



— HYDROGEN AS THE FUEL OF THE FUTURE

— DIRECTION: INNOVATION

Dedicated
to building the

BEST

— RECORD CRUDE OIL THROUGHPUT

— BLUE TRAIL

— STABLE GROWTH

— GREEN REFINERY

— POSITIVE SOCIAL IMPACT

LOTOS Group Integrated Annual Report 2018

PDF VERSION



LOTOS Group
Integrated Annual Report 2018

01. **THE LOTOS GROUP AND ITS ENVIRONMENT**

Letter from the President of the Management Board

Ladies and Gentlemen, Dear Shareholders,

Let me present to you our Annual Report, showing the LOTOS Group's financial results for 2018. They are extremely important to us as they again confirm the sound financial condition of our company and allow us to look boldly into the future and confidently implement further ambitious growth plans.

We can proudly say that thanks to prudent asset management and the ability to maximise benefits from market opportunities we posted record operating results for another year in a row. Our adjusted LIFO-based EBITDA reached an unprecedented level of PLN 3.125bn in 2018. The company's financial position is constantly improving, as demonstrated by the solid cash flows. Operating cash flows last year amounted to PLN 2.3bn.

We are also moving ahead on our investment projects, having spent PLN 1bn last year. The debt level fell significantly, by almost 25%, to PLN 1.9bn as at the end of 2018. What is more, the ratio of net debt to adjusted LIFO-based EBITDA dropped to 0.6x. This excellent performance was reflected in the price of the company's shares on the Warsaw Stock Exchange, which came close to PLN 90 at the end of 2018. We paid dividends for the second time.

As an owner or co-owner of 36 offshore and 11 onshore licences, we extract hydrocarbons in the Polish zone of the Baltic Sea, on the Norwegian Continental Shelf, in Poland, and in Lithuania. In 2018, the 2P recoverable reserves controlled by LOTOS increased to 89.8 million barrels, and our own production reached approximately 7.5 million barrels.

Our refinery, ranked among Europe's most advanced facilities of its type, ran at full capacity last year, enabling us to break another record, with oil throughput at close to 10.8 million tonnes in 2018.

Also the macroeconomic climate looked very favourable last year, with the strong average oil price of USD 71/bbl making a positive contribution to the Group's upstream performance. Our results were also supported by the strong US dollar. In downstream, the results were particularly bolstered by middle distillate crack spreads. What significantly contributed to the segment's performance was the high model refining margin, which amounted to USD 7.41 per barrel for the whole of 2018.

The tests of our coker complex, the key EFRA Project facility, are going to be completed any day now. The project is a continuation of the Gdańsk refinery's technological development process started with the 10+ Programme. Much of the work on the EFRA Project site was carried out in 2018, including commissioning of the Hydrowax Vacuum Distillation Unit (HVDU). It contributed to the record-high crude throughput of 10.8 million tonnes achieved in 2018.

We are making progress across all segments. We are reorganising our upstream business, adjusting the commercial offering, opening new service stations, but above all we are open to new opportunities that come with alternative fuels. They are on our priority list. In autumn 2018, we commenced testing the first 12 EV charging points on the A1 and A2 motorways under the LOTOS Blue Trail project. We plan to quadruple the number of electric chargers at our stations, which means that a further 38 charging points will be built and operational by the end of 2020.

EV chargers are only the beginning. During the COP24 summit held in Katowice in December, we signed an agreement to fund hydrogen refuelling points under the Pure H2 project. We are going to launch the distribution of ultra-high purity hydrogen (99.999%), which could be used primarily as a fuel in public transport vehicles. The plans envisage the construction of a hydrogen purification unit at the Gdańsk refinery and a hydrogen sale and distribution station in the immediate vicinity of the LOTOS Group's plant, as well as two refuelling points (in Gdańsk and Warsaw). The project, worth almost EUR 10m, is to be commissioned in 2021.

One of the five pillars of our business strategy until 2022 is our commitment to developing and implementing innovations, including digital. We have signed an agreement with Microsoft to initiate joint projects and implement solutions using artificial intelligence and the latest IT technology.

With company value and the LOTOS brand reputation in mind, we have long supported sports, cultural and corporate social responsibility initiatives. In 2018, we signed a series of significant sponsorship agreements that strengthen our relations with our partners. We will be the Main Sponsor of the Polish National Football Team until 2022. Ski jumpers and cross-country skiers will receive our support for another four years. We are consistently implementing our educational and sports programmes, designed in particular for children and youth. Since August 2018, our support has also been offered to university sport clubs.

We analyse climate change, which poses new environmental challenges. Sustainable development is important to us – we understand it as continuous improvement of efficiency while reducing negative environmental impacts. We are proud that we can speak about LOTOS as one of Europe’s “greenest” companies. Last year, we recovered as much as 96% of waste generated at our refinery, and once again reduced the emissions rate. Our energy efficiency is growing by the year.

We are well aware that there is a long way to go before you can be called the BEST. We know that we owe our great performance to the BEST, specialist, open and brave staff, whom we treat as partners. On behalf of the Management Board of Grupa LOTOS S.A., I would like to thank all LOTOS Group employees and the Supervisory Board members for their professionalism, hard work, dedication and the successes we have achieved together. I would also like to express my sincere thanks to our business and social partners as well as to our customers for the trust they place in us.

Yours faithfully,



Mateusz A. Bonca

President of the Management Board
Grupa LOTOS S.A.

Letter from the Chairwoman of the Supervisory Board

Ladies and Gentlemen,

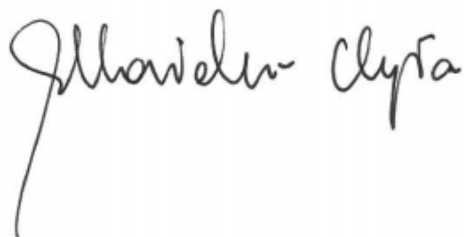
2018 was another successful year for Grupa LOTOS and the wider oil industry. Successful growth of our Company, continued support from the government and a focus on the quality of solutions and products allow us to be proud of our achievements. Consistent pursuit of our strategy has brought tangible benefits, made us very optimistic about the future and helped us continue our efforts towards the achievement of the Company's objectives.

Maximum utilisation of the refinery's capacity, record-high LIFO-based EBITDA of PLN 3.12bn, achieved despite lower refinery margins and a decrease in hydrocarbon production, as well as a significant reduction in the Company's debt, would never have been possible without the hard work of many people. The Company also paid its second dividend.

We made significant progress on our landmark EFRA project last year, which enabled us to complete the construction of the Coking Complex in 2019. We also stepped up efforts in the area of electromobility and other alternative fuels. We have contributed to enhancing innovation of the Polish industrial sector by opening twelve EV charging stations as part of the Blue Trail project and securing funding for PURE H2, an ultra-high purity hydrogen distribution project.

Grupa LOTOS is open to implementing digital innovations, state-of-the-art information technology, and artificial intelligence solutions. As part of our corporate social responsibility commitment we have been staunch supporters of sports, cultural and educational initiatives in Poland. With the natural environment in mind, we have reduced emission levels and constantly strive to cut energy consumption and foster biodiversity.

I hope that our 2019 full-year figures will be equally impressive, as our objective is continued fast growth of Grupa LOTOS. We are doing all this to be the BEST in every way.



Beata Kozłowska-Chyła

Chairwoman of the Supervisory Board
Grupa LOTOS S.A.

We are driven by sustainable development

The LOTOS Group is one of the largest business players in the Polish market and the second largest fuel producer in Poland. We operate in the crude oil and natural gas production and processing business and sell quality petroleum products. We also provide highly specialised logistics services and servicing support.

Our activities are determined by sustainable development. The refinery in Gdańsk is one of the youngest and most advanced refineries in Europe in terms of technology and environmental protection. We have been introducing into our offering alternative fuels, such as hydrogen and LNG, and we are an active player in electromobility, steadily consolidating our position as the leader of innovation in this segment.

Our Group comprises Grupa LOTOS S.A. (the Parent), production, trading and service companies, and a foundation.

Grupa LOTOS S.A.'s headquarters are located at ul. Elbląska 135 in Gdańsk.



ORGANISATIONAL STRUCTURE AND AREAS OF COMPETENCE OF THE INDIVIDUAL LOTOS GROUP COMPANIES

wholesale and retail sale of fuels and light fuel oil, management of the LOTOS service station network (495 stations)

production and sale of lubricating oils and lubricants, and sale of base oils

production and sale of bitumens

acquisition of crude oil and natural gas reserves, production of hydrocarbons

production operations in the Norwegian Continental Shelf

a holding company implementing the segment's growth plans based on subsidiaries

storage and distribution of fuels, renting and operating of own or leased real estate

storage and distribution of fuels

railway logistics support for the entire Group

laboratory analysis

security services – protection of people and property

fire service activities

crude oil exploration and production, drilling services, and purchase and sale of crude oil in onshore areas of Lithuania

maintenance of mechanical and electric operations and controlling devices, overhaul and repair services



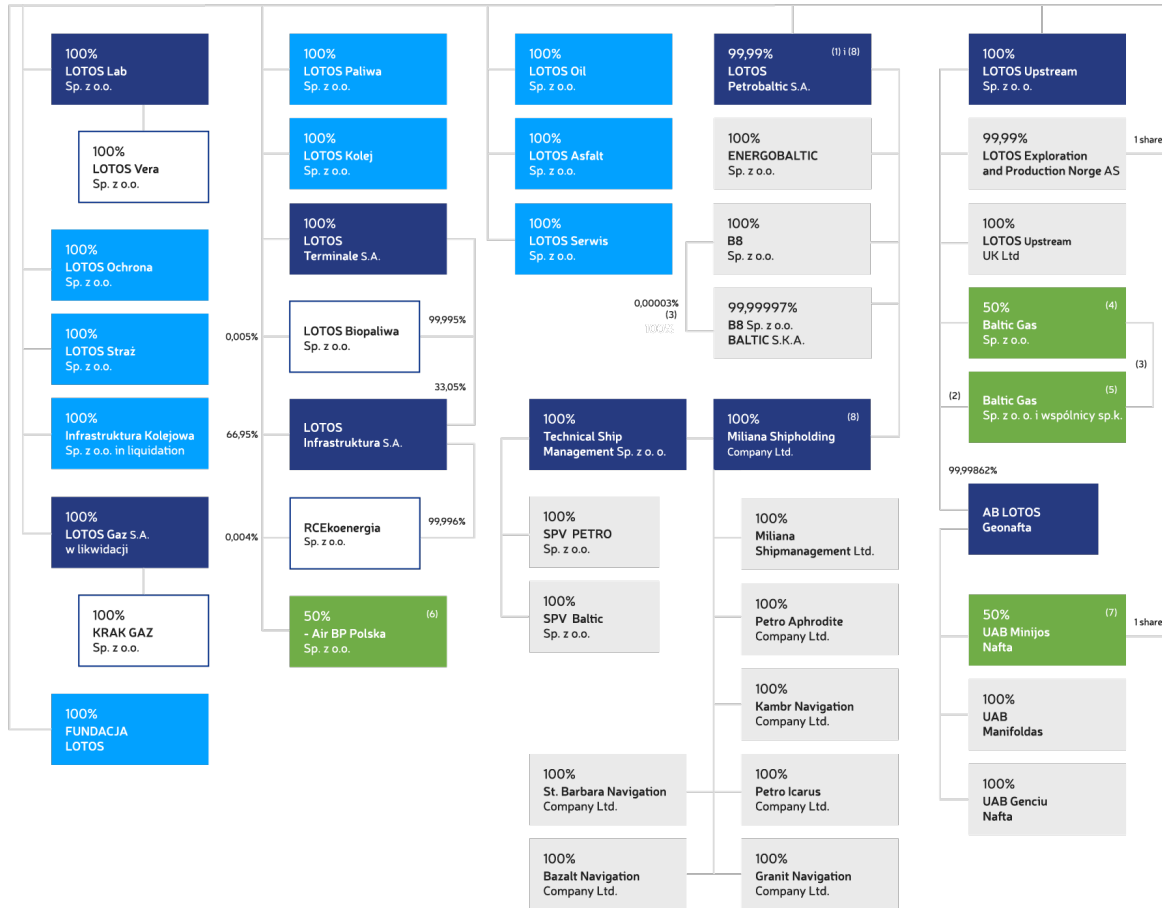
sales up 16% in 2018

implementation of a gas reserves development project

manufacture of cars

FULL ORGANISATIONAL STRUCTURE OF THE LOTOS GROUP

GRUPA LOTOS S.A.



(1) State Treasury – 0,01%

(2) Limited partner

(3) General partner

(4) CalEnergy Resources Poland Sp. z o.o. - 50%

(5) CalEnergy Resources Poland Sp. z o.o. - Limited partner

(6) BP Europa SE – 50%

(7) Odin Energi A/S – 50%

(8) In merger process (merger plan accepted on 19.12.2017)

Entities classified as joint ventures accounted for using the equity method, which are non-Group companies

Additionally, Group LOTOS S.A. holds 8.97% shares in P.P.P.P. NAFTOPORT Sp. z o.o. (a company of the PERN Przyjaźń Group of Płock)

Modern and efficient oil production and refining processes

In our principal business activities, we focus on three areas:

- hydrocarbon exploration and production,
- crude oil refining, and
- trading in petroleum products.

To improve our trading efficiency, we are constantly optimising our refining and logistics processes.

OUR OPERATIONS ARE DIVIDED INTO TWO SEGMENTS:



EXPLOTRATION AND PRODUCTION

acquisition and production of crude oil and natural gas, and the related auxiliary, transport and servicing activities,

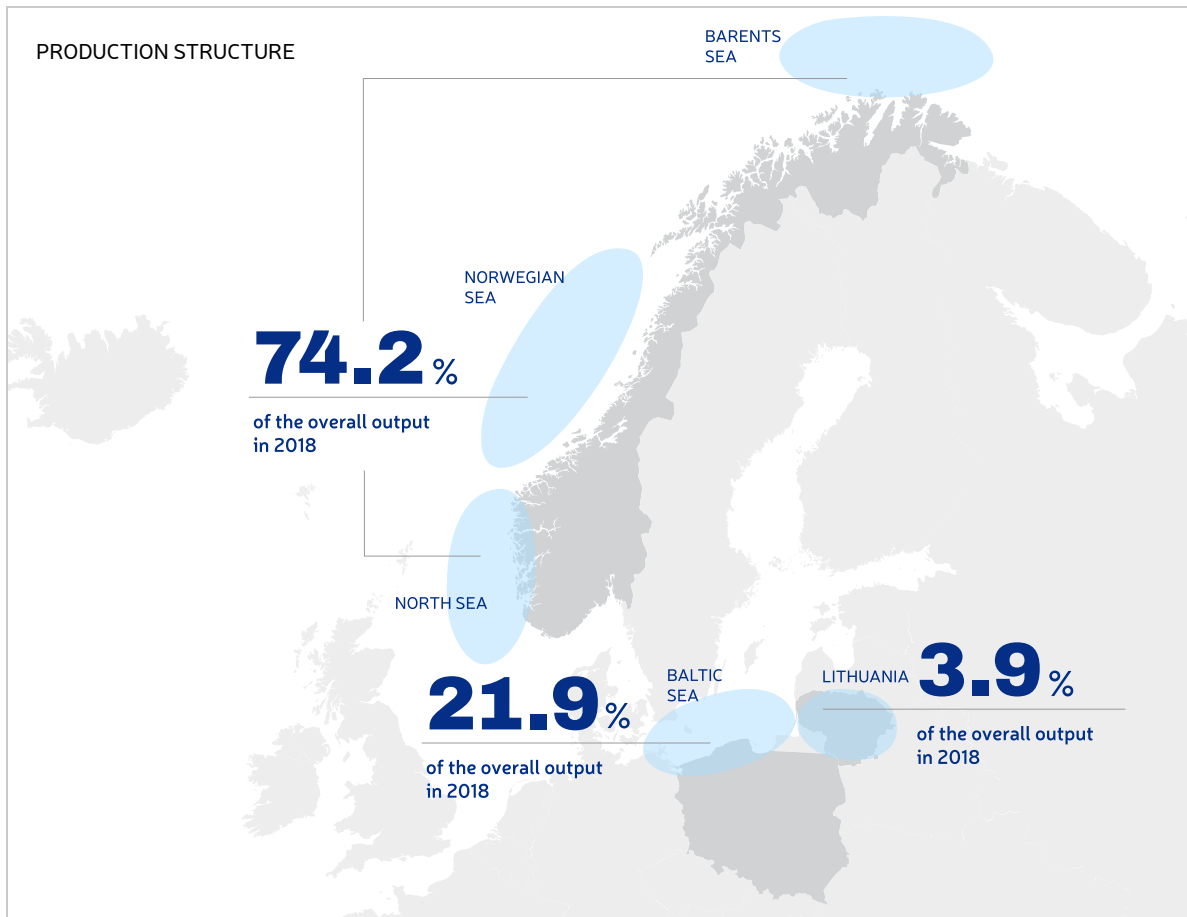


REFINING AND MARKETING

petroleum processing and manufacture of refined petroleum products, wholesale and retail sale of petroleum products, and the related auxiliary, transport and servicing activities.

Exploration and production

We are the only company engaged in hydrocarbon production in Poland's Exclusive Economic Zone of the Baltic Sea. As regards our foreign operations, we produce hydrocarbons on the Norwegian Continental Shelf and in Lithuania.



4.5 kboepd

LOTOS Group's average daily output in Poland in 2018

22% of the segment's total volume

15.2 kboepd

LOTOS Group's average daily output in Norway in 2018

74% of the segment's total volume

0.79 kboepd

LOTOS Group's average daily output in Lithuania

4% of the segment's total volume

10.8 million tonnes

Gdańsk refinery's refining throughput in 2018

the highest throughput in the refinery's history

20.4 kboepd

LOTOS Group's average daily output in 2018

89.8 mboe

LOTOS Group's total oil and gas reserves as at the end of 2018

including 78% crude oil and 22% natural gas

EXPLORATION & PRODUCTION SEGMENT

Poland

Baltic Sea



Reserves 2P
49.6 mboe



Production
4.5 kboepd

Lithuania

Onshore



Reserves 2P
2.9 mboe



Production
0.8 kboepd

Norway

Norwegian Continental Shelf



Reserves 2P
37.3 mboe



Production
15.2 kboepd

Exploration & Production segment



Reserves 2P
89.8 mboe



Production
20.4 kboepd

Crude processing

Our refinery is among the most advanced and youngest in Europe, and boasts a throughput capacity of approximately 10.5 million tonnes of oil per year. In 2018, we broke our own record by processing as much as 10.8 million tonnes of crude oil, mainly Urals (73.1%). Our oil refining products are sold in Poland and abroad, through wholesale and retail channels (the latter being our own service station chain).

The LOTOS Group's trading activities in 2018 were carried out by Grupa LOTOS and its subsidiaries: LOTOS Paliwa, LOTOS Oil, LOTOS Asfalt, and LOTOS-Air BP.

10.8 MT – Gdańsk refinery's refining throughput in 2018 – the highest throughput in the refinery's history, achieved through maximum production capacity utilisation.

Our operations are highly efficient – the new technologies we use in our production processes enable us to obtain up to 95% of pure fuel from one barrel of oil. The waste generated in the refining process (5% of an oil barrel) is used to produce bitumen, which we sell to our trading partners.

Products and services – versatile and green offering

Our operations span 86 markets. We sell our products mainly in Poland and other European countries, including Germany, the Netherlands, Belgium, Sweden, Denmark, the United Kingdom, France, Estonia and the Czech Republic.

Under the LOTOS brand, we offer a vast range of products and services, including high-quality motor fuels (sold, among other outlets, at the 495 LOTOS service stations conveniently located all over Poland, including at 20 Motorway Service Areas), a wide range of lubricating oils (for automotive and industrial applications), various types of road and industrial bitumens, JET A1 specialty aviation fuel, as well as many services provided under the LOTOS brand, such as logistics and security services.

PRODUCTS OBTAINED FROM CRUDE PROCESSING



fuels (unleaded gasoline, diesel oil, and light fuel oil)



heavy fuel oil



bitumens



aviation fuel



naphtha



liquefied petroleum gas (LPG)



base oils

Our offering

The LOTOS Group offers a wide range of products and services, including:

- high-quality fuels (including aviation and marine fuels);
- a broad selection of superior performance oils for automotive, agricultural, industrial and marine applications;
- paving-grade bitumens, MODBIT modified bitumens (including MODBIT HIMA highly-modified bitumens), WMA bitumens (for the production of aggregate-bitumen mixtures), and industrial bitumens;
- rail transport services;
- and much more.

OUR BRANDS

Dynamic

cafe pŭnkt

navigator 

LOTOS
QUAZAR

LOTOS
TURDUS

AGROL

LOTOS SERVICE STATIONS

495

the number of LOTOS service stations at the end of 2018
up by **two** stations compared with 2017 – including **306** CODO stations and **189** DOFO stations

14 CODO stations

the number of upgraded service stations operating under the LOTOS brand in 2018

18%

the increase in store sales in 2018 vs 2017

17%

store margin growth in 2018 thanks to cost optimisation

We make every effort to gradually make our stations increasingly eco-friendly.

At the end of November 2018, we launched 12 electric vehicle charging points. Located along the A1 and A2 motorways between Warsaw and Gdańsk, the points form the Blue Trail.

Soon, Grupa LOTOS will also become the first producer of purified hydrogen in Poland and will build two hydrogen filling stations. Last year, a decision was made to grant EU funding for Grupa LOTOS' Pure H2 project to construct hydrogen purification and dispensing units.

Also LOTOS Lab and LOTOS Kolej have undertaken projects aimed at upgrading their operations to make them more friendly to the environment. By 2022, the companies are to build two prototypes of shunting locomotives with advanced hybrid drive systems.



