



MANAGEMENT'S DISCUSSION AND ANALYSIS OF Q4 2014 CONSOLIDATED FINANCIAL RESULTS



GRUPA LOTOS S.A.

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

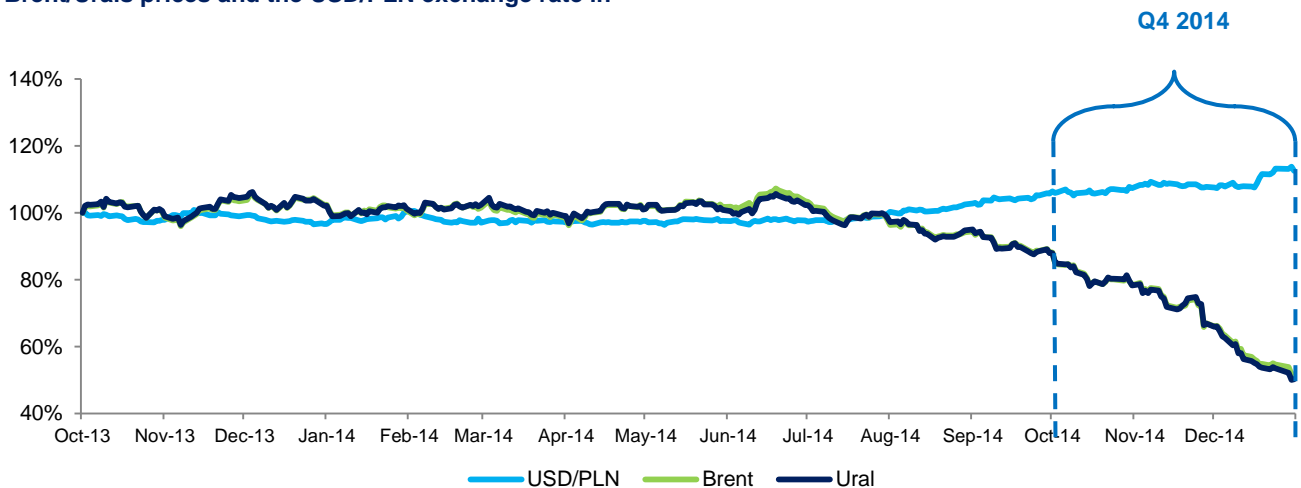
1	Market environment	3
2	Upstream segment	5
3	Downstream segment	9
4	Other business	14
5	Consolidated statement of comprehensive income	15
6	Consolidated statement of financial position	18
7	Consolidated statement of cash flows	20

An excel file with the operational and financial data for Q4 2014 and the previous reporting periods is published together with the 2014 annual report in the Investor Relations section of our website as [“databook”](#).

1 Market environment

- Dramatic decline in crude oil prices in Q4 2014 by almost 30% year on year and approximately 25% quarter on quarter
- Robust increase in the Company's model refining margin by over 33% year on year and 5% quarter on quarter
- Appreciation of the US dollar against the Polish zloty at the end of Q4 2014, by 16.6% year on year and 6.4% quarter on quarter

Brent/Urals prices and the USD/PLN exchange rate in



Source: In-house analysis based on Thomson Reuters data.

Brent crude prices, Brent/Urals spread and Grupa LOTOS S.A.'s model refining margin

USD/bbl	Q4 2014	Q3 2014	Q4 2013	Q4 2014/Q3 2014	Q4 2014/Q4 2013
DATED Brent prices (period average)*	76.63	102.02	109.22	-24.9%	-29.8%
DATED Brent prices (period end)*	55.27	94.67	109.95	-41.7%	-49.7%
Brent-Urals differential*	1.54	1.79	1.40	-14.0%	10.0%
Model refining margin**	7.32	6.97	5.48	5.0%	33.6%

* Source: Thomson Reuters.

** In line with the methodology applied by the Company.

Computed based on Thomson Reuters' data, reflecting a long-term trend in prices which the Company used in trading. In a shorter time horizon, the prices used to compute the model margin may differ from those used in the course of trading activity.

Product cracks*

USD/bbl	Q4 2014	Q3 2014	Q4 2013	Q4 2014/Q3 2014	Q4 2014/Q4 2013
Gasoline	12.35	17.04	5.21	-27.5%	136.8%
Naphtha	-6.12	-1.12	-3.54	-448.4%	-72.8%
Diesel oil (10 ppm)	20.61	18.68	19.96	10.3%	3.3%
Light fuel oil	16.85	16.30	17.48	3.4%	-3.6%
Aviation fuel	20.24	18.40	18.37	10.0%	10.2%
Heavy fuel oil	-11.86	-12.19	-16.86	2.8%	29.7%

* Product crack is calculated as the difference between the price per barrel of a given product (price per tonne /appropriate density factor) and the price of Urals crude (the Brent crude price adjusted for the Brent/Urals spread).

Source: Thomson Reuters.

Exchange rates

USD/PLN	Q4 2014	Q3 2014	Q4 2013	Q4 2014/Q3 2014	Q4 2014/Q4 2013
PLN/USD exchange rate at end of period	3.51	3.30	3.01	6.4%	16.6%
Average PLN/USD exchange rate during quarter	3.37	3.15	3.07	7.0%	9.8%

Source: In-house analysis based on NBP data.

The key contributors to the LOTOS Group's performance in Q4 2014 included:

Feedstock and products:

- strong decline in crude oil prices and downward trend in petroleum product prices in Q4 2014 adversely affected the Group's EBIT due to the applied inventory valuation method (weighted average purchase price);
- stronger model refining margin of Grupa LOTOS S.A., achieved mainly thanks to the sharp oil price decline and the favourable trends in market prices of petroleum products;
- Brent/Urals differential at USD 1,50/bbl, up 10% year on year, benefiting the Gdańsk refinery, which uses Urals crude as its core feedstock.

Exchange rates:

- appreciation of the US dollar against the Polish złoty in Q4 2014, resulting in foreign exchange loss from operating activities of ca. PLN 33m.

2 Upstream segment

- Extension of the Leba and Gaz Południe licences until December 14th 2016 and June 14th 2016, respectively
- Agreement for Joint Operations within the Górowo łlawieckie exploration licence area, concluded between LPB i PGNiG S.A.
- Volumes of crude oil and gas sales from the Heimdal fields higher by 61% quarter on quarter

Crude oil and natural gas reserves, production and sales

Crude oil and natural gas reserves as at (mboe)*	Dec 31 2014	Sep 30 2014	Dec 31 2013		
Norway	4.86	5.44	19.82		
Poland	40.00	40.30	41.60		
Lithuania	7.62	7.76	7.50		
Total	52.48	53.50	68.92		
Production (boe/d)**	Q4 2014	Q3 2014	Q4 2013	Q4 2014/ Q3 2014	Q4 2014/ Q4 2013
Norway	9,008	7,426	3,635	21.3%	147.8%
Poland	3,342	3,844	3,675	-13.1%	-9.1%
Lithuania	1,443	1,446	1,550	-0.2%	-6.9%
Total	13,793	12,716	8,860	8.5%	55.7%
Production (boe)	Q4 2014	Q3 2014	Q4 2013	Q4 2014/ Q3 2014	Q4 2014/ Q4 2013
Norway	621,570	471,508	7,270	31.8%	-
Poland	307,417	353,657	338,120	-13.1%	-9.1%
Lithuania	132,713	132,865	142,402	-0.1%	-6.8%
Total	1,061,700	958,030	487,792	10.8%	117.7%
Sales of own products (boe)	Q4 2014	Q3 2014	Q4 2013	Q4 2014/ Q3 2014	Q4 2014/ Q4 2013
Norway	641,223	398,172	7,270	61.0%	5376.9%
Poland	247,335	294,650	375,244	-16.1%	-34.1%
Lithuania	155,113	122,536	164,608	26.6%	-5.8%
Total	1,043,671	815,358	547,122	28.0%	90.8%

* 2P – proved and probable reserves.

