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Directors' Report on the operations of Grupa LOTOS S.A. and the LOTOS Group in the first half of 2019



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The excel file with operational and financial data for Q2 2019 and H1 2019, as well as for previous periods, is published as →
databook simultaneously with the half-year report on the investor relations website.

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1. LOTOS Group

The LOTOS Group is the second largest fuel producer in Poland. The refinery in Gdańsk is one of the youngest and most advanced refineries in Europe in terms of technology and environmental protection. The LOTOS Group is the sole producer of hydrocarbons in Poland's Exclusive Economic Zone of the Baltic Sea. It also produces oil and natural gas from fields located on the Norwegian Continental Shelf and in Lithuania. The Group's business is organised into two reportable segments: Exploration & Production and Refining & Marketing.

Its principal business involves production and processing of crude oil, as well as wholesale and retail sale of oil products, including fuels (unleaded gasoline, diesel oil, and light fuel oil), heavy fuel oil, bitumens, aviation fuel, naphtha, propane-butane (LPG), and base oils.

1.1. Companies and foundations with organisational links to Grupa LOTOS S.A., including ownership changes

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

Name	Registered office	Business activities	Grupa LOTOS ownership interest		
			Jun 30 2019	Dec 31 2018	Jun 30 2018
Parent					
Grupa LOTOS S.A.	Gdańsk	Production 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: LOTOS Upstream Group)	Gdańsk	Activities of head offices and holdings	100%	100%	100%
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%	100%	100%
LOTOS Oil Sp. z o.o.	Gdańsk	Production and sale of lubricating oils and lubricants, and sale of base oils	100%	100%	100%
LOTOS Asphalt Sp. z o.o.	Gdańsk	Production and sale of bitumens	100%	100%	100%
LOTOS Kolej Sp. z o.o.	Gdańsk	Railway transport	100%	100%	100%
LOTOS Serwis Sp. z o.o.	Gdańsk	Maintenance of mechanical and electric operations and controlling devices, overhaul and repair services	100%	100%	100%
LOTOS Lab Sp. z o.o. (parent of another group: LOTOS Lab Group)	Gdańsk	Laboratory testing	100%	100%	100%
LOTOS Straż Sp. z o.o.	Gdańsk	Fire service activities	100%	100%	100%
LOTOS Ochrona Sp. z o.o.	Gdańsk	Security services	100%	100%	100%

LOTOS Terminale S.A. (parent of another group: LOTOS Terminale Group)	Czechowice- Dziedzice	Storage and distribution of fuels	100%	100%	100%
LOTOS Infrastruktura S.A. (parent of another group: LOTOS Infrastruktura Group)	Jasło	Storage and distribution of fuels, renting and operating of own or leased real estate	100%	100%	100%
LOTOS Gaz S.A. w likwidacji (in liquidation)	Kraków	Dormant	100%	100%	100%
Non-consolidated direct subsidiaries ⁽¹⁾					
Infrastruktura Kolejowa Sp. z o.o. w likwidacji (in liquidation) ⁽²⁾	Gdańsk	Dormant	100%	100%	100%
LOTOS Foundation	Gdańsk	Public benefit activities 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%	100%	100%
Indirect fully-consolidated subsidiaries					
LOTOS Lab Group					
LOTOS Vera Sp. z o.o.	Gdańsk	Manufacture of cars	100%	100%	100%
LOTOS Infrastruktura Group					
RCEkoenergia Sp. z o.o.	Czechowice- Dziedzice	Production and distribution of electricity, heat and gas	100%	100%	100%
LOTOS Terminale Group					
LOTOS Biopaliwa Sp. z o.o.	Czechowice- Dziedzice	Production of fatty acid methyl esters (FAME)	100%	100%	100%
LOTOS Upstream Group					
LOTOS Exploration and Production Norge AS	Norway, Stavanger	Crude oil exploration and production on the Norwegian Continental Shelf, provision of services incidental to oil and gas exploration and production	100%	100%	100%
AB LOTOS Geonafta (parent of another group: AB LOTOS Geonafta Group)	Lithuania, Gargždai	Crude oil exploration and production, drilling services, and purchase and sale of crude oil	100%	100%	100%
UAB Genciu Nafta	Lithuania, Gargždai	Crude oil exploration and production	100%	100%	100%
UAB Manifaldas	Lithuania, Gargždai	Crude oil exploration and production	100%	100%	100%
LOTOS Upstream UK Ltd.	London, United Kingdom	Crude oil and gas exploration and production	100%	100%	100% ⁽³⁾
LOTOS Petrobaltic Group					
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	Crude oil and gas exploration and production	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.	Gdańsk	Support activities for oil and gas production, sea transport, ship operation advisory services	99.99%	99.99%	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%
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. ⁽⁴⁾	Gdańsk	Sale of aviation fuel and logistics services	50.00%	50.00%	50.00%
LOTOS Upstream Group					
Baltic Gas Sp. z o.o.	Gdańsk	Crude oil and gas production (support activities for crude oil and gas production)	50.00%	50.00%	50.00%
Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k. ⁽⁵⁾	Gdańsk	crude oil and gas production	45.41%	45.04%	44.78%

AB LOTOS Geonafta Group

UAB Minijos Nafta ⁽⁶⁾	Lithuania, Gargždai	Crude oil exploration and production	50.00%	50.00%	50.00%
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⁽¹⁾ The companies were excluded from consolidation due to immateriality of the amounts disclosed in their financial statements as at June 30th 2019 (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⁾ On January 3rd 2019, the company was registered with the Registrar of Companies for England and Wales. Its share capital is GBP 15,000.

⁽⁴⁾ 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.

⁽⁵⁾ 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 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). On April 5th 2019, the General Meeting of Baltic Gas Sp. z o.o. passed a resolution to increase the company's share capital through an issue of 1,350 new shares with a par value of PLN 50 per share and a total value of PLN 67,500. All the new shares were taken up and paid for by the existing shareholders in the following manner: LOTOS Upstream Sp. z o.o. took up 675 shares with a par value of PLN 50 per share, for a cash contribution of PLN 33,750, and CalEnergy Resources Poland Sp. z o.o. took up 675 shares with a par value of PLN 50 per share, for a cash contribution of PLN 33,750. 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.

⁽⁶⁾ Joint venture set up for the purpose of oil exploration and production in Lithuania, operated in the form of UAB Minijos Nafta.

1.2. Details of ownership changes at the LOTOS Group

Information about processes / events at subsidiaries

Company	Description
Miliana Shipholding Company Ltd, Miliana Shipping Group Ltd	<p>On June 26th 2019, Grupa LOTOS S.A. was notified that on April 18th 2019 a merger of Miliana Shipholding Company Ltd. (as the acquirer) and Miliana Shipping Group Ltd. (as the acquiree) had been registered in the Companies Section of the Department of the Registrar of Companies and Official Receiver of the Ministry of Commerce, Industry and Tourism of the Republic of Cyprus.</p> <p>Following the merger, Miliana Shipholding Company Ltd. assumed all rights and obligations of the acquiree, while Miliana Shipping Group Ltd. was deleted from the register.</p>
KRAK GAZ Sp. z o.o. w upadłości likwidacyjnej (in liquidation bankruptcy)	<p>On July 1st 2019, closing of the bankruptcy proceedings in re KRAK GAZ Sp. z o.o. (case No. VIII GUP 26/09; date: February 6th 2019) was entered in the Business Register of the National Court Register maintained by the District Court for Kraków-Śródmieście in Kraków, 9th Commercial Division of the National Court Register.</p> <p>On August 9th 2019, KRAK GAZ Sp. z o.o. was deleted from the National Court Register. As at the date of this report, the decision was not yet final.</p>

Organisational changes in the Exploration & Production business

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 (a 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 S.A. 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.A.'s website and in the Cyprus Official Gazette on December 28th and December 29th 2017, respectively. On February 26th 2018 and March 13th 2018, respectively, LOTOS Petrobaltic S.A. (as 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.