Map presenting location of LOTOS service stations

Health and safety of our customers are extremely important to us. We make every effort to ensure that our operations and products are safe at each stage of the value chain. LOTOS Lab, a part of the Group for 16 years now, thoroughly tests all the semi-finished products, products, components and additives we use to manufacture our fuels, oils and bitumens, as well as the water used to produce energy and the wastewater we generate.

Information on the health and environmental impacts of our products, as well as on the content of chemicals and chemical preparations in those products, is provided in the Product Information or the Product Safety Data Sheet. Such information also includes instructions on what to do in case of fire or discharge of the product into the environment and how to handle waste.

People as top priority

People have always been at the centre of LOTOS’s business. Our stakeholders play a part in how we generate not only economic, but also social and environmental value. In decision making, we always take into account their benefit and seek to build good and lasting relations with them.

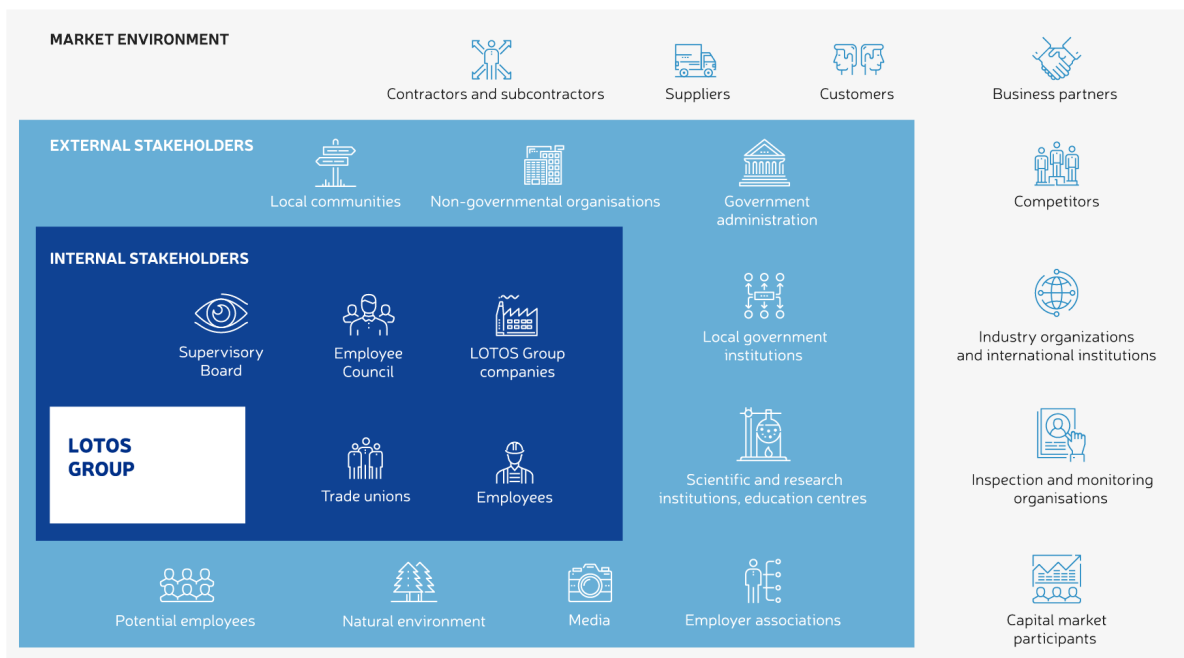
Our relations within the organisation, as well as relations with trading partners and customers are marked by particular care for safety and respect for dignity. This applies both to persons who represent LOTOS on everyday basis and those with whom our company interacts in its operations and communication activities.

We aim to engage in a dialogue with both our social and market stakeholders. The form and frequency of the dialogue vary depending on the stakeholder group. We aspire to improve the quality of our relations and ensure mutual benefits.

OUR KEY EFFORTS IN THIS AREA INCLUDE:

- ➔ regular surveys to gauge the level of satisfaction among our customers and trading partners,
- ➔ regular exchange of information with capital market participants through our Investor Relations site and road shows,
- ➔ maintaining contact with regulatory, inspection/audit, and monitoring bodies on an as-needed basis,
- ➔ dialogue with employees during day-to-day work and through trade unions, and regular job satisfaction surveys.

LOTOS'S STAKEHOLDER MAP



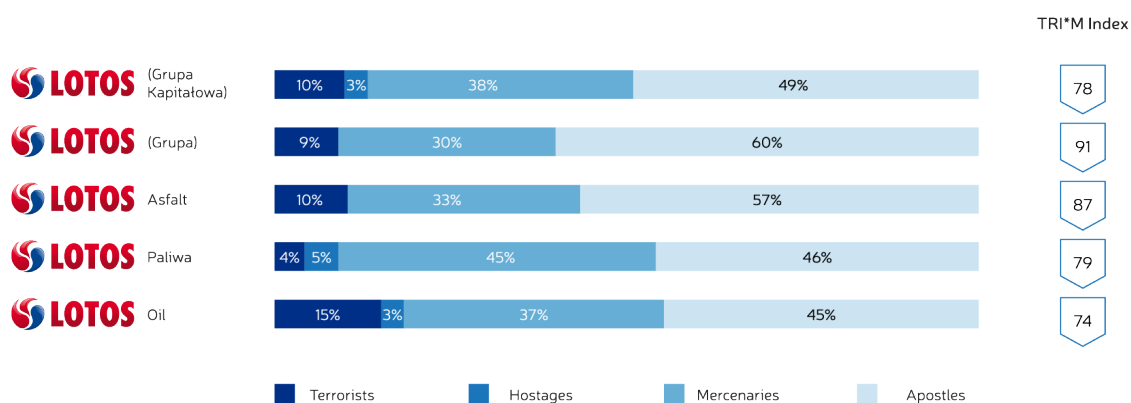
Customers have a high opinion of LOTOS

Our customers' opinions and expectations are a vital source of information and inspiration for our further business growth, which is why we monitor customer feedback on a regular basis. In 2018, the LOTOS Group's business customer satisfaction index stood at 78, remaining flat on the previous edition and indicating a high level of customer satisfaction. To compare, the average satisfaction level for all industries in Poland is 69.

LOTOS Asfalt is the LOTOS Group company that can boast the largest increase in customer satisfaction levels, which have been on the rise since 2016. Grupa LOTOS's business customer satisfaction index rose by 1 point, to impressive 91 points. On the other hand, LOTOS Oil recorded a decline in customer satisfaction levels.

Respondents are satisfied with our products: 91% would recommend them and 89% would choose them again. Compared with 2017, minor changes in the LOTOS Group's customer base can be seen. The share of satisfied and loyal customers decreased slightly (by 1 pp) and the percentage of disloyal and dissatisfied customers slightly increased (by 1 pp). At present, almost half of our customers (49%) are the Apostles, i.e. the most loyal and satisfied group of customers, who are emotionally attached to the brand and disseminate positive opinions about it.

TYPES OF CUSTOMERS - BREAKDOWN BY COMPANY




Membership of industry associations and CSR

We are a member of many Polish and international organisations, some of which bring together specialised fuel, energy, and chemical sector entities. We have also joined business organisations working towards Poland's economic growth and those promoting the principles of corporate social responsibility.



In 2018 we were a member of such organisations as the Polish Chamber of Chemical Industry (PIPIC), Central Europe Energy Partners, Fuels Europe, the Polish Organisation of Oil Industry and Trade, United Nations Global Compact (the world's largest corporate sustainability initiative), and the Promeranian Employers (Pracodawcy Pomorza) organisation.

Since 2008, the LOTOS Group has been the strategic partner of the Responsible Business Forum, a non-governmental organisation which for over a decade now has been involved in disseminating knowledge about and promoting the concept of corporate social responsibility in Poland.

 [A complete list of industry organisations we hold membership of](#)

Awards and distinctions

We are glad that our commitment to corporate social responsibility benefits many entities and is highly evaluated by experts, as confirmed by the string of awards and distinctions conferred on LOTOS. We especially value those received for our efforts and commitment to the areas which are of key importance to the development of CSR practices.

The awards and distinctions are a token of appreciation and confirmation of our ability to foster relations with employees, investors, and business partners, to improve workplace safety, protect the natural environment, and to engage in social outreach initiatives.

AWARDS AND DISTINCTIONS FOR THE LOTOS GROUP IN 2018



12th time in the RESPECT Index for the LOTOS Group

In December 2018, the LOTOS Group was included for the 12th time in the RESPECT Index of the most socially responsible companies listed on the Warsaw Stock Exchange.



FTSE4Good

LOTOS Group shares for the first time included in FTSE4Good, London Stock Exchange's index of ethical investment stocks.



ranking odpowiedzialnych firm

2nd place in the 'Fuels, Energy, Production' category in the 12th edition of the Socially Responsible Companies Ranking.



ranking
odpowiedzialnych
firm

**6th place overall in the 12th edition
of the Socially Responsible
Companies Ranking.**



**Silver CSR Leaf for the LOTOS
Group**

– an award for companies which
undertake regular efforts to conform
to the stringent ISO 26000 CSR
standard on a daily basis.



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02. CHALLENGES OF THE OIL MARKET

LOTOS Group's macroeconomic environment in 2018

The LOTOS Group is an active participant of the fuel market, affecting it through its operations and responding to changes that occur in the oil and gas industry. Therefore, when planning strategic development directions, LOTOS takes into account forecasts and megatrends which affect its business.

The key drivers of oil and gas prices are changes in the world's population as well as global and regional changes in supply and demand.

OIL PRICES ARE ALSO AFFECTED BY:

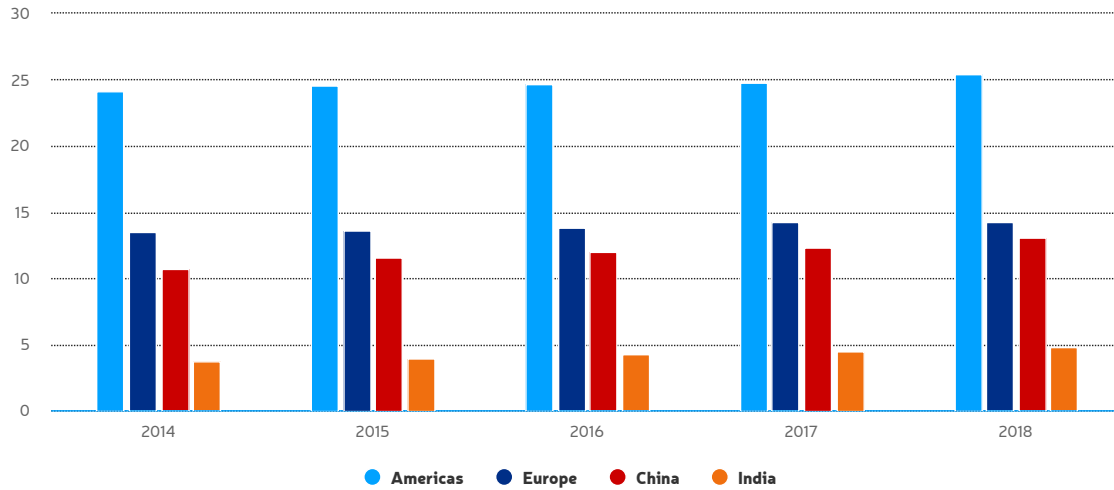
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- macroeconomic situation,
 - global and regional economic conditions,
 - trading activities of market participants,
 - weather conditions and natural disasters,
 - availability and cost of construction or use of transport and processing infrastructure,
 - price and availability of, and government subsidies for, alternative energy sources and new technologies,
 - the US dollar exchange rate.

Consumption increases in parallel with population growth

Over the last five decades, the world's population has grown on average by 1.6% per year, to 7.63bn in 2018. This increase was accompanied by growth in crude oil demand (by 2.3% on average a year).

OIL CONSUMPTION IN NORTH AND SOUTH AMERICA, EUROPE, CHINA, AND INDIA (M BBL/D)

Source: LOTOS Group's in-house analysis based on International Energy Agency data, www.iea.org



Economic growth and fluctuations in supply and demand

2018 saw considerable global and regional changes in oil supply and demand. It was also a period of fast economic growth in the world. According to OECD's computations, the world's economy grew by 3.7%. Particularly strong economic growth could be seen in the fast-growing countries such as China and India.

GDP DYNAMICS IN 2017–2018

	2017	2018	% r/r
Global economy	3.8%	3.7%	-0.1%
Developing countries	4.7%	4.6%	-0.1%
Eurozone	2.4%	1.8%	-0.6%
US	2.2%	2.9%	0.7%
China	6.9%	6.6%	-0.3%
India	6.7%	7.3%	+0.6%

Source: LOTOS Group's in-house analysis based on World Economic Outlook Update

Changes in the fuel market in 2018

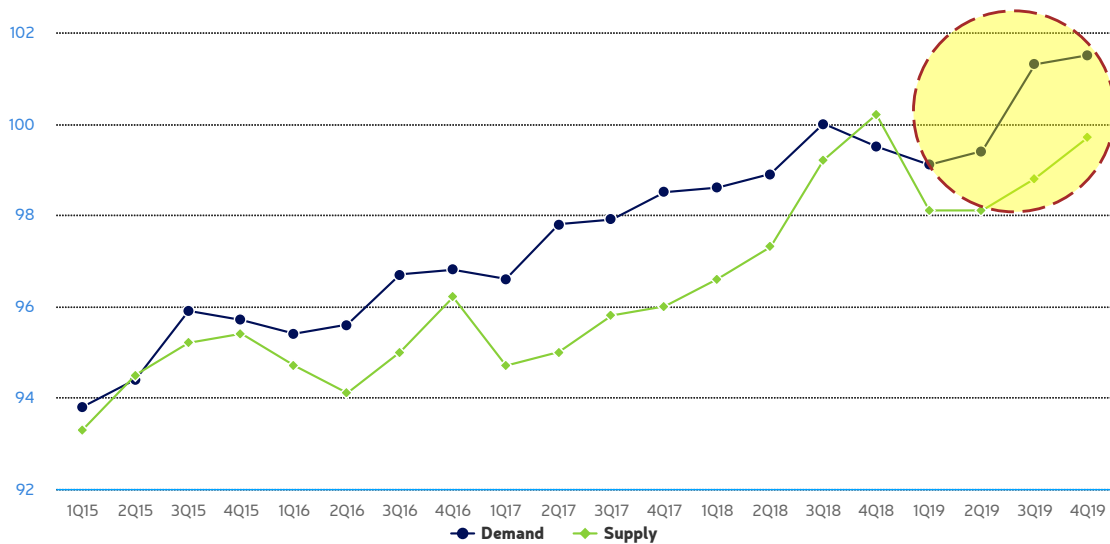
United States as the leader of the oil market

Last year, the United States exerted immense pressure on the global economy. It was also the world's largest oil producer, exporting on average 1.96 million barrels of crude oil a day, with WTI oil cheaper on average by USD 6.8/bbl than Brent crude, produced in the North Sea.

The macro environment was significantly impacted by OPEC's and Russia's decision of December 7th to cut oil output by 1.2 mbd.

GLOBAL OIL DEMAND AND SUPPLY (MBSL)

Source: Grupa LOTOS's in-house analysis based on International Energy Agency data, www.iea.org

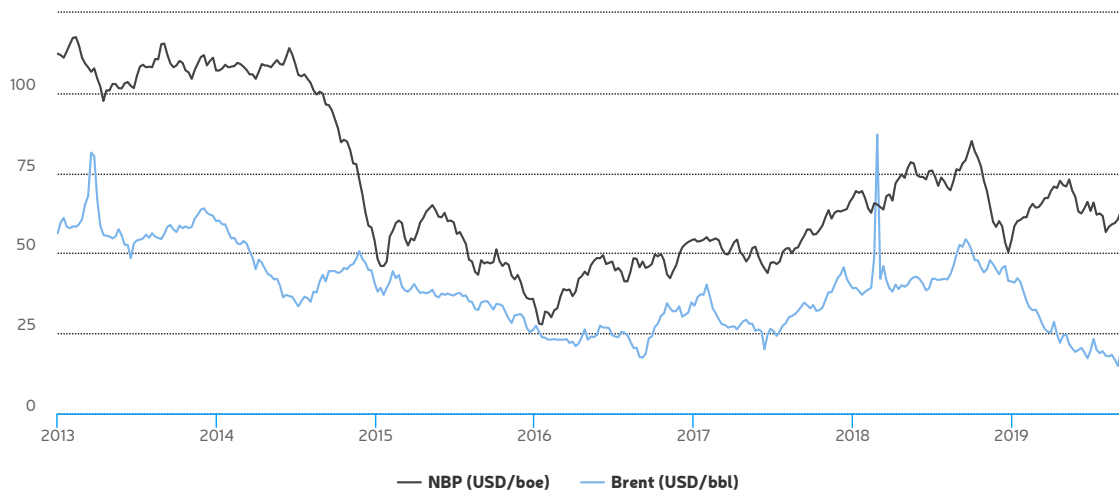


Improved economic conditions and cost optimisation

2018 saw an improvement in the commodity market after a four year-long oil crisis. The average price of crude oil reached USD 71/bbl, while the average price of natural gas was USD 45/boe, up nearly 38% year on year.

CRUDE OIL AND GAS PRICES IN 2013–2018

Source: In-house analysis based on Thomson Reuters data



The crisis situation of the past five years has become an incentive for significant optimisation in the E&P industry. The costs of drilling and offshore services, direct production costs, and new field development costs went down. Standardised technical solutions, technological advancement, and improvement of contracting and procurement of products and offshore services helped to reduce average operating expenses by more than 40% relative to 2013.

Future challenges and global forecasts

Production

The profitability of the LOTOS Group's production operations is affected by numerous legal regulations, including the Polish Geological and Mining Law, EU regulations, and international conventions, such as those on environmental protection. In the near future, the following will be of key importance:

- planned amendments to tax regulations applicable to hydrocarbon production;
- continued tightening of environmental protection regulations;
- increase in mandatory collateral relating to the risk of environmental damage;
- amendments to regulations imposing the obligation to maintain stocks of crude oil and selected petroleum products.

Economists forecast crude oil prices to remain in the range of USD 40–70/bbl.

Under such conditions, both innovative technologies and innovative cooperation models should be implemented in order for the LOTOS Group to remain profitable and attractive to investors.

Refining

The profitability of refining is directly affected by fluctuations in crude oil and natural gas prices, as well as the amount and structure of demand for and supply of petroleum products. According to JBC Energy, an energy market agency, global demand for refining products should continue to grow.

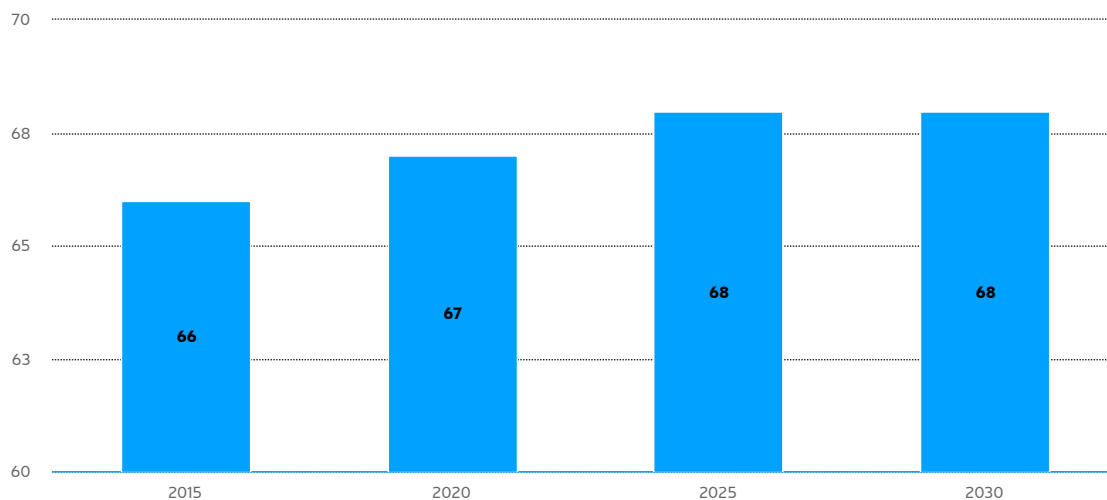
Continued growth of CEE economies can generate further increase in fuel consumption and its ultimate convergence with consumption levels in Western Europe.

From fuel producers' perspective, it is the CEE market that offers more potential as it will be growing in the coming years.

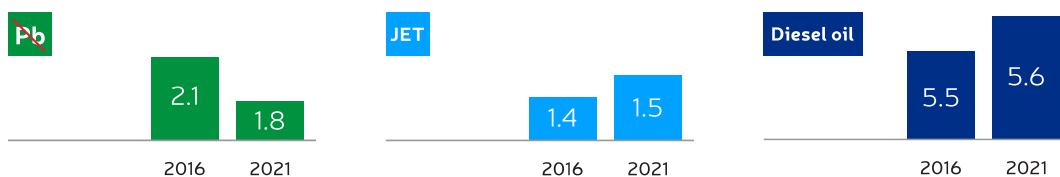
In the opinion of the LOTOS Group, demand for petroleum products, in particular diesel oil and aviation fuel, should grow noticeably also in Poland.

**FORECAST DEMAND FOR MAIN TRANSPORT FUELS
(GASOLINE, DIESEL OIL, LIGHT FUEL OIL, AVIATION FUEL, IN MILLION TONNES) CENTRAL
AND EASTERN EUROPE**

Source: Grupa LOTOS Strategy for 2017–2022



**EUROPE: FORECAST DEMAND FOR KEY PRODUCTS AND INTERNATIONAL BALANCE
(MBOE/D) NET IMPORTS**



PB (UNLEADED)

- 13% drop in demand
- Gasoline exports up to 1.4 mboe/d

JET

- 10% increase in demand
- imports of aviation fuel and kerosene up to 0.5 mboe/d

DIESEL OIL

- 3% increase in demand
- imports of diesel oil and light fuel oil up to 1.0 mboe/d

Source: LOTOS Group Strategy 2017–2022

The efforts to tackle the grey market in Poland, undertaken as part of the fuel package by both the government and oil companies, have reduced its size, additionally contributing to an increase in registered demand for diesel oil.

