

Consolidated total sales of the LOTOS Group in 2009 remained at a similar level compared to the previous year; however, a significant rise (14%) was recorded in sales on the domestic market, mostly due to increased sales of diesel oils.

### **Sales of the LOTOS Group (tonnes)**

The share of the LOTOS Group in the fuel market throughout 2009 attained the level of 28.3% and was 2.9 percentage points higher as compared to the level reached in 2008.

### **Sales of engine fuels**

The sales of engine fuels in 2009 took place mostly in Poland and focused on retail customers, foreign concerns, institutional consumers and fuel station operators. Land export of engine fuels was directed mostly towards the Czech market (the state reserves of the Czech Republic) and to wholesale agents and distribution to end customers. Sea export of gasoline was directed towards the Swedish, UK and Baltic states markets.

In 2009 total sales of engine gasoline of the LOTOS Group fell by 2% compared to the previous year. On the domestic market, sales increased by 2%.

### **Sales of engine gasoline (tonnes)**

Apart from the standard fuel for gasoline engines, the sales offer encompassed technologically advanced fuels that provided better performance and engine protection (LOTOS Dynamic 98). As compared to 2008, their sales grew by 35%.

### **Sales of LOTOS Dynamic 98 (tonnes)**

(\*) In 2007, sales of LOTOS Dynamic 98 started in October.

Total sales of diesel oil at the LOTOS Group in 2009 rose by 24% vs. the previous year. A similar growth was recorded in domestic sales of this product.

## **Sales of diesel oil (tonnes)**

In the range of diesel oils, apart from the standard fuel for diesel engines that is highly appreciated by operators of delivery and truck fleets, a prominent role was played by the premium fuel – LOTOS Dynamic Diesel, which is recommended for modern Diesel engines. Owing to the use of components that reduce friction in the engine, it allows for better use of the engine dynamics and power, and enables starting at even -32°C. As compared to 2008, sales of this fuel grew by 93%.

## **Sales of LOTOS Dynamic Diesel (tonnes)**

(\*) In 2007, sales of LOTOS Dynamic 98 started in October.

As at the end of 2009, the Dynamic fuels were available at 139 own stations and more than 80 partner stations of LOTOS. Sales of these fuels grew at [CODO](#) stations compared to the previous year by more than 50%.

## **Sales of LOTOS Dynamic fuels at own stations (tonnes)**

## **Sales of light fuel oil**

In 2009, total sales of [light fuel oil](#) at the LOTOS Group fell by 3% as compared to the previous year. This falling trend reflected the reduced demand for this product on the domestic market.

## **Sales of [light fuel oil](#) (tonnes)**

## **Sales of aviation fuels**

The aviation fuel produced at Grupa LOTOS in 2009 was used by aircraft in Poland, the Baltic Sea countries and at the Ruzyna airport near Prague. Trading took place within two areas:

- airport activity: sales in Gdańsk to Statoil, and
- wholesale activity: sales to the Aviation Emergency Service and Petrolot, which distributed this fuel all over Poland.

Aviation fuel was exported to the Scandinavian markets by sea.

In 2009, efforts were intensified to increase aviation fuel sales in Poland, resulting in the growth in domestic sales of this product by 67%. The lower demand for this fuel on the export markets due to the global economic crisis led to the decrease in the volume of the JET fuel sold by the Grupa LOTOS by 26%.

### **Sales of aviation fuel (tonnes)**

Among the most important successes achieved in 2009 the following can be named: the licence granted to LOTOS Tank for the sale of liquid fuels for 10 years and a commercial contract signed with Statoil ASA for deliveries of aviation fuel. Under this agreement, LOTOS Tank delivers the JET fuel from Grupa LOTOS and renders airport services, while Statoil, acting as the trader, buys the fuel at the wing of the plane and sells it directly to airlines.

### **Sales of engine and industrial oils**

On the domestic market, sales of engine and industrial oils were dedicated to the following direct customers: key accounts, garage networks, hypermarkets and Regional Distributors. These products were exported to e.g. Russia, the Baltic states, Ukraine, Belarus and Asia.

Engine oils are the group of products that are particularly sensitive to economic fluctuations. The impact of the economic crisis that started in 2007 was still visible in the volume of sales in this range of products. As compared to 2008, total sales of engine oils fell by 5% in 2009. The decrease in domestic sales amounted to 2%.

