



# Directors' Report on the Operations of the LOTOS Group for H1 2014

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



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*An excel file with the operational and financial data for Q2 2014 and H1 2014 and for the previous reporting periods is published together with the half-year report in the Investor Relations section of our website as ['databook'](#).*

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## 1. INFORMATION ON THE LOTOS GROUP

### 1.1. ORGANISATION OF THE LOTOS GROUP

#### 1.1.1. ORGANISATIONAL STRUCTURE OF THE LOTOS GROUP AND GRUPA LOTOS S.A. BRANCHES (PLANTS)

As at June 30th 2014, the LOTOS Group comprised Grupa LOTOS S.A. (the Parent) and 34 production and service companies, including:

- 13 direct subsidiaries of Grupa LOTOS S.A.,
- 21 indirect subsidiaries of Grupa LOTOS S.A.

Grupa LOTOS S.A. also held shares in equity-accounted joint ventures.

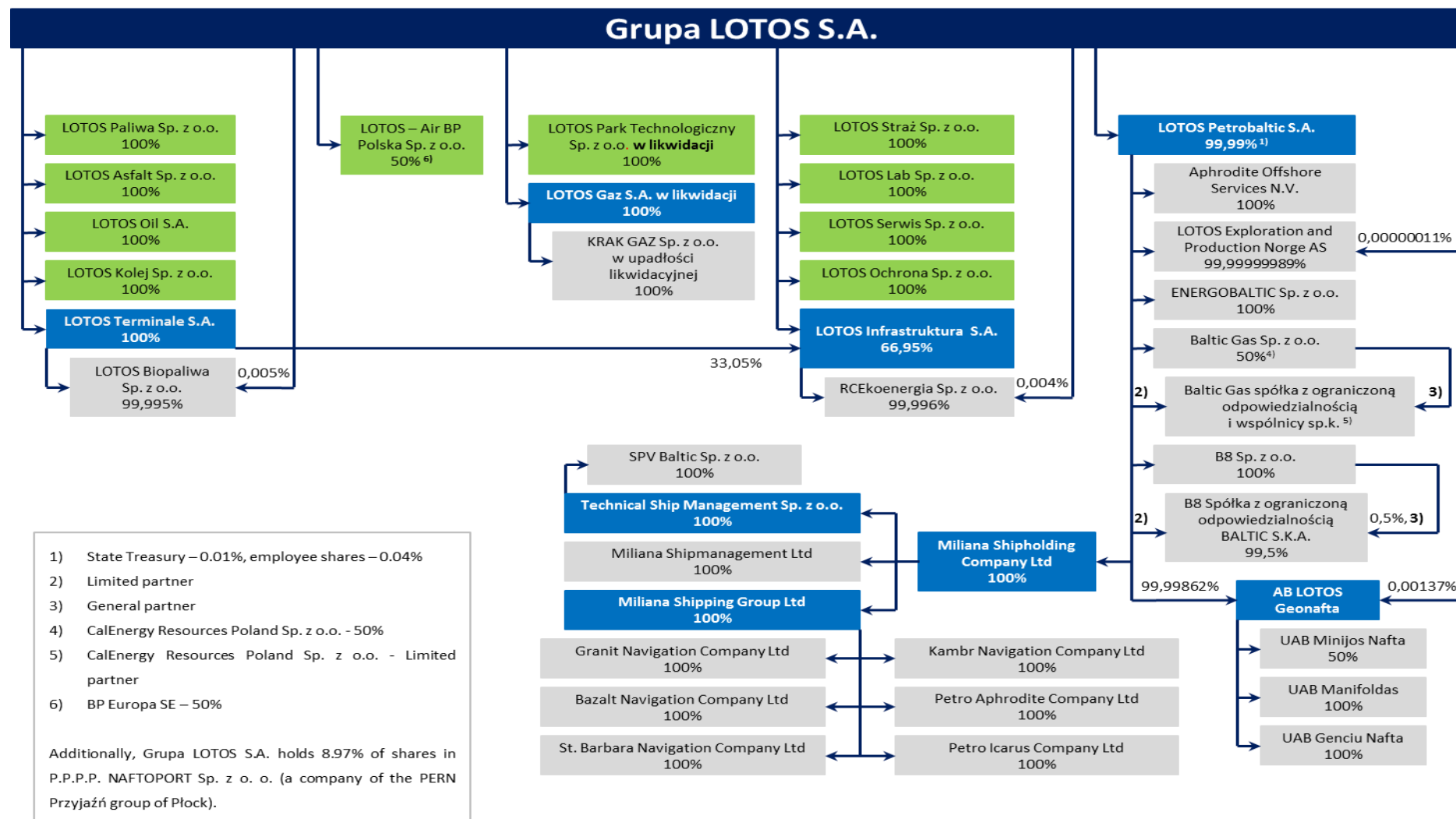
Grupa LOTOS S.A. has no divisions within the meaning of the Polish Accountancy Act.

The Group's operating activity comprises two main reportable operating segments:

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

For management purposes, the LOTOS Group is divided into business units which correspond to the business segments.

Fig. 1 Organisational chart of the LOTOS Group as at June 30th 2014



### 1.1.2. CHANGES IN ORGANISATIONAL OR CAPITAL LINKS BETWEEN GRUPA LOTOS S.A. AND OTHER ENTITIES

Contact data and brief description of the principal business activity of these entities, as well as Grupa LOTOS S.A.'s ownership interests and the applied consolidation method are presented below.

**Table 1 Companies with organisational links to Grupa LOTOS S.A.**

| Name   | Registered office    | Principal business activity   | The Group's ownership interest |                |                |
|--|----------------------|---|--------------------------------|----------------|----------------|
|  |                      |   | Jun 30 2014                    | Dec 31 2013    | Jun 30 2013    |
| <b>Parent</b>  |                      |   |                                |                |                |
| Grupa LOTOS S.A.   | Gdańsk               | Production and processing of refined petroleum products (mainly fuels) and their wholesale              | <b>Not applicable</b>          | Not applicable | Not applicable |
| <b>Direct fully-consolidated subsidiaries</b>  |                      |   |                                |                |                |
| LOTOS Petrobaltic S.A. (parent of another group: LOTOS Petrobaltic Group)                      | Gdańsk               | Acquisition of crude oil and natural gas deposits and hydrocarbon production                            | <b>99.99%</b> <sup>(1)</sup>   | 99.98%         | 99.98%         |
| LOTOS Paliwa Sp. z o.o.  | Gdańsk               | Wholesale and retail sale of fuels and light fuel oil, management of the LOTOS service station network  | <b>100.00%</b>                 | 100.00%        | 100.00%        |
| LOTOS Oil S.A.   | Gdańsk               | Production and sale of lubricating oils and lubricants, and sale of base oils                           | <b>100.00%</b>                 | 100.00%        | 100.00%        |
| LOTOS Asphalt Sp. z o.o.   | Gdańsk               | Production and sale of bitumens   | <b>100.00%</b>                 | 100.00%        | 100.00%        |
| LOTOS Kolej Sp. z o.o.   | Gdańsk               | Railway transport   | <b>100.00%</b>                 | 100.00%        | 100.00%        |
| LOTOS Serwis Sp. z o.o.  | Gdańsk               | Maintenance of mechanical and electric operations and controlling devices, overhaul and repair services | <b>100.00%</b>                 | 100.00%        | 100.00%        |
| LOTOS LAB Sp. z o.o.   | Gdańsk               | Laboratory analyses   | <b>100.00%</b>                 | 100.00%        | 100.00%        |
| LOTOS Straż Sp. z o.o.   | Gdańsk               | Fire service activities   | <b>100.00%</b>                 | 100.00%        | 100.00%        |
| LOTOS Ochrona Sp. z o.o.   | Gdańsk               | Security services   | <b>100.00%</b>                 | 100.00%        | 100.00%        |
| LOTOS Terminale S.A. (parent of another group: LOTOS Terminale Group) <sup>(2)</sup>           | Czechowice-Dziedzice | Storage and distribution of fuels   | <b>100.00%</b>                 | 100.00%        | 100.00%        |
| LOTOS Infrastruktura S.A. (parent of another group: LOTOS Infrastruktura Group) <sup>(2)</sup> | Jasło                | Storage and distribution of fuels<br>Renting and operating of own or leased real estate                 | <b>100.00%</b> <sup>(3)</sup>  | 100.00%        | 100.00%        |
| LOTOS Gaz S.A. w likwidacji (in liquidation)   | Kraków               | Dormant   | <b>100.00%</b>                 | 100.00%        | 100.00%        |
| LOTOS Park Technologiczny Sp. z o.o. w likwidacji (in liquidation) <sup>(4)</sup>              | Jasło                | Dormant   | <b>100.00%</b>                 | 100.00%        | 100.00%        |

