LOTOS

THE LOTOS GROUP
FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS - CONSOLIDATED

	PLN '000		EUR '000	
	3 months ended Mar 31 2014	3 months ended Mar 31 2013 (restated)	3 months ended Mar 31 2014	3 months ended Mar 31 2013 (restated)
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	7,176,973	7,168,698	1,713,127	1,717,547
Operating profit/(loss)	17,329	(26,051)	4,136	(6,242)
Pre-tax loss	(21,052)	(220,588)	(5,025)	(52,851)
Net loss	(32,362)	(147,340)	(7,725)	(35,301)
Net loss attributable to owners of the Parent	(32,367)	(147,352)	(7,726)	(35,304)
Net profit attributable to non-controlling interests	5	12	1	3
Total comprehensive income	(51,740)	(312,063)	(12,350)	(74,767)
Total comprehensive income attributable to owners of the Parent	(51,746)	(312,078)	(12,351)	(74,771)
Total comprehensive income attributable to non-controlling interests	6	15	1	4
Net cash from operating activities	252,669	504,843	60,312	120,955
Net cash from investing activities	(477,202)	(196,379)	(113,907)	(47,050)
Net cash from financing activities	219,958	(80,618)	52,503	(19,315)
Total net cash flow	(4,575)	227,846	(1,092)	54,590
Basic loss per share (PLN/EUR)	(0.25)	(1.13)	(0.06)	(0.27)
Diluted loss per share (PLN/EUR)	(0.25)	(1.13)	(0.06)	(0.27)

	PLN '000		EUR '000	
	As at 31.03.2014	As at Dec 31 2013 (restated)	As at 31.03.2014	As at Dec 31 2013 (restated)
	(unaudited)	(audited)	(unaudited)	(audited)
Total assets	19,652,644	20,284,754	4,711,395	4,891,193
Equity attributable to owners of the Parent	9,137,558	9,189,307	2,190,578	2,215,786
Non-controlling interests	268	289	64	70
Total equity	9,137,826	9,189,596	2,190,642	2,215,856

FINANCIAL HIGHLIGHTS - SEPARATE

	PLN '000		EUR '000	
	3 months ended Mar 31 2014	3 months ended Mar 31 2013 (restated)	3 months ended Mar 31 2014	3 months ended Mar 31 2013 (restated)
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	6,683,190	6,894,898	1,595,262	1,651,947
Operating loss	(86,960)	(74,918)	(20,757)	(17,950)
Pre-tax loss	(117,381)	(225,554)	(28,019)	(54,040)
Net loss	(93,429)	(182,596)	(22,301)	(43,748)
Total comprehensive income	(117,857)	(363,290)	(28,132)	(87,041)
Net cash from operating activities	170,591	371,172	40,720	88,929
Net cash from investing activities	(133,623)	(83,447)	(31,895)	(19,993)
Net cash from financing activities	60,484	(69,295)	14,437	(16,602)
Total net cash flow	97,452	218,430	23,262	52,334
Basic loss per share (PLN/EUR)	(0.72)	(1.41)	(0.17)	(0.34)
Diluted loss per share (PLN/EUR)	(0.72)	(1.41)	(0.17)	(0.34)

	PLN '000		EUR '000	
	As at 31.03.2014	As at Dec 31 2013 (restated)	As at 30.03.2014	As at Dec 31 2013 (restated)
	(unaudited)	(audited)	(unaudited)	(audited)
Total assets	14,582,094	15,559,412	3,495,815	3,751,787
Equity	7,017,738	7,135,595	1,682,386	1,720,581

Items in the Financial Highlights table have been translated at the following EUR exchange rates:

Items of the statement of financial position have been translated at the mid-exchange rates quoted by the National Bank of Poland for the last day of the reporting period:

As at Mar 31 2014	Dec 31 2013
EUR 1 = PLN 4.1713	EUR 1 = PLN 4.1472

Items of the statement of comprehensive income and the statement of cash flows have been translated using the arithmetic mean of the mid-exchange rates quoted by the National Bank of Poland for the last day of each calendar month in the reporting period:

3 months ended Mar 31 2014	3 months ended Mar 31 2013
EUR 1 = PLN 4.1894	EUR 1 = PLN 4.1738

THE LOTOS GROUP

FINANCIAL REPORT
FOR THE FIRST QUARTER OF 2014

WITH THE INDEPENDENT AUDITOR'S REPORT ON REVIEW OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31ST 2014, PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS ENDORSED BY THE EUROPEAN UNION

(This is a translation of a document originally issued in Polish)

I. THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31ST 2014, PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS ENDORSED BY THE EUROPEAN UNION

THE LOTOS GROUP
INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the three months ended March 31st 2014

PLN '000	Note	3 months ended Mar 31 2014 (unaudited)	3 months ended Mar 31 2013 (restated) (unaudited)
Revenue	8	7,176,973	7,168,698
Cost of sales	9	(6,795,070)	(6,828,091)
Gross profit		**381,903**	**340,607**
Distribution costs	9	(267,933)	(251,544)
Administrative expenses	9	(100,966)	(108,665)
Other income	10	7,279	3,872
Other expenses	11	(2,954)	(10,321)
Operating profit/(loss)		**17,329**	**(26,051)**
Finance income	12	29,240	4,494
Finance costs	13	(67,274)	(200,711)
Share in net profit/(loss) of equity-accounted entities		(347)	1,680
Pre-tax loss		**(21,052)**	**(220,588)**
Corporate income tax	14.1	(11,310)	73,248
Net loss		**(32,362)**	**(147,340)**
Other comprehensive income			
Items that may be reclassified to profit/loss:			
Exchange differences on translating foreign operations		5,050	15,971
Cash flow hedges		(30,158)	(223,079)
Income tax on other comprehensive income	14.1	5,730	42,385
Other comprehensive income (net)		**(19,378)**	**(164,723)**
Total comprehensive income		**(51,740)**	**(312,063)**
Net profit (loss) attributable to:			
Owners of the Parent		(32,367)	(147,352)
Non-controlling interests		5	12
		(32,362)	**(147,340)**
Total comprehensive income attributable to:			
Owners of the Parent		(51,746)	(312,078)
Non-controlling interests		6	15
		(51,740)	**(312,063)**
Net loss attributable to owners of the Parent per share (PLN)			
Weighted average number of shares ('000)	15	129,873	129,873
- basic	15	(0.25)	(1.13)
- diluted	15	(0.25)	(1.13)

LOTOS

THE LOTOS GROUP
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at March 31st 2014

PLN '000	Note	Mar 31 2014 (unaudited)	Dec 31 2013 (restated) (audited)	Jan 1 2013 (restated) (audited)
ASSETS				
Non-current assets				
Property, plant and equipment		10,192,213	10,009,073	9,644,600
Goodwill		46,688	46,688	46,688
Other intangible assets		679,133	658,797	496,386
Equity-accounted entities		129,820	129,798	85,214
Deferred tax assets	14.2	974,074	970,958	1,121,314
Other non-current assets		238,514	210,981	107,232
Total non-current assets		**12,260,442**	**12,026,295**	**11,501,434**
Current assets				
Inventories		4,703,033	5,728,884	5,963,027
- including mandatory stocks		*3,567,641*	*4,250,530*	*4,353,207*
Trade receivables		1,889,456	1,591,649	1,625,715
Current tax assets		22,566	30,287	90,566
Derivative financial instruments		49,709	73,935	121,334
Other current assets		390,625	337,071	434,400
Cash and cash equivalents		336,019	495,839	266,104
Total current assets		**7,391,408**	**8,257,665**	**8,501,146**
Assets held for sale		794	794	2,428
Total assets		**19,652,644**	**20,284,754**	**20,005,008**
EQUITY AND LIABILITIES				
Equity				
Share capital		129,873	129,873	129,873
Share premium		1,311,348	1,311,348	1,311,348
Cash flow hedging reserve		36,591	61,019	(36,801)
Retained earnings		7,634,463	7,666,833	7,627,427
Exchange differences on translating foreign operations		25,283	20,234	33,878
Equity attributable to owners of the Parent		**9,137,558**	**9,189,307**	**9,065,725**
Non-controlling interests		268	289	699
Total equity		**9,137,826**	**9,189,596**	**9,066,424**
Non-current liabilities				
Borrowings, other debt instruments and finance lease liabilities	20	4,565,512	4,496,190	4,462,098
Derivative financial instruments		35,674	52,876	88,325
Deferred tax liabilities	14.2	245,006	275,823	313,716
Employee benefit obligations		151,947	151,425	129,862
Other liabilities and provisions		690,116	705,688	405,687
Total non-current liabilities		**5,688,255**	**5,682,002**	**5,399,688**
Current liabilities				
Borrowings, other debt instruments and finance lease liabilities	20	1,766,930	1,715,196	2,094,602
Derivative financial instruments		20,796	21,277	91,000
Trade payables		1,677,624	2,395,237	2,169,408
Current tax payables		1,928	8,823	5,752
Employee benefit obligations		73,223	103,973	109,971
Other liabilities and provisions		1,286,062	1,168,650	1,068,163
Total current liabilities		**4,826,563**	**5,413,156**	**5,538,896**
Total liabilities		**10,514,818**	**11,095,158**	**10,938,584**
Total equity and liabilities		**19,652,644**	**20,284,754**	**20,005,008**

The Notes to the interim condensed consolidated financial statements for the three months ended March 31st 2014, presented on pages 8 to 33, are an integral part of the statements.

