

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.