Management's Discussion and Analysis of Q1 2016 consolidated financial results

This is a translation of a document originally issued in Polish

GRUPA LOTOS S.A.

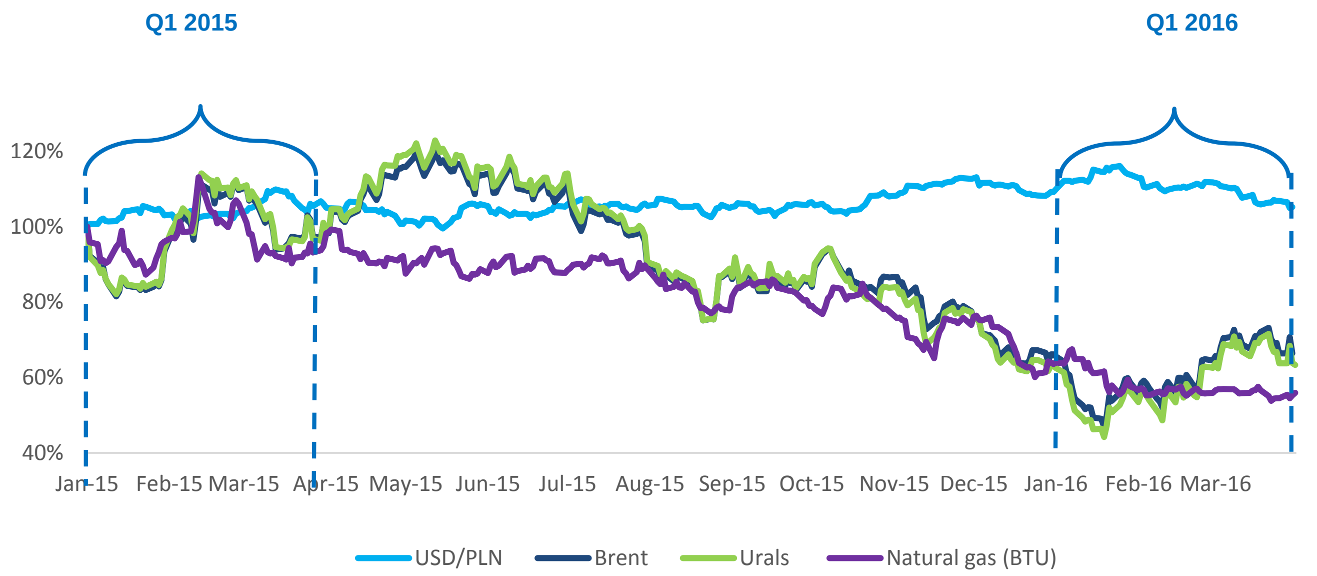
ISIN	Stock Exchange	Thomson Reuters	Bloomberg
PLLOTOS00025	LTS	LTSP.WA	LTS PW

An excel file with the operational and financial data for Q1 2016 and the previous reporting periods is published in the Investor Relations section of our website as "databook".

1 Market environment

- **Crude oil and natural gas prices trending downwards (down 37% or ca. USD 20/bbl yoy and down 40% or ca. USD 16/boe yoy, respectively)**
- **Year-on-year rise in the gasoline crack spread, a key component of LOTOS' model barrel (up by approximately 9.5%), combined with continued declines in middle distillate crack spreads and considerable year-on-year increase in the Brent/Urals spread (up by approximately 52% or USD 0.9/bbl)**
- **Increase in the average USD/PLN exchange rate for the quarter (up by approximately 6% yoy) supported the Group's margins**
- **Depreciation of the US dollar against the złoty at the end of Q1 2016 had a positive effect on the revaluation of USD-denominated debt**
- **Grupa LOTOS S.A.'s average model refining margin for the quarter (taking into account the Brent/Urals spread) at USD 4.74/bbl**

Brent/Urals prices, natural gas price (USD/bbl) and USD/PLN exchange rate



Source: In-house analysis based on Thomson Reuters and National Bank of Poland data.

Brent crude prices, Brent/Urals spread, gas prices and Grupa LOTOS' model refining margin

USD/bbl	Q1 2016	Q4 2015	Q1 2015	Q1 2016/ Q4 2015	Q1 2016/ Q1 2015
DATED Brent FOB prices (1)	**33.79**	43.66	53.86	**-22.6%**	**-37.3%**
Brent/Urals spread(1)	**2.70**	2.68	1.78	**0.7%**	**51.7%**
UK NBP natural gas prices (2)	**24.22**	30.90	40.39	**-21.60%**	**-40.0%**
Model refining margin (3)	**4.74**	6.21	9.38	**-23.7%**	**-49.5%**

(1) (2) *Source: Thomson Reuters.*
(2) *To ensure comparability, the UK NBP natural gas prices have been converted from USD/MWh to USD/boe, using the conversion factor of 1.6282 MWh/boe.*
(3) *In line with the methodology applied by the Company, the model margin was computed based on Thomson Reuters data, which indicate a long-term direction of trends in prices based on which the Company conducts its trading activity. In a shorter term, the prices used to compute the model margin may differ from actual trading prices.*

Product cracks[1]

USD/bbl	Q1 2016	Q4 2015	Q1 2015	Q1 2016/ Q4 2015	Q1 2016/ Q1 2015
Gasoline	**15.49**	14.69	14.16	5.5%	9.5%
Naphtha	**5.00**	5.53	0.37	-9.6%	1256.0%
Diesel oil (10 ppm)	**11.81**	15.31	21.29	-22.8%	-44.5%
Light fuel oil	**10.55**	12.98	17.72	-18.7%	-40.5%
Aviation fuel	**12.02**	14.18	19.77	-15.2%	-39.2%
Heavy fuel oil	**-9.80**	-11.92	-8.63	17.7%	-13.5%

[1] Product crack spread is calculated as the difference between the price per barrel of a given product (price per tonne computed an 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	Q1 2016	Q4 2015	Q1 2015	Q1 2016/ Q4 2015	Q1 2016/ Q1 2015
PLN/USD exchange rate at end of period	**3.76**	3.90	3.81	-3.6%	-1.3%
Average PLN/USD exchange rate	**3.96**	3.89	3.73	1.8%	6.2%

Source: In-house analysis based on National Bank of Poland data.

Presented below are the key drivers of the LOTOS Group's performance in Q1 2016:

Feedstock and products:

Downstream segment:

- Year-on-year decline in average crude oil prices during the quarter, which contributed to lower cost of sales, and wider gasoline crack spreads allowed the Company to increase the refinery's capacity utilisation rate to 93.4% (Q1 2015: 92.6%) to maximise refining margins, and helped generate adjusted (clean) LIFO-based EBITDA of approximately PLN 383m, up by approximately 15% year on year
- Strong year-on-year declines in global prices of middle distillates, including diesel oil, aviation fuel and light fuel oil (on average, down by approximately 41% yoy), dragged down revenue to PLN 3,731m (down by approximately 26% yoy)
- Low price of natural gas used in refining processes helped reduce cost of sales.

Upstream segment:

- Year-on-year declines in Brent Dated prices (down approximately 37%) and the UK National Balancing Point natural gas prices (down approximately 40%), partly offset by the strengthening of the average USD/PLN exchange rate (up ca. 6% for the quarter) and an increased output from the recently acquired Sleipner assets.

