

Employees

The management of the LOTOS Group strives to build responsible relations with its employees through its recruitment policies, work relations, ensuring safety of the employees and developing the social dialogue within the LOTOS Group.

Grupa LOTOS observes the principles of corporate social responsibility in every area of its activity. This is also true about its comprehensive strategy-driven HR policy. The strategy which aims to transform the available human resources into the intellectual capital of the Company addresses the need to adjust the qualitative and quantitative employee structure to the fast-changing market environment, modify the internal labour market, and reward excellent employee performance with a variety of incentive mechanisms.

Headcount at LOTOS Group

Company	Dec 31 2008	Dec 31 2009	Dec 31 2010
Parent			
Grupa LOTOS	1,246	1,305	1,310
Direct subsidiaries			
LOTOS Petrobaltic	446	421	431
LOTOS Norge	12	13	17
LOTOS Czechowice and subsidiaries	268	250	240
LOTOS Jasło and subsidiaries	179	152	104
LOTOS Serwis	734	725	711
LOTOS Lab	168	153	153
LOTOS Straż	72	76	86
LOTOS Ochrona	176	194	159
LOTOS Park Technologiczny	31	15	1
LOTOS Paliwa	244	261	261
LOTOS Oil	327	331	341
LOTOS Asfalt	214	249	290
LOTOS Gaz	82	28	5
LOTOS Parafiny	279	274	259
LOTOS Kolej	407	504	582
LOTOS Tank	12	16	18
UAB LOTOS Baltija	8	6	7
Energobaltic	b.d.	b.d.	35
Total	4,878	4,949	5,010

The key goals of our HR policy are to:

- ensure efficient deployment and utilisation of human resources across the LOTOS Group,
- create a work environment conducive to delivering expected results – improvements in corporate culture (change of employee conduct, increased motivation and dedication, team work, enhanced communication) and ensuring greater sense of job security (medical insurance

packages, employee benefits, an investment and pension benefits fund, etc.),

- harness the maximum potential from the employees,
- refine the periodic performance evaluation system by adding a goal setting and development-oriented task assigning mechanism,
- create conditions conducive to effective development and practical application of the acquired skills and competencies (the LOTOS Academy training and development scheme),
- enhance the existing incentive tools – linking financial and non-financial incentives to employee performance, and
- implement employee surveys.

It is the underlying assumption of the HR management strategy to treat employees as our most valuable asset.

Remuneration policy

The Company has an up-to-date and transparent remuneration system in place. Its key component is the base salary determined on the basis of national payroll reports compiled by professional HR consultancies. Base salaries received by the employees of Grupa LOTOS and its subsidiaries have risen by 2% since January 2010. In addition to the base pay, employees may also receive annual bonuses, special bonuses, length-of-services awards, and severance pays on retirement due to old age or disability. They are also eligible for the company social benefits fund. A new component was added to the remuneration system in 2010 – a quarterly incentive bonus allocated per organisational unit. Its amount can range from 3% to 10% of total base salaries payable to the unit employees. The incentive bonus is a discretionary component of the remuneration package and all supervisors (masters, foremen and team leaders) participate in the bonus award process.

The employee remuneration policy, set out in the Grupa LOTOS Employee Collective Bargaining Agreement, has been in force and effect since April 20th 2005 and provides for the following remuneration constituents:

- monthly base salary,
- allowances payable under the labour law (night duty allowance, holiday pay, and overtime allowance),
- annual bonus of up to 10% of the annual remuneration, paid in the first half of the ensuing year, provided that corporate performance targets (such as revenues or net profit) are achieved,
- quarterly incentive bonus allocated per organisational unit whose amount ranges from 3% to 10% of total quarterly base salaries.

In addition, the Company sets aside a pool of special bonuses, paid as reward for excellent individual performance, work on project teams or extra effort.

Apart from the standard remuneration package, the employees are entitled to receive the following:

- length-of-service award paid at five-year intervals after 15 years of service,
- one-off severance pay received on retirement due to old age or disability, which is disbursed on the employment contract termination date.

It is the Company's aim to ensure that the remuneration paid is market-competitive and attractive for the employees. For each position, a market median has been set as a target against which the remuneration should be benchmarked. The medians were computed based on the data furnished by external HR consultancies.

