



Directors' Report on the operations of the LOTOS Group in the first half of 2018

This is the translated version of a document originally
issued in Polish



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The excel file with operational and financial data for Q2 2018 and H1 2018, as well as for previous periods, is published simultaneously with the half-year report on the investor relations website as → [databook](#).

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1. Overview of the LOTOS Group performance

In H1 2018, despite lower refining margins and the depreciation of the US dollar against the złoty, the consolidated operating results of Grupa LOTOS S.A. remained relatively unchanged year on year. The key metric, i.e. LIFO-based EBITDA adjusted for one-off items, reached almost PLN 1.4bn, supported by the downstream segment maintaining its operational efficiency and the upstream segment's stable performance. The maximum utilisation of the refining capacity in response to the strong domestic demand and the continued improvement in the retail segment's performance were supported by a slight decline in the upstream segment's performance, caused by a drop in production volumes. Net profit exceeded PLN 850m and was 50% higher year on year.

1.1. Organisational structure of the LOTOS Group and divisions of Grupa LOTOS S.A.

As at June 30th 2018, the LOTOS Group (the Group) comprised Grupa LOTOS S.A. (Grupa LOTOS), as the Parent, and 37 production, service and trading companies, including:

- 14 direct subsidiaries of Grupa LOTOS S.A.,
- 23 indirect subsidiaries of Grupa LOTOS S.A.

In addition, Grupa LOTOS S.A. holds interests in equity-accounted joint ventures.

Grupa LOTOS S.A. has no divisions (establishments) within the meaning of the Polish Accounting Act.

The Group comprises two reportable operating segments:

- **upstream segment** – comprising activities related to the acquisition of crude oil and natural gas reserves, and crude oil and natural gas production, as well as the related auxiliary, transport, and service activities,
- **downstream segment** – comprising the production and processing of refined petroleum products and their wholesale and retail sale, as well as auxiliary, transport and service activities.

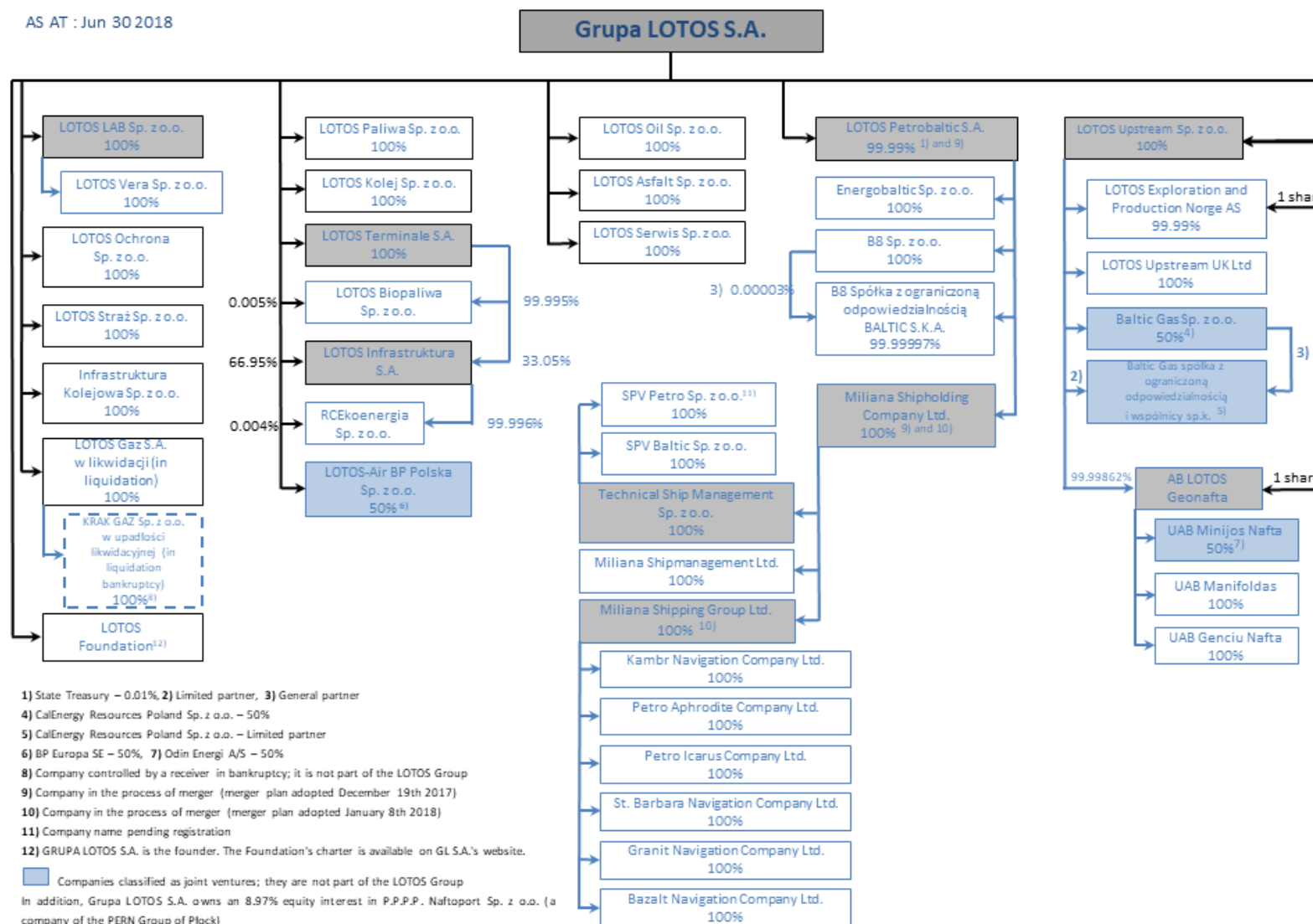
The Group entities and joint ventures accounted for with the equity method in accordance with IFRS 11 are allocated to the business areas in the following manner:

- the LOTOS Petrobaltic Group companies and LOTOS Upstream Sp. z o.o. as well as joint ventures with companies which are not members of the LOTOS Group are allocated to the upstream segment,
- the other companies of the LOTOS Group and joint ventures with companies which are not members of the LOTOS Group are allocated to the downstream segment.

In accordance with IFRS 8, these two business areas represent two reportable operating segments.

Structure of the LOTOS Group as at June 30th 2018

AS AT : Jun 30 2018



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) Company controlled by a receiver in bankruptcy; it is not part of the LOTOS Group
 9) Company in the process of merger (merger plan adopted December 19th 2017)
 10) Company in the process of merger (merger plan adopted January 8th 2018)
 11) Company name pending registration
 12) GRUPA LOTOS S.A. is the founder. The Foundation's charter is available on GL S.A.'s website.
 Companies classified as joint ventures; they are not part of the LOTOS Group
 In addition, Grupa LOTOS S.A. owns an 8.97% equity interest in P.P.P. Naftoport Sp. z o.o. (a company of the PERN Group of Plock)

1.2 Changes in organisational or capital links between Grupa LOTOS S.A. and other entities

Below is presented information on the registered addresses and business profiles of the LOTOS Group companies, Grupa LOTOS S.A.'s ownership interests in those companies, and methods of their consolidation.

Companies with organisational links to Grupa LOTOS S.A.

Name	Registered office	Business profile	Group's ownership interest		
			Jun 30 2018	Dec 31 2017	Jun 30 2017
Parent					
Grupa LOTOS S.A.	Gdańsk	Manufacturing and processing of refined petroleum products (mainly fuels) and their wholesale	Not applicable	Not applicable	Not applicable
Direct fully-consolidated subsidiaries					
LOTOS Upstream Sp. z o.o. (parent of another group: the LOTOS Upstream Group)	Gdańsk	Activities of head offices and holdings	100.00%	100.00%	100.00%
LOTOS Petrobaltic S.A. (parent of another group: LOTOS Petrobaltic Group)	Gdańsk	Acquisition of crude oil and natural gas deposits, extraction of hydrocarbons	99.99%	99.99%	99.99%
LOTOS Paliwa Sp. z o.o.	Gdańsk	Wholesale and retail sale of fuels and light fuel oil, management of the LOTOS service station network	100.00%	100.00%	100.00%
LOTOS Oil Sp. z o.o.	Gdańsk	Manufacturing and sale of lubricating oils and lubricants, and sale of base oils	100.00%	100.00%	100.00%
LOTOS Asphalt Sp. z o.o.	Gdańsk	Manufacturing and sale of bitumens	100.00%	100.00%	100.00%
LOTOS Kolej Sp. z o.o.	Gdańsk	Railway transport	100.00%	100.00%	100.00%
LOTOS Serwis Sp. z o.o.	Gdańsk	Maintenance of mechanical and electric operations and controlling devices, overhaul and repair services	100.00%	100.00%	100.00%
LOTOS Lab Sp. z o.o. (parent of another group: LOTOS Lab Group)	Gdańsk	Laboratory testing	100.00%	100.00%	100.00%
LOTOS Straż Sp. z o.o.	Gdańsk	Fire service activities	100.00%	100.00%	100.00%
LOTOS Ochrona Sp. z o.o.	Gdańsk	Security services	100.00%	100.00%	100.00%
LOTOS Terminale S.A. (parent of another group: LOTOS Terminale Group)	Czechowice-Dziedzice	Storage and distribution of fuels	100.00%	100.00%	100.00%
LOTOS Infrastruktura S.A. (parent of another group: LOTOS Infrastruktura Group)	Jasio	Storage and distribution of fuels, renting and operating of own or leased real estate	100.00%	100.00%	100.00%
LOTOS Gaz S.A. w likwidacji (in liquidation)	Kraków	Dormant	100.00%	100.00%	100.00%