### **Sales of engine oils (tonnes)**

In 2009, the range of engine oils was optimised. In addition to the revitalization of the Turdus oil brand for trucks and the development of the

LOTOS oil brand for private cars, modern synthetic engine oils LOTOS Quazar were launched in mid-year. These oils are designed for engines that operate in varied conditions. The premium line encompasses five synthetic engine oils:

- LOTOS Quazar 0W30,
- LOTOS Quazar C3 5W30,
- LOTOS Quazar LLIII 5W30,
- LOTOS Quazar F 5W30,
- LOTOS Quazar 5W40.

Within the sales of LOTOS Quazar products, cooperation was started with Subaru Import Polska, which enabled the sales of oils within the dealership network of this firm.

## **Bitumen sales**

The domestic sales of bitumen were directed mostly at companies of the road sector that construct and modernise road pavements. Bitumen was exported to Germany, Switzerland, Scandinavia, Austria, the Baltic states, Russia, Romania, the Czech Republic, Slovakia and Hungary. As compared to 2008, total sales of bitumen fell by 5 % in 2009; however, they increased on the domestic market by 8%.

### **Sales of bitumen (tonnes)**

The offer of LOTOS Asphalt includes classic road bitumen as well as modified and industrial bitumen and bitumen emulsions. LOTOS Asphalt is the largest supplier of modified bitumen (MODBIT) on the domestic market. Such bitumen enhances the road surface resistance to the occurrence of wheel tracks and extends its life. It also strengthens the road's resistance in extreme weather conditions.

In 2009, sales of modified bitumen were maintained at the level from the previous year. Owing to the growth of production capacities resulting

from the 10+ Programme, a significant increase in the sales of these products is planned until 2012.

### **Sales of MODBIT modified bitumen (tonnes)**

### **Sales of heavy fuel oil**

The sales of heavy fuel oil in Poland focused on companies with their own thermal energy production (heating water or production steam). In 2009, sales of heavy fuel oil continued on the Scandinavian markets and to the tank warehouses in Estonia and the ARA market (ARA – the market outlined by the ports of Antwerp – Rotterdam – Amsterdam), to be exported in large batches to the Far East.

### **Sales of heavy fuel oil (tonnes)**

In 2009, total sales of heavy fuel oil by the LOTOS Group were 34% lower than in the previous year, which can be seen as a positive trend considering the negative margin on this product.

### **Paraffin sales**

The operation of LOTOS Parafiny concentrates on the production and sale of lights, candles, shopping centre products and hand-made decorative candles. Due to the high potential of the Polish market and favourable price relations compared to export sales, the sales of candles in 2009 focused mostly on the domestic market, primarily to the leading manufacturers of candles. The basic export sales markets in 2009 included Slovenia, Germany, the Czech Republic, Italy, Slovakia, the Netherlands and the Baltic States.

In 2009, an 8% growth in total [paraffin](#) sales was recorded, with an 11% increase in domestic sales.

### **Sales of [paraffin](#) (tonnes)**

### **Development of the fuel stations chain**

In 2009, the LOTOS Group strengthened its position on the retail market by 0.4% to the level of 6.4%. The number of LOTOS stations at the end of the year amounted to 327, while the number of own stations and partner stations increased by 11% as compared to 2008.

## **Number of LOTOS stations**

As at the end of 2009, the chain of LOTOS stations comprised:

- 144 own stations operated under agency agreements,
- 98 partner stations managed in the commercial partnership system, and
- 85 patronage stations run on the basis of a patronage agreement.

## **Changes in the LOTOS retail structure**

In 2009, the aim was to improve the dynamics of sales in the stations network through promotion activities, including the second edition of the Navigator loyalty programme.

## **Issued cards of the Navigator loyalty programme**

## **Investments**

Investments on the market were dedicated to the strategic aims and depended on the current macroeconomic situation. The most important projects in this segment included:

- 26 new facilities within the LOTOS station chain,
- commenced construction of 3 pairs of Rest Areas in following locations: Police/Łęka on the A2 motorway as well as Witowice/Oleśnica and Rachowice/Kozłów on the A4 motorway. All these areas will be commissioned by the end of April 2010. According to the agreement

- with the General Directorate for National Roads and Motorways, these facilities will also house restaurants and hotels,
- completing the construction of the aviation fuel storage depot at the airport in Gdańsk-Rębiechowo,
  - completing the construction of the system for producing compressed process air to supply the bitumen oxidation system; this investment will increase the production efficiency and improve H&S conditions,
  - completing the construction of the mixer systems dedicated to two tank truck fillers in Jasło; the project will extend the range of offered road bitumen and improve access to the storage depots,
  - completing the construction of the system for producing water-proof membranes at the Hydroinsulation Materials Plant in Jasło; the project will extend the range of products offered by LOTOS Asphalt and produced with own raw material, and
  - launching the Plasticizer Mixing System at LOTOS Oil in Czechowice-Dziedzice; the project enables the mixing of products in clean production conditions and their distribution with rail and truck tankers, which will provide flexible supplies to customers.