Twice a year, base salary levels are compared against the pre-determined market medians and raised by the supervisors as appropriate. In 2010, this benchmarking procedure was combined with the periodic remuneration review provided for in the Collective Bargaining Agreement. Hence, the benchmark pay adjustments coincided with by pay increases awarded to employees recognised for outstanding performance.

Social benefits scheme

The employees are eligible to participate in the company social benefits fund on the terms defined in the Rules of Participation in the Company Social Benefits Fund.

Grupa LOTOS and the subsidiaries covered by the common social policy arrangements have increased the base contribution to the company social benefits fund provided for in the Act of March 4 1994 to 100% of the average monthly salary in Poland per each employee and to 6.25% of the average monthly salary per each retiree. This led to achieving an almost 100% performance on the management- and union-approved social expenditure budget for 2010.

Under the Rules, the persons covered by the social benefits scheme include: the employees of Grupa LOTOS and its subsidiaries, their children aged from six to eighteen, retired employees, spouses of deceased employees and retired employees, and persons eligible for pre-retirement allowances. The entitled persons are offered various forms of social support provided for in the approved budget: holiday allowances, rehabilitation allowances for children with disabilities confirmed by a doctor certificate, housing loans, and non-refundable financial aid to persons in a difficult life situation.

Social expenditure is on the rise due to a dynamic corporate growth and ever-higher number of newly recruited personnel who consider a satisfactory wage and rich social benefits package an important factor when applying for a job.

Expenditure on the Company Social Benefits Fund in 2010

Type of benefit	No. of beneficiaries	Amount (PLN)
Summer holidays – employees	4,493	7,286,000
Summer holidays – children	1,916	2,170,000
Non-refundable financial aid	250	22,000
Housing loans	17	477,500
Leisure activities for employees and their families, and Christmas goodie bags for children	2,200	430,000

Recruitment policy

During a recruitment process, we appreciate high qualifications and skills offered by potential employees and we understand the need to provide new staff members with professional development opportunities. Therefore, internal recruitment is a priority and each job application received from the LOTOS Group's employee is taken into consideration. This approach facilitates knowledge transfers across the LOTOS Group.

At the same time, the Company recruits persons from outside the organisation – through classifieds, online ads, media announcements and career fairs – who contribute the skills and competencies necessary to successfully deal with new tasks.

Recruitment procedures are carried out in a professional and transparent manner, in accordance with the adopted and continuously refined standards. Details concerning recruitment procedures and policies are posted on the intranet and the internet.

Internship and training programmes

The LOTOS Group is an active promoter of educational and professional development of university undergraduates and secondary school students. In 2010, 128 persons participated in our internship programme, including students from the Gdańsk University of Technology, University of Gdańsk, University of Science and Technology in Kraków, Cracow University of Technology, Technical University of Łódź and Gdańsk Maritime University. 33 students from secondary schools in Gdynia, Gdańsk and Sopot enrolled in our vocational training scheme.

The Company also helps university graduates and undergraduates take their first steps on the labour market. It once again participated in the *Wakacyjny Staż* (*Summer Internship*) programme organised by the Gdańsk town hall under the patronage of the Mayor of Gdańsk. As part of the efforts aimed at strengthening the links between the academic community and the business world, the Company funded 18 graduate and undergraduate internships.

LOTOS Academy



Launched in 2004, the LOTOS Academy is a training and development programme which aims to build a partnership-oriented corporate team able to deliver the task of creating a transparent, modern, efficient and powerful organisation, which would be well-positioned to successfully compete on the EU market. The mission of the Akademia LOTOS initiative is to entrench a work culture and a management philosophy built around a model employee, one who consciously participates in the process of creating added value for customers and shareholders and whose main attributes include competence, values, responsibility and creativity.

When designing the Akademia LOTOS training and professional development programmes, the Company is guided by the principles of:

- **coherence** – a training scheme must be consistent with the Company's mission, strategy and long-term development plans, and aligned with other HR management areas,
- **accountability** – all participants in the design and implementation of a training and development programme are accountable for its effects,
- **accessibility** – trainings are meant for all employee groups,
- **continuity** – professional development planning is a continuous process, aligned with the periodic performance evaluation system, individual career paths, succession planning and development programmes designed for a particular employee group,
- **flexibility** – training scheme planning and implementation process must account for the fast-changing external conditions and changes in the qualifications expectations.

