

# The Organization and the Report

# Letter from the Chairman of the Supervisory Board



*Dear All,*

Grupa LOTOS deserves high marks for its performance in 2013. Despite the precarious economic climate and challenging market conditions, the Company was able to generate operating profit and effectively deleverage its business. Even more importantly, it was successful in the consistent pursuit of its strategy to build Grupa LOTOS' value and improve Poland's energy security. Together with Grupa Azoty, the Company also made the first step towards embarking on a major petrochemical project.

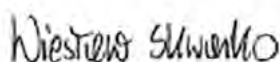
Particularly worthy of note is the consistency with which Grupa LOTOS delivered on its strategic objectives – it was steadily increasing its own crude oil production, maintained robust competitiveness of its refining business by steadily improving the refinery's efficiency, enhanced its market position – on the market of both motor fuel (an 8.5% share in retail sales) and aviation fuel – and was gradually reducing its debt (now at 62% of equity). Grupa LOTOS boasts the sixth highest sales revenue in Central Europe, and fifth highest in Poland.

The growing value of the LOTOS brand, driven both by business efforts and the long-term corporate social responsibility (CSR) strategy, is also to be appreciated. This responsible and transparent approach of Grupa LOTOS towards various stakeholder groups is cited as a paragon of modern business practices. The 2013–2015 Effective and Rising Programme, which opens new growth prospects for Grupa LOTOS in the medium and long term, is yet another example of the Board's ability to explore and successfully implement original and innovative solutions, improving the overall operating efficiency of both the Company and the LOTOS Group. The programme focuses on key investment projects and on restructuring the LOTOS Group in those areas where this would make business sense. By successfully delivering on both these objectives, Grupa LOTOS has been able to improve its efficiency and competitiveness.

Essential to securing the Company's future growth is stable employment and a high level of professional competence and experience of its Board Members and the management staff of its subsidiaries. This creates a positive work atmosphere across all levels – from managers to lower-tier staff. Grupa LOTOS employees are visibly proud to work for the Company and deeply committed to its further growth. This combination of the rational and the emotional in corporate management is a rare and extremely valuable asset.

Given the consistently implemented strategy, highly professional management staff and dedication of employees, I am convinced that the future of Grupa LOTOS will bring further dynamic growth of its value and market shares. Grupa LOTOS will remain a robust and reliable presence in Poland's economy, a driver of its modern and sustainable growth.

Yours faithfully,



**Wiesław Skwarko**  
**Chairman of the Supervisory Board**  
**Grupa LOTOS**

# Letter from the President of the Board



*Dear All,*

It is with great pleasure and immense satisfaction that I hereby present to you the financial statements of Grupa LOTOS for 2013.

This document clearly shows that Grupa LOTOS is a modern, vertically integrated corporation with a sound financial standing and firm market position, which by consistently pursuing its strategy can grow strongly even under the most adverse conditions while respecting the principles of sustainable development and corporate social responsibility..

Last year's macroeconomic landscape, both in Poland and globally, was unusually complex. While taking its toll on the economy at large, the long-running crisis affected customer and consumer purchasing decisions, including those related to liquid fuels. It was a difficult period for the market, with strong downward pressures on prices on the one hand, and dwindling margins on the other. In such an environment, only the best managed companies have a chance for growth. I am happy to say that Grupa LOTOS has proved to be one of them. In 2013, it delivered a robust performance, providing a very good foundation for 2014. Our motto is 'Open to the future', to which I can also add 'We can build that future'.

Grupa LOTOS stands on a solid financial footing and manages its liquidity in an efficient manner. In 2013, we repaid another portion of the debt incurred to finance the 10+ Programme and meet other needs, bringing down our net debt position by PLN 580m year on year.

At the same time, we generated just under PLN 28.6bn in revenue, with operating profit coming in at PLN 146m and net profit at approximately PLN 40m. Last year was a tough one for the global oil industry, with fierce competition on liquid fuel markets, and crude prices flat, but still high, ranging between USD 100 and USD 110 per barrel. The availability of cheaper commodities in the US had an adverse effect on exports, especially exports of gasoline to North America, which weighed on the performance of many European refineries. Other factors behind the performance of Grupa LOTOS included record low refining margins and oil product prices. As for the Polish market, it suffered an overall downturn and weaker demand for liquid fuels, reflecting a slower rate of GDP growth and the grey market's activity.

A powerful response to these hardships was the 2013–2015 Effective and Rising Programme, announced in the spring of last year, which places a strong focus on key projects driving the Company's value and on the LOTOS Group's restructuring effort.

The implementation of the Programme is inextricably tied to the process of building Poland's energy security.

A vital element of this process is access to oil from own deposits. Last year our upstream segment operations gained a significant growth momentum. Due to the closure of Heimdal package transaction on the Norwegian Continental Shelf we doubled our hydrocarbon production volumes. We also stepped up exploration and production activities in the Baltic Sea, which we think may hold 30 million tonnes of hydrocarbons.

In the retail area, we are particularly proud of the continued brisk growth of our LOTOS service station chain and the expanding market share of our retail franchise. As at the end of 2013, the LOTOS chain comprised 439 service stations, an impressive rise on the 324 stations operated in 2010. The LOTOS Optima chain is growing even faster – it began market expansion in 2011 with 50 retail outlets and closed 2013 with 151 stations. These figures have earned our service station chain the status of the fastest-growing retail chain in Poland for another year in a row.

A great source of satisfaction is the increased presence of Grupa LOTOS in the aviation fuels market. LOTOS-Air BP Polska, a recently established joint venture, launched operations at Pyrzowice airport in Katowice in January of this year, and also provides wing-tip supplies of Jet A1 fuel at airports in Warsaw, Kraków and Gdańsk. Its recently added accounts include Wizz Air, one of the top three carriers operating in Poland.

Our accomplishments in the upstream, marketing and production areas do not relieve us from our social responsibilities, which we see as particularly important. We take great pride in our various CSR projects and initiatives, which deliver outstanding results and are widely appreciated. The best and most relevant example is the 'In Search for the Champion's Successors' programme, organized jointly by Grupa LOTOS and the Polish Ski Association, which gave the nation Kamil Stoch, two-time gold medalist at the recent Winter Olympics in Sochi, Russia. I can safely say that it is Grupa LOTOS and its partners that may take the credit for creating an innovative model of sports sponsorship, held as an example of transparency, legal compliance and effectiveness.

With the state-of-the-art technologies deployed as part of the 10+ Programme, our refinery in Gdańsk ranks among the most advanced facilities of its kind in the world, as confirmed by Solomon Associates, an international opinion leader in refinery benchmarking.

Dear All,

Well advanced implementation of the Effective and Rising Programme makes us feel positive and enthusiastic about the coming years. When majority thinks how to survive the present time, we know how to win the future. We are well prepared for change and know how to build a strong position of LOTOS.

In 2014, we are bound to undergo significant organizational, management and capital transformation, and we will carry on multiple tasks and investment programs aiming to improve the efficiency and effectiveness of the organization. This will definitely strengthen Grupa LOTOS market position, and deliver value to the shareholders and the joy of participating in a very interesting economical process to our employees.

We believe that we implement a very serious development programme of the Polish economy substantial part for the benefit of us all - Gdańsk, Pomerania, Poland.

Inspiring and challenging future is ahead. We will do our best to ensure full satisfaction of our shareholders with our business value growth.

With kindest regards,



**Paweł Olechnowicz**  
**President of the Board**  
**Chief Executive Officer**  
**Grupa LOTOS**

# Organization

**4,983**  
employees

PLN  
**28,597**  
m  
revenue

PLN  
**146m**  
operating profit

**33.4%**  
share in Polish  
fuel market

This 2013 Integrated Annual Report provides an overview of the activities of the LOTOS Group ("the LOTOS Group"), with a particular focus on the LOTOS Group's parent entity – Grupa LOTOS S.A. ("Grupa LOTOS", "the Company" or "we").

Grupa LOTOS is one of Europe's largest and most productive oil companies.

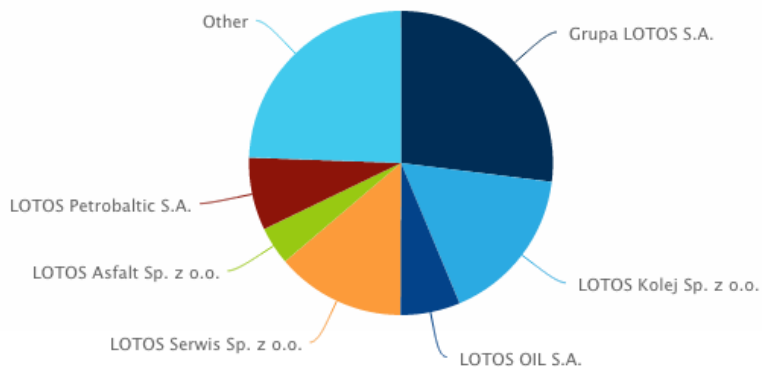
In terms of revenue generated in 2012, it is second of the 500 largest companies in Poland, and sixth among the 500 largest companies in Central and Eastern Europe.

Grupa LOTOS shares have been listed on the Warsaw Stock Exchange since June 2005. Since November 2009, Grupa LOTOS shares have also been listed on the Warsaw Stock Exchange's RESPECT Index of socially responsible companies.

The LOTOS Group employs almost five thousand people in Poland and abroad, and the high quality of our HR policy was confirmed last year with the 'Best Employer 2013' and the 'Human Resources Management Leader' awards.



### LOTOS Group workforce structure by key companies. As at December 31st 2013



Apart from Grupa LOTOS (the parent entity and operator of the refinery in Gdańsk), the LOTOS Group comprises 15 other companies operating under the LOTOS name. Two of them are based outside Poland, in Lithuania and Norway.

### Territory covered by the LOTOS Group's operations.



Our activities contribute not only to the development of communities in the regions where we are present, but also to the growth of public revenue. In 2013, we paid a total of PLN 12,571,938 thousand in taxes to the Polish state budget.

## Statement by Mieczysław Struk

Marshal of the Pomorskie Voivodeship



” Business activity brings measurable benefits to our region in form of jobs created by companies and financial contribution made by them through taxes. The impact of LOTOS, however, goes far beyond that, the best example of that impact being the 10+ Programme, the largest CAPEX project in this part of Europe.

**Mieczysław Struk**  
Marshal of the Pomorskie Voivodeship

Business activity brings measurable benefits to our region in form of jobs created by companies and financial contribution made by them through taxes. The impact of LOTOS, however, goes far beyond that, the best example of that impact being the 10+ Programme, the largest CAPEX project in this part of Europe.