Non-consolidated direct subsidiaries ⁽²⁾						
Infrastruktura Kolejowa Sp. z o.o. w likwidacji (in liquidation) ⁽²⁾	Gdańsk	Dormant		100.00%	100.00%	100.00%
LOTOS Foundation	Gdańsk	Socially beneficial activity within the scope of public tasks defined in the Act on Public Benefit and Volunteer Work. The Foundation does not conduct any business activity.		100.00%	100.00%	100.00%
Indirect fully-consolidated subsidiaries						
LOTOS Lab Group						
LOTOS Vera Sp. z o.o.		Gdańsk	Manufacture of cars	100.00%	100.00%	-
LOTOS Infrastruktura Group						
RCEkoenergia Sp. z o.o.		Czechowice-Dziedzice	Production and distribution of electricity, heat and gas	100.00%	100.00%	100.00%
LOTOS Terminale Group						
LOTOS Biopaliwa Sp. z o.o.		Czechowice-Dziedzice	Production of fatty acid methyl esters (FAME)	100.00%	100.00%	100.00%
LOTOS Upstream Group						
LOTOS Exploration and Production Norge AS		Norway, Stavanger	Oil exploration and production on the Norwegian Continental Shelf, provision of services incidental to oil and gas exploration and production	100.00%	100.00%	99.99%
AB LOTOS Geonafta (parent of another group: AB LOTOS Geonafta Group)		Lithuania, Gargzdai	Crude oil exploration and production, drilling services, and purchase and sale of crude oil	100.00%	100.00%	99.99%
UAB Genciu Nafta		Lithuania, Gargzdai	Crude oil exploration and production	100.00%	100.00%	99.99%
UAB Manifoldas		Lithuania, Gargzdai	Crude oil exploration and production	100.00%	100.00%	99.99%
LOTOS Upstream UK Ltd.		London, United Kingdom	Exploration for and production of crude oil and gas	100.00% ⁽³⁾	-	-
LOTOS Petrobaltic Group						
Aphrodite Offshore Services N.V.		Curaçao	Dormant	- ⁽⁴⁾	99.99%	99.99%
ENERGOBALTIC Sp. z o.o.		Władysławowo	Production of electricity, heat, LPG and natural gas condensate	99.99%	99.99%	99.99%
B8 Sp. z o.o.		Gdańsk	Support activities for extraction and quarrying operations	99.99%	99.99%	99.99%
B8 Spółka z ograniczoną odpowiedzialnością BALTIC S.K.A.		Gdańsk	Exploration for and production of crude oil and natural gas	99.99%	99.99%	99.99%
Miliana Shipholding Company Ltd. (parent of another group: Miliana Shipholding Company Group)		Nicosia, Cyprus	Storage and transport of crude oil, other sea transport services	99.99%	99.99%	99.99%
Technical Ship Management Sp. z o.o. (parent of another group: Technical Ship Management Group)		Gdańsk	Sea transport support activities, ship operation advisory services	99.99%	99.99%	99.99%
SPV Baltic Sp. z o.o.		Gdańsk	Provision of sea transport and related services	99.99%	99.99%	99.99%

SPV Petro Sp. z o.o. ⁽⁵⁾	Gdańsk	Support activities for oil and gas production, sea transport, ship operation advisory services	99.99%	-	-
Miliana Shipmanagement Ltd.	Nicosia, Cyprus	Provision of sea transport and related services	99.99%	99.99%	99.99%
Miliana Shipping Group Ltd. (parent of another group: Miliana Shipping Group)	Nicosia, Cyprus	Management of own assets	99.99%	99.99%	99.99%
Bazalt Navigation Company Ltd.	Nicosia, Cyprus	Ship chartering	99.99%	99.99%	99.99%
Granit Navigation Company Ltd.	Nicosia, Cyprus	Ship chartering	99.99%	99.99%	99.99%
Kambr Navigation Company Ltd.	Nicosia, Cyprus	Ship chartering	99.99%	99.99%	99.99%
St. Barbara Navigation Company Ltd.	Nicosia, Cyprus	Ship chartering	99.99%	99.99%	99.99%
Petro Icarus Company Ltd.	Nicosia, Cyprus	Ship chartering	99.99%	99.99%	99.99%
Petro Aphrodite Company Ltd.	Nicosia, Cyprus	Ship chartering	99.99%	99.99%	99.99%

Equity-accounted joint ventures					
LOTOS-Air BP Polska Sp. z o.o. ⁽⁶⁾	Gdańsk	Sale of aviation fuel and logistics services	50.00%	50.00%	50.00%
LOTOS Upstream Group					
Baltic Gas Sp. z o.o. ⁽⁷⁾	Gdańsk	Oil and gas production (support activities for oil and gas production)	49.99%	49.99%	49.99%
Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k. ⁽⁷⁾	Gdańsk	Crude oil and gas production	44.78%	44.78%	44.62%
AB LOTOS Geonafta Group					
UAB Minijos Nafta ⁽⁸⁾	Lithuania, Gargždai	Crude oil exploration and production	49.99%	49.99%	49.99%

⁽¹⁾ The companies were excluded from consolidation due to immateriality of the amounts disclosed in their financial statements as at June 30th 2017 (IFRS 10 *Consolidated Financial Statements*).

⁽²⁾ On June 28th 2018, the Extraordinary General Meeting of Infrastruktura Kolejowa Sp. z o.o passed a resolution to dissolve the company and put it into liquidation.

⁽³⁾ A new company with a share capital of GBP 15 thousand. A wholly-owned subsidiary of LOTOS Upstream Sp. z o.o.

⁽⁴⁾ In H1 2018, the company was liquidated.

⁽⁵⁾ A new company with a share capital of PLN 5 thousand. A wholly-owned subsidiary of Technical Ship Management Sp. z o.o.

⁽⁶⁾ Joint venture agreement between Grupa LOTOS S.A. and BP Europe SE on joint operations related to supply of aviation fuel through LOTOS-Air BP Polska Sp. z o.o.

⁽⁷⁾ Agreement on cooperation between LOTOS Upstream Sp. z o.o. and CalEnergy Resources Poland Sp. z o.o. with respect to development and production of gas and condensate reserves from the B-4 and B-6 fields in the Baltic Sea, performed through special purpose vehicles Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k. and Baltic Gas Sp. z o.o. (general partner).

Within the meaning of IFRS 11, Baltic Gas Sp. z o.o. i wspólnicy sp.k. and Baltic Gas Sp. z o.o. are the Group's equity-accounted joint ventures.

⁽⁸⁾ Joint venture set up for the purpose of oil exploration and production in Lithuania, operated in the form of UAB Minijos Nafta.

1.3 Ownership changes at the LOTOS Group

Information about processes / events at subsidiaries

Company	Description
LOTOS Upstream Sp. z o.o.	<p>On February 21st 2018, the General Meeting of LOTOS Upstream Sp. z o.o. issued its consent for the establishment of a foreign subsidiary based in London to conduct production operations on the British Shelf. Its share capital comprises 15,000 shares with a total value of GBP 15,000, which have been taken up and paid for by LOTOS Upstream Sp. z o.o. The Company was registered by the Registrar of Companies for England and Wales under No. 11130960. The change of the company name to LOTOS Upstream UK Limited was registered on February 22nd 2018.</p>
LOTOS Petrobaltic S.A. – sale of shares in Baltic Gas Sp. z o.o. to LOTOS Upstream Sp. z o.o.	<p>On April 3rd 2018, LOTOS Petrobaltic S.A. (the seller) and LOTOS Upstream Sp. z o.o. (the buyer) entered into an agreement for sale of 2,450 shares in Baltic Gas Sp. z o.o. of Gdańsk, representing 50% of the company's share capital. The purchase price was PLN 122.5 thousand. The transaction was settled on April 3rd 2018.</p>
LOTOS Petrobaltic S.A. – sale of all of its rights and obligations as the limited partner in Baltic Gas Sp. z o.o. i Wspólnicy sp.k. to LOTOS Upstream Sp. z o.o.	<p>On April 3rd 2018, LOTOS Petrobaltic S.A. (the seller) and LOTOS Upstream Sp. z o.o. (the buyer) entered into an agreement for sale of all of LOTOS Petrobaltic S.A.'s rights and obligations as the limited partner in Baltic Gas Spółka z ograniczoną odpowiedzialnością i Wspólnicy sp.k. of Gdańsk. The purchase price was PLN 77,448.0 thousand. The transaction was settled on April 3rd 2018.</p>
Infrastruktura Kolejowa Sp. z o.o.	<p>On June 28th 2018, the Extraordinary General Meeting of Infrastruktura Kolejowa Sp. z o.o. passed a resolution to dissolve the company and open, as of June 28th 2018, the liquidation proceedings. Furthermore, on June 28th 2018, by way of a resolution of the General Meeting, Mr Marek Zygało, President of the Management Board, was appointed as liquidator of Infrastruktura Kolejowa Sp. z o.o.</p>
Negros 1 Sp. z o.o. – acquisition of the company and amendment of its articles of association (including change of name to SPV Petro Sp. z o.o.)	<p>In order to purchase a drilling platform, a concept was developed which provides for the acquisition of a special purpose vehicle in the form of a limited liability company which will ultimately become the owner of the drilling platform. Under the concept, Technical Ship Management Sp. z o.o. of Gdańsk ("TSM"), a Miliana Shipholding Group company, will acquire 100% of shares in the SPV (with a share capital of PLN 5,000.00 (five thousand zloty)). On June 21st 2018, the General Meeting of TSM passed a resolution approving the acquisition of 100% of shares in Negros 1 Sp. z o.o., a limited liability company of Warsaw (the "Company"). On June 26th 2018, the parties entered into a share purchase agreement under which TSM acquired all shares in Negros 1 Sp. z o.o. (100 shares) for PLN 8,000.00. On June 21st 2018, amendments were made to the articles of association of the acquired company, including change of its registered office and name to SPV Petro Spółka z ograniczoną odpowiedzialnością of Gdańsk. As at the date of this Report, the amendments to the articles of association, including change of the company's name, were not registered.</p>

Upstream Segment reorganisation

On December 20th 2017, the General Meeting of Aphrodite Offshore Services N.V. (AOS N.V.) of Curaçao resolved to put the company in liquidation. Moonlight Foundation was appointed as the company's liquidator. The liquidator paid USD 1,380 thousand to the sole shareholder (LOTOS Petrobaltic S.A.) as an interim distribution of the liquidation amount. On January 29th 2018, the liquidation procedure of Aphrodite Offshore Services N.V. was closed, with the liquidation amount remaining to be distributed. On April 30th 2018, the Company's accounting records were closed and the liquidation amount was finally distributed and transferred to LOTOS Petrobaltic S.A.'s bank account on April 27th 2018. On June 4th 2018, LOTOS Petrobaltic S.A. received from the Company's liquidator a document dated May 17th 2018, issued by the Supreme Court of Curaçao, confirming that no objections were raised to the liquidation proceedings conducted with respect to AOS N.V., finally closing the liquidation of the Company and providing grounds for deleting AOS N.V. from the register of assets of LOTOS Petrobaltic S.A.

On December 19th 2017, a plan of cross-border merger through acquisition was adopted, with LOTOS Petrobaltic S.A. of Gdańsk as the acquirer and Miliana Shipholding Company Ltd. of Nicosia, Cyprus (wholly-owned subsidiary of LOTOS Petrobaltic) as the acquiree. Following the acquisition of Miliana Shipholding Company Ltd. by LOTOS Petrobaltic S.A., all the acquiree's assets and liabilities will be transferred to the acquirer, and the acquiree will be deleted from the relevant register. The acquirer will assume all the rights and obligations of the acquiree by way of universal succession, with its legal form, name and registered office unchanged.