The following tools are applied when defining the employee development directions:

- **Skills map** – a set of key skills required to properly perform a task,
- **Codes of ethics** – adopted codes of conduct (the Code of Conduct for Grupa LOTOS' Employees, the Code of Managers, the Corporate Decalogue),
- **Periodic Performance Assessment System (SOOP)** – facilitates reviewing the employees' skills and competencies, and target setting.

As part of its Training Calendar of the LOTOS Academy in 2010, the Company helped the employees develop their skills and competencies during the following training sessions:

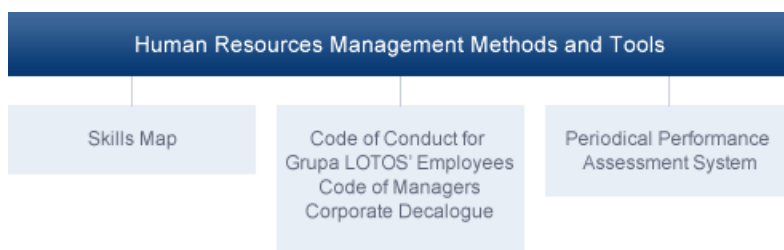
- Enhanced efficiency – stress management techniques,
- Creative thinking and creative problem solving,
- Public speaking – presentation skills,
- Work planning and scheduling,
- Team leading,
- Work-Life Balance,
- MS Office,
- Task delegation and execution,
- Handling difficult conversations,
- Employee motivation and evaluation.

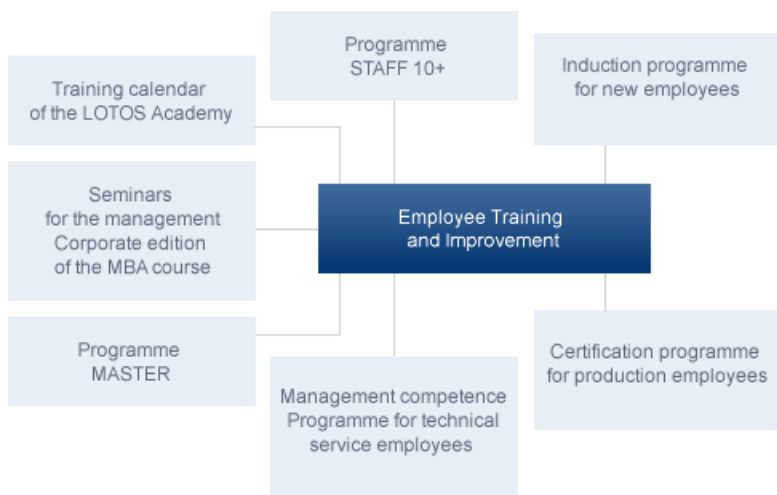
The agendas and schedules of training sessions held as part of the Training Calendar are available on **LOTOSTRADA**, the corporate intranet, under the LOTOS Academy tab, administered by the Office for Human Resources Management. The themes to be covered during the training sessions are determined based on the analysis of the skills map, the SOOP results, and employee development plans at individual organisational units. Also, they take into account the corporate development requirements.

The other type of education and professional development programmes implemented as part of the LOTOS Academy initiative are those dedicated to particular employee groups. The most important ones include:

- Induction programme for new employees,
- Certification programme for production employees,
- Seminars for the management,
- Programme Staff 10+,
- Programme MASTER,
- Management competence programme for technical service employees,
- Series of training sessions titled “Management by objectives – financial incentive systems”,
- Corporate edition of the MBA (Master of Business Administration) course.

Detailed information on the LOTOS Academy programmes and trainings - [[link](#)]





Trade unions

Six multi-employer trade unions operate at Grupa LOTOS, representing persons employed at Grupa LOTOS and its subsidiaries. The largest trade union active at Grupa LOTOS has 240 members, while the largest trade union operating in the entire LOTOS Group comprises some 500 members.

A modest increase has been recorded in the trade union membership at Grupa LOTOS.

