

Financial results and operational achievements

103-1, 103-2, 103-3, 201-1, 201-3

In 2019, adjusted LIFO-based EBITDA was PLN 2.9bn, down 7.7% year on year. Last year, the Company paid record-high dividend of PLN 3 per share. In 2019, the macroeconomic environment for refining operations was more demanding than in 2018 and relative to the strategic projections assumed by the Company. The significant decline in natural gas and crude oil prices had an adverse effect on the exploration and production segment's performance.

In 2019, the LOTOS Group posted revenue of PLN 29.5bn. with 97.5% of the figure coming from refining operations. The Group sells its products mainly to domestic customers. Domestic sales accounted for 81.8% of total revenue.

Key financial results of the LOTOS Group

PLN

1.97bn

LOTOS Group's operating profit for 2019

PLN

1.15bn

LOTOS Group's net profit for 2019

PLN

1.47bn

Refining and Marketing segment's operating profit

PLN

0.49bn

Exploration and Production segment's operating profit

PLN

29.49bn

revenue

In 2019, the LOTOS Group's revenue was PLN 29,493.3m. Sales of diesel oil accounted for the major share of revenue, having totalled PLN 16,246.8m (55.1% of the Group's total revenue). In 2019, they were up 8.2% year on year. Sales of gasolines were also an important contributor to revenue, amounting to PLN 4,346.6m (14.7% of total revenue), which represented a 2.3% decrease year on year. In 2019, heavy products accounted for 9.0% of the LOTOS Group's revenue. Their value was PLN 2,639.7m (down by 15.8% compared with 2018).

In 2019, the share of domestic sales in the LOTOS Group's revenue went up by 3.7% compared with the previous year, to PLN 24,121.8m (81.8% of total revenue).

LOTOS Group's revenue by products, merchandise and services (PLNm)

Exploration & Production	Refining & Marketing	Total
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	2019	2018	2019	2018	2019	2018
Gasolines			4,346.6	4,450.5	4,346.6	4,450.5
Naphtha			936.9	1,157.1	936.9	1,157.1
Diesel oils			16,246.8	15,009.3	16,246.8	15,009.3
Bunker fuel			211.0	201.2	211.0	201.2
Light fuel oil			618.8	640.4	618.8	640.4
Heavy products			2,639.7	3,133.8	2,639.7	3,133.8
Aviation fuel			1,114.2	1,421.7	1,114.2	1,421.7
Luboils			291.4	278.5	291.4	278.5
Base oils			460.1	587.3	460.1	587.3
LPG			513.0	543.8	513.0	543.8
Crude oil commodity				320.8	0.0	320.8
Crude oil product	233.9	285.4			233.9	285.4
Natural gas	434.6	661.8	1.0	0.3	435.6	662.1
Xylene fraction			235.4	250.4	235.4	250.4
Other refinery products, merchandise and materials		0.6	338.0	312.7	338.0	313.3
Other products, merchandise and materials	8.3	6.6	568.2	530.8	576.5	537.4
Services	53.8	48.0	372.8	372.3	426.6	420.3
Effect of cash flow hedge accounting		0.0	-131.2	-91.6	-131.2	-91.6
Total	730.6	1,002.4	28,762.7	29,119.3	29,493.3	30,121.7
Domestic sales	8.0	7.0	24,113.8	23,256.0	24,121.8	23,263.0
Export sales	722.6	995.4	4,648.9	5,863.3	5,371.5	6,858.7

Source: the Company.

Refining & Marketing

In 2019, the Refining & Marketing segment's revenue came to PLN 28,826.2m, down by 1.2% compared with 2018. The decrease reflected mainly a 1.6% drop in the segment's sales volume. The average selling price was PLN 2,514 per tonne, i.e. was 0.4% higher than in 2018.

Sales of diesel oil accounted for the major share of revenue, having totalled PLN 16,246.8m, up 8.2% year on year. Sales of gasolines were also an important contributor to the segment's revenue, amounting to PLN 4,346.6m, which represented a 2.3% decrease year on year.