Exchange rates:

- Higher average USD/PLN exchange rate for the quarter (up by approximately 6% yoy) offset the negative effect of lower cracks on middle distillates on the downstream segment's performance, and partly offset the negative effect of low crude oil and gas prices on the upstream segment's performance
- Lower USD/PLN exchange rate at the end of the quarter translated into foreign exchange gains on debt remeasurement.

2 Upstream segment

- **Record-high production volume reported in Q1 2016 of approximately 30 thousand boe/d**
- **Oil and gas production from the Sleipner assets at approximately 16 thousand boe/d in Q1 2016**
- **Upstream segment's EBITDA at approximately PLN 150m, up 99% yoy**

Crude oil and natural gas reserves, production and sales

Crude oil and natural gas reserves as at (mboe)(1)	Mar 31 2016	Dec 31 2015	Mar 31 2015
Norway	**17.14**	19.12	4.77
Poland	**40.05**	40.58	41.64
Lithuania	**7.03**	7.14	7.49
Total	**64.22**	66.84	53.90

Production (boe/d)(2)	Q1 2016	Q4 2015	Q1 2015	Q1 2016/ Q4 2015	Q1 2016/ Q1 2015
Norway	**22,425**	6,739	8,183	**232.8%**	**174.0%**
Poland	**6,234**	5,829	2,996	**7.0%**	**108.1%**
Lithuania	**1,157**	1,203	1,510	**-3.8%**	**-23.4%**
Total	**29,816**	13,771	12,689	**116.5%**	**135.0%**

Production (boe)	Q1 2016	Q4 2015	Q1 2015	Q1 2016/ Q4 2015	Q1 2016/ Q1 2015
Norway	**1,980,164**	552,526	625,003	**258.4%**	**216.8%**
Poland	**533,143**	524,567	269,641	**1.6%**	**97.7%**
Lithuania	**105,324**	110,682	135,943	**-4.8%**	**-22.5%**
Total	**2,618,631**	1,187,775	1,030,587	**120.5%**	**154.1%**

Sales of own products (boe)	Q1 2016	Q4 2015	Q1 2015	Q1 2016/ Q4 2015	Q1 2016/ Q1 2015
Norway	**2,018,472**	446,902	670,902	**351.7%**	**200.9%**
Poland	**498,369**	563,044	293,725	**-11.5%**	**69.7%**
Lithuania	**91,151**	90,887	97,399	**0.3%**	**-6.4%**
Total	**2,607,992**	1,100,833	1,062,026	**136.9%**	**145.6%**

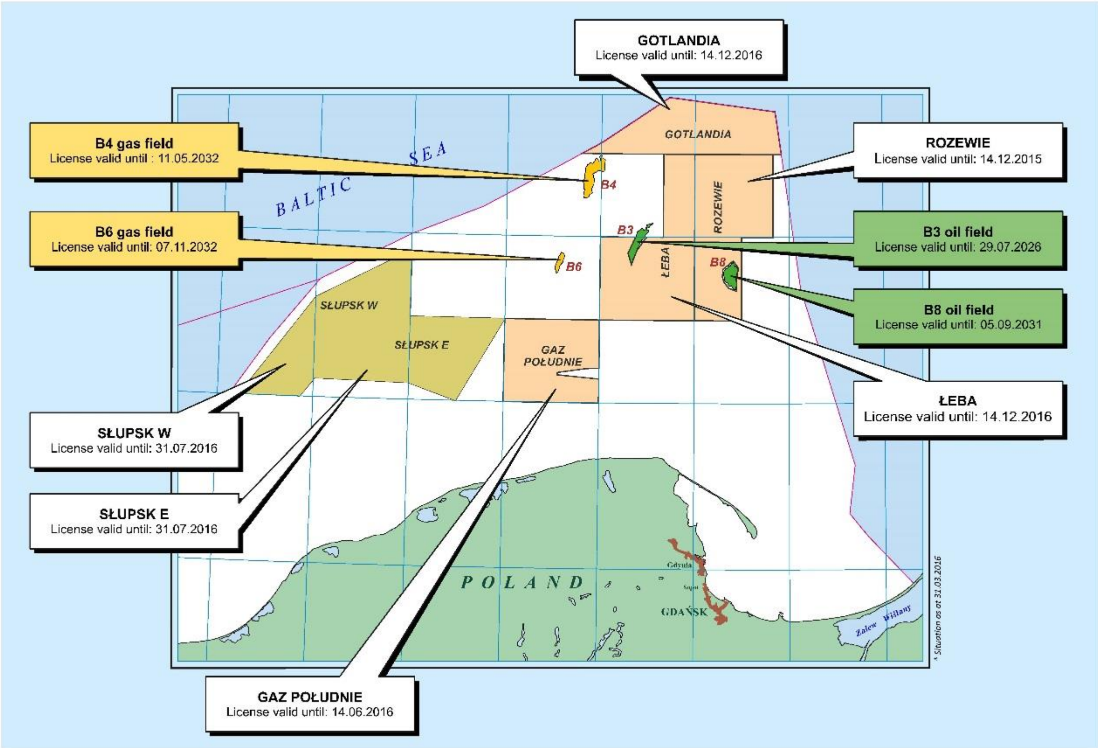
(1) 2P – proved and probable reserves (SPE-PRMS classification).
(2) Production was calculated based only on the days of mechanical availability of the production infrastructure.

LOTOS Petrobaltic S.A. (LPB)

In Q1 2016, LPB continued to produce crude oil from the B3 field in the Baltic Sea. The special purpose vehicle B8 Sp. z o.o. Baltic S.K.A. continued initial production operations under the B8 oil field development project. LPB in partnership with CalEnergy Resources Poland Sp. z o.o. continued preparations to develop the

B4 and B6 gas fields as part of the Baltic Gas Project. A final decision whether to proceed with the B4/B6 project will be made towards the end of 2016.

LOTOS Petrobaltic Group companies' Baltic Sea licences as at March 31st 2016



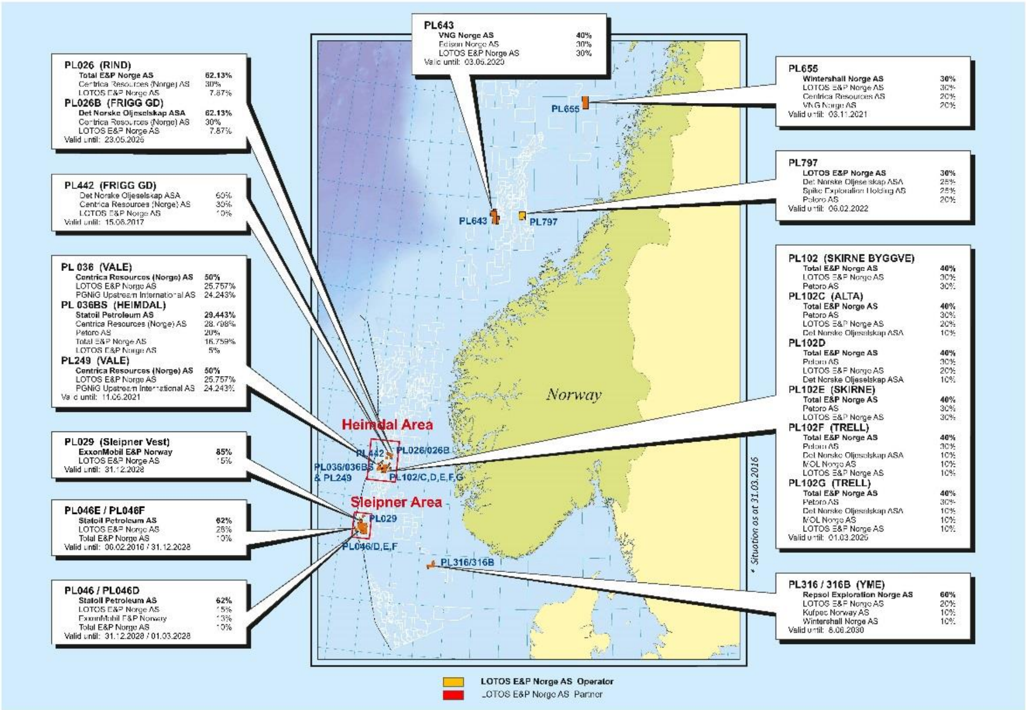
Source: In-house analysis.