Trade union membership at Grupa LOTOS

2009		2010	
Quarter	Trade union members as percentage of total workforce	Quarter	Trade union members as percentage of total workforce
Q1	34.50	Q1	38.90
Q2	37.53	Q2	39.00
Q3	37.59	Q3	39.14
Q4	38.20	Q4	39.60

Freedom of collective bargaining

Grupa LOTOS is bound by the provisions of the Collective Bargaining Agreement, which was executed in 2004 and subsequently supplemented and amended by four annexes. The collective bargaining mechanism is the most widely used method of negotiating the terms of employer-employee relationships in companies comprising the LOTOS Group. As a rule, collective negotiations are also used to deal with any matters subject to collective labour laws, particularly salary increase rates and the issues of conflict elimination.

A good example for how the corporate dialogue and adequate communication are put to use to solve a conflict is how the dispute which emerged at the turn of 2009 and 2010 was solved. The dispute concerned regulations of the Collective Bargaining Agreement and the Anti-Crisis Package signed, on February 10 2009. Despite justified doubts on part of the employer about the compliance of the demands made with the Labour Law provisions which regulate collective bargaining (confirmed by two opinions of leading labour law experts), negotiations with social partners were commenced, which – after a month and a half – put an end to the conflict when a mutually satisfactory agreement was concluded.

Social partners in the field of Health, Safety and Environment

The social labour inspectorate function at Grupa LOTOS is a platform for cooperation between the employer and the trade unions in matters concerned with Health, Safety and Environment (HSE). Currently, the Social Labour Inspectorate comprises four members appointed for the years 2008–2011, who are released from their employee duties in order to more effectively monitor the level of compliance with the HSE regulations. The Social Labour Inspectorate, together with the employer's representatives, was also responsible for monitoring whether the HSE regulations were observed by subcontractors responsible for the delivery of projects under the 10+ Programme.

In 2010, Mr. Krzysztof Chyliński, the Social Labour Inspector at Grupa LOTOS, was awarded an honorary distinction by the Regional Labour Inspector in Gdańsk as the most devoted Social Labour Inspector.

Employee Council

In Autumn 2010, an election was held among the employees of Grupa LOTOS to elect the seven members of the Employee Council of the second term. Two election rounds were held, and the overall turnout was approximately 37%. The terms of cooperation between the employer and the Council are set out in the

agreement executed with the Employee Council of the first term, which was amended an annex reflecting the amendments to the legal framework.

Let's talk about LOTOS Programme

Launched in 2006, the *Let's talk about LOTOS* programme is a unique platform for an open social dialogue at the Company, as part of which several dozen sessions with employees are held each year. Participants discuss the corporate strategy, current efforts undertaken to achieve strategic objectives, and common problems concerning the Company's functioning. This offers a double advantage of providing all employees with access to information and creating opportunities to exchange views between workers and executives. The Management Board attaches great importance to this particular formula of intracompany dialogue and considers it a vital tool in building the intellectual capital, the Company's most precious asset.

In 2010, eight *Let's talk about LOTOS* meetings were held at the Company level and 56 meetings were held at the LOTOS Group level, which were attended by, respectively, 572 employees (44% of total workforce) and 2,581 employees (53% of total workforce). The initiative received positive feedback from the vast majority of participants (95.3%).

Answers to the question "Do you think regular meetings should be held to discuss the current situation at Grupa LOTOS and the entire LOTOS Group?"

Safety at work

The safety of our employees and contractors is our priority. Particular attention is paid to efforts aimed at maintaining high safety standards, minimising risks, reducing accident rates, and raising awareness of and promoting a safe working culture. This has helped Grupa LOTOS earn the reputation of an employer offering a workplace that is safe, well-equipped and well-organised.

We spare no effort to ensure that:

- the workplace is properly organised,
- regular workplace surveys are performed,
- the best possible precautionary measures are applied as regards technical processes and people's health,
- the threat identification and man-machine-environment risk assessment system is up-to-date,
- consulting, oversight and inspection tasks are performed on a regular basis,
- hands-on trainings and dedicated workshops are organised,
- partnerships are fostered with the public administration, domestic trade organisations, and scientific and research institutions,
- experience is shared with partner organisations from the Polish chemicals industry,
- employee awareness and commitment is raised to achieve a safe working culture.

As regards safety at the workplace, Grupa LOTOS is held in high esteem by international companies, visiting external auditors, and insurance companies. We concentrate our efforts on developing safety standards for the entire LOTOS Group.

