



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF Q2 2014 CONSOLIDATED FINANCIAL
RESULTS**



GRUPA LOTOS S.A.

ISIN	Stock Exchange	Thomson Reuters	Bloomberg
PLLOTOS00025	LTS	LTOS.WA	LTS PW

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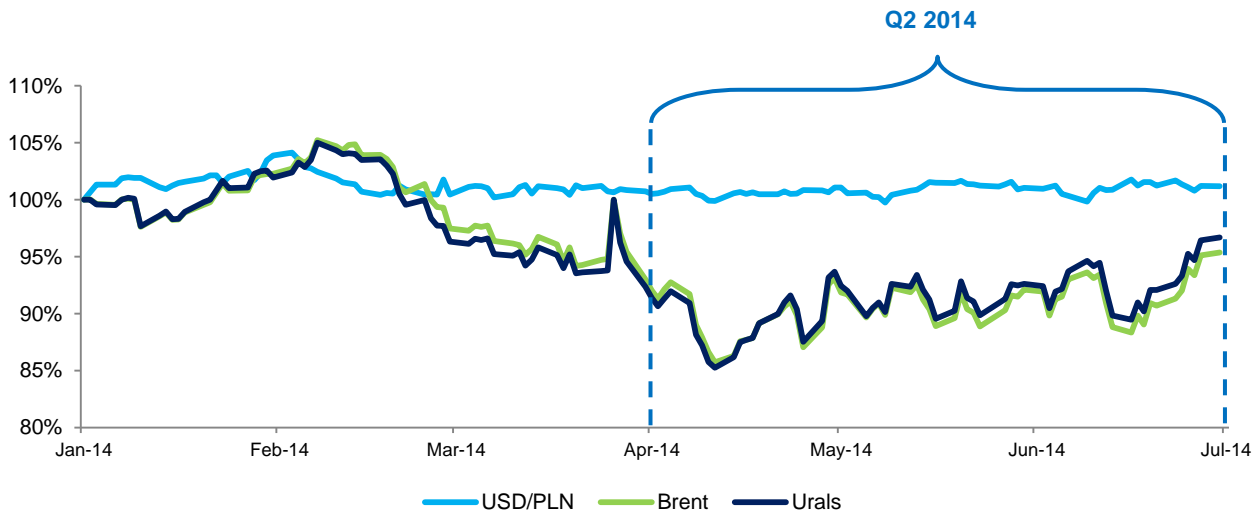
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An excel file with the operational and financial data for Q2 2014 and the previous reporting periods is published together with the Q2 2014 report in the Investor Relations section of our website as "[databook](#)".

1 Market environment

- Grupa LOTOS S.A.'s model refining margin slightly below 5 USD/bbl, primarily driven by a wide spread of 2.22 USD/bbl
- Stable USD/PLN exchange rate and changes in the Brent crude prices

Brent/Urals prices and the USD/PLN exchange rate



Brent crude prices, Brent/Urals spread and model refining margin

USD/bbl	Q2 2014	Q1 2014	Q2 2013	2Q14 /1Q14	2Q14 /2Q13
DATED Brent FOB prices	109.69	108.16	102.53	1.4%	7.0%
Brent-Urals differential	2.22	1.37	0.65	62.0%	241.5%
Model refining margin	4.97	5.05	6.08	-1.6%	-18.3%

Crack margins*

USD/bbl	Q2 2014	Q1 2014	Q2 2013	2Q14 /1Q14	2Q14 /2Q13
Gasoline	15.11	8.49	13.40	78.1%	12.8%
Naphtha	-1.95	-3.76	-8.47	48.1%	77.0%
Jet fuel	15.32	16.96	16.57	-9.7%	-7.5%
Diesel oil (10 ppm)	18.08	19.18	18.63	-5.7%	-3.0%
Light fuel oil	14.77	16.20	16.17	-8.9%	-8.7%
Heavy fuel oil	-16.26	-16.77	-10.48	3.0%	-55.1%

* Includes the Urals-Brent spread.

Exchange rates

USD/PLN	Q2 2014	Q1 2014	Q2 2013	2Q14 /1Q14	2Q14 /2Q13
PLN/USD exchange rate at end of period	3.05	3.03	3.32	0.7%	-8.1%
Average PLN/USD exchange rate during quarter	3.04	3.06	3.21	-0.7%	-5.3%



Factors driving the LOTOS Group's performance in the reporting period included:

Feedstock and products:

- The wide Brent/Ural spread benefited refiners using Russia's Urals blend as their core feedstock
- Grupa LOTOS S.A.'s model margin continued to stay close to 5 USD/bbl, mainly driven by a favourable Brent/Ural spread (up USD 2.22)
- Crack margins on gasolines significantly improved (up 79% quarter-on-quarter and up 12% year-on-year) after US refineries reduced their gasoline exports
- Diesel oil prices slightly declined (down 6% quarter-on-quarter and down 3% year-on-year)

Exchange rates:

- The zloty remained weak but stable in Q2 2014, resulting in negligible (close to zero) exchange differences on operating activities (PLN -4.2m)

2 Upstream segment

- The Heimdal platform was shut down for maintenance, with production suspended for two months
- The entire expenditure incurred on the YME project was written off

Crude oil and natural gas reserves, production and sales

Reserves (mdbl) *	Jun 30 2014	Mar 31 2014	Jun 30 2013		
Norway	18.61	19.18	13.33		
Poland	40.92	41.23	34.80		
Lithuania **	7.26	7.35	7.79		
Total	66.79	67.76	55.92		

