

LOTOS Group Integrated Annual Report 2018

O7. ABOUT THE REPORT



X. The LOTOS Group Integrated Report

In 2010, we were the first company in Poland to introduce a new reporting model meeting the requirements of both financial reporting and sustainability reporting. So this is how our continuing adventure with integrated reporting began. We have been fully convinced since day one that transparency of our activities is crucial to our business growth. The process of collecting and publishing relevant data is additionally an important part of the LOTOS Group's business and CSR strategies, which both provide for active stakeholder dialogue.

This year, we have the pleasure of presenting the tenth jubilee LOTOS Group Integrated Annual Report, summarising the operations of the organisation as a whole throughout 2018. The publication, just like in the past years, is meant to provide our stakeholders with insights on the Group's way of functioning, its business model, strategy, value creation process, and to share our results and achievements from the perspective of all of our capitals.

The information given in the report covers the period from January 1st to December 31st 2018 and describes the situation at year-end (or a different period, as stated in the report, in isolated cases). Reporting takes place on an annual basis. The latest LOTOS Group Integrated Annual Report was published in 2018 and concerned the year 2017.

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IN ADDITION TO GRUPA LOTOS S.A., THE 2018 REPORT COVERS ALL DIRECT SUBSIDIARIES:

→ LOTOS Upstream Sp. z o.o.
 → LOTOS Petrobaltic S.A.
 → LOTOS Oil Sp. z o.o.
 → LOTOS Asfalt Sp. z o.o.
 → LOTOS Serwis Sp. z o.o.
 → LOTOS Paliwa Sp. z o.o.
 → LOTOS Lab Sp. z o.o.
 → LOTOS Infrastruktura S.A.
 → LOTOS Terminale S.A.
 → LOTOS Kolej Sp. z o.o.
 → LOTOS Ochrona Sp. z o.o.
 → LOTOS Straż Sp. z o.o.

IN ADDITION, DUE TO THEIR PARTICULAR SIGNIFICANCE, NATURE OF OPERATIONS AND SCALE OF ENVIRONMENTAL IMPACT, REPORTING ON SOME DISCLOSURES INCLUDES SELECTED INDIRECT SUBSIDIARIES:



^{*} The scope of data reporting for LOTOS E&P Norge AS is limited in relation to other companies because the company is the licensee, and therefore all environmental matters (and other operational matters) are reported by operators.

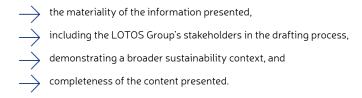
This year's LOTOS Group Integrated Annual Report has been prepared relying on the guidance of the International Integrated Reporting Council (IIRC), the Global Reporting Initiative (GRI) guidelines and the corresponding sector supplement for the fuel and gas industry "GRI 4 Sector Disclosures Oil & Gas". Until 2017, the company reported based on the GRI G4 Guidelines, whereas in the 2018 report, the core level of the current GRI Standards was used for the first time.

In this year's edition of the report, we again refer to the UN Sustainable Development Goals, pointing to the specific efforts we make to address global social and environmental challenges. The report also reflects the latest directions in the EU legislation on disclosure of non-financial and diversity information.



How the report was created?

The process of defining the contents of this year's report was based on three stages: identification, prioritisation and validation. Furthermore, when preparing the individual parts of the content, we sought to follow the four principles set out in the standard:



In the first stage of the process, we created a list of topics which are of utmost relevance to our areas of economic, social and environmental impact and, in parallel, are important for our stakeholders. Additionally, we analysed the trends and challenges of sustainable development and the strategic guidance of government agencies and the European Union in this context.

To establish which of the identified topics were the most important for LOTOS stakeholders, we conducted an online survey on a selected group of more than 200 LOTOS Group stakeholders and among the LOTOS Group Facebook followers (a post was published with a link to the survey).

