



# Win the Future

Grupa LOTOS S.A.  
Integrated Annual Report 2012

PDF version



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Integrated Annual Report 2012

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# 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.

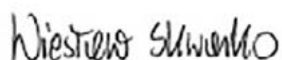
The growing value of the LOTOS brand, driven both by business efforts and the long-term corporate social responsibility (CSR) strategy, is also to be appreciated. This responsible and transparent approach of Grupa LOTOS towards various stakeholder groups is cited as a paragon of modern business practices. 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.

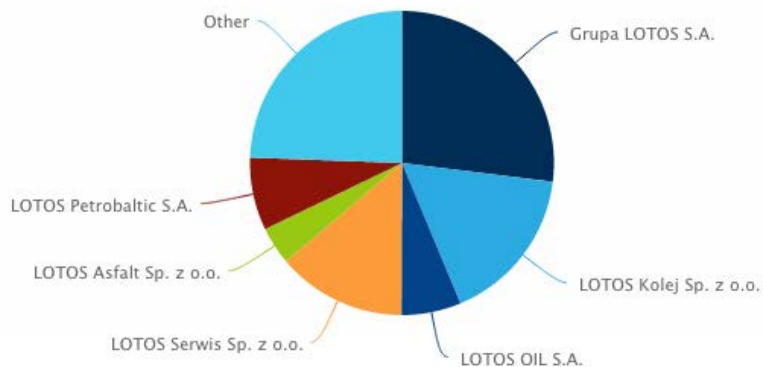
In terms of revenue generated in 2012, it is second of the 500 largest companies in Poland, and sixth among the 500 largest companies in Central and Eastern Europe.

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.

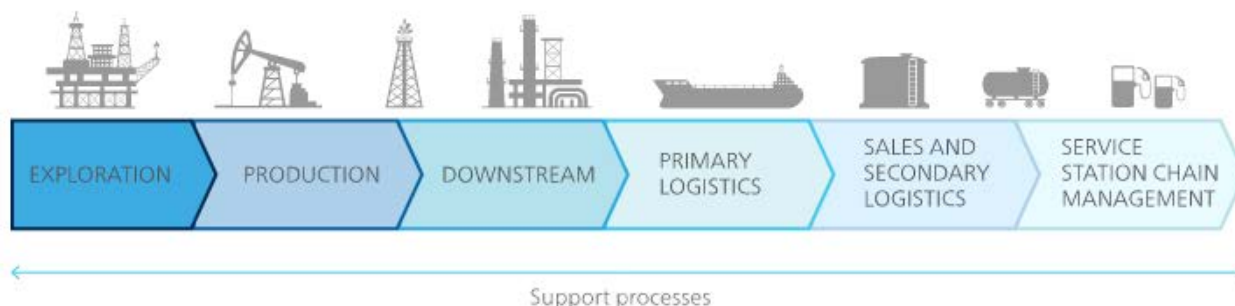
We are well aware that the cooperation of the local government with business is the key to successful development of the Pomerania region. Therefore, all the more so we appreciate the fact that LOTOS becomes engaged in and strategically implements initiatives in areas which are challenging for us. At 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

### 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

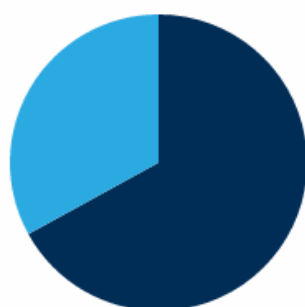
**Engine oils:** LOTOS Quazar, LOTOS Thermal Control, LOTOS Turdus, RG Trans, Agrol, Marino  
**Industrial oils:** Transmil, Hydromil, Remiz  
**Plasticisers:** Quantilus  
**Bitumens:** MODBIT

### 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](#))

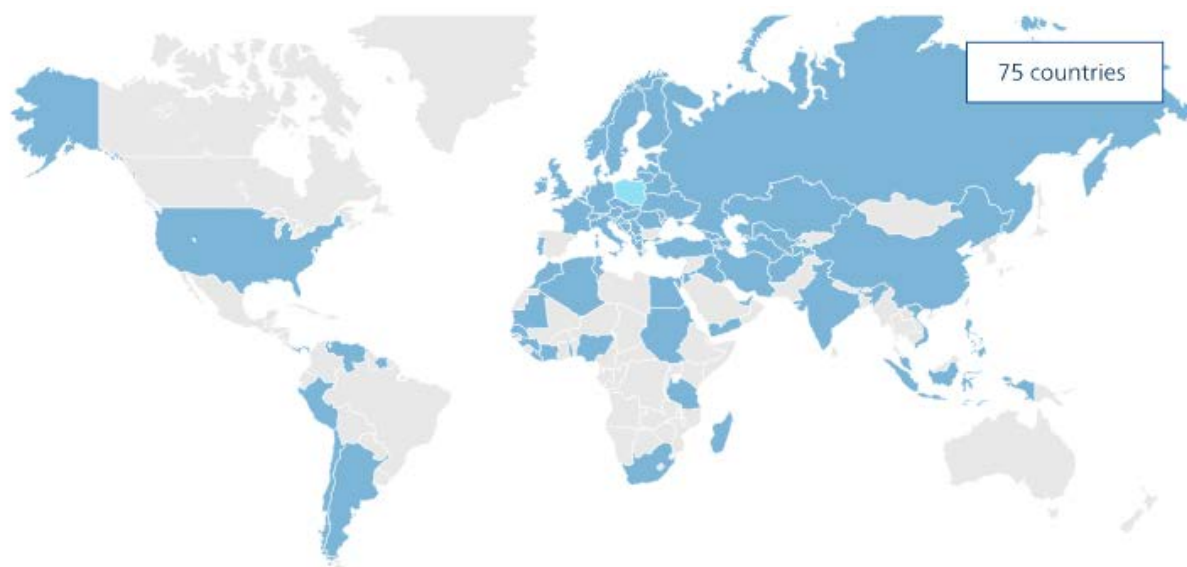
LOTOS Group sales by markets in 2013. (%)



■ Domestic sales  
 ■ Export sales

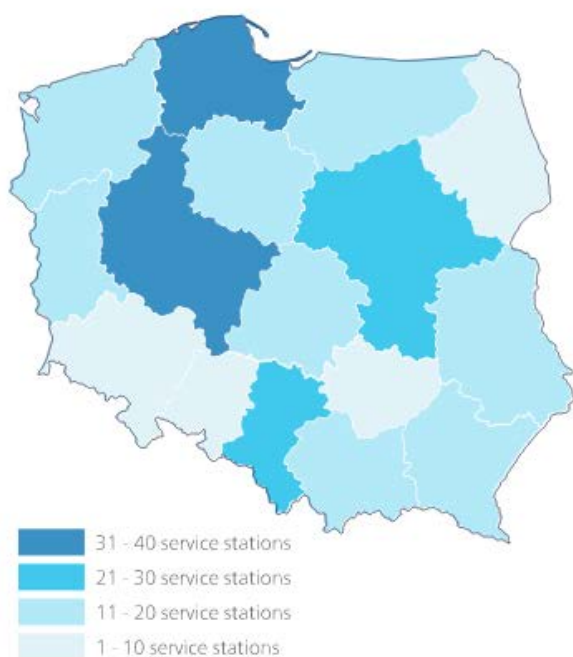
	thousand tonnes
Domestic sales	6,258
Export sales	3,082
<b>Total</b>	<b>9,340</b>

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

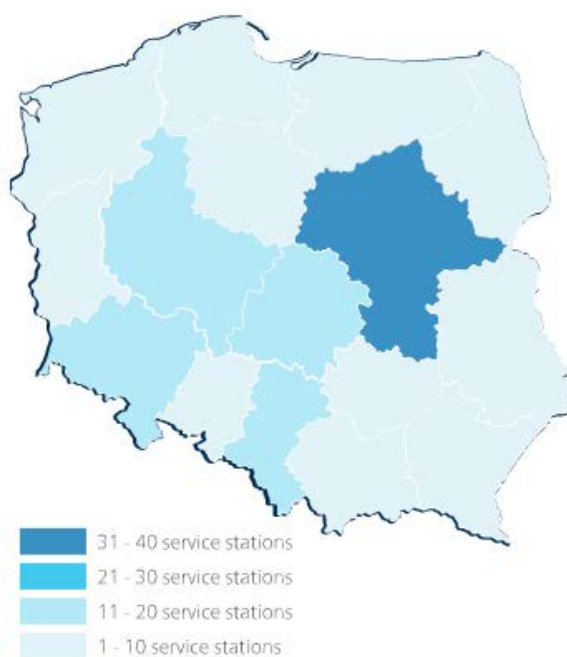


Our chain of LOTOS brand service stations is the fourth largest in Poland. Through this chain, we offer products and services in the premium segment, which also comprises motorway service stations. One third of our stations operate in the economy segment, under the LOTOS Optima brand. Compared with its 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**

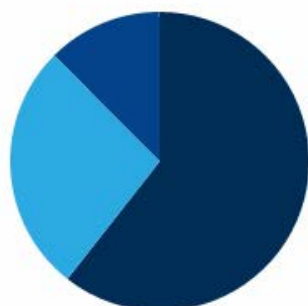


**LOTOS Optima stations**



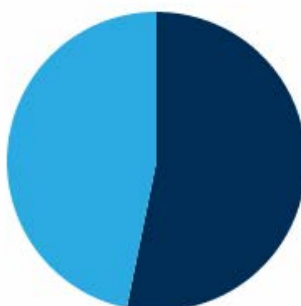
# Shareholder structure

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



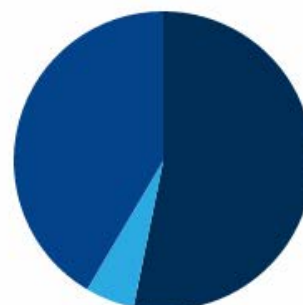
■ series A    ■ series B  
■ series C

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



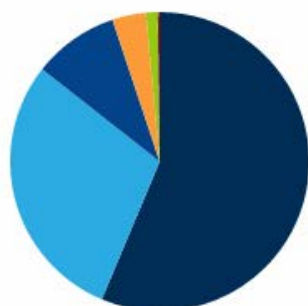
■ State Treasury  
■ Other shareholders

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%
INGOFE	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 Manifolds</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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### LO TO S Petro baltic Gro up

• 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 LO TO S Geo nafta

• 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:

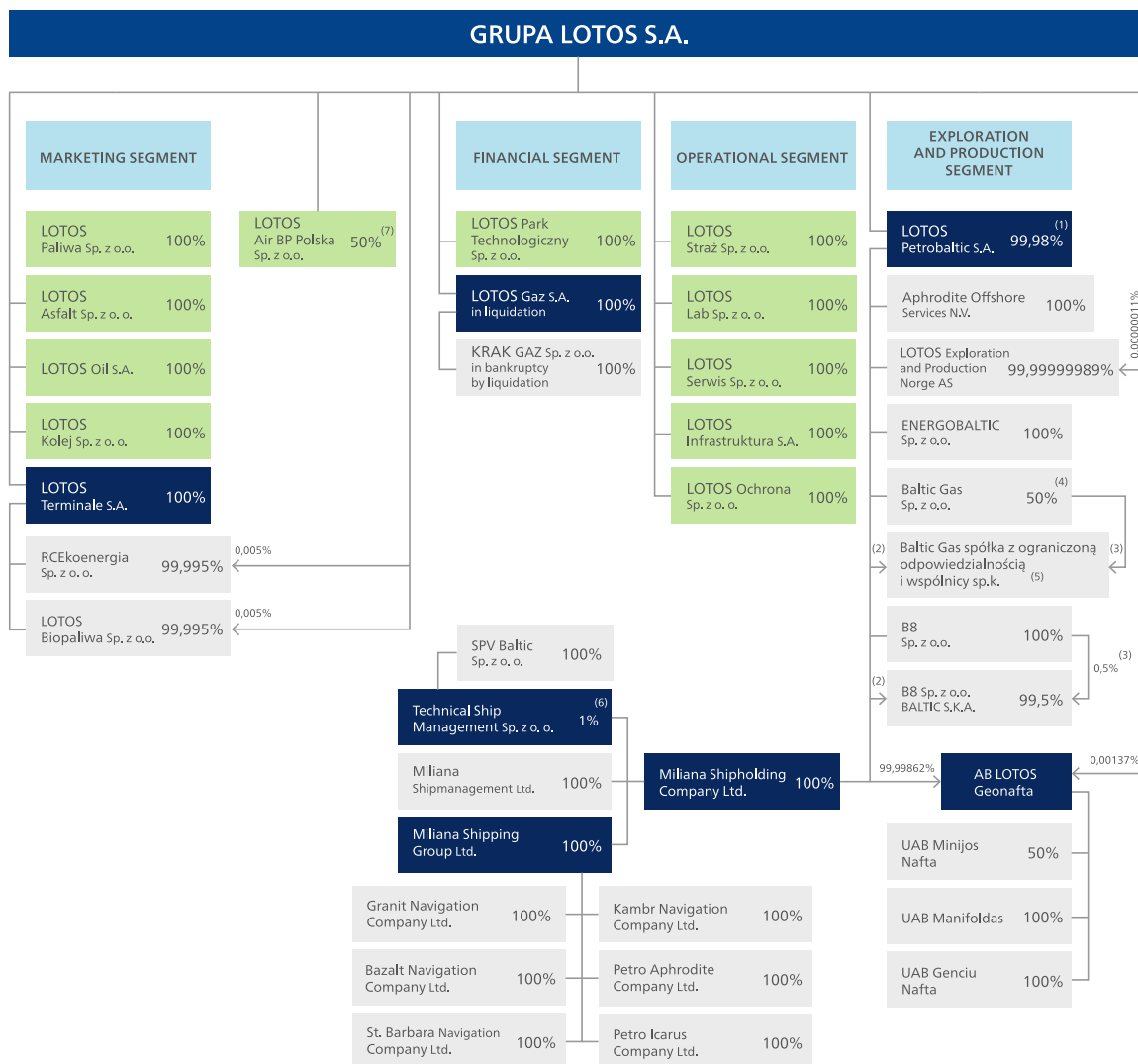
- Baltic Gas Sp. z o.o. (general partner) (0.002% ),
- LOTOS Petrobaltic S.A. (limited partner) (81.693% ),
- CalEnergy Resources Poland Sp. z o.o. ("CalEnergy") (limited partner) (18.305% ).

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.

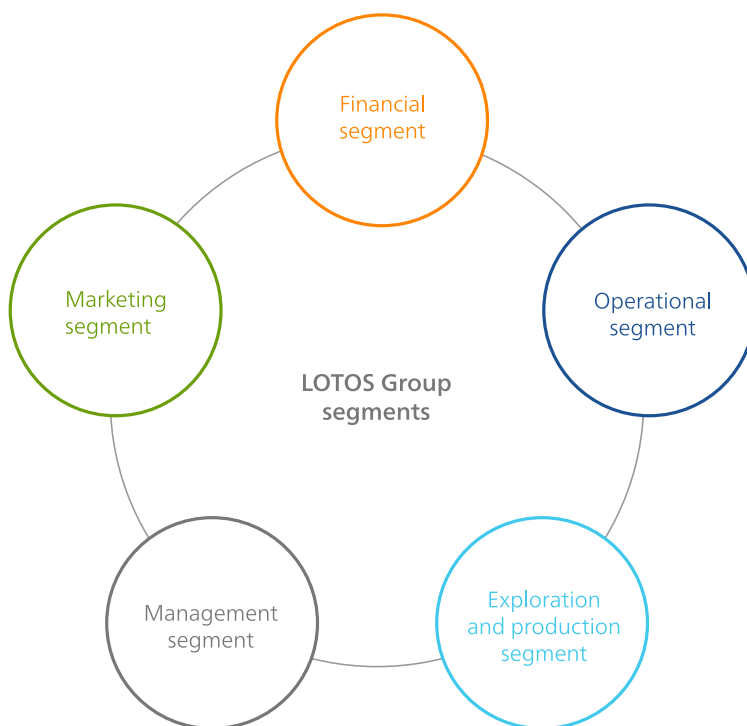
(7) BP Europa SE – 50%

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:

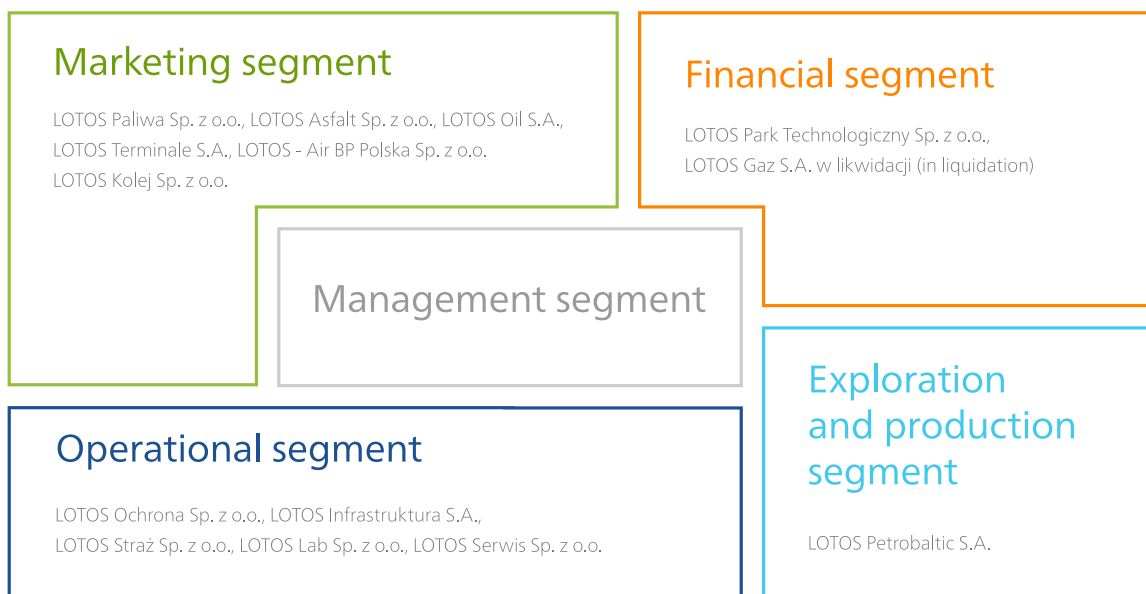
- raise the stature, decision-making powers and accountability of the corporate departments,
- enhance the management model,
- minimise management costs,
- improve segmental reporting,
- enhance the communication process,
- optimise accounting, finance, trading and legal functions.

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.

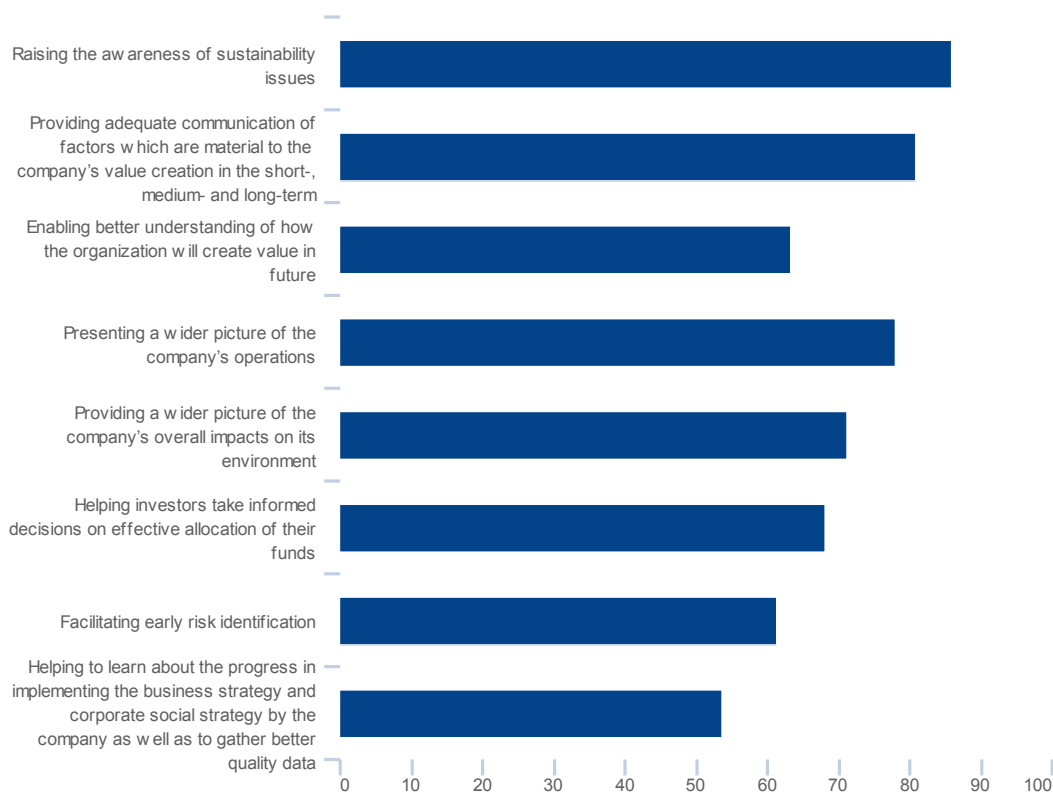
### Integrating financial and non-financial data

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%).

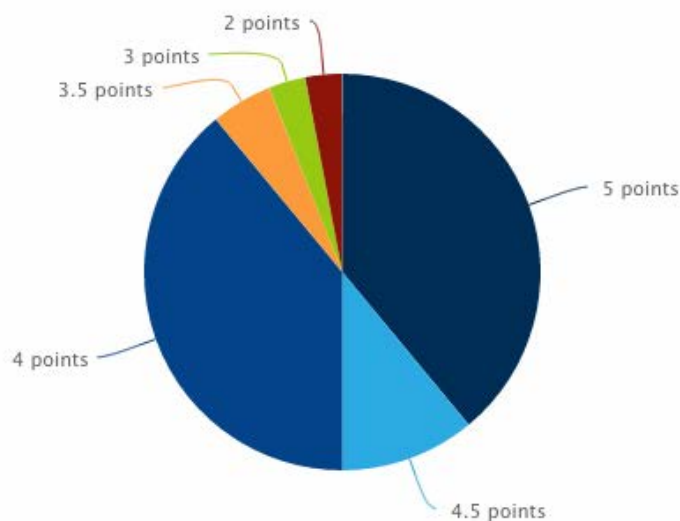
### Benefits of integrated reporting at Grupa LOTOS (%)



### 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.

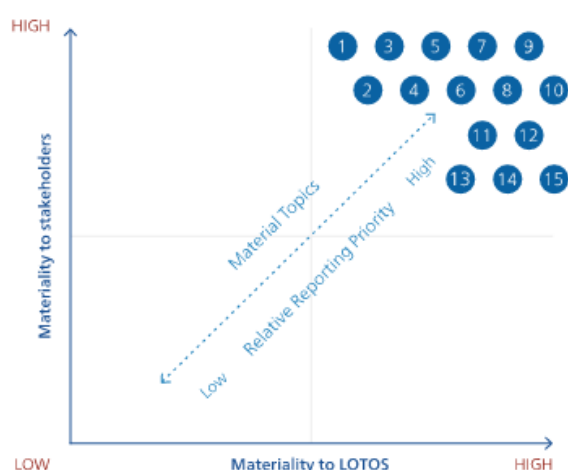


# Remit and extent

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.

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.

<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.

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## Quality of products and services

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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 Akademia Leona Koźmińskiego (Koźmiński University), and the Transport Innovation Centre, is organised by the Center for Analyses in Transport and Infrastructure (CATI) to provide recognition to innovative enterprises.

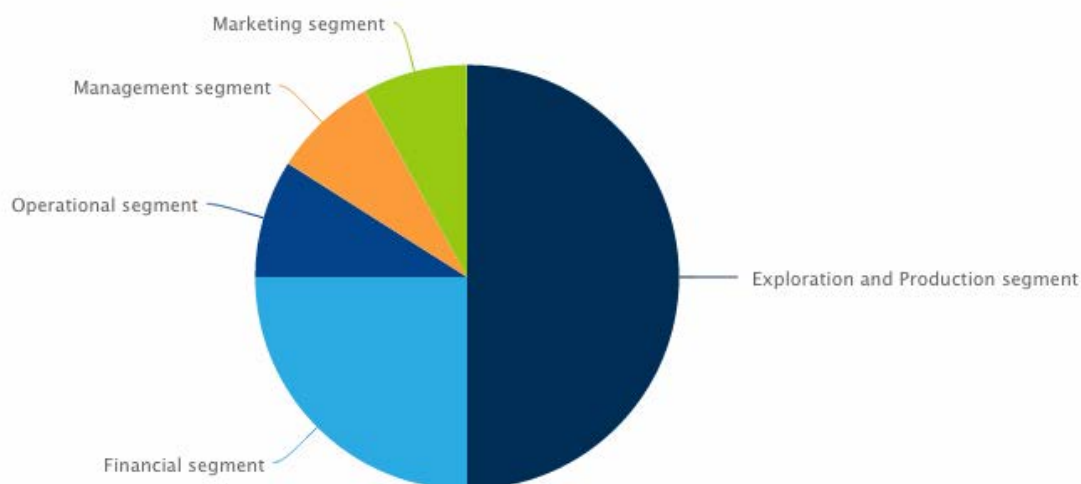
4. TRANSMIL XSP oil won the **Quality International 2013 Golden Badge** in the QI Product category for top quality goods. This award confirms the status of the brand and its owner as industry leaders, and attests to its highest quality – quality that is both highly trusted and widely renowned. The awards 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.

# Risks and opportunities

## Risks and opportunities

Given the extent of its business and its dynamic growth, the LOTOS Group is exposed to a variety of risks, ranging from exploration and production risks, to process risks, technical risks, market risks and financial risks.

Material risks incurred by the LOTOS Group, by business segments (%)



We analyse every risk and develop appropriate mitigation strategies. Throughout 2013, we continued to implement appropriate measures in response to individual threats.

### Key risks in the LOTOS Group

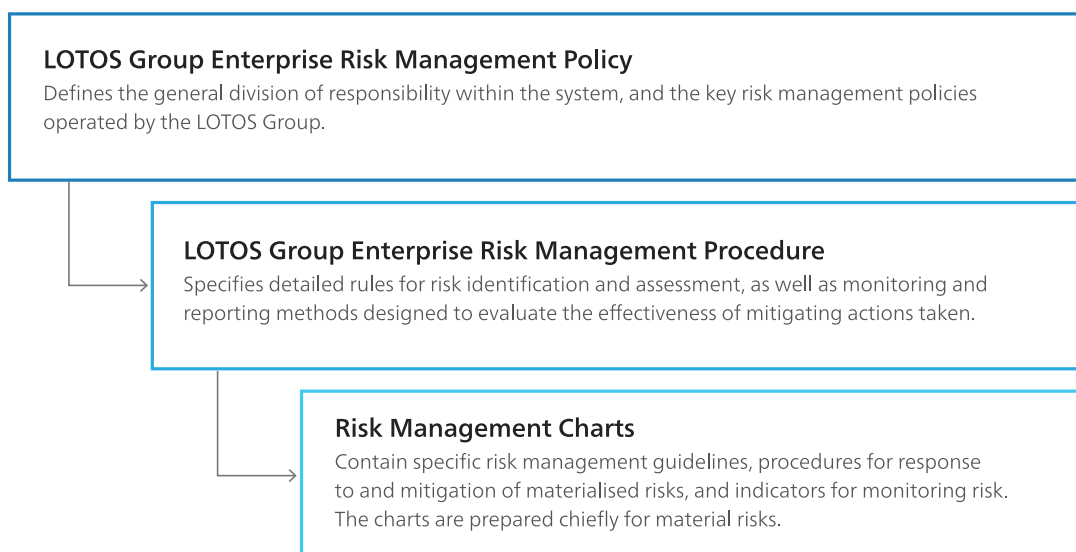
Operational risks related to the refinery	Political and legal risks
Trading risks	Reputation and social risks
Exploration and production risks	Financial risks



# Approach to management

The LOTOS Group has an Enterprise Risk Management (ERM) system in place, which provides the framework for our internal procedures and regulations. By implementing the ERM system, we can ensure that the impact of potential threats to achieving our business and operational objectives is being minimized and that we can effectively take advantage of newly emerging opportunities and business possibilities identified in our environment.

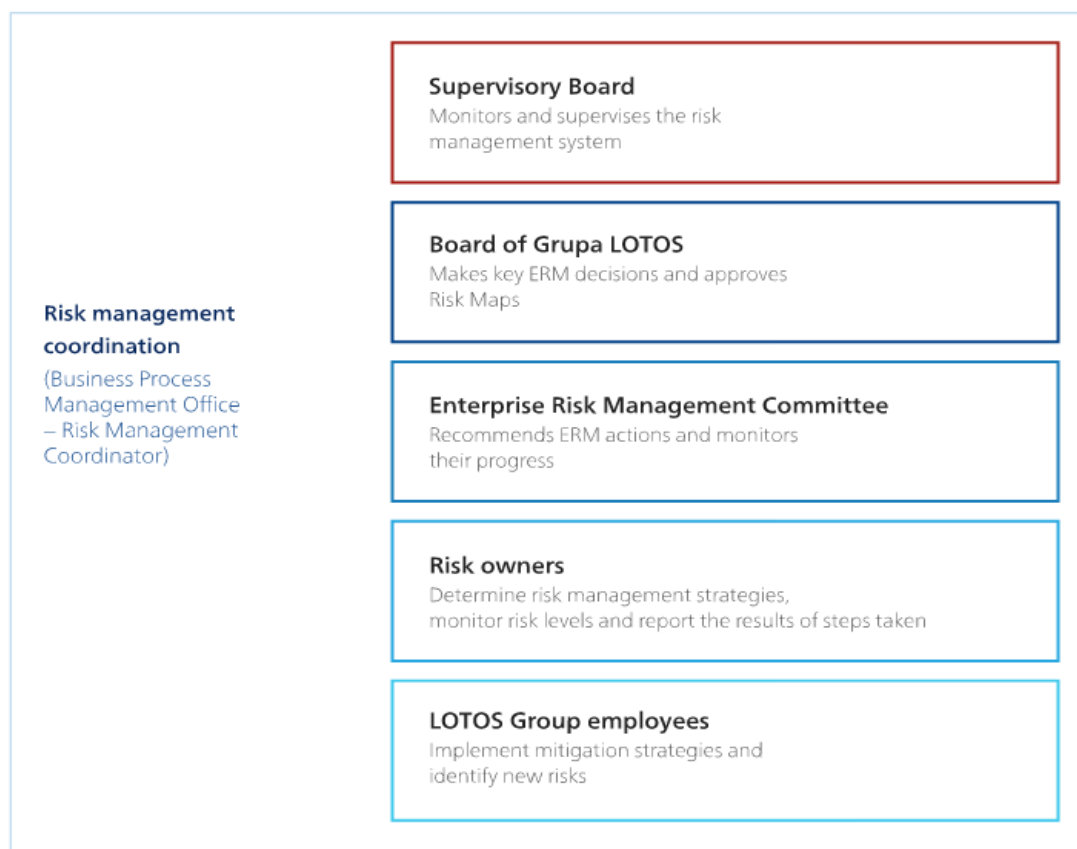
## ERM document hierarchy at the LOTOS Group



The Enterprise Risk Management system is applicable to all LOTOS Group employees. Every employee can report new risks and every individual risk is managed by a risk owner. The Enterprise Risk Management Committee formulates recommendations on risk management and monitors the execution of mitigation measures. The Board of Grupa LOTOS takes key decisions regarding the ERM system and approves Risk Maps. Risk management is coordinated at all stages, from identification and assessment to response planning and execution, and finally, monitoring and reporting.



## Hierarchy of responsibility for enterprise risk management at the LOTOS Group



We evaluate our ERM system's effectiveness every year, as part of our organizational maturity assessment, the conclusions and recommendations of which are used to further improve the system.

A final assessment score, expressed as a percentage, reflects:

- the degree to which the system implemented in the Company complies with best practices,
- the degree of its implementation.

ERM score as part of the annual organizational maturity assessment			
Year	Planned score[%]	Compliance with planned score[%]	Total score[%] *
2011	97	93	90
2012	96	97	93
2013	96	97	93

\* The total is the product of the planned score and the compliance score.

Information on the operation of the Enterprise Risk Management System is regularly provided to the Board of Grupa LOTOS and the Audit Committee of the Company's Supervisory Board.

# Key instruments

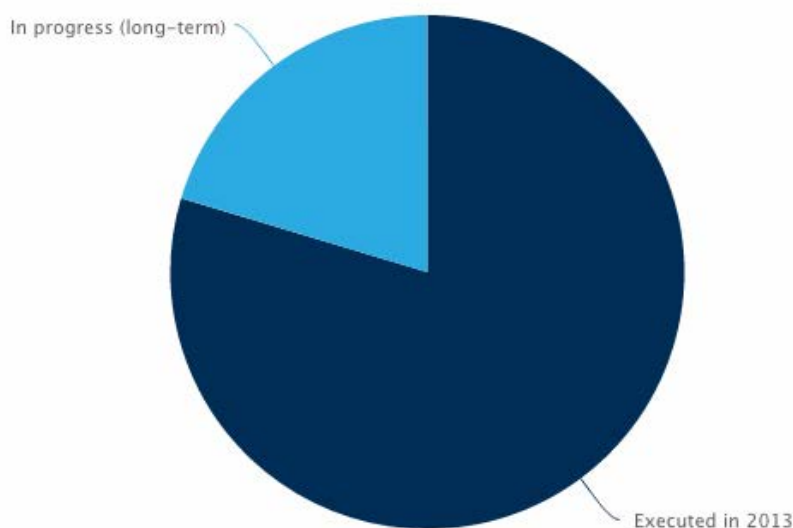
The methods used by the LOTOS Group to identify and assess risk remained unchanged in 2013. Risks are identified by their bearing on the organization's strategic and operational objectives. They are then assessed in two different time frames – until the following year, and until the end of the period covered by the current strategy. The probability of a risk actually materialising is estimated using a Risk Matrix, following which an assessment is made of its possible impact on the LOTOS Group's financial standing and reputation. This takes into consideration the predicted impact on human safety and the environment, as well as how key stakeholders may perceive the risk. Based on these criteria, risks are classified as Material, Moderate or Low.

Risk Maps are developed from the risk assessment and are submitted to the Enterprise Risk Management Committee for an opinion and to the Board of Grupa LOTOS for approval.

Each risk is assigned to an owner, who is responsible for its management, including its oversight and monitoring and the implementation of the recommended mitigation strategy.

In addition, we prepare detailed analyses of Material risks and selected Moderate risks, which we use to develop mitigation plans and response procedures in case of their occurrence. We also define Key Risk Indicators (KRIs), which are subject to periodic monitoring and reporting.

## Actions mitigating key risks



Enterprise Risk Management initiatives at the LOTOS Group are supported by the ERM Portal, an IT tool.

Apart from recording information about risks and risk-related actions, the ERM Portal can also be used to monitor current risk indicators and the automatic flow of information on actions in progress. To better serve the needs of its users, in 2013 we updated the ERM Portal with numerous improvements and new functionalities, including a database of risks audit results, as well as a risk management chart generator. All of these initiatives were designed to improve the Enterprise Risk Management system.

## Implementation costs of hedging strategies

The costs of hedging strategies depend on the materiality of the risk and the potential benefits derived from hedging.

Whenever possible, we use the ALARP (As Low As Reasonably Practicable) principle to reduce risk to a level considered economically acceptable.

Furthermore, when preparing risk analyses or action plans, potential costs are among the factors considered in making the final decision on actions necessary to be taken. This approach enables the LOTOS Group to deploy the financial resources required for risk management in the most efficient manner possible.

# Management Segment

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> Political and legal  
risks

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> Reputation and social risks

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> Project Risk

## Political and legal risks

Political and legal risks are considered to be among the greatest challenges faced by companies in the oil industry. The passing and functioning of enforceable and effective laws, particularly where new business legislation is drafted not only at the national but also at the EU level, is of great importance to the entire sector.

The year 2013 was a busy one for Polish lawmakers working on regulations with direct or indirect implications for the oil sector. Their work was driven by the need to implement the enacted EU directives into the national law, recognise plans for new EU regulations, and align the Polish legal framework with the new operating conditions of the Polish oil industry (including in the upstream segment). Although a lot has already been done, risks stemming from laws and government policies for the oil sector remain real. These include:

- **Insufficient number of comprehensive regulatory frameworks and inconsistent law** – the Polish oil sector is regulated under multiple legal acts, compliance with which is overseen by different ministries, and this hampers the industry's smooth functioning.
- **Delays in the implementation of EU directives and protracted law-making processes** – despite the immense effort of the Polish administration, a number of EU directives still remain to be incorporated into national law. Moreover, many areas are under-regulated and the legislative process is lengthy. Since the regulator is not inclined to share clear outlines of planned laws, the regulatory framework is a source of considerable uncertainty or significant consequences, often forcing Polish oil industry players to incur excessive costs.
- **The Polish voice remains largely unheard in the EU arena** – even though members of the government administration meet with representatives of the oil industry to discuss draft EU legislation, in many cases the Polish voice has gone unheard. This stems from, among other things, insufficient dialogue maintained with other countries to work out a common position and promote certain views and initiatives. The Polish administration should find ways to support not only local, but also international groups whose business goals converge with Poland's national interests. As the interests of individual EU member states vary, the adopted legislation does not always correspond with the needs and expectations of the Polish refiners.

**Risks and opportunities related to national and EU regulations, which were the focus of attention in 2013 and which will have a bearing on the oil industry's operations in 2014.**

### Regulations on mandatory stocks

The drafting of amendments to the Act on Stocks of Crude Oil, Petroleum Products and Natural Gas, and on the Rules to be Followed in the Event of Threat to National Fuel Security or Disruptions on the Petroleum Market of February 16th 2007, was completed in 2013. The primary purpose of the amendments is to implement Council Directive 2009/119/EC imposing an obligation on Member States to maintain minimum stocks of crude oil and/or petroleum products.

The draft amendment to the Act prepared by the Polish government puts in place measures beneficial to producers and importers of fuels such as a mechanism enabling companies to gradually reduce their mandatory stocks (by a total of approximately 30% by the end of 2017) in exchange for a stock charge, to be paid by the companies on a monthly basis. By reducing the volume of mandatory stocks:

- an immense amount of funds tied up in the stocks will be released,
- the companies' balance sheets will improve,
- valuations of the companies' assets will be less affected by market price fluctuations, and
- the logistics costs and administrative expenses of holding mandatory stocks will decrease.

All these factors combined should have the effect of enhancing the competitiveness of Polish oil companies in global markets. The amendments also introduce long-awaited non-discriminatory rules for building and maintaining mandatory stocks, applicable to all producers and importers of crude oil and petroleum products operating in the Polish market.

## Regulations on hydrocarbon exploration and production

Regulations on hydrocarbon exploration and production provided an important focus for Grupa LOTOS in 2013.

Work on regulations governing upstream operations in Poland was accelerated by the required implementation of Directive 2009/31/EC of the European Parliament and of the Council of April 23rd 2009 on the geological storage of carbon dioxide, as well as the Polish government's increased interest in developing the unconventional gas industry.

The drafting of amendments to the Geological and Mining Law consisted of two parallel processes to enable faster implementation of the Directive mentioned above and to adjust the law to cover unconventional hydrocarbon exploration.

Directive on carbon dioxide storage demonstration projects was implemented into Polish law by an act of September 27th 2013, which came into force on November 24th 2013.

In contrast, work on new regulations regarding hydrocarbon exploration and production was at the drafting and consultation stage in 2013 and has not been completed yet. On April 23rd 2014, Polish Prime Minister passed to the Parliament the *Draft Act Amending the Act - Geological and Mining Law, and Certain Other Acts together with Draft Secondary Legislation*, which is a huge advancement on previous proposals of hydrocarbon exploration and production regulations in Poland. However, many of its provisions could be changed to help create an even more transparent and investor-friendly regulatory framework which would be secure for our country and still conducive to effective development of the upstream sector. Issues requiring further clarification and provisions needing to be formulated more precisely or to be changed are as follows:

- performing geophysical surveys for hydrocarbon exploration without the need to secure a licence – the proposed provisions allow for conducting geophysical surveys also in areas covered by a hydrogen licence awarded to another entity, which denies the licence holding company its exclusive right resulting from the mining usufruct contract signed to use the given area for mining purposes;
- conducting exploration operations without the need to secure a licence gives rise to uncertainty as to whether the licence will be awarded after substantial expenditure has been made to complete the exploration programme. This will increase risk for the operators, and inhibit exploration activity in Poland;
- determining the legal status of mining usufruct in a comprehensive manner;
- sharing the right to geological information acquired when conducting operations in cooperation with other entities and determining who will have the right to it after the consortium has been dissolved;

- possibility of receiving a decision on licence award upon a request of the company without a tender;
- a considerably higher mineral production royalty, which will increase the costs of exploration and production operations;

Key to development of the hydrogen exploration and production segment are transparent and investor-friendly regulations.

The final draft passed to the Parliament takes into account the proposals and recommendations put forward to previous draft amendments to the Geological and Mining Law. In particular, the following provisions are welcome:

- introducing the possibility to acquire a uniform licence covering all stages of the hydrogen exploration and production programme;
- dropping the plans of establishing a National Energy Minerals Operator (Narodowy Operator Kopalni Energetycznych, NOKE) and its obligatory participation in all consortiums intending to conduct hydrogen exploration, appraisal and production activities;
- introducing the possibility of having a licence awarded to a consortium of entities interested in developing the given licence area together;
- the proposed amendments to the Act on the Provision of Information on the Environment and its Protection, Public Participation in Environmental Protection and Environmental Impact Assessments, as aiming for streamlining hydrogen field development programmes.

## EU regulations for biofuels

In 2013, the European Commission and the European Parliament continued the work on amendments to Directive 2009/28/EC, proposed in 2012 by the European Commission. However, no final decisions were made. The individual Commissions, the European Parliament, the member states, as well as international industry organizations all had differing views on matters of key importance to the future of renewable energy sources in transport, which prevented a consensus. Work on the proposed amendments will continue.

The European Commission's proposal to amend Directive 2009/28/EC with respect to biofuels stems from a discussion, ongoing for several years now, about the indirect impact of biofuels on changes of land use, and biofuels competing for land suitable for cultivating food crops and animal feed (Indirect Land Use Change, ILUC).

Also, the Council of Ministers issued the Regulation on National Indicative Targets (NIT) for 2013-2018. It should be noted that all National Indicative Targets for 2013-2016 have been set at 7.10%.

In addition, the Council of Ministers issued the Regulation on the level of the reduction rates for 2014 and 2015. In 2013, Grupa LOTOS availed itself of the right to reduce the National Indicative Targets, which helped to decrease the costs of their achievement.

## **Carbon dioxide (CO<sub>2</sub>) emission allowances**

In 2013, the EU Council approved the European Commission's proposal, earlier adopted by the European Parliament, to suspend the auction of 900m CO<sub>2</sub> allowances in 2013-2015 (backloading). The number of allowances until 2020 is to be increased annually by the same amount. The purpose of these steps is to raise the price of emission allowances. There is a risk that the Commission will next propose a permanent removal of suspended allowances from the market.

In 2013, the government continued work on the amendments to the Act on Monitoring and Control of Fuel Quality, which are designed to introduce into the Polish legal system the National Reduction Target following from Article 7a of Directive 2009/28/EC. However, no transparent regulations on the methodology for calculating emission reductions have been developed so far, on either EU or national levels. This will therefore require the greater involvement of industry representatives in providing support to the state administration in the process of developing the EU and Polish laws in this area.



# Reputation and social risks

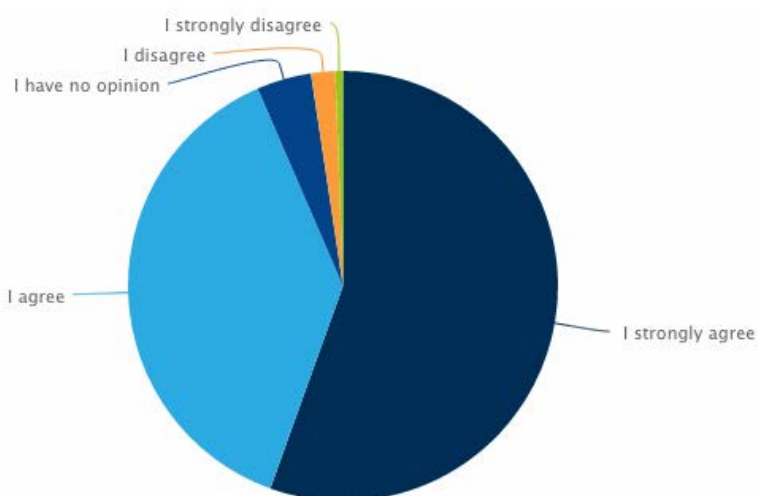
## Reputation risk

stems from events that may affect the perception of the LOTOS Group and the value of the LOTOS brand. As most of the risks in each business segment may affect this perception and value of the LOTOS brand, they are evaluated in the context of both finance and reputation. As both evaluation criteria are equally important, risks with a potentially significant effect on reputation are subject to detailed analyses, and mitigation plans are developed in accordance with relevant risk management rules.

## Social risk

relates to the environment of the LOTOS Group and its employees. In 2013, we commenced implementation of the 2013-2015 Effective and Rising Programme to increase efficiency and support the continued dynamic development of all LOTOS Group companies. However, we realize that the planned changes, in particular those involving restructuring, may give rise to concerns and the disapproval of employees and our immediate social environment. For this reason a series of meetings was held between LOTOS Group employees and the Board of Grupa LOTOS as well as the Management Boards of its subsidiaries to discuss the Programme's objectives and address any doubts and concerns. The majority of the employees who participated in these voluntary meetings expressed a good understanding of the changes being implemented at the Company.

I understand the key objectives of the 2013-2015 Effective and Rising Programme (%)



As the process moves forward, we continue to engage in open communication about the Programme and its individual projects.

**Misconduct risk**

is construed at the LOTOS Group to mean an intentional act or omission which constitutes a violation of the applicable laws, committed to secure unlawful gains or resulting in a loss for the Company, including any forms of corruption. To minimise this risk, we take a systematic approach to misconduct prevention, consisting in comprehensive and organized efforts to identify and assess the risk. Under the Misconduct prevention system implemented at the LOTOS Group, solutions for preventing and identifying misconduct and minimising its consequences have been put in place. The system is subject to an annual survey as part of the Company's organizational maturity assessment, the results of which testify to the effectiveness of the solutions applied.

# Project Risk

## **Project risk**

is related to the possibility that a given project may fail, may be delayed, or may suffer budget overruns. As we implement various significant projects, any materialisation of project risks may adversely affect our operations and financial performance as a result of budget overruns or a project's failure to bring the expected profits or to bring such profits at the expected time. In the case of key projects, materialisation of such risks may also prevent the achievement of strategic objectives. In order to minimise these risks, we have implemented uniform project management policies across the LOTOS Group. These policies require that a risk management plan is in place for each project. Individual risks related to the given project are analysed and assessed in detail, risk mitigation measures are identified, and responsibility for their implementation is assigned to specific individuals. Implementation of each project is duly monitored and reported.

# Exploration and Production Segment

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> Exploration risks

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> Technical and production risks

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> Risks related to exploration and  
production projects

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> Financial  
risks

## Technical and production risks

### **Risk of failure of production equipment and facilities due to their limited durability or improper operation**

– should this risk materialise, it may result in financial losses due to production stoppages. To effectively manage this risk, we employ a number of measures, including regular overhauls and repairs, and vibration and wear measurements of bearings. We also have certification bodies to perform periodic inspections of the equipment.

### **Risks from infrastructure operation, such as the risk of oil spill, sea collision, fire or blowout**

– which may cause environmental contamination, death of personnel, downsizing or stoppage of production, and entail significant costs remedying the resulting damage or paying fines. This production-related risk is a function of how well E&P infrastructure is operated, the use of appropriate technical solutions, as well as staff awareness and skills. We therefore take steps to prevent such accidents. Should they nevertheless occur, action plans have been prepared to mitigate their consequences.

As a result of our approach, no such process safety events as which would meet the criteria specified in the definitions provided by API RP 754 regarding upstream activities were reported in the E&P segment in 2013.

# Risks related to exploration and production projects

## **Risk of limited control of joint ventures**

– since at least two partners are involved in such projects, there is a risk that they will not be executed in accordance with the LOTOS Group's expectations. We mitigate this risk by properly defining the acceptable conditions on which we can become involved in a project, and by vetting the other interest holders, their goals, motivation, financial standing, ownership structure and perception. For this, we rely on our in-house resources and/or business intelligence agencies. Another important thing is to properly define the common interests, analyse the legal, tax and business regulations in a due diligence process, and study the provisions of partnership agreements to ensure our interests are secured. The risk is also minimised by devising an appropriate negotiation strategy at the time of entering into a new partnership and while it continues, as well as by ongoing monitoring of contractual provisions, evaluating and approving budgets and schedules, appointing committees, and recommending decisions to be made by the relevant governing bodies.

All of these steps were taken in 2013 for our licences held jointly with partners in both Norway and Poland. In Poland, one example is the operation of the B4/B6 gas fields in partnership with CalEnergy Resources. Risk of involving capital in projects which yield unsatisfactory returns – this risk is related to partnership agreements which may result in financial losses. To counteract this risk materializing, we make sure to properly define the goals and conditions on which we can participate in a project. Proper tools for assessing each such project are identified and multidisciplinary teams are set up to perform its economic, legal, tax or technical analyses.

## **Risk of failure to fully recover funds invested in the Yme project**

– given the significance of the Yme project, we have brought it under special supervision. We are implementing a number of measures mitigating the attendant risks. Currently, efforts are being made to sell the interests in the Yme field. We have defined two sub-projects – removal of the MOPU (Mobile Offshore Production Unit) from the field and submission of a new Yme field development plan to Norway's Ministry of Petroleum and Energy to raise the value of the interests we intend to sell. To mitigate the associated risk, an agreement was signed with SBM, the MOPU's manufacturer, in which SBM agreed to cover the costs of the unit's removal from the field, and paid compensation to the consortium members. In 2013, we also held a process to select a contractor for the MOPU's removal. We evaluated the quality of work performed by the operator, helped to build an agreement between those partners that were not consortium operators to strengthen our position, engaged international advisers and, to ensure we have greater control, seconded one of our employees to the operator. We also held talks with the Norwegian authorities to clearly confirm the intention of continuing our activities on the Norwegian Continental Shelf, outlining the planned steps.

## **Risk of bad weather conditions**

– this is a crucial risk factor in a marine environment, which may delay projects and, in extreme cases, force us to suspend production. To minimise the adverse effect of this risk, systems are deployed to monitor weather conditions and trigger appropriate safety procedures when necessary.

## Financial risks

The segment's most significant risks in 2013 included risks associated with macroeconomic conditions, limited availability of funding for investments, and changes in legal regulations, including tax legislation. These are described in detail in the section on risks of the financial segment. ([more information](#))

# Operating segment

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> Technical risk

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> Risk of unavailability or limited availability of natural gas

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> Work safety risk

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> Risks related to carbon dioxide (CO<sub>2</sub>) emission allowance limits

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> Environmental risks

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> Risk related to legislative changes with respect to REACH

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> Risk of introduction of stricter quality requirements for petroleum products



# Technical risk

**Technical risk is related to the possibility of occurrence of serious industrial failures or irreparable damage to infrastructure.**

Any materialisation of this risk may seriously affect our operations and financial performance by necessitating additional expenditure on repair or replacement of installations or equipment, or by causing disruptions to the production process. A number of measures are implemented within the LOTOS Group to mitigate the risk. We prioritise installations and equipment based on their criticality. The technologies and equipment which we use are in line with the Best Available Techniques (BAT). We have emergency shutdown systems in place to prevent uncontrollable escalation of incidents, and our process units are also fitted with their own safety and protection systems. In addition, in order to raise standards for assessment of the technical condition of high-pressure installations and equipment, we commenced implementation of the Risk-Based Inspection method, which utilises risk assessment principles. We are also working on implementing the Risk-Based Work Selection method, which involves plant engineering planning based on previous risk analyses for individual units. Having implemented these methodologies, we will be able to manage the Grupa LOTOS infrastructure in a better and more efficient way.

In 2013, we carried out the Spring 2013 Overhaul Shutdown, during which thousands of different tasks were performed, and a total of over five thousand pieces of equipment were examined, repaired or replaced. The overhaul shutdown also provided an opportunity to carry out all the necessary inspections and tests of installations and equipment subject to certification by the Office of Technical Inspection. All the apparatus and piping required to meet the Office of Technical Inspection's standards successfully did so and obtained relevant validation extensions, which improved the refinery's process safety ([more information](#)).

It should be noted that no such process safety events as which would meet the criteria specified in the definitions provided by API RP 754 were reported at Grupa LOTOS's refinery in Gdańsk in 2013.

# Risk of unavailability or limited availability of natural gas

## **Risk of unavailability or limited availability of natural gas**

– Currently, natural gas is the refinery's main energy carrier; through the refinery's fuel gas network it is fed to process furnaces and, separately, to the CHP plant. Natural gas is also a feedstock processed at two hydrogen production plants. If the risk materialises, it could temporarily affect sales of selected products and result in higher operating costs. To reduce the potential impact of this risk, we continue to maintain infrastructure allowing us to revert to the fuels which we used before natural gas was introduced at the refinery.

# Work safety risk

## Work safety risk

relates to potential occurrence of accidents and other threats involving exposure of employees to dangerous and onerous factors. We continuously improve and implement new technical and organizational measures in order to ensure safe working conditions for anyone visiting the premises or working there for the Company. Grupa LOTOS's internal requirements in this respect are communicated to its trading partners via a dedicated website. Relevant rules of conduct are regularly monitored for compliance and post-inspection requirements are enforced. Education programmes are also operated to raise the employees' awareness of safety standards and to encourage them to observe these standards at work ([more information](#)).

# Risks related to carbon dioxide (CO<sub>2</sub>) emission allowance limits

## Risks related to carbon dioxide (CO<sub>2</sub>) emission allowance limits

involve insufficient allocation of CO<sub>2</sub> emission allowances, which would force the Company to incur certain costs in order to purchase a sufficient number of allowances. 2013 was the first year of operation of the National Allocation Plan 2013-2020 (phase three NAP), and was in many respects an unusual year. Thus far, oil refineries had been allocated allowances on the basis of their throughput capacity utilization. Starting from 2013, for the first time refineries were to be assigned allowances calculated using the CWT (Complexity Weighted Tonnage) benchmarking. Another unusual development was that the European Commission not only declined to approve free allocation of allowances to installations covered by the Emission Trading Scheme, but also, from time to time, changed the general rules of such allocation. Therefore, Grupa LOTOS, just like other EU ETS participants, faced the risk of having to make decisions without knowing the precise rules.

According to information from the Ministry of Environment, Grupa LOTOS is going to be assigned 1,521,342 CO<sub>2</sub> emission allowances to cover its emissions for 2013, and will be granted 11,303,332 allowances for the entire 2013-2020 trading period. This, as we are already aware, will result in a shortage of allowances and the Company will have to purchase them from other participants of the scheme. With a view to minimising the volume of additional emission allowance purchases, in recent years we have embarked on a number of projects, such as switchover to natural gas as the fuel used for power generation and as the key feedstock in hydrogen production; recovery of flare gases; upgrades of process furnaces, and implementation of a continuous energy efficiency improvement programme for the refinery's production units.

# Environmental risks

Environmental risks relate to the potential adverse environmental impact of Grupa LOTOS. The environmental risks are interrelated with a number of other risks, in particular the technical and process risks, whose materialization may cause a threat to the environment (through increased emission of flue gases, ground leakage of hydrocarbons, etc.). For these reasons, each risk we identify is assessed also in terms of potential damage to the environment, and appropriate preventive measures are put in place. In addition, to ensure compliance with all environmental regulations and standards, we monitor the national and community laws on a daily basis, and where possible actively participate in the legislative process. Applications for any requisite permits and decisions are made well in advance, in consideration of the risk that administrative proceedings may last longer than expected.

## Risk related to legislative changes with respect to REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals)

Risk related to legislative changes with respect to REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) – at present, this risk is particularly related to the possibility of placing the EDC (1,2-dichloroethane) solvent, used by Grupa LOTOS, on the list of priority substances to be included in Annex XIV to the REACH Regulation. If this solvent is finally listed in Annex XIV, a permit for its use will have to be sought. Therefore, we have taken a number of measures to minimise the risk in this respect. In 2013, we joined the EDC DU Consortium, an association of EDC users. The association will develop the documentation necessary to apply for the permit. An in-house project to coordinate the actions described above was also launched. In parallel, relevant installations are being upgraded with a special focus on the impact of regulatory changes on the use of the EDC solvent.

# Risk of introduction of stricter quality requirements for petroleum products

## **Risk of introduction of stricter quality requirements for petroleum products**

– this risk involves potential difficulties in ensuring timely compliance with future quality standards. To mitigate this risk, we are monitoring proposed new standards and regulations which have a bearing on our production and trading operations; we closely follow the relevant plans of various authorities, institutions and international organizations such as the European Commission or the International Maritime Organization (IMO). Our work on Technical Committee 222 at the Polish Committee for Standardisation, responsible for petroleum products and process liquids, has provided us with an opportunity to voice our opinions on the proposed European standards during their drafting. We also have a say on quality requirements, in particular requirements applicable to engine fuels, through our participation in the work of the Polish Organization of Oil Industry and Trade (POPiHN).

# Financial segment

Grupa LOTOS operates a Financial Risk Management Office responsible for coordinating and supervising steps taken to ensure that decisions made by LOTOS Group companies are optimised in terms of financial risks. The aim of these efforts is to ensure that the financial risk management policy is up-to-date, coherent and consistent with Grupa LOTOS's strategic objectives, and to provide for the efficiency, effectiveness and operational security of the financial risk management process.

The Company has also established a Price Risk and Trading Committee, whose tasks include supervision and coordination of price risk management at Grupa LOTOS in relation to prices of crude oil, petroleum products (including biofuels and biocomponents), natural gas and other raw materials, as well as prices of carbon emission allowances and electricity.

In order to ensure that financial risks are effectively managed and to minimise the risk of error, all data used to support the assessment process are thoroughly verified, and the decisions made are based on in-depth analyses in accordance with risk management policy, limit structure and operating procedures. Financial risk management policies, instruments and the impact of key risk factors on individual items of our financial results are presented in the consolidated financial statements. ([see Notes to the consolidated financial statements](#))

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> Feedstock and petroleum products price risk

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> Risk related to prices of carbon (CO<sub>2</sub>) allowances

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> Liquidity risk

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> Currency risk

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> Interest rate risk

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> Risk of limited access to external financing or changes in lending terms

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> Counterparty credit risk in financial transactions

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> Credit risk in trade transactions

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> Risk of adverse changes in tax regulations, interpretations or court rulings



# Feedstock and petroleum products price risk

## **Feedstock and petroleum products price risk**

– to manage the risk, we continue work to develop a new risk management policy. Our efforts in this respect depend on implementation of the Energy Trading and Risk Management (ETRM) system. In 2012, work on implementation of the Allegro 8.0 system began; the project is to be completed in 2014.

## Risk related to prices of carbon (CO<sub>2</sub>) allowances

Risk related to prices of carbon (CO<sub>2</sub>) allowances – in 2013, Grupa LOTOS managed phase III of the EU CO<sub>2</sub> Emissions Trading Scheme covering the 2013-2020 trading period. Given the lack of liquidity on the futures market and the instability of the underlying position in the period until 2020, the end of the risk management period for the risk related to the prices of CO<sub>2</sub> emission allowances in phase III was set for the end of 2019. However, with the passage of time, the risk management period will be extended until 2020. For detailed information on exposure and derivative transactions open as at December 31st 2013, see the consolidated financial statements. ([more information](#))

# Liquidity risk

## **Liquidity risk**

– this is one of the key risks to the security of the Company's operations, and involves its ability to discharge all liabilities in a timely manner. Liquidity is managed for the entire LOTOS Group based on current liquidity forecasts. The process consists in using an appropriate selection of financial instruments (including cash pooling and diversified sources of financing), optimising the working capital position (including payment terms at LOTOS Group companies and under trading contracts) and applying IT solutions to improve the security and effectiveness of the process.

# Currency risk

## Currency risk

– this risk is managed based on the Strategy of Currency Risk Management at Grupa LOTOS. The US dollar (USD) is the currency of the market on which we operate. Thus we have a structurally long position in US dollars. The US dollar was chosen as the most adequate currency for contracting and repaying long-term facilities, including those used to finance the 10+ Programme. The LOTOS Group operates a group bank, which allows the LOTOS Group companies to enter into FX transactions with Grupa LOTOS, improving the effectiveness of currency risk management.

# Interest rate risk

## Interest rate risk

– this risk is related to the expected schedule of payments under the loans taken out to finance inventories and the 10+ Programme, with the resulting interest accruing at the USD LIBOR floating rate.

# Risk of limited access to external financing or changes in lending terms

## **Risk of limited access to external financing or changes in lending terms**

– this risk is minimised by maintaining relationships with a diversified group of creditworthy partners, use of a wide range of financial instruments, fulfilment of disclosure obligations, as well as monitoring of and compliance with financial ratios, covenants and any other obligations towards the banks. The financial position and overall standing of the banks providing financing for the LOTOS Group are also monitored, as are any factors driven by developments on the global financial markets that may threaten the LOTOS Group's ability to raise financing.

The risk of limiting financing for our investment projects is particularly significant in the case of our exploration and production segment. As the risk depends on the quality of particular projects, each project is prepared with due care, in accordance with pre-defined rules. As part of ongoing risk management, a project's readiness for financing is determined by assessing its technical, organizational, legal, administrative and financial maturity. Next, the banking market is surveyed to determine availability and terms of financing.

The most recent large exploration and production project for which financing was raised was the development of the B8 field. The financing for the project was arranged from both commercial banks and other financing institutions (Polskie Inwestycje Rozwojowe - Polish Investments for Development).

# Counterparty credit risk in financial transactions

## **Counterparty credit risk in financial transactions**

– we limit this risk by entering into transactions only with financial institutions or companies holding the minimum acceptable credit rating assigned by rating agencies, or holding appropriate guarantees (if they do not hold their own credit ratings at the required levels) issued by a financial institution or company holding the minimum acceptable credit rating assigned by credit agencies and meeting the requirements adopted by Grupa LOTOS and resulting from contractual obligations. Credit limits in financial transactions are determined by reference to the Company's equity and a ratio calculated based on agency credit ratings updated on an ongoing basis. The utilisation of credit limits is regularly monitored.

# Credit risk in trade transactions

## **Credit risk in trade transactions**

– The LOTOS Group operates an internal procedure for verifying the creditworthiness of trading partners seeking an open credit limit. Grupa LOTOS grants such limits based on assessment of partners' creditworthiness, taking into account the available data and information. The final decision on the amount of trade credit limit is made by persons responsible for credit decisions in line with their assigned responsibilities. The utilisation of credit limits is monitored on an ongoing basis.



## Risk of adverse changes in tax regulations, interpretations or court rulings

Risk of adverse changes in tax regulations, interpretations or court rulings – this risk may result in higher tax burden (excise duty, property tax, CIT), and give rise to tax risk in transactions where such risk was previously non-existent. Differing legal interpretations of the tax regulations lead to uncertainty, and in international trading may affect our credibility and force us to withdraw from valuable projects.

The level of tax risk faced by businesses in Poland is high, and continues to grow. One of the risk factors is non-observance by the legislator of the principle of *vacatio legis* when enacting amendments to tax laws. This prevents businesses from adjusting to the new requirements in time and may expose them to the risk of additional costs or sanctions. Where a tax risk arises from possible disparate interpretations of a law, we request the Minister of Finance to present a binding interpretation of such law. As a member of respectable organizations of employers and entrepreneurs, we also voice our opinions on proposed bills and are thus able to respond appropriately to the changing legal environment. In light of the numerous changes in interpretation of the tax laws and the introduction of new regulations, we regularly update our internal procedures to ensure compliance with legal requirements and to identify and mitigate any tax risks, particularly their effect on the LOTOS Group's financial statements.

The risk related to changes in legislation, including in tax laws, is particularly important in our exploration and production business as it may hurt our profits and delay project implementation. We monitor the legal environment in Poland, in other EU countries, and in Norway (we operate in countries with stable tax regimes and high standards, hence the risk of sudden changes is limited). We take part in public and industry consultations on drafts of legal acts, we consult legal and tax advisers when assessing the effects of proposed changes and drafting commentaries and remarks regarding legal acts, and we are also engaged in lobbying activities. In 2013, we undertook a range of activities which resulted in the development of more favourable solutions compared with the originally proposed provisions of the law on new hydrocarbon tax, and in the proposal of numerous amendments to the mining and geological law.

# Marketing segment

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> Risks related to diversification of supply sources

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> Competition risk

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> Risk of decline in domestic demand

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> Risk from grey market expansion

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> Risk related to sea freight safety

# Risks related to diversification of supply sources

## Risks related to diversification of supply sources

– at Grupa LOTOS, feedstock is supplied mainly via a system of pipelines and by sea, which means that the key risks in this area lie in the political situation of the countries exporting crude oil and the condition of the infrastructure. We are consistently pursuing our policy to diversify the directions and sources of our crude oil supplies by focusing on the following aspects:

- supply security – through progressive expansion of our presence on the international oil markets, regular contracting of various crudes transported by sea, creating conditions to radically increase the share of such crudes in total supplies to the refinery in case of any disruption of supplies from the main import market, and expanding the share of our own production in total feedstock volumes.
- improvement of competitive position – by fully capitalising on the coastal location of the refinery in Gdańsk and the possibility of sourcing crude supplies through two independent channels: Russian oil through the Druzhba Pipeline and various types of oil through Naftoport (an offshore oil terminal).

The appropriate selection of crude types and supply directions is a result of continuous efforts to maximise the integrated margin.

# Competition risk

## **Competition risk**

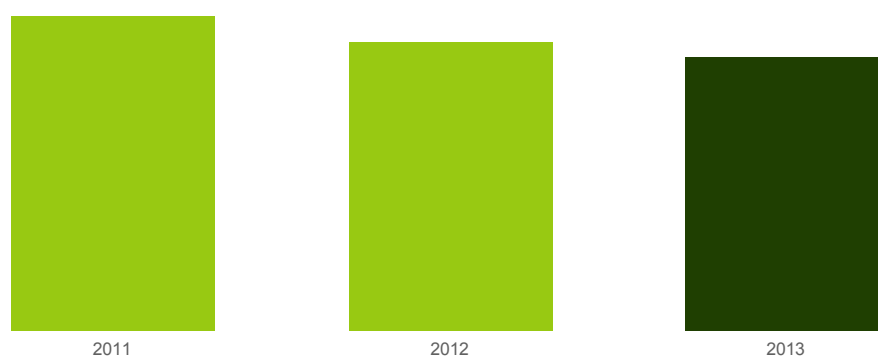
– as market conditions need to be factored into the pricing policy, this type of risk may lead to erosion of margins and profits. Risk factors here include the unrelenting price competition on the fuel market, and also the strong volatility of global macroeconomic conditions. We are continuously refining our tools for monitoring variables affecting prices and margins. In retail sales, we are pursuing market diversification, including diversification into segments less prone to competition-induced margin erosion, as well as other initiatives aimed at winning and retaining customers.

# Risk of decline in domestic demand

## Risk of decline in domestic demand

– due, among other things, to macro factors, such as economic slowdown, decline in investments, and shrinking industrial output. Various factors, such as growing unemployment, could adversely affect consumption of our products and services. Therefore we use a variety of distribution channels to sell our products while pursuing a pricing policy designed to ensure they remain competitive, and seek to optimise our operating expenses.

Gasoline and diesel oil consumption in Poland in 2011-2013 ['000 tonnes]



Source: In-house analysis on the basis of Polish Organization of Oil Industry and Trade (POPiHN) data.

# Risk from grey market expansion

## **Risk from grey market expansion**

– in recent years, Poland has seen an increase in illegal trade, especially of diesel oil and gasoline, which significantly affects the LOTOS Group's sales. According to the Polish Organization of Oil Industry and Trade (POPiHN), the resulting losses to legitimate businesses may continue to grow. Whether the situation improves will depend chiefly on new legal regulations, which are now being developed by the government. The legislative work is being supported by POPiHN, in which we are working with the other member companies to support and fund initiatives aimed at supplying market data and analyses that could later be used to assess the size of the grey market and the associated risks.

# Risk related to sea freight safety

## **Risk related to sea freight safety**

– we put in place measures designed to mitigate the risk of an environmental disaster in the event of hydrocarbon spills from ship tankers. We have established relationships with providers of maritime transport services which operate fleets meeting high technical standards and which observe maritime conventions. The shipping companies we work with meet very strict requirements regarding safety and prevention of accidents at sea. Moreover, in 2013 we evaluated the possibility of implementing much more stringent safety standards in the area of sea freight at our organization.

## Beata Ossowska-Lango

Internal Audit Office Director, Grupa LOTOS, President of the Ethics Committee, CSR Strategy Leader for ethics and corporate misconduct prevention



” Increasing our organization’s resistance to misconduct by 2015 is part of the key objective of the LOTOS Group’s Corporate Social Responsibility Strategy. This objective is to improve management by ensuring ethical conduct and the transparency of business processes, as well as protecting the organization against the risk of irregularities that may threaten its operations. We plan to achieve this through our Ethical Conduct Programme and Misconduct Risk Management Programme.

### Beata Ossowska-Lango

Internal Audit Office Director, Grupa LOTOS, President of the Ethics Committee, CSR Strategy Leader for ethics and corporate misconduct prevention

Increasing our organization’s resistance to misconduct by 2015 is part of the key objective of the LOTOS Group’s Corporate Social Responsibility Strategy. This objective is to improve management by ensuring ethical conduct and the transparency of business processes, as well as protecting the organization against the risk of irregularities that may threaten its operations. We plan to achieve this through our Ethical Conduct Programme and Misconduct Risk Management Programme.

As of the beginning of 2013, the key document of the Ethical Conduct Programme, the LOTOS Group’s Code of Ethics, became effective. The Board of Grupa LOTOS also decided on relevant institutional solutions to ensure efficient implementation and operations of the Programme, in the form of the Ethics Committee and the Ethics Officer. Among the earliest steps taken by the newly appointed Ethics Committee was inviting the employees to take part in public consultations on the current status of ethical culture within our organization and the type of Ethics Officer selection process preferred by them. Over five hundred LOTOS Group employees participated in the consultations.

The vast majority declared that the Company’s efforts to develop the desired ethical corporate culture were suitable, and that ethical culture itself was essential in their everyday work. Last year’s comprehensive communication and education programmes for all LOTOS Group employees certainly helped to bring about these positive results. We also began promoting our values and principles of ethical business conduct among our key trading partners.

In 2012, before the enactment of the Code of Ethics, we developed and published another important document, the Misconduct Prevention Policy. We appointed persons coordinating and responsible for misconduct prevention activities, and established channels for reporting suspected misconduct, as well as appropriate organizational arrangements and processes. Furthermore, education and awareness initiatives were undertaken amongst staff, focusing on misconduct prevention and the relevance of the system.

In 2013, we conducted a periodic assessment of the risk of misconduct in individual processes, the aim of which was to find out where the risk was the highest from the perspective of the Company as a whole. Based on the assessment, processes to be thoroughly inspected in the near future were selected. In line with the adopted Corporate Social Responsibility Strategy until 2015, we intend to introduce the comprehensive misconduct risk management process throughout the LOTOS Group.

What distinguishes our efforts within the misconduct prevention system is transparency in communication related to both programmes. Key documents and



channels for reporting suspected misconduct have been published and we also openly communicate ethical issues throughout our supply chain. This approach complies with LOTOS ethical values, originating in the Company's culture and the concept of corporate social responsibility.

Our efforts were reflected in the relatively high score achieved in the organizational maturity assessment of Grupa LOTOS. This was largely the result of steps taken in the last few years, designed to secure the company's value and operations, demonstrated through the effectively working internal control system and corporate governance solutions intended to ensure compliance.

# Misconduct prevention system

Ethical issues and misconduct prevention form an area covered by the LOTOS Group Corporate Social Responsibility Strategy for 2012-2015, approved by the Board of Grupa LOTOS in 2012. For this area, the following key objective was defined: to improve management by ensuring ethical conduct and the transparency of business processes, as well as protecting of the organization against the risk of irregularities that may threaten its operations.

With a view to achieving this objective, in 2012 the LOTOS Group implemented a misconduct prevention system, which undergoes constant development. The system is rooted in, and further refined, based on Managing the Business Risk of Fraud: A Practical Guide – a manual prepared by the Institute of Internal Auditors, the American Institute of Certified Public Accountants, and the Association of Certified Fraud Examiners.

The prevention system in place at the LOTOS Group is geared towards ensuring an optimum degree of resistance to misconduct.

Resistance to misconduct is achieved by companies which utilise their awareness of real and perceived misconduct threats arising in the course of their operations to implement and apply the solutions that are best adapted to the scale and nature of the risk, and that are geared towards preventing, detecting and responding to such threats.

The purpose of these efforts is to secure the organization's ability to:

- mitigate the risk of misconduct,
- reduce the harmful effects of misconduct,
- gather resources which will accelerate the organization's return to its pre-misconduct state.

The implementation of a comprehensive misconduct risk management system has been confirmed as a valid course of action by the Association of Certified Fraud Examiners in its 2012 Report to the Nations, which presented the results of research into the nature and scale of misconduct in individual industries.



Oil and gas companies rank fourth in terms of losses incurred as a result of individual cases of misconduct and second in terms of the number of corruption incidents. The latter accounted for some 50% of all misconduct cases.

The LOTOS Group's misconduct prevention system has been developed based on solutions taking into account the importance and effectiveness of internal auditing procedures and independent reviews carried out by management staff. This is in compliance with the approach presented by the results of the ACFE report and in line with the best market practice.

With this in mind, we decided to incorporate misconduct prevention into our enterprise risk management procedure. We construe misconduct as an intentional act or omission which constitutes a violation of the applicable laws, committed to secure unlawful gains or resulting in a loss for the Company, including any forms of corruption.

The Ethical Conduct Programme and the Misconduct Risk Management Policy in place at the LOTOS Group serve to mitigate the risk of misconduct. By comprehensively pursuing these programmes, we intend to safeguard the Company's reputation and assets, as well as to ensure that our decisions are effective and enhance the value of the Company.

### The Ethical Conduct Programme

is pursued with the use of the Code of Ethics, the Ethics Officer and the Ethics Hotline, and by promoting awareness of and communication of ethical issues. The purpose of these efforts is to encourage the LOTOS Group's employees to behave in accordance with an appropriate ethical culture.

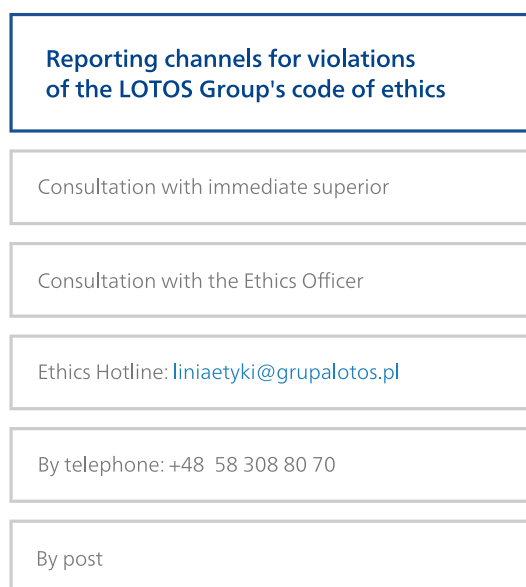
#### Elements of the Ethical Conduct Programme



The centrepiece of the Ethical Conduct Programme is the LOTOS Group's Code of Ethics, which has been in force since January 2013. The Ethical Conduct Programme is overseen by the President of the Board of Grupa LOTOS, the Ethics Committee, and the Ethics Officer.

The Ethics Committee is a body assigned to support the work of the Ethical Conduct Programme to develop a corporate culture based on ethical values. The Committee is composed of widely respected representatives of each of the LOTOS Group's operating segments.

The responsibilities of the Ethical Officer include promoting knowledge of the Code of Ethics, providing support in discussing ethical dilemmas voiced by employees, and organizing the process of reporting and investigating violations of the Code.



Ethics education plays a key role in developing desirable attitudes, by familiarising the recipients of the Code of Ethics with its provisions and educating them on proper ethical conduct in specific business situations. In 2013, we pursued a number of initiatives aimed at increasing the awareness and knowledge of business ethics at the LOTOS Group, which included:

- Discussing ethical issues as part of the training for newly hired employees;
- Organizing voluntary 'The LOTOS Group Ethical Principles in Practice' workshops for employees and management personnel;
- Organizing meetings with the LOTOS Group's management staff to discuss the implementation of the Code of Ethics;
- Incorporating the issue of business ethics into regular communication both at the LOTOS Group and with the LOTOS service station operators.

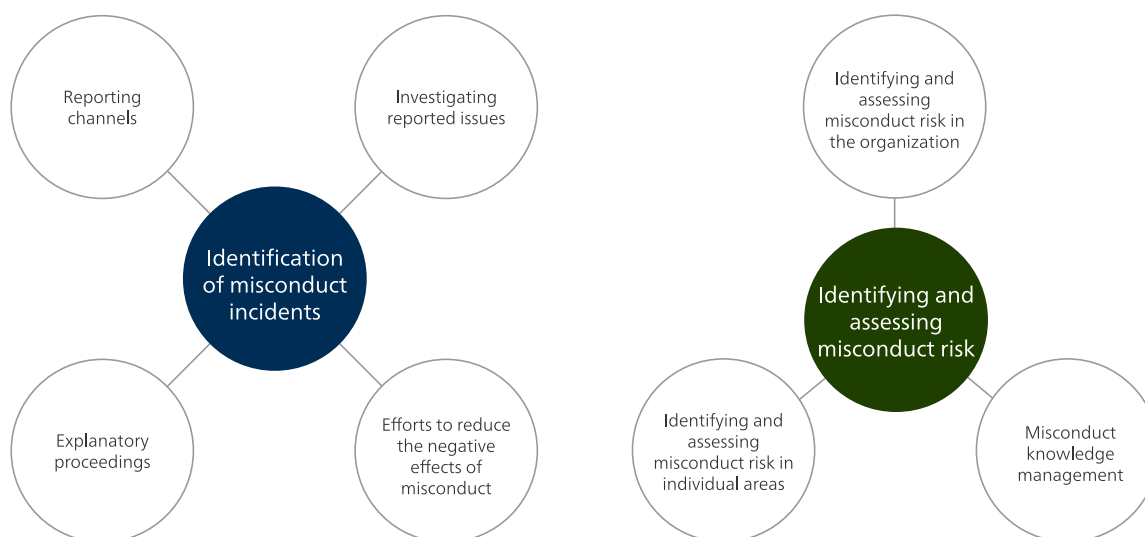
#### Ethics education at the LOTOS Group in 2013

Number of newly hired employees trained	56
Number of participants of the 'The LOTOS Group Ethical Principles in Practice' workshops	69
Number of management staff participating in meetings implementing the Code of Ethics	282
Number of LOTOS service station operators to whom the knowledge of ethical issues was directly communicated	261

## The Misconduct Risk Management Policy

consists in the coordination of misconduct prevention and detection measures (identification and evaluation) implemented in individual business processes, misconduct prevention education, as well as overall assessment of the organization's resistance to misconduct.

### Elements of the Misconduct Risk Management Policy



As in the case of the Ethical Conduct Programme, under the Misconduct Risk Management Programme we also aim to educate senior executives and managers in corporate misconduct issues. The purpose is to raise their awareness of corporate misconduct, making them realize the potential losses and risks to the organization, how it is committed, as well as how it is identified and prevented. In 2013, the operation of the LOTOS Group's misconduct prevention system was discussed, with a particular emphasis on compliance with the Misconduct Prevention Policy adopted by the Board of Grupa LOTOS to define the employees' responsibilities and methods of communicating any identified instances of misconduct, including corruption.

#### Percentage of Grupa LOTOS employees trained in the organization's anti-corruption policies and procedures

Position type	2011	2012	2013
Management positions	8.9	62.5	32
Other positions	7.4	5.7	7

Channels dedicated to reporting suspected misconduct are available to all employees, as well as external stakeholders. According to the Misconduct Prevention Policy, every employee is obliged to immediately report any such suspicion.

### Reporting channels for suspected misconduct at the LOTOS Group

Chief Executive Officer

Head of the Internal Audit Office

Immediate superior

By e-mail:  
[audyt.wewnetrzny@grupalotos.pl](mailto:audyt.wewnetrzny@grupalotos.pl) or  
[lotos@grupalotos.pl](mailto:lotos@grupalotos.pl)

By telephone:  
+48 58 326 43 00 or  
801 345 678

A report is passed on to  
the Internal Audit Office

As part of the misconduct prevention system, we conduct periodic assessments of the organization's resistance to misconduct. The first results of this exercise were available in 2013, confirming that the measures taken are both thorough and systematic.

As part of the assessment of the organization's resistance to misconduct, we also examined the risk of corruption. In line with the adopted methodology, the heads of the Company's organizational units were asked to comment on all processes in place at Grupa LOTOS in a questionnaire-based survey.

#### Business units of the LOTOS Group assessed for corruption risk in 2012-2013

Total number of units	15
Percentage of units subject to assessment	7%

One noteworthy fact is that in 2013 there was no single event resulting in dismissal or disciplinary action against an employee at the LOTOS Group on charges of corruption, nor were there any instances of a business contract not being renewed because of a breach of the rules for counteracting corruption.

# Value growth strategy

# Value growth strategy

The LOTOS Group's overarching strategic objective is to create value for shareholders by optimising its utilisation of human and material resources and by continually developing its oil exploration and production, processing and trading activities. We decided to develop these areas in accordance with the principles of sustainable growth, which we define as the continuous effort to reduce our environmental footprint, and by paying due regard to the intellectual capital and experience of our personnel.

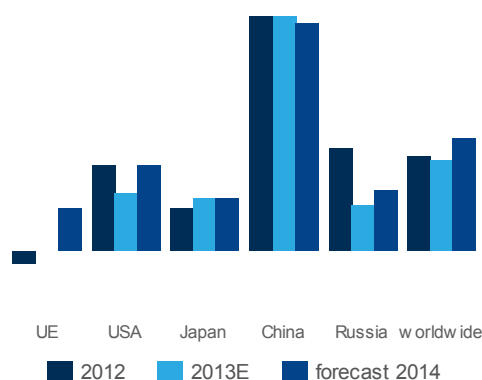
## Creating LOTOS value





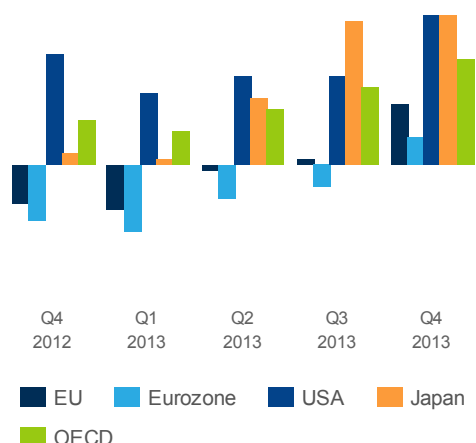
# Global macroeconomic situation

GDP growth in 2012-2014



Source: In-house analysis based on IMF data (October 2013 and January 2014).

GDP growth in 2012-2013  
(y-o-y change)



Source: In-house analysis based on Eurostat, OECD, and International Monetary Fund data.

The global economic situation in 2013 was below market expectations. The key economies of the world continued growing, often at rates lower than in previous years.

Developed economies were supported by loose monetary policies and efforts to maintain market liquidity.

While in 2013 the global economy continued to grow, the estimated growth rate (+3.0%) was lower than expected in the forecasts published in April and July 2013, though it did come in slightly above the October 2013 estimates. Similarly, the forecast for the 2014 global GDP growth rate has been revised upward by 0.1pp, and now stands at 3.7%.

Despite a number of remedial steps and reforms undertaken in the eurozone countries, they still suffered an estimated 0.4% decline in GDP in 2013. However, the GDP growth rate in the eurozone is expected to return to the positive territory in 2014. <sup>(1)</sup>

Developed countries may be expected to further stimulate economic growth with continued support from monetary policy (without further loosening), balanced fiscal policy and further structural reforms, to address key economic concerns, including unemployment.

<sup>(1)</sup> World Economic Outlook, IMF, April 2013 and January 2014.

# Macroeconomic situation in Poland

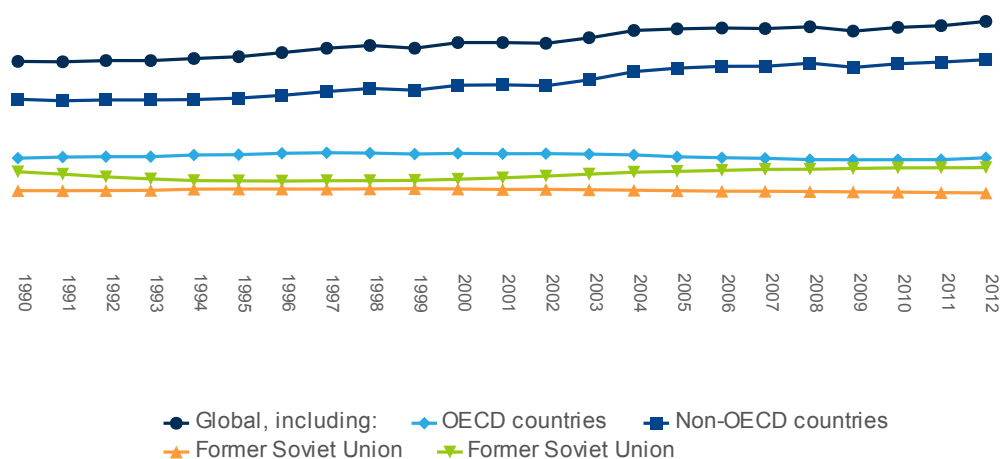
2013 proved to be another year of economic slowdown in Poland. According to preliminary estimates, in real terms Polish GDP grew by 1.6% over 2012, which is the lowest growth rate since 2009. This was chiefly attributable to weaker domestic demand, a fractional increase in sold industrial output and lower construction output. At the same time, inflation was visibly down to 0.9%.

The economic slowdown in Poland in 2013 is expected to be accompanied by higher unemployment. According to market estimates, the unemployment rate as at the end of 2013 was 13.4% and remained unchanged relative to the end of 2012. In 2013, salaries and wages in manufacturing were up nearly 3% compared with 2012.

# Global refining market

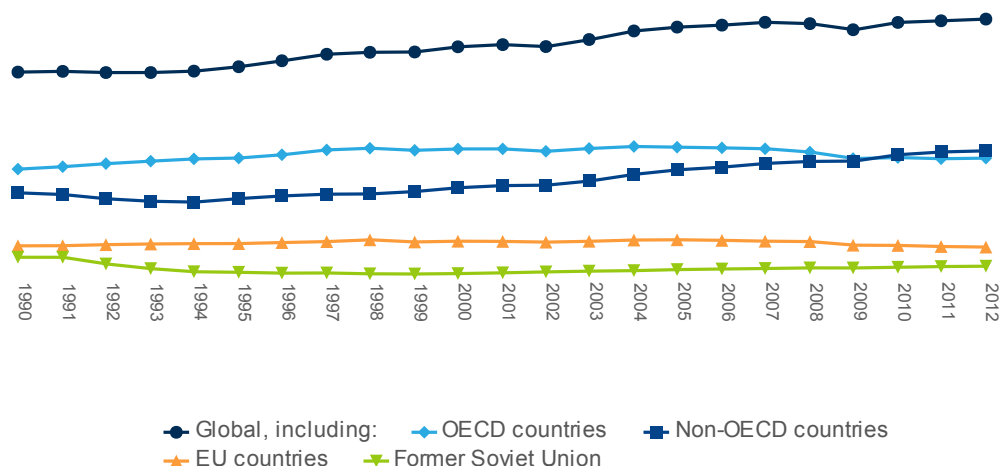
In 2013, crude oil production and processing increased worldwide. Global fuel consumption was driven chiefly by developing countries such as China and India, as well as Brazil and Russia, while fuel consumption in OECD countries fell off. Although the bulk of global demand for crude oil is satisfied by non-OECD producers, at the same time crude production has increased in OECD countries in recent years, mostly on the back of higher shale oil production in the US. Crude oil production in the European Union continues to fall, which has a negative effect on the energy security of the entire Community.

Crude output (million tonnes/year)

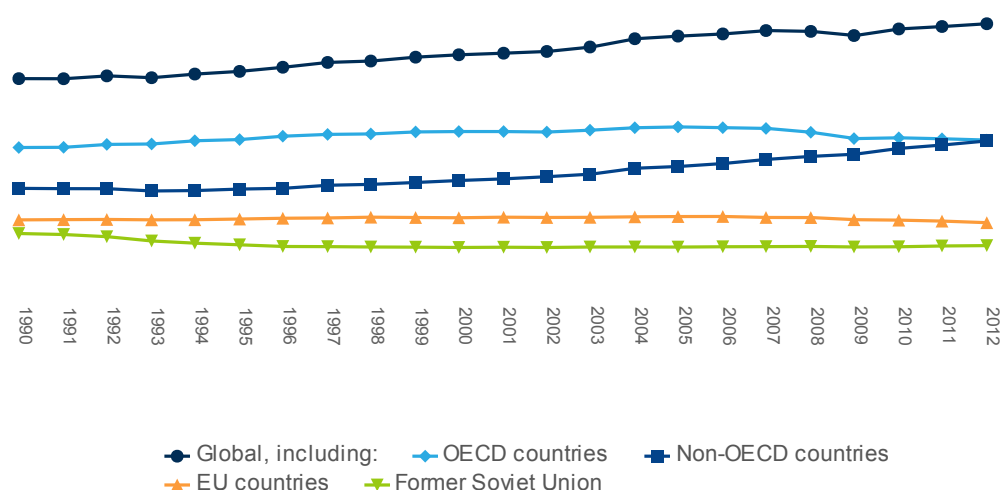


Source: In-house analysis based on BP data.

Crude processing volumes ('000 bbl/day)

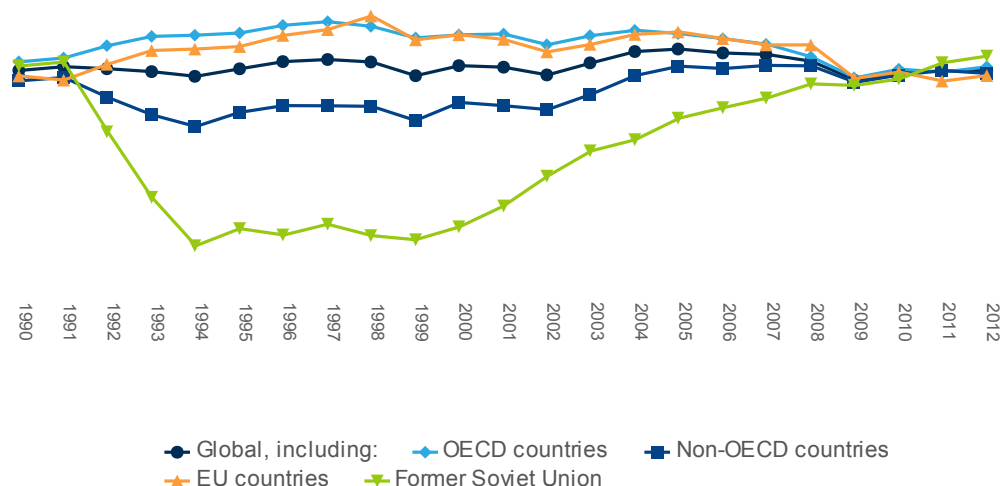


Źródło: Opracowanie własne na podstawie danych BP.



Source: In-house analysis based on BP data.

### Processing capacity utilisation (%)



Source: In-house analysis based on BP data.

2013 saw a further increase in global demand for crude oil, with differences in growth rates between individual continents continuing. Global demand grew by an estimated 0.9m bbl/d, while in Europe the demand fell by 0.22m bbl/d, on the back of the lingering economic crisis in several European countries. In 2013, crude oil supplies increased globally by an estimated 1.2m bbl/d, including approximately 1m bbl/d contributed by increased production in the US and Canada. At the same time, production in the EU declined.

The key drivers of the situation in the refining sector include the skyrocketing supply in North America and the increased demand seen in non-OECD countries. The rising supply accompanied by a decline in domestic consumption has transformed the United States from the largest global importer of refining products into the largest net exporter. Additionally, the shale revolution and low natural gas prices have further enhanced the competitiveness of US refineries.

# European refining market

In Europe, the refining sector changed significantly in the wake of the 2008 global financial crisis. The 2009 drop in demand for petroleum products forced European refineries to reduce their output. This coincided with the construction of several conversion projects, which meant that the gap between low- and high-margin products also began to narrow. Furthermore, the United States, the largest buyer of gasoline from Europe, reduced its imports on the back of substantial increases in its own shale oil production. All of these developments have had a negative impact on the financial situation of European manufacturers, and consequently the European downstream sector is experiencing a major crisis.

Since 2009, several refineries, with a combined processing capacity of 3.7m bbl/d, have been closed down in Europe. However, this scaling back still seems insufficient, as many European refineries continue to generate low returns, with their processing capacities still relatively underutilised.

A number of burdens resulting from EU legislation have been imposed on European refineries, which renders them less competitive as compared to those located outside the EU. In effect, the dip in production observed is bigger than that in demand.

The shutting down of European refineries poses a risk to Europe's energy security, rendering EU countries more dependent on imported refining products, which, in turn, may increase their susceptibility to supply disruptions and their dependence on import terminals and refining product storage facilities.

## Refinery shutdowns in Europe in 2011-2013 \*

Refinery	Owner	Country	Capacity ('000 bbl/d)	Date
Harburg	Shell	Germany	110	2013
Gela	Eni	Italy	105	2013
Falconara	API	Italy	83	2013
Porto Marghera	Eni	Italy	80	2013
Coryton	Petroplus	United Kingdom	220	2012
Petit Couronne	Petroplus	France	162	2012
Lisichansk	Rosneft	Ukraine	160	2012
Arpechim	Petrom	Romania	70	2012
Paramo	Unipetrol	Czech Republic	20	2012
Rome	Total	Italy	86	2012
Cremona	Tamoil	Italy	90	2011

\* Source: www.platts.com, Insight, December 2013

The average refining capacity utilisation in Europe was 71% in October 2013, with daily output falling below 9m bbl, one of the lowest levels in recent years. This change was a result of the decrease in refining margins in H2 2013, despite a large number of overhaul shutdowns at West European refineries (especially in Belgium and Sweden). By the end of 2013, European margins had become so low that even the most efficient refineries were recording them in the negative.

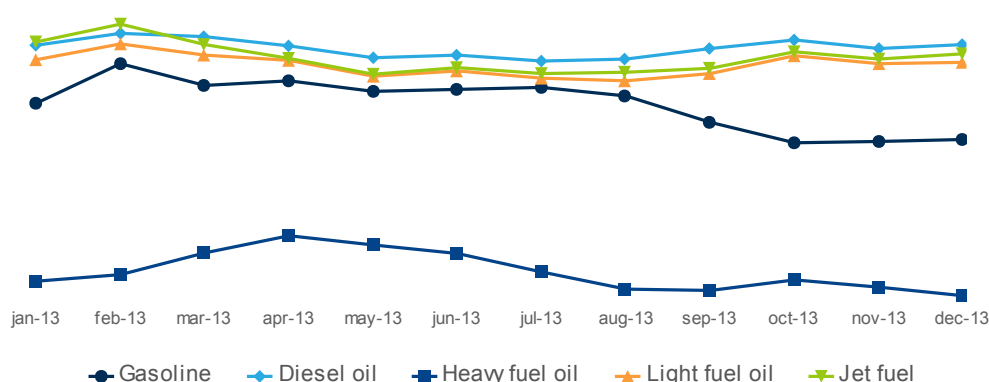
The average refining capacity utilisation in the US was 88.4% in November 2013, with several refineries brought back online following completion of their overhaul shutdowns.

Erosion of the crack margin was not equally spread between all product groups. Gasoline crack proved the weakest, which was a consequence of poor macroeconomic data from the US (including depressed fuel consumption). The lowest gasoline crack margin of USD 88.84 per tonne was recorded on October 10th 2013, while the highest crack of USD 245.73 per tonne was seen on February 19th 2013; the crack change for the year was -8.4% or USD -12.9 per tonne.

2013 crack margins for other products:

- Diesel oil – low: USD 96.18/t (February 28th 2013), high: USD 141.86/t (January 14th 2013) – annual change: +26.9% or USD +29.3/t
- Jet fuel – low: USD 120.75/t (May 3rd 2013), high: USD 213.16/t (February 11th 2013) – annual change: +9.8% or USD +16.3/t
- Light fuel oil – low: USD 69.25/t (May 3rd 2013), high: USD 133.49/t (February 15th 2013) – annual change: +30.2% or USD +26.3/t
- Heavy fuel oil – low: USD -293.11/t (September 6th 2013), high: USD -170.37/t (April 17th 2013) – annual change: +4.3% or USD +11.6/t.

2013 crack margins (USD/t)

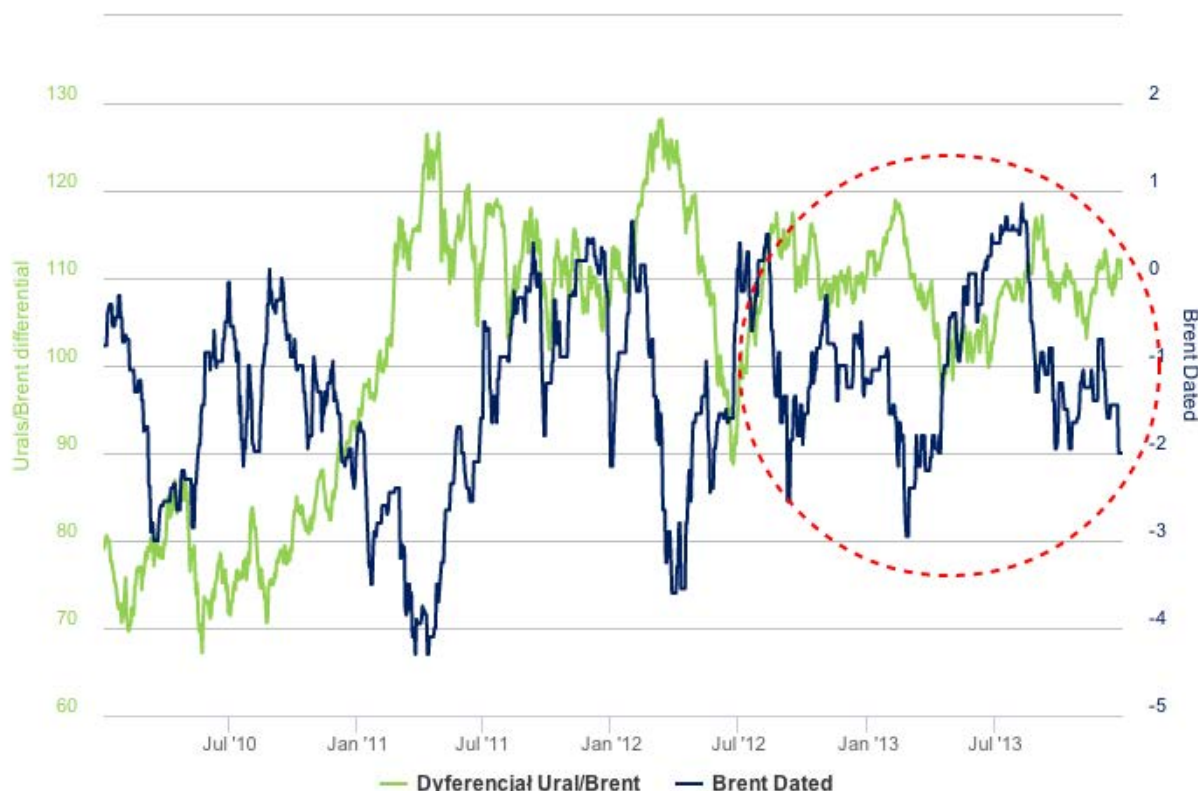


Source: In-house analysis based on Thomson Reuters data.

As its main feedstock, Grupa LOTOS uses Russian REBCO crude (Russian Export Blend Crude Oil). Compared with the global Brent benchmark, REBCO is a heavier crude, has greater density and a higher sulfur content, and yields more middle distillates (diesel oil, aviation fuel). On the other hand, REBCO processing produces

more residual fractions for use in the production of cheap heavy fuel oil. The economic viability of the Gdańsk refinery's processing work depends heavily on the Brent/REBCO differential. Given its slightly lower quality parameters, REBCO crude is usually marginally cheaper than Brent. However, the differential varies from time to time and is subject to seasonality. With a high negative differential, refineries which rely on REBCO crude record higher margins.

**Urals/Brent differential in 2010-2013**

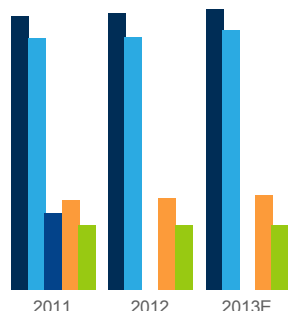


Source: In-house analysis based on Thomson Reuters data.

Industry analysts' predictions for the future of the European refining sector are not optimistic, as fuel consumption is expected to decline even further. This downward trend creates additional pressure on refineries, forcing them to reduce their processing costs. In this context, improvements in the refinery's efficiency by adjusting its configuration (depth of crude processing) and optimising its units become crucial.

# International fuel market <sup>(1)</sup>

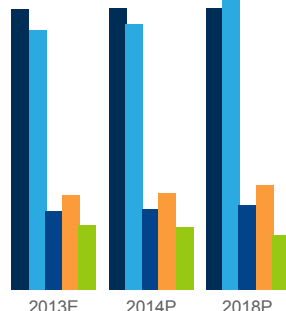
Global fuel consumption ('000 BBL/day)



Gasolines Diesel oil  
Jet fuel LPG  
Light fuel oil

Source: In-house analysis based on JBC data, November 2013.

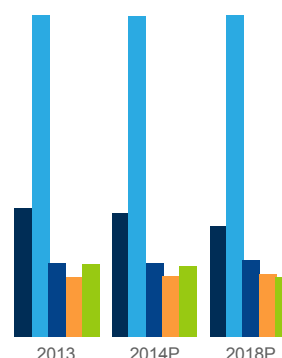
Forecast global fuel consumption ('000 BBL/day)



Gasolines Diesel oil  
Jet fuel LPG  
Light fuel oil

Source: In-house analysis based on JBC data, November 2013.

Forecast fuel consumption in Europe ('000 BBL/day)



Gasolines Diesel oil  
Jet fuel LPG  
Light fuel oil

Source: In-house analysis based on JBC data, November 2013.

Demand for oil refinery products in 2013 is estimated to have risen by 1.1% globally. Stronger demand was seen in the gasolines (1.0%) and diesel oil (2.5%) segments. The estimated consumption of LPG and jet fuel also increased (by 3.3% and 1.2%, respectively). However, the demand for light fuel oil slightly fell (by -1.5%).

According to forecasts, the overall global consumption of refinery products is expected to grow by over 5% until 2018. It is estimated that demand for diesel oil, LPG and JET fuel will grow significantly over 2013 consumption (up 12%, 11% and 8%, respectively). The global consumption of gasolines should remain relatively unchanged. Light fuel oil consumption is expected to fall by 13%.

According to estimates, consumption of petroleum products in Europe may have declined in 2013 by nearly 1.5%. However, LPG, diesel oil, and light fuel oil saw an increase of 2.8%, 0.2%, and 0.1%, respectively. Consumption of gasolines and JET fuel fell by 4.0% and 0.7%. The restrained growth of fuels consumption in Europe reflects the as-yet unresolved economic issues in certain EU Member States and in the eurozone.

The demand for oil refining products is forecast to fall in Europe by 3.7% until 2018. According to estimates, one of the reasons behind the decline will be a significant drop in consumption of gasolines, exceeding 13%. Lower consumption is also expected to affect the light fuel oil market (-16%). Concurrently, a strong increase is expected in consumption of JET fuel - by 3.0%, and LPG - by 4.8%.

In the European car market, new passenger car registrations fell by nearly 2% in 2013, to 12.3m new cars. However, in the utility vehicles segment new registrations increased by 1%, up to 1.8m vehicles. In terms of registered new passenger cars, there is continued growing interest in diesel-fuelled cars. Their share in total new car registrations in Western Europe was nearly 55% (compared with 46% in 2009). <sup>(2)</sup>

<sup>(1)</sup> Mid-Term Oil Market Outlook 2013-2018, JBC Energy, November 2013

<sup>(2)</sup> European Automobile Manufacturers' Association, [www.acea.be](http://www.acea.be)



# Polish fuel market

Domestic demand for fuels is shaped by the general economic situation in Poland and the region. In the last two years, the Polish fuel market has been challenged by a growing grey market, driven by high fuel prices and the economic slowdown. Illegally imported diesel oil, which fails to be captured by official statistics, is the main commodity on the grey market. Officially, the consumption of diesel oil in 2013 was 11.3m tonnes, 6% down on 2012. POPIHN estimates that in 2013 fuels sold on the grey market may have accounted for as much as 12% of total volumes. Despite the unfavourable domestic trends, diesel oil remained the primary transport fuel in Poland, with an estimated 65.5% share in domestic consumption in 2013.

Gasoline sales on the Polish market in 2013 followed prevalent trends in other parts of Europe and continued to fall. As in previous years, demand for gasolines in 2013 fell on the back of high retail prices, by over 2% (84 thousand tonnes), down to 3.7m tonnes. Other adverse economic trends helped depressed demand, such as high unemployment and the resulting limited use of motor vehicles, as well as improved fuel efficiency caused by wide-spread fleet upgrades.

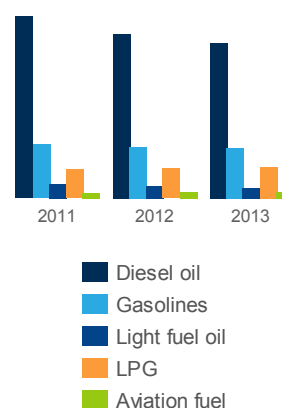
Given the high prices of gasoline in 2013, the less expensive alternative fuel, LPG, also gained in popularity. In 2013, estimated fuel consumption was 2.3m tonnes (up 4% year on year), with stronger demand seen in the LPG segment and other segments of the gas market (including for heating purposes).

Demand for light fuel oil in 2013 continued to decline, contracting by a further 10% to 843 thousand tonnes. This market segment was affected by increased interest in alternative heating fuels.

2013 also saw a growth in demand for aviation fuel. Its over 10% increase was caused by stronger competition on the domestic aviation fuel market with the toppling of Petrolot's dominance, which opened the door to aviation fuel from alternative markets.

Data 2013 suggest that consumption declined by 4% year on year for all engine fuels combined (gasoline, diesel oil and LPG).

**Fuel consumption in Poland ('000 tonnes)**

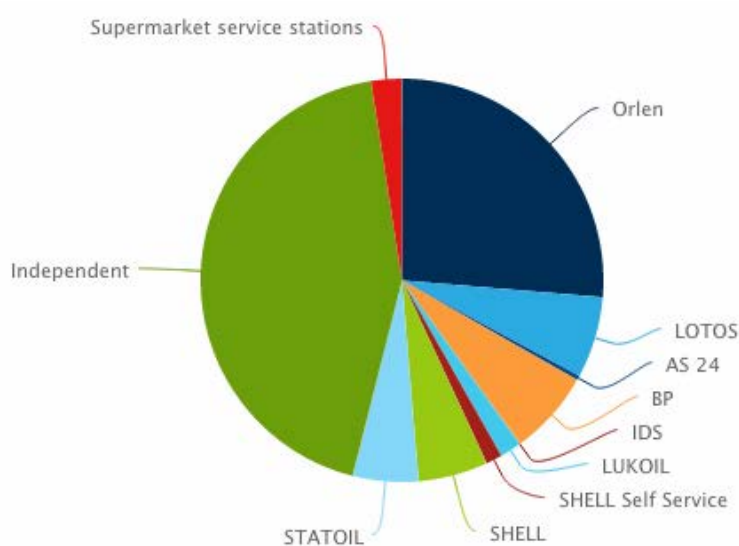


Source: In-house analysis of Polish Organization of Oil Industry and Trade (POPIHN) data.

# Polish retail fuel market

In 2013, there were 6.7 thousand service stations operating on the Polish fuel market. As in previous years, one-third of the stations belonged to domestic operators, 21% were owned by foreign corporations, while almost 44% were operated independently. Expansion of the service station chains owned by foreign corporations was centred around Company-Owned Dealer-Operated stations (own stations) – with Shell recording the largest increase in the number of stations following purchase of the Neste chain of 88 stations – as well as Dealer-Owned Franchise-Operated stations (partner stations). Relative to its competitors, LOTOS has the second fastest growing chain of service stations in Poland, surpassed only by Shell.

**Service stations in Poland in 2013**



Source: Polish Organization of Oil Industry and Trade (POPiHN).

The number of service stations in corporate chains continues to rise, while the network of independently-operated stations is gradually consolidating and shrinking.

These tendencies will be particularly apparent in the following year, as the Ministry of Economy's regulation mandating service stations to modernise their storage tanks comes into effect early in 2014.

Expansion of Poland's motorway network has been accompanied by a growing number of motorway service areas. At the end of 2013, there were 55 <sup>(1)</sup> Motorway Service Areas (MSAs) in Poland, including 14 under the LOTOS brand.

In recent years, Grupa LOTOS has adopted a brand development strategy based on two segments – premium and economy, which has led to 50 new stations added to the LOTOS Optima chain.

One-third of our service stations operate in the economy segment.

<sup>(1)</sup> Based on data from the Polish Organization of Oil Industry and Trade (POPiHN).

# Strategic goals

The LOTOS Group's operational priorities are set forth in its Strategy for 2011-2015, its Corporate Social Responsibility Strategy for 2012-2015, and its development directions until 2020.

## Strategic business objectives until 2015

### Exploration and production

Expansion of the resource base to take advantage of high margins projected for this sector in the long term.

#### Strategic objectives:

- achieve production volume of 24,000 boe/d (barrel of oil equivalent/day) in 2015 – equivalent to 1.2m tonnes a year,
- increase production of hydrocarbons, in line with the priorities of Poland's Energy Policy until 2030.

### Processing operations

Utilisation of expanded capacities, increasing the conversion ratio, use of synergies between refining and power generation.

#### Strategic objectives:

- achieve world-class production standards and maintain a strong competitive position among European refineries,
- make optimum use of assets held and acquired as part of the growth strategy,
- ensure safe and stable operation of production and ancillary facilities, with a target of 98% minimum annual availability,
- further increase the conversion ratio and intensify feedstock processing.

### Marketing operations

Development of the retail chain and marketing structures, based on an extended distribution network and efficient product logistics.

#### Strategic objectives:

- maintain a 30% share in the domestic fuel market,
- achieve fuel sales 15% above the refinery's fuel production capacity,
- secure a 10% share in the domestic retail market,
- develop service station chain and enhance the existing stations' sales,
- maintain the leading position on the Polish market for lubricating oils.