** Production includes only the days on which the mechanical production infrastructure was available

LOTOS Petrobaltic S.A. (LPB)

In Q4 2014, LPB continued to produce crude oil from the B3 field.

In September 2014, the Company filed an application with the Ministry of the Environment for an onshore oil and gas exploration and appraisal licence within the **Młynary** area, together with the related plan of geological operations.

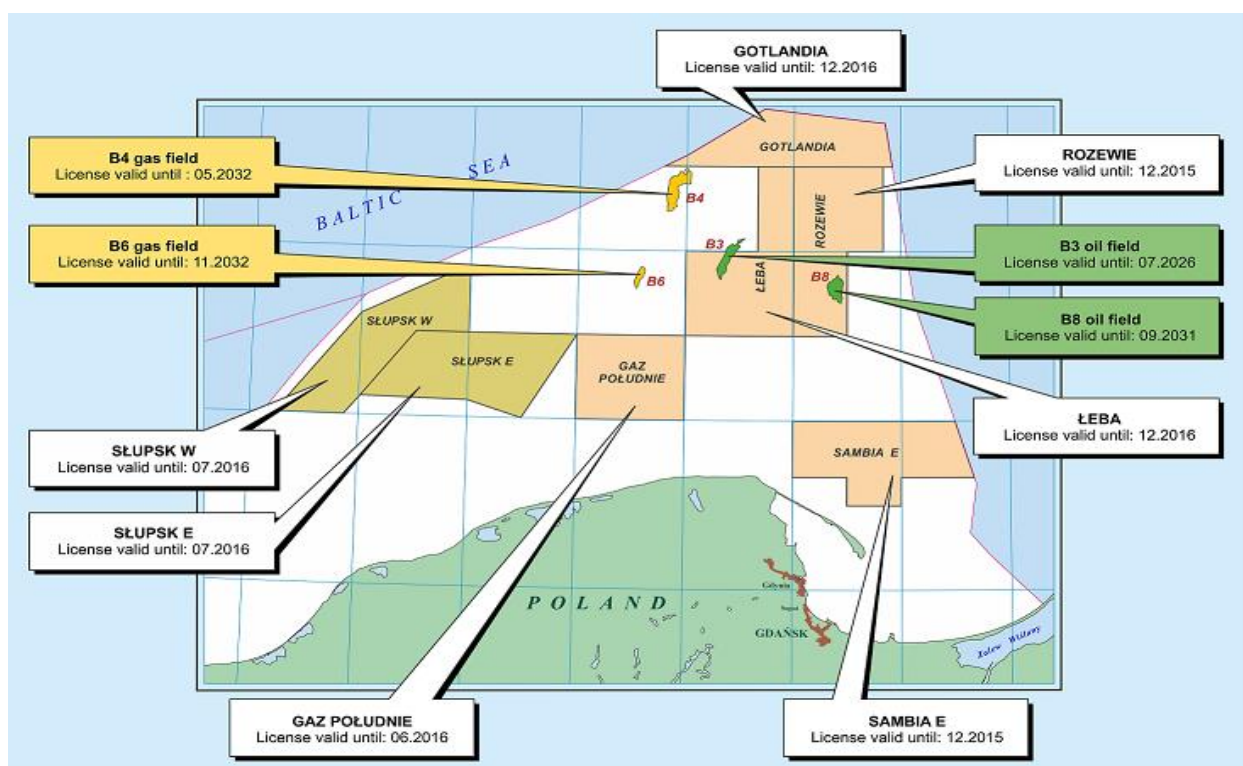
On December 11th 2014, the Company obtained amended terms of the **Leba licence** and signed Annex 3 to the mining usufruct agreement, whereby the licence was extended until December 14th 2016 and the scope of geological work was extended to include drilling of one additional exploratory well to the depth of 2,200 m (the drilling is scheduled to commence in spring 2015) and further two optional exploratory wells with a depth of up to 2,200 m.

On December 12th 2014, the Company obtained amended terms of the **Gaz Południe licence** under Annex 4 to the mining usufruct agreement, whereby the licence was extended until June 14th 2016 and the scope of geological work extended to include drilling one additional appraisal well down to the depth of 2,300 m (drilling is scheduled to commence in spring 2015).

On December 14th 2014 the licence expired for exploration for and appraisal of crude oil and natural gas deposits in the **Sambia W** area. Due to the lack of prospects, LPB decided not to apply for licence extension.

On December 31st 2014, LPB and PGNiG S.A. concluded an Agreement for Joint Operations in the **Górowo Iławeckie** licence area, as part of continued activities undertaken under the agreement on cooperation in exploration operations concluded on April 5th 2013.

Licences held by LOTOS Petrobaltic, Baltic Gas Sp. z o.o. i wspólnicy sp. k., and B8 Sp. z o.o. Baltic spółka komandytowo-akcyjna as at December 31st 2014



