

GRUPA LOTOS S.A.

**LONG-FORM AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

I. GENERAL NOTES

1. Background

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

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

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

The Company is the holding company of LOTOS Capital Group. Details of transactions with affiliated entities and the list of companies in which the Company holds at least 20% of shares in the share capital or in the total number of votes in the Company's governing body are included in Notes 16 and 33 of the additional notes and explanations to the audited financial statements for the year ended 31 December 2015.

The principal activities of the Company are as follows:

- manufacturing and processing of coke and crude oil refined products (PKD 19.20.Z),
- production of other basic organic chemicals (PKD 20.14),
- wholesale of fuels and derivatives products (PKD 46.71),
- wholesale of chemical products (PKD 46.75),
- pipeline transport (PKD 49.5),
- warehousing and storage of goods (PKD 52.1),
- activities of head office and holding companies; management consultancy activities (PKD 70).

1. Background (continued)

As at 31 December 2015, the Company's issued share capital amounted to 184 873 thousand zlotys. Equity as at that date amounted to 6 020 050 thousand zlotys.

In accordance with article 69 Act on the public offer and conditions for introduction of financial instruments to the organized trading system and public companies dated 29 July 2005 (Journal of Law No. 184 from 2005, item 1539, with amendments), in accordance with current report no 6/2016 dated 27 January 2016 the ownership structure of the Company's issued share capital was as follows:

| | Number of shares | Number of votes | Par value of shares | % of issued share capital |
|--------------------|---------------------|--------------------|------------------------|------------------------------|
| State Treasury | 98.329.515 | 98.329.515 | 98.329.515 | 53,19% |
| NN OFE | 10.584.287 | 10.584.287 | 10.584.287 | 5,73% |
| Other shareholders | 75.959.560 | 75.959.560 | 75.959.560 | 41,08% |
| | ----- | ----- | ----- | ----- |
| Total | 184.873.362 | 184.873.362 | 184.873.362 | 100,00% |
| | ===== | ===== | ===== | ===== |

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

As at 2 March 2016, the Company's Management Board was composed of:

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

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

2. Financial Statements

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

2.1 Auditors' opinion and audit of financial statements

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

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

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

Under the contract executed on 30 July 2013 with the Company's Management Board, we have audited the financial statements for the year ended 31 December 2015.

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

Based on our audit, we issued an auditors' opinion dated 2 March 2016, stating the following:

“To the (General) Shareholders Meeting and the Supervisory Board of Grupa LOTOS S.A.

1. We have audited the attached financial statements for the year ended 31 December 2015 of Grupa LOTOS S.A. ('the Company') located in Gdańsk at ul. Elbląska 135, containing statement of financial position as at 31 December 2015, the statement of comprehensive income, the statement of cash flow, the statement of changes in equity for the period from 1 January 2015 to 31 December 2015 and the notes to the financial statements ('the attached financial statements').
2. The truth and fairness¹ of the attached financial statements, the preparation of the attached financial statements in accordance with the required applicable accounting policies and the proper maintenance of the accounting records are the responsibility of the Company's 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 the Accounting Act dated 29 September 1994 (Journal of Laws 2013.330 with subsequent amendments – 'the Accounting Act') and the requirements of the Article 44 of the Energy Law dated 10 April 1997 (Journal of Laws 2012.1059 with subsequent amendments –

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

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

'the Energy Law'). Our responsibility was to audit the attached financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies, whether they truly and fairly² reflect, in all material respects, the financial position and results of the operations of the Company and whether the accounting records that form the basis for their preparation are, in all material respects, properly maintained, and whether disclosures published by the Company required by the Article 44 of the Energy Law meet the criteria defined by this Act.

3. We conducted our audit of the attached financial statements in accordance with:

- chapter 7 of the Accounting Act;
- National Auditing Standards issued by the National Council of Statutory Auditors;

in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Company's Management Board, as well as evaluating the overall presentation of the attached financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.

4. In our opinion, the attached financial statements, in all material respects:

- present truly and fairly all information material for the assessment of the results of the Company's operations for the period from 1 January 2015 to 31 December 2015, as well as its financial position³ as at 31 December 2015;
- have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and based on properly maintained accounting records;
- are in respect of the form and content, in accordance with legal regulations governing the preparation of financial statements and the Company's Articles of Association.