The Pomorskie Voivodeship\* Development Strategy 2020 is the effect of analyzing the strong and weak points of our region, with the aim of aiding overcoming barriers and undertaking appropriate initiatives to suit the changing reality. However, in order to meet the objectives defined in it, it is necessary for us to initiate social dialogue and cooperation, which given the low level of social trust in Poland poses a major challenge to us. That is why the activity of Polish businesses is so important here, and Grupa LOTOS serves as a perfect example of a company, which, on the one hand, contributes significantly to the development of the national economy while being a responsible neighbour and a committed representative of our region, on the other hand.

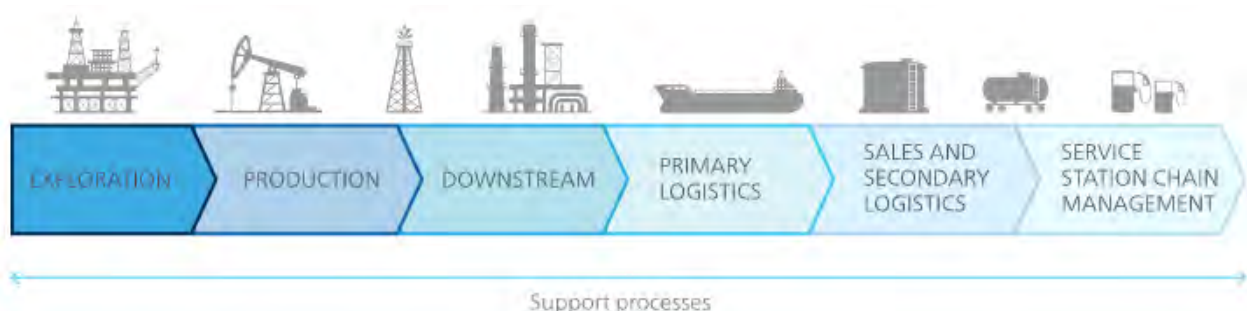
We are well aware that the cooperation of the local government with business is the key to successful development of the Pomerania region. Therefore, all the more so we appreciate the fact that LOTOS becomes engaged in and strategically implements initiatives in areas which are challenging for us. At the same time, I feel additional satisfaction knowing that the Company substantively supports Pomeranian higher education institutions, leveraging the potential of the cooperation between the academic community and business. Equally important is the Company's contribution to environmental investments and initiatives aimed at preserving the biodiversity of the Baltic Sea.

\* Pomorskie Voivodeship is the official name; herein: the Province of Gdańsk.

# Business model

The LOTOS Group's strategy is designed to strengthen its position as a strong, innovative and efficient business that plays a major role in ensuring national energy security. Our operations consist in crude oil production and processing, as well as wholesale and retail sale of petroleum products. We strive to achieve our business objectives with due care and respect for social responsibility and sustained development values.

## The LOTOS Group value chain



The top priority objective of the LOTOS Group's strategy for 2011-2015 is dynamic development of the hydrocarbon exploration and production segment. The LOTOS Group produces crude oil in the Baltic Sea and the Norwegian Continental Shelf. We also have access to onshore oil deposits in Lithuania.



In Poland, we manage the refinery in Gdańsk. Our product range includes unleaded gasoline, diesel oil, aviation fuel and heavy fuel oil. We also specialise in the production and sale of lubricating oils and bitumens.

## Main product brands

## Main product brands

# Dynamic

### Fuel products

LOTOS DYNAMIC 98 gasoline  
 LOTOS DYNAMIC DIESEL oil  
 LOTOS RED, diesel oil for heating purposes  
 IZ-40 diesel oil  
 propane-butane LPG



### Non-fuel products

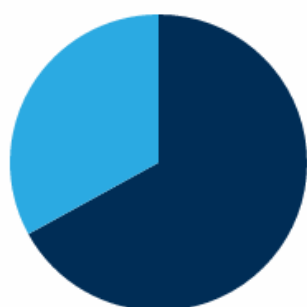
**Engine oils:** LOTOS Quazar, LOTOS Thermal Control, LOTOS Turdus, RG Trans, Agrol, Marino  
**Industrial oils:** Transmil, Hydromil, Remiz  
**Plasticisers:** Quantilus  
**Bitumens:** MODBIT

### Petrochemical products

Xylene fraction

The LOTOS Group's main market is Poland, but our foreign sales are also on a steady rise. In 2013, exports represented 33% of our total sales volume. ([More information](#))

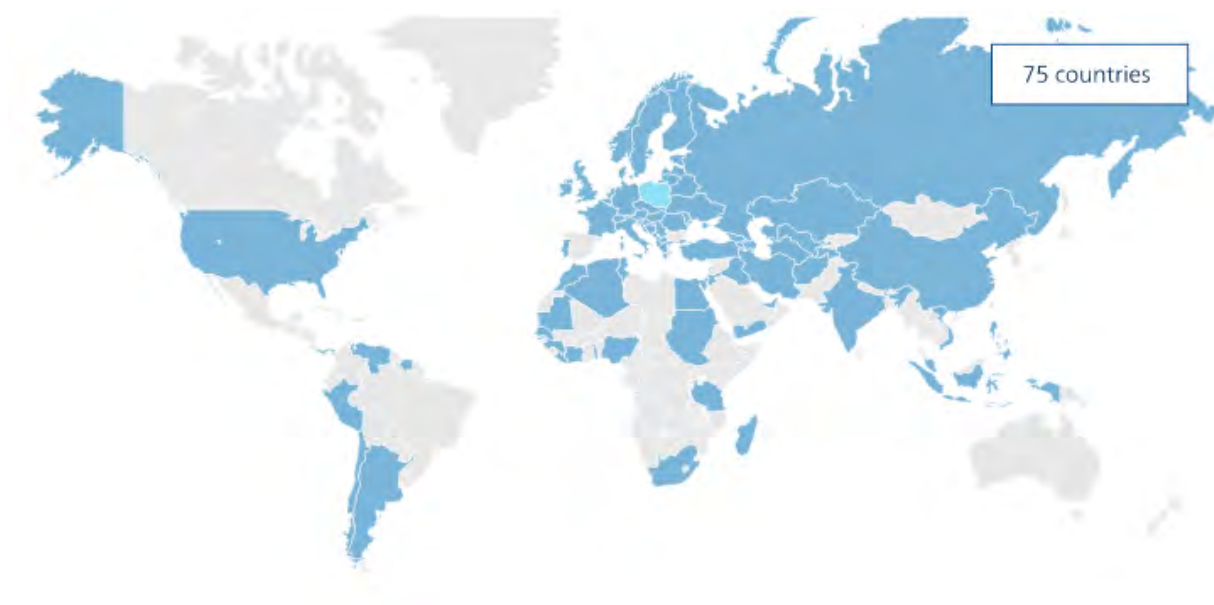
LOTOS Group sales by markets in 2013. (%)



■ Domestic sales  
 ■ Export sales

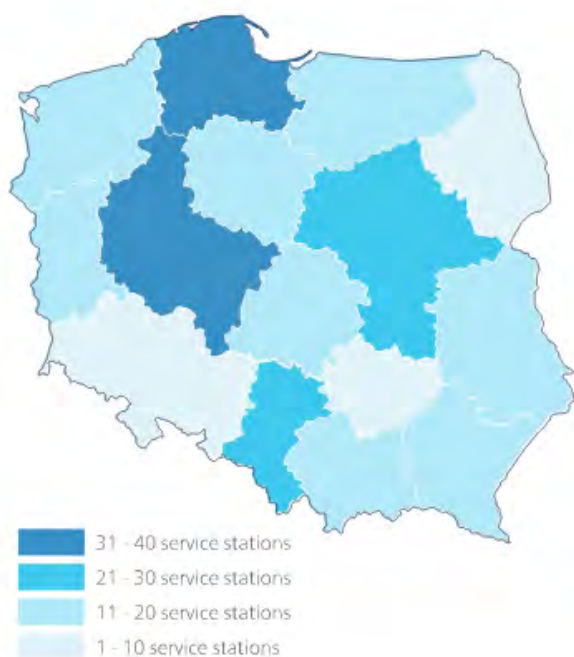
	thousand tonnes
Domestic sales	6,258
Export sales	3,082
<b>Total</b>	<b>9,340</b>

**We export our products to 75 countries all over the world.**

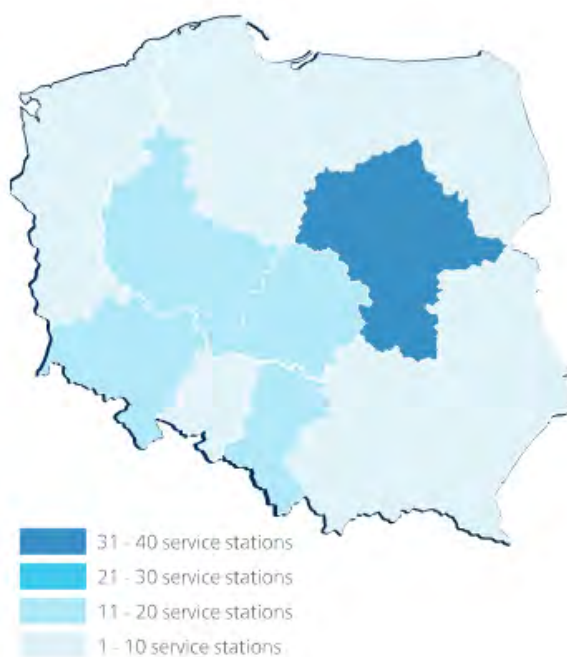


Our chain of LOTOS brand service stations is the fourth largest in Poland. Through this chain, we offer products and services in the premium segment, which also comprises motorway service stations. One third of our stations operate in the economy segment, under the LOTOS Optima brand. Compared with its competitors, LOTOS has the second fastest growing service station chain in Poland. As at the end of 2013, our share in retail sales of fuels in Poland amounted to 8.5%.

**LOTOS Premium stations**

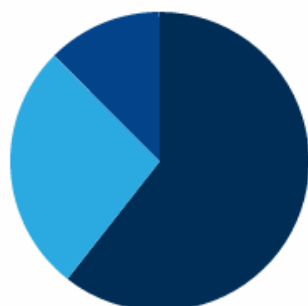


**LOTOS Optima stations**



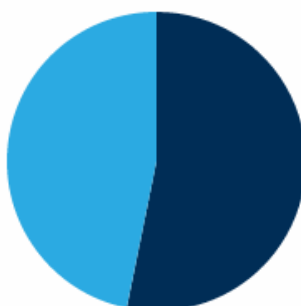
# Shareholder structure

Grupa LOTOS share capital structure by series.  
As at December 31st 2013 and the date of publication of this Report.