LOTOS Exploration & Production Norge AS (LOTOS Norge, LEPN)

In Q1 2016, LEPN, operating in a consortium, continued to produce gas and condensate from the Heimdal fields (Atla, Vale and Skirne) and Sleipner fields (Sleipner Ost, Sleipner Vest and Gungne).
On February 25th 2016, LOTOS Norge launched production from a new well in the Heimdal field.
Following analyses carried out on licences PL035 Fulla, PL498B, PL503/503B and PL503C, in Q1 2016 LEPN relinquished the licences.

LOTOS

LOTOS Exploration & Production Norge AS’s licences as at March 31st 2016

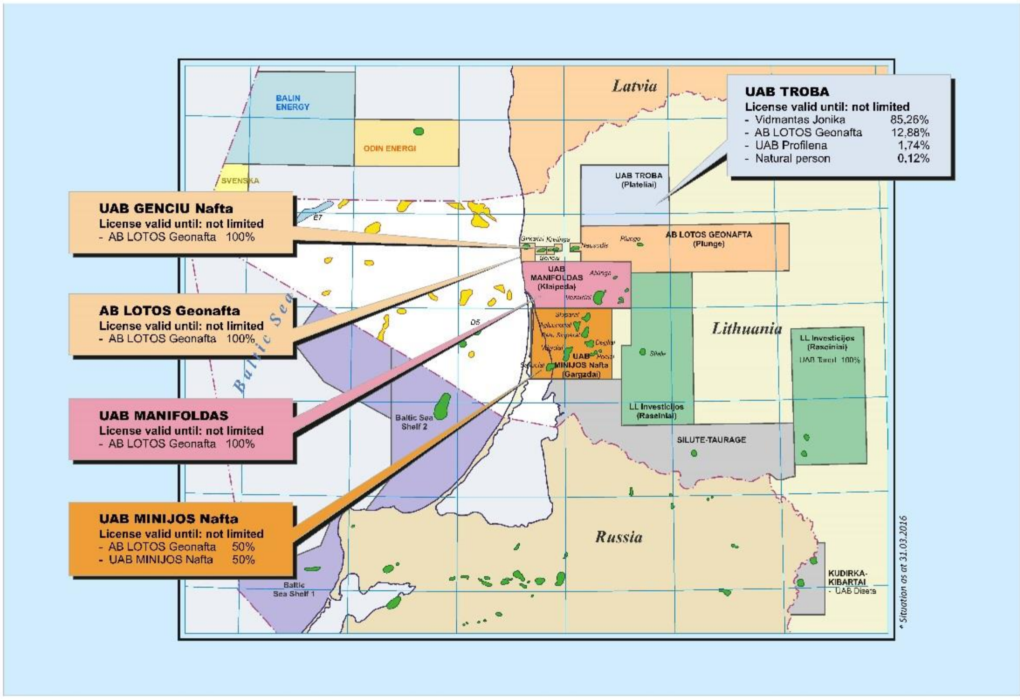


Source: In-house analysis.

AB LOTOS Geonafta Group

In Q1 2016, the AB LOTOS Geonafta Group continued to produce crude oil from the Girkaliai, Kretinga, Nausodis, Genciu, Vezaiciai, Liziai and Ablinga onshore fields.

AB LOTOS Geonafta Group’s licences as at March 31st 2016



Source: In-house analysis.

Upstream segment's operating highlights

PLNm	Q1 2016	Q4 2015	Q1 2015	Q1 2016 /Q4 2015	Q1 2016 /Q1 2015
Revenue	**291.3**	159.0	185.9	**83.2%**	**56.7%**
EBIT	**7.5**	-118.3	12.3	**-**	**-39.0%**
Depreciation and amortisation	**142.2**	52.6	62.8	**170.3%**	**126.4%**
EBITDA	**149.7**	-65.7	75.1	**-**	**99.3%**
Clean EBIT(1)	**12.8**	18.0	12.3	**-28.8%**	**4.1%**
Clean EBITDA(1)	**155.0**	70.6	75.1	**119.6%**	**106.4%**

(1)Net of non-recurring items:

Q1 2016: impairment of expenditure on the Auksoras field, Lithuania, of PLN 5.3m;
Q4 2015: impairment loss on Lithuanian fields, net value of retired intangible assets related to exploration and evaluation of resources – Heimdal licences (PL503), adjustment to the MOPU decommissioning provision in LOTOS NORGE, expenditure write-offs and costs related to the B8 project, expenditure write-offs on the Słupsk licences, impairment losses on ships in the Petrobaltic Group – a total of PLN -136.3m.

The 56.7% increase in revenue of the upstream segment in Q1 2016 vs. Q1 2015 was driven by a 145.6% increase in sales volumes and a 6.2% rise in the average USD/PLN exchange rate for the quarter. The quarter's average prices of natural gas and Brent Dtd crude, down 40.0% and 37.3%, respectively, also had a material impact on revenue. Sales volumes rose mainly on acquisition of interests in production licences in the Sleipner assets in Norway in 2015 and launch of test production from the B8 field in the Baltic Sea.

The increase in revenue relative to Q4 2015 was driven by a 136.9% rise in sales volumes, mainly in LOTOS Norge, a 1.8% increase in the average USD/PLN exchange rate, and a 22.6% decrease in the average price of Brent Dated crude in the quarter.

The major increase in depreciation/amortisation charges was led by charges recognised for the recently acquired Sleipner assets on the Norwegian Continental Shelf, with roughly half of the figure representing charges on assets related to future decommissioning costs of the Sleipner offshore oil extraction facilities.

The upstream segment's Q1 2016 clean EBITDA is 106.4% higher than in Q1 2015 and 119.6% higher than the clean EBITDA posted for Q4 2015, with the growth led by the launch of test production on the B8 field and the purchase of interests in the Sleipner assets in Norway.

