Ladies and Gentlemen, Dear Shareholders,

I am delighted to share our Annual Report, which presents LOTOS Group’s financial results for 2018. These results are extremely important to us as they consistently confirm a sound financial condition of our company and allow us to look confidently into the future implementing further ambitious growth plans.

We can proudly say that thanks to prudent asset management and the maximisation of benefits from market opportunities we posted record operating results yet for another year in a row. Our adjusted LIFO-based EBITDA reached an unprecedented level of PLN 3.125bn in 2018. The company’s financial position is constantly improving, as demonstrated by the solid operating cash flow reaching PLN 2.3bn last year.

We are also moving ahead with our investment projects, having spent PLN 1bn in 2018. Simultaneously our debt level fell significantly, by almost 25%, to PLN 1.9bn at the end of 2018. What is more, the ratio of net debt to adjusted LIFO-based EBITDA dropped to 0.6x. This excellent performance was reflected in our share price on the Warsaw Stock Exchange, which came close to PLN 90 at the end of 2018. We have paid the dividend for the second year in a row.

As an owner or co-owner of 36 offshore and 11 onshore licences, we extract hydrocarbons in the Polish zone of the Baltic Sea, on the Norwegian Continental Shelf, in Poland, and in Lithuania. In 2018, the 2P recoverable reserves controlled by LOTOS increased to 89.8 million barrels, and our own production reached approximately 7.5 million barrels.

Our refinery, ranked among Europe’s most advanced facilities of its type, ran at full capacity, enabling us to break another record, with oil throughput at close to 10.8 million tonnes in 2018.

Also the macroeconomic climate looked very favourable last year, with the average oil price of USD 71/bbl making a positive contribution to our upstream performance. Our results were also supported by the strong US dollar. Downstream results were supported by middle distillate crack spreads. What significantly contributed to the segment’s performance was the high model refining margin, which amounted to USD 7.41 per barrel for the entire 2018.

We were the first in Central and Eastern Europe to start publishing our model refinery margin on a daily basis, providing our investors, analysts and customers with a tool for ongoing monitoring of trends shaping profitability of our company and the oil and gas industry at large.

The EFRA Project, which is a continuation of technological modernisation of the refinery, naturally supplementing the crude oil processing configuration created under the 10+ Programme, is scheduled for completion in 2019. According to an annex signed with the main contractor, KT Italy, the delayed coking unit (DCU), project’s key plant, will achieve the RFSU status by the end of May this year. But the Project’s effects can already be seen today – with the vacuum distillation unit (HVDU) brought on stream, our refinery was able to deliver record throughput in 2018, as mentioned earlier.

We are making progress across all segments. We are reorganising our upstream business, adjusting our offering, opening new service stations, but above all we embrace new opportunities that come with alternative fuels.
They are on our priority list. In autumn 2018, we commenced testing of the first 12 EV charging points on the A1 and A2 motorways under the LOTOS Blue Trail project. We plan to quadruple the number of electric chargers at our stations, which means that further 38 charging points will be built and operational by the end of 2020.

EV chargers are only the beginning. During the COP24 summit held in Katowice in December, we signed an agreement to fund hydrogen refuelling points under the Pure H2 project. We will launch distribution of very high purity hydrogen (99.999%) which could be used in the first place by urban transport services. The project envisages a construction of a hydrogen purification unit and a hydrogen sales and distribution station in the immediate vicinity of the LOTOS Group plant, as well as two vehicle refuelling points in Gdańsk and Warsaw. The project, worth almost EUR 10m, is to be commissioned in 2021.

One of the five pillars of our business strategy until 2022 is our commitment to developing and implementing innovation, including digital. We have signed an agreement with Microsoft to initiate joint projects and implement solutions using artificial intelligence and the latest IT technology.

With the sustainable development policy in mind and to uphold the good reputation of the LOTOS brand, we have long supported sports, cultural and corporate social responsibility initiatives. In 2018, we signed a series of significant sponsorship agreements that strengthen our relations with our partners. We will be the Main Sponsor of the Polish National Football Team until 2022. Ski jumpers and cross-country skiers will also receive our support for another four years. We are consistently implementing our educational and sports programmes, designed in particular for children and youth. Since August 2018, we have also supported university sport clubs.

We would not have been able to deliver our goals had it not been for our employees, our most precious asset. On behalf of the Management Board of Grupa LOTOS S.A., I would like to thank all LOTOS employees and the Supervisory Board members for their professionalism, hard work, dedication and the successes we have achieved together. I would also like to express my sincere thanks to our business and social partners as well as to our customers for the trust they place in us.

Sincerely yours,

Mateusz A. Bonca
President and CEO