## Directors' Report on the LOTOS Group's Operations for H1 2014

| Name  | Registered office    | Principal business activity  | The Group's ownership interest |             |             |
|---|----------------------|--|--------------------------------|-------------|-------------|
|   |                      |  | Jun 30 2014                    | Dec 31 2013 | Jun 30 2013 |
| <b>Indirect fully-consolidated subsidiaries</b>   |                      |  |                                |             |             |
| <b>LOTOS Infrastruktura Group</b>   |                      |  |                                |             |             |
| RCEkoenergia Sp. z o.o.   | Czechowice-Dziedzice | Production and distribution of electricity, heat and gas   | 100.00% <sup>(2)</sup>         | 100.00%     | 100.00%     |
| <b>LOTOS Terminale Group</b>  |                      |  |                                |             |             |
| LOTOS Biopaliwa Sp. z o.o.  | Czechowice-Dziedzice | Production of fatty acid methyl esters (FAME)  | 100.00%                        | 100.00%     | 100.00%     |
| <b>LOTOS Petrobaltic Group</b>  |                      |  |                                |             |             |
| LOTOS Exploration and Production Norge AS   | Norway, Stavanger    | Oil exploration and production on the Norwegian Continental Shelf, provision of services related to oil exploration and production | 99.99% <sup>(5)</sup>          | 99.98%      | 99.98%      |
| Aphrodite Offshore Services N.V.  | Curaçao              | Sea transport services (dormant)   | 99.99% <sup>(5)</sup>          | 99.98%      | 99.98%      |
| ENERGOBALTIC Sp. z o.o.   | Władysławowo         | Production of electricity, heat, LPG and natural gas condensate  | 99.99% <sup>(5)</sup>          | 99.98%      | 99.98%      |
| B8 Sp. z o.o.   | Gdańsk               | Support activities for extraction and quarrying operations (dormant)   | 99.99% <sup>(5)</sup>          | 99.98%      | -           |
| B8 Spółka z ograniczoną odpowiedzialnością BALTIC S.K.A.  | Gdańsk               | Exploration and production of crude oil and natural gas (dormant)  | 99.99% <sup>(5)</sup>          | 99.98%      | -           |
| Miliana Shipholding Company Ltd. (parent of another group: Miliana Shipholding Group)           | Nicosia, Cyprus      | Storage and transport of crude oil, other sea transport services   | 99.99% <sup>(5)</sup>          | 99.98%      | 99.98%      |
| Technical Ship Management Sp. z o.o. (parent of another group: Technical Ship Management Group) | Gdańsk               | Sea transport support activities, ship operation advisory services   | 99.99% <sup>(5)</sup>          | 99.98%      | 99.98%      |
| SPV Baltic Sp. z o.o.   | Gdańsk               | Provision of sea transport and related services  | 99.99% <sup>(5)</sup>          | 99.98%      | -           |
| Miliana Shipmanagement Ltd.   | Nicosia, Cyprus      | Provision of sea transport and related services  | 99.99% <sup>(5)</sup>          | 99.98%      | 99.98%      |
| Miliana Shipping Group Ltd. (parent of another group: Miliana Shipping Group Group)             | Nicosia, Cyprus      | Management of own assets   | 99.99% <sup>(5)</sup>          | 99.98%      | 99.98%      |
| Bazalt Navigation Co. Ltd.  | Nicosia, Cyprus      | Ship chartering  | 99.99% <sup>(5)</sup>          | 99.98%      | 99.98%      |
| Granit Navigation Company Ltd.  | Nicosia, Cyprus      | Ship chartering  | 99.99% <sup>(5)</sup>          | 99.98%      | 99.98%      |
| Kambr Navigation Company Ltd.   | Nicosia, Cyprus      | Ship chartering  | 99.99% <sup>(5)</sup>          | 99.98%      | 99.98%      |
| St. Barbara Navigation Company Ltd.   | Nicosia, Cyprus      | Ship chartering  | 99.99% <sup>(5)</sup>          | 99.98%      | 99.98%      |
| Petro Icarus Company Ltd.   | Nicosia, Cyprus      | Ship chartering  | 99.99% <sup>(5)</sup>          | 99.98%      | 99.98%      |

## Directors' Report on the LOTOS Group's Operations for H1 2014

| Name   | Registered office   | Principal business activity   | The Group's ownership interest |                       |             |
|--|---------------------|---|--------------------------------|-----------------------|-------------|
|  |                     |   | Jun 30 2014                    | Dec 31 2013           | Jun 30 2013 |
| Petro Aphrodite Company Ltd.   | Nicosia, Cyprus     | Ship chartering   | 99.99% <sup>(5)</sup>          | 99.98%                | 99.98%      |
| AB LOTOS Geonafta (parent of another group: AB LOTOS Geonafta Group) | Lithuania, Gargzdai | Crude oil exploration and production, drilling services, and purchase and sale of crude oil | 99.99% <sup>(5)</sup>          | 99.98%                | 99.98%      |
| UAB Genciu Nafta   | Lithuania, Gargzdai | Crude oil exploration and production  | 99.99% <sup>(5)</sup>          | 99.98%                | 99.98%      |
| UAB Manifoldas   | Lithuania, Gargzdai | Crude oil exploration and production  | 99.99% <sup>(5)</sup>          | 99.98%                | 99.98%      |
| <b>Equity-accounted joint ventures</b>                               |                     |   |                                |                       |             |
| LOTOS - Air BP Polska Sp. z o.o. <sup>(8)</sup>                      | Gdańsk              | Sale of aviation fuel and logistics services  | 50.00%                         | 50.00% <sup>(6)</sup> | 100.00%     |
| <b>LOTOS Petrobaltic Group</b>                                       |                     |   |                                |                       |             |
| Baltic Gas Sp. z o.o.  | Gdańsk              | Oil and gas production (support activities for oil and gas production)                      | 49.99% <sup>(5,7)</sup>        | 49.99%                | 49.99%      |
| Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k. | Gdańsk              | Crude oil and gas production  | 70.44% <sup>(5,8)</sup>        | 81.68%                | 99.97%      |
| <b>Proportionately-consolidated entities</b>                         |                     |   |                                |                       |             |
| <b>AB LOTOS Geonafta Group</b>                                       |                     |   |                                |                       |             |
| UAB Minijos Nafta  | Lithuania, Gargzdai | Crude oil exploration and production  | 49.99% <sup>(5,9)</sup>        | 49.99%                | 49.99%      |

<sup>(1)</sup> In H1 2014, Grupa LOTOS S.A. completed the squeeze-out of shares in LOTOS Petrobaltic S.A. aimed at acquiring the interests held by non-controlling shareholders. At June 30th 2014, the Company held 99.99% (99.989%) of LOTOS Petrobaltic S.A.'s share capital (9,938,913 shares entered in the share register). From January 1st to June 30th 2014, the Company acquired 429 shares with a total value of PLN 54 thousand, representing 0.0043% of the share capital entered in the share register. The transactions were accounted for as equity transactions; as a result, PLN 29 thousand was recognised as retained earnings attributable to the Parent, and the amount of non-controlling interests decreased by PLN 83 thousand.

<sup>(2)</sup> On January 28th 2014, LOTOS Terminale S.A. sold its entire shareholding in RCEkoenergia Sp. z o.o. (28,305 shares) to LOTOS Infrastruktura S.A. for PLN 24,617 thousand. The transaction changed the shareholder structure of RCEkoenergia Sp. z o.o.: following the transaction 28,305 shares (99.996%) were held by LOTOS Infrastruktura S.A. and 1 share (0.004%) was held by Grupa LOTOS S.A. The event described above had no effect on the data disclosed in these interim consolidated financial statements.

<sup>(3)</sup> On January 7th 2014, the court registered a share capital increase at LOTOS Infrastruktura S.A., from PLN 48,000 thousand to PLN 71,699 thousand, following the issue of 2,962,335 shares with a par value of PLN 8 per share. The new shares were acquired by LOTOS Terminale S.A. Following the registration, the shareholder structure of the company was as follows: 66.95% – Grupa LOTOS S.A.; 33.05% – LOTOS Terminale S.A. (before the transaction, the company was wholly-owned by Grupa LOTOS S.A.). The event described above had no effect on the data disclosed in these interim consolidated financial statements.

<sup>(4)</sup> Liquidation proceedings with respect to LOTOS Park Technologiczny Sp. z o.o., opened by virtue of a decision of April 11th 2014, were registered under the relevant entry in the business register maintained by the District Court of Rzeszów, 12th Commercial Division of the National Court Register. The liquidation proceedings were opened to achieve one of the objectives of the Efficiency and Growth programme, which is to streamline the structure of the LOTOS Group.

<sup>(5)</sup> The shareholding changes described in item (1) above had effect on the indirect equity interests held by the Group in the LOTOS Petrobaltic Group entities.

<sup>(6)</sup> On November 25th 2013, Grupa LOTOS S.A. sold to BP Europe SE 1,000 shares in LOTOS Tank Sp. z o.o. (currently LOTOS Air-BP Polska Sp. z o.o.), representing 50% of the company's share capital. As a result of the transaction, the Group lost control of LOTOS Air-BP Polska Sp. z o.o. Until the date of the loss of control, LOTOS Air-BP Polska Sp. z o.o. had been fully consolidated and had operated within the downstream segment. As at December 31st 2013, shares in LOTOS-Air BP Polska Sp. z o.o. were accounted for with the equity method.

<sup>(7)</sup> On April 10th 2014, the share capital of Baltic Gas Sp. z o.o. was increased from PLN 45 thousand to PLN 105 thousand, i.e. by PLN 60 thousand, through an issue of 1,200 new shares with a par value of PLN 50 per share. All new shares were paid for in cash and acquired by the company's existing shareholders, i.e. LOTOS Petrobaltic S.A. and CalEnergy. LOTOS Petrobaltic S.A. acquired 600 shares with a total par value of PLN 30 thousand. The expenditure of PLN 30 thousand, representing the cash contribution made by LOTOS Petrobaltic S.A., has been disclosed in the consolidated statement of cash flows in Share capital increase - equity-accounted joint ventures.

<sup>(8)</sup> On January 20th 2014, in response to a call for payment CalEnergy Resources Poland Sp. z o.o. made a PLN 10,183 thousand cash contribution to Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp. k. As a result, the ownership interests in Baltic Gas, measured as a percentage of the amount of contributions made by individual partners to total contributions as at June 30th 2014 were as follows: Baltic Gas Sp. z o.o. (general partner) (0.001%); LOTOS Petrobaltic S.A. (limited partner) (70.451%); CalEnergy Resources

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Poland Sp. z o.o. ("CalEnergy") (limited partner) (29.548%). The Group's indirect ownership interest in Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp. k. (jointly-controlled entity) is 70.44%. 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. For IFRS purposes, Baltic Gas Sp. z o.o. i wspólnicy sp.k is an entity jointly controlled by the Group (equity-accounted joint arrangement under IFRS 11; see Note 2 to the consolidated financial statements for 2013).

<sup>(9)</sup> As at June 30th 2014, in accordance with IFRS 11 Joint Arrangements, the interest in UAB Minijos Nafta was measured with the equity method. As at December 31st 2013 and June 30th 2013, the company was proportionately consolidated.

