Management's Discussion and Analysis of 3Q 2016 consolidated financial results

This is the translated version of a document originally published in Polish

GRUPA LOTOS S.A.

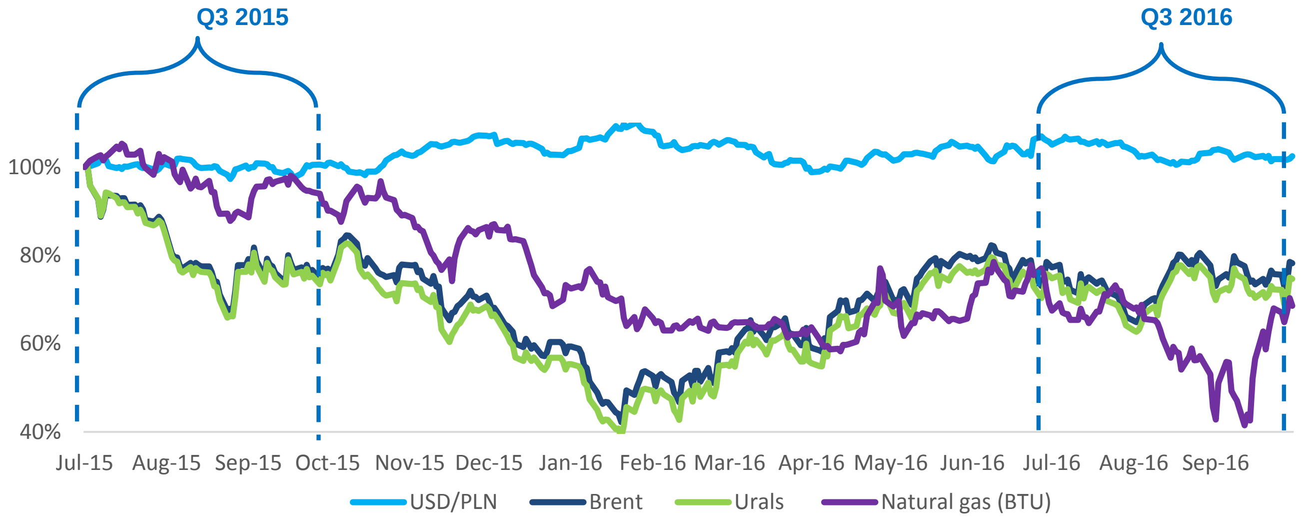
ISIN	Stock Exchange	Thomson Reuters	Bloomberg
PLLOTOS00025	LTS	LTSP.WA	LTS PW

An excel file with the operating and financial data for 3Q 2016 and the previous reporting periods is published in the Investor Relations section of our website as "databook".

Market environment

- **Crude oil and natural gas prices down (9.4% or USD 4.7/bbl yoy and 36.5% or USD 13/bbl yoy, respectively)**
- **Crack margins for the two key products in LOTOS 'model barrel' continued to narrow year on year, with diesel oil spread down 26.9% and gasoline spread down 40.8%, while the crack spread for heavy fuel oil widened, by 31.4%**
- **Marked rise in the Brent-Urals spread year on year (USD 0.92/bbl)**
- **Slight increase in the average USD/PLN exchange rate for the quarter (up 3.2% yoy) supported the Group's product margins**
- **Grupa LOTOS S.A.'s average model refining margin for the quarter (taking into account the Brent/Urals spread) at USD 6/bbl (down 18.9% yoy)**
- **Downstream margin strongly supported by in-land premium on domestic fuel sales**

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	Q3 2016	Q2 2016	Q3 2015	Q3 / Q2 2016	Q3 2016 / Q3 2015
DATED Brent FOB prices (1)	**45.71**	45.56	50.44	0.3%	-9.4%
Brent/Urals spread(1)	**2.33**	2.59	1.41	-10.0%	65.2%
UK NBP natural gas prices (2)	**22.66**	25.04	35.71	-9.5%	-36.5%
Model refining margin (3)	**6.01(4)**	6.49(4)	7.41	-7.4%	-18.9%

(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) In line with changes in the methodology, published by the Company on June 27th 2016

Product cracks[(1)]

USD/bbl	Q3 2016	Q2 2016	Q3 2015	Q3 / Q2 2016	Q3 2016 / Q3 2015
Gasoline	**13.59**	17.54	22.97	**-22.5%**	**-40.8%**
Naphtha	**-0.52**	1.97	-0.55	**-126.4%**	**-5.5%**
Diesel oil (10 ppm)	**12.34**	13.09	16.89	**-5.7%**	**-26.9%**
Light fuel oil	**11.07**	11.95	14.97	**-7.4%**	**-26.1%**
Aviation fuel	**11.91**	12.33	14.54	**-3.4%**	**-18.1%**
Heavy fuel oil	**-7.29**	-11.55	-10.62	**36.9%**	**31.4%**

[(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	Q3 2016	Q2 2016	Q3 2015	Q3 / Q2 2016	Q3 2016 / Q3 2015
PLN/USD exchange rate at end of period	**3.86**	3.98	3.78	**-3.0%**	**2.1%**
Average PLN/USD exchange rate	**3.89**	3.87	3.77	**0.5%**	**3.2%**

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

Presented below are the key drivers of the LOTOS Group's performance in Q3 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 102.6%, from 99.0%), helped generate downstream segment's adjusted (clean) LIFO-based EBITDA in Q3 2016 of approximately PLN 525m,
- Global light and middle distillate prices continued to show a downtrend, leading to a drop in the segment's revenue to PLN 5,522m (1.6% yoy) despite growing sales volumes,

Upstream segment:

- The positive year-on-year effect of an increase in output from the recently acquired Sleipner assets and the initial production from the B8 field was to some extent limited by production stoppages on the Norwegian Continental Shelf, marked year-on-year declines in the UK National Balancing Point natural gas prices (down 36.5%), and a 9.4% drop in Brent Dated prices.

Exchange rates:

- Slightly higher average USD/PLN exchange rate for the quarter (up 3.2% 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
- Lower qoq USD/PLN exchange rate at the end of the quarter translated into foreign exchange gains on debt remeasurement.

