

Dispute between LOTOS Kolej Sp. z o.o. and Newag S.A.

In December 2017, Newag S.A. indicated its readiness to deliver five Griffin locomotives produced under lease contracts concluded on December 23rd 2015 with LOTOS Kolej Sp. z o.o. However, as permits to operate these locomotives were subject to certain restrictions, LOTOS Kolej Sp. z o.o. refused to accept them and called on Newag S.A. to provide permits enabling their operation without any restrictions. In connection with the company's refusal to accept the locomotives, on January 26th 2018 Newag S.A. terminated its contract with LOTOS Kolej Sp. z o.o. with immediate effect, arguing that the locomotives were in conformity with the contract and permitted to be used in the area of operation – but excluding the core network. In the Management Board's opinion, the termination was not effective and the risk of imposition of contractual penalties on LOTOS Kolej Sp. z o.o. was low, therefore no provisions were recognised consolidated financial statements. On February 28th 2019, a settlement was reached before a mediator, waiving all risks and counterclaims of the parties in connection with the termination of the lease contracts. The settlement supersedes the previous agreements and re-defines the rights and obligations of the parties.

In the twelve months ended December 31st 2018, there were no material settlements under court or other proceedings, save for those presented above.

29.2 Other contingent liabilities

In the period between the end of the previous financial year, i.e. December 31st 2017, and the date of issue of these financial statements, there were no changes in the Company's or its subsidiaries' other material contingent liabilities.

30. Related parties

30.1 Transactions with related entities in which the Group holds equity interests

Equity-accounted joint ventures	2018	2017	
Sales	635.5	431.4	
Purchases	26.7	-	
	Note	December 31st 2018	December 31st 2017
Receivables	15	23.1	34.5
Liabilities	25	5.2	-

In 2018 and 2017, material transactions were made by the Group with LOTOS-Air BP Polska Sp. z o.o. and involved mainly sale of aviation fuel. The aggregate value of the transactions made in 2018 was PLN 635.4m (2017 PLN 431.3m). As at December 31st 2018, the balance of outstanding receivables under these transactions was PLN 23.1m (December 31st 2017: PLN 34.5m).

In 2018, the Group also executed transactions with UAB Minijos Nafta, for a total amount of PLN 26.7m. The transactions involved purchase of crude oil. As at December 31st 2018, the balance of outstanding payables under those transactions was PLN 5.2m. In the comparative period, the Group did not enter into any material transactions with UAB Minijos Nafta.

For general information on joint ventures in which the Group holds interests, see Note 14.

30.2 Entity having control of the Group

As at December 31st 2018 and December 31st 2017, the State Treasury held a 53.19% interest in Grupa LOTOS S.A. In 2017 and 2018, no transactions were concluded between Grupa LOTOS S.A. and the State Treasury.

30.2.1 Transactions with related entities of which the State Treasury has control or joint control or on which the State Treasury has significant influence

In 2018 and 2017, the Group executed transactions with parties related to it through the State Treasury, the aggregate value of which was material. They were concluded on an arm's length basis in the course of the Group's day-to-day operations and involved mainly purchase and sale of fuels, purchase of crude oil and natural gas, and transport services.

	2018	2017
Sales	661.2	394.0
Purchases	1,922.7	1,587.5
	December 31st 2018	December 31st 2017
Receivables	47.4	82.9
Liabilities	202.8	263.4

In addition, the Group has liabilities under bank borrowings, non-bank borrowings, notes and finance leases towards banks and financial institutions of which the State Treasury has control or joint control or over which it exercises significant influence. These entities include PKO BP S.A., PEKAO S.A., Bank Gospodarstwa Krajowego and Agencja Rozwoju Przemysłu S.A.

	December 31st 2018	December 31st 2017
Bank borrowings	1,304.7	1,039.3
Non-bank borrowings	55.8	68.3
Notes	227.0	201.7
Finance lease liabilities	20.3	27.4
Total	1,607.8	1,336.7

30.3 Remuneration of members of the Management and Supervisory Boards, along with information on loans and other similar benefits granted to members of the management and supervisory staff

Remuneration paid to members of the Parent's Management and Supervisory Boards	2018	2017
Management Board		
Short-term employee benefits (salaries), including:	3.08	3.96
Mateusz Bonca	0.71	0.60
Piotr Ciach	0.12	-
Patryk Demski	0.37	-
Marcin Jastrzębski ⁽¹⁾	0.59	0.72
Jarosław Kawuła	0.69	0.61
Robert Sobków	0.35	-
Jarosław Wittstock	0.16	-
Mariusz Machajewski ⁽²⁾	0.09	0.73
Paweł Olechnowicz	-	0.30
Marek Sokołowski ⁽³⁾	-	0.28
Maciej Szozda ⁽³⁾	-	0.05
Zbigniew Paszkowicz ⁽³⁾	-	0.28
Robert Pietryszyn ⁽³⁾	-	0.13
Przemysław Marchlewicz ⁽⁴⁾	-	0.26
Management Board – subsidiaries ⁽⁵⁾		
Short-term employee benefits (salaries), including:	-	0.33
Mateusz Bonca	-	0.09
Marcin Jastrzębski	-	0.09
Mariusz Machajewski	-	0.15
Supervisory Board		
Short-term employee benefits (salaries), including:	0.60	0.56
Piotr Ciach	0.07	0.08
Dariusz Figura	0.08	0.08
Mariusz Golecki	0.08	0.08
Beata Kozłowska-Chyła	0.10	0.09
Katarzyna Lewandowska	0.08	0.08
Adam Lewandowski	0.08	0.07
Grzegorz Rybicki	0.03	-
Agnieszka Szklarzyk-Mierzwa	0.08	0.08
Katarzyna Lewandowska	-	0.00
Maria Sierpińska	-	0.00
Total ⁽⁶⁾	3.68	4.85

