying processes were also purchased and a number of necessary analyses were prepared, along with a method statement. The process of selecting utilities suppliers and product customers was then begun. In 2013, an integrated conceptual design for the entire project will be developed, the terms and conditions of utilities' supplies and product acceptance will be agreed upon, and steps will be taken to secure appropriate financing for the project.

Construction of the coking unit will be a major investment challenge for Grupa LOTOS until 2015. Other important projects are at the decision-making stage, including a hydrogen recovery unit and a sea cargo handling terminal on the Martwa Wisła for petroleum products.

Marketing activities

The LOTOS Group's efforts in the marketing segment are focused on maximising economic benefits by flexibly managing the product stream and consolidating the LOTOS Group's market position, and on developing a controlled, highly-efficient retail chain with a national reach. In order to maximise the retail chain's integrated margin, we make optimum use of our assets and coordinate key areas of the supply chain: planning, procurement, production and distribution. We continue to implement our crude supply diversification strategy by maintaining the availability of supply sources of crude oil delivered both through pipelines and by sea transport, flexibly selecting the types and routes of crude oil supplies, intensifying our presence on the international oil market, and increasing the share of our own production in crude oil supplies.

LOTOS Group's share in domestic fuel market



Source: In-house analysis on the basis of Polish Organisation of Oil Industry and Trade (POPiHN) data.

A broad product range, the superb quality of fuels, and continuous quality control have earned us an excellent reputation among consumers and pushed the LOTOS Group’s market share to over 34% in 2012. Efforts aimed at consolidating our market position and extending the service stations network increased our share in the retail market to 8%.

Management approach

In 2001, the LOTOS Group's marketing activities were carried out by Grupa LOTOS as well as subsidiaries: LOTOS Paliwa, LOTOS Oil, and LOTOS Asfalt. Additionally, two more companies, LOTOS Kolej and LOTOS Tank, conducted service activities within the LOTOS Group and outside it.

On January 10th 2012, Grupa LOTOS sold 100% of the shares in LOTOS Parafiny Sp. z o.o. to an entity from outside the LOTOS Group.

Also in 2012, our aviation fuel sales structure was reorganised. LOTOS Tank was originally a logistics and infrastructure subsidiary providing services for Grupa LOTOS. Late 2012, a plan to transfer the aviation fuel business from Grupa LOTOS to LOTOS Tank was devised and implemented. From the beginning of 2013, LOTOS Tank has continued as a sales and logistics company.

Key products of the marketing segment

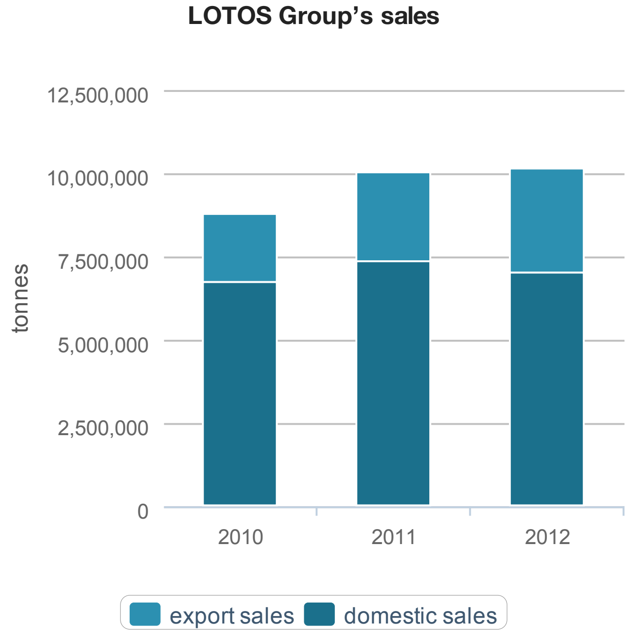
Fuel products	
	LOTOS DYNAMIC 98 gasoline – fuel offering better performance and engine protection than standard products. Contains antioxidants and washing additives. The increased content of the washing additive supports better cleaning of the engine, lengthens its useful life and economises fuel consumption.
	LOTOS DYNAMIC DIESEL diesel oil – fuel for modern diesel engines. With its friction-reducing components, it offers more power efficiency and guarantees engine ignition even at -32°C. The additives significantly improve nozzle flow capacity and engine lubricity, and extend the useful life and performance of the engine.
	LOTOS RED diesel heating oil (ONDCO) – owing to its special additives and low sulphur content, LOTOS RED has best-in-class parameters for oxidation resistance and anti-corrosive action. It maintains nozzle cleanness, thus extending the useful life of heating equipment. Because of these features, the product guarantees an optimised combustion process and meets all the requirements for the latest generation furnaces. In addition, it is also highly environmentally friendly, thanks to its significantly reduced emissions of noxious combustion products.
	IZ-40 diesel oil – meets the requirements of arctic fuels and guarantees engine ignition at very low temperatures (CFPP of -32°C).
	LPG – mixture of liquefied hydrocarbons, consisting primarily of propane and butane. With both gasses mixed in correct proportions, the LPG can achieve optimum working parameters.
Non-fuel products	
Engine oils	**LOTOS Quazar**– premium engine oils based on state-of-the-art technologies. This product line, distributed through the chain of Authorised Service Stations, is for cars which have been in use for less than three years. The LOTOS Quazar LLIII 5W-30 oil meets one of the most stringent technical specifications for passenger cars – the German VW 504.00/507.00 norm. It fits with the modern concept of dedicated engine oils which serve the needs of specific vehicle makes. In 2012, a cooperation agreement was signed with the Association of Volkswagen and Audi Dealers in Poland, which brings together authorised dealers of cars manufactured under VW's German, Spanish and Czech car makes. Following the agreement, they became part of our group of partner brands, which had previously comprised Subaru and KIA.

	LOTOS Thermal Control – product line dedicated to passenger cars and comprising synthetic semi-synthetic and mineral products. The automotive product line is supplemented by products dedicated to older cars (City line), as well as gear oils and consumable fluids.
	LOTOS Turdus – product line for modern trucks. LOTOS Turdus oils meet the requirements of and have been approved by leading truck engine producers, including Man, Scania, Tatra, MB, Volkswagen, Volvo and Renault. With the support of experts around the world, the entire TURDUS line was given a technological upgrade. A new, advanced generation of oils was created, providing best-in-class protection for specialist engines compliant with the Euro 4, Euro 5 and Euro 6 standards. Step-by-step implementation of the new technology was begun in 2012, with completion scheduled for 2013. Work on revamping the product's naming also got under way in 2012. On its completion, consumers will be able to intuitively choose the right lubricant product for their fleet.
	RG Trans – product for older lorries.
	Agrol – products for agriculture applications which guarantee trouble-free performance in any weather and under any operating conditions. Agrol products meet international quality standards and the quality requirements of leading machinery manufacturers.
	Marinol – highly specialised marine oils.
Industrial oils	**Transmil** – gear oils.
	Hydromil – hydraulic oils.
	Remiz – turbine oils.
Plasticizers	**TDAE and RAE** class plasticisers offered under the QUANTILUS T50 and QUANTILUS T60 brands, used by European and Asian tyre and rubber manufacturers. These products meet the requirements of the EU REACH directive concerning the registration of chemical products, and have been approved by global tire manufacturers.
Bitumens	**MODBIT modified bitumens** – state-of-the-art bitumens that enhance road surfaces' resistance to rutting, extending their durability and increasing their resistance to extreme weather conditions. In 2012, production technology for the rubber-modified bitumen was developed. The new product will be released to market in 2013.

Petrochemical product	
	Xylene fraction is a new product, launched in 2012, that is obtained through reformate splitting. It is used as feedstock in plastics production. The xylene's separation reduces the share of aromatic hydrocarbons in the range of gasoline components produced by the Gdańsk refinery. This will contribute to the greater technological flexibility of the refinery, while allowing it to sell some of the components on the fuel or petrochemical market.

Achievements

In 2012, the LOTOS Group sold in excess of 10.1 million tonnes of products, which represents a 1% rise on the previous year. This was chiefly led by stronger sales volumes of heavy fuel oil, LPG and naphtha. Similarly to 2011, the volumes of petroleum products sold outside Poland were also on the rise. Increased exports were recorded chiefly for diesel oils, aviation fuels, engine gasolines, and heavy fuel oils. We also posted sales of crude oil from the Lithuanian deposits, which were supplied to external customers.



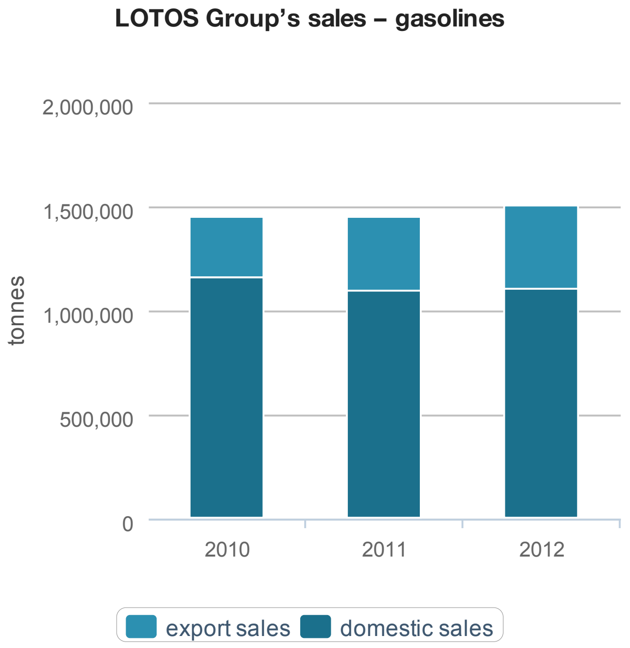
Source: The LOTOS Group in-house data.

Sales of engine fuels

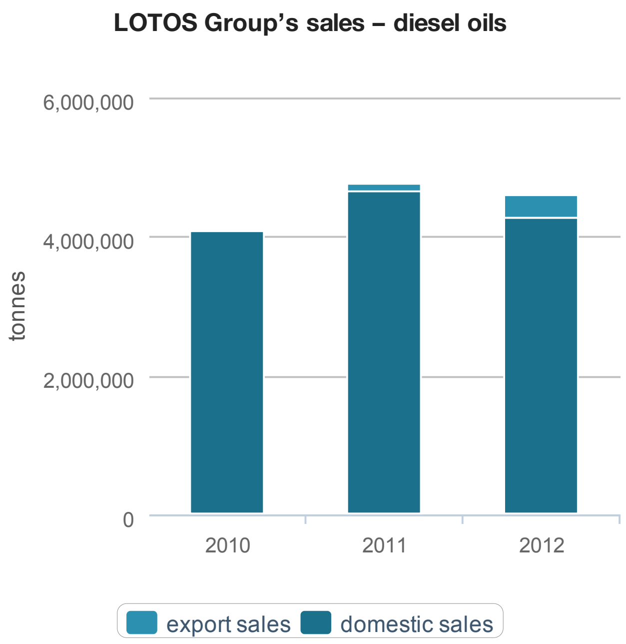
In the context of sagging domestic demand for gasoline (down 5.4% in 2012), increased sales of the product reported by the LOTOS Group (up 1% on 2011) were a success. We also recorded a 14% growth (of 48,000 tonnes) in sales to customers outside Poland, including in Scandinavia and Great Britain.

Driven by a decline in domestic demand for diesel oil (down 9.4% in 2012), the LOTOS Group's domestic sales of the product were down 8% compared with the previous year. Another factor pushing sales down was sharp growth in the retail price of diesel oil. Our achievements included winning Shell as a customer with us as the principal supplier, as well as continued cooperation with Statoil and BP.

In the period under review, we recorded a three-fold increase in diesel oil export volumes, which account for more than 10% of the LOTOS Group's total export sales. Our diesel oil was sold to customers in Great Britain, Germany, France, Finland, the Czech Republic, Denmark, and the Russian Federation.

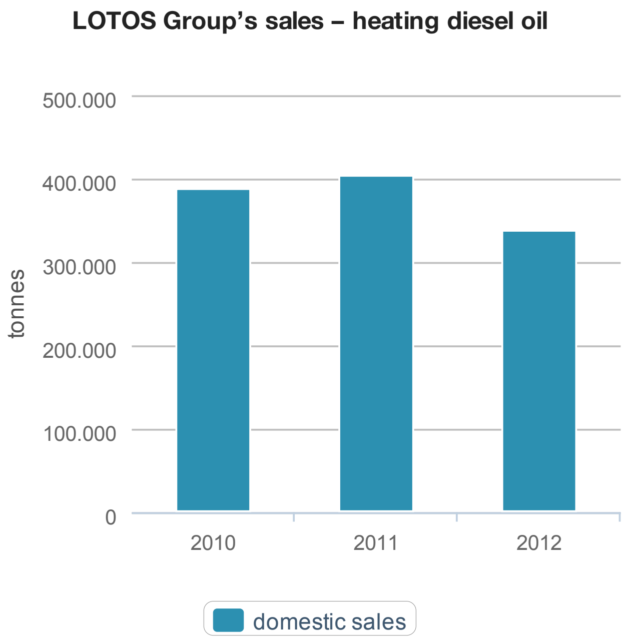


Source: The LOTOS Group in-house data.



Source: The LOTOS Group in-house data.

Sales of diesel heating oil

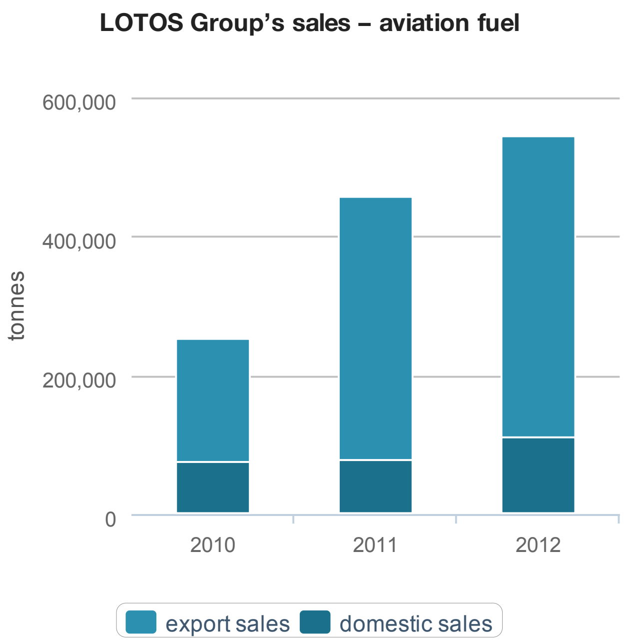


Source: The LOTOS Group in-house data.

A slide in domestic demand for diesel heating oil by approximately 13.9%, to the benefit of more competitive heating fuels, caused our 2012 sales of the product to shrink 16% year on year. As in the previous years, diesel heating oil was sold exclusively on the domestic market.

Sales of aviation fuel

Relative to 2011, the total sales volume of JET fuel by the LOTOS Group grew by 40%. Our principal distribution channel for the product was sales by sea, to Sweden, Russia and Lithuania. The product was also sold to customers in the Czech Republic. At home, aviation fuel sales were made to end customers, wholesale customers and airports. In 2012, the key customer for our aviation fuel was Petrolot, a distribution company with a national reach, and the airports in Wrocław and Rzeszów. On the domestic market, we provided supplies to wholesale customers operating in the aviation industry. We



Source: The LOTOS Group in-house data.

were successful in growing sales to retail customers operating their own aircraft or active in flying clubs or small-size airports and airfields.

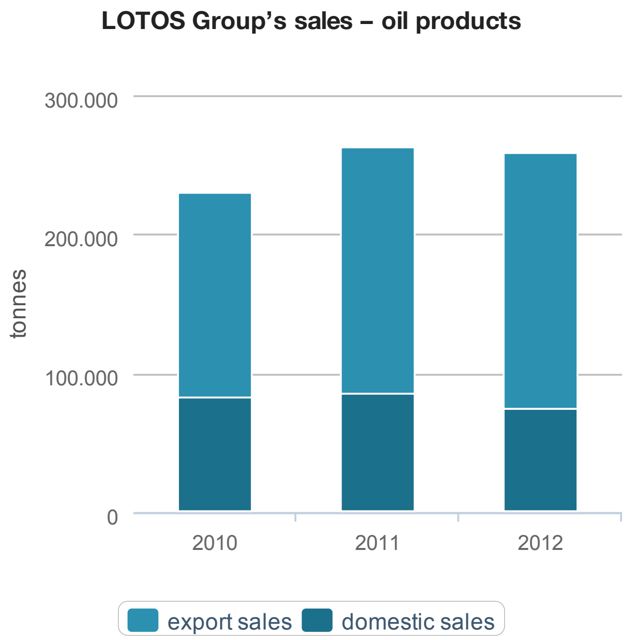
Sales of oil products

The total volume of oil products sold in 2012 remained broadly flat on 2011, amounting to around 260,000 tonnes.

The two principal distribution channels were wholesale, including through Authorised Distributors and LOTOS Oil Partners, and direct sales.

As part of the wholesale distribution system, which is our most important sales channel, we established the Authorised Trade Distributor for Shippers sales force in late 2012 and early 2013, which enhanced the channel's efficiency.

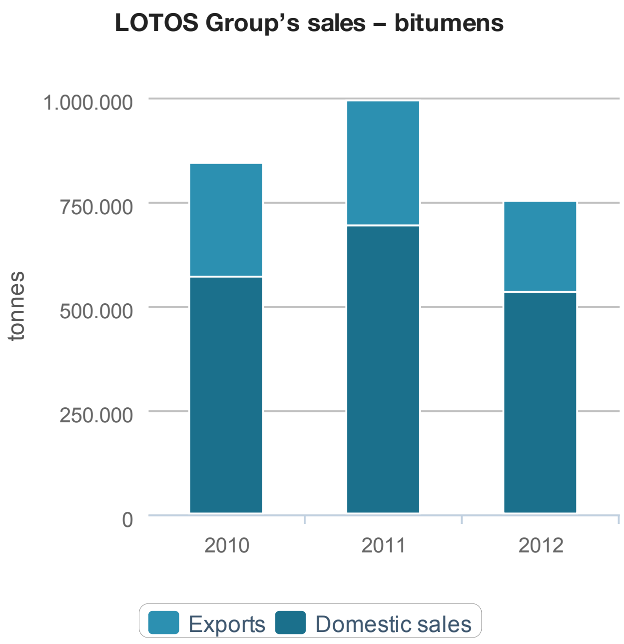
The main foreign markets for LOTOS Group's oil products were the EU countries, as well as countries in Central and Eastern Asia, the Middle East, and Africa. In 2012, partners in Turkmenistan, Macedonia and Jordan joined our customer base. An important business event in this period was the signing of a letter of intent in Azerbaijan with KIA Motors representatives, concerning possible sales of LOTOS products through authorised dealers.



Source: The LOTOS Group in-house data.

Sales of bitumens

There was a 24% year-on-year drop in total bitumen sales in 2012. This decrease was attributable to the weaker financial performance of construction companies, as well as the economic crisis prevailing in the EU and the related decline in infrastructure investment.



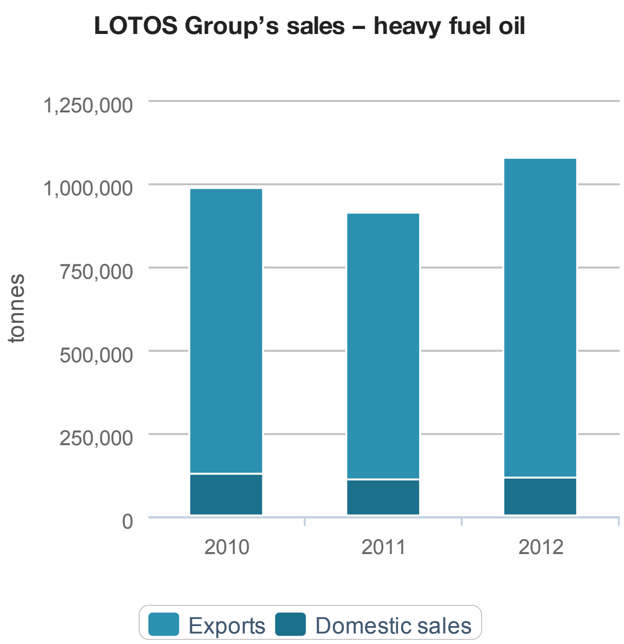
Source: LOTOS Group in-house data.

Similarly to previous years, road bitumen had the largest share in total bitumen sales which amounted to 80%. The remaining volume of bitumens sold included modified bitumens and bituminous emulsions.

The main export markets were the EU states of Finland, Romania, Sweden, Switzerland and the Czech Republic.

In 2012, we maintained the leading position in sales of technologically advanced modified bitumens, traded under the name MODBIT, which were given the Najwyższa Jakość Quality International award.

Sales of heavy fuel oil

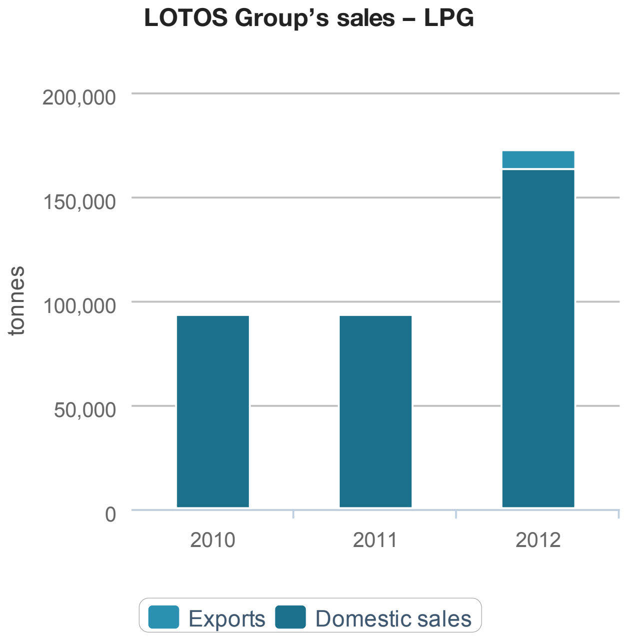


Source: LOTOS Group in-house data.

In 2012, the total volume of heavy fuel oil sales grew by 18% year on year. Domestic and export sales were up by 3% and 20%, respectively. Heavy fuel oil was shipped mainly to Rotterdam, Scandinavian ports and countries on the Baltic Sea, with power companies being key customers.

Sales of LPG

In 2012, LPG sales increased due to the higher demand for cheaper substitute fuel (LPG), in response to the growing prices of other engine fuels. Another driver in the LOTOS Group's increased sales was the introduction of high-pressure natural gas from the new pipeline to the refinery's network.



Source: LOTOS Group in-house data.

Chain of LOTOS service stations

In 2012, work continued on expanding the LOTOS service station chain by adding new stations under two business models, i.e. own stations (CODO) and partner stations (DOFO). Within both models, new LOTOS service stations in the premium segment (under the LOTOS brand) and in the economy segment (under the LOTOS Optima brand) were launched.

As at the end of 2012, the LOTOS service station chain comprised:

Premium segment

- 152 own stations (CODO)
- 124 partner stations (DOFO)
- 28 patronage stations (DODO)

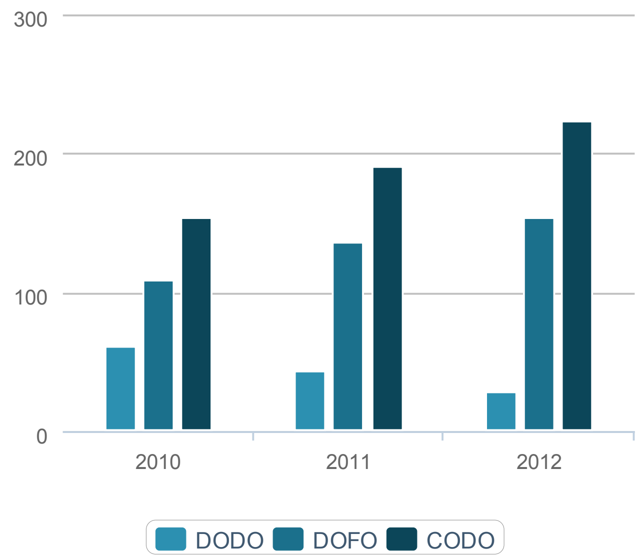
Economy segment

- 71 own stations (CODO)
- 30 partner stations (DOFO)

Non-fuel sales are a material area of operations of the LOTOS service station chain. In this respect, the key directions in 2013, similarly to last year, will include:

- Continued development of the Cafe Punkt food service,
- Expansion of the range of food product,
- Development of the range of car wash services, including with respect to touch-free car washes.

Structure of LOTOS stations



Source: In-house analysis by LOTOS Paliwa.
Legend: DODO – Dealer-Owned Dealer-Operated, patronage stations, DOFO – Dealer-Owned Franchise-Operated, partner stations, CODO – Company-Owned Dealer-Operated, own stations.

Other achievements in the service station chain segment in 2012 include:

1. Expanded cooperation with foreign car fleets at selected LOTOS own stations;
2. The addition of a new feature to the LOTOS Biznes range, enabling settlement of road tolls in Western Europe and viaToll payments in Poland;
3. Implementation of a new Premium segment visualisation concept for the own and partner networks;
4. Implementation of the Café Punkt food service concept;
5. Acquisition of five new locations for motorway service stations;
6. The launch of the fourth edition of the LOTOS Navigator loyalty programme

LOTOS Optima after one year of operations

At the end of 2012, the LOTOS Optima chain comprised 101 sites, doubling the number of LOTOS Paliwa's economy stations relative to 2011. The one hundredth LOTOS Optima station was opened in Białogard, in the Province of Szczecin. At present, LOTOS Optima outlets operate across the country. LOTOS Optima stations sell diesel oil, 95 and 98 unleaded gasoline, as well as a segment-specific range of non-fuel products and services.

Maciej Szozda

Vice-President of the Grupa LOTOS Board

A successful year for LOTOS Optima

In 2012, the LOTOS Optima chain expanded, doubling the number of economy service stations in the chain. This is a great success for LOTOS Paliwa, achieved in spite of the difficult conditions on the fuel market.

It was more than two years ago that we first assumed that the economy segment would see dynamic growth. Even though our predictions were met with scepticism on the markets, we executed our plan in full, while breaking the Polish record for the number of new additions to a service station chain in a single year. We take great pride in the fact that we managed to repeat that feat in 2012, which was not an easy year.

Customers choose LOTOS Optima because its service stations offer quality fuels at competitive prices. In the current economic climate, that is a very powerful advantage. Our recipe for success is in the combination of our quality fuels with conveniently located stations, a good selection of products and the high quality of our services.

To our trade partners, we offer favourable terms of cooperation and an attractive franchising system which involves competitive licence fees and a good investment package. Another key element in our offer is the guarantee that LOTOS Paliwa will perform fuel quality tests at its own expense, ensure stable supplies of LOTOS fuels and enable the implementation of an optimum pricing policy based on tools provided by a global industry leader. Our experience has shown that prospective partners attach great importance to the possibility of promoting their own brand, which we also provide. Service stations have a uniform design, but we allow our dealers to promote themselves by displaying their names and logos on the forecourt totems next to the LOTOS logo.

LOTOS Optima is targeted at all companies interested in cooperating with LOTOS Paliwa, including those that already operate in the Premium segment. If these companies seek to diversify their services under a franchise agreement, they can open one or several LOTOS Optima service stations and expand their portfolio by adding economy segment products.

Despite the difficult conditions prevailing on the fuel market, we intend to continue dynamically developing this segment of our offering. The year 2012 confirmed the assumption that the development of economy service stations has been the right decision, which is why we intend to maintain this course in 2013. Our success is not only the growing number of service stations, but also the quality of our product and service offering and professional customer service. Those three key parameters were at the top of our agenda in 2011-2012, and will remain a priority in 2013.

Meanwhile, the growing number of our service stations is driven by the expanding road network, the construction of new stations and adaptation of existing facilities. It should be noted that all stations have a uniform interior design, which makes them stand out from other service stations operating in the economy segment. For our service stations, we chose a modern silhouette and pastel colours. Paired with the yellow lettering, this combination is not only unique on the Polish market, but also well-received by our customers, who consider it up-to-date, attractive and suitable for the segment in which LOTOS Optima operates. The stations are relatively small, but tailored specifically to cater to areas with lower potential.

I am certain that in 2013 our service station development model will once again prove to be a success.

Logistics

Grupa LOTOS is making intensive efforts to steadily enhance the logistics and distribution of products, raw materials and components. Actions taken include optimisation of the fuel terminal network and road, sea and rail transport (taking into account customer expectations), and seasonal changes in sales, as well as efforts to reduce costs throughout the logistics chain.

In 2012, we extended the scope of our logistics services by implementing new IT systems for data exchange, broadening the fuel distribution offer and significantly improving the process of secondary logistics management. At the same time, we conducted preparatory work to achieve full automation and centralisation of driver service processes at our own depots. Planned for completion in 2013, this project will help us satisfy customer's needs, standardise work and improve cost efficiency.

The smooth operation of the logistics system has ensured the security of product distribution in the LOTOS Group, helped meet statutory requirements on the creation, maintenance and turnover of mandatory stocks, and enabled the LOTOS Group to attain the National Indicative Target for marketed bio-components.

In 2012, Grupa LOTOS earned additional revenue from sales of logistics services to third-party customers, including quality inventory exchange and the stock ticket service, consisting in the fee-based maintenance of mandatory reserves of fuels.

Sea transport

Freight transport by sea is a vital element of the LOTOS Group's logistics chain. We enjoy the considerable advantage of having direct access to the product pipelines linking the Gdańsk refinery to the liquid fuel handling facilities at Port Północny. Maritime transport is the Company's main mode of exporting petroleum products and supplying a significant portion of the raw materials and components used in production. The number of tankers carrying the Company’s imports and exports was slightly reduced in 2012, relative to 2011, primarily as a result of optimisation of the volume of cargo moved (larger export of petroleum products, particularly heavy fuel oil) and changes in the structure of biocomponent suppliers (a significant share of supplies from domestic companies).

The liquid fuel handling terminal owned by Naftoport handles tankers with a maximum draught of 15 metres and the capacity to load up to 150,000 tonnes of crude oil or petroleum products. This allows Grupa LOTOS to export surplus products and sell them on the Scandinavian, Northern and Western European markets, and the Baltic states. The direct connection to the port also makes it easier to conduct import deliveries of petroleum products, mainly diesel oil and light fuel oil components.

Grupa LOTOS enjoys the advantageous position of having a refinery at a short distance from a cargo handling terminal, which allows it to diversify its supply sources and facilitates the shipping of crude oil from own reserves under the Baltic Sea and in Lithuania, and - in the future - crude oil produced from reserves under the North Sea.

We are consistent in our efforts to take over the management of cargo transportation by sea, or to control the transportation process on the longest possible section of the supply chain, from the affreightment of ships to the formal handling of sea transport. This ensures greater control and helps streamline the planning process as regards cargo handling at sea ports, allowing us to reduce the frequency of ship detention and optimise related costs. In 2012, Grupa LOTOS took over most of the activities related to securing vessels for sea transport on its own, cutting out third-party intermediation services.

Financial standing

In 2012, we launched preparatory work related to the comprehensive modernisation of the Poznań fuel depot. The project, which will be financed with our own funds, is scheduled for completion in 2014.

Also in 2012, we continued design work on the construction of the sea cargo handling terminal in Martwa Wisła, in the immediate vicinity of the Gdańsk refinery. The aim of the project is to enable handling of component and product loads with a unit volume of up to 5,000 tonnes for exports and imports on Grupa LOTOS' own wharf.

In 2012, LOTOS Kolej operated rolling stock of ca. 3,600 rail cars and nearly 100 locomotives, including some of the most advanced electric locomotives: a Bombardier TRAXX MS/DC, and a Siemens ES64F4, as well as TRAXX DE Diesel locomotives.

Rail transport

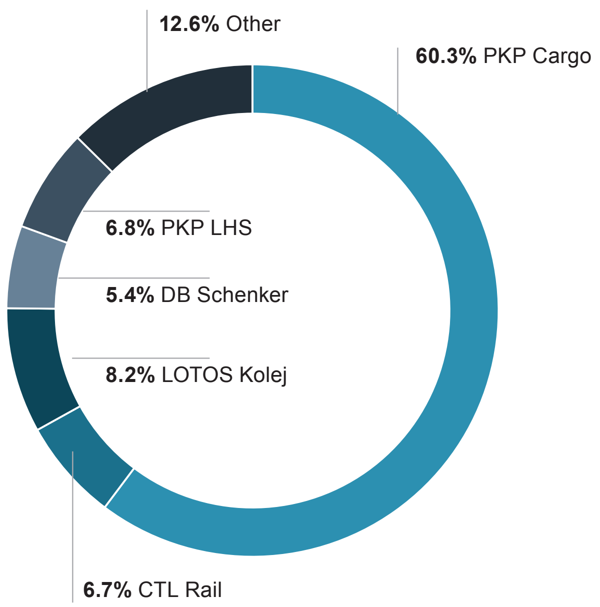
In order to ensure the most effective use of their assets, LOTOS Group companies commission rail transport services from LOTOS Kolej, providing a comprehensive transport solutions. LOTOS Kolej covers all stages of freight rail transport, including technical maintenance services for rolling stock, and is the only private operator in Poland able to offer both full-train and single-car freight services, which is a significant competitive advantage on the market. The company operates an innovative rail logistics system of real-time monitoring of the location and technical and commercial parameters of every train being started. The company is among the market leaders in terms of using the most modern locomotive fleets in Poland, which increases the efficiency of its transport services, guaranteeing their high quality.

As a result of its continuous development, LOTOS Kolej has the potential to fully satisfy the transportation needs of LOTOS Group companies and, increasingly, to render transport services to third-party customers.

In 2012, LOTOS Kolej transported a total of ca. 10.6m tonnes, including cargoes of over 4.4m tonnes hauled for third-party customers.

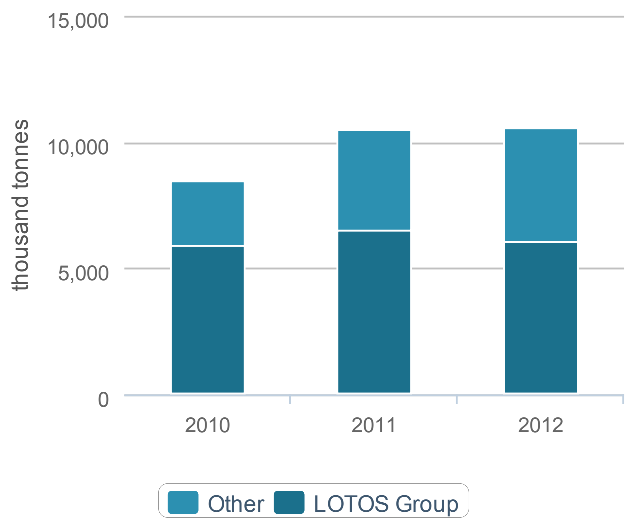
LOTOS Kolej is one of the leading freight rail carriers in Poland, ranking second with a market share of 8.21%.

LOTOS Kolej's share in the domestic freight market in 2012



Source: In-house analysis based on the Office of Rail Transportation data, January 2013.

Volume of rail freight hauled by LOTOS Kolej by transport activity (thousand tonnes)



Source: In-house analysis based on data sourced from the LOTOS Group.

Development plans

Prospects for the LOTOS Group's downstream segment will depend on market expectations and will be oriented towards more efficient use of the economic potential of the modernised and extended Grupa LOTOS refinery in Gdańsk.

Fuels

In the retail segment, the most important plan is to expand the budget LOTOS Optima chain with new service stations and to consistently grow the Premium segment, including motorway coverage. Other growth opportunities involve establishing long-term commercial relations with international operators and beginning cooperation with hypermarket chains. We can take advantage of these opportunities thanks to our openness to novel solutions designed to facilitate mutual cooperation and settlement of accounts (e.g. electronic transfer of data and e-invoices).

Engine and industrial oils

Research on the domestic lubricant market in the passenger car engine oils segment shows a decline in demand for mineral-based products. In response to a difficult economy, we are seeking new growth opportunities. Thanks to the competitive advantage of the Oil Service offered by LOTOS Oil, we can achieve further growth in sales to industrial customers and maintain large market shares.

Bitumens

2012 witnessed the collapse of the road infrastructure market. Many of the construction companies engaged in road construction projects were declared bankrupt and went into liquidation. With the banks starting to withdraw from financing road projects, the slump is expected to continue in 2013. The uncertainty prevailing on the construction market invites a strategy that is underpinned by cooperation with the construction groups able to finance their operations with stable funding sources. We are also expanding our offering to include new technologies and products, like modified bitumens with an addition of rubber. Adoption by LOTOS Asfalt of a new sales policy is planned for 2013.

Logistics

Development of Grupa LOTOS logistics capabilities will involve optimisation of the supply chain, consolidation of operating activities, product swapping with other market participants, further reduction in shipping and storage costs, and the increased activity and competitiveness of entities providing logistics services on the home market.

Trading

Our activities in the trading area in 2013 will focus on optimising the structure of crudes, which will mainly involve increasing the share of crude supplied by sea. Deliveries of crude produced by LOTOS Geonafta in Lithuania are also expected to begin. Work will continue on improving and further integrating the key functions and competences necessary for integrated margin management. The Gdańsk refinery's process system for export petroleum products has stabilised, so we do not expect any major movement in sales structure and volumes. Export sales volumes will depend on the volumes sold on the domestic market, and also on the volumes of crude processed at the Gdańsk refinery and the crude processing structure. Export sales volumes may fall slightly due to the maintenance shutdown of the refinery planned for spring 2013. As part of our optimisation of the supply chain, products supplementing the petroleum product mix will continue to be purchased or borrowed.

Sustainable development

Our objective is to create company value through utilisation of human and material resources and implementation of development programmes in the areas of oil exploration and production, processing and trading. These programmes are pursued in compliance with the principles of sustainable growth, which we understand as the continuous effort to reduce our environmental footprint, and paying due regard to the intellectual capital and experience of our personnel. Application of the principle of sustainable development and social responsibility in business translates into the production of high quality products with the lowest possible impact on people and the environment in the place of their use.

IN THIS CHAPTER

Interview with President of the Board

Win the future

Participation in government policies

PLN 3.9 bn until 2015 on hydrocarbon exploration and production projects

Strategic goals

Social Responsibility 2012-2015

The Environment

100,000 tonnes of CO_2 less in 2012

Society

721 hours of training on human rights

Employees

99% of employees covered by the Collective Bargaining Agreement

Win the future. An interview with Paweł Olechnowicz, CEO of Grupa LOTOS S.A.

Yes. 2012 saw the ultimate success of the 10+ Programme, an investment project which gave the Grupa LOTOS refinery completely new capabilities in terms of volumes of crude oil processed and the quality of the crude distillation itself. The business strategy adopted towards the completion of the investment project defined the shape of the company in subsequent periods – in 2015 and in 2020. However, the strategy said little about the values that needed to be embraced and awareness demonstrated by the LOTOS workforce in order to accomplish all of the strategy's objectives. Those aspects were looked at in 2012, and drew on all our experience in the last decade, common to all of our employees.

The first ten years of building the LOTOS Group were abundant in particularly noteworthy and important events. We had set out to create a strong corporate group, a vertically integrated oil concern, at a time when even the phrase "oil concern" itself sounded unrealistic in Poland. When we completed the 10+ Programme, the largest economic investment project in our part of Europe, it was because we shared a vision and belief in our ultimate success. That experience helped crystallise our attitudes for the coming years and lay the foundations for a clearly defined code of values - not one imposed on us externally, but developed by ourselves, for ourselves. Last year, that code became an official part of our corporate policy.

So, in 2012, we were focused on creating formal grounds for the internal, qualitative development of the company. We need to develop it further in order to effectively leverage the potential built over the past decade, and these days, a coherent and unifying system of values is a source of competitive advantage on the market.

Grupa LOTOS is set to embark on many ambitious and far-reaching plans, which we want to implement just as eagerly and sincerely as we did the 10+ Programme. Our positive experiences in the past should enable us to make the changes necessary for the company's growth, and reinforce a management style based on values shared by all employees.

Our goal in 2012 was to develop a system of ethical values that would guide our workforce and make their work more efficient and effective. 2012's 'strategy spotlight' was on soft skills and competencies, so a representative group of our employees and management staff contributed to the development of the CSR Strategy for the LOTOS Group until 2015. One of the principal goals of the strategy was to set up an Ethical Conduct Programme, with the Code of Ethics at its core.

In the course of public consultations encompassing all our employees, both in Poland and abroad, we then arrived at a set of ethical principles for LOTOS. These principles define the values by which our employees are expected to work, irrespective of their position, assigned tasks or place in the LOTOS Group's structure, and are the basis for further indispensable changes within it. Having now developed a culture based on values and social responsibility, we are moving ahead, well-prepared to tackle the potential challenges of the future. The time we spent enhancing our soft skills was a necessary phase that prepared LOTOS for another transformation. And so, with many businesses trying to figure out how to get by in hard times, we have already positioned ourselves to win the future.

- What will the next transformation actually involve?

For 2013, we have initiated 'Efficiency and Growth', a new growth-oriented programme. The name itself indicates the goals behind its planned changes. Drawing on the last decade's work and experience, we want to take a big step forward and free the investment potential of the LOTOS Group companies. On one hand, the programme will enable some of the companies to function under a new organizational and capital framework, which will facilitate finding them strategic partners able to effectively boost their market positions in areas not directly connected with the oil industry. On the other hand, it will enable other LOTOS Group companies to increase their operational efficiency while mitigating investment risk, which is very important given the current market climate.

When talking about the meaning of the change, I must stress that it will involve strong incentives, both for management staff and other workers. In these challenging times, when most would rather wait and see, we are proposing a growth programme that is also of interest to our employees and business partners. We communicate responsibly with the workforce, explaining how we intend to redefine our capital, including our intellectual capital. Man lies at the core of these changes. That is the focal point of the new programme.

LOTOS has had positive experiences from its times of change. Don't forget, the Gdańsk Refinery was transformed into a globally recognised oil concern by essentially the same people. It is this social capital that provides the grounds for our long-term growth and offers us the opportunity to create new jobs and develop innovative business models that are also beneficial to our environment.

- Can you please comment on the situation of the Yme field and the prospects of LOTOS producing its own crude oil from deposits under the Norwegian Sea?

As we have repeatedly reported, serious technical problems occurred on the Yme field, which could not be successfully resolved by the two companies responsible for its development and launch of production, SBM Offshore (the production platform's owner) and Talisman Energy (the Yme field's operator). The dispute between these two entities has had serious stock market repercussions and grave financial consequences for them and in this situation, LOTOS could only choose between two courses of action: either start a legal battle and fight it over many years to come with an uncertain outcome or take steps which are both constructive and pragmatic from an economic perspective aimed at resolving the problem. We opted for the second option, which turned out to be absolutely the correct decision. Under the agreement concluded on March 12th 2013, the defective platform will be removed from the Yme field, which will open the way for the future exploitation of the field. Also, the Yme licence holders, including LOTOS Norge, received a total of USD 470m in damages. I wish to stress that we were not only the initiator but also one of the main driving forces behind the conclusion of this agreement.

At the initiative of Grupa LOTOS, negotiations between the parties aimed at resolving the dispute over the future exploitation of the field started in June 2012 in Gdańsk and, owing to the rational cooperation and good will expressed by all licence holders, an agreement was reached. The involvement of Grupa LOTOS managers responsible for the project as well as of legal and financial advisors of the Company proved to be crucial to the success of this complicated operation.

Thanks to the concluded agreement, LOTOS regained the possibility to develop the field in an alternative way or to sell its stake in the Yme licence on the free market.

In 2013, LOTOS plans to further expand its Norwegian Continental Shelf activities and acquire stakes in production licences, which will allow us to activate the 'tax shield' and recover most of capital invested in the Yme field.

- The CSR Strategy and the Ethical Conduct Programme, as well as the above-mentioned Efficiency and Growth Programme, are not the only commitments undertaken by LOTOS towards society in the previous year. The company is among the signatories of the Declaration of Polish Businesses for Sustainable Development, also announced in 2012.

The commitment to operate taking into account the perspective of sustainable development is not only a part of our strategy - it is written into our mission as well. Considering how important sustainable development is to us, we have responded to an invitation extended by the Ministry of Economy to collaborate on a document defining the key challenges for Polish entrepreneurs up to what seems to be the long-term perspective of 2050.

The vision of sustainable development described in the Declaration prioritises the following six key areas: social capital, human capital, infrastructure, natural resources, energy, and the quality of the state and its institutions.

We mentioned one of the priorities - energy - in June 2012 after signing the Declaration, when we highlighted the energy security aspect of ensuring stable energy supplies to the Polish market. Equally important for the LOTOS Group's operations are natural resources, including energy carriers such as natural gas and crude oil, as well as soil, water, air, biomass and the ecosystem. One must be aware that it is business that has largely been responsible for the way natural resources have been used to date - the industry, transport, service and agricultural sectors use approximately 70% of the world's energy resources. We must alter production and consumption patterns to make them more sustainable and embrace recycling as a means of curbing wastage of materials and energy.

We are always open to new solutions. Partnering with companies such as PGNiG or CalEnergy creates opportunities for us to operate on a wider scale in the feedstock and materials market. We are also interested in taking advantage of the opportunities offered to the Polish economy by the new Polish Investments programme. In 2012 we began working with Azoty Tarnów, which lead to us becoming one of the first beneficiaries of the programme. We are also now in the process of analysing the terms of various potential investment projects.

Numerous innovative solutions are also being developed at the refinery, and we are striving to maximise the reuse of natural resources. We seek to constantly improve the efficiency of energy use by replacing old equipment with new and more efficient facilities, monitoring energy consumption and identifying ways to save energy, as well as by recovering energy from flared gas.

Businesses are surrounded by the natural environment and frequently have a negative impact on ecosystems. This fact cannot be ignored and we must not irresponsibly pollute the environment with waste energy and dirty water. Frugal management of resources, environmental protection, use of modern, low-emission technologies, as well as educating customers and subcontractors is not merely a fashionable trend available to just a few. It is a challenge for all companies in Poland, notwithstanding their size. We are guided by this principle at LOTOS.

Ignoring major challenges, such as climate change, and treating them as remote issues not only leads to environmental degradation and impacts future generations, but also hampers our efficiency and competitiveness. In 2012, Grupa LOTOS made an environmentally beneficial change by introducing natural gas as the main energy carrier and feedstock in our hydrogen production. In this way we accomplished two goals: we lowered our emissions of hydrocarbon dioxide –

which is the most common greenhouse gas – by 100,000 tonnes in 2012 alone, and achieved a significant reduction in the emission of other pollutants, including an almost 1,500 tonne and 150 tonne reduction of sulphur dioxide and particulate emissions. Such actions are clear evidence that declarations of care for sustainable development are not just words, but also everyday practice for LOTOS.

- Even so, the oil sector is now facing sustainable development challenges with respect to which the efforts of a single company are definitely not enough, and decisions by both national government and the European Commission have substantially affected the operations of businesses active in the oil industry.

In the sector in which we operate, there are indeed several major challenges resulting from these decisions, and Grupa LOTOS is actively engaged in devising appropriate solutions to them. We play a key role in the national energy security system. Consequently, issues related to national energy security are taken into account both in our business strategy and in the LOTOS Group's CSR strategy.

One example of the issues which require our attention is the existence in Poland of the National Indicative Target (NIT), which is met through the use of biocomponents and biofuels. These are more expensive than mineral fuels, so achieving NIT targets has a tangible effect on the cost of energy in the transport sector. We believe that the potential reduction of the NIT would be a good solution, and we are also looking forward to the possibility of achieving our NIT target by using new technologies, such as co-hydrogenation technology, and by making use of renewable sources, such as biogas and green electricity.

Another important change may follow from the European Commission’s proposals aimed at changing the energy taxation system, which are designed to tie tax rates to a fuel's calorific value and CO_2 emissions. Such modifications may entail the risk of altering the structure of transport fuel's demand. Together with the Polish government and also as a member of the Central Europe Energy Partners (CEEP), we have taken steps to prevent any unfavourable solutions. Our activity in the EU forums finds confirmation in the growing number of industry representatives within the CEEP. We expect that together, we will ensure that the CEEP favours prospects which take into account the challenges of sustainable development.

Participation in government policies

Grupa LOTOS participates in the implementation of governmental policy concerning the energy sector. Our representatives are part of expert teams appointed by the state administration to develop new legislative solutions for the energy sector and participate in public consultations concerning draft laws governing the sector.

Moreover, Grupa LOTOS representatives attend meetings of the Intergovernmental Commission of Russia, Kazakhstan, Azerbaijan, Ukraine and Belarus. We support the Ministry of Economy, the Ministry of the State Treasury and the Ministry of Foreign Affairs by providing them with information for the purposes of top-tier governmental meetings devoted to the functioning of the energy sector.

In accordance with the LOTOS Group's Code of Ethics, we are apolitical, which is evidenced by the fact that we do not support any political groups.

This allows us to participate, based on transparent rules of conduct, in lobbying activities, as well as to implement governmental policy and create laws on energy sector issues, with a particular focus on the fuel sector. We also liaise with public administration through the industry and business organizations to which we belong.

In line with the business strategy of the LOTOS Group for 2011-2015 and its development directions until 2020, one of our strategic goals is to increase our role in enhancing the security of Poland’s energy sector by increasing hydrocarbon production and the oil conversion ratio, improving Poland’s fuel balance and exploiting synergies between the refining and other segments of the sector. Moreover, one of the key goals of the CSR Strategy until 2015 is to launch and support initiatives that enhance energy sector security at home and in other countries where Grupa LOTOS has a business presence, in a socially and environmentally responsible manner.

The fact that key company documents contain provisions on supporting Poland's energy security confirms the importance of the issue in our operations.

In 2012, the LOTOS Group implemented these goals through numerous initiatives undertaken at home and abroad. These included:

- Work on integrating the energy sector within the EU common policy;
- Provision of information and expert support in growth and infrastructure projects initiated by the government and aimed at improving energy sector security, such as shale gas exploration;
- Taking an active role in the law-making process for energy sector regulations in Poland and the EU.

LOTOS Group strategy is geared towards dynamic development of the upstream segment (hydrocarbon exploration and production). This is fully consistent with the LOTOS Group’s policy of active participation in strengthening Poland’s energy security.

Research on unconventional resources

In 2012, LOTOS Petrobaltic, together with other entities including higher education and research institutions, created a scientific consortium to support the development of innovative technologies for exploration for and production of natural gas from unconventional sources in Poland. The consortium was created to carry out research projects as part of the Blue Gas - Polish Shale Gas programme. This joint project of the National Centre for Research and Development and the Industrial Development Agency supports leading R&D projects in shale gas exploration and production. This is a major step towards setting up a regular forum for the exchange of R&D concepts and ideas, ensuring access to the results of joint work and facilitating the development of solutions specific to as yet untested unconventional resources in Poland.

Pursuant to its current strategy, the LOTOS Group plans to explore for shale gas within its licence areas on the Baltic Sea and in Lithuania. We plan to spend PLN 3.9bn on projects related to hydrocarbon exploration and production by 2015. The main partner for these efforts in Poland will be Polskie Górnictwo Naftowe i Gazownictwo.

Participation in law-making processes

We participate in the work on amendments to the Act on Mandatory Fuel Stocks in Poland, aligning the existing legal framework to EU requirements (Directive 2009/119/EC), as well as in the work on energy from renewable sources in transport (Directive 2009/28/EC, Directive 2009/30/WE). We have also taken part in opining draft laws governing the energy sector, such as the Energy Law, the Gas Law, the Geological and Mining Law, as well as the Act on Renewable Energy Sources. We are also involved in the legislative process to curb the grey market and consolidate the regulations on liquid fuels to form a single act - the Petroleum Law. We have taken part in issuing opinions on draft amendments to the Act on Liquid Biocomponents and Biofuels, as well as draft amendments to the Act on Fuel Quality Monitoring and Control Systems, amongst others.

Central Europe Energy Partners (CEEP) work

In 2012, Grupa LOTOS became involved in CEEP, as one of the founding members of the association. CEEP is an international think-tank representing the interests of Central Europe's energy sector in the European Union.

CEEP is actively engaged in all key events relating to the energy sector and organised by the EU. It has participated in consultations organised by the European Commission and in the preparation of expert materials for EU institutions, and has been a member of working teams, including at the Berlin Fossil Fuels Forum and the European Energy Nuclear Forum. CEEP is also a partner of the Coal Round Table in the European Parliament and supports the Shale Gas Round Table. CEEP also co-organises the largest coal sector event in Brussels and Belgium – the European Coal Days in the European Parliament. What is particularly important to us is the ability to participate through CEEP in the Refining Table of the European Commission, as this enables us to present our views on the EU forum.

In 2012, Ernst & Young prepared the Analysis of Central European Energy Sector report, also called the Prague Report, which was commissioned by CEEP. The report shows the current situation and the challenges faced by the energy sector in Central European countries. It was presented in several European cities, such as Prague, Budapest, Vilnius, Berlin, and in Katowice, in meetings attended by representatives of EU institutions and countries, as well as of the industry.

In 2012, CEEP carried out a pioneering project in Central Europe when it organised in Budapest the first Energy Summit '29+1' Conference of "29" CEOs and board members from the largest energy sector companies in the region, and the

"The Energy Sector in Central Europe. Challenges, Opportunities and Pitfalls" conference in Prague. April 2012. Günter Verheugen, former European Commissioner for Enterprise and Industry, is taking the floor.

CEO Paweł Olechnowicz actively participated in the "Energy Summit 29+1" conference in Budapest. October 2012.

"1" EU Commissioner for Energy, Günther Oettinger. The conference was a space for the free discussion and exchange of opinions, and another such meeting is planned for 2013 in Vilnius.

Development of petrochemical business

Development of petrochemical businessIn 2012, we also began working on a new growth project – diversification into petrochemical operations. In November of that year, Grupa LOTOS signed an agreement with Zakłady Azotowe w Tarnowie-Mościcach (Azoty Tarnów) on a preliminary feasibility study for a project involving construction of a petrochemical production complex, with two alternatives examined – a pyrolysis (steam cracker) complex with polyolefin production, or an aromatics complex. Once the results of the feasibility study are known, design work on the selected alternative can start.

The new project and the alliance with Azoty Tarnów will produce synergies in an extended process chain that makes possible the production of highly-refined products and petrochemical intermediate feedstock, with efficient utilisation of the existing industrial infrastructure and close proximity to the Gdańsk port.

Strategic goals

Corporate social responsibility and sustainable development are part of the vision of LOTOS Group operations, and are reflected in both the Business Strategy and the CSR Strategy. In 2012, the Board of Grupa LOTOS approved the updated CSR Strategy for the LOTOS Group, effective – just like the Business Strategy – until 2015.

When working on the new strategic perspective for the CSR, we had the ISO 26000 standard in mind, which describes CSR as taking responsibility for the impact of an organization's decisions and actions on society and the environment by acting in an ethical and transparent way, all of which:

- Contributes to sustainable development;
- Takes into account the expectations of stakeholders (persons or groups interested in the company's decisions or activities);
- Is in compliance with applicable law and consistent with international behavioural norms;
- Is integrated throughout the organization and practised within its sphere of influence.

In line with the principles we follow, as a socially responsible business we seek to:

- Consider the social and environmental aspects of our decisions,
- Take responsibility for the impact of our decisions and actions on society and the environment,
- Build business models contributing additional value to the company and its stakeholders,
- Integrate business goals with important social and environmental issues.

The LOTOS Group's Corporate Social Responsibility Strategy until 2015 has defined the objectives to be achieved in individual areas of activity. For each of these objectives, a set of targets and action plans has been created to support the achievement of the results envisaged in the Strategy.

- **With respect to investment in human resources**, our objective is to ensure the availability of the highly qualified staff required to successfully implement our business strategy and enhance our corporate culture based on adopted values.
- **As regards health and safety**, our priority is to increase the awareness and involvement in work safety improvement among 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.

Jowita Twardowska

Communication & CSR Director at Grupa LOTOS

More effective CSR

In order to achieve the highest possible level of effectiveness of our CSR strategy we have developed - following large-scale consultations - detailed operational plans and target measures in each key area defined in the strategy. Implementation of these plans is overseen by individual area leaders, who report to the Board of Grupa LOTOS. Our practice in this respect is the same as in the case of the business strategy.

For the purposes of internal reporting of our results, in 2012 we created a special tool for monitoring the progress of the CSR strategy's implementation over the coming years. This monitoring tool, tailored to the current business reporting needs of the Company, enables us to present our implementation progress on several levels: cumulative level of CSR objective implementation, individual areas and key objectives, operational targets and actions. Each key area of the strategy is assigned weights compliant with the criteria applied to assess the organizational maturity of the LOTOS Group.

In considering all of the above criteria in the period under analysis, we implemented they key objectives assumed for 2012 to 96%. We also implemented 93 of 97 planned operational actions. The few deviations from the plan were caused by organizational and technological changes within the company, and as such were a result of objective circumstances.

CSR mechanisms in the LOTOS Group are evaluated in terms of maturity on a par with other key management areas. The evaluation has been made every year since 2011, when its pilot implementation took place. This internal mode of strategy evaluation gives us appropriate notice of risks related to the implementation of CSR strategy and allows us to take any necessary corrective measures, and also with respect to other key management areas.

It should be emphasised that CSR, which is included as part of mainstream management thanks to the mechanism described above (amongst other things), supports the improvement of many practices in our organization and helps to enhance its operational efficiency at large. Skilfully implemented strategy engages the company in attaining set objectives in all areas that affect its business operations. The co-existence of the social and business perspectives also has educational functions, increasing employees' awareness of sustainable development and CSR issues.

Another effective element of our efforts is the openness of our relations with our business and social partners in the pursuit of sustainable development, both within the industry and generally in relation to society. Our commitment is evidenced by the fact that we are among the signatories of the **Declaration on Sustainable Development in the Energy Sector in Poland**, initiated by Polskie Górnictwo Naftowe i Gazownictwo, one of our key business partners. The Declaration emphasises:

- The need to ensure the efficient functioning of companies and the industry while maintaining due regard for both energy security and environmental protection,
- The need to jointly promote energy-efficient solutions, develop and implement cleaner and more efficient technologies, overcome investment barriers in the energy sector and take environmental impact into consideration at all stages of a

project's execution,

- The need to build an open market, where customers and energy providers can successfully assert their rights,
- The need to take care of customers, including socially vulnerable ones, by deploying schemes aimed to facilitate their access to energy,
- Participation in development of renewable energy sources, and harnessing of the potential offered by scientific and technological innovation; working towards a consistent and stable regulatory framework,
- Improvement of occupational health and safety and taking initiatives aimed to ensure equal career opportunities for men and women.

Environmental policy

As stated in the declaration included in our mission, the LOTOS Group aims at conducting all areas of its business in a sustainable manner, with respect for the environmental conditions specified by law, and in keeping with the code of Corporate Social Responsibility (CSR).

Our environmental policy is focused on clean production, understood as a continuous effort to reduce the consumption of utilities and raw materials, reduce emissions, manage waste effectively, as well as to ensure the safety of industrial processes for effective prevention of plant failures. We apply the prudence principle by identifying and properly managing risk on all stages of our business activities, starting from exploration & production, to planning and executing operational activities, to marketing. When assessing individual risks, we take into consideration their potential environmental impacts, people's health and safety, etc. We review the risks, together with the assessment of their environmental impact, also when executing individual projects, including investment undertakings. Preventive measures put in place depend on the detailed analysis of all risks and their importance for the functioning of the entire organization and its external environment.

Application of the principle of sustainable development and social responsibility in business translates into the production of high quality products with the lowest possible impact on the environment in the place of their use.

Environmental responsibility is one of the three most important areas of our social responsibility strategy, and also supports us in reaching business objectives in each segment of our activities.

PILLARS OF THE LOTOS GROUP'S CORPORATE SOCIAL RESPONSIBILITY STRATEGY UNTIL 2015

I SOCIAL RESPONSIBILITY	II ENVIRONMENTAL RESPONSIBILITY	III BUSINESS RESPONSIBILITY
Creating values beneficial to social environments	**Creating values beneficial to the natural environment**	**Creating economically beneficial values**
We are committed to respect for intellectual capital and diversity, and respect for human rights, including the freedom of speech and freedom of association. We contribute to the creation of new jobs and the improvement of the quality of human capital in the areas of our impact. We actively counteract exclusion and other social problems in the spheres of our competences.	We strive to continuously reduce the negative impact of our business on the environment through the application of high standards of extraction, production and processing of hydrocarbons, and also by meeting the demanding environmental standards in production, transportation and sale of petroleum products. In our upstream operations we employ the best available techniques and rules of conduct, constantly analysing the opportunities offered in this area by new technologies. We also aim to identify and develop opportunities for obtaining energy from renewable sources.	We place great importance on the management of our relations with the environment in a predictable and reliable manner, consistently with the principles of ethics and in keeping with the rules of transparency and partnership. This has an impact on the way in which we aim to profit and increase in value in the long term perspective. Our responsibility manifests itself in our initiation of activities aimed at increasing security in the energy sector in a responsible manner, both towards society and the environment. We provide a stable supply of fuel to the market, as well as participate in the exploration and production of hydrocarbon deposits, including unconventional ones.

The key objective of the LOTOS Group's CSR Strategy in the area of natural resource management in the production process is to reduce environmental risk and strive to continually minimise the degree of negative impact on the environment.

Achievement of the objectives of the CSR Strategy is subject to monitoring in the periods that coincide with the assessment of the level of implementation of the LOTOS Group's business strategy.

In addition, the vast majority of companies in the LOTOS Group, being a part of an integrated management system, are operating within a certified environmental management system, compliant with the requirements of the PN-N-14001 standard. The system assumes the existence of functioning procedures for the identification of environmental aspects at all stages of business, the setting of environmental tasks and objectives and proper control of waste management, as well as the monitoring of processes and activities that have an impact on the environment. A detailed plan for environmental monitoring of all areas of our operations is also clearly defined. If any deviations from the assumed parameters are identified, immediate corrective action is undertaken and suitable preventative measures implemented in case of any potential environmental risk.

Treating environmental protection as one of the key distinguishing features of the company's culture is additionally reflected in our Code of Ethics, which has been in force since 2013.

> Conducting business in a manner that promotes environmental protection and mitigates the environmental footprint of the LOTOS Group's industrial facilities, which could affect the well-being of the people living in their vicinity, are among our key priorities. We are intent on developing in a sustainable manner, with due regard for the needs of future generations. We use natural resources and energy rationally, while employing environmentally friendly technologies, which meet the criteria of *Best Available Techniques*. We also seek to promote environmentally responsible attitudes among our employees.
>
> Compliance with environmental policy is demonstrated by:
>
> - Adherence to internal procedures intended to ensure the conformity of our processes with the requirements imposed by applicable environmental laws;
> - Implementation of solutions designed to mitigate the LOTOS Group's environmental impact;
> - Involvement in educational initiatives seeking to create environmental awareness both within the organisation and in a wider social context;
> - Care for the environment in and outside of the workplace.
>
> *Source: The LOTOS Group's Code of Ethics*

As a company aware of the scale and character of its impact, we have declared that we should follow the international standards for enterprises which manage their environmental impact responsibly. This is confirmed by public support and our commitment to the application in all our activities of the rules set by the world's largest organisations promoting the ideas of social and environmental responsibility, such as the UN Global Compact. As a member of the UN Global Compact, Grupa LOTOS:

- Takes a preventive approach to the natural environment,
- Undertakes initiatives aimed at promoting environmental responsibility,
- Applies and promotes environmentally friendly technologies.

All issues related to environmental protection are managed in Grupa LOTOS by a dedicated organisational unit. In addition to monitoring the scope of the impact that the Company's production facilities in Gdańsk have on the environment, analysing the quantity and quality compliance of emitted pollutants, generated waste, wastewater discharge and water or noise pollution, its role is also to coordinate efforts to comply with environmental legal requirements and to set standards for the environmental policy in the LOTOS Group.

Aspects of our business also require us to monitor CO_2 emissions and undertake activities within the EU Emission Trading System. Monitoring and reporting of CO_2 emissions from LOTOS Group installations has been conducted faultlessly.

In line with our strategy and commitments, we attach importance to encouraging appropriate environmental attitudes among our employees and in the social realm. Activities aimed at improving the knowledge and awareness of the challenges of environmental protection are realised in our internal training and educational programme, the LOTOS Academy, and through our work with higher education institutions, such as Gdańsk University of Technology, University of Gdańsk and AGH University of Science and Technology in Kraków, and also through interaction with industry-specific scientific research centres in Poland and abroad.

Impact on ecosystems

As part of its mission, the LOTOS Group pays a lot of attention to the condition of the environment as a whole, placing particular emphasis on how its activities effect change in the environment. The LOTOS Group undertakes various measures to prevent and compensate for the possible effects of that impact. This policy is in force at all companies of the LOTOS Group.

The only production plant owned by the **Grupa LOTOS** is the oil refinery situated in the north of Poland, on the border between the municipalities of Gdańsk and Pruszcz Gdański. The facility spreads over 2.35 km^2 and the location is designated in the local spatial development plan as a built-in production and services area, for industrial facilities and warehouses. Apart from the refinery, there are warehouses and office buildings in the area, from which some of the LOTOS Group companies operate, including LOTOS Asfalt, LOTOS Oil, LOTOS Paliwa, LOTOS Lab, LOTOS Straż, LOTOS Ochrona and LOTOS Service.

The area owned by Grupa LOTOS is essentially of no environmental value and is not environmentally protected, either by Polish or EU environmental law. However, there are some areas in the neighbourhood of the refinery which are covered by various environmental protection regulations.

Nature Reserves

- Ptasi Raj in Wyspa Sobieszewska: surface area 200 ha, 2.5 km away from the plant;
- Mewia Łacha in the Wisła estuary: surface area 150 ha, 13 km away from the plant.

Landscape parks:

- Trójmiejski Park Krajobrazowy (Tricity Landscape Park) surrounding Gdańsk, Sopot and Gdynia from the east; surface area 19,930 ha, 15 km away from the plant;
- Nadmorski Park Krajobrazowy (Seaside Landscape Park) stretching from Białogóra in its western part to the Hel Peninsula in the east, and including the eastern shore of Zatoka Pucka; surface area 18,804 ha, 43 km away from the plant;
- Park Krajobrazowy Mierzeja Wiślana (Mierzeja Wiślana Landscape Park) situated east of the refinery, stretching from Sztutow all the way to the Russian border in Piaski; surface area 4,410 ha, 35 km away from the plant.

Natura 2000 areas

- Wisła estuary (PLB220004, continental),
- Zatoka Pucka (Puck Bay) (PLB220005, continental),
- Twierdza Wisłoujście (Wisłoujście Fortress) (PLH220030, continental),
- A mainstay in the Wisła estuary (PLH220044, continental).

The Natura 2000 areas coincide with the areas of the nature reserves and landscape parks.

The LOTOS Group companies, operating in the south of Poland, such as **LOTOS Czechowice, LOTOS Jasło, LOTOS Biopaliwa, RCEkoenergia** neither own, lease nor manage any grounds that are in the direct vicinity of nature reserves, landscape parks or Natura 2000 areas, or any other areas valued for their biodiversity. There are, however, two environmentally relevant areas in the neighbourhood of LOTOS Czechowice, LOTOS Biopaliwa and RCEkonergia:

- The Rotuz nature reserve, 6 km west from the border of the plant; surface area 28.21 ha.
- Protected spa area in Goczałkowice Zdrój, 4 km away from the plant's borders.

The potential impact of the LOTOS Group's sites on biodiversity are also analysed in the case of three Petrobaltic Group oil and gas producing entities. **LOTOS Petrobaltic** licence areas in the Baltic Sea are not situated in protected areas. Biodiversity in oil and gas extraction areas is very low, so the impact of work taking place in the waters of Polish economic zones is negligible. In the case of **LOTOS Geonafta**, licences and other areas managed by the Company are not located in protected zones. According to Lithuanian law, only prospecting (seismic) works can be carried out in protected areas or in areas of high biodiversity, but no extraction, as such, is allowed. Also, the licences and areas on the Norwegian Continental Shelf that were explored by **LOTOS Norge** in 2012 are not located anywhere near protected or high-biodiversity areas.

Energobaltic, another Petrobaltic Group company, is located in the northern part of Władysławowo in the industrial harbour area, occupying a surface of 24,000 m^2 and owned by the State Treasury and leased out to the company in perpetual usufruct. It is situated right at the base of the Hel Peninsula in the conservation area of Nadmorski Park Krajobrazowy and in direct vicinity of the Natura 2000 areas. As provided for by the local spatial development plan, the nearby areas, along provincial road 216 are designated for nuisance trades. There are meadows spreading behind the road, which border Zatoka Pucka, and are part of the Słone Łąki Nature Reserve.

LOTOS Asfalt has at its disposal industrial land located in Gdańsk, Jasło and Czechowice Dziedzice which the company holds in perpetual usufruct or under lease agreements from other businesses. These areas are situated within the land belonging to Grupa LOTOS, LOTOS Jasło and LOTOS Czechowice. The LOTOS Asfalt areas and their direct vicinity are not regulated by any form of environmental protection, nor are there are any facilities or areas nearby that are similarly protected.

At **LOTOS Paliwa**, in the process of preparing new facilities for operation in the LOTOS station chain, the environmental protection documentation has also been reviewed. An Environmental Impact Assessment Report was prepared for each newly built station, which includes analysis of the station's location in relation to protected areas or any other areas of biodiversity, and a risk analysis of the possible impact of the station on the environment. Based on the analysed documentation and site visits it was concluded that LOTOS chain facilities were mostly located within towns and cities, away from protected areas.

LOTOS Kolej based in Gdańsk had its Environmental Impact Assessment Reports prepared at the investment stages, with the potential impact of the planned facilities on the neighbouring areas thoroughly investigated, with special focus on the protected and significantly biodiverse areas. No such areas were identified anywhere near the new facilities.

Both Polish and EU law are designed to ensure that restrictions imposed on production plants guarantee the lowest possible impact of their activities on biodiversity in nearby areas, while at the same time not generating irrational costs. Grupa LOTOS refinery and all other companies that belong to the LOTOS Group, depending on their production profile, ensure that they meet all the requirements defined in their integrated and sectoral permits. The standards defined in the permits mostly regard monitoring and reporting of air quality around the plant, wastewater, gas and noise emissions and waste management. Ensuring that these conditions are maintained guarantees that the protected areas neighbouring the plants, as described above, will not be adversely affected in any way.

Similarly to plant operating conditions, the law also regulates the parameters that refinery products need to have before they are introduced to market. This guarantees that when used correctly, they will not have excessive negative impact on the environment or biodiversity.

The LOTOS Group ensures that it does not expand in any way that is detrimental to natural habitats, or that it has any other adverse effect on the natural habitats situated in the neighbourhood of its investments. This guarantee can be provided because issues of biodiversity are included in the specialist environmental impact assessments prepared prior to each of our investments.

In fact, the LOTOS Group companies' presence can be discussed in terms of their positive impact on the lives of the people who live near their plants, and Energobaltic's activities are a good example of such operations. The company's CHP plant has considerably reduced exhaust emissions from local coal boilers, while low-waste technologies have allowed us to avoid combustion waste, such as slag and dust. Continuous monitoring of underground waters confirms the stability of their content, which remains well within prescribed standards. This is particularly important because the plant is close to the beach and sea, has a nature reserve in its vicinity, Natura 2000 lands and the Nadmorski Park Krajobrazowy (Seaside Landscape Park).

Mitigating the environmental impact

- data has been verified, full text of the Independent Assurance Report (/en/the-organization-and-its-report/integrated-reporting/auditing-and-reviews#opinia-pwc)

The LOTOS Group's Business Strategy for 2011-2015 envisages that we will exclusively endorse environmentally friendly technologies, based on the best solutions available, with characteristically low emissions and highly efficient production processes.

In line with its strategic objectives, the LOTOS Group is especially concerned with gas emissions, which are the most critical source of environmental nuisance, both for the immediate environment of the LOTOS Group's plants and other areas located further away. This particular focus does not only stem from legal regulations in this area or from our own wish to reduce negative impact on the Company's immediate natural environment. An essential role is also played by the economic aspect, just as the Polish and EU laws have been designed to ensure that in the long run reduced emissions and lower emissions by industrial plants will bring measurable financial benefits. In fact, all technological changes in the LOTOS Group are planned to meet the criteria of the Best Available Techniques (BAT), which in most cases, is associated with the fulfilment of the conditions specific to the three areas mentioned earlier.

As far as emissions from industrial plants are concerned, stakeholders take the greatest interest in greenhouse gases, including carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), fluorinated hydrocarbons (HFC), perfluorinated hydrocarbons (PFCs) and sulphur hexafluoride (SF_6). It is commonly believed that the excessive emission of these gases into the atmosphere is one of the main causes of the currently observed global warming. In order to counteract global warming, a number of agreements and protocols have been established, which oblige the participating countries to reduce their emission of greenhouse gases to a specific level in a given period. The main document regulating the reduction of greenhouse gas emission is the Kyoto Protocol, the first version of which was negotiated in 1997. The document came into force in 2005 after being ratified by 141 countries.

A direct consequence of the Kyoto Protocol for the European Union is the introduction of the emissions trading system (ETS/EU ETS), in which Grupa LOTOS, LOTOS Asfalt, RCEkonergia and Energobaltic have actively participated from the very beginning, successfully meeting its requirements and abiding by its restrictions. The general idea behind the ETS is to motivate plants to reduce emissions in one of several possible ways, which involve the need to purchase fewer emission allowances, and thus bring specific economic benefits.

In order to standardise the method for determining emissions levels in the EU, the industrial plants that participate in the ETS are obliged to perform measurements and report emissions in one of the recommended ways. As far as burning of fuels and processing of feedstock (considered mainstream emissions) is concerned, Grupa LOTOS uses the **calculation-based methodology**. With this purpose in mind the entire refinery has been included in the system of detailed measurement of burnt fuel and processed feedstock. To determine emissions on the basis of a selected methodology we need precise data regarding the quantity of fuel and feedstock and also their properties, such as calorific value and emission factor, which are analysed on a regular basis by our accredited laboratory in the LOTOS Lab. On the other hand, we use the **reference emission factors** for the components of the *de minimis* emission source stream (for example, diesel oil from aggregates or combustion of residual gases), as required by the legal regulations, whose measurements do not have to be as highly accurate as the main components'. One of the previously mentioned greenhouse gases, released by Grupa LOTOS installations in large amounts, is carbon dioxide. In 2010-2012, carbon dioxide emissions totalled 6,681 thousand tonnes.

Type of CO_2 emissions in Grupa LOTOS	Emissions [thousands of tonnes per year]		
	2010	2011	2012
Direct	1,607	2,045	1,979
Indirect	285	365	400
Total	**1,892**	**2,410**	**2,379**

Direct emissions are understood as all sources of greenhouse gas from the burning of fuels and feedstock processing which are controlled within an organisation's boundaries (e.g. through chimneys), whereas **indirect emissions** are a consequence of activities conducted outside of organizational boundaries (e.g. using purchased electricity, heat, steam, company cars or emissions related to business trips). The only significant source of indirect emissions in Grupa LOTOS is in the purchase and use of electricity.

One of the issues frequently discussed in relation to the excessive emission of greenhouse gasses observed on the global scale is the characterisation of the emissions throughout the product's entire life cycle, i.e. from its extraction to its final consumption by the end user. Grupa LOTOS has set up a special team to investigate this problem. Despite the lack of regulations establishing a methodology for calculating the reduction of greenhouse gas emissions in the life cycle of fuels, there are plans to try to reduce the emissions of these substances throughout the process.

A significant contribution to the refinery's impact on the natural environment is also made by such gases and substances as nitrogen dioxide (NO_2), sulphur dioxide (SO_2), and particulate matter (PM). Attempts to control and reduce these emissions to the atmosphere are not only motivated by our care for the environment, but also by concern for the health and lives of people excessively exposed to these contaminants. In Grupa LOTOS, nitrogen dioxide, sulphur dioxide and particulate matter emissions from the CHP plant's emitter are measured continually by on-line analysers, while emissions from the emitters at the refinery installations, are monitored based on cyclic measurements, carried out in accordance with applicable reference standards.

Substance	Pollution emissions in Grupa LOTOS [tonnes per year]					
	2010		2011		2012	
	E_s	E_d	E_s	E_d	E_s	E_d
SO_2	4,758	6,470	5,708	7,137	3,370	6,342
NO_2	1,315	2,475	1,620	2,650	1,308	2,501
PM	260	538	344	556	264	461

E_s - actual level of emissions from Grupa LOTOS installations
E_d - permissible level of emissions

The increase in the emissions of these three substances in 2010-2011 from Grupa LOTOS installations, and the fact that in 2012 carbon dioxide emissions were maintained at the same level, is a result of the intense expansion of the Gdańsk refinery, taking place since 2008. At the end of 2010 and the beginning of 2011, the last installations built under the **10+ Programme** were made operational, significantly increasing the amount of crude oil processed and the depth of its processing, but also the amount of substances emitted to the atmosphere.

An increase of emissions alone cannot be treated as a determinant of the emission efficiency of industrial installations. As announced in the previous year, in 2012 we introduced a number of significant technological changes at the Grupa LOTOS refinery, which considerably reduced emissions despite growing throughput. The most important changes were:

- **Use of natural gas as fuel to produce steam** in the power plant's boilers – natural gas is a clean, high energy fuel and allows for a significant reduction in emissions;
- **Use of natural gas to produce hydrogen** – increasing the efficiency of the process and thus reducing the amount of feedstock consumed;
- **Increased the flow of natural gas to the fuel gas network** – ensuring a constant supply of this feedstock to the technological network of the refinery allowed for an increased amount of it to be added to the fuel gas network, at the same time reducing the use of heavy fuel oil, resulting in lower emissions of SO_2 from the refinery.

The legitimacy of the introduced technological changes is confirmed by the reductions in the emission of air pollutants, as listed below:

Emission reduction in Grupa LOTOS in 2012	**CO_2**	**SO_2**	**PM**	**NO_x**
	tonnes/year	**tonnes/year**	**tonnes/year**	**tonnes/year**
Replacement of fuel oil with an injection of natural gas to the fuel gas network	35,000	1,200	140	170
Replacement of fuel oil with natural gas in the CHP plant	20,000	300	20	70
Replacement of light gasoline/LPG with natural gas in the HGU	45,000	0	0	0
Total	**100,000**	**1,500**	**160**	**240**

Marek Sokołowski

Vice-President of Grupa LOTOS Board

A hundred thousand tonnes of CO_2 less

Implementation of the project to supply natural gas to the Grupa LOTOS refinery and to the CHP plant means a change from our traditional heavy fuel oil, to a solution not only economically viable but also characterised by low emissions and contributing to considerable reduction of our refinery's environmental impact. By supplying high pressure natural gas we will not only meet current, but also the future standards included in the announced changes to environmental law, which from 2016, will treat the emission of energy pollution very restrictively.

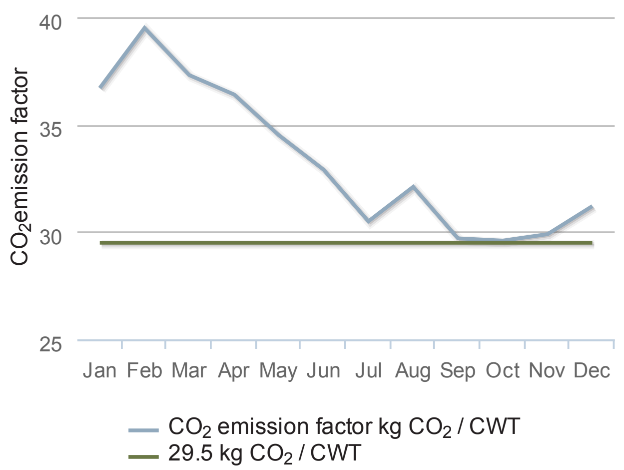
The scale of the benefits that we owe to this solution is clearly reflected in the results we managed to achieve after just the first few months of its use. The fuel gas system has been fed natural gas since May 2012, the hydrogen generating plant since June, and the two boilers of the CHP plant since September and November, while the changes in emission levels of the three basic air pollutants and carbon dioxide – greenhouse gas – are already measured, depending on the type of pollution, in hundreds and thousands of tonnes. This demonstrates the scale of our reduced impact on the environment.

Initial data shows that the most significant reduction has been noted in the case of greenhouse gases. Our estimate is that once all the investment projects being part of our programme to limit the carbon dioxide emissions are completed, we will reach emission levels typical of the best European refineries. These are the levels we took into account when determining the 'refinery benchmark', decisive in the process of allocation of free emission allowances for the period 2013-2020. The benchmark was calculated as the average of the best 10% of refineries, and is 29.5 kg CO_2/CWT, where CWT (Complexity Weighted Tonne) measures the production capacity of a refinery at a standard level of performance.

As far as our installations are concerned, the allocation of free allowances is most likely to cover the emission of 12,757,000 tonnes of CO_2 for the entire third trading period, or until 2020. This would necessitate purchasing additional allowances on the market, up to 200,000 a year. It is important to remember that in the current trading period of the CO_2 emissions trading system, Grupa LOTOS will be treated as one installation. A draft listing of installations with a preliminary estimate of their allocation of free emission allowances, prepared by Poland, is currently being evaluated by the European Commission.

It gives me great satisfaction to point out that in the last few months we have taken a big step closer to the benchmark for the best refineries in Europe. This is a good portent for the coming years, when we will try to use natural gas as a source of energy and as feedstock for the production of hydrogen.

