

GRUPA LOTOS S.A.

**LONG-FORM AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

I. GENERAL NOTES

1. Background

Grupa LOTOS S.A. (hereinafter 'the Company') was incorporated on the basis of a Notarial Deed dated 18 September 1991. The Company's registered office is located in Gdańsk at 135 Elbląska Street.

The Company was entered in the Register of Entrepreneurs of the National Court Register under no. KRS 0000106150 on 10 April 2002.

The Company was issued with tax identification number (NIP) 5830000960 on 9 June 1993 and statistical number (REGON) 190541636 on 25 February 1998.

The Company is the holding company of the Grupa LOTOS S.A. capital group. Details of transactions with affiliated entities and the list of companies in which the Company holds at least 20% of shares in the share capital or in the total number of votes in the company's governing body are included in Notes 16 and 33 of the additional notes and explanations to the audited financial statements for year ended 31 December 2013.

The principal activities of the Company are as follows:

- production of crude oil and natural gas (PKD 06),
- manufacturing and processing of coke and crude oil refined products (PKD 19),
- manufacturing of technical gases (PKD 20.11),
- production of other basic organic chemicals (PKD 20.14),
- production and supply of electricity, gas, steam, hot water and air for air-conditioning systems (PKD 35),
- uptake, treatment, and supply of water (PKD 36),
- works relating to pipeline, telecommunication line and Power line construction (PKD 42.2),
- electrical, water and sewage as well as other construction installations (PKD 43.2),
- wholesale of fuels and derivatives products (PKD 46.71),
- wholesale of chemical products (PKD 46.75),
- railway transport of goods (PKD 49.2),
- pipeline transport (PKD 49.5),
- reloading of goods (PKD 52.24),
- warehousing and storage of goods (PKD 52.1),
- technical test and analyses (PKD 71.2),
- other scientific and technical research and development (PKD 72.19).

As at 31 December 2013, the Company's issued share capital amounted to 129 873 thousand zlotys. Equity as at that date amounted to 7 135 595 thousand zlotys.

1. Background (continued)

In accordance with article 69 Act on the public offer and conditions for introduction of financial instruments to the organized trading system and public companies dated 25 July 2005 (Journal of Law No. 184 from 2005, item 1539, with amendments) the ownership structure of the Company's issued share capital was as follows:

	Number of shares	Number of votes	Par value of shares	% of issued share capital
State Treasury	69.076.392	69.076.392	69.076.392	53,19%
ING OFE	6.893.079	6.893.079	6.893.079	5,31%
Other Shareholders	53.903.891	53.903.891	53.903.891	41,50%
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Total	129.873.362	129.873.362	129.873.362	100,00%
	=====	=====	=====	=====

During the period covered by the financial statements for the financial year ended 31 December 2013 and during the period between the balance sheet date to 3 March 2014, the following change occurred in the ownership structure of the holding company - increase in ING Otwarty Fundusz Emerytalny's share in the total number of votes at the General Shareholders Meeting of Grupa LOTOS S.A. over 5% total number of votes at the General Shareholders Meeting.

Prior to the acquisition, the Fund held 6,415,102 of the Company's shares, representing 4.94% of its share capital, which carried the right to 6,415,102 votes at the Company's General Shareholders Meeting, or 4.94% of the total vote. As at 29 April 2013, the number of the Company's shares registered on the Fund's securities account is 6,893,079, representing 5.31% of the Company's share capital and conferring the right to 6,893,079 votes at the Company's General Shareholders Meeting, or 5.31% of the total votes.

There were no movements in the share capital in the reporting period.

As at 3 March 2014, the Company's Management Board was composed of:

Paweł Olechnowicz	- President, General Director
Marek Sokołowski	- Vice-President, Director of Production and Development
Mariusz Machajewski	- Vice-President, Finance Director
Maciej Szozda	- Vice-President, Sales Director
Zbigniew Paszkowicz	- Vice-President, Director of Exploration and Production

There were no changes in the Company's Management Board composition during the reporting period as well as from the balance sheet date to the date of the opinion.

2. Financial Statements

On 8 December 2004 the General Shareholders' Meeting decided on preparation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU.