IMO 2020 regulations and desulfurized bunker fuel

The International Maritime Organization (IMO) has been tightening the sulphur content standards for bunker fuel for many years. On January 1st 2020, further regulations will enter into force, under which the currently permitted 3.5% content will be reduced to 0.5% and, in emission control areas (including Europe), to 0.1%.

The EFRA Project is, in part, Grupa LOTOS S.A.'s response to the IMO regulations. It includes the construction of a coking unit to produce and sell fuels meeting the new standards.

Predictions and forecasts for the refining sector

Macroeconomic factors will continue to have a significant impact on the situation in the sector. One of the key threats to oil refining in Europe will be growing competition from refineries in the Middle East and Russia. The Mediterranean can be expected to become the main market for these refineries. This will change the fuel supply-demand balance across Europe.

New opportunities will come with the implementation the IMO regulations in 2020, which may translate into higher demand for middle distillates. This could boost margins on middle distillates and reduce margins on heavy fractions. A growth in consumption of gasoline by retail customers is likely to be driven by attractive retail prices, resulting from low and stable prices of the product and the raw material.

We also expect that European oil companies will shut down small and obsolete refineries in an effort to optimise their assets.



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03. **BUSINESS MODEL**

Value Creation Model

Our operations are based on a segment management model in which a full value chain is built: from production to sale of finished products.

We create value at each stage of our business, always giving due consideration to the concept of sustainable development and operating in line with the energy security policy. We deliberately manage our impact on the environment, people, and economy to make it increasingly positive, contributing to the Company's value growth and benefiting our stakeholders.



Our Value Creation Model has been developed following a thorough analysis of the global oil market and its long-term growth forecasts. The model gives us certainty that our growth in 2017–2022 will be stable and safe.

IN THIS BUSINESS MODEL, MANAGEMENT SUPPORTS THE ENTIRE LOTOS GROUP IN:

- implementing a coherent strategy,
- planning and controlling,
- integrated operational management, and
- setting up uniform corporate standards.

how we create value?



Exploration & Production segment

The acquisition of and production from oil and gas fields allow us to diversify revenue sources and reduces our dependence on business cycles in individual market segments. In this way, we build our competitive advantage.

SOURCES OF OUR EFFECTIVENESS:

- We operate on a few markets – our exploration and production activities span three countries: Poland, Lithuania, and the largest player in the region – Norway.
- Our partners are experienced companies with international presence.
- We have strong competencies in drilling and hydrocarbon production.
- We have good knowledge of the geographical region of the Baltic Sea shelf and Norwegian Continental Shelf.
- We are pursuing important growth projects for this segment (relating to both oil and gas fields).

CAPITALS ENGAGED





Refining segment

We process crude oil to manufacture fuels, oils, lubricants, and bitumens. As the operator of one of the most advanced refineries in Europe, we do it extremely efficiently and safely, easily adapting to current market demand.

SOURCES OF OUR EFFECTIVENESS:

- We operate on a few markets – our exploration and production activities span three countries: Poland, Lithuania, and the largest player in the region – Norway.
- Our partners are experienced companies with international presence.
- We have strong competencies in drilling and hydrocarbon production.
- We have good knowledge of the geographical region of the Baltic Sea shelf and Norwegian Continental Shelf.
- We are pursuing important growth projects for this segment (relating to both oil and gas fields).

CAPITALS ENGAGED



Marketing segment

We sell our fuel, oil, and bitumen products in Poland and abroad, exporting them by sea and by land.

SOURCES OF OUR EFFECTIVENESS:

- We manage 495 service stations conveniently located across Poland, which we constantly upgrade and expand in terms of their offering.
- We have 20 Motor Service Areas along the A1, A2, A4, and A6 motorways and the S3 and S7 expressways.
- Our Company is among leaders in the domestic market of road bitumens.
- We sell our products in 86 countries.

CAPITALS ENGAGED



Our capitals

In the process of creating common value, we place a strong focus on efficient management of our Capitals and on tapping the potential of the Capitals and the opportunities present in the individual segments of our operations.

Prudent management and expansion of the Financial Capital allows us to invest in the Group's non-financial resources, which generate further profits over time. For years now, we have been consistently investing in improving production and refining processes, employee development, and building a culture of innovation within the organisation, as well as creating innovative products. We are constantly working on solutions designed to reduce our environmental footprint. We also seek to make a positive social impact through our charitable and sponsorship initiatives.

Role of each Capital in creating common value



FINANCIAL CAPITAL

represents tangible resources in the form of funds available to an organisation in connection with its operations. It includes both available Capital as well as the organisation's debt and debt financing ability.



MANUFACTURED CAPITAL

comprises tangible resources and, depending on the industry, may comprise buildings, equipment, machinery, technology, and infrastructure (e.g. roads, bridges, waste and water treatment plants) that are used in the production of goods and provision of services.



INTELLECTUAL CAPITAL

represents intangible resources being the difference between the market value and the book value of a business. It mainly comprises the knowledge and experience of employees.



HUMAN CAPITAL

represents intangible resources made up of individual employees' skills and competencies, experience and motivation, as well as their ability to develop.



SOCIAL CAPITAL

comprises intangible resources built by mutual benefits that stem from trust and good relations between the company and its social environment.



ENVIRONMENTAL CAPITAL

represents tangible resources used by the organisation in the production of goods and provision of services, comprising renewable and non-renewable resources.

‘Stability and sustainable growth’ strategy

Stability and sustainable growth are the cornerstone of the LOTOS Group strategy for 2017–2022. By growing our business, we seek to position ourselves as a vertically integrated producer of high quality fuels and chemical products, provider of specialised logistics and servicing support, and leader in implementing innovation in its core business.

TO THIS END, WE HAVE SET OURSELVES FIVE KEY STRATEGIC OBJECTIVES:



Effective use of production licences, further technological optimisation of the refinery, launch of new products and alternative fuels, and commitment to quality,



Consistent and repeatable reduction of operating expenses and optimisation of margins along the value chain,



Readiness to develop and embrace innovation based on dedicated funding, an advanced model of cooperation with research institutions and creative engagement of employees,



Flexible response to risks, also perceived through potential business opportunities they offer,



Commitment to fostering and developing talent within the organisation, improving overall safety (OHS, infrastructure, and IT), and raising the standards of corporate social responsibility.

We are currently implementing the second stage of our strategy, in which we are developing a new investment programme based on the best growth projects, effective development of the E&P asset portfolio, further expansion of the service station chain and implementation of innovative projects building the LOTOS Group’s future value.



[More information on our strategy](#)



[Strategy implementation in 2018: Efficiency in action – achievement of strategic objectives in 2018](#)



LOTOS Group
Integrated Annual Report 2018

04. **STRATEGY IMPLEMENTATION IN 2018**

Efficiency in action – achievement of strategic objectives in 2018

Last year we continued our efforts designed to operationalise the LOTOS Group's 'Stability and sustainable growth' strategy for 2017–2022. The strategy contains five key strategic metrics to assess the progress of its implementation.

STRATEGY METRICS

- Twofold increase in average annual LIFO-based EBITDA in 2019–2022,
- Reduction of net debt/LIFO-based EBITDA to or below 1.5,
- CAPEX of PLN 9.4bn over six years,
- 2P reserves at more than 60 mboe and daily hydrocarbon production of 30,000-50,000 boe,
- Increase in the number of service stations to 550 with LTIF 9.

OUR STRATEGY FOR 2017–2022, ALSO SETTING FIVE KEY OBJECTIVES, WHOSE DELIVERY IS CLOSELY MONITORED

OBJECTIVE 1: Effective use of assets along the value chain

We reorganised the exploration and production segment

In 2018, we completed the reorganisation of the exploration and production segment, resulting in the establishment of two separate specialised entities: The LOTOS Upstream Group, investing in production assets, and the LOTOS Petrobaltic Group, engaged in operating activities. Moreover, LOTOS Upstream UK was registered in 2018 with a view to expanding operations on the British Shelf in the future.

The LOTOS Upstream Group is running two projects which are now at a development stage (Utgard and YME located on the Norwegian Continental Shelf, with production launch scheduled for 2020) and two projects at a pre-development stage (B4/B6 in the Baltic Sea and NOAKA).

The LOTOS Petrobaltic Group is a licence holder and operator for the B3 and B8 fields in the Baltic Sea and holds exploration and production licences in the Baltic Sea (for the Łeba, Rozewie, and Gotland areas). The LOTOS Petrobaltic Group plans to expand its business by offering offshore and logistics services to external customers.

The reorganisation was also intended to streamline financial links within the segment.

We invested in innovative technologies

Our main investment project pursued in recent years is EFRA, which will facilitate deeper and more economically viable conversion of crude oil thanks to the construction of a state-of-the-art coking unit. Total progress of work under the EFRA Project as at the end of December 2018 was 98.1%. At the same time, we carried out analyses and prepared for further development of the refinery also in other directions, as specified in our strategy:

- Lubricate blending unit for the production of Group 2 and 3 base oils,
- Gasoline complex for the production of motor gasolines from naphta,
- Olefins complex with an ETBE unit and a project to construct a captive CHP plant.

We developed our service stations

The LOTOS Group company in charge of retail operations is LOTOS Paliwa.

NASZE STACJE W LICZBACH NA KONIEC 2018 R.

495 service stations
under the LOTOS brand

306 stations
CODO

189 stations
DOFO

20 Areas
Motorway Service

24 Subway restaurants
within the LOTOS chain

12 EV charging points
along the Tricity – Warsaw
route

In 2018, we updated our offering for franchisees by expanding our support in the store segment and making fuel pricing more attractive. We also worked on further standardisation of the service station chain, enhancing the non-fuel offering, and improving customer service standards. In partnership with Alior Bank, we launched the Mastercard Business LOTOS credit card. All these efforts improved last year's overall chain profitability.

At our service stations we also implemented solutions supporting electric mobility. As part of the LOTOS Blue Trail project, 12 charging points were launched along the Tricity – Warsaw route. Another 38 EV charging points are to be opened by the end of Q1 2020, many of which will be located not only in northern and central Poland, but also along the routes in the west and south of the country. Plans envisage the construction of more EV charging points along expressways and motorways.

OBJECTIVE 2: Effective processes to ensure stability

Last year, we launched the Efficiency Improvement Programme, designed to support the identification and reporting of cost-saving measures at the LOTOS Group.

OPTIMISATION PROCESSES AT THE LOTOS GROUP

250

number of measures identified as part of the Efficiency Improvement Programme

165

number of approved measures

85

number of cost-saving measures completed at the end of 2018

Transport and Logistics, Refining and Energy, and HR/Business trips – these are the areas where cost savings were the most significant in 2018

10.8

m tonnes refining throughput in 2018

the highest in the LOTOS Group's history

We diversified the supply of raw materials

Feedstock diversification ensures the continuity and stability of crude oil supplies to the Grupa LOTOS refinery, improves the efficiency of refining operations, and expands the knowledge of and experience in the processing of various types of crude. It allows the LOTOS Group to quickly and actively respond to market developments and generate higher margins. Last year, 27% of the crude oil we purchased was imported from sources other than markets east of Poland.

We consolidated our leading position

In 2018, the LOTOS Group strove to strengthen its position in the Solomon Associates ranking. To this end, it took measures aimed at improving the refinery's energy efficiency and launching the latest IT solutions with a view to implementing the Industry 4.0 concept.

OBJECTIVE 3: Readiness to embrace innovation

Last year, we carried out a number of initiatives reflecting our innovative thinking about business. We launched the Pure H2 project to construct a hydrogen treatment and dispensing unit together with two hydrogen refuelling points (to be placed in service in Gdańsk and Warsaw by the end of 2021). We also continued work on 'A feasibility study concerning the construction of a small scale LNG terminal in Gdańsk and innovative LNG bunkering facilities'. Both of these initiatives are EU funded under the Connecting Europe Facility. We also carried on work on biofuel technology and co-hydrogenation in our units. In addition, we started research and development cooperation with the Warsaw University of Technology.

OBJECTIVE 4: Active opportunity and risk management

We are constantly developing and strengthening our risk and opportunity management capabilities. In the previous year, we expanded our methodology for corporate risk management, supported by the LOTOS Group Risk Committee. We also implemented TOP RISK, a system for monitoring and describing key risks. We regularly conduct workshops to improve risk management and identify market opportunities at the LOTOS Group. We promote a culture of open risk communication to enable a quick and effective reaction, thus minimising the probability and mitigating the consequences of risk materialisation, and to take advantage of opportunities as they arise.

OBJECTIVE 5: Strong team, coherent CSR story and safety

We promote talents

Among our priorities is consistent professional development of our staff, especially talent identification and promotion. Last year, we continued work on a knowledge management system based on an e-learning platform. We also carried out projects designed to support the professional development of our management staff (e.g. we developed a map of desired managerial competences, identified the potential of management staff, and developed Individual Development Plans) and took measures to optimise HR processes and better align them with the expectations of employees and managers (we developed IT systems supporting HR processes and streamlined communication with employees). Our efforts are appreciated. Last year, for the fourth time we received the Top-Quality Human Resources Certificate from the Polish Human Resources Management Association.



For more information on our HR activities, see: [Employees](#)

We pursue an integrated CSR policy

In 2018, we remained committed to solving social and environmental problems of our stakeholders. Our efforts in this area focus in particular on social and sports matters, improvement of road traffic safety, and environmental protection. Our CSR policy is also pursued through the LOTOS Foundation, which supports safety-oriented, eco-friendly, and educational initiatives.

Also in this area our efforts were recognised. In 2018, Grupa LOTOS was again included by the Warsaw Stock Exchange in its RESPECT Index of socially responsible companies. In addition, Grupa LOTOS shares were for the first time included by global rating agency FTSE Russel in FTSE4Good, London Stock Exchange's index of ethical investment stocks. The Polityka weekly again awarded us the CSR Silver Leaf.



For more information on our CSR activities, see: [Sustainable development](#)

We have a robust safety culture




The safety of our employees is our absolute priority. We continuously take steps promoting safe working culture. Last year, we organised the Safety and Health Days for the ninth time. We also carry out regular safety information campaigns and undertake motivational measures. It is also crucial for us to protect infrastructure of key importance to Poland's energy security. With this goal in mind, we have implemented a programme to increase cyber security by creating appropriate organisational structures, implementing the necessary tools, new technological and infrastructure solutions, as well as educational initiatives.

Calendar of key events

January

 <p>Grupa LOTOS signed an agreement with PZPN (Polish Football Association) under which it will remain the Principal Sponsor of the Polish National Football Team until 2022.</p>	 <p>LOTOS Norge received two new exploration and production licences from the Norwegian authorities. The company already holds 28 Norwegian licences.</p>	 <p>The LOTOS service station chain won the tender for the lease of two Motorway Service Areas on the S8 expressway.</p>	 <p>Grupa LOTOS and Remontowa LNG Systems signed a letter of intent to build a pilot LNG dispensing system.</p>
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February

 <p>Grupa LOTOS started to develop a modern remuneration, bonus, and employee benefit system.</p>	 <p>LOTOS Terminale received an 'Employee-Friendly Business' certificate from the President of the Republic of Poland.</p>	 <p>LOTOS Upstream commenced operations, with LOTOS Norge and LOTOS Geonafta included in its group.</p>
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March

<p>Mateusz A. Bonca was appointed President of Grupa LOTOS S.A. Management Board and Piotr Ciach was appointed Management Board member.</p>	<p>The Electric Power Research Institute (EPRI) from the Silicon Valley, one of the most important research organisations in the energy sector, opened its offices on the premises of Grupa LOTOS.</p>	<p>LOTOS Paliwa was named the Customer Service Quality Star 2018 in the service stations category.</p>	<p>At the Sports and Business Gala, Grupa LOTOS was awarded prizes in the 'Sports Sponsor' and 'Marketing Campaign' categories for its sponsorship initiatives and the 'THE BEST doesn't come from nowhere' campaign.</p>
<p>LOTOS station No. 404 in Pruszków won in the 'Carwash' category, and LOTOS P218 station in Białystok won in the 'DOFO Service Station in Eastern Poland' category during the PetroTrend 2018 forum.</p>			

April



LOTOS Asphalt and PGNiG Obrót Detaliczny signed an agreement on cooperation on LNG vessel bunkering service.



Grupa LOTOS met in Warsaw with representatives of the Polish Post Office and Polish Television to initiate cooperation in identifying potential business synergies that could support the development of low-emission transport in Poland.



LOTOS Oil created a network of Ambassadors of the LOTOS Engine Oil Brand, won 'Laur Konsumenta' (Consumer's Laurel) in the engine oil category and was awarded in the 'Eagles of Wprost' competition organised by the Wprost weekly.



Grupa LOTOS signed a letter of intent with the City of Gdynia concerning the supply of hydrogen to power fuel cell buses.

May



The Supervisory Board of Grupa LOTOS S.A. appointed three members to the Management Board of the tenth term of office. Mateusz A. Bonca was appointed President of the Management Board, Jarosław Kawula was reappointed Vice President of the Management Board, Chief Refining and Marketing Officer, and Patryk Demski was appointed Vice President of the Management Board, Chief Investment and Innovation Officer.

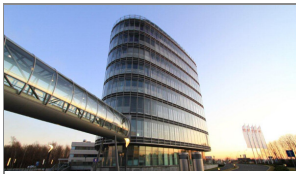


LOTOS Asphalt received a medal at AUTOSTRADA-POLSKA International Road Construction Fairs.



The Polityka weekly awarded Grupa LOTOS with the CSR Silver Leaf.

June



The Supervisory Board of Grupa LOTOS S.A. appointed Robert Sobków Vice President of the Management Board, Chief Financial Officer.



Grupa LOTOS came second in the 'Fuels, Energy, Production' category in the Socially Responsible Companies Ranking. In the overall ranking, the Company came sixth.



Robert Kubica was appointed the Ambassador of the Dynamic brand.





In the 'Fleet Derby 2018' poll, the LOTOS Biznes card was again recognised as the best fuel card in Poland.





The General Meeting of Grupa LOTOS S.A. passed a resolution to allocate approximately PLN 185m to dividend payment.

July

		
<p>The overhaul of several units was completed and the refinery increased its production.</p>	<p>Seismic surveys on the Młynary Licence area were completed.</p>	

August

	
<p>Hydrogen production was initiated at a new HGU 3 unit.</p>	<p>In August, the refinery processed 954.5 thousand tonnes of crude oil, which in annual terms would be 11.24 million tonnes.</p>



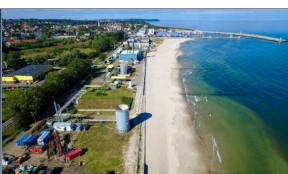
September

<p>The Supervisory Board of Grupa LOTOS S.A. appointed Jarosław Wittstock to the Management Board of the tenth term of office as Vice President, Corporate Affairs.</p>	<p>The global rating agency FTSE Russell of London included Grupa LOTOS S.A. stock in the prestigious FTSE4Good index of socially responsible companies.</p>	<p>The Supervisory Board of LOTOS Petrobaltic S.A. appointed Grzegorz Strzelczyk President of the Management Board and Sławomir Sadowski Vice President of the Management Board, Chief Operating Officer.</p>	<p>Representatives of the Warsaw University of Technology, Grupa LOTOS S.A. and LOTOS Lab signed an agreement initiating joint research and development activities.</p>

October

<p>Decision was made to allocate EU funding of approximately EUR 2m to the Pure H2 project (construction of a hydrogen treatment unit and two hydrogen refuelling points).</p>	<p>LOTOS Lab and LOTOS Kolej commenced a project to build two prototype shunting locomotives with hybrid drive systems.</p>	<p>At Automechanika Frankfurt 2018 fair, LOTOS Oil's stand received an honorary distinction.</p>	<p>Innovative tests of hydrogenation of vegetable oils at the HDS 520 unit were completed with success.</p>
<p>LOTOS launched the Blue Trail – 12 electric vehicle charging points between Warsaw and Gdynia, along the A1 and A2 motorways.</p>			

November

		
<p>A year-long upgrade of unloading track 210, to which biocomponents are delivered by rail, was completed.</p>	<p>Grupa LOTOS and a syndicate of nine banks extended the agreement on refinancing oil and fuel stocks.</p>	<p>LOTOS Petrobaltic completed the construction of a 75 km gas pipeline connecting the production hub on the B8 field with Energobaltic's CHP plant in Władystawowo.</p>

December

			
<p>Grupa LOTOS was for the 12th time included in the RESPECT Index comprising the most socially responsible companies.</p>	<p>Grupa LOTOS and Microsoft signed an agreement on initiating joint projects and implementing solutions using artificial intelligence and state-of-the-art IT technologies.</p>	<p>LOTOS Kolej and the Ministry of Investments and Development signed an agreement on the provision of PLN 74m in EU funds for the purchase of modern intermodal rolling stock.</p>	<p>On December 23rd, the Grupa LOTOS refinery achieved a record crude oil throughput of 10.5m tonnes per year. By the end of the year, it processed 10.8m tonnes.</p>

Financial results and operational achievements

Record performance and sustainable management of financial capital

Last year was a good one for the LOTOS Group in terms of financial performance. Our revenue was significantly higher than in 2017, mainly as a result of higher prices of crude oil and petroleum products on global markets. There was also an increase in the average statistical net revenue per tonne and in the volume of petroleum products, merchandise, and materials sold. We reported the strongest increases in diesel oil and heavy products. The higher sales also translated into a rise in costs.