### 1.1.3. OWNERSHIP CHANGES AT THE LOTOS GROUP

**Table 2 Important processes/developments at subsidiaries**

| Company                | Description               | Date    |
|------------------------|---------------------------|---------|
| LOTOS Petrobaltic S.A. | Completion of squeeze-out | H1 2014 |

**Table 3 Ownership changes**

| Company              | Description  | Date        |
|----------------------|--|-------------|
| LOTOS Terminale S.A. | Sale of shares in RCEkoenergia Sp. z o.o. to LOTOS Infrastruktura S.A. | Jan 28 2014 |

**Table 4 Share capital changes at subsidiaries**

| Company                   | Registration date | Before     | Change      | After             | Currency | Comments   |
|---------------------------|-------------------|------------|-------------|-------------------|----------|--|
| LOTOS Infrastruktura S.A. | Jan 7 2014        | 48,000,000 | +23,698,680 | <b>71,698,680</b> | PLN      | issue of 2,962,335 shares with a par value of PLN 8 per share – all acquired by LOTOS Terminale S.A. |

In H1 2014, there were no changes in the key management policies of Grupa LOTOS S.A. or the LOTOS Group.



## 1.2. GRUPA LOTOS S.A. SHARES

### 1.2.1. SHAREHOLDERS WITH MORE THAN 5% OF TOTAL VOTING RIGHTS AT GRUPA LOTOS S.A.'S GENERAL MEETING

Table 5 Shareholders of Grupa LOTOS S.A. as at the date of the previous report (for Q1 2014)

| Shareholders*      | Number of shares/voting rights equivalent to par value of shares | Share of total voting rights equivalent to percentage of share capital held |
|--------------------|--|---|
| State Treasury     | 69,076,392   | 53.19%  |
| ING OFE            | 6,893,079  | 5.31%   |
| Other shareholders | 53,903,891   | 41.50%  |
| <b>Total</b>       | <b>129,873,362</b>   | <b>100.00%</b>  |

\* Based on information held by the Company as at the Q1 2014 reporting date, April 29th 2014.

Table 6 Shareholders of Grupa LOTOS S.A. as at the date of the H1 2014 report

| Shareholders*      | Number of shares/voting rights equivalent to par value of shares | Share of total voting rights equivalent to percentage of share capital held |
|--------------------|--|---|
| State Treasury     | 69,076,392   | 53.19%  |
| ING OFE            | 6,893,079  | 5.31%   |
| Other shareholders | 53,903,891   | 41.50%  |
| <b>Total</b>       | <b>129,873,362</b>   | <b>100.00%</b>  |

\* Based on information held by the Company as at the H1 2014 reporting date, August 19th 2014.

### 1.2.2. GRUPA LOTOS S.A. SHARES HELD BY THE MANAGEMENT AND SUPERVISORY PERSONNEL

Table 7 Shares held in Grupa LOTOS S.A.\*

|                               | Number of Grupa LOTOS S.A. shares | Par value of shares (PLN) |
|-------------------------------|-----------------------------------|---------------------------|
| Management Board, including:  | 9,636                             | 9,636                     |
| <b>Mr Zbigniew Paszkowicz</b> | <b>1,000</b>                      | <b>1,000</b>              |
| <b>Mr Marek Sokołowski</b>    | <b>8,636</b>                      | <b>8,636</b>              |
| Supervisory Board             | 0                                 | 0                         |
| <b>Total</b>                  | <b>9,636</b>                      | <b>9,636</b>              |

\* Based on information held by the Company as at the Q1 2014 reporting date, i.e. April 29th 2014, and as at the H1 2014 reporting date, i.e. August 19th 2014

### 1.3. PERSONNEL

#### 1.3.1. CHANGES IN THE COMPOSITION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

From January 1st 2014 to June 30th 2014 the Management Board (8th term) was composed of the following members:

**Table 8 Management Board: composition and powers**

| Member of the Management Board  | Function  | Management Area   | Term                  |
|---|---|---|-----------------------|
| <br><b>Paweł Olechnowicz</b>     | <b>President of the Management Board, Chief Executive Officer</b>                       | In charge of, and responsible for, the overall management and direction of the Group's operations.  | Mar 12 2002 - present |
| <br><b>Mariusz Machajewski</b>  | <b>Vice-President of the Management Board, Chief Financial Officer</b>                  | In charge of, and responsible for, the overall management of the Company's economic, financial and accounting functions, as well as the assets and restructuring processes.   | Jun 19 2006 - present |
| <br><b>Zbigniew Paszkowicz</b> | <b>Vice-President of the Management Board, Chief Exploration and Production Officer</b> | In charge of, and responsible for, the entirety of exploration and production operations of the LOTOS Group   | Jun 28 2012 - present |
| <br><b>Marek Sokołowski</b>    | <b>Vice-President of the Management Board, Chief Operation Officer</b>                  | In charge of, and responsible for, the overall production and technical management, technology development (including health, safety and environmental management), and capex programmes (projects oriented towards technical and technological advancement). | Apr 19 2002 - present |
| <br><b>Maciej Szozda</b>       | <b>Vice-President of the Management Board, Chief Commercial Officer</b>                 | In charge of, and responsible for, the entirety of trade, procurement and distribution operations in of the LOTOS Group.  | Jul 1 2009 - present  |

## Directors' Report on the LOTOS Group's Operations for H1 2014

From January 1st 2014 to June 30th 2014 the Supervisory Board (8th term) was composed of the following members:




**Table 9 Composition of the Supervisory Board (8th term)**

| <b>Supervisory Board members</b> | <b>Position held</b> | <b>on the Supervisory Board (8th term)</b> |
|----------------------------------|----------------------|--|
| Wiesław Skwarko                  | Chairman             | Jun 27 2011 - Jun 30 2014                  |
| Marcin Majeranowski              | Deputy Chairman      | Feb 29 2012 - Jun 30 2014                  |
| Oskar Pawłowski                  | Secretary            | Jun 27 2011 - Jun 30 2014                  |
| Małgorzata Hirszel               | Member               | Jun 27 2011 - Jun 30 2014                  |
| Agnieszka Trzaskalska            | Member               | Feb 29 2012 - Jun 30 2014                  |
| Michał Rumiński                  | Member               | Jun 27 2011 - Jun 30 2014                  |




Following the expiry of the 8th term of office of the Supervisory Board, on June 30th 2014 the Annual General Meeting of Grupa LOTOS S.A. , acting in accordance with Article 11.1 of the Company's Articles of Association and Resolution No. 21, set as seven the number of members of the Supervisory Board of the 9th term of office, and in accordance with Articles 385.1 and 385.2 of the Commercial Companies Code as well as Articles 9.4 and 11.2 of the Articles of Association, appointed new members to the Supervisory Board of the 9th term (see Table 10).

Pursuant to Article 11.2 of the Articles of Association, the State Treasury, represented by the Minister of State Treasury, is entitled to appoint and remove one member of the Supervisory Board. By the date of issue of this report, the State Treasury had not exercised this right.

**Table 10 Composition of the Supervisory Board (9th term)**

| SUPERVISORY BOARD MEMBERS   | POSITION  | ON THE SUPERVISORY BOARD (9TH TERM) | CARRIER PATH AND POWERS   |
|---|---|-------------------------------------|---|
| <br><b>Wiesław Skwarko</b>       | Chairman  | Jun 30 2014 -                       | <a href="http://inwestor.lotos.pl/en/1142/corporate_governance/organizational_structure#person-21">http://inwestor.lotos.pl/en/1142/corporate_governance/organizational_structure#person-21</a> |
| <br><b>Agnieszka Trzaskalska</b> | Deputy Chairwoman<br><br>(appointed as Deputy Chairwoman on July 28th 2014) | Jun 30 2014 -                       | <a href="http://inwestor.lotos.pl/en/1142/corporate_governance/organizational_structure#person-56">http://inwestor.lotos.pl/en/1142/corporate_governance/organizational_structure#person-56</a> |
| <br><b>Oskar Pawłowski</b>     | Secretary<br><br>(appointed as Secretary on July 28th 2014)                 | Jun 30 2014 -                       | <a href="http://inwestor.lotos.pl/en/1142/corporate_governance/organizational_structure#person-54">http://inwestor.lotos.pl/en/1142/corporate_governance/organizational_structure#person-54</a> |

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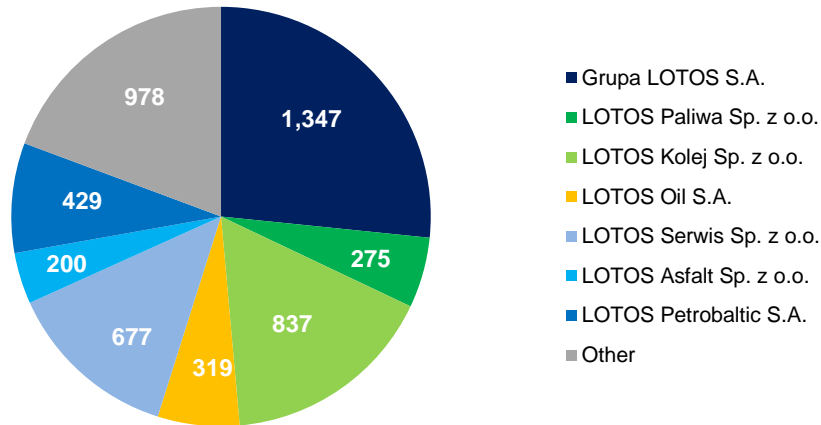
| SUPERVISORY BOARD MEMBERS  | POSITION | ON THE SUPERVISORY BOARD (9TH TERM) | CARRIER PATH AND POWERS   |
|--|----------|-------------------------------------|---|
| <br><b>Magdalena Bohusz-Boguszewska</b> | Member   | Jun 30 2014 -                       | <a href="http://inwestor.lotos.pl/en/1142/corporate_governance/organizational_structure#person-66">http://inwestor.lotos.pl/en/1142/corporate_governance/organizational_structure#person-66</a> |
| <br><b>Małgorzata Hirszel</b>           | Member   | Jun 30 2014 -                       | <a href="http://inwestor.lotos.pl/en/1142/corporate_governance/organizational_structure#person-55">http://inwestor.lotos.pl/en/1142/corporate_governance/organizational_structure#person-55</a> |
| <br><b>Michał Rumiński</b>            | Member   | Jun 30 2014 -                       | <a href="http://inwestor.lotos.pl/en/1142/corporate_governance/organizational_structure#person-57">http://inwestor.lotos.pl/en/1142/corporate_governance/organizational_structure#person-57</a> |

