



LOTOS Group
Integrated Annual Report 2015

01

2015 at the LOTOS Group

Letter from the President of the Board

Ladies and Gentlemen, Dear Shareholders

it is my pleasure to present the 2015 Integrated Annual Report of LOTOS Group.

Last year saw many political and economic developments with a significant bearing on the global macroeconomic situation. Despite oversupply, global oil output remains high, resulting in continued pressure on prices. Large oil and gas producers are faced with an unfavourable business environment, with the falling prices making them increase expenditure on production to generate expected revenues.

Grupa LOTOS remains a vital element of the national economy, with the overarching goal, as defined in our mission, to enhance Poland's energy security and foster the country's stable economic growth. We view this as our duty, which we fulfil by delivering the highest-quality fuels, oils and other refining products to the market.



In 2015, our LIFO-based EBITDA (operating profit before depreciation and amortisation) was PLN 2,156m (2014: PLN 1,391m), with operating profit (EBIT) at PLN 423m and LIFO-based EBIT at PLN 702m. Over the same period, we generated PLN 1,488m in cash flows from operating activities (2014: PLN 1,381m) – a visible proof of LOTOS' capability to generate cash on its core business.

Despite low oil prices, access to own sources remains fundamental to us. With each tonne of oil produced by our facilities, we become less dependent on imports, sudden price movements, and pressures from suppliers. LOTOS pursues a strategy designed to reduce Poland's dependence on imports from one source. This approach to national energy security is supported by the gradual increase in oil supplies by sea and expansion of our own upstream segment.

Efficient sustainable development of any large oil company is based on two pillars – upstream, which comprises own production of oil and gas, and downstream, with state-of-the-art refining technologies employed to obtain the highest possible amounts of products most valued by the market. Thanks to our consistently pursued investment projects and precisely defined growth programme, as well as our experienced and professional managers and employees, we now operate one of Europe's most advanced refineries and own growing reserves of hydrocarbons.

In 2015, LOTOS launched production from the B8 field using the LOTOS Petrobaltic platform. As a result, with the acquisitions in Norway and production from the B8 and B3 fields in the Baltic Sea and Lithuanian deposits, we have increased our hydrocarbon output to nearly 30 thousand boe/d.

In 2015, LOTOS also started construction of a delayed coking under the EFRA Project (Efficient Refining). The unit will produce an additional 900 thousand tonnes of fuels a year and will increase our margin by approximately USD 2 per barrel of crude processed. Thus, in line with the Polish government's current policy, LOTOS will boost its innovativeness and competitiveness on Europe's challenging refining market.

As at the end of 2015, the LOTOS retail network comprised 476 stations, up by 35 year on year. In 2016, we plan to see the network grow to more than 500 sites, gradually approaching the optimum saturation level. This year we will also open the 20th Motorway Service Area, thus becoming the second largest operator of such facilities in Poland. Last year, all LOTOS Optima stations and some premium stations underwent a change of their visual scheme. In 2016, we intend to proceed with standardization of our stores and expand our range of food services. We also plan to significantly increase the portfolio of goods offered at the stores and services available at the stations to expand our customer offering.

LOTOS employs a modern sports sponsorship model. In February 2015, Grupa LOTOS became the Major Sponsor of the Polish National Football Team. As evidenced by the team's performance at EURO 2016, this was a sound decision.

2016 will see LOTOS enter a path of new growth. We will prioritize research, development and innovation as part of the 'Responsible Development Plan' adopted by the Polish government. We intend to finish growth-oriented projects currently being implemented across various segments, optimize our operations and enhance our efficiency to achieve improved financial results and start paying dividends again.

Kind regards,



Robert Pietryszyn
 President of the Board
 Chief Executive Officer
 Grupa LOTOS S.A.

Letter from the Chairwoman of the Supervisory Board

2015 was a challenging year for the global oil industry. The largest international players on the oil and gas markets were forced to freeze planned or outright abandon pending investment programmes. In this difficult environment, Grupa LOTOS successfully demonstrated its organisational efficiency.

Nevertheless, it saw a drop in revenue and total sales, both obvious consequences of plummeting oil prices and product margins.

As at the end of 2015, LOTOS operated a chain of 476 service stations, with 35 new facilities added over the year. Last year was marked by stable growth and initiation of optimisation efforts, including measures geared towards increasing sales efficiency. Boasting 18 Motorway Service Areas, LOTOS is the second largest operator of such facilities in Poland. 2015 also saw growth in domestic sales of aviation fuel, with LOTOS-Air BP Polska having a presence at five Polish airports.



Another point of praise is the continued improvement of the operating efficiency of the Gdańsk refinery units. Leveraging state-of-the-art crude oil processing solutions and technologies, Grupa LOTOS was able to increase yields of high-margin products.

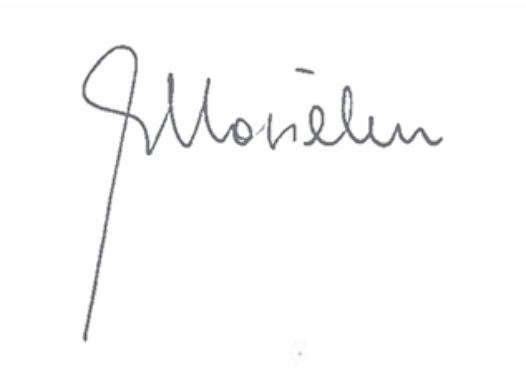
The Grupa LOTOS' consistent efforts to diversify supply sources, particularly focused on growing the share of oil from own deposits, reinforce Poland's energy security.

The main oil and gas deposits held by LOTOS are located under the Baltic and Northern Seas' bottoms, making their development all the more challenging both in terms of organisational and technical solutions. In 2015, our daily output nearly reached 30,000 boe/d, a notable result on the national economic scale. Coupled with resumed supplies from the Near East, this represents a major step towards building Poland's new, more independent energy policy.

Grupa LOTOS' model of operating as a 'corporate citizen' has proven itself successful. Fostering relations with local communities, supporting worthy cultural and social events, as well as sports sponsorships all go a long way in creating a climate which serves the interests of the Polish economy by establishing a feedback loop between the society and business. Grupa LOTOS' partnership with the Polish national football team and the latter's excellent performance during EURO 2016 final tournament is a case in point.

I believe that in 2016, the Company will introduce new, more effective ideas to innovate itself and, in the long-run, the entire Polish economy.

With kind regards,



Beata Kozłowska-Chyłà

Chairwoman of the Supervisory Board
Grupa LOTOS S.A.

Summary of 2015

Summary of 2015

For the LOTOS Group, one of the leaders on the Polish fuel market, 2015 was devoted to well-thought investments in innovations, employees and sustainable development. This is adequately depicted by the below key financial and non-financial indicators na 2015:



22.7 bn PLN

revenue



2.2 bn PLN

clean LIFO-based EBITDA*



1.5 bn PLN

net cash from operating activities



-0.3 bn PLN

net profit/(loss)



1.4 bn PLN

LOTOS Group's capital expenditure in 2015



10.5%

share of the retail fuel market



31.2%

share of the total fuel market



28.4
thousand boe**
per day

total volume of hydrocarbon production



10.2 m tonnes

total volume of crude processed



11.2 m

tonnes

total sales volume of products



72 m PLN

expenditure on eco-friendly investments



4,850

headcount at the LOTOS Group



476

LOTOS service stations



234

internships and traineeships held during the year



from

2009

in the RESPECT Index



1.4 bn PLN

brand value



0

serious accidents at the LOTOS Group in 2015



over

5 m PLN

of expenditure on social projects

* **EBITDA LIFO** – EBIT before depreciation and amortization, excluding one-off items and the LIFO effect (the difference arising from the application of the Last In First Out (LIFO) method and the weighted average cost method to account for inventory flows).

** **boe** – barrel of oil equivalent.

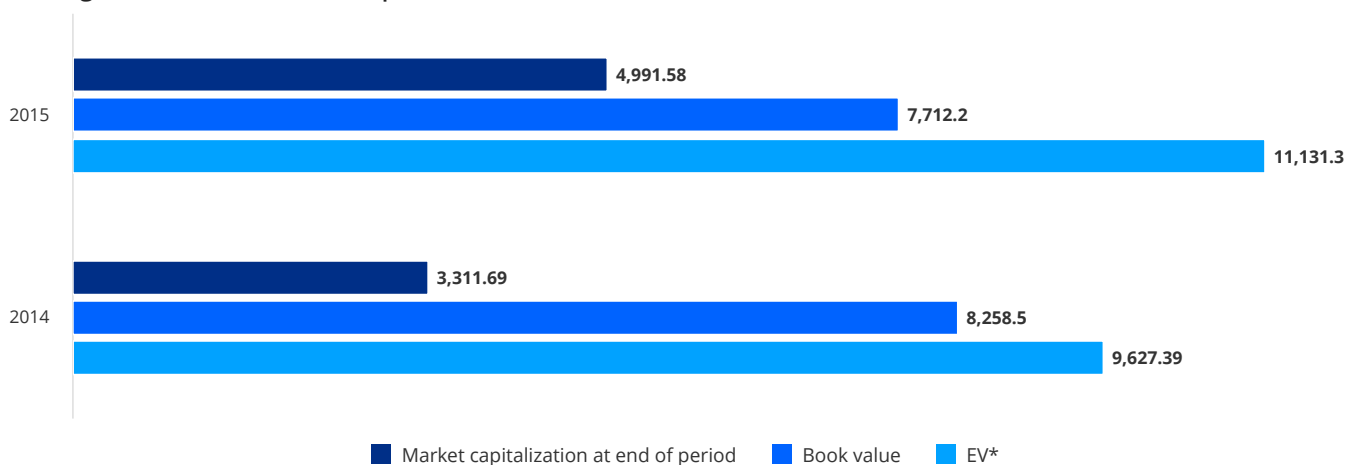
Value growth of the LOTOS Group in 2015

2015 was a landmark year in the nearly 40-year history of the LOTOS Group. We were able to achieve the key strategic goals for the years 2011–2015 in our entire value chain. We are stronger while entering a new stage of growth, and we aim to achieve significant growth of the company value, further enhance Poland's security in the field of energy and help with the industrialization of the national economy. Our work towards implementation of these plans will be based on innovation, further development, improved efficiency and activities which support our business environment.

Effects of strategy implementation in 2015

maximized integrated margin → increased production capacities and better operational efficiency → good operating results

Value growth of the LOTOS Group (PLNm)



* EV (Enterprise Value) – market capitalization plus debt, non-controlling interests, and preferred shares, minus cash and cash equivalents

Grupa LOTOS - basic data*

FINANCIAL DETAILS	Unit	For year finished 31 December 2015	For year finished 31 December 2014
Revenue	thousand PLN	20,482,298	26,243,106
Operating loss	thousand PLN	183,757	(1,294,183)
Loss before tax	thousand PLN	-20,713	(1,545,869)
Net loss	thousand PLN	-37,102	(1,285,910)
Total income/(loss)	thousand PLN	-325,41	(1,726,097)
Net cash flows from operating activities	thousand PLN	653,963	561,327
Net cash flows from investment activities	thousand PLN	-689,725	-137,277
Net cash flows from financial activities	thousand PLN	192,758	-329,823
Total net cash flows	thousand PLN	156,996	31,227

Net basic profit per one share	PLN	-0.2	-8.87
Donations for social purposes	thousand PLN	1,066	705
Eco-friendly investments	thousand PLN	72,211	16,040

FINANCIAL DETAILS	Unit	As at 31 December 2015	As at 31 December 2014
Total shares	thousand PLN	13,909,915	14,339,743
Equity	thousand PLN	6,020,050	6,346,776

OTHER DETAILS	Unit	For year finished 31 December 2015	For year finished 31 December 2014 (comparative data)
Employees ^{1/}		1,351	1,343
Employee turnover ^{2/}	%	11.10	9.55
LTIF incidence rate (per 1 million hours worked) ^{3/}	-	6.0	0.9
Total water intake	m ³	3,707,329	3,610,693
CO ₂ emission	Thousand tonnes/year	1,903	1,820

LOTOS Group – basic consolidated data**

FINANCIAL DETAILS	Unit	For year finished 31 December 2015	For year finished 31 December 2014
Revenue	Thousand PLN	22,709,442	28,501,887
Operating profit/(loss)	Thousand PLN	423,398	(1,393,008)
Loss before tax	Thousand PLN	-195,274	(2,123,715)
Net profit/(loss)	Thousand PLN	-263,3	(1,466,372)
Net profit/(loss) allocated to the shareholders of the Parent Company	Thousand PLN	-263,263	(1,466,326)
Net profit/(loss) allocated to non-controlling interest	Thousand PLN	-37	-46
Total income/(loss)	Thousand PLN	-544,925	(1,902,137)
Total income/(loss) allocated to the shareholders of the Parent company	Thousand PLN	-544,888	(1,902,096)
Total income allocated to non-controlling interest	Thousand PLN	-37	-41
Net cash flows on operating activities	Thousand PLN	1,488,069	1,380,488
Net cash flows on investment activities	Thousand PLN	(1,161,975)	-958,338
Net cash flows on financial activities	Thousand PLN	114,719	-597,271
Net total cash flows	Thousand PLN	440,813	-175,121
Net basic profit/(loss) per one share	PLN	-1.42	-10.11
Donations for social purposes	Thousand PLN	1,866	1,169

FINANCIAL DETAILS	Unit	As at 31 December 2015	As at 31 December 2014
Total shares	Thousand PLN	19,169,332	18,947,157
Equity allocated to shareholders of the Parent Company	Thousand PLN	7,712,060	8,258,288

Non-controlling interest	Thousand PLN	138	175
Total equity	Thousand PLN	7,712,198	8,258,463

OTHER DETAILS	Unit of measure	For year finished 31 December 2015	For year finished 31 December 2014
Employees ^{1/}		4,965	5,024
LTIF Incidence rate (per 1 million hours worked) ^{3/}	-	3.4	2.3
Share in fuel market	%	31.2	33.1
Crude oil production ^{4/}	Thousand tonnes	542.2	305.2
Gas production ^{4/}	Million m ³	999.6	239.2

* For information on Grupa LOTOS' financial performance, please see our financial statements. [\(See more\)](#)

** For information on the LOTOS Group's financial performance, please see the LOTOS Group's financial statements. [\(See more\)](#)

^{1/} Average annual headcount.

