Management’s Discussion and Analysis of Q2 2016 consolidated financial results

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

GRUPA LOTOS S.A.

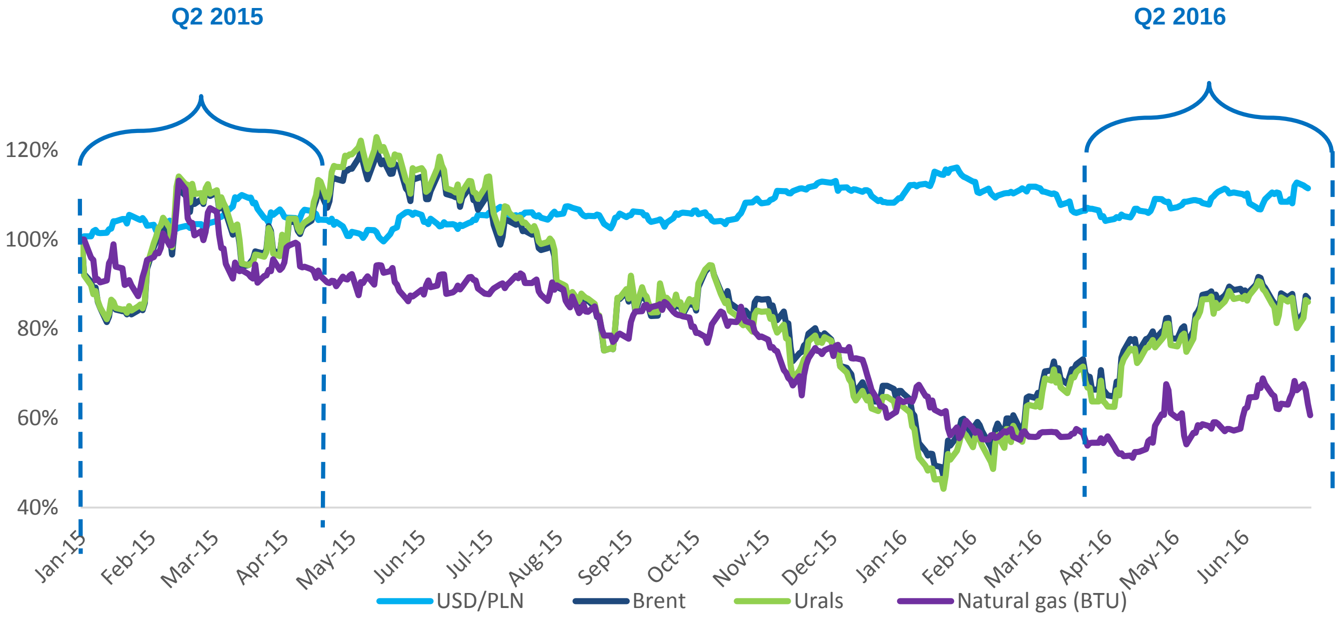
ISIN	Stock Exchange	Thomson Reuters	Bloomberg
PLLOTOS00025	LTS	LTSP.WA	LTS PW

An excel file with the operating and financial data for Q2 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 26% or ca. USD 16/bbl yoy and down 35% or ca. USD 13/boe yoy, respectively)**
- **Year-on-year decrease in the diesel crack margin, a key component of LOTOS' model barrel (down by approximately 31%), combined with continued declines in light distillate crack spreads and considerable year-on-year increase in the Brent/Urals spread (up by approximately 79% or USD 1.14/bbl)**
- **Increase in the average USD/PLN exchange rate for the quarter (up by approximately 5% yoy) supported the Group's product margins**
- **Appreciation of the US dollar against the złoty at the end of Q2 2016 had a negative 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 6.49/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	Q2 2016	Q1 2016	Q2 2015	Q2 2016 / Q1 2016	Q2 2016 / Q2 2015
DATED Brent FOB prices (1)	**45.56**	33.79	61.66	**34.8%**	**-26.1%**
Brent/Urals spread(1)	**2.59**	2.70	1.45	**-4.1%**	**78.6%**
UK NBP natural gas prices (2)	**25.04**	24.22	38.16	**3.39%**	**-34.38%**
Model refining margin (3)	**6.49(4)**	6.51(4)	8.08	**-0.3%**	**-19.7%**

(1) and (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 reflect long-term 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.
(4) According to the changes in the methodology published by the company on June 27th 2016

Product cracks[1]

USD/bbl	Q2 2016	Q1 2016	Q2 2015	Q2 2016 / Q1 2016	Q2 2016 / Q2 2015
Gasoline	**17.54**	15.49	20.48	13.2%	-14.4%
Naphtha	**1.97**	5.00	0.26	-60.5%	657.7%
Diesel oil (10 ppm)	**13.09**	11.81	18.96	10.8%	-31.0%
Light fuel oil	**11.95**	10.55	16.70	13.3%	-28.4%
Aviation fuel	**12.33**	12.02	16.28	2.6%	-24.3%
Heavy fuel oil	**-11.55**	-9.80	-9.26	-17.9%	-24.7%

[1] Product crack margin is calculated as the difference between the price per barrel of a given product (price per tonne computed to reflect 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	Q2 2016	Q1 2016	Q2 2015	Q2 2016 /Q1 2016	Q2 2016 /Q2 2015
PLN/USD exchange rate at end of period	**3.98**	3.76	3.76	5.9%	5.9%
Average PLN/USD exchange rate	**3.87**	3.96	3.70	-2.3%	4.6%

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

Presented below are the key drivers of the LOTOS Group's performance in Q2 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 (with the refinery's capacity utilisation rate increased quarter on quarter to 99%, from 93.4%, to maximise refining margins), helped generate adjusted (clean) LIFO-based EBITDA of approximately PLN 357.4m.
- 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 28% yoy), dragged down revenue to PLN 4,757.3m (down by approximately 27% yoy).

Upstream segment:

- The positive effect of an increase in output from the recently acquired Sleipner assets and the initial production from the B8 field was limited by the year-on-year declines in Brent Dated prices (down approximately 26%) and the UK National Balancing Point natural gas prices (down approximately 29%), partly offset by the strengthening of the average USD/PLN exchange rate (up ca. 5% for the quarter).

Exchange rates:

- Higher average USD/PLN exchange rate for the quarter (up by approximately 5% yoy) offset the negative effect of lower product cracks 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
- Higher USD/PLN exchange rate at the end of the quarter translated into foreign exchange losses on debt remeasurement.