Share capital changes at subsidiaries and equity-accounted joint ventures

Company	Date of registration	Share capital before change	Change	Share capital after change	Currency	Comments
SPV Petro Sp. z o.o.	change yet to be registered	5.000	15.000	20.000	PLN	On December 20th 2018, the General Meeting of SPV Petro Sp. z o.o. passed a resolution to increase the company's share capital through an issue of 300 new shares with a par value of PLN 50 per share and a total value of PLN 15,000. All the new shares were taken up and paid for with cash by the existing shareholders in January 2019.
Baltic Gas Sp. z o.o.	Jun 17 2019	347.000	67.500	414.500	PLN	On April 5th 2019, the General Meeting of Baltic Gas Sp. z o.o. passed a resolution to increase the company's share capital through an issue of 1,350 new shares with a par value of PLN 50 per share and a total value of PLN 67,500. All the new shares were taken up and paid for by the existing shareholders in the following manner: LOTOS Upstream Sp. z o.o. took up 675 shares with a par value of PLN 50 per share, for a cash contribution of PLN 33,750, and CalEnergy Resources Poland Sp. z o.o. took up 675 shares with a par value of PLN 50 per share, for a cash contribution of PLN 33,750.
Baltic Gas Sp. z o.o. i Wspólnicy sp. k.	change yet to be registered	216,586,924*	13,217,618*	229,804,542*	PLN	On June 5th 2019, the General Meeting of Baltic Gas Sp. z o.o. i Wspólnicy sp.k. passed resolutions to increase the agreed contributions of LOTOS Upstream Sp. z o.o. and CalEnergy Resources Poland Sp. z o.o. to PLN 104,363,301 and PLN 125,440,241, respectively.

* The contributions agreed and made to Baltic Gas Spółka z ograniczoną odpowiedzialnością Wspólnicy sp.k. were as follows:

- 1) In March 2019, as part of their agreed contributions, LOTOS Upstream Sp. z o.o. and CalEnergy Resources Poland Sp. z o.o. made cash contributions to the company of PLN 1,306,521 and PLN 1,255,284.88, respectively, (aggregate amounts of contributions made by the partners: PLN 94,888,595.56 and PLN 115,405,921.47, respectively).
- 2) On June 5th 2019, the company's General Meeting resolved to increase the agreed contributions:
 - a. of LOTOS Upstream Sp. z o.o. – by PLN 9,117,918.00, to PLN 104,363,301.00,
 - b. of CalEnergy Resources Poland Sp. z o.o. – by PLN 4,099,700.00, to PLN 125,440,241.00.
- 3) In June 2019, the following amounts were contributed to the company as part of the agreed cash contributions:
 - a. PLN 9,474,704.60 by LOTOS Upstream Sp. z o.o.,
 - b. PLN 10,034,319.40 by CalEnergy Resources Poland Sp. z o.o.
- 4) As at June 30th 2019, the aggregate amounts of contributions made to the company were:

- a. By Baltic Gas sp. z o.o. PLN 1,000.00,
- b. by LOTOS Upstream Sp. z o.o. PLN 104,363,300.16,
- c. by CalEnergy Resources Poland Sp. z o.o. PLN 125,440,240.86.

Below are presented the contributions agreed and made to the company as at June 30th 2019 (PLN):

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	104,363,301.00	125,440,241.00
Contribution made, including:	1,000.00	104,363,301.00	125,440,240.86
a) in cash	1,000.00	52,663,300.16	125,440,240.86
b) in kind	-	51,700,000.00	-
Unpaid contribution	-	0.84	0.14

1.3. Grupa LOTOS S.A. shares

1.3.1. Shareholders holding 5% or more of total voting rights at the General Meeting of Grupa LOTOS S.A.

To the best of the Company's knowledge, as at the date of this interim report for H1 2019, i.e. August 20th 2019, the State Treasury held 98,329,515 ordinary shares in the Company, representing 53.19% of the Company's share capital and conferring 98,329,515 voting rights (i.e. 53.19% of the total voting rights) at the Company's General Meeting.

To the best of the Company's knowledge, as at the date of this interim report for H1 2019, no shareholder other than the State Treasury held, directly or indirectly, 5% or more of the total voting rights at the Company's General Meeting.

There were no changes in major holdings of Company shares (i.e. holdings of more than 5% of the total share capital) between the date of the interim report for Q1 2019 and the date of this interim report for H1 2019.

1.3.2. 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 2019 report, i.e. August 20th 2019, no shares in Grupa LOTOS were held by its management or supervisory personnel.

1.4. Key personnel and employees

1.4.1. Changes in the composition of the Management and Supervisory Boards

From January 1st 2019 to June 30th 2019, the composition of the Grupa LOTOS Management Board was as follows:

Management Board members	Position held	On the Management Board of the 10th term of office since:	Professional career and qualifications
Mateusz A. Bonca	President of the Management Board	22.05.2018	http://inwestor.lotos.pl/en/1142/corporate_governance/organizational_structure#person-87
Patryk Demski	Vice President of the Management Board, Chief Investment and Innovation Officer	May 22 2018	
Jarosław Kawula	Vice President of the Management Board, Chief Refining and Marketing Officer	May 22 2018	http://inwestor.lotos.pl/en/1142/corporate_governance/organizational_structure#person-113
Robert Sobków	Vice President of the Management Board, Chief Financial Officer	Jun 11 2018	
Jarosław Wittstock	Vice President of the Management Board, Corporate Affairs	Sep 11 2018	http://inwestor.lotos.pl/en/1142/corporate_governance/organizational_structure#person-140

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.

From January 1st 2019 to June 30th 2019, the Supervisory Board of the 10th term of office consisted of the following members:

Supervisory Board members	Position held	On the Supervisory Board of the 10th term of office since:	Professional career and qualifications
Beata Kozłowska-Chyła	Chairwoman	Jun 14 2017 –	http://inwestor.lotos.pl/en/1142/corporate_governance/organizational_structure#person-86
Piotr Ciach	Deputy Chairman	Jun 14 2017 – Appointed on July 14th 2017	http://inwestor.lotos.pl/en/1142/corporate_governance/organizational_structure#person-108
Katarzyna Lewandowska	Secretary	Jun 14 2017 – Appointed on July 14th 2017	http://inwestor.lotos.pl/en/1142/corporate_governance/organizational_structure#person-81
Agnieszka Szklarczyk-Mierzwa	Member	Jun 14 2017 –	http://inwestor.lotos.pl/en/1142/corporate_governance/organizational_structure#person-89
Dariusz Figura	Member	Jun 14 2017 –	http://inwestor.lotos.pl/en/1142/corporate_governance/organizational_structure#person-111
Mariusz Golecki	Member	Jun 14 2017 –	http://inwestor.lotos.pl/en/1142/corporate_governance/organizational_structure#person-90

Adam Lewandowski	Member	Jun 14 2017 –	http://inwestor.lotos.pl/en/1142/corporate_governance/organizational_structure#person-107
Grzegorz Rybicki	Member	Jun 28 2018 –	http://inwestor.lotos.pl/en/1142/corporate_governance/organizational_structure#person-139

Subsequent to the reporting date, the following changes were made in the composition of the Grupa LOTOS Management Board:

- On July 11th 2019, the Company's Supervisory Board removed Patryk Demski and Robert Sobków from the Company's Management Board of the 10th joint term of office (with effect from July 11th 2019).
- On July 24th 2019, the Supervisory Board of Grupa LOTOS S.A. appointed the following persons to the Company's Management Board of the 10th joint term of office (with effect from July 25th 2019): Ms Zofia Maria Paryła, as Vice President of the Management Board, Chief Financial Officer, and Mr Marian Roman Krzemiński, as Vice President of the Management Board, Chief Investment and Innovation Officer. The bios of the new Management Board members can be viewed at: http://inwestor.lotos.pl/en/1186/p.972.i.1058/reports_key_data/current_reports/changes_in_grupa_lotos_management_board

1.5. The Company's significant achievements or failures, including identification of key events

- **Delay in B8 field development**

On March 1st 2019, Grupa LOTOS S.A. was notified of a change of the expected target development date for the B8 field. The main reason for the delay is that the field infrastructure needs to be modified as a result of design errors and changes to the concept for conversion of the platform and development of the field in 2014–2015. The project is now scheduled to be Ready for Operation no earlier than in the fourth quarter of 2019, and full-scale production from the B8 field is expected no earlier than in the second quarter of 2021.