## Key objectives of the Corporate Social Responsibility Strategy until 2015.

### Investment in human resources

Ensuring the availability of highly qualified staff required to successfully implement the business strategy; enhancing corporate culture based on embraced values.

### Ethics and prevention of misconduct

Improvement of our management by ensuring ethical conduct and the transparency of business processes, and by protecting the organization from misconduct.

### Energy sector security

Support for initiatives designed to enhance energy sector security in a socially and environmentally responsible manner.

### Improvement of health and safety

Raising awareness and involvement in work safety improvement among management staff, employees and contractors.

### Management of natural resources in the production process

Reducing environmental risk and continually minimising the environmental impact of the LOTOS Group's operations.

### Partnership relations with the market environment

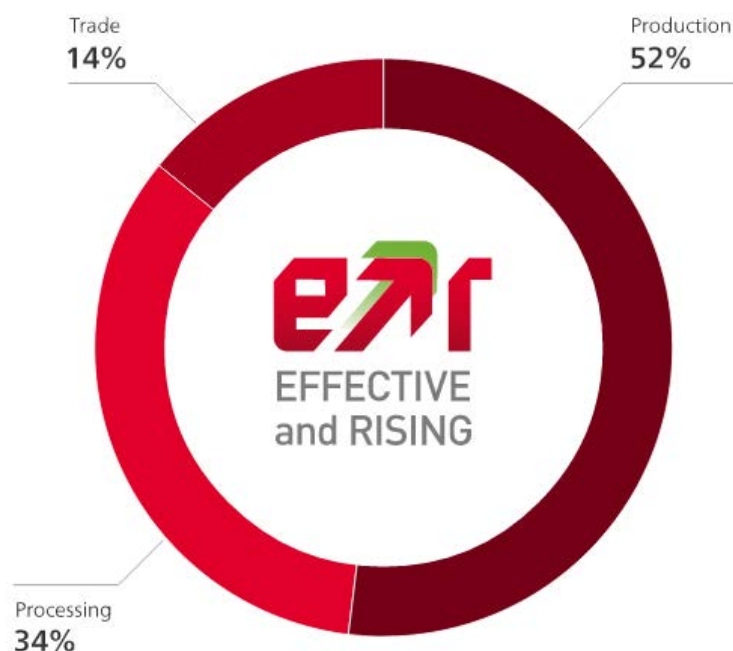
Building lasting customer relationships through a focus on understanding customers' needs and delivering expected product quality and safety.

### Integration with local communities

Undertaking initiatives to help ensure lasting solutions to social and environmental issues vital to our local communities.

### Communication

Ensuring that communication with employees is timely and appropriate to their various needs and to building organizational culture based on multi-directional, open communication, including through the development of a system of staff consultations within the LOTOS Group.



In our efforts to fully implement our CSR strategy, in 2013 we launched the Effective and Rising Programme, which comprises a number of economically viable development initiatives, chiefly in the area of our core business. The initiatives offer substantial benefits to the LOTOS Group, its shareholders and potential investment partners, and also contribute to the development of the regions in which they are to be implemented.

#### Expected benefits

**1. Innovative investment programme**

**2. Job creation**

**3. Investment in human capital and know-how**

**4. Improved vertical integration**

**5. Higher revenues**

**6. Higher dividends**

**7. Return on capital and increase in value**

#### Higher tax revenues

As with the +10 Programme, the newly planned investment programme will generate a substantial increase in revenue.

Consequently, the state's revenues from income, property and mineral taxes will go up by ca. PLN 550m annually after 2016.

Higher volumes of sales will also boost revenues from excise duty.

#### Energy security

52% of the investment programme's funds will be allocated to exploration for oil deposits, the majority

#### Business diversification

Investments in the upstream and petrochemical segments will improve the Group's vertical integration.

Diversification entails lower business risk, more stable margins and a stronger competitive position on domestic and foreign markets.

#### Job creation in the region

Implementation of the programme will increase employment at Grupa LOTOS and its DOFO operators

of which (73%) are located in the Baltic Sea.

These investments will help diversify Polish crude oil sources, improving domestic energy security.

by approximately 1,700 persons.

70% of the planned CAPEX will be spent regionally and in the Baltic Sea.

Technologically advanced projects will enhance the region's know-how and human capital.

Development activities and implementation of efficiency enhancement projects in identified areas are focused on increasing the LOTOS Group's value through innovative and sustainable development, with due regard for its stakeholders' principles and values.

In line with our own principles, as a socially responsible business we seek to:

- Always consider the social and environmental aspects of our decisions,
- Take responsibility for the impact of our decisions and actions on society and the environment,
- Build business models contributing additional value to the organization and its stakeholders,
- Integrate our business goals with important social and environmental issues.

#### Key areas of focus and development until 2020:

Further optimisation of the management model to achieve the highest available efficiency.

Access to proven recoverable reserves of hydrocarbons of approximately 330m boe in 2020.

Production growth to approximately 100 thousand boe/day (equivalent to 5m tonnes of crude a year),

Maintaining at least a 30% share in the domestic fuel market.

Maintaining fuel sales 15% above the refinery's fuel production capacity.

Maintaining at least a 10% share in the domestic retail market.

Further improvement of the economic efficiency of crude processing, ensuring full utilisation of our assets.

Steps to optimise the power management processes at Grupa LOTOS's refinery, by expanding its connections with other power systems.

## Effective and Rising. Interview with the President of the Board



### **Socially responsible business is...**

Our approach to corporate social responsibility goes back to the very beginnings of Grupa LOTOS when it took its shape, and is of fundamental character; whenever we speak of CSR, we mean doing business. We reckon that the biggest responsibility of business is simply to conduct its activities properly. Years ago, Milton Friedman, Nobel Prize winner in Economic Sciences, famously said that "there is one and only social responsibility of business – (...) to increase its profits". Today, however, one can say that its biggest responsibility is to be effective and efficient as, in fact, there is nothing worse for stakeholders than having to deal with an unprofitable company which does not pay its dues on time and cannot provide decent work environment for its employees due to its poor standing. As for my personal approach to CSR, I think that key are answers to the following questions: "how do we make a profit?", "how do we meet our obligations?" and "how do we manage the impact of our activities to ensure long-term growth for our company that is beneficial to both the company and its environment?". In other words, "how do we do our business to make sure that it is good business?", so that we can say – similarly as we would say of an individual – that it is solid and reliable; the business which, on the one hand, is economically efficient and at the same time is conducting its activities properly and meeting its duties, on the other. When defining CSR, one can speak a lot of responsibility, integrity and other qualities attributable to both people and companies; at LOTOS, however, at the heart of our approach to CSR is being solid and reliable as a properly managed and profitable business.

### **LOTOS places particular importance on the idea of sustainable development – what does it mean in practice?**

What we mean by saying that our company is being managed in line with the principles of sustainable development is that we take into account the needs and interests of the natural environment and of the community in which we operate. For our activities, one of the most important premises in both our everyday operations and running our production processes as well as in our investment and development plans are environmental issues. Therefore, we deploy such solutions as to allow us to minimize our environmental impact and to utilize natural resources as best we can; to make sure we achieve that, we employ Best Available Techniques adopted by the international community, especially across the EU. Adhering to the principles of sustainable development also means making a commitment to manufacture products whose environmental impact – when they are used by our customers – is mitigated as far as it is possible.

Corporate social responsibility is also about striving to achieve sustainable development while simultaneously respecting human rights, and building good relations with our neighbours, the local community, and – most importantly – with our employees. By engaging in a range of activities, we improve our employees' quality of life; by creating jobs, we improve the quality of life of the entire society. We treat responsibly all our stakeholders, both internal and external. Being an oil company, the responsibility we feel is crucial as our decisions affect the future of people and the natural environment; our customers get better products, the community has a neighbour who supports the local prosperity and the development of the young generation, and the national economy is provided with a solid foundation to function upon.

**Grupa LOTOS is a signatory to the 'Declaration of Polish Businesses for Sustainable Development'. In 2013, the Company got engaged in work on honing the 'Vision 2050', the document accompanying the Declaration, in the area of energy. However, it is not the only platform for cooperation aimed at meeting challenges this sector is facing, is it?**

We have repeatedly proven our engagement in dialogue with key sector stakeholders not only on the national but also on the international level; most recently, in April 2014 at the Energy Summit '29+1' in Bucharest, one of the periodical meetings of representatives of Central European energy sector companies with Guenther Oettinger, EU Commissioner for Energy. These meetings are organized by Central European Energy Partners, an association of which we are a founding member. This time, main subjects for discussion included issues such as energy prices and EU climate objectives which hold back the competitiveness of the EU economy as well as the energy sector security in view of the current events in Ukraine. As CEO of Grupa LOTOS, I expressed my strong conviction that we should considerably reduce Central Europe's dependence on gas supplies from one source and take action to protect and further develop our industry which shall be conducive to creating jobs. In the Bucharest Memorandum adopted at the end of the meeting, its participants called upon the EU not to strive to eliminate the use of fossil fuels but to support investment projects aimed at developing more effective technological solutions to reduce CO<sub>2</sub> emissions.

For the climate policy to produce discernible results on a large scale, pro-environmental actions need to cover the entire world; therefore, when determining the objectives for our climate policy, we should closely observe which direction rival world economies are taking. While fully standing by the EU 20-20-20 objective, we intend to promote optimal approach to pursuing its objectives on climate protection, sustainable development and the security of the energy sector. It means that we will support a common and comprehensive EU policy which takes into account the vital interests of Central European countries, including initiatives such as creation of an internal energy market or construction of the Central European Energy Corridor and the North-South Transport Corridor. At the same time, we consider it to be equally important to determine new climate and energy objectives until 2030 and to establish new guidelines on exploration for and production of shale gas.

Central European countries need to develop their industries in an effective and consistent manner with a view to creating jobs. The prerequisite for that is cheap energy, the production of which will be mostly based on easily available domestic energy resources. As CEEP, we consistently advocate striking the right balance



between the EU's economic development and its climate policy. The pace at which the objectives of the latter are to be met should not disregard economic realities of either the EU Member States or the global conditions. We strongly believe that the energy sector policy which does not take into account the differences in economic development between individual Member States will have a detrimental effect on Central European countries. The implementation of the climate policy targets, especially with regard to reducing CO<sub>2</sub> emissions, needs to be modified if we are concerned about keeping the European Union competitive as a whole.

### **Is the 'Effective and Rising' Programme announced by LOTOS in mid-2013 the Company's response to the challenges of the modern economy?**

When explaining to our stakeholders the baselines of our new strategic project, I declared: *'While everyone else is struggling to stay afloat, we know how to win the future'*. Today, I stand by what I said then entirely. Nowadays, most successful are these companies that possess the ability to react quickly and adapt to changes and that are experts in their respective fields. Such a business model allows them to focus more effectively on the tasks to be completed and to pool skills which help them stand out from the rest. It was this observation that guided our work on the 2013-2015 Effective and Rising Programme, the purpose of which is to restructure the LOTOS Group and to aid its further business expansion. It sets out the next stage of our development and serves as a guarantee for increased efficiency and effectiveness of our actions. While focusing on the key areas of our competence, we put main emphasis on our core business, simplify the structure of the LOTOS Group and free up funds for achieving our objectives. And when doing that, we take into account the interests of our key stakeholders groups as we are well aware of the impact we have on our environment in the economic, social and environmental aspects.

### **Does Grupa LOTOS see the chance to accomplish its objectives in its openness in communication with the market?**

This Integrated Annual Report is already our fifth report of that kind. In 2010, we decided to integrate our reports to present the management approach and performance in all aspects of our activities to all our stakeholders. These reports illustrate the scope and nature of our impacts on the environment but also answer the question how, by mitigating associated risks, we maximize the chances for our business to thrive in the long term. By responsibly managing the productive, financial, natural and human capital entrusted with us, we consistently implement our value growth strategy. By communicating to the market in an open and transparent manner the conditions for our operations, as well as our performance and future plans, we prove that we are a reliable and trustworthy partner. This fact found its confirmation in the high rating we achieved in the opinion survey conducted in 2013 on the quality of LOTOS communication with the capital market, which analyzed the Company's approach to presenting social and environmental aspects of its operations along with the corporate governance. Without a doubt, it is a significant factor that affects the value of our business.

# Key data

## Grupa LOTOS - selected information \*

FINANCIALS	Unit	For the year ended Dec 31 2013	For the year ended Dec 31 2012	Change [%]
(restated)				
Revenue	EUR '000	6,339,867	7,444,867	-14%
Operating profit/(loss)	EUR '000	(83,780)	133,850	-163%
Pre-tax profit/(loss)	EUR '000	(18,410)	232,128	-108%
Net profit/(loss)	EUR '000	(3,508)	200,410	-102%
Total comprehensive income	EUR '000	19,768	292,053	-93%
Net cash from operating activities	EUR '000	174,215	112,208	55%
Net cash from investing activities	EUR '000	12,117	16,373	-26%
Net cash from financing activities	EUR '000	(141,989)	(179,186)	-
Total net cash flow	EUR '000	44,343	(50,605)	-
Basic earnings/(loss) per share	EUR	(0.03)	1.54	-102%
Charitable donations	EUR '000	430	333	29%
Pro-environmental investments	EUR '000	14,964	16,198	-8%
FINANCIALS	Unit	As at December 31st 2013	As at December 31st 2012	Change [%]
(comparative data)				
Total assets	EUR '000	3,751,787	3,908,472	-4%
Equity	EUR '000	1,720,581	1,725,051	-0.26%

NON-FINANCIAL DATA	Unit	Year ended Dec 31 2013	Year ended Dec 31 2012	Change
(restated)				
Workforce <sup>(1)</sup>	number of employees	1,334	1,323	0.80%
Employee turnover	%	11.8	9.2	2.6 pp
Lost Time Injury Frequency LTIF index (per 1 million hours worked) <sup>(2)</sup>		4.5	4.3	-
Total water consumption	m <sup>3</sup>	3,737,302	3,721,330	0.40%
CO <sub>2</sub> emissions	thousand tonnes per year	1,689	1,979	-14.60%

## The LOTOS Group – Selected consolidated data \*\*

FINANCIALS	Unit	For the year ended Dec 31 2013	For the year ended Dec 31 2012	Change [%]
(restated)				
Revenue	EUR '000	6,791,105	7,933,439	-14%
Operating profit	EUR '000	34,788	74,937	-53%
Pre-tax profit/(loss)	EUR '000	(14,718)	87,776	-117%
Net profit	EUR '000	9,363	222,320	-96%
Net profit attributable to owners of the Parent	EUR '000	9,360	222,314	-96%
Net profit attributable to non-controlling interests	EUR '000	3	6	-52%
Total comprehensive income	EUR '000	29,316	307,702	-90%
Total comprehensive income attributable to owners of the Parent	EUR '000	29,313	307,699	-90%
Total comprehensive income attributable to non-controlling interests	EUR '000	3	3	-15%
Net cash from operating activities	EUR '000	341,129	322,762	7%
Net cash from investing activities	EUR '000	(222,848)	(200,798)	-
Net cash from financing activities	EUR '000	(59,630)	(211,635)	-
Total net cash flow	EUR '000	58,651	(89,671)	-
Basic earnings per share	EUR	0.07	1.71	-96%
Charitable donations	EUR '000	506	372	36%
Pro-environmental investments	EUR '000	15,897	18,094	-12%
FINANCIALS	Unit	As at December 31st 2013	As at December 31st 2012	Change (%)
(restated)				
Total assets	EUR '000	4,894,776	4,898,871	-0.08%
Equity attributable to owners of the Parent	EUR '000	2,215,786	2,217,535	-0.08%
Non-controlling interests	EUR '000	70	171	-59%
Total equity	EUR '000	2,215,856	2,217,706	-0.08%

NON-FINANCIAL DATA	Unit	Year ended Dec 31 2012	Year ended Dec 31 2011	Change
		(comparative data)		
Workforce <sup>(1)</sup>	number of employees	4,773	4,748	0,50%
Lost Time Injury Frequency LTIF index (per 1 million hours worked) <sup>(2)</sup>		4.4	3.3	-
Share in the fuel market	%	33.4	34	-0,6 pp
Crude oil production	thousand tonnes	219.1	262.3	-16 %
Natural gas production	million Nm <sup>3</sup>	16.0	20.9	-23,50%

\* For information on Grupa LOTOS' financial performance, please see our financial statements [\(more information\)](#)

\*\* For information on the LOTOS Group's financial performance, please see the LOTOS Group's financial statements. [\(more information\)](#)

(1) Average annual headcount.

(2) LTIF – number of accidents resulting in an inability to work x 10<sup>6</sup> / number of working hours, calculated for the average annual headcount.

# Letter from the Vice-President of the Board



*Dear Stakeholders,*

2013 was a time of major challenges for the implementation of the LOTOS Group's business strategy. While intensifying and speeding up the completion of activities in the exploration and production segment, we were observing a significant deterioration in external conditions for the manufacture and sales of fuels. The European refining sector has been under a growing pressure of cheaper refining products flooding the market from different parts of the world and have been facing increasing challenges with regard to the competitiveness of its products on export markets.

Our response to this unfavourable situation was a number of initiatives we undertook in 2013, confirming our readiness to react to the dynamically changing external environment. Our refinery in Gdańsk ranked amongst the world's most state-of-the-art refineries in the prestigious study conducted by Solomon Associates, which testified to the effectiveness of the 10+ Programme. To enhance its efficiency even further, we commenced work on a preliminary feasibility study into the construction of a delayed coker unit (DCU); it will help us transform the refinery into a full conversion plant so that it will be able to produce only high-margin products and will be better prepared to face the growing pressure on refining margins. These harder conditions in the operating segment coincided with the accelerated implementation of our strategy in the exploration and production segment. Acquisition of production assets on the Norwegian Continental Shelf, speeding up the development of the B8 field as well as carrying out preparatory work on the development of the B4 and B6 gas fields – these were our major achievements in this segment, all of which have brought us closer to fully implement our strategy and to improve the balancing of the LOTOS Group's business model.

In 2013, our situation was further hindered by the overhaul shutdown performed at our refinery, connected with stopping the operation of its refining units, which in turn resulted in decreasing its annual output by around 8%. Consequently, the LOTOS Group's revenues were lower than in 2012 – in the twelve months of

2013 we generated consolidated sales of just under PLN 29bn, 14% less on 2012. The operating profit stood at PLN 146m and, with the one-off events distorting it being eliminated as well as the amortization and the LIFO effect accounted for, it amounted to PLN 1.3bn, as compared to PLN 2.0bn in 2012. This proves our ability to generate high cash flows even despite unfavourable conditions for our operations and eroding margins on the world fuel market.

Furthermore, to support the implementation of its business strategy, the LOTOS Group launched the 2013-2015 Effective and Rising Programme, which is mainly designed to improve financial indicators, to facilitate further development by carrying out investment projects in areas of the organization's core business and to restructure the LOTOS Group. In a nutshell, our main focus is to go to our core activities, limiting the engagement of our management in auxiliary activities and simplifying the structure of the LOTOS Group, which for subsidiaries conducting operations unrelated to our core business means that they will need to look for an investor who will allow them to unleash their potential for development and facilitate their access to new financing sources.

In the exploration and production segment, the LOTOS Group consistently pursued its investment and development plan, which was confirmed by the agreement we concluded with Centrica Norge for the purchase of interests in 14 licences on the Norwegian Continental Shelf (Heimdal portfolio). In the perspective of 2016, this transaction will help us recover two-thirds of our deferred tax assets. Following the acquisition of interests in the Norwegian licences, our annual production in Norway (relative to the shares acquired by LOTOS) amounts to around 240,000 toe (5,000 boe/d), with 70% of that amount being natural gas and 30% condensate (light crude oil). What is more, LOTOS recoverable resources have increased by 9 million boe for proved and probable resources and by 31 million boe for contingent resources.

In 2013, preparatory work continued on launching commercial production from the B8 field on the Baltic Sea – with a production potential of 3.5 million tonnes of crude oil - which is planned for 2015. It is worth mentioning here that in October 2013 we signed an agreement with Polskie Inwestycje Rozwojowe on the co-financing for this project. Also in October 2013, the repair of the PG-1 rig was completed which will enable us to increase production from the B3 field by 15,000 tonnes annually (Rozewie crude). We also carried on preparatory work on the B4/B6 gas fields (with a combined production potential of 4 billion m3) in partnership with CalEnergy Resources Poland. Further evidence for our intensified activity in the exploration and production segment was the purchase of the GSF Monitor jack-up drilling rig in December 2013, which will be conducting drilling operations under our exploration licences in the Baltic Sea.

The most important event in the operating and marketing segment was the overhaul shutdown performed in the spring of 2013, which was the first overhaul shutdown since the refinery's expansion under the 10+ Programme. In effect, the refinery processed 8.7m tonnes of crude, meaning that the average annual utilisation rate of its installed capacities was 82% in 2013.

Also in 2013, preparatory work continued on the construction of a delayed coking unit (DCU) which should directly increase the efficiency of crude processing at the refinery by eliminating from our production and sale the unprofitable heavy fuel oil. Once this project has been completed, the production of high-margin motor fuels will increase by 900,000 tonnes annually and a new product – petroleum coke (petcoke) – will be added to our product mix, with the production volume of around 350,000 tonnes annually. The unit is planned to be launched in 2017.

Another new development project launched in 2012, on which we continued to work in 2013, is the diversification of our activities towards a potential development of a petrochemical segment (in partnership

with Grupa Azoty). Based on the results of a preliminary feasibility study into the construction of a petrochemical production complex, the construction of a steam cracker unit was proposed as a recommended course of action. A full feasibility study will mark the next stage in the project, the results of which are expected at the end of 2014.

In 2013, Grupa LOTOS continued to expand dynamically its service station chain, especially in the economy segment, which puts us well on track to secure a 10% market share, the target set in our strategy.

Throughout the entire year, the LOTOS Group responded to the increasingly difficult conditions posed by our market environment. Thanks to the diversification of our activities and the acceleration of development in the exploration and production segment, we have shown that we try and react to these increasingly difficult market conditions. In 2014 and the coming years, we will keep intensifying our actions to increase the importance of the exploration and production segment, and to achieve operational excellence in the refining segment. Our efforts to date have proved that under the conditions of increasingly fierce competition LOTOS is a company oriented on further development. We strongly believe that our work on reinforcing the foundations for it will contribute to enhancing the value for our shareholders and will secure the proper development of the LOTOS Group in the years to come.

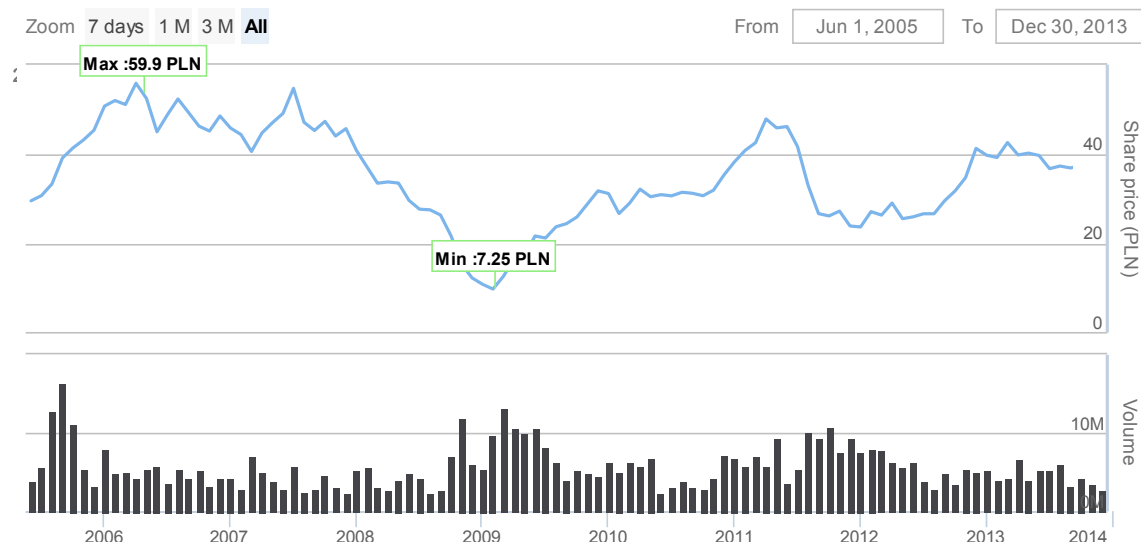
*Yours faithfully,*



**Mariusz Machajewski**  
**Vice-President of the Board**  
**Chief Financial Officer**  
**Grupa LOTOS**

# Capital market

Grupa LOTOS share price (PLN) and trading volume (number of shares) since their first listing on the WSE



Grupa LOTOS shares have been listed on the Warsaw Stock Exchange since June 9th 2005. At present, the total number of Company shares is 129,873,362.

## Grupa LOTOS share price performance vs. market indices

2013 was a good year for investors in shares, with equities emerging as the best-performing asset class, particularly in the developed markets. Stock exchange indices in the US, the world's largest economy, soared by more than 30% (NASDAQ up 35% and S&P500 up approximately 30%). In Europe, the top performer was Germany's DAX, up 26%.

The year saw only slight movements in the main WSE indices. The WIG index of all Main Market listings gained 8%, with the annual change in the WIG20 being negative at -7%.

In September 2013, the WSE launched its new WIG30 index of the thirty largest and most liquid companies.

As at the end of the year, the index had fallen by almost 2%. Its two SME indices, the mWIG40 and sWIG80, rose 31% and 37% respectively, delivering the top rates of return.

Looking at stock performance by sector, the winning WIG-BUDOWNICTWO construction sector index gained 33%, with the WIG-PALIWA fuels sector index (down 10%) arriving at the other end of the spectrum.

The RESPECT corporate social responsibility index lost over 4% during 2013.

The price of Grupa LOTOS shares followed the general market trends in 2013, remaining within the PLN 33.15-PLN 44.95 range, closing for the year at PLN 35.45.

In the period under review, the number of Grupa LOTOS shares changing hands in an average trading session was 229,877, down 18% relative to the previous year. The total value of trading in its stock was in excess of PLN 2.2bn, representing 1% of total WSE trading, with an average of 877 trades per session.

The Company's market capitalisation as at the end of 2013 stood at just over PLN 4.6bn.



## Grupa LOTOS shares in 2011-2013 \*

	2011	2012	2013
<b>Free float shares (million shares)</b>	<b>129.87</b>	<b>129.87</b>	<b>129.87</b>
<b>Price of Grupa LOTOS shares (PLN)</b>			
Low	22.26	21.3	32.97
High	49.5	43.78	45.45
Closing price	23.3	41.2	35.45
Rate of return at end of period (%)	-35.9	76.82	-13.96
<b>Trade in Grupa LOTOS shares</b>			
Trading value (PLN m)	3,299.07	2,013.15	2,211.43
Share in trade (%)	13.1	1.07	1.00
Average trading volume per session	377,048	282,163	229,877
Average number of trades per session	967	810	877
<b>Company valuation</b>			
Market capitalisation at end of period (PLN m)	3,026.00	5,351.00	4,603.89
Book value (PLN m)	7,782.40	9,066.40	9,189.60
EV** (PLN m)	10,032.87	11,472.60	10,311.89
<b>Valuation ratios</b>			
Earnings per share (PLN)	5.03	7.14	0.30
P/E*** (x)	4.66	5.80	118.00
P/BV**** (x)	0.38	0.59	0.50
EV/EBITDA***** (x)	6.04	11.89	12.85

\* In-house analysis based on WSE and Company data.

\*\* EV (Enterprise Value) – market capitalisation plus debt, non-controlling interests, and preferred shares, minus cash and cash equivalents.

\*\*\* P/E – Price/Earnings

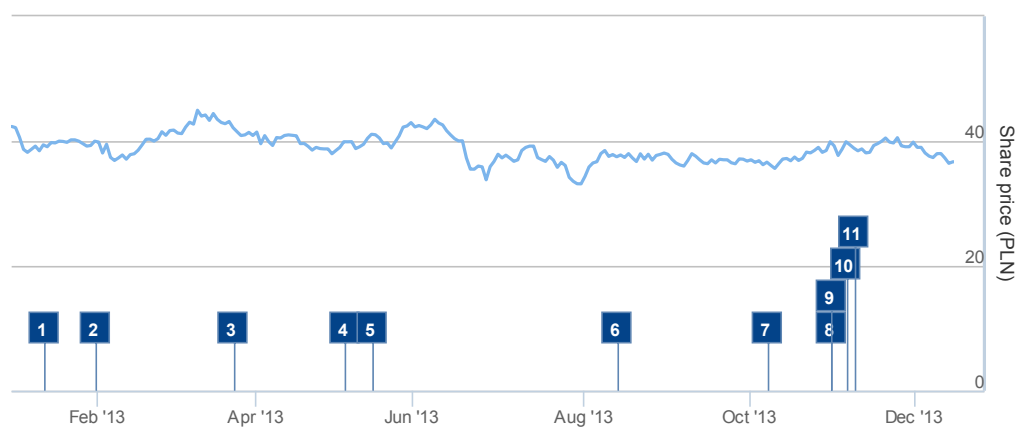
\*\*\*\* P/BV – Price/Book Value

\*\*\*\*\* EV/EBITDA – Enterprise Value/EBITDA

## Grupa LOTOS share price in 2013 (PLN)



## Effect of important events at the Company on the market price of Grupa LOTOS shares in 2013



### Grupa LOTOS share price performance vs. market indices in 2013 \*



\* Rebased (100 = closing price at December 28th 2012)

## Dividend policy

Dividend distributions for 2011-2015 are subject to the LOTOS Group's Strategy for 2011-2015, which provides for optimisation of the LOTOS Group financing. Grupa LOTOS' financial strategy provides for distribution of up to 30% of net profit as dividend.

However, the Board of Grupa LOTOS recommended that no part of the 2012 net profit be distributed to the Company's shareholders. On June 28th 2013, acting upon the Board's recommendation, the General Meeting resolved to allocate the 2012 profit as follows:

- PLN 834,931,320.89 was allocated to statutory reserve funds,
- PLN 1,500,000.00 was allocated to the Special Account designated for financing corporate social responsibility (CSR) projects.

### Dividend and dividend yield \*

Financial year	Dividend (PLN)	Dividend per share (PLN)	Share price at the year end (PLN)	Dividend yield (%)**
2005	0.00	0.00	44.20	-
2006	40,932,000.00	0.36	49.30	0.73
2007	0.00	0.00	44.50	-
2008	0.00	0.00	11.95	-
2009	0.00	0.00	31.80	-
2010	0.00	0.00	36.35	-

2011	0.00	0.00	23.30	-
2012	0.00	0.00	35.45	-

\* In-house analysis based on Company data.

\*\* Dividend yield – dividend per share to price per share.

### Historical dividend per share \*

Financial year	Dividend per share (PLN)	% of net profit	Dividend record date**	Dividend payment date***
2005	0.00	0.00	-	-
2006	0.36	10.06	June 11 2007	not later than Jul 31 2007
2007	0.00	0.00	-	-
2008	0.00	0.00	-	-
2009	0.00	0.00	-	-
2010	0.00	0.00	-	-
2011	0.00	0.00	-	-
2012	0.00	0.00	-	-

\* In-house analysis based on Company data.

\*\* Dividend record date – date on which the list of shareholders entitled to receive dividend for a given financial year is determined.

\*\*\* Dividend payment date – date on which dividend is paid to the Company's shareholders.

## Recommendations

Recommendations on Grupa LOTOS shares are issued by 13 investment houses (including brokerage houses and investment banks):

### Investment houses

Investment houses	
Based in Poland	Based abroad
DMmBanku	Societe Generale
DMBZWBK	Erste Bank
DMIDM	Wood & Co.
DMPKO BP	Deutsche Bank
DMBDM	Raiffeisen Centrobank
DI Investors	
ING Securities	
Espirito Santo Investment Bank	

To the best of the Company's knowledge, in 2013 brokers issued 25 recommendations on Company shares:

- 4 BUY recommendations \*
- 9 HOLD recommendations \*\*
- 3 REDUCE recommendations \*\*\*
- 9 SELL recommendations \*\*\*\*

of which:

- 6 recommendations were upgraded
- 10 recommendations were maintained
- 5 recommendations were downgraded.

Furthermore, there was:

- 1 coverage initiation; and
- 3 coverage re-initiations

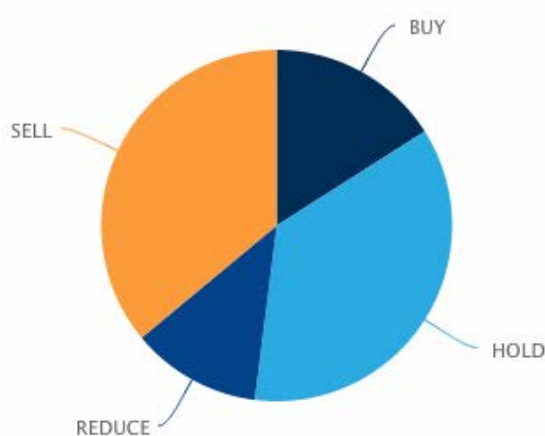
\* BUY – total expected rate of return will exceed 15% in 12 months

\*\* HOLD – total expected rate of return will be between -5% and +5% in 12 months

\*\*\* REDUCE – total expected rate of return will be between -5% and -15% in 12 months

\*\*\*\* SELL – total expected rate of return will be over -15% in 12 months.

#### Structure of broker recommendations on Grupa LOTOS shares in 2013 (%)



In brokers' research reports, the target price of Grupa LOTOS shares fluctuated from PLN 29.50 to PLN 56.30, compared with PLN 19.40 to PLN 38.90 in 2012. The average target price of its shares in 2013 was PLN 37.70 (2012: PLN 26.80). Grupa LOTOS shares traded within a range from PLN 33.15 to PLN 44.95. At the end of 2013, the price of Grupa LOTOS shares was PLN 35.45.

### Brokers' recommendations and average target price against the market price of Grupa LOTOS shares



\* Simple moving average – arithmetic mean of target prices in broker recommendations for 12 months (excluding recommendation updates older than six months).

## Grupa LOTOS in the RESPECT Index

Since November 19th 2009, Grupa LOTOS has been continuously included in the index of WSE-listed socially responsible companies, the RESPECT Index (*Responsibility, Ecology, Sustainability, Participation, Environment, Community, Transparency*).



The index includes those Polish and international companies listed on the WSE Main Market that uphold the best management standards in corporate and information governance, as well as investor relations, and that act responsibly in the social, governance and environmental areas.

In 2013, the Company underwent external review for compliance with the index's criteria twice. Since December 23rd 2013, we have been included in the index which comprises a record-breaking 23 companies. In the 7th edition of the RESPECT project, new criteria were applied to find the leaders of responsible business in Poland. The most important changes were in the survey's questions, which had been divided into three groups, each representing a different set of factors related to performance in the categories of Environmental, Social and Governance. Furthermore, the index's entry requirements were changed to accommodate specific characteristics of various industries. Starting from 2014, the organizational maturity assessment will be undertaken on a yearly basis.

# Natural and productive capital



## Natural capital of Grupa LOTOS

- **Energy sources:** crude oil (fuel gas and fuel oil from its processing), natural gas, electricity generated and bought from third parties;
- **Feedstock:** crude oil, natural gas;
- **Components of the environment/media with process applications:** water (steam production and cooling), air (as a control medium);
- **Components of the environment under direct and indirect impact from the LOTOS Group's operations:**
  - air;
  - water;
  - soil;
  - ecosystems and biodiversity;
  - local communities and employees;
  - landscape.

### Our objectives in natural capital management:

- Ensuring compliance with environmental law;
- Ensuring that the organization is perceived as being aware of local and global benefits of responsible use of natural resources and environmental protection;
- Striving to operate in conformity with best environmental practices, while ensuring responsible use of natural resources.

### Key activities:

- Monitoring the state of the natural environment and how it is affected, beyond the scope required by legal regulations;
- Consistently reducing the negative impact on the natural environment;
- Incorporating and implementing the best available techniques and best environmental practice for designing new process units, as well as operating and upgrading the existing ones;
- Mitigating the risk of sudden environmental contamination (preventing industrial failures);
- Supporting pro-environmental efforts of third-party institutions – environmental protection beyond the organization's direct sphere of influence;
- Pro-environmental education – raising the awareness of best environmental practices and responsible use of natural resources among employees and local communities.

## Results:

Increased share of natural gas in the organization's energy mix

Less fugitive emissions to the atmosphere

Gradual modernisation of service station facilities

Reduced water consumption – using closed-cycle systems and maintaining highest possible recirculation levels

Significant reduction of atmospheric emissions from the refinery in Gdańsk: SO<sub>2</sub>, NO<sub>x</sub> and dust emissions have been reduced ten, two and nearly four times, respectively, in comparison with 2011

Average annual wastewater emissions below 50% of admissible levels

Monitoring of bottom sediment and sea water quality within oil and gas production areas

Placing more emphasis on biodiversity in environmental impact assessment

End of preparations to a large-area inventory of elements comprising the environment within and surrounding our refinery in Gdańsk

Consistent reduction of gas flared at production sites

Achieving carbon intensity levels on a par with the leading European refineries

Construction and launch of a flare gas recovery unit – a 6,000 Mg reduction in CO<sub>2</sub> emissions and additional gas in the energy system

Running an educational campaign on waste segregation within the LOTOS Group





## Productive capital of Grupa LOTOS

- **Exploration:** licence areas, exploration infrastructure (drilling rigs);
- **Production:** production infrastructure (production platforms, transmission lines);
- **Downstream:** downstream infrastructure (refinery, production plants, port-refinery oil pipelines, gas pipelines, CHP plants);
- **Primary logistics:** product depots, road and rail loading stations, rail infrastructure, geographical location;
- **Secondary sales and distribution:** distribution networks, road infrastructure, rail infrastructure, geographical location, service station chain.

Our objective in productive capital management:

- Achieving production and technology standards on a par with global petrochemical trends, while ensuring compliance with environmental regulations.

Key activities:

- Increasing our own resource base based on fields in low- or medium-risk areas;
- Expanding operations on the Baltic Sea, the Norwegian Continental Shelf and onshore areas in Poland and Lithuania, in particular by:
  - Poland: increasing production from the existing fields, fully appraising the hydrocarbon potential of the Baltic Sea, developing operations on onshore licence areas;
  - Norway: exploring, developing and producing from the existing offshore licence areas, acquiring producing fields;
  - Lithuania: fully developing the existing onshore licence areas.
- Modernisation of exploration and production infrastructure;
- Optimum use of assets held and acquired as part of the growth strategy;
- Further increasing the conversion ratio and intensifying feedstock processing;
- Expanding the refinery's process lines (coking unit);
- Efficient use of the refinery's processing capacities expanded through the 10+ Programme;
- Maintaining high reliability of refinery installations – ensuring safe and stable operation of production and ancillary facilities, with a target of 98% minimum annual availability;
- Expanding the fuel, oil and bitumen sales networks.

Results:

Higher crude oil production

New licences

Higher processing volumes and efficiency

Technical availability of the refinery's installations of 99.7% achieved - the highest in the refinery's history, which is also one of the best results in the world

Increased share in the retail market

The total level of capital expenditure allocated to exploration and production in 2011–2015 is PLN 3.9bn, which represents almost 70% of the LOTOS Group's total CAPEX budget for the period.

## Statement by Zbigniew Paszkowicz

Vice-President of the Management Board, Exploration&Production, Grupa LOTOS



2013 saw strong development of the LOTOS Group's exploration and production segment at an unprecedented pace. The success is all the more remarkable for the fact that it was achieved despite macroeconomic challenges. In late 2013, the segment's annual production capacity exceeded 0.5m tonnes, more than 40% of the strategic target to be reached by the end of 2015.

**Zbigniew Paszkowicz**  
Vice-President of the Management Board,  
Exploration&Production, Grupa LOTOS

2013 saw strong development of the LOTOS Group's exploration and production segment at an unprecedented pace. The success is all the more remarkable for the fact that it was achieved despite macroeconomic challenges. In late 2013, the segment's annual production capacity exceeded 0.5m tonnes, more than 40% of the strategic target to be reached by the end of 2015.

The success was mainly driven by the high qualifications and strong commitment of our crews – employees of the upstream subsidiaries. Their expertise and determination in the pursuit of targets are our most valuable asset, which we will further enhance by investing in professional advancement of our employees.

At the top of the list of key 2013 events we should place the final resolution of the Yme project issue, which was addressed on our initiative and by our effort. The agreement signed in March 2013 between the Yme field operator and the owner of the rig sitting on the field removed a major impediment which had hindered the segment's growth. It was not long before we saw measurable effects.

LOTOS Norge acquired interests in a portfolio of 14 Heimdal licences on the Norwegian Continental Shelf. In accordance with the Norwegian tax law, thanks to the transaction we began to recover funds invested in the Yme project. We expect that by 2016 we will be able to recover two-thirds of our investment.

On the Baltic Sea, our production exceeded the 2013 target. Such strong performance was a result of resumed production at the PG-1 rig within the B3 field. The project was well planned and completed safely (with no accidents). The success is all the more significant given the complexity and technical challenges that were involved in the overhaul of the PG-1 rig.

The capital market took notice of, and reacted very positively to, these achievements. We enjoy the full confidence of financial institutions, which makes it easier for us to raise funds for further investments.

In December 2013, LOTOS Petrobaltic purchased the GSF Monitor drilling rig. Once placed in operation under the name 'LOTOS Petrobaltic', it will help us discover the remaining hydrocarbon accumulations under the Baltic Sea floor, particularly those which could not be reached earlier due to their location at depths of more than 90m below the seabed.

The new drilling rig will take over the role of the existing 'Petrobaltic' platform, which will be converted into a production centre for the B8 field. It is worth noting that the field development was so well prepared that Polskie Inwestycje Rozwojowe, the Polish state's SPV established to provide long-term financing for the most viable infrastructure projects, selected it – from among many others – as the first project to receive its support. This confirms the strong expertise of our crews and the financial institutions' confidence with our business.

We carried out seismic surveys over six offshore licences on the Baltic Sea, covering an area of more than 1,200 km<sup>2</sup>. We had not conducted exploration on such a large scale for many years. This is a good investment in the future, as are the two new licences we acquired in 2013. A final decision on the manner of developing the B4 and B6 gas fields is soon to be made. This project will combine our knowledge of the Baltic Sea with the competences and potential of CalEnergy, our partner in the project.

We are strengthening our presence on the Baltic Sea, while conducting operations under onshore licences in partnership with PGNiG. Our first joint projects were launched in 2013 in Kamień Pomorski and Górowo Iławeckie, and now we are preparing to develop our cooperation.

In Lithuania, our production stabilised at a level which nearly meets the target, while the seismic surveys carried out and five production wells drilled in 2013 are expected to further boost production in the future.

In 2013, we reorganized and restructured the segment companies under the Effective and Rising Programme. The companies whose core business consists in hydrocarbon exploration and production may now focus more closely on these operations. All assets and services with a support function are being transferred to other companies, mostly of the Miliana Group, part of the LOTOS Group.

In 2013, we built a strong foundation for even faster and more efficient development of the upstream segment. In 2014, for the first time ever, the value of the LOTOS Group's upstream CAPEX in a single year will exceed PLN 1.5bn, with nearly PLN 1bn allocated to Baltic Sea projects.

We are consistently striving to achieve our strategic target: a production capacity of 1.2m tonnes by the end of 2015.

# Exploration and production

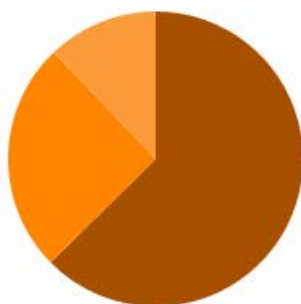
Grupa LOTOS is engaged in exploration and production through the LOTOS Petrobaltic Group in the following countries:

- **Poland** – LOTOS Petrobaltic and its subsidiaries;
- **Lithuania** – AB LOTOS Geonafta and its subsidiaries;
- **Norway** – LOTOS Exploration and Production Norge AS.

The LOTOS Petrobaltic Group includes companies conducting support activities: the Miliana Group and Energobaltic Sp z o.o. The Miliana Group renders sea transport services to LOTOS Petrobaltic, while Energobaltic was established to manage associated gas produced from the B3 field and – in the future – from other hydrocarbon accumulations located in the Baltic Sea. At the Władysławowo CHP Plant, the company is involved in the production of electricity, heat, LPG and natural gas condensate, using associated gas from an offshore oil production facility (the B3 field).

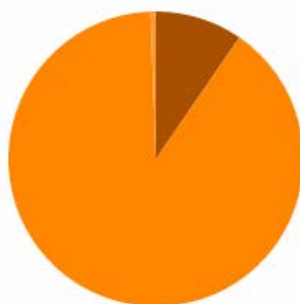
As at the end of 2013, crude oil reserves and resources held by the LOTOS Petrobaltic Group amounted to 8.08 million tonnes or 62.08 million boe (reserves classified as 2P), and 1.80 million tonnes or 13.63 million boe (resources classified as 2C), whereas its natural gas reserves and resources were 1.09 billion cubic metres (2P) and 6.49 billion cubic metres (2C).

Crude oil reserves classified as 2P  
(thousand tonnes)



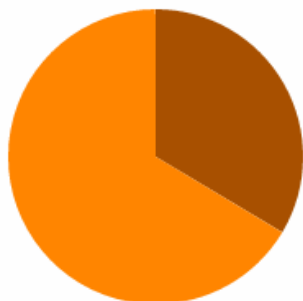
■ Baltic Sea  
■ Norwegian Continental Shelf  
■ Lithuania

Crude oil reserves classified as 2C  
(thousand tonnes)



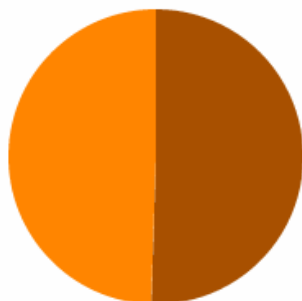
■ Baltic Sea  
■ Norwegian Continental Shelf  
■ Lithuania

Natural gas reserves classified as 2P (billion cubic metres)



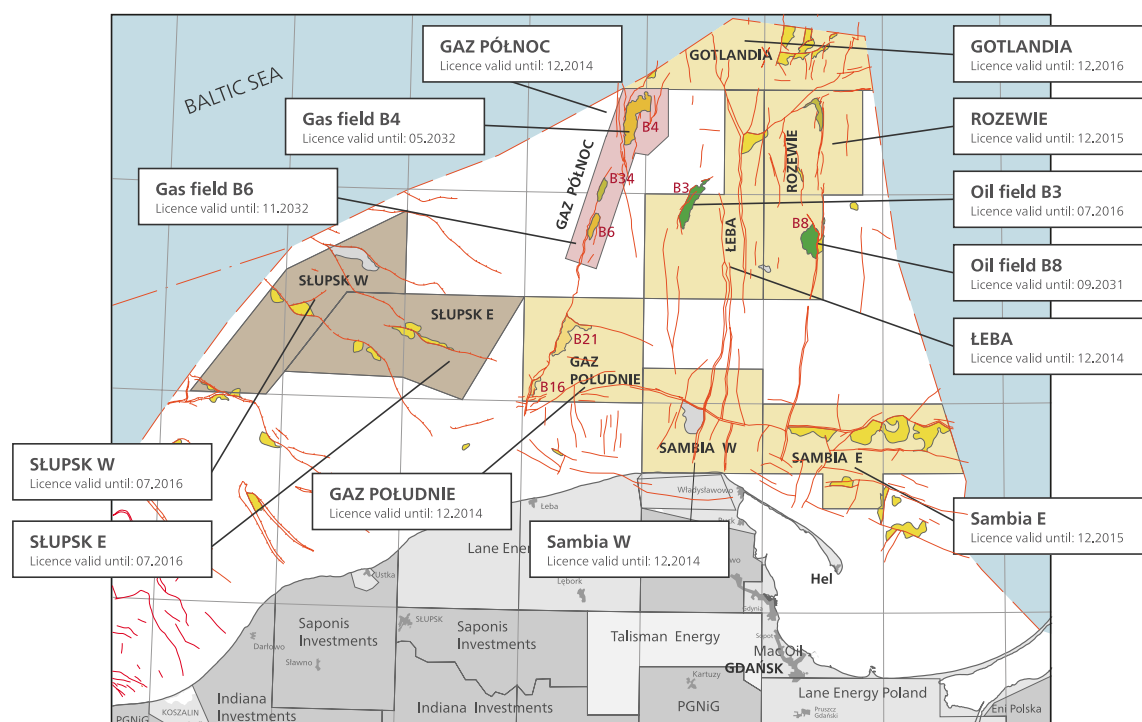
■ Baltic Sea  
■ Norwegian Continental Shelf

Natural gas resources classified as 2C (billion cubic metres)



■ Baltic Sea  
■ Norwegian Continental Shelf

## Poland – Baltic Sea



LOTOS Petrobaltic is the only Polish enterprise engaged in hydrocarbons production in the Polish economic zone of the Baltic Sea. At the end of 2013, the company held:

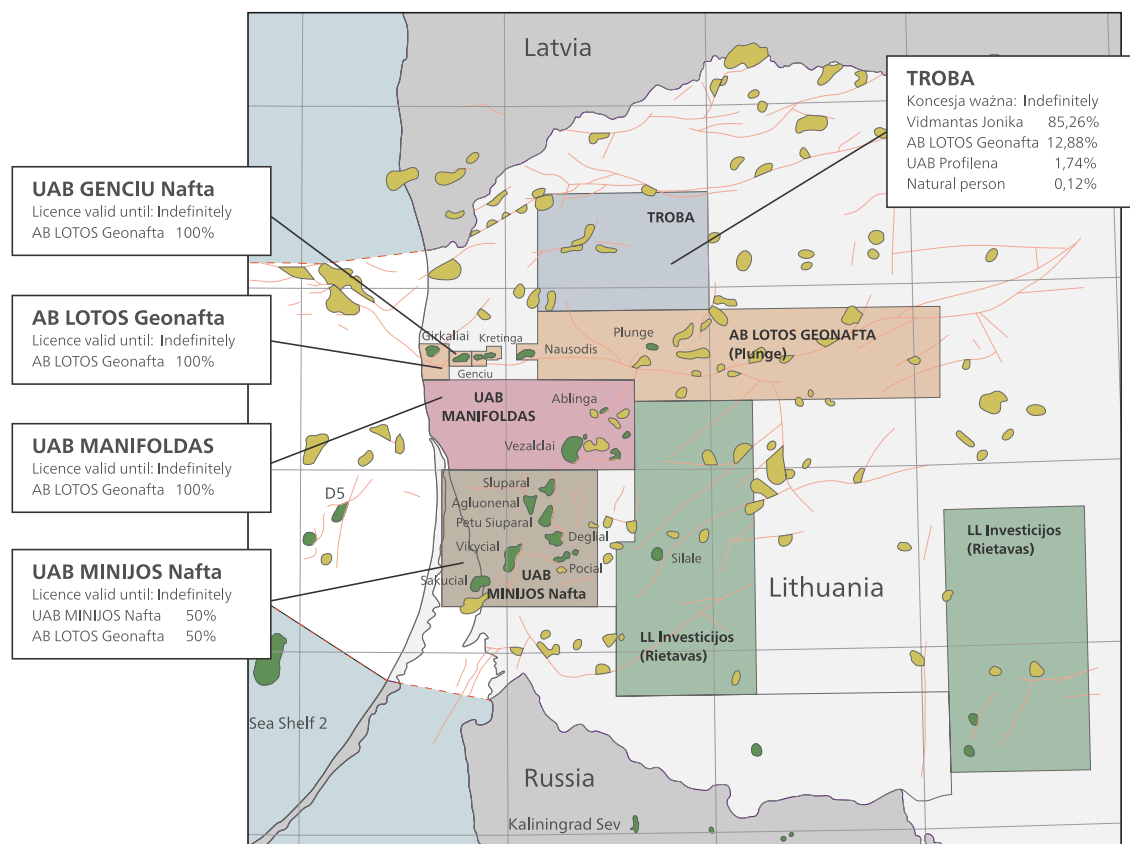
- Nine licences for the exploration for and appraisal of crude oil and natural gas deposits, with two of them, Słupsk E and Słupsk W, obtained in 2013. The total area of LOTOS Petrobaltic's licences is more than 8.5 thousand square kilometres.
- Four licences for hydrocarbons production:
  - on the B3 field, for the production of crude oil and associated natural gas, located 73 km north of Rozewie; the process of extending the licence until 2026 is currently under way;
  - on the B8 field, for the production of crude oil and associated natural gas, located 70 km north of Jastarnia; the field is currently being developed;
  - on the B4 and B6 fields, for the production of natural gas, located north of Łeba; a development project of the fields is being prepared in partnership with CalEnergy Resources Poland.
  - no application was filed for extending the Gaz Północ licence, which expired in April 2013.

In 2013, in the Baltic Sea, LOTOS Petrobaltic was extracting hydrocarbons from the B3 field.

Crude oil production from the Baltic Sea totalled 145.6 thousand tonnes (1,128.2 thousand bbl) in 2013. Output of associated natural gas totalled 16m Nm<sup>3</sup>.

As at the end of 2013, crude oil reserves and resources in the Baltic Sea amounted to 5.06 million tonnes or 39.28 million bbl (reserves classified as 2P), and 0.17 million tonnes or 1.44 million bbl (resources classified as 2C), whereas natural gas reserves and resources were 0.37 billion cubic metres (2P) and 3.28 billion cubic metres (2C).

## Lithuania



Crude oil production from the Lithuanian fields totalled 73.5 thousand tonnes (563.8 thousand bbl) in 2013.

As at the end 2013, crude oil reserves in Lithuania classified as 2P amounted to 0.98 million tonnes (7.5 million bbl).



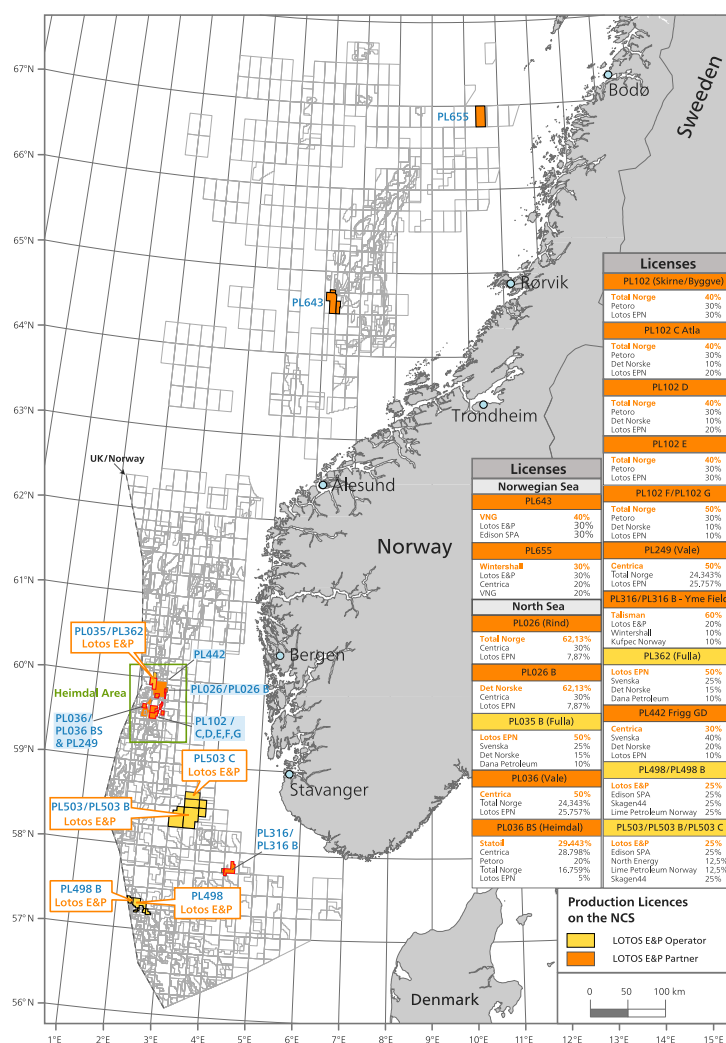
## Norway – Norwegian Continental Shelf:

LOTOS Exploration & Production Norge AS (LOTOS Norge) of Stavanger, Norway, is the subsidiary responsible for our operations on the Norwegian Continental Shelf. At the end of 2013, the company held interests in 24 licences for oil exploration and production: PL 316, PL316B, PL 455, PL 498, PL 497, PL497B, PL 503, PL503B, PL 643, PL 655; and licences acquired as part of the Heimdal portfolio: PL026, PL026B, PL035B, PL036BS, PL036, PL102, PL102D, PL102E, PL102G, PL102F, PL102C, PL249, PL362, and PL442. LOTOS Norge was the operator of six licences: PL035B and PL362 (since January 16th 2014), PL455, PL 498, PL 503 and PL503B.

On January 21st 2014, in the APA 2013 round (Awards in Pre-defined Areas) LOTOS Norge was awarded two licences: 503C and 498B, for which LOTOS Norge will act as the operator. Furthermore, the company resigned on January 23rd 2014 from two licences: PL 497 and PL 497B, and on March 1st 2014 from licence PL 455, due to lack of production prospects.

As a result of the changes described above, on the date of this Report LOTOS Norge holds 23 licences on the Norwegian Continental Shelf, including 7 for which it acts as the operator.

LOTOS Norge holds a 20% interest in PL316/316B – Yme licence, developed by a consortium which includes Talisman Energy as the operator.



On December 30th 2013, the ownership of the Vale, SkirneByggve and Atla fields on the Norwegian Continental Shelf was acquired. Production corresponding to LOTOS Norge's interest is estimated at 5 thousand boe/d (approximately 240 thousand toe – tonnes of oil equivalent – a year).

As at the end of 2013, crude oil reserves and resources of the Norwegian fields amounted to 2.04 million tonnes or 15.3 million bbl (reserves classified as 2P), and 1.61 million tonnes or 12.11 million bbl (resources classified as 2C), whereas natural gas reserves and resources were 0.72 billion cubic metres (2P) and 3.21 billion cubic metres (2C).

## Achievements

Major achievements in the hydrocarbon exploration and production business in 2013 included:

In Poland

### Relaunch of production from the PG-1 drilling rig

Repair of the PG-1 rig was completed as scheduled and production was resumed from the B3 oil and gas field in the Baltic Sea.

### Development of the B8 field

Plan for development and operation of the B8 field was implemented as scheduled. Drilling work was carried out on the B8-5K well, a contractor was selected for key design, procurement and management of shipyard operations, as well as construction design for the conversion of the 'Petrobaltic' rig into a production centre. In October 2013, Polskie Inwestycje Rozwojowe and LOTOS Petrobaltic executed an agreement on the development financing for the B8 oil field in the Baltic Sea.

### Development of the B4/B6 gas fields

Preparatory work on the B4/B6 gas fields was continued in partnership with CalEnergy Resources Poland. Upon the Ministry of Environment's consent, in March 2013 the Gaz Północ licence and production licences covering the B4 and B6 fields were transferred to the company. In April 2013, CalEnergy became a limited partner in Baltic Gas Sp. z o.o. i Wspólnicy Spółka Komandytowa, an SPV established by LOTOS Petrobaltic for the purposes of the investment agreement concluded with CalEnergy in 2012. In 2013, a 3D seismic survey was performed over the Gaz Północ licence area. Work was carried out to select a development concept, including assessment of the possibility of using existing offshore and onshore infrastructure, and negotiations were held with potential customers for natural gas.

### Seismic surveys in the Baltic Sea

Exploratory and appraisal activities were carried out. In 2013, 400 km of 2D seismic and 870 km<sup>2</sup> of 3D seismic were acquired over the Gaz Południe, Gaz Północ, Łeba, Rozewie, Sambia W and Sambia E licence areas. The Baltic production potential is estimated at 30m toe of hydrocarbons. Prospects are located beneath the seafloor at depths of more than 90 m.

## New licences in Poland

The Ministry of Environment awarded LOTOS Petrobaltic two new, three-year licences for the exploration of crude oil and natural gas in the Polish Economic Zone of the Baltic Sea: Słupsk W and Słupsk E. The licence areas cover 1,021 km<sup>2</sup> and 1,139 km<sup>2</sup>, respectively. At present, the total area of the Baltic Sea exploration and appraisal licences is over 8.5 thousand km<sup>2</sup>.

## Acquisition of a drilling rig

The company signed an agreement for purchase of the GSF Monitor jack-up drilling rig. In 2014 the platform, named 'LOTOS Petrobaltic', will take over the drilling operations after the existing 'Petrobaltic' rig is converted into a production centre for the B8 field. The drilling rig is capable of drilling in offshore areas at depths of 105 m, and, if its legs are extended, at depths of up to 120 m.

## Cooperation with PGNiG

With a view to expanding its operations in onshore areas, in August 2013 an agreement was signed with PGNiG on joint operations in the Kamień Pomorski licence area. Located in the Province of Szczecin, the licence is among the most prospective ones in the region and covers an area of 217 square kilometres. The exploratory work contemplated by the agreement will allow the partners to evaluate the reserves volumes and decide whether to launch production.

## In Norway

### Yme Project - agreement with SBM

To recover capital invested in the Yme project, in March 2013 an agreement was reached between Talisman Energy (Yme field operator) and SBM Offshore (rig manufacturer) on removal of the defective rig from the field. SBM Offshore paid the joint venture partners an amount of USD 470m. On behalf of the licence holders, Talisman Energy agreed to make the necessary preparations and remove the platform from the field. SBM Offshore will be responsible for towing and scrapping the platform onshore. Further, ownership of the subsea structure supplied by SBM Offshore will be transferred to the joint venture partners.

### Purchase of Heimdal assets

In October 2013, LOTOS Norge and Centrica entered into an agreement on acquisition of the Heimdal exploration and production assets. The transaction covers 14 licences in the central part of the North Sea, including: Heimdal gas hub (operated by Statoil), three producing fields (Byggve/Skirne, Atla, and Vale), three fields to be developed (Frigg GammaDelta, Fulla and Rind), as well as exploration prospects. As at the effective date of the transaction, i.e. January 1st 2013, proved recoverable volumes of the producing fields were estimated at 9m boe, with contingent resources of the fields to be developed amounting to 31m boe. The value of the transaction was USD 175.8m.

## In Lithuania

### Preparations for development of our licence areas

To fully develop our onshore licence areas, a production drilling programme was implemented. The drilling of five new wells was completed and the feasibility of increasing production using EOR (Enhanced Oil Recovery) techniques was analysed. Seismic surveys were carried out in Klaipėda, Ablinga, and Lizai/Auksoras areas.

Following these steps, in particular the transaction with Centrica and acquisition of the Heimdal assets, the annual production potential of our exploration and production segment has reached 0.5m tonnes, or 42% of the strategic target set for the end of 2015.

## Challenges in strategy implementation until 2015

The principal strategic goal for the exploration and production segment is to increase the production potential to 24 thousand boe (barrel of oil equivalent) daily (or 1.2m tonnes of crude oil annually) in 2015. In 2014, we plan to undertake the following key initiatives as part of our strategy:

### Poland

- Continued production from the B3 field on the Baltic Sea using the PG-1 rig.
- Development of the B8 field.
- Exploration and production work to fully appraise the production potential of the Baltic Sea.
- Continued work aimed at developing the B4/B6 gas fields together with CalEnergy Resources Poland.
- Further cooperation with PGNIG to participate in the exploration for and appraisal of conventional and unconventional oil and gas resources under onshore licences.

### Norway

- Development of and production from the fields forming part of the Heimdal portfolio.
- Further steps to recover capital invested in the Yme project.
- Evaluation of further asset purchase opportunities in the Norwegian Continental Shelf.

### Lithuania

- To fully develop our onshore licence areas, a production and exploration drilling programme will be implemented.
- Evaluation of possible licence acquisitions in Lithuania.
- Completion of feasibility analyses regarding a production increase using Enhanced Oil Recovery techniques and implementation of their results.

## Development prospects until 2020

The LOTOS Group's development directions until 2020 provide for increasing the production potential to approximately 100 thousand boe (barrel of oil equivalent) per day, or 5 million tonnes of oil per year, and securing approximately 330 million boe of proved recoverable reserves.

In 2016-2020, we plan to fully appraise the production potential of the Baltic Sea. Concurrently, we intend to intensify our onshore activity. On international markets, we plan to build a sustainable asset portfolio and gradually boost organic growth.

We also consider embarking on unconventional oil and gas projects.

The development of our exploration and production segment in 2016-2020 in Poland will involve:

- Continued oil production from the B3 and B8 fields on the Baltic Sea.
- Launch of gas production from the B4/B6 fields on the Baltic Sea.
- Full appraisal of the hydrocarbon potential of the Baltic Sea assets.
- Preparation and execution of projects to develop the Baltic Sea areas with confirmed resources.
- Production from onshore fields, expansion of onshore operations through faster development of oil and gas discoveries.
- Assessment of economic viability of potential involvement in unconventional projects.

Our international expansion plans for 2016–2020 envisage in particular:

- Projects to develop areas with confirmed resources.
- Acquisition of production assets and undeveloped assets with confirmed resources which can be brought on-stream by 2020.
- Production increase in Lithuania, e.g. by employing enhanced oil recovery (EOR) techniques and developing new prospects with confirmed resources.
- Evaluation of development opportunities in new geographies.

## Statement by Marek Sokołowski

Vice-President of the Management Board, Chief Operation Officer, Grupa LOTOS



**”** In the refining business, the key challenge in 2013 was to adjust the output mix to market expectations, while keeping operating expenses in check and utilising the production capacities in the optimal way.

**Marek Sokołowski**

Vice-President of the Management Board,  
Chief Operation Officer, Grupa LOTOS

In the refining business, the key challenge in 2013 was to adjust the output mix to market expectations, while keeping operating expenses in check and utilising the production capacities in the optimal way.

In the first place, our efforts were designed to:

- Maximise the use of natural gas as a fuel and feedstock for hydrogen production, especially that gas remained the cheapest available fuel throughout 2013;
- Optimise the use of refinery units. A major success in 2013 was an increase in the conversion ratio of one of the MHC hydrocracking units, built as part of the 10+ Programme. The 90% conversion ratio achieved in August 2013 was a further improvement on the 85% ratio recorded in 2012, and marked an enormous progress versus the nameplate ratio of 60%. It was reflected in the increase of the yearly-average conversion ratio from 83.8% in 2012 to 85.7%;
- Maximise the output of highest-margin products, especially diesel oils and aviation fuel.

An important aspect of a refinery's efficiency lies in the reliability of its units and installations. To ensure problem-free operation of refining units over a longer time, it is necessary to carry out periodic overhauls. In spring 2013, a large-scale overhaul shutdown was undertaken in our refinery in Gdańsk, the first one since the refinery was reconfigured under the 10+ Programme. Even though the scope of the overhaul was significantly more extensive than in the past, the refinery benefited from operating two independent crude distillation lines, the overhaul of which was phased. Thus, the overall downtime in feedstock processing was shorter than during past overhaul shutdowns.

Another important aspect of the refinery's operating efficiency is connected with its energy efficiency. Our complex in Gdańsk has for long been ranked among the most energy efficient European refineries. What is more, each improvement in energy efficiency leads to a noticeable reduction in operating expenses. In 2013, three process furnaces were replaced. The worn-out, low-efficiency furnaces were replaced with state-of-the-art units fitted with heat recovery systems, which further enhances their energy efficiency.

In 2013, projects were continued to increase the use of gas fuel by the refinery, including conversion of the third boiler of the CHP plant into a gas-fired unit. The last boiler will be upgraded in 2014 and from that time on all boilers of our CHP plant will be adapted to run on natural gas. In 2013, we also commenced the construction of a Hydrogen Recovery Unit. Once the project is completed, we will be able to recover hydrogen, LPG and naphtha from low-pressure refinery gases, currently burned in furnaces as a fuel. The recovery of hydrogen and its use in refining processes will reduce the overall cost of hydrogen production and help intensify the oil refining process. The other recovered streams will be marketed as LPG and pyrolysis gasoline. The project is to be implemented in 2013–2016.

To diversify crude oil supply sources and directions, we have launched the Oil Unloading Railway Terminal project, which will enable us to receive and unload oil delivered by rail cars to the refinery in Gdańsk. By developing the necessary infrastructure for unloading oil from rail cars, we will be able to use domestically produced oil in our units.

We are also continuing our plan designed to implement the strategic objective of increasing the conversion ratio and intensifying crude processing by building the coking complex to process the heavy residue from crude oil processing into high-value products. The front-end engineering design stage for the coking complex ended in August 2013. As part of that stage, a coking process licence and technologies for accompanying processes were selected and purchased, and a number of necessary technical analyses were performed. The selection of utility providers and product buyers was commenced. Steps were also taken to ensure adequate financing for the project. The coking unit will be completed in 2017.

In 2012, Grupa Azoty and Grupa LOTOS signed an agreement to jointly carry out a preliminary feasibility study into the construction of a petrochemical production complex. Based on the study results, construction of a steam cracker unit was proposed as a recommended course of action. In December 2013, the Boards of both companies entered into an agreement in which they defined the terms of cooperation and financing of further work. A full feasibility study will mark the next stage in our joint petrochemical project, to determine whether the investment is viable and identify its potential economic benefits.

In 2013, our refinery was once again included in the refining industry comparative performance analysis prepared by Solomon Associates. 2011-2012 were the compared years. For the purposes of the benchmarking study, the refinery is virtually divided into the fuels segment (fuels refinery) and the lubricant segment (lube refinery). The fuels refinery is subject to the Europe, Africa & The Middle East Fuels Refinery Performance Analysis, so the peer group is formed by refineries from those geographical regions. In 2013, the group numbered 107 refineries. The lube refinery is subject to the Worldwide Paraffinic Lube Refinery Performance Analysis, which in 2013 covered 42 refineries.

2012 was the first benchmarking year when all the refinery processes configured as part of the 10+ Programme were fully operational. The Grupa LOTOS fuels refinery performed very well against the peer group. The construction of modern facilities markedly enhanced the refinery's energy efficiency. At present, the Grupa LOTOS refinery is among the most energy efficient refineries in Europe, with only 5% or so of the refineries having scored better in this category. Further improvement was also seen in labour productivity, as the 10+ Programme had markedly enhanced the refinery's capacity, with only a slight increase in workforce. Since 2006, the labour productivity ratio has improved by approximately 30%.

Return on capital employed, the most synthetic of all ratios, places the Grupa LOTOS refinery among the 25% best refineries in the analysed region.

# Processing business

The LOTOS Group's operating activity is centred on refining operations and supplying the market with high quality products, while utilising the production capacities in the optimal way and minimising the adverse environmental impact.

The Group's operating segment comprises the operations of the refinery in Gdańsk - the largest production plant in the LOTOS Group, and those of subsidiaries involved in production or support functions. The subsidiaries include LOTOS Infrastruktura, LOTOS Serwis, LOTOS Lab, LOTOS Straż and LOTOS Ochrona.

## Achievements

The spring 2013 overhaul shutdown was the most important event of the year at the Grupa LOTOS refinery. It was the first major overhaul shutdown since the refinery's expansion under the 10+ Programme. The purpose of such shutdowns is to ensure safe operation of the refinery equipment by restoring them to full working order. It is only during these stoppages that certain inspections required by the Office of Technical Inspection can be carried out. In addition, they are an opportunity to implement a number of upgrades, which cannot be done while the units are operational. In the Grupa LOTOS refinery, overhaul shutdowns are carried out at four-year intervals.

The work slated for the 2013 overhaul shutdown was carried out in full. The overhaul work schedule was prepared in accordance with relevant benchmarks for the refining industry, with the target overhaul duration across key process units within the European average. Additionally, in the refinery's current configuration, it was possible to divide the work between two independent oil distillation lines, the overhaul of which was phased. As the total downtime in crude oil processing was reduced, the shutdown's impact on the market availability of the refinery's products was less significant than in previous years.

The overhaul shutdown was used as an occasion to carry out a number of efficiency improving projects, designed to optimise the refining processes and replace old units. The most important of these included:

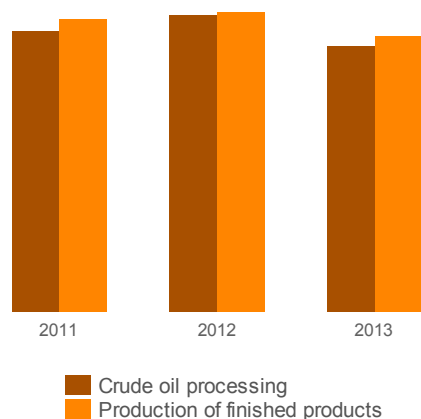
- modernisation of the liquid gas separation facility, which increased the unit's capacity and raised the quality of liquid gas streams,
- modernisation of the gasoline hydrodesulphurisation and separation column, resulting in higher potential output of more expensive gasoline from naphtha processing and improving the process efficiency,
- launch of a flare gas recovery unit, designed to enable the use of flare gas as a fuel. The implementation of the project improved the Company's energy efficiency, reduced its environmental impact (CO<sub>2</sub> emissions and noise) and enhanced its image,
- replacement of old furnaces at the gasoline hydrodesulphurisation and oil refining units. Thanks to their high energy efficiency and enhanced operating profile, the new furnaces will improve the units' production performance.

In 2013, the 30-day downtime led to a year-on-year decrease in the volume of crude oil processed. The refinery processed 8.7m tonnes of crude, which means that the average annual utilisation rate of its installed capacities was 82.9%. The refinery's workload was adjusted to market conditions, which remained challenging throughout the year.

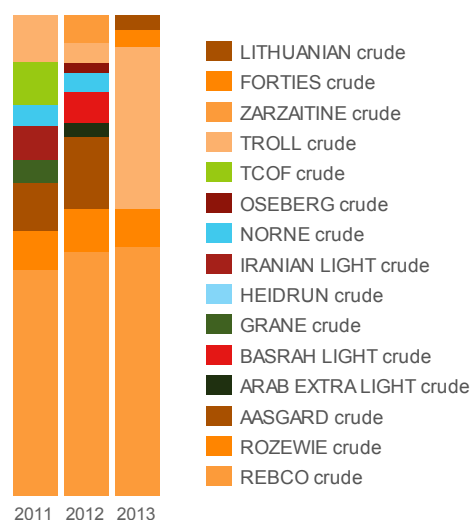
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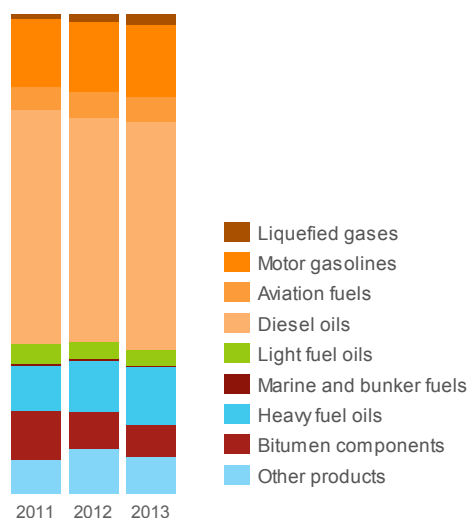
### Crude oil processing and production of finished products at the Grupa LOTOS refinery (million tonnes)



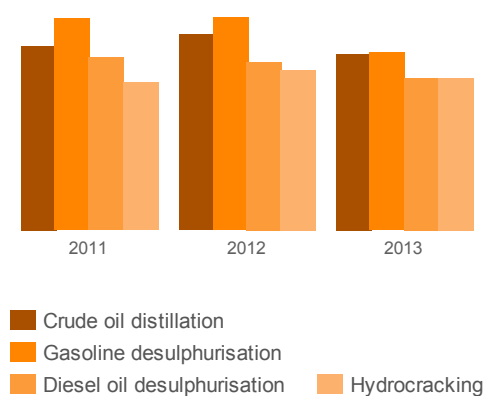
### Crude slate (%)



### Finished products (%)



### Utilisation of the refinery's capacities (%)



As in previous years, the main type of crude processed was Russian REBCO, whose share in the total volume was close to 90.4% and remained relatively flat on previous years. Crude oil imported by sea, including approximately 140 thousand tonnes of Rozewie crude supplied by LOTOS Petrobaltic, accounted for the balance of the crude feed. Following LOTOS Petrobaltic's acquisition of AB Geonafta, the refinery in Gdańsk also began processing crude oil supplied from Lithuania. In 2013, the volume of Lithuanian crude processed by our refinery was close to 48 thousand tonnes. Throughout the year, we recorded no supply disruptions which could affect the volumes of crude processed by the refinery.

In 2013, the margin levels and demand conditions favoured maximised production of middle distillates such as diesel oil, aviation fuel and light fuel oil, with these products accounting for nearly 56% of the refinery's total output.

The refinery's utilisation rate fell as a result of the overhaul shutdown. However, the hydrocracking unit's 2013 workloads were comparable to those recorded in 2012. This was attributable chiefly to a very short downtime of the 390 hydrocracking unit, which was built as part of the 10+ Programme and launched in 2011, and so did not require any substantial repairs.

Throughout 2013, the focus was on maximising the use of natural gas as a fuel and feedstock in hydrogen production. Natural gas consumption rose by 75% year on year, to reach 372 thousand tonnes. As a result, the output of products previously consumed at the refinery instead of natural gas, such as liquefied gas, gasolines and fuel oil, went up.

## Research and development

The focus of our research and development activities was on further optimisation of technologies for the oils unit's products manufactured at our refinery in Gdańsk. The most important R&D achievement in 2013 was the development of production technology for bright stock oil with an increased viscosity index of 95 or more, followed by successful production launch and marketing of the product. The viscosity index was increased by using paraffin fraction residue.

As regards road bitumen and oil production technologies, in 2013:

- industrial validation was obtained for MODBIT 45/80-55 CR, a new polymer-modified bitumen with added rubber recovered from waste rubber, designed for construction of hard-wearing and environmentally friendly roads;
- laboratory validation was performed for MODBIT 25/55-60 CR, a new bitumen minimising the effects of road structure stiffening at very low temperatures;
- testing was completed for L-HV hydraulic oils for compliance with the Denison HF-0 requirements, to obtain the required Approvals;
- field tests were carried out for oils to be used in stationary gas engines, to obtain formal approval for use by selected engine manufacturers;
- new classes of motor and industrial oils were introduced, to offer a range of products suitable for various climate conditions in export countries;
- 27 Approvals for lubricants were extended, and 16 new Approvals were secured.

## Challenges in strategy implementation until 2015

Actions taken in 2013 were consistent with the objectives of the LOTOS Group's business and CSR strategies until 2015. In the years to come, our efforts to further increase the efficiency of the refinery in Gdańsk will be continued. The key plans for the coming years include:

- Increasing the effectiveness of hydrocarbon production in the refinery through the construction of a Hydrogen Recovery Unit;
- Upgrading the fourth boiler of the refinery's CHP plant by converting it into a gas-fired unit;
- Continuing work on the design of the coking complex;
- Refining our plans for producing high-quality base oils using paraffin fraction from MHC hydrocracking units;
- Further work on the construction of a petrochemical production complex;
- Developing the infrastructure for unloading oil from rail cars.

## Development prospects until 2020

Development directions until 2020 in the processing business concern mostly projects that have already been commenced and are aimed at improving the economic efficiency of feedstock processing at the refinery in Gdańsk. The most important challenges in this area will be:

- The project of a coking complex together with accompanying installations. So far, the technical aspect of the project is quite advanced. However, the real challenge will be to ensure financing for the project as well as the smooth implementation of all its stages. Our experiences gained during the implementation of the 10+ Programme shall prove useful for smooth completion of the coking project.
- The project of a petrochemical production complex, which is currently at the stage of conducting feasibility studies. Shall the project prove to be economically beneficial and financially viable, then its completion will pose a major challenge and will open up a new chapter in the LOTOS Group's activities.

## Statement by Marcin Bodio

International Relations Office Director, Grupa LOTOS, CSR Strategy Leader in the Energy Sector Security area



**”** In line with the business strategy of the LOTOS Group for 2011-2015, we will be seeking to increase our role in enhancing the security of Poland's energy sector by increasing hydrocarbon production and the oil conversion ratio, improving Poland's fuel balance and exploiting synergies between the refining and other segments of the energy sector.

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Enhancing the energy sector's security in a socially and environmentally responsible manner is also one of the key objectives of our CSR Strategy for 2012-2015. It is one of the reasons why we signed the declaration accompanying the 'Vision of Sustainable Development of Polish Businesses until 2050' initiative. The importance of the energy sector is underlined by its being one of the six focus areas indicated in the document as an area where initiatives by business, the government and other groups are necessary to ensure the country's successful long-term development.

In line with our strategy and acting in accordance with the principles of transparency, we take part as experts in government-initiated activities to improve the energy sector's security. We take an active role in the law-making process regarding key energy issues in Poland and the EU. We also actively work with dedicated organizations in Poland and abroad to build platforms for cooperation between the world of business and public authorities.

The promotion of corporate social responsibility manifests our need to stand for common values, which is why Grupa LOTOS actively pursues international efforts, to build a strong position for itself not only in business terms but also as a corporate citizen. Especially worth pointing out is our work within two international organizations, Central Europe Energy Partners (CEEP) and the Atlantic Council.

Grupa LOTOS is an initiator and founding member of CEEP, a regional non-profit organization whose objective is to support integration of the Central European energy sector under the EU's common policy for the energy sector and its security. At present, CEEP represents 22 companies from six Central European countries, which employ more than 300,000 staff and whose total annual revenues are in excess of EUR 40 bn. Thanks to CEEP membership, Grupa LOTOS is able to effectively voice its interests in the EU. The Atlantic Council is one of the most internationally recognisable US think-tanks, pursuing programmes in the fields of energy, the environment as well as global business and economics. As a partner of an organization with the transatlantic reach, we have gained extensive networking opportunities to work towards international security and global economic prosperity.

# Energy sector security

In 2013, the goal of ensuring stable supplies of fuel and energy at prices acceptable to the industry and society at large, with the most efficient use of domestic energy resources, was the most important aspect of our efforts towards the energy sector's security. Accordingly, these efforts focused on the following two areas:

- dynamic development of the upstream segment and active participation of Grupa LOTOS in the law-making processes to support the exploration and production of hydrocarbons;
- contribution to the Polish and EU energy policy - by trying to make the governments, parliaments and the public clearly see that the cost-benefit considerations and social costs should be taken into account when building the energy security.

In 2013, Grupa LOTOS and Central Europe Energy Partners (CEEP) were involved in promoting the energy security policy, in particular the issue of affordable energy and support for the development of indigenous energy resources.

At the 3rd European Economic Congress in Katowice, Grupa LOTOS and CEEP co-hosted *'The role of energy in a competitive Europe'* discussion panel, held chiefly to highlight the fact that recovery and development of the industry is the key challenge which needs to be addressed in order to restore economic growth and create new jobs. However, this will not be possible if the energy costs keep growing.

A number of politicians and businessmen attended *'The Internal Energy Market in the EU – A Chance for Central Europe?'* discussion panel organised by CEEP at the 23rd Economic Forum in Krynica. The participants unanimously agreed that a unified internal market would bring up a number of opportunities for Central Europe, in particular in the area of cohesion policy, but also certain challenges, which need to be monitored and taken into account when creating an internal energy market.

Representatives of Grupa LOTOS and CEEP also took part in the Global Security Forum conference in Bratislava, which was a major event organised as part of the Polish presidency of the Visegrád Group, featuring, among other things, a presentation of the *'What Energy, Price, Growth'* report commissioned by CEEP from Roland Berger Consultants. It was noted that the EU's unified energy sector policy which does not account for differences in economic development or the sector's specific nature would be damaging to Central European countries.

One of the key events to inaugurate the Lithuanian presidency of the EU was the '29+1' debate held in Vilnius. The formula for the '29+1' energy summit was already successfully tested in 2012 in Budapest. Representatives of the 29 leading energy sector companies from Central Europe participating in the summit had an opportunity to present their views and discuss certain issues facing the sector with Günther Oettinger, EU Commissioner for Energy. The idea behind the '29+1' meetings is to ensure that Central European energy companies have a say in developing the EU's joint position and energy security policy.

Grupa LOTOS also took part in the Refining Roundtable organised by the European Commission's Directorate-General for Energy (DG Energy), placing emphasis on the impact of EU legislation on the refining sector's competitiveness.

As a CEEP member, in 2013 we were involved (as part of the public consultation process) in preparing the EU's position on the following issues:

- 2015 International Climate Change Agreement: Shaping international climate policy beyond 2020;
- Exploration and production of unconventional hydrocarbons in Europe;
- Energy prices in Europe.

## Statement by Wojciech Blew

Technology Development and HSE Director, Grupa LOTOS, CSR Strategy Leader in the Management of Natural Resources in the Production Process area



In Grupa LOTOS' environmental policy, we have been pursuing the commitments embedded in the Global Compact Principles. We reconfirmed this again in 2012 by signing the Declaration of Polish Businesses for Sustainable Development. We put in practice the provisions of the two documents by ensuring that our production installations always operate in strict conformity with the most stringent environmental requirements, and by opting for innovative technological solutions when it comes to development and new projects. We also implement such technical solutions that meet the stringent requirements of best available techniques in terms of environmental impact and rational use of natural resources.

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We take care to design and conduct our production processes with a primary focus on prevention, so that the generation of pollution and other nuisances is prevented at source, and if that is not sufficient to minimise the impacts – we make investments necessary to protect the environment. Such an approach is reflected in the LOTOS Group's business strategy as part of an operating objective to limit the environmental risk and to constantly strive to minimise the negative environmental impact, and in the organization's CSR supporting its business objectives.

Our advancement in attaining another objective identified in our business strategy, which is to meet the best global production standards and remain highly competitive among European refineries, is well characterised by the results of a comparative study by Solomon Associates, presented in 2013. In the 'energy efficiency' category, we ranked at the beginning of the first quartile among global refineries, and first in Central and Southern Europe. Thanks to creative solutions proposed by our Gdańsk-based engineers, Grupa LOTOS' hydrocracking unit (MHC) achieves a conversion ratio of 90%, compared with a 60% licensor-rated conversion ratio for the same type of feedstock.

We have seen good progress in the pursuit of a key objective of our CSR strategy – to reduce the environmental risk and make constant efforts to minimise the negative environmental impact of the LOTOS Group's operations.

Throughout 2013, we were successfully expanding the use of natural gas in the refinery's fuel gas network. A substantial increase in the use of gas in the refinery's energy system and as feedstock for production of hydrogen, replacement of old inefficient furnaces at two production units, and redirecting of flare gas to the heating network have all allowed us to achieve better-than-expected results in the implementation of our strategic CSR objective for carbon dioxide emissions. The average emissions volume in 2013 was 30.4kg CO<sub>2</sub>/CWT versus the 33.8kg CO<sub>2</sub>/CWT targeted at the end of the year.

### Wojciech Blew

Technology Development and HSE Director, Grupa LOTOS, CSR Strategy Leader in the Management of Natural Resources in the Production Process area

We promote the awareness of best environmental practices and standards among our employees as well as the local communities. Our activities in this area include meetings, reunions, debates and conferences, publications in our internal media, as well as reaching our employees directly with information to raise their environmental awareness and popularise good environmental practices and standards. A notable event among those organised in 2013 consisted in a comprehensive survey carried out among the LOTOS Group's employees, which on the one hand allowed us to evaluate the degree of their environmental awareness in the workplace and at home, and on the other hand had an educational value. Another important event was an integrating meeting for environmental protection specialists from all major industrial plants in Pomerania, the first of its kind. The meeting was devoted to environmental management, including industrial failures and mitigation of the risk of such failures, implementation of the IED directive into the Polish law and monitoring of how industrial operations affect the natural environment. We also continued to host trips to our refinery with a view to popularizing information on how the environmental impact of our facilities is being reduced, and we carried out other educational campaigns.

We invariably monitor the environmental footprint of the LOTOS Group's infrastructure beyond our mandatory obligations. In order to limit the risk of uncontrolled environmental impact, we continued the review of our service stations' documentation, an exercise commenced in 2012. In 2013, the review covered 70% of the service stations (compared with 30% a year earlier). We also identified the stations (with a particular focus on stations located in Natura 2000 sites) for which we will procure environmental impact assessments.

In 2013, we selected the contractor to perform the large-area environmental inventory of the refinery grounds in Gdańsk and its surrounding areas. The results of this analysis, due to be completed in early 2015, will provide information on the condition of the environment within the refinery grounds and in adjacent areas.

We also seek to maintain the content of pollutants in treated wastewater and discharged water at the lowest possible levels. Just like in previous years, in 2013 the average annual ratio of pollutant charge introduced to the Rozwójka and Martwa Wisła rivers did not exceed the admissible level for all of the monitored indicators except one. The one exception was the boron content, an indicator added to our permit in view of the fact that we began to receive wastewater from the Eko Dolina landfill site. The recorded level of this indicator, which exceeded the permitted level by 50%, is attributable to the composition of the received wastewater.



# Environmental impact

✔ - data has been verified

[See full text of the Independent Assurance Report >](#)

When considering our environmental impacts, at the LOTOS Group we are especially concerned with gas emissions, which are the most critical source of environmental nuisance, both for the immediate environment of our plants and other areas located further away. The approach to emissions of greenhouse gases, including carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), fluorinated hydrocarbons (HFC<sub>s</sub>), perfluorinated hydrocarbons (PFC<sub>s</sub>) and sulphur hexafluoride (SF<sub>6</sub>), is becoming an increasingly more important element of the assessment whether a company operates in accordance with the principles of sustainable development and corporate social responsibility. Recently, we have also seen a wave of increased stakeholder interest in these issues, especially after the 19th edition of the Conference of *Parties* (COP19) organized by Poland, during which representatives of many countries from around the world were discussing the risks entailed by climate change, as well as ways of preparing for and possibly counteracting such change.

At Grupa LOTOS, given that we participate in the EU Emissions Trading Scheme and have a sense of our material contribution to the country's climate policy, we attach great importance to all issues related to the emissions of greenhouse gases as a result of the processes taking place in our installations. In all our projects we consistently stick to the policy of taking into consideration and implementing the Best Available Technologies for our processes.

CO<sub>2</sub> is the only greenhouse gas discharged from Grupa LOTOS' installations ✔. As in the previous year, we did not take continuous measurements of carbon dioxide emission volumes, but instead used a methodology based on calculating those volumes.

2013 was the first year when the manner of monitoring emission volumes of carbon dioxide and other greenhouse gases was centrally regulated – by the EU. This centrally imposed methodology compelled us to introduce some modifications in our approach to the assessment of measurement uncertainty and risk involved in the monitoring process. The consumption of input fuels and materials classified as main streams, namely fuel gas, natural gas and fuel oils, is measured using the most advanced and accurate Coriolis mass flowmeters, which guarantee that the highest accuracy standards are met. In turn, analyses of the parameters (calculation coefficients) of those fuels and materials are performed by an accredited LOTOS Lab laboratory. There was a slight change in the reference calculation coefficients we use for certain smaller streams of fuels and materials. We consult these, as well as any other, changes in the method of monitoring carbon dioxide emissions with a reputable, accredited EU ETS verifier.

The Diesel-powered internal combustion engines of the energy generation system, the steam boilers and crane engines are all sources of greenhouse gas emissions. On the Baltic Beta platform, gases are emitted by the turbines running on gas separated from crude oil. An additional source of greenhouse gas emissions comes from the gas flared on the platform. On the Baltic Beta platform, most excess gas is compressed and returned to shore where it is used for powering other turbines, hence flaring is reduced to a minimum. All the gas produced on the 'Petrobaltic' platform is burned in flare stacks, which are designed to minimise the emission of harmful substances. All of its CO<sub>2</sub> emissions come from the combustion of natural gas and fuel oil in the generation of electricity and heat.

Natural gas extracted from under the Baltic Sea bed does not contain any chemical compounds or substances which could produce emissions of any greenhouse gases other than CO<sub>2</sub> during combustion. The methane which is a component of fuel gas is burnt up and is not emitted into the atmosphere. Other products of gas separation (liquefied petroleum gas (LPG) and natural gas condensate (NGC)) do not contain greenhouse gases and do not produce emissions of any gases other than CO<sub>2</sub> when used by end users.

LOTOS Geonafra's hydrocarbon production operations in Lithuania generate relatively low emissions of harmful substances, which is why no emissions monitoring is undertaken there. As for LOTOS Norge, in 2013 it did not conduct any operations which could be a source of greenhouse gas emissions.

CO <sub>2</sub> emissions in 2013	Unit.	Volume
LOTOS Petrobaltic*	tonne	17,599 ✓
Energobaltic	tonne	11,784 ✓

Emission volumes including offshore activities.

During the overhaul shutdown performed at the refinery in 2013, we introduced a number of low-emission improvements, which have contributed positively to our performance.

#### Type of CO<sub>2</sub> emissions in Grupa LOTOS [thousands of tonnes per year]

Type of emission	2011	2012	2013
Direct	2,045	1,979	1,689 ✓
Indirect	365	400	373 ✓
Total	2,410	2,379	2,062 ✓

A reduction in emissions of carbon dioxide and other pollutants into the atmosphere was achieved also thanks to the completion in 2013 of the following projects:

- **Replacement of process furnaces at the gasoline hydrorefining and oils refining units** – the new furnaces are much more energy efficient compared with the old units;
- **Upgrade of the third boiler at our CHP plant** and its adaptation to the burning of natural gas;
- **Construction of a flare gas recovery unit**, which redirected 45% of the total volume of flare gases to the fuel gas network between the beginning of September and the end of the year.

The only significant source of indirect emissions in Grupa LOTOS is in the purchase and use of electricity ✓. It should be noted that in 2013 we significantly reduced the use of heavy fuel oil as a fuel for heat generation, replacing it with more environmentally friendly fuel gas, the main ingredient of which is natural gas.

These projects allowed Grupa LOTOS to reduce its carbon dioxide emissions by approximately 185 thousand tonnes in 2013.

Apart from carbon dioxide, Grupa LOTOS is also required to monitor emissions of such substances as sulphur dioxide (SO<sub>2</sub>), nitrogen oxides (NO<sub>x</sub>), and particulate matter (PM). The method of monitoring these pollutant emissions remained unchanged from the previous year. Measurements are performed separately for two installations: the CHP plant and the refinery. An online measurement system has been fitted inside the flue gas stack of the CHP plant, which continuously indicates the average concentrations of emitted oxides and particulate matter. Emissions from the refinery are calculated based on periodic measurements.

### Pollutant emissions in Grupa LOTOS [tonnes per year]:

Substance	2011 E <sub>s</sub>	2011 E <sub>d</sub>	2012 E <sub>s</sub>	2012 E <sub>d</sub>	2013 E <sub>s</sub>	2013 E <sub>d</sub>
SO <sub>2</sub>	5,708	7,137	3,370	6,342	548 ✓	5,169
NO <sub>2</sub>	1,620	2,650	1,308	2,501	843 ✓	2,264
PM	344	556	264	461	91 ✓	366

E<sub>s</sub> - actual level of emissions from Grupa LOTOS installations

E<sub>d</sub> - permissible level of emissions

In LOTOS Petrobaltic, fuel combustion emissions of such substances as nitrogen and sulphur oxides are due mainly to the combustion of fuel oils. It needs to be emphasised that none of the emissions from the LOTOS Petrobaltic Group's production operations contain any ozone-depleting substances.

### Pollutant emissions in the LOTOS Petrobaltic Group in 2013 [tonnes]

Substance	Unit	Volume
<b>LOTOS Petrobaltic</b>		
SO <sub>x</sub>	tonne	4.53 ✓
NO <sub>x</sub>	tonne	26.88 ✓
Dust	tonne	2.88 ✓
<b>LOTOS Geonafra</b>		
SO <sub>x</sub>	tonne	0.46 ✓
NO <sub>x</sub>	tonne	2.95 ✓
VOC (volatile organic compounds)	tonne	69.54 ✓
Dus	tonne	0.29 ✓
<b>Energobaltic</b>		
SO <sub>x</sub>	tonne	0.004 ✓
NO <sub>x</sub>	tonne	11.23 ✓
Dust	tonne	0.005 ✓

In 2013, a flare gas recovery unit was put in service at the Grupa LOTOS refinery in Gdańsk. The unit was fitted on one of the two discharge ducts leading to flare 3500. To achieve the greatest possible mitigation of environmental nuisance while ensuring that the project remains economically viable, the unit's connection point was located on the duct which carries the vast majority of all flare gases produced in Grupa LOTOS.

### Amount of discharge – amount of flare gas in Grupa LOTOS [thousand cubic metres per year]

Source	Unit	2011	2012	2013
Flare 3500	thousand cubic metres	21,036	19,388	16,363 ✓
Flare 3550	thousand cubic metres	10,819	3,603	5,499 ✓
<b>Total</b>	<b>thousand cubic metres</b>	<b>31,855</b>	<b>22,991</b>	<b>21,862 ✓</b>

Significant volumes of flare gases are produced at shutdowns and startups of installations. Given that an overhaul shutdown was performed in our refinery in 2013, the aggregate volumes of gas being burned in flares should have been significantly higher than in previous years. However, the construction of a flare gas recovery unit, in addition to many other minor improvements, reduced the aggregate annual volumes of flared gases.

The extent to which Grupa LOTOS managed to reduce its environmental impact is also reflected by the figures showing a reduction in our air emissions.

Action	Emission reduction in 2013 [tonne]*			
	CO <sub>2</sub>	SO <sub>2</sub>	Pył	NO <sub>x</sub>
Replacement of fuel oil with natural gas in the fuel gas network	35,000	1,960	150	190
Replacement of fuel oil with natural gas at the CHP plant	68,000	1,420	60	220
Replacement of light petrol/LPG with natural gas in the Hydrogen Generation Unit (HGU)	82,000	0	0	0
<b>Total</b>	<b>185,000</b>	<b>3,380</b>	<b>210</b>	<b>410</b>

\* compared with production conditions of 2011.

In 2013, as in previous years, we did not use any ozone-depleting substances, neither did we introduce any products the use of which would cause atmospheric emissions of such compounds.

In the years to come, we want to continue our efforts to gradually reduce emissions of carbon dioxide and other pollutants into the atmosphere, through further:

- increasing the share of natural gas in our fuel gas network;
- reducing the consumption of heavy fuel oil by replacing it with fuel gas.

## Energy efficiency

The energy efficiency of all production units used by Grupa LOTOS is one of our top priorities. Our steady progress in this area is reflected in the comparative performance analyses of the refining industry published by Solomon Associates.

In the latest Solomon report for 2012, Grupa LOTOS was named the most energy efficient fuels refinery in Central Europe and Southern Europe, and secured one of the top positions in Europe.

We constantly undertake new initiatives to improve the refinery's energy efficiency. In 2013, the key project consisted in replacing process furnaces at two refining units, i.e. the gasoline hydrosulphurisation unit and the oils refining unit.

The new furnaces are highly efficient, with an energy efficiency ratio of over 90%. By using advanced, highly efficient technological solutions, we also reduced the consumption of primary energy, which relative to 2012 was down 28% and 30% in the fuel and lube complexes, respectively.

As a result of the work performed during the overhaul shutdown and rational management of process media, we managed to permanently reduce the refinery's consumption of compressed (control) air by 20%.

In 2013, we also took steps to lower the indirect use of energy by the refinery. To this end, low voltage switchgears were modernised and inverters were installed on the supplies of the motors of all cooling fans in one of the cooling water units. This solution enhances the cooling efficiency and saves electricity through flexible control of the rotational speed of the fan motors in individual cooling units. The system was put in service in late 2013. We also continued to use LED lights on a test basis.

Given the requirements of the Act on Liquid Biocomponents and Biofuels, the Grupa LOTOS refinery's fuel products contain biocomponents (renewable energy carriers): ethanol and ethyl tert-butyl ether are used in gasoline production, whereas fatty acid methyl esters are added to diesel oils. According to the current quality requirements for liquid fuels, the permitted ethanol and ethyl tert-butyl ether content in gasoline is 5% and 15%, respectively. Similarly, the volume of fatty acid methyl esters in diesel oils must not exceed 7%. The total required content of biocomponents in motor fuels is set by the state. In 2013, the Council of Ministers issued a Regulation on National Indicative Targets for 2013-2018, whereby the NIT was set at 7.10%, which means that biocomponents must account for 7.10% of the energy content of fuels marketed in Poland. Grupa LOTOS has met this requirement.

#### Direct energy consumption of Grupa LOTOS in 2013, by primary energy source [GJ]

Item	Unit	Direct – purchased energy	Direct – produced energy	Direct – sold energy	Direct – total energy consumption
Natural gas	GJ	7,943,250 ✓	0 ✓	0 ✓	7,943,250 ✓
Fuel gas	GJ	0 ✓	9,542,926 ✓	140,807 ✓	9,402,119 ✓
HSFO+Bleed fuel oil	GJ	0 ✓	0 ✓	0 ✓	0 ✓
LSFO	GJ	0 ✓	1,952,920 ✓	0 ✓	1,952,920 ✓
Light fuel oil (HON)	GJ	0 ✓	25,043 ✓	0 ✓	25,043 ✓
Electricity	GJ	0 ✓	0 ✓	0 ✓	0 ✓
Heat	GJ	0 ✓	0 ✓	118,054 ✓	-118,054 ✓
Residual gas	GJ	0 ✓	3,258,653 ✓	0 ✓	3,258,653 ✓
<b>Total</b>		<b>7,943,250 ✓</b>	<b>14,779,542 ✓</b>	<b>258,861 ✓</b>	<b>22,463,931 ✓</b>

## Indirect energy consumption of Grupa LOTOS, by primary energy source

Year	Unit	Amount of electricity purchased from the National Power Grid
2011	GJ	4,163,239
2012	GJ	4,407,590
2013	GJ	4,036,944 ✓

The main source of energy used on the drilling platforms is diesel oil, supplied by ships, as well as natural gas extracted together with oil.

On the 'Petrobaltic' platform, energy is generated by a system of power engines and generators running on diesel oil, which meets the requirement to keep sulphur content below 1%. Energy generated in this way is then distributed throughout the platform. On the 'Baltic Beta' platform, energy is additionally generated by gas turbines powered by gas separated from the formation fluid, composed chiefly of crude oil. In LOTOS Geonafta, energy on the rigs is produced by a diesel generator.

## Direct energy consumption of LOTOS Petrobaltic in 2013, by primary energy source

Item	Unit	Direct – purchased energy	Direct – produced energy	Direct – sold energy	Direct – total energy consumption
Natural gas	GJ	0 ✓	53,048 ✓	25,139 ✓	27,910 ✓
Diesel oil	GJ	106,733 ✓	0 ✓	0 ✓	106,733 ✓
Total	GJ	106,733 ✓	53,048 ✓	25,139 ✓	134,643 ✓

## Direct energy consumption of LOTOS Geonafta in 2013, by primary energy source

Item	Unit	Direct – purchased energy	Direct – produced energy	Direct – sold energy	Direct – total energy consumption
Natural gas	GJ	2,521 ✓	0 ✓	0 ✓	2,521 ✓
Fuel gas	GJ	0 ✓	17,056 ✓	0 ✓	17,056 ✓
Diesel oil	GJ	24,874 ✓	0 ✓	0 ✓	24,874 ✓
Total	GJ	27,395 ✓	17,056 ✓	0 ✓	44,451 ✓

## Direct energy consumption of Energobaltic in 2013, by primary energy source

Item	Unit	Direct – purchased energy	Direct – produced energy	Direct – sold energy	Direct – total energy consumption
Natural gas type E (GZ 50)	GJ	17,679 ✓	0 ✓	0 ✓	17,679 ✓
Natural fuel gas (dry)	GJ	262,519 ✓	0 ✓	0 ✓	262,519 ✓
Light fuel oil	GJ	116 ✓	0 ✓	0 ✓	116 ✓
Electricity	GJ	0 ✓	50,033 ✓	47,968 ✓	2,065 ✓
Heat	GJ	0 ✓	134,163 ✓	102,275 ✓	31,887 ✓
Total	GJ	280,314 ✓	184,196 ✓	150,243 ✓	314,266 ✓

### Indirect energy consumption of LOTOS Petrobaltic in 2013, by primary energy source

	Unit	Quantity
Energy purchased for the land base's operations	GJ	5,948 ✓

### Indirect energy consumption of LOTOS Geonafta in 2013, by primary energy source

Item	Unit	Quantity
Energy purchased for administrative purposes	GJ	1,256 ✓
Energy for production purposes	GJ	11,826 ✓
<b>Total</b>	<b>GJ</b>	<b>13,082 ✓</b>

### Indirect energy consumption of Energobaltic in 2013, by primary energy source

	Unit	Quantity
Energy purchased	GJ	26,539 ✓

## Raw materials and consumables used

Raw materials used in exploration and production are substances used in the drilling and production processes. In the case of drilling, these include:

- Drilling mud components (materials),
- Cement used to bond well casing to the drilled rock.

LOTOS Petrobaltic does not use oil-based muds for drilling. All muds used on the drilling rig are water-based. Drilling mud components are brought to the platform, where they are added to water to obtain drilling mud of the required physical and chemical properties. The main ingredients of drilling mud are bentonite or metal salts (KCl, NaCl), with baryte or galena as weighting agents. Various other chemical substances are added to achieve the required properties.

The main raw materials used in the production process include also:

- Chemical substances (materials) added to the formation and produced water injection system,
- Materials used as filter inserts (anthracite, ground nut shells, gravel of different grain size, metal and fibrous filter inserts).

Formation water is saturated brine, mostly chlorine, sodium and calcium brine.

From the point of view of environmental protection, injection of water into a deposit does not pose any environmental threat because the applied pressure does not exceed the fracture pressure of the rock layer, and so does not affect its structure. However, the presence of water in extracted crude oil poses the problem of its disposal or recycling by further technological process. So far, the main method of managing this highly mineralised formation water, extracted together with oil, consists in separating it from the oil in separators, and discharging it into the sea after cleaning it to a level below 15 ppm of oil components (in accordance with the requirements of MARPOL 73/78 and HELCOM).

In order to protect the Baltic Sea and meet the environmental requirements set forth in the Baltic Sea Action Plan, such as those imposing a total ban on discharge of waters, including treated formation water, directly into the sea, LOTOS Petrobaltic has built an installation which pumps produced waters back into the deposit. Consequently, all formation water is pumped back to the deposit it came from, together with the sea water. This solution does not interfere with the marine environment or with the formation of oil-bearing strata, but merely returns the extracted substance.

Water parameters around the platforms are continually monitored in order to ensure that they meet the relevant environmental requirements. We carry out regular monitoring of multiple parameters, including hydrocarbon content in the water, chemical and biological oxygen demand, chlorides, sulphides, bacteria, surfactants and others.

The cementing process uses water-based slurry with chemical additives which delay the setting time. The purpose here is to bond the casing pipes to the drilled levels, prevent contact between drilled rock layers of different pressure gradients, and ensure tightness of the uncased section to prevent the overflow of drilling mud or substances extracted during operations. The parameters are monitored before, during and after drilling, in accordance with the relevant environmental decisions and approvals. Any variations that may occur are due to country-specific regulations. The Baltic Sea is particularly sensitive, which is why operations on the Baltic Sea are governed by more rigorous regulations than those applicable in other areas.

#### Raw materials and consumables used in 2013 by the LOTOS Petrobaltic Group, by weight and volume (tonnes)

LOTOS Petrobaltic	
<b>Injected and formation water</b>	<b>Volume</b>
Biocides	10.17 [t] ✓
Coagulants	1.69 [t] ✓
Other	15.16 [t] ✓
<b>Total</b>	<b>35.9 [t] ✓</b>
<b>Drilling mud</b>	<b>Volume</b>
Bentonite	19.3 [t] ✓
Salts (drilling mud and packer fluid)	78.8 [t] ✓
Hydroxides	2.9 [t] ✓
Other (for maintaining appropriate properties - viscosity, filtration, etc)	22.8 [t] ✓
<b>Total</b>	<b>123.8 [t] ✓</b>
<b>Cement slurry</b>	<b>Volume</b>
Cement	430.6 [t] ✓
Processing agents	14.4 [t] ✓
<b>Total</b>	<b>445.0 [t] ✓</b>
<b>Total</b>	<b>604.7 [t] ✓</b>
<b>Transport of gas from the platform via pipeline to Władysławowo</b>	<b>Volume</b>



Methanol	8.08 [t] ✓
LOTOS Geonafta	
Substances used in the drilling process	Volume
Acid inhibitors	6.95[t] ✓
Drilling mud additives	111.40[t] ✓
Polymers	48.31[t] ✓
Blokiers	29.25[t] ✓
Lubricants	1.40[t] ✓
Cement	162.42 [t] ✓
Extraction additives	111.40[t] ✓
Total	471.13 [t] ✓
Substances used in the production process	Volume
Corrosion inhibitors	2.16 [t] ✓
De-emulsifiers	29.28 [t] ✓
Oxidants	0.20[t] ✓
Total	31.65 [t] ✓
Total	502.78 [t] ✓
Energobaltic	
Stage I - Gas Compressor Station	Volume
Input material: waste gas	9,790,352 [Nm <sup>3</sup> ] ✓
Indirect production material: methanol	10,200 [l] ✓
Stage II - Gas/Input Material Separator Station	Volume
Input material: waste gas (wet) for LPG production	4,966.58 [t] ✓
Input material: natural gas condensate	1,613.51 [t] ✓
Obtained natural fuel gas (dry) as a fuel for heat and electricity generation	5,250,374 [Nm <sup>3</sup> ] ✓

### Raw materials and consumables used by Grupa LOTOS, by weight and volume (tonnes)

Raw materials	Unit	2011	2012	2013
Crude oil	tonne	9,163,836	9,673,647	8,702,622 ✓
Raw materials and components	tonne	1,062,156	833,610	834,114 ✓
Enhancing additives	tonne	2,254	2,091	1,994 ✓

## Water consumption

The refinery draws water from the nearby Motława river, which is its only source of surface water. Given the risk of seawater influx into the river near our intake, to ensure an adequate supply of freshwater the refinery draws water into a retention tank with a capacity of 350,000 m<sup>3</sup>, constructed in the Motława oxbow lake. Underground water is sourced from Cretaceous and Quaternary formations. Cretaceous water drawn by means of two wells is an important source of water for human use. Because of its quality, Quaternary water is used solely for industrial purposes, and given that our intake from these formations is relatively small, the source is classified as immaterial.

Economic use of the natural environment, including water resources, is based on relevant water-law permits and an integrated permit for drawing water from Cretaceous wells. The environmental impact of water intake is assessed during each permit application procedure. Inspections carried out near the refinery's underground and surface water intakes confirm that our water intake does not affect any protected sites or areas of great environmental value.

We consistently maintain water consumption substantially below the prescribed volumes. In 2013, the volume of surface water drawn by the refinery represented 28.9% of the permitted volume, with Quaternary and Cretaceous waters at 0.4% and 59.2% of the respective limits.

