

“Decade of growth” - an interview with Paweł Olechnowicz, President of the Board of Grupa LOTOS

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Paweł Olechnowicz
President of the Board, Grupa LOTOS S.A.



“Decade of growth” is the title you chose for the 2010 Annual Report of Grupa LOTOS S.A. How would you, as the Company’s President of the Board and CEO, interpret its message?

I look at it from a double perspective – historical and forward-looking. The first one relates primarily to the 10+ Programme, which from 2006 to 2010 was for us the absolute priority, taking precedence over all other projects carried out by Grupa LOTOS. Since its successful implementation was to be the key foundation underpinning the Company’s long-term growth, it was the main focus of the Management Board’s attention. After all, its goal was to expand the capacities of the Gdańsk refinery by as much as 75%, construct modern facilities relying on state-of-the-art and environmentally-friendly technologies and increase the share of top quality products, commanding the highest margins, in the oil refining mix. This is the historical perspective, going five years back.

The forward-looking perspective, which also spans a five-year period, relates primarily to the implementation of the strategy for 2011–2015, which was adopted in November 2010 and whose solid foundations were laid down by the completion – according to plan and schedule – of the 10+ Programme. It is a perspective of sustainable, steady, innovative and environmentally-friendly growth and expansion of a large, vertically integrated oil company, enjoying a strong competitive position in Central Europe. A company which – in addition to the production base built in the previous period – would have access to its own sources of feedstock, annual production of approximately 1.2 million tonnes of crude oil and a strong sales force ensuring at least a 10% share in the domestic fuel market.

It is a simple equation: five years of consistent and rapid growth which are already behind us plus another five years during which we will work towards achieving the vision outlined in our strategy add up to the titular “decade of growth”. The successful completion of the 10+ Programme provides solid grounds for an optimistic outlook on that future-oriented vision.

You were mainly referring to the business aspects of the “decade of growth”. However, the social and environmental contexts are equally important, are they not?

It is understood. At Grupa LOTOS we have always attached great importance – and are determined to do so in the future – to acting in conformity with the Sustainable Development concept. Let me remind you that the term was first used in the report of the UN World Commission on Environment and Development entitled Our Common Future (1987), where it was defined as the process of meeting the development needs of the present without compromising the ability of future generations to meet their own needs. Accordingly: economic growth yes, but with due respect for the environment and sustainable management of natural resources. And engagement in corporate social responsibility. All business decisions made at Grupa LOTOS are reviewed against those criteria.

Could you elaborate on that?

First: protection of natural resources and the environment. The business of Grupa LOTOS is based on the exploitation of non-renewable resources – crude oil and natural gas. That very fact imposes on the Company certain obligations towards the environment, the most important of them being to mitigate the environmental impact of its operations. In that area, we boast a track record of considerable achievement.

First of all, one of the 10+ Programme’s deliverables was a massive upgrade of the Gdańsk refinery. The plant currently operates using the most advanced technologies, guaranteeing a high level of desulphurisation of petroleum products and reduced emissions of hazardous substances and waste into the atmosphere and the immediate surroundings. Moreover, the newly installed facilities are highly energy efficient. Today the refinery deserves the name of the greenest, most environmentally-friendly refinery in the Baltic Sea region.

Grupa LOTOS is engaged in a project aimed to construct a CHP plant powered with heavy residue sourced directly from the refinery. The new plant will operate in the co-generation cycle, which means it will simultaneously produce heat and electricity, which in itself will enhance energy efficiency and reduce greenhouse emissions by 30%. The use of waste from petroleum processing will in turn eliminate its negative environmental impact. The launch of the plant with a target

capacity of 250 MW, which is being constructed under a consortium agreement with the ENERGA group, is scheduled for 2014.

It needs to be added that Grupa LOTOS already has its own CHP plant, whose process system enables co-generation of electricity and heat. In 2010, the Company obtained a certificate from the Energy Regulatory Office confirming the production of so-called "red" energy. As a condition of the certification, the Company had to meet a number of stringent requirements, for instance it had to prove a high degree of primary energy efficiency and a significant reduction of carbon emissions.

Among other steps taken by Grupa LOTOS with a view to reducing emissions I should mention our plans to connect the refinery to a gas pipeline and use gas supplied via the pipeline (as a fuel much cleaner than coal) to power the production processes. We also have plans to recover gas currently combusted in flare units and use it as a process fuel, which will reduce the overall atmospheric emissions of carbon dioxide.

All that makes for a significant contribution of Grupa LOTOS into the development of a low-emission economy in Poland, in line with the guidance laid down by the Climate and Energy Package, which proposes to reduce emissions of greenhouse gases by 20% and to reduce total energy consumption by 20% by the year 2020.