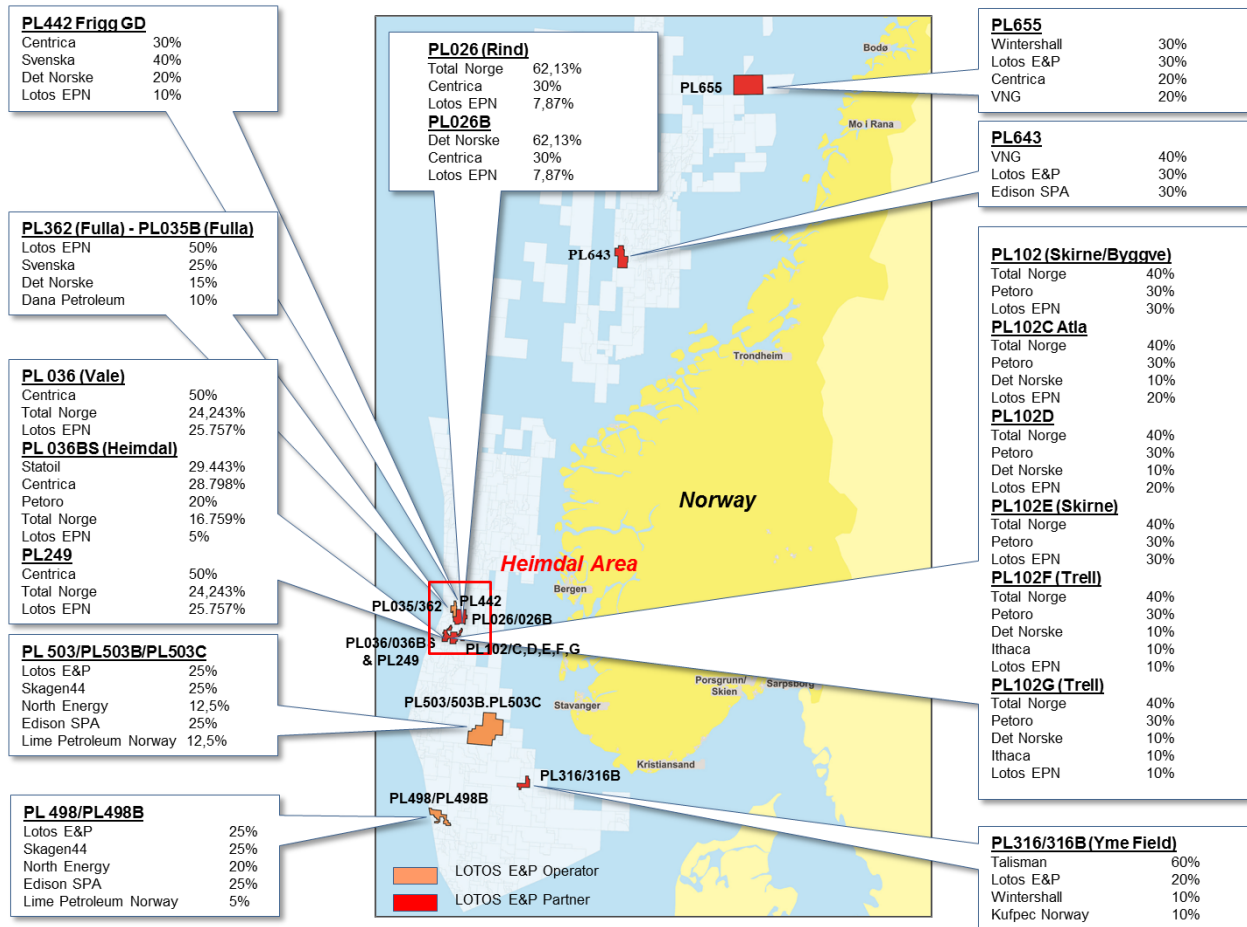
Source: LOTOS Petrobaltic in-house analysis.

LOTOS Exploration & Production Norge AS (LEPN)

In Q4 2014, LEPN, operating as a member of a consortium, continued to produce gas and condensate from the Heimdal fields (Alta, Vale, and Skirne).

LEPN holds a 20% interest in the PL316/316B licence, known as YME. In Q4 2014, the operator Talisman Energy of Canada reviewed options for further development of the field. LEPN and its consortium partners continued work to remove the defective production platform from the field. The work progressed to schedule.

LOTOS Exploration & Production Norge AS's licences as at December 31st 2014



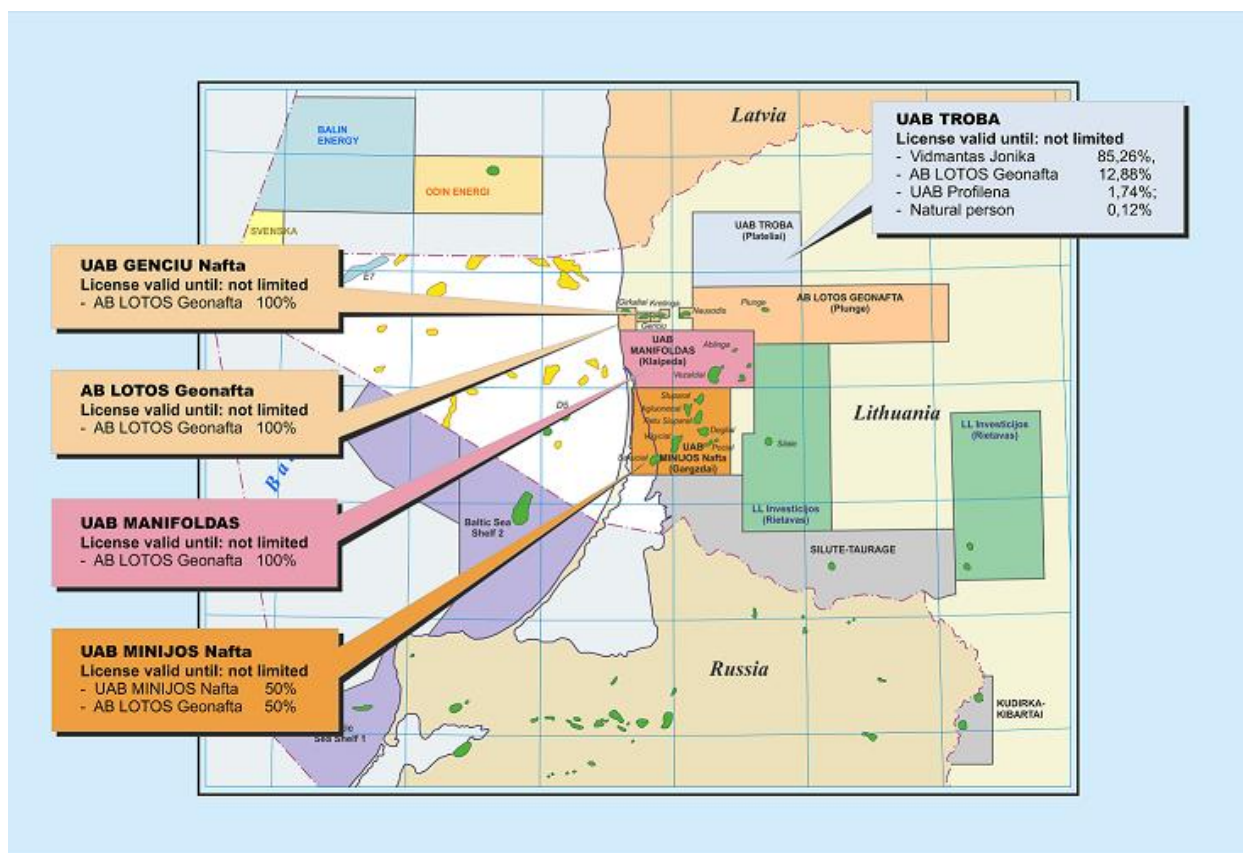
Source: LOTOS Petrobaltic in-house analysis.

AB LOTOS Geonafta Group

In Q4 2014, Lithuanian companies AB LOTOS Geonafta and UAB Genciu Nafta produced crude oil from the Girkaliai, Kretinga, Nausodis and Genciu on-shore fields.

UAB Manifodas produced crude oil from the Vezaiciai, Liziai and Ablinga fields. In the exploration/appraisal and production licence within the **Klaipėda** block, production well Liziai-4 was drilled and production of hydrocarbons commenced.

AB LOTOS Geonafta Group's licences as at December 31st 2014



Source: LOTOS Petrobaltic in-house analysis.

Upstream segment's key financial data

PLNm	Q4 2014	Q3 2014	Q4 2013	Q4 2014/Q3 2014	Q4 2014/Q4 2013
Revenue	209.3	198.1	164.9	5.7%	26.9%
EBIT	-151.5	-46.9	-21.4	-	-
Amortisation and depreciation	103.8	87.8	35.4	18.2%	193.2%
EBITDA	-47.7	40.9	14.0	-	-
Adjusted EBIT*	14.0	17.9	47.4	-21.7%	-70.4%
Adjusted EBITDA*	117.8	105.7	82.8	11.5%	42.3%

* Net of non-recurring events.