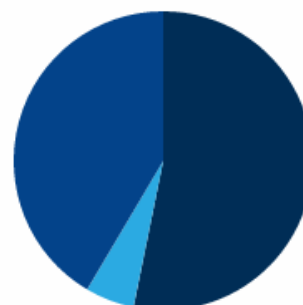
■ series A ■ series B  
■ series C

Shareholder structure of Grupa LOTOS as at the end of 2012 (%)



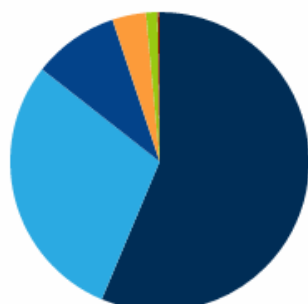
■ State Treasury  
■ Other shareholders

Grupa LOTOS shareholder structure from April 24th 2013 to the date of this Report (%)



■ State Treasury  
■ ING OFE  
■ Other shareholders

Geographical structure of minority interests (%) <sup>1</sup>



■ Poland ■ North America  
■ Rest of Europe  
■ UK and Ireland ■ Asia  
■ Australia

<sup>1</sup> Based on the identified minority interests.

Grupa LOTOS share capital did not change from the value reported in 2012 and is divided into 129,873,362 fully paid-up ordinary shares with a par value of PLN 1 per share. Each share represents one vote at the General Meeting and carries the right to dividend.

In 2012-2013 and until the date of this Report, the State Treasury held a total of 69,076,392 ordinary bearer shares in Grupa LOTOS, representing 53.20% of its share capital and the same proportion of voting rights at the Company's General Meeting.

In 2012, no changes occurred in the main shareholder composition, which means that the remaining 46.81% of share capital, that is 60,796,970 shares, was in free float.

On April 29th 2013, the Company was notified that as a result of the acquisition of Grupa LOTOS shares in transactions on the Warsaw Stock Exchange, settled on April 24th 2013, the open-end pension fund ING Otwarty Fundusz Emerytalny increased its shareholding in the Company so that it exceeded the threshold of 5% of the total voting rights at the Company's General Meeting. ([more information](#))

### Share capital and voting rights at the General Meeting, held by Grupa LOTOS shareholders as at December 31st 2013 and the date of publication of this Report

Shareholder	Number of shares/voting rights	Par value of shares	Share in share capital/total voting rights at the GM
State Treasury	69,076,392	69,076,392	53.20%
ING O F E	6,893,079	6,893,079	5.30%
Other shareholders	53,903,891	53,903,891	41.50%
<b>Total</b>	<b>129,873,362</b>	<b>129,873,362</b>	<b>100.00%</b>

Entity	Number of shares	Share in total voting rights at the GM [%]*	Share in share capital [%]
State Treasury	69,076,392	78	53.20

\* Based on data from the GM summoned for June 28th 2013.

In 2013, the Company did not issue any securities which would vest shareholders with any special control powers. As at the date of this Report, we have no information on shareholders' agreements on joint exercise of voting rights.

One share in Grupa LOTOS confers the right to one vote at its General Meeting (GM). However, pursuant to the Company's Articles of Association (Statute of Grupa LOTOS), the voting rights of Company shareholders are limited, so that none may exercise more than 10% of the total voting rights at the Company, as at the day on which the General Meeting is held, with the proviso that for the purpose of determining the obligations of buyers of significant shareholdings (provided for in the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading and Public Companies of July 29th 2005, and the Act on Insurance Activity of May 22nd 2003), such limitation of voting rights is deemed non-existent.

# Structure of the organization

As at December 31st 2013, the LOTOS Group comprised Grupa LOTOS (the Parent), and 22 production and service companies, including:

- 13 direct subsidiaries of Grupa LOTOS,
- 9 indirect subsidiaries of Grupa LOTOS.

## Composition of the LOTOS Group

Name	Registered office	Business profile	Grupa LOTOS's shareholding	
			Dec 31st 2013	Dec 31st 2012
Parent				
Grupa LOTOS S.A.	Gdańsk	Production and processing of refined petroleum products (mainly fuels) and their wholesale	Not applicable	Not applicable
Direct fully-consolidated subsidiaries				
LOTOS Petrobaltic S.A. (parent of another group: LOTOS Petrobaltic Group)	Gdańsk	Acquisition of crude oil and natural gas deposits and hydrocarbon production	99.98% <sup>(1)</sup>	99.96%
LOTOS Paliwa Sp. z o.o.	Gdańsk	Wholesale and retail sale of fuels and light fuel oil, management of the LOTOS service station chain	100.00%	100.00%
LOTOS Oil S.A.	Gdańsk	Production and sale of lubricating oils and lubricants, and sale of base oils	100.00%	100.00%
LOTOS Asfalt Sp. z o.o.	Gdańsk	Production and sale of bitumens	100.00%	100.00%
LOTOS Kolej Sp. z o.o.	Gdańsk	Railway transport	100.00%	100.00%
LOTOS Serwis Sp. z o.o.	Gdańsk	Maintenance of mechanical and electric operations and controlling devices, overhaul and repair services	100.00%	100.00%

LOTOS Lab Sp. z o.o.	Gdańsk	Laboratory analyses	100.00%	100.00%
LOTOS Straż Sp. z o.o.	Gdańsk	Fire services	100.00%	100.00%
LOTOS Ochrona Sp. z o.o.	Gdańsk	Security services	100.00%	100.00%
LOTOS Terminale S.A. <sup>(2)</sup> (parent of another group: LOTOS Terminale Group)	Czechowice-Dziedzice	Storage and distribution of fuels	100.00%	100.00%
LOTOS Infrastruktura S.A. <sup>(3)</sup>	Jasło	Storage and distribution of fuels Renting and operating of own or leased real estate	100.00%	100.00%
LOTOS Gaz S.A. (in liquidation)	Kraków	Dormant	100.00%	100.00%
LOTOS Park Technologiczny Sp. z o.o.	Jasło	Dormant	100.00%	100.00%
<b>Indirect fully-consolidated subsidiaries</b>				
<b>LOTOS Terminale Group</b>				
• RCEkoenergia Sp. z o.o.	Czechowice-Dziedzice	Production and distribution of electricity, heat and gas	100.00%	100.00%
• LOTOS Biopaliwa Sp. z o.o.	Czechowice-Dziedzice	Production of fatty acid methyl esters (FAME)	100.00%	100.00%
<b>LOTOS Petrobaltic Group</b>				
• LOTOS Exploration and Production Norge AS	Stavanger, Norway	Oil exploration and production on the Norwegian Continental Shelf, provision of services related to oil exploration and production	99.98% <sup>(4)</sup>	99.96%
• Aphrodite Offshore Services N.V.	Curaçao, Netherlands Antilles	Sea transport services (dormant)	99.98% <sup>(4)</sup>	99.96%
• Energobaltic Sp. z o.o.	Władysławowo	Production of electricity, heat, LPG and natural gas condensate	99.98% <sup>(4)</sup>	99.96%
• B8 Sp. z o.o.	Gdańsk	Support activities for extraction and quarrying operations (dormant)	99.98% <sup>(4,5)</sup>	-

<ul style="list-style-type: none"> <li>B8 Spółka z ograniczoną odpowiedzialnością BALTIC S.K.A.</li> </ul>	Gdańsk	Exploration and production of crude oil and natural gas (dormant)	99.98% (4,6)	-
<ul style="list-style-type: none"> <li>Milia na Shipholding Company Ltd. (parent of another group: Milia na Shipholding Group)</li> </ul>	Nicosia, Cyprus	Storage and transport of crude oil, other sea transport services	99.98% (4)	99.96%
<ul style="list-style-type: none"> <li>Technical Ship Management Sp. z o.o. (parent of another group: Technical Ship Management Group)</li> </ul>	Gdańsk	Sea transport support activities, ship operation advisory services	1% (4)	99.96%
<ul style="list-style-type: none"> <li>SPV Baltic Sp. z o.o.</li> </ul>	Gdańsk	Provision of sea transport and related services	1% (4,7)	-
<ul style="list-style-type: none"> <li>Milia na Shipmanagement Ltd.</li> </ul>	Nicosia, Cyprus	Provision of sea transport and related services	99.98% (4)	99.96%
<ul style="list-style-type: none"> <li>Milia na Shipping Group Ltd. (spółka posiada swoją grupę kapitałową: GK Milia na Shipping Group Ltd.)</li> </ul>	Nicosia, Cyprus	Management of own assets	99.98% (4)	99.96%
<ul style="list-style-type: none"> <li>Bazalt Navigation Company Ltd.</li> </ul>	Nicosia, Cyprus	Ship chartering	99.98% (4)	99.96%
<ul style="list-style-type: none"> <li>Granit Navigation Company Ltd.</li> </ul>	Nicosia, Cyprus	Ship chartering	99.98% (4)	99.96%
<ul style="list-style-type: none"> <li>Kambr Navigation Company Ltd.</li> </ul>	Nicosia, Cyprus	Ship chartering	99.98% (4)	99.96%
<ul style="list-style-type: none"> <li>St. Barbara Navigation Company Ltd.</li> </ul>	Nicosia, Cyprus	Ship chartering	99.98% (4)	99.96%
<ul style="list-style-type: none"> <li>Petro Icarus Company Ltd.</li> </ul>	Nicosia, Cyprus	Ship chartering	99.98% (4)	99.96%
<ul style="list-style-type: none"> <li>Petro Aphrodite Company Ltd.</li> </ul>	Nicosia, Cyprus	Ship chartering	99.98% (4)	99.96%
<ul style="list-style-type: none"> <li>AB LOTOS Geonafra (spółka posiada swoją grupę kapitałową: GK AB LOTOS Geonafra)</li> </ul>	Gargždai, Lithuania	Crude oil exploration and production, drilling services, and purchase and sale of crude oil	99.98% (4)	99.96%
<ul style="list-style-type: none"> <li>UAB Genciu Nafta</li> </ul>	Gargždai, Lithuania	Crude oil exploration and production	99.98% (4)	99.96%
<ul style="list-style-type: none"> <li>UAB Manifoldas</li> </ul>	Gargždai, Lithuania	Crude oil exploration and production	99.98% (4)	99.96%

### Equity-accounted entities

• LOTOS-Air BP Polska Sp. z o.o. <sup>(8)</sup>	Gdańsk	Sale of aviation fuel and logistics services	50.00% <sup>(8)</sup>	100.00%
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### LOTOS Petrobaltic Group

• Baltic Gas Sp. z o.o.	Gdańsk	Oil and gas production (support activities for oil and gas production)	49.99% <sup>(4,9)</sup>	99.96%
• Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k.	Gdańsk	Crude oil and gas production	81.68% <sup>(4,10)</sup>	99.96%

### Jednostki konsolidowane metodą proporcjonalną

#### GK AB LOTOS Geonaf

• UAB Minijos Nafta	Gargždai, Lithuania	Crude oil exploration and production	49.99% <sup>(4)</sup>	49.98%
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(1) In 2013, Grupa LOTOS continued the squeeze-out of shares in LOTOS Petrobaltic S.A. Following the acquisition of shares in LOTOS Petrobaltic S.A. as part of a squeeze-out, as at December 31st 2013 Grupa LOTOS held a 99.98% interest in the share capital of LOTOS Petrobaltic S.A.