## Logistics

The basic challenge for logistics in 2009 was to secure the continuity of product supplies during the 2009 spring Overhaul Down-Time of the refinery in Gdańsk and to adapt the logistic infrastructure used in transport, transshipping and storage of fuels and oil to the growing sales of Grupa LOTOS.

To secure sufficient volumes of products during the overhaul down-time, new supply sources were started, the obligatory stock structure was changed, the SWAP transaction scope was significantly extended and new, non-standard forms of cooperation with other oil sector companies were used. This provided major savings in logistic costs, finished product storage costs and the reduction of price risks.

In 2009, the streamlining of logistic assets was continued, including the warehousing bases and their adaptation to the needs resulting from commercial tasks. Because of the changed rules of cooperation, the LOTOS Group tax warehouses were opened in the fuel bases of LOTOS Jasło and LOTOS Czechowice, which are supervised by tax authorities and the logistic departments of the parent company. This project resulted in lower operating costs.

The growing volume of fuel sales achieved by the LOTOS Group necessitated an increase of obligatory stocks. In 2009, to store the obligatory stocks of oil, components and finished products, own capacities were used to the maximum extent. At the same time, the structure of the maintained obligatory stocks was changed by increasing the share of oil in the general pool of stocks. This operation allowed for the services to be rendered of creating and maintaining obligatory stocks in the oil processing potential for external entities. Such transactions

reduce the general costs of meeting statutory obligations in this regard.

Changes in the structure of obligatory stocks and the rotation of product components necessitated the launch of external bases of fuel production with the addition of biocomponents, which had a positive impact on the fulfilment of the [National Index Target](#).

Moreover, Grupa LOTOS keeps developing sea logistics. In 2009 the existing pipeline connections with the transshipping infrastructure in the Northern Port were joined by the new transmission pipeline dedicated to the transport of crude gasoline. This additional connection will facilitate exports resulting from the growing production capacities after completing the 10+ Programme.

## **Storage depots**

In 2009, Grupa LOTOS continued strengthening the role of its own fuel depots and transshipping terminals. The number of used external storage depots as well as the volume and type of fuels distributed by independent operators were adapted to market demands and new sources of supplies. The quality of services provided was checked, including the accuracy of measuring equipment and the provision of correct transshipping and storage conditions for high quality products of Grupa LOTOS. Particular emphasis was also placed on the supervision and control with regard to the fulfilment of H&S and environmental standards.

In 2009, within the 10+ Programme 11 new product tanks were constructed and commissioned at the tank park of the Grupa LOTOS Refinery.

## **Railway transport**

To optimise the use of own assets and provide the economically efficient, productive and safe distribution of its products, Grupa LOTOS contracts transport services from its subsidiary, LOTOS Kolej. In 2009, long-term contracts were signed with this company for railway transport services and the comprehensive services of railway sidings. These contracts meet all transport needs of Grupa LOTOS for the next years and reduce the resulting costs.

### **The main routes of international railway shipping provided by LOTOS Kolej in 2009**





LOTOS Kolej made investments in rolling stock and infrastructure in 2009. The railway line between the plant station of Grupa LOTOS and the PKP PLK Gdańsk-Olszynka station was electrified, thus providing the modern fully-electrified connection for the railway siding at the refinery in Gdańsk with the national railway network. Moreover, the process of replacing locomotives with modern railway engines that can pull heavy block wagons was started. Furthermore, an IT system for railway logistics was developed, providing on-line contact with the shipper/consignee of shipments and optimising the shipping costs.

In 2009, LOTOS Kolej increased its market share and improved its shipping results significantly.

### **Volume of shipping at LOTOS Kolej (tonnes)**

### **Share of LOTOS Kolej in the domestic shipping market (NTKM)**

### **Division of the railway cargo market in Poland among the main carriers in 2009**

Source: own study based on 'Rynek Kolejowy' No. 3/2010

## LOTOS brand

The operations by the LOTOS Group within the market segment were also dedicated to boosting the value of the LOTOS brand. As compared to 2008, its value increased by 13%. At present, the LOTOS brand is appraised at more than PLN 614 million. Out of 330 companies classified in the annual ranking of the Most Valuable Brands, the LOTOS brand achieved the high 18<sup>th</sup> position.

### Value of the LOTOS brand (million PLN)

Source: MARQA ranking, Rzeczpospolita daily, December 2009