Dear All,

I am honoured to present the 2015 Annual Report of the LOTOS Group.

2015 was marked with momentous events which significantly affected the global economic landscape, particularly challenged by the volatility on the hydrocarbon market. Despite significant oversupply of oil, global production continues to grow, driving further declines in crude prices. Large oil and gas producers are faced with unfavourable business environment. Falling prices make them increase production volumes to generate expected revenues. High production levels in turn keep the prices low. The situation is further complicated by fluctuations in the US dollar and the euro exchange rates.

The LOTOS Group’s overriding priority at all times is to ensure Poland’s energy security. We view this as our corporate duty, which we fulfil by delivering the highest-quality fuels, oils and other petroleum products to the market.

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. The laws of the oil market are tough, favouring the interests of the largest players. I take pride in saying that LOTOS is implementing a strategy whose ultimate objective is to make the Company as independent from other suppliers as possible.

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 accurate growth programme, we now operate one of Europe’s most advanced refineries and own growing resources of crude oil. The LOTOS refinery units deliver products of top quality and ensure the deepest processing of feedstock, which increases the financial efficiency of the refining process and builds our competitive position on the market.

Thanks to the launch of initial production from the B8 field in the Baltic Sea, stable production from the B3 field, production from deposits in Lithuania, and acquisitions in Norway, as at the end of 2015 LOTOS increased its daily hydrocarbon production to nearly 30,000 barrels of oil equivalent per day (boe/d). Thus, we exceeded the target of 24,000 boe/d set in the strategy for 2011–2015.

Additionally, having acquired interests in Heimdal and Sleipner fields, we closed the Yme chapter of our history. This unfinished project generated a tax asset, which – pursuant to the Norwegian
law – may be unlocked through the use of cash flows generated from hydrocarbon production on the Norwegian Continental Shelf.

On October 7th 2015, we laid the cornerstone for a deep oil conversion complex to be developed under the Effective Refining (EFRA) Project. The coking unit built under the Project will contribute to increased distillate yields, and thus will boost the refining margin by approximately USD 2/bbl. With the new units, we will add up to 900,000 tonnes to our annual output of fuels, mainly diesel oil, to be delivered onto the Polish market.

In 2015, LOTOS reported record-high volumes of hydrocarbon production and processing at the refinery in Gdańsk. The average daily output from the fields located in Poland, Norway, and Lithuania was close to 28,400 boe, and the refinery operated by Grupa LOTOS S.A. in Gdańsk processed more than 10.2 million tonnes of crude oil.

The Company generated PLN 1,488m in cash flows from operating activities (2014: PLN 1,381m) – a visible proof of LOTOS’ sound financial condition.

We also delivered on last year’s plans to expand our network of service stations. 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. Currently, 4 in 10 LOTOS stations are economy service stations; the remaining belong to the premium segment. Proportions for DOFO and CODO stations are the same. In 2015 we opened the 18th 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 standardisation 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. In December 2015, LOTOS opened the first SUBWAY restaurant.

The LOTOS network’s growing sales make us optimistic about its future performance and confirm the attractiveness of the LOTOS Biznes offering. We continue to develop the product, reaching new procurement groups of micro- and small enterprises. Thanks to our fleet cards and an offering tailored to the sector’s needs, LOTOS is increasing its sales volumes, on a par with the volumes generated by a dozen or so service stations. Our operating philosophy is to find the best possible offer for each, even the smallest, enterprise.
LOTOS has developed a new model of corporate sponsorship of sports in Poland. We engage in a wide variety of sport disciplines. In February 2015, we signed a contract with the Polish Football Association, whereby until 2018 we will act as the Major Sponsor of the Polish national football team. LOTOS’ long experience in sponsoring sports clubs and events makes it perfectly placed for this role. We watched with great satisfaction how our players qualified for EURO 2016, and will wholeheartedly support the team managed by Adam Nawalka in June and July during the European Championship in France. 2015 was a year of notable successes in motor sports, too. LOTOS Rally Team’s Kajetan Kajetanowicz made it to the European Rally Championship, the oldest rally series in the world, and took the victory. In 2015, Kajetan Kajetanowicz also won the ERC Ice Master and Gravel Master titles. **LOTOS is also actively involved in a number of social initiatives across Poland. Our last year’s ‘Helping while refuelling’ campaign** was very well received. With each litre of fuel bought at LOTOS and LOTOS Optima stations, funds were transferred to organisations partnered with the LOTOS Foundation, to help fulfil the dreams of children and youth remaining under their care as well as to help modernise and furnish their houses.

We also ran the next edition of the ‘LOTOS Safety Belt Champions’ programme. The idea behind the campaign is to educate children on how to correctly fasten seat belts and travel in safety seats. Kajetan Kajetanowicz agreed to become the ambassador of the campaign.

LOTOS is active on the international stage too, safeguarding Poland’s energy and economic interests to the greatest possible extent, both in Europe and globally. As a member of Central Europe Energy Partners, we participated in the development of substantive framework for COP-21, the Paris Climate Conference. Through determined efforts of the Polish government, decarbonisation decisions were not included in the conference’s conclusions. This will support efficient operation of the Polish economy. Likewise, LOTOS – through CEEP – has worked for a number of years on creating climate for rationalising the imperatives guiding the struggle against global warming.
The economic landscape in 2016 is rather unlikely to differ much from the tensions of 2015. Like a lens focuses light, the oil industry focuses various conflicts which need to be resolved. However, LOTOS is well prepared to operate during such challenging periods, facing the threats that may arise. With its efficient investment processes and own management infrastructure that can be relied on even in the most adverse conditions, the Company is able to continue business as usual, strengthening its position on the path to sustainable development. LOTOS is one of the few Polish companies able and ready to successfully operate on the local, national, and global arena.

With kindest regards,

Pawel Olechnowicz
President of the Management Board
Chief Executive Officer
at Grupa LOTOS S.A.