3 Downstream segment

- **Clean LIFO-based EBITDA of the downstream segment in Q1 2016 at PLN 383m (up 15% yoy)**
- **Capacity utilisation of the Grupa LOTOS refinery at 93.4%**

Crude slate

'000 tonnes	Q1 2016	Q4 2015	Q1 2015	Q1 2016 / Q4 2015	Q1 2016 / Q1 2015
Crude oil processed by the Gdańsk refinery	**2,444.4**	**2,555.3**	**2,379.2**	**-4.3%**	**2.7%**
including:					
Urals crude	**1,833.0**	1,861.0	1,771.2	**-1.5%**	**3.5%**
Rozewie crude	**54.5**	48.6	42.7	**12.1%**	**27.6%**
Lithuanian crude	**12.4**	14.2	14.4	**-12.7%**	**-13.9%**
Lubiatów crude	**64.1**	77.8	55.6	**-17.6%**	**15.3%**
Other	**480.4**	553.7	495.3	**-13.0%**	**-3.0%**

In Q1 2016, the capacity utilisation rate was 93.4% (up 0.8pp year on year). With its operations stable, the refinery maintained throughput of 2,444 thousand tonnes (up 2.7% yoy).
On June 26th 2015, Grupa LOTOS S.A. and its subsidiary LOTOS Asfalt launched the EFRA Project.

EFRA is a natural continuation of the wider effort to modernise the LOTOS refinery, supplementing the deep crude oil processing configuration achieved under the 10+ Programme.
Deeper oil conversion will add approximately USD 2 per barrel to the refining margin. The EFRA Project's units will turn out approximately 900 thousand tonnes of high-margin fuels per year. The Project is scheduled for completion in H1 2018.

In Q1 2016, further EPCM (engineering, procurement, and construction management) contracts for inter-unit connections and auxiliary EFRA facilities were signed. Work on engineering design and procurement of equipment for the key DCU/CNHT units, Hydrogen Generation Unit (HGU), Hydrowax Vacuum Distillation Unit (HVDU), inter-unit connections and auxiliary facilities was at an advanced stage.

The construction of an electrical substation and a new pipeline flyover continued. The Group was also in the process of obtaining building permits (by the end of March 2016, 19 permits were secured for the facilities covered by the EPCM contracts for inter-unit connections and auxiliary facilities). On February 24th 2016, a building permit for the Hydrogen Generation Unit was obtained.
On March 31st 2016, the overall progress of work under the EFRA Project was 13.5%, compared with the planned 11.8%.

Refining products [1]

Total output	Q1 2016	Q4 2015	Q1 2015	Q1 2016 / Q4 2015	Q1 2016 / Q1 2015
	2,497.7	**2,707.5**	**2,554.6**	**-7.7%**	**-2.2%**
Gasolines	**329.7**	402.7	357.6	**-18.1%**	**-7.8%**
Naphtha	**124.2**	139.4	91.9	**-10.9%**	**35.1%**
Diesel oils	**1,013.2**	1,119.6	1,044.4	**-9.5%**	**-3.0%**
Light fuel oils	**85.9**	83.5	77.5	**2.9%**	**10.8%**
Jet fuel	**147.1**	122.5	153.3	**20.1%**	**-4.0%**
Heavy products[2]	**470.6**	522.5	530.3	**-9.9%**	**-11.3%**
Other[3]	**327.0**	317.3	299.6	**3.1%**	**9.1%**

[1] The difference between the volume of crude oil processed and output of products stems from the fact that, apart from crude oil, the processing units and finished product blenders receive streams of biocomponents, enhancing additives and middle distillates purchased from third-party suppliers.
[2] Heavy fuel oil and bitumen components.
[3] Other products include fuel and technical gases, sulfur, base oils, xylene fraction, LPG, bunker fuel, extracts, raffinates, and slack wax.

Structure of sales in the downstream segment

'000 tonnes	Q1 2016	Q4 2015	Q1 2015	Q1 2016 / Q4 2015	Q1 2016 / Q1 2015
Refining products, merchandise and materials	**2,413.8**	**2,915.9**	**2,438.0**	**-17.2%**	**-1.0%**
Gasolines	**352.0**	399.9	363.5	**-12.0%**	**-3.2%**
Naphtha	**124.2**	139.4	91.9	**-10.9%**	**35.1%**
Diesel oils	**1,034.2**	1,201.3	1,044.6	**-13.9%**	**-1.0%**
Light fuel oils	**86.3**	77.9	79.9	**10.8%**	**8.0%**
Jet fuel	**139.7**	118.4	160.3	**18.0%**	**-12.9%**
Heavy products[2]	**437.2**	530.8	495.6	**-17.6%**	**-11.8%**
Crude oil for resale	**0.0**	243.0	0.0	**-100.0%**	**-**
Other petroleum products[5]	**240.2**	205.2	202.2	**17.1%**	**18.8%**

[4] Heavy fuel oil and bitumen components.
[5] 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 Q1 2016

Data for January–March 2016

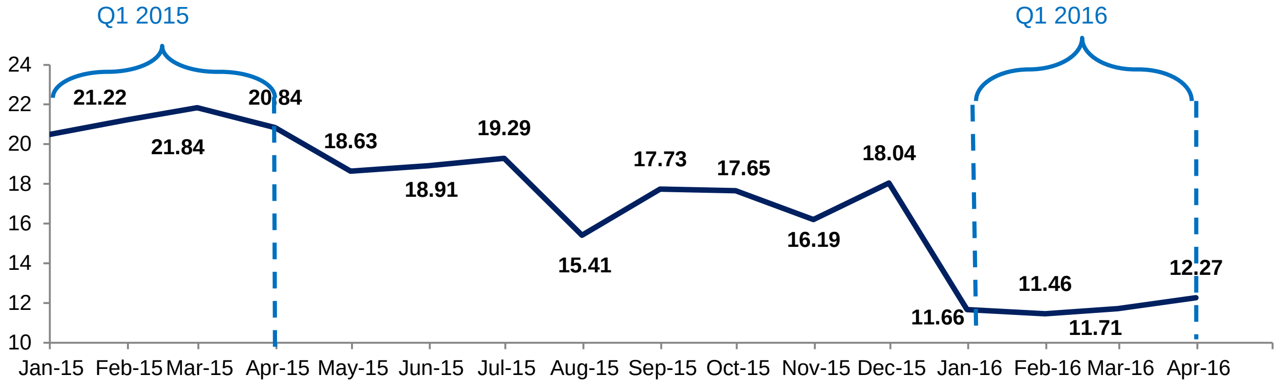
In Q1 2016, consumption of liquid fuels (i.e. diesel oil, gasolines and light fuel oil) in Poland grew by 7.5% year on year, driven by a 6.3% increase in diesel oil consumption, an 11.0% increase in gasoline consumption, and a 6.0% increase in light fuel oil consumption.
More than half of the increase in consumption was covered by higher sales of products imported by independent operators not affiliated with the Polish Organisation of Oil Industry and Trade (POPiHN).

Source: Based on data published by the Polish Organisation of Oil Industry and Trade (POPiHN).

Diesel oil

The beginning of 2016 saw continued growth in demand for diesel oil, which was supported by substantial declines in retail prices, which shrank by PLN 0.71/litre (yoy) in Q1 2016, returning to a level last seen six years ago. Consumption was further supported by favourable economic conditions, which translated into an increase in road transport and international trade volumes.