Second: quality of life of the communities in which we operate. Grupa LOTOS is the leading employer in Pomerania and an important one in the south of Poland, where several of its subsidiaries are located, including in regions in which unemployment is one of the gravest economic and social ailments. The Company, being an important part of the communities, cannot shun responsibility for its social environment.

It is not so much about various charities, educational or sponsoring projects, which are either initiated or partnered with by Grupa LOTOS, but rather about social responsibility in a broader sense, related to the well-being of the communities in which we are based.

This manifests itself chiefly in our indirect economic effect on a vast number of cooperating businesses, along the whole length of our complex chain of supplies. Thanks to that cooperation, they are able to maintain existing jobs and create new ones. A model example here is the 10+ Programme, which we implemented in cooperation with a large group of sub-suppliers from various parts of Poland – the number of employees of external firms engaged to work on that strategic project ran to several thousand.

Looking at a lower level, that of local markets, we could point to the example of LOTOS Asphalt, which operates in the vicinity of Jasło, a town where the problem of unemployment is especially grave. Following the company's expansion and deepening of its product mix, it was possible to create 100 new jobs. This naturally contributes to stimulating economic recovery in the regions which are often grappling with serious economic problems.

Third: openness, transparency and social development. On these pillars, inherent within the concept of sustainable development and corporate social responsibility, we have for years been building trust in the Company, its credibility and reputation: among its stakeholders, in employee relations and as part of the vertical communication process. This latter dimension is of particular importance in the case of an organisation as complex as the LOTOS Group, consisting of a large number of companies, with a total of over 5,000 staff.

Among the many initiatives and systemic solutions in that area, the one I would like to highlight is the internal communication programme called "Let's Talk about LOTOS". I am deeply convinced it is one of the most notable examples of our commitment to social development, to an open dialogue with the employees. That views-sharing platform was put in place by in 2006, as part of the communication process related to the new strategy and the 10+ Programme. Having proved to be an attractive and effective communication platform, it has become a fixture in the Company's social landscape. Within its framework, several dozen meetings are held every year, attended by a large number of employees. In 2010, at the level of the entire LOTOS Group there were 56 such "talks about LOTOS", which were attended by 53% of all staff.

The Company initiates a similar model of dialogue as it is strengthening and expanding the chain of petrol stations operating under the LOTOS brand. Our strategy in that area includes primarily the development of partner stations, managed by dealers directly interested in the achievement of the best possible economic results. Their acquisition and active involvement in the implementation of the Company's forward-looking vision, outlined in the strategy for 2011-2015, is essential for the success of Grupa LOTOS. Especially in the context of building the brand value and its perception by customers, who come into contact with the brand primarily at petrol stations.

In the Annual Report for 2010 you continue the integrated approach to reporting the Company's business, environmental and social performance, which was initiated by last year's Report. Apparently the practice, which you pioneered in Poland, has proved its merits?

Absolutely. And not just because of the fact that our Annual Report for 2009, entitled "Sustainable Development in the 10+ Perspective" was commended in the fourth edition of the "CSR Reports" award, organised by the consulting firm PwC, the Responsible Business Forum and CSR Consulting. I will say immodestly that we have become accustomed to such awards, as already our "Corporate Social Responsibility Report of the LOTOS Group for 2006-2007" was recognised as the best, and the next one, for 2008, received an honourable mention. Moreover, the last year's report was the first integrated report, covering both consolidated financial and non-financial statements, to be published by a Polish company – and for that very reason, it was a frontrunner.

Naturally, all those awards and distinctions are immensely gratifying for the Company, its Management Board, and for me personally. However, the crucial thing is to foster confidence in Grupa LOTOS. Transparency and openness, an open disclosure policy, readiness to subject ourselves to thorough and comprehensive reviews and systematic reporting of all aspects of our operations are key to creating that atmosphere of confidence and credibility. And annual reports, integrated and prepared in accordance with the internationally accepted standards of financial and non-financial reporting – like the reports for this year and for last year – play a particularly important role in this context.

The benefits of integrated reporting cannot be overestimated. It affords a wider perspective on the Company's business, enables better identification of risks and opportunities and a more in-depth analysis of the Company's impact on its environment, provides more comprehensive management information and enhances the process of communication with key stakeholder groups.

It is also appreciated by the market and investors. The LOTOS shares were again included in the prestigious RESPECT index, launched in 2009 on the Warsaw Stock Exchange, which primarily takes into account the qualitative aspects of the operation of public companies, mainly their business ethics and social responsibility. The Company itself won the *Listed Company of the Year 2010* ranking prepared by the *Puls Biznesu* daily, in the *Investor Relations* category.

The integrated approach to reporting adopted by Grupa LOTOS will certainly remain a permanent feature of its stakeholder communication process. In 2010, it was extended to include the environmental indicators for LOTOS Petrobaltic. In subsequent years, the Company wants its integrated annual reports to be increasingly more comprehensive in scope and coverage.