



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

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



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

Contents

1. Information on the LOTOS Group	3
1.1. Organisation of the LOTOS Group	3
1.1.1. Organisational structure of the LOTOS Group and Grupa LOTOS S.A. branches (plants) ..	3
1.1.2. Changes in organisational or capital links between Grupa LOTOS S.A. and other entities..	5
1.1.3. Ownership changes at the LOTOS Group	8
1.2. Grupa LOTOS S.A. shares	9
1.2.1. Shareholders with more than 5% of total voting rights at Grupa LOTOS S.A.'s General Meeting	9
1.2.2. Grupa LOTOS S.A. shares held by the management and supervisory personnel	9
1.3. Personnel.....	10
1.3.1. Changes in the composition of the Management Board and Supervisory Board	10
1.3.2. The LOTOS Group workforce structure	14
2. Financial performance of the LOTOS Group	16
2.1. Key factors driving financial performance in H1 2014	16
2.2. Factors which, in the Company's opinion, may affect the LOTOS Group's performance in Q3 and Q4 2014.....	30
2.3. Risks and threats related to the Company's operations in the remaining months of 2014	30
3. Representations of the Management Board	32
4. Other information	33
4.1. Court, arbitration or administrative proceedings.....	33
4.2. Material related-party transactions	33
4.3. Sureties for the repayment of loans, guarantees and borrowings, factoring agreements, and other security instruments.....	33

1. INFORMATION ON THE LOTOS GROUP

1.1. ORGANISATION OF THE LOTOS GROUP

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

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

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

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

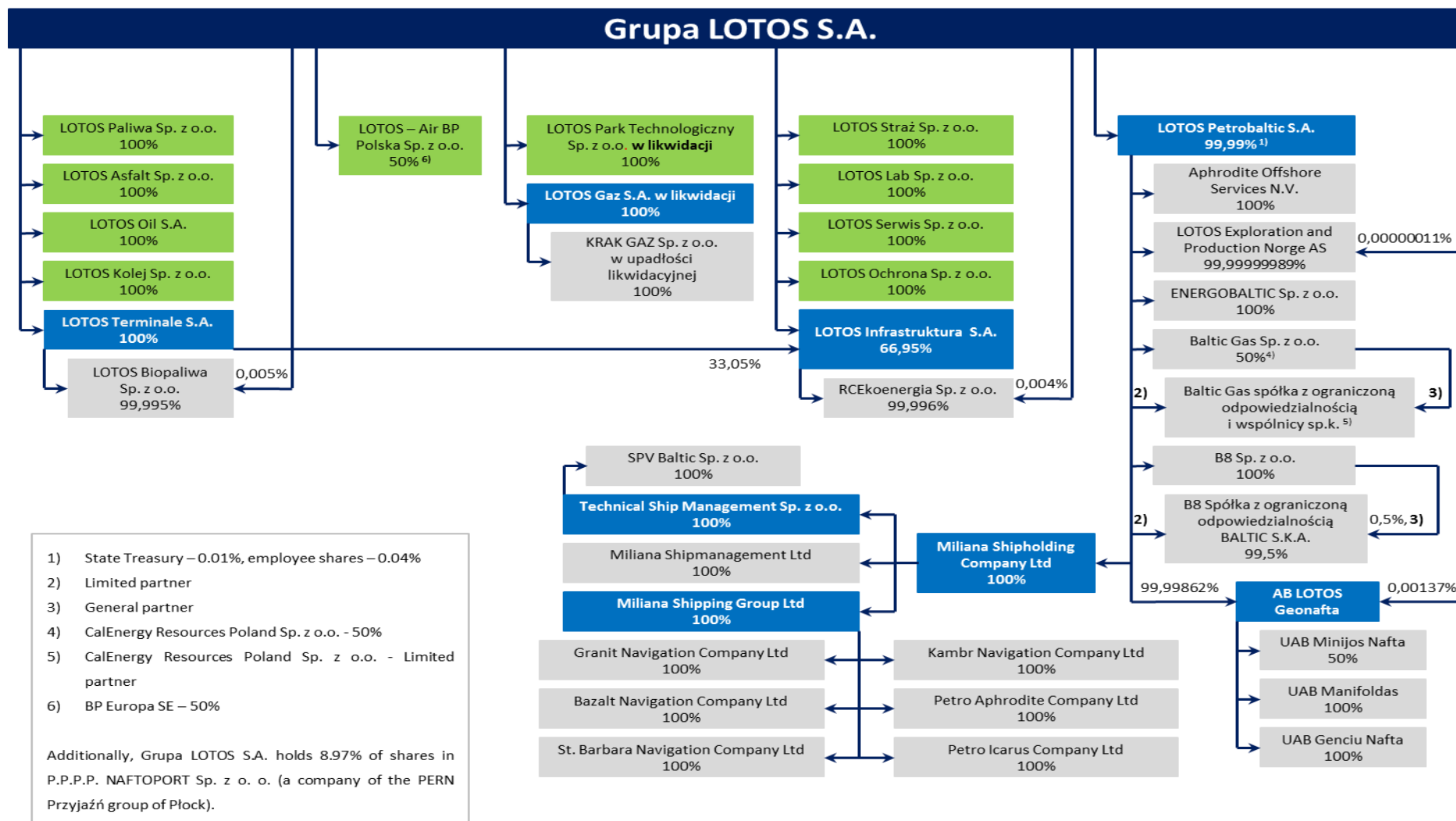
Grupa LOTOS S.A. has no divisions within the meaning of the Polish Accountancy Act.