2 Upstream segment

- **Production volume in Q2 2016 at approximately 28.6 thousand boe/d**
- **Upstream segment's clean EBITDA at approximately PLN 197m, up 92% yoy**

Crude oil and natural gas reserves, production and sales

Crude oil and natural gas reserves as at (mboe) [1]	Jun 30 2016	Mar 31 2016	Jun 30 2015
Norway	**15.37**	17.14	4.08
Poland	**39.55**	40.05	41.40
Lithuania	**6.93**	7.03	7.37
Total	**61.85**	64.22	52.85

Production (boe/d) [2]	Q2 2016	Q1 2016	Q2 2015	Q2 2016 / Q1 2016	Q2 2016 / Q2 2015
Norway	**21,849**	22,425	7,877	**-2.6%**	**177.4%**
Poland	**5,595**	6,234	3,206	**-10.3%**	**74.5%**
Lithuania	**1,111**	1,157	1,342	**-4.0%**	**-17.2%**
Total	**28,555**	29,816	12,425	**-4.2%**	**129.8%**

Production (boe)	Q2 2016	Q1 2016	Q2 2015	Q2 2016 / Q1 2016	Q2 2016 / Q2 2015
Norway	**1,772,673**	1,980,164	685,348	**-10.5%**	**158.7%**
Poland	**500,675**	533,143	285,401	**-6.1%**	**75.4%**
Lithuania	**101,113**	105,324	122,104	**-4.0%**	**-17.2%**
Total	**2,374,461**	2,618,631	1,092,853	**-9.3%**	**117.3%**

Sales of own products (boe)	Q2 2016	Q1 2016	Q2 2015	Q2 2016 / Q1 2016	Q2 2016 / Q2 2015
Norway	**1,791,127**	2,074,077	659,592	**-13.6%**	**171.6%**
Poland	**499,927**	498,369	333,961	**0.3%**	**49.7%**
Lithuania	**91,216**	91,151	87,683	**0.1%**	**4.0%**
Total	**2,382,270**	2,663,597	1,081,236	**-10.6%**	**120.3%**

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

LOTOS Petrobaltic S.A. (LPB)

In the second quarter of 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 under the B8 field development project. In June 2016, on its 'LOTOS Petrobaltic' oil rig, the company finished drilling an over 2.2 km deep and over 3 km long horizontal production well B8-7K. It is expected to bring measurable benefits by increasing the oil recovery rate, allowing the company to more efficiently exploit the field.

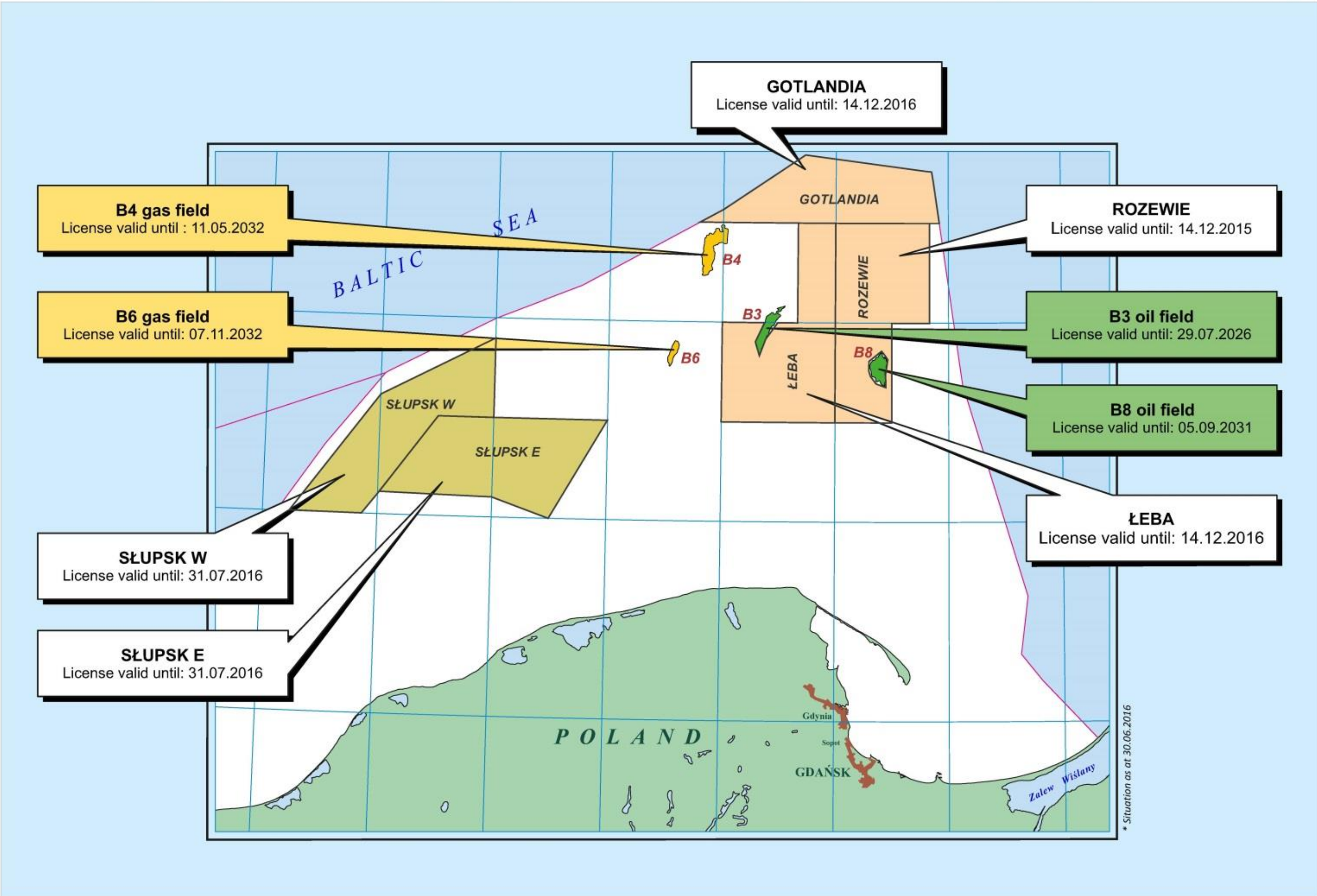
Jointly with CalEnergy Resources Poland Sp. z o.o., LPB continued to prepare for development of the B4 and B6 gas fields under the Baltic Gas Project. The work included optimising the design of pre-processing facilities and taking steps to secure the necessary administrative permits. Commercial negotiations were also held with potential customers. A final decision whether to proceed with the B4/B6 project is expected to be made at the end of 2016 or the beginning of 2017.

Based on the findings of geological and economic analyses, a decision was made to carry on with exploration and appraisal operations within the Łeba and Rozewie licence areas. To enable the operations to continue, at the beginning of November 2015 applications were filed by LPB with the Ministry of Environment to convert the licences into oil and gas exploration, appraisal and production licences. The applications are expected to be reviewed by August 31st 2016.

June 14th 2016 was the expiry date of the Gaz Południe exploration and appraisal licence. On that day, LPB filed the geological prospecting documentation for the B21 gas field, appraised under the licence, with the Ministry of Environment. The Ministry's decision approving the geological prospecting documentation for the B21 field would give LPB priority in establishing mining usage rights and secure it a production licence within three years of receiving the decision.

On July 18th 2016, LPB relinquished the Słupsk W and Słupsk E licences. The 'drop decision" was based on a thorough analysis of the findings of geological work, which did not provide any geological or economic rationale for further operations within the offshore area covered by the licences.

LOTOS Petrobaltic Group companies' Baltic Sea licences as at June 30th 2016



Source: In-house analysis.

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

In Q2 2016, LOTOS Norge, operating in a consortium, produced natural gas and condensate from the Heimdal fields (Atla, Vale and Skirne) and Sleipner fields (Sleipner Ost, Sleipner Vest and Gungne).

On August 9th 2016, Statoil, LOTOS Norge and Total Norge, which together hold the Utgard licence (formerly Alfa Sentral), submitted the Plan for Development and Operation (PDO) of the licence to the Norwegian and British regulators. The Utgard field is located in the North Sea, on the border between Norway's and UK's territorial waters, approximately 20 km to the west from the Sleipner field, at a depth of 3,700 m.

