MANAGEMENT’S DISCUSSION AND ANALYSIS OF Q4 2013 CONSOLIDATED FINANCIAL RESULTS

GRUPA LOTOS S.A.

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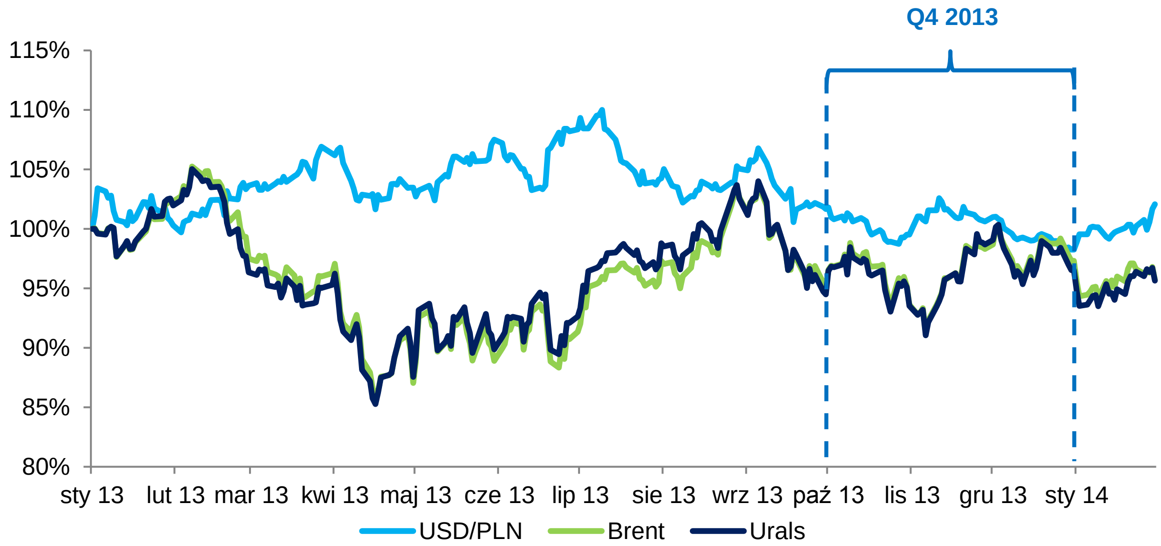
Contents

*An excel file with the operational and financial data for Q4 2013 and the previous reporting periods is published together with the 2013 annual report in the Investor Relations section of our website as **"databook"**.*

1 Market environment

- **Brent/Urals differential up to USD 1.40/bbl**
- **Grupa LOTOS S.A.'s model refining margin at 5.48 USD/bbl (down approximately 40% year on year).**
- **Quarter-on-quarter and year-on-year appreciation of the złoty against the US dollar as at the end of Q4 2013**

Brent/Urals prices and the USD/PLN exchange rate



Brent crude prices, Brent/Ural spread (USD/bbl) and model refining margin

	Q4 2013	Q3 2013	Q4 2012	Q4 2013 /Q3 2013	Q4 13 /Q4 12
DATED Brent FOB prices	**109.22**	110.19	110.14	-0.9%	-0.8%
Urals/Brent spread	**1.40**	0.15	1.09	833.3%	28.4%
Model refining margin	**5.48**	4.32	9.10	26.9%	-39.8%

Crack margins (USD/bbl)*

	Q4 2013	Q3 2013	Q4 2012	Q4 2013 /Q3 2013	Q4 13 /Q4 12
Gasoline	**5.22**	11.19	10.00	-53.35%	-47.80%
Naphtha	**-3.44**	-8.37	-3.17	-58.89%	8.75%
Diesel oil (10 ppm)	**19.94**	18.14	24.09	9.90%	-17.24%
Light fuel oil	**17.45**	14.93	19.21	16.86%	-9.18%
Jet fuel	**18.35**	15.84	21.14	15.89%	-13.16%
Heavy fuel oil	**-16.92**	-16.41	-16.34	-3.09%	-3.56%

**Includes the Brent/Ural spread.*

USD/PLN exchange rates

	Q4 2013	Q3 2013	Q4 2012	Q4 2013 /Q3 2013	Q4 2013 /Q4 2012
PLN/USD exchange rate at end of the period	**3.01**	3.12	3.10	-3.5%	-2.9%
Average PLN/USD exchange rate during quarter	**3.07**	3.21	3.17	-4.4%	-3.2%

Factors with a material bearing on the LOTOS Group's performance in the reporting period included:

Exchange rates:

- The year-on-year and quarter-on-quarter decline of the USD/PLN exchange rate brought EBIT down;
- Net foreign exchange gains on operating activities (PLN 26.9m, compared with PLN 63.7m in Q3 2013);
- Depreciation of the US dollar at the end of the period (down 2.9% year on year) had a positive effect on remeasurement of the LOTOS Group's debt, most of which is denominated in the US dollar.

Feedstock and products:

- Year-on-year declines in crack margins on key products: diesel oil (down 17.24% y-o-y) and motor gasoline (down 47.80% y-o-y), and further deterioration of the negative margin on heavy fuel oil (-3.56% y-o-y);
- Rise in Brent/Ural differential, to USD 1.4/bbl, affecting the Group's profit margins,
- Major year-on-year decline in Grupa LOTOS S.A.'s model refining margin (down -39.8%, to USD 5.48/bbl, as calculated based on the methodology revised in Q3 2013).

2 Upstream segment

- **Increase in 2P reserves in the Baltic Sea and Norwegian Continental Shelf following the Heimdal acquisition and re-evaluation of the existing reserves**
- **Joint financing agreement with Polskie Inwestycje Rozwojowe for the B8 field development project**
- **Acquisition of the Heimdal portfolio of exploration and producing assets in the Norwegian Continental Shelf**

Increase in the LOTOS Group's oil and gas reserves

LOTOS Petrobaltic S.A. (in which Grupa LOTOS S.A. holds a 99.98% interest) re-evaluated its crude oil and natural gas reserves as at the end of 2013, in accordance with the internationally recognised SPE 2007 classification. The re-evaluation was approved by the Ministry of Environment in 'Supplement No. 1 to the geological documentation of the B3 oil field', which showed increased values of LOTOS Petrobaltic S.A.'s 2P reserves.

Another development which significantly added to the LOTOS Group's 2P reserves was the acquisition of new assets by LOTOS EPN. The reclassification takes into account the interests held by the Petrobaltic Group in hydrocarbon exploration, evaluation and production licences.

Oil and 2P* gas reserves (million boe)**

As at	Domestic sales	Crude oil	Natural gas	Total crude oil and natural gas
Dec 31 2013	Poland	39.28	2.30	**41.58**
	Norway	15.30	4.53	**19.83**
	Lithuania:	7.50	0.00	**7.50**
Dec 31 2012	Poland	32.16	3.04	**35.20**
	Norway	12.95	0.00	**12.95**
	Lithuania	8.43	0.00	**8.43**

** 2P – proved and probable reserves (according to the SPE 2007 international classification)*
***boe – barrels of oil equivalent*

The LOTOS Group's recoverable (2P) reserves of crude oil and natural gas increased to 8.08m tonnes and 1.09bcm – approximately by 16% and 125%, respectively − relative to the amounts disclosed as at December 31st 2012 in the Directors' Report on the Operations of the LOTOS Group.