Upstream segment

- **Production volume in Q3 2016 at approximately 28.7 thousand boe/d[(2)]**
- **Sales volumes down as a result of stoppages in the Sleipner and Heimdal production areas in Norway (down 32.0% qoq)**
- **Upstream segment's clean EBITDA at PLN 117m, up 28.6% yoy**

Crude oil and natural gas reserves, production and sales

Crude oil and natural gas reserves as at (mboe) [(1)]	Sep 30 2016	Jun 30 2016	Sep 30 2015
Norway	**13.98**	15.37	3.46
Poland	**39.05**	39.55	41.11
Lithuania	**6.64**	6.93	7.25
Total	**59.67**	61.85	51.82

Production (boe/d)[(2)]	Q3 2016	Q2 2016	Q3 2015	Q3 / Q2 2016	Q3 2016 / Q3 2015
Norway	**22,159**	21,849	7,230	**1.4%**	**206.5%**
Poland	**5,463**	5,595	3,232	**-2.4%**	**69.0%**
Lithuania	**1,074**	1,111	1,278	**-3.3%**	**-16.0%**
Total	**28,696**	28,555	11,740	**0.5%**	**144.4%**

Production (boe)	Q3 2016	Q2 2016	Q3 2015	Q3 / Q2 2016	Q3 2016 / Q3 2015
Norway	**1,385,606**	1,772,673	621,825	**-21.8%**	**122.8%**
Poland	**501,285**	500,675	294,070	**0.1%**	**70.5%**
Lithuania	**98,844**	101,113	117,615	**-2.2%**	**-16.0%**
Total	**1,985,735**	2,374,461	1,033,510	**-16.4%**	**92.1%**

Sales of own products (boe)	Q3 2016	Q2 2016	Q3 2015	Q3 / Q2 2016	Q3 2016 / Q3 2015
Norway	**1,084,243**	1,791,127	601,312	**-39.5%**	**80.3%**
Poland	**442,849**	499,927	205,648	**-11.4%**	**115.3%**
Lithuania	**92,255**	91,216	90,740	**1.1%**	**1.7%**
Total	**1,619,347**	2,382,270	897,700	**-32.0%**	**80.4%**

(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.

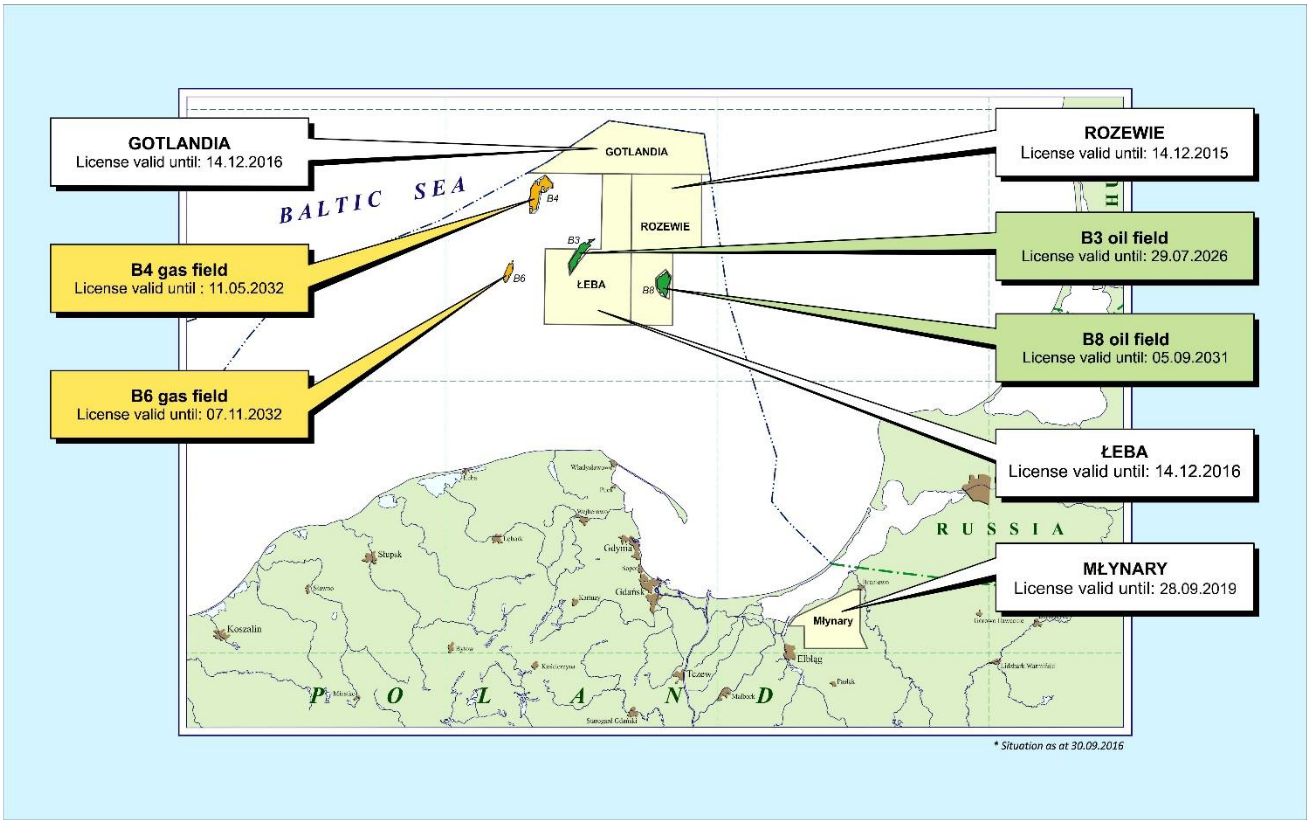
LOTOS Petrobaltic S.A. (LPB)

In the third quarter of 2016, LPB produced crude oil from the B3 field in the Baltic Sea. A workover of the B3-11 well, which involved dismantling of the wellhead and installing blowout preventers on the top of the well, was completed on August 22nd 2016.

The special purpose vehicle B8 Sp. z o.o. Baltic S.K.A. continued initial production under the B8 field development project. LPB in partnership with CalEnergy Resources Poland Sp. z o.o. continued preparations to develop the B4/B6 gas fields as part of the Baltic Gas Project, which included engineering design work and contractor negotiations. In September and early October 2016, applications were filed with the Ministry of Environment to change the terms of the B6 and B4 licences to align the production start date with the Baltic Gas Project schedule. A final investment decision to develop the B4/B6 fields is expected in the first half of 2017.

In September 2016, LPB secured an onshore licence for oil and gas exploration and appraisal in the Młynary area of approximately 400 square kilometres. As per the commitments contained in the licence award decision, the planned exploration period is three years. In the initial phase, LOTOS Petrobaltic S.A. will run 2D seismic surveys to obtain an insight into the geology of the area. If the acquired seismic data confirm hydrocarbon potential, a decision to drill an exploration well will be made. The licence is the first onshore licence awarded directly to LOTOS Petrobaltic S.A. As regards its other two onshore licences, Kamień Pomorski and Górowo Iławeckie, LOTOS Petrobaltic S.A. is conducting hydrocarbon exploration activities with a partner, PGNiG, under Joint Operations Agreements, its interest being 49%.

LOTOS Petrobaltic Group companies’ Baltic Sea licences as at September 30th 2016



Source: In-house analysis.

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

In Q3 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, Loke and Gungne).
Output and sales volumes in LOTOS Norge were affected by production stoppages in the third quarter of 2016. Facilities in the Sleipner area were taken offline for planned maintenance for twenty two days from August 26th to September 16th. Production was stopped to perform upgrade work and replace part of the production infrastructure and safety systems. In the third quarter, Heimdal fields experienced unplanned stoppages due to technical problems with reservoir fluid separation, which continued for 60 days. The problems were rectified and production resumed in September 2016.