CO_2 emission factors at the Grupa LOTOS refinery in 2012



Connecting the Grupa LOTOS refinery to a high pressure natural gas network has had an important ecological and economic effect, and was also beneficial in terms of energy efficiency. Liquid fuel energy obtained from processed petroleum was partly replaced by gas fuel, and extensive replacement of liquid fuels has reduced the use of steam necessary for the preparation of liquid fuels for combustion. The ongoing optimization of the fuel distribution system is aimed at maximising the use of available gas fuel.

The Company is also undertaking initiatives aimed at supplying energy efficient products with use of solutions that reduce energy requirements. In 2012, together with control engineering specialists, the Energy Efficiency Team supervised the modernisation of the Visual MESA computer system, which provides visualisation and optimisation of energy consumption. The system continually supervises the power infrastructure of the refinery – both the gas and fuel oil systems and also the technological steam system – and on the basis of optimisation algorithms, it suggests changes in the energy system which will reduce its operating costs. Wider access to information in this system is one of the benefits of the modernisation. As gas fuel was introduced to the refinery, an updated logical model of the fuel distribution system was also introduced in the Visual MESA system.

In order to reduce indirect use of energy, the refinery's technical services have initiated a pilot project for replacement of 15 lighting fixtures with energy-saving LED lamps. This project has been extended to the external lighting of the plant's roads and yards, and also serves to accumulate experience with the reliability and servicing of energy-saving light sources.

In the next few years we are also planning other projects aimed at lowering the environmental nuisance of the refinery in Gdańsk.

One of these is the **construction of an installation to make use of flare gases**, which began towards the end of 2012. Burning hydrogen in flares is probably one of the most glaring examples of wasting raw materials. Globally, a huge amount of natural gas is wasted during the crude oil extraction process because of a lack of facilities to collect and reuse it. At Grupa LOTOS we place great importance on minimising the amount of hydrocarbons burnt in both flares and those emitted directly to the atmosphere.

Source	Amount of discharge – amount of flared gas at Grupa LOTOS [thousand cubic metres per year]		
	2010	2011	2012
Flare 3500	35,834	21,036	19,388
Flare 3550	6,780	10,819	3,603
Total	**42,614**	**31,855**	**22,992**

The clear majority of gases sent for burning are nitrogen and hydrogen. In order to fully illustrate the actual impact of the refinery's flares on the surrounding environment we need to list the amount of discharged gas with the resulting carbon dioxide emissions.

Source	Amount of emissions in Grupa LOTOS [tonnes CO_2 per year]		
	2010	2011	2012
Flare 3500	29,138	17,324	11,451
Flare 3550	3,371	3,353	2,100
Total	**32,509**	**20,677**	**13,551**

The data confirms the efficiency of the introduced optimisation processes, resulting in a reduced amount of generated gases that are not successfully utilised. Once the installation for redirection of discharge gases is completed, today's most noticeable element of the Gdańsk refinery will be much less evident; in fact, the flame will be visible very seldom and only in certain exceptional cases. Up to 80% of all gases sent to the flare collector will be compressed and redirected to the fuel gas network. The investment will also reduce the intensity of noise emitted by the installation.

Another pro-environmental investment planned for 2013 is the **replacement of process** furnaces in the light gasoline hydrorefining installation, and in the furfurol extraction installation, which will considerably enhance the energy efficiency of both installations, effectively increasing their overall productivity and reducing the amount of emitted pollutants.

The last of our short-term plans is **the construction of a new, larger vapour recovery unit (VRU)** in place of the old installation which will be removed. This will finalise the process of minimisation of fugitive hydrocarbon emissions from the five dispensers in the area of the refinery.

It needs to be emphasised that the Company does not use any ozone depleting substances and that the utilisation of the Gdańsk refinery's products does not cause emission of these compounds into the atmosphere.

Other initiatives

Grupa LOTOS minimises its adverse impact on the environment by carrying out a number of investment projects and implementing systemic solutions. We regularly carry out the following activities:

- Continuous monitoring of emissions and pollutants emitted into the air and water, and of carbohydron levels in the vicinity of the company,
- Discharging wastewater of a quality fully compliant with applicable regulations after processing in the three-stage wastewater treatment plant,
- Use of treated wastewater to produce industrial water,
- Use of condensate to produce boiler feedwater,
- Strict supervision of waste management,
- Use of equipment designed to help protect the environment, such as:
    - Double sealing system for tanks with floating roofs,
    - Ensuring air tightness of all process facilities and their connection to the emergency discharge system, where hydrocarbons are burned in flares,
    - Ensuring that all road tankers and railway tank-cars are filled using the airtight vapour recovery system,

Grupa LOTOS' **withdrawal of water** from the Motława river through the storage reservoir in Przejazdowo has no significant impact on the environment. The amount of fresh water that can be withdrawn is limited by the conditions specified in the integrated permit granted to Grupa LOTOS. There is no evidence either of a decrease in water volumes in the sources used, lowered water surface level, decreased water flow, or any other negative changes in the ecosystems of the reservoir.

In an effort to reduce its negative impact on the environment, **Grupa LOTOS** strives to maintain the growing share of recyclable water in the total amount of water consumed in production processes. With this purpose in mind, we are continually reducing the volume of withdrawn water and discharged wastewater. Recyclable water, in this context, is understood as the sum of the volume of process water produced from treated wastewater and the volume of treated condensate from the installation.

Wastewater from Grupa LOTOS' wastewater treatment plant, such as oily rainwater, technical and sanitary wastewater, is mostly redirected to be reused as industrial water, and it is only the excess of treated wastewater which is discharged to the Martwa Wisła river. The treated rain and drainage waters are released to the Rozwójka river, which flows to Martwa Wisła.

Management of waste generated in the Company is carried out in compliance with EU and national regulations, ensuring maximum safety for the environment. **Waste** is segregated and stored in designated areas throughout the refinery. As far as waste management is concerned, in the first place we make every effort to limit waste and reduce it as much as possible. We also make sure that recycling compliant with the principles of environmental protection is the main method of managing the waste that is produced. We commission disposal of waste only as a secondary measure.

Many of the LOTOS Group companies' products are neutral to the environment. They do not have a negative impact on the environment either in the production process or after they are used. Packaging used to introduce these products on the market is similarly neutral. In accordance with applicable regulations, the LOTOS Group companies have contracted Recycling Organizations **for recovery and recycling of packaging** introduced onto the national market. This obligation applies in particular to LOTOS Asfalt, LOTOS Oil and LOTOS Paliwa.

LOTOS Asfalt products, such as bitumen and heavy fuel oil, are mostly supplied in tankers. Tar papers are among the packaged products sold. In 2012, the share of individually packaged products sold was below 1% of the company's total sales volume. Altogether, the packaging waste recovery rate of the company was 57% .

At **LOTOS Oil**, recovery and recycling rates achieved in 2012 by the Recycling Organization contracted by the company were as follows: recovery rate of 50% , including 35% recycling rate. In the case of plastic packaging, paper and cardboard, steel, and wood, the waste recycling rate was 20% , 56% , 42% , and 15% , respectively. Altogether, the recovery rate for packaging waste at LOTOS Oil was 57% , including a 45% recycling rate.

In 2012, **LOTOS Paliwa** introduced organisational changes involving takeover of the central management of service station shops, meaning that since 2013 it has been obliged to manage its own packaging recovery. The company is currently in talks with Recycling Organizations to contract packaging recovery for the next few years.

Both Polish and European regulations are very specific as to what type of activities a plant has to carry out to provide an effective safety system and what steps must be taken to **prevent serious failures**. In this connection, Grupa LOTOS has put in place a safety system that features mechanisms for systematic identification of failure risks or the likelihood of their occurrence. The system also include manuals for safe operation in standard conditions, temporary production breaks, or for monitoring of the plant in a manner allowing for corrective actions in case of any incidents deviating from standard procedures.

A number of procedures for effective prevention of emergencies have been introduced within the Integrated Management System. Some of the essential elements ensuring effectiveness are:

- Proper response training for emergencies and critical situations;
- Corrective and preventive actions;
- Prevention of emergencies, preparation for possible emergencies and accidents at work;
- Emergency response;
- Evaluation of the effectiveness of emergency prevention measures and minimisation of consequences;

The effectiveness of the safety measures in place at Grupa LOTOS is proved by the fact that there were only three cases involving hazardous substances reported in 2012. It should be noted that investigation confirmed no violation of environmental standards in any of the cases. Additionally, no leakages were reported that would cause any environmental pollution or affect the local community .

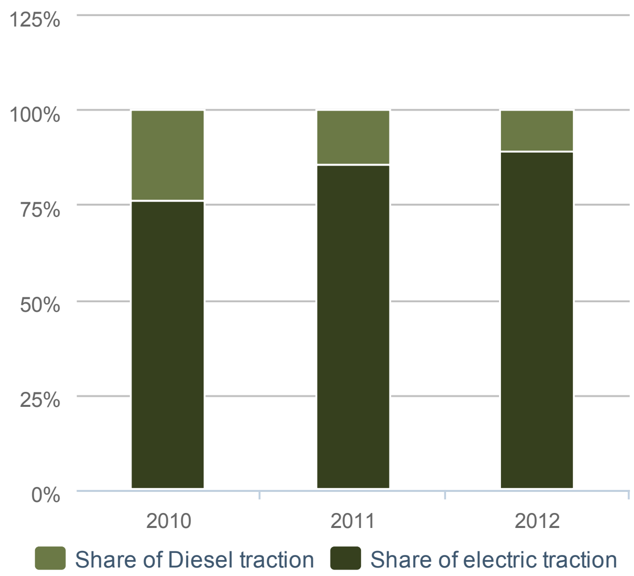
An equally important area of LOTOS Group activities aimed at minimising its negative environmental impact are transport services, usually rendered to our companies by external firms. This is particularly relevant to LOTOS Asfalt, LOTOS Oil and LOTOS Paliwa, which commission **transport** of their products to specialised carriers. LOTOS Kolej, on the other hand, provides transport services to LOTOS Group companies and other external entities. In the LOTOS Petrobaltic Group the situation with its marine transport, handled by one of its subsidiaries, is similar. Grupa LOTOS undertakes various steps to limit its fleet's impact on the environment.

It is **Grupa LOTOS'** aim to ensure the lowest possible emission of harmful fumes from its company vehicles while still using them to their maximum capacity. When choosing a vehicle we consider its fuel consumption and engine parameters to make sure they meet vehicle emission standards. Consequently, in 2012 a year-on-year increase of 36% in fuel consumption was reported for vehicles that meet the Euro 5 standard, and a year-on-year drop of 60% in fuel consumption by vehicles that meet the Euro 4 standard and older. In 2012, fuel consumption of company vehicles was 190,000 litres as compared to the 173,000 litres used in 2011 and 167,000 litres used in 2010. The extra fuel consumption is a result of the increased number of company vehicles used in the company.

LOTOS Asfalt products are reloaded in modern handling terminals, where harmful vapour emissions are minimised. Asphalt is supplied to the end user by specialist transport companies which meet the highest environmental protection and operating standards. Additionally, the company's own vehicles, which are regularly modernised, meet the Euro 5 exhaust emissions standards. Proper insulation of road tankers significantly prevents fuel products' temperatures from rising in transit, which also contributes to lower environmental pollution. In 2012, road tankers carried over 660,000 tonnes of company products and burned approximately 4 million litres of Diesel oil, covering more than 11 million kilometres. In 2011, they carried over 764 thousand tonnes of bitumen and burned 6 million litres of Diesel oil, covering a distance of more than 17 million kilometres. In 2010, they carried 640,000 tonnes of bitumen and burned 6 million litres of Diesel oil, covering a distance of almost 16 million kilometres. In 2010, the company began shipping bitumen by sea, with the reloading figures reaching over 90,000 tonnes a year. In 2011 and 2012, the annual reloading figures reached a level of 100,000 and 60,000 tonnes, respectively. With a higher share of sea transport in the total transport volume, the economies of scale make it possible to reduce both harmful environmental emissions and fuel consumption per unit of shipped cargo.

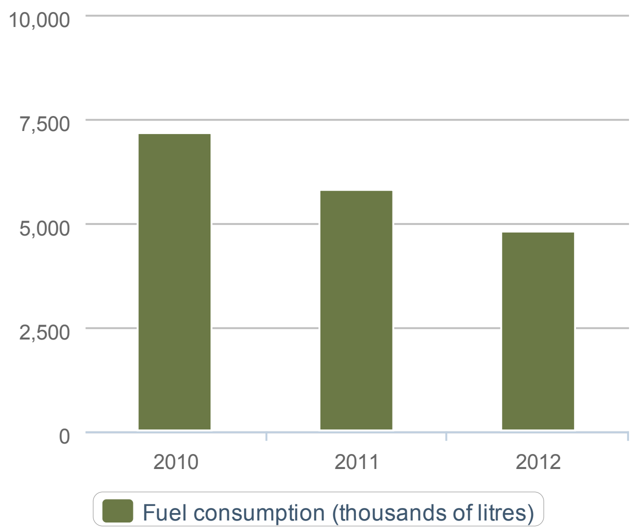
In **LOTOS Kolej**, 2012 was another year in which the share of electric traction in the overall transport figures grew.

Transport figures (btkm) illustrating the share of Diesel and electric traction in overall transport figures



Source: In-house compilation based on operational data.

Diesel oil consumption by LOTOS Kolej Diesel locomotives (thousand litres)

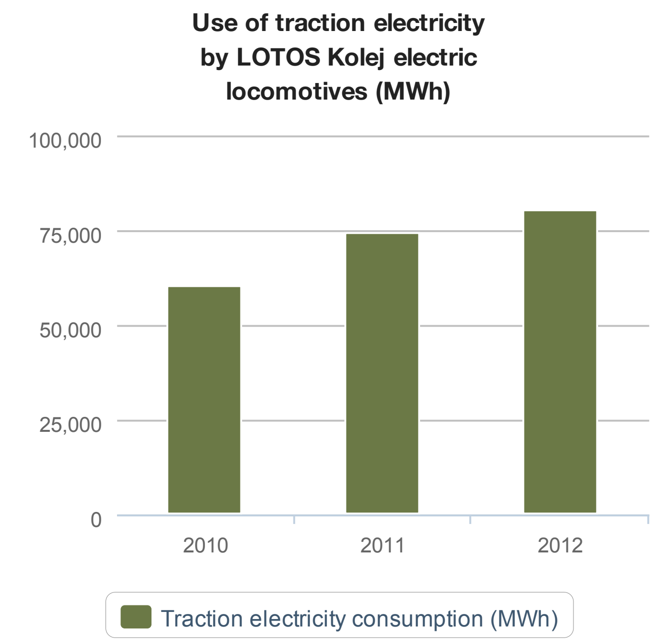


Source: In-house compilation based on operational data.

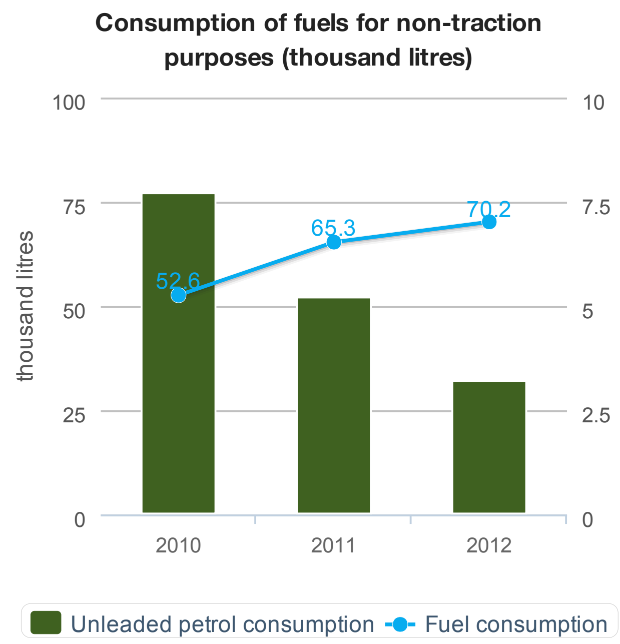
The company continued to systematically modernise its motive power units, which resulted in further reduction of the consumption of engine fuels and reduced emission of harmful fumes and noise by locomotives. At the end of 2012, LOTOS Kolej operated 98 locomotives, including 59 electric locomotives.

The 8.4% rise in traction electricity used by LOTOS Kolej in 2012 compared to 2011 is chiefly attributable to the increased share of electric traction transport.

Every year a fall in the consumption of unleaded fuel used for non-traction purposes is noted in the company, and today its entire fleet of vehicles meets the requirements of Euro 4 or Euro 5/A.



Source: In-house compilation based on operational data.



Source: In-house compilation based on operational data.

In **LOTOS Oil**, the transport of goods is commissioned to providers of transport or forwarding services whose customer service and environmental protection standards meet the highest quality requirements. For piece-goods transport, the ISO 14001 certification is required. Transport companies have a system in place which enables them to monitor the use of basic supplies and materials and control any possible leakages or emergencies. In addition, LOTOS Oil operates on the basis of its own internal procedures, which impose a duty of research in land transport on the specific dangers of its activities, and ensure that road transport as well as loading and reloading of hazardous goods is supervised and conducted in accordance with legal regulations. The company has no data available with regard to the consumption of fuel by its carriers as it is particularly difficult to calculate since part of the transport is carried out in the intermodal and piece-goods systems.

The transport of liquid fuels sold by **LOTOS Paliwa** has been commissioned to specialist companies: LOTOS Kolej for railway transport and other external transport companies for road transport. Out of a total of 4,620,000 cubic metres of fuel sold in 2012, 9% was transported by railway tankers and 25% by road tankers. The balance was collected from storage terminals by the customers' own means of transport. For the purpose of comparison, in 2010-2011 railway transport was used in 11% and 12% of deliveries respectively, and road transport remained at 25%. Road and railway transport of fuels is strictly regulated by Polish and international regulations on the transport of hazardous materials (ADR and RID), aimed at minimising the negative impact of their transport on the environment. The company also undertakes many additional activities that increase the transport safety of its products. In 2012, only two fuel spills were reported in road transport, none in 2011 and three in 2010. None of the spills were environmentally harmful.

LOTOS Petrobaltic Group's marine transport services are handled by **Miliana Shipmanagement**, which uses its fleet to transport materials, supplies and crew to the LOTOS Petrobaltic oil platform. Miliana Shipmanagement manages six sea vessels, and if required, charters additional units to supervise transportation operations during periods of intense activity on the platform. In 2012, the company chartered out two additional vessels. These were the tugboats Bazalt and Granit, which were used to transport supplies and take waste and pollution from the platforms back to land for disposal, and as backup facilities for diving works. The crews of the platform and the Icarus III tanker are mostly transported by the vessel Aphrodite I.

Both the tugboats are powered by low-sulphur Diesel oil, which complies with the requirements of Annex VI to the Marpol Convention 73/78, and have documents confirming their compliance with Stage IIIA - European emission standards for non-road diesel engines. All contaminants and waste from vessels are taken back to land for disposal or treatment.

Waste management on the vessels is carried out in compliance with the waste management plans approved by the Polski Rejestr Statków (Polish Register of Shipping). The natural environment is mostly affected by the emission of exhaust fumes from the fuel used to power sea-going vessels, in this case Marine Gas Oil (MGO).

Energobaltic does not have its own product transportation base and so it commissions this part of its operations to transport companies that have all the necessary qualifications and licenses for the transport of such products as LPG (liquid hydrocarbons - propane-butane) and KGN (natural gas condensate). Transport of these products requires use of methods compliant with the regulations on the transport of hazardous goods.

One of the most important elements in minimising the impact of exploration and production operations on the natural environment is protection of the sea from possible pollution by the extracted oil and substances accompanying the drilling process, and limiting to the minimum the effects of emergency situations on the environment.

LOTOS Petrobaltic has an Oil Spill Response Plan in place for spills resulting from the exploration and production that it conducts within its licence areas. The plan has been approved by the Maritime Office in Gdynia, and is part of the National Plan to Combat Pollution of the Marine Environment. One of the most important activities ensuring the cleanliness of the environment and minimisation of negative impact is environmental monitoring, which is the study of the environment before, during and after operations. In this case, environmental monitoring is mostly focused on testing sea water and bottom sediment.

Proper management of waste from platforms and seagoing vessels is also very important, given the total ban on discharge of any waste or pollutants, both process and sanitary. Chemicals used in the drilling process circulate within a closed system, away from any contact with the environment. In order to ensure that the arrangements set out in the Baltic Sea Action Plan are followed, in 2012 LOTOS Petrobaltic completed assembly and start-up work on an installation for pumping formation waters after the process of separation back up to the structure, using the secondary exploitation method consisting in injecting water back to the field in order to maintain pressure in the formation. Since October 2012, all formation water has been pumped back up to the structure. A detailed marine environmental impact assessment report is also prepared by the company every year.

In other LOTOS Petrobaltic Group production companies, a detailed environmental impact analysis is made prior to extraction works that defines the actions to be taken to mitigate the negative impact of the works, environmental compensation and other parameters.

The raw materials used in exploration and production are those substances used in the drilling and acquisition process.

In drilling, these include:

- Drilling mud components (materials),
- Cement used for binding piping to the drilled rock..

Drilling mud components are brought to the platform where they are added to water to obtain drilling mud of the required physical and chemical properties. The drilling muds used by LOTOS Petrobaltic and LOTOS Geonafta are water-based. In 2012, LOTOS Norge used oil-based drilling mud, which was dictated by the specific nature of their drilling. The main ingredients of drilling mud are bentonite or metal salts (KCl, NaCl), with barite or galena as weighting agents. Various other chemical substances are added to achieve the required properties.

Uses of drilling mud:

- Bringing up rock drillings from the bottom of a borehole,
- Creating a protective layer on drilled rock to prevent excessive filtration of water into the rock layer,
- Powering a hydraulic engine (turbodrill) in directional drilling.

The main raw materials used in resource acquisition:

- Chemical substances (materials) added to the formation and produced water pumping system,
- Materials used as filter inserts (anthracite, ground nut shells, gravel of different grain size, metal and fibrous filter inserts).

Formation water is a saturated brine, mostly chlorine, sodium and calcium in content.

From the point of view of environmental protection, injecting water back into a deposit does not pose any environmental threat because the applied pressure is lower than the fracture pressure of the rock layer, and so does not affect its structure.

However, the appearance of water in the extracted crude oil introduces the problem of its disposal or recycling by further technological process. So far, the main method of managing this highly mineralised formation water, extracted together with the oil, consists in separating it from the oil in separators, and discharging it back into the sea after cleaning it to a level below 15 ppm of oil components (in accordance with the requirements of MARPOL 73/78 and HELCOM).

In order to protect the Baltic Sea and to meet stringent environmental requirements that dictate a total ban on the discharge of waters, including treated formation water, directly into the sea, LOTOS Petrobaltic built an installation which pumps the produced waters back into the field. As such, since October 2012 all formation water has been pumped back to the field it came from, together with the sea water. This solution does not interfere with the marine environment or with the formation of the oil-yielding fields, but merely returns the extracted substance.

Water parameters around the platforms are continually monitored in order to ensure that they meet the requirements of environmental regulations. Regular monitoring of multiple parameters, including hydrocarbon content in the water, chemical and biological oxygen demand, chlorides, sulphides, bacteria, surfactants and others, is carried out for the purposes of environmental protection.

The cementing process uses water-based grouts with chemical additives which delay the setting time. The purpose here is to merge the casing pipes with the drilled levels, prevent contact between drilled rock layers of different pressure gradients, and ensure the tightness of the non-pipe area to prevent the overflow of drilling mud or extracted agents during operations.
The drilling process is similar in other companies - parameters are monitored before, during and after drilling, in accordance with the relevant environmental decisions and approvals. Any variations that occur are due to country-specific regulations. The Baltic Sea is particularly sensitive, and the regulations governing it are more rigorous than in the North Sea, for example, where oil-based drilling mud is used.

The main source of energy used on drilling platforms is Diesel oil, supplied by ships as well as the natural gas extracted together with the oil.

On the Petrobaltic platform, energy is generated by a system of power engines and generators running on Diesel oil, which meets the legal requirement to keep sulphur content below 1%. Energy generated in this way is then distributed throughout the platform. On the Baltic Beta platform, energy is additionally generated by gas turbines powered by gas separated from crude oil. One turbine is used to supply energy across the Baltic Beta platform and the PG-1 platform, while a second turbine powers the pump which forces water back down to the field. In LOTOS Geonafta and LOTOS Norge, energy on the rigs is produced by diesel generators.

Water for the needs of the LOTOS Petrobaltic platform is extracted from a deep well, for which the company holds the required permit. The amount of water drawn is closely monitored and remains below permitted values. Water is also taken from the municipal water supply system and from the Baltic Sea, mostly for technological purposes, such as the formation water pumping system and cooling of the gas compression system.

Experts consider the Baltic Sea to be a particularly sensitive area because of its high level of pollution and limited water exchange within the basin, and also because of the presence of rare species like the harbour porpoise.

The amount of water drawn from the Baltic Sea for the purposes of LOTOS Petrobaltic is negligible in relation to its total water resources of 21,727 km^3 and amounts to 311,972.3 m^3 (0.000311 km^3).

It should also be noted that none of the other oil extracting companies within LOTOS Petrobaltic Group are depleting water resources through excessive withdrawal.

Water is also used on the platforms for sanitary and technological purposes. In addition to fresh water, sea water is also used for production purposes, for example in the water injection system. This water is drawn directly from the sea by deep-well pumps.

The Diesel-powered internal combustion engines of the energy generation system, the steam boilers and crane engines are all sources of greenhouse gas emissions. On the Baltic Beta platform, gases are emitted by the turbines running on gas separated from crude oil. An additional source of greenhouse gas emissions comes from the gas flared on the platform. On the Baltic Beta platform, most excess gas is compressed and returned to shore where it is used for powering other turbines, hence flaring is reduced to a minimum. All the gas produced on the Petrobaltic platform is burned in flare stacks that are designed to minimise the emission of harmful substances.

Carbon dioxide is the only greenhouse gas emitted by Energobaltic. All of its CO_2 emissions come from the combustion of natural gas and fuel oil in the production of electricity and heat. LOTOS Geonafta's operations are a source of relatively low emissions of harmful substances into the atmosphere, coming mainly from the power generators operating the drilling equipment. According to the Lithuanian legal system, the company is not legally obliged to collect nor report data on the amount of CO_2 emissions.The volatile organic compounds are also emitted while burningdiesel fuel to run the generators. Emissions in LOTOS Norge are produced by diesel-powered generators present on the oil platform.

CO_2 emissions [tonnes] in 2012:	
LOTOS Petrobaltic *	368
LOTOS Norge	1,639
Energobaltic	12,320
Total	**14,327**

* Emissions excluding marine activities – activities within the Polish Economic Zone are not subject to reporting to the National Centre for Emissions Balancing and Management (KOBiZE).

In LOTOS Petrobaltic, the emission of substances such as nitrogen and sulphur oxides is mainly due to the combustion of fuel oils. It needs to be emphasised that none of the emissions produced by LOTOS Petrobaltic Group companies contains ozone-depleting substances.

Substance	**Pollution emissions [tonnes/per year] in 2012.**				
	LOTOS Petrobaltic *	**LOTOS Geonafta**	**LOTOS Norge**	**Energobaltic**	**Total**
SO_x	0.007	0.4	1.5	0.1	**2.007**
NO_x	0.3	4	36.2	11.9	**52.4**
VOC	-	100	2.6	-	**102.6**
PM	-	3	-	0.2	**3.2**

* Emissions excluding marine activities – activities within the Polish Economic Zone are not subject to reporting to the National Centre for Emissions Balancing and Management (KOBiZE).

Oily wastewater is stored on the LOTOS Petrobaltic platforms in special containers, and is later transported to shore for disposal. Sanitary wastewater is processed in a biological treatment station and then released to the sea. The condition of the sea water around the platform is monitored on a daily basis.

None of the wastewater produced by LOTOS Geonafta in its drilling operations is discharged directly into natural bodies of water. All technological and sanitary wastewater is stored and subsequently transported to a wastewater treatment plant. Management of industrial process wastewater is a company priority as far as environmental protection is concerned. Last year, the company improved the system controlling the solid particle content of drilling mud, resulting in a lower demand for water in its preparation and dilution.

In LOTOS Norge, technological waters (mixtures of drilling mud and industrial process water) are treated on the platforms and then discharged to the sea. The petroleum content of the discharged wastewater is always kept well below the legal limits.

Volume of wastewater, by destination (m^3)	
LOTOS Petrobaltic	
Treated sanitary water discharged to the sea	7,365
Treated drilling mud and technological water (including formation water) discharged to the sea	32,754
Total	**40,119**
LOTOS Geonafta	
Sanitary wastewater	2,553
Drilling mud* and technological water	1,561
Total	**4,114**
LOTOS Norge	
Treated drilling mud and technological water	314
Energobaltic	
Sanitary wastewater	1,231
Total in the LOTOS Petrobaltic Group	**45,778**

* The drilling mud is transported onshore for utilisation purposes.

Middle Cambrian period formation water includes mostly chloride-sodium-calcium ions.

Formation water	
density	1.011-1.096 g/cm^3
mineralisation	136 g/l

pH	5.1-7.2

The volume of all chemical additives added during the processing of formation water, such as de-emulsifier and corrosion inhibitors, is less than 1%.

Since LOTOS Petrobaltic launched its formation water injection system on the Baltic Beta platform in 2011, the amount of formation water discharged to the sea has been systematically reduced. Since October 2012, all formation water has been pumped back up to a reservoir on the platform, together with the sea water.

In LOTOS Geonafta, all formation water produced in the oil extraction process is stored on the rig and then transferred for disposal. LOTOS Norge did not produce any formation water in 2012 as it did not run any extraction works.

Volume and disposal method of formation and produced water in 2012	
LOTOS Petrobaltic	
Formation water discharged to the sea	27,920 m^3
Degree of oil contamination of formation water	4.7 ppm
Water injected back to the field	47,227 m^3
LOTOS Geonafta	
Formation water	180 m^3

Drill cuttings (small pieces of rock fragmented by the drilling) are the major waste product of the drilling process. Once recovered to the surface, the cuttings are directed to the drilling mud treatment system. The drill cuttings do not contain any of the substances mentioned in Annex 1 to the Helsinki Convention. The drill cuttings together with the drilling mud of the first and second degree of contamination, are discharged to the seabed whereas the drill cuttings of the third degree of contamination are carried to the shore and transferred to a waste management company. Every batch of disposed drill cuttings is tested for toxic content.

Drilling mud, on the other hand, is recycled and reused in the drilling process, but if it is not suitable for recycling, it is also returned to land and passed on to a waste management company.

LOTOS Petrobaltic platforms carry out preliminary sorting of waste into metal, plastic, glass, paper and hazardous materials such as fluorescent lamps and batteries, before it is transferred to an authorised handler for recycling or disposal purposes.

In LOTOS Geonafta and LOTOS Norge, all waste is transferred to waste management companies for recycling or disposal.

Waste generated in 2012	**Total weight**
LOTOS Petrobaltic	
Drill cuttings	68 tonnes ✓
Drilling mud	237 tonnes ✓
Non-hazardous waste	451 tonnes ✓
Hazardous waste	11 tonnes ✓

Total	**767 tonnes**
LOTOS Geonafta	
Drill cuttings	669 tonnes
Drilling mud and technological water	1,561 tonnes
Formation water	447.3 tonnes
Non-hazardous waste	9.6 tonnes
Hazardous waste	5 tonnes
Total	**2,691.9 tonnes**
LOTOS Norge	
Drill cuttings	898 tonnes
Drilling mud	272 tonnes
Non-hazardous waste	324 tonnes
Hazardous waste	62 tonnes
Total	**1,556 tonnes**
Energobaltic	
Municipal waste	6.8 tonnes
Non-hazardous waste	0.1 tonnes
Hazardous waste	0.2 tonnes
Total	**7.1 tonnes**
Total for the LOTOS Petrobaltic Group	**5,022 tonnes**

In 2012, LOTOS Geonafta used only water-based drilling mud instead of the more harmful oil-based mud. Most of the water-based mud's ingredients are biodegradable. Technological water, drilling mud and drill cuttings are temporarily stored on the platform and later carried away for disposal.

In LOTOS Norge, oil-based drilling mud was used for the drilling of lower sections (17½, 12¼, 8½). Processed drilling mud and drill cuttings contaminated by oil were stored on the platform and later returned to land, to waste management companies. The platform has a specialised storage system for drill cuttings that ensures their proper storage and reduces the potential risk of harmful substances penetrating the environment.

In 2012, LOTOS Petrobaltic Group did not report any environmentally relevant oil spills.

Environmental protection spending

- data has been verified, full text of the Independent Assurance Report (/en/the-organization-and-its-report/integrated-reporting/auditing-and-reviews#opinia-pwc)

The scale of the initiatives we have undertaken is confirmed by the environmental spending and investment projects recently implemented by Grupa LOTOS and other companies of the LOTOS Group.

Item	Costs and outlays [PLN '000]		
	2010	2011	2012
Grupa LOTOS			
Costs			
Environmental management costs	N/A	2,685	3,143
Environmental protection spending	N/A	20,011	15,842
Financing of pro-environmental activities of external institutions	N/A	285	525
Outlays			
Pro-environmental investments	16,812	12,116	67,606
Material investments *	705,663	114,733	141,913
LOTOS Group			
Costs			
Environmental management costs	N/A	25,450	4,729
Environmental protection spending	N/A	34,564	19,003
Financing of pro-environmental activities of external institutions	N/A	295	547
Environmental insurance **	N/A	104	105
Outlays			
Pro-environmental investments	33,647	34,709	75,515
Material investments ***	1,161,327	805,265	814,264

* In 2012, the approach changed and now material investments are presented according to the Directors' report Grupa LOTOS S.A. 2012 (http://inwestor.lotos.pl/en/971/reports_and_key_data/annual_reports).

** Environmental insurance is paid at the LOTOS Group level.

*** In 2012, the approach changed and now material investments are presented according to the Directors' report LOTOS Group 2012 (http://inwestor.lotos.pl/en/971/reports_and_key_data/annual_reports).

N/A - no data available

The environmental management costs include the spending on environmental research, external certifications of management systems and additional services rendered by external companies.

Environmental protection expenditure includes the costs of waste disposal, maintenance of infrastructure and equipment, but not charges for economic use of the environment.

The reporting period was marked by a significant increase in the size of financial resources earmarked for environmental investments. After completion of the refinery expansion under the 10+ Programme, which resulted in the increased processing capacity of the entire plant, Grupa LOTOS focused on improving the performance of units built prior to 2008. These investments were intended to increase energy efficiency of individual components, reduce consumption of consumables, minimise fugitive emissions, and redirect flare gas.

In 2012, Grupa LOTOS carried out an initiative to reduce the impact of its products on the environment. The Company, having advanced technologies at its disposal and making the best use of raw materials, developed a technology for the production of Group II base oil of low viscosity, according to the classification by API (*American Petroleum Institute*).

Group II base oil has a high content (> 90% m/m) of saturated hydrocarbons, and low content of resins and aromatic hydrocarbons. It is a mineral base oil with improved quality, resulting from its viscosity of about 120 and sulphur content of less than 0.03% m/m. The new oil is produced from crude oil, using modern technologies that yield a product with a modified composition and hydrocarbon structure. The raw material used in its preparation is a narrow fraction of vacuum distillate derived from the hydrocracking of paraffin fractions. The use of base oils with low sulphur and aromatics content for the production of lubricating oil helps to reduce the negative impact of oil on the environment.

In addition to the Group II base oil, we also started to produce wax with very low sulphur content. The parameters of the low-sulphur wax, produced on the basis of paraffin fractions, are consistent with the requirements of the U.S. Food and Drug Administration (FDA) for products intended for contact with food. Positive feedback from the FDA is an indicator of the high quality of the product and confirmation that it has no adverse effects on health.

In 2012, a number of large scale environmental investments were also carried out by some of the LOTOS Group's companies:

- **LOTOS Asfalt** completed air-tightening of bitumen dispatch facilities, which was carried out using a road tanker loading facility and rail tankers in Gdańsk.
- In **LOTOS Jasło**, two storage tanks have been modernised with geomembrane linings.
- **LOTOS Kolej** completed the construction of the most technologically advanced tanker cleaning facility in Poland. Ensuring the air-tightness of technological processes, change of the cleaning technology, and use of the latest equipment reduced the consumption of utilities and generation of oily wastewater. Hydrocarbon emissions were eliminated and OHS conditions were improved.
- Since 2011, **LOTOS Paliwa** has been using renewable energy sources in the heat pumps installed in the newly built Premium service stations. In 2011-2012, these pumps were installed in 10 stations.
- In **LOTOS Petrobaltic**, an installation for re-pumping of discharge water was modernised. On the **LOTOS Geonafta** rigs, old fluorescent lighting was replaced with modern LED lights. In **LOTOS Norge**, a replacement system for hazardous chemical substances was introduced to reduce the amount of hazardous waste generated. Altogether, seven substances were classified for replacement.

The effect of these undertakings, apart from measurable economic benefits, is the reduction of the organisation's negative environmental impact in its activities, which is illustrated by the declining trend in data concerning fees for use of the environment.

Item	Expenditure [PLN '000]		
	2010	2011	2012
Grupa LOTOS			
Air pollution	3,817	4,268	2,980
Water withdrawal	160	144	140
Wastewater discharge	306	313	298
Landfilling of waste	0	0	0
Total	**4,283**	**4,725**	**3,418**
LOTOS Group			
Air pollution	4,306	4,805	3,218
Water withdrawal	245	210	173
Wastewater discharge	528	487	388
Landfilling of waste	2	0	0
Total	**5,081**	**5,502**	**3,779**

Our business profile dictates certain statutory costs associated with the use of the environment. The noticeable fall in expenses incurred by air emissions was driven by the LOTOS Group's environmental investments, chiefly including the use of natural gas in the production of hydrogen and fuel at Grupa LOTOS' CHP plant.

Compliance with regulations

- data has been verified, full text of the Independent Assurance Report (/en/the-organization-and-its-report/integrated-reporting/auditing-and-reviews#opinia-pwc)

In 2012, only LOTOS Paliwa suffered increased fees for economic use of the environment. The increased fees were accrued by the three facilities that temporarily did not have valid water permits for the discharge of rainwater and snowmelt from paved areas to the environment. The fact that these permits were not valid was related to the need to modernise the rainwater drainage and reach an agreement with the authorities in charge of the local rainwater drainage system, which prolonged the process of obtaining the new permit. Currently, all facilities have the required water permit, and the company is paying standard fees for use of the environment.

Key data

- data has been verified, full text of the Independent Assurance Report (/en/the-organization-and-its-report/integrated-reporting/auditing-and-reviews#opinia-pwc)

Materials

Feedstock and other materials used by Grupa LOTOS by weight and volume (tonnes)

	2010	2011	2012
Crude oil	8,095 655	9,163,836	9,673,647
Feedstock and components	844,327	1,062,156	833,610
Additives	2,010	2,254	2,091

Raw and other materials used in LOTOS Petrobaltic for exploration and production in 2012

Drilling mud	
Type of material	**[tonnes]**
Bentonite	4.7
Salts (drilling mud and packer fluid)	54.4
Hydroxides	3.1
Other (for maintaining appropriate properties - viscosity, filtration etc)	18.2
Total	**80.4**
Grout	
Cement	217.5
Processing agents	1.8
Total	**219.3**
Injected and formation water	
Biocides	8.9

Coagulants	2.1
De-emulsifiers	6.6
Other	2.4
Total	**19.9**
Total use	**319.6**
Substances used in the transport of gas from the platform through the pipeline to Władysławowo	
Methanol	5.7

Raw and other materials used by LOTOS Geonafta for prospecting and exploration in 2012	
Substances used in the drilling process [tonnes]	
Acid inhibitors	3.8
Drilling mud additives	60
Polymers	30.6
Blockers	55
Lubricants	2
Cement	62
Extraction additives	25.2
Total	**238.6**
Substances used in the acquisition process [tonnes]	
Corrosion inhibitors	0.8
De-emulsifiers	23.4
Sediment inhibitors	0.08
Oxidants	0.6
Total	**24.88**
Total use	**263.48**

Raw and other materials used by LOTOS Norge for exploration and production in 2012 [tonnes]	
Total breakdown for licence PL 498 Skagen, to November 3rd 2012	
Drilling mud additives	2,092.9

Drilling mud	29.9
Salt	146.9
Cement additives	1,347.5
Cement	224
Lubricants	6.6
Total	**4,116.9**

Raw and other materials used by Energobaltic in 2012	
Stage I - Gas Compressor Station	
Input material:	
- waste gas	10,350,433 Nm^3
Indirect production material:	
- methanol	11,400 l
Stage II - Gas/Input Material Separator Station	
Input material:	
- waste gas (wet) for LPG production	5,332.4 tonnes
- natural gas condensate	1,550.5 tonnes
Obtained fuel gas (dry) as fuel for production of heating and electricity.	5,572,326 Nm^3

Grupa LOTOS applies the definition of biocomponents as authorised by the Act of August 25th 2006 on Biocomponents and Liquid Biofuels. All biocomponents purchased by Grupa LOTOS and produced in the LOTOS Group's facility meet sustainable development criteria. It should be noted that Poland has not implemented Directive 2009/28/EC yet, which means that under the current legal framework Poland has no systems for certification of biocomponents taking into account sustainable development criteria. Due to the trade secret implications, it is not possible to disclose the volume of purchased and produced biocomponents .

Energy

Direct energy consumption of Grupa LOTOS by primary energy source in 2012

Item	Item	Direct energy sources purchased	Direct energy sources produced	Direct energy sources sold	Total direct energy consumption
Natural gas	GJ	4,476,958			4,476,958

Fuel gas	GJ		10,257,181	176,608	10,080,572
HSFO+Bleed fuel oil	GJ		2,349,433		2,349,433
LSFO fuel oil	GJ	1,030,455	3,293,629		4,324,084
HON light fuel oil	GJ		61,401		61,401
Electricity	GJ				0
Heat	GJ			108,456	-108,456
Total	**GJ**	**5,507,413**	**15,961,644**	**285,064**	**21,183,993**

Direct energy consumption of Grupa LOTOS by primary energy source in 2011

Item	Item	Direct energy sources purchased	Direct energy sources produced	Direct energy sources sold	Total direct energy consumption
Natural gas	GJ	1,383,334			1,383,334
Fuel gas	GJ		10,053,891	194,860	9,859,031
HSFO fuel oil	GJ		3,434,143		3,434,143
LSFO fuel oil	GJ	4,382,235	1,177,603		5,559,838
HON light fuel oil			134,188		134,188
Electricity	GJ			79,499	-79,499
Heat	GJ			86,541	-86,541
Total	**GJ**	**5,765,569**	**14,799,825**	**360,900**	**20,204,494**

Direct energy consumption of Grupa LOTOS by primary energy source in 2010

Item	Item	Direct energy sources purchased	Direct energy sources produced	Direct energy sources sold	Total direct energy consumption
Natural gas	GJ	1,244,784			1,244,784
Fuel gas	GJ		8,085,394		8,085,394
HSFO fuel oil	GJ		2,660,714		2,660,714
LSFO fuel oil	GJ	1,153,159			1,153,159
HON light fuel oil			103,973		103,973
Electricity	GJ			8,471	-8,471
Heat	GJ			0	0

Total	**GJ**	**3,397,943**	**15,221,725**	**8,471**	**17,628,139**

Direct energy consumption in 2012, by primary energy source

Item	Item	Direct energy sources purchased	Direct energy sources produced	Direct energy sources sold	Total direct energy consumption
LOTOS Petrobaltic					
Natural gas	GJ		45,972	24,543	21,429
Diesel oil	GJ	90,482			90,482
Total	**GJ**	**90,482**	**45,972**	**24,543**	**111,911**
LOTOS Geonafta					
Natural gas	GJ		9,166		9,166
Diesel oil	GJ	22,448			22,448
Total	**GJ**	**22,448**	**9,166**		**31,614**
LOTOS Norge					
Diesel oil	GJ	18,493			18,493
Energobaltic					
Natural gas type E (GZ 50)	GJ	12,866			12,866
Natural fuel gas (dry)	GJ	278,600			278,600
Light fuel oil	GJ	2,930			
Electricity	GJ		53,508	51,053	2,455
Heat	GJ		140,520	108,214	32,306
Total	**GJ**	**294,396**	**194,028**	**159,267**	**326,227**
Total for the LOTOS Petrobaltic Group	**GJ**	**425,819**	**249,166**	**183,810**	**488,245**

Indirect energy consumption of Grupa LOTOS by primary energy source

Item	Item	Average advanced energy purchased
Amount of electricity purchased from the National Power Grid	GJ	4,407,590

Indirect energy consumption by primary energy source

LOTOS Petrobaltic		
Energy purchased for the land base's operations	GJ	6,398
LOTOS Geonafta		
Energy purchased for administrative purposes	GJ	4,465
Energy purchased for production purposes	GJ	12,071
LOTOS Norge		
Only Diesel oil powered		
Energobaltic		
Purchase of electricity	GJ	25,776
Total indirect energy consumption at the LOTOS Petrobaltic Group	**GJ**	**48,710**

Water

Total freshwater withdrawn by Grupa LOTOS from all sources

[m^3]	2010	2011	2012
	3,961,494	3,809,856	3,721,330

Total freshwater withdrawn by Grupa LOTOS by source

Water source	2010	2011	2012
Underground water [m^3/year]	195,024	202,429	189,217
Surface water [m^3/year]	3,766,470	3,607,427	3,532,113

Grupa LOTOS processes consuming large quantities of water	Amount [m^3/year]		
	2010	2011	2012
CHP plant – production of utilities	2,728,615	2,929,811	2,936,080
refinery – circulatory cooling water	1,311,213	1,386,304	1,503,995

Total freshwater withdrawn by source

LOTOS Petrobaltic		
Source	Unit	Amount of water drawn in 2012
Fresh water - own source	m^3	19,988
Fresh water - municipal network	m^3	1,392
Sea water	m^3	311,972
Formation water	m^3	75,712
Total	**m^3**	**409,064**
LOTOS Geonafta		
Fresh water	m^3	2,553
Water for technological purposes	m^3	1,146
Total	**m^3**	**3,699**
LOTOS Norge		
Fresh water - municipal network	m^3	2,272
Energobaltic		
Water drawn from municipal network	m^3	5,538
Total freshwater withdrawal at the LOTOS Petrobaltic Group	**m^3**	**420,573**

Total volume of water recycled in Grupa LOTOS

	2010	2011	2012
Industrial water produced from treated wastewater [m^3]	1,555,969	1 ,79,317	1,254,556
Quantity of pure condensate [m^3]	1,546,726	2,030,131	2,207,217

Total volume of water recycled in Grupa LOTOS

	2010	2011	2012
Total volume of water obtained from recycling [m^3]	3,102,695	3,209,448	3,461,773
Percentage of recycled water [%]	43.9	45.7	48.2

Wastewater

Total volume of wastewater by quality and destination (m^3)

	2010	2011	2012
Rozwójka	3,880,741	3,874,089	4,305,910
Martwa Wisła	1,306,041	1,354,015	1,293,596
Total	**5 186,782**	**5,228,104**	**5,599,506**

Wastewater discharged from the Grupa LOTOS treatment plant into the Martwa Wisła river Index	**Measurement unit**	**Value**					
		2010		**2011**		**2012**	
		W_r	W_d	W_r	W_d	W_r	W_d
pH	-	7.50	6.50-9.10	7.81	6.50-9.10	7.79	6.50-9.10
Biochemical Oxygen Demand	[mg O_2/dm^3]	4.60	25.00	2.68	25.00	2.56	25.00
Chemical Oxygen Demand	[mg O_2/dm^3]	51.4	125.00	34.00	125.00	30.20	125.00
Suspended solids	[mg/dm3]	6.20	35.00	7.89	35.00	6.38	35.00
Volatile phenols	[μg/dm^3]	6.00	100.00	1.00	100.00	<5.00*	100.00
Substances extractable with petroleum ether	[mg/dm^3]	2.56	50.00	0.58	50.00	0.74	50.00
Petroleum hydrocarbons	[mg/dm^3]	0.38	5.00	0.83	5.00	1.93	5.00
Total Nitrogen	[mg/dm^3]	3.60	30.00	2.90	30.00	2.40	30.00
Total Phosphorus	[mg/dm^3]	1.00	3.00	1.07	3.00	1.03	3.00
Sulphides	[μg/dm^3]	<10.00*	200.00	2.00	200.00	6.00	200.00
Nickel	[μg/dm^3]	7.70	500.00	10.10	500.00	10.20	500.00
Vanadium	[μg/dm^3]	17.80	2000.00	36.30	2000.00	28,90	2000.00
Aluminium	[μg/dm^3]	24.30	3000.00	92.20	3000.00	62.40	3000.00

W_r – actual average annual value
W_d – permissible average annual value
* – result below the quantification limit for the analytical method used in a given year.

Wastewater discharged from the Grupa LOTOS treatment plant into the Rozwójka river Index	**Measurement unit**	**Value**					
		2010		**2011**		**2012**	
		W_r	W_d	W_r	W_d	W_r	W_d

Suspended solids	[mg/dm^3]	9.86	35.00	11.92	35.00	10.71	35.00
Petroleum hydrocarbons	[mg/dm^3]	1.02	5.00	1.64	5.00	2.15	5.00

W_r – actual average annual value
W_d – permissible average annual value

Waste

Waste generated by Grupa LOTOS	Quantity [tonnes/year]		
	2010	2011	2012
Waste stored as at the end of the previous year	2,215	2,244	2,195
Generated hazardous waste	4,218	7,338	6,784
Generated non-hazardous waste	7,254	5,046	5,574
Total generated waste	**11,472**	**12,384**	**12,358**
Quantity permitted by the integrated permit	89,627	89,627	89,627
Waste generated by service providers	N/A	N/A	4,154

Waste management methods in Grupa LOTOS	Quantity [tonnes/year]		
	2010	2011	2012
Waste recovered	**10,836**	**12,428**	**12,749**
Waste treated or disposed of	**600**	**4**	**28**
Incineration	519	4	27
Landfilling	81	0	1
Waste stored on site at the end of the year	**2,244**	**2,196**	**1,777**
Hazardous	1,044	1,977	1,503
Non-hazardous	1,200	219	274

Type of hazardous waste generated in Grupa LOTOS	Quantity [tonnes/year]			
	Unit	2010	2011	2012
Hazardous waste transported from external sources (from outside Grupa LOTOS) to the refinery		0	21	0
Hazardous waste transported from the refinery to external sites in Poland		4,128	6,286	7,258

Hazardous waste transported from the refinery to external sites outside of Poland		0	119	0
Total hazardous waste transported		**4,128**	**6,426**	**7,258**
Percentage of waste transported across international borders	**[%]**	**0**	**2**	**0**

Products and services

Benzene, sulphur and lead content in Grupa LOTOS fuels produced in 2012	
Benzene	0.5-1.0% V/V, average 0.8% V/V (at defined maximum of 1.0% V/V).
Sulphur	
- in gasolines	1.0 – 9.9 mg/kg; average 3.9 (standard max. 10 mg/kg)
- in Diesel oil	1.4 – 9.5 mg/kg; average 5.5 (standard max. 10 mg/kg)
Lead	brak

Contribution to society

One of the LOTOS Group's primary objectives until 2015 is the implementation of its social responsibility strategy, which supports the organization in the process of achieving the objectives of its business strategy. This creates opportunities for the best possible use of organizational resources and competences in order to generate economic and social values, benefiting both the company and its environment. Strategic directions in this respect are determined by the Board of Grupa LOTOS.

The social, environmental, ethical and human rights issues discussed in the social responsibility strategy have been integrated with our core operations and the business strategy of the LOTOS Group. In this way, we have managed to create a mechanism to:

- Increase our positive contribution to social development.
- Mitigate any possible adverse impact by our operations and the associated risk.

In 2011-2012, we conducted public consultations in order to optimise our organizational objectives in the area of social responsibility. These consultations and opinion polls involved key stakeholder groups, both internal and external. As a result, we managed to define the new perspective for the CSR Strategy of the LOTOS Group until 2015.

PILLARS OF THE LOTOS GROUP'S CORPORATE SOCIAL RESPONSIBILITY STRATEGY UNTIL 2015

I SOCIAL RESPONSIBILITY	II ENVIRONMENTAL RESPONSIBILITY	III BUSINESS RESPONSIBILITY
Creating values beneficial to social environments	**Creating values beneficial to the natural environment**	**Creating economically beneficial values**
We are committed to respect for intellectual capital and diversity, as well as respect for human rights, including the freedom of speech and freedom of association. We contribute to the creation of new jobs and the improvement of the quality of human capital in the areas of our impact. We actively counteract exclusion and other social problems in the spheres of our competences.	We strive to continuously reduce the negative impact of our business on the environment through the application of high standards of extraction, production and processing of hydrocarbons, and also by meeting demanding environmental standards in the production, transportation and sale of petroleum products. In our upstream operations we employ the best available techniques and rules of conduct, constantly analysing the opportunities offered in this area by new technologies. We also aim to identify and develop opportunities for obtaining energy from renewable sources.	We place great importance on the management of our relations with the environment in a predictable and reliable manner, consistently with the principles of ethics and in keeping with the rules of transparency and partnership. This has an impact on the way in which we aim to profit and increase in value in the long term perspective. Our responsibility manifests itself in our initiation of activities aimed at increasing security in the energy sector in a responsible manner, in terms of both society and the environment. We provide a stable supply of fuel to the market, and participate in the exploration and production of hydrocarbon deposits, including unconventional ones.

We have thoroughly analysed the opinions expressed by local communities, key residents of municipalities and provinces, representatives of non-governmental organizations, local government at all levels, state administration, research and development centres and educational institutions. Our key cooperation programmes are aimed at the residents of Pomerania on the Baltic coast and Jasło and Czechowice-Dziedzice in the south of Poland, where our main production plants, warehousing facilities and other installations are located. These programmes are directed at the development of the local communities there, and counteraction of any essential social and environmental problems that they struggle with.

Several LOTOS Group entities operate in these locations in the three provinces (Gdańsk, Katowice and Rzeszów), including the Grupa LOTOS refinery in Gdańsk and the former Southern Refineries, currently operating as LOTOS Czechowice and LOTOS Jasło.

During our consultations we identified the principal areas of involvement upon which - according to the stakeholders - we should focus with our social partners. These include:

- **Road safety**, which we influence through the quality of our products and comprehensive educational campaigns;
- **Equal opportunity initiatives and prevention of social exclusion, especially among children and youth**, to whom we address our scholarship grants, environmental education projects and sports-based education projects;
- **Environmental protection and ecology**, with (given the seaboard location of our refinery) special respect for the biodiversity of the Baltic Sea, as well as other areas of great natural value located in the imminent vicinity of LOTOS Group companies.

The fact that the social relations aspect of our involvement has been included in the Code of Ethics, in force since 2013, is a testimony to how important these issues are to the LOTOS Group.

> We strive to maintain solid, long-lasting relations with our local communities. We also strive to be a good neighbour, one that cares for others and engages in dialogue to solve problems, and participates in the life its local communities. We support important social and cultural initiatives provide for children and teenagers from areas close to our facilities and participate in conservation projects that help preserve the beauty of their natural surroundings for future generations.
>
> Our approach to community relations is put into practice by:
>
> - Treating community members with dignity and in a non-discriminatory manner
> - Maintaining professional relations with social partners
> - Taking an open and amicable attitude towards members of local communities and eliminating any potential sources of conflicts, unrest or controversies in community relations.
>
> Source: The LOTOS Group Code of Ethics

> The key objective of the LOTOS Group's CSR Strategy until 2015 with respect to integration with local communities, is to ensure favourable attitudes among local communities and strengthen the company’s image as a socially committed business, by undertaking initiatives designed to provide lasting solutions to social and environmental issues.

Effective realisation of the strategy requires that our relations with social partners, such as NGOs, expert advisers, local government and communities are managed responsibly. The partners’ expertise and competences, as well as their knowledge of problematic issues in a given area of social life, combined with a professional approach to particular aspects of the company's management, all guarantee the effectiveness of implemented projects and social and environmental programmes.

As provided for in our strategy, in 2012, we began work on a project, which in the long-term has a chance to significantly support the development of the Pomerania region, where most LOTOS Group companies are actually located. The **Development Initiation Forum**, inaugurated in Gdańsk in 2012, is an initiative born of the experiences and needs of the representatives of three sectors: local government, business and NGOs. The project deals with the effective social and economic development of the region, based on the implementation of inter-sectoral projects.

> The unique approach of the Development Initiation Forum lies in:
>
> - Learning the practicalities of inter-sectoral cooperation;
> - Providing opportunities for the exchange of good practices;
> - Using tried and tested cooperation and activation strategies, following the examples of successfully completed projects;
> - Providing opportunities for building informal contacts and actively searching for partners in an atmosphere of cooperation.

Further development of the initiative is planned for the coming years, and an annual conference is planned to become a bonding element. Between the conferences, we will be implementing additional inter-sectoral projects, financed within the so-called Grant Fund of the **Development Initiation Forum**. The idea of the Fund is to support inter-sectoral projects which respond to the real needs of the Pomerania region, while contributing to its ongoing development.

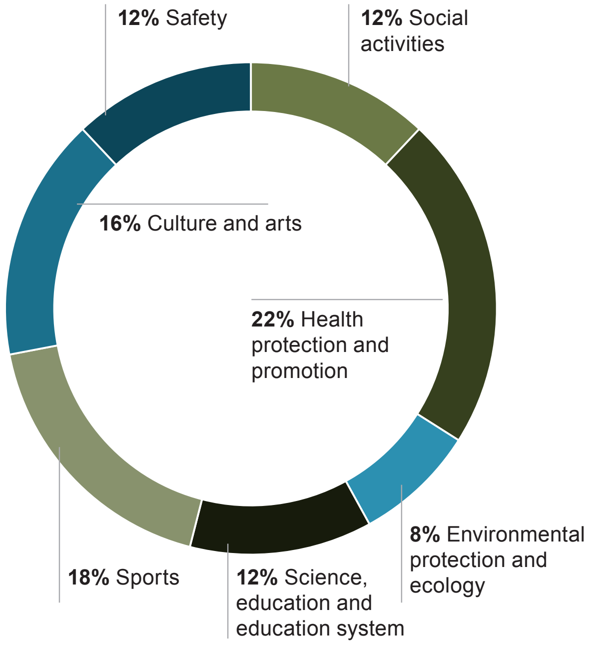
Grupa LOTOS' contribution to the work of the Forum lies not only in its financial input, but also in the sharing of its experience in the infrastructural, educational, environmental and cultural initiatives which have supported the development of the region for a long time now.

We are involved in the implementation of cultural, social and sporting events crucial to the regions where LOTOS Group companies have a presence. Similarly, we support initiatives aimed at improvement of life in our neighbouring communities, and which are local to our employees. Education and healthcare systems are well developed in our environment; however, we are particularly involved in initiatives that support our social partners in the area of access to appropriate professional equipment. Selection of such projects is usually preceded by consultations with the local authorities or social partners with the relevant competences. The principles of cooperation and choice of activities are subject to decisions made well in advance, allowing us to build responsible relationships that benefit these regions in the long term.

In 2012, we supported a number of initiatives which had an impact on the infrastructural development of our local communities, bringing positive effects to many spheres of their life. It is worth emphasising that in June 2012, the General Shareholders Meeting of Grupa LOTOS adopted a resolution on distribution of profit for 2011. Under the resolution, part of Grupa LOTOS’ net profit in the amount of PLN 1,500,000 was earmarked for the Company’s special account for financing of Grupa LOTOS’ CSR projects, including those relating to healthcare and health promotion. More information is to be found in the Consolidated statement of comprehensive income (http://raportroczny.lotos.pl/en/financial-information/consolidated-financial-statements-2012/consolidated-statement-of-comprehensive-income).

Money donated by us was invested in medical equipment for public healthcare institutions, other equipment related to environmental protection and ecology, investments aimed at the improvement of residents' quality of life and road safety education. These investments were realised pro publico bono.

2012 support structure in the form of grants, broken down by sphere of life



LOTOS Group's involvement in initiatives serving the development of its local communities in 2012

No.	Institution	City/town	Purpose of grant
1.	Gmina Bisztynek	Bisztynek	Renovation of the state nursery damaged in a hail storm.
2.	Volunteer Fire Brigade	Trzcinica	Equipment purchase: SCBA with motion sensor.
3.	The 'Bezpieczni w Ruchu Drogowym' (Safe on the Road) Foundation	Gdańsk	Equipment purchase.
4.	Cappella Gedanensis	Gdańsk	Purchase of an instrument.
5.	Politechnika Gdańska (Gdańsk University of Technology)	Gdańsk	Co-financing of the renovation and modernisation of a rotary vacuum-drum filter unit.
6.	Primary School	Osowo	Computer purchase.
7.	Specialist Hospital in Jasło	Jasło	Purchase of medical equipment - electrosurgical diathermy unit.
8.	Pomorskie Centrum Chorób Zakaźnych i Gruźlicy (Pomeranian Infectious Diseases and TB Centre)	Gdańsk	Purchase of medical equipment - vital signs monitor for the paediatric ward.
9.	Ambulance Station	Gdańsk	Co-financing of a rescue motorbike.
10.	Wojewódzkie Centrum Onkologii (Provincial Oncology Centre)	Gdańsk	Purchase of medical equipment.
11.	Stowarzyszenie Pomocy Dzieciom Chirurgicznie Chorym (Children's Aid Association for Surgical Patients)	Gdańsk	Purchase of medical equipment - Body Wizz3D platform.

12.	The PCK Marine Hospital	Gdynia	Purchase of biopsy apparatus.
13.	Fundacja Agencja Regionalnego Monitoringu Aglomeracji Gdańskiej (Agency of Regional Air Quality Monitoring of Gdańsk Agglomeration)	Gdańsk	Replacement of the AM1 container at the monitoring station in Gdańsk and its connection to the monitoring network.
14.	Ornithological Station at the Museum and Institute of Zoology of the Polish Academy of Sciences	Gdańsk	Co-financing of statutory activities, including the purchase of 3 glass cabinets for a display of stuffed birds for educational purposes at the MIZ PAN Ornithological Station, Gdańsk.
15.	Fundacja Rozwoju Uniwersytetu Gdańskiego (Foundation for the Development of Gdańsk University)	Gdańsk	Co-financing of statutory activities in research objectives; provision of equipment for the Zelint research unit and purchase of research equipment.
16.	Grupa Badawcza Ptaków Wodnych KULING (Kuling Waterbird Research Group)	Gdańsk	Co-financing of statutory activities, including the construction of an observation deck, repairs to the nature trail and environmental protection actions in the Mewia Łacha Reserve.
17.	Municipality of Pruszcz Gdański	Pruszcz Gdański	Co-financing of the renovation of road surface of ul. Jesionowa in Przejazdowo.
18.	Specialist Hospital in Jasło	Jasło	Co-financing of roof renovations at the specialist surgical unit of the Specialist Hospital in Jasło.

We also provide non-profit support in Lithuania through AB LOTOS Geonafta, implementing social investments in the areas of education, culture and sports. AB LOTOS Geonafta's socially motivated activities also provide support to blind and partially-sighted children in Lithuania. The company also sponsored production of a book written in Braille, which was published both as an audiobook and a print edition.

We are the main sponsor of sports clubs, sporting events, cultural institutions and cultural events in the regions where LOTOS Group companies operate. In 2012, we implemented 56 sponsorship projects in sports, culture and the arts, as well as 12 social projects, including educational and ecological activities. One of the criteria we use when choosing which activities to sponsor is their social dimension, their significance to local communities and their impact on their region's national and international reputation. If we were to cease our sponsorship activities, it would cause a deterioration of the cultural sphere and a lowering of the potential for young people to become involved in sports.

Companies that belong to the LOTOS Group have no negative impact on the quality of life in their immediate environment. However, we take preventive measures and observe all our duties stemming from the provisions of environmental protection law because of the high-risk plants within our structure. Pursuant to these laws, we communicate with local government on the procedures and safety measures that need to be implemented in case of serious industrial disasters. These are also published on the websites of our companies, with specific instructions for residents on how to proceed in such cases, and are also communicated to the entities and social institutions which might be affected by the consequences of such emergencies. The information included in such documents as the Environmental Impact Assessment (which we commission to meet the requirements of the Marshall's Offices, Regional Environmental Protection Boards, Provincial Environmental Protection Inspectorates) is also available to the public. Since these are not confidential documents, anyone who wishes do so can acquaint themselves with their content. They are also available in reports published on the environmental conditions in the provinces, as informative materials for the needs of local communities.

Significant support given by the state

Grupa LOTOS	2010	2011	2012
			PLN '000
Grants received in the year	-	5,206	2,186
Grants settled in the year	-	433	733
Carrying amount of grants at the end of the year	25,275	23,580	25,033

Grants are licences received free of charge.

LOTOS Group	2010	2011	2012
			PLN '000
Grants received	791	7,431	2,186
Grants settled	122	1,654	2,059
Carrying amount of grants at the end of the year	40,012	39,321	39,448

Grants are mainly licences received free of charge and grants received from EcoFund for the use of waste gas from the offshore oil production facility for heating purposes. (Note 31.2 (http://raportroczny.lotos.pl/en/financial-information/consolidated-financial-statements-2012/notes-to-the-financial-statements/31.-trade-and-other-payables-other-liabilities-and-provisions) of Additional infomation and clarifications to the LOTOS Group's Consolidated Financial Statements for the year 2012)

Moreover, the LOTOS Group makes use of government assistance, as regulated by IAS 20 concerning "Accounting for Government Grants and Disclosure of Government Assistance".

Until April 30th 2011 the LOTOS Group (LOTOS Biopaliwa) was a beneficiary of tax relief available to producers of biocomponents, under the Act of February 15th 1992, Corporate Income tax (consolidated text: Dz.U. of 2011, No 74, item 397) - Art. 19a. The public assistance granted within the quoted regulations was approved by the decision of the European Commission No. N 57/08 of September 18th 2009, concerning authorisation for state operated assistance in the area of biofuels. This relief has enabled biofuel producers to deduct from their payable income tax up to 19% of the surplus value of their produced biofuels, over the value of their produced liquid fuels of the same calorific value, calculated at average prices. European Commission approval for the tax relief expired on April 30th 2011, and the unsettled amount of the relief is accounted for in current prepayments for corporate income tax. The tax effect of the biocomponent relief was presented in Notes 10.2 (http://raportroczny.lotos.pl/en/financial-information/consolidated-financial-statements-2012/notes-to-the-financial-statements/10.-corporate-income-tax) and 10.3 (http://raportroczny.lotos.pl/en/financial-information/consolidated-financial-statements-2012/notes-to-the-financial-statements/10.-corporate-income-tax) of Additional information and clarifications to the LOTOS Group's Consolidated Financial Statement for the year 2012.

LOTOS Asfalt operates in the area of the Tarnobrzeg Special Economic Zone, EURO-PARK WISŁOSAN, under Permit No. 158/ARP S.A./2008 of January 23rd 2008, granted until November 15th 2017. Because the company invests in the Tarnobrzeg Special Economic Zone itself, it is entitled to a tax relief on up to 50% of capital expenditure incurred in the TSEZ from its income tax payable. The tax effect of this relief was presented in Notes 10.2 (http://raportroczny.lotos.pl/en/financial-information/consolidated-financial-statements-2012/notes-to-the-financial-statements/10.-corporate-income-tax) and 10.3 (http://raportroczny.lotos.pl/en/financial-information/consolidated-financial-statements-2012/notes-to-the-financial-statements/10.-corporate-income-tax) of Additional information and clarifications to the LOTOS Group's Consolidated Financial Statement for the year 2012. (http://raportroczny.lotos.pl/en/financial-information/consolidated-financial-statements-2012)

The LOTOS Group is also taking advantage of the relief for acquiring new technologies under the Act of February 15th 1992 on corporate income tax (consolidated text: Dz. U. of 2011, No. 74, item 397) - Art. 18b. This enables the LOTOS Group to deduct from payable income tax no more than 50% of its expenditure on the purchase of new technologies.

Local community development programmes

In 2012, we took a number of preventive measures and activities contributing to the development of the local communities living in the vicinity of LOTOS Group facilities. Many of these are long-term programmes that have already been in place for several years. As they fit with the areas of our competence, determined in consultation with our stakeholders, they are indeed likely to improve aspects of life that are important to the communities' members.

Road safety

The low level of traffic safety has been one of the major social problems in Poland for many years. In 2012, there were over 36,400 road accidents (3,600 fewer than in 2011), in which around 45,000 people were injured (down by 4,500 on 2011) and 3,500 people killed (down by over 600 on the previous year). Although the number of accidents decreased in 2012, Poland is still last among European countries in terms of road traffic mortality per million residents.

According to data furnished by the European Commission, in 2011 the number of people involved in road accidents in Poland was 109 per million residents, whereas in the UK, Sweden and the Netherlands - at the other end of the road safety figures - it was 32-33 per million.

Given the scale of the risk, educational campaigns should be run among the very youngest pupils of primary schools, as it is at this stage that the right attitudes and behaviour are shaped most effectively.

Grupa LOTOS sees its involvement in the enhancement of road traffic safety as a priority. To this end, we established **Akademia Bezpieczeństwa LOTOS** (LOTOS Safety Academy) – a programme dedicated chiefly to educating children and teenagers. Events organised by the LOTOS Safety Academy in 2012 included another iteration of the LOTOS – Bezpieczna droga do szkoły (LOTOS – Safe Journey to School) programme, the Uwolnić odblaski art competition (Free Reflectors - to promote reflective clothing and accessories) and a new project, W drodze do prawa jazdy (On the Way to a Driving Licence).

1. LOTOS – Safe Journey to School

is a social education and accident prevention programme run jointly with Polish Police and road traffic safety experts, designed to educate and promote safe road behaviour, thus preventing traffic accidents involving young schoolchildren. The idea behind the programme is to make children conscious and safety-minded road traffic participants. The programme is addressed to primary-school first year pupils, and is designed to draw their attention to safe use of roads by both pedestrians and drivers, including their parents. At the beginning of every school year, the programme offers an opportunity to participate in classes with police officers and road safety instructors to learn about road traffic safety and safe places to play. Participants are presented with road safety reflectors and special road safety educational packages funded by our Company. Major partners in this programme include the Gdańsk Province Police Headquarters, the Bielsko-Biała City Police Headquarters and the Jasło Motor and Road Rescue Club. The programme is run in the areas of selected LOTOS Group subsidiaries, including in the Province of Gdańsk and the municipalities lying within the sphere of influence of LOTOS Czechowice and LOTOS Jasło. It was first implemented in Jasło, in 1998. In the Gdańsk Province, it has been run regularly since 2001, while in Czechowice since 2004.

In the 2012/2013 school year, we distributed a total of 14,000 road safety reflectors and the same number of educational packages to LOTOS – Safe Journey to School participants. In 2010-2012, the programme's activities were attended by a total of 41,000 students.

2. The Free Reflectors competition

was devised for first-grade pupils, particularly those participating in the LOTOS – Safe Journey to School programme. Its overall aim is to remind and warn children about road traffic risks and to help them get into the habit of wearing reflective accessories, which reduces the likelihood of accidents. The competition is open to schoolchildren of the Gdańsk Province and the Counties of Bielsko-Biała and Jasło. Its partners make joint efforts to encourage parents, carers and teachers to equip children with reflective accessories. The competition is held in the summer semester and the finale takes place in June, just before the end of the school year and the beginning of the holidays. Each participating school selects and submits up to ten pieces of art by their children. From among all the entries, the three best works are selected in each region. First-place winners are awarded bicycles with safety enhancing accessories. Additionally, the schools of the winners are awarded mini road-sign kits and bicycles with safety enhancing accessories. Second-place winners receive roller blade sets with accessories, while third-place winners receive educational game sets.

In 2012, a total of 570 pieces of art from 96 schools were submitted as part of the Free Reflectors competition. First prizes were awarded to the pupils of Primary School No. 61 in Gdańsk (Gdańsk Province), the Primary School in Porąbka (County of Bielsko-Biała) and the Primary School in Dębowiec (County of Jasło). Between 2010-2012, a total of 876 students took part in the contest.

3. The On the way to a Driving Licence project

was initiated in 2012, in cooperation with the Road Traffic Department of the Gdańsk Province Police Headquarters. It is aimed at promoting the rules of safe behaviour on the road among students of secondary schools, thus preventing accidents involving young drivers. The project focused on meetings with students of selected junior high schools. These meetings involved lectures on the rules of road safety, delivered by a police officer, as well as lectures on first aid and the medical consequences of road accidents, delivered by a medical rescue expert. The speeches were accompanied by a multimedia presentation. The main emphasis was placed on such risks as speeding, reckless driving, and not wearing seat belts.

The pilot edition of the On the Way to a Driving Licence project, held in May 2012, was attended by nearly 500 junior high school students in Gdańsk.

Equal opportunity initiatives

Equal opportunity initiatives and prevention of social exclusion, especially among children and youth, have been our focus for a number of years. Openness to the future is among the key social values of the LOTOS brand, which is why we place a special emphasis on projects promoting young people’s personal development. We also feel responsible for the future of the children and youth living in the immediate vicinity of our production facilities, particularly the Gdańsk refinery.

Dobry Sąsiad (Good Neighbour) Programme

We have developed a dedicated programme for the inhabitants of Grupa LOTOS’ neighbouring areas. Its strategic objective is to ensure equal opportunities, prevent social exclusion, raise environmental awareness and promote eco-friendly behaviour among the youngest children. The operational objectives we pursue as part of the programme are:

- Involvement in the life of local communities (by organising family events, sporting events etc.);
- Supporting of environmental projects and the active protection of nature surrounding the refinery;
- Supporting of selected local government projects improving the quality of life of people residing in the districts covered by the programme;
- Developing local inhabitants’ understanding of our operations and assuring them that the refinery has state-of-the-art environmental security controls;
- Tackling social inequalities by providing support to non-profit organizations and public benefit institutions;
- Involvement in long-standing initiatives aimed at the inhabitants of Grupa LOTOS’ neighbouring districts.

1. Family picnics and sports events

In 2012, we organised the Piłkarski Dzień Dziecka (**Children’s Football Day**) family event in the Stogi district, neighbouring our facility in Gdańsk. The festival attracted around a thousand participants, who were also asked to assess the event in a survey. Their opinions concerning the venue, the programme of the event and its organization, as well as the quality of the service, overall satisfaction and quality of the gifts distributed were all at the top of the scale (99% of respondents). 76% of the respondents said we were taking care of the immediate surroundings, and 88% of the people asked felt the event met their social needs and expectations.

As part of the initiatives we undertook in our immediate vicinity, we also participated in the construction of 16 football pitches under the **Junior Gdańsk 2012** programme, commenced by the Mayor of Gdańsk in 2007. This programme granted thousands of Gdańsk school students access to the most advanced facilities of various sports disciplines. We were also the only participating company to finance construction of two multi-purpose pitches in districts of Gdańsk – in our immediate vicinity, at Primary School No. 61 in Przeróbka district and at Junior High School No. 20 in Przymorze district. At the end of the programme, just before the UEFA EURO 2012 Football Championship, we held a football tournament for all the primary and junior high schools which had had pitches built under the Junior Gdańsk 2012 programme.

2. Charity initiatives

As part of the Good Neighbour programme, we work together with non-governmental organizations, offering assistance to the neediest, particularly children and the youth, in our closest neighbourhood. We support the work of **Fundacja Pomóż Sobie i Innym (Help Yourself and Others Foundation), Stowarzyszenie Pedagogów Praktyków (Association of Practising Educators) and Parafia p.w. Matki Boskiej Bolesnej w Gdańsku (Our Lady of Dolours Parish in Gdańsk).** We co-financed summer and winter holidays for some 120 children under the care of these organizations. We also organised Santa Claus gift-giving events for children in family-type children’s homes.

3. Pro-environmental education

In the immediate vicinity of our facilities in Gdańsk is Sobieszewo Island, which includes two nature reserves: 'Ptasi Raj' and 'Mewia Łacha'. Together with the **Ornithological Station at the Museum and Institute of Zoology of the Polish Academy of Sciences, the Kuling Waterbird Research Group and the Association of Sobieszewo Island Lovers**, we pursue the Chronimy NATURĘ na Wyspie Sobieszewskiej **(Protect the Wildlife of the Sobieszewo Island)** programme. The programme provides for comprehensive initiatives undertaken on Sobieszewo Island to preserve its natural riches and provide for pro-environmental education. The work of the programme has resulted in construction of protective infrastructure, for instance the development of an educational eco-route within the Mewia Łacha nature reserve, support for construction of an observation deck and the pro-environmental education of residents and tourists. In 2012, we also implemented the **Edukacja dla Natury na Wyspie Sobieszewskiej (Education for Nature on the Sobieszewo Island)** educational project, which involved indoor workshops and field sessions, as well as training for teachers of biology and natural sciences and educators from the Pomerania region. In conjunction with the Ornithological Station, we also organise free-of-charge lectures for students of Gdańsk schools. The idea of these lectures is to develop the young generation’s interest in ecology and environmental protection, promote the Natura 2000 European Ecological Network, with particular emphasis on the significance of Sobieszewo Island's protected areas to preservation of the area's biodiversity.

> In 2012, over 2,600 people benefited from the educational classes developed in the Mewia Łacha nature reserve as part of the Chronimy NATURĘ na Wyspie Sobieszewskiej programme. The educational classes accompanying the Edukacja dla Natury na Wyspie Sobieszewskiej project were attended by 2,100 children and young people with their parents and guardians. Between 2010 and 2012, a total of 6,700 people took part in similar activities.

The Skrzydła z Grupą LOTOS (Wings with Grupa LOTOS) Programme

We have adopted a strategic approach to equal opportunity initiatives addressed to talented children at risk of social exclusion, not only from Pomerania, but also from other regions where the LOTOS Group conducts its business. This was made possible when we joined the group of strategic partners of the Skrzydła (Wings) programme implemented by **Caritas Polska**, in 2010. Under the Skrzydła z Grupą LOTOS programme, we have assisted 70 pupils from low-income families in three regions of Poland. Skrzydła is a programme of long-term assistance for pupils of primary, junior high and high schools who, given the insufficient means of their families, need assistance in the form of school lunches, school kits, as well as co-financing of school trips and educational activities. Under the programme, a sponsor can choose the form of assistance and tailor it to the needs of a child and the sponsor’s financial resources. We have extended assistance to the most needy junior high and high school pupils from the Gdańsk Province, Jasło County and the Czechowice-Dziedzice Municipality. This assistance is rendered by the associated Skrzydła na przyszłość (Wings for the Future) programme, ensuring equal opportunities for all children to pursue their plans and ambitions.

Sports education programmes

We are also involved in community-oriented sports projects supporting the development of sports skills among children and youth, to train future generations of sportsmen who would like to join their local or national teams. We participate in all these initiatives because we believe in taking responsibility for the local communities in which we operate. Education through sports is also a good way to spend leisure time, educate young people in the spirit of healthy competition and fair play, and counteract social pathologies.

Since 2004, Grupa LOTOS, together with its partner **the Polish Skiing Association**, has run one of the widest-ranging projects in the area of sports education **– the National Ski Jumping Development Programme, 'In Search of the Champion's Successors'**. The programme's main objective is to support young athletes practising at ski-jumping clubs which run their own ski jumping and Nordic combined youth sections and to discover the finest Polish ski-jumping and ski-running talents. In the 2011/2012 season, the core of the national youth team was composed of scholarship holders and beneficiaries of the "In Search of the Champion’s Successors" programme, as 12 out of 15 ski jumpers appointed to National Team A, the national youth team and all Nordic combined skiers of the Polish Skiing Association were covered by the programme.

> From 2010 to 2012, 85 pairs of skis complete with bindings, 55 suits and 55 ski-jumping boots were given to the most talented young ski jumpers from 19 clubs all over Poland as part of the In Search of the Champion's Successors programme. Over a period of eight years, we handed out a total of 756 sets of professional sports equipment, thus launching the largest CSR project in support of talented ski jumpers and Nordic combined skiers

from Polish clubs. In addition, our one-year sports scholarships were awarded to 96 ski jumpers from the 11–12 and 15–16 age groups who finished in the top six places in the general classification of the LOTOS Cup tournament's 2004–2012 seasons.

Another field of the Company's activities supporting young sportsmen is our work with youth groups practising with the **Lechia Gdańsk Football Academy**. In 2012, the Company and the Academy jointly launched the **White and Green Future with LOTOS** programme. From 2012 to 2015, we will gradually open more than ten new Academy outlets in other locations. The programme will be implemented at new locations across Pomerania and the neighbouring provinces. Ultimately, the programme will cover a total of 3,000 children, including some 400 from outside Gdańsk who will be able to participate in regular training sessions based on the Academy's training programme.

Also in 2012, we continued our support of the training of girls basketball teams at the **Gdynia Basketball Society (GTK)**. A total of around 300 young basketballers practise with the GTK and the sports achievements and prizes it has won, including Polish National Championship medals in 2010–2011, prove that the club is a model of management in organizational and sports terms.

In 2012, we also continued our cooperation with the **Wybrzeże Gdańsk Speedway Club Association**, which trains children and youth. The aim of the **Speedway Youth School** is to develop young riders to join the first team of GKS Wybrzeże - the LOTOS Wybrzeże Gdańsk club. As in previous years, the team of young GKS riders participated in the 2012 Team Championship of Poland, finishing second.

Protection of the environment and ecology

As our refinery is located on the coast of the Baltic Sea, we place particular emphasis on working with partners specialising in areas related specifically to the region's environmental conditions. These partners include: **the Foundation for the Development of Gdańsk University (FRUG) and the Marine Station of the University's Institute of Oceanography (IOUG) in Hel**. Together with these institutions, we have implemented projects aimed at protecting the natural riches of the Baltic Sea. In 2012, we continued our involvement in initiatives focused on the biodiversity of the Baltic Sea.