^{2/} The ratio of the sum of the number of employees and workers made redundant in the year to the average employment in persons.

^{3/} LTIF - number of occurrences resulting in inability to work x 106 / number of hours worked, for the average annual headcount.

^{4/} Including annual production of Sleipner assets.

Key projects of the LOTOS Group

Acquisition of Sleipner assets in Norway

- Project cost: PLN 583.4m
- 2.5-times increase in hydrocarbons production per day
- Daily production volumes at the end of 2015: 16 thousand boe

Development of the B8 field on the Baltic Sea

- The largest crude oil resources in the Polish zone of the Baltic Sea: 3.5 million tonnes of crude oil, i.e. 28 million bbl (2P reserves)
- Estimated test production in 2016: 3 thousand bbl per day
- Estimated full-scale production as of autumn 2017: 5 to 6 thousand bbl per day
- Market position: the third largest oil production facility in Poland

Development of the B4/B6 fields on the Baltic Sea, a joint project with CalEnergy

- Proved reserves: 4.3 bcm of natural gas (2C resources)
- Estimated production: 350 mcm per year (ca. 6 thousand boe per day)
- Scheduled launch of production: 2019

**EFRA project- Delayed
Coking Unit (DCU)**

- Estimated capex: PLN 2.3bn
- Increase in refining margin of USD 2 per barrel* thanks to higher share of middle distillates in product mix
- Production: 900,000 tonnes more of incremental volumes of high-margin products per year (primarily diesel oil and aviation fuel)
- Scheduled completion date: 2018
- Market position: the Gdańsk plant is going to be one of the most advanced refineries in the world.

**Expansion of the LOTOS
service station chain**

- 10.5% share in Poland's retail market (in terms of sales volume) at the end of 2015
 - Number of service stations at the end of 2015: 476
 - By the end of 2016, the number of LOTOS service stations is planned to exceed 500
-

What are the focal points of our sustainable development efforts?



THE GLOBAL GOALS
For Sustainable Development



Diversification and higher production



Production capital

In order to enhance Poland's security in the field of energy and to strengthen LOTOS Group position in the sector of exploration and production, with the opportunities for further growth in subsequent years, we seek to progressively diversify sources of raw materials and increase the size of our hydrocarbon production areas. In 2015, we exceeded the production target of 24 thousand boe per day, set in the LOTOS Group's Business Strategy for 2011–2015. This was made possible primarily by the acquisition of the [Sleipner](#) assets in Norway and launch of production from the [B8](#) field, which is the largest oil field in the Polish part of the Baltic Sea. Also, new fields in the Norwegian Continental Shelf offer prospective recovery of the capital frozen in the tax asset on the [YME project](#) in Norway. Within next years, our production potential may increase materially on the back of e.g. the completion of the development of B8 field and development of the gas-rich [B4 and B6](#) fields on the Baltic Sea, completion of inland projects in Poland, i.e. in Górowo Iławeckie and Kamień Pomorski, as well as the development of the fields in the portfolio in Norway (Utgard, former Alfa Sentral, and Frigg Gamma Delta), prospective new development projects.

Increased innovation in production processes



Production capital

The Grupa LOTOS refinery has for a long time ranked among the most energy efficient European refineries, as confirmed by the SOLOMON Associates' ranking for 2014 comparing the energy efficiency of refineries all over the world. In 2015, the refinery's energy intensity remained largely flat on the previous year, which attests to Grupa LOTOS' consistent pursuit of efficient energy management. Our competitiveness is also evidenced by the fact that the Gdańsk plant belongs to the group of 25% of the best world's refineries in terms of the level of processing margin, effectiveness of the plant engineering services, and availability of processing units.



Intellectual capital

We owe our market advantages to efficient use of the refinery's expanded processing capacity. A turning point in terms of the capacity growth and improvement in the flexibility of the refinery units was the 10+ Programme, completed in 2011. Another milestone is the EFRA Project, commenced in 2015, which is expected to earn Grupa LOTOS a place among the most technologically advanced refineries in the world, with very high yields of high-margin products.

Environmental dimension of our projects



Natural capital



Intellectual capital

As an oil business with potential for innovation, in order to improve the competitive edge of our individual business areas and to limit adverse environmental impacts, we engage in activities to develop technical and technological innovations based on our own research and in cooperation with partners. To this end we have partnered with both scientific institutions and energy sector companies. Grupa LOTOS is the leader of the HESTOR project designed to determine the efficiency of storing surplus electricity in the form of hydrogen obtained from electrolysis using renewable energy sources (RES) and then pumped into salt caverns for later use for power supply and technological purposes. The pro-environmental effect of the project will be a reduction in greenhouse gas emissions. This project has been carried out within [GEKON](#) scheme, i.e. Generator of Ecological Concepts.

We also conduct research on replacing fossil fuels. The analyses refer to the opportunities to use vegetable and animal oil in HVO technology, i.e. Hydrotreated Vegetable Oil.

Improved creditworthiness



Financial capital

The considerable advancement in our operational efficiency is a proof that we successfully delivered on the objectives set in the Business Strategy for 2011–2015. Furthermore, the high refining margins allow us to generate robust cash flows from operating activities and to materially reduce the net interest-bearing debt to EBITDA ratio. The improved financial results, combined with a strong position on the liquid fuels market and stable and safe shareholding structure (with more than 50% of shares held by the State Treasury), have a positive effect on our creditworthiness. This is confirmed by the credit rating BBB- with a stable outlook assigned to Grupa LOTOS by the EuroRating agency.

High-quality products and services



Manufactured capital



Social and relationship capital



Natural capital

In our operations, we make every effort to offer the highest quality of services and products. In 2015, we introduced innovative products to the Polish road construction market: rubber-modified bitumens (MODBIT CR) and WMA (Warm Mix Asphalt) road bitumens. WMA fits in with the world's most popular technological trends, aimed at minimizing negative environmental impacts and reducing energy consumption. One of our strategic objectives was to strengthen our position in the Polish retail fuel market. We closed 2015 with a 10.5% share of sales volumes in Poland, which puts us in a good, third place. We are committed to making the use of our service stations satisfying our customers' expectations. As a socially responsible business, we take steps to build value of not only our Company, but also of its environment. In 2015, we organized the ['Helping while Refuelling'](#) campaign, which proved a considerable success. It was the first-ever cause-related marketing project in the fuel industry in Poland that run on such a large scale.

Professional approach to corporate social responsibility



Social and relationship capital

For almost ten years, the LOTOS Group has consistently worked to put corporate social responsibility principles in practice in all areas of its business, seeking to respond in the best way possible to the social challenges of its stakeholders. At Grupa LOTOS, we have comprehensively managed corporate social responsibility since 2008. A milestone in the process was the development of a complete long-term Corporate Social Responsibility strategy for the LOTOS Group for 2012–2015, and – further to that – putting in place an end-to-end sustainable development management system. Our commitment to social responsibility gained a further professional dimension with the establishment of the [LOTOS Foundation](#) in 2015. Its objective is to support initiatives to develop infrastructure and make a positive difference for local communities, particularly in regions where companies of the LOTOS Group operate.

LOTOS Group's reserves

Ample oil and gas resources

A well-diversified portfolio of production licences is what gives us a competitive advantage. Our hydrocarbon exploration, production and sale operations are located in **Poland** (mainly crude oil and small quantities of associated gas), **Norway** (gas and condensate, i.e. light crude), and **Lithuania** (crude oil).

At the LOTOS Group, the E&P activities are carried on through LOTOS Petrobaltic S.A. and its subsidiaries, LOTOS Exploration and Production Norge AS and AB LOTOS Geonafta.

LOTOS Petrobaltic Group's crude oil and natural gas resources as at December 31st 2015

Classification	Crude oil [million tonnes]	Natural gas [bcm]	in [million boe*] equivalent
2P - proved and probable reserves (according to the SPE 2007 international classification)	6,724	2,755	66,834

* Barrels of oil equivalent

Crude oil and natural gas resources as at December 31st 2015, by country

Volume	Crude oil		Natural gas		Total
	[million tonnes]	[million boe]	[billion m ³]	[million boe]	[million boe]
Poland	4.815	37.38	0.509	3.2	40.581
Norway	0.982	4.99	2.246	14.125	19.115
Lithuania	0.927	7.138	n.m	0	7.138

Production volumes of crude oil and natural gas as at 31 December 2015 by country

LOTOS Petrobaltic Group's production volumes in 2015

LOTOS Petrobaltic Group's production volumes in 2015	Crude oil [million tonnes]	Natural gas [billion m ³]	Total [million boe]
Poland	0.162	0.018	1.374
Lithuania	0.063	n.m.	0.486
Norway	0.316	0.981	2.484
Aggregate production in LOTOS Petrobaltic Group for 2015	0.541	0.999	4.344

Production volumes of crude oil and natural gas as at 31 December 2014 by country

LOTOS Petrobaltic Group's production volumes in 2014

LOTOS Petrobaltic Group's production volumes in 2014	Crude oil [million tonnes]	Natural gas [billion m ³]	Total [million boe]
Poland	0.160	0.018	1.352
Lithuania	0.070	n.m.	0.537
Norway	0.075	0.221	1.957
Aggregate production in LOTOS Petrobaltic Group for 2014	0.305	0.239	3.846

Criteria and methodology used in the calculations: volumetric method, mass-balance approach and Monte Carlo method; resource audits carried out by external auditors.

Our business

Our fuel tradition – the history of the LOTOS Group

The LOTOS Group is an organization with a long-time history, which translates into extensive experience and credibility of the company as a participant of fuel markets in Poland and globally. Since 1975, we have developed organically by expanding the range of products and services, and grown through acquisitions in Poland and abroad to enhance our production and processing capacities.

It has been 40 years in 2015 since the Gdańsk refinery had its tanks filled with the first batch of crude oil to start up the fuel unit. The decision on the refinery construction was made in May 1971. In 1972, an enterprise under the name Rafineria Nafty Gdańsk w Budowie (Gdańsk Oil Refinery under Construction) was formed. Within four years, a modern facility occupying an area of 220 ha, with designed annual processing capacity of 3 million tonnes of crude oil (now, after expansion, it is more than three times higher), was built to supply the Polish market with fuel and oils.

In 1976, the refinery changed its name to Gdańskie Zakłady Rafineryjne and the manufacture of motor gasolines was launched. A year later, the plant started to manufacture motor oils, a flagship product of Grupa LOTOS to this day. In 1980, production of aviation fuel and industrial bitumens began, which is a continuing business as well. A decade later, the name of mineral oil manufactured since 1976 was changed to LOTOS. In 1991, Gdańskie Zakłady Rafineryjne was transformed into a joint-stock company under the name Rafineria Gdańska S.A.

The company changed its name to Grupa LOTOS S.A. in 2003, two years before the debut of its stock on the Warsaw Stock Exchange. The initial public offering allowed it to raise more than one billion złoty in proceeds, which were applied towards e.g. the implementation of the Comprehensive Technical Development Programme (10+ Programme) and the acquisition of controlling stakes in refineries in the south of Poland and in Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu PETROBALTIC S.A., an exploration and production company.

In the recent decade, one of the key developments driving the dynamic growth of Grupa LOTOS and its competitive edge was the 10+ Programme carried out in 2007–2010. Valued at PLN 5.6bn, it was one of the largest investments in the Polish economy in 2000–2010. The 10+ Programme enabled Grupa LOTOS to increase its annual crude oil processing capacity from 6m to 10.5m tonnes, and the technologies implemented as part of the project enhanced the quality of fuels and reduced negative impact on the environment.