5. Without qualifying our opinion, we draw attention, that in the attached financial statements the Company has presented shares in the subsidiaries and joint-ventures at cost⁴ less any impairment write down. In accordance with the accounting policies resulting from International Financial Reporting Standards, LOTOS Capital Group ('The LOTOS Group'), of which the Company is the dominant entity, prepared its consolidated financial statements dated 2 March 2016. The consolidated net loss of LOTOS Group for the year ended 31 December 2015 amounts to PLN 263 300 thousand, the consolidated equity as at 31 December 2015 amounts to PLN 7 712 198 thousand and the consolidated assets amounts to PLN 19 169 332 thousand.

6. In addition, in our opinion in note 35 to the financial statements the Company presented information relating to the statement of financial position and the statement of comprehensive income separately for each specific type of business, are in all material respects in accordance with the requirements of Article 44 of the Energy Law.

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

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

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

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

Scope of the financial regulatory information disclosed in note 35 to the financial statements is defined by Article 44 of the Energy Law. Our audit did not include the judgment whether the information required to be disclosed by the Act are adequate to ensure equal treatment of customers and the elimination of cross-subsidies between the specific types of business activities.

7. We have read the 'Directors' Report for the period from 1 January 2015 to 31 December 2015 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 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 2014.133 with subsequent amendments)."

We conducted the audit of the Company's financial statements during the period from 8 April 2015 to 2 March 2016. We were present at the Company's head office from 8 April 2015 to 24 April 2015, from 14 July 2015 to 31 July 2015, from 12 October 2015 to 23 October 2015, 16 November 2015 to 20 November 2015 and from 1 February 2016 to 19 February 2016.

2.2 Representations provided and data availability

The Management Board confirmed its responsibility for the truth and fairness⁵ of the financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary explanations. The Management Board also provided a letter of representations dated 2 March 2016, confirming that:

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

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

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

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

2.3 Financial statements for prior financial year

The Company's financial statements for the year ended 31 December 2014 were audited by Marcin Zieliński, key certified auditor no. 10402, acting on behalf of Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k., the company entered on the list of entities authorized to audit financial statements conducted by the National Council of Statutory Auditors with the number 130. The key certified auditor issued an unqualified opinion on the financial statements for the year ended 31 December 2014.

The Company's financial statements for the year ended 31 December 2014 were approved by the General Shareholders' Meeting on 1 June 2015, and the shareholders resolved to cover the 2014 net loss in total amount of PLN 1 285 910 thousand by future profits.

The financial statements for the financial year ended 31 December 2014, together with the auditors' opinion, a copy of the resolution approving the financial statements, a copy of the resolution on the coverage of loss and the Directors' Report, were filed on 3 July 2015 with the National Court Register.

The closing balances as at 31 December 2014 were correctly brought forward in the accounts as the opening balances at 1 January 2015.

3. Analytical Review

3.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Company for the years 2013 - 2015. The ratios were calculated on the basis of financial information included in the financial statements for years ended 31 December 2015 and 31 December 2014.

| | 2015 | 2014 | 2013 |
|--|-------------|-------------|-------------|
| Total assets | 13 909 915 | 14 339 743 | 15 559 412 |
| Shareholders' equity | 6 020 050 | 6 346 776 | 7 135 595 |
| Net profit/ loss | (37 102) | (1 285 910) | (14 774) |
| Return on assets (%) | (0,3%) | (9,0%) | (0,1%) |
| <hr/> Net profit / loss x 100% <hr/> Total assets | | | |
| Return on equity (%) | (0,6%) | (18%) | (0,2%) |
| <hr/> Net profit / loss x 100% <hr/> Shareholders' equity at the beginning of the period | | | |
| Profit margin (%) | (0,2%) | (4,9%) | (0,1%) |
| <hr/> Net profit / loss x 100% <hr/> Sales of finished goods, goods for resale and raw materials | | | |
| Liquidity I | 1,30 | 1,47 | 1,65 |
| <hr/> Current assets <hr/> Short-term creditors | | | |
| Liquidity III | 0,12 | 0,06 | 0,05 |
| <hr/> Cash and cash equivalents <hr/> Short-term creditors | | | |
| Debtors days | 23 days | 17 days | 22 days |
| <hr/> Trade debtors x 365 days <hr/> Sales of finished goods, goods for resale and raw materials | | | |