### Total freshwater drawn by Grupa LOTOS, by source (m<sup>3</sup>/year)

Source	Unit	2011	2012	2013
Underground water	m <sup>3</sup>	202,429	189,217	162,511 ✓
Surface water	m <sup>3</sup>	3,607,427	3,532,113	3,574,791 ✓
<b>Total</b>	<b>m<sup>3</sup></b>	<b>3,809,856</b>	<b>3,721,330</b>	<b>3,737,302 ✓</b>

### Grupa LOTOS processes consuming large quantities of water

Source	Unit	2011	2012	2013
CHP plant – production of utilities	m <sup>3</sup> /year	2,929,811	2,936,080	2,778,592
Refinery – circulatory cooling water	m <sup>3</sup> /year	1,386,304	1,503,995	1,418,925

Freshwater for the needs of the LOTOS Petrobaltic platforms is extracted from a deep well, for which the company holds the required permit. The amount of water drawn is closely monitored and remains below permitted levels. The amount of water drawn from the Baltic Sea for the needs of the rigs is negligible in relation to its total water resources – 303,121 m<sup>3</sup> out of 21,727 m<sup>3</sup>. It should also be noted that none of the other companies of the LOTOS Petrobaltic Group are depleting water resources through excessive withdrawal.

Water is used on the platforms for human use and for technological purposes. In addition to freshwater, seawater is also used for production purposes, for example in the water injection system. This water is drawn directly from the sea by means of deep-well pumps.

**Total freshwater drawn by LOTOS Petrobaltic in 2013, by source (m<sup>3</sup>)**

Source	Unit	Amount of water drawn
Freshwater – own intake	m <sup>3</sup>	27,645 ✓
Freshwater – municipal water supply	m <sup>3</sup>	2,467 ✓
Seawater	m <sup>3</sup>	303,121 ✓
Formation water	m <sup>3</sup>	94,366 ✓
<b>Total</b>	<b>m<sup>3</sup></b>	<b>427,599 ✓</b>

**Total freshwater drawn by LOTOS Geonafta in 2013, by source (m<sup>3</sup>)**

Source	Unit	Amount of water drawn
Freshwater	m <sup>3</sup>	3,012 ✓
Water for technological purposes	m <sup>3</sup>	1,855 ✓
<b>Total</b>	<b>m<sup>3</sup></b>	<b>4,867 ✓</b>

**Total freshwater drawn by Energobaltic in 2013, by source (m<sup>3</sup>)**

Source	Unit	Amount of water drawn
Water drawn from municipal network	m <sup>3</sup>	4,853 ✓

Grupa LOTOS seeks to increase the volume of reused water and wastewater. Our goal is to increase the share of recycled water in our overall process water consumption. In this way, we keep the use of natural resources to a necessary minimum. For a number of years now, we have been witnessing measurable effects of our efforts, as the percentage of reused water in our overall water consumption continues to rise. Recycled water includes industrial water produced from treated wastewater as well as condensate returned to the boiler feedwater.

**Volume of water recycled in Grupa LOTOS (m<sup>3</sup>)**

	Unit	2011	2012	2013
Industrial water produced from treated wastewater	m <sup>3</sup>	1,179,317	1,254,556	1,368,844 ✓
Pure condensate volume	m <sup>3</sup>	2,030,131	2,207,217	2,237,300 ✓

**Total volume of water recycled in Grupa LOTOS**

	Unit	2011	2012	2013
Total volume of recycled water	m <sup>3</sup>	3,209,448	3,461,773	3,606,144 ✓
Percentage of recycled water	%	45.7	48.2	49.1 ✓

Treated wastewater from the Grupa LOTOS treatment plant is discharged to the Martwa Wisła river. The receiving body was historically a part of the Wisła Leniwka river. The reservoir was cut off from the main course of the Wisła in the 19th century, following construction of the Wisła cutting and the Przegalina sluice. The Martwa Wisła waters in the refinery area are classified as internal seawaters.

The second stream of water discharged from the plant consists of treated drainage water and clean rainwater, which are directed to the Rozwójka river, an element of the Żuławy Gdańskie hydrological improvement system and a tributary of the Martwa Wisła.

Neither of these receiving waters are protected or have high biodiversity value in the discharge area. Furthermore, long-term monitoring has confirmed that wastewater discharged by Grupa LOTOS has no material impact on them. Additionally, despite many years of operation, the refinery does not seem to materially affect any of the habitats located in the vicinity of its discharge areas.

The separate treatment lines allow us to redirect almost all oily rainwater after treatment, to produce industrial water which is fed back to the plant and reused. Only excess volumes of treated oily rainwater are discharged, together with technical wastewater and greywater/blackwater, to the receiving body.

### Total volume of wastewater from Grupa LOTOS, by quality and destination (m<sup>3</sup>)

	Unit	2011	2012	2013
Rozwójka	m <sup>3</sup>	3,874,089	4,305,910	4,220,723 ✓
Martwa Wisła	m <sup>3</sup>	1,354,015	1,293,596	1,273,851 ✓
Total	m <sup>3</sup>	5,228,104	5,599,506	5,494,574 ✓

### Treated wastewater discharged by Grupa LOTOS into the Martwa Wisła river

Measure	Unit	2011 W <sub>r</sub>	2011 W <sub>d</sub>	2012 W <sub>r</sub>	2012 W <sub>d</sub>	2013 W <sub>r</sub>	2013 W <sub>d</sub>
pH	-	7.81	6.50-9.00	7.79	6.50-9.00	7.56	6.50-9.00
Biological Oxygen Demand	mg O <sub>2</sub> /dm <sup>3</sup>	2.68	25.00	2.56	25.00	2.99	25.00
Chemical Oxygen Demand	mg O <sub>2</sub> /dm <sup>3</sup>	34.00	125.00	30.20	125.00	44.10	125.00
Suspended solids	mg/dm <sup>3</sup>	7.89	35.00	6.38	35.00	7.89	35.00
Volatile phenols	µg/dm <sup>3</sup>	1.00	100.00	<5.00*	100.00	<0.005*	100.00
Substances extractable with petroleum ether	mg/dm <sup>3</sup>	0.58	50.00	0.74	50.00	0.73	50.00
Petroleum hydrocarbons	mg/dm <sup>3</sup>	0.83	5.00	1.93	5.00	0.23	5.00
Total Nitrogen	mg/dm <sup>3</sup>	2.90	30.00	2.40	30.00	4.30	30.00
Total Phosphorus	mg/dm <sup>3</sup>	1.07	3.00	1.03	3.00	0.57	3.00
Sulphides	µg/dm <sup>3</sup>	2.00	200.00	6.00	200.00	9.00	200.00
Nickel	µg/dm <sup>3</sup>	10.10	500.00	10.20	500.00	17.05	500.00
Vanadium	µg/dm <sup>3</sup>	36.30	2,000.00	28.90	2,000.00	19.10	2,000.00
Aluminium	µg/dm <sup>3</sup>	92.20	3,000.00	62.40	3,000.00	69.00	3,000.00

W<sub>r</sub> - actual average annual level

W<sub>d</sub> - permissible average annual level

\* result below the quantification limit for the analytical method used in a given year

### Treated wastewater discharged by Grupa LOTOS into the Rozwójka river

Measure	Unit	2011 W <sub>r</sub>	2011 W <sub>d</sub>	2012 W <sub>r</sub>	2012 W <sub>d</sub>	2013 W <sub>r</sub>	2013 W <sub>d</sub>
Suspended solids	mg/dm <sup>3</sup>	11.92	35.00	10.71	35.00	9.50	35.00
Petroleum hydrocarbons	mg/dm <sup>3</sup>	1.64	5.00	2.15	5.00	0.74	5.00

W<sub>r</sub> - real average annual value

W<sub>d</sub> - permissible average annual value

All oily wastewater is stored on the LOTOS Petrobaltic platforms in special containers, and later taken ashore for disposal. Greywater/blackwater is processed in a biological treatment station and then released to the sea. The condition of seawater around the platform is monitored on a daily basis. Similarly, no wastewater produced by LOTOS Geonafta in its drilling operations is discharged directly into natural bodies of water (lakes and rivers). All technological wastewater and greywater/blackwater is stored and subsequently transported to a wastewater treatment plant.

### Volume of wastewater produced in 2013, by destination (m<sup>3</sup>)

LOTOS Petrobaltic	Unit	Volume
Greywater/blackwater	m <sup>3</sup>	7,546 ✓
LOTOS Geonafta	Unit	Volume
Greywater/blackwater	m <sup>3</sup>	3,012 ✓
Energobaltic	Unit	Volume
Greywater/blackwater	m <sup>3</sup>	617 ✓

All formation water produced by LOTOS Petrobaltic in the oil extraction process is pumped back to the reservoir it came from.

### Volume and disposal method of formation water and water produced by LOTOS Petrobaltic in 2013

Item	Unit	Volume
Degree of oil contamination of formation water	ppm	7.64 ✓
Water injected back to the reservoir	m <sup>3</sup>	94,366 ✓

### Volume and disposal method of formation water and water produced by LOTOS Geonafta in 2013

	Unit	Volume
Formation water	m <sup>3</sup>	246,333 ✓

In LOTOS Geonafta, all formation water produced in the oil extraction process is stored on the rig and then transferred for disposal.

# Waste management

Management of waste generated by Grupa LOTOS is carried out in compliance with EU and national regulations, ensuring maximum safety for the environment. As a result of the work performed during the overhaul shutdown in 2013, noticeably more waste was produced, which, however, comprised mostly non-hazardous waste.

## Waste generated by Grupa LOTOS – quantity [tonnes/year]

Waste generated by Grupa LOTOS	2011	2012	2013
Waste stored at the end of the previous year	2,244	2,195	1,777 ✓
Generated hazardous waste	7,338	6,784	6,478 ✓
Generated non-hazardous waste	5,046	5,574	6,659 ✓
Total generated waste	12,384	12,358	13,137 ✓
Volumes permitted by the integrated permit	89,627	89,627	89,627 ✓
Waste generated by service providers	N/A	4,154	3,170 ✓

Our endeavours towards environmentally friendly waste management is evidenced by the fact that in 2013 we managed to recycle all waste produced by the Grupa LOTOS refinery.

## Waste management methods applied by Grupa LOTOS – quantity [tonnes/year]

Waste management method	2011.	2012	2013
Waste recycled	12,428	12,749	13,504 ✓
Waste treated or disposed of	4	28	0 ✓
Incineration	4	27	0 ✓
Landfilling	0	1	0 ✓
Waste stored on site at the end of the year	2,196	1,777	1,410 ✓
Hazardous	1,977	1,503	1,376 ✓
Non-hazardous	219	274	34 ✓

The only hazardous waste sent abroad by Grupa LOTOS are used catalytic converters. Foreign companies have the appropriate technologies to manage such waste in an environmentally friendly way.

## Type of hazardous waste generated by Grupa LOTOS

Type of waste	Unit	2011	2012	2013
Hazardous waste transported from external sources (from outside the LOTOS Group) to the refinery	tonne	21	0	0 ✓
Hazardous waste transported from the refinery to external sites in Poland	tonne	6,286	7,258	6,352 ✓

Hazardous waste transported from the refinery to external sites outside of Poland	tonne	119	0	253	✓
Total hazardous waste transported	tonne	6,426	7,258	6,605	✓
Percentage of waste transported across international borders	%	2	0	3.8	✓

In 2013, there were two incidents involving hazardous substances at the Grupa LOTOS refinery ✓, but their potential impact was limited to the immediate area and neither of them resulted in environmental pollution, as confirmed by appropriate tests carried out under the inspection of the Pomeranian District Inspector for Environmental Protection.

In 2013, the LOTOS Petrobaltic Group did not report any significant spills into the environment ✓.

Drill cuttings (small pieces of rock fragmented by the advancing drill bit) are the main waste product of the drilling process. Once carried to the surface, they are directed to the drilling mud treatment system. Drill cuttings do not contain any of the substances listed in Annex 1 to the Helsinki Convention. Drill cuttings with drilling mud from primary and secondary treatment are discharged to the seabed after being separated and washed, whereas drill cuttings from tertiary treatment are carried ashore and transferred to a waste management company. Every batch of disposed drill cuttings is tested for toxic content. Drilling mud, on the other hand, is recycled so it can be reused in the drilling process. When drilling mud is not suitable for recycling, it is also taken ashore and transferred to a waste management company.

#### Waste generated by LOTOS Petrobaltic – quantity [tonnes/year]

Generated waste	2013
Generated hazardous waste	38 ✓
Generated non-hazardous waste	644 ✓
Total generated waste	682 ✓

#### Waste generated by LOTOS Geonafta – quantity [tonnes/year]

Generated waste	2013
Generated hazardous waste	22 ✓
Generated non-hazardous waste	3,966 ✓
Total generated waste	3,988 ✓

#### Waste generated by Energobaltic – quantity [tonnes/year]

Generated waste	2013
Waste stored at the end of the previous year	0.07 ✓
Generated hazardous waste	0.42 ✓
Generated non-hazardous waste	0.808 ✓
Total generated waste	1.30 ✓

**Waste management methods applied by LOTOS Petrobaltic – quantity [tonnes/year]**

Waste management method	2013
Waste recycled	141
Landfilling	541
Waste stored on site at the end of the year:	0
hazardous	0
non-hazardous	0

**Waste management methods applied by LOTOS Geonafta – quantity [tonnes/year]**

Waste management method	2013
Waste treated or disposed of	3,988
Landfilling	0
Waste stored on site at the end of the year:	0
hazardous	0
non-hazardous	0

**Waste management methods applied by Energobaltic - quantity [tonnes/year]**

Waste management method	2013
Waste treated or disposed of	065
Waste recycled	040
Landfilling	025
Waste stored on site at the end of the year:	0.146
hazardous	0.101
non-hazardous	0.045

All drilling mud and drill cuttings generated by LOTOS Petrobaltic are produced using water-based drilling fluid. In the process of drilling, drill cuttings (small pieces of drilled rock, containing 5%-10% of drilling mud) are separated from drilling mud. The quantity of drill cuttings differs depending on the drilling interval and its diameter.

The chemical composition and environmental impact of drill cuttings depend on the type of drilling mud being used. In order to completely eliminate the chemical activity of produced waste, the use of the simplest type of drilling muds was designed for the process. The drilling muds were tested for their impact on the marine environment (a study entitled 'Determination of the potential impact of drilling mud on the marine environment of the Baltic Sea' prepared at the Gdańsk University of Technology) and considered environmentally non-toxic.

LOTOS Geonafta used only water-based drilling mud in its production operations. Most of its ingredients are biodegradable. All technological water, drilling mud and drill cuttings are carried away for disposal.



### Waste generated in 2013 - Drill cuttings [tonne] (LOTOS Petrobaltic)

Drill cuttings	Unit	Total weight
transferred as waste	tonne	94 ✓
discharged to the sea	tonne	1,054
<b>Total</b>	<b>tonne</b>	<b>1,148</b>

### Waste generated in 2013 [tonne] (LOTOS Petrobaltic)

Drilling mud	Unit	Total weight
in circulation	tonne	1,141
transferred as waste	tonne	340 ✓
discharged to the sea	tonne	144
<b>Total</b>	<b>tonne</b>	<b>1,625</b>

### Waste generated in 2013 [tonne] (LOTOS Geonafra)

	Unit	Total weight
Drill cuttings	tonne	1,601 ✓
Drilling mud and technological water	tonne	2,322 ✓
<b>Total</b>	<b>tonne</b>	<b>3,924 ✓</b>

In accordance with applicable regulations, the LOTOS Group companies have engaged recycling contractors for recovery and recycling of packaging introduced to the domestic market.

At **Grupa LOTOS**, **LOTOS Oil** and **LOTOS Paliwa**, the aggregate recovery rates for packaging waste were in line with the statutory requirements and in 2013 stood at 58.5% ✓ for recovery and 50% ✓ for recycling. Tar papers were a product sold by **LOTOS Asphalt** in packaging until mid-2013. Altogether, the recovery rate for used packaging waste for this company was 58.5% ✓, with the recycling rate at 15.8%. ✓

## Transport

Transport is another key area in which we seek to mitigate our environmental impact.

All bitumen and heavy fuel oil transport for the Polish market is coordinated by LOTOS Asphalt. In 2013, road tankers carried nearly 510 thousand tonnes of products, covering more than 11.5 million kilometres and consuming more than 3.5 million litres of fuel. To limit exhaust gas emissions, the company's products are first transported to distribution centres by rail, and only then dispatched to customers in road tankers. The products are reloaded in modern handling terminals, where harmful vapour emissions are minimised.

Seeking to protect the environment, LOTOS Kolej, the company providing transport services i. a. to the LOTOS Group's companies, keeps increasing the share of electric traction transport, gradually replacing diesel locomotives. As at the end of 2013, the company used 91 locomotives, including 54 electric vehicles.

Due to traction issues, a portion of transport and shunting work is still carried out using diesel locomotives.

Share of electric and diesel traction in overall transport (%)



Diesel oil consumption by LOTOS Kolej diesel locomotives in 2011-2013 (thousand litres)



Traction electricity consumption by LOTOS Kolej electric locomotives in 2011-2013 (MWh)



Out of the total volume of fuels sold by LOTOS Paliwa in 2013, 7% was transported by rail and 26% by road tankers, with the balance represented by fuels collected from storage depots by customers using their own means of transport. In 2013, no fuel spills were reported in road or rail transport.

## Mitigation of environmental impact

### Refinery

The environmental impact of Grupa LOTOS products is unavoidable. Fuels provide energy which is released through combustion, emitting exhaust gas. The efficiency of chemical energy conversion into usable forms of energy (mechanical or thermal) depends on the design of the engine, rather than the fuel itself. Even so, we take steps to make sure that our fuels do not have a significant environmental impact.

All Grupa LOTOS products meet the quality requirements prescribed by law, and in some environmentally relevant respects they even exceed the legally required standards.

- The sulphur content in Grupa LOTOS gasolines and diesel oils is substantially below the legal threshold. In 2013, the average annual sulphur content in motor gasolines and diesel oils was 3.3 ppm and 5.5 ppm, respectively, considerably beneath the required maximum of 10 ppm. This results in substantially lower sulphur dioxide emissions.
- The aromatics content in Grupa LOTOS fuels is also considerably lower than that prescribed by applicable laws. In the case of unleaded gasoline type 95, the average aromatics content in 2013 was 29.7%, less than the legal threshold of 35%. For diesel oils, the content of polycyclic aromatic hydrocarbons is limited to 8% of the fuel's weight. However, in 2013 the average PAH content in our B7 diesel oil was only 0.8% in weight terms. Consequently, this oil produces less soot during combustion, which translates into lower particulate emissions in exhaust fumes.

## Benzene, sulphur and lead content in Grupa LOTOS fuels

Substance	j.m.	2012 - volume	2012 - volume (average)	2013 - volume	2013 - volume (average)
Benzene (in gasolines)	% V/V	0.5 - 1.0	0.8	0.4 - 1.0 ✓	0.9 ✓
Sulphur (in gasolines)	mg/kg	1.0 - 9.9	3.9	0.1 - 7.9 ✓	3.3 ✓
Sulphur (in diesel oil)	mg/kg	1.4 - 9.5	5.5	2.0 - 10.0 ✓	5.5 ✓
Lead (in gasolines)	mg/kg	0	0	0 ✓	0 ✓

Detailed information regarding the properties and composition of fuel products are available for our customers at [www.lotos.pl/en](http://www.lotos.pl/en), where descriptions of all our products along with their Safety Data Sheets are published. On request, the Sheets are also available at LOTOS service stations.

Another long-used method of mitigating the environmental impact of fuels is the use of biocomponents, which can be considered renewable energy sources, and therefore limit the impact of fuel combustion on the environment.

Logistics is another area where the environmental impact of fuel products may be mitigated, by preventing product losses into the environment. In 2013, we launched a new Vapour Recovery Unit (VRU) at the refinery in Gdańsk, to recover the vapours of gasoline. The new unit enables more efficient removal of gasoline vapours from the air pushed out of rail tankers during loading, with three times the capacity of the old one (3,000 m<sup>3</sup>/h). Thanks to the investment, the volume of hydrocarbons released into the atmosphere is minimised, which reduces the environmental impact of logistics operations related to gasoline handling.

### Bitumens

We take steps to eliminate hydrocarbon release related to the production, storage and transport of bitumens, which produce olfactory nuisance, especially within the production plants. Completed projects which are part of this strategy include in particular:

- Jasło: construction of a thermal afterburner, air-tightening of tanks and connecting the air-tight tanks and bitumen nozzles to the thermal afterburner;
- Gdańsk: connection of all road and rail tank nozzles to a vapour extraction system, air-tightening of tanks, connection enabling treatment of extracted vapours in thermal afterburners, construction of an auxiliary unit for treatment of vapours collected from the nozzles with activated charcoal.

Following completion of the project in 2013, the aerosanitary conditions in the area improved substantially.

### Rail operations

In 2013, we completed an overhaul and modernisation of the advanced rail tanker cleaning facility, operated by LOTOS Kolej in Gdańsk. Apart from the main facility, the project involved the construction of a specially designed track fitted with an additional station for removing LPG residues from tankers and feeding them to flare stacks. The range of services was also extended to include shot blasting of internal tanker surfaces.

### Oils

In 2013, the LOTOS Oil production branch in Czechowice-Dziedzice was working on solutions designed to limit soil, surface water and groundwater contamination. As a result of this work, double bottoms were installed in selected tanks.

## Fuels

In 2013, we continued to invest in mitigating the environmental impact of existing LOTOS service stations. These activities included modernising the fuel facilities by installing gasoline vapour recovery units, adding new equipment for measuring and monitoring petroleum product stocks, as well as detecting and signalling any petroleum product leaks to surface water and groundwater, and replacing single-shell tanks with double-shell units.

## Production

One of the most important elements in mitigating the impact of production operations on the natural environment consists in protecting the sea from possible pollution by extracted oil and accompanying substances, and minimising the environmental damage should such an emergency occur. To remain prepared for response to potential emergencies, every year we run obligatory drill exercises on tackling oil spills. In 2013, such training was carried out in the Gdańsk Bay, with the participation of Maritime Search and Rescue services and the Maritime Office in Gdynia. At the same time, LOTOS Petrobaltic updated its *Oil Spill Response Plan for spills resulting from exploration and production work conducted within its licence areas, which is part of the National Plan to Combat Pollution of the Marine Environment*.

One of the most important activities to ensure a clean environment and mitigate adverse impacts is environmental monitoring, which is the study of the environment before, during and after operations. This relates chiefly to seawater and bottom sediment testing. Another important aspect of the process is the management of waste generated on the rigs, based on the 'zero discharge' policy, covering both post-consumer and production waste.

Chemicals used in the drilling process circulate within a closed system, not entering in any contact with the environment. In order to ensure that the arrangements set out in the *Baltic Sea Action Plan* are followed, in 2013 LOTOS Petrobaltic equipped the production rig with an installation for pumping oily formation waters.

# Biodiversity

## Marine environment

As at the end of 2013, LOTOS Petrobaltic held eight crude oil and natural gas exploration and production licences in Polish marine areas. Previously, only one of them, SAMBIA W, bordered on conservation areas of the Baltic Sea coast, protected under the EU Birds Directive. Currently, the newly acquired licences Słupsk W and Słupsk E border on the Słupsk Shoal (Ławica Słupska), which is a marine site of the NATURA 2000 network as defined by the Birds and Habitats Directives.

One of the most important elements in mitigating the impact of production operations on the natural environment consists in protecting the sea from possible pollution by extracted oil and substances accompanying the drilling process, and minimising the environmental damage should such an emergency occur.

Surveys have shown seabed degradation over vast stretches of the central Baltic Sea, caused primarily by accumulations of undegradable organic matter, as well as reduced oxygen content at depths of more than 60 metres. An animal that can be found in this area, although irregularly and very rarely, is the harbour porpoise. In 2013, we took samples for the purpose of biodiversity testing together with bottom sediment samples. The samples, however, contained too little fauna and flora material to perform biodiversity tests.

Our activities in the Baltic Sea consist in exploration for and production of crude oil from the seabed. Exploration work can be divided into two stages:

1. Seismic surveys, which show where hydrocarbons can be found;
2. Test drilling to make a preliminary estimate of the size of a reservoir and its resources, which helps evaluate the economic viability of future production.

Seismic surveys involve generating acoustic waves, which affect the sea fauna. An environmental decision issued by the Regional Directorate for Environmental Protection is required to commence such work. An opinion from the Director of the relevant Maritime Office is also needed. The environmental decision specifies the requirements which must be met in conducting the planned work. In this respect, LOTOS Petrobaltic strictly complies with all the procedures and requirements laid down in the applicable laws and regulations. The *Soft Entrance* procedures are applied in seismic work, under which the intensity of a seismic source is gradually ramped up so as to allow the fish and porpoises inhabiting the area to leave the affected region.

Although the oil deposits beneath the Baltic Sea floor are low-pressure reservoirs, the risk of an eruption during appraisal work and test drilling must be taken into account. Therefore, the procedures to be followed during such operations are very detailed, and provide for all safety measures following from best practice and best technology solutions to reduce, insofar as practically possible, the risk of an eruption. An oil spill would have negative consequences, especially for the bird populations. However, considering that crude oil produced from the Baltic Sea is light oil and 30% of its volatile fractions would evaporate within the first few hours of a spill, and that HELCOM recommends mechanical collection of oil contamination from the sea surface while restricting the use of dispersants causing the clumping and sinking of oil particulates, the impact of a spill on the environment would be minimised.

The main output of the production process is formation fluid, which is separated on the drilling rig into crude oil, natural gas and formation water, the latter being injected back into the reservoir to an appropriate depth in order to maintain the reservoir pressure. Natural gas is transported to LOTOS Energobaltic, where it is used to generate electricity. Such measures also help protect the air, in line with the requirements of Annex VI to MARPOL Convention 73/78 and the *Baltic Sea Action Plan*.

The licence areas where LOTOS Petrobaltic may explore for and produce crude oil and natural gas are located outside the so-called Baltic Sea Protected Areas. As a result, the exploration and production operations conducted within the licence areas pose a negligible threat to protected areas and the maritime environment. The Baltic Sea Protected Areas are given priority when it comes to tackling oil spills in sea waters, with the key objective to prevent any contamination from entering those areas.

Onshore areas controlled by LOTOS Geonafta are located approximately 700 metres from NATURA 2000 sites. The company manages surface water runoff in a comprehensive way, by using, among other measures, an appropriate system of drainage canals. The level of air and groundwater pollution is also monitored. All projects are preceded by environmental impact reports, with data for the purpose of environmental impact assessment provided by continuous monitoring. Periodic analyses have not shown any impact of the exploration and production operations on the biodiversity of the neighbouring conservation areas.

#### Refinery's surroundings

We are consistent in making biodiversity protection a priority for our planned and ongoing investment projects. In order to obtain an environmental decision, an environmental impact assessment must be performed for every major project which may have a significant effect on the environment. As part of this process, a comprehensive environmental impact assessment report is prepared, containing an obligatory description of the project's effect on biodiversity. In our effort to uphold the principles of corporate social responsibility, Grupa LOTOS goes above and beyond the statutory requirements, thoroughly covering biodiversity issues in such reports.

Our commitment to mitigating the adverse impact of our operations on the local fauna and flora is also evidenced by the fact that one of our key environmental objectives for 2014 is to perform a large-area inventory of elements comprising the environment within and surrounding our refinery in Gdańsk. We intend to use the inventory data as a basis for future initiatives to help us manage the biodiversity risks in the refinery's vicinity.

In 2013, our standing with respect to the protection of species included in any category of the IUCN Red List of endangered species did not change relative to previous years. [{link to the 2012 Report}](#) So far, the only protected animal species identified as living in the vicinity of our refinery have been peregrine falcon and kestrel.

In 2013, a pair of peregrine falcons built a nest on the platform attached to the stack of the refinery's CHP plant. The birds are under strict protection in Poland, with only ca. 70 nesting pairs left in the country.

We have also been recording an increasing number of kestrels nesting within the refinery's premises. In 2013, two such nests were found on refining units – the first one was located on one of the flares, while the second one was situated on the bearing of the flue gas duct in the oils refining furnace. The second nest is particularly worth mentioning, because the area around the duct was to be modernised in connection with the replacement of the unit's furnace, as announced the year before. However, to allow the protected birds to raise their young until they were ready to leave the nest, we rescheduled the work by nearly a month.

#### Service station areas

In 2013, the LOTOS service station chain was expanded to include 34 locations operating under the CODO model. 12 of them are newly built stations, with state-of-the-art facilities ensuring environmentally safe operation. In accordance with the applicable regulations, each service station was assessed for environmental impact at the design phase to determine its potential impact on the neighbouring areas, in particular protected sites and areas of high biodiversity value. All the stations were approved for operation and have no impact on protected areas.

The other 22 service stations were acquired on the market from private owners and made compliant with LOTOS standards not only in terms of visual identity and service quality, but also in technological terms.

All the locations selected to be included in the LOTOS service station chain were inspected, with special attention paid to technological solutions and environmental protection documentation. We also reviewed their location in relation to protected areas and any other areas of biodiversity, and performed a risk analysis of the possible impact of each station on the environment. Based on the reviewed documentation and site visits, it was concluded that the service stations newly included in the LOTOS chain were mostly located within towns and cities, away from protected areas.

As at the end of 2013, the chain comprised 256 service stations owned by LOTOS Paliwa. To mitigate the risk of uncontrolled environmental impact, we undertook to monitor each station's environmental impact beyond the scope of mandatory measures. In line with the CSR strategy for 2012-2015, we reviewed the archived documentation of all service stations. In 2012, the review was carried out for 30% of them, with the remaining 70% covered in 2013.

In some cases, additional assessments were commissioned to review their impact on the local environment and protected areas. These efforts will be spread over two years, with subcontractors (experts with relevant expertise and experience in assessing fuel sector facilities) to be engaged in the first year. We expect that reports produced as part of this initiative, covering ca. 50 service stations, will provide us with detailed information about the facilities' location with respect to protected areas, and identify potential hazards for the protected areas arising from their operations.

In 2013, no revitalisation work was carried out on areas managed by LOTOS Paliwa.

Land owned by the LOTOS Group is discussed in more detail in the 2012 Report . {link}

## Capital expenditure on environmental protection

A substantial decrease in charges for economic use of the natural environment proves that the changes we introduce materially reduce the environmental impact of entities operating as part of the LOTOS Group.

Item	Costs and expenditure (PLN '000)		
	2011	2012	2013
<b>Grupa LOTOS</b>			
Costs			
Environmental management costs	2,685	3,143	2,137 ✓
Environmental protection spending	20,011	23,555*	22,336 ✓
Financing of pro-environmental activities of external institutions	285	525	509 ✓
Expenditure			
Pro-environmental investment	12,116	67,606	63,012 ✓
Expenditure on property, plant and equipment**	114,733	141,913	202,314 ✓
<b>LOTOS Group</b>			
Costs			
Environmental management costs	25,450	4,729	4,695 ✓
Environmental protection spending	34,564	26,716	28,336 ✓
Financing of pro-environmental activities of external institutions	295	547	509 ✓
Environmental insurance***	104	105	194 ✓
Expenditure			
Pro-environmental investment	34,709	75,515	66,348 ✓
Expenditure on property, plant and equipment**	805,265	814,264	1,130,446 ✓

\* In 2013, there was a change in our approach to calculating our expenditures on environmental protection, which were extended to include also such costs as were associated with ensuring the proper functioning of the sewage system on the premises of refinery in Gdańsk, etc. Therefore, for the sake of comparability, we have also updated the figures representing our expenditures on environmental protection for 2012 accordingly.

\*\* In 2012 the approach was changed, with property, plant and equipment presented in accordance with the financial statements.

\*\*\* Environmental insurance premiums are paid at the LOTOS Group level.

Item	Expenditure [PLN '000]		
	2011	2012	2013
<b>Grupa LOTOS</b>			
Air emissions	4,268	2,980	1,256 ✓
Water withdrawal	144	140	162 ✓
Wastewater discharge	313	298	316 ✓
Waste landfilling	0	0	0 ✓
<b>Total</b>	<b>4,725</b>	<b>3,418</b>	<b>1,734 ✓</b>
<b>LOTOS Group</b>			
Air emissions	4,805	3,218	1,651 ✓
Water withdrawal	210	173	240 ✓
Wastewater discharge	487	388	511 ✓
Waste landfilling	0	0	0 ✓
<b>Total</b>	<b>5,502</b>	<b>3,779</b>	<b>2,402 ✓</b>

## Challenges in strategy implementation until 2015

The investment projects completed in 2013 (upgrading one boiler of the CHP plant by converting it into a gas-fired unit, replacing old process furnaces with new and more energy efficient ones at two units, a flare gas redirection system) are fully consistent with our efforts to meet the key objective of the LOTOS Group's CSR strategy in the Management of natural resources in the production process area, which is *to reduce the environmental risk and seek to continually minimise the environmental impact of the LOTOS Group's operations*.

Actions mitigating the LOTOS Group's negative impact will be continued. In 2014, the fourth, and last, boiler of the Grupa LOTOS CHP plant is to be converted to a gas-fired unit. The completion of this task will allow us to fully meet the stringent emission standards regarding large gas combustion units (power plants/CHP plants), which are to come into force as of January 1st 2016.



## Development prospects until 2020

Further reduction of the LOTOS Group's negative environmental impact will be possible thanks to the implementation of two more environmental objectives set for the coming years, which are:

- To improve the energy efficiency of the steam heating system of pipelines connecting units;
- To decrease the primary energy consumption of the Grupa LOTOS refinery through modernising further process furnaces.

These actions contribute to further improvement of the energy efficiency, and thus are in line with the objective of mitigating our negative impact on the natural environment.

# Relationship capital



## Relationship capital of Grupa LOTOS

- Well-established sales channels and distribution system ensuring customer satisfaction;
- Solid market position;
- Reputation of a reliable supplier of prime quality products;
- High level of customer service;
- Well-earned trust and commitment, which support our relationships with customers, suppliers and business partners;
- Sustainable supply chain.

Our objectives in the management of relationship capital:

- Maximise financial performance by optimally leveraging our resources and market opportunities, leading to enhancement of shareholder value.
- Build lasting customer relationships through a focus on understanding customers' needs and delivering the expected product quality and safety.

Key activities:

- Consolidate our reputation of a reliable product supplier.
- Improve customer satisfaction by enhancing our service and sale processes to meet customer expectations, introducing a uniform group-wide complaint handling procedure, designing the implementation of a recording system and system for active management of customer relationships, developing the chain of LOTOS Optim a economy service stations, and other initiatives.
- Optimally manage the supply chain (planning, procurement, production and distribution).
- Continue the policy of diversifying directions and sources of crude oil supplies.

Results:

Steady improvement in customer satisfaction levels

Export of LOTOS-branded products to 75 countries around the world

Strong growth of the chain of economy service stations

Promotion of the best commercial practices among the supply chain actors

Leadership in key product categories

## Statement by Paweł Maślakiewicz

Sales Director, Grupa LOTOS, CSR Strategy Leader in the Market Partnership to Build Lasting Customer Relationships area



Grupa LOTOS ranks among Poland's major industrial producers. Every day, we process thousands of tonnes of crude oil and deliver thousands of tonnes of oil products to the market. Mobility is the good we offer. Since it would be impossible for us to reach our customers directly, it is key that we build lasting relationships with business partners, whose distribution networks help channel our products to end users. We have the pleasure of working with the industry's leaders as well as - what is equally important - a number of smaller players, who guarantee stable supplies of LOTOS products to the market.

### Paweł Maślakiewicz

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In our effort to build lasting relationships with customers, it is key that we create and strengthen our image of a reliable, responsible supplier, who seeks to identify and satisfy market needs, while proposing innovative solutions that set positive standards for the entire industry. It is important that we demonstrate our maturity in the approach to commercial matters, but also to our role as one of the market's major players.

In 2013, at an annual meeting with our key partners, we unveiled the LOTOS Group's CSR strategy and showcased the achievements reinforcing our image of a responsible business partner. I am pleased to say that the presentation was very warmly received. We showed how, by combining our business capabilities with innovative ideas from other spheres of life, we can generate a whole new quality. Our activities for the support of culture, sport and the environment make us a partner of choice for our customers.

Last year, we also had the pleasure of presenting the LOTOS Group's Code of Ethics, which provides a systematic framework for our corporate values. This landmark event, clearly communicated to hundreds of our business partners, has allowed us to establish a transparent platform of cooperation, providing a crucial tool for building our relationships with the market environment.

Another thing worth noting is the role we play in supporting the government in the law-making process concerning the energy sector. We take an active part in consultations over proposed amendments to the Mandatory Stocks Act and the Energy Law, and have whole-heartedly supported the introduction of legal measures aimed to eradicate criminal practices from our industry.

Thanks to our initiatives, the LOTOS brand has come to be associated not only with premier quality oil products, but also with safety, environmental-mindedness and responsibility for the market on which we operate.

## Marketing segment

Our marketing business is conducted domestically (sales to foreign companies) and through export sales, by sea and by land. In 2013, the LOTOS Group's activities involving production and sales to the fuel, lube and bitumen industries were carried out through:

- Grupa LOTOS and
- subsidiaries: LOTOS Paliwa, LOTOS Oil, LOTOS Asfalt and LOTOS-Air BP Polska.

We also provided logistics services through Grupa LOTOS (management of storage capacities) and LOTOS Kolej (primary logistics).

In the area of aviation fuel, November 2013 saw the closing of a joint-venture transaction with BP Europe SE, concerning sale of a 50% equity interest in LOTOS Tank, which led to the establishment of LOTOS-Air BP Polska.

## Achievements

Our 2013 performance relative to strategic objectives for the marketing segment was in line with plans.

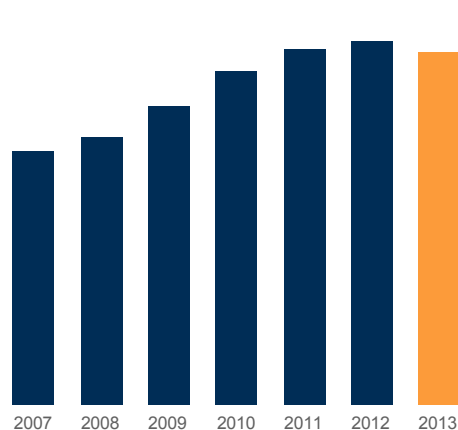
The LOTOS Group secured a **33.4% share in the domestic fuel market**, 3.4 pp above the target set in the business strategy for 2015. The market share fell by 0.9 pp on 2012, due to increased activity of the grey market, whose volume in 2013 was estimated at around 1.6 million tonnes.

The LOTOS Group's share in the **Polish retail fuel market reached 8.5%** - which means we are on track to meet our strategic target for 2015. In 2013, our share of the retail market rose by 0.5 pp on 2012. The achievement of our strategic target, to gain a 10% share in the domestic retail fuel market by 2015, will be supported by sustainable development of the service station chain both in the premium and economy segments, and by increasing sales through the existing chain.

The target of **generating sales in excess of our fuel production capacities, forecast for the end of 2013, was achieved at 8.7%** - which puts us well on track to meet the 15% target by 2015.

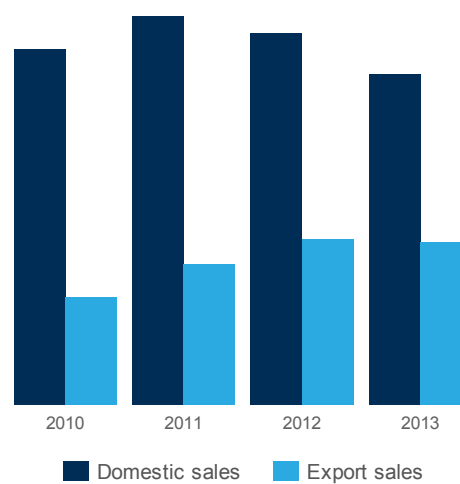
In 2013, the volume of products sold by the LOTOS Group ran to 9.3 million tonnes, 8.1% down year on year. The greatest decline was seen in domestic sales of diesel oil, as the increased activity of the grey market took away some of the demand for the fuel, which was further sapped by the economic slowdown. A decline in export sales was due mainly to the overhaul shutdown of our refinery in the first half of the year, and ongoing efforts to optimise the sales mix in response to different refining margins spreads.

**LOTOS Group's share in the domestic market of liquid fuels (%)**



Source: In-house analysis of Polish Organization of Oil Industry and Trade (POPiHN) data.

**LOTOS Group's sales [tonnes]**



Source: The LOTOS Group in-house data.

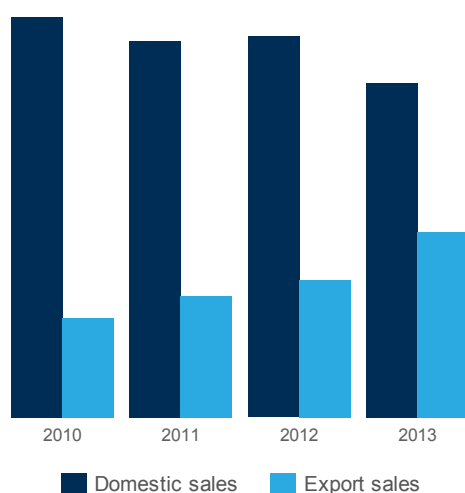
# Value chain – logistics and sales

## Sales of motor fuels

The volume of the LOTOS Group's gasoline sales amounted to 1.5 million tonnes, up by 0.4% over the year before. Relative to 2012, there was a shift in the structure of gasoline sales – in view of the economic downturn and falling demand for gasoline seen in recent years on the Polish market, the product was sold on the receptive export markets of the Netherlands, Sweden and the UK.

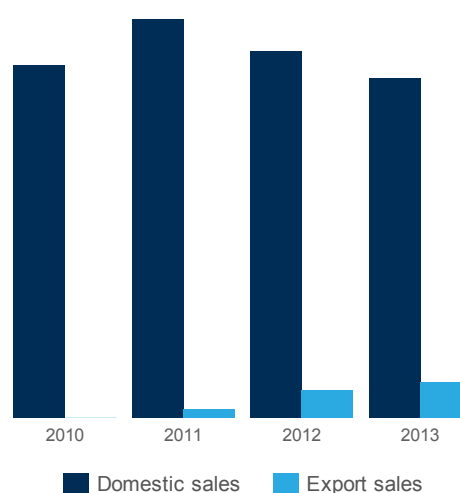
In 2013, a 6% decline in demand for diesel oil led to a 4.8% decrease in total sales of that fuel by the LOTOS Group. A drop in domestic sales was largely compensated by exports, which grew 25% year on year, with Germany, the UK, the Netherlands, France, Denmark and the Czech Republic accounting for the bulk of foreign sales.

Source: The LOTOS Group in-house data.



Source: The LOTOS Group in-house data.

Sales of diesel oil [tonnes]

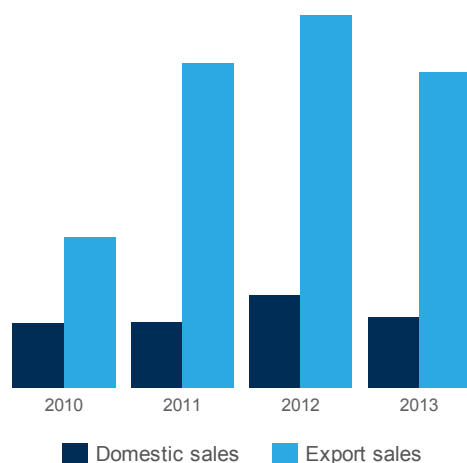


Source: The LOTOS Group in-house data.

## Sales of aviation fuel

In 2013, the LOTOS Group recorded a 17% drop in sales of aviation fuel, while still remaining the main Polish exporter of that fuel. Intra-Community sales accounted for the majority of exports, with the main customers located in Sweden, the Czech Republic, Finland, Denmark and Switzerland. Domestic sales were conducted via two channels: *into plane* and wholesale. As part of the *into plane* fuelling service, fuel was delivered to airline customers operating on the Polish airports in Gdańsk, Warsaw and Kraków. In the wholesale channel, sales were mainly to the aviation industry.

### Sales of aviation fuel [tonnes]



Source: The LOTOS Group in-house data.

## Sales of LPG

In 2013, for another year running, Grupa LOTOS recorded an increase in LPG sales both in Poland and on foreign markets. The increase was linked to the introduction of natural gas as a production feedstock, which had taken place a year earlier. The Polish LPG market is characterised by a huge deficit, with almost 90% of total demand being satisfied by imports, and thus our additional LPG output was channelled to the Polish market. The key export markets for the product included Germany and Serbia.

### Sales of LPG [tonnes]



Source: The LOTOS Group in-house data.

The impact of our fuels on human health and safety is assessed at the production stage. For each type of fuel, a Safety Data Sheet (SDS) for hazardous substances is prepared, including information on all potential hazards associated with the use of the fuel and required precautions. An SDS is delivered directly to each wholesale customer and is available to retail customers at the LOTOS service stations.

Given the fact that we use road or railway transport to supply fuels to customers, internal procedures have been developed to ensure safety and limit the adverse effect of fuels in transit on human health. Railway transport is handled and supervised in terms of safety and health protection by LOTOS Kolej, whereas road transport is fully outsourced to third parties. Nevertheless, we still oversee the safety of this stage of distribution, by providing tank truck drivers with procedures on how to handle their cargoes and the hazard class of the fuels they carry.

As part of our supervision of road transport in terms of safety and health protection, we undertake regular field inspections. The monitoring covers:

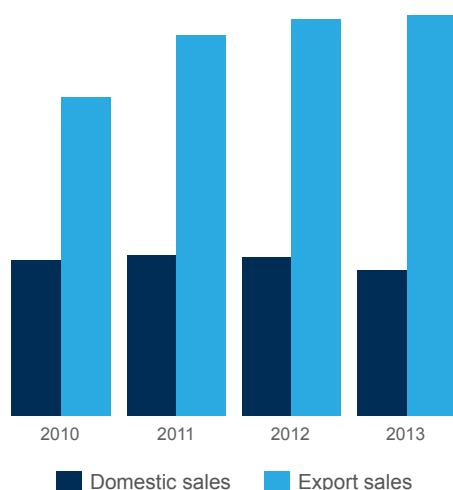
- Loading operations at depots,
- Safe passage of tank trucks over monitored routes, including correct cargo marking as required by applicable regulations,
- Safety of unloading sites,
- Unloading in line with the established procedure and conformity with the procedure,
- Procedure in case of spills, failures.

## Sales of lube products

In 2013, the LOTOS Group sold 254 thousand tonnes of lube products. The principal distribution channels on the Polish market included wholesale and direct sales. The main foreign markets for our lubricating oils were EU countries, as well as countries in Central and Middle Asia, the Middle East, and Africa. In 2013, newly acquired customers for LOTOS Oil products included partners from China, France, the Netherlands, Iran, Tunisia, Turkey and UAE.

In 2013, LOTOS-branded oil products were sold in 59 countries.

Sales of lube products [tonnes]



Source: The LOTOS Group in-house data.



All products manufactured by LOTOS Oil are appropriately labelled with information about their potential health impacts and environmental hazards.

### Extent of the product and service information required by LOTOS Oil's internal procedures:

<b>Source of the product or service components</b>	Thanks to the provision of registration numbers for hazardous substances, it is possible to access information on each product's health impacts and environmental hazards, such as carcinogenic effects, fertility impact, bioaccumulations, etc. Information on the commercial source of a product, i.e. its supplier, is not provided.
<b>Content, particularly substances that might have an environmental or social impact</b>	
<b>Safe use of the product or service</b>	Guidelines on how to safely use and handle hazardous substances are also included in the Safety Data Sheets. In addition, labels on packaged products include pictograms providing information about the risks posed by the product. Safety Data Sheets are available on LOTOS Oil's website.
<b>Disposal of the product and its environmental/social impact</b>	Lubricating oils are subject to the Act on Obligations of Entrepreneurs in Respect of Management of Certain Waste and Product Charges, dated May 11th 2001 and secondary regulations, and thus are collected and transferred for disposal in quantities required by the Act.
<b>Product policy</b>	In line with LOTOS Oil's product policy, products marketed by the company exceed the statutory requirements with respect to environment and health protection. The QUANTILUS T50 and QUANTILUS 60 plasticisers, placed on the market over the last three years, may serve as a case in point, since they meet all requirements related to mutagenicity level and content of carcinogenic agents, as confirmed by independent laboratories. Another example is the upgrading of motor oil lines in accordance with the ACEA specifications, requiring such products' conformity with the exhaust after treatment systems in passenger cars and trucks. Approximately 22% of the company's oil products bear special labelling.

#### Life cycle stages at which the impact of LOTOS Oil's products on health and safety is assessed

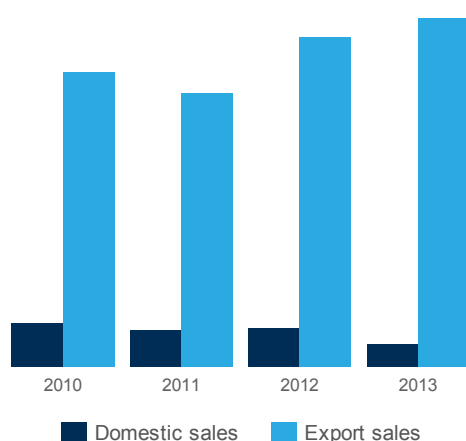
- ✓ Concept of product development
- ✓ Research and development
- ✓ Certification
- ✓ Manufacturing and production
- ✓ Marketing and promotion
- ✓ Stocks distribution and supply
- ✓ Use and service
- ✓ Disposal, reuse or recycling

In 2013, LOTOS Oil recorded no incidents of non-compliance with applicable regulations, rules and codes concerning health and safety impacts of the company's products and services. Similarly, there were no incidents of non-compliance with the regulations and voluntarily applied procedures concerning the marking and provision of information on products and services. No sanctions were imposed on LOTOS Oil resulting from its non-compliance with the applicable laws or regulations pertaining to the provision and use of the company's services and products.

## Sales of heavy fuel oil

2013 saw a 1% overall increase in sales of heavy fuel oil, which – next to diesel oil and gasoline – is a key product sold by the LOTOS Group. The increase came on the back of a 6% growth in exports, mainly to international trading companies. In Poland, the product was sold primarily to power sector companies.

Sales of heavy fuel oil [tonnes]

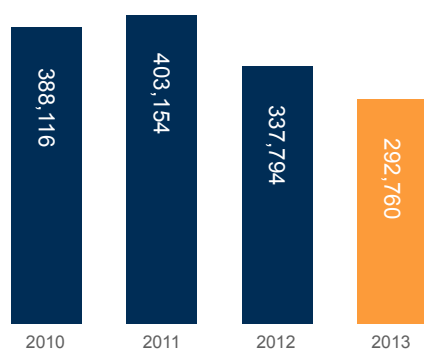


Source: The LOTOS Group in-house data.

## Sales of heating diesel oil

A slide in domestic demand for light fuel oil in favour of alternative heating fuels, caused our 2013 sales of the product to shrink 13% year on year, to 293 thousand tonnes.

Sales of heating diesel oil [tonnes]

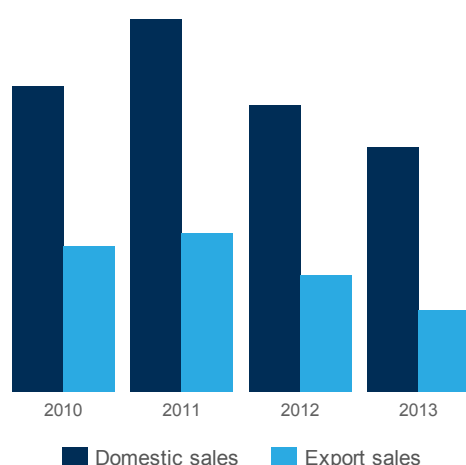


Source: The LOTOS Group in-house data.

## Sales of bitumens

In 2013, there was a 19% year-on-year drop in total bitumen sales, attributable to weaker financial performance of construction companies, as well as the economic crisis prevailing across the EU with a resulting decline in infrastructure investment. Similarly to previous years, road bitumen had the largest share in total bitumen sales (around 80%). The remaining volume of bitumens sold by the LOTOS Group included modified and industrial bitumens. Only road (90%) and modified (10%) bitumens were exported, chiefly to European countries, including Sweden, the UK, Germany, Switzerland, Lithuania, Romania and the Czech Republic. Record sales were recorded in Germany, and in Romania LOTOS Asphalt established its first foreign terminal, which will strengthen its foothold in the market thanks to markedly improved logistics and measurable economic benefits.

Sales of bitumens [tonnes]



Source: The LOTOS Group in-house data.

**LOTOS Asphalt** manufactures construction materials which include such product categories as paving grade bitumens, modified bitumens, bituminous emulsions and waterproofing materials (until June 2013). The manufacturer is required to provide full product information for each product classified into a given category. Mandatory provision of product-related information is required for over 98% of the total volume of products sold by LOTOS Asphalt.

In addition, although petroleum bitumens are not listed among hazardous substances, bitumen products manufactured by LOTOS Asphalt are sold with the Information Sheet for substances or admixtures for which a Safety Data Sheet (SDS) is not required. It contains information on the product ingredients and up-to-date recommendations on its safe handling.

Extent of the product and service information required by LOTOS Asphalt's internal procedures:

- ✓ Source of the product or service components
- ✓ Content, particularly substances that might have an environmental or social impact
- ✓ Safe use of the product or service
- ✓ Disposal of the product and its environmental/social impact

At LOTOS Asphalt, health impact and safety assessments are performed virtually throughout a product's life cycle. If the assessments identify any issue, steps are taken to fully eliminate or at least minimise potential hazards to the natural environment and human safety.

Paving grade bitumens, which account for more than 95% of the company's production volume, are subject to conformity assessment, whose outcome is a warranty for the consumer that the product has appropriate functional properties and meets the relevant requirements for construction products. Declarations of Performance (DoP) have been drawn up for LOTOS Asphalt products.

To ensure the safe use of the products – safety enhancement measures have also been extended to their transport and distribution. There are written manuals and videos on how to safely handle bitumens during loading, unloading and transport. The providers of transport services are also assessed for compliance with LOTOS Asphalt's safety standards.

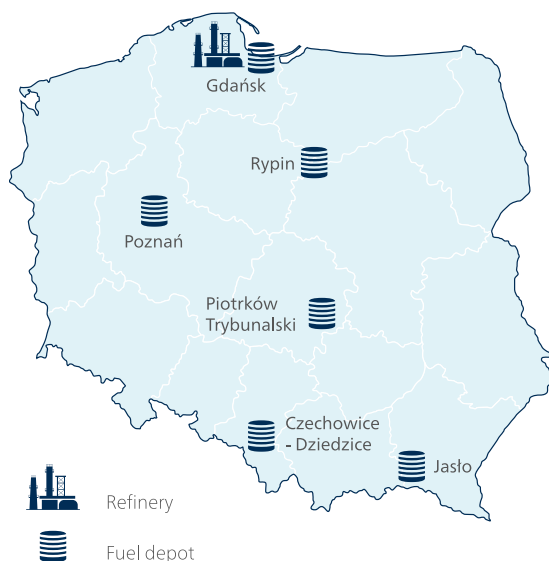
Life cycle stages at which the impact of LOTOS Asphalt's products on health and safety is assessed

- ✓ Concept of product development
- ✓ Research and development
- ✓ Certification
- ✓ Manufacturing and production
- ✓ Marketing and promotion
- ✓ Stocks distribution and supply
- ✓ Use and service

In 2013, LOTOS Asphalt recorded no incidents of non-compliance with the applicable regulations concerning product health impacts, markings or provision of information on products and services. No significant penalties for non-compliance with laws or regulations concerning the provision and use of products and services were imposed on the company, either.

## Logistics

Logistics is consistently adapted to the requirements of our trading operations, while we keep building an efficient distribution system that meets the expectations of customers, but also helps reduce costs. The purpose of these measures is to build a logistics chain that would function optimally in the constantly changing external and internal environments.



To ensure that our logistics assets operate more efficiently, in 2013 we began to consolidate fuel depots within the LOTOS Group. The first stage of the process consisted in reorganising companies in the south of Poland, changing their business profiles and, consequently, changing their names to LOTOS Terminale and LOTOS Infrastruktura. The next stage culminated in the transfer of ownership of the Rypin and Piotrków Trybunalski fuel depots to LOTOS Terminale. Also, construction work on comprehensive upgrading of the Grupa LOTOS fuel depot in Poznań was begun. The consolidation process is expected to be completed in 2014.

In 2013, work continued on fully automating and centralising road tanker filling operations at our own depots. A self-service road tanker filling unit was commissioned at the terminal in Gdańsk, and we plan to gradually roll out similar systems at other locations throughout 2014. The introduction of homogeneous solutions will help us achieve work standardisation and implement uniform interfaces for the exchange of data and reporting of processes related to release of products at the LOTOS Group's fuel depots.

In the area of secondary logistics, we launched supplies of the JET A-1 aviation fuel for the Warsaw airport. Motor fuel deliveries to hypermarket service station operators were also begun.

Preparations continued for the construction of a petroleum product handling terminal on the Martwa Wisła river in Gdańsk. When completed, the terminal will handle exports and imports of feedstock components and product loads of up to 5,000 tonnes from our own wharf.

## Rail transport

Rail transport of products from the Grupa LOTOS refinery in Gdańsk is a mainstay of our production security. Comprehensive services in the area of rail logistics are provided by LOTOS Kolej, which ensures economically viable, efficient and safe rail freight throughout Poland, and – relying on its well-established forwarding capabilities – can also arrange rail transport across the EU. LOTOS Kolej's services involve:

- Management and operation of railroad sidings;
- Rail freight;
- Maintenance of railway infrastructure and rolling stock;
- Eco-friendly cleaning of rail tank cars.

LOTOS Kolej leads the industry in use of advanced technology solutions, deploying and refining a number of IT systems designed to optimise the logistics processes. All loading and unloading operations are controlled by the Rail Logistics System, which ensures that rail transport is efficiently managed. Trains are monitored in real time in conjunction with the Operational Work Recording System of PKP Polskie Linie Kolejowe.

All LOTOS Kolej's locomotives are fitted with mobile IT systems allowing to transmit operational data and train documents from any place within the PKP network, which is a pioneer solution in Poland. The applied solutions are highly appreciated by customers, as they give them real-time access to reliable information on service status.

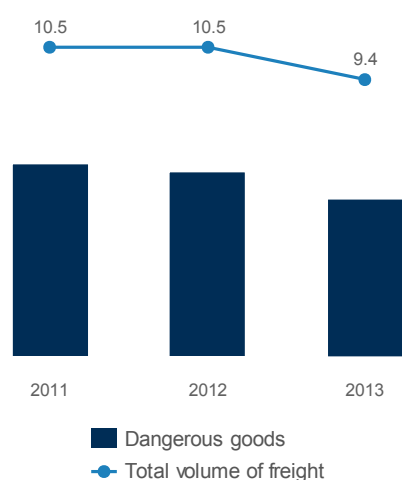
Thanks to cutting-edge technologies combined with innovative rail logistics, the company is able to offer both full-train and single-car freight services, which positions it strongly against competition.

LOTOS Kolej is among the market leaders in terms of using the most modern locomotive fleets in Poland, which increases the efficiency of its transport services, guaranteeing their high quality.

As at the end of 2013, modern locomotives represented 28% of the company's rolling stock, securing it a firm position among rail operators with the most advanced locomotive fleets in Poland.

As a result of its continuous development, LOTOS Kolej has the potential to fully satisfy the transportation needs of LOTOS Group companies and, increasingly, to render transport services to third-party customers.

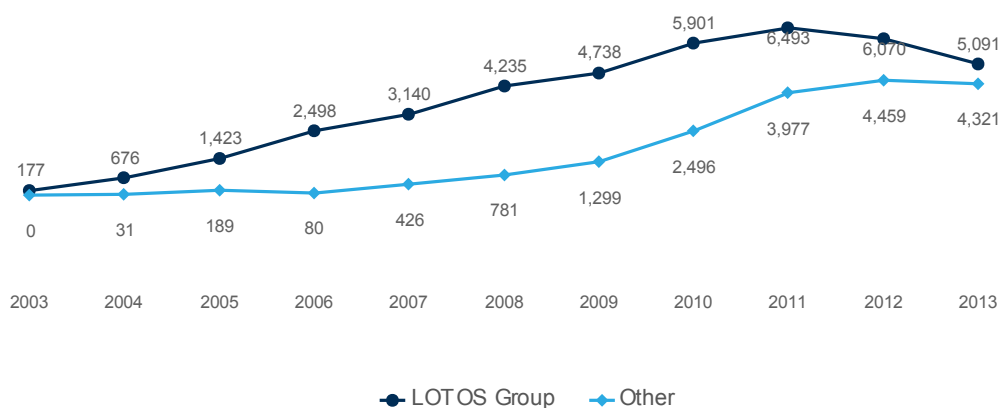
Volume of freight transported [million tonnes]



In 2013, LOTOS Kolej transported a total of over 9.4m tonnes, including cargoes of over 4.3m tonnes hauled for third-party customers.

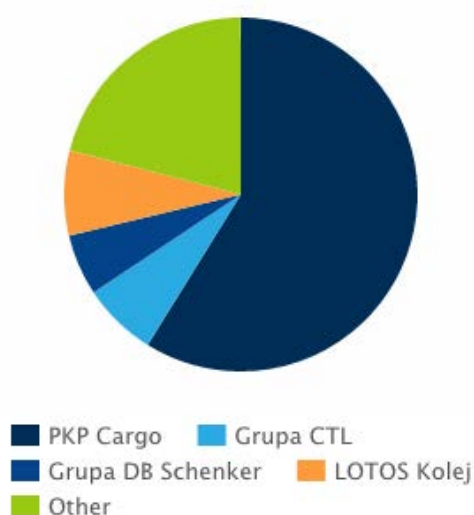
LOTOS Kolej ranks among Poland's leading rail carriers, whose share in the domestic market of 7.76%, measured in terms of rail freight volumes, makes it the number two player on the market.

#### Increase in the volume of rail freight hauled by LOTOS Kolej over a decade [thousand tonnes]



Source: The LOTOS Group in-house data.

#### LOTOS Kolej's share in the domestic freight market in 2013 (%)



Source: In-house analysis of the LOTOS Group based on data from the Railway Transport Authority (Urząd Transportu Kolejowego).

As a rail carrier, LOTOS Kolej has a specialist focus on transport of dangerous goods<sup>(1)</sup>. Consignors of dangerous goods are required to place relevant information plates on each side of the rail cars carrying such goods, specifying the good's identification number (UN number) and hazard identifier, as well as warning labels for a given good. This obligation also applies to empty, uncleaned rail cars and containers in which hazardous substances had been carried, as well as rail cars carrying hazardous waste.

<sup>(1)</sup> Dangerous goods are products and materials which – given their physical, chemical or biological properties – pose a potential safety threat if not properly handled during transport, or, in cases of failure or accidents, may cause a risk to human health or life, the natural environment or property.

In 2013 – as in previous years – LOTOS Kolej recorded no incidents of incorrect or defective marking of consignments of dangerous goods, or any penalties imposed on it for non-compliance with the applicable laws and regulations pertaining to the marking of such consignments.

Extent of the product and service information required by LOTOS Kolej's internal procedures:

- ✓ Source of the product or service components
- ✓ Content, particularly substances that might have an environmental or social impact
- ✓ Safe use of the product or service
- ✓ Disposal of the product and its environmental/social impact

Life cycle stages at which the impact of LOTOS Kolej's products on health and safety is improved

- ✓ Concept of product development
- ✓ Certification
- ✓ Manufacturing and production
- ✓ Marketing and promotion
- ✓ Stocks distribution and supply
- ✓ Use and service
- ✓ Disposal, reuse or recycling.

In 2013, there were 17 accidents involving LOTOS Kolej's staff and rolling stock (against 13 a year earlier) and one incident (against 5 in 2012).<sup>(2)</sup> As in 2012, one accident occurred by fault of the company's employee. The downward trend in those statistics confirms the effectiveness of our steady efforts to improve the safety and quality of services provided.

<sup>(2)</sup> According to the classification provided for in the Regulation of the Minister of Transport, dated April 30th 2007



## Sea transport

Freight transport by sea is a vital element of the LOTOS Group's logistics chain. Having direct access to the product pipelines linking the refinery in Gdańsk to the liquid fuel handling facilities at Port Północny, we enjoy the considerable advantage of lower transportation costs. It is through maritime transport that we export the majority of petroleum products, and are supplied with a significant portion of raw materials and components for production.

2013 was a record year for Grupa LOTOS both in terms of the volume of cargo handled at sea ports and the number of tanker ships handled, which for the first time in the Company's history exceeded 300.

The liquid fuel handling terminal owned by Naftoport is able to handle tankers with a maximum draught of 15 metres and a capacity to load up to 150,000 tonnes of crude oil or petroleum products. This allows Grupa LOTOS to export surplus products and sell them on the markets of Scandinavia, Northern and Western Europe and the Baltics. The direct connection to the port also facilitates imports of additional feedstock, including intermediate products for further deep processing at the refinery in Gdańsk, as well as fuel components. The coastal location allows us to respond quickly and flexibly to changing market conditions. Apart from the Naftoport fuel depot, we also use the Maritime Bulk Terminal in Gdynia and the Siarkopol terminal in Gdańsk to handle smaller cargoes.

Grupa LOTOS enjoys the advantage of having a refinery at a short distance from a cargo handling terminal, which allows it to diversify its supply sources and facilitates the shipping of crude oil from the Company's own fields under the Baltic Sea and in Lithuania, and – in the future – crude oil produced from under the North Sea.

We are consistent in our efforts to take over the management of cargo transportation by sea, or to control the transportation process on the longest possible section of the supply chain, from the affreightment of ships to the formal handling of sea transport. This ensures greater control and helps streamline the planning of cargo handling at sea ports, thus allowing us to reduce the frequency of ship detention and optimise the related costs.

## Petroleum product exports

In 2013, Grupa LOTOS exported 2,806 thousand tonnes of petroleum products, with a total value of PLN 7,445m.

Export revenue fell 5.1% year on year, chiefly on the back of lower refining margins in Europe. Despite the overhaul shutdown at the refinery in Gdańsk in 2013, the volume of exports went up 2.6%.

## Grupa LOTOS petroleum products were exported mainly to Northern and Western Europe.

<b>Naphtha</b>	>	integrated oil and petrochemical companies in the Netherlands, Germany and Belgium
<b>Motor gasoline</b>	>	petroleum hub in Rotterdam, Sweden and the UK
<b>Aviation fuel</b>	>	Sweden, the Czech Republic, Finland, Denmark and Switzerland
<b>Diesel oil</b>	>	Germany, the Netherlands, the UK and France
<b>Heavy fuel oil</b>	>	storage depots of global trading companies in Estonia, Denmark and the Netherlands, and for further sale outside of Europe

There was a considerable, 25%, year-on-year increase in diesel oil exports. Heavy fuel oil was the Company's key export product in volume terms (over 1m tonnes in 2013).

Export sales by land have gained importance. The value of exports delivered by land in 2013 was up by almost 17% year on year, though export by land still accounts for a little more than 3% of the Company's total export sales. Most of Grupa LOTOS' export customers were international vertically integrated oil companies and trading houses. None of the customers accounted for more than 5% of total revenue.

## LOTOS service stations

In 2013, work continued on expanding the LOTOS retail network by adding new stations to the CODO (company owned) and DOFO (franchise operated) chains. In the economy segment, we were rapidly developing the LOTOS Optima business concept. As a consequence of decisions made in previous years, 2013 was another period in which we curtailed retail sales through DODO service stations.

### Number of LOTOS and LOTOS Optima service stations at the end of 2013

<b>LOTOS</b>	142 CODO stations
<b>Premium segment</b>	14 MSAs
	115 DOFO stations
	17 DODO stations
<b>LOTOS Optima</b>	100 CODO stations
<b>Economy segment</b>	51 DOFO stations

In an effort to expand the chain of CODO stations, properties are acquired, with the most important criterion for selecting a location being the sales potential of the local market. In 2013, we added 34 new locations to the CODO chain, including 3 MSAs (Motor Service Areas). Over the same time, the DOFO chain was expanded to include 11 new service stations.

Non-fuel sales represent a significant part of the business of the LOTOS service station chain. In 2013, we continued to develop the Cafe Punkt food service concept, expanding its food and product offering. Among the key initiatives launched in 2013 and continued in 2014 is the standardisation project, aimed to establish a uniform visual identity for the LOTOS retail chain.

Other achievements in the service station chain segment in 2013 included:

- Promotion of sales activity,
- Optimisation of margin on product sales from service station shops,
- Enhancement of the coffee offering at service stations, by

- Opening new cafés at more than 100 locations,
- Use of a special blend of freshly ground coffee exclusively for the LOTOS chain and introduction of larger, 300 ml coffee cups,
- Implementation of a financial efficiency improvement programme for the retail chain.

LOTOS Paliwa markets ready-made fuels, meeting the quality requirements provided for in industrial standards and legal regulations. To ensure compliance, we regularly monitor the quality of fuels sold through the service station chain in terms of their conformity with the relevant requirements. Annual inspections of all fuel types are carried out at each station operating within the LOTOS chain.

In the case of fuel sales from CODO stations, LOTOS Paliwa sets the standards, and supervises adherence to those standards by the station managers. The process is governed by separate agreements and procedures, which are improved on a regular basis. As part of the established health and safety-related standards, the following areas are overseen and assessed for conformity with the applicable requirements:

- Fuel supplies,
- Supervision over the stations' fuel infrastructure,
- Procedures in case of accidents and failures,
- Standards of safety with respect to customer service and fuel sales,
- Environmental management in accordance with the PN-EN ISO 14001:2005 standard,
- Occupational health and safety management in accordance with the PN-N-18001:2004 standard.

LOTOS Paliwa's activity involving retail sales through CODO stations, conducted by the station managers, is strongly connected with the safety of service station personnel and customers. Given their nature, service stations are retail facilities exposed to the risk of aggressive behaviour by persons who are not customers. This kind of behaviour may pose a threat to the physical safety of the station's employees. In 2013, 11 such instances were recorded.

We attach great importance to the safety of the personnel and customers of our service stations. With that end in mind, we have been taking and enhancing various technical, organizational and HR measures designed to prevent any potentially dangerous incidents.

**Technical measures** - protecting the service stations through:

- Appropriate lighting,
- Surveillance with the use of video cameras,
- Technical protection of building entrances and passageways,
- Alarm systems.

**Organizational measures:**

- Establishment and enhancement of procedures and instructions for service station managers and personnel telling them how to behave in case of specific hazards,
- Establishment and enhancement of physical security procedures,
- Employment of specialist providers of security services,
- Investigating incidents that have taken place at service stations and taking appropriate preventive measures.

In 2013, we reviewed our procedures relating to property security and provision of third-party security services.

#### HR measures:

- Provision of station managers with instructions on how to behave in case of hazards related to dangerous incidents and how to prevent such hazards,
- Provision of training to managers and personnel of new service stations. In 2013, training in safety procedures was provided to personnel of a few dozen service stations.

Last year, no instances were recorded of our products or services negatively affecting the health of LOTOS Paliwa's employees. The managers of service stations, in their capacity of employers, are required by law to monitor the work environment at the stations and to ensure that all employees undergo medical check-ups.

In retail sales, information concerning the properties of fuels sold by the company is provided at a customer's request in the form of Safety Data Sheets for hazardous substances. Service station dealers are required to provide, at a customer's request, Safety Data Sheets for hazardous substances included in goods available from their stations.

#### Extent of the product and service information required by LOTOS Paliwa's internal procedures

- ✓ Source of the product or service components
- ✓ Content, particularly substances that might have an environmental/social impact
- ✓ Safe use of the product or service
- ✓ Disposal of the product and its environmental/social impact

In 2013, LOTOS Paliwa identified no incidents of non-compliance with the regulations and voluntary codes concerning the marking and provision of information on fuel products. No significant penalties for non-compliance with laws or regulations concerning the provision and use of products and services were imposed on the company, either.

## Challenges in strategy implementation until 2015

In line with our business strategy for fuel sales, we will primarily aim to further reinforce our market presence by:

- Maintaining a 30% share in the domestic fuel market;
- Achieving sales 15% in excess of the fuel production capacities of the Grupa LOTOS refinery;
- Securing a 10% share in the domestic retail market through sustainable development of the service station chain and enhanced sales from the existing chain.

In sales of lubricating oils, the key objective is to retain our leading position on the domestic market.

In sales of other products, the key objective is to optimise financial performance by leveraging our resources and market conditions.

## Customer satisfaction

In line with our CSR strategy, which supports the effective pursuit of our business strategy, the primary objective is to build lasting customer relationships through a focus on understanding customers' needs and delivering the expected product quality and safety, measured as the level of customer satisfaction with the LOTOS Group's marketing companies.

Progress in this area is monitored by means of regular surveys. Customer satisfaction surveys are intended to gauge the level of customer satisfaction with the quality of their relationships with the LOTOS Group. Their scope covers:

- Factors behind the choice of a supplier,
- Interactions with staff, staff accessibility and competences,
- Quality and availability of products,
- Response times to RFQs,
- Pricing relative to peers,
- LOTOS Group's perception.

### Satisfaction surveys among the LOTOS Group's customers

Company	Survey frequency (number / year)	Customer segments
Grupa LOTOS	1	B2B
LOTOS Asfalt	1	B2B – bitumen and heavy fuel oil
LOTOS Kolej	2	LOTOS Group, forwarding companies, direct customers
LOTOS Oil	1	B2B
LOTOS Paliwa	1	B2B, B2C – every year, alternately

At most of the marketing segment's companies, satisfaction surveys are conducted using the CAWI (Computer-Assisted Web Interview) technique. Their results are then analysed based on the TRI\*M methodology (the TRI\*M Index being a single number score which measures customer satisfaction and loyalty levels, and the key tool of the licensed TNS Global methodology). In mathematical terms, the TRI\*M Index represents a weighted average of scores derived from answers to four questions, selected by TNS over 20 years ago in the course of evaluation surveys. They have been used consistently ever since in satisfaction surveys on a number of different markets, which has allowed TNS to build up one of the largest sets of benchmarks. The TRI\*M Index questions cover:

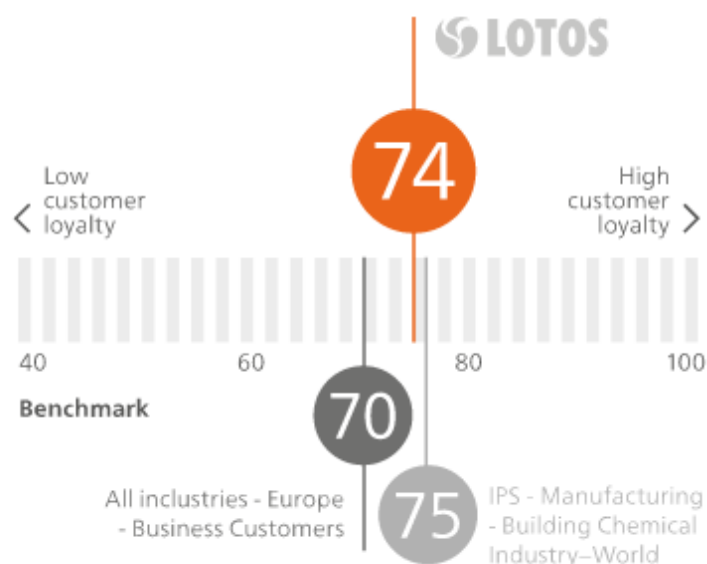
1. Overall satisfaction.
2. Probability of recommendation.
3. Repurchase intent.
4. Competitive advantage.

The TRI\*M Index is a measure of customer retention levels – the higher it is, the more customers are attached to the brand and the less likely to transfer their business to competition.

The TNS Poland Report summarizes the combined results of surveys measuring the satisfaction of the LOTOS Group's customers which were conducted at the beginning of 2014 in:

1. Grupa LOTOS,
2. LOTOS Asphalt,
3. LOTOS Oil,
4. LOTOS Paliwa.

The 2013 overall customer satisfaction rating, as captured by the TRI\*M Index, reached the level of 74 points, which should be considered a good score and testifies to strong brand loyalty. Also, the survey confirmed the high level of customer satisfaction among the LOTOS Group's business clients.



The customer satisfaction surveys included in the overall customer satisfaction rating were conducted at the following LOTOS Group companies

1. **Grupa LOTOS** - the 2013 customer satisfaction rating, as rendered by the TRI\*M Index, indicates a rise in the satisfaction level among Grupa LOTOS customers year on year.

The points awarded by the respondents to the individual aspects constituting the TRI\*M Index suggest an overall rise in the customer satisfaction level among the Company's customers. In other aspects (recommendation, repurchase intent and competitive advantage), the 2013 score remained on a par with the 2012 one. A positive thing worth noting is the fact that the survey revealed no disloyal or dissatisfied customers.

2. **LOTOS Asphalt** conducts its satisfaction surveys in the area of customer service and delivered products. In 2013, its rating of customer experience, as measured by the TRI\*M Index, improved year on year, which suggests that customers are significantly more satisfied with the company as compared to 2012.

Looking at the average scores across the TRI\*M Index dimensions, customers seem ready to recommend LOTOS Asphalt to others and very likely to choose it again as their supplier. On the other hand, the competitive advantage score is relatively low. Compared with the previous survey, a shift can be noted in the structure of the company's customer base. While being largely price-oriented, it no longer includes any strongly dissatisfied or disloyal customers, who had previously represented 30% of the total. The respondents view the company as trustworthy, innovative and committed to customer care, with very high scores achieved for the quality of interaction with the company's sales force and distribution department, as well as the timeliness of deliveries.

3. **LOTOS Oil** conducts customer satisfaction surveys covering two primary areas of the company's operations: the indirect sales channel, whose respondents are Authorised Distributors and major customers operating as Trade Partners, and the direct sales channel, where those surveyed include end customers from the industrial and automotive segments (car mechanics, authorised service providers, car shops, as well as companies and plants representing various branches of the industry).

Customers appear to value LOTOS Oil primarily for its efforts to ensure the high quality of services, high and consistent quality of products, as well as good sales and aftersales support. One of the most important aspects of these efforts is the company's value-added offering, including investment and visual identity support, the oil services for customers from the industrial and automotive segments, which consist in oil consultancy, analysis and comprehensive oil management monitoring.

4. **LOTOS Paliwa** also measures customer satisfaction on a systematic basis, as required by the Integrated Management System and the ISO 9001 standard, which has customer focus at its core. 2013 was a year of surveying the company's institutional customers. The satisfaction rating at LOTOS Paliwa, as captured by the

TRI\*M Index, indicates a high level of satisfaction among its customers, which should be considered a good score and testifies to their strong brand loyalty.

As regards functional aspects, the highest scores given by institutional customers were for product availability, clarity of invoices, number and location of service stations, and consistency between their orders and deliveries. Customers value the high quality of their relationship with LOTOS Paliwa, which follows from the company's efforts to promote its image as an innovative, customer-oriented partner, standing out from competitors. The company's strengths reside in its comprehensive range of fuels and environmental awareness.

For **LOTOS Kolej**, a thing of key importance is the superior quality of its freight services, as a factor in further development of the Polish rail freight market. Customer satisfaction ratings are obtained primarily by direct interaction with the customers. Another tool used for measuring customer satisfaction is the questionnaire-based evaluation system, which covers such areas as:

- Timeliness of deliveries,
- Rolling stock quality,
- Quality and comprehensiveness of services offered,
- Customer interactions with the management and technical personnel operating the rolling stock,
- Service prices, payment methods and deadlines, discount policy,
- Response to complaints,
- Reliability.

#### Overall evaluation of LOTOS Kolej

Period	2013 (H1)	2012 (H1)	2011
Average score (2-5 scale)	4.57	4.59	4.63
Sample	11 customers	12 customers	13 customers

In 2013, the company received the highest scores for:

- Reliability (5.00),
- Customer interactions with management staff (4.90),
- Customer service quality (5.0).

The aspects which received the lowest scores compared with previous years included: payment methods and deadlines, discount policy (4.10), service prices compared with companies with similar business profiles (4.00) and rolling stock quality (4.13).

Looking at the survey results over the period 2011-2013, LOTOS Kolej continues to score highly in most of the surveyed areas, especially in terms of reliability and service quality, which is important in building relationships with its customers.

Findings derived from the summary survey scores allow the companies to assess the work of their individual departments, and to define further steps to be taken in order to ensure that their business partners are fully satisfied. Comments and feedback from customers are always verified, and if any failures on our part are confirmed, corrective measures are implemented.



## Statement by Monika Hinc

President of the UP Foundation – the Development Initiation Forum



“ ‘Let us all together build the atmosphere of cooperation in Pomerania’ – this is the central idea of the Development Initiation Forum. It is also a statement made two years ago by Paweł Olechnowicz, President of Grupa LOTOS Board, at one of the conferences organized in the ‘CSR Academy’ series, which went on to become the source of inspiration behind this extraordinary initiative.

**Monika Hinc**  
President of the UP Foundation – the  
Development Initiation Forum

‘Let us all together build the atmosphere of cooperation in Pomerania’ – this is the central idea of the Development Initiation Forum. It is also a statement made two years ago by Paweł Olechnowicz, President of Grupa LOTOS Board, at one of the conferences organized in the ‘CSR Academy’ series, which went on to become the source of inspiration behind this extraordinary initiative.

The Development Initiation Forum takes efforts to bring about sustainable development of the Pomerania region, based on strong inter-sectoral cooperation of business, local government and NGOs. That is the development as it is seen through the eyes of local communities. Social engagement of the residents of Pomerania is very high; fourth position nationwide in terms of the number of NGOs in relation to its population constitutes a huge potential. What will pose the biggest challenge to all of us, however, is a systemic approach to providing best-quality services to the excluded and to those at risk of social exclusion. Ensuring equal opportunities in the areas of culture and education, counteracting exclusion and supporting local communities – for a long time to come, these challenges will not be seen as legitimate objectives for representatives of business as such.

The Development Initiation Forum represents the practical approach to such cooperation; it is about bringing about benefits to each of the groups represented in it and, consequently, about building one consistent coalition. The Forum provides tangible opportunities and guarantees equal access for all parties to its resources – sharing experiences, the knowledge and financing under its Grant Fund.

It would not be possible without the contribution and active participation of all our Partners, each of whom is an important element of the whole undertaking.

At the same time, it is worth stressing the exceptional role of our special Partner, which is without a doubt Grupa LOTOS. Our cooperation with the Company combines all the elements which are necessary to build all inter-sectoral partnerships. Grupa LOTOS is a professional Partner, actively providing content-related contribution along with the financial one, which is so important for our initiative. It is also a Partner who actively participates in the work of our Programme Council.

As a large company, Grupa LOTOS serves as the Ambassador of the Forum, being in and of itself a perfect example to other companies, both large and small. It is the Ambassador who promotes the idea of inter-sectoral cooperation among representatives of business in the Pomerania region. Furthermore, Grupa LOTOS supports other inter-sectoral projects run in accordance with the principles of partnership, providing an example of effective cooperation between business, and the NGOs and local government sectors, with the development of local

communities in mind.

Such a Partner as Grupa LOTOS gives a guarantee for the quality and stability of our initiative. Thanks to such Partners, we have a chance to deliver on our objectives and to achieve the expected outcomes. And, at the end of the day, it is owing to such Partners that we build together the atmosphere of cooperation in Pomerania.

# Economic impact

In accordance with our CSR strategy, we pursue long-term, comprehensive initiatives across all areas of our operations, with a particular focus on systemic approach to any issues that may occur in the organization's business environment. By entering into agreements and contracting works with companies from the Province of Gdańsk and from the south of Poland, where some of the LOTOS Group companies operate, we have a substantial impact on the local communities, their economic development and rate of growth. We aspire to be the region's ambassadors based on our culture of doing business, e.g. meeting liabilities in a timely manner and fostering mutual relations with suppliers by best practice sharing, support and propagation of investment technologies.

In 2013, we launched the 'For suppliers' sub-page of the [www.lotos.pl](http://www.lotos.pl) website, with the aim of promoting the best practices, principles and values by which Grupa LOTOS abides in its dealings with prospective and existing suppliers.

Divided into several sections, the web page outlines the principles we are guided by in working with our suppliers. Along with a list of commitments, they provide an insight into the requirements and expectations we set before ourselves and before our existing and prospective suppliers, defining the values we adhere to in our activities. Visitors to the page can also study and download standard agreement forms used in dealings with Grupa LOTOS business partners, as well as General Terms and Conditions of Agreements. We have also posted there an electronic version of the LOTOS Group's Code of Ethics. In addition, suppliers have a chance to read the currently effective CSR strategy and Misconduct Prevention Policy.

To expedite trade, protect the environment and cut down costs, we encourage our suppliers to send their invoices in electronic form, and help them correctly fill out invoices by exactly specifying the data which need to be entered in our settlement system. Thanks to easy access to a wide range of data and documents, suppliers are able to get all information they need. By sharing best practice, we impart knowledge, raise awareness and communicate regulations which govern day-to-day business dealings.

We are also aware of the importance of proper, honest business relations, which is why we settle all amounts owed to our trading partners in a timely manner. In order to control procurement costs, we assess the potential of our suppliers and make an effort to accurately estimate the cost of each order. By executing agreements with due care, we can always be sure to act in compliance with the law, including legal regulations on public levies and taxes. We expect the same of our trading partners, as reflected in the provisions of our agreements.

Our best trading practices influence the awareness of suppliers in the area of occupational health and safety, fire security, environmental protection and the supply chain. In certain cases, we take steps to ensure that our contractors settle their liabilities towards subcontractors, which is important to us both in commercial terms and as an element of our image. By selecting locally-based suppliers, we indirectly contribute to the affluence of local communities. Benefits of this policy include creation of new jobs by suppliers in the principal area of our business, reduction of the size of local grey markets and higher tax revenues for the state, which can be used to fund new investment projects, also in the region.

We contribute to the development of small and medium-sized companies by:

- Cooperation and subcontractor services,
- Improvement of living standards in the Province of Gdańsk,
- Increase in consumer spending, including on luxury goods,
- Transfer of knowledge and experience thanks to visits of foreign contractors, subcontractors and consultants,
- Higher spending on vocational education.

In making business decisions, companies of the LOTOS Group are guided by the organization's CSR strategy, which requires them to give due consideration to the indirect impact they may have on local communities and economic development of their respective regions. This is particularly true in the case of provinces and counties where we are the largest employer, and therefore have the ability to affect the local labour market and vocational education in fields related to the industry's needs. Through the substantial amount of taxes we pay and our choice of trading partners, we also contribute to the development of entrepreneurship and economic potential of the communities in which we operate.

Given the nature of our operations and production facilities, we have developed precise procurement procedures, which cover both the selection of business partners and the contracting process. As a result of legal and procedural considerations, including the principle of equal treatment of all business entities, the selection of suppliers is chiefly based on their business profile, contract delivery potential, knowledge and experience, lead times and pricing. The Polish law precludes any explicit preference for local suppliers, understood as trading partners based in the provinces where companies of the LOTOS Group are located. Accordingly, local suppliers who take part in competitive bid procedures may only do so on terms equal with other bidders. Nevertheless, we keep monitoring the markets, including local markets, as a result of which we invite and select local suppliers to do business with. We evaluate them on the basis of work performed, creating a list of eligible suppliers of goods and services that meet our requirements.

To support Pomerania and our affiliation with the region, Grupa LOTOS enters into agreements concerning vehicle fleets on condition that all vehicles have Gdańsk registration plates, which has even prompted one of our contractors to open an office in Gdańsk. While perpetuating the association of the LOTOS brand with the local market, this policy enhances the municipality's tax receipts.

We apply the most exacting quality and safety standards. Entities, including local businesses, which render services at our production facilities receive technical standards applicable to the works they are to perform, which provides them with detailed information on the relevant technologies. Also, personnel employed by those companies undergo regular, mandatory training in safety awareness.

Our trading partners are invited to meetings at which they learn about the standards and values we adhere to. For example, we have held meetings on the LOTOS Group's Code of Ethics, as well as individual meetings with contractors with the purpose of fostering our mutual business relationships. Such meetings are an important platform for knowledge and experience sharing and an excellent opportunity to showcase the practices followed by our organization.

In order to strengthen our relationships with suppliers and to communicate our contractor selection criteria to current and potential business partners, we have developed and distributed our Code of Ethics, effective from January 2013. The fact that we forge and maintain transparent relationships brings value to both the Company and its suppliers, consistent with the ethical and social values of Grupa LOTOS.

We conclude annual contracts and framework agreements in order to contract services in the long term, without the need to constantly renegotiate the terms of business. In this way, our trading partners learn the standards of work with large business organizations, which they can then apply internally and pass on in the course of their local market operations, thus enhancing the quality of services provided. This particularly applies to SMEs, giving them an insight into the market trends, which are naturally first implemented by large organizations.

In the process of executing contracts for products and services, Grupa LOTOS takes into account all business entities, including those operating locally in the Province of Gdańsk. Purchases made with local suppliers accounted for 27% of all orders in 2013, while purchases from related entities (the Company's subsidiaries based in Pomerania) represented 93% of total purchases from related parties.

In purchases of energy utilities, such as electricity and gas, favourable terms of business are the primary factor behind the choice of a supplier. It is worth noting that a significant amount is allocated on electricity purchases, all of which were supplied by Energa Obrót, a company based in the Province of Gdańsk, while all gas purchases, associated with PGNiG, were made in the Province of Warsaw.

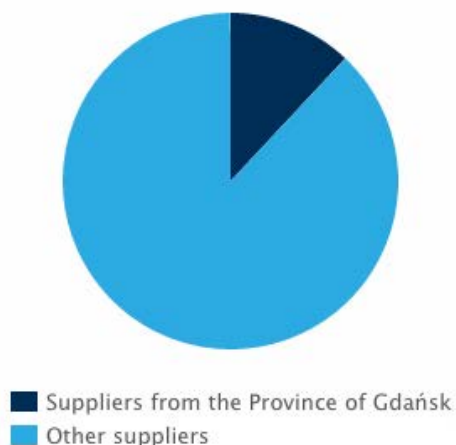
In 2013, the business of **LOTOS Asphalt** focused on the manufacture and sales of bitumens, heavy fuel oil, bunker fuel and waterproofing materials. As these products are sold on a B2B basis, the company – by maintaining relations with its business partners – makes an indirect contribution to their development and improvement of their economic standing. The company's activity also has an impact on employment levels in the areas where it operates, which has spurred an economic recovery in the region of Jasło, where LOTOS Asphalt has an existing bitumen plant and where, from 2009 to June 2013, it operated a Waterproofing Materials Plant. In mid-2013, the latter was sold to a new investor, who plans to develop it further and hire new staff.

Similarly, LOTOS Kolej tries to optimise its procurement processes by contracting local suppliers based in the Province of Gdańsk. This is not always possible, as in the case of spare parts for locomotives the relevant warranty provisions require the company to purchase them from suppliers specified by the rolling stock manufacturer. However, whenever it has the opportunity and permission to substitute spare parts or consumables, LOTOS Kolej always buys them from local suppliers. In other cases, when faced with a choice between prospective suppliers offering similar terms of business, LOTOS Kolej opts for local companies, because this enhances its image in the local community.

Given the nature of its activity, **LOTOS Petrobaltic** is not guided by the criterion of locality when selecting suppliers, doing business with both Polish and foreign partners. In 2013, the supplies of goods and services by local contractors accounted for approximately 8% of all its orders.

Also in the case of **LOTOS Oil**, any business entity registered in Poland will be considered a local supplier. This is due to the specific nature of the company's activities, for which it procures raw materials (enhancing additives and other inputs needed for the production of lubricants, with the exception of base oils), packaging (to package lubricants), car cosmetics and fluids for vehicle applications.

LOTOS Kolej's trade payables in 2013



Structure of supplies to LOTOS Oil in 2013, excluding supplies from Grupa LOTOS



In the case of repairs and maintenance work, the company prefers to employ Polish companies, which account for 90% of all related purchases. LOTOS Oil does not have its own fleet, and therefore works with many providers of forwarding and transport services. Given the location of the company's production and distribution branches and the specific nature of supplies and services involved, it was assumed that forwarding and transport services should be contracted from local companies, defined as enterprises registered in Poland. In accordance with this definition, 100% of all forwarding and transport services for LOTOS Oil are provided by local companies. Indirectly, the company is instrumental in improving the quality of transport services on the local market by establishing procedures which have to be followed by the carriers themselves and their subcontractors (e.g. expanded checks of tanker purity, ensuring that drivers know foreign languages, strict adherence to occupational health and safety, improvement of information flow relating to the current position of transported products).

**LOTOS Paliwa** has a policy of purchasing almost 100% of its fuel stocks for resale from Grupa LOTOS, with the vast majority of the fuel being produced domestically, at the refinery in Gdańsk. Rail transport of fuels is handled entirely by LOTOS Kolej, also based in Gdańsk, while road transport is fully outsourced to third parties. In the case of fuel shipments to LOTOS service stations, the company works with entities with a countrywide presence. Fuel deliveries to wholesalers are additionally handled by local carriers, because they are familiar with their regions and local transport considerations. LOTOS Paliwa's wholesale deliveries were outsourced to local freight service providers in the Provinces of Wrocław, Rzeszów, Gdańsk, Szczecin and Olsztyn. In all these cases, the services are provided by locally-based companies.

# Social capital



## Social capital of Grupa LOTOS

- Good, long-standing relations within and between communities and key groups of the LOTOS Group's stakeholders.
- Ability to cooperate and share information in order to improve the quality of life of individuals and communities in the organization's environment.
- Legitimacy for conducting business activities in areas of the organization's immediate impact.
- Good knowledge of the social conditions, needs and challenges present in the areas affected by the LOTOS Group's operations as well as properly addressing our support to them.
- Public trust built on consistent engagement in the region's development.

### Our objectives in social capital management:

- Stronger integration with local communities by means of increasing the organization's positive contribution into the region's development and minimizing the negative impact of our activities.
- Respect for the social capital and diversity, observing human rights, including the freedom of speech and the freedom of association.
- Contributing to creating jobs and to improving the quality of social capital in the area of the LOTOS Group's impact.
- Counteracting exclusion and other social problems in areas that fit with our competence.
- Streamlining the multi-directional communication with stakeholders, including further development of our system of public consultations.

### Key activities:

- Focusing our social activities on areas that fit with our competence, i.e. road safety, especially among the youngest road traffic participants, ensuring equal social opportunities for gifted youth from areas of lower economic potential as well as environmental protection and ecology, placing particular emphasis on the biodiversity of the Baltic Sea due to the coastal location of our refinery.
- Performing regular evaluations of projects carried out for the benefit of local communities.
- Conducting opinion polls, public consultations and other activities engaging key stakeholders in shaping the organization's policies.
- Streamlining our procurement procedures by means of introducing social, environmental and ethical clauses into contracts, by applying appropriate requirements in bidding procedures, conducting checks and audits of suppliers as well as propagating the LOTOS Group's Code of Ethics.
- Organizing training sessions in the area of human rights protection for our security personnel.
- Creating new jobs in connection with the organization's investment projects, including in the supply chain.

## Results:

Positive feedback from partners and beneficiaries achieved in the evaluation processes accompanying the organization's social and environmental projects

Low level of social risk connected with the organization's relations with its local environment

Mitigated risk connected with the organization's process safety

Rising number of beneficiaries of the organization's community development programmes

Development of the research conducted by the organization's social partners with regard to preserving the biodiversity of the Baltic Sea and protecting the natural riches of areas neighbouring with Grupa LOTOS in the Pomerania region

140 trade partners of the LOTOS Group have become acquainted with the LOTOS Group's Code of Ethics and the organization's requirements in this area

Over 1,500 training hours on human rights issues conducted at the LOTOS Group during the year



## Statement by Marcin Zachowicz

Communication Office Director, Spokesman, Grupa LOTOS, CSR Strategy Leader in the Communicating Changes and Access to Information area



” As the person responsible for the implementation of the LOTOS Group’s CSR Strategy in the Communication area, I believe that no company can be called a really socially responsible one without having established proper communication. The company may carry out multiple projects, and have an excellent vision and objectives but without communicating effectively with its key stakeholders it will not be successful.

### Marcin Zachowicz

Communication Office Director, Spokesman, Grupa LOTOS, CSR Strategy Leader in the Communicating Changes and Access to Information area

As the person responsible for the implementation of the LOTOS Group’s CSR Strategy in the Communication area, I believe that no company can be called a really socially responsible one without having established proper communication. The company may carry out multiple projects, and have an excellent vision and objectives but without communicating effectively with its key stakeholders it will not be successful.

Today, this aspect of communication is very well developed at the LOTOS Group. Our environment treats us as a predictable and responsible market participant and our stakeholders are well-informed about all our plans and achievements. What poses the biggest challenge for us for the years to come is the development of a public culture of communication by means of dialogue. Nowadays, a company’s value is no longer built by unilateral communication but by dialogue, and by competent and intent listening to the voices of social groups which are key for its future. This is in line with the policy of Grupa LOTOS, which has all the suitable tools and proven methods of dialogue and consultations at its disposal.

We strive to listen to what is happening around our organization and to respond quickly and adequately. The groups that I mean here are our stakeholders, who invest in our shares and assess our business activities, but also our customers, who comment on the quality of our products and services at the LOTOS service station chain. In the communication with our stakeholders we can find the best confirmation for our openness, which is one of the CSR values of the LOTOS Group.

Our objective in the corporate social responsibility area is to keep up the dialogue with our stakeholders and to develop our communication tools necessary for it. The LOTOS Group is a complex international organization whose activities are spread geographically; therefore, we are striving to develop e-communication. In 2013, we launched a new version of our website, in which – apart from a totally new approach to presenting information on the social aspect of our activities, etc. – we also introduced sections dedicated to individual stakeholder groups. The first one is addressed to job applicants; the other one to our suppliers. Both these sections ensure access to information significant for key business processes – recruitment and procurement – whereas at the same time they facilitate direct contact with the appropriate LOTOS specialists.

In 2013, we introduced a new self-service HR platform for employees on our Intranet and further significant changes to this platform are planned for 2014. More and more important information for and about the company is provided using mobile devices, also for our employees, whose performance of their work tasks is greatly enhanced by that in effect.

Apart from multi-directional communication which is adequate to the information needs, we also place great emphasis on organizing properly the system and culture of internal communication, especially in its direct dimension. It is in line with the LOTOS ethical values of cooperation, professionalism and responsibility. A good example of such an approach is the continuous improvement of our system of public consultations in the implementation process of the comprehensive Ethical Conduct Programme of the LOTOS Group.

In late 2012, we conducted pioneering consultations on the draft of the LOTOS Group's Code of Ethics, a document of paramount importance to the organization. All employees of the LOTOS Group were invited to take part in these consultations. In 2013, we consulted with our employees the question of the preferred model of selecting the LOTOS Group's Ethics Officer and we evaluated the current level of development of the ethical culture in the organization. Also in 2013, we completed yet another edition of the 'Let's talk about LOTOS' internal communication programme; this time it was devoted to our new strategic project, the Effective and Rising Programme. Although the participation of employees in these meetings with the Board is voluntary, every year they enjoy high attendance. In 2013, the meetings were attended by 3,200 employees, which is almost a 15% increase on the previous edition. In total, at the 'Let's talk about LOTOS' meetings, 400 questions were asked, and then answered by us, and the response rate of the evaluation questionnaires stood at 90%.

All these actions testify to the fact that dialogue and communication are deeply ingrained in the organizational culture of the LOTOS Group and significantly contribute to building its value in the long-term perspective.

# Stakeholders engagement

For the LOTOS Group's activities, maintaining good relations with three stakeholders groups is of key importance. They have been identified in the course of strategic workshops, which were attended by representatives of all business areas of the organization. Each group is taken into account in the decision-making processes having an actual or potential impact on their members. And we strive to build positive relations with all of them, although the scale and character of our impact and their expectations addressed towards us can differ greatly.

## Key Stakeholders groups of the LOTOS Group

Internal Environment	Social Environment	Market Environment
Employees	Local communities	Contractors and subcontractors
LOTOS Group companies	NGOs	Suppliers
Trade unions	Local government institutions	Customers
Employee Council	Government administration	Trade partners
	Science and research institutes, and educational centres	Competitors
	Employer organizations	Industry organizations and international institutions
	Media	Regulatory and monitoring organizations
	Natural environment	Capital market participants

We employ various tools and means of communication to build our relationships with individual stakeholder groups in a responsible manner and in line with expectations.

## Selected tools and methods for building relations with stakeholders in 2013

Main Stakeholder categories	Relations Management forms
Employees	In-person meetings, intranet platform, intranet kiosks, mobile service, corporate newsletter, training, opinion polls, public consultation system, relations with corporate trade unions and with the Employee Council.
Local communities	Social programmes and initiatives, internet service, opinion polls, consultations with members of local communities.
NGOs	In-person meetings, social programmes, internet service, annual report, opinion polls, consultations.
Capital market participants	Current and periodic reports, annual reports, in-person meetings, conferences, conference calls, webcasts, internet service, Analyst's Day and Investor's Day events.
Public authorities	Annual report, lobbying, in-person meetings, conferences.
Customers	Call service, internet service, information provided through product packaging, direct contact, social campaigns as part of the loyalty programme, satisfaction surveys.

Discussions with stakeholders of issues relating to the social and environmental impact of our business are valuable opportunities for learning how to improve our performance. In 2013, we created opportunities to meet our stakeholders using a variety of relationship-building means. These included:

- Public consultations with employees,
- Conferences promoting good practices,
- Multi-directional communication with the capital market,
- Opinion polling.

## 1. Public consultations with employees

In 2013, we conducted public consultations among the LOTOS Group's employees on the ethical culture of the organization and the preferred model of selecting the Ethics Officer. These consultations, in which more than 500 persons took part, came one year after the implementation of the Ethical Conduct Programme together with its key element, the LOTOS Group's Code of Ethics.

### Environment

The Ethical Conduct Programme of the LOTOS Group promotes desirable behaviour and conduct both within the organization and in its relations with investors, customers and partners, as well as with the local community and competitors.



The LOTOS Group should promote the adopted ethical standards among its trade and business partners.

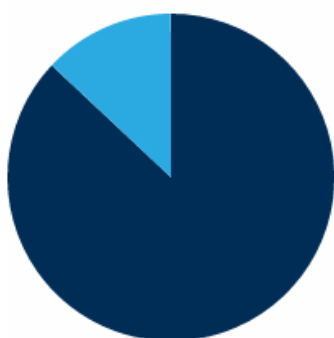


The LOTOS Group should cooperate only with the companies that commit themselves to respecting LOTOS ethical values.



■ NO ■ I HAVE NO OPINION ■ YES

In my opinion, the ethical culture of the LOTOS Group is: (%)



■ Needed for everyday work  
■ Irrelevant

In the course of the consultations, most employees agreed that the Ethical Conduct Programme of the LOTOS also in its relations with its external stakeholders. The majority of the participants confirmed their high awareness of the importance of ethical conduct in everyday business activities.

## 2. Conferences promoting good practices

We participate in projects allowing us to share our experiences and good practices in the area of corporate social responsibility with other businesses and NGOs.

In 2013, we co-hosted the second edition of the **"Development of Responsible Business" conference as part of the CSR Academy**, organized under the auspices of the Ministry of the Treasury. The project, implemented in cooperation with the Puls Biznesu daily, was a response of Polish business circles to the need to promote the idea of corporate social responsibility, especially among SMEs. This joint effort between the state administration, businesses, and NGOs in organizing the CSR Academy increased the substantive value of the project. At the meeting, good CSR practices were presented by several representatives of the LOTOS Group; Zbigniew Paszkowicz, President of the Management Board of LOTOS Petrobaltic, discussed environmental and social conditions of exploration and production, whereas Jowita Twardowska, Communication and CSR Director, Grupa LOTOS, and Joanna Tyszka, Human Resources Office Director, Grupa LOTOS, presented social programmes and the strategic approach to shaping a responsible HR policy, respectively. 100 representatives of businesses, NGOs and tertiary education institutions in the Pomerania region took part in the conference and accompanying workshops.

Another opportunity we took to share our good practices was the annual conference, the **Development Initiation Forum**, held in Gdańsk, which gathered 300 participants representing business, social organizations and local government. As an active participant and partner of the Forum, Grupa LOTOS presented the process of developing its CSR Strategy for the LOTOS Group.

Both events were evaluated by their participants, who rated highly our contribution to promoting the idea of CSR.

## 3. Communication with the capital market

Grupa LOTOS is keen to ensure that its relations with investors are forged and fostered in a manner of partnership and based on dialogue to find solutions satisfactory to both parties. We analyze and gradually implement new communication tools, and we constantly strive to perfect the form and content of our communications. We strive to present investors with a precise, reliable, transparent picture of the Company's operations, its strategy and financial standing, in compliance with the principles of involvement, availability, and equal treatment of all investors.

To communicate that information to investors, we use a broad range of IR tools, including mailing, newsletters, webcasts, participation in conferences addressed to institutional and individual shareholders as well as representatives of brokerage houses, conference calls, one-on-one meetings, open-house days for analysts and investors, and participation in the RESPECT Index.

In 2013, the Company's Board attended meetings with investors and maintained regular relations with capital market participants. After every release of an interim report presenting the LOTOS Group's performance, a meeting was held between financial analysts and Mariusz Machajewski, Vice-President of the Board, Chief Financial Officer, Grupa LOTOS.

On November 27th 2013, the International Capital Markets Day was held in Gdańsk, focused primarily on the performance of the LOTOS Group's strategy.

As part of its relations with individual shareholders, the Company collaborates with the Polish Association of Retail Investors. In 2013, Grupa LOTOS attended the 17th Wall Street Conference of retail investors, organized by the Polish Association of Retail Investors in Karpacz.

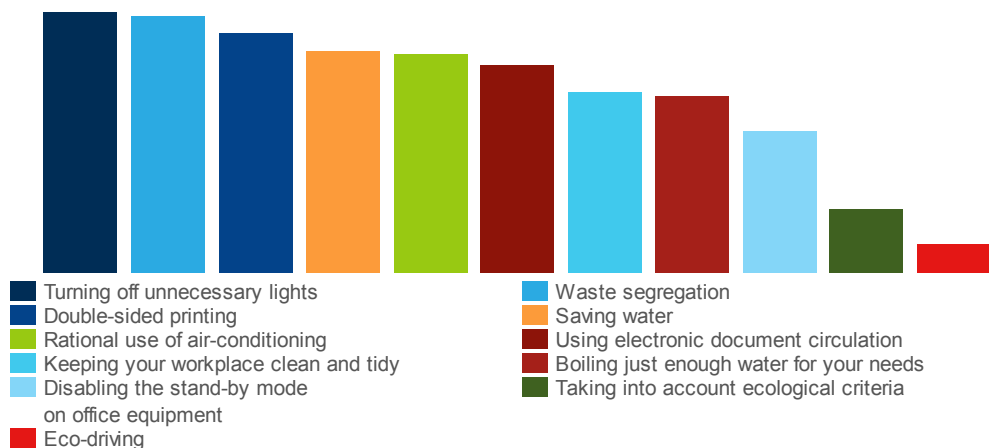
The Grupa LOTOS investor relations website ([link](#)) is dedicated to market participants, the Company stakeholders. This bilingual (Polish-English) service is updated on an ongoing basis to provide foreign investors and analysts with equal access to information. The website contains information and tools grouped in four thematic sections:

1. LOTOS Group ([link](#)) - this section of the LOTOS website presents the LOTOS Group, its strategy, share capital structure and CSR activities.
2. Reports and Key Data ([link](#)) - this section organizes financial and non-financial information (includes an easily downloadable excel file databook), as well as the LOTOS Group's current and periodic reports published via the Warsaw Stock Exchange.
3. Investors ([link](#)) – this section contains information on the method of calculating the model refining margin of Grupa LOTOS and its quarterly updated values, information on the Company's dividend policy and dividend payouts, investor tools (calculator, historical Grupa LOTOS stock prices). It also groups downloadable files, i.e. periodic reports, strategy and efficiency improvement presentations, and the issue prospectus. This section also lists of equity analysts covering the Company and their most recent recommendations for the Grupa LOTOS securities traded on the WSE. The corporate events calendar (quarterly reports, General Meeting dates, open-house days, and other events which, in shareholders' opinion, might impact the price of the Company shares) is published in the 'Investor's Calendar' tab ([link](#)).
4. Corporate Governance ([link](#)) – this section contains information concerning the Company's compliance with the requirements of the Best Practice for WSE Listed Companies. It also provides information on the composition, powers and rules of procedure of the Board, Supervisory Board and General Meeting of Grupa LOTOS, and contains the Company's constitutional documents.

## 4. Opinion polling

We make efforts to conduct opinion polls among our key stakeholders on a regular basis, with a view to improving our management of the aspects of social responsibility and sustainable development. In 2013, one of these efforts was devoted to learning about our employees' approach to environmental protection and ecology both in their workplace and in their private lives.

**What can you do/What do you do personally when performing your work duties to reduce the negative impact on the natural environment? (%)**

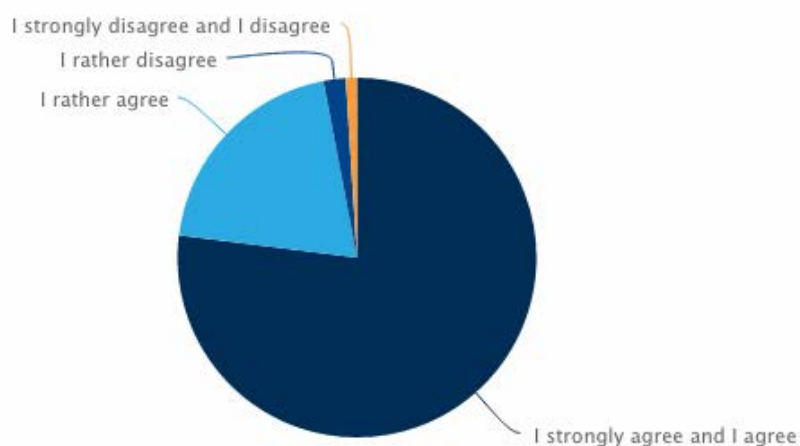


The results of the survey, called the 'Green Barometer of Grupa LOTOS', will be further used to better shape our information policy on environmental issues as well as to provide our employees with useful tips concerning ecology.

In 2013, we conducted an opinion survey among Grupa LOTOS employees to find out about their engagement and satisfaction levels. They were asked for their opinion about 16 factors determining employee engagement – what makes their work at the Company special and what still needs improvement, what motivates them and what poses an obstacle that needs to be removed. The survey was anonymous and contained a list of standard questions that have been used by our consultant, Aon Hewitt, in 600 similar surveys so far conducted across Poland.

The survey results show that most employees are satisfied with their work at our Company.