The LOTOS Group's 2019 operating profit in the Refining & Marketing segment was PLN 1,474.4m.

In order to eliminate the effect of inventory measurement with the weighted average cost method on operating profit, and the resulting delay in reflecting any changes of crude oil prices in the prices of finished products, a management standard in the refining sector is the use of LIFO-based EBITDA. Additionally, for management purposes, operating profit/(loss) is adjusted to account for any non-recurring/one-off items (e.g. foreign exchange gains or losses on operating activities, impairment losses on assets).

LIFO-based EBITDA adjusted for one-off items rose 2.2% year on year. The increase in depreciation and amortisation of the Refining & Marketing segment in 2019 was mainly attributable to the implementation of IFRS 16 'Leases'.

Financial results of the Refining & Marketing segment (PLNm)

	2019	2018	2019/2018	
			(PLNm)	(%)
Revenue	28,826.2	29,171.9	-345.7	-1.2%
EBIT	1,474.7	1,928.7	-454.0	-23.5%
Depreciation and amortisation	673.1	497.6	175.6	35.3%
EBITDA	2,147.8	2,426.3	-278.5	-11.5%
LIFO effect	141.2	-499.9	641.1	-128.3%
One-off items ¹	-65.2	249.5	-314.7	-126.1%
Adjusted LIFO-based EBITDA	2,223.8	2,175.9	47.9	2.2%

Source: the Company.

¹ The balance of impairment losses/write-downs, provisions and other items in 2019 was PLN 65.2m. In 2018, the balance of impairment losses/write-downs, provisions and other items was PLN -249.5m.

Exploration & Production segment

In 2019, revenue in the Exploration & Production segment was PLN 1,186.7m, a decline of PLN 277.0m compared with 2018. The main reason was a drop in the prices of natural gas (-44.5%) and of Brent dtd crude (-9.8%) on global markets. The major decline in hydrocarbon prices resulted in a PLN 287.0m decrease in adjusted LIFO-based EBITDA compared with the previous year.

Financial results of the Exploration & Production segment (PLNm)

	2019	2018	2019/2018	
			(PLNm)	(%)

Revenue	1,186.7	1,463.7	-277.0	-18.9%
EBIT	487.2	1,046.2	-559.0	-53.4%
Depreciation and amortisation	236.2	225.1	11.1	4.9%
EBITDA	723.4	1,271.3	-547.9	-43.1%
One-off items ²	-93.9	-354.8	260.9	-73.5%
Adjusted EBITDA	629.5	916.5	-287.0	-31.3%

Source: the Company.

² The balance of impairment losses/write-downs and provisions in 2019 was PLN 93.9m. The balance of impairment losses/write-downs and provisions in 2018 was PLN 354.8m.

Assets

The main asset items include:

- Property, plant and equipment worth PLN 13,270.8m (56.0% of the Group's total assets). Their value rose 12.6% compared with the end of 2018. The main components of these assets were property, plant and equipment of the Refining & Marketing segment. They amounted to PLN 9,638.4m, having increased 10.2% during the year, mainly as a result of the application of IFRS 16 and in connection with the EFRA Project. At the same time, property, plant and equipment of the Exploration & Production segment went up 19.3%, to PLN 3,632.4m (due mainly to an increase in non-current assets associated with the YME, Sleipner and Utgard fields in Norway, the B8 fields in the Baltic Sea, and purchase of the Giant drilling platform).
- Inventories were measured at PLN 4,854.3m (20.5% of the Group's assets). Their value was close to that recorded at the end of 2018.
- Trade receivables totalled PLN 2,609.1m, i.e. 11.0% of total assets. Their value was PLN 728.7m higher than a year earlier. The increase was recorded mainly in domestic sales, mostly on account of the lack of factoring arrangements.
- Other current and non-current assets decreased, in total, by PLN 491.2m, affected mainly by a bank guarantee provided by BNP Paribas to Exxon Exploration and Production Norge AS to cover Sleipner decommissioning liabilities and the resulting release of funds from the escrow account.
- Cash and cash equivalents The item amounted to PLN 1,516.6m (6.4% of total assets), which was PLN 424.7m less relative to the end of 2018.