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

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

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

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



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

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

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

Name	Registered office	Principal business activity	The Group's ownership interest		
			Jun 30 2014	Dec 31 2013	Jun 30 2013
Parent					
Grupa LOTOS S.A.	Gdańsk	Production and processing of refined petroleum products (mainly fuels) and their wholesale	Not applicable	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	99.99% ⁽¹⁾	99.98%	99.98%
LOTOS Paliwa Sp. z o.o.	Gdańsk	Wholesale and retail sale of fuels and light fuel oil, management of the LOTOS service station network	100.00%	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%	100.00%
LOTOS Asphalt Sp. z o.o.	Gdańsk	Production and sale of bitumens	100.00%	100.00%	100.00%
LOTOS Kolej Sp. z o.o.	Gdańsk	Railway transport	100.00%	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%	100.00%
LOTOS LAB Sp. z o.o.	Gdańsk	Laboratory analyses	100.00%	100.00%	100.00%
LOTOS Straż Sp. z o.o.	Gdańsk	Fire service activities	100.00%	100.00%	100.00%
LOTOS Ochrona Sp. z o.o.	Gdańsk	Security services	100.00%	100.00%	100.00%
LOTOS Terminale S.A. (parent of another group: LOTOS Terminale Group) ⁽²⁾	Czechowice-Dziedzice	Storage and distribution of fuels	100.00%	100.00%	100.00%
LOTOS Infrastruktura S.A. (parent of another group: LOTOS Infrastruktura Group) ⁽²⁾	Jasło	Storage and distribution of fuels Renting and operating of own or leased real estate	100.00% ⁽³⁾	100.00%	100.00%
LOTOS Gaz S.A. w likwidacji (in liquidation)	Kraków	Dormant	100.00%	100.00%	100.00%
LOTOS Park Technologiczny Sp. z o.o. w likwidacji (in liquidation) ⁽⁴⁾	Jasło	Dormant	100.00%	100.00%	100.00%

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

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

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

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

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

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

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

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

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

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

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

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

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

Poland Sp. z o.o. ("CalEnergy") (limited partner) (29.548%). The Group's indirect ownership interest in Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp. k. (jointly-controlled entity) is 70.44%. The partnership agreement defines the profit and loss sharing ratio, whereby Baltic Gas Sp. z o.o. holds 0.001% share in profits and 100% share in losses, LOTOS Petrobaltic S.A. holds 50.9995% share in profits, and CalEnergy holds 48.9995% share in profits. For IFRS purposes, Baltic Gas Sp. z o.o. i wspólnicy sp.k is an entity jointly controlled by the Group (equity-accounted joint arrangement under IFRS 11; see Note 2 to the consolidated financial statements for 2013).

