



GRUPA LOTOS
**INTEGRATED
ANNUAL REPORT
2017**

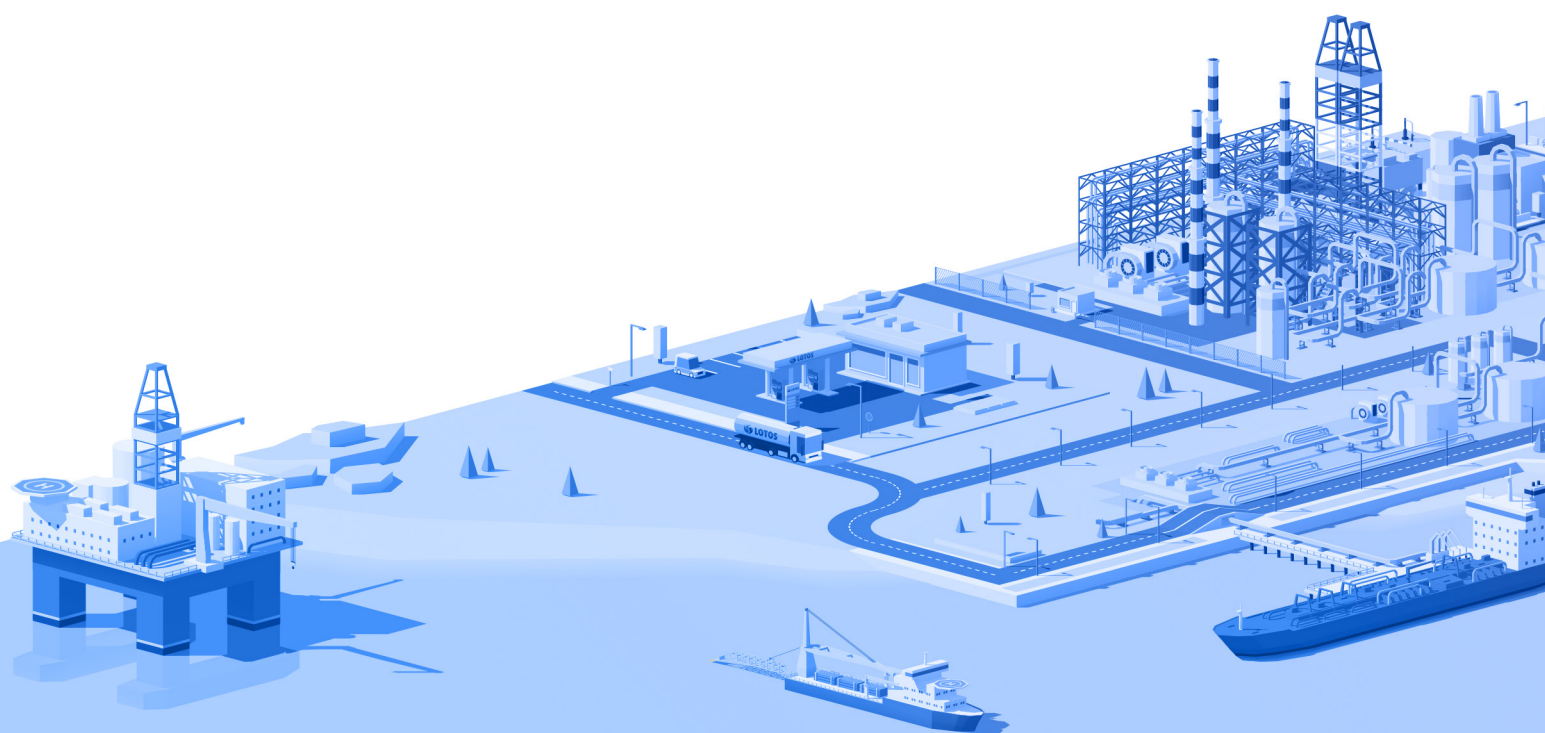


TABLE OF CONTENTS

INTRODUCTION	5
LETTER FROM THE PRESIDENT OF THE MANAGEMENT BOARD	6
LETTER FROM THE CHAIRWOMAN OF THE SUPERVISORY BOARD	8
THE CORPORATE GROUP	9
WHO WE ARE?	10
LOTOS IN NUMBERS	10
OUR PRODUCTS AND BRANDS ARE PRESENT IN 82 COUNTRIES	11
WE ARE SUCCESSFUL IN STOCK EXCHANGES	12
WE ARE A MEMBER OF MULTIPLE INDUSTRY ASSOCIATIONS	12
VALUE CHAIN OF THE LOTOS GROUP	12
WE MANAGE CREATING THE VALUES	13
BUILDING AND ETHICAL SUPPLY CHAIN	13
CORPORATE GOVERNANCE	14
HOW DOES THE GRUPA LOTOS S.A. GOVERN THE CORPORATE GROUP	14
ETHICS AND CORPORATE GOVERNANCE	16
MOST IMPORTANT AWARDS AND DISTINCTIONS	18
STRATEGY AND BUSINESS MODEL	19
BUSINESS MODEL	20
OUR VALUE CREATION MODEL	20
WHAT IS THE VALUE CREATION MODEL FOR?	21
„STABILIZATION AND SAFE DEVELOPMENT” – STRATEGY 2017-2022	22
STRATEGIC GOALS OF THE LOTOS GROUP	22
MAIN MEASURES OF STRATEGY IMPLEMENTATION	22
IMPLEMENTATION OF THE STRATEGY IN 2017	23
PLANS FOR THE FUTURE	26
OPPORTUNITIES AND RISKS	27
RISK MANAGEMENT IN LOTOS GROUP	29
RISK MANAGEMENT MODEL AT THE LOTOS GROUP	29
STRUCTURE OF RISK MANAGEMENT SYSTEM (ERM)	30
SUMMARY OF YEAR 2017	32
YEAR 2017 – TIMETABLE	33
MACROECONOMIC ENVIRONMENT	35
THE CRUDE OIL MARKET IN 2017	35
CHALLENGES AND GLOBAL FORECASTS FOR THE FUTURE	35
FINANCIAL CAPITAL	37
PRODUCTION CAPITAL	43
PROSPECTING AND EXTRACTION	43
SUPPLY CHAIN WITHIN THE REFINERY IN GDANSK	46

LOTOS GROUP PRODUCT OFFER IN 2017	46
HUMAN CAPITAL	48
LOTOS AS AN EMPLOYER	48
INTELLECTUAL CAPITAL	62
WE ARE DRIVEN BY INNOVATION	62
ALTERNATIVES FOR GASOLINE	62
STRENGTH OF PARTNERSHIPS	62
FLAGSHIP PROJECTS	63
SOCIAL CAPITAL	65
LOTOS FOR SOCIETY	65
SOCIAL PROGRAMS AND CAMPAIGNS	65
SPONSORSHIPS AND PATRONAGE	67
LOTOS FOUNDATION	69
SAFETY OF POPULAR POPULATION AREA IN THE VICINITY OF THE REFINERY AND DRILLINGS	70
NATURAL CAPITAL	71
WE ARE REDUCING OUR NEGATIVE IMPACT ON THE ENVIRONMENT	71
WE COMPLY WITH HIGH STANDARDS	71
WE INVEST IN ENVIRONMENTAL PROTECTION	72
ENVIRONMENT FRIENDLY EDUCATION	72
WE REDUCE THE EMISSIVITY OF REFINERIES	75
WE REDUCE ENERGY CONSUMPTION	76
WE IMPROVE PRODUCTION AND EXTRACTION	77
WE SELECT CONTRACTORS RESPONSIBLY	83

SUSTAINABLE DEVELOPMENT **84**

OUR APPROACH TO SUSTAINABLE DEVELOPMENT	85
SOCIAL RESPONSIBILITY VALUES OF THE LOTOS GROUP	87
STAKEHOLDERS OF THE LOTOS GROUP	88
CSR ENGAGEMENT AREAS IN 2017	90
IMPLEMENTATION OF THE GLOBAL GOALS OF THE UNITED NATIONS (SUSTAINABLE DEVELOPMENT GOALS)	90
E COOPERATION WITH UNITED NATIONS GLOBAL COMPACT NETWORK POLAND (UNGC)	91
BEST PRACTICES	92
ACTIVITIES FOR OUR SOCIAL ENVIRONMENT	92
PARTNERSHIPS AND INITIATIVES	93

FINANCIAL DATA **94**

DANE FINANSOWE	95
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – QUARTERLY	106
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – CUMULATIVE	107
CONSOLIDATED STATEMENT OF CASH FLOWS – QUARTERLY	108
CONSOLIDATED STATEMENT OF CASH FLOWS – CUMULATIVE	108
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	109
SHARE CAPITAL STRUCTURE	110
EMPLOYMENT – IN HEADCOUNTS	110
RESULTS IN OPERATIONAL SEGMENTS – QUARTERLY	111
RESULTS IN OPERATIONAL SEGMENTS – CUMULATIVE	112
CONSOLIDATED SALES – QUARTERLY	113
CONSOLIDATED SALES – CUMULATIVE	114
OPERATIONAL FX CHANGES EFFECT FOR LOTOS GROUP – QUARTERLY	115
MACRO ENVIRONMENT	116
LIFO – EFFECT QUARTERLY	116
HEDGING TRANSACTIONS – QUARTERLY	117

RETAIL – QUARTERLY	117
UPSTREAM OPERATIONAL DATA (M ³ , TONS) – QUARTERLY	118
UPSTREAM OPERATIONAL DATA (BBL, BOE) – QUARTERLY	119
DOWNSTREAM OPERATIONAL DATA – QUARTERLY	120

ABOUT THE REPORT **122**

ABOUT THE REPORT	123
REPORTING GUIDELINES	123
HOW THE REPORT WAS CREATED	124
CONTACT INFO	125
SIGNIFICANCE MATRIX	126
GRI CONTENT TABLE	127

NOTES TO THE FINANCIAL STATEMENTS **138**

COMPOSITION OF THE GROUP AND ITS CHANGES	139
ACCOUNTING POLICIES	141
BUSINESS SEGMENTS	141
INCOME AND EXPENSES	142
INCOME TAX	146
EARNINGS/(LOSS) PER SHARE	148
PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	149
EQUITY-ACCOUNTED JOINT VENTURES	161
TRADE RECEIVABLES AND OTHER ASSETS	164
INVENTORIES	166
CASH AND CASH EQUIVALENTS	167
SHARE CAPITAL	167
SHARE PREMIUM	167
RETAINED EARNINGS	168
BORROWINGS, OTHER DEBT INSTRUMENTS AND FINANCE LEASE LIABILITIES	168
DERIVATIVE FINANCIAL INSTRUMENTS	171
EMPLOYEE BENEFIT OBLIGATIONS	172
TRADE PAYABLES, OTHER LIABILITIES AND PROVISIONS	176
FINANCIAL INSTRUMENTS	179
OBJECTIVES AND POLICIES OF FINANCIAL RISK MANAGEMENT	181
CAPITAL MANAGEMENT	191
CONTINGENT LIABILITIES AND ASSETS	191



01

INTRODUCTION

LETTER FROM THE PRESIDENT OF THE MANAGEMENT BOARD

G4-1

G4-2

Ladies and Gentlemen, Dear Shareholders,

I am pleased to present to you the Integrated Annual Report of the LOTOS Group for 2017, which provides ample evidence of not only the Company's strong financial performance and consistent implementation of its strategy for 2017–2022, but also of its commitment to sustainable development in the past year.

At the outset, I would like to emphasise that our Company's greatest asset is its employees and that none of the achievements you will read about in this Report would have been possible without their dedication. On behalf of the Management Board of Grupa LOTOS S.A., I would like to extend our sincere thanks to all of the Group's employees.

2017 saw record-high financial performance by Grupa LOTOS. Optimal asset management by the Company and its taking maximum advantage of favourable market conditions as well as effective measures taken by the Polish government to combat the 'grey market' led to consolidated revenue of more than PLN 24bn, up by over 15% year on year, and net profit of close to PLN 1.7bn, up by as much as 65% year on year. We are also proud to have delivered highest-ever LIFO-based EBITDA, which in 2017 came in at PLN 3.1bn.¹

In line with the Company's robust performance, the price of its shares on the Warsaw Stock Exchange rose from approximately PLN 38 in autumn 2017 to a high of PLN 69. We also paid the first dividend in a decade.

Taking advantage of favourable macroeconomic conditions, we managed to reduce the Company's net debt by PLN 2.3bn and optimise its structure, which resulted in a safe financial leverage of 23% at year-end.

Grupa LOTOS's refinery is among the most technologically advanced ones in Europe and is currently undergoing yet another key upgrade. In 2017, we processed more than 9.6m tonnes of crude oil. We are the second largest producer of fuels in Poland. Every third car in the country fills the tanks with fuel produced by our refinery.

We either own or hold interest in 33 offshore and 10 onshore licences. In addition to conducting upstream operations in Poland and the Polish zone of the Baltic Sea, we also produce hydrocarbons on the Norwegian Continental Shelf and in Lithuania. In 2017, the sum of our 2P reserves rose to 88.2m barrels, with production at 8.4m barrels.

One of Grupa LOTOS's strategic objectives for 2017–2022 is to enhance the security of our environment in line with Poland's economic, environmental and energy policies, including by taking measures to diversify our feedstock sources. As part of our efforts to achieve this goal, we restructured our upstream operations, a process which included establishing LOTOS Upstream, a company dedicated to managing the Group's upstream activities and investment projects.

Own hydrocarbon production, which is our key business segment, helps us diversify feedstock sources and thereby reduce business risk, while significantly enhancing Poland's energy security. Our diversification efforts last year included purchase of feedstock from the US and Canada and signing a forward contract for the supply of US crude oil.

We are guided by the principle of sustainable development in all our business areas, which translates into building value not only for our shareholders, but also for our environment and diverse stakeholder groups. We are convinced that in pursuit of sustainable development we will continue generating profits for shareholders, providing high quality products and services, and ensuring energy security for Poland. Committed to sustainability, Grupa LOTOS cooperates with the United Nations Global Compact on an ongoing basis, has joined a partnership for the UN Sustainable Development Goals 2030, has been listed in the RESPECT Index, and was ranked 4th in the 11th edition of the Responsible Business Ranking.



¹ Net of one-off events and direct costs of a maintenance shutdown at the refinery

In order to be able to fully satisfy consumer requirements and maintain our competitive edge, we remain focused on our innovation projects, including, in particular, those related to low-carbon transport and alternative fuels, such as hydrogen, CNG and LNG. One of our most ambitious strategic objectives is to become the leader of the Polish next-generation fuel market. We have been also developing our know-how associated with the use of hydrogen as a fuel for vehicles and as a means to store energy.

I am pleased to be able to report to you our strong performance in 2017. On behalf of the entire Management Board, I would also like to assure you that we will make every effort to ensure that through our decisions we continue to deliver value for all Grupa LOTOS stakeholders.

Yours faithfully,

Mateusz A. Bonca

President of the Management Board
Grupa LOTOS S.A.



LETTER FROM THE CHAIRWOMAN OF THE SUPERVISORY BOARD

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G4-2

Ladies and Gentlemen,

2017 was a successful year for the oil industry. Favourable macro-economic conditions, with average annual oil and gas prices far above expectations, and effective measures taken by the Polish government to combat the 'grey market' were among the key drivers of oil companies' growth.

Grupa LOTOS took full advantage of the favourable market conditions, delivering record-breaking financial results last year. The Company's strong performance was also appreciated by investors, naturally resulting in a rise in its capitalisation.

The Management Board of Grupa LOTOS managed to markedly reduce its debt and improve cash flows from operating activities. For the first time in a decade, LOTOS also paid a dividend.

As part of a plan to remodel its corporate structure, Grupa LOTOS established LOTOS Upstream, a company dedicated to managing the Group's upstream operations. It was a key development for the Group, contributing not only to the consolidation of its upstream business, but also to Poland's energy security at large.

In early 2017, LOTOS commenced implementing its strategy for 2017–2022, which is focused on financial stability and development. The Management Board remains committed to delivering these two objectives. In 2017, Grupa LOTOS devoted a lot of effort to the EFRA Project, a key deep crude oil processing upgrade of its refinery. As at the end of 2017, the project was 90% completed.

What is important, Grupa LOTOS invests in innovation. In order to meet market challenges and attain its goal of becoming the leader in implementing innovations on the Polish market, it develops electric mobility initiatives and focuses on key projects in the field of alternative fuels.

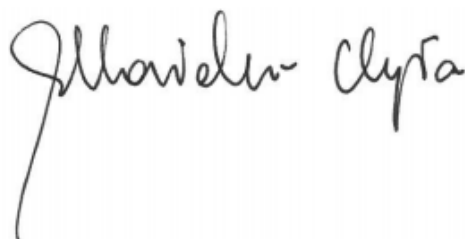
I hope that 2018 will see LOTOS continue its robust performance and strong growth in key areas.

Yours faithfully,

Beata Kozłowska-Chyła

Przewodnicząca Rady Nadzorczej

Grupa LOTOS S.A.





02

THE CORPORATE GROUP

WHO WE ARE?

G4-3 G4-4 G4-5 G4-6 G4-7 G4-8 G4-9 G4-12 G4-15 G4-16 G4-34 G4-56 G4-57 G4-S03 G4-S04

LOTOS is a Polish group, which operations are of strategic importance for national safety in scope of energy, as well as for the Polish economy.

We are one of the biggest enterprises in Poland and second largest fuel refiner in our country. Moreover, we are one of the biggest oil companies in the Central and Eastern Europe.

Our operating activity covers the scope of extraction and processing crude oil and natural gas, as well as sale of petroleum products of highest quality. We manufacture and deliver, among others, unleaded petrol, diesel oil, light fuel oil, aviation fuel, heavy oil, naphtha and liquefied gas propane-butane (LPG) and lubricants and bitumens.

We are a vertically integrated fuel refiner and producer of chemical products of highest quality, and we also provide highly specialized logistics services and maintenance services. We aspire to become the national leader of innovative implementations as part of our core business.

The headquarters of Grupa LOTOS S.A. is: ul. Elbląska 135, Gdańsk.

LOTOS IN NUMBERS



IN 2017, WE PROCESSED
OVER

9,6 MLN
TONNES
OF CRUDE OIL.



IN 2017, THE TOTAL LEVEL
OF HYDROCARBON EXTRACTION
AMOUNTED

8,4 MLN
BOE



33

CONCESSIONS FOR PROSPECTING,
IDENTIFICATION AND EXTRACTION
OF HYDROCARBONS OFFSHORE.



10

CONCESSIONS FOR PROSPECTING,
IDENTIFICATION AND EXTRACTION
OF HYDROCARBONS ON-SHORE.



493

THE NUMBER OF PETROL
STATIONS OPERATING
UNDER LOTOS BRAND



19%

INCREASE IN DOMESTIC
SALES IN YEAR 2017.

[Strategy of the Corporate Group](#)

The corporate group, besides Grupa LOTOS S.A. (parent company, managing the oil refinery in Gdańsk), currently, that is as of 31 December 2017, consists of 17 LOTOS companies. The headquarters of two of them are situated abroad: in Lithuania and in Norway.

In 2017, the LOTOS Group was joined by two new companies: LOTOS Upstream and LOTOS Vera. LOTOS Upstream shall function as a holding company, thus ensuring the division of operational and managerial functions in the scope of prospecting and extraction in LOTOS Group. LOTOS Vera, a subsidiary of LOTOS Lab, shall function as special purpose vehicle, dedicated to developing innovative technologies.

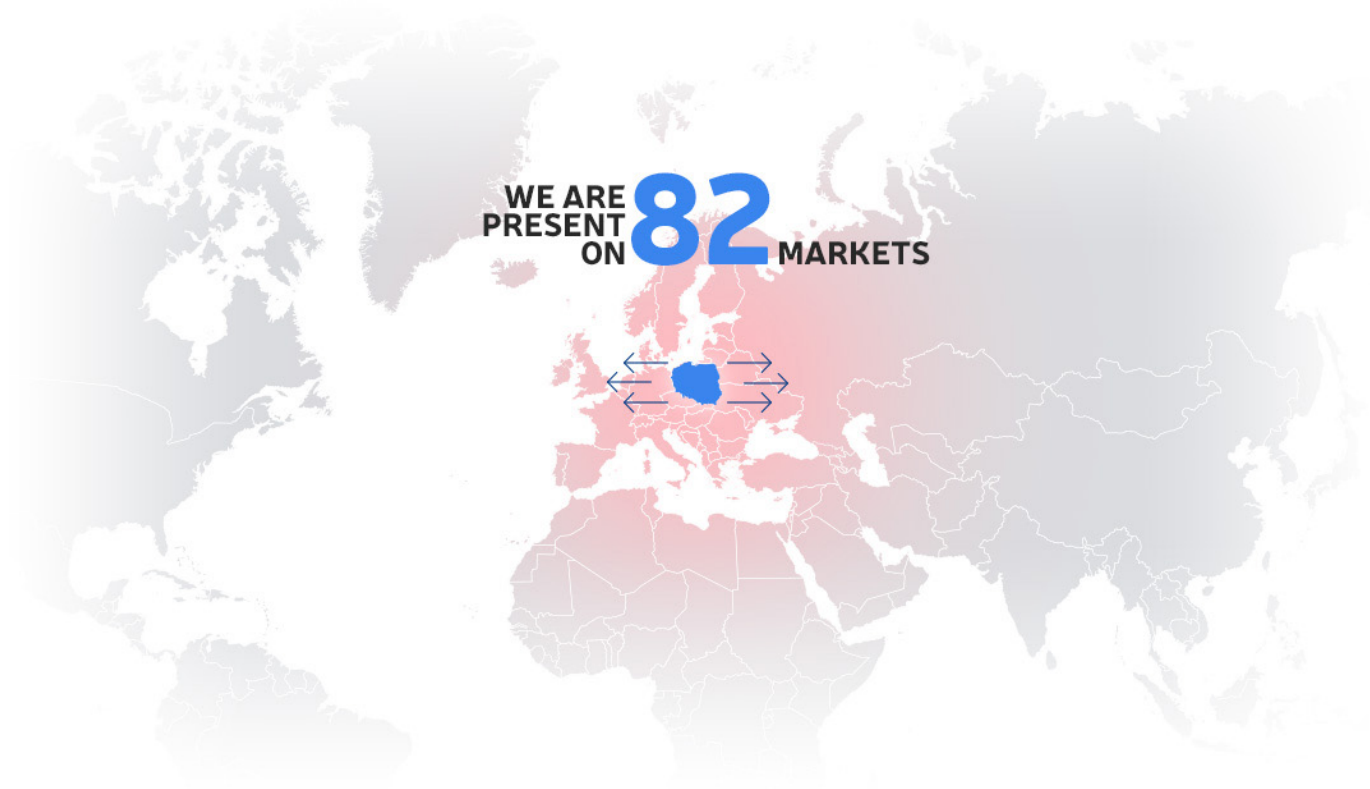
[More about our business model HERE](#)

[List of entities HERE](#)

We own concessions for prospecting, identification and extraction of hydrocarbons offshore (33 concessions) and on-shore (10 concessions). 74% of our extraction is performed at the Norwegian Continental Shelf, the rest comes from fields in Lithuania and in the bottom of the Baltic Sea. We are the sole producer of hydrocarbons within Poland's Exclusive Economic Zone of the Baltic Sea, where 21% of our extraction comes from. In 2017, we extracted 8.4 million boe and the proven oil and natural gas reserves in 2P category (proved and probable) amounted to 88.2 million boe.

OUR PRODUCTS AND BRANDS ARE PRESENT IN 82 COUNTRIES

We operate in 82 countries. However, our products are sold mainly in Poland and other European countries, including Germany, the Netherlands, Belgium, Sweden, Denmark, the United Kingdom, France, Estonia and in the Czech Republic. The range of products and services sold and performed under our brand is really wide. Among them there is a wide range of motor fuels of highest quality, sold in Poland at 493 conveniently situated petrol stations (including 20, so-called, Motorway Service Areas, situated next to highways A1, A2, A4 and A6 and express roads S3 and S7), wide range of oils (i.e. motor and industrial oils), car care products, various road construction bitumens and other industrial bitumens but also, for example, JET A1 aviation fuel (sold by LOTOS Air – BP), as well as numerous LOTOS brand services, among them logistics (by LOTOS Kolej) and security (by LOTOS Ochrona).



[List of all our products and services HERE](#)

[Map of our petrol stations HERE](#)

[Products in the offer of LOTOS OIL HERE](#)

[Products in the offer of LOTOS ASFALT HERE](#)

WE ARE SUCCESSFUL IN STOCK EXCHANGES

Grupa LOTOS S.A., as the dominating entity in the corporate group, is a stock company, where 53.19% of the shares is owned by the State Treasury, what makes it the majority shareholder of the company. Our shares have been listed in WIG 20 index and on the Warsaw Stock Exchange since year 2005. Since 2009, we have been a member of the first index of socially responsible businesses in Central and Eastern Europe – the WSE's RESPECT Index. Moreover, our shares are listed on the WIG-Paliwa segments, the MSCI World Index and the FTSE EM (an index on the London Stock Exchange for emerging markets).

When it comes to sales, the year 2017 has been very prosperous for LOTOS Group. The domestic sale increased by 19% and as a Group we have reached record financial results (consolidated income of the Group increased by 15.5%, exceeding PLN 24 billion and the net profit was bigger by 64.7%, amounting to PLN 1.67 billion), what resulted in high quotations of our shares, which price has risen from PLN 38.25 (closing price in 2016) to PLN 57.7 at the end of 2017. Thanks to good financial results we have significantly reduced our level of debt and, for the first time in a long time, we have also distributed a dividend.

[More information about our share capital structure HERE](#)

WE ARE A MEMBER OF MULTIPLE INDUSTRY ASSOCIATIONS

We are a member of many Polish and international organizations, from specialistic associations uniting entities acting on the areas of fuel industry or energy and chemical sectors, through business organisations focused on domestic development, to organisations promoting the idea of corporate social responsibility and other specialistic organisations. We are a member of, inter alia, Central Europe Energy Partners, Fuels Europe, Polish Organisation of Oil Industry and Trade, Polish Business Roundtable, United Nations Global Compact (the world's biggest international initiative engaging entities promoting sustainable development) and the Employers of Poland.

[Downloadable full list of interbranch organizations HERE](#)

VALUE CHAIN OF THE LOTOS GROUP

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G4-4

The activity of the LOTOS Group creates a full value chain, from prospecting and extraction of fields, through production, to the sale of finished products and services.

UPSTREAM SEGMENT

- portfolio of assets in Norway, Poland and Lithuania
- hydrocarbon reserves in 2P category: 88.2 million boe at the end of year 2017
- total production in 2017 – 8.4 million boe
- average daily extraction in 2017 – 22.9 thousands boe per day
- extraction set in the 2019-2022 Strategy – 30-50 thousands boe per day

In the upstream segment we add value to the local environment by:

- ensuring national energy security
- reducing the negative impact on the environment

REFINING SEGMENT

- we own one of the most technologically advanced oil refineries in Europe, with annual capacity of ca. 10 million tonnes of crude oil
- Nelson Complexity Index (the complexity of preparation process coefficient) – highest in Poland and one of the highest in Europe

In the production segment we add value to the local environment by:

- ensuring the safety in the vicinity and in the neighbourhood of the production plants
- reducing the negative impact on the environment

MARKETING SEGMENT

- petrol station management – 493 petrol stations
- sale of 10,931 thousand tonnes of products in 2017
- 31,6% – share in the domestic fuel market of the LOTOS Group in 2017
- constantly developed products and services

In the marketing segment we add value to the local environment by:

- product and service innovations, answering the needs our the customers
- continuously increasing the quality of experience during the use of our products and services
- 80% of satisfied customers and the 1st place in the satisfaction ranking of the petrol stations customers that took place in the first half of the year 2017

WE MANAGE CREATING THE VALUES

Creating values in the whole supply chain of the LOTOS Group is supported by us by:

- our pursuit of the efficient use of our assets in the whole value chain
- active management of opportunities and risks
- creating technological innovations that enhance the competitiveness of the LOTOS Group
- processes ensuring safety of people and environment

[See our business model and 2017-2022 strategy HERE](#)

BUILDING AND ETHICAL SUPPLY CHAIN

By choosing our contrahents and cooperators we follow the path of ethics. We decide to cooperate with companies and organisations that are socially responsible. Therefore:

- we perform supplier audits. We set requirements regarding standards of conduct of our suppliers, we assess the stage of implementation and check, what improvement activities did they undertake.
- In the agreements with our suppliers we use clauses regarding action fulfilling the social responsibility principle, regulating the employee laws area, care for environment, absence of any conflict of interests and anti-corruption clauses.

Our main contractors, whose supply value amounted to over 10% of the total profit of sales in 2017 are, among others:

- VITOL SA
- Joint Stock Company Oil Company Rosneft
- Tatneft

The contribution of the above contractors in the supply of LOTOS Group with our basic raw material, i.e. crude oil, amounted to, respectively: 25.18%, 24.29% and 19.26%. In 2017, we signed 1,852 agreements with new suppliers.

CORPORATE GOVERNANCE

G4-3

G4-4

The corporate group, except Grupa LOTOS S.A., which as the Parent Company is an integrator of key management and support functions among companies of the LOTOS Group, consists of 15 direct subsidiaries and some of which have their own capital groups (indirect subsidiaries), which deal with prospecting, extraction, production as well as sales and services.

Below you can find the detailed structure of the Group regarding management segments, which selected entities are subjects of.

[More about LOTOS Group organizational structure HERE](#)

HOW DOES THE GRUPA LOTOS S.A. GOVERN THE CORPORATE GROUP

The Management Board is responsible for running the company and its representation (except for the activities that are reserved for the competences of the General Shareholders Meetings or the Supervisory Board, as well as matters that exceed the standard company management). The division of powers and responsibilities between the individual members of the Management Board is stipulated in the Organisational Regulations of the Grupa LOTOS S.A.

[More about competences of individual members of the Management Board and the Rules of Procedure HERE](#)

COMPOSITION OF THE BOARD OF GRUPA LOTOS S.A., AS OF JUNE 30TH 2018:

- Mateusz A. Bonca, President of the Board,
- Jarosław Kawula, Vice-President, Production & Sales Officer
- Patryk Demski, Vice-President, Chief Investment and Innovation Officer
- Robert Sobków, Vice-President, Chief Financial Officer.

[More about the Board of LOTOS Group and its members HERE](#)

The constant overseeing of the operations of the Grupa LOTOS S.A. rests with the Supervisory Board, which has the right to express its opinion in every matter related to the Company activities. The Supervisory Board may delegate its members to perform the indicated functions or establish committees supervising specific areas of the Group's operations. Three committees operate permanently in the company: The Audit Committee, Strategy and Development Committee and the Organisation and Management Committee.

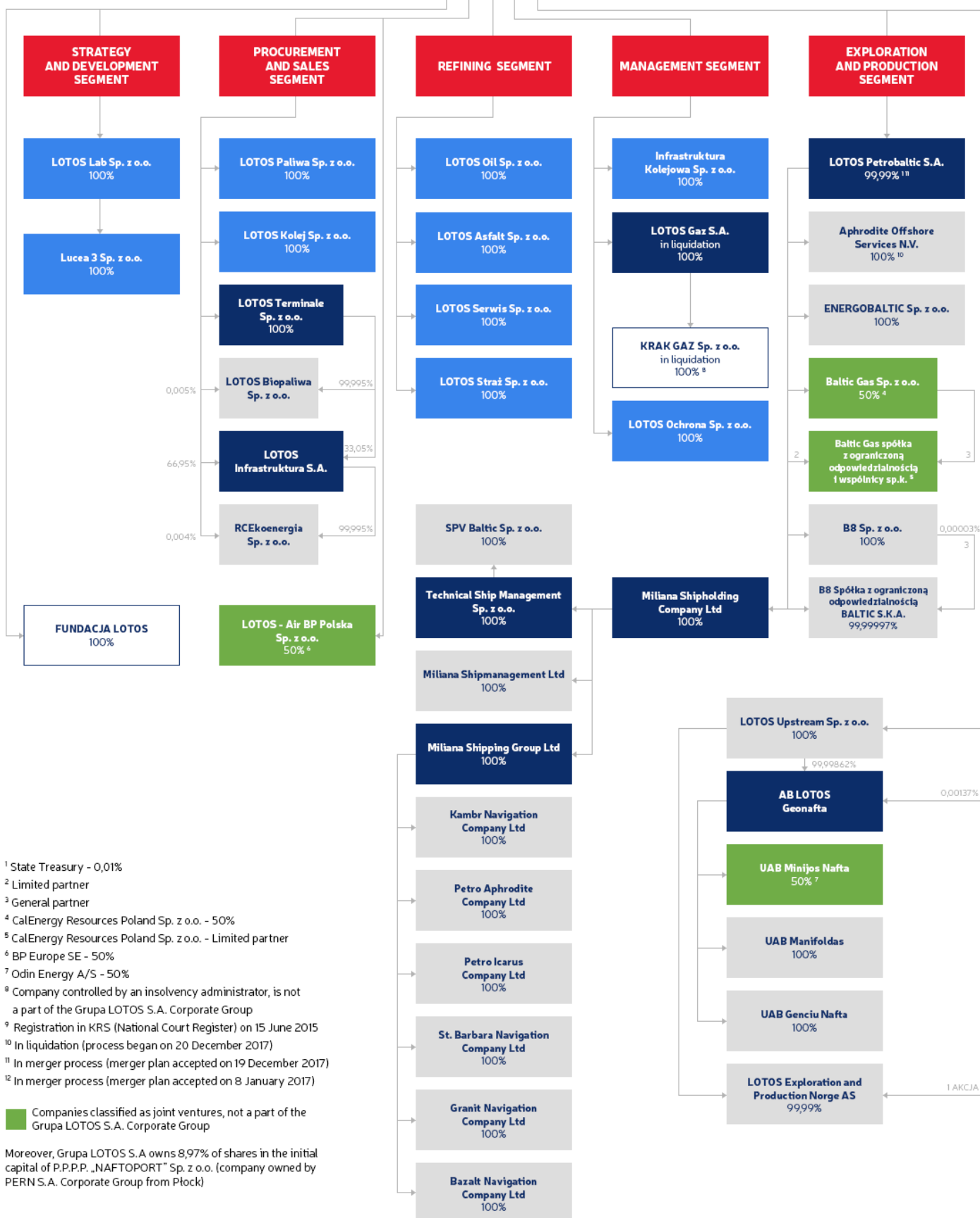
COMPOSITION OF THE SUPERVISORY BOARD OF GRUPA LOTOS S.A. 9TH TERM

- Beata Kozłowska-Chyła – Chairperson,
- Piotr Ciach – Deputy Chairperson,
- Katarzyna Lewandowska – Secretary,
- Agnieszka Szklarczyk-Mierzwa – Member,
- Dariusz Figura – Member,
- Mariusz Golecki – Member,
- Adam Lewandowski – Member.

[More about the Supervisory Board of LOTOS Group and its members HERE](#)

The General Meeting of Shareholders deals with matters stipulated in the Articles of Association of Grupa LOTOS S.A., presented beforehand to the Supervisory Board. All the matters related to the functioning of this body are regulated by the Rules of Procedure for the General Meeting of the Grupa LOTOS S.A.

[More about General Meetings of Shareholders of LOTOS Group HERE](#)



ETHICS AND CORPORATE GOVERNANCE

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G4-38

Business ethics is a standard of high strategic importance for the LOTOS Group. Functioning in a transparent manner, with due care to respecting high ethical standards is our priority. The formulated corporate governance principles help us conduct our business in a responsible manner and with respect for our stakeholders. These principles are a set of ethical business behaviours and regulations that allow balancing the interests of all capital market entities involved in the operation of companies. Respecting the corporate governance principles creates value for our shareholders and enhances our credibility with them, what in result improves our competitiveness on the market.

Implementation of the corporate governance principles in LOTOS Group aims to:

- ensuring transparency of the Grupa LOTOS S.A. activities as a listed company,
- increasing the confidence in relations with the stakeholders,
- increasing openness and accessibility for investors,
- consistent building of the company's value for the Shareholders.

[Corporate governance principles HERE](#)

If any of the Corporate Governance principles would be infringed, we are obliged to report such situation. Regardless, if the infringement is a permanent or incidental. Moreover, we publish reports on application of the Corporate Governance principles along with our annual reports.

[Corporate Governance reports HERE](#)

The foundation of the ethical culture in LOTOS Group is the Ethical Programme. On the one hand, it builds value for our employees and external stakeholders and on the other hand it enables effective management of organizational culture. The key elements of the Programme are:

- Code of Ethics, effective since year 2013,
- Ethics Officer, appointed in year 2016,
- reporting channels,
- education,
- communication.

The Code of Ethics determines the system of supported ethical values as well as norms and standards of conduct, which should be followed by our employees, both in work and in relationships with key groups of stakeholders of the LOTOS Group.

The enforcement of the Code of the LOTOS Group is secured by the Ethics Officer, who addresses all the notifications on the Code infringements. The stakeholders of the Group have the right to report any suspicions as well as fact that raise their concerns. The available forms of reaching the Ethics Officer are:

- direct meeting at the time suitable for the employee, prearranged via telephone,
- a call or leaving a message for the Ethics Officer (tel. +48 58 308 80 70),
- sending an email: liniaetyki@grupalotos.pl,
- filling the report form, at www.lotos.pl website,
- sending a traditional, written letter.

We also build our ethical culture by maintaining coherence with the collection of Best Practices of WSE Listed Companies. We are subject to the rules and regulations contained in this set of corporate governance principles, believing that this translates into shaping our relationships with the market environment and is an important element of building our competitive position.

[More about the Code of Ethics of the LOTOS Group HERE](#)
[Downloadable Code of Ethics HERE](#)

Moreover, the Group has a Misconduct Prevention Policy, which aims to improve the security of our business processes by managing the risk of potential fraud. Thanks to the anti-fraud system, we minimize the possibility of fraud, reduce their harmful effects and mobilize resources that accelerate the return of the organization to the situation preceding. Our stakeholders can report any suspicions regarding possible misconducts within the Group to the Internal Audit Office of the LOTOS Group.

In our organization there is no consent for any type of misconduct, including corruption. Since 2014, we have been one of the signatories of the global United Nations Global Compact Call to Action on Anti-Corruption initiative, which unites business in the fight against all forms of corruption. Anti-corruption policies and procedures are known not only to management board members, but also to all employees of 13 companies belonging to the Corporate Group. Each newly hired employee receives basic information about the Anti-Fraud Policy and employee responsibilities in this area as part of the training.

In 2017, we continued to raise and monitor standards of solutions aimed at limiting the possibility of fraud, including corruption. Last year, we made also evaluation of the effectiveness of our activities in this area (using a questionnaire survey, conducted once every three years), which shows that awareness of the risks of fraud in our company and the perception of action for preventing and detecting fraud as an effective, have significantly increased since the previous edition of the study. This was due to a number of our actions:

- implementation of the Fraud Risk Management Program (PZRN), including education on the subject of identifying threats, informing about responsibility for corruption actions and crimes, conducting explanatory proceedings in the case of reported suspicions of fraud and implementing mechanisms limiting threats
- implementation of the Anti-Fraud Policy in the LOTOS Group, which includes both a clear position of the Management Board regarding fraud and the process of proceedings as well as reporting channels in case of suspicion of abuse
- creating a Risk Management Card specifying how to manage and monitor risk, as well as a risk mitigation plan and how to proceed if it occurs
- using a CSR clause in offers and contracts agreements (including anti-corruption)
- creating the Fraud Risk Management Team within the Internal Audit Department
- establishing the Verification Department of Contractors of the LOTOS Group
- imposing on all companies of the Group the obligation to verify contractors in accordance with the procedure
- conducting training to prevent abuse in the subsidiaries of the Corporate Group

[Misconduct Prevention Policy HERE](#)

MOST IMPORTANT AWARDS AND DISTINCTIONS

G4-34

G4-38

For years, we have been guided by the principles of social responsibility, knowing that in this way we are creating multiplied value not only for LOTOS and our shareholders, but for all our environment and various stakeholder groups.

We feel obliged to make our contribution to creating value more than a guarantee of stable profit, perfection of products and services or ensuring energy security of the country. We want to contribute to the multiplication of opportunities for social development, to promote sustainable development while respecting the natural environment, to develop standards of a good employer and business partner.

We are proud that our commitment in the area of corporate social responsibility brings benefits to many beneficiaries, and at the same time is highly rated by experts. In 2017:

- For the eleventh time, we found ourselves in the group of **RESPECT Index** – the most socially responsible companies listed on the Warsaw Stock Exchange. Once more we met the very high requirements of the RESPECT project and thus we found ourselves in a prestigious group of 28 companies that were included in the new index portfolio.
- we joined the partnership for the **2030 UN Sustainable Development Goals (SDGs)**
- we took **4th place in the 11th edition of the Ranking of Responsible Companies**. The list comprised over 200 companies evaluated in terms of the quality of corporate social responsibility management
- for the 5th time we received the **Golden CSR Leaf** in the ranking organized under the auspices of the weekly magazine Polityka, Responsible Business Forum and Deloitte
- we took the second place in the 'Enterprises' category and received a special distinction for the best financial report for 2016 in the competition for the best annual reports **'The Best Annual Report'**
- we were honored with the honorable title of **'A Well-Perceived Company'** in the 8th edition of the competition organized by the Business Centre Club, under the patronage of the Ministry of Family, Labour and Social Policy
- we received a special award in the category of innovation within the framework of the **2016 Technical Safety Leader** ranking for an innovative approach to the risk analysis of technical equipment exploitation
- For the fifth time we have been awarded the **'Most Desired Employers'** distinction, ranking fourth in the 'Fuels, Energy, Mineral Production and Chemicals' category.



03

STRATEGY AND BUSINESS MODEL

BUSINESS MODEL

G4-2 G4-14

Our core business is focused on:

- prospecting and extraction of hydrocarbons,
- processing the crude oil,
- trade in petroleum products,

based on the following processes:

- prospecting,
- extraction,
- production,
- primary logistics,
- secondary logistics and sales,
- petrol station management.

The manner of conducting our business is based on the assumptions of the Value Creation Model. It grew out of thorough, realistic analyzes and long-term forecasts of the global oil market, thanks to which it guarantees stable and safe development in 2017-2022.

Creating values in the whole supply chain of the LOTOS Group is supported by us by:

- pursuit of the efficient use of our assets in the whole value chain
- creating technological innovations that enhance our competitiveness
- processes ensuring safety of people and environment

At the same time, we strive for improving the efficiency by optimizing the refining and logistics processes.

OUR VALUE CREATION MODEL



WHAT IS THE VALUE CREATION MODEL FOR?

Our activity at every link in the value chain, from identification of deposits to making our products and services available to clients, is subordinated to the idea of sustainable development and compliance with the energy security policy.

We are aware of the impact that our activities may have on people, on the natural environment or on the economy. We consciously manage this influence, taking into account the mutual opportunities and risks between our activities and the environment. We invest in the sustainable development of LOTOS and the environment in which we operate, caring for the growth of the company's value, which will translate into benefits for our stakeholders.

The LOTOS Group operates in three business segments, building a full value creation chain – from exploration to the sale of finished products.



CRUDE OIL AND NATURAL GAS EXPLORATION AND PRODUCTION

VALUE CREATION

implemented through the stage of „exploration and extraction of crude oil and gas” in the mining segment

EXTRACTION SEGMENT

Covers activity in the field of acquisition and exploitation of oil and gas. The implementation of activities in the area of prospecting and, later also extraction, provides the company with the possibility of diversifying revenues and optimizing the total margin in its operations, at the same time reducing the dependence on business cycles in individual market segments. Acquiring new mining concessions is an element of building a competitive advantage.



REFINING OPERATIONS

ADDING VALUE

implemented through the „production and trade” stage in the refining and trading segments,

REFINING SEGMENT

Activity in this segment begins with the conversion of extracted hydrocarbons into an intermediate ready for further processes. These activities are one of the key moments in the transformation of production capital, after which the company has a ready-for-sale product. Grupa LOTOS S.A. owns one of the most modern and youngest refineries in Europe with processing capacity of approximately 10.5 million tonnes of crude oil per year.



SALES AND LOGISTICS

GETTING A RETURN ON INVESTMENTS, I.E. „CASHING”

implemented through the „sales and logistics” phase in the commercial segment.

TRADING SEGMENT

The LOTOS Group is engaged in commercial activity in the country, selling products to foreign concerns, and exporting by sea and land. The companies of the Group produce and sell products in such branches like: fuel, oil and bitumen. The LOTOS Group's products are available throughout Poland and abroad. The company has a leading position on the domestic market of road bitumens.

„STABILIZATION AND SAFE DEVELOPMENT” – STRATEGY 2017-2022

G4-2

G4-14

Our strategic plan for years 2017-2022 is the result of the intense analytical work carried out in 2016 with the active participation of the Supervisory Board and as part of extensive consultations carried out throughout the LOTOS Group. The strategy was based on the following assumptions:

- permanent return to dividend payments,
- effective and stable development of complementary segments of our activity,
- optimization of the integrated margin,
- Poland's energy security, supported by diversified sources of raw materials.

We have adopted two time horizons for its implementation. By the end of 2018, we focus on stabilizing cash flows, reducing debt, and continuing launched investment projects. The second stage of the strategy implementation, covering the years 2019-2022, schedules the implementation of a new investment program based on the best development projects, effective construction of the mining assets portfolio and further development of the fuel station network and implementation of innovative projects building the future value of the LOTOS Group.

By implementing the adopted strategy, we want to continue to build our position of:

- optimally vertically integrated manufacturer of high quality fuels and chemical products,
- supplier of specialized logistic services and other services
- the leader of implementing innovations within the scope of the core business.

At the same time implementing the strategy „Stabilization and safe development” is a guarantee of a stable increase in value for the shareholders and an important role in ensuring the country's energy security.

[More about our strategy](#)

STRATEGIC GOALS OF THE LOTOS GROUP

As part of the strategy, we have set the five main strategic goals, the implementation of which will enable the stable development of the group:

1. effective use of assets: conducting activities under extraction licenses, further technological optimization of refineries, introduction of new products and alternative fuels, and care for quality standards,
2. successive and repeatable reduction of operating costs and optimization of margin in the entire value chain,
3. readiness to develop and implement innovations with a dedicated fund, a modern model of cooperation with research centers and creative involvement of employees,
4. flexibility in responding to emerging risks that the LOTOS Group also sees through the prism of business opportunities,
5. care and development of talents in the organization, improving broadly understood security (work, infrastructure and information systems) and greater social responsibility.

MAIN MEASURES OF STRATEGY IMPLEMENTATION

We have adopted the following key parameters for implementing the strategy:

1. doubling the average annual LIFO EBITDA result in 2019-2022 to the level of approx. PLN 4 billion,
2. reduction of the debt ratio: net debt / LIFO EBITDA to the level not higher than 1.5x,
3. implementation of investment projects for the total amount of PLN 9.4 billion within 6 years,
4. possession of the 2P crude oil and gas reserve base (certain and probable) at the level not less than 60 million boe,
5. reaching the level of hydrocarbon production at the level of approx. 30-50 thousand boe per day (i.e. barrels of oil equivalent for the day of extraction),

6. expanding the sales network to 550 petrol stations,
7. keeping the LTIF (Lost Time Injury Frequency) below 3.

IMPLEMENTATION OF THE STRATEGY IN 2017

In 2017, we carried out intensive work on the strategy operationalization and the implementation of an effective system for monitoring the objectives implementation. We launched a cyclical process of monitoring the implementation of individual strategic initiatives and set up a cross-functional forum for discussing the key challenges and development directions of the Group.



IMPLEMENTATION OF THE STRATEGIC OBJECTIVE „EFFICIENTLY USED ASSETS IN THE ENTIRE VALUE CHAIN” IN 2017

A new, safer concept for the development of a sustainable extraction portfolio

The year 2017 was intended for the reorganization of the extraction segment and preparation of a plan for the construction of a balanced asset portfolio. A new company was established – LOTOS Upstream, which will eventually acquire extraction and exploration activities, while LOTOS Petrobaltic will operate in the field of services for extraction companies.

Highest competitiveness thanks to technological innovations and new products

The main investment of Grupa LOTOS S.A. is the EFRA Project (Effective Refining), which, by the construction of one of the most advanced installations of delayed coking, will enable deeper processing of crude oil. The project will contribute to the increase in the model margin by approx. USD 2 / bbl. The progress of the whole EFRA Project implementation at the end of December 2017 amounted to 90%.

At the same time, the analytical and preparatory activities have been undertaken regarding the portfolio of further development projects. Three possible directions for the further development of the refinery are considered:

- oil block for the production of Group II and III base oils,
- gasoline complex for the production of motor gasolines from raw gasoline,
- olefin complex along with production of ETBE.

The decision to launch another project will be made in the second half of 2018.

LOTOS Energy Hub in retail and care for high quality standards

Retail trade at the LOTOS Group is carried out by LOTOS Paliwa, responsible for managing the fuel stations network.

In 2017, we continued work on the standardization of the service station network in terms of unifying its image: external and internal visualization as well as optimization of service quality at petrol stations. In the general satisfaction ranking from the national fuel station network, the LOTOS station network achieved the highest result among the competition.

Concurrently to expanding the network, we develop and improve the non-fuel offer, including catering, groceries and additional services (car washes, trailer rentals). This is also accompanied by opening new Subway points of sales.

The LOTOS service station network is also preparing for challenges related to the development of electromobility. In the last year, we have selected 50 stations on the TEN-T roads (motorways and expressways in Poland) that are to be equipped with electric vehicle charging points. At the same time, using the EU funds,

we implement a pilot implementation of the first 12 charging points. The aim is to allow free passage of electric vehicles on the Gdynia – Gdańsk – Warsaw route.

w punkty ładowania pojazdów energią elektryczną. Jednocześnie wykorzystując fundusze unijne, realizujemy pilotażowe wdrożenie pierwszych 12 punktów ładowania. Celem jest umożliwienie swobodnego przejazdu pojazdom elektrycznym na trasie Gdynia – Gdańsk – Warszawa.



IMPLEMENTATION OF THE STRATEGIC GOAL „EFFECTIVE PROCESSES GUARANTEEING STABILITY” IN 2017

We launched the Effectiveness Improvement Program, which aims to optimize cost management and streamline processes within the organization.

In the published results of Solomon Associates for 2016, Grupa LOTOS S.A. confirmed its competitive advantages, being in the first quartile for the areas of Process Utilization, Energy Intensity Index, Return on Investment.

The implementation of the strategic objective also requires actions on the commercial side, including the optimization of the integrated margin and the diversification of raw materials. In 2017, over 20% of crude oil processed at the Gdańsk refinery came from a direction other than the one from the east. Material diversification is an important measure in the process of ensuring stable crude oil supplies to the Grupa LOTOS S.A. refinery and improving the efficiency of its processing. At the end of 2017, Grupa LOTOS S.A. signed a derivative contract for the supply of American crude oil to the refinery in Gdańsk. The contract provides for the delivery of a minimum of 5 crude oil by sea in 2018.



IMPLEMENTATION OF THE STRATEGIC GOAL „READINESS TO IMPLEMENT INNOVATION” IN 2017

In 2017, we focused our main efforts in the field of innovation on the implementation of new models of cooperation with research units and start-ups, creating joint research agendas. Grupa LOTOS S.A. has joined projects including Space3ac start-up acceleration – a pilot project within the government program Start in Poland, the effect of which is to commercialize innovative solutions, including products and services.

We have also initiated a program for supporting the internal innovativeness, the LOTOS Inspiruje program, which created a framework for the functioning of the process of notification of innovative ideas by employees and the evaluation of these ideas.

LOTOS Vera (a subsidiary of LOTOS Lab) will implement innovative and development projects for Grupa LOTOS S.A.

In the near future, it is planned to set up an incubator for innovative projects, what will allow for the full use of innovation potential.

We have also undertaken actions to launch a corporate innovation support fund (Corporate Venture Capital fund), which will seek and acquire innovative projects to improve the operations of the LOTOS Group, and to build new business areas.



IMPLEMENTATION OF THE STRATEGIC OBJECTIVE „ACTIVE MANAGEMENT OF OPPORTUNITIES AND RISKS” IN 2017

We have developed a new approach to managing risks and opportunities at the LOTOS Group. Particularly noteworthy is the new categorization of risks, defining 4 main categories of risks in operations: strategic, operational, financial and reputation and compliance with regulations. At the same time, we are developing methodology and strengthening our competences in the area of searching and defining business opportunities, allowing us to eliminate identified risks and create value for shareholders.



IMPLEMENTATION OF THE STRATEGIC GOAL „STRONG TEAM, CONSISTENT CSR AND SECURITY” IN 2017

Caring for talents as the key element of competitive advantage

We have taken the initiative to build a knowledge management system in the organization based on modern channels (e-learning platform). This solution will allow the effective transfer and sharing of knowledge and will support systemic development of employees' competencies necessary to implement current and prospective business goals.

Projects aimed at the development of managerial staff are aimed at the preparation for efficient functioning in the organization and construction of a culture of continuous improvement.

Confirmation of involvement in employee matters and professional management of human resources is granted in 2017, for the third time in a row, by the Polish Human Resources Association for Grupa LOTOS S.A., the Certificate of HR of the Highest Quality.