Subsequently, we conducted in-depth interviews with members of the LOTOS Group Management Board to learn about their strategic perspectives and expectations from the report. The conclusions drawn from the surveys and meetings with CEOs allowed us to establish the final priorities for the topics covered by this year's report. The two key aspects taken into consideration were the materiality of a topic to the LOTOS Group's operations and impacts and its materiality for stakeholder assessment and decisions. These criteria enabled us to identify reporting aspects differing in terms of materiality for LOTOS and its environment, classified into three groups: low materiality, medium materiality, high materiality.

In the end, the aspects identified as the most important issues were validated, and thus the internal and environmental impacts of LOTOS were verified. A complete list of aspects classified into materiality groups is shown in the Matryca Istotności. Subsequently, the aspects prescribed by the GRI standard and the corresponding sector supplement were assigned to each of them.

The actors involved in the process of identification and validation of material aspects for the report and drafting of the report content were: Grupa LOTOS S.A. Management Board, representatives of LOTOS Group Management, a team of dozens of employees representing key impact areas of the LOTOS Group across all companies and organisational units covered by reporting, and dozens of LOTOS's external stakeholder group representatives who participated in the online survey.

In the survey, aside from evaluating the materiality of the proposed topics from their own perspective, our stakeholders submitted their own proposals of issues which they believed should be addressed in the integrated report.

When preparing this year's report, we attempted to respond to most of the stakeholder proposals.

THESE INCLUDED:



- growth forecasts for the LOTOS Group in the coming years,
- impact on economic development in Poland,
- strategy towards climate change,
- R&D activities concerning alternative fuels, including advanced biofuels,
- energy intensity,
- role of the Ethics Officer,
- activities relating to circular economy.

We would like to thank all parties involved in the preparation and publication of this report for their valuable contribution to the entire process.



Contact information

For more information on the economic, social and environmental aspects of the LOTOS Group's operations please visit the Grupa LOTOS website at www.lotos.pl

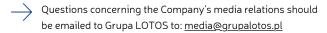
Letters should be sent to the Company's headquarters:

Grupa LOTOS S.A.

ul. Elbląska 135 80-718 Gdańsk











Materiality matrix

The matrix is based on findings of a stakeholder survey and materiality analysis conducted by BETTER/GOODBRAND consultants.

Very material – above 80% in the survey,

Material – below 80% and above 50% in the survey.

ASPECTS	ECONOMIC	ENVIRONMENTAL SO	CIAL		
MATERIALITY	MATERIAL	VERY MATERIAL			
LOTOS Group' performance i		LOTOS business strategy and growth forecasts for the coming years	LOTOS Group's involvement in initiatives supporting economic growth in Poland	Risk management in view of market developments and climate change	Quantity and type of stocks and production of fuels obtained by LOTOS
LOTOS's envir	ronmental impact	Alternative fuels	Energy consumption	Environmental impact of the LOTOS Group's supply chain	Strategy towards climate change
				Water withdrawal and sources used in the business	Materials used in the business
Impact on biodiversity and its protection		Greenhouse gas emissions	Effluent and waste management	Content of harmful substances in fuels	
Amount of fine	es	Employment scale and policy	Initiatives for local communities		Product and material reclamation policy
				Preventing corruption	Results of customer satisfaction surveys
Ethics		Occupational health and safety practices	Staff training and education		
				Diversity management and equal opportunity	Preparedness for civil emergencies, including security procedures and integrity of
Health protect safety	tion and customer	Employee volunteering	LOTOS Foundation		resources



GRI content index

GRI INDICATORS H

ORGANISATIONAL PROFILE

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
102-1	Name of the organization	We are driven by sustainable development		
102-2	Activities, brands, products, and services	Products and services – versatile and green offering	7	
102-3	Location of headquarters	We are driven by sustainable development		
102-4	Location of operations	Modern and efficient oil production and refining processes		
102-5	Ownership and legal form	We are driven by sustainable development		
102-6	Markets served	Products and services – versatile and green offering		
102-7	Scale of the organization	Financial results and operational achievements Products and services – versatile and green offering		
102-8	Information on employees and other workers	Number of employees by gender, function, type of contract and region	6	8 decay work and partly partly
102-9	Supply chain	Ethical supply chain		
102-10	Significant changes to the size, structure, form of ownership and supply chain in the			For information on changes, see the Directors' Report, page 134.