In order to increase its production potential, the LOTOS Group made a series of acquisitions abroad. In 2011, it acquired LOTOS Geonafta, the leader of crude oil production from onshore deposits in Lithuania. In 2013, as a result of the acquisition of Heimdal assets, LOTOS Norge secured Grupa LOTOS an interest in 14 exploration and production licences, as well as direct access to one of the key gas hubs on the Norwegian Continental Shelf. The field is a strategic area for exporting natural gas from Norway to Western Europe and United Kingdom. The gas sold through the Heimdal platform represents 15–20% of total natural gas exports from Norway.

Scale of operations

International reach

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 its plants ensures direct access to the sea, resulting in higher flexibility in terms of feedstock supply and lower costs of logistics in maritime transport.

Grupa LOTOS 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 organization, the LOTOS Group operates based on two reporting segments: upstream and downstream.

Upstream segment

comprises activities related to the acquisition of crude oil and natural gas reserves, and crude oil and natural gas production.

The downstream segment

comprises production and processing of refined petroleum products and their wholesale and retail sale, as well as auxiliary, transport and service activities.

Production and exploration



Portfolio of assets in 3 countries: Norway, Poland and Lithuania



Refining operations



One of Europe's most technologically advanced refineries



Marketing operations



Poland's 3rd largest network of 476 service stations.

Wholesale of fuels and other petroleum products (bitumens and oils)



28,369*
barrels per day*

production of hydrocarbons



10,2 million tonnes

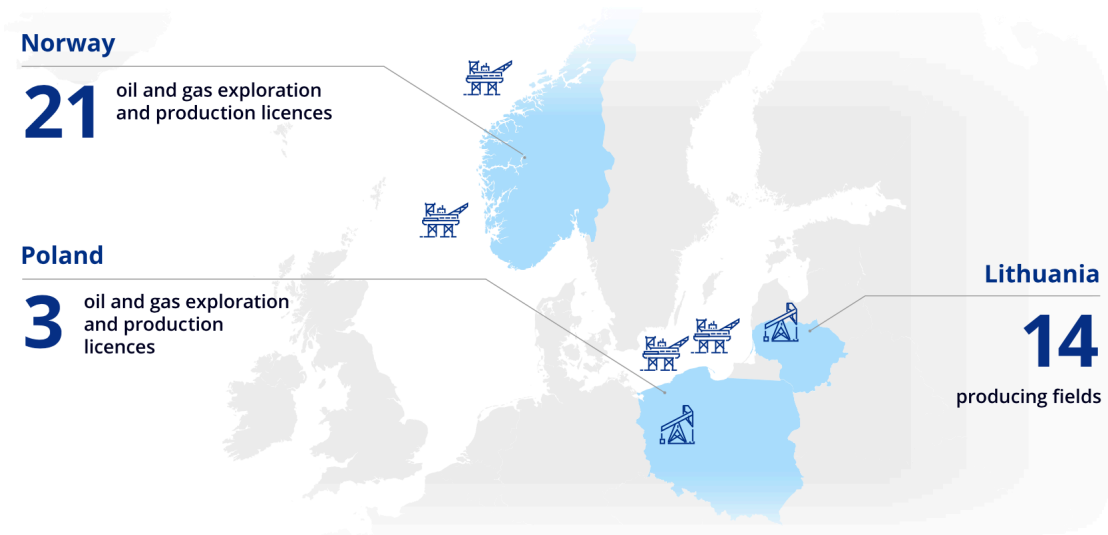
annual oil throughput

* Including average daily output from the acquired Sleipner assets attributable to the LOTOS Group, as of the effective date of the acquisition (January 1st 2015)

Geographical presence

As at the end of the period, apart from Grupa LOTOS (the Parent with registered office in Gdańsk, managing the Gdańsk refinery), the LOTOS Group included 15 other companies operating under the LOTOS brand, two of them seated abroad: in Lithuania (AB LOTOS Geonafta) and in Norway (LOTOS Exploration and Production Norge AS).

Geographical reach of the LOTOS Group's operations



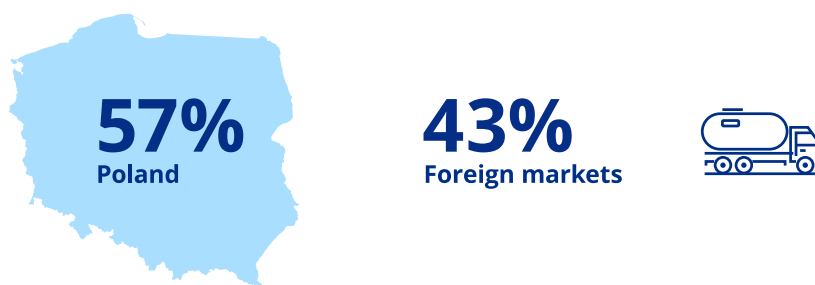
Our products and markets

Key products offered by the LOTOS Group are: unleaded gasoline, diesel oil and light fuel oil, heavy fuel oil, bitumens, aviation fuel, naphtha, propane-butane LPG, base oils and lubricating oils, i.e. industrial and engine oils.

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

Most of the natural gas accompanying production is sold within the Capital Group. Natural gas produced in Norway is marketed to the United Kingdom and Continental Europe, with the entire condensate volume exported to the UK.

LOTOS Group's revenue by market (%)



We have established a presence on 82 markets.

Our export markets are as follows

Naphtha integrated fuel and petrochemical companies in Germany and Scandinavia, and the Amsterdam-Rotterdam-Antwerp (ARA) oil hub

Motor gasolines the Amsterdam-Rotterdam-Antwerp (ARA) oil hub, Sweden, and United Kingdom

Aviation fuel Scandinavian countries and the Czech Republic, where the products are transported by land

Diesel oil the United Kingdom, Germany and the Czech Republic

Heavy fuel oil

storage depots of global trading companies in the Netherlands, Sweden, Estonia and Denmark (for re-sale outside of Europe)



A vast majority of exported products are transported by sea, using the P.P.P. Naftoport Sp. z o.o.'s infrastructure, and the rest is transported by land.

Our brand

The [LOTOS brand](#) is one of our most valuable assets. In 2015, the *Rzeczpospolita* daily estimated its value at more than PLN 1.4bn.

Our service stations operate under the LOTOS brand, in the premium segment as LOTOS, and in the economy segment as LOTOS Optima. We manufacture and sell LOTOS Dynamic premium fuels, LOTOS Quazar premium oils and LOTOS Turdus oils.

[\(See more\)](#)

Changes in the LOTOS Group structure

In 2015, significant changes were made to the corporate structure of Grupa LOTOS, triggering its transformation towards operating segments with a stronger focus on core business, supported by segments providing services to the business structures, all to ensure effective implementation of strategic objectives, process optimization, dynamism, greater operational flexibility, as well as strengthening of corporate functions and owner supervision. As a consequence of these changes, a [new organizational structure of Grupa LOTOS](#) was implemented.

Ownership and legal form of Grupa LOTOS

Grupa LOTOS is a joint-stock company with the State Treasury as the majority shareholder (53.2% share).

As at December 31st 2015, the Grupa LOTOS' share capital totalled PLN 184,873,362 and comprised 184,873,362 shares, with a par value of PLN 1 per share, including:

- i. 78,700,000 Series A ordinary bearer shares,
- ii. 35,000,000 Series B ordinary bearer shares,
- iii. 16,173,362 Series C ordinary bearer shares,
- iv. 55,000,000 Series D ordinary bearer shares.

Each share confers the right to one vote at the Company's General Meeting.

Shareholding structure of Grupa LOTOS as at December 31st 2015

Shareholders holding 5% or more of total voting rights at the Annual General Meeting of Grupa LOTOS on June 30th 2015

Shareholder	Number of Grupa LOTOS shares held	% of total voting rights at GM	% of share capital held
State Treasury	98,329,515	75.82%	53.19%
ING OFE	11,740,000	9.05%	6.35%
OFE PZU Złota Jesień	9,100,000	7.02%	4.92%

Shareholders holding 5% or more of total voting rights at the Extraordinary General Meeting of Grupa LOTOS on January 27th 2016

Shareholder	Number of Grupa LOTOS shares held	% of total voting rights at GM	% of share capital held
State Treasury	98,329,515	75.84%	53.19%
Nationale Nederlanden OFE*	10,584,287	8.16%	5.73%
OFE PZU Złota Jesień	9,100,000	7.02%	4.92%

* Formerly ING OFE

In the reporting period, Grupa LOTOS did not issue any securities conferring special control powers. As at the date of release of this report, the Company had no information on any shareholder agreements on joint exercise of voting rights.

The LOTOS Group operations

In 2011–2015, the LOTOS Group focused on its principal activities, i.e. exploration for and production of hydrocarbons, crude processing, and trading in petroleum products, while seeking to improve its marketing efficiency and optimize the refining and logistics processes. The goal of the strategy was to extend the value chain and boost product margins.

Mission of the LOTOS Group

Innovation-driven, sustainable development in the exploration, production and processing of hydrocarbons and marketing of high-quality products, which is conducive to creating lasting value for shareholders, ensuring customer satisfaction, enhancing and leveraging the employee potential, and which is responsible towards society and the environment and consistent with the energy security policy.

The LOTOS Group value chain

The LOTOS Group value chain



In 2011–2015, the LOTOS Group focused on its core activities, i.e. hydrocarbon exploration and production, crude oil processing and trading in naphtha products, striving to improve its commercial efficiency, combined with optimised refinery processes and logistics. The strategy performed was aimed at extending the value chain and increasing margins of the products sold.

Crude oil and natural gas exploration and production

Strategic areas for the LOTOS Group’s upstream segment

Baltic Sea, Polish Economic Zone

All exploration, exploration and 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). As at December 31st 2015, the upstream segment operated on the basis of:

Six oil and gas exploration and/or appraisal licences

covering the following areas in the Polish Economic Zone of the Baltic Sea: Gotland, Łeba, Rozewie (proceedings are pending to convert the Łeba and Rozewie licences into combined exploration, appraisal and production licences), Gaz Południe (the licence expired in June 2016), Słupsk W and Słupsk E. The total area of the company’s licences as at December 31st 2015 was over 6.2 thousand sq. km under exploration and appraisal licences.

for hydrocarbon production in the Baltic Sea, namely:

- Production licence for the B-3 field, valid until 2026 and covering extraction of crude oil and associated natural gas in an area located around 73 km north off Cape Rozewie. Production from the field started in 1992.
- Production licence for the B-8 field (held by an SPV, B8 Sp. z o.o. BALTIC S.K.A.), valid until 2031 and covering extraction of crude oil and associated natural gas in an area located approximately 70 km north of Jastarnia. The field is undergoing development and initial production of hydrocarbons has commenced.
- B4 and B6 production licences, valid until 2032 and covering extraction of natural gas north of Łeba. The licences are held by Baltic Gas Sp. z o.o. i Wspólnicy Sp. k., a joint venture established by LOTOS Petrobaltic S.A. and CalEnergy Resources Poland Sp. z o.o. Under a cooperation agreement between LOTOS Petrobaltic S.A. and CalEnergy Resources Poland Sp. z o.o., preparations are underway to develop the fields. The total area of the production licences as at December 31, 2015 was 147.84 km².

In 2015, in the Baltic Sea, LOTOS Petrobaltic conducted production from the B3 field and launched initial production in the B8 field. Total output of crude oil from the Baltic Sea fields reached 162.4 thousand tonnes, while output of the associated natural gas was reported at 18.3 mcm.

[Information on the licences currently held](#)

Poland – onshore operations

In 2012, LOTOS Petrobaltic launched onshore operations in Poland in partnership with PGNiG S.A. In 2013, the companies signed an agreement for joint operations within the Kamień Pomorski licence area, in the north west of Poland, and in 2014 – an agreement for joint operations within the Górowo Iławeckie licence area in the north east of Poland. Exploration and appraisal work is under way in both licence areas.

Onshore operations in Lithuania

AB LOTOS Geonafta, a company operating in Lithuania as part of the LOTOS Group's exploration and production segment, is the leader of crude oil production from onshore deposits in the country. In aggregate, as at the end of 2015 AB LOTOS Geonafta Group companies conducted hydrocarbon production from 14 fields. The AB LOTOS Geonafta Group produced 63.4 thousand tonnes of crude oil in 2015.

Norwegian Continental Shelf

LOTOS Exploration & Production Norge AS of Stavanger, Norway, is the subsidiary responsible for the development of operations on the Norwegian Continental Shelf. As at December 31st 2015, following the acquisition of the Sleipner production assets, LOTOS Norge held interests in 27 licences for oil exploration and production on the Norwegian Continental Shelf. In 2015, production from the Norwegian Continental Shelf amounted to 89.1 thousand tonnes of crude and 288.9 mcm of gas (316.5 thousand tonnes of crude and 981.3 mcm of gas inclusive of the annual output from the Sleipner assets as of the effective date of the acquisition: January 1st 2015).