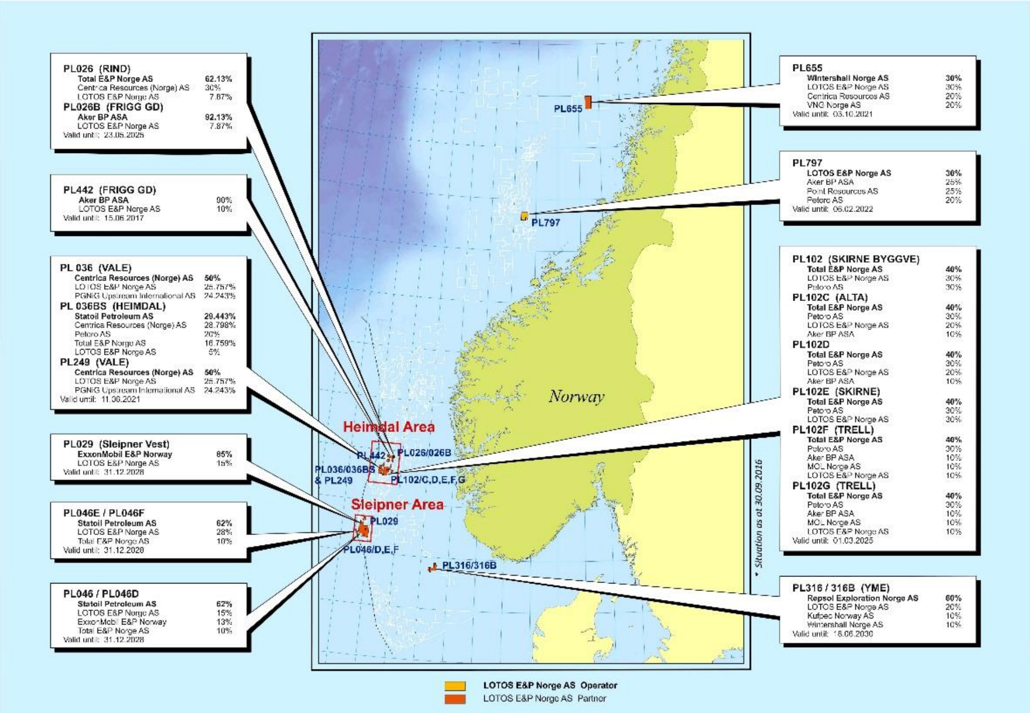
At the beginning of August 2016, Statoil, as the operator of the Utgard gas and condensate field, submitted a PDO (Plan for Development and Operations) for approval by the Norwegian Ministry of Petroleum and Energy to obtain consent for the field development. After the formal approval of the PDO, expected in the fourth quarter of 2016, development work will begin, with two production wells to be drilled from a subsea template and tied-in to facilities on Sleipner. First commercial streams of hydrocarbons from the Utgard field are expected in late 2019 and early 2020. LOTOS Norge's effective interest in Utgard is 17.36%, with recoverable reserves attributable to the LOTOS Group totalling 8.2 million boe. Production attributable to LOTOS's interest is expected to average approximately 4,000 boe/day in the first five years after the launch of commercial operations.

On August 22nd 2016, the MOPU was disassembled using Pioneering Spirit, a vessel owned by Allseas, and towed to the Bergen Port on the next day. It was the most complex platform removal procedure ever performed in the exploration and production sector in the world.

On August 31st 2016, Det Norske, the operator of the PL442 licence (Frigg Gamma Delta), announced an oil discovery at the 25/2-18 S exploration well drilled in August 2016. Initial estimates by the field operator put the discovery's potential at 24 to 74 mboe. Analysis is ongoing to select the most economically viable concept for the field's development with the use of other prospects near the licence area. LOTOS Norge owns a 10% interest in the licence and the operator holds a 90% interest.

On October 3rd 2016, the operator of exploration licence PL 655 on the Norwegian Continental Shelf, Wintershall Norge AS, as the representative of a consortium including LOTOS Norge as an interest holder, relinquished the licence citing unattractive project economics.

Licence interests held by LOTOS Exploration & Production Norge AS as at September 30th 2016

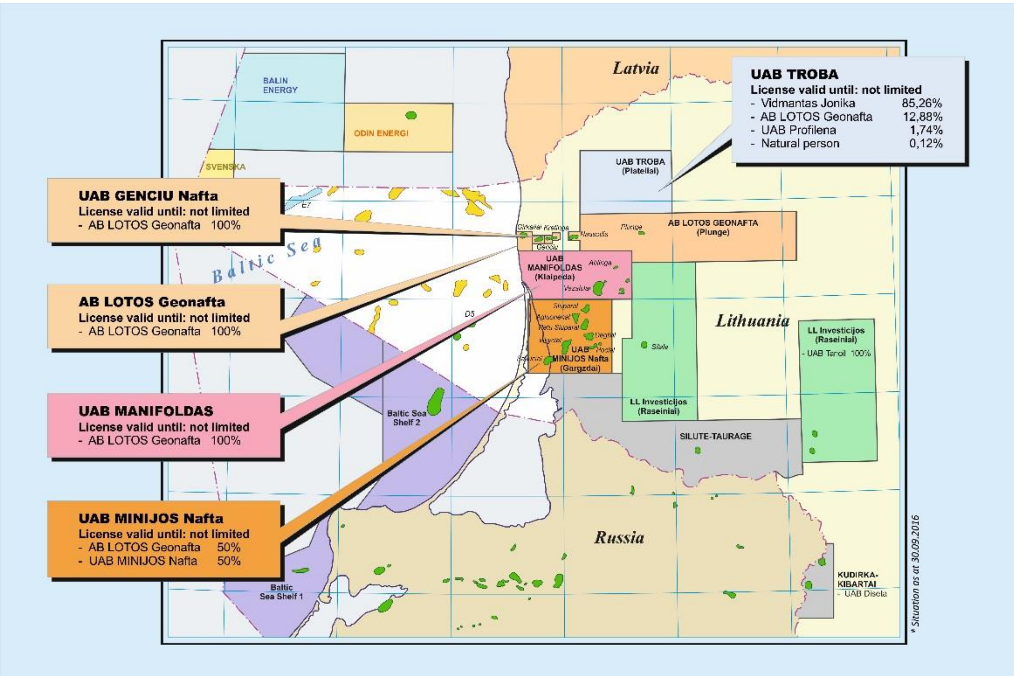


Source: In-house analysis.

AB LOTOS Geonafta Group

In Q3 2016, the Lithuanian AB LOTOS Geonafta Group produced crude oil from the Girkaliai, Kretinga, Nausodis, Genciu, Vezaiciai, Liziai and Ablinga onshore fields.

Licence interests held by the AB LOTOS Geonafta Group as at September 30th 2016



Source: In-house analysis.