	reporting period	
102-11	Precautionary Principle or approach	Risk management
102-12	External initiatives	Membership of industry associations and CSR Awards and distinctions
102-13	Membership of associations	Membership of industry associations and CSR

STRATEGY

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
102-14	Statement from senior decision-maker	Letter from the President of the Management Board		
102-15	Key impacts, risks, and opportunities	Value Creation Model LOTOS Group's macroeconomic environment in 2018 Changes in the fuel market in 2018 Our capitals Future challenges and global forecasts 'Stability and sustainable growth' strategy Risk management		partly

ETHICS AND INTEGRITY

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
102-16	Values, principles, standards, and norms of behavior	Our approach to sustainable development Corporate social responsibility values	10	16 MAGE, HUTTER AND STRONG MCCHINITIONS





CORPORATE GOVERNANCE

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
102-18	Governance structure	Governance structure		
102-22	Composition of the highest governance body and its committees responsible for individual functions	Governance structure		

STAKEHOLDER ENGAGEMENT

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
102-40	List of stakeholder groups	People as top priority		
102-41	Collective bargaining agreements	——— Employees	3	8 SECOND VIOR AND COLUMN COLUM
102-42	Identifying and selecting stakeholders	People as top priority		
102-43	The organisation's approach to stakeholder engagement	People as top priority		
102-44	Key topics and concerns raised	How the report was created? People as top priority		
	Entities included in the consolidated financial	X. The LOTOS Group		

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	ts /	Integrated Report	
	report content		
	Boundaries \rightarrow	How the report was created?	
102-47 List of ma	aterial topics \longrightarrow	Materiality matrix	
102-48 previous reasons fo	ents ation given in reports, the		No restatements in relation to 2017 were made in 2018.
from prev	periods in material \longrightarrow	X. The LOTOS Group Integrated Report	
102-50 Reporting	g period —	X. The LOTOS Group Integrated Report	
102-51 Date of m	ost recent \longrightarrow	X. The LOTOS Group Integrated Report	
102-52 Reporting	g cycle —	X. The LOTOS Group Integrated Report	
Contact p 102-53 questions the report	regarding \	Contact information	
	reporting in ce with the dards	X. The LOTOS Group Integrated Report	
102-55 GRI conte	nt index	GRI content index	
	d current or external e of the report		The report has not been subject to external assurance.

MANAGEMENT APPROACH

			Global	
Indicator	Description	Link to the Report's Page	Compact	SDGS Goals Comments



103-2

Principles

103-1 material topics and their Boundaries

The management approach and its

Explanation of the

The management approach and its components in the environmental, social, human rights, anticorruption and HR areas, with an indication of material

topics in each area

The management

Efficiency in action –
achievement of strategic
objectives in 2018

How the report was created?

Employees
The environment
Society

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9 MOUSTRY ANNOUNTER

13 AUMAT

components
environmen

103-3 human righ
corruption a

approach and its components in the environmental, social, human rights, anticorruption and HR areas, with an indication of material topics in each area

Efficiency in action –
achievement of strategic
objectives in 2018

Employees
The environment
Society



Specific disclosures

ECONOMIC

ECONOMIC PERFORMANCE

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
201-1	Direct economic value generated and distributed	Financial results and operational achievements		8 DECISITA MONUME CRIONITIA 9 MONISTRA MONUME 19 MONISTRA MONUME 10 MONISTRA MONISTRA MONUME 10 MONISTRA MONISTRA MONUME 10 MONISTRA
201-2	Financial implications and other risks and opportunities due to climate change	Ethics and anti-corruption Risk management	7	13 CIMME ACTOR



INDIRECT ECONOMIC IMPACTS

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
203-2	Significant indirect economic impacts, including their scale	Financial results and operational achievements		1 POYERTY TO STATE THE STATE OF THE STATE O

PROCUREMENT PRACTICES

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
204-1	Percentage of the procurement budget used for significant locations of operation that is spent on suppliers local to that operation	Financial results and operational achievements		12 REPROBREE CONCUMPTION AND PROCECTION AND PROCECTION CONCUMPTION AND PROCECTION CONC