PLANS FOR THE FUTURE

G4-2 G4-14



UPSTREAM SEGMENT

We will optimize the financing structure in the coming years. We will gradually build a healthy and balanced portfolio of assets based on currently known investment projects. We intend to increase our involvement in the development of deposits, supplement the portfolio of extraction assets based on market opportunities and limit the share of concessions for deposits in the mature phase of extraction, in the entire asset portfolio.

In addition to organic growth, we plan to actively use the investment opportunities available on the market and complement the portfolio based on the purchase of new attractive assets.

An important element of our activities is building a strong position around the existing Sleipner and Heimdal hubs, as well as the construction of new hubs, e.g. in the area north of Heimdal.

We strive to maximize the output from currently producing deposits, effective development of new deposits using the existing infrastructure in the so-called fast-track, extension of the hub's lifecycle and postponement of obligations related to the decommissioning of production infrastructure. As part of the implementation of the hub strategy, we cooperate with experienced Statoil and AkerBP operators, what ensures high efficiency of operations.

The main direction for the development of our mining operations will be the North Sea areas, both as part of the Norwegian and British Shelters, as well as the Baltic Basin region (Baltic Sea, land concessions in Poland and Lithuania).

The total capital expenditure provided for in the Grupa LOTOS S.A. Strategy for the development of defined extraction projects is PLN 3 billion in the 2017-2022 period. In addition, the Strategy provides for the possibility of allocating additional funds from the PLN 3.3 billion pool to be divided among the Segments into new development projects in the perspective after 2018.



DOWNSTREAM SEGMENT CRUDE OIL REFINING

We intend to maintain a technological advantage in the Central Europe region and to compete in the field of innovation. We are implementing the EFRA Project investment program. We also analyze three potential directions of building a further competitive advantage based on developed refinery assets.



DOWNSTREAM SEGMENT RETAIL

We are planning to optimize customer service and sales processes, revitalize the loyalty program and introduce innovative products and services while improving current services. We strive to become the leader in the implementation of new generation fuels (CNG, LNG, electricity, hydrogen) as part of the LOTOS Energy Hub project.



INNOVATIONS

We will develop new models of cooperation with research units and start-ups, creating joint research agendas and a fund for the implementation of innovative solutions.

Investment expenditures for 2017-2022:

- PLN 2.0 billion for already implemented projects,
- PLN 4.1 billion reserved for prepared projects but before the final investment decision (mainly in the extraction segment),
- PLN 3.3 billion planned as additional capital expenditures after 2018 – for alternative projects, the final selection of which will take place in 2018 on the basis of economic parameters and market development.

OPPORTUNITIES AND RISKS

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KEY OPPORTUNITIES AND RISKS IN THE DOWNSTREAM SEGMENT

SEGMENT OPPORTUNITIES RELATED TO EXTERNAL FACTORS:

- indications of the possibility of an upturn of the economic situation in the commodity market,
- higher profitability of developing the new deposits as a result of cost reduction in the upstream sector, among others, in the price of drilling services,
- greater availability of oil platforms due to the lower utilization rate,
- the potential for further cost optimization and increase in the efficiency of the industry as a result of implementing innovations and advanced technical and technological solutions,
- the withdrawal of some players from the mining and production area gives the opportunity to acquire attractive assets,
- the emergence of new development opportunities, eg. APA concession rounds, which give access not only to exploration assets, but now also to already discovered resources (elimination of costs and exploration risks),
- improving approach of financial institutions to the upstream sector and better prospects for raising capital for new development projects.

SEGMENT OPPORTUNITIES RELATED TO INTERNAL FACTORS:

- a portfolio of attractive development projects that ensure long-term growth prospects,
- a clearly defined and transparent strategy to strengthen the position around existing hubs and the construction of new hubs in Norway,
- good knowledge of the geographical area of the Baltic and Norwegian Shelves,
- constant strengthening of experience and building operator competencies,
- investments in politically secure areas with stable taxation systems and access to logistic infrastructure,
- competence in drilling and operation,
- cooperation with strong, experienced partners with international reach.

SEGMENT RISKS RELATED TO EXTERNAL FACTORS:

- the growth dynamics of oil and natural gas prices is lower than assumed in the assumptions for 2017-2022,
- high variability of macroeconomic conditions at the moment of making key decisions in strategic projects,
- growing competition in the transaction market, including from companies supported by private equity funds.

SEGMENT RISKS RELATED TO INTERNAL FACTORS:

- sensitivity to changes in macroeconomic parameters and industry-specific search risks and projects due to the still relatively small scale of operations,
- delays in the implementation of development projects due to their scale and complexity,
- limited prospects for building a resource base in the Baltic Sea basin in the long term,
- a large share of relatively mature assets in the portfolio of extraction assets,
- high level of indebtedness limiting the potential of conducting exploration and acquisition activities,
- the need to develop competence in the implementation of investment projects.



KEY OPPORTUNITIES AND RISKS IN THE SEGMENT OF PRODUCTION AND TRADE

The situation in the production and trade sector will be affected by general macroeconomic factors (i.e. risk of permanently lower economic growth in China, further strengthening of the dollar, rate of economic improvement in the euro area) and geopolitical situation (i.e. tensions between Iraq and Iran, situation in North Africa).

The growing competition from refineries from the Middle East will be the source of the basic risks in the segment of production and trade. It should be expected that the main European market for these refineries will be the Mediterranean area, however, it will affect the total fuel balance in Europe. In addition, the risk of possible decline and low level of product cracks, especially for medium distillates (i.e. light heating oil and diesel oil) will be a threat.

On the other hand, the possibility of high demand for fuels on the part of individual customers and the potential closure of smaller and technologically outdated refineries, as a result of optimization of assets by European fuel concerns, may be a chance.

RISKS OF THE LOTOS GROUP

STRATEGIC RISKS

In 2017, the key risks affecting both current and long-term results were related to the implementation of strategic and development projects, such as the EFRA Project (delayed coking project), the development of the B8 field or the development of the Norwegian resources projects.

The regulatory risks at the national and European level are also important from the point of view of LOTOS's functioning. Legal environment and procedural changes in regulations are constantly monitored in order to limit their potential negative effects and to take advantage of emerging opportunities (i.e. in the field of electromobility development).

OPERATIONAL RISKS

We constantly monitor risks in every operational activity that we carry out in various areas, including, in particular, all risks related to human and environmental safety and technical risks affecting the security and continuity of operational processes. We use the available methods to limit their occurrence. Striving to meet the expectations of our clients in the best way possible, we also mitigate risks that could threaten business, logistics or sales processes and adversely affect the quality of the product, service or customer experience.

FINANCIAL RISKS

The activities of the LOTOS Group are constantly accompanied by market risks, i.e. the variability of prices of raw materials and petroleum products, changes in the exchange rates and in the interest rates. Favorable macroeconomic conditions in 2017 (upward trend in crude oil prices, high margins on petroleum products) allowed to take advantage of opportunities and positively influenced the results of the LOTOS Group.

In 2017, our liquidity was at a good level. It allowed us to finance development projects in accordance with strategic assumptions, enabling conducting basic and current operations as well as further investing in the development and servicing the long-term liabilities.

REPUTATION RISK AND COMPLIANCE WITH REGULATIONS (COMPLIANCE)

As the LOTOS Capital Group, we operate in the legal environment of many regulations and regulations. In order to minimize the risk of non-compliance with applicable legal and other requirements, a „compliance” structure was established in all LOTOS Group companies supporting activities in this area.

The good, two-sided and mutually beneficial relations are also very important to us: with the key stakeholders: shareholders and investors, society, environment, employees, suppliers and financial institutions. The way to reduce the relational and image risks is to ensure maximum transparency of our activities. We are constantly improving in conducting dialogue with our environment and within the Group, and we try to report our activities as fully and reliably as possible.

RISK MANAGEMENT IN LOTOS GROUP

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The Enterprise Risk Management (ERM) system implemented at the LOTOS Group supports the effective implementation of business strategies and processes. We make the most important business decisions based on risk analysis. The principles of identification and risk assessment applied by us allow us to respond to threats in a timely manner and to reduce or eliminate them altogether. We actively shape the business risk profile, minimizing the impact of threats on achieving the set goals, for the entire organization, our social environment and the environment. Our risk management system also allows to identify and use emerging opportunities.

The main principles of risk management in our organization are presented in the „Corporate risk management policy at the LOTOS Group“. They are described in detail in the procedure of conduct applicable to all companies in the Group.

Active management of opportunities and threats has been defined as one of the strategic objectives for 2017-2022. We implement them through two strategic initiatives:

- risk management optimizing value for stakeholders,
- building a strong culture of open discussion and early response to the first signals of threats, and in the long term also more effective management of risk appetite.

In 2017, we developed directions for further development of the ERM system based on the best market practices. We have introduced changes to the organizational structure of Grupa LOTOS S.A. by appointing, among others, Corporate Risk Management Office. We also made improvements in the concept and operation of the ERM system in the LOTOS Group.

As part of the ERM system, our activities focus on key operational risks, in particular on forecasting their impact on the organization's operations. This allows defining risk scenarios, forecasting the possible impact of risk (the so-called risk exposure) and developing of pre-emptive actions that may affect the reduction or use of risk or its consequences. We are working on further strengthening of this key functionality in the system.

In 2017, in the segment of risk management, we introduced:

- categories of so-called TOP RISK, that is the most important threats for organizations that are prioritized by the management boards of the group's companies and additionally analyzed by the Corporate Risk Management Office and reported to the Management Board of Grupa LOTOS S.A.,
- changes in risk assessment matrices in the scope of financial and reputation assessment criteria,
- a new matrix for assessing opportunities, which enables the identification of those opportunities that are most beneficial from the point of view of the strategy being implemented and their use,
- we appointed coordinators in the LOTOS Group companies who are developing
- and supporting the risk identification and assessment process in subsidiaries. They are also responsible for risk communication in the company,
- shortening formal processes and focusing on taking pre-emptive and mitigating actions.

Activities implemented as part of the corporate risk management process in the LOTOS Group are supported by an internal IT tool – the ERM Portal, which is subject to constant development and improvement.

RISK MANAGEMENT MODEL AT THE LOTOS GROUP

Our risk management model is based on three lines of defense.

The operational mechanisms of current risk management are embedded in existing business processes (so-called 1st line of defense), which are tailored to the specifics of a given activity and the scale of potential risk effects on the LOTOS Group's results.

Another level of risk management (the so-called 2nd line of defense) is supervision and assessment of the effectiveness of operational ways of managing a given risk, ensured by effective organizational functions of areas: Risk, Compliance and Finance.

Ultimately, the adequacy and effectiveness of the entire risk management system is periodically verified by the Internal Audit (the so-called 3rd line of defense).

1st LINE OF DEFENSE

Business

- operational risk management in processes and projects
- development of operational procedures
- identification and assessment of risk at the stage of business decisions and periodic risk reviews

2nd LINE OF DEFENSE

Risk, Finance, Compliance

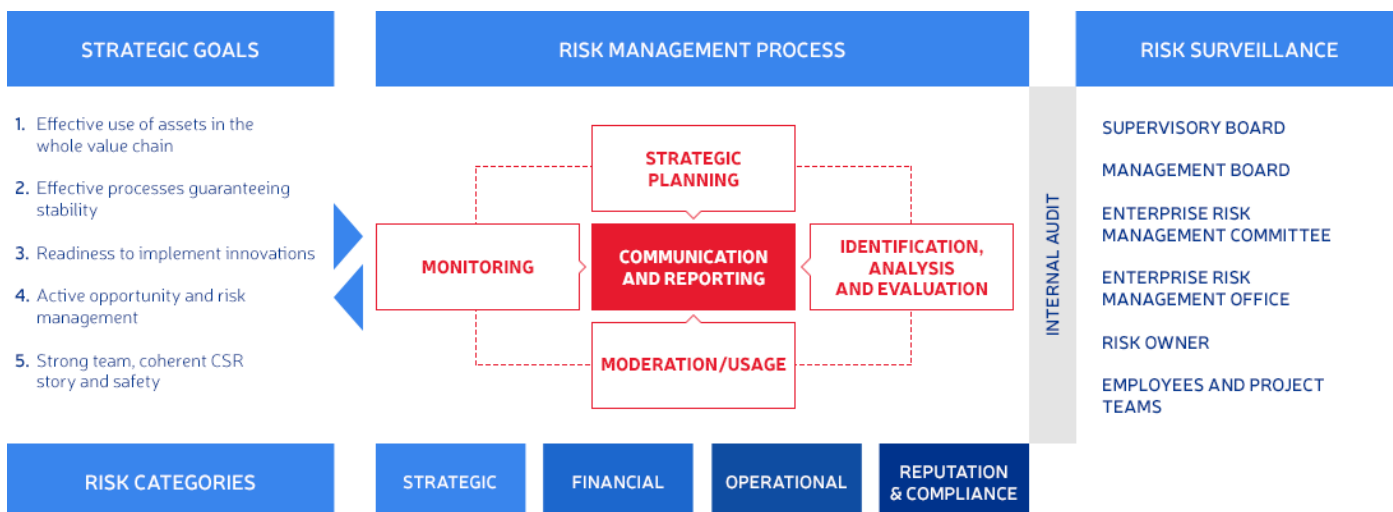
- establishing risk management principles in the LOTOS Group
- connecting risk management to the LOTOS Group’s strategy
- forecasting and shaping the risk exposures and risk profile of the LOTOS Group

3rd LINE OF DEFENSE

Internal Audit

- independent assessment of the effectiveness and adequacy of the risk management process in the LOTOS Group

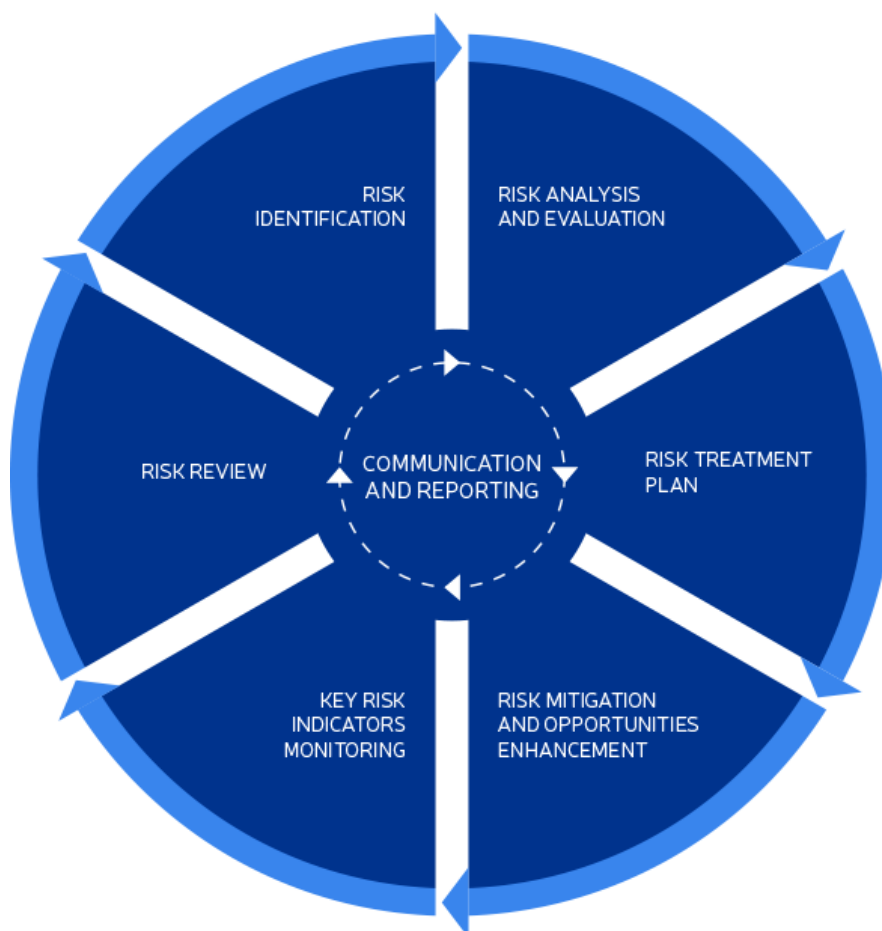
STRUCTURE OF RISK MANAGEMENT SYSTEM (ERM)



We implement the management of opportunities and threats at the corporate level as a part of a process which assumes important stages (in accordance with the guidelines of the ISO 31000 standard):

- identification of risks – risks are recognized in the context of strategic and operational (annual) objectives,
- risk analysis and assessment – the assessment takes place in two time perspectives: annual and long-term.
- The evaluation criteria are both financial and reputation effects, aggregated as an impact on non-financial parameters: image, environment and people,
- determining the way of dealing with risk – for each of the material risks, the current management method is determined, control measures and protective mechanisms are indicated. For the most important category of

- threats (so-called TOP RISK) detailed risk management cards are prepared, the actions to reduce risks and take advantage of opportunities are planned, as well as the manner in which risks are materialized,
- implementation of risk mitigation and exploitation measures – implementation of tasks defined in the risk management plans and ongoing monitoring of their status,
 - monitoring the risk indicators – key risks are defined for key risks (KRI – key risk indicator), which allow monitoring the level of exposure to risk and the likelihood of risk materialization, in accordance with the adopted principles,
 - risk reviews – periodically (twice a year) review and update of the assessment of all defined risks,
 - communication and reporting – standards for communicating and reporting results of implemented activities were implemented at every stage of the process; The Management Board and the Supervisory Board receive systematically a quarterly report on the risk within the organization and effectiveness of actions taken to limit (concerns risks) or use (concerns opportunities) it,
 - In the annual cycle, we analyze the effectiveness and adequacy of the risk management system and make decisions regarding the directions of further development of the ERM system.





04

SUMMARY OF YEAR 2017

YEAR 2017 – TIMETABLE

JANUARY

- Grupa LOTOS S.A. was presented with a special award in “Innovation” category in the “Leader of Technical Safety 2016” ranking.
- LOTOS Exploration & Production Norge AS accepted the offer for 5 new extraction licences, received from the Norwegian authorities as part of the qualification program – Awards in Predefined Areas (APA 2016)

FEBRUARY

- LOTOS Kolej was awarded the Forbes Diamond 2017, award presented only to the most dynamic companies.
- Installation of the heaviest machinery of the EFRA Project – coking reactors DCU (290 t each) and a large DCU column HVDU (300 t).

MARCH

- Start (March 3rd) of the overhaul downtime of the refinery in Gdańsk.
- New company LOTOS Upstream in the LOTOS Group – reorganization of the upstream segment.

APRIL

- End (14. April) of the overhaul downtime of the refinery.
- Grupa LOTOS S.A. was awarded for activities in the field of corporate social responsibility (the title of „Firma Dobrze Widziana” in the Business Centre Club competition and the „Golden CSR Leaf”).

MAY

- Grupa LOTOS S.A. was among the winners of the „Most Desired Employers” competition – in the industry „Power, fuels, extraction, and chemistry”.
- LOTOS Asphalt and LOTOS Oil received the prizes of the weekly Wprost „Eagles”, awarded for excellent financial results.

JUNE

- Grupa LOTOS S.A. joined the Partnership for Sustainable Development 2030 UN.
- Premium program Navigator was extended to all the LOTOS stations.

- JULY**
- LOTOS Lab signed a contract with the Ministry of Economic Development for co-financing the project to build a high-pressure installation for catalytic processes.
 - LOTOS Petrobaltic and PGNiG began extraction on Kamień Pomorski concession.
- AUGUST**
- The LOTOS brand achieved top results in satisfaction ranking of fuel station customers – such were the results of the survey conducted by ARC Rynek i Opinia.
 - LOTOS Oil signed an agreement with Ursus company on supplies of lubricants and Oil Services.
- SEPTEMBER**
- Grupa LOTOS S.A. for the first time in 10 years has distributed a dividend – PLN 1 per each share.
 - LOTOS announced 12 new charging points for electric cars by the Gdansk-Warsaw route.
- OCTOBER**
- Bloomberg announced that the share price of LOTOS breaks records in terms of annual growth among 13 Oil & Gas companies in Europe. The price of the shares amounted to PLN 67.20.
 - New record of goods transported monthly by LOTOS Kolej – 1.236 million tons.
- NOVEMBER**
- Grupa LOTOS S.A. included in the prestigious ranking of 100 leading energy sector companies in the world – Top 100 Global Energy Leaders.
 - For the first time in history, Grupa LOTOS S.A. received the first batch of crude oil from USA, on board of the St. Helen oil tanker.
- DECEMBER**
- Grupa LOTOS S.A., for the eleventh time, was included in the RESPECT Index – an index of the most socially responsible companies of the Warsaw Stock Exchange.
 - A meeting of the Pomeranian Cluster of Hydrogen and Clean Energy Technologies, which federates enterprises and institutions operating in this area, took place at the headquarters of Grupa LOTOS S.A. The co-founder of the project is the LOTOS Group, which appreciates the wide range of application of this element.
 - Grupa LOTOS S.A. signed a derivative contract for the supply of American oil to the refinery in Gdansk – minimum 5 tankers in year 2018.

MACROECONOMIC ENVIRONMENT

The LOTOS Group is an active participant in the fuel market, influencing it with its operations, as well as responding to changes in the industry on a regular basis. Therefore, as part of defining strategic directions of development, LOTOS takes into account forecasts and megatrends affecting its business.

In 2017, the growth of the global economy by 3.7% and demographic changes in the world positively influenced the results of the global fuel sector. According to fuel market experts, the forecasts for the next years for the fuel industry seem to be optimistic as well.

THE CRUDE OIL MARKET IN 2017

The increase in the world's population (up to 7.55 billion) and the good condition of the global economy in 2017 resulted in the increase in the demand for crude oil. On average, based on available economic studies, it amounted to 97.9 mb/d in 2017, so it is about 1.5% more than in 2016.

In 2017, for the first time in over two years, global demand exceeded the global supply of crude oil. Oil consumption in the US, Europe, China and India, that is in the regions and countries responsible for more than half of the global demand for oil, has been growing over the past 4 years. The growing demand resulted in oil price increase: at the end of 2017, the price of Brent Dated crude oil amounted to \$66/bbl, which was the highest in three years. On average, the prices of this raw material increased to \$54.2/bbl and were higher by \$11/bbl than in the previous year. The average price of natural gas amounted to \$32/boe, which translates to an increase of almost 25% compared to the average prices recorded in 2016.

At the same time, in the last four years, the extraction industry has made significant cost optimization in terms of, among others, drilling and offshore services, lifting costs, costs of development of new fields (standardization of technical solutions, technological progress, improved contracting and purchasing processes for products and offshore services) – the average noted decrease in operating costs amounted to 40% compared to year 2013.

CHALLENGES AND GLOBAL FORECASTS FOR THE FUTURE

After a series of increases in the first and second quarters of 2018, the economists predict that oil prices in the second half of 2018 will gradually return to the range of \$40-70/bbl. The producers have reduced the costs of raw material extraction using new technologies, cooperation models and innovations. Therefore, despite the decline in the valuation of deposits, the sector remains attractive to investors.

In the nearest future the industry will face challenges resulting from the introduction of new regulations. The following legislative factors may influence the results of exploration and production: changes in tax regulations regarding hydrocarbon production; changes in environmental protection regulations, including the introduction of stricter regulations and/or an increase in the amount of obligatory collaterals against the possible risk of causing damage to the environment; changes in the licensing system as well as conditions and mode of allocating new permits for exploration and extraction of hydrocarbons.

Regulatory changes and meeting new requirements, resulting in more and more stringent standards may require additional capital expenditures and/or increasing operating costs.

The challenge of the Polish oil market is still the so-called "grey economy". Activities of the government administration – so-called "fuel package" – and of oil concerns, counteracting the illegal trade of petroleum products in Poland, contributed to its significant reduction and additionally influenced the increase in registered demand for diesel oil. After three-year long decline in registered consumption, caused by the intensive development of the shadow market, in 2017 the fuel consumption increased by 12%.

In 2017, the first „Fuel Package”, implemented on 1 August 2016, was followed by further legal provisions limiting the activity of the grey economy in fuel trade in Poland. A so-called "transport package" was implemented as well. The new regulations subjected the sender, the receiver and the carriers to the obligation to notify the commencement of transport and its termination. The Uniform Control File (JPK – similar to SAF-T) has been implemented, which allows business operation tracking.

Another of the means limiting the grey economy in the fuel market are the changes that came into force in 2018 (as a part of the amendment to the Act on biocomponents and liquid biofuels), on introducing obligatory fuel blending. The solutions implemented so far and the effective enforcement of them limited the illegal import of diesel oil to Poland and caused a significant increase in the demand for this product.

According to JBC data, global demand for refinery products will continue to grow. The continuing development of the economies of Central and Eastern European countries implies further increase in fuel consumption to par with the levels of Western Europe. **From the point of view of the fuel producers, the Central and Eastern European market, as it is still growing, is the most promising in the coming years.** The expected improvement in the economic situation both in Poland and in the region (increase in GDP, decrease in unemployment, increase in the purchasing power of households) is also going to stimulate demand for oil products.

Situation in the sector will be affected by general macroeconomic factors (for example permanent risk of lower economic growth in China, fluctuation of the dollar against other currencies, rate of economic improvement in the euro area) and development of geopolitical situation (for example sanctions imposed on Iran, conflict in Syria, tensions between Iraq and Iran, situation in North Africa). The growing competition from refineries situated in the Middle East will be the source of the basic risks in the downstream segment. It should be expected that the main European market for these refineries will be the Mediterranean area, however, it will affect the total fuel balance in Europe.

In addition, the possible decline and low level of product cracks, especially for medium distillates (i.e. light heating and diesel oil) might pose a threat. On the other hand, a high demand for fuels from individual customers may be a chance. The increase in gasoline consumption by retail customers may be supported by a favorable price level (derived from low, stable raw material prices, expressed in US dollars, and the weakening Polish złoty exchange rate against the US currency). Another opportunity may also be the potential closure of smaller and technologically outdated refineries, as a result of assets optimization by European fuel concerns.

FINANCIAL CAPITAL

G4-EC1

G4-EC5

G4-EC8

G4-EC9

The year 2017 was a breakthrough year for LOTOS Group when it comes to financial results.

In the last year we have significantly improved our financial results, mainly with favorable prices of crude oil and petroleum products on world's markets. Thanks to good economic situation the **sales income** of the LOTOS Group amounted to PLN 24.186 billion, that is a 15% increase compared to year 2016. Moreover, the consolidated **nett profit reached historical level of PLN 1.7 billion**, thus increasing **by over 64%** compared to the previous year.

Operational results of LOTOS Group

	2017	2016	2015	2017-2016	2017/2016
Sales revenue	24 185,6	20 931,1	22 709,4	3 254,5	15,5%
Prime costs of sales	-20 194,1	-17 215,7	-20 249,0	-2 978,4	17,3%
Profits from sales	3 991,5	3 715,4	2 460,4	276,1	7,3%
Cost of sales	-1 252,3	-1 291,1	-1 284,9	38,8	-3,0%
General management expenses	-450,0	-425,9	-459,1	-24,1	5,7%
Other operational profits	60,3	107,1	48,3	-46,8	-43,7%
Other operational costs	-121,0	-250,8	-341,3	129,8	-51,8%
Operating profit/(loss)	2 228,5	1 854,7	423,4	373,8	20,2%
EBIT LIFO	2 057,6	1 931,8	702,1	128,5	6,5%

Net performance of the LOTOS Group

	2017	2016	2015	2017-2016	2017/2016
Operating profit/(loss)	2 228,5	1 854,7	423,4	373,8	20,2%
Financial income	450,0	26,6	100,6	423,4	1591,7%
Financial costs	-24,0	-304,8	-688,2	70,8	-23,2%
Share of joint projects, evaluated by property rights method in net performance	3,2	2,9	-31,1	0,3	10,3%
Profit/(loss) before taxation	2 447,7	1 579,4	-195,3	868,3	55,0%
Income tax	-775,9	-564,2	-68,0	-211,7	37,5%
Net profit/ (loss)	1 671,8	1 015,2	-263,3	656,6	64,7%

WE'RE INCREASING POWER AND CONSTANTLY BREAKING OUR OWN RECORDS

The good financial results are an effect of consistent implementation of our business strategy "Stability and sustainable growth for years 2017-2022". Among the most important activities in the series of actions carried out in the last year are, inter alia, diversification of sources of materials, realization of innovative projects, including research on biofuels of 2nd and 3rd generation, hydrogen technology and electromobility. Thanks to them we were able once more to close the financial year successfully and break the existing financial results records.

In 2017, the adjusted **EBITDA (according to LIFO) amounted to the highest level in history of the company – PLN 3.1 billion**. We are also proud of our, another record, adjusted EBITDA for the upstream segment, amounting to PLN 0.9 billion (so above the set objective of PLN 0.6-0.7 billion).

In the previous year we have generated **over PLN 3.1 billion of cash flow** in the business operation (compared to over PLN 2.6 billion in 2016, the growth equals 18%). Our diversified cash flow is guaranteed by, among others, 11*production fields (*onshore fields in Lithuania are treated as one source).

At the same time we have significantly reduced our debt, which at the end of 2017 has fallen from PLN 4.8 billion to PLN 2.5 billion. The ratio of nett gearing to adjusted EBITDA according to LIFO amounted to 0.8x (in the previous year this ratio equaled to 1.9x).

The average model refining margin in year 2017 ran at the level of 7.54. In 2017, the average margin increased by 8.8%, compared to year 2016.

[The detailed financial data for year 2017 are available HERE](#)

FOR THE FIRST TIME IN A DECADE WE HAVE DISTRIBUTED A DIVIDEND

On 14 June 2017, the General Meeting of Shareholders of Grupa LOTOS S.A. adopted a resolution on distribution of the Company's profit for the year 2016, deciding to allot PLN 184.9 million for the payment of dividend to its Shareholders. The amount of dividend per share amounted to PLN 1 gross.

Grupa LOTOS S.A. share price in 2017



Grupa LOTOS S.A. shares performance against the stock market index in 2017



Thus, after 12 years of presence on the Warsaw Stock Exchange, we have distributed a dividend to our shareholders for the second time in history. The allotted funds account for 18% of our nett profit. The previous dividend was distributed 10 years ago and it amounted to PLN 0.36 per share.

The shares of Grupa LOTOS S.A. have been listed on the Warsaw Stock Exchange since 9 June 2005. In 2017, the target price of Grupa LOTOS S.A. shares estimated by brokers ranged from PLN 34.27 – 84.5 compared to PLN 24.0 – 41.2 in the previous year. The shares of Grupa LOTOS S.A. in 2017 were measured on average at the level of PLN 59.59 compared to PLN 31.26 in the previous year. The market-based measure for Grupa LOTOS S.A. shares ranged from PLN 37.0 – 68.85. The share closing price on the last trading day of year 2017 amounted to PLN 57.7.

In 2017, there were 26 broker recommendations, including:

- 9 BUY recommendations
- 2 ACCUMULATE recommendations
- 9 HOLD recommendations
- 1 NEUTRAL recommendations
- 2 REDUCE recommendations
- 3 SELL recommendations

SALES AND DISTRIBUTION – WE FOCUS ON EFFICIENCY

In 2017, the downstream segment of LOTOS Group sold 10.9 million tons of products. The expenditures for purchasing of raw materials as well as petroleum merchandise and materials amounted to PLN 17.6 billion. The EBIT of the downstream segment before depreciation and amortisation, excluding the non-cash allowances (adjusted EBITDA LIFO) amounted to PLN 2.2 billion (in this scope the retail reached the level of PLN 0.2 billion).

The structure of the sales profit of the LOTOS Group (in PLN millions)

	2017		2016	
	PLN mln	%	PLN mln	%
Gasolines	3 682,2	15,2%	3 257,8	15,6%
Naphtha	859,6	3,6%	803,9	3,8%
Refomate	15,7	0,1%	78,8	0,4%
Diesel oils	11 864,5	49,1%	9 776,7	46,7%
Bunker fuel	121,3	0,5%	111,3	0,5%
Light fuel oil	646,9	2,7%	530,8	2,5%
Heavy products	2 314,8	9,6%	1 834,0	8,8%
JET A-1 fuel	913,1	3,8%	1 151,4	5,5%
Lubricats	297,3	1,2%	276,9	1,3%
Base oils	488,6	2,0%	502,1	2,4%
LPG	496,1	2,0%	428,0	2,0%
Crude oil - commodity	432,6	1,8%	247,1	1,2%
Crude oil	252,2	1,0%	270,4	1,3%
Natural gas	574,7	2,4%	529,4	2,5%
Other products, goods and refining materials	424,8	1,7%	403,4	1,9%
Other goods and materials	463,2	1,9%	401,8	2,0%
Services	488,5	2,0%	439,0	2,1%
Excise tax and fuel surcharges	-150,5	-0,6%	-111,7	-0,5%
TOTAL	24 184,6	100,0%	20 931,1	100,0%

Our share in the domestic fuel market in year 2017 amounted to 31.6% – a 2.1% increase compared to the previous year. We have increased not only the market share but also the domestic sales – 19% more compared to year 2016. For the second year running we can be also proud of the fact that the aviation fuel sales also grew – by 42% in year 2017.

We also recorded high results in the average daily fuel sales dynamics – compared to the average dynamics of other concerns the dynamics of LOTOS was 26% higher.

Moreover, the sales of non-fuel articles and services also increased (by 14%), while the margin increased by 23%.

16.3% of the raw materials as well as petroleum merchandise and materials purchase by the LOTOS Group in year 2017 was domestic (decrease by 0.6 percentage point, compared to year 2016).

[More about our results in Sales and distribution segment HERE](#)

INVESTMENT IN THE FUTURE

Being aware of the developments on the worldwide fuel markets, new laws and regulations adopted as well as because of the need to be competitive, we are consistent in improving our offer and processes supporting our activities in every segment and on every level of our organisation.

In 2017, the LOTOS Group incurred investment expenditures in the amount of PLN 1,445 million, of which the largest part were expenditures related to the project of delayed coking unit (EFRA project), crude oil and natural gas extraction, mainly B8 deposit in the Baltic Sea, and also the production in the Sleipner and Heimdal fields in Norway. We also invested in the purchase of catalysts and components, expansion and modernization of the petrol station network, as well as the construction of the Hydrogen Recovery Unit (WOW) installation, which will allow the use of renewable energy sources in refinery processes.

Investment expenditures in the sales and production segment

	2017
EFRA	821,9
Catalysts at the refinery	96,9
Development of the petrol station network	32,8
Hydrogen Recovery Unit (WOW)	19,5
Others	93,4

To optimize extraction and to take care as much as possible for the energy security, we have invested in exploration and recognition of fields. Capital expenditures in the upstream segment in 2017 amounted to PLN 380.1 million.

Capital expenditures in the upstream segment

	2017
The B8 deposit	165,7
Sleipner Norway	79,2
Norway Heimadal	34,6
Others	100,6

WE FUEL POLISH ECONOMY

As the second largest oil company in Poland, we are aware of the impact we are exerting on the economy of our country. Positive impact on the development of the country and local communities, where we operate, have, among others, the taxes we pay.

Fares and charges (country breakdown)

	2017
Poland	469,0
Norway	26,2
Lithuania	11,4
Curacao	0,1
TOTAL	506,7

The operations of LOTOS affect the economies of countries in which the company conducts its operations also through a diversified network of suppliers. We support primarily the local entrepreneurs, improving development conditions for small and medium business. An important role in exerting a positive economic impact is played by one of our companies – LOTOS Oil. It cooperates with numerous local suppliers of goods and services for whom establishing business relationships with the LOTOS brand is an unquestionable opportunity for growth. This is also reflected in the creation of more jobs in the regions in which these enterprises operate.

Good practice of Grupa LOTOS S.A. – we support local suppliers

In 2017, we allocated PLN 5223 million for services provided by local companies from Gdańsk and the surrounding area, which accounts for 25% of the purchase budget of Grupa LOTOS S.A..

We are a significant employer not only in Pomerania, but thanks to the network of our petrol stations, also in other parts of the country. We employ a total of 4897 employees at the LOTOS Group. In respect of the employment in 2017, we paid PLN 736.2 million in employee benefits.

Money paid to our employees and suppliers contributes indirectly to improving the economic situation of the regions in which we operate. Their financial turnover supports other local enterprises and improves the quality of life of local communities.

Average entry level wage

	Minimum wage in a given country	Average entry level remuneration in the LOTOS Group
Poland	2 100	2 440

With our wide range of products we are also trying to eliminate restrictions in access to consumer goods for citizens having a low income. The LOTOS Oil products are easily available and in various price levels, what allows access for a wide range of recipients – both those affluent and those of lower income.

Within the LOTOS Group we also conduct a number of innovative and pro-efficiency activities that reduce the costs of processes and energy. In this way, we try to minimize the negative global trend of price growth of energy factors and, consequently, counteract energy poverty.

PRODUCTION CAPITAL

G4-9

G4-12

OG1

Extraction and processing of crude oil is our primary business. Through continuous improvement of our exploration and extraction activities as well as investments in modern and safe production processes, we strive to deliver highest quality products to the market.

Our range of product includes:

- fuels (unleaded petrol, diesel oil and light fuel oil)
- heavy oil
- bitumens
- aviation fuel
- naphtha
- liquefied gas propane-butane (LPG)
- base oils

PROSPECTING AND EXTRACTION

We conduct exploration and extraction activities in the area of the Baltic Sea, the Norwegian Continental Shelf and in Lithuania. In 2017, our hydrocarbon extraction was carried out: in fields located in the Baltic Sea (fields B3 and B8 – crude oil with a small amount of associated gas), from Norwegian fields (gas and condensate – light crude oil), as well as from onshore fields in Lithuania (Petroleum).

In 2017, the average daily oil and natural gas output of LOTOS amounted to 22.9 thousand boe/day, which sums up to the annual potential of 1.1 million toe (tons of oil equivalent). 74% of the total volume, that is 17,000 boe/day, came from Norwegian fields.

At the end of 2017, the LOTOS Group had confirmed reserves of crude oil and natural gas of the 2P category (proved and probable) of total 88.2 million boe, including 8.8 million tonnes of crude oil and 3.3 billion m³ of natural gas.

In the scope of extraction, our activities are focused on building a balanced and diversified portfolio of assets. We want to increase our involvement in the development of new fields, gradually increase the importance of exploration activities in the portfolio and limit participation of concession for deposits in mature fields. In scope of extraction in 2017, we managed to achieve results consistent with the strategic goals set.

The implementation of the company's strategy for 2017-2022 in the upstream activities focused on using the experience, knowledge and potential of LOTOS Petrobaltic to strengthen and develop operations in the strategic segment of Maritime Power in the Baltic Sea as well as specialization and expansion into the areas of international concessions.

The key element of this process was to define the scope and real possibilities of development and expansion of LPB. The potential of LOTOS Petrobaltic allowed the division of the company in terms of specialization as the direction of the adopted strategy for diversifying revenue sources in the segment. Following the reorganization, the strategic tasks of LOTOS Petrobaltic, its mission and development strategy were determined, as a result of which LOTOS Petrobaltic becomes a modern company, comprehensively managing the needs of the energy industry, offshore and sea operations in the Baltic Sea basin. It is based on experience, knowledge and on the team of dedicated employees and focuses on its core business, gradually expanding the scope of services to include offshore project management, logistics, transport and operating services. Consistent implementation of the LOTOS Petrobaltic strategy and the interest shown by foreign companies offered by the LPB service makes us to look optimistically in the future also in the aspect of exploitation of the company's potential not only at the Baltic Sea. LOTOS Petrobaltic is successfully exploiting the B3 and B8 hydrocarbon fields located under the bottom of the Baltic Sea.

Reserves and output of the LOTOS Group
2P crude oil and natural gas reserves as at 31 December 2017
Average daily oil and gas output in 2017

POLAND
 BALTIC SEA

2P RESERVES
45.2 MILLION BOE

OIL OUTPUT
4.9 THOUSAND BOE/DAY

NORWAY
 THE NORWEGIAN CONTINENTAL SHELF

2P RESERVES
39.3 MILLION BOE

OIL OUTPUT
17.0 THOUSAND BOE/DAY

LITHUANIA
 LAND DEPOSITS

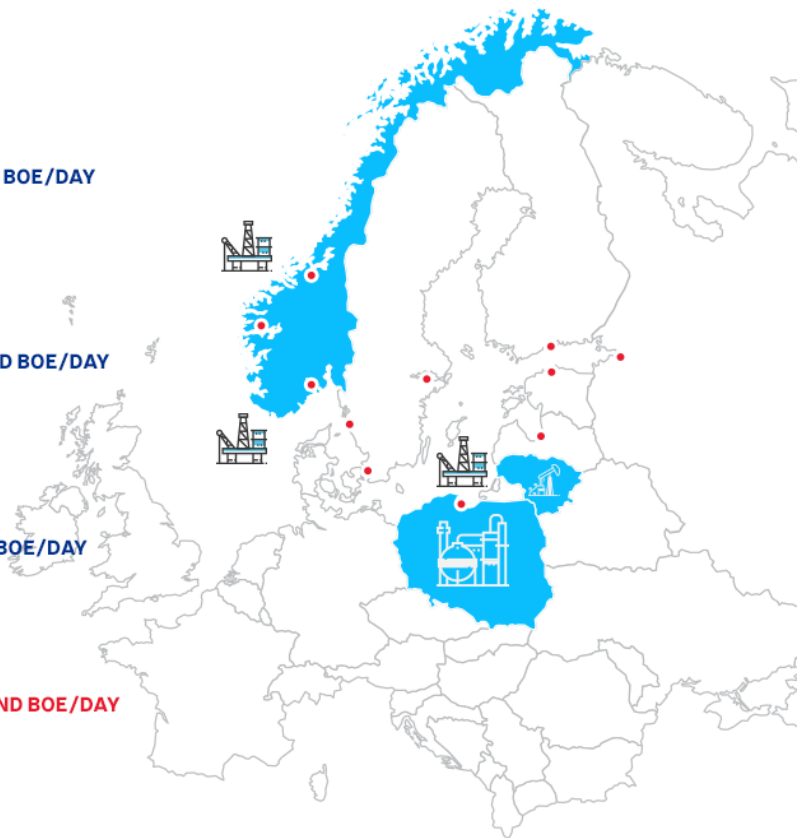
2P RESERVES
3.6 MILLION BOE

OIL OUTPUT
1.0 THOUSAND BOE/DAY

TOTAL

2P RESERVES
88.2 MILLION BOE

OIL OUTPUT
22.9 THOUSAND BOE/DAY



Simultaneously, the further development of exploration and the upstream segment outside the Baltic Sea were entrusted to LOTOS Upstream (LUPS), a subsidiary of LOTOS Petrobaltic. The establishment of LUPS influenced the progressing specialization of operations in both companies, enabling real assessment of the directions of further expansion and development of the segment outside the Baltic Sea. As a result of the transformation, LUPS has become the entity responsible for the development of hydrocarbon exploration and extraction outside the basin of the Baltic Sea, formulating a development strategy dedicated to foreign concessions, business development and supervision over the implementation of the development outside the basin of the Baltic Sea. LUPS was also entrusted with ownership supervision over the B4 and B6 gas fields, which will be operated by LOTOS Petrobaltic in the operational phase.

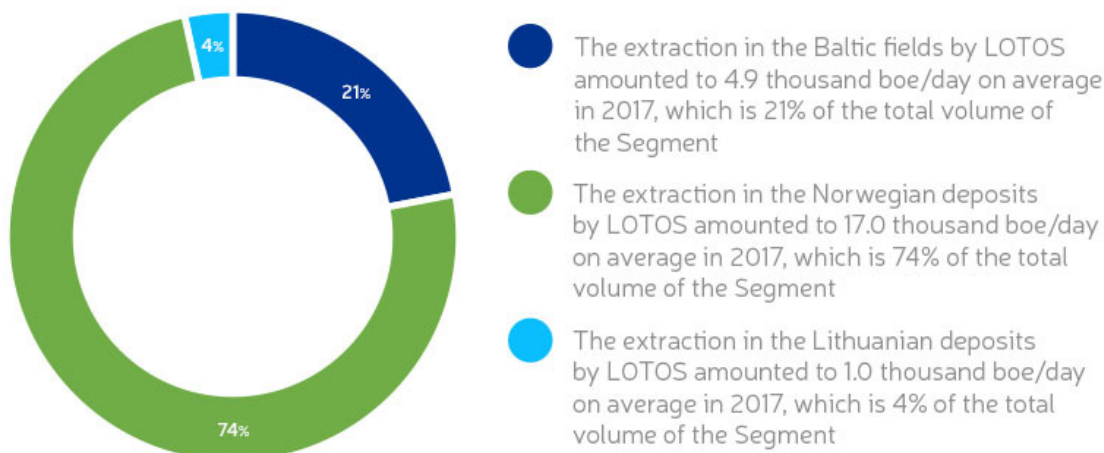
Diversified portfolio of assets

The exploration and extraction activities of LOTOS in Norway are carried out through the subsidiary LOTOS E&P Norge AS, situated in Stavanger. At the end of 2017, the company was a shareholder of 26 concessions for prospecting, identification and extraction of hydrocarbon fields on the Norwegian Continental Shelf.

In Poland, our exploration and extraction activities are conducted mainly in the Polish zone of the Baltic Sea, as well as onshore concessions in the north-east and north-west Poland. We have three concessions for exploration, prospecting and extraction of crude oil and natural gas in the areas of Łeba, Rozewie and Gotland, and (including subsidiaries and joint ventures) we have four concessions for extracting hydrocarbons from B3, B8 and B4/B6 deposits. Operations in the onshore area in Poland are carried out on the proprietary "Młynary" concession and in cooperation with PGNiG on the Kamień Pomorski and Górowo Iławeckie concessions (LOTOS share of 49%).

In Lithuania, exploration and extraction are carried out by the subsidiary AB LOTOS Geonafta based in Gargždai. In 2017, Lithuanian companies operated onshore oil fields within 7 concession blocks.

Extraction LOTOS Group division by fields



Production

The LOTOS Group has one of the most modern and youngest refineries in Europe with annual processing capacity of about 10.5 million tons. Strategic placement of the refinery gives it a significant logistical advantage in access to raw materials and product sales channels compared to the competition in the region.

In the production and trade process, we focus on the technological modernization of the refinery. It has a unique combination of raw material supply channels, ensuring simultaneous access to raw material supplies both by land, from Russia, through the PERN pipeline network, as well as to the supplies of raw materials by sea from many countries as well as from proprietary fields.

In the report by Solomon Associates for 2016, the refinery of Grupa LOTOS S.A., as in the previous surveys, obtained an excellent result in energy efficiency. This is important, as energy costs contribute to more than half of all costs of the plant, outside of the costs of raw materials. Also in the majority of other key competitiveness indicators, such as the efficiency of maintenance services, the utilization rate of the installation – the results of Grupa LOTOS S.A. place it among top 25% refineries. The Solomon Associates ranking is the world's most important benchmark of refineries, in which hundreds of companies from all over the world are compared every two years and it is a prestigious factor for both the refining sector as well as for other associated businesses.

The very good technical condition of our refinery has also been confirmed with the highest **Nelson Complexity Index** in Poland (and one of the highest in Europe), which reflects the intensity of investments in the refinery, potential fixed costs and the potential of generating added value by the refinery.

The Nelson Complexity Index for the Gdansk refinery amounts to 10.0.

The main investment of the Grupa LOTOS S.A. in 2017 in the production process is the EFRA Project (Effective Refining), which, thanks to the construction of one of the most advanced delayed coking installations, will enable deeper processing of crude oil. The progress of the whole EFRA Project implementation at the end of December 2017 amounted to 90%.

Implementation of the EFRA Project, thanks to the combination of new installations with the ones already existing in the Gdansk refinery, will bring more high-margin products produced from each barrel of oil processed by the refinery. EFRA in practice means that:

- refining margin for each processed barrel of raw material will increase by approx. USD 2/bbl,
- EFRA production facilities will also produce about 900,000 tons of high-margin products annually. This will result in an increase in the EBITDA result by PLN 0.6 billion/year,
- after completing the investment and launching new installations, 1 ton of heavy residues will produce approximately 700 kg of fuels and 300 kg of coke, and the Gdańsk refinery will not produce unprofitable heavy fuel oil.

In 2017, the LOTOS refinery processed **9.6 million tonnes** of crude oil, 7% less than the year before. It was the result of the 6-week long maintenance shutdown „Spring 2017”. The predominant types of processed crude oil, similar to the previous years, was Russian Ural oil. Its share amounted to approximately 78.3% and was slightly higher than in the previous years.

The other part of the raw material consisted of crude oil imported from other directions, including approx. 201 thousand tonnes of crude oil delivered by the LOTOS Petrobaltic Group. The selection of crude oils for processing was based on the process of production optimization, in order to take advantage of any opportunities of increasing the processing margin of the refinery.

Safe supply chain

To ensure the production safety of the LOTOS Group, the products are shipped via rail transport from the Gdansk refinery. LOTOS Kolej, a company specializing in this kind of operations, is responsible for the comprehensive implementation of railway logistics for the entire Corporate Group. In 2017, LOTOS Kolej transported 13.3 million tons of goods, of which 7.03 million tons were hazardous materials.

Maritime transport is another important element in the logistics chain. Linking the product pipelines at the Gdansk refinery with a liquid fuel trans-shipment base in the Northern Port grants the company significant benefits by reducing transport costs. In 2017, in seaports LOTOS handled about 7 million tonnes of crude oil, petroleum products and fuel components. The location of the LOTOS refinery in the vicinity of the maritime oil terminal allows the diversification of gas supplies, enables the supply of crude oil from proprietary fields in the Baltic Sea and Lithuania, as well as from the North Sea or from other, more distant points of origin. In 2017, approximately 4.3 million tons of crude oil were delivered to the Grupa LOTOS S.A. by sea.

SUPPLY CHAIN WITHIN THE REFINERY IN GDANSK



MARITIME TRANSPORT

In 2017, Grupa LOTOS S.A. handled in seaports about 7 million tonnes of crude oil, petroleum products and fuel components. The number of serviced tankers amounted to 268 units.



RAILWAY TRANSPORT

In 2017, LOTOS Kolej transported 13.3 million tonnes of goods. The company constantly develops cooperation with clients outside the LOTOS Group, both in domestic and foreign transport. In 2017, the Company continued its 4-year contract with the Polish Armed Forces on the transport of F-34 aviation fuel. The concluded contract is the result of tender procedure won by LOTOS, with strictly defined criteria, such as safety and quality of the services provided.

LOTOS GROUP PRODUCT OFFER IN 2017

The marketing activities of the LOTOS Group in 2017 was conducted as part of the Grupa LOTOS S.A. and by its subsidiaries: LOTOS Paliwa, LOTOS Oil, LOTOS Asphalt, LOTOS-Air BP Poland. Grupa LOTOS S.A. carried out marketing activities within the country (sales to foreign concerns) and in export by sea and land. The subsidiaries carried out production and sales for fuel, oil and asphalt industries.

In 2017, the LOTOS Group achieved a 31.6% share in the domestic fuel market. The largest share in sales, as in previous years, was diesel oil. The volume of diesel sales in 2017 amounted to PLN 5,198,000 tonnes, thus achieving a 47.5% share in total sales (improvement of 4 percentage points comparing to 2016). The second largest item in the quantitative sales structure of the LOTOS Group was gasoline, with a 14.2% share. Gasoline sales by the LOTOS Group amounted to 1555 tonnes and represented a similar level as in the previous year. The share in the total sales volume of the LOTOS Group of the last item, that is heavy products, amounted to over 10%.

In 2017, we can proudly announce a 19% increase in domestic sales. The main driving force behind this growth was the sale of motor fuels (diesel fuels and gasolines), associated with effective sales activities both in the retail and wholesale channels on the growing market. Despite the maintenance shutdown, the LOTOS Group was able to fully meet the growing demand for the product on the domestic fuel market.

In addition, a significant increase in domestic sales also occurred in the bitumen segment. High sales dynamics was the result of domestic demand, related both to the realization of construction projects and limited product expeditions from domestic and neighbouring refineries.

Finally, we are happy with the record amount of fuel sold at each of the five airports, at which refuelling operations take place. The increase in domestic aviation fuel sales in 2017 reached 42%. This increase is the result of the expansion of the subsidiary LOTOS – Air BP Polska on domestic airports.

At the end of 2017, 493 petrol stations operated as a part of the LOTOS network (increase by 6 additional stations), placing it in third place among fuel station chains in Poland. LOTOS strengthened its position in the transit stations segment on motorways and expressways with 20 Passenger Service Areas (MOPs), situated at the A1, A2, A4 and A6 motorways as well as S3 and S7 expressways. We also carry out sale of non-fuel products and services, which in 2017 increased by 14% compared to 2016.

HUMAN CAPITAL

G4-10 G4-11 G4-LA1 G4-LA6 G4-LA9 G4-LA11 G4-LA12 G4-PR1 G4-PR5

The essence of our business, the reason why we strive for continuous development as well as for raising our standards and the largest capital are people – both our employees and all other stakeholders, who are our constant source of inspiration and innovative ideas and whose safety, health and satisfaction are our key priorities.

LOTOS AS AN EMPLOYER

WE ARE AN IMPORTANT EMPLOYER

We are one of the key employers in Pomerania. Altogether, in Poland, Lithuania and Norway we hire 4,897 employees in our companies.