2.1 Auditors' opinion and audit of financial statements

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. (formerly: Ernst & Young Audit sp. z o.o.) with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under no. 130.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. (formerly: Ernst & Young Audit sp. z o.o.) was appointed by Supervisory Board on 31 October 2012 to audit the Company's financial statements.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. (formerly: Ernst & Young Audit sp. z o.o.) and the key certified auditor meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 56.3 and 56.4 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009 (Journal of Laws 2009, No. 77, item 649 with subsequent amendments).

Under the contract executed on 30 July 2013 with the Company's Management Board, we have audited the financial statements for the year ended 31 December 2013.

Our responsibility was to express an opinion on the financial statements based on our audit. The auditing procedures applied to the financial statements were designed to enable us to express an opinion on the financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the financial statements taken as a whole.

Based on our audit, we issued an auditors' opinion dated 3 March 2014, stating the following:

“ To the Supervisory Board of Grupa LOTOS S.A.

1. We have audited the attached financial statements for the year ended 31 December 2013 of Grupa LOTOS S.A. ('the Company') located in Gdańsk at 135 Elbląska Street, containing statement of financial position as at 31 December 2013, the statement of comprehensive income, the statement of cash flow, the statement of changes in equity for the period from 1 January 2013 to 31 December 2013 and the notes to the financial statements ('the attached financial statements').
2. The truth and fairness¹ of the attached financial statements, the preparation of the attached financial statements in accordance with the required applicable accounting policies and the proper maintenance of the accounting records are the responsibility of the Company's

¹ Translation of the following expression in Polish: 'rzetelność i jasność'

2.1 Auditors' opinion and audit of financial statements(continued)

Management Board. In addition, the Company's Management Board and Members of the Supervisory Board are required to ensure that the attached financial statements and the Directors' Report meet the requirements of Accounting Act dated 29 September 1994 (Journal of Laws 2013.330 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the attached financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies, whether they truly and fairly² reflect, in all material respects, the financial position and results of the operations of the Company and whether the accounting records that form the basis for their preparation are, in all material respects, properly maintained.

3. We conducted our audit of the attached financial statements in accordance with:
 - chapter 7 of the Accounting Act,
 - national auditing standards issued by the National Council of Statutory Auditors,in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Company's Management Board, as well as evaluating the overall presentation of the attached financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.
4. In our opinion, the attached financial statements, in all material respects:
 - present truly and fairly all information material for the assessment of the results of the Company's operations for the period from 1 January 2013 to 31 December 2013, as well as its financial position³ as at 31 December 2013;
 - have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and based on properly maintained accounting records;
 - are in respect of the form and content, in accordance with legal regulations governing the preparation of financial statements and the Company's Articles of Association.
5. Without qualifying our opinion, we draw attention, that in the attached financial statements the Company has presented shares in the subsidiaries and joint ventures at cost⁴ less any impairment write down. In accordance with the accounting policies resulting from International Financial Reporting Standards, LOTOS Capital Group ('The LOTOS Group'), of which the Company is the dominant entity, prepared its consolidated financial statements dated 3 March 2014. The consolidated net profit from continuing operations of LOTOS Group for the year ended 31 December 2013 amounts to PLN 39 428 thousand, the consolidated equity as at 31 December 2013 amounts to PLN 9 189 596 thousand and the consolidated assets amounts to PLN 20 299 617 thousand.

² Translation of the following expression in Polish: 'rzetelnie i jasno'

³ Translation of the following expression in Polish: 'sytuacja majątkowa i finansowa'

⁴ Translation of the following expression in Polish language: "cena nabycia"

2.1 Auditors' opinion and audit of financial statements(continued)

6. We have read the 'Directors' Report for the period from 1 January 2013 to 31 December 2013 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws 2009.33.259 with subsequent amendments)."

We conducted the audit of the Company's financial statements during the period from 22 July 2013 to 3 March 2014. We were present at the Company's head office from 22 July 2013 to 2 August 2013, from 14 October 2013 to 25 October 2013, from 18 November 2013 to 22 November 2013 and from 3 February 2014 to 14 February 2014.