Refining operations

Grupa LOTOS' refinery in Gdańsk, with a rated annual capacity of 10.5m tonnes of crude, is one of the newest and most advanced refineries in Europe in terms of applied technologies and environmental protection.

Strengths of Grupa LOTOS' refinery:

- High distillate rate: a large share of fuels in the product mix and focus on light and medium distillates, which enables the Company to successfully adjust its output to the domestic demand structure and exports opportunities.
- Location: the refinery is located on the coast of the Baltic Sea, which is a strategic advantage given the proximity of and the direct pipeline connection with the handling infrastructure of Port Północny (a part of the Gdańsk Seaport located on the Gdańsk Bay), and gives the Company a major competitive edge in the region in terms of logistics (access to feedstock and product sales channels).
- Unique combination of supply channels, guaranteeing simultaneous access to feedstock supplies by road (from Russia) and via PERN Przyjaźń S.A.'s pipeline network, as well as by sea, from numerous countries and the LOTOS Group's own fields.

With access to two supply channels, we are able to use different supply sources and respond flexibly to changes in petroleum product and crude oil prices, and can effectively diversify the types of crude processed at the refinery.

Sales and logistics

In 2015, the commercial activity of the LOTOS Group was carried out in the LOTOS Group and its subsidiaries, i.e. LOTOS Paliwa, LOTOS Oil, LOTOS Asphalt, LOTOS-Air BP Polska. The LOTOS Group sold in Poland (to foreign companies) and abroad, exporting by sea and land, while its subsidiaries produced and sold to particular sectors, i.e. fuel, oil and asphalt ones.

The LOTOS Group sells fuels on the Polish retail market solely by the agency of LOTOS Paliwa. On the wholesale market, the LOTOS Group sells both by the agency of the LOTOS Group, supplying to international companies and key customers (tenders for the Material Reserves Agency and the Military Property Agency), and by the agency of LOTOS Paliwa, in transactions contracted with wholesalers and independent operators.

In 2015, in the sector of production and sale, the LOTOS Group sold 10,924 thousand tonnes of products which is 8.1% more than in the analogous period in the previous year. The increased production and sale volumes of the LOTOS Group resulted from advantageous refinery margins remaining for the majority of 2015.

The highest increase in sale volumes was recorded for naphtha (+77.8%) and bunker fuel (+69.7%) though those products are not of key importance due to their relatively insignificant total production and sale volume in a year. The highest decrease in sale volumes was recorded in the sale of aviation fuel (-19.6%) which results from the changed development direction, i.e. departure from the wholesale market and focusing on more profitable retail channels.

Moreover, in 2015 the LOTOS Group sold crude oil (243 thousand tonnes) within the tender to the Material Reserves Agency.

The highest increase in sale volumes, just like in previous years, was recorded for diesel oil. Its sale volume was 4,853 thousand tonnes in 2015, reaching 44.1% share in total sale volume. The second largest item in the quantitative sale structure of the LOTOS Group was gasolines, with the share of 14.1%. In 2015, the gasoline sale volume reached 1,547 thousand tonnes which is 1.6% increase year-to-year. The last item for which the share in the total sale mass of the LOTOS Group reached more than 10% was heavy fuel oil, with the share in sale volume reaching 13.4%. The sale volumes for this group of products was 1,477 thousand tonnes in 2015, increasing 4.1% year-to-year.

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 Polish 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 authorized 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.

More information on the LOTOS Group's [largest customers](#) and its effective logistics solutions

Other business

The LOTOS Group performs also support activities auxiliary to the core operations. Key subsidiaries in this area include LOTOS Serwis, RCEkoenergia, Energobaltic, LOTOS Terminale, LOTOS Infrastruktura, LOTOS Lab, LOTOS Straż and Miliana Shipholding Group companies.

LOTOS Straż organizes and conducts rescue operations on the premises of the Grupa LOTOS refinery in order to protect human life and health as well as property, and to remove the consequences of fires, technical and transport disasters, chemical plant failures, ecological incidents and natural disasters.

As part of supervision of the Grupa LOTOS refinery's operational protection, LOTOS Straż performs inspections of the operational protection facilities and equipment with respect to:

- maintaining the roads and access roads passable and properly marked,
- water supply,

- operation of stationary and semi-stationary extinguishing and sprinkling systems,
- fire alarm system.

Services provided by LOTOS Lab consist in making tests and analyses of petroleum products, water, wastewater and work environment. LOTOS Lab is an eco-friendly company that fully respects and applies in practice the rules of occupational health and safety, and uses advanced and specialist instrumentation and control systems. Its laboratory is available on a 24/7 basis. Tests are performed within 24 hours from sample delivery. The company's customer base includes international inspection firms, state authorities, car servicing garages and individuals. In 2004, the company was awarded certificate No. AB 474 issued by the Polish Centre for Accreditation. The company also has certificates for 120 test methods.

LOTOS Ochrona provides people and property protection services to Grupa LOTOS and its subsidiaries, ensuring that appropriate security standards are met on the premises and remaining in constant contact with local police stations.

All security personnel are qualified physical security professionals and are licensed to use weapons.

Other auxiliary services provided by companies of the LOTOS Group include:

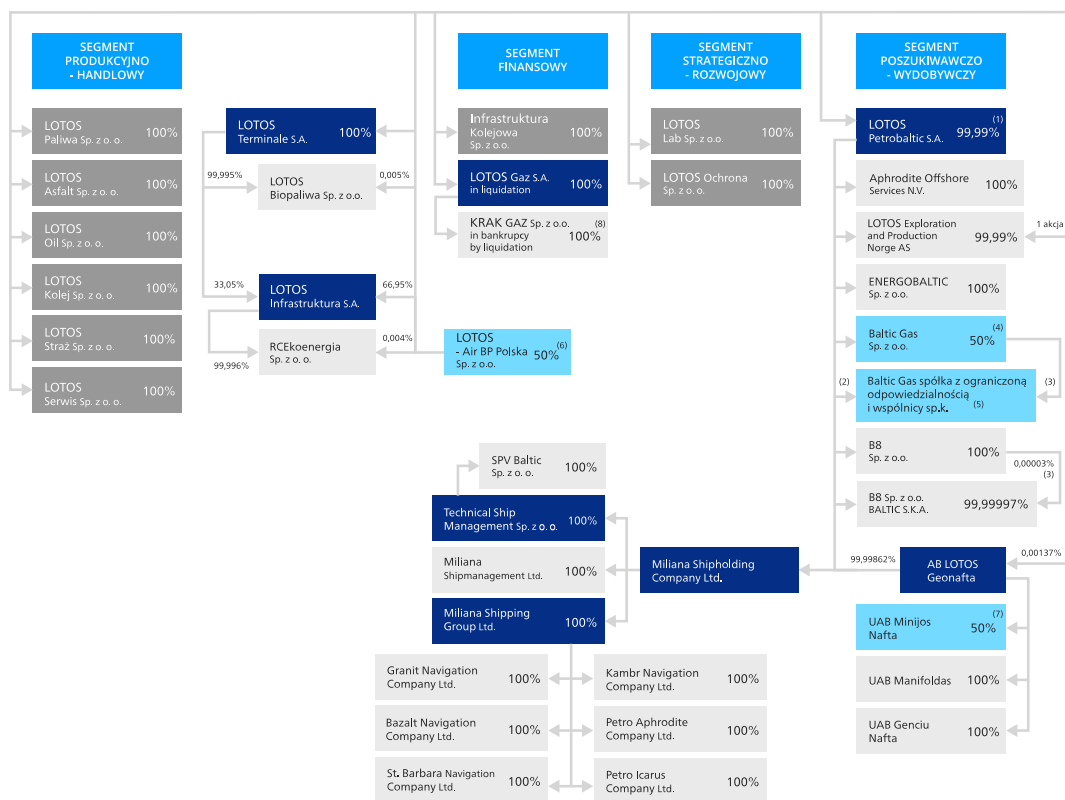
- Maintenance of mechanical and electric operations and controlling devices, overhaul and repair services,
- Manufacture and distribution of electricity, heat, liquid gas (LPG) and natural gas condensate,
- Storage and distribution of fuels,
- Renting and operating of own or leased real estate,
- Sea logistics services which consist in receipt and storage of crude oil in the production areas, transport of crude from the field to the port, and rescue assistance services for offshore rigs.

Structure of the LOTOS Group

As at December 31st 2015, the LOTOS Group comprised Grupa LOTOS (the Parent), and 34 production and service companies, including:

- 13 direct subsidiaries of Grupa LOTOS,
- 21 indirect subsidiaries of Grupa LOTOS.

The LOTOS Group's organisational chart as at December 31st 2015

GRUPA LOTOS S.A.


(1) State Treasury – 0.01%

(2) Limited partner

(3) General partner

(4) CalEnergy Resources Poland Sp. z o.o. - 50%

(5) CalEnergy Resources Poland Sp. z o.o. - Limited partner

(6) BP Europa SE – 50%

(7) Odin Energi A/S – 50%

(8) Entity controlled by a bankruptcy administrator; a non-Group company

■ Entities classified as joint ventures accounted for using the equity method, which are non-Group companies

Additionally, Group LOTOS S.A. holds 8.97% shares in P.P.P. NAFTOPORT Sp. z o.o. (a company of the PERN Przyjaźń Group of Plock)

[More information on key companies of the LOTOS Group](#)

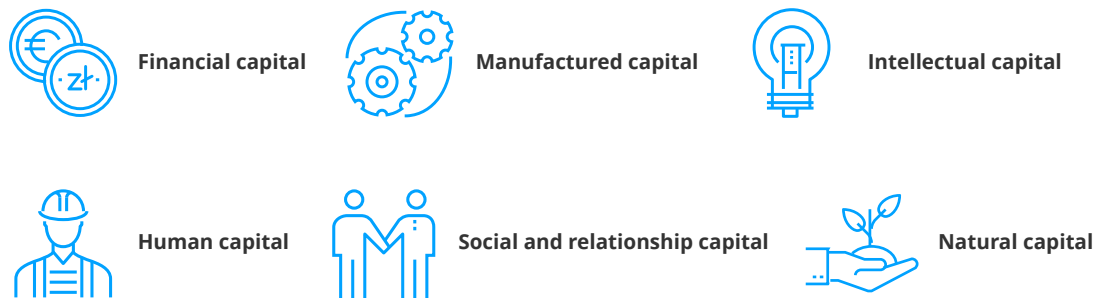
Value creation model

Six capitals, one model

Our responsible approach to doing business is expressed by the way we handle everyday challenges faced by our organization and by the way our achievements and plans are communicated. To address the upcoming changes in the reporting process defined at the European Union level, in 2015 we improved the methods and procedures we apply to create reports, define key areas for our company and its stakeholders, and present an integrated approach to building value for our stakeholders. As a result of our efforts, we developed a value creation model for the LOTOS Group and the related way of doing our business.

The model reflects the values considered as key for our company and its stakeholders, as well as the respective value drivers. We also identified the related financial and non-financial indicators to measure progress in achieving long-term goals in particular segments of our business.

The capitals used to define the value creation model were chosen by reference to the guidelines of the International Integrated Reporting Council (IIRC). They include:



Advantages resulting from the adoption of the value creation model for the LOTOS Group

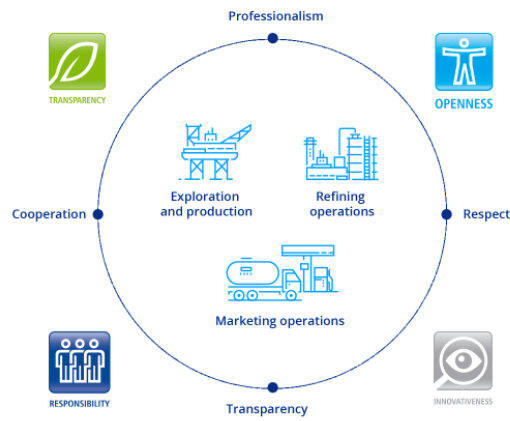
We have more knowledge of how to effectively use the capitals and relations between them in order to build value for our company and its stakeholders. This follows from better understanding of the relations between activities focused on the sustainable development of the LOTOS Group and activities undertaken to generate value in such areas as revenue and operating margin growth, asset efficiency improvement, or satisfaction of our owners' and other stakeholders' expectations.

How do we build value at the LOTOS Group?

OUR CAPITALS



BENEFITS



OUR RESULTS 2015

Selected indicators showing progress towards our long-term goals under each capital.

[See our interactive value creation model](#)

Corporate supervision

Corporate governance strengthens the credibility of Grupa LOTOS as a company listed on the regulated market of the Warsaw Stock Exchange, which enhances the competitive position of the entire LOTOS Group.

