

Letter from the President of the Board



Paweł Olechnowicz - President of the Board, Chief Executive Officer

Ladies and Gentlemen,

It is a great honour for me to be able to present to you the 2014 Integrated Annual Report of Grupa LOTOS. The document reflects the dramatic developments which shook the oil and currency markets, particularly in the second half of the year. The repercussions of these events posed an enormous challenge to many oil companies, which were forced to react fast to the emerging threats and review their plans.

Although the implementation process of our strategy had to be adapted to these challenging conditions, our development programmes and investment projects were not abandoned, but rather optimised. The situation on global markets is still unstable, but we already know that LOTOS is poised to navigate the turbulence safely, gather momentum and make progress.

The financial performance of the LOTOS Group in 2014 was significantly affected by the changes on the crude oil and currency markets: the oil price slump and the resulting decline of refining product prices (oil price down from USD 111 on June 30th 2014 to USD 55 on December 31st 2014), and the appreciation of USD against PLN by more than PLN 0.20. The situation made recognition of certain impairment losses necessary and affected the size of the Company's debt denominated in USD. Nonetheless, these were purely accounting matters and had no material effect on the financial standing of LOTOS.

As evidenced by the successful public offering of Grupa LOTOS shares, our shareholders believe that we are capable of effective performance in a turbulent market environment. This equity issue also clearly demonstrates that our management strategy is an effective one. We are proud that such a large offering, carried out in challenging circumstances, was a complete success. Among those who cast this important vote of confidence in the Company's growth plans was the Ministry of State Treasury, a majority shareholder of Grupa LOTOS, which subscribed for all of the shares it was entitled to.

With close to PLN 1bn raised, this was the largest equity offering on the Warsaw Stock Exchange in 2014. The proceeds will be applied towards financing of the EFRA Project, which involves construction of a delayed coking unit with auxiliary infrastructure, and development of B4 and B6 gas fields in the Baltic Sea.

The new facility to be created under the EFRA Project will intensify our crude processing capacities and improve our refining margin by some USD 2/bbl. The total cost of the EFRA Project is estimated at ca. PLN 2.34bn, and the issue proceeds are expected to contribute PLN 530m-650m to the project's financing. We plan to complete the project in 2018.

The second objective of the issue is to co-finance the development of the B4 and B6 gas fields in the Baltic Sea, which hold approximately 4bn m³ of natural gas. The project's total capex is projected in the region of PLN 800m. The Company intends to apply PLN 350m-470m from the issue proceeds towards co-financing of the project. We plan to launch production from the fields in late 2017 or early 2018.

The two investment projects will strengthen the position of LOTOS on the increasingly competitive market and help further build the Company's value – to the benefit of its shareholders.

Last year saw LOTOS become more involved in activities designed to support society and its needs, with a view to sustainable development of the environment in which we operate. Thanks to our freshly developed and consistently implemented CSR strategy, we can address social and environmental challenges, contributing to improving the life quality of our key stakeholder groups. Driven by our responsible approach to doing business, we have developed in Poland a modern sports sponsorship model. The model centres around strict adherence to law, transparency and clear-cut rights and responsibilities of both sides of the relationship. 2014 was an especially successful year, as the athletes sponsored by Grupa LOTOS – Kamil Stoch and Justyna Kowalczyk – won three gold medals at the Winter Olympics in Sochi, in what has been Poland's best result in the history of the Winter Olympic Games. It has also been for the first time that a Polish athlete picked up two gold medals during the winter games. Through our CSR programme entitled 'In Search for the Champion's Successors', we gathered a group of talented ski jumpers, who now enjoy great success and make millions of Polish fans happy. Another of our initiatives – 'White and Green Future with LOTOS' – helps foster future football talents and encourages children and youths to take up the sport. On February 17th 2015, as a crowning achievement in our football adventure, we signed an agreement with the Polish Football Association (PZPN) which saw us become the sponsor of Poland's football

team. We hope that our support will help our players advance to the final tournament of the UEFA European Championship, which will be held next year in France.

Experts believe that the only good thing about a crisis is that it is bound to end eventually. Keeping a close eye on the market, we can already see the first signs of normalisation. It gives me great satisfaction to say that LOTOS, once again, has not only drawn the right conclusions, but has also been able to implement effective mechanisms to protect us in this challenging macroeconomic environment. Thanks to these actions, we can now conduct business operations in a stable manner, as well as enhance our competitive position by investing in technological facilities designed to intensify our crude oil processing capabilities and by expanding operations in the upstream sector.

LOTOS is growth and life. The motto has been our guiding principle since the very beginning, enabling us to create a robust and resilient organism, capable of withstanding the most challenging of circumstances. We will continue to deliver the same performance, working together, supported by motivation and commitment, to achieve success again.

Ladies and Gentlemen,

Reviewing our operation in 2014, I wish to thank all employees of the LOTOS Group. Our growing market position is a tangible confirmation of their dedication and commitment to work for the benefit of LOTOS. We put a lot of effort into building our internal and external relations in line with the concept of corporate social responsibility. Our system of ethical values, such as cooperation, respect, professionalism and transparency, supports us in achieving these goals. To the LOTOS stakeholders, our values are a guarantee of high standards of conduct.

With kindest regards,



Paweł Olechnowicz
President of the Board
Chief Executive Officer
Grupa LOTOS

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The Board

The Board is appointed by the Supervisory Board. It manages the Company's affairs and represents it in relation to all its business, with the exception of matters reserved for the General Meeting or Supervisory Board, as well as matters falling outside the scope of ordinary management of the business.

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System of values

At the LOTOS Group, in our business and CSR activities we are guided by the key principle of legal compliance and responsibility for the impact of our operations on the world around us. We improve our organizational culture by rooting it in a strong and coherent value system.

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Awards and distinctions

According to the Chapter of the ninth edition of 'The Best Annual Report' contest, the 2013 Integrated Annual Report of Grupa LOTOS exemplifies a publication based on which investment decisions can be made at a relatively minimal risk.

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