(This is a translation of a document originally issued in Polish)

THE LOTOS GROUP
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the three months ended March 31st 2014
prepared using the indirect method

PLN '000	Note	3 months ended Mar 31 2014 (unaudited)	3 months ended Mar 31 2013 (restated) (unaudited)
Cash flows from operating activities			
Net loss		**(32,362)**	**(147,340)**
Adjustments:		**309,373**	**674,025**
Income tax expense	*14.1*	*11,310*	*(73,248)*
Share in net (profit)/loss of equity-accounted entities		*347*	*(1,680)*
Amortisation and depreciation	*9*	*214,305*	*166,835*
Foreign exchange (gains)/losses		*(25,871)*	*59,983*
Interest and dividends		*46,493*	*45,689*
(Gain)/loss from investing activities		*(306)*	*8,385*
Settlement and valuation of financial instruments	*13*	*11,705*	*82,133*
(Increase)/decrease in trade receivables		*(297,807)*	*60,704*
(Increase)/decrease in other assets		*(103,608)*	*91,979*
Decrease in inventories		*1,025,851*	*345,175*
(Decrease) in trade payables		*(717,613)*	*(316,035)*
Increase in other liabilities and provisions		*174,795*	*189,850*
(Decrease)/increase in employee benefit obligations		*(30,228)*	*14,255*
Corporate income tax paid		(24,342)	(21,842)
Net cash from operating activities		**252,669**	**504,843**
Cash flows from investing activities			
Interest received		757	865
Sale of property, plant and equipment and other intangible assets		2,896	3,044
Purchase of property, plant and equipment and other intangible assets		(474,383)	(198,174)
Security deposits (margins)		(7,538)	(2,536)
Settlement of derivative financial instruments		1,066	422
Net cash from investing activities		**(477,202)**	**(196,379)**
Cash flows from financing activities			
Proceeds from borrowings		433,239	167,960
Security deposit (margin)		2,111	-
Cash flows attributable to changes in interest in subsidiaries not resulting in loss of control	3	(18)	(227)
Repayment of borrowings		(164,025)	(149,343)
Interest paid		(37,952)	(42,420)
Decrease in finance lease liabilities		(4,563)	(4,458)
Settlement of derivative financial instruments		(8,834)	(52,130)
Net cash from financing activities		**219,958**	**(80,618)**
Total net cash flow		**(4,575)**	**227,846**
Effect of exchange rate fluctuations on cash held		(427)	13,087
Change in net cash		**(5,002)**	**240,933**
Cash at beginning of the period		**(3,075)**	**(242,884)**
Cash at end of period	19	**(8,077)**	**(1,951)**

PLN '000	Note	Share capital	Share premium	Cash flow hedging reserve	Retained earnings	Exchange differences on translating foreign operations	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
Jan 1 2014 (audited)		**129,873**	**1,311,348**	**61,019**	**7,666,833**	**20,234**	**9,189,307**	**289**	**9,189,596**
Net profit/(loss)		-	-	-	*(32,367)*	-	*(32,367)*	*5*	*(32,362)*
Other comprehensive income (net)		-	-	*(24,428)*	-	*5,049*	*(19,379)*	*1*	*(19,378)*
Total comprehensive income		-	-	(24,428)	(32,367)	5,049	(51,746)	6	(51,740)
Purchase of shares from non-controlling shareholders	3	-	-	-	9	-	9	(27)	(18)
Other		-	-	-	(12)	-	(12)	-	(12)
Mar 31 2014 (unaudited)		**129,873**	**1,311,348**	**36,591**	**7,634,463**	**25,283**	**9,137,558**	**268**	**9,137,826**
Jan 1 2013 (audited)		**129,873**	**1,311,348**	**(36,801)**	**7,627,427**	**33,878**	**9,065,725**	**699**	**9,066,424**
Net profit/(loss)		-	-	-	*(147,352)*	-	*(147,352)*	*12*	*(147,340)*
Other comprehensive income (net)		-	-	*(180,694)*	-	*15,968*	*(164,726)*	*3*	*(164,723)*
Total comprehensive income		-	-	(180,694)	(147,352)	15,968	(312,078)	15	(312,063)
Purchase of shares from non-controlling shareholders		-	-	-	113	-	113	(340)	(227)
Mar 31 2013 (restated) (unaudited)		**129,873**	**1,311,348**	**(217,495)**	**7,480,188**	**49,846**	**8,753,760**	**374**	**8,754,134**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31ST 2014

1. General information

Grupa LOTOS Spółka Akcyjna ("Grupa LOTOS S.A.", the "Company", the "Parent"), was established on September 18th 1991. The Company's registered address is ul. Elbląska 135, 80-718 Gdańsk, Poland.

The core business of the LOTOS Group (the "LOTOS Group" the "Group") consists in the production and processing of refined petroleum products and their wholesale and retail sale. The Group's business also includes acquisition of crude oil and natural gas deposits and oil and gas production. Based on the classification applied by the Warsaw Stock Exchange, Grupa LOTOS S.A. is included in the fuel sector.

2. Composition of the LOTOS Group

As at March 31st 2014, the LOTOS Group comprised Grupa LOTOS S.A. (the Parent) and 34 production, service and trading companies, including:

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

In addition, the Group holds shares in equity-accounted entities.

Detailed information on the registered addresses and business profiles of these entities, the Group's ownership interests and the applied method of consolidation is presented below.

Name	Registered office	Business profile	The Group's ownership interest		
			Mar 31 2014	Dec 31 2013	Mar 31 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, extraction of hydrocarbons	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 Asfalt 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%

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Name	Registered office	Business profile	The Group's ownership interest			
			Mar 31 2014		Dec 31 2013	Mar 31 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%
•• 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%

(This is a translation of a document originally issued in Polish)

Name	Registered office	Business profile	The Group's ownership interest Mar 31 2014		Dec 31 2013	Mar 31 2013
Equity-accounted entities						
LOTOS - Air BP Polska Sp. z o.o.	Gdańsk	Sale of aviation fuel and logistics services	50.00%		50.00%	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)	49.99%	99.98%
Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k.	Gdańsk	Crude oil and gas production	70.44%	(5, 6)	81.68%	99.98%
AB LOTOS Geonafta Group						
• UAB Minijos Nafta	Lithuania, Gargždai	Crude oil exploration and production	49.99%	(5, 7)	49.99%	49.99%

(1) In 2014, Grupa LOTOS S.A. continued the squeeze-out of shares in LOTOS Petrobaltic S.A. Following the acquisition of shares in LOTOS Petrobaltic S.A. as part of the squeeze-out, as at March 31st 2014 Grupa LOTOS S.A. held a 99.99% (99.986%) interest in the share capital of LOTOS Petrobaltic S.A. (see Note 3).

(2) On January 28th 2014, LOTOS Terminale S.A. sold its entire shareholding in RCEkoenergia Sp. z o.o. to LOTOS Infrastruktura S.A. (see Note 3).

(3) On January 7th 2014, a share capital increase at LOTOS Infrastruktura S.A. was registered. Following the registration, the shareholder structure of the company was as follows: 66.95% – Grupa LOTOS S.A.; 33.05% – LOTOS Terminale S.A. (see Note 3).

(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 January 20th 2014, in response to a request 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 interest in Baltic Gas, measured as a percentage of the amount of contributions made by individual partners to total contributions as at March 31st 2014 was as follows: Baltic Gas Sp. z o.o. (general partner) (0.001%); LOTOS Petrobaltic S.A. (limited partner) (70.451%); CalEnergy Resources 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. (a jointly-controlled entity) is 70.44%. For IFRS purposes, Baltic Gas Sp. z o.o. i wspólnicy sp.k is an entity jointly-controlled by the Group (joint arrangement under IFRS 11; see Note 2 to the consolidated financial statements for 2013).

(7) As at March 31st 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 March 31st 2013, the company was subject to proportionate consolidation (see Note 4.4).

3. Changes in the entity's structure in the interim period, including changes which follow from mergers, acquisitions or sale of subsidiaries, long-term investments, restructurings or discontinuation of any businesses

In the period from the end of the previous financial year, that is from December 31st 2013 (see Note 2 to the consolidated financial statements for 2013), the Group's structure was subject to the changes listed below and discussed in Note 2.

Acquisition of Series A shares in LOTOS Petrobaltic S.A.

In 2014, Grupa LOTOS S.A. has continued the squeeze-out of non-controlling interests in LOTOS Petrobaltic S.A. (excluding shares held by the State Treasury). From January 1st to March 31st 2014, the Company acquired 143 shares with a total value of PLN 18 thousand, representing 0.0014% of the share capital entered in the share register. The above transactions were accounted for as equity transactions; as a result, an amount of PLN 9 thousand was recognised as retained earnings attributable to the Parent, and the amount of non-controlling interests decreased by PLN 27 thousand.

Following the acquisition of shares in LOTOS Petrobaltic S.A. as part of the squeeze-out, as at March 31st 2014 Grupa LOTOS S.A. held a 99.99% (99.986%) interest in the share capital of LOTOS Petrobaltic S.A. (9,938,627 shares entered in the share register).

Acquisition of shares in LOTOS Infrastruktura S.A. by LOTOS Terminale S.A.

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 offered in a private placement and acquired by LOTOS Terminale S.A. Following the registration of the share capital increase, the shareholder structure of the entity was as follows:

- 66.95% – Grupa LOTOS S.A.
- 33.05% − LOTOS Terminale S.A.

The event described above had no effect on the data disclosed in these interim consolidated financial statements.

Acquisition of shares in RCEkoenergia Sp. z o.o. by LOTOS Infrastruktura S.A.

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. Following the transaction, the shareholder structure of RCEkoenergia Sp. z o.o. changed as follows:

- 28,305 shares, a 99.996% interest – LOTOS Infrastruktura S.A.
- 1 share, a 0.004% interest – Grupa LOTOS S.A.

The event described above had no effect on the data disclosed in these interim consolidated financial statements.

4. Basis of preparation and presentation

These interim condensed consolidated financial statements of the LOTOS Group ("interim consolidated financial statements", "interim financial statements", "consolidated financial statements", "financial statements") have been prepared in accordance with an International Accounting Standard IAS 34 Interim Financial Statements, which was endorsed by the EU.

These interim condensed consolidated financial statements present the financial position of the Group as at March 31st 2014, December 31st 2013 and January 1st 2013, as well as the Group's performance and cash flows for the three months ended March 31st 2014 and March 31st 2013.

These interim financial statements should be read in conjunction with the audited *Consolidated financial statements of the LOTOS Group for 2013*, issued on March 5th 2014 ("consolidated financial statements for 2013").

The financial information as at March 31st 2014 and for the three months ended on that date has been reviewed by an auditor. The comparative financial data for the three months ended March 31st 2013 has not been reviewed by an auditor. The financial information as at December 31st 2013 has been audited. The auditor's opinion on the consolidated financial statements for 2013 was issued on March 3rd 2014.

The Parent's functional currency and the reporting currency of these interim consolidated financial statements is the Polish złoty, and all amounts presented herein, unless indicated otherwise, are stated in thousands of złoty.

4.1 Accounting policies

The accounting policies and calculation methods applied by the Group in the preparation of these interim condensed consolidated financial statements are the same as those used in the preparation of the consolidated financial statements for 2013 (see Note 7 to the consolidated financial statements for 2013), save for the policies changed or introduced as a result of compliance with new IFRS requirements or new transactions occurring for the first time, which require their recognition and measurement (see below).

The following new standards, amendments to the existing standards and interpretations which have been endorsed by the European Union (the "EU") are effective in periods beginning after January 1st 2014:

- IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after January 1st 2013; in the EU effective for annual periods beginning on or after January 1st 2014),
- IFRS 11 Joint Arrangements (effective for annual periods beginning on or after January 1st 2013; in the EU effective for annual periods beginning on or after January 1st 2014),
- IFRS 12 Disclosure of Interests in Other Entities (effective for annual periods beginning on or after January 1st 2013; in the EU effective for annual periods beginning on or after January 1st 2014),
- IAS 27 Separate Financial Statements, as amended in 2011 (effective for annual periods beginning on or after January 1st 2013; in the EU effective for annual periods beginning on or after January 1st 2014),
- IAS 28 Investments in Associates and Joint Ventures, as amended in 2011 (effective for annual periods beginning on or after January 1st 2013; in the EU effective for annual periods beginning on or after January 1st 2014),
- Amendments to IAS 32 Financial Instruments: Presentation: Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1st 2014),
- Amendments to IFRS 10, IFRS 11 and IFRS 12 Transition Guidance (effective for annual periods beginning on or after January 1st 2013; in the EU effective for annual periods beginning on or after January 1st 2014),
- Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities (effective for annual periods beginning on or after January 1st 2014),
- Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting, published on June 27th 2013 (effective for annual periods beginning on or after January 1st 2014),
- Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets, published on May 29th 2013 (effective for annual periods beginning on or after January 1st 2014),

IFRS 11 Joint Arrangements replaced the previously applicable IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled entities – Non-monetary contributions by venturers. Application of IFRS 11 resulted in a change of the Group's accounting policies described in the consolidated financial statements for 2013 (in particular in Notes 7.11 and 7.30).