Total number of employees (equivalent of full-time jobs) divided by gender:	Number of employees	
	2016	2017
Female	1116	1114
Male	3740	3755
TOTAL	4856	4869

Total number of employees (in persons) divided by posts:	Number of employees	
	2016	2017
blue-collar	2346	2337
white-collar	2542	2560
TOTAL	4888	4897

Total number of employees (in persons) divided by working hours:	Number of employees					
	2016			2017		
	Female	Male	Total	Female	Male	Total
Full-time	1108	3720	4828	1102	3740	4842
Part-time	11	49	60	16	39	55
TOTAL	1119	3769	4888	1118	3779	4897

Total number of employees (in persons) divided by employment period:	Number of employees					
	2016			2017		
	Female	Male	Total	Female	Male	Total
temporary staff	229	606	835	167	340	507
permanent	890	3163	4053	951	3439	4390
TOTAL	1119	3769	4888	1118	3779	4897

Total number of employees (in persons) divided by:	Number of employees		
	2017		
	Female	Male	Total
Mandate contract	35	38	73
Specific task contract	0	2	2
Internship contract	1	2	3
Self-employed (B2B)	2	30	32
Under supervision and/or seasonal	4	22	26
TOTAL	42	94	136

Total number of new employees (in persons) divided by gender:	Number of employees	Number of new employees	Share of new employees in the total number of employees divided by gender	Share of new employees divided by gender in the total number of new employees
			2017	
Female	118	114	10,19%	20,99%
Male	779	429	11,35%	79,01%
TOTAL	4897	543		

Total number of new employees (in persons) divided by age:	Number of employees	Number of new employees in every age group	Share of new employees in the total number of employees divided by age	Share of new employees divided by age in the total number of new employees
2017				
<30	457	129	28,22%	23,76%
30–50	3051	255	8,35%	46,96%
>50	1389	159	11,44%	29,28%
TOTAL	4897	543		

Total number of discharges (in persons) divided by:	Number of employees	Number of discharges	Number of employee discharges in total number of employees divided by gender	Number of discharges divided by gender in the total number of discharges
2017				
Female	1118	109	9,74%	20,60%
Male	3779	420	11,11%	79,39%
TOTAL	4897	529		

WE MAINTAIN HIGH STANDARDS

We are constantly improving standards of human capital management as well as our HR tools. Over the last years: we have implemented an e-recruitment system, improved the Periodic Employee Evaluation System (PEES) by developing a common Competence Model and related Position Maps in all companies of the LOTOS Group, joined the Coalition for Friendly Recruitment and became a Strategic Member of the Polish Human Resources Management Association.

Our efforts in the field of HR are constantly appreciated. We are perceived as a reliable and valued employer, what is confirmed by numerous awards and distinctions.

HR of the Highest Quality

The LOTOS Group was included in the group of 45 organizations which in 2017 received the certificate 'Top-Quality Human Resources', awarded by the Polish Human Resources Management Association. It is received by companies with the highest standards of human capital management, evaluated in an objective study.

The Most Desired Employer

Last year, for the fifth time, we were awarded the 'Most Desired Employer' distinction, taking fourth place in the 'Fuels, Energy, Mineral Production and Chemicals' category. These awards are granted on the basis of the research carried out by the international consulting company Antal.

Pracodawca Przyjazny Pracownikom

LOTOS Terminale in Czechowice-Dziedzice was included in the group of 27 winners of the 10th edition of the 'Employee-Friendly Firm' competition. The competition, organized by NSZZ Solidarność under the honorary patronage of the President of the Republic of Poland, is unique in such a way that the employers are nominated by the employees themselves.

The purpose of the competition is to promote employers standing out for their application of best practices in terms of compliance with labour laws through stable employment, adherence to OHS regulations, and respecting the right to form and join trade unions.

EVERYONE HAS EQUAL CHANCES

In the LOTOS Group, all employees as well as persons applying for employment can count on equal employment opportunities, promotion, development and professional development. Our code of ethics safeguards the fair treatment of all people, regardless of their position, seniority, affiliation, age, gender, sexual orientation, appearance, nationality, religion or political orientation.

[More information HERE](#)

In addition, in our relations with all the stakeholders, both internal and external, we comply with the 10 Principles of the United Nations Global Compact, in the field of human rights, labour rights, environmental protection and anti-corruption.

The proper relations between employees and management are supported by the Collective Bargaining Agreement (ZUZP) and our internal procedures governing the HR management.

Employment in the management posts in Grupa LOTOS S.A., divided by age and gender

	Female	Male
Management Board	0	0
Supervisory Board	3	4

	Younger than 30	30–50	Older than 50
Management Board	0	3	0
Supervisory Board	0	6	1

We recruit in a friendly way

We know how stressful the recruitment process is for the candidates and how many factors can affect the recruiter’s assessment of a candidate. Therefore, we have implemented appropriate regulations at the LOTOS Group, so that the recruitment is conducted in a reliable and objective manner, and the process itself is enjoyable.

In our company there is an e-recruitment system, the list of desired employees is available to the public, and all the interested parties can apply for vacancies through our website. We are a member of the Coalition for Friendly Recruitment, established in June 2013, promoting good practices and high standards, and as a member of the Coalition we adhere to the Code of Good Recruitment Practices, which applies, among others, to such issues as communication with the candidate, involvement in the relationship with the candidate, clear formulation of job offers or respect for candidates.

We have also introduced guides for those responsible for coordinating recruitment processes ‘Employee Recruitment and Selection Standards at the LOTOS Group’, and we systematically analyze the reasons for the departure of our employees in order to eliminate these reasons. Our efforts in this area do not remain unnoticed – since 2014 we have been proud of the ‘Friendly Recruitment Zone’ certificate.

[Code of Good Recruitment Practices HERE](#)

In the LOTOS Group, we pay particular importance to internal recruitment, which makes the optimal use of our employees’ competences possible, as well as providing them with broad development opportunities. Since 2016, there is sub-page ‘Internal recruitment at the LOTOS Group’ (designed for the LOTOS Group’s personnel).

We objectively evaluate our employees (evaluation)

In our company, there is a joint system of Periodic Employee Evaluation System (PEES), common for the entire corporate group, thanks to which we can easily and reliably compare the results and competences of individual employees, as well as analyze emerging trends.

In 2017, we evaluated 89% of the female employees (978 people) and 96% of the male employees (3,528 people) of the LOTOS Group. The subject to the evaluation were the employees employed in 15 companies of the group. **The PEES rating is carried out once a year, in most of our companies it starts on 1 July and lasts until the end of August.**

PEES is a useful tool not only for the HR department and human resources management, but above all provides support for the employees themselves, helping them in planning their professional development, managing their time and competences, and motivating them to improve their own work.

This tool is also particularly useful in monitoring the key competencies in force at the LOTOS Group: cooperation, commitment and openness to changes.

PEES assessment benefits for employees:

- *receiving feedback on the results of work,*
- *getting to know the exact needs and expectations of their superiors,*
- *better knowledge of the goals and tasks assigned for the next period,*
- *tips and tools to improve the effects of their own work,*
- *an opportunity to exchange views and opinions on work itself,*
- *identification of development needs.*

Benefits for organizations resulting from the use of PEES:

- getting information, which competences in the organization are at the highest level and which shall be improved,
- versatility of the tool gives the possibility to compare employees from different companies and select the ones rated the highest,
- source of information on the training and education needs of employees,
- opportunity to get to know employees' opinions about the workplace and management style, as well as their other needs and expectations.

TRAININGS AND EDUCATION IN LOTOS GROUP

Caring for talents is the strategic goal of the LOTOS Group in years 2017-2022. Providing our employees with the conditions for development and improvement of qualifications not only translates into the competitiveness of our company, but also increases their job satisfaction and gives them a sense of stability.

Last year, our employees spent 114,210 hours on various types of training sessions, almost 23.4 hours of training for each employee (25.2 hours for men and 17.1 for women). **The employees occupying managerial positions spent almost 22 hours on training, while employees employed at lower levels – almost 24 hours.**

Total number of employees in LOTOS Group	Total number of training hours	Average number of training hours per employee
4884	114 210	23,38

Females employed in LOTOS Group		
Total number of females employed in LOTOS Group	Total number of training hours completed by females	Average number of training hours per female
1116	19 089	17,10

Males employed in LOTOS Group		
Total number of males employed in LOTOS Group	Total number of training hours per male	Average number of training hours per male
3768	95 121,34	25,24451699

Employees holding managerial positions		
The total number of employees holding managerial positions	Total number of training hours per person holding managerial positions	Average number of training hours per managerial positions
932	20 468	21,96

Other employees (at lower positions)		
Total number of managers	The total number of training hours for lower-level employees	Average number of training hours for lower-level employees
3922	93 738	23,90

All our employees, regardless of age and time remaining to retire, have the opportunity to participate in trainings broadening their knowledge and professional qualifications as well as general development skills. What is more, we eagerly use the knowledge and experience of 50+ employees and involve them in activities aimed at development of new employees. The team for operational training, consisting mainly of experienced employees aged 50+, was appointed in the Chief Refining Officer. The team shares with younger employees its extensive technical and technological knowledge gained during many years of work on refinery installations.

In addition to mentoring from mature colleagues, newly hired employees might take advantage of the 'Good Start for Beginners' adaptive program that helps them learn about the culture and practices at the LOTOS Group, thereby making the process of adapting to a new workplace more efficient and reducing possible stress.

Young employees especially appreciate the e-learning training formula, recently promoted by us, which gives them much flexibility.

We are also constantly improving the activities of LOTOS Academy, our original training and development project, that increases competences and conscious involvement in creating added value by our employees. As part of the LOTOS Academy last year, we implemented, among others, the following talent programmes:

- Leader of the Future Programme;
- Master Programme;
- Manager's Academy;
- Management Skills Development Programme for Technical Personnel;
- The LOTOS Group Succession Programme.

The rules applicable to the implementation of projects within the LOTOS Academy:

- ***availability:*** training opportunities are offered to all employee groups;
- ***coherence:*** the training system takes into account the mission, the strategy and the long-term development plans of the company and is also related to other areas of human resources management;
- ***responsibility:*** all participants are responsible for training results and development;
- ***continuity:*** development planning is a continuous process, related to the results of periodic evaluations, career paths, succession plans and development programs for individual groups of employees;
- ***flexibility:*** planning and implementing of trainings is related to monitoring of the evolving external environment of the company and the desired changes in the qualifications of employees.

A healthy mind in a healthy body!

Being aware of the importance of physical activity both for the health and for the quality of life of our employees, we encourage them to take part in various types of events and sport/recreation events, organized as part of the LOTOS Society for Propagation of Physical Culture. There are various sports sections in the Society, including basketball, volleyball, swimming, football, chess and tennis. LOTOS Running Team is also very popular. The section consists of over 60 people who train and take part in running competitions.

Examples of strategic indicators to achieve and monitor the level of occupational safety at the LOTOS Group

Occupational safety indicator	Monitoring method	Goal in years 2018-2019
LTIF rate of accidents	number of accidents at work and accidents treated as equal to accidents at work, per one million man-hours worked by all the employees of the company, determined for a year	< 3.0
Timely implementation of mandatory health and safety trainings	% of employees with current periodic health and safety trainings	100%
Number of dangerous situations reported by employees	% of employees' reports in relation to the general state of employment in the company	5%
Accident rate	number of accidents considered as individual, heavy, collective and fatal accidents and as accidents treated as equal to accidents at work	–
Timely implementation of post-audit recommendations (%)	% share of timely implementation of post-control recommendations in a given period	–
Self-monitoring of occupational health and safety by managers (%)	% degree of OHS self-control by managers in a given period	–
Research of the safety culture among the employees (%)	% share of employees who took part in the survey (attendance)	–
Health and safety leadership of top management (visits)	number of visits carried out within a given period. [visits of the top management (members of the management board) within the company, review of the health and safety conditions at work in the areas under management, direct meetings with employees and conducting interviews motivating adhering to health and safety rules]	–
Implementation of safety walks in the operational area (production, technology or convergent depending on the organizational scheme of the LOTOS Group)	health and safety inspections in the managed area (head in the area of production/technology/convergent once per month with the company's representative/OHS service)	–
Implementation of safety walks in the inoperable area (other than production and technology or convergent depending on the organizational scheme of the LOTOS Group)	health and safety inspections in the managed area (head of the non-production unit – once per 3 months independently, based on a check list)	–

Accidents at the LOTOS Group * in 2017

	2017	
	Female	Male
Total number of accidents (incidents) at work	3	35
Number of fatal accidents (incidents)	0	0
Number of heavy accidents (incidents)	0	0
Number of light accidents (incidents)	3	35
Total number of injured persons in accidents	38	

Number of accidents by cause (i.e. road, air transport, construction activities, etc.)	2017
Cause:	Liczba wypadków
Walking around	18
Operation of machines and devices	8
Driving or using means of transport	1
Transshipment, storage, transport works	4
Repair and maintenance of machinery and equipment	5
Other	2

* Data comes from companies: Grupa LOTOS S.A., LOTOS Paliwa Sp. z o.o., LOTOS Kolej Sp. z o.o., LOTOS Oil Sp. z o.o., LOTOS Lab Sp. z o.o., LOTOS Serwis Sp. z o.o., LOTOS Straż Sp. z o.o., LOTOS Asphalt Sp. z o.o., LOTOS Ochrona Sp. z o.o., LOTOS Infrastruktura S.A., RC Ekoenergia Sp. z o.o., LOTOS Terminale S.A., LOTOS Biopaliwa sp. z o.o., LOTOS Petrobaltic S.A.

Security indicators for Grupa LOTOS S.A. in 2017

Frequency rate of accidents (IR, calculated as the total number of people injured in accidents / employment x 1000)	2017		
	Female	Male	Total
	0	10,13	6,92

Total number of days of incapacity for work resulting from accidents at work (LDR, calculated as an indicator of the total number of lost days to the number of scheduled employees' working hours in the reporting period*200,000)	2017		
	Female	Male	Total
	0	23,17	15,6

Accident severity rate (counted as the number of days of incapacity for work due to accidents / number of accidents)	2017		
	Female	Male	Total
	0	21	21

SAFETY AT WORK AS A VALUE ITSELF

We strive to ensure the highest safety standards for our employees and all those visiting our facilities and expect the same from all the people who work and cooperate with us.

In the case of disregarding these rules and non-observance of the requirements in the area of occupational safety, we apply the 'zero tolerance' principle. A high safety culture is our strategic goal for 2017-2022. Health and safety goals are also regu-

lated by the Policy of the Integrated Management System.

In 2017, we continued establishing uniform standards and strengthening the safety culture in the companies of our Group. We strive to achieve the level of the LTIF accident rate (number of work-related accidents per one million man-hours worked by the company's employees) below the average for European refineries, both using our own ideas for improving safety and drawing global solutions in the field of work safety and process-technical safety.

As a result, last year no serious accident in our company occurred. In 2017, only individual accidents occurred, in which 35 men and 3 women were injured.

Occupational safety is one of the main pillars of our development strategy. Last year, as a part of the strategic goals implementation in the area of occupational safety, we implemented, among others, the following initiatives:

Strategic indicators of occupational safety

As a result of the establishment and sanctioning of the importance of occupational safety in the Strategy of Grupa LOTOS S.A. for 2017-2022, work safety indicators have been developed and will be monitored in the future. They have been developed and adapted in relation to the analysis of the current situation and accident trends in individual companies of the LOTOS Group.

Occupational safety golden rules of a LOTOS Group employee

In July 2017, the Occupational safety golden rules of a LOTOS Group employee came into force. They comprise of a set of rules and attitudes recognized by the Management Board of Grupa LOTOS S.A. as crucial in the area of safety and health. They are based on the applicable laws and internal regulations. They were established on the basis of identified hazards, occupational hazards, accident and hazardous situation analyses that occurred in the LOTOS Group in the last decade. The goal is to build a high level of occupational safety culture, shape appropriate attitudes, reduce the risk of accidents and dangerous situations threatening the health and life of employees.

OCCUPATIONAL SAFETY GOLDEN RULES OF A LOTOS GROUP EMPLOYEE:

- *I work safely*
- *I react to threats*
- *I move safely*
- *I drive carefully*
- *I care about order*
- *I use protective measures*
- *I use only efficient tools*
- *I care about my health*

Maintenance shutdowns 'Spring 2017'

In April, in accordance with the planned schedule, the biggest maintenance shutdown in the history of the Grupa LOTOS S.A. was finished. Typical maintenance works were connected with cleaning, inspections and repair of apparatus, pipelines and devices, as well as replacement of some of them with new ones. An important task of the maintenance shutdown was to connect the EFRA Project units with the refinery units. About 1,100 apparatuses were renovated – including about 500 pieces of heat exchangers and tanks, reactors, furnaces, columns and over 1,500 pipelines and over 3,000 fittings and automation components. During the maintenance shutdown, about one million man-hours were worked.

8th HEALTH AND SAFETY DAYS

Health and Safety Days took place on October 25-26, 2017 at the premises of the Old Central Control Room and the administrative CA2 building. Thanks to such solution, both production and administrative employees were able to enjoy all the prepared attractions. The prepared Health and Safety Days programme was associated with many activities promoting safe attitudes and behaviors related to the application of the Occupational Safety Golden Rules of a LOTOS Group employee.

Agreement with the Main School of Fire Service

In November 2017, an agreement was signed to extend the existing cooperation between Grupa LOTOS S.A. and LOTOS Straż and the Main School of Fire Service [SGSP]. SGSP students have the opportunity to complete apprenticeships at the headquarters of LOTOS Straż and can count on help in preparing diploma theses. Together, we also carry out exercises, workshops and conferences and scientific symposia.

Training of the Management Board and Management of the LOTOS Group in the area of responsibility for occupational safety

*In 2017, a series of trainings was organized for the management staff of the Grupa LOTOS S.A. and the Management Board of LOTOS Group in the scope of responsibility for occupational safety. The goal of the training was to raise the management's awareness of the legal requirements that directly affect the managers of employees. Occupational safety is a topic for us all, every employee, not just OHS service. The key role in building a safety culture is played by the managers of employees who bear special obligations and responsibilities. We want the security culture, just like it is at many of our western competitors, to be part of the professional DNA of every employee – said **Jarostaw Kawula**, Vice-President of the Management Board of LOTOS Group, Production & Sales Officer*

During the training, issues such as:

- *duties and responsibilities of the manager in scope of legal provisions,*
- *key elements of the OHS management system,*
- *the role of the manager / leader in the OHS management system,*
- *OHS management through occupational risk.*

Employee involvement and motivation system in occupational safety

Providing a system of motivation and involvement of employees at all levels in the scope of occupational safety is an element of building an occupational safety culture in accordance with the implementation Strategy of Grupa LOTOS S.A. and the Policy of the Integrated Management System.

As part of it the following solutions, among others, were implemented:

- self-control of health and safety status as a tool for managers of organizational units, in order to confirm their performance in the area of health and safety,
- reviews of health and safety at work performed systematically by the management, where the leader is obliged to set an example to other employees with his attitude,
- a minute for security (description below).

As part of employee motivation:

- health and safety goals are set in the Periodic Employee Evaluation System (PEES) and the Quarterly Motivational Prize (KNM),
- employees are distinguished for reported dangerous situations and reported actions improving working conditions,
- the safest production plant in a given year is distinguished as well.

Minute for security

Safety first – that is, 'safety first and foremost' is a slogan used daily by many companies in different circumstances. In practice, this means adhering to security values as crucial in the organization, both in actions and in making important decisions.

Every employee should also adhere both by his attitude and behavior to the safety principles as a priority in his daily work.

One of the example actions to underline that security values are treated in the organization as priorities is the so-called 'Minute for security', that is, starting various types of meetings / trainings / severance payments from the health and safety topic. The responsibility of the manager / employee organizing the internal / external meeting, during which the presentation will be presented (for instance in the MS Power Point), is to include at the beginning of the meeting a presentation and discussion about the 'minute for security' topic.

Examples of topics that can be addressed during the 'minute for security' include:

- the benefits of reporting dangerous situations,
- how to safely use specialist equipment / devices in the company,
- discussing an accident at work of a colleague, a person outside of work, at home, etc. (taking into account the protection of personal data),
- dangerous behavior on the road while traveling to work (car, bicycle, etc.),
- a potentially accidental event outside work,
- work permit/LOTO system,
- principles of taking care of health, proper nutrition,
- principles of maintaining the balance between work and personal life, so-called work-life balance.

Health and safety survey for white-collar employees

As part of the activities aimed at improving the working conditions of people employed at office and administration positions, an OHS survey addressed to the interested parties was carried out. Every office employee of Grupa LOTOS S.A. had a chance to express his or her opinion on the health and safety conditions at the workplace. The results of the questionnaire allowed us to see aspects, which OHS services the managers and office shall pay special attention to. The next step will be to start reviews of office positions in scope of health and safety requirements for rooms and office work, with particular emphasis on the problems reported in the surveys.

Skin protection program

At Grupa LOTOS S.A., a skin protection plan for employees was introduced, mainly for those working in production, which consists of three stages, each with a different task:

- **skin protection** – using skin protection measures **before starting work**, that shall protect the employee in the event of contact with various substances present in the workplace, that could dry and irritate the skin
- **skin cleansing** – the use of agents intended to remove impurities off the skin **after work**. Washing shall remove dirt and harmful substances from hands, so that the skin stays clean
- **skin care and regeneration** – usage of skin care lotions **after washing hands** helps to regenerate the skin, prevents drying out of the skin, helps the skin restore the water-fat balance and accelerates the regeneration of the epidermis.

Properly used lotions and soaps keep the skin in good condition, what positively affects the aesthetic appearance of the hand, and reduces the risk of skin diseases. Application of the above-mentioned skin protection measures does not exempt employees from using personal protective equipment, i.e. protective gloves.

WE ALSO RECEIVED AWARDS AND DISTINCTIONS IN THE AREA OF SECURITY:

Grupa LOTOS S.A. as the leader in technical security

Last year we received a special prize in the 2016 Technical Safety Leader ranking. We were awarded in the 'innovation' category because of our innovative approach to the analysis of the operation of technical devices risk. The competition is organized by the Office of Technical Inspection, under the patronage of the Ministry of Development.

The safest manufacturing plant and the safest company in the LOTOS Group

In 2017, the winners of the competition for the safest production plant and the safest company of the LOTOS Group for the previous year were selected. The Zakład Nalewu Cystern and the LOTOS Asphalt won the contest. The selection of winners takes place after a thorough assessment based on individual, properly scored criteria. Such criteria are statistical indicators, such as, for example, the LTIF index, illustrating the number of work-related accidents per one million man-hours worked by employees of the company, but also elements related to the involvement of the crew, including primarily the management.

OUR CLIENTS

Safe LOTOS clients

The care for the health and safety of customers is especially important to us. For years we have been making every effort to ensure that the products we offer are safe at use and disposal stage. We also take care of safe transport and distribution, and regularly train our employees in the field of transport of hazardous goods.

LOTOS Lab has been operating in our Group for fifteen years, that thoroughly examines the semi-finished products, products, components and additives used in the production of fuels, oils and bitumens, as well as water for the production of energy utilities and wastewater.

All the products manufactured by us have Product Information or Safety Data Sheets attached, containing information such as the effect of the product on health and the environment, the presence of hazardous ingredients – chemical substances and preparations, handling in the event of fire and release of the product to the environment and handling of waste. Information on the safe use of our products is available both at the point of sale and on the Internet.

All categories of products and services of the LOTOS Group are subject to health and safety impact assessment. First of all, it concerns:

- lubricating oils and lubricants (evaluation process according to EU REACH directives on chemicals hazards and CLP regulation on product labeling),
- bitumens and bitumen products,
- marine fuel.

[More about our products HERE](#)

CLIENTS ARE SATISFIED WITH OUR SERVICES

Customers' opinions about our business, the products and the services we offer are a very valuable source of information for us, allowing us to constantly raise our standards of operation and meet such expectations in a better way.

We regularly examine the opinions and expectations of our clients and draw conclusions from them. In July 2017, we conducted a research on the customers of LOTOS Oil and Distributor clients (authorized clients of Distributors and Branch Distributors, Direct Clients and Distributor Clients (DPS)). We assessed aspects such as cooperation with LOTOS Oil or the Distributor, competitive advantage, sales representatives' activities, products, marketing, assets. We also encouraged to express comments and opinions.

The results of the research show the level of customer satisfaction and that the loyalty compared to the previous year has increased. In the survey carried out a year before, 56% of clients evaluated our cooperation well and very well, last year it was as much as 79%. Customers perceive our company as caring about ecology, treating their clients honestly, as well as reliable and trustworthy. As the biggest advantages over our competition, the respondents pointed out our wide range of products, product quality, care of traders, a workshop program and technical consultancy. Clients are satisfied with cooperation with LOTOS sales representatives, judging them as competent, quick to act and able to advise. Our price / quality ratio was evaluated good or very good as well (83% – direct, 71% – indirect clients), as well as the availability of our products (96% – DR, 98% – DPS, 94% – direct client).

We also conducted a similar survey in 2017 among LOTOS Lab customers. Its purpose was not only to get to know opinions about cooperation, but also about obtaining information that would help in improving the quality of services offered by the laboratory. The respondents assessed aspects such as the scope of the services offered, the ease of contact, the competencies of the staff working in the provision of the services, the time of order completion, reliability and credibility of test results, the readability of test reports and finally the price. According to the survey, the level of satisfaction of LOTOS Lab customers amounted to 91%. The highest ratings given by the respondents were the readiness of test reports and the ease of contact as well as the lowest price. Customers declare that they use LOTOS Lab mainly due to the range of services offered, professional service and short order completion time.

The opinion of our clients translates into their attitudes. According to the Polish Quality Service Program, last year, the users' loyalty rate to the LOTOS brand of the petrol stations increased by 15.8%. We also recorded significant sales increases in many areas of our business, including sales of diesel oils and gasolines (by 19%), what equalled 31.6% share in the domestic fuel market, and 14% sales of non-fuel products and services in the retail segment.

INTELLECTUAL CAPITAL

WE ARE DRIVEN BY INNOVATION

The innovative approach to business and its development helps us to respond to market challenges and build our competitive advantage, guaranteeing the high quality of our products and services. Innovative thinking applies to each of the stages of our activity. At the stage of extraction and production, we invest in modern technologies, enter new product markets and expand the company's offer. At the retail level, on the other hand, we optimize the retail network and introduce innovative products and services. Our refinery in Gdansk is one of the youngest and most technologically advanced and ecologically friendly refinery complexes in Europe.

Initiatives supporting our innovativeness:

LOTOS Vera

implements research and development projects for the LOTOS Group

CORPORATE VENTURE CAPITAL fund

a newly created fund of EUR 40–50 million, with which we plan to finance innovative projects related to the development of key businesses of the LOTOS Group

The EFRA project

at our refinery in Gdańsk we implement the most modern delayed coking installation that will improve processing of crude oil

Innovation Support Program

an internal program of the LOTOS Group, which supports the management of intellectual capital and the innovative potential of our employees

ALTERNATIVES FOR GASOLINE

We are conducting research on alternative fuels, such as hydrogen and biofuels, we are exploring the possibility of developing infrastructure for alternative fuels, energy storage, including storage capacity and usage of hydrogen in road transport. We are also active in the field of development of electromobility. This year, we will create 12 fast charging points for electrical vehicles at stations located on the Warsaw-Tricity route. In the nearest future, we also plan to install similar devices at 38 further stations.

In addition, we are modernizing our gas stations so that they are more friendly to our customers on one hand and friendly to the environment on the other. Therefore, among other activities, we are modernizing the infrastructure around the stations and we are testing the fast customer service points, facilitating payments for the fuel directly at the pump.

We are working on the idea of LOTOS Energy HUB, a completely new format of petrol stations, where in the future it will be possible to refuel the vehicle with both traditional fuels and those currently used, such as LNG natural gas, compressed CNG natural gas, electricity or hydrogen cells.

STRENGTH OF PARTNERSHIPS

We implement many innovative projects in cooperation with external partners.

We are the co-founder of the Cluster of Hydrogen Technologies and Clean Energy Technologies, we support the National Innovation League. We also actively participate in government agenda programs and cooperate with other companies, incubators and accelerators in the country. As part of the Space3ac accelerator, we develop projects together with start-ups. In 2017, we also commenced preparations for launch of a fund for innovation support 'Corporate Venture Capital'.

We particularly value cooperation with research centres, both Polish and international. We are heavily involved in researching numerous innovative solutions in our sector. We work effectively with leading research centres, creating their

research agenda. Apart from completing the core business, our LOTOS Lab participates very broadly in the development of students' competencies in secondary technical schools of chemical faculty, as well as university students by providing internships for them. The internships allow both secondary school and university students to learn and familiarize themselves with state of the art research equipment and perform analytical tests on their own.

FLAGSHIP PROJECTS

Our expenditures on innovative projects are systematically growing, we finance them both from our own resources and those obtained from external sources. Among our flagship projects in the field of innovation, these deserve mention:

COOPERATION WITH ELECTRIC POWER RESEARCH INSTITUTE

For 2 years, we have been cooperating with one of the world's most prestigious research organizations in the energy sector, Electric Power Research Institute (EPRI) from Silicon Valley, developing joint innovative research projects.

EPRI runs, among others, research on electromobility, energy production and energy distribution, development of intelligent energy networks or environmental protection. As part of cooperation with the LOTOS Group, EPRI has so far dealt with the assessment of new energy resources and energy efficiency of industrial facilities.

As a result of cooperation with the LOTOS Group, EPRI has decided to open a representative office in Poland (on the premises of our company in Gdansk), which is the second organization's office, with Dublin as the main office.

SUPPORT FOR YOUNG SCIENTISTS, POLISH INNOVATIONS AND EDUCATION

In 2017, we took patronage over the next, sixth edition of the E(x)plory program, a nationwide educational initiative supporting talented students, young scientists and the development of innovation. The program aims to popularize science and new technologies in Polish society. As part of the last edition of E(x)plory, 5 regional scientific E(x)plory festivals took place in Szczecin, Torun, Wroclaw, Warsaw, Podzamcze near Kielce and the main festival in Gdynia, which gathered 3300 spectators.

6th edition of E(x)plory program:

- *6600 uczestników festiwali naukowych*
- *160 projektów naukowych zgłoszonych do konkursu E(x)plory*
- *350 innowatorów uczestniczących w kongresach E(x)plory*
- *blisko 40 młodych naukowców poszerzających wiedzę w ramach programów stażowych i wizyt studyjnych*
- *70 partnerów ze świata nauki i biznesu*
- *w zasięgu programu znalazło się 2 mln uczniów*

THE VICTORY OF THE JOINT PROJECT OF THE GRUPA LOTOS S.A. AND POLYMEMTECH IN THE COMPETITION OF THE NATIONAL CENTRE FOR RESEARCH AND DEVELOPMENT

The joint project of Grupa LOTOS S.A. and Polymemtech won a grant of PLN 6 million to develop new technology for the management of unreacted oil from the hydrocracking process in the co-financing competition for INNOCHEM sector program, financed as a part of the Sector R&D programs of the Intelligent Development Operational Program. „INNOCHEM”, initiated by the Polish Chamber of Chemical Industry, aims to improve the competitive position of the Polish chemical sector on global markets – by strengthening the ability to generate innovative solutions in cooperation with the science sector for 2023.

PARTNERSHIP WITH THE POMERANIAN SPECIAL ECONOMIC ZONE WITHIN SPACE3AC INTERMODAL TRANSPORTATION PROGRAM

In 2017, the LOTOS Group signed a partnership agreement with the Pomeranian Special Economic Zone (PSSE) regarding the Space3ac Intermodal Transportation program (accelerator of satellite technology projects for intermodal transport), the

purpose of which is to support start-ups working with satellite technologies and data. In return we can count on innovative solutions suitable for our technological and business challenges.

R&D COOPERATION WITH PAN (POLISH ACADEMY OF SCIENCES)

In 2017, LOTOS Petrobaltic S.A. and the Institute of Geological Sciences of the Polish Academy of Sciences and the Institute of Geophysics PAS signed a cooperation agreement, concerning joint scientific research or research and development activities in the field of exploration and recognition of energy resources. Its purpose is to develop new solutions, including possible business implementation.

INNOVATION FROM WITHIN THE ORGANIZATION

Innovations in the LOTOS Group are implemented in a quick and fluent manner. There is a system in the company that promotes innovation and motivates to create it. Fast decision making and a dedicated fund allow to effectively test and improve ideas that use and develop our infrastructure. Thanks to the existence of the innovation fund, we are able to create numerous new solutions and business models. Our strategic goal is to become the leader in the implementation of Polish innovations.

We support the culture of internal innovations also by encouraging innovative thinking of our employees. Our internal „LOTOS Inspiration Support Program” enables us to manage our intellectual capital and the innovative potential of our employees while building our competitive advantage.

By taking part in the „From concept to implementation” competition, we encourage our employees to seek and develop ways to improve their work, to then select solutions that meet the challenges of innovation in best way and those that are possible to implement in the current operations. In 2017, the employees of LOTOS Asphalt, LOTOS Oil, LOTOS Petrobaltic and the Grupa LOTOS S.A. took part in it. Working in teams or individually, they submitted nearly 300 projects in total, of which about 20 percent has a chance to be implemented.

SOCIAL CAPITAL

G4-S01

OG13

LOTOS FOR SOCIETY

We conduct our business in accordance with ethical standards, respecting the natural environment and society's needs, trying to ensure that the business proceeds in a sustainable manner and in compliance with the principles of Corporate Social Responsibility (CSR). We are guided by our core values, which are purity, openness, innovation and responsibility.

In accordance with our values, we are particularly involved in such areas as environmental protection and ecology, road safety, equalizing social opportunities and supporting education and development of children and young people. In 2017, these issues were the priority for our pro-social and pro-environmental activities. We work with recognized and verified social partners in each of these areas.

For years we have been supporting and applying good practices, principles and postulates to our activity in the field of corporate social responsibility and sustainable development formulated by both Polish and global organizations and public administration bodies.

[More about our approach to social responsibility HERE](#)

Our activities in the field of corporate social responsibility and sustainable development are reported in the Integrated Annual Report of the LOTOS Group, prepared in accordance with the international guidelines for reporting on sustainable development – Global Reporting Initiative (GRI). In 2017 we published the report regarding the previous year. While working on the report, we conducted numerous consultations with key groups of internal and external stakeholders of our Group.

SOCIAL PROGRAMS AND CAMPAIGNS

ACTIVITIES FOR OUR SOCIAL ENVIRONMENT

In the assessment of our social impact and planning of socially responsible activities, a special role is played by local communities in which the LOTOS Group companies operate. We want to be a good, caring and committed neighbour for them, which is why we listen carefully to their needs and try to respond to these needs through a variety of activities, both ad hoc, one-off and long-term programs, as well as implementing appropriate policies or procedures.

We focus our efforts on those areas of life that both affect members of our communities and are important for the company's operations. We want to make a real contribution to social development, including in a visible way to support education and contribute to the improvement of the quality of life in communities in our neighborhood.

A NICE NEIGHBOURHOOD

For 12 years, we have been implementing the „Good Neighbour” Program, taking measures to equalize social differences and counteract social exclusion, especially children and young people. As a part of the program, we cooperate with non-governmental organizations. Various activities include: support for family fairs and sports events, co-financing summer and winter trips for children, supporting educational activities in the field of ecology and road safety, supporting schools, for example, by purchasing teaching equipment.

Supporting the neighbours

In 2017, LOTOS was one of the first companies that answered the call for help of the citizens that suffered losses in result of a devastating storm that passed through the Pomerania. The employees of the whole corporate group actively participated in the collection of school starter kits for the children from the affected cities. LOTOS Foundation also supported the action. The management board of LOTOS Paliwa to put 40 thousand liters of fuel at the disposal of local authorities free of charge.

Equalizing opportunities and counteracting social exclusion

Thanks to the program "Football future with LOTOS", carried out along with LG Football Academy and football clubs of Pomerania, the kids have the equal chances of physical development and realization of their sport passions via fair play football. The program is not focused on finding talents among the youngest, but it involves a wide group of children and young people who want to play football at an amateur level. Within the program there are already 14 out-of-town centers in the form of partner clubs and the LG Football Academy, which are also the operator and beneficiary of the program.

Support for local social initiatives

LOTOS Asphalt together with LOTOS Infrastruktura support cultural events important for the Jasło region, social campaigns and cultural institutions, such as the Municipal Cultural Center, Youth Culture Center, Jasło Cultural Center and the Municipal Public Library.

Family Picnic in Oświęcim

LOTOS Oil took part in the Family Picnic in Oświęcim, organized by NSZZ Solidarność of Podbeskidzie Region because of the 37th anniversary of the creation of the „Solidarity” movement. During the picnic, the company presented its activities in the field of corporate social responsibility, shared values, actions protecting life and health through the application of health and safety regulations.

SECURITY

Our activities are related to issues conditioned by the competences of our company. One of them is our exceptional qualifications in the field of road safety.

Safety Belt Champions

In 2017 we organized the fourth edition of program "LOTOS – Safety Belt Champions", which main goal is raising the public awareness on safety of drivers and passengers during travels. The campaign's experts once again travelled across Poland, teaching children and their adult guardians how appropriately fasten and position child seats in the car.

Program "LOTOS – Safety Belt Champions" in numbers:

- *14,5 thousands of participants*
- *1320 individual trainings on fastening the seatbelts*
- *401 individual trainings on how to properly assemble child seats*
- *14 cities visited*
- *501 publications on the project in the media*

„Learning to be safe”

LOTOS Foundation for the second time supported the "Learning to be safe" project, organized by Regional Police Headquarters in Gdańsk. 6,000 first grade pupils of elementary schools in the Pomeranian Voivodeship took part in the educational program promoting the safe behavior of children.

The broadly understood safety, which also includes concern for the health of our employees, is one of the objectives of the company's strategy for 2017-2022. „Stabilization and safe development". By creating the culture of security in our organization, we care about constant improvement of standards.

[More about health and safety work culture in LOTOS HERE](#)

We focus on safety at work

LOTOS Asphalt conducts an information campaign „Safety at work with bitumen products”, aimed at protecting customers and employees from health risks and accidents. In 2017, LOTOS Asphalt also carried out an information campaign „Safe sampling of bituminous binders”, in which newsletter subscribers received information on safe sampling, and trained 94 drivers in the field of occupational health and safety and moving around the LOTOS refinery site, of which 78 drivers were trained in the field of operating devices for filling and emptying road tank tanks with class 9 dangerous materials, according to ADR.

Cooperation with SGSP

LOTOS Straż, along with Grupa LOTOS S.A., signed a memorandum on cooperation with the Main School of Fire Service (SGSP) in Warsaw. Cooperation assumes, among others, initiating and conducting joint didactic, research and development projects, cooperation in the field of didactics, mainly in providing assistance in preparing the diploma theses of SGSP students, conducting traineeships for them, carrying out joint ventures, including: exercises, workshops and conferences and scientific symposia.

In addition, LOTOS Straż employees visit schools and kindergartens, where they popularize fire protection. The company accepts trips of students of the firefighting and emergency medical services and familiarizes them with the rules of operation of the fire brigade at the refinery. The employees of the company also took part in the event on the occasion of the Children's Day organized by LOTOS Kolej, where they presented the skills of a rescue dog and a fire engine.

SPONSORSHIPS AND PATRONAGE

We carry out our sponsoring activities primarily in the regions where the headquarters and the LOTOS Group companies operate, as well as in places where we carry out our business, including LOTOS and LOTOS Optima petrol stations. All our sponsoring activities put the needs of our stakeholders first and in their communication we focus on development, motivation and passion.

We respect the regulations included in the Culture Sponsorship Code, which was initiated by the National Center for Culture, PKPP Lewiatan and the Warsaw Stock Exchange. Based on this code, we act in accordance with the principles of balance, transparency, accessibility and development, in accordance with the strategy of social responsibility adopted by us.

In 2017, we focused on sponsoring activities in three key areas:

- *sports sponsorships – 24 projects,*
- *culture sponsorships – 18 projects,*
- *social and ecological sponsorships – 11 projects.*

SPORTS SPONSORSHIPS

Our sponsorship support applies to both sports activities of a professional and amateur nature. From the world's most important sport events to local sport and social initiatives. In 2017, as part of sport sponsorship, we implemented 24 projects in the following areas:

Strategic and high impact projects

These are projects with the largest, nationwide reach, national and representational, invaluable for brand promotion. As a

part of our strategic projects, we sponsor the Polish National Football Team (Polish Football Association), the Polish National Team in ski jumping and cross-country skiing (Polish Ski Association), tennis player Agnieszka Radwańska and the largest Polish cycling event (Tour de Pologne). Last year, we were also the sponsor of the Polish National Winter Expedition on K2.

Car rallies

In 2017, we continued sponsorship activities for motorsports. Competitors of the LOTOS Rally Team, Kajetan Kajetanowicz and Jarosław Baran, won the European Champion title in the European Rally Championship (ERC) for the third time.

Tactical nationwide and regional projects

In 2017 we supported, among others, Year of Kazimierz Deyna, Summer Stadium and beachball, Summer Polonia Games and Solidarity Marathon. We were also sponsors of speedway events, including Individual International Ekstraliga Championships, Polish Club Pairs Championships and the Team Final of the European Junior Speedway Championships. Last year, we completed a long-term cooperation with the volleyball team LOTOS Trefl Gdańsk.

Education of children and young people

For years we've been involved in sponsoring social-sport events, addressed to children and teenagers. We support, among other, a football program "Football Future with LOTOS" and winter sports – „Szukamy następców mistrza” [“Searching for the next Champion”].

We set a good example

In 14 centers, which were established by LOTOS in years 2012-2015 in cooperation with local football clubs in Pomerania, we are implementing the „Football Future with LOTOS” program. As a part of the LOTOS program and the Football Academy, LG is training about 3.5 thousand players, both girls and boys.

Twelve-year-old children training in all centers operating under the program competed in the LOTOS Junior Cup 2017 football tournament. The winning players had the opportunity to watch the match Poland – Kazakhstan, played as part of the World Cup qualification 2018.

LOTOS FOR CULTURE AND ART

By engaging in the support of projects in the field of culture and art, we take into account their social dimension, long-term nature, as well as the importance for the promotion of the regions in which our companies operate.

In 2017, a total of 18 projects sponsoring culture and art were carried out at Grupa LOTOS S.A. and its subsidiaries. We've cooperated on such projects as Freedom Jazz Festival, Polish Radio Theater Festival and Polish Television Theater „Two Theaters”, Siesta Festival, Summer Theater – Sopot 2017, Cultural Stage, Ladies Jazz Festival, „Gintrowski – yet something will remain after us”, Lithuanian Week or Hungarian Week.

In the southern region, we sponsored such events as the LOTOS Jazz Festival, Jasło Days, Czechowice-Dziedzice Days, Autumn Meetings with the Theater, International Carpathian Folk Festival, Summer with Culture of the Jasło Poviát and Memorial of Major Henryk „Hubal” Dobrzański.

Meetings with the theater

LOTOS Asphalt supported the IX Autumn Meetings with the Theater organized by the Cultural Centre in Jasło. In last year's edition of the event enabling the inhabitants of Podkarpacie, 3,000 participants, not only from Jasło and the surrounding area but even from the neighboring Małopolska province, took part in the meeting with the members of leading Polish theaters.

International Festival of Folklore

LOTOS Asphalt supported the 14th International Festival of Carpathian Folklore organized by the Municipal Cultural Center in Jasło, which aim is to save and sustain disappearing folk traditions, including handicrafts, folk art, costumes and music. As a part of the event performed folk bands from Poland, Ukraine, Slovakia, Romania and the Czech Republic as well as many exhibitions and fairs of folk art took place.

LOTOS FOUNDATION

From 2015, LOTOS Foundation is responsible for managing the LOTOS Group's charity policy, whose mission is comprehensive social activity, making a positive contribution to the development of the social and natural environment.

The Foundation's activities are aimed at supporting initiatives leading to the development of infrastructure and benefiting local communities, especially in the regions in which our companies operate. In accordance with the assumptions of our Social Responsibility Strategy, the key areas of the Foundation's involvement are ecology and environmental protection, road safety and equalizing social differences (especially children and young people), among others through investments in science, education and education.

In 2017 the Foundation supported activities for the total amount of PLN 2,473,356.

SCOPE SUPPORTED IN 2017	ENTITIES	DONATED MONEY (PLN)
Safety	2	120 000
Charity and community involvement	24	714 750
Culture and art	18	439 000
Science and education	21	634 700
Protection and promotion of health	27	396 986
Upholding the tradition	7	120 920
Sport	5	47 000
TOTAL	104	2 473 356

SAFETY OF POPULAR POPULATION AREA IN THE VICINITY OF THE REFINERY AND DRILLINGS

Safety is an absolute and undisputed priority of the LOTOS Group. It applies to both our employees, employees of subcontractors working for our company, our clients, as well as the natural environment and people living in the vicinity of places where we conduct our business.

For many years, we have been using the best practices on the market to minimize the potential risk of a threat. At each stage of the creation and use of our products, we assess their impact on human health and safety.

We care about maintaining the integrity of our technical procedure. We carry out research on zero materials and devices, maintain traffic based on predictive and preventive actions, run a program of inspections and surveillance tests, Non Destructive Testing program – tests of apparatus and pipeline wall thickness, Risk Based Inspection (RBI) program and cyclical repairs technological installations.

We create annual plans for preventive device inspections, conduct corrosion monitoring, functional tests of security systems and technological blockades. We manage the criticality of devices in terms of response time, as well as the resources of spare parts and the scope of preventive examinations.

In 2017, we completed an Overhaul Shutdown of all technological installations at the refinery in Gdansk. During the shutdown, we made all necessary inspections and checks of the equipment technical condition, as well as all repairs and overhauls of the refinery equipment.

We place great emphasis on increasing the awareness of our employees in the area of safety and safe work culture, both through training and communication activities.

Thanks to our prophylactic activities, carried out on many levels, accidents in our facilities are extremely rare. In 2017, four events related to process safety were registered: one serious violation classified as Tier 1, which occurred in the area of energy utilities and three less serious events, classified as Tier 2, concerning the area of crude oil.

We strive to promote work safety also among other entities operating in Pomerania. Since 2016, we have been organizing the Pomeranian Forum of Safety Leaders, aimed at building a high level of safe work culture in Pomeranian institutions of various industries and disseminating global standards in this field.

NATURAL CAPITAL

G4-EN1	G4-EN10	G4-EN15	G4-EN16	G4-EN18	G4-EN20	G4-EN21	G4-EN22	G4-EN23	G4-EN24	G4-EN25	G4-EN28	G4-EN29
G4-EN3	G4-EN31	G4-EN32	G4-EN34	G4-EN6	G4-EN8	OG5	OG6	OG7	OG8			

WE ARE REDUCING OUR NEGATIVE IMPACT ON THE ENVIRONMENT

One of the pillars of our strategic approach to sustainable development is responsibility for the state of the natural environment. The impact of LOTOS on the environment is part of the specificity of our business. Therefore, the pursuit to maximally reduce this impact became one of the most important goals in this scope.

We try to constantly monitor and analyze the scope of our impact. Due to the large variety of market segments in which we operate, we influence various components of the ecosystem. In the scope of production, our impact is primarily related to the emission of pollutants into the air, which we try to limit year by year. On the other hand, in the scope of extraction, we try to rationally manage the issue of extraction waste as well as water and wastewater management.

Due to the scale of our activity, the issue of the energy consumed by the Group is an equally important environmental aspect for us. We strive to responsibly manage its consumption throughout the entire value chain. We do it by taking care of its rational use, maintaining good technical condition of devices and undertaking effective investment activities.

In order to act more efficiently in the scope of environmental protection, in June 2017, we joined the partnership for the 2030 UN Sustainable Development Goals (SDGs). Thus, we have committed ourselves to take actions that will contribute, among others, to protecting the planet, underwater life and life on earth. We are already trying to implement them at every stage of our business operations and we take into account the establishing new programs for environmental protection.

WE COMPLY WITH HIGH STANDARDS

The main value of the LOTOS Group's liability towards the natural environment is the purity, understood as a commitment to comply with the highest environmental standards. It is related to our environmental policy, which is mainly focused on the clean production. In the Integrated Management System policy, we have committed ourselves to 'environmental protection, including minimising environmental footprint and raising environmental awareness of our employees and trading partners'. We are constantly striving to reduce the consumption of materials and raw materials, reduce emissions, manage waste in an efficient way, carry out complete wastewater treatment, as well as create safety in the area of industrial processes in such a way as to effectively prevent failures.

As a member of the United Nations Global Compact society we declare, that in our environment policy we follow the established principles:

- *Preventive approach to the natural environment.*
- *Undertaking initiatives aimed at promoting the attitudes of ecological responsibility.*
- *The use and dissemination of environmentally friendly technologies.*

Through efficient environmental protection management, we try to ensure that all LOTOS Group companies meet the conditions of environmental consents granted to them.

In the scope of reducing energy consumption, we undertake numerous pro-efficiency actions. We identify the savings potential and places where undertaking organizational, renovation or investment activities will bring the best energy and economic effects. Through ongoing activities in all the above-mentioned areas of the organization's operation, we have been implementing initiatives, bringing measurable energy benefits for a number of years.

In 2017, we carried out further preparatory work to adapt the two companies of our Group (Grupa LOTOS S.A. and LOTOS Asphalt) to the, so-called, BAT conclusions for the refining sector, taking effect from October 2018. The BAT conclusions are an EU standard, defining a catalog of the best possible techniques and technologies to be implemented in each of the processes taking place in the refinery, which will limit the impact of a given plant on the environment. The obligation to use

these solutions is combined with the obligation to comply with rigorous emission parameters, such as pollutant concentrations in waste gases and wastewater. Installations in these companies are in the majority of cases adapted to new requirements, but they still require further adaptations in two areas.

The first of which is the obligation to extend the way of monitoring pollutant emissions to air from refinery installations of Grupa LOTOS S.A. So far, national law has obliged the refinery to measure emissions from emitters twice a year – in summer and in winter. These measurements concern four basic energy pollutants: sulfur dioxide (SO₂), nitrogen oxides (NO_x), carbon monoxide (CO) and particulate matter (PM). Meanwhile, new legal requirements oblige the Gdańsk refinery to introduce continuous measurements of SO₂, NO_x, CO and PM emissions on two technological emitters; introduction of continuous SO₂ emission measurements on exhaust gas emitters of Claus installations and for installing measuring stands for periodical measurements of polychlorinated dibenzodioxins and furans (PCDD/F) emissions at outlets from two reforming plants.

The second scope regulated by the BAT conclusions and requiring implementation at the Grupa LOTOS S.A. and LOTOS Asphalt refinery is the leak detection and removal program within the production facilities, the so-called the LDAR program (Leak Detection and Repair Program). It will cover all elements of refinery installations where leaks may be caused as a result of operation, in particular pumps, manual and automatic valves, gate valves, flanges, etc.

The essence of the program is based on such control of said devices, that will allow the fastest possible detection and removal of leaks created in them, while ensuring the highest possible cost effectiveness of such measures. The biggest challenge in creating this type of program is the inventory of all elements of the installation in which leaks may potentially occur and the organization of collected information in IT databases. It is estimated that there are over 100,000 such devices at the Gdańsk refinery of Grupa LOTOS S.A. and LOTOS Asphalt. For obvious reasons, it was also decided that the requirement to monitor the unorganized emissions described above will be implemented as part of the LDAR program.

We feel responsible for our activities, in case of any grievances related to our impact on the environment, we try to understand their reason and eliminate the cause if necessary. Last year, we received 4 formal grievances. All of them concerned the discomfort of the refinery neighbors associated with odors or noise and were quickly clarified.

In 2017, we also paid the environmental penalty imposed on us for exceeding the limits for noise at one of our fuel stations (which reports to LOTOS Paliwa). By the decision of the Silesian WIOŚ, it was decided that the penalty should be included in the cost of constructing an acoustic shield next to the station.

WE INVEST IN ENVIRONMENTAL PROTECTION

For many years, we have been conducting activities aimed at actively reducing our environmental impact. The total amount of expenditure on environmental protection in 2017 amounted to PLN 96.1 million.

Expenses allocated by the LOTOS Group to environmental protection

- *PLN 69.5 million – costs and capital expenditures incurred by the LOTOS Group companies to prevent damage and manage environmental protection.*
- *PLN 26.5 million – costs of waste treatment, emission reduction and remediation.*

ENVIRONMENT FRIENDLY EDUCATION

Environmental protection and ecology – especially when it comes to protection of biodiversity of the Baltic Sea due to the coastal location of our refinery and in relation to valuable natural areas located in the immediate vicinity of the Company.

THE „LOTOS HELPS BALTIC NATURE” PROGRAM

Since 2009, we have been cooperating with the Development Foundation of the University of Gdańsk and the Marine Station of the Institute of Oceanography at the University of Gdańsk in Hel, implementing the program „LOTOS helps Baltic nature”. Joint actions shall help stopping the process of extinction of the most endangered species of marine fauna living in the Baltic Sea, primarily porpoise called the Baltic cousin of dolphin, which number is currently estimated at 100 pieces, as

well as the gray seal. We try to increase our positive impact on the environment by cooperating with experts in the field of environmental protection, active nature protection and ecological education.

MAIN PARTNER OF THE UN GLOBAL COMPACT „BALTIC PROGRAM”

Since 2015, we have been the main partner of the UN Global Compact „Baltic Program”, aiming to ensure the sustainable development of this one of the most heavily-laden maritime areas in the world.