Since LOTOS Petrobaltic is the sole shareholder of Miliana Shipholding Company Ltd., the planned merger may be a simplified process. The merger plan was published on LOTOS Petrobaltic's website and in the Cyprus Official Government Gazette on December 28th and December 29th 2017, respectively. On February 26th 2018 and March 13th 2018, respectively, LOTOS Petrobaltic S.A. (the Acquirer) sent to Grupa LOTOS S.A. the first and second notification of its intention to merge the Acquirer with Miliana Shipholding Company Ltd., on the terms set forth in the merger plan announced on December 28th 2017.

On January 8th 2018, the Management Boards of Miliana Shipholding Company Ltd. and Miliana Shipping Group Ltd., both registered in Cyprus, approved a merger plan for these companies. As a result of the merger through acquisition, Miliana Shipholding Company Ltd. (the sole shareholder of the acquiree) will acquire Miliana Shipping Group Ltd. In consequence, all assets and liabilities of the acquiree will be transferred to the acquirer, and the acquiree will be deleted from the relevant register.

The merger plans for the above companies, approved by their respective Boards of Directors, have been sent to the Cypriot court with jurisdiction over the companies' registered offices. The merger will be effected in two stages. In the first stage, a joint meeting of the merging companies (Directors' Meeting) is planned to be held to hear the parties and to jointly adopt the merger plan and its approval. The meeting of the merging companies' representatives before the court was scheduled for August 2018.

Share capital changes at subsidiaries

Company	Date of registration	Share capital before change	Change	Share capital after change	Currency	Comments
LOTOS LAB Sp. z o.o.	Jan 16 2018	1,000,000	98,000,000	99,000,000	PLN	On December 6th 2017, the Extraordinary General Meeting of LOTOS Lab Sp. z o.o. passed a resolution to increase the company's share capital through the issue of 196,000 new shares with a par value of PLN 500 per share. All the new shares were taken up by Grupa LOTOS for a cash contribution.
LOTOS Exploration and Production Norge AS	Jan 18 2018	2,233,718,441	777,085,104	3,010,803,545	NOK	On December 12th 2017, the General Meeting of LOTOS Exploration and Production Norge AS passed a resolution on private placement with LOTOS Upstream Sp. z o.o. of 900,000,000 warrants, each carrying the right to acquire one Series B share with a par value of NOK 1.00 per share. In the exercise of rights attached to the warrants, on December 18th 2017 LOTOS Upstream sp. z o.o. made a declaration on acquiring 777,085,104 Series B shares with a value of NOK 1 per share. The new shares were paid for with a cash contribution.
LOTOS Vera Sp. z o.o.	Feb 14 2018	5,000	40,000,000	39,995,000	PLN	On December 13th 2017, the Extraordinary General Meeting of Lucea 3 Sp. z o.o. (currently LOTOS Vera Sp. z o.o.) passed a resolution to increase the company's share capital through the issue of 799,900 new shares with a par value of PLN 50 per share. All the new shares were taken up by LOTOS Lab Sp. z o.o. (the company's only shareholder) for a cash contribution.
LOTOS Upstream Sp. z o.o.	May 9 2018	520,005,000	55,995,000	576,000,000	PLN	On March 28th 2018, the Extraordinary General Meeting of LOTOS Upstream Sp. z o.o. passed a resolution to increase the company's share capital through the issue of 559,950 new shares with a par value of PLN 100 per share. All the new shares were acquired by Grupa LOTOS against a cash contribution.

Company	Date of registration	Share capital before change	Change	Share capital after change	Currency	Comments
Baltic Gas Sp. z o.o.	Change yet to be registered	245,000	102,000	347,000	PLN	On May 30th 2018, the General Meeting of Baltic Gas Sp. z o.o. passed a resolution to increase the company's share capital through the issue of 2,040 new shares with a par value of PLN 50 per share. All new shares were taken up and paid for by the existing shareholders in the following manner: LOTOS Upstream Sp. z o.o. took up 1,020 shares with a par value of PLN 50 per share, for a cash contribution of PLN 51,000, CalEnergy Resources Poland Sp. z o.o. took up 1,020 shares with a par value of PLN 50 per share, for a cash contribution of PLN 51,000.
B8 sp. z o.o. BAL TIC S.K.A	Mar 10 2017	987,817,450	232,426,000	1,220,243,450	PLN	On March 2nd 2017, the Extraordinary General Meeting of B8 Sp. z o.o. BAL TIC S.K.A passed a resolution to increase the company's share capital through the issue of 23,242,600 new shares with a par value of PLN 10 per share.

Baltic Gas Spółka z ograniczoną odpowiedzialnością i Wspólnicy sp.k.:

Contributions to Baltic Gas Spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k.

In March 2017, as part of the agreed contributions, LOTOS Petrobaltic S.A. made a cash contribution of PLN 187,995.43 to the company (total amount of all contributions: PLN 80,833,806.58).

On May 31st 2017, the General Meeting of Baltic Gas Spółka z ograniczoną odpowiedzialnością i Wspólnicy sp.k. resolved to increase the agreed contributions to be made by:

- LOTOS Petrobaltic S.A. – by PLN 4,526,672, to PLN 86,396,383,
- CalEnergy Resources Poland Sp. z o.o. – by PLN 10,711,506, to PLN 109,645,403.

In June 2017, the following previously agreed cash contributions were made to the Company:

- LOTOS Petrobaltic S.A. – PLN 2,771,532.18,
- CalEnergy Resources Poland Sp. z o.o. – PLN 4,800,706.38.

On September 29th 2017, LOTOS Petrobaltic S.A. made a cash payment of PLN 2,434,257.25 to Baltic Gas spółka z ograniczoną odpowiedzialnością i Wspólnicy sp.k. as part of the agreed contribution (following the partners' decision of May 31st 2017).

April 3rd 2018 saw the settlement of the sale by LOTOS Petrobaltic S.A. of all of its rights and obligations as a limited partner in Baltic Gas Sp. z o.o. i Wspólnicy Spółka Komandytowa to LOTOS Upstream Sp. z o.o.

As at June 30th 2018, total contributions made by LOTOS Upstream Sp. z o.o. amounted to PLN 86,039,596.01.

Contributions agreed and made as at June 30th 2018:

Contributions to Baltic Gas Spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k.

Baltic Gas Sp. z.o.o. i Wspólnicy sp. k.

Partners	Baltic Gas Sp. z o.o.	LOTOS Upstream Sp. z o.o.	CalEnergy Resources Poland Sp. z o.o.
Agreed contribution	1,000.00	86,396,383.00	109,645,403.0
Contribution made, including:	1,000.00	86,039,596.01	106,073,066.65
a) in cash	1,000.00	34,339,596.01	106,073,066.65
b) in kind	-	51,700,000.0	-
Unpaid contribution	-	356,786.99	3,572,336.35

In connection with the approval of new Organisational Rules of Grupa LOTOS S.A., on July 1st 2018 the allocation of companies to business segments was changed. The new classification of the companies by segment is as follows:

- a) the management segment:
 - LOTOS Ochrona Sp. z o.o.
- b) the refining and marketing segment:
 - LOTOS Paliwa
 - LOTOS Oil
 - LOTOS Kolej
 - LOTOS Terminale and its subsidiary
 - LOTOS Infrastruktura and its subsidiary
 - LOTOS Serwis
 - LOTOS Straż
 - LOTOS - Air BP Polska

c) the investment and innovation segment:

- LOTOS Asfalt
- LOTOS Lab and its subsidiary
- LOTOS Petrobaltic and its Group companies
- LOTOS Upstream and its Group companies including:
 - LOTOS E&P Norge
 - AB LOTOS Geonafta
 - LOTOS Upstream UK

d) no companies are allocated to the finance segment.

1.4 Grupa LOTOS S.A. shares

1.4.1 Shareholders holding more than 5% of total voting rights at the Annual General Meeting of Grupa LOTOS S.A.

As stated in the current reports dated June 28th and July 12th 2018 ([↪ Current Report No. 16/2018](#) and [↪ Current Report No. 20/2018](#)), the only shareholder (excluding the State Treasury) holding more than 5% of total voting rights at the Company's General Meeting is Nationale Nederlanden Otwarty Fundusz Emerytalny (NN OFE).

Shareholder	Number of shares/voting rights equivalent to par value of shares	Share in total voting rights at the Annual General Meeting of Grupa LOTOS S.A. in 2018
State Treasury	98,329,515	73%
Nationale Nederlanden OFE	8,500,000	6.31%
Other	77,300,122	20.69%
Total	184,873,362	100.0%

1.4.2 Grupa LOTOS S.A. shares held by the management and supervisory personnel

Based on information available to the Company as at the date of issue of the H1 2018 report, i.e. August 9th 2018, no shares in Grupa LOTOS S.A. were held by its management or supervisory personnel.

1.5 Key personnel and employees

1.5.1 Changes in the composition of the Management and Supervisory Boards

As at January 1st 2018, the composition of the Grupa LOTOS Management Board was as follows:

Management Board members	Position held
Marcin Jastrzębski	President of the Board
Jarosław Kawula	Production Vice President
Mateusz Aleksander Bonca	Strategy and Development Vice President

On March 19th 2018, the Supervisory Board removed Marcin Jastrzębski, President of the Management Board, from the Grupa LOTOS Management Board of the 9th joint term of office, and appointed Mateusz Aleksander Bonca, Vice President of the Management Board, as acting President of the Management Board of Grupa LOTOS S.A. Moreover, the Supervisory Board delegated Piotr Ciach, Deputy Chairman of the Supervisory Board, to temporarily perform the duties of a member of the Grupa LOTOS Management Board.

On May 18th 2018, the Supervisory Board removed Mateusz Aleksander Bonca and Jarosław Kawula from the Grupa LOTOS Management Board of the 9th joint term of office, with effect from May 21st 2018. In addition, the Supervisory Board resolved to revoke, with effect from May 21st 2018, delegation granted to Piotr Ciach, Deputy Chairman of the Supervisory Board, to temporarily perform the duties of a Member of the Company's Management Board.

At the same time, on May 18th 2018, following the conclusion of the recruitment procedure initiated on April 25th 2018, the Supervisory Board selected and appointed Mateusz Aleksander Bonca as President, Jarosław Kawula as Vice President and Chief Refining and Marketing Officer, and Patryk Demski as Vice President and Chief Investment and Innovation Officer of the Grupa LOTOS Management Board of the 10th joint term of office, with effect from May 22nd 2018.





On June 6th 2018, following the conclusion of the recruitment procedure initiated on May 18th 2018, the Supervisory Board selected and appointed Robert Sobków as Vice President and Chief Financial Officer of the Grupa LOTOS Management Board of the 10th joint term of office, with effect from June 11th 2018.