We make every effort to ensure that our disclosure policy is compliant with best practices and supports the objectives of corporate governance principles, i.e. transparency of the Company's operations as a listed company, trust in stakeholder relations, and consistency in creating shareholder value.

After its stock market debut in June 2005, Grupa LOTOS complied with most of the recommendations set out in the document 'Best Practices for Public Companies', and from the beginning of 2008 it followed the 'Code of Best Practice for WSE Listed Companies', as amended by the WSE Supervisory Board's Resolution of October 19th 2011. As of January 1st 2016, the Company adopted the revised 'Code of Best Practice for Listed Companies 2016'.

[More information on corporate governance](#)

Disclosure policy of Grupa LOTOS

In line with the relevant disclosure requirements, we report on an ongoing basis instances of incidental or permanent non-compliance with corporate governance principles. The reports are published through the Electronic Information Base (EBI), similarly to current reports, and are available in two languages on the Company's investor relations website.

Our relations with investors and stakeholders are forged and fostered based on equality and dialogue, in a manner satisfactory to both parties. We review and gradually introduce new investor relation tools, and continually improve the content and form of communications. We use, inter alia, mailing, newsletters, our website, participation in conferences for institutional and individual shareholders and brokers, conference calls, one-on-one meetings, open-house days for analysts and investors, and inclusion in the RESPECT index.

In addition, Grupa LOTOS operates an [investor relations website](#). This bilingual (Polish-English) service is updated on an ongoing basis to provide foreign investors and analysts with equal access to information.

General Meeting of Grupa LOTOS

The powers and responsibilities of the General Meeting are detailed in the Articles of Association of Grupa LOTOS. Any matters to be submitted to the General Meeting are first presented for consideration by the Supervisory Board. The rules of attendance and voting at General Meetings are set forth in the Rules of Procedure for General Meetings of Grupa LOTOS.

The key documents of Grupa LOTOS, including its Articles of Association and Rules of Procedure for General Meetings, are available on our [website](#).

[More information about the activities of General Meetings](#) (e.g. adopted resolutions and shareholders' questions).

Corporate governance structure of Grupa LOTOS



Supervisory Board

The Supervisory Board of Grupa LOTOS exercises ongoing supervision of the Company's business, across all areas of its operations. It performs its duties collectively, but may also set up ad hoc or standing committees to exercise supervision of specific areas of the Company's activities. The Supervisory Board may delegate its members to individually perform certain tasks or functions.

The procedures to be followed by the Supervisory Board of Grupa LOTOS are defined in the Company's [Articles of Association and Rules of Procedure for the Supervisory Board](#).

Composition of the Supervisory Board of Grupa LOTOS (9th term)

- Beata Kozłowska-Chyła – Chairwoman, [Full profile](#)
- Katarzyna Lewandowska – Deputy Chairwoman, [Full profile](#)
- Agnieszka Szklarczyk-Mierzwa – Secretary, [Full profile](#)
- Dariusz Figura – Member, [Full profile](#)
- Mariusz Golecki – Member, [Full profile](#)
- Maria Sierpińska – Member, [Full profile](#)
- Katarzyna Witkowska – Member, [Full profile](#)

The following standing Supervisory Board committees operate at Grupa LOTOS:

- Audit Committee
- Strategy and Development Committee
- Organization and Management Committee

[More information about Supervisory Board of Grupa LOTOS](#)

Changes made to the composition of the Supervisory Board of the 9th term during the reporting period are described in the [Directors' Report](#) of the operations of Grupa LOTOS in 2015.

As at December 31st 2015, the Supervisory Board of Grupa LOTOS consisted of:

- Wiesław Skwarko – Chairman
- Agnieszka Trzaskalska – Deputy Chairperson
- Oskar Pawłowski – Secretary
- Małgorzata Hirszel – Member
- Katarzyna Witkowska – Member
- Michał Rumiński – Member
- Robert Pietryszyn – Member

The Management Board

The Management Board of Grupa LOTOS represents the Company before third parties and manages its corporate affairs. In addition, individual Board members perform their duties in line with the division of powers and responsibilities resulting from their operational functions within the Company. Each member of the Management Board is authorized to represent the Company in court and out of court in relation to its business, with the exception of matters reserved for the General Meeting or Supervisory Board under the Commercial Companies Code or the Company's Articles of Association, as well as matters falling outside of the ordinary scope business where they require the Board's prior resolution, and matters within the powers of another member of the Management Board.

The Management Board operates on the basis of the [Grupa LOTOS' Articles of Association and its Rules of Procedure](#).

Composition of the Management Board of Grupa LOTOS (9th term)



Robert Pietryszyn
President of the Board

Since May 13th 2016.

[Full profile](#)



Mariusz Machajewski
Vice-President of the Board, Chief Financial Officer

Since June 19th 2006.

[Full profile](#)



Marcin Jastrzębski
Vice-President of the Board, Chief Operating Officer

Since May 13th 2016.

[Full profile](#)



Przemysław Marchlewicz
Vice-President of the Board for Corporate Affairs

Since May 17th 2016.

[Full profile](#)



Mateusz Aleksander Bonca
Vice-President of the Board, Chief Strategy and Development Officer

Since June 1st 2016.

[Full profile](#)

[More information about Management Board of Grupa LOTOS](#)

As at December 31st 2015, the Management Board of Grupa LOTOS consisted of:

- Paweł Olechnowicz – President of the Board, Chief Executive Officer,
- Mariusz Machajewski – Vice-President of the Board, Chief Financial Officer,
- Zbigniew Paszkowicz – Vice-President of the Board, Chief Exploration and Production Officer,
- Marek Sokołowski – Vice President of the Board, Chief Strategy and Development Officer,
- Maciej Szozda – Vice President of the Board, Chief Refining and Marketing Officer.

The LOTOS Group as an active participant of the fuel market and initiator of regional development

We create a platform for cooperation

We are a member of Polish and international trade, business and specialist associations. Our membership of those organizations allows us to create a cooperation platform for energy companies in Poland and in Europe, actively participate in legislative processes in Poland and the European Union, and act towards improving security in the energy sector and promoting best practices in the area of corporate social responsibility.

We also engage in initiatives that bring together companies from Pomerania, the region where we operate and exert a significant environmental impact. We seek to initiate regional development through our involvement with local organizations.

Membership of trade, business and specialist associations in 2015

Trade associations

Central Europe Energy Partners, CEEP

CEEP represents energy-intensive companies and the wider energy sector (including oil, gas, coal, power, power networks, renewable energy sources, nuclear energy, etc.) from Central Europe.

[More information](#)

FuelsEurope

Grupa LOTOS is a member of FuelsEurope, a Brussels-based organization formed by merging EUROPIA and CONCAWE (Grupa LOTOS was a member from 2006). FuelsEurope represents the interests of 41 companies operating oil refineries in the European Union that account for almost 100% of the EU's oil processing capacity.

[More information](#)

Polish Organization of Oil Industry and Trade (POPiHN)

We are a founding member of POPiHN, established in 2003, and are represented in its Board. One of the key objectives of Grupa LOTOS' activity within POPiHN is the sustainable development of a competitive fuel market in Poland, which we seek to achieve by promoting business standards compliant with EU law and equal rights for all participants of the Polish fuel market.

[More information](#)

Polish Association of the Oil and Gas Industry Engineers and Technicians (SITPNiG)

LOTOS Petrobaltic and LOTOS Terminale are the supporting members of SITPNiG, an organization with a scientific and technical profile that serves the oil and gas industry and its members by promoting social utility in implementing public tasks.

[More information](#)

Windsor Energy Group - WEG

In March 2009, Grupa LOTOS joined the Windsor Energy Group (WEG), an independent think-tank based in London that addresses issues related to the building of security and order within the international energy sector, with a particular focus on the oil and gas and alternative energy subsectors.

[More information](#)

World Petroleum Council – Polish National Committee

We are part of the Polish Steering Committee. Formed in 1933, the World Petroleum Council is the only international organization which represents all branches of the oil industry.

[More information](#)

Polish Exploration and Production Industries Organization (Organizacja Polskiego Przemysłu Poszukiwawczo-Wydobywczego, OPPW)

Grupa LOTOS is a founding member of this organization focusing on hydrocarbon exploration and production issues.

[More information](#)

Atlantic Council

Since September 2013, we have been a member of Atlantic Council, a US-based organization promoting constructive leadership and engagement in international affairs in the areas of energy, environment, global economy and economics, as well as cooperation within the Atlantic Community.

[More information](#)

Polish Member Committee of the World Energy Council

Since 2015, we have been a member of the Polish Committee of the World Energy Council (WEC). WEC is a global, non-governmental and non-commercial organization dealing with issues related to energy resources, production of various forms of energy, its use and environmental impact. WEC's overriding objective is to support sustainable development and peaceful use of energy resources for the greatest benefit of its members and the whole world. WEC was established in London in 1924, with Poland among its 40 founders. Today, it is accredited at the United Nations and represents over 90 member states and more than 3,000 energy sector players from those states.

[More information](#)

Polish Chamber of Chemical Industry

In 2014, Grupa LOTOS became a member of the Polish Chamber of Chemical Industry, an organization supporting the development of the chemical sector and representing its members in relations with central government authorities and international organizations.

[More information](#)

Business associations

Business Centre Club – BCC

Grupa LOTOS focuses its work in BCC on initiatives designed to foster development of the Polish economy, create jobs and provide assistance to businesses.

[More information](#)

European League for Economic Cooperation ELEC

The European League for Economic Cooperation is a non-governmental and non-partisan international organization with a mission to promote economic integration, strengthen the social and cultural identity of European societies and work towards increasing the role of Europe in the international arena. Grupa LOTOS has been a member of ELEC since 2002.

[More information](#)

Gdańsk Business Club

Gdańsk Business Club brings together entrepreneurs, owners and leaders of key companies from the Pomerania region. It was founded in 1994. Grupa LOTOS has been a member of Gdańsk Business Club since 2002.

[More information](#)

Pomorskie in the European Union Association

The Association aims to support local government authorities, universities, institutions and businesses from the Gdańsk Province in the European Union. Grupa LOTOS joined the Association in 2010.

[More information](#)

Polish Business Roundtable Club

The Club was founded in 1997 on the initiative of the Polish Business Roundtable, an organization formed by the elite of Polish entrepreneurs committed to promoting the economic development and integration of the business community in Poland. Grupa LOTOS has been a member of the organization since 2005.

[More information](#)

Polish Higher Education-Business Forum (PFAG)

The Polish Higher Education-Business Forum (PFAG) is an association founded in 1992 to build closer ties between academic circles and business community with the ultimate goal of promoting innovative projects financed with domestic and EU funds. Through our membership of the Polish Higher Education-Business Forum since 2004, we have been involved in activities fostering development of cooperation between businesses and academic institutions.

[More information](#)

CSR advocacy groups

Responsible Business Forum

[More information](#)

UN Global Compact

[More information](#)

Specialist associations

Employers of Poland

[More information](#)

Polish Association of Listed Companies

[More information](#)

Polish Economic Society

[More information](#)

ISO 14000 Polish Forum Club

[More information](#)

SO 9000 Polish Forum Club

[More information](#)

Accountants Association in Poland

[More information](#)

Polish Chamber of Civil Engineers

[More information](#)

Polish Human Resources Management Association

[More information](#)

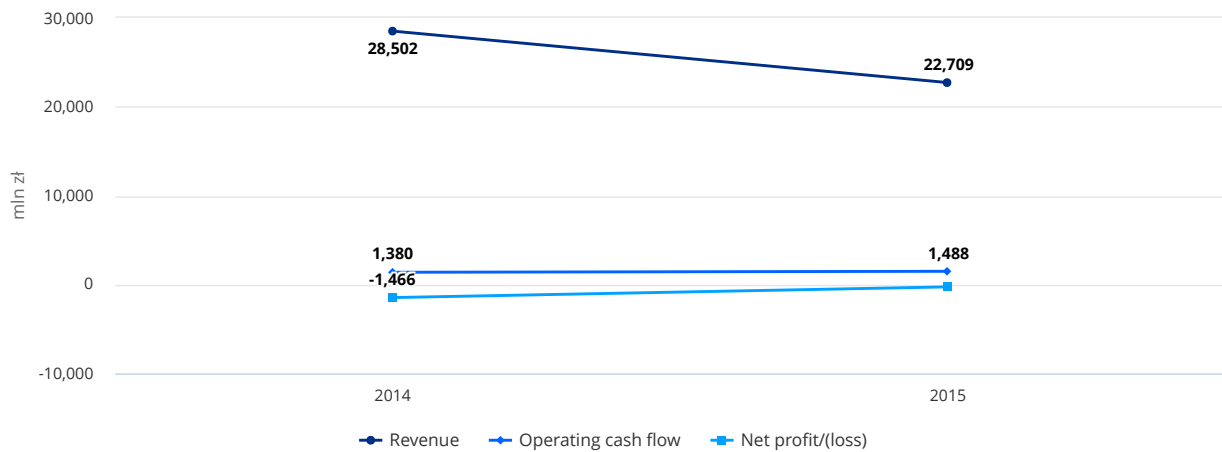
Financial performance of the LOTOS Group in 2015

Solid operating results

By consistently implementing its strategy aimed at maximizing the integrated margin, the LOTOS Group succeeded in increasing its production potential and operating efficiency, which contributed to its sound operating performance in 2015.