IFRS 11 defines a joint arrangement as a contractual arrangement under which the business of two or more parties is subject to joint control. Joint control exists only when decisions about the relevant activities under the arrangement require the unanimous consent of all the parties.

The new standard classifies joint arrangements into two types – joint operations and joint ventures. The distinction between the two is based on different rights and obligations of the parties under the joint arrangement.

If under the joint arrangement the parties with joint control of the arrangement have rights to the net assets of the arrangement, then it is a joint venture, which in principle requires the establishment of a separate vehicle. As at March 31st 2014, the Group's joint ventures included LOTOS – Air BP Polska Sp. z o.o., a jointly controlled entity operating in the downstream segment, and the following entities operating in the upstream segment: Baltic Gas Sp. z o.o., Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k., and UAB Minijos Nafta.

As of January 1st 2014, all joint arrangements that meet the definition of a joint venture are consolidated using the equity method. Under IFRS 11, proportionate consolidation is no longer allowed. For a description of rules of accounting for interests in entities using the equity method and entities subject to proportionate consolidation (no longer in use) see Note 7.11 to the consolidated financial statements for 2013.

In these interim condensed consolidated financial statements prepared as at March 31st 2014, the Group did not apply the proportionate method and accounted for the interests in UAB Minijos Nafta using the equity method, as described in detail in Note 4.4 as the effect of change in accounting policies.

Joint arrangements under which the parties with joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement, are defined as joint operations. As at March 31st 2014, the Group held interests in joint operations in the production segment through a Norwegian company LOTOS Exploration and Production Norge AS, the parent of the LOTOS Petrobaltic Group.

In accordance with IFRS 11, the Group recognises its interest in assets, liabilities, income and expenses related to its joint operations in Norway, as reflected in relevant items of these interim consolidated financial statements. Before January 1st 2014, the operations in Norway were accounted for in accordance with the rules applicable to joint ventures within the meaning of IAS 31 as jointly controlled assets and liabilities (see Note 7.30 to the consolidated financial statements for 2013). The application of IFRS 11 did not result in any restatements or change in the Group's comparative data related to these operations as the existing and previously applicable IFRS requirements concerning accounting for such jointly controlled activities are similar.

Concurrently, the Management Board notes that because the reporting period ended March 31st 2014 was the first period when the Group recognised revenue from sale of crude oil and natural gas in Norway, the Company elected that such revenue will be accounted for and measured under IFRS 11, and subsequently approved the new accounting policies.

The revenue generated in the reporting period was derived from sales of crude oil and natural gas produced from the Skirne, Vale and Atla fields, the interest in which the Group purchased on December 30th 2013 (see Note 13 – Acquisition of interests in Norwegian production and exploration licences − Heimdal, to the consolidated financial statements for 2013). In accordance with the revised accounting policies applied by the Group, such revenue was reported and accounted for using the entitlements method (or right method). It is one of two different methods for recognition of revenue generally followed by oil and gas producers (with the sales method as an alternative) and allowed under IFRS. The Management Board believes that the entitlements method provides for an accurate and fair presentation of the assets, financial performance and profitability of the Group's joint operations carried out at oil and gas producing fields.

For logistical reasons, when hydrocarbons are produced from a field by many participants there are naturally occurring differences between the volumes actually received by individual participants and their respective contractual share of production (to which participants are entitled under relevant agreements). Thus, it is necessary to apply a special mechanism to account for such discrepancies. In accordance with the entitlements method applied by the Group, revenue is always recognised in the Group's accounting books in proportion to its entitlement to production from the field. The correct amount of revenue in the financial statements is arrived at in such manner that an overlift party, i.e. a participant which in a given period receives hydrocarbons in excess of its contractual share of production from a field, recognises the excess in its accounting books not as revenue but as a liability. Conversely, if in a given period the underlift party, i.e. a participant that receives less raw materials from the field than its entitlement, recognises the underlift as a receivable and revenue. In the consolidated statement of financial position, assets and liabilities under the entitlement method are presented as *trade receivables* and *trade payables*. For more information on estimates related to the application of the entitlement method, see Note 7.

4.2 New standards and interpretations which have been published but are not yet effective

New standards, amendments to the existing standards and interpretations which have not been endorsed by the European Union:

- Amended IFRS 9 Financial Instruments: Classification and Measurement (the effective date was deferred by the IASB with no planned endorsement date given),
- IFRIC 21 Levies, published on May 20th 2013 (effective for annual periods beginning on or after January 1st 2014),
- Amendments introduced as part of the Improvements to IFRSs 2010-2012 cycle, published on December 12th 2013 (effective for annual periods beginning on or after July 1st 2014),
- Amendments introduced as part of the Improvements to IFRSs 2011-2013 cycle, published on December 12th 2013 (effective for annual periods beginning on or after July 1st 2014),
- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after July 1st 2014),
- IFRS 14 Regulatory Deferral Accounts, published on January 30th 2014 (effective for annual periods beginning on or after January 1st 2016).

The Group has not opted for early application of any of the standards, interpretations, or amendments which have not yet become effective. The Company's Management Board is analysing and assessing the effect of the new standards and interpretations on the accounting policies applied by the Group and on the future financial statements.

4.3 Exchange rates

The following exchange rates, determined on the basis of the exchange rates quoted by the National Bank of Poland (the "NBP"), have been used for the purpose of the valuation of items of the statement of financial position and translation of the financial statements of foreign entities and groups:

NBP's mid-exchange rate quoted for:	Mar 31 2014 [(1)]	Dec 31 2013 [(2)]
USD	3.0344	3.0120
EUR	4.1713	4.1472
NOK	0.5050	0.4953
LTL	1.2081	1.2011

[(1)] NBP's mid-rates table, effective for March 31st 2014.
[(2)] NBP's mid-rates table, effective for December 31st 2013.

NBP's average exchange rate for the reporting period	3 months ended Mar 31 2014 [(1)]	3 months ended Mar 31 2013 [(2)]
USD	3.0629	3.1714
EUR	4.1894	4.1738
NOK	0.5026	0.5589
LTL	1.2134	1.2088

[(1)] Based on the arithmetic mean of the mid rates quoted by the NBP for the last day of each full month in the period January 1st–March 31st 2014.
[(2)] Based on the arithmetic mean of the mid rates quoted by the NBP for the last day of each full month in the period January 1st–March 31st 2013.

4.4 Change of information presented in previous reporting periods, change of accounting policies and correction of errors

Change of comparative data following final accounting for acquisition of interests in Norwegian production and exploration licences − Heimdal

On October 18th 2013, LOTOS Exploration and Production Norge AS of the LOTOS Petrobaltic Group entered into an agreement with Centrica Resources (Norge) AS and Centrica Norway Limited, subsidiaries of Centrica Plc. of the UK, to purchase Heimdal assets on the Norwegian Continental Shelf.

On December 30th 2013, all conditions precedent to the agreement were fulfilled and all material risks and benefits related to the ownership of the acquired Heimdal assets were transferred to LOTOS E&P Norge AS (see Note 13 to the consolidated financial statements for 2013).

In accordance with the aforementioned agreement of acquisition of Heimdal assets, the parties finally settled the transaction within three months of the acquisition date. The effect of the final settlement was accounted for retrospectively in these interim consolidated financial statements; accordingly, the comparative data was adjusted. Finally determined values and their effect on the comparative data for the date of acquisition, that is December 31st 2013, are presented below.

	initial accounting as at December 31st 2013		final accounting as at March 31st 2014		Effect of the final accounting recognised as adjustment in the statement of financial position as at December 31st 2013	
Reporting item	**NOKm**	**PLNm**	**NOKm**	**PLNm**	**NOKm**	**PLNm**
I. Property, plant and equipment	634.2	314.1	628.2	311.1	(6.0)	(3.0)
II. Intangible assets	303.6	150.4	303.6	150.4	-	-
Value of acquired Heimdal assets after pro and contra settlement, taking into account capitalised transaction costs and estimated future conditional payments (I + II)	937.8	464.5	931.8	461.5	(6.0)	(3.0)
III. Decommissioning asset	496.0	245.7	496.0	245.7	-	-
Total (I + II + III)	**1,433.8**	**710.2**	**1,427.8**	**707.2**	**(6.0)**	**(3.0)**
Settlement of purchase price (A + B):	910.5	450.9	904.5	447.9	(6.0)	(3.0)
A. Price paid after pro and contra settlement (USD 175.8m - USD 77m)	631.6	312.8	606.8	300.5	(24.8)	(12.3)
B. Tax resulting from pro and contra settlement, on cash flows generated in the transitional period (amount paid by Centrica to the Norwegian tax authorities, settled against deferred tax asset of LOTOS E&P Norge AS)	278.9	138.1	297.7	147.4	18.8	9.3
Capitalised transaction costs (C + D):	27.3	13.6	27.3	13.6	-	-
C. Amount of conditional future payments as per agreement	10.2	5.1	10.2	5.1	-	-
D. Capitalised transaction costs	17.1	8.5	17.1	8.5	-	-
E. Decommissioning provision	496.0	245.7	496.0	245.7	-	-
Total (A+B+C+D+E)	**1,433.8**	**710.2**	**1,427.8**	**707.2**	**(6.0)**	**(3.0)**

Change of comparative data following the discontinuation of consolidation using the proportionate method and the application of the equity method

As of January 1st 2014, all joint arrangements that meet the definition of a joint venture are consolidated using the equity method. Under IFRS 11, proportionate consolidation is no longer allowed. For a description of rules of accounting for interests in entities using the equity method and entities subject to proportionate consolidation (no longer in use) see Note 7.11 to the consolidated financial statements for 2013.

In these interim condensed consolidated financial statements prepared as at March 31st 2014, the Group did not apply the proportionate method and accounted for the interest in UAB Minijos Nafta using the equity method.

The effect of the change of the consolidation method applied with respect to UAB Minijos Nafta and of the final accounting for the acquisition of interests in Norwegian production and exploration licences − Heimdal assets, on the consolidated statement of financial position as at December 31st 2013 and January 1st 2013 is presented in the tables below.