Following the conclusion of the recruitment procedure for the positions of Members of the Grupa LOTOS Management Board of the 10th joint term of office, on June 11th 2018 the Supervisory Board determined that the Grupa LOTOS Management Board of the 10th joint term of office would be composed of four members.

Thus, from June 11th 2018 to June 30th 2018, the composition of the Grupa LOTOS Management Board was as follows:

Management Board members	Position held
Mateusz Aleksander Bonca	Chief Executive Officer, President
Patryk Demski	Chief Investment and Innovation Officer, Vice President
Jarosław Kawula	Chief Operating Officer, Vice President
Robert Sobków	Chief Financial Officer, Vice President

Composition of the Management Board of the 10th term of office as at June 30th 2018

Management Board members	Position	On the Management Board of the 10th term of office since:	Professional career and qualifications
 <p>Mateusz A. Bonca</p>	Chief Executive Officer, President	May 22 2018	http://inwestor.lotos.pl/en/1142/corporate_governance/organizational_structure#person-87
 <p>Patryk Demski</p>	Chief Investment and Innovation Officer, Vice President	May 22 2018	http://inwestor.lotos.pl/en/1142/corporate_governance/organizational_structure#person-137
 <p>Jarosław Kawula</p>	Chief Operating Officer, Vice President	May 22 2018	http://inwestor.lotos.pl/en/1142/corporate_governance/organizational_structure#person-113
 <p>Robert Sobków</p>	Chief Financial Officer, Vice President	Jun 11 2018	http://inwestor.lotos.pl/en/1142/corporate_governance/organizational_structure#person-138


From January 1st 2018 to June 28th 2018, the Supervisory Board of the 10th term of office consisted of the following members:

Supervisory Board members	Position held
Beata Kozłowska-Chyła	Chairwoman
Piotr Ciach	Deputy Chairman (appointed as Deputy Chairman of the Supervisory Board on July 14th 2017)
Katarzyna Lewandowska	Secretary (appointed as Secretary of the Supervisory Board on July 14th 2017)
Dariusz Figura	Member
Mariusz Golecki	Member
Adam Lewandowski	Member
Agnieszka Szklarczyk-Mierzwa	Member

On June 28th 2018, the Annual General Meeting of Grupa LOTOS S.A. appointed Grzegorz Rybicki to the Supervisory Board of the 10th term of office.

As at the date of issue of this report, the State Treasury as a shareholder had not exercised its right set forth in Art. 11.2 of the Company's Articles of Association, under which it may directly appoint and remove one member of the Grupa LOTOS Supervisory Board.

Composition of the Supervisory Board of the 10th term of office as at June 30th 2017

Supervisory Board members	Position	On the Supervisory Board of the 10th term of office since:	Professional career and qualifications
	Chairwoman	Jun 14 2017	http://inwestor.lotos.pl/en/1142/corporate_governance/organizational_structure#person-86

Beata Kozłowska-Chyła



Deputy Chairman

Jun 14 2017

http://inwestor.lotos.pl/en/1142/corporate_governance/organizational_structure#person-108**Piotr Ciach**

Member

Jun 14 2017

http://inwestor.lotos.pl/en/1142/corporate_governance/organizational_structure#person-81**Katarzyna
Lewandowska**

Member

Jun 14 2017

http://inwestor.lotos.pl/en/1142/corporate_governance/organizational_structure#person-89**Agnieszka Szklarczyk-
Mierzwa**

Member

Jun 14 2017

http://inwestor.lotos.pl/en/1142/corporate_governance/organizational_structure#person-111**Dariusz Figura**

Member

Jun 14 2017

http://inwestor.lotos.pl/en/1142/corporate_governance/organizational_structure#person-90**Mariusz Golecki**



Member

 Jun 14 2017 http://inwestor.lotos.pl/en/1142/corporate_governance/organizational_structure#person-107
Adam Lewandowski


Member

 Jun 28 2018 http://inwestor.lotos.pl/en/1142/corporate_governance/organizational_structure#person-139
Grzegorz Rybicki

1.5.2 Structure of the LOTOS Group workforce

Workforce at the LOTOS Group by type of position

Number of employees as at Jun 30 2018

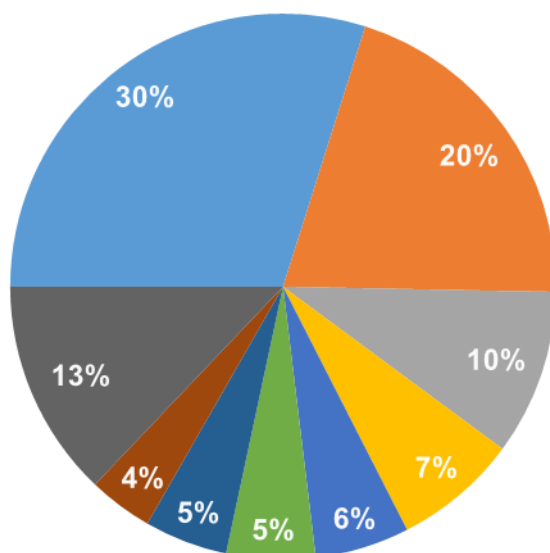
Company	Blue-collar jobs	White-collar jobs	Total
Grupa LOTOS S.A.	492	981	1473
LOTOS Asfalt	118	125	243
LOTOS Kolej	679	328	1007
LOTOS Lab	14	110	124
LOTOS Oil	85	175	260
LOTOS Serwis	334	150	484
LOTOS Straż	76	13	89
LOTOS Ochrona	164	24	188
LOTOS Paliwa	0	276	276
LOTOS Gaz	0	0	0
LOTOS Park Technologiczny	0	0	0
LOTOS Infrastruktura	40	31	71
LOTOS Terminale	63	50	113
RC Ekoenergia	41	30	71
LOTOS Biopaliwa	23	15	38
LOTOS Petrobaltic	155	208	363
LOTOS Norge	0	24	24
Energobaltic	3	27	30
LOTOS AB Geonaftha	34	9	43
UAB Genciu Nafta	1	1	2
UAB Manifoldas	0	3	3

Miliana Shipmanagement Ltd.	0	0	0
Technical Ship Management	0	7	7
SPV Baltic	6	5	11
Infrastruktura Kolejowa	0	0	0
LOTOS Upstream	0	10	10
Total	2,328	2,602	4,930

LOTOS-Air BP Polska Sp. z o.o.* 41 18 59

* The company is not part of the LOTOS Group.

LOTOS Group workforce structure by key companies



■ Grupa LOTOS S.A.
 ■ LOTOS Kolej
 ■ LOTOS Serwis
 ■ LOTOS Petrobaltic
 ■ LOTOS Paliwa
■ LOTOS Oil
 ■ LOTOS Asphalt
 ■ LOTOS Ochrona
 ■ Pozostale

Grupa Lotos S.A.	Grupa LOTOS S.A.
LOTOS Kolej	LOTOS Kolej
Lotos Asphalt	LOTOS Asphalt
Lotos Serwis	LOTOS Serwis
Lotos Ochrona	LOTOS Ochrona
Lotos Paliwa	Lotos Paliwa
Pozostale	Other

2. Financial performance of the LOTOS Group

2.1. Key factors with a bearing on financial performance in H1 2018

Crude oil and natural gas prices, price differential, model refining margin (USD/bbl)

	H1 2018	H1 2017	H1 2018/H1 2017
DATED Brent FOB prices ⁽¹⁾	70.71	51.59	37.1%
Brent/Urals spread ⁽¹⁾	1.87	1.83	2.2%
Natural gas prices ⁽²⁾	42.73	30.10	42.0%
Model refining margin ⁽³⁾	6.82	7.24	-5.8%

⁽¹⁾ and ⁽²⁾ Source: Thomson Reuters

⁽²⁾ To ensure comparability, the UK NBP natural gas prices were converted from USD/MWh to USD/boe, using the conversion factor of 1.6282 MWh/boe.

⁽³⁾ In line with the methodology applied by the Company, the model margin was computed based on Thomson Reuters data, which reflect long-term trends in prices based on which the Company conducts its trading activity. In a shorter term, the prices used to compute the model margin may differ from actual trading prices.

Product crack spreads⁽¹⁾ (USD/bbl)

	H1 2018	H1 2017	H1 2018/H1 2017
Gasoline	12.47	14.74	-15.4%
Naphtha	-0.88	1.74	-150.6%
Diesel oil (10 ppm)	16.16	13.29	21.6%
Light fuel oil	14.69	12.19	20.5%
Aviation fuel	16.87	13.08	29.0%
Heavy fuel oil	-9.37	-4.99	87.8%

⁽¹⁾ The product crack spread is calculated as the difference between the price per barrel of a given product (recalculated from price per metric tonne to price per barrel, adjusting for an appropriate density factor) and the price of Urals crude (the Brent crude price adjusted for the Urals/Brent spread). Source: Thomson Reuters.

USD/PLN exchange rates

	H1 2018	H1 2017	H1 2018/H1 2017
PLN/USD exchange rate at end of period	3.74	3.71	0.8%
Average PLN/USD exchange rate	3.49	3.95	-11.6%

Source: In-house analysis based on National Bank of Poland data.

Upstream segment

Crude oil and natural gas reserves, production and sales

Crude oil and natural gas reserves as at (mboe) ⁽¹⁾	Jun 30 2018	Jun 30 2017	
Norway	36.29	24.01	
Poland	50.44	37.65	
Lithuania	3.46	3.78	
Total	90.19	65.44	

Production (boe/d) ⁽²⁾	H1 2018	H1 2017	H1 2018/H1 2017
Norway	17,160	18,948	-9.4%
Poland	4,351	4,926	-11.7%
Lithuania	815	1,024	-20.4%
Total	22,326	24,899	-10.3%

Production (boe)	H1 2018	H1 2017	H1 2018/H1 2017
Norway	3,105,953	3,429,639	-9.4%
Poland	787,590	891,681	-11.7%
Lithuania	147,491	185,332	-20.4%
Total	4,041,034	4,506,652	-10.3%

Sales of own products (boe)	H1 2018	H1 2017	H1 2018/H1 2017
Norway	2,902,602	3,377,885	-14.1%
Poland	565,367	807,799	-30.0%
Lithuania	145,575	146,163	-0.4%
Total	3,613,544	4,331,847	-16.6%

⁽¹⁾ 2P – proved and probable reserves (SPE-PRMS classification); boe – barrels of oil equivalent.

⁽²⁾ Production in the period times the number of calendar days.

The 6.6% decline in the segment's revenue mainly resulted from lower sales volume (down 16.6%) and the weaker US dollar (average USD/PLN exchange rate down 11.6% in the reporting period), offset by higher prices of oil and natural gas, up by 37.1% and 42.0%, respectively.