Crude oil reserves, production and sales

Reserves (mbbl) *	**Dec 31 2013**	**Sep 30 2013**	**Dec 31 2012**		
Norway	**15.30**	13.33	12.95		
Poland	**39.30**	31.53	32.16		
Lithuania **	**7.50**	7.65	8.43		
Total	**62.10**	52.51	53.54		
Production (bbl/d)	**Q4 2013**	**Q3 2013**	**Q4 2012**	**Q4 2013 /Q3 2013**	**Q4 2013 /Q4 2012**
Norway	**1,727**				
Poland	**3,368**	2,943	3,147	**14.5%**	**7.0%**
Lithuania **	**1,550**	1,545	1,519	**0.3%**	**2.0%**
Total	**6,646**	4,488	4,667	**48.1%**	**42.4%**
Sales of own products (bbl)	**Q4 2013**	**Q3 2013**	**Q4 2012**	**Q4 2013 /Q3 2013**	**Q4 2013 /Q4 2012**
Poland	**349,601**	220,386	196,396	**58.6%**	**78.0%**
Lithuania **	**164,608**	119,233	152,101	**38.1%**	**8.2%**
Total	**514,209**	339,619	348,497	**51.4%**	**47.6%**

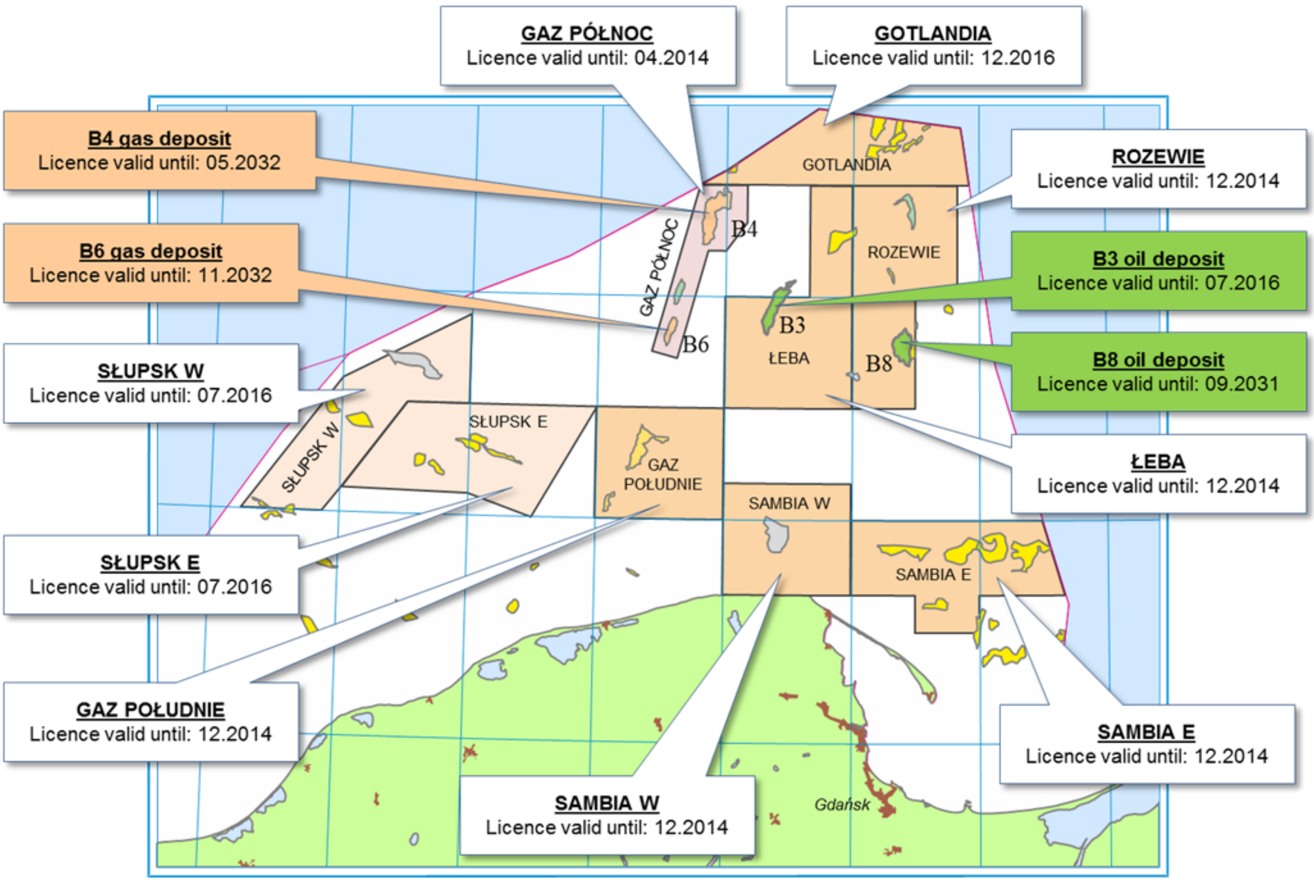
**2P – proved and probable reserves*
*** pro rata to the ownership interest in the AB LOTOS Geonafta Group*

Natural gas reserves, production and sales

Reserves (billion m3)*	Dec 31 2013	Sep 30 2013	Dec 31 2012		
Poland	**0.365**	0.472	0.484		
Norway	**0.722**				
Production (million m3)	**Q4 2013**	**Q3 2013**	**Q4 2012**	**Q4 2013 /Q3 2013**	**Q4 2013 /Q4 2012**
Poland	**4.4**	3.9	4.1	12.8%	7.3%
Norway	**0.8**				
Sales (million m3)	**Q4 2013**	**Q3 2013**	**Q4 2012**	**Q4 2013 /Q3 2013**	**Q4 2013 /Q4 2012**
Poland	**2.9**	2.9	2.6	0.0%	11.5%

** 2P – proved and probable reserves*

LOTOS Petrobaltic S.A.(LPB)



On October 7th 2013, LOTOS Petrobaltic S.A. and Polskie Inwestycje Rozwojowe S.A. (PIR) signed **a letter of intent to jointly finance development of the B8 oil field in the Baltic Sea** (see Current Report No. 21/2013).

The purpose of the agreement is to work out the terms and structure of financing for the project. A special purpose vehicle (SPV) will be formed, to which LOTOS Petrobaltic will transfer the B8 field licence and assets, i.e. the Petrobaltic platform, production and injection wells, and the loading buoy.

The project involves completion of drilling work within the field, installation of sub-sea production facilities, and conversion of the Petrobaltic drilling platform into a production unit. The B8 field will be brought on stream in late 2015, with average annual output until 2031 estimated at approximately 220 thousand tonnes of oil.

The total cost of the B8 project, including the value of assets contributed by LOTOS Petrobaltic to the SPV, will be approximately PLN 1,600m, of which the market value of the assets contributed by LOTOS Petrobaltic will be approximately PLN 700m, and the total external financing sourced from banks and PIR - approximately PLN 900m.

Under the agreement, PIR's share in the project financing will not exceed PLN 563m.

In Q4 2013, LPB continued to produce crude oil from the B3 field. The overhauled **unmanned PG-1 platform** began to operate at full capacity in mid-November. At the end of November and beginning of December 2013, workover operations on injection wells were performed with the Petrobaltic rig. Injections into these wells commenced on December 22nd 2013.

LOTOS Petrobaltic had **two of its exploration and evaluation licences (Rozewie and Sambia E)** extended until December 13th 2015.