PLN '000	Dec 31 2013 (audited)	Dec 31 2013 (restated)	Effect of the change, including:	*Effect of the change of the consolidation method applied for UAB Minijos Nafta*	*Effect of the final accounting for the acquisition of Heimdal assets*
Non-current assets, including:	**12,038,771**	**12,026,295**	**(12,476)**	**(153)**	**(12,323)**
Property, plant and equipment	*10,048,374*	*10,009,073*	*(39,301)*	*(36,298)*	*(3,003)*
Other intangible assets	*686,222*	*658,797*	*(27,425)*	*(27,431)*	*6*
Equity-accounted entities	*66,222*	*129,798*	*63,576*	*63,576*	*-*
Deferred tax assets	*980,284*	*970,958*	*(9,326)*	*-*	*(9,326)*
Current assets, including:	**8,260,052**	**8,257,665**	**(2,387)**	**(14,710)**	**12,323**
Inventories	*5,731,851*	*5,728,884*	*(2,967)*	*(2,967)*	*-*
Trade receivables	*1,594,746*	*1,591,649*	*(3,097)*	*(3,097)*	*-*
Current tax assets	*30,755*	*30,287*	*(468)*	*(468)*	*-*
Other current assets	*325,079*	*337,071*	*11,992*	*(331)*	*12,323*
Cash and cash equivalents	*503,686*	*495,839*	*(7,847)*	*(7,847)*	*-*
Assets held for sale	794	794	-	-	-
Total assets	**20,299,617**	**20,284,754**	**(14,863)**	**(14,863)**	**-**
Equity	**9,189,596**	**9,189,596**	-	-	-
Non-current liabilities, including:	**5,693,643**	**5,682,002**	**(11,641)**	**(11,641)**	**-**
Deferred tax liability	*281,307*	*275,823*	*(5,484)*	*(5,484)*	*-*
Other liabilities and provisions	*711,845*	*705,688*	*(6,157)*	*(6,157)*	*-*
Current liabilities, including:	**5,416,378**	**5,413,156**	**(3,222)**	**(3,222)**	**-**
Trade payables	*2,396,086*	*2,395,237*	*(849)*	*(849)*	*-*
Employee benefit obligations	*105,057*	*103,973*	*(1,084)*	*(1,084)*	*-*
Other liabilities and provisions	*1,169,939*	*1,168,650*	*(1,289)*	*(1,289)*	*-*
Total liabilities	**11,110,021**	**11,095,158**	**(14,863)**	**(14,863)**	**-**
Total equity and liabilities	**20,299,617**	**20,284,754**	**(14,863)**	**(14,863)**	**-**

PLN '000	Jan 1 2013 (audited)	Jan 1 2013 (restated)	Effect of the change of the consolidation method applied for UAB Minijos Nafta
Non-current assets, including:	**11,509,743**	**11,501,434**	**(8,309)**
Property, plant and equipment	*9,685,850*	*9,644,600*	*(41,250)*
Other intangible assets	*548,659*	*496,386*	*(52,273)*
Equity-accounted entities	*-*	*85,214*	*85,214*
Current assets, including:	**8,515,394**	**8,501,146**	**(14,248)**
Inventories	*5,966,203*	*5,963,027*	*(3,176)*
Trade receivables	*1,632,837*	*1,625,715*	*(7,122)*
Current tax assets	*90,566*	*90,566*	*-*
Other current assets	*436,121*	*434,400*	*(1,721)*
Cash and cash equivalents	*268,333*	*266,104*	*(2,229)*
Assets held for sale	2,428	2,428	-
Total assets	**20,027,565**	**20,005,008**	**(22,557)**
Equity	**9,066,424**	**9,066,424**	-
Non-current liabilities, including:	**5,415,418**	**5,399,688**	**(15,730)**
Deferred tax liability	*322,873*	*313,716*	*(9,157)*
Other liabilities and provisions	*412,260*	*405,687*	*(6,573)*
Current liabilities, including:	**5,545,723**	**5,538,896**	**(6,827)**
Trade payables	*2,174,451*	*2,169,408*	*(5,043)*
Employee benefit obligations	*110,930*	*109,971*	*(959)*
Other liabilities and provisions	*1,068,988*	*1,068,163*	*(825)*
Total liabilities	**10,961,141**	**10,938,584**	**(22,557)**
Total equity and liabilities	**20,027,565**	**20,005,008**	**(22,557)**

Other changes

Starting from 2013, the Group recognises the cost of discount on its employee benefit obligations in finance costs rather than in operating profit/loss. The Group's comparative data in the statement of comprehensive income for the three months ended March 31st 2013 was adjusted accordingly. As a result, the finance costs and operating profit/loss increased by PLN 1,535 thousand.

5. Seasonality and cyclicality of operations in the reporting period

There was no seasonality or cyclicality in the Group's operations in the reporting period.

6. Significant changes in reporting items, including amounts which significantly affect assets, liabilities, equity, net profit/loss or cash flows and which are non-typical due to their nature, value, effect or frequency

All significant changes to reporting items subsequent to the most recent annual reporting period, i.e. 2013, were presented in the key sections of the financial statements supplemented with additional information presented in the related notes to the financial statements. In addition the Group notes that:

- On February 3rd 2014, the ownership of a new drilling rig purchased under an agreement of December 20th 2013 was transferred to SPV Baltic Sp. z o.o., a company of the LOTOS Petrobaltic Group. The transaction resulted in a significant increase in property, plant and equipment disclosed in this interim statement of financial position (see also Note 18). The purchase of the rig was financed mainly with a loan and an investment facility (see Note 20).

- As at March 31st 2014, property, plant and equipment under construction included expenditure of PLN 1,619m (NOK 3,207m) incurred by LOTOS Exploration and Production Norge AS (“LOTOS E&P Norge AS”), a LOTOS Petrobaltic Group company, on the acquisition of interests in Norwegian production licences and on the development associated with the interests in the YME field.

  Due to significant delays in the implementation of the project YME, cost overruns, and defects of the MOPU (Mobile Operating and Production Unit) to be used in production operations on the field, the Group tested the YME assets for impairment in the previous reporting periods, which resulted in impairment losses being recognised on those assets. More details on the impairment tests performed in the previous years and the resulting impairment losses recognised on the YME assets are included in the Group's financial statements for 2013 (see Note 13) and 2012 (see Note 13).

  As described in Note 23.1, in March 2013, the operator of the YME field, Talisman Energy Norge AS ("Talisman," "Operator") and the supplier of the Mobile Operating and Production Unit (MOPU) to be operated on the YME field, Single Buoy Moorings Inc. (“SBM”), announced that an agreement had been reached to remove the defective MOPU (evacuated in mid-July 2012) from the YME field and to terminate all existing contracts and agreements between the parties in connection with the project.

  As at March 31st 2014, the then-aggregate impairment losses adjusting the value of expenditure on the YME project totalled PLN 1,072m (NOK 2,123m). The amount of expenditure on property, plant and equipment under construction related to the project, net of impairment, disclosed in the consolidated statement of financial position as at March 31st 2014 was PLN 547m (NOK 1,084m).

  As there was no indication of impairment, the Group did not test the assets of the YME project for impairment as at March 31st 2014 and recognised no further impairment losses on the YME assets.

  Taking into account the impairment losses on the YME project expenditure recognised in previous years, and the incurred tax losses that may be carried forward, in the consolidated statement of financial position as at March 31st 2014 the Group recognised a deferred tax asset of PLN 928m (NOK 1,837m). Given the fact that under the Norwegian tax legislation tax losses can be carried forward indefinitely, and that on December 30th 2013 the Group acquired interests in the Heimdal assets (see Note 4.4), including interests in producing fields from which the Group derives revenue, the Management Board believes that the deferred tax asset recognised as at March 31st 2014 is fully realisable at the amount disclosed in these interim consolidated financial statements.

  Due to significant market volatility, in particular with respect to crude oil prices, the adopted assumptions may be subject to reasonable changes that may in the future cause a reduction of carrying amounts of assets associated with the YME field as the carrying amounts may exceed the assets' recoverable amount. Therefore, the Group points to a number of uncertainties as to the recoverable amount of the assets recognised in connection with the YME field, such uncertainties being related to:

  - volatility of market prices of crude oil,
  - the new PDO (plans for development and operation) for the YME field that is ultimately opted for,
  - the estimated size and market value of hydrocarbons recoverable from the YME field, which depend on the plans for development and operation,
  - the estimated fair value of tax assets taken into account in the impairment test of the YME project,
  - the amount of reclamation commitments, including those assumed together with elements of the SBM subsea infrastructure, under the agreement between the YME Project Operator and SBM announced on March 12th 2013 (see Note 23.1),
  - date of production launch, if any, from the YME field,
  - date and cost of MOPU removal from the YME field,
  - volatility of the NOK/USD exchange rate,
  - discount rates.

Changes in material reporting items and factors with a bearing on the Group's financial performance in the reporting period and on its performance outlook are presented in Sections 5-7 of the Management's Discussion and Analysis of Q1 2014 consolidated financial performance. A brief summary of the performance of the Group's business segments is also presented in Sections 1-3 of that document.

7. Changes of estimated amounts reported in prior interim periods of the current financial year or changes in estimated amounts reported in prior financial years, where such changes have a material effect on the current interim period

Carbon dioxide (CO_2) emission allowances

CO_2 emission allowances are presented in the financial statements of the Company in accordance with the net liability approach, which means that the Group recognises only those liabilities that result from exceeding the limit of emission allowances granted, and the liability is recognised in the financial statements only after the Group actually exceeds the limit.

In the three months ended March 31st 2014, the European Commission approved the allowance limits planned for the last group of member states, including Poland. As expected by the Management Board, the Group used the free emission allowances for 2013 to offset its emissions in line with the fixed CO_2 emissions settlement schedule for 2013, i.e. by the end of April 2014.

Under the Regulation of the Council of Ministers of March 31st 2014 listing installations, other than those for electricity generation, covered by the greenhouse gas emission allowance trading system in trading periods beginning on or after January 1st 2013, along with the number of allowances allocated to them, and the Regulation of the Council of Ministers of April 8th 2014 listing installations for energy generation covered by the greenhouse gas emission allowance trading system in trading periods beginning on or after January 1st 2013, along with the number of allowances allocated to them", Grupa LOTOS S.A. received 11,303 thousand free emission allowances. In addition, in April 2014, Grupa LOTOS S.A. received 155 thousand and 154 thousand additional free carbon dioxide emission allowances from the European reserve, to be used by its refinery in 2013 and 2014, respectively. In total, the European Commission allocated 1,167 thousand additional free carbon dioxide emission allowances from the European reserve to Grupa LOTOS S.A. for use in 2013−2020. The carbon dioxide emission allowances already held by Grupa LOTOS S.A and those additionally allocated cover its CO2 emissions for 2013. Other Group companies received a total of 314 thousand free carbon dioxide (CO_2) emission allowances for the years 2013−2020.