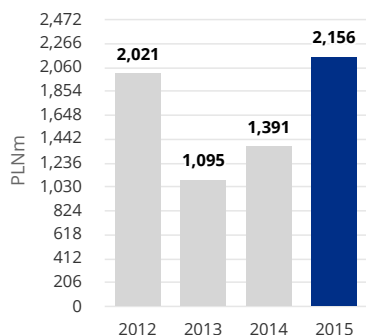
The adopted strategy of maximizing integrated margin translated into solid operating results for 2015. In 2012–2015, clean LIFO-based EBITDA averaged PLN 1.67bn, while in 2015 it reached a record high of PLN 2.16bn. This strong performance at the operating profit level was delivered despite a 20% year-on-year drop in revenue, to PLN 22,709m in 2015 in connection with the reduced prices of petroleum products on global markets. In 2015, the net result amounted to PLN -263.3m. Net cash from operating activities reached a stable level of PLN 1,408m. The Group reported a net loss for 2015, at PLN -263.3m. In 2015 the Company increased net cash from operating activities and improved its service debt capacity (lower ratio of net debt to clean LIFO-based EBITDA).

Financial highlights of the LOTOS Group (PLNm)



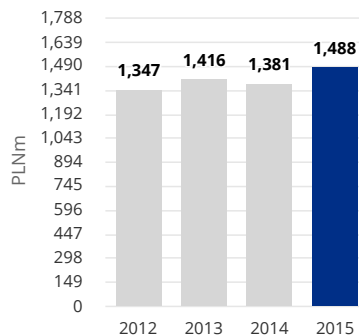
More than 10 years of Grupa LOTOS' presence on the WSE

Clean LIFO-based EBITDA (PLNm)



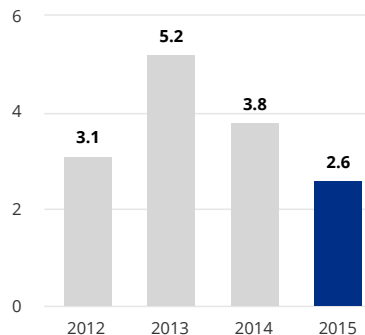
Fluctuations in financial performance due to changing macroeconomic environment; 2012–2015 average: PLN 1,666m.

Cash flows from operating activities (PLNm)



Stable levels of cash generated from operating activities; 2012–2015 average: PLN 1,408m.

Net debt to clean LIFO-based EBITDA



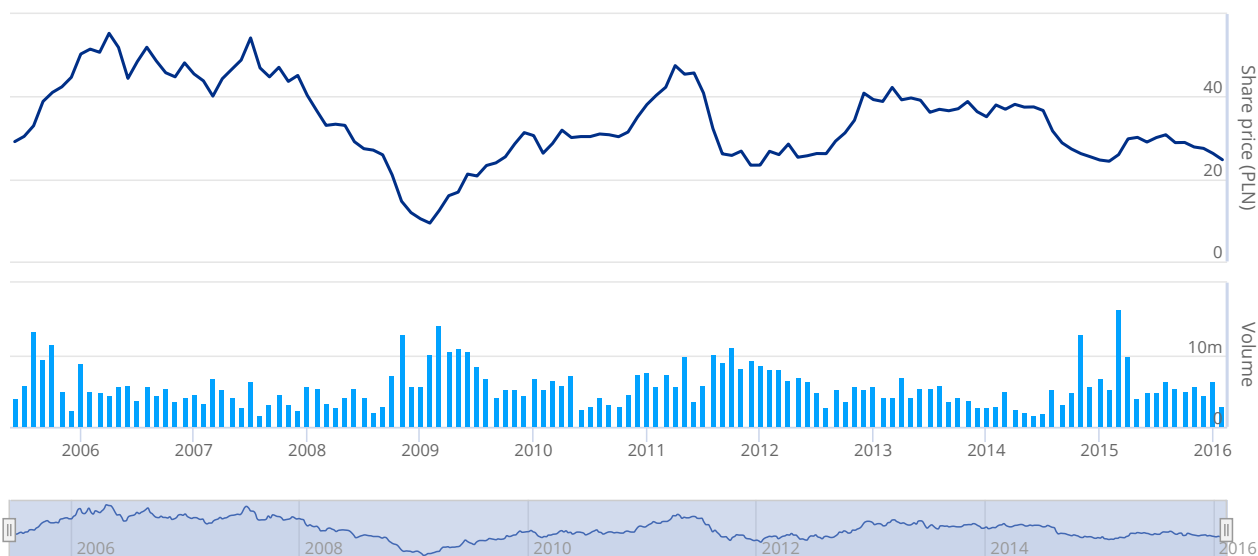
Improving ability to service the existing debt.

The Company shares have been listed on the Warsaw Stock Exchange (WSE) since June 2005, and are included in the WIG20 index of WSE's 20 blue chips., as well as in WIG-Paliwa and RESPECT Index.

Grupa LOTOS stock performance since IPO

Zoom

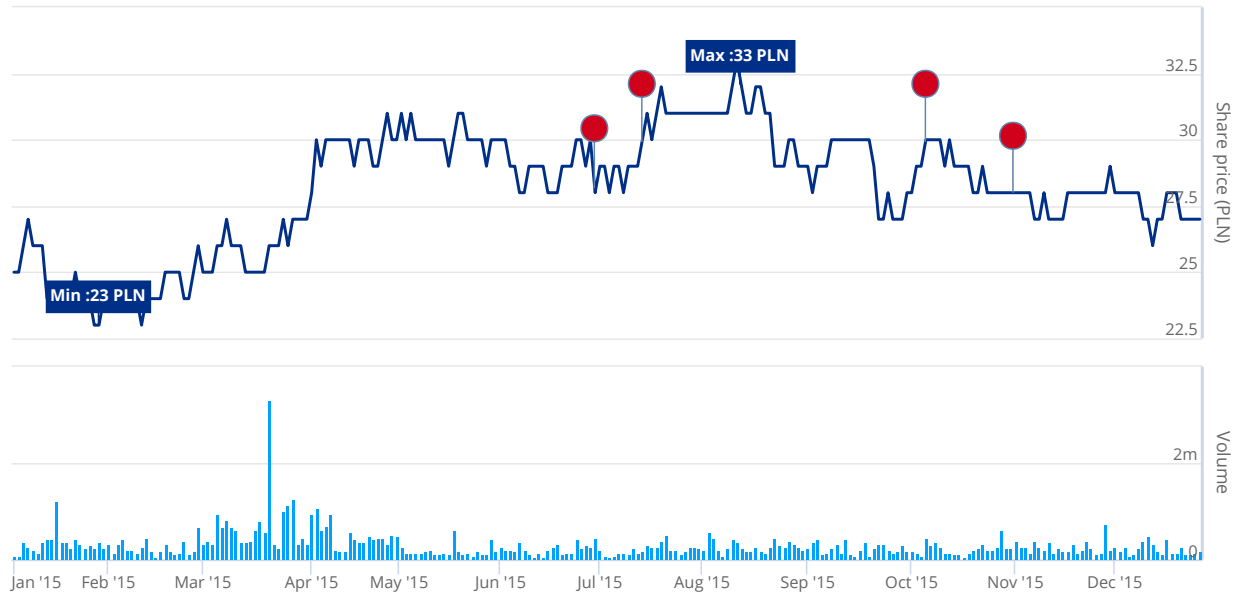
From To



Share price (PLN) and trading volume (number of shares) since first listing on the WSE

In 2015, the Grupa LOTOS stock traded within the target price, as estimated by brokers, of PLN 22.90–33.50. Actually it belonged to the range of PLN 23.53 – 33.24. The lowest closing price was PLN 23.83, and the highest – PLN 33.15. The company closed the year at PLN 27.00.

Factors affecting the price, including key events at Grupa LOTOS:

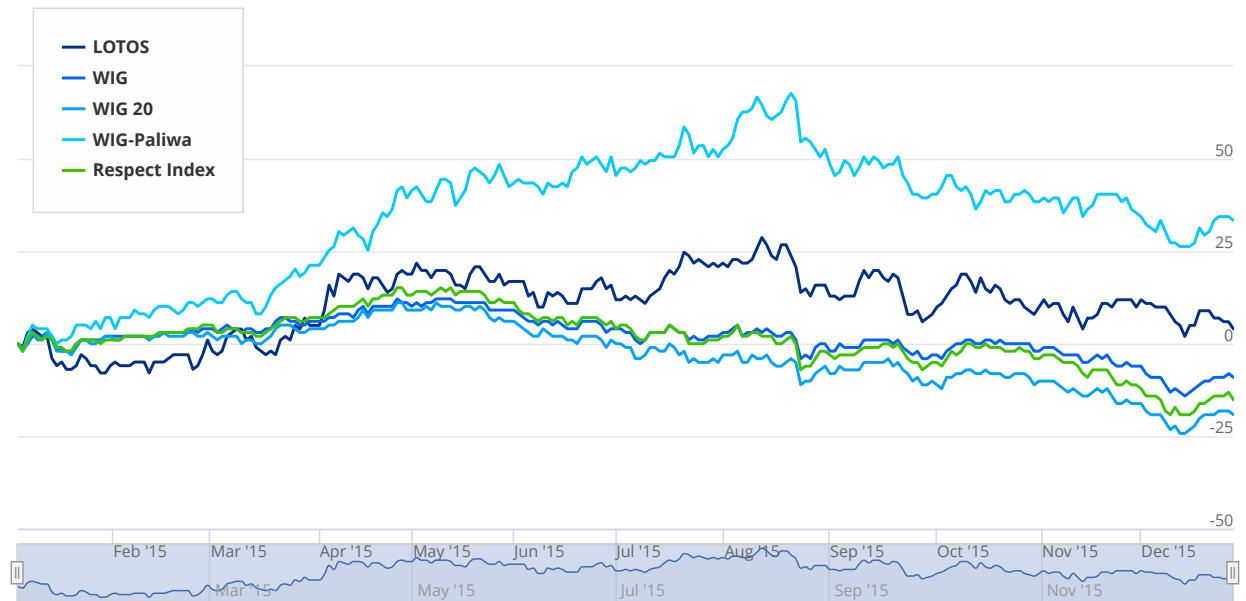


Despite the brokers' estimation medians above PLN 30.00 per one share of the LOTOS Group, the price of its shares did not react to the positive news communicated in H2 2015, including the launch of oil production from the B-8 field and the agreement with Exxon Mobil for acquisition of the Sleipner assets, and it decreased, which was indirectly evidenced by the muffled growth potential by opening short positions on the LOTOS securities in H2 2015.

Structure of broker recommendations on Grupa LOTOS shares in 2015

The target price of Grupa LOTOS shares in brokers' research reports ranged from PLN 22.90 to PLN 33.50, compared with PLN 25.80 to PLN 54.07 in 2014. The average target price in 2015 was PLN 30.47 (2014: PLN 37.90).

Grupa LOTOS share price performance vs WIG, WIG20/WIG30, WIG Paliwa and RESPECT Index [%]



In 2015, Grupa LOTOS shares outperformed the market. The index of all companies listed on the Main Market, WIG, dropped 9.6%, and WIG20 dipped by -19.7%. Looking at stock performance by sector, WIG-Paliwa gained 32.5% while WIG-Energetyka went down by 31.4%. The RESPECT corporate social responsibility index lost over 15.1% during 2015.

Dividend policy at Grupa LOTOS

Increased dividend distributions under the strategy for 2011–2015 resulted from the optimization of the financing structure of the LOTOS Group. Grupa LOTOS' financial strategy provided for potential distribution of up to 30% of net profit as dividend.