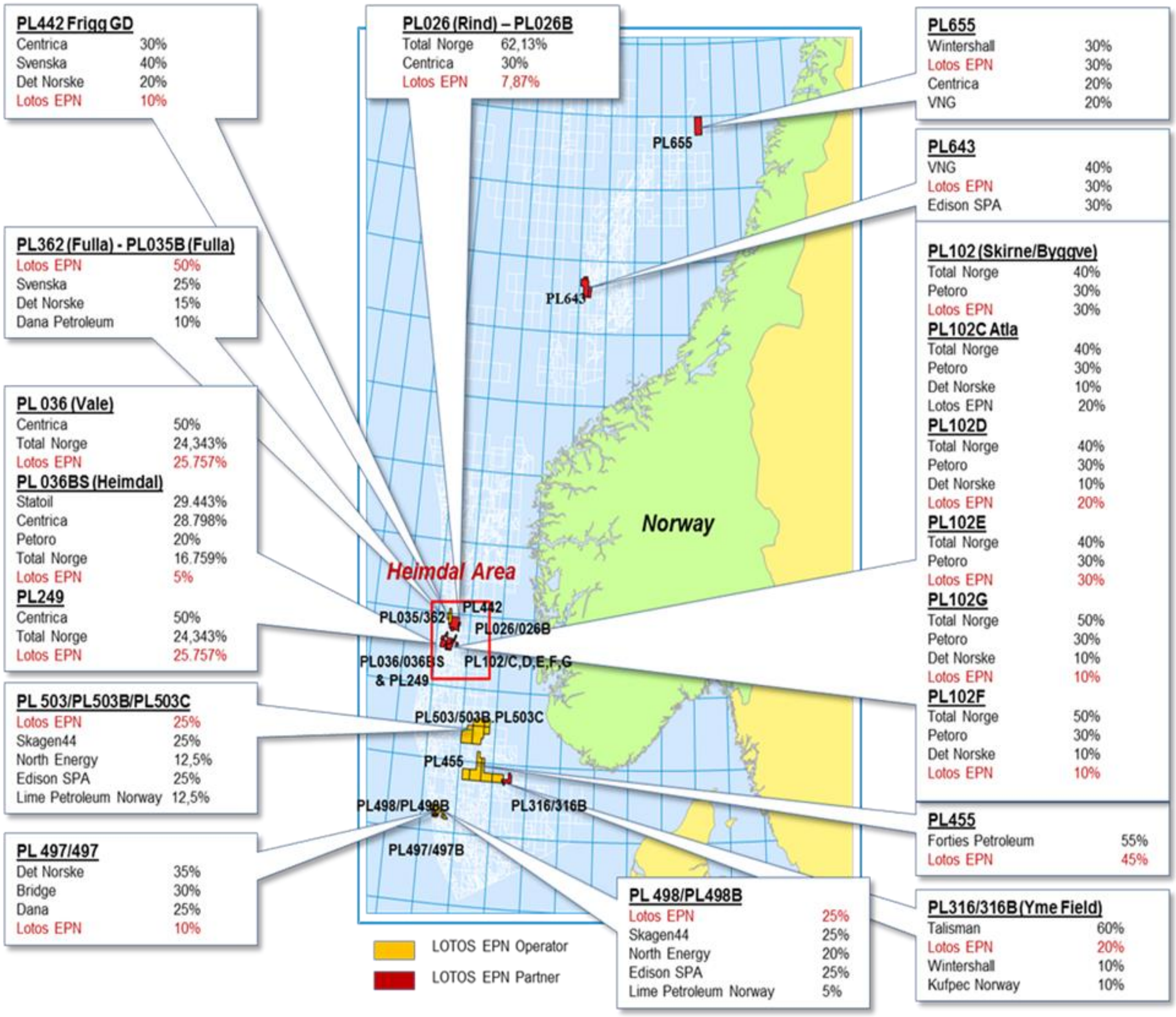
In October 2013, **seismic surveys were carried out over the B4 and B6 gas fields within the Gaz Północ licence** held by Baltic Gas (a subsidiary established by LPB and CalEnergy Resources Poland), to better understand the fields' geological structure before production wells are drilled. Baltic Gas obtained the Minister of Environment's approval for a change in the scope of work and acquisition of 290 km2 of 3D seismic within the Gas Północ licence area, and for the extension of the licence term until April 14th 2014.

Within the Gaz Południe exploration and evaluation licence area, where the B21 and B16 natural gas accumulations have been found and confirmed by a number of exploration wells, 200 km^2 of 3D seismic data was acquired in October 2013 to facilitate the evaluation of reserves and planning of further wells.

In November and December 2013, 233 km^2 of 3D seismic data was acquired within the Łeba and Rozewie licence areas, and 152 km^2 of 3D data and 400 km of 2D data was collected in the Sambia E and Sambia W areas.

On December 20th 2013, Baltic Sp. z o.o., a special purpose vehicle controlled by Technical Ship Management Sp. z o.o. (a MILIANA Group company), signed an agreement with Transocean Offshore Gulf of Guinea Ltd. to buy the GSF Monitor drilling rig.

LOTOS Exploration & Production Norge AS (LEPN)



On October 18th 2013, LOTOS EPN signed an agreement with Centrica Norge, a subsidiary of Centrica Plc., for the **purchase of a portfolio of Heimdal assets** in the Norwegian Continental Shelf. The portfolio comprises interests in 14 licences, which cover the Heimdal gas processing and export centre (5% interest); the Atla (20%), SkirneByggve (30%), and Vale (25.8% interest) producing fields; the Frigg GD (10%), Rind (7.9%), Fulla (50% interest, operator: LOTOS EPN) development fields, as well as exploration prospects, including a separate area within the Trell prospect (for details, see Current Report No. 26/2013 of October 7th 2013).