(2) On July 30th 2013, the change of the company's name from LOTOS Czechowice S.A. to LOTOS Terminale S.A. was registered.

(3) On April 18th 2013, the change of the company's name from LOTOS Jasło S.A. to LOTOS Infrastruktura S.A. was registered.

(4) The shareholding changes described in item (1) above had an effect on the indirect equity interests held by Grupa LOTOS in the LOTOS Petrobaltic Group entities.

(5) On December 30th 2013, LOTOS Petrobaltic S.A. acquired 100% of the shares in B8 Sp. z o.o. One of the objectives of the acquisition was to create a vehicle for financing development of the B8 field.

(6) On December 30th 2013, LOTOS Petrobaltic S.A. acquired a 99.5% interest in B8 Spółka z ograniczoną odpowiedzialnością BALTIC spółka komandytowo-akcyjna, and became a limited partner in the company. B8 Sp. z o.o., holding 0.5% of the company shares, is a minority shareholder and the general partner in the company. One of the objectives of the acquisition was to create a vehicle for the financing of development of the B8 field.

(7) On December 20th 2013, Technical Ship Management Sp. z o.o. acquired a 100% interest in SPV Baltic Sp. z o.o.

(8) On November 25th 2013, Grupa LOTOS sold to BP Europe SE 1,000 shares in LOTOS Tank Sp. z o.o., representing 50% of LOTOS Tank Sp. z o.o.'s share capital. The sale was connected with a joint venture agreement executed between Grupa LOTOS and BP Europa SE German Branch on June 25th 2013, providing for the establishment of a new entity on the basis of LOTOS Tank Sp. z o.o. (a Grupa LOTOS subsidiary), through which the two partners could pursue joint operations in the aviation fuel market. On December 17th 2013, the change of the company's name from LOTOS Tank Sp. z o.o. to LOTOS-Air BP Polska Sp. z o.o. was registered.

(9) The sale by LOTOS Petrobaltic S.A. of a 50% interest in Baltic Gas Sp. z o.o. to CalEnergy Resources Poland Sp. z o.o. was registered on April 9th 2013.

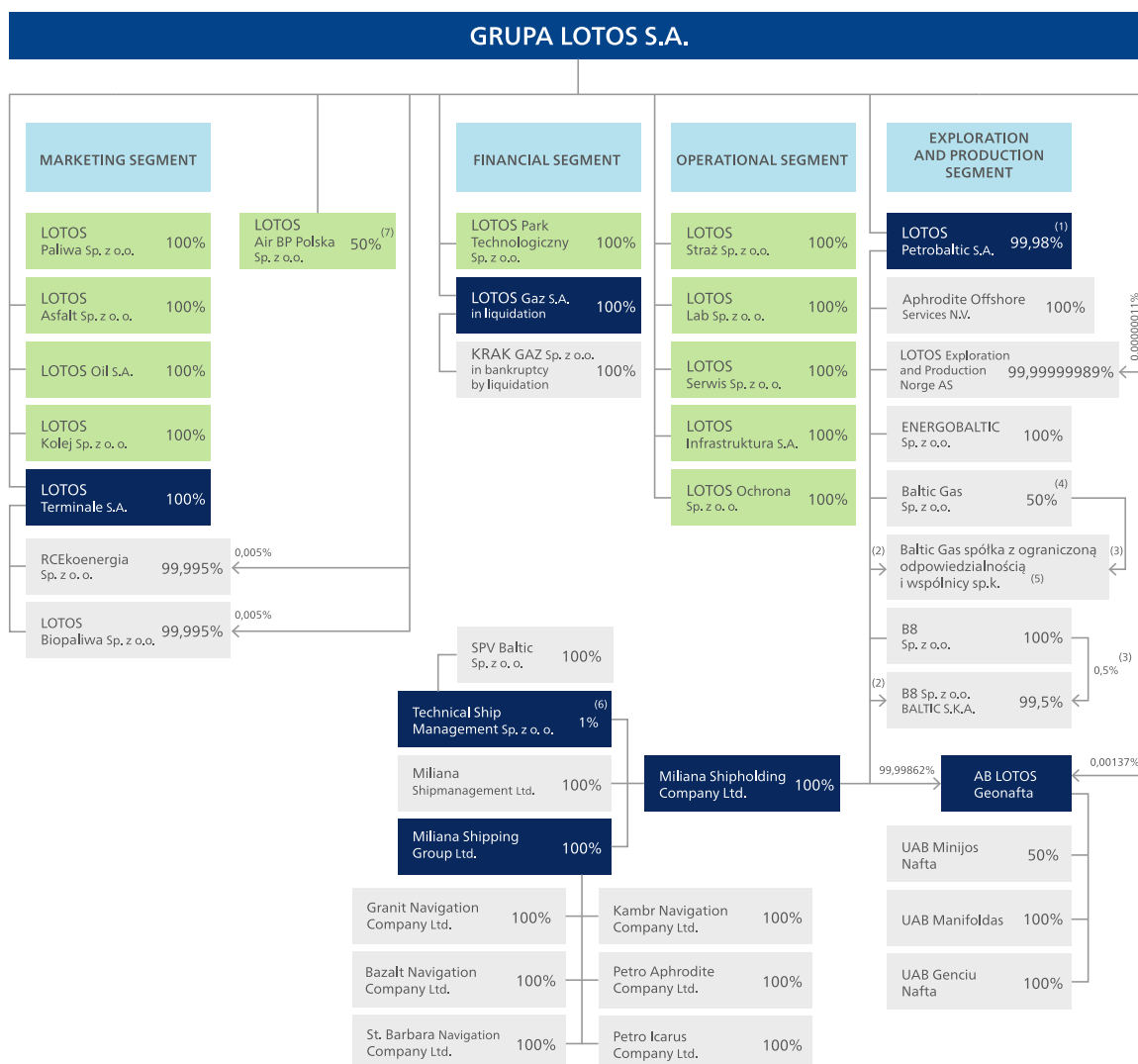
(10) The presented ownership interest was determined based on the value of contributions made by individual partners relative to the sum of all contributions as at December 31st 2013:

- Baltic Gas Sp. z o.o. (general partner) (0.002% ),
- LOTOS Petrobaltic S.A. (limited partner) (81.693% ),
- CalEnergy Resources Poland Sp. z o.o. ("CalEnergy") (limited partner) (18.305% ).

Grupa LOTOS's indirect ownership interest in Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp. k. (a jointly-controlled entity) is 81.68%.

Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy spółka komandytowa ("Baltic Gas") is a partnership. The partnership agreement defines the profit and loss sharing ratio, whereby Baltic Gas Sp. z o.o. holds 0.001% share in profits and 100% share in losses, LOTOS Petrobaltic S.A. holds 50.9995% share in profits, and CalEnergy holds 48.9995% share in profits. The respective percentage shares in the total vote are not given, as any matters subject to the partners' decision, as set forth in the partnership agreement, require unanimous approval, or the partners are required to unanimously pass a resolution determining the procedure for deciding on other matters not specified in the partnership agreement. For the purposes of the IFRS, Baltic Gas is an entity jointly-controlled by Grupa LOTOS.

## Structure of the LOTOS Group. As at December 31st 2013



(1) State Treasury – 0.01%, employee shares – 0.01%

(2) Limited partner

(3) General partner

(4) CalEnergy Resources Poland Sp. z o.o. – 50%

(5) CalEnergy Resources Poland Sp. z o.o. – limited partner

(6) 99% (own shares acquired for redemption) – Technical Ship Management Sp. z o.o.

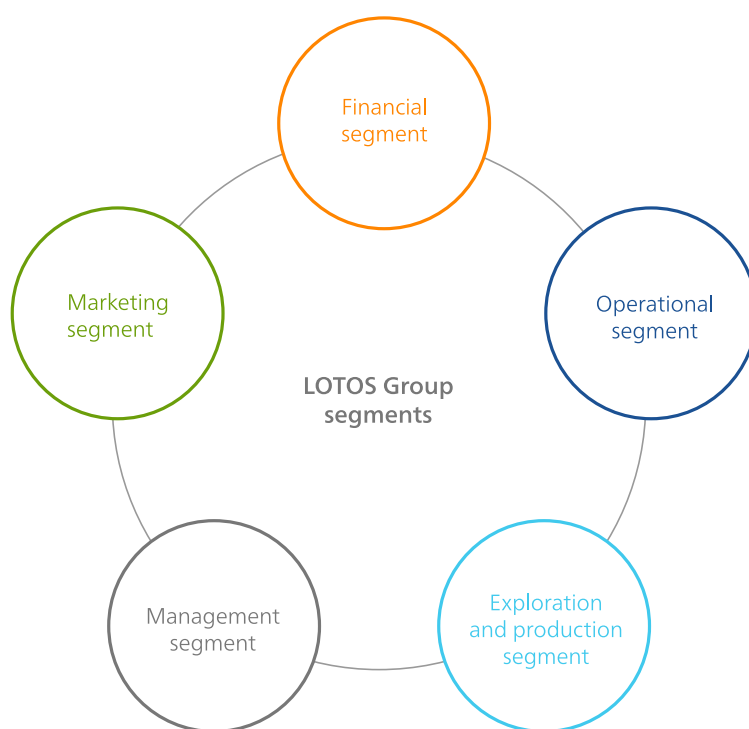
(7) BP Europa SE – 50%

Grupa LOTOS also holds 8.97% of shares in P.P.P. Naftoport Sp. z o.o. (a PERN Przyjaźń Group company).

**Within the LOTOS Group, the role of Grupa LOTOS as the parent entity is to integrate the key management and support functions. As such, Grupa LOTOS has implemented a segmental management model.**

A segment is a separate area of operations managed within the LOTOS Group by a designated member of the Board of Grupa LOTOS.