ANTI-CORRUPTION

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
205-1	Operations assessed for risks related to corruption	Ethics and anti-corruption	10	16 PAGE, INSTITUTE AND STRONG INSTITUTIONS



205-2

Communication and training about anticorruption policies and procedures

10



RESOURCES

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
OG1	Volume and type of estimated proved reserves and production	Modern and efficient oil production and refining processes		

ENVIRONMENTAL

MATERIALS

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
301-1	Materials used by weight or volume	Materials used by weight or volume	8	8 HECH WORK AND LOODING COOPIN 12 EEPPONGENT AND PRODUCTION AND PRODUCTION
301-3	Percentage of reclaimed products and their packaging materials for each material category	Percentage of reclaimed products and their packaging materials for each material category	8	8 TECHT HORE AND TECHNOL COUNTH 9 MODELLE, BONALDIA 12 RESPONSIBLE CONSUMPTION AND PRODUCTION CONSUMPTION

ENERGY

Global



Indicator	Description	Link to the Report's Page	Compact Principles	SDGS Goals Comments
302-1	Energy consumption within the organization	Energy consumption within the organisation	8	7 MTORISAGE MOT CELON INCIDENT AND CELON INCOME AND COLONIAL CELONIAL CONSISTENCY CONSISTE
302-3	Energy intensity	Energy intensity	8	7 ATTORISATE AND ELEM DISTORY 8 ECCHI MORE AND ELEM DISTORY 12 ESSENSIBLE GONOMERO MAN PRODUCTION AND PRODUCTION 13 CALMUTE 14 ACTION

WATER

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
303-1	Total water withdrawal by source	Total water withdrawal by source	7, 8	6 CLEAN NATER AND SMITHTON
303-3	Percentage and total volume of water recycled and reused	Percentage and total volume of water recycled and reused		8 INCOM NOTE AND COMMENT AND COMMENT AND PRODUCTION AND PRODUCTION AND PRODUCTION AND PRODUCTION AND PRODUCTION



BIODIVERSITY

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	The environment Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas		15 UP ON LINE 16 PRASS, REDICK AND STRONG NESTITITIONS EXECUTION OF THE PROPERTY OF THE PROP
304-4	Total number of IUCN Red List species and national conservation list species with habitats in areas affected by the operations of the organisation, by level of extinction risk	Total number of IUCN Red List species and national conservation list species with habitats in areas affected by the operations of the organisation, by level of extinction risk		15 OF LAND BUTCH 16 AND STRONG CONTRIBUTE LEVEL BUTCH 16 AND STRONG CONTRIBUTE LEVEL L

EMISSIONS

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
305-1	Direct (Scope 1) GHG emissions	Direct GHG emissions	7, 8	3 COOD HEATH AND WILL STAND 12 CENTROGRAFE TO CONSUMPTION AND PRODUCTION 13 CLIMATE 14 LIFE 15 CHE HOLD 15 LIFE 16 LIAD 16 LIAD 17 LIFE 18 LIAD 18 LIAD 19 LIFE 19 LIAD 10 LIAD 11 LIFE 11 LIFE 12 LIFE 13 LIFE 14 LIAD 15 LIFE 15 LIFE 16 LIAD 16 LIAD 17 LIFE 18 LIAD 18 LIAD 18 LIAD 19 LIAD 19 LIAD 10 LIAD 10 LIAD 10 LIAD 10 LIAD 11 LIFE 1
				© COOR HEATH





305-2 7, 8 Indirect GHG emissions Indirect GHG emissions GHG emissions 305-4 8 GHG emissions intensity intensity Emissions of ozone-305-6 depleting substances Emissions of ozone-depleting 7, 8 substances to air to air Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant Nitrogen oxides (NOX), sulfur 305-7 7, 8 oxides (SOX), and other air emissions significant air emissions