[More about the Program HERE](#)

WE FOCUS ON EMPLOYEE EDUCATION

At LOTOS, we also care about the education of employees in the field of environmental protection. We use internal communication to inform our teams about environmental protection issues and individual, company, regional and global activities related to it. We also strive to shape the desired pro-environmental attitudes of employees.

WE MINIMIZE EMISSIONS OF POLLUTANTS

The most important source of environmental impact resulting from our activity is the emission of gases into the atmosphere. Therefore, we attach great importance to the fact that the processes causing the emission of pollutants into the air are carried out based on the best available techniques and practices, minimizing the impact of the plant in this respect.

We have significantly reduced the environmental impact of our refinery. We have achieved this with a series of consistently implemented investment and organizational projects (i.e. Efra project or the leak detection and removal program within production installations).

Direct emissions of greenhouse gases in the LOTOS Group

Direct greenhouse gas emissions	2017	2016
	TOTAL (tCO ₂ e)	TOTAL (tCO ₂ e)
Emissions associated with electricity production	64 780	73 405
Emissions associated with heat production	1 173 839	1 326 738
Emissions from cooling and steam generation systems	0	0
Emissions from physical and chemical processing	585 486	628 331
Hydrofluorocarbons (HFC) emissions	0	0
Emissions related to transport of materials, products and waste	0	175
	1 824 105	2 030 649

Greenhouse gas emissions in the LOTOS Group

Greenhouse gas emissions*	2017	2016
	TOTAL (tCO ₂ e)	TOTAL (tCO ₂ e)
*Production of heat and electric energy	287 208	282 019
Refining production	1 481 571	1 617 919
Emission from extraction processes – burning of fossil fuels to meet the rigs' energy needs and burning of waste gas in the burner head	82 939	78 437
	1 851 718	1 978 375

*Applies to companies: Grupa LOTOS S.A., Energobaltic, LOTOS Asphalt, RCEkoenergia, LOTOS Petrobaltic

Indirect greenhouse gas emissions in the LOTOS Group

	2017
	TOTAL
Electricity purchased from outside Group [MWh]	672 320
Purchase of heat from outside Group [GJ]	9 446
Emissions from electricity purchased for the organisation's needs [Mg]	541 945
Emissions from steam and cooling energy purchased for the organisation's needs	1 087

Intensity of greenhouse gas emissions in the LOTOS Group

CO ₂ emission intensity	LOTOS Group	Energobaltic	LOTOS Asphalt	RCEkoenergia
CO ₂ emissions volume	1 717 335 Mg	7 039 Mg	14 187 Mg	30 266 Mg
Value of the production	9 626 075 Mg	132 181 GJ	897 643 Mg	296 522 GJ
CO ₂ emissions intensity ratio (in tonnes of CO ₂ /mboe or other production factor)	0,178 Mg CO ₂ /Mg of oil	0,053 Mg CO ₂ /GJ	0,013 Mg CO ₂ /Mg	0,102 Mg CO ₂ /GJ

In 2017, the LOTOS Group companies did not emit any of the ozone-depleting substances.

WE REDUCE THE EMISSIVITY OF REFINERIES

One of the important activities that we undertook in order to protect the environment in 2017 was the continuation of the investment to bring natural gas to our refinery in Gdańsk, which is the cleanest fossil fuel. Its combustion leads to a significantly lower emission of sulfur oxides and dust than compared to heavy fuel oil. In 2017, refinery furnaces were fueled only with fuel gas, which significantly reduced emissions to air – especially in the field of sulfur oxides and dust. We have been powering the heat and power plant of Grupa LOTOS S.A. in the same way for many years.

Thanks to the use of natural gas, as the main fuel in the heat and power plant, as well as other investments reducing the energy intensity, we have kept not only the emissions of pollutants into the air, but also emissivity – emission in relation to CWT (Complexity Weighted Tonne). The coefficient of the carbon dioxide emission by the company is maintained at the level of the most effective refineries in Europe, when compared the emission coefficients. The average emissivity ratio, including renovation, amounted in 2017 to 30.3 kg CO₂/CWT, with CO₂ emissions of 1.8 million Mg.

Emission of NO_x, SO_x and other relevant compounds emitted to the air

	2017	2016	The reported decrease in emissions
	TOTAL (t)		
NO _x	936,31	1281,32	26,92%
SO _x	483,76	1852,04	73,87%
Persistent organic pollutants (POP)	0,00	0	
Volatile organic compounds (VOC)	179,02	176,47	-1,44%
Hazardous air pollution (HAP)	0,00	3,3	100%
Particulate matter (PM)	90,45	298,63	69,71%
Other standard categories of air emissions	351,63	507,05	99,17%

Refinery – the decision that has impact on the environment

In 2017, at the Gdańsk refinery we performed comprehensive cleaning and necessary repairs and/or replacement of equipment within the so-called overhaul shutdown. Prior to this process, we analyzed all possible aspects of the environmental impact of the renovation works. The risks identified at this stage allowed us to take appropriate measures, such as cleaning road surfaces or setting up tents to limit dusting.

Overhaul shutdown affected the environment in two ways. On one hand, it resulted in smaller – as a result of the monthly shutdown of the installation – annual CO₂ emissions and energy pollution into the air, but on the other hand it produced much larger than usual amounts of waste from maintenance work.

WE REDUCE ENERGY CONSUMPTION

We operate in a systematic fashion, where the primary goal is to optimize energy consumption. We monitor the energy efficiency of installations and their partial processes on an ongoing basis. We analyze individual areas and participate in tasks which goal is to reduce energy consumption. Thanks to the strategic approach in managing the energy consumption, we are one of the most energy-efficient refineries in Europe.

In 2017, through diverse operational initiatives, we reduced the total energy consumption in the organization by 7.7% compared to the previous year.

Energy consumption inside the organization

	2017	2016
Non-renewable sources	24 023 443	26 800 006
Renewable sources	0	0
Energy purchased	6 371 580	6 174 921
Energy sold	588 758	679 049
Overall energy consumption in the organisation	29 806 266	32 295 878

		2017	2016
		Fuel equivalent for usable energy ¹	Fuel equivalent for useful energy ²
		GJ / MWh	GJ / MWh
NON-RENEWABLE SOURCES	coal	292 502	274 453
	natural gas	9 137 717	7 909 737
	diesel oil	392 683	623 026
	fuel gas	10 608 118	12 802 988
	Residual gas, special gas and reservoir gas	3 584 752	3 825 240
	Heavy oil	0	0
	light fuel oil	7 672	1364 562
	marine oil	0	0
	LPG	0	0
	TOTAL	24 023 443	26 800 006
ENERGY PURCHASED FROM OTHER ENTITIES	electricity	6 099 213	6 047 734
	heat (including steam and cooling)	272 367	127 187
	TOTAL	6 371 580	6 174 921
ENERGY SOLD TO OTHER ENTITIES	electricity	142 300	171 059
	steam (water vapor)	219 770	208 953
	heat (in water)	226 687	299 037
	cooling energy	588 758	679 049

^{1,2} The fuel equivalent for a selected group of fuels in a given period is the product of the quantity (t or Nm³) of the burned fuel and its calorific value (GJ/t (or Nm³)). In the case of electricity, the consumption of energy purchased on the market was brought to the fuel equivalent using the average efficiency of generation of the electricity sources in Poland.

WE IMPROVE PRODUCTION AND EXTRACTION

We conduct our production and extraction activities in accordance with the most strict environmental protection standards. We produce high quality products with the least possible environmental impact, and we care about minimizing the negative impact on the environment as early as at the stage of their creation. In our development plans, we take into account innovative technological projects that provide the rational use of natural resources. An important project of environmental management in 2017 at the LOTOS Group is the implementation of EFRA investment, thanks to which oil processing will be more comprehensive. As a result, the group will cease production of high-sulfur fuel oil. **Instead, it will create an additional 900,000 tonnes of motor fuels and coke.**

BENZENE, LEAD AND SULFUR CONTENT IN FUELS

	unit of measure	Requirement	2016		2017	
			– quantity	– quantity (average)	– quantity	– quantity (average)
Benzene (in gasolines)	% V/V	Max. 1,00	0,25÷0,94	0,73	0,60÷1,00	0,81
Sulphur (in gasolines)	mg/kg	Max. 10,0	0,1÷8,8	2	0,1÷6,5	1,2
Sulphur (in diesel oil)	mg/kg	Max. 10,0	2,8÷9,9	6,5	2,0÷10,0	6,0
Lead	mg/kg	Max. 5	<2,5	<2,5	<2,5	<2,5

CONSUMPTION OF RAW MATERIALS BY THE GRUPA LOTOS S.A. REFINERY IN THE PRODUCTION PROCESS IN 2017

Crude oil	Volume (t)	share (%)
REBCO crude oil	7 532 950	78%
Crude oil from off-shore LPB concessions	201 434	2%
PGNiG crude oil	275 752	3%
LITHUANIAN crude oil	41 531	0%
Other	1 574 408	16%

The Russian REBCO (Russian Export Blend Crude Oil) crude oil accounted for 78% of all the purchase. The remaining part of the raw material consisted of crude oil imported from other directions, including approx. 201 thousand tonnes of crude oil delivered by the LOTOS Petrobaltic Group. The selection of crude oils for processing was based on the process of production optimization, in order to take advantage of opportunities to increase the processing margin of the refinery.

OTHER FEEDSTOCKS FOR REFINERY PRODUCTION

OTHER FEEDSTOCKS FOR REFINING OPERATIONS	Volume (t)	share (%)
Demineralised water	298 146	20,17%
FAME (fatty acid methyl ester)	167 100	11,30%
diesel oils	484 340	32,77%
ETBE (ethyl tertiary-butyl ether)	18 742	1,27%
ethanol	61 231	4,14%
MTBE (methyl tertiary-butyl ether)	21 048	1,42%
natural gas	400 532	27,10%
additives	2 673	0,18%
other	24 359	1,65%

INTERNAL CONSUMPTION OF THE REFINERY

REFINERY'S OWN CONSUMPTION	Volume (t)	share (%)
fuel gas	310 393	36,48%
residual gas	444 792	52,28%
fuel oil	0	0,00%
other	95 617	11,24%

GASOLINE FINAL PRODUCTS

GASOLINE FINAL PRODUCTS	Volume (t)	share (%)
(including reformates)	1 484 783	14,54%
naphtha	464 610	4,55%
xylenes	69 420	0,68%
diesel oil (diesel)	4 921 917	48,21%
diesel oil (gasoil)	287 380	2,81%
fuel oil	1 167 040	11,43%
MGO bunker fuel	68 999	0,68%
JET aviation fuel	445 800	4,37%
bitumen components	706 169	6,92%
LPG	171 229	1,68%
base oils	231 345	2,27%
slack wax	44 964	0,44%
plasticisers	34 224	0,34%
sulphur	90 675	0,89%
other (including fuel gas sold to L. Asphalt)	21 477	0,21%
gasolines (including reformates)	1 484 783	14,54%

We use water resources based on our water licences and integrated permits. Analyses of the water consumption impact on the environment confirm that our activities do not significantly affect the functioning of protected and valuable natural areas, and the amount of water consumed is kept well below the permissible values.

TOTAL WATER WITHDRAWAL BY SOURCE BY LOTOS GROUP

	TOTAL (m ³)
surface water consumption (own intakes)	5 998 534
aquifer and groundwater consumption (own intakes)	362 643
rainwater collected and used	0
water purchased from municipal water supply system and from local suppliers	378 981
treated wastewater from other organizations	464
TOTAL	6 740 622

In 2017, more than 25% of the consumed water was reprocessed or recycled

PERCENTAGE AND TOTAL VOLUME OF WATER RECYCLED AND REUSED BY LOTOS GROUP

	TOTAL (m ³)
Total volume of water withdrawn by the organisation (m ³)	7 431 519
Volume of water recycled or reused (m ³)	2 554 957

In 2017, we did not notice any significant leaks in the LOTOS Group. However, each of the Group's production plants is properly prepared for such eventuality. On the production plants there are lots of procedures, designed to effectively prevent leakage and respond appropriately. Chemical Rescue, a specialist team functioning in our company also serves this purpose. Possible waste resulting from the leak (i.e. soils contaminated with petroleum substances) is transferred to specialized companies that deal with waste management in accordance with the law.

Our results in year 2017 confirm the effectiveness of the water and sewage system of the LOTOS Group, as evidenced by the average annual values of all (excluding boron) wastewater quality indicators, which amounted to less than 50% of the permissible values.

TOTAL WASTEWATER DISCHARGE BY QUALITY AND DESTINATION AT THE LOTOS GROUP

WASTEWATER DISCHARGE DESTINATION	TOTAL (m ³)
To groundwater	4 137
To surface water (lakes, rivers, etc.)	8 146 081
To municipal utilities outside the capital group	229 279
TOTAL	8 379 497

WASTEWATER TREATMENT METHOD	TOTAL (m ³)
By the organization itself	8 318 816
By wastewater treatment plants	66 614
Total volume of treated wastewater	8 381 586
Other	4 867

VOLUME AND DISPOSAL OF FORMATION OR PRODUCED WATER BY LOTOS GROUP

	Volume (m ³)	Share (%)
The total amount of produced water	405 253,96	100,0%
reprocessed water	0,00	0,0%
recycled water	0,00	0,0%
re-injected water	404 803,94	99,9%

VOLUME OF FLARED AND VENTED HYDROCARBONS

Location	Volume of gases burned [thous. m ³]	Volume of gases released to the atmosphere [thous. m ³]
Poland	36 612,13	0,00
International waters, Poland's exclusive economic zone (LOTOS Petrobaltic platform and BB platform)	17 018,94	0,00
Lithuania	188,54	0,00
TOTAL	53 819,61	0,00

THE AMOUNT OF PRODUCED DRILLING WASTES (DRILLING MUDS AND CUTTINGS) AND THE PROCEDURES OF HANDLING AND UTILIZATION

LOTOS companies, which the indicator applies to	Total amount of drilling muds and cuttings in tonnes	Disposal methods used
LOTOS Petrobaltic	85,60	Collected for recycling
LOTOS Geonafta	1 018,30	Collected for recycling

In 2017, companies from the upstream segment did not generate cuttings.

We prefer the **waste management** methods that are environmentally most friendly, such as recycling and recovery, while we clearly limit less-ecological methods, such as incineration without energy recovery, storage and other forms of utilization.

Therefore, in the area of waste management, we strive to make the largest possible part of it available to external recipients who will subject them to reprocessing or recycling processes. As many as **18,624 tonnes (89.9%) of waste** handed over by us in 2017 to external recipients were subject to recovery or recycling processes.

TOTAL WEIGHT OF WASTE BY TYPE AND DISPOSAL METHOD BY LOTOS GROUP

TOTAL WEIGHT OF HAZARDOUS AND NON-HAZARDOUS WASTE BY DISPOSAL METHOD	TOTAL [MG]	
	hazardous waste	waste other than hazardous
Reuse of waste	0,0	40,0
Recycling (including organic recycling, e.g. composting)	284,5	2 138,6
Recovery (including energy recovery)	7 184,5	7 762,6
Burning (or use as fuel)	1 207,1	46,9
Landfilling	0,0	51,8
Discharge to deep wells	0,0	0,0
On-site storage	0,1	0,1
Other	606,4	1 661,9
TOTAL	9 282,8	11 702,0

PERCENTAGE OF PRODUCTS SOLD AND THEIR PACKAGING MATERIALS THAT IS RECLAIMED, BY MATERIAL CATEGORY

LOTOS Oil	Data in Mg			
	Lubricants	Hazardous packaging	Packaging	Lubricating preparations
Volume of products and packaging materials reclaimed during the reporting period	14 501,47	3,01	2 152,92	1 579,05
Volume of products sold in the year preceding the reporting period	29 002,93	10,043	3 529,376	5 263,5
Percentage of products sold and their packaging materials that is reclaimed	50,0%	30,0%	61,0%	30,0%

*The mass of introduced products/packages in the year preceding the reporting year is taken into account in calculating the percentage of recovered products and packaging. If data from the reporting year would be entered, the recovery percentages would be other than the statutory percentage

LOTOS Paliwa					
Name	Plastic packaging	Aluminum packaging	Paper and board packaging	Wooden packaging	Summed up
Volume of products and packaging materials reclaimed during the reporting period	21 835,03	7 489	69 629	532	99 485
The number of products sold in the reporting period	92 915,00	14 685	114 146	3 323	225 069
Percentage of products sold and their packaging materials that is reclaimed	0,24	0,51	0,61	0,16	0,44

WE SELECT CONTRACTORS RESPONSIBLY

We require environmental responsibility from ourselves, but we also expect it from our contractors. We run a company verification policy within the scope of relevant licences regarding environmental protection, and as a part of the concluded agreements we oblige them to conduct operations in compliance with legal requirements concerning environmental protection, such as, for example, waste management or paying appropriate fees for using the environment.

While looking for external suppliers for tasks that are directly related to the impact on the environment, in justified cases we subject them to an additional environmental criterion. In 2017, **6 of our 1,852 new suppliers** were obliged to meet these additional requirements.



05

SUSTAINABLE DEVELOPMENT

OUR APPROACH TO SUSTAINABLE DEVELOPMENT

G4-2 G4-15 G4-16 G4-24 G4-25 G4-26

In all areas of our activity, we are guided by the principles of sustainable development, which dictate our concern for the needs of people in our closer and distant surroundings and the responsibility for our impact on the natural environment. Going beyond the compliance with the law, we have committed ourselves to comply with strict ethical standards in accordance with the Ethics Programme implemented by us in 2014.

We treat our adopted value system as a long-term commitment to all stakeholders of the LOTOS Group.

The pillars of our strategic approach to sustainable development:



SOCIAL RESPONSIBILITY

creating value for the social environment,



RESPONSIBILITY FOR THE NATURAL ENVIRONMENT

creating value for the natural environment,



BUSINESS RESPONSIBILITY

creating economic value.

The idea of sustainable development has been present in our organization for years. In our daily activities, we refer to the 'Corporate Social Responsibility Strategy of the LOTOS Group for 2012-2015'. Its primary goal is to support the business strategy by using the company's resources and competences to generate economic and social values for the benefit of the environment. Since its introduction in 2008, this document has been updated and verified in 2011, with active participation of the stakeholders.

Our activities in the field of social, economic and relationships with key stakeholders and corporate governance, in particular refer to:

- minimizing the negative effects of operations and limiting the associated risks,
- maximizing the opportunities for sustainable development of the company in the long-term perspective,
- compliance with legal and ethical standards of conduct,
- increasing the positive contribution to social development.

We have identified 13 key objectives in the areas of:

- investing in human resources,
- strengthening the sphere of health and safety,
- integration with the local environment,
- management of natural resources in the production process,
- ethics and misconduct prevention in business activities,
- partnership with the market environment,
- security in the energy sector,
- communicating changes and access to information.

In 2017, we continued working on the development of a new version of the document, which will closely correspond to the challenges included in the business strategy for 2017-2022.

[CSR strategy of the LOTOS Group HERE](#)

The strategy co-created with stakeholders through comprehensive consultations will enable us to maximize our positive impact on society, the natural environment and the economy, taking into account the latest conditions of the LOTOS Group.

The CSR Team in the Division of the Director of Communications of Grupa LOTOS S.A. is responsible for coordinating activities responsible for implementing the CSR strategy of the LOTOS Group.

The new CSR strategy of the LOTOS Group will also respond to the challenges defined in the United Nations Sustainable Development Goals (SDGs) until 2030, the Vision of Sustainable Development for Business in Poland until 2050 and in 10 Global Compact Principles.

[In accordance with the Vision of Sustainable Development for Business in Poland until 2050, we committed ourselves to:](#)

- base our activities on wide cooperation, innovative thinking and education of both our own employees and the society;
- run the business based on trust and dialogue;
- cooperate with academic centres and schools in the field of education of future employees;
- create conditions and development opportunities for employees;
- promote and support the implementation of new technological solutions;
- create infrastructure and conduct investments based on dialogue and in accordance with the principles of sustainable development;
- take actions to reduce our negative impact on the environment;
- introduce solutions to reduce energy consumption, both in the field of implementing new technological solutions, process optimization as well as education;
- conduct a dialogue with the government and share their experiences on issues important to entrepreneurs and the economy;
- raise the level of ethics in business, including in relations with all the stakeholder groups.

Since 2009, we have been consciously adhering to and following the 10 Global Compact Principles in our business:

Principle 1. Support and respect the protection of internationally proclaimed human rights.

Principle 2. Make sure that it is not complicit in human rights abuses.

Principle 3. Uphold freedom of association.

Principle 4. Uphold the elimination of all forms of forced or compulsory labour.

Principle 5. Abolition of child labor.

Principle 6. Uphold the elimination of discrimination in employment and occupation.

Principle 7. Support a precautionary approach to environmental challenges.

Principle 8. Undertake initiatives to promote environmental responsibility.

Rule 9. Encourage the development and diffusion of environmentally friendly technologies.

Rule 10. Work against corruption in all its forms, including extortion and bribery.

SOCIAL RESPONSIBILITY VALUES OF THE LOTOS GROUP

G4-34 G4-38

Our responsibility towards society and the natural environment is manifested in running production activities in a way that prevents degradation of natural and social capital. As the LOTOS Group, we feel responsible for our products to the state, market, partners and clients and employees.

The four primary values underlying the LOTOS Group's corporate social responsibility are:



TRANSPARENCY

stands for the duty to comply with the most exacting environmental standards, commitment to ethical and fair competition, and counteracting the abuse of human rights.



OPENNESS

the LOTOS Group's attitude to changes, the world's needs and people's expectations.



INNOVATION

measures taken by the LOTOS Group with a view to achieving business benefits, gaining competitive advantage, ensuring sustainable development or addressing important social or environmental issues.



RESPONSIBILITY

the right attitude towards mankind and its future, the environment, the home country and its international security.

STAKEHOLDERS OF THE LOTOS GROUP

G4-34 G4-38

All stakeholders of the LOTOS Group have an impact on the extent to which we can create an economic value as well as a value for society and the environment. That is why we strive to build lasting bilateral relations with all our stakeholder groups. In the process of making decisions that affect them, we always take into account their benefit. We remain in a constant dialogue with our environment, adjusting the methods of conducting the dialogue to each stakeholder group. The primary goal of the dialogue is to develop solutions that will allow us and our stakeholders to gain long-term benefits. The key to success is to recognize their real needs and expectations as best as possible. We are able to successfully diagnose them, among others through:

- systematic surveys of customer and contractor satisfaction,
- regular exchange of information with capital market participants, using the Investor Relations service as well as during the Road Show,
- consistent with current need for contacts with regulators and control and monitoring organizations,
- dialogue with employees, as part of the current work, as well as using trade unions and regularly measuring their job satisfaction.

We identify key stakeholders based on the extent of the impact they have on us and how our business interacts with them.



In our internal environment, the key stakeholders are:

- the employees,
- the companies of the corporate group,
- the trade union organizations,
- The Workers' Council.

Our social environment consists mainly of:

- local communities,
- non-governmental organizations,
- government administration,
- local government units,
- research institutes and educational centres,
- employers' organizations,
- natural environment,
- potential employees
- and the media.

Our market environment comprises mainly of:

- contractors and subcontractors,
- suppliers,
- recipients and customers,
- capital market participants,
- business partners,
- competitive companies,
- industry organizations and international institutions,
- control and monitoring organizations.

CSR ENGAGEMENT AREAS IN 2017

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G4-38

The primary goal of making a lot of commitments within the corporate social responsibility is to contribute to sustainable development and building value for us and for our environment, both social and the natural environment.

In 2017, in the scope of CSR activity, we continued the projects and initiatives from previous years. They focused on four key areas:

- environmental protection and ecology – with special focus on the biodiversity of the Baltic Sea (given the seaboard location of our refinery), as well as other areas of outstanding natural value located in the Company’s immediate vicinity.

[Our good practices on environmental protection can be found HERE](#)

- Road traffic safety – which we influence through the quality of our products as well as comprehensive educational campaigns,
- Ensuring equal opportunities and supporting the education and development of children and young people – who are the target group of our CSR sports programmes and various other projects focusing on the support of talented youth,
- Supporting physical activity of children and young people and promotion of young sports talents.

[Our good practices on social issues can be found HERE](#)

IMPLEMENTATION OF THE GLOBAL GOALS OF THE UNITED NATIONS (SUSTAINABLE DEVELOPMENT GOALS)

In 2017, we joined the Partnership for the UN 2030 Sustainable Development, joining the group of 51 Polish companies and institutions that signed the official declaration of commitment to the implementation of global UN goals. We have declared our support for the Goal No. 9, regarding building stable infrastructure, promoting sustainable industrialization and supporting innovation. We want to implement this goal through innovative development projects, for the benefit of our social environment and business.

In addition to the declared Goal No. 9, we actively support the goals of reducing social inequalities, sustainable industry, sustainable management of marine resources, halting losses in biodiversity, productive employment and ensure sustainable production patterns. Our activities for innovation, including the development of electromobility, and those related to the improvement of efficiency combine with Goal No. 7 and Goal No. 13.

The Sustainable Development Goals of the UN implemented by LOTOS:



Goal 1:
End poverty in all its forms everywhere



Goal 3:
Ensure healthy lives and promote well-being for all at all ages



Goal 4:
Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all



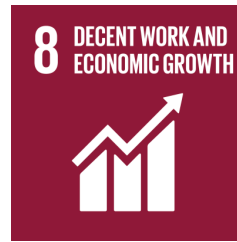
Goal 5:
Achieve gender equality and empower all women and girls



Goal 6:
Ensure availability and sustainable management of water and sanitation for all



Goal 7:
Ensure access to affordable, reliable, sustainable and modern energy for all



Goal 8:
Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all



Goal 9:
Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation



Goal 10:
Reduce inequality within and among countries



Goal 11:
Make cities and human settlements inclusive, safe, resilient, and sustainable



Goal 12:
Ensure sustainable consumption and production patterns



Goal 13:
Take urgent action to combat climate change and its impacts by regulating emissions and promoting developments in renewable energy.



Goal 14:
Conserve and sustainably use the oceans, seas and marine resources for sustainable development



Goal 15:
Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss



Goal 16:
Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.



Goal 17:
Strengthen the implementation measures and revitalize the global partnership

COOPERATION WITH UNITED NATIONS GLOBAL COMPACT NETWORK POLAND (UNGC)

We comply with the 10 UN Global Compact Principles and annually report their compliance. We participate in the UNGC Baltic Programme, we are a signatory to the anti-corruption declaration, partner of Yearbook – an annual review of good practices, we support the UNGC fight with the gray market, we were also a patron of the 2nd edition of the 'Development Architect' competition.

Under the new agreement, signed in 2017, we are involved in the implementation of another great project for the environment: Water Programme, whose aim is to improve the situation in the field of water resources in Poland.

BEST PRACTICES

As many as 11 of our good practices have been chosen to be presented in the FOB Report edition for 2017 'Responsible business in Poland. Good practices'. The FOB publication is the largest review of socially responsible business in Poland in a given year.

The appreciated activities of the LOTOS Group include:

- [Headed for the Baltic Sea Programme](#)
- [Talent with LOTOS](#)
- [The 'We are looking for the Master's Successors' Programme](#)
- [The 'Safety Belt Champions' Programme](#)
- [Innovation support programme](#)
- [Practices in the field of safety at work](#)
- [Practices in employment](#)
- publication of the LOTOS Annual Integrated Report

ACTIVITIES FOR OUR SOCIAL ENVIRONMENT

We focus our efforts on those areas of life that affect both members of our communities and are important for the company's operations. We want to make a real contribution to social development, including promoting education in a transparent way and contributing to improving the quality of life in communities in our neighborhood.

LOTOS Foundation, established in 2015, plays an important role in our charitable activity for the social environment. Its mission is the comprehensive social activity, which makes a positive contribution to the development of the social and natural environment. In 2017, the LOTOS Foundation supported in general 104 social initiatives for a total sum of PLN 2,473,356.

[You can find more about our involvement in the development of social capital HERE](#)

PARTNERSHIPS AND INITIATIVES

G4-34

G4-38

As a socially responsible company, we are a member of leading organizations promoting good CSR practices:

- **STRATEGIC PARTNER RESPONSIBLE BUSINESS FORUM**

Since 2008, we have been a strategic partner of the Responsible Business Forum, which on a large scale deals with dissemination of the idea of corporate social responsibility as a standard in business in our country.

- **MEMBER UNITED NATIONS GLOBAL COMPACT**

In 2009, we were accepted as a member of the international organization United Nations Global Compact, established in 2000 at the initiative of the UN Secretary General. We adhere to and apply in our activities the 10 UN Global Compact principles. The main task of this organization is to promote the principles related to, among others, respecting workers' rights, supporting environmental protection or counteracting corruption. Joining the Global Compact has given us the opportunity to share good practices of existence in a prestigious group of global companies and organizations that have been active in the development of international CSR for years.

Belonging to the organizations associating companies with a strategic approach to sustainable development is a great opportunity for us to exchange views, continuous development and education in this area, as well as the opportunity to strengthen the position of our company as a responsible business and social partner. In addition, it enables us to exchange good practices and participate in the initiatives implemented by these organizations and projects. Moreover, we have the opportunity to build broader coalitions with other companies, related to the search for effective solutions for various types of social problems.

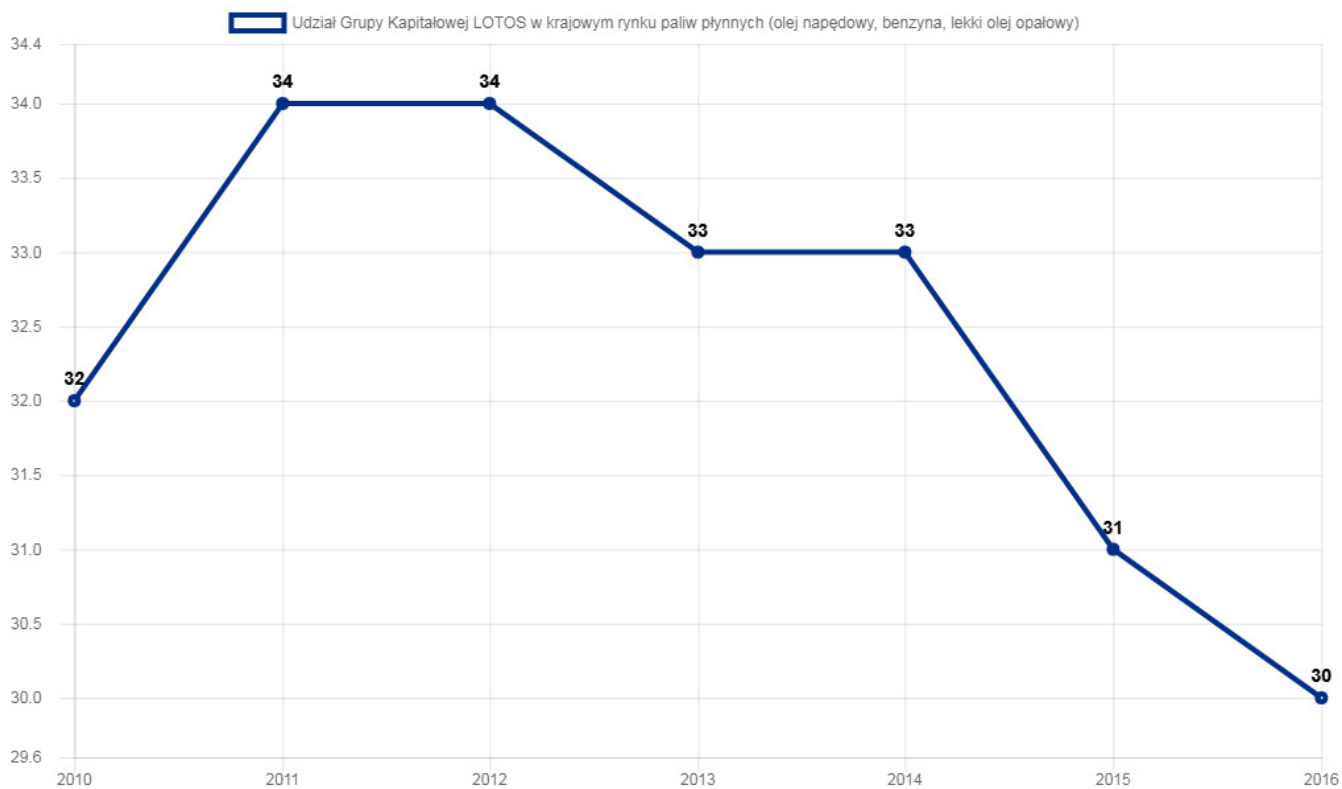


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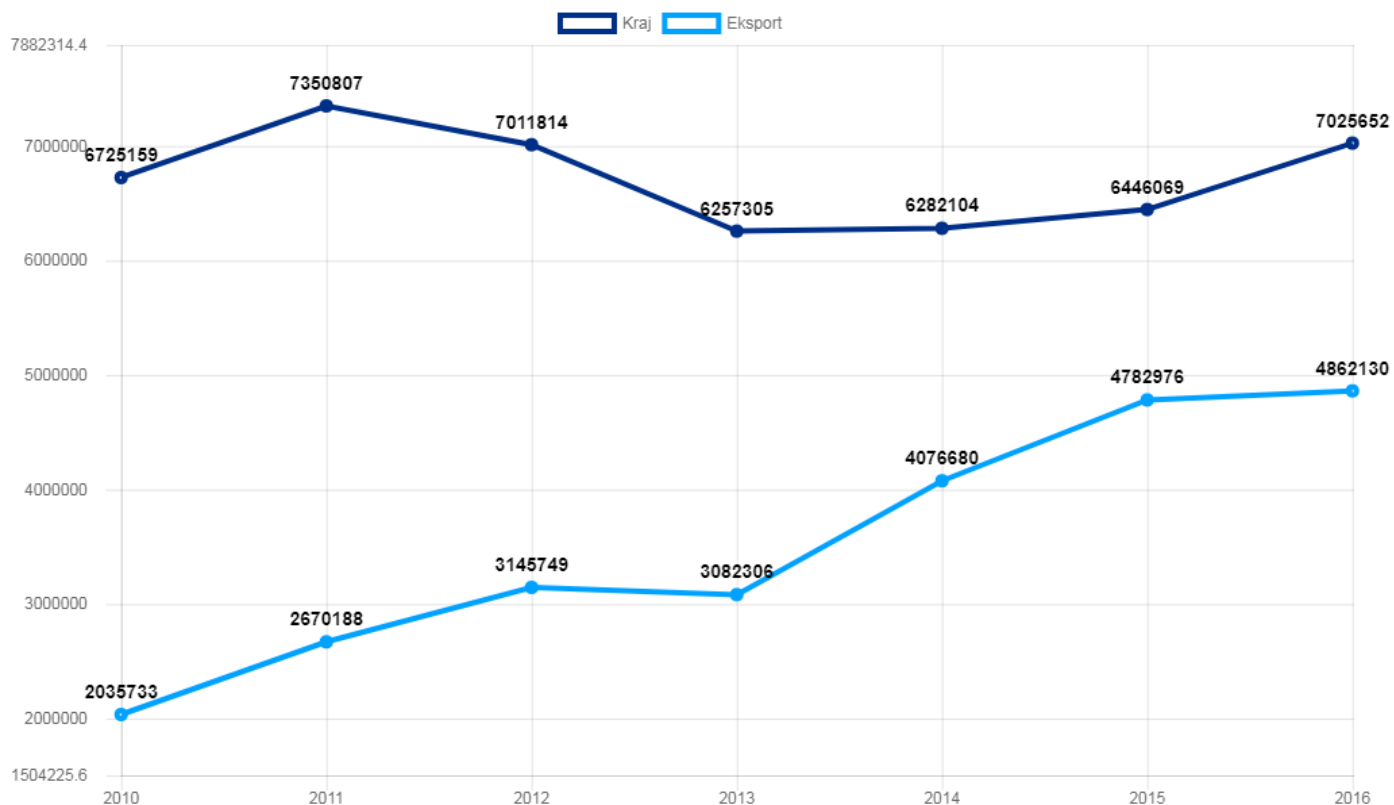
FINANCIAL DATA

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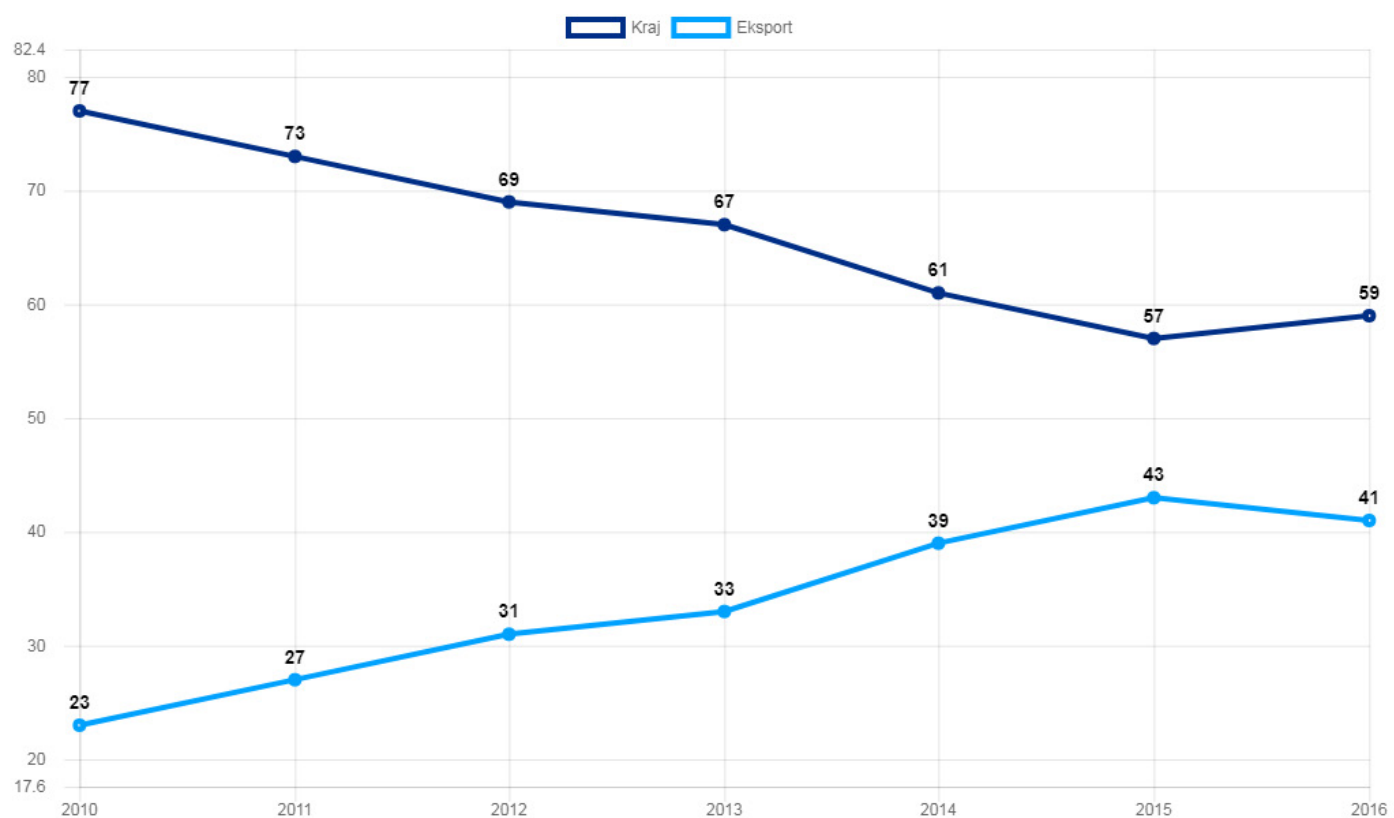
Udział Grupy Kapitałowej LOTOS w krajowym rynku paliw płynnych (olej napędowy, benzyna, lekki olej opałowy)



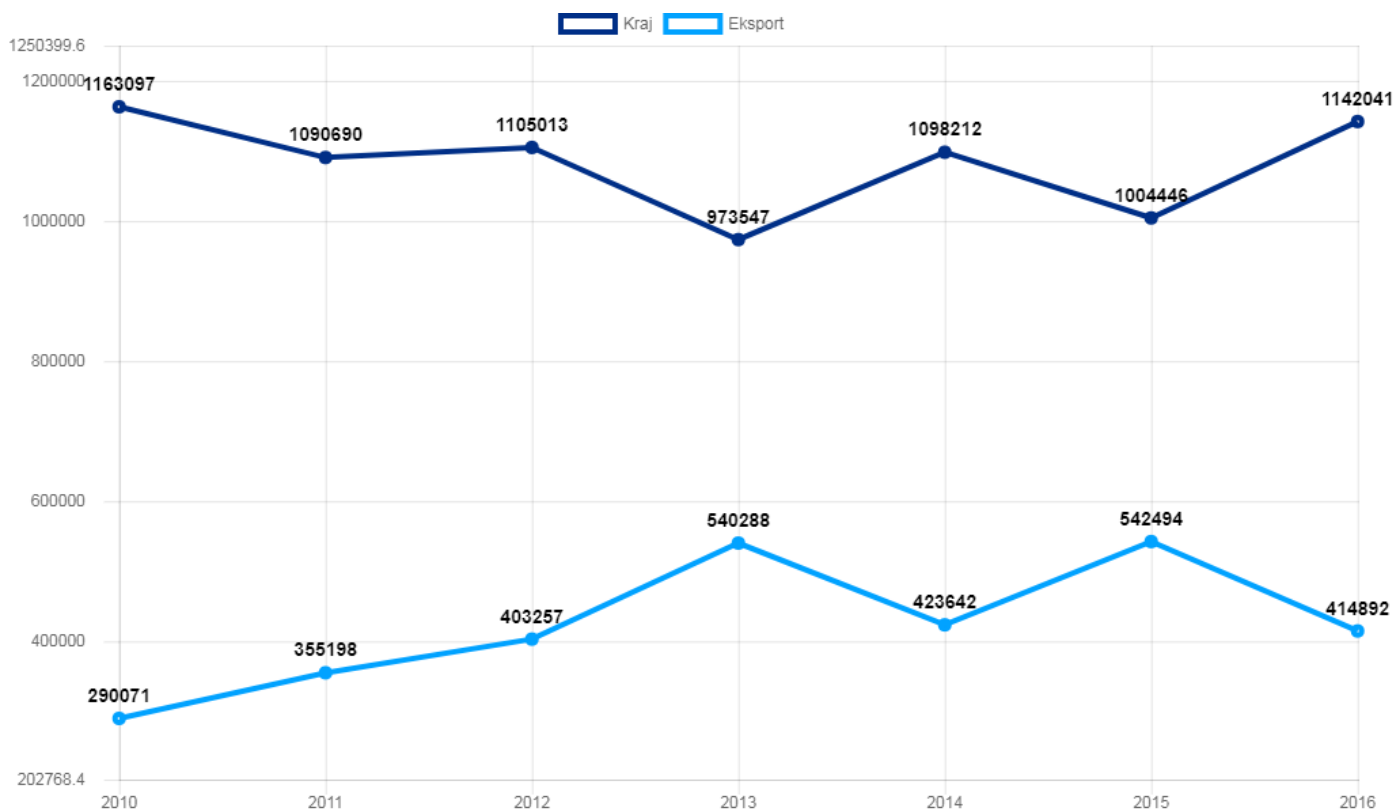
Sprzedaż Grupy Kapitałowej LOTOS (tony)



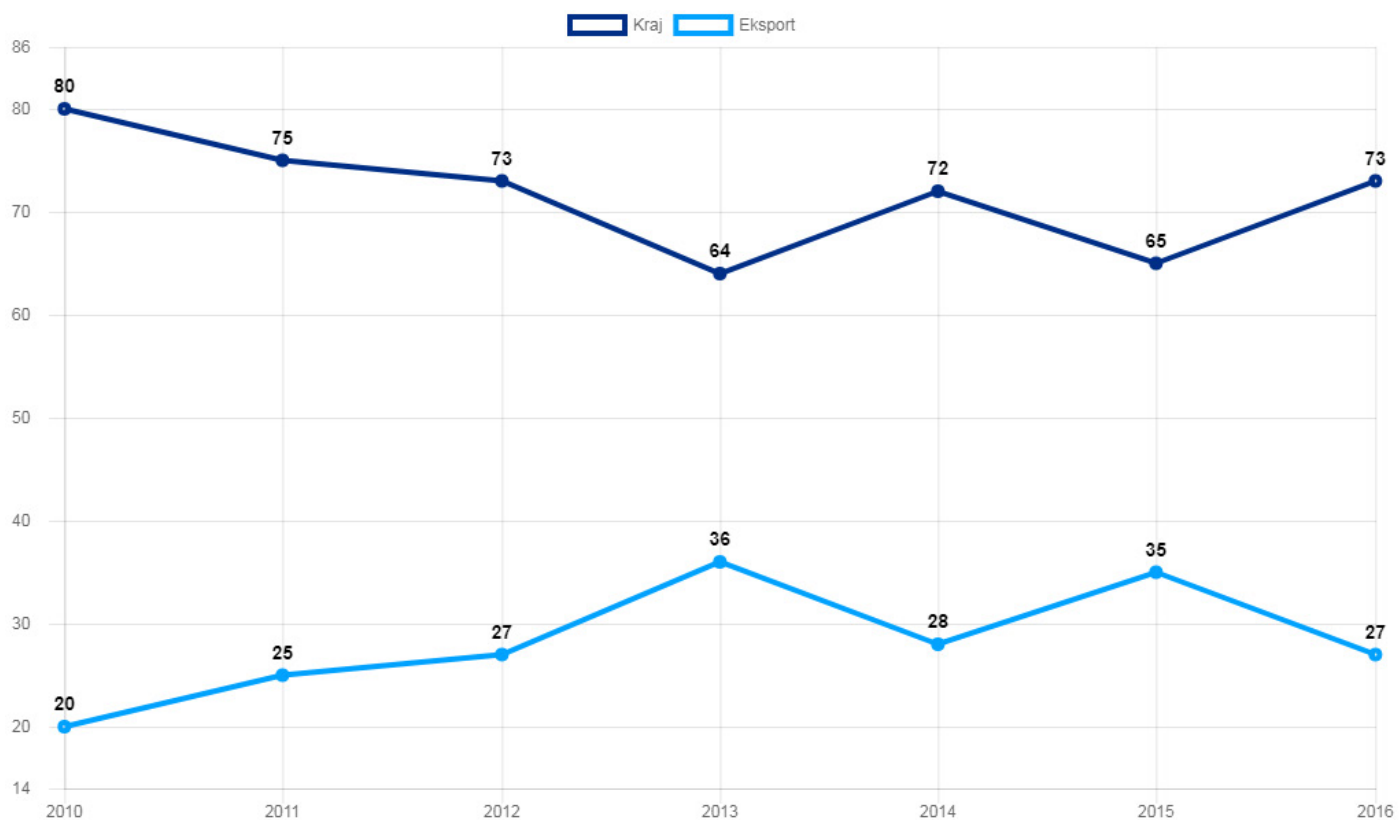
Struktura sprzedaży w podziale na kraj i eksport (%)



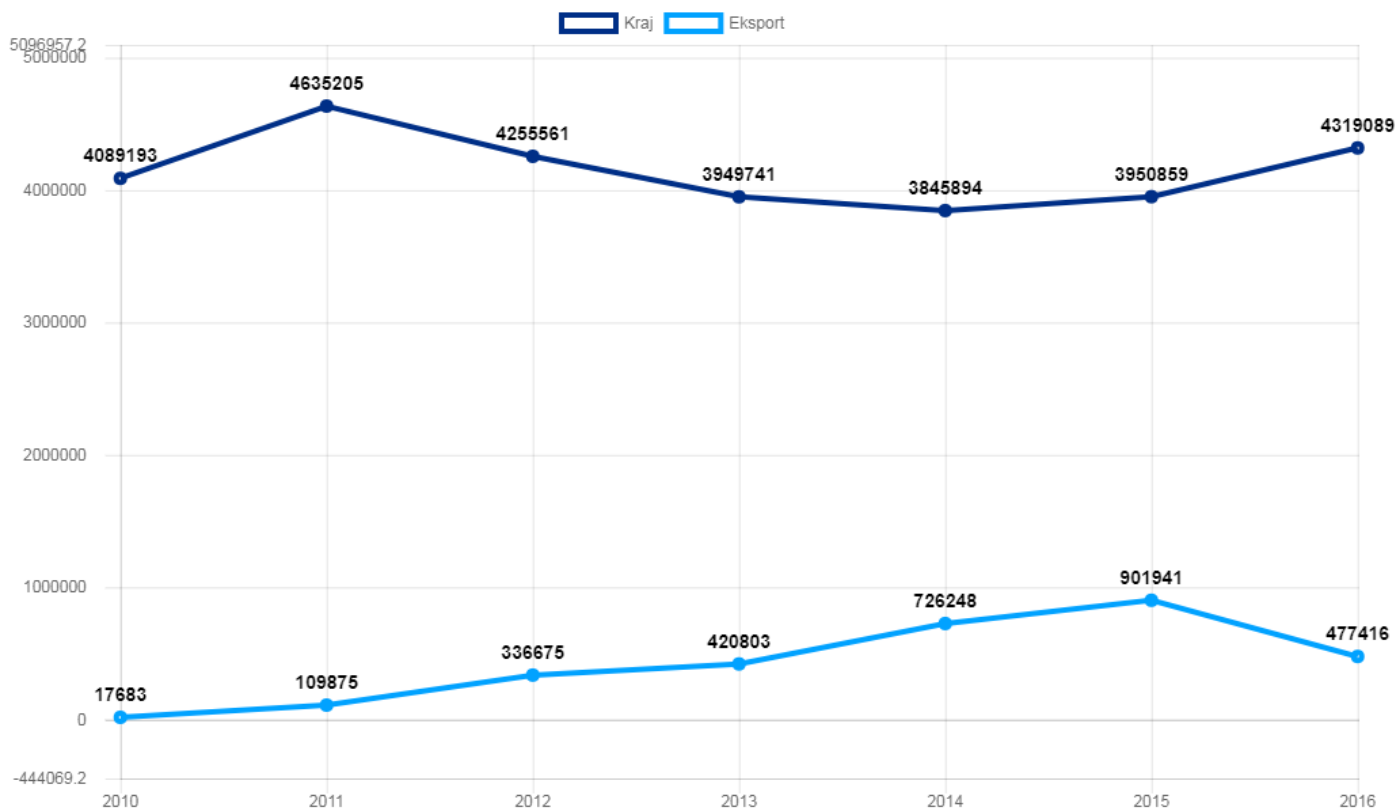
Struktura Benzyn (tony)



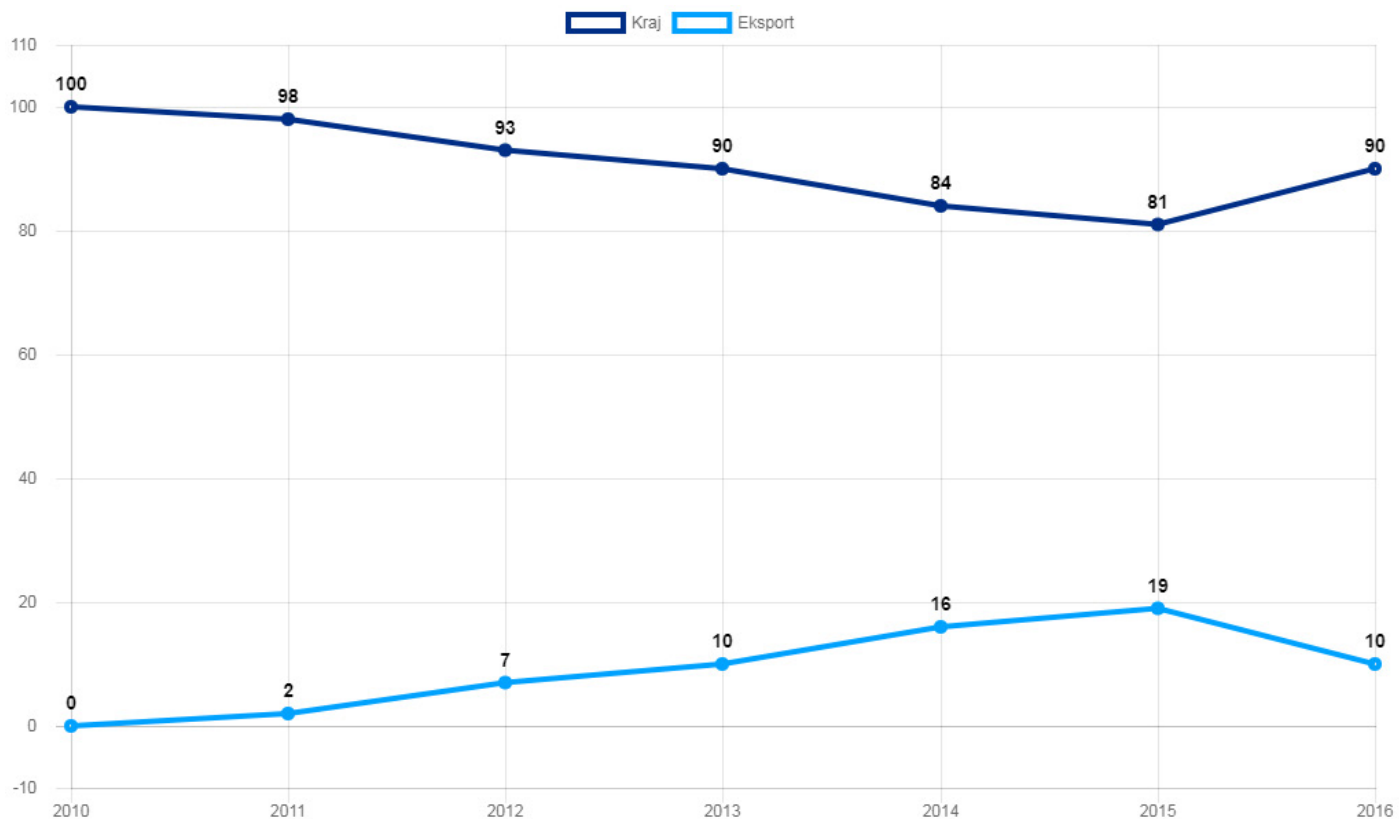
Struktura sprzedaży Benzyn w podziale na kraj i eksport (%)