2.2 Representations provided and data availability

The Management Board confirmed its responsibility for the truth and fairness⁵ of the financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary explanations. The Management Board also provided a letter of representations dated 3 March 2014, confirming that:

- the information included in the books of account was complete,
- all contingent liabilities had been disclosed in the financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the financial statements,

and confirmed that the information provided to us was true and fair to the best of the Management Board's knowledge and belief, and included all events that could have had an effect on the financial statements.

At the same time declare that during the audit of the financial statements, there were no limitations of scope.

⁵ Translation of the following expression in Polish: "rzetelność i jasność"

2.3 Financial statements for prior financial year

The Company's financial statements for the year ended 31 December 2012 were audited by Marcin Zieliński, key certified auditor no. 10402, acting on behalf of Ernst & Young Audit sp z o. o., Rondo ONZ 1, Warszawa, registered on the list of entities authorised to audit financial statements under no. 130. The key certified auditor issued an unqualified opinion on the financial statements for the year ended 31 December 2012. The Company's financial statements for the year ended 31 December 2012 were approved by the General Shareholders' Meeting of Grupa LOTOS S.A. on 28 June 2013, and the shareholders resolved to appropriate the 2012 net profit as follows:

Reserve capital	834 931
Company Social Fund	1 500

	836 431
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The financial statements for the financial year ended 31 December 2012, together with the auditors' opinion, a copy of the resolution approving the financial statements, a copy of the resolution on the appropriation of profit and the Directors' Report, were filed on 3 July 2013 with the National Court Register.

The closing balances as at 31 December 2012 were correctly brought forward in the accounts as the opening balances at 1 January 2013.

3. Analytical Review

3.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Company for the years 2011 - 2013. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2013 and 31 December 2012.

	2013	2012	2011
Total assets	15 559 412	15 978 614	16 422 936
Shareholders' equity	7 135 595	7 052 353	5 833 442
Net profit/ loss	(14 774)	836 431	307 670
Return on assets (%)	(0,1%)	5,2%	1,9%
$\frac{\text{Net profit} \times 100\%}{\text{Total assets}}$			
Return on equity (%)	(0,2%)	14,3%	5,2%
$\frac{\text{Net profit} \times 100\%}{\text{Shareholders' equity at the beginning of the period}}$			
Profit margin (%)	(0,1%)	2,7%	1,1%
$\frac{\text{Net profit} \times 100\%}{\text{Sales of finished goods, goods for resale and raw materials}}$			
Liquidity I	1,65	1,75	1,43
$\frac{\text{Current assets}}{\text{Short-term creditors}}$			
Liquidity III	0,05	0,001	0,001
$\frac{\text{Cash and cash equivalents}}{\text{Short-term creditors}}$			
Debtors days	22 days	20 days	29 days
$\frac{\text{Trade debtors} \times 365 \text{ days}}{\text{Sales of finished goods, goods for resale and raw materials}}$			

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for the year ended 31 December 2013
(in thousand zlotys)

	2013	2012	2011
Creditors days	33 days	26 days	38 days
Trade creditors x 365 days			
Costs of finished goods, goods for resale and raw materials sold			
Inventory days	75 days	68 days	77 days
Inventory x 365 days			
Costs of finished goods, goods for resale and raw materials sold			
Stability of financing (%)	70,6%	72,0%	65,8%
(Equity + long-term provisions and liabilities) x 100%			
Total liabilities, provisions and equity			
Debt ratio (%)	54,1%	55,9%	64,5%
(Total liabilities and provisions) x 100%			
Total assets			
Rate of inflation:			
Yearly average	0,90%	3,70%	4,3%
December to December	0,70%	2,40%	4,6%

3.2 Comments

Based on the analysis of the above data and financial ratios, the following trends may be observed in 2013:

All profitability ratios were negative in 2013 and decreased in comparison to years 2012 and 2011 due to the net loss incurred in 2013.

Return on assets ratio which amounted to -0,1% in 2013 has decreased by 5,3 pp in comparison to 2012 when it amounted to 5,2%. In 2011 it amounted to 1,9%. Return on equity ratio decreased from 1,43% in 2012 to -0,2% in 2013, while it amounted to 5,2% in 2011.

Analogously, profit margin decreased in 2013 in comparison to 2011 and 2012. It amounted to 1,1% in 2011, 2,7% in 2012, decreased by 2,8 pp in 2013 and amounted -0,1%. The reason behind this change, similarly like in return on assets, is lower financial result in 2013 than in prior years.