Diesel oil – average monthly crack margin, USD/bbl (January 2015–March 2016)



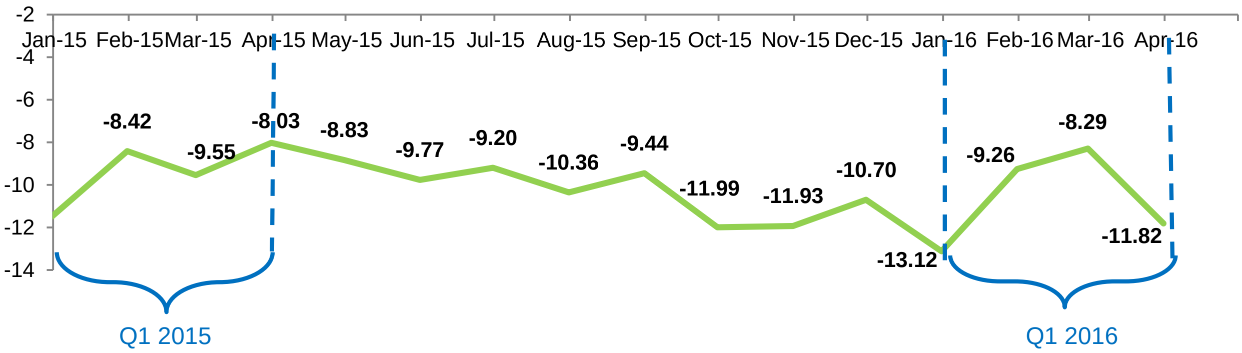
Source: In-house analysis based on Thomson Reuters data.

In Q1 2016, the LOTOS Group's sales of diesel oil (including ON B100) remained broadly flat year on year, with a considerable increase in domestic sales reported in the period (up 9.2%), chiefly driven by higher retail sales. Lower exports were an effect of production optimisation (low middle distillate crack spreads undercut exports profitability) and the high base in 2015 caused by sales of released mandatory stocks.

Heavy fuel oil

In Q1 2016, the average negative heavy fuel oil crack spread on global markets was 11% lower compared with Q1 2015 (USD -9.75/bbl vs. USD -8.66/bbl). The LOTOS Group reduced heavy fuel oil sales by 13% as a result of ongoing optimisation of the refining operations in response to the current market environment (low middle distillate crack spreads).

Heavy fuel oil – average monthly crack margin, USD/bbl (January 2015–March 2016)



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

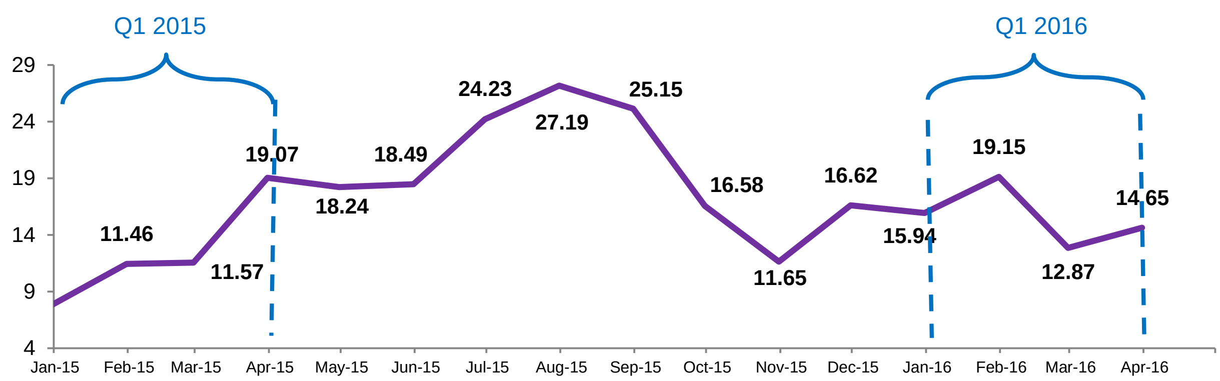
Light fuel oil

A 6% increase in light fuel oil consumption was attributable to a marked decline in prices relative to the previous year and lower average temperatures in the period.
The LOTOS Group took advantage of higher consumption, increasing its sales of light fuel oil on the domestic fuel market by 8%.

Motor gasoline

As in the case of diesel oil, a significant growth in gasoline demand in January–March 2015 was attributable to lower retail prices, down to below PLN 4/litre, and favourable economic conditions, particularly on the labour market.
In Q1 2016, the LOTOS Group increased domestic sales of gasoline by 8% and reduced export sales by 21%, which reflected the ongoing optimisation of refining operations and the realignment of production to focus on naphtha exports.

Motor gasoline – average monthly crack margin, USD/bbl (January 2015–March 2016)



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

Downstream segment's operating highlights

PLNm	Q1 2016	Q4 2015	Q1 2015	Q1 2016/Q4 2015	Q1 2016/Q1 2015
Revenue	**3,730.9**	5,179.9	5,029.2	**-28.0%**	**-25.8%**
EBIT	**122.1**	-195.2	203.1	**-**	**-39.7%**
Depreciation and amortisation	**119.2**	120.3	113.8	**-0.9%**	**4.7%**
EBITDA	**241.3**	-74.9	316.9	**-**	**-23.9%**
LIFO-based EBIT	**314.1**	-189.0	218.1	**-**	**44.0%**
LIFO EBITDA[(1)]	**433.3**	-68.7	331.9	**-**	**30.6%**
Clean LIFO-based EBITDA[(1)]	**382.8**	420.4	332.7	**-7.8%**	**15.0%**

[(1)]*EBITDA including the LIFO effect of inventory valuation and excluding theoretical write-downs on LIFO-measured inventories, net of inventory write-downs, exchange differences on operating activities and, for Q4 2015, an impairment loss on service stations.*

The downstream segment's revenue dropped 25.8% yoy as a result of decline in the average net selling price. In Q1 2016, the average net selling price in the segment was PLN 1,546 per tonne, having decreased 25.1% yoy, chiefly on lower prices of petroleum products on global markets, partly offset by a higher average USD/PLN exchange rate in the quarter.

Revenue of the downstream segment was down 28.0% qoq in Q1 2016, mainly due to a 17.2% decline in sales volumes (mainly exports) and falling prices of petroleum products on global markets. The average net selling price in the segment was 13.0% (PLN 230 per tonne) lower compared with the preceding quarter.

The downstream segment's EBIT in Q1 2016 was PLN 122.1m. One of the factors affecting EBIT in the period were inventory write-downs of PLN 258.2m recognised in Q4 2015, which reduced cost of sales in Q1 2016.

In Q1 2016, the downstream segment's LIFO-based EBITDA (accounting for the reversal of theoretical write-downs computed with the LIFO method), net of non-recurring items (clean LIFO-based EBITDA), was PLN 382.8m (down 8.9% qoq and up 15.0% yoy).

The PLN 50.1m year-on-year growth in clean LIFO-based EBITDA in Q1 2016 is attributable to an improved sales mix (sales markets and lower volumes of heavy products), lower gas prices driving down the cost of sales in the segment, and optimisation of general and administrative expenses (mainly marketing expenses).