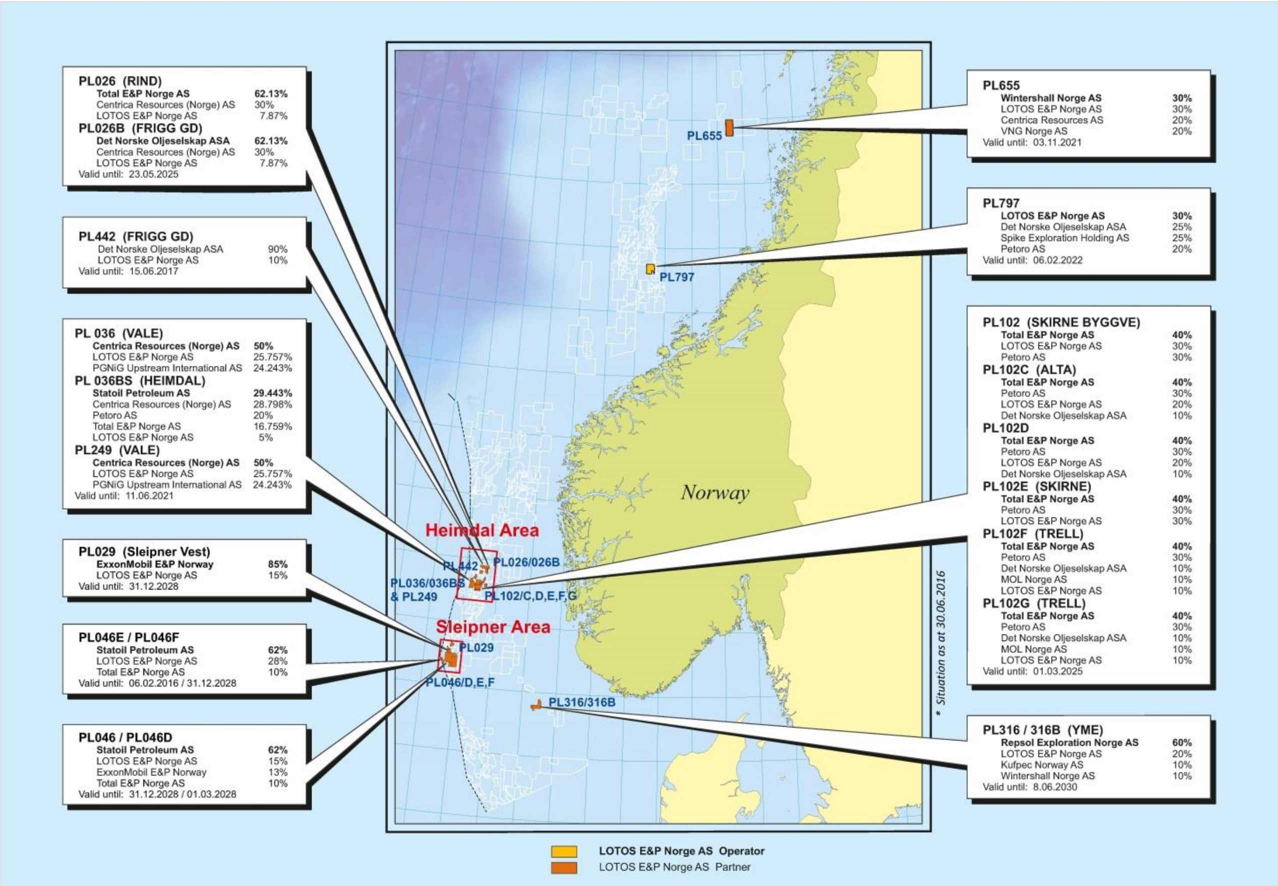
The Norwegian Ministry of Petroleum and Energy's decision on approval of the PDO is due in the fourth quarter of 2016.

The recoverable reserves of the Utgard field attributable to the LOTOS Group's interest amount to 10.3 million barrels of oil equivalent (boe), including 45% of natural gas and 55% of condensate, i.e. light crude oil used to produce gasolines and LPG. Production from the Utgard field is scheduled to start in late 2019,

and the daily output attributable to the LOTOS Group's interest is estimated at 4,000 boe.

On May 3rd 2016, LOTOS Norge relinquished its interest in the PL 643 licence on the Norwegian Sea.

LOTOS Exploration & Production Norge AS's licences as at June 30th 2016



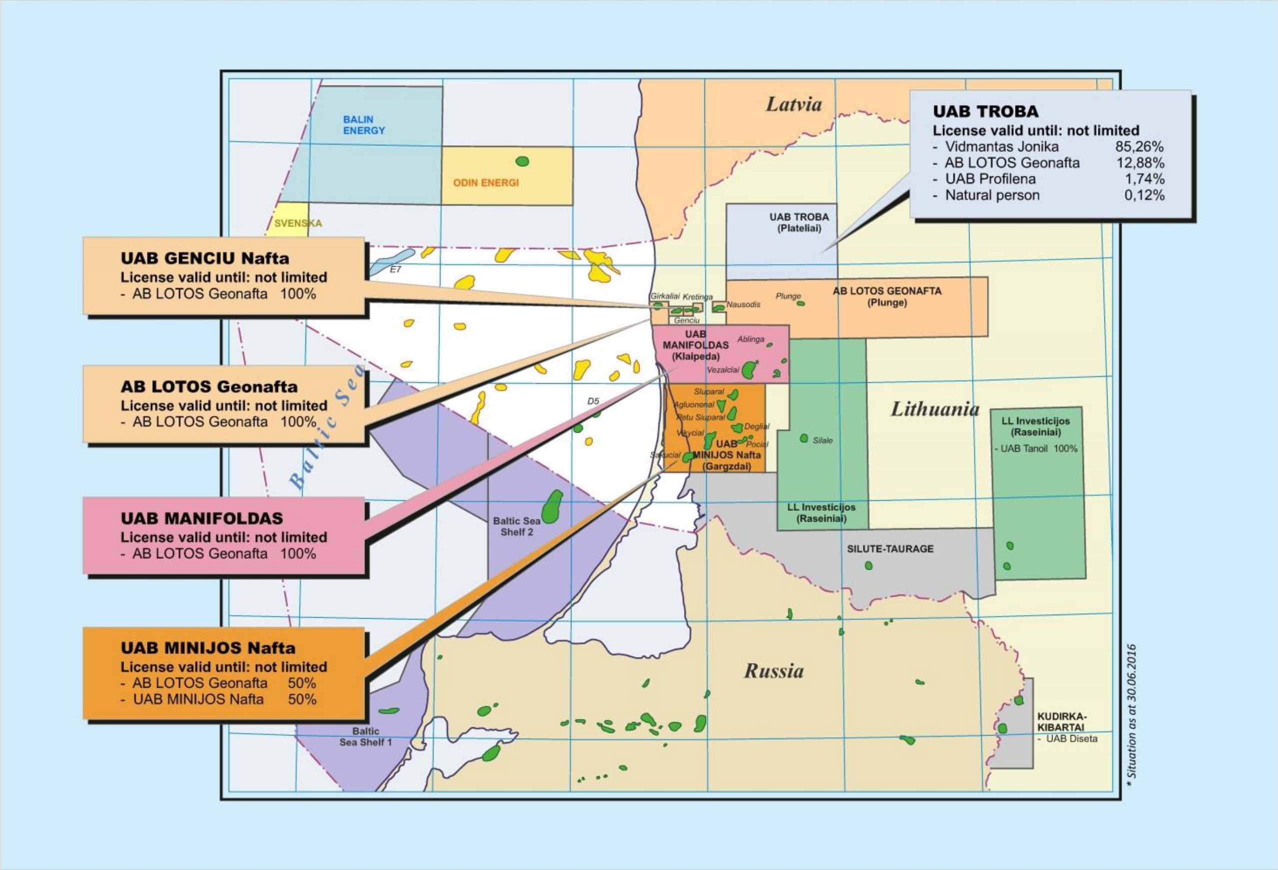
Source: In-house analysis.