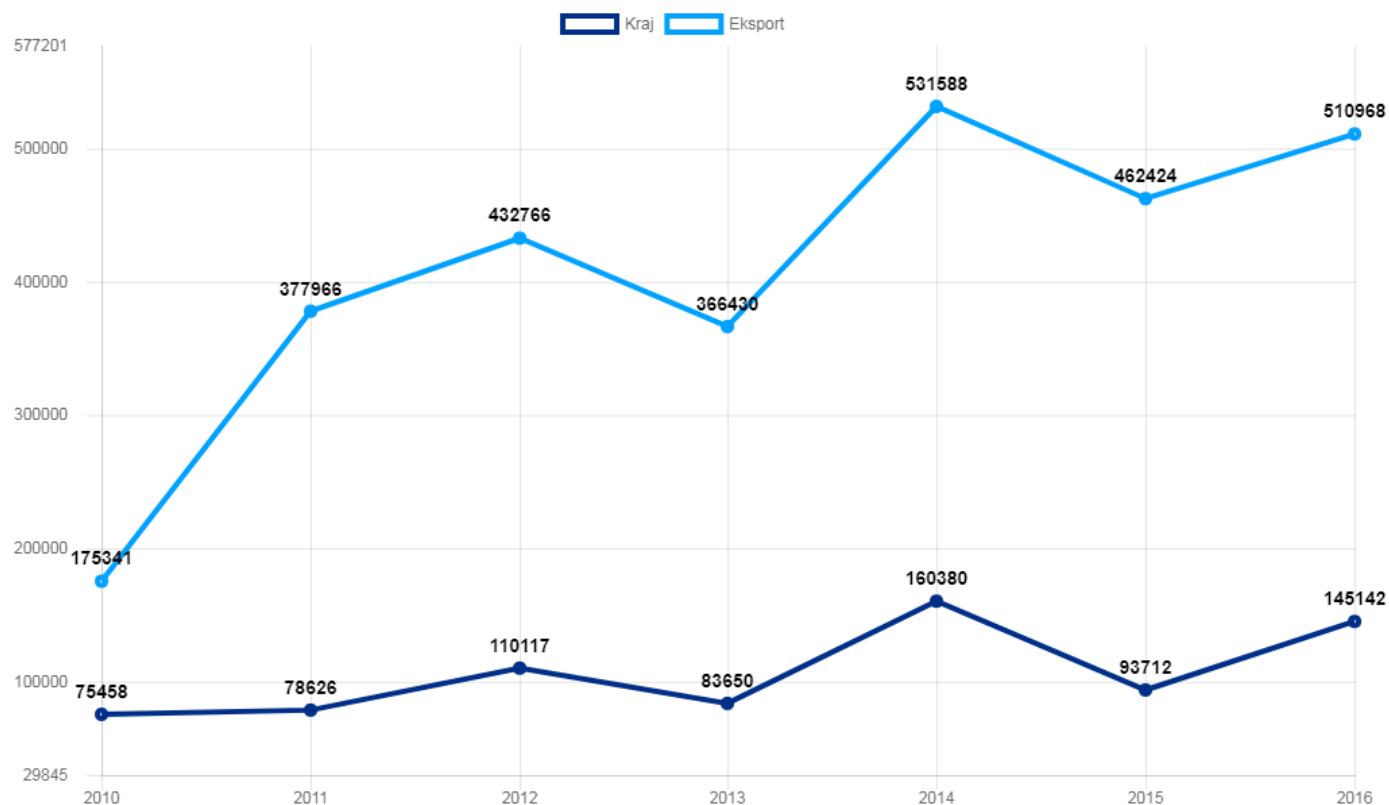
Sprzedaż Oleju Napędowego (tony)



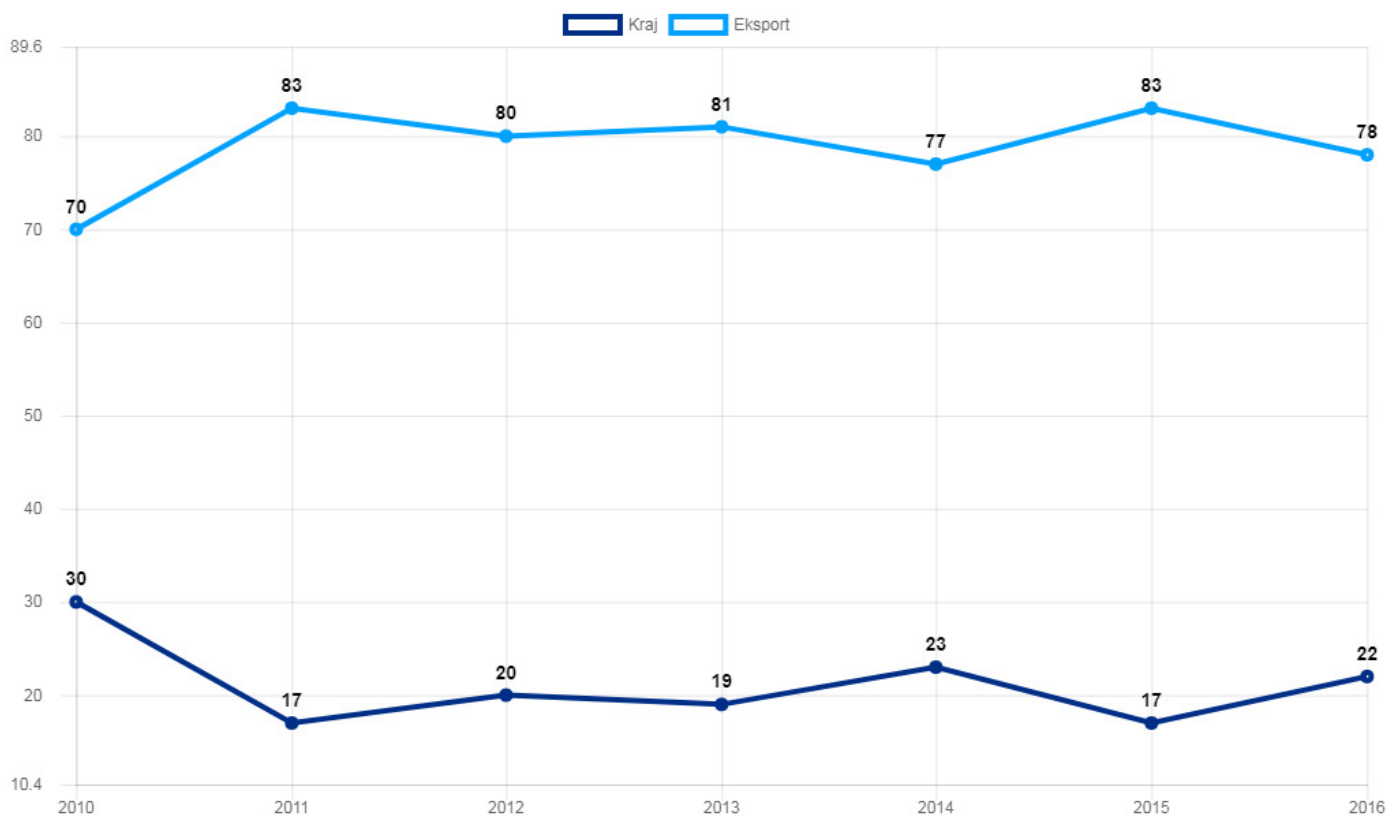
Struktura sprzedaży Oleju Napędowego w podziale na kraj i eksport (%)



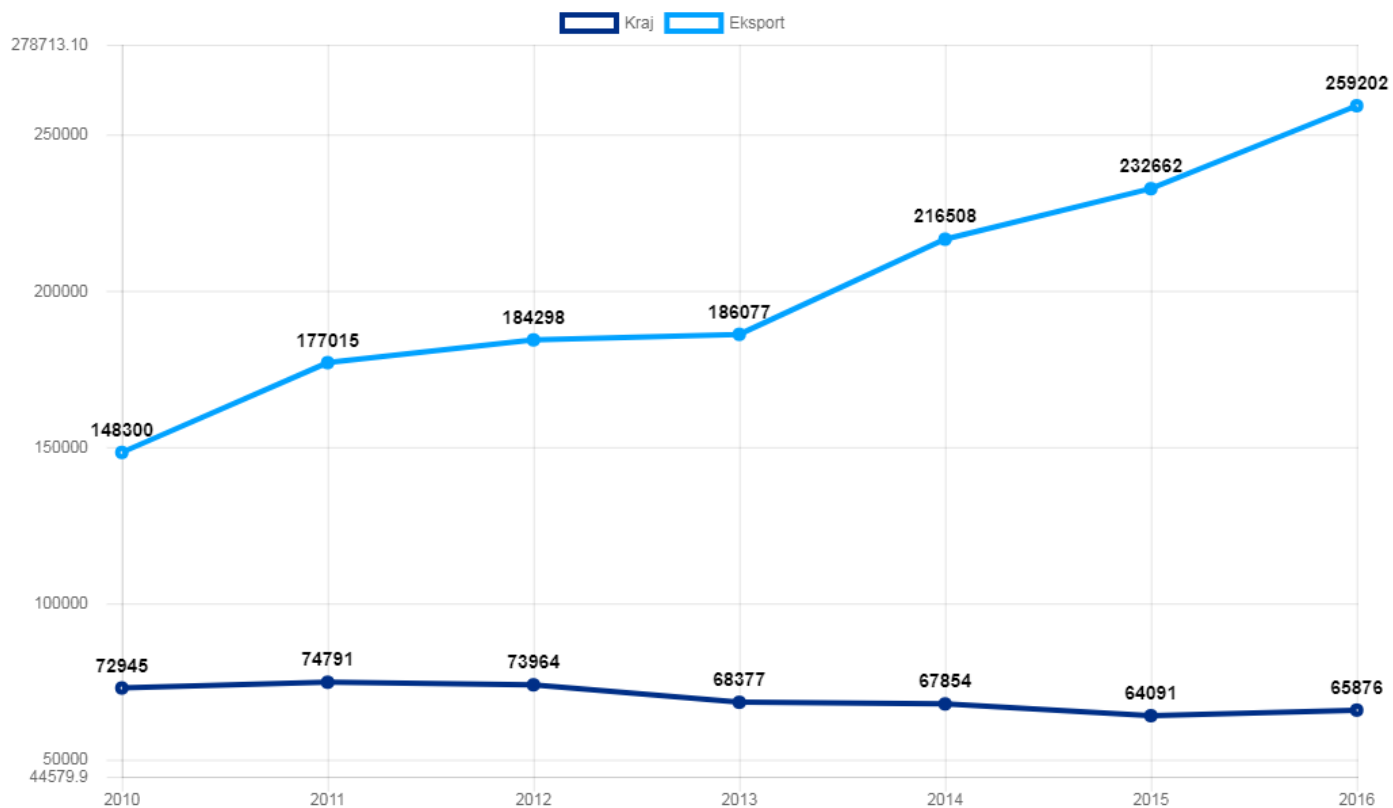
Sprzedaż Paliwa Lotniczego (tony)



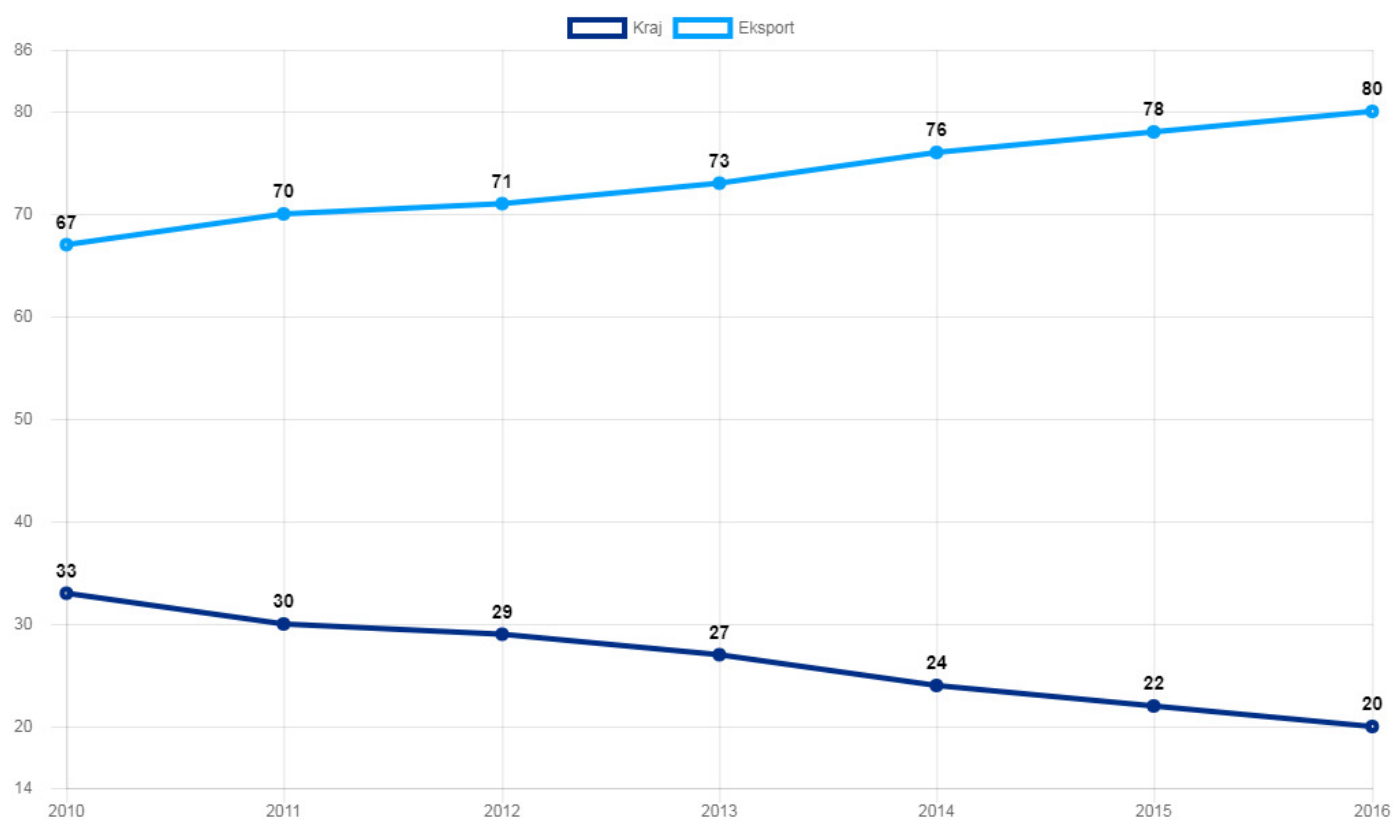
Struktura sprzedaży Paliwa Lotniczego w podziale na kraj i eksport (%)



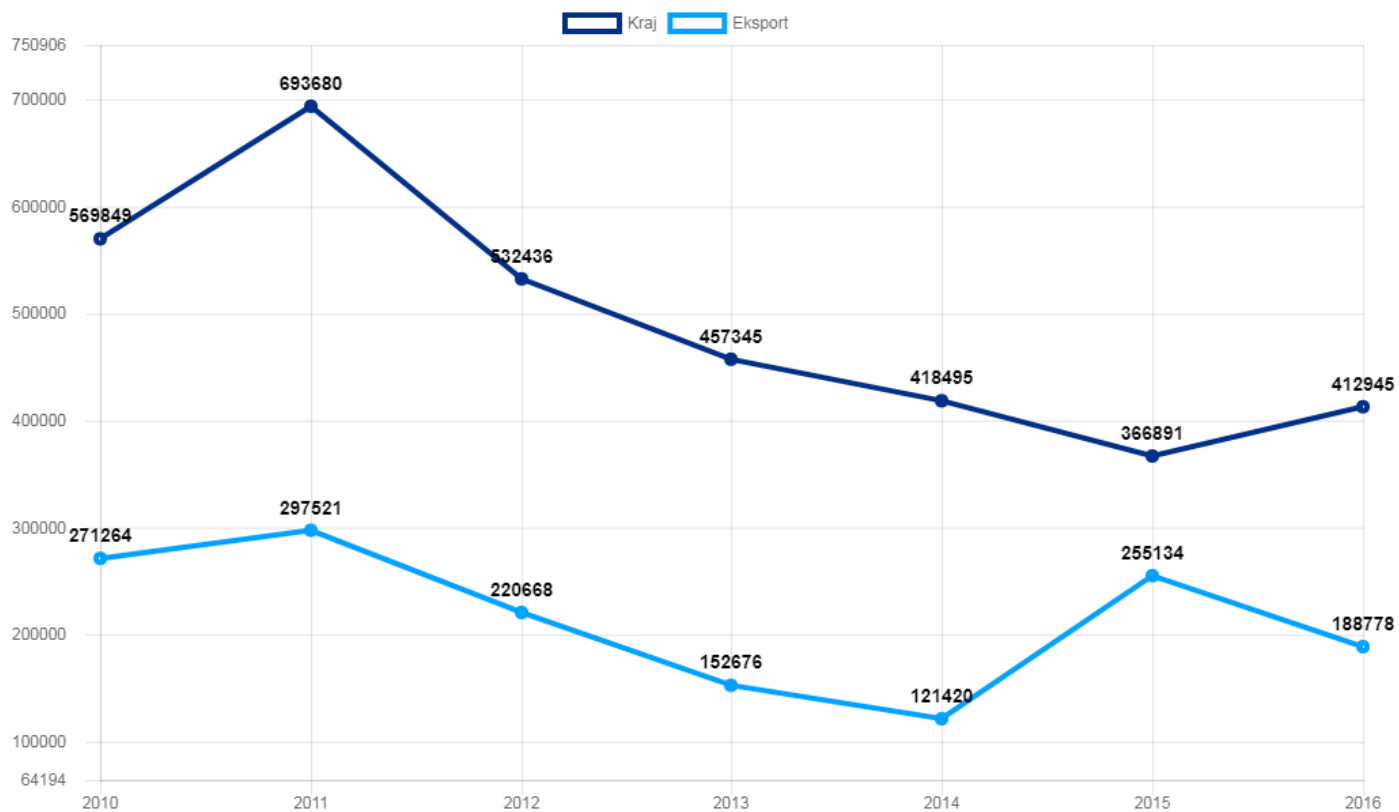
Sprzedaż Produktów Olejowych (tony)



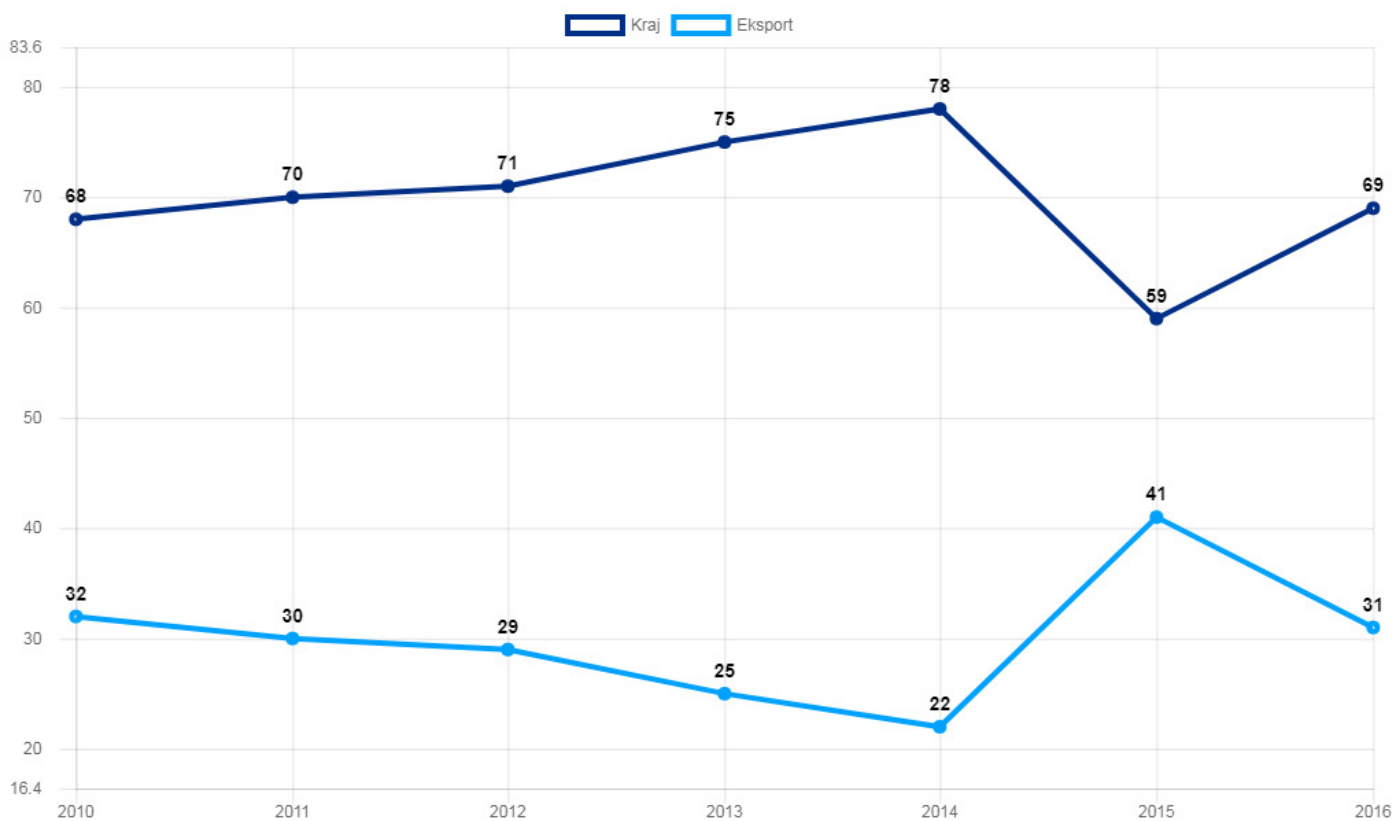
Struktura sprzedaży Produktów Olejowych w podziale na kraj i eksport (%)



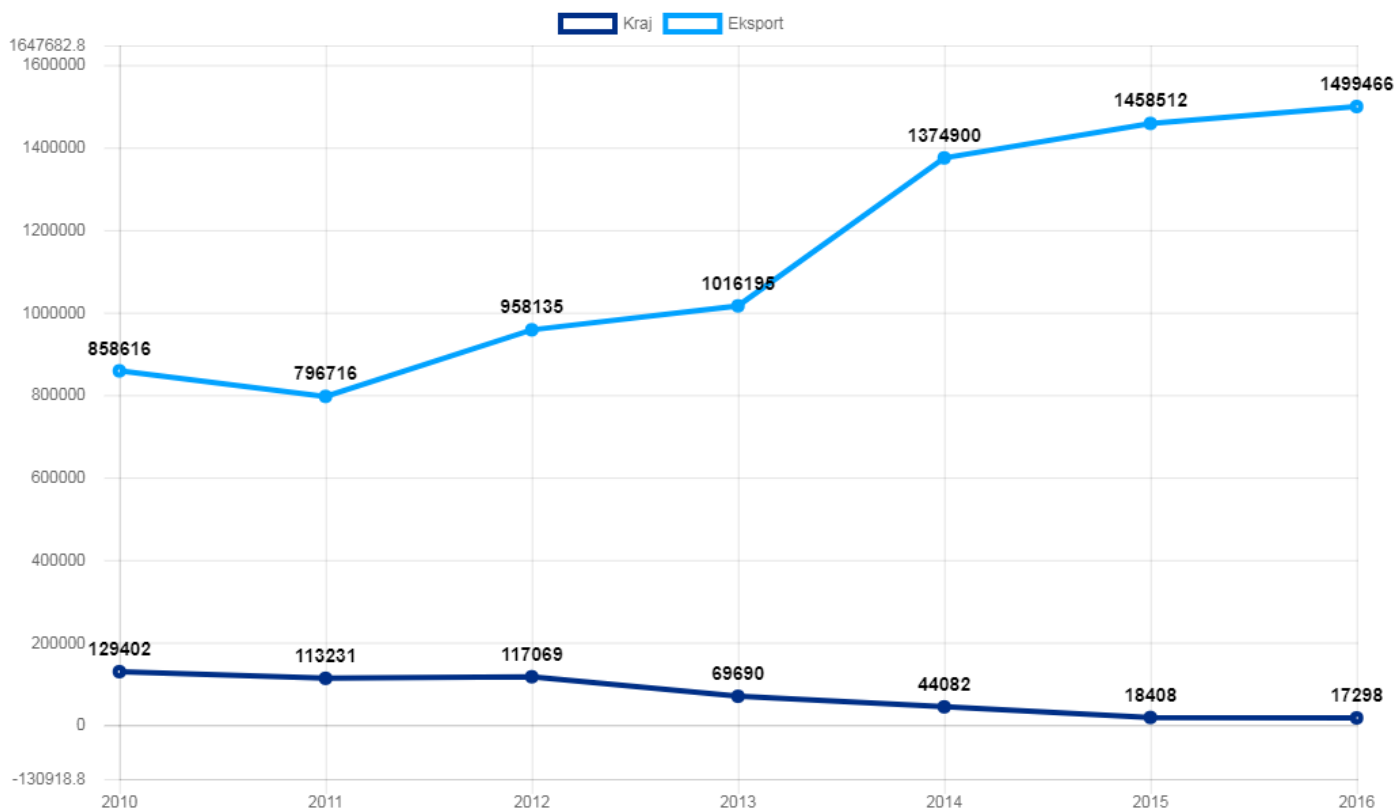
Sprzedaż Asfaltów (tony)



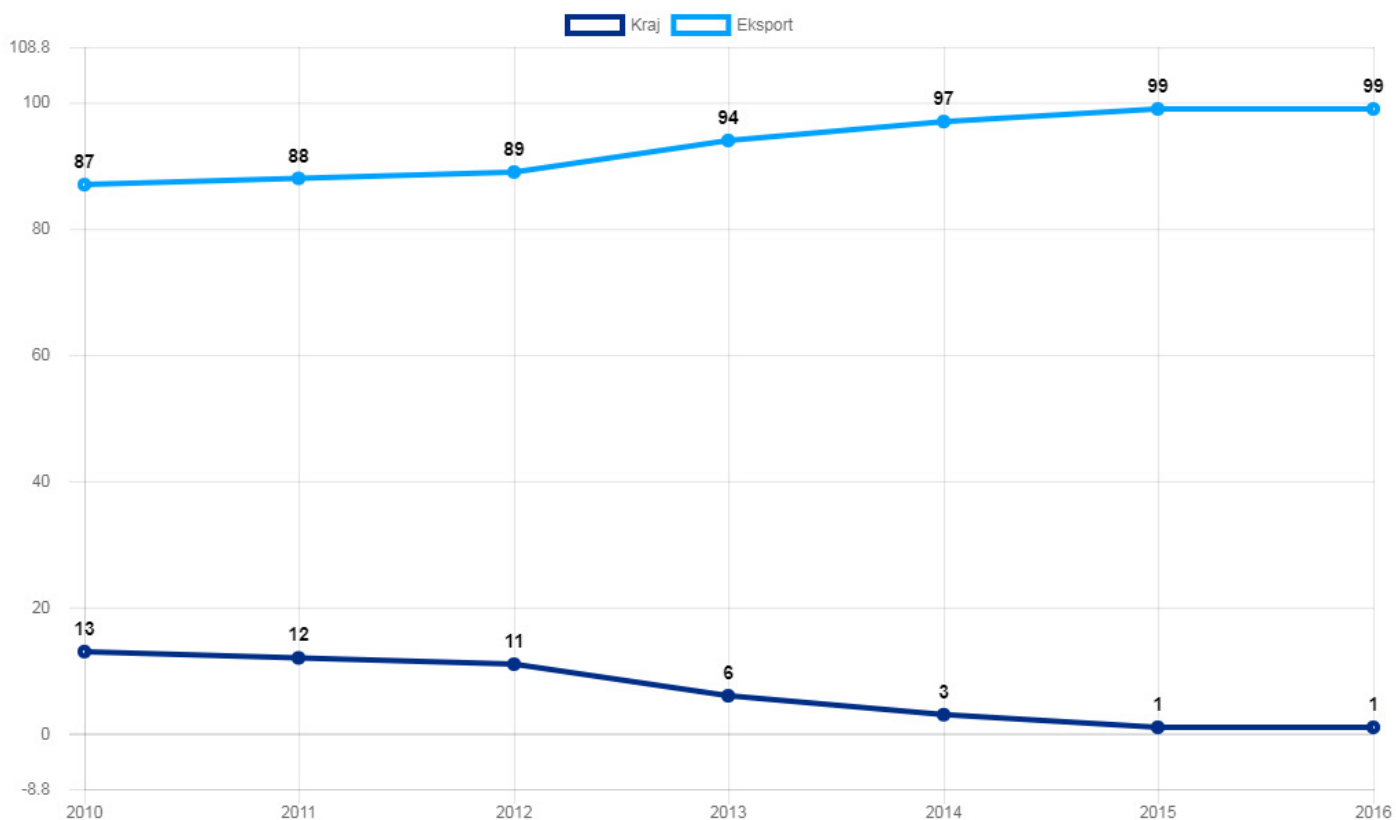
Struktura sprzedaży Asfaltów w podziale na kraj i eksport (%)



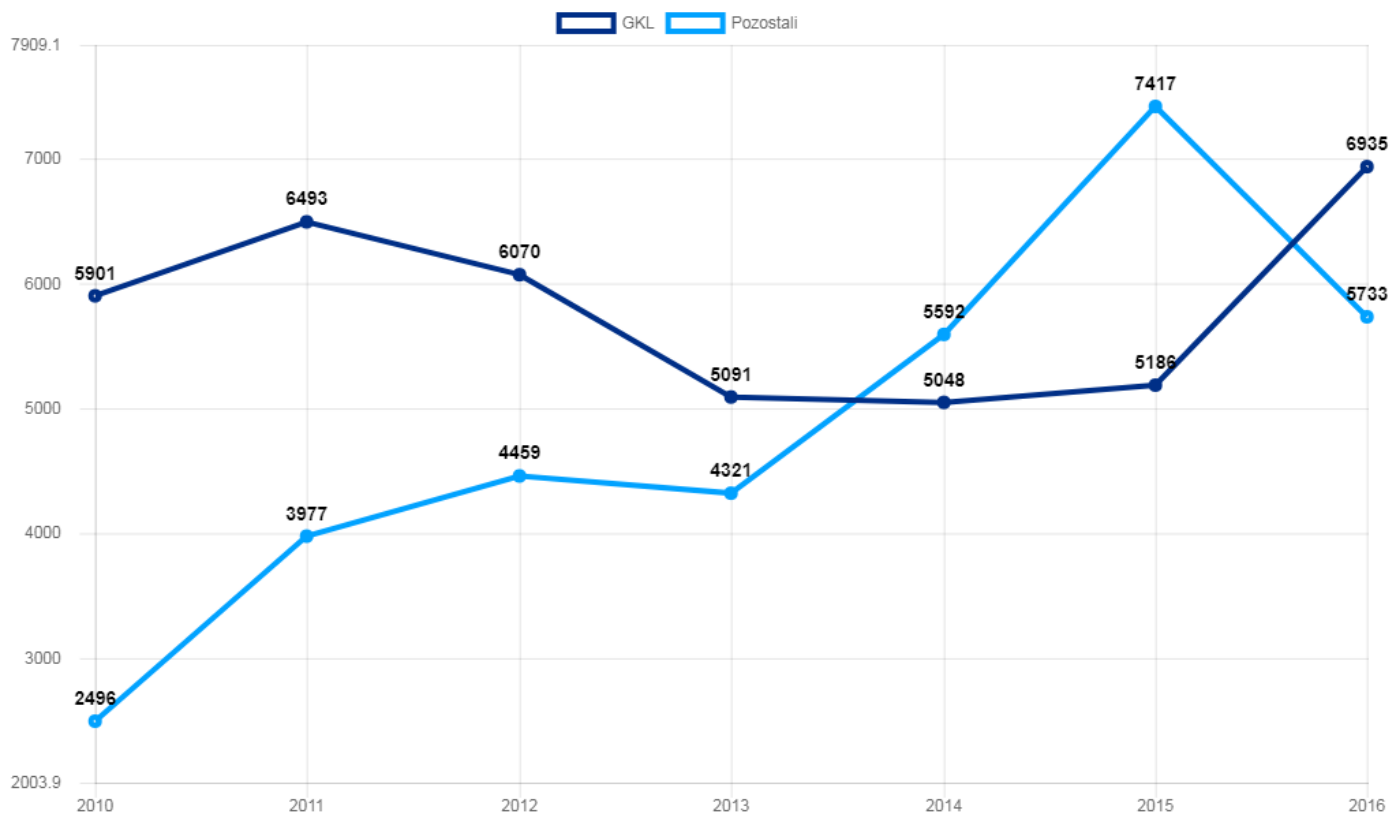
Sprzedaż Ciężkiego Oleju Opatowego (tony)



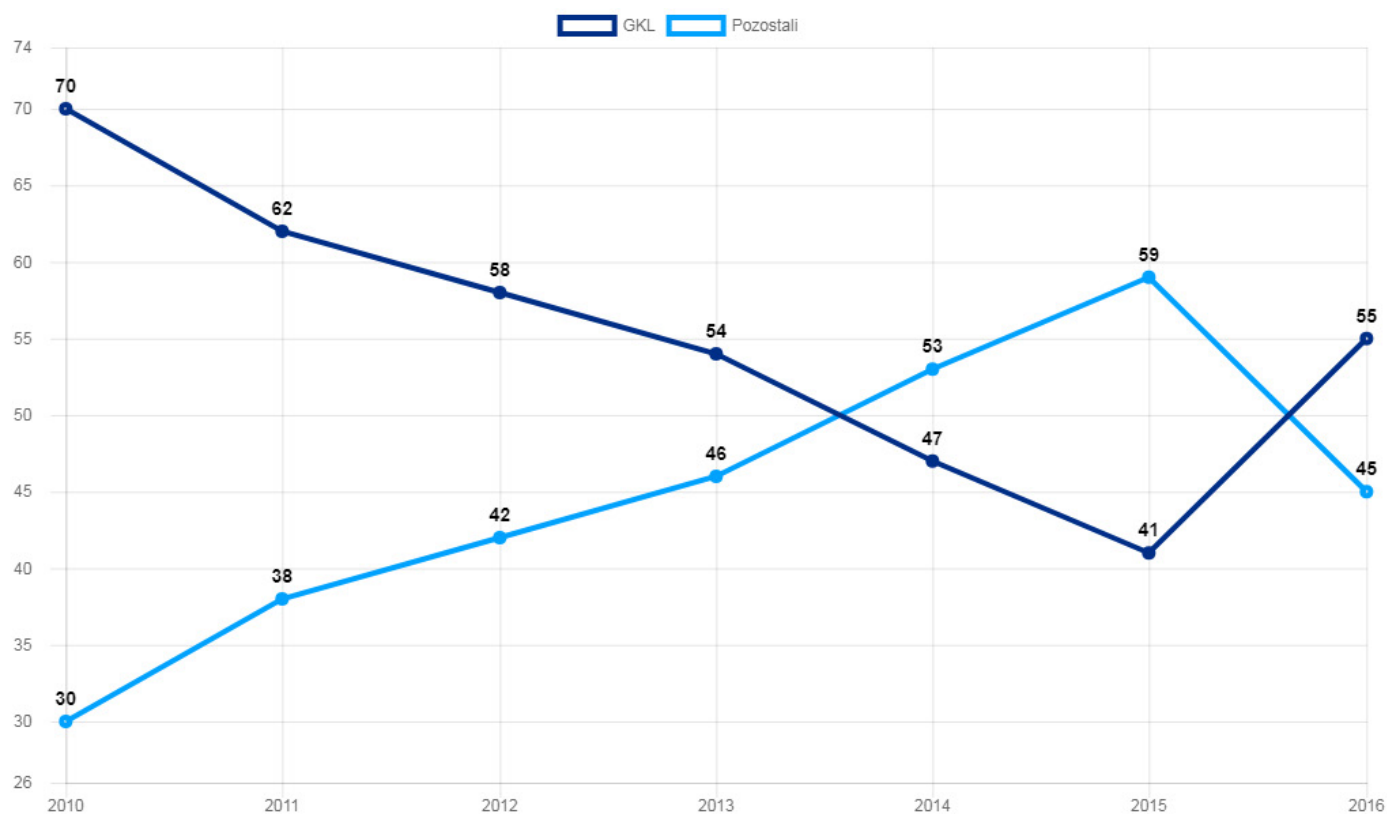
Struktura sprzedaży Ciężkiego Oleju Opatowego w podziale na kraj i eksport (%)



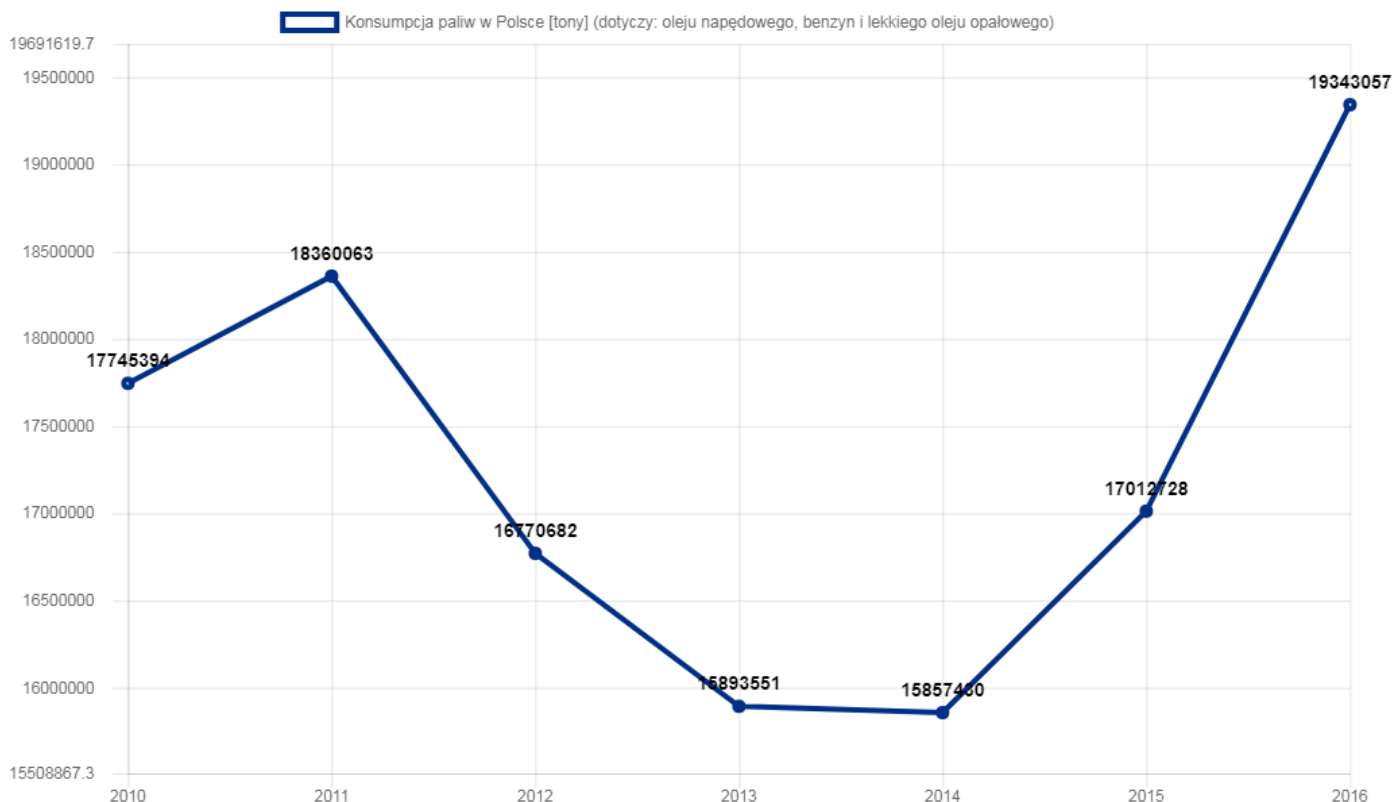
Przewozy kolejowe zrealizowane przez LOTOS Kolej (tys. ton)



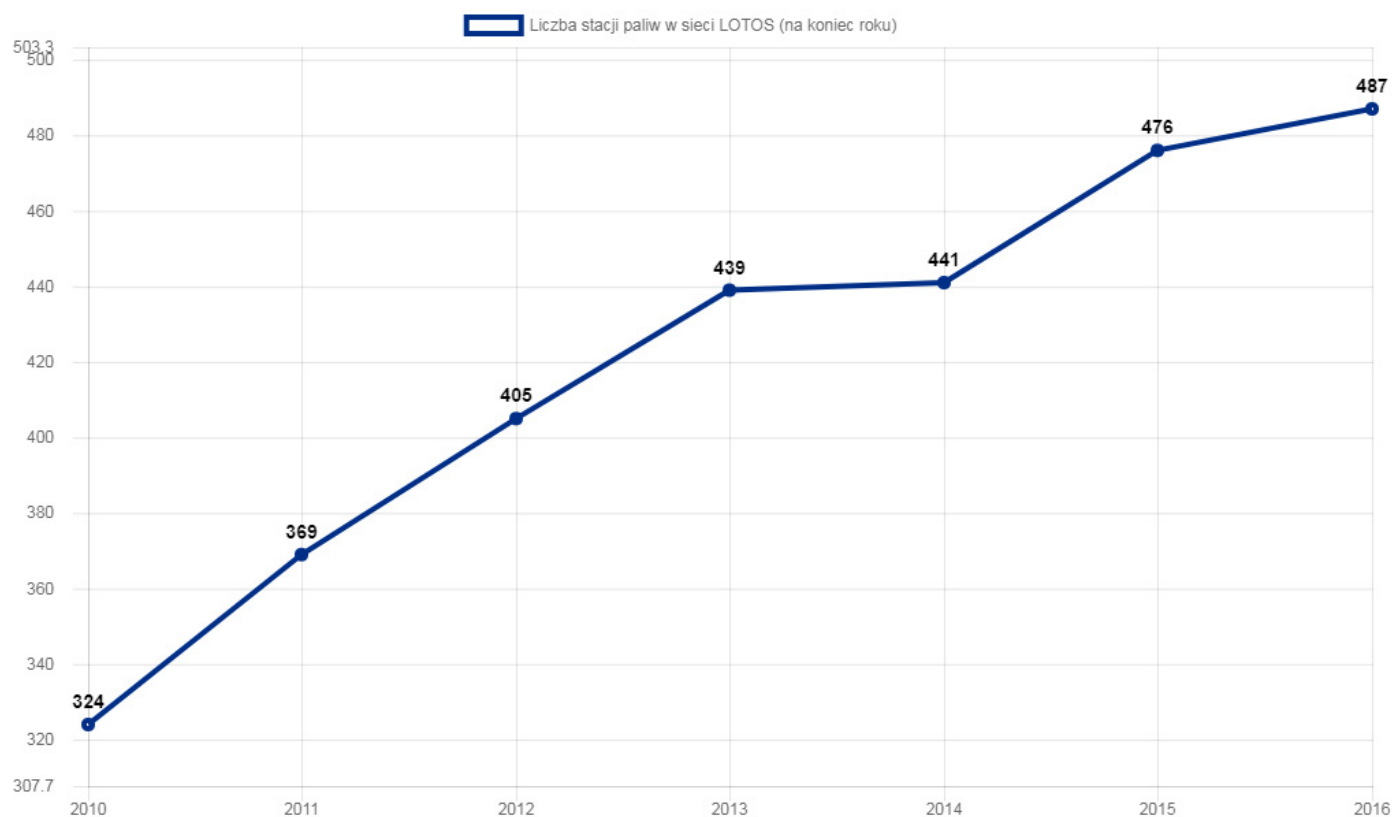
Struktura przewozów (%)



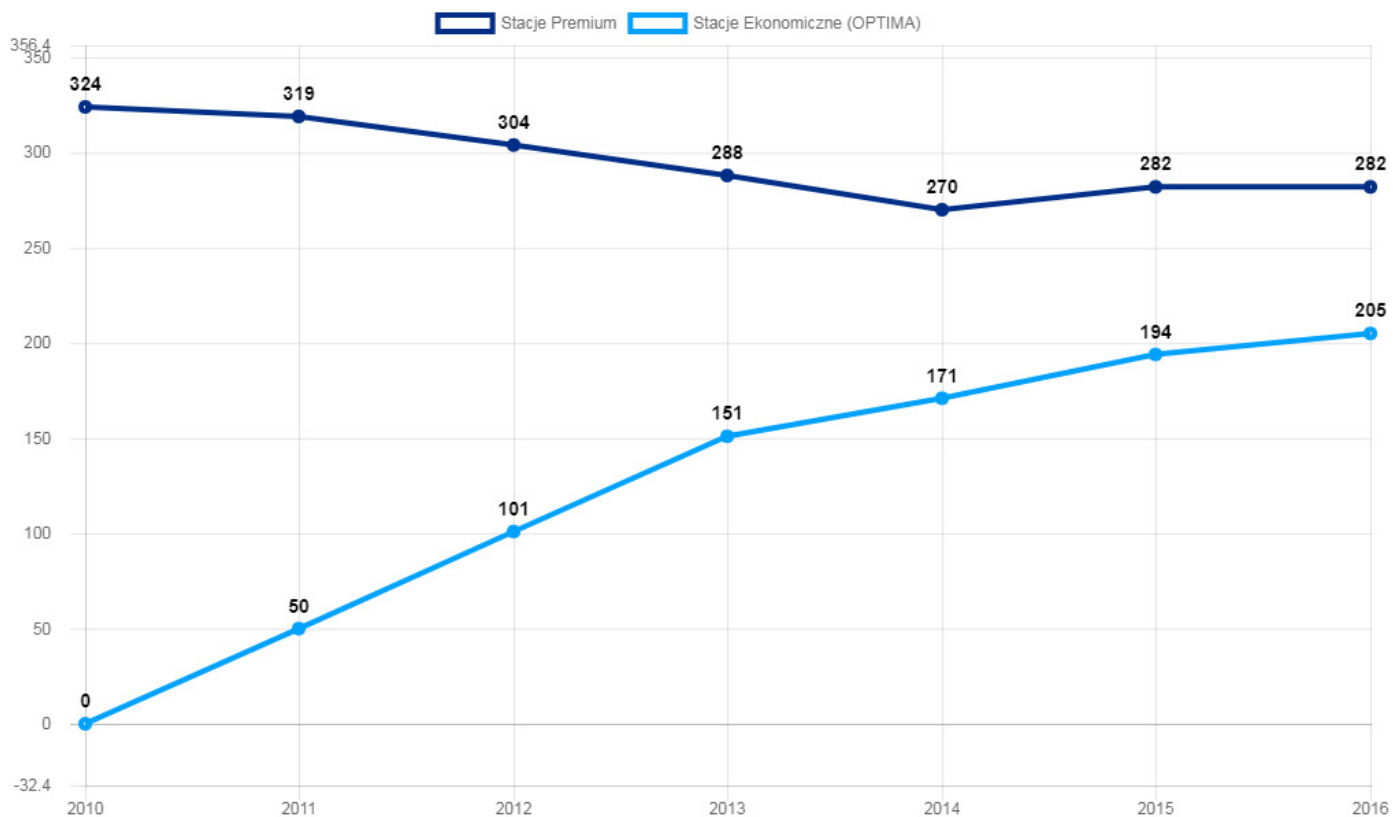
Konsumpcja paliw w Polsce (tony)



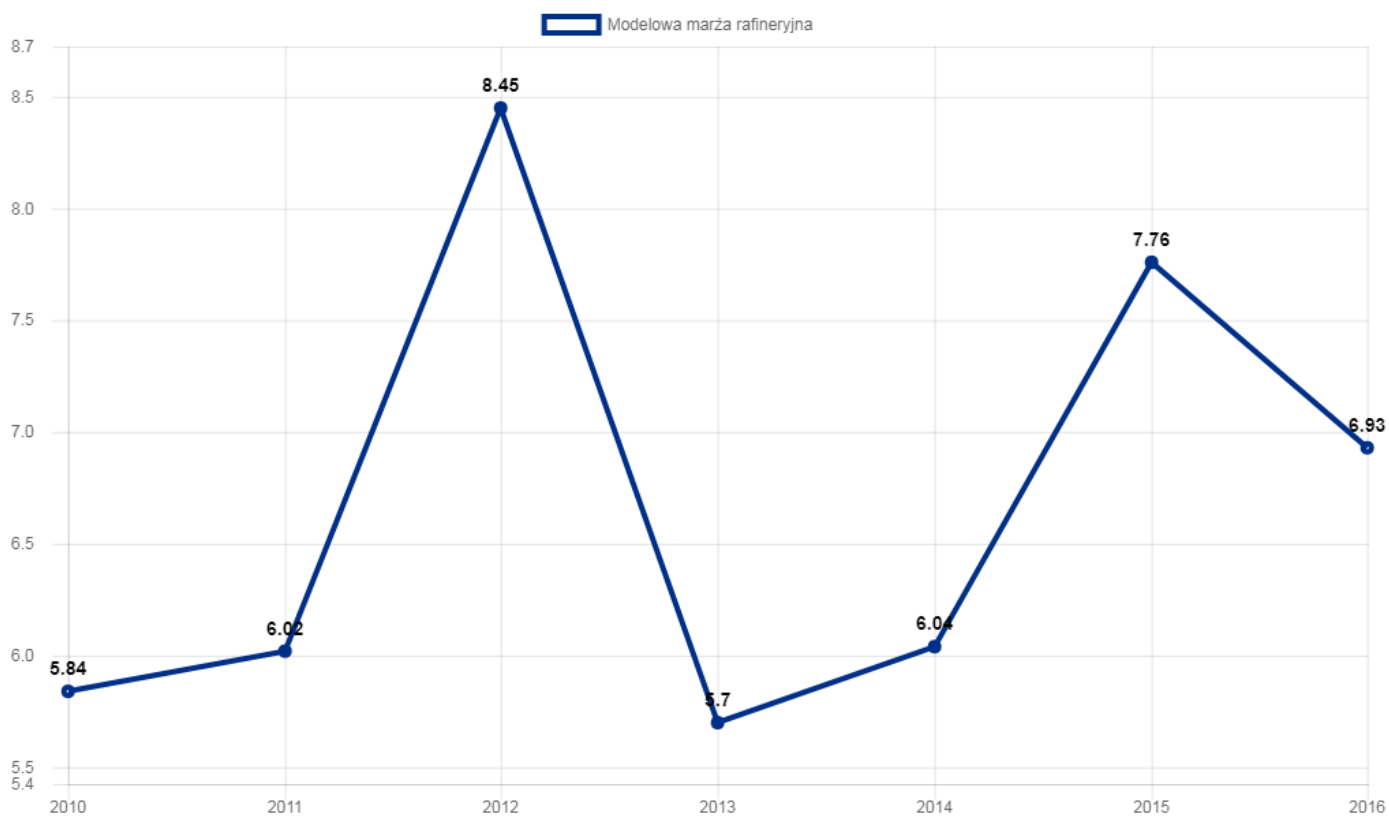
Liczba stacji paliw w sieci LOTOS (na koniec roku)