### 1.3.2. THE LOTOS GROUP WORKFORCE STRUCTURE

**Table 11 The LOTOS Group workforce structure by job role (as at June 30th 2014)**

| Company                              | Workforce as at Jun 30 2014 |                   |              |
|--------------------------------------|-----------------------------|-------------------|--------------|
|                                      | Blue-collar jobs            | White-collar jobs | Total        |
| Grupa LOTOS S.A.                     | 509                         | 838               | 1,347        |
| LOTOS Paliwa Sp. z o.o.              | 0                           | 275               | 275          |
| LOTOS Kolej Sp. z o.o.               | 596                         | 241               | 837          |
| LOTOS Oil S.A.                       | 114                         | 205               | 319          |
| LOTOS LAB Sp. z o.o.                 | 113                         | 45                | 158          |
| LOTOS Serwis Sp. z o.o.              | 488                         | 189               | 677          |
| LOTOS Straż Sp. z o.o.               | 74                          | 14                | 88           |
| LOTOS Asfalt Sp. z o.o.              | 86                          | 114               | 200          |
| LOTOS Gaz S.A.                       | 0                           | 1                 | 1            |
| LOTOS Ochrona Sp. z o.o.             | 140                         | 21                | 161          |
| LOTOS Park Technologiczny Sp. z o.o. | 0                           | 1                 | 1            |
| LOTOS Air BP Polska Sp. z o.o.       | 37                          | 15                | 52           |
| LOTOS Infrastruktura S.A.            | 40                          | 34                | 74           |
| LOTOS Terminale S.A.                 | 86                          | 55                | 141          |
| RC Ekoenergia Sp. z o.o.             | 49                          | 30                | 79           |
| LOTOS Biopaliwa Sp. z o.o.           | 21                          | 14                | 35           |
| LOTOS Petrobaltic S.A.               | 263                         | 166               | 429          |
| ENERGOBALTIC Sp. z o.o.              | 3                           | 30                | 33           |
| LOTOS E&A Norge AS                   | 0                           | 23                | 23           |
| AB LOTOS Geonafta                    | 86                          | 24                | 110          |
| Miliana Shipping                     | 0                           | 2                 | 2            |
| Technical Shipmanagement             | 0                           | 10                | 10           |
| SPV Baltic Spółka z o.o.             | 8                           | 2                 | 10           |
| <b>Total</b>                         | <b>2,713</b>                | <b>2,349</b>      | <b>5,062</b> |

**Table 12 The LOTOS Group workforce structure by key companies (as at June 30th 2014)**



**Table 13 The LOTOS Group workforce structure by sex (as at June 30th 2014)**

| Item              | Men          | Women        | Total        |
|-------------------|--------------|--------------|--------------|
| blue-collar jobs  | 2,543        | 170          | 2,713        |
| white-collar jobs | 1,369        | 980          | 2,349        |
| <b>Total</b>      | <b>3,912</b> | <b>1,150</b> | <b>5,062</b> |

**Table 14 Grupa LOTOS S.A. workforce structure by sex (as at June 30th 2014)**

| Item              | Men        | Women      | Total        |
|-------------------|------------|------------|--------------|
| blue-collar jobs  | 506        | 3          | 509          |
| white-collar jobs | 419        | 419        | 838          |
| <b>Total</b>      | <b>925</b> | <b>422</b> | <b>1,347</b> |

## 2. FINANCIAL PERFORMANCE OF THE LOTOS GROUP

### 2.1. KEY FACTORS DRIVING FINANCIAL PERFORMANCE IN H1 2014

**Table 15 Crude oil prices, spread, model refining margin**

| USD/bbl                | H1 2014 | H1 2013 | H1 2014 / H1 2013 |
|------------------------|---------|---------|-------------------|
| DATED Brent FOB prices | 108.91  | 107.49  | 1.3%              |
| Spread Brent vs Ural   | 1.79    | 1.16    | 54.3%             |
| Model refining margin  | 5.01    | 6.72    | -25.4             |

**Table 16 Fuel product crack margins**

| USD/bbl        | H1 2014 | H1 2013 | H1 2014 / H1 2013 |
|----------------|---------|---------|-------------------|
| Gasoline       | 11.75   | 13.61   | -13.7%            |
| Naphtha        | -2.84   | -6.64   | 57.3%             |
| ON (10 ppm)    | 18.62   | 19.68   | -5.4%             |
| Light fuel oil | 15.5    | 17.37   | -10.8%            |
| Aviation fuel  | 16.17   | 18.81   | -14.0%            |
| Heavy fuel oil | -16.52  | -12.33  | -34.0%            |

**Table 17 USD/PLN exchange rates**

| USD/PLN                                | H1 2014 | H1 2013 | H1 2014 / H1 2013 |
|--|---------|---------|-------------------|
| PLN/USD exchange rate at end of period | 3.05    | 3.32    | -8.1%             |
| Average PLN/USD exchange rate          | 3.05    | 3.18    | -4.1%             |

### Upstream segment

**Table 18 Crude oil and natural gas reserves, production and sales**

| Crude oil and natural gas reserves as at (mboe)* | Jun 30 2014 | Jun 30 2013 |                   |
|--|-------------|-------------|-------------------|
| Norway   | 18.61       | 13.33       |                   |
| Poland   | 40.92       | 34.80       |                   |
| Lithuania:                                       | 7.26        | 7.79        |                   |
| Total  | 66.79       | 55.92       |                   |
| Production (boe/d)                               | H1 2014     | H1 2013     | H1 2014 / H1 2013 |
| Norway   | 7,163       | 0           | -                 |
| Poland   | 3,818       | 3,291       | 16.0%             |
| Lithuania:                                       | 1,500       | 1,538       | -2.5%             |
| Total  | 12,481      | 4,829       | 158.5%            |



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| Sales of own products (boe) | H1 2014   | H1 2013 | H1 2014 / H1 2013 |
|-----------------------------|-----------|---------|-------------------|
| Norway                      | 884,546   | 0       | -                 |
| Poland                      | 747,268   | 709,402 | 5.3%              |
| Lithuania:                  | 332,989   | 287,850 | 15.7%             |
| total                       | 1,964,803 | 997,252 | 97.0%             |

The PLN 187.5m (60.2%) increase in the upstream segment's revenue is chiefly a result of production and sale of crude oil and natural gas from the Heimdal field on the Norwegian Continental Shelf.

**Table 19 Upstream segment's key financial data**

| PLNm                          | H1 2014 | H1 2013 | H1 2014 / H1 2013 |
|-------------------------------|---------|---------|-------------------|
| Revenue                       | 498.9   | 311.4   | 60.2%             |
| Operating profit/(loss)       | -425.7  | 188.3   | -                 |
| Amortisation and depreciation | 152.5   | 65.5    | 132.8%            |
| EBITDA                        | -273.2  | 253.8   | -                 |
| Adjusted EBIT*                | 129.0   | 122.7   | 5.1%              |

\* Net of non-recurring events (H1 2014: impairment loss on YME assets; H1 2013: revaluation of the provision for offshore oil facilities in Norway and reversal of impairment losses related to the B4 and B6 fields)

Adjusted EBIT of the upstream segment in H1 2014 is close to adjusted EBIT for the comparative period. In view of the continuing uncertainty and risks arising in connection with the protracted process of selecting the YME field development concept at the end of Q2 2014 (the decision was originally expected at the end of Q1 2014), the Group recognised further impairment loss on the project. As at June 30th 2014, the Group recognised impairment equal to the full amount of its investment in the project, resulting in a PLN 545m (NOK 1,101m) increase in the aggregate impairment losses, to PLN 1,596m (NOK 3,224m). LOTOS E&P Norge AS and its partners on the YME licence continue work on the YME field development plans.

**Downstream segment**

The oil throughput in H1 2014 was higher year on year because in H1 2013 a maintenance shutdown took place at the Gdańsk refinery.

**Table 20 Crude slate**

| Crude oil processed by the Gdańsk refinery<br>(thousand tonnes) | H1 2014 | H1 2013 | H1 2014 / H1 2013 |
|---|---------|---------|-------------------|
|   | 4,645.4 | 3,838.6 | 21.0%             |
| including:  |         |         |                   |
| Urals crude   | 4,278.5 | 3,441.1 | 24.3%             |
| Rozewie crude   | 94.7    | 65.1    | 45.5%             |
| Lithuanian crude  | 39.7    | 15.4    | 157.8%            |
| Other types of crude  | 232.5   | 317.0   | -26.7%            |

**Table 21 Grupa LOTOS S.A.'s product slate**

| Total output (thousand tonnes) | H1 2014 | H1 2013 | H1 2014 / H1 2013 |
|--------------------------------|---------|---------|-------------------|
|                                | 5,034.8 | 4,161.1 | 21.0%             |
| Gasolines                      | 662.6   | 583.6   | 13.5%             |
| Naphtha                        | 171.8   | 137.9   | 24.6%             |
| Diesel oils                    | 2,194.2 | 1,817.8 | 20.7%             |
| Light fuel oils                | 115.7   | 147.8   | -21.7%            |
| Jet fuel                       | 295.3   | 226.1   | 30.6%             |
| Heavy fuel oils                | 724.1   | 587.8   | 23.2%             |
| Bitumen components             | 207.8   | 168.2   | 23.5%             |
| Other                          | 663.3   | 491.9   | 34.8%             |

**Table 22 Structure of sales in the downstream segment**

| Refining products, merchandise and materials<br>(thousand tonnes) | H1 2014 | H1 2013 | H1 2014 / H1 2013 |
|---|---------|---------|-------------------|
|   | 4,884.4 | 4,286.3 | 14.0%             |
| Gasolines   | 705.5   | 662.3   | 6.5%              |
| Naphtha   | 171.8   | 137.9   | 24.6%             |
| Diesel oils   | 2,278.2 | 2,077.5 | 9.7%              |
| Jet fuel  | 297.5   | 218.0   | 36.5%             |
| Light fuel oils   | 118.3   | 153.9   | -23.1%            |
| Heavy fuel oils   | 725.9   | 554.1   | 31.0%             |
| Bitumens  | 184.8   | 150.7   | 22.6%             |
| Other petroleum products  | 402.4   | 331.9   | 21.2%             |

In H1 2014, the overall production and sales exceeded the volumes reported for the comparative period, when a maintenance shutdown took place.