AB LOTOS Geonafta Group

In Q2 2016, the Lithuanian AB LOTOS Geonafta Group produced crude oil from the Girkaliai, Kretinga, Nausodis, Genciu, Vezaiciai, Liziai and Ablinga onshore fields.

As part of cost optimisation measures, properties not related to the Group's principal business activity were sold for EUR 396 thousand.

AB LOTOS Geonafta Group's licences as at June 30th 2016



Source: In-house analysis.

Upstream segment's operating highlights

PLNm	Q2 2016	Q1 2016	Q2 2015	Q2 2016 / Q1 2016	Q2 2016 / Q2 2015
Revenue	**319.7**	291.3	193.6	**9.7%**	**65.1%**
EBIT	**-24.3**	7.5	33.5	**-**	**-**
Depreciation and amortisation	**138.4**	142.2	69.1	**-2.7%**	**100.3%**
EBITDA	**114.1**	149.7	102.6	**-23.8%**	**11.2%**
Clean EBIT(1)	**58.6**	12.8	33.5	**357.8%**	**74.8%**
Clean EBITDA(1)	**197.0**	155.0	102.6	**27.1%**	**92.0%**

(1)Net of non-recurring items:
In Q2 2016, mainly: impairment losses on total capitalised expenditure related to the PL643 licence in Norway (acquired in the APA licensing round), and write-off on expenditure related to the Gaz Południe licence area, including the B-21 field in the Baltic Sea, for a total amount of PLN 75.5m

The 65.1% growth in revenue of the upstream segment in Q2 2016 vs. Q2 2015 was driven by a 120.3% increase in sales volumes, a 4.6% rise in the average USD/PLN exchange rate for the quarter, and a 26.1% decrease in the quarterly average price of Brent Dated crude. Sales volumes rose mainly on acquisition of interests in production licences related to the Sleipner assets in Norway in 2015 and launch of production from the B8 field in the Baltic Sea.

The 9.7% increase in revenue relative to Q1 2016 was driven by a 34.8% increase in the average price of Brent Dated crude in the quarter, which was offset by 10.6% lower sales volumes, mainly in LOTOS Norge, and by a 2.3% fall in the average USD/PLN exchange rate.

The major increase in depreciation/amortisation was led by depreciation/amortisation charges recognised for the recently acquired Sleipner assets on the Norwegian Continental Shelf.

The upstream segment's clean EBITDA for Q2 2016 rose by 92.0% on its Q2 2015 EBITDA and by 27.1% quarter on quarter, mainly as a result of the launch of production from the B8 field and acquisition of interests in the Norwegian Sleipner assets.

3 Downstream segment

- **Clean LIFO-based EBITDA of the downstream segment in Q2 2016 at PLN 357.4m (down 6.7% yoy)**
- **Capacity utilisation of the Grupa LOTOS refinery at nearly 99%**

Crude slate (1)

'000 tonnes	Q2 2016	Q1 2016	Q2 2015	Q2 2016 / Q1 2016	Q2 2016 / Q2 2015
Crude oil processed by the Gdańsk refinery	**2,512.8**	2,444.4	2,627.6	**2.8%**	**-4.4%**
including:					
Urals crude	**2,099.2**	1,833.0	2,217.1	**14.5%**	**-5.3%**
Rozewie crude	**71.9**	54.5	34.5	**31.9%**	**108.4%**
Lithuanian crude	**8.5**	12.4	13.4	**-31.5%**	**-36.6%**
Lubiatów crude	**72.6**	64.1	70.7	**13.3%**	**2.7%**
Other types of crude	**260.6**	480.4	291.9	**-45.8%**	**-10.7%**

The capacity utilisation rate in Q2 2016 was 99% (up 6 pp quarter on quarter). With its operations stable, the refinery maintained throughput of 2,512.8 thousand tonnes (+2.8% quarter on quarter).

On June 26th 2015, in cooperation with a subsidiary LOTOS Asfalt, GRUPA LOTOS S.A. launched its key EFRA (Effective Refining) Project, which is a continuation of the wider effort to modernise the LOTOS refinery involving a natural expansion of 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.

More on the EFRA Project

In Q2 2016, further EPCM (engineering, procurement, and construction management) contracts for inter-unit connections and auxiliary EFRA facilities were signed. In May, a building permit was received for the Hydrowax Vacuum Distillation Unit (HVDU). The Group was also in the process of obtaining building permits for inter-unit connections and auxiliary facilities.

Engineering design and procurement work for the key Delayed Coking/Coker Naphtha Hydrotreating Unit (DCU/CNHT), 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, as well as road and underground work continued. A number of activities were undertaken in the area of the existing pipeline trestle, and piling work began at the site where the tank farm for DCU's intermediate products is going to be built. Preparatory work and the related earthwork (levelling and soil replacement) were carried out at the facilities of the coking complex and HGU construction site, and steps were taken to set up the temporary facilities for the construction of the DCU/CNHT and the HGU units. Foundation work for the construction of the DCU/CNHT and the HGU units was started. As at June 30th 2016, the overall progress of work under the EFRA Project was 23%, compared with the planned 20.5%.

Refining products (1)

Total output (thousand tonnes) (1)	Q2 2016	Q1 2016	Q2 2015	Q2 2016 / Q1 2016	Q2 2016 / Q2 2015
	2,629.2	**2,497.7**	**2,798.5**	**5.3%**	**-6.0%**
Gasolines	**380.8**	329.7	379.7	**15.5%**	**0.3%**
Naphtha	**117.5**	124.2	137.4	**-5.4%**	**-14.5%**
Diesel oils	**1,052.7**	1,013.2	1,218.6	**3.9%**	**-13.6%**
Light fuel oils	**43.2**	85.9	37.3	**-49.7%**	**15.8%**
Jet fuel	**158.1**	147.1	146.8	**7.5%**	**7.7%**
Heavy products(2)	**555.8**	470.6	556.5	**18.1%**	**-0.1%**
Other(3)	**321.1**	327.0	322.2	**-1.8%**	**-0.3%**

(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	Q2 2016	Q1 2016	Q2 2015	Q2 2016 / Q1 2016	Q2 2016 / Q2 2015
	2,641.0	**2,413.8**	**2,824.3**	**9.4%**	**-6.5%**
Gasolines	**377.9**	352.0	389.6	**7.4%**	**-3.0%**
Naphtha	**117.5**	124.2	137.4	**-5.4%**	**-14.5%**
Diesel oils	**1,152.5**	1,034.2	1,346.1	**11.4%**	**-14.4%**
Light fuel oils	**42.7**	86.3	38.4	**-50.5%**	**11.2%**
Jet fuel	**172.2**	139.7	152.6	**23.3%**	**12.8%**
Heavy products(1)	**544.5**	437.2	540.4	**24.5%**	**0.8%**
Other petroleum products(2)	**233.7**	240.2	219.8	**-2.7%**	**6.3%**

(1)Heavy fuel oil and bitumen components.
(2) 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 H1 2016

Data for January–June 2016

In H1 2016, consumption of liquid fuels (i.e. diesel oil, gasolines and light fuel oil) in Poland grew by 7.3% year on year, driven by an increase in diesel oil consumption (up 7.0%), gasoline consumption (up 9.0%), and light fuel oil consumption (up 2.4%).