Q4 2014: impairment loss on the Heimdal fields, impairment loss on the Lithuanian fields, loss from discontinued projects in the Baltic Sea – the Sambia licence;

Q3 2014: impairment of the B27-1 well in the Baltic Sea, write-off of the Zvaginiai well in Lithuania and impairment of assets related to decommissioning of an offshore oil extraction facility in the YME field following revaluation of the provision for decommissioning costs;

Q4 2013: revaluation of provision for offshore oil extraction facilities in Norway, impairment of the B28 well in the Baltic Sea, impairment loss on Lithuanian exploratory/production licences).

The upstream segment's revenue in Q4 2014 was higher quarter on quarter, despite the significant decline in crude oil prices, owing primarily to a 61% increase in sales of crude oil and natural gas from the Heimdal fields and a 26.6% increase in the volume of Lithuanian crude accompanied by a 16.1% decrease in sales of Rozewie crude. A 26.9% 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, despite to decreased sales of the Rozewie crude (in line with the delivery schedule).

Weighing down on the upstream segment's EBIT in Q4 2014 were non-recurring items with a value of approximately PLN 165.5m. The main non-recurring items included:

- impairment losses on the Heimdal assets (PLN -59.7m),
- impairment losses on the Lithuanian assets (PLN -103.3m),
- loss from a discontinued project in the Baltic Sea (Sambia licence) (PLN -5.9m).

(See Notes 13 and 15 to the Consolidated Financial Statements for 2014.)

In Q4 2014, the upstream segment's adjusted EBIT fell by 21.7% on Q3 2014 and by 70.4% on Q4 2013, which was primarily attributable to lower crude oil prices.

The upstream segment's Q4 2014 EBITDA before impairment of non-current assets was PLN 117.8m, up 11.5% quarter on quarter and 42.3% year on year.

3 Downstream segment

- **Q4 2014 adjusted LIFO EBITDA of PLN 246m, up by more than 51% year on year**
- **High capacity utilisation of the Grupa LOTOS refinery at ca. 94%**
- **Eight new LOTOS OPTIMA service stations and three new LOTOS Premium service stations added to the network in Q4 2014**

Crude slate

Crude oil processed by the Gdańsk refinery (thousand tonnes)	Q4 2014	Q3 2014	Q4 2013	Q4 2014/ Q3 2014	Q4 2014/ Q4 2013
	2,482.4	2,416.5	2,465.8	2.7%	0.7%
including:					
Urals crude	2,170.3	2,375.9	2,399.2	-8.7%	-9.5%
Rozewie crude	33.2	28.8	33.0	15.3%	0.6%
Lithuanian crude	16.5	11.6	17.1	42.2%	-3.5%
Other types of crude	262.4	0.2	16.5	13,1100%	1,490.3%

The refinery utilisation was adjusted to the market conditions. The capacity utilisation rate in Q4 2014 was 93.9% (up 2.6pp quarter on quarter). With its operations stable, the refinery maintained throughput of 2,482.4 thousand tonnes (+2.7% quarter on quarter).

Structure of refinery output

Total output (thousand tonnes)	Q4 2014	Q3 2014	Q4 2013	Q4 2014/ Q3 2014	Q4 2014/ Q4 2013
		2,675.2	2,671.5	2,707.3	0.1%
Gasolines	367.4	390.4	388.3	-5.9%	-5.4%
Naphtha	57.0	56.7	80.5	0.5%	-29.2%
Diesel oils	1,114.9	1,146.9	1,216.3	-2.8%	-8.3%
Light fuel oils	89.6	50.0	82.3	79.2%	8.9%
Jet fuel	188.4	204.3	117.5	-7.8%	60.3%
Heavy fuel oils	392.7	290.3	334.3	35.3%	17.5%
Bitumen components	118.3	187.7	166.9	-37.0%	-29.1%
Other*	346.9	345.2	321.2	0.5%	8.0%

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

Sales structure

Refining products, merchandise and materials (000' tonnes)	Q4 2014	Q3 2014	Q4 2013	Q4 2014/ Q3 2014	Q4 2014/ Q4 2013
		2,642.5	2,575.9	2,553.0	2.6%
Gasolines	409.9	406.4	423.1	0.9%	-3.1%
Naphtha	57.0	56.7	80.5	0.5%	-29.2%
Diesel oils	1,145.5	1,148.4	1,139.9	-0.3%	0.5%
Light fuel oils	87.1	50.9	86.6	71.1%	0.6%
Jet fuel	185.0	209.5	108.5	-11.7%	70.5%
Heavy fuel oils	396.5	296.6	330.2	33.7%	20.1%
Bitumens	151.0	204.1	199.1	-26.0%	-24.2%
Other petroleum products	210.5	203.3	185.1	3.5%	13.7%

* Other products include gas liquids, base oils, lubricants, sulfur, xylene fraction, slack wax, reformate, bunker fuels, plasticizer.

Polish petroleum products market and LOTOS Group's sales in Q4 2014

In Q4 2014, the consumption of fuels (i.e. diesel oil, gasolines and light fuel oil) in Poland fell by 2.3% year on year. Consumption fell in two product groups: diesel oil (- 3.3%) and light fuel oil (- 2.4%), while the gasoline market in Poland grew by 0.6% in the period under review (source: based on the data published the Polish Organisation of Oil Industry and Trade (POPIHN)).

As at the end of 2014, the LOTOS Group maintained its share of the Polish fuel market at 33.1%, exceeding its strategic target for 2015 by 3.1pp.

Diesel oil

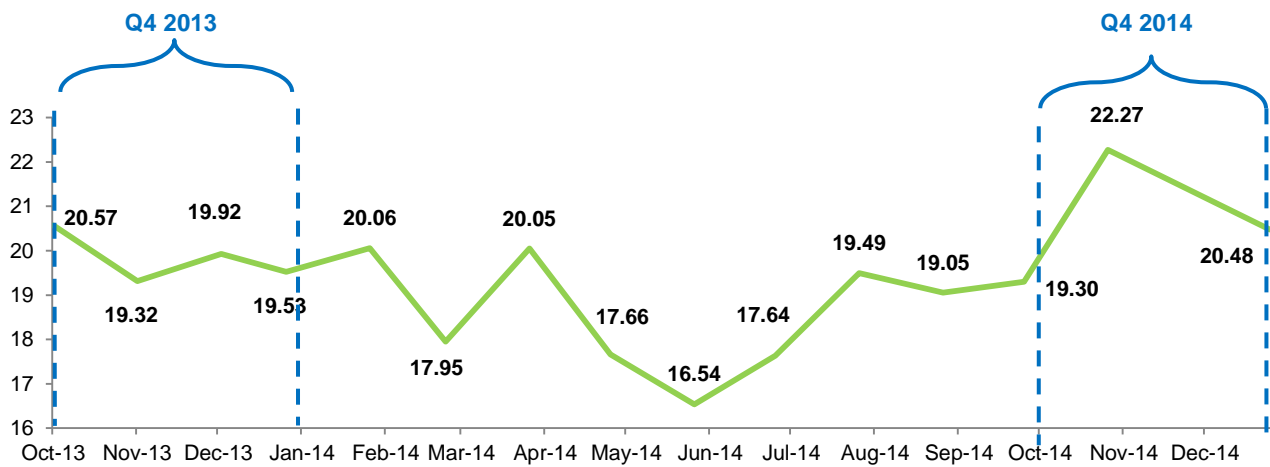
Lower diesel oil consumption in Q4 and the entire 2014 stemmed from the continued expansion of the grey market for diesel oil. Another factor was the Ukraine-Russia conflict which resulted in reduced consumption of diesel oil by transport companies operating on those markets.