Production (bbl/d)	Q2 2014	Q1 2014	Q2 2013	2Q14 /1Q14	2Q14 /2Q13
Norway	7,141***	7,171	0	-0.42%	-
Poland	3,802	3,834	3,340	-0.83%	13.83%
Lithuania **	1,434	1,566	1,475	-8.43%	-2.78%
Total	12,377	12,571	4,815	-1.54%	157.05%

Sales of own products (bbl)	Q2 2014	Q1 2014	Q2 2013	2Q14 /1Q14	2Q14 /2Q13
Norway	247,492	637,054	0	-61.15%	-
Poland	498,987	248,281	240,364	100.98%	107.60%
Lithuania **	161,655	171,334	167,653	-5.65%	-3.58%
Total	908,134	1,056,669	408,017	-14.06%	122.57%

* 2P – proved and probable reserves.

** Pro rata to the ownership interest in the AB LOTOS Geonafta Group.

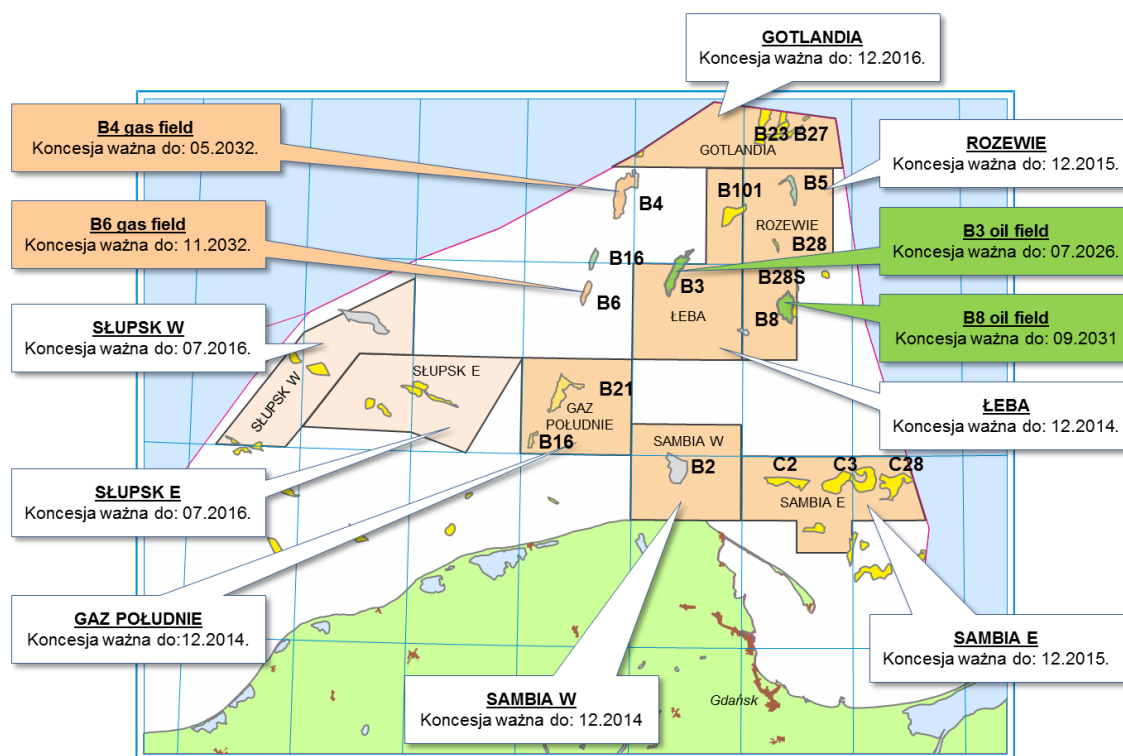
*** Output data based on producing days – 31 days in Q2 2014 (does not include the Heimdal platform maintenance downtime from April 22nd to June 22nd)

LOTOS Petrobaltic S.A. (LPB)

In Q2 2014, LOTOS Petrobaltic continued crude production from the B3 field.

On May 23rd 2014, the Ministry of Environment amended licence No. 108/94, allowing crude oil and natural gas production from the B3 field to continue for 32 years from the licence issue date, i.e. until July 29th 2026.

The company processed seismic data acquired in 2013 and reviewed archived data from the Gaz Południe, Łeba and Rozewie, Sambia W and Sambia E licence areas. Results of this work, to be known by the end of 2014, will serve as the basis for further investment decisions.