The 'LOTOS Protects the Baltic Sea's Wildlife' programme

Since 2009, we have been working jointly with the FRUG Foundation and the IOUG Marine Station on projects designed to prevent the extinction of endangered marine species, notably the harbour porpoise. One of the most mysterious mammals of the Baltic Sea, the protected harbour porpoise is in danger of extinction. They are the only cetaceans permanently inhabiting the Baltic Sea, mainly off the coast of Denmark, Germany, the south coast of Sweden, as well as the Pomeranian, Gdańsk and Puck Bays in Poland.

Apart from these efforts, the partnership has paved the way for further projects aimed at promoting knowledge of the Baltic Sea's biodiversity and information on what can be done to protect its endangered species. Such joint projects include the '**Blue Schools'** where children and teenagers can meet with educators teaching about the biodiversity of the Baltic Sea. Each year we are also involved in the organization of the **International Baltic Harbour Porpoise Day**, established on the initiative of the Agreement on the Conservation of Small Cetaceans of the Baltic, North East Atlantic, Irish and North Seas (ASCOBANS).

We support projects designed to protect the harbour porpoise by purchasing tools which facilitate scientific research and warn marine mammals against the presence of dangerous underwater objects. As a result of such projects, a special line of acoustic deterrent devices (pingers), designed to warn harbour porpoises away from bay fisheries, was built between Gdynia and Hel.

In 2012, as in previous years, we organised the **'Wildlife in the water under the keel'** awareness campaign, promoting the protection of areas covered by the Natura 2000 network and encouraging the public to get involved in the conservation planning process. The campaign was conducted on-board vessels operated by Żegluga Gdańska. As part of the campaign, ten educational boards were displayed in the ships.

In 2012, we also engaged - for the fourth time - in the **'Clean Up the World'** campaign, with our organization of the **'Let's clean up the Baltic Sea! Let's clean up the world!'** event. Children from 70 Gdańsk primary schools were invited to join the initiative, which took place in Gdańsk on Brzeźno beach, with the number of participants doubling over 2011. During the collective cleaning event, 6,000 litres of waste was collected in compliance with the rules of waste segregation. Once the cleaning was over, participants of the event could take part in an educational programme, which included the pro-environmental 'Laws of Nature Park', the 'Śmieciowisko' (Rubbish Dump) theatrical show, and educational workshops. The purpose of the event was to develop a sense of responsibility for the world around us, particularly for protecting the Baltic Sea and keeping it clean.

The key measurement used to assess the project's impact was turnout.

> The associated events of the 2012 ASCOBANS International Day of the Baltic Harbour Porpoise attracted 6,000 visitors, while the Marine Station's stand at the Baltic Science Festival was visited by over 3,000. Some 50,000 items of informational and educational materials and 200 copies of an educational documentary were handed out. The associated www.morswin.pl site was then visited 12,600 times over the year, and the banner campaign on the trójmiasto.pl website received 5,000 hits. An article on the harbour porpoise conservation plans was printed 30,000 times, and an exhibition entitled 'Okiem Mewy' (The Seagull's View) had 20,000 visitors. Courses offered by the Blue School were attended by 4,500 students, while the Fokarium (Seal Centre) in Hel attracted nearly 399,000 visitors. The 'Let's clean up the Baltic Sea!' event attracted 750 students from a dozen or so Gdańsk primary schools.

Maritime Education Programme

Another programme we support, implemented by the Gdańsk Foundation at the request of the Mayor of Gdańsk. The Maritime Education Programme was initiated by Mateusz Kusznierewicz, the Ambassador for Maritime Affairs of the City of Gdańsk. Its purpose is to expand young people's knowledge of the natural environment, sailing, the maritime heritage of Gdańsk and water safety rules, in a manner which is interesting to them and ensures that they can easily acquire the new knowledge and practical skills. Each year, all first class students of junior high schools from Gdańsk (totalling approximately 3,500) take educational cruises along the Gdańsk harbour channel and around the Gdańsk Bay, which last several hours at a time. Participation in the cruises is free of charge. As part of the Marine Education Programme, an environmental competition is also held. In 2012, a national competition was run under the slogan 'We all care for the Baltic Sea', which was addressed to students of every Polish junior high school. The competition was designed to make young people more sensitive to the local environment, in particular to issues affecting the Baltic Sea. It was organised under the auspices of the Ministry of Environment, with the theoretical framework for the competition provided by our partners, the FRUG Foundation and the IOUG Marine Station, as well as the City Police Headquarters. The main task of the contestants was to write an essay on the subject "How I care for the Baltic Sea, while caring for water in my neighbourhood". Almost 300 essays were submitted for the competition. The fourteen winners were awarded a week-long cruise around the Gdańsk Bay and Żuławy Loop. The highlights of the cruise included training at the IOUG Marine Station and a visit to the Seal Centre.

As part of the project, we conduct an evaluation survey each time among the teachers and test students for knowledge acquired during the cruises. In 2012, 197 teachers took part in evaluation of the programme, 99% of whom stated that it should definitely be continued. 97% of responders correctly named the sponsor of the programme, i.e. Grupa LOTOS, while 96% of respondents expressed the opinion that commercial companies should engage in activities supporting local communities and the environment.

From 2010 to 2012, in all editions of the Maritime Education Programme, over 10,500 people took part in the cruises along the Gdańsk Bay, during which they covered a total distance of over 22,000 nautical miles.

Market environment

In making business decisions, the companies of the LOTOS Group are guided by the principles of the CSR strategy, which requires them to give due consideration to the indirect impact they may have on local communities and the economic development of their respective region. This is particularly true for provinces and counties where we are the largest employer, and therefore have the ability to affect the local labour market and vocational education related to the industry's needs. We also contribute to the development of entrepreneurship and economic potential in the communities in which we operate through the substantial amount of taxes we pay and our choice of trading partners.

The impact of Grupa LOTOS on the community may be illustrated by the amount of taxes paid by the Company in 2012 (including corporate income tax, value added tax, excise tax, fuel charge and property tax), which totalled PLN 10,867,600 thousand (2011: PLN 10,852,431 thousand). Taxes for the entire LOTOS Group amounted to PLN 11,362,086 thousand, against PLN 11,324,650 thousand in 2011.

As a player in high-tech industries, the LOTOS Group cooperates with higher education institutions as part of the **LOTOS Scholarship programme**, thus contributing to the development of solutions which are beneficial not only to Polish industry, but also to the academic community. Given the nature of our operations and the key role we play in ensuring Poland's energy security, we share the knowledge and experience of our employees with students, because we feel committed to securing the future of our industry by training the next generation of experts.

In the academic year 2004/2005, we began working with the Gdańsk University of Technology, as part of which we sponsor scholarships, provide work placement opportunities under the supervision of industry experts, and help students write their MSc dissertations on topics connected with our operations, which are later reviewed by the Company's experts. In the academic year 2011/2012, we granted ten scholarships to the best students from the Chemical Faculty, the Faculty of Electronics, Telecommunications and Informatics, the Faculty of Electrical and Control Engineering and the Faculty of Mechanical Engineering. Additionally, we granted a scholarship to a doctoral student from the Chemical Faculty and two awards in recognition of the best Chemical Faculty MSc theses.

In the academic year 2007/2008, a similar relationship was forged with the AGH University of Science and Technology in Kraków, leading to five scholarships being granted in the academic year 2011/2012 to outstanding students of the Faculty of Geology, Geophysics and Environment Protection, the Faculty of Mining Surveying and Environmental Engineering, the Faculty of Drilling, Oil and Gas and the Faculty of Energy and Fuels. We also granted two awards for the best MSc theses written at the Faculty of Drilling, Oil and Gas.

In the academic year 2012/2013, we continue to support the LOTOS Scholarship Programme at both institutions. To date, we have granted some PLN 1.2m to fund scholarships and awards for 234 undergraduates and doctoral students.

As part of our cooperation with higher education providers, we also organise unpaid summer work placements, during which students have a chance to expand their knowledge under the supervision of a tutor – an industry expert. In 2012, work placements were provided to 118 undergraduates, including 66 students of the Gdańsk University of Technology and 12 students of the AGH University of Science and Technology in Kraków. At the same time, students from the Faculty of Oceanography and Geography of the University of Gdańsk could enrol in an internship programme at **LOTOS Petrobaltic**. Last year, work placements at that company were offered to 20 students, who had the opportunity to gain knowledge and experience by working both on offshore rigs and at the operation maintenance unit. LOTOS Petrobaltic also collaborated with the AGH University of Science and Technology in Kraków during the 22nd OIL-GAS AGH 2012

International Scientific and Technical Conference, whose central theme was “Unconventional gas in Poland”. The conference was organised by Fundacja Wiertnictwo-Nafta-Gaz, Nauka i Tradycje (Drilling-Oil-Gas, Science and Traditions Foundation) with LOTOS Petrobaltic as an event partner.

In a similar vein, **AB LOTOS Geonafta** of Lithuania helps to train engineers and specialists at the Kaunas University of Technology, as well as prospective geologists at the University of Vilnius. In the course of their education, these students can benefit from new equipment purchased with funds provided by AB LOTOS Geonafta. Furthermore, they have the opportunity to gain knowledge and professional experience during internship programmes. The company also responds to other needs of the community and promotes initiatives designed to develop skills and knowledge.

In addition, as part of a joint scheme with the Food and Chemical Industry Vocational School in Gdańsk, in 2012 we funded seven scholarships for future chemical engineering technicians and analytical chemists who distinguished by having the best performance at the school, provided prizes in the “Chemistry is all around us” competition and organised work placements for students.

Our companies also affect the quality of professional training by using state-of-the-art technologies and improving production and management processes.

For instance, **LOTOS Kolej** has been steadily increasing its number of in-service locomotives and making consistent efforts to upgrade its rolling stock. At present, the company boasts the most advanced locomotive fleet among freight rail carriers in Poland. The upgrade of its operational motive stock requires the company to adapt its existing technology infrastructure to be able to service highly advanced locomotives. One of the crucial steps in this process is developing the expertise and skills of the technical staff responsible for engine overhauls and repairs. With the raising of their qualifications, the company was able to partially service their advanced locomotives on its own. LOTOS Kolej launched a modernised rail tank wash plant in Gdańsk, which is the most advanced facility of its kind in Poland. In 2012, the company initiated the certification process for quality improvement, safety and rolling stock maintenance systems. *Maintenance Management Systems (MMS), the Safety & Quality Assessment System (SQAS) and the Quality in welding management system* will act as tools enabling the safe and efficient maintenance of rolling stock, while improving the company's competitive position on the market and fostering the constant professional advancement of the employees.

LOTOS Group companies have a positive effect on the economic potential of their local communities.

LOTOS Oil is one of the leaders on the Polish engine oil market. Apart from high-quality technologically advanced lubricants, the company offers top-class, but less expensive equivalents. As a result, lubricants are easily available and purchasable by a wide group of people, including low-income customers. In distributing its products, LOTOS Oil supports employment at its business partners operating locally and nationally. Thanks to cooperation agreements executed at home and abroad, LOTOS Oil also secures access to new technologies. The company makes efforts to upgrade its processes, enhance the quality of its products and services, and provide employees with opportunities to improve their professional qualifications through training. These efforts make the company an employer of choice, offering prospects for improvement and development and, therefore, attracting specialists with extensive professional experience. LOTOS Oil’s positive image as an employer is indirectly reflected in the high opinions of the company’s products among its customers.

LOTOS Paliwa is also a major employer with significant impact on the local markets. In 2012, the company consistently expanded the extent of its operations through dynamic expansion of the LOTOS service stations chain, thus creating further new jobs. The station chain's development involved both the construction of new service stations and acquisition of existing sites. After taking over an existing service station, LOTOS Paliwa expands its business with the addition of new services, the introduction of modern management methods and improvement of customer service quality. In the end, all these efforts translate into increased employment at the stations, which is of particular importance in regions affected by high unemployment.

The staff at own stations are employed by a Dealer who has entered into a station management agreement with the company, whereas at partner stations the staff are employed by the Partner running the station. Employees working at the stations attend a series of courses designed to advance their skills.

For the last two years, LOTOS Paliwa has been gradually expanding its economy service stations chain, which offers less expensive fuels. In 2012, another 51 such stations were added to the chain, which means that in 2011-2012 a total of 101 own and partner LOTOS Optima stations were launched, with a total headcount of approximately 900 persons. Such strong expansion of the service station chain also translates into higher demand for general construction work.

Investment and procurement practices

Due to the nature of our operations and our production facilities, we have developed precise procurement procedures. As a result of both legal and procedural considerations, including the principle of equal treatment of business entities, the selection of suppliers is chiefly based on their business profile, contract delivery potential, and knowledge and experience. Therefore, any preference for local suppliers does not come into play. However, we constantly monitor the market, including the local one, which allows us to develop and regularly update a list of qualified suppliers and manufacturers complying with our requirements.

We apply the most exacting quality and safety standards. Entities, including local businesses, rendering their services at our production facilities receive technical standards documentation applicable to the works to be performed, which provides them with detailed information on the engineering process. Also, personnel employed by such companies undergo regular mandatory safety training. In this way, we share our knowledge, experience and best practices with our partners, whom may then apply and pass them on in the course of their local market operations, thus enhancing the quality of the services they provide. This particularly applies to SMEs.

The companies of the LOTOS Group carry out procurement processes taking into consideration, to the furthest extent possible, potential local market providers. The nature of the operation of individual companies does not allow the LOTOS Group to adopt uniform criteria in this area.

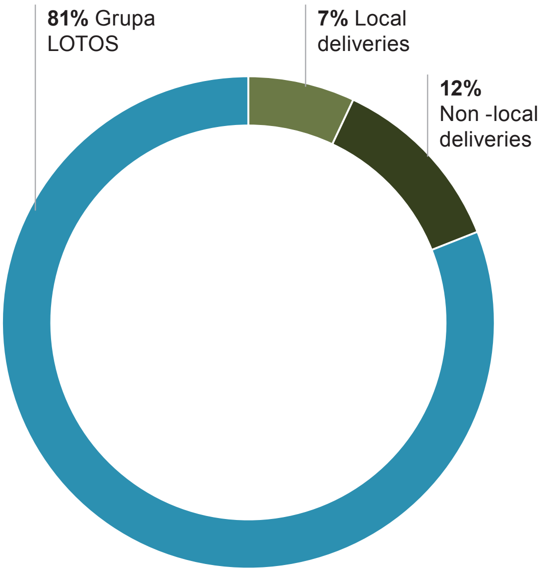
In the process of executing contracts for the delivery of products and services, as well as selecting suppliers, **Grupa LOTOS** takes into account all business entities, including those operating locally in the Province of Gdańsk. In 2012, purchases from suppliers based in the Province accounted for 3.56% of total orders.

LOTOS Asfalt does not apply the locality criterion in its procurement policy. Instead, it is internal procedures that define the rules when purchasing products and services, with the key criteria being the quality and environmental impact of the product or service, compliance with occupational health and safety regulations by the supplier, and the proposed payment and warranty terms.

LOTOS Kolej takes steps to optimise its purchasing process, for example by choosing local suppliers from the Province of Gdańsk. In the case of spare parts for newer locomotives, such efforts are limited given that during warranty periods the company is forced to choose the suppliers specified by the rolling stock's manufacturer. However, whenever it has the opportunity and permission to substitute spare parts or consumables, LOTOS Kolej always tries to buy them from local suppliers. In other cases, when faced with prospective suppliers offering similar business terms, the company gives priority to local enterprises.

LOTOS Oil's key suppliers are based in Poland and Europe. Given that the company has production and distribution branches throughout Poland and taking into consideration the specific nature of supplies and services involved, any supplier operating in Poland will be considered a local supplier. The company follows a supplier selection policy whereby it seeks to secure at least two sources of supplies in each product category. In the case of a monopoly, the company periodically takes steps to verify its monopoly status by looking for an alternative supplier. In line with the currently applied procurement policy, the company searches local markets for potential suppliers, and if a reliable prospective partner is found, it is invited to participate in a tender procedure.

Structure of deliveries to LOTOS Oil, including deliveries from Grupa LOTOS



In 2012, LOTOS Oil contracted 88% of all deliveries from local businesses, including Grupa LOTOS, which is the company's strategic supplier. In the same period, 100% of overhaul and project delivery services were provided by local contractors.

LOTOS Paliwa purchases nearly 100% of its fuel stocks for resale from Grupa LOTOS, with the vast majority of the fuel being produced domestically, at the Gdańsk refinery. Rail transport is handled exclusively by LOTOS Kolej. Road fuel transport is fully outsourced to entities outside the LOTOS Group, selected in a tender procedure. In the case of fuel shipments to LOTOS service stations, the company cooperates with entities with a nationwide presence. Fuel deliveries to wholesalers are also handled by local transport firms due to their familiarity with their regions and local transport considerations. LOTOS Paliwa outsourced all fuel wholesale deliveries to local freight service providers in the Provinces of Wrocław, Rzeszów, Gdańsk, Szczecin and Olsztyn. The selection of building contractors is carried out by entities outside the LOTOS Group, appointed by way of a tender procedure. The company gives no preference to local or national suppliers and awards contracts to bidders offering the best value for money. For several years now, LOTOS Paliwa's own stations have operated on the basis of a dealership model, whereby the company enters into an agreement with a Dealer who is to run a service station. Dealers, as well as station staff, are recruited from local communities.

Given that **LOTOS Petrobaltic** procures goods and services from businesses located in nearly all parts of the world, and taking into account the specific, even unique (in Poland) nature of its operations, the company does not apply the locality criterion in its procurement policy. As the company cooperates with many trading partners, and frequently foreign enterprises, its contribution to the development of local businesses is limited. Contracts are awarded in compliance with the Public Procurement Law. In 2012, 27% of its contracts, including those related to investment projects, were executed with entities based in the Province of Gdańsk, representing 4.48% of the total value of all contracts. 99% of **LOTOS Norge's** suppliers are Norwegian companies. **Energobaltic's** local market covers Puck county. Services contracted from local providers do not exceed 1% of total purchases.

Anti-competitive behaviour

In 2011, Grupa LOTOS was a party to an anti-trust decision issued by the President of the UOKiK (Polish Office for Competition and Consumer Protection) on March 21st 2005 in connection with a suspected agreement between Polski Koncern Naftowy ORLEN of Płock and Grupa LOTOS of Gdańsk concerning simultaneous termination of the production and distribution of the universal U95 gasoline, as described in detail in the 2010 Annual Report (http://raportroczny2010.lotos.pl/en). The case was finally closed.

Furthermore, in 2012 Grupa LOTOS was a party to proceedings described in greater detail in the 2010 Annual Report (http://raportroczny2010.lotos.pl/en), initiated following a petition filed in 2001 by PETROECCO JV Sp. z o.o., in which PETROECCO JV Sp. z o.o. sought to be awarded compensation for damage it had allegedly suffered as a result of the Company's monopolistic practices. As a result of further hearings in 2009-2013, after evidence was taken based on the opinion of an expert witness from the Instytut Nafty i Gazu (Oil and Gas Institute) of Kraków, which was favourable to Grupa LOTOS, and after the parties exchanged process letters, the Court dismissed the action filed by PETROECCO J. Sp. z o.o. in its entirety on February 22nd 2013. The ruling is not final.

Compliance

In 2012, Grupa LOTOS and the companies of the LOTOS Group did not pay any significant fines. Similarly, no significant non-monetary sanctions were imposed on any of the companies for legal or regulatory non-compliance. However, the proceedings described above were still pending in 2010-2011, and on March 10th 2011 Grupa LOTOS paid a liability of PLN 1,000 thousand, imposed under the court ruling of February 11th 2011, using a provision created earlier for that purpose.

Product responsibility

- data has been verified, full text of the Independent Assurance Report (/en/the-organization-and-its-report/integrated-reporting/auditing-and-reviews#opinia-pwc)

The LOTOS Group assesses the impact of all its products obtained from crude oil refining on human health and safety, as required by the REACH Regulation concerning the registration, evaluation and authorisation of chemicals. The Regulation is an EU-wide legal act adopted to systematise and codify the requirements for ensuring the protection of human health and the environment during the production, use and importation of chemicals.

Implementation of the REACH Regulation is expected to take 11 years, however the majority of measures regarding the registration of substances were completed in 2010. Registration of such was made jointly with other refineries, based on relevant agreements concluded through the agency of CONCAWE, an organization of oil companies whose research covers water and air quality.

Grupa LOTOS was automatically placed on several SIEFs *(Scientific Information Exchange Forum)*. Information between the individual companies involved in SIEFs with the European Chemicals Agency (ECHA) based in Helsinki, Finland, is exchanged via electronic channels. In 2012, the Company set up a Product Safety Team responsible for working with the SIEFs. Product registration dossiers are reviewed on an on-going basis to reflect any newly identified hazards and updated by Grupa LOTOS' Product Safety Team, if need be. Also, the Team prepares Safety Data Sheets and Hazard Identification materials to communicate key information down the supply chain.

The complete list of documents effective at the LOTOS Group is published on Grupa LOTOS' website (http://www.lotos.pl/en/). The Company's customers may therefore rest assured that they receive registered, high-quality products. None of the substances produced and marketed by Grupa LOTOS are currently included on the SVHC Candidate List published by the European Chemicals Agency, and none are subject to the authorisation procedure.

LOTOS Group companies perform health-impact and safety assessments at all stages of the product life cycle. These steps are taken to fully eliminate, or at least minimise, potential hazards to the natural environment and human safety.

Customer health and safety

The threat of serious failure at the **Grupa LOTOS** refinery lies in the handling and processing of hazardous substances on the refinery's premises. Accordingly, the Company is subject to legal regulations which are very specific as to what type of activities a plant has to carry out to provide an effective safety system and what steps must be taken to prevent serious failures. Grupa LOTOS has implemented a safety system guaranteeing safety for humans and the environment. The system includes:

- Definition, at each organization level, of the duties of employees responsible for the implementation of emergency procedures and their training;
- Mechanisms for systematic identification of failure risks or the likelihood of their occurrence;
- Manuals for safe operation under standard conditions, temporary production breaks, or for monitoring of the plant in a manner allowing for corrective actions in case of any incidents deviating from standard procedures;

- Monitoring of the operation of units where hazardous substances are stored or processed, which enables corrective measures to be taken upon the occurrence of irregularities in unit operation;
- Systematic analysis of expected emergencies with a view to developing appropriate rescue operation plans.

This system is one element of the comprehensive plant management system. Grupa LOTOS has also implemented a certified Integrated Management System, including emergency response procedures, procedures for occupational safety and health monitoring, as well as procedures for prevention of emergencies, preparation for possible emergencies and accidents at work.

During the implementation of the comprehensive plant management system, in November 2011 the Company, the Chief Inspector for Environmental Protection, the State Labour Inspection Authority and the Head of the National Fire Service all signed a declaration on an agreement to improve occupational safety, fire protection and environmental protection in the oil and gas industry. Being a representative of the refining industry, the Company has undertaken preventive steps and measures to maintain risk exposures at its plants at or below acceptable levels, so as to minimise the possibility of serious failures. Such initiatives are designed to improve occupational safety, fire protection and environmental protection.

All its existing security systems render the Company well prepared to fight industrial failures. The possibility of the occurrence of such failures has been analysed and necessary preventive measures have been taken, while the solutions designed into units handling hazardous substances guarantee human and environmental safety.

In 2012, Grupa LOTOS recorded three Tier 2 process safety threats, none of which adversely affected the natural environment.

LOTOS Asfalt has taken steps to fully eliminate or at least minimise potential hazards to the natural environment and human safety. The safety assessment of bitumen products covers the entire process, from the design phase to selection of raw materials, production process optimisation and selection of binders for the final product. By participating in industrial conferences, the company gains access to the most recent research papers discussing those features of bitumen which affect human health and the environment. The knowledge thus gathered includes both risk assessment for exposure to noxious conditions and best practices minimising the adverse effect.

With bitumen products, one question not yet unequivocally answered is the noxiousness of bitumen fumes emitted when bitumen is used in high temperatures. Although there is no scientific evidence stating that bitumen fumes are harmful, and despite petroleum bitumens not being listed as hazardous substances under current regulations, LOTOS Asfalt includes the most recent recommendations on safe handling of bitumen products in its Information Sheets for substances or admixtures for which a Safety Data Sheet is not required.

Paving grade bitumens, which account for more than 95% of the company’s production volume, are subject to conformity assessment, whose outcome represents a warranty for the customer that the product has the appropriate functional properties and meets construction industry requirements. LOTOS Asfalt’s products all carry declarations of conformity with technical specifications. There are procedures in place at the company which seek to ensure that any amendments to legal requirements affecting the company’s operations are identified. To this end, the company has extended the range of its relevant safety-enhancing activities to include transport and distribution. Safety rules and instructional videos are in place for bitumen loading, haulage and unloading. Providers of transport services are also assessed for compliance with LOTOS Asfalt’s safety standards.

Life cycle stages at which the impact of LOTOS Asfalt’s products on health and safety is improved	Yes	No
Concept of product development	x	-
Research and development	x	-
Certification	x	-

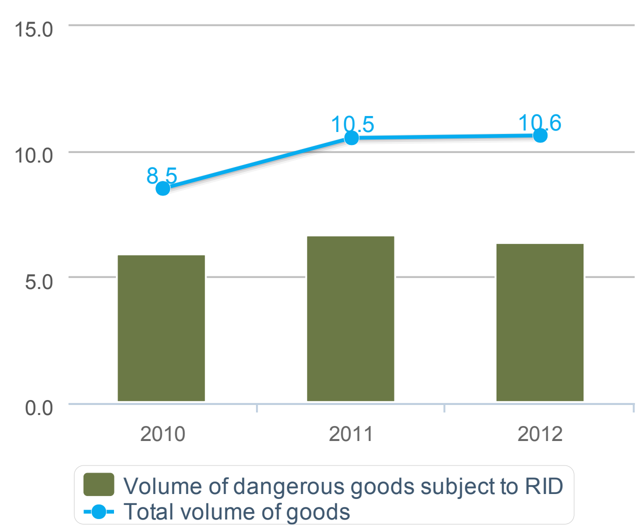
Manufacturing and production	x	-
Marketing and promotion	x	-
Stocks distribution and supply	x	-
Use and service	x	-
Disposal, reuse or recycling	-	x

In the reporting period, LOTOS Asfalt recorded no incidents of non-compliance with the regulations and voluntary procedures concerning the health and safety impact of the company’s products at any stage of their products' life cycles.

In 2012, there were two occurrences of Tier 2 process safety threats. However, they did not pose direct, significant threats to human health or life, the environment or the company's assets. This attests to the high process safety culture in the organization, which emphasises the identification of potential safety threats, training of employees responsible for process control, as well as implementation of best engineering practices by including them in job and process manuals. Identified threats are examined on a case-by-case basis by the Accident Committee appointed to thoroughly explain the causes and circumstances of any accident or failure, as well as to recommend preventive measures increasing safety and minimising the risk or recurrence.

LOTOS Kolej, being a railway carrier, specialises in transport of dangerous goods and provides comprehensive rail transport services all over the country. It also provides comprehensive rail transport services to Grupa LOTOS, LOTOS Jasło and LOTOS Czechowice. The company transports dangerous goods in compliance with the provisions of the Rail Transport Act, the Act on Transport of Dangerous Goods by Rail and other regulations pertaining to transport of dangerous goods.

Volume of transported goods including dangerous goods (million tonnes)



Source: In-house analysis based on data from the Railway Transport Authority (Urząd Transportu Kolejowego).

In 2012, there were 13 accidents (compared with 15 in 2011) and 5 incidents (compared with 8 in the previous year) involving LOTOS Kolej's employees and rolling stock (according to the classification provided for in the Regulation of the Minister of Transport, dated April 30th 2007). As in 2011, one accident occurred by fault of the company's employee. The reason for the accident was identified as the inclusion of a non-operational car in a train set. The company was not responsible for the other accidents and incidents. The decrease in the number of recorded accidents and incidents confirms the effectiveness of the company's steady efforts to improve the safety and quality of services provided.

LOTOS Kolej puts enormous emphasis on the process safety and occupational safety of its employees. In its operations, the company strives to minimise identified threats by introducing various safety controls and monitoring. Given the company's business profile, the largest threats are connected with railway traffic.

Owing to the preventive measures taken, in 2010-2012, LOTOS Kolej recorded only one process safety threat, classified as a Tier 1 threat. In order to minimise the adverse effects of the incident, safety procedures and additional safety measures were implemented.

All products manufactured by **LOTOS Oil** have Safety Data Sheets (SDS), drafted based on the applicable legal requirements. The product description in an SDS advises users of potential hazards that the product may generate with respect to human health and the natural environment. In addition, SDSs contains information on dangerous ingredients in the product, exposure controls/personal protection, fire-fighting and environmental release measures, as well as empty container handling procedures.

Life cycle stages at which the impact of LOTOS Oil's products on health and safety is improved	Yes
Concept of product development	x
Research and development	x
Certification	x
Manufacturing and production	x
Marketing and promotion	x
Stocks distribution and supply	x
Use and service	x
Disposal, reuse or recycling	x

Products are supplied to customers along with relevant quality certificates. If a product is classified as dangerous, the relevant SDS is enclosed with the documents submitted with the initial delivery of the product. Otherwise, the customer is provided with SDSs on demand.

In the reporting period, LOTOS Oil recorded no incidents of non-compliance with applicable regulations, rules and codes concerning the health and safety impact of the company's products and services.

To maintain an appropriate level of process safety, LOTOS Oil develops inspection timetables for key equipment, supporting prevention of accidental emission of substances, including non-toxic and non-flammable materials. The company keeps records of events which might potentially affect process safety. In this way, it monitors the progress of the elimination of identified threats. Another driver of process safety improvement is the implementation, in the company's production departments, of a system for maintenance of well-organised, clean, high-performance and high-quality work spaces. In 2012, LOTOS Oil registered no Tier 1 process safety threats, and monitoring revealed eight Tier 2 process safety threats in 2012. Their identification made it possible to take early safety measures and prevent their transformation into Tier 1 threats.

LOTOS Paliwa markets ready fuels meeting quality requirements provided for in industrial standards and legal regulations. To ensure compliance, LOTOS Paliwa regularly monitors fuels sold through the own and partner station chain in terms of their conformity with relevant requirements. At each station of the LOTOS chain, all fuels are inspected on an annual basis.

Grupa LOTOS assesses the impact of its fuels on health and safety during fuel production. For each fuel type, the supplier prepares an SDS (for dangerous substances), including information on threats connected with the use of the fuels and required precautions. An SDS is delivered directly to each wholesaler and is available to retail customers at the LOTOS stations. Given the fact that the company uses road or railway transport to supply fuels to its customers, internal procedures were developed to ensure safety and limit the adverse effect on human health of fuels in transit.

As regards fuel sales from own stations, LOTOS Paliwa sets the standards, and supervises adherence to those standards by the station managers. The process is governed by separate agreements and effective working procedures, which are improved on a continuous basis. In 2012, there were no reports submitted by station managers about the products being sold having any adverse effects on their employees' health.

Given their nature, service stations are retail facilities exposed to the risk of aggressive behaviour by persons who are not customers. This kind of behaviour may pose a threat to the physical safety of the station's employees. In 2012, two such instances were recorded. The company has been taking a number of various technical, organizational and HR measures with a view to preventing such occurrences in the future.

LOTOS Paliwa sets the standards, and supervises adherence to those standards by service station managers. Based on monitoring data and sales process safety assessments, existing procedures are improved and new procedures implemented, as are corrective and preventive measures designed to mitigate the risk of threats and limit their effects on service stations.

In 2012, LOTOS Paliwa recorded no Tier 1 process safety threats. Eight Tier 2 process safety threats were recorded. In each instance, the employees responded properly, following the applicable procedures. The relevant emergency services were alerted in order to remedy the threat and secure the premises. Affected station managers analyse each dangerous incident and reports it to LOTOS Paliwa's OSH team, where the incident is again analysed for the possibility of a recurrence and the formulation of preventative measures.

At **LOTOS Petrobaltic**, each reported dangerous incident, failure or environment-affecting activity is thoroughly analysed in order to identify and implement preventive measures. Among the dangerous incidents and technological failures reported in 2012, the company identified one Tier 1 process safety threat. The other companies of the LOTOS Petrobaltic Group recorded no such threats in 2012. The company takes steps designed to record and classify events affecting process safety in accordance with the most recent standard covering such events: Standard API RP 754.

Product labelling

In April 2011, the European Parliament and the Council issued a new Common Provisions Regulation specifying harmonised conditions for the marketing of construction products. The Regulation permits product marketing within the European Union in the transition period, i.e. until June 30th 2013, pursuant to existing national regulations implementing Directive 89/106/EEC on construction products. In accordance with Art. 4 of the Construction Products Act of April 16th 2004 (Dz.U. No. 92, item 881), a construction product may be placed on the market if it is suitable for use in construction works in line with its functional properties and intended use. In practise, this means that its functional properties are such that properly designed and constructed buildings in which it is to be permanently applied would meet basic standards.

LOTOS Asfalt manufactures construction materials which include such product groups as paving grade bitumens, modified bitumens, bituminous emulsions and waterproofing materials. The manufacturer is required to provide full product information for each product classified into a given group. Construction product information, along with appropriate product marking, either with the CE mark (if the manufacturer declares that the product conforms with the

EU's harmonised standard) or the Polish 'B' building mark (if the manufacturer declares that the product has obtained a Polish technical approval), is particularly important. Mandatory submission of product-related information is required for over 98% of the total volume of products sold by LOTOS Asfalt.

Next to the required marking, the documents supplied with each delivery of the product being sold provide the following information:

- The address of the manufacturer and the location where the product was manufactured,
- The product's name and grade/class based on the technical specifications, as well as its trade name,
- The number and publication date of the Polish standard or technical approval that the product conforms to,
- The number and issue date of the national declaration of conformity,
- The name of the certifying body.

In addition, although petroleum bitumens are not listed among hazardous substances, bitumen products manufactured by LOTOS Asfalt are sold with the Information Sheet for substances or admixtures for which a Safety Data Sheet is not required.

Extent of the product and service information required by LOTOS Asfalt's internal procedures:	Yes
Source of the product or service's components	x
Content, particularly substances that might have an environmental or social impact	x
Safe use of the product or service	x
Environmental/social impact of the product's disposal	x
Other: Potential hazards of the product's use, Details required by technical specifications (harmonised standards, approvals) to be included in the information supplied with the product, Marking/labelling based on legal requirements (building law).	x

In the reporting period, LOTOS Asfalt identified no incidents of non-compliance with the regulations and voluntarily applied procedures concerning product markings and provision of information on products and services.

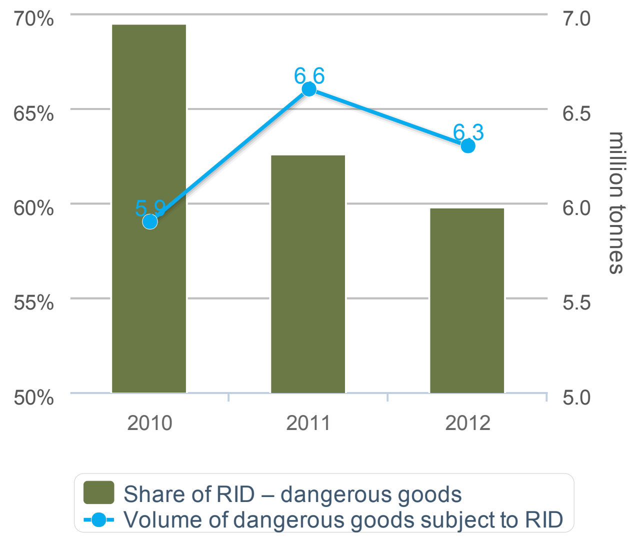
In the course of its operations, **LOTOS Kolej** complies with regulations concerning international carriage of dangerous goods by rail (RID). The classification of dangerous goods consists in assigning a given material or product to the appropriate hazard class and packaging group, as well as specifying the good's identification number (UN number), hazard identifier and classification code. The hazard class is determined from the characteristics of the major hazard posed by a given hazardous product, in line with the classification criteria of a given class.

Hazardous goods are products and materials which – given their physical, chemical or biological properties – pose a potential threat to human health or life, the natural environment or property if not properly handled in transport, or in cases of failure or accidents.

Consignors of hazardous goods are obliged to place orange-coloured information plates on each side of the rail cars carrying such goods. The obligation to place information plates also applies to empty, unclean rail cars and containers in which hazardous substances had been carried. In the case of the LOTOS Group's products, LOTOS Kolej is responsible for the proper marking of rail cars.

In 2012, LOTOS Kolej identified no incidents of incorrect or defective marking of hazardous goods consignments.

Share of dangerous goods in the total cargo carried by LOTOS Kolej (million tonnes)



Source: In-house analysis based on data from the Railway Transport Authority (Urząd Transportu Kolejowego).

LOTOS Oil provides information on its products in product sheets and through various other communication channels. Product characteristics are confirmed by Quality Certificates and their intended uses are specified in Technical Requirements. A more comprehensive version of the Technical Requirements is the Product Data Sheet, which is used for marketing purposes. Some lubricants and oils are deemed hazardous to the environment or even toxic. Therefore, it is required by law that they are classified and labelled. Approximately 22% of the company's products bear special labelling.

The most extensive documents comprehensively addressing these issues are Safety Data Sheets or Product Information Sheets (for non-hazardous products), which are required under the REACH Regulation. Manufacturers of chemical substances and mixtures are required to pass these documents down the supply chain and register their products with the European Chemicals Agency (ECHA). LOTOS Oil receives Safety Data Sheets from its sub-suppliers, as well as develops and updates its own SDSs. Thanks to the provision of consistent registration numbers for hazardous substances registered with the ECHA, customers can access full information on a given product, including its effect on the environment and human health.

Guidelines on how to safely use and handle hazardous substances are also included in the Safety Data Sheets. In addition, labels on packaged products include pictograms providing information about the risks posed by the product. As required by law, lubricants manufactured by the company which are no longer fit for use are collected for disposal or treatment.

Extent of the product and service information required by LOTOS Oil's internal procedures:	Yes
Source of the product or service's components.	x
Content, particularly substances that might have an environmental or social impact.	x
Safe use of the product or service.	x
Disposal of the product and environmental/social impact	x
Other: Potential hazards of the product's use, Details required by technical specifications (harmonised standards, approvals) to be included in the information supplied with the product, Marking/labelling based on legal requirements.	x

In 2012, LOTOS Oil identified no incidents of non-compliance with the regulations and voluntarily applied procedures concerning marking and provision of information on products and services.

LOTOS Paliwa ensures access to information on the impact of products on consumers' health and safety in compliance with the requirements specified by applicable laws and internal procedures stipulating the provision of such information. As regards retail sales, information concerning the properties of the fuels sold by the company is provided at the customer's request in the form of Safety Data Sheets for dangerous substances. Service station dealers are required to provide, at the customer's request, Safety Data Sheets for hazardous goods available from their stations.

Extent of the product and service information required by LOTOS Paliwa's internal procedures:	Yes
Source of the product or service components.	within the LOTOS Group
Content, particularly substances that might have an environmental or social impact	x
Safe use of the product or service	x
Environmental/social impact of the product's disposal	x
Other: Identification of hazards, procedure for inadvertent environmental release, transport information.	x

In 2012, LOTOS Paliwa identified no incidents of non-compliance with the regulations and voluntary codes concerning labelling and information on fuels and non-fuel products.

Human rights

There are no formal or systemic measures in place at LOTOS Group companies to verify whether our trading partners respect human rights. In the business landscape in which we operate, human rights issues are governed by a legal framework. We maintain relations only with those entities that operate legally and are required to comply with the law, including human rights regulations. One of the human rights issues we do face in our business environment is ensuring safe working conditions for our employees. Due to the priority given to occupational health and safety in our relations with our trading partners, agreements executed with our suppliers include mandatory provisions requiring these entities to comply with the relevant laws, which compliance is then monitored.

Also, in selecting our trading partners, we require that companies bidding for contracts submit certificates confirming that they are not in arrears with their social security contributions.

Human rights issues are also included in our training programmes. Grupa LOTOS has devoted 721 ✓ training hours to informing its employees of policies and procedures governing compliance with human rights standards in business. In 2012, a total of 23.3% ✓ of the Company's employees took part in such training.

At the LOTOS Group, the responsibility for providing property and personal protection services lies with LOTOS Ochrona (permit control officers and licensed guardians). The company conducts regular job-related training, which also covers various aspects of human rights law. In 2012, 92% ✓ of staff employed by LOTOS Ochrona participated in training devoted to these issues (permit control officers are not subject to this training).

We are also committed to the equal treatment of all employees. In 2012, as in previous years, there were no instances of discrimination against employees of the LOTOS Group on account of their sex, age, colour, religion, political leanings, national origins or sexual orientation.

Agreements executed by **Grupa LOTOS** with contractors at its production sites include provisions requiring the contracted entities to provide a safe working environment ✓. This approach is underpinned by internal procedures, which put a lot of emphasis on health and safety considerations. During an agreement's execution, LOTOS Group companies operating within Grupa LOTOS' premises must also follow internal procedures requiring suppliers and sub-contractors to observe OHS rules. The monitoring of compliance with these requirements varies with the terms of cooperation and may take the form of regular, daily, unscheduled or audit-related inspections.

Contracts for investment and repair work executed by **LOTOS Asfalt** are compliant with agreement templates and standards in force in the LOTOS Group. They provide for rules applicable to construction sites and company premises, as well as OHS guidelines. Compliance with these contractual obligations is monitored in the case of all agreements executed by LOTOS Asfalt. Other aspects of human rights regulations are not monitored. In 2012, altogether 200 contracts, commissions and orders were signed in the scope of investments and renovations.

All essential contracts concluded by **LOTOS Kolej** include clauses which require their business partners to provide for and follow health and safety regulations, regardless of whether the signed agreements are of an investment or trading character. Approximately 60% of all 2012 investment contracts included clauses regarding the provision of proper conditions of work and leisure for their employees. *Ad hoc* inspections of the employees of cooperating companies were carried out with a view to monitoring their observance of the terms and conditions of the contracts. Because of the safety certificates held by the company, such as the *Safety Management Systems*, the requirements that our business partners and their employees must meet are among the crucial demands for providing for the transport safety of hazardous goods. Approximately 40% of all contracts concluded with subcontractors providing cargo transportation services include clauses regarding the provision of adequate work and leisure conditions for their employees. Based on these terms and conditions and the procedures in force at the company, 6 transport management safety audits were carried out at LOTOS Kolej in 2012. The conditions which require that employees' rights are observed are also included in the contracts for the provision of security services and passenger transport. Apart from the audits carried out in the company, there are also inspections of specific safety conditions to ensure the occupational safety of each worker. In the case of any discrepancies, the company makes every effort to eliminate the problem by, for example, issuing specific instructions or providing employee training. In 2012, some inconsistencies were found in 7 out of 8 inspected companies, yet none of the contracts were rejected or terminated because of violation of provisions on the observance of employee rights.

LOTOS Oil requires its suppliers of transport and repair services to protect human rights, primarily in the area of occupational safety and health, as well as persons executing ordered tasks. In its agreements for transport services, the company also emphasises the personal development of external service providers' employees, including through training, as well as improvement of health conditions at their workplace. Cooperating carriers are obliged to inspect, on an everyday basis, the technical condition of the transport used, in the interest of persons directly performing services and persons in its vicinity. The provisions of repair and investment agreements oblige suppliers and sub-contractors to follow occupational health and safety rules.

LOTOS Paliwa expects its suppliers to respect human rights, particularly in the area of occupational health and safety. Further, in its requests for proposals, bidders are required to submit a representation to the effect that they are not in default of payment of any due taxes, charges or social security premiums.

Purchases that are important in terms of their scale are mainly made in the following three areas: fuels, fuel transport and construction investment projects, such as the construction, modernisation and visualisation of service stations. LOTOS Paliwa purchases fuels from Grupa LOTOS. In 2012, two main and two supplementary carriers were responsible for the transport of its non-LPG fuels. The agreements for fuel transport services concluded with those carriers provided for the employment of drivers under employment contracts. The agreements also included provisions obliging the carriers to respect the duration of drivers' working time, occupational health and safety rules, fire protection and environmental protection rules, procedures applicable at LOTOS Paliwa and international regulations on the transport of hazardous materials (ADR), applicable in particular to fuels. The agreements also required that the carriers should provide their drivers with work wear and protective wear suitable for fuel transport. The agreements further specified the maximum age and mileage of the vehicles to be used, guaranteeing a safe work environment for the drivers, as well as the safety of the environment during the transport of hazardous goods. The company's employees responsible for logistics conducted constant supervision of the carriers' compliance with these requirements. In 2012, LOTOS Paliwa concluded 19 significant investment agreements. All of these agreements included provisions obliging the contractor to their duties to operational safety and occupational health and safety, as well as all protective measures required under the occupational health and safety rules across their entire construction sites.

All five carriers providing fuel transport services were verified to have met these requirements. In 2012, LOTOS Paliwa carried out a total of 1,533 inspections of fuel supplies delivered by external carriers providing services to the company, including 1,176 checks on drivers having abided by the required rules. The inspections were recorded in reports on the meeting of the requirements and the procedures' implementation percent ratio. 357 inspections, representing approximately 23% of all inspections performed, related to the meeting of technical conditions, as well as conditions relating to the equipment, age, mileage and aesthetic qualities of the vehicles carrying fuels for LOTOS Paliwa. The inspections also examined whether the drivers used appropriate work wear, protective wear and personal protective equipment, as well as whether they had carried the required documentation while transporting hazardous goods. Whenever the rules regulating a driver's work time or the use of protective wear and personal protective equipment were not followed, the company requested the carrier to promptly restore compliance. In the case of construction projects, compliance with the requirements stipulated in the agreements with the contractors is monitored on an ongoing basis during a project's execution.

LOTOS Petrobaltic also puts enormous emphasis on occupational safety and environmental protection. Agreements with contractors executing projects for the company stipulate the contractor's full cooperation in this scope. To ensure compliance with occupational safety and health provisions, as well as environmental protection, the company developed specific clauses in its contractor agreements, obliging the latter to include such clauses in their agreements with subcontractors. The company is also subject to the provisions of Public Procurement Law. Therefore, agreements concluded with bidders selected by way of public tenders are deemed strategically material. In 2012, the company signed 14 such agreements, all of which were verified to ensure occupational safety and health and, where applicable, agreements included relevant provisions doing so.

LOTOS Petrobaltic has implemented a procedure for assessing and classifying its suppliers of goods and services. In particular, the procedure covers work of intrinsic importance in the areas of diving/underwater work, production services and work to which specific occupational safety and health requirements apply. In these areas, service providers are assessed after each completed contract for a service's provision, and in other key areas, suppliers also undergo annual assessment. Assessment criteria include the occurrence of workplace accidents, failures to follow occupational safety and health rules, and the use of personal protective equipment. In 2012, LOTOS Petrobaltic used three suppliers of key services, all of which were positively verified.

AB LOTOS Geonafta's suppliers and service providers are contractually obliged to follow the company's ethical regulations and standards. No agreement or understanding concluded by the company in 2012 included provisions specifically relating to human rights. On the other hand, the company strives to ensure that its suppliers respect and abide by internationally recognised human rights in their operations.

Other LOTOS Petrobaltic Group companies operating exclusively in the European Union or other European countries respecting internationally recognised human rights and working with entities operating within the same area, did not assess any agreement or trade partner for compliance with these standards.

Customer satisfaction

Good relations with customers and their satisfaction working with LOTOS Group companies are of key importance to us, a fact confirmed by our adoption of the Group's Code of Ethics in 2013.

> We pursue our business objectives while recognising the rights and interests of our customers. We place value on responsibility and trust. Every day we aim to provide professional and reliable customer service, ensuring serious and respectful treatment of our customers.
>
> We foster our customer relations by:
>
> - Following internal customer relations procedures pertaining to timeliness and quality of service;
> - Informing customers of our terms for commercial cooperation and providing them with the details of products and services offered in a reliable, responsible and knowledgeable manner;
> - Providing customers with reliable information on the progress of their requests or complaints;
> - Protecting the information we receive when establishing and continuing relations with customers;
> - Showing our customers due respect and consideration;
> - Avoiding behaviour commonly regarded as offensive or discriminating.
>
> Source: The LOTOS Group's Code of Ethics

Grupa LOTOS and the major marketing companies of the LOTOS Group conduct customer satisfaction surveys on a regular basis.

Company	Survey frequency	Customers by segment	Common survey areas
Grupa LOTOS	Annually	Conglomerates, sulphur, aviation fuel	• Cooperation assessment, • Product quality assessment, • Market position survey,

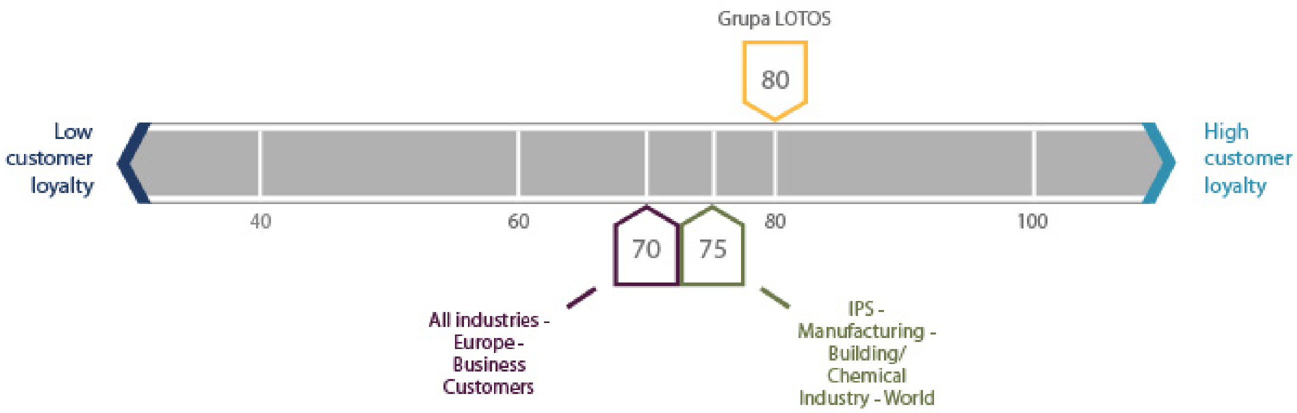
LOTOS Asfalt	Annually	Bitumen, heavy fuel oil	• Customer expectations, • Assessment of commercial and marketing activities
LOTOS Kolej	Biannually	Key business partners	
LOTOS Oil	Annually	Industry, automotive, authorised distributors	
LOTOS Paliwa	Every two years a comprehensive satisfaction survey for all segments/ twice a year a market position survey	LDS, fleet customers, wholesalers, independent stations, partner stations, retail customers	

Grupa LOTOS has implemented a new model for customer surveys based on licensed TNS-TRI*M Index methodology, which provides a synthetic measure of customer satisfaction and loyalty. The 2012 survey covered 53 respondents working with the Company, drawing on conglomerates, aviation fuel and sulphur customers. An external survey institute conducted the survey using CAWI (Computer-Assisted Web Interview) and CATI (Computer Assisted Telephone Interview) techniques. The survey covered a number of areas, including:

- Quality of contact with company representatives,
- Response times to requests for proposal and orders,
- Product quality and availability,
- Timeliness of deliveries,
- Availability of product information,
- Competitiveness and likelihood of recommending the company to colleagues.

In total, we achieved a satisfaction and loyalty index score of 80. Given a lack of historical data for comparison, we adopted the Index TRI*M: All industries–Europe–Business Customers (2008–2011) as the main benchmark, and the Index TRI*M: Building/Chemical Industry–World (2008–2011) as an additional benchmark.

Customer satisfaction index – Grupa LOTOS



Grupa LOTOS's Index TRI*M is 10 points higher (80 compared to 70) than the All industries Europe–Business Customers (2008-2011) benchmark. The vast majority (94%) of our customers declared high satisfaction with the company's services.

The survey also revealed that nearly 60% of customers place high trust in the company. Our comprehensive product range and the honesty of our customer relations were also highly assessed. Flexibility, innovativeness and knowledge of our customers' needs proved relatively weak. More than half of our customers assessed response times to requests for proposals as being very good. Our trade partners indicated the lack of alternative suppliers for particular fuel types, product availability and price, as well as successful cooperation to date as the main reasons for staying with us. Successful previous cooperation and the lack of other suppliers were particularly material for our aviation fuel customers, while the conglomerates emphasised product availability and prices, as well as service quality.

LOTOS Asfalt conducts its own annual satisfaction survey of its business partners. Participants in the survey include customers in Poland and abroad who have purchased large quantities of LOTOS Asfalt's products in the period covered by the survey. The survey is targeted specifically at customers purchasing bitumen and heavy fuel oil.

The 2012 satisfaction survey differed from those conducted in previous years in that it was organised by an external research agency using the CAWI (Computer-Assisted Web Interview) methodology for the survey and the TRI*M Index for evaluation.

The questionnaire included both closed and open-ended questions. Among the questions asked, topics included:

- Interaction with LOTOS Asfalt's sales force and its competence,
- Response times to RFQs and orders,
- Product quality evaluation,
- Product availability,
- Timeliness of deliveries,
- Availability of product information,
- Likelihood of recommending the company to colleagues.

The results of the survey revealed that, overall, LOTOS Asfalt's customers are satisfied with their cooperation. Our satisfaction index came in at 3.6 on a 5 point scale. In total, we achieved a satisfaction and loyalty index score of 70.

LOTOS Asfalt's TRI*M index is close to the score in the category All industries–Europe–Business Customers (2008-2011).

The key advantages of the company as revealed by the survey are:

- Timeliness of deliveries,
- Availability of products,
- Turnaround time,
- Consistently high product quality.

Corporate image was also among the topics surveyed. LOTOS Asfalt is seen as:

- A trusted partner,
- An innovative business,
- A fair trader,
- A business partner with a comprehensive product range.

Satisfaction with LOTOS Asfalt (all respondents, figures in %)

Findings derived from the summary of the survey's scores allow the company to assess the operations of its individual departments, and to define further steps to be taken in order to ensure that its business partners are fully satisfied.

Comments and feedback from our customers are always verified, and if any failures on our part are confirmed, corrective measures are implemented.

For **LOTOS Kolej**, the top quality of its freight services lie at the core of the company's development. Customer satisfaction with the company is primarily driven by:

- Its expert staff,
- The timeliness and reliability of its deliveries,
- The high level of support given,
- Current, reliable freight status updates,
- Its focus on meeting business partners' needs,
- The flexible and tailored terms of its commercial offers.

Customer satisfaction data is primarily obtained by direct interaction with the customers. Positive opinions shared by customers include LOTOS Kolej's favourable pricing terms and opinions on other contract delivery terms.

Another tool we use for measuring customer satisfaction is the questionnaire-based mutual evaluation system. This covers the rail freight services provided by LOTOS Kolej and is conducted biannually. The results of the survey are examined and discussed in detail during the annual review of the Integrated Management System within the company.

The most recent survey again covered such topics as:

- Delivery deadlines and the timeliness of deliveries,
- The integrity of goods carried,
- Rolling stock and customer service quality,
- Customer interactions with management and technical personnel operating the rolling stock,
- Pricing and comprehensiveness of the services offered,
- Payment methods and deadlines,
- Response to complaints,
- Reliability and overall evaluation of LOTOS Kolej.

2012 average /H1/	2011 average	2010 average
4.59 *	4.63	4.63
12 customers	13 customers	17 customers

* Scores: 5 - highest; 2 - lowest.

The key advantages of the company as revealed by the survey are:

- Reliability,
- Rail freight delivery times,
- Customer service quality,

- The integrity of goods carried,

Aspects receiving the lowest scores were:

- Payment methods and deadlines, discount policy,
- Service prices (as compared with similar companies),

LOTOS Kolej continues to score highly in most of the surveyed areas. Of particular note is the high regard for the company's reliability, which is important in building relationships with customers.

LOTOS Oil conducts customer satisfaction surveys at the conclusion of each year's commercial operations. These surveys are carried out by the sales reps and commercial staff of the company's distributors and partners. They cover two primary areas of the company's operations: the wholesale channel, whose respondents are Authorised Distributors, and the retail sales channels, where trade partners from the industrial and automotive segments are surveyed.

The surveys focus on certain aspects of the key market operations of the company, such as:

- Cooperation,
- Range,
- Products,
- Sales,
- Marketing,
- Oil services,
- Proposals for customer support.

The 2012 survey covered 163 respondents, 90.8% of whom returned completed survey forms, which is a marked improvement on the previous year.

From the responses received, customers appear to value LOTOS Oil primarily for the high quality of the services it provides, the high and consistent quality of its products and good aftersales support. Customers are particularly pleased with LOTOS Oil's facility with building commercial relations, the quality of its information on new products and the training it gives to its customers' sales staff. Some of the most important elements of these efforts are investments in and visual identity support for car mechanics, and the oil services for customers from the industrial and automotive segments, which consists of oil consultancy and research, and comprehensive oil management monitoring.

Information obtained from the surveys contributes to improvement of work processes, which enables the company to fine-tune its current operations to customer requirements.

LOTOS Paliwa systematically measures customer satisfaction, as required by the Integrated Management System. The frequency and methodology of its research accounts for the division into retail and institutional customers

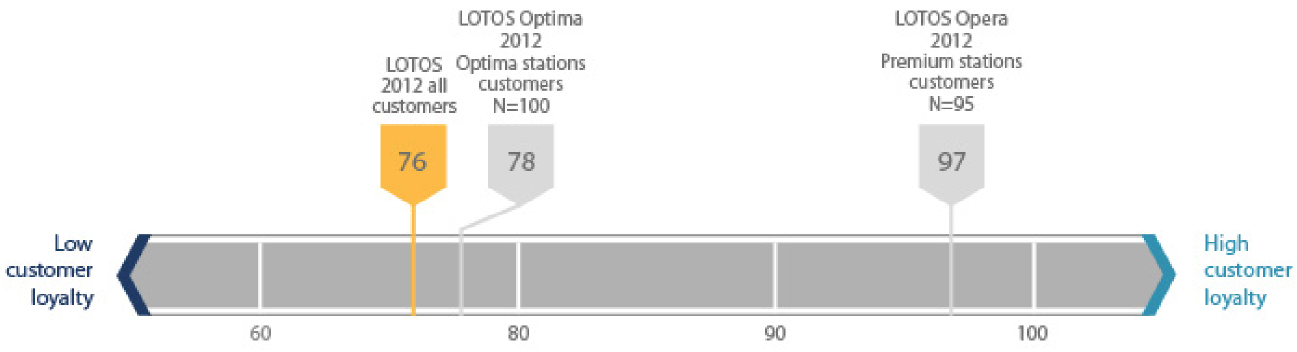
Measurement identifier	Measurement frequency	Measurement method	Procedure
Retail customers			
Quality evaluation indicator	annually / every two years	Individual customer surveys, CAPI or PAPI	Data analysed to plan and implement improvements to the indicator

Overall station evaluation (image) indicator		Individual customer surveys	Data analysed to formulate future marketing plans
Institutional customers			
Customer cooperation satisfaction index	annually / every two years	CATI	Data analysed to plan for and implement actions to improve the indicator
Account manager satisfaction index			
Customer Service Office satisfaction index			
Functionality evaluation index			
Brand image index			Data analysed to formulate future marketing plans

2012 saw deployment of the retail customer satisfaction survey. The results showed that retail customers have diverse expectations regarding service stations, and that the actions taken by LOTOS Paliwa ensure that the specific needs of our strategic customer groups are increasingly being satisfied. Premium customers appreciate the improving non-fuel and food services offered by LOTOS service stations, LOTOS Dynamic fuels and the Navigator loyalty programme. At the same time, value-oriented customers have access to service stations which are ever more friendly, operate tested and high-quality equipment, are staffed with polite and competent personnel, and sell quality, affordable fuels. In response to this diversity of expectations, a new network of service stations was established in the economy sector in 2011, expanding the LOTOS brand presence to two segments: Premium, with the LOTOS stations, and economy, with the new LOTOS Optima stations.

The TRI*M satisfaction index for Premium stations (before the visual changes) remained on the same level as in 2010, i.e. 76, whereas Premium stations in new colours scored very high (97) and LOTOS Optima stations' score was higher than its competititors' (78).

2012 customer satisfaction and loyalty index – LOTOS Paliwa (TRI*M)



Institutional customers also value the improving quality of their work with LOTOS Paliwa, which follows from the better performance of the account managers and the company's efforts to promote its image as an innovative partner that stands out from its competitors. The strengths of the LOTOS brand reside in its comprehensive range of fuels and its environmental awareness.

Marketing communication

In the LOTOS Group strategy for 2011-2015, along with the development directions until 2020, the fostering of a strong LOTOS brand and distinctive brand image are among the key elements. All individual product brands are subordinated to the corporate brand strategy, which is consistent with the business strategy of Grupa LOTOS.

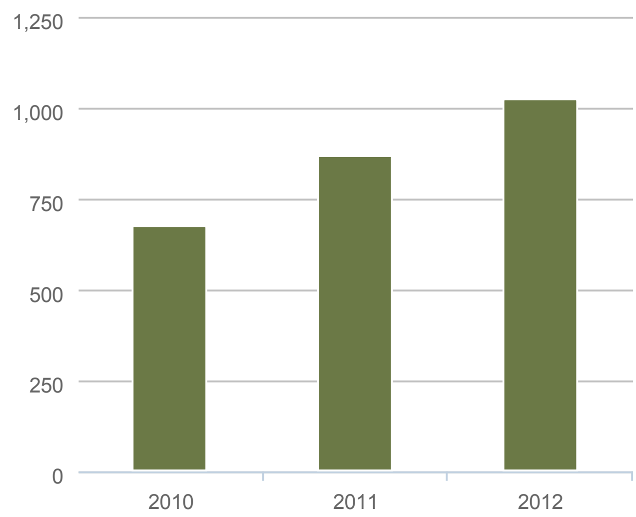
Our strategic goal is to enhance LOTOS brand value by building its image as a brand that:

- Relies on the key values of state-of-the-art solutions, development and partnership,
- Has an international presence,
- Represents top quality products,
- Is socially responsible.

Fostering the image and strength of the LOTOS brand is one of the priorities for Grupa LOTOS. Efforts are always being made to increase brand awareness and to position Grupa LOTOS as an organization recognised for a professional management style that builds on its quality, innovation, environmental awareness and security.

Periodic marketing research confirms the increasing awareness of the LOTOS brand, its quality and prestige, by its customers. In the 9th edition of the Poland's Most Valuable Brands ranking, published by the Rzeczpospolita daily in 2012, the LOTOS brand was valued at PLN 1,023m, which represents 15% growth on the previous year's figure. LOTOS was ranked 9th among the 330 brands covered by the listing. Over the last five years the value of the LOTOS brand grew over two and a half times.

Value of the LOTOS brand (PLN m)



Source: Rzeczpospolita daily, December 2012.

The following rules are strictly applied in the management of corporate brand strategy, product brands, promotion strategies, value creation, creation of the desired image of the LOTOS brand, advertising, promotion and sponsorship activities, as well as the marketing research of the LOTOS Group:

- Compliance with applicable laws,
- No deliberate harm or damage done,
- Accountability,
- Education, professional background and experience of personnel put to good use.

We conduct our operations without using any discriminatory or controversial content which may offend certain social groups or abuse the trust of the recipients of our communications, and without inciting negative emotions. These rules complement the effective and unconditionally binding laws and regulations, which include the Constitution of the Republic of Poland and the following Polish Acts: the Civil Code, the Act on Combating Unfair Competition, the Press Law Act, the Radio and Television Act, the Act on Protection of Certain Consumer Rights, the Act on Provision of Electronic Services, the Act on Personal Data Protection, the Act on Copyrights and Neighbouring Rights, and the Act on Industrial Property.

All our sponsorship contracts are transparent and clear, and precisely identify all stakeholders and the obligations of the sponsored entity. We do not engage in any events which may cause damage to objects or facilities of historic or artistic value, or events which could have an adverse environmental effect. In our sponsorship activities, Grupa LOTOS and its commercial companies LOTOS Oil and LOTOS Paliwa apply the rules defined for wholly and partially state-owned companies in Directive No. 5 of the Minister of the State Treasury, dated February 13th 2009. We also respect the guidelines of the Culture Sponsoring Code - an initiative of the National Centre for Culture, the PKPP Lewiatan employers' association and the Warsaw Stock Exchange. We have also published the objectives of our sponsorship and charity policies (http://odpowiedzialny.lotos.pl/en/937/society/charity_and_sponsorship_policity).

The above corporate practices in the area of marketing communications are applicable to Grupa LOTOS and all its commercial companies, i.e. those companies which, considering their business profile, distribute communications regarding their products and services to wider audiences. LOTOS Oil and LOTOS Paliwa, which are responsible for product brand communications, have adopted their own supplementary regulations.

At LOTOS Paliwa, the development of marketing content and standards of conduct, including standards of communication with customers, is regulated by the following internal documents, approved by the company's Board:

- Communication and Positioning Strategy for LOTOS and LOTOS Optima Service Stations,
- Communication and Positioning Strategy for the LOTOS Dynamic brand,
- Strategy of Sponsorship and Motor Sports Involvement.

LOTOS Oil and LOTOS Paliwa, in their activities in the area of marketing communications, including advertising, promotion and sponsorship, adhere (on a voluntary basis) to the standards of the Code of Ethics in Advertising, developed by the Polish Board of Advertising and the Polish Advertising Standards Committee.

Due to the specificity of the market on which LOTOS Asfalt and LOTOS Kolej are present, the companies have not implemented separate procedures for marketing communications.

Sponsorship

Key objectives for our sponsorship activities include the promotion and raising of brand awareness of LOTOS Group products, improvement of their recognition, building of positive images and supporting advertising activities focused on growing product and service sales. Our 2012 sponsorship activities were carried out in accordance with the Sponsorship Plan approved by the Company's Supervisory Board.

Our sponsorships in 2012 covered both support for professional sports and projects to promote sports among children and youth. Key disciplines we support include motor rallying, football, skiing, basketball, speedway, volleyball, motor racing and cycling. The highest return on funds earmarked for sponsoring activities, as measured by media presence, was recorded for winter sports (ski jumping and cross-country skiing), as well as for cycling, football and motor rallying. The value of media return exceeded the value of the funds spent on sponsorships four times over.

We have supported the LOTOS TREFL Gdańsk men's volleyball team (since 2009), the TREFL Sopot men's basketball team (since 2010), the Lechia Gdańsk football team and the Stowarzyszenie Piłki Ręcznej Spójnia Wybrzeże Gdańsk handball club (since 2011).

For eight years now, we have also been Poland's General Nordic Skiing Sponsor. As part of our work with the Polish Nordic Skiing Association, we support ski jumpers from the national team and youth teams, cross-country skiers from the national team and youth teams, as well as the Nordic combined team. The 2013 World Champion in ski jumping, Kamil Stoch, was the first person awarded a grant under our "In Search of the Champion's Successors" social welfare project. For nine years, in collaboration with the Polish Nordic Skiing Association, we have supported the National Ski Jumping Development Programme.

We are also present in motorsports, and in 2012, we were involved in the LOTOS Baltic Cup Rally and the Poland's Mountain Rally Championships.

From 2010 to 2012, LOTOS Paliwa was involved in the LOTOS Dynamic Rally Team project, running two rally teams in international events under its LOTOS and LOTOS Dynamic fuel brands. In Polish rallies, the LOTOS Dynamic Rally Team was represented by three-times Polish Rally Champion Kajetan Kajetanowicz and his navigator Jarek Baran. Outside Poland, the LOTOS Dynamic Rally Team colours were borne by Michał Kościuszko and Maciek Szczepaniak, two-time runners-up in the World Rally Championships (PWRC 2011 and JWRC 2009). In 2012, LOTOS Oil sponsored the LOTOS-Subaru Poland Rally Team (comprising Wojciech Chuchała and Kamil Heller). The presence of the Dynamic fuel brand in motorsports lends credibility to the benefits of LOTOS products to the public, including improved performance and dynamics and better harnessing of a car's power. Related actions support the image of the entire chain of LOTOS stations and improve the reliability of the stations' communication.

LOTOS Oil's sponsorship activities in the area of motorsports complement the LOTOS brand's trading and marketing work in the oil products segment with KIA and Subaru. From the point of view of brand image promotion, this involvement lends technology and quality credibility to the company's vehicle oil products.

Apart from sports sponsorship, we are also involved in sponsorship of cultural events. Our efforts in this area are primarily intended to increase corporate value by promoting the intellectual and cultural potential of regions close to the company. Some of our key cultural sponsorships in 2012 that benefited the communities and regions we operate include:

- In Pomerania: Strategic Partnership of the Baltic Opera House, sponsorship of the Solidarity of Arts Festival, sponsorship of the Shakespearian Festival, the Siesta Festival, the 'Daisy Chain Wonders - Summer Begins in Gdynia' event, and the 'Two Theatres' Polish Radio and TV Festival;
- In southern Poland: Jasło Days, Czechowice-Dziedzice Days and the LOTOS Jazz Festival – Bielsko Jazz Blizzard.

Socially engaged marketing

In 2012, LOTOS Paliwa continued its work, begun two years earlier, with the SOS Children's Villages Association in Poland. Each member of the LOTOS Navigator loyalty programme, available only from LOTOS service stations, could donate their credits to orphaned or abandoned children under the care of SOS Children's Villages. This initiative is in line with the objectives of the LOTOS Group's CSR strategy.

Funds raised from the credits donated are applied towards the costs of living, health care and education of children. They help ensure equal opportunities and prepare the children for their future, independent lives. The SOS Children's Villages Association in Poland provides care for abandoned children, orphans and children at risk of losing parental care. It has been operating in Poland for 28 years and is part of SOS-Kinderdorf International, an international organisation present in 132 countries around the world.

In 2012, the Company also supported the nation-wide 'donate 1% of your tax' campaign carried out by the SOS Children's Villages Association in Poland.

We also began working with the Polish Association for the Mentally Ill within the sphere of socially engaged marketing. The Association organises occupational therapy for the mentally ill, where they make seasonal decorations or gift wrapping materials. The company bought hand-made candles and canvas bags from the Association. Similarly, we worked with the Association Providing Help to Autistic Persons to provide Christmas decorations and other hand-made items to our clients and partners.

Our activities within the sphere of social economy in 2012 also included two entities with whom we have been working for a long time; the Foundation for the Development of Gdańsk University and the Kuling Waterbird Research Group. We bought souvenirs and gifts from the KWRG related to the ecological programmes that we run together, in support of their statutory objectives of research on and protection of biodiversity.

Compliance

In 2012, no cases of inconsistencies in promotional and advertising activities with the provisions of law, regulations and voluntary codes regulating marketing communications were found to have occurred at Grupa LOTOS or at its trading companies: LOTOS Asfalt, LOTOS Kolej, LOTOS Oil and LOTOS Paliwa.

No legitimate complaints or claims were lodged relating to violation of customer privacy or loss of data, and there were no significant incidents linked with the provision and use of products and services.

Consequently, no significant penalties for non-compliance with laws or regulations concerning the provision and use of products and services were imposed on any member of the LOTOS Group. The materiality level is such that total fines and damages in 2012 did not exceed 0.001% of turnover.

The proceedings described in the Annual Report 2011 (http://2011.raportroczny.lotos.pl/en/society/impact-on-the-society/anti-competitive-behaviour) concerning the anti-trust action taken by the President of the Competition and Consumer Protection Office, were pending in 2010-2011. On March 10th 2011, Grupa LOTOS paid the liability of PLN 1,000 thousand imposed on it by a court ruling of February 11th 2011, under a provision created earlier for this purpose.

Key data

Market presence

The LOTOS Group employs its senior management according to the profile and requirements of the position. Only candidates best meeting the employment criteria are recruited. Senior management positions include those of director, chief accountant, plant manager and office manager. Senior management positions are often filled by persons selected in an internal recruitment process.

In the case of Grupa LOTOS, 92.9% of senior management staff employed in the Company's main business location were recruited from the local employment market, understood as the Province of Gdańsk. Pomerania is also the local recruitment market for LOTOS Kolej, for which 100% of its senior staff are from the area.

The companies' key locations are locations where the number of employees represents a significant percentage of the total headcount.

Ratio of minimum base pay at Grupa LOTOS to minimum national base pay

Minimum base pay at Grupa LOTOS /all employees/	Minimum base pay at Grupa LOTOS /women/	Minimum base pay at Grupa LOTOS /men/	Minimum national pay	Ratio /1/ to /4/	Ratio /2/ to /4/	Ratio /3/ to /4/
/1/	/2/	/3/	/4/	/5/	/6/	/7/
Dec 31 2012						
PLN 2,500	PLN 2,500	PLN 3,000	PLN 1,500	167%	167%	200%
Dec 31 2011						
PLN 2,400	PLN 2,400	PLN 3,000	PLN 1,386	173%	173%	216%
Dec 31 2010						
PLN 2,550	PLN 2,550	PLN 2,900	PLN 1,317	194%	194%	220%

Source: in-house data, and Dz. U. of 2007 No. 171 item 1209, M.P. of 2008 No. 55 item 499, M.P. of 2009 No. 48 item 709.

Ratio of minimum base pay at LOTOS Kolej to minimum national base pay

Minimum base pay	Minimum base pay	Minimum base pay	Minimum national pay	Ratio /1/ to /4/	Ratio /2/ to /4/	Ratio /3/ to /4/

at LOTOS Kolej /all employees/	at LOTOS Kolej /women/	at LOTOS Kolej /men/				
/1/	/2/	/3/	/4/	/5/	/6/	/7/
Dec 31 2012						
PLN 2,657	PLN 2,700	PLN 2,657	PLN 1,500	177%	180%	177%
Dec 31 2011						
PLN 2,530	PLN 2,700	PLN 2,530	PLN 1,386	183%	195%	183%
Dec 31 2010						
PLN 2,421	PLN 2,700	PLN 2,421	PLN 1,317	184%	205%	184%

For LOTOS Asfalt and LOTOS Oil it is the counties and neighbouring towns up to 100km away from their business locations which are considered to be their local employment markets. These companies run their business in three locations: Southern Poland (Jasło, Czechowice) and Northern Poland (Gdańsk). At LOTOS Asfalt, 89% of staff are recruited from the local communities of the Jasło region, 100% from Czechowice and 79% from Gdańsk. At LOTOS Oil, the indicator is 100% in all locations. Given the nature of LOTOS Paliwa's operations, management staff across Poland are recruited on an as-needed basis.

Ratio of minimum base pay at LOTOS Asfalt to minimum national base pay

Minimum base pay at LOTOS Asfalt /all employees/	Minimum base pay at LOTOS Asfalt /women/	Minimum base pay at LOTOS Asfalt /men/	Minimum national pay	Ratio /1/ to /4/	Ratio /2/ to /4/	Ratio /3 /to /4/
/1/	/2/	/3/	/4/	/5/	/6/	/7/
Dec 31 2012						
Gdańsk						
PLN 2,800	PLN 2,800	PLN 3,000	PLN 1,500	187%	187%	200%
Czechowice-Dziedzice						
PLN 2,500	PLN 3,763	PLN 2,500	PLN 1,500	167%	251%	167%
Jasło						
PLN 1,976	PLN 1,976	PLN 2,000	PLN 1,500	132%	132%	133%
Dec 31 2011						
Gdańsk						
PLN 3,190	PLN 3,500	PLN 3,190	PLN 1,386	230%	253%	230%
Czechowice-Dziedzice						
PLN 2,750	PLN 3,583	PLN 2,750	PLN 1,386	198%	259%	198%

Jasło						
PLN 1,500 *	PLN 1,568	PLN 1,500	PLN 1,386	108%	113%	108%
Dec 31 2010						
Gdańsk						
PLN 2,500	PLN 2,500	PLN 3,500	PLN 1,317	190%	190%	266%
Czechowice-Dziedzice						
PLN 2,464	PLN 3,428	PLN 2,464	PLN 1,317	187%	260%	187%
Jasło						
PLN 1,500	PLN 1,500	PLN 1,500	PLN 1,317	114%	114%	114%

* The lowest pay in Jasło is received by first-time employees in auxiliary positions.

Ratio of minimum base pay at LOTOS Oil to minimum national base pay

Minimum base pay at LOTOS Oil /all employees/	Minimum base pay at LOTOS Oil /women/	Minimum base pay at LOTOS Oil /men/	Minimum national pay	Ratio /1/ to /4/	Ratio /2/ to /4/	Ratio /3/ to /4/
/1/	/2/	/3/	/4/	/5/	/6/	/7/
Dec 31 2012						
Gdańsk						
PLN 2,760	PLN 3,402	PLN 2,760	PLN 1,500	184%	227%	184%
Czechowice-Dziedzice						
PLN 2,491	PLN 2,745	PLN 2,491	PLN 1,500	166%	183	166%
Jasło						
PLN 2,413	PLN 3,247	PLN 2,413	PLN 1,500	161%	216%	161%
Dec 31 2011						
Gdańsk						
PLN 2,732	PLN 3,240	PLN 2,732	PLN 1,386	197%	234%	197%
Czechowice-Dziedzice						
PLN 2,372	PLN 2,614	PLN 2,372	PLN 1,386	171%	189%	171%

Jasło						
PLN 2,298	PLN 3,092	PLN 2,298	PLN 1,386	166%	223%	166%
Dec 31 2010						
Gdańsk						
PLN 2,614	PLN 2,816	PLN 2,614	PLN 1,317	198%	214%	198%
Czechowice-Dziedzice						
PLN 2,269	PLN 2,289	PLN 2,269	PLN 1,317	172%	174%	172%
Jasło						
PLN 2,199	PLN 2,958	PLN 2,199	PLN 1,317	167%	225%	167%

Ratio of minimum base pay at LOTOS Paliwa to minimum national base pay

Minimum base pay at LOTOS Paliwa /all employees/	Minimum base pay at LOTOS Paliwa /women/	Minimum base pay at LOTOS Paliwa /men/	Minimum national pay	Ratio /1/ to /4/	Ratio /2/ to /4/	Ratio /3/ to /4/
/1/	/2/	/3/	/4/	/5/	/6/	/7/
Dec 31 2012						
PLN 2,760	PLN 2,760	PLN 2,898	PLN 1,500	184%	184%	189%
Dec 31 2011						
PLN 2,665	PLN 2,665	PLN 2,760	PLN 1,386	192%	192%	199%
Dec 31 2010						
PLN 2,550	PLN 2,550	PLN 2,750	PLN 1,317	194%	194%	209%

At LOTOS Petrobaltic, the local employment market coincides with the town where the company is located. 64% of the company's senior management is sourced from Gdańsk. At the Energobaltic subsidiary, 3% of the senior management are from Władysławowo, and at AB LOTOS Geonafta 66% are from Gargždai. In the case of LOTOS Norge, the entire area of Norway is considered to be their local market, as their senior management staff is of multicultural origin. 57% of managers in the company are sourced from that market.

Ratio of minimum base pay at LOTOS Petrobaltic to national minimum base pay

Minimum base pay at LOTOS Petrobaltic /all employees/	Minimum base pay at LOTOS Petrobaltic /women/	Minimum base pay at LOTOS Petrobaltic /men/	Minimum national pay	Ratio /1/ to /4/	Ratio /2/ to /4/	Ratio /3/ to /4/
/1/	/2/	/3/	/4/	/5/	/6/	/7/
Dec 31 2012						

PLN 3,000	PLN 3,000	PLN 3,500	PLN 1,500	200%	200%	233%
Dec 31 2011						
PLN 2,500	PLN 2,500	PLN 2,500	PLN 1,386	180%	180%	180%
Dec 31 2010						
PLN 2,550	PLN 2,550	PLN 3,000	PLN 1,317	194%	194%	228%

Ratio of minimum base pay at Energobaltic to national minimum base pay

Minimum base pay at LOTOS Energobaltic /all employees/	Minimum base pay at LOTOS Energobaltic /women/	Minimum base pay at LOTOS Energobaltic /men/	Minimum national pay	Ratio /1/ to /4/	Ratio /2/ to /4/	Ratio /3/ to /4/
/1/	/2/	/3/	/4/	/5/	/6/	/7/
Dec 31 2012						
PLN 3,465	PLN 3,780	PLN 3,465	PLN 1,500	231%	252%	231%
Dec 31 2011						
PLN 3,300	PLN 3,600	PLN 3,300	PLN 1,386	238%	259%	238%
Dec 31 2010						
PLN 2,992	PLN 2,992	PLN 3,300	PLN 1,317	227%	227%	250%

Ratio of minimum base pay at LOTOS Geonafta to national minimum base pay in Lithuania

Minimum base pay at LOTOS Geonafta /all employees/	Minimum base pay at LOTOS Geonafta /women/	Minimum base pay at LOTOS Geonafta /men/	Minimum national pay	Ratio /1/ to /4/	Ratio /2/ to /4/	Ratio /3/ to /4/
/1/	/2/	/3/	/4/	/5/	/6/	/7/
Dec 31 2012						
910 LTL	910 LTL	2,486 LTL	850 LTL	107%	107%	292%
Dec 31 2011						
910 LTL	910 LTL	2,810 LTL	800 LTL	114%	114%	351%
Dec 31 2010						
910 LTL	910 LTL	1,200 LTL	800 LTL	114%	114%	150%

The indicator does not apply to LOTOS Norge. According to Norwegian law, there is no minimum pay. Additionally, the company employs only highly qualified personnel in independent positions.

HR policy

The mission of the LOTOS Group stipulates development of the organization through continued improvement as well as making best use of our human capital. It is the basic tenet of the LOTOS Group's HR management strategy to treat employees as the most important asset, hence our care for advancing their competences and creating circumstances that will favour their identification with the fundamental values underlying the LOTOS Group's organizational culture.