Upstream segment's operating highlights

PLNm	Q3 2016	Q2 2016	Q3 2015	Q3 / Q2 2016	Q3 2016 / Q3 2015
Revenue	**243.4**	319.7	160.4	**-23.9%**	**51.7%**
EBIT	**-11.4**	-24.3	15.2	**-**	**-**
Depreciation and amortisation	**114.8**	138.4	58.4	**-17.1%**	**96.6%**
EBITDA	**103.4**	114.1	73.6	**-9.4%**	**40.5%**
Clean EBIT[(1)]	**2.2**	58.6	32.6	**-96.2%**	**-93.3%**
Clean EBITDA[(1)]	**117.0**	197.0	91.0	**-40.6%**	**28.6%**

[(1)]Net of non-recurring items:
• Q3 2016: provision for liabilities in respect of expenditure on the Heimdal Extension Life Project (HELP), impairment loss on the Granit vessel, and loss on a discontinued project (licence PL 655), totalling PLN 13.6m;
• Q2 2016 (key items):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
• Q3 2015: impairment loss on expenditure on Sambia E area and impairment losses related to Norwegian exploration licences PL362 and PL035B, totalling PLN 17.4m

The 51.7% growth in revenue of the upstream segment in Q3 2016 vs. Q3 2015 was driven by a 80.4% increase in sales volumes, and a 3.2% rise in the average USD/PLN exchange rate for the quarter, which were partly offset by a 9.4% 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.

Revenue fell 23.9% on the previous quarter as sales volumes slid 32.0% (with the largest drop reported by LOTOS Norge) as a result of scheduled maintenance shutdowns on Sleipner fields and unscheduled production stoppages on Heimdal.

The 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 Q3 2016 clean EBITDA is 28.6% higher than in Q3 2015 and 40.6% lower than the clean EBITDA posted for Q2 2016, with the year-on-year growth fuelled primarily by the launch of production on the B8 field and the purchase of interests in the Sleipner assets in Norway. The quarter-on-quarter fall in EBITDA was driven by lower production volumes in Norway.

Downstream segment

- **Capacity utilisation of the Grupa LOTOS refinery at 102.6%**
- **Major improvement in the LOTOS Group's financial performance, reflecting the decrease of the grey market for fuels in Poland**
- **In downstream, adjusted (clean) LIFO EBITDA LIFO remained stable year on year, at PLN 525m, strongly supported by rising demand for fuels on the home market**

Crude slate

'000 tonnes	Q3 2016	Q2 2016	Q3 2015	Q3 / Q2 2016	Q3 2016 / Q3 2015
Crude oil processed by the Gdańsk refinery	**2,715.9**	2,512.8	2,650.6	**8.1%**	**2.5%**
including:					
Urals crude	**1,954.2**	2,099.2	1,979.3	**-6.9%**	**-1.3%**
Rozewie crude	**64.6**	71.9	33.2	**-10.2%**	**94.6%**
Lithuanian crude	**10.7**	8.5	15.9	**25.9%**	**-32.7%**
Lubiatów crude	**57.0**	72.6	45.8	**-21.5%**	**24.5%**
Other types of crude	**629.4**	260.6	576.4	**141.5%**	**9.2%**

The capacity utilisation rate in Q3 2016 was 102.6% (up 3.6 pp quarter on quarter). With its operations stable, the refinery maintained throughput of 2,715.9 thousand tonnes (up by 8.1% 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. A further enhancement of conversion complexity, supported by synergies from the existing refinery infrastructure in Gdańsk, will help increase the refining margin realised on every processed barrel of oil by around USD 2. The EFRA Programme's units will produce some 900,000 tonnes of high-margin fuels, which, by the Company's estimates, will add approximately PLN 0.6bn to EBITDA annually, assuming stable USD/PLN exchange rate. The Project is scheduled for completion in H1 2018.
More on the EFRA Project

In the third quarter of 2016, further contractor agreements were signed for EFRA auxiliary facilities, inter-unit connections, and a gas pipeline, totalling PLN 46.4m. The remaining building permits were secured, including for the oxygen generation unit (OGU). Work on engineering design and procurement of equipment for the key Delayed Coking/ Coking Naphtha Hydrotreating Units (DCU/CNHT), Hydrogen Generation Unit (HGU) and Hydrowax Vacuum Distillation Unit (HVDU) was at an advanced stage.
As at September 30th 2016, the progress of design, procurement and construction work under the EFRA Project was 35.0%, compared with the planned 28.0%.
The project is progressing ahead of schedule mainly owing to shorter delivery times (+13.5pp). Construction works are slightly ahead of schedule (+4.6pp).

Refining products [1]

Total output (thousand tonnes) [1]	Q3 2016	Q2 2016	Q3 2015	Q3 / Q2 2016	Q3 2016 / Q3 2015
	2,867.7	**2,629.2**	**2,756.2**	**9.1%**	**4.0%**
Gasolines	**385.0**	380.8	355.1	**1.1%**	**8.4%**
Naphtha	**117.7**	117.5	138.9	**0.2%**	**-15.3%**
Diesel oils	**1,255.9**	1,052.7	1,200.5	**19.3%**	**4.6%**
Light fuel oils	**41.8**	43.2	58.2	**-3.2%**	**-28.2%**
Jet fuel	**200.1**	158.1	138.0	**26.6%**	**45.0%**
Heavy products[2]	**535.6**	555.8	544.2	**-3.6%**	**-1.6%**
Other[3]	**331.6**	321.1	321.3	**3.3%**	**3.2%**

[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	Q3 2016	Q2 2016	Q3 2015	Q3 / Q2 2016	Q3 2016 / Q3 2015
	3,009.5	**2,641.0**	**2,738.6**	**14.0%**	**9.9%**
Gasolines	**391.3**	377.9	393.9	**3.5%**	**-0.7%**
Naphtha	**117.6**	117.5	138.9	**0.1%**	**-15.3%**
Diesel oils	**1,340.1**	1,152.5	1,260.8	**16.3%**	**6.3%**
Light fuel oils	**47.5**	42.7	54.7	**11.2%**	**-13.2%**
Jet fuel	**199.0**	172.2	124.8	**15.6%**	**59.5%**
Heavy products[4]	**527.5**	544.5	532.2	**-3.1%**	**-0.9%**
Crude oil for resale	**170.0**	0.0	0.0	**-**	**-**
Other petroleum products[5]	**216.5**	233.7	233.3	**-7.4%**	**-7.2%**

[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 Q1−Q3 2016

Data for the period January–September 2016

In the first nine months of 2016, consumption of liquid fuels (i.e. diesel oil, gasolines and light fuel oil) in Poland grew by 10.1% year on year, driven by an increase in diesel oil consumption (up 10.0%), gasoline consumption (up 12.0%), and light fuel oil consumption (up 4.0%).
Around 40% of the increase in demand 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).

Data for Q3 (July–September) 2016

In Q3 2016, consumption of liquid fuels (i.e. diesel oil, gasoline) in Poland grew by 11.9% year on year. The consumption of diesel oil and gasoline rose by 12.4% and 15.0% respectively, and the consumption of light fuel oil was down 20.0%.