EFFLUENTS AND WASTE



Global Link to the Report's Page SDGS Goals Comments Indicator Description Compact **Principles** Total water discharge 306-1 by quality Total water discharge by 8 and destination quality and destination Total weight of waste 306-2 Total weight of waste by type by type and disposal 8 and disposal method method Total number and total 306-3 volume of recorded Total number and total volume 8, 9 significant spills of recorded significant spills Total weight for hazardous waste transported, exported Total weight for hazardous or treated (within the waste transported, exported



306-4 meaning of the Basel Convention – Annexes

Convention – Annexes I, II, III and VIII) and percentage of hazardous waste shipped internationally

or treated (within the meaning of the Basel Convention — Annexes I, II, III and VIII) and percentage of hazardous waste shipped internationally 8

8

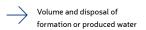
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8



OG5 formatio

Volume and disposal of formation or produced water



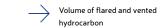
3 and Well-Being







Volume of flared and vented hydrocarbon











OG7

Amount of drilling waste (drill mud and cuttings) and strategies for treatment and disposal

Amount of drilling waste (drill mud and cuttings) and strategies for treatment and disposal



PRODUCTS AND SERVICES

Indicator Description Link to the Report's Page Global Compact SDGS Goals Comments Principles

OG8

Benzene, lead and sulfur content in fuels

Benzene, lead and sulfur content in fuels





ENVIRONMENTAL COMPLIANCE

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
307-1	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	8	16 PEACE NUTICE AND STRONG NUTITIONS NUTITIONS NUTITIONS

SOCIAL

EMPLOYMENT

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
401-1	Total number and rate of new employee hires during the reporting period, by age group, gender and region	Employee turnover rate	6	5 GAMER TRUMUTY \$ IRCON WORK AND COUNTY AND THE STRUCTURE 9 MODIFFY MONATOR AND MODIFFY MONATOR AND MODIFFY MONATOR AND MODIFFY MOD

OCCUPATIONAL HEALTH AND SAFETY

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
403-2	Hazard identification, risk assessment, and incident investigation	Injury, occupational diseases, lost days and absenteeism rates and number of work- related fatalities by region	6	3 GOOD HEALTH AND HILLS SERNO B ECCUMANICA MODE COMMAND CHOWTH

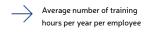


TRAINING AND EDUCATION

Indicator Description Link to the Report's Page Global Compact SDGS Goals Comments Principles

404-1

Average hours of training per year per employee by gender, and by employee category



6



404-2

Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings



and development clearly addresses access to diverse forms of development within the organisation, covering all employees regardless of career stages. Employees, regardless of their age, are able to improve their competence through training, studies and foreign language courses. This ensures that a competence level matching the job requirements is maintained throughout the period of service. The organisation does not need to implement any special programmes supporting the continuity of employment, as it offers nondiscriminatory conditions enabling employees to complete the full career cycle.

The training procedure

404-3

Percentage of total employees by gender and by employee category who received a regular performance and career development review



Percentage of employees being subject to regular job quality reviews and career development reviews

6





DIVERSITY AND EQUAL OPPORTUNITY

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
405-1	Percentage of individuals within the organisation's governance bodies and employees in each of the following diversity categories: gender; age group; minority groups and other disclosures of diversity	Skład ciał nadzorczych i kadry pracowniczej w podziale na kategorie według płci, wieku, przynależności do mniejszości oraz innych wskaźników różnorodności	6	5 GONGE GOUNTY S SECURIT WIDE AND COMMING CHOWN

LOCAL COMMUNITIES

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
413-1	Percentage of operations with local community engagement, impact assessments, and development programmes	Society	1	

ASSET INTEGRITY AND PROCESS SAFETY (OG)

Indicator	Description	Link to the Report's Page	Global Compact SDGS Goals Comments Principles
OG13	Number of process safety events, by business activity	Process safety	3 GOOD HEALTH AND WILL-SEING 11 SASSAMME CITIES AND COMMANDIES

114



CUSTOMER HEALTH AND SAFETY

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
416-1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement	Products and services – versatile and green offering	7	12 REPROSELT ASPEROUM