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The 6.9% year-on-year increase in the downstream segment's revenue for H1 2014 is primarily a result of a 14.0% increase in the volume of the segment's sales. This improvement, however, was accompanied by a decrease in the average net selling price, chiefly a consequence of a lower exchange rate. The average net selling price in the downstream segment fell by 6.2%, from PLN 3,100 per tonne in H1 2013 to PLN 2,908 per tonne in H1 2014.

The year-on-year improvement in the downstream segment's operating performance in H1 2014 is mainly attributable to the maintenance shutdown that took place in H1 2013 at the Gdańsk refinery and the related expenditure. The higher volume of products sold in H1 2014 improved the consolidated operating result. Also the weighted average method used by the Group to measure inventories had a positive effect on the H1 2014 result compared with H1 2013. The LIFO effect in H1 2013 was PLN 241.6m (the operating result was lower by that amount), chiefly as a result of lower inventories in Q1 2013 (related to preparation to the maintenance shutdown). In the reporting period, the applied inventory measurement method caused a PLN 46.5m decline in the operating result, chiefly as a consequence of the falling exchange rate (mainly in Q1 2014).

**Table 23 Downstream segment's key financial data**

| PLNm                          | H1 2014  | H1 2013  | H1 2014 / H1 2013 |
|-------------------------------|----------|----------|-------------------|
| Revenue                       | 14,205.9 | 13,287.7 | 6.9%              |
| Operating profit              | 61.0     | -272.1   | -                 |
| Amortisation and depreciation | 230.9    | 256.3    | -9.9%             |
| EBITDA                        | 291.9    | -15.8    | -                 |
| LIFO EBIT                     | 107.5    | -30.5    | -                 |

### Retail sale

**Table 24 LOTOS service station network**

| Total                       | Jun 30 2014 | Jun 30 2013 | %       |
|-----------------------------|-------------|-------------|---------|
|                             | 430         | 407         | 5.7%    |
| CODO                        | 265         | 232         | 14.2%   |
| including: LOTOS OPTIMA     | 106         | 82          | 29.3%   |
| DOFO                        | 165         | 154         | 7.1%    |
| including: LOTOS OPTIMA     | 52          | 34          | 52.9%   |
| franchise agreements signed | 169         | 158         | 7.0%    |
| DODO                        | 0           | 21          | -100.0% |

As at the end of H1 2014, the LOTOS retail chain comprised 430 stations. As part of the efforts designed to optimise the station chain, a new brand of economy stations under the trade name LOTOS OPTIMA was launched on the domestic market in 2011. As at June 30th 2014, the stations numbered 158, up by 42 on H1 2013.

**Table 25 Retail segment - key financial data**

| PLNm                          | H1 2014 | H1 2013 | H1 2014 / H1 2013 |
|-------------------------------|---------|---------|-------------------|
| Sales volume                  | 513.0   | 477.3   | 7.5%              |
| Revenue                       | 2,878.2 | 2,723.1 | 5.7%              |
| Operating profit/(loss)       | 6.1     | -22.3   | -                 |
| Amortisation and depreciation | 28.5    | 26.6    | 7.1%              |
| EBITDA                        | 34.6    | 4.3     | 704.7%            |

Supported by optimisation efforts, the retail segment in H1 2014 reported an operating profit of PLN 6.1m, compared with a loss of PLN -22.3m in H1 2013.

## Other business

**Table 26 EBIT of other business\***

| PLNm                          | H1 2014 | H1 2013 | H1 2014 / H1 2013 |
|-------------------------------|---------|---------|-------------------|
| Revenue                       | 13.1    | 11.3    | 15.9%             |
| Operating profit/(loss)       | 4.4     | 0.9     | 388.9%            |
| Amortisation and depreciation | 4.4     | 4.8     | -8.3%             |
| EBITDA                        | 8.8     | 5.7     | 54.4%             |

\* Includes: LOTOS Park Technologiczny Sp. z o.o. w likwidacji (in liquidation), Energobaltic Sp. z o.o. and LOTOS Gaz S.A. w likwidacji (in liquidation).

## Statement of comprehensive income

For H1 2014, the LOTOS Group posted a net operating loss of PLN -397.7m, including an operating profit of PLN 61.0m from the upstream segment, an operating loss of PLN -425.7m from the downstream segment, PLN 4.4m from other business and PLN -37.3m from consolidation adjustments (mainly adjustment of the unrealised margin on stocks of Rozewie and Lithuanian crudes).

**Table 27 Financial highlights of the LOTOS Group**

| PLNm                    | H1 2014  | H1 2013  | H1 2014 / H1 2013 |
|-------------------------|----------|----------|-------------------|
| Revenue                 | 14,376.3 | 13,274.9 | 8.3%              |
| EBITDA                  | -10.8    | 199.3    | -                 |
| Operating profit/(loss) | -397.7   | -126.4   | -                 |
| LIFO effect             | 46.5     | 241.6    | -80.8%            |
| LIFO EBIT               | -351.2   | 241.6    | -                 |
| Adjusted LIFO EBIT*     | 203.5    | 133.7    | 52.2%             |

\* Net of non-recurring events (H1 2014: impairment loss on YME assets; H1 2013: revaluation of the provision for offshore oil facilities in Norway, reversal of impairment losses related to the B4 and B6 fields, and the cost of a maintenance shutdown)

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The Group's net finance loss of PLN -128.8m reported in H1 2014 was attributable mainly to a negative balance of interest on debt, commission fees and interest income (PLN -96.5m), a net loss on measurement and settlement of market risk hedging transactions (PLN -21.6m) and foreign exchange losses (PLN -9.1m). In H1 2013, the Group's net finance loss of PLN -263.1m was caused mainly by interest expense and commission fees, foreign exchange losses under bank borrowings, and net loss on settlement and measurement of market risk hedging transactions.

In the six months ended June 30th 2014, the net loss on settlement and measurement of derivative instruments was PLN -21.5m, including a PLN -11.5m net loss on forward transactions hedging the foreign exchange risk, a net loss of PLN -10.7m on settlement and measurement of interest rate swaps (IRS) hedging the interest rate risk, a PLN 0.8m positive contribution from settlement and measurement of transactions hedging petroleum product prices, and a net loss of PLN -0.1m on futures hedging the risk of changes in prices of CO2 emission allowances.

**Table 28 Transactions used to hedge petroleum product prices as at June 30th 2014**

| Period  | Product/commodity    | Heavy fuel oil               |
|---------|----------------------|------------------------------|
|         |                      | 3.5 PCT Barges FOB Rotterdam |
| Q3 2014 | Volume (mt)          | 9,780                        |
|         | Price range (USD/mt) | 564 - 583                    |
| Q4 2014 | Volume (mt)          | 1,056                        |
|         | Price range (USD/mt) | 571.75 - 583                 |
| Q2 2015 | Volume (mt)          | 1,103                        |
|         | Price range (USD/mt) | 567.75                       |
| Q3 2015 | Volume (mt)          | 8,628                        |
|         | Price range (USD/mt) | 557.5 - 567.75               |
| Q4 2015 | Volume (mt)          | 7,767                        |
|         | Price range (USD/mt) | 557.5 - 567.75               |

**Table 29 Transactions used to hedge foreign exchange risk as at June 30th 2014**

| Currency pair         | Instrument | Volume       | Currency | FX exchange range |
|-----------------------|------------|--------------|----------|-------------------|
| EUR/USD exchange rate | Forward    | 760,000      | EUR      | 1.36505           |
| EUR/PLN exchange rate | Forward    | 6,840,000    | EUR      | 4.1588 - 4.1658   |
| USD/PLN exchange rate | Forward    | -228,173,101 | USD      | 3.0537 - 3.2937   |

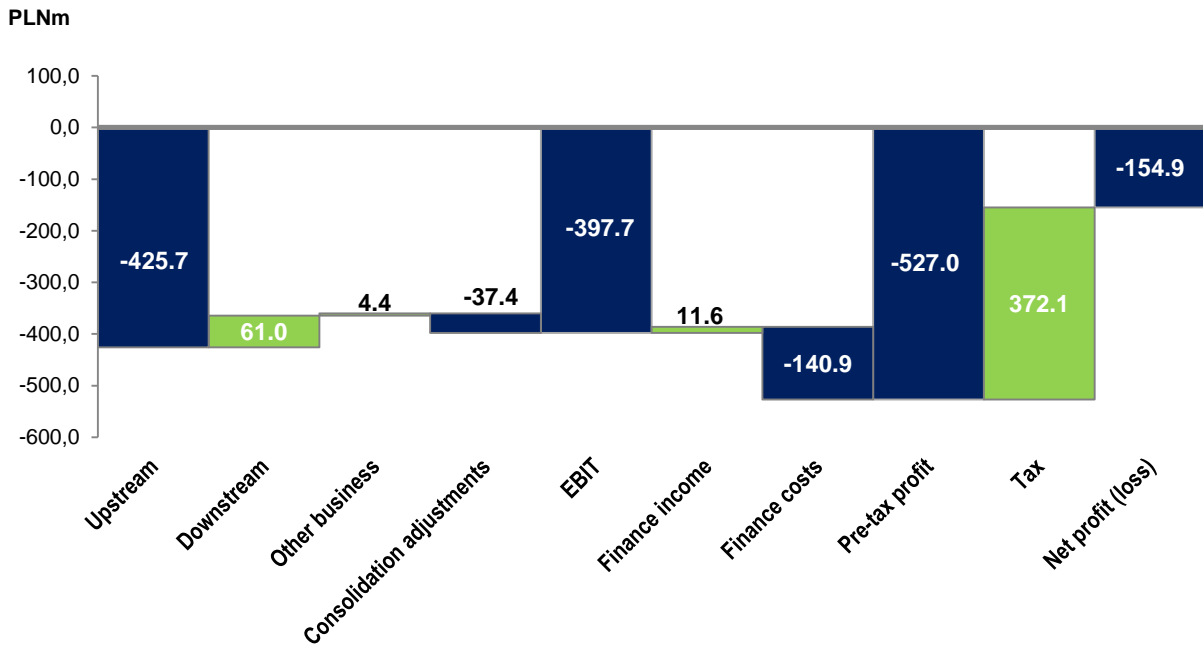
**Table 30 Transactions used to hedge interest rate risk as at June 30th 2014**

| Instrument | Start date                         | End date                           | Notional amount | Currency | Interest rate range | Reference rate      |
|------------|------------------------------------|------------------------------------|-----------------|----------|---------------------|---------------------|
| IRS        | from Jul 15 2011<br>to Jan 15 2015 | from Jan 15 2018<br>to Jan 15 2019 | 250,000,000     | USD      | 2.476% - 4.045%     | 3M LIBOR - 6M LIBOR |