- **Suspension and resumption of crude oil deliveries at Adamowo point**

On April 24th 2019, PERN S.A. announced that the receipt of crude oil deliveries at the Adamowo point had been suspended due to deteriorated quality of the delivered oil. On the same day, Grupa LOTOS announced that the suspension would not affect the refinery's day-to-day operations. On June 9th, the receipt of deliveries at the Adamowo point was resumed. The suspension of crude deliveries, which lasted 46 days, had no material impact on either the quantity or the quality of the Grupa LOTOS refinery's output.

- **Execution of letter of intent on potential financing of *Polimery Police* project**

On April 26th 2019, Grupa LOTOS, PDH Polska S.A. ("PDH"), Grupa Azoty S.A., and Grupa Azoty Zakłady Chemiczne Police S.A. signed a letter of intent as a starting point for negotiations of Grupa LOTOS's potential contribution to financing of the *Polimery Police* project to be executed by PDH, by subscribing for new shares in the PDH share capital and paying up to PLN 500m towards the PDH share capital. Pursuant to the letter of intent, the parties have agreed to enter into discussions over mutual cooperation that would involve Grupa LOTOS's potential contribution to financing of the *Polimery Police* project.

- **Ready for Start-Up (RFSU) status of Delayed Coking Unit (DCU), key component of EFRA Project**

On June 26th 2019, the Coker Complex (DCU with auxiliaries), the EFRA Project's key component, achieved a Ready for Start-Up (RFSU) status (see Current Report No. 23/2019 of June 29th 2019).

- **B8 field shutdown**

From June 20th to July 27th 2019, production from the B8 field was temporarily stopped to enable maintenance of the spider deck and its supports. The effect of the shutdown on the segment's EBITDA is estimated at approximately PLN 28.6m, but due to the timing of crude oil sales it will only be reflected in the segment's Q3 2019 performance.

2. Financial performance of the LOTOS Group

2.1. Key factors with bearing on financial performance in H1 2019

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

	H1 2019	H1 2018	H1 2019/ H1 2018
DATED Brent FOB prices ⁽¹⁾	65.86	70.71	-6.9%
Brent/Urals spread ⁽¹⁾	0.41	1.87	-78.1%
Natural gas prices ⁽²⁾	28.94	42.73	-32.3%
Model refining margin ⁽³⁾	6.41	6.82	-6.0%

⁽¹⁾ and ⁽²⁾ Source: The Company and Refinitiv.

⁽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 Refinitiv data, which reflect long-term trends in prices used by the Company in its trading activities. 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 2019	H1 2018	H1 2019/ H1 2018
Gasoline	8.11	12.47	-35.0%
Naphtha	-7.87	-0.88	-794.3%
Diesel oil (10 ppm)	16.00	16.16	-1.0%
Light fuel oil	14.09	14.69	-4.1%
Aviation fuel	15.10	16.87	-10.5%
Heavy fuel oil	-5.33	-9.37	43.1%

⁽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: Refinitiv.

USD/PLN exchange rates

	H1 2019	H1 2018	H1 2019/ H1 2018
PLN/USD exchange rate at end of period	3.73	3.74	-0.3%
Average PLN/USD exchange rate	3.80	3.49	8.9%

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

Exploration & Production segment
Crude oil and natural gas reserves, production and sales

Crude oil and natural gas reserves as at (mboe) ⁽¹⁾	Jun 30 2019	Jun 30 2018	
Norway	34.7	36.3	
Poland	48.7	50.4	
Lithuania	2.8	3.5	
Total	86.3	90.2	

Production (boe/d) ⁽²⁾	H1 2019	H1 2018	H1 2019/ H1 2018
Norway	14,340	16,641	-13.8%
Poland	4,656	4,351	7.0%
Lithuania	696	815	-14.6%
Total	19,693	21,807	-9.7%

Production (boe)	H1 2019	H1 2018	H1 2019/ H1 2018
Norway	2,595,629	3,011,988	-13.8%
Poland	842,718	787,600	7.0%
Lithuania	125,999	147,482	-14.6%
Total	3,564,346	3,947,070	-9.7%

Sales of own products (boe)	H1 2019	H1 2018	H1 2019/ H1 2018
Norway	2,470,162	2,761,124	-10.5%
Poland	698,008	565,364	23.5%
Lithuania	145,877	145,600	0.2%
Total	3,314,047	3,472,088	-4.6%

⁽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 7.1% decline in the segment's revenue resulted mainly from a lower sales volume (down 4.6%) and falling crude oil and natural gas prices (down 6.9% and 32.3% respectively).

Exploration & Production segment's key financial data (PLNm)

	H1 2019	H1 2018	H1 2019/ H1 2018
Revenue	618.1	665.5	-7.1%
EBIT	281.8	322.4	-12.6%
Depreciation and amortisation	102.1	119.0	-14.2%
EBITDA	383.9	441.4	-13.0%

The E&P segment's EBITDA was 13.0% lower in H1 2019 than in H1 2018, chiefly on the lower sales volume, lower oil and gas prices, and a PLN 14.2% decrease in the segment's depreciation and amortisation charges.

Refining & Marketing segment
Crude slate ('000 tonnes)

	H1 2019	H1 2018	H1 2019/ H1 2018
Crude oil processed by the Gdańsk refinery	5,360.0	5,198.5	3.1%
including:			
Urals crude	3,961.8	3,320.5	19.3%
Rozewie crude	96.0	90.8	5.7%
Lithuanian crude	23.7	19.6	20.9%
Lubiatów crude	153.0	149.4	2.4%
Other	1,125.6	1,618.2	-30.4%

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

	H1 2019	H1 2018	H1 2019/ H1 2018
Total output	5,709.6	5,674.1	0.6%
Gasolines	778.3	813.2	-4.3%
Naphtha	237.2	284.5	-16.6%
Diesel oils	2,652.8	2,517.1	5.4%
Light fuel oils	112.6	117.3	-4.0%
Jet fuel	221.1	267.4	-17.3%
Heavy products ⁽²⁾	1,062.1	1,033.3	2.8%
Other ⁽³⁾	645.5	641.3	0.7%

⁽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 Refining & Marketing segment ('000 tonnes)

	H1 2019	H1 2018	H1 2019/ H1 2018
	5,605.9	5,686.3	-1.4%
Gasolines	782.9	832.2	-5.9%
Naphtha	237.2	284.5	-16.6%
Diesel oils	2,760.0	2,553.9	8.1%
Light fuel oils	113.2	116.1	-2.5%
Jet fuel	225.5	266.4	-15.4%
Heavy products ⁽¹⁾	1,020.1	1,009.4	1.1%
Crude oil (commodity/material)	0.0	194.9	-100%
Other petroleum products ⁽²⁾	467.0	428.9	8.9%

⁽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 Refining & Marketing segment's revenue for H1 2019 rose 4.7% year on year, driven mainly by a higher average net selling price, which grew 6.2%, from PLN 2,356/t in H1 2018 to PLN 2,501/t in H1 2019, primarily as a result of the stronger US dollar. The segment's lower operating profit relative to H1 2018 was largely attributable to a 6.0% decline in the model refining margin and lower sales volumes.

The increase in the Refining & Marketing segment's depreciation and amortisation charges in H1 2019 resulted mainly from the adoption of IFRS 16 Leases.

Refining & Marketing segment's key financial data (PLNm)

	H1 2019	H1 2018	H1 2019/ H1 2018
Revenue	14,021.6	13,396.2	4.7%
EBIT	741.3	1,009.5	-26.6%
Depreciation and amortisation	323.7	248.2	30.4%
EBITDA	1,065.0	1,257.7	-15.3%
LIFO-based EBIT	739.0	516.7	43.0%
LIFO-based EBITDA	1,062.7	764.9	38.9%
Adjusted LIFO-based EBITDA ⁽¹⁾	1,033.5	905.4	14.1%

(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 in HY 2018 and net of exchange differences on operating activities.

Retail
LOTOS service station network

	Jun 30 2019	Jun 30 2018	Change
	493	485	8
CODO	307	304	3
DOFO	186	181	5

As at the end of H1 2019, the LOTOS retail chain comprised 493 stations.

