

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.