3.2 Comments (continued)

Liquidity I ratio amounted 1,65 in 2013 and decreased in comparison to 2012, however it increased in comparison to 2011. It amounted to 1,75 in 2012 and 1,43 in 2011. Ratio decrease in 2013 was caused by decrease of short term assets.

Liquidity III ratio reached higher level in 2013 amounting to 0,05 in comparison to similar levels over 2012-2011 amounting to 0,001. It was caused by the lower level of available cash and cash equivalents in prior years.

Debtors days ratio increased in 2013 from 20 days in 2012 to 22 days in 2013 due to decrease of sales, while in 2011 it amounted to 29 days.

Creditors days ratio amounted to 33 days in 2013 and was longer than in 2012 when it amounted to 26 days in 2012 due to increase of trade creditors at the end of 2013. In 2011 creditors days ratio amounted to 38 days.

The inventory days ratio increased in 2013 to 75 days in comparison to 2012, when it amounted to 68 days; it amounted to 77 days in 2011. The reason behind this trend is a decrease of operating costs, accompanied by lower fluctuations in inventories.

The Company's stability of financing ratio amounted to 70,6% at 31 December 2013 in comparison with 72,0% in 2012 year end and 65,8% in 2011 year end. Its decrease in 2013 in comparison with 2012 is caused by lower increase of shareholders equity in comparison to the increase of liabilities.

Debt ratio decreased by 1,8 pp at the end of 2013 in comparison with 2012 year end from 55,9% to 54,1%. At 31 December 2011 this ratio amounted to 64,5%. The decrease was caused by higher shareholder equity at the end of 2013 in comparison with 2012 and 2011.

3.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the Company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2013 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

The Management Board has stated that the financial statements were prepared on the assumption that the Company will continue as a going concern for a period of at least twelve months subsequent to 31 December 2013 and that there are no circumstances that would indicate a threat to its continued activity.

II. DETAILED REPORT

1. Accounting System

The Company's accounts are kept using the mySAP.com computer integrated system at the Company's head. The Company has up-to-date documentation, as required under Article 10 of the Accounting Act dated 29 September 1994 (Journal of Laws 2013.330 with subsequent amendments – 'the Accounting Act'), including a chart of accounts approved by the Company's Management Board.

During our audit no material irregularities were noted in the books of account which could have a material effect on the audited financial statements and which were not subsequently adjusted. These would include matters related to:

- the reasonableness and consistency of the applied accounting policies;
- the reliability of the accounting records, the absence of errors in the accounting records and the trail of entries in the accounting records;
- whether business transactions are supported by documents;
- the correctness of opening balances based on approved prior year figures;
- consistency between the accounting entries, the underlying documentation and the financial statements;
- fulfilment of the requirements for safeguarding accounting documents and storing accounting records and financial statements.

2. Assets, Liabilities and Equity, Profit and Loss Account

Details of the Company's assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2013.

Verification of assets, liabilities and equity was performed in accordance with the Accounting Act. Any differences were adjusted in the books of account for the year 2013.

3. Additional Notes and Explanations to the Financial Statements

The additional notes and explanations to the financial statements for the year ended 31 December 2013 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

4. Directors' Report

We have read the Directors' report on the Company's activities in the period from 1 January 2013 to 31 December 2013 and the basis for preparation of annual financial statements ('Directors' Report') and concluded that the information derived from the attached financial statements reconciles with the financial statements. The information included in the Directors' Report corresponds with the relevant provisions of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws 2009.33.259 with subsequent amendments).

5. Conformity with Law and Regulations

We have obtained a letter of representations from the Management Board confirming that no laws, regulations or provisions of the Company's Articles of Association were breached during the financial year.

6. Work of Experts

During our audit we have taken into account the results of the work of independent actuary responsible for the calculation of the present value of the Company's future liabilities towards employees, other than salaries.

on behalf of
Ernst & Young Audyt Polska spółka
z ograniczoną odpowiedzialnością sp. k.
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Rondo ONZ 1, 00-124 Warsaw
Reg. No 130

Key Certified Auditor

Marcin Zieliński
certified auditor
No. 10402

Warsaw, 3 March 2014