Struktura sieci LOTOS



Modelowa marża rafineryjna



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – QUARTERLY

		1Q 16	2Q 16	3Q 16	4Q 16	1Q 17	2Q 17	3Q 17	4Q 17
Net sales	PLN m	3 935,9	4 969,0	5 660,0	6 366,1	5 447,3	5 454,9	6 262,6	7 020,9
Cost of sales	PLN m	-3 393,5	-3 922,7	-4 790,0	-5 109,4	-4 485,0	-4 881,5	-5 064,2	-5 763,4
Gross profit	PLN m	542,4	1 046,3	870,0	1 256,7	962,3	573,4	1 198,4	1 257,5
Goodwill impairment allowance	PLN m	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Distribution costs	PLN m	-304,0	-320,1	-335,1	-331,9	-285,0	-298,4	-330,6	-338,4
Administrative expenses	PLN m	-106,9	-103,8	-103,3	-111,7	-109,0	-106,0	-113,0	-121,9
Other operating profit/(loss)	PLN m	6,3	-71,8	0,1	-78,5	8,2	3,9	1,7	-74,5
Effect of accounting for step acquisition of control (AB LOTOS Geonafta Group)	PLN m	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Loss of control over subsidiary	PLN m	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Operating profit/(loss)	PLN m	137,8	550,6	431,7	734,6	576,5	172,9	756,5	722,7
Profit/(loss) on financing activities	PLN m	46,8	-151,5	62,1	-235,6	48,5	94,6	60,9	11,9
Share in net profit of equity-accounted joint ventures	PLN m	0,5	0,8	1,3	0,3	0,3	0,9	1,6	0,4
Pre-tax profit/(loss)	PLN m	185,1	399,9	495,1	499,3	625,3	268,4	819,0	735,0
Corporate income tax	PLN m	-79,1	-174,1	-115,2	-195,8	-214,4	-110,9	-200,2	-250,3
Net profit	PLN m	106,0	225,8	379,9	303,5	410,9	157,5	618,8	484,7
- attributable to Owners of the parent	PLN m	106,0	225,8	379,9	303,5	410,9	157,5	618,8	484,7
- attributable to Non-controlling interests	PLN m	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Other comprehensive Income	PLN m	130,7	-158,2	121,0	-210,1	205,3	205,0	42,7	161,7
- exchange differences on translating foreign operations	PLN m	-4,3	4,3	-5,0	-1,3	12,9	9,2	-9,7	14,8
- cash flow hedges	PLN m	166,7	-200,6	155,6	-259,9	237,5	241,7	64,7	181,5
- income tax on the comprehensive income	PLN m	-31,7	38,1	-29,6	49,4	-45,1	-45,9	-12,3	-34,5
- other	PLN m	0,0	0,0	0,0	1,7	0,0	0,0	0,0	-0,1
Excise and fuel tax	PLN m	2 071,2	2 314,1	2 651,5	2 594,2	2 531,9	5 431,2	8 747,5	11 799,9
Amortization	PLN m	262,5	259,7	238,0	307,7	226,6	210,7	202,2	204,8
EBITDA	PLN m	400,3	810,3	669,7	1 042,3	803,1	383,6	958,7	927,5
LIFO effect	PLN m	192,2	-12,0	-17,2	-85,9	-122,8	137,3	12,1	-198,0
LIFO EBITDA	PLN m	592,5	798,3	652,5	956,4	680,3	520,9	970,8	754,0

[See full CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – QUARTERLY](#)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – CUMULATIVE

		1Q 16	2Q 16	3Q 16	4Q 16	1Q 17	2Q 17	3Q 17	4Q 17
Net sales	PLN m	3 935,9	8 904,9	14 565,0	20 931,1	5 447,3	10 902,2	17 164,7	24 185,6
Cost of sales	PLN m	-3 393,5	-7 316,3	-12 106,3	-17 215,7	-4 485,0	-9 366,5	-14 430,6	-20 194,1
Gross profit	PLN m	542,4	1 588,6	2 458,7	3 715,4	962,3	1 535,7	2 734,1	3 991,5
Goodwill impairment allowance	PLN m	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Distribution costs	PLN m	-304,0	-624,1	-959,2	-1 291,1	-285,0	-583,4	-913,9	-1 252,3
Administrative expenses	PLN m	-106,9	-210,7	-314,1	-425,9	-109,0	-215,0	-328,1	-450,0
Other operating profit/(loss)	PLN m	6,3	-65,5	-65,4	-143,7	8,2	12,1	13,8	-60,7
Effect of accounting for step acquisition of control (AB LOTOS Geonafta Group)	PLN m	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Loss of control over subsidiary	PLN m	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Operating profit/(loss)	PLN m	137,8	688,3	1120	1 854,7	576,5	749,4	1 505,9	2 228,5
Profit/(loss) on financing activities	PLN m	46,8	-104,6	-42,6	-278,2	48,5	143,1	204,0	216,0
Share in net profit of equity-accounted joint ventures	PLN m	0,5	1,3	2,6	2,9	0,3	1,2	2,8	3,2
Pre-tax profit/(loss)	PLN m	185,1	585,0	1 080,0	1 579,4	625,3	893,7	1 712,7	2 447,7
Corporate income tax	PLN m	-79,1	-253,2	-368,3	-564,2	-214,4	-325,4	-525,6	-775,9
Net profit	PLN m	106,0	331,8	711,7	1 015,2	410,9	568,3	1 187,1	1 671,8
- attributable to Owners of the parent	PLN m	106,0	331,8	711,7	1 015,2	410,9	568,3	1 187,1	1 671,8
- attributable to Non-controlling interests	PLN m	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Other comprehensive Income	PLN m	130,7	-27,4	93,6	-116,5	205,3	410,3	453,0	614,7
- exchange differences on translating foreign operations	PLN m	-4,3	0,0	-5,0	-6,3	12,9	22,1	12,4	27,2
- cash flow hedges	PLN m	166,7	-33,9	121,7	-138,2	237,5	479,2	543,9	725,4
- income tax on the comprehensive income	PLN m	-31,7	6,5	-23,1	26,3	-45,1	-91,0	-103,3	-137,8
- other	PLN m	0,0	0,0	0,0	1,7	0,0	0,0	0,0	-0,1
Excise and fuel tax	PLN m	2 071,2	4 385,3	7 036,8	9 631,0	2 531,9	5 431,2	8 747,5	11 799,9
Amortization	PLN m	262,5	522,2	760,2	1 067,9	226,6	437,3	639,4	844,3
EBITDA	PLN m	400,3	1 210,5	1 880,2	2 922,6	803,1	1 186,7	2 145,3	3 072,8
LIFO effect	PLN m	192,2	180,2	163,0	77,1	-122,8	14,5	26,6	-171,0
LIFO EBITDA	PLN m	592,5	1 390,7	2 043,2	2 999,7	680,3	1 201,2	2 171,9	2 901,8

[See full CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – CUMULATIVE](#)

CONSOLIDATED STATEMENT OF CASH FLOWS – QUARTERLY

		1Q 16	2Q 16	3Q 16	4Q 16	1Q 17	2Q 17	3Q 17	4Q 17
Net operating cash flow	PLN m	633,1	1176,5	527,4	145,5	724,2	1 243,1	1 013,7	1 013,7
Net profit	PLN m	225,8	379,9	303,5	410,9	157,4	618,8	484,7	484,7
Amortization	PLN m	259,7	238,0	307,7	226,6	210,7	202,1	204,9	204,9
Interest and dividends	PLN m	30,9	47,6	40,2	40,8	36,3	36,8	32,3	32,3
Settlement of financial instruments	PLN m	73,1	(59,7)	53,2	(95,4)	(106,4)	(30,2)	(82,1)	(82,1)
Other	PLN m	241,4	57,8	424,8	190,2	110,5	85,1	201,2	201,2
Changes in working capital	PLN m	-197,8	512,9	-602	-627,6	315,7	330,5	172,7	172,7
Capex	PLN m	813,5	(190,4)	(376,3)	(447,6)	(381,6)	(275,3)	(344,2)	(344,2)
Cash from financial activity	PLN m	(175,1)	(249,8)	(672,0)	259,5	(141,1)	(322,9)	(278,2)	(278,2)
Change in net cash	PLN m	1 279,0	728,5	(508,2)	(44,1)	200,3	642,5	391,1	391,1
Cash at end of period	PLN m	510,5	1 239,0	730,8	686,7	887,0	1 529,5	1 920,6	1 920,6

[See full CONSOLIDATED STATEMENT OF CASH FLOWS – QUARTERLY](#)

CONSOLIDATED STATEMENT OF CASH FLOWS – CUMULATIVE

		1Q 16	2Q 16	3Q 16	4Q 16	1Q 17	2Q 17	3Q 17	4Q 17
Net operating cash flow	PLN m	319,2	950,0	2 126,5	2 653,9	145,5	869,7	2 112,8	3 126,5
Net profit	PLN m	106,0	331,8	711,7	1 015,2	410,9	568,3	1 187,1	1 671,8
Amortization	PLN m	262,5	522,2	760,2	1 067,9	226,6	437,3	639,4	844,3
Interest and dividends	PLN m	56,3	87,2	134,8	175,0	40,8	77,1	113,9	146,2
Settlement of financial instruments	PLN m	(33,1)	40,0	(19,7)	33,5	(95,4)	(201,8)	(232,0)	(314,1)
Other	PLN m	(26,0)	215,4	273,2	698,0	190,2	300,7	385,8	587,0
Changes in working capital	PLN m	(48,8)	(246,6)	266,3	(335,7)	(627,6)	(311,9)	18,6	191,3
Capex	PLN m	(191,3)	(436,5)	(626,9)	(1 003,2)	(447,6)	(829,2)	(1 104,5)	(1 448,7)
Cash from financial activity	PLN m	(104,5)	(279,6)	(529,4)	(1 201,4)	259,5	118,4	(204,5)	(482,7)
Change in net cash	PLN m	(1 046,6)	232,4	960,9	452,7	(44,1)	156,2	798,7	1 189,8
Cash at end of period	PLN m	(768,5)	510,5	1 239,0	730,8	686,7	887,0	1 529,5	1 920,6

[See full CONSOLIDATED STATEMENT OF CASH FLOWS – CUMULATIVE](#)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		1Q 16	2Q 16	3Q 16	4Q 16	1Q 17	2Q 17	3Q 17	4Q 17
Assets	PLN m	18 539,70	19 091,40	19 753,40	19 326,30	19 649,20	19 636,30	20 473,20	21 171,20
Fixed assets	PLN m	12 439,20	12 474,40	12 434,60	12 330,70	12 208,80	12 338,20	12 475,30	12 462,10
Current assets, including:	PLN m	6 091,90	6 607,70	7 309,50	6 995,10	7 440,40	7 298,10	7 997,90	8 709,10
Inventories	PLN m	2 884,90	3 323,20	3 053,90	3 333,60	3 700,60	3 343,10	3 261,80	3 559,60
Trade receivables	PLN m	1 538,90	1 944,30	2 323,30	2 251,70	1 975,20	2 208,80	2 646,20	2 677,00
Other current assets	PLN m	856,6	722,8	605	577,2	663	549,8	424,6	388,7
Cash and cash equivalents	PLN m	640	585,8	1 276,90	744,6	999,5	1 047,20	1 529,50	1 920,70
Assets held for sale	PLN m	8,6	9,3	9,3	0,5	0	0	0	0
Equity and liabilities	PLN m	18 539,70	19 085,20	19 753,40	19 326,30	19 649,20	19 636,30	20 473,20	21 171,20
Share capital	PLN m	184,9	184,9	184,9	184,9	184,9	184,9	184,9	184,9
Share premium	PLN m	2 228,30	2 228,30	2 228,30	2 228,30	2 228,30	2 228,30	2 228,30	2 228,30
Cash flow hedging reserve	PLN m	-565,9	-728,3	-602,3	-812,8	-620,4	-424,7	-372,2	-225,2
Retained earnings	PLN m	6 034,50	6 260,30	6 640,20	6 945,50	7 356,30	7 328,90	7 947,70	8 432,20
Exchange differences on translating foreign operations	PLN m	67	71,3	66,2	64,9	77,9	87,1	77,3	92,2
Equity - shareholders of dominant entity	PLN m	7 948,80	8 016,50	8 517,30	8 610,90	9 227,00	9 404,50	10 066,00	10 712,40
Non-controlling interests	PLN m	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1
Shareholders equity	PLN m	7 948,90	8 016,60	8 517,40	8 610,90	9 227,10	9 404,60	10 066,10	10 712,50
Liabilities	PLN m	10 590,80	11 068,60	11 236,00	10 715,40	10 422,10	10 231,70	10 407,10	10 458,70
Non-current borrowings, other debt instruments and finance lease liabilities	PLN m	4 157,80	4 216,60	4 023,80	3 980,60	3 908,10	3 488,50	3 338,70	2 738,30
Current borrowings, other debt instruments and finance lease liabilities	PLN m	2 290,60	1 900,50	1 711,40	1 576,70	1 974,70	1 681,70	1 526,10	1 687,60
Debt and Capital employed									
Financial debt	PLN m	6 448,40	6 117,10	5 735,20	5 557,30	5 882,80	5 170,20	4 864,80	4 425,90
Net debt (financial debt - cash and cash equivalents)	PLN m	5 808,40	5 531,30	4 458,30	4 812,70	4 883,30	4 123,00	3 335,30	2 505,20
Capital employed	PLN m	13 757,30	13 547,90	12 975,70	13 423,60	14 110,40	13 527,60	13 401,40	13 217,70

See full CONSOLIDATED STATEMENT OF FINANCIAL POSITION

SHARE CAPITAL STRUCTURE

	2014	2015	2016		2017	
Shareholders (large blocks of shares)	%	%	Shareholders (large blocks of shares)	%	Shareholders (large blocks of shares)	%
Nafta Polska	-	-	Treasury	53,2	Treasury	53,2
State Treasury	53,2	53,2	NN OFE	5	Other	46,8
NN OFE	8,6(1)	5,7	PZU OFE	5	Total	100
Other	38,2	41,1	Other	36,8		
TOTAL	100	100	Total	100		

[See full SHARE CAPITAL STRUCTURE](#)

EMPLOYMENT – IN HEADCOUNTS

	1Q 16	2Q 16	3Q 16	4Q 16	1Q 17	2Q 17	3Q 17	4Q 17
LOTOS Group	4 760	4 781	4 841	4 888	4 881	4 880	4 797	4 898
LOTOS S.A. Group	1 369	1 381	1 392	1 406	1 384	1 422	1 419	1 445

[See full EMPLOYMENT – IN HEADCOUNTS](#)

RESULTS IN OPERATIONAL SEGMENTS – QUARTERLY

		1Q 16	2Q 16	3Q 16	4Q 16	1Q 17	2Q 17	3Q 17	4Q 17
Net sales	PLN m	3 935,90	4 969,00	5 660,00	6 366,10	5 447,30	5 454,90	6 262,60	7 020,90
Upstream	PLN m	294,4	321,8	245,4	366,8	368,6	344,3	256	389,8
Downstream	PLN m	3 731,80	4 758,00	5 522,60	6 108,30	5 180,60	5 256,10	6 098,10	6 791,70
including: retail	PLN m	1 030,40	1 229,20	1 359,40	1 333,00	1 287,30	1 394,30	1 515,10	1 497,60
Other	PLN m								
Consolidation items	PLN m	-90,3	-110,8	-108	-109	-101,9	-145,5	-91,5	-160,6
EBIT	PLN m	137,8	550,6	431,7	734,6	576,5	172,9	756,5	722,7
Upstream	PLN m	6,9	-25,7	-12,7	49,3	182,4	123,7	98,8	102,3
Downstream	PLN m	122,1	584,2	445,6	682,9	404,3	45,2	650,4	630,9
including: retail	PLN m	-0,4	11,2	39,4	7,6	2,2	23,6	43,1	-16,8
Other	PLN m								
Consolidation items	PLN m	8,8	-7,9	-1,1	2,4	-10,2	4	7,3	-10,5
Amortization	PLN m	262,5	259,7	238	307,7	226,6	210,7	202,2	204,8
Upstream	PLN m	143,8	140,1	116,5	181,6	83,1	79,8	69,3	75,2
Downstream	PLN m	119,1	120	121,9	126,5	143,9	131,2	132,9	129,9
including: retail	PLN m	16,8	17,2	17,3	17,7	17,8	18,4	18,2	18,2
Other	PLN m								
Consolidation items	PLN m	-0,4	-0,4	-0,4	-0,4	-0,4	-0,3	0	-0,3
EBITDA	PLN m	400,3	810,3	669,7	1 042,30	803,1	383,6	958,7	927,5
Upstream	PLN m	150,7	114,1	103,4	230,9	265,5	203,5	168,1	177,5
Downstream	PLN m	241,3	704,2	567,5	809,4	548,2	176,4	783,3	760,8
including: retail	PLN m	16,4	28,4	56,7	25,3	20	42	61,3	1,4
Other	PLN m								
Consolidation items	PLN m	8,4	-8,3	-1,5	2	-10,6	3,7	7,3	-10,8

See full RESULTS IN OPERATIONAL SEGMENTS – QUARTERLY

RESULTS IN OPERATIONAL SEGMENTS – CUMULATIVE

		1Q 16	2Q 16	3Q 16	4Q 16	1Q 17	2Q 17	3Q 17	4Q 17
Net sales	PLN m	3 935,90	8 904,90	14 565,00	20 931,10	5 447,30	10 902,20	17 164,70	24 185,60
Upstream	PLN m	294,4	616,2	861,6	1 228,50	368,6	712,9	968,9	1 358,70
Downstream	PLN m	3 731,80	8 489,80	14 012,40	20 120,70	5 180,60	10 436,80	16 534,80	23 326,40
including: retail	PLN m	1 030,40	2 259,60	3 619,00	4 952,00	1 287,30	2 681,60	4 196,70	5 694,30
Other	PLN m								
Consolidation items	PLN m	-90,3	-201,1	-309	-418,1	-101,9	-247,5	-339	-499,5
EBIT	PLN m	137,8	688,3	1 120,00	1 854,70	576,5	749,4	1 505,90	2 228,50
Upstream	PLN m	6,9	-18,8	-31,5	17,8	182,4	306,1	404,9	507,2
Downstream	PLN m	122,1	706,3	1 151,80	1 834,70	404,3	449,4	1 099,90	1 730,70
including: retail	PLN m	-0,4	10,8	50,2	57,8	2,2	25,8	68,9	52,1
Other	PLN m								
Consolidation items	PLN m	8,8	0,8	-0,3	2,2	-10,2	-6,1	1,1	-9,4
Amortization	PLN m	262,5	522,2	760,2	1 067,90	226,6	437,3	639,4	844,3
Upstream	PLN m	143,8	283,9	400,4	582	83,1	162,9	232,1	307,4
Downstream	PLN m	119,1	239,1	361	487,4	143,9	275,1	408	537,9
including: retail	PLN m	16,8	34	51,3	69	17,8	36,2	54,4	72,6
Other	PLN m								
Consolidation items	PLN m	-0,4	-0,8	-1,2	-1,5	-0,4	-0,7	-0,7	-1
EBITDA	PLN m	400,3	1 210,50	1 880,20	2 922,60	803,1	1 186,70	2 145,30	3 072,80
Upstream	PLN m	150,7	265,1	368,9	599,8	265,5	469	637	814,6
Downstream	PLN m	241,2	945,4	1 512,80	2 322,10	548,2	724,5	1 507,90	2 268,60
including: retail	PLN m	16,4	44,8	101,5	126,8	20	62	123,3	124,7
Other	PLN m	0	0	0	0				
Consolidation items	PLN m	8,4	0	-1,5	0,7	-10,6	-6,8	0,4	-10,4

[See full RESULTS IN OPERATIONAL SEGMENTS – CUMULATIVE](#)

CONSOLIDATED SALES – QUARTERLY

		1Q 16	2Q 16	3Q 16	4Q 16	1Q 17	2Q 17	3Q 17	4Q 17
Sales volume									
Gasoline	000 toe	352	377,9	391,3	435,7	354,5	371,7	420,7	408,6
Naphtha	000 toe	124,2	117,5	117,6	161,5	112,3	104,7	120,8	126,8
Reformat	000 toe	38,2	0	0	6,5	0	0	0	6,5
Diesel (ULSD)	000 toe	1034,20	1152,50	1340,10	1269,70	1104,20	1270,30	1465,40	1357,60
Bunker fuel	000 toe	12,9	18,9	14,9	18,7	12,7	18,3	16,8	14,6
Light heating oil	000 toe	86,3	42,7	47,5	91,2	84,9	44,1	66,7	83,7
Jet fuel	000 toe	139,7	172,2	199	145,2	49,6	119,4	133,2	143
Lubricants	000 toe	13,3	16,5	16,7	13,7	14	14,4	16,8	14,7
Base oils	000 toe	60,3	62,7	45	46,2	47,2	40,4	43,4	42,9
Heavy products*	000 toe	437,2	544,5	527,5	609,3	386	433,2	531	542,3
LPG	000 toe	49,8	68,5	70,9	57,8	44,3	60	75,6	55,1
Crude oil	000 toe	62,3	51,3	33,6	46,6	47	45,5	31,3	35,6
Crude oil as goods	000 toe	0	0	170	24,8	0	0	0	259,1
Natural gas	000 toe	207,3	177,1	105,2	185,9	151,6	152,1	126,7	125,6
Other refining goods, products and materials	000 toe	65,7	67,1	69	73,9	62,3	60,3	69,8	71,7
Consolidated net sales									
Gasoline	PLN m	1172,50	1464,20	1500,40	1655,40	1557,50	1587,70	1746,70	1726,10
Naphtha	PLN m	155,6	182,5	175,2	290,6	229,3	166,3	138,4	325,6
Reformat	PLN m	64	0	0	14,8	0	0	0	15,7
Diesel (ULSD)	PLN m	3 249,30	3 941,60	4 663,70	4 841,60	4 523,00	4 852,10	5 649,90	5 516,80
Bunker fuel	PLN m	17,7	35,4	24,4	35,9	26,7	34,1	30,8	30
Light heating oil	PLN m	164,8	94,1	108,7	234,9	228,2	107,5	162,3	223,1
Jet fuel	PLN m	197,2	298,9	358,2	297,1	109,4	230,8	259,4	313,6
Lubricants	PLN m	65,1	81,2	79,4	71	66,6	75,1	87	87,2
Base oils	PLN m	139,5	140,2	109,6	112,8	124	124,5	128,1	112,1
Heavy products*	PLN m	225,9	431,2	503,2	674,8	466,9	523,4	637,8	687,6
LPG	PLN m	93,2	116,3	148,9	149	122,5	140,1	175,7	149,8
Crude oil	PLN m	50,8	65,7	69,9	84	84,8	56,8	46,3	64,3

		1Q 16	2Q 16	3Q 16	4Q 16	1Q 17	2Q 17	3Q 17	4Q 17
Crude oil as goods	PLN m			214,8	32,4				432,6
Natural gas	PLN m	138,7	123,1	98,3	169,2	177	141,9	119,9	135,6
Other refining goods, products and materials	PLN m	99,1	118,2	73,4	113,2	70,6	126,3	178,4	49,9
Other goods and materials	PLN m	87,5	100,1	112,5	101,8	104,8	116,4	123,9	118,4
Services	PLN m	109,2	108,3	108,6	114,9	120,3	109,2	116	143,3
Other adjustments**	PLN m	-23	-17,9	-37,7	-33,1	-32,4	-38	-21,7	-58,4
Excise and fuel tax	PLN m	-2 071,20	-2 314,10	-2 651,50	-2 594,20	-2 531,90	-2 899,30	-3 316,30	-3 052,40
Total	PLN m	3 935,90	4 969,00	5 660,00	6 366,10	5 447,30	5 454,90	6 262,60	7 020,90

[See full CONSOLIDATED SALES – QUARTERLY](#)

CONSOLIDATED SALES – CUMULATIVE

		1Q 16	2Q 16	3Q 16	4Q 16	1Q 17	2Q 17	3Q 17	4Q 17
Wolumen sprzedaży									
Gasoline	000 toe	352	729,9	1121,20	1556,90	354,5	726,2	1146,90	1555,50
Naphtha	000 toe	124,2	241,7	359,3	520,8	112,3	217	337,8	464,6
Reformat	000 toe	38,2	38,2	38,2	44,7	0	0	0	6,5
Diesel (ULSD)	000 toe	1034,20	2 186,70	3 526,80	4 796,50	1104,20	2 374,50	3 839,90	5 197,50
Bunker fuel	000 toe	12,9	31,8	46,7	65,4	12,7	31	47,8	62,4
Light heating oil	000 toe	86,3	129	176,5	267,7	84,9	129	195,7	279,4
Jet fuel	000 toe	139,7	311,9	510,9	656,1	49,6	169	302,2	445,2
Lubricants	000 toe	13,3	29,8	46,5	60,2	14	28,4	45,2	59,9
Base oils	000 toe	60,3	123	168	214,2	47,2	87,6	131	173,9
Heavy products*	000 toe	437,2	981,7	1 509,20	2 118,50	386	819,2	1 350,20	1 892,50
LPG	000 toe	49,8	118,3	189,2	247	44,3	104,3	179,9	235
Crude oil	000 toe	48,4	113,6	147,2	193,8	47	92,5	123,8	159,4
Crude oil as goods	000 toe			170	194,8	0	0	0	259,1
Natural gas	000 toe	207,3	384,4	489,6	675,5	151,6	303,7	430,4	556
Other refining goods, products and materials	000 toe	79,6	132,8	201,8	275,7	62,3	122,6	192,4	264,1

		1Q 16	2Q 16	3Q 16	4Q 16	1Q 17	2Q 17	3Q 17	4Q 17
Skonsolidowana sprzedaż netto									
Gasoline	PLN m	1172,50	2 636,70	4 137,10	5 792,50	1 557,50	3 145,20	4 891,90	6 618,00
Naphtha	PLN m	155,6	338,1	513,3	803,9	229,3	395,6	534	859,6
Reformat	PLN m	64	64	64	78,8		0	0	15,7
Diesel (ULSD)	PLN m	3 249,30	7 190,90	11 854,60	16 696,20	4 523,00	9 375,10	15 025,00	20 541,80
Bunker fuel	PLN m	17,7	53,1	77,5	113,4	26,7	60,8	91,6	121,6
Light heating oil	PLN m	164,8	258,9	367,6	602,5	228,2	335,7	498	721,1
Jet fuel	PLN m	197,2	496,1	854,3	1 151,40	109,4	340,2	599,5	913,1
Lubricants	PLN m	65,1	146,3	225,7	296,7	66,6	141,7	228,7	315,9
Base oils	PLN m	139,5	279,7	389,3	502,1	124	248,5	376,6	488,7
Heavy products*	PLN m	225,9	657,1	1 160,30	1 835,10	466,9	990,3	1 628,10	2 315,70
LPG	PLN m	93,2	209,5	358,4	507,4	122,5	262,6	438,3	588,1
Crude oil	PLN m	50,8	116,5	186,4	270,4	84,8	141,6	187,9	252,2
Crude oil as goods	PLN m			214,8	247,2		0	0	432,6
Natural gas	PLN m	138,7	261,8	360,1	529,3	177	318,9	438,8	574,4
Other refining goods, products and materials	PLN m	99,1	217,3	290,7	403,9	70,6	196,9	375,3	425,2
Other goods and materials	PLN m	87,5	187,6	300,2	402	104,8	221,2	345,1	463,5
Services	PLN m	109,2	217,5	326,1	441	120,3	229,5	345,5	488,8
Other adjustments**	PLN m	-23	-40,9	-78,6	-111,7	-32,4	-70,4	-92,1	-150,5
Excise and fuel tax	PLN m	-2 071,20	-4 385,30	-7 036,80	-9 631,00	-2 531,90	-5 431,20	-8 747,50	-11 799,90
Total	PLN m	3 935,90	8 904,90	14 565,00	20 931,10	5 447,30	10 902,20	17 164,70	24 185,60

[See full CONSOLIDATED SALES – CUMULATIVE](#)

OPERATIONAL FX CHANGES EFFECT FOR LOTOS GROUP – QUARTERLY

		1Q 16	2Q 16	3Q 16	4Q 16	1Q 17	2Q 17	3Q 17	4Q 17
FX operational changes	PLN m	2,3	7,4	14,2	-21,2	6,4	0,6	-15,1	3,3
out of which: Grupa LOTOS SA	PLN m	2,3	6,9	14,7	-22,1	6,6	0,4	-15,1	3,5

[See full OPERATIONAL FX CHANGES EFFECT FOR LOTOS GROUP – QUARTERLY](#)

MACRO ENVIRONMENT

		1Q 16	2Q 16	3Q 16	4Q 16	1Q 17	2Q 17	3Q 17	4Q 17
Quarterly average crude oil prices									
Brent Dtd	USD/ bbl	33,79	45,56	45,71	49,05	53,59	49,56	52,1	61,4
Spread Brent Dtd vs Ural Rtdm	USD/ bbl	2,7	2,59	2,33	2,18	2,14	1,52	1,01	0,91
Quarterly average FX rates									
USD	PLN	3,96	3,87	3,89	4,06	4,06	3,83	3,63	3,6
EUR	PLN	4,36	4,37	4,34	4,38	4,32	4,22	4,26	4,23
Model refining margin *	USD/ bbl	6,51	6,49	6,01	8,24	7,34	7,14	8,57	7,07

[See full MACRO ENVIRONMENT](#)

LIFO – EFFECT QUARTERLY

		1Q 16	2Q 16	3Q 16	4Q 16	1Q 17	2Q 17	3Q 17	4Q 17
EBIT	PLN m	137,8	550,6	431,7	734,6	576,5	172,9	756,5	722,7
LIFO effect	PLN m	192,2	-12	-17,2	-85,9	-122,8	137,3	12,1	-197,5
LIFO EBIT	PLN m	330	538,6	414,5	648,7	453,7	310,2	768,6	525,2

[See full LIFO – EFFECT QUARTERLY](#)

HEDGING TRANSACTIONS – QUARTERLY

		1Q 16	2Q 16	3Q 16	4Q 16	1Q 17	2Q 17	3Q 17	4Q 17
Closed positions	PLN m	4	147,3	20,9	0,9	-29	18,2	63,8	64,4
Product prices hedging transactions	PLN m	50,2	160,7	13,2	-7,8	0,1	-0,2	9,5	12,5
FX and CO2 hedging transactions	PLN m	-14,6	-13,5	4	8,7	1,7	17,6	48,8	53,7
Interest rate hedging transactions	PLN m	-31,6	0,1	3,7	0	-30,8	0,8	5,5	-1,8
Open positions									
Product prices hedging transactions	PLN m	-59,2	-142,9	17,5	38,2	-10,5	-0,8	0,4	4,3
FX and CO2 hedging transactions	PLN m	84,8	-60,5	14	-118,4	102	95,2	-29,9	3,1
Interest rate hedging transactions	PLN m	3,5	-17	7,3	26,1	32,9	-6,2	-4,1	10,3

[See full HEDGING TRANSACTIONS – QUARTERLY](#)

RETAIL – QUARTERLY

		1Q 16	2Q 16	3Q 16	4Q 16	1Q 17	2Q 17	3Q 17	4Q 17
Petrol stations at end of period		477	478	480	487	487	485	485	493
- CODO		290	291	295	300	300	301	302	305
including LOTOS Optima		121	122	122	121	121	121	121	121
- DOFO		187	187	185	187	187	184	183	188
including LOTOS Optima		75	76	76	84	84	83	83	83
signed franchise agreements		194	200	192	191	190	185	184	188
- DODO		0	0	0	0	0	0	0	0
Volume of retail sales									
CODO, DOFO, DODO and SDS	000 toe	243	271,2	295,4	272,5	255	292,4	320,5	299,8

[See full RETAIL – QUARTERLY](#)

UPSTREAM OPERATIONAL DATA (M³, TONS) – QUARTERLY

		1Q 16	2Q 16	3Q 16	4Q 16	1Q 17	2Q 17	3Q 17	4Q 17
crude oil production	000 toe	149,3	133,4	120,4	129,3	124,3	126,1	111,4	112,8
Poland: B3 field	000 toe	31,5	29,1	27,4	24,7	23,7	22,9	22,1	22,1
Poland: B8 field	000 toe	31,5	30,2	31,8	31,4	28,3	29,4	30,1	30,3
Norway : Heimdal	000 toe	18,6	12,5	7,5	9,8	15,3	11,2	4,3	2,6
Norway : Sleipner	000 toe	53,9	48,4	40,7	50,7	44,8	50,4	43,4	47,2
Lithuania	000 toe	13,8	13,2	13	12,7	12,2	12,1	11,5	10,6
liquid oil production	mln m³	256,3	229	183,1	237,2	219,8	217,1	173	166,4
Poland: B3 field	mln m ³	3,4	3,2	3,1	2,8	2,7	2,6	2,5	2,5
Poland: B8 field	mln m ³	3,6	3,4	3,5	4,1	3,9	3,9	3,8	3,9
Norway : Heimdal	mln m ³	64,9	50	29,7	49,4	68,3	48,7	37,5	22,4
Norway : Sleipner	mln m ³	184,4	172,4	146,8	180,9	145	161,9	129,1	137,6
crude oil sales	000 toe	136,2	125,7	101	108,7	91,5	122,5	79,3	117,4
Poland	000 toe	61,8	62,3	55,1	49,9	38,1	63,9	41,2	69,4
Norway	000 toe	62,3	51,3	33,6	46,6	47	45,5	31,3	35,7
Lithuania	000 toe	12,1	12,1	12,3	12,2	6,3	13,1	6,8	12,3
liquid gas sales	mln m³	248,7	212,5	126,9	222,4	205,8	205,4	172,1	170,5
Poland	mln m ³	1,9	1,7	1,6	1,2	1,1	1,2	1	1
Norway	mln m ³	246,8	210,8	125,3	221,2	204,6	205,2	171,1	169,5
Lithuania	mln m ³					0	-1	0	0

[See full UPSTREAM OPERATIONAL DATA \(M³, TONS\) – QUARTERLY](#)

UPSTREAM OPERATIONAL DATA (BBL, BOE) – QUARTERLY

		1Q 16	2Q 16	3Q 16	4Q 16	1Q 17	2Q 17	3Q 17	4Q 17
	days in quarter	91	91	92	92	90	91	92	92
production (crude oil + liquid gas)	boe/d	30 206,10	26 998,10	22 515,10	26 919,40	25 880,00	25 548,30	21 063,50	20 728,00
Poland	boe/d	5 858,70	5 501,90	5 448,80	5 201,70	4 942,20	4 906,20	4 836,10	4 861,00
Norway	boe/d	23 190,00	20 385,00	15 992,00	20 665,00	19 901,50	19 628,40	15 275,00	14 993,00
Lithuania	boe/d	1 157,40	1 111,10	1 074,40	1 052,70	1 036,30	1 013,70	952,3	874
sales (crude oil + liquid gas)	boe/d	29 270,30	26 178,80	17 601,60	26 655,70	22 685,80	25 166,30	18 842,50	22 045,00
Poland	boe/d	5 476,60	5 493,70	4 813,60	4 344,10	3 375,40	5 539,10	3 553,40	5 934,00
Norway	boe/d	22 792,10	19 682,70	11 785,30	21 322,30	18 781,00	18 544,50	14 733,80	15 108,00
Lithuania	boe/d	1 001,70	1 002,40	1 002,80	989,3	529,4	1 082,70	555,3	1 003,00
crude oil production	bbl/d	12 490,50	11 168,70	9 993,90	10 703,00	10 517,60	10 543,00	9 236,50	9 348,00
Poland: B3 field	bbl/d	2 683,60	2 473,80	2 308,50	2 078,70	2 041,60	1 953,60	1 865,40	1 861,00
Poland: B8 field	bbl/d	2 686,50	2 574,10	2 687,30	2 653,10	2 440,30	2 503,60	2 539,90	2 559,00
Norway : Heimdal	bbl/d	1 530,90	1 028,80	608,9	794,3	1 270,40	923	350,4	208
Norway : Sleipner	bbl/d	4 432,10	3 980,90	3 314,80	4 124,20	3 729,00	4 149,20	3 528,40	3 846,00
Lithuania	bbl/d	1 157,40	1 111,10	1 074,40	1 052,70	1 036,30	1 013,70	952,3	874
liquid oil production	boe/d	17 715,90	15 829,50	12 521,30	16 216,30	15 362,40	15 005,30	11 827,00	11 379,00
Poland: B3 field	boe/d	237,7	220,8	209,5	189,6	185,9	178,5	171,1	171
Poland: B8 field	boe/d	250,8	233,2	243,5	280,2	274,4	270,6	259,7	269
Norway : Heimdal	boe/d	4 483,40	3 458,20	2 029,20	3 378,30	4 770,80	3 366,50	2 566,40	1 534,00
Norway : Sleipner	boe/d	12 744,00	11 917,30	10 039,10	12 368,20	10 131,30	11 189,80	8 829,80	9 405,00
crude oil sales	bbl/d	6 733,70	6 117,50	4 227,00	9 665,80	8 307,70	10 902,30	7 077,90	10 389,00
Poland	bbl/d	5 289,90	5 332,30	4 660,10	4 228,80	3 297,10	5 454,30	3 482,70	5 868,00
Norway	bbl/d	5 732,00	5 115,10	3 224,30	4 447,70	4 481,20	4 365,30	3 039,90	3 518,00
Lithuania	bbl/d	1 001,70	1 002,40	1 002,80	989,3	529,4	1 082,70	555,3	1 003,00

		1Q 16	2Q 16	3Q 16	4Q 16	1Q 17	2Q 17	3Q 17	4Q 17
liquid gas sales	boe/d	17 246,70	14 729,00	8 714,50	16 989,90	14 378,10	14 264,00	11 764,60	11 657,00
Poland	boe/d	186,7	161,4	153,5	115,3	78,3	84,8	70,7	67
Norway	boe/d	17 060,00	14 567,60	8 561,00	16 874,60	14 299,80	14 179,30	11 694,00	11 590,00
Lithuania	boe/d	0	0	0	0	0	0	0	0
2P resources	mln boe	64,1	62	59,9	72,7	67,8	65,4	72,3	88,2
Poland: B3 field	mln boe	9,7	9,5	9,3	9,1	8,8	8,6	8,8	8,3
Poland: B8 field	mln boe	30,3	30,1	29,8	29,5	29,3	29	37,2	37
Norway : Heimdal	mln boe	3,9	3,7	3,4	4	3,4	3,1	2,8	2,7
Norway : Sleipner	mln boe	13,1	11,8	10,8	15,5	14,3	12,9	11,7	15,6
Norway: YME									12,9
Norway: Utgard					8,1	8,1	8,1	8,1	8,1
Lithuania	mln boe	7	6,9	6,6	6,5	3,9	3,8	3,7	3,6

[See full UPSTREAM OPERATIONAL DATA \(BBL, BOE\) – QUARTERLY](#)

DOWNSTREAM OPERATIONAL DATA – QUARTERLY

		1Q 16	2Q 16	3Q 16	4Q 16	1Q 17	2Q 17	3Q 17	4Q 17
capacity utilisation	%	93,4	99	102,6	102,5	97,7	101,6	105,2	102
(adjusted to the refinery operating days)									
Total throughput of crude oil, including:	000 toe	2 444,40	2 512,80	2 715,90	2 714,20	1 924,40	2 217,00	2 784,50	2 700,10
Ural crude	000 toe	1 833,00	2 099,20	1 954,20	1 922,40	1 313,30	1 737,30	2 401,80	2 080,50
Rozewie crude	000 toe	54,5	71,9	64,6	58,3	26,5	69,1	55,5	50,4
Lithuanian crude	000 toe	12,4	8,5	10,7	9,3	11,7	9,8	12,8	7,1
Lubiatow crude	000 toe	64,1	72,6	57	75	54,3	75,9	76	69,6
Other crude	000 toe	480,4	260,6	629,4	649,2	518,6	324,9	238,5	492,5

		1Q 16	2Q 16	3Q 16	4Q 16	1Q 17	2Q 17	3Q 17	4Q 17
Ural crude share in total throughput		75,00%	83,50%	72,00%	70,80%	68,20%	78,40%	86,30%	77,10%
Rozewie crude share in total throughput		2,20%	2,90%	2,40%	2,10%	1,40%	3,10%	2,00%	1,90%
Lithuanian crude share in total throughput		0,50%	0,30%	0,40%	0,30%	0,60%	0,40%	0,50%	0,30%
Other crude share in total throughput		22,30%	13,30%	25,30%	26,70%	29,70%	18,10%	11,20%	20,80%
Product output									
Gasoline	000 toe	329,7	380,8	385	410,2	323,7	332,3	413	409,3
Naphtha	000 toe	124,2	117,5	117,7	161,4	112,3	104,7	120,8	126,8
Xylenes	000 toe	17,6	16,8	15,2	21,5	15,6	17,1	16,8	19,9
Diesel (ULSD)	000 toe	1 013,20	1 052,70	1 255,90	1 187,50	1 063,60	1 181,00	1 359,50	1 317,80
Light heating oil	000 toe	85,9	43,2	41,8	91,2	87,7	42,4	73,7	83,6
Jet fuel	000 toe	147,1	158,1	200,1	131,9	75,4	100,6	133	136,8
Liquid gas	000 toe	36,1	45,1	48,3	43,7	29,9	41	54,3	40,8
Bunker fuel	000 toe	13,7	22,3	16,4	19,7	14,7	20,4	17,7	16,2
Heavy products*	000 toe	470,6	555,8	535,6	581,8	400,2	432,8	525,4	514,9
Other	000 toe	259,6	236,9	251,7	252,3	200,7	198,7	249	245,5
Total	000 toe	2 497,70	2 629,20	2 867,70	2 901,20	2 323,80	2 471,00	2 963,20	2 911,60

[See full DOWNSTREAM OPERATIONAL DATA – QUARTERLY](#)



07

ABOUT THE REPORT

ABOUT THE REPORT

G4-17 G4-18 G4-19 G4-20 G4-21 G4-22 G4-23 G4-27 G4-28 G4-29 G4-30 G4-31 G4-32

It's already our ninth time publishing the Integrated Annual Report of the LOTOS Group, recapitulating the activities of our organisation in year 2017. This publication brings closer the information about the modes of functioning of the LOTOS Group, its business model, strategy, value creation process and financial results, as well as achievements from the perspective of all the capitals involved, but which also describes risks and impact of the individual stakeholder groups.

Since the beginning of our data reporting practice, we have been doing it, convinced that the transparency of the activities undertaken by us is the crucial issue in developing our business further and further. The process of collecting and issuing pertinent information is also an important part of the LOTOS Group business strategy, as well as the CSR strategy, which presuppose the active dialogue with its stakeholders.

The information included in the report refers to the period from 1 January to 31 December 2017 and describes the state as at the end of the year. In isolated cases, marked in the report specifically, the information refers also to other periods. Reporting is managed on an annual basis. The last Integrated Annual Report of the LOTOS Group was published in 2016.

The report for year 2017, apart from the Grupa LOTOS S.A., covers also the direct, wholly-owned 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.

Moreover, given their particular importance, nature of business and impact on the closest neighbourhood, for the purposes of reporting some of the above-mentioned indicators, following indirectly wholly-owned subsidiaries were included in the data collecting process:

- 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 reporting for LOTOS E&P Norge AS company is limited, compared to others, given the fact that this company is a licensee, therefore all the environmental issues (and other operational matters) are reported by the operators.

REPORTING GUIDELINES

This year's Integrated Annual Report of the LOTOS Group reflects the guidelines recommended by IIRC (International Integrated Reporting Council), guidelines for the international reporting standards Global Reporting Initiative (GRI G4) and the corresponding supplement for the fuel and gas industries 'GRI 4 Sector Disclosures Oil & Gas'. The report also takes into account the directions of the latest EU legislation regarding the disclosure of non-financial and diversity information.

HOW THE REPORT WAS CREATED

G4-18 G4-23 G4-27

The process of defining the content of this year's report was built based on 3 stages recommended by the GRI G4 standard: identification, prioritization and validation. In addition, when preparing the individual content, we also tried to rise up to the four principles set by the standard:

- the significance of the presented information,
- including the stakeholders of the LOTOS Group in the process of creating the report,
- showing the wider context of sustainable development and
- completeness of the presented content.

In the first stage of the process, we have created a list of topics that are most closely related to the areas of our economic, social and environmental impacts and at the same time are important for our stakeholders. We have also analyzed the trends and challenges of sustainable development as well as the guidelines of the strategies of government agencies and the European Union in this area. To find out which of the identified topics are the most important for LOTOS stakeholders, for the first time in the history of our reporting, we conducted an online survey among a selected group of over 200 stakeholders of the LOTOS Group and among fans of Grupa LOTOS S.A. on Facebook (a post with a link to the survey).

In such a way, we chose the initial list of topics for reporting. In the next step the team from LOTOS, responsible for overseeing the reporting process, undertook a preliminary prioritisation of topics. Two key aspects were taken into account: the significance of the topic for the functioning and impact of the LOTOS Group and the significance for assessment and decisions of the stakeholders. The applied criteria allowed to identify reporting aspects of different levels of significance for LOTOS and for the environment. These aspects were divided into three groups: low significance, medium significance, and high significance.

Aspects that were included in the group of the most significant issues were finally validated, and thus the impact of LOTOS on the inside and on the environment was verified. A full list of aspects assigned to significance groups is presented in the significance matrix. Subsequently, each of them was assigned with the aspects indicated in the GRI – G4 standard and in the corresponding sector supplement.

The final list of the report topics has been approved by the Management Board of Grupa LOTOS S.A.

The process of identifying and validating important aspects of the report and developing its content involved: representatives of the Management Board of the LOTOS Group, a team of several dozen employees representing key impact areas of the LOTOS Group from all companies and entities subject to reporting, including several dozen representatives of key groups of external LOTOS Group stakeholders, who took part in the online survey.

As part of the survey, our stakeholders not only assessed which of the topics proposed to them are important from their perspective but they also reported their own proposals of threads, that in their opinion should be addressed in the integrated report.

Preparing the content of this year's report, we have attempted to answer the majority of the proposals they made. Among them were:

- impact on the development of the Polish economy
- customer service at petrol stations
- supporting Polish athletes and other sponsorships
- system supporting development of employees
- status of innovative and investment projects
- LOTOS operations strengthening the energy security of the country
- research and development in the field of alternative fuels, including advanced biofuels
- activities in the field of circular economy.

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

CONTACT INFO

The additional information on the economic activities as well as social and environmental aspects of the LOTOS Group's operations are available on the Grupa LOTOS S.A. website

www.lotos.pl

Correspondence should be sent to the address of the main office of the Company:

Grupa LOTOS S.A.

ul. Elbląska 135
80-718 Gdańsk

Questions related to social responsibility should be addressed to Grupa LOTOS S.A. to the address referred below:

Liliana Ciechanowicz

e-mail: csr@grupalotos.pl

Questions related to investor relations should be addressed to Grupa LOTOS S.A. to the address referred below:

Paweł Bujnowski

Director of the Investor Relations Office
e-mail: ir@grupalotos.pl

Questions related to the Company's relations with the media should be addressed to Grupa LOTOS S.A. to the address referred below:

Communication Office

e-mail: media@grupalotos.pl

[More contact information on the Grupa LOTOS S.A. website](http://www.lotos.pl)

SIGNIFICANCE MATRIX

ECONOMIC ASPECTS	ENVIRONMENTAL ASPECTS	SOCIAL ASPECTS	VERY SIGNIFICANT
Financial results obtained in 2017 by the LOTOS Group	The scope of the LOTOS Group's involvement in initiatives supporting the economic development of the country	Impact of the LOTOS Group's presence on the local labour market	Impact of the supply chain of the LOTOS Group on the environment
Quantity and type of reserves and production of fuels obtained by LOTOS	Expenses allocated by the LOTOS Group to environmental protection, including expenditures on renewable energy	The content of harmful substances in fuels	Materials and raw materials used in the business
Energy consumption	Greenhouse gas emissions	Effluents and waste management	Policy for recycling products and materials
Amount of fines for non-compliance with laws and regulations regarding environmental protection	Water intake and sources of water used in the business	Environmental assessment of suppliers	Employment scale and policy
Anti-corruption	Actions for local communities	Health protection and customer safety	Training and education of employees
Practices in the field of health and safety at work	Responsible labeling of products and services	Preparation for possible population threats, including safety procedures and resource integrity	Diversity management and equal opportunities

GRI CONTENT TABLE

GRI G4 INDICATOR	GRI G4 GUIDELINES	CHAPTER IN THE REPORT	GLOBAL COMPACT PRINCIPLES	SDS GOALS	COMMENTS
STRATEGY AND ANALYSIS					
G4-1	A statement by the top management about the importance of sustainable development for the organization and its strategy	Letter from the President of the Management Board Letter from the President of the Management Board			
G4-2	Description of key impact, opportunities and risks	Letter from the President of the Management Board Letter from the President of the Management Board			
ORGANIZATION PROFILE					
G4-3	The name of the organization	The corporate group			
G4-4	Primary brands, products and services	The corporate group			
G4-5	Location of the organization's headquarters	The corporate group			
G4-6	The number of countries where the organization operates	The corporate group			
G4-7	Nature of ownership and legal form	The corporate group			
G4-8	Served markets	The corporate group			
G4-9	Scale of the organisation	The corporate group Production capital Financial Capital			
G4-10	Number of employees by gender, function, type of contract and region	Human capital			
G4-11	„The percentage of employees covered by collective bargaining agreements	Human capital	3		
G4-12	„Description of the organization's supply chain	The corporate group Production capital			
G4-13	Significant changes during the reporting period regarding size, structure, ownership form and the supply chain				
G4-14	„Explanation of whether and how the organization applies the precautionary approach or principle	Strategy and business model			
G4-15	„Externally developed, adopted or supported by economic and environmental organizations and social charters, principles and other initiatives	The corporate group Sustainable development			
G4-16	„Membership in industry associations and / or in national / international Organizations	The corporate group Sustainable development			
THE IDENTIFIED SIGNIFICANT ASPECTS AND THE MATCHING RANGE					
G4-17	„a. A list of all entities included in the consolidated financial statements of the organization or their equivalents; b. the entities indicated in the consolidated financial statements of the organization or not included in their equivalents in the report:	About the report			
G4-18	a. The process of defining report content and the Aspect Boundaries; b. Explanation of how the organization has applied the Reporting Principles for Defining Report Content	About the report			
G4-19	List of all material Aspects identified in the process of defining report content	About the report			
G4-20	The scope of impact of every material Aspect within the organization	About the report			

G4-21	The scope of impact of every material Aspect outside the organization	About the report			
G4-22	.Explanation concerning effectsof any restatements of information provided in previousreports, including justification for restatements and their impact	About the report			
G4-23	.Significant changes in relation to the previous reporting period regarding the boundary and scope of impact of material Aspects	About the report			
STAKEHOLDER ENGAGEMENT					
G4-24	List of stakeholder groups engaged by the organization	Sustainable development			
G4-25	Basics of identification and selection of the stakeholders with whom to engage	Sustainable development			
G4-26	Organization's approach to the engagement of the stakeholders	Sustainable development			
G4-27	Key topics and concerns indicated by the stakeholders and the response of the organization	About the report			
REPORT PROFILE					
G4-28	Reporting period	About the report			
G4-29	The date of publication of the last report	About the report			
G4-30	Reporting cycle	About the report			
G4-31	The contact point for directing questions regarding the report or its contents	About the report			
G4-32	GRI content index	About the report			
G4-33	Policy and current practice with regard to seeking external assurance for the report				The report has not been subjected to external verification
GOVERNANCE STRUCTURE					
G4-34	The governance structure of the organization	The corporate group			
ETHICS					
G4-56	Values, principles, standards and norms of behaviour within the organisation	The corporate group			
G4-57	Internal and external mechanisms regarding violations of ethical and legal principles as well as issues related to the organizational integrity, e.g. ethical helplines	The corporate group			
G4-58	Internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organizational integrity, such as escalation through line management, whistleblowing or hotlines	The corporate group			

ECONOMIC					
ECONOMIC RESULTS					
G4-EC1	Direct economic value generated and distributed	Financial Capital		 	
MARKET PRESENCE					
G4-EC5	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	Financial Capital		 	
INDIRECT ECONOMIC IMPACTS					
G4-EC8	Significant indirect economic impacts, including the extent of this impacts	Financial Capital		 	
PROCUREMENT PRACTICES					
G4-EC9	Proportion of spending on local suppliers' products and services at significant locations of operation	Financial Capital			
RESOURCES					
OG1	The size and type of estimated confirmed resources and production	Production capital			

ENVIRONMENTAL					
MATERIALS AND RESOURCES					
G4-EN1	Materials / resources used by weight or volume	Natural capital	8	 	
ENERGY					
G4-EN3	Energy consumption within the organization	Natural capital	8	 	
G4-EN6	Reduction of energy consumption	Natural capital	8	 	Reported only descriptively
WATER					
G4-EN8	Total water withdrawal by source	Natural capital	8		

G4-EN10	Percentage and total volume of water recycled and reused	Natural capital	8		
EMISSIONS					
G4-EN15	Direct greenhouse gas emissions	Natural capital	8		
G4-EN16	Indirect greenhouse gas emissions	Natural capital	8		



G4-EN18	Greenhouse gas (GHG) emissions intensity	Natural capital	8		
G4-EN20	Emissions of ozone-depleting substances	Natural capital	8		
G4-EN21	Emissions of nitrogen oxides, sulfur oxides and other significant air emissions	Natural capital	8		
EFFLUENTS AND WASTE					
G4-EN22	Total water discharge by quality and destination	Natural capital	8		

G4-EN23	Total weight of waste by type and disposal method	Natural capital	8	 	
G4-EN24	Total number and volume of significant spills	Natural capital	8	 	
G4-EN25	Weight of transported, imported, exported or treated waste deemed hazardous (under the terms of the Basel Convention – Annex I, II, III and VIII) and percentage of transported waste shipped internationally	Natural capital	8	 	

OG5	Volume and method of disposing the formation water and water created in the production process	Natural capital	8	 	
OG6	The volume of hydrocarbons burnt in gas flares and released into the atmosphere	Natural capital	8	 	
OG7	The amount of produced drilling wastes (drilling muds and cuttings) and the procedures of handling and utilization	Natural capital	8	 	
PRODUCTS AND SERVICES					
G4-EN28	Percentage of products sold and their packaging materials that are reclaimed, by category	Natural capital	8	 	
OG8	Content of benzene, lead and sulfur in fuels	Natural capital			

COMPLIANCE					
G4-EN29	Monetary value of significant fines and the total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Natural capital			
OVERALL					
G4-EN31	Total environmental protection expenditures and investments by type	Natural capital	7,8,9		
SUPPLIER ENVIRONMENTAL ASSESSMENT					
G4-EN32	Percentage of new suppliers that were screened using environmental criteria	Natural capital	8		
ENVIRONMENTAL GRIEVANCE MECHANISMS					
G4-EN34	Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms	Natural capital			

SOCIAL					
EMPLOYMENT					
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	Human capital	6	 	
OCCUPATIONAL HEALTH AND SAFETY					
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	Human capital	6	 	
TRAININGS AND EDUCATION					
G4-LA9	Average hours of training per year per employee by gender and by employee category	Human capital	6	 	
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	Human capital	6	 	
DIVERSITY AND EQUAL OPPORTUNITY					
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	Human capital	6		

LOCAL COMMUNITIES					
G4-S01	Percentage of operations with implemented local community engagement, impact assessments, and development programs	Social capital	1		
ANTI-CORRUPTION					
G4-S03	The total number and percentage of business entities assessed for risks related to corruption and the significant risks identified	The corporate group	10		
G4-S04	Communication and training on anti-corruption policies and procedures	The corporate group	10		
COMPLIANCE					
G4-S08	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations (social affairs)				In 2017, no significant fines or non-financial sanctions were imposed on the companies of the LOTOS Group.
INTEGRITY OF FIXED ASSETS AND PROCESS SAFETY (OG)					
OG13	Number of events related to process safety, by type of activity	Social capital		 	
CUSTOMER HEALTH AND SAFETY					
G4-PR1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement of the indicators	Human capital			
PRODUCTS AND SERVICES LABELLING					
G4-PR5	Results of surveys measuring customer satisfaction	Human capital			



08

**NOTES TO THE FINANCIAL
STATEMENTS**

COMPOSITION OF THE GROUP AND ITS CHANGES

Name	Headquarters	Core business	The percentage share of the Group in the ownership of the entity	
			31.12.2017	31.12.2016
Parent				
Downstream segment				
• Grupa LOTOS S.A.	Gdańsk	Manufacturing and processing of refined petroleum products (mainly fuels) and their wholesale	Not applicable	Not applicable
Direct fully-consolidated subsidiaries				
Upstream segment				
• LOTOS Upstream Sp. z o.o. (parent of another group: LOTOS Upstream Group) (1)	Gdańsk	Activities of head offices and holdings	1	-
• LOTOS Petrobaltic S.A. (parent of another group: LOTOS Petrobaltic Group)	Gdańsk	Acquisition of crude oil and natural gas deposits, extraction of hydrocarbons	0.9999	0.9999
Downstream segment				
• LOTOS Paliwa Sp. z o.o.	Gdańsk	Wholesale and retail sale of fuels and light fuel oil, management of the LOTOS service station network	1	1
• LOTOS Oil Sp. z o.o.	Gdańsk	Manufacturing and sale of lubricating oils and lubricants, and sale of base oils	1	1
• LOTOS Asphalt Sp. z o.o.	Gdańsk	Manufacturing and sale of bitumens	1	1
• LOTOS Kolej Sp. z o.o.	Gdańsk	Railway transport	1	1
• LOTOS Serwis Sp. z o.o.	Gdańsk	Maintenance of mechanical and electric operations and controlling devices, overhaul and repair services	1	1
• LOTOS Lab Sp. z o.o. (parent of another group: LOTOS Lab Group) (2)	Gdańsk	Laboratory testing	1	1
• LOTOS Straż Sp. z o.o.	Gdańsk	Fire service activities	1	1
• LOTOS Ochrona Sp. z o.o.	Gdańsk	Security services	1	1
• LOTOS Terminale S.A. (parent of another group: LOTOS Terminale Group)	Czechowice-Dziedzice	Storage and distribution of fuels	1	1
• LOTOS Infrastruktura S.A. (parent of another group: LOTOS Infrastruktura Group)	Jasło	Storage and distribution of fuels; renting and operating of own or leased real estate	1	1
• LOTOS Gaz S.A. w likwidacji (in liquidation)	Kraków	Dormant	1	1
Non-consolidated direct subsidiaries (3)				
• Infrastruktura Kolejowa Sp. z o.o.	Gdańsk	Dormant	1	1
• Fundacja LOTOS	Gdańsk	Socially beneficial activity within the scope of public tasks defined in the Act on Public Benefit and Volunteer Work. The Foundation does not conduct any business activity	1	1
Indirect fully-consolidated subsidiaries				
Downstream segment				
GK LOTOS Lab Sp. z o.o.				
• LOTOS Vera Sp. z o.o.	Gdańsk	Manufacture of cars	1	-
GK LOTOS Infrastruktura S.A.				