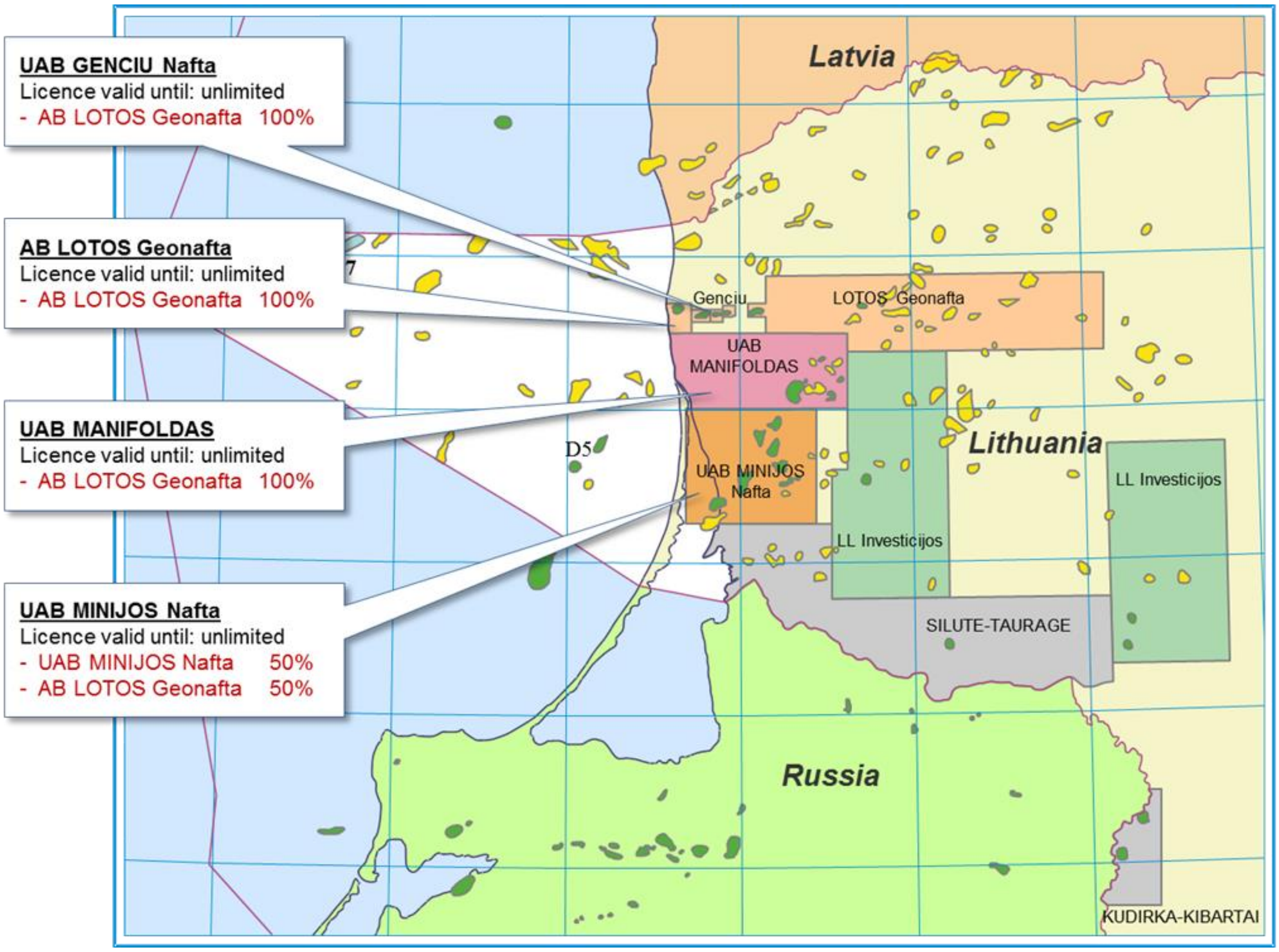
On December 18th 2013, the Company received clearance from the competent authorities in Norway to proceed with the Heimdal assets purchase transaction, with all conditions precedent stipulated in the agreement satisfied as of that date. The transaction was closed on December 30th 2013.

To finance the Heimdal deal, a USD 110m investment facility was contracted by LOTOS EPN from Bank PKO BP S.A. on December 11th 2013.To date, a total of USD 105.07m has been drawn under the facility, and its final repayment date is December 31st 2016.Also, as part of the transaction, a bank guarantee was provided by LOTOS EPN to the seller Centrica Resources (Norge) AS and Centrica Norway Limited, in the form of a stand-by letter of credit, securing LOTOS EPN's obligations to decommissioning 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.

LOTOS EPN holds a 20% interest in **PL316/316B − YME licence**, developed by a consortium which includes Talisman Energy, a Canadian company, as the operator. In the area, work continued to remove the defective production platform from the field.

In December 2013, the drilling of well 25/5-9 (Trell) in the PL102F licence area began. The operator is Total E&P Norge AS.

AB LOTOS Geonafta Group



In Q4 2013, Lithuanian companies AB LOTOS Geonafta and UAB Genciu Nafta were engaged in production of crude oil from the Girkaliai, Kretinga, Nausodis and Genciu on-shore fields.UAB Manifoldas was producing oil from the Auksoras, Liziai and Veziaciai fields. LOTOS Geonafta launched production from the Liziai-3 well, and began preparations for drilling the Żwaginiai-1 exploration well. The company also completed the interpretation of 3D seismic data over the Ablinga area (in East Klaipeda block).

Upstream segment's key financial data (PLNm)

	Q4 2013	Q3 2013	Q4 2012	Q4 2013 /Q3 2013	Q4 2013 /Q4 2012
Revenue	**172.9**	118.3	132.8	**46.2%**	**30.2%**
EBIT	**-46.7**	9.3	-20.3	**-**	**-**
Amortisation and depreciation	**43.1**	34.6	44.4	**24.6%**	**-2.9%**
EBITDA	**-3.6**	43.9	24.1	**-**	**-**
EBIT normalised*	**22.1**	9.3	26.0	**137.6%**	**-14.6%**

* Net of non-recurring events.

In Q4 2013, the upstream segment's revenue improved both year on year and quarter on quarter despite retreating crude prices (lower market prices and depreciation of the US dollar), mainly on higher volumes of the Rozewie crude and Lithuanian crude sold.

The segment's Q4 2013 EBIT includes impairment losses for a total amount of PLN 68.8m, including: a PLN 26.8m impairment loss on well and structure in the B-28 field (impairment was recognised as no commercial flow of hydrocarbons was identified), revaluation of the costs of removing the MOPU from the YME field (PLN 15.3m), and PLN 26.4m impairment losses on Lithuanian assets related to the AB LOTOS Geonafta Group's deposits.

The Q4 2012 EBIT of the upstream segment included a PLN 74.5m impairment loss on the Norwegian exploration licences, a PLN 14.5m impairment loss on licenses held by AB Geonafta, and a PLN 61.7m effect of accounting for the step acquisition of control of UAB Manifoldas.

The segment's depreciation and amortisation charges rose on Q3 2013 following settlement of expenditure incurred to change the status of the Baltic Beta platform, launch of the PG-1 platform, and upward adjustment to the value of licences, following the final settlement of the UAB Manifoldas acquisition.

3 Downstream segment

Structure of crude oil refining ('000 tonnes)

Volume of crude oil processed by the Gdańsk refinery	Q4 2013	Q3 2013	Q4 2012	Q4 2013 /Q3 2013	Q4 2013 /Q4 2012
	2,465.8	**2.398.2**	**2.535.3**	**2.8%**	**-2.7%**
including:					
Urals crude	**2,399.2**	2.024.1	2.324.6	**18.5%**	**3.2%**
Rozewie crude	**33.0**	44.2	24.3	**-25.3%**	**35.8%**
Lithuanian crude	**17.1**	15.3	0.0	**11.8%**	**-**
Other types of crude	**16.5**	314.6	186.4	**-94.8%**	**-91.1%**

The refinery's operations were stable throughout Q4 2013.Unit loads were adjusted to the current levels of market demand, with the total crude throughput reported at 2,466 thousand tonnes (up 2.8% quarter on quarter).The Gdańsk refinery's capacity utilisation rate was 93.1% (up 2.5pp quarter on quarter).

Structure of Grupa LOTOS S.A.'s output ('000 tonnes)

Total output	Q4 2013	Q3 2013	Q4 2012	Q4 2013 /Q3 2013	Q4 2013 /Q4 2012
	2,707.3	**2,627.9**	**2,692.6**	**3.0%**	**0.5%**
Gasolines	**388.3**	376.5	388.8	**3.1%**	**-0.1%**
Naphtha	**80.5**	67.2	104.6	**19.8%**	**-23.0%**
Diesel oils	**1,216.3**	1,242.9	1,148.3	**-2.1%**	**5.9%**
Light fuel oils	**82.3**	54.3	115.2	**51.6%**	**-28.6%**
Jet fuel	**117.5**	126.5	130.6	**-7.1%**	**-10.0%**
Heavy fuel oils	**334.3**	197.9	306.0	**68.9%**	**9.2%**
Bitumen components	**166.9**	256.4	186.6	**-34.9%**	**-10.6%**
Other	**321.2**	306.2	312.5	**4.9%**	**2.8%**

**Other products include fuel and technical gases, sulphur, base oils, Hydrowax, xylene fraction, LPG, and bunker fuel*

Structure of sales in the downstream segment ('000 tonnes)