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(in thousand zlotys)

| | 2015 | 2014 | 2013 |
|---|-------------|-------------|-------------|
| Creditors days | 20 days | 22 days | 33 days |
| Trade creditors x 365 days | | | |
| Operating costs | | | |
| Inventory days | 53 days | 47 days | 75 days |
| Inventory x 365 days | | | |
| Operating costs | | | |
| Stability of financing (%) | 69,3% | 70,4% | 70,6% |
| (Equity + long-term provisions and liabilities) x 100% | | | |
| Total liabilities, provisions and equity | | | |
| Debt ratio (%) | 56,7% | 55,7% | 54,1% |
| (Total liabilities and provisions) x 100% | | | |
| Total assets | | | |
| Rate of inflation: | | | |
| Yearly average | (0,90%) | 0,00% | 0,90% |
| December to December | (0,50%) | (1,00%) | 0,70% |

3.2 Comments

The following trends may be observed based on the above financial ratios:

All profitability ratios were negative in 2015 and increased in comparison to year 2014 and decreased in comparison to year 2013 due to the net loss incurred in lower amount in 2015 in comparison to year 2014 and due to the net loss incurred in higher amount in 2015 in comparison to year 2013.

Return on assets ratio which amounted to -0,3% in 2015 has increased by 8,7 pp in comparison to 2014 when it amounted to -9,0%. In 2013 return on assets ratio amounted to -0,1%. Return on equity ratio increased from -18,0% in 2014 to -0,6% in 2015, while it amounted to -0,2% in 2013.

Analogously, profit margin increased in 2015 in comparison to 2014 and decreased in comparison to 2013. It amounted to -0,1% in 2013, -4,9% in 2014, increased by 4,7 pp in 2015 and amounted to -0,2%. The reason behind this change in 2015, similarly like in return on assets, is higher net result in 2015 than in prior year.

3.2 Comments (continued)

Liquidity I ratio (current liquidity) amounted to 1,30 in 2015 year end and decreased in comparison to 2014 year end when it amounted to 1,47 and in comparison to 2013 year end when it amounted to 1,65. Decrease of ratio as at 31 December 2015 was caused by decrease of current assets.

Liquidity III ratio (cash liquidity) reached higher level in 2015 year end amounting to 0,12 in comparison to the end of prior years when it amounted to 0,06 in 2014 year end and 0,05 in 2013 year end. The increase was caused by the higher level of cash and cash equivalents as at 31 December 2015 than in prior year ends.

Debtors days ratio increased in 2015 from 17 days in 2014 to 23 days in 2015 due to decrease of sales, while in 2013 it amounted to 22 days.

Creditors days ratio amounted to 20 days in 2015 and has been shortened in comparison to 2014 when it amounted to 22 days due to decrease of trade creditors at the end of 2015. In 2013 creditors days ratio amounted to 33 days.

The inventory days ratio increased in 2015 to 53 days in comparison to 2014, when it amounted to 47 days; the inventory days ratio amounted to 75 days in 2013. Increase of the ratio in 2015 in comparison to prior year was mainly caused by the higher decrease of costs of finished goods, goods for resale and raw materials sold than the decrease of inventories.

The Company's stability of financing ratio amounted to 69,3% as at 31 December 2015 in comparison with 70,4% in 2014 year end and 70,6% in 2013 year end. Decrease of the ratio in 2015 year end in comparison to 2014 year end was caused by the higher decrease of liabilities and equity in 2015 year end in comparison to decrease of total equity and liabilities.

Debt ratio increased by 1,0 pp at the end of 2015 in comparison to 2014 year end from the level of 55,7% to the level of 56,7%. As at 31 December 2013 this ratio amounted to 54,1%. The increase was caused by lower shareholders' equity at the end of 2015 in comparison to 2014 and 2013.

3.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the Company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2015 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

The Management Board has stated that the financial statements were prepared on the assumption that the Company will continue as a going concern for a period of at least twelve months subsequent to 31 December 2015 and that there are no circumstances that would indicate a threat to its continued activity.

II. DETAILED REPORT

1. Accounting System

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

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

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

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

Details of the Company's assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2015.

Verification of assets, liabilities and equity was performed in accordance with the Accounting Act. Any differences were adjusted in the books of account for the year 2015.

3. Additional Notes and Explanations to the Financial Statements

The additional notes and explanations to the financial statements for the year ended 31 December 2015 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

4. Directors' Report

We have read the Directors' report on the Company's activities in the period from 1 January 2015 to 31 December 2015 and the basis for preparation of annual financial statements ('Directors' Report') and concluded that the information derived from the attached financial statements reconciles with the financial statements. The information included in the Directors' Report corresponds with the relevant provisions of Article 49 paragraph 2 of the Accounting Act and 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 2014.133 with subsequent amendments).

5. Conformity with Law and Regulations

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

6. Work of Experts

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

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

Key Certified Auditor

Jarosław Dac
certified auditor
No. 10138

Warsaw, 2 March 2016