This model enhances management efficiency, delivering LOTOS Group-wide cost and revenue synergies. Segmental management provides for consistent implementation of the strategy, coordinated planning, integrated operational management and maintenance of uniform corporate standards.



## Management segment

**Head:** President of the Board of Grupa LOTOS, Chief Executive Officer

**Tasks:** increasing the LOTOS Group's value through overall management of its operations, including coordination of strategy development, definition of development directions for individual business areas, and coordination of process support functions.

## Exploration and production segment

**Head:** Vice-President of the Management Board of Grupa LOTOS, Exploration&Production.

**Tasks:** formulation of development strategies for the LOTOS Group in oil and gas exploration and production, as well as management and supervision of these activities.

**Companies:** LOTOS Petrobaltic with subsidiaries and affiliates.

## Operational segment

**Head:** Vice-President of the Management Board of Grupa LOTOS, Chief Operation Officer.

**Tasks:** formulation of strategies for maintaining and expanding production facilities, as well as supervision and coordination of all matters regarding the processing of crude oil, refinery production and associated technologies, definition of refinery production policy objectives, supervision of production-related R&D work, coordination of technical and technological development projects, ensuring the required technical performance of assets, supervision of environmental protection processes, safety processes and physical protection.

**Companies:** LOTOS Infrastruktura, LOTOS Lab, LOTOS Ochrona, LOTOS Serwis, and LOTOS Straż.

**Changes in 2013:** following business profile changes, LOTOS Czechowice was renamed LOTOS Terminale and assigned to the marketing segment, while LOTOS Jasło changed its name to LOTOS Infrastruktura.

## Marketing segment

**Head:** Vice-President of the Management Board of Grupa LOTOS, Chief Commercial Officer.

**Tasks:** formulation of marketing strategies as well as effective management of sales, supplies and distribution of crude oil and petroleum products, responsibility for the development of trading and optimisation activities.

**Companies:** LOTOS-Air BP Polska, LOTOS Asphalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa and LOTOS Terminale with subsidiaries.

**Changes in 2013:** Grupa LOTOS sold 50% of its interest in LOTOS Tank, which was then renamed LOTOS-Air BP Polska. Also in 2013, the marketing segment was expanded to include LOTOS Terminale (formerly (in 2012) LOTOS Czechowice), which was transferred from the operational segment.

## Financial segment

**Head:** Vice-President of the Board, Chief Financial Officer.

**Tasks:** monitoring of the implementation of the LOTOS Group's strategies and overall management of financial and accounting processes, including formulation of financial, legal and insurance strategies and monitoring of their implementation, management of budgeting and controlling, development and implementation of financial risk management strategies, and overall management of assets and restructuring processes.

**Companies:** LOTOS Park Technologiczny and LOTOS Gaz w likwidacji (in liquidation) and its subsidiary.

For purposes of the economic efficiency analysis and clear presentation of the financial statements, the following two main reporting operations segments can be identified in the operational activities of the LOTOS Group:

- Upstream operations segment – comprising activities concerning exploration for and exploitation of crude oil and natural gas deposits;
- Downstream and marketing operations segment – comprising activities of companies concerned with production and processing of refined petroleum products as well as their retail and wholesale, and support, transport and servicing activities.

## Key objectives of the organizational changes implemented in 2013:

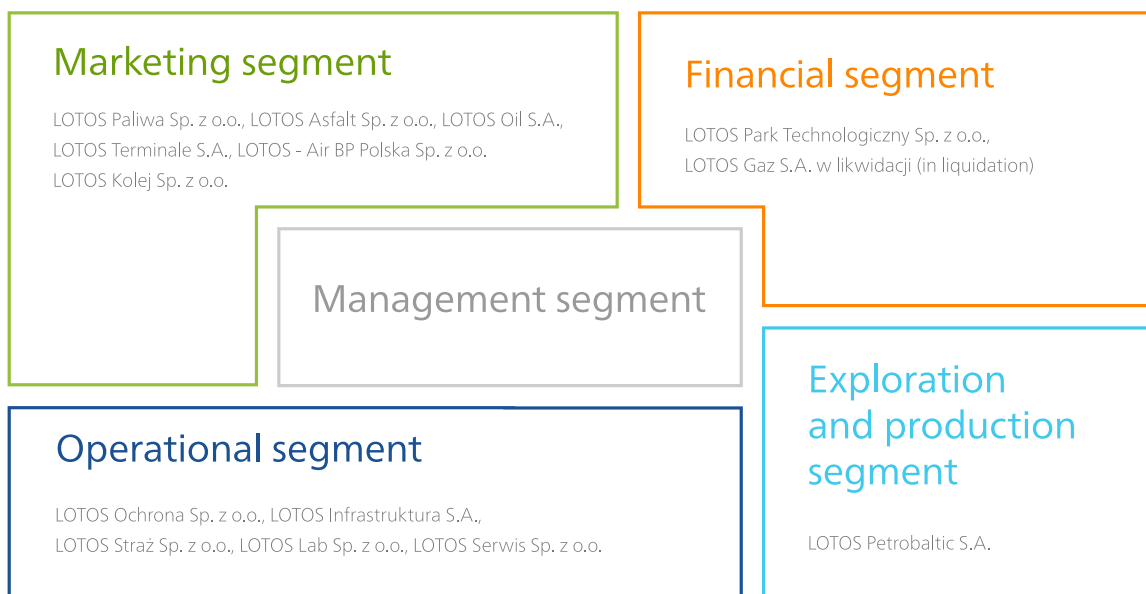
- raise the stature, decision-making powers and accountability of the corporate departments,
- enhance the management model,
- minimise management costs,
- improve segmental reporting,
- enhance the communication process,
- optimise accounting, finance, trading and legal functions.

At the end of 2013, Grupa LOTOS's organization and management structure, which reflects the division of competences and the relationships between various functions and tasks performed at the Company, and illustrates the reporting hierarchy of organizational units and management, comprised the following units:

- 16 divisions, including 5 divisions reporting directly to the Chief Executive Officer,
- 36 offices,
- 16 departments,
- 8 plants.

## Operational segments. As at December 31st 2013

### Grupa LOTOS



# Integrated reporting

The Annual Report of the LOTOS Group for 2013 is an integrated report covering the organization's operations in the financial year 2013, which coincides with the calendar year. The previous integrated annual report was published in April 2013.

In 2007-2009, we published separate reports on the financial and non-financial aspects of our activity. In 2010, the Board of Grupa LOTOS decided to integrate the reports for stakeholders presenting the organization's management approach and performance across all areas of its activity. This publication is our fifth integrated report.

The Board's intent is to enable our stakeholders to make a comprehensive, measurable and objective assessment of our overall involvement in sustainable development through an integrated and reader-friendly presentation of our financial statements and non-financial reports for a given year. We follow the best communication practices applicable to public companies:

- **For financial reporting, we adhere to the International Financial Reporting Standards (IFRS) as endorsed by the European Union, published and in effect as at December 31st 2012,**
- **For non-financial reporting, we adhere to the Sustainability Reporting Framework and Guidelines of the Global Reporting Initiative (G3.1 GRI, with the Oil and Gas Sector Supplement) and the United Nations Global Compact's Principles. We declare that we are at Application Level A+<sup>(1)</sup> in the three-level GRI reporting system.**
- **Additionally, we made efforts to comply with the International Integrated Reporting Framework published by the International Integrated Reporting Committee (IIRC) in December 2013. The IIRC believes that integrating financial analysis with analysis of the social, environmental and economic context of a company's operations is a valuable source of information, allowing its stakeholders to assess its long-term profitability.**

<sup>(1)</sup> The individual Application Levels were assigned letters from C (the lowest), to C+ (where a "+" is given if a report has been verified by an independent assurance body), B, B+, A, through to A+. The reporting criteria used for each level measure the extent to which the Guidelines and the GRI Reporting Framework have been applied.

In our work on this Report we embraced the key principles of accuracy, materiality, completeness, comparability, balance and reliability. All data contained in this Report was collected in a reliable and responsible manner, and verified as being consistent with the facts.

The consolidated financial statements of the LOTOS Group included in this Report were audited by qualified auditors at Ernst & Young, pursuant to the provisions of Chapter 7 of the Polish Accountancy Act of September 29th 1994 (Dz.U. of 2009, No. 152, item 1223, as amended), and the Polish financial auditing standards issued by the National Council of Statutory Auditors (Krajowa Rada Biegłych Rewidentów).

To ensure an appropriate level of transparency and credibility, the Board of Grupa LOTOS decided that third party assurance of non-financial data included in the Annual Report should be provided by an independent body. Limited assurance provided in 2014 by PwC complied with the International Standard on Assurance Engagements (3000 ISAE, Assurance Engagements Other Than Audits or Reviews of Historical Financial Information). ISAE 3000 was issued by the International Federation of Accountants (IFAC). The standard is based on IFAC's Code of Conduct and the International Standard of Quality Control (ISQC-1), and is used to provide assurance with respect to CSR reports. The Standard defines the key principles and procedures for assurance engagements, including "limited assurance" engagements. The 2013 Annual Report is our third report in which the data reported for the CSR area were subject to independent assurance.

Apart from the procedure described above, we have made every effort to ensure the quality of the data collection process. This process is supported by the organization's management systems.

Driven by environmental concerns, we are publishing this Report in electronic form only. This also serves the intention of providing readers with the most convenient range of solutions to making this publication a friendly tool, with which to perform their own analyses. Readers can display selected numerical data by periods, GRI indicators, operating segments, etc. Information included in the Report is integrated with the contents of the Company's website, which includes reports from previous years. An option has been provided for readers to leave feedback. Also, accessibility options such as narration, a high-contrast mode and text zoom, have been added for people with disabilities, the elderly and the vision impaired. Environmental friendliness is ensured by an economical printout option.

The Board of Grupa LOTOS has resolved to adopt the annual reporting cycle for our reports. Previous reports are available from [www.lotost.pl/en](http://www.lotost.pl/en) ([link](#)). For contact details, refer to the "Useful information" ([link](#)) section of this Report.

## Engaging stakeholders in the process of improving our reporting

The functional solutions embedded in the Report's electronic format as well as ways of selecting and presenting information in it are updated regularly based on stakeholder opinion polls, the appraisal of traffic to the webpage featuring the Report, etc. For purposes of this Report, we conducted special opinion polls among members of the LOTOS Group's management staff and among capital market analysts, who make use of the reported information. Altogether, around 50 persons participated in these consultations.