In Q4 2014, LOTOS Group’s diesel oil sales volume grew by 0.5% year on year.

Higher sales were driven mainly by the strong growth of export sales (+74% in Q4 2014 vs. Q4 2013), which followed from the optimisation of production process as cracks on middle fractions remained high (see average monthly crack margin). Having optimised its domestic sales, the LOTOS Group reduced its sales by 7.7%, which resulted in an improved result on sales in Poland.

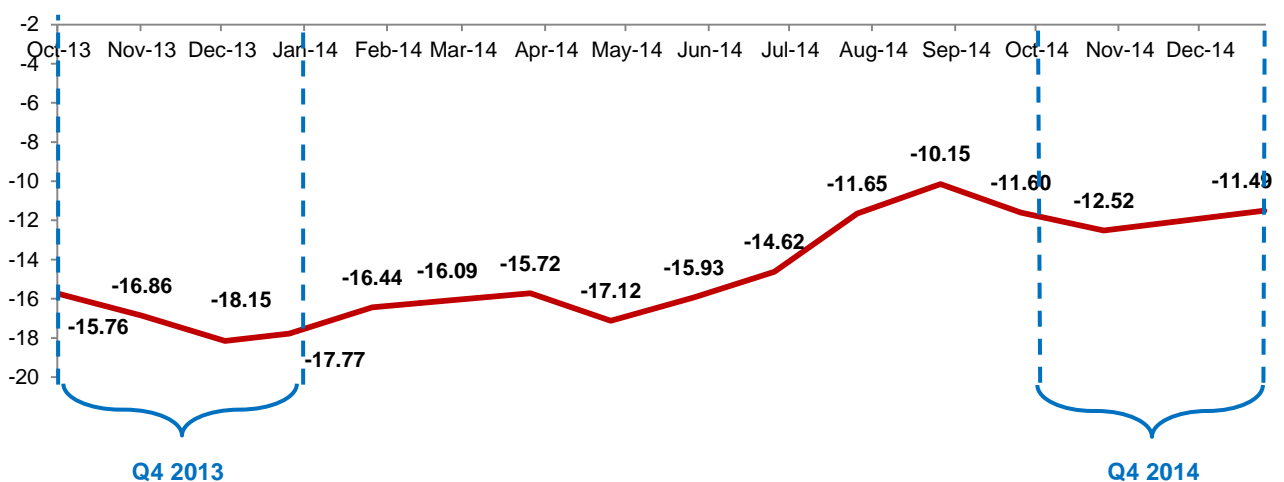
As at the end of 2014, the LOTOS Group had a 34.2% share in the diesel oil market in Poland.

Diesel oil – average monthly crack margin, USD/bbl (October 2013–December 2014)



Source: In-house analysis based on Thomson Reuters data.

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



Source: In-house analysis based on Thomson Reuters data.

In Q4 2014, the average negative **heavy fuel oil** margin on global markets increased by as much as 29.7% year on year, i.e. by 5 USD/bbl; as a result, the Group's heavy fuel oil exports in Q4 2014 were up by 24% on Q4 2013.

Light fuel oil

The downward trend in the consumption of light fuel oil seen both in the Polish and European markets stems directly from the growing popularity of alternative heating fuels and shorter and warmer winters in Poland in recent years.

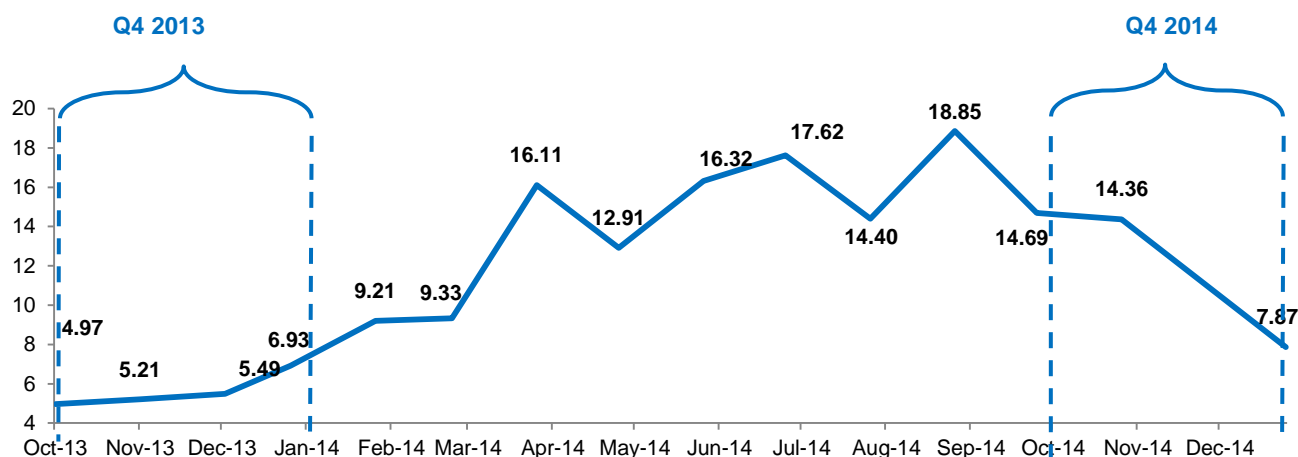
In Q4 2014, the LOTOS Group's light fuel oil sales grew by 0.6% year on year, driven mainly by stronger wholesale sales in a favourable pricing environment, especially in the last two months of 2014. The Group sells light fuel oil only in the domestic market. As at the end of 2014, the Group had a 36.8% share in the light fuel oil market in Poland.

Gasoline

In the 12 months of 2014, gasoline consumption fell by 1.7% year on year, with the downward trend reversing at the end of Q3 2014. The growth of the Polish gasoline market in Q4 2014 was driven by a sharp (13%) drop in gasoline prices in the period from September to December 2014.

In Q4 2014, the LOTOS Group lowered its gasoline sales by 3.1% year on year (with gasoline export sales down by 19% year on year) as a result of the optimisation of production processes. Due to the high cracks on middle distillates, processing of heavier crude grades was more profitable in Q4 2014.

Motor gasoline – average monthly crack margin, USD/bbl (October 2013–December 2014)



Source: In-house analysis based on Thomson Reuters data.

In Q4 2014, the LOTOS Group's domestic gasoline sales grew by 8% year on year, in line with the trends prevailing in the Polish market. Sales grew across all distribution channels (wholesale + retail).

As at the end of 2014, the LOTOS Group had a 29.5% share in the gasoline market in Poland.

Downstream segment's key financial data

PLNm	Q4 2014	Q3 2014	Q4 2013	Q4 2014/ Q3 2014	Q4 2014/ Q4 2013
Revenue	6,471.5	7,480.5	7,504.8	-13.5%	-13.8%
EBIT	-928.1	92.6	-13.3	-	-
Amortisation and depreciation	114.3	114.3	124.4	0.0%	-8.1%
EBITDA	-813.8	206.9	111.1	-	-
LIFO EBIT	-64.8	144.9	66.4	-	-
LIFO EBITDA	49.5	259.2	190.8	-80.9%	-74.1%
Adjusted LIFO EBITDA*	245.9	285.5	162.4	-13.9%	51.4%

* Net of non-recurring events.