The third quarter brought some meaningful changes to the domestic fuel market with a new legislative package referred to as the 'First Fuels Package' coming into force as of August 1st 2016, which aims to curb grey market in fuel trade in Poland.

The new legislation amends the VAT collection system, with importers required to pay VAT on fuel purchased in another EU country within five days of its consignment into a tax warehouse. The new package also amends the rules for granting licences for cross-border trading in liquid fuels − only firms registered in Poland (being VAT payers in Poland) will now be able to apply for a cross-border liquid fuel trading licence.

Being the last month preceding the introduction of the Fuels Package on August 1st 2016, July saw a major inflow of diesel imports destined for the grey market. Official fuel consumption in July grew slightly (up 1.9%), with diesel oil consumption alone going up by 0.9%.

The market situation changed in August, with legitimate fuel consumption rising 19.6% (official diesel oil consumption figure up 21.9%) in the first month following the implementation of the Fuels Package. The uptrend in consumption continued into September, with overall fuel consumption up 14.4%, and diesel oil consumption up 14.5%.

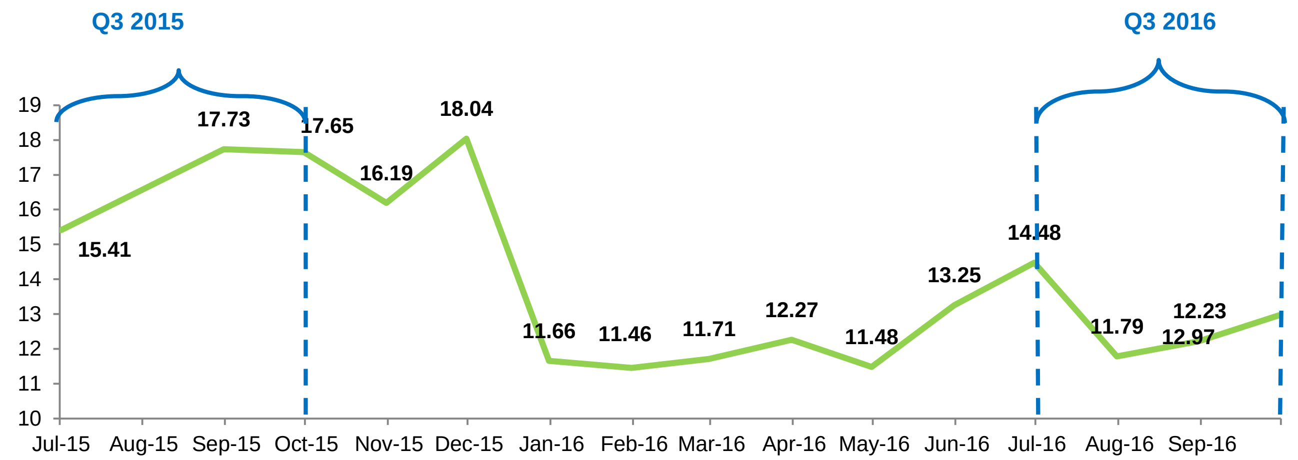
In the LOTOS Group, fuel sales followed the market trends as significant growth in domestic sales was reported across distribution channels in August and September. In particular, this positive change buoyed wholesale of diesel oil as this distribution channel was most vulnerable to grey market activity.

Diesel oil

The first nine months of 2016, and the third quarter alone, saw continued growth of demand for diesel oil.
In the first three quarters of the year, diesel oil consumption rose by 10.0%, and in the third quarter alone by 12.4%.

In Q3, the key driver of growth in diesel oil consumption in Poland was the Fuels Package, whose enactment significantly curtailed illegal diesel imports to Poland and boosted demand from legal sources.

Diesel oil – average monthly crack margin, USD/bbl (July 2015–September 2016)



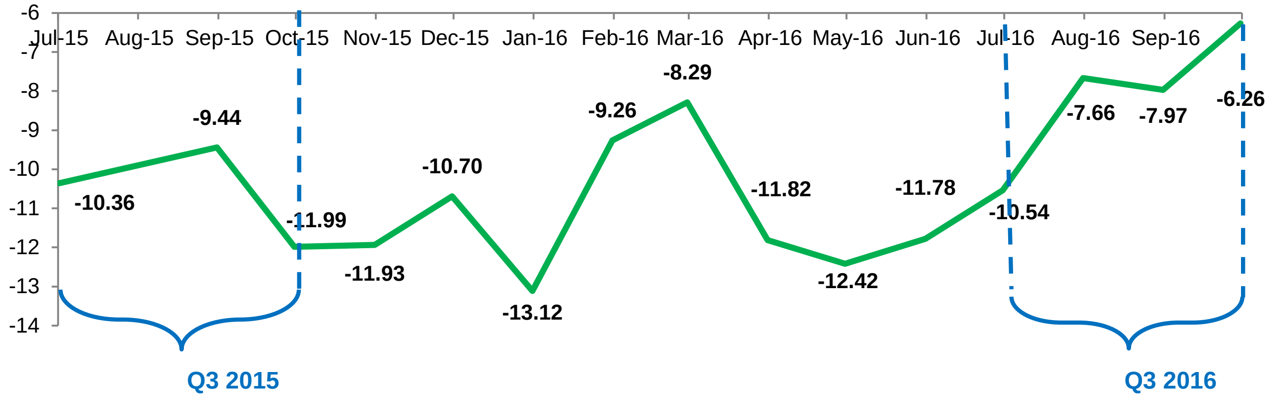
Source: In-house analysis based on Thomson Reuters data.

In Q3 2016, the average global crack spread for diesel oil fell by USD 4.55/bbl year on year. The volume of diesel oil sold by the LOTOS Group in Q3 2016 increased by 6.3% yoy, primarily on the back of higher sales across domestic distribution channels. Domestic sales of diesel oil were up 10.6% year on year in the third quarter of 2016.

Heavy fuel oil

In Q3 2016, the average negative heavy fuel oil crack spread on global markets improved by USD 3.33/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 margin, USD/bbl (July 2015–September 2016)



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

Light fuel oil

Consumption of light fuel oil was down 4% in January–September 2016, with the decline in the third quarter alone amounting to 20%.

The LOTOS Group recorded a 13.2% yoy decline in domestic sales of light fuel oil.