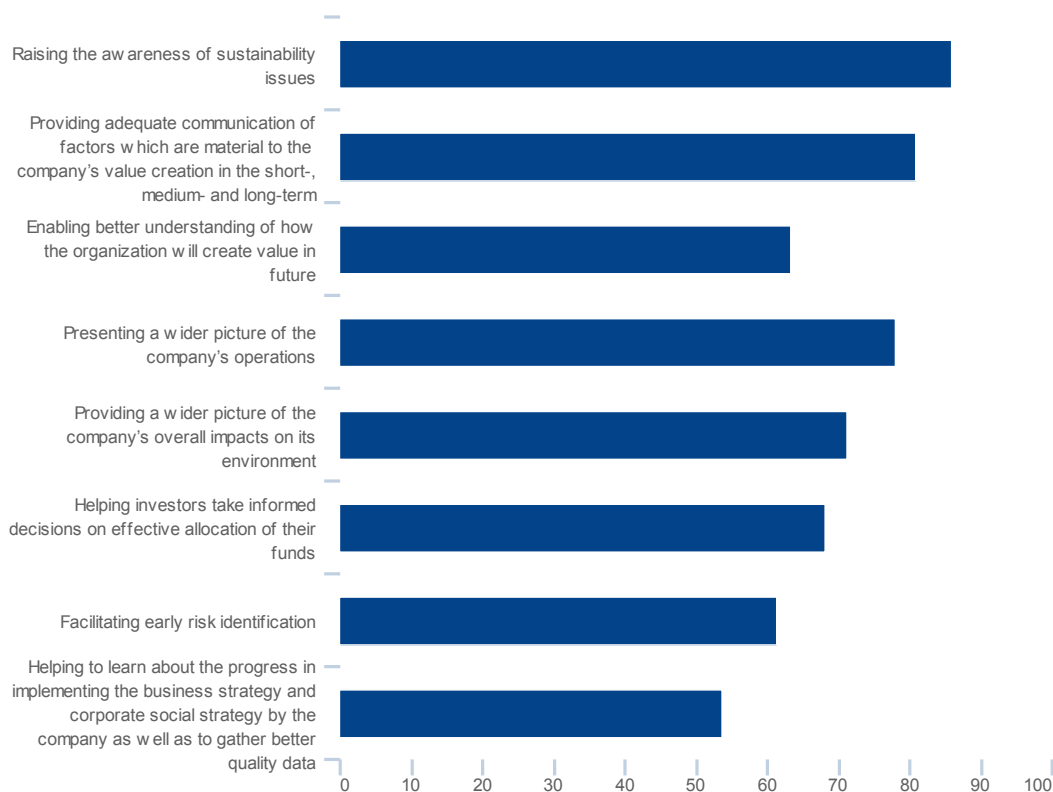
### Integrating financial and non-financial data

According to the majority of the respondents, integrating financial and non-financial information is the right approach (88%) and raises awareness of sustainability issues (likewise, 88%). What is more, 8 out of 10 of the polled persons stated that it also responds to the stakeholders' contemporary needs, provides them with a wider picture of the company's operations and enables adequate communication of factors which are material to its value creation. Most respondents confirmed that integrating data helps present the overall impacts of the organization's activities on its environment and that it allows investors to make informed decisions on effectively allocating their funds; also, the same number of respondents believed that annual reporting enables them to compare data from different periods.

As many as 98% participants agreed with the statement that the structure of the Report as well as the information contained in it correspond with the 2012-2015 CSR Strategy of the LOTOS Group, taking into account its objectives and baselines as well as future commitments.

Also, the majority of the respondents expressed an opinion that integrated reporting facilitates early risk identification (63%), responds to the need of transparency in the organization's activities and is a key element contributing to trust building (60% each). Also, most participants stressed that it is the right approach as long as the report is subject to external assurance (63%) and that not all stakeholders are interested in every aspect presented in the integrated report (58%).

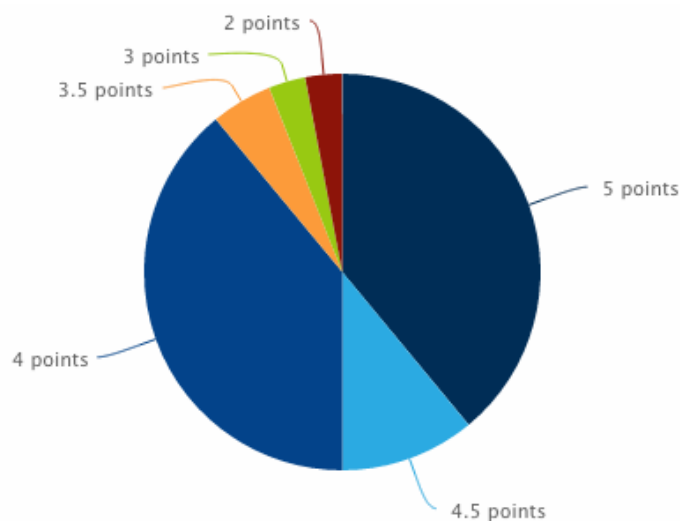
### Benefits of integrated reporting at Grupa LOTOS (%)



### Assessment of the LOTOS Group's reports

Our online reports were rated by the respondents at 4.3 points on a scale from 1 being the lowest ('does not meet my expectations') to 5 – the highest ('very attractive'). The most frequently given answers were 5 or 4 (39% each), which means that 78% of the participants found this version of the report attractive.

### How attractive do you find the online version of the report (on a scale from 1 – least to 5 – most attractive)?



In their comments, the respondents most often expressed an opinion that this form of presenting the LOTOS Group's annual reports makes them very clear and visually attractive, and that the reported information is presented in a very accessible way.

It is worth noting here that the 2012 Annual Report won the first prize in 'The Best Annual Report 2012' competition organized by the Accounting and Taxation Institute in 'The Best Internet Annual Report' category.

Furthermore, in October 2013 the results of the second edition of the 'ESG Analysis of Companies in Poland', organized by the Polish Association of Listed Companies in cooperation with GES and Crido Business Consulting, were announced. The goal of the project is to increase the transparency of non-financial data reporting in the Polish capital market by educating listed companies on how to communicate effectively ESG data (*E – environment; S – social; G – governance*) and how to build a CSR strategy. The 'ESG Analysis of Companies in Poland' is a unique project across Europe, the only one which analyzes the non-financial reporting practices of all listed companies.

Based on the results of the analysis, the '2013 Ranking of listed companies best reporting their ESG data' was compiled, in which 3 top companies were selected in two classifications: sector and index. Grupa LOTOS was classified as a leader of ESG data reporting in both classifications. Key sources of information for compiling the ranking are the companies' annual reports, their websites and official documents. In the same analysis, Grupa LOTOS – as one of four companies representing the Oil, Gas & Consumable Fuels sector – was also listed among 30 public companies of highest transparency with regard to ESG risks reporting based on the ratings acquired.

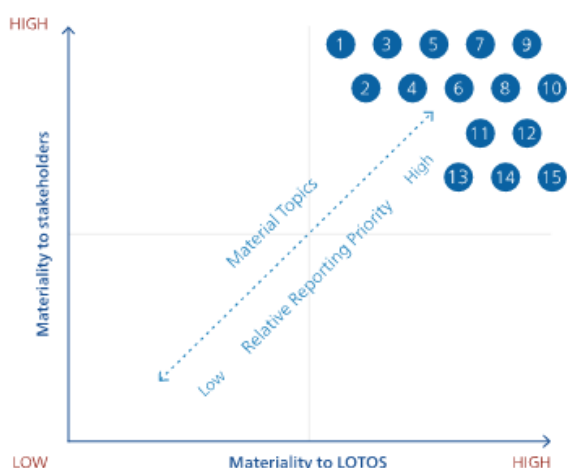
The analysis of the ESG data reporting covered all companies listed on the Warsaw Stock Exchange as on June 30th 2013, including on the New Connect market; these were altogether 865 entities.

# Remit and extent

In determining the content of the non-financial sections of the Annual Report, we were guided by the GRI Reporting Framework and the International Integrated Reporting Framework issued by the International Integrated Reporting Committee (IIRC). The information contained in the Report was selected based on the materiality criterion, which we define as having the potential to affect our enterprise's compliance with sustainable development principles, as well as our external stakeholders when looking for reliable, comparable and accurate information with which to inform their decisions.

To determine the content of the Report, we held a workshop with these stakeholders who are key for improving our reporting. In the course of this workshop, a number of issues of particular materiality to the organization and to its market environment were identified.

## Determining materiality



- (1) The Company's role in the national and regional energy security system
- (2) High reliability of production units and installations
- (3) Acquisition and development of new production licences
- (4) Final product quality
- (5) New investment projects
- (6) Environmental monitoring close to the organization's operations
- (7) Investment activities employing Best Available Techniques (BAT)
- (8) Promotion of best practices in the supply chain
- (9) Further development of the Ethical Conduct Programme
- (10) Further development of the public consultations system
- (11) Creating the value of the LOTOS brand
- (12) Use of state-of-the-art technical solutions
- (13) Providing our employees with professional development opportunities
- (14) Building proper relations with our employees
- (15) Contributing to the social and economic development of our region

The non-financial information included in this Report was prepared using the majority of core and additional indicators provided for in the GRI Guidelines, to present our economic, environmental and social performance.

Like a year ago, additional industry-specific indicators from the Sector Supplement (GRI Oil & Gas Sector Supplement (OGSS)) were added to enrich this Report.

The methods used to calculate the figures presented in this Report were the same as those used in preparation of the LOTOS Group's consolidated financial statements for 2013. These methods are in accordance with the IFRS effective as at December 31st 2013.

For a vast majority of topic areas, the facts and non-financial data presented in the Report pertain to Grupa LOTOS, the parent entity. However, all due care and consideration has been given on our part to account for the LOTOS Group's consolidated data where possible. Regarding areas of key importance to social and environmental responsibility, we have also presented data on the largest commercial companies of the group and, as a natural consequence of using the Sector Supplement, on the LOTOS Petrobaltic Group. In each case, we make a clear distinction by specifically indicating the LOTOS Group entity currently being discussed in the Report.

Whenever we refer to the largest commercial companies of the LOTOS Group (both in terms of revenue and head count), this applies to LOTOS Asphalt, LOTOS Kolej, LOTOS Oil and LOTOS Paliwa. The largest companies of the LOTOS Petrobaltic Group which are active in the exploration and production business include, after the parent – LOTOS Petrobaltic (operating in Poland), – LOTOS Geonafta in Lithuania and LOTOS Norge in Norway. The Report also considers another vital company of the LOTOS Petrobaltic Group, Energobaltic, which is a CHP operator in Władysławowo. Since the reporting for the LOTOS Petrobaltic Group is still in its initial stage, it has not been possible to present all results of the companies covered by the Report in a uniform and consistent manner. However, given the challenges of sustainable development that lie ahead for the production business, we decided to present the collected data anyway.