THE LOTOS GROUP'S FINANCE

PLN

30.121 bn

total revenue in 2018

24.5% – increase in revenue relative to 2017

PLN

2 455 /t (toe)

average statistical net revenue per tonne in 2018

17.9% – increase in average statistical net revenue per tonne relative to 2017

5.7 %

increase in sales volumes of petroleum products, merchandise and materials relative to 2017

7.3 %

increase in unit gross margin in 2018 relative to 2017

PLN

4.529 bn

LOTOS Group's consolidated gross profit

13.5% – increase in consolidated gross profit compared with 2017

PLN

25.592 bn

LOTOS Group's cost of sales in 2018

26.7% – increase in LOTOS Group's cost of sales compared with 2017

PLN

230 m

LOTOS Group's net other income in 2018

The 2018 increase in our operating profit was driven mainly by higher average annual prices of crude oil and natural gas, higher margins on key petroleum products, the uptrend in crude oil and petroleum product prices in the first three quarters of 2018, and higher sales volumes.

The higher revenue and operating profit reported by the E&P segment in 2018 were primarily driven by growing prices of Brent Dated crude (up 31.4%) and natural gas (up 38.8%) on global markets.

The higher revenue of the Refining and Marketing segment in 2018 was mainly due to a 17% increase in the average selling price following from higher prices of petroleum products on global markets, offset by a lower USD/PLN exchange rate, as well as a rise in the sales volumes of petroleum products. The segment's 11.4% increase in operating profit for 2018 was partly related to the 'Spring 2017' maintenance shutdown.

KEY FINANCIAL RESULTS OF THE LOTOS GROUP

PLN

2.98_{bn}

LOTOS Group's operating profit for 2018

PLN

1.59_{bn}

LOTOS Group's net profit for 2018

PLN

1.93_{bn}

Refining and Marketing segment's operating profit

PLN

1.05_{bn}

Exploration and Production segment's operating profit

PLN

30.12_{bn}

revenue

PLN

5.94_{bn}

year-on-year increase in revenue

LOTOS GROUP'S REVENUE BY PRODUCT CATEGORY:

	2018		2017	
	(PLNm)	share (%)	(PLNm)	share (%)
Gasolines	4 450.5	14.8%	3 682.2	15.2%
Naphtha	1 157.1	3.8%	859.6	3.6%
Diesel oils	15 009.3	49.8%	11 864.5	49.1%
Bunker fuel	201.2	0.7%	121.3	0.5%
Light fuel oil	640.4	2.1%	646.9	2.7%
Heavy products	3 133.8	10.4%	2 314.8	9.6%
Aviation fuel	1 421.7	4.7%	913.1	3.8%
Lubricating oil	278.5	0.9%	297.3	1.2%
Base oils	587.3	2.0%	488.6	2.0%
LPG	543.8	1.8%	496.1	2.0%
Crude oil commodity	320.8	1.1%	432.6	1.8%
Crude oil product	285.4	0.9%	252.2	1.0%
Natural gas	662.1	2.2%	574.7	2.4%
Other refinery products, merchandise and materials	563.7	1.9%	440.5	1.8%
Other products, merchandise and materials	537.4	1.8%	463.2	1.9%
Services	420.3	1.4%	488.5	2.0%
Effect of cash flow hedge accounting	-91.6	-0.3%	-150.5	-0.6%
Total	30 121.7	100.0%	24 185.6	100.0%
Domestic sales	23 263.0	77.2%	19 090.5	78.9%
Export sales	6 858.7	22.8%	5 095.1	21.1%

AKTYWA

The main changes in assets were as follows:

- **A PLN 1.3bn** increase in inventories (mainly of crude oil and petroleum products), attributable chiefly to higher stocks of oil (including emergency stocks) and finished and semi-finished petroleum products, as well as higher prices as at the end of 2018 vs the end of 2017.
- **A PLN 639.8m** increase in E&P segment's property, plant and equipment, attributable mainly to the reversal of impairment losses on expenditure on YME.
- **A PLN 796.6m** decrease in trade receivables, mainly on the back of crude oil sold in December 2017 under contracts with the Material Reserves Agency.
- **A PLN 265.8m** decrease in deferred tax assets, attributable mainly to the reversal of impairment losses on expenditure on YME and insurance proceeds received in respect of the defective platform on the YME field.
- **A PLN 290.9m** increase in other assets, primarily attributable to the funds held in the Sleipner decommissioning escrow account.
- **A PLN 140.1m** decrease in positive fair value of financial derivatives.

Last year also saw an increase in LOTOS Group's consolidated equity. The increase was driven primarily by higher retained earnings (up PLN 1.4bn), which were decreased by foreign exchange losses on valuation of cash flow hedges, recognised in capital reserves, adjusted by the tax effect of PLN -63.0m.

EQUITY

PLN

12.03 bn

equity at the end of 2018

PLN

1.32 bn

increase in LOTOS Group's equity relative to 2017

54.2 %

share of equity in total equity and liabilities in 2018

3.6 %

increase in the share of equity in total equity and liabilities relative to 2017

KEY CHANGES IN LIABILITIES (DOWN BY PLN 269.6M):

PLN

+170.9_m

increase in other liabilities and provisions (mainly provisions recognised in the Refining and Marketing segment and provisions remeasured in the Exploration and Production segment)

PLN

+355.3_m

increase in current tax liabilities

PLN

-288.0_m

decrease in trade payables

PLN

-541.9_m

decrease in borrowings, other debt instruments and finance lease liabilities, reflecting mainly a partial repayment of the Parent's investment facilities, loans contracted by LOTOS Norge S.A. and AB LOTOS Geonafta, as well as redemption of some of the bonds issued by the Group

In 2018, the LOTOS Group's financial debt decreased relative to 2017. The ratio of financial debt adjusted for free cash to equity was 16.1%, down 7.3 pp.

DEBT

PLN

3.88_{bn}

LOTOS Group's financial debt at the end of 2018

PLN

541.9_m

decrease in LOTOS Group's financial debt relative to 2017

PLN

1.94_{bn}

net financial debt as at the end of 2018

As at the end of 2018, our cash balance, including current account overdrafts, was PLN 1.94bn, up PLN 17.7m year on year.

Positive cash flows from operating activities were driven mainly by net profit before depreciation and amortisation, income tax and lower trade receivables, which were offset by higher inventories, impairment losses on property, plant and equipment and intangible assets, and lower trade payables.

Negative cash flows from operating activities primarily included expenditure on main growth projects, including the EFRA project, and on hydrocarbon production from the Norwegian and Baltic fields, as well as funds in the Sleipner decommissioning escrow account.

Negative cash flows from financing activities were due mainly to borrowings, repayments of borrowings and payment of interest, dividend paid, and negative balance of proceeds from issue and redemption of the Group's bonds.

PLN

1.94_{bn}

LOTOS Group's cash balance, including current

PLN

2.33_{bn}

positive cash flows from operating activities generated in 2018

PLN

-1.09_{bn}

negative cash flows from investing activities generated in 2018

PLN

-1.24_{bn}

negative cash flows from financing activities



More in Section: Financial results and operational achievements



Skonsolidowane Sprawozdanie Finansowe 2018

We invest in the future

In 2018, the LOTOS Group's capital expenditure exceeded PLN 1bn, most of which was spent on the construction of a delayed coking unit (EFRA Project) and on oil and gas production, mainly from the B8 field in the Baltic Sea and from the Sleipner and YME area fields on the Norwegian Continental Shelf.

LOTOS GROUP'S CAPITAL EXPENDITURE IN 2018

by key Refining & Marketing projects (PLNm)

Refining & Marketing segment	2018
EFRA	290.4
Expansion of service station network	63.5
Hydrogen Recovery Unit (HRU)	11.5
Other	77.8
Total	443.2

LOTOS GROUP'S CAPITAL EXPENDITURE IN 2018

by key Exploration & Production projects (PLNm)

Exploration & Production segment	2018
B8 field	132.8
Sleipner, Norway	127.4
Heimdal, Norway	14.7
YME, Norway	212.9
Other	73.0
Total	560.8


 OPERATIONS OF GRUPA LOTOS S.A. AND THE LOTOS GROUP, page 39

We support economic growth

As Poland's second largest fuel company, we have a direct and indirect effect on the country's economy. The development of the regions where we operate is driven by taxes we pay and a diversified supplier network.

TAXES AND CHARGES PAID BY THE LOTOS GROUP (PLNM)

Taxes and charges by country	2018
Poland	509.1
Norway	21.6
Lithuania	11.0
Total	541.7

We support local entrepreneurs by improving conditions for further growth of small and medium-sized businesses. LOTOS Oil, one of our companies, plays an important role in stimulating local economy. It works with numerous local suppliers of goods and services, for whom establishing business relationships with LOTOS undoubtedly presents a growth opportunity. As a result, more jobs are created in the regions in which those businesses operate.

In 2018, 20.80% of our procurement budget was spent on goods and serviced purchased from local companies from Gdańsk and the surrounding area.

We are a major employer not only in the Gdańsk Province – our service stations are a workplace for people also in other regions of Poland. Total workforce at the LOTOS Group is **5,045**. In 2018, we paid **PLN 761.6m** in salaries and wages.

The funds paid to our employees and suppliers indirectly contribute to improving the economic situation of the regions where we are present. The money they put in circulation supports other local businesses and improves the quality of life of local communities.

Our broad offering is also designed to bridge the gap in access to consumer goods for low-income customers. LOTOS Oil products are widely available and come in different prices so that they can be purchased by both more and less affluent individuals.

The LOTOS Group also pursues a number of innovation and efficiency improvement initiatives to reduce process and energy costs. In this way we seek to counteract the rising global prices of energy carriers and thus prevent energy poverty.



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05. **SUSTAINABLE DEVELOPMENT**

Our approach to sustainable development

To us, sustainable development is an integral part of our business. We are aware of our community and environmental impacts. Therefore, as a socially responsible corporate citizen, we are guided by ethical values in our business.

We are strongly committed to compliance with international standards, such as ISO 26000, with respect to corporate governance, human rights, labour practices, the environment, fair operating practices, consumer issues, as well as community engagement and development.

OUR STRATEGIC APPROACH TO SUSTAINABLE DEVELOPMENT RESTS ON THE FOLLOWING PILLARS



SOCIAL RESPONSIBILITY

Creating value for the social environment



RESPONSIBILITY FOR THE NATURAL ENVIRONMENT

Creating value for the natural environment



CORPORATE RESPONSIBILITY

Creating economic value

In 2018, the LOTOS Group addressed the challenges defined by 17 Sustainable Development Goals (SDGs) until 2030, Vision of Sustainable Development for Business in Poland until 2050, and the ten Global Compact principles.

IN LINE WITH THE VISION OF SUSTAINABLE DEVELOPMENT FOR BUSINESS IN POLAND UNTIL 2050, WE HAVE UNDERTAKEN TO:

- base our efforts on broad cooperation, innovative thinking and education of both our own employees and members of the public;
- conduct business activities relying on trust and dialogue;
- initiate cooperation with academic centres and schools to educate future employees;
- create conditions and opportunities conducive to employee development;
- promote and support the implementation of new technological solutions;
- develop infrastructure and implement investment projects based on dialogue and in accordance with principles of sustainable development;
- take measures to reduce our environmental footprint;
- introduce solutions to reduce energy consumption, including through implementation of new technological solutions, process optimisation and education;
- engage in dialogue with the government and share our experience in issues that are material to entrepreneurs and economy;
- raise ethical standards in business, including in relationships with all stakeholder groups.

For more information on our strategic approach to social and environmental responsibility, see:



Corporate social responsibility values

Our responsibility towards society and the natural environment manifests itself in carrying out production activities in a manner preventing degradation of natural and social capitals. As the LOTOS Group, we feel responsible for our products towards the state, the market, our partners, customers, and employees.

We conduct our business in compliance with ethical principles, respecting standards in all areas of our operations. We have adopted a system of values which is founded on respect for the needs of society and the natural environment.

THE FOUR PRIMARY VALUES UNDERLYING THE LOTOS GROUP'S CORPORATE SOCIAL RESPONSIBILITY ARE:



TRANSPARENCY

We undertake to comply with the most exacting environmental standards, remain committed to ethical and fair competition, and counteract the abuse of human rights



OPENNESS

We are open to changes, the world's needs and people's expectations



INNOVATIVENESS

We take an innovative approach to solving social and environmental issues; by acting in accordance with the principles of sustainable development, we achieve business benefits and gain competitive advantage on the market



RESPONSIBILITY

The underlying principle of our attitude towards mankind and its future, the environment, the home country and its international status

Employees

Management approach

Employees are the pillar of our organisation. We firmly believe that highly qualified, motivated and committed employees are essential for the entire Group, improving its efficiency and giving it a competitive advantage on the market. To attract the best candidates and retain the existing staff, we have in place a HR policy governing various aspects of the recruitment and employee management processes.

Our new employees are included in the **'Good start for beginners'** onboarding programme, helping them to learn about the Company's values and organisational culture under the supervision of experienced colleagues. The purpose is to facilitate their entry into the new work environment and integration with the team, as well as to reduce the stress involved in starting a new job.

The LOTOS Group employees are provided with a wide range of medical services. The Group takes care to protect their health and ensure safe and ergonomic conditions for their daily work.

High standards are also of paramount importance at the recruitment stage – transparent rules allow us to attract the best candidates (the LOTOS Group is a member of the Coalition for Friendly Recruitment).

Easy access to training and promotion opportunities, the possibility of reconciling professional duties with private and family life, as confirmed by the Top-Quality Human Resources Certificate issued by the Polish Human Resources Management Association (PSZK), as well as internal standards of protection against mobbing and discrimination increase loyalty towards the company, reduce employee turnover, and minimise the risk of loss of valuable employees.

For years now, we have been building an organisational culture that promotes innovativeness. Our employees have the opportunity to take part in the **'LOTOS Inspires' Innovation Support Programme**, as part of which the **'Turn an Idea into Reality'** competition allowing all employees to share their innovative ideas on how to enhance work efficiency is held. The purpose of the Programme is to develop products and services and to discover new business and organisational models.

The Collective Bargaining Agreement covers 97% of the Grupa LOTOS employees.



See our employee disclosures: Number of employees by gender, function, type of contract and region

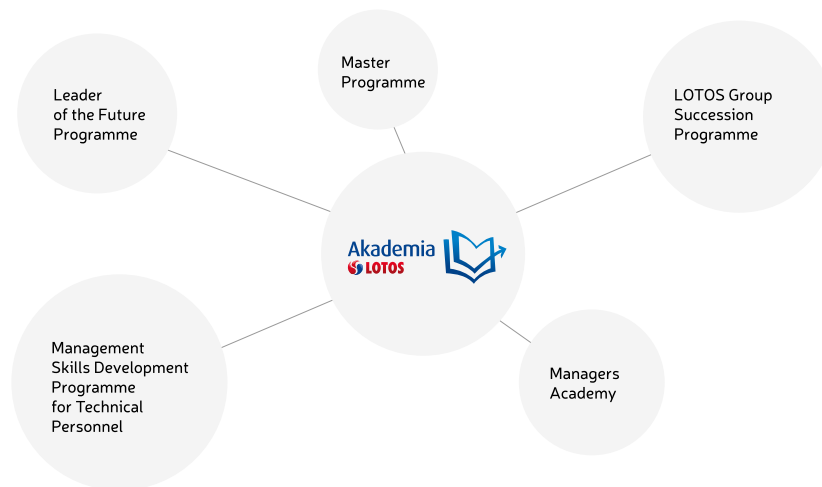
Training and education

Our training policy provides each employee with the opportunity to increase their competencies and consolidate their strengths. It helps us discover talent within the organisation and support our experts. Well-selected training raises the LOTOS Group employees' satisfaction and engagement.

We conduct satisfaction surveys to best suit training themes to the needs of our employees. We also take into account each individual's and organisational units' development plans as well as development needs of the Company. Our employees' achievements are summarised and discussed using the Periodic Employee Evaluation System (PEES).

In 2004, we launched LOTOS Academy, our training and development programme.

LOTOS ACADEMY INITIATES AND RUNS TALENT DEVELOPMENT PROGRAMMES TARGETED AT VARIOUS EMPLOYEE GROUPS, INCLUDING:



See our employee disclosures: Average number of training hours per year per employee

Diversity management

At the LOTOS Group, we value diversity – it is an integral part of both our business activities as well as HR policy and employee promotion. We place particular focus on equal treatment irrespective of gender, age, disability, health, race, nationality, ethnic origin, religion, religious denomination, irreligiousness, political beliefs, trade union membership, gender identity, family status, lifestyle etc. Our diversity policy allows us to maximise the employees’ potential and use their experience and skills.

We highly value the experience gained during many years of service. Employees aged 50 or more provide support to new hires as part of induction processes (shadowing and mentoring meetings). Such relationships bring numerous advantages and benefits for both parties.

See our employee disclosures: Supervisory Board members and workforce by gender, age, membership to a minority and by other diversity indicators

Occupational Health and Safety

The safety of our employees is a top priority for us. All LOTOS Group employees regularly take part in training and educational campaigns presenting potential risks at the workplace.

THE KEY ONES INCLUDE:

- ✓ stress management training,
- ✓ initiatives focused on:
 - ✓ healthy eating habits,
 - ✓ quitting smoking,
 - ✓ safety when handling heavy objects,
 - ✓ physical exercise and activity,
 - ✓ office ergonomics,
 - ✓ organisation of work at the workstation, safe use of chemicals,
 - ✓ noise protection.

Safety at work and health protection take precedence in our business. Our key principle states that 'no job is too important or urgent that it cannot be done safely'. We attach particular importance to maintaining high safety standards, minimising potential risks, and raise employee awareness regarding safe working culture.

To improve safety at work, we have formulated a set of golden OHS rules to be followed by the LOTOS Group employees, based on applicable laws and internal regulations. The rules were defined following an analysis of risks and hazards which occurred over the last decade. They aim to reduce the risk of accidents and incidents posing threat to employees' life and health, set high occupational safety standards, and foster the right behaviour among employees.

In June 2018, an awareness campaign for employees using the intranet was held, featuring short films explaining each of the 'golden rules'.

GOLDEN RULES OF OCCUPATIONAL SAFETY FOR A LOTOS GROUP EMPLOYEE











In order to better familiarise the employees with occupational safety issues, an 'OHS Day' is organised at our Gdańsk refinery each year. During the event, which has been held nine times, employees receive free medical examinations and consultations, attend healthcare workshops, and participate in OHS competitions. During the 2018 OHS Day, employees took part in the First Run around the Refinery.

In 2018, our employees also participated in the 100-day Global Challenge competition designed to promote good physical activity and eating habits. This was also an excellent opportunity to strengthen relations within the team. The programme had 273 participants making up 39 teams. In total, they ran almost 290,000 km.

Over the previous year, we carried out a number of additional initiatives aimed at improving occupational safety and educating our employees in OHS matters.

THE MOST IMPORTANT INITIATIVES WERE:

-  OHS reviews conducted by the management;
-  tests of new protective clothing made with materials providing greater comfort than those currently in use (in terms of flexibility, summer thermal properties, and style). The test results will be used to analyse whether it is reasonable to replace the currently used clothing with new, more comfortable and offering better protective features;
-  e-learning OHS training for contractors, in five languages;
-  purchase of a fire training simulator for practical drills in the use of fire extinguishers and in fire fighting;
-  purchase of first-aid phantoms for educational purposes;
-  purchase of new protective footwear for employees (with anti-puncture insoles, anti-slip soles, lighter toecaps, etc.);
-  'Minute for Safety' – an initiative consisting in starting various meetings/training/briefings with the organiser's discussion of an OHS issue.








 See our OHS disclosures: Injury, occupational diseases, lost days and absenteeism rates and number of work-related fatalities by region

Employee volunteering



At the LOTOS Group, there are numerous socially engaged employees. It is for them that the Employee Volunteering Programme has been established, under which employees may apply for co-funding for their projects. In 2018, 12 projects received minigrants from the LOTOS Foundation and assistance from our employees reached **1,283** people. This was the second competition organised under the Employee Volunteering Programme at the LOTOS Group.

The projects carried out as part of the programme were very diverse. Our employees worked for hospice patients, the disabled, children, and local communities.

THE HIGHEST NUMBER OF OUR EMPLOYEES' PROJECTS WERE ADDRESSED TO CHILDREN:

-  **'Dynamic Parents'** – playground restoration,
-  **'Preschoolers' Parents'** – programming workshops,
-  **'LOTOS for Straszyn'** – creation of rest areas and corridor game zones at schools to make school breaks more attractive,
-  **'Together We Play'** – football training for children from the Ostaszewo area,
-  **'Tleniak'** – educating children and youth on safe use of firearms and related risks,
-  **'Children from Stogi'** – trips for youth to places of national memory,
-  **'Happy to Help'** – Children's Day event for preschoolers from Przejazdowo.

INITIATIVES ADDRESSED TO THE DISABLED INCLUDED:

-  **'Against the Odds'** – a space development project on the premises of the Mimo Wszystko (Against the Odds) Foundation to create a garden for the disabled.
-  **'Life Boat'** – one-day trip to the Hel peninsula and Władysławowo for students of Special School Complex No. 2 and members of the Łódź Ratunkowa (Life Boat) Association. Photos taken during the trip were displayed at the school's exhibition devoted to the 100th anniversary of Poland regaining independence.

We also supported the **'#Turn on Patriotism on for Independent Poland'**. This cross-generational project, with the youngest participant being a five-year old and the oldest one – 95 years old, adding up to a 100, was organised to celebrate 100 years of Poland's independence in 2018.

The LOTOS Group employees may also participate in sports and recreational programmes and events organised by **TKKF LOTOS** (LOTOS Physical Culture Promotion Association). The Association runs sports training programmes, such as the **LOTOS Running Team**, which combines the promotion of physical culture with the concept of employee volunteering: our runners participate in charity runs.

In 2018, **62 employees** of the LOTOS Group participated in employee volunteering initiatives, devoting to them a total of **331 hours**.

The environment

LOTOS's environmental impact

The scale of the LOTOS Group's operations places on the Group high responsibility for its impact on the environment and local communities living in the vicinity of our refinery and plants. In order to properly manage this impact and avoid potential risks, we have developed a set of environmental responsibility principles to follow in our day-to-day operations.