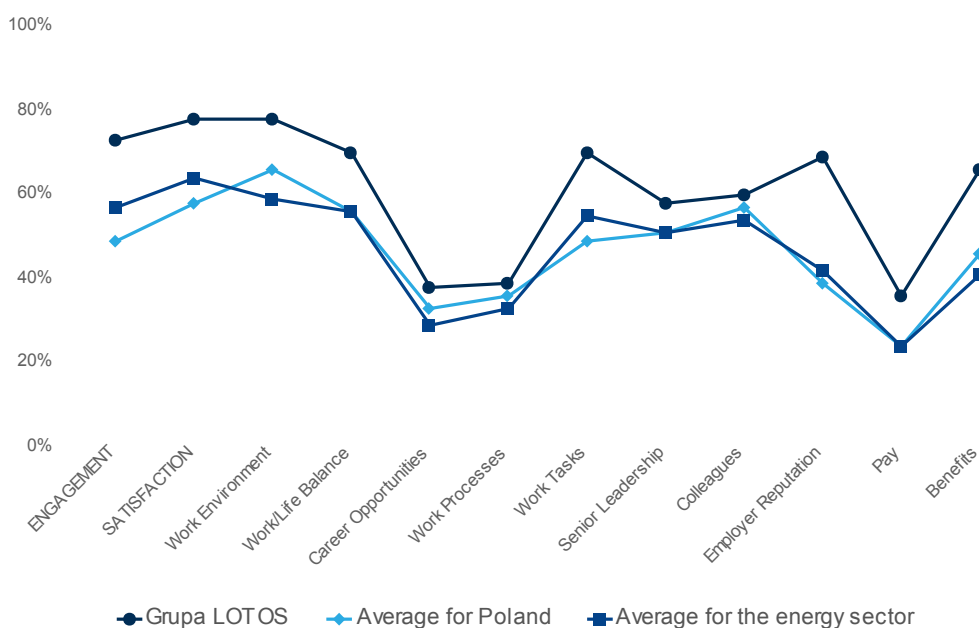
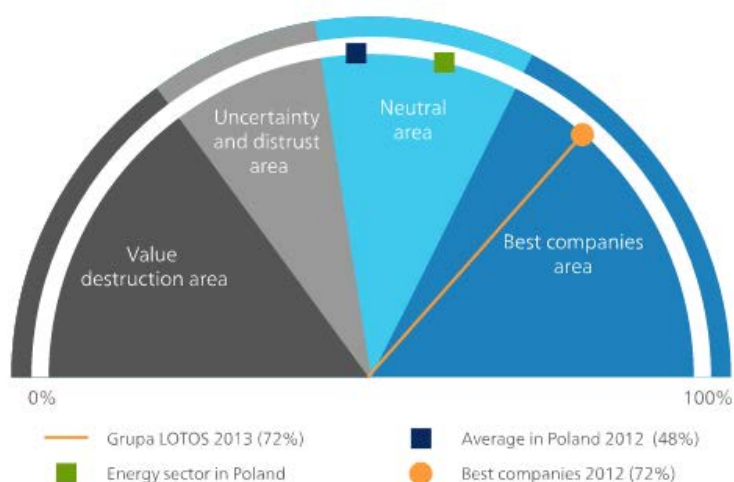
**I am satisfied with my work at Grupa LOTOS (%)**



At Grupa LOTOS, employee engagement level was rated at 72%. This is the percentage of survey participants who concurrently:

- Say about good working conditions within the Company and would recommend Grupa LOTOS to their friends and family members seeking employment,
- Stay at the Company, rarely consider leaving and are convinced that there would have to be some important reasons for them to start consider leaving,
- Strive because the Company encourages them to give their best and appropriately motivates them to go beyond what is normally expected of them at work.

This result is considerably higher than the average for Polish companies and than the average for the energy sector; very similar results were achieved by best rated companies with highest employee satisfaction and engagement levels.





The survey results show that most employees are satisfied with their everyday work tasks and that the environment (work environment, colleagues) favours engagement. Also, the work areas needing improvement have been identified. These results will be used to further improve the work environment at Grupa LOTOS.

Effective implementation of the LOTOS Group's CSR Strategy requires that our relations with social partners, such as NGOs, expert advisers, local government and local communities, are managed responsibly.

In order to reach the most effective level of monitoring the implementation of the LOTOS Group's CSR Strategy, we developed a number of actions to be introduced in each year of its being in effect. In 2013, we conducted a survey among all our partners involved in mutual social, cultural and pro-environmental projects as well as with whom we cooperate in charity initiatives in the regions of our activities. Under the survey, an electronic questionnaire containing 13 questions designed to evaluate the cooperation and communication with Grupa LOTOS as well as to assess the direction and effectiveness of actions taken under the Strategy was sent to our 50 social partners; in total, 37 organizations took part in the survey and they evaluated the level of communication and cooperation with the organization as very high.

In response to the question: „How do you rate the quality of communication and information flow in your cooperation with Grupa LOTOS to date?“, more than 65% of respondents stated that it is very high, whereas 27% assessed it as high. When asked: “ How do you evaluate the effectiveness of actions taken by Grupa LOTOS to address social needs identified in the areas of the organization's activities?”, 59% of the persons surveyed rated the effectiveness of the actions taken as very good and 28% as good. In response to the questions regarding the improvement of the quality of their cooperation with Grupa LOTOS, more than half of the respondents said that the cooperation was very satisfactory; however, 15% of the surveyed partners claimed that they saw room for improvement, which should pose a challenge for us in as far as how to plan our future cooperation with them.

# Membership in organizations

Grupa LOTOS is a member of national and international industry, business, and specialist organizations. As their members, we can take active part in e.g. shaping the government's policies and creating laws on energy sector issues, with a particular focus on the fuel sector.

## Industry organizations

### **Conservation of Clean Air and Water in Europe, CONCAWE**

We have been a member of CONCAWE since 2006. The organization was established in 1963 by a group of leading oil companies to carry out research on environmental protection, quality of fuels, air, water, biofuels, soil contamination, occupational health and safety, and the management of products supplied via pipelines. The main objectives of CONCAWE are to acquire scientific, economic, and technical information, to the greatest possible extent, on environmental issues involved in the refining of crude oil and the distribution of petroleum products.

In 2013, the process of merging CONCAWE with another big European industry organizations, EUROPIA, commenced.

### **Polska Organizacja Przemysłu i Handlu Naftowego, POPiHN (Polish Organization of the Oil Industry and Trade)**

The Company was a founding member of POPiHN at its inception in 2003. One of our objectives in the organization is to ensure the sustainable development of the competitive fuel market in Poland, by taking measures aimed at the adoption of codes of business conduct in keeping with EU legislation, and by ensuring the equal treatment of all fuel market players in Poland, etc. We are striving to achieve our objectives by initiating, assessing, and commenting on draft legislation proposed by Polish lawmakers and the draft measures of EU laws. As a member of POPiHN, we are also able to present our position to representatives of the Polish parliament, government, and other public administration authorities.

### **Stowarzyszenie Naukowo-Techniczne Inżynierów i Techników Przemysłu Naftowego i Gazownictwa, SITPNIg (Polish Association of the Oil and Gas Industry Engineers and Technicians)**

Together with LOTOS Petrobaltic and LOTOS Terminale, we are supporting members of SITPNIg. The Association provides support to the oil and gas industry, acting towards the social utility of public projects. It inspires scientific, technical and organizational projects to the benefit of the country's economy, environmental protection, and sustainable development. The Association strives to improve the professional qualifications of its members, disseminates knowledge as well as technological and environmental culture, and promotes the tradition of the oil and gas industry.

### **Windsor Energy Group, WEG**

We became members of the Windsor Energy Group in 2009. WEG is an independent think-tank headquartered in London that focuses on building the global order and on energy sector security, with a special emphasis on the oil and gas sector and the alternative energy sector. The organization brings together former politicians, former ambassadors in petroleum countries, government advisors, as well as CEOs of large corporations engaged in oil and gas exploration and production. As a member of WEG, we support the development of the European energy sector and promote the position of representatives of the Central European energy sector in the European Union.

Paweł Olechnowicz, President of the Board of Grupa LOTOS, is a member of WEG's International Advisory Panel.

### **World Petroleum Council – Polish National Committee**

We work on the Polish Steering Committee of the world's only organization representing all fields of the oil sector. Its main function is to facilitate dialogue between stakeholders, both internally within the sector and externally, with regard to key technical, social, environmental, and management aspects. The World Petroleum Council brings together 60 member countries, representing 95 per cent of the world's oil and gas production and consumption.

### **Central Europe Energy Partners, CEEP**

We are the founding member of CEEP, together with Energa, Jastrzębska Spółka Węglowa, Kulczyk Investments, and PFAG. CEEP is an international regional non-profit organization, registered in 2010 in Belgium, with offices in Brussels and Berlin. It represents the Central European energy sector as it is broadly understood, including oil, natural gas, electrical energy, renewable energy sources, nuclear power, and interconnectors. The main objective of the organization, as specified in its statutes, is to support integration of the Central European energy sector under a common energy policy and security policy for the EU energy sector. To that end, CEEP cooperates with international think-tanks such as the Center for Strategic & International Studies (Washington), Windsor Energy Group (London), King's College (London), Atlantic Council (Washington), as well as international organizations, including the International Energy Agency (Paris), Euracoal (Brussels), and EUROPIA (Brussels). The organization currently includes 22 members from Poland, Lithuania, the Czech Republic, Slovakia, Hungary, and Romania. As at the end of 2013, they employed more than 300,000 employees and had an annual turnover in excess of EUR 42bn. Negotiations with new potential members from other Central European countries are well underway. As a member of CEEP, we participate in all major events, consultations, and preparation of expert materials about the energy sector in the European Union.

Paweł Olechnowicz, President of the Board of Grupa LOTOS, holds the position of Chairman of the Board of Directors of CEEP.

### **Organizacja Polskiego Przemysłu Poszukiwawczo-Wydobywczego (Polish Exploration and Production Industries Organization)**

We are the founding member of the Polish Exploration and Production Industry Organization, which focuses mainly on unconventional gas. It is a forum for consultations between the hydrocarbons production industry and the Polish government on the planned legal framework for the taxation of hydrocarbons production. The organization was established in 2010.

### **Atlantic Council**

We have been a member of the Atlantic Council since September 2013. This American organization promotes constructive leadership and engagement in international affairs regarding the energy sector, the environment, world economy and economics as well as the transatlantic cooperation. Through its papers, functional programmes, supporting ideas, building relations and communities, it fosters transatlantic strategies to advance international security and global economic prosperity. The Atlantic Council is one of the most recognizable think-tanks in Washington, which not only has wide experience in issues regarding transatlantic cooperation but is also mainly known for its effectiveness in persuading key decision-makers to accept its arguments. As a member of the Atlantic Council, we take part in international thematic conferences and cooperate in drawing up regional analyses, which will allow us to build a strong position of the LOTOS brand on the American market.

## Business organizations

### **Business Centre Club, BCC**

The Company's membership in the BCC dates back to 2000. We focus on co-operation in projects whose main objective is to fuel the growth of the Polish economy, increase the number of jobs, and provide assistance to entrepreneurs. We support the BCC in the creation of communication platforms for different social groups on matters of key importance for the country's development, with particular emphasis on the promotion of corporate social responsibility.

### **European League for Economic Cooperation, ELEC - Polish section**

We have been a member of ELEC since 2002. It is an international NGO whose main objective is to support economic integration, foster the social and cultural identity of European societies, and enhance the role of Europe in the international arena.

Paweł Olechnowicz, President of the Board of Grupa LOTOS, is a member of the management board of ELEC – Polish Section.

### **Gdański Klub Biznesu (Gdańsk Business Club)**

Since 2002, we have been a member of the Gdańsk Business Club, which brings together entrepreneurs, owners, and directors of leading companies in the Pomerania region. Its mission is to foster economic development in all areas that can potentially influence the financial standing of its members, to provide support in business projects on a reciprocal basis, and to act towards the development of entrepreneurship, infrastructure, culture and education in the Pomerania region, as well as the protection of the health of its inhabitants.

Paweł Olechnowicz, President of the Board of Grupa LOTOS, is a member of the board of the Gdańsk Business Club.

### **Klub Polskiej Rady Biznesu (Polish Business Roundtable Club)**

We became a member of the Club back in 2005. The Club was established by the Polish Business Roundtable – an organization bringing together the crème de la crème of Polish entrepreneurs, working towards the economic development of Poland and consolidation of its business circles.

### **Polskie Forum Akademicko-Gospodarcze, PFAG (Polish Higher Education-Business Forum)**

We have been a member of PFAG since 2004. Its objective is to work towards more intensive cooperation in the area of higher education and business, and to support innovations and knowledge-based economy. The organization was established for the purpose of building strong cooperation between academic and business circles for the development of innovative solutions using national and EU funds. The Forum is a platform for the exchange of views and formulation of opinions on matters of crucial importance to Poland. It brings together representatives of businesses and leading Polish tertiary education institutions.

Paweł Olechnowicz, President of the Board of Grupa LOTOS, holds the position of President of PFAG's Management Board.

### **Stowarzyszenie Pomorskie w Unii Europejskiej ("Pomorskie in the European Union" Association)**

We became a member of the Association in 2010. Its main objective is to support the activities of the Pomerania region's local government, tertiary education units, institutions, and enterprises operating at the EU level.

Organizations dedicated to CSR promotion

#### **Forum Odpowiedzialnego Biznesu, FOB (Responsible Business Forum)**

The Company has been a strategic partner of FOB since 2008. FOB's mission is to promote the idea of corporate responsibility as a standard in Poland, in order to increase the competitiveness of Polish businesses, enhance social well-being, and protect the natural environment. FOB organises projects supporting the development of CSR in Poland and engages in initiatives promoting corporate social responsibility and sustainable development.

#### **United Nations Global Compact**

We became a member of the organization in 2009. It is a global initiative of the United Nations calling on businesses and social organizations to respect 10 basic principles in the areas of human rights, labour, the environment, and anti-corruption. The organization also supports the accomplishment of the general objectives of the United Nations, including the Millennium Development Goals. More than 12,000 enterprises and NGOs from 145 countries belong to the organization.

Specialist organizations

#### **Pracodawcy RP (Employers of Poland)**

Our membership in the organization dates back to 2004. Its main objective is to act in the common interest of business circles, supporting initiatives aimed at enhancing the role of employers in Poland. By commenting on draft legislation, the organization strives to secure mutual benefits for both employers and employees, on the basis of economic development, and to ensure fair and stable terms of employment, workplace safety, and social order.

#### **Polskie Stowarzyszenie Zarządzania Kadrami, PSZK (Polish Association of Human Resources Management)**

Since 2013, we have been a strategic member of the biggest and oldest professional association focused on developing and promoting top human capital management standards in companies and organizations active in Poland. PSZK has built a member network for HRM practitioners by organizing nationwide conferences, campaigns, programmes and expert meetings dealing with issues connected with the labour market and HR Management, etc.

#### **Stowarzyszenie Emitentów Giełdowych, SEG (Polish Association of Listed Companies)**

We became a member of the SEG in 2006. As an organization of companies listed on the WSE, the SEG acts in their best interests, offering expertise and advice on stock market regulations and the rights and obligations of listed companies. Being an expert organization, it focuses on the dissemination and sharing of knowledge, with a view to supporting the development of the capital market and modern market economy in Poland. The SEG also serves as a hub for the integration of listed companies and promotes cooperation for the development of civic society.

#### **Polskie Towarzystwo Ekonomiczne, PTE (Polish Economic Society)**

We are a member of this independent professional national association bringing together both practitioners and theoreticians in the field of economics. Its main objectives are to disseminate economic knowledge, act as an opinion-former, improve the qualifications of economists, and integrate their community.

### **Klub Polskie Forum ISO 14000 (Polish ISO 14000 Forum Club)**

We became a member of the organization in 1997. The Club's mission is to develop and promote initiatives, attitudes and activities conducive to development and popularisation of environmental management systems, in particular those based on the ISO 14001 standard and the EMAS Directive. The organization also conducts educational activities in the area of environmental protection and management, integrates circles dealing with environmental management issues, and supports organizations implementing environmental management systems. The Club is fully independent and acts on a voluntary basis.

### **Klub Polskie Forum ISO 9000 (Polish ISO 9000 Forum Club)**

We became a member of the organization in 1993. The organization associates suppliers of products and services interested in implementing, perfecting and developing their management systems and the conformity assessment system, based on the ISO 9000 standard, concerning quality management systems, other standardisation documents dealing with organizational systems and management as well as new approach directives. The Club is fully independent and acts on a voluntary basis.

### **Stowarzyszenie Księgowych w Polsce (Accountants Association in Poland)**

We are a member of this Association, which brings together representatives of professions related to accounting and finance. It focuses on the development of accounting and financial audit systems in Poland to make sure they reflect the latest changes in, and meet the requirements of, internationally recognised standards.

### **Polska Okręgowa Izba Inżynierów Budownictwa (Polish District Chamber of Construction Engineers)**

Our membership in the organization dates back to 2001. As a self-regulatory professional body, the Chamber represents its members and protects their interests, especially by submitting proposals to the legislative and executive bodies on creating conditions favourable to the development of the construction sector in Poland and the role of the engineering profession in that process, and by cooperating with other self-regulatory professional, scientific and technical bodies operating in the construction sector.

## Statement by Jowita Twardowska

Communication and CSR Director, Grupa LOTOS, CSR Strategy Leader in the Integration with Local Communities area



” The implementation of the CSR Strategy helps us significantly in the process of meeting the objectives of the LOTOS Group’s business strategy. With regard to the effectiveness and efficacy of a CSR strategy, several factors are at play, the most important of which are the involvement of the organization’s top-level management, a connection of the actions taken with its strategic objectives, and determining how success should be measured along with providing an evaluation mechanism. All of these elements have been successfully implemented by LOTOS.

### Jowita Twardowska

Communication and CSR Director, Grupa LOTOS, CSR Strategy Leader in the Integration with Local Communities area

The implementation of the CSR Strategy helps us significantly in the process of meeting the objectives of the LOTOS Group’s business strategy. With regard to the effectiveness and efficacy of a CSR strategy, several factors are at play, the most important of which are the involvement of the organization’s top-level management, a connection of the actions taken with its strategic objectives, and determining how success should be measured along with providing an evaluation mechanism. All of these elements have been successfully implemented by LOTOS.

Our current CSR Strategy for the years 2012-2015 was formulated using a mechanism engaging a wide representation of our employees, including the top-level management, who have been taking part for several years in our pioneering initiative, which is the ‘CSR Day’. It is an annual event gathering managers for the purposes of holding discussions on possible directions of development and opportunities of further streamlining of the organization’s social responsibility.

A lot of attention was also given to a thorough analysis of expectations and needs reported to the organization by its key stakeholders. Thanks to the review of the effects of our initiatives and practices in the CSR area so far and to the assessment of the conditions of our activities, we succeeded in developing our strategy for this area until 2015.

The 2015 perspective of the CSR Strategy is congruent with the term of the current business strategy of the LOTOS Group. The objectives identified in both these documents complement and support each other, which ensures the sustainable development of the organization and enhances its contribution to the improvement of many social processes. It is all the more important for us as the biggest employer in the Pomerania region but also as a representative of the oil industry, which is bound by the law to apply the highest standards of ensuring safety for people and environmental protection.

The co-existence of the business and social perspective has been guaranteed by working out detailed operational plans and performance measures in all key areas identified in the CSR Strategy. Leaders of each area, reporting to the Board of Grupa LOTOS, shall be responsible for the supervision of their achievement.

The internal reporting of our performance has been assured by establishing a method of monitoring our progress in the implementation of the CSR Strategy in the successive years. We made all effort for this monitoring to most fully meet our current needs related to the Company’s business reporting. Additionally, the mechanisms of social responsibility undergo a maturity assessment along with other key management areas. One should not forget, however, that it is also the CSR Strategy itself that supports the streamlining of many of our practices and contributes to the increased effectiveness of our activities. By applying consistent

solutions in this area, it also enhances the effectiveness of these processes and allows for a most comprehensive approach to the assessment of our performance.

As far as the integration with local communities area of the CSR Strategy is concerned, it is clearly visible that over the course of the last 30 years we have changed from a local company to a significant player not only in Poland but also on the international arena. We are now a highly sought-after employer as well as a highly-desirable trade and business partner for companies in our environment. We enjoy a good reputation among people living in the vicinity of our facilities; as a big company, we pay taxes which significantly contribute to the development of the region we operate in. Also, we commission local companies to perform many tasks for us, which ensures their ongoing functioning. We understand our integration with local communities as constituting a value not just for ourselves but also for everybody who lives in the neighbouring areas of our facilities. In order to build such an understanding of our activities, we take different kinds of actions, which exceed greatly what we are obliged to do by law. We make efforts to help people in need in our surroundings, as counteracting exclusion of those who have not been successful in life is part of our CSR Strategy. We continuously mitigate our negative impact on the natural environment and increase our positive impact on the quality of life in our region. Many of our initiatives can be regarded as a sign of our interest in and concern about the local community, which is noticed and appreciated by our environment.

In conclusion, it is noteworthy that Grupa LOTOS' reputation for being a socially responsible company enables us to build lasting relations and long-term cooperation based on trust and professionalism. It also helps us attract the best specialists on the market, which further contributes to our constant development for the benefit of the key groups of our stakeholders.



## Contribution to the society

Our key community development programmes are aimed at the residents of three provinces (Gdańsk, Katowice and Rzeszów), where our production plants, warehousing facilities and other installations are located. It is also where several subsidiaries of the LOTOS Group operate, including the Grupa LOTOS refinery in Gdańsk and the biggest facilities in the south of Poland belonging to LOTOS Terminale in Czechowice-Dziedzice and LOTOS Infrastruktura in Jasło.

The key objective of the LOTOS Group's CSR Strategy until 2015 with respect to integration with local communities, is to ensure favourable attitudes among local communities and strengthen the company's image as a socially committed business, by undertaking initiatives designed to provide lasting solutions to social and environmental issues.

The project which is directed at counteracting and overcoming problems in the Pomerania region and to which we contribute most is the **Development Initiation Forum**, inaugurated in Gdańsk in 2012. It is an initiative born of the experiences and needs of the representatives of three sectors: local government, business and NGOs. The project deals with the effective social and economic development of the region, based on the implementation of inter-sectoral projects.

The idea of the Development Initiation Forum:

- Learning the practicalities of inter-sectoral cooperation;
- Providing opportunities for the exchange of good practices;
- Using tried and tested cooperation and activation strategies;
- Providing opportunities for building informal contacts and actively searching for partners to cooperate with.

The most important results achieved under this initiative in 2013 include:

- Creating more than a dozen partnerships gathering around 20 entities, represented by the very active Programme Council, in which representatives of NGOs, business and public institutions are associated;
- Organizing a conference in Gdańsk dedicated to inter-sectoral cooperation, which was attended by 300 delegates representing around 80 organizations, companies and institutions;
- Conducting the first edition of inter-sectoral cooperation workshops in the County of Bielsko-Biała;
- Promoting the activities of the Forum at two conferences in the *CSR Academy. Responsible Business Development* series, addressed to SMEs in the Pomerania and Olsztyn region.

The contribution of Grupa LOTOS into the Forum's work is not only financial but we also share our experiences in the areas of infrastructure, educational, environmental and cultural initiatives, which have supported the development of the Pomerania region for years. The launch of **the Grant Fund – Development Initiation Forum**, whose aim is to support the completion of several developmental projects, is planned for 2014.

In the LOTOS Group, we place great emphasis on maintaining good relations with groups of stakeholders, which for any reason whatsoever are or can be affected by our operational activities.

For all infrastructure investments, before obtaining the building permit, we perform environmental impact assessment reports. Polish law requires for such reports to be consulted with the community – and their results are made publicly available so that all interested parties have access to the prepared documentation and can, in case of doubt, voice their objection. For investments potentially increasing our impact on the environment, we always conduct consultations with the local community.

## Public consultations

In 2013, we conducted public consultations in connection with the planned construction of the complex of heavy-fraction oil distillates deep-processing installations at Grupa LOTOS refinery in Gdańsk. As part of them, a number of meetings with authorities, representatives of the industry and potentially most concerned local residents were organized, during which we tried to give as much information as possible about the planned investment and respond to all queries. The consultations were accompanied by an information campaign in the press, on the radio and TV. The participants were interested in the investment's impact on the refinery's surroundings, and its potential benefits. In the first case, the only environmental factor that may change is the level of noise. However, the environmental impact assessment report shows that both daytime and nighttime noise limits will not be exceeded. What interested the participants the most were the employment possibilities both at the construction stage and after the new installations are launched. It was stated that at the construction stage alone will require Grupa LOTOS to employ further 1,000 – 1,500 workers and for the purposes of the planned installations we will also be looking for operators.

In 2013, LOTOS Petrobaltic performed environmental impact assessments of its exploration, appraisal and production activities from oil and natural gas deposits in the areas of its licences in the Polish sea territory. Like Grupa LOTOS, LOTOS Group's companies from South Poland – LOTOS Biopaliwa, LOTOS Terminale and LOTOS Infrastruktura – continued their active cooperation with local government institutions in the area of preventing and reacting to failures also in 2013. As facilities of above-regular and high risk of failures, the companies passed on to mayors of towns in which they operate information on safety measures taken and emergency response plans, and their representatives attended Town Hall meetings.

We realize that the operational activities, particularly of the Grupa LOTOS refinery, the LOTOS Kolej manoeuvre area and the production facilities of LOTOS Oil, LOTOS Asphalt, LOTOS Biopaliwa and RCEkoenergia, does have an impact on the life quality of the local communities. However, it should be noted that these activities have no negative environmental impact on their neighbours – all companies abide by the emission limit values provided for in environmental permits.

Also, oil extraction carried out in Lithuania by LOTOS Geonafta does not have any potential or real environmental impact on the local environment. The company has pursued its activity in the same locations for years so the environmental impact of both current and planned activities in these locations is very well-researched. Also, the quality of all environmental media – air, surface and underground water, and soil – is monitored at all locations of oil extraction and the monitoring results are regularly sent to supervisory bodies, where all representatives of the local authorities and communication have easy access to them.

We have not received any information suggesting excessive use of natural resources in the vicinity of our facilities nor any possible threats to the local communities associated with such use.

We place great emphasis on the identification of potential safety threats to people and to the natural environment. To this aim, our employees responsible for process control attend special training sessions and we implement best engineering practices by including them in their job and process manuals. All these efforts attest to the high process safety culture in the organization. In 2013, only two companies reported occurrences of process safety threats.

At **LOTOS Asphalt**, there were two incidents posing a threat to health, which highlighted to us the areas needing improvement. The identified threats were examined by the Accident Committee, which recommended post-failure preventive and improvement measures. At LOTOS Oil, one Tier 1 process safety threat was recorded, which resulted in one employee getting injured. Apart from that, 15 incidents which can be classified as Tier 2 process safety threats were recorded at **LOTOS Oil**. Their identification made it possible to take early safety measures and prevent their transformation into Tier 1 threats. To maintain an appropriate level of process safety, LOTOS Oil develops inspection timetables for key equipment, supporting prevention of accidental emission of substances, including non-toxic and non-flammable materials. Also, the company keeps records of events which might potentially affect process safety. In 2013, there were several incidents which can be classified as safety threats at **LOTOS Paliwa**. 13 incidents involved fires in customers' vehicles at service stations, in one case a customer's car damaged an LPG pump, and in 3 cases there were fires in the facilities neighbouring with a service station or in a service station itself. In each instance, the employees responded properly, following the applicable procedures. The situation was assessed, the emergency was reported to relevant persons, the premises of the station were closed and secured, and, where necessary, fire-fighting measures were taken and the relevant emergency services were alerted in order to remedy the threat and secure the premises.

Managers of the affected stations analyze each dangerous incident and report it to LOTOS Paliwa's OSH team, where it is again analyzed for the possibility of a recurrence and the formulation of preventative measures.

For years, we have supported initiatives aimed at improving the life quality in our neighbouring communities, and which are local to our employees. Education and healthcare systems are well developed in our environment; however, we are particularly involved in initiatives that support our social partners in the area of access to appropriate professional equipment. Selection of such projects is usually preceded by consultations with the local authorities or social partners with the relevant competencies.

In 2013, we cooperated with NGOs and social organizations with regard to purchasing advertising materials; money raised by selling advertising gadgets was used to support the statutory activities of these organizations.

We supported a number of initiatives which had an impact on the infrastructural development of our local communities, bringing positive effects to many spheres of their life. It is worth emphasizing that in June 2013, the General Shareholders Meeting of Grupa LOTOS adopted a resolution on distribution of profit for 2012. Under the resolution, part of Grupa LOTOS' net profit in the amount of PLN 1,500,000 was earmarked for the Company's special account for financing of Grupa LOTOS' CSR projects.

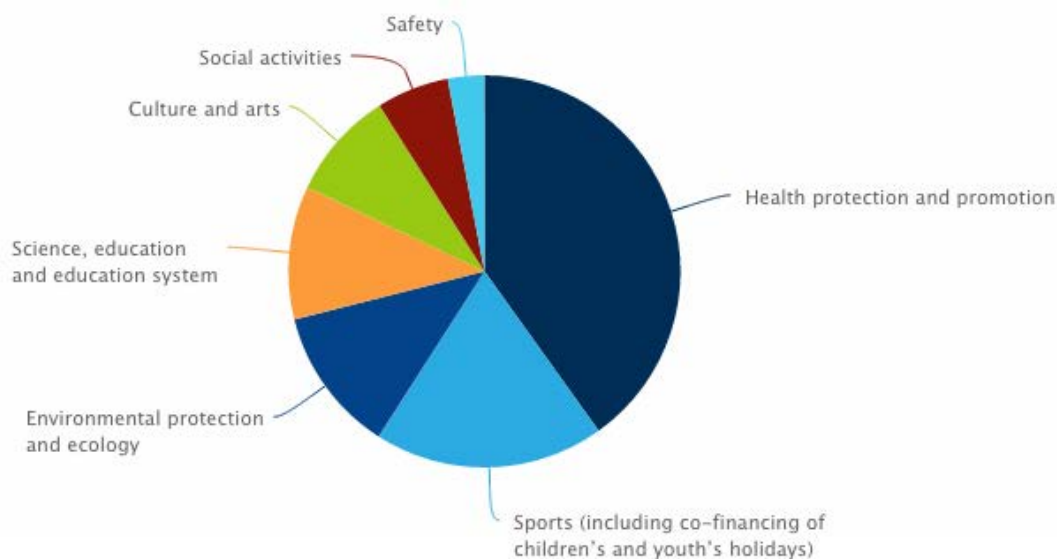
Money donated by us in 2013 was invested in medical equipment for public healthcare institutions, necessary equipment related to environmental protection and ecology, investments aimed at the improvement of residents' quality of life and road safety education. These investments were realised pro publico bono.

#### LOTOS Group's involvement in initiatives serving the development of its local communities in 2013

No.	Institution	City/town	Purpose of grant
1.	Municipality of Gdańsk	Gdańsk	Co-financing of the modernization of a playground.
2.	Social Care Association 'Bank of the Open Hearts'	Gdańsk	Co-financing of the equipment for the playground.
3.	Primary School No. 11	Gdańsk	Purchase of educational equipment.

4.	ENDOSIGMA Association for Supporting the Gdańsk Gastroenterology	Gdańsk	Co-financing of the purchase of medical equipment.
5.	Specialist Hospital in Jasło	Jasło	Purchase of medical equipment.
6.	Pomorskie Centrum Chorób Zakaźnych i Gruźlicy (Pomeranian Infectious Disease and TB Centre)	Gdańsk	Purchase of medical equipment.
7.	Uniwersyteckie Centrum Kliniczne (University Clinical Centre)	Gdańsk	Purchase of medical equipment.
8.	Stowarzyszenie COR Kardiochirurgia (COR Cardiac Surgery Association)	Gdańsk	Purchase of medical equipment.
9.	Fundacja z Pomą – Pomóż Dzieciom z Białą Czką (Help Children with Leukemia Foundation)	Gdańsk	Purchase of medical equipment.
10.	Pomorskie Centrum Traumatologii im. M. Kopernika (Copernicus Pomeranian Centre of Traumatology)	Gdańsk	Purchase of medical equipment.
11.	Stowarzyszenie Na Rzecz Osób z Upośledzeniem Umysłowym RAZEM ('Together' Association for Persons with Mental Disability)	Bielsko-Biała	Co-financing of the construction of the infrastructure for the disabled.
12.	Jesteśmy Razem Stowarzyszenie Przyjaciół Szkoły ('We are Together' Association of Friends of School)	Gdańsk	Purchase of the playground equipment.
13.	Poszukiwawcze Ochotnicze Pogotowie Ratunkowe (Volunteer Search and Rescue)	Gdynia	Purchase of rescue and training equipment.
14.	Zespół Szkół Ogólnokształcących nr 3 (Comprehensive Secondary School Complex No. 3)	Gdynia	Co-financing of the conversion of a classroom into a chemical laboratory.
15.	Szkoła Podstawowa im. Obrońców Ziemi Polskich (Defenders of the Polish Lands Primary School)	Cedry Wielkie	Purchase of educational equipment.
16.	Zespół Szkół Przemysłu Spożywczego i Chemicznego im. M. Skłodowskiej-Curie (Maria Skłodowska-Curie Food and Chemical Industry Schools Complex)	Gdańsk	Purchase of educational equipment.
17.	Primary School No. 61	Gdańsk	Purchase of educational equipment.
18.	Stowarzyszenie Przyjaciół Pomorza (Friendly Pomerania Association)	Gdańsk	Co-financing of the renovation of the facilities and purchase of equipment.
19.	Fundacja Agencja Regionalnego Monitoringu Aglomeracji Gdańskiej (Agency of Regional Air Quality Monitoring of Gdańsk Agglomeration)	Gdańsk	Co-financing of the modernization and replacement of the air quality monitoring network.
20.	Stacja Ornitologiczna Muzeum i Instytut Zoologii PAN (Ornithological Station at the Museum and Institute of Zoology of the Polish Academy of Science)	Gdańsk	Co-financing of statutory activities, including the purchase of teaching materials.
21.	Fundacja Rozwoju Uniwersytetu Gdańskiego (Foundation for the Development of Gdańsk University)	Gdańsk	Co-financing of statutory activities connected with research objectives.
22.	Grupa Badawcza Ptaków Wodnych KULING (Kuling Waterbird Research Group)	Gdańsk	Co-financing of statutory activities, including the creation of teaching infrastructure in the 'Mewia Łacha' Reserve.
23.	Stowarzyszenie Przyjaciół Wyspy Sobieszewskiej (Association of Sobieszewo Island Lovers)	Gdańsk	Co-financing of the purchase of sports and recreational infrastructure.

### Structure of 2013 LOTOS Group's support in the form of grants, broken down by sphere of life (%)



In 2013, we took a number of preventive measures and activities contributing to the development of the local communities living in the vicinity of LOTOS Group facilities. Many of these are long-term programmes that have already been in place for several years. As they fit with the areas of our competence, determined in consultation with our stakeholders, they are indeed likely to improve aspects of life that are important to the communities' members.

#### Road safety

The low level of traffic safety has been one of the major social problems in Poland for many years. According to preliminary reports of the Polish National Police Headquarters, there were around 35,400 road accidents in 2013, in which almost 3,300 people were killed and roughly 43,500 people were injured – as compared to 2012, these numbers have fallen by a few percentage points but they still illustrate a serious danger to people's lives and health. It means that despite a gradual improvement of the road safety the situation still remains very bad as compared to other EU members. The road traffic mortality in Poland (the number of fatalities per 1 million residents) is almost twice as high as the EU average. In 2013, 28,000 people lost their lives on EU roads, 13% of which were Polish although Poles make up only 8% of EU residents.

Given the scale of the risk, educational campaigns should be run among the very youngest pupils of primary schools, as it is at this stage that the right attitudes and behaviour are shaped most effectively.

Grupa LOTOS sees its involvement in the enhancement of road traffic safety as a priority. To this end, we established '**Akademia Bezpieczeństwa LOTOS**' ('LOTOS Safety Academy') – a programme dedicated chiefly to educating children and teenagers. Events organized by the LOTOS Safety Academy in 2013 included another iteration of the 'LOTOS – Bezpieczna droga do szkoły' ('LOTOS – Safe Journey to School') programme, the 'Uwolnić odbłaski' art competition ('Free Reflectors - to promote reflective clothing and accessories') and the 'W drodze do prawa jazdy' ('On the Way to a Driving Licence') initiative.

1. '**LOTOS – Safe Journey to School**' is a social education and accident prevention programme run jointly with Polish Police and road traffic safety experts, designed to educate and promote safe road behaviour, thus preventing traffic accidents involving young schoolchildren. The idea behind the programme is to make children conscious and safety-minded road traffic participants. The programme is addressed to primary-

school first year pupils, and is designed to draw their attention to safe use of roads by both pedestrians and drivers, including their parents. At the beginning of every school year, the programme offers an opportunity to participate in classes with police officers and road safety instructors to learn about road traffic safety and safe places to play. Participants are presented with road safety reflectors and special road safety educational packages funded by our Company. Major partners in this programme include the Gdańsk Province Police Headquarters, the Bielsko-Biała City Police Headquarters and the Jasło Motor and Road Rescue Club. The programme is run in the areas of selected LOTOS Group subsidiaries, including in the Province of Gdańsk and the municipalities lying within the sphere of influence of LOTOS Terminale and LOTOS Infrastruktura. It was first implemented in Jasło, in 1998.

In the 2013/2014 school year, we distributed a total of 14,000 road safety reflectors and the same number of educational packages to primary school first-year pupils of the Gdańsk Province, and of the Counties of Jasło and Bielsko-Biała. In total, we have distributed 100,000 road safety reflectors and 80,000 educational packages over the course of the last 8 years.

2. The **'Free Reflectors'** competition was devised for first-grade pupils, particularly those participating in the 'LOTOS – Safe Journey to School' programme. Its overall aim is to remind and warn children about road traffic risks and to help them get into the habit of wearing reflective accessories, which reduces the likelihood of accidents. The competition is open to schoolchildren of the Gdańsk Province and the Counties of Bielsko-Biała and Jasło. Its partners make joint efforts to encourage parents, carers and teachers to equip children with reflective accessories. The competition is held in the summer semester and the finale takes place in June, just before the end of the school year and the beginning of the holidays. Each participating school selects and submits up to ten pieces of art by their children. From among all the entries, the three best works are selected in each region. First-place winners are awarded bicycles with safety enhancing accessories. Additionally, the schools of the winners are awarded mini road-sign kits and bicycles with safety enhancing accessories. Second-place winners receive roller blade sets with accessories, while third-place winners receive educational game sets.

In 2013, a total of 712 pieces of art from 124 schools were submitted as part of the 'Free Reflectors' competition. First prizes were awarded to the pupils of Dr Leon Heyke Primary School No. 2 in Kościerzyna (Gdańsk Province), the Primary School No. 26 in Bielsko-Biała (County of Bielsko-Biała) and the Community Primary School in Lipnica Dolna, Commune of Brzyska (County of Jasło). Between 2010-2013, a total of more than 2,000 students took part in the contest.

3. The **'On the Way to a Driving Licence'** project, of which we are a partner, is run in cooperation with the Road Traffic Department of the Gdańsk Province Police Headquarters. It is aimed at promoting the rules of safe behaviour on the road among students of secondary schools, thus preventing accidents involving young drivers. The project focused on meetings with students of selected junior high schools. These meetings involved lectures on the rules of road safety, delivered by a police officer, as well as lectures on first aid and the medical consequences of road accidents, delivered by a medical rescue expert. The theoretical part was followed by a practical one, which was aimed at increasing the participants' awareness of safe behaviour on the road both as pedestrians and future drivers. The main emphasis was placed on such risks as speeding, reckless driving, and not wearing seat belts.

In 2012-2013, the 'On the Way to a Driving Licence' project, was attended by 600 junior high school students in Gdańsk.

4. Grupa LOTOS is also a partner of the **'On the Road to Safety'** programme run by the Governor of the Gdańsk Province. This initiative is aimed at selecting the best original road safety programmes completed in the Pomerania region in the given school year. The competition participants include local government institutions, central government institutions, NGOs and associations. The prize is the co-funding for the winning projects.

In 2013, two joint first prizes were awarded to the Special Purpose School and Education Centre in Puck and the 'Safe Region of Słupsk' Association. The Junior High School in Żukowo was awarded an honorable distinction.

#### Equal opportunity initiatives and preventing exclusion

Openness to the future is among the key social values of the LOTOS brand, which is why we place a special emphasis on projects promoting young people's personal development, especially of the children and youth living in the immediate vicinity of our production facilities.

#### **'Dobry Sąsiad' ('Good Neighbour') Programme**

We have developed a dedicated programme for the inhabitants of Grupa LOTOS' neighbouring areas. Its strategic objective is to ensure equal opportunities, prevent social exclusion, to activate and integrate the local communities and to support the education of the youngest. As part of the programme, we:

- Get involved in the life of local communities by organizing family events, sporting events, co-financing summer and winter holidays for children ;
- Support selected local government projects improving the quality of life of people residing in the districts covered by the programme;
- Develop local inhabitants' understanding of our operations and assure them that the refinery has state-of-the-art environmental security controls;
- Tackle social inequalities by providing support to public benefit institutions;
- Get involved in long-standing initiatives aimed at the inhabitants of Grupa LOTOS' neighbouring districts.

#### **1. Family picnics and sports events**

In 2013, we organized the **'Ekologiczny Dzień Dziecka'** ('Ecological Children Day') family event in the Sobieszewo Island district, neighbouring our facility in Gdańsk. The ecological subject of the event was connected with our 'Chronimy NATURĘ na Wyspie Sobieszewskiej' ('Protect the Wildlife of the Sobieszewo Island') programme, run by Grupa LOTOS for several years in this part of Gdańsk. The event, which apart from a number of games for the youngest participants also included educational activities about the areas of outstanding natural value present in the district (the 'Mewia Łacha' and 'Ptasi raj' nature reserves), attracted around a thousand participants. The festival took place on the premises of the Special Primary and Junior High School Complex No.1 in Sobieszewo and its pupils were involved in the organizational activities. We asked the adult participants to assess the event in a survey. Their opinions concerning the venue, the programme of the event and its organization, as well as the quality of the service, overall satisfaction and quality of the gifts distributed were all at the top of the scale (99% of respondents).

85% of the respondents said Grupa LOTOS was taking care of the immediate surroundings, and 83% of the people asked felt the event met their social needs and expectations.



As for the sport and recreational initiatives, we were involved in the **'Bieg Wyspy Sobieszewskiej im. Wincentego Pola'** ('Sobieszewo Island Wincenty Pol Run'), which was organized in the vicinity of the Grupa LOTOS refinery. This half-marathon attracted more than 400 competitors, who followed an untypical route, through a forest, a beach and along a recreational path for runners, cyclists and ramblers, which was prepared under our cooperation with 'Stowarzyszenie Przyjaciół Wyspy Sobieszewskiej' ('The Association of Sobieszewo Island Lovers') – the organizer of the half-marathon and administrator of the path.

## 2. The Open Day at Grupa LOTOS

In August 2013, we organized an 'Open Day', the purpose of which was to allow organized groups accompanied by guides, the Company's employees, who talked about the installations and processes employed by the refinery, and protections strictly observed by it and answered queries, to go on a sightseeing bus-tour of the refinery's premises, which are not generally accessible to the public.

During 5 hours of the Open Day, 5 bus lines did 19 tours on the premises of the Grupa LOTOS refinery, enabling almost 900 persons to see our facilities.

We provided free-of-charge bus lines, which enabled residents of the neighbouring districts to get to the refinery itself. During the event, a multitude of attractions were organized for people of all ages. A parade of uniformed forces cooperating with the Company was held. Also, Kuling Waterbird Research Group and the Ornithological Station at the Museum and Institute of Zoology of the Polish Academy of Sciences, our partners in the 'Protect the Wildlife of the Sobieszewo Island' programme and the 'LOTOS Protects the Baltic Sea's Wildlife' programme, presented their activities during the event. The 'Open Day' attracted more than 2,000 participants, who were also asked to assess the event in a survey. Their opinions concerning the venue, the attractiveness of the event's programme and its date, as well as the quality of the service were all very good (80% of respondents expressed a positive opinion), and 87% of the respondents felt that the 'Open Day at Grupa LOTOS' met their expectations and they would like to participate again in a similar event organized by the Company in future.

## 3. Charity initiatives

As part of the 'Good Neighbour' programme, we work together with non-governmental organizations, offering assistance to the neediest in our closest neighbourhood. In 2013, we supported persons under the care of the Municipal Family Support Centre in the Gdańsk district of Rudniki, 'Stowarzyszenie Przyjazne Pomorze' ('Friendly Pomerania Association'), which runs a community library in the Gdańsk district of Stogi, 'Fundacja Pomóż Sobie i Innym' ('Help Yourself and Others Foundation'), 'Stowarzyszenie Pedagogów Praktyków' ('Association of Practising Educators') and Parafia p.w. Matki Boskiej Bolesnej w Gdańsku (Our Lady of Dolours Parish in Gdańsk). We co-financed summer and winter holidays for more than 100 children under the care of these organizations and purchased equipment for rooms where educational activities for children take place. We also organized Santa Claus gift-giving events for children under the care of these organizations and in family-type children's homes. In total, Christmas packages were distributed to 270 children from 13 organizations and children's homes, including 9 from the Gdańsk area, 2 from Jasło and 2 from Czechowice-Dziedzice.

## The 'Skrzydła z Grupą LOTOS' ('Wings with Grupa LOTOS') Programme

We have adopted a strategic approach to equal opportunity initiatives addressed to talented children at risk of social exclusion, not only from Pomerania, but also from other regions where the LOTOS Group conducts its business. This was possible thanks to our participation in the group of strategic partners of the 'Skrzydła' ('Wings') programme run by **Caritas Polska** in the years 2013-2013. Under the 'Skrzydła z Grupą LOTOS'



programme, we have assisted 70 pupils from low-income families in three regions of Poland. 'Skrzydła' is a programme of long-term assistance for pupils of primary, junior high and high schools who, given the insufficient means of their families, need assistance. Under the programme, the form of assistance can be tailored to the needs of a child. We have extended assistance to the neediest junior high and high school pupils from the Gdańsk Province, Jasło County and the Czechowice-Dziedzice Municipality. This assistance is rendered by the associated 'Skrzydła na przyszłość' ('Wings for the Future') programme, ensuring equal opportunities for all children to pursue their plans and ambitions. 'Skrzydła' has had a positive influence on its participants and has helped them achieve their objectives. The pupils covered by the programme have improved their grades in multiple subjects and their behaviour, and are now more involved in lessons, the work for the benefit of their schools and their own development.

## Sports education programmes

We are also involved in community-oriented sports projects supporting the development of sports skills among children and youth, to train future generations of sportsmen who would like to join their local or national teams. We believe that education through sports is also a good way to spend leisure time, educate young people in the spirit of healthy competition and fair play, and counteract social pathologies.

For the last 10 years, Grupa LOTOS, together with its partner the Polish Skiing Association, has run one of the widest-ranging projects in the area of sports education – the National Ski Jumping Development Programme, 'In Search for the Champion's Successors'. The programme's main objective is to support young athletes practising ski-jumping and to discover the finest Polish ski-jumping talents.

Till the end of 2013, more than 800 pieces of skiing equipment (skis complete with bindings, suits, ski-jumping boots, and helmets) were given to the most talented young ski jumpers. One of the talents discovered through the 'In Search for the Champion's Successors' programme is Kamil Stoch, double gold medalist of the Sochi Winter Olympic Games, winner of multiple World Cup competitions and Polish Champion, who is also the Ambassador of the Programme. Other talented ski-jumpers who got support through the Programme include Jakub Wolny (Individual and Team World Junior Champion), and Klemens Murańka, Aleksander Zniszczoł and Krzysztof Biegun – Team World Junior Champions.

Another field of the Company's activities supporting young sportsmen is our work with youth groups practising with the **Lechia Gdańsk Football Academy**. In 2012, the Company and the Academy jointly launched the '**White and Green Future with LOTOS**' programme. Ultimately, the programme will cover a total of 3,000 children from 13 Academy's branches outside Gdańsk, at locations across Pomerania and the neighbouring provinces. Till the end of 2013, 10 regional branches were opened, which, together with the Gdańsk central branch, look after 1,800 children aged 6-14. Around 70 trainers work under the programme, using a comprehensive training programme developed by the Lechia Gdańsk Football Academy. The children are monitored through the Junior Database, where all information about each participant and about the teams they represent is gathered.

In 2013, we continued our support of the training of girls basketball teams at the **Gdynia Basketball Society** (GTK). A total of around 300 young basketballers practise with the GTK, who won the Polish U-18 National Championship in 2013. We also cooperated with the **Wybrzeże Gdańsk Speedway Club Association**, which trains children and youth. The aim of the **Speedway Youth School** is to develop young riders to join the first team of GKS Wybrzeże – the LOTOS Wybrzeże Gdańsk club. One of the beneficiaries is Krystian Pieszczyk, called the hope of Gdańsk speedway and winner of the Brown Helmet in 2013. Additionally, we acted as the main sponsor of the **Gdańsk Sailing Club**, which promotes water sports among large groups of children and youths representing different sailing and windsurfing classes.

## Protection of the environment and ecology

As our refinery is located on the coast of the Baltic Sea, many of our initiatives are related to the protection of its resources. Our partners include: **the Foundation for the Development of Gdańsk University (FRUG)** and the **Marine Station of the University's Institute of Oceanography (IOUG) in Hel**. Together with these institutions, we have implemented projects, under the name of the 'LOTOS Protects the Baltic Sea's Wildlife', aimed at protecting the natural riches of the Baltic Sea. Another programme we pursue in the areas of great natural value NATURA 2000, together with the Kuling Waterbird Research Group, the Ornithological Station at the Museum and Institute of Zoology of the Polish Academy of Sciences and the Association of Sobieszewo Island Lovers, is the long-term 'Chronimy NATURE na Wyspie Sobieszewskiej' (Protect the Wildlife of the Sobieszewo Island) programme.

### The 'LOTOS Protects the Baltic Sea's Wildlife' programme

Grupa LOTOS cooperates with the FRUG Foundation and the IOUG Marine Station on protection of, research on and communication about the biodiversity of the Baltic Sea. The IOUG Marine Station conducts research projects on the biology and ecology of coastal fish in the Baltic Sea as well as of marine mammals and their habitats. In 2013, we were involved in actions designed to prevent the extinction of the endangered harbour porpoise, the only cetaceans permanently inhabiting the Baltic Sea.

The equipment purchased in the course of our cooperation, which already goes back several years, has also been used to support the statutory research of the Marine Station on the presence of harbour porpoises under the action point entitled **'Biological and ecological research of marine organisms and habitats with view to implementing more effective methods of managing their resources and protection'**. Our support was used for making construction and technical improvements to the Zelint research unit which allow for its all-year-round use for exploration of the Baltic basin. Our activities also led to the purchase of special cod pots for testing purposes, which are safe for harbour porpoises and seals and also make it possible to catch living fish. In the course of several years of our cooperation, more than 25 articles and scientific papers reflecting the researching, as well as the scientific and educational potential of the Station's employees have been published.

Furthermore, Grupa LOTOS supported the SAMBAH (Static Acoustic Monitoring of the Baltic Sea Harbour Porpoise) project by co-financing the equipment and modernization of the Zelint research unit, which significantly aided the research on presence, distribution and habitat preferences of harbour porpoises. SAMBAH is the biggest static acoustic monitoring project regarding harbour porpoises, whose study area stretches from the Darss and Limhamn ridges in the southwest to the northern border of the Åland archipelago in the north. Data reflecting changes in the distribution and density of these mammals are necessary to identify areas of their presence and their habitat preferences as well as areas with higher risk of conflicts with anthropogenic conflicts.

An important element of the project is to develop best practice methods for research of harbour porpoises in a low density area and to increase the awareness among the communities of the presence of this endangered species. The knowledge acquired should also serve to develop and later implement the most efficient methods of monitoring the presence of these rare animals. The grant from Grupa LOTOS was used to upgrade, to provide additional equipment to and to purchase elements of the research apparatus. In effect, it is possible to preserve the continuity of research in all measuring units of the Marine Stations. The data acquired will be analyzed and the results will be published in 2014.

In 2013, a number of educational campaigns informing about the threats to the biodiversity of the Baltic Sea were launched in the Tri-city area. Such projects include the **'Blue Schools'** on the Hel Peninsula where children and teenagers can meet with educators teaching about the biodiversity of the Baltic Sea. In 2013, courses offered by the 'Blue Schools' were attended by 4,300 students, while the Seal Centre (Fokarium), one of the most important facilities of the Blue Village complex, attracted more than 400,000 visitors. During the year, some 18,000 items of informational and educational materials were handed out by the IOUG Marine Station and the FRUG Foundation at a number of their events. One of the most important events in 2013 was the opening of the newly-built **'House of the Harbour Porpoise'**, a building serving academic and school education purposes, with an exhibition hall and an outdoor exhibition area to be gradually extended in the coming years. It is a unique bank of materials on the presence of harbour porpoises, sources of scientific information as well as of scientific materials tailored for the general public which all promote knowledge on this species.

In 2013, we once again engaged in the **'Clean Up the World'** campaign, with our organization of the **'Let's clean up the Baltic Sea! Let's clean up the world!'** event. 700 children from 70 Tricity primary schools were invited to join the initiative, which took place on Gdańsk beach. During the collective cleaning event, 18,000 litres of waste was collected in compliance with the rules of waste segregation, which is triple the amount collected as compared to 2012. The initiative was inaugurated with a ceremony of planting a tree of 'Lovers of the Baltic Nature', which was part of the jubilee celebrations of the 20th edition of the 'Clean Up the World' campaign in Poland, to which we were invited by the Our Earth Foundation. Divers of LOTOS Straż took part in the cleaning of the seabed. The purpose of the event was to develop a sense of responsibility for the world around us, particularly for protecting the Baltic Sea and keeping it clean.

### **The 'Chronimy NATURE na Wyspie Sobieszewskiej' ('Protect the Wildlife of the Sobieszewo Island') programme**

Together with the Ornithological Station at the Museum and Institute of Zoology (MIZ) of the Polish Academy of Sciences, the Kuling Waterbird Research Group and the Association of Sobieszewo Island Lovers, we pursue the 'Chronimy NATURE na Wyspie Sobieszewskiej' ('Protect the Wildlife of the Sobieszewo Island') programme. The programme provides for comprehensive initiatives undertaken on Sobieszewo Island to preserve its natural riches and provide for pro-environmental education. The work of the programme, which was launched in 2009, has resulted in construction of protective infrastructure, for instance the development of an educational eco-route within the 'Mewia Łacha' Reserve. The specially designed route, far away from areas where birds' breeding grounds and protected flora are located, is marked with educational info-boards and enables visitors to see the reserve all year round.

Under the programme, we also pursue on-going ecological education activities for the residents and tourists. The Kuling Group actively conducts educational sessions at its events such as 'Biodiversity – learn to preserve', 'Baltic Science Festival' and 'Edu-picnic'. Apart from that, it also constantly monitors the 'Mewia Łacha' Nature Reserve and, in 2013, it recorded 2,500 visitors, who were informed about the natural riches of the reserve, the protected species residing in it and its habitats. As the administrator of the 'Mewia Łacha' Nature Reserve, Kuling also conducts an annual survey among the residents of Sobieszewo Island to test their knowledge of the reserve and of the protected species residing in it. The level of knowledge about the natural riches of the reserve is very high – 94% of respondents said that they heard of and were in this place, and 63% heard of and could name actions taken to protect the environment under the 'Protect the Wildlife of the Sobieszewo Island' programme.

Our engagement in the protection of the reserve brings measurable effects such as successful clutches of terns and other species of water birds. In 2013, 244 chicks of sandwich tern (*Sterna Sandvicensis*) were

ringed, as compared to 62 in 2012, and the number of sandwich tern nests also almost doubled, from 276 in 2012 to 415 in 2013. An important action undertaken in the 'Mewia Łacha' Reserve, which helps us enhance our knowledge on protected bird species and those decreasing in population, is ringing. In 2013, the record number of 196 common ringed plovers (*Charadrius hiaticula*) was ringed, whereas in 2012 there were only 77. Since 2010, i.e. since the launch of the protective measures in the reserve under the 'Protect the Wildlife of the Sobieszewo Island' programme, more than 8,500 birds of different species have been ringed.

In conjunction with the Ornithological Station, we also organize free-of-charge lectures for students of Gdańsk schools. The idea of these lectures is to develop the young generation's interest in ecology and environmental protection, and to promote the Natura 2000 European Ecological Network. The lectures entitled 'Sobieszewo Island vs. Natura 2000 areas. Protection of birds and their habitats' concern not only the areas of natural beauty but also biology, ecology and recognizing different bird species with particular emphasis on these species which reside on the Sobieszewo Island, including the birds migrating along the Baltic coast.

In 2013, over 2,500 people benefited from the educational classes developed in the 'Mewia Łacha' Nature Reserve as part of the 'Protect the Wildlife of the Sobieszewo Island' programme. In the educational activities organized by the Ornithological Station were attended by almost 2,000 pupils from 34 primary and junior high schools in the Tri-city.

## Maritime Education Programme

Another programme we support, implemented by the Gdańsk Foundation at the request of the Mayor of Gdańsk, the Maritime Education Programme was initiated by Mateusz Kusznierevicz, the Ambassador for Maritime Affairs of the City of Gdańsk. Its purpose is to expand young people's knowledge of the natural environment, sailing, the maritime heritage of Gdańsk and water safety rules. Each year, all first class students of junior high schools from Gdańsk (totaling approximately 3,500) take educational cruises along the Gdańsk harbour channel and around the Gdańsk Bay, which last several hours at a time. Participation in the cruises is free of charge. As part of the Maritime Education Programme, an environmental competition is also organized, which in 2013 was held under the slogan 'Don't Pollute the Water'.

2013 was declared by the United Nations the International Year of Water Cooperation. The organizers of the Maritime Education Programme in Gdańsk decided to join this international action and the 2013 edition of the environmental competition was dedicated to the problem of water deficit.

The competition was addressed to students of all Polish junior high and high schools, who recorded short films encouraging people to use water resources rationally – not to waste or pollute them. On the first stage, the jury chose 10 films from among almost 90 competition entries. Then, the finalists were competing for the votes of Internet users and the vote was closed on 17th June, the World Day to Combat Desertification and Drought. In total, 12,000 votes were sent and the most popular among the viewers was the film entitled "The Apocalypse", prepared by pupils of the John Paul II Public Junior High School No. 2 in Świąta. The competition laureates representing the distinguished schools were awarded a summer holiday cruise on board the General Zaruski sailing ship, and a sailing picnic attended by Mateusz Kusznierevicz was organized in the school of the winning team.

In 2013, 71 teachers took part in evaluation of the programme, 99% of whom rated its attractiveness as very high and stated that it should definitely be continued. 93% of respondents expressed the opinion that commercial companies should engage in activities supporting local communities and the environment.

In all editions of the Maritime Education Programme between 2010-2013, around 14,000 people took part in the cruises along the Gdańsk Bay, during which they covered a total distance of over 28,000 nautical miles.

## Social innovations

### E(x)plory Festival

In 2013, Grupa LOTOS was the main partner of the nationwide E(x)plory Festival, a programme aimed at developing scientific innovations, creativity and interest in the world in an attractive and modern way. The initiative promotes scientific achievements among children and teenagers, at the same time responding to the contemporary challenges connected with the need for developing innovation and ensuring workforce for future. As part of the festival, a competition for young scientists, a fair and shows of technological projects, workshops for pupils and teachers and scientific conferences were held. The E(x)plory Festival is dedicated to pupils, students, teachers and school principals. It attracted almost 12,000 persons.

### Enactus Poland

In the 2013/2013 academic year, Grupa LOTOS launched its cooperation with the Enactus Poland programme. Enactus, formerly known as SIFE, is an international organization associating students, and academic and business leaders. Under the programme, students carry out business projects supporting the development of local communities. These projects address economic, ecological and social challenges, and are aimed at improving the quality of life and standard of living of their target groups. The best projects then take part in the Enactus National Competition and get the chance to represent Poland in the Enactus World Cup. When preparing their projects, the students can use help and advice from their academic tutors and managers, business representatives, who all act as mentors for the projects. Currently, there are 12 university teams in Poland, which are involved in around 40 projects. In 2013, almost 60 jurors and 200 students took part in the Polish National Competition.

As part of our cooperation with Enactus, we announced a grant competition called **'Responsibly with LOTOS'** in 2013, targeted at students associated in Enactus Poland. Its purpose was to select the best projects carried out by students of Polish universities in the area of CSR, which will fit in the framework of the LOTOS Group's CSR Strategy and bring measurable outcomes to the target community. At the beginning of 2014, the Competition Committee chose the project "Eco-competition" entered by Enactus University of Gdańsk (STRATEG Student Circle) and decided to grant PLN 10,000 for its completion. The project is a follow-up to the SLOW (Second Life of Waste) project completed by STRATEG in 2013 and is to organize an educational campaign, one stage of which will be the collection of PET bottles in schools, gyms and during ecological events held in Gdańsk. In the course of the pilot version of the project, 25,000 PET bottles were collected, which were then processed and 200 quilts were made. The quilts were passed on to night shelters in the Pomerania region. In 2014, the project will be extended to include a 'Day with Ecology', directed at 30 schools in Gdańsk, and information campaigns.

## Human rights

In our social and economic relations, we place great emphasis on human rights issues. There are no formal or systemic measures in place at LOTOS Group companies to verify whether our trading partners respect human rights. In the business landscape in which we operate, human rights issues are governed by a legal framework. We maintain relations only with those entities that operate legally and are required to comply with the law, including human rights regulations. However, due to the priority given by Grupa LOTOS to occupational health and safety, fire protection and physical security in our relations with our trading partners, agreements executed with our suppliers include mandatory provisions requiring these entities to comply with the relevant laws, which compliance is then monitored.

At Grupa LOTOS, 100% of agreements with our trading partners include clauses requiring them to ensure safe working conditions, whose observance is verified by our audits, and, in case of commercial companies, the same applies to the majority of significant agreements, which shapes our everyday cooperation with suppliers.

We also constantly add to our agreements and bidding offers new provisions regarding human rights issues and ethics. Due to the great emphasis we place on ethical behaviour and transparency of business processes, most of our agreements include a reference to [www.odpowiedzialny.lotost.pl/en](http://www.odpowiedzialny.lotost.pl/en), where the LOTOS Group's Code of Ethics has been published. The Code is also sent and passed on in paper version to our trading partners from Poland and abroad. In connection with the implementation of the idea of responsible business, Grupa LOTOS in its requests for proposals when selecting a trading partner has included two ethical clauses pertaining to respecting human rights, observing employee rights and protecting the natural environment. Further, in Grupa LOTOS' requests for proposals, bidders are required to submit a representation to the effect that they are not in default of payment of any due taxes, charges or social security premiums

Although in 2013 more than a dozen significant agreements were concluded at Grupa LOTOS, none of them has undergone human rights screening.

As for secondary logistics, in 2013 employees of LOTOS Paliwa carried out a total of 901 inspections of fuel supplies delivered by external carriers providing services to the company, including 611 checks on drivers having abided by the rules regarding occupational health and safety, and fire and environmental protection, etc. The inspections also examined whether the drivers used appropriate work wear, protective wear and personal protective equipment, as well as whether they had carried the required documentation while transporting hazardous goods. Whenever the rules regulating a driver's work time or the use of protective wear and personal protective equipment were not followed, the company requested the carrier to promptly restore compliance.

In the case of construction projects, compliance with the requirements stipulated in the agreements with the contractors with regard to operational safety and occupational health and safety is monitored on an ongoing basis during a project's execution.

Additionally, 138 employees responsible for people and property protection employed by LOTOS Ochrona have attended lectures on human rights and workshops on intervention techniques and the use of coercive means. In monthly tests they undergo, the issues regulated in the LOTOS Group's Code of Ethics are included.

In 2013, 77% of the Company's employees attended lectures devoted to basic human rights and their kinds, the Universal Declaration of Human Rights, the European Court of Human Rights, the Charter of Fundamental Rights of the European Union and the violations of human rights. Also, external organizations providing security to us are required to hold training sessions in human rights issues for their employees.

Human rights issues are also discussed within our adaptation programme for new employees and at periodical training sessions on occupational health and safety.

## Training in human rights issues in 2013

	LOTOS Group*	Grupa LOTOS
Percentage of employees trained in human rights issues and in the organization's human rights policies and procedures and their application at work	15.2%	19.1%
Total number of training hours in human rights issues	1,503	578

\* Data for the LOTOS Group, excluding LOTOS Petrobaltic subsidiaries.

# Human capital



## Human capital of Grupa LOTOS

- Employees' knowledge, competence, experience and motivation to involve themselves in developing the organization.
- Stable system of common values as the foundation of organizational culture.
- Motivation to improve and develop processes, products and services, including employees' leadership, management and cooperation skills.
- High safety culture.

Our objectives in the management of human capital:

- Ensure availability and development of highly qualified resources required to successfully implement our business strategy.
- Continuously enhance our organizational culture based on adopted values.
- Continuously raise awareness and involvement in work safety improvement among management staff, employees and contractors.

Key activities:

- Responsible recruitment and employment, quick adaptation to the workplace.
- Enhancement of employee training and development schemes.
- Creation of an involving workplace.
- Reliable evaluation and good motivation of employees.
- Adherence to ethics in business.
- Dissemination of values embraced by the organization among employees of the LOTOS service stations.
- Implementation of projects to improve safety at work and health protection.
- Involvement of management personnel in the promotion of OSH awareness among employees.

Results:

The Best Employer 2013 title

Effectiveness of internal staff development process confirmed by 80% of participants having been promoted

The title of the Human Resources Management Leader for outstanding achievements in all HR management areas



Employment optimisation through the creation of an environment where staff's competence and potential can be utilised in the best possible way (in 2004–2013, more than one thousand people changed employer within the LOTOS Group)

High employee involvement (72 %), with 77% of workforce declaring satisfaction with their jobs

Increasing employees' influence on the safety and ergonomics of their working environment

Strengthening safety-at-work culture based on the management's increased involvement in promotion of relevant attitudes



# System of values

In our activities, we are guided by the key principle of legal compliance and responsibility for the impact of our operations on the world around us. Our system of social values comprises transparency, openness, innovativeness and responsibility.

The LOTOS Group's mission is to pursue innovation-driven, sustainable development in the exploration, production and processing of hydrocarbons and marketing of high-quality products, which is conducive to creating lasting value for shareholders, ensuring customer satisfaction, enhancing and leveraging the employee potential, and which is responsible towards society, environmentally friendly and consistent with the energy security policy.

In 2013, we implemented our Code of Ethics, in which employees of the LOTOS Group additionally committed to behave in accordance with the following ethical values:



## Professionalism

– we try to make the most of our knowledge and skills by actively applying them in our work. We build the organization's value primarily on the professionalism of our staff, who all aspire to being experts in their respective fields. We perform our duties to the highest standards of care and objectivity, striving to continually improve our skills and professional qualifications.

## Transparency

- we act and communicate transparently in our relations with employees, clearly and intelligibly defining their rights and obligations, and justifying decisions that affect them. We make sure that our employees have access to information they need to properly perform their duties. In our external relations, we openly communicate our decisions, actions and reasons by which we are guided in mutual relations, especially with customers, suppliers, participants of the capital market and local communities.

## Respect

– manifests itself in decisions and actions that do not infringe the dignity of other individuals and entities. We follow the principle of respect in building our relations with employees, as well as with business and social partners. We respect the diversity and equality of all our associates and representatives of the LOTOS Group partners, irrespective of their nationality, race, sex, age, disability, religious denomination, political convictions or sexual orientation.

## Cooperation

– cooperation is a defining feature of our approach to building mutual relations in such a way as to maximise benefits for the LOTOS Group, with due regard to the interests of the other party. Cooperation is based on open communication, trust and strong focus on the achievement of common goals. We practise the values of cooperation in our relations with both internal and external parties.

As a corporate citizen, in all areas of our activity we endorse and abide by the principles of **United Nations Global Compact**, a voluntary international corporate citizenship initiative of unprecedented reach.



#### Principles of UN Global Compact

1. Support and respect the protection of internationally proclaimed human rights.
2. Eliminate human rights abuse.
3. Uphold the freedom of association.
4. Eliminate all forms of forced or compulsory labour.
5. Support the effective abolition of child labour.
6. Effectively eliminate discrimination in employment.
7. Support a precautionary approach to environmental challenges.
8. Undertake initiatives designed to promote environmental responsibility.
9. Encourage development and diffusion of environmentally-friendly technologies.
10. Work against all forms of corruption, including extortion and bribery.

## Responsible employer

Statement by Joanna Tyszka, Human Resources Office Director, Grupa LOTOS, CSR Strategy Leader in the Investment in Human Resources area



” As provided for in its CSR Strategy for 2012–2015, the objective of the LOTOS Group’s HR policy is to ensure the availability and development of highly qualified staff required to successfully implement its business strategy and enhance the organizational culture based on adopted values. Employees are regarded as our key asset, which is why our practices in employment relations are geared towards developing their competences, encouraging their involvement and creating conditions conducive to their increased identification with the fundamental values underlying the LOTOS Group’s organizational culture.

### Joanna Tyszka

Statement by Joanna Tyszka, Human Resources Office Director, Grupa LOTOS, CSR Strategy Leader in the Investment in Human Resources area

As provided for in its CSR Strategy for 2012–2015, the objective of the LOTOS Group’s HR policy is to ensure the availability and development of highly qualified staff required to successfully implement its business strategy and enhance the organizational culture based on adopted values. Employees are regarded as our key asset, which is why our practices in employment relations are geared towards developing their competences, encouraging their involvement and creating conditions conducive to their increased identification with the fundamental values underlying the LOTOS Group’s organizational culture.

Our HR policy is carried out in a comprehensive and strategic manner, in line with the principles of accessibility for employees, consistency across systems and solutions, flexibility in relation to business needs, and above all responsibility for work results. Our HR policy is long-term and based on continued application and improvement of best practices in responsible recruitment and employment, facilitating employees’ adaptation to work environment, qualification raising systems, evaluation and motivation of employees, compliance with ethical principles and rules of occupational health and safety.

With a focus on filling the positions within the LOTOS Group in a manner that reflects our business needs, we take every care to communicate with potential candidates by providing good access to information, for example during job fairs, through cooperation with universities and technical colleges, as well as internships, work placements, and grant programmes. We carry out our recruitment processes in a transparent and objective way, taking advantage of the most up-to-date candidate evaluation methods. We create opportunities for horizontal and vertical promotions, by encouraging employees to apply for vacancies in our internal recruitment process, which is given priority over external recruitment.

We improve our organizational culture based on the adopted values, not only by presenting them in our programmes and activities, but also by their promotion during our internal training (including induction training), underlining their importance and assessing the level of adherence during periodic employee evaluations, and also by describing and promoting them through the LOTOS Group’s Code of Ethics. We have a positive impact on employment practices, incentives and organizational culture building, by introducing optimised solutions across the LOTOS Group.

In 2013, we implemented the SAP HCM IT system across the entire LOTOS Group. The system has streamlined the process of managing and reporting employee data. It also meets the needs of both management and employees, facilitating their access to information and use of tools supporting HR matters through the self-service HR Portal.

All those systemic and continuous initiatives reflect our strong belief that employees are LOTOS Group's crucial asset. Their high competences and involvement are our strength, while their potential is reflected in the organization's innovation-driven development. We are recognised as a reliable and respected employer, promoting social responsibility standards, adhering to rules in every sphere of social life, and counteracting discrimination in employment and promotion. Our concern for professional advancement and improvement of employees' skills and expertise goes hand in hand with our efforts to foster a good working atmosphere and friendly relations between colleagues. We value open communication, teamwork and partnership between the management and employees.

The quality of our initiatives was recognised and appreciated by the Selection Committee of the Human Resources Management Leader award organized by the Institute of Labour and Social Studies. In 2013, the Committee awarded Grupa LOTOS with the Human Resources Management Leader title and Golden Statuette for our outstanding achievements in all areas of HR management. The grant of the Best Employer 2013 title was also based on the results of the Employee Satisfaction and Engagement Survey carried out using Aon Hewitt's methodology. The majority of our employees see Grupa LOTOS as one of the best employers for people with comparable skills and professional experience. According to these results, our Company clearly stands out among industry peers and other major Polish companies.

# Responsible employer

✓ - data has been verified

[See full text of the Independent Assurance Report >](#)

## Workforce of the LOTOS Group

Company	Dec 31 2011	Dec 31 2012	Dec 31 2013
Grupa LOTOS	1329	1349	1345 ✓
LOTOS Asfalt	301	254	202 ✓
LOTOS Terminale <sup>(1)</sup> and its subsidiaries	236	236	245 ✓
LOTOS Gaz w likwidacji (in liquidation)	1	1	1 ✓
LOTOS Infrastruktura <sup>(2)</sup>	74	75	75 ✓
LOTOS Kolej	717	812	833 ✓
LOTOS Lab	152	153	156 ✓
LOTOS Ochrona	160	161	162 ✓
LOTOS Oil	340	338	317 ✓
LOTOS Paliwa	263	270	272 ✓
LOTOS Park Technologiczny	1	1	1 ✓
LOTOS Petrobaltic and all its subsidiaries	549	546	557 ✓
LOTOS Serwis	697	697	684 ✓
LOTOS Straż	88	89	89 ✓
LOTOS-Air BP <sup>(3)</sup>	11	26	44 ✓

<sup>(1)</sup> Before 2013: LOTOS Czechowice.

<sup>(2)</sup> Before 2013: LOTOS Jasło.

<sup>(3)</sup> Before 2013: LOTOS Tank.

### The LOTOS Group's workforce by type of employment contract in 2013 – men <sup>(4)</sup>

Company	Fixed-term contracts		Open-ended contracts	
	Full-time employees	Part-time employees	Full-time employees	Part-time employees
Grupa LOTOS	133 ✓	3 ✓	778 ✓	15 ✓
LOTOS Asphalt	15 ✓	0 ✓	146 ✓	0 ✓
LOTOS Kolej	204 ✓	9 ✓	539 ✓	0 ✓
LOTOS Oil	27 ✓	0 ✓	197 ✓	1 ✓
LOTOS Petrobaltic with its subsidiaries: LOTOS Geonafita, LOTOS Norge and Energobaltic	80	1	371	1
LOTOS Air BP	30 ✓	0 ✓	10 ✓	0 ✓

(4) Thanks to the implementation of the SAP HCM IT system in the LOTOS Group, we are gradually expanding the scope of reporting of HR data. We are planning to be able to report full HR data for all companies starting from 2015.

### The LOTOS Group's workforce by type of employment contract in 2013 – women

Company	Fixed-term contracts		Open-ended contracts	
	Full-time employees	Part-time employees	Full-time employees	Part-time employees
Grupa LOTOS	71 ✓	0 ✓	344 ✓	1 ✓
LOTOS Asphalt	6 ✓	0 ✓	35 ✓	0 ✓
LOTOS Kolej	36 ✓	0 ✓	45 ✓	0 ✓
LOTOS Oil	11 ✓	0 ✓	81 ✓	0 ✓
LOTOS Petrobaltic with its subsidiaries: LOTOS Geonafita, LOTOS Norge and Energobaltic	22	0	67	3
LOTOS-Air BP	1 ✓	0 ✓	3 ✓	0 ✓

Our 2013 HR policy objectives, as set out in the business strategy and CSR strategy, were achieved.

### We managed to ensure the availability of a sufficient number of highly qualified resources required to successfully implement our business strategy.

The *e-recruitment* system enhanced the objectiveness and efficiency of recruitment processes across the LOTOS Group thanks to fast publication of announcements in several media at the same time, efficient searches in the candidate database thanks to the use of a digital application form and browsers, collection and exchange of information on candidates with the highest security standards in place, and monitoring of statistics on the effectiveness of announcements. This recruitment process allowed us to employ persons with the required qualifications. Next year, we intend to publish the 'Guidelines for recruitment specialists', to be distributed to persons responsible for coordinating the selection of employees at the LOTOS Group companies, as well as the heads of organizational units planning to hire new employees. Moreover, as part of our effort to share knowledge and best practices in the area of employee selection and assessment of candidates' qualifications in order to build effectively working teams, we will organise internal training.

Our key development activities in 2013 were related to the Succession Programme, designed to ensure the continuity of management in key positions at the LOTOS Group, identify and improve leadership potential at LOTOS Kolej (the Managers Academy Development Programme) and coaching of key personnel at LOTOS Terminale. Besides being given training and development opportunities as part of the LOTOS Academy, employees gain and expand their expertise and job-related qualifications in line with the training schedules for individual years in place at each company, prepared taking into account the development targets set on the basis of periodic employee evaluations.

Costs of specialist training and postgraduate education of employees are fully financed by Grupa LOTOS. We also cover 50% of costs of employees' studies at higher education institutions, taken up to complement their education, and 50% of costs of foreign language courses, if the command of a given language is recommended in a given position.

We fully utilise the potential of our employees. We have created a knowledge sharing culture, drawing on the experience and expertise of employees aged over 50, involving them in the professional advancement of other staff. They can pass on their valuable knowledge during Induction Training, and are engaged as tutors of new employees and as coaches in internal training programmes.

In 2013, we expanded the induction training programme to cover CSR issues and the principles of ethical conduct set out in the Code of Ethics. We implemented the Employee Induction Programme at further companies: LOTOS Lab, LOTOS Straż and LOTOS Asphalt, and we also plan to introduce it at LOTOS Paliwa, LOTOS-Air BP and LOTOS Ochrona, based on e-learning techniques.

The strong results of the most recent Periodic Employee Evaluation, which covered most employees of the LOTOS Group, confirm the effectiveness of our tools used for recruitment, induction, training, development and motivation of staff. Periodic evaluation is performed with respect to all employees working under employment contracts whose length of service in a given organizational unit at the time of the evaluation is at least six months. The person performing the evaluation must likewise have at least six months' experience in a given position.

At the LOTOS Group companies in which the Periodic Employee Evaluation System was implemented, an average of 91.8% 🟢, or around 4,500, employees of both sexes were subject to evaluation in 2013 (94.6% at Grupa LOTOS).

The Periodic Employee Evaluation System coverage rate was in the assumed range of 75%–100%. In 2013, employee evaluation was performed at Grupa LOTOS and the following companies: LOTOS Paliwa, LOTOS Asphalt, LOTOS Oil, LOTOS Kolej, LOTOS Ochrona, LOTOS Straż, LOTOS Lab, LOTOS Serwis and LOTOS Petrobaltic. As of 2014, all the LOTOS Group companies will be covered by a new Periodic Employee Evaluation System supported by the SAP/HCM IT solution, with the evaluation process performed electronically via the new HR website.

### **We have enhanced our organizational culture based on the adopted values.**

In 2013, our efforts in this area were focused on developing a new system for periodic evaluation of employees that would promote conduct in accordance with the values embraced by the Company. We developed a *Competence Model* uniform for the entire LOTOS Group, and a related *Positions Map*. The model defines the competences required to perform each function within the LOTOS Group, which are also used as criteria in the evaluation of both employees and candidates taking part in the recruitment process. The first evaluation of ca. 5,000 employees according to the new uniform rules will be performed in 2014 and

will be preceded by workshops for evaluators, as well as briefing meetings with all employees concerned. Once the Periodic Employee Evaluation System is implemented across the entire LOTOS Group, it will be delivering objective and comparable evaluation results, making it possible to set professional goals and development targets for employees and monitor their achievement.

In 2013, we conducted a *Survey of Engagement and Satisfaction of Grupa LOTOS Employees*. The result was 72% for engagement and 77% for satisfaction, placing us at the top end of the *Best Employers 2013* ranking compiled by Aon Hewitt.

In 2014, the survey will cover all the LOTOS Group companies and will employ a method Grupa LOTOS has adopted to ensure anonymity of data and comparability of results both across the organization and with the results of other companies operating in Poland.

Satisfied and committed employees are the key element of any organization's effort to deliver stable business performance. In the engagement and satisfaction survey, our employees gave the highest score to working conditions, appreciating the fact that their workplace is appropriately prepared to support the tasks performed. Moreover, they appreciate the possibility of keeping a balance between work and private life, and view their professional duties as interesting and conducive to personal development. They also appreciate the support of their superiors and a healthy working atmosphere in their teams.

## Parental leaves at Grupa LOTOS

Year	Number of employees who took parental leave		Number of employees who returned to work after parental leave		Number of employees whose employment was terminated within twelve months after return to work	
	Women	Men	Women	Men	Women	Men
2011	14	-	13	-	2	-
2012	19	2	14	2	-	-
2013	22	0	17	0	0	0

The LOTOS Group has a remuneration system ensuring that the pay reflects the position held and the scope of duties. As additional remuneration, employees receive an annual bonus based on the financial performance of the LOTOS Group. Employees who achieve their individually set targets in a given period may also receive a quarterly incentive bonus. The most committed and outstanding employees receive financial bonuses awarded by the Chief Executive Officer. We try to offer attractive base salaries, but we also need to take into account the conditions on the Polish labour market and internal factors involved in our operations. In 2013, the ratio of average salary of men to that of women at Grupa LOTOS was 130%.

## Ratio of the base and actual salary of women to men by position held [as at December 31st 2013]

Employment category	Ratio of base salary of men to base salary of women [%]	Ratio of average/actual salary of men to average salary of women [%]
<b>Grupa LOTOS</b>		
Senior management	75	96
Lower management	108	124



Back-office staff	110	148
Production staff	71	166
<b>TOTAL</b>	<b>110</b>	<b>130</b>
<b>LOTOS Asphalt</b>		
Senior management	63	82
Lower management	102	119
Back-office staff	97	139
Production staff	57	121
<b>TOTAL</b>	<b>71</b>	<b>121</b>
<b>LOTOS Kolej</b>		
Senior management	117	123
Lower management	98	125
Back-office staff	105	128
Production staff	100	162
<b>TOTAL</b>	<b>100</b>	<b>137</b>
<b>LOTOS Oil</b>		
Lower management	100	98
Back-office staff	136	121
Production staff	91	150
<b>TOTAL</b>	<b>98</b>	<b>128</b>
<b>LOTOS-Air BP</b>		
Senior management	96	89
Lower management	68	84
Back-office staff	148	113
<b>TOTAL</b>	<b>114</b>	<b>71</b>
<b>LOTOS Petrobaltic</b>		
Senior management	89	139
Lower management	111	147
Back-office staff	131	147
<b>TOTAL</b>	<b>131</b>	<b>157</b>

LOTOS Geonaftha		
Senior management	91	144
Lower management	58	81
Back-office staff	123	112
Production staff	51	108
<b>TOTAL</b>	<b>51</b>	<b>99</b>
LOTOS Norge		
Management Board	100	0
Senior management	90	0
Lower management	194	0
Back-office staff	0	0
Production staff	0	0
<b>TOTAL</b>	<b>0</b>	<b>0</b>
Energobaltic		
Production staff	74	108
<b>TOTAL</b>	<b>92</b>	<b>133</b>

The LOTOS Group offers an attractive work environment and career development opportunities, plus a good benefits package, to all employees regardless of their gender and age. Our employees, whether working on a fixed-term or open-ended basis, full time or part time, are offered the same package of fringe benefits guaranteed by the Collective Bargaining Agreement for Grupa LOTOS employees and by the Rules of Participation in the Company Social Benefits Fund. The Collective Bargaining Agreement covers 95.3% of all Grupa LOTOS employees. The remaining employees are part of the Company's top management, whose terms and conditions of employment and remuneration are agreed individually with the Board, in consideration of the applicable labour laws. All companies of the LOTOS Group have their own Collective Bargaining Agreements or remuneration policies identical with the relevant provisions of the Collective Bargaining Agreement of Grupa LOTOS, and the percentage of employees covered by these documents ranges between 99.5% and 99.9%.

Every employee can take advantage of additional medical care provided by private healthcare institutions and dental care within the prepaid medical care package paid for by the employer. All parental leaves for mothers and fathers and additional maternity leaves are granted in accordance with legal regulations. The organization offers other social support in the form of loans, allowances, and partial financing of holidays for employees and their children. Additionally, employees who retire due to disability or old age receive retirement severance pay on terms more favourable than those provided for in the Polish Labour Law. Old age and disability pensioners also have access to additional medical care provided by private healthcare establishments and dental care at their former employer's cost.

Under the Benefit Programme, the LOTOS Group also offers membership cards for sports clubs and gyms to its employees, giving them access to sports facilities and activities at discounted prices.

We also provide our employees with the opportunity to join pension plans. Currently, 13 LOTOS Group companies take advantage of unit-linked group life insurance cover, developed especially for LOTOS Group employees, which is fully funded by the employer. Participation in the scheme is voluntary and available to all insurable employees under 70 years of age, employed under employment contracts. Saving with a Pillar 3 retirement savings scheme is an essential aspect of responsible planning for one's financial future, and we make every effort to secure our employees' future.

As at the end of 2013, 79.7% of the LOTOS Group employees and 89.2% of Grupa LOTOS employees were covered by the group insurance.

#### Premiums paid under unit-linked insurance policies (Pillar 3 of the Polish pension system) in PLN '000

	2011	2012	2013
Grupa LOTOS	3,465	3,519	3,587
Grupa Kapitałowa LOTOS	10,339	11,182	11,261

The LOTOS Group provides adequate conditions for effective development and practical application of the knowledge and skills required of all employees throughout their employment. Goals and objectives defined in the LOTOS Group's short- and long-term development plans are reflected in personal development plans, agreed with the employees on an annual basis during their periodic evaluation. All employees, irrespective of their age and time of planned retirement, are offered opportunities to take part in training designed to help them acquire and enhance their knowledge and professional qualifications, and develop general skill sets. The base monthly salary of employees who decide to retire within two years prior to their acquisition of pension rights can be raised by 8.5% under a relevant amendment to employment contracts. Moreover, retiring employees are entitled to a one-off cash severance payment, in an amount depending on their length of service. This payment may range from an amount equal to an employee's monthly pay when their length of service is up to 15 years, to 500% of the base pay amount if the employee has worked for 35 years.

For the past 30 years, former employees of the LOTOS Group have been associated in the Senior Employees and Pensioners Club. The Board of Grupa LOTOS earmarks considerable funds to support the Club. The Club's board organises trips around Poland and to other regions of Europe, giving the pensioners an opportunity to visit new places and at the same time promote a healthy lifestyle. Every year around Christmas, the Board of Grupa LOTOS organizes annual meetings with about 600 of its pensioners, in recognition of their contribution to the Company's growth.

In 2013, in order to exert a positive impact on employment practices, incentives and value-based work ethics at LOTOS service stations, we undertook initiatives to support the processes of recruitment, provision of incentives and fostering a work culture based on the adopted values. We developed profiles for an 'ideal' sales assistant and station manager, which – combined with the adopted standards for job interviews and training for area managers – facilitates the process of recruitment and selection of our service station staff. The LOTOS Paliwa website provides clear information on how to apply for work at our service stations. As part of the incentive scheme for service station staff, in 2013 we held 15 competitions to improve their sales performance.

We have analysed our methods for fostering sound work ethics and developed a programme entitled *One Day at a Service Station*. The programme is based on the idea that each employee of LOTOS Paliwa works at a service station for one day, participating in customer service, encouraging customers to buy products, replenishing stocks, and assisting in the operation of fuel dispensers, thus stressing the importance of work performed by service station attendants. Approximately 200 employees took part in the programme in 2013 to show the service station staff that their work is very important and that LOTOS is an organization they can identify with and be proud of.

Incentive competitions and schemes are to be continued at LOTOS service stations in 2014, and around the end of 2014 and beginning of 2015 an e-learning training programme will be implemented to improve professional skills and motivation of employees of the LOTOS service station chain.

### The process of building business awareness of the LOTOS Group's management is ongoing,

taking into consideration the importance of social, environmental and corporate governance factors. The effectiveness of this process is confirmed by the results of our periodic employee evaluations.

In 2013, more than 90% of all evaluated employees obtained good and very good scores with regard to the criterion involving the importance of social and corporate governance factors, with 96% of the management achieving very good grades.

Our training policy is distinguished by long-term, consistently implemented development plans, supported by renowned authorities, members of the LOTOS Academy Scientific Council, including Prof. Jerzy Hausner, Prof. Witold Orłowski, Prof. Janusz Rachoń, Dr. Mirosław Gronicki, Prof. Wojciech Rybowski, Dr. Jan Szomburg, and Prof. Edmund Wittbrodt.

In 2014, we will celebrate the tenth anniversary of LOTOS Academy, a comprehensive employee training and development project, whose goal is to create a partnership-based team and build a modern, efficient and competitive organization.

This initiative is highly valued in the world of science and business. In 2013, we implemented a number of training and development projects under the LOTOS Academy banner.

- **The LOTOS Group Succession Programme**, which guarantees the implementation of our business strategy by ensuring continuity of management processes in key positions, clearly defining promotion paths and reducing the risk of choosing the wrong candidate for promotion.
- **The 'LOTOS Kolej Managers Academy' Development Programme**, the main goal of which is to ensure the implementation of the company's strategy by retaining and accelerating the development of key employees. Its implementation will enable LOTOS Kolej to identify and make better use of the potential of its employees, increase their productivity and provide an incentive to develop the competences essential from the employer's point of view, to better prepare them for assuming key positions with the company, and to meet their promotion needs.
- **Coaching at LOTOS Terminale** as a tool for developing competences relevant to functions performed by the company's senior management. The main objective of the development activities was to enhance the management skills of specific employees with better knowledge about themselves, their strengths and weaknesses, and their role within the organization, and to develop personalised solutions and new strategies for action in cooperation with the coach.

- **'Situational Team Leadership' training programme.** The main objective of this two-day, licence-based workshop was to increase the productivity of work teams through development of the leadership skills of management staff.
- **Internal training projects – Knowledge sharing in the LOTOS Academy:**
  - Induction training at which senior colleagues share information regarding the organization itself, its Code of Ethics, CSR, processes and procedures, and the technologies for processing of crude oil and other refinery products,
  - Basic training for production workers within the production knowledge certification process, wherein our internal coaches share their knowledge of the techniques and technologies necessary for working as an equipment operator,
  - Internal knowledge-sharing workshops – group training focusing on various aspects of our operations, drawing on the knowledge and experience of employees aged 50 or more.
- **Training schedule – development of employees' individual competences** through participation in training sessions, courses and workshops that cover issues arising from analysis of the results of periodic employee evaluations, development targets for employees working at individual organizational units and our business development needs.

#### Challenges in strategy implementation until 2015

In addition to the continuation of our current staff training and development programmes, our plans include:

- Implementation of the 2nd edition of the Master Programme to train another group of back-up production staff. Our plan is to carry out a Development Center survey to determine the potential of our staff in key competences for the job of a supervisor and to implement a soft training programme based on 7 modules;
- Preparation of a new development programme for employees whose length of service with the LOTOS Group ranges from 3 to 5 years. Its objective is to prevent a decline in commitment and reduce staff turnover in this group of employees. The programme will rely on various development stimulation tools, such as training and team-building projects, simulation games, job rotation, and e-learning;
- Implementation of a dedicated programme for the LOTOS Group internal coaches, aimed to build a group of employees with unique expertise, useful to other employees, who are ready to share their knowledge and have the necessary knowledge-sharing skills.

#### Development prospects until 2020

We will continuously take actions to ensure the provision of qualified employees necessary for the effective implementation of our business strategy and for the enhancement of our organizational culture based on the adopted values.

Our main activities planned for the coming years include:

- Optimization of the employment level across the LOTOS Group in connection with the implementation of the 2013-2015 Efficiency and Growth Programme, supporting the restructuring processes, and employee allocation under the continuation of the job rotation project.
- Building such an image of the LOTOS Group as an employer which ensures access to the best job candidates and guarantees the attraction and retention of the best employees in the organization, with view to the changing job market situation. Active participation in the activities of the

Coalition for Friendly Recruitment, observing the Code of Best Practice, promoting recruitment standards of Grupa LOTOS in the external environment as well as adopting uniform recruitment standards and enhancing them within the LOTOS Group, implementing 'The LOTOS Recruiter's Manual' and 'The Recruitment Guidebook for LOTOS Managers', developing e-recruitment, using social networking sites for the purposes of communication with our environment.

- Improvement of the commitment culture by regular employee opinion polling in order to identify their attitudes and conduct, monitor their satisfaction and commitment to develop a work environment conducive to meeting business targets. Promoting HR activities within the LOTOS Group, streamlining communication regarding the rules of promotion, remuneration, and motivation of the employees and their development prospects. Building the business awareness of the employees and the management staff of the LOTOS Group, taking into account the importance of the social, environmental and corporate governance factors for the organization's activity.
- Streamlining the Periodic Employee Evaluation System – the tool used by the management and HR staff, based on the evaluation of the key management and functional competences as well as the progress in reaching the employees' work and development objectives.
- Development of the LOTOS Academy – undertaken training and development activities will serve the improvement of the employees' priority competences, identification of talents within the areas of the organization needing enhancement and further development, and the popularisation of the expert knowledge. The subjects of the closed training sessions undertaken under the Training schedule of the LOTOS Academy for all employees of the LOTOS Group will be adapted to the developmental needs of the particular segments of the organization. The e-learning form will be promoted in response to the growing percentage of the organization's employees aged 25-34, who prefer using modern IT tools. Dissemination of the knowledge-sharing culture in the organization will become an important element of our training policy.
- Perfecting our employee motivational system with regard to remuneration and fringe benefits. Upholding the leading position in the Pomeranian job market, monitoring the remuneration market and participation in remuneration surveys conducted by specialized companies in the area of personnel consultancy, including the survey assessing the refinery's efficiency conducted by Solomon Associates.
- Developing the SAP HCM system – streamlining the functionality of this HR supporting system across the LOTOS Group and of the HR portal – the self-service tool for employees and managers.

The overriding objective of our activities planned for the coming years will be to enhance the strategic role of HR in the organization, to strengthen the cooperation with line managers, to stress the HR role in management and to point out possibilities of gaining a competitive advantage in the Human Resources Management area.

## Useful information

### Newly hired employees in 2013

Grupa LOTOS	LOTOS Asphalt	LOTOS Kolej	LOTOS Oil	LOTOS-Air BP	LOTOS Paliwa	LOTOS Petrobaltic with its subsidiaries LOTOS Geonafta, LOTOS Norge, and Energobaltic
73	11	41	11	20	28	109

### Employees hired and dismissed in 2013 and staff turnover rate

	Grupa LOTOS		LOTOS Asphalt		LOTOS Kolej		LOTOS Oil		LOTOS-Air BP		LOTOS Paliwa	
	number	turnover rate [%]	number	turnover rate [%]	number	turnover rate [%]	number	turnover rate [%]	number	turnover rate [%]	number	turnover rate [%]
<b>Gender</b>												
Women	48	3.57	19	9.41	13	1.56	11	3.47	3	6.82	23	8.46
Men	101	7.51	56	27.72	50	6	35	11.04	18	40.91	25	9.19
<b>Age</b>												
Below 30	31	2.3	9	4.46	14	1.68	5	1.58	8	18.18	11	4.04
30 to 50	80	5.95	52	27.54	35	4.2	25	7.88	13	29.55	33	12.13
Over 50	38	2.83	14	6.93	14	1.68	16	5.05	0	0	4	1.47
<b>Total</b>	<b>149</b>	<b>11.08</b>	<b>75</b>	<b>37.13</b>	<b>63</b>	<b>7.56</b>	<b>46</b>	<b>14.51</b>	<b>21</b>	<b>47.73</b>	<b>48</b>	<b>17.65</b>

### Employees hired and dismissed in 2013 and staff turnover rate at the LOTOS Petrobaltic Group

	LOTOS Petrobaltic		LOTOS Geonafta		LOTOS Norge		Energobaltic	
	number	turnover rate [%]	number	v [%]	number	turnover rate [%]	number	turnover rate [%]
<b>Gender</b>								
Women	1		0		0		1	
Men	50		2		1		0	
<b>Age</b>								
Below 30	11		1		0		1	
30 to 50	8		1		1		0	
Over 50	32		0		0		0	
<b>Total</b>	<b>51</b>				<b>1</b>		<b>1</b>	

Due to the specific nature of LOTOS Petrobaltic's business activity (work performed in a continuous system on drilling rigs), external back-up staff must be hired every year as temporary replacement of rig operators. It often happens that one person is hired more than once under the same or different terms of employment. As a result, the company reports high staff turnover rates.

## Workforce, by gender and age [as at December 31st 2013]

Employee age	Employment category	Number of employees	Percentage of total workforce	Percentage of total workforce in the age category	Number /women/	Percentage of total women	Percentage of total women in the age category	Number /women/	Percentage of total men	Percentage of total men in the age category
Grupa LOTOS										
Below 30	Back-office staff	57 ✓	4.24 ✓	38.26 ✓	37 ✓	8.89 ✓	100 ✓	20 ✓	2.16 ✓	17.86 ✓
Below 30	Production staff	92 ✓	6.84 ✓	61.74 ✓	0 ✓	0 ✓	0 ✓	92 ✓	9.9 ✓	82.14 ✓
Below 30	TOTAL	149 ✓	11.08 ✓	100 ✓	37 ✓	8.89 ✓	100 ✓	112 ✓	12.06 ✓	100 ✓
30 to 50	Board	2 ✓	0.15 ✓	0.25 ✓	0 ✓	0 ✓	0 ✓	2 ✓	0.22 ✓	0.36 ✓
30 to 50	Senior management	27 ✓	2.01 ✓	3.31 ✓	4 ✓	0.96 ✓	1.51 ✓	23 ✓	2.48 ✓	4.18 ✓
30 to 50	Lower management	74 ✓	5.50 ✓	9.08 ✓	31 ✓	7.45 ✓	11.7 ✓	43 ✓	4.63 ✓	7.82 ✓
30 to 50	Back-office staff	399 ✓	29.66 ✓	48.96 ✓	230 ✓	55.30 ✓	86.79 ✓	169 ✓	18.19 ✓	30.73 ✓
30 to 50	Production staff	313 ✓	23.37 ✓	38.40 ✓	0 ✓	0 ✓	0 ✓	313 ✓	33.68 ✓	56.91 ✓
30 to 50	TOTAL	815 ✓	60.59 ✓	100 ✓	265 ✓	63.71 ✓	100 ✓	550 ✓	59.20 ✓	100 ✓
Over 50	Board	3 ✓	0.22 ✓	0.79 ✓	0 ✓	0 ✓	0 ✓	3 ✓	0.32 ✓	1.12 ✓
Over 50	Senior management	15 ✓	1.12 ✓	3.94 ✓	3 ✓	0.72 ✓	2.63 ✓	12 ✓	1.29 ✓	4.49 ✓
Over 50	Lower management	47 ✓	3.49 ✓	12.34 ✓	11 ✓	2.64 ✓	9.65 ✓	36 ✓	3.88 ✓	13.48 ✓
Over 50	Back-office staff	174 ✓	12.94 ✓	45.67 ✓	99 ✓	23.80 ✓	86.84 ✓	75 ✓	8.07 ✓	28.09 ✓
Over 50	Production staff	142 ✓	10.56 ✓	37.27 ✓	1 ✓	0.24 ✓	0.88 ✓	141 ✓	15.18 ✓	52.81 ✓
Over 50	TOTAL	381 ✓	28.33 ✓	100 ✓	114 ✓	27.40 ✓	100 ✓	267 ✓	28.74 ✓	100 ✓
-	TOTAL	1,345 ✓	100 ✓	- ✓	416 ✓	100 ✓	- ✓	929 ✓	100 ✓	- ✓



Employee age	Employment category	Number of employees	Percentage of total workforce	Percentage of total workforce in the age category	Number of women	Percentage of total women	Percentage of total women in the age category	Number of men	Percentage of total men	Percentage of total men in the age category
<b>LOTOS Asfalt</b>										
Below 30	Back-office staff	6 ✓	2.97 ✓	42.86 ✓	3 ✓	7.32 ✓	100 ✓	3 ✓	1.86 ✓	27.27 ✓
Below 30	Production staff	8 ✓	3.96 ✓	57.14 ✓	0 ✓	0 ✓	0 ✓	8 ✓	4.97 ✓	72.73 ✓
Below 30	<b>TOTAL</b>	14 ✓	100 ✓	100 ✓	3 ✓	7.32 ✓	100 ✓	11 ✓	6.83 ✓	100 ✓
30 to 50	Management Board	0 ✓	0 ✓	0 ✓	0 ✓	0 ✓	0 ✓	0 ✓	0 ✓	0 ✓
30 to 50	Senior management	11 ✓	5.45 ✓	6.75 ✓	1 ✓	2.44 ✓	2.86 ✓	10 ✓	6.21 ✓	7.81 ✓
30 to 50	Lower management	12 ✓	5.94 ✓	7.36 ✓	2 ✓	4.88 ✓	5.71 ✓	10 ✓	6.21 ✓	7.81 ✓
30 to 50	Back-office staff	62 ✓	30.69 ✓	38.04 ✓	31 ✓	75.60 ✓	88.57 ✓	31 ✓	19.25 ✓	24.22 ✓
30 to 50	Production staff	78 ✓	38.61 ✓	47.85 ✓	1 ✓	2.44 ✓	2.86 ✓	77 ✓	47.84 ✓	60.16 ✓
30 to 50	<b>TOTAL</b>	163 ✓	80.69 ✓	100 ✓	35 ✓	85.36 ✓	100 ✓	128 ✓	79.51 ✓	100 ✓
Over 50	Management Board	1 ✓	0.50 ✓	4.00 ✓	0 ✓	0 ✓	0 ✓	1 ✓	0.62 ✓	4.55 ✓
Over 50	Senior management	2 ✓	0.99 ✓	8.00 ✓	0 ✓	0 ✓	0 ✓	2 ✓	1.24 ✓	9.09 ✓
Over 50	Lower management	2 ✓	0.99 ✓	8.00 ✓	0 ✓	0 ✓	0 ✓	2 ✓	1.24 ✓	9.09 ✓
Over 50	Back-office staff	5 ✓	2.48 ✓	20.00 ✓	3 ✓	7.32 ✓	100 ✓	2 ✓	1.24 ✓	9.09 ✓
Over 50	Production staff	15 ✓	7.42 ✓	60.00 ✓	0 ✓	0 ✓	0 ✓	15 ✓	9.32 ✓	68.18 ✓
Over 50	<b>TOTAL</b>	25 ✓	12.38 ✓	100 ✓	3 ✓	7.32 ✓	100 ✓	22 ✓	13.66 ✓	100 ✓
-	<b>TOTAL</b>	202 ✓	100 ✓	- ✓	41 ✓	100 ✓	- ✓	161 ✓	100 ✓	- ✓

Employee age	Employment category	Number of employees	Percentage of total workforce	Percentage of total workforce in the age category	Number of women	Percentage of total women	Percentage of total women in the age category	Number of men	Percentage of total men	Percentage of total men in the age category
<b>LOTOS Kolej</b>										
Below 30	Lower management	1 ✓	0.12 ✓	1.05 ✓	0 ✓	0 ✓	0 ✓	1 ✓	0.13 ✓	1.39 ✓
Below 30	Back-office staff	14 ✓	1.68 ✓	14.74 ✓	9 ✓	11.11 ✓	39.13 ✓	5 ✓	0.66 ✓	6.94 ✓
Below 30	Production staff	80 ✓	9.60 ✓	84.21 ✓	14 ✓	17.29 ✓	60.87 ✓	66 ✓	8.78 ✓	91.76 ✓
Below 30	<b>TOTAL</b>	95 ✓	11.40 ✓	100 ✓	23 ✓	28.40 ✓	100 ✓	72 ✓	9.57 ✓	100 ✓
30 to 50	Management Board	0 ✓	0 ✓	0 ✓	0 ✓	0 ✓	0 ✓	0 ✓	0 ✓	0 ✓
30 to 50	Senior management	2 ✓	0.24 ✓	0.41 ✓	1 ✓	1.23 ✓	2.13 ✓	1 ✓	0.13 ✓	0.22 ✓
30 to 50	Lower management	17 ✓	2.04 ✓	3.45 ✓	5 ✓	6.17 ✓	10.64 ✓	12 ✓	1.60 ✓	2.69 ✓
30 to 50	Back-office staff	45 ✓	5.40 ✓	9.13 ✓	19 ✓	23.46 ✓	40.43 ✓	26 ✓	3.46 ✓	5.83 ✓
30 to 50	Production staff	429 ✓	51.51 ✓	87.02 ✓	22 ✓	27.16 ✓	46.81 ✓	407 ✓	54.12 ✓	91.26 ✓
30 to 50	<b>TOTAL</b>	493 ✓	59.19 ✓	100 ✓	47 ✓	58.02 ✓	100 ✓	446 ✓	59.31 ✓	100 ✓
Over 50	Management Board	1 ✓	0.12 ✓	0.41 ✓	0 ✓	0 ✓	0 ✓	1 ✓	0.13 ✓	0.43 ✓
Over 50	Senior management	4 ✓	0.48 ✓	1.63 ✓	1 ✓	1.23 ✓	9.09 ✓	3 ✓	0.40 ✓	1.28 ✓
Over 50	Lower management	9 ✓	1.08 ✓	3.67 ✓	1 ✓	1.23 ✓	9.09 ✓	8 ✓	1.06 ✓	3.42 ✓
Over 50	Back-office staff	26 ✓	3.12 ✓	10.61 ✓	5 ✓	6.18 ✓	45.45 ✓	21 ✓	2.79 ✓	8.97 ✓
Over 50	Production staff	205 ✓	24.61 ✓	83.67 ✓	4 ✓	4.94 ✓	36.36 ✓	201 ✓	26.74 ✓	85.90 ✓
Over 50	<b>TOTAL</b>	245 ✓	29.41 ✓	100 ✓	11 ✓	13.58 ✓	100 ✓	234 ✓	31.12 ✓	100 ✓
-	<b>TOTAL</b>	813 ✓	100 ✓	- ✓	81 ✓	100 ✓	- ✓	752 ✓	100 ✓	- ✓

Employee age	Employment category	Number of employees	Percentage of total workforce	Percentage of total workforce in the age category	Number of women	Percentage of total women	Percentage of total women in the age category	Number of men	Percentage of total men	Percentage of total men in the age category
<b>LOTOS Oil</b>										
Below 30	Back-office staff	20 ✓	6.30 ✓	62.50 ✓	12 ✓	13.04 ✓	100 ✓	8 ✓	3.56 ✓	40.00 ✓
Below 30	Production staff	12 ✓	3.79 ✓	37.50 ✓	0 ✓	0 ✓	0 ✓	12 ✓	5.33 ✓	60.00 ✓
Below 30	TOTAL	32 ✓	10.09 ✓	100 ✓	12 ✓	13.04 ✓	100 ✓	20 ✓	8.89 ✓	100 ✓
30 to 50	Management Board	1 ✓	0.32 ✓	0.47 ✓	0 ✓	0 ✓	0 ✓	1 ✓	0.44 ✓	0.69 ✓
30 to 50	Senior management	5 ✓	1.58 ✓	2.36 ✓	0 ✓	0 ✓	0 ✓	5 ✓	2.22 ✓	3.45 ✓
30 to 50	Lower management	20 ✓	6.31 ✓	9.43 ✓	5 ✓	5.43 ✓	7.46 ✓	15 ✓	6.67 ✓	10.34 ✓
30 to 50	Back-office staff	106 ✓	33.44 ✓	50.00 ✓	46 ✓	50 ✓	68.66 ✓	60 ✓	26.67 ✓	41.38 ✓
30 to 50	Production staff	80 ✓	25.23 ✓	37.74 ✓	16 ✓	17.4 ✓	23.88 ✓	64 ✓	28.44 ✓	44.14 ✓
30 to 50	TOTAL	212 ✓	66.88 ✓	100 ✓	67 ✓	72.83 ✓	100 ✓	145 ✓	64.44 ✓	100 ✓
Over 50	Management Board	0 ✓	0 ✓	0 ✓	0 ✓	0 ✓	0 ✓	0 ✓	0 ✓	0 ✓
Over 50	Senior management	2 ✓	0.63 ✓	2.74 ✓	0 ✓	0 ✓	0 ✓	2 ✓	0.89 ✓	3.33 ✓
Over 50	Lower management	6 ✓	1.89 ✓	8.22 ✓	1 ✓	1.08 ✓	7.69 ✓	5 ✓	2.22 ✓	8.33 ✓
Over 50	Back-office staff	16 ✓	5.05 ✓	21.92 ✓	8 ✓	8.70 ✓	61.54 ✓	8 ✓	3.56 ✓	13.33 ✓
Over 50	Production staff	49 ✓	15.46 ✓	67.12 ✓	4 ✓	4.35 ✓	30.77 ✓	45 ✓	20 ✓	75.00 ✓
Over 50	TOTAL	73 ✓	23.03 ✓	100 ✓	13 ✓	14.13 ✓	100 ✓	60 ✓	26.67 ✓	100 ✓
-	TOTAL	317 ✓	100 ✓	- ✓	92 ✓	100 ✓	- ✓	225 ✓	100 ✓	- ✓

Employee age	Employment category	Number of employees	Percentage of total workforce	Percentage of total workforce in the age category	Number of women	Percentage of total women	Percentage of total women in the age category	Number of men	Percentage of total men	Percentage of total men in the age category
<b>LOTOS - Air BP</b>										
Below 30	Back-office staff	1 ✓	2.27 ✓	9.09 ✓	1 ✓	25.00 ✓	100 ✓	0 ✓	0 ✓	0 ✓
Below 30	Production staff	10 ✓	22.73 ✓	90.91 ✓	0 ✓	0 ✓	0 ✓	10 ✓	25.00 ✓	100 ✓
Below 30	<b>TOTAL</b>	11 ✓	25.00 ✓	100 ✓	1 ✓	25.00 ✓	100 ✓	10 ✓	25.00 ✓	100 ✓
30 to 50	Management Board	1 ✓	2.27 ✓	3.23 ✓	0 ✓	0 ✓	0 ✓	1 ✓	2.5 ✓	3.57 ✓
30 to 50	Senior management	3 ✓	6.82 ✓	9.68 ✓	1 ✓	25.00 ✓	33.33 ✓	2 ✓	5.00 ✓	7.14 ✓
30 to 50	Lower management	3 ✓	6.82 ✓	9.68 ✓	1 ✓	25.00 ✓	33.33 ✓	2 ✓	5.00 ✓	7.14 ✓
30 to 50	Back-office staff	2 ✓	4.55 ✓	6.45 ✓	1 ✓	25.00 ✓	33.33 ✓	1 ✓	2.50 ✓	3.57 ✓
30 to 50	Production staff	22 ✓	50.00 ✓	70.97 ✓	0 ✓	0 ✓	0 ✓	22 ✓	55.00 ✓	78.57 ✓
30 to 50	<b>TOTAL</b>	31 ✓	70.46 ✓	100 ✓	3 ✓	75.00 ✓	100 ✓	28 ✓	70.00 ✓	100 ✓
Over 50	Management Board	0 ✓	0 ✓	0 ✓	0 ✓	0 ✓	- ✓	0 ✓	0 ✓	0 ✓
Over 50	Senior management	0 ✓	0 ✓	0 ✓	0 ✓	0 ✓	- ✓	0 ✓	0 ✓	0 ✓
Over 50	Lower management	1 ✓	2.27 ✓	50.00 ✓	0 ✓	0 ✓	- ✓	1 ✓	2.50 ✓	50.00 ✓
Over 50	Back-office staff	0 ✓	0 ✓	0 ✓	0 ✓	0 ✓	- ✓	0 ✓	0 ✓	0 ✓
Over 50	Production staff	1 ✓	2.27 ✓	50.00 ✓	0 ✓	0 ✓	- ✓	1 ✓	2.50 ✓	50.00 ✓
Over 50	<b>TOTAL</b>	2 ✓	4.54 ✓	100 ✓	0 ✓	0 ✓	100 ✓	2 ✓	5.00 ✓	100 ✓
-	<b>TOTAL</b>	44 ✓	100 ✓	- ✓	0 ✓	100 ✓	- ✓	40 ✓	100 ✓	- ✓

The LOTOS Group employs its senior management according to the profile and requirements of the position. Only candidates best meeting the employment criteria are recruited. Senior management positions include those of director, chief accountant, plant manager and office manager. Senior management positions are often filled by persons selected in an internal recruitment process.