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

1.1.3. OWNERSHIP CHANGES AT THE LOTOS GROUP

Table 2 Important processes/developments at subsidiaries

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

Table 3 Ownership changes

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

Table 4 Share capital changes at subsidiaries

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

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

1.2. GRUPA LOTOS S.A. SHARES

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

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

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

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

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

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

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

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

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

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

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

1.3. PERSONNEL

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

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

Table 8 Management Board: composition and powers

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

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

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




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

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




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

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

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

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

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

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

1.3.2. THE LOTOS GROUP WORKFORCE STRUCTURE

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

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

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

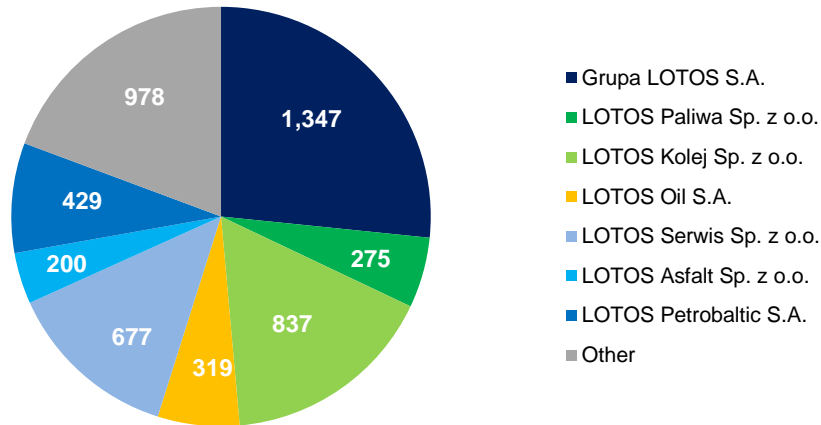


Table 13 The LOTOS Group workforce structure by sex (as at June 30th 2014)

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

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

Item	Men	Women	Total
blue-collar jobs	506	3	509
white-collar jobs	419	419	838
Total	925	422	1,347