Q4 2014: inventory write-down, impairment loss on the value of service stations, impairment loss on tangible assets at LOTOS Asphalt, foreign exchange losses related to operating activity;

Q3 2014: foreign exchange losses on operating activities;

Q4 2013: sale of shares in LOTOS Tank, impairment loss on the value of service stations, foreign exchange gains on operating activities.

In Q4 2014, the downstream segment reported lower revenue, both quarter on quarter and year on year, in spite of higher sales volumes; the revenue decline was mainly attributable to lower average net selling prices. The average net selling price in the downstream segment was PLN 2,449 per tonne, marking a decrease of 15.7% vs. Q3 2014 and of 16.7% vs. Q4 2013. The drop followed chiefly from lower prices of petroleum products on global markets, partly offset by a higher average quarterly USD exchange rate.

In Q4 2014, EBIT of the downstream segment was adversely affected by inventory write-downs. At the consolidated performance level, the write-down was PLN 450.9m. As at September 30th 2014, the Brent Dated price was USD 94.67/bbl; in the course of the fourth quarter of the year, it plunged to USD 55.27/bbl on December 31st 2014. The downward trend in the prices of crude oil and petroleum products had an adverse effect on the Group's performance (its inventories are measured with the weighted average method) and brought the result down by PLN 412.6m.

The decline in crude oil prices was accompanied by appreciation of the US dollar against the Polish zloty, which resulted in a PLN 33.4m foreign exchange loss on operating activities in Q4 2014.

In Q4 2014, the downstream segment's EBITDA determined using the LIFO inventory valuation method ("LIFO EBITDA") before impairment losses on non-current assets, inventory write-downs and foreign exchange differences on operating activities amounted to PLN 245.9m (down 13.9% on Q3 2014 and up 51.4% on Q4 2013)

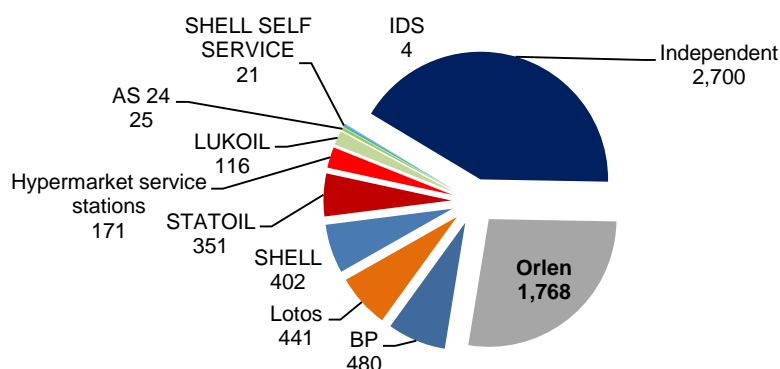
LOTOS service station network

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

Total	Dec 31 2014	Sep 30 2014	Dec 31 2013	Q4 2014/ Q3 2014	Q4 2014/ Q4 2013
	441	432	439	2.1%	0.5%
CODO	269	266	256	1.1%	5.1%
including: LOTOS OPTIMA	108	106	100	1.9%	8.0%
DOFO	172	166	166	3.6%	3.6%
including: LOTOS OPTIMA	61	54	51	13.0%	19.6%
franchise agreements	176	169	170	4.1%	3.5%
DODO	0	0	17	-	-100.0%

As at the end of 2014, the LOTOS retail chain comprised 441 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 December 31st 2014, the number of LOTOS OPTIMA stations was 169, with eight new outlets added to the chain during the fourth quarter.

Polish retail market as at December 31st 2014



Source: Polish Organisation of Oil Industry and Trade (POPiHN).

Retail segment - key financial data

PLNm	Dec 31 2014	Sep 30 2014	Dec 31 2013	Q4 2014/ Q3 2014	Q4 2014/ Q4 2013
Sales volume ('000 tonnes)	269.0	285.9	262.2	-5.9%	2.6%
Revenue	1,401.4	1,595.1	1,480.3	-12.1%	-5.3%
EBIT	-11.5	23.3	-7.3	-	-
Amortisation and depreciation	15.8	16.5	14.6	-4.2%	8.2%
EBITDA	4.3	39.8	7.3	-89.2%	-41.1%

In Q4 2014, the retail area reported negative EBIT of PLN -11.5m, which was mainly attributable to recognition of a PLN 15.8m impairment loss on service station assets. Efforts on standardisation of the network and promotion of a uniform image of the LOTOS brand continued in the reported quarter. The long-running process of phasing out the DODO fuel distribution system and replacing it with a more efficient franchise-based model of cooperation with dealers was completed in 2014.

4 Other business

EBIT of other business*

PLNm	Q4 2014	Q3 2014	Q4 2013	Q4 2014/ Q3 2014	Q4 2014/ Q4 2013
Revenue	6.0	6.4	7.7	-6.3%	-22.1%
EBIT	1.4	1.2	11.7	16.7%	-88.0%
Amortisation and depreciation	0.5	2.2	2.7	-77.3%	-81.5%
EBITDA	1.9	3.4	14.4	-44.1%	-86.8%

* 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	Q4 2014	Q3 2014	Q4 2013	Q4 2014/ Q3 2014	Q4 2014/ Q4 2013
Revenue	6,575.8	7,549.8	7,496.8	-12.9%	-12.3%
EBIT	-1,074.9	79.6	-47.2	-	-
Amortisation and depreciation	218.1	203.9	162.0	7.0%	34.6%
EBITDA	-856.8	283.5	114.8	-	-
LIFO effect*	863.3	52.3	79.7	1550.7%	983.2%
LIFO EBIT	-211.6	131.9	32.5	-	-
Adjusted LIFO EBIT**	150.3	223.0	72.9	-32.6%	106.2%
Adjusted LIFO EBITDA*	368.4	426.9	234.9	-13.7%	56.8%

* LIFO effect = EBIT– LIFO EBIT (computed with the LIFO (Last In First Out) measurement method for inventory decrease).

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. Operating results accounting for the above inventory measurement method are presented in the table in the EBITDA, EBIT, and adjusted EBIT lines. The table also presents estimated inventory decrease measured using the LIFO method, as well as LIFO effect, LIFO EBIT and adjusted LIFO EBITDA.

** Net of non-recurring events.

Q4 2014: impairment loss on the Heimdal fields, impairment loss on the Lithuanian fields, loss on the discontinued investment projects in the Baltic Sea – the Sambia licence, impairment loss on the value of service stations, impairment loss on tangible assets at LOTOS Asfalt, inventory write-down, foreign exchange losses on operating activities;

Q3 2014: impairment of the B27-1 well in the Baltic Sea, write-off of the Zvaginai well in Lithuania and impairment of assets related to decommissioning of an offshore oil extraction facility in the YME field following revaluation of the provision for decommissioning costs, foreign exchange losses on operating activities;

Q4 2013: revaluation of provision for offshore oil extraction facilities in Norway, impairment of the B28 well in the Baltic Sea, impairment loss on Lithuanian exploratory/production licences, sale of shares in LOTOS Tank, impairment loss on the value of service stations, foreign exchange gains on operating activities.