Retail's key financial data (PLNm)

PLNm	H1 2019	H1 2018	H1 2019/ H1 2018
Sales volume ('000 tonnes)	600.7	601.4	-0.1%
Revenue	3,332.9	3,127.3	6.6%
EBIT	86.7	42.9	102.1%
Depreciation and amortisation	55.3	34.3	61.2%
EBITDA	142.0	77.2	83.9%

Supported by optimisation efforts, EBIT reported in Retail reached PLN 86.7m in H1 2019, up 102.1% year on year. The significant increase in operating profit on H2 2018 was attributable to higher unit margins earned on fuel sales through the Group's CODO stations. EBITDA for H1 2019, of PLN 142.0m, was 83.9% higher than in H1 2018. The results for H1 2019 reflect changes in accounting records related to the introduction of IFRS 16 (EBITDA up by ca. PLN 31.5m). Following these changes, a portion of lease costs were recognised as long-term leases and, consequently, additional depreciation and finance costs were recognised.

Statement of comprehensive income

The LOTOS Group's operating profit for H1 2019 came in at PLN 1,021.0m and included a PLN 741.3m operating profit in the Refining & Marketing segment, a PLN 281.8m operating profit in the Exploration & Production segment, and consolidation adjustments of PLN -2.1m (mainly an adjustment to the unrealised margin on stocks of Rozewie and Lithuanian crudes).

Key financial results of the LOTOS Group (PLNm)

	H1 2019	H1 2018	H1 2019/ H1 2018
Revenue	14,403.0	13,855.7	3.9%
EBIT	1,021.0	1,345.7	-24.1%
Depreciation and amortisation	425.8	367.2	16.0%
EBITDA	1,446.8	1,712.9	-15.5%
LIFO effect ⁽¹⁾	-2.3	-492.8	-
LIFO-based EBIT	1,018.7	852.9	19.4%
Adjusted LIFO-based EBIT ⁽²⁾	989.5	993.4	-0.4%
Adjusted LIFO-based EBITDA ⁽²⁾	1,415.3	1,360.6	4.0%

⁽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 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 costs of PLN 63.8m reported in H1 2019 were attributable mainly to a negative balance of interest on debt, commissions and interest income (PLN -122.8m), partly offset by a gain on measurement and settlement of market risk hedging transactions (PLN 47.0m).

The net finance costs of PLN 93.3m reported in H1 2018 were attributable mainly to a negative balance of interest on debt, commissions and interest income (PLN -84.0m).

Key financial data of Grupa LOTOS S.A. (PLNm)

PLNm	H1 2019	H1 2018	H1 2019/ H1 2018
Revenue	12,873.8	12,325.5	4.4%
EBIT	455.7	798.6	-42.9%
Depreciation and amortisation	194.6	181.7	7.1%
EBITDA	650.3	980.3	-33.7%
LIFO effect ⁽¹⁾	-28.3	-484.1	-
LIFO-based EBIT	427.4	314.5	35.9%
Adjusted LIFO-based EBIT ⁽²⁾	398.2	454.9	-12.5%
Adjusted LIFO-based EBITDA ⁽²⁾	592.8	636.6	-6.9%

⁽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 exchange differences on operating activities.

Transactions hedging the risk related to petroleum product prices as at June 30th 2019

Period	Product/Feedstock	Sale	Purchase	Sales	Purchase	Sale	Purchase
		Diesel oil	Heavy fuel oil	Heavy fuel oil	Light fuel oil	Light fuel oil	Ethanol
		ULSD 10 ppm CIF NWE	3.5 PCT Barges FOB Rotterdam	3.5 PCT Barges FOB Rotterdam	Gasoil .1 Cargoes CIF NWE / ARA	Gasoil .1 Cargoes CIF NWE / ARA	Ethanol T2 FOB Rdam Barge Eur/cm
3Q2019	Volume (mt)	-20,000	77,108	-1,895	175	-7,124	6,400
	Price range (USD/mt)	563,5-563,5	265,5-421,8	300-300	566-566	521-717,6	499-499
4Q2019	Volume (mt)		35,736			-3,301	5,100
	Price range (USD/mt)		265,5-371			524,75-643,25	499-499
1Q2020	Volume (mt)		2,585			-239	
	Price range (USD/mt)		261,85-284,25			549-578,75	
2Q2020	Volume (mt)		39,554			3,655	
	Price range (USD/mt)		253,3-337,5			549-677	
3Q2020	Volume (mt)		48,718			-4,501	
	Price range (USD/mt)		234-326,5			548,35-660,75	
4Q2020	Volume (mt)		21,682			-2,003	
	Price range (USD/mt)		234-304			548,35-644	
1Q2021	Volume (mt)		1,082			-100	

	Price range (USD/mt)	299-299	575-575
2Q2021	Volume (mt)	8,335	-770
	Price range (USD/mt)	292-320	570,8-584
3Q2021	Volume (mt)	7,068	-653
	Price range (USD/mt)	299-320	575-581

Transactions hedging foreign exchange risk as at June 30th 2019

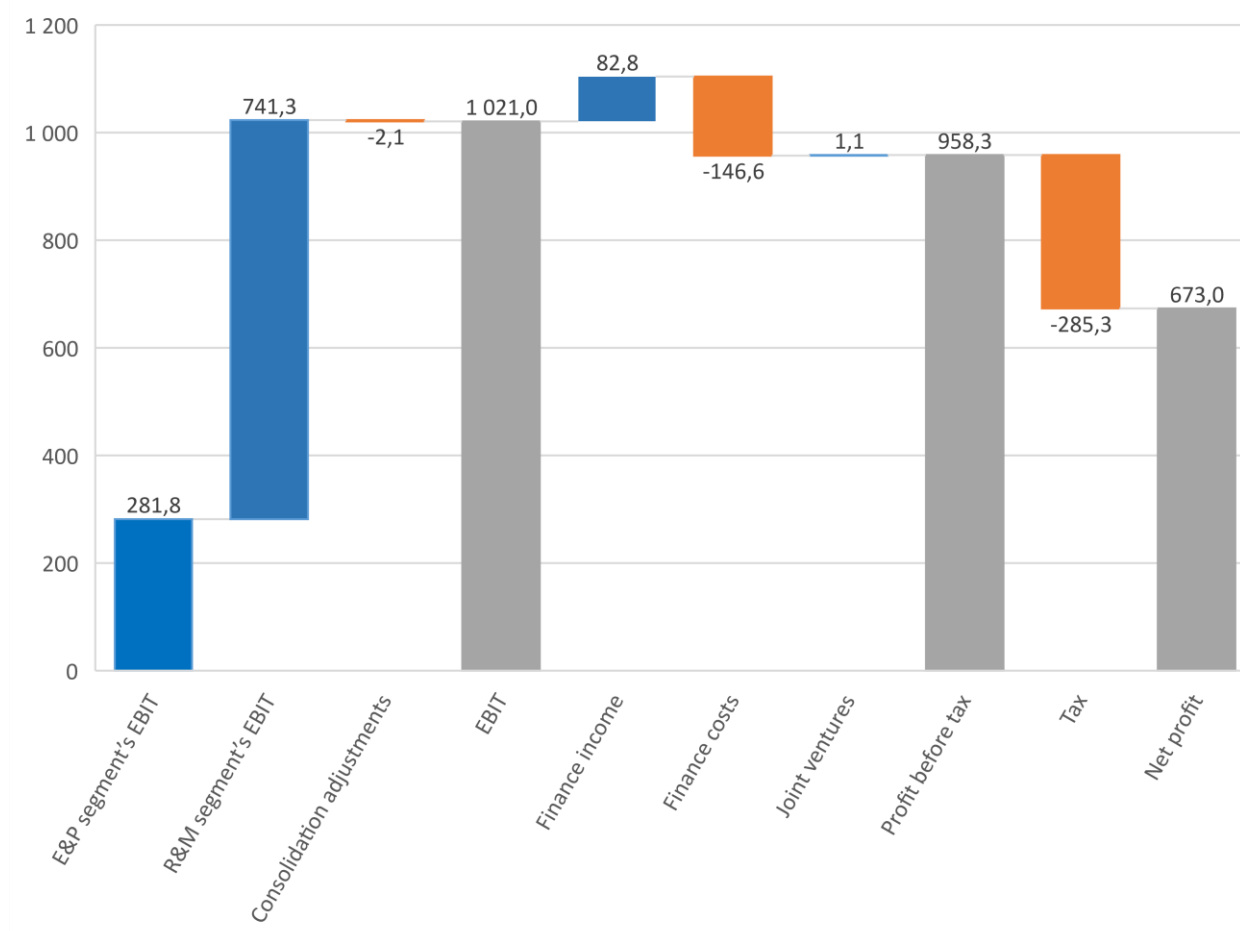
Currency pair	Instrument	Volume	Currency	Exchange rate range
EUR/USD exchange rates	Forward	129,900,000	EUR	1.1286 – 1.2187
EUR/PLN exchange rates	Forward	-1,050,000	EUR	4.2520 – 4.2634
USD/PLN exchange rates	Forward	-198,990,000	USD	3.7300 – 3.8243

