



LOTOS Group  
Integrated Annual Report 2018

## 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.

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### 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](#)