



LOTOS Group
Integrated Annual Report 2018

07. **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.

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 Asphalt 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:

- AB LOTOS Geonafta
- LOTOS Biopaliwa Sp. z o.o.
- RCEkoenergia Sp. z o.o.
- Energobaltic Sp. z o.o.
- LOTOS Exploration and Production Norge AS.*
- SPV Baltic Sp. z o.o.

* 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:

- the materiality of the information presented,
- including the LOTOS Group's stakeholders in the drafting process,
- demonstrating a broader sustainability context, and
- completeness of the content presented.

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.

[HOMEPAGE](#) / [ABOUT THE REPORT](#) /

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

- Questions concerning CSR should be emailed to Grupa LOTOS to: csr@grupalotos.pl
- Questions concerning investor relations should be emailed to Grupa LOTOS to: ir@grupalotos.pl
- Questions concerning the Company's media relations should be emailed to Grupa LOTOS to: media@grupalotos.pl



For more contact details, please visit the Grupa LOTOS website

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	SOCIAL
	MATERIAL	VERY MATERIAL	

LOTOS Group's financial performance in 2018	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 environmental 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	Product and material reclamation policy
Amount of fines	Employment scale and policy	Initiatives for local communities	Preventing corruption	Results of customer satisfaction surveys
Ethics			Diversity management and equal opportunity	
Health protection and customer safety	Occupational health and safety practices	Staff training and education		Preparedness for civil emergencies, including security procedures and integrity of resources
	Employee volunteering	LOTOS Foundation		

GRI content index

 GRI INDICATORS
ON PAGE **+**

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		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	


→ Ethics and anti-corruption

102-17	Mechanisms for advice and concerns about ethics	→ Ethics and anti-corruption	10	
---------------	---	------------------------------	-----------	--

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	
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		

102-45	statements		Integrated Report	
102-46	Defining report content and topic Boundaries		How the report was created?	
102-47	List of material topics		Materiality matrix	
102-48	Effect of any restatements of information given in previous reports, the reasons for such restatements and their impact			No restatements in relation to 2017 were made in 2018.
102-49	Significant changes from previous reporting periods in the list of material topics and topic Boundaries		X. The LOTOS Group Integrated Report	
102-50	Reporting period		X. The LOTOS Group Integrated Report	
102-51	Date of most recent report		X. The LOTOS Group Integrated Report	
102-52	Reporting cycle		X. The LOTOS Group Integrated Report	
102-53	Contact point for questions regarding the report		Contact information	
102-54	Claims of reporting in accordance with the GRI Standards		X. The LOTOS Group Integrated Report	
102-55	GRI content index		GRI content index	
102-56	Policy and current practice for external assurance of the report			The report has not been subject to external assurance.

MANAGEMENT APPROACH

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




Principles

103-1	Explanation of the material topics and their Boundaries	→ How the report was created?	
103-2	The management approach and its components in the environmental, social, human rights, anti-corruption 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	  
103-3	The management approach and its components in the environmental, social, human rights, anti-corruption 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		 
201-2	Financial implications and other risks and opportunities due to climate change	→ Ethics and anti-corruption → Risk management	7	

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		

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		

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	

205-2	Communication and training about anti-corruption 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	 
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	  

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	
302-3	Energy intensity	→ Energy intensity	8	







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	
303-3	Percentage and total volume of water recycled and reused	→ Percentage and total volume of water recycled and reused		

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	 <p>The environment Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas</p>		 
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	 <p>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</p>	8	 

EMISSIONS

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
305-1	Direct (Scope 1) GHG emissions	 <p>Direct GHG emissions</p>	7, 8	    
				

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

EFFLUENTS AND WASTE

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

306-4	meaning of the Basel 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	
OG5	Volume and disposal of formation or produced water	→	Volume and disposal of formation or produced water	8	
OG6	Volume of flared and vented hydrocarbon	→	Volume of flared and vented hydrocarbon	8	
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	8	

PRODUCTS AND SERVICES



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

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	  



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	 

TRAINING AND EDUCATION

Indicator	Description	Link to the Report's Page	Global Compact Principles	SDGS Goals Comments
404-1	Average hours of training per year per employee by gender, and by employee category	→ Average number of training hours per year per employee	6	  
404-2	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings			 <p>The training procedure 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 non-discriminatory conditions enabling employees to complete the full career cycle.</p>
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	 

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 Principles	SDGS Goals Comments
OG13	Number of process safety events, by business activity	→ Process safety		 

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	