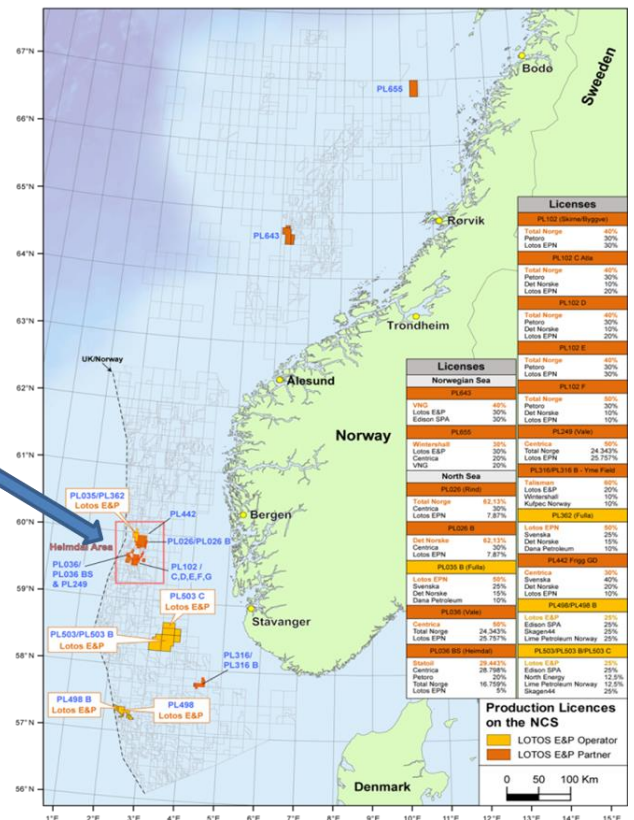
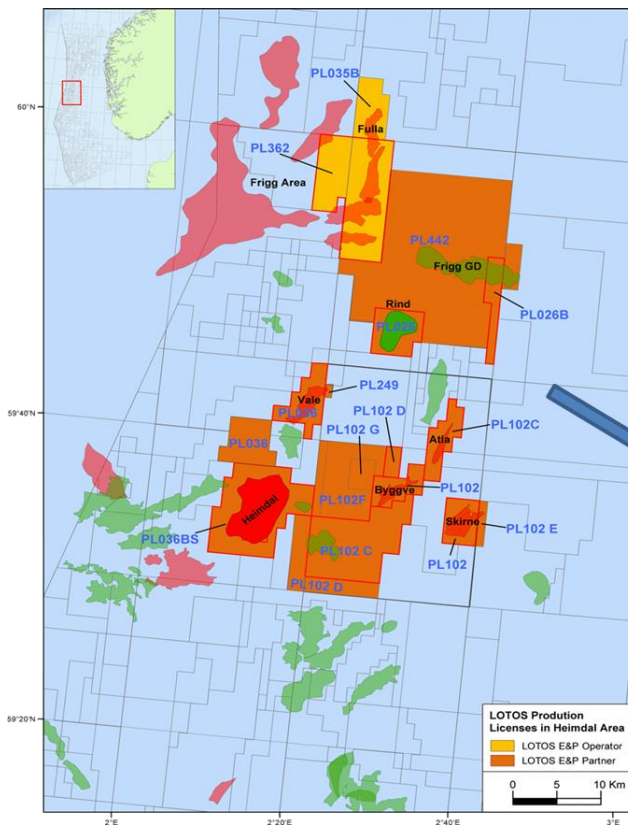


LOTOS Exploration & Production Norge AS (LEPN)

The maintenance shutdown of the Heimdal platform started on April 22nd 2014 and continued until June 22nd. Production was stopped and a flotel was connected to the platform to perform upgrade work and replace part of the production infrastructure and safety systems. The maintenance shutdown is a part of the HELP (Heimdal Extension Life Program) project designed to extend the platform's life until 2034. Concurrently, production infrastructure will be installed at the Valemon field (operated by Statoil), where production is expected to start on December 15th 2014.

Production of gas-condensate from the Alta PL102C field and production of gas from the PL036 BS field were resumed in June 2014.

LEPN holds a 20% interest in PL316/316B-YME licence, developed by a consortium led by Talisman Energy, a Canadian company, as the operator. Work continued to remove the defective production platform from the field.