In the case of Grupa LOTOS, 95.2% of senior management staff employed in the Company's main business location were recruited from the local employment market, understood as the Province of Gdańsk.

Pomerania is also the local recruitment market for LOTOS Kolej, for which 100% of its senior staff are from the area.

The companies' key locations are locations where the number of employees represents a significant percentage of the total headcount.

For LOTOS Asphalt and LOTOS Oil, it is the counties where their business is located and neighbouring towns up to 100km away from their business locations which are considered to be their local employment markets. In 2013, both companies run their business in three locations: Southern Poland (Jasło, Czechowice) and Northern Poland (Gdańsk). At LOTOS Asphalt, 100% of staff are recruited from the local communities of the Jasło and Czechowice regions and 82% from Gdańsk. At LOTOS Oil, the indicator is 100% in all locations. Given the nature of LOTOS Paliwa's operations, its management staff are recruited on an as-needed basis

across Poland. At LOTOS Petrobaltic, 40% of the company's senior management is sourced from Gdańsk, where the company is located. LOTOS Geonafra recruits its staff from Gargždai, where it is based, whereas LOTOS Norge, which did not start its operations in 2013, did not report any information. Energobaltic, which is based in Władysławowo, did not analyze where its staff is sourced from last year.

#### Ratio of minimum base pay at Grupa LOTOS to minimum national base pay

/1/	/2/	/3/	/4/	/5/	/6/	/7/	/8/
	Minimum base pay at Grupa LOTOS /all employees/	Minimum base pay at Grupa LOTOS /women/	Minimum base pay at Grupa LOTOS /men/	Minimum national pay	Ratio /2/ to /5/	Ratio /3/ to /5/	Ratio /4/ to /5/
Dec 31 2013	PLN 2,715	PLN 2,715	PLN 3,000	PLN 1,600	170%	170%	188%
Dec 31 2012	PLN 2,500	PLN 2,500	PLN 3,000	PLN 1,500	167%	167%	200%
Dec 31 2011	PLN 2,400	PLN 2,400	PLN 3,000	PLN 1,386	173%	173%	216%

#### Ratio of minimum base pay at LOTOS Kolej to minimum national base pay

/1/	/2/	/3/	/4/	/5/	/6/	/7/	/8/
	Minimum base pay at LOTOS Kolej /all employees/	Minimum base pay at LOTOS Kolej /women/	Minimum base pay at LOTOS Kolej /men/	Minimum national pay	Ratio /2/ to /5/	Ratio /3/ to /5/	Ratio /4/ to /5/
Dec 31 2013	PLN 2,700	PLN 2,700	PLN 2,700	PLN 1,600	169%	169%	169%
Dec 31 2012	PLN 2,657	PLN 2,700	PLN 2,657	PLN 1,500	177%	180%	177%
Dec 31 2011	PLN 2,530	PLN 2,700	PLN 2,530	PLN 1,386	183%	195%	183%

## Ratio of minimum base pay at LOTOS Asphalt to minimum national base pay

/1/	/2/	/3/	/4/	/5/	/6/	/7/	/8/
	Minimum base pay at LOTOS Asphalt /all employees/	Minimum base pay at LOTOS Asphalt /women/	Minimum base pay at LOTOS Asphalt /men/	Minimum national pay	Ratio /2/ to /5/	Ratio /3/ to /5/	Ratio /4/ to /5/
<b>Dec 31 2013 Gdańsk</b>	PLN 3,160	PLN 3,400	PLN 3,160	PLN 1,600	198 %	213 %	198 %
<b>Dec 31 2013 Czechowice- Dziedzice</b>	PLN 2,960	PLN 3,923	PLN 2,960	PLN 1,600	185 %	245 %	185 %
<b>Dec 31 2013 Jasło</b>	PLN 2,400	PLN 4,060	PLN 2,400	PLN 1,600	150 %	245 %	150 %
<b>Dec 31 2012 Gdańsk</b>	PLN 2,800	PLN 2,800	PLN 3,000	PLN 1,500	187 %	187 %	200 %
<b>Dec 31 2012 Czechowice- Dziedzice</b>	PLN 2,500	PLN 3,763	PLN 2,500	PLN 1,500	167 %	251 %	167 %
<b>Dec 31 2012 Jasło</b>	PLN 1,976	PLN 1,976	PLN 2,000	PLN 1,500	132 %	132 %	133 %
<b>Dec 31 2011 Gdańsk</b>	PLN 3,190	PLN 3,500	PLN 3,190	PLN 1,386	230 %	253 %	230 %
<b>Dec 31 2011 Czechowice- Dziedzice</b>	PLN 2,750	PLN 3,583	PLN 2,750	PLN 1,386	198 %	259 %	198 %
<b>Dec 31 2011 Jasło</b>	PLN 1,500 *	PLN 1,568	PLN 1,500	PLN 1,386	108 %	113 %	108 %

## Ratio of minimum base pay at LOTOS Oil to minimum national base pay

/1/	/2/	/3/	/4/	/5/	/6/	/7/	/8/
	Minimum base pay at LOTOS Oil /all employees/	Minimum base pay at LOTOS Oil /women/	Minimum base pay at LOTOS Oil /men/	Minimum national pay	Ratio /2/ to /5/	Ratio /3/ to /5/	Ratio /4/ to /5/
<b>Dec 31 2013 Gdańsk</b>	PLN 2,700	PLN 2,700	PLN 3,030	PLN 1,600	169%	169%	189%
<b>Dec 31 2013 Czechowice- Dziedzice</b>	PLN 2,652	PLN 2,906	PLN 2,652	PLN 1,600	166%	182%	166%
<b>Dec 31 2013 Jasło</b>	-	-	-	-	-	-	-
<b>Dec 31 2012 Gdańsk</b>	PLN 2,760	PLN 3,402	PLN 2,760	PLN 1,500	184%	227%	184%
<b>Dec 31 2012 Czechowice- Dziedzice</b>	PLN 2,491	PLN 2,745	PLN 2,491	PLN 1,500	166%	183%	166%
<b>Dec 31 2012 Jasło</b>	PLN 2 413	PLN 3,247	PLN 2,413	PLN 1,500	161%	216%	161%
<b>Dec 31 2011 Gdańsk</b>	PLN 2,732	PLN 3,240	PLN 2,372	PLN 1,386	197%	234%	197%
<b>Dec 31 2011 Czechowice- Dziedzice</b>	PLN 2,372	PLN 2,614	PLN 2,372	PLN 1,386	171%	189%	171%
<b>Dec 31 2011 Jasło</b>	PLN 2,298	PLN 3,092	PLN 2,298	PLN 1,386	166%	223%	166%

### Ratio of minimum base pay at LOTOS Paliwa to national minimum base pay

/1/	/2/	/3/	/4/	/5/	/6/	/7/	/8/
	Minimum base pay at LOTOS Paliwa /all employees/	Minimum base pay at LOTOS Paliwa /women/	Minimum base pay at LOTOS Paliwa /men/	Minimum national pay	Relacja /2/ to /5/	Ratio /3/ to /5/	Ratio /4/ to /5/
Dec 31 2013	PLN 2,760	PLN 2,760	PLN 2,760	PLN 1,600	172,50%	172,50%	172,50%
Dec 31 2012	PLN 2,760	PLN 2,760	PLN 2,898	PLN 1,500	184%	184%	189%
Dec 31 2011	PLN 2,665	PLN 2,665	PLN 2,760	PLN 1,386	192%	192%	199%

### Ratio of minimum base pay at LOTOS Petrobaltic to national minimum base pay

/1/	/2/	/3/	/4/	/5/	/6/	/7/	/8/
	LOTOS Petrobaltic /all employees/	Minimum base pay at LOTOS Petrobaltic /women/	Minimum base pay at LOTOS Petrobaltic /men/	Minimum national pay	Ratio /2/ to /5/	Ratio /3/ to /5/	Ratio /4/ to /5/
Dec 31 2013	PLN 3,064	PLN 3,064	PLN 4,000	PLN 1,600	1,92	1,92	2,5
Dec 31 2012	PLN 3,000	PLN 3,000	PLN 3,500	PLN 1,500	200%	200%	233%
Dec 31 2011	PLN 2,500	PLN 2,500	PLN 2,500	PLN 1,386	180%	180%	180%

### Ratio of minimum base pay at LOTOS Geonafta to national minimum base pay in Lithuania

/1/	/2/	/3/	/4/	/5/	/6/	/7/	/8/
	Minimum base pay at LOTOS Geonafta /all employees/	Minimum base pay at LOTOS Geonafta /women/	Minimum base pay at LOTOS Geonafta /men/	Minimum national pay	Ratio /2/ to /5/	Ratio /3/ to /5/	Ratio /4/ to /5/
Dec 31 2013	1,000 LTL	1,950 LTL	1,000 LTL	1,000 LTL	100%	195%	100%
Dec 31 2012	910 LTL	910 LTL	2,486 LTL	850 LTL	107%	107%	292%
Dec 31 2011	910 LTL	910 LTL	2,810 LTL	800 LTL	114%	114%	351%



### Ratio of minimum base pay at Energobaltic to national minimum base pay

/1/	/2/	/3/	/4/	/5/	/6/	/7/	/8/
	Minimum base pay at Energobaltic /all employees/	Minimum base pay at Energobaltic /women/	Minimum base pay at Energobaltic /men/	Minimum national pay	Ratio /2/ to /5/	Ratio /3/ to /5/	Ratio /4/ to /5/
<b>Dec 31 2013</b>	PLN 3,585	PLN 3,880	PLN 3,585	PLN 1,600	243 %	224 %	242 %
<b>Dec 31 2012</b>	PLN 3,465	PLN 3,780	PLN 3,465	PLN 1,500	231 %	252 %	231 %
<b>Dec 31 2011</b>	PLN 3,300	PLN 3,600	PLN 3,300	PLN 1,386	238 %	259 %	238 %

The indicator does not apply to LOTOS Norge. According to Norwegian law, there is no minimum pay. Additionally, the company employs only highly qualified personnel in independent positions.

## Statement by Jarosław Józwiak

Occupational Safety and Health Office Head, Grupa LOTOS, CSR Strategy Leader in the Improvement of Health and Safety area.



Occupational safety has long been a cornerstone of all business activities pursued by the LOTOS Group. Our employees perform particularly hazardous work, in workshops, at active production units, on offshore rigs, in chemical laboratories, or on railway tracks. Therefore, we treat occupational safety as our priority and make every effort to ensure safety at work, especially by implementing solutions which go beyond the legal requirements and draw on the world's best practices. Their effectiveness was recognised with an award we received in 2011 from Poland's Chief Labour Inspector in the nationwide "Employer – Provider of Safe Work" competition.

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Awareness of workplace hazards is the basis of their prevention, and therefore better awareness can improve workplace safety at the LOTOS Group. This must be always borne in mind not only by employees directly involved in the OSH area, but also other staff performing their routine work on site.

We must remember that an organization with a highly developed safety culture is characterised by trust-based communication. Accordingly, in addition to an appropriate work environment and solutions protecting staff from workplace hazards or accidents, safety at work involves primarily the development of a safety culture and responsible approach to occupational safety and health by all employees. In a company with a well-developed safety culture, workplace safety should be given the highest priority, staff should have confidence in the safety measures protecting them against various workplace hazards, and each employee should feel personally responsible for safety at work on a daily basis.

Being aware that occupational safety and health is an area for continuous improvement, the LOTOS Group's OSH team are consistently striving to ingrain the OSH rules and guidelines in the minds of our employees, contractors, and visitors.

### Jarosław Józwiak

Occupational Safety and Health Office Head,  
Grupa LOTOS, CSR Strategy Leader in the  
Improvement of Health and Safety area

There are two ways to enhance knowledge and awareness. The first method is based on employee education and commitment, while the second focuses on senior, middle and lower management, who are responsible for ensuring safe work conditions to all employees and for encouraging their commitment to developing a safe work culture.

At LOTOS, we make use of both these methods. Examples of measures targeted at LOTOS Group employees include the Occupational Safety and Health Day and educational programmes promoting safe work practices and the importance of reporting workplace hazards to supervisors. For our management staff, we implement a number of incentive and involvement projects, including training sessions and meetings focusing on occupational safety and health as an

important area of management. By working closely with contractors and undertaking a number of initiatives in the area of safety, the LOTOS Group improves, both directly and indirectly, the standards of safe work also for its contractors and their subcontractors.

In 2013, the 'Spring 2013 Overhaul Shutdown' was carried out at the Grupa LOTOS refinery. It was a very challenging time for us, as the preparation and execution of a major overhaul is a complex project from the logistics, technical and operational perspectives. More than 2 thousand contractors were carrying out complex checks, repairs, maintenance or construction work at the same time, in the same small place. Safety at work was one of the priorities of the project. Based on the lessons learned from previous overhauls and installation of new plant and equipment, but also from daily observation of contractors performing their maintenance work at active production units, we prepared OSH Guidelines for the 'Spring 2013 Overhaul Shutdown'. The Guidelines contained provisions on how to perform various works during the challenging shutdown period. They often referred to existing procedures and instructions, but on a more detailed level, and also introduced new requirements applicable only during the shutdown. One example of such temporary measures were weekly meetings with the work managers and representatives of OSH services of individual contractors, at which we discussed dangerous incidents and situations reported in the preceding week, to ensure they are prevented in the future.

Prior to the overhaul shutdown, we also held many meetings with contractors, organised training sessions, and assessed proposed work instructions, especially those relating to work in confined spaces where, the risk of workplace hazards is high. All the above (and many other) measures were implemented in the best interest of each employee. Our OSH services performed on-site checks and offered advice on how to perform works in a safe manner. Additional support was provided by OSH services of our contractors participating in the maintenance works.

We want to make sure our employees and contractors remain interested in occupational safety and health, and we must keep abreast of the changing legal regulations. We are full of new ideas for interesting OSH projects. Obviously, they can be put into practice only within our own corporate social responsibility policy, in cooperation with and with the involvement of all employees. We will continue to do our best to make sure that all employees, contractors and visitors at the LOTOS Group feel safe on our premises. We want them to take care of their health, participate in our OSH initiatives, educational projects and training, make use of available consultancy and advice, and report any issues in the area of work safety so we can resolve them on an ongoing basis.

# Occupational safety

✓ - data has been verified

[See full text of the Independent Assurance Report >](#)

In order to provide optimum occupational safety and health conditions, we spare no effort to maintain our current safety levels and to continuously raise the bar on our OSH standards, and we do our best to systematically improve our performance in this area.

These objectives are advanced by ensuring that:

- Workplaces are properly organised,
- Environmental surveys are performed on a regular basis,
- The best possible precautions are applied with respect to technical processes and people's health,
- The man-machine-environment hazard identification and risk assessment system is enhanced on an ongoing basis,
- Consulting, oversight and inspection tasks are consistently implemented,
- Hands-on training sessions and workshops are held to improve our employees' professional skills,
- Employee awareness and commitment are raised to achieve a culture of safe work.

We have for years followed the principle that building the awareness and commitment of both management and staff, promoting their culture and sense of occupational safety, and promoting appropriate attitudes and behaviour under normal working conditions and in crisis situations is the key factor in maximising the effects of the occupational safety system in place at the LOTOS Group.

We try to raise the workplace safety awareness by:

- Training and other development initiatives for employees,
- Education on OSH-related matters,
- Encouraging staff's involvement in developing and implementing the corporate OSH policy,
- Advisory, practical support and partnership.

As part of our Corporate Social Responsibility strategy, **we undertake initiatives aimed at promoting cooperation with third-party stakeholders**. Such initiatives include:

- Cooperation with a view to improving occupational safety in the oil and gas industry, in accordance with the declaration signed at the General Labour Inspectorate in 2011 by Grupa LOTOS and other sector companies,
- Joint, regular exercises involving response to crisis situations (industrial failures) and evacuation, performed together with external units of the National Fire Service and Police,
- Sharing OSH experience with representatives of other companies,
- Cooperation with research institutions, e.g. through a project of learning from actual events occurring at the refineries of Statoil and Grupa LOTOS,
- Participation in external conferences in the role of speakers promoting a culture of occupational safety culture and sharing their experience,
- Participation in competitions organised by such institutions as the State Labour Inspection Authority, the Central Institute for Labour Protection, and the Polish National OSH Association.

We are committed to ensuring the safety of our visitors and contractors. Considering that we are involved in multifaceted projects, and given the pace of related construction and assembly work and the number of external contractors' staff performing services on our premises, there is a permanent need to raise the

workers' awareness regarding such issues as correct behaviour, workplace safety and compliance with our internal Occupational Health and Safety and Fire Protection requirements. The OSH services of the LOTOS Group and representatives of external contractors exercise supervision over the ongoing repair, maintenance and construction works. Our representatives are present at work sites to offer advice, especially to supervisors appointed by the Company or by the contractors.

Our agreements with contractors contain clauses under which they are required to respect the applicable occupational safety rules and regulations, as well as other requirements and standards applicable on our premises. In this way, the contractors' undertaking to protect the rights of their staff becomes a prerequisite condition for the performance of contracts. During regular OSH inspections and audits performed at the refinery, we check whether the OSH regulations are being adhered to by contractors, and thus whether human rights are being observed in the relations between employees, employers and the LOTOS Group. Those activities are an essential part of risk management. Each on-site check of whether external contractors are observing employee rights has a bearing on our further relations and is also reflected in the annual assessment of contractors, where safety at work, protection of health, and respect for human rights are among the key criteria.

Thanks to strictly enforced compliance with the national OSH regulations and our internal standards applicable to work performed at the facilities of the LOTOS Group:

- Employees have a better chance that legal requirements pertaining to their safety will be met by contractors, who at our facilities are obliged to meet work safety standards beyond the mandatory,
- Contractors have to provide their employees with the necessary collective and personal protection equipment, including protective workwear appropriate to the hazards identified at the refinery,
- Contractors must properly cooperate with their subcontractors, for whom they are as responsible at the LOTOS Group's sites as for their own employees,
- Our OSH training, the sharing of work safety standards with contractors and assessments performed during inspections of their compliance with our OSH rules result in increased awareness of and improved ability to correctly identify threats and employ safe work methods.

As a result of the opportunities our contractors are offered, after their work for us is completed, they will have aware and committed employees, who are more alert to potential hazards at work, and take more care to ensure workplace safety. Such cooperation involving the transfer of requirements, knowledge and best practices results in lower accident rates, incidence of occupational diseases, and sickness absence among the contractors' employees, which brings them measurable financial benefits in the form of lower social security contributions or a reduction in the cost of post-accident compensation.

As a socially responsible business, the LOTOS Group benefits from investments in OSH, which:

- Improve working conditions,
- Minimise the number of accidents at work,
- Reduce accident rates, including LTIF,
- Reduce costs related to accidents at work and occupational diseases,
- Eliminate burdensome, harmful and dangerous factors in the workplace,
- Eliminate threats and any irregularities which may arise,
- Raise personnel's awareness and commitment,
- Improve personnel's skills and qualifications,
- Increase employee satisfaction,
- Reduce operating costs and work disruption costs,
- Increase investors' and insurers' confidence,
- Increase employees' confidence in the employer,
- Strengthen the brand's image and value,
- Improve the Company's reputation,
- Reduce potential exposure to criminal or civil litigation, and
- Allow the Company to match the benchmarks set by HSE leaders in the refinery sector.

In accordance with our business and CSR strategy, safety at work and employee health protection are priorities for the LOTOS Group, with respect to both our employees and the employees of our cooperating partners. Particular attention is given to efforts aimed at maintaining high safety standards, minimising risks and reducing accident rates.

A major challenge for us is to raise the awareness of how important it is to demonstrate personal commitment to compliance with OSH standards, in particular in the case of the middle management's interactions with subordinate employees, who watch their behaviour. Increasing the awareness and commitment of the management staff and other employees is a priority, being one of the key determinants of a company's accident rate.

As we work closely together with the OSH teams of the LOTOS Group companies, every year goals and targets are set aimed at improving safety at work, adopting uniform standards across the LOTOS Group, and sharing expertise and experience between the OSH specialists.

**The key objective in our OSH approach is to raise the awareness and degree of involvement in improving safety among the management and employees of all ranks, as well as contractors.**

In 2013, we pursued this objective through:

- Introduction of a system of quarterly OSH goals for the LOTOS Group companies,
- Cross-checking of workplace safety standards at the LOTOS Group companies operating in Poland,
- Information and education campaigns promoting workplace safety and health prophylaxis,
- Preparing grounds for the Board's decision to include an OSH criterion in the Periodic Employee Evaluation System,
- Developing an electronic database from the monitoring of accidents at work and dangerous situations at the LOTOS Group,
- Drafting educational materials concerning accidents and safety threats at work,
- Internal training sessions for the LOTOS Group management, designed to remind them of their OSH responsibilities and duties conducted by a specialised training centre,
- OSH workshops for employees, covering the rules for handling AED defibrillators, extinguishing fires using fire-fighting equipment and giving first aid as well as reacting appropriately in emergency situations.

We are involved in a number of initiatives, beyond those mandatorily required, designed to promote occupational health and safety and disease prevention in a manner which our employees find engaging and attractive. In 2013, we:

- Organised the **4th Occupational Safety and Health Day** accompanied by an eyesight awareness event, during which the employees had an opportunity to be tested for ocular diseases, have their sight defects checked using state-of-the-art ophthalmologic equipment, and consult a specialist doctor. Based on the results of the tests, a report on employee health was prepared covering ocular diseases and eyesight loss prevention.
- **Selected the safest production plant of Grupa LOTOS and the safest LOTOS Group company – in 2012, the titles were awarded to the Lube Oil Complex and LOTOS Petrobaltic, respectively.**
- Carried out a campaign promoting occupational health and safety as part of the **Occupational Safety and Health Promotion Schedule**, with each month devoted to a different health-related issue. To further this campaign, we also published brochures on spinal disorders, diabetes, sight and hearing defects and viral hepatitis.
- **Organised safe driving classes** for employees who make frequent business trips because of their duties related to management of the LOTOS service station chain.
- **Identified threats and assessed occupational risks related to specific workstations** by carefully checking and evaluating workplace factors which could potentially harm or injure employees. Such systematic assessment allows us to continuously monitor whether threat mitigation measures applied at a specific station are adequate, and to determine what steps need to be taken to ensure successful threat mitigation.
- **Made employees aware of chemical hazards** every time a new chemical substance is introduced to the workplace. Our constantly updated electronic record stores Safety Data Sheets and information on LOTOS products and chemicals purchased for the Company's needs. This solution enables almost immediate retrieval of information on chemicals by employees who come into contact with such substances while performing their duties.
- **Implemented a pilot Lockout-Tagout (LOTO) safety system for blocking the flow of hazardous energies and marking blockages of energy** at selected Grupa LOTOS production units. The system is aimed at preventing an accidental start-up of the installations by an unauthorised person during maintenance or servicing works carried out on them and its objective is to protect people who happen to be in their surroundings and the surroundings themselves from uncontrolled release of energy from the production unit installations.

Every year, we monitor the health of our employees, while also providing them with preventive medical care in line with applicable laws. We place strong emphasis on prevention and education, by means of training, awareness and prophylactic initiatives designed to minimise the consequences of diseases which may affect our staff.

## Occupational Health and Safety Committee

An **Occupational Health and Safety Committee (OHS Committee)** operates at Grupa LOTOS, serving as an advisory and consultative body to the employer. In accordance with the labour law, the committee is composed of employer representatives, workforce representatives (selected by trade unions active at the Company) and an occupational physician. The Committee reviews working conditions, evaluates the status of occupational safety and advises on measures taken by the employer to prevent accidents at work and occupational diseases.

In 2013, the OHS Committee was involved in a review of the working conditions at the Hydrogen and Sulphur Production Complex of Grupa LOTOS, as well as consultations on:

- occupational risk scorecards for individual positions at the Company,
- the content of updated internal regulations and rules, including implementing the rules governing the operation of the First-Aid Rescue Team, the establishment of first-aid dispensary posts and rules for performing works based on written permits.

In the existing legal environment, both Polish and EU legislators point to dialogue, understood as organised exchange of information and opinions, as the only acceptable channel of workforce influence over occupational safety matters. The dialogue takes the form of OSH consultations. In accordance with an internal regulation in place at Grupa LOTOS, employees and their representatives are able to participate in OSH consultations by getting to know, discussing, commenting and presenting their proposals on matters at hand. Consultations are carried out with respect to matters which may pose an immediate threat to the workforce's safety and occupational hazards which the employees requested to be eliminated or limited. The area is regulated by internal measures, procedures, orders and instructions, which are always first subject to employee consultations. At present, there are 8 regulations and 15 procedures and instructions in place at Grupa LOTOS to ensure workplace safety.

## Accident rates

Both strategies pursued by the LOTOS Group, i.e. its business strategy and corporate social responsibility strategy, posit the achievement of specific LTIF rates. The LTIF rate measures the number of accidents at work per million hours worked. In 2013, the LOTOS Group's LTIF rate stood at 4.4 – a total of 39 accidents were recorded, of which 35 required medical leave. Approximately 40% of all accidents recorded at the organization in 2013 happened when employees were moving on foot; these included mostly stumblings and slippings.

Those accidents could have been avoided if the employees had exercised more caution. Accidents of this type are difficult to prevent – the employer has little ability to limit their occurrence beyond educating and raising the general safety awareness of staff. An additional analysis was undertaken to identify the causes of accidents, revealing that nearly 60% of them were directly attributable to human error, while technical and organizational factors accounted for approximately 20% of the total.

Accidents recorded at the LOTOS Group in 2013 were mainly caused by:

- Inappropriate employee behaviour consisting of e.g. crossing the road or driving where it is banned, entering potentially dangerous areas without making sure if they are safe, etc.;
- Loss of balance or insufficient focus on the task at hand especially when moving around;
- Infrequent reporting of irregularities at the workplace. If dangerous situations are not reported, the employer may be unable to remove the related hazards;
- Routine or rushed approach to work compromising vigilance against potential hazards at the workplace;
- Lack or improper use of personal and collective protection measures by employees;
- Incorrectly organised workstations;
- Incorrect general organisation of work;
- Atypical construction of certain technical components, latent defects of equipment used.



## Accidents at work

Grupa LOTOS	2011	2012	2013
<b>Number of employees <sup>(1)</sup></b>	1,318	1,323	1,344 ✓
<b>Accidents at work, including:</b>	5	13 <sup>(2)</sup>	12 ✓
Women	No data available <sup>(3)</sup>	2	1 ✓
Men	No data available <sup>(3)</sup>	11	11 ✓
<b>Post-accident absenteeism (calendar days) <sup>(4)</sup>, including:</b>	168	253	302 ✓
Women	No data available <sup>(3)</sup>	28	11 ✓
Men	No data available <sup>(3)</sup>	225	291 ✓
<b>Occupational diseases</b>	None	None	None ✓
<b>Lost Time Injury Frequency (LTIF) <sup>(5)</sup> (per 1 million hours worked)</b>	2.1	4.3	4.5 ✓
<b>Lost Day Rate (LDR) <sup>(6)</sup> (per 200,000 hours worked)</b>	0.42	0.9	0.9 ✓
LOTOS Group <sup>(7)</sup>	2011	2012	2013
<b>Number of employees <sup>(1)</sup></b>	5,004	4,795	4,773 ✓
<b>Accidents at work, including:</b>	31	34	39 <sup>(8)</sup> ✓
Women	No data available <sup>(3)</sup>	5	7 ✓
Men	No data available <sup>(3)</sup>	29	32 ✓
<b>Post-accident absenteeism (calendar days) <sup>(4)</sup>, including:</b>	1,826	1,651 <sup>(9)</sup>	1,238 ✓
Women	No data available <sup>(3)</sup>	196	174 ✓
Men	No data available <sup>(3)</sup>	1,455	1,064 ✓
<b>Occupational diseases</b>	None	None	None ✓
<b>Lost Time Injury Frequency (LTIF) <sup>(5)</sup> (per 1 million hours worked)</b>	3.3	3.3	4.4 ✓
<b>Lost Day Rate (LDR) <sup>(6)</sup> (per 200,000 hours worked)</b>	0.7	0.7	0.9 ✓

(1) Average number of employees at companies reporting OSH metrics.

(2) Including 1 accident treated as an accident at work.

(3) Data collected since 2012.

(4) Lost days are counted from the day when medical leave is taken.

(5) LTIF – number of occurrences resulting in inability to work  $\times 10^6$  / number of hours worked.

(6) LDR – number of occurrences resulting in inability to work  $\times 2 \times 10^5$  / number of hours worked.

(7) Companies reporting OSH metrics: Grupa LOTOS, LOTOS Asphalt, LOTOS Kolej, LOTOS Lab, LOTOS Oil, LOTOS Serwis, LOTOS Straż, LOTOS-Air BP, LOTOS Ochrona, LOTOS Paliwa, LOTOS Infrastruktura, LOTOS Terminale, RCEkoenergia, LOTOS Biopaliwa, LOTOS Petrobaltic.

(8) In 2013, the LOTOS Group recorded 39 accidents at work (including 5 accidents treated as accidents at work), with medical leave taken in 36 cases.

(9) Including 380 days of absence due to accidents which occurred in 2011.

In 2013, no severe, group or fatal accidents or confirmed occupational diseases were recorded at the LOTOS Group.

## Challenges in strategy implementation until 2015

- Implementation of the Lockout-Tagout safety system for certain types of work at active production units of Grupa LOTOS.
- Introduction of the fundamental HSE standards aimed at shaping proper conduct among the employees and contractors.
- Implementation of a revised work permit system with the use of IT tools as part of the overall improvement measures.
- Promotion of workplace safety by organising an annual Occupational Safety and Health Day and encouraging employee participation.
- Provision of OSH workshops to administration and office staff.
- Implementation of a workstation self-check system based on thematic checklists.
- Perfectioning of an electronic tool for monitoring the work safety system at the organization – the OSH Portal.
- Modification of the programme of exercises teaching employees how to react to accidents at work, chemical hazard alerts and evacuation, and conduct of emergency drills using simulated threats.
- Development of a methodology for calculating accident costs taking into account technical, organisational and human causes.

## Development prospects until 2020

- Implementation of periodic and additional OSH training based on e-learning tools, with practical training sessions.
- Implementation of a learning project based on actual incidents occurring at Grupa LOTOS and other companies around the world
- Adoption of uniform occupational health and safety standards across the LOTOS Group.
- Revision of OSH and fire safety requirements and standards for contractors.
- Continuation of training and preventive programmes regarding workplace safety and health protection, including implementation of new educational projects.
- Development of a work safety culture centred around the commitment of management, lower-tier staff and contractors working with the Company.
- Cooperation with international HSE corporations and consultants with the view to promoting and implementing world best HSE practices.
- Occupational safety best practice benchmarking.

# Intellectual capital



## Intellectual capital of Grupa LOTOS

- Intangible resources associated with the LOTOS brand.
- Intangible resources associated with the LOTOS Group's reputation.
- Intangible resources associated with product brands and trademarks.
- Intangible resources based on staff's expertise and competence.
- Management systems, internal procedures, policies.
- Intellectual property.

Our objectives in the management of intellectual capital:

- Enhance the LOTOS brand value.
- Raise the awareness of LOTOS as a socially responsible brand.
- Get across to capital market participants the message that corporate social responsibility is perceived by the LOTOS Group as an essential part of its corporate management.
- Continually develop staff's qualifications.
- Improve corporate management by ensuring transparency of the business processes and protecting the organization against the risk of irregularities that may threaten its operations.

Key activities:

- Incorporating solutions and technologies developed outside the organization – by acquiring patents, licences and know-how, liaising with academic communities and forming strategic alliances between businesses;
- Product, process, marketing and organizational innovations;
- Comprehensive staff development programmes;
- R&D activities.
- Wide-ranging assessment of organizational maturity.

Results:

LOTOS brand value in excess of PLN 1 billion

Introduction of innovative technology, product and management solutions which bring down costs, mitigate the Company's adverse impact on its environment, help achieve anticipatory compliance with stringent legal requirements, improve customer satisfaction and optimise processes

Highly qualified staff prepared to implement advanced technologies and apply the best available operational practices. At Grupa LOTOS, 57% of employees have a university diploma, and 1% hold a PhD degree

Own product and technological patents

Growth of the intellectual capital in regions where the Company maintains long-term relationships with higher education institutions, which have been granted PLN 1.2m on scholarships and awards for 234 undergraduate and doctoral students, and with secondary schools, where submissions to the 'Jasło Science League with LOTOS' in 2013 included 91 R&D projects

## Statement by Anna Goliszewska

Brand Management Office Director, Grupa LOTOS, CSR Strategy Leader in the Market Partnership to Raise LOTOS Brand Awareness area



” In modern economy, a company's value is derived not only from its ability to generate earnings, but also from how it is perceived by its external and internal stakeholders. That is why an approach to corporate social responsibility is now increasingly used as one of the variables in a company's overall assessment, with intangible assets contributing as much as 50% of the company's value. These may include assets which drive up the company's market value, such as patents, utility models, know how and technologies, but also strong brand, wide customer base, sound relationships with stakeholders, all kinds of strategic partnerships and professional approach to CSR. According to current estimates, brand values may account for as much as a third of the global wealth. A strong brand is a valuable corporate asset, playing an important part as a source of permanent competitive advantage and value growth.

In modern economy, a company's value is derived not only from its ability to generate earnings, but also from how it is perceived by its external and internal stakeholders. That is why an approach to corporate social responsibility is now increasingly used as one of the variables in a company's overall assessment, with intangible assets contributing as much as 50% of the company's value. These may include assets which drive up the company's market value, such as patents, utility models, know how and technologies, but also strong brand, wide customer base, sound relationships with stakeholders, all kinds of strategic partnerships and professional approach to CSR. According to current estimates, brand values may account for as much as a third of the global wealth. A strong brand is a valuable corporate asset, playing an important part as a source of permanent competitive advantage and value growth.

Higher shareholder value is delivered by companies with strong brands, but also those associated with positive CSR performance, fair treatment of employees and good offering for customers. Responsible CSR activities combined with capable management of customer relationships and community outreach initiatives may yield measurable benefits to the company, by strengthening its reputation and image. Promoting the perception of LOTOS as a socially responsible brand is one of the key efforts we take to position LOTOS on the market.

We seek to support every area of the LOTOS Group's activities, be they of strategic importance, such as the recent 10+ and the currently pursued 2013-2015 Effective and Rising programmes, or non-strategic outreach and sports projects, with an advertising drive. We take advantage of the brand promotion as an occasion to communicate our community-oriented and sports projects, such as 'In Search for the Champion's Successors – LOTOS Cup' in ski jumping, to the general public. We try to use the title sponsor strategy, which additionally weaves the brand into the emotions accompanying a given event. The advertising campaign run in 2013 around the image of world-class rally driver Robert Kubica was also aimed to highlight our involvement in the support of sports, building an association between the LOTOS brand and the spirit of fair play. With equal consistency, we engage in the promotion of product brands, by linking the respective brand messages with areas of our core expertise as an oil company. The effects of our image building efforts are reflected in a concrete financial

#### Anna Goliszewska

Brand Management Office Director, Grupa LOTOS, CSR Strategy Leader in the Market Partnership to Raise LOTOS Brand Awareness area

metric, i.e. the value of the LOTOS brand. As at the end of 2013, it was estimated at over PLN 1bn according to a ranking prepared by the Rzeczpospolita daily, which means a cumulative growth of more than 500% since 2007.

Another important measure of the brand condition is our proprietary brand equity index based around four crucial assets, including brand awareness, attitudes, knowledge and image. In 2013, we recorded a 6% rise in the brand equity metric. In monitoring the progress of our CSR strategy, we also measure the socially responsible brand index, defined by three variables reflecting the LOTOS Group's CSR commitment, which include the perception of LOTOS as an environmentally-minded business, supporting culture and engaging in community outreach projects. In 2013, we posted a 30% rise in this measure of the brand's social capital.

Our efforts to enhance brand value were recognised by the Business Superbrand 2013 title in the seventh reiteration of a programme designed to select Poland's strongest brands. Grupa LOTOS received the award again in the corporate brand category.

# Intangible resources

✓ - data has been verified

[See full text of the Independent Assurance Report](#)

## Brand

In the LOTOS Group strategy for 2011-2015, along with the development directions until 2020, the fostering of a strong LOTOS brand and distinctive brand image is named as a key element of corporate management. All individual product brands are subordinated to the corporate brand strategy, which is consistent with the business strategy of Grupa LOTOS.

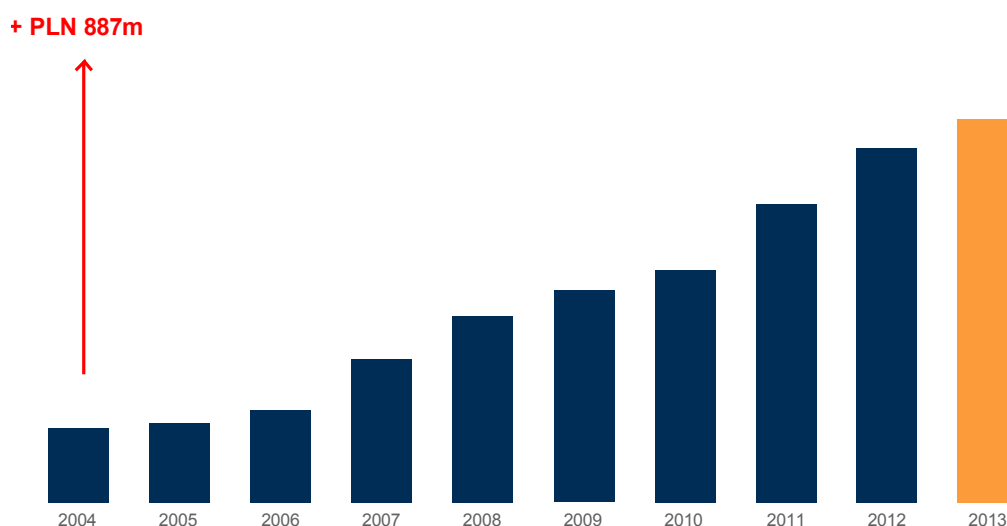
Our strategic goal is to enhance the LOTOS brand value by building its image as a brand which:

- Relies on the key values of state-of-the-art solutions, development and partnership,
- Has an international presence,
- Represents top quality products,
- Is socially responsible.

Fostering the image and strength of the LOTOS brand is one of the priorities for Grupa LOTOS. Efforts are always being made to increase the brand awareness and to position Grupa LOTOS as an organization recognised for its professional management style that builds on its quality, innovation, environmental awareness and security.

In the 10th edition of Poland's Most Valuable Brands ranking, published by the Rzeczpospolita daily in 2013, the LOTOS brand was valued at PLN 1,107.3m. Since the ranking's inception in 2004, its value has risen by PLN 887m. Last year, LOTOS was ranked 9th among the 330 brands covered by the listing, driven by our consistent efforts, our mindset focused on maximising the brand's strength, and our innovative approach to image building, which have helped forge lasting relationships with our customers.

Value of the LOTOS brand (PLNm)



Source: Rzeczpospolita daily, December 2013.

The following rules are applied in the overall management of corporate brand strategy, product brands, promotion strategies, value creation, creation of the desired image of the LOTOS brand, advertising, promotion and sponsorship activities, as well as the marketing research of the LOTOS Group:

- Compliance with applicable laws,
- Avoidance of deliberate harm or damage,
- Accountability,
- Education, professional background and experience of personnel put to good use.

We conduct our operations without using any discriminatory or controversial content that might offend certain social groups or abuse the trust of recipients of our communications, and without inciting negative emotions. These rules complement the applicable laws and regulations, which include the Constitution of the Republic of Poland and the following Polish Acts: the Civil Code, the Act on Combating Unfair Competition, the Press Law Act, the Radio and Television Act, the Act on Protection of Certain Consumer Rights, the Act on Provision of Electronic Services, the Act on Personal Data Protection, the Act on Copyrights and Neighbouring Rights, and the Act on Industrial Property.

In our sponsorship efforts, we adhere to standards spelled out in voluntary codes of conduct, e.g. those published by business organizations. As a member of the Polish Confederation of Private Employers Lewiatan, we engage in sponsorship activities in a manner compliant with the code of ethics drawn up by that body. All our sponsorship contracts are transparent and clear, and precisely identify all stakeholders and obligations. We do not engage in any events which might cause damage to objects or facilities of historic or artistic value, or events which could have an adverse environmental impact. We observe the guidelines set out in the Culture Sponsorship Code - an initiative of the National Centre for Culture, the PKPP Lewiatan association of employers and the Warsaw Stock Exchange. The quality of our communications with the market is also subject to the standards of conduct defined in the LOTOS Group's Code of Ethics.

The above corporate practices in the area of marketing communications are applicable to Grupa LOTOS and all its marketing companies, i.e. those companies which, given their business profiles, target communications regarding their products and services at wider audiences. LOTOS Oil and LOTOS Paliwa, which are responsible for product brand communications, have adopted their own supplementary regulations.

At LOTOS Paliwa, the development of marketing content and standards of conduct, including standards of communication with customers, are regulated by the following documents:

- Communication and Positioning Strategy for the LOTOS and LOTOS Optima Service Stations,
- Communication and Positioning Strategy for the LOTOS Dynamic brand,
- Strategy of Sponsorship and MotorSports Involvement.

LOTOS Oil and LOTOS Paliwa, in their marketing communication activities, including advertising, promotion and sponsorship, adhere (on a voluntary basis) to the standards of the Code of Ethics in Advertising, developed by the Polish Board of Advertising and the Polish Advertising Standards Committee. Due to the specific nature of the market on which LOTOS Asphalt and LOTOS Kolej are present, the companies have not implemented separate procedures for marketing communications.

In 2013, no cases of inconsistencies in the promotional and advertising activities with the provisions of law, regulations and voluntary codes on marketing communications were found to have occurred at Grupa LOTOS or at its marketing companies: LOTOS Asphalt, LOTOS Kolej, LOTOS Oil and LOTOS Paliwa.

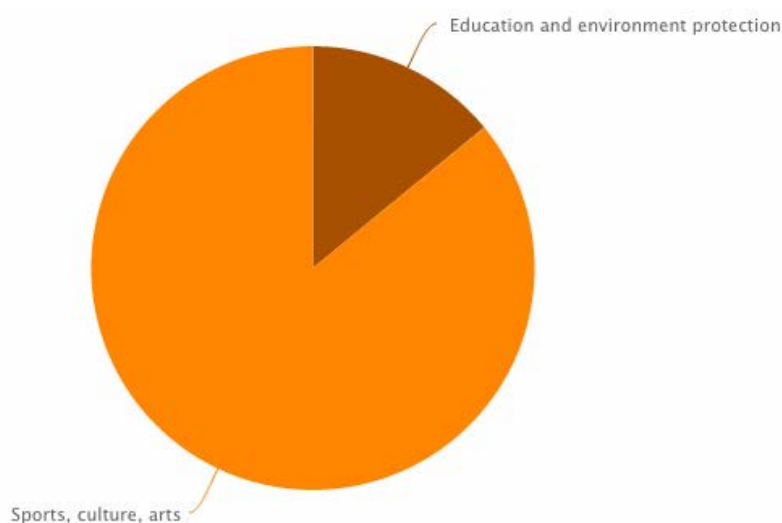


## Sponsorship

Key objectives of our sponsorship activities include the promotion and raising of brand awareness of LOTOS Group products, improving their recognition, building their positive image and supporting advertising activities focused on boosting product and service sales. Our sponsorship activities are carried out in accordance with the Sponsorship Plan approved each year by the Company's Supervisory Board.

We are the main sponsor of sports clubs, sporting events, cultural institutions and cultural events in the regions where LOTOS Group companies operate.

### Areas sponsored by Grupa LOTOS in 2013



One of the criteria we use when choosing which activities to sponsor is their social dimension, their significance to local communities and their impact on the region's national and international reputation. If we were to cease our sponsorship activities, the cultural sphere might suffer and the young people's potential to become involved in sports might deteriorate.

In 2013, we sponsored a number of professional sports, including such key disciplines as motor rallying and racing, football, skiing, basketball, volleyball and cycling. The highest returns on funds earmarked for sponsorship activities, as measured by media presence, were recorded for winter sports (ski jumping and cross-country skiing), as well as cycling, football and motor rallying. The value of media returns exceeded the value of our sponsorship spending almost seven times over.

For ten years now, we have also been Poland's General Nordic Skiing Sponsor. As part of our work with the Polish Nordic Skiing Association, we support ski jumpers from the national and youth teams, cross-country skiers from the national and youth teams, as well as the Nordic combined team. Kamil Stoch, this year's winner of two gold medals at the Sochi Winter Olympics, thirteen-time winner of the World Cup and multiple Polish champion, was the first person awarded a grant under our 'In Search for the Champion's Successors' CSR project. Since 2004, we have supported the National Ski Jumping Development Programme, run together with the Polish Nordic Skiing Association.

Since 2013, Grupa LOTOS has been an official partner of Robert Kubica, who is among the top drivers chasing the crown in the World Rally Championship and who succeeded in winning the title of the WRC2 World Champion in his very first season. In 2013, the Company was involved in the LOTOS Rally Team project, represented by four-time Polish Champion Kajetan Kajetanowicz and his navigator Jarek Baran in the Polish Rally Championship and by Michał Kościuszko and his navigator Maciej Szczepaniak in the WRC. The promotion of the LOTOS Dynamic fuel brand in motorsports by this Team lends credibility to its communicated benefits, including improved performance and dynamics and better harnessing of a car's power. Related actions support the image of the entire chain of LOTOS service stations and improve the reliability of the stations' marketing message. In 2013, Grupa LOTOS was the sponsor and main technological partner of the KIA LOTOS Race (an event with the status of Polish Motor Racing Championship), where the car make lends credibility to the formula and quality of the company's oil products.

2013 saw the conclusion of another three-year sponsorship agreement between Grupa LOTOS and Lechia Gdańsk (the Company is the main sponsor of Lechia Gdańsk, an Ekstraklasa League football club, since 2010). In the Gdańsk-Gdynia-Sopot conglomeration, we also support the LOTOS TREFL Gdańsk volleyball team and the Trefl Sopot basketball team.

Apart from sports sponsorship, we are also involved in sponsorship of cultural events, focusing our efforts in the latter area on increasing corporate value through the promotion of intellectual and cultural potential of regions close to the organization. Some of our key cultural sponsorships in 2013 included the Strategic Partnership of the Baltic Opera House, sponsorship of the Solidarity of Arts Festival, the Shakespearian Festival, the Siesta Festival, the open-air event „CudaWianki – Lato zaczyna się w Gdyni” (“The Summer Begins in Gdynia – CudaWianki”), the ‘SOPOT Theatrical Summer’, the concert of the band Bon Jovi and the LOTOS Jazz Festival – Bielsko Jazz Blizzard.

### Socially engaged marketing

In 2013, LOTOS Paliwa continued its work, begun three years earlier, with the SOS Children's Villages Association in Poland. Each member of the LOTOS Navigator loyalty programme, available from LOTOS service stations, could donate their credits to orphaned or abandoned children under the care of SOS Children's Villages. This initiative is in line with the objectives of our CSR strategy.

The funds raised from credits donated by our customers are applied towards the costs of living, health care and education of children. In 2013, the usual range of awards available under the LOTOS Navigator programme was extended to include the SOS Children's Villages Association cup. One cup collected by a customer (250 credits) represents PLN 2 for the Association.

The SOS Children's Villages Association in Poland provides care for abandoned children, orphans and children at risk of losing parental care. The Association, which has been active for 29 years and currently helps 1,250 children, is part of SOS-Kinderdorf International, an international organization present in 132 countries.

## Staff's expertise and competence

In order to fully leverage our intellectual capital to enhance the corporate value, we consider it necessary to create systemic solutions designed to stimulate innovation. We also attach great importance to knowledge sharing between employees in the course of project works conducted across the organization, including team projects, in which they have a chance to apply knowledge from various fields in which the LOTOS Group is active, while bringing in new perspectives and ideas on existing tasks.

We strive to improve the staff's qualifications by offering them training opportunities, courses, studies, symposia, conferences, as well as newly established and regularly run programmes within our in-house **Akademia LOTOS** (LOTOS Academy) Training Schedule.



LOTOS Academy was established to improve the staff's competences in various fields, to identify and develop talent, to disseminate expert knowledge and to foster a culture conducive to increasing the staff's satisfaction and involvement.

As part of the LOTOS Academy project, we have developed a culture of knowledge sharing, an induction training programme, a certification process for production-related training and 'On the Road to Perfection' training schedule. We have engaged senior employees, aged 50+, in the development of younger staff. The Academy initiates and runs talent development programmes targeted at various employee groups, including the Leader Programme, the Master Programme, the Managers Academy, the Management Skills Development Programme for Technical Staff and the LOTOS Group Succession Programme. The organization invests in professional development of its staff, by making them acquire and strengthen their expert knowledge, as well as their interpersonal, communication, negotiation, management, IT and linguistic skills.

Its comprehensive staff development programme brings Grupa LOTOS closer to meriting the label of a Learning Organization.

#### Average annual number of training hours per person, by Grupa LOTOS employment category

Employment category	2011	2012	2013
Senior management	40	41.9	43 ✓
Lower management	38	42.8	43.7 ✓
Back-office staff	30.7	25.8	25.4 ✓
Production staff	13.2	17.7	12.1 ✓

#### Average annual number of training hours in Grupa LOTOS, by gender

Gender	Year	Number of employees	Number of training hours	Average number of training hours
Women	2012	417	11,096	26.6
Men	2012	932	21,936	23.5
Women	2013	416 ✓	12,039 ✓	28.9 ✓
Men	2013	929 ✓	17,811 ✓	19.2 ✓

Our staff education methods, techniques and tools include a broad range of open and closed training courses, both in hard and soft skills, which are run based on annual schedules in the form of conferences, seminars, workshops, symposia and forums.

We rely on advanced education techniques and technologies, such as simulation games, e-learning and blended learning. Equally important are our in-house training programmes dedicated to specific employee groups, carried out under the LOTOS Academy banner. Since accessibility is one of the main features of our training policy, the target groups of our training opportunities include senior and middle management, as well as supervisors, coordinators and specialists.

Among the solutions applied are those based on coaching and mentoring, the latter chiefly in the production area, where skills learning is the longest process, requiring many years of experience. Our coaches and mentors are experienced instructors from the operating training team, who – by direct interaction – pass on their knowledge to younger colleagues working as equipment operators.

Our employees are also familiar with knowledge sharing workshops, at which they can share knowledge relating to the organization's various operational areas. In addition, at least twice a year, we hold seminars dedicated to management staff, to acquaint them with the most recent solutions in the management area by attractively integrating theory with practice.

Innovative development, involving continuous improvement and use of the staff's intellectual capital and experience, is an inherent element of Grupa LOTOS' mission, stemming from our conviction that innovation plays a key strategic role for a business geared towards sustainable development.

Grupa LOTOS' innovative approach works on several levels:

- Development of intellectual capital
- Deployment of cutting-edge technologies
- Inter-sectoral cooperation and stakeholder involvement

As a player in the high-tech industry, we have for years worked with academic and research institutions of key relevance to the industry, thus contributing to the development of solutions which are beneficial not only to us and other industry players, but also to the academic community.

## LOTOS Scholarship

We work with higher education institutions as part of the LOTOS Scholarship programme. Given the nature of our business and the key role we play in ensuring Poland's energy security, we share the knowledge and experience of our employees with students, because we feel committed to securing the future of our industry by training the next generation of experts.

In the academic year 2004/2005, we began working with the Gdańsk University of Technology, as part of which we sponsor scholarships, provide work placement opportunities under the supervision of industry experts, and help students write their MSc dissertations on topics connected with the Company's operations, which are later reviewed by the Company's experts. In the academic year 2012/2013, we granted 13 scholarships to the best students from the Chemical Faculty, the Faculty of Electronics, Telecommunications and Informatics, the Faculty of Electrical and Control Engineering and the Faculty of Mechanical Engineering, as well as 2 awards for the best MSc theses at the Chemical Faculty.

In the academic year 2007/2008, a similar relationship was forged with the AGH University of Science and Technology in Kraków, leading to five scholarships being granted in the academic year 2012/2013 to outstanding students from the Faculty of Geology, Geophysics and Environment Protection, the Faculty of Mining Surveying and Environmental Engineering, the Faculty of Drilling, Oil and Gas and the Faculty of Energy and Fuels. We also granted two awards for the best MSc theses written at the Faculty of Drilling, Oil and Gas.

Since the programme's inception, we have granted some PLN 1.2m to fund scholarships and awards for 234 undergraduate and doctoral students.

As part of our cooperation with higher education providers, we also offer unpaid internships and summer work placements, during which students have a chance to expand their knowledge under the supervision of a tutor – an industry expert.

In 2013, internships and work placements at Grupa LOTOS were provided to 162 undergraduates, including 73 students of the Gdańsk University of Technology and 16 students of the AGH University of Science and Technology in Kraków. Additionally, work placements at LOTOS Petrobaltic were offered to 20 students from various universities, who had an opportunity to gain valuable experience by working both on drilling rigs and at the operation maintenance unit.

For the eleventh time, we participated in the local programme **Summer Holiday Internship** initiated by the Mayor of Gdańsk and addressed to students and graduates. We funded two-month internships for participants of the Energy Academy Programme - an educational project started by Lesław A. Paga Foundation 2065, which is addressed to persons interested in the power industry who consider starting their future professional career in this sector. Additionally, we entered the prestigious nationwide programme organized by PwC and Gazeta Wyborcza daily - **Win an Internship**.

In 2013, LOTOS Petrobaltic was a partner to the DRILLING - OIL – GAS AGH International Scientific and Technical Conference, organised by Fundacja Wiertnictwo-Nafta-Gaz, Nauka i Tradycje (Drilling-Oil-Gas, Science and Traditions Foundation). As part of the Baltic Science Festival, to which we were also a partner, LOTOS Petrobaltic ran an information and education campaign on the specific features of the petroleum upstream industry.

In addition, as part of a joint scheme with the Food and Chemical Industry Vocational School in Gdańsk, in 2013 we funded seven scholarships for future chemical engineering technicians and analytical chemists who distinguished themselves for the best school performance, provided prizes in the 'Chemistry is all around us' competition and organised work placements for students.

In 2013, in association with the Jasło Municipality, we launched a project entitled 'The Jasło Scientific League with LOTOS', a unique educational initiative aiming to find Jasło's most able schoolchildren and give them an opportunity to foster their talents.

Entrants to the 'The Jasło Scientific League with LOTOS' in 2013 included 299 children from 9 elementary schools and 4 junior high schools from Jasło, who submitted a total of 91 research projects.

The project encourages schoolchildren to seek for their own answers to a given set of questions, through a number of research activities carried out under the eye of their teachers, with their work evaluated by a panel of experts and prominent academics.

# Management systems

The Integrated Management System (IMS) is regularly reviewed and updated as our needs change, supporting the delivery of the LOTOS Group's strategy. Since the 1990s, when we first began to deploy management systems, the well-designed and coherent management and operational processes provide the foundation for our business, while concurrently undergoing some major changes.

Every year, new needs are identified which must be addressed by our management systems. We invariably strive to work out uniform policies and to implement new systems effectively, so we can derive measurable benefits from their operation. By streamlining and modifying the processes, we seek to exploit synergies across the entire LOTOS Group.

## Integrated Management System

For customers - quality of products and services

For the external environment - environment protection

For employees - occupational safety

## Management systems at the LOTOS Group As at December 31st 2013

Company	Management systems in place
Grupa LOTOS	Implemented and certified Integrated Management System compliant with the ISO 9001, ISO 14001, and PN-N-18001 standards. Implemented requirements of the energy management system in line with the ISO 50001 standard, requirements of AQAP 2110 (Allied Quality Assurance Publication) and requirements of the Internal Control System for trading in strategic materials (consistent with the PN-N-19001 standard).
LOTOS Asfalt	Implemented and certified Integrated Management System compliant with the ISO 9001, ISO 14001, and PN-N-18001 standards. Implemented and certified Site Production Control system.
LOTOS Kolej	Implemented and certified Integrated Management System compliant with ISO 9001, ISO 14001, and PN-N-18001, Railway Transport Security Management System (SMS) compliant with Directive 2004/49/EC and national regulations, Rail Vehicle Maintenance Management System (MMS) compliant with Directive 2004/49/EC and Regulation (EU) 445/2011, quality in welding management system compliant with the EN 15085-2 standard, and system of Maintaining Freight Cars in accordance with the VPI requirements.
LOTOS Lab	Implemented and certified Integrated Management System compliant with the ISO 9001, ISO 14001, and PN-N-18001 standards. Certificate of compliance with PN-EN ISO / IEC 17025:2005 issued by the Polish Centre for Accreditation.
LOTOS Ochrona	Implemented and certified Integrated Management System compliant with the ISO 9001, ISO 14001, and PN-N-18001 standards.
LOTOS Oil	Implemented and certified Integrated Quality Management System compliant with the ISO 9001 standard and AQAP 2110 (Allied Quality Assurance Publication). Implemented requirements of ISO 14001 and PN-N-18001.
LOTOS Petrobaltic	Implemented and certified Integrated Management System compliant with the ISO 9001, ISO 14001, and PN-N-18001 standards. Implemented ISM Code (for compliance with the International Management Code for the Safe Operation of Ships and for Pollution Prevention) and ISPS Code (International Ship and Port Facility Security System).
LOTOS Serwis	Implemented and certified Integrated Management System compliant with the ISO 9001, ISO 14001, and PN-N-18001 standards. Implemented and certified quality in welding management system compliant with the PN-EN ISO 3834-2:2007 standard.
LOTOS Straż	Implemented and certified Integrated Management System compliant with the ISO 9001, ISO 14001, and PN-N-18001 standards.
LOTOS Terminale	Implemented Integrated Management System compliant with the ISO 9001, ISO 14001, and PN-N-18001 standards.
LOTOS Paliwa	Implemented and certified Integrated Management System compliant with the ISO 9001 standard. Implemented requirements of ISO 14001 and PN-N-18001.

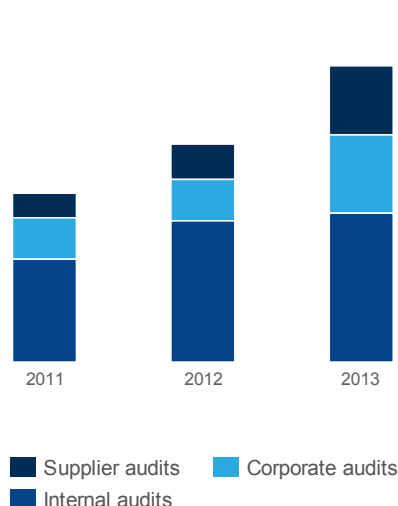
<b>LOTOS Infrastruktura</b>	The company is in the process of implementing the Integrated Management System.
<b>LOTOS-Air BP Polska</b>	The company is in the process of implementing the Integrated Management System.

Source: Grupa LOTOS in-house data.

Audits of the Integrated Management System provide valuable and objective feedback on the operation of individual areas of the organization.

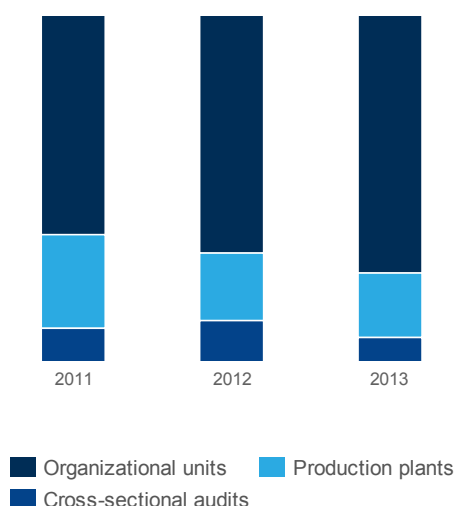
Between 2011 and 2013, we performed nearly 200 internal, corporate and supplier audits at Grupa LOTOS.

Audits in 2011-2013



Source: Grupa LOTOS in-house data.

Structure of internal audits in 2011-2013



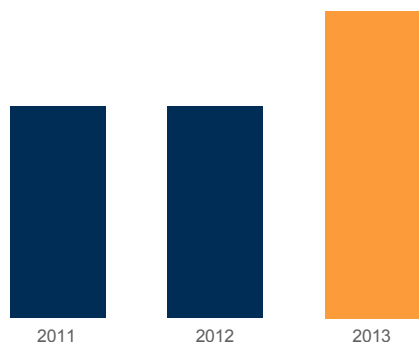
Source: Grupa LOTOS in-house data.

The findings of internal audits provide information on the effectiveness of our system, but also help identify areas which still need improvement, allowing the management to make informed decisions on corrective, preventive or adjusting measures.

Corporate audits carried out at subsidiaries of Grupa LOTOS assess the degree to which they have implemented corporate requirements and standards. In 2013, additional audits were performed to assess the degree of implementation of personal data protection requirements.



### Corporate audits in 2011-2013



Source: Grupa LOTOS in-house data.

Following the audits, in many areas we have undertaken long-term improvement work, requiring the involvement of persons from different organizational units, which proves that we are an organization that can learn from feedback.

We adapt our audits to any changes relevant to the LOTOS Group's operation and any identified needs.

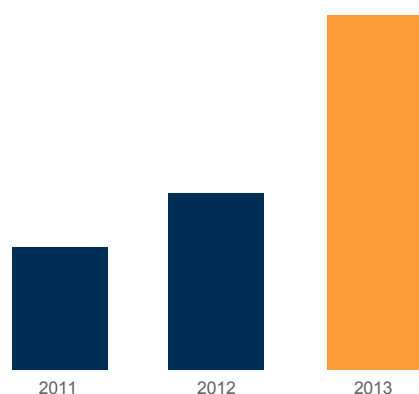
We also seek to standardise the qualifications of our auditors through the Auditor School initiative, hands-on exercises and exchange of auditors between companies, which helps them gain new experience.

## Requirements for business partners

The findings of supplier audits provide information on the degree to which our suppliers meet the quality requirements, as well as occupational safety and environmental protection requirements, which are high on our list of priorities. They offer assurance that all works on the premises of Grupa LOTOS are carried out safely and identify areas which still need improvement.

Realising that compliance with our requirements may be a demanding task for suppliers, we make sure that our audit reports contain detailed and accurate information on all audited areas.

### Supplier audits in 2011-2013



Source: Grupa LOTOS in-house data.

# Key changes in process management systems and structures in 2013

## Enterprise Risk Management (ERM)

To ensure secure and effective pursuit of our strategic and operational objectives, we have successfully implemented the enterprise risk management system at the LOTOS Group. Measures taken in 2013 as part of the ERM system were designed to mitigate the identified risks, and to enhance the system itself and its risk management process. ([More details](#))

## Process management

In 2013, we started to communicate the findings of process monitoring within the organization via a dedicated portal, which serves as a platform for direct communication of various follow-up measures based on reviews of the Integrated Management System and tasks related to our day-to-day operations. We have also successfully completed one of the projects designed to improve efficiencies along the supply chain.

## Project management

In implementing project management at the LOTOS Group in 2013, our objective was to ensure efficient project execution, effective monitoring of project status and deliverables and proper reporting for projects run in accordance with established corporate policies. We also began to deploy an IT tool to support project management throughout the organization.

## Energy Management System (EnMS)

In 2013, we successfully put in place the energy management system compliant with ISO 50001, which aims to establish uniform standards for a range of measures designed to improve Grupa LOTOS' energy efficiency through:

- Systematised and standardised approach to energy management (with respect to all forms of energy) across different operating areas,
- Identification of significant energy aspects of the Company's operations,
- Documentation of sub-tasks undertaken in areas covered by the EnMS,
- Identification of upgrade and development work required to achieve energy efficiency.

# Development until 2015

Faced by the highly complex nature of processes, projects and tasks we need to undertake in the fast-changing environment, we will focus on ensuring efficient communication within the LOTOS Group.

We want to pursue that objective by deploying advanced IT tools, suited to the organization's needs and friendly for users. As part of our plans, we intend to:

- Enhance the enterprise risk management (ERM) system by developing the ERM portal in response to any needs that may emerge in connection with the growing maturity of the ERM system;
- In the energy management area: satisfy training needs, raise the overall awareness of energy issues among our staff, and improve the auditing qualifications of the LOTOS Group's employees. 2014 will be the first effective year of our new internal regulations pertaining to the Company's energy management system and the first year of refining the system based on regularly obtained findings of production process monitoring, audits and needs reported by those involved in energy efficiency processes;

- Maintain and improve the project management system, deploy an IT tool designed to support project management within the LOTOS Group and raise the competences of staff involved in project management and execution;
- Identify on an ongoing basis any processes needing improvement and take relevant actions, and develop process management based on the best global practice. We also plan to launch a new channel for communication with employees to expedite feedback reporting and a tool for visual representation of the summary findings of process monitoring, referenced to risks as well as to strategic and operational objectives;
- Implement an effective and user-friendly IT tool supporting the circulation of documents related to internal regulations.

Over the period 2014-2015, we will implement our Effective and Rising Programme, whose success will be supported by the correctly-designed and effective Integrated Management System.

# Organizational maturity

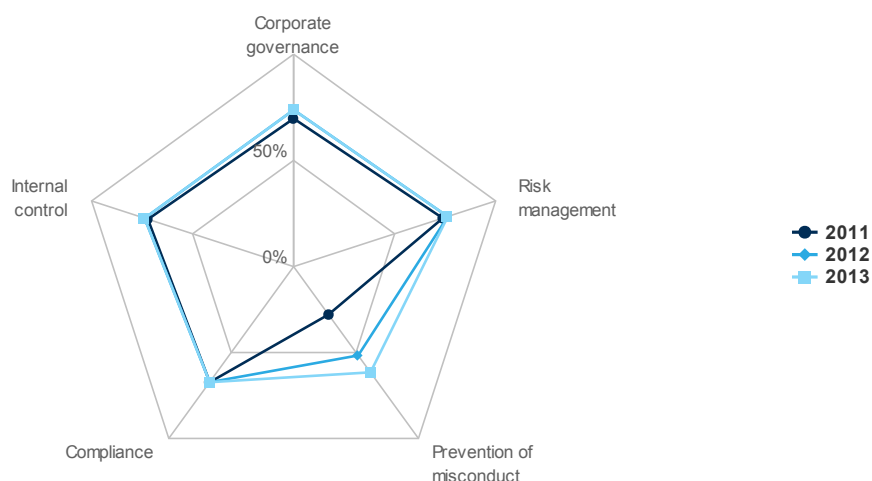
At Grupa LOTOS, we undertake annual assessments of our organizational maturity.

Organizational maturity is understood as the level of professionalism of key organizational solutions, processes and activities, as well as their consistency with the best operating and management practices, which underpin the organization's potential to achieve success in terms of protection and creation of value for its stakeholders.

Organizational maturity depends on the company's systems and their constituent solutions which are crucial to the creation of value for stakeholders, relevant to the protection of company value, and key to its ability to operate on a day-to-day basis without any disruptions and in compliance with the law.

The following systems at Grupa LOTOS meet these criteria to the greatest extent: internal control, risk management, compliance, misconduct prevention and corporate governance.

## Overall assessment of the systems



## Results of the assessment of the LOTOS Group's organizational maturity in 2013

- As part of the **internal control system**, key organizational and process solutions have been put in place. The processes defined and deployed by the Company are characterised by a high level of organizational maturity, as evidenced by the fact that the controls have been designed in alignment with the objectives. The key control solutions have been formally established and written into the Company's internal regulations. They work efficiently towards protecting Company value and allowing the Company to operate in a systematic and effective manner.
- **As part of the risk management system**, we have established solutions of key importance to correctly designing its operation, which play a crucial part in ensuring the delivery of the system's main objective to support the management process and creation of added value. To ensure that the system operates properly, the Enterprise Risk Management Policy has been communicated, and participants of the risk management process, including risk owners, Risk Management Coordinator and Risk Management Committee, have been appointed. Detailed internal regulations defining the manner in which appropriate actions should be taken within the framework of the risk management system have also been established.
- As part of the **compliance system**, active steps are taken to ensure compliance of the Company's activities and internal regulations with applicable laws. The Company also takes care to ensure the compliance of its actions with the requirements laid down in the organization's internal regulations.
- **As part of the misconduct prevention system**, we continued managing the risk of misconduct in a comprehensive and structured manner, while fostering a corporate culture of ethics. Solutions are in place to mitigate the risk of both external and internal misconduct. The organization is building up its knowledge of misconduct involved in its activities and is developing a systemic approach to identifying and monitoring solutions to prevent and detect misconduct. Our consistent efforts to foster a culture of ethics by raising the awareness of desirable attitudes fully support and help develop the misconduct prevention system. It takes time and consistency to achieve the expected outcomes.
- As part of the **corporate governance system**, we have established most of our key solutions, including those governing the relations between the Company's corporate bodies and other internal relations (connected with the approach to managing the organization and its resources), which are to be consistent with applicable standards and best practices. The solutions adopted with respect to the Company's corporate bodies and their mutual relations are generally consistent with the requirements defined in the Code of Best Practice for WSE Listed Companies.

The results of the overall assessment of the Company's organizational maturity testify to the fact that we are an organization oriented towards professionalism and adoption of the best operating and management practices. We take steps to protect Company value, as evidenced by our well-developed internal control system and corporate governance solutions, as well as by our implementation of the misconduct prevention system. We focus on being able to operate without disruptions and in compliance with the law.

# Corporate governance

# Approach to management

Corporate governance strengthens our credibility as an entity listed on the WSE's regulated market, and thus the entire organization's competitive position. Therefore, we have a significant interest in implementing and complying with best practices.

We are concerned about the quality of our investor relations and make every effort to ensure that they are founded on equality and developed to the satisfaction of both sides, on the basis of unambiguous and reliable communication. The information policy of Grupa LOTOS and its subsidiaries focuses on effective support of our corporate governance objectives.



In 2005–2007, the Best Practices in Public Companies 2005 document, modified by general practice, discussions and the European Commission's recommendations, was used as a guide to corporate governance principles by companies wishing to nurture their long-term shareholder relations.

**Best practices are principles designed to establish high standards of corporate governance, which thus help bring corporate supervision into line with EU standards.**

From its stock market debut in June 2005, Grupa LOTOS adhered to most of the recommendations set out in this document. Then, since the beginning of 2008, it has followed the *Code of Best Practice for WSE Listed Companies* ([more information](#)), and its versions as amended by the WSE's Supervisory Board in its Resolutions of October 19th 2011 and November 21st 2012, the latest of which has been in force since the beginning of 2013.

In line with disclosure requirements, the Company reports on instances of incidental or permanent non-compliance with corporate governance rules. The reports are published through the Electronic Information Base (EBI), and released in two languages on the Company's investor relations website. ([more information](#))

In 2013, we complied with most of the obligatory corporate governance principles set forth in the Code of Best Practice for WSE Listed Companies. In line with the comply-or-explain principle, which provides that public companies should either comply with corporate governance rules or explain any instances of incidental or permanent non-compliance, Grupa LOTOS, acting under Par. 29.3 of the WSE Rules, released non-compliance reports via the EBI system, similarly to current reports.

On May 31st 2013, we reported non-compliance with Rules 10.1 and 10.2 of Section IV of the Code of Best Practice for WSE Listed Companies, on enabling shareholders to participate in General Meetings by means of electronic communication. We do not provide real-time broadcast of General Meetings or publish the recordings of their proceedings, in audio or video format, on our website, although recommended to do so by Section II.1.9a of the Code. ([more information](#))

In our report, we explained that our Articles of Association do not provide for the possibility of participating in General Meetings by means of electronic communication. Further, we do not plan to make audio or video recordings of the proceedings of our General Meetings available, or to publish such recordings on our website, as we believe that our current methods of documenting the proceedings of the General Meeting already ensure the transparency of the Company's activities and protect the rights of all our shareholders. We publish adopted GM resolutions in current reports and releases posted on our website. Pursuant to Article 8.8 of the Company's Articles of Association, the Board of Grupa LOTOS is authorised to make the decision, if any, to broadcast the proceedings of the General Meeting in real time. The possibility of ensuring compliance with the rules specified above will be examined in the future.

We have in place mechanisms enabling our shareholders and employees to submit recommendations and other comments directly to members of the bodies supervising the correctness of the organization's management processes. In line with the Polish Commercial Companies Code, the Articles of Association of Grupa LOTOS and the Rules of Procedure for its General Meeting address these issues in detail. They define the rules governing participation in the General Meeting and exercising voting rights, the manner of convening and closing the General Meeting, its opening and proceedings.

Shareholders, by virtue of their rights, may influence our operations and review the activities undertaken by the Company's management and supervisory bodies.

A key shareholder right is the right to participate in the General Meeting, which accrues to all persons who are Company shareholders sixteen days prior to the date of the General Meeting, i.e. on the record date. Holders of registered shares and temporary certificates and pledgees and usufructees entitled to exercise voting rights are entitled to attend the General Meeting if they are entered in the register of shareholders at the record day.

Additionally, the right to participate in the General Meeting entitles shareholders to:

- submit motions prior to and during the General Meeting,
- request that certain items be placed on the agenda of the General Meeting,
- propose draft resolutions concerning items which have been or are to be placed on the agenda prior to the General Meeting,
- propose draft resolutions concerning items included in the agenda, or placed on the agenda during the General Meeting,
- take the floor during the General Meeting,
- object to or appeal against resolutions of the General Meeting.

Moreover, shareholders representing at least 1/20 of the share capital may request that an Extraordinary General Meeting be convened and certain items be placed on its agenda.

In addition to the requirements imposed by law, the rules laid down in the Code of Best Practice for WSE Listed Companies define mechanisms aimed to improve the quality of corporate relations with investors, while enhancing the protection of shareholder rights, also in matters falling outside the scope governed by law. They encourage companies to:

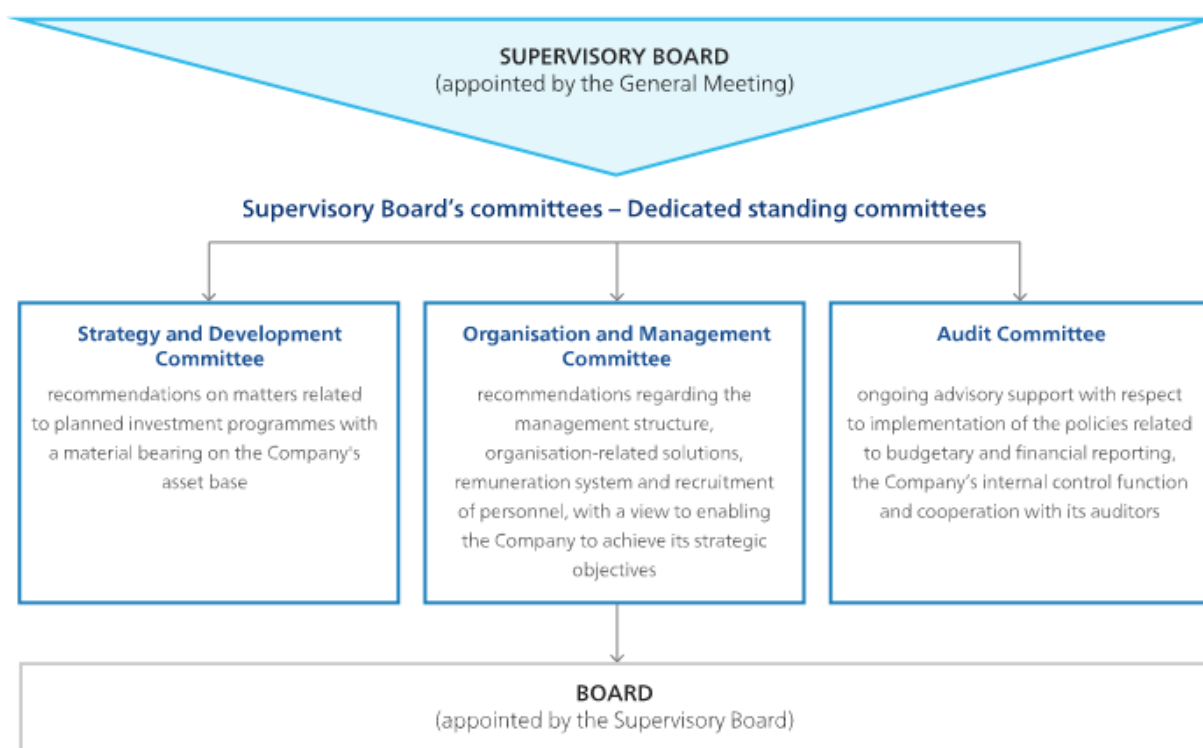


- post on their corporate websites detailed information on General Meetings, including reasons for calling off or postponing a Meeting, changes to a Meeting's agenda together with reasons justifying such changes, notices of adjournment, shareholder questions relating to agenda items asked before and during a Meeting, as well as answers to such questions,
- ensure that General Meetings are attended by Supervisory Board and Board members,
- set the venue and date of General Meetings so as to enable the highest number of shareholders to participate,
- enable representatives of the press to be present at General Meetings.

In 2013, the Annual General Meeting was convened on June 28th 2013 as an Ordinary General Meeting of Grupa LOTOS and reviewed and approved the financial statements and directors' report on the operations of the Company and of the LOTOS Group in 2012; and granted discharge in respect of performance of duties to Members of the Supervisory Board and Members of the Board. Moreover, the General Meeting granted its approval for the sale of organized parts of Grupa LOTOS business which were the fuel depots in Piotrków Trybunalski and Rypin.

During the Meeting, shareholder B. Kamola exercised his right to take the floor. The proposals and comments submitted by the shareholder related to the Company's operations, primarily to financial and economic issues, the LOTOS Group strategy, the Yme project and the issue of fuel depots. Questions asked by the shareholder and answers provided by the Board have been published on the Company's website. Moreover, the shareholder exercised his right to object to the resolution concerning approval of the directors' report on the Company's operations in the year ended December 31st 2012.

## Corporate governance structure of Grupa LOTOS



# Powers

The Supervisory Board of Grupa LOTOS exercises ongoing supervision of the Company's business, across all areas of its operations. It performs its duties collectively, but may also delegate its members to perform certain tasks or functions individually, and may set up ad hoc or standing committees to exercise supervision of specific areas of the Company's activities.

The procedures followed by the Supervisory Board of Grupa LOTOS are defined in the Company's Articles of Association and the Rules of Procedure for the Supervisory Board.

- [Statute of Grupa LOTOS](#)
- [Rules of Procedure for the General Meeting of Grupa LOTOS](#)
- [Rules of Procedure for the Supervisory Board of Grupa LOTOS](#)

Members of the Supervisory Board of Grupa LOTOS should perform their duties to a professional standard of care. Pursuant to the Rules of Procedure for the General Meeting and the rule set forth in Section I.6 of the Code of Best Practice for WSE Listed Companies, members of the Supervisory Board of Grupa LOTOS should also possess appropriate expertise and experience, and be able to devote the time necessary to perform their duties.

# Composition

## **Wiesław Skwarko**

Chairman of the Supervisory Board of Grupa LOTOS

## **Marcin Majeranowski**

Deputy Chairman of the Supervisory Board of Grupa LOTOS

## **Oskar Pawłowski**

Secretary of the Supervisory Board of Grupa LOTOS

## **Małgorzata Hirszel**

Member of the Supervisory Board of Grupa LOTOS

## **Agnieszka Trzaskalska**

Member of the Supervisory Board of Grupa LOTOS

## **Michał Rumiński**

Member of the Supervisory Board of Grupa LOTOS

The Supervisory Board of Grupa LOTOS may be composed of five to nine members, appointed for a joint three-year term of office by the General Meeting. As long as it remains a shareholder in the Company, the State Treasury is entitled to directly appoint and remove one of the Supervisory Board members. The Supervisory Board may delegate its members to perform certain tasks or functions individually.

### **The Supervisory Board of Grupa LOTOS of the eighth term of office (January 1st – December 31st 2013)**

No.	Name and surname	Function
1.	Wiesław Skwarko	Chairman
2.	Marcin Majeranowski	Deputy Chairman
3.	Oskar Pawłowski	Secretary
4.	Małgorzata Hirszel	Member
5.	Agnieszka Trzaskalska	Member
6.	Michał Rumiński	Member

## Number of women and men on the Supervisory Board of Grupa LOTOS in 2011 – 2013

Year	Period	Total members	Number of women	Number of men
2011	Jan 1st – Jun 27th	8	2	6
	Jun 27th – Nov 8th	7	2	5
	Nov 8th – Dec 31st	6	1	5
2012	Jan 1st – Jun 27th	6	1	5
	Jun 27th – Nov 8th	5	1	4
	Nov 8th – Dec 31st	6	2	4
2013	Jan 1st – Dec 31st	6	2	4

# Standing committees of the Supervisory Board

Standing committees of the Supervisory Board of Grupa LOTOS, acting as supporting, advisory and consultative bodies, include the Audit Committee, Strategy and Development Committee and Organization and Management Committee.

Each committee is composed of three to five persons, appointed by the Supervisory Board from among its members. The committees are headed by chairpersons, who are appointed by the Supervisory Board from among the committee members. All Supervisory Board members have the right to participate in the meetings of each committee.

The powers and duties of the committees are defined by the Rules of Procedure for the Supervisory Board and the Rules of Procedure for the individual committees.

In the period from January 1st to December 31st 2013, the committees of the Supervisory Board of Grupa LOTOS were composed of the following persons:

Audit Committee	
Michał Rumiński	Chairman
Oskar Pawłowski	Member
Wiesław Skwarko	Member
Marcin Majerański	Member
Strategy and Development Committee	
Wiesław Skwarko	Chairman
Małgorzata Hirszel	Member
Michał Rumiński	Member
Agnieszka Trzaskańska	Member
Marcin Majerański	Member
Organization and Management Committee (OMC)	
Agnieszka Trzaskańska	Chairperson
Małgorzata Hirszel	Member
Oskar Pawłowski	Member
Marcin Majerański	Member
On January 18th 2014, the Supervisory Board of Grupa LOTOS appointed Michał Rumiński to the Organization and Management Committee. As of that date, the Committee is composed of the following persons:	
Agnieszka Trzaskańska	Chairperson
Małgorzata Hirszel	Member
Oskar Pawłowski	Member
Marcin Majerański	Member
Michał Rumiński	Member

# Remuneration

The rules of remuneration for members of the Supervisory Board are defined by the General Meeting.

The remuneration of Supervisory Board members is subject to the limitations and conditions prescribed under the Act on Remunerating Persons Who Manage Certain Legal Entities of March 3rd 2000 (Dz.U. of 2000 No. 26, item 306, as amended). In accordance with the Act, in 2000 the Extraordinary General Meeting defined a remuneration policy for Supervisory Board members. Pursuant to the policy:

- Supervisory Board members receive monthly remuneration equal to the average monthly salary in the non-financial corporate sector, net of bonuses paid from profit in the fourth quarter of the preceding year, as announced by the President of the GUS (Central Statistics Office),
- The remuneration is payable irrespective of the frequency of Supervisory Board meetings, except if, in a given month, a member of the Supervisory Board is absent from all meetings held in that month without valid reason,
- If a Supervisory Board member is appointed or removed from office during a calendar month, the remuneration amount is calculated according to their number of days in office,
- The Company reimburses any expenses incurred by the Supervisory Board members in connection with the performance of their duties, and – pursuant to the Personal Income Tax Act – calculates and deducts personal income tax prepayments from their remuneration.

In line with amendments to the aforementioned Act, in 2013 Supervisory Board members were entitled to receive monthly remuneration calculated on the basis of the average monthly salary in the non-financial corporate sector net of bonuses paid from profit in the fourth quarter of 2009.

## Remuneration of the Supervisory Board members in 2013

Name and surname	Amount (PLN '000)
Wiesław Skwarko	41
Marcin Majeranowski	41
Oskar Pawłowski	41
Małgorzata Hirszel	41
Michał Rumiński	41
Agnieszka Trzaskańska	41
<b>Total</b>	<b>246</b>

# Independence status

The term "independent members of the supervisory board" in reference to public companies was introduced in the Code of Best Practice for WSE Listed Companies, which is the cornerstone of Polish corporate governance tradition and main driver of transparency in listed companies.

In accordance with Rule 6, Section III of the Code, at least two supervisory board members should meet the independence criteria set out in Annex II to the Commission Recommendation of February 15th 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board. In addition, a person who is an employee of the company, its subsidiary company or its associated company, or has an actual and significant relationship with any shareholder who has the right to exercise at least 5% of all votes at the general meeting, cannot be deemed to meet these independence criteria.

Independent members of the supervisory board are persons who are not linked in any way with the shareholders, the company or its employees, as such relations could potentially result in a conflict of interests.

Grupa LOTOS has no information on the independence of its supervisory board members. Full compliance with Rule 6 in Section III of the Code will be ensured once the Company receives relevant confirmation that at least two existing or newly appointed members of the Supervisory Board satisfy the independence criteria, in accordance with the conditions set out by the European Commission.

# Avoidance of conflicts of interest

Under Art. 387 of the Commercial Companies Code, which aims to prevent the combination of management and supervisory roles, particularly with respect to supervisory boards, a current member of the management board of a company, its commercial proxy, liquidator, head of a division or production facility, or internal chief accountant, legal counsel or lawyer may not sit on the company's supervisory board. Article 387 also prohibits combining management and supervisory functions at an incorporated company in accordance with the principle that the supervised may not exercise supervision.

In addition to the requirements imposed by law, pursuant to Rules 2 and 4 in Section III of the Code, a member of the supervisory board should submit to the company's management board information on any relationship with a shareholder who holds shares representing 5% or more of all votes at the general meeting. This obligation concerns financial, family, and other relationships which may affect the position of the member of the supervisory board on issues decided by the supervisory board. Additionally, a member of the supervisory board should notify the supervisory board of any actual or potential conflicts of interest and should refrain from taking part in the discussion and from voting on the adoption of a resolution on the issue which gives rise to such a conflict of interest. These are the obligations of supervisory board members of listed companies.

Members of the Supervisory Board of Grupa LOTOS make IFRS-compliant disclosures on related-party transactions in accordance with IAS 24 Related Party Disclosures for the purposes of the Company's financial statements. According to disclosures made in 2013, two members of the Supervisory Board of Grupa LOTOS are employed by the Ministry of State Treasury, which both claim has no influence on their duties on the Supervisory Board of Grupa LOTOS. The remaining Supervisory Board members declare that they do not have any economic links, family ties or other relations with a shareholder holding 5% or more of total votes at the General Meeting of Grupa LOTOS and which might sway their position on matters decided by the Supervisory Board.

The Company is not aware of any conflicts of interest that arose or could have arisen in 2013, which the member concerned should have notified the Supervisory Board about, and as a result of which the member should refrain from taking the floor and voting on resolutions pertaining to the matter giving rise to such conflict of interest.

In addition to the above requirements, upon appointment, members of the Company's Supervisory Board are required to make a representation to the effect that they are not engaged in any activities competing with the Company's business, and that they are not partners in any competing partnership under civil law or another type of partnership, nor members of a governing body of an incorporated company or of any other competing legal entity.



# Commitment to sustainable development

The Supervisory Board is an important element of the system assessing the performance, opportunities and risks of Grupa LOTOS, and ensuring that the Company's activities in the area of sustainability remain transparent.

In 2013, the Supervisory Board reviewed the core issues and areas of the Company's operations, both in the context of natural resources, as well as the Company's social and environmental impact. In the year, the Supervisory Board met seven times and adopted 43 resolutions.

Key matters pertaining to the Company's performance, opportunities and risks in the area of sustainable development brought under discussion by the Supervisory Board in 2013 included:

- implementation of the 2013–2015 Effective and Rising Programme, which aims to expand and restructure the LOTOS Group,
- exploration and production operations,
- investment activities and the overhaul shutdown of the refinery,
- current financial performance, spending under the 2013 budget, and preparation of a new budget for 2014,
- refinancing of the Company's inventories,
- financing of CSR projects by Grupa LOTOS,
- Company sponsorship activities.

In 2013, the committees of the Supervisory Board, viewing sustainability as an essential process for the Company and appreciating the importance of a responsible approach to business, brought the following matters under discussion:

- implementation of the LOTOS Group's strategy,
- results of the audit and review of the LOTOS Group's financial statements,
- the budget for 2014,
- debt servicing forecasts and liquidity management plan,
- the management of current assets,
- hedge accounting,
- the Company's internal audit function,
- organizational maturity assessment,
- risk management.

The activities of the Supervisory Board are evaluated by the General Meeting, which has the authority to grant discharge to members of the Supervisory Board in respect of performance of their duties. The basis for the granting of such discharge is a report containing an assessment of the Company's standing, covering the sustainable development issues detailed above, presented annually by the Supervisory Board pursuant to the Rules of Procedure for the Supervisory Board and the Code of Best Practice for WSE Listed Companies.

# Powers

The Board of Grupa LOTOS represents the Company before third parties and manages its corporate affairs. Individual Board members perform their duties in line with the division of powers and responsibilities resulting from their operational functions. Each member of the Board is authorised to represent the Company in all court and out-of-court transactions, with the exception of matters reserved for the General Meeting or Supervisory Board under the Commercial Companies Code or the Company's Articles of Association, as well as matters falling outside the scope of ordinary management of the business where they require the Board's prior resolution and matters within the powers of another member of the Board.

The Board operates on the basis of the Grupa LOTOS Articles of Association and its Rules of Procedure. The documents are publicly available on the Company's website.

- [Statute of Grupa LOTOS](#)
- [Rules of Procedure for the Board of Grupa LOTOS](#)

# Composition

## **Paweł Olechnowicz**

President of the Board

## **Mariusz Machajewski**

Vice-President of the Board

## **Zbigniew Paszkowicz**

Vice-President of the Management Board

## **Marek Sokołowski**

Vice-President of the Management Board

## **Maciej Szozda**

Vice-President of the Management Board

The Board of Grupa LOTOS may consist of three to seven members. Members of the Board are appointed by the Supervisory Board, which also determines their number. Board members are appointed for a joint term of three years.

From January 1st to December 31st 2013 and as at the release date of this Report, the composition of the Board of Grupa LOTOS in its eighth term of office was as follows:

Name and surname	Function
Paweł Olechnowicz	President of the Board, Chief Executive Officer
Mariusz Machajewski	Vice-President of the Board, Chief Financial Officer
Zbigniew Paszkowicz	Vice-President of the Management Board, Exploration & Production
Marek Sokołowski	Vice-President of the Management Board, Chief Operation Officer
Maciej Szozda	Vice-President of the Management Board, Chief Commercial Officer

## Positions held by members of the Board of Grupa LOTOS at other companies in 2013

Name and surname	Function on the Board of Grupa LOTOS	Company	Function at the company	Term of office in 2013
Paweł Olechnowicz	President of the Board	LOTOS Exploration and Production Norge AS	Chairman of the Board of Directors	Jan 1 – Dec 31 2013 and as at the release date of this report
Paweł Olechnowicz	President of the Board	AB LOTOS Geonafta	Chairman of the Board of Directors	Jan 1 – Dec 31 2013 and as at the release date of this report
Mariusz Machajewski	Vice-President of the Board	LOTOS Paliwa Sp. z o.o.	Deputy Chairman of the Supervisory Board	Jan 1 – Dec 31 2013 and as at the release date of this report
Mariusz Machajewski	Vice-President of the Board	RCEkoenergia Sp. z o.o.	Chairman of the Supervisory Board	Jan 1 – Dec 31 2013 and as at the release date of this report
Zbigniew Paszkowicz	Vice-President of the Management Board	LOTOS Petrobaltic S.A.	President of the Management Board	Jan 1 – Dec 31 2013 and as at the release date of this report
Zbigniew Paszkowicz	Vice-President of the Management Board	LOTOS Exploration and Production Norge AS	Member of the Board of Directors	Jan 1 – Dec 31 2013 and as at the release date of this report
Marek Sokołowski	Vice-President of the Management Board	LOTOS Czechowice S.A. (LOTOS Terminals S.A. – since July 30th 2013)	Chairman of the Supervisory Board	Jan 1 – Dec 31 2013 and as at the release date of this report
Marek Sokołowski	Vice-President of the Management Board	LOTOS Biopaliwa Sp. z o.o.	Chairman of the Supervisory Board	Jan 1 – Dec 31 2013 and as at the release date of this report
Maciej Szozda	Vice-President of the Management Board	LOTOS Paliwa Sp. z o.o.	Chairman of the Supervisory Board	Jan 1 – Dec 31 2013 and as at the release date of this report
Maciej Szozda	Vice-President of the Management Board	LOTOS Biopaliwa Sp. z o.o.	Deputy Chairman of the Supervisory Board	Jan 1 – Dec 31 2013 and as at the release date of this report

# Remuneration

As the State Treasury's equity interest in the Company exceeds 50% (50% of the total number of shares), remuneration paid to members of the Board of Grupa LOTOS is regulated by the Act of March 3rd 2000 on Remunerating Persons Who Manage Certain Legal Entities (Dz.U. of 2000 No. 26, item 306, as amended). Under the Act, the body authorised to determine the monthly remuneration payable to President of the Board is the General Meeting. Remuneration paid to the other Board members is determined by the Supervisory Board, as provided for under the Company's Articles of Association. The remuneration policy is discussed in greater detail in the 2012 Report. ([more information](#))

In line with an amendment to the Act, in 2013 the Board members were entitled to receive monthly remuneration calculated on the basis of the average monthly salary in the non-financial corporate sector net of bonuses paid from profit in the fourth quarter of 2009.

## Remuneration of the Grupa LOTOS Board members in 2013

Name and surname	Amount (PLN '000)
Paweł Olechnowicz	319
Mariusz Machajewski	320
Zbigniew Pażkiewicz	260
Marek Sokołowski	358
Maciej Szozda	323
<b>Total</b>	<b>1,580</b>

# Avoidance of conflicts of interest

As a means of avoiding conflicts of interest, the Company complies with the provisions of the Commercial Companies Code, the Rules of Procedure for the Board and the Code of Best Practice for WSE Listed Companies.

If a conflict of interests arises between the Company and a Board member and persons with whom the member has personal ties, the member should refrain from swaying the Company's decisions on matters which gave rise to such conflict. Additionally, a member of the Board of Grupa LOTOS should notify the Board of any actual or potential conflicts of interest and should refrain from taking part in the discussion and from voting on the adoption of a resolution on the issue which gives rise to such a conflict of interest. Furthermore, the Board members and their immediate subordinates are prohibited from serving on the Supervisory Board of Grupa LOTOS. Members of the Board who wish to serve on management or supervisory bodies of other companies are required to seek the approval of the Company's Supervisory Board.

# Financial information

	PLN'000		EUR'000	
	Year ended Dec 31 2013	Year ended Dec 31 2012 (restated)	Year ended Dec 31 2013	Year ended Dec 31 2012 (restated)
Revenue	28,597,342	33,111,000	6,791,105	7,933,439
Operating profit/(loss)	146,494	312,756	34,788	74,937
Pre-tax profit/(loss)	(61,979)	366,341	(14,718)	87,776
Net profit	39,428	927,876	9,363	222,320
Net profit attributable to owners of the Parent	39,415	927,849	9,360	222,314
Net profit attributable to non-controlling interests	13	27	3	6
Total comprehensive income	123,450	1,284,223	29,316	307,702
Total comprehensive income attributable to owners of the Parent	123,439	1,284,210	29,313	307,699
Total comprehensive income attributable to non-controlling interests	11	13	3	3
Net cash from operating activities	1,436,496	1,347,080	341,129	322,762
Net cash from investing activities	(938,414)	(838,051)	(222,848)	(200,798)
Net cash from financing activities	(251,102)	(883,278)	(59,630)	(211,635)
Total net cash flow	246,980	(374,249)	58,651	(89,671)
Basic earnings per share (PLN/EUR)	0,30	7,14	0,07	1,71
Diluted earnings per share (PLN/EUR)	0,30	7,14	0,07	1,71

	PLN'000		EUR'000	
	As at Dec 31 2013	As at Dec 31 2012 (restated)	As at Dec 31 2013	As at Dec 31 2012 (restated)
Total assets	20,299,617	20,027,565	4,894,776	4,898,871
Equity attributable to owners of the Parent	9,189,307	9,065,725	2,215,786	2,217,535
Non-controlling interests	289	699	70	171
Total equity	9,189,596	9,066,424	2,215,856	2,217,706

Items in the Financial Highlights table have been translated at the following EUR exchange rates:

Items of the statement of financial position have been translated at the mid-exchange rates quoted by the National Bank of Poland for the last day of the reporting period:

As at Dec 31 2013	As at Dec 31 2012
1 EUR = 4.1472 PLN	1 EUR = 4.0882 PLN

Items of the statement of comprehensive income and the statement of cash flows have been translated using the arithmetic mean of the mid-exchange rates quoted by the National Bank of Poland for the last day of each month in the reporting period:

Year ended Dec 31 2013	Year ended Dec 31 2012
1 EUR = 4.2110 PLN	1 EUR = 4.1736 PLN





## **THE LOTOS GROUP**

**CONSOLIDATED FINANCIAL STATEMENTS FOR 2013  
PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL  
REPORTING STANDARDS AS ENDORSED BY THE EUROPEAN UNION  
WITH THE AUDITOR'S OPINION**

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**THE LOTOS GROUP**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
for 2013

PLN '000	Note	Year ended Dec 31 2013	Year ended Dec 31 2012 (restated)
Revenue	8	28,597,342	33,111,000
Cost of sales	9.1	(26,913,268)	(30,339,959)
<b>Gross profit</b>		<b>1,684,074</b>	<b>2,771,041</b>
Distribution costs	9.1	(1,106,746)	(1,051,962)
Administrative expenses	9.1	(433,984)	(446,449)
Other income	9.3	30,337	41,963
Other expenses	9.4	(40,659)	(1,084,453)
Effect of accounting for step acquisition of control (AB LOTOS Geonafra Group)	6	-	61,650
Loss of control over subsidiary	2	13,472	20,966
<b>Operating profit</b>		<b>146,494</b>	<b>312,756</b>
Finance income	9.5	135,162	302,008
Finance costs	9.6	(342,627)	(248,423)
Share in net loss of equity-accounted entities	16	(1,008)	-
<b>Pre-tax profit/(loss)</b>		<b>(61,979)</b>	<b>366,341</b>
Corporate income tax	10.1	101,407	561,535
<b>Net profit</b>		<b>39,428</b>	<b>927,876</b>
<b>Other comprehensive income:</b>			
<b>Items that may be reclassified to profit/loss:</b>		<b>84,174</b>	<b>357,244</b>
Exchange differences on translating foreign operations		(13,646)	(39,100)
Cash flow hedges	23	120,765	472,197
Income tax on other comprehensive income	10.1	(22,945)	(75,853)
<b>Items that will not be reclassified to profit/loss:</b>		<b>(152)</b>	<b>(897)</b>
Actuarial gain/(loss) relating to post-employment benefits		(188)	(1,111)
Income tax on other comprehensive income	10.1	36	214
<b>Other comprehensive income (net)</b>		<b>84,022</b>	<b>356,347</b>
<b>Total comprehensive income</b>		<b>123,450</b>	<b>1,284,223</b>
<b>Net profit attributable to:</b>			
Owners of the Parent	11	39,415	927,849
Non-controlling interests	26	13	27
		<b>39,428</b>	<b>927,876</b>
<b>Total comprehensive income attributable to:</b>			
Owners of the Parent		123,439	1,284,210
Non-controlling interests	26	11	13
		<b>123,450</b>	<b>1,284,223</b>
<b>Net profit attributable to owners of the Parent per share (PLN)</b>			
Weighted average number of shares ('000)	11	129,873	129,873
- basic	11	0.30	7.14
- diluted	11	0.30	7.14

The Notes to the consolidated financial statements, presented on pages 8 to 112, are an integral part of the statements.

(This is a translation of a document originally issued in Polish)

**THE LOTOS GROUP**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**for 2013**

PLN '000	Note	Dec 31 2013	Dec 31 2012 (restated)	Jan 1 2012 (restated)
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	13	10,048,374	9,685,850	10,523,550
Goodwill	14	46,688	46,688	46,688
Other intangible assets	15	686,222	548,659	475,580
Equity-accounted entities	16	66,222	-	-
Deferred tax assets	10.3	980,284	1,121,314	400,128
Other non-current assets	18	210,981	107,232	136,291
<b>Total non-current assets</b>		<b>12,038,771</b>	<b>11,509,743</b>	<b>11,582,237</b>
<b>Current assets</b>				
Inventories	19	5,731,851	5,966,203	5,855,840
- including mandatory stocks	19.2	4,250,530	4,353,207	4,427,752
Trade receivables	18	1,594,746	1,632,837	2,071,269
Current tax assets		30,755	90,566	132,876
Derivative financial instruments	28	73,935	121,334	37,202
Other current assets	18	325,079	436,121	224,404
Cash and cash equivalents	20	503,686	268,333	383,680
<b>Total current assets</b>		<b>8,260,052</b>	<b>8,515,394</b>	<b>8,705,271</b>
Assets held for sale	17	794	2,428	109,124
<b>Total assets</b>		<b>20,299,617</b>	<b>20,027,565</b>	<b>20,396,632</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital	21	129,873	129,873	129,873
Share premium	22	1,311,348	1,311,348	1,311,348
Cash flow hedging reserve	23	61,019	(36,801)	(419,281)
Retained earnings	24	7,666,833	7,627,427	6,700,396
Exchange differences on translating foreign operations	25	20,234	33,878	59,100
<b>Equity attributable to owners of the Parent</b>		<b>9,189,307</b>	<b>9,065,725</b>	<b>7,781,436</b>
Non-controlling interests	26	289	699	947
<b>Total equity</b>		<b>9,189,596</b>	<b>9,066,424</b>	<b>7,782,383</b>
<b>Non-current liabilities</b>				
Borrowings, other debt instruments and finance lease liabilities	27	4,496,190	4,462,098	5,161,474
Derivative financial instruments	28	52,876	88,325	127,364
Deferred tax liabilities	10.3	281,307	322,873	105,226
Employee benefit obligations	29	151,425	129,862	115,914
Other liabilities and provisions	30	711,845	412,260	337,561
<b>Total non-current liabilities</b>		<b>5,693,643</b>	<b>5,415,418</b>	<b>5,847,539</b>
<b>Current liabilities</b>				
Borrowings, other debt instruments and finance lease liabilities	27	1,715,196	2,094,602	2,427,155
Derivative financial instruments	28	21,277	91,000	140,414
Trade payables	30	2,396,086	2,174,451	2,812,259
Current tax payables		8,823	5,752	7,420
Employee benefit obligations	29	105,057	110,930	94,737
Other liabilities and provisions	30	1,169,939	1,068,988	1,244,327
<b>Total current liabilities</b>		<b>5,416,378</b>	<b>5,545,723</b>	<b>6,726,312</b>
Liabilities directly associated with assets held for sale		-	-	40,398
<b>Total liabilities</b>		<b>11,110,021</b>	<b>10,961,141</b>	<b>12,614,249</b>
<b>Total equity and liabilities</b>		<b>20,299,617</b>	<b>20,027,565</b>	<b>20,396,632</b>

The Notes to the consolidated financial statements, presented on pages 8 to 112  
are an integral part of the statements.

(This is a translation of a document originally issued in Polish)

**THE LOTOS GROUP**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**for 2013**  
prepared using the indirect method

PLN '000	Note	Year ended Dec 31 2013	Year ended Dec 31 2012 (restated)
<b>Cash flows from operating activities</b>			
<b>Net profit</b>		<b>39,428</b>	<b>927,876</b>
<b>Adjustments:</b>		<b>1,409,414</b>	<b>483,446</b>
Income tax	10.1	(101,407)	(561,535)
Share in net loss of equity-accounted associates	16	1,008	-
Depreciation and amortisation	9.1	656,065	666,465
Foreign exchange (gains)/losses		121,495	(131,686)
Interest and dividends		193,156	197,801
(Gain)/loss from investing activities		11,576	977,849
Settlement and valuation of financial instruments	9.5	(112,861)	(117,772)
Decrease in trade receivables		23,023	453,082
Decrease/(Increase) in other assets		200,717	(197,483)
Decrease/(Increase) in inventories		232,696	(108,783)
Increase/(Decrease) in trade payables		238,465	(639,025)
(Decrease)/Increase in other provisions and liabilities		(70,378)	(84,497)
Increase in employee benefit obligations		15,859	29,030
<b>Income tax paid</b>		<b>(12,346)</b>	<b>(64,242)</b>
<b>Net cash from operating activities</b>		<b>1,436,496</b>	<b>1,347,080</b>
<b>Cash flows from investing activities</b>			
Dividends received		680	567
Interest received		6,988	9,316
Sale of property, plant and equipment and other intangible assets		9,429	27,727
Sale of shares		14,910	550
Repayment of loans advanced		-	1,536
Loss of control over subsidiary, net of cash disposed of		-	78,000
Sale of organised part of business		3,722	138
Purchase of property, plant and equipment and other intangible assets		(976,975)	(757,925)
Acquisition of shares in related entities		(13,560)	(13,017)
Acquisition of a subsidiary, net of cash acquired	2	-	(129,132)
Bank deposits for financing of maintenance shutdown		-	(45,721)
Security deposits (margins)		134	586
Funds contributed to the oil extraction facilities decommissioning fund	30.1	(1,654)	(1,886)
Settlement of derivative financial instruments		17,912	(8,790)
<b>Net cash from investing activities</b>		<b>(938,414)</b>	<b>(838,051)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings	27.1	963,045	542,530
Issue of notes	27.2	203,050	362,367
Cash flows attributable to changes in interest in subsidiaries not resulting in loss of control	2	(278)	(182)
Repayment of borrowings	27.1	(1,263,548)	(1,171,040)
Redemption of notes	27.2	-	(364,000)
Interest paid		(176,361)	(205,185)
Decrease in finance lease liabilities		(16,811)	(15,234)
Settlement of derivative financial instruments		39,801	(32,534)
<b>Net cash from financing activities</b>		<b>(251,102)</b>	<b>(883,278)</b>
<b>Total net cash flow</b>		<b>246,980</b>	<b>(374,249)</b>
Effect of exchange rate fluctuations on cash held		(1,553)	(27,958)
<b>Change in net cash</b>		<b>245,427</b>	<b>(402,207)</b>
<b>Cash at beginning of the period</b>		<b>(240,655)</b>	<b>161,552</b>
<b>Cash at end of the period</b>	20	<b>4,772</b>	<b>(240,655)</b>

The Notes to the consolidated financial statements, presented on pages 8 to 112 are an integral part of the statements.

(This is a translation of a document originally issued in Polish)

**THE LOTOS GROUP**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**for 2013**

PLN '000	Note	Share capital	Share premium	Cash flow hedging reserve	Retained earnings	Exchange differences on translating foreign operations	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
<b>Jan 1 2013</b>		<b>129,873</b>	<b>1,311,348</b>	<b>(36,801)</b>	<b>7,627,427</b>	<b>33,878</b>	<b>9,065,725</b>	<b>699</b>	<b>9,066,424</b>
<i>Net profit</i>		-	-	-	39,415	-	39,415	13	39,428
<i>Other comprehensive income (net)</i>		-	-	97,820	(152)	(13,644)	84,024	(2)	84,022
<b>Total comprehensive income</b>		-	-	97,820	39,263	(13,644)	123,439	11	123,450
Purchase of shares from non-controlling shareholders	2	-	-	-	143	-	143	(421)	(278)
<b>Dec 31 2013</b>		<b>129,873</b>	<b>1,311,348</b>	<b>61,019</b>	<b>7,666,833</b>	<b>20,234</b>	<b>9,189,307</b>	<b>289</b>	<b>9,189,596</b>
<b>Jan 1 2012</b>		<b>129,873</b>	<b>1,311,348</b>	<b>(419,281)</b>	<b>6,700,396</b>	<b>59,100</b>	<b>7,781,436</b>	<b>947</b>	<b>7,782,383</b>
<i>Net profit</i>		-	-	-	927,849	-	927,849	27	927,876
<i>Other comprehensive income (net)</i>		-	-	382,480	(897)	(25,222)	356,361	(14)	356,347
<b>Total comprehensive income</b>		-	-	382,480	926,952	(25,222)	1,284,210	13	1,284,223
Purchase of shares from non-controlling shareholders		-	-	-	79	-	79	(261)	(182)
<b>Dec 31 2012 (restated)</b>		<b>129,873</b>	<b>1,311,348</b>	<b>(36,801)</b>	<b>7,627,427</b>	<b>33,878</b>	<b>9,065,725</b>	<b>699</b>	<b>9,066,424</b>

The Notes to the consolidated financial statements, presented on pages 8 to 112, are an integral part of the statements.

(This is a translation of a document originally issued in Polish)

## NOTES TO THE FINANCIAL STATEMENTS

### 1. General information

Grupa LOTOS Spółka Akcyjna ("Grupa LOTOS S.A.", the "Company", the "Parent"), was established on September 18th 1991. The Company's registered address is ul. Elbląska 135, 80-718 Gdańsk, Poland.

The core business of the LOTOS Group (the "LOTOS Group" the "Group") consists in the production and processing of refined petroleum products and their wholesale and retail sale. The Group's business also includes acquisition of crude oil and natural gas deposits and oil and gas production. Based on the classification applied by the Warsaw Stock Exchange, Grupa LOTOS S.A. is included in the fuel sector.

### 2. Composition of the Group and its changes

As at December 31st 2013, the LOTOS Group comprised Grupa LOTOS S.A. (the Parent) and 34 production, service and trading companies, including:

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

In addition, the Group holds shares in equity-accounted entities and a proportionately-consolidated entity.

Detailed information on the registered addresses and business profiles of these entities, the Group's ownership interests and the applied method of consolidation is presented below.