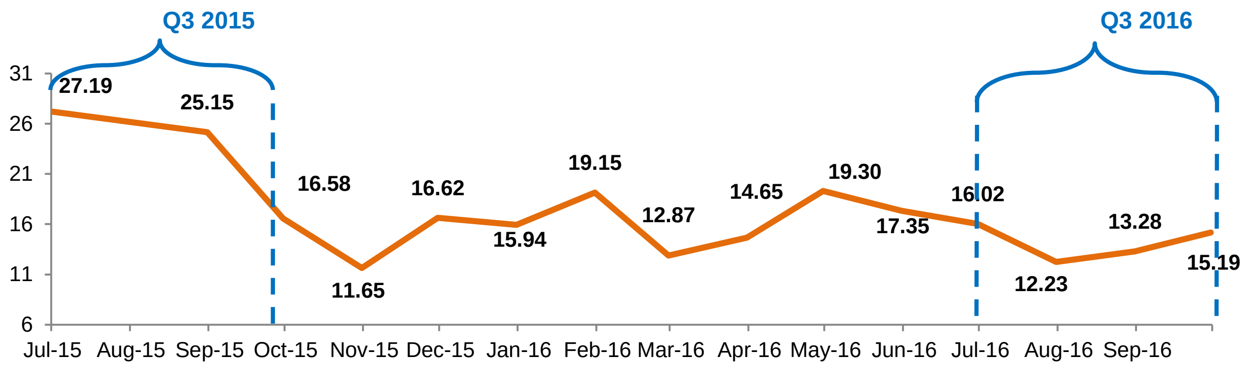
Motor gasoline

In Q3 2016, the average global crack spread for gasoline fell by USD 9.38/bbl year on year.

Demand for gasoline significantly improved in January–September (by 12%) and in the third quarter (by 15%).

In Q3 2016, the LOTOS Group's sales of gasoline went down by 0.7% yoy on lower exports following optimisation of the sales policy and limiting sales of the product on foreign markets. Grupa LOTOS S.A.'s sales of gasoline in Poland improved by 22%, driven by growing demand from the wholesale market and sustainable expansion of the LOTOS retail network.

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



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

Downstream segment's operating highlights

PLNm	Q3 2016	Q2 2016	Q3 2015	Q3 / Q2 2016	Q3 2016 / Q3 2015
Revenue	**5,521.9**	4,757.3	5,614.4	**16.1%**	**-1.6%**
EBIT	**445.6**	584.2	-106.5	**-23.7%**	**-518.4%**
Depreciation and amortisation	**121.9**	120.0	116.3	**1.6%**	**4.8%**
EBITDA	**567.5**	704.2	9.8	**-19.4%**	**5.690.8%**
LIFO-based EBIT	**428.4**	572.2	211.5	**-25.1%**	**102.6%**
LIFO-based EBITDA	**550.3**	692.2	327.8	**-20.5%**	**67.9%**
Adjusted LIFO-based EBITDA(1)	**525.1**	357.4	519.0	**46.9%**	**1.2%**

(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; additionally, in Q3 2015: net of non-refundable VAT for 2010 and 2011 (decision of the Tax Audit Office).

The downstream segment's revenue dropped 1.6% year on year as a result of a decline in the average net selling price, partly offset by a 9.9% rise in sales volumes. In Q3 2016, the segment's average net selling price was PLN 1,835 per tonne, having decreased 10.5% 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 16.1% qoq in Q3 2016, mainly due to a 14.0% rise in sales volumes. Compared with the preceding quarter, the average net selling price in the segment was 1.9% (PLN 34 per tonne) higher on a slight rise in the average USD/PLN exchange rate.

In Q3 2016, clean LIFO EBITDA of the downstream segment came in at PLN 525.1m, up 46.9% on Q2 2016 and up 1.2% on Q3 2015.

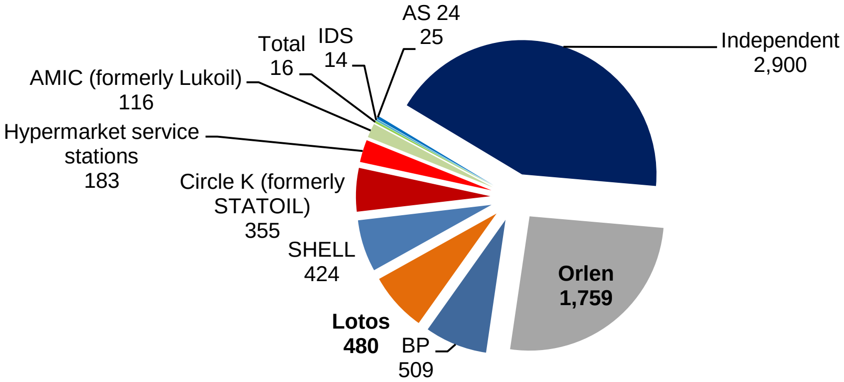
LOTOS service station network

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

	Sep 30 2016	Jun 30 2016	Sep 30 2015	Q3 / Q2 2016	Q3 2016 / Q3 2015
	480	478	459	**2**	**21**
CODO	**295**	291	280	**4**	**15**
including: LOTOS OPTIMA	**122**	122	114	**0**	**8**
DOFO	**185**	187	179	**-2**	**6**
including: LOTOS OPTIMA	**76**	76	68	**0**	**8**

As at the end of Q3 2016, the LOTOS Group operated a chain of 480 service stations. Compared with September 30th 2015, the number of service stations increased significantly, with 21 new locations opened, including 15 CODO stations and 6 DOFO stations, of which 16 operate under the LOTOS Optima economy brand.

Polish retail market as at September 30th 2016



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

Retail segment's operating highlights

PLNm	Q3 2016	Q2 2016	Q3 2015	Q3 / Q2 2016	Q3 2016 / Q3 2015
Sales volume ('000 tonnes)	**365.1**	336.2	323.6	**8.6%**	**12.8%**
Revenue	**1,622.6**	1,472.3	1,539.7	**10.2%**	**5.4%**
EBIT	**44.8**	15.2	32.0	**194.7%**	**40.0%**
Depreciation and amortisation	**17.3**	17.4	16.2	**-0.6%**	**6.8%**
EBITDA	**62.1**	32.6	48.2	**90.5%**	**28.8%**

The retail segment posted EBIT of PLN 44.8m for the quarter. The quarter-on-quarter and year-on-year profit increase is attributable to higher fuel and non-fuel margins, which benefited from higher sales.

Other business

Other business − operating highlights (1)

PLNm	Q3 2016	Q2 2016	Q3 2015	Q3 / Q2 2016	Q3 2016 / Q3 2015
Revenue	**2.7**	2.7	3.4	**0.0%**	**-20.6%**
EBIT	**-1.3**	-1.4	-0.5	**-**	**-**
Depreciation and amortisation	**1.6**	1.7	1.7	**-5.9%**	**-5.9%**
EBITDA	**0.3**	0.3	1.2	**0.0%**	**-75.0%**

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

Consolidated statement of comprehensive income

Key financial results of the LOTOS Group

PLNm	Q3 2016	Q2 2016	Q3 2015	Q3 / Q2 2016	Q3 2016 / Q3 2015
Revenue	**5,660.0**	4,969.0	5,710.4	**13.9%**	**-0.9%**
EBIT	**431.7**	550.6	-93.6	**-21.6%**	**-561.2%**
Depreciation and amortisation	**238.0**	259.7	176.0	**-8.4%**	**35.2%**
EBITDA	**669.7**	810.3	82.4	**-17.4%**	**712.7%**
LIFO effect (1)	**-17.2**	-12.0	318.0	**-**	**-**
LIFO-based EBIT	**414.5**	538.6	224.4	**-23.0%**	**84.7%**
Adjusted LIFO-based EBIT (2)	**402.9**	286.7	433.0	**40.5%**	**-7.0%**
Adjusted LIFO-based EBITDA(2)	**640.9**	546.4	609.0	**17.3%**	**5.2%**