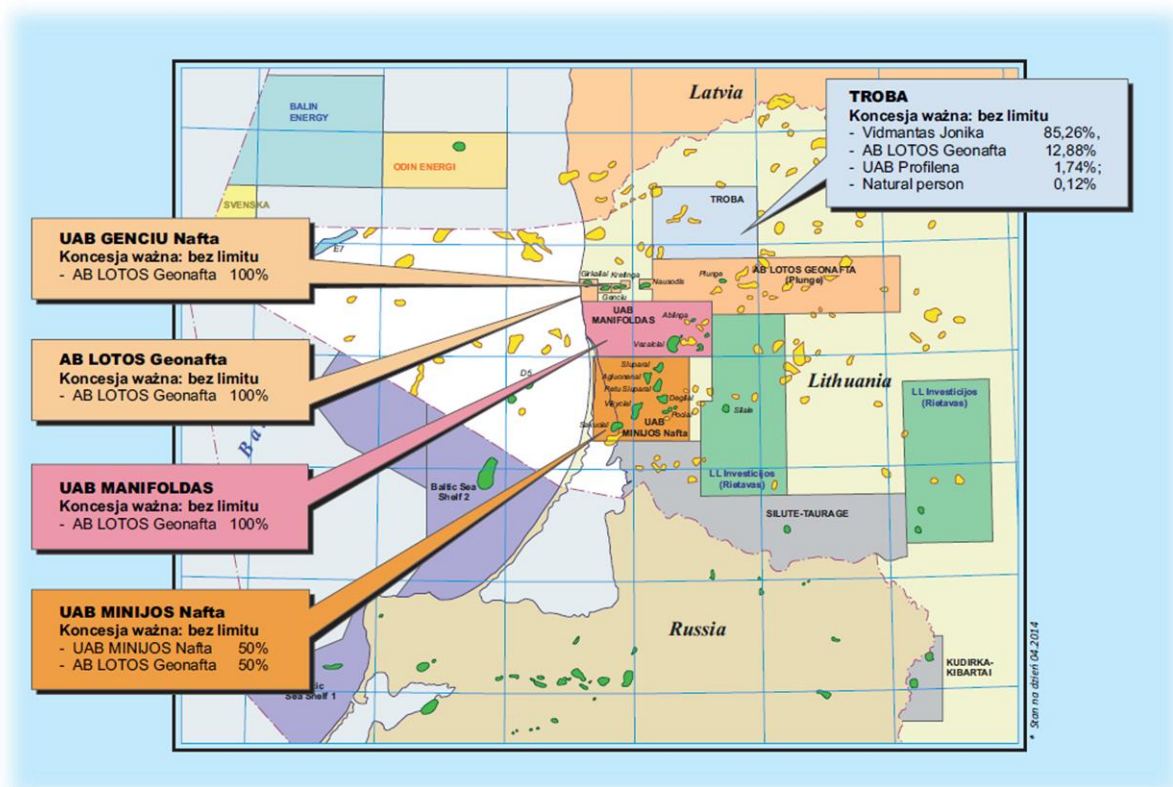


AB LOTOS Geonafra Group

In Q2 2014, Lithuanian companies AB LOTOS Geonafra and UAB Genciu Nafta produced crude oil from the Girkaliai, Kretinga, Nausodis and Genciu on-shore fields. UAB Manifaldas produced oil from the AukSORas, Liziai and Veziaciai fields.

Work performed on the exploration/appraisal and production licence within the Klaipėda block:

- Core samples from the Zvaginiai-1 well were analysed, rendering negative results; the well was excluded from the list of prospects
- Reinterpretation of seismic data was completed
- Drilling of the Ablinga-8 directional appraisal/production well was completed, rendering positive results
- Preparations commenced for the drilling of the Veziaciai-20 well.



Upstream segment's key financial data

PLNm	Q2 2014	Q1 2014	Q2 2013	2Q14 /1Q14	2Q14 /2Q13
Revenue	240.1	258.8	124.0	-7.2%	93.6%
Operating profit/(loss)	-483.3	57.6	120.0	-	-
Amortisation and depreciation	53.5	99.0	31.3	-46.0%	70.9%
EBITDA	-429.8	156.6	151.3	-	-
Adjusted EBIT*	71.4	57.6	50.9	24.0%	40.3%

* Net of non-recurring events (Q2 2014: impairment loss on the YME assets; Q2 2013: revaluation of the provision for offshore oil facilities in Norway and reversal of impairment losses related to the B4 and B6 fields)

The upstream segment's revenue fell quarter on quarter in Q2 2014 on lower sales from the Norwegian Heimdal assets and lower volumes of Lithuanian crude sales. A 93.6% year-on-year increase in the segment's revenue was primarily attributable to sales of oil and gas produced by LEPN from the Heimdal assets purchased in 2013 and to sales of Rozewie crude, which increased in line with the delivery schedule. In Q2 2014, the upstream segment's adjusted operating result improved both quarter on quarter and year on year, driven by higher volumes of Rozewie crude sold.

In view of the continuing uncertainty and risks arising in connection with the protracted process of selecting the YME field development concept at the end of Q2 2014 (the decision was originally expected at the end of Q1 2014), the Group recognised further impairment loss on the project. As at June 30th 2014, the Group recognised impairment equal to the full amount of its investment in the project, resulting in a PLN 545m (NOK 1,101m) increase in the aggregate impairment losses, to PLN 1,596m (NOK 3,224m). The YME licence operator is continuing the work on the YME field development plans.

3 Downstream segment

Crude slate

Crude oil processed by the Gdańsk refinery (thousand tonnes)	Q2 2014	Q1 2014	Q2 2013	2Q14 /1Q14	2Q14 /2Q13
		2,378.9	2,266.5	1,557.1	5.0%
including:					
Urals crude	2,135.6	2,142.9	1,486.4	-0.3%	43.7%
Rozewie crude	50.1	44.6	32.3	12.3%	55.1%
Lithuanian crude	20.4	19.3	9.6	5.7%	112.5%
Other types of crude	172.8	59.7	28.8	189.4%	500.0%

The refinery utilisation was adjusted to accommodate difficult market conditions. The capacity utilisation rate in Q2 2014 was 90.8% (up 3.3pp quarter on quarter). With its operations stable, the refinery maintained throughput of 2,378.9 thousand tonnes (+5.0% quarter on quarter).

Grupa LOTOS S.A.'s product slate

Total output (thousand tonnes)	Q2 2014	Q1 2014	Q2 2013	2Q14 /1Q14	2Q14 /2Q13
		2,581.2	2,453.6	1,731.0	5.2%
Gasolines	340.0	322.6	237.0	5.4%	43.5%
Naphtha	91.2	80.6	68.1	13.2%	33.9%
Diesel oils	1,145.9	1,048.3	810.1	9.3%	41.5%
Light fuel oils	38.7	77.0	38.7	-49.7%	0.0%
Jet fuel	169.3	126.0	66.8	34.4%	153.4%
Heavy fuel oils	299.0	425.1	207.5	-29.7%	44.1%
Bitumen components	162.1	45.7	104.5	254.7%	55.1%
Other*	335.0	328.3	198.3	2.0%	68.9%

* Other products include fuel and technical gases, sulphur, base oils, xylene fraction, LPG, bunker fuel, extracts, raffinates, and slack wax.