Our company applies the principles of corporate social responsibility in every sphere of its activity. This also applies to HR policy, which is carried out in a comprehensive and strategic manner, with its implementation guided by the principles of accessibility for employees, consistency across systems and solutions, flexibility in relation to business needs, and above all responsibility for results. Our HR policy is long-term and based on continued application and improvement of best practices in responsible recruitment and employment, facilitating adaptation to the work environment, systems for improvement of qualifications, evaluation and motivation of employees, compliance with ethical principles and the rules of occupational health and safety.

In relations with our employees we particularly appreciate proactive attitudes towards achieving objectives, cooperation, communication, commitment and innovation, and continuous improvement of skills. Given our Company's continuous development, it is essential for us to retain existing staff while improving their skills, and also attracting new, competent workers.

HR policy on the selection of employees, their professional progress and development, personnel administration, incentive systems and other social matters is the responsibility of the Board of Grupa LOTOS. In this way the Company has a positive impact on employment practices, incentives and building of desirable organizational culture, preparing and introducing optimised solutions across the LOTOS Group.

We are recognised as a reliable and respected employer that promotes social responsibility standards, adheres to social rules and counteracts discrimination in employment. Our care for the professional development and improvement of our employees' knowledge and skills goes hand in hand with our concern for a good atmosphere and friendly relations between people in the workplace. We value open communication and the ability to cooperate and form partnership relations between managers and employees. These values are the hallmark of our company culture and are reflected in our Code of Ethics, in force since 2013.

> We appreciate the rewards of work being carried out in an amicable atmosphere by hard-working, cooperative individuals with a sense of duty, who are loyal to their employer and committed to their work. A work culture built on cooperation is more likely to unleash people's potential for the benefit of the LOTOS Group, and the successful personal development of each employee. We strive to create a friendly work environment for everyone. To that end, we have developed clear and effective regulations, and employ transparent and reasonable decision-making processes that help make interpersonal relations harmonious.
>
> We aim to ensure that our current and prospective employees have equal employment, advancement, development and training opportunities. Our efforts in this respect are centred on fostering a sense of trust between management and the rest of the employees. We are committed to the fair treatment of everybody, regardless of their job title, length of service, trade union membership, age, gender, sexual orientation, physical

appearance, nationality, religion or political views. Decisions concerning recruitment, career development, performance evaluation, advancement and remuneration are based on straightforward rules and criteria to guarantee fair treatment of all current and prospective LOTOS Group employees.

Source: Code of Ethics of the LOTOS Group

Forming responsible social relations with employees is one of the key areas of our corporate social responsibility strategy, which contributes to the effective realisation of our business objectives.

PILLARS OF THE LOTOS GROUP'S CORPORATE SOCIAL RESPONSIBILITY STRATEGY UP TO 2015

I SOCIAL RESPONSIBILITY	II ENVIRONMENTAL RESPONSIBILITY	III BUSINESS RESPONSIBILITY
Creating values beneficial to the social environment	**Creating values beneficial to the natural environment**	**Creating economically beneficial values**
We are committed to respect for intellectual capital and diversity, respect for human rights, including the freedom of speech and freedom of association. We contribute to the creation of new jobs and the improvement of the quality of human capital in the areas of our impact. We actively counteract exclusion and other social problems in the spheres of our competences.	We strive to continuously reduce the negative impact of our business on the environment through the application of high standards of extraction, production and processing of hydrocarbons, and also by meeting the demanding environmental standards on production, transportation and sale of petroleum products. Our mining operations now use the best available techniques and rules of conduct, and we are constantly analysing the opportunities offered in this area by new technologies. We aim to identify and develop opportunities for obtaining energy from renewable sources.	We place great importance on the management of our relationship with the environment in a predictable and reliable manner, consistent with the principles of ethics and in keeping with the rules of transparency and partnership. This has an impact on the way in which we aim to profit and increase in value in the long term. Our responsibility manifests itself in activities aimed at increasing the security of the energy sector in a responsible manner, in consideration of both society and the environment. We provide a stable supply of fuel to the market, as well as participate in the exploration for and production of hydrocarbon deposits, including non-conventional ones.

One of the key objectives of LOTOS Group CSR Strategy is investment in human resources, in order to maintain the highly qualified personnel necessary for the effective implementation of our business strategy and continue to develop an organizational culture based on our adopted values.

The achievement of CSR objectives is monitored in the periods which coincide with evaluation of the implementation levels of the LOTOS Group's business strategy. HR policy objectives adopted in 2012 and resulting from the business strategy and CSR strategy have all been realised.

An adequate number of highly qualified personnel, necessary for the effective realisation of business strategy, has been provided.

Our recruitment procedures help us employ staff with the required qualifications, and in order to use our candidate database even more effectively, and also to make the recruitment procedure more efficient and consistent within the LOTOS Group, we introduced the **e-Recruitment** system. This provides for more effective management of recruitment processes by, for example, facilitating express publication of job adverts in different media concurrently, proficient analysis of database data as a result of use of electronic application forms and search methods, as well as the gathering and exchanging of candidate information according to the highest security standards, and ready access to advertising performance statistics. The new system is candidate-friendly and brings our recruitment procedures even further into compliance with our value system.

Efficiency enhancing recruitment procedures

In order to reach the highest number of candidates, in 2012 we introduced changes to the www.lotos.pl website, making it more attractive visually and introducing a functional Career page that provides more information about the LOTOS Group as an employer.

The high results of our employees' periodic evaluations confirms the efficiency of our recruitment tools, adaptation tactics, training and motivation schemes.

Salaries offered by the company are formulated on the basis of data received from payroll surveys, as well our own studies of remuneration systems and the employment market, with particular emphasis on the fuel-energy and petrochemicals sectors.

In accordance with the LOTOS Group's mission, we are continually improving our employees' competencies with training and development projects, carried out within the LOTOS Academy and available to all employees.

We take full advantage of our workforce's potential, and have built a culture of shared knowledge that makes use of the qualifications and experience of senior employees, aged 50+, who are now actively involved in the development of younger staff. The seniors provide training within our 'adaptation programme', become mentors to the newly employed and those working in production, as well as serving as speakers at in-house training sessions.

Organizational culture advanced on the basis of adopted values.

In 2012, within the framework of the LOTOS Group's HR policy we introduced uniform principles for the planning and implementation of recruitment, internal recruitment and monitoring of employee attrition, in order to further meet our desired organizational culture. After implementing these changes, the associated good practices of Grupa LOTOS have become even more visible and more widely applied in the LOTOS Group companies.

The tools and solutions that the Company makes use of are continually monitored and advanced. We have upgraded the adaptation programme, especially in relation to technical staff. We have also prepared an endorsement of the adaptation programme for LOTOS Asfalt, taking into the account the specific profile of their trading area.

Additionally, a decision was made regarding the SAP HCM IT system which will be introduced across the LOTOS Group. The new system will not only make reporting easier, but will also better meet the needs of management and other staff by making information more accessible and providing better access to HR tools. With this in mind, we also reviewed our HR management processes, in particular auditing their 'soft' part, and have begun work on a map of employment positions across the entire LOTOS Group, with a related model of competences and changes in the Periodic Employee Evaluation System. This will ensure that the new IT system truly reflects the LOTOS Group's business requirements.

In order to exert a positive impact on employment practices, provide incentives and foster good work ethics at LOTOS brand petrol stations, we have prepared an action plan to support recruitment processes which provides incentives and fosters a working culture based on the adopted values. To make recruitment process more transparent, we developed profiles for an 'ideal' sales assistant and station manager. We are also planning an associated training scheme that will prepare our business partners employing staff at petrol stations for the proper selection and evaluation of candidates. Our web page provides transparent information on the recruitment process for station employees. We have analysed employee incentive methods for use in the future, and are currently in the process of developing a training programme for petrol station staff aimed at promoting behaviours which conform with our adopted social and ethical values.

The process of building the business awareness of the LOTOS Group's management is ongoing, and takes into consideration the importance of social and environmental factors as well as issues of corporate governance. The effectiveness of this process is confirmed by the results of our periodic employee evaluations – more than 90% of all evaluated employees have obtained good and very good scores for the criterion involving the importance of social and corporate governance, with 86% of the management achieving very good grades.

Employee relations practices

- data has been verified, full text of the Independent Assurance Report (/en/the-organization-and-its-report/integrated-reporting/auditing-and-reviews#opinia-pwc)

In line with our CSR Strategy and with a focus on filling positions within the LOTOS Group in a manner that reflects our business needs, we take every care to communicate with potential candidates by providing good access to information, for example during employment fairs, through cooperation with universities and technical colleges, provision of apprenticeships, and grant programmes. The LOTOS Group carries out its recruitment processes in a transparent and objective manner, taking advantage of the latest candidate evaluation methods. We create opportunities for horizontal and vertical promotion by offering possibilities in a priority internal recruitment process. This takes the form of successively endorsed adaptation programme across the LOTOS Group's companies, promoting behaviour consistent with our values and enabling new employees to function better and get to know the company faster.

We take every care to raise our employee's qualifications, providing them with training opportunities, and recurring and newly-created development programmes organised within the LOTOS Academy. In 2012, we implemented the Key Position Succession Planning Programme to ensure the continuity of management, and also to prepare employees with the greatest potential for new, more difficult tasks in the future. We also partially finance English language courses and university studies. The management and their staff plan and implement their career and development objectives together, and in most of our companies, this process is supported by a Periodic Employee Evaluation Programme, prepared and improved with this purpose in mind.

The remuneration system in the LOTOS Group ensures salaries adequate to an employee's position and duties. Additionally, employees receive an annual bonus based on the financial results of the entire LOTOS Group. Employees implementing special tasks and objectives, assigned to them individually, can also receive incentive awards, and those who are the most involved and distinguished at work are given special awards by the CEO.

We guarantee all our employees an attractive working environment and career development opportunities, plus a good social package, regardless of their gender and age. We have a culture of knowledge sharing that ensures that the development of our employees influences the development of the entire organization. We also maintain good relationships with our pensioned staff, offering them medical care and an active life within the LOTOS Group's Senior Employees and Pensioners Clubs.

We improve our organizational culture with our adopted values, not only in our programmes and activities, but also by promoting these values in our internal training. We place great emphasis on their importance and assess the level of their adherence during the periodic employee evaluations, and describe and promote them through the LOTOS Group's Code of Ethics.

An important role in this process is played by our internal communication system. One of the key objectives of the LOTOS Group's social responsibility strategy is the fostering of organizational culture based on open, multidirectional communication, including development of a consultation system within the LOTOS Group. As part of this objective, we ensure that as far as it is legally possible, employees have the opportunity to discuss any essential operational changes planned in the company, a minimum of 30 days prior to their introduction. Employee representatives are also involved in negotiating and introducing changes which may have an impact on operations in the organization. A notification period for any essential operational changes is defined by binding legal regulations, but it is our good practice to organise regular meetings with the Employee Council and trade unions representatives in the company.

Employment relations

The LOTOS Group provides all employees of indefinite, fixed, full or part-time employment with the opportunity to take advantage of the same additional benefits package guaranteed by the Collective Bargaining Agreements for Grupa LOTOS employees, and by the Rules of Participation in the Company Social Benefits Fund. 95.2% of Grupa LOTOS employees are included in the Collective Bargaining Agreements. The remaining employees are part of the top management whose terms and conditions of employment are agreed individually with the Company's Board, in consideration of the latest binding legal regulations of employment law. All the companies comprising the LOTOS Group have their own Collective Bargaining Agreements or remuneration policies, whose regulations are identical with the Collective Bargaining Agreements for Grupa LOTOS employees, and the percentage of employees covered by these documents is 99.5% to 99.9%.

Every employee can take advantage of additional medical care from private healthcare institutions and dental care. All parental leave for mothers and fathers and additional maternity leave is provided for, in accordance with legal regulations.

Maternal leave and extended maternity leave in Grupa LOTOS

Year	Persons who have gone on maternity or extended maternity leave /1/		Persons who have returned from maternity or extended maternity leave /2/		Persons whose employment was terminated up to 12 months following their return to work /point of reference 1/	
	Women	Men	Women	Men	Women	Men
2010	17	2	22	2	2	1
2011	14	-	13	-	2	-
2012	19	2	14	2	-	-

The company offers other social support in the form of loans, allowances, and partial financing of holidays for employees and their children. Additionally, employees who retire due to disability or old age receive retirement severance pay on terms more favourable than those provided for by the Polish Labour Law. Old age and disability pensioners also have access to additional medical care provided by private healthcare establishments and dental care at their former employer's cost.

The LOTOS Group provides its employees with the opportunity to join various pension plans. Currently, 12 of our companies take advantage of the group's unit-linked life insurance cover, which was prepared and introduced in 2001 especially for LOTOS Group employees and is paid for by the employer. Employees join the programme on a voluntary basis.

Saving with the Pillar 3 retirement savings scheme is an essential aspect of responsible planning for one's financial future, and we make every effort to secure our employees' future. Regular payments made by the employer towards the unit-linked scheme protect the money invested against market fluctuations. At present, individual employee accounts are credited with premiums paid by the employer. These premiums may essentially increase the employees' savings levels, and money saved in this way will certainly prove helpful at retirement time. Employees can also make their own contributions. The employer pays a premium of PLN 250 to every employee who joins the programme, of which PLN 8.98 is an insurance cover and PLN 241.02 – an investment component.

Participation in the scheme is voluntary and available to insurable employees under 70 years of age, employed under contract. Employees who have previously terminated their insurance coverage are not eligible to participate in the scheme.

Grupa LOTOS	2010	2011	2012
			PLN ’000
Premiums under unit-linked insurance policies (Pillar 3 of the Polish pension system)	3,800	3,465	3,519

LOTOS Group	2010	2011	2012
			PLN '000
Premiums under unit-linked insurance policies (Pillar 3 of the Polish pension system)	10,174	10,339	11,182

Premiums paid by the employer are accumulated in individual employee accounts and their value is expressed in Polish złoty. Investment returns are a percentage of the accumulated capital. This transparent and easy to understand fund structure offers clear information on the cash value of each individual account.

As at the end of 2012, 87.7% of Grupa LOTOS employees and 79.7% of the LOTOS Group employees were covered by the group insurance. Two companies are taking advantage of separate insurance. 81% of LOTOS Petrobaltic employees are included in the insurance, and 64.4% in LOTOS Paliwa.

The LOTOS Group has a transparent remuneration system in place, whose key components are base salary, annual bonus and quarterly incentive bonus. Base salary is determined on the basis of national payroll reports compiled by professional HR consultancies. **Employees' base salary across the LOTOS Group has risen 5% since July 2012.**

We make every effort to ensure that the remuneration paid is market-competitive and attractive to employees. For each position, a market median has been set as a target against which the remuneration should be benchmarked. If performance targets set by the Board (such as financial criteria defined in the budget) are met, employees are entitled to an annual bonus equal to 10% of their annual salary. The special awards granted by the CEO in recognition of outstanding effort and commitment are another component of the incentive system, and to reward long service and experience, length-of-service awards are granted to employees in keeping with the rules laid down in the Collective Bargaining Agreement. These awards are payable to all employees across the LOTOS Group.

The base salary of employees who decide to retire within two years prior to their acquisition of pension rights can be raised by 8.5%. Moreover, retiring employees are entitled to a one-off cash severance payment, whose amount depends on their length of service. This payment can range from an amount equal to an employee’s monthly pay when their length of service is up to 15 years, to 500% of the base amount if the employee has worked for 35 years, and is applicable to all employees across the LOTOS Group.

For the past 30 years, a **Senior Employees and Pensioners Club** has been operating in Grupa LOTOS, associating almost 600 former LOTOS Group employees. The Club's activities are financially supported by the Board of Grupa LOTOS. Twice a year, the Club organises various trips around Poland and to other regions of Europe, giving the pensioners an opportunity to visit new places and at the same time promoting a healthy lifestyle. These visits to Polish and European regions are also designed to promote the LOTOS brand. The Club's management organises home visits for sick pensioners and allowance holders, providing them with the necessary support when required. Every year, at Christmas, the Board of Grupa LOTOS also organises annual meetings with its pensioners.

Training and education

Our training policy is closely linked with the LOTOS Group's strategy and corporate management strategy in the area of HR management. Our training activities are designed to raise the various competencies of our employees, identify talent across the organization, disseminate expert knowledge and foster increased involvement and job satisfaction. The LOTOS Group training policy is distinguished by long-term, consistently implemented development plans.

We provide adequate conditions for effective development and practical application of the knowledge and skill required of all employees throughout their employment. Goals and objectives defined in the short- and long-term development plans of the LOTOS Group are reflected in their personal development plans, agreed with the employees on an annual basis during their periodic evaluations.

All employees, irrespective of age or the time of their planned retirement, are offered the opportunity to attend training designed to help them acquire and enhance their knowledge and professional qualifications, and develop general skill sets. This is facilitated by our training and development procedures and internal training and development system. We also co-fund our employees' secondary and university-level graduate and post-graduate studies, training leave and paid leave from work for travel to external training facilities, their participation in qualification improvement programmes, co-financing of foreign language classes, and provision of support in the preparation of graduation theses etc.

In 2004, we established the **LOTOS Academy**, whose goal is to build a modern, efficient, competitive organization.

Our training and development programmes are supported by distinguished authorities, and members of the **LOTOS Academy Scientific Council** include such well-known figures as Prof. Jerzy Hausner, Prof. Witold Orłowski, Prof. Janusz Rachoń, Prof. Wojciech Rybowski, Prof. Edmund Wittbrodt, Dr. Mirosław Gronicki and Dr. Jan Szomburg.

The LOTOS Academy is a comprehensive employee development system, highly valued in the world of science and business. It's main feature is its **accessibility**, because the training it provides is available to all employees of the LOTOS Group. Moreover, employee development is carried out in a **continuous and coherent** manner, linked with the Periodic System of Employee Evaluations, career paths, development programmes for individual professional groups, and relevant succession plans. At the same time, our long-term programme is **flexible**, which allows us to respond to changes in the company's business environment and to new requirements for employees' qualifications.

In 2012, we introduced the following projects within the LOTOS Academy, under the banner "On the Road to Perfection":

The LOTOS Group Succession Programme

which guarantees the implementation of the our business strategy, ensuring the continuity of management processes in key positions, clearly defining promotion paths and reducing the risk of choosing the wrong candidate for promotion.

The LOTOS Kolej Managers Academy Development Programme,

the main goal of which is to ensure the implementation of the Company's strategy by accelerating the development and training of key employees. The implementation of this programme will enable LOTOS Kolej to identify and make better use of the potential of its employees, increase their productivity and provide an incentive to develop the competences essential from the point of view their employer, to better prepare them for assuming key positions with the company and to meet their promotion needs.

The LOTOS Academy training schedule,

which facilitates the development of employees' individual competencies through participation in training sessions, courses and workshops that cover issues arising from analysis of the results of the periodic employee evaluations and our business development needs. LOTOS Group employees have participated in many training courses, including:

- Communication and cooperation of project teams,
- Interpersonal relationship techniques,
- Project management in the organization,
- Time management skills,
- Coping with stress, assertiveness and conflict resolution,
- Team building skills,
- Presentation and public speaking skills,
- Ethical principles in the LOTOS Group,
- IT training at various advancement levels.

The STL® Training Programme - Situational Team Leadership.

The model is known as the Team Productivity Process and is an approach to effective operational patterns for teams, reviewed and tested by a team of researchers from the Ken Blanchard Companies. Its main objective was to increase the productivity of work teams through development of the leadership competences of management staff.

Internal training projects - Knowledge sharing in the LOTOS Academy:

- Adaptation training; Senior colleagues share information regarding the organization itself, its processes and the processing technologies of crude oil and other products generated in the refinery.
- Basic training for production workers; Within the certification process of production knowledge, wherein our internal coaches share their knowledge of the techniques and technology necessary for working as an operator.
- Internal knowledge-sharing workshops; LOTOS Group training on issues related to various aspect of our operations.

In 2013 we will continue several of our development programmes, including:

- **The LOTOS Group Succession Programme**; aimed at developing successors to key positions in a number of ways, such as by identifying objectives and tasks which are carried out under the supervision of a Guardian/Coach, selection of ways and means for development within the allocated development voucher, and presentation of the results of the coaching.
- The **LOTOS Kolej Managers Academy** development programme; for the general development and management training of two participating groups, management and specialist. Within individual development paths, participants have an opportunity to complete their professional qualifications with university courses and improve their knowledge of foreign languages.
- **Situational Team Leadership** management staff training; a programme designed to increase the productivity of work teams by developing the leadership competences of the management staff.
- Seminars for management staff; these involve presentations of modern company and HR management tools and methods.
- **The LOTOS Academy Training Schedule** and knowledge-sharing within internal training projects. The themes covered during the training sessions are determined on the basis of analysis of the results of the periodic employee evaluations, employees' development plans in individual organizational cells, as well as corporate business development requirements.

Average annual number of training hours per person, by Grupa LOTOS employment category

Employment category	2010	2011	2012
Senior management	61.2	40.0	41.9
Lower management	60.3	38.0	42.8
Back-office staff	29.6	30.7	25.8
Production staff	12.6	13.2	17.7

Average annual number of training hours in Grupa LOTOS in 2012, by sex

Sex	Number of employees	Number of training hours	Average number of training hours
Women	417	11,096	26.6
Men	932	21,936	23.5

In LOTOS Group companies operating the Periodic Employee Evaluations System, on average 91.75% of all employees were evaluated in 2012, regardless of their sex, which means 4,000 employees. The lowest evaluation ratios were noted in LOTOS Oil (80%) and LOTOS Asfalt (85%), which had undergone organizational changes the year before. Consequently, their employees had been working for less than six months at the time of evaluation, which is below the minimum for the Periodic Employee Evaluations System to be subject to evaluation or to evaluate employees. Across the LOTOS Group though, the majority of eligible employees were actually evaluated, resulting in a higher than expected percentage of evaluated employees. This confirms the universality of the process across the LOTOS Group, regardless of employee age or sex.

In 2012, the Periodic Employee Evaluation System covered employees of Grupa LOTOS and the following subsidiaries: LOTOS Paliwa, LOTOS Asfalt, LOTOS Oil, LOTOS Tank, LOTOS Kolej, LOTOS Ochrona, LOTOS Straż, LOTOS Lab, LOTOS Serwis and LOTOS Petrobaltic. In the remaining companies, employee evaluations will be introduced together with the SAP HCM system in 2014.

Occupational Safety and Health

In line with the LOTOS Group's business and CSR strategies, safety at work and employee health protection are our priorities, with respect to both our employees and the employees of our cooperating partners. Particular attention is paid to efforts aimed at maintaining high safety standards, minimising risks and reducing accident rates. Our primary safety rule states that *no work is important or urgent enough to disregard safety*. A consistent and strategic approach to safety has helped Grupa LOTOS earn the reputation of an employer with a safe, well-equipped and well-organised workplace.

Ensuring a safe working environment is one of the cornerstones of our corporate culture, as reflected in the Code of Ethics we implemented in 2013.

> Protecting employee rights in the area of health and safety at work is of uttermost importance to us. We are consistent in our efforts to improve health and safety standards for our employees and other persons working for or on behalf of the LOTOS Group. To this end, we monitor workplace conditions and implement relevant improvements to exceed the requirements imposed by the applicable laws. We raise employees' awareness on workplace safety and promote participation in efforts aimed at enhancing working conditions.

Source: Code of Ethics of the LOTOS Group

The LOTOS Group spares no effort to ensure that:

- Workplaces are properly organised,
- Environmental surveys are performed on an ongoing basis,
- The best possible precautions are applied as regards technical processes and people’s health,
- The threat identification and man-machine-environment risk assessment system is enhanced on an ongoing basis,
- Performing consulting, oversight and inspection tasks,
- Hands-on training sessions and workshops are held to advance our employees' professional skills,
- Cooperation is maintained with governmental authorities, national organisations, and research and academic institutions,
- We exchange experience with our partners from chemical industry plants in Poland,
- Employee awareness and commitment are raised to achieve a culture of safe work.

Placing a heavy emphasis on our employees’ involvement in building a strong occupational safety culture at all levels of the organization is a multi-year process that determines the direction of our tasks for years to come. Workplace safety awareness is raised by:

- Training and other development initiatives,
- Education on OSH-related matters, fire safety and health protection,
- Encouraging staff’s involvement in developing and implementing the corporate OSH policy,
- Organisation of awareness campaigns and attractive knowledge testing competitions.

We place equally strong emphasis on the safety of external contractors' employees performing services at LOTOS Group facilities, as well as visitors.

Our agreements with contractors contain clauses which require that they respect the applicable regulations and occupational safety rules, as well as the fire protection and physical safety requirements and standards at our sites. In this way, the contractors' undertaking to protect the rights of their employees becomes a prerequisite condition to be satisfied in the performance of the agreement. Such clauses are a part of all agreements executed by Grupa LOTOS with contractors performing work at the refinery.

In addition, during regular OSH inspections and audits we check whether the OSH regulations are being adhered to by the contractors, and thus whether human rights are being observed in relations between employees, employers and the LOTOS Group. Inspection activities are an essential part of risk management, identification and monitoring, and the on-site inspections also have a bearing on our further cooperation with that contractor. This is also reflected in the annual assessment of contractors, where safety at work, protection of health, and respect for human rights are some of the key criteria.

Through close cooperation with our contractors and numerous other initiatives, the LOTOS Group contributes, directly and indirectly, to the raising of work safety standards for our contractors and their sub-contractors. Thanks to the strict requirement to comply with national OSH regulations and internal standards at our facilities:

- Contractors, obliged to meet work safety standards beyond the mandatory, are more likely to fulfil applicable legal requirements,

- Contractors have to apply the necessary group and individual protective measures, which includes providing their employees with personal protective equipment, such as workwear appropriate to the identified hazards,
- Contractors cooperate with their subcontractors, for whom they are as responsible at LOTOS Group sites as they are for their own employees,
- Internal OSH training, the sharing of work safety standards with contractors and discussions held during LOTOS Group OSH inspections result in heightened awareness of and improved ability to correctly identify threats and employ safe, appropriate working methods.

After their work with the LOTOS Group has been concluded, many of our contractors' employees demonstrate increased awareness and commitment, are more considerate and alert to potential hazards at work, and take more care to ensure workplace safety. This transfer of requirements and expertise results in lower accident rates, which means measurable financial benefits for the contractors, such as lower social security contributions or a reduction in the cost of post-accident compensation paid to employees.

> The overarching objective of the LOTOS Group CSR strategy as regards health and safety is to increase awareness and involvement in work safety improvement among management staff, employees and contractors.

A challenge we intend to meet in the coming years is raising awareness of how important it is to demonstrate personal commitment to compliance with adopted OSH standards, in particular in the case of the middle management's interactions with subordinate employees, who watch their behaviour. Increasing the commitment of the management staff and other employees is a priority, as this is one of the key determinants of the accident rate in each company.

One of the objectives of the CSR strategy is to help promote best OSH practices currently applied by Grupa LOTOS at other LOTOS Group companies and the LOTOS and LOTOS Optima service station chains. Promoting certain behaviour patterns and creating the proper attitude among the employees of our contractors will be a part of the process.

The OSH teams at the LOTOS Group companies work closely together to implement the goals and targets of the CSR strategy that are oriented towards improving safety at work, adopting uniform standards across the LOTOS Group and sharing expertise and experience.

A number of initiatives were undertaken in 2012 in pursuit of the key objective of our CSR strategy in the area of occupational safety and health improvement. These included:

- Introduction of a system of quarterly OSH goals the LOTOS Group companies;
- Cross-checking of workplace safety standards;
- Introduction of a new way of reporting hazards with the 'Report hazards to LOTOS Group employees' banner on our Intranet pages. Hazard reporting is highly valuable, as the greater the number of identified threats, the greater the chances of their elimination, which means a lower likelihood of workplace accidents;
- Definition of corporate OSH and fire safety standards specifically for contractors;
- Celebration of another Occupational Safety and Health Day;
- Implementation of the Working Conditions Improvement Plan 2012 for Grupa LOTOS;
- Drafting of educational materials concerning accidents at work and proper oversight of OSH documentation, which is particularly important in employee management;
- Training sessions and workshops for Grupa LOTOS management, designed to remind them of their OSH responsibilities and duties,

- Knowledge testing competitions relating to workplace safety and promotion of health, as well as proper oversight of OSH documentation, which is particularly important in employee management;
- In addition, The Safest Production Plant of the Grupa LOTOS and The Safest Company of the LOTOS Group were singled out.

In 2012, there was a slight increase in the number of accidents at work and the Lost Time Injury Frequency (LTIF) at the LOTOS Group, relative to 2011.

Grupa LOTOS	**2010**	**2011**	**2012**
Number of employees	1,315	1,318	1,323
Accidents at work, including:	9	5	13 [1/]
Women [2/]	-	-	2
Men [2/]	-	-	11
Post-accident absenteeism (calendar days) [3/], including:	287	168	253
Women [2/]			28
Men [2/]			225
Occupational diseases	None	None	None
Lost Time Injury Frequency (LTIF) [4/] (per 1 million hours worked)	3.4	2.1	4.3
Lost Day Incident Rate (LDR) [5/] (per 200,000 hours worked)	0.7	0.42	0.9
LOTOS Group [6/]	**2010**	**2011**	**2012**
Number of employees [7/]	4,946	5,004	4,795
Accidents at work, including:	56	31	34 [8/]
Women [2/]	-	-	5
Men [2/]	-	-	29
Post-accident absenteeism (calendar days) [3/], including:	2,502	1,558	1,651 [9/]
Women [2/]	-	-	196
Men [2/]	-	-	1,455
Occupational diseases	None	None	None
Lost Time Injury Frequency (LTIF) [4/] (per 1 million hours worked)	5.9	3.3	3.3
Lost Day Incident Rate (LDR) [5/] (per 200,000 hours worked)	1.2	0.7	0.7

[1/] Including 1 accident on an inclined plane at work.

[2/] Data collected since 2012.

[3/] Lost days are counted from the day when the employee obtains a sick leave certificate from a doctor.

4/ LTIF – number of occurrences resulting in inability to work x106/number of working hours.
5/ LDR – number of occurrences resulting in inability to work x2*105/number of working hours.
6/ Companies reporting OSH indicators: LOTOS Asfalt, LOTOS Biopaliwa, LOTOS Czechowice, Grupa LOTOS, LOTOS Jasło, LOTOS Kolej, LOTOS Lab, LOTOS Ochrona, LOTOS Oil, LOTOS Paliwa, LOTOS Petrobaltic, RCEkoenergia, LOTOS Serwis, LOTOS Straż, and LOTOS Tank.
7/ Average number of employees for companies reporting OHP indexes.
8/ Including three accidents on an inclined plane at work and one group accident involving 2 persons (a man and a woman).
9/ Including 380 days of absence which was the result of an accident in 2011.

Last year, three business partners of Grupa LOTOS were invilved in accidents. There were no fatal accidents in 2012.

The LOTOS Group classifies accidents at work in accordance with Polish legislation. In addition, Grupa LOTOS also records and keeps statistics on incidents according to the European scale, i.e. dangerous occurrences (including dangerous states and incidents with potential to cause an injury), accidents resulting in an incapacity for work lasting more than one day (LTI – Lost Time Injury), based on which the LTIF (Lost Time Injury Frequency) rate is computed, and incidents requiring first-aid treatment. LOTOS Group companies follow the guidelines contained in the ILO's (International Labour Organisation) Code of Practice on *Recording and notification of occupational accidents and diseases.*

The most frequent accident-related injuries in the LOTOS Group are injuries to upper and lower limbs. The largest number of accidents occur while walking or operating machinery and equipment. Employees involved in accidents report them promptly in order to eliminate similar occurrences in the future.

Absenteeism in Grupa LOTOS*

Description	Blue-collar jobs	White-collar jobs	Total
2012			
total absenteeism	39.52	49.57	45.62
including: illness	9.2	9.57	9.42
2011			
total absenteeism	36.45	47.17	43
including: illness	8.99	8.27	8.55
2010			
total absenteeism	34.91	46.89	42.26
including: illness	8.79	8.25	8.46

* number of absent days/number of employees

Employee consultations

Grupa LOTOS has **a Health and Safety Committee**, which serves as an advisory body to the employer. In accordance with the provisions of employment law it comprises representatives of employers and employees selected by the trade union operating in the company, as well as the occupational physician. At least once every quarter the Committee reviews working conditions, evaluates the status of occupational safety and advises on occupational diseases and the measures taken by the employer to prevent accidents at work. The Committee's decisions are often reflected in our plans for improvement of working conditions.

In 2012, the Committee investigated the following areas:

- Design and construction of a new changing room for employees of some of the production facilities,
- Evaluation of planned OSH training procedures,
- Assessment of the suitability of Grupa LOTOS employees' workwear and footwear, as well as advising on the choice of personal protection measures,

The Health and Safety Committee operates from the employer's regulations, and according to which employee representatives – based on a separate procedure – participate in consultations on all the employer's undertakings in occupational safety.

In 2012, Social Labour Inspectors were elected in Grupa LOTOS.

In the documents on the implementation of the principle of freedom of collective bargaining in Grupa LOTOS, the health and safety provisions are included in the Collective Bargaining Agreement. Chapter V contains the employer's declarations, confirming that the issues of occupational safety are of particular interest and concern to the Board of Grupa LOTOSDue to the mandatory nature of OSH provisions and specific risks related to the company's business activity, no negotiations can be entered into nor other agreements concluded in this respect.

The employer, following its duties listed in Section 10 of Polish Labour Law and other regulations, makes every effort, as far as possible, to ensure that the employees and their representatives participate in this area of the Company's activity. Consultations are held on all OSH measures also governed by the internal regulation changes of 2012. The key here is that these consultation procedures are treated separately from the work of the Health and Safety Committee. Consultations in this area are held at Grupa LOTOS twice a month, on average. Participating employee representatives are informed of their subject in advance; similarly they are given all reference materials well ahead of schedule. The 2012 changes to the regulation emphasise the right of all employees to approach the consultation team.

The second information and consultation channel operating at the Company is the **Employee Council**, which consists of seven members, elected for four-year terms, ending in 2014. Every month, the Council meets the employer's representatives, including the Grupa LOTOS Board, for discussion of issues crucial to the workforce. Because the members of the Council belong to the trade unions which are multi-employer organisations and involving most of the employers that comprise the LOTOS Group, the discussions held and information disseminated through these meetings are of a much broader character than just local Company operations.

Seven companies belonging to the LOTOS Group have Employee Committees, and each company with a headcount over 250 has set up its own Health and Safety Committee to facilitate employee participation in the area of occupational safety.

Preventive measures

One of the essential elements of safety at work is a responsible employee, fully aware of the possible dangers. Therefore, we place great emphasis on preventive and informative measures, providing our employees with education, training and preventive programmes whose purpose is to minimise the effects of ill health among company employees.

All employees, regardless of their position or duties, participate in regular training sessions involving practical fire extinguishing exercises with the use of fire extinguishing equipment, and also in practising their first aid skills. In 2012, **training in first aid for children** was organised on a voluntary basis. There were also specialised **courses on the principles of proper use of the AED defibrillators** found in the Company's Gdańsk facility, and for the employees of the fuel terminals. AED training is held on the basis of training and practical instructions within the periodic training organised for the LOTOS Group employees.

Every year training sessions are also organised at the production installations for First Aid Rescue Team workers. Thanks to these regular practical exercises, employees can effectively help their colleagues in emergencies. Additionally, there are also regular exercises at Grupa LOTOS on the correct responses to emergencies and evacuation of danger areas.

In 2012, we organised the third **Occupational Safety and Health at Work Day** in Gdańsk, which featured cardiac screenings for employees. With specialist equipment on hand, we managed to test over 120 employees for circulatory system diseases, each of whom also had the opportunity to consult a doctor.

In 2012, all LOTOS Group employees were actively involved in monthly health and safety at work events, within the **Occupational Safety and Health Promotion Schedule**. Each month was dedicated to preventive actions based on a different theme, with additional presentation of health innovations, theme-based competitions and consultations with various specialists. The Schedule was realised simultaneously with other actions organised by the World Health Organisation (*WHO*), the United Nations (*UN*) and others, taking into account the requirements resulting from daily meetings with the company's employees.

Thanks to the support of Europacolon Polska, we also made available a book entitled A *Zosia ma raka na smyczy* (And Zosia's Cancer is on a Tight Leash), which presents issues related to the colon cancer, to all the LOTOS Group employees who expressed an interest. The book is designed for children aged five and over who are dealing with the illness of a loved one or who may come into contact with a colon cancer patient.

We systematically run educational promotions on cancer, diabetes, healthy lifestyles, first aid, physical activity, ergonomics in the office, organisation of the workplace, the safe use of chemicals and noise protection at work. With this purpose in mind, we have also **published a number of brochures** dedicated to the prevention of cancer, heart diseases, proper exercise and healthy eating.

Because managers in charge of other staff need to follow the current and binding legal regulations, in 2012 we conducted training for Grupa LOTOS management on OSH requirements pertaining to the internal regulations of the enterprise. The topics covered included the extent of tasks and duties in the OSH context, health protection (including proper supervision of OSH documentation), and good ergonomics in the workplace. We also organised another training cycle on involvement and responsibility in the area of health and safety, addressed specifically to management staff.

In taking every care of the health of our employees, the LOTOS Group provides them with access to a wide range of medical services. We work with a number of surgeries and clinics, and every employee holding a ‘Patient Card’ can take advantage of medical services available throughout the country. This additional medical cover is offered on a voluntary basis, but most of our employees choose to participate in the ‘Patient Card’ programme.

Another, equally important health-related issue is the provision of proper working conditions that that have minimal adverse effect on human health. To this end, we hold periodic inspections of permissible noise levels, light intensity and concentration of harmful chemical substances etc., to ensure that they meet the required standards. Some of the companies also undertake activities specific to their business profile.

In 2012, LOTOS Petrobaltic organised holidays for its employees at the sanatoria of various popular health resorts, such as Polanica Zdrój and Połczyn Zdrój, within the social fund. The company then covered the costs of the sanatorium treatment. These healthy holidays were also available to the employees' families at special reduced rates. Then, as a result of waning interest in this type of holiday, our cooperation with the sanatoria was terminated at the end of 2012 at the request of the workers’ trade unions, and the funds were allocated to increase co-financing of other forms of holidays. From 2010 to 2012, 72 LOTOS Petrobaltic employees and pensioners took advantage of sanatorium treatment.

Among the LOTOS Group's short-term OSH plans are:

- Preparation and supervision of renovation works called Spring 2013 in OSH and fire-prevention areas;,
- Pilot introduction of the Lockout-Tagout safety system, while certain works are carried out in the area of active production units,

- Implementation of a revised work permit system with the use of IT tools,
- Organisation of another Occupational Safety and Health at Work Day,
- Implementation of a system for self-control of work stations,
- Introduction of an electronic tool monitoring work safety systems across the LOTOS Group,
- Modification of the exercises for improved response to accidents at work, announcement of chemical alarms, evacuation of buildings, drilling on possible emergency scenarios and administering first aid.

Long-term plans:

- Introduction of additional e-learning to increase the involvement of employees in occupational safety and health.
- Establishment of uniform safety standards across the LOTOS Group;
- Fostering occupational safety culture, based on the involvement of management and lower level employees, also involving subcontractors.
- Achieving the best production standards in the oil refining industry, through the implementation of measures designed to maintain the downward trend in LTIF.

Diversity and equal opportunities

The Code of Best Practice for WSE Listed Companies includes the recommendation that public companies ensure a balanced proportion of men and women on their management board and in supervisory functions in their companies, thus reinforcing the creativity and innovation of their business. As a listed company, Grupa LOTOS shares the belief that employment diversity can increase a company's competitiveness and strengthen its development prospects. However, sex-based differentiation cannot always be a key factor in HR decision-making, especially in the sector occupied by the Company. In operating a refinery, and due to the nature of its activities, many of the Company's employees are engineers and specialists in hydrocarbon production and processing. In Poland, as well as in other parts of the world, this segment is dominated by men, which fact is also confirmed by the prevalence of men among engineering students. This tendency is reflected in the Company's employment structure too. Women, on the other hand, work in larger numbers in the back-office, whereas there are fewer employed in production and technology, despite the equal opportunity policy applied by the Company in its recruitment process.

While we make every effort to provide our employees with attractive salary packages, we also have to consider the specific nature of our job market and internal business conditions. In 2012, the ratio of minimum base salary paid to women and to men was 120% to the men's advantage, which is at least a better result than 2011, when the figure was 125%.

HR policy→ (http://raportroczny.lotos.pl/en/sustainable-development/employees/hr-policy)

Composition of the Board → (http://raportroczny.lotos.pl/en/corporate-governance/board/composition)

Composition of the Supervisory Board → (http://raportroczny.lotos.pl/en/corporate-governance/supervisory-board/composition)

Composition of Grupa LOTOS workforce, by sex and age
(as of December 31st 2012)

Employment category	Number of employees	Percentage of total	Percentage of total	Number /women/	Percentage of total	Percent-age of	Number /men/	Percent-age of	Percentage of total

		employees	employees in the age category		women	total women in the age category		total men	men in the age category
Employees aged up to 30									
Board	0	0	0	0	0	0	0	0	0
Senior management	0	0	0	0	0	0	0	0	0
Lower management	0	0	0	0	0	0	0	0	0
Back-office staff	68	5.04	39.08	44	10.55	100.00	24	2.58	18.46
Production staff	106	7.86	60.92	0	0.00	0.00	106	11.37	81.54
	174	**12.90**	**100.00**	**44**	**10.55**	**100.00**	**130**	**13.95**	**100.00**
Employees aged 30-50									
Board	2	0.15	0.25	0	0.00	0.00	2	0.21	0.38
Senior management	27	2.00	3.41	4	0.96	1.54	23	2.47	4.32
Lower management	78	5.78	9.85	31	7.43	11.97	47	5.04	8.82
Back-office staff	385	28.54	48.61	224	53.72	86.49	161	17.27	30.21
Production staff	300	22.24	37.88	0	0.00	0.00	300	32.19	56.29
	792	**58.71**	**100.00**	**259**	**62.11**	**100.00**	**533**	**57.19**	**100.00**
Employees aged up to 50									
Board	3	0.22	0.78	0	0.00	0.00	3	0.32	1.12
Senior management	15	1.11	3.92	3	0.72	2.63	12	1.29	4.46
Lower management	46	3.41	12.01	11	2.64	9.65	35	3.76	13.01
Back-office staff	175	12.90	45.43	99	23.74	86.84	76	8.15	28.25
Production staff	144	10.75	37.86	1	0.24	0.88	143	15.34	53.16
	383	**28.39**	**100.00**	**114**	**27.34**	**100.00**	**269**	**28.86**	**100.00**
	1,349	**100.00**	**-**	**417**	**100.00**	**-**	**932**	**100.00**	**-**

Base pay at Grupa LOTOS, by sex, as of December 31st 2012

Position	Women			Men			Ratio of men's base salary to women's base salary	Ratio of men's average pay to women's average pay
	Number of employees	Lowest monthly base salary	Average pay /actual pay/	Number of employees	Lowest monthly base salary	Average pay /actual pay/		
Board	0	-	-	5	20,728	29,287	-	-
Senior management	7	17,000	29,116	35	13,717	28,310	81%	97%
Lower management	42	6,036	12,260	82	7,350	15,856	122%	129%
Back-office staff	367	2,500	6,507	261	3,300	9,729	132%	150%
Production staff	1	4,009	4,535	549	3,000	7,943	75%	175%
Total:	**417**	**2,500**	**7,499**	**932**	**3,000**	**9,936**	**120%**	**132%**

Key data

- data has been verified, full text of the Independent Assurance Report (/en/the-organization-and-its-report/integrated-reporting/auditing-and-reviews#opinia-pwc)

Employment

Headcount at the LOTOS Group

Entity	Dec 31 2010	Dec 31 2011	Dec 31 2012
Parent			
Grupa LOTOS	1,310	1,329	1,349
Direct subsidiaries			
LOTOS Asfalt	290	301	254
LOTOS Czechowice and subsidiaries	240	236	236
LOTOS Gaz (in liquidation)	5	1	1
LOTOS Jasło and its subsidiaries*	104	74	75
LOTOS Kolej	582	717	812
LOTOS Lab	153	152	153
LOTOS Ochrona	159	160	161
LOTOS Oil	341	340	338
LOTOS Paliwa	261	263	270
LOTOS Parafiny	259	248	-
LOTOS Park Technologiczny	1	1	1
LOTOS Petrobaltic and subsidiaries	472	550	553
LOTOS Serwis	711	697	697
LOTOS Straż	86	88	89

* LOTOS Jasło has had its own Group since February 11th 2011.

Grupa LOTOS

Total number of Grupa LOTOS employees, by type of employment contract

Total number of employees	Temporary contracts	Indefinite-term contracts
1,349 persons, including:	189	1,160
Women	**51**	**366**
including:		
Full-time employees	51	366
Part-time employees	0	0
Men	**138**	**794**
including:		
Full-time employees	136	778
Part-time employees	2	16

No Grupa LOTOS employees, contracted in 2012, terminated their contract in the same year (2012).

Newly employed in 2012

No.	Region	Number of employees
1	Gdańsk	66
2	Kraków	0
3	Katowice	0
4	Czechowice-Dziedzice	0
5	Rypin	0
6	Poznań	0
7	Warsaw	3
8	Jasło	0
9	**Total**	**69**

No.	Sex	Number of employees
1	Women	26
2	Men	43
3	**Total**	**69**

No.	Employee age	Number of employees
1	<30 years old	30
2	30-50 years old	34
3	>50 years old	5
4	**Total**	**69**

Total number of employees hired and dismissed in 2012

Region	Number of employees	Employee turnover rate (%) *
Gdańsk	108	8.0
Kraków	1	0.1
Katowice	1	0.1
Czechowice-Dziedzice	0	0
Rypin	0	0
Poznań	0	0
Warsaw	7	0.51
Jasło	8	0.6
Total	**125**	**9.3**

No.	Sex	Number of employees	Employee turnover rate (%)
1	Women	43	3.2
2	Men	82	6.1
3	**Total**	125	**9.3**

No.	Employee age	Number of employees	Employee turnover rate (%)
1	<30 years old	34	2.5
2	30-50 years old	58	4.3
3	>50 years old	33	2.4
4	**Total**	**125**	**9.3**

* Number of employees who left the company and number of newly employed in 2012
--- x 100
Total number of employees as of December 31st 2012

LOTOS Asfalt

Total number of employees	Temporary contracts	Indefinite-term contracts
254 persons, including:	39	215
Women	**11**	**47**
including:		
Full-time employees	11	47
Part-time employees	0	0
Men	**29**	**167**
including:		
Full-time employees	29	167
Part-time employees	0	0

Newly employed in 2012

No.	Region	Number of employees
1	Gdańsk	8
2	Czechowice-Dziedzice	1
3	Jasło	4
4	**Total**	**13**

No.	Sex	Number of employees
1	Women	4
2	Men	9
3	**Total**	**13**

No.	Employee age	Number of employees
1	<30 years old	3
2	30-50 years old	9
3	>50 years old	1
4	**Total**	**13**

Newly employed in 2012 who left the company in 2012

No.	Region	Number of employees
1	Gdańsk	0
2	Czechowice-Dziedzice	0
3	Jasło	2
4	**Total**	**2**

No.	Sex	Number of employees
1	Women	0
2	Men	0
3	**Total**	**2**

No.	Employee age	Number of employees
1	<30 years old	0
2	30-50 years old	2

3	>50 years old	0
4	**Total**	**2**

Total number of employees hired and dismissed in 2012

No.	Region	Number of employees	Employee turnover rate (%) *
1	Gdańsk	15	5.9
2	Czechowice-Dziedzice	4	1.6
3	Jasło	53	20.9
4	**Total**	**72**	**28.3**

No.	Sex	Number of employees	Employee turnover rate (%)
1	Women	12	4.7
2	Men	60	23.6
3	**Total**	**72**	**28.3**

No.	Employee age	Number of employees	Employee turnover rate (%)
1	<30 years old	12	4.7
2	30-50 years old	48	18.9
3	>50 years old	12	4.7
4	**Total**	**72**	**28.3**

LOTOS Kolej

Total number of employees	Temporary contracts	Indefinite-term contracts
812 persons, including:	307	505
Women	**32**	**39**
including:		
Full-time employees	32	39

Part-time employees	0	0
Men	**275**	**466**
including:		
Full-time employees	266	466
Part-time employees	9	0

Newly employed in 2012

No.	Region	Number of employees
1	Gdańsk	28
2	Czechowice-Dziedzice	2
3	Jasło	1
4	Wrocław	5
5	Zduńska Wola	3
6	Kutno	0
7	unidentified place	80
8	**Total**	**119**

No.	Sex	Number of employees
1	Women	8
2	Men	111
3	**Total**	**119**

No.	Employee age	Number of employees
1	<30 years old	28
2	30-50 years old	63
3	>50 years old	28
4	**Total**	**119**

Newly employed in 2012 who left the company in 2012

No.	Region	Number of employees
1	Gdańsk	0
2	Czechowice-Dziedzice	0
3	Jasło	0
4	Wrocław	0
5	Zduńska Wola	0
6	Kutno	0
7	unidentified place	5
8	**Total**	**5**

No.	Sex	Number of employees
1	Women	0
2	Men	5
3	**Total**	**5**

No.	Employee age	Number of employees
1	<30 years old	0
2	30-50 years old	4
3	>50 years old	1
4	**Total**	**5**

Newly employed in 2012 who left the company in 2012

No.	Region	Number of employees	Employee turnover rate (%) *
1	Gdańsk	34	4.2
2	Czechowice-Dziedzice	4	0.5
3	Jasło	1	0.1
4	Wrocław	5	0.6

5	Zduńska Wola	4	0.5
6	Kutno	0	0.0
7	unidentified place	92	11.3
8	**Total**	**140**	**17.2**

No.	Sex	Number of employees	Employee turnover rate (%)
1	Women	8	1.0
2	Men	132	16.3
3	**Total**	**140**	**17.2**

No.	Employee age	Number of employees	Employee turnover rate (%)
1	<30 years old	31	3,8
2	30-50 years old	75	9,2
3	>50 years old	34	4,2
4	**Total**	**140**	**17,2**

LOTOS Oil

Total number of employees	Temporary contracts	Indefinite-term contracts
338 persons, including:	39	299
Women	**8**	**80**
including:		
Full-time employees	7	80
Part-time employees	1	0
Men	**31**	**219**
including:		
Full-time employees	31	218
Part-time employees	0	1

Newly employed in 2012

No.	Region	Number of employees
1	Gdańsk	12
2	Czechowice-Dziedzice	5
3	Jasło	1
4	**Total**	**18**

No.	Sex	Number of employees
1	Women	2
2	Men	16
3	**Total**	**18**

No.	Employee age	Number of employees
1	<30 years old	7
2	30-50 years old	11
3	>50 years old	0
4	**Total**	**18**

Newly employed in 2012 who left the company in 2012

No.	Region	Number of employees
1	Gdańsk	1
2	Czechowice-Dziedzice	1
3	Jasło	0
4	**Total**	**2**

No.	Sex	Number of employees
1	Women	1
2	Men	1

3	**Total**	**2**

No.	Employee age	Number of employees
1	<30 years old	1
2	30-50 years old	1
3	>50 years old	0
4	**Total**	**2**

Total number of employees hired and dismissed in 2012

No.	Region	Number of employees	Employee turnover rate (%) *
1	Gdańsk	22	6.5
2	Czechowice-Dziedzice	12	3.6
3	Jasło	2	0.6
4	**Total**	**36**	**10.7**

No.	Sex	Number of employees	Employee turnover rate (%)
1	Women	5	1.5
2	Men	31	9.2
3	**Total**	**36**	**10.7**

No.	Employee age	Number of employees	Employee turnover rate (%)
1	<30 years old	10	3.0
2	30-50 years old	20	5.9
3	>50 years old	6	1.8
4	**Total**	**36**	**10.7**

LOTOS Paliwa

Total number of employees	Temporary contracts	Indefinite-term contracts
270 persons, including:	34	236
Women	**19**	**119**
including:		
Full-time employees	19	115
Part-time employees	0	4
Men	**15**	**117**
including:		
Full-time employees	15	117
Part-time employees	0	0

Newly employed in 2012

No.	Region	Number of employees
1	Northern Poland	15
2	Central Poland	5
3	Southern Poland	3
4	**Total**	**23**

No.	Sex	Number of employees
1	Women	13
2	Men	10
3	**Total**	**23**

No.	Employee age	Number of employees
1	<30 years old	8
2	30-50 years old	14
3	>50 years old	1
4	**Total**	**23**

Newly employed in 2012 who left the company in 2012

No.	Region	Number of employees
1	Northern Poland	1
2	Central Poland	1
3	Southern Poland	0
4	**Total**	**2**

No.	Sex	Number of employees
1	Women	1
2	Men	1
3	**Total**	**2**

No.	Employee age	Number of employees
1	<30 years old	1
2	30-50 years old	1
3	>50 years old	0
4	**Total**	**2**

Total number of employees hired and dismissed in 2012

No.	Region	Number of employees	Employee turnover rate (%) *
1	Northern Poland	20	7.4
2	Central Poland	10	3.7
3	Southern Poland	11	4.0
4	**Total**	**41**	**15.1**

No.	Sex	Number of employees	Employee turnover rate (%)
1	Women	15	5.5
2	Men	26	9.6

3	**Total**	**41**	**15.1**

No.	Employee age	Number of employees	Employee turnover rate (%)
1	<30 years old	12	4.4
2	30-50 years old	24	8.8
3	>50 years old	5	1.9
4	**Total**	**41**	**15.1**

LOTOS Petrobaltic with its affiliates

LOTOS Petrobaltic

Total number of employees	Temporary contracts	Indefinite-term contracts
389 persons, including:	83	306
Women	**21**	**40**
including:		
Full-time employees	21	40
Part-time employees	0	0
Men	**62**	**266**
including:		
Full-time employees	62	266
Part-time employees	0	0

Energobaltic

Total number of employees	Temporary contracts	Indefinite-term contracts
33 persons, including:	0	33
Women	**0**	**4**
including:		
Full-time employees	0	4
Part-time employees	0	0

Men	**0**	**29**
including:		
Full-time employees	0	29
Part-time employees	0	0

AB LOTOS Geonafta

Total number of employees	Temporary contracts	Indefinite-term contracts
104 persons, including:	12	92
Women	**2**	**17**
including:		
Full-time employees	1	17
Part-time employees	1	0
Men	**10**	**75**
including:		
Full-time employees	9	75
Part-time employees	1	0

LOTOS Norge

Total number of employees	Temporary contracts	Indefinite-term contracts
21 persons, including:	6	15
Women	**2**	**4**
including:		
Full-time employees	1	4
Part-time employees	1	0
Men	**4**	**11**
including:		
Full-time employees	4	11
Part-time employees	0	0

LOTOS Petrobaltic

Newly employed in 2012

No.	Region	Number of employees
1	Gdańsk	29

No.	Sex	Number of employees
1	Women	6
2	Men	23
3	**Total**	**29**

No.	Employee age	Number of employees
1	<30 years old	16
2	30-50 years old	11
3	>50 years old	2
4	**Total**	**29**

Newly employed in 2012 who left the company in 2012

No.	Region	Number of employees
1	Gdańsk	1

No.	Sex	Number of employees
1	Women	1
2	Men	0
3	**Total**	**1**

No.	Employee age	Number of employees
1	<30 years old	1
2	30-50 years old	0

3	>50 years old	0
4	**Total**	**1**

Total number of employees hired and dismissed in 2012

No.	Region	Number of employees	Employee turnover rate (%) *
1	Gdańsk	28	7.4

No.	Sex	Number of employees	Employee turnover rate (%)
1	Women	5	1.5
2	Men	23	5.9
3	**Total**	**28**	**7.4**

No.	Employee age	Number of employees	Employee turnover rate (%)
1	<30 years old	15	4.1
2	30-50 years old	11	2.8
3	>50 years old	2	0.5
4	**Total**	**28**	**7.4**

Energobaltic

No Energobaltic employees, contracted in 2012, terminated their contract in the same year (2012).

Newly employed in 2012

No.	Region	Number of employees
1	Władysławowo	1

No.	Sex	Number of employees
1	Women	0
2	Men	1

3	**Total**	**1**

No.	Employee age	Number of employees
1	<30 years old	0
2	30-50 years old	1
3	>50 years old	0
4	**Total**	**1**

Total number of employees hired and dismissed in 2012

No.	Region	Number of employees	Employee turnover rate (%) *
1	Władysławowo	1	3

No.	Sex	Number of employees	Employee turnover rate (%)
1	Women	0	0
2	Men	1	3
3	**Total**	**1**	**3**

No.	Employee age	Number of employees	Employee turnover rate (%)
1	<30 years old	0	0
2	30-50 years old	1	3
3	>50 years old	0	0
4	**Total**	**1**	**3**

AB LOTOS Geonafta

No AB LOTOS Geonafta employees, contracted in 2012, terminated their contract in the same year (2012).

Newly employed in 2012

1	Gargždai	40

No.	Sex	Number of employees
1	Women	10
2	Men	30
3	**Total**	**40**

No.	Employee age	Number of employees
1	<30 years old	21
2	30-50 years old	18
3	>50 years old	1
4	**Total**	**40**

Total number of employees hired and dismissed in 2012

No.	Region	Number of employees	Employee turnover rate (%) *
1	Gargždai	40	38

No.	Sex	Number of employees	Employee turnover rate (%)
1	Women	10	9.6
2	Men	30	28.8
3	**Total**	**40**	**38.4**

No.	Employee age	Number of employees	Employee turnover rate (%)
1	<30 years old	21	20.2
2	30-50 years old	18	17.3
3	>50 years old	1	0.9
4	**Total**	**40**	**38.4**

LOTOS Norge

No LOTOS Norge employees, contracted in 2012, terminated their contract in the same year (2012).

Newly employed in 2012

No.	Region	Number of employees
1	Stavanger	11

No.	Sex	Number of employees
1	Women	4
2	Men	7
3	**Total**	**11**

No.	Employee age	Number of employees
1	<30 years old	2
2	30-50 years old	8
3	>50 years old	1
4	**Total**	**11**

Total number of employees hired and dismissed in 2012

No.	Region	Number of employees	Employee turnover rate
1	Stavanger	11	52%

No.	Sex	Number of employees	Employee turnover rate
1	Women	4	19%
2	Men	7	33%
3	**Total**	**11**	**52%**

Corporate governance

As a public company, we take care to build relationships of partners with investors, which are satisfactory to both sides, in line with the principles of corporate governance. We understand it as, on one hand, acting in accordance with ethical principles generally approved in the business activity, and, on the other hand, complying with regulations aimed at ensuring balance between the interests of all capital market participants engaged in the companies' activities.

IN THIS CHAPTER

Mission, vision, values

Management approach

Management systems

Organizational maturity

Supervisory Board

Board

In building long-lasting, good relations with our stakeholders, we aim to effectively align our strategy and activities with a number of social, environmental and corporate governance-related challenges. The LOTOS Group's business and CSR goals are aligned at two levels:

- management systems and organizational structures,
- organizational culture, competencies and capabilities.

Mission, vision, values

The mission of the LOTOS Group is to pursue innovation-oriented, sustainable development in the areas of exploration, production and processing of hydrocarbons and marketing of high-quality products, which is conducive to creating lasting value for shareholders, ensuring customer satisfaction, enhancing and leveraging the employee potential, and which is carried out:

- in accordance with corporate social responsibility principles,
- in an environmentally friendly manner, and
- in compliance with the energy security policy.

We strive to be perceived as the most reputable oil company in the Baltic Sea region, widely recognised for:

- high-quality petroleum products,
- first-rate customer service, and
- professional management style.

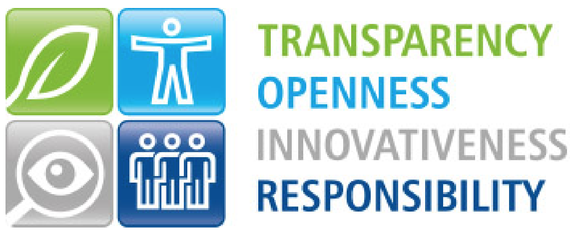
Our overriding strategic objective is to create value for shareholders through optimised deployment of human and material resources and implementation of development programmes in the field of:

- exploration and production,
- crude oil processing,
- marketing.

The efforts we undertake in the social and business spheres, in our relations with key stakeholders and in corporate governance are aimed principally to:

- ensure compliance with 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.

Values underlying the LOTOS Group's corporate social responsibility:



- **transparency** – stands for compliance with the most exacting environmental standards, commitment to ethical and fair competition, and counteracting human rights abuses,
- **openness** – stands for the right attitude towards change,

external needs and expectations, future-oriented approach, and dynamic expansion of international operations,

- **innovativeness –** stands for the capacity to recognise people's intellectual capital and skills driving the strength and prospects of the LOTOS brand,
- **responsibility –** stands for the right attitude towards mankind and its future, the environment, security of our home country and its international position. Anticipating and addressing the consequences of our decisions. Fulfilling our obligations and being true to our word. Making no empty declarations.

In our activities, we are guided by the key principle of legal compliance and responsibility for the impact of our operations on the world around us. In the Code of Ethics implemented in 2012, employees of the LOTOS Group committed to behave in accordance with the following ethical values:

- **professionalism –** we try to make the most of our knowledge and skills by actively applying them in our work. We build the organization's value primarily on the professionalism of our staff, who all aspire to being experts in their respective fields. We perform our duties to the highest standards of care and objectivity, striving to continually improve our skills and professional qualifications.
- **respect** - our respect manifests itself in such decisions and actions that do not infringe the dignity of other individuals and entities. We follow the principle of respect in building our relations with employees, as well as with business and social partners.
  We respect the diversity and equality of all our associates and representatives of the LOTOS Group partners, irrespective of their nationality, race, sex, age, disability, religious denomination, political convictions or sexual orientation.
- **transparency** - we act and communicate transparently in our relations with employees, clearly and intelligibly defining their rights and obligations, and justifying decisions that affect them. We make sure that our employees have access to all information they need to properly perform their duties.
  Transparency is a value we adhere to in our external relations, by openly communicating our decisions, actions and reasons by which we are guided in mutual relations, especially with customers, suppliers, participants of the capital market and local communities.
- **cooperation** - cooperation is a defining feature of our approach to building mutual relations in such a way as to maximise benefits for the LOTOS Group, with due regard to the interests of the other party. Cooperation is based on open communication, trust and strong focus on the achievement of common goals. That value is applied both in our internal and external relations.

THE GLOBAL COMPACT

WE SUPPORT

As a corporate citizen, in all areas of our activity we endorse and abide by the ten principles of **United Nations Global Compact**, a voluntary international corporate citizenship initiative of unprecedented reach, which we joined in 2009.

Principles of UN Global Compact

1. Support and respect the protection of internationally proclaimed human rights,

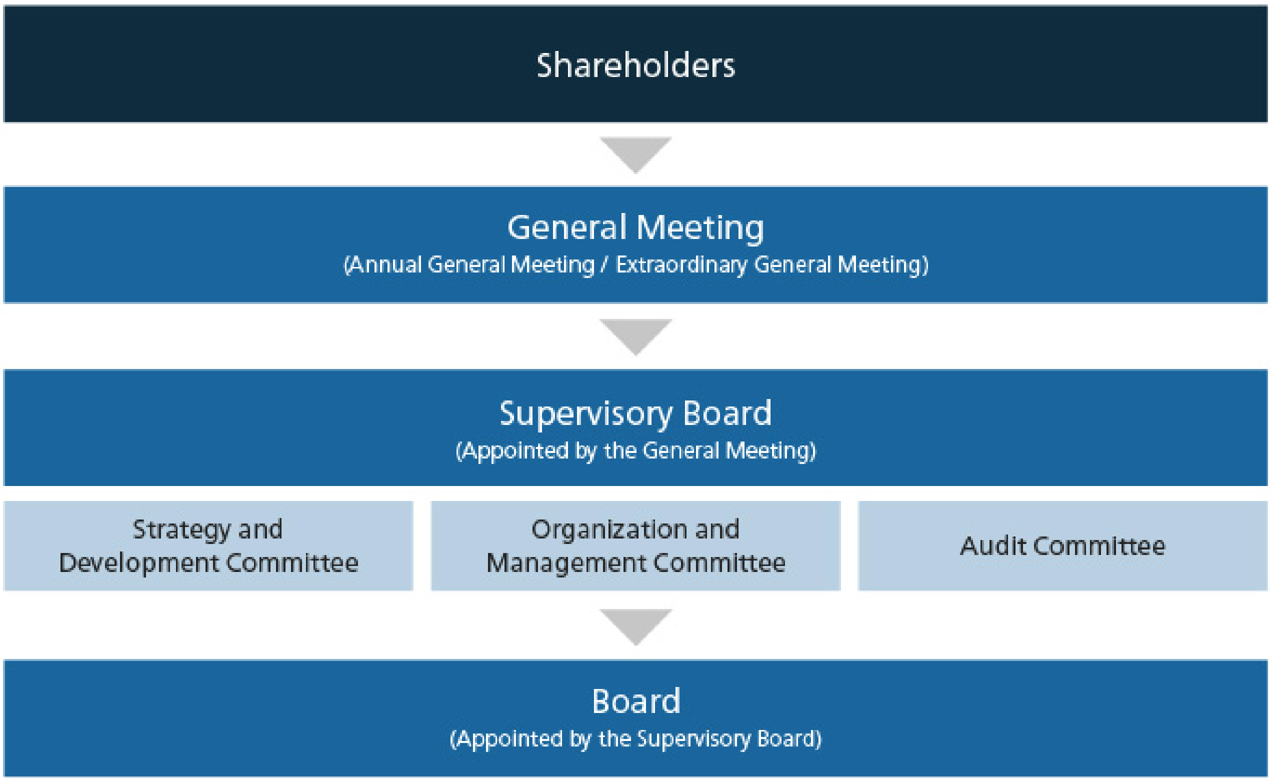
2. Eliminate human rights abuse,
3. Uphold the freedom of association,
4. Eliminate all forms of forced or compulsory labour,
5. Support the effective abolition of child labour,
6. Effectively eliminate discrimination in employment,
7. Support a precautionary approach to environmental challenges,
8. Undertake initiatives designed to promote environmental responsibility,
9. Encourage development and diffusion of environmentally-friendly technologies,
10. Work against all forms of corruption, including extortion and bribery.

Management approach

At Grupa LOTOS, we take care to build relationships of partners with investors, which are satisfactory to both sides, in line with the principles of corporate governance. The primary objectives that the Company pursues by adhering to the rules of corporate governance include:

- transparency of its operations as a listed company,
- trust in its relations with stakeholders,
- consistency in creating value for shareholders.

Grupa LOTOS – corporate governance structure



Since its stock market debut in 2005, Grupa LOTOS has adhered to most recommendations set out in the “Best Practices for Public Companies”, and since 2008 it has followed the **“Code of Best Practice for WSE Listed Companies”**, last amended by the WSE’s Supervisory Board in its Resolution of November 21st 2012. The latter document comprises a set of principles designed to establish best practices of corporate governance and bring corporate supervision in line with EU standards.

In 2012, Grupa LOTOS complied with most of the obligatory corporate governance principles set forth in the Code of Best Practice for WSE Listed Companies.

In line with the *comply-or-explain* principle, which provides that companies should either comply with corporate governance rules or explain any recurring or non-recurring instances of non-compliance, the Board has published non-compliance lists with relevant explanations since 2008.

Pursuant to Par. 29.3 of the WSE Rules, on January 27th 2012 the Company reported a single instance of non-compliance with rule 5 set out in Section III of the Code of Best Practice for WSE Listed Companies, connected with the resignation on that day of Rafał Wardziński from his position as member of the Grupa LOTOS Supervisory Board.

We try to communicate an accurate, reliable and clear picture of our operations and financial standing to investors. We provide them with up-to-date information in compliance with the principles of involvement of, availability to and equal treatment of all investors. On the Company's investor relations website, available in two language versions at www.inwestor.lotos.pl/en (http://inwestor.lotos.pl/en/), we publish corporate governance information, including annual statements of compliance of the Company and the LOTOS Group, as well as reports released via the EBI system.

We have in place mechanisms enabling our shareholders and employees to submit recommendations and other comments directly to members of the bodies supervising the correctness of the organization's management processes. In line with the Polish Commercial Companies Code, the Articles of Association of Grupa LOTOS and the Rules of Procedure for its General Meeting address these issues in detail. They define the rules governing participation in the General Meeting and exercising voting rights, the manner of convening and closing the General Meeting, its opening and proceedings.

Pursuant to the above regulations, shareholders, by virtue of their rights, may influence our operations and review the activities undertaken by the Company's management and supervisory bodies. A key shareholder right is the right to participate in the General Meeting, which accrues to all persons who are Company shareholders sixteen days prior to the date of the General Meeting, i.e. on the record date. Additionally, the right to participate in the General Meeting entitles shareholders to:

- submit motions prior to and during the General Meeting,
- request that certain items be placed on the agenda of the General Meeting,
- propose draft resolutions concerning items which have been or are to be placed on the agenda prior to the General Meeting,
- propose draft resolutions concerning items included in the agenda, or placed on the agenda during the General Meeting,
- take the floor during the General Meeting,
- object to or appeal against resolutions of the General Meeting.

Moreover, shareholders may request that an Extraordinary General Meeting be convened and certain items be placed on its agenda.

In addition to the requirements imposed by law, the rules laid down in the Code of Best Practice for WSE Listed Companies define mechanisms aimed to improve the quality of corporate relations with investors, while enhancing the protection of shareholder rights, also in matters falling outside the scope governed by law. They encourage companies to:

- post on their corporate websites detailed information on General Meetings, including reasons for calling off or postponing a Meeting, changes to a Meeting's agenda together with reasons justifying such changes, notices of adjournment, shareholder questions relating to agenda items asked before and during a Meeting, as well as answers to such questions,
- ensure that General Meetings are attended by Supervisory Board and Board members,

- set the venue and date of General Meetings so as to enable the highest number of shareholders to participate,
- enable representatives of the press to be present at General Meetings.

General Meetings held at Grupa LOTOS in 2012

Date	Date Meeting	Main issues
February 29th	Extraordinary General Meeting	The Extraordinary General Meeting was convened at the request of a shareholder - State Treasury. The main agenda item related to changes in the composition of the Supervisory Board.
June 28th	Annual General Meeting	The Annual General Meeting reviewed and approved the financial statements and directors' report on the operations of the Company and of the LOTOS Group in 2011; and granted discharge in respect of performance of duties to Members of the Supervisory Board and Members of the Board. During the Meeting, shareholder B. Kamola exercised his right to take the floor. The proposals and comments submitted by the shareholder related to the Company's operations, primarily to financial and economic issues, the LOTOS Group strategy and the YME project. Questions asked by the shareholder and answers provided by the Board have been published on the Company's website. Moreover, the shareholder exercised his right to object to the resolution concerning approval of the directors' report on the Company's operations in the year ended December 31st 2011.
November 28th	Extraordinary General Meeting	The Extraordinary General Meeting was convened to amend the Grupa LOTOS Articles of Association. During the Meeting, shareholder J.H. Lampart exercised his right to actively participate in the Meeting by taking the floor, and by voting against and objecting to all the resolutions adopted by the Meeting.

Management systems

The Integrated Management System (IMS) put in place supports development and ensures that uniform standards of management are applied across the organization. Our aim is to further develop the IMS and build a shared management platform within the LOTOS Group, which would account for the specific business characteristics of each company.

IMS solutions are implemented to allow us to derive measurable benefits from the management system. The standards are seen as guidelines towards universal and optimal solutions from the point of view of our business, which would increase the chances of delivering added value, i.e. make the implemented system more efficient and useful.

We are also in the process of implementing two new systems - to support risk management and energy management - in line with our policy to deploy only such management systems which can further the strategy of the LOTOS Group. The Integrated Management System ensures effective management, while preserving the stable flow of business processes.

Management systems at the LOTOS Group
As at December 31st 2012

Company name	Implemented management systems
Grupa LOTOS	Implemented and certified Integrated Management System compliant with ISO 9001, ISO 14001, and PN-N-18001. The requirements of AQAP 2110 (Allied Quality Assurance Publication) and requirements of the Internal Control System for trading in strategic materials (consistent with the PN-N-19001 standard) are met.
LOTOS Asfalt	Implemented and certified Integrated Management System compliant with ISO 9001, ISO 14001, and PN-N-18001. Implemented and certified Site Production Control management system.
LOTOS Kolej	Implemented and certified Integrated Management System compliant with ISO 9001, ISO 14001, and PN-N-18001, Railway Transport Security Management System (SMS). The Company is implementing the requirements imposed by the Rail Vehicle Maintenance Management System (MMS), management of quality in welding compliant with the EN 15085 standard, Safety and Quality Assessment System and system of Maintaining Freight Cars in accordance with the VPI requirements.
LOTOS Lab	Implemented and certified Integrated Management System compliant with ISO 9001, ISO 14001, and PN-N-18001. Certificate of compliance with PN-EN ISO/IEC 17025:2005 issued by the Polish Centre for Accreditation.
LOTOS Ochrona	Implemented and certified Integrated Management System compliant with ISO 9001, ISO 14001, and PN-N-18001.
LOTOS Oil	Implemented and certified Integrated Quality Management System compliant with ISO 9001 and AQAP 2110 (Allied Quality Assurance Publication). Requirements of ISO 14001 and PN-N-18001 have also been implemented.
LOTOS Parafiny	Implemented and certified Integrated Management System compliant with ISO 9001, ISO 14001, and PN-N-18001.
LOTOS Petrobaltic	Implemented and certified Integrated Management System compliant with ISO 9001, ISO 14001, and PN-N-18001. Implemented ISM Code (for compliance with the International Management Code for the Safe Operation

	of Ships and for Pollution Prevention) and ISPS Code (International Ship and Port Facility Security System).
LOTOS Serwis	Implemented and certified Integrated Management System compliant with ISO 9001, ISO 14001, and PN-N-18001. Implemented and certified quality in welding management system compliant with the PN-EN ISO 3834-2:2007 standard.
LOTOS Straż	Implemented and certified Integrated Management System compliant with ISO 9001, ISO 14001, and PN-N-18001.
LOTOS Czechowice	Implemented Integrated Management System compliant with ISO 9001, ISO 14001, and PN-N-18001.
LOTOS Paliwa	Implemented and certified Integrated Management System compliant with ISO 9001. Implemented requirements of ISO 14001 and PN-N-18001.
LOTOS Jasło	The company is currently implementing the Integrated Management System.
LOTOS Tank	The company is currently implementing the Integrated Management System.

Audits are a basic tool used to enhance the Integrated Management System of Grupa LOTOS and support the management decision-making process. Their findings provide information on the effectiveness of the processes, help identify intersection points and enhance information flows. In 2010-2012, we performed more than 170 audits, falling into the following categories:

- internal audits,
- corporate audits,
- supplier audits.

The findings of **internal audits** at organizational units, production plants and fuel depots of Grupa LOTOS, as well as cross-sectional audits of specific issues, provide the management with information on compliance with existing regulations and effectiveness of the implemented systemic and organizational solutions. Internal audits represent more than 60% of all audits at the Company.

Corporate audits carried out at Grupa LOTOS' subsidiaries assess the degree of implementation of corporate requirements and standards.

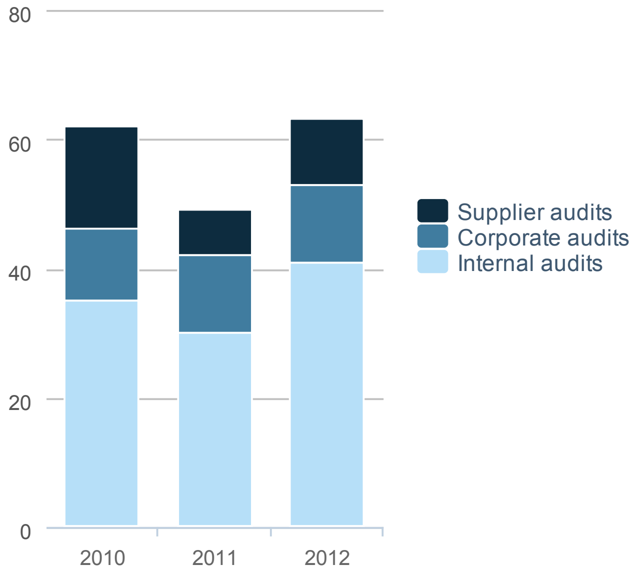
An important corporate audit performed in 2012 was an assessment of customer service quality at LOTOS service stations. Thanks to the findings of the audit, performed at all stations using the Mystery Shopper method, we obtained valuable information supporting our efforts to secure maximum customer approval and increasingly better service quality.

In addition to quality requirements, in our cooperation with suppliers working on the premises of Grupa LOTOS we focus on occupational safety and environmental protection. **Supplier audits** provide information on the degree to which these requirements are met, while serving as a tool of additional supervision over suppliers. Companies to be covered by supplier audits are indicated by managers of the technical and investment divisions.

Subsidiaries of Grupa LOTOS carry out internal audits, corporate audits and supplier audits, as necessary.

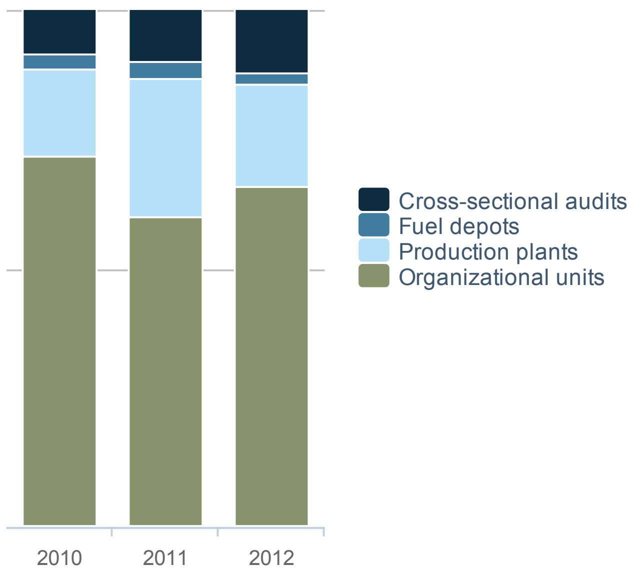
As part of the Auditor School initiative (in place since 2008), we raise - by means of training and other methods - the qualifications of our auditors, to ensure high quality and reliable results of audits.

Audits in 2010-2012



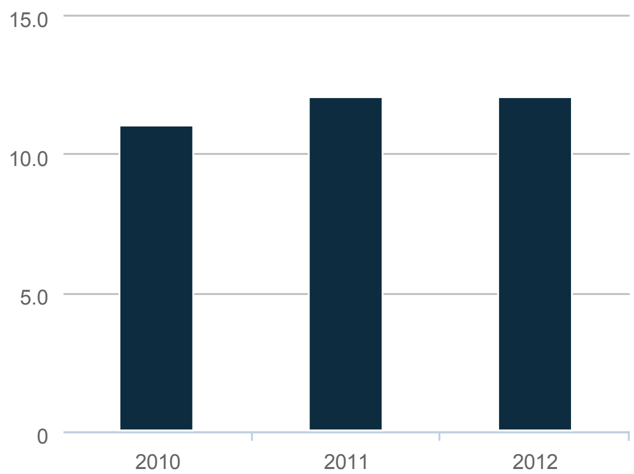
Source: Grupa LOTOS' in-house data.

Structure of internal audits in 2010-2012



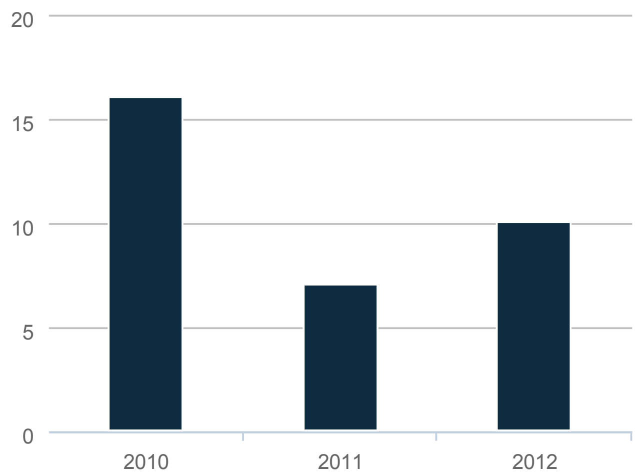
Source: Grupa LOTOS' in-house data.

Corporate audits in 2010-2012



Source: Grupa LOTOS' in-house data.

Supplier audits in 2010-2012



Source: Grupa LOTOS' in-house data.

Key system changes and projects

Enterprise Risk Management System *(ERM)*

To ensure secure and effective pursuit of our strategic and operational objectives, in 2012 we successfully implemented the enterprise risk management system at the LOTOS Group. The rules of risk identification and assessment allow us to promptly respond to threats, so as to mitigate or altogether eliminate them. Thanks to well-designed response plans, the ERM system makes it possible to adequately prepare for the occurrence of a given risk. The ERM procedures are consistently implemented, monitored and enhanced, to deliver maximum benefits for the LOTOS Group.

Risk management is operationally supported by the ERM portal - an IT system specifically designed to meet the LOTOS Group's requirements and tailored to our needs. Thus, we have gained a tool which is improved as the internal enterprise risk management system develops.

For detailed information on the risk management policies followed by the LOTOS Group, see the "Risk management (http://raportroczny.lotos.pl/en/risk-management)" chapter.

Process management

In 2012, we reviewed the processes in place at the Company with a view to optimising them. A process monitoring website was established to allow process owners to communicate their performance, while drawing on all available information about a given process.

Project management

In 2012, we implemented policies applicable to the management of the LOTOS Group's projects. They are aimed to systematise and establish links between the various practices applied by individual segments. We have introduced a uniform process of launching, monitoring and reporting projects, which is designed to ensure efficient execution, effective monitoring of project status and deliverables, as well as standardisation of management methods.