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).

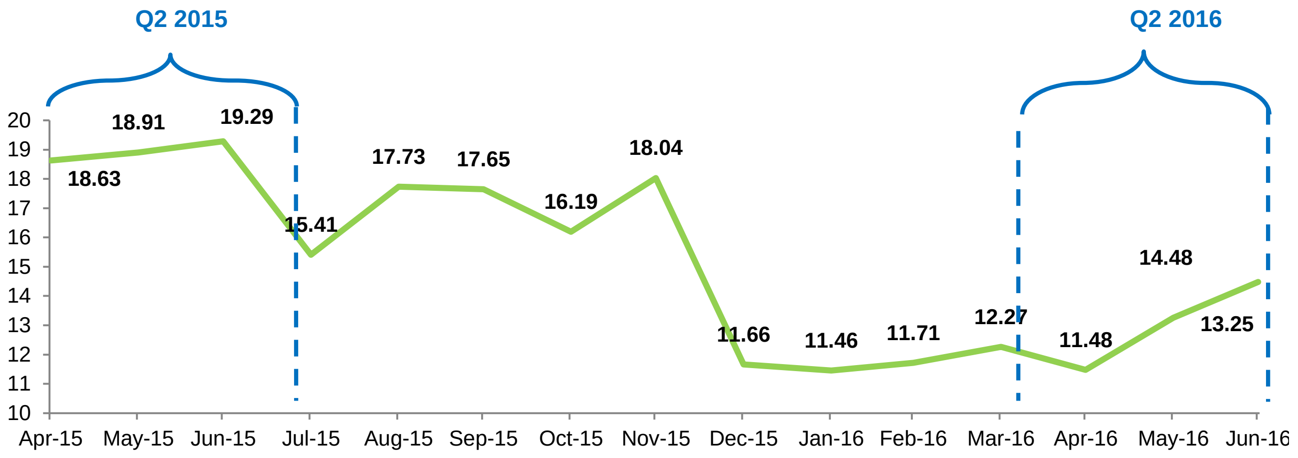
Diesel oil

The first half of 2016, and especially the second quarter, saw continued growth of demand for diesel oil.

It should be noted that in **the first half of 2016 diesel oil imports by independent entities went up by 37%**, reaching 1.1m m^3, which represents **15% of the total demand for diesel oil in Poland**. These high import volumes may suggest that part of the imported oil presented as official consumption is brought into the Polish market in a way that is not fully legal, without satisfying all of the applicable legal requirements (in terms of VAT, NIT and mandatory stocks).

The rise in demand for diesel oil in the first half of 2016 was supported by a considerable reduction in retail prices, which fell in the period by PLN 0.67/litre year on year. Another factor boosting consumption was an upturn in economic activity, leading to increased vehicle transport and international trade flows.

Diesel oil – average monthly crack spread, USD/bbl (April 2015–June 2016)



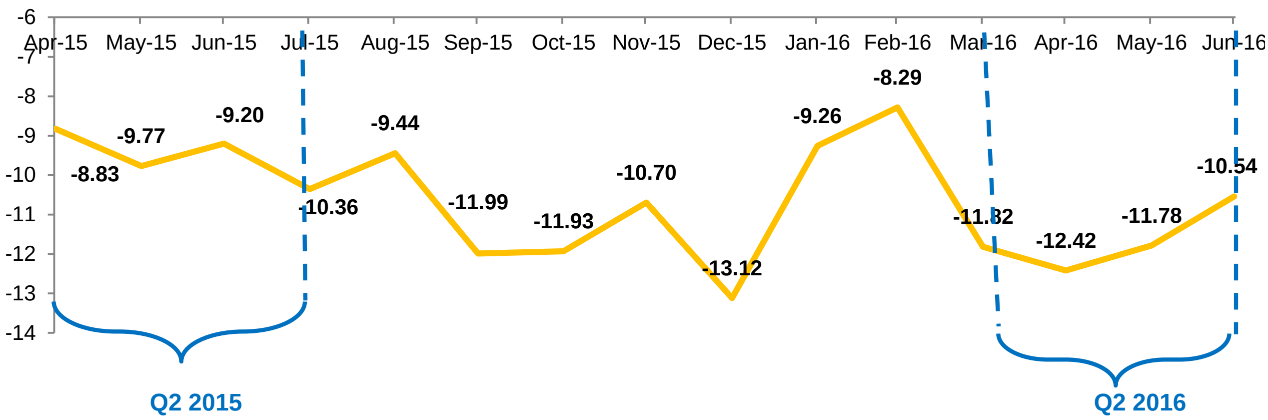
Source: In-house analysis based on Thomson Reuters data.

In Q2 2016, the average global crack spread for diesel oil fell by USD 5.87/bbl year on year. The volume of diesel oil sold by the LOTOS Group in Q2 2016 also shrank, by 14.4% yoy. Domestic sales remained flat on Q2 2015. Exports declined by 57% yoy following production optimisation (designed to eliminate the adverse effect of low middle distillate crack spreads on exports profitability). It is important to note the high base in 2015, resulting from sales of released mandatory stocks and attractive margins in Q2 2015.

Heavy fuel oil

In Q2 2016, the average negative heavy fuel oil crack spread on global markets shrank by USD 2.29/bbl year on year. The LOTOS Group's sales of heavy fuel oil went down by 1% in the period.

Heavy fuel oil – average monthly crack spread, USD/bbl (April 2015–June 2016)



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

Light fuel oil

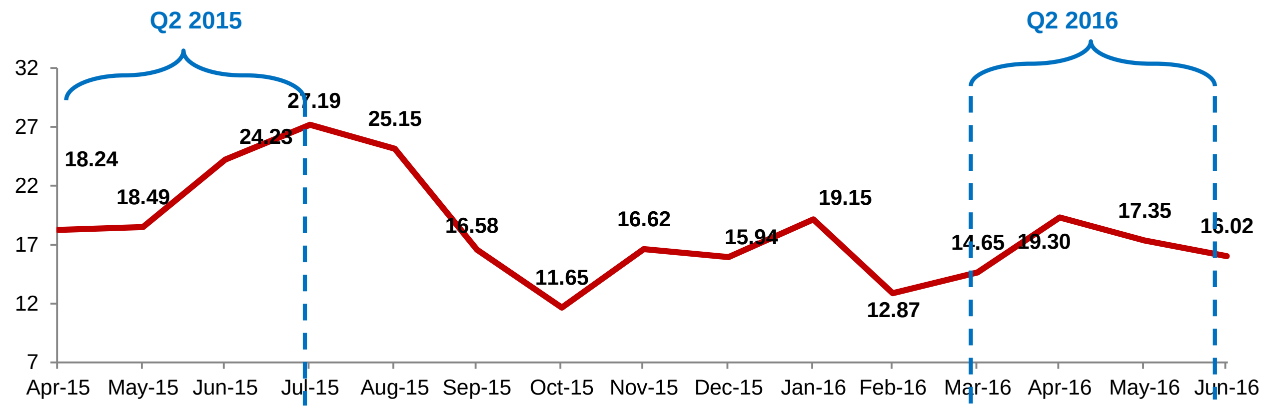
The over 2% increase in the consumption of light fuel oil was mainly caused by a substantial decline in its prices on the Polish market. The LOTOS Group increased its sales of the product on the domestic fuel market by 11.2%.