Recognition of revenue from sales of crude oil and natural gas derived from joint operations in Norway

In line with the Group's accounting policy, revenue from sales of crude oil and natural gas produced from the fields on the Norwegian Continental Shelf in which the Group holds interests are recognised using the entitlements method (see Note 4.1) in proportion to the Group's entitlement to production from a given field. Revenue from oil and gas sales disclosed in the statement of comprehensive income for a given reporting period is estimated based on up-to-date data on production from the individual fields in the reporting period. Any differences between the amount of actual revenue from sales of crude oil produced from the Skirne, Vale and Atla fields and revenue estimated based on the contractual share of production from the field are recognised in the statement of financial position under trade receivables and trade payables, which in the three months ended March 31st 2014 stood at PLN 4,322 thousand and PLN 28,993 thousand, respectively.

There were no material changes to estimates reported in previous financial years other than those related to the estimates presented above.

8. Business segments

PLN '000	Upstream segment	Downstream segment	Other[1]	Consolidation adjustments	Consolidated
	3 months ended Mar 31 2014 (unaudited)				
Revenue:	**258,748**	**7,047,707**	**6,899**	**(136,381)**	**7,176,973**
Intersegment sales	*121,701*	*10,231*	*4,449*	*(136,381)*	*-*
External sales	*137,047*	*7,037,476*	*2,450*	*-*	*7,176,973*
Operating profit/(loss) **(EBIT)**	**57,559**	**(31,552)**	**2,939**	**(11,617)**	**17,329**
Amortisation and depreciation	99,015	113,592	2,133	(435)	214,305
Operating profit/(loss) before amortisation and depreciation **(EBITDA)**	**156,574**	**82,040**	**5,072**	**(12,052)**	**231,634**

PLN '000	Upstream segment	Downstream segment	Other[1]	Consolidation adjustments	Consolidated
	Mar 31 2014 (unaudited)				
Total assets	**4,480,834**	**16,131,572**	**121,639**	**(1,081,401)**	**19,652,644**
- including net exploration and evaluation assets	*433,080*	*-*	*-*	*-*	*433,080*

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

PLN '000	Upstream segment	Downstream segment	Other[1]	Consolidation adjustments	Consolidated
	3 months ended Mar 31 2013 (restated) (unaudited)				
Revenue:	**187,384**	**7,176,896**	**5,778**	**(201,360)**	**7,168,698**
Intersegment sales	*187,328*	*10,266*	*3,766*	*(201,360)*	*-*
External sales	*56*	*7,166,630*	*2,012*	*-*	*7,168,698*
Operating profit/(loss) **(EBIT)**	**68,318**	**(47,429)**	**157**	**(47,097)**	**(26,051)**
Amortisation and depreciation	34,221	130,706	2,358	(450)	166,835
Operating profit/(loss) before amortisation and depreciation **(EBITDA)**	**102,539**	**83,277**	**2,515**	**(47,547)**	**140,784**

PLN '000	Upstream segment	Downstream segment	Other[1]	Consolidation adjustments	Consolidated
	Dec 31 2013 (restated) (audited)				
Total assets	**4,101,632**	**17,059,568**	**120,425**	**(996,871)**	**20,284,754**
- including net exploration and evaluation assets	*381,130*	*-*	*-*	*-*	*381,130*

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

9. Expenses by nature

PLN '000	3 months ended Mar 31 2014 (unaudited)	3 months ended Mar 31 2013 (restated) (unaudited)
Amortisation and depreciation	214,305	166,835
Raw materials and consumables used	5,906,390	6,523,192
- including exchange differences [1]	*1,223*	*32,071*
Services	277,159	270,821
Taxes and charges	55,186	54,707
Employee benefits expense	171,005	177,017
Other expenses by nature	86,900	35,543
Merchandise and materials sold	228,189	302,070
Total expenses by nature	**6,939,134**	**7,530,185**
Change in products and adjustments to cost of sales	224,835	(341,885)
Total	**7,163,969**	**7,188,300**
including:		
Cost of sales	6,795,070	6,828,091
Distribution costs	267,933	251,544
Administrative expenses	100,966	108,665

[1] Exchange differences related to operating activities are recognised in cost of sales.

10. Other income

PLN '000	3 months ended Mar 31 2014 (unaudited)	3 months ended Mar 31 2013 (restated) (unaudited)
Gain on disposal of non-financial non-current assets	318	32
Grants	558	517
Decrease in liability for shortfall of CO_2 emission allowances	1,527	132
Reversal of impairment losses on receivables	1,231	-
Compensation	585	1,752
Other	3,060	1,439
Total	**7,279**	**3,872**

11. Other expenses

PLN '000	3 months ended Mar 31 2014 (unaudited)	3 months ended Mar 31 2013 (restated) (unaudited)
Impairment losses on receivables	-	1,807
Impairment losses on property, plant and equipment and other intangible assets	739	4,147
Fines and compensation	481	283
Property damage incurred during ordinary course of business	244	871
Cost brought forward	-	1,367
Other	1.490	1,846
Total	**2,954**	**10,321**

12. Finance income

PLN '000	3 months ended Mar 31 2014 (unaudited)	3 months ended Mar 31 2013 (restated) (unaudited)
Interest	4,481	4,494
- on trade receivables	*1,363*	*1,731*
- on finance lease receivables	*58*	*60*
- on cash	*125*	*44*
- on deposits	*1,676*	*1,852*
- other	*1,259*	*807*
Exchange differences:	24,708	-
- on borrowings	*7,036*	-
- on intra-group borrowings	*20,163*	-
- on realised foreign-currency transactions in bank accounts	*22*	-
- on notes	*2,030*	-
- on cash	*(211)*	-
- on cash blocked in bank accounts	*(3,109)*	-
- on investment commitments	*(1,534)*	-
- on other financial assets and liabilities	*(111)*	-
Other	51	-
Total	**29,240**	**4,494**

13. Finance costs

PLN '000	3 months ended Mar 31 2014 (unaudited)	3 months ended Mar 31 2013 (restated) (unaudited)
Interest:	51,042	52,140
- on borrowings	*35,879*	*38,671*
- on non-bank borrowings	*627*	*157*
- on notes	*802*	*-*
- on trade payables	*15*	*19*
- on finance lease liabilities	*3,196*	*4,535*
- on factoring arrangements	*2,368*	*5,482*
- on other financial liabilities	*-*	*60*
- discount related to provisions for oil production facilities and for land reclamation, and other provisions	*6,417*	*1,657*
- cost of discount on employee benefit obligations	*1,585*	*1,535*
- other	*153*	*24*
Exchange differences:	-	60,700
- on borrowings	*-*	*60,350*
- on intra-group borrowings	*-*	*(4,445)*
- on realised foreign-currency transactions in bank accounts	*-*	*3.053*
- on notes	*-*	*(935)*
- on cash	*-*	*(1,195)*
- on investment commitments	*-*	*4,530*
- on other financial assets and liabilities	*-*	*(658)*
Revaluation of financial assets:	11,705	82,133
- valuation of derivative financial instruments	*3,937*	*30,425*
- settlement of derivative financial instruments	*7,768*	*51,708*
Bank fees	2,473	4,503
Other	2,054	1,235
Total	**67,274**	**200,711**

14. Income tax

14.1 Tax expense

PLN '000	3 months ended Mar 31 2014 (unaudited)	3 months ended Mar 31 2013 (restated) (unaudited)
Current tax	17,079	22,033
Deferred tax	(5,769)	(95,281)
Total income tax charged to net profit or loss	**11,310**	**(73,248)**
Tax expense recognised in other comprehensive income (net), including:	(5,730)	(42,385)
- cash flow hedging	*(5,730)*	*(42,385)*

For the Group entities operating in Poland, the current and deferred portion of income tax was calculated at the rate of 19%.

In the case of Norwegian subsidiary LOTOS Exploration and Production Norge AS, the marginal tax rate is 78% of the tax base. Income earned on the operations of LOTOS E&P Norge AS is subject to taxation under two parallel tax systems: the corporate income tax system (27% tax rate) and the petroleum tax system (additional tax rate of 51%).

In the case of Lithuanian subsidiaries (AB LOTOS Geonafta Group), the current and deferred portion of income tax was calculated at the rate of 15%.

14.2 Deferred income tax

PLN '000	Statement of financial position Mar 31 2014 (unaudited)	Dec 31 2013 (restated) (audited)	Change
Deferred tax assets	974,074	970,958	3,116
Deferred tax liabilities	(245,006)	(275,823)	30,817
Net deferred tax assets / (liabilities)	**729,068**	**695,135**	**33,933**
Exchange differences on translating deferred tax of foreign operations			*(17,731)*
Deferred tax disclosed under other comprehensive income, net			*(5,730)*
Other differences			*(4,703)* [(1)]
Deferred tax expense recognised in net profit or loss			**5,769**

[(1)] Uplift in the Norwegian petroleum tax system at the rate of 5.5% per annum. The uplift is calculated based on the capitalised investment expenditure (offshore production installation) and is settled against taxable income over a period of four years from the year the expenditure was incurred. Any uplift unused in a given period may be settled in the future until fully used, without time limitation. The amount of LOTOS Production and Exploration Norge AS's unused uplift increased the deferred tax asset under the Group's tax losses settled over time, and had no effect on tax disclosed in the interim consolidated statement of comprehensive income.

14.2.1 Deferred tax assets and liabilities

As the Group entities are separate taxpayers, deferred tax (deferred tax assets and liabilities) is assessed separately by each entity. The Group entities offset deferred tax assets and deferred tax liabilities.

Net deferred tax assets / (liabilities) before set-off comprise the following items:

PLN '000	Dec 31 2013 (restated) (audited)	Deferred tax charged to net profit or loss	Deferred tax charged to other comprehensive income	Exchange differences on translating deferred tax of foreign operations	Other differences	Mar 31 2014 (unaudited)
Deferred tax assets						
Employee benefit obligations	49,561	(5,473)	-	84	-	44,172
Impairment losses on inventories	564	(66)	-	-	-	498
Impairment losses on property, plant and equipment and other intangible assets	120,636	38,372	-	3,432	-	162,440
Impairment losses on assets related to the YME field	710,083	-	-	13,907	-	723,990
Negative fair value of derivative financial instruments	13,734	(3,141)	-	-	-	10,593
Exchange differences on revaluation of foreign-currency denominated items	6,446	(6,446)	-	-	-	-
Impairment losses on receivables	16,200	(12)	-	-	-	16,188
Finance lease	28,068	(920)	-	-	-	27,148
Provisions for decommissioning of oil and gas facilities and land reclamation	187,827	432	-	3,202	-	191,461
Unrealised margin assets	8,545	1,537	-	-	-	10,082
Tax loss carried forward	1,135,749	54,821	-	16,660	4,703	1,211,933
Other provisions	9,619	(458)	-	-	-	9,161
Bio-component tax credit	4,463	(2,498)	-	-	-	1,965
Other	16,919	(112)	-	4	-	16,811
Total	**2,308,414**	**76,036**	**-**	**37,289**	**4,703**	**2,426,442**
Deferred tax liabilities						
Difference between the current tax value and carrying amount of property, plant and equipment and other intangible assets	1,464,974	50,125	-	19,256	-	1,534,355
Positive fair value of derivative financial instruments	140	(126)	-	-	-	14
Finance lease	28,698	(708)	-	-	-	27,990
Exchange differences on revaluation of foreign-currency denominated items	-	20,866	-	4	-	20,870
Tax liabilities associated with the acquired exploration and production licences in Lithuania	49,522	(1,697)	-	296	-	48,121
Cash flow hedge accounting	14,312	-	(5,730)	-	-	8,582
Accrued interest	43,966	2,286	-	-	-	46,252
Other	11,667	(479)	-	2	-	11,190
Total	**1,613,279**	**70,267**	**(5,730)**	**19,558**	**-**	**1,697,374**
Net deferred tax assets/(liabilities)	**695,135**	**5,769**	**5,730**	**17,731**	**4,703**	**729,068**

Taxable temporary differences are expected to expire in 2015–2083.