PRINCIPLES OF ENVIRONMENTAL RESPONSIBILITY

- First, we minimise the environmental impact of our company. In addition to fulfilling applicable legal requirements, we take proactive measures in managing environmental issues.
- Second, we apply our approach to environmental protection in transactions with our trading and business partners. We take responsibility for the environmental impact of the companies we work with. Our partners are only those entities which hold appropriate environmental permits and operate in compliance with the legal requirements on waste management and storage of hazardous substances.
- Third, we ensure compliance with environmental protection requirements at each step of our operations: starting from the day-to-day operation of our production units and applying the most environment-friendly technological solutions to rational use of natural resources. We prevent pollution already on the plant premises by complying with the most stringent environmental standards.

Another important aspect of our pro-environmental initiatives is raising the environmental awareness of our employees. Through internal communication and training, we familiarise our employees with environmental protection issues and their relevance in the context of the LOTOS Group's local and global operations.



[More about our approach to the environment](#)

Our strategy in view of climate change

The LOTOS Group is a dynamically growing business which carries out research on new, more eco-friendly energy solutions.

We focus on natural gas, whose low emission intensity makes it a widely used fuel at the LOTOS Group's plants. At our CHP plant, we have replaced fuel oil with natural gas, making it the main energy raw material in steam generation. It is also the main component of fuel gas at our refinery.


We also use natural gas as feedstock for hydrogen generation (previous, we used LPG and naphtha to produce hydrogen, both more emission intensive than natural gas). Thanks to these changes, we are able to maintain carbon dioxide emissions at a stable, low level.

Environmental management areas

Sustainable development is consistent with the LOTOS Group's strategy, and mitigating our environmental impact is our constant objective. We strive to deliberately manage environmental issues by reducing the consumption of energy, raw materials, feedstocks and materials, controlling and reducing gas emissions and waste and wastewater generation, and promoting biodiversity. As the LOTOS Group's operations affect various components of the ecosystem, we monitor and analyse our environmental impact on an ongoing basis.

Year after year, we have been reducing air emissions, and in the exploration and production segment we reduce waste volumes and improve water and wastewater management. Given its environmental aspect, energy management is equally important. We analyse energy consumption at each stage of the value chain, monitor the technical condition of our equipment, and identify and eliminate sources of energy losses. All these aspects are also considered when working on new investment projects.

We also take care to mitigate our impact on local communities. Despite the lack of any legal regulations binding on us in this respect, we reduced the odour nuisance of our wastewater treatment plant in Gdańsk (recirculation of treated wastewater and steam condensate, and flare gas recovery). During the refinery upgrade, we connected neighbouring towns and villages to the gas distribution network.

 See our environmental disclosures: The environment

LOTOS programmes supporting environmental protection

The protection of biodiversity of the Baltic Sea is very important for the LOTOS Group due to the coastal location of our refinery and the areas of high natural value located in the immediate vicinity of the Company's premises. In partnership with the Foundation for the Development of the Gdańsk University (FRUG) and the Marine Station of the Gdańsk University's Institute of Oceanography in Hel, we are implementing the **'Direction: Baltic'** project, which provides for a wide range of measures to protect the fauna and flora species on the verge of extinction in the Baltic Sea, including the extremely rare porpoises. As part of the programme, educational campaigns are organised to raise the environmental awareness of the local community and tourists visiting the Pomerania region.








The project features two live streamings: from the Seal Centre in Hel and from the falcon nest on the refinery's premises.

Society

Initiatives for local communities

Relations with local communities living in our impact areas are an important aspect of the LOTOS Group's social responsibility. We feel responsible for these communities and make every effort to address their social problems.

OUR INITIATIVES FOR LOCAL COMMUNITIES

-  Since 2004, the LOTOS Group and the Polish Ski Association have been running the National Ski Jumping Development Programme **'In Search for the Champion's Successors'**, which provides support to sports clubs where ski jumping and Nordic combined athletes practise. LOTOS Cup competitions are also organised as part of the programme.
-  Under the **'Football Future with LOTOS'** programme, young football players and coaches are able to hone their skills at Football Academy LG and one of the 14 football clubs. The LOTOS Group sponsors the purchase of sports equipment, football camps and sports scholarships for the most promising players and for children from disadvantaged backgrounds.
-  The **'LOTOS Safety Belt Champions'** programme teaches car passengers about safety principles, correct fastening of safety belts, and installation of safety seats for children. Primary school pupils in Jasto were also given lessons on safety rules.
-  Under the **'Talent with LOTOS'** programme, we educate teachers on how to improve their skills in working with talented students. After-school classes in mathematics, physics and IT, as well as competitions are organised. In addition, pupils receive mentorship as well as scholarships.
-  The **'Dynamic Seniors with Energy'** programme is addressed to 55+ people wanting to improve their physical fitness and health. In addition to weekly sports classes (15 weeks), the Municipality Senior Citizen Days were organised, featuring competitions and workshops. Seniors also had an opportunity to see a geriatrician and dietician and take various medical tests.
-  Since 2013, the LOTOS Group has been a patron of the **E(x)plory** project, the largest initiative in Poland to support talented youth in the implementation of innovative research projects and promote their achievements internationally. The project brings together young people, prominent scholars, start-ups and experienced businesses, non-governmental organisations, media, Polish schools and the best universities, large cities and small towns. Its aim is to promote science among children and young people.
-  We also completed educational programmes, such as **'Talent from Czechowice-Dziedzice, a Town of Fiery Enthusiasm'** and the **'We are looking for an IT Genius'** competition, run together with Wyższa Szkoła Biznesu – National Louis University in Nowy Sącz.

Together with Wyższa Szkoła Biznesu – National Louis University of Nowy Sącz, Grupa LOTOS inspired young people to develop through participation in the **IT Genius** project. The 'IT Genius' competition is a unique equal-opportunity programme for exceptionally talented youth, designed to popularise computer science and new technologies. It provides young people with an opportunity to demonstrate their exceptional skills and start a career in new technologies and industry.

Grupa LOTOS employees have repeatedly demonstrated that they have great hearts and are eager to help those in need. In 2018, we held a Christmas fair selling hand-made items created during the Occupational Therapy Workshops run by the **Gdańsk Archdiocese Caritas**. The proceeds were used to organise holiday and rehabilitation for disabled participants of the Occupational Therapy Workshops.

LOTOS Group employees prepared Christmas gifts for more than 30 children as part of the initiative of the Municipal Centre for Family Support in Gdańsk (Miejski Ośrodek Pomocy Rodzinie w Gdańsku). They also responded to an appeal from the 'Pod Parasolem' Social Committee, which requested help for the children under its care. Collections of warm clothes and winter footwear for the poor and needy, struggling financially and often homeless, were also organised as part of the 'Monciak Soup' and 'Chylonia Soup' initiatives.

Regional initiatives also included: Pre-schooler's Day at LOTOS service stations, the Noble Package, and support campaign for the Mławianka Mława junior football team.

Sponsorship activities

The LOTOS Group supports social initiatives and projects. Our sponsorship activities focus on sports, culture and art, as well as social and environmental initiatives carried out primarily in the counties and provinces where our plants are located, as well as at places where we conduct our trading activities, including our service stations.

IN 2018, WE IMPLEMENTED:

22

sports sponsorship projects

17

cultural sponsorship projects






14

social and environmental sponsorship projects



Sports sponsorship

IN 2018, WE CARRIED OUT 22 SPORTS SPONSORSHIP PROJECTS IN THE FOLLOWING AREAS:

-  Sponsorship of Poland's national football team (Polish Football Association), ski jumping and cross-country skiing teams (Polish Skiing Association), and Poland's largest cycling event (Tour de Pologne).
-  Sponsorship cooperation with the Pomeranian Hockey Club and the Academic Sports Association, and sponsorship of the Fight Exclusive Night gala event.
-  Motor rallying – collaboration with the LOTOS Rally Team, whose crew comprising Kajetan Kajetanowicz and Maciek Szczepaniak made their debut in the World Rally Championship (WRC).
-  Nationwide and regional projects – we lent our support to the following local initiatives: the LOTOS Stadion Letni Gdańsk facility, where we organised a Fan Zone during the football World Cup. Fan zones were also organised by LOTOS in Warsaw and Wrocław. We were also involved in speedway projects, including the Golden Helmet annual speedway event, Polish Pairs Speedway Championship, speedway matches featuring Poland's national speedway team (Poland vs Denmark, and Poland vs Sweden), 1st Round of Speedway Euro Championship.
-  Physical education of children and youth – we continued our involvement with sports projects with a social agenda, addressed to children and youth, focusing mainly on football ('Football Future with LOTOS'), winter sports ('In Search for the Champion's Successors'), as well as training young volleyball and basketball players by the Trefl Gdańsk sports club.



Culture sponsorship

KEY CULTURE SPONSORSHIP INITIATIVES UNDERTAKEN BY THE LOTOS GROUP IN 2018 INCLUDED:

- 
 Cooperation on the following projects: LOTOS Siesta Festival, Atelier Theatre, Theatre Summer – Sopot 2018, events organised at the Gdańsk Shakespeare Theatre, collaboration in the making of a documentary film 'Przyjaźń w cieniu Kremla. Jutro Ukraina' ('Friendship in the shadow of the Kremlin. Tomorrow – it will be Ukraine.').
- 
 LOTOS Jazz Festival, Jasło Days, Czechowice-Dziedzice Days, Autumn Theatre Days, International Festival of Carpathian Folklore, Summer with Jasło County Culture, and the Major Henryk Dobrzański 'Hubal' commemorative show jumping competition.
- 
 Initiatives related to the 100th anniversary of Poland's regaining independence. In 2018, we also supported a number of projects related to the 100th anniversary of Poland's regaining independence, including the Concert for Independent Poland, the National Tennis Day, and the 'Kamerdyner' film.

LOTOS Foundation

Since 2015, the LOTOS Foundation has been in charge of the LOTOS Group's charity policy. The Foundation's mission encompasses a wide range of social activities that make a positive contribution to social and natural environment.

THE LOTOS FOUNDATION PURSUES SOCIALLY RESPONSIBLE CAUSES RELATED TO:

- ✓ Health protection and promotion,
- ✓ Environmental protection, animal protection, and protection of natural heritage, with particular focus on conservation of the environment and natural values of the Baltic Sea,
- ✓ Science and education, development of technology, and innovation,
- ✓ Promotion of physical culture and sport, with particular focus on physical development of children and youth,
- ✓ Culture and arts, including support for initiatives aimed at protecting cultural heritage, with particular focus on cultural initiatives of value to the Baltic Sea region,
- ✓ Order and safety, with particular focus on public and road traffic safety,
- ✓ Social welfare, especially fostering equal opportunities among children, youth, people with disabilities and underprivileged, with particular focus on employees of the LOTOS Group and their families,
- ✓ Charitable activities,
- ✓ Corporate social responsibility and sustainable development,
- ✓ Sightseeing and leisure activities for children and youth,
- ✓ Promotion and organisation of volunteer work,
- ✓ Social and economic initiatives at a local level, including promotion of inter-sector cooperation and development of entrepreneurship,
- ✓ Preservation of national heritage and tradition, strengthening of national, civic and cultural awareness,
- ✓ Activities supporting the development of local communities,
- ✓ Support of rescue services and protection of people,
- ✓ Assistance to victims of catastrophes, natural disasters, military conflicts and wars in Poland and abroad,
- ✓ Securing technical facilities, devices and items of historical value connected with the oil and gas industry,
- ✓ Dissemination and promotion of history of the oil and gas industry,
- ✓ Creation of information- and experience-sharing platforms for individuals and institutions interested in the protection of apparatus, equipment and documents of the oil and gas industry,
- ✓ Care for the cultural heritage, support of culture, protection of Poland's historical objects related to the oil and gas industry, especially in the Province of Gdańsk.

In 2018, the LOTOS Foundation received 1,033 requests for donations. Following reviews, 130 projects received funding totalling PLN 6m in 2018.

The principal criterion taken into account in the selection of projects was their potential to ensure equal opportunities. The largest share went to sports projects aimed at supporting the physical development of children and youth, such as sports trips, as well as support for sports clubs.

The second largest amount of funding went to initiatives promoting science and education – 152 Jasto primary schools pupils and pre-schools participated in the fifth edition of the Jasto Science League with LOTOS, and 43 research, artistic, humanities, mathematics and natural science projects were carried out.

We also supported many cultural projects related to the protection of national heritage.

Financial support for medical treatment of our current and retired employees and their relatives was particularly important to us.

In addition, the LOTOS Foundation supported public service providers – we purchased equipment for several Volunteer Fire Brigades across Poland and, with the youngest in mind, we purchased two incubators and a USG probe used to anaesthetise the youngest patients of the Paediatric Cardiac Surgery Ward of the Gdańsk Zaspaspa hospital.

The donations granted in 2018 were consistent with the objectives provided for in LOTOS Foundation's Articles of Association.



LOTOS Group
Integrated Annual Report 2018

06. **GOVERNANCE**

Governance structure

Structure of the LOTOS Group

The LOTOS Group is composed of 18 direct subsidiaries, some of which are parents of their own groups. Grupa LOTOS S.A. is both the parent of the Group and an integrator of the key management and support functions. The LOTOS Group companies focus on exploration for, production of and refining hydrocarbons as well as trading in petroleum products and provision of services.

Management Board

The Management Board of Grupa LOTOS S.A. runs the affairs of the LOTOS Group and represents it in all business dealings and transactions, with the exception of any matters expressly reserved for the General Meeting or the Supervisory Board and those falling outside the ordinary course of business. Such matters are defined in the Rules of Procedure for the Management Board. Matters which do not require a resolution of the Management Board are decided individually by the President and Management Board members in line with the division of powers and responsibilities.

Pursuant to Management Board resolutions of March 1st 2018 and September 25th 2018, the Management Board's organisational structure changed after the closing of the following organisational units: Chief Strategy and Development Officer and Chief Refining Officer, and establishing the following organisational units and divisions: Vice President of the Management Board, Chief Financial Officer, Vice President of the Management Board, Corporate Affairs, and Vice President of the Management Board, Chief Refining and Marketing Officer, who, together with the President of the Grupa LOTOS S.A. Management Board, manage the Company's business.

DIVISION OF POWERS AND RESPONSIBILITIES WITHIN THE MANAGEMENT BOARD OF GRUPA LOTOS S.A.

President of the Management Board	Vice President of the Management Board, Chief Investment and Innovation Officer	Vice President of the Management Board, Chief Refining and Marketing Officer	Vice President of the Management Board, Chief Financial Officer	Vice President of the Management Board, Corporate Affairs
Strategy and Development	Efficiency	Refining	Finance	Compliance
Critical Infrastructure and Defence	EFRA Project	Technology/Maintenance/Turnarounds	Investor Relations	Corporate Supervision
Management Board Office	Innovation	Refining Efficiency	Management Control	Human Resources
Data Security	Technology Development	Occupational Health and Safety	IT	Communication
Supply Chain Management	Project Management	Environmental Protection	Purchases	Marketing
Legal office		Commodity Trading	Planning and Reporting	Process Management
Enterprise Risk Management		Logistics		Organisation and Management System
Internal Security		Trade in Refinery Products		
Audit/Control				



More information on the powers and responsibilities of individual members of the Management Board and its Rules of Procedure

COMPOSITION OF THE GRUPA LOTOS MANAGEMENT BOARD AS AT DECEMBER 31ST 2018:

- **Mateusz Aleksander Bonca** – President of the Management Board
- **Jarostaw Kawula** – Vice President of the Management Board, Chief Refining and Marketing Officer
- **Patryk Demski** – Vice President of the Management Board, Chief Investment and Innovation Officer
- **Robert Sobków** – Vice President of the Management Board, Chief Financial Officer
- **Jarostaw Wittstock** – Vice President of the Management Board, Corporate Affairs



Current composition of the Grupa LOTOS Management Board


Supervisory Board

The Supervisory Board of Grupa LOTOS S.A. exercises ongoing supervision of the Company's operations. Its powers include issuing opinions (including submitting motions and proposals) on all matters related to the organisation's business, delegating its members to perform specific functions and appointing standing or ad hoc committees to supervise particular areas of the Group's operations. Grupa LOTOS has three standing committees: the Audit Committee, the Strategy and Development Committee, and the Organisation and Management Committee, which act as advisory, support and consultative bodies.

In accordance with the applicable laws, the Supervisory Board selects an auditor and recommends it to the key companies of the Group to audit their financial statements.

COMPOSITION OF THE GRUPA LOTOS SUPERVISORY BOARD AS AT DECEMBER 31ST 2018:

- **Beata Kozłowska-Chyła** – Chairwoman
- **Piotr Ciach** – Deputy Chairman
- **Katarzyna Lewandowska** – Secretary
- **Agnieszka Szklarczyk-Mierzwa** – Member
- **Dariusz Figura** – Member
- **Mariusz Golecki** – Member
- **Adam Lewandowski** – Member
- **Grzegorz Rybicki** – Member

 [More information on the Supervisory Board of Grupa LOTOS](#)

General Meeting

The powers and responsibilities of the General Meeting cover a range of matters as laid down in the Articles of Association of Grupa LOTOS. All matters are first presented for consideration by the Supervisory Board. The Rules of Procedure for Grupa LOTOS S.A. General Meetings specify the procedures for convening and cancelling General Meetings, the proceedings of the Meetings, holding elections to the Supervisory Board, as well as the rules of attendance and voting at General Meetings.

 [More information on the General Meetings of Grupa LOTOS](#)

Corporate governance

The LOTOS Group's Corporate Governance is a set of ethical standards and best practices we follow in our operations. These standards help us ensure a balance between the interests of all parties involved in the operation of our companies. They build the Group's value and strengthen its credibility in the eyes of our shareholders, thus enhancing the Group's competitiveness on the market.

THE OBJECTIVES OF CORPORATE GOVERNANCE AT THE LOTOS GROUP ARE AS FOLLOWS:

- ensuring transparency of the LOTOS Group's operations as a listed company,
- increasing trust in relations with stakeholders,
- increasing openness and accessibility for investors,
- consistent shareholder value creation.

We report all breaches of corporate governance principles, both incidental and long-term ones. Such information is published similarly to current reports, in two languages, on the Company's Investor Relations website.

 [Corporate Governance reports](#)

Ethics and anti-corruption

Ethical Conduct Programme

The Ethical Conduct Programme, which is the cornerstone of our activities, enables effective and ethical management of LOTOS Group's organisational culture. It builds value for our employees and external stakeholders.

THE ETHICAL CONDUCT PROGRAMME COMPRISES:



Code of Ethics



Ethics Officer



Channels for reporting breaches of the Code



Employee education



Easy communication

The Code of Ethics defines the system of ethical values and standards of conduct our employees are expected to uphold in the workplace and in relations with key stakeholder groups. Breaches of the Code of Ethics are reported to and handled by the Ethics Officer, who oversees compliance with the LOTOS Group Code of Ethics.

The Ethics Officer is available to each employee and trading partner of the LOTOS Group.


THE FOLLOWING METHODS CAN BE USED TO COMMUNICATE WITH THE ETHICS OFFICER:

- a meeting in person at a time convenient to the employee, arranged in advance by phone,
- telephone conversation with or voicemail to the Ethics Officer (phone: +48 58 308 80 70),
- by email: liniaetyki@grupaLOTOS.pl,
- online report form available at www.LOTOS.pl,
- by traditional mail.

We operate in compliance with the Code of Best Practice for WSE Listed Companies. Compliance with the Code helps us build the Company's ethical culture, which is vital for our relations with the market environment and for building our market position.



For more information on the LOTOS Group's Code of Ethics, go to

 [Code of Ethics for downloading](#)

Misconduct prevention

The Group has in place a Misconduct Prevention Policy, designed to enhance the safety of our business processes through management of potential misconduct risks. The misconduct prevention system helps us reduce misconduct incidents, mitigate their detrimental effects and mobilise resources to accelerate the organisation's return to normal operations. Our stakeholders can report any suspected irregularities and/or misconduct at the LOTOS Group to the Grupa LOTOS Internal Audit Office.

In our organisation, we do not tolerate any instances of misconduct, including corruption. In 2014, we signed the United Nations Global Compact's Call to Action on Anti-Corruption, a global initiative where businesses join forces to fight corruption in all its forms. Both members of the management boards and all employees of the 13 Group companies are familiar with the anti-corruption policies and procedures. Each new hire is provided with information on the Misconduct Prevention Policy and employee responsibility during training.

To reduce the risk of misconduct, corruption and other irregularities, we have taken a number of steps to monitor compliance with our anti-corruption standards on an ongoing basis. We also place emphasis on educating our employees. In 2018, annual anti-corruption training sessions were carried out at LOTOS Group companies. Raising the management's and all employees' awareness and involvement reduces the organisation's vulnerability to potential risks.

PROGRAMMES AND POLICIES ADOPTED BY THE LOTOS GROUP TO PREVENT AND IDENTIFY INSTANCES OF MISCONDUCT:

- Misconduct Risk Management Programme, designed to educate on identifying misconduct risks, provide information about liability for corrupt behaviour and offences, and implement risk mitigation mechanisms. It also plays a role in carrying out investigation proceedings in response to suspected misconduct reports.
- The LOTOS Group Misconduct Prevention Policy, containing the Management Board's position on misconduct and specifying steps to be taken in case of suspected misconduct as well as misconduct reporting channels.
- Risk Management Card, defining the manner in which risk is managed and monitored, as well as a Risk Mitigation Plan.
- CSR clause and anti-corruption clause, used in requests for proposals and agreements/contracts concluded by the LOTOS Group.
- Misconduct Risk Management Team, set up within the Internal Audit Office.
- The LOTOS Group Trading Partner Vetting Department.