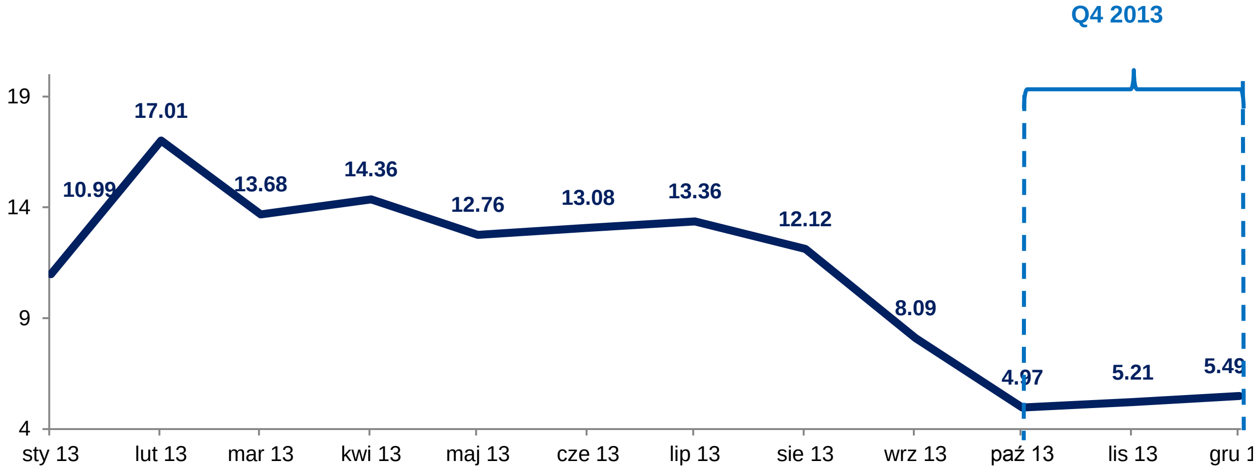
Refining products, merchandise and materials	Q4 2013	Q3 2013	Q4 2012	Q4 2013 /Q3 2013	Q4 2013 /Q4 2012
	2,553.0	2,488.0	2.614.6	**2.6%**	**-2.4%**
Gasolines	**423.1**	428.4	417.7	**-1.2%**	**1.3%**
Naphtha	**80.5**	67.2	104.6	**19.8%**	**-23.0%**
Diesel oils	**1,139.9**	1,153.2	1.151.0	**-1.2%**	**-1.0%**
Light fuel oils	**86.6**	52.3	108.3	**65.6%**	**-20.0%**
Jet fuel	**108.5**	123.6	137.4	**-12.2%**	**-21.0%**
Heavy fuel oils	**330.2**	201.6	299.3	**63.8%**	**10.3%**
Bitumens	**199.1**	260.2	193.0	**-23.5%**	**3.2%**
Other petroleum products	**185.1**	201.5	203.3	**-8.1%**	**-9.0%**

Petroleum products market in 2013

The official demand for fuel dwindled by 5.3% in 2013, depressed by the growing grey market and economic slowdown. LOTOS Group's share in the domestic fuel market was 33.3% (according to POPiHN data).

Discussed below are gasoline, diesel oil and heavy fuel oil, as the three primary contributors to the Group's margin.

Motor gasoline – average monthly crack margin, USD/bbl (January–December 2013)



Source: Thomson Reuters.

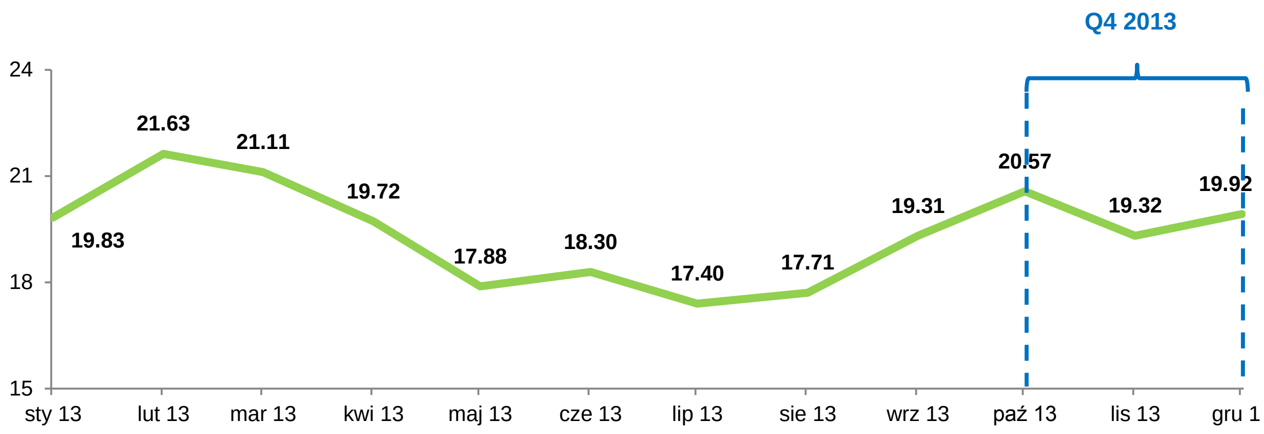
In Q4 2013, **motor gasoline** was sold at the year's lowest global crack margin of USD 5,22/bbl (down 47,8%, or USD 5,97/bbl year on year).

The volume of motor gasoline sold by the Group remained broadly flat both quarter on quarter and year on year.

In 2013, domestic consumption of gasolines slid 2.2% on the previous year. Despite lower prices, no increase in demand for the product was observed, as Poland saw signs of deteriorating macroeconomic conditions, including higher unemployment.

As at the end of the year, the LOTOS Group's share in the domestic gasoline market was 26.5%,while its share in the gasoline retail market rose to 5.6%, from 4.9% at the end of 2012.Despite the spring maintenance downtime at the Gdańsk refinery, domestic gasoline output rose 1%.Any surplus gasoline was sold abroad, to customers in the UK, Ukraine, the Netherlands, Sweden, and other countries.

Diesel oil – average monthly crack margin, USD/bbl (January–December 2013)



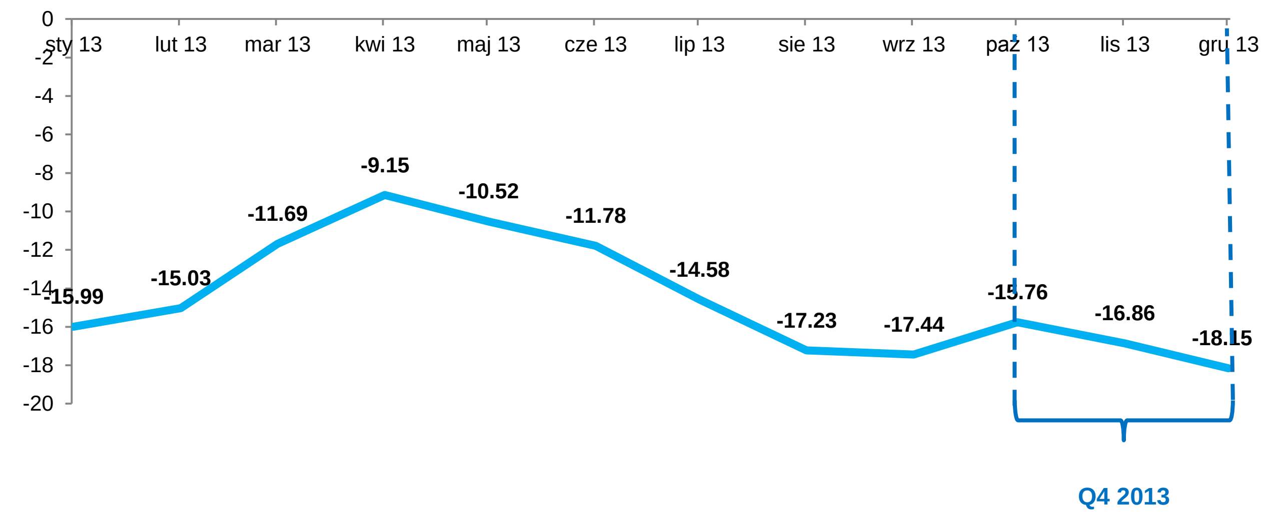
Source: Thomson Reuters.