**Table 31 Futures used to hedge the risk related to the prices of carbon dioxide (CO<sub>2</sub>) emission allowances as at June 30th 2014**

| Instrument | Type of instrument | 2014        |                      | 2015        |                      | 2016        |                      |
|------------|--------------------|-------------|----------------------|-------------|----------------------|-------------|----------------------|
|            |                    | Volume (mt) | Price range (EUR/mt) | Volume (mt) | Price range (EUR/mt) | Volume (mt) | Price range (EUR/mt) |
| EUA        | Futures            | 1,265,000   | 3.14 - 9.05          | 134,000     | 5.15 – 6.13          | -33,000     | 5.57 – 5.65          |

**Fig. 2 Structure of LOTOS Group's consolidated result**



In H1 2014, pre-tax loss was PLN 527.0m. After accounting for deferred tax (chiefly attributable to the impairment loss on YME assets) of PLN 392.0m, in H1 2014 the Group posted a consolidated net loss of PLN -154.9m.

**Table 32 Net profit/(loss) of the LOTOS Group**

| PLNm                    | H1 2014 | H1 2013 | H1 2014 / H1 2013 |
|-------------------------|---------|---------|-------------------|
| Operating profit/(loss) | -397.7  | -126.4  | -                 |
| Finance income          | 11.6    | 15.3    | -24.2%            |
| Finance costs           | -140.4  | -278.4  | -49.6%            |
| Other                   | -0.5    | -3.6    | -86.1%            |
| Pre-tax profit/loss     | -527.0  | -393.1  | -                 |
| Net profit/(loss)       | -154.9  | -273.4  | -                 |

**Consolidated statement of financial position**

**Table 33 Consolidated statement of financial position – assets**

|                                  | Jun 30 2014     | Dec 31 2013     | Change        | %             |
|----------------------------------|-----------------|-----------------|---------------|---------------|
| <b>Total assets (PLNm)</b>       | <b>19,633.6</b> | <b>20,284.8</b> | <b>-651.2</b> | <b>-3.2%</b>  |
| <b>Non-current assets</b>        | <b>11,917.4</b> | 11,979.9        | -62.5         | <b>-0.5%</b>  |
| Property, plant and equipment    | <b>9,616.2</b>  | 10,009.1        | -392.9        | <b>-3.9%</b>  |
| Goodwill                         | <b>46.7</b>     | 46.7            | 0.0           | 0.0%          |
| Other intangible assets          | <b>667.3</b>    | 658.8           | 8.5           | <b>1.3%</b>   |
| Equity-accounted entities        | <b>122.3</b>    | 129.8           | -7.5          | <b>-5.8%</b>  |
| Deferred tax assets              | <b>1,293.2</b>  | 924.5           | 368.7         | <b>39.9%</b>  |
| Other non-current assets         | <b>171.7</b>    | 211.0           | -39.3         | <b>-18.6%</b> |
| <b>Current assets</b>            | <b>7,715.9</b>  | 8,304.1         | -588.2        | <b>-7.1%</b>  |
| Inventories                      | <b>5,073.7</b>  | 5,728.9         | -655.2        | <b>-11.4%</b> |
| Trade receivables                | <b>1,644.2</b>  | 1,591.7         | 52.5          | <b>3.3%</b>   |
| Current tax assets               | <b>82.4</b>     | 76.7            | 5.7           | <b>7.4%</b>   |
| Derivative financial instruments | <b>26.2</b>     | 73.9            | -47.7         | <b>-64.5%</b> |
| Other current assets             | <b>447.6</b>    | 337.1           | 110.5         | <b>32.8%</b>  |
| Cash and cash equivalents        | <b>441.8</b>    | 495.8           | -54.0         | <b>-10.9%</b> |
| <b>Assets held for sale</b>      | <b>0.3</b>      | 0.8             | -0.5          | <b>-62.5%</b> |

As at June 30th 2014, total assets of the LOTOS Group stood at PLN 19,633.6m, having decreased by PLN 651.2m throughout H1 2014.

**Key changes in assets:**

- PLN 392.9m decrease in property, plant and equipment, chiefly attributable to the impairment loss on the YME assets (see Note 6 in the interim condensed consolidated financial statements for the six months ended June 30th), offset by the purchase of a drilling rig,
- PLN 368.7m increase in deferred tax assets related to the impairment of the YME assets,
- PLN 655.2m decrease in inventories, related chiefly to a lower volume of mandatory stocks,
- PLN 71.2m increase in other assets, related chiefly to value added tax payable,
- PLN 52.5 increase in trade receivables, related chiefly to higher sales volumes in June 2014 relative to December 2013 (with LOTOS Paliwa and LOTOS Asphalt as the main contributors),
- PLN 54.0 decrease in cash and cash equivalents (chiefly in the upstream segment),
- PLN 47.7m decrease in positive valuation of derivative financial instruments (mainly forwards).

**Table 34 Consolidated statement of financial position – sources of financing**

| Equity and liabilities (PLNm)                                    | Jun 30 2014     | Dec 31 2013     | Change        | %             |
|--|-----------------|-----------------|---------------|---------------|
|  | <b>19,633.6</b> | <b>20,284.8</b> | <b>-651.2</b> | <b>-3.2%</b>  |
| <b>Equity</b>  | <b>8,997.9</b>  | 9,189.6         | -191.7        | <b>-2.1%</b>  |
| Share capital  | 129.9           | 129.9           | 0.0           | 0.0%          |
| Share premium  | 1,311.3         | 1,311.3         | 0.0           | 0.0%          |
| Cash flow hedging reserve  | 24.3            | 61.0            | -36.7         | <b>-60.2%</b> |
| Retained earnings  | 7,512.0         | 7,666.8         | -154.8        | <b>-2.0%</b>  |
| Exchange differences on translating foreign operations           | 20.2            | 20.3            | -0.1          | <b>-0.5%</b>  |
| Non-controlling interests  | 0.2             | 0.3             | -0.1          | <b>-33.3%</b> |
| <b>Non-current liabilities</b>                                   | <b>5,425.2</b>  | 5,682.0         | -256.8        | <b>-4.5%</b>  |
| Borrowings, other debt instruments and finance lease liabilities | <b>4,326.2</b>  | 4,496.2         | -170.0        | <b>-3.8%</b>  |
| Derivative financial instruments                                 | 42.4            | 52.9            | -10.5         | <b>-19.8%</b> |
| Deferred tax liability   | 241.7           | 275.8           | -34.1         | <b>-12.4%</b> |
| Employee benefit obligations                                     | 154.1           | 151.4           | 2.7           | <b>1.8%</b>   |
| Other provisions and liabilities                                 | 660.8           | 705.7           | -44.9         | <b>-6.4%</b>  |
| <b>Current liabilities</b>                                       | <b>5,210.5</b>  | 5,413.2         | -202.7        | <b>-3.7%</b>  |
| Borrowings, other debt instruments and finance lease liabilities | <b>2,135.0</b>  | 1,715.2         | 419.8         | <b>24.5%</b>  |
| Derivative financial instruments                                 | 20.8            | 21.3            | -0.5          | <b>-2.3%</b>  |
| Trade payables   | 1,780.0         | 2,395.2         | -615.2        | <b>-25.7%</b> |
| Current tax liabilities  | 11.0            | 8.8             | 2.2           | <b>25.0%</b>  |
| Employee benefit obligations                                     | 90.0            | 104.0           | -14.0         | <b>-13.5%</b> |
| Other provisions and liabilities                                 | 1,173.7         | 1,168.7         | 5.0           | <b>0.4%</b>   |

Consolidated equity decreased by PLN 191.7m as at June 30th 2014, mainly due to the net loss posted in the first half of the year.

In H1 2014, liabilities decreased by PLN 459.5m, which was primarily a result of:

- PLN 615.2m decrease in trade payables related chiefly to crude oil purchases (mainly at Grupa LOTOS S.A.),
- PLN 249.8m increase in interest-bearing borrowings, other debt instruments, notes and finance lease liabilities, chiefly in the upstream segment, related to the financing of an offshore rig purchase,
- PLN 39.9m decrease in other provisions and liabilities, chiefly as a result of a decrease in the provision for future costs of the removal of the MOPU and disassembly of YME field assets,
- PLN 34.1m decrease in deferred tax liabilities (mainly at Grupa LOTOS S.A.).

As at June 30th 2014, the LOTOS Group's financial debt totalled PLN 6,461.2m, up PLN 249.8m on December 31st 2013. The ratio of financial debt (adjusted for free cash) to equity was 66.9% (up 4.7pp on December 31st 2013).



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**Consolidated statement of cash flows**

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**Table 35 Cash flows**

| PLNm   | H1 2014 | H1 2013 | Change |
|--|---------|---------|--------|
| Cash flows from operating activities                 | 354.4   | 889.9   | -535.5 |
| Cash flows from investing activities                 | -622.2  | -335.0  | -287.2 |
| Cash flows from financing activities                 | -0.6    | -157.3  | 156.7  |
| Change in net cash                                   | -266.5  | 420.9   | -687.4 |
| Cash and cash equivalents at beginning of the period | -3.1    | -242.9  | 239.8  |
| Cash and cash equivalents at end of the period       | -269.6  | 178.0   | -447.6 |

As at June 30th 2014, the LOTOS Group's cash balance (including current account overdrafts) was negative at PLN 269.6m.

