

## **Grupa LOTOS S.A. Strategy for 2017–2022**

The Company has built the Strategy around the key concepts of stability and safe growth, along two time horizons.

In the initial years 2017 and 2018, the Company wants to focus on stabilising its cash flows, lowering debt, and making progress on running capital investment projects.

Next, in 2019 to 2022, the Company is set to further expand its business based on a new portfolio of capex projects and by investing profits generated by completed projects, which will be additionally facilitated by cost discipline, cost saving, and other measures.

LOTOS is seeking to position itself as a producer of premium quality fuels and chemicals with an optimum degree of vertical integration, a provider of specialised logistics and servicing support, and a leader in innovating its core business – all with the ultimate goal of generating stable growth in shareholder value and enhancing Poland’s energy security.

Grupa LOTOS has identified the following five strategic objectives:

1. Effective use of production licences, further optimisation of refining technologies, launch of new products and alternative fuels, and commitment to quality,
2. Consistent and repeatable reduction of operating expenses and optimisation of margins along the value chain,
3. Readiness to develop and embrace innovation based on dedicated funding, an advanced model of cooperation with research institutions and creative engagement of employees,
4. Flexible response to risks, perceived through potentially offered business opportunities,
5. Greater responsibility for security at large in accordance with Poland’s economic, environmental and energy policies (diversification of feedstock and fuel supplies, OHS, cyber security, social responsibility).

Key target metrics of the Grupa LOTOS S.A. Strategy for 2017–2022:

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- twofold increase in average annual LIFO-based EBITDA in 2019–2022, to around PLN 4bn;
  - reduction of net debt/LIFO-based EBITDA to no more than 1.5;
  - execution of investment projects worth a total of PLN 9.4bn over six years;
  - acquisition of oil and gas reserves (2P – proved and probable) totalling at least 60 million boe and achieving daily hydrocarbon production of 30–50 thousand boe (barrels of oil equivalent);
  - expansion of the LOTOS retail chain to comprise 550 service stations;
  - maintenance of LTIF (Lost Time Injury Frequency) below 3.

**In the upstream business,** Grupa LOTOS will optimise financing sources and consistently build a sound and balanced asset portfolio, based on projects in the pipeline. The Company intends to pursue more field development projects, capture market opportunities to enhance its portfolio of upstream assets and reduce the share of licences covering mature fields in its overall portfolio.

The Company's operations are focused around hubs on the Norwegian Continental Shelf; any possible geographical diversification will be subject to analysis.

**In the refining business,** the Company is set to maintain its cutting edge in technology in Central Europe and compete in innovation. In its first phase, the Strategy will be implemented through the EFRA investment programme. The Company is contemplating three potential directions of building further competitive advantage based on newly developed refining assets:

1. Building a new olefin complex (with an ETBE unit) or using naphtha (currently exported) to manufacture motor gasolines with a view to lengthening the integrated margin chain; or
2. Entering new product markets with an extended offering of high-margin Group 2 and 3 base oils (based on internally generated feedstock – hydrowax); or
3. Increasing the reliability of electricity supply and entering the capacity market through the construction of a CHP plant to meet internal needs.

**In the retail business,** the Company plans to optimise customer service and sales, revamp its loyalty scheme with the use of best available technologies and introduce innovative products and services. The Company will improve service quality and strive to win leadership in new generation fuels (CNG, LNG, electricity and hydrogen) as part of the LOTOS Energy Hub project.

The Company wants to organically expand its retail chain, to reach 550 LOTOS service stations in 2022.

Striving to ensure financial and operational stability, the Company plans to reduce costs (which would strengthen its resilience to any adverse macroeconomic conditions in the future) by implementing a Group-wide procurement strategy. The Company's ambition is to actively manage internal demand and consolidate orders by tightening its relations with suppliers as part of the Efficiency Improvement Programme.

The Company believes these initiatives will generate annual savings of PLN 300m vs 2015 cost base, each year until 2019.

### **Innovation**

Grupa LOTOS will develop new models of collaborative interaction with research institutions and start-ups based on joint research agendas and a dedicated innovation fund.

**CAPEX in 2017–2022:**

- PLN 2.0bn for projects in progress;
- PLN 4.1bn for projects pending FID (mainly in the upstream segment);
- PLN 3.3bn planned as additional expenditure after 2018 – for alternative projects ultimately selected in 2018, depending on their economics and market developments.

**CAPEX by key project groups** across business areas:

- PLN 3.0bn – upstream portfolio development, including:
  - PLN 0.8bn for operations in the currently producing fields: B8 and B3 in Poland, Heimdal and Sleipner in Norway,
  - PLN 1.9bn for development of the fields: B4/B6, Utgard, Frigg Gamma Delta and YME (or similar project),
  - PLN 0.3bn for hydrocarbon exploration under Baltic Sea licences and continued on-shore cooperation with PGNiG;
- PLN 2.5bn in the refining area, including:
  - PLN 1.3bn for completion of EFRA,
  - PLN 1.2bn for upgrade and replacement of existing process infrastructure;
- PLN 0.6bn – in the marketing business, for optimisation of the retail chain through relocation of selected stations and chain standardisation;
- PLN 3.3bn – to be allocated to business areas by the end of 2018.

In the period covered by the Strategy, the Management Board will seek to achieve and maintain Grupa LOTOS S.A.'s ability to pay dividends.