Name	Headquarters	Core business	The percentage share of the Group in the ownership of the entity	
• RCEkoenergia Sp. z o.o.	Czechowice-Dziedzice	Production and distribution of electricity, heat and gas	1	1
GK LOTOS Terminale S.A.				
• LOTOS Biopaliwa Sp. z o.o.	Czechowice-Dziedzice	Production of fatty acid methyl esters (FAME)	1	1
Upstream segment				
GK LOTOS Upstream Sp. z o.o.				
• LOTOS Exploration and Production Norge AS	Norway, Stavanger	Oil exploration and production on the Norwegian Continental Shelf, provision of services incidental to oil and gas exploration and production	1	0.9999
• AB LOTOS Geonafta (parent of another group: AB LOTOS Geonafta Group)	Lithuania, Gargždai	Crude oil exploration and production, drilling services, and purchase and sale of crude oil	1	0.9999
• UAB Genciu Nafta	Lithuania, Gargždai	Crude oil exploration and production	1	0.9999
• UAB Manifoldas	Lithuania, Gargždai	Crude oil exploration and production	1	0.9999
LOTOS Petrobaltic Group				
• Aphrodite Offshore Services N.V.	Curaçao	Sea transport services (dormant)	0.9999	0.9999
• B8 Sp. z o.o.	Gdańsk	Support activities for extraction and quarrying operations	0.9999	0.9999
• B8 Spółka z ograniczoną odpowiedzialnością BALTIC S.K.A.	Gdańsk	Exploration for and production of crude oil and natural gas	0.9999	0.9999
• Miliana Shipholding Company Ltd. (spółka posiada swoją grupę kapitałową: GK Miliana Shipholding Company Ltd.)	Nicosia, Cyprus	Storage and transport of crude oil, other sea transport services	0.9999	0.9999
• Technical Ship Management Sp. z o.o. (spółka posiada swoją grupę kapitałową: GK Technical Ship Management Sp. z o.o.)	Gdańsk	Sea transport support activities, ship operation advisory services	0.9999	0.9999
• SPV Baltic Sp. z o.o.	Gdańsk	Provision of sea transport and related services	0.9999	0.9999
• Miliana Shipmanagement Ltd.	Nicosia, Cyprus	Provision of sea transport and related services	0.9999	0.9999
• Miliana Shipping Group Ltd. (spółka posiada swoją grupę kapitałową: GK Miliana Shipping Group Ltd.)	Nicosia, Cyprus	Management of own assets	0.9999	0.9999
• Bazalt Navigation Co. Ltd.	Nicosia, Cyprus	Ship chartering	0.9999	0.9999
• Granit Navigation Company Ltd.	Nicosia, Cyprus	Ship chartering	0.9999	0.9999
• Kambr Navigation Company Ltd.	Nicosia, Cyprus	Ship chartering	0.9999	0.9999
• St. Barbara Navigation Company Ltd.	Nicosia, Cyprus	Ship chartering	0.9999	0.9999
• Petro Icarus Company Ltd.	Nicosia, Cyprus	Ship chartering	0.9999	0.9999
• Petro Aphrodite Company Ltd.	Nicosia, Cyprus	Ship chartering	0.9999	0.9999
• Energobaltic Sp. z o.o.	Władysławowo	Production of electricity, heat, LPG and natural gas condensate	0.9999	0.9999

(1) On March 10th 2017, Grupa LOTOS S.A. acquired 100% of shares in LOTOS Upstream Sp. z o.o., for a total price of PLN 6 thousand.

(2) On November 6th 2017, LOTOS Lab Sp. z o.o. acquired 100% of shares in Lucea 3 Sp. z o.o. (currently: LOTOS Vera Sp. Zo.o.), for a total price of PLN 6 thousand.

(3) The companies were excluded from consolidation due to immateriality of the amounts disclosed in their financial statements as at December 31st 2016 (IFRS 10 Consolidated Financial Statements).

ACCOUNTING POLICIES

Functional currency, presentation currency and foreign currency translation		
The following exchange rates were used in the valuation of items of the statement of financial position:	NBP's mid rate quoted for:	
	December 31st 2017 (1)	December 31st 2016 (2)
USD	3.4813	4.1793
EUR	4.1709	4.424
NOK	0.4239	0.4868

(1) NBP's mid rates table, effective for December 31st 2017.

(2) NBP's mid rates table, effective for December 31st 2016.

The following exchange rates were used in the valuation of items of the statement of comprehensive income:	NBP's average mid rate for the reporting period:	
	2017 (1)	2016 (2)
USD	3.7439	3.7439
EUR	4.2447	4.2447
NOK	0.4538	0.4538

(1) Based on the arithmetic mean of the mid rates quoted by the NBP for the last day of each full month in the period January 1st–December 31st 2017.

(2) Based on the arithmetic mean of the mid rates quoted by the NBP for the last day of each full month in the period January 1st–December 31st 2016.

BUSINESS SEGMENTS

	Upstream segment		Segment produkcji i handlu		Consolidation items		Skonsolidowane	
	2017	2016	2017	2016	2017	2016	2017	2016
Revenue:	1358.7	1228.5	23326.4	20120.7	-499.5	-418.1	24185.6	20931.1
Intersegment sales	442.5	364.6	57	53.5	-499.5	-418.1	-	-
External sales	916.2	863.9	23269.4	20067.2	-	-	24185.6	20931.1
Operating profit/(loss) (EBIT)	507.2	17.8	1730.7	1834.7	-9.4	2.2	2228.5	1854.7
Depreciation and amortisation	307.4	582	537.9	487.4	-1	-1.5	844.3	1067.9
Operating profit/(loss) before depreciation and amortisation (EBITDA)	814.6	599.8	2268.6	2322.1	-10.4	0.7	3072.8	2922.6
Total assets	4267.1	4200	18744.6	16798.8	-1840.5	-1672.5	21171.2	19326.3

INCOME AND EXPENSES

Expenses by nature			
	Note	2017	2016
Depreciation and amortisation	8	844.3	1067.9
Raw materials and consumables used (1)		16933.1	14469.8
Services		1527.8	1503.9
Taxes and charges		506.7	456.8
Employee benefits expense	9.2	736.2	689
Other expenses by nature		254.4	247.7
Merchandise and materials sold		1386.1	859.9
Total expenses by nature		22188.6	19295
Change in products and adjustments to cost of sales		-292.2	-362.3
Total		21896.4	18932.7
including:			
Cost of sales		20194.1	17215.7
Distribution costs		1252.3	1291.1
Administrative expenses		450	425.9

(1) Including PLN 4.8m of foreign exchange losses related to operating activities, recognised as cost of sales (2016: PLN 2.7m of foreign exchange gains), see Note 26.2.

Employee benefits expense			
	Note	2017	2016
Current salaries and wages		560.7	526.1
Social security and other employee benefits		166.2	157.4
Length-of-service awards, retirement and other post-employment benefits	24.2	9.3	5.5
Total employee benefits expense	9.1	736.2	689
Change in products and adjustments to cost of sales		-3.1	-2.4
Total		733.1	686.6
including:			
Cost of sales		439	414.9
Distribution costs		33.3	32.2
Administrative expenses		260.8	239.5

Other income			
	Note	2017	2016
Gain on disposal of non-financial non-current assets and certificates of origin for electricity from cogeneration		-	13.2
Grants	25.2	16.8	5.7
Provisions:		24.6	59.6
- remeasurement of provision for costs of decommissioning of the offshore oil and gas extraction facilities in the Heimdal field		13.1	40.9
- remeasurement of provision for costs of decommissioning of the offshore oil and gas extraction facilities in the B-3 field		3.1	8.3
- remeasurement of provision for contingent payments – Sleipner assets acquisition agreement		0.3	27.7
- revaluation of estimated provision for future cost of removal of MOPU from the YME field		-	-8.9
- rezerwy na pokrycie niedoboru uprawnień CO 2	27.2	-4.6	-8.7
- other provisions		12.7	0.3
Compensation		9.9	17.7
Reimbursed excise duty		1.6	3.7
Other		7.4	7.2
Total		60.3	107.1

The Group offsets similar transaction items in accordance with IAS 1 Presentation of Financial Statements, Sections 34 and 35. The Group discloses material items of income and expenses charged to profit or loss separately, as presented in the table above.

Other expenses			
	Note	2017	2016
Impairment loss on property, plant and equipment and intangible assets:		83.6	156.4
Impairment losses		85.8	170.5
· oil and gas exploration and evaluation assets:	13.2.1	23.7	138.2
- Poland: Kamień Pomorski area		23.7	-
- Poland: the Gaz Południe licence area, including the B-21 field		-	64.8
- Norway: PL797 licence		-	5.8
- Norway: Utgard field assets		-	67.6
· oil and gas production assets: Lithuania: Girkalai, Auksoras, Vėžaičiai, Kretinga, Ablinga and Ližai fields	13.2.2	32.9	12.4
· refinery and other non-current assets:		29.2	19.9
- service stations	13.1.1	26.2	13.1
- ships		0.8	5.3

- other assets		2.2	1.5
Reversal of impairment losses:		-2.2	-14.1
-oil and gas production assets:	13.2.2	-	-11.9
- Norway: Heimdal production assets		-	-4.4
- Lithuania: Girkalai field		-	-7.5
- refinery and other non-current assets:		-2.2	-2.2
- service stations		-1.9	-2
- other assets		-0.3	-0.2
Gain on disposal of non-financial non-current assets		0.9	-
Loss on discontinued projects		0.7	12.7
- Norway: PL643, PL655 exploration licences	13.2.1	-	12.3
- Poland: Słupsk area	13.2.1	-	0.1
- other assets		0.7	0.3
Impairment losses on receivables:	15.1	2	1.6
- impairment losses		5.5	3.5
- reversal of impairment losses		-3.5	-1.9
Fines and compensation		8	1.2
Damage to property arising in ordinary course of business		1.6	2.1
Costs relating to the Polish National Foundation		-	29
Charitable donations		7.3	5.3
VAT expense	29.1	-	39.4
Other		16.9	3.1
TOTAL		121	250.8

The Group offsets similar transaction items in accordance with IAS 1 Presentation of Financial Statements, Sections 34 and 35. The Group discloses material items of income and expenses charged to profit or loss separately, as presented in the table above.

Finance income			
	Note	2017	2016
Dividends		4.2	2.4
Interest:		20.8	15.4
- on deposits	26.2	14.3	11.9
- on trade receivables	26.2	2.6	2.3
- other		3.9	1.2
Exchange differences:		107.9	7.8
- on bank borrowings	26.2	180.7	-73.5
- on translation of intercompany loans (1)	26.2	-99.2	64.7
- on realised foreign-currency transactions in bank accounts	26.2	35.5	12.2
- on intercompany notes (1)	26.2	-6	15.2
- on deposits and other cash	26.2	-7.1	-11.3
- other		4	0.5
Revaluation of financial assets:		314.1	-
- measurement of derivative financial instruments	26.2	196.7	-
- settlement of derivative financial instruments	26.2	117.4	-
Other		3	1
TOTAL		450	26.6

(1) In accordance with IAS 21 Effects of Changes in Foreign Exchange Rates, foreign exchange gains and losses on intercompany foreign currency transactions are recognised in the Group's net profit or loss.

Finance costs			
	Note	2017	2016
Interest:		203.8	241.1
- on bank borrowings	26.2	114.2	150.4
- on non-bank borrowings	26.2	3.5	4
- on notes	26.2	15.6	4.2
- on finance lease liabilities	26.2	18.4	20.8
- discount related to provisions for oil production facilities and for site restoration, and other provisions	25.1	43.1	49.1
- cost of discount on employee benefit obligations	24.1; 24.2	5.8	5.1
- on liabilities to the state budget	29.1	1.7	6.3
- other		1.5	1.2

Revaluation of financial assets, including:		-	33.5
- measurement of derivative financial instruments	26.2	-	206.6
- settlement of derivative financial instruments	26.2	-	-173.1
Bank fees		18	19.2
Bank guarantees		0.1	5.7
Other		12.1	5.3
TOTAL		234	304.8

The Group offsets similar transaction items in accordance with IAS 1 Presentation of Financial Statements, Sections 34 and 35. The Group discloses material items of income and expenses charged to profit or loss separately, as presented in the table above.

INCOME TAX

Tax expense			
	Note	2017	2016
Current tax		567.7	115.4
Deferred tax	10.3	208.2	448.8
Total income tax charged to net profit or loss	10.2	775.9	564.2
Tax expense recognised in other comprehensive income (net), including:		136.5	-26
- cash flow hedging	20	137.8	-26.3
- actuarial gain/(loss) relating to post-employment benefits		-1.3	0.3

For the entities operating in Poland, the current and deferred portion of income tax was calculated at the rate of 19% of taxable income.

In the case of Norwegian subsidiary LOTOS Exploration and Production Norge AS, the marginal tax rate is 78% of the tax base. LOTOS Exploration and Production Norge AS's activities are subject to taxation under two parallel tax systems: the corporate income tax system (24% tax rate) and the petroleum tax system (additional tax rate of 54%). In 2018, the tax rates will be 23% under the corporate income tax regime and 55% under the petroleum tax regime, which affects the amount of deferred income tax recognised in the current reporting period.

In the case of Lithuanian subsidiaries (AB LOTOS Geonafra Group), the current and deferred portion of income tax was calculated at the rate of 15%.

Corporate income tax calculated at effective tax rate and reconciliation of pre-tax profit to taxable income		
	2017	2016
Profit before tax	2447.7	1579.4
Income tax at 19%	465.1	300.1
Permanent differences:	43.8	15.1
- VAT expense	-	7.5
- interest on past-due public charges	1.3	1.2
- other permanent differences	42.5	6.4
Tax effect of tax losses deducted in the period	-	-0.4

Tax effect of share in profit of equity-accounted entities	-0.6	-0.6
Adjustments disclosed in current year related to tax for previous years	-0.5	-1
Difference resulting from the application of tax rates other than 19%:	267.9	252.9
- Norway	266	249.1 (1)
- Lithuania	2.1	1.1
- Cyprus	-0.2	2.7
Other differences	0.2	-1.9
Income tax	775.9	564.2

(1) Including the tax effect of a PLN 80.9m reduction in deferred tax assets related to the tax investigation at LOTOS Exploration and Production Norge AS.

Deferred income tax				
	Note	Statement of financial position		Change in
		December 31st 2017	December 31st 2016	
Deferred tax assets		415.4	596	-180.6
Deferred tax liabilities		-277.7	-57.4	-220.3
Net deferred tax assets/(liabilities)	10.3.1	137.7	538.6	-400.9
Exchange differences on translating deferred tax of foreign operations				56.2
Deferred tax disclosed under other comprehensive income/(loss), net	10.1			136.5
Deferred tax expense charged to net profit or loss	10.1			-208.2

Taxable temporary differences are expected to expire in 2018–2083.

As at December 31st 2017, unrecognised tax assets on account of tax losses were PLN 0.2m (December 31st 2016: PLN 0.3m).

Deferred tax assets and liabilities						
	Note	December 31st 2016	Deferred tax disclosed under other comprehensive income/(loss), net	Deferred tax disclosed under other comprehensive income/(loss), net	Exchange differences on translating deferred tax of foreign operations	December 31st 2017
Deferred tax assets						
Employee benefit obligations		56.7	1.6	1.3	-0.5	59.1
Inventory write-downs		0.5	0.4	-	-	0.9
Impairment losses on property, plant and equipment and other intangible assets		344.5	6.1	-	-48.9	301.7
Negative fair value of derivative financial instruments		14.3	-8.3	-	-	6
Exchange differences on revaluation of foreign-currency items		2.6	-2.6	-	-	-
Impairment losses on receivables		16.4	-8.5	-	-	7.9
Finance lease liabilities		33.1	-6.7	-	-	26.4

Provisions for/assets related to decommissioning of oil and gas extraction facilities and site restoration		474.4	89	-	-64	499.4
Unrealised margin assets		5.6	1.1	-	-	6.7
Tax losses carried forward		344.2	-328.9	-	-13	2.3
Other provisions		11.1	-1.9	-	-	9.2
Cash flow hedge accounting		190.7	-	-137.8	-	52.9
Other		18.2	-3.6	-	0.6	15.2
		1512.3	-262.3	-136.5	-125.8	987.7
Deferred tax liabilities						
Difference between current tax base and carrying amount of property, plant and equipment and other intangible assets		767.2	7.9	-	-61.1	714
Difference between current tax value and carrying amount of settlements under joint operations (Norwegian fields)		53.9	-33.6	-	-4.8	15.5
Positive fair value of derivative financial instruments		11.9	-3.5	-	-	8.4
Exchange differences on revaluation of foreign-currency items		-	2.3	-	-	2.3
Tax liabilities associated with acquired exploration and production licences in Lithuania		17.9	-1.5	-	-1	15.4
Accrued interest		84.3	-37.7	-	-	46.6
Other		38.5	12	-	-2.7	47.8
		973.7	-54.1	-	-69.6	850
Net deferred tax assets/(liabilities)	10.3	538.6	-208.2	-136.5	-56.2	137.7

EARNINGS/(LOSS) PER SHARE

	2017	2016
Net profit attributable to owners of the Parent (PLNm) (A)	1671.8	1015.2
Weighted average number of shares (million) (B)	184.9	184.9
Earnings per share (PLN) (A/B)	9.04	5.49

PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Property, plant and equipment and intangible assets			
	Note	December 31st 2017	December 31st 2016
Non-current assets of the Downstream segment	13.1	8924.7	8431.7
Property, plant and equipment	13.1.1	8761.5	8261.7
Intangible assets, including:		163.2	170
Goodwill	13.1.2	45.6	45.6
Other intangible assets	13.1.3	117.6	124.4
Non-current assets of the Upstream segment	13.2	2709	2871.8
Property, plant and equipment		2404.2	2390
Intangible assets, including:		304.8	481.8
Goodwill		1.1	1.1
Other intangible assets		303.7	480.7
Total property, plant and equipment and intangible assets		11633.7	11303.5
including:			
Property, plant and equipment		11165.7	10651.7
Intangible assets		468	651.8

Property, plant and equipment of the downstream segment						
	Land	Buildings, structures	Plant and equipment	Vehicles, other	Property, plant and equipment under construction	Total
Gross carrying amount Jan 1 2017	517.4	4562.4	5593.3	667.2	1092	12432.3
Purchase	-	-	-	20.7	999.2	1019.9 (1)
Transfer from property, plant and equipment under construction	6.3	47.2	150.8	34.6	-238.9	-
Borrowing costs	-	-	-	-	37.1	37.1
Expenditure written off due to project discontinuation	-	-	-	-	-13.3	-13.3
Sale	-	-1.1	-32.2 (2)	-5.4	-	-38.7
Other	-	-	-0.8	-3	-1.7	-5.5
Gross carrying amount Dec 31 2017	523.7	4608.5	5711.1	714.1	1874.4	13431.8

Accumulated depreciation/amortisation Jan 1 2017	16.1	1609.4	2148.6	319.4	-	4093.5
Depreciation and amortisation	1.7	177.5	252.7	92.3	-	524.2
Sale	-	-1.1	-31.7 (2)	-5.6	-	-38.4
Other	-	-	0.3	0.9	-	1.2
Accumulated depreciation/amortisation Dec 31 2017	17.8	1785.8	2369.9	407	-	4580.5
Impairment losses January 1st 2017	1.5	51.4	6.5	4.1	13.6	77.1
Recognised	-	23.8	2.6	1.5	0.6	28.5
Used/Reversed	-	-1.6	-0.2	-0.9	-	-2.7
Other	-	-	-	-	-13.1	-13.1
Impairment losses Dec 31 2017	1.5	73.6	8.9	4.7	1.1	89.8
Net carrying amount Dec 31 2017	504.4	2749.1	3332.3	302.4	1873.3	8761.5

(1) Capital expenditure included chiefly expenditure on the construction of a delayed coking unit with auxiliary infrastructure of the EFRA Project (PLN 821.9m), purchase of catalysts (PLN 96.9m) and spare parts (PLN 20.8m), as well as expansion of the service station chain (PLN 32.8m), and construction of a hydrogen recovery unit (PLN 19.5m).
(2) Including retirement of spent catalysts in Grupa LOTOS S.A. for an amount of (PLN 19.0m).

	Land	Buildings, structures	Plant and equipment	Vehicles, other	Property, plant and equipment under construction	Total
Gross carrying amount Jan 1 2016	510.2	4474.6	5556.4	620.2	395.9	11557.3
Purchase	-	-	-	20.4	903.1	923.5 (1)
Transfer from property, plant and equipment under construction	12.8	93	53.4	49.5	-208.7	-
Borrowing costs	-	-	-	-	4.8	4.8
Reclassification to non-current assets (or disposal group) held for sale	-	-	-	-2.1	-	-2.1
Sale	-5.6	-5.6	-15.3	-12.1	-0.4	-39
Other	-	0.4	-1.2	-8.7	-2.7	-12.2
Gross carrying amount Dec 31 2016	517.4	4562.4	5593.3	667.2	1092	12432.3
Accumulated depreciation/amortisation Jan 1 2016	14.8	1436.8	1926.4	266.7	-	3644.7
Depreciation and amortisation	1.7	174.9	236.1	61.6	-	474.3
Reclassification to non-current assets (or disposal group) held for sale	-	-	-	-1.4	-	(1.4)
Sale	-0.4	-2.6	-14.5	-9.1	-	-26.6
Other	-	0.3	0.6	1.6	-	2.5
Accumulated depreciation/amortisation Dec 31 2016	16.1	1609.4	2148.6	319.4	-	4093.5
Impairment losses January 1st 2016	1.2	44.4	5.7	2.6	13.6	67.5
Recognised	0.3	11.3	1	2	-	14.6
Used/Reversed	-	-4.3	-0.2	-0.5	-	-5

Impairment losses Dec 31 2016	1.5	51.4	6.5	4.1	13.6	77.1
Net carrying amount Dec 31 2016	499.8	2901.6	3438.2	343.7	1078.4	8261.7

(1) Capital expenditure included chiefly expenditure on the construction of a delayed coking unit with auxiliary infrastructure of the EFRA Project (PLN 672.3m), as well as expansion of the service station chain (PLN 105.5m) and construction of a hydrogen recovery unit (PLN 55.6m).

Goodwill of the downstream segment		
	December 31st 2017	December 31st 2016
Goodwill arising on the acquisition of an organised part of business by LOTOS Paliwa Sp. z o.o.:		
- wholesale of LPG	10	10
- service stations chains (ESSO, Slovnaft Polska)	33,7	33,7
TOTAL	43.7	43.7
Goodwill arising on acquisition of other entities	1,9	1,9
Total goodwill	45.6	45.6

Other intangible assets of the downstream segment				
	Patents, trademarks and licences	Other	Intangible assets under development	Total
Gross carrying amount Jan 1 2017	205,3	37,1	17,3	259,7
Purchase	-	0,1	7,2	7,3
Transfer from intangible assets under development	3,5	0,5	-4	-
Expenditure written off due to project discontinuation	-	-	-9 (1)	-9
Other	-1,9	-0,3	-1,1	-3,3
Gross carrying amount Dec 31 2017	206,9	37,4	10,4	254,7
Accumulated depreciation/amortisation Jan 1 2017	111,3	15	-	126,3
Depreciation and amortisation	11,4	1,4	-	12,8
Other	-1,9	-0,1	-	-2
Accumulated depreciation/amortisation Dec 31 2017	120,8	16,3	-	137,1
Impairment losses January 1st 2017	-	-	9	9
Recognised	-	-	-	-
Used/Reversed	-	-	-9 (1)	-9
Impairment losses Dec 31 2017	-	-	-	-
Net carrying amount Dec 31 2017	86,1	21,1	10,4	117,6
Gross carrying amount Jan 1 2016	197,9	36,3	18,8	253
Purchase	-	0,2	7	7,2
Transfer from intangible assets under development	7,6	0,9	-8,5	-

Other	-0.2	-0.3	-	-0.5
Gross carrying amount Dec 31 2016	205.3	37.1	17.3	259.7
Accumulated depreciation/amortisation Jan 1 2016	100.9	13.9	-	114.8
Depreciation and amortisation	10.4	1.2	-	11.6
Other	-	-0.1	-	-0.1
Accumulated depreciation/amortisation Dec 31 2016	111.3	15	-	126.3
Impairment losses January 1st 2016	-	-	9	9
Recognised	-	-	-	-
Used/Reversed	-	-	-	-
Impairment losses Dec 31 2016	-	-	9	9
Net carrying amount Dec 31 2016	94	22.1	8.3	124.4

(1) Refining units (no effect on net profit or loss).

Non-current assets of the upstream segment			
	Note	December 31st 2017	December 31st 2016
Oil and gas exploration and evaluation assets	13.2.1	256.9	396.7
Property, plant and equipment		52.2	55.7
Intangible assets		204.7	341
Oil and gas development and production assets	13.2.2	2103.4	2098.2
Property, plant and equipment		2018	1966.9
Intangible assets		85.4	131.3
Other non-current assets of the upstream segment	13.2.3	348.7	376.9
Property, plant and equipment		334	367.4
Intangible assets		14.7	9.5
Total non-current assets of the upstream segment		2709	2871.8
including:			
Property, plant and equipment		2404.2	2390
Intangible assets		304.8	481.8

Oil and gas exploration and evaluation assets						
	Note	Property, plant and equipment classified as exploration and evaluation assets	Intangible assets classified as exploration and evaluation assets			Total
		Poland	Poland	Norway	Lithuania	
Gross carrying amount Jan 1 2017		167.6	9.3	429.7	10.6	617.2
Purchase		20.2	4.4	32.8	-	57.4
Exchange differences on translating foreign operations		-	-	-44.4	-0.6	-45
Reclassification to development assets		-	-	-200.8 (2)	-	-200.8
Gross carrying amount Dec 31 2017		187.8	13.7	217.3	10	428.8
Accumulated depreciation/amortisation Jan 1 2017		-	8.9	-	-	8.9
Depreciation and amortisation		-	0.5	-	-	0.5
Accumulated depreciation/amortisation Dec 31 2017		-	9.4	-	-	9.4
Impairment losses January 1st 2017		111.9	-	89.1	10.6	211.6
Recognised	9.4	23.7 (1)	-	-	-	23.7
Exchange differences on translating foreign operations		-	-	-7.3	-0.6	-7.9
Reclassification to development assets		-	-	-64.9 (2)	-	-64.9
Impairment losses Dec 31 2017		135.6	-	16.9	10	162.5
Net carrying amount Dec 31 2017		52.2	4.3	200.4	-	256.9

(1) Expenditure on exploration and evaluation work on the Kamień Pomorski area (of PLN 23.7m).

(2) Utgard (formerly Alfa Sentral) licences forming part of the acquired Sleipner assets in Norway.

Oil and gas exploration and evaluation assets						
	Note	Property, plant and equipment classified as exploration and evaluation assets	Intangible assets classified as exploration and evaluation assets			Total
		Poland	Poland	Norway	Lithuania	
Gross carrying amount Jan 1 2016		167.8	9.9	467.2	10.2	655.1
Purchase		1.7	0.3	52 (2)	-	54
Exchange differences on translating foreign operations		-	-	43.6	0.4	44
Expenditure written off due to project discontinuation	9.4	-1.9 (1)	-0.9 (1)	-133.1 (3)	-	-135.9
Gross carrying amount Dec 31 2016		167.6	9.3	429.7	10.6	617.2
Accumulated depreciation/amortisation Jan 1 2016		-	8	-	-	8
Depreciation and amortisation		-	1.6	-	-	1.6

Expenditure written off due to project discontinuation	9.4	-	-0.7 (1)	-	-	-0.7
Accumulated depreciation/amortisation Dec 31 2016		-	8.9	-	-	8.9
Impairment losses January 1st 2016		49	0.2	125.5	10.2	184.9
Recognise	9.4	64.8 (1)	-	73.4 (4)	-	138.2
Exchange differences on translating foreign operations		-	-	10.9	0.4	11.3
Used/Reversed	9.4	-1.9 (1)	-0.2 (1)	-120.7 (3)	-	-122.8
Impairment losses Dec 31 2016		111.9	-	89.1	10.6	211.6
Net carrying amount Dec 31 2016		55.7	0.4	340.6	-	396.7

(1) Expenditure on exploration and evaluation work related to the Stupsk area (decision to abandon the project) and the Gaz Potudnie area (a PLN 64.8m write-off of expenditure on seismic surveys).

(2) Including expenditure on Sleipner assets (PLN 18.7m) and Heimdal assets (PLN 31.2m).

(3) Capitalised expenditures related to PL643 and PL655 licences (effect on the Group's profit/(loss): PLN 12.3m).

(4) Including the Utgard (formerly Alfa Sentral) field assets of PLN 67.6m and PL797 licence of PLN 5.8m.

Property, plant and equipment are classified as exploration and evaluation assets until the technical feasibility and commercial viability of extracting the discovered resources are demonstrated.

Due to significant market volatility, in particular with respect to oil and gas prices, the adopted assumptions may be subject to justifiable changes, and such changes may necessitate a revision of the carrying amounts of the Utgard field's assets in the future. To determine the effect of key factors on the test results, the Group carried out an analysis of sensitivity to a -15%/+15% change in oil and gas price, -15%/+15% change in production volumes, -15%/+15% change in the USD/NOK exchange rate, and -0.5pp/+ 0.5pp change in the discount rate. The table below presents the estimated changes in impairment losses following changes in the key assumptions:

Factor	Change	Impact on impairment losses	
Crude oil and gas prices	+/- 15%	64.9	-20.3
Production volume	+/- 15%	64.9	-8
USD/NOK exchange rate	+/- 15%	64.9	-11.8
Discount rate	+/- 0,5 p.p.	-	4.9

Oil and gas development and production assets									
	Note	Oil and gas development assets			Oil and gas production assets				TOTAL
		Poland	Norway	Total	Poland	Norway	Lithuania	Total	
Gross carrying amount Jan 1 2017		-	1592.1	1592.1	1650.4	1603.4	659.8	3913.6	5505.7
Purchase		-	82 (1)	82	154.8 (2)	47.7	2.7	205.2	287.2
Exchange differences on translating foreign operations		-	-224.4	-224.4	-	-208.1	-37.8	-245.9	-470.3
Estimated costs of decommissioning of oil and gas extraction facilities		-	-	-	6.6	-35.6	-	-29	-29
Reclassification of refining and other assets to oil and gas development and production assets		-	-	-	0.1	-	-	0.1	0.1
Reclassification of exploration and evaluation assets		-	200.8 (3)	200.8	-	-	-	-	200.8
Borrowing costs		-	-	-	12.5	-	-	12.5	12.5
Expenditure written off due to project discontinuation		-	-	-	-0.5	-	-	-0.5	-0.5
Other		-	-	-	-	-	1.7	1.7	1.7

Gross carrying amount Dec 31 2017		-	1650.5	1650.5	1823.9	1407.4	626.4	3857.7	5508.2
Accumulated depreciation/amortisation Jan 1 2017		-	-	-	461	827	293	1581	1581
Depreciation and amortisation		-	-	-	38.4	206.4	18.2	263	263
Exchange differences on translating foreign operations		-	-	-	-	-120.5	-17.1	-137.6	-137.6
Reclassification to production assets		-	-	-	0.1	-	-	0.1	0.1
Accumulated depreciation/amortisation Dec 31 2017		-	-	-	499.5	912.9	294.1	1706.5	1706.5
Impairment losses January 1st 2017		-	1579.7	1579.7	-	40.1	206.7	246.8	1826.5
Recognised	9.4	-	-	-	-	-	32.9	32.9	32.9
Exchange differences on translating foreign operations		-	-208.4	-208.4	-	-5.2	-12.4	-17.6	-226
Reclassification of exploration and evaluation assets		-	64.9 (3)	64.9	-	-	-	-	64.9
Impairment losses Dec 31 2017		-	1436.2	1436.2	-	34.9	227.2	262.1	1698.3
Net carrying amount Dec 31 2017		-	214.3	214.3	1324.4	459.6	105.1	1889.1	2103.4

(1) Expenditures on YME (PLN 47.2m) and Sleipner (PLN 34.9m) assets.

(2) Expenditure on the B8 field.

(3) Utgard (formerly Alfa Sentral) licence forming part of the acquired Sleipner assets in Norway.

	Note	Oil and gas development assets			Oil and gas production assets				TOTAL
		Poland	Norway	Total	Poland	Norway	Lithuania	Total	
Gross carrying amount Jan 1 2016		-	1452.4	1452.4	1384.7	1497.2	636.1	3518	4970.4
Purchase		-	12 (1)	12	213.2 (2)	46.3 (5)	0.1	259.6	271.6
Exchange differences on translating foreign operations		-	127.7	127.7	-	146.4	24.3	170.7	298.4
Estimated costs of decommissioning of oil and gas extraction facilities		-	-	-	-2.9	-87.9	-0.4	-91.2	-91.2
Reclassification to oil and gas production assets		-	-	-	58.5 (3)	-	-	58.5	58.5
Expenditure written off due to project discontinuation		-	-	-	-3.3 (4)	-	-	-3.3	-3.3
Other		-	-	-	0.2	1.4	-0.3	1.3	1.3
Gross carrying amount Dec 31 2016		-	1592.1	1592.1	1650.4	1603.4	659.8	3913.6	5505.7
Accumulated depreciation/amortisation Jan 1 2016		-	-	-	398.4	310.3	258.1	966.8	966.8
Depreciation and amortisation		-	-	-	38.8	471.8	25.1	535.7	535.7
Exchange differences on translating foreign operations		-	-	-	-	44.9	10.1	55	55
Reclassification to oil and gas production assets		-	-	-	271 (3)	-	-	271	271
Expenditure written off due to project discontinuation		-	-	-	-3.3 (4)	-	-	-3.3	-3.3
Other		-	-	-	-	-	-0.3	-0.3	-0.3
Accumulated depreciation/amortisation Dec 31 2016		-	-	-	461	827	293	1581	1581

Impairment losses January 1st 2016		-	1452.4	1452.4	-	40.6	194.3	234.9	1687.3
Recognised	9.4	-	-	-	-	-	12.4 (7)	12.4	12.4
Exchange differences on translating foreign operations		-	127.3	127.3	-	3.9	7.5	11.4	138.7
Used/Reversed		-	-	-	-	-4.4 (6)	-7.5 (8)	-11.9	-11.9
Impairment losses Dec 31 2016		-	1579.7	1579.7	-	40.1	206.7	246.8	1826.5
Net carrying amount Dec 31 2016		-	12.4	12.4	1189.4	736.3	160.1	2085.8	2098.2

(1) Expenditure on the YME field.

(2) Expenditure on development of the B-8 field (PLN 212.4m) and the B-3 field (PLN 0.8m).

(3) Offshore gas pipeline from the B-3 field.

(4) Expenditure related to the Pila area (no effect on the LOTOS Group's profit/(loss)).

(5) Expenditure on Sleipner assets (PLN 42.5m) and Heimdal assets (PLN 3.6m).

(6) Expenditure on Heimdal assets.

(7) Production infrastructure on the: Auksoras, Vėžaičiai, Kretinga, Ablinga and Ližiai fields.

(8) Girkaliai field.

The table below presents the estimated changes in potential impairment losses on the tested Heimdal and Sleipner assets following changes in the key assumptions:

Factor	Change	Impact on impairment losses	
Crude oil and gas prices	+/- 15%	20.7	-12.8
Production volume	+/- 15%	19.5	-11.6
USD/NOK exchange rate	+/- 15%	20.4	-12.5
Discount rate	+/- 0,5 p.p.	-	4.9

The table below presents the estimated changes in impairment losses on the Lithuanian assets referred to above following changes in the key assumptions:

Factor	Change	Impact on impairment losses	
Crude oil and gas prices	+/- 15%	32.3	-32.6
Production volume	+/- 15%	26	-26.2
USD/EUR exchange rate	+/- 15%	24	-24.2
Discount rate	+/- 0,5 p.p.	-2.9	2.9

Assets related to future costs of decommissioning of oil and gas extraction facilities						
	Oil and gas development assets		Oil and gas production assets			TOTAL
	Norway	Poland	Norway	Lithuania	Total	
Gross carrying amount Jan 1 2017	134.9	107.4	821.1	1.7	930.2	1065.1
Estimated costs of decommissioning of oil and gas extraction facilities	-	6.6	-35.7	-	-29.1	-29.1
Exchange differences on translating foreign operations	-17.4	-	-103.8	-0.1	-103.9	-121.3
Gross carrying amount Dec 31 2017	117.5	114	681.6	1.6	797.2	914.7
Accumulated depreciation/amortisation Jan 1 2017	-	80.1	405.8	1.6	487.5	487.5
Depreciation and amortisation	-	1.2	100	-	101.2	101.2
Exchange differences on translating foreign operations	-	-	-59	-	-59	-59
Accumulated depreciation/amortisation Dec 31 2017	-	81.3	446.8	1.6	529.7	529.7
Impairment losses January 1st 2017	134.9	-	33.1	-	33.1	168
Recognised	-	-	-	-	-	-
Exchange differences on translating foreign operations	-17.4	-	-4.2	-0.1	-4.3	-21.7
Used/Reversed	-	-	-	-	-	-
Impairment losses Dec 31 2017	117.5	-	28.9	-0.1	28.8	146.3
Net carrying amount Dec 31 2017	-	32.7	205.9	0.1	238.7	238.7

	Oil and gas development assets		Oil and gas production assets			TOTAL
	Norway	Poland	Norway	Lithuania	Total	
Gross carrying amount Jan 1 2016	122.8	108.1	829.8	2	939.9	1062.7
Estimated costs of decommissioning of oil and gas extraction facilities	-	-2.9	-87.9	-0.4	-91.2	-91.2
Exchange differences on translating foreign operations	12.1	-	79.2	0.1	79.3	91.4
Reclassification to oil and gas development and production assets	-	2.2 (1)	-	-	2.2	2.2
Gross carrying amount Dec 31 2016	134.9	107.4	821.1	1.7	930.2	1065.1
Accumulated depreciation/amortisation Jan 1 2016	-	76.6	124	1.3	201.9	201.9
Depreciation and amortisation	-	1.3	261.6	0.2	263.1	263.1
Exchange differences on translating foreign operations	-	-	20.2	0.1	20.3	20.3
Reclassification of development assets to production assets	-	2.2 (1)	-	-	2.2	2.2
Accumulated depreciation/amortisation Dec 31 2016	-	80.1	405.8	1.6	487.5	487.5
Impairment losses January 1st 2016	122.8	-	32	-	32	154.8
Recognised	-	-	-	-	-	-

Exchange differences on translating foreign operations	12.1	-	3.1	-	3.1	15.2
Used/Reversed	-	-	-2	-	-2	-2
Impairment losses Dec 31 2016	134.9	-	33.1	-	33.1	168
Net carrying amount Dec 31 2016	-	27.3	382.2	0.1	409.6	409.6

(1) Offshore gas pipeline from the B-3 field.

Other non-current assets of the upstream segment							
	Land	Buildings, structures	Plant and equipment	Vehicles, other	Property, plant and equipment under construction	Intangible assets	Total
Gross carrying amount Jan 1 2017	11.4	53.1	69.1	560.4	15.3	31.1	740.4
Purchase	-	-	0.5	0.1	12.5	9.9	23
Transfer from property, plant and equipment under construction	-	-	0.3	13.6	-13.9	-	-
Exchange differences on translating foreign operations	-	-	-2	-30.5	-0.2	-3.2	-35.9
Reclassification of refining and other assets to production assets	-	-	-	-0.1	-	-	-0.1
Other	-	-	0.9	-	-	-	0.9
Sale	-	-	-0.1	-44.1	-0.1	-	-44.3
Gross carrying amount Dec 31 2017	11.4	53.1	68.7	499.4	13.6	37.8	684
Accumulated depreciation/amortisation Jan 1 2017	4.2	20	39.1	272.8	-	21.6	357.7
Depreciation and amortisation	0.3	1.8	3.1	35.4	-	3.2	43.8
Exchange differences on translating foreign operations	-	-	-1.5	-25.9	-	-1.7	-29.1
Reclassification of refining and other assets to production assets	-	-	-	-0.1	-	-	-0.1
Sale	-	-	-0.1	-39.7	-	-	-39.8
Other	-	-	-	0.3	-	-	0.3
Accumulated depreciation/amortisation Dec 31 2017	4.5	21.8	40.6	242.8	-	23.1	332.8
Impairment losses January 1st 2017	-	-	0.6	5.1	0.1	-	5.8
Recognised	-	-	-	0.8	-	-	0.8
Exchange differences on translating foreign operations	-	-	-	-0.5	-	-	-0.5
Used/Reversed	-	-	-	-3.5	-0.1	-	-3.6
Net carrying amount Dec 31 2017	6.9	31.3	27.5	254.7	13.6	14.7	348.7
Gross carrying amount Jan 1 2016	11.4	96.3	84.6	539.1	15.1	29.5	776
Purchase	-	-	0.3	11.6	12.3	0.2	24.4
Transfer from property, plant and equipment under construction	-	-	0.1	10.6	-10.7	-	-

Exchange differences on translating foreign operations	-	0.1	0.7	12.8	-	1.7	15.3
Reclassification of refining and other assets to production assets	-	-42.4 (1)	-16.1 (1)	-	-	-	-58.5
Expenditure written off due to project discontinuation	-	-	-	-	-	-	-
Sale	-	-	-0.5	-13.7	-	-0.3	-14.5
Other	-	-0.9	-	-	-1.4	-	-2.3
Gross carrying amount Dec 31 2016	11.4	53.1	69.1	560.4	15.3	31.1	740.4
Accumulated depreciation/amortisation Jan 1 2016	3.9	34.4	45.5	235.1	-	16.6	335.5
Depreciation and amortisation	0.3	2.3	4	33.7	-	4.4	44.7
Exchange differences on translating foreign operations	-	-	0.6	11.2	-	0.9	12.7
Reclassification of refining and other assets to production assets	-	-16.5 (1)	-10.6 (1)	-	-	-	-27.1
Sale	-	-	-0.4	-7.2	-	-0.3	-7.9
Other	-	-0.2	-	-	-	-	-0.2
Accumulated depreciation/amortisation Dec 31 2016	4.2	20	39.1	272.8	-	21.6	357.7
Impairment losses January 1st 2016	-	-	0.6	5.3	0.1	-	6
Recognised	-	-	-	5.4 (2)	-	-	5.4
Exchange differences on translating foreign operations	-	-	-	0.3	-	-	0.3
Used/Reversed	-	-	-	-5.9	-	-	-5.9
Impairment losses Dec 31 2016	-	-	0.6	5.1	0.1	-	5.8
Net carrying amount Dec 31 2016	7.2	33.1	29.4	282.5	15.2	9.5	376.9

(1) Offshore gas pipeline from the B-3 field.

(2) Including ships valued at PLN 5.3m, see Note 9.4.

Other property, plant and equipment and intangible assets of the upstream segment include ships and a multi-purpose mobile drilling rig.

Other information on property, plant and equipment and intangible assets		
	December 31st 2017	December 31st 2016
Gross carrying amount	323.1	312.3
Accumulated depreciation	141.5	103.7
Impairment losses	-	0.8
Net carrying amount	181.6	207.8

The Group uses finance leases to finance primarily rolling stock assets (downstream segment); see also Note 22.4.

Allocation of depreciation		
	2017	2016
Cost of sales	716.6	936.3
Distribution costs	77.8	87.5
Administrative expenses	37.1	35.6
Change in products and adjustments to cost of sales	12.8	8.5
Total	844.3	1067.9

EQUITY-ACCOUNTED JOINT VENTURES

Equity-accounted joint ventures						
	Registered office	Description of business	The Group's ownership interest of shares		Carrying amount (PLN m)	
			December 31st 2017	December 31st 2016	December 31st 2017	December 31st 2016
Downstream segment						
LOTOS - Air BP Polska Sp. z o.o.	Gdańsk	Sale of aviation fuel and logistics services	0.5	0.5	23.2	19.5
Upstream segment						
Baltic Gas Sp. z o.o.	Gdańsk	Oil and gas production (support activities for oil and gas production)	0.4999	0.4999	-	-
Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k. (1)	Gdańsk	Crude oil and gas production	0.4478	0.449	83.3	78.6
UAB Minijos Nafta	Lithuania, Gargždai	Crude oil exploration and production	0.4999	0.4999	-	-
TOTAL					106.5	98.1

(1) The ownership interests as at December 31st 2017 were determined based on the value of contributions made by individual partners relative to the sum of all contributions:

- Baltic Gas Sp. z o.o. (general partner) 0.001% (December 31st 2016: 0.001%),
- LOTOS Petrobaltic S.A. (limited partner) 44.786% (December 31st 2016: 44.908%),
- CalEnergy Resources Poland Sp. z o.o. ("CalEnergy") (limited partner) 55.214% (December 31st 2016: 55.091%).

The Group's indirect ownership interest in Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp. k. (jointly-controlled entity) is 44.78% (December 31st 2016: 44.90%).

In 2017, CalEnergy Resources Poland Sp. z o.o. and LOTOS Petrobaltic S.A. made the agreed cash contributions to Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp. k. of PLN 7,1m and PLN 5,4m, respectively, which changed the Group's ownership interest in the company. The expenditure representing the cash contributions made by LOTOS Petrobaltic S.A. to these companies, was disclosed in the consolidated statement of cash flows under Cash contributions – equity-accounted joint ventures.

The Group's indirect ownership interest in		
	2017	2016
Downstream segment		
LOTOS - Air BP Polska Sp. z o.o.	3.7	3.3
Upstream segment		
Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k. (1)	-0.5	-0.4
UAB Minijos Nafta	-	-
TOTAL	3.2	2.9

(1) In the partnership agreement, the shares of each of the partners in the profit or loss of Baltic Gas Sp. z o.o. i wspólnicy sp.k. were defined as follows:

- Baltic Gas Sp. z o.o. holds a 0.001% share in profit and a 100% share in loss,
- LOTOS Petrobaltic S.A. holds a 50.9995% share in profit and
- CalEnergy holds a 48.9995% share in profit.

Accordingly, for IFRS purposes, Baltic Gas Sp. z o.o. i wspólnicy sp.k. is an entity jointly controlled by the Group (equity-accounted joint venture under IFRS 11).

Condensed financial information on equity-accounted joint venture				
	Statement of comprehensive income			
	Nota	LOTOS – Air BP Polska Sp. z o.o.	Baltic Gas Sp. z o.o. i wspólnicy sp.k.	UAB Minijos Nafta
2017				
Revenue		470.6	-	29.1
Cost of sales		-427.5	-0.6	-23.3
Gross profit/(loss)		43.1	-0.6	5.8
Distribution costs		-32.1	-	-0.7
Administrative expenses		-4.1	-0.4	-4
Net other income/(expenses)		-	-	-
Operating profit/(loss)		6.9	-1	1.1
Net finance income/(costs)		2.3	-	-0.8
Pre-tax profit/(loss)		9.2	-1	0.3
Income tax		-1.8	-	-
Net profit/(loss)		7.4	-1	0.3
Other comprehensive income/(loss), net		-	-	-
Total comprehensive income/(loss)		7.4	-1	0.3
Depreciation and amortisation		-1.2	-0.6	-5
2016				
Revenue		240.3	-	28.7
Cost of sales		-206.8	-0.6	-25.2
Gross profit/(loss)		33.5	-0.6	3.5
Distribution costs		-20.5	-	-0.9
Administrative expenses		-4.3	-0.3	-4.8
Net other income/(expenses)		-	-	0.1
Operating profit/(loss)		8.7	-0.9	-2.1
Net finance income/(costs)		-0.4	-	-0.2
Pre-tax profit/(loss)		8.3	-0.9	-2.3
Income tax		-1.6	-	-
Net profit/(loss)		6.7	-0.9	-2.3
Other comprehensive income/(loss), net		-	-	-
Total comprehensive income/(loss)		6.7	-0.9	-2.3
Depreciation and amortisation		-0.9	-0.6	-6.9

December 31st 2017				
Non-current assets		11.5	186.6	16.7
Current assets, including:		67.8	4.6	19.6
Cash and cash equivalents		19.4	3.2	10.6
Total assets		79.3	191.2	36.3
Non-current liabilities		4.5	-	14.3
Current liabilities		41.4	4.7	4.9
Total liabilities		45.9	4.7	19.2
Net assets		33.4	186.5	17.1
		0.5	*	0.4999
Share of net assets		16.7	83.3	8.5
Fair value measurement		6.7 (1)	-	-8.5
Elimination of intercompany transactions		-0.2	-	-
Interest in joint ventures	14	23.2	83.3	-
December 31st 2016				
Non-current assets		12.6	173.3	22.7
Current assets, including:		41.4	10.2	18
Cash and cash equivalents		16.2	8.7	10.1
Total assets		54	183.5	40.7
Non-current liabilities		5.5	-	16.6
Current liabilities		22.6	8.5	4.1
Total liabilities		28.1	8.5	20.7
Net assets		25.9	175	20
		0.5	*	0.4999
Share of net assets		13	78.6	10
Fair value measurement		6.7 (1)	-	-10
Elimination of intercompany transactions		-0.2	-	-
Interest in joint ventures	14	19.5	78.6	-

* For IFRS purposes, Baltic Gas Sp. z o.o. i wspólnicy sp.k is an entity jointly controlled by the Group (equity-accounted joint venture under IFRS 1; see Note 14 above).