Structure of sales in the downstream segment

Refining products, merchandise and materials (thousand tonnes)	Q2 2014	Q1 2014	Q2 2013	2Q14 /1Q14	2Q14 /2Q13
		2,448.0	2,436.4	1,995.6	0.5%
Gasolines	346.2	359.3	297.1	-3.6%	-16.5%
Naphtha	91.2	80.6	68.1	13.2%	33.9%
Diesel oils	1,143.3	1,134.9	1,052.0	0.7%	8.7%
Light fuel oils	39.3	79.0	44.3	-50.3%	-11.3%
Jet fuel	172.1	125.4	78.0	37.2%	120.6%
Heavy fuel oils	299.1	426.8	196.4	-29.9%	-52.3%
Bitumens	150.3	34.5	121.5	335.7%	23.7%
Other petroleum products	206.5	195.9	138.2	5.4%	49.4%

Petroleum products market in the second quarter of 2014*

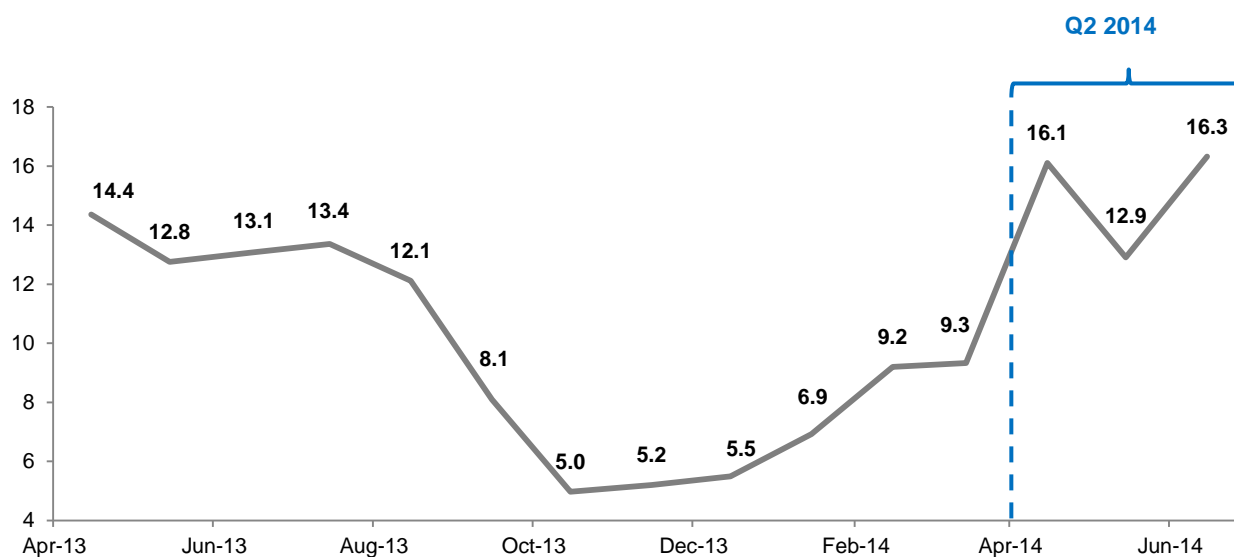
In Q2 2014, fuel consumption in Poland declined by 2.8% year on year.

Despite the challenging conditions on the shrinking domestic market for liquid fuels, in the year to June 2014 the LOTOS Group managed to maintain its sales on par with the same period last year, expanding its market share by 1.3pp, to 33.8%. In this context, the LOTOS Group's goal of securing a 30% share in the Polish fuel market seems a realistic prospect.

* Data by the Polish Organisation of Oil Industry and Trade (POPIHN).

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

Motor gasoline – average monthly crack margin, USD/bbl (April 2013–June 2014)



Source: Thomson Reuters.

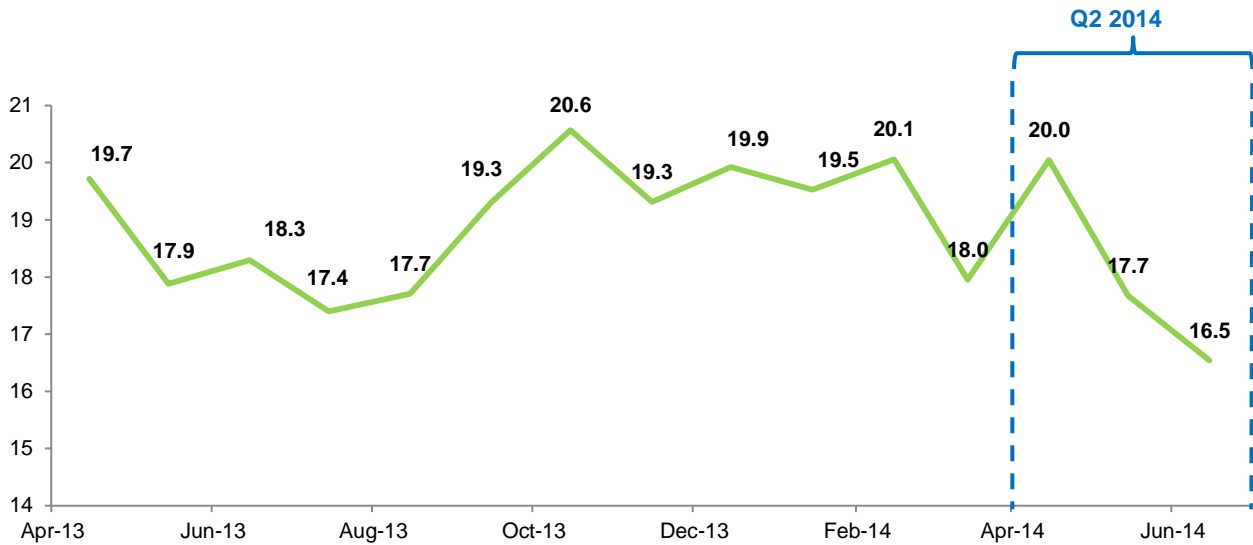
In Q2 2014, **motor gasoline** was sold at a higher year-on-year global crack margin of 15.11 USD/bbl (up 12.8%, i.e. 1.71 USD/bbl).