In H1 2014, net cash flows from operating activities were positive at PLN 354.4m, primarily due to depreciation/amortisation expense being added back to net loss and the loss from investing activities being adjusted following recognition of impairment losses on the YME assets.

Negative net cash flows from investing activities, at PLN -622.2m, were mainly attributable to the expenses incurred on acquiring property, plant and equipment and other intangible assets for the upstream segment.

Cash flows from financing activities, at PLN -0.6m, mainly included an excess of cash outflows under principal and interest payments of PLN -5.5m over cash inflows under borrowings and other debt instruments, and payment of PLN 10.2m under finance lease liabilities, adjusted for a positive settlement of derivative financial instruments of PLN -11.8m.

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**Financial resources management**

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**Ability to meet obligations**

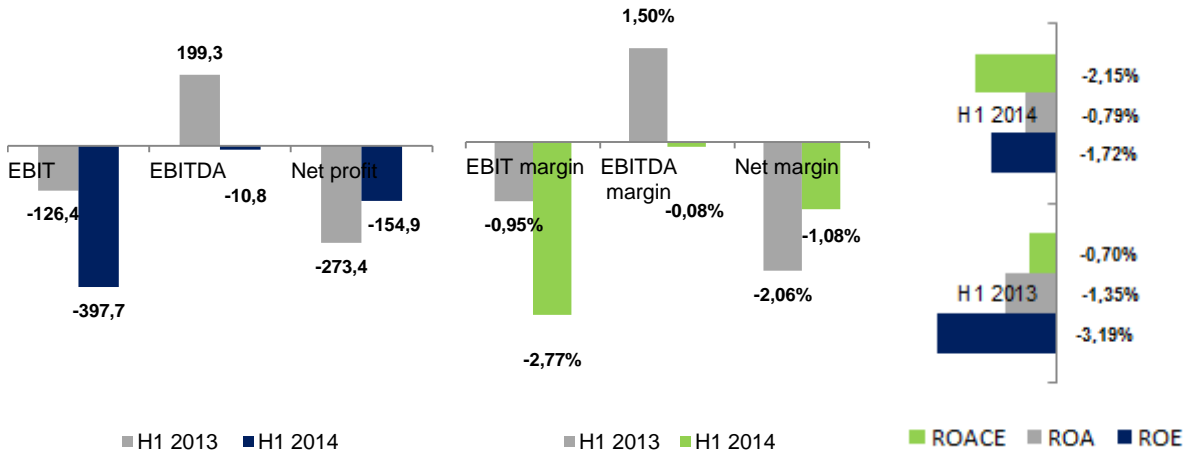
In H1 2014, the LOTOS Group was able to meet all its liabilities towards third parties.

**Information material for assessment of the Group's assets, financial standing and financial performance, or changes in any of the foregoing**

A brief assessment of the LOTOS Group's overall economic and financial standing has been prepared in the form of a ratio analysis covering margins, liquidity, turnover and debt levels.

**Profitability ratios**

*(PLNm or %)*

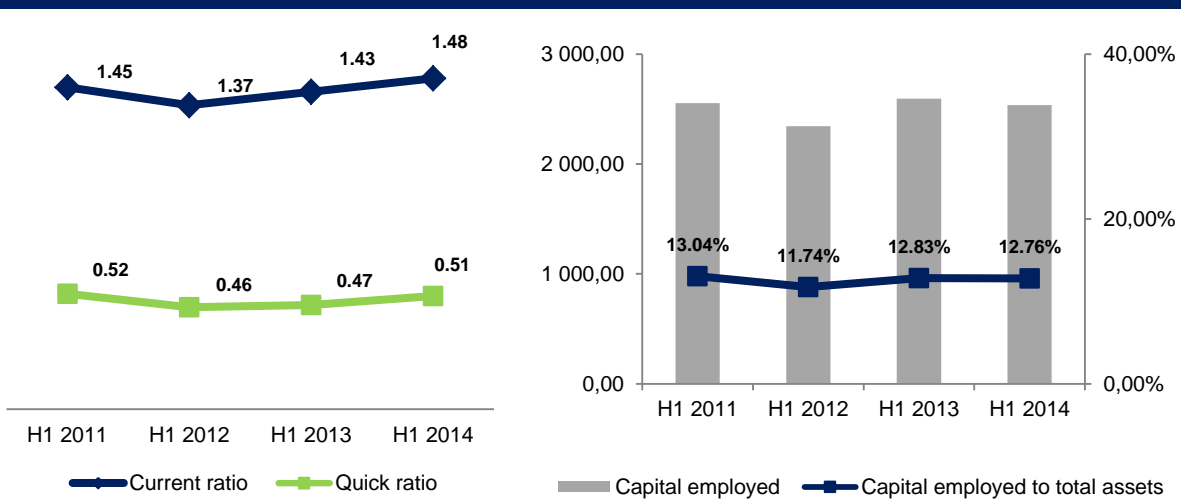


- Deteriorated operating and net performance and ratios related to impairment losses on YME assets

| Profitability ratio formulas               |  |
|--|--|
| EBIT margin                                | operating profit/(loss) to net sales                                       |
| EBITDA                                     | EBIT before amortisation/depreciation                                      |
| EBITDA margin                              | EBITDA to net sales  |
| Net margin                                 | net profit/(loss) to net sales   |
| ROE  | net profit/(loss) to equity at end of period                               |
| ROA  | net profit/(loss) to assets at end of period                               |
| Return on average capital employed (ROACE) | operating profit/(loss) after tax to equity plus net debt at end of period |

**Liquidity ratios**

*(PLNm, in absolute terms or in %)*

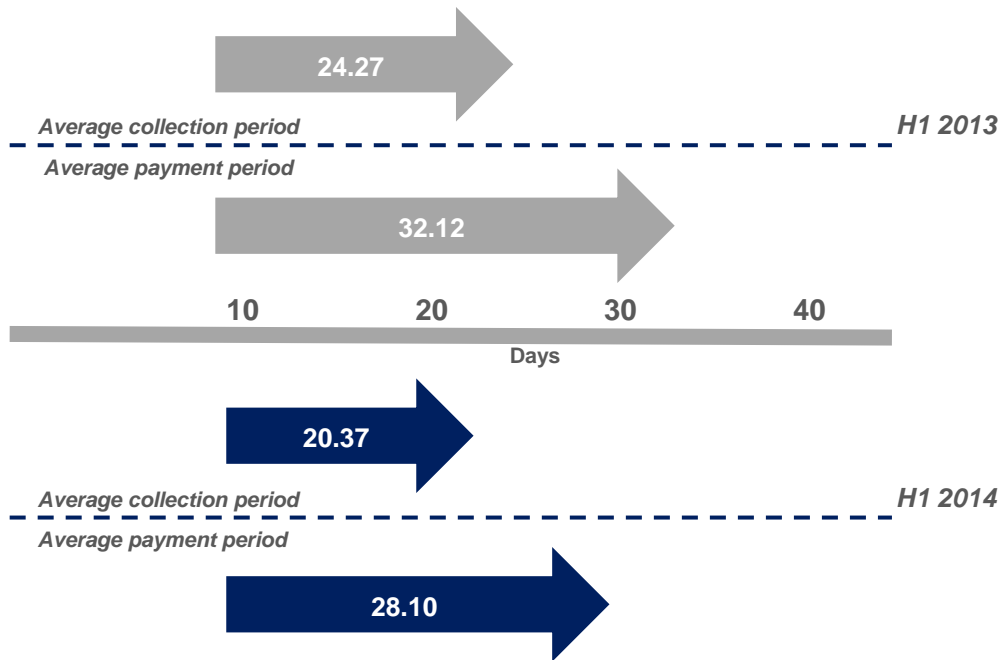


- Improved current ratio (+3.4%) and improved quick ratio (+8.7%), as current assets (-10.3%) declined more slowly than current liabilities (-13.2%), with inventories contracting by 12.5%,
- 3.4% decrease in capital employed, following stronger decrease in current assets (down PLN 882.4m) than the decrease in current liabilities (down PLN 793.9m), and a decrease of the share of capital employed in total assets.

**Liquidity ratio formulas**

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

**Collection and payment periods  
(days)**



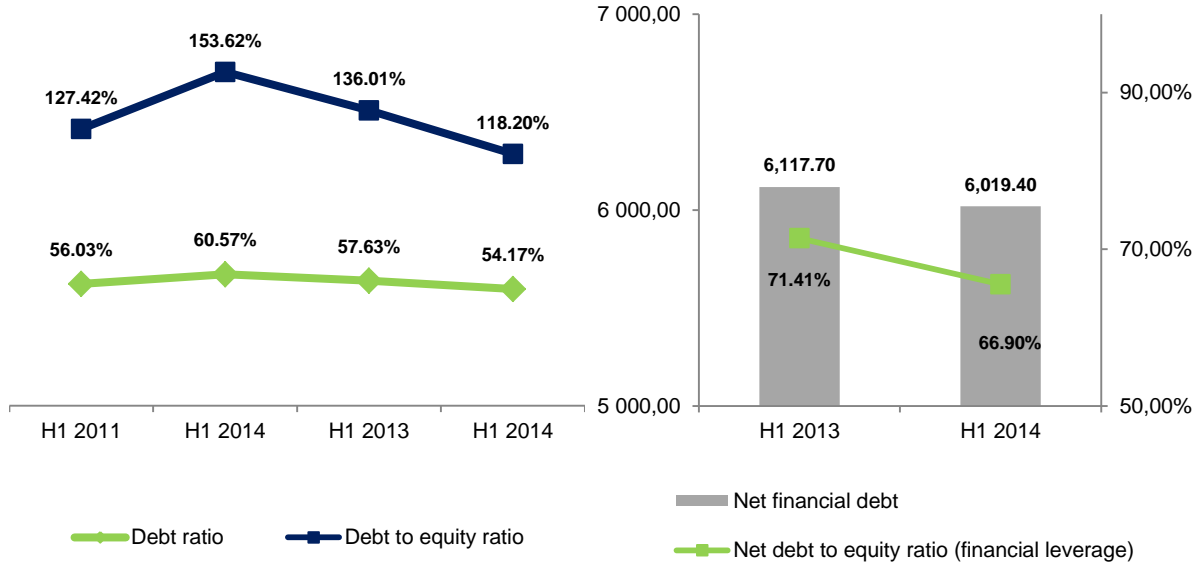
- Shorter collection period (by 4 days) as average trade receivables decreased (-9.1%) while revenues increased (8.3%); shorter payment period (by 4 days) as average trade payables decreased (-7.9%) while cost of sales rose (5.3%).