(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	Q3 2016	Q2 2016	Q3 2015
LIFO effect	**-17.2**	**-12.0**	**318.0**
including:			
Effect of LIFO-based inventory measurement	**-29.4**	-315.5	348.9
Effect of write-downs	**1.2**	-23.9	6.0
(Recognition)/reversal of theoretical write-downs on LIFO-measured inventory	**11.0**	327.4	-36.9

(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, additionally:
- *Q3 2016: provision for liabilities in respect of expenditure on the HELP, impairment loss on the Granit vessel, and loss on a discontinued project (licence PL 655), totalling PLN 13.6m;*
- *Q2 2016 (key items):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*
- *Q3 2015: impairment loss on expenditure on Sambia E area and impairment losses related to Norwegian exploration licences PL362 and PL035B, totalling PLN 17.4m, and non-refundable VAT for 2010 and 2011 (decision of the Tax Audit Office).*

In Q3 2016, the LOTOS Group posted an operating profit of PLN 431.7m, being the combined result of the downstream segment's operating profit of PLN 445.6m, the upstream segment's operating loss of PLN 11.4m, an operating loss on other business of PLN 1.3m, less PLN 1.2m 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 Q3 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 640.9m.

In Q3 2016, the LOTOS Group reported net finance income of PLN 62.1m, with the main contributors including net foreign exchange gains of PLN 61.8m, a PLN 59.7m gain on measurement and settlement of hedging transactions, and a PLN -57.8m negative balance of interest on debt, interest income and commissions.

In Q3 2016, the effect of measurement and settlement of market risk hedging transactions at the LOTOS Group included primarily a PLN 30.7m net gain on settlement and measurement of transactions hedging petroleum product prices and options, a PLN 18.0m net gain on settlement and measurement of transactions used to hedge foreign exchange risk, and a PLN 11.0 net gain on settlement and measurement of interest rate swaps (IRS) hedging the interest rate risk.

Transactions hedging the risk related to petroleum product prices as at September 30th 2016

Period	Product/commodity	Diesel oil	Heavy fuel oil	Light fuel oil	Crude oil	Crude oil
		ULSD 10ppm CIF NWE (Platts)	3.5 PCT Barges FOB Rotterdam	Gasoil .1 Cargoes CIF NWE / Basis ARA	Brent (Dtd)	Urals (RDAM) vs DTD Brent
Q4 2016	Volume (mt)[1]		31,593	-1,200	0[2]	0[2]
	Price range (USD/mt)		134.25-489.5	304-479.5	48-48.45	(2.85)-(2.8)
Q1 2017	Volume (mt)		3,140	-191		
	Price range (USD/mt)		202.75-488.5	404-428.5		
Q2 2017	Volume (mt)	-16,050.00	48,238	-3,864		
	Price range (USD/mt)	410-410	183.75-488.5	371.25-626.25		
Q3 2017	Volume (mt)		52,451	-4,108		
	Price range (USD/mt)		183.75-488.5	371.25-466.25		
Q4 2017	Volume (mt)		26,239	-2,298		
	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		

(1) *Volumes of oil in bbl*
(2) *Equal volumes purchased and sold*

Transactions hedging foreign exchange risk as at September 30th 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	-35,383,039	EUR	4.3045 - 4.3529
USD/PLN exchange rate	Forward	-121,400,000	USD	3.8023 - 3.9747

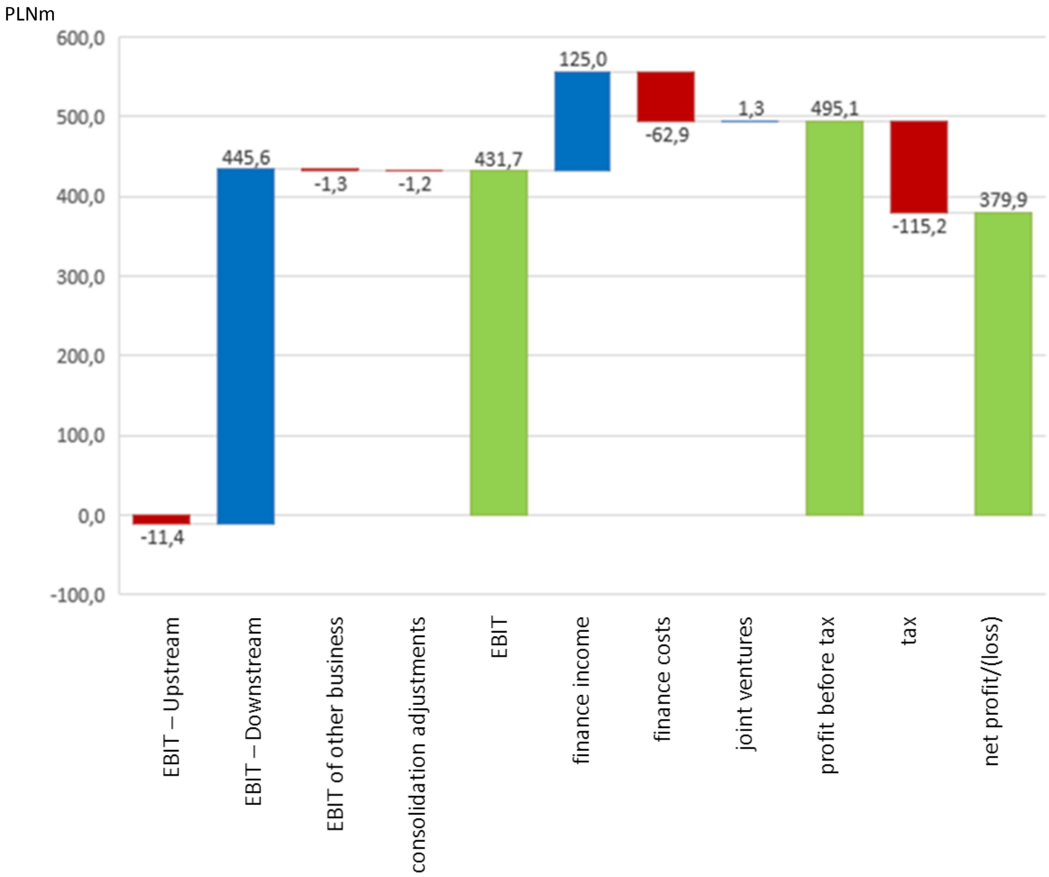
Transactions hedging interest rate risk as at September 30th 2016

Instrument	Start date	End date	Notional amount	Currency	Interest rate range	Reference rate
IRS	from Jul 15 2011 to Sep 21 2021	from Dec 21 2016 to Dec 21 2021	709,000,019	USD	1.145%-4.045%	3M LIBOR – 6M LIBOR

Futures contracts hedging the risk related to prices of carbon dioxide (CO2) emission allowances as at September 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	201,000	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 Q3 2016



In Q3 2016, the LOTOS Group posted consolidated net profit of PLN 379.9m.