Name	Registered office	Business profile	The Group's ownership interest	
			Dec 31 2013	Dec 31 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 network	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 Asphalt 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 service activities	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. w likwidacji (in liquidation)	Kraków	Dormant	100.00%	100.00%
LOTOS Park Technologiczny Sp. z o.o.	Jasło	Dormant	100.00%	100.00%



**THE LOTOS GROUP**  
**Consolidated financial statements for 2013**  
**Notes to the financial statements**

Name	Registered office	Business profile	The Group's ownership interest	
			Dec 31 2013	Dec 31 2012
Indirect fully-consolidated subsidiaries				
LOTOS Terminale Group				
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%
LOTOS Petrobaltic Group				
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	99.98% <sup>(4)</sup>	99.96%
Aphrodite Offshore Services N.V.	Curaçao	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>	-
B8 Spółka z ograniczoną odpowiedzialnością BALTIC S.K.A.	Gdańsk	Exploration and production of crude oil and natural gas (dormant)	99.98% <sup>(4, 6)</sup>	-
Miliana Shipholding Company Ltd. (parent of another group: Miliana Shipholding Group)	Cyprus, Nicosia	Storage and transport of crude oil, other sea transport services	99.98% <sup>(4)</sup>	99.96%
Technical Ship Management Sp. z o.o. (parent of another group: Technical Ship Management Group)	Gdańsk	Sea transport support activities, ship operation advisory services	99.98% <sup>(4)</sup>	99.96%
SPV Baltic Sp. z o.o.	Gdańsk	Provision of sea transport and related services	99.98% <sup>(4, 7)</sup>	-
Miliana Shipmanagement Ltd.	Cyprus, Nicosia	Provision of sea transport and related services	99.98% <sup>(4)</sup>	99.96%
Miliana Shipping Group Ltd. (parent of another group: Miliana Shipping Group Group)	Cyprus, Nicosia	Management of own assets	99.98% <sup>(4)</sup>	99.96%
Bazalt Navigation Co. Ltd.	Cyprus, Nicosia	Ship chartering	99.98% <sup>(4)</sup>	99.96%
Granit Navigation Company Ltd.	Cyprus, Nicosia	Ship chartering	99.98% <sup>(4)</sup>	99.96%
Kambr Navigation Company Ltd.	Cyprus, Nicosia	Ship chartering	99.98% <sup>(4)</sup>	99.96%
St. Barbara Navigation Company Ltd.	Cyprus, Nicosia	Ship chartering	99.98% <sup>(4)</sup>	99.96%
Petro Icarus Company Ltd.	Cyprus, Nicosia	Ship chartering	99.98% <sup>(4)</sup>	99.96%
Petro Aphrodite Company Ltd.	Cyprus, Nicosia	Ship chartering	99.98% <sup>(4)</sup>	99.96%
AB LOTOS Geonafra (parent of another group: AB LOTOS Geonafra Group)	Lithuania, Gargždai	Crude oil exploration and production, drilling services, and purchase and sale of crude oil	99.98% <sup>(4)</sup>	99.96%
UAB Genciu Nafta	Lithuania, Gargždai	Crude oil exploration and production	99.98% <sup>(4)</sup>	99.96%
UAB Manifoldas	Lithuania, Gargždai	Crude oil exploration and production	99.98% <sup>(4)</sup>	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%
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%
Proportionately-consolidated entities				
AB LOTOS Geonafra Group				
UAB Minijos Nafta	Lithuania, Garoždai	Crude oil exploration and production	49.99% <sup>(4)</sup>	49.98%

<sup>(1)</sup> In 2013, Grupa LOTOS S.A. continued the squeeze-out process at LOTOS Petrobaltic S.A. Following the acquisition of shares in LOTOS Petrobaltic S.A. as part of the squeeze-out, as at December 31st 2013 Grupa LOTOS S.A. held a 99.98% interest in the share capital of LOTOS Petrobaltic S.A.

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

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

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

<sup>(5)</sup> On December 30th 2013, LOTOS Petrobaltic S.A. acquired 100% of shares in B8 Sp. z o.o. One of the objectives of the acquisition was to create establish a vehicle for the financing of development of the B-8 field (see below).

<sup>(6)</sup> On December 30th 2013, LOTOS Petrobaltic S.A. acquired 99.5% of shares 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's shares, is a minority shareholder and the general partner in the company. One of the objectives of the acquisition was to create establish a vehicle for the financing of development of the B-8 field (see below).

<sup>(7)</sup> On December 20th 2013, Technical Ship Management Sp. z o.o. acquired 100% of shares in SPV Baltic Sp. z o.o.

<sup>(8)</sup> On November 25th 2013, Grupa LOTOS S.A. sold 1,000 shares in LOTOS Tank Sp. z o.o., representing 50% of the company's share capital, to BP Europe SE (see below). On December 17th 2013, a change of the company's name from LOTOS Tank Sp. z o.o. to LOTOS-Air BP Polska Sp. z o.o. was registered.

<sup>(9)</sup> 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 May 17th 2013.

<sup>(10)</sup> 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%).

The Group'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 Sp. z o.o. i wspólnicy sp.k") 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 IFRS purposes, Baltic Gas Sp. z o.o. i wspólnicy sp.k is an entity jointly-controlled by the Group.

#### Acquisition of Series A shares in LOTOS Petrobaltic S.A.

In 2013, Grupa LOTOS S.A. continued the squeeze-out of non-controlling interests in LOTOS Petrobaltic S.A. (excluding shares held by the State Treasury). From January 1st to December 31st 2013, the Company acquired 2,212 shares with a total value of PLN 278 thousand, representing 0.0223% of the share capital entered in the share register.

In line with IAS 27 Consolidated and Separate Financial Statements, the above transactions were accounted for as equity transactions; as a result, an amount of PLN 143 thousand was recognised as retained earnings attributable to the Parent, and the value of non-controlling interests decreased by PLN 421 thousand.

Following the acquisition of shares in LOTOS Petrobaltic S.A. as part of the squeeze-out, as at December 31st 2013 Grupa LOTOS S.A. held a 99.98% interest in the share capital of LOTOS Petrobaltic S.A. (9,938,484 shares).

#### CalEnergy Resources Poland Sp. z o.o. becomes a limited partner in Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp. k.

On April 9th 2013, CalEnergy Resources Poland Sp. z o.o. ("CalEnergy") became a limited partner in Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy spółka komandytowa ("Baltic Gas Sp. z o.o. i wspólnicy sp.k"), a partnership established by LOTOS Petrobaltic S.A. for the purpose of implementing an investment agreement with CalEnergy of October 2012, which provides a framework for cooperation between the parties through a special purpose vehicle (the agreement was concluded subject to certain conditions precedent). CalEnergy made a cash contribution of PLN 5 thousand to Baltic Gas Sp. z o.o. i wspólnicy sp.k. Concurrently, LOTOS Petrobaltic S.A., as the other limited partner, increased its contribution to equity from PLN 5 thousand to PLN 52,000 thousand, making a cash payment of PLN 295 thousand and an in-kind contribution worth PLN 51,700 thousand. The cooperation agreement provides development of the B-4 and B-6 fields. Under the preparatory work schedule, seismic acquisition and selection of a preliminary field development concept are scheduled for 2013–2014. Upon completion of that stage, the partners will be able to make a final decision whether to pursue development of the B-4 and B-6 fields.

Acquisition of an equity interest in Baltic Gas Sp. z o.o. i wspólnicy sp.k by CalEnergy marked the end of preparation for joint operations on the two fields and the beginning of CalEnergy's financial commitment to the project. During the preparatory work, a number of conditions precedent for project launch were met, including the transfer of licences to Baltic Gas Sp. z o.o. i wspólnicy sp.k upon LOTOS Petrobaltic S.A.'s consent. By virtue of the Minister of Environment's decision dated March 13th 2013, the following licences were transferred to Baltic Gas Sp. z o.o. i wspólnicy sp.k:

- licence for exploration and appraisal of oil and gas deposits in the Gaz Północ area,
- licence for extraction of wet natural gas from the B-4 field located in the Polish exclusive economic zone of the Baltic Sea,
- licence for extraction of natural gas condensate from the B-6 field located in the Polish exclusive economic zone of the Baltic Sea.

Under the investment agreement, CalEnergy will finance the costs of seismic surveys, selection of the development concept and preparation of the front end engineering design.

The partners' participation in profits and losses and the percentage ownership interest in Baltic Gas Sp. z o.o. i wspólnicy sp.k, calculated on the basis of the value of contributions made by individual partners, is presented above.

**Agreement on joint financing of the development of the B-8 oil field in the Baltic Sea. Acquisition of shares in special purpose vehicles**

On October 7th 2013, LOTOS Petrobaltic S.A. and Polskie Inwestycje Rozwojowe S.A. ("PIR") executed an agreement to jointly finance the development of the B-8 oil field in the Baltic Sea. The purpose of the agreement is to work out the terms and structure of the project financing; a special purpose vehicle (SPV) has been established, to which LOTOS Petrobaltic S.A. will transfer the mining usufruct rights and the assets related to the development of the B-8 field. The tasks to be carried out by the SPV include completion of the drilling work within the field, installation of subsea production facilities, and conversion of the Petrobaltic drilling platform into a production unit. Subsequently, the SPV will produce and sell oil and gas extracted from the B-8 field. PIR will have its claims subordinated to those of banks as senior lenders. The financing can take the form of a private placement of corporate bonds with restricted transferability, and the financing period should not exceed 10 years. PIR has expressed its willingness to participate in the project financing on market terms. The total cost of the B-8 project, including the value of assets contributed by LOTOS Petrobaltic S.A. to the SPV, stands at approximately PLN 1,600m, of which the market value of the assets contributed by LOTOS Petrobaltic S.A. is approximately PLN 700m, and the total external financing to be provided by banks and PIR amounts to approximately PLN 900m. Under the agreement, PIR's share in the project financing will not exceed PLN 563m. The parties want the first tranche of the PIR financing to be advanced in the first half of 2014. The final project financing structure will be subject to further analyses and negotiations, and will be prepared in consultation with banks interested in providing funds for the project. Details of the final financing structure will be published in a report.

To facilitate the financing of the B-8 field development, on December 30th 2013 LOTOS Petrobaltic S.A. acquired 100% of shares in B8 Sp. z o.o. and 99.5% of shares in B8 Spółka z ograniczoną odpowiedzialnością BALTIC spółka komandytowo-akcyjna, and became a limited partner in the company. With a 0.5% equity interest, B8 Sp. z o.o. is a minority shareholder and general partner in B8 Spółka z ograniczoną odpowiedzialnością BALTIC spółka komandytowo-akcyjna.

**Sale of shares in LOTOS Tank Sp. z o.o. (currently LOTOS Air-BP Polska Sp. z o.o.) to a third party**

On November 25th 2013, Grupa LOTOS S.A. sold 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, to BP Europe SE. The transaction was concluded under the joint venture agreement of June 25th 2013 between Grupa LOTOS S.A. and BP Europa SE, concerning establishment of a new entity based on assets of LOTOS Tank Sp. z o.o., through which the two partners will pursue joint operations in the aviation fuel market.

The effect of the loss of control over the subsidiary was presented in the consolidated statement of comprehensive income for 2013 under Loss of control over subsidiary, in the amount of PLN 13,472 thousand. In the consolidated statement of cash flows for 2013, net cash proceeds of PLN 14,907 thousand from the above transaction were presented under *Sale of shares*. Until the date of the loss of control, the subsidiary had been fully consolidated and a part of 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.

As a result of the transaction and in line with IAS 27.34.d, the Group disclosed the fair value of 50% of the shares resulting from recognition of the investment held in the former subsidiary, in the amount of PLN 14,907 thousand. The shares are disclosed in the consolidated statement of financial position under *Equity-accounted entities*.

### **3. Basis of preparation**

These consolidated financial statements ("consolidated financial statements", "financial statements") were prepared in accordance with the International Financial Reporting Standards ("IFRS") endorsed by the European Union which were in effect as at December 31st 2013. Taking into account the ongoing process of implementing the IFRSs in the EU and the business conducted by the Group, as far as the accounting policies applied by the Group are concerned, there is no difference between the IFRS that became effective and the IFRSs endorsed by the EU for 2013, except for the new set of standards: IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 Separate Financial Statements, and IAS 28 Investments in Associates and Joint Ventures, which will be applied by the Group for annual periods beginning on after January 1st 2014.

The following new standards, amendments to the existing standards and interpretations which have been endorsed by the European Union (the "EU") are effective in periods beginning after January 1st 2013:

- IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after January 1st 2013),
- Amendments to IAS 1 Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after July 1st 2012),
- Amendments to IFRS 7 Financial Instruments: Disclosures: Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1st 2013),
- Amendments to IAS 19 Employee Benefits (effective for annual periods beginning on or after January 1st 2013),
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine (effective for annual periods beginning on or after January 1st 2013),
- Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after January 1st 2012; in the EU effective for annual periods beginning on or after January 1st 2013),
- Amendments to IFRS 1 First-Time Adoption of International Financial Reporting Standards: Government Loans (effective for annual periods beginning on or after January 1st 2013),
- Amendments introduced as part of Improvements to IFRSs published in May 2012 (effective for annual periods beginning on or after January 1st 2013).

The Group verified these amendments and decided that they had no material impact on the accounting policies applied by the Group to prepare these consolidated financial statements. For information on the impact of amendments under IAS 19 Employee Benefits, see Note 6.

The Parent's functional currency and the presentation currency of these consolidated financial statements is the Polish zloty. These consolidated financial statements were prepared in thousands of zloty and, unless indicated otherwise, all amounts are stated in thousands of zloty.

#### **4. New standards and interpretations, which have been published, but are not applicable**

The following new standards, amendments to the existing standards and interpretations have been endorsed by the European Union (the "EU"):

- IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after January 1st 2013; in the EU effective for annual periods beginning on or after January 1st 2014),
- IFRS 11 Joint Arrangements (effective for annual periods beginning on or after January 1st 2013; in the EU effective for annual periods beginning on or after January 1st 2014),
- IFRS 12 Disclosure of Interests in Other Entities (effective for annual periods beginning on or after January 1st 2013; in the EU effective for annual periods beginning on or after January 1st 2014),
- IAS 27 Separate Financial Statements, as amended in 2011 (effective for annual periods beginning on or after January 1st 2013; in the EU effective for annual periods beginning on or after January 1st 2014),
- IAS 28 Investments in Associates and Joint Ventures, as amended in 2011 (effective for annual periods beginning on or after January 1st 2013; in the EU effective for annual periods beginning on or after January 1st 2014),
- Amendments to IAS 32 Financial Instruments: Presentation: Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1st 2014),
- Amendments to IFRS 10, IFRS 11 and IFRS 12 Transition Guidance (effective for annual periods beginning on or after January 1st 2013; in the EU effective for annual periods beginning on or after January 1st 2014),
- Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities (effective for annual periods beginning on or after January 1st 2014),
- Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting, published on June 27th 2013 (effective for annual periods beginning on or after January 1st 2014),
- Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets, published on May 29th 2013 (effective for annual periods beginning on or after January 1st 2014),

Due to the Group's obligation to apply new standards, i.e. IFRS 10, IFRS 11, IFRS 12, IAS 27, and IAS 28 as of January 1st 2014, the Group will cease to use the method of proportionate consolidation for the annual periods beginning on or after January 1st 2014 and will account for shares in UAB Minijos Nafta with the equity method.

Starting from January 1st 2014, the investment in UAB Minijos Nafta will be disclosed in the consolidated financial statements under *Equity-accounted entities* as the Group's share in net assets of the company, accounting for changes in the assets in the future reporting periods, as well as elimination of the company's intra-Group transactions with other related parties. The Group will no longer disclose the investment as a share in UAB Minijos Nafta's assets, liabilities, revenue and expenses, which were previously aggregated with the corresponding items in the consolidated financial statements. The table below presents separate financial data of UAB Minijos Nafta as at December 31st 2013, as per the Group's ownership interest.

PLN '000	Dec 31 2013
Non-current assets	38,222
Current assets	14,728
Liabilities	11,056
<b>Net assets</b>	<b>41,894</b>
PLN '000	for the year ended Dec 31 2013
Revenue	38,805
Net profit	4,730

New standards, amendments to the existing standards and interpretations which have not been adopted by the European Union:

- Amended IFRS 9 Financial Instruments: Classification and Measurement (the effective date was deferred by the IASB with no planned endorsement date given),
- IFRIC 21 Levies, published on May 20th 2013 (effective for annual periods beginning on or after January 1st 2014),
- Amendments introduced as part of the Improvements to IFRSs 2010-2012 cycle, published on December 12th 2013 (effective for annual periods beginning on or after July 1st 2014),
- Amendments introduced as part of the Improvements to IFRSs 2011-2013 cycle, published on December 12th 2013 (effective for annual periods beginning on or after July 1st 2014),
- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after July 1st 2014),
- IFRS 14 Regulatory Deferral Accounts, published on January 30th 2014 (effective for annual periods beginning on or after January 1st 2016).

The Group has not opted for early application of any of the standards, interpretations, or amendments which have not yet become effective. The Company's Management Board is analysing and assessing the effect of the new standards and interpretations on the accounting policies applied by the Group and on the Group's future financial statements.

## **5. Material judgements and estimates**

The preparation of financial statements in accordance with the International Financial Reporting Standards requires a number of assumptions, judgements and estimates which affect the value of items disclosed in these financial statements.

Although the assumptions and estimates are based on the management's best knowledge of the current and future events and developments, the actual results might differ from the estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Any change in an accounting estimate is recognised in the period in which it has been made if it refers exclusively to that period, or in the current period and future periods if it refers to both the current period and future periods. Material assumptions used in making the estimates are described in the relevant notes to these financial statements.

While making assumptions, estimates and judgements, the Parent's Management Board (Management Board) relies on its experience and knowledge and may take into consideration opinions, analyses and recommendations issued by independent experts.

Apart from the accounting estimates, the professional judgement of the management was of key importance in the application of the accounting policies in the cases described below.

### **Employee benefit obligations**

Employee benefit obligations are estimated using actuarial methods. For information on actuarial assumptions and valuation of employee benefit obligations see Note 29.4.

### **Amortisation and depreciation**

Depreciation/amortisation charges are determined based on the expected useful lives of property, plant and equipment and intangible assets. The Group reviews the useful lives of its assets annually, based on current estimates. The relevant estimate update which had an effect on the Group's financial statements for 2013 chiefly involved a PLN 8,619 thousand decrease in depreciation at the Parent.

Depreciation/amortisation of the assets of onshore and offshore oil and gas facilities is calculated (with the units-of-production depreciation method) based on 2P-category hydrocarbon reserve estimates (proved and probable reserves), evaluated, reviewed and updated by the Group, as well as forecast production volumes for the individual fields based on geological data, test production, subsequent production data and the schedule of work adopted in the long-term strategy.

In 2013, the Group made an adjustment to its estimates of hydrocarbon resources used for calculating (with the units-of-production amortisation method) the amortisation of intangible assets in the upstream segment at the AB LOTOS Geonafra Group companies in Lithuania. The change in estimates resulted in lower value of resources used for calculating (with the units-of-production amortisation method) the amortisation of Lithuanian exploration and production licences in 2013 and increased the amortisation charge for these assets in these financial statements by PLN 5,669 thousand (LTL 4,648 thousand).

Following the purchase of a portfolio of Heimdal assets on the Norwegian Continental Shelf, the estimated oil and gas resources increased, which will affect the depreciation/amortisation (with the unit-of-production method) of the Group's production assets as of January 1st 2014.

### **Fair value of financial instruments**

Fair value of financial instruments for which no active market exists is measured with the use of appropriate valuation methods. In selecting the methods and assumptions appropriate for these objectives, the Group relies on professional judgement.



For more information on the assumptions adopted for the measurement of fair value of financial instruments, see Note 7.23.

#### Deferred tax assets

The Group recognises deferred tax assets if it is assumed that taxable profit will be generated in the future against which the asset can be utilised. If taxable profit deteriorates in the future, this assumption may prove invalid. The Parent's Management Board reviews its estimates regarding the likelihood of recovering deferred tax assets taking into account changes in the factors on which such estimates were based, new information and past experience.

For information on deferred tax assets, see Note 10.3.

#### Impairment of cash-generating units, individual items of property, plant and equipment, and intangible assets

In accordance with IAS 36 Impairment of Assets, as at the end of each reporting period it is assessed whether there are any indicators of impairment of cash-generating units and individual assets. Impairment indicators may be external and may relate to market variables (including fluctuations in prices, FX rates, stock prices, interest rates and other variables related to current economic trends), and may also follow from plans, actions and developments at the Group, such as decisions concerning change, discontinuation, limitation or development of its business, technology changes, or efficiency and investment initiatives.

If there is any indication of impairment, the Group is required to estimate recoverable amounts of assets and cash-generating units. While determining such recoverable amounts, the Group takes into account such key variables as discount rates, growth rates and price ratios.

Having analysed cash flows for individual cash-generating units and run the required impairment tests for assets, the Group performed necessary adjustments to assets and presented the effect of those adjustments in these consolidated financial statements.

For information on property, plant and equipment, goodwill and other intangible assets see Notes 13, 14 and 15, which also describe the assumptions and results of impairment tests of these assets performed by the Group in 2013 and in the comparative period.

#### Provision for decommissioning of oil and gas facilities and land reclamation

As at the end of the reporting period, the Group analyses the costs necessary to decommission oil and gas facilities and the expenditure to be incurred on future land reclamation. As a result of those analyses, the Group adjusts the value of the land reclamation provision recognised in previous years to reflect the amount of estimated necessary future costs. Any changes in the estimated time value of money are also reflected in the amount of the provision. For information on the rules for recognition of these provisions and information on provisions disclosed in these financial statements for 2013 see Note 7.27.1 and Note 30.1, respectively.

#### Carbon dioxide (CO<sub>2</sub>) emission allowances

Emissions trading is a climate policy instrument designed to reduce pollutant emissions. Poland's obligation to participate in the European Union Emissions Trading Scheme stems from the commitments it accepted under the Kyoto Protocol, a legally binding international agreement, setting out a long-term plan for reducing emissions of six greenhouse gases, including carbon dioxide. The emissions trading mechanism was set up in 2005 under directive 2003/87/EC of the European Parliament and of the Council. The relevant EU legislation was implemented into Polish law with the Act on Trading in Emission Allowances for Greenhouse Gases and Other Substances of December 22nd 2004, subsequently superseded by the Act on Trading in Greenhouse Gas Emission Allowances of April 28th 2011. In 2012 and 2013, extensive work was carried out on a new bill to govern emissions trading, which was put for public consultations at the end of December 2013 and beginning of January 2014. The proposed new regulations introduce a number of changes to the greenhouse gas emissions trading scheme in the 2013-2020 settlement period (phase III of the EU CO<sub>2</sub> Emissions Trading Scheme). As at December 31st 2013, these changes are not effective and they do not affect the estimates shown in these financial statements. However, the Group continues to monitor the legislative process, and will account for its result while managing risk related to carbon emission allowances in periods following introduction of the changes.

CO<sub>2</sub> emission allowances are presented by the Company in its financial statements in accordance with the net liability approach, which means that the Group recognises only those liabilities that result from exceeding the limit of emission allowances granted, and the liability is recognised only after the Group actually exceeds the limit.

As the European Commission approved the planned allowance limits for the final group of Member States, including Poland, before the release of these financial statements, the Management Board is of the opinion that the Group will be able to use the allocated allowances for 2013 to settle emissions in line with the CO<sub>2</sub> emission settlement schedule for 2013, i.e. by the end of April 2014.

For information on carbon dioxide (CO<sub>2</sub>) emission allowances, see Notes 7.33, 32.2, and 34.

**6. Effect of final accounting for the acquisition of UAB Manifoldas and change of information presented in previous reporting periods, change of accounting policies and correction of errors**

**Change in comparative data relating to the final accounting for the acquisition of shares in UAB Manifoldas by AB LOTOS Geonafta**

On September 27th 2012, AB LOTOS Geonafta concluded an agreement for purchase of 50% of shares in UAB Manifoldas from a natural person. On November 28th 2012, after clearance from the Lithuanian anti-trust authority was obtained and other contractual conditions were fulfilled, AB LOTOS Geonafta acquired a 50% interest in UAB Manifoldas.

The acquisition price of the 50% of shares in UAB Manifoldas comprised the base purchase price of PLN 101,773 thousand and the amount of PLN 7,899 thousand being the difference between UAB Manifoldas's receivables and liabilities.

Following the transaction, as at December 31st 2012 AB LOTOS Geonafta, a company of the LOTOS Petrobaltic Group, held a 100% interest in UAB Manifoldas.

AB LOTOS Geonafta is the parent of another group (the AB LOTOS Geonafta Group), composed of:

- UAB Manifoldas (fully consolidated, 100% of shares held by AB LOTOS Geonafta),
- UAB Genciu Nafta (fully consolidated, 100% of shares held by AB LOTOS Geonafta),
- UAB Minijos Nafta (consolidated with proportionate method, 50% of shares held by AB LOTOS Geonafta).

Given the fact that prior to November 28th 2012 AB LOTOS Geonafta held 50% of shares in UAB Manifoldas, the transaction described above, within the meaning of IFRS 3 Business Combinations, is accounted for as a business combination achieved in stages (step acquisition). In the case of a step acquisition, the acquirer remeasures its previously held equity interest in the acquiree at its combination-date fair value and recognises the resulting gain or loss in the statement of comprehensive income.

The business combination of November 28th 2012 ("purchase date", "acquisition date" or "combination date") was initially accounted for as at December 31st 2012. In accordance with IFRS 3 Business Combinations, a business combination must be finally accounted for within a year from the acquisition date. The transaction was finally accounted for retrospectively in the consolidated financial statements; accordingly, the comparative data was adjusted to reflect the fair value measurement of the acquired net assets. Finally determined values and their effect on the comparative data for the date of assuming control, that is November 28th 2012, are presented below.

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	Initial determination of acquisition-date fair value	Final determination of acquisition-date fair value	Effect of final accounting for the acquisition
PLN '000	November 28th 2012	November 28th 2012	
Consideration paid (fair value as at the date of acquiring 50% of shares in the acquiree) <b>(A)</b>	109,672	109,672	-
Combination-date fair value of the acquirer's previously held 50% equity interest in the acquiree <b>(B)</b>	109,672	109,672	-
<b>Total (A+B)</b>	<b>219,344</b>	<b>219,344</b>	<b>-</b>
Equity interest in the acquiree	100%	100%	
<b>Assets and liabilities of the acquiree:</b>			
Non-current assets, including:	213,184	217,274	4,090
<i>Property, plant and equipment</i>	35,121	35,121	-
<i>Intangible assets</i>	177,725	181,815	4,090
Current assets, including:	45,095	45,596	501
<i>Inventories</i>	1,745	2,246	501
<i>Trade receivables</i>	29,612	29,612	-
<i>Cash and cash equivalents</i>	13,713	13,713	-
<b>Total acquired assets</b>	<b>258,279</b>	<b>262,870</b>	<b>4,591</b>
Non-current liabilities, including:	30,414	31,102	688
<i>Deferred tax liabilities</i>	26,659	27,347	688
<i>Other liabilities and provisions</i>	3,755	3,755	-
Current liabilities	8,521	8,521	-
<b>Total assumed liabilities</b>	<b>38,935</b>	<b>39,623</b>	<b>688</b>
<b>Acquired net assets (C)</b>	<b>219,344</b>	<b>223,247</b>	<b>3,903</b>
Interest in acquired net assets	219,344	219,344	-
<b>Gain on bargain purchase (C-A-B)</b>	<b>-</b>	<b>3,903</b>	<b>3,903</b>

(A) Represents the fair value of the payment for 50% of shares in UAB Manifoldas acquired on November 28th 2012.

(B) Represents the fair value of the 50% interest in the consolidated net assets of UAB Manifoldas previously held by AB LOTOS Geonafra (before November 28th 2012).

(C) Represents the acquisition-date fair value of identifiable net assets of UAB Manifoldas.

The Group recognised identifiable intangible assets representing licences held by UAB Manifoldas, under which the licensee has the right to operate crude oil fields in the Republic of Lithuania. The value of the licences was measured at PLN 181,815 thousand (LTL 152,747 thousand), taking into consideration tax effect of PLN 27,272 thousand (LTL 22,912 thousand), computed at the 15% tax rate applicable in the Republic of Lithuania.

The fair value of licences identified in the business combination was measured with the excess earnings method subject to the prudent valuation principle. Based on the Group's current geological expert analyses of the reserves, confirmed by reports of independent experts, as well as current estimated production levels and credible projections of oil market prices used in calculation, the fair value of the licences measured as at the day of final accounting for the acquisition of UAB Manifoldas was slightly higher than initial estimates. As a result, the Group disclosed a surplus of fair value of the acquired net assets over the price paid and recognised a gain on bargain purchase.

The Group recognised a gain on bargain purchase of PLN 3,903 thousand (LTL 3,279 thousand) and presented it in the statement of comprehensive income as an adjustment to comparative data under *Effect of accounting for step acquisition of control (GK AB LOTOS Geonafra)*. The calculation of the adjustment of comparative data in the statement of financial position is presented in the table below.



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	Effect of final accounting for the acquisition	Adjustment to amortisation of intangible assets and its tax effect	Adjustment to exchange differences on translating foreign operations	Adjustment in the statement of financial position as at December 31st 2012
PLN '000				
<b>Assets</b>				
Intangible assets	4,090	125	(24)	4,191
Inventories	501	-	(3)	498
<b>Total</b>	<b>4,591</b>	<b>125</b>	<b>(27)</b>	<b>4,689</b>
<b>Equity and liabilities</b>				
Retained earnings	3,903	106	-	4,009
Exchange differences on translating foreign operations	-	-	(24)	(24)
Deferred tax liabilities	688	19	(3)	704
<b>Total</b>	<b>4,591</b>	<b>125</b>	<b>(27)</b>	<b>4,689</b>

**Change in the Group's accounting policies following application of the amended IAS 19 Employee benefits, and other presentation changes related to employee benefits**

The Group applied the amended IAS 19 Employee Benefits in its 2013 financial statements and restated the relevant data for the comparative period ended December 31st 2012. The restatement involved disclosure of actuarial gains/losses on measurement of certain post-employment benefits in other comprehensive income. These changes, reflected in Retained earnings, had no effect on the presentation in the statement of financial position or in the statement of changes in equity, and their impact on the statement of comprehensive income was immaterial.

Starting from 2013, the Group recognises the cost of discount on its employee benefit obligations in finance costs rather than in operating profit/loss, as was the case earlier. The Group's comparative data in the statement of comprehensive income for 2012 was adjusted accordingly. As a result, the finance costs rose and the operating profit/loss increased by PLN 6,544 thousand.

**Other changes**

The Group reclassified some of its costs (amortisation/depreciation, overhauls, real property tax) previously recognised as administrative expenses, into cost of sales. The Group's comparative data for the year ended December 31st 2012 was restated accordingly. As a result, administrative expenses decreased by PLN 17,481 thousand, while cost of sales increased by the same amount.

In the statement of financial position, the Group changed the presentation of selected receivables and payables, previously disclosed under *Trade receivables/payables*. Following these changes, comparative data was restated – *Trade receivables* as at December 31st 2012 decreased by PLN 7,523 thousand, while *Other current assets* as at that date increased by the same amount, and by PLN 4,293 thousand as at January 1st 2012. *Trade payables* as at December 31st 2012 declined, while *Other provisions and liabilities* rose by PLN 4,309 thousand as at December 31st 2012 and by PLN 9,483 thousand as at January 1st 2012.

The Company offset prepayments with corresponding property insurance liabilities, as a result of which the presented comparative data as at December 31st 2012 and January 1st 2012 was restated. In the statement of financial position, *Other current assets* and *Other liabilities and provisions* decreased by PLN 33,503 thousand as at December 31st 2012 and by PLN 26,588 thousand as at January 1st 2012.

In the statement of comprehensive income, the Group applied uniform rules for the presentation of gains and losses in *Other income/expenses*. Gains and losses on disposal of non-financial non-current assets, impairment losses and reversal of impairment losses on property, plant and equipment, other intangible assets and receivables, as well as the recognition and release of provisions are presented on a net basis, under Other income / expenses. The change was applied also to the comparative data.

## **7. Accounting policies**

These consolidated financial statements have been prepared in accordance with the historical cost principle, except with respect to financial instruments, which are measured at fair value.

The key accounting policies applied by the Group are presented below.

## **7.1 Basis of consolidation**

These consolidated financial statements have been prepared on the basis of the financial statements of the Parent and financial statements of its subsidiaries, jointly-controlled entities and associates, prepared as at December 31st 2013.

All significant balances and transactions between the related entities, including material unrealised profits on transactions, have been eliminated in their entirety. Unrealised losses are eliminated unless they are indicative of impairment.

Subsidiaries are fully consolidated starting from the date when the Group assumes control over them and cease to be consolidated when the control is lost. The Company is deemed to exert control when it holds, directly or through its subsidiaries, more than 50% of the votes in a given entity, unless it is possible to prove that the ownership of over 50% of the votes is not tantamount to exerting control. The Company's ability to decide on an entity's financial and operational policies, even where it does not hold the majority of votes in that entity, is also deemed exerting control. As at the end of the reporting period, the Company held shares in an equity-accounted jointly-controlled entity.

## **7.2 Revenue**

Revenue is disclosed at the fair value of consideration received or due for the sale of products, merchandise and services, executed in the ordinary course of business, less discounts, value added tax (VAT) and other sales-related taxes (excise duty, fuel charge). Revenue from sale of products and merchandise is recognised at the moment of delivery, when material risk and benefits resulting from the ownership of the products and merchandise have been transferred to the purchaser.

## **7.3 Dividend income**

Dividend is recognised as finance income as at the date on which the appropriate governing body of the dividend payer adopts a resolution concerning distribution of profit, unless the resolution specifies another dividend record date.

## **7.4 Interest income**

Interest income is recognised as the interest accrues (using the effective interest rate), unless its receipt is doubtful.

## **7.5 Taxes**

### **7.5.1 Income tax**

Mandatory decrease in profit/(increase in loss) comprises: current income tax (CIT) and deferred income tax. The current portion of income tax is calculated based on net profit/(loss) (taxable income) for a given financial year. Net profit (loss) for tax purposes differs from net profit (loss) for accounting purposes due to temporary differences between revenue amounts calculated for these two purposes, including income which is taxable and costs which are tax-deductible in a period other than the current accounting period, as well as permanent differences attributable to income and cost which will never be accounted for in tax settlements. Tax charges are calculated based on the tax rates effective for a given financial year.

For the purposes of financial reporting, the Group recognises deferred tax liabilities using the balance-sheet liability method in relation to all temporary differences existing as at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts disclosed in the consolidated financial statements.

Deferred tax liability is recognised for all taxable temporary differences:

- except to the extent that the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination, and, at the time of the transaction, affects neither accounting pre-tax profit nor taxable profit (tax loss), and
- in the case of taxable temporary differences associated with investments in subsidiaries, jointly-controlled entities or associates and interests in joint ventures, unless the investor is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are disclosed in relation to all deductible temporary differences, unused tax assets, and unused tax losses brought forward in the amount of the probable taxable income which would enable these differences, assets and losses to be used:

- except to the extent that the deferred tax assets related to deductible temporary differences arise from the initial recognition of an asset or liability in a transaction which is not a business combination, and, at the time of the transaction, affects neither accounting pre-tax profit nor taxable income (tax loss), and
- in the case of deductible temporary differences associated with investments in subsidiaries, jointly-controlled entities or associates and interests in joint ventures, the related deferred tax assets are recognised in the statement of financial position to the extent it is probable that in the foreseeable future the temporary differences will be reversed and taxable income will be generated which will enable the deductible temporary differences to be offset.

The carrying amount of deferred tax assets is revised as at the end of each reporting period and is subject to appropriate reduction to the extent it is no longer probable that taxable income sufficient for its partial or full realisation would be generated.

Deferred tax assets and deferred tax liabilities are calculated using tax rates expected to be effective at the time of realisation of particular asset or liability, based on tax rates (and tax legislation) effective as at the end of the reporting period or tax rates (and tax legislation) which as at the end of the reporting period are certain to be effective in the future. The effect of deferred tax on items posted directly to equity is recognised in equity through other comprehensive income.

Deferred tax assets and deferred tax liabilities are presented in the statement of financial position in the amount obtained after they are offset for particular entities consolidated by the Company.

#### **7.5.2 Value-added tax (VAT), excise duty and fuel charge**

Revenue, expenses, assets and liabilities are recognised net of value-added tax, excise duty and fuel charge:

- except where the value-added tax (VAT) paid on the purchase of assets or services is not recoverable from the tax authorities (in such a case it is recognised in the cost of a given asset or as part of the cost item), and
- except in the case of receivables and payables which are recognised inclusive of the value-added tax (VAT), excise duty and fuel charge.

The net amount of the value-added tax (VAT), excise duty and fuel charge which is recoverable from or payable to tax authorities is carried in the statement of financial position under receivables or liabilities, as appropriate.

#### **7.6 Foreign currency transactions**

Business transactions denominated in foreign currencies are reported in the consolidated financial statements after translation into the Group's presentation currency (Polish złoty) at the following exchange rates:

- the exchange rate actually applied on that date due to the nature of the transaction – in the case of sale or purchase of foreign currencies;
- the mid rate quoted for a given currency by the National Bank of Poland (the "NBP") for the day immediately preceding the transaction date – in the case of payment of receivables or liabilities where there is no rationale for using the exchange rate referred to above, and for other transactions.

The exchange rate applicable to purchase invoices is the mid rate quoted by the National Bank of Poland for the last business day immediately preceding the invoice date, and the exchange rate applicable to sales invoices is the mid rate quoted by the National Bank of Poland for the last business day immediately preceding the date of sale.

Any foreign exchange gains or losses resulting from currency translation (including intra-Group foreign currency transactions) are posted to the statement of comprehensive income, except for foreign exchange gains and losses which are treated as a part of borrowing costs and are capitalised in property, plant and equipment (foreign exchange gains and losses on interest and fees and commissions). Non-monetary items measured at historical cost in a foreign currency are translated at the exchange rate effective as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated at the exchange rate effective as at the date of determining the fair value.

The Company calculates realised and unrealised foreign exchange gains (losses) separately and recognises the resulting total balance in the statement of comprehensive income under:

- operating profit or loss: in the case of foreign exchange gains and losses related to settlement of trade receivables and payables,
- finance gain or loss: in the case of borrowings, investment commitments, and cash and cash equivalents.

Exchange differences on valuation as at the end of the reporting period of short-term investments (e.g. shares and other securities, loans advanced, cash and cash equivalents) and receivables and liabilities denominated in foreign currencies are charged to finance income or costs and operating income or expenses.

The financial statements of foreign entities are translated into the presentation currency of the consolidated financial statements at the following exchange rates:

- items of the statement of financial position – at the mid rate quoted by the National Bank of Poland for the end of the reporting period (mid rate quoted by the NBP for the end of the reporting period),
- items of the statement of comprehensive income – at the exchange rate computed as the arithmetic mean of mid rates quoted by the National Bank of Poland for the end of each month in the reporting period (NBP's average mid rate in the reporting period).

The resulting exchange differences are recognised in equity and other comprehensive income as a separate component.

Exchange differences arising on a monetary item that forms a part of a reporting entity's net investment in a foreign operation are recognised in equity and other comprehensive income, and on disposal of the investment they are reclassified to consolidated profit or loss in the statement of comprehensive income.

At the time of disposal of a foreign entity, the accumulated exchange differences recognised in equity and relating to this foreign entity are disclosed in profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets or liabilities of the foreign operation and are translated into the presentation currency of the financial statements at the exchange rate effective for the end of the reporting period.

The following exchange rates were used in the valuation of items of the statement of financial position:

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<b>NBP's mid-exchange rate quoted for:</b>	<b>Dec 31 2013 <sup>(1)</sup></b>	<b>Dec 31 2012 <sup>(2)</sup></b>
USD	3.0120	3.0996
EUR	4.1472	4.0882
NOK	0.4953	0.5552
LTL	1.2011	1.1840

<sup>(1)</sup> Mid-exchange rates table, effective for December 31st 2013.

<sup>(2)</sup> Mid-exchange rates table, effective for December 31st 2012.

The following exchange rates were used in the valuation of items of the statement of comprehensive income:

<b>NBP's average exchange rate for the reporting period</b>	<b>ended Dec 31 2013 <sup>(1)</sup></b>	<b>ended Dec 31 2012 <sup>(2)</sup></b>
USD	3.1653	3.2312
EUR	4.2110	4.1736
NOK	0.5357	0.5594
LTL	1.2196	1.2087

<sup>(1)</sup> Based on the arithmetic mean of the mid rates quoted by the NBP for the last day of each full month in the period January 1st–December 31st 2013.

<sup>(2)</sup> Based on the arithmetic mean of the mid rates quoted by the NBP for the last day of each full month in the period January 1st–December 31st 2012.

## **7.7 Property, plant and equipment**

Items of property, plant and equipment other than land are measured at cost less accumulated depreciation and impairment losses.

Land is measured at cost less impairment losses. In the case of perpetual usufruct rights to land, cost is understood to mean the amount paid for the right to a third party.

Perpetual usufruct rights to land obtained free of charge are capitalised at fair value in the accounting books.

Initial value of an item of property, plant and equipment comprises its cost, which includes all costs directly related to its acquisition and bringing it to working condition for its intended use. The cost also includes the cost of replacing component parts of plant and equipment, which is recognised when incurred, if relevant recognition criteria are fulfilled. Costs incurred on an asset which is already in service, such as costs of repairs or overhauls or operating fees, are expensed in the reporting period in which they were incurred.

Items of property, plant and equipment (including their components), other than land and property, plant and equipment used for crude oil production, are depreciated using the straight-line method over their estimated useful lives, which are as follows:

Buildings and structures	over 1 year – 80 years
Plant and equipment	over 1 year – 25 years
Vehicles and other	over 1 year – 15 years

Items of property, plant and equipment used in crude oil and gas production are depreciated using the units-of-production depreciation method, i.e. depreciation per unit of production is charged to expenses. The depreciation rate is estimated by reference to forecasts of crude oil production from a given geological area. If the estimated hydrocarbon reserves (in 2P category – proved and probable reserves) change significantly as at the end of the reporting period, depreciation per unit of produced crude oil is remeasured. Then, starting from the new financial year, the revised depreciation rate is applied.

An item of property, plant and equipment may be removed from the statement of financial position if it is sold or if the company does not expect to realise any economic benefits from its further use. Any gains or losses on derecognition of an asset from the statement of financial position (calculated as the difference between net proceeds from its sale, if any, and the carrying amount of the asset) are disclosed in the statement of comprehensive income in the period of derecognition.

The residual value, useful economic life and depreciation method are reviewed on an annual basis and adjusted – if required – with effect from the beginning of the next financial year.

In its consolidated financial statements, under property, plant and equipment the Group discloses assets corresponding to the value of provision for decommissioning of oil and gas facilities. The assets were recognised in accordance with IAS 16 Property, Plant and Equipment, which reads: "The cost of an item of property, land and equipment comprises [...] the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period". The Group's obligation to incur costs of decommissioning of the oil and gas extraction facilities results directly from the reasons specified in IAS 16 Property, Plant and Equipment. Under paragraph 63 of the standard, the entities applying the IAS are obliged to test the value of the asset periodically, at least as at the end of the reporting period.

Revaluation of assets so recognised may be caused by:

- change in estimated cash outflow necessary to ensure performance of the decommissioning obligation,
- change in the current market discount rate,
- change in the inflation rate.

Items of property, plant and equipment under construction are measured at the amount of aggregate costs directly attributable to their acquisition or production (including finance costs) less impairment losses, if any. Items of property, plant and equipment under construction are not depreciated until they are ready for their intended use.

Property, plant and equipment under construction (including assembly) are recognised at cost.

Finance costs capitalised in property, plant and equipment under construction include their costs, in line with the policies described in Note 7.22.

Cost of exploration for crude oil and natural gas is capitalised as property, plant and equipment under construction until the deposit volume and the economic viability of production are determined. Upon confirmation of the existence of reserves whose extraction is technically and economically viable, the expenditure incurred on exploration is transferred to property, plant and equipment and is subsequently depreciated. If exploration drillings do not result in discovery of any reserves whose extraction is technically and economically viable, impairment losses on property, plant and equipment under construction are recognised and charged to profit or loss of the period in which it is found that commercial production from the discovered deposits is not viable.

### **7.8 Goodwill**

The acquirer recognises the acquiree's goodwill on acquisition, equal to the excess of the difference between (A) the amount of consideration transferred, measured at its acquisition-date fair value, including the value of any non-controlling interests in the acquiree, (B) the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree (in the case of a business combination achieved in stages), and (C) the net of the acquisition-date amount, including all identifiable assets acquired and the liabilities assumed, measured at fair values as at the transaction date.

Goodwill = (C) - (A) - (B)

In the case of a business combination achieved in stages, the acquirer remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and recognises the resulting gain or loss in the statement of comprehensive income.

Following the initial recognition, goodwill is carried at cost less cumulative impairment losses. Goodwill is tested for impairment once a year. It is not amortised.

As at the date of assuming control, the acquired goodwill is allocated to every identifiable cash-generating unit. The Group calculates impairment of value by estimating the recoverable amount of the cash-generating unit relevant to a given part of goodwill. If the recoverable amount of a cash-generating unit is lower than its carrying amount, the Group recognises an impairment loss. If goodwill comprises a part of a cash-generating unit and the Group sells a part of the cash-generating unit's business, the goodwill pertaining to the sold business is included in the carrying amount of the sold business for the purpose of calculating gains or losses on disposal of the part of business. In such a case, goodwill pertaining to the sold business should be measured using the relative value of the sold business, pro-rata to the interest in the retained part of the cash-generating unit.

### **7.9 Other intangible assets**

Intangible assets other than goodwill comprise licences for production and exploration of crude oil in Lithuania purchased as part of a business combination, expenditure incurred on gas and oil exploration licences on the Norwegian Continental Shelf, other production and exploration licences, software licences, patents, trademarks and acquired CO<sub>2</sub> emission allowances. Intangible assets are initially recognised at cost, if they are acquired in separate transactions. Intangible assets acquired as part of a business combination are recognised at fair value as at the transaction date. Subsequent to initial recognition, measurement of intangible assets accounts for accumulated amortisation and impairment losses.

Lithuanian licences obtained during the step acquisition of AB LOTOS Geonafra Group companies are amortised using the unit-of-production method, i.e. amortisation per unit of produced crude oil is charged to expenses. The amortisation rate is estimated by reference to forecasts of crude oil production from a given field. If the estimated hydrocarbon reserves (in 2P category – proved and probable reserves) change significantly as at the end of the reporting period, amortisation per unit of produced crude oil is remeasured. Then, starting from the new financial year, the revised amortisation rate is applied.

Expenditure on exploration licences on the Norwegian Continental Shelf is not amortised until the technical feasibility and commercial viability of extraction is demonstrated. Accounting policy for exploration and evaluation expenditure is presented below.

Other intangible assets are amortised using the straight-line method over their estimated useful lives. The expected useful lives of the Group's intangible assets range from 2 to 40 years.

The amortisation period and the amortisation method for an intangible asset are reviewed at the end of each financial year. Changes in the expected useful life or pattern of generation of the future economic benefits embodied in an intangible asset are reflected by changing the amortisation period or amortisation method, as appropriate, and are treated as changes in accounting estimates.

Except capitalised development expenditure, expenditure on intangible assets produced by the Company is not capitalised but is charged to expenses in the period in which it was incurred.

#### **7.10 Mineral resources exploration and evaluation expenditures**

Exploration for and evaluation (appraisal) of mineral resources means the search for crude oil, natural gas and similar non-regenerative resources and determination of the technical feasibility and commercial viability of extracting a mineral resource. From the moment of obtaining the exploration right to a given area to the moment of determination of the technical feasibility and commercial viability of extracting a mineral resource, expenditure directly connected with exploration for and evaluation of oil and gas resources is recognised as an exploration and evaluation asset.

The expenditure includes the costs of acquisition of exploration rights, costs of the exploration rig, salaries and wages, consumables and fuel, insurance, costs of geological and geophysical surveys, as well as costs of other services.

The Group classifies the exploration and evaluation assets as property, plant and equipment or intangible assets, depending on the type of the acquired assets, and applies this classification policy in a consistent manner.

Once the size of a deposit is confirmed and its production plan is approved, the expenditure is transferred to appropriate items of intangible assets or property, plant and equipment.

The Group examines the need to recognise impairment losses on exploration and evaluation assets in relation to a specific area by considering the following:

- the period for which the Group has the right to explore in the specific area has expired during the current financial year or will expire in the near future, and is not expected to be renewed,
- no substantial expenditure on further exploration for and appraisal of mineral resources is anticipated,
- exploration for and appraisal of mineral resources have not led to discovery of commercially viable quantities of mineral resources and the Group has decided to discontinue such activities,
- sufficient data exist to indicate that, although development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

#### **7.11 Equity-accounted and proportionately-consolidated entities**

##### **Equity-accounted entities**

Investments in equity-accounted entities are recognised in the statement of financial position at cost, adjusted for subsequent changes in the Group's share in net assets of the entities, less impairment losses, if any. The statement of comprehensive income reflects the share in the results of operations of such entities, and if a change is recognised directly in their equity, the Group recognises its share in each change and, if applicable, discloses it in the statement of changes in equity.

##### **Proportionate consolidation**

All assets, liabilities, revenue and expenses of an entity subject to proportionate consolidation are individually aggregated with the corresponding items in the financial statements, in accordance with the Group's share in the entity's net assets. The Group ceases to apply proportionate consolidation after it ceases to exercise joint control over the entity.

For the list of equity-accounted and proportionately-consolidated entities, see Note 2.

#### **7.12 Leases**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the leased asset onto the lessee. All other types of leases are treated by the Group as operating leases.

##### **The Group as a lessor**

Finance leases are disclosed in the statement of financial position as receivables, at amounts equal to the net investment in the lease less the principal component of lease payments for a given financial year calculated based on a pattern reflecting a constant periodic rate of return on the lessor's net investment outstanding in respect of the finance lease.

Finance income from interest on a finance lease is disclosed in the relevant reporting periods based on a pattern reflecting a constant periodic rate of return on the net investment outstanding in respect of the finance lease.

Income from operating leases is recognised in the statement of comprehensive income on a straight-line basis over the lease term.

##### **The Group as a lessee**

Assets used under a finance lease are recognised as assets of the Group and are measured at fair value as at the acquisition date or, if lower, the present value of the minimum lease payments. The resultant obligation towards the lessor is presented in the statement of financial position under *Finance lease liabilities*. Lease payments are broken down into the interest component



and the principal component so as to produce a constant rate of interest on the remaining balance of the liability. Finance costs are recognised in the statement of comprehensive income.

Operating lease payments are recognised in the statement of comprehensive income on a straight-line basis over the lease term.

#### **7.13 Impairment of non-financial non-current assets**

As at the end of the reporting period, the Group assesses whether there is an indication of impairment of any of its assets. If the Group finds that there is such indication, or if the Group is required to perform annual impairment tests, the Group estimates the recoverable amount of a given asset.

The recoverable amount of an asset is equal to the higher of:

- the fair value of the asset or cash generating unit in which such asset is used, less cost to sell, or
- the value in use of the asset or cash generating unit in which such asset is used.

The recoverable amount is determined for the individual assets, unless a given asset does not generate separate cash flows largely independent from those generated by other assets or asset groups. If the carrying amount of an asset is higher than its recoverable amount, the value of the asset is impaired and an impairment loss is recognised up to the established recoverable amount.

In assessing value in use, the projected cash flows are discounted to their present value (at a pre-tax discount rate) which reflects current market assessments of the time value of money and the risks specific to the asset. Any impairment losses on non-financial assets used in operations are recognised under other expenses.

As at the end the reporting period, the Group assesses whether there is an indication that any impairment loss recognised in the previous periods with respect to a given asset should be reduced or reversed in full. If there is such indication, the Group again estimates the recoverable amount of the asset and the recognised impairment loss is reversed accordingly only if following the recognition of the most recent impairment loss there has been a change in the estimates used to determine the recoverable amount of the asset. In such a case, the carrying amount of the asset is increased up to its recoverable amount. The increased value may not exceed the carrying amount of the asset that would have been determined (net of accumulated amortisation/depreciation) if no impairment losses had been recognised on that asset in the previous years. Reversal of an impairment loss on a non-financial non-current assets is immediately recognised as Other income. Following reversal of an impairment loss, in the subsequent periods the amortisation/depreciation charge related to a given asset is adjusted so that over the remaining useful life of that asset its revised carrying amount, less its residual value, can be regularly written off. The Group offsets corresponding items of other income and expenses in accordance with IAS 1 Presentation of Financial Statements (Section 34) and recognises them in the statement of comprehensive income on a net basis.

#### **7.14 Inventories**

Inventories are stated at the lower of cost and net realisable value.

Costs incurred in order to bring each inventory item to its present location and condition are accounted for in the following manner:

- materials and merchandise – at cost,
- finished goods and work-in-progress – at the cost of direct materials and labour and an appropriate portion of indirect production costs, established on the basis of normal capacity utilisation.

Net realisable value is the selling price estimated as at the end of the reporting period, net of value added tax, excise duty and fuel charge, less any rebates, discounts and other similar items, and less the estimated costs to complete and costs to sell.

Decrease in inventories is established with the weighted average method.

Mandatory stocks are disclosed as current assets given their short turnover cycle. For more information on mandatory stocks, see Note 19.2.

#### **7.15 Investment property**

Investment property is measured at cost less accumulated depreciation and impairment losses.

Investment property, including investments in land, perpetual usufruct of land, buildings and structures, include property which the Group does not use for its own purposes but which will generate benefits in the form of value appreciation or rent income.

#### **7.16 Trade and other receivables, prepayments and accrued income**

Trade receivables, which typically become due and payable in 7 to 60 days, are recognised and carried at amounts initially invoiced, less impairment losses on doubtful receivables. Impairment losses on receivables are estimated when the collection of

the full amount of receivables is no longer probable. Uncollectible receivables are written off through the statement of comprehensive income when recognised as unrecoverable accounts.

If the effect of time value of money is significant, the value of receivables is determined by discounting the projected future cash flows to their present value at a pre-tax discount rate reflecting the current market estimates of the time value of money. If the discount method is applied, an increase in receivables over time is recognised as finance income.

The Group recognises prepayments where costs relate to future reporting periods; prepayments are recognised under other non-financial assets.

#### **7.17 Cash and cash equivalents**

Cash in hand and at banks, as well as short-term deposits held to maturity are measured at face value.

*Cash and cash equivalents* disclosed in the consolidated statement of cash flows comprise cash in hand, overdraft facilities as well as those bank deposits maturing within three months which are not treated as investment placements.

#### **7.18 Assets held for sale**

Non-current assets (or disposal groups) are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is deemed to be met only if the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Classification of an asset as held for sale means that the management intends to complete the sale within one year from the change of its classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

#### **7.19 Equity**

Equity is recognised in the consolidated financial statements by categories, in accordance with applicable laws and constitutional documents of the consolidated entities.

The share capital of the LOTOS Group is the share capital of the Parent and is recognised at its par value, in the amount specified in the Company's Articles of Association and in the relevant entry in the National Court Register.

#### **7.20 Borrowings and other debt instruments**

All borrowings and other debt instruments are initially recognised at cost, equal to the fair value, less cost of obtaining the funds.

Following initial recognition, borrowings and other debt instruments are measured at amortised cost, using the effective interest rate method. Amortised cost includes the cost of obtaining the funds as well as discounts or premiums obtained at settlement of the liability. Upon removal of the liability from the statement of financial position or recognition of impairment loss, gains or losses are recognised in the statement of comprehensive income.

#### **7.21 Employee benefit obligations**

##### **7.21.1 Retirement severance payments, length-of-service awards and other employee benefits**

In accordance with the Collective Bargaining Agreement, the Group's employees are entitled to length-of-service awards and severance payments upon retirement due to old age or disability, as well as death benefits.

Also, the employees, retired employees, and pensioners covered by the Group's social benefits are entitled to benefits from a separate social fund, which is established pursuant to applicable national regulations (Company Social Benefits Fund).

According to IAS 19 Employee Benefits, old-age and disability retirement severance payments, as well as contributions to the Company Social Benefits Fund to be used for payment of future benefits to retired employees, are classified as defined post-employment benefit plans, while length-of-service awards, death benefits, and benefits paid to currently retired employees are recognised under other employee benefits. Present value of future post-employment benefit obligations as at the end of the reporting period is calculated by an independent actuary using the projected unit credit method and is a discounted value of future payments, which the employer has to make in order to fulfil its obligations under the work performed by employees in previous periods (until the end of the reporting period), defined individually for each employee, accounting for employee turnover (probability of employees leaving work), without including future employees.

In prior years, the value of future employee benefit obligations included length-of-service awards, old-age and disability retirement severance payments, and social fund benefits payable to retired employees and pensioners. The value as at December 31st 2013 additionally includes the estimated value of death benefits, due to the increased importance of that item in the actuarial estimates.

Length-of-service awards are paid after a specific period of employment. Old-age and disability retirement severance payments are one-off and paid upon retirement. Amounts of severance payments and length-of-service awards depend on the length of employment and the average remuneration of an employee. The amount of death benefit depends on the length of employment



of the deceased employee, and the benefit is payable to the family, in accordance with the rules set forth in the Polish Labour Code.

Following the amendments to IAS 19 applicable for annual periods beginning after January 1st 2013, the Group changed the presentation of actuarial gains or losses under post-employment employee benefits in its statement of comprehensive income. For annual periods beginning after January 1st 2013, the actuarial gains or losses are recognised in other comprehensive income rather than in operating profit/loss as was the case earlier. In accordance with the provisions of the amended standard, the Group applied these rules retrospectively by adjusting the comparative data. These changes, reflected in *Retained earnings*, had no effect on the presentation in the statement of financial position or in the statement of changes in equity, and their impact on the statement of comprehensive income was immaterial. For detailed information about changes in the comparative data in the statement of comprehensive income see Note 6.

Employees of the Group companies are also entitled to holidays in accordance with the rules set forth in the Polish Labour Code. The Group calculates the cost of employee holidays on an accrual basis using the liability method. The value of compensation for unused holidays is recognised in the Group's accounting records based on the difference between the balance of holidays actually used and the balance of holidays used established proportionately to the passage of time, and disclosed in the financial statements as, respectively, current or non-current liabilities under other employee benefits during employment.

Obligations under other employee benefits during employment also comprise bonuses and awards granted as part of the Group's incentive pay systems.

For detailed information on employee benefits, see Note 29, containing the individual items of employee benefit obligations and costs, actuarial assumptions, as well as an analysis of sensitivity of estimates to changes of these assumptions. The Group recognises the cost of discount on its employee benefit obligations in finance costs. Given the different nature of pension plans operated by the Group's foreign companies – LOTOS Exploration and Production Norge AS and the companies of the AB LOTOS Geonafta Group – and their negligible effect on the Group's obligations under length-of-service awards and post-employment benefits, such companies' obligations are presented separately as *Obligations under length-of-service awards and post-employment benefits at foreign companies*.

#### **7.21.2 Profit distribution for employee benefits and special accounts**

According to the business practice in Poland, company shareholders have the right to allocate a part of profit for employee benefits by making contributions to the company social benefits fund and to other special accounts. In the financial statements, such distributions are charged to operating expenses in the period to which the profit distribution relates.

#### **7.22 Borrowing costs**

Borrowing costs (i.e. interest and other costs incurred in connection with borrowings) are expensed in the period in which they were incurred, except costs which relate directly to the acquisition, construction or production of an asset being completed (including foreign exchange losses on interest and fees and commissions), which are capitalised as part of the cost of such asset (an asset being completed is an asset whose preparation for use or sale requires a significant amount of time).

To the extent that funds are borrowed specifically for the purpose of acquiring the asset being completed, the amount of the borrowing costs which may be capitalised as part of such asset is determined as the difference between the actual borrowing costs incurred in connection with a given credit facility or loan in a given period and the proceeds from temporary investments of the borrowed funds.

To the extent that funds are borrowed without a specific purpose and are later allocated for the acquisition of an asset being completed, the amount of the borrowing costs which may be capitalised is determined by applying the capitalisation rate to the expenditure on that asset.

#### **7.23 Financial assets and liabilities**

Financial assets and liabilities are classified into the following categories:

- Financial assets held to maturity,
- Financial assets and liabilities at fair value through profit or loss,
- Loans and receivables,
- Financial assets available for sale,
- Financial liabilities at amortised cost.

##### **Financial assets held to maturity**

are non-derivative financial assets with fixed or determinable payments and fixed maturities, which are quoted on an active market and which the Group has the positive intention and ability to hold to maturity, other than those:

- designated at fair value through profit or loss upon initial recognition,
- designated as available for sale,
- which qualify as loans and receivables.

Financial assets held to maturity are measured at amortised cost using the effective interest method.

Financial assets held to maturity are classified as non-current assets if they mature more than 12 months after the end of the reporting period.

**Financial assets and liabilities at fair value through profit or loss**

A financial asset at fair value through profit or loss is a financial asset that meets either of the following conditions:

- a) it is classified as held for trading. Financial assets are classified as held for trading if they:
  - have been acquired principally for the purpose of being sold in the near future,
  - are part of a portfolio of identified financial instruments that are managed together and for which there is probability of profit-taking in the near future,
  - are derivative financial instruments (except for those which are part of hedge accounting or financial guarantee contracts),
- b) it has been assigned to this category in accordance with IAS 39 Financial Instruments: Recognition and Measurement upon initial recognition.

Measurement of financial assets at fair value through profit or loss consists in recognition of such assets at fair value by reference to their market value as at the end of the reporting period, without reflecting sale transaction costs. Any changes in the value of such instruments are recognised in the statement of comprehensive income as finance income or costs.

An entire contract can be designated as a financial asset at fair value through profit or loss if it contains one or more embedded derivatives. The above does not apply when an embedded derivative has no significant impact on the cash flows generated under the contract or when it is clear that if a similar hybrid instrument was first considered, separation of the embedded derivative would be prohibited under IFRS.

Financial assets may be designated as financial assets at fair value through profit or loss on initial recognition if the following criteria are met:

- (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch); or
- (ii) the assets are part of a group of financial assets that are managed and measured based on fair value, according to a well-documented risk management strategy; or
- (iii) the assets contain embedded derivatives which should be presented separately.

Financial liabilities at fair value through profit or loss include financial liabilities held for trading, and financial liabilities initially designated as financial liabilities at fair value through profit or loss. Financial liabilities are classified as held for trading if they were acquired for the purpose of being sold in the near future. Derivative financial instruments, including separated embedded instruments, are also classified as held for trading, unless they are considered as effective hedges.

Financial liabilities may be designated as financial liabilities at fair value through profit or loss on initial recognition if the following criteria are met:

- (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases,
- (ii) the liabilities are part of a group of financial liabilities that are managed and measured based on fair value, according to a well-documented risk management strategy, or
- (iii) the financial liabilities contain embedded derivative instruments which should be presented separately.

Financial liabilities at fair value through profit or loss are measured at fair value, based on their market value as at the end of the reporting period, without reflecting sale transaction costs. Changes in the fair value of such instruments are recognised in profit or loss as finance income or costs.

Based on the fair value measurement methods applied, the Group classifies its individual financial assets and liabilities according to the following levels (fair value hierarchy):

- Level 1: Financial assets and liabilities whose fair values are measured directly on the basis of quoted prices (used without adjustment) from active markets for identical assets or liabilities.
- Level 2: Financial assets and liabilities whose fair values are measured using measurement models when all significant input data is observable on the market either directly (unadjusted market prices) or indirectly (data based on market prices).
- Level 3: Financial assets and liabilities whose fair values are measured using measurement models when the input data is not based on observable market data (unobservable input data).

The Group discloses derivative transactions with positive fair values under financial assets held for trading. Derivative transactions with negative fair values are disclosed under financial liabilities held for trading.

The Group's financial assets and liabilities held for trading include the following types of derivatives: options, forward contracts (in particular forward rate agreements), futures contracts, swaps (in particular interest-rate swaps) and spot contracts. All the above types of forward transactions classified as derivatives are executed by the Group as part of its risk management policy (see below).

Fair value of commodity swaps is established by reference to future cash flows connected with the transactions, calculated on the basis of the difference between the average market price and the transaction price. The fair value is established on the basis of prices quoted on active markets, as provided by an external consultancy. (Level 2 in the fair value hierarchy).

Fair value of spots, forwards and currency swaps is established by reference to future discounted cash flows from the transactions, calculated on the basis of the difference between the forward rate and the transaction price. The forward rate is calculated on the basis of the fixing rate quotations of the National Bank of Poland and the interest rate curve implied in FX swaps (Level 2 in the fair value hierarchy).

Fair value of FRAs is established by reference to future discounted cash flows from the transactions, calculated on the basis of the difference between the forward rate and the transaction price. The forward rate is calculated using the zero-coupon interest rate curve based on 6M or 3M LIBOR, depending on the type of transaction (Level 2 in the fair value hierarchy).

As part of its risk management activities the Group evaluates the risk of deficit of free emission allowances allocated under carbon dioxide emission reducing programme (see Note 5) and manages the risk of emission allowances prices quoted in an active market.

To hedge against the risk associated with CO<sub>2</sub> emission allowances prices, the Group enters into EUA, CER and ERU futures contracts. The estimated fair value of these instruments is based on the difference between the market price of a contract as quoted at the valuation date by the Intercontinental Exchange (ICE). (Level 1 in the fair value hierarchy).

If required, futures contracts to purchase carbon (CO<sub>2</sub>) allowances open as at the last day of the reporting period are settled by the Group through physical delivery, with the intention to potentially use the allowances to offset the Group's actual CO<sub>2</sub> emissions. Valuation of transactions to be settled through physical delivery is not disclosed under financial assets/liabilities in the financial statements. However, the Group internally monitors and performs the valuation of its open futures positions as part of an overall assessment of efficiency of its CO<sub>2</sub> risk management (off balance sheet).

Information on the Group's limits of free carbon dioxide emission allowances are disclosed in Note 34 and a description of risk management in Note 32.2.

The Group applies hedge accounting. Changes in the fair value of financial derivatives designated to hedge cash flows, to the extent representing an effective hedge, are posted directly to other comprehensive income.

In the statement of financial position, financial derivatives are recognised under a separate item or, if their value is immaterial, under other assets and liabilities.

For more information on recognition and measurement of financial derivatives and hedge accounting, see Notes 7.25 and 7.26.

#### **Loans and receivables**

The category includes financial assets with fixed or determinable payments not classified as derivatives and not traded on any active market. They are disclosed under current assets if they mature within 12 months from the end of the reporting period. Loans and receivables with maturities exceeding 12 months from the end of the reporting period are classified as non-current assets.

The category includes: trade receivables, cash and cash equivalents, deposits, security deposits, loans advanced, investment receivables, cash pool receivables, and other. In the statement of financial position, these are recognised under: *Trade receivables*, *Cash and cash equivalents*, *Other current and non-current assets*. For information on their recognition and measurement, see Notes 7.16 and 7.17.

#### **Financial assets available for sale**

Financial assets available for sale are recognised at fair value increased by the transaction costs which may be directly attributed to an acquisition or issue of a financial asset. If quoted market prices from an active market are not available and the fair value cannot be reliably measured using alternative methods, available-for-sale financial assets are measured at cost less impairment. The positive or negative differences between the fair value of available-for-sale financial assets (if they have a market price derived from an active market or their fair value can be established in any other reliable manner) and their cost are recognised net of deferred tax in other comprehensive income. Impairment losses on available-for-sale financial assets are recognised in finance costs.

Any purchase or sale of financial assets is recognised at the transaction date. On initial recognition, financial assets are recognised at fair value including – in the case of financial assets other than those at fair value through profit or loss – transaction costs directly attributable to the purchase.

A financial asset is removed from the statement of financial position when the Group loses control over the contractual rights embodied in the financial instrument. This usually takes place when the instrument is sold or when all cash flows generated by the instrument are transferred to a non-related third party.

This category includes shares in other entities which are recognised by the Group in the statement of financial position under *Other financial assets*.

#### **Financial liabilities at amortised cost**

Financial liabilities, not classified as financial liabilities at fair value through profit or loss, are carried at amortised cost using the effective interest rate method.

Financial liabilities at amortised cost include borrowings, other debt instruments, finance lease liabilities, trade payables, investment commitments, and other liabilities. These liabilities are recognised in the statement of financial position under: *Borrowings, other debt instruments and finance lease liabilities, Trade payables, Other liabilities and provisions*. For information on recognition and measurement of the above classes in this category of instruments, see Note 7.12, 7.20 and 7.26

#### **7.24 Impairment of financial assets**

As at the end of the reporting period the Group determines whether there is an objective indication of impairment of a financial asset or a group of financial assets.

#### **Assets carried at amortised cost**

If there is an objective indication that the value of loans and receivables measured at amortised cost has been impaired, the impairment loss is recognised in the amount equal to the difference between the carrying amount of the financial asset and the present value of estimated future cash flows (excluding future losses relating to irrecoverable receivables, which have not yet been incurred), discounted at the initial effective interest rate (i.e. the interest rate used at the time of initial recognition). The carrying amount of an asset is reduced directly or by recognising relevant provisions. The amount of loss is recognised in the statement of comprehensive income.

The Group first determines whether there exists an objective indication of impairment with respect to each financial asset that is deemed material, and with respect to financial assets that are not deemed material individually. If the analysis shows that there exists no objective indication of impairment of an individually tested asset, regardless of whether it is material or not, the Group includes the asset into the group of financial assets with similar credit risk profile and tests such group for impairment as a whole. Assets which are tested for impairment individually, and with respect to which an impairment loss has been recognised or a previously recognised loss is deemed to remain unchanged, are not taken into account when a group of assets are jointly tested for impairment.

If an impairment loss decreases in the next period, and the decrease may be objectively associated with an event that occurred subsequent to the impairment loss recognition, the recognised impairment loss is reversed. The subsequent reversal of an impairment loss is recognised in the statement of comprehensive income to the extent that the carrying amount of the asset does not exceed its amortised cost as at the reversal date.

#### **Financial assets carried at cost**

If there exists an objective indication of impairment of a non-traded equity instrument which is not carried at fair value since such value cannot be reliably determined, or of a related derivative instrument which must be settled by delivery of such non-traded equity instrument, the amount of impairment loss is established as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted with the market rate applicable to similar financial assets prevailing at a given time.

#### **Financial assets available for sale**

If there exists an objective indication of impairment of a financial asset classified as an asset available for sale, the amount of the difference between (A) the cost of that asset (less any principal payments and depreciation/amortisation charges) and its (B) current fair value, reduced by any impairment losses previously recognised in the statement of comprehensive income, (A – B) is derecognised from equity and charged to the statement of comprehensive income. Reversal of impairment losses concerning equity financial instruments classified as available for sale may not be recognised in the statement of comprehensive income. If the fair value of a debt instrument available for sale increases in the next period, and the increase may be objectively associated with an event that occurred subsequent to the impairment loss recognition in the statement of comprehensive income, the amount of the reversed impairment loss is recognised in the statement of comprehensive income.

Impairment losses on financial assets and their reversals are recognised on a net basis as gains or losses under, respectively, *Other expenses / Other income* or *Finance costs / finance income* in the statement of comprehensive income, depending on class of financial instrument.

#### **7.25 Derivative financial instruments**

Derivative instruments used by the Group to hedge against currency risk include in particular FX forwards. The Group also uses commodity swaps to hedge its exposure to raw material and petroleum product prices, futures contracts to manage its exposure to prices of carbon dioxide (CO<sub>2</sub>) emission allowances, and interest rate swaps (IRSs) and forward rate agreements (FRAs) to hedge its interest rate exposure.

Such financial derivatives are measured at fair value in line with the fair value hierarchy discussed above in the section devoted to financial asset and liability measurement policies. The fair value of FX forwards is established by reference to the forward rates of contracts with similar maturities prevailing at a given time. The fair value of interest rate swaps is established by reference to the market value of similar instruments. Derivative instruments are recognised as assets if their value is positive

and as liabilities if their value is negative. Gains or losses resulting from changes in the fair value of a derivative which does not qualify for hedge accounting are charged directly to the net profit or loss for the financial year.

In the statement of financial position, financial instruments are presented as either current or non-current, depending on the expected time of realisation of assets and liabilities classified as held for trading.

#### **7.26 Hedge accounting**

As of January 1st 2011, the Parent commenced cash flow hedge accounting with respect to a USD-denominated credit facility designated as a hedge of future USD-denominated sales transactions. In the second half of 2012, the scope of application of cash flow hedge accounting was extended to include new hedging relationships established with respect to foreign-currency denominated facilities contracted to finance the 10+ Programme, designated as hedges of future USD-denominated petroleum product sales transactions.

The objective of cash flow hedge accounting is to guarantee a specified Polish zloty value of revenue generated in USD. The hedged items comprise a number of highly probable and planned USD-denominated refining product sale transactions, in particular the first portion of revenue (up to the amount of the designated principal repayment) in USD generated in a given calendar month, or if the amount of revenue in a given month is lower than the amount of the designated principal payment – the first portion of revenue generated in three successive months. If a subsequent portion of revenue is designated in a given calendar month, the hedged item is the first portion of revenue generated after the previously designated portion of revenue in USD in a given calendar month, or if the amount of revenue in a given month is lower than the amount of the designated principal repayment – a subsequent portion of revenue generated in three successive months. A hedged item is linked to relevant hedging instruments based on an individual document designating the hedging relationship.

The designated hedging instruments cover an obligation to repay a USD-denominated credit facility, whose settlement dates fall on business days of specified calendar months, as provided in the principal repayment schedule.

Changes in the fair value of financial derivatives designated to hedge cash flows, to the extent representing an effective hedge, are posted directly to other comprehensive income. Changes in the fair value of financial derivatives designated to hedge cash flows, to the extent not representing an effective hedge, are charged to other finance income or costs in the reporting period.

At the time when a hedge is undertaken, the Company formally designates and documents the hedging relationship, as well as its risk management objective and strategy for undertaking the hedge. The relevant documentation identifies (i) the hedging instrument, (ii) the hedged item or transaction, (iii) the nature of the hedged risk, and (iv) specifies how the Company will assess the hedging instrument's effectiveness in offsetting changes in the fair value of the hedged item or cash flows attributable to the hedged risk.

The hedge is expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk. The hedge is assessed on an ongoing basis to determine whether it remains highly effective during all the reporting periods for which it was undertaken.

#### **7.27 Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the Group anticipates that the costs for which provisions have been recognised will be recovered, e.g. under an insurance agreement, the recovery of such funds is recognised as a separate asset, but only when such recovery is practically certain to occur. The cost related to a given provision is disclosed in the statement of comprehensive income net of any recoveries. If the effect of the time value of money is significant, the amount of provisions is determined by discounting projected future cash flows to their present value at a pre-tax discount rate reflecting the current market estimates of the time value of money and risks, if any, specific to a given obligation. If the discount method is applied, an increase in the provision as a result of lapse of time is recognised as finance costs. Provisions, other than provisions for decommissioning and reclamation costs, are charged against operating expenses, other expenses, or finance costs, depending on what circumstances the future obligation relates to.

##### **7.27.1 Provisions for decommissioning and reclamation costs**

Provisions for decommissioning and reclamation costs are recognised when the Group has an obligation to decommission oil and gas facilities or to demolish, disassemble or remove other property, plant and equipment and restore the site to its original condition, and when a reliable estimate can be made of the amount of the obligation.

If a decommissioning obligation arises with respect to new property, plant and equipment, such as production and transport infrastructure (pipelines) or refinery installations, it is recognised on completion of construction or installation. If a decommissioning obligation arises with respect to a production well, it is recognised on completion of drilling.

A decommissioning obligation may be further adjusted over the useful life of a well, production or transport infrastructure, etc. to reflect changes in applicable laws or a decision to suspend certain operations. The recognised amount of the obligation is the present value of future expenditures, estimated for the local conditions and requirements.

On recognition of a decommissioning obligation, a matching decommissioning asset is recognised in the same amount under property, plant equipment, which is subsequently depreciated in line with the asset subject to decommissioning.



The amount of the decommissioning provision and its corresponding asset is adjusted to reflect changes to the present value of estimated decommissioning and reclamation costs, other than provision discount reversals. Adjustments are also made for foreign exchange gains or losses arising from translation of a decommissioning obligation denominated in a foreign currency when it is certain that the obligation will be settled in that currency.

Periodic discount reversals are recognised as finance costs in the statement of comprehensive income.

Deferred tax assets and liabilities are recognised in respect of the decommissioning provision and the corresponding decommissioning asset.

Under the Polish Geological and Mining Law of February 4th 1994 (Dz.U.05.228.1947, as amended), the Group is required to operate Oil and Gas Facility Decommissioning Fund, whose financial resources may only be used to cover the cost of decommissioning of an oil and gas facility or its designated part.

The amount of contribution to the Fund is calculated separately for each facility and represents an equivalent of 3% or more of the depreciation charge recognised on the facility's property, plant and equipment, determined in accordance with applicable corporate income tax laws. The Company is required to deposit the contributions in a separate bank account until decommissioning start date.

#### **7.28 Trade payables, other liabilities, accruals and deferred income**

Current trade payables are reported at nominal amounts payable.

The Group derecognises a financial liability when it is extinguished, that is when the obligation specified in the contract is either discharged or cancelled or expires. When a debt instrument between the same parties is replaced by another instrument whose terms are substantially different, the Group treats such replacement as if the former financial liability was extinguished and recognises a new liability. Similarly, material modifications to the terms of a contract concerning an existing financial liability are presented as extinguishment of the former and recognition of a new financial liability. Any differences in the respective carrying amounts arising in connection with the replacement are charged to profit or loss.

Other non-financial liabilities include in particular value added tax, excise duty and fuel charge liabilities to the tax authorities and liabilities under received prepayments, which are to be settled by delivery of goods or tangible assets, or performance of services. Other non-financial liabilities are measured at nominal amounts payable.

Accrued expenses are recognised at probable amounts of current-period liabilities. The Group discloses accruals and deferred income under other non-financial liabilities or, if they refer to employee benefits, under employee benefit obligations.

#### **7.29 Grants**

If there is reasonable certainty that a grant will be received and that all related conditions will be fulfilled, grants are recognised at fair value.

If a grant concerns a cost item, it is recognised as income in matching with the expenses it is to compensate for. If it concerns an asset, its fair value is recognised as deferred income, and then it is written off annually in equal parts through the statement of comprehensive income over the estimated useful life of the asset.

#### **7.30 Joint ventures**

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (strategic financial and operational decisions relating to the activity require the unanimous consent of the venturers). When a Group company becomes directly involved in activities as part of a joint venture, the Group's share of jointly controlled assets and liabilities incurred jointly with the other venturers is disclosed in the financial statements of such Group company and classified in accordance with its nature. Liabilities and costs incurred directly in connection with a share in jointly controlled assets are accounted for using the accrual method. Income from the sale or use of the Group's share of the output produced by jointly controlled assets and the share of expenses incurred by the joint venture are recognised when the inflow/transfer by the Group of the economic benefits connected with relevant transactions becomes probable, provided that they can be measured reliably. As at December 31st 2013, the Group was a venturer in joint ventures involving production operations conducted by subsidiary LOTOS Exploration and Production Norge AS in Norway.

#### **7.31 Segment reporting**

For management purposes, the LOTOS Group is divided into business units which correspond to the business segments, whereas for financial reporting purposes 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 the production and processing of refined petroleum products and their wholesale and retail sale, as well as auxiliary, transport and service activities.

The reportable operating segments are identified at the Group level. The Parent is included in the downstream segment. The upstream segment comprises companies of the LOTOS Petrobaltic Group (excluding Energobaltic Sp. z o.o.).

Segment performance is assessed on the basis of revenue, EBIT and EBITDA.

EBIT is operating profit/(loss),  
and EBITDA is operating profit/(loss) before depreciation and amortisation.

The segments' revenue, EBIT and EBITDA do not account for intersegment adjustments.

Financial information of the operating segments used by the chief operating decision makers to assess the segments' performance is presented in Note 8.

### **7.32 Contingent liabilities and assets**

In line with the policies applied by the Group, consistent with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, a contingent liability is understood as:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, or
- a present obligation that arises from past events but is not recognised in the financial statements because:
  - (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or
  - (ii) the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognised in the statement of financial position, however information on contingent liabilities is disclosed, unless the likelihood of the outflow of resources embodying economic benefits is negligible.

In compliance with the IFRS, the Group defines a contingent asset as a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Contingent receivables are not recognised in the statement of financial position, however information on them is disclosed if the inflow of resources embodying economic benefits is likely to occur.

Examples of contingent assets and liabilities include liabilities or receivables related to pending court disputes whose future outcomes are neither known nor fully controlled by the entity. For more information on pending court disputes and other contingent liabilities, see Note 35.1 and Note 35.2, respectively.

### **7.33 Carbon dioxide (CO<sub>2</sub>) emission allowances**

CO<sub>2</sub> emission allowances are presented by the Company in its financial statements in accordance with the net liability approach, which means that the Group recognises only those liabilities that result from exceeding the limit of emission allowances granted. The Group reviews the limits granted to it on an annual basis. The liability is recognised only after the Company actually exceeds the limit. Income from sale of unused emission allowances is recognised in the statement of comprehensive income at the time of sale.

Additionally purchased emission allowances are measured at acquisition cost less impairment, if any, taking into consideration the residual value of allowances, and presented as intangible assets.

If purchased allowances are used to cover the deficit as on the date of settling the annual limit of emission allowances, the allowances thus used are set off at carrying amount with the liability previously recognised for covering the deficit.

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**8. Business segments**

	Upstream segment	Downstream segment	Other <sup>(1)</sup>	Consolidation adjustments	Consolidated
PLN '000	for the year ended Dec 31 2013				
<b>Revenue:</b>	<b>623,936</b>	<b>28,587,306</b>	<b>24,474</b>	<b>(638,374)</b>	<b>28,597,342</b>
<i>Intersegment sales</i>	<i>578,369</i>	<i>43,093</i>	<i>16,912</i>	<i>(638,374)</i>	<i>-</i>
<i>External sales</i>	<i>45,567</i>	<i>28,544,213</i>	<i>7,562</i>	<i>-</i>	<i>28,597,342</i>
<b>Operating profit/(loss) (EBIT)</b>	<b>153,930</b>	<b>13,902</b>	<b>13,937</b>	<b>(35,275)</b>	<b>146,494</b>
Amortisation and depreciation	147,192	500,804	9,860	(1,791)	656,065
<b>Operating profit/(loss) before amortisation and depreciation (EBITDA)</b>	<b>301,122</b>	<b>514,706</b>	<b>23,797</b>	<b>(37,066)</b>	<b>802,559</b>

	Upstream segment	Downstream segment	Other <sup>(1)</sup>	Consolidation adjustments	Consolidated
PLN '000	Dec 31 2013				
<b>Total assets</b>	<b>4,116,495</b>	<b>17,059,568</b>	<b>120,425</b>	<b>(996,871)</b>	<b>20,299,617</b>
<i>- including exploration and evaluation assets</i>	<i>381,130</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>381,130</i>

	Upstream segment	Downstream segment	Other <sup>(1)</sup>	Consolidation adjustments	Consolidated
PLN '000	for the year ended Dec 31 2012 (restated)				
<b>Revenue:</b>	<b>759,799</b>	<b>32,899,919</b>	<b>27,205</b>	<b>(575,923)</b>	<b>33,111,000</b>
<i>Intersegment sales</i>	<i>512,675</i>	<i>43,467</i>	<i>19,781</i>	<i>(575,923)</i>	<i>-</i>
<i>External sales</i>	<i>247,124</i>	<i>32,856,452</i>	<i>7,424</i>	<i>-</i>	<i>33,111,000</i>
<b>Operating profit/(loss) (EBIT)</b>	<b>(675,213)<sup>(2)</sup></b>	<b>984,122</b>	<b>5,397</b>	<b>(1,550)</b>	<b>312,756</b>
Amortisation and depreciation	137,855	520,066	10,339	(1,795)	666,465
<b>Operating profit/(loss) before amortisation and depreciation (EBITDA)</b>	<b>(537,358)</b>	<b>1,504,188</b>	<b>15,736</b>	<b>(3,345)</b>	<b>979,221</b>

	Upstream segment	Downstream segment	Other <sup>(1)</sup>	Consolidation adjustments	Consolidated
PLN '000	Dec 31 2012 (restated)				
<b>Total assets</b>	<b>3,373,334</b>	<b>17,397,475</b>	<b>148,607</b>	<b>(891,851)</b>	<b>20,027,565</b>
<i>- including exploration and evaluation assets</i>	<i>150,033</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>150,033</i>

<sup>(1)</sup> Includes LOTOS Park Technologiczny Sp. z o.o., LOTOS Gaz S.A. w likwidacji (in liquidation) and Energobaltic Sp. z o.o.

<sup>(2)</sup> Including an impairment loss on YME field assets, of PLN 935,247 thousand; see Note 13.



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**Geographical structure of sales**

PLN '000	Upstream segment	Downstream segment	Other <sup>(1)</sup>	Consolidated
for the year ended Dec 31 2013				
<b>Domestic sales</b>	<b>6,491</b>	<b>20,370,299</b>	<b>7,562</b>	<b>20,384,352</b>
- products and services	6,257	18,804,309	7,562	18,818,128
- merchandise and materials	234	1,565,990	-	1,566,224
<b>Export sales</b>	<b>39,076</b>	<b>8,173,914</b>	<b>-</b>	<b>8,212,990</b>
- products and services	38,201	7,835,360	-	7,873,561
- merchandise and materials	875	338,554	-	339,429
<b>Total</b>	<b>45,567</b>	<b>28,544,213</b>	<b>7,562</b>	<b>28,597,342</b>

PLN '000	Upstream segment	Downstream segment	Other <sup>(1)</sup>	Consolidated
for the year ended Dec 31 2012				
<b>Domestic sales</b>	<b>304</b>	<b>24,142,354</b>	<b>7,424</b>	<b>24,150,082</b>
- products and services	65	23,107,959	7,424	23,115,448
- merchandise and materials	239	1,034,395	-	1,034,634
<b>Export sales</b>	<b>246,820</b>	<b>8,714,098</b>	<b>-</b>	<b>8,960,918</b>
- products and services	207,679	8,368,721	-	8,576,400
- merchandise and materials	39,141	345,377	-	384,518
<b>Total</b>	<b>247,124</b>	<b>32,856,452</b>	<b>7,424</b>	<b>33,111,000</b>

<sup>(1)</sup> Includes LOTOS Park Technologiczny Sp. z o.o., LOTOS Gaz S.A. w likwidacji (in liquidation) and Energobaltic Sp. z o.o.

**Sales by products, merchandise and services**

PLN '000	Upstream segment	Downstream segment	Other <sup>(1)</sup>	Consolidated
for the year ended Dec 31 2013				
Gasolines	-	5,010,064	-	5,010,064
Naphtha	-	824,241	-	824,241
Diesel oils	-	14,365,265	-	14,365,265
Bunker fuel	-	124,661	-	124,661
Light fuel oil	-	942,434	-	942,434
Heavy fuel oil	-	2,037,899	-	2,037,899
Aviation fuel	-	1,474,528	-	1,474,528
Lubricants	-	380,218	-	380,218
Base oils	-	485,887	-	485,887
Bitumens	-	1,246,061	-	1,246,061
LPG	-	564,540	-	564,540
Crude oil	32,094	-	-	32,094
Other products, merchandise and materials	-	517,155	-	517,155
Other products, merchandise and materials	530	292,630	7,523	300,683
Services	12,943	291,082	39	304,064
Effect of cash flow hedge accounting	-	(12,452)	-	(12,452)
<b>Total</b>	<b>45,567</b>	<b>28,544,213</b>	<b>7,562</b>	<b>28,597,342</b>

<sup>(1)</sup> Includes LOTOS Park Technologiczny Sp. z o.o., LOTOS Gaz S.A. w likwidacji (in liquidation) and Energobaltic Sp. z o.o.

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	Upstream segment	Downstream segment	Other <sup>(1)</sup>	Consolidated
PLN '000	for the year ended Dec 31 2012			
Gasolines	-	5,221,788	-	5,221,788
Naphtha	-	1,097,071	-	1,097,071
Reformate	-	458,827	-	458,827
Diesel oils	-	16,374,326	-	16,374,326
Bunker fuel	-	111,347	-	111,347
Light fuel oil	-	1,145,857	-	1,145,857
Heavy fuel oil	-	2,226,874	-	2,226,874
Aviation fuel	-	1,855,654	-	1,855,654
Lubricants	-	367,701	-	367,701
Base oils	-	568,804	-	568,804
Bitumens	-	1,730,266	-	1,730,266
LPG	-	502,388	-	502,388
Crude oil	239,828	-	-	239,828
Other refinery products, merchandise and materials	-	765,660	-	765,660
Other products, merchandise and materials	599	172,838	7,386	180,823
Services	6,697	274,142	38	280,877
Effect of cash flow hedge accounting	-	(17,091)	-	(17,091)
<b>Total</b>	<b>247,124</b>	<b>32,856,452</b>	<b>7,424</b>	<b>33,111,000</b>

<sup>(1)</sup> Includes LOTOS Park Technologiczny Sp. z o.o., LOTOS Gaz S.A. w likwidacji (in liquidation) and Energobaltic Sp. z o.o.

In 2013, there were no customers whose share in the LOTOS Group's total revenue would significantly exceed 10%.

## 9. Income and expenses

### 9.1 Expenses by nature

PLN '000	Note	Year ended Dec 31 2013	Year ended Dec 31 2012 (restated)
Depreciation and amortisation	8	656,065	666,465
Raw material and consumables used		24,223,055	28,191,721
- including exchange differences <sup>(1)</sup>	31.3	(76,694)	31,196
Services		1,253,948	1,135,525
Taxes and charges		175,888	175,491
Employee benefits expense	9.2	677,053	645,983
Other expenses by nature		160,130	197,513
Merchandise and materials sold		1,752,528	1,320,772
<b>Total expenses by nature</b>		<b>28,898,667</b>	<b>32,333,470</b>
Change in products and adjustments to cost of sales		(444,669)	(495,100)
<b>Total</b>		<b>28,453,998</b>	<b>31,838,370</b>
including:			
Cost of sales		26,913,268	30,339,959
Distribution costs		1,106,746	1,051,962
Administrative expenses		433,984	446,449

<sup>(1)</sup> Exchange differences related to operating activities are recognised in cost of sales.

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## 9.2 Employee benefits expense

PLN '000	Year ended Dec 31 2013	Year ended Dec 31 2012 (restated)
Current salaries and wages	496,130	483,860
Social security and other employee benefits	151,468	141,980
Length-of-service awards, retirement and other post-employment benefits	29,455	20,143
<b>Total employee benefits expense</b>	<b>677,053</b>	<b>645,983</b>
Change in products and adjustments to cost of sales	(8,209)	(13,534)
<b>Total</b>	<b>668,844</b>	<b>632,449</b>
including:		
Cost of sales	394,493	365,060
Distribution costs	34,344	32,625
Administrative expenses	240,007	234,764

## 9.3 Other income

PLN '000	Note	Year ended Dec 31 2013	Year ended Dec 31 2012 (restated)
Gain on disposal of non-financial non-current assets		-	16,706 <sup>(2)</sup>
Grants	30,2	2,075	2,059
Provisions		2,900	-
- provision for deficit in CO2 emission allowances	34	(1,527)	-
- other provisions		(1,276)	-
- release of provisions for retired refinery installations	30,1	5,077	-
- release of other provisions		626	-
Reversal of impairment losses on receivables	18,1; 31,3	-	5,012
- reversal of impairment loss		-	8,536
- impairment loss		-	(3,524)
Revaluation of estimated provision related to the offshore oil production facility in the YME field in Norway		6,447	-
Compensation		7,988	9,647
Gain on sale of organised part of business		379	-
Reimbursed excise duty		6,143 <sup>(1)</sup>	-
Other		4,405	8,539
<b>Total</b>		<b>30,337</b>	<b>41,963</b>

<sup>(1)</sup> Including PLN 1,673 thousand under reimbursed excise duty on intra-Community supplies of heavy fuel oil and PLN 3,634 thousand of excise duty on consumption of electricity and fuel additives reimbursed due to exemption from excise duty under Art. 47.1.1 of the Excise Duty Act.

<sup>(2)</sup> Including PLN 14,469 Grupa LOTOS S.A.'s income from sale of carbon dioxide (CO2) emission allowances.

The Group offsets similar transaction items pursuant to IAS 1 – Presentation of Financial Statements, sections 34 and 35. The Group discloses material items of other income and expense charged to operating profit or loss separately, as presented in the table above.

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**9.4 Other expenses**

PLN '000	Note	Year ended Dec 31 2013	Year ended Dec 31 2012 (restated)
Loss on disposal of non-financial non-current assets		3,098	-
Impairment losses on receivables:	18.1, 31.3	6,012	-
- impairment losses		7,291	-
- reversal of impairment losses		(1,279)	-
Impairment losses on property, plant and equipment and other intangible assets:		17,927	1,064,025
Impairment losses on:		74,200	1,064,025
- YME field assets	13	-	935,247
- Norwegian exploration licences	15	4,744	74,481
- Lithuanian exploration and production licences	15	26,420	14,504
- assets associated with Lithuanian fields		-	12,837
- assets associated with the B-28 field	13	26,842	-
- service stations	13	11,912	-
- the Waterproofing Materials Production Plant assets	13	-	22,840
- other		4,282	4,116
Reversal of impairment losses on:		(56,273)	-
- assets related to the B-4 and B-6 fields, contributed to Baltic Gas <sup>(1)</sup>	13	(48,273)	-
- the Waterproofing Materials Production Plant assets	13	(8,000)	-
Provisions		-	2,116
- provision for deficit in CO2 emission allowances	34	-	910
- other provisions		-	2,541
- release of other provisions		-	(1,335)
Fines and compensation		1,277	2,255
Property damage incurred during ordinary course of business		2,516	3,139
Cost brought forward		2,947	5,498
Charitable donations		2,483	2,277
Other		4,399	5,143
<b>Total</b>		<b>40,659</b>	<b>1,084,453</b>

<sup>(1)</sup> For more information see Note 2.

The Group offsets similar transaction items pursuant to IAS 1 – Presentation of Financial Statements, sections 34 and 35. The Group discloses material items of other income and expense charged to operating profit or loss separately, as presented in the table above.

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**9.5 Finance income**

PLN '000	Note	Year ended Dec 31 2013	Year ended Dec 31 2012
Dividend received		840	700
Interest		17,361	25,555
- on trade receivables	31.3	5,995	8,804
- on finance lease receivables	31.3	193	287
- on cash	31.3	1,267	1,309
- on deposits	31.3	8,413	14,592
- other		1,493	563
Exchange differences:		-	156,112
- on foreign-currency denominated bank borrowings	31.3	-	167,476
- on foreign-currency denominated intra-Group borrowings <sup>(1)</sup>	31.3	-	(19,503)
- on realised foreign-currency transactions in bank accounts	31.3	-	25,560
- on intra-Group notes <sup>(1)</sup>	31.3	-	(3,454)
- on cash	31.3	-	(30,144)
- on investment commitments	31.3	-	14,624
- on other financial assets and liabilities	31.3	-	1,553
Gain on disposal of investments		-	150
Revaluation of financial assets:		112,861	117,772
- valuation of derivative financial instruments	31.3	55,148	159,096
- settlement of derivative financial instruments	31.3	57,713	(41,324)
Provisions		-	1,699
Other		4,100	20
<b>Total</b>		<b>135,162</b>	<b>302,008</b>

<sup>(1)</sup> According to IAS 21 – The Effects of Changes in Foreign Exchange Rates, foreign exchange gains and losses on intra-group foreign currency transactions are recognised in the Group's net profit or loss.

The Group offsets similar transaction items pursuant to IAS 1 – Presentation of Financial Statements, sections 34 and 35. The Group discloses material items of income and expense charged to profit or loss separately, as presented in the table above.

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## 9.6 Finance costs

PLN '000	Note	Year ended Dec 31 2013	Year ended Dec 31 2012 (restated)
Interest, including:		203,183	230,777
- on bank borrowings	31.3	151,875	169,218
- on non-bank borrowings	31.3	575	817
- on notes	31.3	423	1,607
- on trade payables	31.3	53	88
- on finance lease liabilities	31.3	16,132	20,112
- on factoring arrangements		11,823	18,215
- on other financial liabilities	31.3	125	380
- discount related to provisions for oil production facilities, for land reclamation and other provisions	30.1	15,284	12,344
- discount related to future employee benefit obligations	29.3	6,138	6,544
- other		755	1,452
Exchange differences:		115,541	-
- on bank borrowings	31.3	(8,142)	-
- on intra-Group borrowings <sup>(1)</sup>	31.3	119,223	-
- on realised foreign-currency transactions in bank accounts	31.3	(7,278)	-
- on notes <sup>(1)</sup>	31.3	15,767	-
- on cash	31.3	3,516	-
- on cash blocked in bank accounts	31.3	(15,075)	-
- on investment commitments	31.3	7,563	-
- on other financial assets and liabilities	31.3	(33)	-
Bank fees		19,358	12,856
Other		4,545	4,790
<b>Total</b>		<b>342,627</b>	<b>248,423</b>

<sup>(1)</sup> According to IAS 21 – The Effects of Changes in Foreign Exchange Rates, foreign exchange gains and losses on intra-group foreign currency transactions are recognised in the Group's net profit or loss.

The Group offsets similar transaction items pursuant to IAS 1 – Presentation of Financial Statements, sections 34 and 35. The Group discloses material items of income and expense charged to profit or loss separately, as presented in the table above.

## 10. Income tax expense

### 10.1 Tax expense

PLN '000		Year ended Dec 31 2013	Year ended Dec 31 2012 (restated)
Current tax		82,471	53,593
Deferred tax	10.3	(183,878)	(615,128)
<b>Total income tax recognised in consolidated net profit or loss</b>		<b>(101,407)</b>	<b>(561,535)</b>
Tax expense recognised in other comprehensive income (net), including:		22,909	75,639
- exchange differences on translating foreign operations		-	(13,864)
- cash flow hedging	23	22,945	89,717
- actuarial gain/(loss) relating to post-employment benefits		(36)	(214)

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For the entities operating in Poland, the current and deferred portion of income tax was calculated at the rate of 19% of the income tax base.

In the case of Norwegian subsidiary LOTOS Exploration and Production Norge AS, the marginal tax rate is 78% of the tax base. LOTOS Exploration and Production Norge AS's activities are subject to taxation under two parallel tax systems: the corporate income tax system (28% tax rate) and the petroleum tax system (additional tax rate of 50%).

In the case of Lithuanian subsidiaries (AB LOTOS Geonafta Group), the current and deferred portion of income tax was calculated at the rate of 15%.

#### 10.2 Corporate income tax calculated at effective tax rate and reconciliation of pre-tax profit to tax base

PLN '000	Year ended Dec 31 2013	Year ended Dec 31 2012 (restated)
Pre-tax profit	(61,979)	366,341
<b>Income tax at 19%</b>	<b>(11,776)</b>	<b>69,605</b>
Permanent differences	5,355	11,599
Difference related to accounting for step acquisition of control (AB LOTOS Geonafta Group) <sup>(1)</sup>	-	(11,716)
Tax effect of tax losses incurred in the period	1,418	101
Tax effect of tax losses deducted in the period	(395)	(1,211)
Tax effect of share in profit of equity-accounted entities	191	-
Tax effect of the bio-component tax credit <sup>(2)</sup>	(10,935)	(5,518)
Adjustments disclosed in current year related to tax for previous years	178	(2,978)
Difference resulting from the application of tax rates other than 19%:	(85,949)	(623,130)
- Norway	(83,220)	(618,301)
- Lithuania	(1,015)	(1,485)
- Cyprus	(1,713)	(3,341)
- Netherlands Antilles	(1)	(3)
Other differences	506	1,713
<b>Income tax expense</b>	<b>(101,407)</b>	<b>(561,535)</b>

<sup>(1)</sup> Data for 2012 includes accounting for the acquisition of control over UAB Manifoldas by AB LOTOS Geonafta. For more information on the transaction, see Note 6.

<sup>(2)</sup> The Group used higher tax credit than suggested by the preliminary estimates based on which the relevant deferred tax assets had been recognised. Therefore, as at December 31st 2013, the deferred tax assets related to bio-component tax credit were recognised on the basis of the full amount of tax credit left to be used in the coming years. For more information on the basis and rules for the use bio-component tax credit, see Note 30.2.

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### 10.3 Deferred income tax

Net deferred tax assets/(liabilities) before set-off comprise the following items:

	Statement of financial position			Change	
	Dec 31 2013	Dec 31 2012 (restated)	Jan 1 2012	2013	2012 (restated)
	A	B	C	A-B	B-C
PLN '000					
<b>Deferred tax assets</b>					
Employee benefit obligations	49,561	42,715	36,701	6,846	6,014
Impairment losses on inventories	797	448	1,877	349	(1,429)
Impairment losses on property, plant and equipment and other intangible assets	127,529	100,679	40,995	26,850	59,684
Impairment losses on YME field assets	710,083	806,962	165,741	(96,879)	641,221
Negative fair value of derivative financial instruments	13,734	28,905	35,671	(15,171)	(6,766)
Exchange differences on revaluation of foreign-currency denominated items	6,446	80	320	6,366	(240)
Impairment losses on receivables	16,200	15,693	17,767	507	(2,074)
Finance lease	28,068	32,032	33,765	(3,964)	(1,733)
Provisions for decommissioning of oil and gas facilities and land reclamation	188,828	28,086	20,746	160,742	7,340
Unrealised margin assets	8,545	3,120	2,382	5,425	738
Tax loss carried forward	1,145,075	986,442	769,794	158,633	216,648
Other provisions	9,619	6,017	6,011	3,602	6
Bio-component tax credit	4,463	10,934	15,752	(6,471)	(4,818)
Cash flow hedge accounting	-	8,633	98,350	(8,633)	(89,717)
Other	17,220	21,263	18,726	(4,043)	2,537
<b>Total</b>	<b>2,326,168</b>	<b>2,092,009</b>	<b>1,264,598</b>	<b>234,159</b>	<b>827,411</b>
<b>Deferred tax liabilities</b>					
Difference between the current tax value and carrying amount of property, plant and equipment and intangible assets	1,468,538	1,114,692	824,651	353,846	290,041
Positive fair value of derivative financial instruments	140	2,159	6,088	(2,019)	(3,929)
Finance lease	28,698	31,814	33,527	(3,116)	(1,713)
Exchange differences on translating foreign operations recognised in equity	-	-	13,864	-	(13,864)

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PLN '000	Statement of financial position			Change	
	Dec 31 2013	Dec 31 2012 (restated)	Jan 1 2012	2013	2012 (restated)
	A	B	C	A-B	B-C
Exchange differences on revaluation of foreign-currency denominated items	-	34,605	6,312	(34,605)	28,293
Tax liabilities associated with the acquired exploration and production licences in Lithuania	57,537	64,736	54,296	(7,199)	10,440
Cash flow hedge accounting	14,312	-	-	14,312	-
Accrued interest	43,966	33,128	16,968	10,838	16,160
Other	14,000	12,434	13,990	1,566	(1,556)
<b>Total</b>	<b>1,627,191</b>	<b>1,293,568</b>	<b>969,696</b>	<b>333,623</b>	<b>323,872</b>
<b>Net deferred tax assets/(liabilities)</b>	<b>698,977</b>	<b>798,441</b>	<b>294,902</b>	<b>(99,464)</b>	<b>503,539</b>
<b>Change in deferred tax assets and liabilities disclosed in the statement of financial position</b>				<b>(99,464)</b>	<b>503,539</b>
<b>Reconciliation of differences between the change in deferred tax assets and liabilities disclosed in the statement of financial position and the deferred tax disclosed in the statement of comprehensive income</b>					
			<b>Note</b>		
Exchange differences on translating deferred tax of foreign operations				122,175	11,651
Effect of accounting for the acquisition price of the Heimdal assets <sup>(1)</sup>			13	138,115	-
Deconsolidation (LOTOS Tank Sp. z o.o.) <sup>(2)</sup>				143	-
Deferred tax disclosed as a result of accounting for step acquisition of control (AB LOTOS Geonafra Group) <sup>(3)</sup>				-	24,299
Deferred tax disclosed under other comprehensive income, net			10.1	22,909	75,639
<b>Deferred tax expense recognised in net profit or loss</b>				<b>183,878</b>	<b>615,128</b>

<sup>(1)</sup> Accounting for the tax due resulting from pro and contra cash flows generated in the transitional period, which are a part of the cost of Heimdal assets, by decreasing the tax asset relating to tax losses.

<sup>(2)</sup> For more information on the transaction, see Note 2.

<sup>(3)</sup> For more information on the transaction, see Note 6.

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As the Group entities are separate taxpayers, deferred tax (deferred tax assets and liabilities) is assessed separately by each entity. The Group entities offset deferred tax assets and deferred tax liabilities. The table below presents the deferred tax disclosed in the consolidated statement of financial position:

	Dec 31 2013	Dec 31 2012 (restated)
PLN '000		
Deferred tax assets	980,284	1,121,314
Deferred tax liabilities	(281,307)	(322,873)
<b>Net deferred tax assets (liabilities)</b>	<b>698,977</b>	<b>798,441</b>

Taxable temporary differences are expected to expire in 2014–2083.

As at December 31st 2013, the tax losses with respect to which no deferred tax assets were recognised in the statement of financial position were PLN 33,960 thousand (December 31st 2012: PLN 43,101 thousand). The decrease in the amount of the above tax losses in 2013 is a result of their partial settlement, as well as the loss of deduction right due to expiry of the period when the tax losses could be settled in accordance with the tax regulations.

#### 11. Earnings per share

	Year ended Dec 31 2013	Year ended Dec 31 2012 (restated)
Net profit attributable to owners of the Parent (PLN '000) (A)	39,415	927,849
Weighted average number of shares ('000) (B)	129,873	129,873
<b>Earnings per share (PLN) (A/B)</b>	<b>0.30</b>	<b>7.14</b>

Earnings per share for each reporting period are calculated by dividing net profit for a given reporting period by the weighted average number of shares in the reporting period.

Diluted earnings per share are equal to basic earnings per share since the Group carries no instruments with a dilutive effect.

#### 12. Dividends

On June 28th 2013, the General Meeting of Grupa LOTOS S.A. passed a resolution on distribution of the Company's net profit earned in 2012. The General Meeting resolved not to distribute the Company's net profit for 2012, totalling PLN 836,431 thousand, to the Company shareholders, and to allocate the profit as follows:

- PLN 834,931 thousand to the Company's statutory reserve funds,
- PLN 1,500 thousand to the Special Account designated for financing corporate social responsibility (CSR) projects.

In these consolidated financial statements, the distributed 2012 net profit is presented under *Retained earnings*.

As at the date of publication of these consolidated financial statements, the Company's Management Board has not yet passed a resolution on coverage of the net loss for 2013.

As at December 31st 2013 and December 31st 2012, Grupa LOTOS S.A. was restricted in its ability to distribute funds in the form of dividends. The restrictions follow from the credit facility agreement executed on June 27th 2008 for the financing of the 10+ Programme, whereby dividend amounts are subject to certain conditions, including generation of sufficient free cash and achievement of certain levels of financial ratios.

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**13. Property, plant and equipment**

PLN '000	Dec 31 2013	Dec 31 2012
Land	456,390	428,922
Buildings, structures	3,414,803	3,497,440
Plant and equipment	4,728,815	4,244,449
Vehicles, other	442,857	491,533
Property, plant and equipment under construction	822,818	888,829
Exploration and evaluation property, plant and equipment	182,691	134,677
<b>Total</b>	<b>10,048,374</b>	<b>9,685,850</b>

*Change in property, plant and equipment*

PLN '000	Land	Buildings, structures	Plant and equipment	Vehicles, other	Property, plant and equipment under construction	Exploration and evaluation property, plant and equipment	Total
<b>Gross carrying amount Jan 1 2013</b>	<b>443,869</b>	<b>4,623,749</b>	<b>5,637,734</b>	<b>1,093,450</b>	<b>2,097,646</b>	<b>198,975</b>	<b>14,095,423</b>
Purchase	1,234	9,020	15,286	28,892	429,481	76,475	560,388
Acquisition of Heimdal assets	-	-	339,772	-	-	-	339,772
Transfer from property, plant and equipment under construction	29,692	125,822	196,741	59,885	(427,614)	-	(15,474)
Contribution of assets for development of B-4 and B-6 fields to Baltic Gas Sp. z o.o. i wspólnicy sp.k. <sup>(1)</sup>	-	-	-	-	(2,363)	(48,287)	(50,650)
Reclassification to assets held for sale <sup>(2)</sup>	(923)	(23,556)	(21,676)	(1,717)	(29,273)	-	(77,145)
Exchange differences on translating foreign operations	-	27	(44,968)	(4,054)	(190,671)	(10)	(239,676)
Borrowing costs	-	-	-	-	1,842	-	1,842
Assets related to decommissioning of oil extraction facilities	-	(1,404)	265,345 <sup>(3)</sup>	-	11,995	-	275,936
Sale	(952)	(3,449)	(6,715)	(2,647)	(33)	-	(13,796)
Liquidation	-	(5,968)	(13,043)	(186,258) <sup>(4)</sup>	(37)	-	(205,306)
Deconsolidation (LOTOS Tank Sp. z o.o.) <sup>(1)</sup>	-	(3,987)	(1,944)	(8,026)	(5)	-	(13,962)
Other	14	3,196	12,587	(34,670)	(3,875)	(1,994)	(24,742)
<b>Gross carrying amount Dec 31 2013</b>	<b>472,934</b>	<b>4,723,450</b>	<b>6,379,119</b>	<b>944,855</b>	<b>1,887,093</b>	<b>225,159</b>	<b>14,632,610</b>

<sup>(1)</sup> For more information on the transaction, see Note 2.

<sup>(2)</sup> Including assets of LOTOS Asfalt Sp. z o.o. associated with the Waterproofing Materials Production Plant and assets related to the YME field, see note 17.

<sup>(3)</sup> Including an asset of PLN 265,709 thousand (NOK 496,004 thousand) related to decommissioning of oil and gas production facility following acquisition of the Heimdal portfolio, described in more detail in information on acquisition of interest in Norwegian production and exploration licences - Heimdal.

<sup>(4)</sup> Including PLN 180,429 thousand under liquidation of spent catalysts at Grupa LOTOS S.A.

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PLN '000	Land	Buildings, structures	Plant and equipment	Vehicles, other	Property, plant and equipment under construction	Exploration and evaluation property, plant and equipment	Total
<b>Accumulated depreciation</b>							
<b>Jan 1 2013</b>	<b>14,006</b>	<b>1,102,084</b>	<b>1,376,212</b>	<b>600,671</b>	<b>-</b>	<b>-</b>	<b>3,092,973</b>
<i>Depreciation</i>	<i>1,492</i>	<i>199,073</i>	<i>296,209</i>	<i>90,835</i>	<i>-</i>	<i>-</i>	<i>587,609</i>
<i>Exchange differences on translating foreign operations</i>	<i>-</i>	<i>1</i>	<i>(20)</i>	<i>(2,999)</i>	<i>-</i>	<i>-</i>	<i>(3,018)</i>
<i>Reclassification to assets held for sale <sup>(1)</sup></i>	<i>(70)</i>	<i>(3,734)</i>	<i>(4,806)</i>	<i>(960)</i>	<i>-</i>	<i>-</i>	<i>(9,570)</i>
<i>Liquidation</i>	<i>-</i>	<i>(3,546)</i>	<i>(11,611)</i>	<i>(186,371) <sup>(2)</sup></i>	<i>-</i>	<i>-</i>	<i>(201,528)</i>
<i>Deconsolidation (LOTOS Tank Sp. z o.o.) <sup>(3)</sup></i>	<i>-</i>	<i>(831)</i>	<i>(694)</i>	<i>(241)</i>	<i>-</i>	<i>-</i>	<i>(1,766)</i>
<i>Other</i>	<i>71</i>	<i>(421)</i>	<i>(5,466)</i>	<i>(732)</i>	<i>-</i>	<i>-</i>	<i>(6,548)</i>
<b>Accumulated depreciation</b>	<b>15,499</b>	<b>1,292,626</b>	<b>1,649,824</b>	<b>500,203</b>	<b>-</b>	<b>-</b>	<b>3,458,152</b>
<b>Dec 31 2013</b>							
<b>Impairment losses</b>							
<b>Jan 1 2013</b>	<b>941</b>	<b>24,225</b>	<b>17,073</b>	<b>1,246</b>	<b>1,208,817</b>	<b>64,298</b>	<b>1,316,600</b>
<i>Recognised</i>	<i>952</i>	<i>13,866</i>	<i>2,058</i>	<i>593</i>	<i>1,824</i>	<i>26,842</i>	<i>46,135</i>
<i>Reclassification to assets held for sale <sup>(1)</sup></i>	<i>(669)</i>	<i>(15,221)</i>	<i>(13,611)</i>	<i>(201)</i>	<i>(19,855)</i>	<i>-</i>	<i>(49,557)</i>
<i>Exchange differences on translating foreign operations</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>(125,779)</i>	<i>-</i>	<i>(125,779)</i>
<i>Used / Reversed</i>	<i>(179)</i>	<i>(6,849)</i>	<i>(5,040)</i>	<i>(91)</i>	<i>(732)</i>	<i>(48,672)</i>	<i>(61,563)</i>
<i>Other</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>248</i>	<i>-</i>	<i>-</i>	<i>248</i>
<b>Impairment losses</b>	<b>1,045</b>	<b>16,021</b>	<b>480</b>	<b>1,795</b>	<b>1,064,275</b>	<b>42,468</b>	<b>1,126,084</b>
<b>Dec 31 2013</b>							
<b>Net carrying amount</b>							
<b>Dec 31 2013</b>	<b>456,390</b>	<b>3,414,803</b>	<b>4,728,815</b>	<b>442,857</b>	<b>822,818</b>	<b>182,691</b>	<b>10,048,374</b>

<sup>(1)</sup> Including assets of LOTOS Asphalt Sp. z o.o. associated with the Waterproofing Materials Production Plant and assets related to the YME field, see note 17.