Transactions hedging interest rate risk as at June 30th 2019

Instrument	Start date	End date	Notional amount	Currency	Interest rate range	Reference rate
IRS	from Mar 21 2019	from Sep 23 2019	322,000,014	USD	1.72%-2.89%	3M 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 2019

Instrument	Instrument type	2019		2020	
		Volume (mt)	Price range (EUR/mt)	Volume (mt)	Price range (EUR/mt)
EUAs	Futures	1,499,000	7.64 – 23.69	29,000	24.3

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


Profit before tax earned by the LOTOS Group in H1 2019 was PLN 958.3m and the consolidated net profit reached PLN 673.0m.

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

	H1 2019	H1 2018	H1 2019/ H1 2018
EBIT	1,021.0	1,345.7	-24.1%
Finance income	82.8	23.1	258.4%
Finance costs	-146.6	-116.4	25.9%
Other	1.1	0.7	57.1%
Profit/(loss) before tax	958.3	1,253.1	-23.5%
Net profit/(loss)	673.0	855.7	-21.4%

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

	Jun 30 2019	Dec 31 2018	Change	%
Assets	23,899.8	22,223.9	1,675.9	7.5%
Non-current assets	13,994.9	13,078.0	916.9	7.0%
Property, plant and equipment of the Refining & Marketing segment	9,771.2	8,742.4	1,028.8	11.8%
Intangible assets of the Refining & Marketing segment	148.3	151.9	-3.6	-2.4%
Property, plant and equipment of the Exploration & Production segment	3,313.6	3,044.0	269.6	8.9%
Intangible assets of the Exploration & Production segment	357.4	338.0	19.4	5.7%
Equity-accounted joint ventures	125.7	117.2	8.5	7.3%
Deferred tax assets	143.0	149.6	-6.6	-4.4%
Derivative financial instruments	10.7	9.1	1.6	17.6%
Other non-current assets	125.0	525.8	-400.8	-76.2%
Current assets	9,904.9	9,145.9	759.0	8.3%
Inventories	4,694.2	4,848.9	-154.7	-3.2%
Trade receivables	2,553.0	1,880.4	672.6	35.8%
Current tax assets	52.1	2.4	49.7	2070.8%
Derivative financial instruments	28.1	15.3	12.8	83.7%
Other current assets	396.8	457.6	-60.8	-13.3%
Cash and cash equivalents	2,180.7	1,941.3	239.4	12.3%

As at June 30th 2019, the LOTOS Group carried total assets of PLN 23,899.8m (up PLN 1,675.9m on December 31st 2018).

Key changes in assets:

- PLN 1,028.8m increase in the Refining & Marketing segment's property, plant and equipment related to the adoption of IFRS 16 and implementation of the EFRA Project
- PLN 672.6m increase in trade receivables related to Grupa LOTOS S.A.'s and LOTOS Paliwa sp. z o.o.'s sales, due to the absence in the reporting period of factoring transactions at the parent
- PLN 269.6m increase in the E&P segment's property, plant and equipment, mainly related to the YME fields
- PLN 239.4m increase in cash and cash equivalents
- PLN 461.7m decrease in other assets, mainly as a result of a bank guarantee issued in April 2019 in favour of ExxonMobil, Nordea released NOK 998m (the equivalent of PLN 440.8m) of funds blocked in the escrow account.
- PLN 154.7m decrease in inventories, primarily of crude oil, caused by a decline in the volume of crude oil stored at Grupa LOTOS S.A.

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

	Jun 30 2019	Dec 31 2018	Change	%
Equity and liabilities	23,899.8	22,223.9	1,675.9	7.5%
Equity	12,200.5	12,034.8	165.7	1.4%
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	-244.1	-288.2	44.1	15.3%
Retained earnings	9,944.5	9,826.1	118.4	1.2%
Translation reserve	86.8	83.6	3.2	3.8%
Non-controlling interests	0.1	0.1	0.0	0.0%
Non-current liabilities	4,838.8	4,044.3	794.5	19.6%
Borrowings, other debt instruments and finance lease liabilities	3,032.6	2,345.3	687.3	29.3%
Derivative financial instruments	4.4	6.9	-2.5	-36.2%
Deferred tax liabilities	397.0	324.9	72.1	22.2%
Employee benefit obligations	176.3	170.4	5.9	3.5%
Other liabilities and provisions	1,228.5	1,196.8	31.7	2.6%
Current liabilities	6,860.5	6,144.8	715.7	11.6%
Borrowings, other debt instruments and finance lease liabilities	1,648.8	1,538.7	110.1	7.2%
Derivative financial instruments	24.3	47.4	-23.1	-48.7%
Trade payables	1,884.8	1,913.7	-28.9	-1.5%
Current tax liabilities	294.5	565.3	-270.8	-47.9%
Employee benefit obligations	136.8	156.2	-19.4	-12.4%
Other liabilities and provisions	2,871.3	1,923.5	947.8	49.3%

The **increase in the LOTOS Group's equity** as at June 30th 2019 to PLN 12,200.5m (up PLN 165.7m on 2018) was driven primarily by higher retained earnings (up PLN 118.4m), which were increased by foreign exchange gains on valuation of cash flow hedges recognised in capital reserves, adjusted by the tax effect of PLN 44.1m.

The share of equity in total equity and liabilities fell by 3.2pp year on year, to 51.0%.

Key changes in liabilities (up by PLN +1,510.2m):

- PLN 797.4m increase in borrowings, other debt instruments and finance lease liabilities, mainly due to the implementation of IFRS 16 *Leases*
- PLN 979.5m increase in other liabilities and provisions (mainly due to dividends payable, excise duty, fuel tax, and VAT)
- PLN 270.8m decrease in current tax liabilities.

As at June 30th 2019, the LOTOS Group's debt totalled PLN 4,681.4m, up by PLN 797.4m on the end of 2018, following the implementation of IFRS 16. The ratio of financial debt adjusted for free cash to equity was 20.5% (including lease liabilities representing 10.6% of equity), up 4.4pp on December 31st 2018. Net debt was PLN 2,500.7m. The ratio of net debt to adjusted LIFO-based EBITDA was 0.79 as at June 30th 2019.

Consolidated statement of cash flows

Cash flows (PLNm)

	H1 2019	H1 2018	Change
Cash flows from operating activities	738.1	396.6	341.5
Cash flows from investing activities	-49.8	-402.1	352.3
Cash flows from financing activities	-436.2	-524.1	87.9
Effect of exchange rate fluctuations on cash held	-9.9	8.3	-18.2
Change in net cash	242.2	-521.3	763.5
Cash and cash equivalents at beginning of period	1,938.3	1,920.6	17.7
Cash and cash equivalents at end of period	2,180.5	1,399.3	781.2

As at June 30th 2019, the LOTOS Group's cash balance (including overdraft facilities) was PLN 2,180.5m. In H1 2019, net cash flows increased cash and cash equivalents by PLN 242.2m.

In H1 2019, net cash flows from operating activities were positive at PLN 738.1m, driven mainly by net profit increased by depreciation and amortisation and higher other liabilities and provisions and decreased by higher trade receivables due to the absence of factoring transactions in the reporting period.

Net cash flows from investing activities were mainly related to the acquisition of PLN 478.3m worth of property, plant and equipment and other intangible assets, mostly in connection with the EFRA Project and E&P operations. They include funds of PLN 440.8m released from the escrow account following the issue of a bank guarantee in favour of ExxonMobile.