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

PLNm	Q3 2016	Q2 2016	Q3 2015
EBIT	**431.7**	550.6	-93.6
Profit/(loss) before tax	**495.1**	399.9	-264.9
Net profit/(loss)	**379.9**	225.8	-249.2

Consolidated statement of financial position

Consolidated statement of financial position – assets

Assets (PLNm)	Sep 30 2016	Dec 31 2015	Change	%
	19,753.4	19,169.3	**584.1**	**3.0%**
Non-current assets	**12,434.6**	12,437.7	**-3.1**	**0.0%**
Property, plant and equipment	**10,722.4**	10,568.4	**154.0**	**1.5%**
Goodwill	**46.7**	46.7	**0.0**	**0.0%**
Other intangible assets	**641.6**	617.7	**23.9**	**3.9%**
Equity-accounted joint ventures	**97.8**	70.7	**27.1**	**38.3%**
Deferred tax assets	**665.0**	924.5	**-259.5**	**-28.1%**
Derivative financial instruments	**22.5**	8.7	**13.8**	**158.6%**
Other non-current assets	**238.6**	201.0	**37.6**	**18.7%**
Current assets	**7,309.5**	6,723.2	**586.3**	**8.7%**
Inventories	**3,053.9**	3,235.8	**-181.9**	**-5.6%**
Trade receivables	**2,323.3**	1,550.9	**772.4**	**49.8%**
Current tax assets	**6.9**	12.0	**-5.1**	**-42.5%**
Derivative financial instruments	**43.5**	208.5	**-165.0**	**-79.1%**
Other current assets	**605.0**	856.3	**-251.3**	**-29.3%**
Cash and cash equivalents	**1,276.9**	859.7	**417.2**	**48.5%**
Assets held for sale	**9.3**	8.4	**0.9**	**10.7%**

As at September 30th 2016, total assets of the LOTOS Group stood at PLN 19,753.4m, having increased by PLN 584.1m in the first nine months of 2016.

Key changes in assets:

- PLN 772.4m increase in trade receivables, chiefly on rising oil and petroleum products in September 2016 as compared with December 2015, and higher sales volumes in Q3 2016 compared with Q4 2015,
- PLN 154.0m increase in property, plant and equipment due to implementation of investment projects (mainly in LOTOS Asfalt Sp. z o.o.).
- PLN 417.2m increase in cash and cash equivalents (mainly in Grupa LOTOS S.A.) and a PLN 251.3m decrease in other current assets,
- PLN 259.5m decrease in deferred tax assets, chiefly at Grupa LOTOS S.A.,
- PLN 181.9m decrease in inventories,
- PLN 151.2m decrease in positive fair value of financial instruments.

Consolidated statement of financial position – sources of funding

Equity and liabilities (PLNm)	Sep 30 2016	Dec 31 2015	Change	%
	19,753.4	19,169.3	584.1	3.0%
Equity	**8,517.4**	7,712.2	805.2	10.4%
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	**-602.3**	-700.9	98.6	-14.1%
Retained earnings	**6,640.2**	5,928.5	711.7	12.0%
Translation differences	**66.2**	71.3	-5.1	-7.2%
Non-controlling interests	**0.1**	0.1	0.0	0.0%
Non-current liabilities	**5,577.0**	6,031.2	-454.2	-7.5%
Borrowings, other debt instruments and finance lease liabilities	**4,023.8**	4,454.5	-430.7	-9.7%
Derivative financial instruments	**58.6**	54.3	4.3	7.9%
Deferred tax liabilities	**41.4**	47.6	-6.2	-13.0%
Employee benefit obligations	**191.3**	182.2	9.1	5.0%
Other liabilities and provisions	**1,261.9**	1,292.6	-30.7	-2.4%
Current liabilities	**5,659.0**	5,425.9	233.1	4.3%
Borrowings, other debt instruments and finance lease liabilities	**1,711.4**	2,544.8	-833.4	-32.7%
Derivative financial instruments	**54.9**	110.8	-55.9	-50.5%
Trade payables	**1,840.8**	1,232.5	608.3	49.4%
Current tax payables	**14.2**	11.8	2.4	20.3%
Employee benefit obligations	**110.1**	122.2	-12.1	-9.9%
Other liabilities and provisions	**1,927.6**	1,403.8	523.8	37.3%

In the first nine months of 2016, consolidated equity increased by PLN 805.2m, mainly due to:

- PLN 711.7m increase in retained earnings attributable to the net profit earned,
- PLN 98.6m foreign exchange gains on measurement of cash flow hedges adjusted for the tax effect and charged to reserve capital,

In the first nine months of 2016, liabilities decreased by PLN 221.1m, mainly due to:

- PLN 1,264.1m 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 608.3m increase in trade payables related to oil purchases,
- PLN 493.1m higher other liabilities and provisions, including mainly liabilities to the state budget (VAT at Grupa LOTOS S.A.).

As at September 30th 2016, the LOTOS Group's financial debt totalled PLN 5,735.2m, down PLN 1,264.1m 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 51.7% (down 22.3pp on December 31st 2015).

Consolidated statement of cash flows

- **Marked increase in operating cash flows reported for the third quarter, to PLN 1,176m (up 108% year on year)**

Consolidated statement of cash flows

PLNm	Q3 2016	Q2 2016	Q3 2015
Cash flows from operating activities	**1,176.5**	630.8	564.4
Cash flows from investing activities	**-190.4**	-245.2	-134.2
Cash flows from financing activities	**-249.8**	-80.4	-265.7
Effect of exchange rate fluctuations on cash held	**-7.8**	7.5	-2.0
Change in net cash	**728.5**	312.7	162.5
Cash and cash equivalents at beginning of period	**510.5**	197.8	153.1
Cash and cash equivalents at end of period	**1,239.0**	510.5	315.6

As at September 30th 2016, the LOTOS Group's cash balance (including current account overdrafts) was PLN 1,239.0m, having increased in Q3 2016 by PLN 728.5m, mainly on lower amounts outstanding under Grupa LOTOS S.A.'s credit facilities.

In Q3 2016, net cash flows from operating activities were positive at PLN 1,176.5m, driven primarily by the period's net profit, adjusted for depreciation and amortisation. They also reflect a decrease in inventories and an increase in liabilities to the state budget (VAT, excise duty, fuel charge).

Negative net cash flows from investing activities (PLN -190.4m) 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 Q3 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 Q3 2016, of PLN -249.8m, chiefly comprised net repayments of borrowings and related outflows on principal, interest and arrangement fee payments of PLN -244.0m.