Other employee benefits	December 31st 2018	December 31st 2017
Management Board		
Current liabilities under annual bonus ⁽⁷⁾ , including:	3.26⁽⁸⁾	1.40
Mateusz Bonca	0.90	0.43
Patryk Demski	0.30	-
Marcin Jastrzębski	0.58	0.46
Jarosław Kawuła	1.01	0.51
Robert Sobków	0.30	-
Jarosław Wittstock	0.17	-
Total	3.26	1.40

⁽¹⁾ Including a severance pay for termination of the employment contract and non-compete compensation paid in 2018.

⁽²⁾ In 2018, non-compete compensation was paid; the 2017 amount includes the severance pay paid for termination of the employment contract and the non-compete compensation.

⁽³⁾ In 2017, non-compete compensation paid.

⁽⁴⁾ Including a severance pay for termination of the employment contract and non-compete compensation paid in 2017.

⁽⁵⁾ Remuneration paid to members of the Parent's Management Board for serving on corporate bodies of direct and indirect subsidiaries.

⁽⁶⁾ The amount reflects changes in the composition of the Company's Management and Supervisory Boards.

⁽⁷⁾ Pursuant to the Act on Rules of Remunerating Persons Who Manage Certain Companies. Payment of the annual bonus is conditional on the achievement of targets set for the Management Board members and consent of the Supervisory Board.

⁽⁸⁾ The amount includes outstanding current liabilities under annual bonus for 2017.

In 2018 and 2017, the Group did not enter into any material transactions with any Management Board or Supervisory Board members, did not advance any loans, make any advance payments, issue any guarantees to or conclude any other agreements with any Management Board or Supervisory Board member which would be advanced, made, issued or concluded otherwise than on an arm's length basis or which would have material bearing on these financial statements.

Based on representations submitted by members of the Parent's Management and Supervisory Boards, in 2018 and 2017 Grupa LOTOS S.A. was not aware of any transactions concluded with the Company or other LOTOS Group companies by the spouses, relatives, or relatives by affinity in the direct line up to the second degree, of members of the Management and Supervisory Boards or persons related to them through guardianship or adoption or other persons with whom they have personal relationships.

30.4 Remuneration paid or payable to other members of key management staff

Remuneration paid to members of key management staff (other than members of the Grupa LOTOS Management Board)	2018	2017
Short-term employee benefits (salaries), including:	42.8	46.0
- annual bonus paid	5.0 ⁽¹⁾	7.1 ⁽²⁾
- length-of-service award paid	0.7	0.5
Other employee benefits	December 31st 2018	December 31st 2017
Post-employment benefits, length-of-service awards and other benefits	6.4	11.0
Current liabilities under annual bonus	12.9	10.5
Total	19.3	21.5

⁽¹⁾ Remuneration paid in 2018 on account of the annual bonus for 2017.

⁽²⁾ Remuneration paid in 2017 on account of the annual bonus for 2016.

In 2018, the Group did not advance any loans to its key management staff. In the comparative period, the Group did not advance any material loans to its key management staff.

30.5 Transactions with related parties of members of the Management Board and the Supervisory Board

In 2018, the Group executed transactions with parties related to it through members of the Parent's Management Board and Supervisory Board. The transactions were connected with the Group's day-to-day operations and mainly involved purchase of civil liability insurance policies and property insurance policies for PLN 29.4m (2017: PLN 26.4m). As at December 31st 2018, unsettled transactions with parties related to the Group through members of the Management and Supervisory Boards totalled PLN 3.7m (December 31st 2017: PLN 0.9m).

Moreover, as at December 31st 2018, the Group disclosed liabilities under a loan in the amount of PLN 4.3m.

All transactions with parties related to the Group through members of the Management Board and the Supervisory Board were executed on an arm's length basis.

AUTHORISATION OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR ISSUE

These consolidated financial statements were authorised for issue by the Management Board on March 11th 2019.

Signatures of the Management Board members and the person responsible for keeping the accounting books of Grupa LOTOS S.A.

President of the Management Board

Mateusz Aleksander Bonca

Vice President of the Management Board,
Chief Investment and Innovation Officer

Patryk Demski

Vice President of the Management Board,
Chief Refining and Marketing Officer

Jarosław Kawula

Vice President of the Management Board,
Corporate Affairs

Jarosław Wittstock

Vice President of the Management Board,
Chief Financial Officer

Robert Sobków

Finance and Accounting Centre Director -
Chief Accountant

Tomasz Południewski