In the previous reporting period, no material changes or other circumstances occurred with respect to the LOTOS Group's entities which would affect the overall assessment of the organization, either in terms of its individual activities or in comparison with its domestic peers.

### GRI indicators as reported by the LOTOS Group companies: LOTOS Asphalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, and the LOTOS Petrobaltic Group <sup>(2)</sup> (LOTOS Petrobaltic, LOTOS Geonafta, LOTOS Norge, Energobaltic)

GRI aspects	GRI indicators reported in 2013	Subsidiaries
Products and services	EN26	LOTOS Asphalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Petrobaltic, LOTOS Geonafta, LOTOS Norge
	EN27	LOTOS Asphalt, LOTOS Oil, LOTOS Paliwa
Transport	EN29	LOTOS Asphalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Petrobaltic (group)
Customer health and safety	PR1	LOTOS Asphalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa
Process safety	OG13	LOTOS Asphalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Petrobaltic
Product and service labeling	PR3, PR5	LOTOS Asphalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa
Marketing communications	PR6	LOTOS Oil, LOTOS Paliwa
	PR7	LOTOS Asphalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa
Customer privacy	PR8	LOTOS Asphalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa
Compliance	PR2, PR4, PR9	LOTOS Asphalt, LOTOS Oil, LOTOS Paliwa, LOTOS Kolej
Biodiversity	EN11, EN12, EN13, EN14, OG4	LOTOS Asphalt, LOTOS Oil, LOTOS Paliwa, LOTOS Petrobaltic
Emissions, effluents, and waste	EN16, EN17, EN18, EN19, EN20, EN21, EN22, EN23, OG5, OG7	LOTOS Petrobaltic (group)

Indirect economic impacts	EC9	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Petrobaltic, LOTOS Geonafita
Local community	OG11	LOTOS Petrobaltic (group)
Reserves	OG1	LOTOS Petrobaltic (group)
Materials	EN1	LOTOS Petrobaltic (group)
Energy	EN3, EN4	LOTOS Petrobaltic (group)
Water	EN8, EN9	LOTOS Petrobaltic (group)
Market presence	EC5, EC6, EC7	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Petrobaltic (group)
Employment	LA1, LA2, LA8, LA13, LA14	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Petrobaltic (group), LOTOS-Air BP Polska
	LA1, LA2, LA8	LOTOS Paliwa
Human rights	HR1, HR2	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Petrobaltic (group)

(2) Whenever results are reported for all companies, 'LOTOS Petrobaltic (group)' is listed. However, when not all companies of this group report the given indicator, the names of individual entities reporting the indicator are listed.

The Annual Report for 2013 accounts for a total of 87 GRI indicators. We decided to discontinue reporting of 9 indicators: HR5, HR9, HR10, HR11, EN2, OG2, OG3, OG9 core indicators, and the HR9 additional indicator, as the issues they cover were deemed immaterial to our organization.

An index for looking up specific performance indicators and descriptive parts relating to specific issues discussed in this Report is included in the GRI and UN Global Compact Content Index ([link](#)), in the "Useful information" section of this Report.

# Auditing and reviews

**Independent auditors' opinion of Ernst & Young Audit Sp. z o.o. regarding the Financial statements of Grupa LOTOS for 2012.**

The Polish original should be referred to in matters of interpretation.  
Translation of auditors' report originally issued in Polish.

## INDEPENDENT AUDITORS' OPINION

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 fairness<sup>1</sup> 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 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 fairly<sup>2</sup> 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 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.

<sup>1</sup> Translation of the following expression in Polish: 'rzetelność i jasność'

<sup>2</sup> Translation of the following expression in Polish: 'rzetelnie i jasno'

The Polish original should be referred to in matters of interpretation.  
Translation of auditors' report originally issued in Polish.

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 position<sup>3</sup> 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 cost<sup>4</sup> 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.
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).

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

Key Certified Auditor

Marcin Zieliński  
certified auditor  
No. 10402

Warsaw, 3 March 2014

<sup>3</sup> Translation of the following expression in Polish: 'sytuacja majątkowa i finansowa'

<sup>4</sup> Translation of the following expression in Polish language: "cena nabycia"

## Independent auditors' opinion of Ernst & Young Audit Sp. z o.o. regarding the Consolidated financial statements of the LOTOS Group for 2012.

The Polish original should be referred to in matters of interpretation.  
Translation of auditors' report originally issued in Polish.

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### INDEPENDENT AUDITORS' OPINION

To the Supervisory Board of Grupa LOTOS S.A.

1. We have audited the attached consolidated financial statements of LOTOS Capital Group ('the Group'), for which the holding company is Grupa LOTOS S.A. ('the Company') located in Gdańsk at 135 Elbląska Street, for the year ended 31 December 2013 containing, the consolidated statement of financial position as at 31 December 2013, the consolidated statement of comprehensive income, the consolidated statement of cash flow, the consolidated statement of changes in equity for the period from 1 January 2013 to 31 December 2013 and notes to the financial statements ('the attached consolidated financial statements').
2. The truth and fairness<sup>1</sup> of the attached consolidated financial statements, the preparation of the attached consolidated financial statements in accordance with the required applicable accounting policies and the proper maintenance of the consolidation documentation are the responsibility of the Company's Management Board. In addition, the Company's Management Board and Members of the Supervisory Board are required to ensure that the attached consolidated financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (Journal of Laws 2013.330 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the attached consolidated 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 and whether they truly and fairly<sup>2</sup> reflect, in all material respects, the financial position and results of the operations of the Group.
3. We conducted our audit of the attached consolidated financial statements in accordance with:
  - chapter 7 of the Accounting Act,
  - national auditing standards issued by the National Council of Statutory Auditors,

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<sup>1</sup> Translation of the following expression in Polish: 'rzetelność i jasność'

<sup>2</sup> Translation of the following expression in Polish: 'rzetelne i jasne'

The Polish original should be referred to in matters of interpretation.  
Translation of auditors' report originally issued in Polish.

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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 consolidated 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 consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.

4. The consolidated financial statements for the prior financial year ended 31 December 2012 were subject to our audit and on 19 March 2013 we have issued an unqualified opinion with an emphasis of matter on these financial statements concerning the uncertainty indicated by the Company's Management relating to the recoverability of the assets recognized due to the purchase of interests and exploration expenses incurred in respect of the YME oil field in Norway.
5. In our opinion, the attached consolidated financial statements, in all material respects:
  - present truly and fairly all information material for the assessment of the results of the Group's operations for the period from 1 January 2013 to 31 December 2013, as well as its financial position<sup>3</sup> as at 31 December 2013;
  - have been prepared in accordance with International Financial Reporting Standards as adopted by the EU;
  - are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.
6. As disclosed in note 13 to the attached consolidated financial statements, as at 31 December 2013 the Group carried out an impairment test on assets relating to YME development project in Norway based on the analysis of discounted cash flows for the 20% interests held in hydrocarbons' reserves acquired as part of the production licences for the development of the YME field as well as calculated the recoverable amount of YME project based on estimated fair value less costs to sell and on that basis did not recognize further impairment. As at 31 December 2013 the Group presents the fixed assets relating to YME development project in the amount of PLN 537 million, the deferred tax asset in the amount of PLN 932 million resulting from previously recognized write-offs of capital expenditures incurred on YME project as well as previously incurred tax losses in Norway. Without qualifying our opinion on the correctness and the accuracy of the attached consolidated financial statements, we draw attention to the uncertainties indicated by the Company's Management in the aforementioned note concerning recoverability of the assets recognized in respect of the YME project due to the fact that the forecasts and the Company's plans are determined by a series of futures events, in particular by the execution of the final scenario of the new development plan of YME field accepted by the consortium and by estimates of market values of commercial hydrocarbon reserves in the YME field.

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<sup>3</sup> Translation of the following expression in Polish: 'sytuacja majątkowa i finansowa'

The Polish original should be referred to in matters of interpretation.

Translation of auditors' report originally issued in Polish.

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7. 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 consolidated 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).

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

Key Certified Auditor

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Marcin Zieliński  
certified auditor  
No. 10402

Warsaw, 3 March 2014


## TRANSLATION ONLY



### Limited assurance report

**To the Management Board of LOTOS Group S.A.**

#### Subject matter and Criteria

As per terms of our Agreement dated 4 February 2013 (the "Agreement") we have been engaged to perform a limited assurance engagement on selected non-financial data presented in the "LOTOS Group S.A. 2013 Integrated Report – Economy, Society, Environment – Win the future" ("2013 Integrated Report") for the financial year 2013. The selected data in the 2013 Integrated Report is marked with a check symbol .

The Company's management prepared 2013 Integrated Report ensuring its adherence to the Sustainability Reporting Guidelines of the Global Reporting Initiative version 3.1 and Oil & Gas Sector Supplement (together the "GRI G3.1 criteria," reporting criteria").


2013 Integrated Report presents quantitative and qualitative information on the Company's corporate responsibility practices in the period of 1 January 2013 to 31 December 2013.

#### Management's Responsibility

LOTOS Group S.A. ("the Company") management is responsible for the preparation of the 2013 Integrated Report in accordance with the GRI G3.1 criteria.

This responsibility includes the selection and application of appropriate methods to prepare the non-financial data and the design, implementation and maintenance of systems and processes which ensure the adherence to the GRI G3.1 criteria relevant for the preparation of the non-financial data using assumptions and estimates which are reasonable in the circumstances.

#### Practitioner's Responsibility

Our responsibility is to express a conclusion as to the selected indicators presented in 2013 Integrated Report. Performed procedures were chosen based on our judgment and take under consideration our judgment of the risk of material misstatement of the selected indicators marked with a check symbol  in the 2013 Integrated Report.

We conducted our work in accordance with International Standard on Assurance Engagements 3000 "Assurance engagements other than audits or reviews of historical financial information" („ISAE 3000”).

#### Summary of the work performed




Within the scope of our work we performed amongst others the following procedures:

PricewaterhouseCoopers Sp. z o.o.,  
Al. Armii Ludowej 14, 00-638 Warszawa, Polska  
T: +48 (22) 523 4000, F: +48 (22) 523 4040, [www.pwc.com](http://www.pwc.com)

PricewaterhouseCoopers Sp. z o.o. wpisana jest do Krajowego Rejestru Sądowego prowadzonego przez Sąd Rejonowy dla m. st. Warszawy, pod numerem KRS 0000044655, NIP 526-021-02-28. Kapitał zakładowy wynosi 10 363 900 złotych. Siedzibą Spółki jest Warszawa, Al. Armii Ludowej 14.