In the first six months of 2014, the domestic demand for gasoline fell 3.4% year on year, following a downtrend in the gasoline market which has continued for the past few years, underpinned by a number of factors, including the declining competitiveness of gasolines, which are being replaced by diesel oil and LPG.

In the reporting period, the Group's share in the wholesale and retail gasoline markets increased by 4.5pp year on year, to 30%. The market share expansion was recorded across distribution channels: B2B wholesale (up 1.3pp), sales to large companies (up 3.7pp) and retail sales (up 1pp).

On the other hand, domestic gasoline output fell by 3.12%, with exports down 26.5% and imports up 19.2%. Companies operating in Poland traded chiefly with the neighbouring countries, including Germany, Slovakia and Ukraine, but also other European countries, such as the Netherlands or Sweden.

Diesel oil – average monthly crack margin, USD/bbl (April 2013–June 2014)



Source: Thomson Reuters.

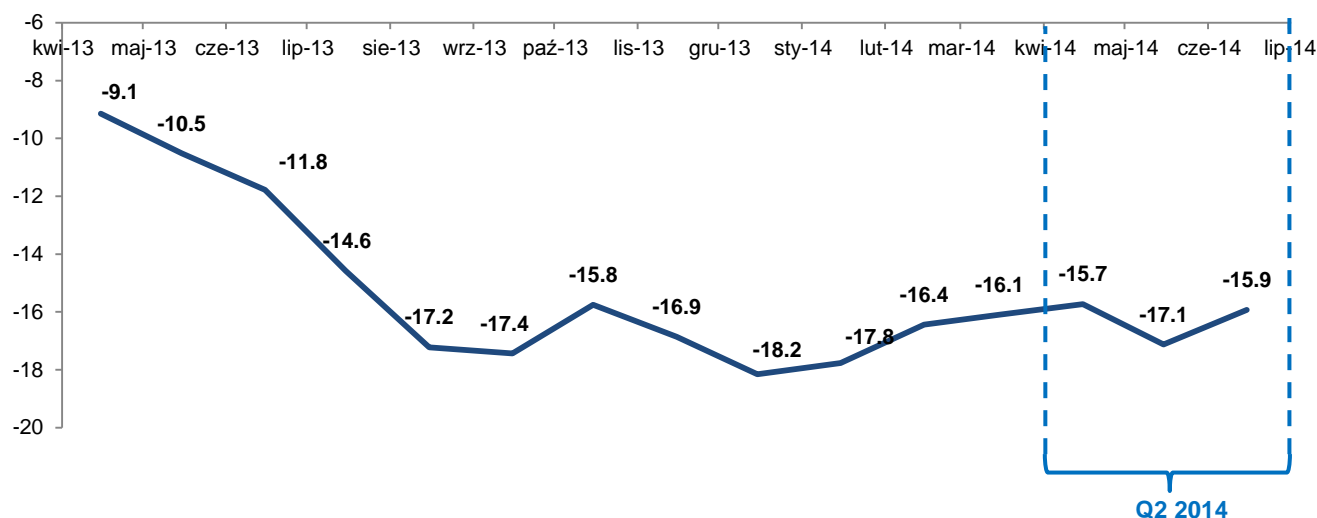
Average global crack margin for **diesel oil** in Q2 2014 was 18.08 USD/bbl, down 3.0%, or 0.55 USD/bbl, year on year.

In H1 2014, demand for diesel oil in Poland dropped 0.8% year on year. In the reporting period, the Group's share in the diesel oil market was 35%, up 0.1pp year on year. The Group's market share grew 0.7pp in wholesale to large companies and retail.

Domestic diesel production was up 4.3%, and export grew by as much as 63.7%, or 69% year on year, giving the Group a leading position among diesel oil exporters.

Imports of diesel oil to Poland were up 6.8%. The LOTOS Group did not import diesel oil. Poland's main trading partners for this product included Germany, the UK, Slovakia and Belarus.

Heavy fuel oil – average monthly crack margin, USD/bbl (April 2013–June 2014)



Source: Thomson Reuters.

In Q2 2014, the average negative margin on **heavy fuel oil** on global markets fell 55.1%, or 5.78 USD/bbl, year on year. Over the same period, the total output of heavy fuel oil increased 1.5% year on year. Exports went up 9.4% and domestic consumption declined by 22.7%.

Downstream segment's key financial data

PLNm	Q2 2014	Q1 2014	Q2 2013	2Q14 /1Q14	2Q14 /2Q13
Revenue	7,158.2	7,047.7	6,110.8	1.6%	17.1%
Operating profit/(loss)	92.6	-31.6	-224.7	-	-
Amortisation and depreciation	117.3	113.7	125.6	3.2%	-6.6%
EBITDA	209.9	82.1	-99.1	155.7%	-

The downstream segment's revenue improved in Q2 2014 year on year on higher sales volumes (up 22.7%), with the average net selling price down 4.5% on Q2 2013, to PLN 2,924 per tonne, mainly due to the lower average quarterly USD exchange rate. A moderate increase in revenue relative to the previous quarter was led by a 0.5% improvement in sales volumes and a 1.1% rise in the price.