2. FINANCIAL PERFORMANCE OF THE LOTOS GROUP

2.1. KEY FACTORS DRIVING FINANCIAL PERFORMANCE IN H1 2014

Table 15 Crude oil prices, spread, model refining margin

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

Table 16 Fuel product crack margins

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

Table 17 USD/PLN exchange rates

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

Upstream segment

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

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

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

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

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

Table 19 Upstream segment's key financial data

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

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

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

Downstream segment

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

Table 20 Crude slate

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

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

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

Table 22 Structure of sales in the downstream segment

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

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

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

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

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

Table 23 Downstream segment's key financial data

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

Retail sale

Table 24 LOTOS service station network

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

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

Table 25 Retail segment - key financial data

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

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

Other business

Table 26 EBIT of other business*

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

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

Statement of comprehensive income

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

Table 27 Financial highlights of the LOTOS Group

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

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

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

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

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

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

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

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

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

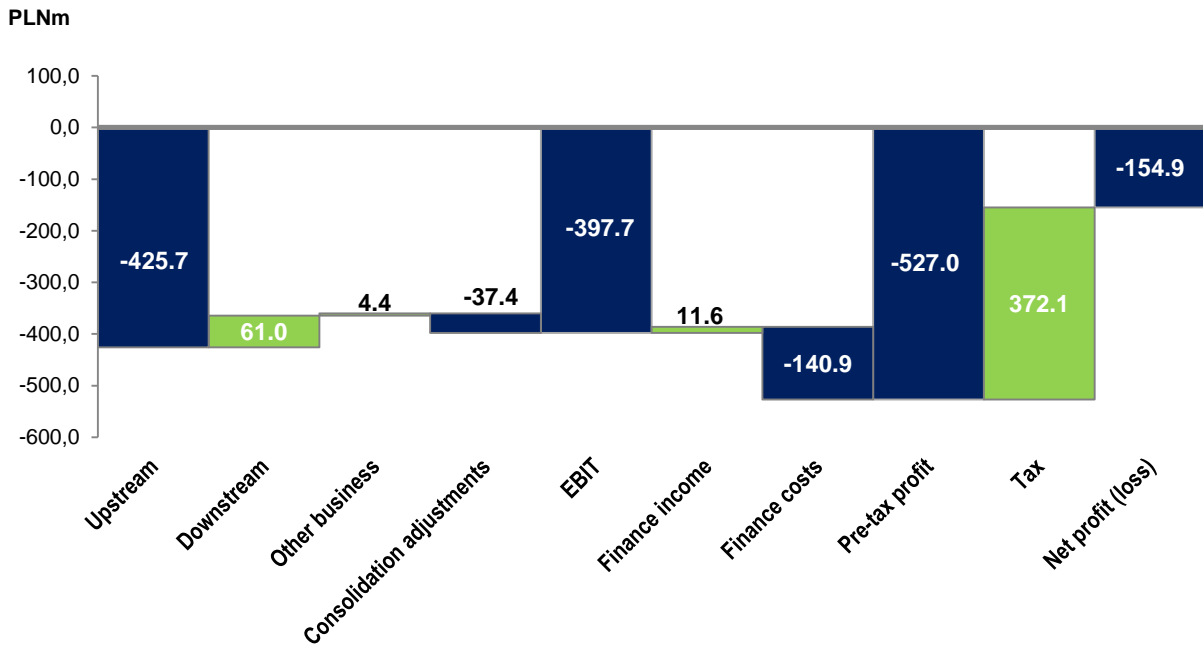
Table 30 Transactions used to hedge interest rate risk as at June 30th 2014

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

Table 31 Futures used to hedge the risk related to the prices of carbon dioxide (CO₂) emission allowances as at June 30th 2014

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

Fig. 2 Structure of LOTOS Group's consolidated result



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

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

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

Consolidated statement of financial position

Table 33 Consolidated statement of financial position – assets

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

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

Key changes in assets:

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

Table 34 Consolidated statement of financial position – sources of financing

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

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

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

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

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

Consolidated statement of cash flows

Table 35 Cash flows

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

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

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

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

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

Financial resources management

Ability to meet obligations

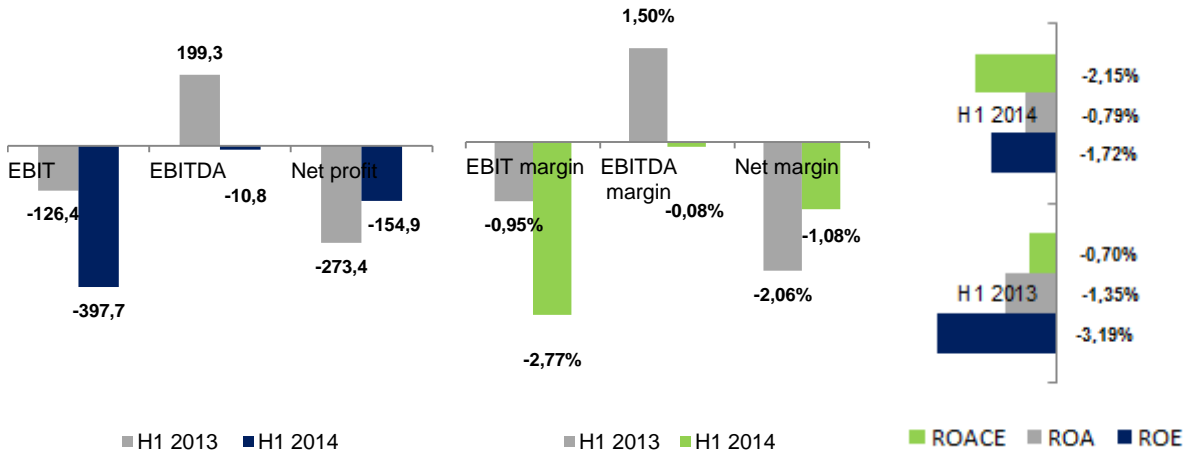
In H1 2014, the LOTOS Group was able to meet all its liabilities towards third parties.