Motor gasoline

In Q2 2016, the average global crack spread for gasoline fell by USD 3.06/bbl year on year. The key drivers of the significant growth in gasoline demand in H1 and Q2 2016 included lower retail prices (down by PLN 0.44/litre) and favourable economic conditions.

In Q2 2016, the LOTOS Group's sales of gasoline went down by 3% yoy on lower exports following optimisation of the sales policy and limiting sales of the product on foreign markets. Sales of gasoline in Poland improved by 11%, driven by growing demand from international companies and sustainable expansion of the LOTOS retail network.

Motor gasoline – average monthly crack spread, USD/bbl (April 2015–June 2016)



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

Downstream segment's operating highlights

PLNm	Q2 2016	Q1 2016	Q2 2015	Q2 2016 /Q1 2016	Q2 2016 /Q2 2015
Revenue	**4,757.3**	3,730.9	6,545.6	**27.5%**	**-27.3%**
EBIT	**584.2**	122.1	547.6	**378.5%**	**6.7%**
Depreciation and amortisation	**120.0**	119.2	116.0	**0.7%**	**3.4%**
EBITDA	**704.2**	241.3	663.6	**191.8%**	**6.1%**
LIFO-based EBIT	**572.2**	314.3	487.0	**82.1%**	**17.5%**
LIFO-based EBITDA	**692.2**	433.5	603.0	**59.7%**	**14.8%**
Clean LIFO-based EBITDA(1)	**357.4**	383.0	507.5	**-6.7%**	**-29.6%**

(1)EBITDA including the LIFO effect of inventory valuation and excluding theoretical write-downs on LIFO-measured inventories, net of inventory write-downs and exchange differences on operating activities.

The downstream segment's revenue dropped by 27.3% yoy as a result of the lower average net selling price. In Q2 2016, the segment's average net selling price was PLN 1,801 per tonne, having decreased 22.3% 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 up 27.5% qoq in Q2 2016, mainly due to a 9.4% rise in sales volumes and growing prices of petroleum products on global markets. Compared with the preceding quarter, the average net selling price in the segment was 16.5% (PLN 255 per tonne) higher.

In Q2 2016, clean EBITDA of the downstream segment came in at PLN 357.4m, down 6.7% on Q1 2016 and down 29.6% on Q2 2015, mainly on lower refining margins.

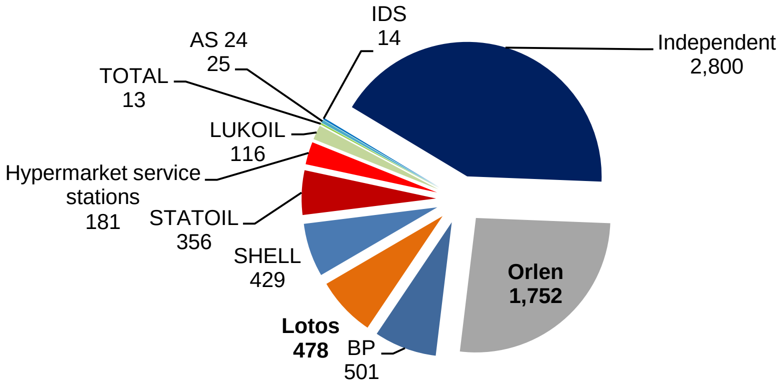
LOTOS service station network

Number of service stations in the LOTOS network as at June 30th 2016

	Jun 30 2016	Mar 31 2016	Jun 30 2015	Q2 2016 – Q1 2016	Q2 2016 – Q2 2015
	478	477	449	+1	+29
CODO	**291**	290	274	+1	+17
including: LOTOS OPTIMA	**122**	121	111	+1	+11
DOFO	**187**	187	175	0	+12
including: LOTOS OPTIMA	**76**	75	64	+1	+12

As at the end of Q2 2016, the LOTOS Group operated a chain of 478 service stations. Compared with June 30th 2015, the number of service stations increased significantly, with 29 new locations opened, including 17 CODO stations and 12 DOFO stations, of which 23 operate under the LOTOS Optima economy brand.

Polish retail market as at June 30th 2016



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

Retail segment's operating highlights

PLNm	Q2 2016	Q1 2016	Q2 2015	Q2 2016 / Q1 2016	Q2 2016 / Q2 2015
Sales volume ('000 tonnes)	**336.2**	303.1	312.9	**10.9%**	**7.4%**
Revenue	**1,473.4**	1,241.9	1,550.2	**18.6%**	**-5.0%**
EBIT	**15.2**	3.0	10.3	**406.7%**	**47.6%**
Depreciation and amortisation	**17.4**	16.9	16.7	**3.0%**	**4.2%**
EBITDA	**32.6**	19.9	27.0	**63.8%**	**20.7%**

In Q2 2016, the retail segment reported operating profit of PLN 15.2m despite persistently low fuel margins.

The quarter-on quarter and year-on-year profit increase is attributable to lower costs and higher non-fuel margins.

4 Other business

Other business − operating highlights [1]

PLNm	Q2 2016	Q1 2016	Q2 2015	Q2 2016 / Q1 2016	Q2 2016 / Q2 2015
Revenue	**2.7**	4.0	4.1	**-32.5%**	**-34.1%**
EBIT	**-1.4**	-0.6	-0.4	**-**	**-**
Depreciation and amortisation	**1.7**	1.6	1.8	**6.3%**	**-5.6%**
EBITDA	**0.2**	1.0	1.4	**-80.0%**	**-85.7%**

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

5 Consolidated statement of comprehensive income

Key financial results of the LOTOS Group

PLNm	Q2 2016	Q1 2016	Q2 2015	Q2 2016 / Q1 2016	Q2 2016 / Q2 2015
Revenue	**4,969.0**	3,935.9	6,641.8	26.2%	-25.2%
EBIT	**550.6**	137.8	568.7	299.6%	-3.2%
Depreciation and amortisation	**259.7**	262.5	186.5	-1.1%	39.2%
EBITDA	**810.3**	400.3	755.2	102.4%	7.3%
LIFO effect (1)	**-12.0**	192.2	-60.6	-106.2%	-80.2%
LIFO-based EBIT	**538.6**	330.0	508.1	63.2%	6.0%
Clean LIFO-based EBIT(2)	**286.7**	284.8	412.6	0.7%	-30.5%
Clean LIFO-based EBITDA(2)	**546.4**	547.3	599.1	-0.2%	-8.8%

(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 computed using this 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 the LIFO effect, LIFO-based EBIT, adjusted LIFO-based EBIT, and adjusted LIFO-based EBITDA.

PLNm	Q2 2016	Q1 2016	Q2 2015
LIFO effect	**-12.0**	**192.2**	**-60.6**
including:			
Effect of LIFO-based inventory measurement	-315.5	381.1	-79.1
Effect of write-downs	-23.9	-237.1	-39.4
(Recognition)/reversal of theoretical write-downs on LIFO-measured inventory	327.4	48.2	57.9

(2)EBITDA including the LIFO effect of inventory measurement and excluding theoretical write-downs on LIFO-measured inventories, net of inventory write-downs and exchange differences on operating activities and, additionally in Q2 2016, mainly impairment losses on total capitalised expenditure related to the PL643 licence, and write-off on expenditure related to the Gaz Południe licence area, including the B-21 field in the Baltic Sea, for a total amount of PLN 75.5m.