In line with the introduced regulations, Segment Project Monitors have been appointed at individual segments and a special tool has been deployed to facilitate the process - an electronic register of all the LOTOS Group's projects, by means of which it is possible to monitor their current status. We have also started a training programme focusing on project execution and documentation.

Energy Management System *(EnMS)*

In 2012, we continued the implementation of the energy management system compliant with ISO 50001, which aims to establish uniform standards for a range of measures designed to improve Grupa LOTOS' energy efficiency through:

- systematised and standardised approach to energy management across different operating areas,
- identification of significant energy aspects of the Company's operations,
- documentation of sub-tasks undertaken in areas covered by the EnMS,

- identification of upgrade and development work required to achieve energy efficiency.

Development plans

In 2013, we will carry on the existing projects and implement new ones, including them in the Integrated Management System. Our plans provide for:

- improvement of the Enterprise Risk Management System (ERM), e.g. by incorporating new functionalities into the IT system supporting ERM,
- completion of work and validation of solutions adopted and procedures developed within the framework of the Energy Management System (EnMS) to support measures designed to improve the Company's energy efficiency profile,
- improvement of process management through implementation of projects designed to optimise business processes and completion of work related to the implementation of process monitoring tools, including provision of internal training and workshops on how to use such tools,
- improvement of project management at the LOTOS Group, supported by IT tools and methods for effective strategy delivery. Drawing on the world's best models and experience and using IT support, a uniform system will be introduced to enable:
  - selection of optimal projects to further the achievement of strategic objectives;
  - successful implementation of the projects;
  - effective monitoring of the implementation process;
  - reliable assessment of their results,
- improvement and extension of the Integrated Management System portal operated by the LOTOS Group – a tool for communicating internal requirements and legal acts, and for collecting necessary information.

Organizational maturity

In the reporting period, an assessment for Grupa LOTOS' organizational maturity in 2012 was performed. The exercise is undertaken annually, since 2011, by the Company's internal audit function.

> **The organizational maturity of a corporation is** the level of professionalism of its key organizational solutions, processes and activities, as well as their consistency with the best operating and management practices, which determine the organization's potential to achieve success in terms of stakeholder protection and stakeholder value creation.

In connection with the approach to management we have adopted, which assumes continuous improvement, we have been taking steps to obtain an objective assurance as to the maturity of solutions adopted with respect to:

- internal control,
- risk management,
- compliance,
- abuse prevention,
- corporate governance.

Each system was assessed using a model tailored specifically to our needs, based on best business practice, such as the GRC (*ang. Governance, Risk Management, and Compliance*) Open Compliance & Ethics Group and other recommendations related to corporate governance, e.g. those contained in the Code of Best Practice for WSE Listed Companies. The model envisages a uniform approach to reviewing and assessing the design of the individual systems, as well as assessing the consistency of the systems' operation with their design. With the model in place, it is possible to assess each of the systems and make a comprehensive assessment of the organizational maturity of the Company as a whole.

- Within the framework of the **internal control system**, we have put in place key organizational and process solutions, designed to the best practice standard. We have defined the organizational structure, developed organizational rules, determined the allocation of key functions within the organization and adopted formal standards by which to formulate internal regulations. The Company has in place a management reporting system as well as an economic and financial performance reporting system. In addition, there is a process for monitoring and assessing solutions which constitute the internal control system. The key organizational and process solutions which constitute the framework of the internal control system work as designed.
- Within the framework of **the risk management system**, we have put in place all key solutions needed to correctly design its operation. The Company has developed and communicated an enterprise risk management policy, and appointed participants of the risk management process, including risk owners, Risk Management Coordinator and Risk Management Committee. Detailed internal regulations have also been established defining the manner in which to operate and take appropriate actions within the framework of the risk management system. The Company has developed and put in place a system framework which is key to ensuring that the system meets its objective of

effectively supporting the management process and creating value added. The key organizational and process solutions which constitute the framework of the risk management system work as designed.

- Within the framework of the **compliance system**, active steps are taken to ensure compliance of the Company's activities and internal regulations with the applicable provisions of the law. The Company also takes care to ensure compliance of its practical actions with the requirements laid down in the organization's internal regulations. Responsibility for ensuring compliance has been formally assigned. The key organizational and process solutions which constitute the framework of the compliance system work as designed.

- Within the framework of the **abuse prevention system**, new solutions were introduced in 2012. An Abuse Prevention Policy was developed and communicated, and the duties of responsibility for and coordination of related activities were assigned to appointed individuals. Channels for reporting suspected instances of abuse were established, along with relevant organizational and process solutions. Education and awareness raising initiatives were undertaken amongst staff, focusing on abuse prevention and relevance of the system. Moreover, foundations were laid for building a desirable ethical culture, for which key solutions were developed in 2012 to support the achievement of objectives in this area, for instance the LOTOS Group's Code of Ethics put in place in January 2013. The key organizational and process solutions which constitute the framework of the abuse prevention system work as designed.

- Within the **corporate governance** system, we have established most key solutions, including solutions governing the relations between the Company's corporate bodies and related to its approach to managing the organization and its resources, which are consistent with the applicable standards and best practices. Among other things, the Company has defined its approach to managing the organization and established solutions providing for formal allocation of tasks to staff and managers, evaluation of their performance and remuneration in accordance detailed policies. A dedicated organizational unit has been set up with the role of developing, implementing, maintaining and enhancing management systems and exercising supervision over the organizational processes and structures. The Company's mission, vision and strategic objectives have been defined. A dedicated internal audit unit has been established to support the Board in managing the organization, by carrying out the audit functions with respect to core areas of the Company's operations. Moreover, the Company is active in the CSR area, for which a LOTOS Group-wide strategy has been formulated and periodic reports are published). The key organizational and process solutions which constitute the framework of the corporate governance system work as designed.

The results of the assessment of the Company's organizational maturity in 2012 testify that we are an organization oriented towards increasing professionalism and adoption of solutions amounting to the best operating and management practices. The standards of design and consistency with the design were rated as "high" in the case of most systems, although there are differences with respect to the adoption and application of best practices in individual areas covered by the assessment.

Powers

The Supervisory Board exercises ongoing supervision over the Grupa LOTOS' business, across all areas of its operations. The Supervisory Board performs its duties collectively, but it may also delegate its members to individually perform certain tasks or functions and may set up ad hoc or standing committees to exercise supervision in specific areas of the Company's activities. Standing committees include the Audit Committee, Strategy and Development Committee and Organization and Management Committee.

Members of the Supervisory Board are appointed by the General Meeting. The procedures to be followed by the Supervisory Board are defined in the Company's Articles of Association (Statute of Grupa LOTOS) and the Rules of Procedure for the Supervisory Board. The documents are publicly available on the Company's website.

Statute of Grupa LOTOS (http://inwestor.lotos.pl/en/1002/corporate_governance/documents_of_grupa_lotos)→
(http://inwestor.lotos.pl/en/1002/corporate_governance/documents_of_grupa_lotos)
Rules of Procedure for the General Meeting of Grupa LOTOS
(http://inwestor.lotos.pl/en/1002/corporate_governance/documents_of_grupa_lotos)→
(http://inwestor.lotos.pl/en/1002/corporate_governance/documents_of_grupa_lotos)
Rules of Procedure for the Supervisory Board of Grupa LOTOS →
(http://inwestor.lotos.pl/en/1002/corporate_governance/documents_of_grupa_lotos)

Composition

- data has been verified, full text of the Independent Assurance Report (/en/the-organization-and-its-report/integrated-reporting/auditing-and-reviews#opinia-pwc)

In accordance with the Company's Articles of Association as currently in effect, the Supervisory Board may be composed of five to nine members,[1] appointed for a joint three-year term of office by the General Meeting, with an absolute majority of votes, in a secret ballot, from among an unlimited number of candidates. The number of Supervisory Board members is determined by the General Meeting. The Chairperson of the Supervisory Board is appointed by the General Meeting, while the Deputy Chairperson and the Secretary are elected by the Supervisory Board from among its members. A Supervisory Board member or the entire Supervisory Board may be removed at any time prior to expiry of the office term.

Notwithstanding the above, as long as the State Treasury remains a shareholder in the Company, it is entitled to appoint and remove from office one member of the Supervisory Board.

In accordance with the Commercial Companies Code, members of the Supervisory Board should perform their duties to a professional standard of care. Furthermore, pursuant to the Rules of Procedure for the General Meeting and the Rule set forth in Section I.6 of the Code of Best Practice for WSE Listed Companies, members of the Supervisory Board should possess appropriate expertise and experience, and be able to devote the time necessary to perform their duties.

Currently, the Supervisory Board of Grupa LOTOS is composed of six members, including two women and four men.

[1] By virtue of a decision of the General Meeting of Grupa LOTOS of November 28th 2012 concerning amendments to the Company's Articles of Association in respect of Par. 11.1; until the day on which the amendments to the Company's Articles of Association were registered in the National Court Register, i.e. until December 17th 2012, the Supervisory Board could be composed of six to nine members.

From January 1st to January 27th 2012, the Supervisory Board of the eighth term of office comprised the following persons:

First name and surname	Function
Wiesław Skwarko	Chairman
Rafał Wardziński	Deputy Chairman
Oskar Pawłowski	Secretary
Leszek Starosta	Member
Małgorzata Hirszel	Member
Michał Rumiński	Member

On January 27th 2012, Mr Rafał Wardziński, Deputy Chairman of the Supervisory Board of Grupa LOTOS, tendered his resignation from the Supervisory Board. Following Mr Wardziński's resignation, the number of the Company's Supervisory Board members fell below the minimum number of six members then required by the Articles of Association. As a result, from January 27th 2012 until the vacancy was filled, the Supervisory Board could not perform its duties and exercise its powers stipulated in the generally applicable laws and in the Company's Articles of Association. However, the loss by the Supervisory Board of its ability to perform its function as a governing body of the Company did not affect the mandates of its remaining members who, once the vacant post was filled, continued to perform their functions.

Considering the circumstances, on February 29th 2012, the Extraordinary General Meeting of Grupa LOTOS made changes to the composition of the Supervisory Board of the eighth term of office by appointing Ms Agnieszka Trzaskalska and Mr Marcin Majeranowski to the Supervisory Board and by removing Mr Leszek Starosta from the Supervisory Board.

From February 29th to December 31st 2012 and as at the release date of this report, the composition of the Supervisory Board of Grupa LOTOS of the eighth term of office was as follows:

First name and surname	Function
Wiesław Skwarko	Chairman
Marcin Majeranowski	Deputy Chairman
Oskar Pawłowski	Secretary
Leszek Starosta	Member
Małgorzata Hirszel	Member
Michał Rumiński	Member

Wiesław Skwarko
Chairman of the Supervisory Board of Grupa LOTOS

Marcin Majeranowski
Deputy Chairman of the Supervisory Board of Grupa LOTOS

Oskar Pawłowski
Secretary of the Supervisory Board of Grupa LOTOS

Małgorzata Hirszel
Member of the Supervisory Board of Grupa LOTOS

Agnieszka Trzaskalska
Member of the Supervisory Board of Grupa LOTOS

Michał Rumiński
Member of the Supervisory Board of Grupa LOTOS

Number of women and men on the Supervisory Board of Grupa LOTOS in 2010-2012

Year	Period	Total number of members	Number of women	Number of women Number of men
2010	2010 Jan 1 - Feb 11	7	1	6
	Feb 11 - Mar 29	7	1	6
	Mar 29 - Jun 28	6	1	5
	Jun 28 - Dec 31	8	2	6
2011	2011 Jan 1 - Jun 27	8	2	6
	Jun 27 - Nov 8	7	2	6
	Nov 8 - Dec 31	6	1	5
2012	2012 Jan 1 - Jan 27	6	1	5
	Jan 27 - Feb 29	5	1	4
	Feb 29 - Dec 31	6	2	4

Standing committees of the Supervisory Board

Standing committees of the Supervisory Board of Grupa LOTOS, acting as supporting, advisory and consultative bodies, include the Audit Committee, Strategy and Development Committee, and Organization and Management Committee.

Each committee is composed of three to five members, appointed by the Supervisory Board from among its members. The committees are headed by chairpersons, who are appointed by the Supervisory Board from among the committee members. All Supervisory Board members have the right to participate in meetings of each committee.

- The Audit Committee is responsible for the provision of ongoing advisory support to the Supervisory Board with respect to proper implementation of the policies related to budgetary and financial reporting, the Company's internal control function and cooperation with its auditors.
- The Strategy and Development Committee is responsible for providing the Supervisory Board with opinions and recommendations regarding planned capital expenditure projects with a material bearing on the Company's assets and relating to the Company's long-term strategies.
- The Organization and Management Committee is responsible for providing the Supervisory Board with opinions and recommendations regarding the management structure, including organization-related solutions, remuneration system and recruitment of personnel, with a view to enabling the Company to achieve its strategic objectives.

Specific powers and duties of the committees are defined by the Rules of Procedure for the Supervisory Board and the Rules of Procedure for the individual committees.

As at January 1st 2012, the committees of the Supervisory Board were composed of the following persons:

Committee	First name and surname	Function
Audit Committee	Michał Rumiński	Chairman
	Oskar Pawłowski	Member
	Wiesław Skwarko	Member
	Rafał Wardziński	Member
Strategy and Development Committee	Wiesław Skwarko	Chairman
	Małgorzata Hirszel	Member
	Michał Rumiński	Member
	Leszek Starosta	Member
	Rafał Wardziński	Member
Organization and Management Committee	Leszek Starosta	Chairman
	Małgorzata Hirszel	Member

	Oskar Pawłowski	Member
	Michał Rumiński	Member

Following Mr Rafał Wardziński's resignation from the Supervisory Board of Grupa LOTOS on January 27th 2012, the number of the Company's Supervisory Board members fell below the minimum number of six members required by the Articles of Association. As a result, from January 27th 2012 until the vacancy was filled, the Supervisory Board could not perform its duties and exercise its powers stipulated in the applicable laws and in the Company's Articles of Association. The same was the case for the committees of the Supervisory Board, which - in those circumstances - did not work until the vacancy on the Supervisory Board was filled.

As a result of the changes in the composition of the Supervisory Board of the eighth term of office effected by the Extraordinary General Meeting on February 29th 2012, the new Supervisory Board at its first meeting held on March 8th 2012 resolved to appoint Mr Marcin Majeranowski to the Audit Committee, Ms Agnieszka Trzaskalska and Mr Marcin Majeranowski to the Strategy and Development Committee, and finally Mr Marcin Majeranowski and Ms Agnieszka Trzaskalska to the Organization and Management Committee (the latter as chairperson). Moreover, at the meeting referred to above, Mr Michał Rumiński tendered a resignation from his position on the Organization and Management Committee.

From March 8th to December 31st 2012 and as at the release date of this report, the composition of the committees of the Supervisory Board was as follows:

Committee	**First name and surname**	**Function**
Audit Committee	Michał Rumiński	Chairman
	Oskar Pawłowski	Member
	Wiesław Skwarko	Member
	Marcin Majeranowski	Member
Strategy and Development Committee	Wiesław Skwarko	Chairman
	Małgorzata Hirszel	Member
	Michał Rumiński	Member
	Agnieszka Trzaskalska	Member
	Marcin Majeranowski	Member
Organization and Management Committee	Agnieszka Trzaskalska	Chairman
	Małgorzata Hirszel	Member
	Oskar Pawłowski	Member
	Marcin Majeranowski	Member

Remuneration

Determination of the remuneration policy for members of the Supervisory Board rests within the scope of powers of the General Meeting.

Remuneration of the Supervisory Board members is subject to limitations and conditions prescribed under the Act on Remunerating Persons Who Manage Certain Legal Entities of March 3rd 2000 (Dz. U. of 2000 No 26, item 306, as amended). Acting in accordance with the Act, in 2000 the Extraordinary General Meeting defined a remuneration policy for the Supervisory Board members, which provides as follows:

- Supervisory Board members receive monthly remuneration equal to the average monthly salary in the non-financial corporate sector, net of bonuses paid from profit in the fourth quarter of the preceding year, as announced by the President of the GUS (Central Statistics Office),
- the remuneration is payable irrespective of the frequency of Supervisory Board meetings. This, however, does not apply if in a given month a member of the Supervisory Board is absent from all meetings held in that month without a valid reason,
- if a Supervisory Board member is appointed or removed from office during a calendar month, the remuneration amount is calculated according to the number of days in office,
- the Company covers all costs and expenses incurred in the performance of duties by members of the Supervisory Board and, acting pursuant to the Act on Personal Income Tax, it assesses and withholds tax payments on their remuneration income.

In line with an amendment to the said Act, in 2012 the Supervisory Board members were entitled to receive monthly remuneration calculated on the basis of the average monthly salary in the non-financial corporate sector net of bonuses paid from profit in the fourth quarter of 2009.

Remuneration of the Supervisory Board members in 2012

First name and surname	Amount (PLN)
Wiesław Skwarko	41,454.96
Leszek Starosta	10,363.74
Małgorzata Hirszel	41,454.96
Oskar Pawłowski	41,454.96
Michał Rumiński	41,454.96
Rafał Wardziński	6,463.41
Marcin Majeranowski	31,091.22
Agnieszka Trzaskalska	31,091.22

Total	**244,829.43**

Independence status

The term “independent members of the Supervisory Board” in reference to public companies has been introduced by the Code of Best Practice for WSE Listed Companies. In accordance with Rule 6 contained in Section III of the Code, at least two Supervisory Board members should meet the independence criteria set out in Annex II to the Commission Recommendation of February 15th 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board. A person who is an employee of the company or its subsidiary or associated company, or a person having an actual and significant relationship with a shareholder who has the right to exercise 5% or more of the total vote at its General Meeting, cannot be deemed to meet the independence criteria as defined in the Rule.

Accordingly, the status of an independent member of the Supervisory Board may only refer to persons having no relations whatsoever with the company, its shareholders or employees, which could potentially lead to a conflict of interest.

Grupa LOTOS has no information regarding independence of the Supervisory Board members. Full compliance with Rule 6 will be ensured after the Company receives relevant confirmation that at least two existing or newly appointed members of the Supervisory Board satisfy the independence criteria, as stipulated above.

Avoidance of conflicts of interest

Under Art. 387 of the Commercial Companies Code, which aims to prevent combining management and supervisory roles particularly with respect to supervisory boards, a current member of the management board of a company, its proxy, liquidator, head of a division or production facility, or internal chief accountant, legal counsel or lawyer may not sit on the company's supervisory board. The said provision prohibits combining management and supervisory functions at an incorporated company in accordance with the principle that the supervised may not exercise supervision.

In addition to the requirements imposed by law, Rule 2 and Rule 4 contained in Section III of the Code of Best Practice for WSE Listed Companies place an obligation on supervisory board members to submit to the company's management board information on any relationships with a shareholder who holds shares representing 5% or more of the total vote at its general meeting. The obligation relates to economic links, family ties and other relations which may sway the member's position on issues decided by the supervisory board. Furthermore, a member of the supervisory board should notify the supervisory board of any conflicts of interest which have arisen or may arise, and should refrain from taking part in discussions and from voting on resolutions on the issue which gives rise to such a conflict of interest. The discharge of obligations described above lies within the scope of responsibilities of members of the supervisory board of listed companies.

Twice a year, members of the Supervisory Board of Grupa LOTOS make IFRS-compliant disclosures on related-party transactions in accordance with IAS 24 Related Party Disclosures for the purposes of the Company's financial statements. According to the disclosures made by members of the Company's Supervisory Board in respect of 2012, none of the members had any economic links, family ties or other relations with a shareholder holding 5% or more of the total voting rights at the General Meeting of Grupa LOTOS which might sway their position on matters decided by the Supervisory Board.

The Company is not aware of any conflicts of interest that arose or could have arisen in 2012, which the member concerned should notify to the Supervisory Board and as a result of which the member should refrain from taking the floor and voting on resolutions pertaining to the matter giving rise to such conflict of interest.

In addition to the above requirements, members of the Company's Supervisory Board, upon appointment, are required to make a representation to the effect that they are not engaged in any activities competing with the Company's business, and that they are not partners in any competing partnership under civil law or another type of partnership, nor members of a governing body of an incorporated company or of any other competing legal entity.

Commitment to sustainable development

An important element of the system designed to assess the performance, opportunities and risks of Grupa LOTOS, which ensures that the Company's actions in the sustainability area remain transparent, is the Supervisory Board along with its committees.

In order to meet the internationally adopted standards of sustainable development, the Supervisory Board reviews the core issues and areas of Grupa LOTOS' operations, both from the point of view of access to natural resources, as well as the Company's social and environmental impacts.

In 2012, the Supervisory Board met eight times and adopted 52 resolutions, five of which were voted by written ballot, in accordance with Par. 12.3 of the Company's Articles of Association.

Key matters pertaining to the Company's performance, opportunities and risks in the area of sustainable development put under discussion by the Supervisory Board in 2013 included:

- upstream opportunities,
- delivery of strategic objectives and financial performance of Grupa LOTOS and its subsidiaries,
- refinancing/financing of the Company's inventories and securing of crude oil supplies for the refinery,
- changes in the LOTOS Group's structure,
- preparing the Company to bring its business in line with the climate package requirements,
- financing of CSR projects, and
- corporate sponsorship.

In 2012, the committees of the Supervisory Board - carrying out their supporting, advisory and consultative roles, viewing sustainability as an essential process for the Company and appreciating the importance of responsible approach to business - put the following matters under discussion:

- delivery of strategic objectives and strategic cooperation between the Company and other entities,
- results of the audit and review of financial statements,
- the Company's 2013 budget and debt service projections,
- management of current assets,
- internal audit and risk management at the Company,
- review of the Company's operating costs, along with planned and ongoing investments,
- review of remuneration and structure of the LOTOS Group,
- restructuring of the LOTOS Group.

The activities of the Supervisory Board are evaluated by the General Meeting, which has the authority to grant discharge to members of the Supervisory Board in respect of performance of their duties. The basis for granting such discharge is the report containing an assessment of the Company's standing, covering the sustainable development issues detailed above, which is presented annually by the Supervisory Board pursuant to the Rules of Procedure for the Supervisory Board and the Code of Best Practice for WSE Listed Companies.

Powers

The Board represents the Company before third parties and manages its affairs. Each member of the Board is authorised to represent the Company in all court and out-of-court transactions relating to the operation of the Company's business, with the exception of matters reserved for the General Meeting or Supervisory Board under the Commercial Companies Code or the Company's Articles of Association, as well as matters falling outside the scope of ordinary management of the business where they require the Board's prior resolution. Ordinary matters of the Company are carried out by the President acting independently and by individual members of the Board, in line with the division of powers and responsibilities defined under Grupa LOTOS' Organizational Rules.

The Board of Grupa LOTOS acts in accordance with the Articles of Association and the Rules of Procedure for the Board. The documents are publicly available on the Company's website.

Rules of Procedure for the Board of Grupa LOTOS →
(http://inwestor.lotos.pl/en/1002/corporate_governance/documents_of_grupa_lotos)

Composition

- data has been verified, full text of the Independent Assurance Report (/en/the-organization-and-its-report/integrated-reporting/auditing-and-reviews#opinia-pwc)

Under the Company's Articles of Association, the Board may be composed from three to seven members. The Board is appointed by the Supervisory Board, which also determines the number of Board members. The term of office of the Board is a joint term of three years.

The composition of the Board of Grupa LOTOS in 2012 is presented below.

In the period from January 1st 2012 to the end of the seventh term of office:

First name and surname	Function
Paweł Olechnowicz	President of the Board, Chief Executive Officer
Mariusz Machajewski	Vice-President of the Board, Chief Financial Officer
Marek Sokołowski	Vice-President of the Board, Chief Operation Officer
Maciej Szozda	Vice-President of the Board, Chief Commercial Officer

As the seventh term of office of the Board expired, five candidates were elected by the Supervisory Board in the procedure of recruiting Board members for the joint eighth term of office, which commenced on June 28th 2012.

In the period from June 28th to December 31st 2012, and as at the date of this report:

First name and surname	Function
Paweł Olechnowicz	President of the Board, Chief Executive Officer
Mariusz Machajewski	Vice-President of the Board, Chief Financial Officer
Zbigniew Paszkowicz	Vice-President of the Board, Chief Exploration and Production Officer
Marek Sokołowski	Vice-President of the Board, Chief Operation Officer
Maciej Szozda	Vice-President of the Board, Chief Commercial Officer

Paweł Olechnowicz
President of the Board of Grupa LOTOS

Mariusz Machajewski
Vice-President of the Board of Grupa LOTOS

Zbigniew Paszkowicz
Vice-President of the Board of Grupa LOTOS

Marek Sokołowski
Vice-President of the Board of Grupa LOTOS

Maciej Szozda
Vice-President of the Board of Grupa LOTOS

Positions held by members of Grupa LOTOS' Board at other companies in 2012

First name and surname	Function on the Board of Grupa LOTOS	Entity	Function at the company	Term of office
Paweł Olechnowicz	President of the Board	LOTOS Exploration and Production Norge AS	Chairman of the Board of Directors	Jan 1 - Dec 31 2012 and as at the release date of this report
Paweł Olechnowicz	President of the Board	AB LOTOS Geonafta	Chairman of the Board of Directors	Jan 1 - Dec 31 2012 and as at the release date of this report
Marek Sokołowski	Vice-President of the Board	LOTOS Czechowice S.A.	Chairman of the Supervisory Board	Jan 1 - Dec 31 2012 and as at the release date of this report
Marek Sokołowski	Vice-President of the Board	LOTOS Biopaliwa Sp. z o.o.	Chairman of the Supervisory Board	Jan 1 - Dec 31 2012 and as at the release date of this report
Mariusz Machajewski	Vice-President of the Board	LOTOS Paliwa Sp. z o.o.	Deputy Chairman of the Supervisory Board	Jan 1 - Dec 31 2012 and as at the release date of this report
Mariusz Machajewski	Vice-President of the Board	RCEkoenergia Sp. z o.o.	Chairman of the Supervisory Board	Jan 1 - Dec 31 2012 and as at the release date of this report
Maciej Szozda	Vice-President of the Board	LOTOS Paliwa Sp. z o.o.	Chairman of the Supervisory Board	Jan 1 - Dec 31 2012 and as at the release date of this report
Maciej Szozda	Vice-President of the Board	LOTOS Biopaliwa Sp. z o.o.	Deputy Chairman of the Supervisory Board	Jan 1 - Dec 31 2012 and as at the release date of this report
Zbigniew Paszkowicz	Vice-President of the Board *	LOTOS Petrobaltic S.A.	Chairman of the Supervisory Board **	Jan 18 - Oct 3 2012 **

Zbigniew Paszkowicz	Vice-President of the Board *	LOTOS Petrobaltic S.A.	President of the Management Board	Oct 3 - Dec 31 2012 and as at the release date of this report

*   on the Board of Grupa LOTOS since June 28th 2012.

** between July 6th and October 3rd 2012, he was delegated to temporarily fill in the position of President of the Management Board of LOTOS Petrobaltic S.A.; on October 3rd 2012, he tendered a resignation from his position on the Supervisory Board of LOTOS Petrobaltic; on October 3rd 2012, he was appointed to the Management Board of LOTOS Petrobaltic and entrusted the position of President (until the date of this report).

Remuneration

As the State Treasury's equity interest in the Company exceeds 50% (50% of the total number of shares), remuneration paid to members of Grupa LOTOS' Board is regulated by the Act on Remunerating Persons Who Manage Certain Legal Entities dated March 3rd 2000 (Dz. U. of 2000 No 26, item 306, as amended). Under the Act, the body authorised to determine the monthly remuneration payable to President of the Board is the General Meeting. Remuneration paid to the other Board members is determined by the Supervisory Board, as provided for under the Company's Articles of Association.

In view of the foregoing, on November 13th 2009 the Supervisory Board decided that Vice-Presidents of the Company's Board would receive remuneration equal to six-fold the average monthly salary in the non-financial corporate sector, net of bonuses paid from profit in the fourth quarter of the preceding year, as announced by President of the GUS (Central Statistics Office), and proposed that the General Meeting set the remuneration for President of the Board at the same level. Concurring with the proposal of the Supervisory Board, on December 17th 2009 the Extraordinary General Meeting resolved to set the remuneration for President of the Board at the same level.

Furthermore, pursuant to individual employment contracts, members of the Board are entitled – for the duration of their respective employment contracts – to fringe benefits including the costs of life insurance and above-standard medical care, provided by non-public healthcare establishments in Poland and abroad, for members of the Board and their families.

The President of the Board and Vice-President of the Board, Chief Commercial Officer - provided they reside outside the city in which the Company's registered office is located - are entitled to a fringe benefit in the form of tied accommodation in the Gdańsk-Gdynia-Sopot conglomeration (incl. payment of rent and service charges), although the above persons have not yet claimed that benefit.

Additionally, pursuant to the Act of March 3rd 2000 and the Regulation of the Minister of State Treasury of March 12th 2001 concerning Detailed Rules and Procedure for Granting Annual Bonuses to Management Staff of Certain Legal Entities (Dz. U. of 2001, No. 22, item 259), members of the Board may receive annual bonuses in a maximum amount equal to three-fold the average monthly salary in the year preceding the bonus award.

A decision to grant an annual bonus to the President of the Board rests with the General Meeting, upon a proposal from the Supervisory Board. A decision to award annual bonuses to other Board members rests with the Supervisory Board. Annual bonuses may only be granted after the financial statements have been approved by the General Meeting if the company:

- has improved its financial performance,
- has strengthened its position on the market or in the industry,
- has successfully implemented restructuring or growth plans,
- has not exceeded the maximum annualised average monthly remuneration growth ratio,
- has settled its public charges in a timely manner.

Eligibility to receive an annual bonus is limited to members of the Board who served in that capacity for the full financial year and during that time were not found guilty of gross dereliction of duty, their employment was not terminated for reasons attributable to them, their management contracts were not terminated or they were not removed from office for reasons constituting grounds for summary dismissal.

In line with an amendment to the said Compensation Cap Act, in 2012 the Board members were entitled to receive monthly remuneration calculated on the basis of the average monthly salary in the non-financial corporate sector net of bonuses paid from profit in the fourth quarter of 2009.

Remuneration of the Board members in 2012

First name and surname	Amount (PLN)
Paweł Olechnowicz	319,182.98
Marek Sokołowski	314,917.05
Mariusz Machajewski	319,259.00
Maciej Szozda	322,459.30
Zbigniew Paszkowicz	129,207.60
Total	**1,405,025.93**

Avoidance of conflicts of interest

As a means to avoid conflicts of interest, the Company complies with the provisions of the Commercial Companies Code, the Rules of Procedure for the Board and the “Code of Best Practice for WSE Listed Companies”.

Pursuant to the Rules of Procedure for the Board in conjunction with Art. 377 of the Commercial Companies Code, if a conflict arises between the interests of the Company and those of a Board member or any persons to whom the Board member is personally related, then the Board member should refrain from participating in the resolution of a given matter. Furthermore, in accordance with the “Code of Best Practice for WSE Listed Companies”, a Board member should notify the Board of any conflict of interests which has arisen or may arise, and should refrain from taking part in discussions and from voting on resolutions on the issue which gives rise to such conflict of interests. Pursuant to the Rules of Procedure for the Board, the Supervisory Board’s approval is required for members of the Board to hold positions on the supervisory or management bodies of other companies. Concurrently, the provisions of the Commercial Companies Code apply which prohibit a current member of the Board from serving on the Supervisory Board. This also applies to other persons reporting directly to a Board member.

Consolidated financial statements 2012

At Grupa LOTOS, financial statements are verified by an independent auditor.

- Financial highlights - consolidated the LOTOS Group
- Auditor’s opinion
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Financial highlights - consolidated the LOTOS Group

	PLN'000	PLN'000	EUR'000	EUR'000
LOTOS Group	**Year ended Dec 31 2012**	**Year ended Dec 31 2011**	**Year ended Dec 31 2012**	**Year ended Dec 31 2011**
Revenue	33,111,000	29,259,586	7,933,439	7,067,362
Operating profit	301,073	1,085,473	72,137	262,185
Pre-tax profit	361,202	551,379	86,544	133,180
Net profit	922,970	649,322	221,145	156,837
Net profit attributable to owners of the Parent	922,943	648,994	221,139	156,758
Net profit attributable to non-controlling interests	27	328	6	79
Total comprehensive income	1,280,238	277,628	306,747	67,058
Total comprehensive income attributable to owners of the Parent	1,280,225	277,271	306,744	66,972
Total comprehensive income attributable to non-controlling interests	13	357	3	86
Net cash from operating activities	1,347,080	902,359	322,762	217,956
Net cash from investing activities	(838,051)	(846,943)	(200,798)	(204,571)
Net cash from financing activities	(883,278)	(35,582)	(211,635)	(8,594)
Total net cash flow	(374,249)	19,834	(89,671)	4,791
Basic earnings per share (PLN/EUR)	7.11	5.00	1.70	1.21
Diluted earnings per share (PLN/EUR)	7.11	5.00	1.70	1.21

	PLN'000	PLN'000	EUR'000	EUR'000
	As at Dec 31 2012	**As at Dec 31 2011**	**As at Dec 31 2012**	**As at Dec 31 2011**
Total assets	20,056,379	20,423,220	4,905,919	4,623,986
Equity attributable to owners of the Parent	9,061,740	7,781,436	2,216,560	1,761,781
Non-controlling interests	699	947	171	214

Total equity	9,062,439	7,782,383	2,216,731	1,761,996

Items in the Financial Highlights table have been translated at the following EUR exchange rates:

Items of the statement of financial position have been translated at the mid-exchange rates quoted by the National Bank of Poland for the last day of the reporting period:

As at Dec 31 2012	**As at Dec 31 2011**
EUR 1 = PLN 4.0882	EUR 1 = PLN 4.4168

Items of the statement of comprehensive income and the statement of cash flows have been translated using the arithmetic mean of the mid-exchange rates quoted by the National Bank of Poland for the last day of each month in the reporting period:

Year ended Dec 31 2012	**Year ended Dec 31 2011**
EUR 1 = PLN 4.1736	EUR 1 = PLN 4.1401

Auditor’s opinion

INDEPENDENT AUDITORS' OPINION

To the Supervisory Board of Grupa LOTOS S.A.

1. We have audited the attached consolidated financial statements of LOTOS Capital Group ('the Group'), for which the holding company is Grupa LOTOS S.A. ('the Company') located in Gdańsk at 135 Elbląska Street, for the year ended 31 December 2012 containing , the consolidated statement on financial position as at 31 December 2012, the consolidated statement of comprehensive income, the consolidated statement of cash flow, the consolidated statement of changes in equity for the period from 1 January 2012 to 31 December 2012 and the additional notes and explanations ('the attached consolidated financial statements').

2. The truth and fairness[1] of the attached consolidated financial statements, the preparation of the attached consolidated financial statements in accordance with the required applicable accounting policies and the proper maintenance of the consolidation documentation are the responsibility of the Company's Management Board. In addition, the Company's Management Board and Members of the Supervisory Board are required to ensure that the attached consolidated financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the attached consolidated financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies and whether they truly and fairly[2] reflect, in all material respects, the financial position and results of the operations of the Group.

3. We conducted our audit of the attached consolidated financial statements in accordance with:
   - chapter 7 of the Accounting Act,
   - national auditing standards issued by the National Council of Statutory Auditors,

   in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached consolidated financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.

4. The consolidated financial statements for the prior financial year ended 31 December 2011 were subject to our audit and on 17 April 2012 we have issued an unqualified opinion with an emphasis of matter on these financial statements concerning the uncertainty indicated by the Company's Management relating to the recoverability of the assets recognized due to the purchase of interest and exploration expenses incurred in respect of the YME oil field.

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[1] Translation of the following expression in Polish: '*rzetelność i jasność*'
[2] Translation of the following expression in Polish: '*rzetelne i jasne*'

5. In our opinion, the attached consolidated financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Group's operations for the period from 1 January 2012 to 31 December 2012, as well as its financial position[3] as at 31 December 2012;
   - have been prepared in accordance with International Financial Reporting Standards as adopted by the EU;
   - are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.

6. As disclosed in the note 13 of the additional notes and explanations to the attached consolidated financial statements, during 2012 the Group recognized an impairment allowance of assets relating to YME development project in Norway, in the amount of 928 million zloty (with an impact on the net financial result after deferred tax amounted to 285 million zloty). As of 31 December 2012 the Group calculated the recoverable value of YME project based on its expected fair value less costs to sell and on that basis it did not recognize further impairment of the assets amounting to 589 million zloty presented in the attached consolidated financial statement. Due to the previously recognized write-offs of capital expenditures incurred on YME project as well as previously incurred tax losses, as at 31 December 2012 deferred tax asset recognized in the consolidated financial statement of financial position amounts to 1077 million zloty. Without qualifying our opinion, we draw attention to the uncertainties indicated by the Company's Management concerning recoverability of the remaining assets recognized in the attached consolidated financial statements in respect of the YME project due to the fact that the forecasts and the Company's plans are determined by a series of futures events, in particular, by estimates of market values of hydrocarbons' reserves on YME field as well as the results of the final agreement announced on 12 March 2013 between YME Operator and the supplier and contractor of a drilling platform, which is described in note 38 of explanatory notes relating to post balance sheet events.

7. We have read the 'Directors' Report for the period from 1 January 2012 to 31 December 2012 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259 with subsequent amendments).

on behalf of
Ernst & Young Audit sp. z o.o.
Rondo ONZ 1, 00-124 Warsaw
Reg. No 130

Key Certified Auditor

Maricin Zieliński
certified auditor No. 10402

Warsaw, 19 March 2013

[3] Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income for 2012

(PLN '000)	**Note**	**Year ended Dec 31 2012**	**Year ended Dec 31 2011**
Revenue	9.1	33,111,000	29,259,586
Cost of sales	9.4	(30,327,507)	(26,572,381)
Gross profit		**2,783,493**	**2,687,205**
Distribution costs	9.4	(1,054,839)	(1,000,366)
Administrative expenses	9.4	(463,804)	(432,269)
Other income	9.2	47,562	41,715
Other expenses	9.6	(1,090,052)	(337,874)
Effect of accounting for step acquisition of control (AB LOTOS Geonafta Group)	2	57,747	126,383
Loss of control over subsidiary	2	20,966	679
Operating profit		**301,073**	**1,085,473**
Finance income	9.3	302,008	22,272
Finance costs	9.7	(241,879)	(559,262)
Share in profit of equity-accounted associates	16	-	2,896
Pre-tax profit		**361,202**	**551,379**
Corporate income tax	10.1	561,768	97,943
Net profit		**922,970**	**649,322**
Other comprehensive income			
Exchange differences on translating foreign operations		(39,076)	57,835
Cash flow hedges	24	472,197	(516,892)
Income tax on other comprehensive income	10.1	(75,853)	87,363
Other comprehensive income (net)		**357,268**	**(371,694)**

Total comprehensive income		**1,280,238**	**277,628**
Net profit attributable to:			
Owners of the Parent	11	922,943	648,994
Non-controlling interests	27	27	328
		922,970	**649,322**
Total comprehensive income attributable to:			
Owners of the Parent		1,280,225	277,271
Non-controlling interests	27	13	357
		1,280,238	**277,628**
Net profit attributable to owners of the Parent per share (PLN)			
Weighted average number of shares ('000)	11	129,873	129,873
- basic	11	711	500
- diluted	11	711	500

Consolidated statement of financial position

Consolidated statement of financial position for 2012

(PLN '000)	Note	Dec 31 2012	Dec 31 2011 (restated)	Jan 1 2011 (restated)
ASSETS				
Non-current assets				
Property. plant and equipment	13	9,685,850	10,523,550	10,387,482
Goodwill	14	46,688	46,688	46,688
Other intangible assets	15	544,468	475,580	94,825
Investments in equity-accounted associates	16	-	-	93,064
Deferred tax assets	10.3	1,121,314	400,128	159,901
Derivative financial instruments	29	-	12,098	19,408
Other non-current assets	18	107,232	124,193	70,682
Total non-current assets		**11,505,552**	**11,582,237**	**10,872,050**
Current assets				
Inventories	19	5,965,705	5,855,840	4,506,791
- including mandatory reserves	19.2	4,353,207	4,427,752	2,980,241
Trade receivables	18	1,640,360	2,075,562	1,740,890
Current tax assets		90,566	132,876	47,492
Derivative financial instruments	29	121,334	37,202	49,962
Other current assets	18	462,101	246,699	119,667
Cash and cash equivalents	20	268,333	383,680	382,601
Total current assets		**8,548,399**	**8,731,859**	**6,847,403**
Assets held for sale	17	**2,428**	**109,124**	**7,911**
Total assets		**20,056,379**	**20,423,220**	**17,727,364**

EQUITY AND LIABILITIES				
Equity				
Share capital	22	129,873	129,873	129,873
Share premium	23	1,311,348	1,311,348	1,311,348
Cash flow hedging reserve	24	(36,801)	(419,281)	(739)
Retained earnings	25	7,623,418	6,700,396	6,046,056
Translation reserve	26	33,902	59,100	12,281
Equity attributable to owners of the Parent		**9,061,740**	**7,781,436**	**7,498,819**
Non-controlling interests	27	**699**	**947**	**14,658**
Total equity		**9,062,439**	**7,782,383**	**7,513,477**
Non-current liabilities				
Borrowings. other debt instruments and finance lease liabilities	28	4,462,098	5,161,474	4,475,012
Derivative financial instruments	29	88,325	127,364	80,107
Deferred tax liability	10.3	322,169	105,226	123,143
Employee benefit obligations	30	129,862	115,914	95,370
Other liabilities and provisions	31	412,260	337,561	289,561
Total non-current liabilities		**5,414,714**	**5,847,539**	**5,063,193**
Current liabilities				
Borrowings. other debt instruments and finance lease liabilities	28	2,094,602	2,427,155	1,978,707
Derivative financial instruments	29	91,000	140,414	199,700
Trade and other payables	31	2,178,760	2,821,742	1,832,545
Current tax payables		5,752	7,420	15,188
Employee benefit obligations	30	110,930	94,737	103,673
Other liabilities and provisions	31	1,098,182	1,261,432	1,020,708
Total current liabilities		**5,579,226**	**6,752,900**	**5,150,521**
Liabilities directly associated with assets held for sale	17	**-**	**40,398**	**173**
Total liabilities		**10,993,940**	**12,640,837**	**10,213,887**
Total equity and liabilities		**20,056,379**	**20,423,220**	**17,727,364**

Consolidated statement of cash flows

Consolidated statement of cash flows for 2012

(PLN '000)	Note	Year ended Dec 31 2012	Year ended Dec 31 2011
Cash flows from operating activities			
Net profit		**922,970**	**649,322**
Adjustments:		488,352	435,042
Corporate income tax	10.1	(561,768)	(97,943)
Share in profit of equity-accounted associates	16	-	(2,896)
Depreciation and amortisation expense	21	666,590	608,608
Foreign exchange (gains)/losses		(131,686)	284,656
Interest and dividends		197,801	145,912
(Gain)/Loss from investing activities		981,752	182,728
Settlement and valuation of financial instruments		(117,772)	130,430
Decrease/(Increase) in trade receivables	21	449,852	(372,659)
(Increase) in other assets	21	(201,167)	(138,173)
(Increase) in inventories	21	(108,783)	(1,352,908)
(Decrease)/Increase in trade and other payables	21	(644,199)	983,674
(Decrease)/Increase in other liabilities and provisions	21	(72,409)	48,923
Increase in employee benefit obligations		30,141	11,608
Other adjustments		-	3,082
Income tax paid		(64,242)	(182,005)
Net cash from operating activities		**1,347,080**	**902,359**
Cash flows from investing activities			
Dividends received		567	514
Interest received		9,316	3,135

Sale of property. plant and equipment and other intangible assets		27,727	13,676
Sale of non-current financial assets		550	680
Repayment of loans advanced		1,536	308
Loss of control over subsidiary. net of cash disposed of		78,000	1,104
Other cash inflows on financial assets		-	971
Other cash from investing activities		138	-
Purchase of property. plant and equipment and other intangible assets	21	(757,925)	(677,995)
Purchase of non-current financial assets		(13,017)	(16,256)
Loans advanced		-	(1,805)
Acquisition of a subsidiary. net of cash acquired	2	(129,132)	(108,879)
Bank deposits for financing of overhaul shutdown		(45,721)	(38,106)
Security deposits		586	(8,639)
Funds contributed to the decommissioning fund	31.1	(1,886)	(1,898)
Settlement of derivative financial instruments		(8,790)	(13,749)
Other cash used in investing activities		-	(4)
Net cash from investing activities		**(838,051)**	**(846,943)**
Cash flows from financing activities			
Proceeds from borrowings		542,530	876,876
Issue of notes		362,367	572,712
Cash flows attributable to changes in interest in a subsidiaries not resulting in loss of control		(182)	(9,726)
IOther cash from financing activities		-	2,216
Repayment of borrowings		(1,171,040)	(597,082)
Redemption of notes		(364,000)	(628,000)
Interest paid		(205,132)	(137,075)
Decrease in finance lease liabilities		(15,234)	(8,532)
Settlement of derivative financial instruments		(32,534)	(106,912)
Other cash used in financing activities		(53)	(59)
Net cash from financing activities		**(883,278)**	**(35,582)**
Total net cash flow		**(374,249)**	**19,834**
Effect of exchange rate fluctuations on cash held		(27,958)	23,485

Change in net cash	21	**(402,207)**	**43,319**
Cash at beginning of period	21	**161,552**	**118,233**
Cash at end of period	21	**(240,655)**	**161,552**

Consolidated statement of cash flows

Consolidated statement of cash flows for 2012

(PLN '000)	Note	Year ended Dec 31 2012	Year ended Dec 31 2011
Cash flows from operating activities			
Net profit		**922,970**	**649,322**
Adjustments:		488,352	435,042
Corporate income tax	10.1	(561,768)	(97,943)
Share in profit of equity-accounted associates	16	-	(2,896)
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Foreign exchange (gains)/losses		(131,686)	284,656
Interest and dividends		197,801	145,912
(Gain)/Loss from investing activities		981,752	182,728
Settlement and valuation of financial instruments		(117,772)	130,430
Decrease/(Increase) in trade receivables	21	449,852	(372,659)
(Increase) in other assets	21	(201,167)	(138,173)
(Increase) in inventories	21	(108,783)	(1,352,908)
(Decrease)/Increase in trade and other payables	21	(644,199)	983,674
(Decrease)/Increase in other liabilities and provisions	21	(72,409)	48,923
Increase in employee benefit obligations		30,141	11,608
Other adjustments		-	3,082
Income tax paid		(64,242)	(182,005)
Net cash from operating activities		**1,347,080**	**902,359**
Cash flows from investing activities			
Dividends received		567	514
Interest received		9,316	3,135

Sale of property. plant and equipment and other intangible assets		27,727	13,676
Sale of non-current financial assets		550	680
Repayment of loans advanced		1,536	308
Loss of control over subsidiary. net of cash disposed of		78,000	1,104
Other cash inflows on financial assets		-	971
Other cash from investing activities		138	-
Purchase of property. plant and equipment and other intangible assets	21	(757,925)	(677,995)
Purchase of non-current financial assets		(13,017)	(16,256)
Loans advanced		-	(1,805)
Acquisition of a subsidiary. net of cash acquired	2	(129,132)	(108,879)
Bank deposits for financing of overhaul shutdown		(45,721)	(38,106)
Security deposits		586	(8,639)
Funds contributed to the decommissioning fund	31.1	(1,886)	(1,898)
Settlement of derivative financial instruments		(8,790)	(13,749)
Other cash used in investing activities		-	(4)
Net cash from investing activities		**(838,051)**	**(846,943)**
Cash flows from financing activities			
Proceeds from borrowings		542,530	876,876
Issue of notes		362,367	572,712
Cash flows attributable to changes in interest in a subsidiaries not resulting in loss of control		(182)	(9,726)
lOther cash from financing activities		-	2,216
Repayment of borrowings		(1,171,040)	(597,082)
Redemption of notes		(364,000)	(628,000)
Interest paid		(205,132)	(137,075)
Decrease in finance lease liabilities		(15,234)	(8,532)
Settlement of derivative financial instruments		(32,534)	(106,912)
Other cash used in financing activities		(53)	(59)
Net cash from financing activities		**(883,278)**	**(35,582)**
Total net cash flow		**(374,249)**	**19,834**
Effect of exchange rate fluctuations on cash held		(27,958)	23,485

Change in net cash	21	**(402,207)**	**43,319**
Cash at beginning of period	21	**161,552**	**118,233**
Cash at end of period	21	**(240,655)**	**161,552**

Consolidated statement of changes in equity

Consolidated statement of changes in equity for 2012

(PLN '000)	Note	Share capital	Share premium	Cash flow hedging reserve	Retained earnings	Translation reserve	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
Jan 1 2012		**129,873**	**1,311,348**	**(419,281)**	**6,700,396**	**59,100**	**7,781,436**	**947**	**7,782,383**
Net profit		-	-	-	922,943	-	922,943	27	922,970
Other comprehensive income. net		-	-	382,480	-	(25,198)	357,282	(14)	357,268
Total comprehensive income		-	-	382,480	922,943	(25,198)	1,280,225	13	1,280,238
Purchase of shares from non-controlling shareholders	2	-	-	-	79	-	79	(261)	(182)
Dec 31 2012		**129,873**	**1,311,348**	**(36,801)**	**7,623,418**	**33,902**	**9,061,740**	**699**	**9,062,439**
Jan 1 2011		**129,873**	**1,311,348**	**(739)**	**6,046,056**	**12,281**	**7,498,819**	**14,658**	**7,513,477**
Net profit		-	-	-	648,994	-	648,994	328	649,322
Other comprehensive income. net		-	-	(418,542)	-	46,819	(371,723)	29	(371,694)
Total comprehensive income		-	-	(418,542)	648,994	46,819	277,271	357	277,628
Changes in the Group's organisational structure		-	-	-	1,080	-	1,080	(214)	866
Purchase of shares from non-controlling shareholders		-	-	-	4,266	-	4,266	(13,854)	(9,588)
Dec 31 2011		**129,873**	**1,311,348**	**(419,281)**	**6,700,396**	**59,100**	**7,781,436**	**947**	**7,782,383**

Notes to the financial statements

1. General information

2. Composition of the Group and its changes

3. Basis of preparation

4. New standards and interpretations

5. Material judgements and estimates

6. Change of information presented in previous reporting periods, change of accounting policies and correction of errors

7. Accounting policies

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9. Income and expenses

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14. Goodwill

15. Other intangible assets

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17. Assets held for sale

18. Trade receivables and other assets

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21. Cash structure in the statement of cash flows

22. Share capital

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1. General information

Grupa LOTOS Spółka Akcyjna ("Grupa LOTOS S.A.", the "Company", the "Parent") was established on September 18th 1991. The Company's registered address is ul. Elbląska 135, 80-718 Gdańsk, Poland.

The core business of the group of companies of the Group of Grupa LOTOS S.A. (the "LOTOS Group", the "Group") consists in the production and processing of refined petroleum products and their wholesale and retail sale. The Group's business also includes acquisition of crude oil and natural gas deposits and oil and gas production. Based on the classification applied by the Warsaw Stock Exchange, Grupa LOTOS S.A. is included in the fuel sector.

2. Composition of the Group and its changes

As at December 31st 2012, the LOTOS Group comprised Grupa LOTOS S.A. (the parent) and 34 production and service companies, including:

- 14 subsidiaries of Grupa LOTOS S.A.,
- 20 indirect subsidiaries of Grupa LOTOS S.A.

The Group also holds shares in a jointly-controlled entity.

Information on the registered offices and business profiles of the entities which are included in consolidation, the Group's ownership interests, and the applied method of consolidation is presented below.

Company name	Registered office	Business profile	Method of consolidation	Ownership interest (%)	
				Dec 31 2012	Dec 31 2011
Parent					
Grupa LOTOS S.A.	Gdańsk	Production and processing of refined petroleum products (mainly fuels) and their wholesale	Not applicable	Not applicable	Not applicable
Direct subsidiaries					
LOTOS Paliwa Sp. z o.o.	Gdańsk	Wholesale and retail sale of fuels and light fuel oil, management of the LOTOS service station network	full	100.00%	100.00%
LOTOS Gaz S.A. (in liquidation)	Kraków	The company does not conduct operations	full	100.00%	100.00%
LOTOS Oil S.A.	Gdańsk	Production and sale of lubricating oils and lubricants, and sale of base oils	full	100.00%	100.00%
LOTOS Asfalt Sp. z o.o.	Gdańsk	Production and sale of bitumens	full	100.00%	100.00%
LOTOS Kolej Sp. z o.o.	Gdańsk	Rail transport	full	100.00%	100.00%
LOTOS Serwis Sp. z o.o.	Gdańsk	Maintenance of mechanical and electrical systems and controlling devices, overhaul and repair services	full	100.00%	100.00%
LOTOS Lab Sp. z o.o.	Gdańsk	Laboratory analyses	full	100.00%	100.00%
LOTOS Straż Sp. z o.o.	Gdańsk	Fire safety	full	100.00%	100.00%

LOTOS Ochrona Sp. z o.o.	Gdańsk	Personal and property protection	full	100.00%	100.00%
LOTOS Parafiny Sp. z o.o.	Jasło	Production and sale of paraffin	full	- (1)	100.00%
LOTOS Tank Sp. z o.o.	Gdańsk	Until October 16th 2011 – trading in aviation fuel and, as of January 1st 2013 – logistics services	full	100.00%	100.00%
LOTOS Czechowice S.A. (parent of another group: LOTOS Czechowice Group)	Czechowice-Dziedzice	Storage and distribution of fuels	full	100.00%	100.00%
LOTOS Jasło S.A.	Jasło	Storage and distribution of fuels Renting and operating of own or leased real estate	full	100.00%	100.00%
LOTOS Petrobaltic S.A. (parent of another group: LOTOS Petrobaltic Group)	Gdańsk	Acquisition of crude oil and natural gas deposits and their exploitation	full	99.96% (2)	99.95%
LOTOS Park Technologiczny Sp. z o.o.	Jasło	The company does not conduct operations	full	100.00%	100.00%
Indirect subsidiaries					
RCEkoenergia Sp. z o.o.	Czechowice-Dziedzice	Production and distribution of electricity, heat and gas	full	100.00%	100.00%
LOTOS Biopaliwa Sp. z o.o.	Czechowice-Dziedzice	Production of fatty acid methyl esters (FAME)	full	100.00%	100.00%
Miliana Shipholding Company Ltd. (parent of another group: Miliana Shipholding Company Group)	Nicosia, Cyprus	Storage and transport of crude oil, other sea transport related services, and managing own financial assets	full	99.96 % (3)	99.95 %
Technical Ship Management Sp. z o.o. (4)	Gdańsk	On October 1st 2012, the company launched sea transport support activities involving advisory on the operation of ships.	full	99.96 % (3, 4)	100.00%
Miliana Shipmanagement Ltd.	Nicosia, Cyprus	Provision of sea transport and related services	full	99.96% (3)	99.95 %
Miliana Shipping Group Ltd. (parent of another group: Miliana Shipping Group Group)	Nicosia, Cyprus	Management of own assets	full	99.96% (3)	99.95 %
Bazalt Navigation Co. Ltd.	Nicosia, Cyprus	Ship chartering	full	99.96% (3)	99.95 %
Granit Navigation Company Ltd.	Nicosia, Cyprus	Ship chartering	full	99.96% (3)	99.95 %
Kambr Navigation Company Ltd.	Nicosia, Cyprus	Ship chartering	full	99.96% (3)	99.95 %
St. Barbara Navigation Company Ltd.	Nicosia, Cyprus	Ship chartering	full	99.96% (3)	99.95 %
Petro Icarus Company Ltd.	Nicosia, Cyprus	Ship chartering	full	99.96% (3)	99.95 %

	Cyprus				
Petro Aphrodite Company Ltd.	Nicosia, Cyprus	Ship chartering	full	99.96% [3]	99.95 %
LOTOS Exploration and Production Norge AS	Stavanger, Norway	Oil exploration and production on the Norwegian Continental Shelf, provision of services related to oil exploration and production	full	99.96% [3]	99.95 %
Aphrodite Offshore Services N.V.	Curaçao, Netherlands Antilles	Dormant since October 17th 2011	full	99.96% [3]	99.95 %
Energobaltic Sp. z o.o.	Władysławowo	Production of electricity, heat, LPG and natural gas condensate	full	99.96% [3]	99.95%
AB LOTOS Geonafta (parent of another group: AB LOTOS Geonafta)	Gargždai, Lithuania	Crude oil exploration and production, drilling services, and purchase and sale of crude oil	full	99.96% [3]	99.95%
UAB Genciu Nafta	Gargždai, Lithuania	Crude oil exploration and production	full	99.96% [3]	99.95%
UAB Manifoldas	Gargždai, Lithuania	Crude oil exploration and production	full	99.96% [3, 5]	49.98%
Baltic Gas Sp. z o.o.	Gdańsk	The company has not commenced operations	non-consolidated [6]	99.96% [3, 6]	-
Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k.	Gdańsk	The company has not commenced operations	non-consolidated [7]	99.96% [3, 7]	-
Jointly-controlled entities					
UAB Minijos Nafta	Gargždai, Lithuania	Crude oil exploration and production	proportional	49.98% [3]	49.98%

[1] On January 10th 2012, 100% of shares in LOTOS Parafiny Sp. z o.o. were sold to a third party, Krokus Chem Sp. z o.o.

[2] In exercise of its pre-emptive rights, on December 15th 2011 Grupa LOTOS S.A. subscribed for newly issued Series C shares of LOTOS Petrobaltic S.A. Grupa LOTOS S.A. subscribed for 279,996 shares in the increased share capital of LOTOS Petrobaltic S.A., with a total value of PLN 53,980 thousand. On February 2nd 2012, the increase in the share capital of LOTOS Petrobaltic S.A. was registered.

Grupa LOTOS S.A. also continued purchasing shares from non-controlling shareholders as part of the voluntary share purchase process, which was completed at the end of March 2012. In the period from January 1st to the completion of the voluntary share purchase process, Grupa LOTOS S.A. acquired 26 shares in LOTOS Petrobaltic S.A. with an aggregate value of PLN 3 thousand, representing 0.0003% of the company's share capital.

With respect to the remaining shares held by non-controlling shareholders, excluding the shares held by the State Treasury, on May 8th 2012 the Extraordinary General Meeting of LOTOS Petrobaltic S.A. adopted a resolution regarding minority squeeze-out by the majority shareholder, that is Grupa LOTOS S.A.

As part of the squeeze-out process, by December 31st 2012 Grupa LOTOS S.A. acquired 1.421 shares in LOTOS Petrobaltic S.A. with the aggregate value of PLN 179 thousand, representing 0.0146% of the company's share capital, of which 218 shares with the aggregate value of PLN 28 thousand, representing 0.0022% of the company's share capital, were entered in the share register.

In line with IAS 27 Consolidated and Separate Financial Statements, the above acquisition of shares in LOTOS Petrobaltic S.A. from non-controlling shareholders as part of the voluntary share purchase process and the minority squeeze-out were accounted for as equity transactions, as a result of which PLN 79 thousand was recognised under retained earnings attributable to the Parent and the value of non-controlling interests decreased by PLN 261 thousand.

Following acquisition of shares in LOTOS Petrobaltic S.A. from non-controlling shareholders as part of the voluntary share purchase process and the minority squeeze-out, and the increase in the share capital of LOTOS Petrobaltic S.A., as at December 31st 2012 Grupa LOTOS S.A. held a 99.96% interest in the share capital of LOTOS Petrobaltic S.A., including 9,935,069 shares entered in the share register and representing 99.95% of the share capital of LOTOS Petrobaltic S.A.

(3) The shareholding changes described in item (2) above resulted in changes in the Group's indirect interests in the share capitals of the subsidiaries and the jointly controlled company of LOTOS Petrobaltic S.A.(4) W dniu 31 lipca 2012 roku Grupa LOTOS S.A. sprzedała 100% udziałów spółki LOTOS Ekoenergia Sp. z o.o. na rzecz Miliana Shipholding Company Ltd. Z dniem 17 października 2012 roku została zarejestrowana zmiana nazwy spółki z: LOTOS Ekoenergia Sp. z o.o. na: Technical Ship Management Sp. z o.o.

(4) On July 31st 2012, Grupa LOTOS S.A. sold 100% of shares in LOTOS Ekoenergia Sp. z o.o. to Miliana Shipholding Company Ltd. On October 17th 2012, a change of the company name from LOTOS Ekoenergia Sp. z o.o. to Technical Ship Management Sp. z o.o. was registered.

(5) On November 28th 2012, AB LOTOS Geonafta acquired a 50% interest in UAB Manifoldas. Following the transaction, AB LOTOS Geonafta holds a 100% interest in UAB Manifoldas.

(6) On November 12th 2012, LOTOS Petrobaltic S.A. and Kancelaria Prawna Domański i Wspólnicy sp.k. executed a share purchase agreement whereby LOTOS Petrobaltic S.A. acquired a 100% interest in Baltic Gas Sp. z o.o. Baltic Gas Sp. z o.o. was excluded from consolidation due to the fact that the data disclosed in its financial statements as at December 31st 2012 is immaterial to the performance of the obligation specified in IAS 27 Consolidated and Separate Financial Statements.

(7) On November 12th 2012, LOTOS Petrobaltic S.A. purchased from Kancelaria Prawna Domański i Wspólnicy sp.k. all the rights and obligations in Baltic Gas Spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k., and thus became the sole limited partner in the company. The general partner in Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k. is Baltic Gas Sp. z o.o. The company was excluded from consolidation due to the fact that the data disclosed in its financial statements as at December 31st 2012 is immaterial to the performance of the obligation specified in IAS 27 Consolidated and Separate Financial Statements.

Sale of shares in LOTOS Parafiny Sp. z o.o. to a third party

On January 10th 2012, 100% of shares in LOTOS Parafiny Sp. z o.o. were sold to a third party, Krokus Chem Sp. z o.o. As an additional element of the transaction, on November 29th 2011, the parties executed a seven-year agreement for the supply of slack waxes by Grupa LOTOS S.A. to LOTOS Parafiny Sp. z o.o. The agreement was concluded for the period from January 1st 2012 to December 31st 2018 and its estimated value is PLN 780m, VAT exclusive.

The effect of the loss of control over the subsidiary was presented in the consolidated statement of comprehensive income for 2012 under Loss of control over subsidiary, in the amount of PLN 20,966 thousand. In the consolidated statement of cash flows for 2012, net cash proceeds from the above transaction in the amount of PLN 78,000 thousand were presented under *Loss of control over subsidiary, net of cash*. As at December 31st 2011, the assets and liabilities of LOTOS Parafiny Sp. z o.o. were presented in the consolidated financial statements under assets of related entities held for sale and the associated liabilities. LOTOS Parafiny Sp. z o.o. was classified in the downstream segment.

Acquisition of shares in UAB Manifoldas by AB LOTOS Geonafta

On September 27th 2012, AB LOTOS Geonafta concluded an agreement for purchase of 50% of shares in UAB Manifoldas from a natural person. After clearance from the Lithuanian anti-trust authority was obtained and other contractual conditions were fulfilled, on November 28th 2012 AB LOTOS Geonafta acquired a controlling 50% interest in UAB Manifoldas.

The acquisition price of the 50% of shares in UAB Manifoldas comprised the base purchase price of PLN 101,773 thousand, increased by the amount of the difference between the UAB Manifoldas' receivables and liabilities of PLN 7,899 thousand.

Following the transaction, as at December 31st 2012, AB LOTOS Geonafta, which is a part of the group of companies of LOTOS Petrobaltic (LOTOS Petrobaltic Group), held a 100% interest in UAB Manifoldas.

AB LOTOS Geonafta is the parent of another group of companies (AB LOTOS Geonafta Group). As at December 31st 2012, it included the following companies in consolidation:

- UAB Manifoldas (100% of shares held by AB LOTOS Geonafta, consolidated with the full method),

- UAB Genciu Nafta (100% of shares held by AB LOTOS Geonafta, consolidated with the full method),
- UAB Minijos Nafta (50% of shares held by AB LOTOS Geonafta, consolidated with the proportional method).

Given the fact that before November 28th 2012 AB LOTOS Geonafta held a 50 % interest in UAB Manifoldas, the business combination, as defined in IFRS 3 Business Combinations, is accounted for as a step acquisition. In the case of a business combination achieved in stages (step acquisition), the acquirer remeasures its previously held equity interest in the acquiree at fair value as at the business combination date and recognises the resulting gain or loss in the statement of comprehensive income.

As at December 31st 2012, the Group initially accounted for the business combination made on November 28th 2012 ("acquisition date" or "business combination date") as follows:

PLN '000	November 28th 2012
Consideration paid at fair value as at the date of acquisition of a 50% equity interest in the acquiree **(A)**	109,672
Fair value of the 50% equity interest in the acquiree previously held by the acquirer, determined as at the business combination date **(B)**	109,672
Total (A+B)	**219,344**
Equity interest in the acquiree	100%
Assets and liabilities of the acquiree:	
Current assets, including:	45,095
Cash and cash equivalents	13,713
Trade receivables	29,612
Non-current assets, including:	213,184
Property, plant and equipment	35,121
Identifiable intangible assets	177,725
Acquired assets – total	**258,279**
Non-current liabilities, including:	30,414
Deferred tax liabilities	26,659
Other liabilities and provisions	3,755
Current liabilities	8,521
Assumed liabilities – total	**38,935**
Acquired net assets (C)	**219,344**
Value of interest in acquired net assets	219,344

(A) Represents the fair value of the consideration for: 50% of shares in UAB Manifoldas acquired on November 28th 2012.

(B) Reprezentuje wartość godziwą uprzednio posiadanych przez AB LOTOS Geonafta (przed dniem 28 listopada 2012 roku) 50% udziałów konsolidowanych aktywów netto spółki UAB Manifoldas.

(C) Represents the fair value of the 50% interest in the consolidated net assets of UAB Manifoldas previously held by AB LOTOS Geonafta (before November 28th 2012).

When initially accounting for the transaction involving acquisition of control over UAB Manifoldas, the Group used provisional fair values of the identifiable acquired assets and assumed liabilities, which may differ from the fair values that will be used for final accounting for the transaction. In accordance with IFRS 3 Business Combinations, a business combination must be finally accounted for within a year from the acquisition date.

The Group recognised identifiable intangible assets comprising licences held by Manifoldas and conferring the right to conduct production of oil from deposits in the territory of Lithuania. The value of the licences, that is PLN 177,725 thousand *(LTL 149,311 thousand, translated at the LTL/PLN mid-exchange rate quoted by the National Bank of Poland for the business combination date)* includes the tax effect of PLN 26,659 thousand *(LTL 22,397 thousand, translated at the LTL/PLN mid-exchange rate quoted by the National Bank of Poland for November 28th 2010)*, calculated at the 15% rate in effect in Lithuania.

The increase in the value of the 50% equity interest in UAB Manifoldas held by AB LOTOS Geonafta before November 28th 2012, of PLN 57,747 thousand *(LTL 48,515 thousand, translated at the LTL/PLN mid-exchange rate quoted by the National Bank of Poland for the acquisition date, that is November 28th 2010)*, resulting from its fair value measurement as at the business combination date, was disclosed in the consolidated statement of comprehensive income for 2012 under ”Effect of accounting for step acquisition of control (AB LOTOS Geonafta Group).

UAB Manifoldas' revenue and net loss figures for the period from the business combination date to December 31st 2012, were PLN 4,074 thousand and PLN (1,632) thousand, respectively *(LTL 3,370 thousand and LTL 1,350 thousand, respectively, translated at the rate representing the arithmetic mean of the LTL/PLN mid-exchange rates quoted by the National Bank of Poland for the last day of each calendar month in the period from the acquisition date to December 31st 2012)*, and were accounted for in the consolidated statement of comprehensive income for 2012.

If UAB Manifoldas, acquired on November 28th 2012, was fully consolidated beginning from January 1st 2012, the Group's 2012 consolidated statement of comprehensive income would include the company's (as a subsidiary) total revenue of PLN 73,375 thousand and net profit of PLN 33,091 thousand *(LTL 60,706 thousand and LTL 27,377 thousand, respectively, translated at the rate representing the arithmetic mean of the LTL/PLN mid-exchange rates quoted by the National Bank of Poland for the last day of each calendar month in the period from January 1st to December 31st 2012)*.

On November 28th 2012, AB LOTOS Geonafta paid all its liabilities related to the acquisition of 50% of shares in UAB Manifoldas, totalling PLN 109,672 thousand *(LTL 92,138 thousand, translated at the LTL/PLN mid-exchange rate quoted by the National Bank of Poland for November 28th 2012)*.

Net of the acquiree’s cash acquired in the business combination, totalling PLN 6,820 thousand *(LTL 5,760 thousand, translated at the LTL/PLN mid-exchange rate quoted by the National Bank of Poland for December 31st 2012)*, the acquisition value of UAB Manifoldas as disclosed in the consolidated statement of cash flows for the reporting period ended December 31st 2012 was PLN 104,405 thousand *(LTL 86,378 thousand, translated at the rate representing the arithmetic mean of the LTL/PLN mid-exchange rates quoted by the National Bank of Poland for the last day of each calendar month in the period from January 1st to December 31st 2012)*.

The transaction follows from the Group's development strategy for the upstream segment. The Group assumed control over AB LOTOS Geonafta on February 3rd 2011 by acquiring an interest in UAB Meditus. For more details, see Note 2 to the consolidated financial statements for 2011. On February 3rd 2012, the Group settled all its liabilities under the acquisition of UAB Meditus outstanding as at December 31st 2011, which resulted in the recognition in the consolidated statement of cash flows for the reporting period ended December 31st 2012 of an outflow of PLN 24,727 thousand *(LTL 20,457 thousand, translated at the average LTL/PLN mid-exchange rate quoted by the National Bank of Poland for the reporting period ended December 31st 2012)*.

3. Basis of preparation

These consolidated financial statements were prepared in accordance with the International Financial Reporting Standards ("IFRS") endorsed by the European Union which were published and effective as at December 31st 2012.

Taking into account the ongoing process of implementation of the IFRS in the EU and the business conducted by the Group, as far as the accounting policies applied by the Group are concerned, there is no difference between the IFRS that have become effective and the IFRS endorsed by the EU for the year ended December 31st 2012.

The following amendments to the existing standards adopted by the European Union were effective in 2012:

- Amendments to IFRS 7 Financial Instruments: Disclosures: Transfers of Financial Assets (effective for annual periods beginning on or after July 1st 2011).

The Group has reviewed the amendments and believes, they have no material impact on the accounting policies applied by the Group.

The functional of the Parent and the reporting currency of these financial statements is the Polish złoty (PLN). These consolidated financial statements have been prepared in the złoty (PLN), and all the figures are presented in thousands of złoty, unless stated otherwise.

4. New standards and interpretations

New standards, amendments to the existing standards and interpretations which have been adopted by the European Union (EU):

- IFRS 10 Consolidated Financial Statements (effective for periods beginning on or after January 1st 2013 – in the UE effective no later than for annual periods beginning on or after January 1st 2014),
- IFRS 11 Joint Arrangements (effective for periods beginning on or after January 1st 2013 – in the UE effective no later than for annual periods beginning on or after January 1st 2014),
- IFRS 12 Disclosure of Interests in Other Entities (effective for periods beginning on or after January 1st 2013 – in the UE effective no later than for annual periods beginning on or after January 1st 2014),
- IFRS 13 Fair Value Measurement (effective for periods beginning on or after January 1st 2013),
- IAS 27 Separate Financial Statements (2011) (effective for periods beginning on or after January 1st 2013 – in the UE effective no later than for annual periods beginning on or after January 1st 2014),
- IAS 28 Investments in Associates and Joint Ventures (2011) (effective for periods beginning on or after January 1st 2013 – in the UE effective no later than for annual periods beginning on or after January 1st 2014),
- Amendment to IAS 1 Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income (effective for periods beginning on or after July 1st 2012),
- Amendments to IFRS 7 – Financial Instruments: Disclosures: Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1st 2013),
- Amendment to IAS 19 Employee Benefits (effective for periods beginning on or after January 1st 2013),
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine (effective for periods beginning on or after January 1st 2013),
- Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after January 1st 2012 – in the UE effective no later than for annual periods beginning on or after January 1st 2013),
- Amendments to IFRS 1 First-Time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for periods beginning on or after July 1st 2011 – in the UE effective no later than for annual periods beginning on or after January 1st 2013),
- Amendments to IAS 32 Financial Instruments: Presentation: Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1st 2014).
- Amendments to IFRS 1 First-Time Adoption of International Financial Reporting Standards: Government Loans (effective for annual periods beginning on or after January 1st 2013).

New standards, amendments to existing standards and their interpretations which have not been adopted by the European Union:

- IFRS 9 Financial Instruments: Classification and Measurement (effective for periods beginning on or after January 1st 2015),
- Amendments introduced as part of the Improvements to IFRSs (published in May 2012) (effective for annual periods beginning on January 1st 2013),
- Amendments to IFRS 10, IFRS 11 and IFRS 12 Transition Guidance (effective for annual periods beginning on or after January 1st 2013),
- Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities (effective for annual periods beginning on or after January 1st 2014).

By the date of approval of these consolidated financial statements, the first phase of IFRS 9 Financial Instruments: Classification and Measurement (effective for annual periods beginning on or after January 1st 2015), had not been endorsed by the European Union. During the next phases, the International Accounting Standards Board will focus on hedge accounting and impairment. Implementation of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group’s financial assets. The Group will analyse this effect along with the effect from the other phases of the project after their publication, in order to present a coherent picture.

The Group has not opted for early application of any of the standards, interpretations, or amendments which have been published but have not yet become effective.

The Company's Management Board is analysing and assessing the effect of the new standards and interpretations on the accounting policies applied by the Group and on the Group’s future financial statements.

In the opinion of the Company’s Management Board, the amendments to IAS 19 Employee Benefits have no material impact on the accounting policies applied by the Group and thus on the Group’s future financial statements prepared for the period beginning on or after January 1st 2013.

As of January 1st 2014, the Group intends to apply the following set of standards: IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IFRS 13 Fair Value Measurement, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures. The method of proportionate consolidation applied by the Group in respect of UAB Minijos Nafta, controlled jointly by AB Geonafta, is expected to change to the equity method for financial statements prepared for periods beginning after December 31st 2013.

5. Material judgements and estimates

The preparation of financial statements in accordance with the International Financial Reporting Standards requires a number of assumptions, judgments and estimates which affect the value of items disclosed in the financial statements and in the notes.

Although the assumptions and estimates are based on the management's best knowledge of the current and future events and developments, the actual results might differ from the estimates.

The estimates and underlying assumptions are reviewed on a continuous basis. Any change in an accounting estimate is recognised in the period in which it has been made if it refers exclusively to that period, or in the current period and future periods if it refers to both the current period and future periods. Material assumptions used in making the estimates are described in the relevant notes.

While making assumptions, estimates and judgments, the Company's Management Board may rely on its experience and knowledge as well as opinions, analyses and recommendations issued by independent experts.

Apart from the accounting estimates, the professional judgement of the management was of key importance in the application of the accounting policies in the cases described below.

Employee benefit obligations

Employee benefit obligations are estimated using actuarial methods. The assumptions adopted for the measurement of the obligations are described in more detail in Note 30.4.

Depreciation/amortisation charges

Depreciation/amortisation charges are determined based on the expected useful lives of property, plant and equipment and intangible assets. The Group reviews the useful lives of its assets annually, on the basis of current estimates.

The basis for calculation of depreciation (using the units-of-production depreciation method) of the assets of onshore and offshore oil and gas facilities are estimates of reserves (2P – proved and probable – reserves), evaluated, revised and updated by the Group, as well as forecast production volumes from the individual fields based on geological data, test production, subsequent production data and the schedule of work adopted for the long-term strategy.

Fair value of financial instruments

The fair value of financial instruments for which no active market exists is determined by means of appropriate valuation methods. In selecting appropriate methods and assumptions for the valuation, the Group relies on professional judgment.

The assumptions adopted for the measurement of fair value of financial instruments are described in Note 7.23.

Deferred tax assets

The Group recognises deferred tax assets if it is assumed that taxable profit will be generated in the future against which the asset can be utilised. If taxable profit deteriorates in the future, this assumption may prove invalid. The Parent's Management Board reviews its estimates regarding the likelihood of recovering deferred tax assets taking into account changes in the factors on which such estimates were based, new information and past experience.

The assumptions adopted for the measurement of deferred tax assets are described in Note 10.3.

Impairment of cash-generating units and individual items of property, plant and equipment and intangible assets

As at the last day of each reporting period, in accordance with IAS 36 Impairment of Assets, it is assessed whether there is any indication of impairment of cash-generating units and individual assets. Indications of impairment may be based on external sources and relate to market variables (including fluctuations in prices, FX rates, stock prices, interest rates and other variables related to current economic trends), as well as plans, actions and developments at the Group, such as decisions concerning change, discontinuation, limitation or development of its business, or technological changes, efficiency and investment initiatives.

If there is any indication of impairment, the Company is required to estimate the recoverable amounts of assets and cash-generating units. While determining the recoverable amount, the Company takes into account such key variables as discount rates, growth rates and price ratios.

For information on impairment of property, plant and equipment and intangible assets, see Notes 13 and 15.

Following the analysis of cash flows generated by individual cash-generating units and impairment tests of selected assets which required such tests (including: waterproofing materials production plant in Jasło, LOTOS Paliwa Sp. z o.o.'s goodwill, as well as production assets at the YME field and the Girkaliai, Kretinga and Nausodis fields), the Group made necessary adjustments to the value of the assets and presented their effect in these consolidated financial statements.

Provision for decommissioning of oil and gas facilities and land reclamation

As at the last day of each reporting period, the Group analyses the costs necessary to decommission oil and gas facilities and the expenditure to be incurred on future land reclamation. As a result of those analyses, the Group corrects the value of the land reclamation provision recognised in previous years by adjusting its value to the amount of indispensable future costs. Any changes in the estimated time value of money are also reflected in the increase of the provision amount.

6. Change of information presented in previous reporting periods, change of accounting policies and correction of errors

The accounting policies and calculation methods adopted by the Group in the preparation of these consolidated financial statements are the same as those used in the preparation of the consolidated financial statements for 2011.

The Group made presentation changes with regard to items in the statement of comprehensive income, the statement of financial position, the statement of cash flows and the statement of changes in equity and, as a result, introduced changes in selected notes. The changes involved disaggregation or aggregation of certain items, as well as addition of more details or extension of the scope of disclosures regarding certain issues presented in the financial statements for 2012. Also, the Company adjusted the terminology to comply with the currently applicable IFRS. The changes were intended to render the financial statements more useful for their readers while ensuring compliance with the applicable IFRS. They did not affect valuation methods and had no material effect on the scope of data included in the financial statements for 2012 relative to data included in the financial statements for 2011. In line with IAS1 Presentation of Financial Statements, the Company restated comparative data as at December 31st and January 1st 2011, and presented them in the financial statements for 2012.

Also, as at December 31st 2012, having reviewed the provisions of IAS 12 Income Taxes (par. 40), the Group reversed the deferred tax liability relating to exchange differences on translating foreign operations of PLN 13,863 thousand.

7. Accounting policies

These consolidated financial statements have been prepared in accordance with the historical cost principle, except with respect to financial instruments, which are measured at fair value. The consolidated statement of cash flows is prepared using the indirect method.

The key accounting policies applied by the Group are presented below.

7.1 Basis of consolidation

These consolidated financial statements have been prepared on the basis of the financial statements of the Parent and financial statements of the entities controlled or jointly controlled by the Parent as well as the Parent's associates, prepared as at December 31st 2012.

All significant balances and transactions between the related entities, including material unrealised profits on transactions between the related entities, have been eliminated in their entirety. Unrealised losses are eliminated unless they are indicative of an impairment of value.

Subsidiaries are consolidated with the full method starting from the date when the Group assumes control over them and cease to be consolidated when control is lost. The Company is deemed to exert control when it holds, directly or indirectly (through its subsidiaries), more than 50% of votes in a given entity unless it is possible to prove that the ownership of over 50% of votes is not tantamount to exerting control. The Company's is also deemed to exert control when it does not have a majority of votes in a given entity but has the ability to decide on a its financial and operational policies. As at the last day of the reporting period, the Company held shares in one jointly controlled entity, which was consolidated with the proportional method.

7.2 Revenue

Revenue is disclosed at the fair value of proceeds, received or due, from sale of products, merchandise or services, which are provided or rendered to customers in the ordinary course of business, less discounts, VAT and other sales-related taxes (excise duty, fuel charge). Revenue from sale of products and merchandise is recognised at the moment of delivery, when material risk and benefits resulting from the ownership of the products and merchandise have been transferred to the purchaser.

7.3 Interest

Interest income is recognised as the interest accrues (using the effective interest rate), unless its receipt is doubtful.

7.4 Taxes

7.4.1 Income tax

Mandatory decrease in profit/(increase in loss) comprises: current income tax (CIT) and deferred income tax. The current portion of the income tax is calculated based on the net profit/(loss) (taxable income) for a given financial year. The net profit (loss) established for tax purposes differs from the net profit (loss) established for financial reporting purposes due to temporary differences between accounting and tax income (that is income which is taxable and costs which are deductible in a period other than the current reporting period) as well as permanent differences resulting from the fact that certain expense and income items recognised for accounting purposes will never be taken into account in tax settlements. The tax charges are calculated based on the tax rates effective for a given financial year.

For the purposes of financial reporting, the Company recognises deferred tax liabilities using the balance-sheet liability method in relation to all temporary differences existing as at the last day of the reporting period between the tax base of assets and liabilities and their carrying amount as disclosed in the consolidated financial statements.