In Q4 2014, the LOTOS Group posted negative EBIT of PLN -1.074.9m, being the result of the downstream segment's operating loss of PLN -928.1m, the upstream segment's operating loss of PLN -151.5m, operating profit from other business of PLN 1.4m, plus PLN 3.3m in consolidation adjustments (mainly margin realised on sales of the Rozewie and Lithuanian crudes being adjusted for the margin on crude stocks held by the Group).

In Q4 2014, the weighted average method of inventory measurement applied by the LOTOS Group (in accordance with International Financial Reporting Standards), combined with the falling prices of crude oil, contributed to a PLN 863.3m decrease in EBIT (the LIFO effect). This figure includes estimated theoretical impairment losses computed in the LIFO methodology, of PLN 131m (the relation is illustrated in Slide 19 of the of Q4 2014 presentation).

In Q3 2014 and Q4 2013, EBIT was down by PLN 52.3m and by PLN 79.7m, respectively (LIFO effect). It should be added here that such value of LIFO effect in Q4 2014 was materially affected by impairment losses on carrying amounts of inventories, given difference between production cost and net realisable value (PLN 450.9m). Had the LIFO method been applied to inventory measurement, the LOTOS Group's adjusted EBIT (net of one-off events) would have been PLN 150.3m in Q4 2014, PLN 223.0m in Q3 2014 and PLN 72.9m in Q4 2013.

In Q4 2014, the LOTOS Group's EBITDA determined using the LIFO inventory valuation method ("LIFO EBITDA") before impairment losses on non-current assets, inventory write-downs and foreign exchange differences on operating activities, amounted to PLN 368.4m (down 13.7% vs. Q3 2014 and up 56.8% vs. Q4 2013)



In Q4 2014, the LOTOS Group recorded net finance loss of PLN -402.3m, with the main contributors being net foreign exchange losses of PLN -248.0m, a PLN -104.2m loss on measurement and settlement of hedging transactions and PLN -52.2m negative balance of interest on debt, interest income and commissions.

In Q4 2014, the effect of measurement and settlement of market risk hedging transactions at the LOTOS Group included a PLN -67.1m net loss on settlement and measurement of derivatives hedging the foreign exchange risk, a PLN -27.6m net loss on settlement and measurement of hedges of petroleum product prices, a PLN -10.8m net loss on settlement and measurement of interest rate swaps (IRS) hedging the interest rate risk, and a PLN 1.3m positive contribution from settlement and measurement of futures hedging the risk of changes in prices of CO₂ emission allowances.

Transactions used to hedge petroleum products prices as at December 31st 2014

Period	Product/commodity	Heavy fuel oil
		3.5 PCT Barges FOB Rotterdam
Q2 2015	Volume (mt)	3,454
	Price range (USD/mt)	313.75 - 570.5
Q3 2015	Volume (mt)	12,395
	Price range (USD/mt)	313.75 - 570.5
Q4 2015	Volume (mt)	8,582
	Price range (USD/mt)	313.75 - 570.5
Q1 2016	Volume (mt)	336
	Price range (USD/mt)	483.00
Q2 2016	Volume (mt)	1,247
	Price range (USD/mt)	483.00
Q3 2016	Volume (mt)	8,342
	Price range (USD/mt)	483 - 489.5
Q4 2016	Volume (mt)	3,500
	Price range (USD/mt)	483 - 489.5
Q1 2017	Volume (mt)	384
	Price range (USD/mt)	488.50
Q2 2017	Volume (mt)	1,437
	Price range (USD/mt)	488.50
Q3 2017	Volume (mt)	2,013
	Price range (USD/mt)	488.50

Transactions used to hedge foreign exchange risk as at December 31st 2014

Currency pair	Instrument	Volume	Currency	FX exchange range
EUR/USD exchange rate	Forward	7,000,000	EUR	1.2338 - 1.2952
EUR/PLN exchange rate	Forward	3,000,000	EUR	4.2219 - 4.2878
USD/PLN exchange rate	Forward	-412,300,000	USD	3.2193 - 3.5460

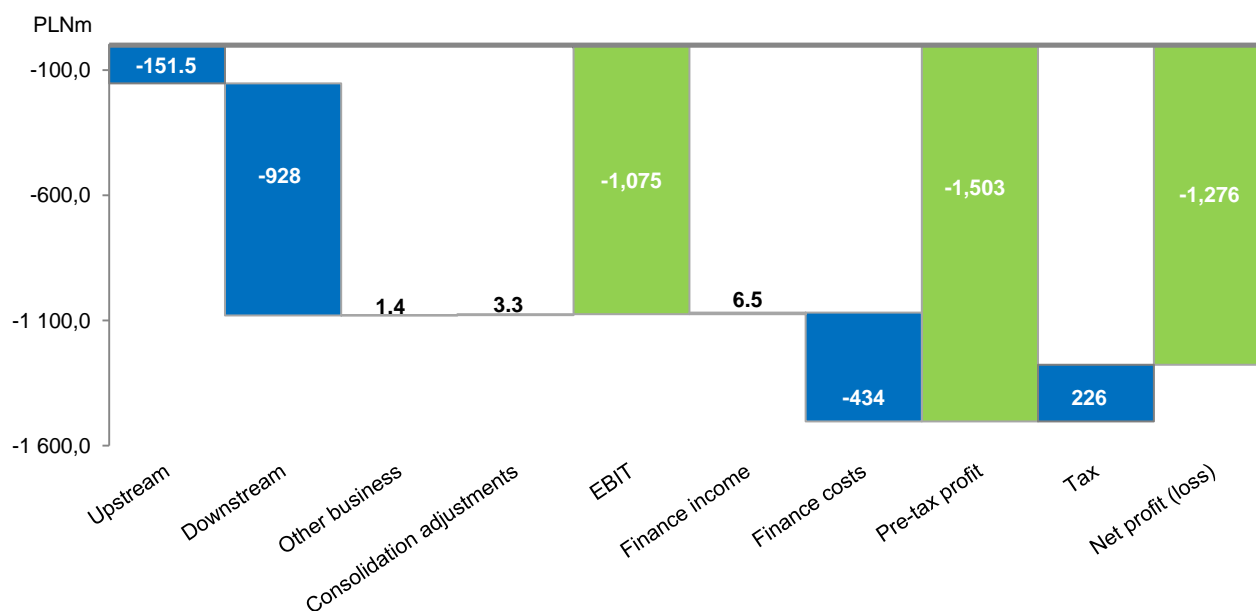
Transactions used to hedge interest rate risk as at December 31st 2014

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

Futures used to hedge the risk related to the prices of carbon dioxide (CO₂) emission allowances as at December 31st 2014

Instrument	Type of instrument	Volume (mt)	Price range (EUR/mt)	Volume (mt)	Price range (EUR/mt)	Volume (mt)	Price range (EUR/mt)	Volume (mt)	Price range (EUR/mt)
EUA	Futures	2015		2016		2017		2018	
		1,002,000	5.77- 7.15	-33,000	5.57 - 5.65	120,000	6.32 - 7.91	60,000	8.03 - 8.52

LOTOS Group's consolidated performance breakdown



In Q4 2014, the LOTOS Group posted consolidated net loss of PLN -1.276.4m.