In Q2 2016, the LOTOS Group posted an operating profit of PLN 550.6m, being the combined result of the downstream segment's operating profit of PLN 584.2m, the upstream segment's operating loss of PLN 24.3m, an operating loss on other business of PLN 1.4m, less PLN 7.9m 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 Q2 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 546.4m.

In Q2 2016, the LOTOS Group reported net finance costs of PLN 151.5m, with the main contributors being a PLN -73.1m loss on measurement and settlement of hedging transactions, a PLN -59.3m negative balance of interest on debt, interest income and commissions, as well as net foreign exchange losses of PLN -18.2m.

In Q2 2016, the effect of measurement and settlement of market risk hedging transactions at the LOTOS Group included primarily a PLN -68.2m net gain on settlement and measurement of transactions hedging the foreign exchange risk, a PLN -16.9m net loss on settlement and measurement of interest rate swaps (IRS) hedging the interest rate risk, a PLN -5.8m negative contribution from settlement of futures hedging the risk of changes in prices of CO_2 emission allowances, and a PLN 17.8m net gain on settlement and measurement of transactions hedging the risk of changes in prices of petroleum products and options.

Transactions hedging the risk related to petroleum product prices as at June 30th 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
Q3 2016	Volume (mt)		53,424	-2,098,400	-1,680
	Price range (USD/mt)		134.25-489.5	47.48-48.92	304-479.5
Q4 2016	Volume (mt)		30,753		-1,122
	Price range (USD/mt)		134.25-489.5		304-479.5
Q1 2017	Volume (mt)		2,815		-161
	Price range (USD/mt)		202.75-488.5		404-428.5
Q2 2017	Volume (mt)	-16,050.00	46,559		-3,709
	Price range (USD/mt)	410-410	183.75-488.5		371.25-626.25
Q3 2017	Volume (mt)		50,555		-3,933
	Price range (USD/mt)		183.75-488.5		371.25-466.25
Q4 2017	Volume (mt)		25,806		-2,258
	Price range (USD/mt)		183.75-380		371.25-440
Q1 2018	Volume (mt)		2,411		-222
	Price range (USD/mt)		217.5-224.75		417-432.5
Q2 2018	Volume (mt)		26,480		-2,447
	Price range (USD/mt)		217.5-260		412-486
Q3 2018	Volume (mt)		25,255		-2,335
	Price range (USD/mt)		217.5-260		412-486
Q4 2018	Volume (mt)		7,958		-736
	Price range (USD/mt)		217.5-260		412-486

Transactions hedging foreign exchange risk as at June 30th 2016

Currency pair	Instrument	Volume	Currency	Exchange rate range
EUR/USD exchange rates	Forward	181,199,999	EUR	1.0887 - 1.1361
EUR/PLN exchange rate	Forward	-30,883,039	EUR	4.3322 - 4.4628
USD/PLN exchange rate	Forward	-121,500,000	USD	3.8304 - 4.0513

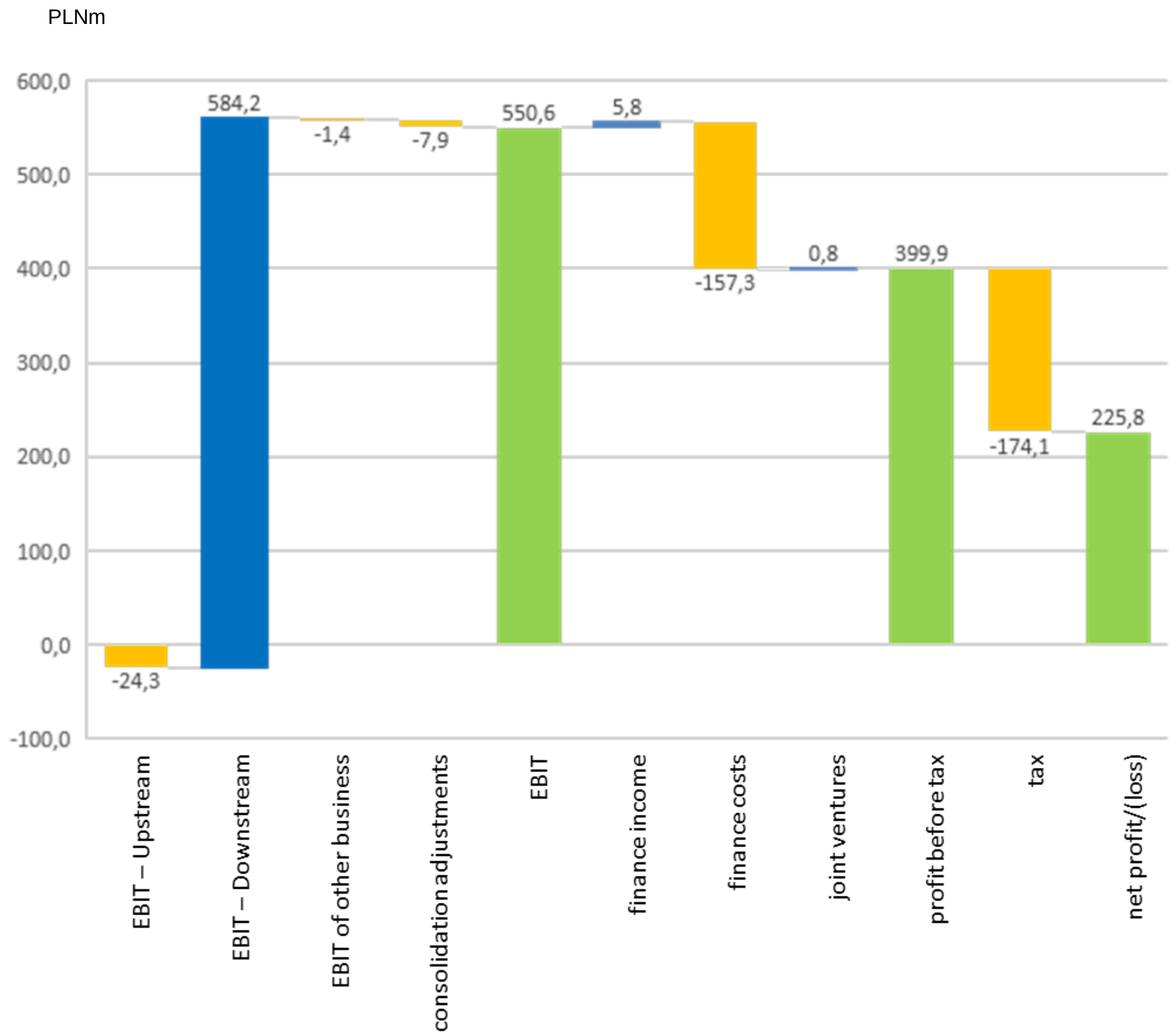
Transactions hedging interest rate risk as at June 30th 2016

Instrument	Start date	End date	Notional amount	Currency	Interest rate range	Reference rate
IRS	from Jul 15 2011	from Dec 21 2016	559,000,019	USD	1.52% - 4.045%	3M LIBOR – 6M LIBOR
	to Sep 21 2021	to Dec 21 2021				

Futures contracts hedging the risk related to prices of carbon dioxide (CO_2) emission allowances as at June 30th 2016

		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	201	4.92-7.83	689,000	4.86-8.29	905,000	5.54-5.67	33,000	8.57-8.6

Structure of the LOTOS Group's consolidated results in Q2 2016



In Q2 2016, the LOTOS Group posted consolidated net profit of PLN 225.8m.