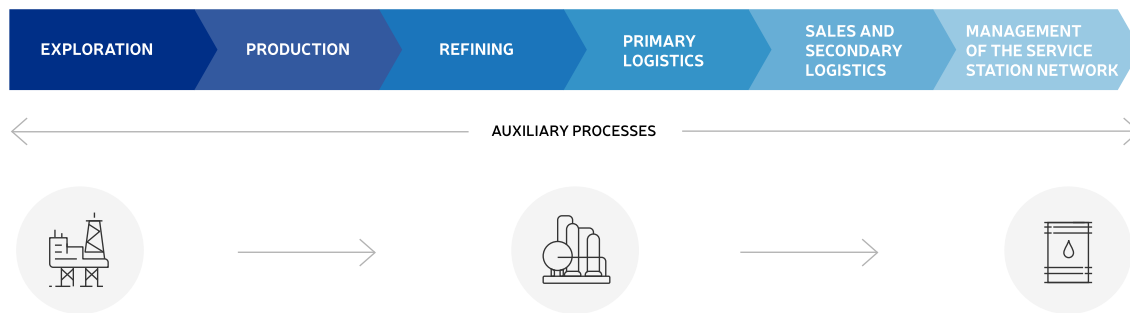
Misconduct prevention measures include the obligation for all Group companies to vet their trading partners in accordance with the procedure and to ensure compliance with the Misconduct Prevention Policy.

 [Misconduct Prevention Policy](#)

Ethical supply chain


The LOTOS Group's operations affect many social and environmental aspects, so we ensure that our supply chain, from exploration of deposits through production to sale of finished products and services, is sustainable.

SUPPLY CHAIN AT THE LOTOS GROUP



WE SUPPORT VALUE BUILDING THROUGHOUT THE LOTOS GROUP'S SUPPLY CHAIN BY:

- striving for efficient use of assets throughout the value chain,
- actively managing opportunities and risks,
- creating technological innovations to enhance competitiveness,
- improving processes to ensure the safety of people and the environment.

 See our business model and strategy for 2017-2022

We build value for the environment in the E&P, refining and marketing segments.

WE BUILD VALUE FOR THE ENVIRONMENT IN THE E&P SEGMENT BY:

- contributing to ensuring Poland's energy security,
- reducing negative environmental impact.

WE BUILD VALUE FOR THE ENVIRONMENT IN THE REFINING SEGMENT BY:

- ensuring safety in the surroundings of production plants,
- mitigating any negative environmental impact.

WE BUILD VALUE FOR THE ENVIRONMENT IN THE MARKETING SEGMENT BY:

- managing a network of 495 service stations,
- selling 11,689 thousand tonnes of products in 2018,
- achieving a 31.4% share in the domestic fuel market in 2018,
- developing products and services,
- introducing product and service innovations that meet customer needs.

We build an ethical supply chain

In building an ethical supply chain, we select our trading partners with care. We work only with companies and organisations which, like the LOTOS Group, comply with the principles of responsible business. We audit the implementation of standards and requirements that we impose on our suppliers, as well as their process improvement activities.

Human rights – impact on the value chain

At any stage of the supply chain, there are people who create, transport or sell the product. The LOTOS Group respects human rights. Therefore, it cooperates only with legally operating companies, and pursues business activities in an environment where human rights are governed by a legal system in force. The LOTOS Group's trading partners are obliged to comply with the generally accepted system of values, respect their employees, and respect their dignity. Observing these principles makes it possible to create an ethical supply chain.

The LOTOS Group seeks to ensure that all requests for proposals in the process of selecting a trading partner, and contracts concluded with both new and existing suppliers, contain CSR clauses regarding: OHS, rules and standards of conduct, ethics, absence of conflicts of interest, anti-corruption, environmental protection, respect for human rights, and social impacts. Inclusion of such clauses in contracts signed by the LOTOS Group companies is mandatory.

The LOTOS Group's CSR strategy in the supply chain has been developed based on the Corporate Human Rights Benchmark project methodology.

Risk management

The LOTOS Group is socially responsible and follows the principles of sustainable development. As part of its corporate risk management, it identifies risks in its business and undertakes measures to eliminate those related to the personnel, social matters, respect for human rights and the environment, and works to counteract corruption.

The LOTOS Group has implemented an Enterprise Risk Management (ERM) system to boost the effective implementation of its business strategies and processes. The above measures have been implemented as part of the Enterprise Risk Management Policy.

Risk management model

Mechanisms of the risk management model are embedded in the existing business processes. The model comprises three defence lines which are adjusted to the nature of particular activities and the possible impact of risks on the Group's performance.

RISK MANAGEMENT MODEL AT THE LOTOS GROUP

1st LINE OF DEFENCE Business

- ▶ Operational risk management
- ▶ Development of operational procedures
- ▶ Risk identification and assessment at the decision-making stage and periodic risk reviews in processes and projects

2nd LINE OF DEFENCE Risk, Finance, Compliance

- ▶ Alignment of risk management policies with the Group's strategy
- ▶ Linking risk management to the LOTOS Group's strategy
- ▶ Forecasting and shaping of the Group's risk profile

3rd LINE OF DEFENCE Internal audit

- ▶ Independent assessment of the effectiveness and adequacy of the risk management process at the LOTOS Group

Structure of the Enterprise Risk Management (ERM) system

The ERM system focuses on key risks and forecasts their impact on the company’s operations and performance, thus facilitating the development of pre-emptive measures that may help mitigate or exploit risks or their consequences. This key functionality of the system is currently being strengthened at the LOTOS Group.

ENTERPRISE RISK MANAGEMENT SYSTEM AT THE LOTOS GROUP

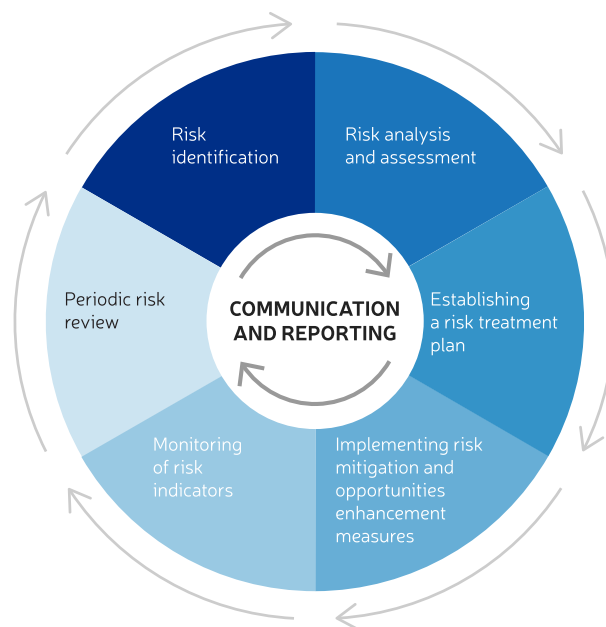


Risk management process

Management of opportunities and threats at the corporate level is carried out as part of a process involving:

- risk identification – risks are identified in the context of (annual) strategic and operational objectives pursued,
- risk analysis and assessment – the assessment is carried out in two time horizons: annual and long-term. The assessment criteria include both financial and reputational consequences, aggregated as the impact on non-financial parameters, such as the image, environment, and people,
- establishing a risk treatment plan – for each material risk, an operational management procedure as well as controls and protection measures are defined. For TOP RISKS, detailed risk management charts are prepared, which cover relevant risk mitigation and exploitation measures, as well as response plans to be followed in case of materialisation of such risk,
- implementation of risk mitigation and opportunities enhancement measures – performing tasks defined in risk treatment plans and monitoring their progress on an ongoing basis,
- monitoring of risk indicators – for top risks, key risk indicators (KRIs) are defined, which allow risk exposure levels and risk materialisation probability to be monitored in accordance with relevant rules,
- risk reviews – periodically (every six months), all identified risks are reviewed and re-assessed,
- communication and reporting – standards for communicating and reporting the results of risk management are in place at every stage of the process, The Management and Supervisory Boards receive regular, quarterly reports on existing risks to the organisation and on the effectiveness of risk mitigation or exploitation measures,
- the effectiveness and adequacy of the ERM are assessed and its future development directions are defined on an annual basis.

ENTERPRISE RISK MANAGEMENT PROCESS AT THE LOTOS GROUP



Risk management in view of climate change and new market requirements

The LOTOS Group is a listed company. Therefore, it maintains a compliance system ("Compliance System") which covers all its organisational units and subsidiaries. The Compliance System prevents and mitigates legal risks by ensuring compliance of the business with legal requirements.

The LOTOS Group analyses the potential impact of climate change megatrends by identifying opportunities and threats to its operations and growth prospects.

The key risks for Grupa LOTOS S.A. arising from climate change are the regulatory risks related to meeting the required levels for the National Indicative Target (NIT) and the National Reduction Target (NRT) in 2020 (8.5% for NIT and 6% for NRT).

Ensuring that fuels for internal combustion engines contain the proper amount of biocomponents (achievement of the NIT) is extremely difficult and entails very high costs for the entire industry considering technological capabilities (fuel quality requirements) and market capabilities (limited market of suppliers).

A failure to meet the required NIT level may result in the necessity to pay high fines. This is why the LOTOS Group and other key industry representatives have entered into legislative dialogue with the Ministry of Energy concerning the feasibility of meeting the legal requirements.

Similarly, meeting the National Reduction Target (reduction of life cycle greenhouse gas emissions) under the current regulatory regime is hindered by the necessity to incur high costs and, as in the case of the NIT, by a limited market of emission reduction mechanisms. The LOTOS Group analyses and uses all means of effectively reducing emissions and conducts a dialogue with the regulatory body on how to achieve the required NRT level.

Apart from the identified and addressed threats, the LOTOS Group also sees opportunities in climate change and macroeconomic trends, and is pursuing a growing number of projects consistent with the megatrends.

One such project is active entry into the electromobility market. Under the ongoing Blue Trail project, the first 12 electric vehicle charging points have been launched at LOTOS service stations on the route between the Tricity and Warsaw. More charging points are planned at expressways and motorways in the coming years. By the end of Q1 2020, a total of 38 new EV charging points are to be launched.

The year 2020 will see further environmental restrictions coming into force. The International Maritime Organisation (IMO) is introducing a new global limit on sulphur content in marine fuels, changing the current 3.5% to 0.5% m/m. Therefore, LOTOS has embarked on a project to increase the share of low-emission fuels through the use of LNG as marine fuel. Another response of the Group to the new regulations is the EFRA Project, which will help address the problem of heavy residue from crude oil processing. Heavy residue is currently being used for the production of asphalt, an important component in road construction, as well as high-sulphur heavy fuel oil, used primarily as marine fuel. It is a product with a negative margin, i.e., its price is lower than that of crude oil. Being environmentally unfriendly, it is difficult to sell now, and starting from 2020, its sale will become virtually impossible. EFRA will make it possible to sell approximately 1.1m tonnes of excellent quality fuels, mainly diesel oil, produced from the heavy residue.

In addition to its pure business-oriented projects, the LOTOS Group actively engages in promoting the use of hydrogen in transport. On the Group's initiative, the Hydrogen Technologies and Clean Energy Technologies Cluster has been established, with a mission to initiate efforts aimed at increasing the role of hydrogen technologies.

As part of its strategy, the Group seeks to become the leader of new generation fuels. In order to implement these plans, the Innovation Division initiates and coordinates the implementation of innovative projects. In September 2018, representatives of the LOTOS Group signed documents initiating joint R&D activities with the Warsaw University of Technology. The cooperation will involve the development of prototypes of selected low-carbon transport and energy storage equipment. In March 2019, a similar document was signed with the Gdańsk University of Technology.

Process safety

Security is an indisputable priority for the LOTOS Group. This applies to our employees, employees of our contractors, our customers, the environment, and the communities living close to our operation sites alike.

We follow best practices to maintain the highest level of security and integrity of technical infrastructure in all our companies.

THE MOST IMPORTANT OF THEM ARE AS FOLLOWS:

- At the LOTOS Group – zero-testing of materials and equipment, predictive and preventive maintenance, an inspection and surveillance testing programme, non-destructive testing (NDT) – testing of apparatus and pipeline wall thickness, RBI (Risk-Based Inspection) programme, regular plant overhauls, execution of annual preventive equipment inspection plans, corrosion monitoring, functional testing of security systems and process interlocks, equipment criticality management with respect to response times, as well as management of spare part stocks and scopes of preventive testing.
- Security monitoring is in place at LOTOS Asphalt, and any deviations in this area are addressed by means of corrective and preventive measures.
- LOTOS Infrastruktura is equipped with video monitoring of facilities, tank bottom leak detection, and monitoring of tank filling levels – overflow protection and containment tray monitoring.
- LOTOS Oil Sp. z o.o., on the other hand, keeps a record of measuring equipment which includes the required check, calibration or verification intervals. The plants are checked by employees on an ongoing basis. Any operational defects in production plants, such as leaks or damage to structural components of buildings, are reported and addressed on an ongoing basis. The raw materials used and the products obtained are, in most cases, classified as out-of-class in terms of flash point. As a result, the risk of ignition or explosion is low. In case of leaking tanks or plants, negative environmental impact has been minimised by placing the tanks in appropriately sized containment trays. Some of the tanks are additionally equipped with double bottoms with leak monitoring systems. The Company has in place Accident and Emergency Response Procedure OIL.47.01.00.00 to ensure efficient and effective crisis management in order to limit any impacts on human health and the environment and minimise financial losses.

Thanks to our multifaceted preventive measures, accidents at our facilities are extremely rare. We strive to identify any hazardous situations as early as possible.

In 2018, we recorded **32** process safety incidents.

- **24** of them were identified at an early stage (and classified as Tier 2), which enabled us to address them quickly and prevent them from escalating to Tier 1.
- Eight events were classified as Tier 1.



LOTOS Group
Integrated Annual Report 2018

07. **ABOUT THE REPORT**

X. The LOTOS Group Integrated Report

In 2010, we were the first company in Poland to introduce a new reporting model meeting the requirements of both financial reporting and sustainability reporting. So this is how our continuing adventure with integrated reporting began. We have been fully convinced since day one that transparency of our activities is crucial to our business growth. The process of collecting and publishing relevant data is additionally an important part of the LOTOS Group's business and CSR strategies, which both provide for active stakeholder dialogue.

This year, we have the pleasure of presenting the tenth jubilee LOTOS Group Integrated Annual Report, summarising the operations of the organisation as a whole throughout 2018. The publication, just like in the past years, is meant to provide our stakeholders with insights on the Group's way of functioning, its business model, strategy, value creation process, and to share our results and achievements from the perspective of all of our capitals.

The information given in the report covers the period from January 1st to December 31st 2018 and describes the situation at year-end (or a different period, as stated in the report, in isolated cases). Reporting takes place on an annual basis. The latest LOTOS Group Integrated Annual Report was published in 2018 and concerned the year 2017.

IN ADDITION TO GRUPA LOTOS S.A., THE 2018 REPORT COVERS ALL DIRECT SUBSIDIARIES:

- LOTOS Upstream Sp. z o.o.
- LOTOS Petrobaltic S.A.
- LOTOS Oil Sp. z o.o.
- LOTOS Asphalt Sp. z o.o.
- LOTOS Serwis Sp. z o.o.
- LOTOS Paliwa Sp. z o.o.
- LOTOS Lab Sp. z o.o.
- LOTOS Infrastruktura S.A.
- LOTOS Terminale S.A.
- LOTOS Kolej Sp. z o.o.
- LOTOS Ochrona Sp. z o.o.
- LOTOS Straż Sp. z o.o.

IN ADDITION, DUE TO THEIR PARTICULAR SIGNIFICANCE, NATURE OF OPERATIONS AND SCALE OF ENVIRONMENTAL IMPACT, REPORTING ON SOME DISCLOSURES INCLUDES SELECTED INDIRECT SUBSIDIARIES:

- AB LOTOS Geonafta
- LOTOS Biopaliwa Sp. z o.o.
- RCEkoenergia Sp. z o.o.
- Energobaltic Sp. z o.o.
- LOTOS Exploration and Production Norge AS.*
- SPV Baltic Sp. z o.o.

* The scope of data reporting for LOTOS E&P Norge AS is limited in relation to other companies because the company is the licensee, and therefore all environmental matters (and other operational matters) are reported by operators.

This year's LOTOS Group Integrated Annual Report has been prepared relying on the guidance of the International Integrated Reporting Council (IIRC), the Global Reporting Initiative (GRI) guidelines and the corresponding sector supplement for the fuel and gas industry "GRI 4 Sector Disclosures Oil & Gas". Until 2017, the company reported based on the GRI G4 Guidelines, whereas in the 2018 report, the core level of the current GRI Standards was used for the first time.

In this year's edition of the report, we again refer to the UN Sustainable Development Goals, pointing to the specific efforts we make to address global social and environmental challenges. The report also reflects the latest directions in the EU legislation on disclosure of non-financial and diversity information.

How the report was created?

The process of defining the contents of this year's report was based on three stages: identification, prioritisation and validation. Furthermore, when preparing the individual parts of the content, we sought to follow the four principles set out in the standard:

- the materiality of the information presented,
- including the LOTOS Group's stakeholders in the drafting process,
- demonstrating a broader sustainability context, and
- completeness of the content presented.

In the first stage of the process, we created a list of topics which are of utmost relevance to our areas of economic, social and environmental impact and, in parallel, are important for our stakeholders. Additionally, we analysed the trends and challenges of sustainable development and the strategic guidance of government agencies and the European Union in this context.

To establish which of the identified topics were the most important for LOTOS stakeholders, we conducted an online survey on a selected group of more than 200 LOTOS Group stakeholders and among the LOTOS Group Facebook followers (a post was published with a link to the survey).

Subsequently, we conducted in-depth interviews with members of the LOTOS Group Management Board to learn about their strategic perspectives and expectations from the report. The conclusions drawn from the surveys and meetings with CEOs allowed us to establish the final priorities for the topics covered by this year's report. The two key aspects taken into consideration were the materiality of a topic to the LOTOS Group's operations and impacts and its materiality for stakeholder assessment and decisions. These criteria enabled us to identify reporting aspects differing in terms of materiality for LOTOS and its environment, classified into three groups: low materiality, medium materiality, high materiality.

In the end, the aspects identified as the most important issues were validated, and thus the internal and environmental impacts of LOTOS were verified. A complete list of aspects classified into materiality groups is shown in the [Matryca Istotności](#). Subsequently, the aspects prescribed by the GRI standard and the corresponding sector supplement were assigned to each of them.

The actors involved in the process of identification and validation of material aspects for the report and drafting of the report content were: Grupa LOTOS S.A. Management Board, representatives of LOTOS Group Management, a team of dozens of employees representing key impact areas of the LOTOS Group across all companies and organisational units covered by reporting, and dozens of LOTOS's external stakeholder group representatives who participated in the online survey.

In the survey, aside from evaluating the materiality of the proposed topics from their own perspective, our stakeholders submitted their own proposals of issues which they believed should be addressed in the integrated report.

When preparing this year's report, we attempted to respond to most of the stakeholder proposals.

THESE INCLUDED:

- ✓ growth forecasts for the LOTOS Group in the coming years,
- ✓ impact on economic development in Poland,
- ✓ strategy towards climate change,
- ✓ R&D activities concerning alternative fuels, including advanced biofuels,
- ✓ energy intensity,
- ✓ role of the Ethics Officer,
- ✓ activities relating to circular economy.

We would like to thank all parties involved in the preparation and publication of this report for their valuable contribution to the entire process.

Contact information

For more information on the economic, social and environmental aspects of the LOTOS Group's operations please visit the Grupa LOTOS website at www.lotos.pl

Letters should be sent to the Company's headquarters:

Grupa LOTOS S.A.

ul. Elbląska 135
80-718 Gdańsk

- Questions concerning CSR should be emailed to Grupa LOTOS to: csr@grupalotos.pl
- Questions concerning investor relations should be emailed to Grupa LOTOS to: ir@grupalotos.pl
- Questions concerning the Company's media relations should be emailed to Grupa LOTOS to: media@grupalotos.pl

 For more contact details, please visit the Grupa LOTOS website

Materiality matrix

The matrix is based on findings of a stakeholder survey and materiality analysis conducted by BETTER/GOODBRAND consultants.

Very material – above 80% in the survey,

Material – below 80% and above 50% in the survey.