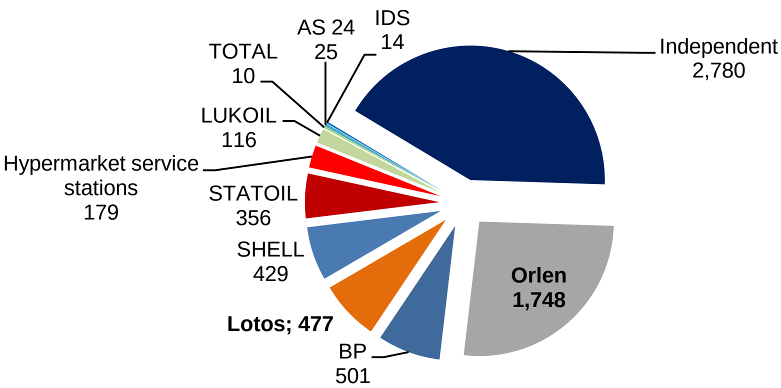
LOTOS service station network

Number of service stations in the LOTOS network as at March 31st 2016

	Mar 31 2016	Dec 31 2015	Mar 31 2015	Q1 2016/Q4 2015	Q1 2016/Q1 2015
Total	**477**	476	445	**1**	**32**
CODO	**290**	290	272	0	**18**
including: LOTOS OPTIMA	**121**	121	109	0	**12**
DOFO	**187**	186	173	**1**	**14**
including: LOTOS OPTIMA	**75**	73	62	**2**	**13**

As at the end of Q1 2016, the LOTOS Group operated a chain of 477 service stations. Compared with March 31st 2015, the number of service stations increased significantly, with 32 new locations opened, including 18 CODO stations and 14 DOFO stations, of which 25 operate under the LOTOS Optima economy brand.

Polish retail fuel market as at March 31st 2016



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

Retail segment's operating highlights

PLNm	Q1 2016	Q4 2015	Q1 2015	Q1 2016/Q4 2015	Q1 2016/Q1 2015
Sales volume (thousand tonnes)	**303.1**	328.8	250.8	**-7.8%**	**20.9%**
Revenue	**1,241.9**	1,475.8	1,204.2	**-15.8%**	**3.1%**
EBIT	**3.0**	-8.2	6.2	**-**	**-51.6%**
Depreciation/amortisation	**16.9**	16.6	14.5	**1.8%**	**16.6%**
EBITDA	**19.9**	8.4	20.7	**136.9%**	**-3.9%**

In Q1 2016, the retail segment reported operating profit of PLN 3.0m despite persistently low fuel margins.
The quarter-on-quarter improvement was driven by lower costs, higher margins on non-fuel operations and impairment losses on assets recognised in Q4 2015.
Q1 2016 EBIT was down year on year, by PLN 3.2m, due to lower fuel margins, which persisted on the retail market throughout the first quarter.

4 Other business

Other business − operating highlights [1]

PLNm	Q1 2016	Q4 2015	Q1 2015	Q1 2016/Q4 2015	Q1 2016/Q1 2015
Revenue	**4.0**	4.1	4.2	**-2.4%**	**-4.8%**
EBIT	**-0.6**	0.8	-0.5	**-**	**-**
Depreciation/amortisation	**1.6**	1.7	1.6	**-5.9%**	**-**
EBITDA	**1.0**	2.5	1.1	**-60.0%**	**-9.1%**

[1] *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

Operating highlights of the LOTOS Group

PLNm	Q1 2016	Q4 2015	Q1 2015	Q1 2016/Q4 2015	Q1 2016/Q1 2015
Revenue	**3,935.9**	5,225.8	5,131.5	**-24.7%**	**-23.3%**
EBIT	**137.8**	-319.4	267.7	**-**	**-48.5%**
Depreciation/amortisation	**262.6**	174.3	177.8	**50.7%**	**47.7%**
EBITDA	**400.3**	-145.1	445.5	**-**	**-10.1%**
LIFO effect [1]	**192.0**	6.2	15.0	**2996.8%**	**1180.0%**
LIFO-based EBIT	**329.8**	-313.2	282.7	**-**	**16.7%**
Clean LIFO-based EBIT[2]	**284.6**	312.2	283.5	**-8.8%**	**0.4%**
Clean LIFO-based EBITDA[2]	**547.1**	486.5	461.3	**12.5%**	**18.6%**

[1] LIFO effect = LIFO-based EBIT (estimated with the LIFO, or Last In First Out, method) – EBIT
In line with its inventory measurement policies, the LOTOS Group uses the weighted average method to measure change in inventories. This method 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 EBITDA and EBIT lines of the table. The table also presents estimated inventory decreases measured using the LIFO method, as well as LIFO effect, LIFO-based EBIT, adjusted LIFO-based EBIT and adjusted LIFO-based EBITDA.

PLNm	Q1 2016	Q4 2015	Q1 2015
LIFO effect	**192.0**	6.2	15.0
including:			
Effect of LIFO-based inventory valuation	**380.9**	239.5	384.0
Effect of write-downs	**-237.1**	258.2	-411.5
(Recognition)/reversal of theoretical write-downs on LIFO-measured inventory	**48.2**	-491.5	42.5

[2]EBITDA including the LIFO effect of inventory valuation and excluding theoretical write-downs on LIFO-measured inventories, net of inventory write-downs, exchange differences on operating activities and (in Q1 2016) an impairment loss on expenditure on the Auksoras field in Lithuania, Q4 2015: impairment loss on Lithuanian fields, net value of retired intangible assets related to exploration for and evaluation of resources – Heimdal licences (PL503), adjustment to the provision for decommissioning of the MOPU in LOTOS NORGE, expenditure write-offs and costs related to the B8 project, expenditure write-offs on the Słupsk licences, impairment losses on ships in the Petrobaltic Group, and an impairment loss on service stations.

In Q1 2016, the LOTOS Group posted an operating profit of PLN 137.8m, being the result of the downstream segment's operating profit of PLN 122.1m, the upstream segment's operating profit of PLN 7.5m, an operating loss on other business of PLN 0.6m, plus PLN 8.8m in consolidation adjustments (mainly the realised margin on sales of the Rozewie and Lithuanian crudes being adjusted for the margin on crude stocks held by the Group).

In Q1 2016, LIFO-based EBITDA (excluding theoretical LIFO-based write-downs), net of non-recurring items and exchange differences on operating activities (clean LIFO-based EBITDA) was PLN 547.1m (up 12.5% on Q4 2015 and up 18.6% on Q1 2015).

In Q1 2016, the LOTOS Group recorded net finance income of PLN 46.8m, with the main contributors including net foreign exchange gains of PLN 74.9m, a PLN 33.1m gain on measurement and settlement of hedging transactions, and a PLN -59.1m negative balance of interest on debt, interest income and commissions.

In Q1 2016, the effect of measurement and settlement of market risk hedging transactions in the LOTOS Group included a PLN 70.1m net gain on settlement and measurement of transactions used to hedge foreign exchange risk, net loss of PLN 28.1m on settlement and measurement of IRS transactions used to hedge interest rate risk, and net loss of PLN 9.0m on settlement and measurement of transactions used to hedge the risk of fluctuations in petroleum product prices.