Negative cash flows from financing activities, of PLN -436.2m, chiefly comprised a negative net balance of proceeds from borrowings and repayments of borrowings (principal and interest), and payments of liabilities under finance leases.

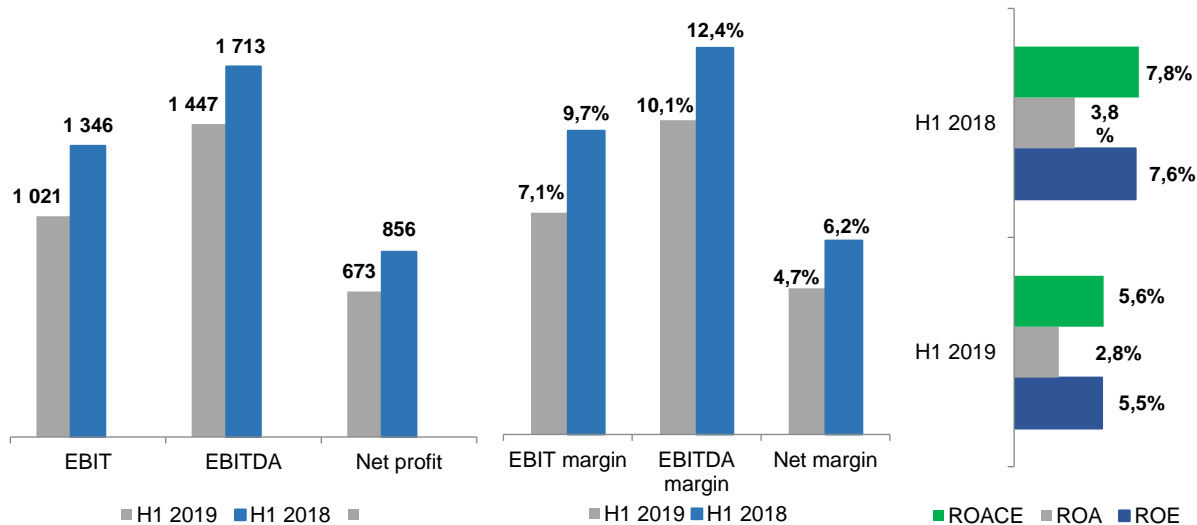
Management of financial resources

Assessment of the feasibility of meeting liabilities

In H1 2019, 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 standing has been prepared in the form of a ratio analysis covering margins, liquidity, turnover and debt levels.

Profitability ratios


- EBIT and EBITDA margins down by [2.6pp] and [2.3pp], respectively, owing to lower EBIT and EBITDA sales margin down following a 21.4% decline in net profit, with revenue higher by 3.9%
- ROE and ROA down, mainly as a result of the significant decrease 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

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. LOTOS Group's expenditure on property, plant and equipment
LOTOS Group's capital expenditure in the six months ended June 30th 2019 by key Refining & Marketing projects (PLNm)

Refining & Marketing segment	CAPEX incurred
	Jan 1 2019 – Jun 30 2019
EFRA	111.3
Hydrogen Recovery Unit (HRU)	11.0
Expansion of service station network	33.4
Other	53.0
Total	208.7

LOTOS Group's capital expenditure in the six months ended June 30th 2019 by key Exploration & Production projects (PLNm)

Exploration & Production segment	CAPEX incurred
	Jan 1 2019 – Jun 30 2019
B-8 field	65.6
Norway – Sleipner	33.2
Norway – Heimdal	10.4
YME, Norway	148.5
Other	47.5
Total	305.2

2.3. Management Board's position on the Group's ability to deliver forecast results

The Company does not issue any performance forecasts.

2.4. Factors and risks 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 the 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 E&P segment
- progress of the ongoing projects in the refining business
- volumes of production from oil and gas fields
- potential opportunities and acquisition projects in the Exploration & Production segment
- optimisation measures in the Refining & Marketing segment to maximise the refining margin of Grupa LOTOS S.A.
- regulatory environment, in particular possible amendments to legislation governing the National Indicative Target, National Reduction Target, and emergency stocks

- 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. Basis of preparation of half-year condensed financial statements

The interim condensed consolidated financial statements of the LOTOS Group (the "interim consolidated financial statements", "interim financial statements", "consolidated financial statements", "financial statements") have been prepared in accordance with the EU-endorsed International Accounting Standard IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements present the financial position of the Group as at June 30th 2019 and December 31st 2018, the results of the Group's operations for the six months ended June 30th 2019 and June 30th 2018, and cash flows for the six months ended June 30th 2019 and June 30th 2018.

The interim financial statements should be read in conjunction with the audited consolidated financial statements of the LOTOS Group for 2018, issued on March 12th 2019 (the "consolidated financial statements for 2018").

The data presented in these interim consolidated financial statements as at June 30th 2019 and for the six months ended on that date, as well as the comparative financial data for the six months ended June 30th 2018, was reviewed by an auditor. The financial data for the three months ended June 30th 2019 as well as the comparative financial data for the three months ended June 30th 2018 included in the interim consolidated financial statements was not reviewed by an auditor. Data as at December 31st 2018 was audited. The auditor's report on the consolidated financial statements for 2018 was issued on March 11th 2019.

The interim condensed consolidated financial statements have been prepared on the assumption that the Group companies will continue as going concerns for the foreseeable future. As at the date of authorisation of the financial statements for issue, no circumstances were identified which would indicate any threat to the Group companies' continuing as going concerns.

The Parent's functional currency and the reporting currency of these interim consolidated financial statements is the Polish zloty, and all amounts presented herein, unless indicated otherwise, are stated in millions of zloty.

3.2. Material court, arbitration or administrative proceedings concerning liabilities or claims of the Company or its subsidiaries, and material settlements under court proceedings

In the period between the end of the previous financial year, i.e. December 31st 2018, and the date of issue of these interim financial statements, there were no significant changes with respect to pending material court, arbitration, and administrative proceedings or with respect to other risks to the Company or its subsidiaries. For information on pending material proceedings, see Note 29.1 to the consolidated financial statements for 2018.

Tax settlements

In 2015, the Company's VAT settlements for 2010 were subject to inspection by tax inspection authorities. On June 23rd 2015, the Company received a post-inspection report and challenged some of the findings contained in the report. On September 30th 2015, the

Company received a decision issued by the Director of the Tax Audit Office in Bydgoszcz, in which the Tax Audit Office assessed the VAT amount payable by the Company for the period from January to December 2010, identifying VAT arrears of PLN 48.4m. The Company dismissed the allegations of the Director of the Tax Audit Office as entirely groundless and on October 14th 2015 filed an appeal with the Director of the Tax Chamber in Gdańsk. The Director of the Tax Chamber in Gdańsk upheld the decision of the Director of the Tax Audit Office in Bydgoszcz, whereas the complaint lodged by the Company with the Provincial Administrative Court on June 8th 2016 was dismissed. On August 25th 2016, the Company lodged a cassation complaint with the Supreme Administrative Court of Warsaw. On April 17th 2019, the Supreme Administrative Court dismissed the Company's complaint against the ruling of the Provincial Administrative Court of Gdańsk.

Agreement to which LOTOS Exploration and Production Norge AS is a party

LOTOS Exploration and Production Norge AS ("LOTOS E&P Norge AS") was a party to proceedings held before an arbitration court in Norway in connection with claims filed by Single Buoy Moorings Inc. ("SBM"), the supplier of the MOPU (Mobile Offshore Production Unit) for operation of the YME field, against Talisman Energy Norge AS, the operator of the YME field ("Talisman", "Operator") and the other YME licence holders. The share of SBM's claims attributable to LOTOS E&P Norge AS was 20%.

In 2013, Talisman and SBM, the owner of the MOPU, announced that an agreement had been reached to terminate all existing contracts and agreements executed by the parties in connection with the YME project and remove the defective MOPU from the YME field.

SBM paid USD 470m to the licence holders, and Talisman Energy, on behalf of the licence holders, agreed to make the necessary preparations and remove the platform from the field. Under the agreement, SBM was responsible for towing the MOPU to the port and its scrapping, whereas following completion of certain works, the ownership of elements of the YME field in situ subsea infrastructure delivered by SBM should be transferred to the consortium members, who would be required to perform site restoration (and disassembly) activities related to the subsea infrastructure. Each of the parties will cover the costs of its scope of decommissioning work as set out in the agreement.