In Q4 2013, the global crack margin on **diesel oil** fell to USD 19.94/bbl (down by 17.2%, or USD 4.15/bbl, year on year), continuing the downtrend from the preceding quarter. Diesel oil sales volumes remained flat on Q3 and Q4 2012.

In 2013, the official domestic consumption of diesel oil shrank by 6.0%,with the rampant grey market and sluggish economy cited as the key contributing factors. The LOTOS Group's share in the market for diesel oils was 35.7%, and remained virtually unchanged from the year before. In contrast, its share in the domestic diesel oil retail market rose from 9.5% to 10.0%.

In common with gasoline products, domestic output of diesel oil was 1% higher, with export volumes increased on sagging internal demand. Diesel exports were up 71% compared with 2012, and the key destinations included the Netherlands, the UK, and France.

Heavy fuel oil – average monthly crack margin, USD/bbl (January–December 2013)



Source: Thomson Reuters.

The average global crack margin on **heavy fuel oil** remained in the negative territory, and stayed low at USD -16.92/bbl (down 3.6%, or USD 0.6/bbl, year on year). A 10.3% rise in the sales volume of the product had an impact on the profit-on-sales figure posted by the Group for the reporting period.

In 2013, domestic output of heavy fuel oil went up 1.3% on 2012.As domestic demand for the product fell 9.8%, more of it was sold abroad − exports of heavy fuel oil rose 8.1% on the previous year. In 2013, the share of exports in total sales of the product grew to almost 80%.

Downstream segment’s key financial data (PLNm)

	Q4 2013	Q3 2013	Q4 2012	Q4 2013 /Q3 2013	Q4 2013 /Q4 2012
Revenue	**7,504.8**	7,794.8	8,272.9	-3.7%	-9.3%
EBIT	**-8.7**	297.8	172.0	-	-
Amortisation and depreciation	**124.4**	120.1	125.6	3.6%	-1.0%
EBITDA	**115.7**	417.9	297.6	-72.3%	-61.1%

In Q4 2013, the downstream segment reported revenue lower by 9.3% on Q4 2012, which was attributable mainly to a 2.4% decline in the segment's consolidated sales volumes and the segment's lower average net selling price. In Q4 2013, the average net selling price was PLN 2,940/t, down 7.1% on Q4 2012, due to a lower average quarterly USD exchange rate and lower prices of petroleum products on the global markets. A 3.7% quarter-on-quarter decline in revenue was caused by a 6.2% drop in the average selling prices.

The downstream segment’s weaker operating performance in Q4 2013 was primarily a result of lower crack margins on fuels and heavy fuel oil, lower volumes of own products sold, the weaker US dollar , and a PLN 11.9m impairment loss on service station assets.

Effect of inventory measurement on the downstream segment's EBIT (PLNm)

	Q4 2013	Q3 2013	Q4 2012
EBIT	**-8.7**	297.8	172.0
LIFO* effect	**79.7**	55.3	60.8
LIFO EBIT	**71.0**	353.1	232.8

**In line with its inventory measurement policies, the LOTOS Group uses the weighted average method to measure change in inventories. This method of inventory measurement defers the impact of changes in crude oil prices on the prices of finished products. Thus, an increase in crude oil prices has a positive effect on financial performance, while a decrease drives it down. The EBIT accounting for the effect of this inventory measurement method is presented in the table.*

In Q4 2013, the weighted average method of inventory measurement applied by the LOTOS Group, combined with fluctuations in crude prices and volatile exchange rates reduced the downstream segment's EBIT by PLN 79.7m (LIFO effect).The LIFO effect in Q3 2013 (PLN 55.3m) was due primarily to a fall in crude inventories, related mainly to the maintenance shutdown in H1 2013 (PLN 102.8m resulted from the fall in crude inventories and lower crude prices used to calculate the LIFO effect - i.e. the prices of crude purchased in 2007 and 2008 of USD 50-90/bbl, lower than the current purchase prices of around USD 110/bbl).In Q4 2012, the applied inventory valuation method had an effect of reducing the segment's EBIT by PLN 60.8m.If the LIFO method had been applied to inventory measurement, the downstream segment's EBIT would have been PLN 71.0m in Q4 2013, PLN 353.1m in Q3 2013, and PLN 232.8m in Q4 2012.

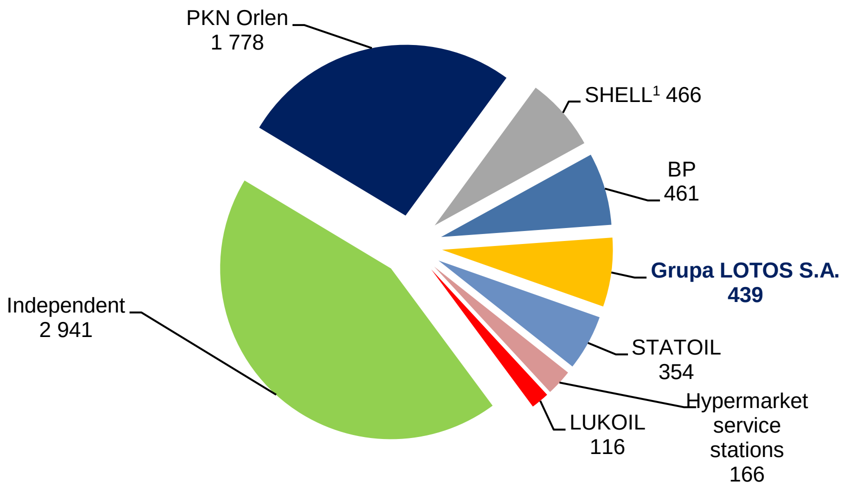
LOTOS service station network

Number of service stations in the LOTOS network at end of the period

Total	Dec 31 2013	Sep 30 2013	Dec 31 2012	Q4 2013 /Q3 2013	Q4 2013 /Q4 2012
	439	416	405	5.5%	8.4%
CODO	**256**	238	223	7.6%	14.8%
including: LOTOS OPTIMA	**100**	88	71	13.6%	40.8%
DOFO	**166**	157	154	5.7%	7.8%
including: LOTOS OPTIMA	**51**	39	30	30.8%	70.0%
franchise agreements signed	**170**	163	155	4.3%	9.7%
DODO	**17**	21	28	-19.0%	-39.3%

The dynamic expansion of the LOTOS network, which in 2013 was the second fastest growing service station chain in Poland, strengthened the LOTOS Group's presence on the retail market, pushing its share up to 8.5% at the end of 2013 (8% in 2012).The current rate of growth in retail sales will enable LOTOS to pursue its strategic goal of achieving a 10% share in the market by the end of 2015.

