



LOTOS Group  
Integrated Annual Report 2016

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# ABOUT US

# Letter from the President of the Management Board

[G4-1]

*Ladies and Gentlemen, Dear Shareholders,*

It is my pleasure to present the 2016 Integrated Annual Report of the LOTOS Group.

Last year saw strong volatility in commodity and currency markets, but despite that, LOTOS posted its best financial performance on record. Consolidated LIFO-based EBITDA, normalised to remove one-off items, reached almost PLN 2.6bn, 20% up on 2015.

Consolidated LIFO-based EBIT soared 175% year on year, to PLN 1.9bn. In 2016, consolidated net profit exceeded PLN 1bn, a level yet unseen by the Company. To compare, for 2015 LOTOS reported a consolidated net loss of PLN 0.3bn.

In 2016, LOTOS achieved a record oil throughput of almost 10.4 million tonnes. The Gdańsk refinery ran at close to 100% capacity utilisation, and we sold over 11m tonnes of refined products.

Our throughput and sales rose as a result of strong refinery margins continuing throughout most of 2016, which were partly due to the first effects of successful legislative efforts to curb the grey fuel market in Poland (the First Fuel Package coming into force in August 2016).

The strategy adopted by the Management Board for the years 2017–2022 sets a clear direction we want to follow in the years to come. Stability and sustainable growth across key areas of business, combined with strong support for innovation lie at the heart of the Company's strategic plans. The strategic objectives are to be pursued within two time frames: 2017-2018 and 2019-2022. The initial years are for achieving economic and financial stability and completing projects currently in progress: EFRA (Effective Refining) and full development of the B8 field in the Baltic Sea. The pace of growth in the second strategy period, from 2019 to 2022, will hinge on key strategic decisions concerning new upstream and downstream capital investment projects.

LOTOS pursues a strategy designed to reduce Poland's dependence on crude oil imports from one source. This necessitates increasing imports by sea and expanding our own upstream capabilities. In 2016, we maintained daily production from our assets in Norway, Poland and Lithuania at 26.5 thousand barrels of oil equivalent and increased our total recoverable reserves to 72.7m boe (up 9% year on year), mainly through field development on the Norwegian Continental Shelf.

In the past year, LOTOS continued to make progress on construction of the refinery plant complex under the Effective Refining (EFRA) project. After the project is completed, LOTOS will be able to increase its supplies to customers by up to 900,000 tonnes. The EFRA project will also help to improve our refining margin per barrel of crude oil processed by some USD 2.



At the end of 2016, the LOTOS retail chain comprised 487 stations, with 11 new locations added during the year. At the end of 2016, LOTOS operated a total of 20 service stations along the A1, A2, A4 and A6 motorways and the S3 and S7 expressways, maintaining second position on the market in terms of the size of its motorway service station network.

Our other important objective is to increase R&D and innovation spending. We aim to complete the ongoing expansion projects in each business segment, as well as to optimise and increase the efficiency of the Group's operations. We will explore and select optimal growth scenarios to be able to implement them smoothly to the benefit of our customers, shareholders and employees.

*With kindest regards,*



**Marcin Jastrzębski**

President of the Management Board,  
Grupa LOTOS S.A.

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## Letter from the Chairwoman of the Supervisory Board

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2016 was a challenging year for the global oil industry. All major oil companies in Poland and globally struggled with commodity and currency market volatility and with wide price swings in petroleum product markets.

Amid this unfavourable backdrop, the LOTOS Management Board was able to significantly boost operating profitability of the entire Group and optimise costs through organisational restructuring. The financial performance and oil throughput rates posted by LOTOS for 2016 were its best on record.

Diversification of Poland's oil supply sources is vital to the country's energy security. LOTOS leads the way in diversification, with every third barrel of oil processed at the Gdańsk refinery in the first quarter of 2017 originating in regions other than Poland's neighbouring countries to the east.



As regards the retail market for petroleum products, LOTOS deserves recognition for its successful efforts to expand the size and enhance the profitability of its service station chain.

LOTOS is poised for further growth underpinned by the strategy for 2017–2022 that was adopted late last year, which places a focus on achieving financial stability, completion of the ongoing capital investment projects, innovation support, and entry into new areas of petroleum refining and marketing.

I am confident that 2017 will be a time for LOTOS to peacefully and efficiently manage the resources it has built over the years and to implement more positive change for the Group and Poland's economy.

*With kind regards,*

A handwritten signature in black ink, appearing to read 'B. Kozłowska-Chyła', written in a cursive style.

**Beata Kozłowska-Chyła,**  
Chairwoman of the Supervisory Board  
Grupa LOTOS S.A.

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## Key information about the organisation

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The LOTOS Group is one of Central and Eastern Europe's major and most efficient oil companies and the second largest producer of fuels in Poland. The coastal location of our plants ensures direct access to the sea, resulting in greater flexibility of feedstock supply and reduced costs of logistics in maritime transport.

The LOTOS Group is the only producer in Poland with access to hydrocarbons in Poland's Exclusive Economic Zone of the Baltic Sea. Other regions where we are engaged in petroleum production include the Norwegian Continental Shelf and Lithuania (onshore). As a vertically-integrated organisation, the LOTOS Group operates based on two reporting segments: Upstream and Downstream.

As at December 31st 2016, the LOTOS Group comprised Grupa LOTOS S.A. as the Parent, and 35 production, trading, and service companies, including:

- 13 direct subsidiaries of Grupa LOTOS,
- 21 indirect subsidiaries of Grupa LOTOS,
- and one foundation.

### More information

[Directors' Report on the operations of Grupa LOTOS S.A. and the LOTOS Group in 2016](#)

Chapter 7.1.3. Ownership changes at the LOTOS Group

Key markets for our refined petroleum products include Poland and European countries such as Germany, the Netherlands, Belgium, Sweden, the United Kingdom, France, Estonia, Denmark and the Czech Republic.

Most of our associated natural gas produced from the Baltic Sea fields is sold to the LOTOS Group companies. Natural gas produced in Norway is marketed to the United Kingdom and Continental Europe, and the entire condensate volume is exported to the UK.

We have established a presence on 82 markets.

Grupa LOTOS is a joint-stock company with the State Treasury as the majority shareholder (53.2% interest). For more information on the Grupa LOTOS shareholding structure, see the Consolidated Annual Report of the LOTOS Group for 2016.

### More information

[Directors' Report on the operations of Grupa LOTOS S.A. and the LOTOS Group in 2016](#)

Chapter 9.1 Shareholding structure