

Overview

In 2016, the LOTOS Group consistently focused on its core business, i.e. exploration for and production of hydrocarbons, crude processing, and trading in petroleum products, while developing a strategy for those areas and defining objectives to be achieved in 2017–2022.

Crude oil and natural gas exploration and production

The LOTOS Group produces oil and natural gas from fields located on the Norwegian Continental Shelf. It is also the only producer of hydrocarbons in Poland's Exclusive Economic Zone of the Baltic Sea. Upstream operations are also conducted in Lithuania.

In 2016, our Upstream segment delivered record high hydrocarbon production, driven by output from the B3 and B8 oil fields in the Baltic Sea in Poland, and from the Heimdal and Sleipner upstream assets in Norway.

Strategic exploration and production areas

Norwegian Continental Shelf

In 2016, the Norwegian Continental Shelf (the Heimdal and Sleipner fields) accounted for approximately **76%** of the LOTOS Group's total hydrocarbon output. The LOTOS Group's production from those fields includes natural gas (approximately 75%) and light crude oil (condensate) (approximately 25%).

After in January 2017 LOTOS Norge was awarded interests in five new licences, the company now holds 25 licences on the Norwegian Continental Shelf, including:

- Interests in ten hydrocarbon exploration and appraisal licences in the North Sea and the Norwegian Sea, with LOTOS E&P Norge AS being the operator for one licence,
- Interests in eight licences at a pre-development and development stage,
- Interests in seven production licences in the North Sea.

Baltic Sea – Polish Economic Zone. > Lithuania

Within the LOTOS Group, all exploration, appraisal, and production licences in the Polish zone of the Baltic Sea are held by LOTOS Petrobaltic (or companies in which it holds equity interests). The B3 and B8 fields, i.e. Polish fields located in the Baltic Sea, account for **21%** of the Upstream segment's total output. The licences cover mainly crude oil and the associated gas.

LOTOS Petrobaltic is Poland's only company that engages in oil and gas exploration on the Baltic Sea shelf. In Poland, it holds or has an interest in 10 licences. It holds three joint exploration, appraisal and production licences for the Łeba, Rozewie, and Gotland areas, as well as the following four production licences: B3, B4, B6, and B8 – development work under those licences is performed by dedicated special purpose vehicles. The main player on the Polish market for onshore hydrocarbon licences is PGNiG, with whom LOTOS cooperates in two licence areas: Kamień Pomorski and Górowo Iławeckie. In the Kamień Pomorski licence area, drilling work began on the Stawno-1 exploration well in July

2017. Operations in the Młyny licence area are carried out by the LOTOS Group independently, without a partner.

Production and exploration work in Lithuania is carried out in eight onshore licence areas. All of the licences are joint licences, which means that they provide an authorisation for exploration activities and development of the fields, but also for production.

Refining

The LOTOS Group operates one of the most advanced and youngest refineries in Europe, with an annual processing capacity of approximately **10.5m tonnes of crude oil**.

- In 2016, as in previous years, the main type of crude processed by the refinery was Russian REBCO, whose share in the total throughput stood at close to 75% and was smaller than in previous years.
- Oil from other sources, including approximately **220,000 tonnes of crude** supplied by the LOTOS Petrobaltic Group, accounted for the balance of the crude feed.
- In 2016, the refinery processed **10.4m tonnes of crude**, the highest throughput in Grupa LOTOS' history.

The key groups of products obtained from crude oil processing at the refinery are:

- Fuels (unleaded gasoline, diesel oil and light fuel oil),
- Heavy fuel oil,
- Bitumens,
- Aviation fuel,
- Naphtha,
- Propane-butane (LPG),
- Base oils.

Marketing

In 2016, the LOTOS Group's Downstream segment sold 11,061 thousand tonnes of products, **up 1.3% year on year**. Diesel oil had the largest share in the total sales volume – 43.4%.

Fuels:

The LOTOS Group sells fuels (unleaded gasoline, diesel oil and light fuel oil) in Poland and on foreign markets. LOTOS Paliwa operates solely on the domestic market, and its main customers include fuel companies and the chain of LOTOS service stations.

Other petroleum products:

Sales of other petroleum products are managed by Grupa LOTOS, its subsidiaries and jointly-controlled entities. LOTOS Oil sells lubricating oils in Poland and abroad, chiefly through distributors and authorised customer service points. LOTOS Asphalt offers road bitumens to customers in Poland and abroad, mainly construction companies. LOTOS-Air BP Polska's offers aviation fuel in Poland only; the product is purchased by airlines (the 'into plane' segment) and wholesale market operators.