Upstream segment's key financial data (PLNm)

	H1 2018	H1 2017	H1 2018/H1 2017
Revenue	665.5	712.9	-6.6%
EBIT	322.4	306.1	5.3%
Depreciation and amortisation	119.0	162.9	-26.9%
EBITDA	441.4	469.0	-5.9%
Adjusted EBIT ⁽¹⁾	322.4	315.4	2.2%
Adjusted EBITDA ⁽¹⁾	441.4	478.3	-7.7%

⁽¹⁾ Net of non-recurring items.

The Upstream segment's adjusted EBITDA was 7.7% lower in H1 2018 than in H1 2017, chiefly on the back of lower sales volumes, lower average USD/PLN exchange rate, and a decrease in the segment's depreciation and amortisation charges.

The decrease in the segment's depreciation and amortisation charges follows from a change in the units-of-production method estimates for the assets of the offshore oil and gas extraction facilities in Norway following, among other things, from an increase in the Sleipner and Heimdal recoverable reserves at LOTOS Norge.

Downstream segment
Crude slate ('000 tonnes)

	H1 2018	H1 2017	H1 2018/H1 2017
Crude oil processed by the Gdańsk refinery	5,198.5	4,141.4	25.5%
including:			
Urals crude	3,320.5	3,050.6	8.8%
Rozewie crude	90.8	95.6	-5.0%
Lithuanian crude	19.6	21.5	-8.8%
Lubiatów crude	149.4	130.2	14.7%
Other	1,618.2	843.5	91.8%

Grupa LOTOS S.A.'s product yields ('000 tonnes)

	H1 2018	H1 2017	H1 2018/H1 2017
Total output	5,674.1	4,794.8⁽¹⁾	18.3%
Gasolines	813.2	656.0	24.0%
Naphtha	284.5	217.0	31.1%
Diesel oils	2,517.1	2,244.6	12.1%
Light fuel oils	117.3	130.1	-9.8%
Jet fuel	267.4	176.0	51.9%
Heavy products ⁽²⁾	1,033.3	833.0	24.0%
Other ⁽³⁾	641.3	538.1	19.2%

⁽¹⁾ The lower output in H1 2017 was attributable to the scheduled maintenance shutdown at the refinery, which took place from March 3rd to April 14th 2017.

⁽²⁾ Heavy fuel oil and bitumen components.

⁽³⁾ Other products include fuel and technical gases, sulfur, base oils, xylene fraction, LPG, bunker fuel, extracts, raffinates, and slack wax.

Sales structure in the Downstream segment ('000 tonnes)

	H1 2018	H1 2017	H1 2018/H1 2017
	5,686.3	4,808.8	18.2%
Gasolines	832.2	726.2	14.6%
Naphtha	284.5	217.0	31.1%
Diesel oils	2,553.9	2,374.5	7.6%
Light fuel oils	116.1	129.0	-10.0%
Jet fuel	266.4	169.0	57.6%
Heavy products ⁽¹⁾	1,009.4	819.2	23.2%
Crude oil (commodity/material)	194.9	-	-
Other petroleum products ⁽²⁾	428.9	373.9	14.7%

⁽¹⁾ Heavy fuel oil and bitumen.

⁽²⁾ Other products include fuel and technical gases, sulfur, base oils, xylene fraction, LPG, bunker fuel, extracts, raffinates, and slack wax.

The Downstream segment's revenue rose 28.4% year on year, driven mainly by higher average net selling price, which grew 8.6%, from PLN 2,120/t in H1 2017 to PLN 2,356/t in H1 2018, as a result of

higher market prices of refined products. The year-on-year increase in the segment's operating profit was due to the Spring 2017 maintenance shutdown, which translated into lower operating expenses and higher sales of own products in H1 2018.

In H1 2018, Downstream segment's depreciation and amortisation charges fell mainly on depreciation, in 2017, of the spare parts used for the planned maintenance project at Grupa LOTOS S.A. (accounted for in accordance with IAS 16).

Downstream segment's key financial data (PLNm)

	H1 2018	H1 2017	H1 2018/H1 2017
Revenue ⁽²⁾	13,396.2	10,436.8	28.4%
EBIT	1,009.5	449.4	124.6%
Depreciation and amortisation	248.2	275.1	-9.8%
EBITDA	1,257.7	724.5	73.6%
LIFO-based EBIT	516.7	463.9	11.4%
LIFO-based EBITDA	764.9	739.0	3.5%
Adjusted LIFO-based EBITDA ⁽¹⁾	905.4	900.6	0.5%

⁽¹⁾ EBITDA including the LIFO effect of inventory measurement and excluding theoretical write-downs on LIFO-measured inventories and the impact of measurement of a portion of the crude oil based on prices considerably higher than current prices (the LIFO-based measurement methodology) on the LIFO effect, net of inventory write-downs, costs of the Spring 2017 maintenance shutdown, the effect of release of litigation provisions, and exchange differences on operating activities. ⁽²⁾ Revenue before consolidation adjustments.

Retail

LOTOS service station chain

	Jun 30 2018	Jun 30 2017	H1 2018 – H1 2017
	485	485	0
CODO	304	301	3
including: LOTOS OPTIMA	121	121	0
DOFO	181	184	-3
including: LOTOS OPTIMA	78	83	-5

As at the end of H1 2018, the LOTOS retail chain comprised 485 stations.

Table 23 Retail segment's key financial data (PLNm)

	H1 2018	H1 2017	H1 2018/H1 2017
Sales volume ('000 tonnes)	601.4	547.4	9.9%
Revenue	3,127.3	2,681.6	16.6%
EBIT	42.9	25.8	66.3%
Depreciation and amortisation	34.3	36.2	-5.2%
EBITDA	77.2	62.0	24.5%
Adjusted EBIT	42.9	25.8	66.3%
Adjusted EBITDA	77.2	62.0	24.5%

Starting from 2017, the results of the SDS (System Diesel Service) channel, previously reported as part of the retail business, are reported at the level of the downstream segment.

Supported by optimisation efforts, EBIT reported in retail reached PLN 42.9m in H1 2018, up 66.3% year on year.

Statement of comprehensive income

The LOTOS Group's operating profit for H1 2018 came in at PLN 1,345.7m and included a PLN 1,009.5m operating profit in the Downstream segment, a PLN 322.4m operating profit in the Upstream segment, and consolidation adjustments of PLN 13.8m (mainly adjustments to the unrealised margin on stocks of Rozewie and Lithuanian crudes).

Table 25 Key financial results of the LOTOS Group (PLNm)

	H1 2018	H1 2017	H1 2018/H1 2017
Revenue	13,855.7	10,902.2	27.1%
EBIT	1,345.7	749.4	79.6%
Depreciation and amortisation	367.2	437.3	-16.0%
EBITDA	1,712.9	1,186.7	44.3%
LIFO effect ⁽¹⁾	-492.8	14.5	-
LIFO-based EBIT	852.9	763.9	11.7%
Adjusted LIFO-based EBIT ⁽²⁾	993.4	961.5	3.3%

Adjusted LIFO-based EBITDA ⁽²⁾	1,360.6	1,372.1	-0.8%
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⁽¹⁾ LIFO effect = LIFO-based EBIT (estimated with the LIFO, or Last In First Out, method) - EBIT

⁽²⁾ EBITDA including the LIFO effect of inventory measurement and excluding theoretical write-downs on LIFO-measured inventories and the impact of measurement of a portion of the crude oil based on prices considerably higher than current prices (the LIFO-based measurement methodology) on the LIFO effect, net of inventory write-downs, costs of the Spring 2017 maintenance shutdown, the effect of release of litigation provisions, impairment losses/write-downs in the upstream segment, and exchange differences on operating activities.

In line with its inventory measurement policies, the LOTOS Group uses the weighted average method to measure changes in inventories. This method defers the impact of changes in crude oil prices on the prices of finished goods. Thus, an increase in crude oil prices has a positive effect on financial performance, while a decrease adversely affects the performance. Operating results computed using this inventory measurement method are presented in the EBITDA and EBIT lines of the table. The table also presents estimated inventory decreases measured using the LIFO method, as well as the LIFO effect, LIFO-based EBIT, adjusted LIFO-based EBIT, and adjusted LIFO-based EBITDA.

The LOTOS Group's net finance loss of PLN -93.3m reported in H1 2018 was attributable mainly to a negative effect of interest on debt, commission fees and interest income (PLN -84.0m).

The Group's net finance income in H1 2017 reached PLN 143.1m and was attributable mainly to the positive effect of measurement and settlement of market risk hedging transactions (PLN 201.8m).

Transactions hedging the risk related to petroleum product prices as at June 30th 2018

Period	Product/Feedstock	Purchase	Sale
		Heavy fuel oil	Light fuel oil
		3.5 PCT Barges FOB Rotterdam	Gasoil .1 Cargoes CIF NWE / ARA
3Q2018	Volume (mt)	56,325	-5,205
	Price range (USD/mt)	217,5-429,3	412-677,3
4Q2018	Volume (mt)	27,933	-2,581
	Price range (USD/mt)	217,5-429,3	412-662,6
2Q2019	Volume (mt)	4,764	-440
	Price range (USD/mt)	287-287	488,25-488,25
3Q2019	Volume (mt)	6,090	-563
	Price range (USD/mt)	265,5-342,5	541-652,75
4Q2019	Volume (mt)	1,623	-150
	Price range (USD/mt)	265,5-269	541-552
2Q2020	Volume (mt)	16,158	-1,494
	Price range (USD/mt)	253,3-287,25	567-644
3Q2020	Volume (mt)	25,392	-2,346
	Price range (USD/mt)	234-287,25	548,35-644

4Q2020	Volume (mt)	11,178	-1,033
	Price range (USD/mt)	234-287,25	548,35-644

Transactions hedging foreign exchange risk as at June 30th 2018

Currency pair	Instrument	Volume	Currency	Exchange rate range
EUR/USD exchange rates	Forward	20,276,752	EUR	1.1768 - 1.1771
EUR/PLN exchange rates	Forward	5,700,000	EUR	4.3317 - 4.3658
USD/PLN exchange rates	Forward	-209,798,919	USD	3.4921 - 3.75