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

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

Profitability ratios

(PLNm or %)

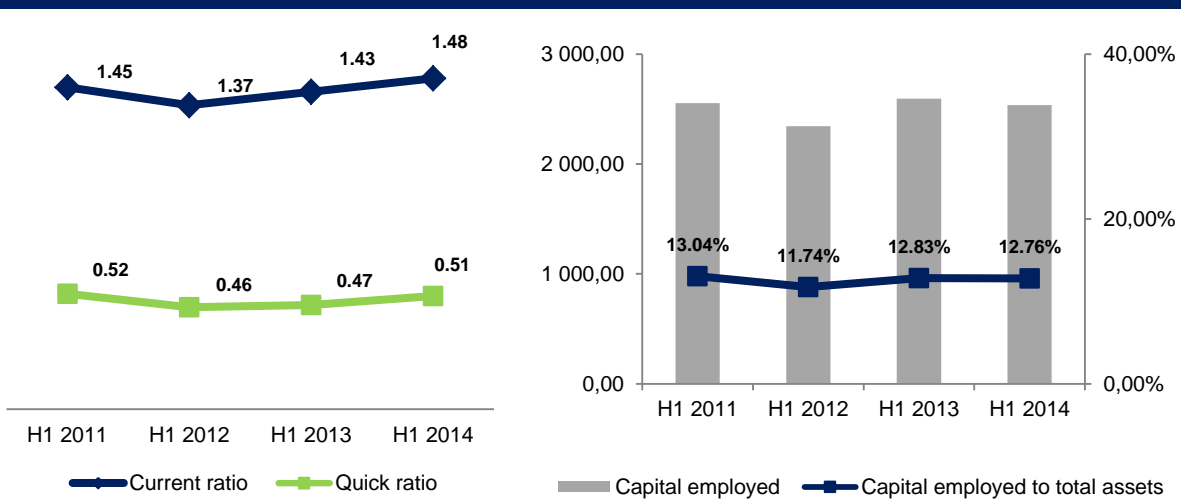


- Deteriorated operating and net performance and ratios related to impairment losses on YME assets

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

Liquidity ratios

(PLNm, in absolute terms or in %)