Dividends and dividend yields in 2006–2015 (PLN)

Financial year	Dividend	Dividend per share	Share price at year end when the dividend was distributed	Dividend yield*
2005	0.0	0.0	44.2	-
2006	40,932,000.0	0.4	49.3	0.7
2007	0.0	0.0	44.5	-
2008	0.0	0.0	12.0	-
2009	0.0	0.0	31.8	-
2010	0.0	0.0	36.4	-
2011	0.0	0.0	23.3	-
2012	0.0	0.0	41.2	-
2013	0.0	0.0	35.5	-
2014	0.0	0.0	27.0	-
2015	0.0	0.0	-	-

* Dividend yield - dividend per share to price per share

Historical dividend per share (PLN)

Financial year	Dividend per share	% of net profit	Dividend record date	Dividend payment date
2005	0.0	0.0	-	-
2006	0.4	10.1	Jun 11 2007	not later than Jul 31 2007
2007	0.0	0.0	-	-
2008	0.0	0.0	-	-
2009	0.0	0.0	-	-
2010	0.0	0.0	-	-
2011	0.0	0.0	-	-
2012	0.0	0.0	-	-
2013	0.0	0.0	-	-
2014	0.0	0.0	-	-
2015	0.0	0.0	-	-

* Dividend record date – the date as at which the list of shareholders entitled to receive dividend for a given financial year is determined

* Dividend payment date – the date on which dividend is paid to the Company's shareholders

The Board of Grupa LOTOS has no knowledge of any agreements which may give rise to future changes in the number of shares held by the existing shareholders and bondholders.

The responsible ones awarded with inclusion in the RESPECT index

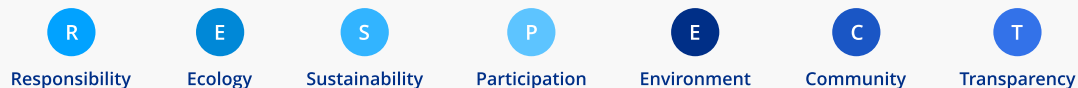
In 2015, for the ninth time Grupa LOTOS shares became a constituent of the WSE's RESPECT Index – Central and Eastern Europe's first index of socially responsible companies. It comprises stocks of companies that show commitment to best management standards in corporate and information governance, as well as investor relations, and that act responsibly on environmental, social, and labour issues.

Grupa LOTOS has been present in the RESPECT Index since its inception in 2009. To date, the WSE has announced nine editions of the RESPECT Index. The latest comprises 23 companies and will be valid until December 21st 2015.

[More information on the RESPECT Index](#)

What does it mean to us to be included in the RESPECT Index?

For Grupa LOTOS, each of the values represented by the letters making up the word 'RESPECT' is reflected in its everyday business practices, and as a constituent of the RESPECT Index, we see them as central to our understanding of social responsibility on the capital market.



[More information](#)

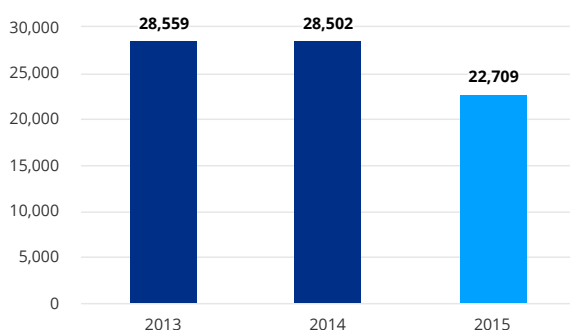
Acting innovatively – financially stable

The drop in revenue in 2015 was caused primarily by falling prices of crude oil and petroleum products on global markets, driving down revenue in both upstream and downstream segments (average selling prices of petroleum products fell by 26.5%).

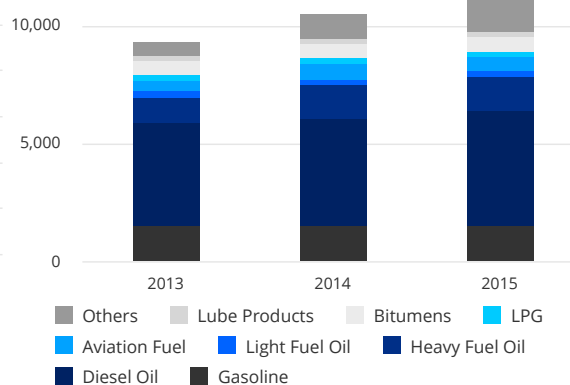
Sales volumes, however, were up. In Poland, the increase was mainly attributable to rising volumes of diesel oil sold through wholesale and retail channels, higher sales of bunker fuel following changes in the sulfur content requirements in the SECA area, and increased sales of LPG.

Export sales grew, supported by very attractive refining margins. As a result, in 2015, it was profitable to maximise production abroad even at prices lower than on the domestic market.

Revenue (PLNm)



LOTOS Group's sales by key products (in thousand tonnes)



PLN 122.8m – year-on-year growth (+10.6% on 2014) in the LOTOS Group's distribution costs, chiefly driven by 8.4% higher sales volumes and higher average USD/PLN exchange rate during the year (up 19.7% on 2014)

What were the drivers of the LOTOS Group's operating result in 2015?

A year-on-year increase of PLN 1,425m in gross profit achieved mainly thanks to higher decrease in the cost of sales than in the revenue

In 2015, cost of sales reported by the LOTOS Group stood at **PLN 20,249.0m** (down 26.3% on 2014). In the same period, the estimated unit cost of sales was **PLN 1,803/tonne** (down 32.0% on 2014). The unit sales margin in 2015 came in at **PLN 219/tonne** (up 119.0% on 2014). The LOTOS Group's consolidated gross profit for 2015 was **PLN 2,460.4m** (up PLN 1,425.1m on 2014).

Higher distribution costs resulting from growing sales volumes and foreign exchange movements

Distribution costs grew by PLN 122.8m (up 10.6% on 2014), chiefly on the back of 8.4% higher sales volumes and higher average USD/PLN exchange rate during the year (up 19.7% on 2014).

Net other expenses

In 2015, the LOTOS Group reported net other expenses of PLN 293.0m, including chiefly PLN 161m in the provisions for the risk related to the challenging of the right to deduct VAT by the tax authorities.¹ Net other expenses were also strongly affected by the recognition of impairment losses of approximately PLN 69m on Lithuanian assets related to the AB LOTOS Geonafra Group's deposits, an impairment loss of approximately PLN 12m on the Sambia E area, and an impairment loss of PLN 8m on service stations. Other factors included the ca. PLN 15m charge to expenses representing the net value of liquidated intangible exploration and evaluation assets – Norwegian licences (PL362, PL035B, PL503), expenditure write-offs and costs related to the B8 project (ca. PLN 41m), and remeasurement of the decommissioning provision as a result of the ca. PLN 10m increase in the estimated cost of decommissioning of the MOPU (Mobile Production Offshore Unit) from the Yme field in Norway.

¹ Pursuant to the decision of the Tax Audit Office; see [Note 9.4](#) to the consolidated financial statements for 2015.

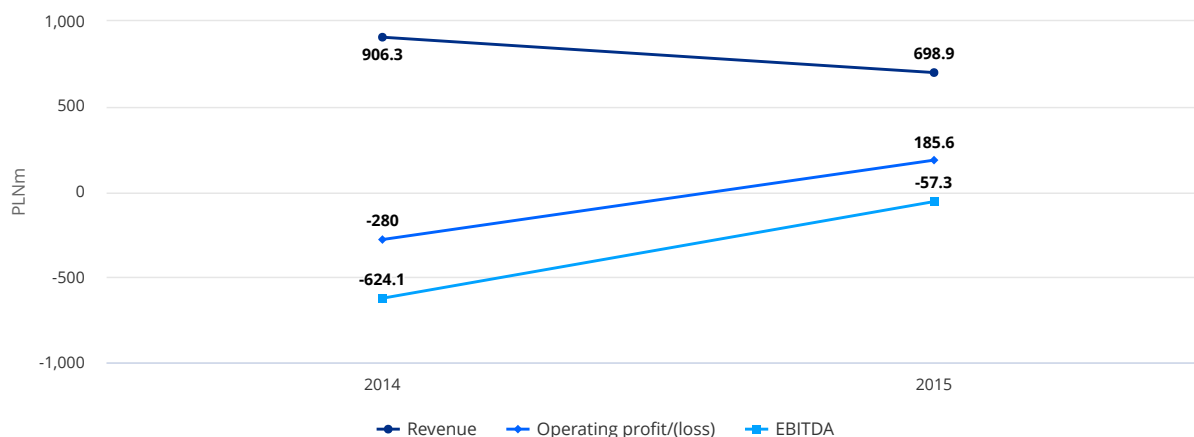
Operating profit

The LOTOS Group's operating profit for 2015, totalling **PLN 423.4m**, included a PLN 449.0m operating profit in the downstream segment, offset by a PLN -57.3m operating loss in the upstream segment.

In 2015, the LOTOS Group significantly reduced operating losses in the upstream segment and at the same time reported a profit in the downstream segment, despite lower revenue earned in both segments.

Upstream segment's key financial data

Upstream segment's key financial data (PLNm)

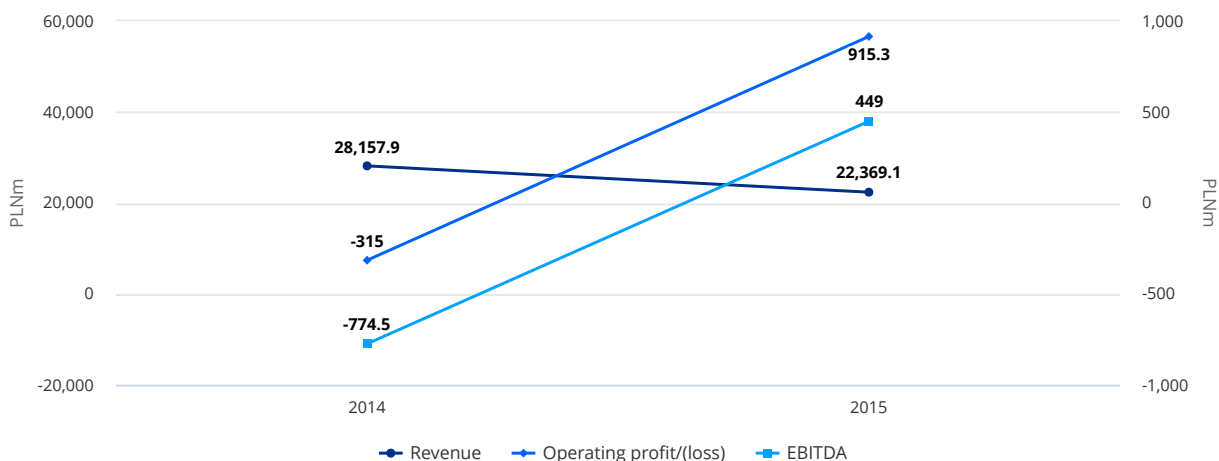


The decrease in the upstream segment's revenue in 2015 (down 22.9% on 2014) was driven primarily by falling prices of crude oil and petroleum products on global markets, offset by improved crude oil and natural gas sales volumes and a higher average annual USD/PLN exchange rate.

Weighing down on the upstream segment's 2015 operating result were non-recurring items (mainly impairment losses and asset liquidation), valued at some PLN 151m (2014: PLN 785m, including mainly impairment losses and write-offs on discontinued projects). The impact of non-recurring items was smaller than in 2014, which translated into the LOTOS Group's lower operating loss of PLN 57.3m. The year-on-year change in EBITDA followed from a PLN 101.2m reduction in depreciation and amortization.

Downstream segment's key financial data

Downstream segment's key financial data (PLNm)



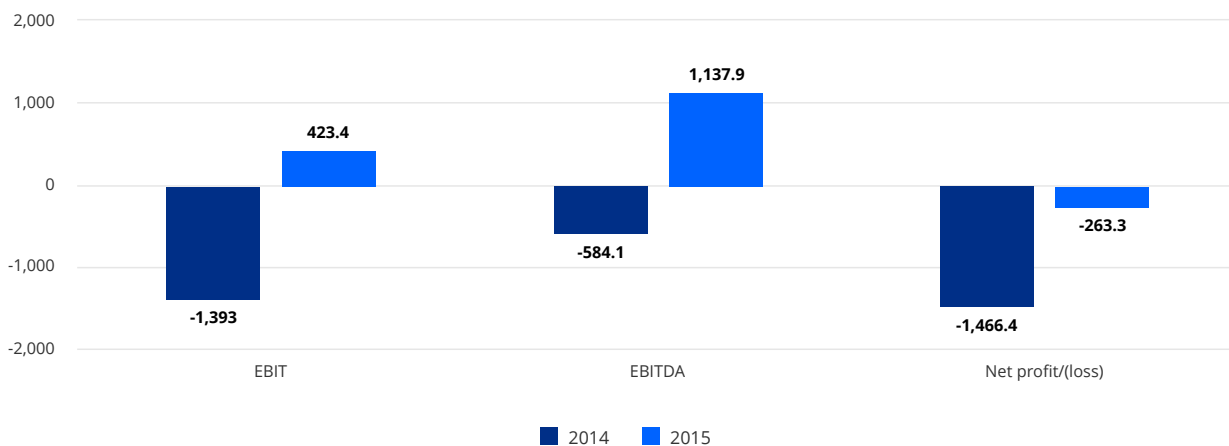
The lower revenue posted by the downstream segment in 2015 relative to 2014 was due mainly to a 26.5% fall in average selling prices, caused by lower prices of petroleum products on global markets, offset by a higher USD/PLN exchange rate.