The downstream segment's Q2 2014 operating result was up on a combination of higher sales, improved sales mix, wider Brent/Ural spread and price upturn.

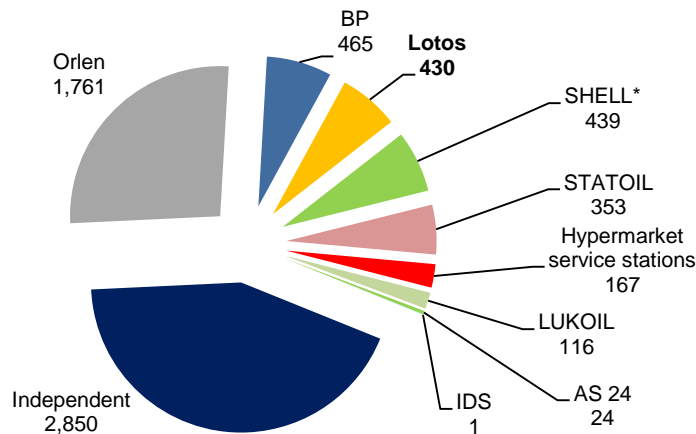
LOTOS service station network

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

	Jun 30 2014	Mar 31 2014	Jun 30 2013	2Q14 /1Q14	2Q14 /2Q13
Total	430	426	407	0.9%	5.7%
CODO	265	261	232	1.5%	14.2%
including: LOTOS OPTIMA	106	105	82	1.0%	29.3%
DOFO	165	164	154	0.6%	7.1%
including: LOTOS OPTIMA	52	51	34	2.0%	52.9%
franchise agreements signed	169	168	158	0.6%	7.0%
DODO	0	1	21	-100.0%	-100.0%

As at the end of H1 2014, the LOTOS retail chain comprised 430 stations. As part of the efforts designed to optimise the station chain, a new brand of economy stations under the trade name LOTOS OPTIMA was launched on the domestic market in 2011. As at June 30th 2014, the stations numbered 158, up by 42 on June 30th 2013. In Q2 2014 four new stations were added to the LOTOS chain (including two LOTOS OPTIMA outlets).

Polish retail market as at June 30th 2014



Source: Polish Organisation of Oil Industry and Trade (POPiHN).
* Including 78 Neste Oil unmanned stations acquired in 2013.

Retail segment - key financial data

thousand tonnes / PLNm	Q2 2014	Q1 2014	Q2 2013	2Q14 /1Q14	2Q14 /2Q13
Sales volume (thousand tonnes)	270.8	242.2	252.3	11.8%	7.3%
Revenue	1,509.2	1,369.0	1,419.0	10.2%	6.4%
Operating profit/(loss)	2.7	3.4	-3.1	-20.6%	-
Amortisation and depreciation	14.3	14.2	13.7	0.7%	4.4%
EBITDA	17.0	17.6	10.6	-3.4%	60.4%

In Q2 2014, the retail segment reported operating profit of PLN 2.7m, an effect of operational optimisation.

4 Other business

EBIT of other business*

PLNm	Q2 2014	Q1 2014	Q2 2013	2Q14 /1Q14	2Q14 /2Q13
Revenue	6.2	6.9	5.5	-10.1%	12.7%
Operating profit/(loss)	1.4	2.9	0.8	-51.7%	75.0%
Amortisation and depreciation	2.3	2.1	2.4	9.5%	-4.2%
EBITDA	3.7	5.0	3.2	-26.0%	15.6%

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

5 Consolidated statement of comprehensive income

Financial highlights of the LOTOS Group

PLNm	Q2 2014	Q1 2014	Q2 2013	2Q14 /1Q14	2Q14 /2Q13
Revenue	7,199.3	7,177.0	6,106.2	0.3%	17.9%
EBITDA	-242.4	231.6	58.6	-	-
Operating profit/(loss)	-415.0	17.3	-100.3	-	-
Adjusted EBIT*	139.7	17.3	-98.3	707.5%	-
LIFO effect**	-9.5	56.0	86.3	-	-
LIFO EBIT	-424.5	73.3	-14.0	-	-
Adjusted LIFO EBIT	130.2	73.3	-12.0	-	-
LIFO EBITDA	-251.9	287.6	144.9	-	-

* Net of non-recurring events (Q2 2014: impairment loss on the YME assets; Q2 2013: revaluation of the provision for offshore oil facilities in Norway, reversal of impairment losses related to the B4 and B6 fields, and the cost of a maintenance shutdown)

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

In Q2 2014, the LOTOS Group posted an operating loss of PLN 415.0m, being the result of the downstream segment's operating profit of PLN 92.6m, the upstream segment's operating loss of PLN 483.3m, an operating profit from other business of PLN 1.4m, less PLN 25.7m in consolidation adjustments (mainly adjustment of the realised margin on stocks of Rozewie and Lithuanian crudes). In Q2 2014, the LOTOS Group's EBIT net of one-off events was PLN 139.7m.

In Q2 2014, the weighted average method of inventory measurement applied by the LOTOS Group (in accordance with International Financial Reporting Standards), combined with fluctuations in crude prices and declining exchange rates, contributed to a PLN 9.5m increase in EBIT. In Q1 2014 and Q2 2013, EBIT was down by PLN 56.0m and PLN 86.3m, respectively (LIFO effect). Had the LIFO method been applied to inventory measurement, the LOTOS Group's adjusted EBIT would have been PLN 130.2m in Q2 2014, PLN 73.3m in Q1 2014, and PLN -14.0m in Q2 2013.