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

PLNm	Q2 2016	Q1 2016	Q2 2015
EBIT	**550.6**	137.8	568.7
Profit/(loss) before tax	**399.9**	185.1	596.2

Net profit/(loss)	**225.8**	106.0	478.6

6 Consolidated statement of financial position

Consolidated statement of financial position – assets

Total assets (PLNm)	Jun 30 2016	Dec 31 2015	Change	%
	19,082.8	19,169.3	**-86.5**	**-0.5%**
Non-current assets	**12,465.8**	12,437.7	**28.1**	**0.2%**
Property, plant and equipment	**10,664.6**	10,568.4	**96.2**	**0.9%**
Goodwill	**46.7**	46.7	**0.0**	**0.0%**
Other intangible assets	**632.7**	617.7	**15.0**	**2.4%**
Equity-accounted joint ventures	**91.5**	70.7	**20.8**	**29.4%**
Deferred tax assets	**768.3**	924.5	**-156.2**	**-16.9%**
Derivative financial instruments	**30.4**	8.7	**21.7**	**249.4%**
Other non-current assets	**231.6**	201.0	**30.6**	**15.2%**
Current assets	**6,607.7**	6,723.2	**-115.5**	**-1.7%**
Inventories	**3,323.2**	3,235.8	**87.4**	**2.7%**
Trade receivables	**1,944.3**	1,550.9	**393.4**	**25.4%**
Current tax assets	**5.5**	12.0	**-6.5**	**-54.2%**
Derivative financial instruments	**26.1**	208.5	**-182.4**	**-87.5%**
Other current assets	**722.8**	856.3	**-133.5**	**-15.6%**
Cash and cash equivalents	**585.8**	859.7	**-273.9**	**-31.9%**
Assets held for sale	**9.3**	8.4	**0.9**	**10.7%**

As at June 30th 2016, total assets of the LOTOS Group were PLN 19,082.8m, having decreased by PLN 86.5m in H1 2016.

Key changes in assets:

- PLN 393.4m increase in trade receivables, mainly due to higher product prices and a higher US dollar exchange rate in June 2016 compared with December 2015,
- PLN 273.9m decline in cash and cash equivalents and PLN 133.5m decrease in other current assets, mainly due to the implementation of the EFRA Project,
- PLN 160.7m decrease in positive fair value of financial instruments,
- PLN 96.2m increase in property, plant and equipment due to implementation of investment projects.

Consolidated statement of financial position – sources of funding

Equity and liabilities (PLNm)	Jun 30 2016	Dec 31 2015	Change	%
	19,082.8	19,169.3	**-86.5**	**-0.5%**
Equity	**8,016.6**	7,712.2	**304.4**	**3.9%**
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	**-728.3**	-700.9	**-27.4**	**3.9%**
Retained earnings	**6,260.3**	5,928.5	**331.8**	**5.6%**
Translation differences	**71.3**	71.3	**0.0**	**0.0%**
Non-controlling interests	**0.1**	0.1	**0.0**	**0.0%**
Non-current liabilities	**5,753.2**	6,031.2	**-278.0**	**-4.6%**
Borrowings, other debt instruments and finance lease liabilities	**4,216.6**	4,454.5	**-237.9**	**-5.3%**
Derivative financial instruments	**66.4**	54.3	**12.1**	**22.3%**
Deferred tax liabilities	**38.4**	47.6	**-9.2**	**-19.3%**
Employee benefit obligations	**188.2**	182.2	**6.0**	**3.3%**
Other liabilities and provisions	**1,243.6**	1,292.6	**-49.0**	**-3.8%**
Current liabilities	**5,313.0**	5,425.9	**-112.9**	**-2%**
Borrowings, other debt instruments and finance lease liabilities	**1,900.5**	2,544.8	**-644.3**	**-25.3%**
Derivative financial instruments	**79.4**	110.8	**-31.4**	**-28.3%**
Trade payables	**1,580.0**	1,232.5	**347.5**	**28.2%**
Current tax payables	**6.7**	11.8	**-5.1**	**-43.2%**
Employee benefit obligations	**100.5**	122.2	**-21.7**	**-17.8%**
Other liabilities and provisions	**1,645.9**	1,403.8	**242.1**	**17.2%**

Consolidated equity increased by PLN 304.4m as at June 30th 2016, mainly due to:

- PLN 331.8m increase in retained earnings attributable to the net profit earned in H1 2016,
- PLN -27.4m foreign exchange losses on measurement of cash flow hedges adjusted for the tax effect and charged to reserve capital.

In H1 2016, liabilities decreased by PLN 390.9m, mainly due to:

- PLN 882.2m decrease in interest-bearing borrowings, other debt instruments and finance lease liabilities, mostly related to repayment of investment credit facilities (mainly at Grupa LOTOS S.A. and upstream companies) and lower amounts outstanding under overdraft facilities (mainly at Grupa LOTOS S.A.),
- PLN 347.5m increase in trade payables related to oil purchases,
- PLN 193.1m higher other liabilities and provisions, including mainly liabilities to the state budget (VAT at Grupa LOTOS S.A.).

As at June 30th 2016, the LOTOS Group's financial debt totalled PLN 6,117.1m, down PLN 882.2m on December 31st 2015. 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 66.9% (down 7.0pp on December 31st 2015).

7 Consolidated statement of cash flows

Consolidated statement of cash flows

PLNm	Q2 2016	Q1 2016	Q2 2015
Cash flows from operating activities	**630.8**	319.2	199.9
Cash flows from investing activities	**-245.2**	-191.3	-165.7
Cash flows from financing activities	**-80.4**	-199.2	-212.1
Effect of exchange rate fluctuations on cash held	**7.5**	-9.0	4.2
Change in net cash	**312.7**	-80.3	-173.7
Cash and cash equivalents at beginning of period	**197.8**	278.1	326.8
Cash and cash equivalents at end of period	**510.5**	197.8	153.1

As at June 30th 2016, the LOTOS Group's cash balance (including current account overdrafts) was PLN 510.5m, having increased in Q2 2016 by PLN 312.7m, mainly on lower amounts outstanding under Grupa LOTOS S.A.'s credit facilities.

In Q2 2016, net cash flows from operating activities were positive at PLN 630.8m, driven primarily by the period's net profit, adjusted for depreciation and amortisation. The figure also reflects increases in trade receivables and in inventories, as well as in trade payables.

Negative net cash flows from investing activities (PLN -245.2m) were mainly attributable to purchases of property, plant and equipment and other intangible assets, chiefly for the downstream segment (the EFRA Project, expansion of the service station network and construction of the Hydrogen Recovery Unit) and the upstream segment. Some of the investment expenditure incurred in Q2 2016 on the EFRA Project was financed with cash held in a separate bank account; the transfer of funds to the separate bank account was reflected in the cash flows from investing activity in Q1 2015.

Net cash flows from financing activities in Q2 2016, of PLN -80.4m, chiefly comprised net repayments of borrowings and related outflows on principal, interest and arrangement fee payments of PLN -227.3m, offset by a gain on settlement of financial instruments of PLN 153.9m.