<sup>(2)</sup> Including PLN 180,429 under liquidation of spent catalysts at Grupa LOTOS S.A.

<sup>(3)</sup> For more information on the transaction, see Note 2.

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PLN '000	Land	Buildings, structures	Plant and equipment	Vehicles, other	Property, plant and equipment under construction	Exploration and evaluation property, plant and equipment	Total
<b>Gross carrying amount Jan 1 2012</b>	<b>414,608</b>	<b>4,502,781</b>	<b>5,556,750</b>	<b>1,032,442</b>	<b>1,766,080</b>	<b>138,254</b>	<b>13,410,915</b>
<i>Purchase</i>	-	41	3,309	67,828	591,824	65,264	728,266
<i>Transfer from property, plant and equipment under construction</i>	29,782	115,937	84,385	32,758	(280,799)	-	(17,937)
<i>Acquisition of control (AB LOTOS Geonafta Group)<sup>(1)</sup></i>	4	16	33,138	433	2,073	-	35,664
<i>Exchange differences on translating foreign operations</i>	-	(146)	(8,868)	(11,392)	(36,265)	(147)	(56,818)
<i>Reclassification of exploration and evaluation property, plant and equipment<sup>(2)</sup></i>	-	-	4,396	-	-	(4,396)	-
<i>Borrowing costs</i>	-	-	-	-	11,299	-	11,299
<i>Assets related to decommissioning of oil extraction facilities</i>	-	11,823	(930)	-	56,506	-	67,399
<i>Sale</i>	(94)	(3,723)	(6,523)	(5,356)	(2,693)	-	(18,389)
<i>Liquidation</i>	(429)	(3,134)	(3,763)	(6,738)	-	-	(14,064)
<i>Deconsolidation (AB LOTOS Geonafta Group)<sup>(1)</sup></i>	(2)	(8)	(25,287)	(308)	(1,037)	-	(26,642)
<i>Other</i>	-	162	1,127	(16,217)	(9,342)	-	(24,270)
<b>Gross carrying amount Dec 31 2012</b>	<b>443,869</b>	<b>4,623,749</b>	<b>5,637,734</b>	<b>1,093,450</b>	<b>2,097,646</b>	<b>198,975</b>	<b>14,095,423</b>

<sup>(1)</sup> Effect of the acquisition of control over UAB Manifoldas by AB LOTOS Geonafta. For more information on the transaction, see Note 2 to the consolidated financial statements for 2012.

<sup>(2)</sup> Exploration and evaluation property, plant and equipment relating to mineral resources with demonstrable technical feasibility and commercial viability of their extraction.

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PLN '000	Land	Buildings, structures	Plant and equipment	Vehicles, other	Property, plant and equipment under construction	Exploration and evaluation property, plant and equipment	Total
<b>Accumulated depreciation Jan 1 2012</b>	<b>12,456</b>	<b>902,616</b>	<b>1,112,523</b>	<b>493,303</b>	<b>-</b>	<b>-</b>	<b>2,520,898</b>
Depreciation	1,488	202,054	279,310	121,268	-	-	604,120
Exchange differences on translating foreign operations	-	(7)	(1,938)	(7,697)	-	-	(9,642)
Sale	(25)	(1,033)	(5,866)	(3,406)	-	-	(10,330)
Liquidation	-	(1,740)	(3,319)	(3,607)	-	-	(8,666)
Deconsolidation (AB LOTOS Geonafta Group) <sup>(1)</sup>	-	-	(6,541)	(92)	-	-	(6,633)
Other	87	194	2,043	902	-	-	3,226
<b>Accumulated depreciation Dec 31 2012</b>	<b>14,006</b>	<b>1,102,084</b>	<b>1,376,212</b>	<b>600,671</b>	<b>-</b>	<b>-</b>	<b>3,092,973</b>
<b>Impairment losses Jan 1 2012</b>	<b>408</b>	<b>16,385</b>	<b>2,373</b>	<b>1,037</b>	<b>280,178</b>	<b>66,086</b>	<b>366,467</b>
Recognised	940	9,157	15,234	616	943,512	364	969,823
Reclassification to assets held for sale	-	-	-	(390)	-	-	(390)
Exchange differences on translating foreign operations	-	-	-	-	(12,764)	(119)	(12,883)
Reclassification of exploration and evaluation assets <sup>(2)</sup>	-	-	2,033	-	-	(2,033)	-
Deconsolidation (AB LOTOS Geonafta Group) <sup>(1)</sup>	-	-	(2,033)	-	-	-	(2,033)
Used / Reversed	(407)	(1,317)	(534)	(13)	(2,109)	-	(4,380)
Other	-	-	-	(4)	-	-	(4)
<b>Impairment losses Dec 31 2012</b>	<b>941</b>	<b>24,225</b>	<b>17,073</b>	<b>1,246</b>	<b>1,208,817</b>	<b>64,298</b>	<b>1,316,600</b>
<b>Net carrying amount Dec 31 2012</b>	<b>428,922</b>	<b>3,497,440</b>	<b>4,244,449</b>	<b>491,533</b>	<b>888,829</b>	<b>134,677</b>	<b>9,685,850</b>

<sup>(1)</sup> Effect of the acquisition of control over UAB Manifoldas by AB LOTOS Geonafta. For more information on the transaction, see Note 2 to the consolidated financial statements for 2012.

<sup>(2)</sup> Exploration and evaluation property, plant and equipment relating to mineral resources with demonstrable technical feasibility and commercial viability of their extraction.

**Property, plant and equipment used under finance lease**

PLN '000	Dec 31 2013			Dec 31 2012		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Gross carrying amount	Accumulated depreciation	Net carrying amount
Plant and equipment, vehicles	198,737	47,379	151,358	199,202	31,316	167,886

The Group uses finance leases to finance primarily rolling stock assets.

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The table below presents items under which depreciation of property, plant and equipment was recognised:

PLN '000	Year ended Dec 31 2013	Year ended Dec 31 2012
Cost of sales	496,122	503,547
Distribution costs	58,575	52,025
Administrative expenses	21,609	32,207
Change in products and adjustments to cost of sales	11,303	16,341
<b>Total</b>	<b>587,609</b>	<b>604,120</b>

As at December 31st 2013, borrowing costs capitalised as cost of property, plant and equipment under construction were PLN 43,009 thousand (December 31st 2012: PLN 43,211 thousand).

In 2013, borrowing costs capitalised as cost of property, plant and equipment under construction were PLN 1,842 thousand (2012: PLN 11,299 thousand).

As at December 31st 2013, the Group's future contractual liabilities related to expenditure on property, plant and equipment undisclosed in the statement of financial position were PLN 582,966 thousand, and were mostly related to acquisition of a rig, as described in Note 37 (December 31st 2012: PLN 74,594 thousand).

As at December 31st 2013, property, plant and equipment serving as collateral for the Group's liabilities was PLN 7,877,463 thousand (December 31st 2012: PLN 7,150,215 thousand).

#### Exploration and evaluation assets

The Group incurs expenditures on exploration for and evaluation of mineral resources. In 2013, the Group incurred expenditure of PLN 76,745 thousand, chiefly on assets related to the B-8 and B-28 fields in the Baltic Sea (2012: PLN 65,264 thousand). In 2013, the value of cash flows related to expenditure on exploration and evaluation property, plant and equipment was PLN 74,360 thousand (2012: PLN 64,296 thousand), and the value of investment commitments related to exploration and evaluation assets was PLN 2,115 thousand as at December 31st 2013 (December 31st 2012: PLN 968 thousand).

Exploration and evaluation property, plant and equipment is carried until the technical feasibility and commercial viability of extracting the mineral resources are demonstrated. As at December 31st 2013, property, plant and equipment related to mineral resources with demonstrable technical feasibility and commercial viability of extraction was PLN 102,678 thousand (December 31st 2012: PLN 109,030 thousand), and depreciation of these assets in 2013 was PLN 6,786 thousand (2012: PLN 7,300 thousand). As at the end of the reporting period, this property, plant and equipment was not longer presented as exploration and evaluation property, plant and equipment, but as property, plant and equipment comprising production infrastructure, depreciated with the units-of-production method.

#### Assets from decommissioning and reclamation

The property, plant and equipment comprising production infrastructure and depreciated with the units-of-production depreciation method includes assets related to future costs of decommissioning of oil and gas facilities. As at December 31st 2013, the net value of assets from decommissioning of oil facilities was PLN 421,667 thousand (December 31st 2012: PLN 188,523 thousand), attributable chiefly to assets from the YME and Heimdal projects in Norway (see below).

Furthermore, under property, plant and equipment the Group recognises an asset for decommissioning of the underground pipeline used by Energobaltic Sp. z o.o. As at December 31st 2013, the value of the asset was PLN 3,653 thousand (December 31st 2012: PLN 4,045 thousand).

#### Impairment losses on property, plant and equipment

In 2013, the Group made a revaluation of its property, plant and equipment. The impairment losses totalled PLN 46,135 thousand (2012: PLN 969,823 thousand), while impairment loss reversals amounted to PLN 58,728 thousand (2012: PLN 1,527).

#### Upstream segment

Given that no commercial hydrocarbon flows were recorded on the B-28 field, in 2013 LOTOS Petrobaltic S.A. decided to recognise a PLN 26,842 thousand impairment loss on the expenditure incurred in relation to the formation and well. Moreover, in 2013 LOTOS Petrobaltic S.A. reversed an impairment loss on assets associated with the B-4 and B-6 gas fields, which were contributed to Baltic Gas (see Note 2). Impairment losses were recognised for the full amount of expenditure on gas exploration operations conducted on the B-4 and B-6 fields, incurred in previous years by LOTOS Petrobaltic S.A.

In 2012, the Group tested the YME project for impairment, as a result of which it recognised an impairment loss of PLN 935.247 thousand. For detailed information on the YME project see below.

#### *Downstream segment*

In 2013, LOTOS Paliwa Sp. z o.o. recognised an impairment loss on assets related to service stations in the amount of PLN 11,912 thousand. LOTOS Paliwa Sp. z o.o. determines the recoverable amount of property, plant and equipment related to the LOTOS service station network based on the value in use, using the discounted cash flow method. Future cash flows were calculated based on five-year cash-flow projections, prepared using budget projections for 2014 and the cash inflow and outflow plan for subsequent years, based on the development strategy until 2018. The residual value for the discounted cash flows was calculated using the growing perpetuity formula. A fixed growth rate of 1.84% (2012: 1.94%) was used to extrapolate cash-flow projections beyond the five-year period. The extrapolation was based on a quantitative forecast of the fuel consumption growth rate in Poland in 2009–2020. LOTOS Paliwa Sp. z o.o.'s net weighted average cost of capital (WACC) was assumed at 7.16% (2012: 7.53%), based on the company's capital structure. Discounted cash flows calculated separately for each cash-generating unit were grossed up.

Calculation of the value in use of cash-generating units is most sensitive to the following variables:

- gross margin, which depends on average values of unit margins in the period preceding the budget period (an 8% average year-on-year decline of the margin was assumed),
- discount rates, reflecting risks typical to the cash-generating unit (the median price for five-year PLN-denominated notes quoted by REUTERS in November 2003 was adopted),
- volumes based on fuel consumption growth rate (a 5% increase was assumed),
- market share in the budget period (a stable market share was assumed),
- growth rate used to extrapolate cash-flow projections beyond the budget period, based on a quantitative forecast of the fuel consumption growth rate in Poland in 2013-2020, prepared using GUS, NBP and JBC reports (for gasolines), and based on GDP market consensus

As regards the calculation of the value in use of service stations, the Management Board is of the opinion that no reasonably probable change to any of the key assumptions listed above will result in the carrying amount exceeding its recoverable value to a significant extent.

In view of the slow pace of reaching the initially assumed sales volumes of finished products and the loss incurred on the Waterproofing Materials Production Plant operations, in 2012 LOTOS Asphalt Sp. z o.o. tested the assets for impairment by analysing the discounted future cash flows expected to be generated by the Plant in 2013 - 2017. Following the test, an impairment loss for the full amount of the assets, i.e. PLN 22,840 thousand, was recognised. The test was carried out based on the following assumptions: consistent growth of sales volumes by 35% in 2013 (relative to 2012) and 10% in 2014-2017 (on a year-on-year basis), taking into account an adjustment for expected inflation rate at 2.44% - 2.74% (in 2014-2017), and weighted average cost of capital of 11.17%. In 2013, following the sale of the assets LOTOS Asphalt Sp. z o.o. made a reversal of the impairment loss of PLN 8,000 thousand.

#### Interests in Norwegian production and exploration licences – YME

Property, plant and equipment under construction include expenditure incurred by LOTOS Exploration and Production Norge AS ("LOTOS E&P Norge AS") on the acquisition of interests in Norwegian production licences and on the development associated with the interests in the YME field, in an amount of PLN 1,588m (NOK 3,207m).

The Group tested the YME project for impairment as at December 31st 2013. No impairment indicators were found.

The Group tested the YME field assets for impairment as at December 31st 2013 using the same methodology as the one used to test the assets for impairment as at December 31st 2012.

The test, carried out with the discounted cash flow method, was based on estimated values in use for LOTOS E&P Norge AS's interest in hydrocarbon reserves in the YME licences. The YME field impairment test was carried out assuming a +/-15%/bbl in crude oil prices relative to Brent crude prices as at December 31st 2013, a +/-15% change in the USD/NOK exchange rate, a +/-15% change in the YME field reserves, a weighted average cost of capital of 7.5%, and the 78% marginal tax rate (applicable in Norway). For the purposes of the test as at December 31st 2013 it was assumed that production from the field would be launched in 2018.

Based on such assumptions, as at December 31st 2013 the carrying amount of the assets related to the YME field was below the upper limit of the recoverable amount ranges determined, and hence no impairment loss was recognised on the tested asset as at the end of December 2013.

Further, as LOTOS E&P Norge AS's exit from the YME field project was being considered, the Group calculated the recoverable amount of the assets on the basis of their estimated fair value less cost to sell. For the purposes of determining the price that could be obtained for the interest in the YME field (realisable value), the value of the assets was calculated on the basis of the proved reserves of crude oil (2P category – proved and probable) and the price per unit of reserves in similar market transactions involving fields with comparable development status, taking into account the value of tax position. The realisable value thus determined confirmed the realisability of the YME field assets as presented in the consolidated financial statements as at December 31st 2013, which means that there was no need to recognise any further impairment.

As described in Note 35.1, on March 12th 2013, the operator of the YME field, Talisman Energy Norge AS ("Talisman," "Operator") and the supplier of the Mobile Operating and Production Unit (MOPU) to be operated on the YME field, Single Buoy



Moorings Inc. ("SBM"), announced that an agreement had been reached to remove the defective MOPU (evacuated in mid-July 2012) from the YME field and to terminate all existing contracts and agreements between the parties in connection with the YME project.

As at December 31st 2013, the then-aggregate impairment losses adjusting the value of expenditure on the YME project were PLN 1,051m (NOK 2,123m). As at December 31st 2013, the amount of expenditure on property, plant and equipment under construction related to the YME field, net of impairment, was PLN 537m (NOK 1,084m).

Taking into account the impairment losses on the YME project expenditure recognised in previous years, and the incurred tax losses that may be carried forward, in the consolidated statement of financial position as at December 31st 2013 the Group recognised a deferred tax asset of PLN 932m (NOK 1,882m). Given the fact that under the Norwegian tax legislation tax losses can be carried forward indefinitely, and that on December 30th 2013 the Group acquired interests in the Heimdal assets (including interests in producing fields), the Group believes that the deferred tax asset recognised as at December 31st 2013 is fully realisable at the amount disclosed in these consolidated financial statements.

Due to significant market volatility, in particular with respect to crude oil prices, the adopted assumptions might be subject to justifiable changes, and such changes may in the future cause a reduction of carrying amounts of assets associated with the YME field as the carrying amounts may exceed the assets' recoverable amount. Therefore, the Group points to a number of uncertainties as to the recoverable amount of the assets recognised in connection with the YME field, such uncertainties being related to:

- volatility of market prices of crude oil,
- the new PDO (plans for development and operation) for the YME field that is ultimately opted for,
- the estimated amount and market value of hydrocarbons recoverable from the YME field, dependent on the new PDO,
- the estimated fair value of tax assets taken into account in the impairment test of the YME project,
- the amount of reclamation commitments, including those assumed together with elements of the SBM subsea infrastructure, under the agreement of March 12th 2013 concluded between the YME Project Operator and SBM (see Note 35.1),
- date of production launch, if any, from the YME field,
- date and cost of MOPU removal from the YME field,
- volatility of the NOK/USD exchange rate,
- discount rates.

#### **Acquisition of interests in Norwegian production and exploration licences – Heimdal**

On October 18th 2013, LOTOS Exploration and Production Norge AS of the LOTOS Petrobaltic Group ("LOTOS E&P Norge AS") entered into an agreement with Centrica Resources (Norge) AS/Centrica Norway Limited ("Centrica", "Seller"), subsidiaries of Centrica Plc. of the UK, to purchase Heimdal assets on the Norwegian Continental Shelf. On December 18th 2013, LOTOS E&P Norge AS obtained the consent of the Norwegian authorities to finalise the transaction and on December 30th 2013 it delivered to the Seller a certificate confirming payment and creation of security in the form of a stand-by letter of credit for international transactions, for future liabilities related to decommissioning of the production infrastructure.

On December 30th 2013 ("acquisition date") all conditions precedent to the agreement were fulfilled and all material risks and benefits related to the ownership of the acquired Heimdal assets were transferred to LOTOS E&P Norge AS. The transaction is recognised in these consolidated financial statements as asset acquisition, in accordance with IAS 31 Interests in Joint Ventures.

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The Heimdal assets comprise interests in 14 licences on the following fields in the central part of the North Sea:

Fields	Status	Licences	Interests
Heimdal	transmission infrastructure (HUB), exploration	PL036BS	5%
Vale	production, exploration	PL036, PL249	25.75%
Skirne/Byggve	production	PL102	30%
Atla	production	PL102C	20%
Trell	exploration	PL102D	20%
Trell	exploration	PL102E	30%
Trell Carve-out Area	exploration	PL102F, PL102G	10%
Frigg Gamma Delta	discovered	PL442	10%
Fulla	discovered	PL362	50%
Fulla	discovered	PL035B	50%
Rind	discovered	PL026, PL026B	7.87%

Under the licence, production activities are no longer being carried out on the Heimdal gas field (located 212 km north west of Stavanger), but the platform continues to operate as the centre for processing and distribution of gas coming from the Norwegian Continental Shelf. At present, given the central location of the field, its infrastructure is used to process gas from other neighbouring fields: Atla, Skirne, Vale and Huldra. It also serves as a distribution point for the transport of gas from the Oseberg Gas Transport. The Heimdal hub can process and transport gas representing approximately 15%-20% of Norway's gas exports, which makes Heimdal one of the key strategic points for gas exports from Norway to Central Europe and the UK. The Heimdal licence operator is Statoil Petroleum AS. The other interest holders are Total E&P Norge AS, Petoro AS and Centrica Norge. Production from the Atla, Skirne and Vale fields attributable to LOTOS E&P Norge AS's interest is approximately 5,000 boe daily and approximately 250,000 toe annually.

Gas and condensate are produced from the Skirne/Byggve, Atla and Vale fields. Frigg Gamma Delta, Fulla and Rind are new discoveries, which can be developed by 2020 or later. The Group also obtained access to six exploration licences. On the Fulla field, LOTOS E&P Norge AS is the operator in licences PL362 and PL035B, and a partner in the other licences.

Proven and probable (2P) recoverable volumes of gas (70%) and condensate (30%) from the interests acquired by the Group in the producing fields amount to 9m boe. 2C contingent resources in the discoveries attributable to LOTOS E&P Norge AS's interest amount to 31m boe.

The contractual price for the interests in the 14 licences acquired in the Heimdal transaction was set by the parties at USD 175.8m as at January 1st 2013, which under the Norwegian tax law is referred to as the effective economic date of the transaction. Tax consequences of acquisition and sale of interests in joint ventures on the Norwegian Continental Shelf require approval by the Norwegian Ministry of Finance. This requirement is imposed by the legislation governing crude oil taxation. The legislation also requires that January 1st be assumed as the effective transaction date for tax purposes, and that payment for acquired interests include the agreed purchase price, an appropriate share in working capital, and the amount of settlements between the existing partners of the joint venture. The period from January 1st (the effective economic transaction date) to the date of actual transaction settlement is referred to as the transitional period. Once the transaction is finalised, the buyer pays the agreed purchase price and a pro and contra settlement takes place, as part of which the parties make mutual settlements relating to working capital, accounts to be settled with the joint venture partners as at January 1st, and respective shares in net cash flows from the licence in the transitional period.

The purchase of the Heimdal assets was partly financed with a bank loan, and the balance of the contractual price of USD 175.8m was settled through the pro and contra mechanism, that is using the cash flows acquired by LOTOS E&P Norge AS, generated in the period from the effective transaction date (January 1st 2013) to the actual date of finalising the transaction (the acquisition date, i.e. December 30th 2013), in the amount of USD 72.16m.

Given the high amount of the deferred tax asset recognised in LOTOS E&P Norge AS accounts, no income tax for 2013 will be paid on those cash flows and the Seller will recover income tax overpayment of NOK 278.9m, after assignment to LOTOS E&P Norge AS of cash flows of USD 72.16m, counted towards the contract price of USD 175.8m. Such settlement follows from the Norwegian tax regime and has no effect on the Group's financial result.

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The total value of the acquired Heimdal assets as disclosed in the consolidated financial statements is PLN 710.2m (NOK 1,433.8m). The table below presents the effect of accounting for the acquisition of Heimdal assets in these consolidated financial statements:

Reporting position	NOKm	PLNm
I. Property, plant and equipment	634.2	314.1
II. Intangible assets	303.6	150.4
Value of acquired Heimdal assets after pro and contra settlement, taking into account capitalised transaction costs and estimated future conditional payments (I + II)	937.8	464.5
III. Decommissioning asset	496.0	245.7
<b>Total (I + II + III)</b>	<b>1,433.8</b>	<b>710.2</b>
<i>Settlement of acquisition price (A + B):</i>	<i>910.5</i>	<i>450.9</i>
A. Price paid after pro and contra settlement (USD 175.8m - USD 72.16m)	631.6	312.8
B. Tax resulting from pro and contra settlement, on cash flows generated in the transitional period (amount paid by Centrica to the Norwegian tax authorities, settled against deferred tax asset of LOTOS E&P Norge AS)	278.9	138.1
<i>Capitalised transaction costs (C + D):</i>	<i>27.3</i>	<i>13.6</i>
C. Amount of conditional future payments as agreed	10.2	5.1
D. Capitalised transaction costs	17.1	8.5
E. Decommissioning provision	496.0	245.7
<b>Total (A+B+C+D+E)</b>	<b>1,433.8</b>	<b>710.2</b>

The purchased property, plant and equipment comprise production equipment (plant and equipment). The remaining assets were classified as intangible exploration and evaluation assets.

Under property, plant and equipment the Group recognises an asset related to future costs of decommissioning of offshore oil facility of PLN 245,671 thousand (NOK 496,004 thousand). The value of the asset is dependent on the updated estimated value of the relevant provision.

The decommissioning provision recognised by the Group, representing the best estimate of future costs related to land reclamation, is recognised in the financial statements in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and in fulfilment of the obligation resulting from international land reclamation requirements. The estimated reclamation period for the deposits covered by the transaction will span from 2014 to 2035, therefore the amount of future costs was determined by the Group at a 4.5% discount rate and a 2% inflation rate. For information on provisions for offshore oil and gas facilities on the North Sea, see Note 30.1.

To finance the acquisition of Heimdal assets, on December 11th 2013 LOTOS E&P Norge AS signed a USD 110m investment loan agreement. The total amount drawn under the loan is USD 105m and includes payments of interest on the deferred settlement with Centrica. The final loan repayment date is December 31st 2016.

The bank guarantee provided to the Seller, in the form of a stand-by letter of credit, secures LOTOS E&P Norge AS's liabilities related to decommissioning of depleted off-shore oil and gas facilities. The amount under the bank guarantee agreement, signed with PKO BP S.A. on December 11th 2013, is USD 25m.

**Prospects for development of the B-4 and B-6 gas fields**

As at December 31st 2012, the items "Property, plant and equipment under construction" and "Exploration and appraisal assets" included expenditure of PLN 593 thousand and PLN 48,672 thousand, respectively, incurred by the Group on gas exploration on the B-4 and B-6 fields in the Baltic Sea. As at December 31st 2012, impairment losses were recognised for the full amount of those assets. In 2013, pursuing further development of the B-4 and B-6 fields under an investment agreement between LOTOS Petrobaltic S.A. and CalEnergy Resources Poland Sp. z o.o., the Group reversed impairment losses on these expenditures in the amount of PLN 48,273 thousand and contributed the amount to Baltic Gas spółka z ograniczoną odpowiedzialnością i

wspólnicy sp. k, a special purpose vehicle, in exchange for Baltic Gas shares acquired by the Group (see Note 2). Under the preparatory work schedule, seismics acquisition and selection of a preliminary field development concept are scheduled for 2013–2014. Upon completion of that stage, the partners will be able to make a final decision whether to pursue development of the B-4 and B-6 fields.

#### 14. Goodwill

Goodwill is allocated to cash-generating units, as presented in the table below.

PLN '000	Dec 31 2013	Dec 31 2012
Goodwill arising on the acquisition of an organised part of business by LOTOS Paliwa Sp. z o.o.:		
- LOTOS Gaz S.A. (wholesale of fuels)	10,009	10,009
- ESSO service stations network	31,759	31,759
- Slovnaft Polska service stations network	1,932	1,932
<b>Total</b>	<b>43,700</b>	<b>43,700</b>
Goodwill arising on the acquisition of:		
- LOTOS Partner Sp. z o.o.	1,862	1,862
- Energobaltic Sp. z o.o.	1,126	1,126
<b>Total</b>	<b>2,988</b>	<b>2,988</b>
<b>Total goodwill</b>	<b>46,688</b>	<b>46,688</b>

As at December 31st 2013 and December 31st 2012, impairment tests of individual cash-generating units to which goodwill was allocated did not reveal any impairment indicators.

The Group determines the recoverable value of cash-generating units based on their respective values in use, calculated on the basis of a five-year cash flow projection. The residual value for the discounted cash flows was calculated using the growing perpetuity formula. A fixed growth rate of 1.84% (2012: 1.94%) was used to extrapolate cash-flow projections beyond the five-year period. The extrapolation was based on a quantitative forecast of the fuel consumption growth rate in Poland in 2009–2020. The discount rate adopted for calculation reflects net WACC of 7.16% (2012: 7.53%). Discounted cash flows calculated separately for each cash-generating unit were grossed up.

The most material factors affecting the estimated values in use of cash-generating units were: gross margin, discount rate, volumes forecast, projected market shares in the budget period and estimated growth rate beyond the forecast period.

The Group believes that no reasonably probable change in the key parameters identified above would result in goodwill impairment.

#### 15. Other intangible assets

PLN '000	Dec 31 2013	Dec 31 2012 (restated)
Licences, patents and trademarks	93,607	91,286
Exploration and production licences <sup>(1)</sup>	357,559	431,073
Intangible exploration and evaluation assets <sup>(2)</sup>	198,439	15,356
Other	36,617 <sup>(3)</sup>	10,944
<b>Total</b>	<b>686,222</b>	<b>548,659</b>

<sup>(1)</sup> AB LOTOS Geonafra Group's exploration and production licences related to oil fields in Lithuania.

<sup>(2)</sup> Including PLN 180,401 thousand under LOTOS E&P Norge AS North Sea exploration licences (December 31st 2012: PLN 13,896 thousand).

<sup>(3)</sup> Including Grupa LOTOS's purchased carbon dioxide (CO<sub>2</sub>) emission allowances of PLN 23,911 thousand.

### Exploration and evaluation assets

The Group incurs expenditures on intangible assets in connection with exploration for and evaluation of mineral resources. In 2013, the incurred expenditure of PLN 204,518 thousand mainly related to the acquisition of assets connected with the YME field and Heimdal fields (for more information on the transaction, see Note 13). In 2013, the value of cash flows related to expenditure on intangible exploration and evaluation assets was PLN 181,632 thousand (2012: PLN 73,714 thousand). As at December 31st 2013, the value of investment commitments connected with the expenditure was PLN 21,233 thousand.

Exploration and evaluation assets are carried until the technical feasibility and commercial viability of extracting the mineral resources is demonstrated. As at December 31st 2013, the intangible assets related to mineral resources with demonstrable technical feasibility and commercial viability of extraction stood at PLN 362,438 thousand (December 31st 2012: PLN 434,949 thousand), and their 2013 amortisation amounted to PLN 55,126 thousand (2012: PLN 49,744 thousand). These assets are recognised under: *Exploration and production licences* and *Other intangible assets*.

### Impairment losses on intangible assets

#### *Upstream segment*

In 2013, the Group recognised impairment losses on intangible assets of PLN 31,164 thousand (2012: PLN 88,986 thousand). The impairment losses were related to exploration licences in Norway and exploration and production licences in Lithuania, as described in more detail below.

In 2013, as the drillings performed within the PL 498 and PL 497 licence areas yielded no positive results, the Group recognised an impairment loss on related capitalised exploration expenses of PLN 4,744 thousand (NOK 8,856 thousand). The respective impairment loss recognised in 2012 was PLN 74,481 thousand (NOK 133,145 thousand).

As at December 31st 2013 Latvian production licences held by companies of the AB LOTOS Geonafra Group (AB LOTOS Geonafra (Girkaliai, Kretinga and Nausodis fields), UAB Genciu Nafta (Genciu field)) were tested for impairment. The Group determined the recoverable amount of the tested assets at their value in use measured using the discounted future cash flows method.

The assets of UAB Manifoldas (Klaipėda, Troba fields) were not tested for impairment, as the key assumptions relating to the allocation of cost for AB LOTOS Geonafra's acquisition of controlling interest in UAB Manifoldas were not materially different from the estimates made in connection with the final accounting for the transaction (see Note 6).

Key assumptions underlying computation of the recoverable amount of the tested intangible assets in Lithuania as at December 31st 2013:

- the cash flow projection period was assumed to equal the asset's planned life,
- the discount rate was assumed to equal the weighted average cost, at 11%,
- production volumes were assumed to be in line with a competent person report prepared by Miller & Lents based on available current geological information,
- capital expenditure was assumed to match the projected production volumes.

The following crude oil price assumptions in USD/bbl were adopted for the purposes of the estimates:

- 2014-2016 – in line with the assumptions adopted for the purposes of calculating budgets of the LOTOS Group companies and the average annual price in 2011-2013,
- 2017 and beyond – crude prices reflect the assumptions made for the purposes of acquisition of an interest in Heimdal assets by LOTOS E&P Norge AS (for more information on the acquisition of Heimdal assets see Note 13).

Due to significant market volatility, in particular with respect to crude oil prices, the adopted assumptions might be subject to justifiable changes, and such changes may in the future cause a change on the carrying amounts of assets held by the AB LOTOS Geonafra Group. To determine the effect of key factors on the test results, the Group carried out an analysis of sensitivity to a -15%/+15% change of crude oil price, -15%/+15% change in production volumes, and a -15%/+15% change in the USD/LTL exchange rate. As at December 31st 2013, as a result of impairment tests a PLN 26,420 thousand (LTL 21,663 thousand) impairment loss on assets was recognised, including PLN 7,943 thousand (LTL 6,513 thousand) on assets associated with the Girkaliai field and PLN 18,477 thousand (LTL 15,150 thousand) on assets associated with the UAB Minijos Nafta's fields.

As at December 31st 2012, remeasurement of the intangible assets related to the Lithuanian licences was necessitated mainly by the determination of new geological information which revised the reserve estimates down. Following impairment tests performed separately for each individual asset generating cash flows, i.e. for the Girkaliai, Kretinga and Nausodis fields, an impairment loss of PLN 14,504 thousand (LTL 12,000 thousand) was recognised on assets related to the Kretinga field

In connection with the tests carried out as at December 31st 2012, production profiles based on the current field reports prepared by an independent expert were used to calculate future cash flows (the assets tested for impairment generate cash flows from production of crude oil; production profiles determine the period of detailed cash flow projections for each field). The analysed cash flows in the production periods included revenue from sale of crude oil, operating expenses and capital expenditure necessary to conduct production activities, and the calculated cash flows were discounted to arrive at the present value of future payments. The applied discount rate was based on the weighted average cost of capital after tax, estimated at 11%. With financial effects of production from a given oil field showing high sensitivity to changes in the prices of crude oil, and the prices being highly volatile, the Group applied a range approach to testing the value of its fields, in order to avoid

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remeasurement of assets after any price movements, by allowing for the following volatilities: crude oil price: +/- 15%, production volumes: +/- 15%, USD/LTL exchange rate: +/- 15%. The tests revealed that, as at December 31st 2012, the carrying amounts of the Girkaliai and Nausodis fields fell within the ranges determined by the range test. In the case of the Kretinga field, the carrying amount of the tested assets was higher than the field's range measurement values, which resulted in recognition of the impairment loss on the assets.

The table below presents items under which amortisation of other intangible assets was recognised:

PLN '000	Year ended Dec 31 2013	Year ended Dec 31 2012 (restated)
Cost of sales	56,679	51,267
Distribution costs	472	1,380
Administrative expenses	11,197	9,590
Change in products and adjustments to cost of sales	108	108
<b>Total</b>	<b>68,456</b>	<b>62,345</b>

As at December 31st 2013, other intangible assets serving as collateral for the Group's liabilities was PLN 150,364 thousand. The collateral was created over the acquired Heimdal assets; for more information see Note 13. As at December 31st 2012, no intangible assets served as collateral.

As at December 31st 2013, the Group's future contractual liabilities related to expenditure on intangible assets undisclosed in the statement of financial position were PLN 9,263 thousand (December 31st 2012: PLN 8,039 thousand).

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**Changes in other intangible assets**

PLN '000		Licences, patents and trademarks	Exploration and production licences	Intangible exploration and evaluation assets	Other	Total
	Note					
<b>Gross carrying amount</b>						
<b>Jan 1 2013</b>		<b>163,626</b>	<b>527,054</b>	<b>159,305</b>	<b>32,978</b>	<b>882,963</b>
<b>(restated)</b>						
<i>Purchase</i>		-	-	41,890	25,573 <sup>(1)</sup>	67,463
<i>Acquisition of Heimdal assets</i>	13	-	-	162,628	-	162,628
<i>Transfer from property, plant and equipment under construction</i>		12,562	-	-	2,912	15,474
<i>Exchange differences on translating foreign operations</i>		-	7,612	(30,788)	(473)	(23,649)
<i>Contribution of assets for development of B-4 and B-6 fields to Baltic Gas Sp. z o.o i wspólnicy sp. k. <sup>(2)</sup></i>		-	-	(1,430)	(327)	(1,757)
<i>Liquidation</i>		(179)	-	-	(14)	(193)
<i>Other</i>		(265)	-	-	308	43
<b>Gross carrying amount</b>		<b>175,744</b>	<b>534,666</b>	<b>331,605</b>	<b>60,957</b>	<b>1,102,972</b>
<b>Dec 31 2013</b>						
<b>Accumulated amortisation</b>						
<b>Jan 1 2013</b>		<b>72,337</b>	<b>81,773</b>	<b>7,121</b>	<b>22,008</b>	<b>183,239</b>
<b>(restated)</b>						
<i>Amortisation</i>		10,249	54,548	1,411	2,248	68,456
<i>Exchange differences on translating foreign operations</i>		-	354	-	(293)	61
<i>Contribution of assets for development of B-4 and B-6 fields to Baltic Gas Sp. z o.o i wspólnicy sp. k. <sup>(2)</sup></i>		-	-	(1,317)	(87)	(1,404)
<i>Liquidation</i>		(172)	-	-	(10)	(182)
<i>Other</i>		(252)	-	-	420	168
<b>Accumulated amortisation</b>		<b>82,162</b>	<b>136,675</b>	<b>7,215</b>	<b>24,286</b>	<b>250,338</b>
<b>Dec 31 2013</b>						
<b>Impairment losses</b>						
<b>Jan 1 2013</b>		<b>3</b>	<b>14,208</b>	<b>136,828</b>	<b>26</b>	<b>151,065</b>
<i>Recognised</i>		-	26,420	4,744	-	31,164
<i>Exchange differences on translating foreign operations</i>		-	(196)	(15,079)	-	(15,275)
<i>Used / Reversed</i>		-	-	(542)	-	(542)
<i>Other</i>		(28)	-	-	28	-
<b>Impairment losses</b>		<b>(25)</b>	<b>40,432</b>	<b>125,951</b>	<b>54</b>	<b>166,412</b>
<b>Dec 31 2013</b>						
<b>Net carrying amount</b>						
<b>Dec 31 2013</b>		<b>93,607</b>	<b>357,559</b>	<b>198,439</b>	<b>36,617</b>	<b>686,222</b>

<sup>(1)</sup> Including Grupa LOTOS S.A.'s purchased carbon dioxide (CO2) emission allowances of PLN 23,430 thousand.

<sup>(2)</sup> For more information see Note 2.

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PLN '000	Licences, patents and trademarks	Exploration and production licences	Intangible exploration assets plant and equipment	Other	Total
<b>Gross carrying amount Jan 1 2012</b>	<b>150,007</b>	<b>403,716</b>	<b>87,880</b>	<b>29,834</b>	<b>671,437</b>
<i>Purchase</i>	180	-	73,714	805	74,699
<i>Transfer from property, plant and equipment under construction</i>	15,518	-	-	2,419	17,937
<i>Exchange differences on translating foreign operations</i>	-	(33,245)	(2,289)	(80)	(35,614)
<i>Acquisition of control (AB LOTOS Geonafta Group)<sup>(1)</sup></i>	-	184,625	-	-	184,625
<i>Liquidation</i>	(584)	-	-	(270)	(854)
<i>Deconsolidation (AB LOTOS Geonafta Group)<sup>(1)</sup></i>	-	(28,042)	-	-	(28,042)
<i>Other</i>	(1,495)	-	-	270	(1,225)
<b>Gross carrying amount Dec 31 2012 (restated)</b>	<b>163,626</b>	<b>527,054</b>	<b>159,305</b>	<b>32,978</b>	<b>882,963</b>
<b>Accumulated amortisation Jan 1 2012</b>	<b>63,340</b>	<b>41,741</b>	<b>6,156</b>	<b>20,280</b>	<b>131,517</b>
<i>Amortisation</i>	10,309	49,017	965	2,054	62,345
<i>Exchange differences on translating foreign operations</i>	-	(4,007)	-	(56)	(4,063)
<i>Liquidation</i>	(584)	-	-	(270)	(854)
<i>Deconsolidation (AB LOTOS Geonafta Group)<sup>(1)</sup></i>	-	(4,978)	-	-	(4,978)
<i>Other</i>	(728)	-	-	-	(728)
<b>Accumulated amortisation Dec 31 2012 (restated)</b>	<b>72,337</b>	<b>81,773</b>	<b>7,121</b>	<b>22,008</b>	<b>183,239</b>
<b>Impairment losses Jan 1 2012</b>	<b>3</b>	<b>-</b>	<b>64,311</b>	<b>26</b>	<b>64,340</b>
<i>Recognised</i>	-	14,504	74,481	-	88,985
<i>Exchange differences on translating foreign operations</i>	-	(296)	(1,964)	-	(2,260)
<b>Impairment losses Dec 31 2012</b>	<b>3</b>	<b>14,208</b>	<b>136,828</b>	<b>26</b>	<b>151,065</b>
<b>Net carrying amount Dec 31 2012 (restated)</b>	<b>91,286</b>	<b>431,073</b>	<b>15,356</b>	<b>10,944</b>	<b>548,659</b>

<sup>(1)</sup> Effect of the acquisition of control over UAB Manifoldas by AB LOTOS Geonafta. For more information on the transaction, see Note 2 to the consolidated financial statements for 2012.



#### 16. Equity-accounted entities

<b>The Group's ownership interest</b>	
<b>Dec 31 2013</b>	
LOTOS – Air BP Polska Sp. z o.o.	50.00%
<b>LOTOS Petrobaltic Group</b>	
Baltic Gas Sp. z o.o.	49.99%
Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k.	81.68%

For more information on shareholder structure of the equity-accounted entities, as well as changes in the reporting period, see Note 2.

#### *Change in shareholdings in equity-accounted entities*

PLN '000	LOTOS – Air BP Polska Sp. z o.o.	Baltic Gas Sp. z o.o.	Baltic Gas Sp. z o.o. i wspólnicy sp.k.
<b>Jan 1 2013</b>	-	5	5
Contributions made	-	-	52,296
Purchase price	14,907	-	-
Share capital increase	-	20	-
Sale of shares	-	(3)	-
Share in net loss	(488)	(15)	(505)
<b>Dec 31 2013</b>	<b>14,419</b>	<b>7</b>	<b>51,796</b>

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*Condensed financial information on equity-accounted entities*

PLN '000	LOTOS – Air BP Polska Sp. z o.o.	Baltic Gas Sp. z o.o.	Baltic Gas Sp. z o.o. i wspólnicy sp.k.
	Dec 31 2013		
Total assets	39,226	16	70,782
Total liabilities	23,861	2	7,975
Net assets	15,365	14	62,807

PLN '000	LOTOS – Air BP Polska Sp. z o.o.	Baltic Gas Sp. z o.o.	Baltic Gas Sp. z o.o. i wspólnicy sp.k.
	for the year ended Dec 31 2013		
Revenue	19,478	-	-
Net loss	(976)	(28)	(1,009)

**17. Assets held for sale**

PLN '000	Dec 31 2013	Dec 31 2012
Upstream segment	794	1,658
Downstream segment	-	770
<b>Total</b>	<b>794</b>	<b>2,428</b>

In 2013, the Group recognised assets held for sale:

- On July 1st 2013, LOTOS Asphalt Sp. z o.o. (downstream segment) sold assets associated with the Waterproofing Materials Production Plant of Jasło for PLN 8,000 thousand. Proceeds from the sale in the amount of PLN 3,050 thousand were presented in the statement of cash flows under *Sale of organised part of business*. As at December 31st 2013, the outstanding balance of the amount due under the transaction was disclosed in the statement of financial position as *Current investment receivables* under Other assets.
- On October 15th 2013, an agreement was signed with Wenergy LTD PTE of Singapore for the sale of drilling equipment (WOU) from the YME field platform. The total selling price was USD 15.5m, with USD 3.1m (20%, pro rata to the interest in the consortium) of that amount due to LOTOS Exploration and Production Norge AS (upstream segment). Cash proceeds of PLN 912 thousand (NOK 1,842 thousand) from the sale was presented in the statement of cash flows under *Sale of property, plant and equipment and other intangible assets*. As at December 31st 2013, the outstanding balance of the amount due under the transaction, i.e. PLN 8,211 thousand (NOK 16,579 thousand), was disclosed in the statement of financial position as *Current investment receivables* under Other assets.
- LOTOS Kolej Sp. z o.o. (downstream segment) sold PLN 870 thousand worth of rolling stock. Cash proceeds from the sale were presented in the statement of cash flows under *Sale of property, plant and equipment and other intangible assets*.

As at December 31st 2013, property, plant and equipment disclosed by the Group as held for sale comprised two residential units with the attached interest in land (December 31st 2012: boats, residential unit with the attached land, as well as plant and equipment for plastics processing).

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**18. Trade receivables and other assets**

PLN '000	Note	Dec 31 2013	Dec 31 2012 (restated)	Jan 1 2012 (restated)
<b>Financial assets</b>				
<b>Non-current financial assets</b>				
Other financial assets:	31.1	194,002	86,435	125,472
Security deposits receivable		23,089	28,555	20,919
Finance lease receivables	18.2	8,061	6,180	3,564
Shares		9,746	9,756	9,746
Oil and gas facility decommissioning fund <sup>(1)</sup>	32.4.1	29,866	27,481	24,491
Deposits		-	-	38,106
Security deposits (margins)	32.4.1	11,029	11,163	11,748
Cash blocked in bank accounts	32.3.1.; 32.4.1.	110,379	-	-
Derivative financial instruments		-	-	12,098
Other receivables		1,832	3,300	4,800
<b>Total</b>		<b>194,002</b>	<b>86,435</b>	<b>125,472</b>
<b>Current financial assets</b>				
Trade receivables, including:	31.1	1,594,746	1,632,837	2,071,269
- from related entities	36.1	16,657	2,507	90
Other financial assets:	31.1	185,376	173,238	119,789
Security deposits receivable		23,089	10,483	7,998
Deposits	32.4.1	29,653	122,563	40,565
Cash blocked in bank accounts	32.3.1.; 32.4.1.	103,559	18,320	49,671
Investment receivables		13,144	2,457	1,299
Other receivables		15,931	19,415	20,256
<b>Total</b>		<b>1,780,122</b>	<b>1,806,075</b>	<b>2,191,058</b>
<b>Total financial assets</b>		<b>1,974,124</b>	<b>1,892,510</b>	<b>2,316,530</b>
<b>Non-financial assets</b>				
<b>Non-current non-financial assets</b>				
Prepayments for lease of railway locomotives		6,663	8,990	-
Other		10,316	11,807	10,819
<b>Total</b>		<b>16,979</b>	<b>20,797</b>	<b>10,819</b>
<b>Current non-financial assets</b>				
Value-added tax receivable		51,899	165,152	42,236
Other receivables from the state budget other than income tax		632	2,780	10,622
Property and other insurance		4,522	5,704	4,427
Prepayments for lease of railway locomotives		2,336	2,336	-
Settlements under joint ventures (Norwegian fields)		27,158	41,756	50
Excise duty on inter-warehouse transfers		27,237	29,678	33,620
Prepaid deliveries		9,588	7,523	4,293
Other		16,331	7,954	9,367
<b>Total</b>		<b>139,703</b>	<b>262,883</b>	<b>104,615</b>
<b>Total non-financial assets</b>		<b>156,682</b>	<b>283,680</b>	<b>115,434</b>
<b>Total</b>		<b>2,130,806</b>	<b>2,176,190</b>	<b>2,431,964</b>
<i>including:</i>				
non-current		210,981	107,232	136,291
current:		1,919,825	2,068,958	2,295,673
- trade receivables		1,594,746	1,632,837	2,071,269
- other		325,079	436,121	224,404

<sup>(1)</sup> Cash deposited in the bank account of the oil and gas facility decommissioning fund (created pursuant to the Geological and Mining Law of February 4th 1994 and the Minister of Economy's Regulation of June 24th 2002) to cover future costs of decommissioning of oil and gas facilities, as discussed in Note 30.1.

As at December 31st 2013 and December 31st 2012, the item *Deposits* mainly included the Parent's deposits securing payments of interest under credit facilities contracted for the financing of the 10+ Programme, as well as for financing and refinancing inventories, referred to in Note 27.1. As at December 31st 2012, the item included Parent's cash of PLN 83,826 thousand earmarked for plant maintenance, as required under the 10+ Programme financing agreements. The cash was used in the first half of 2013.

As at December 31st 2013, *Security deposits (margins)* mainly included PLN 8,917 thousand security deposit (margin) provided by the Parent to BNP Paribas Bank Polska, to enable execution of transactions on the ICE Futures Internet platform (December 31st 2012: PLN 9,051 thousand).

As at December 31st 2013, *Cash blocked in bank accounts* comprised cash on ecrow account associated with the agreement concluded between the parties involved in the execution of the YME Project in Norway; for more information, see Note 30.1. As at December 31st 2013, the blocked cash totalled PLN 213,938 thousand. As at December 31st 2012, Cash blocked in bank accounts comprised LOTOS Paliwa Sp. z o.o.'s cash in of PLN 18,320 thousand. These funds were blocked by a court enforcement officer in connection with court proceedings concerning WANDEKO and were released in 2013; for more information, see Note 35.1.

The collection period for trade receivables in the ordinary course of business is 7–35 days.

As at December 31st 2013, a PLN 3,156 thousand assignment was established on the Group's receivables as security for the Group's liabilities. As at December 31st 2012, the Group's receivables were not subject to any assignment by way of security for the Group's liabilities.

For description of the financial instruments, see Note 7.23. For description of objectives and policies of financial risk management, see Note 32.

The maximum credit risk exposure of financial assets is presented in Note 32.6.

For currency risk sensitivity analysis of financial assets, see Note 32.3.1.

For interest rate risk sensitivity analysis of financial assets, see Note 32.4.1.

### 18.1 Change in impairment losses on receivables

PLN '000	Year ended Dec 31 2013	Year ended Dec 31 2012
<b>At beginning of the period</b>	<b>177,152</b>	<b>195,646</b>
Recognised	11,998	11,325
Exchange differences on translating foreign operations	34	(1,025)
Used	(11,015)	(20,179)
Deconsolidation (LOTOS Tank Sp. z o.o.) <sup>(1)</sup>	(735)	-
Reversed	(2,141)	(8,615)
<b>At end of the period</b>	<b>175,293</b>	<b>177,152</b>

<sup>(1)</sup> For more information on the transaction, see Note 2.

The amounts resulting from recognition or reversal of impairment losses on receivables are presented under other income or expenses (the principal portion) and under finance income or costs (the default interest portion).

*Recognised* impairment losses included PLN 9,584 thousand under the principal (2012: PLN 9,898 thousand) and PLN 2,371 thousand under interest (2012: PLN 1,416 thousand).

The item *Reversed* comprised PLN 1,280 thousand under the principal (2012: PLN 8,537 thousand) and PLN 861 thousand under interest (2012: PLN 78 thousand).

In 2013, the Group disclosed the recognition and reversal of impairment losses on the principal under Other expenses, in the amount of PLN 6,012 thousand (2012: PLN 5,012 thousand under Other income). Moreover, in 2013 the Group offset the impairment loss of PLN 2,292 thousand against corresponding Other income items (2012: PLN 6,373 thousand).

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The table below presents aging of past due receivables for which no impairment losses were recognised:

PLN '000	Dec 31 2013	Dec 31 2012
Up to 1 month	47,503	81,742
From 1 to 3 months	8,051	11,932
From 3 to 6 months	5,694	4,800
From 6 months to 1 year	4,948	2,275
Over 1 year	6,341	5,357
<b>Total</b>	<b>72,537</b>	<b>106,106</b>

No impairment loss was recognised on past due receivables because they are secured against credit risk with a mortgage, pledge, insurance policy, bank guarantee or surety.

As at December 31st 2013 and December 31st 2012, the share of trade receivables from the Group's four largest customers as at the end of the reporting period slightly exceeded 20% of total trade receivables. In the Group's opinion, with the exception of receivables from the above-mentioned customers, there is no material concentration of credit risk. The Group's maximum exposure to credit risk as at the end of the reporting period is best represented by the carrying amounts of those instruments. The concentration of risk related to sales is limited, as the Group trades with large number of partners.

## 18.2 Finance lease receivables

The Group has developed and operates the "LOTOS Family" Franchise Programme, which defines the procedures for managing service stations. The Group has entered into franchise agreements with entities operating service stations at their own risk and for their own account (Partners). Receivables under franchise agreements represent mainly expenditure on the design of DOFO service stations operated by dealers under agreements executed for periods from 5 to 10 years.

PLN '000	Minimum lease payments		Present value of minimum lease payments	
	Dec 31 2013	Dec 31 2012	Dec 31 2013	Dec 31 2012
Up to 1 year <sup>(1)</sup>	3,437	2,716	3,406	2,683
From 1 to 5 years	7,604	5,970	7,534	5,896
Over 5 years	532	288	527	284
<b>Total</b>	<b>11,573</b>	<b>8,974</b>	<b>11,467</b>	<b>8,863</b>
Less unrealised finance income	(106)	(111)	-	-
<b>Present value of minimum lease payments</b>	<b>11,467</b>	<b>8,863</b>	<b>11,467</b>	<b>8,863</b>
<i>including:</i>				
<i>non-current</i>			8,061	6,180
<i>current</i>			3,406	2,683

<sup>(1)</sup> Present value of minimum lease payments is disclosed under *Trade receivables*.

## 19. Inventories

PLN '000	Dec 31 2013	Dec 31 2012 (restated)
Finished products	1,755,650	1,800,849
Semi-finished products and work in progress	671,636	751,935
Merchandise	284,497	256,875
Raw material and consumables	3,020,068	3,156,544
<b>Total</b>	<b>5,731,851</b>	<b>5,966,203</b>
<i>including inventories measured:</i>		
<i>at cost</i>	5,725,835	5,960,708
<i>at net realisable value</i>	6,016	5,495

As at December 31st 2013, the value of inventories serving as collateral for the Parent's liabilities under the inventory refinancing and financing facility discussed in Note 27.1 was PLN 5,032,009 thousand (December 31st 2012: PLN 4,983,260 thousand).

#### 19.1 Change in impairment losses on inventories

PLN '000	Year ended Dec 31 2013	Year ended Dec 31 2012
<b>At beginning of the period</b>	<b>2,293</b>	<b>11,437</b>
Recognised	3,319	1,336
Exchange differences on translating foreign operations	3	(85)
Used	(265)	(5,269)
Reversed	(874)	(5,126)
<b>At end of the period</b>	<b>4,476</b>	<b>2,293</b>
<i>including:</i>		
<i>Finished products</i>	<i>311</i>	<i>332</i>
<i>Semi-finished products and work in progress</i>	<i>2</i>	<i>40</i>
<i>Merchandise</i>	<i>68</i>	<i>29</i>
<i>Raw material and consumables</i>	<i>4,095</i>	<i>1,892</i>

The effect of revaluation of inventories is taken to cost of sales.

#### 19.2 Mandatory stocks

The Group maintains mandatory stocks as required by the following acts:

- Act on Stocks of Crude Oil, Petroleum Products and Natural Gas, and on the Rules to be Followed in the Event of Threat to National Fuel Security or Disruptions on the Petroleum Market of February 16th 2007 (Dz.U. of 2007, No. 52, item 343, dated March 23rd 2007, as amended).
- Regulation of the Minister of Economy, Labour and Social Policy, on fuel stocks at power utility companies, dated February 12th 2003 (Dz.U. No. 39, item 338, as amended).

These regulations define the rules for creating, maintaining and financing stocks of crude oil, petroleum products and fuels at power utility companies.

The Group's mandatory stocks include crude oil, petroleum products (liquid fuels), LPG and coal. As at December 31st 2013, the gross value of mandatory stocks was PLN 4,250,530 thousand (December 31st 2012: PLN 4,353,207 thousand).

#### 20. Cash and cash equivalents

PLN '000	Dec 31 2013	Dec 31 2012
Cash at bank	501,573	267,682
Cash in hand	345	362
Other cash	1,768	289
<b>Total cash and cash equivalents recognised in the statement of financial position</b>	<b>503,686</b>	<b>268,333</b>
Overdraft facilities	(498,914)	(508,988)
<b>Total cash and cash equivalents recognised in the statement of financial position</b>	<b>4,772</b>	<b>(240,655)</b>

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Cash at banks bears interest at variable rates linked to short-term interest rates prevailing on the interbank market. Short-term deposits are placed for a range of maturities, from one day to one month, depending on the Group's current cash needs, and bear interest at interest rates set for them.

As at December 31st 2013, the amount of undrawn funds available to the Group under working capital facilities in respect of which all conditions precedent had been fulfilled (including the working capital facility provided by Bank Syndicate (4) (see Note 27.1) was PLN 683,147 thousand (December 31st 2012: PLN 764,086 thousand).

As at December 31st 2013, cash in bank accounts serving as security for the LOTOS Group's liabilities was PLN 2,629 thousand (December 31st 2012: PLN 1,484 thousand).

## **21. Share capital**

As at December 31st 2013 and December 31st 2012, the share capital comprised 129,873,362 ordinary shares, fully paid-up, with a par value of PLN 1 per share. Each share confers the right to one vote at the General Meeting and carries the right to dividend.

## **22. Share premium**

Share premium as at December 31st 2013 and December 31st 2012 amounted to PLN 1,320,773 thousand and comprised the excess of the issue price over the par value of shares, net of costs directly attributable to the share issue, adjusted for income tax in the amount of PLN 9,425 thousand.

## **23. Cash flow hedging reserve**

Cash flow hedging reserve comprises changes in the valuation of foreign-currency denominated bank borrowings used as hedging instruments designated to hedge cash flows, less the effect of income tax.

PLN '000	Note	Year ended Dec 31 2013	Year ended Dec 31 2012
<b>At beginning of the period</b>		<b>(36,801)</b>	<b>(419,281)</b>
Valuation of cash flow hedging instruments		120,765	472,197
Income tax on valuation of cash flow hedging instruments	10.1	(22,945)	(89,717)
<b>At end of the period</b>		<b>61,019</b>	<b>(36,801)</b>

## 24. Retained earnings

Retained earnings comprise capital reserves created and used in accordance with the rules stipulated by the applicable laws and provisions of the Articles of Association, as well as current period's profit.

As at December 31st 2013 and December 31st 2012, Grupa LOTOS S.A. was restricted in its ability to distribute funds in the form of dividends, as described in detail in Note 12.

Furthermore, retained earnings include actuarial gains/losses relating to defined post-employment benefits, recognised inclusive of tax effect, which are posted under *Other comprehensive income* in the statement of comprehensive income.

### 24.1 Restricted ability of subsidiaries of the LOTOS Group to transfer funds to the Parent in the form of dividends

In 2012 and 2013, the ability of subsidiaries of the LOTOS Group to transfer funds to Grupa LOTOS S.A. in the form of dividends was restricted due to the following arrangements:

- The agreement concluded on December 16th 2004 by LOTOS Paliwa Sp. z o.o. with Bank Pekao S.A. and PKO BP S.A. imposes restrictions on the amount of surplus cash generated by LOTOS Paliwa Sp. z o.o. in a financial year that may be allocated to dividend payment, setting specific ratios which must be met.
- At AB LOTOS Geonafta, there are restrictions on dividend payment under the credit facility agreements of April 5th and September 27th 2012, which make such payment conditional upon the bank's prior consent.
- At LOTOS Exploration and Production Norge AS, there are restrictions on dividend payment under the credit facility agreements of December 17th 2010 and December 11th 2013, and the framework agreement concerning provision of bank guarantees dated December 11th 2013. Pursuant to the agreements, no dividends may be paid without a prior consent of the bank.

As at December 31st 2013, the following companies were restricted in their ability to pay dividends: LOTOS Paliwa Sp. z o.o., AB LOTOS Geonafta and LOTOS Exploration and Production Norge AS.

## 25. Exchange differences on translating foreign operations

*Exchange differences on translating foreign operations* comprise exchange differences resulting from the translation into PLN of the financial statements of foreign companies and groups of companies.

PLN '000	Year ended Dec 31 2013	Year ended Dec 31 2012
<b>At beginning of the period</b>	<b>33,878</b>	<b>59,100</b>
Exchange differences on translating foreign operations	(13,644)	(39,086)
Corporate income tax relating to currency-translation differences	-	13,864 <sup>(1)</sup>
<b>At end of the period</b>	<b>20,234</b>	<b>33,878</b>

<sup>(1)</sup> Reversal of the deferred tax liability following review of IAS 12 Income Taxes (paragraph 40) by the Group in 2012.

## 26. Non-controlling interests

PLN '000	Year ended Dec 31 2013	Year ended Dec 31 2012
<b>At beginning of the period</b>	<b>699</b>	<b>947</b>
Share in profit/(loss)	13	27
Share in other comprehensive income, net	(2)	(14)
Share in total comprehensive income	11	13
Sale of shares to the Parent <sup>(1)</sup>	(421)	(261)
<b>At end of the period</b>	<b>289</b>	<b>699</b>

<sup>(1)</sup> Shares of LOTOS Petrobaltic S.A., see Note 2.



## 27. Borrowings, other debt instruments and finance lease liabilities

PLN '000	Note	Dec 31 2013	Dec 31 2012
Bank borrowings:	27.1	5,851,809	6,373,535
- investment credit facilities		4,512,290	4,598,145
- working capital facilities		831,739	1,036,012
- inventory refinancing and financing facilities		753,296	930,574
- funds in bank deposits securing repayment of interest and principal instalments		(245,516)	(191,196)
Non-bank borrowings	27.1	10,306	17,056
Notes	27.2	198,240	-
Finance lease liabilities	27.3	151,031	166,109
<b>Total</b>		<b>6,211,386</b>	<b>6,556,700</b>
<i>including:</i>			
non-current		4,496,190	4,462,098
current		1,715,196	2,094,602

### 27.1 Borrowings

Borrowings as at December 31st 2013, by currency and by maturity

PLN '000	Borrowings in EUR	Borrowings in USD	Borrowings in PLN	Total
2014	2,448	1,226,142	449,901	1,678,491
2015	2,444	432,606	60,657	495,707
2016	-	404,569	25,750	430,319
2017	-	801,939	26,000	827,939
2018	-	470,697	24,750	495,447
after 2018	-	1,894,326	39,886	1,934,212
<b>Total</b>	<b>4,892</b>	<b>5,230,279</b>	<b>626,944</b>	<b>5,862,115</b>

Borrowings as at December 31st 2012, by currency and by maturity

PLN '000	Borrowings in EUR	Borrowings in USD	Borrowings in PLN	Total
2013	16,712	1,818,861	239,419	2,074,992
2014	2,409	415,753	74,553	492,715
2015	2,409	444,706	20,382	467,497
2016	-	416,167	17,606	433,773
2017	-	409,554	9,333	418,887
after 2017	-	2,494,643	8,084	2,502,727
<b>Total</b>	<b>21,530</b>	<b>5,999,684</b>	<b>369,377</b>	<b>6,390,591</b>

Repayment of the above facilities is secured with:

- power of attorney over bank accounts
- registered pledge over bank accounts
- registered pledge over inventories
- registered pledge over existing and future movables
- mortgage
- assignment of property, plant and equipment
- assignment of rights under inventory insurance agreement

- assignment of rights under inventory storage agreements
- assignment of rights to compensation from the State Treasury due in the event of the requirement to sell stocks below market price
- assignment of rights under insurance agreements relating to the Gdańsk refinery
- assignment of rights under licence agreements
- assignment of rights under agreements for sale of products,
- assignment of rights under crude oil sales agreements,
- shares in subsidiaries,
- representation on voluntary submission to enforcement
- blank promissory note
- bank guarantees.

The credit facilities bear interest based on:

- 1M, 3M or 6M LIBOR (USD), depending on the interest period selected at a given time - in the case of USD-denominated facilities,
- 1M or 3M EURIBOR - in the case of EUR-denominated facilities,
- O/N, 1M or 3M WIBOR - in the case of PLN-denominated facilities.

The bank margins on to the contracted facilities are within the range of 0.30pp. – 3.75pp.

As at December 31st 2013, the average effective interest rate for the credit facilities denominated in USD and EUR was approximately 2.49% (2.47% as at December 31st 2012). The average effective interest rate for PLN-denominated facilities (excluding the syndicated facilities contracted by the Parent) was approximately 3.96% (4.81% as at December 31st 2012).

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**Borrowings by lender**

PLN '000	Dec 31 2013	Dec 31 2012
<b>Non-current</b>		
Kredyt Bank S.A.	-	8,987
Pekao S.A.	16,101	20,008
PKO BP S.A.	417,424	15,125
National Fund for Environmental Protection and Water Management	-	6,056
Provincial Fund for Environmental Protection and Water Management of Gdańsk	3,250	4,250
Nordea Bank Lithuania	28,836	44,240
Bank Ochrony Środowiska S.A.	4,844	36,902
Bank Syndicate (2)	2,598,132	2,988,669
Bank Syndicate (3)	940,647	1,080,892
Bank Syndicate (5)	141,667	43,448
Bank Syndicate (6)	32,723	67,022
<b>Non-current - total</b>	<b>4,183,624</b>	<b>4,315,599</b>
<b>Current</b>		
Kredyt Bank S.A.	-	6,000
Pekao S.A.	3,976	174,866
ING Bank Śląski S.A.	298	4,830
PKO BP S.A.	194,518	308,815
National Fund for Environmental Protection and Water Management	6,056	6,000
Provincial Fund for Environmental Protection of Gdańsk	1,000	750
Bank Millennium S.A.	6,529	-
Nordea Bank Polska S.A.	7,379	23,810
Nordea Bank Lithuania	14,418	14,747
Bank Ochrony Środowiska S.A.	4,844	-
BRE Bank S.A.	396	10,278
Bank Syndicate (1)	753,296	930,574
Bank Syndicate (2)	270,050	207,042
Bank Syndicate (3)	105,438	83,182
Bank Syndicate (4)	444,268	409,245
Bank Syndicate (5)	51,818	43,462
Bank Syndicate (6)	59,723	42,587
Funds in bank deposits securing payment of interest and principal	(245,516)	(191,196)
<b>Current - total</b>	<b>1,678,491</b>	<b>2,074,992</b>
<b>Total</b>	<b>5,862,115</b>	<b>6,390,591</b>

**Bank Syndicate (1):**

Pekao S.A., BRE Bank S.A., ING Bank Śląski S.A., Société Générale S.A., Bank Handlowy w Warszawie S.A., Bank Zachodni WBK S.A.; on December 20th 2013, there was a change in the composition of the syndicate; see below for details.

**Bank Syndicate (2):**

Banco Bilbao Vizcaya Argentaria S.A., Bank of Tokyo-Mitsubishi UFJ (Holland) N.V., Pekao S.A., BNP Paribas S.A., Caja de Ahorros y Monte de Piedad de Madrid, Credit Agricole CIB (formerly Calyon), DnB Nor Bank ASA, DnB Nord Polska S.A., ING Bank Śląski S.A., KBC Finance Ireland, Kredyt Bank S.A., Nordea Bank AB, PKO BP S.A., The Royal Bank of Scotland plc, Société Générale S.A., Bank Zachodni WBK S.A., Rabobank Polska S.A., Bank Gospodarki Żywnościowej S.A. and Sumitomo Mitsui Banking Corporation Europe Ltd.

**Bank Syndicate (3):** Banco Bilbao Vizcaya Argentaria S.A. and BNP Paribas S.A.

**Bank Syndicate (4):**

Pekao S.A., PKO BP S.A., BNP Paribas S.A., ING Bank Śląski S.A., Nordea Bank Polska S.A., Rabobank Polska S.A. and Bank Gospodarki Żywnościowej S.A.

**Bank Syndicate (5):** Pekao S.A. and PKO BP S.A.

**Bank Syndicate (6):** Nordea Bank Finland Plc. Lithuania Branch, Nordea Bank Polska S.A.

In accordance with IAS 32, Grupa LOTOS S.A. offsets a financial asset (cash reserved for repayment of the facilities) against a financial liability under the facilities, because it holds a valid legal title to set off the amounts and intends to realise the asset and settle the liability at the same time. The purpose of adopting the net-basis presentation approach in the statement of financial position is to reflect the expected future cash flows from settlement of two or more financial instruments.

### **Bank borrowings of the Parent**

#### ***Inventory financing and refinancing facility***

As at December 31st 2013, the nominal amount drawn under the credit facility for the refinancing and financing of inventories, advanced by Bank Syndicate (1), amounted to PLN 753m (*USD 250m*).

In connection with the credit facility incurred to finance and refinance inventories, Grupa LOTOS S.A. is required to maintain the Tangible Consolidated Net Worth (TCNW) ratio of no less than specified in the facility agreement. The Company is also required to meet a financial covenant of maintaining the Loan to Pledged Inventory Value Ratio at a level not higher than specified in the facility agreement. As at December 31st 2013 and December 31st 2012, the covenants were complied with.

#### ***Amendments to the inventory financing and refinancing facility***

On November 7th 2013, Grupa LOTOS S.A. and a syndicate of five banks (Bank Syndicate (1)), comprising:

- Pekao S.A. of Warsaw,
- BRE Bank S.A. of Warsaw,
- ING Bank Śląski S.A. of Katowice,
- Nordea Bank AB of Stockholm,
- Société Générale S.A. of Paris,

signed an amendment extending by 12 months, i.e. until December 20th 2014, the term of the credit facility agreement for refinancing and financing of Grupa LOTOS S.A.'s inventories, of October 10th 2012, providing for a revolving credit facility of up to USD 400m (*i.e. PLN 1,268m, as translated at the mid rate quoted by the National Bank of Poland for October 10th 2012*).

Under the amended agreement, as of December 20th 2013 Nordea Bank AB of Stockholm was no longer a party to the credit facility agreement, and its entire credit commitment had been taken over by Bank Handlowy w Warszawie S.A. and Bank Zachodni WBK S.A. of Wrocław.

The other legal terms of the credit facility agreement of October 10th 2012, as well as its provisions concerning penalties, did not change, and they did not differ from those commonly applied in agreements of such type. The financial covenants have been adjusted to current market conditions.

#### ***Investment facilities***

As at December 31st 2013, the Company had drawn (in nominal terms) PLN 3,960.9m (*USD 1,315.0m*) under investment facilities advanced by Bank Syndicates (2) and (3). As at December 31st 2012, PLN 4,412.8m (*USD 1,423.7m*) had been drawn.

In connection with the credit facilities incurred to finance the 10+ Programme, Grupa LOTOS S.A. is required to maintain the Tangible Consolidated Net Worth ratio of no less than specified in the facility agreements. As at December 31st 2013 and December 31st 2012, the covenants were complied with.

#### ***Working-capital facilities***

The working capital facility was made available to Grupa LOTOS S.A. by Bank Syndicate (4) in the form of overdraft facilities which are used by the Company on an as-needed basis.

The Parent may also finance its working capital requirements of up to PLN 600m with funds available under credit facilities contracted from PKO BP S.A. (a PLN 300m credit facility of June 26th 2009) and Pekao S.A. (a PLN 300m credit facility of May 16th 2012).

As at December 31st 2013, the Company carried no liabilities under these facilities (December 31st 2012: PLN 23,710 thousand).

### **Borrowings of other Group companies**

The aggregate value of liabilities under borrowings disclosed by other companies of the Group as at December 31st 2013 was PLN 995.8m (December 31st 2012: PLN 858.5m). This amount includes mainly liabilities of LOTOS Exploration and Production Norge AS and LOTOS Paliwa Sp. z o.o.

#### ***Bank borrowings of LOTOS Exploration and Production Norge AS***

On December 11th 2013, LOTOS Exploration and Production Norge AS and PKO BP S.A. signed an agreement concerning an investment credit facility for a total amount of USD 110m, intended for financing of the purchase of Heimdal assets (for a more detailed description of the transaction, see Note 13). The final repayment date of the facility is December 31st 2016. As at December 31st 2013, liabilities under the agreement were PLN 316.9m (*USD 105.0m*).

In addition, LOTOS Exploration and Production Norge AS uses a working capital facility contracted with PKO BP S.A., which is intended for the financing of its day-to-day operations and investment activities. As at December 31st 2013, liabilities under this credit facility were PLN 240.4m (USD 79.8m).

***Bank borrowings of LOTOS Paliwa Sp. z o.o.***

On March 6th 2013, LOTOS Paliwa Sp. z o.o and a consortium of Pekao S.A. and PKO BP S.A. signed an agreement for a PLN 150m credit facility intended for the financing and refinancing of the purchase of service stations. The final repayment date of the facility is June 30th 2024, and as at December 31st 2013 the amount outstanding under this facility was PLN 150m.

Furthermore, as at December 31st 2013, LOTOS Paliwa Sp. z o.o. disclosed liabilities under investment credit facilities contracted in the previous years with PKO BP S.A. and Pekao S.A., totalling PLN 73.8m, and liabilities of PLN 40m under a working capital facility advanced by PKO BP S.A.

***Proceeds from and repayment of bank borrowings***

In 2013, proceeds from the credit facilities contracted by the Group were PLN 963,045 thousand (2012: PLN 542,530 thousand), while the cash outflows on repayment of borrowings were PLN 1,263,548 thousand (2012: PLN 1,171,040 thousand). These amounts were presented in the consolidated statement of cash flows from financing activities under *Proceeds from borrowings* and *Repayment of borrowings*, respectively. In 2013 and in 2012, the Group did not contract any non-bank borrowings.

In 2013, the proceeds under the contracted bank borrowings related mainly to:

- LOTOS Exploration and Production Norge AS' investment credit facility intended for the financing of the Heimdal assets (PLN 343,847 thousand),
- LOTOS Paliwa Sp. z o.o.'s investment credit facility intended for the financing and refinancing of the purchase of service stations (PLN 150,000 thousand),
- working capital facilities of the Parent (PLN 189,965 thousand),
- working capital facilities of AB LOTOS Geonafta (PLN 255,642 thousand).

In 2013, the outflows on repayment of the contracted bank borrowings related mainly to:

- investment credit facilities of the Parent (PLN 495,300 thousand zł),
- working capital facilities of the Parent (PLN 213,675 thousand),
- investment credit facilities of LOTOS Paliwa (PLN 61,434 thousand),
- working capital facilities of LOTOS Petrobaltic S.A. (PLN 159,579 thousand)
- working capital facilities of AB LOTOS Geonafta (PLN 286,192 thousand).

In 2013, none of the Group companies defaulted on credit facilities or other borrowings or breached any material covenants under agreements on credit facilities or other borrowings.

**27.2 Notes**

In 2013, LOTOS Petrobaltic S.A. issued medium-term notes under an agreement with Bank Pekao S.A. of October 29th 2013. Pursuant to the agreement, LOTOS Petrobaltic S.A. issued notes for up to the equivalent of PLN 200m in USD.

The notes were acquired by Bank Pekao S.A.

***Carrying amount of notes issued***

(PLN '000)	Nominal value (USD)	Nominal value translated into PLN	Issue date	Redemption date	Interest rate
Series A	5,000	15,060	Nov 7 2013	Dec 31 2014	1M LIBOR USD + bank margin
Series B	5,000	15,060	Nov 7 2013	Dec 31 2015	1M LIBOR USD + bank margin
Series C	10,000	30,120	Nov 7 2013	Dec 31 2016	1M LIBOR USD + bank margin
Series D	35,000	105,420	Nov 7 2013	Dec 31 2017	1M LIBOR USD + bank margin
Series E	10,898	32,825	Dec 9 2013	Dec 31 2017	1M LIBOR USD + bank margin
<b>TOTAL</b>	<b>65,898</b>	<b>198,485</b>			

As at December 31<sup>st</sup> 2013 the total value of liabilities under the issue of notes presented above was PLN 198.2m and included interest accrued of PLN 0.1m and a deferred arrangement fee of PLN (0.4m), which reduces the liability.

From 2010 LOTOS Asphalt Sp. z o.o., another Group company, operates a short-term note issue programme. The term of the programme is five years. In 2013, no notes were issued by LOTOS Asphalt Sp. z o.o. under the programme. As part of the programme, in 2012 LOTOS Asphalt Sp. z o.o. issued notes with a nominal value of PLN 364m to investors from outside the LOTOS Group. As at December 31st 2013 and December 31st 2012, LOTOS Asphalt Sp. z o.o. did not carry any liabilities under issue of notes.

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Proceeds from notes issued by the Group to investors outside the Group, including expenses related to the issue, were PLN 203,050 thousand, after issue costs (2012: PLN 362,367 thousand). The Group did not redeem any notes in 2013. In 2012, the Group spent PLN 364,000 thousand on redemption of notes. Issue proceeds and expenses were presented in the statement of cash flows as cash flows from financing activities under Issue of notes and Redemption of notes, respectively.

### 27.3 Finance lease liabilities

PLN '000	Minimum lease payments		Present value of minimum lease payments	
	Dec 31 2013	Dec 31 2012	Dec 31 2013	Dec 31 2012
Up to 1 year	34,994	36,794	21,636	19,610
From 1 to 5 years	122,836	134,813	96,764	92,155
Over 5 years	33,816	57,639	32,631	54,344
<b>Total</b>	<b>191,646</b>	<b>229,246</b>	<b>151,031</b>	<b>166,109</b>
Less finance costs	(40,615)	(63,137)	-	-
<b>Present value of minimum lease payments</b>	<b>151,031</b>	<b>166,109</b>	<b>151,031</b>	<b>166,109</b>
<i>including:</i>				
<i>non-current</i>			129,395	146,499
<i>current</i>			21,636	19,610

The Group uses finance leases to finance primarily rolling stock assets.

#### 27.3.1 Commitments related to operating leases

As at December 31st 2013 and December 31st 2012, future minimum lease payments under non-cancellable operating leases were as follows:

PLN'000	Dec 31 2013	Dec 31 2012
Up to 1 year	35,107	58,697
From 1 to 5 years	36,426	99,824
Over 5 years	157	2,142
<b>Razem</b>	<b>71,690</b>	<b>160,663</b>

The Group uses operating leases to finance primarily rolling stock assets, whose value as at December 31st 2013 was PLN 259,776 thousand (December 31st 2012: PLN 485,346 thousand).

## 28. Derivative financial instruments

PLN '000	Dec 31 2013	Dec 31 2012
<b>Current financial assets</b>		
- Commodity swaps (commodities and petroleum products)	736	45
- Currency forward and spot contracts	34,924	73,452
- Interest rate swap (IRS)	-	11,318
- Currency swap	38,275	36,519
<b>Total financial assets</b>	<b>73,935</b>	<b>121,334</b>
<b>Financial liabilities</b>		
<b>Non-current financial liabilities</b>		
- Futures (CO <sub>2</sub> emissions)	-	1,293
- Interest rate swap (IRS)	52,876	87,032
<b>Total</b>	<b>52,876</b>	<b>88,325</b>
<b>Current financial liabilities</b>		
- Commodity swaps (commodities and petroleum products)	-	337
- Futures (CO <sub>2</sub> emissions)	-	2,494
- Currency forward and spot contracts	1,017	9,161
- Interest rate swap (IRS)	19,387	60,975
- Currency swap	873	18,033
<b>Total</b>	<b>21,277</b>	<b>91,000</b>
<b>Total financial liabilities</b>	<b>74,153</b>	<b>179,325</b>

For description of the derivative financial instruments, see Note 7.25. For description of objectives and policies of financial risk management, see Note 32.

For market risk sensitivity analysis of derivative financial instruments related to changes in prices of petroleum commodities and products, see Note 32.1.1.

For market risk sensitivity analysis of derivative financial instruments related to fluctuations in prices of carbon dioxide (CO<sub>2</sub>) emission allowances, see Note 32.2.1.

For currency risk sensitivity analysis of derivative financial instruments, see Note 32.3.1.

For interest rate sensitivity analysis of derivative financial instruments, see Note 32.4.1.

For maturities of derivative financial instruments, see Note 32.5.

For information on the maximum credit risk exposure of derivative financial instruments (financial assets), see Note 32.6.

## 29. Employee benefit obligations

PLN '000	Dec 31 2013	Dec 31 2012
<b>Non-current obligations</b>		
Post-employment benefits	32,741	26,286
Length-of-service awards and other benefits	118,684	103,576
<b>Total</b>	<b>151,425</b>	<b>129,862</b>
<b>Current obligations</b>		
Post-employment benefits	3,869	6,201
Length-of-service awards and other benefits	11,966	9,553
Bonuses, awards and unused holidays	72,339	78,619
Salaries and wages payable	16,883	16,557
<b>Total</b>	<b>105,057</b>	<b>110,930</b>
<b>Total obligations</b>	<b>256,482</b>	<b>240,792</b>



### 29.1 Obligations under length-of-service awards and post-employment benefits

In accordance with the Group's remuneration systems, the Group employees are entitled to post-employment benefits upon retirement. Length-of-service awards are paid after a specific period of employment. Therefore, based on valuations prepared by professional actuary firms or based on own estimates, the Group recognises the present value of obligations under length-of-service awards and post-employment benefits. The table below provides information on the amount of the obligations and reconciliation of changes in the obligations during the reporting period.

PLN '000	Note	Post-employment benefits	Length-of-service awards and other benefits	Total
<b>Jan 1 2013</b>		<b>32,018</b>	<b>113,129</b>	<b>145,147</b>
Current service cost		1,804	17,277	19,081
Cost of discount	9.6	1,158	4,980	6,138
Past service cost		(152)	(793)	(945)
Benefits paid		(2,206)	(11,236)	(13,442)
Actuarial (gain)/loss under profit or loss		-	7,680	7,680
Actuarial (gain)/loss under other comprehensive income		225	-	225
<b>Dec 31 2013</b>		<b>32,847</b>	<b>131,037</b>	<b>163,884</b>
<i>including:</i>				
non-current		29,132	119,033	148,165
current		3,715	12,004	15,719
Obligations under length-of-service awards and post-employment benefits at foreign companies <sup>(1)</sup>		3,802	-	3,802
Deconsolidation (LOTOS Tank Sp. z o.o.)		(39)	(387)	(426)
<b>Dec 31 2013</b>		<b>36,610</b>	<b>130,650</b>	<b>167,260</b>
<i>including:</i>				
non-current		32,741	118,684	151,425
current		3,869	11,966	15,835
PLN '000	Note	Post-employment benefits	Length-of-service awards and other benefits	Total
<b>Jan 1 2012</b>		<b>34,271</b>	<b>99,903</b>	<b>134,174</b>
Current service cost		1,918	7,430	9,348
Cost of discount	9.6	1,560	4,984	6,544
Past service cost		(3,879)	11,972	8,093
Acquisition/(disposal) of related entities		(713)	(2,763)	(3,476)
Benefits paid		(2,312)	(11,177)	(13,489)
Actuarial (gain)/loss under profit or loss		-	2,780	2,780
Actuarial (gain)/loss under other comprehensive income		1,173	-	1,173
<b>Dec 31 2012</b>		<b>32,018</b>	<b>113,129</b>	<b>145,147</b>
<i>including:</i>				
non-current		25,817	103,576	129,393
current		6,201	9,553	15,754
Obligations under length-of-service awards and post-employment benefits at foreign companies <sup>(1)</sup>		469	-	469
<b>Dec 31 2012</b>		<b>32,487</b>	<b>113,129</b>	<b>145,616</b>
<i>including:</i>				
non-current		26,286	103,576	129,862
current		6,201	9,553	15,754

<sup>(1)</sup> Given the different nature of pension plans operated by the Group's foreign companies – LOTOS Exploration and Production Norge AS and the companies of the AB LOTOS Geonafta Group – and their negligible effect on the Group's obligations under length-of-service awards and post-employment benefits, such companies' obligations are presented separately as *Obligations under length-of-service awards and post-employment benefits at foreign companies*.

## 29.2 Present value of future employee benefit obligations

(PLN '000)	Present value of future employee benefit obligations
Dec 31 2013	167,260
Dec 31 2012	145,616
Dec 31 2011	131,801
Dec 31 2010	107,829
Dec 31 2009	98,694

*Present value of future employee benefit obligations is equal to their carrying amount.*

## 29.3 Total cost of future employee benefit payments charged to profit or loss

PLN '000	Note	for the year ended Dec 31 2013	for the year ended Dec 31 2012
<b>Items recognised in profit or loss:</b>			
Current service cost		19,081	9,348
Cost of discount	9.6	6,138	6,544
Past service cost		(945)	8,093
Effect of foreign operations		3,639	(78)
Actuarial (gain)/loss		7,680	2,780
<b>Total</b>		<b>35,593</b>	<b>26,687</b>
<b>Items recognised in other comprehensive income:</b>			
Actuarial (gain)/loss		188	1,111
<b>Total</b>		<b>35,781</b>	<b>27,798</b>

## 29.4 Actuarial assumptions

The table below presents the key assumptions adopted by the actuary as at the balance-sheet date to calculate the amount of the obligation.

	Dec 31 2013	Dec 31 2012
Discount rate (%)	4.30%	4.50%
Expected inflation rate (%)	2.50%	2.50%
Employee turnover ratio (%)	2.49%	2.60%
Expected growth rate of salaries and wages (%) in the following year	0.00%	2.70%
Expected growth rate of salaries and wages (%) in the following years	2.76%	2.70%

- The employee attrition probability is based on the historical data on employee turnover at the Group and statistical data on employee attrition in the industry. The employee turnover ratios adopted by the actuary were determined separately for men and women and broken down into nine age categories. The employee turnover ratio is now calculated on an average basis.
- The mortality and life expectancy ratios were based on the Life Expectancy Tables of Poland for 2012, published by the Polish Central Statistics Office (GUS), and assume that the Group's employee population is representative of the average Polish population in terms of mortality (December 31st 2012: Life Expectancy Tables of Poland for 2011).
- The changes resulting from amendments to the Act on Pensions and Disability Pensions from Social Security Fund (Pensions Act) were accounted for, in particular changes relating to the retirement age of women and men, including its extension over a defined period to 67 years for both women and men. The amendments to the Pensions Act resulted in a change in the operation of individual benefit plans, giving rise to additional past service costs.
- It was assumed that employees would retire in accordance with the standard procedure, as prescribed by the Pensions Act, with the exception of employees who, according to the information provided by the Company, meet the conditions for early retirement entitlement.
- Based on the historical data, it was assumed that in 60% of cases half of the full amount of death benefits is paid.
- The data used in the assumptions did not include cases related to organisational changes.
- Additionally, the provision for death benefits as at December 31st 2012 was revaluated. The effect of this revaluation is presented in Note 29.1 under Current service cost.

### 29.5 Termination benefits

In 2013, termination benefits and compensation payable in respect of non-compete obligation totalled PLN 3,984 thousand (2012: PLN 4,181 thousand).

In 2013, provisions for termination benefits totalled PLN 74 thousand (2012: PLN 1,502 thousand).

### 29.6 Sensitivity analysis

The table below presents results of calculations for changed key actuarial assumptions: the salaries and wages growth rate and the discount rate.

#### Opening balance of the obligation (amount of provision)

PLN '000						
Salaries and wages growth rate	Discount rate	Length-of-service awards	Old-age and disability retirement severance payments	Death benefits	Social benefits fund	Total <sup>(1)</sup>
base	base	119,459	29,915	8,742	5,768	163,884
base + 1%	base	129,304	33,309	9,580	6,749	178,942
base - 1%	base	110,898	27,056	8,013	4,986	150,953
base	base + 0.5%	114,552	28,328	8,337	5,348	156,565
base	base - 0.5%	124,753	31,661	9,182	6,243	171,839

The table below presents results of calculations for changed key actuarial assumptions: the salaries and wages growth rate, medical care contributions, and the discount rate.

#### Current service cost projected for 2014

PLN '000						
Salaries and wages growth rate	Discount rate	Length-of-service awards	Old-age and disability retirement severance payments	Death benefits	Social benefits fund	Total <sup>(1)</sup>
base	base	9,138	1,606	668	202	11,614
base + 1%	base	10,178	1,888	757	263	13,086
base - 1%	base	8,253	1,380	593	157	10,383
base	base + 0.5%	8,676	1,488	630	178	10,972
base	base - 0.5%	9,642	1,739	710	229	12,320

#### Cost of discount projected for 2014

PLN '000						
Salaries and wages growth rate	Discount rate	Length-of-service awards	Old-age and disability retirement severance payments	Death benefits	Social benefits fund	Total <sup>(1)</sup>
base	base	4,651	1,126	348	238	6,363
base + 1%	base	5,074	1,271	383	280	7,008
base - 1%	base	4,284	1,003	316	205	5,808
base	base + 0.5%	4,957	1,181	369	246	6,753
base	base - 0.5%	4,311	1,061	324	228	5,924

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**Total current service cost and cost of discount projected for 2014**

PLN '000						
Salaries and wages growth rate	Discount rate	Length-of-service awards	Old-age and disability retirement severance payments	Death benefits	Social benefits fund	Total <sup>(1)</sup>
base	base	13,789	2,732	1,016	440	17,977
base + 1%	base	15,252	3,159	1,140	543	20,094
base - 1%	base	12,537	2,383	909	362	16,191
base	base + 0.5%	13,633	2,669	999	424	17,725
base	base - 0.5%	13,953	2,800	1,034	457	18,244

<sup>(1)</sup> Given the different nature of pension plans operated by the Group's foreign companies – LOTOS Exploration and Production Norge AS and the companies of the AB LOTOS Geonafra Group – and their negligible effect on the Group's obligations under length-of-service awards and post-employment benefits, such companies' obligations are not included in analysis presented above.

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**30. Trade payables, other liabilities and provisions**

PLN '000	Note	Dec 31 2013	Dec 31 2012 (restated)	Jan 1 2012 (restated)
<b>Financial liabilities</b>				
<b>Non-current financial liabilities</b>				
Other financial liabilities:		235	1,204	15,194
<i>Investment commitments</i>	31,1	235	-	13,296
<i>Other</i>		-	1,204	1,898
<b>Total</b>		<b>235</b>	<b>1,204</b>	<b>15,194</b>
<b>Current financial liabilities</b>				
Trade payables, including:	31,1	2,396,086	2,174,451	2,812,259
- <i>including to related entities</i>	36,1	8	138	6,823
Other financial liabilities:	31,1	200,455	253,232	197,725
<i>Investment commitments</i>		158,385	178,074	172,706
- <i>including to related entities</i>	36,1	32	-	-
<i>Liabilities to insurers</i>		3,764	3,077	3,671
<i>Settlements under joint ventures (Norwegian fields)</i>		15,926	58,077	-
<i>Other</i>		22,380	14,004	21,348
- <i>including to related entities</i>	36,1	167	-	-
<b>Total</b>		<b>2,596,541</b>	<b>2,427,683</b>	<b>3,009,984</b>
<b>Total financial liabilities</b>		<b>2,596,776</b>	<b>2,428,887</b>	<b>3,025,178</b>
<b>Non-financial liabilities</b>				
<b>Non-current non-financial liabilities</b>				
Provisions		698,841	397,967	307,681
Grants		11,987	13,089	14,415
Other		782	-	271
<b>Total</b>		<b>711,610</b>	<b>411,056</b>	<b>322,367</b>
<b>Current non-financial liabilities</b>				
Provisions		162,938	21,256	20,790
Liabilities to the state budget other than corporate income tax <sup>(1)</sup>		720,199	686,520	966,530
Grants		30,582	26,359	24,906
Settlements under joint ventures (Norwegian fields)		721	55,092	-
Prepaid deliveries		32,005	4,509	9,483
Other		23,039	22,020	24,893
<b>Total</b>		<b>969,484</b>	<b>815,756</b>	<b>1,046,602</b>
<b>Total non-financial liabilities</b>		<b>1,681,094</b>	<b>1,226,812</b>	<b>1,368,969</b>
<b>Total</b>		<b>4,277,870</b>	<b>3,655,699</b>	<b>4,394,147</b>
<i>including:</i>				
<i>non-current</i>		711,845	412,260	337,561
<i>current:</i>		3,566,025	3,243,439	4,056,586
- <i>trade receivables</i>		2,396,086	2,174,451	2,812,259
- <i>other</i>		1,169,939	1,068,988	1,244,327

<sup>(1)</sup> Including PLN 541,957 thousand in excise duty and fuel charge liabilities (December 31st 2012: PLN 629,443 thousand).

Trade payables do not bear interest and are, as a rule, paid in 7-60 days. Other liabilities do not bear interest, and their average payment period is one month. Amounts resulting from the difference between value added tax receivable and value added tax payable are paid to the relevant tax authorities on a monthly basis. Interest payable is usually settled on a monthly basis during a financial year.

For sensitivity analysis of trade payables and other liabilities with respect to currency risk as at December 31st 2013 and December 31st 2012, see Note 32.3.1.

For maturities of trade payables and other liabilities as at December 31st 2013 and December 31st 2012, see Note 32.5.

### 30.1 Provisions

PLN '000	Note	Provisions for decommissioning and reclamation costs					Other provisions	Total
		Provisions for retired refinery installations	Provision for onshore oil and gas facilities – Lithuania	Provision for offshore oil and gas facilities – the North Sea	Provision for offshore oil and gas facilities – the Baltic Sea	Baltic Sea Oil and Gas Facility Decommissioning Fund		
<b>Jan 1 2013</b>		<b>41,770</b>	<b>18,268</b>	<b>117,132</b>	<b>180,817</b>	<b>27,481</b>	<b>33,755</b>	<b>419,223</b>
<i>Recognised</i>		-	-	265,709	-	-	8,373	274,082
<i>Revaluation of decommissioning costs</i>		-	723	11,995	(1,404)	-	-	11,314
<i>Change in provisions for liabilities attributable to approaching maturity date (discount reversal effect)</i>	9.6	263	895	5,085	9,041	-	-	15,284
<i>Transfer to Oil and Gas Facility Decommissioning Fund</i>		-	-	-	(1,654)	1,654	-	-
<i>Interest on Oil and Gas Facility Decommissioning Fund</i>		-	-	-	-	731	-	731
<i>Exchange differences on translating foreign operations</i>		-	254	(49,975)	-	-	(990)	(50,711)
<i>Estimated costs of removal of the MOPU from the YME field</i>		-	-	281,859	-	-	-	281,859
<i>Used</i>		(828)	-	(69,537)	-	-	(8,067)	(78,432)
<i>Released</i>		(5,077)	(957)	-	-	-	(5,537)	(11,571)
<b>Dec 31 2013</b>		<b>36,128</b>	<b>19,183</b>	<b>562,268</b>	<b>186,800</b>	<b>29,866</b>	<b>27,534</b>	<b>861,779</b>
<i>including:</i>								
<i>non-current</i>		35,854	19,183	419,085	186,800	29,866	8,053	698,841
<i>current</i>		274	-	143,183	-	-	19,481	162,938

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PLN '000	Note	Provisions for decommissioning and reclamation costs					Other provisions	Total
		Provisions for retired refinery installations	Provision for onshore oil and gas facilities – Lithuania	Provision for offshore oil and gas facilities – the North Sea	Provision for offshore oil and gas facilities – the Baltic Sea	Baltic Sea Oil and Gas Facility Decommissioning Fund		
<b>Jan 1 2012</b>		<b>41,641</b>	<b>18,916</b>	<b>59,064</b>	<b>163,522</b>	<b>24,491</b>	<b>20,837</b>	<b>328,471</b>
Recognised		140	-	-	-	-	16,581	16,721
Revaluation of decommissioning costs		-	959	56,506	11,823	-	-	69,288
Change in provisions for liabilities attributable to approaching maturity date (discount reversal effect)	9.6	263	1,356	3,324	7,358	-	43	12,344
Transfer to Oil and Gas Facility Decommissioning Fund		-	-	-	(1,886)	1,886	-	-
Interest on Oil and Gas Facility Decommissioning Fund		-	-	-	-	1,104	-	1,104
Acquisition of control (AB LOTOS Geonafta Group) <sup>(1)</sup>		-	4,097	-	-	-	-	4,097
Exchange differences on translating foreign operations		-	(1,424)	(1,740)	-	-	(95)	(3,259)
Used		-	-	(22)	-	-	(1,703)	(1,725)
Released		(274)	(3,588)	-	-	-	(1,908)	(5,770)
Deconsolidation (AB LOTOS Geonafta Group) <sup>(1)</sup>		-	(2,048)	-	-	-	-	(2,048)
<b>Dec 31 2012</b>		<b>41,770</b>	<b>18,268</b>	<b>117,132</b>	<b>180,817</b>	<b>27,481</b>	<b>33,755</b>	<b>419,223</b>
including:								
non-current		41,497	18,268	117,132	180,817	27,481	12,772	397,967
current		273	-	-	-	-	20,983	21,256

<sup>(1)</sup> Effect of the acquisition of control over UAB Manifoldas by AB LOTOS Geonafta. For more information on the transaction, see Note 2 to the consolidated financial statements for 2012.

**Provisions for retired refinery installations** primarily include a PLN 28,933 thousand (December 31st 2012: PLN 34,839 thousand) provision for land reclamation and the cost of disassembly and decommissioning of retired installations at LOTOS Terminale S.A.

**Provision for the Baltic Sea offshore oil and gas facilities** is a provision for future costs of decommissioning of the oil and gas facilities in the B-3 and B-8 licences areas.

**Provision for the North Sea offshore oil and gas facilities** is a provision for future costs of decommissioning of the offshore oil and gas facilities in the YME and Heimdal fields, the latter acquired in 2013.

On March 12th 2013, the operator of the YME field, Talisman Energy Norge AS ("Talisman," "Operator") and the supplier of the Mobile Operating and Production Unit (MOPU) to be operated on the YME field, Single Buoy Moorings Inc. ("SBM"), announced that an agreement had been reached to remove the defective MOPU (evacuated in mid-July 2012) from the YME field and to terminate all existing contracts and agreements between the parties in connection with the YME project (see Note 35.1). As a result of the agreement, the Group recognised a provision for future costs of removal of the MOPU from the YME field, of PLN 281,859 thousand (NOK 526,151 thousand), including in current portion, which was partially used (PLN 69,527 thousand (NOK 129,787 thousand)) in 2013.

The provision referred to above disclosed in the statement of financial position as at December 31st 2013, totalling PLN 196,319 thousand, including long-term portion of PLN 53,136 thousand (NOK 107,280 thousand) and short-term portion of PLN 143,183 thousand (NOK 289.084 thousand) was calculated based on the following assumptions:

- the MOPU will be removed from the YME field not later than in 2015;
- the provision fully covers the unspent, as at December 31st 2013, budget for removing the MOPU, approved by the interest holders of the YME licence.

In connection with the acquisition in 2013 of new production assets on the Norwegian Continental Shelf (Heimdal), a provision for future costs of decommissioning of the acquired production assets was recognised at PLN 265,709 thousand (NOK 496,004 thousand). Decommissioning of the newly acquired non-current assets of the offshore oil and gas facility at the Heimdal field and reclamation work are scheduled for 2014–2035. As at December 31st 2013, a provision of PLN 245,671 thousand (NOK 496,004 thousand; see Note 13 Acquisition of interests in Norwegian production and exploration licences – Heimdal) was presented by the Group in its statement of financial position, under Other liabilities and provisions.

#### **Other provisions**

As at December 31st 2013, the Group recognised a provision for contingent payments under the Heimdal assets acquisition agreement, of PLN 5,089 thousand (NOK 10,275 thousand).

The Group recognised a provision for the unavoidable costs under an agreement it made earlier for collection and transport of the crude oil produced from the YME field. This provision was recognised in 2012, in the amount of PLN 12,492 thousand (i.e. NOK 22,500 thousand), and was then partly released as a result of negotiations and the shortening of the contract term. In 2013, the provision amount used was PLN 5,353 thousand (NOK 9,992 thousand) and the amount released was 4,912 thousand (NOK 9,170 thousand). As at December 31st 2013, the provision was PLN 1,653 thousand (NOK 3,338 thousand).

Furthermore, as at December 31st 2013 and December 31st 2012, the Group also disclosed a provision of PLN 15,318 thousand related to court proceedings instigated by WANDEKO, to which LOTOS Paliwa Sp. z o.o. is a party (see Note 35.1).

### **30.2 Grants**

PLN '000	Note	Year ended Dec 31 2013	Year ended Dec 31 2012
<b>At beginning of the period</b>		<b>39,448</b>	<b>39,321</b>
Received during the year		5,196	2,186
Recognised in consolidated profit or loss	9.3	(2,075)	(2,059)
<b>At end of the period</b>		<b>42,569</b>	<b>39,448</b>
<i>including:</i>			
<i>non-current</i>		11,987	13,089
<i>current</i>		30,582	26,359

The grants are primarily related to licences received free of charge and grants from the Eco Fund for the use of waste gas from an offshore oil and gas facility for heating purposes.

The Group receives also government assistance within the meaning of IAS 20 Accounting for Government Grants and Disclosure.

Until April 30th 2011, the Group benefited from tax credit available to producers of bio-components under Art. 19a of the Corporate Income Tax Act of February 15th 1992 (consolidated text: Dz.U. of 2011, No. 74, item 397). The state aid awarded in line with the laws referred to above was approved by virtue of the European Commission's Decision No. 57/08 of September 18th 2009 concerning authorisation for the grant of state operating aid for biofuels. This relief has enabled biofuel producers to deduct from their payable income tax up to 19% of the surplus value of their produced biofuels, over the value of their produced liquid fuels of the same calorific value, calculated at average prices. European Commission's approval for the tax relief expired on April 30th 2011, and the unsettled amount of the relief is accounted for in current prepayments for corporate income tax. The deferred tax associated with the biocomponent tax credit is presented in Note 10.3., and the related tax effect in Note 10.2.

The Group uses a tax credit available to entities introducing new technologies pursuant to Art. 18b of the Corporate Income Tax Act of February 15th 1992 (consolidated text: Dz.U. of 2011, No. 74, item 397). The credit enables the Group to deduct up to 50% of expenditure incurred on new technologies from the tax base. The effect of the credit on these financial statements of the Group was immaterial.



### 31. Financial instruments

#### 31.1 Carrying amount

Dec 31 2013		Categories of financial instruments				Total
		Note	Financial assets/liabilities at fair value through profit or loss – held for trading	Loans and receivables	Financial assets available for sale <sup>(1)</sup>	
PLN '000						
Classes of financial instruments						
Financial assets						
Derivative financial instruments	28	73,935	-	-	-	73,935
Trade receivables	18	-	1,594,746	-	-	1,594,746
Cash and cash equivalents	20	-	503,686	-	-	503,686
Other financial assets:	18	-	369,632	9,746	-	379,378
Total		73,935	2,468,064	9,746	-	2,551,745
Financial liabilities						
Borrowings, other debt instruments and finance lease liabilities	27	-	-	-	6,211,386	6,211,386
Derivative financial instruments	28	74,153	-	-	-	74,153
Trade payables	30	-	-	-	2,396,086	2,396,086
Other financial liabilities	30	-	-	-	200,690	200,690
Total		74,153	-	-	8,808,162	8,882,315

Dec 31 2012 (restated)		Categories of financial instruments				Total
		Note	Financial assets/liabilities at fair value through profit or loss – held for trading	Loans and receivables	Financial assets available for sale <sup>(1)</sup>	
PLN '000						
Classes of financial instruments						
Financial assets						
Derivative financial instruments	28	121,334	-	-	-	121,334
Trade receivables	18	-	1,632,837	-	-	1,632,837
Cash and cash equivalents	20	-	268,333	-	-	268,333
Other financial assets:	18	-	249,917	9,756	-	259,673
Total		121,334	2,151,087	9,756	-	2,282,177
Financial liabilities						
Borrowings, other debt instruments and finance lease liabilities	27	-	-	-	6,556,700	6,556,700
Derivative financial instruments	28	179,325	-	-	-	179,325
Trade payables	30	-	-	-	2,174,451	2,174,451
Other financial liabilities	30	-	-	-	254,436	254,436
Total		179,325	-	-	8,985,587	9,164,912

<sup>(1)</sup> As at December 31st 2013 and December 31st 2012, the Group held shares in other undertakings measured at historical cost less impairment.

As at December 31st 2013 and December 31st 2012, the fair value of financial assets and liabilities did not materially differ from their carrying amounts.

### 31.2 Fair value hierarchy

PLN '000	Dec 31 2013		Dec 31 2012	
	Level 1	Level 2	Level 1	Level 2
<b>Financial assets</b>				
Commodity swap	-	736	-	45
Currency forward and spot contracts	-	34,924	-	73,452
Interest rate swap (IRS)	-	-	-	11,318
Currency swap	-	38,275	-	36,519
<b>Total</b>	<b>-</b>	<b>73,935</b>	<b>-</b>	<b>121,334</b>
<b>Financial liabilities</b>				
Commodity swap	-	-	-	337
Futures (CO <sub>2</sub> emissions)	-	-	3,787	-
Currency forward and spot contracts	-	1,017	-	9,161
Interest rate swap (IRS)	-	72,263	-	148,007
Currency swap	-	873	-	18,033
<b>Total</b>	<b>-</b>	<b>74,153</b>	<b>3,787</b>	<b>175,538</b>

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**31.3 Items of income, expenses, gains and losses disclosed in the statements of comprehensive income by category of financial instrument**

Year ended	Categories of financial instruments					Total
	Financial assets/ liabilities at fair value through profit or loss – held for trading	Loans and receivables	Financial assets available for sale	Financial liabilities at amortised cost		
Dec 31 2013						
PLN '000	Note					
Classes of financial instruments						
Trade receivables:		-	1,111	-	-	1,111
Interest income	9.5	-	5,995	-	-	5,995
Foreign exchange gains/(losses) recognised in cost of sales	9.1	-	766	-	-	766
Foreign exchange gains/(losses)	9.6	-	362	-	-	362
Impairment losses	9.4	-	(6,012)	-	-	(6,012)
Cash and cash equivalents:		-	(2,249)	-	-	(2,249)
Interest income	9.5	-	1,267	-	-	1,267
Foreign exchange gains/(losses)	9.6	-	(3,516)	-	-	(3,516)
Other financial assets:		-	(26,237)	-	-	(26,237)
Interest income	9.5	-	8,606	-	-	8,606
Foreign exchange gains/(losses)	9.6	-	(34,843)	-	-	(34,843)
Derivative financial instruments (financial assets/liabilities):		112,861	-	-	-	112,861
Gains/(losses) on fair value measurement of derivative financial instruments	9.5	55,148	-	-	-	55,148
Gains/(losses) on realisation of derivative financial instruments	9.5	57,713	-	-	-	57,713

*continued on next page*

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Year ended Dec 31 2013	Note	Categories of financial instruments				Total
		Financial assets/ liabilities at fair value through profit or loss – held for trading	Loans and receivables	Financial assets available for sale	Financial liabilities at amortised cost	
PLN '000						
<b>Classes of financial instruments - continued</b>						
<b>Borrowings, other debt instruments and finance lease liabilities</b>		-	-	-	(132,506)	(132,506)
<i>Interest expenses</i>	9.6	-	-	-	(169,005)	(169,005)
<i>Foreign exchange gains/(losses)</i>	9.6	-	-	-	(84,266)	(84,266)
<i>Gains/(losses) on measurement of cash flow hedges</i>	23	-	-	-	120,765	120,765
<b>Trade payables</b>		-	-	-	75,800	75,800
<i>Interest expenses</i>	9.6	-	-	-	(53)	(53)
<i>Foreign exchange gains/(losses) recognised in cost of sales</i>	9.1	-	-	-	75,928	75,928
<i>Foreign exchange gains/(losses)</i>	9.6	-	-	-	(75)	(75)
<b>Other financial liabilities:</b>		-	-	-	6,672	6,672
<i>Interest expenses recognised in finance costs</i>	9.6	-	-	-	(125)	(125)
<i>Foreign exchange gains/(losses) recognised in finance costs</i>	9.6	-	-	-	6,797	6,797
<b>Total</b>		112,861	(27,375)	-	(50,034)	35,452

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Year ended Dec 31 2012		Categories of financial instruments				Total
		Financial assets/ liabilities at fair value through profit or loss – held for trading	Loans and receivables	Financial assets available for sale	Financial liabilities at amortised cost	
PLN '000	Note					
<b>Classes of financial instruments</b>						
<b>Shares:</b>		-	-	150	-	150
<i>Gains/(losses) on sale</i>	9.5	-	-	150	-	150
<b>Trade receivables:</b>		-	(43,884)	-	-	(43,884)
<i>Interest income</i>	9.5	-	8,804	-	-	8,804
<i>Foreign exchange gains/(losses) recognised in cost of sales</i>	9.1	-	(54,471)	-	-	(54,471)
<i>Foreign exchange gains/(losses)</i>	9.5	-	(3,229)	-	-	(3,229)
<i>Reversal of impairment losses</i>	9.3	-	5,012	-	-	5,012
<b>Cash and cash equivalents:</b>		-	(28,835)	-	-	(28,835)
<i>Interest income</i>	9.5	-	1,309	-	-	1,309
<i>Foreign exchange gains/(losses)</i>	9.5	-	(30,144)	-	-	(30,144)
<b>Other financial assets:</b>		-	(99,575)	-	-	(99,575)
<i>Interest income</i>	9.5	-	14,879	-	-	14,879
<i>Foreign exchange gains/(losses)</i>	9.5	-	(114,454)	-	-	(114,454)
<b>Derivative financial instruments (financial assets/liabilities):</b>		117,772	-	-	-	117,772
<i>Gains/(losses) on fair value measurement of derivative financial instruments</i>	9.5	159,096	-	-	-	159,096
<i>Gains/(losses) on realisation of derivative financial instruments</i>	9.5	(41,324)	-	-	-	(41,324)
<i>continued on next page</i>						

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Year ended Dec 31 2012	Note	Categories of financial instruments				Total
		Financial assets/ liabilities at fair value through profit or loss – held for trading	Loans and receivables	Financial assets available for sale	Financial liabilities at amortised cost	
PLN '000						
<b>Classes of financial instruments - continued</b>						
<b>Borrowings, other debt instruments and finance lease liabilities</b>		-	-	-	<b>566,386</b>	<b>566,386</b>
<i>Interest expenses</i>	9.6	-	-	-	(191,754)	(191,754)
<i>Foreign exchange gains/(losses)</i>	9.5	-	-	-	285,943	285,943
<i>Gains/(losses) on measurement of cash flow hedges</i>	23	-	-	-	472,197	472,197
<b>Trade payables</b>		-	-	-	<b>24,202</b>	<b>24,202</b>
<i>Interest expenses recognised in finance costs</i>	9.6	-	-	-	(88)	(88)
<i>Foreign exchange gains/(losses) recognised in cost of sales</i>	9.1	-	-	-	23,275	23,275
<i>Foreign exchange gains/(losses)</i>	9.5	-	-	-	1,015	1,015
<b>Other financial liabilities:</b>		-	-	-	<b>16,601</b>	<b>16,601</b>
<i>Interest expenses</i>	9.6	-	-	-	(380)	(380)
<i>Foreign exchange gains/(losses)</i>	9.5	-	-	-	16,981	16,981
<b>Total</b>		<b>117,772</b>	<b>(172,294)</b>	<b>150</b>	<b>607,189</b>	<b>552,817</b>

(This is a translation of a document originally issued in Polish)

### **32. Objectives and policies of financial risk management**

The Group is exposed to financial risks, including:

- market risk (risk related to prices of raw materials and petroleum products, risk related to prices of CO2 allowances, currency risk, interest rate risk),
- liquidity risk,
- credit risk related to financial and trade transactions.