**Collection and payment period formulas**

|                                  |  |
|----------------------------------|--|
| Average collection period (days) | average trade receivables to net sales times 181 days in the period  |
| Average payment period (days)    | average trade payables to cost of sales times 181 days in the period |

**Capital structure and debt ratios**

*(PLNm or %)*



- 3.5pp decrease in debt ratio, as liabilities decreased by 8.7% (principally trade payables) while assets decreased by 2.9% (principally inventories), and a 17.8pp decrease in debt to equity ratio, mainly due to higher equity at the reporting date, coupled with lower liabilities.

**Capital structure and debt ratio formulas**

|   |   |
|---|---|
| Total debt ratio                              | total liabilities to total assets (at the end of the period)  |
| Net financial debt                            | long-term and short-term borrowings, other debt instruments, and finance lease liabilities net of cash (at the end of the period) |
| Net debt to equity ratio (financial leverage) | financial debt to equity ratio (at the end of period)   |
| Debt to equity ratio                          | total liabilities to equity (at the end of the period)  |

## 2.2. FACTORS WHICH, IN THE COMPANY'S OPINION, MAY AFFECT THE LOTOS GROUP'S PERFORMANCE IN Q3 AND Q4 2014

Key factors which, in the Company's opinion, may affect performance in H2 2014 include:

- Macroeconomic environment; in particular, prices of crude oil and petroleum products and the USD/PLN exchange rate, which has a bearing on the Group's financial performance as the prices of crude oil and of some products are quoted in the US dollar and Grupa LOTOS S.A. has US dollar-denominated debt,
- Changes in the supply of and demand for petroleum products in Poland and in Europe; the demand for diesel oil is expected to rise in the long run, while the demand for motor gasolines is expected to weaken; these tendencies are reflected in the strategy implemented by the LOTOS Group,
- Execution of projects in the exploration and production segment,
- Optimisation in the of production and trade to maximise the refining margin of Grupa LOTOS S.A. (higher production capacity of the Gdańsk refinery and improved production and processing flexibility following completion of the +10 Programme),
- Further consolidation of the LOTOS Group's market position, with special emphasis on the development of, and improvement of profitability in, the retail segment.

## 2.3. RISKS AND THREATS RELATED TO THE COMPANY'S OPERATIONS IN THE REMAINING MONTHS OF 2014

Given the extent of its business and its dynamic growth, the LOTOS Group is exposed to a variety of risks, ranging from the most common exploration and production risks, to process risks, technical risks, market risks and financial risks. All such risks are identified, assessed and then analysed to determine the feasibility of mitigating their potential effect on the Company's operations. Relative to the previous year, the Company has been able to consistently reduce the expected level of the key identified risks.

The Company is also alert to potential risks arising from the new "Efficiency and Growth" programme, and adequate mitigating measures are implemented on a regular basis.

For detailed information on the key risks, opportunities and challenges of the LOTOS Group, see [the 2013 Integrated Annual Report](#).

The identified risks are monitored on an ongoing basis. They include:

- Political and legal risks,
- Reputation and social risk,
- Risk of misconduct,
- Financial risks, including currency risk, risk related to prices of raw materials and petroleum products, credit risk, liquidity risk and risk of limited access to financing,
- Risks related to the supply of raw materials,
- Risks related to the upstream business,
- Operational risks, including technological risks and risks related to occupational safety and environmental protection,

- Risks related to trading activities,
- Risks related to planned and ongoing projects.

The risks listed above have been thoroughly analysed, and relevant risk management strategies and mitigation plans have been implemented in line with the Company's internal policies. The Enterprise Risk Management System is described in [the 2013 Annual Report](#).

#### **2.4. MANAGEMENT BOARD'S POSITION ON THE FEASIBILITY OF MEETING PREVIOUSLY PUBLISHED FORECASTS FOR 2014**

Grupa LOTOS S.A. has not published any separate or consolidated performance forecasts for 2014.

### **3. REPRESENTATIONS OF THE MANAGEMENT BOARD**

#### **3.1. REPRESENTATION ON THE HALF-YEAR FINANCIAL STATEMENTS OF GRUPA LOTOS S.A. AND THE DIRECTORS' REPORT ON THE OPERATIONS OF THE LOTOS GROUP**

The Management Board of LOTOS S.A., composed of:

Paweł Olechnowicz – President of the Management Board, Chief Executive Officer

Mariusz Machajewski – Vice-President of the Management Board, Chief Financial Officer

Zbigniew Paszkowicz – Vice-President of the Management Board, Chief Exploration and Production Officer

Marek Sokołowski – Vice-President of the Management Board, Chief Operations Officer

Maciej Szozda – Vice-President of the Management Board, Chief Commercial Officer

hereby represents that, to the best of its knowledge, the half-year condensed consolidated financial statements of the LOTOS Group and the half-year condensed financial statements of Grupa LOTOS S.A. for the six months ended on June 30th 2014 and the comparative data were prepared in compliance with the applicable accounting standards and give a true, clear and fair view of the assets, financial standing and financial performance of the LOTOS Group and Grupa LOTOS S.A.

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

#### **3.2. REPRESENTATION ON APPOINTMENT OF THE QUALIFIED AUDITOR OF FINANCIAL STATEMENTS**

The Management Board of Grupa LOTOS S.A. represents that the qualified auditor of financial statements which reviewed the half-year condensed consolidated financial statements of the LOTOS Group and the half-year condensed financial statements of Grupa LOTOS S.A. for the six months ended June 30th 2014 was appointed in accordance with the applicable laws, and that the auditing firm and the qualified auditors who performed the review met the conditions necessary to issue an impartial and independent review report in accordance with the applicable regulations and professional standards.



## 4. OTHER INFORMATION

### 4.1. COURT, ARBITRATION OR ADMINISTRATIVE PROCEEDINGS

In H1 2014, LOTOS Group companies were not involved in any court, arbitration or administrative proceedings related to liabilities or claims whose amount concerning LOTOS Group companies would represent at least 10% of Grupa LOTOS S.A.'s equity. For other information on relevant proceedings, including the arbitration proceedings with respect to SBM's claims against the YME consortium and related counterclaims, see Note 23.1 to the interim condensed consolidated financial statements for the six months ended June 30th 2014.

### 4.2. MATERIAL RELATED-PARTY TRANSACTIONS

In H1 2014, Grupa LOTOS S.A. executed transactions with related parties at arm's length only, as presented in Note 20.1 to the interim condensed consolidated financial statements for the six months ended June 30th 2014.

### 4.3. SURETIES FOR THE REPAYMENT OF LOANS, GUARANTEES AND BORROWINGS, FACTORING AGREEMENTS, AND OTHER SECURITY INSTRUMENTS

In the period from January 1st to March 31st 2014, Grupa LOTOS S.A. and its subsidiaries issued no loan sureties within the Group or guarantees to any other entity or its subsidiary, where the value of the sureties or guarantees in relation to LOTOS Group companies would represent 10% or more of Grupa LOTOS S.A.'s equity.

#### **LOTOS Petrobaltic S.A.'s liabilities towards the government of Norway**

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An unconditional and irrevocable guarantee issued by LOTOS Petrobaltic S.A. for the benefit of the government of Norway on June 17th 2008, concerning LOTOS Exploration and Production Norge AS' exploration and production operations on the Norwegian Continental Shelf, was effective as at June 30th 2014 and June 30th 2013. In the guarantee, LOTOS Petrobaltic S.A. undertook to assume any financial liabilities which may arise in connection with the operations of LOTOS Exploration and Production Norge AS on the Norwegian Continental Shelf, consisting in exploration for and extraction of the natural resources from the sea bottom, including their storage and transport using means of transport other than ships.

#### **Other security instruments**

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As at June 30th 2014, the Parent had a PLN 240,000 thousand blank promissory note deposited at the Customs Office in Gdańsk as lump-sum security for excise duty of PLN 800,000 thousand. The security is valid until August 19th 2014.

**Table 36 Loans advanced by Grupa LOTOS S.A. to related entities in the six months ended on June 30th 2014:**

| Related entity                               | Agreement date | Principal as per loan agreement |          | Maturity date | Security   | Financial terms (interest terms)   |
|--|----------------|---------------------------------|----------|---------------|--|--|
|  |                | PLN thousand                    | Currency |               |  |  |
| LOTOS Petrobaltic S.A.                       | Jan 23 2014    | 100,000                         | -        | Dec 31 2017   | blank promissory note with a 'protest waived' clause and promissory note declaration | The loan bears interest at a variable annual rate based on 6M WIBOR plus margin. |
| LOTOS Gaz S.A. w likwidacji (in liquidation) | Feb 28 2014    | 80                              | -        | Dec 31 2014   | blank promissory note with a 'protest waived' clause and promissory note declaration | The loan bears interest at a fixed annual rate based on 3M WIBOR plus margin.    |

#### Other intercompany loans

- On January 27th 2014, LOTOS Petrobaltic S.A. executed an agreement to grant a loan of PLN 46,323m to SPV Baltic Sp. z o.o. The agreement remains in effect until January 31st 2022. Repayment of the loan is secured with a blank promissory note with a 'protest waived' clause and promissory note declaration. The loan bears interest at a variable rate based on 6M WIBOR plus margin.
- On April 18th 2014, LOTOS Petrobaltic S.A. granted a PLN 2.75m loan to B8 Spółka z ograniczoną odpowiedzialnością Baltic S.K.A. The agreement remains in effect until August 31st 2014. Repayment of the loan is secured with a blank promissory note with a 'protest waived' clause and promissory note declaration. The loan bears interest at a variable rate based on 6M WIBOR plus margin.