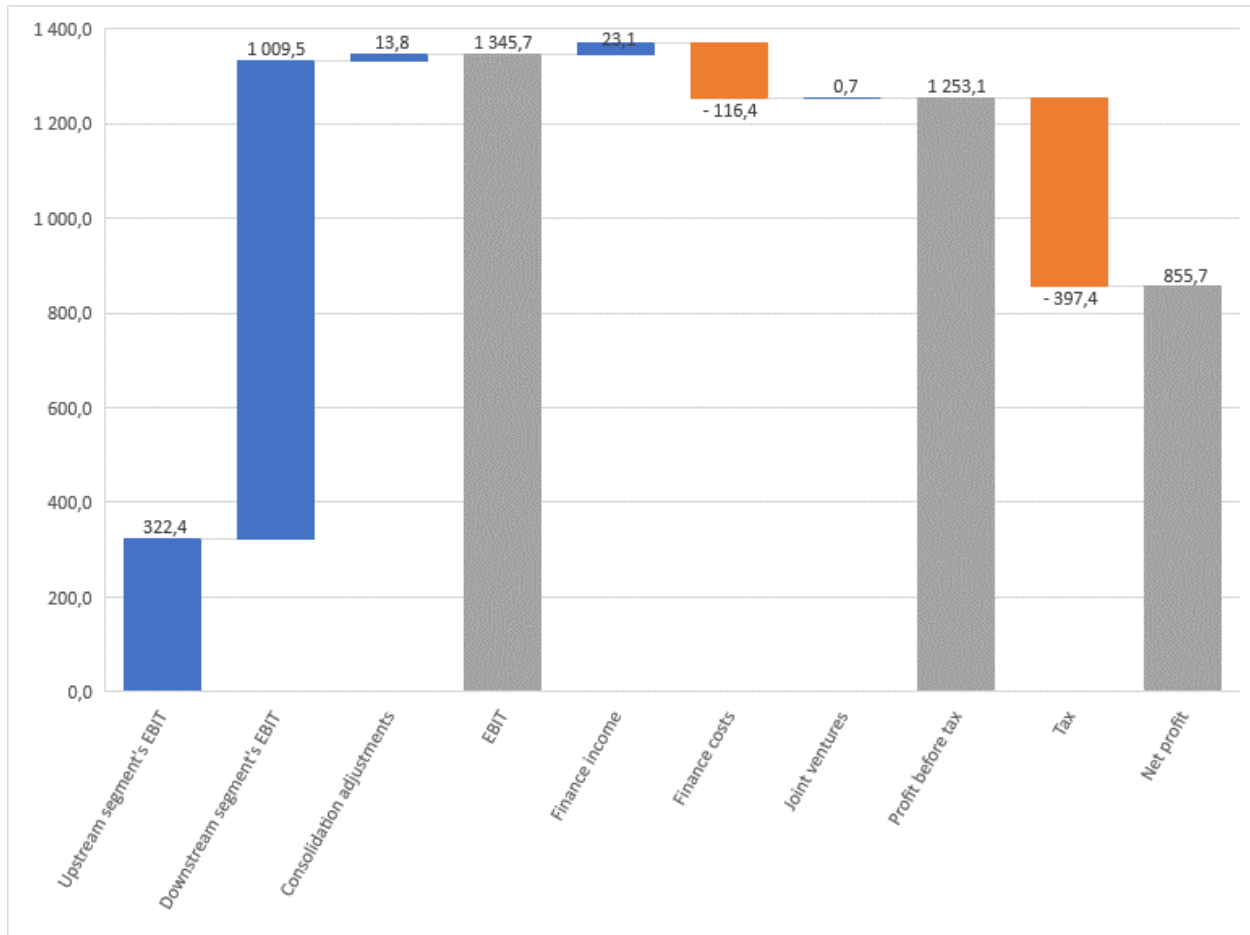
Transactions hedging interest rate risk as at June 30th 2018

Instrument	Start date	End date	Notional amount	Currency	Interest rate range	Reference rate
IRS	from Jan 16 2018	from Jul 16 2018	499,000,019	USD	1.145%-2,476%	3M LIBOR – 6M LIBOR
	to Sep 21 2021	to Dec 21 2021				

Transactions hedging the risk related to prices of carbon dioxide (CO₂) emission allowances as at June 30th 2018

Instrument	Instrument type	2018		2019		2020	
		Volume (mt)	Price range (EUR/mt)	Volume (mt)	Price range (EUR/mt)	Volume (mt)	Price range (EUR/mt)
EUAs	Futures	701,000	4.45 - 7.7	740,000	7.64 - 14.7	-10,000	7.19

Breakdown of the LOTOS Group's consolidated results (PLNm)



Profit before tax earned by the LOTOS Group in H1 2018 was PLN 1,253.1m and the consolidated net profit reached PLN 855.7m.

EBIT, profit before tax, and net profit/(loss) of the LOTOS Group (PLNm)

	H1 2018	H1 2017	H1 2018/H1 2017
EBIT	1,345.7	749.4	79.6%
Finance income	23.1	258.5	-91.1%
Finance costs	-116.4	-115.4	0.9%
Other	0.7	1.2	-41.7%
Profit/(loss) before tax	1,253.1	893.7	40.2%
Net profit/(loss)	855.7	568.3	50.6%

Consolidated statement of financial position
Consolidated statement of financial position – assets (PLNm)

	Jun 30 2018	Dec 31 2017	Change	%
Assets	22,490.1	21,171.2	1,318.9	6.2%
Non-current assets	12,764.4	12,462.1	302.3	2.4%
Property, plant and equipment of the downstream segment	8,791.5	8,761.5	30.0	0.3%
Intangible assets of the downstream segment	162.4	163.2	-0.8	-0.5%
Property, plant and equipment of the upstream segment	2,542.3	2,404.2	138.1	5.7%
Intangible assets of the upstream segment	333.4	304.8	28.6	9.4%
Equity-accounted joint ventures	105.2	106.5	-1.3	-1.2%
Deferred tax assets	453.6	415.4	38.2	9.2%
Derivative financial instruments	24.1	2.7	21.4	792.6%
Other non-current assets	351.9	303.8	48.1	15.8%
Current assets	9,725.7	8,709.1	1,016.6	11.7%
Inventories	4,900.5	3,559.6	1,340.9	37.7%
Trade receivables	2,690.8	2,677.0	13.8	0.5%
Current tax assets	6.4	1.3	5.1	392.3%
Derivative financial instruments	49.2	161.8	-112.6	-69.6%
Other current assets	386.9	388.7	-1.8	-0.5%
Cash and cash equivalents	1,691.9	1,920.7	-228.8	-11.9%

As at June 30th 2018, the LOTOS Group's assets totalled PLN 22,490.1m (up PLN 1,318.9m on December 31st 2017).

The most significant changes in assets included:

- PLN 1,340.9m increase in inventories, attributable mainly to higher prices as at the end of Q2 2018 vs the end of 2017,
- PLN 138.1m increase in the upstream segment's property, plant and equipment,
- PLN 46.3m increase in other assets,
- PLN 38.2m increase in deferred tax assets,
- PLN 30.0m increase in the downstream segment's property, plant and equipment,
- PLN 228.8m decrease in cash and cash equivalents,
- PLN 91.2m decrease in positive fair value of financial derivatives.

Consolidated statement of financial position – sources of funding (PLNm)

	Jun 30 2018	Dec 31 2017	Change	%
Equity and liabilities	22,490.1	21,171.2	1,318.9	6.2%
Equity	11,272.6	10,712.5	560.1	5.2%
Share capital	184.9	184.9	0.0	0.0%
Share premium	2,228.3	2,228.3	0.0	0.0%
Cash flow hedging reserve	-342.0	-225.2	-116.8	-51.9%
Retained earnings	9,094.4	8,432.2	662.2	7.9%
Translation reserve	106.9	92.2	14.7	15.9%
Non-controlling interests	0.1	0.1	0.0	0.0%
Non-current liabilities	4,488.8	4,264.4	224.4	5.3%
Borrowings, other debt instruments and finance lease liabilities	2,865.4	2,738.3	127.1	4.6%
Derivative financial instruments	1.4	6.7	-5.3	-79.1%
Deferred tax liabilities	287.5	277.7	9.8	3.5%
Employee benefit obligations	172.0	169.3	2.7	1.6%
Other liabilities and provisions	1,162.5	1,072.4	90.1	8.4%
Current liabilities	6,728.7	6,194.3	534.4	8.6%
Borrowings, other debt instruments and finance lease liabilities	1,618.5	1,687.6	-69.1	-4.1%
Derivative financial instruments	44.7	72.7	-28.0	-38.5%
Trade payables	2,305.5	2,201.7	103.8	4.7%
Current tax payables	366.8	210.0	156.8	74.7%
Employee benefit obligations	118.6	145.3	-26.7	-18.4%
Other liabilities and provisions	2,274.6	1,877.0	397.6	21.2%

The **increase in the LOTOS Group's equity** as at the end of June 2018 to PLN 11,272.6m (up PLN 560.1m on 2017) was driven primarily by higher retained earnings (up PLN 662.2m), which were decreased by foreign exchange losses on valuation of cash flow hedges recognised in capital reserves, adjusted by the tax effect of PLN -116.8m.

The share of equity in total equity and liabilities fell by 0.5pp year on year, to 50.1%.

Key changes in liabilities (PLN +758.8m):

- PLN 487.7m increase in other liabilities and provisions (mainly due to excise duty, fuel charge, and dividends payable);
- PLN 156.8m increase in current tax payable;
- PLN 103.8m increase in trade payables;
- PLN 58.0m increase in borrowings, other debt instruments and finance lease liabilities, reflecting mainly a 7.5% increase in exchange rates as at the end of June 2018 compared with the end of 2017.

As at June 30th 2018, the LOTOS Group's financial debt totalled PLN 4,483.9m, up PLN 58.0m on December 31st 2017. The ratio of financial debt adjusted for free cash to equity was 24.8%, up 1.4pp on December 31st 2017.

Consolidated statement of cash flows

Cash flows (PLNm)

	H1 2018	H1 2017	Change
Cash flows from operating activities	396.6	869.7	-473.1
Cash flows from investing activities	-402.1	-829.2	427.1
Cash flows from financing activities	-524.1	118.4	-642.5
Effect of exchange rate fluctuations on cash held	8.3	-2.7	11.0
Change in net cash	-521.3	156.2	-677.5
Cash and cash equivalents at beginning of period	1,920.6	730.8	1,189.8
Cash and cash equivalents at end of period	1,399.3	887.0	512.3

As at June 30th 2018, the LOTOS Group's cash balance (including current account overdrafts) was PLN 1,399.3m. In H1 2018, net cash flows decreased cash and cash equivalents by PLN 521.3m.

In H1 2018, net cash flows from operating activities were positive at PLN 396.6m, driven mainly by net profit increased by depreciation and amortisation and reduced by higher inventories.

Net cash flows from investing activities were negative, at PLN -402.1m, mainly due to the acquisition of property, plant and equipment and other intangible assets, mostly related to the EFRA Project and production of crude oil and gas from the B8 field in the Baltic Sea.

Negative cash flows from financing activities, of PLN -524.1m, chiefly comprised net repayments of borrowings and related outflows on principal and interest payments as well as expenditure on redemption of LOTOS Petrobaltic S.A. bonds.