(1) PLN 6.7m in gain on fair value measurement of a retained interest in a previously controlled entity as at the date of loss of control.

TRADE RECEIVABLES AND OTHER ASSETS

Trade receivables and other assets			
	Nota	December 31st 2017	December 31st 2016
Non-current financial assets:		293.2	307
Security deposits receivable		18	17
Finance lease receivables	15.2	12.8	14.6
Oil and Gas Extraction Facility Decommissioning Fund (1)		34.1	33.2
Cash securing contractual obligations related to future decommissioning of assets		207.9	192
Security deposit – ICE Futures		-	19.6
Security deposits related to licensed activities		10.6	20.7
Shares		9.8	9.8
Other receivables		-	0.1
Current financial assets:		2843.4	2569.6
Trade receivables		2677	2251.7
including from related entities	30.1	34.5	16.1
Security deposits receivable		26.3	14.6
Deposits		37	189.2
Cash for removal of the MOPU from the YME field (2)		55.1	75.3
Settlements under joint operations (Norwegian fields) (3)		-	1.4
Security deposits related to the use of gas fuel distribution and transmission system		16	14.4
Receivables under payment cards (service stations)		14.6	9.1
Other receivables		10.3	6.8
Financial assets		3136.6	2876.6
Non-current non-financial assets		10.6	5.2
Borrowing costs		6.1	-
Prepayments for rebates		2.8	2.1
Other		1.7	3.1
Current non-financial assets:		222.3	259.3
Value-added tax receivable		78.4	110.3
Property and other insurance		20.9	25.6
Settlements under joint operations (Norwegian fields) (3)		58.9	68
Excise duty on inter-warehouse transfers		46.6	34.7

Prepaid deliveries		4.6	8.5
Prepayments for IT services		5.3	5.4
Other		7.6	6.8
Non-financial assets		232.9	264.5
TOTAL		3369.5	3141.1
including:			
non-current		303.8	312.2
current:		3065.7	2828.9
- trade receivables		2677	2251.7
- other		388.7	577.2

(1) Cash deposited in the bank account of the Oil and Gas Facility Decommissioning Fund (created pursuant to the Geological and Mining Law of February 4th 1994 and the Minister of Economy's Regulation of June 24th 2002) to cover future costs of decommissioning of oil extraction facilities, see Note 29.1.

(2) Cash held in an escrow account associated with the agreement concluded between the parties involved in the YME project in Norway (for more details on the agreement, see Note 29.1).

(3) Receivables of LOTOS Exploration and Production Norge AS (LOTOS Petrobaltic Group, the upstream segment) under mutual settlements between the operator and consortium members concerning specific Norwegian fields.

Change in impairment losses on receivables		
	2017	2016
At beginning of period	165.3	171.6
Recognised	7.5	4.1
Used	-64.7	-7.9
Reversed	-3.9	-2.5
At end of period	104.2	165.3
Ageing of unimpaired past due receivables:		
	December 31st 2017	December 31st 2016
Up to 1 month	34.1	75.7
From 1 to 3 months	1.9	1.2
From 3 to 6 months	0.7	-
From 6 months to 1 year	0.2	-
Over 1 year	2.8	4.1
TOTAL	39.7	81

Finance lease receivables				
	Opłaty leasingowe		Present value of minimum lease payments	
	December 31st 2017	December 31st 2016	December 31st 2017	December 31st 2016
Up to 1 year	7.2	7.2	7.1	7.1
From 1 to 5 years	12.9	14.7	12.8	14.6
TOTAL	20.1	21.9	19.9	21.7
Less unrealised finance income	-0.2	-0.2	-	-
Present value of minimum lease payments	19.9	21.7	19.9	21.7
including:				
non-current			12.8	14.6
current			7.1	7.1

INVENTORIES

Inventories		
	December 31st 2017	December 31st 2016
Finished goods	903.3	833.6
Semi-finished products and work in progress	488.7	431.7
Merchandise	133.6	149.2
Materials	2034	1919.1
TOTAL	3559.6	3333.6
including inventories measured at:		
cost	3553	3309.6
net realisable value	6.6	24

Change in inventory write-downs		
	2017	2016
At beginning of period	2.1	267.7
Recognised	11.4	18.6
Used	-0.1	-1.3
Reversed	-9.4	-282.9
At end of period	4	2.1

CASH AND CASH EQUIVALENTS

Cash and cash equivalents		
	December 31st 2017	December 31st 2016
Cash and cash equivalents in the statement of financial position	1920.7	744.6
Overdraft facilities	-0.1	-13.8
Total cash and cash equivalents in the statement of cash flows	1920.6	730.8

SHARE CAPITAL

Share capital		
	December 31st 2017	December 31st 2016
Series A shares	78.7	78.7
Series B shares	35	35
Series C shares	16.2	16.2
Series D shares	55	55
TOTAL	184.9	184.9

SHARE PREMIUM

Share premium				
	Series B	Series C	Series D	TOTAL
Share premium	980	340.8	940.5	2261.3
Costs directly attributable to the share issue	-9	-0.4	-23.6	-33
TOTAL	971	340.4	916.9	2228.3

RETAINED EARNINGS

Cash flow hedging reserve			
	Note	2017	2016
At beginning of period		-812.8	-700.9
Valuation of cash flow hedging instruments	26.2	725.4	-138.2
- effective portion		724.7	-138.8
- ineffective portion		0.7	0.6
Income tax on valuation of cash flow hedging instruments	10.1	-137.8	26.3
At end of period		-225.2	-812.8

BORROWINGS, OTHER DEBT INSTRUMENTS AND FINANCE LEASE LIABILITIES

Borrowings, other debt instruments and finance lease liabilities			
	Note	December 31st 2017	December 31st 2016
Bank borrowings	22.1	3903	5082.9
Non-bank borrowings	22.2	68.3	81.8
Notes	22.3	313	213
Finance lease liabilities	22.4	141.6	179.5
TOTAL		4425.9	5557.2
including:			
non-current		2738.3	3980.5
current		1687.6	1576.7
		2017	2016
At beginning of period		5557.2	6999.3
Proceeds from borrowings		925.8	380.5
Issue of notes		296.1	-
Repayment of borrowings		-1236.2	-1511.1
Redemption of notes		-160.2	-19.2
Decrease in finance lease liabilities		-36.8	-31.2
Interest, fees and commissions paid		-203.3	-203.7

Interest, fees and commissions accrued	204.7	186.1
Prepayments and accruals	13.6	-35
Exchange differences:	-906.7	387.5
Change in overdraft facilities	-13.8	-567.8
Change in deposits securing payment of interest and principal	-15.8	-26.5
Other	1.3	-1.7
At end of period	4425.9	5557.2

Bank borrowings		
	December 31st 2017	December 31st 2016
Investment facilities	3426.9	4429.1
Working-capital facilities	139.4	161.8
Inventory financing and refinancing facility	696.8	836.3
Funds in bank deposits securing payment of interest and principal*	-360.1	-344.3
TOTAL	3903	5082.9
including:		
non-current	2633.6	3769.8
current	1269.4	1313.1

Bank borrowings by currency			
			TOTAL
	USD	PLN	
December 31st 2017	3627.9	275.1	3903
December 31st 2016	4745.4	337.5	5082.9

* In accordance with IAS 32, Grupa LOTOS S.A. offsets the financial asset (cash reserved for repayment of the facilities) against financial liabilities under the facilities as it has a legally enforceable title to set off the amounts and intends to realise the asset and settle the liability simultaneously. Accumulation of funds for the repayment of credit facilities is expressly provided for in the documentation relating to the investment facilities obtained to finance the 10+ Programme, as well as the inventory financing and refinancing facility. The Company is required to set aside and maintain funds for repayment of principal and interest due over the next six months. The purpose of adopting the net-basis presentation approach in the statement of financial position is to reflect the expected future cash flows from the settlement of two or more financial instruments.

Non-bank borrowings		
	December 31st 2017	December 31st 2016
Provincial Fund for Environmental Protection and Water Management in Gdańsk (WFOŚiGW)	5.2	7.7
Agencja Rozwoju Przemysłu S.A.	63.1	74.1
TOTAL	68.3	81.8
including:		
non-current	4.4	69.3
current	63.9	12.5

Finance lease liabilities				
	Minimalne opłaty leasingowe		Present value of minimum lease payments	
	December 31st 2017	December 31st 2016	December 31st 2017	December 31st 2016
Up to 1 year	57.4	57.8	41.3	38.1
From 1 to 5 years	121.6	173.7	100.3	137.3
Over 5 years	-	4.3	-	4.1
TOTAL	179	235.8	141.6	179.5
Less finance costs	-37.4	-56.3	-	-
Present value of minimum lease payments	141.6	179.5	141.6	179.5
including:				
non-current			100.3	141.4
current			41.3	38.1

Undisclosed liabilities under operating lease agreements		
	December 31st 2017	December 31st 2016
Up to 1 year	100.6	110.5
From 1 to 5 years	233.2	339.4
Over 5 years	-	3.8
TOTAL	333.8	453.7

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments			
	Nota	December 31st 2017	December 31st 2016
Non-current financial assets:		2.7	20.9
Commodity swaps (raw materials and petroleum products)		0.7	17.2
Interest rate swap (IRS)		2	3.7
Current financial assets:		161.8	80
Commodity swaps (raw materials and petroleum products)		34	41.5
Currency forward and spot contracts		13.1	8.7
Interest rate swap (IRS)		7.3	-
Options		-	0.4
Currency swap		107.4	29.4
Financial assets	26.1	164.5	100.9
Non-current financial liabilities:		6.7	36.3
Commodity swaps (raw materials and petroleum products)		0.1	2.2
Currency forward and spot contracts		-	2.8
Interest rate swap (IRS)		6.6	31.3
Current financial liabilities:		72.7	172.9
Commodity swaps (raw materials and petroleum products)		3.7	16.2
Currency forward and spot contracts		9.5	98.8
Interest rate swap (IRS)		21.2	23.8
Currency swap		38.3	34.1
Financial liabilities	26.1	79.4	209.2

Fair value hierarchy		
	December 31st 2017	December 31st 2016
	Level 2	
Financial assets		
Commodity swap	34.7	58.7
Commodity options	-	0.4
Currency forward and spot contracts	13.1	8.7
Interest rate swap (IRS)	9.3	3.7

Currency swap	107.4	29.4
TOTAL	164.5	100.9
Financial liabilities		
Commodity swap	3.8	18.4
Currency forward and spot contracts	9.5	101.6
Interest rate swap (IRS)	27.8	55.1
Currency swap	38.3	34.1
TOTAL	79.4	209.2

EMPLOYEE BENEFIT OBLIGATIONS

Employee benefit obligations			
	Note	December 31st 2017	December 31st 2016
Non-current liabilities:	24.1	169.3	168.5
Post-employment benefits	24.1	41.8	40.2
Length-of-service awards and other benefits	24.1	127.5	128.3
Current liabilities:	24.1	145.3	135.6
Post-employment benefits	24.1	8.2	7.1
Length-of-service awards and other benefits	24.1	13	14.2
Bonuses, awards and unused holidays		93.5	85.2
Salaries and wages payable		30.6	29.1
TOTAL		314.6	304.1

Obligations under length-of-service awards and post-employment benefits				
	Note	Post-employment benefits	length-of-service awards and other benefits	TOTAL
January 1st 2017		45.3	142.5	187.8
Current service cost	24.2	2.6	10.8	13.4
Cost of discount	24.2; 9.6	1.3	4.5	5.8
Benefits paid		-2.5	-13.1	-15.6
Actuarial (gain)/loss under profit or loss	24.2	-	-4.2	-4.2
Actuarial (gain)/loss under other comprehensive income	24.2	-0.3	-	-0.3
December 31st 2017		46.4	140.5	186.9

including:				
non-current		38.5	127.5	166
current		7.9	13	20.9
Obligations under length-of-service awards and post-employment benefits at foreign companies (1)		3.6	-	3.6
December 31st 2017		50	140.5	190.5
including:				
non-current		41.8	127.5	169.3
current		8.2	13	21.2
January 1st 2016		40.5	156	196.5
Current service cost	24.2	2.4	12.1	14.5
Cost of discount	24.2; 9.6	1	4.1	5.1
Past service cost	24.2	5.7	-15.9	-10.2
Benefits paid		-2.1	-11.8	-13.9
Actuarial (gain)/loss under profit or loss	24.2	-	-2	-2
Actuarial (gain)/loss under other comprehensive income	24.2	-2.2	-	-2.2
December 31st 2016		45.3	142.5	187.8
including:				
non-current		38.5	128.3	166.8
current		6.8	14.2	21
Obligations under length-of-service awards and post-employment benefits at foreign companies (1)		2	-	2
December 31st 2016		47.3	142.5	189.8
including:				
non-current		40.2	128.3	168.5
current		7.1	14.2	21.3

(1) Given the different nature of pension plans operated by the Group's foreign companies – LOTOS Exploration and Production Norge AS and the companies of the AB LOTOS Geonafra Group – and their immaterial effect on the Group's total obligations under length-of-service awards and post-employment benefits, those companies' obligations are presented separately under obligations under length-of-service awards and post-employment benefits at foreign companies.

Total cost of future employee benefit payments charged to profit or loss			
	Note	2017	2016
Items recognised in profit or loss:		15.1	10.6
Length-of-service awards, retirement and other post-employment benefits	9.2	9.3	5.5
- current service cost	24.1	13.4	14.5
- past service cost	24.1	-	-10.2
- effect of foreign operations		0.1	3.2
- actuarial (gain)/loss	24.1	-4.2	-2
Cost of discount	24.1; 9.6	5.8	5.1
Items recognised in other comprehensive income:		1.5	-2
Actuarial (gain)/loss	24.1	-0.3	-2.2
Effect of foreign operations		1.8	0.2
Total comprehensive income		16.6	8.6

Actuarial assumptions		
Key assumptions adopted by the actuary	December 31st 2017	December 31st 2016
Discount rate (%)	3,30	3,50
Expected inflation rate (%)	2,50	2,50
Employee turnover ratio (%)	2,41	2,33
Expected growth rate of salaries and wages (%) in the following years	0,00	2,00
Expected growth rate of salaries and wages (%) in the following years	2,50	2,50

Sensitivity analysis						
Initial obligation balance						
Salaries and wages growth rate	Discount rate	Length-of-service awards	Old-age and disability retirement severance payments	Death benefits	Social benefits fund	TOTAL (1)
base	base	129.5	41	7.6	10	188.1
base + 1%	base	140.3	45.1	8.3	11.9	205.6
base - 1%	base	120.2	37.5	7	8.5	173.2
base	base + 0,5%	124.2	39	7.2	9.2	179.6
base	base - 0,5%	135.4	43.1	8	10.9	197.4

(1) Given the different nature of pension plans operated by the Group's foreign companies – LOTOS Exploration and Production Norge AS and the companies of the AB LOTOS Geonafta Group – and their immaterial effect on the Group's total obligations under length-of-service awards and post-employment benefits, those companies' obligations are presented separately under obligations under length-of-service awards and post-employment benefits at foreign companies.

Current service cost projected for 2018						
Salaries and wages growth rate	Discount rate	Length-of-service awards	Old-age and disability retirement severance payments	Death benefits	Social benefits fund	TOTAL (1)
base	base	10.2	2.3	0.6	0.4	13.5
base + 1%	base	11.4	2.6	0.7	0.6	15.3
base - 1%	base	9.2	2	0.6	0.3	12.1
base	base + 0,5%	9.7	2.1	0.6	0.4	12.8
base	base - 0,5%	10.8	2.4	0.7	0.5	14.4

Cost of discount projected for 2018						
Salaries and wages growth rate	Discount rate	Length-of-service awards	Old-age and disability retirement severance payments	Death benefits	Social benefits fund	TOTAL (1)
base	base	3.9	1.1	0.2	0.3	5.5
base + 1%	base	4.2	1.2	0.3	0.4	6.1
base - 1%	base	3.5	1	0.2	0.3	5
base	base + 0,5%	4.2	1.2	0.3	0.3	6
base	base - 0,5%	3.4	1	0.2	0.3	4.9

Total current service cost and cost of discount projected for 2018						
Salaries and wages growth rate	Discount rate	Length-of-service awards	Old-age and disability retirement severance payments	Death benefits	Social benefits fund	TOTAL (1)
base	base	14.1	3.4	0.8	0.7	19
base + 1%	base	15.6	3.8	1	1	21.4
base - 1%	base	12.7	3	0.8	0.6	17.1
base	base + 0,5%	13.9	3.3	0.9	0.7	18.8
base	base - 0,5%	14.2	3.4	0.9	0.8	19.3

(1) Given the different nature of pension plans operated by the Group's foreign companies – LOTOS Exploration and Production Norge AS and the companies of the AB LOTOS Geonafra Group – and their negligible effect on the Group's obligations under length-of-service awards and post-employment benefits, such companies' obligations were not presented in the review.

TRADE PAYABLES, OTHER LIABILITIES AND PROVISIONS

Trade payables, other liabilities and provisions			
	Note	December 31st 2017	December 31st 2016
Non-current financial liabilities:		26.5	23.3
Investment commitments		7.6	3
Liabilities towards the Polish National Foundation		17.2	19
Other		1.7	1.3
Current financial liabilities:		2397.2	1941.7
Trade payables		2201.7	1718.2
Investment commitments		126.6	147.7
Liabilities to insurers		4.2	4.6
Settlements under joint operations (Norwegian fields) (1)		46.1	57.8
Liabilities towards the Polish National Foundation		2.5	5
Other		16.1	8.4
Financial liabilities		2423.7	1965
Non-current non-financial liabilities:		1045.9	1177.7
Provisions	25.1	1034	1164.4
Grants		9.4	10.1
Other		2.5	3.2
Current non-financial liabilities:		1681.5	1395.6
Provisions	25.1	40.3	92.7
Value-added tax payable		547.4	443.2
Excise duty and fuel charge payable		870.8	698.1
Other liabilities to the state budget other than corporate income tax		103.1	73.9
Grants		26.6	24.3
Settlements under joint operations (Norwegian fields) (2)		5.4	5.5
Prepaid deliveries		6.8	5.2
Liabilities under the NAVIGATOR loyalty programme		21.5	15.8
Provision for deficit in CO2 emission allowances		14.4	9.8
Other		45.2	27.1
Non-financial liabilities		2727.4	2573.3

TOTAL	5151.1	4538.3
including:		
non-current	1072.4	1201
current	4078.7	3337.3
- trade receivables	2201.7	1718.2
- other	1877	1619.1

(1) Liabilities of LOTOS Exploration and Production Norge AS (LOTOS Petrobaltic Group, the upstream segment) under mutual settlements between the operator and consortium members in relation to individual Norwegian fields.

Provisions								
	Note	Provisions for decommissioning and reclamation costs					Other provisions	TOTAL
		Provision for oil and gas extraction			Provisions for retired refining and other units	TOTAL		
		Poland	Norway	Lithuania				
January 1st 2017		186.5	958.6	14	15.2	1174.3	82.8	1257.1
Recognised		-	-	-	0.2	0.2	4.7	4.9
Remeasurement of decommissioning costs		3.5	-48.8 (1)	-0.9	-	-46.2	-	-46.2
Remeasurement of estimated provision for contingent payments		-	-	-	-	-	0.1	0.1
Change in provisions attributable to approaching due date of liability (discount unwinding effect)	9.6	6.5	35.3	0.8	-	42.6	0.5	43.1
Interest on Oil and Gas Facility Decommissioning Fund		0.4	-	-	-	0.4	-	0.4
Exchange differences on translating foreign operations		-	-122.4	-0.8	-	-123.2	-3	-126.2
Used		-	-7.9	-	-	-7.9	-32.5 (2)	-40.4
Reversed		-	-	-	-2.9	-2.9	-15.6	-18.5
December 31st 2017		196.9	814.8	13.1	12.5	1037.3	37	1074.3
including:								
non-current		196.9	810.3	13.1	12.4	1032.7	1.3	1034
current		-	4.5	-	0.1	4.6	35.7	40.3
January 1st 2016		191.9	986.4	14.1	25.8	1218.2	194.2	1412.4
Recognised		-	-	-	-	-	29.3	29.3
Remeasurement of decommissioning costs		-11.3	-119.9 (1)	-1.5	-	-132.7	-	-132.7
Remeasurement of estimated provision for contingent payments		-	-	-	-	-	-27.5	-27.5
Change in provisions attributable to approaching due date of liability (discount unwinding effect)	9.6	5.6	40.4	0.8	0.1	46.9	2.2	49.1

Interest on Oil and Gas Facility Decommissioning Fund		0.3	-	-	-	0.3	-	0.3
Exchange differences on translating foreign operations		-	93.6	0.6	-	94.2	11.5	105.7
Used		-	-41.9	-	-0.2	-42.1	-105.6 (2)	-147.7
Reversed		-	-	-	-10.5	-10.5	-21.3	-31.8
December 31st 2016		186.5	958.6	14	15.2	1174.3	82.8	1257.1
including:								
non-current		186.5	944.3	14	13.8	1158.6	5.8	1164.4
current		-	14.3	-	1.4	15.7	77	92.7

Provisions for decommissioning and reclamation costs:

Provision for oil and gas extraction facilities in Poland – a provision for future costs of decommissioning of the oil and gas extraction facilities in the B-3 and B-8 licence areas, and the Oil and Gas Extraction Facility Decommissioning Fund, set up to cover future costs of decommissioning of oil and gas extraction facilities in accordance with the Geological and Mining Law of February 4th 1994 and the Minister of Economy's Regulation of June 24th 2002.

Provision for oil and gas extraction facilities in Norway – a provision for future costs of decommissioning of the oil extraction facilities in the YME field, and the oil and gas extraction facilities in the Heimdal and Sleipner fields.

Provision for oil and gas extraction facilities in Lithuania – a provision for future costs of decommissioning of the Lithuanian oil extraction facilities.

Provisions for retired refining units and other installations – a provision for site restoration and the cost of disassembly and decommissioning of the retired units at LOTOS Terminale S.A., a provision for estimated cost of disassembly of the subsea pipeline operated by a subsidiary Energobaltic Sp. z o.o. (a company of the LOTOS Petrobaltic Group), as well as for site restoration and clean-up.

(1) The amount includes mainly remeasurement of provisions for future costs of decommissioning of crude oil and gas extraction facilities related to the Heimdal and Sleipner assets.

(2) Including PLN 31.4m (NOK 69.3m) related to a provision for contingent payments under the Sleipner assets acquisition agreement.

Provisions for decommissioning and reclamation costs:

Provision for oil and gas extraction facilities in Poland – a provision for future costs of decommissioning of the oil and gas extraction facilities in the B-3 and B-8 licence areas, and the Oil and Gas Extraction Facility Decommissioning Fund, set up to cover future costs of decommissioning of oil and gas extraction facilities in accordance with the Geological and Mining Law of February 4th 1994 and the Minister of Economy's Regulation of June 24th 2002.

Provision for oil and gas extraction facilities in Norway – a provision for future costs of decommissioning of the oil extraction facilities in the YME field (including provision for future cost of MOPU removal), and the oil and gas extraction facilities in the Heimdal and Sleipner fields.

Provision for oil and gas extraction facilities in Lithuania – a provision for future costs of decommissioning of the Lithuanian oil extraction facilities.

Provisions for retired refining units and other installations – a provision for site restoration and the cost of disassembly and decommissioning of the retired units at LOTOS Terminale S.A., a provision for estimated cost of disassembly of the subsea pipeline operated by a subsidiary Energobaltic Sp. z o.o. (a company of the LOTOS Petrobaltic Group), as well as for site restoration and clean-up.

(1) The amount includes mainly remeasurement of provisions for future costs of decommissioning of crude oil and gas extraction facilities related to the Heimdal and Sleipner assets.

(2) Including PLN 103m (NOK 218m) related to a provision for contingent payments under the Sleipner assets acquisition agreement.

Grants			
	Nota	December 31st 2017	December 31st 2016
At beginning of period		34.4	35.1
Grants received in period		18.4	5
Deferred grants	9.3	-16.8	-5.7
At end of period		36	34.4
including:			
non-current	25	9.4	10.1
current	25	26.6	24.3

FINANCIAL INSTRUMENTS

Carrying amount						
Classes of financial instruments	Note	Financial assets/liabilities at fair value through profit or loss - held for trading	Loans and receivables	Financial assets available for sale	Financial liabilities at amortised cost	TOTAL
Financial assets						
December 31st 2017						
Derivative financial instruments	23	164.5	-	-	-	164.5
Trade receivables	15	-	2677	-	-	2677
Cash and cash equivalents	17	-	1920.7	-	-	1920.7
Other financial assets	15	-	449.8	9.8	-	459.6
TOTAL		164.5	5047.5	9.8	-	5221.8
Financial liabilities						
Borrowings, other debt instruments and finance lease liabilities	22	-	-	-	4425.9	4425.9
Derivative financial instruments	23	79.4	-	-	-	79.4
Trade payables	25	-	-	-	2201.7	2201.7
Other financial liabilities	25	-	-	-	222	222
TOTAL		79.4	-	-	6849.6	6929
December 31st 2016						
Financial assets						
Derivative financial instruments	23	100.9	-	-	-	100.9
Trade receivables	15	-	2,251.7	-	-	2,251.7
Cash and cash equivalents	17	-	744.6	-	-	744.6
Other financial assets	15	-	615.1	9.8	-	624.9
TOTAL		100.9	3,611.4	9.8	-	3,722.1
Financial liabilities						
Borrowings, other debt instruments and finance lease liabilities	22	-	-	-	5,557.2	5,557.2
Derivative financial instruments	23	209.2	-	-	-	209.2
Trade payables	25	-	-	-	1,718.2	1,718.2
Other financial liabilities	25	-	-	-	246.8	246.8
TOTAL		209.2	-	-	7,522.2	7,731.4

(1) As at December 31st 2017 and December 31st 2016, the Group held shares in other entities measured at historical cost less impairment.

Material items of income, expenses, gains and losses disclosed in the statement of comprehensive income by category of financial instrument						
Classes of financial instruments	Note	Financial as- sets/liabilities at fair value through profit or loss - held for trading	Loans and receivables	Financial assets available for sale	Financial liabilities at amortised cost	TOTAL
2017						
Trade receivables:						
Interest income	9.5	-	2.6	-	-	2.6
Foreign exchange (gains)/losses recognised in cost of sales	9.1	-	-24.1	-	-	-24.1
Other financial assets:						
Income from interest on deposits	9.5	-	14.3	-	-	14.3
Foreign exchange gains/(losses) on deposits and other cash and on non-bank borrowings and notes recognised in finance income	9.5	-	-209.9	-	-	-209.9
Derivative financial instruments (financial assets/liabilities):						
Gains/(losses) on fair value measurement of derivative financial instruments	9.5	196.7	-	-	-	196.7
Gains/(losses) on realisation of derivative financial instruments	9.5	117.4	-	-	-	117.4
Borrowings, other debt instruments and finance lease liabilities:						
Interest expense	9.6	-	-	-	-151.7	-151.7
Gains/(losses) on cash flow hedge accounting charged against revenue	8	-	-	-	-150.5	-150.5
Foreign exchange gains/(losses) on bank borrowings, non-bank borrowings, notes, and realised foreign-currency transactions in bank accounts recognised in finance income	9.5	-	-	-	313.8	313.8
Gains/(losses) on measurement of cash flow hedges recognised in other comprehensive income	20	-	-	-	725.4	725.4
Trade and other payables:						
Foreign exchange (gains)/losses recognised in cost of sales	9.1	-	-	-	19.3	19.3
TOTAL		314.1	-217.1	-	756.3	853.3
2016						
Trade receivables:						
Interest income	9.5	-	2.3	-	-	2.3
Foreign exchange (gains)/losses recognised in cost of sales	9.1	-	20.4	-	-	20.4
Other financial assets:						
Income from interest on deposits	9.5	-	11.9	-	-	11.9
Foreign exchange gains/(losses) on deposits and other cash	9.5	-	25.6	-	-	25.6
Derivative financial instruments (financial assets/liabilities):						
Gains/(losses) on fair value measurement of derivative financial instruments	9.6	-206.6	-	-	-	-206.6

Gains/(losses) on realisation of derivative financial instruments	9.6	173.1	-	-	-	173.1
Borrowings, other debt instruments and finance lease liabilities:						
Interest expense	9.6	-	-	-	-179.4	-179.4
Gains/(losses) on cash flow hedge accounting charged against revenue	8	-	-	-	-111.7	-111.7
Foreign exchange gains/(losses) on bank borrowings, non-bank borrowings, notes, and realised foreign-currency transactions in bank accounts recognised in finance income	9.5	-	-	-	-18.3	-18.3
Gains/(losses) on measurement of cash flow hedges recognised in other comprehensive income	20	-	-	-	-138.2	-138.2
Trade and other payables:						
Foreign exchange (gains)/losses recognised in cost of sales	9.1	-	-	-	-17.7	-17.7
TOTAL		-33.5	60.2	-	-465.3	-438.6

OBJECTIVES AND POLICIES OF FINANCIAL RISK MANAGEMENT

Risk related to raw material and petroleum product prices					
Open commodity swaps as at December 31st 2017:					
Type of contract	Underlying index	Valuation period	Amount in tonnes in the valuation period	Fair value measurement	
				Financial assets	Financial liabilities
Commodity swap	3.5 PCT Barges FOB Rotterdam	III'2018 – VI'2019	111877	34.7	-
Commodity swap	Gasoil 0.1 pct Crg CIF NWE_ARA	III'2018 – VI'2019	(10 339)	-	-3.8
TOTAL				34.7	-3.8
Open commodity swaps as at December 31st 2016					
Commodity swap	3.5 PCT Barges FOB Rotterdam	III'2017 – XI'2018	181526	58.5	-4.8
Commodity swap	Gasoil 0.1 pct Crg CIF NWE_ARA	III'2017 – XI'2018	-16201	0.2	-6.6
Commodity swap	ULSD 10 ppm CIF NWE	IV'2017	-16050	-	-7
TOTAL				58.7	-18.4
As at December 31st 2017, the Group had no open commodity options.					
Open commodity options as at December 31st 2016					
Commodity options	3.5 PCT Barges FOB Rotterdam	III'2017 – X'2017	10646	0.4	-

Sensitivity analysis: market risk related to raw material and petroleum product price movements

Below is presented an analysis of the sensitivity of the Group's financial transactions to the risk of fluctuations in prices of raw materials and petroleum products as at December 31st 2017 and 2016, assuming price increase/decrease corresponding to the implied annual volatility of the underlying index:

	December 31st 2017			December 31st 2016		
	Carrying amount	Change*		Carrying amount	Change**	
		+implied volatility	- implied volatility		+implied volatility	- implied volatility
Financial assets (1)	34.7	37.3	-37.3	59.1	75	-72.9
Financial liabilities (1)	3.8	4.3	-4.3	18.4	4.6	-4.6
Effect on profit/loss		33	-33		70.4	-68.3

(1) Total commodity swaps and options.

* With respect to instruments held as at December 31st 2017, the above deviations of underlying index prices were calculated based on the implied annual volatility of the underlying index for December 31st 2017, as published by SuperDerivatives. The volatility was +/- 27.39% for the 3.5 PCT Barges FOB Rotterdam index and +/- 21.23% for the Gasoil 0.1 pct Crg CIF NWE_ARA index.

** With respect to instruments held as at December 31st 2016, the above deviations of underlying index prices were calculated based on the implied annual volatility of the underlying index for December 31st 2016, as published on the SuperDerivatives website. The volatility was +/- 34.85% for the 3.5 PCT Barges FOB Rotterdam index, +/- 27.44% for the Gasoil 0.1 pct Crg CIF NWE_ARA index, and +/- 29.18% for the Brent (Dtd) index.

Risk related to prices of carbon dioxide (CO2) emission allowances
Number of free CO2 emission allowances for 2013–2020 and actual CO2 emissions:

	2013	2014	2015	2016	2017	2018	2019	2020	TOTAL
Allowances allocated under the National Allocation Plan(1)	1.8	1.7	1.6	1.6	1.6	1.5	1.5	1.5	12.8
Actual CO2 emissions (2)	1.7	1.9	1.9	2	1.8	-	-	-	9.3

Open CO2 allowances contracts as at December 31st 2017:

	Contract settlement period	Contract volume (in tonnes)	Phase	Fair value measurement	
				Financial assets	Financial liabilities
EUA Futures	XII '2018 - XII '2020	1554000	III faza	8.7	-0.1

Open CO2 allowances contracts as at December 31st 2016:

	Contract settlement period	Contract volume (in tonnes)	Phase	Fair value measurement	
				Financial assets	Financial liabilities
EUA Futures	XII '2017 - XII '2019	1752000	III faza	5.6	-5.3

(1) Number of free CO2 allowances in 2013–2020 as per the National Allocation Plan (NAP), based on the Regulation of the Polish Council of Ministers of March 31st 2014 (Dz.U. of 2014, item 439) and the Regulation of the Polish Council of Ministers of April 8th 2014 (Dz.U. of 2014, item 472), containing a list of installations covered by the greenhouse gas emission allowance trading scheme along with the number of allowances allocated to them. The figures also account for additional free emission allowances from the European Commission reserve, allocated in connection with the expansion of the refinery's production capacities following from the use of natural gas in hydrogen production.

(2) CO2 emissions, calculated based on the production data for the installations covered by the emissions trading scheme. The data for 2017 was verified in accordance with Art. 59 of the Act on Trading in Greenhouse Gas Emission Allowances of April 28th 2011.

*Off-balance-sheet value, used exclusively for statistical purposes and as part of monitoring in risk management.

Currency risk						
Open currency contracts as at December 31st 2017:						
	Purchase/sale	Contract settle- ment period	Currency pair (base/quote)	Amount in base currency (million)	Fair value measurement	
					Financial assets	Financial liabi- lities
Currency spot	Purchase	I '2018	USD/PLN	54	-	-0.6
Currency spot	Purchase	I '2018	EUR/PLN	0.1	-	-
Currency forward	Purchase	I '2018	USD/PLN	124	-	-8.3
Currency forward	Purchase	I-III '2018	EUR/PLN	10	-	-0.6
Currency forward	Purchase	I – VI '2018	EUR/USD	25.8	5.8	-
Currency forward	Sale	VI-X '2018	USD/PLN	-60	6.2	-
Currency forward	Sale	III '2018	EUR/PLN	-10	1.1	-
Currency swap	Purchase	I-VI '2018	USD/PLN	162.6	-	-38.3
Currency swap	Purchase	I '2018	EUR/USD	14.3	1.1	-
Currency swap	Sale	I-X '2018	USD/PLN	-565.7	106.3	-
TOTAL	120.5	-47.8				
Open currency contracts as at December 31st 2016:						
	Purchase/sale	Contract settle- ment period	Currency pair (base/quote)	Amount in base currency (million)	Fair value measurement	
					Financial assets	Financial liabi- lities
Currency forward	Purchase	I-III '2017	USD/PLN	53	8.6	-0.6
Currency forward	Purchase	I '2017 -VI '2018	EUR/USD	215.2	-	-27.7
Currency forward	Sale	IV - X '2017	USD/PLN	-230	-	-73.3
Currency forward	Sale	I '2017	EUR/PLN	-4.6	0.1	-
Currency swap	Purchase	XII '2017	USD/PLN	70	26.2	-
Currency swap	Purchase	I '2017	EUR/USD	2	0.1	-
Currency swap	Sale	I - XII '2017	USD/PLN	-267.1	3	-33.2
Currency swap	Sale	I – VII '2017	EUR/PLN	-19.1	0.1	-0.9
TOTAL	38.1	-135.7				

Sensitivity analysis: market risk related to currency exchange movements

Currency structure of selected financial instruments as at December 31st 2017

	December 31st 2017					
	Note	m USD	USD translated into PLN	m EUR	EUR translated into PLN	Carrying amount in foreign currency translated into PLN
Financial assets						
Trade receivables		88.4	307.9	4.3	18.3	326.2
Cash and cash equivalents		271.1	868.4	23.1	102	970.4
Other financial assets:		182.4	634.6	4.7	20	654.6
Loans advanced to related entities		157	546.3	4.7	19.8	566.1
Deposits		8.3	29	-	-	29
Security deposit (margin)		-	-	-	0.2	0.2
Cash for removal of the MOPU from the YME field	15	15.9	55.1	-	-	55.1
Other		1.2	4.2	-	-	4.2
TOTAL		541.9	1810.9	32.1	140.3	1951.2
Financial liabilities						
Borrowings		1201.1	4116.2	-	-	4116.2
Notes		59	205.4	-	-	205.4
Finance lease liabilities		-	-	10.7	44.5	44.5
Trade payables		485.3	1689.3	5.3	21.9	1711.2
Other financial liabilities		4.5	15.6	6.4	26.5	42.1
TOTAL		1749.9	6026.5	22.4	92.9	6119.4

Currency structure of selected financial instruments as at December 31st 2016

	December 31st 2016					
	Note	m USD	USD translated into PLN	m EUR	EUR translated into PLN	Carrying amount in foreign currency translated into PLN
Financial assets						
Trade receivables		87	363.5	5.1	22.7	386.2
Cash and cash equivalents		13	54.2	10.6	47.1	101.3
Notes		85.5	357.5	-	-	357.5
Other financial assets:		178.9	749.4	9.2	40.4	789.8

Loans advanced to related entities		152.7	639.5	4.7	20.6	660.1
Deposits		7.6	31.6	-	-	31.6
Security deposit (margin)		-	-	4.5	19.8	19.8
Cash for removal of the MOPU from the YME field	15	17.9	75.3	-	-	75.3
Other		0.7	3	-	-	3
TOTAL		364.4	1524.6	24.9	110.2	1634.8
Financial liabilities						
Borrowings		1284.7	5325.1	-	-	5325.1
Notes		136.5	572	-	-	572
Finance lease liabilities		-	-	13.5	59.6	59.6
Trade payables		281.4	1176	12.9	57.1	1233.1
Other financial liabilities		4.7	19.7	17.8	78.8	98.5
TOTAL		1707.3	7092.8	44.2	195.5	7288.3

Analysis of the sensitivity to currency risk as at December 31st 2017, showing the effect of a +/- 9.087% change in the USD/PLN exchange rate and a +/- 5.950% change in the EUR/PLN exchange rate on net profit or loss

	December 31st 2017			
	Effect of exchange rate increase/decrease on net profit/loss for the year in 2017			
	+9,087% USD	+5,950% EUR	-0,09087 USD	-0,0595 EUR
Financial assets				
Derivative financial instruments	-206.7	6.7	206.7	-6.7
Trade receivables	28	1.1	-28	-1.1
Cash and cash equivalents	78.9	6.1	-78.9	-6.1
Other financial assets:	57.6	1.2	-57.6	-1.2
Loans advanced to related entities	49.6	1.2	-49.6	-1.2
Deposits	2.6	-	-2.6	-
Cash for removal of the MOPU from the YME field	5	-	-5	-
Other	0.4	-	-0.4	-
Total financial assets	-42.2	15.1	42.2	-15.1
Financial liabilities				
Borrowings	157.2 (1)	-	-157.2 (1)	-
Notes	18.7	-	-18.7	-
Finance lease liabilities	-	2.6	-	-2.6

Derivative financial instruments	95.5	2.5	-95.5	-2.5
Trade payables	153.5	1.3	-153.5	-1.3
Other financial liabilities	1.4	1.6	-1.4	-1.6
Total financial liabilities	426.3	8	-426.3	-8
TOTAL	-468.5	7.1	468.5	-7.1

(1) The calculation of the effect of an exchange rate movement on the balance-sheet item takes into account the effect of cash flow hedge accounting. Assuming a 9.087% change of the USD/PLN exchange rate, the effect of cash flow hedge accounting would potentially lead to a change of PLN (219.4)m/PLN 219.4m in the fair value of borrowings. Furthermore, the calculation takes into account the effect of paid upfront arrangement fees (measured at the exchange rate effective on the payment date), reducing financial liabilities under borrowings, which would potentially result in a change of PLN 2.6m/PLN (2.6)m in the fair value of borrowings, assuming a +/- 9.087% change of the USD/PLN exchange rate.

Analysis of the sensitivity to currency risk as at December 31st 2016, showing the effect of a +/- 12.9% change in the USD/PLN exchange rate and a +/- 7.375% change in the EUR/PLN exchange rate on net profit or loss				
	December 31st 2016			
	Effect of exchange rate increase/decrease on net profit/loss for the year in 2016			
	+9,087% USD	+5,950% EUR	-0,09087 USD	-0,0595 EUR
Financial assets				
Derivative financial instruments	15.8	-1.7	-15.4	1.7
Trade receivables	46.9	1.7	-46.9	-1.7
Cash and cash equivalents	6.9	3.5	-6.9	-3.5
Notes	46.1	-	-46.1	-
Other financial assets:	96.7	3	-96.7	-3
Loans advanced to related entities	82.5	1.5	-82.5	-1.5
Deposits	4.1	-	-4.1	-
Security deposits (margins)	-	1.5	-	-1.5
Cash for removal of the MOPU from the YME field	9.7	-	-9.7	-
Other	0.4	-	-0.4	-
Total financial assets	212.4	6.5	-212	-6.5
Financial liabilities				
Borrowings	202.2 (1)	-	-202.2 (1)	-
Notes	73.8	-	-73.8	-
Finance lease liabilities	-	4.4	-	-4.4
Derivative financial instruments	345.8	-65.1	-345.8	65.1
Trade payables	151.7	4.2	-151.7	-4.2
Other financial liabilities	2.5	5.8	-2.5	-5.8
Total financial liabilities	776	-50.7	-776	50.7

TOTAL	-563.6	57.2	564	-57.2
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(1) The calculation of the effect of an exchange rate movement on the balance-sheet item takes into account the effect of cash flow hedge accounting. Assuming a 12.9% change of the USD/PLN exchange rate, the effect of cash flow hedge accounting would potentially lead to a change of PLN (489.5)m/PLN 489.5m in the fair value of borrowings. Furthermore, the calculation takes into account the effect of paid upfront arrangement fees (measured at the exchange rate effective on the payment date), reducing financial liabilities under borrowings, which would potentially result in a change of PLN 4.8m/PLN (4.8)m in the fair value of borrowings, assuming a 12.9% change of the USD/PLN exchange rate.

Interest rate risk					
Open interest rate contracts as at December 31st 2017:					
Type of contract	Period	Notional amount (USD million)	Company receives	Financial assets	Financial liabilities
Interest rate swap (IRS)	VII '2011 - VI '2019	207.5	LIBOR 6M	0.1	-19.8
Interest rate swap (IRS)	I '2015 - XII '2021	494	LIBOR 3M	9.2	-8
TOTAL				9.3	-27.8
Open interest rate contracts as at December 31st 2016:					
Interest rate swap (IRS)	VII '2011 - VI '2019	212.5	LIBOR 6M	0.1	-43.7
Interest rate swap (IRS)	I '2015 - XII '2021	494	LIBOR 3M	3.6	-11.4
Razem				3.7	-55.1

Sensitivity analysis: market risk related to interest rate movements				
Analysis of the Group's sensitivity to interest rate risk as at December 31st 2017, assuming a +/- 0.30% change in interest rates				
	December 31st 2017			
	Note	Carrying amount	Change	
			+0,30%	-0.003
Classes of financial instruments				
Financial assets				
Derivative financial instruments (2)	23	9.3	7.3	-7.4
Cash and cash equivalents	17	1920.7	5.8	-5.8
Other financial assets:		334.1	1	-1
Oil and Gas Extraction Facility Decommissioning Fund	15	34.1	0.1	-0.1
Deposits	15	37	0.1	-0.1
Security deposits (margins)	15	-	-	-
Cash pledged as security for contractual obligations related to future asset decommissioning	15	207.9	0.6	-0.6
Cash for removal of the MOPU from the YME field	15	55.1	0.2	-0.2
TOTAL		2264.1	14.1	-14.2

Financial liabilities				
Bank borrowings	22.1	3903	10 (1)	-10 (1)
Non-bank borrowings	22.2	68.3	0.2	-0.2
Notes	22.3	313	0.9	-0.9
Finance lease liabilities	22.4	141.6	0.4	-0.4
Derivative financial instruments (2)	23	27.8	-0.9	0.9
TOTAL		4453.7	10.6	-10.6
Analysis of the Company's sensitivity to interest rate risk as at December 31st 2016, assuming a +/- 0.35% change in interest rates				
	December 31st 2016			
	Note	Carrying amount	Change	
			+0,30%	-0.003
Classes of financial instruments				
Financial assets				
Derivative financial instruments (2)	23	3.7	2.7	-2.7
Cash and cash equivalents	17	744.6	2.6	-2.6
Other financial assets:		509.3	1.8	-1.8
Oil and Gas Extraction Facility Decommissioning Fund	15	33.2	0.1	-0.1
Deposits	15	189.2	0.7	-0.7
Security deposits (margins)	15	19.6	-	-
Cash pledged as security for contractual obligations related to future asset decommissioning	15	192	0.7	-0.7
Cash for removal of the MOPU from the YME field	15	75.3	0.3	-0.3
TOTAL		1257.6	7.1	-7.1
Financial liabilities				
Bank borrowings	22.1	5082.9	14.5 (1)	-14.5 (1)
Non-bank borrowings	22.2	81.8	0.3	-0.3
Notes	22.3	213	0.7	-0.7
Finance lease liabilities	22.4	179.5	0.6	-0.6
Derivative financial instruments (2)	23	55.1	-15.2	15.4
TOTAL		5612.3	0.9	-0.7

(1) Net of fixed-rate borrowings and paid arrangement fees reducing liabilities under borrowings.

(2) Interest rate swap (IRS). The difference between the change in the valuation amount, when the interest rate curve moves up or down 0.30% arises at the time of calculating and discounting future cash flows (relating to the contract settlement) as at the valuation date. The cash flows are discounted at different interest rates (in the first case the interest rate curve movement increases the interest rate by 0.30%, in the second case reduces the interest rate by 0.30%).

Liquidity risk								
Contractual maturities of financial liabilities:								
	Note	Carrying amount	Contractual cash flows	Up to 6 months	6 - months 12th	1–2 years	2–5 years	Over 5 years
December 31st 2017								
Bank borrowings (other than overdraft facilities)	22.1	3902.9	4624	89.8	1164.4	906.5	1968.4	494.9
Overdraft facilities	22.1	0.1	0.1	0.1	-	-	-	-
Non-bank borrowings	22.2	68.3	69.4	6.5	58.1	0.9	2.2	1.7
Notes	22.3	313	306.1	306.1	-	-	-	-
Finance lease liabilities	22.4	141.6	179	28.7	28.7	53.2	68.4	-
Trade payables	25	2201.7	2201.7	2196.5	5.2	-	-	-
Other financial liabilities	25	222	222	188	7.4	3.3	7.8	15.5
TOTAL		6849.6	7602.3	2815.7	1263.8	963.9	2046.8	512.1
December 31st 2016								
Bank borrowings (other than overdraft facilities)	22.1	5069.1	6167.7	-305.5	1108.1	790.3	3641.1	933.7
Overdraft facilities	22.1	13.8	13.8	13.8	-	-	-	-
Non-bank borrowings	22.2	81.8	83.2	6.3	6.5	11.9	56	2.5
Notes	22.3	213	213.1	79.8	133.3	-	-	-
Finance lease liabilities	22.4	179.5	235.8	28.8	29	56.7	117	4.3
Trade payables	25	1718.2	1718.2	1718.2	-	-	-	-
Other financial liabilities	25	246.8	246.8	221	2.3	9.2	7.3	7
TOTAL		7522.2	8678.6	1762.4	1279.2	868.1	3821.4	947.5
Contractual maturities of derivative financial instruments:								
	Note	Carrying amount	Contractual cash flows	Up to 6 months	6 - months 12th	1–2 years	2–5 years	Over 5 years
December 31st 2017								
Commodity swap	23	30.9	31.3	10.6	20.1	0.6	-	-
Currency forward and spot contracts		3.6	3.7	-0.4	4.1	-	-	-
Interest rate swap (IRS)		-18.5	-18.6	-21.5	7.1	-5.9	1.7	-
Currency swap		69.1	69.1	62.9	3.2	3	-	-
TOTAL		85.1	85.5	51.6	34.5	-2.3	1.7	-

December 31st 2016								
Commodity swap	23	40.3	40.8	-0.4	25.9	15.3	-	-
Commodity options		0.4	0.4	-	0.4	-	-	
Currency forward and spot contracts		-92.9	-93.5	-52.2	-38.5	-2.8	-	-
Interest rate swap (IRS)		-51.4	-51.8	-30.5	3.8	-19.4	-5.7	-
Currency swap		-4.7	-4.5	-23.9	19.4	-	-	-
TOTAL		-108.3	-108.6	-107	11	-6.9	-5.7	-

*Carrying amount (fair value gains on derivative financial instruments plus fair value losses on derivative financial instruments) represents the fair value of derivative financial instruments disclosed in the statement of financial position (excluding CO2 emission allowance futures purchased with the intention of settlement through physical delivery).

Credit risk			
Maximum credit risk exposure of financial assets	Note	December 31st 2017	December 31st 2016
Derivative financial instruments	23	164.5	100.9
Trade receivables	15	2677	2251.7
Cash and cash equivalents	17	1920.7	744.6
Other financial assets	15	459.6	624.8
TOTAL		5221.8	3722

CAPITAL MANAGEMENT

Capital management			
	Note	December 31st 2017	December 31st 2016
Non-current liabilities			
Bank borrowings	22.1	2633.6	3769.8
Non-bank borrowings	22.2	4.4	69.3
Finance lease liabilities	22.4	100.3	141.4
TOTAL		2738.3	3980.5
Current liabilities			
Bank borrowings	22.1	1269.4	1313.1
Non-bank borrowings	22.2	63.9	12.5
Notes	22.3	313	213
Finance lease liabilities	22.4	41.3	38.1
TOTAL		1687.6	1576.7
Cash and cash equivalents	17	-1920.7	-744.6
Net debt		2505.2	4812.6
Equity attributable to owners of the Parent		10712.4	8610.8
Non-controlling interests		0.1	0.1
Total equity		10712.5	8610.9
Net debt to equity		0.23	0.56

CONTINGENT LIABILITIES AND ASSETS

Transactions with related entities in which the Group holds equity interests			
Equity-accounted joint ventures		2017	2016
Sales		431,4	209,9
	Note	December 31st 2017	December 31st 2016
Receivables	15	34,5	16,1
Liabilities		-	0,2

Transactions with related entities of which the State Treasury has control or joint control or on which the State Treasury has significant influence		
	2017	2016
Sales	394	370.1
Purchases	1587.5	1237.6
	December 31st 2017	December 31st 2016
Receivables	82.9	28.9
Liabilities	263.4	173

Remuneration of members of the Management and Supervisory Boards, along with information on loans and other similar benefits granted to members of the management and supervisory staff		
Remuneration paid to members of the Company's Management and Supervisory Boards	2017	2016
Management Board		
Short-term employee benefits (salaries)	2.6	1.5
Management Board – subsidiaries (1)		
Short-term employee benefits (salaries)	0.3	3
Supervisory Board		
Short-term employee benefits (salaries)	0.6	0.3
TOTAL (2)	3.5	4.8
Other employee benefits	December 31st 2017	December 31st 2016
Management Board		
Post-employment benefits, length-of-service awards and other benefits	-	0.3
Current liabilities under annual bonus (3)	1.4	0.1
TOTAL	1.4	0.4

(1) Remuneration paid to members of the Company's Management Board for serving on corporate bodies of direct and indirect subsidiaries.

(2) The amount reflects changes in the composition of the Company's Management and Supervisory Boards.

(3) Pursuant to the Act on Rules of Remunerating Persons Who Manage Certain Companies.

Remuneration paid or payable to other members of key management staff		
Remuneration paid to members of key management staff (other than members of the Grupa LOTOS Management Board)	2017	2016
Short-term employee benefits (salaries), including:	46	33.7
- annual bonus paid	7.1 (1)	7.4 (2)
- length-of-service award paid	0.5	0.6
Other employee benefits	December 31st 2017	December 31st 2016
Post-employment benefits, length-of-service awards and other benefits	11	11.5
Current liabilities under annual bonus	10.5	9
TOTAL	21.5	20.5

(1) Remuneration paid in 2017 on account of annual bonus for 2016.

(2) Remuneration paid in 2016 on account of annual bonus for 2015.