In accordance with the agreement made with SBM, the balance of the LOTOS Group's share in the amount due to the consortium members under the agreement (USD 81.8m) was transferred to the YME project escrow account, to be gradually released to finance the removal of the MOPU and related infrastructure from the field, in accordance with the agreement.

On August 22nd 2016, the YME project partners completed evacuation of the defective MOPU from the field. In Q1 2017, the caisson (element of the subsea infrastructure) was inspected. As a result of the inspection it was found that the caisson can stand without additional support until 2019 (provided that it is inspected on a semi-annual basis and its condition remains unimpaired).

On August 11th 2017, SBM Offshore confirmed the conclusion of an agreement with a majority of MOPU insurers to settle insurance claims relating to the faulty execution of the MOPU. On September 10th 2018, SBM announced that the insurance claim concerning the YME project was fully and finally settled. The gross amount received by SBM as insurance compensation was USD 390m. The share of LOTOS E&P Norge AS (net of the cost of legal services and other expenses) was expected at USD 30.7m. In 2018, the LOTOS Group recognised its share in the compensation under other income, in the amount of PLN 118.3m.

On March 5th 2019, LOTOS E&P Norge AS received cash of USD 31.1m as the final settlement of insurance claims.

On March 21st 2019, LOTOS E&P Norge AS signed an RBL credit facility agreement (financing for upstream projects) with a bank syndicate, with a limit of up to USD 220m. The syndicate comprises BNP Paribas, Skandinaviska Enskilda Banken AB, PKO BP S.A., PEKAO S.A. and Bank Gospodarstwa Krajowego. Under the RBL, the banks issued guarantees for a total amount of NOK 1,140m, following which Nordea Bank Norge ASA released funds from the escrow account in the amount of NOK 995m, recognised under Other non-current assets.

In the six months ended June 30th 2019, there were no material settlements under court or other proceedings, save for those presented above.

3.3. Loan sureties or guarantees, or other guarantees issued by Grupa LOTOS S.A. or its subsidiaries jointly to one entity or its subsidiary, where the aggregate value of such sureties or guarantees is significant

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 2019. 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.

On March 29th 2019, banks issued two letters of credit for LOTOS Exploration and Production Norge AS under a new reserve based lending (RBL) facility:

- NOK 991.4m guarantee in respect of Sleipner DSA decommissioning liabilities, issued by Bank BNP Paribas in favour of Exxon Exploration and Production Norge AS,
- NOK 148m guarantee in respect of Heimdal decommissioning liabilities, issued by PKO Bank Polski in favour of Spirit Energy Norway AS.

3.4. Material events subsequent to the reporting date

On July 2nd 2019, Grupa LOTOS S.A. and a bank syndicate comprising:

- ING Bank Śląski S.A.
- Bank PEKAO S.A.
- PKO BP S.A.
- Sumitomo Mitsui Banking Corporation Bank EU AG
- Intesa Sanpaolo S.p.A
- CaixaBank S.A. (Spółka Akcyjna)
- Industrial and Commercial Bank of China (Europe) S.A.
- and Erste Group Bank AG

signed credit facility agreements for a total amount of USD 500m to refinance credit facilities contracted in 2008 for financing of the 10+ Programme.

Under the agreements, the bank syndicate extended to the Company:

- a USD 400m term facility
- a USD 100m working capital facility, disbursable in USD, EUR or PLN.

The facilities must be repaid within five years of disbursement. They bear interest at variable rates based on LIBOR, EURIBOR and WIBOR. Repayment is secured by a declaration of voluntary submission to enforcement. The other terms and conditions of the credit facility agreements do not differ from standard terms commonly applied in agreements of such type.

The facility was disbursed on July 15th 2019. On that date, the Company repaid all credit facilities contracted in 2008 to finance the 10+ Programme.

The purpose of the refinancing is to optimise the structure and schedule of repayments related to the 10+ Programme, and to release the security interests created over Grupa LOTOS S.A.'s assets.

3.5. Transaction or series of transactions concluded by Grupa LOTOS S.A. or its subsidiaries with related parties other than at arm's length

In the reporting period, no related-party transactions were concluded on non-arm's length terms.

3.6. LOTOS Group's intercompany loans, including those advanced in the first six months of 2019

List of the LOTOS Group's intercompany loans as at June 30th 2019:

Lender	Borrower	Principal as per loan agreement		Amount outstanding as at Jun 30 2019				Maturity date of		Financial terms (interest rate, interest payment schedule, etc.)	Security	Date of the agreement
				(current portion)		(non-current portion)		current portion	non-current portion			
		PLN	Currency	PLN	Currency	PLN	Currency					
		(million)	(million)	(million)	(million)	(million)	(million)					
LOTOS Petrobaltic S.A.	Energobaltic Sp. z o.o.	9.9	-	1.7	-	3.3	-	Mar 31 2020	Feb 28 2021	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	-	-	23.7	6.3 USD	-	Mar 31 2026	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	-	-	157.9	483.5 NOK	-	Mar 31 2026	6M LIBOR + margin	Blank promissory note with a 'protest waived' clause and promissory note declaration	May 8 2015
LOTOS Petrobaltic S.A.	SPV Baltic Sp. z o.o.	42.6	14.0 USD	-	-	66.4	17.8 USD	-	Jan 31 2022	6M LIBOR + margin	Blank promissory note	Dec 23 2013
LOTOS Petrobaltic S.A.	SPV Baltic Sp. z o.o.	46.3	-	-	-	54.6	-	-	Jan 31 2022	6M WIBOR + margin	Blank promissory note	Jan 27 2014
LOTOS Petrobaltic S.A.	B8 Sp. z o.o. SKA	8.5	-	-	-	10.1	-	-	Dec 31 2022	3M WIBOR + margin	Blank promissory note	Oct 20 2015

LOTOS Petrobaltic S.A.	B8 Sp. z o.o. SKA	80.0		2.2	-	80.0	-	Jan 21 2019	Jul 31 2022	1Y WIBOR + margin	Blank promissory note	Oct 30 2018
LOTOS Petrobaltic S.A.	SPV Petro Sp. z o.o.	22.3		5.2	-	17.1	-	Jun 30 2020	Dec 31 2022	1M WIBOR + margin	Blank promissory note	Jun 6 2019
LOTOS Upstream Sp. z o.o.	LOTOS Upstream UK Ltd	0.4	0.1 GBP	0.4	0.1 GBP	-	-	Dec 31 2019	-	3M LIBOR + margin, on principal repayment date	None	May 15 2018
LOTOS Upstream Sp. z o.o.	LOTOS Upstream UK Ltd	1.2	0.2 GBP	1.2	0.2 GBP	-	-	Dec 31 2019	-	3M LIBOR + margin, on principal repayment date	None	Nov 28 2018
Kambr Navigation Company Limited	Miliana Shipmanagement Limited	0.8	0.2 USD	2.5	0.6 USD	-	-	Jun 30 2019	-	1M LIBOR + margin	None	May 29 2013
Petro Icarus Company Limited	Miliana Shipmanagement Limited	4.2	1.1 USD	2.3	0.6 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	-	-	Jun 30 2019	-	1M LIBOR + margin	None	May 29 2013
Bazalt Navigation Company Limited	Miliana Shipmanagement Limited	0.6	0.2 USD	0.3	0.1 USD	-	-	Jun 30 2019	-	1M LIBOR + margin	None	May 29 2013
Granit Navigation Company Limited	Miliana Shipmanagement Limited	2.5	0.6 USD	3.1	0.8 USD	-	-	Dec 31 2019	-	1M LIBOR + margin	None	Dec 10 2014
Petro Icarus Company Limited	Miliana Shipmanagement Limited	13.7	3.6 USD	13.5	3.6 USD	-	-	Dec 31 2019	-	1M LIBOR + margin	None	Dec 10 2014
Kambr Navigation Company Limited	Miliana Shipmanagement Limited	2.7	0.7 USD	3.3	0.8 USD	-	-	Dec 31 2019	-	1M LIBOR + margin	None	Dec 10 2014
Bazalt Navigation Company Limited	Miliana Shipmanagement Limited	2.7	0.6 USD	2.9	0.8 USD	-	-	Dec 31 2019	-	1M LIBOR + margin	None	Dec 10 2014