Deferred tax liability is recognised for all taxable temporary differences:

- except to the extent that the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination, and, at the time of the transaction, affects neither accounting pre-tax profit nor taxable profit (tax loss), and
- in the case of taxable temporary differences associated with investments in subsidiaries, jointly-controlled entities or associates, and interests in joint ventures, unless the investor is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are disclosed in relation to all deductible temporary differences, unused tax assets, and unused tax losses brought forward in the amount of the probable taxable income which would enable these differences, assets and losses to be used:

- except to the extent that the deferred tax assets related to deductible temporary differences arise from the initial recognition of an asset or liability in a transaction which is not a business combination, and, at the time of the transaction, affects neither accounting pre-tax profit nor taxable profit (tax loss), and
- in the case of deductible temporary differences associated with investments in subsidiaries, jointly controlled entities or associates and interests in joint ventures, the related deferred tax assets are recognised in the statement of financial position to the extent it is probable that in the foreseeable future the temporary differences will be reversed and taxable income will be generated which will enable the deductible temporary differences to be offset.

The carrying amount of deferred tax assets is revised as at the last day of each reporting period and is subject to appropriate reduction to the extent it is no longer probable that taxable income sufficient for a partial or full realisation of the deferred tax assets would be generated.

Deferred tax assets and deferred tax liabilities are calculated using tax rates expected to be effective at the time of realisation of particular asset or liability, based on tax rates (and tax legislation) effective as at the last day of the reporting period or tax rates (and tax legislation) which as at the last day of the reporting period are certain to be effective in the future. The effect of deferred tax on items posted directly to equity is recognised in equity through other comprehensive income.

Deferred tax assets and deferred tax liabilities are presented in the statement of financial position in the amount obtained after they are offset for particular entities consolidated by the Company.

7.4.2 Value-added tax, excise duty and fuel charge

Revenue, expenses, assets and liabilities are recognised net of the VAT, excise duty and fuel charge:

- except where the value added tax paid on the purchase of assets or services is not recoverable from the tax authorities (in such a case it is recognised in the cost of the given asset or as part of the cost item), and

- except in the case of receivables and payables, which are recognised inclusive of the VAT, excise duty and fuel charge.

The net amount of the VAT, excise duty and fuel charge which is recoverable from or payable to tax authorities is carried in the statement of financial position under receivables or liabilities, as appropriate.

7.5 Foreign currency transactions

The financial statements of foreign entities are translated into the presentation currency (Polish złoty) of the consolidated financial statements at the following exchange rates:

- items of the statement of financial position – at the mid-exchange rate quoted by the National Bank of Poland for the last day of the reporting period (mid-exchange rate quoted by the NBP for the last day of the reporting period),
- items of the statement of comprehensive income – at the exchange rate computed as the arithmetic mean of mid-exchange rates quoted by the National Bank of Poland for the last day of each month in the reporting period (mid-exchange rate quoted by the NBP for the reporting period).

The exchange rate applicable to purchase invoices is the mid-exchange rate quoted by the National Bank of Poland for the last business day immediately preceding the invoice date, and the exchange rate applicable to sales invoices is the mid-exchange rate quoted by the National Bank of Poland for the last business day immediately preceding the sales date.

Any foreign exchange gains or losses resulting from currency translation are posted to the statement of comprehensive income, except for foreign exchange gains and losses which are treated as a part of borrowing costs and are capitalised in property, plant and equipment (foreign exchange gains and losses on interest and fees and commissions). Non-monetary items measured at their historical cost in a foreign currency are translated at the exchange rate effective as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated at the exchange rate effective as at the date of determining the fair value.

The Company calculates separately realised and unrealised foreign exchange gains (losses) and recognises the resulting total balance in the statement of comprehensive income under:

- operating profit or loss: in the case of foreign exchange gains and losses related to settlement of trade receivables and payables,
- financial profit or loss: in the case of borrowings, investment commitments, and cash and cash equivalents.

Exchange differences arising on valuation, as at the last day of the reporting period, of short-term investments (e.g. shares, other securities, loans advanced, cash and other monetary assets) and receivables and liabilities denominated in foreign currencies, are charged to finance income or costs and operating income or expenses.

The financial statements of foreign entities are translated into the presentation currency of the consolidated financial statements at the following exchange rates:

- items of the statement of financial position – at the mid-exchange rate quoted by the National Bank of Poland for the balance-sheet date;
- items of the statement of comprehensive income – at the exchange rate computed as the arithmetic mean of mid-exchange rates quoted by the National Bank of Poland for the day ending each month in the reporting period.

The resulting exchange differences are recognised as separate items under equity and other comprehensive income, taking into account the tax effect.

Exchange differences arising on a monetary item that forms a part of a reporting entity's net investment in a foreign operation are recognised in equity and other comprehensive income, and on disposal of the investment they are reclassified to consolidated profit or loss in the statement of comprehensive income.

At the time of disposal of a foreign entity, the accumulated exchange differences recognised in equity and relating to this foreign entity are disclosed in profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets or liabilities of the foreign operation and are translated into the presentation currency of the consolidated financial statements at the exchange rate effective as at the last day of the reporting period.

The following exchange rates were used in the valuation of items of the statement of financial position:

Mid-exchange rate quoted by the NBP for:	Dec 31 2012 [(1)]	Dec 31 2011 [(2)]
USD	3.0996	3.4174
EUR	4.0882	4.4168
NOK	0.5552	0.5676
LTL	1.1840	1.2792

[(1)] Table of mid-exchange rates of December 31st 2012.

[(2)] Table of mid-exchange rates of December 31st 2011.

The following exchange rates were used in the valuation of items of the statement of comprehensive income:

Mid-exchange rate quoted by the NBP for the period ended:	Dec 31 2012	Dec 31 2011
USD	3.2312	2.9679
NOK	0.5594	0.5315
LTL	1.2087	1.1991

7.6 Property, plant and equipment

Items of property, plant and equipment other than land are measured at cost less accumulated depreciation and impairment losses.

Land is measured at cost less impairment losses. In the case of perpetual usufruct rights to land, cost is understood to mean the amount paid for the right to a third party.

Perpetual usufruct rights to land obtained free of charge are capitalised at fair value in the accounting books.

Initial value of an item of property, plant and equipment comprises its cost, which includes all costs directly related to its acquisition and bringing it to working condition for its intended use. The cost also includes the cost of replacing component parts of plant and equipment, which is recognised when incurred, if relevant recognition criteria are fulfilled.

Costs incurred on an asset which is already in service, such as costs of repairs, overhauls or operating fees, are expensed in the reporting period in which they were incurred.

Items of property, plant and equipment (including their components), other than land and assets used for crude oil production, are depreciated using the straight-line method over their estimated useful lives, which are as follows:

Buildings and structures	over 1 year – 80 years
Plant and equipment	over 1 year – 25 years
Vehicles and other	over 1 year – 15 years

Items of property, plant and equipment used in petroleum production are depreciated using the units-of-production depreciation method, i.e. depreciation per unit of produced crude oil is charged to expenses. The depreciation rate is estimated by reference to forecasts of crude oil production from a given geological area. If the estimated reserves (2P – proved and probable – reserves) change significantly as at the balance-sheet date, depreciation per unit of produced crude oil is remeasured. Then, starting from the new financial year, the revised depreciation rate is applied.

An item of property, plant and equipment may be removed from the statement of financial position if it is sold or if the company does not expect to realise any economic benefits from its further use. Any gains or losses on removal of an asset from the statement of financial position (calculated as the difference between net proceeds from its sale, if any, and the carrying amount of the asset) are disclosed in the statement of comprehensive income in the period of removal.

The residual value, useful economic life and depreciation method are reviewed on an annual basis and adjusted – if required – with effect from the beginning of the next financial year.

In its consolidated financial statements, under property, plant and equipment the Group discloses an asset corresponding to the value of provision for decommissioning of oil and gas facilities. The asset was recognised in accordance with IAS 16 Property, Plant and Equipment, which reads: "The cost of an item of property, land and equipment comprises […] the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period". The Group's obligation to incur costs of decommissioning of the offshore oil and gas facilities results directly from the reasons specified in IAS 16. Under Paragraph 63 of the standard, the entities applying the IAS are obliged to test the value of the asset periodically, but no less frequently than as at the last day of each reporting period.

Revaluation of the asset so recognised may be caused by:

- change in estimated cash outflow necessary to ensure performance of the decommissioning obligation,
- change in the current market discount rate,
- increase in the value resulting from the passage of time – shortening of the time remaining until decommissioning, leading to the adjustment of the discount rate.

Items of property, plant and equipment under construction are measured at the amount of aggregate costs directly attributable to its acquisition or production (including finance costs), less impairment losses, if any. Items of property, plant and equipment under construction are not depreciated until they are ready for their intended use.

Property, plant and equipment under construction comprise assets which are under construction or assembly and are recognised at cost.

Finance costs capitalised in property, plant and equipment under construction include costs identified in line with the policies described in Note 7.22.

The cost of exploration for crude oil and natural gas is capitalised as property, plant and equipment under construction until the size of an oil/gas field and the economic viability of production are determined. Upon confirmation of the existence of reserves whose extraction is technically and economically viable, the expenditure incurred on exploration is transferred to property, plant and equipment and is subsequently depreciated. If exploration drillings do not result in discovery of any reserves whose extraction is technically and economically viable, impairment losses on property, plant and equipment under construction are recognised and charged to the profit or loss of the period in which it is found that commercial production from the discovered fields is not viable.

7.7 Goodwill

The acquirer recognises goodwill as at the acquisition date measured as the excess representing the difference between (A) the consideration transferred, measured at its acquisition-date fair value, including the amount of any non-controlling interest in the acquiree plus (B) the acquisition-date fair value of any interests in the acquiree previously held by the acquirer (in the case of a business combination achieved in stages), and (C) the net of the acquisition-date amounts of the acquiree's assets, including all of the identifiable assets acquired and the liabilities assumed, measured at their fair values as at the transaction date.

Goodwill = (C) – (A) – (B)

In the case of a business combination achieved in stages, the acquirer remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and recognises the resulting gain or loss in the statement of comprehensive income.

Following the initial recognition, goodwill is carried at cost less cumulative impairment losses. Goodwill is tested for impairment once a year. It is not amortised.

As at the date of assuming control, the acquired goodwill is allocated to every identifiable cash-generating unit. The Group calculates impairment of value by estimating the recoverable value of the cash-generating unit relevant to a given part of goodwill. If the recoverable value of a cash-generating unit is lower than its carrying amount, the Group recognises impairment losses. If goodwill comprises a part of a cash-generating unit and the Group sells a part of the cash-generating unit's business, the goodwill connected with the sold business is included in the carrying amount of the sold business for the purpose of calculating gains or losses on disposal of the part of business. In such a case, goodwill pertaining to the sold business should be measured using the relative value of the sold business, pro-rata to the interest in the retained part of the cash-generating unit.

7.8 Other intangible assets

Intangible assets are recognised if the Group is likely to obtain future economic benefits attributable directly to the assets. Intangible assets are initially recognised at cost, if they are acquired in separate transactions. Intangible assets acquired as part of a business combination are recognised at their fair value as at the acquisition date. Subsequent to initial recognition, intangible assets are carried at amounts reflecting accumulated amortisation and impairment losses.

The Group capitalises and recognises as an intangible asset both the fees under the licences for crude oil and natural gas exploration and appraisal and the royalties under the concluded mining use agreements granting the right to conduct crude oil and natural gas exploration. Exploration work cannot be conducted without obtaining a relevant licence and executing the mining use agreement.

Intangible assets are amortised using the straight-line method over their estimated useful lives. The expected useful lives of the Group's intangible assets ranges from 2 to 33 years.

Licences obtained during the step acquisition of control over companies of the AB LOTOS Geonafta Group are amortised using the unit-of-production method, i.e. amortisation per unit of produced crude oil is charged to expenses. The amortisation rate is estimated by reference to forecasts of crude oil production from a given field. If the estimated reserves change significantly as at the last day of the reporting period, amortisation per unit of produced crude oil is remeasured. Then, starting from the new financial year, the revised amortisation rate is applied.

The amortisation period and the amortisation method for an intangible asset are reviewed at the end of each financial year. Changes in the expected useful life or pattern of consumption of the future economic benefits embodied in the asset are reflected by changing the amortisation period or amortisation method, as appropriate, and are treated as changes in accounting estimates.

With the exception of capitalised development expenditure, expenditure on intangible assets produced by the Company is not capitalised and is charged to expenses in the period in which it was incurred.

7.9 Investments in associates

Investments in associates are equity-accounted. Associates are the entities over which the Parent has significant influence, either directly or indirectly through its subsidiaries, and which are neither its subsidiaries nor interests in joint ventures. The financial statements of associates serve as a basis for the equity method valuation of the shares held by the Parent.

Investments in associates are recognised in the statement of financial position at cost, adjusted for subsequent changes in the Parent's share in the net assets of the associates, and reduced by impairment losses, if any. The statement of comprehensive income includes the Parent's share of the profits and losses of the associates. In the case of a change recognised directly in an associate's equity, the Parent recognises its share in such change and, if applicable, discloses it in the statement of changes in equity.

7.10 Exploration and appraisal assets

Exploration and appraisal assets are exploration and appraisal expenditures recognised as assets in accordance with the Group's accounting policy. Exploration and appraisal expenditures are expenditures incurred by the Group in connection with the exploration for and appraisal of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration for and appraisal of mineral resources is the search for mineral resources, including oil, natural gas and similar non-regenerative resources, after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource. The Group classifies the exploration and appraisal assets as property, plant and equipment or intangible assets, depending on the type of the acquired assets, and applies this classification policy in a consistent manner. When the technical feasibility and commercial viability of extracting a mineral resource is demonstrable, exploration and appraisal assets are no longer classified as such.

The Group presents and discloses impairment losses on exploration and appraisal assets in accordance with IFRS 6 and evaluates such assets in accordance with IAS 36. Impairment losses are recognised in profit or loss, in accordance with IAS 36.

The Group examines the need to recognise impairment losses on exploration and appraisal assets by considering, inter alia, the following circumstances in relation to a specific area:

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- no substantial expenditure on further exploration for and appraisal of mineral resources is anticipated;

- exploration for and appraisal of mineral resources have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities;
- sufficient data exist to indicate that, although development in the specific area is likely to proceed, the carrying amount of the exploration and appraisal asset is unlikely to be recovered in full from successful development or by sale.

7.11 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership onto the lessee. All other types of leases are treated as operating leases.

The Group as a lessor

- Finance leases are disclosed in the statement of financial position as receivables, at amounts equal to the net investment in the lease less the principal component of lease payments for the given reporting period calculated based on a pattern reflecting a constant periodic rate of return on the lessor's net investment outstanding in respect of the finance lease.
- Finance income from interest on a finance lease is disclosed in the relevant reporting periods based on a pattern reflecting a constant periodic rate of return on the lessor's net investment outstanding in respect of the finance lease.
- Income from operating leases is recognised in the statement of comprehensive income on a straight-line basis over the lease term.

The Group as a lessee

- Assets used under a finance lease are recognised as assets of the Group and at initial recognition are measured at fair value or, if lower, the present value of the minimum lease payments. The resultant obligation towards the lessor is presented in the statement of financial position under finance lease liabilities. Lease payments are broken down into the interest component and the principal component so as to produce a constant rate of interest on the remaining balance of the liability. Finance costs are charged to the statement of comprehensive income.
- Operating lease payments are recognised in the statement of comprehensive income on a straight-line basis over the lease term.

7.12 Impairment losses on non-financial non-current assets

As at the last day of the reporting period, the Group assesses whether there is any indication of impairment of any of its assets. If the Group finds that there is such indication, or if the Group is required to perform annual impairment tests, the Group estimates the recoverable value of the given asset.

The recoverable value of an asset is equal to the higher of the:

- fair value of the asset or cash generating unit, less the transaction costs,
- or its value in use.

The recoverable value is determined for the individual assets, unless a given asset does not generate separate cash inflows largely independent from those generated by other assets or asset groups. If the carrying amount of an asset is higher than its recoverable value, the value of the asset is impaired and impairment losses are recognised up to the established recoverable value. In assessing value in use, the projected cash flows are discounted to their present value using a pre-tax discount rate which reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses related to the assets used in the continued operations are disclosed under the cost categories corresponding to the function of the asset with respect to which impairment has been identified.

As at the last day of the reporting period, the Group assesses whether there is an indication that any impairment losses recognised in the previous periods with respect to a given asset are no longer necessary or should be reduced. If there is such indication, the Group estimates the recoverable value of the given asset. A recognised impairment loss is reversed only when following the recognition of the last impairment loss there has been a change in the estimates used to determine the recoverable value of the asset. In such a case, the carrying amount of the asset is increased up to its recoverable value. The increased value may not exceed the carrying amount of the asset that would have been determined (net of accumulated amortisation/depreciation) if no impairment losses had not been recognised on that asset in the previous years. Reversal of an asset impairment loss is immediately recognised as income in the statement of comprehensive income. Following reversal of an impairment loss, in the subsequent periods the amortisation/depreciation charge related to the given asset is adjusted so that over the remaining useful life of that asset its revised carrying amount, less its residual value, can be regularly written off.

7.13 Inventories

Inventories are stated at the lower of cost and net realisable value.

Costs incurred in order to bring each inventory item to its present location and conditions are accounted for in the following manner:

- materials and merchandise – at cost,
- finished goods and work-in-progress – at the cost of direct materials and labour and an appropriate portion of indirect production costs, established on the basis of normal capacity utilisation.

Net realisable value is the selling price estimated as at the last day of the reporting period, net of VAT, excise duty and fuel charge, less any rebates, discounts and other similar items, and less the estimated costs to complete and costs to sell.

Inventory disposals are measured using the weigted average cost method.

Mandatory reserves are disclosed as non-current assets given their turnover in a short term. For more information on mandatory reserves, see Note 19.2.

7.14 Investment property

Investment property is measured at cost less accumulated depreciation and impairment losses.

Investment property, including investments in land, perpetual usufruct of land, buildings and structures, include property which the Group does not use for its own purposes but which will generate benefits in the form of value appreciation or rent income.

7.15 Trade and other receivables, prepayments

Trade receivables, which typically become due and payable in 7 to 60 days, are recognised and carried at amounts initially invoiced, less impairment losses on doubtful receivables. Impairment losses on receivables are estimated when the collection of the full amount of receivables is no longer probable. Uncollectible receivables are written off through the statement of comprehensive income when recognised as unrecoverable accounts.

If the effect of time value of money is significant, the value of receivables is determined by discounting the projected future cash flows to their present value using a pre-tax discount rate reflecting the current market estimates of the time value of money. If the discount method is applied, an increase in receivables over time is recognised as finance income.

The Group recognises prepayments if they relate to future reporting periods as other non-financial assets.

7.16 Cash and cash equivalents

Cash in hand and at banks, as well as and short-term deposits held to maturity are measured at face value.

Cash and cash equivalents as disclosed in the consolidated statement of cash flows comprise cash in hand, overdraft facilities as well as those bank deposits maturing within three months which are not treated as investment activity.

7.17 Assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is deemed to be met only if the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Classification of an asset as held for sale means that the management intends to complete the sale within one year from the change of its classification.

Non-current assets classified as held for sale and disposal groups are measured at the lower of their carrying amount and fair value less costs to sell.

7.18 Equity

Equity is recognised in the consolidated financial statements by categories, in accordance with the rules set forth in applicable laws and in the Articles of Association of the consolidated entities.

The share capital of the LOTOS Group is the share capital of the Parent and is recognised at its par value, in the amount specified in the Company’s Articles of Association and in the relevant entry in the National Court Register.

7.19 Dividends

Dividend is recognised as finance income as at the date on which the appropriate governing body of the dividend payer adopts a resolution concerning distribution of profit, unless the resolution specifies another dividend record date.

7.20 Borrowings and other debt instruments

All borrowings and other debt instruments are initially recognised at cost, equal to the fair value, less cost of obtaining the funds.

Following initial recognition, borrowings and other debt instruments are measured at amortised cost, using the effective interest rate method. Amortised cost includes the cost of obtaining the funds as well as discounts or premiums obtained at settlement of the liability. Upon removal of the liability from the statement of financial position or recognition of value impairment, gains or losses are charged to the statement of comprehensive income.

7.21 Employee benefit obligations

7.21.1 Retirement severance payments and length-of-service awards

In accordance with the company remuneration systems applied by the LOTOS Group companies, the Group employees are entitled to length-of-service awards and severance payments upon retirement due to old age or disability. Length-of-service awards are paid out after a specific period of employment. Old-age and disability retirement severance payments are one-off and paid upon retirement. Amounts of severance payments and length-of-service awards depend on the length of employment and the average remuneration of an employee. The Group recognises a liability for future retirement severance payment and length-of-service award obligations in order to assign costs to the periods to which they relate. According to IAS 19 Employee Benefits, length-of-service awards are classified as other long-term employee benefits, while retirement severance payments – as defined post-employment benefit plans. The present value of the obligations as at the last day of the reporting period is calculated by an independent actuary. The calculated value of the obligations is equal to the amount of discounted future payments, taking into account the employment turnover, and relate to the period ending on the last day of the reporting period. Information concerning demographics and employment turnover is sourced from historical data. Actuarial gains and losses are recognised in profit or loss.

Furthermore, the Group companies recognise a liability for the benefits to which employees and other eligible persons are entitled as part of the Company Social Benefits Fund.

Employees of the Group companies are entitled to holidays in accordance with the rules set forth in the Polish Labour Code. The Group recognises the cost of employee holidays on an accrual basis using the liability method. The amount of the provision for unused holidays is calculated on the basis of the difference between the balance of holidays actually used and the balance of holidays used established proportionately to the passage of time.

7.21.2 Profit distribution for employee benefits and special accounts

According to the business practice followed in Poland, company shareholders have the right to allocate a part of profit for employee benefits by making contributions to the Company's social benefits fund and to other special accounts. In the financial statements such distributions are charged to operating expenses in the period to which profit distribution relates.

7.22 Borrowing costs

Borrowing costs are expensed in the period in which they were incurred, except for the costs which relate directly to the acquisition, construction or production of an asset being completed (an asset whose preparation for use or sale requires a significant amount of time), which are capitalised as a part of the cost of such an asset.

To the extent that funds are borrowed specifically for the purpose of acquiring the asset being completed, the amount of the borrowing costs which may be capitalised as part of such asset is determined as the difference between the actual borrowing costs incurred in connection with a given credit facility or loan in a given period and the proceeds from temporary investments of the borrowed funds.

To the extent that funds are borrowed without a specific purpose and are later allocated for the acquisition of an asset being completed, the amount of the borrowing costs which may be capitalised is determined by applying the capitalisation rate to the expenditure on that asset.

7.23 Financial assets and liabilities

Financial assets and liabilities are classified into the following categories:

- Financial assets held to maturity,
- Financial assets and liabilities at fair value through profit or loss,
- Loans and receivables,
- Financial assets available for sale.

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities, which are quoted on an active market and which the Group has the positive intention and ability to hold to maturity, other than those:

- designated at fair value through profit or loss upon initial recognition,
- designated as available for sale,
- which qualify as loans and receivables.

Financial assets held to maturity are measured at amortised cost using the effective interest method. Financial assets held to maturity are classified as non-current assets if they mature more than 12 months after the last day of the reporting period.

A financial asset at fair value through profit or loss is a financial asset that meets either of the following conditions:

a) it is classified as held for trading. Financial assets are classified as held for trading if they:

- have been acquired principally for the purpose of being sold in the near future,
- are part of a portfolio of identified financial instruments that are managed together and for which there is probability of profit-taking in the near future,
- are derivatives (except for those which are part of hedge accounting or financial guarantee contracts),b) it has been assigned to this category on initial recognition, in accordance with IAS 39.

b) it has been assigned to this category on initial recognition, in accordance with IAS 39.

Financial assets at fair value through profit or loss are measured at fair value, based on their market value as at the last day of the reporting period, without reflecting sale transaction costs. Any changes in the value of such instruments are recognised in the statement of comprehensive income as finance income or costs. An entire contract can be designated as financial assets at fair value through profit or loss if it contains one or more embedded derivatives. The above does not apply when an embedded derivative has no significant impact on the cash flows generated under the contract or when it is clear without an analysis or following a short analysis that if a similar hybrid instrument was first considered, separation of the embedded derivative would be prohibited. Financial assets may be designated as financial assets at fair value through profit or loss on initial recognition if the following criteria are met:

- (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch); or

- (ii) the assets are part of a group of financial assets that are managed and measured based on fair value, according to a well-documented risk management strategy; or
- (iii) the assets contain embedded derivatives which should be presented separately.

Based on the fair value measurement methods applied, the Group classifies its individual financial assets and liabilities into the following categories (fair value hierarchy):

- **Level 1:** Financial assets and liabilities whose fair values are measured directly on the basis of quoted prices (used without adjustment) from active markets for identical assets or liabilities.
- **Level 2:** Financial assets and liabilities whose fair values are measured using measurement models in the case of which all significant input data is observable on the market either directly (as prices) or indirectly (based on prices).
- **Level 3:** Financial assets and liabilities whose fair values are measured using measurement models in the case of which the input data is not based on observable market data (unobservable input data).

The Group discloses derivative transactions with positive fair values under financial assets held for trading. Derivative transactions with negative fair values are disclosed under financial liabilities held for trading. Financial assets and liabilities held for trading include the following types of derivatives: swaps, futures, forwards, options, interest-rate swaps, forward rate agreements (financial risk management is described below).

Fair value of EUA and CER futures contracts hedging against the risk related to carbon dioxide (CO_2) allowances is established by reference to the difference between the market price quoted by the Intercontinental Exchange (ICE) for the valuation date and the transaction price. (Level 1 in the fair value hierarchy).

Fair value of commodity swaps is established by reference to future cash flows connected with the transactions, calculated on the basis of the difference between the average market price and the transaction price. The fair value has been established on the basis of prices quoted on active markets, as provided by an external consultancy (Level 2 in the fair value hierarchy).

Fair value of spots, forwards and currency swaps is established by reference to future discounted cash flows connected with the transactions, calculated on the basis of the difference between the forward rate and the transaction price. The forward rate is calculated on the basis of the fixing rate quotations of the National Bank of Poland and the interest rate curve implied in FX swaps (Level 2 in the fair value hierarchy).

Fair value of FRAs is established by reference to future discounted cash flows connected with the transactions, calculated on the basis of the difference between the forward rate and the transaction price. The forward rate is calculated using the zero-coupon interest rate curve based on 6M or 3M LIBOR, depending on the type of transaction (Level 2 in the fair value hierarchy).

Loans and receivables are financial assets with fixed or determinable payments not classified as derivatives and not traded on any active market. They are disclosed under current assets if they mature within 12 months from the last day of the reporting period. Loans and receivables with maturities exceeding 12 months from the last day of the reporting period are classified as non-current assets.

Financial assets available for sale are financial assets that are not derivative instruments, and have been classified as available for sale or do not belong to any of the previous three categories. Financial assets available for sale are recognised at fair value increased by the transaction costs which may be directly attributed to an acquisition or issue of a financial asset. If quoted market prices from an active market are not available and the fair value cannot be reliably measured using alternative methods, available-for-sale financial assets are measured at cost less impairment. The positive or negative differences between the fair value of available-for-sale financial assets (if they have a market price derived from an active market or their fair value can be established in any other reliable manner) and their cost are recognised net of deferred tax in other comprehensive income. Impairment losses on available-for-sale financial assets are recognised in finance costs.

Any purchase or sale of financial assets is recognised at the transaction date. On initial recognition, financial assets are recognised at fair value including – in the case of financial assets other than those at fair value through profit or loss – transaction costs directly attributable to the purchase.

Financial assets are derecognised when the Group loses control over the contractual rights comprising a particular financial instrument; this is usually the case when a financial instrument is sold or when all the cash flows related to a given instrument are transferred to a third party.

7.24 Impairment of financial assets

As at the last day of the reporting period the Group determines whether there is an objective indication of impairment of a financial asset or a group of financial assets.

Assets carried at amortised cost

If there is an objective indication that the value of loans and receivables measured at amortised cost has been impaired, the impairment loss is recognised in the amount equal to the difference between the carrying amount of the financial asset and the present value of estimated future cash flows (excluding future losses relating to irrecoverable receivables, which have not yet been incurred), discounted using the initial effective interest rate (i.e. the interest rate used at the time of initial recognition). The carrying amount of an asset is reduced directly or by recognising relevant provisions. The amount of loss is recognised in the statement of comprehensive income.

The Group first determines whether there exists an objective indication of impairment with respect to each financial asset that is deemed material, and with respect to financial assets that are not deemed material individually. If the analysis shows that there exists no objective indication of impairment of an individually tested asset, regardless of whether it is material or not, the Group includes the asset into the group of financial assets with similar credit risk profile and tests it for impairment together with the other assets from this group. Assets which are tested for impairment individually, and with respect to which an impairment loss has been recognised or a previously recognised loss is deemed to remain unchanged, are not taken into account when a group of assets are jointly tested for impairment.

If an impairment loss decreases in the next period, and the decrease may be objectively associated with an event that occurred subsequent to the impairment loss recognition, the recognised impairment loss is reversed. The subsequent reversal of an impairment loss is recognised in the statement of comprehensive income to the extent that the carrying amount of the asset does not exceed its amortised cost as at the reversal date.

Financial assets carried at cost

If there exists an objective indication of impairment of a non-traded equity instrument which is not carried at fair value since such value cannot be reliably determined, or of a related derivative instrument which must be settled by delivery of such non-traded equity instrument, the amount of impairment loss is established as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted with the market rate applicable to similar financial assets prevailing at a given time.

Financial assets available for sale

If there exists an objective indication of impairment of a financial asset classified as an asset available for sale, the amount of the difference between (A) the cost of that asset (less any principal payments and depreciation/amortisation charges) and its (B) current fair value, reduced by any impairment losses previously recognised in the statement of comprehensive income, (A – B) is derecognised from equity and charged to the statement of comprehensive income. Reversal of impairment losses concerning equity financial instruments classified as available for sale may not be recognised in the statement of comprehensive income. If the fair value of a debt instrument available for sale increases in the next period, and the increase may be objectively associated with an event that occurred subsequent to the impairment loss recognition in the statement of comprehensive income, the amount of the reversed impairment losses is recognised in the statement of comprehensive income.

7.25 Derivative financial instruments

Derivatives used by the Group to hedge against currency risk include in particular FX forwards. In addition, the Group relies on full barrel swaps and commodity swaps to hedge its exposure to raw material and petroleum product prices, uses futures contracts to manage its exposure to prices of carbon dioxide (CO_2) emission allowances, and enters into interest rate swaps (IRSs) and forward rate agreements (FRAs) to hedge its interest rate exposure.

Derivative financial instruments of this type are measured at fair value. The fair value of FX forwards is established by reference to the forward rates of contracts with similar maturities prevailing at a given time. The fair value of interest rate swaps is established by reference to the market value of similar instruments. Derivative instruments are recognised as assets if their value is positive and as liabilities if their value is negative. Gains or losses resulting from changes in the fair value of a derivative which does not qualify for hedge accounting are charged directly to the net profit or loss for the financial year.

In the statement of financial position, financial instruments are presented as either current or non-current, depending on the expected time of realisation of assets and liabilities classified as held for trading.

7.26 Hedge accounting

As of January 1st 2011, the Parent commenced cash flow hedge accounting with respect to a USD-denominated credit facility designated as a hedge of future USD-denominated sales transactions. In H2 2012, the Company extended the scope of application of cash flow hedge accounting through the establishment of new hedging relationships with respect to foreign-currency denominated credit facilities intended for financing of the 10+ Programme, designated as hedges of future USD-denominated petroleum product sales transactions.

The objective of cash flow hedge accounting is to guarantee a specified Polish złoty value of its revenue generated in USD. The hedged items comprise a number of highly probable and planned USD-denominated refining product sale transactions, in particular the first portion of revenue (up to the amount of the designated principal repayment) in USD generated in a given calendar month, or if the amount of revenue in a given month is lower than the amount of the designated principal payment – the first portion of revenue generated in three successive months. If a subsequent portion of revenue is designated in a given calendar month, the hedged item is the first portion of revenue generated after the previously designated portion of revenue in USD in a given calendar month, or if the amount of revenue in a given month is lower than the amount of the designated principal repayment – a subsequent portion of revenue generated in three successive months. A hedged item is linked to relevant hedging instruments based on an individual document designating the hedging relationship.

The designated hedging instruments cover an obligation to repay a USD-denominated credit facility, whose settlement dates fall on business days of specified calendar months, as provided in the principal repayment schedule.

Changes in the fair value of financial derivatives designated to hedge cash flows, to the extent representing an effective hedge, are posted directly to other comprehensive income. Changes in the fair value of financial derivatives designated to hedge cash flows, to the extent not representing an effective hedge, are charged to other finance income or costs in the reporting period.

At the time when a hedge is undertaken, the Company formally designates and documents the hedging relationship, as well as its risk management objective and strategy for undertaking the hedge.

The relevant documentation specifies (i) the hedging instrument, (ii) the hedged item or transaction, (iii) the nature of the hedged risk, (iv) as well as how the Company will assess the hedging instrument's effectiveness in offsetting changes in the fair value of the hedged item or cash flows attributable to the hedged risk. The hedge is expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk. The hedge is assessed on an ongoing basis to determine whether it remains highly effective during all the reporting periods for which it was undertaken.

7.27 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the Group anticipates that the costs for which provisions have been recognised will be recovered, e.g. under an insurance agreement, the recovery of such funds is recognised as a separate asset, but only when such recovery is practically certain to occur. The cost related to a given provision is disclosed in the statement of comprehensive income net of any recoveries. If the effect of the time value of money is significant, the amount of provisions is determined by discounting projected future cash flows to their present value at a pre-tax discount rate reflecting the current market estimates of the time value of money and risks, if any, specific to a given obligation. If the discount method is applied, an increase in the provision as a result of lapse of time is recognised as finance costs. Provisions are charged against operating expenses, other expenses, or finance costs, depending on what circumstances the future obligation relates to.

7.28 Trade and other payables and other liabilities, accruals

Current trade and other payables are reported at nominal amounts payable.
Financial liabilities at fair value through profit or loss include financial liabilities held for trading, and financial liabilities initially designated as financial liabilities at fair value through profit or loss. Financial liabilities are classified as held for trading if they were acquired for the purpose of being sold in the near future. Derivative financial instruments, including separated embedded instruments, are also classified as held for trading, unless they are considered as effective hedges.

Financial liabilities may be designated as financial liabilities at fair value through profit or loss on initial recognition if the following criteria are met:

- (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases,
- (ii) the liabilities are part of a group of financial liabilities that are managed and measured based on fair value, according to a well-documented risk management strategy, or
- (iii) the financial liabilities contain embedded derivative instruments which should be presented separately.

Financial liabilities at fair value through profit or loss are measured at fair value, based on their market value as at the last day of the reporting period, without reflecting sale transaction costs. Changes in the fair value of such instruments are recognised in profit or loss as finance income or costs.

Other financial liabilities, not classified as financial liabilities at fair value through profit or loss, are carried at amortised cost using the effective interest rate method.

The Group derecognises a financial liability when it is extinguished, that is when the obligation specified in the contract is either discharged or cancelled or expires. When a debt instrument between the same parties is replaced by another instrument whose terms are substantially different, the Group treats such replacement as if the former financial liability was extinguished and recognises a new liability. Similarly, material modifications to the terms of a contract concerning an existing financial liability are presented as extinguishment of the former and recognition of a new financial liability. Any differences in the respective carrying amounts arising in connection with the replacement are charged to profit or loss

Other non-financial liabilities include in particular VAT, excise duty and fuel charge liabilities to the tax authorities and liabilities under received prepayments, which are to be settled by delivery of goods or tangible assets, or performance of services. Other non-financial liabilities are measured at nominal amounts payable.

Accrued expenses are recognised at probable amounts of current-period liabilities.The Group presents expenses under other non-financial liabilities or under employee benefirs obligations (current liabilities during employment) if it refers to it.

7.29 Grants

If there is reasonable certainty that a grant will be received and that all related conditions will be fulfilled, grants are recognised at fair value.

If a grant concerns a cost item, it is recognised as income in matching with the expenses it is to compensate for. If it concerns an asset, its fair value is recognised as deferred income, and then it is written off annually in equal parts through the statement of comprehensive income over the estimated useful life of the asset.

7.30 Joint venture

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (strategic financial, operating and political decisions relating to the activity require the unanimous consent of the venturers). When a Group member becomes directly involved in activities as part of a joint venture, the Group’s share of jointly controlled assets and liabilities incurred jointly with the other venturers is disclosed in the financial statements of such Group member and classified in accordance with its nature. Liabilities and costs incurred directly in connection with a share in jointly controlled assets are accounted for using the accrual method. Income from the sale or use of the Group’s share of the output produced by jointly controlled assets and the share of expenses incurred by the joint venture are recognised when the inflow/transfer by the Group of the economic benefits connected with relevant transactions becomes probable, provided that they can be measured reliably. As at December 31st 2012, the Group was a party to joint ventures in relation to the production operations conducted by subsidiary LOTOS Exploration and Production Norge AS in Norway.

7.31 Segment reporting

For management purposes, the LOTOS Group is divided into business units which correspond to the business segments.

- upstream segment – comprising activities related to the acquisition of crude oil and natural gas reserves, and crude oil and natural gas production,
- downstream segment – comprising the production and processing of refined petroleum products and their wholesale and retail sale, as well as auxiliary, transport and service activities.

The operating segments are identified at the Group level. The Parent is included in the downstream segment. The upstream segment comprises the LOTOS Petrobaltic Group (excluding Energobaltic Sp. z o.o.).

Segment performance is assessed on the basis of revenue,
EBIT (= operating profit/(loss))
and EBITDA (= operating profit/(loss) before depreciation and amortisation).

The segments' revenue, EBIT and EBITDA do not account for intersegment adjustments.

Financial information of the operating segments used by the chief operating decision makers to assess their performance is presented in Note 8.

7.32 Contingent liabilities and receivables

A contingent liability is understood as a duty to discharge an obligation which is conditional upon the occurrence of certain circumstances.

In line with the policies applied by the Group, consistent with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, a contingent liability is understood as:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, or
- a present obligation that arises from past events but is not recognised in the financial statements because:
  - (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or
  - (ii) the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognised in the statement of financial position, however information on contingent liabilities is disclosed, unless the likelihood of the outflow of resources embodying economic benefits is negligible.

In compliance with the IFRS, the Group defines a contingent asset as a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Contingent receivables are not recognised in the statement of financial position, however information on them is disclosed if the inflow of resources embodying economic benefits is likely to occur.

Examples of contingent assets and liabilities include liabilities or receivables related to pending court disputes whose future outcomes are neither known not fully controlled by the entity. For more information on pending court proceedings and other contingent liabilities see Note 36.1 and Note 36.2, respectively.

7.33 Carbon dioxide (CO_2) emission allowances

The Group recognises carbon dioxide (CO_2) emission allowances in its financial statements based on the net liability method – the Group recognises only those liabilities that result from exceeding the limit of emission allowances granted, and the liability is recognised only after the Group actually exceeds the limit. The Group analyses the limits granted to it on an annual basis. Income from sale of unused emission allowances is credited against the statement of comprehensive income at the time of sale.

8. Business segments

PLN '000	Upstream segment	Downstream segment	Other (2)	Consolidation adjustments	Consolidated
					for the year ended Dec 31 2012
Revenue:	**759,799**	**32,899,919**	**27,205**	**(575,923)**	**33,111,000**
Intersegment sales	512,675	43,467	19,781	(575,923)	-
External sales	247,124	32,856,452	7,424	-	33,111,000
Operating profit/(loss) **(EBIT)**	**(680,235)** (2)	**977,481**	**5,377**	**(1,550)**	**301,073**
Depreciation and amortisation expense	137,980	520,066	10,339	(1,795)	666,590
perating profit/(loss) before amortisation and depreciation **(EBITDA)**	**(542,255)**	**1,497,547**	**15,716**	**(3,345)**	**967,663**

PLN '000	Upstream segment	Downstream segment	Other (2)	Consolidation adjustments	Consolidated
					Dec 31 2012
Total assets	**3,366,025**	**17,334,548**	**148,607**	**(792,801)**	**20,056,379**
- including net exploration and appraisal assets	150,033	-	-	-	150,033

PLN '000	Upstream segment	Downstream segment	Other (2)	Consolidation adjustments	Consolidated
					for the year ended Dec 31 2011
					(dane przekształcone)
Revenue:	**582,259**	**29,062,269**	**23,350**	**(408,292)**	**29,259,586**
Intersegment sales	350,476	40,461	17,355	(408,292)	-
External sales	231,783	29,021,808	5,995	-	29,259,586
Operating profit/(loss) **(EBIT)**	**21,663** (2)	**1,061,327**	**3,119**	**(636)**	**1,085,473**
Depreciation and amortisation expense	119,989	480,305	9,704	(1,390)	608,608
Operating profit/(loss) before amortisation and	**141,652**	**1,541,632**	**12,823**	**(2,026)**	**1,694,081**

depreciation **(EBITDA)**

PLN '000	Upstream segment	Downstream segment	Other [2]	Consolidation adjustments	Consolidated
					Dec 31 2011
Total assets	**3,078,573**	**17,901,203**	**147,187**	**(703,743)**	**20,423,220**
- including net exploration and appraisal assets	89,581	-	-	-	89,581

[1] Including impairment losses on YME field assets, of PLN 935,247 thousand (December 31st 2011: PLN 239,775 thousand), described in more detail in Note 13 .

[2] Includes LOTOS Park Technologiczny Sp. z o.o., LOTOS Gaz S.A. w likwidacji (in liquidation) and Energobaltic Sp. z o.o.

Geographical structure of sales

PLN '000	Upstream segment	Downstream segment	Other [1]	Consolidated
				for the year ended Dec 31 2012
Domestic sales	**304**	**24,142,354**	**7,424**	**24,150,082**
- products and services	65	23,107,959	7,424	23,115,448
- merchandise and materials	239	1,034,395	-	1,034,634
Export sales	**246,820**	**8,714,098**	**-**	**8,960,918**
- products and services	207,679	8,368,721	-	8,576,400
- merchandise and materials	39,141	345,377	-	384,518
Total	**247,124**	**32,856,452**	**7,424**	**33,111,000**

PLN '000	Upstream segment	Downstream segment	Other [1]	Consolidated
				for the year ended Dec 31 2011
Domestic sales	**240**	**22,684,726**	**5,995**	**22,690,961**
- products and services	91	22,286,029	5,995	22,292,115
- merchandise and materials	149	398,697	-	398,846
Export sales	**231,543**	**6,337,082**	**-**	**6,568,625**
- products and services	193,334	5,772,411	-	5,965,745
- merchandise and materials	38,209	564,671	-	602,880
Total	**231,783**	**29,021,808**	**5,995**	**29,259,586**

Sales by product category

PLN '000	Upstream segment	Downstream segment	Other (1)	Consolidated
				for the year ended Dec 31 2012
Gasolines	-	5,221,788	-	5,221,788
Raw gasoline	-	1,097,071	-	1,097,071
Reformate	-	458,827	-	458,827
Diesel oils	-	16,374,326	-	16,374,326
Bunker fuel	-	111,347	-	111,347
Light fuel oil	-	1,145,857	-	1,145,857
Heavy fuel oil	-	2,226,874	-	2,226,874
Aviation fuel	-	1,855,654	-	1,855,654
Lubricants	-	367,701	-	367,701
Base oils	-	568,804	-	568,804
Bitumens	-	1,730,266	-	1,730,266
LPG	-	502,388	-	502,388
Crude oil	239,828	-	-	239,828
Other refinery products. merchandise and materials	-	765,660	-	765,660
Other products. merchandise and materials	599	172,838	7,386	180,823
Services	6,697	274,142	38	280,877
Effect of accounting for cash flow hedge accounting	-	(17,091)	-	(17,091)
Total	**247,124**	**32,856,452**	**7,424**	**33,111,000**

(1) Includes LOTOS Park Technologiczny Sp. z o.o., LOTOS Gaz S.A. w likwidacji (in liquidation) and Energobaltic Sp. z o.o.

PLN '000	Upstream segment	Downstream segment	Other (1)	Consolidated
				for the year ended Dec 31 2011
Gasolines	-	4,511,001	-	4,511,001
Raw gasoline	-	480,080	-	480,080
Reformate	-	477,264	-	477,264
Diesel oils	-	15,112,466	-	15,112,466
Bunker fuel	-	115,782	-	115,782
Light fuel oil	-	1,223,309	-	1,223,309

Heavy fuel oil	-	1,600,701	-	1,600,701
Aviation fuel	-	1,397,304	-	1,397,304
Lubricants	701	318,930	-	319,631
Base oils	-	551,806	-	551,806
Bitumens	-	1,912,436	-	1,912,436
LPG	-	274,185	-	274,185
Crude oil	224,248	-	-	224,248
Other refinery products. merchandise and materials	12	598,200	-	598,212
Other products. merchandise and materials	150	206,644	5,960	212,754
Services	6,672	241,790	35	248,497
Effect of accounting for cash flow hedge accounting	-	(90)	-	(90)
Total	**231,783**	**29,021,808**	**5,995**	**29,259,586**

(1) Includes LOTOS Park Technologiczny Sp. z o.o., LOTOS Gaz S.A. w likwidacji (in liquidation) and Energobaltic Sp. z o.o.

In 2012, no customer of the LOTOS Group had a share of the Group's total revenue in excess of 10%. In 2011, the share of one customer, Shell POLSKA Sp. z o.o., exceeded 10% of the Group's total revenue, and amounted to 10.25%.

9. Income and expenses

9.1 Revenue

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
Revenue from sale of products	31,410,971	28,009,363
- including the effect of accounting for cash flow hedge accounting	(17,091)	(90)
Revenue from rendering of services	280,877	248,497
Total revenue from sale of products and rendering of services	**31,691,848**	**28,257,860**
Revenue from sale of merchandise	1,005,871	798,264
Revenue from sale of materials (1)	413,281	203,462
Total revenue from sale of merchandise and materials	**1,419,152**	**1,001,726**
Total	**33,111,000**	**29,259,586**
- including to related entities	6,569	6,579

(1) Including revenue from sale of crude oil.

9.2 Other income

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
Gain on disposal of non-financial non-current assets	17,493 (1)	1,420
Gain on disposal of assets held for sale	118	2,490
Grants	2,059	1,654
Provisions	1,295	380
Reversal of impairment losses on receivables	8,018	4,151
Reversal of impairment losses on property, plant and equipment and other intangible assets	511	681

Compensations/damages	9,647	10,558
Other	8,421	20,381 (2)
Total	**47,562**	**41,715**

(1) Including PLN 14,469 thousand in income from sale of carbon dioxide (CO_2) emission allowances.

(2) Including PLN 14,391 thousand under statute of limitations for liabilities.

9.3 Finance income

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
Dividend received	700	514
Interest	25,555	20,717
Foreign exchange gains:	156,112	-
- on foreign-currency denominated bank borrowings	165,726	-
- on foreign-currency denominated non-bank borrowings	(19,503)	-
- on foreign-currency transactions in bank accounts	25,560	-
- on debt securities	(3,454)	-
- other foreign exchange differences	(12,217)	-
Gain on disposal of investments	150	958
Revaluation of financial assets:	117,772	-
- valuation of derivative financial instruments	159,096	-
- settlement of derivative financial instruments	(41,324)	-
Provisions	1,699	4
Other	20	79
Total	**302,008**	**22,272**

9.4 Expenses by nature

PLN '000	Note	Year ended Dec 31 2012	Year ended Dec 31 2011
Depreciation and amortisation expense	21	666,590	608,608
Raw material and consumables used		28,191,721	25,008,836

- including foreign exchange losses [1]		31,196	319,366
Services		1,135,525	1,187,705
Taxes and charges		175,491	155,661
Employee benefit expenses	9,5	653,638	633,639
Other expenses by nature		197,513	193,982
Merchandise and materials at cost		1,320,772	888,812
Total expenses by nature		**32,341,250**	**28,677,243**
Change in products and adjustments to cost of sales		(495,100)	(672,227)
Total		**31,846,150**	**28,005,016**
including:			
Cost of sales		30,327,507	26,572,381
Distribution costs		1,054,839	1,000,366
Administrative expenses		463,804	432,269

[1] Foreign exchange losses relating to operating activities have been included in cost of sales.

9.5 Employee benefit expenses

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
Cost of current salaries and wages	483,860	468,719
Cost of social security and other employee benefits	141,980	127,711
Cost of retirement and other post-employment benefits	27,798	37,209
Employee benefit expenses	**653,638**	**633,639**
Change in products and adjustments to cost of sales	(13,534)	(15,310)
Total	**640,104**	**618,329**
including:		
Items recognised in cost of sales	369,964	358,773
Items recognised in distribution costs	32,602	33,366
Items recognised in administrative expenses	237,538	226,190

9.6 Other expenses

PLN '000	Note	Year ended Dec 31 2012	Year ended Dec 31 2011
Loss on disposal of non-current non-financial assets		787	2,500
Revaluation of receivables		3,006	11,053
Revaluation of property, plant and equipment and other intangible assets, including:		1,064,536	305,507
- impairment loss on YME field assets	13	935,247	239,775
- impairment losses on assets connected with the Waterproofing Materials Production Plant	13	22,840	15,050
- impairment losses on Norwegian exploration Licences	15	74,481	30,646
- impairment losses on assets connected with the Kretinga field in Lithuania	15	14,504	-
Revaluation of assets held for sale		502	-
Revaluation of other assets		-	264
Provisions		4,001	3,710
Fines and damages		2,255	587
Other		14,965	14,253
Total		**1,090,052**	**337,874**

9.7 Finance costs

PLN '000	Note	Year ended Dec 31 2012	Year ended Dec 31 2011
Interest, including:		232,945	207,525
- discount on provisions for oil and gas facilities [(1)]		12,038	11,573
Foreign exchange losses:		-	234,787
- on foreign-currency denominated bank borrowings		-	390,914
- on foreign-currency denominated non-bank borrowings		-	(95,475)
- on foreign-currency transactions in bank accounts		-	(34,112)
- on debt securities		-	(15,539)
- other foreign exchange losses		-	(11,001)
Revaluation of financial assets:		-	130,485
- valuation of derivative financial instruments		-	9,769

- settlement of derivative financial instruments		-	120,661
Bank fees		15,443	19,652
Other		4,790	3,004
Amounts capitalised as part of the cost of qualifying assets	13	(11,299)	(36,191)
Total		**241,879**	**559,262**

(1) For more information on the discount related to the estimated provision for oil and gas facilities, see Note 31.1 .

10. Corporate income tax

10.1 Tax expense

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
Current income tax	53,593	110,795
Deferred tax	(615,361)	(208,738)
Total income tax charged to consolidated profit or loss	**(561,768)**	**(97,943)**
Income tax expense recognised in other comprehensive income (net), including on:	75,853	(87,363)
- exchange differences on translating foreign operations	(13,864)	10,987
- cash flow hedges	89,717	(98,350)

For entities operating in Poland, the current and deferred portion of income tax was calculated at the rate of 19% of the corporate income tax base.

In the case of Norwegian subsidiary LOTOS Exploration and Production Norge AS, the marginal tax rate is 78% of the tax base. LOTOS Exploration and Production Norge AS's activities are subject to taxation under two parallel tax systems: the corporate income tax system (28% tax rate) and the petroleum tax system (additional tax rate of 50%).

In the case of Lithuanian subsidiaries of the AB LOTOS Geonafta Group, the current and deferred portion of income tax was calculated at the rate of 15%.

10.2 Corporate income tax calculated at effective tax rate and reconciliation of pre-tax profit to tax base

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
Pre-tax profit	361,202	551,379
Income tax at the rate of 19%	**68,628**	**104,762**
Permanent differences	11,599	18,528
Difference related to accounting for step acquisition of control (AB LOTOS Geonafta Group) (1)	(10,972)	(24,013)

Tax effect of tax losses incurred in period	101	1,129
Tax effect of tax losses deducted in period	(1,211)	(1,755)
Tax effect of share in profits of equity-accounted associates	-	(550)
Tax effect of the bio-component tax credit (2)	(5,518)	(6,905)
Tax effect of the special economic zone tax credit (2)	-	4,755
Adjustments disclosed in current year related to tax for previous years	(2,978)	148
Difference resulting from the application of tax rates other than 19%	(623,130)	(193,990)
- Norway	(618,301)	(186,569)
- Lithuania	(1,485)	(4,429)
- Cyprus	(3,341)	(2,681)
- Netherlands Antilles	(3)	(311)
Other differences	1,713	(52)
Corporate income tax	**(561,768)**	**(97,943)**

(1) Data for 2012 refers to the initial accounting for the acquisition of control over UAB Manifoldas by AB LOTOS Geonafta. For more information on the transaction, see Note 2 . Data for 2011 refers to the accounting for the acquisition of control over AB Geonafta (currently AB LOTOS Geonafta). For more information on the transaction, see Note 2 to the consolidated financial statements for 2011.

(2) For more information on the tax credits, see Note 31.2 .

10.3 Deferred income tax

The net deferred tax assets (liabilities) before set-off comprise the following items:

PLN '000	Statement of financial position			Statement of comprehensive income for the year ended	
	Dec 31 2012	Dec 31 2011	Jan 1 2011	Dec 31 2012	Dec 31 2011
Deferred tax assets					
Provision for employee benefit obligations	42,715	36,701	34,783	6,014	1,918
Impairment losses on inventories	448	1,877	1,473	(1,429)	404
Impairment losses on property, plant and equipment and other intangible assets	100,679	40,995	23,264	59,684	17,731
Impairment losses on YME field assets	806,962	165,741	-	641,221	165,741
Negative valuation of derivatives	28,905	35,671	52,036	(6,766)	(16,365)
Exchange differences on revaluation of foreign-currency denominated items	80	320	35,985	(240)	(35,665)

Impairment losses on receivables	15,693	17,767	18,011	(2,074)	(244)
Finance lease	32,032	33,765	14,415	(1,733)	19,350
Oil and Gas Facility Decommissioning Fund and provisions for reclamation	28,086	20,746	15,551	7,340	5,195
Unrealised margin assets	3,120	2,382	1,789	738	593
Accrued tax loss carry-forward	986,442	769,794	380,561	216,648	389,233
Other provisions	6,017	6,011	8,997	6	(2,986)
Bio-component tax credit (2)	10,934	15,752	19,964	(4,818)	(4,212)
Special economic zone tax credit (2)	-	-	4,755	-	(4,755)
Cash flow hedge accounting	8,633	98,350	-	(89,717)	98,350
Other	21,263	18,726	18,073	2,537	653
Total	**2,092,009**	**1,264,598**	**629,657**	**827,411**	**634,941**
Deferred tax liabilities					
Difference between present tax value and carrying amount of property, plant and equipment and other intangible assets	1,112,151	815,482	518,132	296,669	297,350
Positive valuation of derivatives	2,159	6,088	13,180	(3,929)	(7,092)
Finance lease	31,814	33,527	16,089	(1,713)	17,438
Exchange differences on translating foreign operations recognised in equity	-	13,864	2,877	(13,864)	10,987
Exchange differences on revaluation of foreign-currency denominated items	34,605	6,312	21,146	28,293	(14,834)
Provision for Lithuanian exploration and production licences acquired	64,032	54,296	-	9,736	54,296
Interest accrued	33,128	16,968	7,927	16,160	9,041
Other	14,975	23,159	13,548	(8,184)	9,611
Total	**1,292,864**	**969,696**	**592,899**	**323,168**	**376,797**
Deferred tax expense				504,243	258,144
Exchange differences on translating foreign operations				11,654	(20,407)
Assets held for sale, other exchange differences				-	1,599
Deferred tax disclosed under effect of accounting for step acquisition of control (AB LOTOS Geonafta Group) (1)				23,611	56,765
Deferred tax disclosed under other comprehensive income (net)				75,853	(87,363)

Deferred tax expense recognised in the consolidated statement of comprehensive income				**615,361**	**208,738**
Net deferred tax assets/(liabilities)	**799,145**	**294,902**	**36,758**		
including:					
Deferred tax assets	2,092,009	1,264,598	629,657		
Deferred tax liabilities	(1,292,864)	(969,696)	(592,899)		

(1) Data for 2012 refers to the initial accounting for the acquisition of control over UAB Manifoldas by AB LOTOS Geonafta. For more information on the transaction, see Note 2 . Data for 2011 refers to the accounting for the acquisition of control over AB Geonafta (currently AB LOTOS Geonafta). For more information on the transaction, see Note 2 to the consolidated financial statements for 2011.

(2) For more information on the tax credits, see Note 31.2 .

As the Group companies are separate taxpayers, deferred tax (deferred tax assets and deferred tax liabilities) is calculated at each company individually. Deferred tax assets and deferred tax liabilities are offset by the Group companies. Below is presented recognition of the deferred tax assets and liabilities in the consolidated statement of financial position:

PLN '000	Dec 31 2012	Dec 31 2011	Jan 1 2011
Deferred tax assets	1,121,314	400,128	159,901
Deferred tax liabilities	(322,169)	(105,226)	(123,143)
Net deferred tax assets/(liabilities)	**799,145**	**294,902**	**36,758**

Taxable temporary differences are expected to expire in 2013–2085.

As at December 31st 2012, the amount of tax losses with respect to which no deferred tax assets were recognised in the statement of financial position was PLN 43,101 thousand (December 31st 2011: PLN 69,392 thousand).

11. Earnings per share

	Year ended Dec 31 2012	Year ended Dec 31 2011
Net profit attributable to owners of the Parent (PLN ‘000) (A)	922,943	648,994
Weighted average number of shares ('000) (B)	129,873	129,873
Earnings per share (PLN) (A/B)	7.11	5.00

Earnings per share for each reporting period are calculated by dividing the net profit for a given reporting period by the weighted average number of shares in the reporting period.

Diluted earnings per share are equal to basic earnings per share since the Group carries no instruments with a dilutive effect.

12. Dividends

On June 28th 2012, the General Meeting of Grupa LOTOS S.A. adopted a resolution on distribution of the Company’s net profit for 2011. The General Meeting resolved not to distribute the Company’s net profit for 2011, totalling PLN 307,670 thousand, to the Company shareholders, and to allocate the profit as follows:

- PLN 307,670 thousand was transferred to the Company’s statutory reserve funds,
- PLN 1,500 thousand was transferred to the Special Account designated for financing corporate social responsibility (CSR) projects.

In these consolidated financial statements, the Company presented profit after distribution for 2011 under retained earnings.

As at the date of publication of these consolidated financial statements, the Company's Management Board did not adopt a resolution on distribution of net profit for 2012.

As at December 31st 2012 and December 31st 2011, Grupa LOTOS S.A.'s ability to distribute funds in the form of dividends was restricted. The restrictions followed from the provisions of the credit facility agreement executed on June 27th 2008 for the financing of the 10+ Programme, based on which the dividend amount may be conditional upon fulfilment of specific requirements, including generation of sufficient cash surplus and achievement of financial ratios at prescribed levels.

13. Property, plant and equipment

PLN '000	Dec 31 2012	Dec 31 2011 (restated)	Jan 1 2011 (restated)
Land	428,922	401,744	398,030
Buildings, structures	3,497,440	3,583,780	2,851,534
Plant and equipment	4,244,449	4,441,854	2,535,512
Vehicles, other	491,533	538,102	388,722
Property, plant and equipment under construction	888,829	1,485,902	4,174,319
Exploration and appraisal property, plant and equipment [1]	134,677	72,168	39,365
Total	**9,685,850**	**10,523,550**	**10,387,482**

[1] Including exploration and appraisal assets in the Baltic Sea.

PLN '000	Land	Buildings, structures	Plant and equipment	Vehicles, other	Property, plant and equipment under construction	Exploration and appraisal property, plant and equipment	Total
Gross carrying amount Jan 1 2012 (restated)	**414,608**	**4,502,781**	**5,556,750**	**1,032,442**	**1,766,080**	**138,254**	**13,410,915**
Increase:	29,786	127,890	119,695	90,445	345,369	60,721	773,906
- purchase	-	41	3,309	67,828	592,012	65,264	728,454
- transfer from property, plant and equipment under construction	29,782	115,937	84,385	32,758	(280,987)	-	(18,125)
- acquisition of control (AB LOTOS Geonafta Group)[1]	4	16	33,138	433	2,073	-	35,664
- exchange differences on translating foreign operations	-	(146)	(8,868)	(11,392)	(36,265)	(147)	(56,818)
- reclassification of exploration and appraisal assets [2]	-	-	4,396	-	-	(4,396)	-

appraisal assets							
- borrowing costs	-	-	-	-	11,299	-	11,299
- assets related to decommissioning of oil and gas facilities	-	11,823	959	-	56,506	-	69,288
- other	-	219	2,376	818	731	-	4,144
Decrease:	(525)	(6,922)	(38,711)	(29,437)	(13,803)	-	(89,398)
- sale	(94)	(3,723)	(6,523)	(5,356)	(2,693)	-	(18,389)
- liquidation	(429)	(3,134)	(3,763)	(6,738)	-	-	(14,064)
- exclusion from consolidation (AB LOTOS Geonafta Group) [1]	(2)	(8)	(25,287)	(308)	(1,037)	-	(26,642)
- other	-	(57)	(3,138)	(17,035)	(10,073)	-	(30,303)
Gross carrying amount Dec 31 2012	**443,869**	**4,623,749**	**5,637,734**	**1,093,450**	**2,097,646**	**198,975**	**14,095,423**

[1] Effect of the acquisition of control over UAB Manifoldas by AB LOTOS Geonafta; for more information see Note 2.

[2] Intangible exploration and appraisal assets in respect of which the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

PLN '000	Land	Buildings, structures	Plant and equipment	Vehicles, other	Property, plant and equipment under construction	Exploration and appraisal property, plant and equipment	Total
Gross carrying amount Jan 1 2011	**409,820**	**3,574,186**	**3,427,961**	**793,722**	**4,247,788**	**102,511**	**12,555,988**
Increase	6,553	949,755	2,168,596	279,796	(2,402,395)	35,743	1,038,048
- purchas	-	-	11,817	52,829	658,205	33,085	755,936
- transfer from property, plant and equipment under construction	6,134	941,408	2,062,892	210,385	(3,268,628)	-	(47,809)
- acquisition of control (AB LOTOS Geonafta Group) [1]	2	1,818	81,127	591	3,701	4,993	92,232
- reclassification from assets held for sale	-	293	-	-	-	-	293
- exchange differences on translating foreign operations	-	121	7,112	15,666	148,949	166	172,014
- reclassification of	-	-	2,501	-	-	(2,501)	-

exploration and appraisal assets [2]							
- borrowing costs	-	-	-	-	36,191	-	36,191
- assets related to decommissioning of oil and gas facilities	-	2,967	2,269	-	19,040	-	24,276
- other	417	3,148	878	325	147	-	4,915
Decrease:	(1,765)	(21,160)	(39,807)	(41,076)	(79,313)	-	(183,121)
- sale	(346)	(187)	(5,368)	(3,641)	(528)	-	(10,070)
- liquidation	(452)	(615)	(9,010)	(4,465)	(469)	-	(15,011)
- reclassification to assets held for sale	(953)	(20,145)	(19,219)	(2,081)	(191)	-	(42,589)
- other	(14)	(213)	(6,210)	(30,889)	(78,125) [3]	-	(115,451)
Gross carrying amount Dec 31 2011(restated)	**414,608**	**4,502,781**	**5,556,750**	**1,032,442**	**1,766,080**	**138,254**	**13,410,915**

[1] Effect of the acquisition of control over AB Geonafta (currently AB LOTOS Geonafta); for more information see Note 2 to the consolidated financial statements for 2011.

[2] Intangible exploration and appraisal assets in respect of which the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

[3] Relating to discontinued investments (design documentation) in the Company with the use of impairment loss of PLN 69,239 thousand.

PLN '000	Land	Buildings, structures	Plant and equipment	Vehicles, other	Property, plant and equipment under construction	Exploration and appraisal property, plant and equipment	Total
Accumulated depreciation Jan 1 2012	**12,456**	**902,616**	**1,112,523**	**493,303**	**-**	**-**	**2,520,898**
Increase:	1,575	202,270	279,417	115,554	-	-	598,816
- depreciation	1,488	202,054	279,310	121,270	-	-	604,122
- exchange differences on translating foreign operations	-	(7)	(1,938)	(7,697)	-	-	(9,642)
- other	87	223	2,045	1,981	-	-	4,336
Decrease:	(25)	(2,802)	(15,728)	(8,186)	-	-	(26,741)
- sale	(25)	(1,033)	(5,866)	(3,406)	-	-	(10,330)
- liquidation	-	(1,740)	(3,319)	(3,607)	-	-	(8,666)
- exclusion from	-	-	(6,541)	(92)	-	-	(6,633)

consolidation (AB LOTOS Geonafta Group) [1]							
- other	-	(29)	(2)	(1,081)	-	-	(1,112)
Accumulated depreciation Dec 31 2012	**14,006**	**1,102,084**	**1,376,212**	**600,671**	**-**	**-**	**3,092,973**
Accumulated depreciation Jan 1 2011	**11,382**	**718,635**	**892,086**	**404,978**	**-**	**-**	**2,027,081**
Increase:	1,398	189,266	252,215	128,041	-	-	570,920
- depreciation	1,398	187,300	250,040	117,003	-	-	555,741
- reclassification from assets held for sale	-	264	-	-	-	-	264
- exchange differences on translating foreign operations	-	4	1,538	10,338	-	-	11,880
- other	-	1,698	637	700	-	-	3,035
Decrease:	(324)	(5,285)	(31,778)	(39,716)	-	-	(77,103)
- sale	(22)	(49)	(5,034)	(3,264)	-	-	(8,369)
- liquidation	-	(204)	(7,972)	(4,485)	-	-	(12,661)
- reclassification to assets held for sale	(302)	(4,979)	(12,619)	(1,592)	-	-	(19,492)
- other	-	(53)	(6,153)	(30,375)	-	-	(36,581)
Accumulated depreciation Dec 31 2011	**12,456**	**902,616**	**1,112,523**	**493,303**	**-**	**-**	**2,520,898**

[1] Effect of the acquisition of control over UAB Manifoldas by AB LOTOS Geonafta; for more information see Note 2.

PLN '000	Land	Buildings, structures	Plant and equipment	Vehicles, other	Property, plant and equipment under construction	Exploration and appraisal property, plant and equipment	Total
Impairment losses Jan 1 2012 (restated)	**408**	**16,385**	**2,373**	**1,037**	**280,178**	**66,086**	**366,467**
Recognised	940	9,157	15,234	616	943,512	364	969,823
Reclassification to assets held for sale	-	-	-	(390)	-	-	(390)
Exchange differences on translating foreign	-	-	-	-	(12,764)	(119)	(12,883)

operations							
Reclassification from exploration and appraisal assets [(1)]	-	-	2,033	-	-	(2,033)	-
Exclusion from consolidation (AB LOTOS Geonafta Group) [(2)]	-	-	(2,033)	-	-	-	(2,033)
Used / Reversed	(407)	(1,317)	(534)	(13)	(2,109)	-	(4,380)
Other	-	-	-	(4)	-	-	(4)
Impairment losses Dec 31 2012	**941**	**24,225**	**17,073**	**1,246**	**1,208,817**	**64,298**	**1,316,600**
Impairment losses Jan 1 2011	**408**	**4,017**	**363**	**22**	**73,469**	**63,146**	**141,425**
Recognised	-	13,691	2,561	978	259,846 [(3)]	2,805	279,881
Exchange differences on translating foreign operations	-	-	-	-	16,355	135	16,490
Used / Reversed	-	(1,323)	(571)	(148)	(69,492) [(4)]	-	(71,534)
Other	-	-	20	185	-	-	205
Impairment losses Dec 31 2011 (restated)	**408**	**16,385**	**2,373**	**1,037**	**280,178**	**66,086**	**366,467**
Net carrying amount Dec 31 2012	**428,922**	**3,497,440**	**4,244,449**	**491,533**	**888,829**	**134,677**	**9,685,850**
Net carrying amount Dec 31 2011 (restated)	**401,744**	**3,583,780**	**4,441,854**	**538,102**	**1,485,902**	**72,168**	**10,523,550**
Net carrying amount Jan 1 2011	**398,030**	**2,851,534**	**2,535,512**	**388,722**	**4,174,319**	**39,365**	**10,387,482**

[(1)] Exploration and appraisal assets in respect of which technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

[(2)] Effect of the acquisition of control over UAB Manifoldas by AB LOTOS Geonafta; for more information see Note 2.

[(3)] Including impairment losses on assets related to the YME field of PLN 239,775 thousand and impairment losses on expenditure on the IGCC project of PLN 19,352 thousand (the impairment losses on the IGCC project include impairment losses on licences obtained free of charge of PLN 6,468 thousand, referred to in Note 31.2

[(4)] Relating to discontinued investments (design documentation) in the Company with the use of impairment loss of PLN 69,239 thousand.

The table below presents items under which depreciation of property, plant and equipment was recognised:

PLN '000	**Year ended Dec 31 2012**	**Year ended Dec 31 2011**
Cost of sales	503,547	453,936

Distribution costs	52,025	51,306
Administrative expenses	32,207	32,285
Change in products and adjustments to cost of sales	16,341	18,155
Total	**604,120**	**555,682**

As at December 31st 2012, financing costs capitalised in property, plant and equipment under construction amounted to PLN 43,211 thousand (December 31st 2011: PLN 35,078 thousand).

In 2012, financing costs capitalised in property, plant and equipment under construction amounted to PLN 11,299 thousand (2011: PLN 36,191 thousand).

As at December 31st 2012, the Group's liabilities under executed agreements relating to expenditure on property, plant and equipment amounted to PLN 82,633 thousand.

As at December 31st 2012, the value of property, plant and equipment serving as collateral for the Group's liabilities amounted to PLN 7,150,215 thousand (December 31st 2011: PLN 7,850,904 thousand).

The Group incurs exploration and appraisal expenditure. In 2012, costs of direct purchases of materials and investment services related to exploration and appraisal assets amounted to PLN 66,231 thousand (2011: PLN 12,765 thousand), including direct cash flows from investing activities related to exploration and appraisal assets of PLN 65,263 thousand (2011: PLN 10,843 thousand). As at December 31st 2012, investment commitments amounted to PLN 968 thousand (December 31st 2011: PLN 1,922 thousand).

The Group recognises exploration and appraisal property, plant and equipment until the technical feasibility and commercial viability of extracting a mineral resource is demonstrable. As at December 31st 2012, property, plant and equipment in respect of which the technical feasibility and commercial viability of extracting a mineral resource have been demonstrated amounted to PLN 109,030 thousand (December 31st 2011: PLN 108,303 thousand); the cost of their depreciation was PLN 7,300 thousand (December 31st 2011: PLN 5,436 thousand). As at the last day of the reporting period, those assets were no longer recognised under exploration and appraisal property, plant and equipment, but under property, plant and equipment used in petroleum production, depreciated using the units-of-production method.

Under property, plant and equipment, the Group recognises the oil and gas facilities decommissioning asset (for more information, see Note 31.1). As at December 31st 2012, the net value of the oil and gas facilities decommissioning asset amounted to PLN 188,523 thousand (December 31st 2011: PLN 133,094 thousand).

In 2012, the Group recognised impairment losses of PLN 969,823 thousand on property, plant and equipment (2011: PLN 279,881 thousand). Those included primarily impairment losses of PLN 935,247 thousand (2011: PLN 239,775 thousand) on assets of LOTOS Exploration and Production Norge AS (upstream segment) related to the YME project, described below in a section devoted to interests in Norwegian production and exploration licences, as well as impairment losses of PLN 22,840 thousand (2011: PLN 15,050 thousand) on assets of LOTOS Asfalt Sp. z o.o related to the Waterproofing Materials Production Plant situated in the Tarnobrzeg Special Economic Zone, EURO-PARK WISŁOSAN.

As the time required to achieve the initially assumed sales volumes of finished products proved longer than expected, LOTOS Asfalt Sp. z o.o. tested the assets related to the Waterproofing Materials Production Plant for impairment, which involved an analysis of the discounted cash flows to be generated by the Plant in 2013–2017 based on the following assumptions of gradual growth in sales volumes: 35% in 2013 (relative to 2012), and 10% in 2014–2017 (year on year), taking into account an adjustment for expected inflation at the level of 2.44%–2.74% (in 2014–2017) and weighted average cost of capital of 11.17%. Based on the test results, an impairment loss for the full amount of the assets was recognised.

Information on interests in Norwegian production and exploration licences

The item “Property, plant and equipment under construction” includes expenditure of PLN 1,768m (*NOK 3.184m, translated at the mid-exchange rate as at December 31st 2012*) incurred by LOTOS Exploration and Production Norge AS on the purchase of interests in Norwegian production licences and on development of the YME field, including prepayments of PLN 137m (*NOK 247m, translated at the mid-exchange rate quoted by the National Bank of Poland as at December 31st 2012*).

The Group tested the YME project for impairment as at June 30th 2012 and December 31st 2012. Following the tests, impairment losses were recognised as at June 30th 2012, and no need for recognition of further impairment losses as at December 31st 2012 was identified.

During its execution, the YME project suffered significant delays and cost overruns, and the project is the subject matter of arbitration proceedings involving the contractor responsible for the delivery of the platform. For this reason, the operator of the YME field, Talisman Energy Norge AS, carried out (and concluded in April 2012) further internal and external analyses of the YME project, which resulted in a revision of the project cost estimates and the scheduled completion date. This in turn led to recognition of an impairment loss on the project by the YME field operator. The operator citied the delays in project execution and the need to perform significant work prior to the production launch as the main reasons for recognising the impairment loss. Talisman Energy Norge AS further stated that it continued close cooperation with the project partners and the supplier of the Mobile Offshore Production Unit (the production component of the platform), Single Buoy Moorings Inc. (hereinafter referred to as SBM), with a view to achieving full understanding of the scope of work remaining to be done. However, the operator is also considering other options for completing the development of the YME field.

In light of the information presented above and having identified possible impairment, as at June 30th 2012, the Group tested the assets for impairment based on estimated values in use, using a discounted cash flow analysis of LOTOS Exploration and Production Norge AS’s interests in the hydrocarbon reserves held under the acquired production licences covering the YME field development project. Following the impairment test, the Group recognised impairment losses on the YME assets, which brought the amount of the YME project property, plant and equipment under construction to PLN 445m as at June 30th 2012 (*NOK 787m, translated at the mid-exchange rate quoted by the National Bank of Poland for that day*).

The YME field impairment test as at June 30th 2012 was carried out assuming a change in crude oil prices by +/-15%/bbl relative to Brent crude spot and forward prices as at June 29th 2012, a +/-15% change on the USD/NOK forward rate as at June 29th 2012, and a +/-15% change in the YME field reserves, and a weighted average cost of capital of 7.5% subject to a 78% marginal tax rate (applicable in Norway).

For the purposes of the test as at June 30th 2012, a scenario was adopted providing for the launch of production in Q3 2015.

Based on such assumptions, it was concluded that as at June 30th 2012 the carrying amount of the assets related to the YME field exceeded the upper limit of the recoverable amount ranges determined, and hence an impairment loss was recognised on the tested asset, of PLN 928m, as at the end of June 2012 (*NOK 1,672m, translated at the mid-exchange rate quoted by the National Bank of Poland for that day*), compared with the impairment loss of PLN 256m (*NOK 451m, translated at the mid-exchange rate quoted by the National Bank of Poland for that day*). In the consolidated statement of comprehensive income for 2012, the impairment loss on YME field assets was included in Other expenses at PLN 395m (*NOK 1,672m, translated at the average mid-exchange rate quoted by the National Bank of Poland for the reporting period ended December 31st 2012*), compared with PLN 240m (*NOK 451m, translated at the average mid-exchange rate quoted by the National Bank of Poland for the reporting period ended December 31st 2011*) for 2011. The effect of the impairment loss on net profit for 2012, taking into account the deferred tax effect, was PLN 286m (*NOK 510.4m, translated at the mid-exchange rate quoted by the National Bank of Poland for the period*), compared with the effect of PLN 84.6m (*NOK 159m, translated at the mid-exchange rate quoted by the National Bank of Poland for the period*) on the 2011 net profit.

As discussed in Note 38 (Material events subsequent to the last day of the reporting period), on March 12th 2013, Talisman Energy Norge AS (the YME field operator) and Single Buoy Moorings Inc. (SBM, production platform owner) announced that they reached an agreement concerning removal of the defective platform from the YME field (evacuated since mid-July 2012) and termination of all existing contracts and agreements executed by them in connection with the YME project.

When carrying out an impairment test with respect to assets related to the YME field as at December 31st 2012, in connection with the contemplated possibility for LOTOS Exploration and Production Norge AS to exit the YME field development project, the Group adopted a different approach to testing the recoverable amount of expenditure incurred than the one used in the impairment test performed as at June 30th 2012. The Group calculated the recoverable amount of the assets on the basis of their estimated fair value less cost to sell. For the purpose of determining the price that can be obtained for the interest in the YME field (the realisable value), the value of the assets was calculated on the basis of the proved reserves of crude oil (2P) and the price per unit of reserves in similar market transactions concerning fields with comparable development status, taking into account the tax position. The realisable value thus determined has confirmed the realisability of the YME field assets as shown in the consolidated financial statements as at December 31st 2012, which means that there is no need to recognise any additional impairment.

Moreover, assuming the Group's further involvement in the YME project, the Group carried out a multi-scenario analysis of the YME field development based on various levels of investment expenditure and operating costs, and various production start dates. Analyses of the value in use confirmed the results of the test based on estimates of fair value of the YME project less cost to sell.

The total value of impairment losses as at December 31st 2012 adjusts the value of expenditure related to the YME project by PLN 1,179m (*NOK 2,123m, translated at the mid-exchange rate quoted by the National Bank of Poland for that day*). As at the reporting date, the amount of expenditure on property, plant and equipment under construction related to the YME field, net of impairment, was PLN 589m (*NOK1,061m, translated at the mid-exchange rate quoted by the National Bank of Poland for that day*).

Taking into consideration the impairment losses recognised on the capital expenditure on the YME field, as well as earlier tax losses deductible in future periods, in the consolidated statement of financial position as at December 31st 2012, the Group recognised a deferred tax asset totalling PLN 1,077m (*NOK 1,939m, translated at the mid-exchange rate quoted by the National Bank of Poland for that day*). Based on the completed analyses and obtained legal opinions, and taking into consideration the Norwegian tax legislation, which does not impose any time limit for settling deductible tax losses, the Group believes that the deferred tax asset recognised as at December 31st 2012 is fully recoverable in the nominal amount disclosed in these consolidated financial statements.

Due to high market volatility, in particular with respect to crude oil prices, the adopted assumptions might be subject to reasonable changes, as a result of which it may be necessary to further reduce the carrying amount of the YME project assets due to the fact that it will exceed their recoverable amount. Therefore, the Management Board points out to a number of uncertainties as to the recoverable amount of the assets recognised in connection with the YME field, including.

- Volatility in market prices of crude oil;
- Estimated size and market value of the recoverable hydrocarbon reserves in the YME field depending on the Plan for Development and Operation of the field;
- Estimated fair value of tax assets taken into account in the impairment test of the YME field made as at the end of the year;
- Amount of reclamation liabilities taken over together with the SBM’s sub-sea infrastructure under the settlement reached on March 11th 2013 between the YME project operator and SBM, referred to in Note 38.
- Date of commencement of production from the YME field, if any;

- NOK/USD exchange rate fluctuations;
- Discount rates.

Prospects for development of the B-4 and B-6 gas fields

Since 2010, impairment losses have been recognised for the full amount of expenditure incurred by LOTOS Petrobaltic S.A. on gas exploration at the B-4 and B-6 fields, including PLN 593 thousand (December 31st 2011: PLN 593 thousand) recognised under property, plant and equipment under construction, and PLN 48,672 thousand (December 31st 2011: PLN 48,308 thousand) recognised under exploration and appraisal assets. According to the findings of analyses performed with respect to the B-4 and B-6 fields, significant capital expenditure was required to obtain commercial production of hydrocarbons and ensure that the development of the B-4 and B-6 fields is profitable. Therefore, LOTOS Petrobaltic S.A. took measures to find an industry partner to continue the project. In October 2012, LOTOS Petrobaltic S.A. and CalEnergy Resources Poland Sp. z o.o. executed a cooperation agreement on the development of the B-4 and B-6 fields. The agreement is subject to a number of conditions precedent. The project provides for joint operations carried out through a special purpose vehicle. Under the preparatory work schedule, seismics acquisition and selection of a preliminary field development concept are scheduled for 2013–2014. On completion of that stage, the partners will be able to make a final investment decision concerning the development of the B-4 and B-6 fields.

14. Goodwill

PLN '000	Dec 31 2012	Dec 31 2011	Jan 1 2011
Carrying amount of goodwill arising on the acquisition of:			
- LOTOS Partner Sp. z o.o.	1,862	1,862	1,862
- Energobaltic Sp. z o.o.	1,126	1,126	1,126
Total	**2.988**	**2,988**	**2,988**
Carrying amount of goodwill arising on the acquisition of an organised part of business:			
- LOTOS Gaz S.A. (1)	10,009	10,009	10,009
- ESSO service stations network (2)	31,759	31,759	31,759
- Slovnaft Polska service stations network (2)	1,932	1,932	1,932
Total	**43,700**	**43,700**	**43,700**
Total goodwill	**46,688**	**46,688**	**46,688**

(1) The goodwill relates to an organised part of LOTOS Gaz S.A.'s business (wholesale of fuels) acquired by LOTOS Paliwa Sp. z o.o.