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- Examination of the relevant documentation regarding relevant systems and processes for gathering and analyzing of the data for the selected indicators marked with the check symbol ,
- Inquiries of the appropriate management members as well as personnel responsible for the reporting of CSR information and performing of analytical procedures on selected indicators marked with the check symbol ,
- Obtaining sample evidence for the selected indicators marked with the check symbol . Sample analyzed documents included invoices/reports from external service providers, internal reports including data generated as reports from the Company's IT-systems.

In a limited assurance engagement the evidence-gathering procedures are more limited than in a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

### Conclusion

Based on our limited assurance engagement, nothing has come to our attention that causes us to believe that the selected indicators marked with the check symbol  as presented in the 2013 Integrated Report have not been prepared, in all material respects, in accordance with the GRI C3.1 criteria.

### Limitation of use and distribution

Our limited assurance report prepared by PricewaterhouseCoopers Sp. z o.o. („PwC”) for LOTOS Group S.A. in respect of the Agreement is directed to sole use of the LOTOS Group S.A. Management Board . It should not be used to other purposes.

Thus PwC does not take any responsibility in respect of this report (contractual, tort (including that for negligence) or any other) in respect of any parties other than LOTOS Group S.A. Respectively, regardless of the form of the actions, whether in contract, tort or other, within the capacity allowed by the law, PwC does not take any responsibility, and any consequences coming out of the report for any person (excluding the Company, based on rules described above) or for any other decision taken based on this report.

The 2013 Integrated Report should be read together with the Sustainability Reporting Guidelines of the GRI G3.1.

## TRANSLATION ONLY

PricewaterhouseCoopers Sp. z o.o.  
Warsaw 2 June 2014

# Awards and distinctions

In 2013, LOTOS Group companies received numerous awards and distinctions in key areas such as corporate management, CSR and product and service quality.

## Management quality

1. Paweł Olechnowicz, President and CEO of Grupa LOTOS, was given a prestigious **Manager Award**, a distinction awarded by Business Magazine to managers that are seen to be setting the tone for the Polish economy. The Manager Award jury is presided over by the President of the Polish Chamber of Commerce and is given in recognition of outstanding achievements made by company managers.
2. Paweł Olechnowicz, President and CEO of Grupa LOTOS, was also awarded the **Man of Energy** title by the Nowy Przemysł monthly and the wnp.pl website. Mr. Olechnowicz was among 12 people whose work, ideas and beliefs have had a considerable impact on the Polish energy and fuel sector over the last 10 years and have stood the test of time.
3. Grupa LOTOS took the top position in the **2012 Pillars of Polish Economy** ranking, in the Province of Gdańsk. The ranking was compiled by Puls Biznesu daily's editorial team, under the honorary patronage of the Ministry of the State Treasury, Polish Investments Programme, and the Polish Agency for Enterprise Development. The winner was selected by the representatives of local governments.
4. Grupa LOTOS was ranked first by the Accounting and Taxation Institute, the organizer of **The Best Annual Report** competition, in two categories: The 2012 Best Annual Report and The Internet Annual Report.
5. Grupa LOTOS ranked second among the **500 largest Polish companies of the 500 List**, a periodic ranking of the companies from the industrial, trading and services sectors, compiled by the Polityka weekly. The Company's position in the main ranking was based on the criterion of revenue, which in 2012 came in at PLN 33.1bn. Grupa LOTOS has been ranked fifth among the 100 largest exporters. In 2012, the LOTOS Group posted export revenue in excess of PLN 8.9bn. The Company was also sixth among the 500 largest companies of Central and Eastern Europe in a ranking published by COFACE. The position in the region was also based on the criterion of revenue.
6. Four **Forbes' Diamonds** were awarded to LOTOS Asphalt, LOTOS Terminale, LOTOS Serwis, and LOTOS Lab. Forbes magazine, together with the business intelligence agency Bisnode Polska, compiled their seventh list of companies with the fastest value growth.
7. Grupa LOTOS received the '**Outstanding Contribution to the Downstream Industry Award**' of the World Refining Association for the best refinery in Central and Eastern Europe.

## Corporate Social Responsibility

1. Grupa LOTOS received the **CSR Golden Leaf** in the second ranking of companies whose CSR policies adhere to the ISO 26000 standard, compiled by the Polityka weekly and PwC.
2. Grupa LOTOS was distinguished as '**The Best Employer 2013**' in the XXL Companies category. The 'Best Employer' survey was conducted by Aon Hewitt, based on a complex methodology, encompassing questionnaires measuring employee satisfaction and engagement, as well as an assessment of the HR practices in place at a given company.
3. Grupa LOTOS received the title of the '**2013 Human Resources Management Leader**' and a **Golden**

**Statuette** for outstanding achievements in all HR management areas, awarded by the Institute of Labour and Social Studies.

4. Grupa LOTOS took eighth place overall in the 7th **Responsible Companies Ranking**, and second in the Industry category (Fuel, Energy, Mining). The Responsible Companies Ranking draws on a comprehensive list of the largest companies in Poland, assessing them for the quality of their Corporate Social Responsibility management. The authors of the ranking are representatives of the Business Ethics Centre of Akademia Leona Koźminkiego (Kozminkski University) and the Dziennik Gazety Prawnej daily, while PwC is responsible for checking and verification. Patronage of the ranking is held by the Responsible Business Forum.
5. In the 11th edition of the **Responsible Business in Poland ranking. Good Practices** Report, published by the Responsible Business Forum, three practices adopted by Grupa LOTOS were cited. These were: public consultations on the Code of Ethics; stakeholders' involvement in formulating a revised CSR strategy, and the use of natural gas as a heating and process fuel in Grupa LOTOS. The Company was also presented with a statuette to mark the five years of its cooperation with the Responsible Business Forum.
6. Grupa LOTOS was declared '**A Well-Perceived Company**' in the 4th edition of a competition organised by the Business Centre Club. The Company was awarded in two categories – strategy and communication. The purpose of the competition is to honour companies which conduct their business in a socially-responsible manner and promote knowledge of CSR and effective methods of its communication. The competition was organised under the honorary patronage of the Ministry of Labour and Social Policy.
7. Grupa LOTOS has been included in the 6th and 7th edition of the **RESPECT Index** of the most socially responsible WSE-listed companies. The Company has been part of the Index since its creation in 2009.
8. 'The White and Green Future with LOTOS' CSR Programme, run by Grupa LOTOS and the Lechia Gdańsk Football Academy, won the September's edition of the **Responsible Initiative of the Month** competition, organised by the CSR.pl website.
9. Grupa LOTOS received a statuette of the **2013 Patron of Culture**, awarded by the Mayor of Jasło to companies that provide considerable support for cultural events organised in Jasło.
10. Grupa LOTOS was awarded the '**Leader of Safety in the Industry**' title by the insurance company PZU at the Risk Engineering Days conference.

## Quality of products and services

1. The LOTOS brand received a prestigious **Business Superbrand 2013** award in the 7th edition of the Superbrand contest for the strongest brands in Poland. The award was granted in the corporate brand category. The Superbrands title, awarded for 17 years in over 87 countries, is granted by Superbrands Ltd., an independent international organization. The purpose of the initiative is to promote and award brands that achieved success on the market thanks to their unique qualities.
2. During the **Ninth Autostrada-Polska Trade Fair** in Kielce, LOTOS Asphalt won a **medal in the Technology category** for its rubber modified bitumen, a product only recently introduced to the Polish market. The product was recognised for its innovativeness and excellent properties in practical applications. Grupa LOTOS's refinery in Gdańsk is the first in Poland to manufacture bitumen modified with rubber from recycled tyres. The technology employed by Grupa LOTOS allows for a broad range of applications for the product, in construction of hard-wearing and environmentally friendly road surfaces. The Autostrada-Polska trade fair is one of the most prestigious events in the road construction industry and a meeting point for industry leaders and top industry brands.

3. LOTOS Asphalt received the **2013 Transport Innovation Award and the title of the Innovation Ambassador** at the Second Transport Innovation Forum. The competition, held under the auspices of the Center for Analyses in Transport and Infrastructure (CATI) to provide recognition to innovative enterprises.
4. TRANSMIL XSP oil won the **Quality International 2013 Golden Badge** in the QI Product category for top quality goods. This award confirms the status of the brand and its owner as industry leaders, and attests to its highest quality – quality that is both highly trusted and widely renowned. The awards are organised by the Ministry of Regional Development, Klub Polskie Forum ISO 9000 (Polish ISO 9000 Forum Club), and the Polish Agency for Enterprise Development. TRANSMIL XSP is the first mineral oil available on the global market to meet the stringent SIEMENS/FLENDER Rev.13 criteria.
5. Turdus Powertec 3000 10W/40 oil was awarded the **Good Brand 2013 – Quality, Confidence, Reputation** title. The title is given by the Forum Biznesu editorial team to the best, most dynamic, and most recognised brands in Poland, under the auspices of the Institute of Philosophy and Sociology of the Polish Academy of Sciences. Turdus Powertec is an advanced semi-synthetic oil for high-power diesel engines.
6. The LOTOS brand was recognised as the **TOP BRAND 2013** in the Engine oil category of the Consumer Laurel 2013 competition. The title was awarded based on a popularity analysis of brands present on the Polish market, as well as their growth dynamics over the last five years. The fact that the LOTOS brand received this high distinction in the engine oils category confirms awareness and popularity of the brand among Polish customers.
7. The LOTOS Dynamic brand was awarded the **Good Fuel Symbol**. The Symbol 2013 promotional initiative was organised by Monitor Rynkowy, a supplement to the Dziennik Gazeta Prawna daily. The Symbols are awarded in recognition of achievements and activities which stand out in the context of the Polish market. The distinction is granted to large, reputed companies which boast strong brands and market positions.
8. LOTOS Optima service stations received a distinction in the **Best Service Station of 2013** competition, in the Economy service station and the Service station shop categories. Distinctions were granted to the LOTOS Optima station in Nadarzyn and the LOTOS Premium station located by the Opera House in Gdańsk during the 13th PetroTrend Fuel Market Forum.
9. According to research conducted by Daymaker of Sweden, **LOTOS brand service stations offer the best customer service quality** among its Polish peers. The research was carried out by mystery shoppers, and covered Polish shops from 125 chains, representing 19 different sectors, including service stations. The shoppers evaluated their surroundings, first impressions, the staff's knowledge and ability to identify customer's needs, as well as the overall sales process and send-off.