The Parent operates a Financial Risk Management Office, which coordinates and exercises ongoing supervision of the Group's financial risk management processes.

Furthermore, the Price Risk and Trading Committee, appointed by the Management Board, supervises the work on development of policies and procedures, and monitors implementation of the Group's strategy in the area of its responsibilities. Specifically, the Committee provides opinions on or initiates key price and trading risk management initiatives, makes recommendations, and submits proposals for actions that require the Management Board's approval.

In addition, to ensure effective management of liquidity, debt structure and external finance raising by companies of the LOTOS Group, the Management Board has appointed the Liquidity Optimisation and Financing Coordination Team.

Financial risk management seeks to achieve the following key objectives:

- increase the probability that budget and strategic objectives are met,
- limit volatility of cash flows,
- ensure short-term financial liquidity,
- maximise the result on market risk management within the assumed risk level limits,
- create value in the long-term.

With a view to implementing the above objectives, the Group has put in place relevant tools and developed a number of documents, which were then approved at the relevant decision-making levels and which define the framework for ensuring effectiveness and safety of the Company's financial activities, including:

- methodology for quantifying exposures to particular risks,
- acceptable financial instruments,
- methodology of assessing financial risk management,
- risk management limits,
- the reporting method,
- credit limits,
- documentation and operating standards,
- division of responsibilities in transaction execution, risk assessment and monitoring, and transaction recording and settlement between different organisational units.

The Parent monitors and reports all managed market risks on an ongoing basis. Grupa LOTOS S.A. uses liquid derivatives which can be measured by applying commonly used valuation models. The valuation of the underlying position and derivatives is based on market inputs provided by reliable sources. Opening positions with respect to risks which do not arise as part of the Company's core business is prohibited.

On January 1st 2011, the Parent commenced hedge accounting with respect to cash flows (i.e. foreign-currency facilities used to finance the 10+ Programme, designated as hedges of future USD-denominated petroleum product sale transactions). In H2 2012, the scope of cash flow hedge accounting was extended to include newly established hedging relationships of the same nature.

#### **32.1 Risk related to prices of raw materials and petroleum products**

The Group considers risk related to prices of raw materials and petroleum products to be particularly important.

The Company identifies the following factors of this risk:

- volatility of the refining margin, measured as the difference between the liquid index of a reference petroleum product basket (e.g. aviation fuel, gasoline, diesel oil, fuel oil) and the liquid index of reference feedstock (e.g. Urals crude),
- volatility of prices with respect to the raw material and product inventory volumes deviating from the required levels of mandatory and operational stocks,
- volatility of differentials between the reference indices and indices used in commercial contracts (e.g. Urals-Brent differential, i.e. the difference between different types of crude oil),
- use of non-standard pricing formulae in commercial contracts.

In order to secure fixed petroleum product prices for future deliveries to customers, the Group has implemented a system whereby the risk can be transferred from the customers onto the Group. This requires execution of appropriate price risk hedging transactions and implementation of procedures providing protection against credit and operational risks.

As part of the measures discussed above, in 2012 and 2013, in connection with sales of bitumen components the Group entered into commodity swap contracts, which helped it maintain its original price risk profile. The swap contracts concluded in that period were partially settled in the year when they were entered into, and partly in the following year.

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**Open commodity swaps as at December 31st 2013:**

Type of contract	Reference index	Contract execution period	Valuation period	Amount in tonnes in the valuation period	Average weighted price (USD/tonne)	Fair value (PLN '000)	
						Financial assets	Financial liabilities
Commodity swap	3.5 PCT Barges FOB Rotterdam	Sep–Nov 2013	Mar–Oct 2014	20,989	572.90	736	-
<b>Total</b>						<b>736</b>	<b>-</b>

The above swap transactions for the total amount of 20,989 tonnes based on the 3.5 PCT Barges FOB Rotterdam liquid index during the period from March to October 2014 year were entered into to reverse the risk profile relating to the prices of raw materials and petroleum products, arising in connection with the sale of bitumen components at fixed prices.

**Open commodity swaps as at December 31st 2012:**

Type of contract	Reference index	Contract execution period	Valuation period	Amount in tonnes in the valuation period	Average weighted price (USD/t)	Fair value (PLN '000)	
						Financial assets	Financial liabilities
Commodity swap	3.5 PCT Barges FOB Rotterdam	Dec 2012	Jun–Nov 2013	14,092	591.25	-	(335)
Commodity swap	Gasoil .1 Cargoes CIF NWE / Basis ARA	Dec 2012	Jun–Nov 2013	(3,000)	915.00	45	(2)
<b>Total</b>						<b>45</b>	<b>(337)</b>

The above swap transactions based on the 3.5 PCT Barges FOB Rotterdam liquid index and the Gasoil .1 Cargoes CIF NWE / Basis ARA index were also entered into to reverse the risk profile relating to the prices of raw materials and petroleum products and arising in connection with the sale of bitumen components at fixed prices.

The Management Board points out that the importance of price risk management and of trading activities within the Group has been steadily growing. In connection with the need to manage new processes and to enhance the efficiency of ongoing operations in this area, and in order to improve the operational safety, the Group is implementing an ERTM IT system (Energy Trading and Risk Management).

**32.1.1 Market risk sensitivity analysis: fluctuations in prices of raw materials and petroleum products**

An analysis of the sensitivity as at December 31st 2013 and December 31st 2012 of financial transactions to the risk of fluctuations in prices of raw materials and petroleum products, assuming a +/- 10% price change is presented below:

PLN '000	Carrying amount	Dec 31 2013		Carrying amount	Dec 31 2012	
		Change			Change	
		10%	-10%		10%	-10%
Financial assets <sup>(1)</sup>	736	3,695	(3,695)	45	(778)	778
Financial liabilities <sup>(1)</sup>	-	-	-	(337)	2,481	(2,481)
Total	736	3,695	(3,695)	(292)	1,703	(1,703)

<sup>(1)</sup> Commodity swaps.

The above deviations of underlying index prices have been calculated based on a hypothetical +/- 10% price change. This sensitivity analysis has been performed with reference to the balance of instruments held as at December 31st 2013 and December 31st 2012. The effect of the underlying index price changes on the fair value has been examined assuming that the currency exchange rates remain unchanged.



### 32.2 Risk related to prices of carbon (CO<sub>2</sub>) allowances

The risk related to prices of carbon dioxide allowances is managed by the Parent in line with the Strategy for Managing the Risk Related to Prices of Carbon Dioxide (CO<sub>2</sub>) Allowances by Grupa LOTOS S.A.

The Group determines its underlying CO<sub>2</sub> allowances position, which represents the difference between the number of CO<sub>2</sub> allowances (held or estimated) and CO<sub>2</sub> emissions (released or estimated) for each individual trading period (phase), for which emission allowances are granted.

As part of risk management procedures, the Group sets a volume limit for the total position in CO<sub>2</sub> allowances (the underlying position adjusted for the position resulting from executed contracts, i.e. transactions involving purchase/sale of emission allowances) based on the number of allowances granted for a given phase. The Group monitors the total position for a given phase, representing the aggregate of total positions for individual years within the phase.

Depending on the market situation and within the set limits, the Group maintains an appropriate total position in carbon allowances by entering into financial transactions on an on-going basis. The limit reflecting the risk of loss on the transactions (maximum loss limit) is defined by reference to the Group's equity.

Below are presented underlying, contract and total position as at December 31st 2013 and December 31st 2012.

#### Underlying CO<sub>2</sub> allowances position as at December 31st 2013 (tonnes):

Period	EUA*	CER*	ERU*	TOTAL
Phase III (2013-2020)	(1,238,485)	383	29,000	(1,209,102)

\*Under the European Union Emissions Trading System/Scheme (EU ETS):

1 EUA (Emission Unit Allowance) represents an allowance for emission of one tonne of CO<sub>2</sub>.

1 CER (Certified Emission Reduction Unit) represents one tonne of CO<sub>2</sub> equivalent (tCO<sub>2</sub>e) effectively reduced. Certified emission reduction units are obtained in connection with investment projects implemented in developing countries where no CO<sub>2</sub> emission limits have been defined.

1 ERU (Emission Reduction Unit) represents one tonne of CO<sub>2</sub> equivalent (tCO<sub>2</sub>e) effectively reduced. ERUs are certified emission units, obtained through investment projects implemented in countries where the CO<sub>2</sub> reduction costs are lower.

The presented above underlying position is based on the following assumptions as to the allowances and carbon dioxide emission volumes, and the fact that 993 thousand EUA, 383 CER and 29 thousand ERU were registered in the Company's account as at December 31st 2013:

Phase III (2013-2020), tonnes	2013	2014	2015	2016	2017	2018	2019	Total
Allowances allocated under the National Allocation Plan <sup>(1)</sup>	1,521,342	1,492,657	1,462,140	1,428,944	1,396,948	1,366,559	1,335,827	10,004,417
Carbon dioxide (CO <sub>2</sub> ) emissions <sup>(2)</sup>	(1,676,529)	(1,779,653)	(1,779,653)	(1,779,653)	(1,661,606)	(1,779,653)	(1,779,653)	(12,236,400)
Surplus/shortage	(155,187)	(286,996)	(317,513)	(350,709)	(264,658)	(413,094)	(443,826)	(2,231,983)

<sup>(1)</sup> Projected volume of free CO<sub>2</sub> emission allowances to be allocated to Grupa LOTOS in 2013–2019 under the National Allocation Plan (NAP).

<sup>(2)</sup> Projected carbon dioxide (CO<sub>2</sub>) emissions, calculated based on the production data for the installations covered by the emission trading scheme, and used to determine the underlying position as at December 31st 2013.

In 2013, given the lack of liquidity on the futures market and the instability of the underlying position in the period until 2020 (the last year – phase III), the end of the risk management period for the risk related to the prices of CO<sub>2</sub> emission allowances was set at the end of 2019, however, with the lapse of time, year 2020 will probably also be included in the risk management horizon.

As at December 31st 2013, the Group did not receive its free allocation of CO<sub>2</sub> emission allowances for 2013, which it should have received by the end of February 2013. The Group assumes that there is little probability that these allowances will not be received before the final offsetting date, i.e. April 30th 2014, as by the date of publication of these financial statements, i.e. February 26th 2014, the European Commission announced its approval of the allowance limits planned for the last group of member states, including Poland. The Management Board would also like to note that the Group holds around 60% of the allowances it is required to surrender, and that the balance could be purchased without any material effect on liquidity until free credits are received.

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**Underlying CO<sub>2</sub> allowances position as at December 31st 2012 (tonnes):**

Period	EUA	CER	TOTAL
Phase II (2008-2012)	(520,169)	-	(520,169)
Phase III (2013-2020)	(363,376)	-	(363,376)

In 2012, the management of Phase II, which was nearing its end, continued, and management of Phase III, covering years 2013-2020 commenced, however due to limited liquidity of the market, the management was actually limited to 2013 and 2014. Phase II covered the period to the end of 2012, and it was settled by the end of April 2013. Therefore, the two-phase division was retained in the tables containing information on the underlying position and financial instruments.

As at December 31st 2012, the underlying position was based on the following assumptions as to the volume of allowances and carbon dioxide emissions in phase II and phase III:

Phase II (2008-2012), tonnes	2012	Total
Allowances in the account	1,458,144	1,458,144
Carbon dioxide (CO <sub>2</sub> ) emissions <sup>(1)</sup>	(1,978,313)	(1,978,313)
Surplus/shortage	(520,169)	(520,169)

<sup>(1)</sup> Projected carbon dioxide (CO<sub>2</sub>) emissions, calculated based on the production data for the installations covered by the emission trading scheme.

Phase III (2013-2020), tonnes	2013	2014	Total
Allowances allocated under the National Allocation Plan <sup>(1)</sup>	1,610,712	1,607,843	3,218,555
Carbon dioxide (CO <sub>2</sub> ) emissions <sup>(2)</sup>	(1,737,054)	(1,844,877)	(3,581,931)
Surplus/shortage	(126,342)	(237,034)	(363,376)

<sup>(1)</sup> Projected volume of free CO<sub>2</sub> emission allowances to be allocated to the Company in 2013-2014.

<sup>(2)</sup> Projected carbon dioxide (CO<sub>2</sub>) emissions, calculated based on the production data for the installations covered by the emission trading scheme.

To manage risk related to carbon dioxide emission allowances, the Group evaluates the risk of deficit of free emission allowances allocated under the NAP on a case-by-case basis.

If required, futures contracts to purchase carbon (CO<sub>2</sub>) allowances open as at the last day of the reporting period are settled by the Group through physical delivery, with the intention to potentially use the allowances to offset the Group's actual CO<sub>2</sub> emissions. Valuation of transactions to be settled through physical delivery is not disclosed under financial assets/liabilities in the financial statements. However, the Company internally monitors and performs the valuation of its open futures positions as part of an overall assessment of the effectiveness of its CO<sub>2</sub> risk management (off balance sheet).

The EUA futures transactions which were open as at December 31st 2013 will be settled through physical delivery and the Company expects to use the purchased emission allowances for its own needs. As at December 31st 2012, the Parent held open CER futures contracts which it intended to settle through physical delivery. The transactions were not disclosed in the financial statements as at the last day of the reporting period, and their fair values were recorded only as an off-balance sheet item.

Further, in 2012 the Group entered into EUA/CER swaps, as that was justified by the spread between those two types of emission allowances.

**Open CO<sub>2</sub> allowances contracts as at December 31st 2013:**

Type of contract	Contract execution period	Contract settlement period	Number of allowances in the period	Average weighted price (EUR/t)	Phase	Fair value (PLN '000)*	
						Financial assets	Financial liabilities
EUA Futures	Aug 2012-Dec 2013	Dec 2014-Dec 2017	1,696,000	5.58	Phase III	1,182	(5,230)
<b>Total</b>						<b>1,182</b>	<b>(5,230)</b>

\*Off-balance-sheet values, used exclusively for statistical purposes and as part of monitoring in risk management.

Open CO<sub>2</sub> allowances contracts as at December 31st 2012:

Type of contract	Contract execution period	Contract settlement period	Number of allowances in the period	Average weighted price (EUR/t)	Phase	Fair value (PLN '000)*	
						Financial assets	Financial liabilities
CER Futures	Dec 2012	Mar 2013	620,000	0.42	Phase II	-	(641)
<b>Total</b>						<b>-</b>	<b>(641)</b>

Type of contract	Contract execution period	Contract settlement period	Number of allowances in the period	Average weighted price (EUR/t)	Phase	Fair value (PLN '000)**	
						Financial assets	Financial liabilities
EUA Futures	Aug–Nov 2012	Dec 2013–Dec 2014	523,000	8.53	Phase III	-	(3,787)
<b>Total</b>						<b>-</b>	<b>(3,787)</b>

\*\* On-balance-sheet valuation.

Given the underlying position described above and the effected transactions, the Company's aggregate position (in tonnes) in emission allowances as at December 31st 2013 was as follows:

Period	EUA position			CER position			ERU position		
	Underlying	Contracts	Total	Underlying	Contracts	Total	Underlying	Contracts	Total
Phase III (2013-2020)	(1,238,485)	1,696,000	457,515	383	-	383	29,000	-	29,000

Given the underlying position described above and the effected transactions, the Company's aggregate position (in tonnes) in emission allowances as at December 31st 2012 was as follows:

Period	EUA position			CER position		
	Underlying	Contracts	Total	Underlying	Contracts	Total
Phase II (2008-2012)	(520,169)	-	(520,169)	-	620,000	620,000
Phase III (2013-2020)	(363,376)	523,000	159,624	-	-	-

For information on CO<sub>2</sub> emission allowances see Note 34.

### 32.2.1 Market risk sensitivity analysis: fluctuations in prices of carbon dioxide (CO<sub>2</sub>) emission allowances

As at December 31st 2013 and December 31st 2012 the Group held futures for the purchase of carbon dioxide emission allowances.

Below is presented an analysis of the sensitivity to risk of changes in prices of carbon dioxide emission allowances (+/- 10%) for the estimated fair value of the derivative instruments disclosed in the statement of financial position:

PLN '000	Dec 31 2013			Dec 31 2012		
	Carrying amount	Change 10%	-10%	Carrying amount	Change 10%	-10%
Financial liabilities <sup>(1)</sup>	-	-	-	(3,787)	1,446	(1,446)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3,787)</b>	<b>1,446</b>	<b>(1,446)</b>

<sup>(1)</sup> EUA Futures.

The above deviations of CO<sub>2</sub> emission allowance prices have been calculated based on a hypothetical +/- 10% price change. This sensitivity analysis has been performed with reference to the balance of instruments held as at December 31st 2012. The effect of the allowance price changes on the fair value has been examined assuming that the currency exchange rates remain unchanged.

The Group does not perform a sensitivity analysis for the fair value of futures contracts to purchase CO<sub>2</sub> emission allowances held by it as at the end of the reporting period if it intends to settle the contracts through physical delivery and use them to cover allowance deficits, and therefore the table above does not present a sensitivity analysis for EUA futures held as at December 31st 2013 and CER futures held as at December 31st 2012, which were intended to settle through physical delivery to cover allowance deficits in settlement of carbon dioxide emission for the period.

### 32.3 Currency risk

Currency risk is managed by the Group in line with the Strategy of Currency Risk Management at Grupa LOTOS S.A. The exposure management horizon is linked with the Group's budget horizon, which varies from three to five consecutive quarters depending on the time of the year. The four-quarter period is treated as the basis for determining the exposure management horizon. The base map of currency positions takes into account principally the volumes and price formulae for purchases of raw materials and sales of products, investments, deposits, and credit facilities denominated in foreign currencies, as well as valuation of derivatives, and may be adjusted for a ratio reflecting the volatility in the prices of raw materials and petroleum products. The strategy provides for the calculation of the following limits:

- position limit (open currency contracts must not increase the Company's underlying position and must not exceed the volume of the underlying position);
- maximum loss and liquidity limits are expressed as a percentage of the Company's equity (the liquidity limit is calculated in order to reduce the risk of excessive accumulation of financial transactions over a limited period of time, the settlement of which could result in liquidity and operating problems);
- gross total and global currency position limits for the entire management period as well as for sub-periods.

For the purpose of the limits calculation, equity is remeasured on a quarterly basis. Moreover, when loss on risk management exceeds a pre-defined threshold, limits are immediately revised in order to prevent any significant exceeding of the maximum loss limit set by the Management Board of the Parent.

In order to optimise execution of foreign exchange transactions at the Group, the Parent offers to its subsidiaries direct quotations of such transactions based on framework agreements and applicable operational procedures.

USD is used in market price quotations for crude oil and petroleum products. For this reason it was decided that USD is the most appropriate currency for contracting and repaying long-term credit facilities to finance the 10+ Programme, as this would reduce the structurally long position, and consequently also the strategic currency risk.

The underlying currency position represents all material cash flows (identified during currency risk identification process) whose value, expressed in the Group's functional currency, over the risk management period depends on exchange rates, adjusted for a ratio reflecting the decreasing probability of generating such cash flows.

The Group has a structural long position in USD (it benefits from a rise in the USD/PLN exchange rate) as its cash inflows dependent on the USD exchange rate (mainly revenue from sale of petroleum products) are higher than the corresponding cash outflows (e.g. on purchase of crude oil, credit facility repayment).

As at December 31st 2013, the Group projects that in 2014 it will also have a long position in EUR, driven by a change of the price formulae under biocomponent purchase agreements, which were based on EUR in the previous reporting period and now are based mainly on USD, meaning that cash flows under these transactions are part of the USD position.

#### Underlying currency position of the Parent as at December 31st 2013:

Period	USD '000	EUR '000
2014	445,543	2,008

#### Underlying currency position of the Parent as at December 31st 2012:

Period	USD '000	EUR '000
2013	654,698	(173,187)

The Parent actively manages its currency position within the set limits, taking into account expected market developments.

The Group's companies execute transactions to hedge their currency risk.

Each currency swap comprises a pair of transactions, which in this analysis are assigned to purchase or sale under *Currency swap*.

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**Open currency contracts as at December 31st 2013:**

Type of contract	Purchase/sale	Contract execution period	Contract settlement period	Currency pair (base/quote)	Amount in base currency ('000)	Weighted average exchange rate	Amount in quote currency ('000)	Fair value (PLN '000)	
								Financial assets	Financial liabilities
Currency spot	Purchase	Dec 2013	Jan 2014	USD/PLN	21,000	3,0178	(63,374)	-	(125)
Currency spot	Purchase	Dec 2013	Jan 2014	EUR/PLN	1,500	4,1500	(6,225)	-	(4)
Currency forward	Purchase	Dec 2013	Jan 2014	USD/PLN	20,000	3,0551	(61,102)	-	(783)
Currency forward	Purchase	Dec 2013	Jan 2014	EUR/PLN	4,700	4,1720	(19,608)	-	(105)
Currency forward	Sale	Aug–Nov 2013	Mar–Oct 2014	USD/PLN	(169,000)	3,2487	549,030	34,924	-
Currency swap	Purchase	Dec 2013	Sep 2014	USD/PLN	25,000	3,0932	(77,330)	-	(845)
Currency swap	Purchase	Dec 2013	Jan 2014	EUR/USD	1,850	1,3800	(2,553)	-	(18)
Currency swap	Sale	Sep–Dec 2013	Jan–Dec 2014	USD/PLN	(393,450)	3,1371	1,234,292	38,275	-
Currency swap	Sale	-	-	EUR/PLN	-	-	-	-	-
Currency swap	Sale	Dec 2013	Jan 2014	EUR/USD	(7,500)	1,3764	10,323	-	(10)
<b>Total</b>								<b>73,199</b>	<b>(1,890)</b>

**Open currency contracts as at December 31st 2012:**

Type of contract	Purchase/sale	Contract execution period	Contract settlement period	Currency pair (base/quote)	Amount in base currency ('000)	Weighted average exchange rate	Amount in quote currency ('000)	Fair value (PLN '000)	
								Financial assets	Financial liabilities
Currency spot	Purchase	Dec 2012	Jan 2013	USD/PLN	54,000	3,0951	(167,135)	234	-
Currency spot	Purchase	Dec 2012	Jan 2013	EUR/PLN	1,891	4,0925	(7,739)	-	(9)
Currency forward	Purchase	Sep–Dec 2012	Jan–Apr 2013	USD/PLN	110,500	3,1760	(350,948)	57	(7,436)
Currency forward	Purchase	Aug–Dec 2012	Jan–Jul 2013	EUR/USD	146,000	1,2828	(187,289)	17,029	-
Currency forward	Sale	Aug–Dec 2012	Jan–Nov 2013	USD/PLN	(324,000)	3,3091	1,072,148	56,132	(1,381)
Currency forward	Sale	Dec 2012	Jan 2013	EUR/PLN	(15,000)	4,0717	61,076	-	(335)
Currency swap	Purchase	Aug–Dec 2012	Jan–Jul 2013	USD/PLN	74,000	3,2998	(244,185)	-	(12,672)
Currency swap	Purchase	Dec 2012	Jan 2013	EUR/PLN	15,500	4,1474	(64,285)	-	(832)
Currency swap	Purchase	Oct–Dec 2012	Jan–Jul 2013	EUR/USD	31,610	1,2948	(40,929)	2,478	-
Currency swap	Sale	Aug–Dec 2012	Jan–Jul 2013	USD/PLN	(399,500)	3,1968	1,277,122	34,041	(4,529)
<b>Total</b>								<b>109,971</b>	<b>(27,194)</b>

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**Total currency position of the Group as at December 31st 2013:**

Period	USD/PLN position			EUR/PLN position		
	Underlying (USD '000)	Contracts (USD '000)	Total (USD '000)	Underlying (EUR '000)	Contracts (EUR '000)	Total (EUR '000)
2014	445,543	(422,907)	22,636	2,008	300	2,308

**Total currency position of the Group as at December 31st 2012:**

Period	USD/PLN position			EUR/PLN position		
	Underlying (USD '000)	Contracts (USD '000)	Total (USD '000)	Underlying (EUR '000)	Contracts (EUR '000)	Total (EUR '000)
2013	654,698	(654,766)	(68)	(173,187)	180,001	6,814

**32.3.1 Sensitivity analysis with respect to market risk related to fluctuations in currency exchange rates**

**Currency structure of selected financial instruments as at December 31st 2013:**

Dec 31 2013		USD	USD translated into PLN	EUR	EUR translated into PLN	Carrying amount in foreign currency translated into PLN as at the balance-sheet date
(PLN '000)	Note					

**Classes of financial instruments**

**Financial assets**

Trade receivables		121,143	364,884	10,922	45,112	409,996
Other receivables		-	-	15	63	63
Notes		59,268	178,516	-	-	178,516
Cash and cash equivalents		23,339	70,280	8,492	28,635	98,915
Other financial assets:		436,078	1,313,611	9,961	41,313	1,354,924
<i>Loans advanced to related entities</i>		361,974	1,090,321	7,208	29,895	1,120,216
<i>Deposits</i>		3,105	9,352	603	2,501	11,853
<i>Security deposit (margin)</i>		-	-	2,150	8,917	8,917
<i>Cash blocked in bank accounts</i>	18	70,999	213,938	-	-	213,938
<b>Total</b>		<b>639,828</b>	<b>1,927,291</b>	<b>29,390</b>	<b>115,123</b>	<b>2,042,414</b>

**Financial liabilities**

Borrowings		2,096,295	6,320,969	1,180	4,892	6,325,861
Trade payables		622,316	1,931,556	11,589	50,877	1,982,433
Other liabilities		9,084	27,829	3,909	16,211	44,040
Notes		6,674	377,210	-	-	377,210
Finance lease liabilities		-	-	21,259	88,164	88,164
<b>Total</b>		<b>2,734,369</b>	<b>8,657,564</b>	<b>37,937</b>	<b>160,144</b>	<b>8,817,708</b>

***Currency structure of selected financial instruments as at December 31st 2012:***

<b>Dec 31 2012</b> (PLN '000)	<b>USD</b>	<b>USD translated into PLN</b>	<b>EUR</b>	<b>EUR translated into PLN</b>	<b>Carrying amount in foreign currency translated into PLN as at the balance- sheet date</b>
<b>Classes of financial instruments</b>					
<b>Financial assets</b>					
Trade receivables	87,225	270,367	12,697	51,922	322,289
Other receivables	13	41	154	630	671
Notes	53,119	164,647	-	-	164,647
Cash and cash equivalents	5,321	16,416	2,205	8,992	25,408
Other financial assets:	371,510	1,151,237	12,313	50,338	1,201,575
<i>Loans advanced to related entities</i>	359,032	1,112,561	10,099	41,287	1,153,848
<i>Deposits</i>	12,478	38,676	-	-	38,676
<i>Security deposit (margin)</i>	-	-	2,214	9,051	9,051
<b>Total</b>	<b>517,188</b>	<b>1,602,708</b>	<b>27,369</b>	<b>111,882</b>	<b>1,714,590</b>
<b>Financial liabilities</b>					
Borrowings	2,291,949	7,108,363	5,307	21,672	7,130,035
Trade payables	573,352	1,777,160	8,456	31,319	1,808,479
Other liabilities	10,070	31,200	10,085	41,172	72,372
Notes	53,119	164,162	-	-	164,162
Finance lease liabilities	-	-	39,885	163,058	163,058
<b>Total</b>	<b>2,928,490</b>	<b>9,080,885</b>	<b>63,733</b>	<b>257,221</b>	<b>9,338,106</b>

For the purposes of sensitivity analysis, the currency structure presented above also accounts for intra-Group foreign currency transactions sensitive to changes in foreign exchange rates, which affect the Group's currency risk pursuant to IAS 21 – The Effects of Changes in Foreign Exchange Rates with respect to recognition of relevant foreign exchange gains or losses in the Group's net profit or loss.

Apart from the instruments listed above, the Group held foreign-currency derivatives, including commodity swaps, interest-rate swaps, futures, as well as spot contracts, forwards and currency swaps. Depending on the type of derivative, the Group applies the appropriate method of fair value measurement, which also determines the method of calculating the effect of changes of foreign exchange rates on the value of individual derivatives (for more detailed information on the derivative measurement methods see Note 7.21). The tables below, presenting sensitivity of financial instruments to currency risk as at December 31st 2013 and December 31st 2012, also present the effect of currency rate changes on the carrying amounts of the derivatives.



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**Sensitivity analysis to currency risk as at December 31st 2013, along with the effect on the net profit or loss, assuming a 4% increase or decrease in the USD/PLN and EUR/PLN exchange rates is presented below:**

Dec 31 2013 PLN '000	4% increase in exchange rate effect on net profit/loss for the year		4% decrease in exchange rate effect on net profit/loss for the year	
	USD	EUR	USD	EUR
<b>Classes of financial instruments</b>				
<b>Financial assets</b>				
Trade receivables	14,595	1,804	(14,595)	(1,804)
Other receivables	-	3	-	(3)
Derivative financial instruments	(75,226)	(41)	75,226	41
Notes	7,141	-	(7,141)	-
Cash and cash equivalents	2,812	1,145	(2,812)	(1,145)
Other financial assets:	52,544	1,653	(52,544)	(1,653)
<i>Loans advanced to related entities</i>	43,613	1,196	(43,613)	(1,196)
<i>Deposits</i>	374	100	(374)	(100)
<i>Security deposits (margins)</i>	-	357	-	(357)
<i>Cash blocked in bank accounts</i>	8,557	-	(8,557)	-
<b>Total financial assets</b>	<b>1,866</b>	<b>4,564</b>	<b>(1,866)</b>	<b>(4,564)</b>
<b>Financial liabilities</b>				
Borrowings	96,997 <sup>(1)</sup>	196	(96,997) <sup>(1)</sup>	(196)
Trade payables	77,262	2,035	(77,262)	(2,035)
Derivative financial instruments	(13,591)	(132)	13,591	132
Other liabilities	1,113	648	(1,113)	(648)
Notes	15,088	-	(15,088)	-
Finance lease liabilities	-	3,527	-	(3,527)
<b>Total financial liabilities</b>	<b>176,869</b>	<b>6,274</b>	<b>(176,869)</b>	<b>(6,274)</b>
<b>Total</b>	<b>(175,003)</b>	<b>(1,710)</b>	<b>175,003</b>	<b>1,710</b>

<sup>(1)</sup> Calculation of the effect of an exchange rate change on the balance-sheet item takes into account the effect of cash flow hedge accounting. Assuming a 4% change of the USD/PLN exchange rate, the effect of cash flow hedge accounting would potentially lead to a change of PLN (158,436) thousand/PLN 158,436 thousand in the fair value of borrowings. Furthermore, the calculation takes into account the effect of paid front-end arrangement fees (measured at the exchange rate effective on the payment date), reducing financial liabilities under borrowings, which would potentially result in a change of PLN 2,593 thousand/PLN (2,593) thousand in the fair value of borrowings, assuming a 4% change of the USD/PLN exchange rate.

The above deviations of carrying amounts in PLN which are dependent on currency exchange rates were calculated on the basis of a hypothetical +/- 4% change of the exchange rates. This sensitivity analysis has been performed with reference to the balance of instruments held as at December 31st 2013.

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***Sensitivity analysis to currency risk as at December 31st 2012, along with the effect on the net profit or loss, assuming a 4% increase or decrease in the USD/PLN and EUR/PLN exchange rates is presented below:***

Dec 31 2012 PLN '000	4% increase in exchange rate effect on net profit/loss for the year		4% decrease in exchange rate effect on net profit/loss for the year	
	USD	EUR	USD	EUR
<b>Classes of financial instruments</b>				
<b>Financial assets</b>				
Trade receivables	10,815	2,077	(10,815)	(2,077)
Other receivables	2	25	(2)	(25)
Derivative financial instruments	(85,181)	29,022	85,181	(29,022)
Notes	6,586	-	(6,586)	-
Cash and cash equivalents	657	360	(657)	(360)
Other financial assets:	46,049	2,013	(46,049)	(2,013)
Loans advanced to related entities	44,502	1,651	(44,502)	(1,651)
Deposits	1,547	-	(1,547)	-
Security deposits (margins)	-	362	-	(362)
<b>Total financial assets</b>	<b>(21,072)</b>	<b>33,497</b>	<b>21,072</b>	<b>(33,497)</b>
<b>Financial liabilities</b>				
Borrowings	110,782 <sup>(1)</sup>	867	(110,782) <sup>(1)</sup>	(867)
Trade payables	71,086	1,253	(71,086)	(1,253)
Derivative financial instruments	1,816	(240)	(1,816)	240
Other liabilities	1,248	1,647	(1,248)	(1,647)
Notes	6,566	-	(6,566)	-
Finance lease liabilities	-	6,522	-	(6,522)
<b>Total financial liabilities</b>	<b>191,498</b>	<b>10,049</b>	<b>(191,498)</b>	<b>(10,049)</b>
<b>Total</b>	<b>(212,570)</b>	<b>23,448</b>	<b>212,570</b>	<b>(23,448)</b>

<sup>(1)</sup> Calculation of the effect of an exchange rate change on the balance-sheet item takes into account the effect of cash flow hedge accounting. Assuming a 4% change of the USD/PLN exchange rate, the effect of cash flow hedge accounting would potentially lead to a change of PLN (176,513) thousand/PLN 176,513 thousand in the fair value of borrowings. Furthermore, the calculation takes into account the effect of paid front-end arrangement fees (measured at the exchange rate effective on the payment date), reducing financial liabilities under borrowings, which would potentially result in a change of PLN 2,960 thousand/PLN (2,960) thousand in the fair value of borrowings, assuming a 4% change of the USD/PLN exchange rate.

The above deviations of carrying amounts in PLN which are dependent on currency exchange rates were calculated on the basis of a hypothetical +/- 4% change of the exchange rates. This sensitivity analysis has been performed with reference to the balance of instruments held as at December 31st 2012.

### 32.4 Interest rate risk

The underlying interest rate position is attributable to cash flows whose amounts depend on the future interest rate levels. This position is driven primarily by the expected repayment schedules under the credit facilities contracted to finance and refinance stocks and to finance an investment under the 10+ Programme, as well as the amount of interest computed by reference to the floating LIBOR USD rate. The structure of limits is based on the underlying position's nominal value hedge ratio. In a long-term perspective, a partial risk mitigation effect was achieved through the choice of a fixed interest rate for a tranche of the term facility contracted to finance the 10+ Programme (credit facility designated in the table as 'Bank Syndicate 3'; see Note 27.1.)

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**Underlying interest rate position as at December 31st 2013 and December 31st 2012:**

Period	Underlying position (USD '000)	
	2013	2012
2013	-	(1,757,021)
2014	(1,497,343)	(1,267,629)
2015	(1,123,111)	(1,143,396)
2016	(991,787)	(1,012,073)
2017	(856,356)	(876,641)
2018	(708,447)	(728,733)
2019	(542,210)	(562,495)
2020	(374,926)	(395,211)

**Open interest rate contracts as at December 31st 2013:**

Type of contract	Contract execution period	Period	Notional amount (USD '000)	Company pays	Company receives	Financial assets (PLN '000)	Financial liabilities (PLN '000)
Interest rate swap (IRS)	Mar 2009–May 2009	Jul 2011–Jan 2018	200,000	3.33% - 4.045%	6M LIBOR	-	(70,543)
Interest rate swap (IRS)	Mar 2012	Jan 2015–Jan 2019	50,000	2.476%	3M LIBOR	-	(1,720)
<b>Total</b>						<b>-</b>	<b>(72,263)</b>

**Open interest rate contracts as at December 31st 2012:**

Type of contract	Contract execution period	Period	Notional amount (USD '000)	Company pays	Company receives	Financial assets (PLN '000)	Financial liabilities (PLN '000)
Interest rate swap (IRS)	Sep 2008–May 2009	Oct 2008–Jan 2018	600,000	3.33% - 4.22%	6M LIBOR	-	(141,756)
Interest rate swap (IRS)	Mar 2012	Jan 2015–Jan 2019	50,000	2.476%	3M LIBOR	-	(6,251)
Interest rate swap (IRS)	Sep 2008	Jan 2009–Jan 2013	(100,000)	6M LIBOR	4.0%	11,318	-
<b>Total</b>						<b>11,318</b>	<b>(148,007)</b>

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**Total interest rate position as at December 31st 2013:**

Period	Underlying position (USD'000)	Fixed interest rate facilities (USD'000)	Contract position (USD'000)	Variable interest rate deposits (USD'000)	Total position (USD'000)	Hedge ratio
2014	(1,497,343)	342,014	200,000	88,926	(866,403)	42%
2015	(1,123,111)	307,950	250,000	91,598	(473,563)	58%
2016	(991,787)	271,942	250,000	99,822	(370,023)	63%
2017	(856,356)	234,807	250,000	102,094	(269,455)	69%
2018	(708,447)	194,252	50,000	114,982	(349,213)	51%
2019	(542,210)	148,670	-	117,133	(276,407)	49%
2020	(374,926)	102,802	-	109,312	(162,812)	57%

**Total interest rate position as at December 31st 2012:**

Period	Underlying position (USD'000)	Fixed interest rate facilities (USD'000)	Contract position (USD'000)	Variable interest rate deposits (USD'000)	Total position (USD'000)	Hedge ratio
2013	(1,757,021)	376,656	200,000	72,300	(1,108,065)	37%
2014	(1,267,629)	347,576	200,000	89,935	(630,118)	50%
2015	(1,143,396)	313,512	250,000	90,750	(489,134)	57%
2016	(1,012,073)	277,504	250,000	97,926	(386,643)	62%
2017	(876,641)	240,369	250,000	98,837	(287,435)	67%
2018	(728,733)	199,814	50,000	111,556	(367,363)	50%
2019	(562,495)	154,233	-	114,608	(293,654)	48%
2020	(395,211)	108,364	-	111,076	(175,771)	56%

### 32.4.1 Market risk sensitivity analysis: fluctuations in interest rates

Below is presented an analysis of the Group's sensitivity to interest rate risk as at December 31st 2013, assuming a 0.2% change in interest rates:

Dec 31 2013	Note	Carrying amount	Change	
			+0.2%	-0.2%
PLN '000				
<b>Classes of financial instruments</b>				
<b>Financial assets</b>				
Cash and cash equivalents	20	503,686	1,007	(1,007)
Other financial assets:		284,486	569	(569)
<i>Oil and Gas Facility Decommissioning Fund</i>	18	29,866	60	(60)
<i>Deposits</i>	18	29,653	59	(59)
<i>Security deposits (margins)</i>	18	11,029	22	(22)
<i>Cash blocked in bank accounts</i>	18	213,938	428	(428)
<b>Total</b>		<b>788,172</b>	<b>1,576</b>	<b>(1,576)</b>
<b>Financial liabilities</b>				
Borrowings	27.1	5,862,115	9,663 <sup>(1)</sup>	(9,663) <sup>(1)</sup>
Notes	27	198,240	396	(396)
Finance lease liabilities	27.3	151,031	302	(302)
Derivative financial instruments <sup>(1)</sup>	28	72,263	(6,017)	6,081
<b>Total</b>		<b>6,283,649</b>	<b>4,344</b>	<b>(4,280)</b>

<sup>(1)</sup> Net of fixed interest borrowings and paid front-end fees reducing liabilities under borrowings.

<sup>(2)</sup> Interest rate swap (IRS). The difference between the change in the valuation amount, when the interest rate curve moves up or down 0.2%, arises at the time of discounting future cash flows (relating to the contract settlement) as at the valuation date. Discounting takes place at different interest rates (in the first case the interest rate curve is moved up 0.2%, in the second case the curve is moved down 0.2%).

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Below is presented an analysis of the Group's sensitivity to interest rate risk as at December 31st 2012, assuming a 0.2% change in interest rates:

Dec 31 2012	Note	Carrying amount	Change	
			+0.2%	-0.2%
PLN '000				
<b>Classes of financial instruments</b>				
<b>Financial assets</b>				
Derivative financial instruments <sup>(1)</sup>	28	11,318	(1)	1
Cash and cash equivalents	20	268,333	537	(537)
Other financial assets:		161,207	322	(322)
<i>Oil and Gas Facility Decommissioning Fund</i>	18	27,481	55	(55)
<i>Deposits</i>	18	122,563	245	(245)
<i>Security deposits (margins)</i>	18	11,163	22	(22)
<b>Total</b>		<b>440,858</b>	<b>858</b>	<b>(858)</b>
<b>Financial liabilities</b>				
Borrowings	27.1	6,390,591	10,490 <sup>(2)</sup>	(10,490) <sup>(2)</sup>
Finance lease liabilities	27.3	166,109	332	(332)
Derivative financial instruments <sup>(1)</sup>	28	148,007	(7,693)	7,792
<b>Total</b>		<b>6,704,707</b>	<b>3,129</b>	<b>(3,030)</b>

<sup>(1)</sup> Interest rate swap (IRS). The difference between the change in the valuation amount, when the interest rate curve moves up or down 0.2%, arises at the time of discounting future cash flows (relating to the contract settlement) as at the valuation date. The cash flows are discounted at different interest rates (in the first case the interest rate curve is moved up 0.2%, in the second case the curve is moved down 0.2%).

<sup>(2)</sup> Net of fixed interest borrowings and paid front-end fees reducing liabilities under borrowings.

In the case of derivative financial instruments, for the purpose of interest rate sensitivity analysis the interest rate curve is moved up or down by a hypothetical change in reference interest rates (3M LIBOR, 6M LIBOR). This sensitivity analysis has been performed with reference to the balance of instruments held as at December 31st 2013 and December 31st 2012. The effect of the interest rate changes on the fair value has been examined assuming that the currency exchange rates remain unchanged.

### 32.5 Liquidity risk

The liquidity risk management process at the Group consists in monitoring projected cash flows and the portfolio of financial assets and liabilities, matching maturities of the assets and liabilities, analysing working capital, and optimising cash flows within the Group. This process requires that units operating in different business areas closely cooperate in activities undertaken in order to ensure safe and effective allocation of the liquidity.

In 2012, the Group implemented real cash-pooling services for most of its Polish subsidiaries, whereby the Parent manages on an on-going basis the structure comprising the subsidiaries covered by the cash-pooling services to optimise liquidity and interest balances.

In the period covered by the budget, liquidity is monitored on an ongoing basis across the Group as part of the financial risk management. In the mid- and long term, it is monitored as part of the planning process, which helps to develop a long-term financial strategy.

In the area of financial risk, in addition to active management of market risk, the Group observes the following liquidity management rules:

- no margins in derivatives trading on the OTC market,
- limited possibility of early termination of financial transactions,
- limits for low-liquidity spot financial instruments,
- credit limits for counterparties in financial and trade transactions,
- adequate quality and diversification of available financing sources,
- internal control processes and organisational efficiency facilitating prompt contingency response.

Below is presented an information on the contractual maturities of financial liabilities as at December 31st 2013 and December 31st 2013.

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**Contractual maturities of financial liabilities as at December 31st 2013:**

<b>Dec 31 2013</b>								
PLN '000	Note	Carrying amount	Contractual cash flows	Up to 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Borrowings (other than overdraft facilities)	27.1	5,363,201	5,674,778	969,472	462,779	501,883	1,774,901	1,965,743
Overdraft facilities	27.1	498,914	498,914	498,914	-	-	-	-
Notes	27	198,240	198,485	-	15,060	15,060	168,365	-
Finance lease liabilities	27.3	151,031	191,646	18,032	16,962	33,213	89,623	33,816
Trade payables	30	2,396,086	2,396,086	2,394,530	1,556	-	-	-
Other financial liabilities	30	200,690	200,690	131,576	68,879	235	-	-
<b>Total</b>		<b>8,808,162</b>	<b>9,160,599</b>	<b>4,012,524</b>	<b>565,236</b>	<b>550,391</b>	<b>2,032,889</b>	<b>1,999,559</b>

**Contractual maturities of financial liabilities as at December 31st 2012:**

<b>Dec 31 2012</b>								
(restated)								
PLN '000	Note	Carrying amount	Contractual cash flows	Up to 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Borrowings (other than overdraft facilities)	27.1	5,857,893	6,125,075	1,371,533	368,530	499,013	1,340,723	2,545,276
Overdraft facilities	27.1	532,698	532,698	532,698	-	-	-	-
Finance lease liabilities	27.3	166,109	229,246	19,342	17,452	34,325	100,488	57,639
Trade payables	30	2,174,451	2,174,451	2,173,656	795	-	-	-
Other financial liabilities	30	254,436	254,436	239,569	13,663	509	695	-
<b>Total</b>		<b>8,985,587</b>	<b>9,315,906</b>	<b>4,336,798</b>	<b>400,440</b>	<b>533,847</b>	<b>1,441,906</b>	<b>2,602,915</b>

(This is a translation of a document originally issued in Polish)

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***Maturities of derivative financial instruments as at December 31st 2013:***

Dec 31 2013 PLN '000	Note	Carrying amount*	Contractual cash flows	Up to 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Commodity swap	28	736	736	409	327	-	-	-
Currency forward and spot contracts		33,907	41,180	24,229	16,951	-	-	-
Interest rate swap (IRS)		(72,263)	(73,301)	(20,446)	1,055	(17,772)	(33,866)	(2,272)
Currency swap		37,402	43,863	29,416	14,447	-	-	-
<b>Total</b>		<b>(218)</b>	<b>12,478</b>	<b>33,608</b>	<b>32,780</b>	<b>(17,772)</b>	<b>(33,866)</b>	<b>(2,272)</b>

***Maturities of derivative financial instruments as at December 31st 2012:***

Dec 31 2012 PLN '000	Note	Carrying amount*	Contractual cash flows	Up to 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Commodity swap	28	(292)	(291)	(24)	(267)	-	-	-
Futures (CO <sub>2</sub> emissions)**		(3,787)	(3,787)	-	(2,494)	(1,293)	-	-
Currency forward and spot contracts		64,291	75,811	68,656	7,155	-	-	-
Interest rate swap (IRS)		(136,689)	(138,662)	(51,223)	1,543	(19,147)	(50,271)	(19,564)
Currency swap		18,486	25,463	23,790	1,673	-	-	-
<b>Total</b>		<b>(57,991)</b>	<b>(41,466)</b>	<b>41,199</b>	<b>7,610</b>	<b>(20,440)</b>	<b>(50,271)</b>	<b>(19,564)</b>

\* Carrying amount (positive fair value of derivative financial instruments less negative fair value of derivative financial instruments) represents the fair value of derivative financial instruments disclosed in the statement of financial position \*\* Carrying amount of futures (CO<sub>2</sub> emissions) as at December 31st 2012 excludes open CER futures purchased to be used for the settlement through physical delivery.



### 32.6 Credit risk

Management of credit risk related to counterparties in financial transactions consists in the verification of creditworthiness of the current and potential counterparties and monitoring of credit exposure against the granted limits. Credit exposure includes bank deposits and derivatives measurement.

The counterparties must have an appropriate credit rating assigned by leading rating agencies, or hold guarantees from institutions meeting the minimum rating requirement. The Group enters into financial transactions with reputable firms with sound credit standing, and diversifies the group of institutions with which it maintains relationship.

As at December 31st 2013, the concentration of credit risk exposure to any single counterparty in financial transactions of the Group did not exceed PLN 249,010 thousand (3.49% of the Parent's equity), while at December 31st 2012 the amount was PLN 153,189 thousand (2.17% of the Parent's equity). For information on the structure of the Group's borrowings by lender see Note 27.1.

As regards management of counterparty risk in non-financial transactions, all customers who request trading on credit terms are subject to credit assessment, whose results determine the level of possible credit limits. The Parent defines guidelines for managing counterparty risk in non-financial transactions to ensure that appropriate standards of credit analysis and operational security are observed across the entire Group.

As at December 31st 2013, concentration of risk with any single business partner of the Group did not exceed PLN 161,066 thousand (2.26% of the Company's equity).

Credit risk is measured by the maximum exposure to risk of individual classes of financial assets. Carrying amounts of financial assets represent the maximum credit risk exposure.

Maximum financial assets credit risk exposures as at the end of the reporting period:

PLN '000	Note	Dec 31 2013	Dec 31 2012 (restated)
Derivative financial instruments	28	73,935	121,334
Trade receivables	18	1,594,746	1,632,837
Cash and cash equivalents	20	503,686	268,333
Other financial assets:	18	379,378	259,673
<b>Total</b>		<b>2,551,745</b>	<b>2,282,177</b>

In the Management Board's opinion, the risk related to non-performing financial assets is reflected in the recognised impairment losses. For information on impairment of financial assets, see Notes 9.4 and 18.1.

For information on concentrations of trade receivables credit risk, see Note 18.1.

For aging analysis of receivables past due but not impaired, see Note 18.1.

### 33. Capital management

The objective of the LOTOS Group financial policy is to maintain long-term liquidity, while using an appropriate level of financial leverage to support the achievement of the principal objective of maximising the return on equity for shareholders.

This is achieved through constant effort to develop the desired capital structure at the Group level.

The LOTOS Group uses the debt to equity ratio, calculated as net debt to equity, to monitor its financing structure.

Net debt comprises borrowings, other debt instruments and finance lease liabilities less cash and cash equivalents. Equity includes equity attributable to owners of the Parent plus non-controlling interests.

**THE LOTOS GROUP**  
**Consolidated financial statements for 2013**  
**Notes to the financial statements**

PLN '000	Note	Year ended Dec 31 2013	Year ended Dec 31 2012
Non-current borrowings	27.1	4,183,624	4,315,599
Current borrowings	27.1	1,678,491	2,074,992
Notes	27	198,240	-
Lease liabilities	27.3	151,031	166,109
Cash and cash equivalents	20	(503,686)	(268,333)
<b>Net debt</b>		<b>5,707,700</b>	<b>6,288,367</b>
Equity attributable to owners of the Parent		9,189,307	9,065,725
Non-controlling interests		289	699
<b>Total equity</b>		<b>9,189,596</b>	<b>9,066,424</b>
<b>Net debt to equity</b>		<b>0.62</b>	<b>0.69</b>

The figures for the year ended December 31st 2012 have changed in relation to the figures contained in the financial statements published for the previous period as a result of inclusion of lease liabilities in the calculations of net debt.

The Company monitors its financing structure in order to achieve the goal set in the Strategy for the LOTOS Group for the years 2011–2015, that is to reduce debt in order to achieve a debt to equity ratio of no more than 0.4 at the end of the Strategy term.

#### 34. Carbon dioxide (CO<sub>2</sub>) emission allowances

The below presented amounts of CO<sub>2</sub> emission allowances for 2013–2020 are based on the draft regulations prepared by the Ministry of the Environment. On February 26th 2014, the European Commission approved the limits of free allocations of carbon dioxide emission allowances for 2013–2020.

Number of free CO<sub>2</sub> emission allowances for 2013–2020 and actual CO<sub>2</sub> emissions:

in thousand tonnes	2013	2014	2015	2016	2017	2018	2019	2020	Total
Allowances allocated under the National Allocation Plan <sup>(1)</sup>	1,567	1,543	1,509	1,471	1,436	1,403	1,369	1,328	11,626
Actual CO <sub>2</sub> emissions <sup>(2)</sup>	1,745	-	-	-	-	-	-	-	1,745

<sup>(1)</sup> Projected volumes of free CO<sub>2</sub> emission allowances for 2013–2020 under the National Allocation Plan prepared by the National Centre for Emissions Balancing and Management, taking into account the cross-sectoral correction factor referred to in the Commission Decision 2013/448/EU. The European Commission approved draft specifications prepared by Poland, including lists of installations and the initial allocation volumes, thus providing the basis for further legislation work at the national level, aimed at efficiently passing the allowances over to Polish enterprises.

<sup>(2)</sup> CO<sub>2</sub> emissions calculated on the basis of production data for installations included in the emissions trading system, in accordance with the report of January 10th 2014 presenting data as at December 31st 2013. The data will be subject to verification in accordance with Art. 59 of the Act on Trading in Greenhouse Gas Emission Allowances of April 28th 2011.

In addition, some of the Group companies have unused free CO<sub>2</sub> emission allowances allocated for 2008–2012 under the National Allocation Plan; the aggregate amount of these allowances is 143 thousand tonnes, and they may be used to cover the emissions in 2013–2020.

As at December 31st 2013, considering the proposed amount of allowances to be allocated under the European Union Emissions Trading Scheme for 2013 and the actual volume of emissions, the Group reported a deficit of allocated CO<sub>2</sub> emission allowances, and therefore a PLN 1,527 thousand provision was recognised in its financial statements. Moreover, to cover the 2013 deficit, the Group acquired CO<sub>2</sub> emission allowances valued at PLN 23,430 thousand, which were disclosed in its statement of financial position under *Other intangible assets* (see Note 15).

As at December 31st 2012, the Company recognised a liability of PLN 954 thousand related to the purchase cost. The emissions limit for 2012 was set at 1,989 thousand tonnes (1,228 thousand tonnes under the National Allocation Plan and 761 thousand tonnes allocated by the Marshal of the Gdańsk Province), whereas the actual CO<sub>2</sub> emissions totalled 2,033 thousand tonnes.

The Group's total allocation of CO<sub>2</sub> emission allowances for the years 2008–2012 was 7,781 thousand tonnes (6,126 thousand tonnes under the National Allocation Plan and 1,655 thousand tonnes allocated by the Marshal of the Gdańsk Province), whereas its actual CO<sub>2</sub> emissions in the years 2008–2012 totalled 7,551 thousand tonnes.

For information on the risk related to prices of CO<sub>2</sub> emission allowances, see Note 32.2.

### **35. Contingent liabilities and assets**

#### **35.1 Material court, arbitration or administrative proceedings and other risks of the Parent or its subsidiaries**

##### **Material court proceedings instigated against Grupa LOTOS S.A.**

###### **Proceedings brought by PETROECCO JV Sp. z o.o. seeking compensation for losses incurred as a result of monopolistic practices**

On February 22nd 2013, the court dismissed in its entirety an action brought by PETROECCO JV Sp. z o.o. against the Company whereby it sought a court decision on the awarding of PLN 6,975 thousand, plus statutory interest from May 1st 1999, as compensation for losses incurred as a result of the Company's monopolistic practices, which involved selling BS base oils in a manner favouring customers whose orders were filled to a disproportionately large extent than the orders of PETROECCO JV Sp. z o.o. On June 26th 2013, PETROECCO JV Sp. z o.o. appealed against the decision. As at the date of approval of these financial statements, the case was pending.

As the risk of an unfavourable outcome of the case was limited, Grupa LOTOS S.A. did not recognise any provisions for potential liabilities related to the case. By virtue of its ruling of February 22nd 2013, the court awarded PLN 57.6 thousand to Grupa LOTOS S.A. as reimbursement of the costs of proceedings.

###### **Tax settlements**

Tax settlements and other regulated areas of activity (e.g. customs or foreign exchange control) are subject to inspection by competent authorities, which may impose high penalties and sanctions. As the legislation regulating such matters in Poland is relatively new, it is often ambiguous and inconsistent. Differing interpretations of tax legislation are common, both among governmental authorities and government and business, leading to uncertainty and conflicts. Tax settlements may be subject to tax inspection for a period of five years from the end of the calendar year in which the tax payment was made. As a result of such inspections, additional tax liabilities may be assessed with respect to the tax settlements made by the Company.

##### **Court proceedings instigated by or against Group companies**

###### **WANDEKO vs. LOTOS Paliwa Sp. z o.o.**

Court proceedings are pending against LOTOS Paliwa Sp. z o.o., instigated by Mr Andrzej Wójcik conducting business as WANDEKO. On October 28th 2009, the Regional Court of Gdańsk, 9th Commercial Division, issued a default judgment awarding PLN 1,921 thousand plus contractual interest from the company to the plaintiff. In 2009, LOTOS Paliwa Sp. z o.o. recognised a PLN 15,318 thousand provision for the court-awarded amount plus interest. The company appealed against the judgment by lodging an objection to the default judgment with the Regional Court of Gdańsk on November 10th 2009. By virtue of its decision of December 28th 2010, the Court of Appeals dismissed Mr Andrzej Wójcik's complaint against the decision issued by the Regional Court of Gdańsk refusing to reverse the decision to lift the court order making the default judgment immediately enforceable, and awarded reimbursement of the cost of the proceedings to LOTOS Paliwa Sp. z o.o. In the reporting period ended December 31st 2013, following earlier decisions rendered in the case by the Regional Court in Gdańsk and the Court of Appeals in Gdańsk, the Court Enforcement Officer issued a decision reversing the earlier seizure of receivables from LOTOS Paliwa Sp. z o.o.'s bank account in the amount of PLN 18,320 thousand, which had been established to secure the plaintiff's claims in 2009. Accordingly, the Group ceased to disclose that amount as Cash blocked in bank accounts under Current financial assets, as it had done in the 2012 financial statements (see Note 18).

The most recent hearing in the case was held on November 13th 2013. The court decided that the next hearing would take place after an expert opinion is obtained on the quality of work performed by WANDEKO for LOTOS Paliwa Sp. z o.o. As at the date of approval of these consolidated financial statements, the case was pending. As at December 31st 2013, LOTOS Paliwa Sp. z o.o. recognised a provision (see Note 30.1) for the court-awarded amount plus interest, as specified above.

###### **Proceedings involving LOTOS Gaz S.A. w likwidacji (in liquidation)**

On July 23rd 2009, the District Court for Kraków-Śródmieście in Kraków declared KRAK-GAZ Sp. z o.o.'s bankruptcy by liquidation of assets. The company's estate is managed by a bankruptcy administrator. On September 24th 2009, LOTOS Gaz S.A. w likwidacji (in liquidation) lodged its claims in the proceedings. On March 13th 2012, the judge commissioner conducting the bankruptcy proceedings of KRAK-GAZ Sp. z o.o. issued a decision recognising the claims of LOTOS Gaz S.A. w likwidacji (in liquidation) for a total amount of PLN 23,695 thousand, including a principal of PLN 21,435 thousand, and acknowledged that claims of PLN 21,132 thousand were secured with mortgages. The decision is final. The bankruptcy administrator submitted a separate plan of distribution of the proceeds from sale of real property, but due to objections and contentions raised by the parties, the plan has not yet been approved by the judge commissioner. As at the date of approval of these consolidated financial statements, the bankruptcy proceedings were pending and did not affect the current consolidated financial statements.

*Proceedings involving a LOTOS Petrobaltic Group company*

**Agreement signed by LOTOS Exploration and Production Norge AS**

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

On March 12th 2013, Talisman (the YME field operator) and SBM (the owner of the MOPU) announced that an agreement was reached to terminate all existing contracts and agreements executed by the parties in connection with the YME project and remove the MOPU from the YME field. Under the agreement, SBM paid USD 470m to the joint venture partners. On behalf of the licence holders, Talisman agreed to make the necessary preparations, remove the MOPU from the field and transport it to the handover point. SBM agreed to be responsible for towing and scrapping the unit onshore. Following completion of certain works, the ownership of elements of the YME field in situ subsea infrastructure delivered by SBM will be transferred to the consortium members, who will be required to perform reclamation (and disassembly) activities related to the infrastructure after the end of the production phase. The parties will cover the costs of decommissioning work as set out in the agreement. The agreement was approved by all partners in the YME licence, including LOTOS E&P Norge AS. It includes an arrangement concerning termination of all pending arbitration proceedings (between SBM and Talisman and the other YME licence holders).

In accordance with the provisions of the agreement with SBM, USD 12.22m has been paid to LOTOS E&P Norge AS's bank account by March 31st 2013. The payment represented a part of LOTOS E&P Norge AS's 20% interest in the amount of USD 470m, paid by SBM to the consortium members. The balance of the Group's share in the amount due to the consortium members under the agreement, that is USD 81.78m, was transferred to the escrow account of the YME project, and will be gradually released to finance works connected with the removal of the MOPU and infrastructure from the field, as defined in the agreement. As at December 31st 2013, the cash deposited in the escrow account, denominated in the presentation currency, was recognised in the statement of financial position as Cash blocked in bank accounts under Other non-current/current financial assets in the amounts of PLN 110,378 thousand / PLN 103,559 thousand, respectively (see Note 18). Also, the Group recognised a provision for future costs of the MOPU removal and disassembly of the installed assets under non-current and current portions of *Other liabilities and provisions* in non-current portion in amount of PLN 53,136 thousand and in current portion in the amount of PLN 143,183 thousand (see Note 30.1, *Estimated costs of removal of the MOPU from the YME field*).

On December 4th 2013, Talisman and Excalibur Maritime Contractors („EMC”) entered into an agreement to remove the Mobile Offshore Production Unit (MOPU) from the YME field. On February 5th 2014, Talisman notified LOTOS E&P Norge AS of the execution of an agreement between EMC and Single Buoy Moorings Inc. ("SBM") for the transport of the MOPU. The above-specified provisions comprise the liabilities under the agreement to remove the MOPU, which are attributable to LOTOS E&P Norge AS.

**Proceedings involving LOTOS Petrobaltic S.A.**

On March 11th 2013, LOTOS Petrobaltic S.A. received the final pre-court payment notice for approximately GBP 6.5m from AGR Subsea Ltd. ("AGR"). The claim concerns AGR's remuneration for performance of an agreement to unearth the legs of the Baltic Beta platform. LOTOS Petrobaltic S.A. questioned the amount demanded by AGR as remuneration for the services. In the course of negotiations, LOTOS Petrobaltic S.A. has proposed to pay PLN 16m (the equivalent of GBP 3.2m, translated at the mid rate quoted by the National Bank of Poland for December 31st 2012) to AGR under the claim. The dispute concerns the nature of the contract, the reasons behind its delayed and incomplete performance, as well as whether LOTOS Petrobaltic S.A. had grounds to terminate the contract and demand reimbursement of costs incurred for replacement contractors hired by LOTOS Petrobaltic S.A. to complete the work. AGR Subsea Ltd. did not accept the settlement and brought the case to court. On November 4th 2013, the company received a claim brought by AGR for payment of GBP 6.5m. Moreover, on October 31st 2013, LOTOS Petrobaltic S.A. filed a claim against AGR to the Regional Court of Gdańsk for payment of GBP 5.6m to cover the costs of hiring the replacement contractors.

Given the complex nature of the dispute, it is difficult to assess the risk arising in relation to the court proceedings, as if the judgment is unfavourable to a given party, that party may have to incur additional expenses related to the proceedings, including costs of legal representation and costs of enforcement.

As at December 31st 2013, no liability towards AGR Subsea Ltd. was recognised by the Group in these consolidated financial statements.

**35.2 Other contingent liabilities**

- As at December 31st 2013, 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.
- An unconditional and irrevocable guarantee issued by LOTOS Petrobaltic S.A. for the benefit of the government of Norway on June 17th 2008, concerning the activities of LOTOS Exploration and Production Norge AS related to its exploration and production operations on the Norwegian Continental Shelf, was effective as at December 31st 2013 and December 31st 2012. 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 the exploration for and extraction of natural resources from the sea bottom, including their storage and transport using means of transport other than ships.

### 36. Related parties

#### 36.1 Related-party transactions

PLN '000	Year ended Dec 31 2013	Year ended Dec 31 2012
<b>Jointly-controlled entities</b>		
Sale	19,983	6,831
Purchases	516	35,702
In-kind contribution	51,700 <sup>(1)</sup>	-

<sup>(1)</sup> LOTOS Petrobaltic S.A., as the other limited partner in Baltic Gas Sp. z o.o. i wspólnicy sp. k., increased its equity interest in the partnership in exchange for contributions, including an in-kind contribution in the form of non-current assets related to B-4 and B-6 fields, see Note 2.

In 2013, the Group made sale transactions primarily with LOTOS - Air BP Polska Sp. z o.o. (executed subsequently to the loss of control over the company, see Note 2). The transactions involved sales of aviation fuel. The value of the sales stood at PLN 19,533 thousand.

In 2012, the Group mainly purchased crude oil from UAB Manifoldas (transactions executed prior to the acquisition of control over UAB Manifoldas on November 28th 2012, as discussed in Note 2 to the 2012 consolidated financial statements). The value of the purchases stood at PLN 34,651 thousand.

PLN '000	Note	Dec 31 2013	Dec 31 2012
<b>Jointly-controlled entities</b>			
Receivables	18	16,657	2,507
Payables	30	207	138

As at December 31st 2013, the Group disclosed mainly receivables from LOTOS - Air BP Polska Sp. z o.o. in the amount of PLN 16,321 thousand (December 31st 2012: UAB Minijos Nafta).

#### 36.2 Group's controlling entity

As at December 31st 2013 and December 31st 2012, the State Treasury held a 53.19% interest in Grupa LOTOS S.A. In 2013 and 2012, no transactions were concluded between Grupa LOTOS S.A. and the State Treasury.

##### 36.2.1 Transactions with related entities over which the State Treasury has control, joint control or significant influence

In 2013, the Group executed transactions with parties related to it through the State Treasury. The aggregate value of the transactions was material. They were concluded at arm's length in the course of the Group's day-to-day business and involved mainly sale of fuels, sale and purchase of storage services, purchase of transport services, energy, natural gas and other fuels. In 2013, the value of sales generated under the transactions totalled PLN 353,978 thousand (2012: PLN 797,327 thousand), with the value of purchases standing at PLN 1,649,885 thousand (2012: PLN 1,337,438 thousand).

### 36.3 Remuneration of members of the Management and Supervisory Boards, along with information on loans and other similar benefits granted to members of the management and supervisory staff

*The remuneration paid to members of the Company's Management and Supervisory Boards was as follows:*

PLN '000	Year ended Dec 31 2013	Year ended Dec 31 2012
<b>Management Board</b>		
Short-term employee benefits (salaries and wages), including:	1,580	1,404
- annual bonus paid	249 <sup>(1)</sup>	249 <sup>(2)</sup>
- length-of-service awards (jubilee benefits)	41	-
<b>Management Board – subsidiaries <sup>(3)</sup></b>		
Short-term employee benefits (salaries)	3,562	3,104
<b>Supervisory Board</b>		
Short-term employee benefits (salaries and wages)	246	242
<b>Total <sup>(4)</sup></b>	<b>5,388</b>	<b>4,750</b>

<sup>(1)</sup> Remuneration paid in 2013 on account of annual bonus for 2012.

<sup>(2)</sup> Remuneration paid in 2012 on account of annual bonus for 2011.

<sup>(3)</sup> Remuneration paid to members of the Company's Management Board for serving in corporate bodies of direct and indirect subsidiaries.

<sup>(4)</sup> The amount reflects changes in the composition of the Company's Management Board (increased number of members) and Supervisory Board.

#### *Other employee benefits*

PLN '000	Dec 31 2013	Dec 31 2012
<b>Management Board</b>		
Post-employment benefits, length-of-service awards and other benefits	522	570
Current liabilities under annual bonus <sup>(1)</sup>	311	249
<b>Total</b>	<b>833</b>	<b>819</b>

<sup>(1)</sup> Pursuant to the Act on Remunerating Persons Who Manage Certain Legal Entities (the Public Sector Salary Cap Act). Taking into account changes in the composition of the Company's Management Board (increased number of members).

In 2013 and 2012, the Company did not grant any loans or similar benefits to members of its management and supervisory staff. No other material transactions were concluded with members of the Company's Management and Supervisory Boards. Grupa LOTOS S.A. did not become aware of any transactions concluded with the Company or a company of the LOTOS Group by the spouses, relatives by blood or marriage in the direct line up to the second degree, of members of the Management and Supervisory Boards, or persons related to them through guardianship or adoption or other persons with whom they have personal relationships.

### 36.4 Remuneration paid or payable to other members of key management staff

*Remuneration paid to members of key management staff (other than members of the Management Board of Grupa LOTOS S.A.)*

PLN '000	Year ended Dec 31 2013	Year ended Dec 31 2012
Short-term employee benefits (salaries and wages), including:	30,187	30,205
- annual bonus paid	5,606 <sup>(1)</sup>	7,045 <sup>(2)</sup>

<sup>(1)</sup> Remuneration paid in 2013 on account of annual bonus for 2012.

<sup>(2)</sup> Remuneration paid in 2012 on account of annual bonus for 2011.

#### *Other employee benefits:*

PLN '000	Dec 31 2013	Dec 31 2012
Post-employment benefits, length-of-service awards and other benefits	8,886	7,457
Current liabilities under annual bonus	7,163	7,339
Loans and other similar benefits	6	16
<b>Total</b>	<b>16,055</b>	<b>14,812</b>

In 2013 and 2012, the Group did not provide any loans or similar benefits to members of its key management staff.

### 37. Material events after the reporting period

- On February 3rd 2014, the ownership of a new rig was transferred onto SPV Baltic Sp. z o.o. (a company of the LOTOS Petrobaltic Group), following the fulfilment of the conditions stipulated in the agreement of December 20th 2013, including the full payment of the price. The offshore rig may perform drilling in waters with a depth of up to 105 metres (350 feet); it will be used in the execution of LOTOS Petrobaltic S.A.'s exploratory projects in the Baltic Sea. As at December 31st 2013, the value of the contract was disclosed as the Group's future commitments under agreements related to expenditure on property, plant and equipment (see Note 13). The offshore rig reached Poland on February 26th 2014.



### 38. Approval of the consolidated financial statements

These consolidated financial statements were approved for publication by the Management Board on March 3rd 2014.

Signatures of the Management Board members and the person responsible for keeping the accounting books of Grupa LOTOS S.A.

President of the Management Board,  
Chief Executive Officer

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Paweł Olechnowicz

Vice-President of the Management Board,  
Chief Financial Officer

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Mariusz Machajewski

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

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Zbigniew Paszkowicz

Vice-President of the Management Board,  
Chief Operation Officer

---

Marek Sokołowski

Vice-President of the Management Board,  
Chief Commercial Officer

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Maciej Szozda

Chief Accountant

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Tomasz Południowski



# Useful information

# Glossary of industry terms

## A

### **ACEA**

European Automobile Manufacturers' Association; it establishes quality criteria for engine oils, applicable across Europe. ACEA European Oil Sequences 2008 are the published quality criteria for all engine oils on the European market, including the requirements to be met by engine oils for new cars. The document categorises oils and specifies all physical and chemical parameters, as well as engine tests for each quality category. ACEA requires that any claims for oil performance to meet the ACEA standards must be based on credible data and controlled tests in accredited test laboratories.

### **APC**

(Advanced Process Control) is a computerized manufacturing process control system in place in the Gdańsk Refinery since 2001. APC simultaneously controls a large number of technological process parameters at the industrial plant. With the help of this system, one can optimize the plant operations, increasing the yield of the desired products and keep the plant working safely.

### **ARA**

the market with its territory delineated by the ports of Antwerp – Rotterdam – Amsterdam.

### **Atmospheric distillation**

a physicochemical process used to separate component products of a mixture, using differences in the boiling point temperatures of individual components. In the process of atmospheric distillation, individual fractions of gases, benzene, paraffin and diesel oils become separated. Heavier hydrocarbons constitute so-called atmospheric remnants. Atmospheric distillation is a process carried out at a pressure close to atmospheric pressure.

### **Audit recertifying the Integrated Management System (renewal)**

an audit aimed at assessing the compliance of the management system with the requirements of the standards. A recertifying audit is carried out in the period determined by the certifying entity to extend the validity or issue a new IMS certificate.

# B

## **B3 Oil Field**

a marine natural gas and oil field located about 73 km north of Rozewie. In operation since 1992, it hosts the Marine Oil Mine (Morska Kopalnia Ropy). It is the main source of crude oil produced by LOTOS Petrobaltic.

## **B8 Oil Field**

a marine natural gas and oil field located about 68 km northeast of Rozewie.

## **B100**

B100 (fuels) - a determination of fuels produced solely from a biocomponent.

## **Barrel**

(of crude oil) - a primary unit of measure used in crude oil production. One barrel encompasses around 159 litres.

## **Base oil**

unrefined oil, without improvers, obtained in the processing of crude oil. It represents the base raw material in the manufacture of lubricant oils.

## **BAT**

Best Available Technique is, within the meaning of the definition contained in Directive 96/61/EC, the most effective and advanced stage in the development of activities and their methods of operation which indicate the practical suitability of particular techniques for providing in principle the basis for emission limit values designed to prevent, and where that is not practicable, generally to reduce emissions and their impact on the environment as a whole.

## **Biocomponent**

an additive used in fuel production made in biomass processing of e.g. oil plants or corn.

## **Biofuel**

fuel manufactured by adding more than 7% biocomponents to gasoline or diesel oil.

## **BREF**

(BAT Reference Notes) - BAT guidelines developed by the European IPPC (Integrated Pollution Prevention and Control) Bureau in Seville, Spain. They are not binding legal regulations, but guidelines to be followed in the assessment of applications for integrated permits and issuance of integrated permits.



## CD Process

(Continuous Deglycerolization Process) - a manufacturing process of fatty acid methyl esters used at the installation located in Czechowice-Dziedzice.

## CDU/VDU

(installation) - a basic installation system used for crude oil processing comprising a Crude Distillation Unit (CDU) and Vacuum Distillation Unit (VDU).

## Ceresin

product of deoiling of heavy slack waxes. Ceresin is a complex mixture of n-paraffin hydrocarbons with a solidification point of approximately 73°C. It may be used as feedstock in the production of lubricants, proofing and protective products in the chemical industry and, after a purifying process, in the cosmetics and pharmaceutical industries.

## CLP Regulation

Classification, Labelling and Packaging Regulation - regulation under which a new system for the classification, labelling and packaging of substances and mixtures has been implemented in the European Union, based on the Globally Harmonised System of Classification and Labelling of Chemicals created by the United Nations in 2003. The CLP Regulation supplements the REACH Regulation and replaces the system provided for in Directives 67/548/EEC and 1999/45/EC. The Regulation took effect on January 20th 2009 and is binding directly, without the need to be implemented into Polish law.

## CODO stations

(company-owned, dealer-operated) - stations owned by LOTOS Paliwa and managed by external companies.

## Component for bitumen production

usually a heavy vacuum distillate fraction obtained from crude oil, which can be further processed on the installation for bitumen manufacture.

## Confirmed resources

the volume of oil production that may be estimated based on geological analyses and engineering data with reasonable certainty as commercially available for production since a specific date, from the known deposit horizons and in specific economic conditions, using the defined operational methods and based on determined administrative regulations.

## Conversion

conversion processes usually involve technological cracking processes. In such processes, components with high boiling temperatures (heavy distillates) are used to manufacture light products used for fuel production. The most common conversion processes are thermal cracking, catalytic cracking and hydrocracking.

## Crude oil

naturally occurring liquid, recovered from beneath Earth's surface. It consists mainly of hydrocarbons with various molecular weights and various chemical structure with minor quantities of organic compounds of nitrogen, oxygen, sulphur and some other elements. Crude oil is a main feedstock for oil refineries and is processed towards fuels and other hydrocarbon based products.

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# D

## DAO

(De-Asphalted Oil) - oil produced with an SDA installation used as a raw material for further refining. It may be the basis for producing base oils or an input for a cracking process.

## DODO stations

(dealer-owned, dealer-operated) - stations operating under the logo of the Gdańsk Refinery under patronage contracts.

## DOFO stations

(dealer-owned, franchise-operated) - stations operating under the LOTOS brand within trading partnership under long-term franchise agreements.

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# E

## ETBE

(Ethyl Tert-Butyl Ether) - the name of a high-octane biocomponent used in gasoline production. It is manufactured in petrochemical complexes with ethanol and isobutylene.

## Ethanol

ethyl alcohol used e.g. as a biocomponent for producing fuels and biofuels used in cars with ignition engines.

## European Chemical Agency

the EC agency responsible for the implementation of the REACH (Registration, Evaluation and Authorisation of Chemicals) Regulation as regards the establishment and administration of a registration system, assessment of, issuance of authorisations for, and imposition of restrictions in the use of, chemical substances at the EU level. Its main task is to manage the database of chemicals submitted for registration: initial registration of a substance (the process already completed) and proper registration of a substance. Under the European Council's decision of 2004, the registered office of the European Chemicals Agency (ECHA) is located in Helsinki, Finland.

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# F

## **FAME**

(Fatty Acid Methyl Ester) - such esters are biocomponents used to manufacture fuels and biofuels for diesel engine vehicles. FAME is manufactured by the transesterification of oil with methanol in the presence of a catalyst.

## **Forties Blend**

a type of crude oil from the North Sea. Forties Blend is light petroleum with a low content of sulphur and a high potential in gasoline production.

## **Furfurol extraction**

a technology applied to increase the quality of base mineral oils. During the process unfavourable aromatic hydrocarbons are separated, which increases the so-called viscosity index.

# G

## **Gasoline isomerisation**

a refining process that creates a higher octane number of the gasoline fraction by changing the chemical structure of particles.

## **Gasoline natural gas**

natural gas that contains, apart from methane and ethane, a certain quantity of heavier hydrocarbons.

## **Gasoline reforming**

a refining process that involves a reaction with a catalyst creating high-octane aromatic hydrocarbons and hydrogen.

## **General nitrogen**

the content of nitrogen for nitrogen bound in all possible chemical forms.

# H

## HDS

(Hydrodesulphurisation Diesel Unit) - a system for the hydrodesulphurization of diesel oils.

## Heavy fuel oil

an oily liquid representing a residue from the distillation of crude oil. Heavy fuel oil finds its use in industrial installations of large manufacturing or processing facilities, as well as in combined power plants. It is also used as bunker fuel for ships.

## HGU

(Hydrogen Generation Unit) - a system for hydrogen production.

## Hydrocracking

a refining process used to produce high quality fuel components during the reaction of vacuum distillates with hydrogen with a catalyst. Hydrocracking processes usually take place at a very high pressure and provide components that are free of sulphur and contaminations.

## Hydrotreating (of slack wax)

a process of purifying paraffin during the reaction with hydrogen in a catalyst.

# I

## ISO

International Organization for Standardization.

# J

## Jet A1

aviation fuel for jet and turbine engines.

# K

## KAS

(installation) - an amine-sulphur complex of installations for purifying refining gases of hydrogen sulphide and for the production of liquid sulphur.

---

# L

## LCA

(Life Cycle Assessment) - the assessment of a product life aimed at determining the environmental impact (emission of greenhouse gases during individual stages of production, processing and transport). LCA also determines the environmental impact resulting from obtaining biomass, transport and its processing into biofuels vs. the impacts that occur in the life cycle of fossil fuels.

## Light fuel oil

a product obtained in crude oil processing characterized by a lower sulphur content and density than heavy heating oil. The light fuel oil is mainly used in household boiler rooms, in SMEs and institutions. It is also successfully used as the heating fuel in the boiler rooms of residential estates.

## LPG

(Liquefied Petroleum Gas) - a liquefied gas, being a mixture of propane and butane, obtained in the processing of crude oil. Among its other applications, LPG is used as engine fuel or as fuel for household gas stoves.

## LPG amine washing installation

a system for removing hydrogen sulphide from the liquid gas fractions.

## Lubricant oils

a composition of base oil and improvers. The quantity, type and relative proportions of these components are decisive for the class of the oil manufactured. Their main task is to reduce friction between the surfaces of the movable parts of mechanical devices that touch each other and work together. Lubricant oils are used in the automotive industry and for industrial applications.

---



# M

## Mechanical Completion (MC)

completing building-assembly work by signing a protocol between the ordering party and the contractor, which confirms that all work has been completed in compliance with the design and applicable regulations.

## MHC

(Mild Hydrocracking) - a hydrocracking installation that operates in slightly milder conditions than a standard hydrocracking system.

## Modified asphalts

asphalts characterized by improved quality parameters, thanks to the interaction between asphalt and an applied modifier.

## MTBE

(Methyl Tert-Butyl Ether) - a high-octane component used for gasoline production. Unlike ETBE, it is not a biocomponent.

# N

## Naphtha

a fluid fraction of crude oil composed of hydrocarbons whose particles contain 9-16 atoms of carbon. Naphtha can be processed into aviation fuel and diesel oils.

## National Index Target

a minimum share of biocomponents in the total volume of liquid fuels and liquid biofuels used during a calendar year in transport, calculated according to the caloric value.

# O

## Oil transesterification

a chemical reaction resulting in the formation of fatty acid methyl esters. The transesterification reaction of oils is a reaction of oil with methanol in the presence of a catalyst.

# P

## Paraffin

a mixture of solid saturated hydrocarbons, separated from the fractions of crude oil. It is used, among others, to manufacture candles, as a floor polish and as an insulation material.

## Paraffin fraction

unreacted oil from hydrocracking of a mixture of vacuum distillates and oil from the solvent de-asphalting process of heavy residue. Paraffin fraction is a mixture of n-paraffin, iso-paraffin and cyclic saturated hydrocarbons. It has a low sulphur content (below 100 mg/kg) and may be used as feedstock in the production of oil bases, or in catalytic cracking or hydrocracking yielding additional volumes of fuels.

## Plasticizers

plasticizing improvers added to polymer products. Grupa LOTOS manufactures hydrocarbon plasticizers for the rubber industry.

## Ppm

(parts per million) - a popular measuring method used to express the concentration of extremely diluted solutions of chemical compounds. This measure tells how many particles of a chemical compound are to be found among one million particles of the solution.

# R

## REACH

Regulation of the European Parliament and Council concerning the safe application of chemicals through their registration and assessment and in some cases granting commercial permits and restrictions as regards the application. It came into force on 1 June 2007 and replaces several dozen previous community legal acts, both regulations and directives introduced into Polish legislation with the Act of 11 January 2001 on chemical substances and preparations.

## Ready For Start Up (RFSU)

the condition of readiness for start-up achieved by the system (introduction of production media).

## REBCO

(Russian Export Blend Crude Oil) - a commercial name of Russian crude oil from the Ural.

## Red chemicals

are those which have pollution category Y and are on the list of chapter 17 of the IBC Code or on MEPC.2/Circ. currently in force. These chemicals deemed to present a hazard to marine resources or human health or cause harm to amenities or legitimate uses of the sea.

## Reformat

high-octane number component, with octane number of 96–100, used in the manufacture of engine gasolines. Reformat is a product of catalytic reforming of desulphurised naphta.

## ROSE

(Residual Oil Supercritical Extraction) - a technology used at the Gdańsk Refinery in the SDA installation.

# S

## SDA

(Solvent Deasphalting) - an installation used to separate vacuum remnants after crude oil processing into lighter fractions, i.e. deasphalted oil (DAO) and heavier fractions, namely a bitumen component.

## Shale gas

refers to natural gas that is trapped within shale formations. Shales are fine-grained sedimentary rocks that can be rich resources of petroleum and natural gas. Sedimentary rocks are rocks formed by the accumulation of sediments at the Earth's surface and within bodies of water. Common sedimentary rocks include sandstone, limestone, and shale.

## Slack wax

a semi-product received in crude oil processing. It is used to produce wax.

## Stakeholder

A person or entity interested in the operation of a firm and incurring various types of risks related to its business or the persons or entities that are affected by a firm through its activities. Unlike shareholders, who are primarily interested in the profits of the company, stakeholders include a much wider group, e.g. employees, customers, creditors, suppliers, government administration and, in a wider context, local communities, the natural environment and public opinion. The term was first introduced by the Stanford Research Institute in 1963.

## Stock ticket service

service consisting in the creation and maintenance of mandatory reserves of fuels on behalf of customers. A customer using the service meets the legal requirements without stocking its own fuels.

# T

## Troll Blend

a type of crude oil from the North Sea. The Troll Blend is an average crude oil with a low sulphur content and a high potential within the production of diesel oils.

# V

## **Vacuum distillate**

a fraction of hydrocarbons separated from a more complex mixture with distillation under a reduced atmospheric pressure. Vacuum distillates produced from crude oil are usually used to produce base oil, and also as input for cracking processes.

## **Vacuum distillation**

a process analogical to the process of atmospheric distillation, conducted, however, at a reduced ambient pressure. It uses a physical property, whereby the boiling point decreases as the ambient pressure is reduced. It makes it possible to separate vacuum distillates in the atmospheric residuals. Heavy remnants of the distillation process are so-called vacuum residuals.

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# Glossary of social terms

## B

### **Business ethics**

Taking account of the moral aspect in business, i.e. applying solutions that combine moral requirements with the strategic interests of a firm. Business ethics determines ethical standards of behaviour, norms and values as well as conduct in a business.

---

## C

### **Code of ethics**

A set of rules that regulate moral life. A code of ethics in business indicates specific 'behaviours' of an organization, in addition to general guidelines concerning reliability and integrity required in business and actions that are conducive to social development and not contradictory to moral standards and collective customs.

### **Corporate community involvement**

Involvement of a firm in social issues and participating in solutions of social problems. This concept is narrower than corporate social responsibility and it refers to different activities of a company in a community. It includes various forms of involvement, such as financial support, material assistance and voluntary work of employees. Community involvement makes a firm more reliable in the eyes of the general public and builds a positive image.

### **Corporate social responsibility**

The strategy that provides for a firm to take account voluntarily of social interests while trying to achieve its economic aims, taking decisions and actions. CSR includes the consideration for ethical rules, rights of employees and human rights as well as the social and natural environment. It is assumed that the corporate social responsibility should be an integral part of the business policy, together with its economic objectives.

### **Corporate volunteering**

This involves employees of a firm in voluntary work for social organizations. Employees (volunteers) perform various types of work for those in need, by using their skills and abilities and developing their talents in such areas. A firm supports its employees in such actions and, depending on its organizational culture, appoints employees to work as a volunteers during working time or provides material assistance or logistic and financial support.

---

# D

## Donation

A form of an agreement by which a donor undertakes to provide free-of-charge performance with its assets. A donation may be granted by individuals or corporations. The subject matter of the donation may include real properties, movables, money as well as rights or may involve free provision of services.

# G

## Global Compact

The world's largest initiative of the Secretary General of the United Nations for corporate responsibility and sustainable development. The Polish Global Compact Local Network is coordinated by the United Nations Development Programme (UNDP) Project Office. Since it was launched in 2000, over 9,000 members from 135 countries have joined the initiative. Global Compact calls on companies to embrace in their activities ten principles in the areas of: human rights, labor rights, environmental protection, counteracting corruption and promoting corporate social responsibility.

## GRI

The Global Reporting Initiative (GRI) is an independent institution with its seat in the Netherlands that develops and promotes so-called Sustainability Reporting Guidelines. GRI Guidelines are applied all over the world. They may be used by all companies that are ready to submit comprehensive reports on their economic, environmental and social activity. Since 2006, the third version of the GRI Guidelines applies, so-called G3. The organization has introduced a three-level system of applications: from the highest that includes the largest scope of revealed information, i.e. about 80 reporting indexes (A, A+), to the smallest, with less than 40 indexes (C, C+). A plus before each level means the external verification of the report by an independent certifying authority.

# H

## Human capital

Employees of a firm who contribute to its operation and development and have specific knowledge, skills and talents.

# L

## Local community

The group of people who live in the area and are connected by social bonds, common tradition and culture. A local community is formed by inhabitants of villages, towns, cities or municipalities.

---

# M

## Mission

A set of fixed aims and targets of a firm. It contains values that are upheld by the management board and are the basis for determining its actions. The mission determines the identity of a firm and its organizational culture.

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# N

## Non-governmental organization (NGO)

A voluntary organization that operates independently of state or political structures and whose operation is not profit oriented. It works for social issues and development. Its operation is based mostly on voluntary work.

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# O

## Organizational culture

Organizational cultureA set of standards, values, forms of behaviour, attitudes, premises and symbols that determine the mode of thinking and acting in a company and define standards of communication and conduct.

---



# S

## Social dialogue

The exchange of information and presentation of positions concerning social problems and issues between parties that may be public institutions, entrepreneurs or NGOs. It is a form of representing the interests of parties. The source of success is reliable information exchanged between the parties and cooperation.

## Social programme

Planned actions aimed at solving or counteracting a specific social problem. They may be implemented jointly or independently by public institutions, businesses or social organizations.

## Social report

A report issued by a firm that presents its whole strategy and social policy. It takes account of economic, social and ecological aspects of its operations.

## Sponsoring

Joint obligations of two parties – a sponsor and a sponsoree. A sponsor provides funds, material assistance or services to the sponsoree in return for promotion. Sponsoring is a planned and conscious act aimed at creating a positive image of a firm. It is often a part of the long-term marketing strategy of a business.

## Sustainable development

The path of social and economic development that is in harmony with the natural environment. The idea of sustainability provides for the skilful use of resources (social, human and natural), so that they can be used in the future.

# Table of Content of the GRI Performance Indicators and Global Compact Principles

The Table below can prove helpful in finding the exact place where specific information or result data required by the Global Reporting Initiative as well as resulting from the adoption and implementation of ten principles of the United Nations Global Compact by Grupa LOTOS has been published in the Report.

## Reporting application level indicators:

full   / partial   none

Global Reporting Initiative (GRI) Indicator	Reporting Application Level	Chapter of The 2013 Annual Report	Comments	Un Global Compact Principles	Assurance
Strategy and Analysis					
1.1. Statement from the most senior decision-maker of the organization about the relevance of sustainability to the organization and its strategy.		The Organization and its Report [1]	Value growth strategy [2]		
1.2. Description of key impacts, risks, and opportunities.		Risks and opportunities [1]	Value growth strategy [2]		
Organizational Profile					
2.1. Name of the organization.		The Organization and its Report [1]			
2.2. Primary brands, products, and/or services.		The Organization and its Report [1]	Value growth strategy [2] [3]		







2.3. Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	+	The Organization and its Report <a href="#">[1]</a>
2.4. Location of organization's headquarters.	+	The Organization and its Report <a href="#">[1]</a> Useful information <a href="#">[2]</a>
2.5. Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	+	The Organization and its Report <a href="#">[1]</a>
2.6. Nature of ownership and legal form.	+	The Organization and its Report <a href="#">[1]</a> <a href="#">[2]</a>
2.7. Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	+	The Organization and its Report <a href="#">[1]</a> Value growth strategy <a href="#">[2]</a>
2.8. Scale of the reporting organization.	+	The Organization and its Report <a href="#">[1]</a> <a href="#">[2]</a>
2.9. Significant changes during the reporting period regarding size, structure, or ownership.	+	The Organization and its Report <a href="#">[1]</a>
2.10. Awards received in the reporting period.	+	The Organization and its Report <a href="#">[1]</a> Useful information <a href="#">[2]</a>

## Report Parameters

### Report Profile

3.1. Reporting period.	+	The Organization and its Report <a href="#">[1]</a>
3.2. Date of most recent previous report.	+	The Organization and its Report <a href="#">[1]</a>
3.3. Reporting cycle.	+	The Organization and its Report <a href="#">[1]</a>
3.4. Contact point for questions regarding the	+	Useful information <a href="#">[1]</a>

report or its contents.

<p>3.5. Process for defining report content, including:</p> <ul style="list-style-type: none"> <li>• Determining materiality;</li> <li>• Prioritizing topics within the report; and</li> <li>• Identifying stakeholders the organization expects to use the report.</li> </ul>		<p>The Organization and its Report <a href="#">[1]</a> <a href="#">[2]</a></p>
<p>3.6. Boundary of the report (e.g. countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers).</p>		<p>The Organization and its Report <a href="#">[1]</a></p>
<p>3.7. State any specific limitations on the scope or boundary of the report.</p>		<p>The Organization and its Report <a href="#">[1]</a></p>
<p>3.8. Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.</p>		<p>The Organization and its Report <a href="#">[1]</a></p>
<p>3.9. Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report.</p>		<p>The Organization and its Report <a href="#">[1]</a></p>
<p>3.10. Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g. mergers/acquisitions, change of base years/periods, nature of business, measurement methods).</p>		<p>The Organization and its Report <a href="#">[1]</a></p>
<p>3.11. Significant changes from previous reporting</p>		<p>The Organization and its Report <a href="#">[1]</a></p>

periods in the scope,  
boundary, or  
measurement methods  
applied in the report.

## GRI Content Index

3.12. Table identifying the location of the Standard Disclosures in the report.	+	Table of GRI Content and Global Compact Principles
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## Assurance

3.13. Policy and current practice with regard to seeking external assurance for the report.	+	The Organization and its Report <a href="#">[1]</a> <a href="#">[2]</a>
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## Governance, Commitments, and Engagement

### Governance

4.1. Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight.	+	Corporate governance <a href="#">[1]</a> <a href="#">[2]</a> <a href="#">[3]</a>
4.2. Indicate whether the Chair of the highest governance body is also an executive officer.	+	Corporate governance <a href="#">[1]</a>
4.3. For organizations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members.	+	Corporate governance <a href="#">[1]</a> <a href="#">[2]</a>
4.4. Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	+	Corporate governance <a href="#">[1]</a>
4.5. Linkage between compensation for members of the highest governance body, senior managers, and executives (including	+	Corporate governance <a href="#">[1]</a> <a href="#">[2]</a>

departure arrangements), and the organization's performance (including social and environmental performance).

4.6. Processes in place for the highest governance body to ensure conflicts of interest are avoided.



Corporate governance [1] [2]

4.7. Process for determining the composition, qualifications, and expertise of the members of the highest governance body and its committees, including any consideration of gender and other indicators of diversity.



Corporate governance [1]

4.8. Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.



Value growth strategy [1]

4.9. Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.



Corporate governance [1]

4.10. Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.



Corporate governance [1]

## Commitments To External Initiatives

4.11. Explanation of whether and how the precautionary approach or principle is addressed by the organization.	+	Risks and opportunities [1] [2] [3]
4.12. Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses.	+	Value growth strategy [1]
4.13. Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization: <ul style="list-style-type: none"> <li>• Has positions in governance bodies;</li> <li>• Participates in projects or committees;</li> <li>• Provides substantive funding beyond routine membership dues;</li> <li>• Views membership as strategic.</li> </ul>	+	Value growth strategy [1]
<b>Stakeholder Engagement</b>		
4.14. List of stakeholder groups engaged by the organization.	+	Value growth strategy [1]
4.15. Basis for identification and selection of stakeholders with whom to engage.	+	Value growth strategy [1]
4.16. Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	+	Value growth strategy [1]
4.17. Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its	+	Value growth strategy [1] [2]

reporting.

## Management Approach and Performance Indicators

<b>Economy</b>	+	Value growth strategy [1]
<b>Environment</b>	+	Value growth strategy [1]
<b>Labor Practices &amp; Decent Work</b>	+	Value growth strategy [1] [2]
<b>Human Rights</b>	+	Value growth strategy [1] [2]
<b>Society</b>	+	Value growth strategy [1]
<b>Product Responsibility</b>	+	Value growth strategy [1]

## Performance Indicators

### Economic

#### Aspect: Economic Performance

EC1. Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community Investments, retained earnings, and payments to capital providers and governments.

+

Table of GRI Content and Global Compact Principles Value growth strategy [1] Statement of comprehensive income [2]

In 2013, Grupa LOTOS paid PLN 12,116,635 thousand in taxes to the Polish state (including corporate income tax, value added tax, excise tax, fuel charge and property tax), as compared to PLN 10,867,600 thousand in 2012.

In 2013, taxes (including corporate income tax, value added tax, excise tax, fuel charge and property tax) for the LOTOS Group paid to the states in which it operates amounted to PLN 12,572,829 thousand, against 11,362,086 thousand in 2012.

EC2. Financial

+

Risks and



implications and other risks and opportunities for the organization's activities due to climate change.

opportunities [1] [2]

EC3. Coverage of the organization's defined benefit plan obligations.



Value growth strategy [1]

EC4. Significant financial assistance received from government.



Table of GRI Content and Global Compact Principles Consolidated financial statements [1] [2] [3] [\(link\)](#)

#### Aspect: Market presence including local content

EC5. Range of ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation.



Value growth strategy [1]

EC6. Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.



Value growth strategy [1]

EC7. Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.



Value growth strategy [1]

#### Aspect: Indirect economic impacts

EC8. Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.



Value growth strategy [1]

EC9. Understanding and describing significant indirect economic impacts, including the extent of impacts.



Value growth strategy [1] [2]

#### Aspect: Reserves

OG1. Volume and type of estimated proved reserves and production.



Value growth strategy [1]

## Environment

### Aspect: Materials

EN1. Materials used by weight or volume.	+	Value growth strategy [1]	8	✓
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EN2. Percentage of materials used that are recycled input materials.	-	Table of GRI Content and Global Compact Principles	The specific operations of Grupa LOTOS allow us to use recycled products to only a marginal degree. Each LOTOS Group entity involved in the production business is required by law to submit used materials for recycling, through third-party Recovery Organizations. However, even under this framework, the potential for reuse of recycled products is negligible. The related GRI indicator is therefore not reported.	8	
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### Aspect: Energy

EN3. Direct energy consumption by primary energy source.		Value growth strategy [1]	8	✓
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OG2. Total amount invested in renewable energy.	-	Table of GRI Content and Global Compact Principles	LOTOS Group did not invest in renewable energies in 2013. This indicator is therefore not reported.	
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OG3. Total amount of renewable energy generated by source.	-	Table of GRI Content and Global Compact Principles	LOTOS Group does not generate energy from renewable sources. This indicator is therefore not reported.	
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EN4. Indirect energy consumption by primary source.		Value growth strategy [1]	8	✓
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EN5. Energy saved due to conservation and efficiency improvements.	 / 	Value growth strategy [1]	9	
EN6. Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives.		Value growth strategy [1]	9	
EN7. Initiatives to reduce indirect energy consumption and reductions achieved.		Table of GRI Content and Global Compact Principles	In 2013, technical services of Grupa LOTOS conducted an upgrade of low-voltage switch panels which was connected with installing frequency inverters on the supplying cables for the fan engines of all mechanical draft cooling towers in one cooling water unit. This has helped optimize the efficiency of the cooling process and save electricity by enabling smooth regulation of the rotational speed of the engines in each cooling tower. As the new system was put into operation in late-2013, it is currently not possible to report the savings it has delivered. Additionally, the trial operation of LED lighting was continued in 2013.	8

#### Aspect: Water

EN8. Total water withdrawal by source.		Value growth strategy [1]	8	
EN9. Water sources significantly affected by withdrawal of water.		Value growth strategy [1]		
EN10. Percentage and total volume of water recycled and reused.		Value growth strategy [1]		

#### Aspect: Ecosystem services, including biodiversity

EN11. Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	+	Value growth strategy [1]	8	
EN12. Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	+	Value growth strategy [1]	8	
EN13. Habitats protected or restored.	+	Value growth strategy [1]	8	
EN14. Strategies, current actions, and future plans for managing impacts on biodiversity.	+	Value growth strategy [1]	8	
EN15. Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	+	Value growth strategy [1]		
OG4. Number and percentage of significant operating sites in which biodiversity risk has been assessed and monitored.	+	Value growth strategy [1]	8	
<b>Aspect: Emissions, effluents and waste</b>				
EN16. Total direct and indirect greenhouse gas emissions by weight.	+	Value growth strategy [1]	8	✓
EN17. Other relevant indirect greenhouse gas emissions by weight.	+	Value growth strategy [1]	8	✓
EN18. Initiatives to reduce greenhouse gas emissions and reductions achieved.	+	Value growth strategy [1]	8	
EN19. Emissions of ozone-depleting substances by weight.	+	Value growth strategy [1]	8	✓
EN20. NO <sub>x</sub> , SO <sub>x</sub> , and other significant air emissions by type and	+	Value growth strategy [1]	8	✓

weight.

EN21. Total water discharge by quality and destination.	+	Value growth strategy [1]	8	✓
OG5. Volume of formation or produced water.	+	Value growth strategy [1]		✓
EN22. Total weight of waste by type and disposal method.	+	Value growth strategy [1] [2]	8	✓
EN23. Total number and volume of significant spills.	+	Value growth strategy [1]	8	✓
OG6. Volume of flared and vented hydrocarbon.	+	Value growth strategy [1]	8	✓
OG7. Amount of drilling waste (drill mud and cuttings) and strategies for treatment and disposal.	+	Value growth strategy [1]	8	✓
EN24. Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	+	Value growth strategy [1]	8	✓
EN25. Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.	+	Value growth strategy [1]	8	
<b>Aspect: Products and services</b>				
EN26. Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	+	Value growth strategy [1]	7, 8, 9	
OG8. Benzene, lead and sulfur content in fuels.	+	Value growth strategy [1]		✓

EN27. Percentage of products sold and their packaging materials that are reclaimed by category.	+	Value growth strategy [1]	8	✓
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#### Aspect: Compliance

EN28. Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations.	+	Table of GRI Content and Global Compact Principles	In 2013, no significant fines or non-monetary sanctions were imposed on any of the LOTOS Group companies for legal or regulatory non-compliance regarding environmental protection.	8
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#### Aspect: Transport

EN29. Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.	+	Value growth strategy [1]		8
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#### Aspect: Overall

EN30. Total environmental protection expenditures and investments by type.	+	Value growth strategy [1]		8	✓
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## Social Performance Indicators

### LABOR PRACTISES AND DECENT WORK

#### Aspect: Employment

LA1. Total workforce by employment type, employment contract, and region, broken down by gender.	+	Value growth strategy [1]	6	✓
LA2. Total number and rate of new employee hires and employee turnover by age group,	+	Value growth strategy [1]	6	

gender, and region.

LA3. Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation.	+	Value growth strategy [1]	6
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LA15. Return to work and retention rates after parental leave, by gender.	+	Value growth strategy [1]	
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#### Aspect: Labor/management relations

LA4. Percentage of employees covered by collective bargaining agreements.	+	Value growth strategy [1]	3
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LA5. Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements.	+	Table of GRI Content and Global Compact Principles	A minimum notification period defined by labor law regulations within which information regarding any essential operational changes should be passed to the trade union representatives in the company is 30 days. The 30-day notification period was inscribed in the agreement executed in 2010 which set out the terms of cooperation with the Employee Council. At Grupa LOTOS, the meetings with the Employee Council are held once a month.	3
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#### Aspect: Occupational health and safety

LA6. Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs.	+	Value growth strategy [1]	6
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LA7. Rates of injury, occupational diseases,	+	Value growth strategy [1]	6	✓
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lost days, and absenteeism, and total number of work-related fatalities, by region and by gender.

LA8. Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.



Value growth strategy [1]

6

LA9. Health and safety topics covered in formal agreements with trade unions.



Value growth strategy [1]

3

#### Aspect: Training and education

LA10. Average hours of training per year per employee by gender, and by employee category.



Value growth strategy [1]

6



LA11. Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.



Value growth strategy [1]

6

LA12. Percentage of employees receiving regular performance and career development reviews, by gender.



Value growth strategy [1]

6



#### Aspect: Diversity and equal opportunity

LA13. Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.



Corporate governance [1]  
Value growth strategy [2]

6



#### Aspect: Equal remuneration for women and men

LA14. Ratio of basic salary and remuneration of women to men by employee category.



Value growth strategy [1]

6



## HUMAN RIGHTS

**Aspect: Investment and procurement practices**

HR1. Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening.	+	Value growth strategy [1]	1, 2	
HR2. Percentage of significant suppliers, contractors, and other business partners that have undergone human rights screening, and actions taken.	+	Value growth strategy [1]	1, 2, 3, 4, 5, 6	
HR3. Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	+	Value growth strategy [1]	1, 2, 3, 4, 5, 6	✓

**Aspect: Non-discrimination**

HR4. Total number of incidents of discrimination and corrective actions taken.	+	Table of GRI Content and Global Compact Principles	In 2013, there were no instances of discrimination against employees of the LOTOS Group on account of their race, colour, sex, religion, political leanings, national origins or social background.	6
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**Aspect: Freedom of association and collective bargaining**

HR5. Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and	-	Table of GRI Content and Global Compact Principles	Grupa LOTOS has no tools with which to review suppliers in terms of risks posed to the right to exercise freedom	
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actions taken to support these rights.

of association, and does not identify any such risks in its environment. This indicator is therefore not reported.

#### Aspect: Child labor

HR6. Operations and significant suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor.



Table of GRI Content and Global Compact Principles

Grupa LOTOS supports elimination of child labor worldwide. The Company does not report this GRI indicator because it does not face this problem. In 2013, just as in previous years, no events were recorded at the LOTOS Group which would be identified as carrying with them a material risk of benefiting from child labor.

5

#### Aspect: Forced and compulsory labor

HR7. Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor.



Table of GRI Content and Global Compact Principles

Grupa LOTOS supports elimination of all forms of forced or compulsory labor. The Company does not report this GRI indicator because it does not face this problem. In 2013, just as in previous years, no incidents of forced or compulsory labor

4

took place within the LOTOS Group.

### Aspect: Security practices

HR8. Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.



Value growth strategy [1]

1, 2



### Aspect: Indigenous rights

HR9. Total number of incidents of violations involving rights of indigenous people and actions taken.



Table of GRI Content and Global Compact Principles

LOTOS Group supports and observes human rights. We do not report this GRI indicator because it does not face the problem of violating the rights of indigenous populations.

1, 2

OG9. Operations where indigenous communities are present or affected by activities and where specific engagement strategies are in place.



Table of GRI Content and Global Compact Principles

LOTOS Group has not identified any groups in its operating territory whose identity differs from the mainstream society's. This indicator is therefore not reported.

### Aspect: Assessment

HR10. Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments.



Table of GRI Content and Global Compact Principles

LOTOS Group does not consider observance of human rights as a criterion in locating its facilities, because it does not operate in areas where increased risk of human

rights violations is present. The indicator is therefore not reported.

#### Aspect: Remediation

HR11. Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms.



Table of GRI Content and Global Compact Principles

In 2013, LOTOS Group did not identify any risk of grievances concerning the impact of its operations and decisions on human rights. This indicator is therefore not reported.

#### SOCIETY

#### Aspect: Local communities

SO1. Percentage of operations with implemented local community engagement, impact assessments, and development programs.



Value growth strategy [1]

SO9. Operations with significant potential or actual negative impacts on local communities



Value growth strategy [1]

SO10. Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities.



Value growth strategy [1]

OG10. Number and description of significant disputes with local communities and indigenous peoples.



Table of GRI Content and Global Compact Principles

In 2013, Energobaltic was the only LOTOS Group's company which was involved in a dispute with a member of the local community. The dispute concerned a civil lawsuit of a perpetual lessee of one of the lands through which the

company's heating pipelines run. The plaintiff demanded that the heating installations be removed from his land. Upon the request of Energobaltic, evidence in form of the building permit for the heating system was gathered. The case is pending. The dispute has been classified as significant because of the potential high costs which the company would have to incur in case of an unfavourable verdict and because of the inconvenience potential alterations to the installation might cause to the local community.

OG11. Number of sites that have been decommissioned and sites that are in the process of being decommissioned.	+	Table of GRI Content and Global Compact Principles	In 2013, no decommissioning plans for our upstream sites were prepared at the LOTOS Group, and no such sites were decommissioned nor in the process of being decommissioned.
<b>Aspect: Corruption</b>			
SO2. Percentage and total number of business units analyzed for risks related to corruption.	+	Risks and opportunities [1]	10
SO3. Percentage of employees trained in organization's anti-corruption policies and procedures.	+	Risks and opportunities [1]	10
SO4. Actions taken in response to incidents of corruption.	+	Risks and opportunities [1]	10

**Aspect: Public policy**

SO5. Public policy positions and participation in public policy development and lobbying.	+	Risks and opportunities [1] [2] Value growth strategy [1]	10
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SO6. Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	+	Table of GRI Content and Global Compact Principles	<p>In accordance with the LOTOS Group's Code of Ethics, we are apolitical, which is evidenced by the fact that we do not support any political groups.</p>	10
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**Aspect: Anti-competitive behavior**

SO7. Total number of legal actions for anticompetitive behavior, anti-trust, and monopoly practices and their outcomes.	+	Table of GRI Content and Global Compact Principles	<p>n 2013, Grupa LOTOS was a party to proceedings described in greater detail in the 2010 Annual Report (<a href="#">link</a>), initiated following a petition filed in 2001 by PETROECCO JV Sp. z o.o., in which PETROECCO JV Sp. z o.o. sought to be awarded PLN 6,975 thousand, together with statutory interest from May 1st 1999, as compensation for damage it had allegedly suffered as a result of the Company's monopolistic practices, which involved selling BS base oils in a manner favouring some customers, whose orders were executed to a disproportionately higher extent than the orders of PETROECCO JV Sp. z o.o. On February 22nd 2013, PETROECCO JV's action was dismissed entirely. On June 26th 2013, PETROECCO JV Sp. z</p>	10
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o.o. lodged an appeal against this sentence. The case is pending.

#### Aspect: Compliance

SO8. Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations.



Table of GRI  
Content and Global  
Compact Principles

In 2013, Grupa LOTOS and the companies of the LOTOS Group did not pay any significant fines and no significant non-monetary sanctions were imposed on any of them for legal or regulatory non-compliance.

#### Aspect: Involuntary resettlement

OG12. Operations where involuntary resettlement took place, the number of households resettled in each and how their livelihoods were affected in the process.

Table of GRI  
Content and Global  
Compact Principles

No involuntary resettlement took place in 2013 as a result of operations carried out by the LOTOS Group.

#### Aspect: Asset integrity and process safety

OG13. Number of process safety events, by business activity.



Risks and  
opportunities [1] [2]  
Value growth  
strategy [3]

#### PRODUCT RESPONSIBILITY

#### Aspect: Customer health and safety

PR1. Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.



Value growth  
strategy [1] [2] [3]  
[4] [5] [6]

PR2. Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.



Value growth  
strategy [1] [2] [3]  
[4] [5]

1

**Aspect: Product and service labelling**

PR3. Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	+	Value growth strategy [1] [2] [3] [4] [5]	10
PR4. Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.	+	Value growth strategy [1] [2] [3] [4]	
PR5. Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	+	Value growth strategy [1]	

**Aspect: Marketing communications**

PR6. Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	+	Value growth strategy [1]	
PR7. Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.	+	Value growth strategy [1]	

**Aspect: Customer privacy**

PR8. Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	+	Table of GRI Content and Global Compact Principles	In 2013, no complaints regarding breaches of customer privacy and no leak, theft or loss of customer data
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were reported in the LOTOS Group.

### Aspect: Compliance

PR9. Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services.



Value growth strategy [1] [2] [3] [4]

### Aspect: Fossil fuel substitutes

OG14. Volume of biofuels produced and purchased meeting sustainability criteria.



Table of GRI Content and Global Compact Principles

Grupa LOTOS applies the definition of biocomponents as authorised by the Act of August 25th 2006 on Biocomponents and Liquid Biofuels. All biocomponents purchased by Grupa LOTOS and produced in a LOTOS Group's facility meet sustainable development criteria. It should be noted that Poland has not implemented Directive 2009/28/EC yet, which means that under the current legal framework Poland has no systems for certification of biocomponents taking into account sustainable development criteria. Due to the trade secret implications, it is not possible to disclose the volume of purchased and produced biocomponents.

# Contact

Additional information about the economic activity as well as the social and environmental aspects of the LOTOS Group's activities are available on the Grupa LOTOS website:



[www.lotos.pl/en/](http://www.lotos.pl/en/)

Please contact the Company at its main office under the following address:

**Grupa LOTOS S.A.**

ul. Elbląska 135

PL 80-718 Gdańsk

Please direct your questions concerning the CSR of the Company to Grupa LOTOS to:

## CSR Team

e-mail: [csr@grupalotos.pl](mailto:csr@grupalotos.pl)

Please send your questions concerning media relations of the Company to Grupa LOTOS to:

## Information Office

e-mail: [informacje@grupalotos.pl](mailto:informacje@grupalotos.pl)

Please direct your questions about investor relations of the Company to Grupa LOTOS to:

## Investor Relations Office

e-mail: [ir@grupalotos.pl](mailto:ir@grupalotos.pl)



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