ASPECTS	ECONOMIC	ENVIRONMENTAL	SOCIAL
	MATERIAL	VERY MATERIAL	

LOTOS Group's financial performance in 2018	LOTOS business strategy and growth forecasts for the coming years	LOTOS Group's involvement in initiatives supporting economic growth in Poland	Risk management in view of market developments and climate change	Quantity and type of stocks and production of fuels obtained by LOTOS
			Environmental impact of the LOTOS Group's supply chain	Strategy towards climate change
LOTOS's environmental impact	Alternative fuels	Energy consumption	Water withdrawal and sources used in the business	Materials used in the business
			Content of harmful substances in fuels	Product and material reclamation policy
Impact on biodiversity and its protection	Greenhouse gas emissions	Effluent and waste management	Preventing corruption	Results of customer satisfaction surveys
Amount of fines	Employment scale and policy	Initiatives for local communities	Diversity management and equal opportunity	Preparedness for civil emergencies, including security procedures and integrity of resources
Ethics	Occupational health and safety practices	Staff training and education		
	Employee volunteering	LOTOS Foundation		
Health protection and customer safety				

GRI content index

 GRI INDICATORS
ON PAGE **+**

ORGANISATIONAL PROFILE

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals	Comments
102-1	Name of the organization	→ We are driven by sustainable development			
102-2	Activities, brands, products, and services	→ Products and services – versatile and green offering	7		
102-3	Location of headquarters	→ We are driven by sustainable development			
102-4	Location of operations	→ Modern and efficient oil production and refining processes			
102-5	Ownership and legal form	→ We are driven by sustainable development			
102-6	Markets served	→ Products and services – versatile and green offering			
102-7	Scale of the organization	→ Financial results and operational achievements → Products and services – versatile and green offering			
102-8	Information on employees and other workers	→ Number of employees by gender, function, type of contract and region	6		partly
102-9	Supply chain	→ Ethical supply chain			
102-10	Significant changes to the size, structure, form of ownership and supply chain in the				For information on changes, see the Directors' Report, page 134.

reporting period

102-11	Precautionary Principle or approach	→	Risk management
102-12	External initiatives	→	Membership of industry associations and CSR → Awards and distinctions
102-13	Membership of associations	→	Membership of industry associations and CSR

STRATEGY

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
102-14	Statement from senior decision-maker	→	Letter from the President of the Management Board	
102-15	Key impacts, risks, and opportunities	→ → → → → →	Value Creation Model LOTOS Group's macroeconomic environment in 2018 Changes in the fuel market in 2018 Our capitals Future challenges and global forecasts 'Stability and sustainable growth' strategy Risk management	partly

ETHICS AND INTEGRITY

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
102-16	Values, principles, standards, and norms of behavior	→ →	Our approach to sustainable development Corporate social responsibility values	10


→ Ethics and anti-corruption

102-17	Mechanisms for advice and concerns about ethics	→ Ethics and anti-corruption	10	
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CORPORATE GOVERNANCE

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
102-18	Governance structure	→ Governance structure		
102-22	Composition of the highest governance body and its committees responsible for individual functions	→ Governance structure		

STAKEHOLDER ENGAGEMENT







Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
102-40	List of stakeholder groups	→ People as top priority		
102-41	Collective bargaining agreements	→ Employees	3	
102-42	Identifying and selecting stakeholders	→ People as top priority		
102-43	The organisation's approach to stakeholder engagement	→ People as top priority		
102-44	Key topics and concerns raised	→ How the report was created? → People as top priority		
	Entities included in the consolidated financial	→ X. The LOTOS Group		

102-45	statements		Integrated Report	
102-46	Defining report content and topic Boundaries		How the report was created?	
102-47	List of material topics		Materiality matrix	
102-48	Effect of any restatements of information given in previous reports, the reasons for such restatements and their impact			No restatements in relation to 2017 were made in 2018.
102-49	Significant changes from previous reporting periods in the list of material topics and topic Boundaries		X. The LOTOS Group Integrated Report	
102-50	Reporting period		X. The LOTOS Group Integrated Report	
102-51	Date of most recent report		X. The LOTOS Group Integrated Report	
102-52	Reporting cycle		X. The LOTOS Group Integrated Report	
102-53	Contact point for questions regarding the report		Contact information	
102-54	Claims of reporting in accordance with the GRI Standards		X. The LOTOS Group Integrated Report	
102-55	GRI content index		GRI content index	
102-56	Policy and current practice for external assurance of the report			The report has not been subject to external assurance.

MANAGEMENT APPROACH

Indicator	Description	Link to the Report's Page	Global Compact	SDGS Goals Comments
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Principles

103-1	Explanation of the material topics and their Boundaries	→ How the report was created?	
103-2	The management approach and its components in the environmental, social, human rights, anti-corruption and HR areas, with an indication of material topics in each area	→ Efficiency in action – achievement of strategic objectives in 2018 → Employees → The environment → Society	  
103-3	The management approach and its components in the environmental, social, human rights, anti-corruption and HR areas, with an indication of material topics in each area	→ Efficiency in action – achievement of strategic objectives in 2018 → Employees → The environment → Society	  

Specific disclosures

ECONOMIC

ECONOMIC PERFORMANCE

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGs Goals Comments
201-1	Direct economic value generated and distributed	→ Financial results and operational achievements		 
201-2	Financial implications and other risks and opportunities due to climate change	→ Ethics and anti-corruption → Risk management	7	

INDIRECT ECONOMIC IMPACTS

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
203-2	Significant indirect economic impacts, including their scale	→ Financial results and operational achievements		

PROCUREMENT PRACTICES


Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
204-1	Percentage of the procurement budget used for significant locations of operation that is spent on suppliers local to that operation	→ Financial results and operational achievements		

ANTI-CORRUPTION

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
205-1	Operations assessed for risks related to corruption	→ Ethics and anti-corruption	10	

205-2	Communication and training about anti-corruption policies and procedures	10	
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RESOURCES

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
OG1	Volume and type of estimated proved reserves and production	 Modern and efficient oil production and refining processes		

ENVIRONMENTAL

MATERIALS

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
301-1	Materials used by weight or volume	 Materials used by weight or volume	8	
301-3	Percentage of reclaimed products and their packaging materials for each material category	 Percentage of reclaimed products and their packaging materials for each material category	8	

ENERGY







Global

Indicator	Description	Link to the Report's Page	Compact Principles	SDGS Goals Comments
302-1	Energy consumption within the organization	→ Energy consumption within the organisation	8	
302-3	Energy intensity	→ Energy intensity	8	








WATER

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
303-1	Total water withdrawal by source	→ Total water withdrawal by source	7, 8	
303-3	Percentage and total volume of water recycled and reused	→ Percentage and total volume of water recycled and reused		

BIODIVERSITY












Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	 <p>The environment Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas</p>		 
304-4	Total number of IUCN Red List species and national conservation list species with habitats in areas affected by the operations of the organisation, by level of extinction risk	 <p>Total number of IUCN Red List species and national conservation list species with habitats in areas affected by the operations of the organisation, by level of extinction risk</p>	8	 

EMISSIONS

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
305-1	Direct (Scope 1) GHG emissions	 <p>Direct GHG emissions</p>	7, 8	    
				

305-2	Indirect GHG emissions	→	Indirect GHG emissions	7, 8	
305-4	GHG emissions intensity	→	GHG emissions intensity	8	
305-6	Emissions of ozone-depleting substances to air	→	Emissions of ozone-depleting substances to air	7, 8	
305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	→	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	7, 8	

EFFLUENTS AND WASTE

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
306-1	Total water discharge by quality and destination	→ Total water discharge by quality and destination	8	   
306-2	Total weight of waste by type and disposal method	→ Total weight of waste by type and disposal method	8	  
306-3	Total number and total volume of recorded significant spills	→ Total number and total volume of recorded significant spills	8, 9	       
	Total weight for hazardous waste transported, exported or treated (within the	→ Total weight for hazardous waste transported, exported		

306-4	meaning of the Basel Convention – Annexes I, II, III and VIII) and percentage of hazardous waste shipped internationally	or treated (within the meaning of the Basel Convention – Annexes I, II, III and VIII) and percentage of hazardous waste shipped internationally	8	
OG5	Volume and disposal of formation or produced water	→ Volume and disposal of formation or produced water	8	
OG6	Volume of flared and vented hydrocarbon	→ Volume of flared and vented hydrocarbon	8	
OG7	Amount of drilling waste (drill mud and cuttings) and strategies for treatment and disposal	→ Amount of drilling waste (drill mud and cuttings) and strategies for treatment and disposal	8	

PRODUCTS AND SERVICES

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGs Goals Comments
OG8	Benzene, lead and sulfur content in fuels	→ Benzene, lead and sulfur content in fuels		

ENVIRONMENTAL COMPLIANCE


Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
307-1	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	→ Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	8	

SOCIAL







EMPLOYMENT

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
401-1	Total number and rate of new employee hires during the reporting period, by age group, gender and region	→ Employee turnover rate	6	  



OCCUPATIONAL HEALTH AND SAFETY

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
403-2	Hazard identification, risk assessment, and incident investigation	→ Injury, occupational diseases, lost days and absenteeism rates and number of work-related fatalities by region	6	 

TRAINING AND EDUCATION

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
404-1	Average hours of training per year per employee by gender, and by employee category	→ Average number of training hours per year per employee	6	  
404-2	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings			 <p>The training procedure and development clearly addresses access to diverse forms of development within the organisation, covering all employees regardless of career stages. Employees, regardless of their age, are able to improve their competence through training, studies and foreign language courses. This ensures that a competence level matching the job requirements is maintained throughout the period of service. The organisation does not need to implement any special programmes supporting the continuity of employment, as it offers non-discriminatory conditions enabling employees to complete the full career cycle.</p>
404-3	Percentage of total employees by gender and by employee category who received a regular performance and career development review	→ Percentage of employees being subject to regular job quality reviews and career development reviews	6	 



DIVERSITY AND EQUAL OPPORTUNITY

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
405-1	Percentage of individuals within the organisation's governance bodies and employees in each of the following diversity categories: gender; age group; minority groups and other disclosures of diversity	→ Skład ciał nadzorczych i kadry pracowniczej w podziale na kategorie według płci, wieku, przynależności do mniejszości oraz innych wskaźników różnorodności	6	 

LOCAL COMMUNITIES

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
413-1	Percentage of operations with local community engagement, impact assessments, and development programmes	→ Society	1	

ASSET INTEGRITY AND PROCESS SAFETY (OG)

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
OG13	Number of process safety events, by business activity	→ Process safety		 

CUSTOMER HEALTH AND SAFETY

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
416-1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement	 Products and services – versatile and green offering	7	



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08. **FINANCIAL PERFORMANCE**

HOMEPAGE / FINANCIAL PERFORMANCE /

Financial highlights - consolidated the LOTOS Group

FINANCIAL HIGHLIGHTS - CONSOLIDATED

the LOTOS Group

	PLNm		EURm	
	Year ended Dec 31 2018	Year ended Dec 31 2017	Year ended Dec 31 2018	Year ended Dec 31 2017
Revenue	30,121.7	24,185.6	7,059.4	5,697.8
Operating profit	2,981.3	2,228.5	698.7	525.0
Pre-tax profit	2,722.6	2,447.7	638.1	576.6
Net profit	1,587.4	1,671.8	372.0	393.9
Net profit attributable to owners of the Parent	1,587.4	1,671.8	372.0	393.9
Net profit attributable to non-controlling interests	-	-	-	-
Total comprehensive income/(loss)	1,515.9	2,286.5	355.3	538.7
Total comprehensive income/(loss) attributable to owners of the Parent	1,515.9	2,286.5	355.3	538.7
Total comprehensive income/(loss) attributable to non-controlling interests	-	-	-	-
Net cash from operating activities	2,327.5	3,126.5	545.5	736.6
Net cash from investing activities	(1,086.6)	(1,448.7)	(254.7)	(341.3)
Net cash from financing activities	(1,235.0)	(482.7)	(289.4)	(113.7)
Total net cash flow	5.9	1,195.1	1.4	281.6
Basic earnings per share (PLN/EUR)	8.59	9.04	2.01	2.13
Diluted earnings per share (PLN/EUR)	8.59	9.04	2.01	2.13

	PLNm		EURm	
	As at	As at	As at	As at

	Dec 31 2018	Dec 31 2017	Dec 31 2018	Dec 31 2017
Total assets	22,223.9	21,171.2	5,168.3	5,075.9
Equity attributable to owners of the Parent	12,034.7	10,712.4	2,798.8	2,568.4
Non-controlling interests	0.1	0.1	0.0	-
Total equity	12,034.8	10,712.5	2,798.8	2,568.4

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 2018	As at Dec 31 2017
1 EUR = 4.3000 PLN	1 EUR = 4.1709 PLN

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:

For the year ended Dec 31 2018	For the year ended Dec 31 2017
1 EUR = 4.2669 PLN	1 EUR = 4.2447 PLN

Consolidated statement of comprehensive income for 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME for 2018

	Note	2018	2017
Revenue	8	30,121.7	24,185.6
Cost of sales	9.1	(25,592.7)	(20,194.1)
Gross profit		4,529.0	3,991.5
Distribution costs	9.1	(1,355.6)	(1,252.3)
Administrative expenses	9.1	(422.1)	(450.0)
Other income	9.3	412.5	60.3
Other expenses	9.4	(182.5)	(121.0)
Operating profit		2,981.3	2,228.5
Finance income	9.5	41.1	450.0
Finance costs	9.6	(303.1)	(234.0)
Share in net profit/(loss) of equity-accounted joint ventures	14	3.3	3.2
Profit before tax		2,722.6	2,447.7
Corporate income tax	10.1	(1,135.2)	(775.9)
Net profit		1,587.4	1,671.8

Other comprehensive income/(loss)			
Items that may be reclassified to profit or loss:			
		(71.6)	614.8
Exchange differences on translating foreign operations		(8.6)	27.2
Cash flow hedges	20	(77.8)	725.4
Corporate income tax relating to cash flow hedges	10.1	14.8	(137.8)
Items that will not be reclassified to profit or loss:			
		0.1	(0.1)
Actuarial gain/(loss) under post-employment benefits		0.4	(1.4)
Corporate income tax relating to actuarial gain/(loss) under post-employment benefits	10.1	(0.3)	1.3
Other comprehensive income/(loss), net		(71.5)	614.7
Total comprehensive income/(loss)		1,515.9	2,286.5
Net profit attributable to:			
Owners of the Parent	11	1,587.4	1,671.8
Total comprehensive income/(loss) attributable to:			
Owners of the Parent		1,515.9	2,286.5
Net profit attributable to owners of the Parent per share (PLN)			
Weighted average number of shares (million)	11	184.9	184.9
- basic	11	8.59	9.04
- diluted	11	8.59	9.04

Consolidated statement of financial position for 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION for 2018

	Note	December 31st 2018	December 31st 2017
ASSETS			
Non-current assets			
Property, plant and equipment of the Downstream segment	13	8,742.4	8,761.5
Intangible assets of the Downstream segment	13	151.9	163.2
Property, plant and equipment of the Upstream segment	13	3,044.0	2,404.2
Intangible assets of the Upstream segment	13	338.0	304.8
Equity-accounted joint ventures	14	117.2	106.5
Deferred tax assets	10.3	149.6	415.4
Derivative financial instruments	23	9.1	2.7
Other non-current assets	15	525.8	303.8
Total non-current assets		13,078.0	12,462.1
Current assets			
Inventories	16	4,848.9	3,559.6
- including emergency stocks		2,886.9	2,098.7
Trade receivables	15	1,880.4	2,677.0
Current tax assets		2.4	1.3
Derivative financial instruments	23	15.3	161.8
Other current assets	15	457.6	388.7

Cash and cash equivalents	17	1,941.3	1,920.7
Total current assets		9,145.9	8,709.1
Total assets		22,223.9	21,171.2
EQUITY AND LIABILITIES			
Equity			
Share capital	18	184.9	184.9
Share premium	19	2,228.3	2,228.3
Cash flow hedging reserve	20	(288.2)	(225.2)
Retained earnings		9,826.1	8,432.2
Translation reserve		83.6	92.2
Equity attributable to owners of the Parent		12,034.7	10,712.4
Non-controlling interests		0.1	0.1
Total equity		12,034.8	10,712.5
Non-current liabilities			
Bank borrowings, non-bank borrowings, notes and finance lease liabilities	22	2,345.3	2,738.3
Derivative financial instruments	23	6.9	6.7
Deferred tax liabilities	10.3	324.9	277.7
Employee benefit obligations	24	170.4	169.3
Other liabilities and provisions	25	1,196.8	1,072.4
Total non-current liabilities		4,044.3	4,264.4
Current liabilities			
Bank borrowings, non-bank borrowings, notes and finance lease liabilities	22	1,538.7	1,687.6
Derivative financial instruments	23	47.4	72.7
Trade payables	25	1,913.7	2,201.7
Current tax payables		565.3	210.0

Employee benefit obligations	24	156.2	145.3
Other liabilities and provisions	25	1,923.5	1,877.0
Total current liabilities		6,144.8	6,194.3
Total liabilities		10,189.1	10,458.7
Total equity and liabilities		22,223.9	21,171.2

Consolidated statement of cash flows for 2018

CONSOLIDATED STATEMENT OF CASH FLOWS
for 2018, prepared using the indirect method

	Note	2018	2017
Cash flows from operating activities			
Net profit		1,587.4	1,671.8
Adjustments:		1,106.7	1,804.9
Income tax	10.1	1,135.2	775.9
Share in net profit/(loss) of equity-accounted joint ventures	14	(3.3)	(3.2)
Depreciation and amortisation	9.1	722.7	844.3
Foreign exchange (gains)/losses		190.5	72.3
Interest and dividends		133.5	146.2
(Gain)/loss from investing activities		8.0	8.6
Impairment losses on property, plant and equipment and other intangible assets	9.3; 9.4	(271.7)	83.6
Settlement and measurement of financial instruments	9.5; 9.6	7.2	(314.1)
Decrease/(Increase) in trade receivables		796.6	(425.3)
(Increase)/Decrease in other assets		(157.3)	160.1
(Increase) in inventories		(1,256.7)	(230.9)
(Decrease)/Increase in trade payables		(288.0)	483.5
Increase in other liabilities and provisions		77.6	194.8
Increase in employee benefit obligations		12.4	9.1
Income tax paid		(366.6)	(350.2)
Net cash from operating activities		2,327.5	3,126.5

Cash flows from investing activities

Dividends received - equity-accounted joint ventures		3.2	2.1
Dividends received from other entities		1.7	1.7
Interest received		6.2	11.3
Sale of property, plant and equipment		8.3	4.3
and other intangible assets			
Purchase of property, plant and equipment		(967.2)	(1,439.2)
and other intangible assets			
Cash contributions - equity-accounted joint ventures	14	(7.6)	(5.4)
Deposits		8.0	(8.0)
Security deposit (margin)		27.0	25.3
Funds for future costs of decommissioning of oil and gas		(226.3)	(42.9)
extraction facilities			
Settlement of derivative financial instruments		60.1	2.8
Other cash used in investing activities		-	(0.7)
Net cash from investing activities		(1,086.6)	(1,448.7)

Cash flows from financing activities

Proceeds from bank borrowings	22.1	366.6	925.8
Issue of notes	22.3	128.2	296.1
Repayment of bank borrowings	22.1	(1,109.5)	(1,223.4)
Repayment of non-bank borrowings	22.2	(12.8)	(12.8)
Redemption of notes	22.3	(214.8)	(160.2)
Interest paid		(224.3)	(203.3)
Dividends paid	12	(184.9)	(184.9)
Finance lease payments		(33.0)	(36.8)
Settlement of derivative financial instruments		49.5	116.8
Net cash from financing activities		(1,235.0)	(482.7)

Total net cash flow		5.9	1,195.1
Effect of exchange rate fluctuations on cash held		11.8	(5.3)
Change in net cash		17.7	1,189.8
Cash at beginning of period		1,920.6	730.8
Cash at end of period	17	1,938.3	1,920.6

Consolidated statement of changes in equity for 2018

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY for 2018

	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
January 1st 2018		184.9	2,228.3	(225.2)	8,432.2	92.2	10,712.4	0.1	10,712.5
Effect of changes in accounting policies	4	-	-	-	(8.7)	-	(8.7)	-	(8.7)
January 1st 2018		184.9	2,228.3	(225.2)	8,423.5	92.2	10,703.7	0.1	10,703.8
Net profit	11	-	-	-	1,587.4	-	1,587.4	-	1,587.4
Other comprehensive income/(loss), net		-	-	(63.0)	0.1	(8.6)	(71.5)	-	(71.5)
Total comprehensive income/(loss)		-	-	(63.0)	1,587.5	(8.6)	1,515.9	-	1,515.9
Dividend	12	-	-	-	(184.9)	-	(184.9)	-	(184.9)
December 31st 2018		184.9	2,228.3	(288.2)	9,826.1	83.6	12,034.7	0.1	12,034.8
January 1st 2017		184.9	2,228.3	(812.8)	6,945.4	65.0	8,610.8	0.1	8,610.9

Notes to the financial statements

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09. **NON-FINANCIAL DISCLOSURES**

EMPLOYEE INDICATORS

Injury, occupational diseases, lost days and absenteeism rates and number of work-related fatalities by region

ACCIDENTS AT THE LOTOS GROUP IN 2018

	Women	Men
Total number of accidents (incidents) at work	5	36
Number of fatal accidents (incidents)	0	0
Number of heavy accidents (incidents)	0	1
Number of light accidents (incidents)	5	35
Total number of injured persons in accidents		41

NUMBER OF ACCIDENTS BY CAUSE

Cause:	Number of accidents
Walking around	16
Operation of machines and devices	12
Driving or using means of transport	2
Repair and maintenance of machinery and equipment	5
Transshipment, storage, transport works	4
Other	2
Total	41

Security indicators for Grupa LOTOS S.A. in 2018

FREQUENCY RATE OF ACCIDENTS

(IR, calculated as the total number of people injured in accidents / employment x 1000)

Women	Men	Total
1.98	7.27	9.25

TOTAL NUMBER OF DAYS OF INCAPACITY FOR WORK RESULTING FROM ACCIDENTS AT WORK

(LDR, calculated as an indicator of the total number of lost days to the number of scheduled employees' working hours in the reporting period* 200,000)

Women	Men	Total
15.65	37.7	53.4

ACCIDENT SEVERITY RATE

(counted as the number of days of incapacity for work due to accidents / number of accidents)

Women	Men	Total
74	48.63	54.07

Employee turnover rate

Fluctuation of employees of the LOTOS Group in 2018

Work admissions in 2018:

NEW EMPLOYEES (BY GENDER)

(in persons)

Total number of new employees divided by gender:	Number of employees	Number of new employees	Percentage of new employees in the total number of LOTOS Group employees (by gender)	Share of new employees (by gender)
Women	1154	163	14%	24%
Men	3891	523	13%	76%

NEW EMPLOYEES (BY AGE)

(in persons)

Total number of new employees divided by age:	Number of new employees in every age group	Share of new employees (by age) in the total number of new employees
<30	251	37%
30–50	341	50%
>50	94	14%

Discharges in 2018:

EMPLOYEE DISCHARGES BY GENDER

(in persons)

Total number of discharges divided by:	Number of employees	Number of discharges divided by gender in the total number of discharges	Percentage of discharges (by gender)
Women	1 154	125	11%
Men	3 891	388	10%
Total	5 045	513	10%

EMPLOYEE DISCHARGES BY AGE

(in persons)

Total number of discharges divided by:	Number of discharges divided by age in the total number of discharges	Percentage of discharges (by age)
<30	62	12%
30–50	236	46%
>50	215	42%
Total	513	

Average number of training hours per year per employee

AVERAGE NUMBER OF TRAINING HOURS PER YEAR PER EMPLOYEE

(by gender and type of position)

	Number of employees employed in the LOTOS Group	Total number of training hours	Average number of hours per employee
All employees	5 045	105 460	21
Women	1 154	25 085	22
Men	3 891	79 911	21

	Number of employees employed in the LOTOS Group*	Total number of training hours	Average number of hours per employee
Management	977	22 055	23
Other employees (below managerial position)	4 023	82 910	21

* Does not include data from AB LOTOS Geonafta.