Management of financial resources

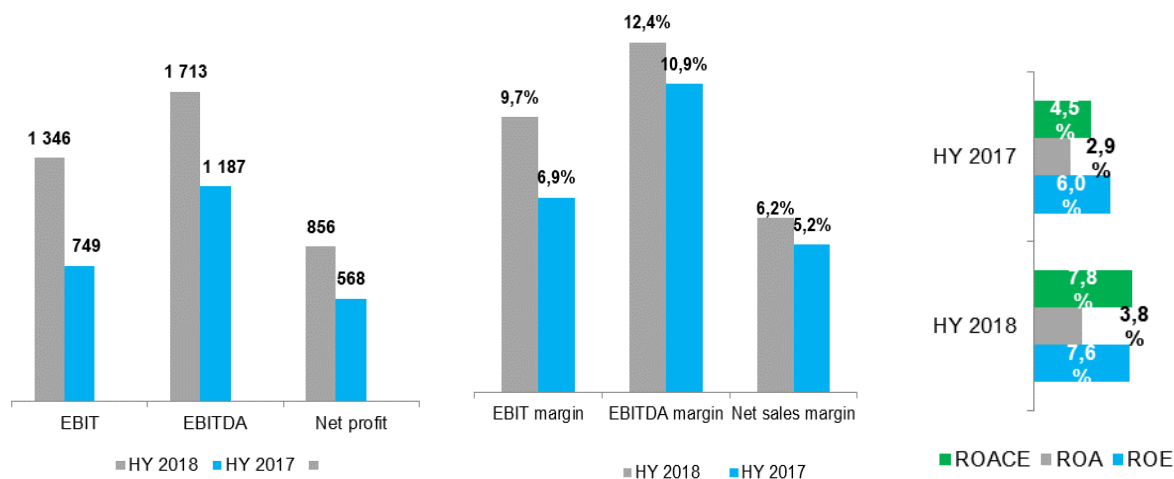
Assessment of the feasibility of meeting liabilities

In H1 2018, the LOTOS Group was able to meet all of its liabilities towards third parties.

Information material for the assessment of the amounts of and changes in assets, financial position, and financial performance

A brief assessment of the LOTOS Group's overall economic and financial position was made in the form of a ratio analysis covering margins, liquidity, turnover and debt levels.

Profitability ratios

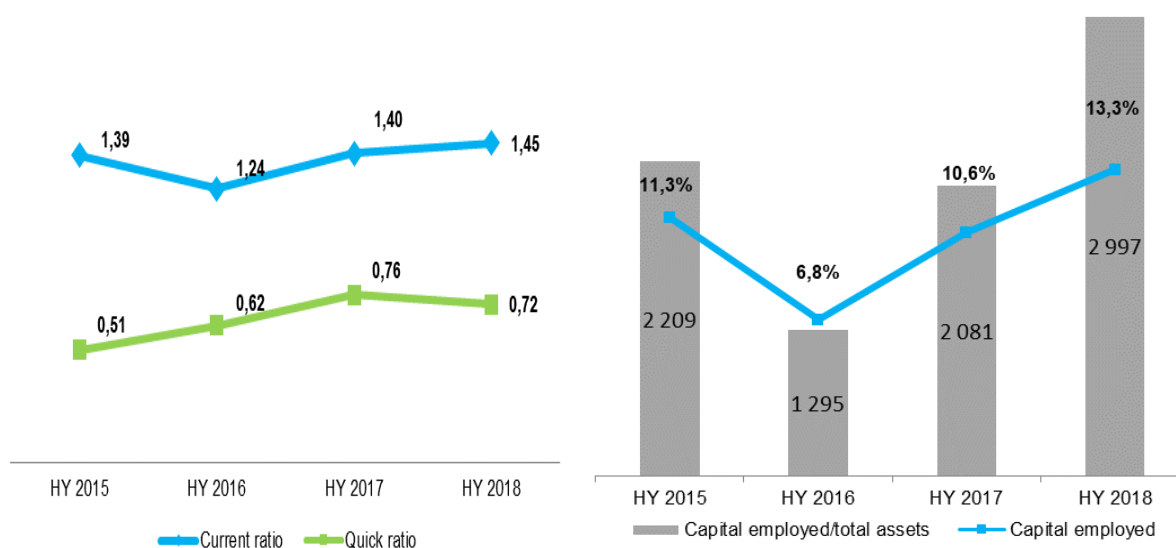


- EBIT and EBITDA margins up by [2.8pp] and [1.5pp], respectively, due to improved operating performance; sales margin up on the back of a 50.6% rise in net profit and revenue higher by 27.1%;
- ROE and ROA up, driven mainly by a significant increase in net profit.

Ratio formulas

EBIT margin	operating profit/(loss) to net sales
EBITDA	EBIT before amortisation/depreciation
EBITDA margin	EBITDA to net sales
Net margin	net profit/(loss) to net sales
ROE	net profit/(loss) to equity at end of period
ROA	net profit/(loss) to assets at end of period

Return on average capital employed (ROACE) operating profit/(loss) after tax to equity plus net debt at end of period

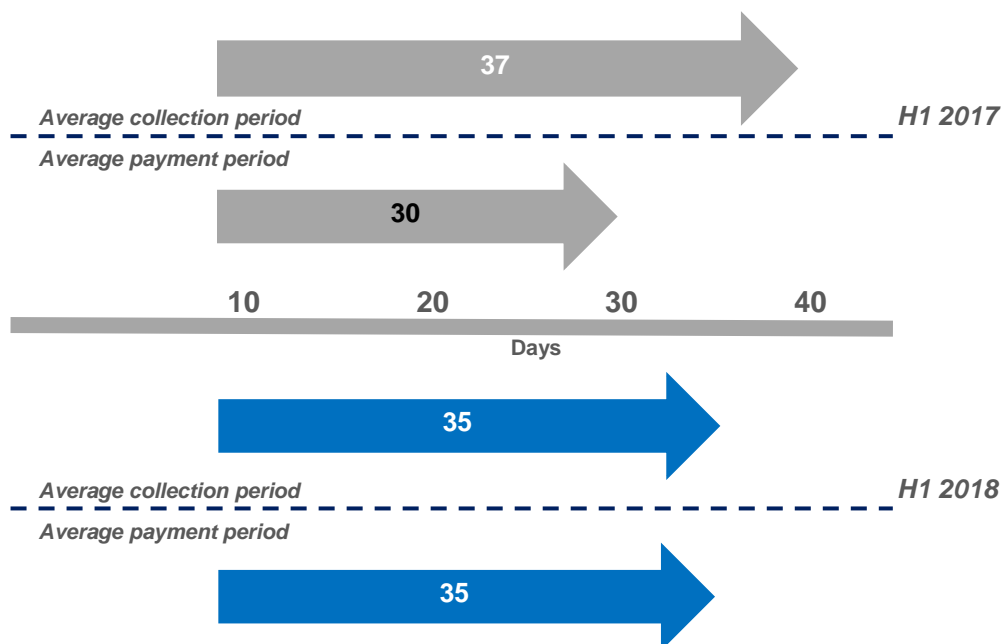
Liquidity ratios


- increase in current ratio (up 3.6%) on the back of higher current assets (up 33.3%), accompanied by an increase in current liabilities (up 29.0%);
- lower quick ratio (down 5.3%) driven by a significant increase in inventories (up 46.6%);
- a 44% increase in capital employed following an increase in current assets (up PLN 2,427.6m) and current liabilities (up PLN 1,511.5m).

Ratio formulas

Current ratio	current assets to current liabilities (at end of period)
Quick ratio	current assets less inventory to current liabilities (at end of period)
Capital employed	current assets less current liabilities (at end of period)
Capital employed to total assets	capital employed to total assets (at end of period)

Average collection and payment periods (days)



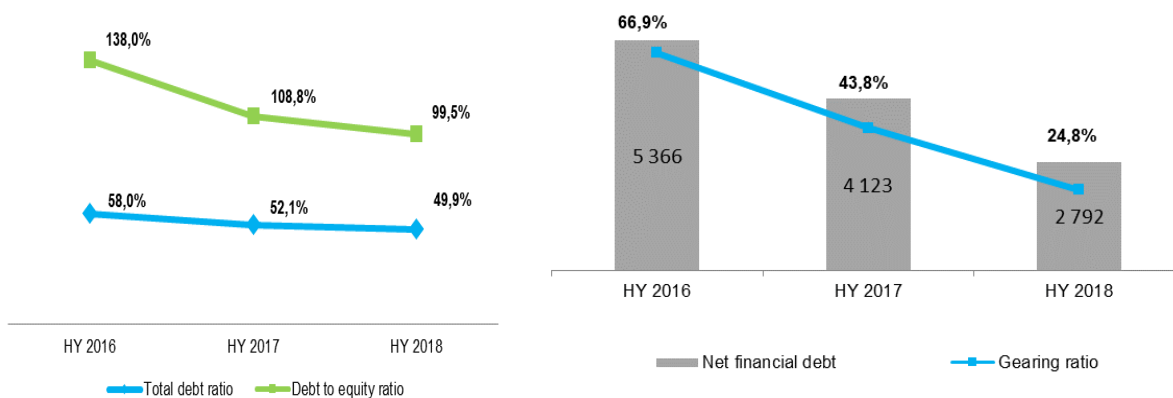
- The average collection period shortened by two days as growth in average trade receivables (20.3%) was lower than growth in revenue (27.1%);
- The average payment period was longer by five days as average trade payables (up 46.8%) grew more than cost of sales (up 24.6%).

Ratio formulas

Average collection period (days) average trade receivables to net sales times 181 days in the period

Average payment period (days) average trade payables to cost of sales times 181 days in the period

Capital structure and debt ratios



- total debt ratio fell by 2.2pp as total liabilities and assets rose by 9.6% and 14.5%, respectively
- net financial debt fell year on year (down PLN 1,331.0m, or 32.3%), mainly due to a drop in long-term borrowings and higher cash
- net debt to equity ratio went down by 19.1pp on the back of a decrease in net financial debt and increase in equity
- decrease of 9.3pp in debt to equity ratio as liabilities fell (by 9.6%) and equity grew (by 19.9%)

Ratio formulas

Total debt ratio	total liabilities to total assets (at end of period)
Net financial debt	long-term and short-term borrowings, other debt instruments, and finance lease liabilities less cash and proceeds from issue of shares presented under other financial assets (at end of period)
Net debt to equity ratio (financial leverage)	net financial debt to equity (at end of period)
Debt to equity ratio	total liabilities to equity (at end of period)

2.2. Factors which in the Company's opinion will affect the Group's performance in future quarters

The key factors which, in the Company's opinion, may affect performance in future quarters include:

- macroeconomic environment, in particular, prices of crude oil and petroleum products and the USD/PLN exchange rate, which has a bearing on the Group's financial performance as the prices

of crude oil and some products are quoted in the US dollar and Grupa LOTOS S.A. has US dollar-denominated debt;

- changes in the supply of and demand for petroleum products in Poland and Europe;
- progress of the ongoing projects in the Upstream segment;
- progress of the ongoing projects in the refining business;
- volumes of production from oil and gas fields;
- optimisation measures in the Downstream segment to maximise the refining margin of Grupa LOTOS S.A.;
- further consolidation of the LOTOS Group's market position, with special emphasis on growth and improvement of profitability in Retail.