Miliana Shipping Group	Miliana Shipmanagement Limited	0.7	0.2 USD	0.7	0.2 USD	-	-	Dec 31 2018	-	1M LIBOR + margin	None	Aug 25 2016
Miliana Shipmanagement Limited	St. Barbara Navigation Company Limited	4.2	1.1 USD	0.7	0.2 USD	1.7	0.4 USD	Dec 31 2019	Apr 30 2023	1M LIBOR + margin	None	Nov 10 2016
Petro Aphrodite Company Limited	Miliana Shipmanagement Limited	0.8	0.2 USD	0.8	0.2 USD	-	-	Dec 31 2019	-	1M LIBOR + margin	None	Aug 19 2016
Grupa LOTOS S.A.	LOTOS Upstream Sp. z o.o.	8.8	-	9.0	-	-	-	Dec 31 2019	-	3M WIBOR + margin	Blank promissory note with a 'protest waived' clause	Oct 19 2018
Grupa LOTOS S.A.	Energobaltic Sp. z o.o.	10.0	-	10.4	-	-	-	Dec 31 2019	-	6M WIBOR + margin	Blank promissory note, mortgage of up to 15m	Dec 19 2016
Grupa LOTOS S.A.	LOTOS Norge AS	90.0	-	-	-	90.4	206.3 NOK	-	Dec 31 2026	3M NIBOR + margin	Blank promissory note with a 'protest waived' clause	Feb 20 2019
Grupa LOTOS S.A.	LOTOS Upstream Sp. z o.o.	9.6	-	9.5	-	-	-	Sep 30 2019	-	3M WIBOR + margin	Blank promissory note with a 'protest waived' clause	14.03.2019
Grupa LOTOS S.A.	SPV Petro Sp. z o.o.	-	0.7 USD	-	-	2.5	0.7 USD	-	Dec 31 2022	1M LIBOR + margin	Blank promissory note with a 'protest waived' clause, security interest in a drilling platform	May 16 2019
				38.0	PLN	165.1	PLN					
				30.5	8.0 USD	94.3	25.2 USD					
				-	NOK	248.3	689.8 NOK					
				1.6	0.3 GBP	-	GBP					
				70.1		507.7						

* granted in the first six months of 2019

3.7. Sureties issued in respect of bank and non-bank borrowings and notes, guarantees or other security

Issuer of surety, guarantee or other security	Beneficiary of surety, guarantee or other security	Bank or other institution to which surety, guarantee or other security has been issued	Description	Financial terms on which surety, guarantee or other security has been provided, including information on the compensation received by the Company or its subsidiary for providing the surety, guarantee or other security	Valid until		Nature of the links between the Company and the entity that contracted the borrowings or notes	Currency other than PLN	Balance as at in a currency other than PLN
					Beginning (mm-dd-yyyy)	End (mm-dd-yyyy)			
Grupa LOTOS S.A.	B8 Spółka z ograniczoną odpowiedzialnością Baltic Spółka komandytowo akcyjna	Bank Gospodarstwa Krajowego	<p>The surety covers the existing and future monetary claims for payment of: (i) redemption amounts, (ii) redemption instalments, (iii) interest amounts, and (iv) potential early redemption premium, payable to the Noteholder (Bank Gospodarstwa Krajowego) by the issuer (B8 Sp. z o.o. SKA) under the Notes issued under the Senior Note Programme Agreement, amended by Annex 2 of July 25th 2018, under which the Company may issue notes for a total amount of USD 89,724,000.</p> <p>The surety replaced the previous surety provided to BGK and Fundusz Inwestycji Infrastrukturalnych – Dłużny Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych in December 2017.</p>	Agreement concerning compensation for the provision of the surety is being negotiated	Jul 25 2018	<p>On the earlier of:</p> <p>(i) December 31st 2019</p> <p>(ii) completion of the B8 project</p> <p>(iii) repayment of all liabilities under the note issue agreement</p>	The issuer of the notes covered by the surety is an indirect subsidiary of the Surety Provider	USD	surety for up to USD 91,500,000.00

Grupa LOTOS S.A.	LOTOS Asphalt Sp. z o.o.	Institutions financing the EFRA Project	Registered and financial pledges were granted over Grupa LOTOS S.A.'s shareholding in LOTOS Asphalt Sp. z o.o. under the Agreement Granting Registered and Financial Pledges over Shares in LOTOS Asphalt Sp. z o.o., dated September 7th 2015, with the registered pledges to be mandatorily entered in the pledge register.	n/a	Financial pledge – Sep 7 2015 Registered pledge – Nov 2 2015	On the earlier of: (i) expiry of the pledges following expiry of the secured claims or by operation of law (ii) the date the Pledge Administrator waives the Registered Pledges and the Pledgeses waive the Financial Pledges and other security interests in accordance with applicable laws and regulations.	LOTOS Asphalt is a subsidiary of Grupa LOTOS.	USD	up to the amount of LOTOS Asphalt's liabilities under the EFRA credit facility agreement
Grupa LOTOS S.A.	LOTOS Asphalt Sp. z o.o.	Institutions financing the EFRA Project	Assignment of any existing and future claims under a conditional loan agreement between Grupa LOTOS S.A. and LOTOS Asphalt, dated June 30th 2015, and future loan agreements, if any, made pursuant to the Security Assignment Agreement of September 7th 2015.	n/a	Sep 7 2015	Date of repayment of the secured claims	LOTOS Asphalt is a subsidiary of Grupa LOTOS.	USD	up to the amount of LOTOS Asphalt's liabilities under the EFRA credit facility agreement
Grupa LOTOS S.A.	LOTOS E&P Norge AS	banks providing the RBL credit facility to the Company	Assignment of any existing and future claims under a loan agreement between Grupa LOTOS S.A. and LOTOS E&P Norge AS, dated February 20th 2019, and future loan agreements, if any, made pursuant to the Security Assignment Agreement signed by Grupa LOTOS S.A. on March 22nd 2019.	n/a	Mar 22 2019	Date of repayment of the secured claims	LOTOS E&P Norge AS is a direct (1 share) and indirect (through LOTOS Upstream) subsidiary of Grupa LOTOS.	USD	up to the amount of LOTOS E&P Norge AS's liabilities under the RBL credit facility agreement

* letter of intent	Grupa LOTOS S.A. o.o.	n/a	<p>Purpose of the letter of intent: Grupa LOTOS S.A. has committed an amount of PLN 51.8m to finance the 'Purchase of modern rolling stock for intermodal transport services provided by LOTOS Kolej Sp. z o.o.' project carried out under the Operational Programme Infrastructure and Environment 2014–2020. LOTOS Kolej Sp. z o.o. intends to take out a loan of PLN 51.8m from Grupa LOTOS S.A. to finance the project.</p> <p>Financing: Grupa LOTOS S.A. has agreed to grant to LOTOS Kolej Sp. z o.o. a loan of PLN 51.8m in aggregate, to be disbursed as follows:</p> <ol style="list-style-type: none"> 1) PLN 10.1m in 2019, 2) PLN 21.2m in 2020, 3) PLN 13.7m in 2021, and 4) PLN 6.8m in 2022. <p>The financing may be provided on condition that:</p> <ul style="list-style-type: none"> • LOTOS Kolej Sp. z o.o. receives co-financing for the project under the Operational Programme Infrastructure and Environment 2014–2020, Priority Axis III – Development of the TEN-T road network and multimodal transport. <p>The loan will be granted under a separate agreement after the parties have secured all relevant corporate approvals as required under their articles of association and applicable laws.</p>	n/a	n/a (the letter of intent was signed on December 12th 2017)	n/a	n/a	n/a	n/a
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Signatures by Grupa LOTOS Management Board Members

This report has been approved for issue.

President of the Management Board

Mateusz Aleksander Bonca

Vice President of the Management Board, Chief
Investment and Innovation Officer

Marian Krzemiński

Vice President of the Management Board, Chief
Refining and Marketing Officer

Jarosław Kawula

Vice President of the Management Board, Chief
Financial Officer

Zofia Paryła

Vice President of the Management Board, Corporate
Affairs

Jarosław Wittstock