Net profit/(loss) of the LOTOS Group

PLNm	Q4 2014	Q3 2014	Q4 2013
EBIT	-1,074.9	79.6	-47.2
Profit/(loss) before tax	-1,502.6	-94.0	-52.9
Net profit/(loss)	-1,276.4	-35.0	-24.4

6 Consolidated statement of financial position

Consolidated statement of financial position – assets

Assets (PLNm)	Dec 31 2014	Dec 31 2013	Change	%
	18,947.2	20,284.8	-1,337.6	-6.6%
Non-current assets	11,781.9	11,979.9	-198.0	-1.7%
Property, plant and equipment	9,485.7	10,009.1	523.4	-5.2%
Goodwill	46.7	46.7	0.0	0.0%
Other intangible assets	553.7	658.8	-105.1	-16.7%
Equity-accounted joint ventures	99.6	129.8	-30.2	-23.3%
Deferred tax assets	1,488.9	924.5	564.4	61.0%
Other non-current assets	107.3	211.0	-103.7	-49.1%
Current assets	7,154.9	8,304.1	-1,149.2	-13.8%
Inventories	3,917.1	5,728.9	-1,811.8	-31.6%
Trade receivables	1,406.5	1,591.7	-185.2	-11.6%
Current tax assets	59.6	76.7	-17.1	-22.3%
Derivative financial instruments	4.4	73.9	-69.5	-94.0%
Other current assets	1,419.1	337.1	1,082.0	321.0%
Cash and cash equivalents	348.2	495.8	-147.6	-29.8%
Assets held for sale	10.5	0.8	9.7	1,212.5%

As at December 31st 2014, total assets of the LOTOS Group stood at PLN 18,947.2m, having decreased by PLN 1.337.6m in 2014.

Key changes in assets:

- PLN 523.4m decrease in property, plant and equipment, driven chiefly by impairment losses on assets in the upstream segment and impairment assets offset by the purchase of a drilling rig,
- PLN 564.4m increase in deferred tax assets, mainly in the upstream segment and the Parent,
- PLN 1,811.8m decrease in inventories, mainly mandatory stocks (PLN -2,006.9m) on the back of lower prices of products and crude oil, inventories at the end of 2014 lower than at the end of 2013, PLN 450.9m impairment losses on inventories and lower volume of mandatory stocks,
- PLN 1,082.0m increase in other current assets, mainly attributable to PLN 996.9m of proceeds from Grupa LOTOS S.A. share issue, deposited in a separate bank account of the Polish National Depository for Securities,
- PLN 185.2m decrease in trade receivables attributable to drop in prices,
- PLN 147.6m decrease in cash and cash equivalents.

Consolidated statement of financial position – sources of financing

	Dec 31 2014	Dec 31 2013	Change	%
Equity and liabilities (PLNm)	18,947.2	20,284.8	-1,337.6	-6.6%
Equity	8,258.5	9,189.6	-931.1	-10.1%
Share capital	184.9	129.9	55.0	42.3%
Share premium	2,229.6	1,311.3	918.3	70.0%
Cash flow hedging reserve	-412.5	61.0	-473.5	-776.2%
Retained earnings	6,191.0	7,666.8	-1,475.8	-19.2%
Exchange differences on translating foreign operations	65.3	20.3	45.0	221.7%
Non-controlling interests	0.2	0.3	-0.1	-33.3%
Non-current liabilities	5,456.7	5,682.0	-225.3	-4.0%
Borrowings, other debt instruments and finance lease liabilities	4,495.6	4,496.2	-0.6	0.0%
Derivative financial instruments	62.6	52.9	9.7	18.3%
Deferred tax liabilities	55.5	275.8	-220.3	-79.9%
Employee benefit obligations	185.4	151.4	34.0	22.5%
Other liabilities and provisions	657.6	705.7	-48.1	-6.8%
Current liabilities	5,222.9	5,413.2	-190.3	-3.5%
Borrowings, other debt instruments and finance lease liabilities	2,168.1	1,715.2	452.9	26.4%
Derivative financial instruments	135.9	21.3	114.6	538.0%
Trade payables	1,692.8	2,395.2	-702.4	-29.3%
Current tax payables	4.7	8.8	-4.1	-46.6%
Employee benefit obligations	84.1	104.0	-19.9	-19.1%
Other liabilities and provisions	1,137.3	1,168.7	-31.4	-2.7%
Liabilities directly associated with assets held for sale	9.1	0.0	9.1	-

The PLN -931.1m decrease in the LOTOS Group's equity relative to December 31st 2013, to PLN 8,258.5m as at the end of 2014, was mainly a result of:

- PLN 1,475.8m decrease in retained earnings attributable to the 2014 net loss,
- PLN 473.5m foreign exchange losses on measurement of cash flow hedges adjusted for the tax effect and charged to reserve capital,
- PLN 918.3m increase in share premium account after the issue of 55m Series D ordinary bearer shares,
- PLN 55.0m increase in share capital.

The share of share capital in total equity and liabilities decreased by 1.7pp year on year, to 43.6%.

A PLN 225.3m decrease in non-current liabilities in 2014 was primarily attributable to a PLN 220.3m decrease in deferred tax liability (mainly at Grupa LOTOS S.A.).

Year on year, current liabilities as at December 31st 2014 were down PLN 190.3m, mainly due to:

- PLN 702.4m decrease in trade payables, chiefly due to a year-on-year decline in prices and volumes of crude oil purchases made in December 2014.

- PLN 452.9m increase in current bank borrowings, mainly at the Parent and in the upstream segment, following the revaluation of debt at a higher PLN/USD exchange rate and higher debt under the credit facility for inventories financing and refinancing,
- PLN 114.6m higher losses on valuation of financial derivative instruments.

As at December 31st 2014, the LOTOS Group's financial debt totalled PLN 6,663.7m, up PLN 452.3m on December 31st 2013. The increase was chiefly due to a higher PLN/USD exchange rate (+0.5 PLN/USD on December 31st 2014 year on year), as well as the debt contracted for financing the purchase of a drilling rig and higher debt under the credit facility for inventories financing and refinancing. The ratio of financial debt (adjusted for free cash) to equity was 76.5% (up 14.3pp on December 31st 2013).

7 Consolidated statement of cash flows

Consolidated statement of cash flows

PLNm	Q4 2014	Q4 2013
Cash flows from operating activities	450.6	330.8
Cash flows from investing activities	-194.5	-488.7
Cash flows from financing activities	-343.2	-25,8
Change in net cash	-79.0	-188.5
Cash and cash equivalents at beginning of period	-87.7	185.4
Cash and cash equivalents at end of period	-166.7	-3.1

As at December 31st 2014, the LOTOS Group's cash balance (including current account overdrafts) was negative at PLN 166.7m.

In Q4 2014, net cash flows from operating activities were positive at PLN 450.6m, primarily due to depreciation/amortisation expense being added back to net loss, and decreases in inventories and trade receivables.

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

Net cash flows from financing activities in Q4 2014, of PLN -343.2m, chiefly comprised net repayments of borrowings and related outflows on principal and interest payments of PLN -342.2m. The item does not account for restricted cash representing proceeds from the issue of Series D shares in Grupa LOTOS S.A., deposited in a separate bank account of the Polish National Depository for Securities.