Transactions used to hedge petroleum product prices as at March 31st 2016

Period	Product/commodity	Diesel oil	Heavy fuel oil	Crude oil	Light fuel oil
		ULSD 10ppm CIF NWE (Platts)	3.5 PCT Barges FOB Rotterdam	Brent (Dtd)	Gasoil .1 Cargoes CIF NWE / Basis ARA
Q2 2016	Volume (mt)	16,050.00	28,084	-149,584	-779
	Price range (USD/mt)	353-353	145-483	457.026-474.354	304-479.5
Q3 2016	Volume (mt)		53,424		-1,680
	Price range (USD/mt)		134.25-489.5		304-479.5
Q4 2016	Volume (mt)		27,829		-852
	Price range (USD/mt)		134.25-489.5		304-479.5
Q1 2017	Volume (mt)		1,732		-61
	Price range (USD/mt)		213.25-488.5		414.5-428.5
Q2 2017	Volume (mt)	-16,050.00	32,447		-2,405
	Price range (USD/mt)	410-410	183.75-488.5		371.25-626.25
Q3 2017	Volume (mt)		33,905		-2,395
	Price range (USD/mt)		183.75-488.5		371.25-428.5
Q4 2017	Volume (mt)		14,571		-1,220
	Price range (USD/mt)		183.75-380		371.25-428.5
Q2 2018	Volume (mt)		6,580		-609
	Price range (USD/mt)		219.75-233		412-437.5
Q3 2018	Volume (mt)		6,172.00		-571.00
	Price range (USD/mt)		219.75-224		412-421
Q4 2018	Volume (mt)		4,575.00		-423.00
	Price range (USD/mt)		219.75-219.75		412-412

Taking advantage of the favourable conditions on the crude oil markets in 2015, Grupa LOTOS S.A. increased its crude stocks and concluded transactions hedging the purchase and selling prices of crude oil in order to hedge its profits earned by exploiting the situation on the futures market.

Transactions used to hedge foreign exchange risk as at March 31st 2016

Currency pair	Instrument	Volume	Currency	Exchange rate range
EUR/USD exchange rates	Forward	186,699,999	EUR	1.0887 - 1.1286
EUR/PLN exchange rate	Forward	18,000,000	EUR	4.2445 - 4.4628
USD/PLN exchange rate	Forward	-263,670,000	USD	3.7506 - 3.9747

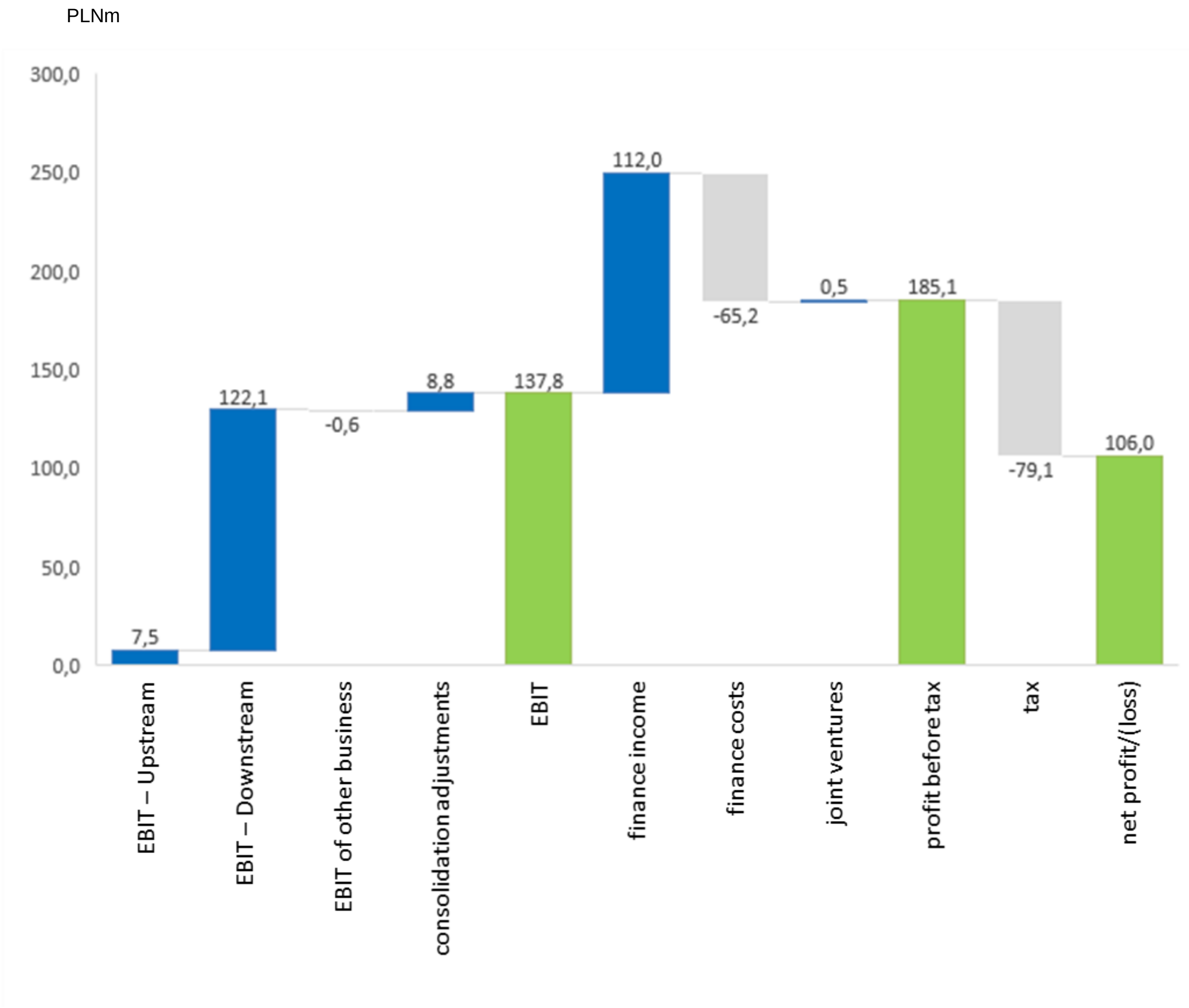
Transactions used to hedge interest rate risk as at March 31st 2016

Instrument	Start date	End date	Notional amount	Currency	Interest rate range	Reference rate
IRS	from Jul 15 2011	from Jan 15 2018	561,500,019	USD	1.52% - 4.045%	3M LIBOR – 6M LIBOR
	to Sep 21 2021	to Dec 21 2021				

Futures used to hedge the risk related to prices of carbon dioxide (CO_2) emission allowances as at March 31st 2016

Instrument	Type of instrument	2016		2017		2018		2019	
		Volume (mt)	Price range (EUR/mt)	Volume (mt)	Price range (EUR/mt)	Volume (mt)	Price range (EUR/mt)	Volume (mt)	Price range (EUR/mt)
EUAs	Futures	1,180,000	4.92-7.83	689,000	4.86-8.29	-105,000	8.14	33,000	8.57-8.6

Structure of LOTOS Group's consolidated result in Q1 2016



In Q1 2016, the LOTOS Group posted consolidated net profit of PLN 106.0m.