In Q2 2014, the LOTOS Group recorded net finance loss of PLN -90.9m, with the main contributors being a PLN -47.6m negative balance of interest on debt, interest income and commissions, PLN -9.8m loss on measurement and settlement of hedging transactions, and net foreign exchange losses of PLN -33.8m.

In Q2 2014, the effect of measurement and settlement of market risk hedging transactions at the LOTOS Group included a PLN -3.8m net loss on settlement and measurement of derivatives hedging the foreign exchange risk, a PLN -7.3m net loss on measurement of interest rate swaps (IRS) hedging the interest rate risk, a PLN 2.4m net gain on settlement and measurement of hedges of petroleum product prices, and a PLN -1.1m negative contribution from settlement of futures hedging the risk of changes in prices of CO₂ emission allowances.

Transactions used to hedge petroleum products prices as at June 30th 2014

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

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

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

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

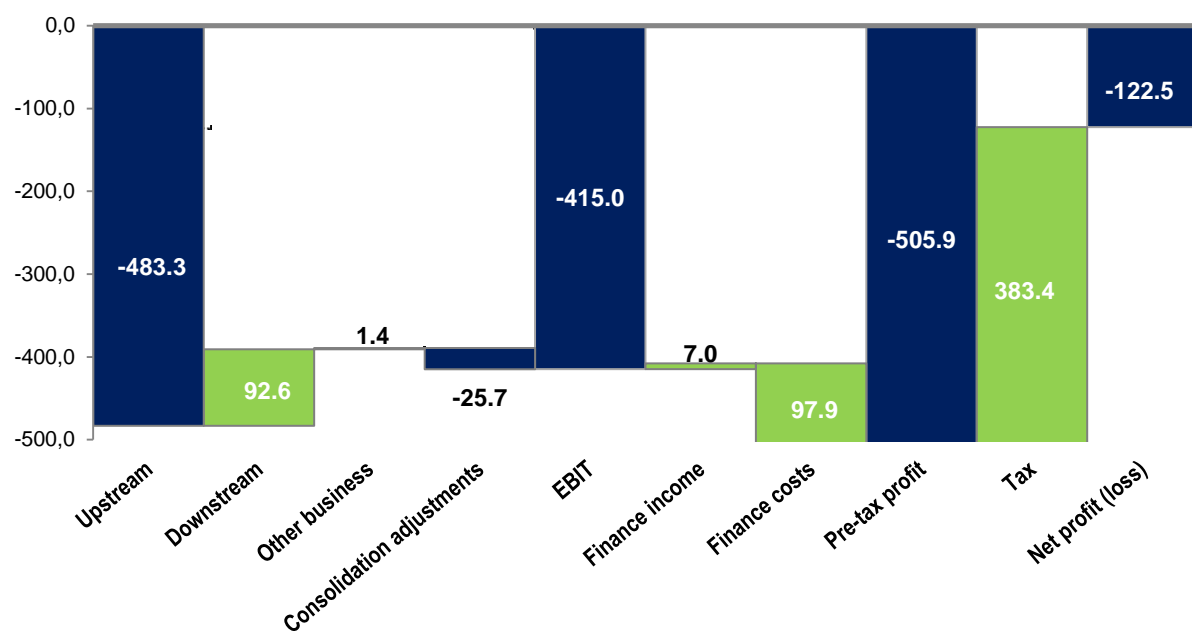
Instrument	Start date	End date	Notional amount	Currency	Interest rate range	Reference rate
IRS	from Jul 15 2011	from Jan 15 2018	250,000,000	USD	2.476% - 4.045%	3M LIBOR - 6M LIBOR
	to Jan 15 2015	to Jan 15 2019				

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

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

LOTOS Group's consolidated performance breakdown

PLNm



In Q2 2014, the LOTOS Group posted consolidated net loss of PLN -122.5m.

Net profit/(loss) of the LOTOS Group

PLNm	Q2 2014	Q1 2014	Q2 2013
Operating profit/(loss)	-415.0	17.3	-100.3
Pre-tax profit/loss	-505.9	-21.1	-172.5
Net profit/(loss)	-122.5	-32.4	-126.1

6 Consolidated statement of financial position

Consolidated statement of financial position – assets

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

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

Key changes in assets:

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

Consolidated statement of financial position – sources of financing

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

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

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

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

As at June 30th 2014, the LOTOS Group's financial debt totalled PLN 6,461.2m, up PLN 249.8m on December 31st 2013. The ratio of financial debt (adjusted for free cash) to equity was 65.9% (up 4.7pp on December 31st 2013).

7 Consolidated statement of cash flows

Consolidated statement of cash flows

PLNm	Q2 2014	Q2 2013
Cash flows from operating activities	101.7	384.8
Cash flows from investing activities	-145.0	-138.5
Cash flows from financing activities	-220.5	-76.8
Change in net cash	-261.5	179.7
Cash and cash equivalents at beginning of the period	-3.1	-242.9
Cash and cash equivalents at end of the period	-269.6	178.0

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

In Q2 2014, net cash flows from operating activities were positive at PLN 101.7m, primarily due to depreciation/amortisation expense being added back to net loss, and the loss from investing activities being adjusted following recognition of impairment losses on the YME assets.

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

Net cash flows from financing activities in Q2 2014, of PLN -220.5m, chiefly comprised net repayments of borrowings and related outflows on principal and interest payments of PLN -236.7m.