Polish retail market as at December 31st 2013



Source: Polish Organisation of Oil Industry and Trade (POPiHN).
(1) Including 88 Neste Oil stations acquired in 2013

EBIT of the retail area (thousand tonnes/PLNm)

	Q4 2013	Q3 2013	Q4 2012	Q4 2013 /Q3 2013	Q4 2013 /Q4 2012
Sales volume ('000 tonnes)	**262.2**	277.6	248.1	-5.5%	5.7%
Revenue	**1,480.3**	1,602.6	1,453.0	-7.6%	1.9%
EBIT	**-7.3**	5.5	-2.2	-	-
Amortisation and depreciation	**14.6**	15.1	13.5	-3.3%	8.1%
EBITDA	**7.3**	20.6	11.3	-64.6%	-35.4%

In Q4 2013, the retail area reported an operating loss of PLN -7.3m, driven chiefly by a PLN 11.9m impairment loss on service stations, recognised in December 2013.The negative EBIT recorded in the comparative period (Q4 2012) was caused by the low sales volumes and low realised margins at service stations.

4 Other business

EBIT of other business (PLNm)*

	Q4 2013	Q3 2013	Q4 2012	Q4 2013 /Q3 2013	Q4 2013 /Q4 2012
Revenue	**7.8**	5.4	7.2	**44.4%**	**8.3%**
EBIT**	**11.7**	1.2	0.8	**875.0%**	**1362.5%**
Amortisation and depreciation	**2.7**	2.4	2.6	**12.5%**	**3.8%**
EBITDA	**14.4**	3.6	3.4	**300.0%**	**323.5%**

** Includes: LOTOS Park Technologiczny Sp. z o.o., Energobaltic Sp. z o.o. and LOTOS Gaz S.A. w likwidacji (in liquidation).*
*** Q4 2013 EBIT includes a PLN 9.9m effect of cancellation of debt of LOTOS Gaz S.A. w likwidacji (in liquidation) owed to the Parent,*

5 Consolidated statement of comprehensive income

Financial highlights of the LOTOS Group (PLNm)

	Q4 2013	Q3 2013	Q4 2012	Q4 2013 /Q3 2013	Q4 2013 /Q4 2012
Revenue	**7,504.8**	7,796.3	8,325.8	**-3.7%**	**-9.9%**
EBITDA	**101.9**	497.4	323.5	**-79.5%**	**-68.5%**
Operating profit/(loss)	**-67.9**	340.8	151.4	**-**	**-**
LIFO EBIT	**11.8**	396.1	212.2	**-97.0%**	**-94.4%**
LIFO EBITDA	**181.6**	552.7	384.3	**-67.1%**	**-52.7%**

In Q4 2013, the LOTOS Group posted negative EBIT of PLN -67.9m, including PLN -8.7m from the downstream segment, PLN -46.7m from the upstream segment, and PLN 11.7m from other business, further reduced by PLN -24.3m in consolidation adjustments (mainly on the realised margin on stocks of Rozewie crude and Lithuanian crude, and the amount of debt relief at LOTOS Gaz).

In Q4 2013, the LOTOS Group recorded net finance income of PLN 11.9m.The main contributors to finance income included a PLN 78.3m gain on measurement and settlement of hedging transactions, a PLN -56.8m negative balance of interest on debt, interest income and commissions, and net foreign exchange losses of PLN -9.7m.

In Q4 2013, the effect of measurement and settlement of market risk hedging transactions at the LOTOS Group included a PLN 66.5m net gain on settlement and measurement of derivatives hedging the foreign exchange risk, a PLN 1.9m net gain on settlement and measurement of hedges of petroleum product prices, a PLN 6.9m positive contribution from settlement and measurement of futures hedging the risk of changes in prices of CO_2 emission allowances, and a PLN 3.0m net gain on settlement and measurement of interest rate swaps (IRS) hedging the interest rate risk.

Transactions hedging petroleum products prices as at December 31st 2013

Period	Product/commodity	Heavy fuel oil 3.5 PCT Barges FOB Rotterdam
Q1 2014	Volume (mt)	959
	Price range (USD/mt)	581.25
Q2 2014	Volume (mt)	11,207
	Price range (USD/mt)	564 – 577.75
Q3 2014	Volume (mt)	8,343
	Price range (USD/mt)	564 - 576
Q4 2014	Volume (mt)	480
	Price range (USD/mt)	571.75 - 576

Transactions hedging foreign exchange risk as at December 31st 2013

Currency pair	Instrument	Volume	Currency	FX exchange range
EUR/USD exchange rate	Forward	-5,650,000	EUR	1.3764 - 1.38
EUR/PLN exchange rate	Forward	5,950,000	EUR	4.1472 - 4.1831
USD/PLN exchange rate	Forward	-430,677,048	USD	3.0108 - 3.2937

Transactions hedging interest rate risk as at December 31st 2013

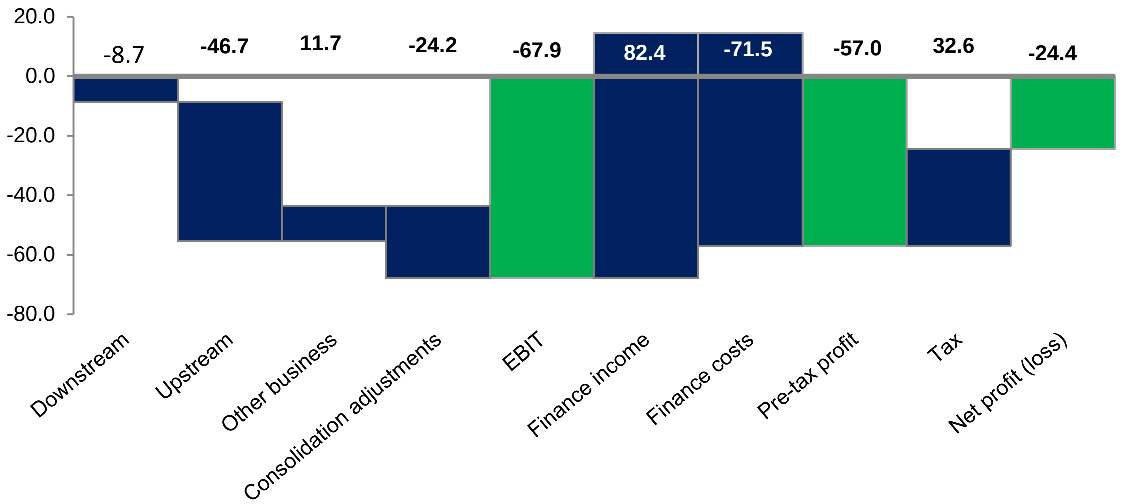
Instrument	Start date	End date	Notional amount	Currency	Interest rate range	Reference rate
IRS	from Jul 15 2011 to Jan 15 2015	from Jan 15 2018 to Jan 15 2019	250,000,000	USD	2.476% - 4.045%	3M LIBOR - 6M LIBOR

Futures hedging the risk related to the prices of carbon dioxide (CO2) emission allowances as at December 31st 2013

Instrument	Type of instrument	Volume (mt)	Price range (EUR/mt)	Volume (mt)	Price range (EUR/mt)
		2014		**2015**	
EUA	Futures	1,265,000	3.14 - 9.05	391,000	4.45 - 5.9
		2016		**2017**	
		-10,000	5,3	50,000	5.75 - 6.57

LOTOS Group's consolidated financial data

PLNm



In Q4 2013, the LOTOS Group posted net loss of PLN -24.4m.