Supervisory Board members and workforce by gender, age, membership to a minority and by other diversity indicators

Members of the Supervisory Board of Grupa LOTOS S.A. by age and gender

Supervisory Board		%
Total number of members	8	100%
Women	3	38%
Men	5	63%

Supervisory Board		%
Total number of members	8	100%
Under 30 years old	0	0%
Between 30-50	6	75%
Over 50	2	25%

Members of the Management Board of Grupa LOTOS S.A. by age and gender

Management Board		%
Total number of members	5	100%
Women	0	0%
Men	5	100%

Management Board		%
Total number of members	5	100%
Under 30 years old	0	0%
Between 30-50	3	60%
Over 50	2	40%

Percentage of employees being subject to regular job quality reviews and career development reviews

PERCENTAGE OF EMPLOYEES BEING SUBJECT TO REGULAR JOB QUALITY REVIEWS AND CAREER DEVELOPMENT REVIEWS

(situation on 1.07.2018)

	Total number of employees	Employees reviewed	Percentage of employees reviewed
Women	1 125	917	81%
Men	3 779	3 233	85%
Total	4 904	4 150	84%

Number of employees by gender, function, type of contract and region

Employment in the LOTOS Group

TOTAL NUMBER OF EMPLOYEES BY GENDER

(actual headcount)

	2017	2018
Women	1 118	1 154
Men	3 779	3 891
Total	4 897	5 045

TOTAL NUMBER OF EMPLOYEES BY TYPE OF POSITION

(actual headcount)

	2017	2018
Blue collar positions	2 337	2 380
White collar positions	2 560	2 665
Total	4 897	5 045

NUMBER OF EMPLOYEES BY EMPLOYMENT TYPE

(actual headcount)

	2017			2018		
	Women	Men	Total	Women	Men	Total
Full-time	1 102	3 740	4 842	1 136	3 846	4 982
Part-time	16	39	55	18	45	63
Total	1 118	3 779	4 897	1 154	3 891	5 045

NUMBER OF EMPLOYEES AND ASSOCIATES BY EMPLOYMENT CONTRACT

(actual headcount)

	2017			2018		
	Women	Men	Total	Women	Men	Total
Fixed-term contracts	167	340	507	189	496	685
Contracts for indefinite term	951	3 439	4 390	965	3 395	4 360
Total	1 118	3 779	4 897	1 154	3 891	5 045

NUMBER OF EMPLOYEES AND ASSOCIATES

(actual headcount)

Number of employees and associates by:	2017			2018		
	Women	Men	Total	Women	Men	Total
Under civil-law contracts of mandate	35	38	73	60	58	118
Under civil-law contracts for specific task	0	2	2	1	4	5
Under internship contracts	1	2	3	1	7	8
Self-employed	2	30	32	1	29	30
Supervised employees and/or seasonal workers	4	22	26	1	23	24
Total	42	94	136	64	121	185

ENVIRONMENTAL INDICATORS

Materials used by weight or volume

Consumption of raw materials by the Grupa LOTOS S.A. refinery in the production process in 2018

OIL

Name	Volume [t]	Share [%]
REBCO oil	7 532 950	78%
Oil from offshore LPB concessions	201 434	2%
PGNiG oil	275 752	3%
LITHUANIAN oil	41 531	0%
Others	1 574 408	16%

OTHER FEEDSTOCKS FOR REFINERY PRODUCTION

Name	Volume [t]	Share [%]
Demineralised water	332 046.152	22.57%
FAME (fatty acid methyl ester)	256 559.302	17.44%
Diesel oils	328 370.5974	22.32%
ETBE (ethyl tertiary-butyl ether)	11 535.553	0.78%
Ethanol	62 283.746	4.23%
MTBE (methyl tertiary-butyl ether)	47 595.059	3.24%
Natural gas	425 928.2325	28.96%
Additives	2 800.852	0.19%
Other	3 859.148	0.26%
TOTAL	1 470 978.642	100.00%

Internal consumption of the refinery

INTERNAL CONSUMPTION OF THE REFINERY

Name	Volume [t]	Share [%]
Fuel gas	349 190	37.25%
Residual gas	481 433	51.36%
Fuel oil	951	0.10%
Other	105 742	11.28%
TOTAL	937 316	100.00%

Gasoline final products

FINAL PRODUCTS

Name	Volume [t]	Share [%]
Gasoline (including reformates)	1 633 487.243	14.48%
Naphtha	537 766.072	4.77%
Xylenes	90 942.754	0.81%
Diesel oil (diesel)	5 379 740.792	47.68%
Diesel oil (gasoil)	243 982.26	2.16%
Fuel oil	1 333 262.037	11.82%
MGO bunker fuel	78 636.071	0.70%
JET aviation fuel	568 330.272	5.04%
Bitumen components	773 448.313	6.86%
LPG	185 755.436	1.65%
Base oils	255 611.908	2.27%
Slack wax	50 078.612	0.44%
Plasticisers	29 296.867	0.26%
Sulphur	89 852.188	0.80%
Other (including fuel gas sold to L. Asphalt)	32 185.294	0.29%
TOTAL	11 282 376	100.00%

Energy consumption within the organisation

Energy consumption within the organization

[GJ / MWh]

	2017	2018
Non-renewable sources	24 023 443	26 731 241
Renewable sources	0	0
Energy purchased	6 371 580	7 075 770
Energy sold	588 758	754 346
Overall energy consumption in the organisation	29 806 266	33 052 666

In 2018, more energy was used because more oil was processed than in 2017.

NON-RENEWABLE SOURCES

[GJ / MWh]

2018	Fuel equivalent for usable energy ¹
Coal	341 186
Natural gas	10 421 045
Diesel oil	419 281
Fuel gas	11 944 740
Residual gas, special gas and reservoir gas	3 530 341
Heavy oil	0
Light fuel oil	49 539
Marine oil	0
LPG	25 110
TOTAL	26 731 241

ENERGY PURCHASED FROM OTHER ENTITIES

[GJ / MWh]

2018	Fuel equivalent for usable energy ¹
Electricity	6 951 326
Heat (including steam and cooling)	124 445
TOTAL	7 075 770

ENERGY SOLD TO OTHER ENTITIES

[GJ / MWh]

2018	Fuel equivalent for usable energy ¹
Electricity	261 600
Steam (water vapor)	277 358
Heat (in water)	215 387
Cooling energy	0
TOTAL	754 346

¹ The fuel equivalent for a selected group of fuels in a given period is the product of the quantity (t or Nm³) of the burned fuel and its calorific value (GJ/t (or Nm³)).

In the case of electricity, the consumption of energy purchased on the market was brought to the fuel equivalent using the average efficiency of generation of the electricity sources in Poland.

Energy intensity

ENERGY INTENSITY RATIO

Primary energy expressed in [GJ/t]

EII/ TBD RATIO	2017	2018
WWE1 [MJ/t]	2 876	2 828
WWE2 [MJ/t]	4 025	3 937

A drop in ratios compared to December 2017 due to a record amount of processed oil in 2018.

The EII coefficient determines the ratio of consumption of all types of energy (liquid fuels, gaseous fuels and electricity) to the amount of processed feed-WWE1 (or WWE2- to the number of components produced).

Total water withdrawal by source

TOTAL WATER WITHDRAWAL BY SOURCE BY LOTOS GROUP

[m³]

	2017	2018
Surface water consumption (own intakes)	5 998 534	5 840 945
Aquifer and groundwater consumption (own intakes)	362 643	360 579
Rainwater collected and used	0	0
Water purchased from municipal water supply system and from local suppliers	378 981	417 441
Treated wastewater from other organizations	464	54 158
TOTAL	6 740 622	6 673 123

Percentage and total volume of water recycled and reused

PERCENTAGE AND TOTAL VOLUME OF WATER RECYCLED AND REUSED BY LOTOS GROUP

TOTAL [m³]

	2017	2018
Total volume of water withdrawn by the organisation [m ³]	7 431 519	7 589 356
Volume of water recycled or reused [m ³]	2 554 957	2 821 847
Total volume of water recycled and reused as a percentage of the total water withdrawal [%]	25.60%	27.1%

Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas

OPERATIONAL SITES OWNED, LEASED, MANAGED IN, OR ADJACENT TO, PROTECTED AREAS AND AREAS OF HIGH BIODIVERSITY VALUE OUTSIDE PROTECTED AREAS

Protected area	Type of LOTOS location	Area in km ²	Characteristics of biodiversity species occurring in the area
Ptasi Raj Nature Reserve, Natura 2000 area "Ostoja w Ujście Wisły" (PLH220044)	Grupa LOTOS refinery	235 ha refinery, 1015 ha reserve	Mud and water birds - the most numerous group of birds are various species of ducks and ducks, as well as swans and white-fronted geese. The Spit (Mierzeja) is primarily a habitat for various species of gulls, terns and seedlings (including non-breeding Sandpiper), also cormorants, ducks, geese and swans. Oystercatcher and seedlings nest in the reserve.

Total number of IUCN Red List species and national conservation list species with habitats in areas affected by the operations of the organisation, by level of extinction risk

TOTAL NUMBER OF IUCN RED LIST SPECIES AND NATIONAL CONSERVATION LIST SPECIES WITH HABITATS IN AREAS AFFECTED BY OPERATIONS, BY LEVEL OF EXTINCTION RISK

IUCN (Red Book of the International Union for the Conservation of Nature and its Resources):	Polish Red Book of Strict protection under Animals:	Partial protection under the Act:	Partial protection under the Act:
EN - 1	CR - 4	123	61
NT - 6	EN - 2		
LC - 131	VU - 3		

Data from the nature inventory carried out in 2015 at the refinery and in its surroundings .

Direct GHG emissions

DIRECT GREENHOUSE GAS EMISSIONS BY LOTOS GROUP

TOTAL [tCO₂e]

Direct greenhouse gas emissions	2017	2018
Emissions associated with electricity production	64 780	27 738
Emissions associated with heat production	1173 839	1 319 241
Emissions from cooling and steam generation systems	0	0
Emissions from physical and chemical processing	585 486	609 878
Hydrofluorocarbons (HFC) emissions	0	0
Emissions related to transport of materials, products and waste	0	0

GREENHOUSE GAS EMISSIONS BY LOTOS GROUP

TOTAL [tCO₂e]

Greenhouse gas emissions *	2017	2018
Production of heat and electric energy	287 208	321 714
Refining production	1 481 571	1 631 027
Emission from extraction processes – burning of fossil fuels to meet the rigs' energy needs	32 399	33 551
And burning of waste gas in the burner head	50 540	45 550

* Applies to companies: Grupa LOTOS S.A., Energobaltic, LOTOS Asphalt, RCEkoenergia, LOTOS Petrobaltic.

Indirect GHG emissions

INDIRECT GREENHOUSE GASES EMISSIONS BY LOTOS GROUP

TOTAL

	2017	2018
Electricity purchased from outside Group [MWh]	672 320	704 780
Purchase of heat from outside Group [GJ]	9 446	6 248
Emissions from electricity purchased for the organisation's needs [Mg]	541 945	545 877
Emissions from steam and cooling energy purchased for the organisation's needs [Mg]	1 087	61

EMISSION FACTORS IN 2018

	Poland	Lithuania
CO ₂ emission factor from electricity production [kg CO ₂ /MWh]	778	96
CO ₂ emission faktor from heat production [kg CO ₂ /GJ]	115.088	

GHG emissions intensity

GREENHOUSE GAS (GHG) EMISSIONS INTENSITY BY LOTOS GROUP

CO ₂ emission intensity	LOTOS Group		Energobaltic		RCEkoenergia	
CO ₂ emissions volume	1 884 570	Mg	6 643	Mg	32 015	Mg
Value of the production	10 763 978	Mg	125 124	GJ	291 863	GJ
CO ₂ emissions intensity ratio (in tonnes of CO ₂ /mboe or other production factor)	0.175	Mg CO ₂ /Mg ropy	0.053	Mg CO ₂ /GJ	0.11	MgCO ₂ /GJ

Emissions of ozone-depleting substances to air

EMISSIONS OF OZONE-DEPLETING SUBSTANCES (ODS)

LOTOS companies that emit substances	HFC [KG]
LOTOS Oil	0.74
LOTOS Paliwa	312
Grupa LOTOS	21

Nitrogen oxides (NO_x), sulfur oxides (SO_x), and other significant air emissions

NITROGEN OXIDES (NO_x) OR SULPHUR OXIDES (SO_x) AND OTHER SIGNIFICANT AIR EMISSIONS

TOTAL [t]

	2017	2018
NO _x	936.31	981.05
SO _x	483.76	605.33
Persistent organic pollutants (POP)	0.00	0.00
Volatile organic compounds (VOC)	179.02	195.20
Hazardous air pollution (HAP)	0.00	0.00
Particulate matter (PM)	90.45	79.36
Other standard categories of air emissions	342.25	357.10

Total water discharge by quality and destination

TOTAL WASTEWATER DISCHARGE BY QUALITY AND DESTINATION AT THE LOTOS GROUP

TOTAL [m³]

Wastewater discharge destination

To groundwater	2 692
To surface water (lakes, rivers, etc.)	6 693 281
To municipal utilities outside the capital group	320 655
TOTAL	7 016 628

TOTAL VOLUME OF WASTEWATER TREATED BY THE ORGANIZATION

TOTAL [m³]

Wastewater treatment method

By the organization itself	6 656 908
By wastewater treatment plants	52 746
Total volume of treated wastewater	6 653 119

Total weight of waste by type and disposal method

WASTE BY TYPE AND DISPOSAL METHOD IN LOTOS GROUP

TOTAL [Mg]

Total weight of hazardous and non-hazardous waste by disposal method By disposal method	Hazardous waste	Waste other than hazardous
Reuse of waste	0.00	41.10
Recycling (including organic recycling, e.g. composting)	921.32	1 274.50
Recovery (including energy recovery)	5 296.40	8 461.27
Burning (or use as fuel)	1 255.21	8.83
Landfilling	0.00	109.37
Discharge to deep wells	0.00	0.00
On-site storage	0.04	0.03
Other	593.96	729.76
TOTAL	8 066.9	10 624.9

Total number and total volume of recorded significant spills

SIGNIFICANT SPILLS

Type/Cause	Leakage volume	The company affected by the leak	Comments
Fire of the 2080 gasoline pumping station on 20.05.2018	2.6 m ³	Grupa LOTOS	During the fire of the gasoline pumping station at the Gdańsk refinery, about 2.6 m ³ of this raw material was lost. Some were burned, which was associated with emissions to air, and some, together with fire extinguishing substances, flowed into the wastewater system and went to the refinery wastewater treatment plant. Wastewater contaminated with oil was properly treated, and the final concentrations of pollutants in wastewater discharged into the Martwa Wisła were well below the permissible values.
Leakage of oily water from the platform deck to the Baltic Sea while washing the deck - inadequate protection of deck dampers	0.3 m ³	LOTOS Petrobaltic	

It is worth noting that these were events on a relatively small scale. Removal of their effects lasted up to several hours in both cases. The specialist services acted quickly and did their work according to the procedures, ultimately ensuring that both spills had the least possible negative environmental impact.

Volume and disposal of formation or produced water

VOLUME AND DISPOSAL OF FORMATION OR PRODUCED WATER BY LOTOS GROUP

	Volume [m ³]	Share [%]
The total amount of produced water	241 515.61	100.0%
Reprocessed water	0.00	0.0%
Recycled water	0.00	0.0%
Re-injected water	241 279.81	99.9%
	Total volume of hydrocarbons discharged into the produced water	0.0%

Volume of flared and vented hydrocarbon

VOLUME OF FLARED AND VENTED HYDROCARBONS

Location	Volume of gases burned [thous. m ³]	Volume of gases released to the atmosphere [thous. m ³]
Poland	16 277	0
International waters, Poland's exclusive economic zone (LOTOS Petrobaltic platform and BB platform)	15 666	0
Lithuania	346	0
TOTAL	32 289	0

Amount of drilling waste (drill mud and cuttings) and strategies for treatment and disposal

THE AMOUNT OF PRODUCED DRILLING WASTES (DRILLING MUDS AND CUTTINGS) AND THE PROCEDURES OF HANDLING AND UTILIZATION

LOTOS companies, which the indicator applies to	Total amount of drilling muds and cuttings in tonnes	Disposal methods used
LOTOS Petrobaltic	140.42	Collected for recycling
LOTOS Geonafta	187.62	Collected for recycling

In 2018, companies from the upstream segment did not generate cuttings.

Benzene, lead and sulfur content in fuels

BENZENE, LEAD AND SULFUR CONTENT IN FUELS

	Unit of measure	Requirement	2017	2017	2018	2018
			- Quantity	- Quantity (average)	- Quantity	- Quantity (average)
Benzene (in gasolines)	% V/V	Max. 1.00	0.60÷1.00	0.81	0.46÷1.00	0.79
Sulphur (in gasolines)	mg/kg	Max. 10.0	0.1÷6.5	1.2	0.1÷4.9	1.1
Sulphur (in diesel oil)	mg/kg	Max. 10.0	2.0÷10.0	6.0	2.1÷10.0	5.8
Lead	mg/kg	Max. 5	<2.5	<2.5	<2.5	<2.5

Percentage of reclaimed products and their packaging materials for each material category

Percentage of products sold and their packaging materials that are reclaimed by category

LOTOS OIL

Data in Mg

Name	Lubricants	Hazardous packaging	Packaging	Lubricating preparations
Volume of products and packaging materials reclaimed during the reporting period	24 354.85	6.47	1 636.17	1 609.92
Volume of products sold during the reporting period*	28 652.76	8.088	2 682.238	2 639.209
Percentage of products sold and packaging materials that were reclaimed	85.0%	80.0%	61.0%	61.0%
Increase of reclaim compared to 2017	35.0%	50.0%	0.0%	31.0%

* For the calculation of the obtained percentage of reclaim products and packaging, the mass of introduced products/packaging in the year preceding the reporting year is taken into account. If you enter data from the reporting year, other than statutory percentages of waste subject to recovery will come out.

LOTOS PALIWA

Data in tones

Name	Plastic packaging	Aluminum packaging	Paper and board	Wooden packaging
Volume of products and packaging materials reclaimed during the reporting period	17.40	10	110	0.00%
Volume of products and packaging materials reclaimed during the reporting period	74.04	20	181	0.00%
Percentage of products sold and their packaging materials that is reclaimed	23.50%	51.00%	61.00%	0.00%

Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations

Total monetary value of significant fines	25 608
Total number of non-monetary sanctions	1
Cases brought through dispute resolution mechanism	LOTOS Petrobaltic - use of an agent for removal of spills on the basis of detergents without prior approval of the Maritime

Total environmental protection expenditures and investments

TOTAL ENVIRONMENTAL PROTECTION EXPENDITURES AND INVESTMENTS

[mln]

Expenses incurred by the LOTOS Group in 2018	The cost of waste disposal, emission treatment and remediation	The cost of prevention and environmental costs
Total PLN	5.86	37.6
Total EUR	0.22	0.01
Total PLN	6.8	37.7

GLOSSARY OF INDUSTRY TERMS

2

2C

Contingent resources. Quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations, but which are not currently considered to be commercially recoverable due to one or more contingencies.

2P

Proved and probable reserves (according to the SPE 2007 international classification).

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 (FUELS)

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.

BBL

Barrel of crude oil.

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.

BOE

Barrel of oil equivalent.

BOE/D

Barrels of oil equivalent per day.

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.

CIF

Cost, Insurance and Freight [named port of destination] is a set of regulations defining the terms of trade in maritime and inland waterway transport, with the main costs of transport paid by the seller.

CIP

Carriage and Insurance Paid To [named place of destination] is a set of regulations defining the terms of trade, with the main costs of transport and insurance paid by the seller.

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.

CRUDE OIL

Naturally occurring liquid, recovered from beneath Earth's surface. It consists mainly of hydrocarbons with various molecular weights and various chemical structure with minor quantities of organic compounds of nitrogen, oxygen, sulphur and some other elements. Crude oil is a main feedstock for oil refineries and is processed towards fuels and other hydrocarbon based products.

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

EBIT

Before depreciation and amortization, excluding one-off items and the LIFO effect (the difference arising from the application of the Last In First Out (LIFO) method and the weighted average cost method to account for inventory flows).

ETBE

Wyskokoktanowy biokomponent służący do produkcji benzyn. Produkowany jest z wykorzystaniem etanolu i izobutyleny (z ang. *Ethyl Tert-Butyl Ether*).

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.

EV

(Enterprise Value). Market capitalisation plus debt, non-controlling interests, and preferred shares, less cash and cash equivalents.

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

(Hydrodesulphurisation 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 (CRUDE OIL)

(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. currently 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.

SHALE GAS

Refers to natural gas that is trapped within shale formations. Shales are fine-grained sedimentary rocks that can be rich resources of petroleum and natural gas. Sedimentary rocks are rocks formed by the accumulation of sediments at the Earth's surface and within bodies of water. Common sedimentary rocks include sandstone, limestone, and shale.

SLACK WAX

A semi-product received in crude oil processing. It is used to produce wax.

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.

Z

ZASOBY WARUNKOWE

Ilości ropy naftowej, które według szacunków na dany dzień, mogą potencjalnie zostać pozyskane ze znanych akumulacji, ale wobec których dany projekt nie osiągnął jeszcze stopnia zaawansowania pozwalającego na komercyjne zagospodarowanie ze względu na jedno lub więcej uwarunkowań.

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.

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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

SDGS

Sustainable Development Goals - Include 17 goals, 169 targets and 304 indicators to achieve by 2030, to ensure better, healthier and safer living conditions, in the social, environmental and economic spheres. In 2015, those goals replaced the previous eight millennium goals.

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.

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.

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.



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