15. Net loss per share

	3 months ended Mar 31 2014 (unaudited)	3 months ended Mar 31 2013 (restated) (unaudited)
Net loss attributable to owners of the Parent (PLN '000) (A)	(32,367)	(147,352)
Weighted average number of shares ('000) (B)	129,873	129,873
Net loss per share (PLN) (A/B)	**(0.25)**	**(1.13)**

Net loss per share for each reporting period is calculated by dividing net loss for a given reporting period by the weighted average number of shares in the reporting period.

Diluted net loss per share is equal to basic net loss per share as the Group carries no instruments with a dilutive effect.

16. Dividends

On April 23rd 2014, the Management Board of Grupa LOTOS S.A. passed a resolution on proposed coverage of the Company's net loss for 2013. The Management Board recommended that the net loss for 2013 of PLN 14,774 thousand is to be covered from the Company's statutory reserve funds.

As at March 31st 2014 and December 31st 2013, Grupa LOTOS S.A. was restricted in its ability to distribute funds in the form of dividends. The restrictions followed from the credit facility agreement executed on June 27th 2008 for the financing of the 10+ Programme, which provides that the dividend amount is conditional upon fulfilment of specific requirements, including generation of a sufficient cash surplus and achievement of financial ratios at prescribed levels.

17. Impairment losses

PLN '000	Property, plant and equipment	Intangible assets	Inventories	Receivables	Total
Jan 1 2014 (restated) (audited)	**1,126,191**	**148,215**	**2,919**	**175,293**	**1,452,618**
Recognised	326	522	1,430	2,777	5,055
Exchange differences on translating foreign operations	20,314	2,599	-	7	22,920
Used / Reversed	(122)	-	(116)	(6,449)	(6,687)
Mar 31 2014 (unaudited)	**1,146,709**	**151,336**	**4,233**	**171,628**	**1,473,906**
Jan 1 2013 (restated) (audited)	**1,316,708**	**151,065**	**1,407**	**177,152**	**1,646,332**
Recognised	65	4,385	-	4,470	8,920
Exchange differences on translating foreign operations	6,977	1,096	-	47	8,120
Used / Reversed	(624)	(900)	-	(1,124)	(2,648)
Mar 31 2013 (restated) (unaudited)	**1,323,126**	**155,646**	**1,407**	**180,545**	**1,660,724**

Changes in impairment losses on property, plant and equipment and intangible assets are recognised under other income or expenses. The effect of revaluation of inventories is taken to cost of sales. The amounts resulting from recognition or reversal of impairment losses on receivables are presented under other income or expenses (the principal portion) and under finance income or costs (the default interest portion).

18. Purchase or sale of property, plant and equipment and intangible assets

PLN '000	3 months ended Mar 31 2014 (unaudited)	3 months ended Mar 31 2013 (restated) (unaudited)
Purchase of property, plant and equipment and other intangible assets	388,418 [1]	113,035

[1] Includes mainly the purchase of a drilling rig, see below.

On February 3rd 2014, the ownership of a new drilling rig purchased under an agreement of December 20th 2013 was transferred to SPV Baltic Sp. z o.o., a company of the LOTOS Petrobaltic Group. The offshore rig was delivered to Poland on February 26th 2014 and was deployed to support exploration projects pursued by LOTOS Petrobaltic S.A. in the Baltic Sea. The purchase of the rig was financed with a loan from Agencja Rozwoju Przemysłu S.A., an investment facility from Nordea Bank Polska S.A. (see Note 20), and loans from LOTOS Petrobaltic S.A.

In the three months ended March 31st 2014 and March 31st 2013, the Group did not execute any material sale transactions in respect of its property, plant and equipment or intangible assets.

As at March 31st 2014, the Group's future contractual liabilities related to expenditure on property, plant and equipment or intangible assets undisclosed in the statement of financial position were PLN 352,602 thousand (December 31st 2013: PLN 592,229 thousand) and were mostly related to the purchase of the rig referred to above.

19. Cash and cash equivalents

PLN '000	Mar 31 2014 (unaudited)	Mar 31 2013 (restated) (unaudited)
Cash at bank	334,755	278,563
Cash in hand	505	357
Other cash	759	349
Total cash and cash equivalents recognised in the statement of financial position	**336,019**	**279,269**
Overdraft facilities	(344,096)	(281,220)
Total cash and cash equivalents recognised in the statement of financial position	**(8,077)**	**(1,951)**

20. Borrowings, other debt instruments and finance lease liabilities

PLN '000	Mar 31 2014 (unaudited)	Dec 31 2013 (audited)
Bank borrowings:	5,881,116	5,851,809
- investment credit facilities	*4,563,883*	*4,512,290*
- working capital facilities	*679,770*	*831,739*
- inventory refinancing and financing facilities	*912,609*	*753,296*
- funds in bank deposits securing repayment of interest and principal instalments	*(275,146)*	*(245,516)*
Loans	104,934	10,306
Notes	199,753	198,240
Finance lease liabilities	146,639	151,031
Total	**6,332,442**	**6,211,386**
including:		
non-current	*4,565,512*	*4,496,190*
current	*1,766,930*	*1,715,196*

Material credit facility agreements of the Group

Most of the bank borrowings in the Group were incurred by the Parent.

As at March 31st 2014, the nominal amount of PLN 3,926.4m (USD 1,294.0m) was outstanding under an investment facility contracted by the Parent to finance the 10+ Programme. As at December 31st 2013, the outstanding amount under the facility was PLN 3,960.9m (USD 1,315.0m).

The Parent has also contracted a credit facility for the refinancing and financing of its inventory. As at March 31st 2014, the amount drawn under the facility was PLN 910.3m (USD 300m). As at December 31st 2013, it was PLN 753m (USD 250m).

In addition, the Parent also has access to a working capital facility in the form of overdraft facilities and funds available on demand, which are used by the Parent on an as-needed basis.

New credit facility and loan agreements executed in the reporting period

On January 31st 2014, SPV Baltic Sp. z o.o. entered into an agreement for a loan of up to PLN 100m with Agencja Rozwoju Przemysłu S.A. and an agreement for an investment credit facility of up to PLN 100m with Nordea Bank Polska S.A., to finance the purchase of an offshore rig under an agreement of December 20th 2013. The final repayment date of the facility is January 31st 2021.

Repayment of the facility and of the loan is secured with:
- registered pledge over the purchased drilling rig,
- registered pledge over bank accounts of SPV Baltic Sp. z o.o.,
- registered pledge over the company's assets,
- registered and financial pledge over the company shares,
- assignment of rights under the company's insurance policies,
- assignment of rights under agreement on services involving the drilling rig,
- representations on submission to enforcement,
- blank promissory note,
- sureties issued by AB LOTOS Geonafta Group companies and Miliana Shipholding Group companies.

The interest rates under the agreements referred to above are based on 1M WIBOR.

As at March 31st 2014, total liabilities under the agreements were PLN 192.9m, attributable in equal parts to the loan advanced by Agencja Rozwoju Przemysłu S.A. and to the investment facility granted by Nordea Bank Polska S.A.

Proceeds from and repayment of bank borrowings

In the three months ended March 31st 2014, proceeds from borrowings contracted by the Group totalled PLN 433.2m and primarily included the credit facility for the refinancing and financing of inventory contracted by the Parent (PLN 154.1m), the investment facility and the loan contracted by SPV Baltic Sp. z o.o. (PLN 194.7m), as well as working capital facilities contracted by AB LOTOS Geonafta (PLN 84m). In the same period, repayments of borrowings were PLN 164m and mainly included repayments under the investment facilities used by Parent (PLN 64.7m) and the working capital facilities of AB LOTOS Geonafta (PLN 84m) in connection with re-financing of the existing debt. These amounts were disclosed in the statement of cash flows from financing activities under *Proceeds from borrowings* and *Repayment of borrowings*, respectively.

In the three months ended March 31st 2014, none of the Group companies defaulted on credit facilities or other borrowings or breached any material covenants under credit facility or other borrowing agreements.

Issue, redemption or repayment of debt or equity securities

Pursuant to the note issue programme agreement of October 29th 2013 with Bank Pekao S.A., LOTOS Petrobaltic S.A. may issue medium-term USD-denominated notes for up to the equivalent of PLN 200m. In the three months ended March 31st 2014, LOTOS Petrobaltic S.A. did not issue or redeem any notes. As at March 31st 2014, an amount of PLN 199,753 thousand (December 31st 2013: PLN 198,240 thousand) was outstanding under notes issued in 2013.

In addition, LOTOS Asfalt Sp. z o.o. has operated a short-term note issue programme since 2010. The term of the programme is five years. In the three months ended March 31st 2014 and March 31st 2013, LOTOS Asfalt Sp. z o.o. did not issue or redeem any notes under the programme. As at March 31st 2014 and December 31st 2013, LOTOS Asfalt Sp. z o.o. did not carry any liabilities under notes in issue.

In the three months ended March 31st 2014 and March 31st 2013, no debt or equity securities were issued, redeemed or repaid.