EBIT, profit before tax and net profit/(loss) of the LOTOS Group

PLNm	Q1 2016	Q4 2015	Q1 2015
EBIT	**137.8**	-319.4	267.7
Profit/(loss) before tax	**185.1**	-416.5	-110.0
Net profit/(loss)	**106.0**	-391.3	-101.4

6 Consolidated statement of financial position

Consolidated statement of financial position – assets

Assets (PLNm)	Mar 31 2016	Dec 31 2015	Change	%
	18,539.7	19,169.3	**-629.60**	**-3.3%**
Non-current assets	**12,439.2**	12,437.7	**1.5**	**0.0%**
Property, plant and equipment	**10,641.9**	10,568.4	**73.5**	**0.7%**
Goodwill	**46.7**	46.7	**0.0**	**0.0%**
Other intangible assets	**623.6**	617.7	**5.9**	**1.0%**
Equity-accounted joint ventures	**83.3**	70.7	**12.6**	**17.8%**
Deferred tax assets	**857.9**	924.5	**-66.6**	**-7.2%**
Derivative financial instruments	**24.2**	8.7	**15.5**	**178.2%**
Other non-current assets	**161.6**	201.0	**-39.4**	**-19.6%**
Current assets	**6,091.9**	6,723.2	**-631.3**	**-9.4%**
Inventories	**2,884.9**	3,235.8	**-350.9**	**-10.8%**
Trade receivables	**1,538.9**	1,550.9	**-12.0**	**-0.8%**
Current tax assets	**15.0**	12.0	**3.0**	**25.0%**
Derivative financial instruments	**156.5**	208.5	**-52.0**	**-24.9%**
Other current assets	**856.6**	856.3	**0.3**	**0.0%**
Cash and cash equivalents	**640.0**	859.7	**-219.7**	**-25.6%**
Assets held for sale	**8.6**	8.4	**0.2**	**2.4%**

As at March 31st 2016, the LOTOS Group carried total assets of PLN 18,539.7m (down PLN 629.6m on December 31st 2015).

Key changes in assets:

- PLN 350.9m decrease in inventories, including mandatory stocks (down PLN 160.1m), on lower oil stocks at Grupa LOTOS S.A. and lower prices of product and crude oil stocks at the end of March 2016 compared with the end of 2015,
- PLN 219.7m decrease in cash and cash equivalents, chiefly due to the EFRA Project,
- PLN 66.6m decrease in deferred tax assets,
- PLN 36.5m decrease in positive fair value of financial instruments.

Consolidated statement of financial position – sources of financing

Equity and liabilities (PLNm)	Mar 31 2016	Dec 31 2015	Change	%
	18,539.7	19,169.3	**-629.6**	**-3.3%**
Equity	**7,948.9**	7,712.2	**236.7**	**3.1%**
Share capital	**184.9**	184.9	**0.0**	**0.0**
Share premium	**2,228.3**	2,228.3	**0.0**	**0.0**
Cash flow hedging reserve	**-565.9**	-700.9	**135.0**	**-19.3%**
Retained earnings	**6,034.5**	5,928.5	**106.0**	**1.8%**
Translation differences	**67.0**	71.3	**-4.3**	**-6.0%**
Non-controlling interests	**0.1**	0.1	**0.0**	**0.0%**
Non-current liabilities	**5,629.0**	6,031.2	**-402.2**	**-6.7%**
Borrowings, other debt instruments and finance lease liabilities	**4,157.8**	4,454.5	**-296.7**	**-6.7%**
Derivative financial instruments	**54.5**	54.3	**0.2**	**0.4%**
Deferred tax liabilities	**39.6**	47.6	**-8.0**	**-16.8%**
Employee benefit obligations	**184.2**	182.2	**2.0**	**1.1%**
Other liabilities and provisions	**1,192.9**	1,292.6	**-99.7**	**-7.7%**
Current liabilities	**4,961.8**	5,425.9	**-464.1**	**-8.6%**
Borrowings, other debt instruments and finance lease liabilities	**2,290.6**	2,544.8	**-254.2**	**-10.0%**
Derivative financial instruments	**75.8**	110.8	**-35.0**	**-31.6%**
Trade payables	**1,001.4**	1,232.5	**-231.1**	**-18.8%**
Current tax payables	**6.0**	11.8	**-5.8**	**-49.2%**
Employee benefit obligations	**141.4**	122.2	**19.2**	**15.7%**
Other liabilities and provisions	**1,446.6**	1,403.8	**42.8**	**3.0%**

The PLN 236.7m increase in the LOTOS Group's equity relative to December 31st 2015, to PLN 7,948.9m as at March 31st 2016, was mainly a result of:

- PLN 135.0m foreign exchange gains on measurement of cash flow hedges adjusted for the tax effect and charged to reserve capital,
- PLN 106.0m increase in retained earnings attributable to the net profit earned in Q1 2016.

The share of equity in total equity and liabilities increased by 2.7pp relative to December 31st 2015, to 42.9%.

As at March 31st 2016, liabilities were down on December 31st 2015, by PLN 866.3m, mainly due to:
- PLN 550.9m decrease in debt, chiefly at the Parent and in upstream subsidiaries, following partial debt repayment and remeasurement of outstanding debt at a lower PLN/USD exchange rate,
- PLN 231.1m decrease in trade payables, chiefly due to a decline in the volume of crude oil purchased in March 2016 compared with December 2015,
- PLN 56.9m decrease in other provisions and liabilities, chiefly as a result of adjustments made pursuant to an agreement with Exxon to balances outstanding under the transaction to acquire the Sleipner assets.

As at March 31st 2016, the LOTOS Group's financial debt totalled PLN 6,448.4m, down PLN 550.9m on December 31st 2015. The decrease was chiefly attributable to a stronger złoty (down PLN 0.24/USD on December 31st 2015) and partial debt repayment. The ratio of financial debt (adjusted for free cash), including cash earmarked to pursue the objectives of the issue of Series D shares, to equity was 70.1% (down 3.8pp on December 31st 2015.)

7 Consolidated statement of cash flows

Consolidated statement of cash flows

PLNm	Q1 2016	Q4 2015	Q1 2015
Cash flows from operating activities	319.2	402.4	321.4
Cash flows from investing activities	-191.3	-218.7	-643.4
Cash flows from financing activities	-199.2	-226.1	818.6
Effect of exchange rate fluctuations on cash held	-9.0	4.9	-3.1
Change in net cash	-80.3	-37.5	493.5
Cash and cash equivalents at beginning of period	278.1	315.6	-166.7
Cash and cash equivalents at end of period	197.8	278.1	326.8

As at March 31st 2016, the LOTOS Group's cash balance (including current account overdrafts) was PLN 197.8m.

In Q1 2016, net cash flows from operating activities were positive at PLN 319.2m, primarily driven by net profit adjusted for depreciation/amortisation and decreases in inventories and trade payables.

Negative net cash flows from investing activities (PLN -191.3m) were mainly attributable to purchases of property, plant and equipment and other intangible assets, chiefly for the downstream segment (expansion of the service station network, the EFRA Project, and construction of the Hydrogen Recovery Unit) and the upstream segment.

In Q1 2016, the Group incurred capital expenditure of PLN 324.4m, including PLN 99.6m in the upstream segment and PLN 224.8m in the downstream segment, of which PLN 189.3m represents expenditure on the EFRA Programme.

Net cash flows from financing activities in Q1 2016, of PLN -199.2m, chiefly comprised net repayments of borrowings and related outflows on principal, interest and arrangement fee payments.