(2) The goodwill relates to ExxonMobile Poland and Slovnaft Polska service station networks acquired by LOTOS Paliwa Sp. z o.o. The Group determines the recoverable amount of goodwill for the service station networks acquired from ExxonMobile Poland and Slovnaft Polska based on their values in use, using the discounted cash flow method. Future cash flows were calculated based on five-year cash-flow projections. The residual value for the discounted cash flows was calculated using the growing perpetuity formula. A fixed growth rate of 1.94% (2011: 1.84%) was used to extrapolate cash-flows projections beyond the five-year period. The extrapolation was based on a quantitative forecast of the fuel consumption growth rate in Poland in 2009–2015. To test goodwill for impairment, the Group assumed net weighted average cost of capital (WACC) of 7.53% (2011: 8.73%). Discounted cash flows calculated separately for each cash-generating unit were grossed up.

As at December 31st 2012 and December 31st 2011, the Group carried out impairment tests of goodwill allocated to individual cash-generating units. No impairment losses on the goodwill were recognised as at December 31st 2012 and December 31st 2011 (no need to recognise impairment losses was identified following the impairment tests performed).

15. Other intangible assets

PLN '000	Dec 31 2012	Dec 31 2011 (restated)	Jan 1 2011 (restated)
Licences, patents and trademarks	91,286	86,664	49,123
Exploration and production licences (1)	426,882	361,975	-
Intangible exploration and appraisal assets (2)	15,356	17,413	33,828
Other	10,944	9,528	11,874
Total	**544,468**	**475,580**	**94,825**

(1) Exploration and production licences related to oil fields in Lithuania.
(2) Including Norwegian licences for exploration on the North Sea of PLN 13,896 thousand (December 31st 2011: PLN 15,176 thousand) and licences for exploration on the Baltic Sea of PLN 771 thousand (December 31st 2011: PLN 1,024 thousand).

The Group incurs expenditure on intangible exploration and appraisal assets. In 2012, cash flows related to expenditure on intangible exploration and appraisal assets amounted to PLN 73,714 thousand (2011: PLN 12,114 thousand).

The Group recognises intangible exploration and appraisal assets until the technical feasibility and commercial viability of extracting a mineral resource is demonstrable. As at December 31st 2012, intangible assets in respect of which the technical feasibility and commercial viability of extracting a mineral resource have been demonstrated amounted to PLN 430,755 thousand (December 31st 2011: PLN 365,895 thousand); the cost of their amortisation was PLN 49,869 thousand (2011: PLN 39,981 thousand).

In 2012, the Group recognised impairment losses on intangible assets in the amount of PLN 88,985 thousand (2011: PLN 30,646 thousand), which related to Latvian exploration and production licences and Norwegian exploration licences, as discussed in more detail below. The impairment losses on the intangible assets were charged to the upstream segment and recognised under "*Operating profit/(loss) (EBIT)*" in Note 8.

As drillings under the PL 498 and PL 497 licences produced no positive results, impairment losses on capitalised costs of exploration work related to the licences were recognized in amount PLN 74,481 thousand (*NOK 133,145 thousand, translated at the average NOK/PLN mid-exchange rate quoted by the National Bank of Poland for the reporting period ended December 31st 2012*). In 2011, the impairment losses amounted to PLN 30,646 thousand and related to licence PL 455 (*NOK 57,660 thousand, translated at the average NOK/PLN mid-exchange rate quoted by the National Bank of Poland for the reporting period ended December 31st 2011*).

The remeasurement of the intangible assets related to the Lithuanian licences followed mainly from the disclosure of new geological information which reduced the reserve estimates. Following impairment tests performed separately for each asset generating independent cash flows, i.e. for the Girkaliai, Kretinga and Nausodis fields, impairment losses of PLN

14,504 thousand (*LTL 12,000 thousand, translated at the average LTL/PLN mid-exchange rate quoted by the National Bank of Poland for the reporting period ended December 31st 2012*) were recognised on assets related to the Kretinga field.

Production profiles based on the current field reports prepared by an independent industry adviser were used in the calculations of future cash flows (the assets tested for impairment generate cash flows from production of crude oil; production profiles determine the period of detailed cash flow projections for each field). The analysed cash flows in the production periods included revenue from sale of crude oil, operating expenses and capital expenditure necessary to conduct production activities, and the calculated cash flows were discounted in order to show the present value of future payments. The applied discount rate was based on the weighted average cost of capital after tax, estimated at 11%. As the financial effects of production from a given oil field show high sensitivity to changes in the prices of crude oil, and the prices are highly volatile, the Group applied a range approach to testing the value of its fields, allowing for the volatility of the following parameters: crude oil price: +/- 15%, output volumes: +/- 15%, USD/LTL exchange rate: +/- 15%, in order to avoid remeasurement of assets after every change in the prices. The tests which were carried out revealed that, as at December 31st 2012, the carrying amount of the Girkaliai and Nausodis fields fell within the ranges determined by the range test. In the case of the Kretinga field, the carrying amount of the tested assets was higher than the field's range measurement values, which led to the recognition of impairment losses on the assets.

Changes in other intangible assets

PLN '000	Licences, patents and trademarks	Exploration and production licences	Intangible exploration and appraisal assets	Other	Total
Gross carrying amount Jan 1 2012 (restated)	**150,007**	**403,716**	**87,880**	**29,834**	**671,437**
Increase:	15,698	147,312	71,425	3,421	237,856
- purchase	180	-	73,526	805	74,511
- transfer from property, plant and equipment under construction	15,518	-	188	2,419	18,125
- acquisition of control (AB LOTOS Geonafta Group) [(1)]	-	180,472	-	-	180,472
- exchange differences on translating foreign operations	-	(33,160)	(2,289)	(80)	(35,529)
- other	-	-	-	277	277
Decrease:	(2,079)	(28,042)	-	(277)	(30,398)
- sale	-	-	-	(2)	(2)
- liquidation	(584)	-	-	(270)	(854)
- exclusion from consolidation (AB LOTOS Geonafta Group) [(1)]	-	(28,042)	-	-	(28,042)

- other	(1,495)	-	-	(5)	(1,500)
Gross carrying amount Dec 31 2012	**163,626**	**522,986**	**159,305**	**32,978**	**878,895**
Gross carrying amount Jan 1 2011	**103,134**	**-**	**67,306**	**30,432**	**200,872**
Increase:	46,971	403,716	21,176	1,088	472,951
- purchase	-	-	12,739	302	13,041
- transfer from property, plant and equipment under construction	47,068	-	456	382	47,906
- acquisition of control (AB LOTOS Geonafta Group) (2)	-	378,436	-	106	378,542
- exchange differences on translating foreign operations	-	25,280	7,884	270	33,434
- reclassification of exploration and appraisal assets (3)	(97)	-	97	-	-
- other	-	-	-	28	28
Decrease:	(98)	-	(602)	(1,686)	(2,386)
- sale	-	-	-	(14)	(14)
- liquidation	(14)	-	(602)	(957)	(1,573)
- reclassification to assets held for sale	(15)	-	-	(683)	(698)
- other	(69)	-	-	(32)	(101)
Gross carrying amount Dec 31 2011 (restated)	**150,007**	**403,716**	**87,880**	**29,834**	**671,437**
Accumulated amortisation Jan 1 2012 (restated)	**63,340**	**41,741**	**6,156**	**20,280**	**131,517**
Increase:	10,309	45,133	965	2,005	58,412
- amortisation	10,309	49,142	965	2,054	62,470
- exchange differences on translating foreign operations	-	(4,009)	-	(56)	(4,065)
- other	-	-	-	7	7
Decrease:	(1,312)	(4,978)	-	(277)	(6,567)
- sale	-	-	-	(2)	(2)

- liquidation	(584)	-	-	(270)	(854)
- exclusion from consolidation (AB LOTOS Geonafta Group) (1)	-	(4,978)	-	-	(4,978)
- other	(728)	-	-	(5)	(733)
Accumulated amortisation Dec 31 2012	**72,337**	**81,896**	**7,121**	**22,008**	**183,362**

(1) Effect of the acquisition of control over UAB Manifoldas by AB LOTOS Geonafta; for more information see Note 2.

(2) Effect of the acquisition of control over AB Geonafta (currently AB LOTOS Geonafta); for more information see Note 2 to the consolidated financial statements for 2011.

(3) Intangible exploration and appraisal assets in respect of which the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

PLN '000	Licences, patents and trademarks	Exploration and production licences	Intangible exploration and appraisal assets	Other	Total
Accumulated amortisation Jan 1 2011	**54,008**	**-**	**5,261**	**18,455**	**77,724**
Increase:	9,362	41,741	1,497	3,150	55,750
- amortisation	9,362	39,127	1,497	2,940	52,926
- exchange differences on translating foreign operations	-	2,614	-	181	2,795
- other	-	-	-	29	29
Decrease:	(30)	-	(602)	(1,325)	(1,957)
- sale	-	-	-	(12)	(12)
- liquidation	(15)	-	(602)	(881)	(1,498)
- reclassification to assets held for sale	(15)	-	-	(400)	(415)
other	-	-	-	(32)	(32)
Accumulated amortisation Dec 31 2011 (restated)	**63,340**	**41,741**	**6,156**	**20,280**	**131,517**
Impairment losses Jan 1 2012	**3**	**-**	**64,311**	**26**	**64,340**
Recognised	-	14,504	74,481	-	88,985

Exchange differences on translating foreign operations	-	(296)	(1,964)	-	(2,260)
Impairment losses Dec 31 2012	**3**	**14,208**	**136,828**	**26**	**151,065**
Impairment losses Jan 1 2011	**3**	**-**	**28,217**	**103**	**28,323**
Recognised	-	-	30,646	-	30,646
Exchange differences on translating foreign operations	-	-	5,448	-	5,448
Used / Reversed	-	-	-	(77)	(77)
Impairment losses Dec 31 2011	**3**	**-**	**64,311**	**26**	**64,340**
Net carrying amount Dec 31 2012	**91,286**	**426,882**	**15,356**	**10,944**	**544,468**
Net carrying amount Dec 31 2011 (restated)	**86,664**	**361,975**	**17,413**	**9,528**	**475,580**
Net carrying amount Jan 1 2011	**49,123**	**-**	**33,828**	**11,874**	**94,825**

The table below presents items under which amortisation of other intangible assets was recognised:

PLN '000	**Year ended Dec 31 2012**	**Year ended Dec 31 2011**
Cost of sales	51,392	42,489
Distribution costs	1,380	1,332
Administrative expenses	9,590	8,907
Change in products and adjustments to cost of sales	108	198
Total	**62,470**	**52,926**

16. Investments in equity-accounted associates

As at December 31st 2012 and December 31st 2011, the Group carried no investments in associates. Until February 3rd 2011, the Group held a 40.59% interest in AB LOTOS Geonafta (parent of another group) [(1)]. On February 3rd 2011, the Group acquired 100% of shares in UAB Meditus, which holds a 59.41% interest in AB LOTOS Geonafta. As a result of the transaction, the Group gained control of AB LOTOS Geonafta. The final accounting for the business combination was presented in Note 2 to the consolidated financial statements for 2011, prepared in accordance with the IFRS. Until the business combination date, the Group's share in net assets of AB LOTOS Geonafta was PLN 93,064 thousand, and its share in the company's net profit (loss) stood at PLN 2,896 thousand.

[(1)] AB LOTOS Geonafta includes the following companies in consolidation: UAB Geňciu Nafta, UAB Manifoldas and UAB Minijos Nafta.

17. Assets held for sale

PLN '000	Dec 31 2012	Dec 31 2011	Jan 1 2011
Non-current assets held for sale [1]	2,428	1,797	6,012
Assets of related entities held for sale	-	107,327 [2]	1,899
including:			
Property, plant and equipment	-	22,280	6
Inventories	-	24,728	-
Trade receivables	-	55,367	711
Other assets	-	4,952	1,182
Total assets held for sale	**2,428**	**109,124**	**7,911**
Liabilities directly associated with assets of related entities held for sale	-	40,398 [2]	173
including:			
Trade and other payables, other liabilities and provisions	-	19,539	173
Bank borrowings	-	20,859	-
Total liabilities directly associated with assets held for sale	**-**	**40,398**	**173**

[1] As at December 31st 2012, non-current assets held for sale recognised by the Group included: boats, dwelling unit with attached land property, plant and equipment for processing of plastics (December 31st 2011: dwelling unit with attached land property, real property accommodating a gas bottling plant).

[2] Assets connected with LOTOS Parafiny Sp. z o.o., which was sold in January 2012 (see Note 2).

As at December 31st 2012, assets held for sale are presented in the upstream segment at PLN 1,658 thousand, and in the downstream segment at PLN 770 thousand (December 31st 2011: PLN 697 thousand and PLN 108,427 thousand, respectively).

18. Trade receivables and other assets

PLN '000	Dec 31 2012	Dec 31 2011 (restated)	1 stycznia 2011 (restated)
Financial assets			
Non-current financial assets			
Other financial assets:	90,198	117,404	63,303
Security deposits receivable	28,555	20,919	12,594
Finance lease receivables	6,180	3,564	4,599
Other receivables	7,063	8,830	11,419
Shares	9,756	9,746	9,915
Oil and Gas Facility Decommissioning Fund (1)	27,481	24,491	21,668
Deposits (2)	-	38,106	-
Security deposits (margins) (3)	11,163	11,748	3,108
Total	**90,198**	**117,404**	**63,303**
Current financial assets			
Trade receivables, including:	1,640,360	2,075,562	1,740,890
- from related entities	2,507	90	-
Other financial assets:	173,238	119,789	26,168
Security deposits receivable	10,483	7,998	4,896
Other	21,872	21,555	15,340
Deposits (2)	122,563	40,565	5,932
Cash blocked in bank accounts	18,320 (4)	49,671 (4), (5)	-
Total	**1,813,598**	**2,195,351**	**1,767,058**
Total financial assets	**1,903,796**	**2,312,755**	**1,830,361**
Non-financial assets			
Non-current non-financial assets			

Prepayments for lease of railway locomotives	8,990	-	-
Other	8,044	6,789	7,379
Total	**17,034**	**6,789**	**7,379**
Current non-financial assets			
Receivables from the state budget other than income tax [(6)]	167,932	52,858	39,914
Property and other insurance	39,207	31,015	24,070
Prepayments for lease of railway locomotives	2,336	-	-
Joint venture receivables (Norwegian deposits)	41,756	50	-
Other [(7)]	37,632	42,987	29,515
Total	**288,863**	**126,910**	**93,499**
Total non-financial assets	**305,897**	**133,699**	**100,878**
Total	**2,209,693**	**2,446,454**	**1,931,239**
including:			
non-current	107,232	124,193	70,682
current	2,102,461	2,322,261	1,860,557

[(1)] Cash deposited in the bank account of the Oil and Gas Facility Decommissioning Fund (created pursuant to the Geological and Mining Law of February 4th 1994 and the Minister of Economy's Regulation of June 24th 2002) to cover future costs of decommissioning of oil and gas facilities, referred to in Note 31.1.

[(2)] "Deposits" include primarily deposits of the Parent:
- deposits of PLN 83,826 thousand (December 31st 2011: PLN 38,106 thousand), comprising funds earmarked for the financing of an overhaul shutdown planned for 2013, as provided for in the credit facility agreements executed to finance the 10+ Programme, referred to on Note 28.1.
- deposits of PLN 11,432 thousand (December 31st 2011: PLN 7,874 thousand), serving as security for payment of interest on an inventory financing facility, referred to in Note 28.1.
- deposits of PLN 27,244 thousand (December 31st 2011: PLN 32,623 thousand), serving as security for payment of interest on credit facilities contracted to finance the 10+ Programme, referred to in Note 28.1.

[(3)] Including security deposit provided by the Parent as margin to BNP Paribas Bank Polska to enable execution of transactions on the ICE Futures Internet platform, in the amount of PLN 11,163 thousand (December 31st 2011: PLN 11,748 thousand margin placed with Marex Financial, a brokerage firm).

[(4)] Cash of PLN 18,320 thousand blocked in LOTOS Paliwa Sp. z o.o.'s bank account by a court enforcement officer in connection with court proceedings concerning WANDEKO.

[(5)] Blocked cash, including:
- cash of PLN 26,169 thousand, representing AB LOTOS Geonafta's liabilities under the acquisition of shares in UAB Meditus. The amount of the liabilities was held in an escrow account to secure AB LOTOS Geonafta's potential claims against the selling shareholders. The amount was paid in full on February 3rd 2012.
- cash of PLN 5,182 thousand held by the LOTOS Petrobaltic Group, serving as security for payment of interest on credit facilities; the amount was released following repayment of the facilities.

[(6)] Including value added tax of PLN 165,152 thousand (December 31st 2011: 42,236 thousand).

[(7)] Including excise duty of PLN 29,678 thousand due to inter-warehouse transfers at Grupa LOTOS S.A. (December 31st 2011: PLN 33,620 thousand).

The payment period for trade receivables in the ordinary course of business is 7 - 35 days.

As at December 31st 2012 and December 31st 2011, the Group's receivables were not subject to any assignment by way of security for the Group's liabilities.

Financial instruments are described in Note 7.23. The financial risk management objectives and policies are described in Note 33.

Maximum exposure to credit risk arising from financial assets as at December 31st 2012 and December 31st 2011 is presented in Note 33.6.

For sensitivity analysis of financial assets with respect to currency risk as at December 31st 2012 and December 31st 2011, see Note 33.3.1.

For sensitivity analysis of financial assets with respect to interest rate risk as at December 31st 2012 and December 31st 2011, see Note 33.4.1.

18.1 Change in impairment losses on receivables

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
At beginning of the period	**195,646**	**182,354**
Recognised (1)	11,325	14,438
Acquisition of control (AB LOTOS Geonafta Group)	-	16,707 (2)
Exchange differences on translating foreign operations	(1,025)	1,116
Used	(20,179)	(12,063)
Reversed (3)	(8,615)	(6,325)
Reclassification to assets held for sale	-	(581)
At end of the period	**177,152**	**195,646**
including:		
non-current	-	17,236
current	177,152	178,410

(1) Including PLN 3,006 thousand charged to other expenses (2011: PLN 11,053 thousand) and PLN 1,416 thousand (2011: PLN 412 thousand) reducing finance income on interest.

(2) Effect of the acquisition of control over AB Geonafta (currently AB LOTOS Geonafta); for more information see Note 2 to the consolidated financial statements for 2011.

(3) Including PLN 8,018 thousand charged to other income (2011: PLN 4,151 thousand).

The table below presents the age structure of past due receivables for which no impairment losses were recognised.

PLN '000	Dec 31 2012	Dec 31 2011
Up to 1 month	81,742	104,255

From 1 to 3 months	11,932	10,051
From 3 to 6 months	4,800	1,057
From 6 months to 1 year	2,275	4,106
Over 1 year	5,357	4,888
Total	**106,106**	**124,357**

As at December 31st 2012, the share of trade receivables from the Group's four largest customers as at the end of the reporting period represented 20.94% of total trade receivables (December 31st 2011: a 14.59% share of three largest customers). In the Group's opinion, with the exception of receivables from the above-mentioned customers, there is no material concentration of credit risk.

Concentration of risk relating to the Group's trading activities is limited as the Group enters into transactions with a large number of customers.

18.2 Finance lease receivables

The Group has developed and implemented the "LOTOS Family" Franchise Programme, which defines the procedures for managing service stations. The Group has entered into franchise agreements with entities operating service stations at their own risk and for their own account (Partners). Receivables under franchise agreements represent mainly expenditure on the design of DOFO service stations operated by dealers under 5-10 year agreements.

	Minimum lease payment		**Present value of minimum lease payments**	
PLN '000	**Dec 31 2012**	**Dec 31 2011**	**Dec 31 2012**	**Dec 31 2011**
Up to 1 year [(1)]	2,716	1,942	2,683	1,914
From 1 to 5 years	5,970	3,526	5,896	3,475
Over 5 years	288	90	284	89
Total	**8,974**	**5,558**	**8,863**	**5,478**
Less unrealised finance income	(111)	(80)	-	-
Present value of minimum lease payments	**8,863**	**5,478**	**8,863**	**5,478**
including:				
Non-current			6,180	3,564
Current			2,683	1,914

[(1)] Present value of minimum lease payments is disclosed under Trade receivables.

19. Inventories

PLN '000	Dec 31 2012	Dec 31 2011	Jan 1 2011
Finished products	1,800,351	1,544,783	1,171,917
Semi-finished products and work in progress	751,935	623,582	449,497
Merchandise	256,875	238,397	251,531
Materials	3,156,544	3,449,078	2,633,846
Total	**5,965,705**	**5,855,840**	**4,506,791**
w tym, zapasy wycenione:			
według kosztu wytworzenia lub ceny nabycia	5,960,210	5,837,055	4,492,232
według ceny sprzedaży netto możliwej do uzyskania	5,495	18,785	14,559

Na dzień 31 grudnia 2012 roku wartość zapasów stanowiących zabezpieczenie zobowiązań z tytułu kredytu Jednostki Dominującej na refinansowanie zapasów, o którym mowa w Nocie 28.1 (/dane-finansowe/skonsolidowane-sprawozdanie-finansowe-2012/dodatkowe-informacje-i-objasnienia/28.-kredyty-pozyczki-obligacje-oraz-zobowiazania-z-tytulu-leasingu-finansow#28-1) Dodatkowych informacji i objaśnień, wynosiła 4.983.260 tys. zł (31 grudnia 2011: 5.048.329 tys. zł).

19.1 Change in impairment losses on inventories

PLN '000	za rok zakończony 31 grudnia 2012	za rok zakończony 31 grudnia 2011
At beginning of the period	**11,437**	**7,586**
Recognised	12,880	5,527
Acquisition of control (AB LOTOS Geonafta Group)	-	1,002 (1)
Exchange differences on translating foreign operations	(85)	76
Used	(5,269)	(769)
Reversed	(16,670) (2)	(718)
Reclassification to assets held for sale	-	(1,267)
At end of the period	**2,293**	**11,437**

including:		
Finished products	332	4,592
Semi-finished products and work in progress	40	58
Merchandise	29	42
Materials	1,892	6,745

(1) Effect of the acquisition of control over AB Geonafta (currently AB LOTOS Geonafta); for more information see Note 2 to the consolidated financial statements for 2011.

(2) Including PLN 4,820 thousand from reversal of impairment losses on materials following their use for own needs or reclassification in view of an overhaul shutdown at Grupa LOTOS S.A. planned for 2013.

The effect of revaluation of inventories is included in cost of sales.

19.2 Mandatory reserves

Grupa LOTOS S.A. complies with the mandatory reserves regulations effective since April 7th 2007, which were introduced by virtue of the Act on Stocks of Crude Oil, Petroleum Products and Natural Gas, and on the Rules to be Followed in the Event of Threat to National Fuel Security or Disruptions on the Petroleum Market of February 16th 2007 (Dz.U. of 2007, No. 52, item 343, dated March 23rd 2007, as amended). The Act defines the rules for creating, maintaining and financing reserves of crude oil and petroleum products. The mandatory reserves include crude oil, petroleum products (liquid fuels) and LPG. As at December 31st 2012, the gross value of mandatory reserves was PLN 4,353.207 thousand (December 31st 2011: PLN 4,427,752 thousand).

20. Cash and cash equivalents

PLN '000	Dec 31 2012	Dec 31 2011	Dec 31 2010
Cash at bank	267,682	380,668	381,995
Cash in hand	362	322	273
Other cash	289	2,690	333
Total	**268,333**	**383,680**	**382,601**

Cash at banks bears interest at variable rates set on the basis of short-term interest rates prevailing on the interbank market. Short-term deposits are placed for various maturities, ranging from one day to one month, depending on the Group's current cash requirement, and bear interest at the interest rates set for them.

As at December 31st 2012, the amount of undrawn funds available to the Group under working capital facilities in respect of which all conditions precedent had been fulfilled (including the working capital facility provided by Bank Syndicate (4); see Note 28) was PLN 764,086 thousand (December 31st 2011: PLN 1,621,940 thousand).

As at December 31st 2012, cash in bank accounts serving as security for the LOTOS Group's liabilities amounted to PLN 1,484 thousand (December 31st 2011: PLN 772 thousand).

21. Cash structure in the statement of cash flows

PLN '000	Dec 31 2012	Dec 31 2011
Cash and cash equivalents	268,333	383,680
Overdraft facilities	(508,988)	(222,128)
Total	**(240,655)**	**161,552**

Causes of differences between changes in certain items as shown by the statement of financial position and as shown by the statement of cash flows

Trade receivables PLN '000	Note	Year ended Dec 31 2012	Year ended Dec 31 2011 (restated)
Change in trade receivables		435,202	(334,672)
Change in the Group structure		14,650	17,380
Reclassification to assets held for sale	17	-	(55,367)
Change in trade receivables in the statement of cash flows		449,852	(372,659)

Other assets PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011 (restated)
Change in other non-current and current assets in the statement of financial position	(198,440)	(183,919)
Change in investment property	977	-
Change in other financial assets	23,617	79,507
Change in investment receivables	654	(1,531)
Change in receivables from sale of shares	(400)	400
Set-off of current income tax payables against VAT receivables	(26,436)	(29,413)
Change in commission fees on revolving facilities, amortised over time	(365)	(1,754)
Change in the Group structure	62	4,685

Reclassification to assets held for sale		-	(2,840)
Other		(836)	(3,308)
Change in receivables in the statement of cash flows		(201,167)	(138,173)

Inventories PLN '000	Note	Year ended Dec 31 2012	Year ended Dec 31 2011
Change in inventories in the statement of financial position		(109,865)	(1,349,049)
Change in the Group structure		868	16,590
Reclassification to assets held for sale	17	-	(24,728)
Other		214	4,279
Change in inventories in the statement of cash flows		(108,783)	(1,352,908)

Trade and other payables PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011 (restated)
Change in trade and other payables in the statement of financial position	(642,982)	989,197
Change in the Group structure	(1,217)	(21,306)
Reclassification to assets held for sale	-	15,783
Change in trade and other payables in the statement of cash flows	(644,199)	983,674

Other liabilities and provisions PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011 (restated)
Change in other liabilities and provisions in the statement of financial position	(88,552)	288,724
Change in provision for Offshore Oil and Gas Facilities	(75,363)	(29,374)
Adjustment for deposits earmarked for repayment of bank borrowings	(14,185)	(168,346)
Change in investment commitments	(42,343)	16,955
Change in liabilities related to acquisition of debt claims	-	38,793
Change in liabilities related to acquisition of shares	40,699	(15,363)
Set-off of current income tax assets against VAT liabilities	76,613	7,562

Grants received	-	(2,211)
Adjustment for cash earmarked for acquisition of shares	26,169	(26,169)
Change in the Group structure	6,899	(66,030)
Reclassification to assets held for sale	-	3,669
Other	(2,346)	713
Change in liabilities and accruals and deferred income in the statement of cash flows	(72,409)	48,923

Cash and cash equivalents **PLN '000**	**Year ended** **Dec 31 2012**	**Year ended** **Dec 31 2011**
Change in cash and cash equivalents in the statement of financial position	(115,347)	1,079
Change in interest-bearing overdraft facilities	(286,860)	42,240
Change in cash in the statement of cash flows	(402,207)	43,319

Causes of differences between items disclosed in the notes to the financial statements and items of the statement of cash flows

Depreciation and amortisation **PLN '000**	**Year ended** **Dec 31 2012**	**Year ended** **Dec 31 2011**
Depreciation/amortisation disclosed in change in property, plant and equipment and intangible assets	666,592	608,667
Depreciation directly related to expenditure on tangible assets under construction	(2)	(59)
Depreciation/amortisation disclosed in the statement of cash flows	666,590	608,608

Purchase of property, plant and equipment and intangible assets **PLN '000**	**Year ended** **Dec 31 2012**	**Year ended** **Dec 31 2011** **(restated)**
Purchase of property, plant and equipment and other intangible assets disclosed in change in property, plant and equipment and intangible assets	(802,965)	(769,074)
Change in investment commitments	54,077	(22,895)
Acquisition of tangible assets under a lease agreement	(15,015)	110,955
Other	5,978	3,019
Purchase of property, plant and equipment and intangible assets disclosed in the statement of cash flows	(757,925)	(677,995)

22. Share capital

As at December 31st 2012 and December 31st 2011, the share capital comprised 129,873,362 ordinary shares with a par value of PLN 1 per share, fully paid-up. Each share confers the right to one vote at the General Meeting and carries the right to dividend.

23. Share premium

Share premium as at December 31st 2012 and December 31st 2011 amounted to PLN 1,320,773 thousand and comprised the excess of the issue price over the par value of shares, net of costs directly attributable to the share issue, adjusted for corporate income tax in the amount of PLN 9,425 thousand.

24. Cash flow hedging reserve

Cash flow hedging reserve comprises changes in the valuation of foreign-currency denominated credit facilities used as hedging instruments to hedge cash flows, less the effect of corporate income tax. In H2 2012, the Company extended the scope of application of cash flow hedge accounting through the establishment of new hedging relationships with respect to foreign-currency denominated credit facilities intended for financing of the 10+ Programme, designated as hedges of future USD-denominated petroleum product sales transactions.

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
At beginning of the period	(419,281)	(739)
Valuation of cash flow hedging instruments	472,197	(516,892)
Corporate income tax relating to the valuation of cash flow hedging instruments	(89,717)	98,350
At end of the period	**(36,801)**	**(419,281)**

25. Retained earnings

Retained earnings comprise capital reserves created and used in accordance with the rules stipulated by the applicable laws and provisions of the Articles of Association, as well as current period's profit.

As at December 31st 2012 and December 31st 2011, Grupa LOTOS S.A.'s ability to distribute funds in the form of dividends was restricted. For more information see Note 12.

25.1 Restricted ability of subsidiaries of the LOTOS Group to transfer funds to the Parent in the form of dividends

In 2011 and 2012, the ability of subsidiaries of the LOTOS Group to transfer funds to Grupa LOTOS S.A. in the form of dividends was restricted due to the following arrangements:

- The agreement concluded on December 16th 2004 by LOTOS Paliwa Sp. z o.o. with Bank Pekao S.A. and PKO BP S.A. imposes restrictions on the amount of surplus cash generated by LOTOS Paliwa Sp. z o.o. in a financial year that may be allocated to dividend payment, setting specific ratios which must be met.
- At AB LOTOS Geonafta, there are restrictions on dividend payment under credit facility agreements of April 5th and September 27th 2012, which make such payment conditional upon the bank's prior consent.
- At LOTOS Exploration and Production Norge AS, there are restrictions on dividend payment under a credit facility agreement of December 17th 2010. The agreement imposes restrictions on dividend payment if such payment could - in the bank's reasonable opinion - put at risk the company's ability to repay the facility in a timely manner.
- The provisions of the credit facility agreement executed on December 14th 2010 by Nordea Bank Polska and Nordea Bank Finland with AB LOTOS Geonafta (formerly AB LOTOS Baltija) and LOTOS Petrobaltic S.A. as the guarantor imposed restrictions on the amount of surplus cash generated by LOTOS Petrobaltic S.A. in a financial year that may be allocated to dividend payment, making it contingent on meeting specific financial ratios computed based on the financial statements of LOTOS Petrobaltic S.A. On April 16th 2012, the credit facility was repaid.

As at December 31st 2012, restrictions on dividend payments were imposed on the following companies:
LOTOS Paliwa Sp. z o.o., AB LOTOS Geonafta and LOTOS Exploration and Production Norge AS.

26. Translation reserve

Translation reserve comprises exchange differences resulting from the translation into the Polish złoty of the financial statements of foreign companies and groups of companies, less the effect of corporate income tax.

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
At beginning of the period	59,100	12,281
Currency-translation differences	(39,062) [1]	57,806
Corporate income tax relating to currency-translation differences	13,864	(10,987)
At end of the period	**33,902**	**59,100**

[1] Including PLN (686) thousand attributable to exclusion from consolidation of 50% equity interest previously held by the Group in UAB Manifoldas, a Lithuanian company, which started to be consolidated with the full method as of February 28th 2012 after the Group acquired control over it. For more information on the acquisition of control over UAB Manifoldas, see Note 2.

27. Non-controlling interests

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
Share in other comprehensive income (net)	947	14,658
Share in profit/(loss)	27	328
Share in other comprehensive income (net)	(14)	29
Share in total comprehensive income	13	357
Changes in the structure of non-controlling interests	-	(214)
Sale of shares to the Parent	(261) [1]	(13,854) [2]
At end of the period	**699**	**947**

[1] Shares of LOTOS Petrobaltic S.A., see Note 2.

[2] Shares of LOTOS Jasło S.A., LOTOS Czechowice S.A. and LOTOS Petrobaltic S.A.

28. Borrowings, other debt instruments and finance lease liabilities

PLN '000	Dec 31 2012	Dec 31 2011 (restated)	Jan 1 2011 (restated)
Bank borrowings	6,373,535	7,368,073	6,293,802
Non-bank borrowings	17,056	23,556	32,992
Notes	-	-	52,670
Finance lease liabilities	166,109	197,000	74,255
Total	**6,556,700**	**7,588,629**	**6,453,719**
including:			
non-current	4,462,098	5,161,474	4,475,012
current	2,094,602	2,427,155	1,978,707

28.1 Borrowings

Borrowings as at December 31st 2012, by currency and by maturity

PLN '000	EUR	USD	PLN	Total
2013	16,712	1,818,861	239,419	2,074,992
2014	2,409	415,753	74,553	492,715
2015	2,409	444,706	20,382	467,497
2016	-	416,167	17,606	433,773
2017	-	409,554	9,333	418,887
after 2017	-	2,494,643	8,084	2,502,727
Total	**21,530**	**5,999,684**	**369,377**	**6,390,591**

Borrowings as at December 31st 2011, by currency and by maturity

PLN '000	EUR	USD	PLN	Total
2012	219,540	1,976,983	211,217	2,407,740
2013	2,603	297,063	59,229	358,895
2014	2,603	405,466	74,553	482,622
2015	2,603	421,101	20,381	444,085
2016	-	459,145	17,606	476,751
after 2016	-	3,204,118	17,418	3,221,536
Total	**227,349**	**6,763,876**	**400,404**	**7,391,629**

Repayment of the above facilities is secured with:

- power of attorney over bank accounts
- registered pledge over bank accounts
- registered pledge over inventories
- registered pledge over existing and future movables
- mortgage
- transfer of title to property, plant and equipment
- assignment of rights under inventory insurance agreement
- assignment of rights under inventory storage agreements
- assignment of rights to compensation from the State Treasury due in the event of the requirement to sell stocks below market price
- assignment of rights under agreements for the implementation and management of the 10+ Programme
- assignment of rights under insurance agreements relating to the Gdańsk refinery
- assignment of licence agreements
- assignment of agreements for sale of products
- assignment of rights under oil sale contracts
- shares in subsidiaries
- representation on voluntary submission to enforcement
- blank promissory note
- bank guarantees

The credit facilities bear interest based on:

- 1M, 3M or 6M LIBOR (USD), depending on the interest period selected at a given time - in the case of USD-denominated facilities,

- 1M or 3M EURIBOR - in the case of EUR-denominated facilities,
- O/N, 1M or 3M WIBOR - in the case of PLN-denominated facilities.

The bank margins applicable to the contracted facilities are within the range of 0.30pp. – 4.00pp.

As at December 31st 2012, the average effective interest rate for the USD- and EUR-denominated facilities was approximately 2.47 % (2.44% as at December 31st 2011). The average effective interest rate for PLN-denominated facilities (excluding the syndicated facilities of the Parent) was approx. 4.81 % (5.81% as at December 31st 2011).

Borrowings by lender

PLN '000	Dec 31 2012	Dec 31 2011
Non-current		
Kredyt Bank S.A.	8,987	14,988
Pekao S.A.	20,008	24,530
PKO BP S.A.	15,125	16,625
National Fund for Environmental Protection and Water Management	6,056	12,056
Provincial Fund for Environmental Protection and Water Management of Gdańsk	4,250	5,000
Nordea Bank Lithuania	44,240	-
Bank Ochrony Środowiska S.A.	36,902	36,902
Bank Syndicate (2) **	2,988,669	3,513,826
Bank Syndicate (3) ***	1,080,892	1,273,067
Bank Syndicate (5) *****	43,448	86,895
Bank Syndicate (6) ******	67,022	-
Non-current – total	**4,315,599**	**4,983,889**
Current		
Kredyt Bank S.A.	6,000	7,607
Pekao S.A.	174,866	179,178
ING Bank Śląski S.A.	4,830	5
PKO BP S.A.	308,815	246,656
National Fund for Environmental Protection and Water Management	6,000	6,500
Provincial Fund for Environmental Protection of Gdańsk	750	-
Nordea Bank Polska S.A.	23,810	18,564
Nordea Bank Lithuania	14,747	-
BRE Bank S.A.	10,278	33,251

Bank Syndicate (1) *	-	1,369,959
Bank Syndicate (2) **	207,042	225,715
Bank Syndicate (3) ***	83,182	91,054
Bank Syndicate(4) ****	409,245	169,585
Bank Syndicate (5) *****	43,462	43,573
Bank Syndicate (6) ******	42,587	193,104
Bank Syndicate (7) *******	930,574	-
Funds in bank deposits securing payment of interest and principal********	(191,196)	(177,011)
Current – total	**2,074,992**	**2,407,740**
Total	**6,390,591**	**7,391,629**

* Bank Syndicate (1): Pekao S.A., PKO BP S.A., BRE Bank S.A., Nordea Bank Polska S.A.

** Bank Syndicate (2): Banco Bilbao Vizcaya Argentaria S.A., Bank of Tokyo-Mitsubishi UFJ (Holland) N.V., Pekao S.A., BNP Paribas S.A., Caja de Ahorros y Monte de Piedad de Madrid, Credit Agricole CIB (formerly Calyon), DnB Nor Bank ASA, DnB Nord Polska S.A., ING Bank Śląski S.A., KBC Finance Ireland, Kredyt Bank S.A., Nordea Bank AB, PKO BP S.A., The Royal Bank of Scotland plc, Société Générale S.A., Bank Zachodni WBK S.A., Rabobank Polska S.A., Bank Gospodarki Żywnościowej S.A. and Sumitomo Mitsui Banking Corporation Europe Ltd.

*** Bank Syndicate (3): Banco Bilbao Vizcaya Argentaria S.A. and BNP Paribas S.A.

**** Bank Syndicate (4): Pekao S.A., PKO BP S.A., BNP Paribas S.A., ING Bank Śląski S.A., Nordea Bank Polska S.A., Rabobank Polska S.A. and Bank Gospodarki Żywnościowej S.A.

***** Bank Syndicate (5): Pekao S.A. and PKO BP S.A.

****** Bank Syndicate (6): Nordea Bank Finland Plc,Lithuania Branch, Nordea Bank Polska S.A.

******* Bank Syndicate (7): Pekao S.A., BRE Bank S.A., ING Bank Śląski S.A., Nordea Bank AB, Société Générale S.A.

******** As at December 31st 2012 and December 31st 2011, Grupa LOTOS S.A. offset a financial asset (cash reserved for repayment of the facilities) against a financial liability under the facilities and in accordance with IAS 32 it disclosed the relevant net amount in the statement of financial position (the Company holds a valid legal title to set off the amounts and intends to realise the asset and settle the liability simultaneously). The objective of this procedure is to reflect the expected future cash flows from settlement of two or more financial instruments.

Bank borrowings contracted by the Parent

As at December 31st 2012, the amount drawn by the Company (in nominal terms) under the investment facilities granted by Bank Syndicate (2) and Bank Syndicate (3) was USD 1,423.7m (*PLN 4.412,8 m, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for December 31st 2012*). As at December 31st 2011, it was USD 1,510.6 (*PLN 5,162.4m translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for December 31st 2011*).

The working capital facility was made available to Grupa LOTOS S.A. by Bank Syndicate (4) in the form of overdraft facilities which are used by the Company on an as-needed basis.

On October 10th 2012, Grupa LOTOS S.A. entered into a facility agreement for the refinancing and financing of inventories with a syndicate of five banks (Bank Syndicate (7)), comprising:

- Pekao S.A. of Warsaw,
- BRE Bank S.A. of Warsaw,

- ING Bank Śląski S.A. of Katowice,
- Nordea Bank AB of Stockholm,
- Société Générale S.A of Paris,

The agreement provides for a revolving credit facility of up to USD 400m (*PLN 1,268m, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for October 10th 2012*). The agreement was concluded to refinance the previous inventory-financing facility under an agreement of December 20th 2007, as amended, executed with a syndicate of four banks (Bank Syndicate (1)), comprising:

- Pekao S.A. of Warsaw,
- PKO BP S.A. of Warsaw,
- BRE Bank S.A. of Warsaw,
- Nordea Bank Polska S.A. of Gdynia.

As at December 31st 2012, the amount drawn under the credit facility for the refinancing and financing of inventories, advanced by Bank Syndicate (7), amounted to USD 300m (PLN 929.9m, translated at USD mid-exchange rate quoted by the National Bank of Poland for December 31st 2012). The amount was applied towards repayment of another credit facility advanced by Bank Syndicate (1), by way of settlements between the banks. The remaining amount of USD 100m was repaid with funds of Grupa LOTOS S.A., which resulted in the recognition of a PLN 313.6m outflow in the consolidated statement of cash flows, under cash flows from financing activities.

In connection with the credit facilities referred to under Bank Syndicate (2), Bank Syndicate (3), Bank Syndicate (4) and Bank Syndicate (7), as described above, Grupa LOTOS S.A. is required to meet a covenant of maintaining the Tangible Consolidated Net Worth at least at the level specified in the facility agreements.

In addition, in connection with the facility referred to under Bank Syndicate (7), the Company is also required to meet a financial covenant of maintaining the Loan to Pledged Inventory Value Ratio at a level not higher than specified in the facility agreement.

As at December 31st 2012 and December 31st 2011, the covenants were complied with.

28.2 Notes

In the year ended December 31st 2012, LOTOS Asfalt Sp. z o.o. issued short-term bearer notes under the Note Programme Agreement of July 27th 2010.

As part of the Note Programme, LOTOS Asfalt Sp. z o.o. may carry out numerous notes issues. The company's total liabilities under notes outstanding at any given time may not exceed PLN 300,000 thousand (based on the nominal value of the notes). The term of the programme is five years. The notes are denominated in the Polish złoty and are offered in private placements. The notes are issued as unsecured zero-coupon bearer notes in book-entry form and are redeemed at nominal values.

The issued notes were acquired by third-party investors as well as by the Group companies. The nominal value of notes issued to investors outside the Group in the years ended December 31st 2012 and December 31st 2011 is presented below:

PLN '000	Nominal value of notes issued	Discount	Liabilities under notes issued

As at Jan 1 2011	**53,000**	**(330)**	**52,670**
Increase (issue)	575,000	(2,248)	
Decrease (redemption)	(628,000)	2,578	
As at Dec 31 2011	**-**	**-**	**-**
As at Jan 1 2012	**-**	**-**	**-**
Increase (issue)	364,000	(1,607)	
Decrease (redemption)	(364,000)	1,607	
As at Dec 31 2012	**-**	**-**	**-**

In the year ended December 31st 2012, the proceeds from the notes issued by the Group to investors outside the Group were PLN 362,393 thousand, net of the issue expenses (December 31st 2011: PLN 572,752 thousand). In the year ended December 31st 2012, the Group's expenditure on redemption of the notes amounted PLN 364,000 thousand (December 31st 2011: PLN 628,000 thousand).

28.3 Finance lease liabilities

	Minimum lease payments		**Present value of minimum lease payments**	
PLN '000	**Dec 31 2012**	**Dec 31 2011**	**Dec 31 2012**	**Dec 31 2011**
Up to 1 year	36,794	41,113	19,610	19,415
From 1 to 5 years	134,813	153,520	92,155	91,357
Over 5 years	57,639	98,221	54,344	86,228
Total	**229,246**	**292,854**	**166,109**	**197,000**
Less finance costs	(63,137)	(95,854)	-	-
Present value of minimum lease payments	166,109	197,000	166,109	197,000
including:				
non-current			146,499	177,585
current			19,610	19,415

The Group uses finance leases to finance primarily rolling stock assets.

29. Derivative financial instruments

PLN '000	Dec 31 2012	Dec 31 2011 (restated)	Jan 1 2011 (restated)
Financial assets			
Non-current financial assets			
- Futures (CO_2 emissions)	-	-	580
- Interest rate swap (IRS)	-	12,098	18,828
Total	**-**	**12,098**	**19,408**
Current financial assets			
- Commodity swaps (raw materials and petroleum products)	45	-	1,472
- Futures (CO_2 emissions)	-	8,304	35
- Currency forward and spot contracts	73,452	16,175	13,181
- Forward rate agreements (FRAs)	-	-	655
- Interest rate swap (IRS)	11,318	11,640	10,259
- Currency swap	36,519	1,083	24,360
Total	**121,334**	**37,202**	**49,962**
Total financial assets	**121,334**	**49,300**	**69,370**
Financial liabilities			
Non-current financial liabilities			
- Futures (CO_2 emissions)	1,293	-	463
- Interest rate swap (IRS)	87,032	127,364	79,644
Total	**88,325**	**127,364**	**80,107**
Current financial liabilities			
- Commodity swaps (raw materials and petroleum products)	337	-	3,517
- Futures (CO_2 emissions)	2,494	15,607	-
- Currency forward and spot contracts	9,161	51,889	24,709

- Forward rate agreements (FRAs)	-	-	340
- Interest rate swap (IRS)	60,975	44,770	148,253
- Currency swap	18,033	28,148	22,881
Total	**91,000**	**140,414**	**199,700**
Total financial liabilities	**179,325**	**267,778**	**279,807**

For a description of derivative financial instruments see Note 7.23. The financial risk management objectives and policies are described in Note 33.

For sensitivity analysis of derivative financial instruments with respect to market risk related to fluctuations in prices of carbon dioxide (CO_2) emission allowances as at December 31st 2012 and December 31st 2011, see Note 33.2.1.

For sensitivity analysis of derivative financial instruments with respect to currency risk as at December 31st 2012 and December 31st 2011, see Note 33.3.1.

For sensitivity analysis of derivative financial instruments with respect to interest rate risk as at December 31st 2012 and December 31st 2011, see Note 33.4.1.

For maturity analysis of derivative financial instruments as at December 31st 2012 and December 31st 2011, see Note 35.5.

Maximum exposure to credit risk arising from financial assets (derivative financial instruments) as at December 31st 2012 and December 31st 2011 has been presented in Note 33.6.

30. Employee benefit obligations

PLN '000	Dec 31 2012	Dec 31 2011 (restated)	Jan 1 2011 (restated)
Non-current liabilities			
Length-of-service awards	101,091	85,056	71,431
Post-employment benefits	28,771	30,858	23,939
Total	**129,862**	**115,914**	**95,370**
Current liabilities			
Length-of-service awards	9,350	9,511	8,111
Post-employment benefits	6,404	6,376	4,348
Current liabilities under other employee benefits during employment	78,619	64,273	78,162
Salaries and wages payable	16,557	14,577	13,052
Total	**110,930**	**94,737**	**103,673**
Total liabilities	**240,792**	**210,651**	**199,043**

30.1 Liabilities under length-of-service awards and post-employment benefits

In accordance with the Group's remuneration systems, the Group employees are entitled to post-employment benefits upon retirement. Length-of-service awards are paid out after a specific period of employment. Therefore, based on a valuation prepared by professional actuary firms or based on own estimates, the Group recognises the present value of liabilities under length-of-service awards and post-employment benefits. The table below provides information on the amount of the liabilities and a reconciliation presenting changes in the liabilities during the reporting period.

PLN '000	Length-of-service awards	Post-employment benefits	Total
Jan 1 2012	**97,330**	**36,844**	**134,174**
Current service cost	7,430	1,918	9,348
Interest cost	4,848	1,696	6,544

Past service cost	11,972	(3,879)	8,093
Acquisition/(disposal) of related entities	(2,763)	(713)	(3,476)
Benefits paid	(10,995)	(2,494)	(13,489)
Actuarial (gain)/loss	2,619	1,334	3,953
Dec 31 2012	**110,441**	**34,706**	**145,147**
including:			
non-current	101,091	28,302	129,393
current	9,350	6,404	15,754
Liabilities under length-of-service awards and post-employment benefits at foreign companies (1)	-	469	469
Dec 31 2012	**110,441**	**35,175**	**145,616**
including:			
non-current	101,091	28,771	129,862
current	9,350	6,404	15,754

PLN '000	**Length-of-service awards**	**Post-employment benefits**	**Total**
Jan 1 2011	**79,564**	**28,265**	**107,829**
Current service cost	6,311	2,103	8,414
Interest cost	4,144	1,421	5,565
Past service cost	14,237	5,805	20,042
Benefits paid	(8,103)	(2,283)	(10,386)
Actuarial (gain)/loss	1,177	1,533	2,710
Dec 31 2011	**97,330**	**36,844**	**134,174**
including:			
non-current	87,599	30,362	117,961
current	9,731	6,482	16,213
Liabilities under length-of-service awards and post-employment benefits at foreign companies (1)	-	1,103	1,103
Reclassification to assets held for sale	(2,763)	(713)	(3,476)
Dec 31 2011	**94,567**	**37,234**	**131,801**

including:			
non-current	85,056	30,858	115,914
current	9,511	6,376	15,887

(1) Given the different nature of the retirement plans in place at the foreign companies of the Group: LOTOS Exploration and Production Norge AS as well as the AB LOTOS Geonafta Group companies, and their immaterial effect on the total liabilities under length-of-service awards and post-employment benefits, those companies' liabilities were presented separately.

30.2 Present value of future employee benefit obligations

(PLN '000)	Present value of future employee benefit obligations
Dec 31 2012	145,616
Dec 31 2011	131,801
Dec 31 2010	107,829
Dec 31 2009	98,694
Dec 31 2008	92,092

Present value of future employee benefit obligations is equal to their carrying amount.

30.3 Total costs of future employee benefit payments charged to profit or loss

PLN '000	for the year ended Dec 31 2012	for the year ended Dec 31 2011
Current service cost	9,348	8,414
Interest cost	6,544	5,565
Past service cost	8,093	20,042
Actuarial (gains)/losses	3,953	2,710
Effect of foreign companies	(140)	478
Total	**27,798**	**37,209**

30.4 Actuarial assumptions

The table below presents the key assumptions adopted by the actuary as at the balance-sheet date to calculate the amount of the obligation.

	Dec 31 2012	Dec 31 2011 (restated)
Discount rate (%)	4.5%	5.7%
Expected inflation rate (%)	2.5%	2.5%
Employee turnover ratio (%)	2.6%	2.9%
Expected growth rate of salaries and wages (%)	2.7%	2.8%
Expected growth rate of salaries and wages (%) in the following years	2.7%	4.5%

- The discount rate for future payments of employee benefits: 4.5% (i.e. equal to the return on the safest long-term securities traded on the Polish capital market as at the valuation date) (December 31st 2011: 5.7%).
- The long-term annual growth rate of average remuneration in the national economy: 3.5%, i.e. 1pp higher than the expected long-term annual inflation rate of 2.5% (the National Bank of Poland's inflation target).
- The long-term annual growth rate of remuneration in the Group: 2.7% in 2012, (December 31st 2011: the average long-term annual growth rate of remuneration assumed at 2,8% in 2012, in the previous year the ratio was presented in age categories and as at December 31st 2011 ranged from 0%-3,5%).
  The presented values of the ratios are a synthetic representation of the relevant absolute values determined separately for each Group company.
- The employee attrition probability is based on the historical data on employee turnover at the Group and statistical data on employee attrition in the industry. The employee turnover ratios adopted by the actuary were determined separately for men and women and broken down into 9 age categories in ten-year intervals. The employee turnover ratio is presently calculated as a weighted average. In the previous year, the employee turnover ratio was presented in age categories and as at December 31st 2011 ranged from 1% to 11.4%.
- The mortality and life expectancy ratios are based on the Life Expectancy Tables of Poland for 2011, published by the Polish Central Statistics Office (GUS), and assume that the Group’s employee population is representative of the average Polish population in terms of mortality (December 31st 2011: Life Expectancy Tables of Poland for 2010).
- The changes resulting from amendments to the Act on Pensions and Disability Pensions from Social Security Fund (Pensions Act) were accounted for, in particular changes relating to the retirement age of women and men, including its extension over a defined period to 67 years for both women and men. The amendments to the Pensions Act resulted in a change in the operation of individual benefit plans, giving rise to additional past service costs.
- It was assumed that the Group employees will retire according to the standard system, as prescribed by detailed rules set out in the Pensions Act, with the exception of employees who according to information provided by the company meet the early retirement entitlement conditions.
- The data used in the assumptions does not cover cases related to organisational changes.

30.5 Termination benefits

In 2012, termination benefits and compensation payable in respect of non-compete obligation totalled PLN 5,349 thousand (2011: PLN 5,703 thousand). In 2012, provisions for termination benefits totalled PLN 1,502 thousand (2011: PLN 18 thousand).

31. Trade and other payables, other liabilities and provisions

PLN '000	Dec 31 2012	Dec 31 2011 (restated)	Jan 1 2011 (restated)
Financial liabilities			
Non-current financial liabilities			
Other financial liabilities:	1,204	15,194	26,211
Investment commitments	-	13,296	22,874
Other	1,204	1,898	3,337
Total	**1,204**	**15,194**	**26,211**
Current financial liabilities			
Trade and other payables, including:	2,178,760	2,821,742	1,832,545
- to related parties	138	6,823	-
Other financial liabilities:	286,735	224,313	189,603
Investment commitments	178,074	172,706	142,935
Liabilities to insurers	36,580	30,259	22,201
Joint venture liabilities (Norwegian deposits)	58,077	-	-
Other	14,004	21,348	24,467
Total	**2,465,495**	**3,046,055**	**2,022,148**
Total financial liabilities	**2,466,699**	**3,061,249**	**2,048,359**
Non-financial liabilities			
Non-current non-financial liabilities			
Provisions	370,486	283,190	227,752
Oil and Gas Facility Decommissioning Fund	27,481	24,491	21,668
Grants	13,089	14,415	13,615
Other	-	271	315

Total	**411,056**	**322,367**	**263,350**
Current non-financial liabilities			
Provisions	21,256	20,790	20,678
Liabilities to the state budget other than corporate income tax (1)	686,520	966,530	759,184
Grants	26,359	24,906	26,397
Joint venture liabilities (Norwegian deposits)	55,092	-	-
Other	22,220	24,893	24,846
Total	**811,447**	**1,037,119**	**831,105**
Total non-financial liabilities	**1,222,503**	**1,359,486**	**1,094,455**
Total	**3,689,202**	**4,420,735**	**3,142,814**
including:			
non-current	412,260	337,561	289,561
current	3,276,942	4,083,174	2,853,253

(1) Including PLN 629,443 thousand in liabilities related to excise duty and fuel charge (December 31st 2011: PLN 728,310 thousand).

Trade and other payables do not bear interest and are, as a rule, settled on a 7–60 day basis. Other liabilities do not bear interest, and their average payment period is one month. The amount resulting from the difference between VAT receivable and VAT payable is paid to the relevant tax authorities on a monthly basis. Interest payable is usually settled on a monthly basis during a financial year.

For sensitivity analysis of trade and other payables and other liabilities with respect to currency risk as at December 31st 2012 and December 31st 2011, see Note 33.3.1.

For maturity analysis of trade and other payables and other liabilities as at December 31st 2012 and December 31st 2011, see Note 33.5.

31.1 Provisions

	Provisions for decommissioning and reclamation costs			Other provisions	Total
PLN '000	**Provisions for retired refinery installations**	**Provision for onshore oil and gas facilities**	**Provision for offshore oil and gas facilities**		
Jan 1 2012	**41,641**	**18,916**	**222,586**	**20,837**	**303,980**
Recognised	140	959	68,329	16,581	86,009
Change in provisions for liabilities attributable to the approaching maturity date (discount reversal effect)	263	1,356	10,682	43	12,344

Acquisition of control (AB LOTOS Geonafta Group) [1]	-	4,097	-	-	4,097
Exchange differences on translating foreign operations	-	(1,424)	(1,740)	(95)	(3,259)
Used	-	-	(22)	(1,703)	(1,725)
Released	(274)	(3,588)	(1,886)	(1,908)	(7,656)
Exclusion from consolidation (AB LOTOS Geonafta Group) [1]	-	(2,048)	-	-	(2,048)
Dec 31 2012	**41,770**	**18,268**	**297,949**	**33,755**	**391,742**
including:					
long-term provisions	41,497	18,268	297,949	12,772	370,486
short-term provisions	273	-	-	20,983	21,256
Jan 1 2011	**41,116**	**-**	**186,350**	**20,964**	**248,430**
Recognised	421	2,270	22,006	3,831	28,528
Change in provisions for liabilities attributable to the approaching maturity date (discount reversal effect)	331	759	10,814	104	12,008
Acquisition of control (AB LOTOS Geonafta Group) [2]	-	14,703	-	66	14,769
Exchange differences on translating foreign operations	-	1,184	5,328	-	6,512
Used	-	-	(14)	(2,973)	(2,987)
Released	(227)	-	(1,898)	(875)	(3,000)
Reclassification to assets held for sale	-	-	-	(280)	(280)
Dec 31 2011	**41,641**	**18,916**	**222,586**	**20,837**	**303,980**
including:					
long-term provisions	41,408	18,916	222,586	280	283,190
short-term provisions	233	-	-	20,557	20,790

[1] Effect of the acquisition of control over UAB Manifoldas by AB LOTOS Geonafta; for more information see Note 2.

[2] Effect of the acquisition of control over AB Geonafta (currently AB LOTOS Geonafta); for more information see Note 2 to the consolidated financial statements for 2011.

Provisions for retired refinery installations are primarily related to the PLN 34,839 thousand (December 31st 2011: PLN 34,792 thousand) provision for land reclamation and the cost of dismantlement and decommissioning of retired installations at LOTOS Czechowice S.A.

Provision for onshore oil and gas facilities relates to the provision for estimated decommissioning costs of Lithuanian oil facilities.

Provision for offshore oil and gas facilities [1] relates to the provision for future costs of decommissioning the oil and gas facilities in the B-3 and B-8 mining areas on the Baltic Sea and at the YME field on the North Sea.

[1] As at December 31st 2012, the Management Board of LOTOS Petrobaltic S.A. analysed the costs of decommissioning of the offshore oil and gas facilities in the B-3 and B-8 mining areas. It was concluded that in 2012 the costs to be incurred in the future on decommissioning of the offshore oil and gas facilities in the B-3 and B-8 mining areas increased due to a change in the expected expenditure caused by price changes - by PLN 11,823 thousand (December 31st 2011: PLN 2,967 thousand), and due to the passage of time and the related change in the time value of money - by PLN 7,358 thousand (December 31st 2011: PLN 8,760 thousand), charged to finance costs in 2012. Another change in the provision resulted from the fact that an amount corresponding to the contributions calculated and transferred to the bank account of the Oil and Gas Facility Decommissioning Fund (created pursuant to the Geological and Mining Law of February 4th 1994 and the Minister of Economy's Regulation of June 24th 2002) was released from the provision. For 2012, this amount totalled PLN 1,886 thousand (2011: PLN 1,898 thousand). Cash in the bank account of the Oil and Gas Facility Decommissioning Fund amounted to PLN 27,481 thousand as at December 31st 2012 (December 31st 2011: PLN 24,491 thousand). In the consolidated statement of financial position the Oil and Gas Facility Decommissioning Fund is disclosed under other non-current assets. As at December 31st 2012, LOTOS Petrobaltic S.A. also recognised a liability of PLN 27,481 thousand (December 31st 2011: PLN 24,491 thousand) for calculated costs of future decommissioning of oil and gas facilities. In the consolidated statement of financial position the liability is disclosed under other non-current liabilities and provisions. As at December 31st 2012, the provision for decommissioning of the offshore oil and gas facilities in the B-3 and B-8 mining areas totalled PLN 180,817 thousand (December 31st 2011: PLN 163,522 thousand).

As at December 31st 2012, LOTOS Exploration and Production Norge AS recognised PLN 117,132 thousand (*NOK 210,974 thousand, translated at the mid-exchange rate quoted by the National Bank of Poland for that day*) provision for future costs of decommissioning of offshore oil and gas facilities at the YME field.. As at December 31st 2011 it was PLN 59,064 thousand (*NOK 104,060 thousand, translated at the mid-exchange rate quoted by the National Bank of Poland for that day*). The liquidation of the offshore oil and gas facilities at the YME field and land reclamation are scheduled for 2029. In 2012, the provision was increased by an upward adjustment in the estimated future costs amounting to PLN 56,506 thousand (*NOK 101,012 thousand, translated at the mid-exchange rate quoted by the National Bank of Poland for the period*) and by a discount representing the estimated changes in the time value of money, amounting to PLN 3,324 thousand (*NOK 5,942 thousand, translated at the mid-exchange rate quoted by the National Bank of Poland for the period*). As at December 31st 2011 this provision was increased by PLN 20,333 thousand (*NOK 35,823 thousand, translated at the mid-exchange rate quoted by the National Bank of Poland for the period*) and by a discount representing the estimated changes in the time value of money, amounting to PLN 3,193 thousand (*NOK 3,864 thousand, translated at the mid-exchange rate quoted by the National Bank of Poland for the period*). The amount of the provision also changed due to its actual use – by PLN 22 thousand (*NOK 40 thousand, translated at the mid-exchange rate quoted by the National Bank of Poland for the period*). As at December 31st 2011 it changed due to its actual use by PLN 15 thousand (*NOK 27 thousand, translated at the mid-exchange rate quoted by the National Bank of Poland for the period*).

Other provisions include a provision of PLN 15,318 thousand related to the court proceedings instigated by WANDEKO, to which LOTOS Paliwa Sp. z o.o. is a party (for further information, see Note 36.1). As at December 31st 2012, in connection with delays affecting the YME project in Norway, the Group recognised a provision of PLN 12,492 thousand (*NOK 22,500 thousand, translated at the mid-exchange rate quoted by the National Bank of Poland for last day of the reporting period ended on December 31st 2012*) for unavoidable costs resulting from concluded agreement for offtake and transport of oil produced from the field.

31.2 Grants

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
At beginning of the period	**39,321**	**40,012**
Received during the year	2,186	7,431
Recognised in consolidated profit or loss	(2,059)	(1,654)
Other	-	(6,468) [1]
At end of the period	**39,448**	**39,321**
including:		

non-current	13,089	14,415
current	26,359	24,906

(1) Licences obtained by Grupa LOTOS S.A. free of charge in connection with the IGCC project, in respect of which impairment losses of PLN 19,352 thousand were recognised in 2011 (see Note 13).

The grants are primarily related to licences received free of charge and grants from the Eco Fund for the use of waste gas from an offshore oil and gas facility for heating purposes.

The Group receives also government assistance within the meaning of IAS 20 Accounting for Government Grants and Disclosure.

Until April 30th 2011, the Group benefited from tax credit available to producers of bio-components under Art. 19a of the Corporate Income Tax Act of February 15th 1992 (consolidated text: Dz. U. of 2011, No. 74, item 397). The state aid awarded in line with the laws referred to above was approved by virtue of the European Commission's Decision No. 57/08 of September 18th 2009 concerning authorisation for the grant of state operating aid for biofuels. The credit enabled producers of biofuels to deduct from the income tax payable an amount representing no more than 19% of the excess of the value of the produced biofuels over the value of the produced liquid fuels of the same calorific value, calculated at average prices. The European Commission's authorisation for the application of the tax credit expired on April 30th 2011. The outstanding amount of the credit is settled as part of current prepayments for corporate income tax. The tax effect of the bio-component tax credit is presented in Notes 10.2 and 10.3.

The Group operates in the Tarnobrzeg Special Economic Zone, EURO-PARK WISŁOSAN, under Permit No. 158/ARP S.A./2008 of January 23rd 2008. The Permit is valid until November 15th 2017. In connection with the investment project executed in the Tarnobrzeg Special Economic Zone, the Group is entitled to a tax credit, i.e. it may deduct up to 50% of capital expenditure incurred in the Tarnobrzeg Special Economic Zone from its income tax payable. The tax effect of the special economic zone tax credit is presented in Notes 10.2 and 10.3.

The Group benefits from a tax credit available to entities introducing new technologies pursuant to Art. 18b of the Corporate Income Tax Act of February 15th 1992 (consolidated text: Dz.U. of 2011, No. 74, item 397). The credit enables the Group to deduct up to 50% of expenditure incurred on new technologies from the tax base.

32. Financial instruments

32.1 Carrying amount

Categories of financial instruments

Dec 31 2012 PLN '000	Note	Financial assets/liabilities at fair value through profit or loss – held for trading	Loans and receivables	Financial assets available for sale (1)	Financial liabilities at amortised cost	Total
Classes of financial instruments						
Financial assets		**121,334**	**2,162,373**	**9,756**	**-**	**2,293,463**
Derivative financial instruments	29	121,334	-	-	-	121,334
Trade receivables	18	-	1,640,360	-	-	1,640,360
Cash and cash equivalents	20	-	268,333	-	-	268,333
Other financial assets	18	-	253,680	9,756	-	263,436
Financial liabilities		**(179,325)**	**-**	**-**	**(9,023,399)**	**(9,202,724)**
Borrowings, other debt instruments and finance lease liabilities	28	-	-	-	(6,556,700)	(6,556,700)
Derivative financial instruments	29	(179,325)	-	-	-	(179,325)
Trade and other payables	31	-	-	-	(2,178,760)	(2,178,760)
Other financial liabilities	31	-	-	-	(287,939)	(287,939)
Total		**(57,991)**	**2,162,373**	**9,756**	**(9,023,399)**	**(6,909,261)**

Categories of financial instruments

Dec 31 2011 PLN '000	Note	Financial assets/liabilities at fair value through profit or loss – held for trading	Loans and receivables	Financial assets available for sale [1]	Financial liabilities at amortised cost	Total
Classes of financial instruments						
Financial assets		**49,300**	**2,686,689**	**9,746**	**-**	**2,745,735**
Derivative financial instruments	29	49,300	-	-	-	49,300
Trade receivables	18	-	2,075,562	-	-	2,075,562
Cash and cash equivalents	20	-	383,680	-	-	383,680
Other financial assets	18	-	227,447	9,746	-	237,193
Financial liabilities		**(267,778)**	**-**	**-**	**(10,649,878)**	**(10,917,656)**
Borrowings, other debt instruments and finance lease liabilities	28	-	-	-	(7,588,629)	(7,588,629)
Derivative financial instruments	29	(267,778)	-	-	-	(267,778)
Trade and other payables	31	-	-	-	(2,821,742)	(2,821,742)
Other financial liabilities	31	-	-	-	(239,507)	(239,507)
Total		**(218,478)**	**2,686,689**	**9,746**	**(10,649,878)**	**(8,171,921)**

[1] As at December 31st 2012 and December 31st 2011, the Group had equity interests in other entities, measured at historical cost less impairment losses (presented in Note 18).

As at December 31st 2012 and December 31st 2012, the fair value of financial assets and liabilities did not materially differ from their carrying amounts.

32.2 Fair value hierarchy

PLN '000	Dec 31 2012		Dec 31 2011	
	Level 1	Level 2	Level 1	Level 2
Financial assets	**-**	**132,858**	**8,304**	**40,996**
Commodity swap	-	45	-	-
Futures (CO_2 emissions)	-	-	8,304	-
Currency forward and spot contracts	-	84,976	-	16,175
Interest rate swap (IRS)	-	11,318	-	23,738

Currency swap	-	36,519	-	1,083
Financial liabilities	**(3,787)**	**(187,062)**	**(15,607)**	**(252,171)**
Commodity swap	-	(337)	-	-
Futures (CO_2 emissions)	(3,787)	-	(15,607)	-
Currency forward and spot contracts	-	(20,685)	-	(51,889)
Interest rate swap (IRS)	-	(148,007)	-	(172,134)
Currency swap	-	(18,033)	-	(28,148)
Total	**(3,787)**	**(54,204)**	**(7,303)**	**(211,175)**

32.3 Items of income, expenses, gains and losses disclosed in the statements of comprehensive income by category of financial instrument

Categories of financial instruments

Year ended Dec 31 2012 PLN '000	Note	Financial assets/liabilities at fair value through profit or loss – held for trading	Loans and receivables	Financial assets available for sale	Financial liabilities at amortised cost	Total
Classes of financial instruments						
Shares:		**-**	**-**	**150**	**-**	**150**
Gains/(losses) on sale recognised in finance income		-	-	150	-	150
Trade receivables:		**-**	**(43,876)**	**-**	**-**	**(43,876)**
Interest income recognised in finance income		-	8,812	-	-	8,812
Foreign exchange gains/(losses) recognised in cost of sales		-	(54,471)	-	-	(54,471)
Foreign exchange gains/(losses) recognised in finance income		-	(3,229)	-	-	(3,229)
Reversal/(recognition) of impairment losses recognised in other income/(expenses)		-	5,012	-	-	5,012
Cash and cash equivalents:		**-**	**(27,085)**	**-**	**-**	**(27,085)**
Interest income recognised in		-	1,309	-	-	1,309

finance income						
Foreign exchange gains/(losses) recognised in finance income		-	(28,394)	-	-	(28,394)
Other financial assets:		**-**	**(99,495)**	**-**	**-**	**(99,495)**
Interest income recognised in finance income		-	14,959	-	-	14,959
Foreign exchange gains/(losses) recognised in finance income		-	(114,454)	-	-	(114,454)
Derivative financial instruments (financial assets/liabilities):	**9.3**	**117,772**	**-**	**-**	**-**	**117,772**
Gains/(losses) on fair value measurement of derivative financial instruments recognised in finance income		159,096	-	-	-	159,096
Gains/(losses) on realisation of derivative financial instruments recognised in finance income		(41,324)	-	-	-	(41,324)
Borrowings, other debt instruments and finance lease liabilities		**-**	**-**	**-**	**564,636**	**564,636**
Interest expenses recognised in finance costs		-	-	-	(191,754)	(191,754)
Foreign exchange gains/(losses) recognised in finance income		-	-	-	284,193	284,193
Gains/(losses) on measurement of cash flow hedges recognised in other comprehensive income (net)		-	-	-	472,197	472,197
Trade and other payables		**-**	**-**	**-**	**24,202**	**24,202**
Interest expenses recognised in finance costs		-	-	-	(88)	(88)
Foreign exchange gains/(losses) recognised in cost of sales		-	-	-	23,275	23,275
Foreign exchange gains/(losses) recognised in finance income		-	-	-	1,015	1,015
Other financial liabilities:		**-**	**-**	**-**	**(2,266)**	**(2,266)**
Interest expenses recognised in finance costs		-	-	-	(19,247)	(19,247)

Foreign exchange gains/(losses) recognised in finance income		-	-	-	16,981	16,981
Total		**117,772**	**(170,456)**	**150**	**586,572**	**534,038**

Categories of financial instruments

Year ended Dec 31 2011 PLN '000	**Note**	**Financial assets/liabilities at fair value through profit or loss – held for trading**	**Loans and receivables**	**Financial assets available for sale**	**Financial liabilities at amortised cost**	**Total**
Classes of financial instruments						
Shares:		**-**	**-**	**957**	**-**	**957**
Gains/(losses) on sale recognised in finance income/(costs)		-	-	957	-	957
Trade receivables:		**-**	**11,256**	**-**	**-**	**11,256**
Interest income recognised in finance income		-	8,197	-	-	8,197
Foreign exchange gains/(losses) recognised in cost of sales		-	5,604	-	-	5,604
Foreign exchange gains/(losses) recognised in finance costs		-	4,357	-	-	4,357
Reversal/(recognition) of impairment losses recognised in other income/(expenses)		-	(6,902)	-	-	(6,902)
Cash and cash equivalents:		**-**	**34,750**	**-**	**-**	**34,750**
Interest income recognised in finance income		-	930	-	-	930
Foreign exchange gains/(losses) recognised in finance costs		-	33,820	-	-	33,820
Other financial assets:		**-**	**150,553**	**-**	**-**	**150,553**
Interest income recognised in finance income		-	11,075	-	-	11,075
Foreign exchange gains/(losses) recognised in		-	139,478	-	-	139,478

finance costs						
Derivative financial instruments (financial assets/liabilities):	**9.7**	**(130,430)**	**-**	**-**	**-**	**(130,430)**
Gains/(losses) on fair value measurement of derivative financial instruments recognised in finance costs		(9,769)	-	-	-	(9,769)
Gains/(losses) on realisation of derivative financial instruments recognised in finance costs		(120,661)	-	-	-	(120,661)
Borrowings, other debt instruments and finance lease liabilities		**-**	**-**	**-**	**(1,061,121)**	**(1,061,121)**
Interest expenses recognised in finance costs		-	-	-	(157,833)	(157,833)
Foreign exchange gains/(losses) recognised in finance costs		-	-	-	(386,396)	(386,396)
Gains/(losses) on measurement of cash flow hedges recognised in other comprehensive income(net)		-	-	-	(516,892)	(516,892)
Trade and other payables		**-**	**-**	**-**	**(326,850)**	**(326,850)**
Interest expenses recognised in finance costs		-	-	-	(323)	(323)
Foreign exchange (gains)/losses recognised in cost of sales		-	-	-	(324,970)	(324,970)
Foreign exchange gains/(losses) recognised in finance costs		-	-	-	(1,557)	(1,557)
Other financial liabilities:		**-**	**-**	**-**	**(34,689)**	**(34,689)**
Interest expenses recognised in finance costs		-	-	-	(10,200)	(10,200)
Foreign exchange gains/(losses) recognised in finance costs		-	-	-	(24,489)	(24,489)
Total		**(130,430)**	**196,559**	**957**	**(1,422,660)**	**(1,355,574)**

33. Objectives and policies of financial risk management

The Group is exposed to financial risks, including:

- market risk (risk related to prices of raw materials and petroleum products, risk related to prices of CO_2 allowances, currency risk, interest rate risk),
- liquidity risk,
- credit risk related to financial and trade transactions.

The Price Risk and Trading Committee operates at the Parent, which is responsible for:

- oversight and coordination of the price risk management process,
- monitoring and coordination of trading activities requiring cross-segment interaction.

The powers in the area of currency risk, interest rate risk and credit risk management have been vested directly in the Chief Financial Officer. In addition, a team for liquidity optimisation and coordination of financing coordinates and supervises key efforts in the area of liquidity risk management, arrangement of financing, and debt management at the LOTOS Group.

To ensure efficiency and operational security of financial risk management, Grupa LOTOS S.A. has distinguished the following areas: financial transactions (front-office), risk analysis and control (middle-office) and documentation and settlement (back-office).

Financial risk management seeks to achieve the following key objectives:

- increase the probability that budget and strategic objectives will be met,
- limit volatility of cash flows,
- ensure short-term financial liquidity,
- maximise the result on market risk management within the assumed risk level limits.

In order to achieve those objectives, relevant documents have been prepared and approved at appropriate decision-making levels at Grupa LOTOS S.A. Those documents specify the necessary framework for effective and secure functioning of the financial risk management process, including principally:

- the methodology for quantifying exposures to particular risks,
- acceptable financial instruments,
- the method of assessing financial risk management,
- limits within risk management,

- the reporting method,
- credit limits.

The Parent monitors all managed market risks on an ongoing basis. Opening positions with respect to risks which do not arise as part of the Company's core business is prohibited. Grupa LOTOS S.A. uses liquid derivatives which it is able to measure by applying commonly used valuation models. The valuation of the underlying position and derivatives is performed based on market inputs provided by reliable sources.

On January 1st 2011, the Parent commenced hedge accounting with respect to cash flows (i.e. foreign-currency facilities used to finance the 10+ Programme, designated as hedges of future USD-denominated petroleum product sale transactions). In H2 2012, the Group extended the scope of application of cash flow hedge accounting through the establishment of new hedging relationships with respect to foreign-currency denominated credit facilities intended for financing of the 10+ Programme, designated as hedges of future USD-denominated petroleum product sales transactions.

33.1 Risk related to prices of raw materials and petroleum products

The Parent considers risk related to prices of raw materials and petroleum products, as well as currency risk, to be particularly important.

Currently, the Parent is continuing research into and work on a new policy for managing the risk, which ties in closely with our plans to develop trading operations. Concurrently, to enable implementation of specific price risk management processes, streamline management functions and improve security of operations in the broad price risk and trading area, the Company has started to roll-out the selected Energy Trading and Risk Management system.

In 2012, the Company entered into commodity swaps in connection with sales of bitumen components at fixed prices, to ensure that the initial risk profile remains unchanged. Part of the swaps were settled in 2012, and part of them will be settled in 2013. As at December 31st 2011, the Group carried no open positions on commodity contracts.

Open commodity swaps as at December 31st 2012:

Type of contract	**Underlying index**	**Contract execution period**	**Valuation period**	**Amount in tonnes in the valuation period**	**Average weighted price (USD/t)**	**Fair value (PLN '000)**	
						Financial assets	**Zobowiązania finansowe**
Commodity swap	3.5 PCT Barges FOB Rotterdam	Dec 2012	Jun–Nov 2013	14,092	591.25	-	(335)
Commodity swap	Gasoil .1 Cargoes CIF NWE / Basis ARA	Dec 2012	Jun–Nov 2013	(3,000)	915.00	45	(2)
Total						**45**	**(337)**

33.2 Risk related to prices of carbon (CO_2) allowances

The risk related to prices of carbon dioxide (CO_2) allowances is managed in line with the assumptions set forth in The Strategy for Managing the Risk Related to Prices of Carbon Dioxide (CO_2) Allowances by Grupa LOTOS S.A.

The Company determines its underlying CO_2 allowances position, which represents the difference between the number of CO_2 allowances (held or estimated) and CO_2 emissions (released or estimated) for each individual trading period (phase), for which emission allowances are granted.

As part of risk management procedures, the Company sets a volume limit for the total position in CO_2 allowances (the underlying position adjusted for the position resulting from executed contracts, i.e transactions involving purchase/sale of emission allowances) based on the number of allowances granted for a given phase. The Company monitors the total position for a given phase, representing the aggregate of total positions for individual years within the phase.

Depending on the market situation and the set limits, the Company monitors the risk and maintains an appropriate total position in carbon allowances by entering into financial transactions on an on-going basis. The limit reflecting the risk of loss for the transactions (maximum loss limit) is defined by reference to the Company's equity.

Underlying CO2 allowances position as at December 31st 2012 (in tonnes):

Period	EUA	CER	TOTAL
Phase II (2008-2012)	(520,169)	-	(520,169)
Phase III (2013-2020)	(363,376)	-	(363,376)

In 2012, the management of Phase II, which was nearing its end, continued; and management of Phase III for years 2013-2020 commenced. Phase II covers the period to the end of 2012, and is to be settled by the end of April 2013. Therefore, the two-phase division was retained in the tables containing information on the underlying position and financial instruments.

Given the lack of liquidity of the futures market in the period until 2020, the end of the risk management period for the risk related to the prices of CO_2 emission allowances in phase III was set at the end of 2014. However, with the passage of time, the risk management period will be extended to include successive years.

Underlying CO_2 allowances position as at December 31st 2011:

Period	EUA	CER	TOTAL
Phase II (2008-2012)	(133,535)	17,873	(115,662)

In 2012, the Company entered into EUA/CER swaps, as that was justified by the spread between those two types of emission allowances.

Open CO_2 allowances contracts as at December 31st 2012:

Type of contract	Contract execution period	Contract settlement period	Number of allowances in the period	Average weighted price (EUR/t)	Phase	Fair value (PLN '000)	
						Financial assets	Financial liabilities
EUA Futures	Aug–Nov 2012	Dec 2013-Dec 2014	523,000	8.53	Phase III	-	(3,787)
Total						**-**	**(3,787)**

Open CO_2 allowances contracts as at December 31st 2011:

Type of contract	Contract execution period	Contract settlement period	Number of allowances in the period	Average weighted price (EUR/t)	Phase	Fair value (PLN '000)	
						Financial assets	Financial liabilities
Futures EUA	Aug–Dec 2011	Dec 2012	(405,000)	11.94	Phase II	8,304	(34)
Futures CER	Jan 2011	Dec 2012	515,000	11.07	Phase II	-	(15,573)
Total						**8,304**	**(15,607)**

Total CO_2 allowances position as at December 31st 2012 (in tonnes):

	EUA position			CER position		
Period	**Underlying**	**Contracts**	**Total**	**Underlying**	**Transakcyjna**	**Total**
Phase II (2008-2012)	(520 169)	-	(520,169)	-	620,000	620,000
Phase III (2013-2020)	(363 376)	523,000	159,624	-	-	-

As at December 31st 2012, Grupa LOTOS S.A. held open CER Futures contracts which were not included in the table listing open contracts but were disclosed in the table containing information on the total position. The CER Futures provide for the purchase of 620,000 CO_2 emission allowances and are to be settled in March 2013. Since Grupa LOTOS S.A. intends to settle the contracts by physical delivery, the contracts were not measured and a provision was recognised for costs related to the purchase.

Total CO_2 allowances position as at December 31st 2011 (in tonnes):

	EUA position			CER position		
Period	**Underlying**	**Contracts**	**Total**	**Underlying**	**Contracts**	**Total**
Phase II (2008-2012)	(133,535)	(405,000)	(538,535)	17,873	515,000	532,873

For information on average annual CO_2 emission allowances granted for each of the years, see Note 35.

33.2.1 Sensitivity analysis with respect to market risk related to fluctuations in prices of carbon dioxide (CO_2) emission allowances

As at December 31st 2012 and December 31st 2011 the Parent held futures for the purchase of carbon dioxide (CO2) emission allowances (EUA – Emissions Unit Allowance), measured at fair value.

Below is presented an analysis of the sensitivity to risk related to fluctuations in prices of carbon dioxide (CO_2) emission allowances as at December 31st 2012 and December 31st 2011, assuming a 10% increase or decrease in the interest rate.