3. Other information

3.1 Management Board's statement of compliance concerning the half-year financial statements and the Directors' Report on the operations of the LOTOS Group

The Management Board of Grupa LOTOS S.A., consisting of:

Mateusz Aleksander Bonca – Chief Executive Officer, President

Jarosław Kawula – Chief Operating Officer, Vice President

Patryk Demski – Chief Investment and Innovation Officer, Vice President

Robert Sobków – Chief Financial Officer, Vice President

hereby represent that, to the best of their knowledge, the half-year condensed consolidated financial statements of the LOTOS Group and the half-year condensed financial statements of Grupa LOTOS S.A. for the six months ended June 30th 2018, as well as the comparative data, were prepared in compliance with the applicable accounting standards and give a true, clear and fair view of the assets, financial position and financial performance of the LOTOS Group and Grupa LOTOS S.A.

Furthermore, the Management Board of Grupa LOTOS S.A. represents that the Directors' Report on the operations of the LOTOS Group gives a true view of the LOTOS Group's development, achievements and position, and includes a description of key risks and threats.

3.1 Court, arbitration or administrative proceedings

In H1 2018, no material court, arbitration or administrative proceedings were pending concerning liabilities or debts of the Company or any of its subsidiaries. Information on material court, arbitration or administrative proceedings and other risks is presented in Note 23.1 to the interim condensed consolidated financial statements for the six months ended June 30th 2018.

3.2 Material related-party transactions

In H1 2018, all transactions entered into by Grupa LOTOS S.A. with related parties were on an arm's length basis. Related-party transactions executed in H1 2018 are discussed in Note 24 to the interim condensed consolidated financial statements of the LOTOS Group for the six months ended June 30th 2018 and Note 18 to the interim condensed financial statements of Grupa LOTOS S.A. for the six months ended June 30th 2018.

3.3 Sureties for loan repayment, guarantees, loans and other security instruments

An unconditional and irrevocable guarantee issued by LOTOS Upstream Sp. z o.o. for the benefit of the government of Norway, covering the exploration and production activities of LOTOS Exploration and Production Norge AS on the Norwegian Continental Shelf, was effective as at June 30th 2018. The

guarantee replaced a similar earlier guarantee issued on December 17th 2008 by LOTOS Petrobaltic S.A. for the benefit of the government of Norway, covering the activities of LOTOS Exploration and Production Norge AS, which was returned to LOTOS Petrobaltic S.A. on January 3rd 2018. In the guarantee, LOTOS Upstream Sp. z o.o. undertook to assume any financial liabilities which may arise in connection with the operations of LOTOS Exploration and Production Norge AS on the Norwegian Continental Shelf, consisting in exploration for and extraction of the natural resources from the sea bottom, including their storage and transport using means of transport other than ships.

On August 8th 2017, the Head of the First Tax Office in Gdańsk issued confirmations of acceptance of a lump-sum flat-rate excise bond valid for the period from August 20th 2017 to August 19th 2019 for a total lump sum of PLN 240m. The excise bond was submitted in the form of two promissory notes.

Intra-group loans advanced in the six months ended June 30th 2018 in the LOTOS Group

Lender	Borrower	Principal as per loan agreement		Amount outstanding (current portion) as at Jun 30 2018			Financial terms (interest rate, interest payment method, etc.)	Security	Agreement date
		PLN	GBP	PLN	GBP	Maturity date			
		million		million					
LOTOS Upstream Sp. z o.o.	LOTOS Upstream UK Ltd.	0.4	0.1	0.4	0.1	Feb 15 2019	3M LIBOR + margin	None	May 15 2018

LOTOS Group's intercompany loans as at June 30th 2018:

Lender	Borrower	Principal as per loan agreement		Amount outstanding (as at June 30th 2018)				Maturity date of the		Financial terms (interest rate, interest payment schedule, etc.)	Security	Date of the agreement
				(current portion)		(non-current portion)		current	non-current			
		PLN	Currency	PLN	Currency	PLN	Currency	portion	portion			
		(million)	(million)	(million)	(million)	(million)	(million)					
LOTOS Petrobaltic S.A.	Energobaltic Sp. z o.o.	9.9	-	1.70	-	3.30	-	Jun 30 2019	Feb 28 2020	1M WIBOR + margin	blank promissory note with a 'protest waived' clause and promissory note declaration	Oct 30 2013
LOTOS Petrobaltic S.A.	LOTOS Norge AS	832.5	273.2 USD	293.95	64 USD	103	27.5 USD	Jan 31 2019	Jan 31 2021	6M LIBOR + margin	blank promissory note with a 'protest waived' clause and promissory note declaration	Aug 26 2008
LOTOS Petrobaltic S.A.	LOTOS Norge AS	Loan conversion from USD to NOK	26.2 NOK	284.8	736.7 NOK			Jan 31 2019		6M NIBOR + margin	blank promissory note with a 'protest waived' clause and promissory note declaration	May 8 2015
LOTOS Petrobaltic S.A.	AB LOTOS Geonafta	53.1	12.0 EUR	-	-	20.9	4.8 EUR	-	Dec 31 2019, Dec 30 2020, Dec 31 2020	6M EURIBOR + margin	blank promissory note with a 'protest waived' clause and promissory note declaration	Dec 17 2010
LOTOS Petrobaltic S.A.	SPV Baltic Sp. z o.o.	46.3	-	-	-	53.1	-	-	Jan 31 2022	6M WIBOR + margin	Blank promissory note	Jan 27 2014
LOTOS Petrobaltic S.A.	SPV Baltic Sp. z o.o.	42.6	14.0 USD	-	-	63.8	17.0 USD	-	Jan 31 2022	6M LIBOR + margin	Blank promissory note	Dec 23 2013



Lender		Principal as per loan agreement		Amount outstanding				Maturity date of the		Financial terms (interest rate)	Security	Date of the agreement
LOTOS Petrobaltic S.A.	B8 Sp. Z o.o. SKA	8.5	-	-	-	9.6	-	-	Dec 31 2022	3M WIBOR + margin	Blank promissory note	Oct 20 2015
AB LOTOS Geonafta	LOTOS Norge AS	81	20.0 USD	37.5	10 USD	61.6	16.4 USD	Mar 31 2019, Jun 30 2019	Sep 30 2019, Dec 31 2019	3M LIBOR + margin	Promissory note	Oct 24 2011
LOTOS Upstream Sp. z o.o.	LOTOS Upstream UK Ltd.	0.4	0.1 GBP	0.4	0.1 GBP			Feb 15 2019	-	3M LIBOR + margin	-	May 15 2018
Grupa LOTOS S.A.	LOTOS Petrobaltic S.A.	54				60.5	-		Dec 31 2019	6M WIBOR + margin	Blank promissory note	May 31 2016
Grupa LOTOS S.A.	LOTOS Petrobaltic S.A.	84.3	22.0 USD	-	-	90.3	24.1 USD	-	Dec 31 2019	6M LIBOR + margin	Blank promissory note	Sep 26 2016
Kambr Navigation Company Limited	Miliana Shipmanagement Limited	0.8	0.2 USD	0.4	0.1 USD	0	0 USD	Jun 30 2019		1M LIBOR + margin	None	May 29 2013
Petro Icarus Company Limited	Miliana Shipmanagement Limited	4.1	1.1 USD	2.2	0.6 USD	0	0 USD	Jun 30 2019		1M LIBOR + margin	None	May 29 2013
Granit Navigation Company Limited	Miliana Shipmanagement Limited	0.7	0.2 USD	0.4	0.1 USD	0	0 USD	Jun 30 2019		1M LIBOR + margin	None	May 29 2013



Lender		Principal as per loan agreement		Amount outstanding				Maturity date of the		Financial terms (interest rate)	Security	Date of the agreement
Bazalt Navigation Company Limited	Miliana Shipmanagement Limited	0.6	0.2 USD	0.3	0.1 USD	0	0 USD	Jun 30 2019		1M LIBOR + margin	None	May 29 2013
Granit Navigation Company Limited	Miliana Shipmanagement Limited	2.4	0.6 USD	1.9	0.5 USD	1.1	0.3 USD	Jun 30 2019	Jun 30 2020	1M LIBOR + margin	None	Dec 10 2014
Petro Icarus Company Limited	Miliana Shipmanagement Limited	13.3	3.6 USD	8.3	2.2 USD	4.8	1.3 USD	Jun 30 2019	Jun 30 2020	1M LIBOR + margin	None	Dec 10 2014
Kambr Navigation Company Limited	Miliana Shipmanagement Limited	2.7	0.7 USD	2	0.5 USD	1.2	0.3 USD	Jun 30 2019	Jun 30 2020	1M LIBOR + margin	None	Dec 10 2014
Bazalt Navigation Company Limited	Miliana Shipmanagement Limited	2.2	0.6 USD	1.8	0.5 USD	1	0.3 USD	Jun 30 2019	Jun 30 2020	1M LIBOR + margin	None	Dec 10 2014
Miliana Shipping Group	Miliana Shipmanagement Limited	0.7	0.2 USD	0.7	0.2 USD	0	0 USD	Dec 31 2018		1M LIBOR + margin	None	Aug 25 2016
Miliana Shipmanagement Limited	St. Barbara Navigation Company Limited	4.1	1.1 USD	1.4	0.4 USD	2.1	0.6 USD	Jun 30 2019	Feb 28 2023	1M LIBOR + margin	None	Nov 10 2016
Petro Aphrodite Company Limited	Miliana Shipmanagement Limited	0.8	0.2 USD	0.5	0.1 USD	0.3	0.1 USD	Jun 30 2019	Jun 30 2020	1M LIBOR + margin	None	Aug 19 2016



Lender		Principal as per loan agreement	Amount outstanding		Maturity date of the	Financial terms (interest rate)	Security	Date of the agreement		
Grupa LOTOS S.A.	ENERGOBALTIC Sp. z o.o.	10	-	10	-	Dec 31 2019	6M WIBOR + margin	Blank promissory note	Dec 13 2016	
TOTAL			638.2		79.3 USD		486.6		87.9 USD	
			0 EUR		4.8 EUR					
			736.7 NOK		0 NOK					
			0.1 GBP		0 GBP					
			638.2		486.6					