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.