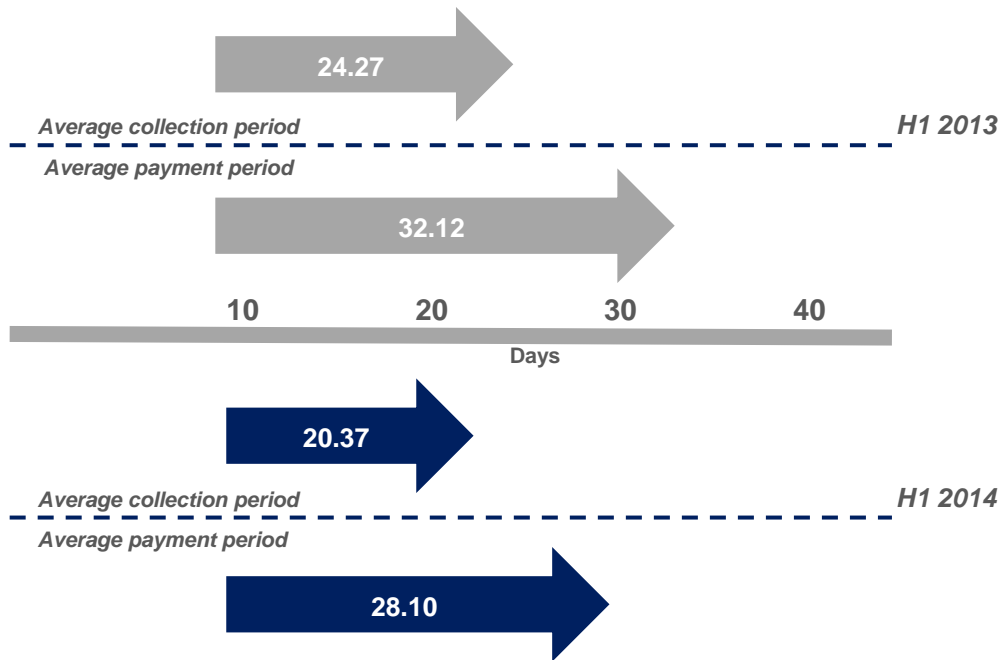


- Improved current ratio (+3.4%) and improved quick ratio (+8.7%), as current assets (-10.3%) declined more slowly than current liabilities (-13.2%), with inventories contracting by 12.5%,
- 3.4% decrease in capital employed, following stronger decrease in current assets (down PLN 882.4m) than the decrease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

Liquidity ratio formulas

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

**Collection and payment periods
(days)**



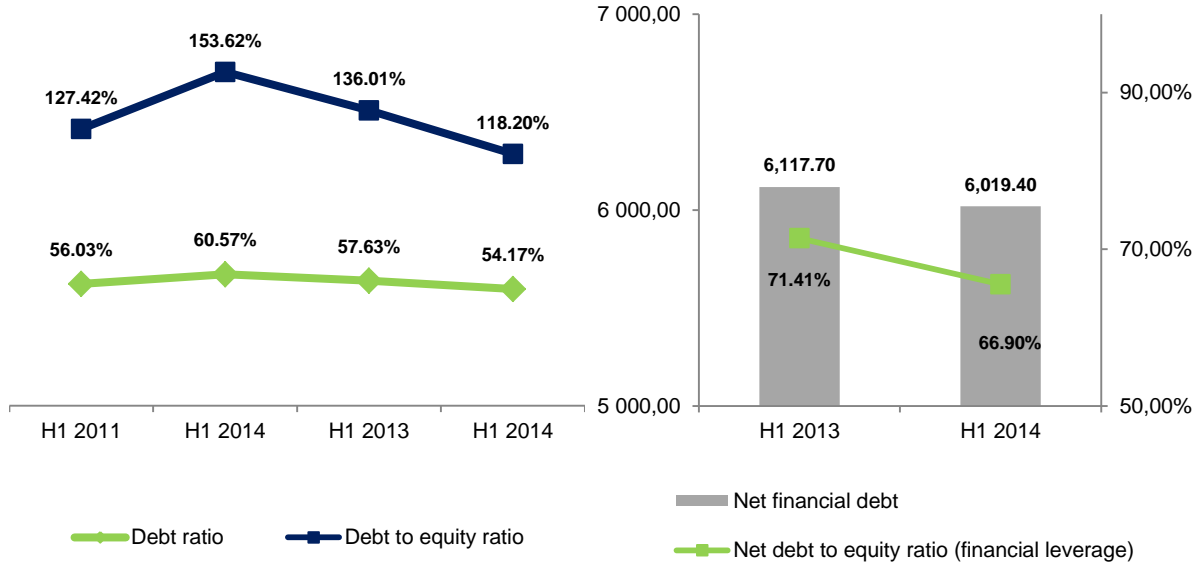
- Shorter collection period (by 4 days) as average trade receivables decreased (-9.1%) while revenues increased (8.3%); shorter payment period (by 4 days) as average trade payables decreased (-7.9%) while cost of sales rose (5.3%).

Collection and payment period formulas

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

Capital structure and debt ratios

(PLNm or %)



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

Capital structure and debt ratio formulas

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. REPRESENTATIONS OF THE MANAGEMENT BOARD

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

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

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

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

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

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

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

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

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

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

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

4. OTHER INFORMATION

4.1. COURT, ARBITRATION OR ADMINISTRATIVE PROCEEDINGS

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

4.2. MATERIAL RELATED-PARTY TRANSACTIONS

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

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

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

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

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

Other security instruments

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

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

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

Other intercompany loans

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