21. Provisions

	Provisions for decommissioning and reclamation costs						
PLN '000	Provisions for retired refinery installations	Provision for onshore oil and gas facilities – Lithuania	Provision for offshore oil and gas facilities – the North Sea	Provision for offshore oil and gas facilities – the Baltic Sea	Oil and Gas Facility Decommissioning Fund – the Baltic Sea	Other provisions	Total
Jan 1 2014 (restated) (audited)	**36,128**	**13,026**	**562,268**	**186,800**	**29,866**	**27,534**	**855,622**
Recognised	*1*	*-*	*-*	*-*	*-*	*12*	*13*
Change in provisions for liabilities attributable to approaching maturity date (discount reversal effect)	*69*	*162*	*4,178*	*2,008*	*-*	*-*	*6,417*
Interest on Oil and Gas Facility Decommissioning Fund	*-*	*-*	*-*	*-*	*122*	*-*	*122*
Exchange differences on translating foreign operations	*-*	*75*	*10,894*	*-*	*-*	*124*	*11,093*
Used	*(239)*	*-*	*(28,845)* [(1)]	*-*	*-*	*(1,736)*	*(30,820)*
Released	*-*	*-*	*-*	*-*	*-*	*-*	*-*
Mar 31 2014 (unaudited)	**35,959**	**13,263**	**548,495**	**188,808**	**29,988**	**25,934**	**842,447**
including:							
non-current	*30,318*	*13,263*	*404,964*	*188,808*	*29,988*	*8,154*	*675,495*
current	*5,641*	*-*	*143,531*	*-*	*-*	*17,780*	*166,952*

[(1)] The amount mainly includes PLN 22,410 thousand of used provisions for future costs of removal of the MOPU and disassembly of non-current assets at the YME field. The provision was recognised in connection with the agreement between Talisman (the YME field operator) and SBM (rig owner) reached in March 2013 (see Note 6 and 23.1).

PLN '000	Provisions for decommissioning and reclamation costs					Other provisions	Total
	Provisions for retired refinery installations	Provision for onshore oil and gas facilities – Lithuania	Provision for offshore oil and gas facilities – the North Sea	Provision for offshore oil and gas facilities – the Baltic Sea	Oil and Gas Facility Decommissioning Fund – the Baltic Sea		
Jan 1 2013 (restated) (audited)	**41,770**	**11,695**	**117,132**	**180,817**	**27,481**	**33,755**	**412,650**
Recognised	*-*	*491*	*-*	*-*	*-*	*3*	*494*
Change in provisions for liabilities attributable to approaching maturity date (discount reversal effect)	*-*	*330*	*1,327*	*-*	*-*	*-*	*1,657*
Interest on Oil and Gas Facility Decommissioning Fund	*-*	*-*	*-*	*-*	*233*	*-*	*233*
Exchange differences on translating foreign operations	*-*	*254*	*401*	*-*	*-*	*73*	*728*
Estimated costs of removal of the MOPU from the YME field	*-*	*-*	*305,217*	*-*	*-*	*-*	*305,217*
Used	*(112)*	*-*	*(3)*	*-*	*-*	*(1,627)*	*(1,742)*
Released	*(115)*	*(814)*	*-*	*-*	*-*	*-*	*(929)*
Mar 31 2013 (restated) (unaudited)	**41,543**	**11,956**	**424,074**	**180,817**	**27,714**	**32,204**	**718,308**
including:							
non-current	*35,669*	*11,956*	*424,074*	*180,817*	*27,714*	*12,006*	*692,236*
current	*5,874*	*-*	*-*	*-*	*-*	*20,198*	*26,072*

(This is a translation of a document originally issued in Polish)

22. Changes in the method of fair value measurement applied to financial instruments measured at fair value and changes in the classification of financial instruments

In the three months ended March 31st 2014, the Group made no changes in the method of fair value measurement applied to financial instruments measured at fair value (the method is described in more detail in Note 7.23 to the 2013 consolidated financial statements), made no transfers of financial instruments between fair value hierarchy levels (see Note 31.2 to the 2013 consolidated financial statements), and did not reclassify any of its financial instruments. As at March 31st 2014 and December 31st 2013, the Group held financial derivatives classified under fair value hierarchy Level 2.

Fair value hierarchy

	Mar 31 2014	Dec 31 2013
	(unaudited)	(audited)
PLN '000	Level 2	
Financial assets		
Commodity swap	69	736
Currency forward and spot contracts	26,876	34,924
Currency swap	22,764	38,275
Total	**49,709**	**73,935**
Financial liabilities		
Commodity swap	857	-
Currency forward and spot contracts	47	1,017
Interest rate swap (IRS)	54,898	72,263
Currency swap	668	873
Total	**56,470**	**74,153**

23. Contingent liabilities and assets

23.1 Material court, arbitration or administrative proceedings and other risks of the Parent or its subsidiaries, and material settlements under court proceedings

The following changes occurred with respect to pending material court, arbitration, or administrative proceedings or with respect to other risks of the Company or its subsidiaries after the end of the previous financial year, that is after December 31st 2013 (see Note 35.1 to the 2013 consolidated financial statements):

- On February 22nd 2013, the court dismissed in its entirety an action brought by PETROECCO JV Sp. z o.o. against the Company whereby it sought a court decision on the awarding of PLN 6,975 thousand, plus statutory interest from May 1st 1999, as compensation for losses incurred as a result of the Company's monopolistic practices, which involved selling BS base oils in a manner favouring customers whose orders were filled to a disproportionately larger extent than the orders of PETROECCO JV Sp. z o.o. On June 26th 2013, PETROECCO JV Sp. z o.o. filed an appeal against the ruling. Grupa LOTOS S.A. responded to the appeal on March 11th 2014. The case is being reviewed by the court of the 2nd instance, i.e. the Court of Appeals in Gdańsk. As at the date of approval of these financial statements, the case is pending.

  Assuming that there was little risk of an unfavourable outcome of the case, Grupa LOTOS S.A. did not recognise any provisions for potential liabilities related to the case.

- On July 23rd 2009, the District Court for Kraków-Śródmieście in Kraków declared KRAK-GAZ Sp. z o.o.'s bankruptcy by liquidation of assets. The company's estate is managed by a bankruptcy administrator. On September 24th 2009, LOTOS Gaz S.A. w likwidacji (in liquidation) lodged its claims in the proceedings. On March 13th 2012, the judge commissioner conducting the bankruptcy proceedings of KRAK-GAZ Sp. z o.o. issued a decision recognising the claims of LOTOS Gaz S.A. w likwidacji (in liquidation) for a total amount of PLN 23,695 thousand, including a principal of PLN 21,435 thousand, and acknowledged that claims of PLN 21,132 thousand were secured with mortgages. The decision is final. On March 27th 2014, in accordance with a separate plan for the distribution of funds obtained as part of the bankruptcy proceedings, LOTOS Gaz S.A. w likwidacji (in liquidation) was awarded PLN 3,067 thousand. As at the date of approval of these consolidated financial statements, the bankruptcy proceedings are pending.

- LOTOS Exploration and Production Norge AS ("LOTOS E&P Norge AS") was a party to proceedings held before an arbitration court in Norway in connection with claims filed by Single Buoy Moorings Inc. ("SBM"), the supplier of a MOPU (Mobile Offshore Production Unit) for the operation of the YME field, against Talisman Energy Norge AS, the operator of the

YME field ("Talisman", the "Operator") and the other YME licence holders. The share of SBM's claims attributable to LOTOS E&P Norge AS was 20%.

On March 12th 2013, Talisman (the YME field operator) and SBM (the owner of the MOPU) announced that an agreement was reached to terminate all existing contracts and agreements executed by the parties in connection with the YME project and remove the MOPU from the YME field. Under the agreement, SBM paid USD 470m to the joint venture partners. On behalf of the licence holders, Talisman agreed to make the necessary preparations, remove the MOPU from the field and transport it to the handover point. SBM agreed to be responsible for towing and scrapping the unit onshore. Following completion of certain works, the ownership of elements of the YME field in situ subsea infrastructure delivered by SBM will be transferred to the consortium members, who will be required to perform reclamation (and disassembly) activities related to the infrastructure after the end of the production phase. The parties will cover the costs of decommissioning work as set out in the agreement. The agreement was approved by all partners in the YME licence, including LOTOS E&P Norge AS. It includes an arrangement concerning termination of all pending arbitration proceedings (between SBM and Talisman and the other YME licence holders).

In accordance with the provisions of the agreement with SBM, USD 12.22m has been paid to LOTOS E&P Norge AS's bank account by March 31st 2013. The payment represented a part of LOTOS E&P Norge AS's 20% interest in the amount of USD 470m, paid by SBM to the consortium members. The balance of the Group's share in the amount due to the consortium members under the agreement, that is USD 81.78m, was transferred to the escrow account of the YME project, to be gradually released to finance the removal of the MOPU and related infrastructure from the field, in accordance the agreement. On December 4th 2013, Talisman and Excalibur Maritime Contractors („EMC") signed an agreement to remove the Mobile Offshore Production Unit (MOPU) from the YME field. On February 5th 2014, Talisman notified LOTOS E&P Norge AS of the execution of an agreement between EMC and Single Buoy Moorings Inc. ("SBM") for the transport of the MOPU.

In the three months ended March 31st 2014, works on the removal of the MOPU proceeded according to schedule. In these financial statements, the Group disclosed a PLN 10,747 thousand decrease in funds deposited in the escrow account.

As at March 31st 2014, available cash deposited in the escrow account, denominated in the presentation currency, was recognised under *Cash blocked in bank accounts*, including the non-current portion of PLN 108,507 thousand and the current portion of PLN 94,684 thousand. The available provision for future costs of the removal of the MOPU and disassembly of the related fixed assets was recognised under *Other liabilities and provisions*, including the non-current portion of PLN 48,558 thousand and the current portion of PLN 125,351 thousand.

- On March 11th 2013, LOTOS Petrobaltic S.A. received a payment notice for approximately GBP 6.5m from AGR Subsea Ltd. ("AGR"). The claim concerns AGR's remuneration for the performance of a contract to unearth the legs of the Baltic Beta platform. LOTOS Petrobaltic S.A. questioned the amount demanded by AGR as remuneration for the services and has proposed to pay PLN 16m (the equivalent of GBP 3.2m, translated at the mid rate quoted by the National Bank of Poland for December 31st 2012) to AGR under the claim. The Group disclosed this liability in the statements of financial position as at June 30th and September 30th 2013. The dispute concerns the nature of the contract, the reasons of its delayed and incomplete performance, as well as the grounds for LOTOS Petrobaltic S.A. to terminate the contract and demand reimbursement of costs incurred by LOTOS Petrobaltic S.A. to hire replacement contractors to complete the work. AGR Subsea Ltd. did not accept the settlement and brought the case to court. On November 4th 2013, LOTOS Petrobaltic S.A. received a claim brought by AGR for payment of GBP 6.5m. The dispute was referred to mediation by virtue of the court's decision, which was accepted by LOTOS Petrobaltic S.A. Mediation meetings between AGR and LOTOS Petrobaltic S.A. were scheduled for April 22nd 2014. On April 22nd 2014, no consensus was reached in the mediation process and another mediation meeting will be scheduled. In addition, on October 31st 2013, LOTOS Petrobaltic S.A. filed a claim against AGR to the Regional Court of Gdańsk for payment of GBP 5.6m to cover the costs of hiring the replacement contractors. On March 25th 2014, the Regional Court, 9th Commercial Division in Gdańsk, in writ-of-payment proceedings, issued an order for payment which was served to LOTOS Petrobaltic S.A. on April 17th 2014. Following the receipt of the payment order AGR will have 14 days to file an objection.