Workplace safety awareness is raised among employees by:

- trainings and other skill-development initiatives;
- education on HSE-related matters;
- encouraging involvement in the development and implementation of the corporate HSE policy,

- organising awareness campaigns and knowledge testing in an appealing form.

The year 2010 saw the first pilot edition of the HSE Day at Grupa LOTOS. The Company is also engaged in a number of non-obligatory initiatives designed to promote the HSE themes in an easy-to-understand and engaging manner. These involve:

- using the most advanced process tools and methods,
- keeping employees abreast of the current situation at the plant, and industry news from Poland and abroad, with the use of available communication channels. The most noteworthy initiatives seeking to improve HSE-related communication with the LOTOS Group's employees include:
 - publishing articles devoted to health and safety at work in each issue of the *LOTOSFERA* monthly staff newsletter,
 - publishing the *Bezpiecznik* monthly (in 2009, it won a distinction from the Custom Publishing Association in the internal newsletter category, in recognition of "uninterrupted reporter-like vigilance of the HSE unit employees who offer practical tips how to avoid hazards using on-site examples"),
 - dedicated workplace safety displays with materials promoting accident-free work environment, examples of dangerous occurrences provided by the employees, and answers to enquiries submitted via HSE boxes or in e-mails,
 - "Accident Rate" boards placed on the premises of the refinery, providing detailed figures on accidents and hazardous occurrences reported at plants and subsidiaries,
 - "Workplace safety" intranet panel providing employees with access to tips on how to stay healthy and fit, video tutorials, training materials, trade news from the world, and knowledge tests,
 - "Workplace safety" binder to be found on the industrial premises, containing educational materials on safety at work;
- developing the employee training system:
 - producing a video tutorial designed for employees, visitors, and contractors, featuring potential hazards, site rules, a to-do and not-to-do list, rules covering protective clothing and equipment, jobs involving fire risks, and fire precautions,
 - practicing emergencies (accidents at work, chemical alerts, and evacuations), and practising emergency scenarios set out in the Safety Report, jointly with LOTOS Straż and the Refinery Response Team,
 - organising trainings for a dedicated first-aid team of production workers responsible for providing medical care until the arrival of a doctor.

Aids and tools used during trainings include video tutorials, photos, multimedia presentations, educational games, and group and individual exercises.

Considering the implementation of the 10+ Programme projects, intense construction and assembly work, and a large number of external contractors' employees moving around the refinery, a need arose to promote awareness of issues related to responsible on-site behaviour, safe performance of work activities and compliance with internal HSE and fire safety rules. To this end, the management staff and employees of external contractors:

- are furnished with Grupa LOTOS Site Rules and the internal safety requirements for Grupa LOTOS;
- before entering the premises of the refinery, are handed the leaflet "General site rules at Grupa LOTOS";
- prior to commencement of work, receive training in internal safety rules and safe performance of work activities; a video tutorial for employees, visitors and subcontractors was recorded in 2010.;
- are regularly assessed for compliance with the internal HSE requirements;
- are penalised with fines or temporarily/permanently prohibited from entering the Company premises in the event of non-compliance with the HSE rules and procedures;
- attend meetings with Grupa LOTOS' employees devoted to internal work safety standards and most frequent irregularities in the area of health and safety at work.

The HSE team and representatives of external contractors monitor work done under a project. Moreover, the Company delegates its representatives to project sites who provide support and advice to site supervisors.

Short-term plans:

- management staff engagement programme designed to encourage compliance with safety rules and procedures among employees,
- raising workplace safety awareness by organising and encouraging participation in the World Day for Safety and Health at Work,
- putting in place an incentive system to reward contractors' staff for safe behaviour and for encouraging proper attitudes,
- implementation of a uniform assessment system for testing production plants and subsidiaries for compliance with the HSE and fire safety requirements.

Medium-term and long-term plans:

- building a safe work culture with the support from the management and lower-level staff,
- implementation of a programme based on the lessons learnt by Grupa LOTOS and other organisations around the world, as a preventive measure in the area of safety at work,

- establishing uniform safety standards across the LOTOS Group,
- reducing the lost time injury frequency ratio below the average for European refineries by eliminating injury risks and implementing working conditions improvement projects on the basis of the most advanced solutions and methods known in the world.