Equity

PLN

12.72bn

equity at the end of 2019

PLN

0.68bn

increase in LOTOS Group's equity relative to 2018

56%

share of equity in total equity and liabilities in 2019

Key changes in liabilities:

PLN

+383.2m

increase in other liabilities and provisions (mainly investment commitments, and liabilities under excise duty, fuel charge and VAT)

PLN

-348.2m

increase in current tax liabilities

PLN

+27.1m

increase in trade payables

PLN

-532.4m

decrease in borrowings, other debt instruments and finance lease liabilities, reflecting mainly partial repayment of the Parent's investment facilities, at the same time, some of the credit facilities were repaid, including facilities granted for the 10+ Programme at Grupa LOTOS S.A., the purchase of service stations at LOTOS Paliwa, the purchase of an oil platform at SPV Baltic Sp. z o.o., and the refinancing and financing of inventories

In 2019, the LOTOS Group's debt equalled PLN 4,416.4m, and was PLN 532.4m higher than at the end of December 2018, mainly as a result of the implementation of IFRS 16 'Leases'. The ratio of debt adjusted for free cash to equity was 22.8% (including lease liabilities representing 10.0% of equity), which is 6.6pp higher compared with December 31st 2018. Net debt totalled PLN 2,899.8m. The ratio of net debt to adjusted LIFO-based EBITDA as at December 31st 2019 was 1.0x, of which 0.4x was attributable to IFRS 16 'Leases'.

Debt

PLN

4.41bn

LOTOS Group's debt at the end of 2019

PLN

532.4m

increase in LOTOS Group's debt relative to 2018

PLN

2.90bn

net debt as at the end of 2019

As at December 31st 2019, the LOTOS Group's cash balance (including current account overdrafts) amounted to PLN 1,516.6m. In 2019, net cash flows decreased the amount of cash and cash equivalents by PLN 421.7m, where:

- The LOTOS Group generated positive cash flows from operating activities of PLN 2,130.2m, attributable mainly to net profit increased by depreciation and amortisation, income tax, and higher provisions, and reduced by higher trade receivables resulting from the lack of factoring arrangements in 2019.
- Cash flows from investing activities equalled PLN -407.9m driven mainly by expenditure on key development projects, including EFRA, related to crude oil and gas production from the Norwegian and Baltic Sea fields. They also included funds released from the Sleipner decommissioning escrow account.
- Negative cash flows from financing activities, of PLN -2,141.2m, were mainly attributable to the negative balance of

proceeds from borrowings and repayment of borrowings (facilities taken out by Grupa LOTOS S.A. to finance inventories and the 10+ Programme; LOTOS Asphalt's investment loan), as well as interest paid, dividend distributed and payments due under lease contracts.

PLN

1.52bn

LOTOS Group's cash balance, including current account over-drafts at the end of 2019

PLN

-0.41bn

negative cash flows from investing activities generated in 2019

PLN

2.13bn

positive cash flows from operating activities generated in 2019

PLN

-2.14bn

negative cash flows from financing activities

In 2019, the LOTOS Group's capital expenditure exceeded PLN 1,024.7m, most of which was spent on the construction of a delayed coking unit (EFRA Project) and on oil and gas production, mainly from the B8 field in the Baltic Sea and from the Sleipner and YME area fields on the Norwegian Continental Shelf.

LOTOS Group's capital expenditure on key projects in 2019 (PLNm)

Refining & Marketing		Exploration & Production	
Project	(PLNm)	Project	(PLNm)
EFRA	134.2	B8 field	140.4
Expansion of service station network	96.0	Sleipner, Norway	46.5
Hydrogen Recovery Unit (HRU)	26.0	Norway - Heimdal	36.8
Other	139.0	YME, Norway	291.1
		Giant platform	55.6
		Other	59.1
Total	395.2	Total	629.5

Source: the Company.