In 2015, the LOTOS Group's downstream segment posted operating profit of PLN 499.0m. The key factors contributing to the year-on-year change in operating result included PLN 450.9m inventory write-downs recognized in 2014 and the related lower cost of products sold in H1 2015. At the same time, a plunge in crude oil and petroleum products prices in H2 2015, and remeasurement of inventories of raw materials, products, semi-finished products and merchandise held at the end of 2015, performed to reflect the current prices, reduced the operating result by PLN 264.2m (inventory write-down in 2015).

LOTOS Group' net loss reduction

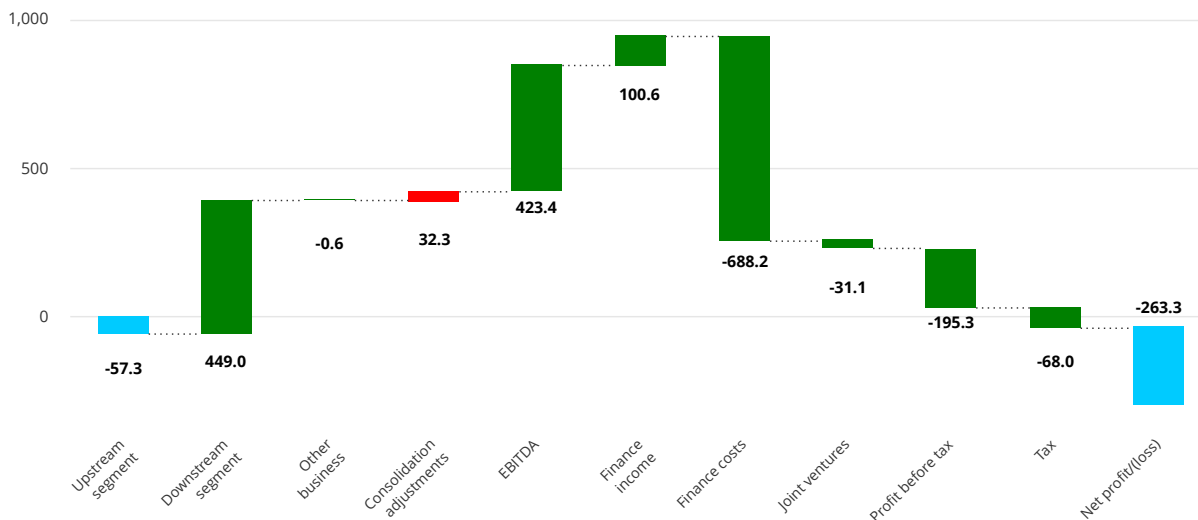
In 2015, the LOTOS Group considerably improved its operating performance and reduced the net loss.

Key financial data



The year-on-year improvement at the net profit/(loss) level was caused mainly by stronger operating performance in both business segments. In 2015, the negative effect of finance costs (mainly exchange differences and interest on debt and commissions) on the net profit/(loss) was amplified by a decrease in deferred tax assets, following from partial expiry and loss of the right to offset tax losses brought forward. In 2014, the adverse effect of finance activity totalling PLN 730.7m was partly offset by the positive impact of an increase in deferred tax assets.

Consolidated financial performance of the LOTOS Group in 2015 (PLNm)



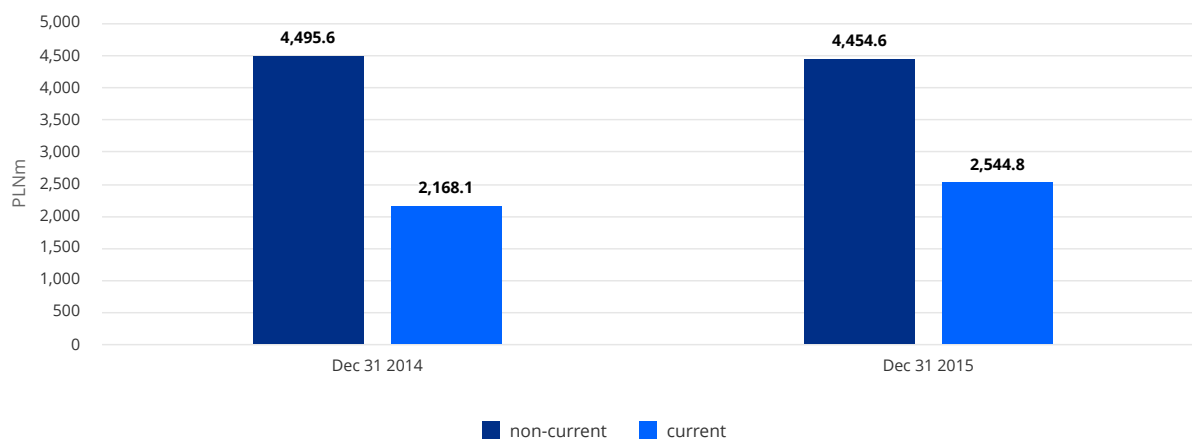
Efficient debt management

Efficient debt management in 2015 translated into a lower rate of debt growth relative to the capital expenditure incurred.

As at December 31st 2015, the LOTOS Group's financial debt totalled PLN 6,999.3m, up PLN 335.6m on December 31st 2014. The increase was chiefly related to a higher USD exchange rate (up PLN 0.39/USD on December 31st 2014.) The ratio of financial debt adjusted for free cash (including cash earmarked to pursue the objectives of the issue of Series D shares) to equity was 73.9% (up 9.5pp on December 31st 2014).

Liabilities under borrowings, other debt instruments, and finance lease liabilities

Liabilities under borrowings, other debt instruments, and finance lease liabilities (PLNm)



As at December 31st 2015 and December 31st 2014, the LOTOS Group complied with its financial covenants, including:

- requirement to maintain Tangible Consolidated Net Worth ratio at the level specified in the facility agreements or higher;
- requirement to maintain Loan to Pledged Inventory Value ratio at the level specified in the facility agreement or lower.

In 2015, the LOTOS Group financed investment projects (negative cash flows from investing activities) with positive cash flows from operating activities and, to a lesser extent, with cash flows from financing activities, which is indicative of the Group's improving financial position.

Cash flows

(PLNm)	2015	2014
Cash flows from operating activities	1,488.1	1,380.5
Cash flows from investing activities	-1,162.0	-958.3
Cash flows from financing activities	114.7	-597.3

Challenges of the fuel market

Challenges of the fuel market

Recent years, including 2015, have witnessed significant instability on the global oil and gas markets. Despite a large oversupply, the global oil production has continued to rise, mainly in non-European countries, adding to the pressure on oil prices. The situation has been further aggravated by the high volatility of US dollar and euro exchange rates.

As upstream margins declined relative to those generated downstream, companies significantly reduced their exploration and production activity, which is demanding both financially (high capital expenditure) and in terms of access to the market (licence requirements).

Oil producers were forced to adapt to the persistently low prices of oil. The adaptation measures focused chiefly on scaling down the planned investment projects and reducing operating expenses, with capital expenditure cuts in 2015 estimated at 20–30%. These adverse developments are taking place at the time when European companies are facing the problem of their exploration and production work moving to more difficult and less accessible deposits.

The uncertain macroeconomic situation may be exacerbated in the near future by continued slow economic growth of China, further appreciation of the US dollar, weak economic recovery in the eurozone, and development of the geopolitical situation.

A major challenge for the EU fuel industry is posed by the risks related to carbon (CO₂) emission caps, including a possible increase in prices and insufficient allocation of CO₂ emission allowances, which will necessitate additional costs to be incurred to purchase allowances on the market to cover the deficit. The measures that have been implemented by the European Commission, affecting the operation of the EU ETS (Emissions Trading Scheme), will have a bearing on the price of allowances. The MSR (market stability reserve) mechanism introduced into the EU law in 2015, which will materially affect the number of allowances available on the market and, consequently, also their price, is to be put in place in 2019 instead of 2021 as originally proposed. As a result of the change of its effective date, rules of trading in the EU ETS will change materially in the course of a trading period (currently the third trading period – 2013–2020) rather than as of the beginning of the next one.

At present, proceedings are pending before the European Court of Justice to void the decision of the European Parliament and of the Council concerning the establishment and operation of the market stability reserve for the EU greenhouse gas emission trading scheme. The proceedings were instigated as a result of a complaint filed by Poland. Given the complexity of the case, it is expected that it may take as much as a year for the court to issue a judgment.

Operating environment of our upstream business

According to the 'BP Statistical Review 2015', at the end of 2015 47.7% of crude oil reserves were in the Middle East: mainly Saudi Arabia (15.7% of global reserves), Iran (9.3%) and Kuwait (6.0%). The second largest region in terms of oil reserves is the South and Central America (19.4% of global reserves), with the dominant position of Venezuela (17.5% of global reserves). The highest reserves to production ratio (R/P) is recorded for Venezuela (almost 120), followed by Kuwait (89), the United Arab Emirates (72) and Saudi Arabia (63). Norway's reserves stand at 6.5bn barrels (0.4% of global reserves), with the R/P ratio at 9.5.

Global reserves of natural gas amount to 187 trillion cubic metres. In terms of the quantity of reserves, the Middle East ranks first among world regions, with 42.7% of global reserves, including primarily Iran (18.2%) and Qatar (13.1%). Next are Russia (17.4% of global reserves), Turkmenistan (9.3%) and the United States (5.2%). The highest reserves to production ratios (R/P) are recorded for Azerbaijan (68.8), Russia (56.4) and Algeria (54.1). However, this ranking may change after the economic sanctions imposed on gas production in Iran in response to its nuclear programme are lifted. Norway's natural gas reserves total 1.9 trillion cubic metres (1% of global reserves) and its R/P ratio is 17.7.

How to meet the challenges?



THE GLOBAL GOALS
For Sustainable Development



The LOTOS Group's overriding priority at all times is to ensure Poland's security in the energy sector. The challenging and unstable macroeconomic environment does not change the fundamental importance, as we see it, of access to own resources and independence from suppliers. With this in mind, we concentrate our efforts to increase the hydrocarbons production and oil distillate yields, improve Poland's fuel balance and exploit synergies between the refining industry and other industries in the energy sector. We also attach great importance to improving our efficiency and competitiveness by implementing the innovative EFRA Project.

We strive to ensure that our sustainable development, translating into shareholder value growth, is pursued with due respect for the environment in which we operate. Through our activities we want to stimulate regional development by putting in practice the principles of economic patriotism.

We strongly believe that this innovative and responsible approach to business may make us an important element of the government's 'Responsible Development Plan' prepared by Mateusz Morawiecki, Deputy Prime Minister and Minister of Development.

How can Grupa LOTOS contribute to the implementation of the 'Responsible Development Plan'?



THE GLOBAL GOALS
For Sustainable Development



Pillars of economic patriotism

Reindustrialization	Development of innovative companies	Capital for growth	Capital for growth	Social and regional development
Increase purchases of raw materials/materials/products from Polish businesses	Make expenditure on research and development	Plan and implement investment projects contributing to the growth of other industries	Grow share of exports in revenue	Contribute to the development of regions where the LOTOS Group conducts its core activities, e.g. through

				investment and social innovation projects
Offer products supporting the development of industry, which is a natural environment for innovation	Create an innovation-supportive environment within the organization	Provide capital that facilitates growth of other businesses by paying taxes in Poland	Enter new, rapidly growing markets	Prevent the formation of exclusion areas and eliminate differences in access to work
Contribute to building a network for cooperation with local suppliers	Partner with research centres, develop human resources	Promote employee stock purchase plans (diversification of income sources)	Implement direct foreign investments	Foster greater activity of local communities through cultural and sports initiatives
Create jobs (contracts and taxes) in other sectors of the economy, in particular in the production sector	Provide financial and non-financial involvement to the development of an ecosystem of innovations related to the Grupa LOTOS' value chain			

Efficiency as top priority

In view of the persistently unfavourable macroeconomic environment, including unstable conditions on the commodities market and sharp declines in crude oil prices, the LOTOS Group's upstream segment will focus on improving efficiency and financial stability. We plan to concentrate on our key strategic projects, including further development of the B8 oil field and of the B4/B6 gas fields, as well as on using cash flows from the Heimdal and Sleipner fields to recover the capital locked in the tax asset related to the YME field development project in Norway. ([See more](#))

As part of the strategy-driven activities, a number of efficiency-improving initiatives are also planned, including:

- Optimization of the operating costs (particularly important should the prolonged oil price crisis scenario materialize),
- Discipline in project implementation and operational excellence, to be achieved for instance through fully leveraging the potential of the LOTOS Group's assets, including both the hydrocarbon reserves (i.e. increasing recovery rates and extending field lives) and the technical assets (i.e. optimum use of platforms, vessels and other assets);
- Possible use of the current market situation and attractive prices to pursue asset acquisition opportunities.

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**the LOTOS Group's capex
in the upstream
segment in 2015**