  Given the complex nature of the dispute, it is difficult to assess the risk arising in relation to the court proceedings, because if the judgement is unfavourable to one of the parties, that party may have to incur additional expenses related to the proceedings, including costs of legal representation and costs of enforcement.

  As at March 31st 2014 and December 31st 2013, no liability towards AGR Subsea Ltd. was recognised by the Group in these consolidated financial statements.

In the three months ended March 31st 2014, the Group had no material settlements under court proceedings, other than those presented above.

23.2 Other contingent liabilities

- As at March 31st 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.
- 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 March 31st 2014. 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.

24. Related parties

24.1 Related-party transactions

PLN '000	3 months ended Mar 31 2014 (unaudited)	3 months ended Mar 31 2013 (restated) (unaudited)
Jointly-controlled entities		
Sale	87,724 [1]	32
Purchases	244	186

[1] The Group traded primarily with LOTOS-Air BP Polska Sp. z o.o. The transactions involved sale of aviation fuel.

PLN '000	Mar 31 2014 (unaudited)	Dec 31 2013 (restated) (audited)
Jointly-controlled entities		
Receivables	26,089	16,670
Liabilities	227	215

As at March 31st 2014, the Group mainly disclosed receivables from LOTOS-Air BP Polska Sp. z o.o. in the amount of PLN 26,047 thousand (December 31st 2013: PLN 16,321 thousand).

24.2 Entity having control of the Group

As at March 31st 2014 and December 31st 2013, the State Treasury held a 53.19% interest in Grupa LOTOS S.A. In the three months ended March 31st 2014 and March 31st 2013, no transactions were concluded between Grupa LOTOS S.A. and the State Treasury.

24.2.1 Transactions with related entities of which the State Treasury has control, joint control or significant influence

In the three months ended March 31st 2014, the Group executed transactions with parties related to it through the State Treasury. The aggregate value of the transactions was material. They were concluded at arm's length in the course of the Group's day-to-day business and involved mainly sale of fuels, sale and purchase of storage services, purchase of transport services, energy, natural gas and other fuels. In the three months ended March 31st 2014, the value of sales generated under the transactions totalled PLN 111,050 thousand (three months ended March 31st 2013: PLN 84,705 thousand), with the value of purchases standing at PLN 315,024 thousand (three months ended March 31st 2013: PLN 397,555 thousand).

24.3 Transactions with members of the Company's Management and Supervisory Boards, their spouses, siblings, ascendants, descendants or other close persons

In the three months ended March 31st 2014 and March 31st 2013, save for remuneration paid to Management and Supervisory Board members by the Company, the Group did not enter into any material transactions with any Management Board or Supervisory Board members, did not advance any loans, make any advance payments, issue any guarantees to or conclude any other agreements with any Management Board or Supervisory Board members which would be advanced, made, issued or concluded otherwise than on an arm's length basis or which would have a material bearing on these interim condensed consolidated financial statements. Based on representations submitted by members of the Company's Management and Supervisory Boards, in the three months ended March 31st 2014 and March 31st 2013, Grupa LOTOS S.A. did not become aware of any transactions concluded with the Company or a company of the LOTOS Group by the spouses, relatives, or relatives by affinity in the direct line up to the second degree, of the members of the Management and Supervisory Boards or persons related to them through guardianship or adoption or other persons with whom they have personal relationships.

25. Material events which occurred after the end of the interim period and are not reflected in the consolidated financial statements for the interim period

No material events occurred after the end of the reporting period which would not be reflected in these consolidated financial statements for the reporting period.

II. QUARTERLY FINANCIAL INFORMATION OF THE PARENT FOR THE THREE MONTHS ENDED MARCH 31ST 2014

GRUPA LOTOS S.A.
INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
for the three months ended March 31st 2014

PLN '000	3 months ended Mar 31 2014 (unaudited)	3 months ended Mar 31 2013 (restated) (unaudited)
Revenue	6,683,190	6,894,898
Cost of sales	(6,564,356)	(6,768,783)
Gross profit	**118,834**	**126,115**
Distribution costs	(159,724)	(149,180)
Administrative expenses	(47,999)	(51,395)
Other income	3,532	1,385
Other expenses	(1,603)	(1,843)
Operating loss	**(86,960)**	**(74,918)**
Finance income	13,662	3,603
Finance costs	(44,083)	(154,239)
Pre-tax loss	**(117,381)**	**(225,554)**
Corporate income tax	23,952	42,958
Net loss	**(93,429)**	**(182,596)**
Other comprehensive income		
Items that may be reclassified to profit/loss:		
Cash flow hedges	(30,158)	(223,079)
Income tax on other comprehensive income	5,730	42,385
Other comprehensive income, net	**(24,428)**	**(180,694)**
Total comprehensive income	**(117,857)**	**(363,290)**
Loss per share (PLN)		
Weighted average number of shares ('000)	129,873	129,873
- basic	(0.72)	(1.41)
- diluted	(0.72)	(1.41)

(This is a translation of a document originally issued in Polish)

GRUPA LOTOS S.A.
INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
as at March 31st 2014

PLN '000	Mar 31 2014 (unaudited)	Dec 31 2013 (audited)
ASSETS		
Non-current assets		
Property, plant and equipment	6,504,273	6,572,705
Intangible assets	112,433	114,448
Shares	910,667	910,649
Other non-current assets	550,116	439,537
Total non-current assets	**8,077,489**	**8,037,339**
Current assets		
Inventories	4,497,574	5,544,460
- including mandatory stocks	*3,580,965*	*4,247,822*
Trade receivables	1,771,347	1,584,750
Current tax assets	502	10,296
Derivative financial instruments	49,709	73,956
Other current assets	86,851	84,580
Cash and cash equivalents	98,622	224,031
Total current assets	**6,504,605**	**7,522,073**
Total assets	**14,582,094**	**15,559,412**
EQUITY AND LIABILITIES		
Equity		
Share capital	129,873	129,873
Share premium	1,311,348	1,311,348
Cash flow hedging reserve	36,591	61,019
Retained earnings	5,539,926	5,633,355
Total equity	**7,017,738**	**7,135,595**
Non-current liabilities		
Bank borrowings	3,492,634	3,538,779
Derivative financial instruments	35,674	52,876
Deferred tax liabilities	177,017	206,817
Employee benefit obligations	53,300	53,300
Total non-current liabilities	**3,758,625**	**3,851,772**
Current liabilities		
Bank borrowings	1,247,757	1,327,536
Derivative financial instruments	27,358	28,297
Trade payables	1,627,869	2,436,614
Employee benefit obligations	21,230	33,582
Other liabilities and provisions	881,517	746,016
Total current liabilities	**3,805,731**	**4,572,045**
Total liabilities	**7,564,356**	**8,423,817**
Total equity and liabilities	**14,582,094**	**15,559,412**

GRUPA LOTOS S.A.
INTERIM CONDENSED STATEMENT OF CASH FLOWS
for the three months ended March 31st 2014
prepared using the indirect method

PLN '000	3 months ended Mar 31 2014 (unaudited)	3 months ended Mar 31 2013 (restated) (unaudited)
Cash flows from operating activities		
Net loss	**(93,429)**	**(182,596)**
Adjustments:	**264,910**	**554,658**
Income tax expense	*(23,952)*	*(42,958)*
Amortisation and depreciation	*86,965*	*104,238*
Foreign exchange (gains)/losses	*3,153*	*35,488*
Interest and dividends	*12,391*	*29,747*
(Gain)/loss from investing activities	*102*	*25*
Settlement and valuation of derivative financial instruments	*11,298*	*74,915*
(Increase) in trade receivables	*(186,663)*	*(95,021)*
(Increase)/decrease in other assets	*(5,879)*	*96,190*
Decrease in inventories	*1,046,886*	*355,082*
(Decrease) in trade payables	*(808,745)*	*(228,922)*
Increase in other liabilities and provisions	*141,706*	*222,924*
(Decrease)/increase in employee benefit obligations	*(12,352)*	*2,950*
Corporate income tax paid	(890)	(890)
Net cash from operating activities	**170,591**	**371,172**
Cash flows from investing activities		
Dividends received	1	-
Interest received	694	875
Sale of property, plant and equipment and intangible assets	13,822	4
Purchase of property, plant and equipment and intangible assets	(41,529)	(52,172)
Loans advanced to related parties	(100,080)	(30,000)
Security deposit (margin)	(7,538)	(2,536)
Cash pool expenses	(59)	(40)
Settlement of derivative financial instruments	1,066	422
Net cash from investing activities	**(133,623)**	**(83,447)**
Cash flows from financing activities		
Proceeds from borrowings	154,145	101,702
Repayment of borrowings	(64,733)	(91,091)
Interest paid	(20,064)	(27,547)
Settlement of derivative financial instruments	(8,864)	(52,359)
Net cash from financing activities	**60,484**	**(69,295)**
Total net cash flow	**97,452**	**218,430**
Effect of exchange rate fluctuations on cash held	(123)	12,555
Change in net cash	**97,329**	**230,985**
Cash at beginning of the period	**(220,237)**	**(406,359)**
Cash at end of period	**(122,908)**	**(175,374)**

GRUPA LOTOS S.A.
INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
for the three months ended March 31st 2014

PLN '000	Share capital	Share premium	Cash flow hedging reserve	Retained earnings	Total equity
Jan 1 2014 (audited)	**129,873**	**1,311,348**	**61,019**	**5,633,355**	**7,135,595**
Net loss	-	-	-	*(93,429)*	*(93,429)*
Other comprehensive income (net)	-	-	*(24,428)*	-	*(24,428)*
Total comprehensive income	-	-	(24,428)	(93,429)	(117,857)
Mar 31 2014 (unaudited)	**129,873**	**1,311,348**	**36,591**	**5,539,926**	**7,017,738**
Jan 1 2013 (audited)	**129,873**	**1,311,348**	**(36,801)**	**5,647,933**	**7,052,353**
Net loss	-	-	-	*(182,596)*	*(182,596)*
Other comprehensive income (net)	-	-	*(180,694)*	-	*(180,694)*
Total comprehensive income	-	-	(180,694)	(182,596)	(363,290)
Mar 31 2013 (unaudited)	**129,873**	**1,311,348**	**(217,495)**	**5,465,337**	**6,689,063**

APPROVAL OF QUARTERLY FINANCIAL REPORT

This quarterly financial report was approved for issue by the Management Board on April 28th 2014.

Signatures of the Management Board members and the person responsible for keeping the accounting books of Grupa LOTOS S.A.

President of the Management Board,
Chief Executive Officer

Paweł Olechnowicz

Vice-President of the Management Board,
Chief Financial Officer

Mariusz Machajewski

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

Zbigniew Paszkowicz

Vice-President of the Management Board,
Chief Operation Officer

Marek Sokołowski

Vice-President of the Management Board,
Chief Commercial Officer

Maciej Szozda

Chief Accountant

Tomasz Południewski