Net profit/(loss) of the LOTOS Group (PLNm)

	Q4 2013	Q3 2013	Q4 2012
EBIT	**-67.9**	340.8	151.4
Pre-tax profit/loss	**-57.0**	387.6	168.1
Net profit/(loss)	**-24.4**	337.2	233.7

6 Consolidated statement of financial position

Consolidated statement of financial position – assets (PLNm)

Assets	Dec 31 2013	Dec 31 2012	Dec 31 2011	Change	%
	20,299.6	20,027.6	20,396.6	272.0	1.4%
Non-current assets	**12,038.8**	11,509.8	11,582.2	529.0	4.6%
Property, plant and equipment	**10,048.4**	9,685.9	10,523.5	362.5	3.7%
Goodwill	**46.7**	46.7	46.7	0.0	0.0%
Other intangible assets	**686.2**	548.7	475.6	137.5	25.1%
Equity-accounted entities	**66.2**	0.0	0.0	66.2	-
Deferred tax assets	**980.3**	1,121.3	400.1	-141.0	-12.6%
Other non-current assets	**211.0**	107.2	136.3	103.8	96.8%
Current assets	**8,260.0**	8,515.4	8,705.3	-255.4	-3.0%
Inventories	**5,731.9**	5,966.2	5,855.8	-234.3	-3.9%
Trade receivables	**1,594.7**	1,632.9	2,071.3	-38.2	-2.3%
Current tax assets	**30.7**	90.6	132.9	-59.9	-66.1%
Derivative financial instruments	**73.9**	121.3	37.2	-47.4	-39.1%
Other current assets	**325.1**	436.1	224.4	-111.0	-25.5%
Cash and cash equivalents	**503.7**	268.3	383.7	235.4	87.7%
Assets held for sale	**0.8**	2.4	109.1	-1.6	-66.7%

As at December 31st 2013, the LOTOS Group carried total assets of PLN 20,299.6m (up PLN 272.0m on December 31st 2012).

Key changes in assets:

- PLN 362.5m increase in property, plant and equipment, following the acquisition of Heimdal assets, and recognition of a related asset on decommissioning of the offshore oil and gas facilities,
- PLN 137.5m increase in other intangible assets, relating primarily to the Norwegian exploration licences in the North Sea,
- PLN 103.8m increase in other non-current assets, primarily due to a hold on cash in connection with the agreement between the parties involved in the YME project in Norway,
- PLN 141.0m decrease in deferred tax assets, mainly in the upstream segment,
- PLN 234.3m decrease in the value of inventories, relating to the lower volume of mandatory stocks, lower prices of petroleum products and crude oil, and lower inventories of semi-finished products at the Parent, which in 2012 were stockpiled prior to the maintenance shutdown,
- PLN 111.0m decrease in other current assets, mainly receivables from the state budget other than income tax (value added tax),
- PLN 235.4m increase in cash and cash equivalents.

LOTOS

Consolidated statement of financial position – sources of financing (PLNm)

Equity and liabilities	Dec 31 2013	Dec 31 2012	Dec 31 2011	Change	%
	20,299.6	20,027.6	20,396.6	272.0	**1.4%**
Equity	**9,189.6**	9,066.4	7,782.4	123.2	**1.4%**
Share capital	**129.9**	129.9	129.9	0.0	0.0%
Share premium	**1,311.3**	1,311.3	1.311.3	0.0	0.0%
Cash flow hedging reserve	**61.0**	-36.8	-419.3	97.8	**-265.8%**
Retained earnings	**7,666.8**	7,627.4	6,700.4	39.4	**0.5%**
Exchange differences on translating foreign operations	**20.3**	33.9	59.1	-13.6	**-40.1%**
Non-controlling interests	**0.3**	0.7	1.0	-0.4	**-57.1%**
Non-current liabilities	**5,693.6**	5,415.4	5,847.5	278.2	**5.1%**
Borrowings, other debt instruments and finance lease liabilities	**4,496.2**	4,462.1	5,161.5	34.1	**0.8%**
Derivative financial instruments	**52.9**	88.3	127.4	-35.4	**-40.1%**
Deferred tax liability	**281.3**	322.9	105.2	-41.6	**-12.9%.**
Employee benefit obligations	**151.4**	129.9	115.9	21.5	**16.6%**
Other liabilities and provisions	**711.8**	412.2	337.5	299.6	**72.7%**
Current liabilities	**5,416.4**	5,545.8	6,726.3	-129.4	**-2.3%**
Borrowings, other debt instruments and finance lease liabilities	**1,715.2**	2,094.6	2,427.2	-379.4	**-18.1%**
Derivative financial instruments	**21.3**	91.0	140.4	-69.7	**-76.6%**
Trade payables	**2,396.1**	2,174.5	2,812.3	221.6	**10.2%**
Current tax payables	**8.8**	5.8	7.4	3.0	**51.7%**
Employee benefit obligations	**105.1**	110.9	94.7	-5.8	**-5.2%**
Other liabilities and provisions	**1,169.9**	1,069.0	1,244.3	100.9	**9.4%**
Liabilities directly associated with assets held for sale	**0.0**	0.0	40.4	0.0	**-**

The PLN 123.2m year-on-year increase in the LOTOS Group's equity, to PLN 9,189.6m as at the end of 2013 was mainly a result of:

- PLN 97.8m foreign exchange gains on measurement of cash flow hedges adjusted for the tax effect and charged to reserve capital,
- PLN 39.4m increase in retained earnings.

The 45.3% share of equity in total equity and liabilities remained unchanged relative to 2012.

In 2013, non-current liabilities increased by PLN 278.2m, mainly due to recognition of a provision for future costs of decommissioning of the purchased production assets on the Norwegian Continental Shelf, and a provision for future costs of removal of the MOPU from the YME field.

Year on year, current liabilities as at December 31st 2013 were down PLN 129.4m, mainly due to:

- PLN 396.5m drop in current borrowings, chiefly in the upstream segment and at the Parent,
- PLN 221.6m increase in trade payables related to crude oil purchases, mainly at the Parent.

As at December 31st 2013, the LOTOS Group's financial debt totalled PLN 6,211.4m, down PLN 345.3m on December 31st 2012.The decrease was chiefly attributable to the lower USD exchange rate (down PLN 0.09/USD on December 31st 2012) and debt repayment. The ratio of financial debt (adjusted for free cash) to equity was 62.1% (down 7.3pp on December 31st 2012).

In the reporting period, the Group carried no material consolidated off-balance-sheet items other than described in Note 35 to the consolidated financial statements of the LOTOS Group for 2013.

7 Consolidated statement of cash flows

Consolidated statement of cash flows (PLNm)

	Q4 2013	Q3 2013	Q4 2012
Cash flows from operating activities	**340.6**	205.7	395.7
Cash flows from investing activities	**-489.2**	-113.6	-348.6
Cash flows from financing activities	**-33.1**	-60.7	-406.3
Change in net cash	**-186.5**	11.3	-367.0
Cash and cash equivalents at beginning of the period	**180.0**	3.9	-121.6
Cash and cash equivalents at end of the period	**4.8**	191.3	-240.6

As at the end of Q4 2013, the LOTOS Group's cash balance (including current account overdrafts) was PLN 4.8m.

Positive cash flows from operating activities of PLN 340.6m reported in Q4 2013 resulted mainly from a positive effect of changes in working capital balance.

Negative net cash flows from investing activities 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 in Q4 2013, of PLN -33.1m, chiefly comprise proceeds from borrowings and other debt instruments and outflows on principal and interest payments of PLN -246.2m, as well as proceeds from notes issued of PLN 203.1m.