	Dec 31 2012		Dec 31 2011	
PLN '000	**Carrying amount**	**Change**	**Carrying amount**	**Change**

		+10%	-10%		+10%	-10%
Financial assets	-	-	-	8,304	(1,261)	1,261
Financial liabilities	(3,787)	1,446	(1,446)	(15,607)	912	(912)
Total	**(3,787)**	**1,446**	**(1,446)**	**(7,303)**	**(349)**	**349**

33.3 Currency risk

Currency risk is managed in line with the assumptions stipulated in The Strategy of Currency Risk Management at Grupa LOTOS S.A. The exposure management horizon is connected with the introduction of a budget rolled over to next four quarters as a permanent component of the planning activities at the Company. The four-quarter period is treated as the basis for determining the exposure management horizon. The base map of currency positions takes into account principally the volumes and price formulae for purchases of raw materials and sales of products, investments, credit facilities denominated in foreign currencies, as well as valuation of derivatives, and may be adjusted for a ratio reflecting the volatility in the prices of raw materials and petroleum products. The strategy provides for the calculation of the following limits:

- position limit (open currency contracts must not increase the Company’s underlying position and must not exceed the volume of the underlying position);
- maximum loss and liquidity limits are expressed as a percentage of the Company’s equity (the liquidity limit is calculated in order to reduce the risk of excessive accumulation of financial transactions over a limited period of time, the settlement of which could result in liquidity and operating problems);
- gross total and global currency position limits for the entire management period as well as for sub-periods.

For the purpose of the limits calculation, equity is remeasured on a quarterly basis. Moreover, when loss on risk management exceeds a pre-defined threshold, limits are immediately revised in order to prevent any significant exceeding of the maximum loss limit set by the Management Board of Grupa LOTOS S.A.
The strategy allows for the possibility of consolidated risk management at the Group level.

USD is used in market price quotations for crude oil and petroleum products. For this reason it was decided that USD is the most appropriate currency for contracting and repaying long-term credit facilities to finance the 10+ Programme, as this would reduce the structurally long position, and consequently also the strategic currency risk.

The underlying currency position represents all material cash flows (identified during currency risk identification process) whose value, expressed in Grupa LOTOS S.A.'s functional currency, over the risk management period depends on exchange rates, adjusted for a ratio reflecting the decreasing probability of generating such cash flows. To determine the underlying currency position, the Company takes into account deposits and borrowings, but excludes currency transactions.

Underlying currency position as at December 31st 2012:

Period	USD ‘000	EUR ‘000
2013	654,698	(173,187)

Underlying currency position as at December 31st 2011:

Period	USD ‘000	EUR ‘000

2012	468,679	(254,124)

Grupa LOTOS S.A. actively manages its currency position and changes it depending on the expected market developments.

Open currency contracts as at December 31st 2012:

Type of contract	Purchase/sale	Contract execution period	Contract settlement period	Currency pair (base/quote)	Amount in base currency ('000)	Weighted average exchange rate	Amount in quote currency ('000)	Fair value (PLN '000)	
								Financial assets	Financial liabilities
Currency spot	Purchase	Dec 2012	Jan 2013	USD/PLN	54,000	3.0951	(167,135)	234	-
Currency spot	Purchase	Dec 2012	Jan 2013	EUR/PLN	1,891	4.0925	(7,739)	-	(9)
Currency forward	Purchase	Sep–Dec 2012	Jan–Jun 2013	USD/PLN	110,500	3.1760	(350,948)	57	(7,436)
Currency forward	Purchase	Aug–Dec 2012	Jan–Jul 2013	EUR/USD	146,000	1.2828	(187,289)	17,029	-
Currency forward	Sale	Aug–Dec 2012	Jan–Nov 2013	USD/PLN	(324,000)	3.3091	1,072,148	56,132	(1,381)
Currency forward	Sale	Dec 2012	Jan 2013	EUR/PLN	(15,000)	4.0717	61,076	-	(335)
Currency swap	Purchase	Aug–Dec 2012	Jan–Jul 2013	USD/PLN	74,000	3.2998	(244,185)	-	(12,672)
Currency swap	Purchase	Dec 2012	Jan 2013	EUR/PLN	15,500	4.1474	(64,285)	-	(832)
Currency swap	Purchase	Oct–Dec 2012	Jan–Jul 2013	EUR/USD	31,610	1.2948	(40,929)	2,478	-
Currency swap	Sale	Aug–Dec 2012	Jan–Jul 2013	USD/PLN	(399,500)	3.1968	1,277,122	34,041	(4,529)
Total								**109,971**	**(27,194)**

Open currency contracts as at December 31st 2011:

Type of contract	Purchase/sale	Contract execution period	Contract settlement period	Currency pair (base/quote)	Amount in base currency ('000)	Weighted average exchange rate	Amount in quote currency ('000)	Fair value (PLN '000)	
								Financial assets	Financial liabilities
Currency forward	Purchase	Aug–Dec 2011	Jan–Jul 2012	EUR/PLN	12,000	4.2133	(50,560)	3,010	-
Currency forward	Purchase	May–Dec 2011	Jan–Dec 2012	EUR/USD	191,000	1.3501	(257,869)	-	(35,459)
Currency	Sale	Aug–Dec	Feb–Oct 2012	USD/PLN	(206,000)	3.4589	712,533	13,165	(15,031)

forward		2011							
Currency forward	Sale	Dec 2011	Jan 2012	EUR/USD	(2,000)	1.2914	2,583	-	(7)
Currency forward	Sale	Sep–Dec 2011	Jan–Jul 2012	USD/NOK	(15)	5.8735	89	-	(1,392)
Currency swap	Purchase	Dec 2011	Jan 2012	USD/PLN	103,000	3.5158	(362,127)	-	(10,132)
Currency swap	Purchase	Dec 2011	Jan–Jul 2012	EUR/PLN	28,000	4.6215	(129,402)	-	(4,074)
Currency swap	Purchase	May–Dec 2011	Jan 2012	EUR/USD	20,100	1.3535	(27,205)	-	(4,185)
Currency swap	Sale	Dec 2011	Jan 2012	USD/PLN	(72,100)	3.4316	247,418	995	(169)
Currency swap	Sale	Dec 2011	Jan – Jul 2012	EUR/PLN	(3,650)	4.4416	16,212	88	-
Currency swap	Sale	Nov 2010	May 2012	USD/PLN	(49,284)	3.2610	160,715	-	(9,588)
Total								**17,258**	**(80,037)**

The LOTOS Group companies executed transactions to hedge their currency risk and transactions to hedge the USD exchange rate in connection with the purchase of notes from a LOTOS Group company.

A currency swap comprises two transactions which in this document are assigned to purchase or sale, as applicable, under "currency swap".

Total currency position of the Parent for each currency as at December 31st 2012:

Period			**USD/PLN position**			**EUR/PLN position**
	Underlying (USD '000)	**Contracts (USD '000)**	**Total (USD '000)**	**Underlying (EUR '000)**	**Contracts (EUR '000)**	**Total (EUR '000)**
2013	654,698	(654,766)	(68)	(173,187)	180,001	6,814

Total currency position of the Parent for each currency as at December 31st 2011:

Period			**USD/PLN position**			**EUR/PLN position**
	Underlying (USD '000)	**Contracts (USD '000)**	**Total (USD '000)**	**Underlying (EUR '000)**	**Contracts (EUR '000)**	**Total (EUR '000)**
2012	468,679	(457,601)	11,078	(254,124)	245,450	(8,674)

33.3.1 Sensitivity analysis with respect to market risk related to fluctuations in currency exchange rates

Below is presented an analysis of the Group's sensitivity to currency risk as at December 31st 2012 and December 31st 2011, along with the effect on the net profit or loss, assuming a 4% increase or decrease in the USD/PLN and EUR/PLN exchange rates and all other variables remaining unchanged.

Dec 31 2012 **PLN '000**	**4% increase in exchange rate effect on net profit/loss for the year**		**4% decrease in exchange rate effect on net profit/loss for the year**	
	USD	**EUR**	**USD**	**EUR**
Financial assets	**(21,072)**	**33,497**	**21,072**	**(33,497)**
Trade receivables	10,815	2,077	(10,815)	(2,077)
Other receivables	2	25	(2)	(25)
Derivative financial instruments	(85,181)	29,022	85,181	(29,022)
Obligacje	6,586	-	(6,586)	-
Notes	657	360	(657)	(360)
Cash and cash equivalents	46,049	2,013	(46,049)	(2,013)
Loans advanced	44,502	1,651	(44,502)	(1,651)
Deposits	1,547	-	(1,547)	-
Security deposits (margins)	-	362	-	(362)
Financial liabilities	**(191,498)**	**(10,049)**	**191,498**	**10,049**
Trade and other payables	(71,086)	(1,253)	71,086	1,253
Other liabilities	(1,248)	(1,647)	1,248	1,647
Borrowings	(110,782) (1)	(867)	110,782 (1)	867
Liabilities under issue of notes	(6,566)	-	6,566	-
Derivative financial instruments	-	(6,522)	-	6,522
Finance lease liabilities	(1,816)	240	1,816	(240)
Total	**(212,570)**	**23,448**	**212,570**	**(23,448)**

(1) Taking into account the effect of cash flow hedge accounting. Assuming a 4% increase or decrease in the USD/PLN exchange rate, the effect on other comprehensive income would potentially lead to a change of PLN (176,513) 176,513 thousand in the fair value of the credit facilities.

Dec 31 2011 **PLN '000**	**4% increase in exchange rate effect on net profit/loss for the year**		**4% decrease in exchange rate effect on net profit/loss for the year**	
	USD	**EUR**	**USD**	**EUR**
Financial assets	**22,766**	**9,541**	**(22,766)**	**(9,541)**
Trade receivables	6,377	2,487	(6,377)	(2,487)
Other receivables	-	4	-	(4)

Derivative financial instruments	(27,887)	1,805	27,887	(1,805)
Notes	6,154	-	(6,154)	-
Cash and cash equivalents	1,365	1,710	(1,365)	(1,710)
Other financial assets:	36,757	3,535	(36,757)	(3,535)
Loans advanced	35,137	2,090	(35,137)	(2,090)
Deposits	1,620	1,060	(1,620)	(1,060)
Security deposits (margins)	-	385	-	(385)
Financial liabilities	**(294,672)**	**22,616**	**294,672**	**(22,616)**
Trade and other payables	(97,253)	(1,777)	97,253	1,777
Other liabilities	(1,159)	(323)	1,159	323
Borrowings	(149,424) [1]	(8,731)	149,424 [1]	8,731
Liabilities under issue of notes	(6,125)	-	6,125	-
Derivative financial instruments	-	(7,715)	-	7,715
Finance lease liabilities	(40,711)	41,162	40,711	(41,162)
Total	**(271,906)**	**32,157**	**271,906**	**(32,157)**

[1] Taking into account the effect of cash flow hedge accounting. Assuming a 4% increase or decrease in the USD/PLN exchange rate, the effect on other comprehensive income would potentially lead to a change of PLN (156,095) 156,095 thousand in the fair value of the credit facilities.

33.4 Interest rate risk

The base map of interest rate positions is related to the cash flows which depend on future interest rates; in particular it is based on the planned schedule of repayments under the credit facilities for financing of inventories and implementation of the 10+ Programme and the associated interest calculated on the basis of a floating LIBOR USD rate. The structure of limits is based on the underlying's nominal value hedge ratio. In a long-term perspective, a partial risk mitigation effect was achieved through the choice of a fixed interest rate for the SACE sub-tranche under the term facility granted to finance the 10+ Programme; see Note 28.

The obligation to maintain a specific level of the hedge ratio for the interest rate risk connected with the LIBOR USD floating interest rate on the facility contracted to finance the 10+ Programme expired on June 30th 2011, in accordance with the agreement on the financing of the 10+ Programme.

Underlying interest rate position means all material positions (identified in the interest rate risk identification process) whose value depends on the level of interest rates.

Underlying interest rate position as at December 31st 2012 and December 31st 2011 (USD '000):

Period	**Underlying position (USD '000)**	
	2011	**2012**
2012	(1,864,944)	-

2013	(1,373,687)	(1,757,021)
2014	(1,267,629)	(1,267,629)
2015	(1,143,396)	(1,143,396)
2016	(1,012,073)	(1,012,073)
2017	(876,641)	(876,641)
2018	(728,733)	(728,733)
2019	(562,495)	(562,495)
2020	(395,211)	(395,211)

As at December 31st 2012, the Company had open hedging transactions.

Open interest rate contracts as at December 31st 2012:

Type of contract	Contract execution period	Period	Notional amount (USD '000)	Company pays	Company receives	Financial assets (PLN '000)	Financial liabilities (PLN '000)
Interest rate swap (IRS)	Sep 2008–May 2009	Oct 2008–Jan 2018	600,000	3.33% - 4.22%	6M LIBOR	-	(141,756)
Interest rate swap (IRS)	Mar 2012	Jan 2015–Jan 2019	50,000	2.476%	3M LIBOR	-	(6,251)
Interest rate swap (IRS)	Sep 2008	Jan 2009–Jan 2013	(100,000)	6M LIBOR	4.0%	11,318	-
Total						**11,318**	**(148,007)**

Open interest rate contracts as at December 31st 2011:

Type of contract	Contract execution period	Period	Notional amount (USD '000)	Company pays	Company receives	Financial assets (PLN '000)	Financial liabilities (PLN '000)
Interest rate swap (IRS)	Sep 2008–May 2009	Oct 2008–Jan 2018	600,000	3.33% - 4.22%	6M LIBOR	-	(172,134)
Interest rate swap (IRS)	Sep 2008	Jan 2009–Jan 2013	(100,000)	6M LIBOR	4.0%	23,738	-
Total						**23,738**	**(172,134)**

Total interest rate position as at December 31st 2012:

Period	Underlying position (USD)	Fixed interest rate facilities (USD)	Contract position (USD)	Variable interest rate deposits (USD)	Total position (USD)	Hedge ratio
2012	-	-	-	-	-	-
2013	(1,757,020,833)	376,656,250	200,000,000	72,300,359	(1,108,064,224)	37%
2014	(1,267,628,750)	347,575,625	200,000,000	89,935,408	(630,117,717)	50%
2015	(1,143,396,250)	313,511,875	250,000,000	90,749,801	(489,134,574)	57%
2016	(1,012,072,500)	277,503,750	250,000,000	97,925,778	(386,642,972)	62%
2017	(876,641,250)	240,369,375	250,000,000	98,837,064	(287,434,811)	67%
2018	(728,732,500)	199,813,750	50,000,000	111,555,820	(367,362,930)	50%
2019	(562,495,000)	154,232,500	-	114,607,735	(293,654,765)	48%
2020	(395,211,250)	108,364,375	-	111,076,453	(175,770,422)	56%

Total interest rate position as at December 31st 2011:

Period	Underlying position (USD)	Fixed interest rate facilities (USD)	Contract position (USD)	Variable interest rate deposits (USD)	Total position (USD)	Hedge ratio
2012	(1,864,943,750)	401,678,125	500,000,000	75,863,870	(887,401,755)	52%
2013	(1,373,687,500)	376,656,250	200,000,000	75,707,285	(721,323,965)	47%
2014	(1,267,628,750)	347,575,625	200,000,000	93,595,493	(626,457,632)	51%
2015	(1,143,396,250)	313,511,875	200,000,000	96,284,191	(533,600,184)	53%
2016	(1,012,072,500)	277,503,750	200,000,000	102,199,230	(432,369,520)	57%
2017	(876,641,250)	240,369,375	200,000,000	102,124,180	(334,147,695)	62%
2018	(728,732,500)	199,813,750	-	113,673,611	(415,245,139)	43%
2019	(562,495,000)	154,232,500	-	115,396,189	(292,866,311)	48%
2020	(395,211,250)	108,364,375	-	111,293,408	(175,553,467)	56%

33.4.1 Sensitivity analysis with respect to market risk related to fluctuations in interest rates

Below is presented an analysis of the Group's sensitivity to interest rate risk as at December 31st 2012 and December 31st 2011, assuming a 0.2% increase or decrease in the interest rate.

Dec 31 2012 PLN '000	Note	Carrying amount	Change	
			+0.2%	-0.2%
Financial assets		440,858	858	(858)

Derivative financial instruments (1)	29	11,318	(1)	1
Cash and cash equivalents	20	268,333	537	(537)
Other financial assets:	18	161,207	322	(322)
Oil and Gas Facility Decommissioning Fund		27,481	55	(55)
Deposits		122,563	245	(245)
Security deposits (margins)		11,163	22	(22)
Financial liabilities		**(6,704,707)**	**(3,129)**	**3,030**
Borrowings	28	(6,390,591)	(10,490)	10,490
Finance lease liabilities	28.3	(166,109)	(332)	332
Derivative financial instruments (1)	29	(148,007)	7,693	(7,792)
Total		**(6,263,849)**	**(2,271)**	**2,172**

(1) Interest rate swap (IRS)

Dec 31 2011 PLN '000	**Note**	**Carrying amount**	**Change**	
			+0.2%	**-0.2%**
Financial assets		**522,328**	**300**	**(297)**
Derivative financial instruments (1)	29	23,738	(696)	699
Cash and cash equivalents	20	383,680	767	(767)
Other financial assets:	18	114,910	229	(229)
Oil and Gas Facility Decommissioning Fund		24,491	49	(49)
Deposits		78,671	157	(157)
Security deposits (margins)		11,748	23	(23)
Financial liabilities		**(7,760,763)**	**(1,460)**	**1,336**
Borrowings	28	(7,391,629)	(12,093)	12,093
Finance lease liabilities	28.3	(197,000)	(394)	394
Derivative financial instruments (1)	29	(172,134)	11,027	(11,151)
Total		**(7,238,435)**	**(1,160)**	**1,039**

(1) Interest rate swap (IRS)

33.5 Liquidity risk

The liquidity risk management process at Grupa LOTOS S.A. consists in monitoring projected cash flows and the portfolio of financial assets and liabilities, matching maturities of assets and liabilities, analysing working capital, optimising flows within the Group and close cooperation with specific business areas in order to ensure safe and effective allocation of the liquidity.

In 2012, the Group implemented real cash-pooling services for most of its Polish subsidiaries. The structure is managed by Grupa LOTOS S.A. on an ongoing basis in terms of liquidity optimisation and interest balance.

In the period covered by the budget, liquidity is monitored on an ongoing basis across the Group as part of the financial risk management. In the mid- and long term, it is monitored as part of the planning process, which helps to develop a long-term financial strategy.

In the area of financial risk, in addition to active management of market risk, the Company applies the following liquidity management rules:

- no margins in derivatives trading on the OTC market,
- limited possibility of early termination of financial transactions,
- limits for low-liquidity spot financial instruments,
- credit limits for counterparties in financial and trade transactions,
- ensuring adequate quality and diversification of available financing sources,
- internal control processes and organisational efficiency facilitating prompt contingency response.

Contractual maturities of financial liabilities as at December 31st 2012 and December 31st 2011:

Dec 31 2012 PLN '000	Note	Carrying amount	Contractual cash flows	Up to 6 months	6–12 months	1–2 years	2 - 5 years	Over 5 years
Borrowings (other than overdraft facilities)	28	5,857,893	6,125,075	1,371,533	368,530	499,013	1,340,723	2,545,276
Overdraft facilities	28	532,698	532,698	532,698	-	-	-	-
Finance lease liabilities	28.3	166,109	166,109	10,469	9,141	19,422	72,733	54,344
Trade and other payables	31	2,178,760	2,178,760	2,177,965	795	-	-	-
Other financial liabilities	31	287,939	287,939	273,072	13,663	509	695	-
Total		**9,023,399**	**9,290,581**	**4,365,737**	**392,129**	**518,944**	**1,414,151**	**2,599,620**

Dec 31 2011 PLN '000	Note	Carrying amount	Contractual cash flows	Up to 6 months	6–12 months	1–2 years	2 - 5 years	Over 5 years
Borrowings	28	7,083,442	7,344,207	348,463	1,933,482	363,759	1,424,509	3,273,994

(other than overdraft facilities)								
Overdraft facilities	28	308,187	308,187	224,976	83,211	-	-	-
Finance lease liabilities	28.3	197,000	197,000	10,663	8,752	18,965	72,392	86,228
Trade and other payables	31	2,821,742	2,821,742	2,820,524	1,218	-	-	-
Other financial liabilities	31	239,507	239,507	127,545	96,768	14,515	679	-
Total		**10,649,878**	**10,910,643**	**3,532,171**	**2,123,431**	**397,239**	**1,497,580**	**3,360,222**

Maturity structure of derivative financial instruments as at December 31st 2012 and December 31st 2011:

Dec 31 2012 PLN '000	**Note**	**Carrying amount ***	**Contractual cash flows**	**Up to 6 months**	**6–12 months**	**1–2 years**	**2 - 5 years**	**Over 5 years**
Commodity swap	29	(292)	(291)	(24)	(267)	-	-	-
Futures (CO_2 emissions)	29	(3,787)	(3,787)	-	(2,494)	(1,293)	-	-
Currency forward and spot contracts	29	64,291	75,811	68,656	7,155	-	-	-
Forward rate agreements (FRAs)	29	-	-	-	-	-	-	-
Interest rate swap (IRS)	29	(136,689)	(138,662)	(51,223)	1,543	(19,147)	(50,271)	(19,564)
Currency swap	29	18,486	25,463	23,790	1,673	-	-	-
Total		**(57,991)**	**(41,466)**	**41,199**	**7,610**	**(20,440)**	**(50,271)**	**(19,564)**

Dec 31 2011 PLN '000	**Note**	**Carrying amount ***	**Contractual cash flows**	**Up to 6 months**	**6–12 months**	**1–2 years**	**2 - 5 years**	**Over 5 years**
Commodity swap	29	-	-	-	-	-	-	-
Futures (CO_2 emissions)	29	(7,303)	(7,303)	-	(7,303)	-	-	-

Currency forward and spot contracts	29	(35,714)	(26,674)	(37,961)	11,287	-	-	-
Forward rate agreements (FRAs)	29	-	-	-	-	-	-	-
Interest rate swap (IRS)	29	(148,396)	(151,748)	(40,030)	6,916	(51,999)	(44,272)	(22,363)
Currency swap	29	(27,065)	(26,654)	(22,066)	(4,588)	-	-	-
Total		**(218,478)**	**(212,379)**	**(100,057)**	**6,312**	**(51,999)**	**(44,272)**	**(22,363)**

* Carrying amount (positive valuation of derivative financial instruments less negative valuation of derivative financial instruments) represents the fair value of derivative financial instruments.

33.6 Credit risk

Management of credit risk related to counterparties in financial transactions consists in the verification of creditworthiness of the current and potential counterparties and monitoring of credit exposure against the granted limits. The counterparties must have an appropriate credit rating assigned by leading rating agencies, or hold guarantees from institutions meeting the minimum rating requirement. The Group enters into financial transactions with reputable firms with sound credit standing, and diversifies the group of institutions with which it cooperates.

As at December 31st 2012, the concentration of credit risk with respect to any single counterparty in financial transactions did not exceed PLN 26,073 thousand (0.13% of the Group's balance-sheet total). As at December 31st 2011, the concentration of credit risk with respect to any single counterparty in financial transactions did not exceed PLN 3,063 thousand (0,015% of the Group's balance-sheet total).

As regards management of counterparty risk in non-financial transactions, all customers who request trading on credit terms are subject to credit assessment, whose results determine the level of possible credit limits. The Parent defines guidelines for the management of counterparty risk in non-financial transactions with a view to maintaining appropriate credit analysis standards and operating safety across the Group.

Credit risk is measured by the maximum exposure to risk of individual classes of financial assets. Carrying amounts of financial assets represent the maximum credit risk exposure.

Maximum exposure to credit risk arising from financial assets as at the last day of the reporting period:

PLN '000	Note	Dec 31 2012	Dec 31 2011
Derivative financial instruments	29	121,334	49,300
Trade receivables	18	1,640,360	2,075,562
Cash and cash equivalents	20	268,333	383,680
Other financial assets:	18	263,436	237,193
Total		**2,293,463**	**2,745,735**

In the Management Board's opinion, the risk related to non-performing financial assets is reflected in the recognised impairment losses. For more information on impairment losses on financial assets, see Notes 9.2 ; 9.6 and 18.1 .

For discussion of concentration of credit risk related to trade receivables as at December 31st 2012 and December 31st 2011, see Note 18.

For age analysis of receivables which are past due but not impaired, as at December 31st 2012 and December 31st 2011, see Note 18.1.

34. Capital management

The objective of the LOTOS Group financial policy is to maintain long-term liquidity, while using an appropriate level of financial leverage to support the achievement of the principal goal of maximising the return on equity for shareholders.

This is achieved by constant effort to develop the desired capital structure at the Group level.

The LOTOS Group monitors its financing structure using the debt to equity ratio, calculated as net debt to equity.

Net debt is the sum of borrowings less cash and cash equivalents. Equity includes equity attributable to owners of the Parent increased by non-controlling interests.

PLN '000	Note	Year ended Dec 31 2012	Year ended Dec 31 2011
Non-current borrowings	28.1	4,315,599	4,983,889
Current borrowings	28.1	2,074,992	2,407,740
Cash and cash equivalents	20	(268,333)	(383,680)
Net debt		**6,122,258**	**7,007,949**
Equity attributable to owners of the Parent		9,061,740	7,781,436
Non-controlling interests		699	947
Total equity		**9,062,439**	**7,782,383**
Net debt to equity		0.68	0.90

The Group monitors its financing structure in order to achieve the goal set in the Strategy for the LOTOS Group for the years 2011–2015, providing for a reduction of debt in order to achieve a debt to equity ratio of no more than 0.4 at the end of the Strategy term.

35. Carbon dioxide (CO2) emission allowances

As at December 31st 2012, considering the expected allocation of allowances for 2012 and the planned carbon dioxide (CO_2) emissions in 2012, a provision for carbon dioxide (CO_2) emission allowances of PLN 954 thousand was recognised by the Group. In the year ended December 31st 2012, the Group sold carbon dioxide (CO_2) emission allowances.
As at December 31st 2011, considering the limit of allowances allocated for 2008–2012, the Group reported an excess of the carbon dioxide (CO_2) emission allowances it had been allocated over its carbon dioxide (CO_2) emissions, therefore no provisions were recognised and disclosed in the consolidated financial statements.

Average annual limits of carbon dioxide (CO_2) emission allowances allocated for 2008 – 2012 (thousand tonnes)	**2008**	**2009**	**2010**	**2011**	**2012**	**TOTAL**
Allowances allocated under the National Allocation Plan [1]	1,217	1,217	1,236	1,228	1,228	6,126
Additional allowances [2]	-	-	143	751	761	1,655
Total	**1,217**	**1,217**	**1,379**	**1,979**	**1,989**	**7,781**
Actual carbon dioxide (CO_2) emissions [3]	1,192	1,102	1,163	2,061	2,033	7,551

[1] On July 1st 2008, the Polish Council of Ministers adopted, by way of a regulation, the National Allocation Plan of Carbon Dioxide (CO_2) Emission Allowances for 2008-2012, issued under the EU carbon dioxide (CO_2) emission trading scheme to existing installations and installations undergoing modification (Dz.U. of November 14th 2008, No. 202, item 1248). In accordance with the current legislation, allowances under Phase II (2008–2012) were allocated free of charge to all the installations covered by the emission trading scheme.

[2] By virtue of decisions of the Marshal of the Gdańsk Province of January 18th 2011 and July 29th 2011, Grupa LOTOS S.A. was allocated additional carbon dioxide (CO_2) emission allowances.

[3] Carbon dioxide (CO_2) emissions, calculated based on the production data for the installations covered by the emission trading scheme and verified in accordance with Art. 59 of the Act on Trading in Greenhouse Gas Emission Allowances of April 28th 2011.

The total allocation of free carbon dioxide (CO_2) emission allowances expected for the years 2013 - 2020 based on the draft allocation plan submitted for approval to the European Commission is 13,108 thousand tonnes, including 1,665 thousand tonnes for 2013.

For information on the risk related to prices of carbon dioxide (CO_2) emission allowances, see Note 33.2.

36. Contingent liabilities and assets

36.1 Material court, arbitration or administrative proceedings and other risks of the Parent or its subsidiaries

Material court proceedings instigated against Grupa LOTOS S.A.

Proceedings brought by PETROECCO JV Sp. z o.o. seeking compensation for losses incurred as a result of monopolistic practices

On May 18th 2001, PETROECCO JV Sp. z o.o. brought an action against the Company whereby it sought the courts' decision awarding an amount of PLN 6,975 thousand, plus statutory interest from May 1st 1999, as compensation for damage incurred as a result of the Company's monopolistic practices, which involved selling BS base oils in a manner favouring some customers, whose orders were executed to a disproportionately higher extent than the orders of PETROECCO JV Sp. z o.o. The alleged use of the monopolistic practices by the Company was confirmed by a decision of the Anti-Monopoly Office of September 26th 1996, in which the Office ordered the Company to abandon such practices. The Company was also ordered to abandon monopolistic practices pursuant to a decision of the Provincial Court of Warsaw – the Anti-Monopoly Court of October 22nd 1997.

The Regional Court of Gdańsk, by virtue of its decision of December 21st 2002, dismissed the action for compensation filed by PETROECCO JV Sp. z o.o., fully complying with the Company's objection referring to the statute of limitation. However, this decision was overruled on December 4th 2003 by the Gdańsk Court of Appeals and remanded for re-examination by the Regional Court. The Company questioned the fact that any damage was incurred by PETROECCO JV Sp. z o.o., the amount of the alleged damage, and the existence of the cause and effect relationship between the monopolistic practices and the damage. After two further hearings at which expert witnesses provided their evidence, by virtue of a ruling of April 20th 2007 the action was dismissed. Following the appeal and cassation proceedings in 2007, initiated by PETROECCO JV Sp. z o.o., the case was remanded for re-examination by the Regional Court of Gdańsk. As a result of further hearings (held on November 3rd 2009, October 1st 2010, December 6th 2012, February 8th 2013), after evidence was taken based on an opinion of the expert witness of Instytut Nafty i Gazu (Oil and Gas Institute) of Kraków, which was favourable to Grupa LOTOS S.A., and after the parties exchanged process letters, the Court dismissed the action filed by PETROECCO J. Sp. z o.o. in its entirety on February 22nd 2013. As at the date of approval of these consolidated financial statements, the ruling was not final.

Given that there was little risk of an unfavourable outcome of the case, the Group did not recognise any provisions for potential liabilities related to the case. By virtue of its ruling of February 22nd 2013, the Court awarded PLN 57.6 thousand to Grupa LOTOS S.A. as reimbursement of the costs of proceedings.

Proceedings brought by the Minister of State Treasury seeking invalidation of the share purchase agreement concerning shares in Naftoport Sp. z o.o.

On November 3rd 2005, Grupa LOTOS S.A. was served a nullity suit submitted by the Minister of State Treasury, concerning the agreement of August 18th 1998 between Grupa LOTOS S.A. and Polska Żegluga Morska, a state-owned company, providing for the sale of two shares in Naftoport Sp. z o.o., valued at PLN 3,340 thousand. On April 21st 2006, the Regional Court of Gdańsk issued a ruling dismissing the suit in its entirety. On November 27th 2012, following lengthy appeal and cassation proceedings instituted on the initiative of the Ministry of State Treasury, whose detailed progress was each time described in the annual financial statements, Grupa LOTOS S.A. received a court's decision refusing to accept the State Treasury's cassation complaint for consideration. The agreement of August 18th 1998 concluded between Grupa LOTOS S.A. and Polska Żegluga Morska, a state-owned company, providing for the sale of two shares in Naftoport Sp. z o.o., valued at PLN 3,340 thousand, has not been declared null and void. As at the date of approval of these consolidated financial statements, the case is finally closed.

By virtue of its ruling of November 23rd 2011, the Court awarded PLN 116 thousand to Grupa LOTOS S.A. as reimbursement of the costs of appeal and cassation proceedings.

Tax settlements

Tax settlements and other regulated areas of activity (e.g. customs or foreign exchange control) are subject to inspection by competent administration authorities, which are authorised to impose high penalties and sanctions. As the legal regulations regarding these issues in Poland are relatively new, they are often ambiguous and inconsistent. Differences in the interpretation of tax legislation are frequent, both within governmental authorities and between those authorities and businesses, leading to uncertainty and conflicts.

Tax settlements may be subject to tax inspection for a period of five years from the end of the calendar year in which the tax payment was made. As a result of such inspections, additional tax liabilities may be assessed with respect to the tax settlements made by the Company.

Court proceedings instigated by or against the Group entities

Court proceedings instigated by WANDEKO and involving LOTOS Paliwa Sp. z o.o. as a party

Court proceedings are pending against LOTOS Paliwa Sp. z o.o., instigated by Mr Andrzej Wójcik who conducts business activity under the business name of WANDEKO. On October 28th 2009, the Regional Court of Gdańsk, Commercial Division IX, issued a default judgement awarding PLN 1,921 thousand plus contractual interest from the company to the plaintiff. LOTOS Paliwa Sp. z o.o. recognised a PLN 15,318 thousand provision for the awarded amount, including interest, in 2009. The company appealed against the judgement by lodging an objection to the default judgement with the Regional Court of Gdańsk on November 10th 2009. By virtue of its decision of December 28th 2010, the Court of Appeals dismissed Mr Andrzej Wójcik's complaint against the decision issued by the Regional Court of Gdańsk rejecting reversal of the decision to lift the court order making default judgement immediately enforceable, and awarded reimbursement of the cost of proceedings to LOTOS Paliwa Sp. z o.o. Court hearings were held on May 22nd 2012 and September 12th 2012 and, as at the date of approval of these consolidated financial statements, the case was pending.

On January 11th 2013, the Court Enforcement Officer issued a decision reversing the earlier seizure (dated December 14th 2009) of receivables from the bank account of LOTOS Paliwa Sp. z o.o. securing the claims of Mr Andrzej Wójcik (see Note 18).

Proceedings involving LOTOS Gaz S.A. w likwidacji (in liquidation) as a party

On July 23rd 2009, the District Court for Kraków-Śródmieście in Kraków declared KRAK-GAZ Sp. z o.o. bankrupt. The company’s estate is managed by a bankruptcy administrator. As at the date of approval of these consolidated financial statements, the bankruptcy proceedings were pending. On March 13th 2012, the judge commissioner conducting the bankruptcy proceedings of KRAK-GAZ Sp. z o.o. issued a decision admitting objections to the list of debt claims and recognised the claim of LOTOS Gaz S.A. w likwidacji (in liquidation) in the total amount of PLN 23,695 thousand, including principal amount of PLN 21,435 thousand, and acknowledged claims of PLN 21,132thousand as secured with mortgages. As at the date of approval of consolidated financial statement, the decision is final. On December 11th-12th 2012, the judge commissioner issued a decision approving the lists of debt claims prepared in the course of bankruptcy proceedings.

Proceedings involving a LOTOS Petrobaltic Group company as a party

On January 16th 2012, the arbitration court held a session to hear a case concerning claims brought by Single Buoy Moorings Inc. (“SBM”) – supplier of the MOPU (Mobile Operating and Production Unit) to be used in production operations on the YME field. The petition in which SBM presented its claims against Talisman Energy Norge AS and other holders of interests in the YME project was filed with the arbitration court in Norway on January 25th 2011. The petitioner demanded:

- USD 90,000 thousand as an additional bonus for delivering the MOPU within the deadline set forth in the agreement,
- USD 3,700 thousand as reimbursement of costs incurred in connection with using a different method to transport the MOPU.

The liability of LOTOS Exploration and Production Norge AS for SBM's claims was 20% of the amounts, i.e. USD 18,740 thousand in total. On February 20th 2012, a decision in the arbitration proceedings was announced. All claims of Single Buoy Moorings Inc. were dismissed and the arbitration proceedings were closed.

There were also second arbitration proceedings pending with respect to claims of Single Buoy Moorings Inc. ("SBM”) against the YME consortium and mutual claims. SBM’s claims were filed and subsequently modified by the letters of December 14th 2011, May 2nd 2012 and October 16th 2012, and involved disputed costs of USD 330,000 thousand relating to dealings between the parties under the agreement for the delivery of the Mobile Operating and Production Unit (MOPU) to Norway.

On March 12th 2013, Talisman Energy Norge AS (the YME field operator) and SBM (owner of the platform) announced that an agreement was reached to terminate all existing contracts and agreements executed by the parties in connection with the YME project and remove the platform from the YME field (see Note 38).

The agreement contains a note on conclusion of all pending arbitration proceedings between SBM and Talisman Energy Norge AS.

As the risk of an unfavourable ruling in the potential dispute was low, no provisions for potential liabilities were recognised in these consolidated financial statements.

36.2 Other conditional liabilities

- As at December 31st 2012. the Parent had a PLN 240,000 thousand blank promissory note deposited at the Customs Office in Gdańsk as lump-sum security for excise duty for the amount of PLN 800,000 thousand. The security is valid until August 19th 2013.
- An unconditional and irrevocable guarantee issued by LOTOS Petrobaltic S.A. for the benefit of the government of Norway on June 17th 2008. concerning the activities of LOTOS Exploration and Production Norge AS related to its exploration and production operations on the Norwegian Continental Shelf. was effective as at December 31st 2012 and December 31st 2011. In the guarantee. LOTOS Petrobaltic S.A. undertook to assume any financial liabilities which may arise in connection with the operations of LOTOS Exploration and Production Norge AS on the Norwegian Continental Shelf. consisting in exploration for and extraction of the natural resources from the sea bottom. including their storage and transport using means of transport other than ships.

37. Related parties

37.1 Related-party transactions

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
Jointly-controlled entities		
Receivables from related entities	6,831	6,579
Liabilities to related entities	35,702	34,510

PLN '000	Dec 31 2012	Dec 31 2011
Jointly-controlled entities		
Receivables from related entities	2,507	90
Liabilities to related entities	138	6,823

In 2012 and 2012, the Group reported transactions with UAB Minijos Nafta and UAB Manifoldas (until the date of acquisition of control over the company, see Note 2). The transactions mainly regarded sale of services and purchase of crude oil.

As at December 31st 2012, the Group recognised the balance of unsettled transactions with UAB Minijos Nafta (December 31st 2011: UAB Minijos Nafta and UAB Manifoldas).

37.2 Entity exercising control over the Group

As at December 31st 2012 and December 31st 2011, the State Treasury held a 53.19% interest in Grupa LOTOS S.A. In 2011 and 2012, no transactions were concluded between Grupa LOTOS S.A. and the State Treasury.

37.2.1 Transactions with related parties over which the State Treasury has control, joint control or significant influence

In 2012, the Group executed transactions with companies related to it through the State Treasury, whose total value was material. The transactions were concluded on arms' length and related to the Group's day-to-day operations. They involved primarily sale of fuels and storage services as well as purchase of electricity, fuels, transport services, storage services and leases. In 2012, revenue from those transactions amounted to PLN 531,533 thousand (2011: PLN 162,056 thousand), while purchased amounted to PLN 1,337,438 thousand (2011: PLN 964,776 thousand).

37.3 Remuneration of the Management and Supervisory Board members and information on loans and other similar benefits granted to members of the management and supervisory staff

The remuneration paid to the members of the Company's Management and Supervisory Boards was as follows:

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
Management Board		
Short-term employee benefits (salaries and wages), including:	1,404	1,261
- annual bonus paid	249 (1)	249 (2)
Length-of-service awards	-	-
Share-based employee benefits	-	-
Management Board – subsidiaries (3)		
Short-term employee benefits (salaries and wages)	3,104	2,795
Supervisory Board		
Short-term employee benefits (salaries and wages)	242	309
Total remuneration paid (4)	**4,750**	**4,365**

(1) Remuneration under annual bonuses for 2011 paid in 2012.
(2) Remuneration under annual bonuses for 2010 paid in 2011.
(3) Remuneration paid to the members of the Company's Management Board for serving on the Supervisory Boards and the Board of Directors of direct and indirect subsidiaries.
(4) The value of remuneration reflects changes in the composition of the Company's Management and Supervisory Boards during the reporting period.

Other employee benefits:

PLN '000	Dec 31 2012	Dec 31 2011
Management Board		
Liabilities under length-of-service awards and post-employment benefits	570 (1)	350
Other short-term employee benefits during employment (annual bonus) (2)	249	249
Loans and other similar benefits	-	-

(1) The value of liabilities reflects changes in the composition of the Company's Management Board during the reporting period.
(2) Pursuant to the Act on Remunerating Persons Who Manage Certain Legal Entities.

In 2012 2011, the Company did not grant any loans or similar benefits to members of its management and supervisory staff.

37.4 Remuneration paid or payable to other members of the key management staff

Remuneration paid to members of key management staff:

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
Short-term employee benefits (salaries and wages)	30,205	30,769
- annual bonus paid	7,045 (1)	6,188 (2)
Total remuneration paid to key management staff (other than members of the Company's Management Board)	**30,205**	**30,769**

(1) Remuneration under annual bonuses for 2011 paid in 2012.
(2) Remuneration under annual bonuses for 2010 paid in 2011.

Other employee benefits:

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
Liabilities under length-of-service awards and post-employment benefits	7,457	7,155
Other short-term employee benefits during employment (annual bonus)	7,339	7,275
Loans and other similar benefits	16	21

In 2012 and 2011, the Group did not grant any loans or similar benefits to members of its key management staff.

37.5 Other transactions with members of the Company's Management and Supervisory Boards, their spouses, siblings, ascendants, descendants or other close persons

In 2012 and 2011, the Company entered into no material transactions with members of the Management and Supervisory Boards [1], advanced no loans, made no advance payments, issued no guarantees and concluded no other agreements to or with any such persons, other than transactions on standard market terms or transactions with no material bearing on these consolidated financial statements. Based on representations submitted by members of the Company's Management and Supervisory Boards, in 2012 and 2011 Grupa LOTOS S.A. did not become aware of any transactions concluded with the Company or a company of the LOTOS Group by the spouses, relatives, or relatives by affinity in the direct line up to the second degree, of members of the Management and Supervisory Boards or persons related to them through guardianship or adoption or other persons with whom they have personal relationships.

(1) Taking into account changes in the composition of the Management and Supervisory Boards.

38. Material events subsequent to the balance-sheet date

- On March 12th 2013, Talisman Energy Norge AS (the YME field operator) and Single Buoy Moorings Inc. (SBM, owner of the platform) announced that an agreement was reached to terminate all existing contracts and agreements executed by the parties in connection with the YME project and remove the platform from the YME field. Under the agreement, SBM paid joint venture partners an amount of USD 470m. Acting on behalf of the licence holders, Talisman Energy Norge AS agreed to make all the necessary preparations and remove the rig from the field. SBM Offshore will be responsible for transporting and scrapping the rig onshore. At the same time, ownership of the subsea structure installed on the YME field will be transferred to the joint venture partners. The structure was supplied by SBM and the company has an obligation to disassemble it and reclaim the drilling site upon completion of work. The parties will cover the costs of decommissioning work as set out in the agreement. The settlement has been approved by all partners in the YME licence, including LOTOS Exploration and Production Norge AS. The settlement includes a note announcing termination of all arbitration proceedings between SBM and Talisman Energy Norge AS. For more information, see Note 36.1.
- On March 11th 2013, LOTOS Petrobaltic SA received the final pre-court payment notice for approximately GPB 6.5m from AGR Subsea Ltd. (“AGR”). The claim concerns AGR’s remuneration for performance of an agreement to unearth the legs of the Baltic Beta platform. LOTOS Petrobaltic SA questioned the figure quoted by AGR as remuneration for services. In the course of negotiations, LOTOS Petrobaltic SA has proposed to pay PLN 16m *(GBP 3.2m translated at the mid-exchange rate quoted by the National Bank of Poland for December 31st 2012)* to AGR under the claim. AGR Subsea Ltd. did not accept the settlement and sent a payment notice to LOTOS Petrobaltic SA. The dispute between the parties concerns the nature of the contract, the reasons behind its delayed and incomplete performance, as well as whether LOTOS Petrobaltic SA had grounds to terminate the contract and demand reimbursement of costs incurred for replacement contractors hired by LOTOS Petrobaltic SA to complete the work. Given the complex nature of the dispute, LOTOS Petrobaltic SA recognises the risk arising in relation to court proceedings, as in case of an unfavourable verdict, LOTOS Petrobaltic SA may have to incur additional expenses related to court proceedings, including costs of legal representation and costs of enforcement proceedings. As at December 31st 2012, the Group recognises a liability of PLN 16m *(GBP 3.2m translated at the mid-exchange rate quoted by the National Bank of Poland for December 31st 2012)* towards AGR Subsea Ltd. for unearthing the legs of the Baltic Beta platform.

39. Approval of the financial statements

These consolidated financial statements were approved for publication by the Management Board on March 19th 2013.

Signatures of the Management Board members and the person responsible for keeping the accounting books of Grupa LOTOS S.A.

President of the Management Board, Chief Executive Officer	
	Paweł Olechnowicz
Vice-President of the Management Board, Chief Financial Officer	
	Mariusz Machajewski
Vice-President of the Management Board, Chief Exploration and Production Officer	
	Zbigniew Paszkowicz
Vice-President of the Management Board, Chief Operation Officer	
	Marek Sokołowski
Vice-President of the Management Board, Chief Commercial Officer	
	Maciej Szozda
Chief Accountant	
	Tomasz Południewski

Useful information

We have developed a number of functionalities to facilitate the in-depth study of the information presented in our Report for readers interested in doing so. Apart from a detailed calendar of important events 2012, contact data and glossaries of useful terms, we have also prepared an interactive presentation of all non-financial data, according to the Global Reporting Initiative guidelines.

IN THIS CHAPTER

Calendar of important events in 2012

GRI Content Index

Glossary of industry terms

Glossary of social terms

Contact

Calendar of important events in 2012

interactive timeline of events is available online at:
http://raportroczny.lotos.pl/en/useful-information/calendar-of-important-events-in-2012

Table of Content of the GRI Performance Indicators and Global Compact Principles

The Table below can prove helpful in finding the exact place where specific information or result data required by the Global Reporting Initiative as well as resulting from the adoption and implementation of ten principles of the United Nations Global Compact by Grupa LOTOS has been published in the Report.

Reporting application level indicators:

⊕ full ⊕ / ⊖ partial ⊖ none

Global Reporting Initiative (GRI) Indicator	Reporting Application Level	Chapter of The 2012 Annual Report	Comments	Un Global Compact Principles	Assurance
Strategy and Analysis					
1.1. Statement from the most senior decision-maker of the organization about the relevance of sustainability to the organization and its strategy.	⊕	Implementing the strategy [1] Sustainable development [2]			
1.2. Description of key impacts, risks, and opportunities.	⊕	Risk management [1] Implementing the strategy [2] Sustainable development [3] Corporate governance [4]			
Organizational Profile					
2.1. Name of the organization.	⊕	The Organization and its Report [1]			
2.2. Primary brands, products, and/or services.	⊕	The Organization and its Report [1] Implementing the strategy [2] [3] [4] [5]			
2.3. Operational structure of the organization, including	⊕	The Organization and its Report [1]			

main divisions, operating companies, subsidiaries, and joint ventures.		
2.4. Location of organization's headquarters.	⊕	The Organization and its Report [1] Useful information [2]
2.5. Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	⊕	The Organization and its Report [1]
2.6. Nature of ownership and legal form.	⊕	The Organization and its Report [1] [2]
2.7. Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries.	⊕	The Organization and its Report [1] Implementing the strategy [2]
2.8. Scale of the reporting organization.	⊕	The Organization and its Report [1]
2.9. Significant changes during the reporting period regarding size, structure, or ownership.	⊕	The Organization and its Report [1]
2.10. Awards received in the reporting period.	⊕	The Organization and its Report [1] Useful information[2]

Report Parameters

Report Profile		
3.1. Reporting period.	⊕	The Organization and its Report [1]
3.2. Date of most recent previous report.	⊕	The Organization and its Report [1]
3.3. Reporting cycle.	⊕	The Organization and its Report [1]
3.4. Contact point for questions regarding the report or its contents.	⊕	Useful information [1]
3.5. Process for defining report content, including:	⊕	The Organization and its Report [1] [2]

- Determining materiality;
- Prioritizing topics within the report; and
- Identifying stakeholders the organization expects to use the report.

3.6. Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers).	⊕	The Organization and its Report [1]
3.7. State any specific limitations on the scope or boundary of the report.	⊕	The Organization and its Report [1]
3.8. Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.	⊕	The Organization and its Report [1]
3.9. Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report.	⊕	The Organization and its Report [1] Sustainable development [2]
3.10. Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods).	⊕	The Organization and its Report [1]
3.11. Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	⊕	The Organization and its Report [1]
GRI Content Index		
3.12. Table identifying the	⊕	GRI Performance

location of the Standard Disclosures in the report.		Indicators and Global Compact Principles Table
Assurance		
3.13. Policy and current practice with regard to seeking external assurance for the report.	⊕	The Organization and its Report [1] [2]

Governance, Commitments, and Engagement

Governance		
4.1. Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight.	⊕	Corporate governance [1] [2] [3]
4.2. Indicate whether the Chair of the highest governance body is also an executive officer.	⊕	Corporate governance [1]
4.3. For organizations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members.	⊕	Corporate governance [1] [2]
4.4. Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	⊕	Corporate governance [1]
4.5. Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization's performance (including social and environmental performance).	⊕	Corporate governance [1] [2]
4.6. Processes in place for the highest governance body to ensure conflicts of interest are avoided.	⊕	Corporate governance [1] [2]
4.7. Process for determining the composition	⊕	Corporate governance [1]

the composition, qualifications, and expertise of the members of the highest governance body and its committees, including any consideration of gender and other indicators of diversity.		
4.8. Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.		Corporate governance [1]
4.9. Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.		Corporate governance [1]
4.10. Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.		Corporate governance [1]
Commitments To External Initiatives		
4.11. Explanation of whether and how the precautionary approach or principle is addressed by the organization.		Risk management [1] Sustainable development [1]
4.12. Externally developed economic, environmental,and social charters, principles, or other initiatives to which the organization subscribes or endorses.		Sustainable development [1] [2] Corporate governance[1]
4.13. Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization: • Has positions in		The Organization and its Report [1]

- Has positions in governance bodies;
- Participates in projects or committees;
- Provides substantive funding beyond routine membership dues;
- Views membership as strategic.

Stakeholder Engagement		
4.14. List of stakeholder groups engaged by the organization.	⊕	The Organization and its Report [1]
4.15. Basis for identification and selection of stakeholders with whom to engage.	⊕	The Organization and its Report [1]
4.16. Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	⊕	The Organization and its Report [1]
4.17. Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting.	⊕	The Organization and its Report [1] Society [1] [2]

Management Approach and Performance Indicators

Economy	⊕	Implementing the strategy [1]
Environment	⊕	Sustainable development [1]
Labor Practices & Decent Work	⊕	Sustainable development [1] [2]
Human Rights	⊕	Sustainable development [1]
Society	⊕	Sustainable development [1] [2]
Product Responsiblity	⊕	Sustainable development [1]

Performance Indicators

ECONOMIC

Aspect: Economic Performance			
EC1. Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community Investments, retained earnings, and payments to capital providers and governments.	⊕	Sustainable development [1] [2] Consolidated statement of comprehensive income [3] The Organization and its Report [4]	Direct economic value generated and distributed, including revenues, operating costs, employee compensation and benefits, as well as payments to investors, have all been presented in the Statement of comprehensive income.
EC2. Financial implications and other risks and opportunities for the organization's activities due to climate change.	⊕	Risk management [1] [2] Sustainable development [1] [2]	
EC3. Coverage of the organization's defined benefit plan obligations.	⊕	Sustainable development [1]	
EC4. Significant financial assistance received from government.	⊕	Sustainable development [1]	
Aspect: Market presence including local content			
EC5. Range of ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation.	⊕	Sustainable development [1]	
EC6. Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	⊕	Sustainable development [1]	
EC7. Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	⊕	Sustainable development [1]	
Aspect: Indirect economic impacts			

EC8. Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	+	Sustainable development [1]			
EC9. Understanding and describing significant indirect economic impacts, including the extent of impacts.	+	Sustainable development [1]			
Aspect: Reserves					
OG1. Volume and type of estimated proved reserves and production.	+	Implementing the strategy [1]			
ENVIRONMENT					
Aspect: Materials					
EN1. Materials used by weight or volume.	+	Sustainable development [1] [2]		8	✓
EN2. Percentage of materials used that are recycled input materials.	–	GRI Performance Indicators and Global Compact Principles Table	The specific operations of Grupa LOTOS allow us to use recycled products to only a marginal degree. Each group entity involved in the production business is required by law to submit used materials for recycling, through third-party Recovery Organisations. However, even under this framework, the potential for reuse of recycled products is negligible. The related GRI indicator is therefore not reported.	8	
Aspect: Energy					
EN3. Direct energy consumption by primary energy source.		Sustainable development [1] [2]		8	✓

OG2. Total amount invested in renewable energy.	⊖	GRI Performance Indicators and Global Compact Principles Table	Grupa LOTOS did not invest in renewable energies in 2012. This indicator is therefore not reported.		
OG3. Total amount of renewable energy generated by source.	⊖	GRI Performance Indicators and Global Compact Principles Table	Grupa LOTOS did not generate energy from renewable sources. This indicator is therefore not reported		
EN4. Indirect energy consumption by primary source.		Sustainable development [1]		8	✔
EN5. Energy saved due to conservation and efficiency improvements.	⊕ / ⊖	Sustainable development [1]		9	
EN6. Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives.	⊕	Sustainable development [1]		9	
EN7. Initiatives to reduce indirect energy consumption and reductions achieved.	⊕	Sustainable development [1]		8	
Aspect: Water					
EN8. Total water withdrawal by source.	⊕	Sustainable development [1] [2]		8	✔
EN9. Water sources significantly affected by withdrawal of water.	⊕	Sustainable development [1] [2]			
EN10. Percentage and total volume of water recycled and reused.	⊕	Sustainable development [1] [2]			✔
Aspect: Ecosystem services, including biodiversity					
EN11. Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	⊕	Sustainable development [1]		8	
EN12. Description of	⊕	Sustainable development		8	

significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.		[1]			
EN13. Habitats protected or restored.		Sustainable development [1]		8	
EN14. Strategies, current actions, and future plans for managing impacts on biodiversity.		Sustainable development [1] [2]		8	
EN15.Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.		GRI Performance Indicators and Global Compact Principles Table	The Company's operations pose no risk to any of the species included in the IUCN Red List or national lists of endangered species. In areas surrounding the Gdańsk refinery, there are no known habitats of conservation list species and no risk of their extinction.		
OG4. Number and percentage of significant operating sites in which biodiversity risk has been assessed and monitored.		Sustainable development [1]		8	
Aspect: Emissions, effluents and waste					
EN16.Total direct and indirect greenhouse gas emissions by weight.		Sustainable development [1] [2]		8	✓
EN17. Other relevant indirect greenhouse gas emissions by weight.		Sustainable development [1] [2]		8	✓
EN18. Initiatives to reduce greenhouse gas emissions and reductions achieved.		Sustainable development [1] [2]		8	
EN19. Emissions of ozone-depleting substances by weight.		Sustainable development [1] [2]		8	✓
EN20. NOx, SOx, and other significant air emissions by type and weight.		Sustainable development [1] [2]		8	✓
EN21. Total water discharge by quality and destination.		Sustainable development [1] [2] [3]		8	✓

OG5. Volume of formation or produced water.	⊕	Sustainable development [1]		✓
EN22. Total weight of waste by type and disposal method.	⊕	Sustainable development [1] [2] [3] [4]	8	✓
EN23. Total number and volume of significant spills.	⊕	Sustainable development [1] [2] [3]	8	✓
OG6. Volume of flared and vented hydrocarbon.	⊕	Sustainable development [1]	8	
OG7. Amount of drilling waste (drill mud and cuttings) and strategies for treatment and disposal.	⊕	Sustainable development [1]	8	
EN24. Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	⊕	Sustainable development [1] [2]	8	
EN25. Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.	⊕	Sustainable development [1]	8	
Aspect: Products and services				
EN26. Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	⊕	Sustainable development [1]	7, 8, 9	
OG8. Benzene, lead and sulfur content in fuels.	⊕	Sustainable development [1]		
EN27. Percentage of products sold and their packaging materials that are reclaimed by category.	⊕	Sustainable development [1]	8	✓
Aspect: Compliance				

EN28. Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations.	⊕	Sustainable development [1]	8	✓
Aspect: Transport				
EN29. Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.	⊕	Sustainable development [1]	8	
Aspect: Overall				
EN30. Total environmental protection expenditures and investments by type.	⊕	Sustainable development [1]	8	✓
SOCIAL PERFORMANCE INDICATORS				
LABOR PRACTISES AND DECENT WORK				
Aspect: Employment				
LA1. Total workforce by employment type, employment contract, and region, broken down by gender.	⊕	Sustainable development [1]	6	✓
LA2. Total number and rate of new employee hires and employee turnover by age group, gender, and region.	⊕	Sustainable development [1] [2] [3] [4] [5] [6] [7] [8] [9]	6	
LA3. Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation.	⊕	Sustainable development [1]	6	
LA15. Return to work and retention rates after parental leave, by gender.	⊕	Sustainable development [1]		
Aspect: Labor/management relations				
LA4. Percentage of employees covered by collective bargaining agreements.	⊕	Sustainable development [1]	3	
LA5. Minimum notice period(s) regarding operational changes,	⊕	Sustainable development [1]	3	

including whether it is specified in collective agreements.			
Aspect: Occupational health and safety			
LA6. Percentage of total workforce represented in formal joint management–worker health and safety committees that help monitor and advise on occupational health and safety programs.	Sustainable development [1]	6	
LA7. Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender.	Sustainable development [1]	6	✓
LA8. Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	Sustainable development [1]	6	
LA9. Health and safety topics covered in formal agreements with trade unions.	Sustainable development [1] [2] [3]	3	✓
Aspect: Training and education			
LA10. Average hours of training per year per employee by gender, and by employee category.	Sustainable development [1]	6	✓
LA11. Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	Sustainable development [1] [2]	6	
LA12. Percentage of employees receiving regular performance and career development reviews, by gender.	Sustainable development [1]	6	✓
Aspect: Diversity and equal opportunity			
LA13. Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group	Corporate governance [1] [2] Sustainable development [1]	6	✓

membership, and other indicators of diversity.					
Aspect: Equal remuneration for women and men					
LA14. Ratio of basic salary and remuneration of women to men by employee category.	⊕	Sustainable development [1]		6	
HUMAN RIGHTS					
Aspect: Investment and procurement practices					
HR1. Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening.	⊕	Sustainable development [1] [2]		1, 2	
HR2. Percentage of significant suppliers, contractors, and other business partners that have undergone human rights screening, and actions taken.	⊕	Sustainable development [1]		1, 2, 3, 4, 5, 6	
HR3. Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	⊕	Sustainable development [1]		1, 2, 3, 4, 5, 6	✓
Aspect: Non-discrimination					
HR4. Total number of incidents of discrimination and corrective actions taken.	⊕	Sustainable development [1]		6	
Aspect: Freedom of association and collective bargaining					
HR5. Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights.	⊖	GRI Performance Indicators and Global Compact Principles Table	Grupa LOTOS has no tools with which to review suppliers in terms of risks posed to the right to exercise freedom of association, and does not identify any such risks in its environment. This indicator is therefore not reported.		
Aspect: Child labor					

HR6. Operations and significant suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor.	⊖	GRI Performance Indicators and Global Compact Principles Table	Grupa LOTOS supports elimination of child labor worldwide. The Company does not report this GRI indicator because it does not face this problem. In 2012, just as in previous years, no events were recorded at the LOTOS Group which would be identified as carrying with them a material risk of benefiting from child labor.	5	
Aspect: Forced and compulsory labor					
HR7. Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor.	⊖	GRI Performance Indicators and Global Compact Principles Table	Grupa LOTOS supports elimination of all forms of forced or compulsory labor. The Company does not report this GRI indicator because it does not face this problem. In 2012, just as in previous years, no incidents of forced or compulsory labor took place within the LOTOS Group.	4	
Aspect: Security practices					
HR8. Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.	⊕	Sustainable development [1]		1, 2	✓
Aspect: Indigenous rights					
HR9. Total number of incidents of violations involving rights of indigenous people and actions taken.	⊖	GRI Performance Indicators and Global Compact Principles Table	Grupa LOTOS supports and observes human rights. The Company does not report this GRI indicator because it does not face the problem of violating the rights of indigenous populations.	1, 2	

OG9. Operations where indigenous communities are present or affected by activities and where specific engagement strategies are in place.	⊖	GRI Performance Indicators and Global Compact Principles Table	Grupa LOTOS does not identify any groups in its operating territory whose identity differs from the mainstream society's. This indicator is therefore not reported.
Aspect: Assessment			
HR10. Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments.	⊖	GRI Performance Indicators and Global Compact Principles Table	Grupa LOTOS does not consider observance of human rights as a criterion in siting its facilities, because the Company does not operate in areas where increased risk of human rights violations is present. The indicator is therefore not reported.
Aspect: Remediation			
HR11. Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms.	⊖	GRI Performance Indicators and Global Compact Principles Table	In 2012, Grupa LOTOS did not identify any risk of grievances concerning the impact of its operations and decisions on human rights. This indicator is therefore not reported.
SOCIETY			
Aspect: Local communities			
SO1. Percentage of operations with implemented local community engagement, impact assessments, and development programs.	⊕	Sustainable development [1]	
SO9. Operations with significant potential or actual negative impacts on local communities	⊕	Sustainable development [1]	
SO10. Prevention and mitigation measures		Sustainable development [1] [2]	

implemented in operations with significant potential or actual negative impacts on local communities.	⊕				
OG10. Number and description of significant disputes with local communities and indigenous peoples.	⊖	GRI Performance Indicators and Global Compact Principles Table	Grupa LOTOS did not enter into any disputes with local communities in its operating territory in 2012. This indicator is therefore not reported.		✓
OG11. Number of sites that have been decommissioned and sites that are in the process of being decommissioned.	⊕	The Organization and its Report [1]			
Aspect: Corruption					
SO2. Percentage and total number of business units analyzed for risks related to corruption.	⊕	Risk management [1]		10	
SO3. Percentage of employees trained in organization’s anti-corruption policies and procedures.	⊕	Risk management [1]		10	
SO4. Actions taken in response to incidents of corruption.	⊕	Risk management [1]		10	
Aspect: Public policy					
SO5. Public policy positions and participation in public policy development and lobbying.	⊕	Sustainable development [1] [2]		10	
SO6. Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	⊕	Sustainable development [1]		10	
Aspect: Anti-competitive behavior					
SO7. Total number of legal actions for anticompetitive behavior, anti-trust, and monopoly practices and their outcomes.	⊕	Sustainable development [1]		10	
Aspect: Compliance					

SO8. Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations.	⊕	Sustainable development [1]		
Aspect: Involuntary resettlement				
OG12. Operations where involuntary resettlement took place, the number of households resettled in each and how their livelihoods were affected in the process.	⊖	GRI Performance Indicators and Global Compact Principles Table	No involuntary resettlement took place in 2012 as a result of operations carried out by the LOTOS Group. This indicator is therefore not reported.	
Aspect: Asset integrity and process safety				
OG13. Number of process safety events, by business activity.	⊕	Sustainable development [1]		
PRODUCT RESPONSIBILITY				
Aspect: Customer health and safety				
PR1. Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	⊕	Sustainable development [1]		
PR2. Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	⊕	Sustainable development [1]		1
Aspect: Product and service labelling				
PR3. Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	⊕	Sustainable development [1]		10
PR4. Total number of incidents of non-compliance with regulations and voluntary codes concerning	⊕	Sustainable development [1]		

product and service information and labeling, by type of outcomes.			
PR5. Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	⊕	Sustainable development [1]	
Aspect: Marketing communications			
PR6. Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	⊕	Sustainable development [1]	
PR7. Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.	⊕	Sustainable development [1]	
Aspect: Customer privacy			
PR8. Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	⊕	Sustainable development [1]	
Aspect: Compliance			
PR9. Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services.	⊕	Sustainable development [1]	
Aspect: Fossil fuel substitutes			
OG14. Volume of biofuels produced and purchased meeting sustainability criteria.	⊕ ⊖	Sustainable development [1]	✓

Glossary of industry terms

A

ACEA

European Automobile Manufacturers' Association; it establishes quality criteria for engine oils, applicable across Europe. ACEA European Oil Sequences 2008 are the published quality criteria for all engine oils on the European market, including the requirements to be met by engine oils for new cars. The document categorises oils and specifies all physical and chemical parameters, as well as engine tests for each quality category. ACEA requires that any claims for oil performance to meet the ACEA standards must be based on credible data and controlled tests in accredited test laboratories.

APC

(Advanced Process Control) is a computerized manufacturing process control system in place in the Gdańsk Refinery since 2001. APC simultaneously controls a large number of technological process parameters at the industrial plant. With the help of this system, one can optimize the plant operations, increasing the yield of the desired products and keep the plant working safely.

ARA

the market with its territory delineated by the ports of Antwerp – Rotterdam – Amsterdam.

Atmospheric distillation

a physicochemical process used to separate component products of a mixture, using differences in the boiling point temperatures of individual components. In the process of atmospheric distillation, individual fractions of gases, benzene, paraffin and diesel oils become separated. Heavier hydrocarbons constitute so-called atmospheric remnants. Atmospheric distillation is a process carried out at a pressure close to atmospheric pressure.

Audit recertifying the Integrated Management System (renewal)

an audit aimed at assessing the compliance of the management system with the requirements of the standards. A recertifying audit is carried out in the period determined by the certifying entity to extend the validity or issue a new IMS certificate.

B

B100

B100 (fuels) - a determination of fuels produced solely from a biocomponent.

B3 Oil Field

a marine natural gas and oil field located about 73 km north of Rozewie. In operation since 1992, it hosts the Marine Oil Mine (Morska Kopalnia Ropy). It is the main source of crude oil produced by LOTOS Petrobaltic.

B8 Oil Field

a marine natural gas and oil field located about 68 km northeast of Rozewie.

Barrel

(of crude oil) - a primary unit of measure used in crude oil production. One barrel encompasses around 159 litres.

Base oil

unrefined oil, without improvers, obtained in the processing of crude oil. It represents the base raw material in the manufacture of lubricant oils.

BAT

Best Available Technique is, within the meaning of the definition contained in Directive 96/61/EC, the most effective and advanced stage in the development of activities and their methods of operation which indicate the practical suitability of particular techniques for providing in principle the basis for emission limit values designed to prevent, and where that is not practicable, generally to reduce emissions and their impact on the environment as a whole.

Biocomponent

an additive used in fuel production made in biomass processing of e.g. oil plants or corn.

Biofuel

fuel manufactured by adding more than 7% biocomponents to gasoline or diesel oil.

BREF

(BAT Reference Notes) - BAT guidelines developed by the European IPPC (Integrated Pollution Prevention and Control) Bureau in Seville, Spain. They are not binding legal regulations, but guidelines to be followed in the assessment of applications for integrated permits and issuance of integrated permits.

C

CD Process

(Continuous Deglycerolization Process) - a manufacturing process of fatty acid methyl esters used at the installation located in Czechowice-Dziedzice.

CDU/VDU

(installation) - a basic installation system used for crude oil processing comprising a Crude Distillation Unit (CDU) and Vacuum Distillation Unit (VDU).

Ceresin

product of deoiling of heavy slack waxes. Ceresin is a complex mixture of n-paraffin hydrocarbons with a solidification point of approximately 73°C. It may be used as feedstock in the production of lubricants, proofing and protective products in the chemical industry and, after a purifying process, in the cosmetics and pharmaceutical industries.

CLP Regulation

Classification, Labelling and Packaging Regulation - regulation under which a new system for the classification, labelling and packaging of substances and mixtures has been implemented in the European Union, based on the Globally Harmonised System of Classification and Labelling of Chemicals created by the United Nations in 2003. The CLP Regulation supplements the REACH Regulation and replaces the system provided for in Directives 67/548/EEC and 1999/45/EC. The Regulation took effect on January 20th 2009 and is binding directly, without the need to be implemented into Polish law.

CODO stations

(company-owned, dealer-operated) - stations owned by LOTOS Paliwa and managed by external companies.

Component for bitumen production

usually a heavy vacuum distillate fraction obtained from crude oil, which can be further processed on the installation for bitumen manufacture.

Confirmed resources

the volume of oil production that may be estimated based on geological analyses and engineering data with reasonable certainty as commercially available for production since a specific date, from the known deposit horizons and in specific economic conditions, using the defined operational methods and based on determined administrative regulations.

Conversion

conversion processes usually involve technological cracking processes. In such processes, components with high boiling temperatures (heavy distillates) are used to manufacture light products used for fuel production. The most common conversion processes are thermal cracking, catalytic cracking and hydrocracking.

D

DAO

(De-Asphalted Oil) - oil produced with an SDA installation used as a raw material for further refining. It may be the basis for producing base oils or an input for a cracking process.

DODO stations

(dealer-owned, dealer-operated) - stations operating under the logo of the Gdańsk Refinery under patronage contracts.

DOFO stations

(dealer-owned, franchise-operated) - stations operating under the LOTOS brand within trading partnership under long-term franchise agreements.

E

ETBE

(Ethyl Tert-Butyl Ether) - the name of a high-octane biocomponent used in gasoline production. It is manufactured in petrochemical complexes with ethanol and isobutylene.

Ethanol

ethyl alcohol used e.g. as a biocomponent for producing fuels and biofuels used in cars with ignition engines.

European Chemical Agency

the EC agency responsible for the implementation of the REACH (Registration, Evaluation and Authorisation of Chemicals) Regulation as regards the establishment and administration of a registration system, assessment of, issuance of authorisations for, and imposition of restrictions in the use of, chemical substances at the EU level. Its main task is to manage the database of chemicals submitted for registration: initial registration of a substance (the process already completed) and proper registration of a substance. Under the European Council's decision of 2004, the registered office of the European Chemicals Agency (ECHA) is located in Helsinki, Finland.

F

FAME

(Fatty Acid Methyl Ester) - such esters are biocomponents used to manufacture fuels and biofuels for diesel engine vehicles. FAME is manufactured by the transesterification of oil with methanol in the presence of a catalyst.

Forties Blend

a type of crude oil from the North Sea. Forties Blend is light petroleum with a low content of sulphur and a high potential in gasoline production.

Furfurol extraction

a technology applied to increase the quality of base mineral oils. During the process unfavourable aromatic hydrocarbons are separated, which increases the so-called viscosity index.

G

Gasoline isomerisation

a refining process that creates a higher octane number of the gasoline fraction by changing the chemical structure of particles.

Gasoline natural gas

natural gas that contains, apart from methane and ethane, a certain quantity of heavier hydrocarbons.

Gasoline reforming

a refining process that involves a reaction with a catalyst creating high-octane aromatic hydrocarbons and hydrogen.

General nitrogen

the content of nitrogen for nitrogen bound in all possible chemical forms.

H

HDS

(Hydrodesuplhurisation Diesel Unit) - a system for the hydrodesulphurization of diesel oils.

Heavy fuel oil

an oily liquid representing a residue from the distillation of crude oil. Heavy fuel oil finds its use in industrial installations of large manufacturing or processing facilities, as well as in combined power plants. It is also used as bunker fuel for ships.

HGU

(Hydrogen Generation Unit) - a system for hydrogen production.

Hydrocracking

a refining process used to produce high quality fuel components during the reaction of vacuum distillates with hydrogen with a catalyst. Hydrocracking processes usually take place at a very high pressure and provide components that are free of sulphur and contaminations.

Hydrorefining (of slack wax)

a process of purifying paraffin during the reaction with hydrogen in a catalyst.

I

ISO

International Organization for Standardization.

J

Jet A1

aviation fuel for jet and turbine engines.

K

KAS

(installation) - an amine-sulphur complex of installations for purifying refining gases of hydrogen sulphide and for the production of liquid sulphur.

L

LCA

(Life Cycle Assessment) - the assessment of a product life aimed at determining the environmental impact (emission of greenhouse gases during individual stages of production, processing and transport). LCA also determines the environmental impact resulting from obtaining biomass, transport and its processing into biofuels vs. the impacts that occur in the life cycle of fossil fuels.

Light fuel oil

a product obtained in crude oil processing characterized by a lower sulphur content and density than heavy heating oil. The light fuel oil is mainly used in household boiler rooms, in SMEs and institutions. It is also successfully used as the heating fuel in the boiler rooms of residential estates.

LPG

(Liquefied Petroleum Gas) - a liquefied gas, being a mixture of propane and butane, obtained in the processing of crude oil. Among its other applications, LPG is used as engine fuel or as fuel for household gas stoves.

LPG amine washing installation

a system for removing hydrogen sulphide from the liquid gas fractions.

Lubricant oils

a composition of base oil and improvers. The quantity, type and relative proportions of these components are decisive for the class of the oil manufactured. Their main task is to reduce friction between the surfaces of the movable parts of mechanical devices that touch each other and work together. Lubricant oils are used in the automotive industry and for industrial applications.

M

Mechanical Completion (MC)

completing building-assembly work by signing a protocol between the ordering party and the contractor, which confirms that all work has been completed in compliance with the design and applicable regulations.

MHC

(Mild Hydrocracking) - a hydrocracking installation that operates in slightly milder conditions than a standard hydrocracking system.

Modified asphalts

asphalts characterized by improved quality parameters, thanks to the interaction between asphalt and an applied modifier.

MTBE

(Methyl Tert-Butyl Ether) - a high-octane component used for gasoline production. Unlike ETBE, it is not a biocomponent.

N

Naphtha

a fluid fraction of crude oil composed of hydrocarbons whose particles contain 9-16 atoms of carbon. Naphtha can be processed into aviation fuel and diesel oils.

National Index Target

a minimum share of biocomponents in the total volume of liquid fuels and liquid biofuels used during a calendar year in transport, calculated according to the caloric value.

O

Oil transesterification

a chemical reaction resulting in the formation of fatty acid methyl esters. The transesterification reaction of oils is a reaction of oil with methanol in the presence of a catalyst.

P

Paraffin

a mixture of solid saturated hydrocarbons, separated from the fractions of crude oil. It is used, among others, to manufacture candles, as a floor polish and as an insulation material.

Paraffin fraction

unreacted oil from hydrocracking of a mixture of vacuum distillates and oil from the solvent de-asphalting process of heavy residue. Paraffin fraction is a mixture of n-paraffin, iso-paraffin and cyclic saturated hydrocarbons. It has a low sulphur content (below 100 mg/kg) and may be used as feedstock in the production of oil bases, or in catalytic cracking or hydrocracking yielding additional volumes of fuels.

Plasticizers

plasticizing improvers added to polymer products. Grupa LOTOS manufactures hydrocarbon plasticizers for the rubber industry.

Ppm

(parts per million) - a popular measuring method used to express the concentration of extremely diluted solutions of chemical compounds. This measure tells how many particles of a chemical compound are to be found among one million particles of the solution.

R

REACH

Regulation of the European Parliament and Council concerning the safe application of chemicals through their registration and assessment and in some cases granting commercial permits and restrictions as regards the application. It came into force on 1 June 2007 and replaces several dozen previous community legal acts, both regulations and directives introduced into Polish legislation with the Act of 11 January 2001 on chemical substances and preparations.

Ready For Start Up (RFSU)

the condition of readiness for start-up achieved by the system (introduction of production media).

REBCO

(Russian Export Blend Crude Oil) - a commercial name of Russian crude oil from the Ural.

Red chemicals

are those which have pollution category Y and are on the list of chapter 17 of the IBC Code or on MEPC.2/Circ. currrently in force.These chemicals deemed to present a hazard to marine resources or human health or cause harm to amenities or legitimate uses of the sea.

Reformate

high-octane number component, with octane number of 96–100, used in the manufacture of engine gasolines. Reformate is a product of catalytic reforming of desulphurised naphta.

ROSE

(Residual Oil Supercritical Extraction) - a technology used at the Gdańsk Refinery in the SDA installation.

S

SDA

(Solvent Deasphalting) - an installation used to separate vacuum remnants after crude oil processing into lighter fractions, i.e. deasphalted oil (DAO) and heavier fractions, namely a bitumen component.

Slack wax

a semi-product received in crude oil processing. It is used to produce wax.

Stakeholder

A person or entity interested in the operation of a firm and incurring various types of risks related to its business or the persons or entities that are affected by a firm through its activities. Unlike shareholders, who are primarily interested in the profits of the company, stakeholders include a much wider group, e.g. employees, customers, creditors, suppliers, government administration and, in a wider context, local communities, the natural environment and public opinion. The term was first introduced by the Stanford Research Institute in 1963.

Stock ticket service

service consisting in the creation and maintenance of mandatory reserves of fuels on behalf of customers. A customer using the service meets the legal requirements without stocking its own fuels.

T

Troll Blend

a type of crude oil from the North Sea. The Troll Blend is an average crude oil with a low sulphur content and a high potential within the production of diesel oils.

V

Vacuum distillate

a fraction of hydrocarbons separated from a more complex mixture with distillation under a reduced atmospheric pressure. Vacuum distillates produced from crude oil are usually used to produce base oil, and also as input for cracking processes.

Vacuum distillation

a process analogical to the process of atmospheric distillation, conducted, however, at a reduced ambient pressure. It uses a physical property, whereby the boiling point decreases as the ambient pressure is reduced. It makes it possible to separate vacuum distillates in the atmospheric residuals. Heavy remnants of the distillation process are so-called vacuum residuals.

Glossary of social terms

B

Business ethics

Taking account of the moral aspect in business, i.e. applying solutions that combine moral requirements with the strategic interests of a firm. Business ethics determines ethical standards of behaviour, norms and values as well as conduct in a business.

C

Code of ethics

A set of rules that regulate moral life. A code of ethics in business indicates specific 'behaviours' of an organization, in addition to general guidelines concerning reliability and integrity required in business and actions that are conducive to social development and not contradictory to moral standards and collective customs.

Corporate community involvement

Involvement of a firm in social issues and participating in solutions of social problems. This concept is narrower than corporate social responsibility and it refers to different activities of a company in a community. It includes various forms of involvement, such as financial support, material assistance and voluntary work of employees. Community involvement makes a firm more reliable in the eyes of the general public and builds a positive image.

Corporate social responsibility

The strategy that provides for a firm to take account voluntarily of social interests while trying to achieve its economic aims, taking decisions and actions. CSR includes the consideration for ethical rules, rights of employees and human rights as well as the social and natural environment. It is assumed that the corporate social responsibility should be an integral part of the business policy, together with its economic objectives.

Corporate volunteering

This involves employees of a firm in voluntary work for social organizations. Employees (volunteers) perform various types of work for those in need, by using their skills and abilities and developing their talents in such areas. A firm supports its employees in such actions and, depending on its organizational culture, appoints employees to work as a volunteers during working time or provides material assistance or logistic and financial support.

D

Donation

A form of an agreement by which a donor undertakes to provide free-of-charge performance with its assets. A donation may be granted by individuals or corporations. The subject matter of the donation may include real properties, movables, money as well as rights or may involve free provision of services.

G

Global Compact

The world's largest initiative of the Secretary General of the United Nations for corporate responsibility and sustainable development. The Polish Global Compact Local Network is coordinated by the United Nations Development Programme (UNDP) Project Office. Since it was launched in 2000, over 9,000 members from 135 countries have joined the initiative. Global Compact calls on companies to embrace in their activities ten principles in the areas of: human rights, labor rights, environmental protection, counteracting corruption and promoting corporate social responsibility.

GRI

The Global Reporting Initiative (GRI) is an independent institution with its seat in the Netherlands that develops and promotes so-called Sustainability Reporting Guidelines. GRI Guidelines are applied all over the world. They may be used by all companies that are ready to submit comprehensive reports on their economic, environmental and social activity. Since 2006, the third version of the GRI Guidelines applies, so-called G3. The organization has introduced a three-level system of applications: from the highest that includes the largest scope of revealed information, i.e. about 80 reporting indexes (A, A+), to the smallest, with less than 40 indexes (C, C+). A plus before each level means the external verification of the report by an independent certifying authority.

H

Human capital

Employees of a firm who contribute to its operation and development and have specific knowledge, skills and talents.

L

Local community

The group of people who live in the area and are connected by social bonds, common tradition and culture. A local community is formed by inhabitants of villages, towns, cities or municipalities.

M

Mission

A set of fixed aims and targets of a firm. It contains values that are upheld by the management board and are the basis for determining its actions. The mission determines the identity of a firm and its organizational culture.

N

Non-governmental organization (NGO)

A voluntary organization that operates independently of state or political structures and whose operation is not profit oriented. It works for social issues and development. Its operation is based mostly on voluntary work.

O

Organizational culture

Organizational culture A set of standards, values, forms of behaviour, attitudes, premises and symbols that determine the mode of thinking and acting in a company and define standards of communication and conduct.

S

Social dialogue

The exchange of information and presentation of positions concerning social problems and issues between parties that may be public institutions, entrepreneurs or NGOs. It is a form of representing the interests of parties. The source of success is reliable information exchanged between the parties and cooperation.

Social programme

Planned actions aimed at solving or counteracting a specific social problem. They may be implemented jointly or independently by public institutions, businesses or social organizations.

Social report

A report issued by a firm that presents its whole strategy and social policy. It takes account of economic, social and ecological aspects of its operations.

Sponsoring

Joint obligations of two parties – a sponsor and a sponsoree. A sponsor provides funds, material assistance or services to the sponsoree in return for promotion. Sponsoring is a planned and conscious act aimed at creating a positive image of a firm. It is often a part of the long-term marketing strategy of a business.

Sustainable development

The path of social and economic development that is in harmony with the natural environment. The idea of sustainability provides for the skilful use of resources (social, human and natural), so that they can be used in the future.

Contact

Additional information about the economic activity as well as the social and environmental aspects of the LOTOS Group's activities are available on the Grupa LOTOS website:

www.lotos.pl/en/

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