

FINANCIAL HIGHLIGHTS - CONSOLIDATED

	PLN'000		EUR'000	
	9 months ended	9 months ended	9 months ended	9 months ended
	Sept 30 2016	Sept 30 2015	Sept 30 2016	Sept 30 2015
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	14,564,955	17,483,671	3,333,857	4,204,322
Operating profit	1,120,016	742,826	256,367	178,628
Pre-tax profit	1,080,063	221,299	247,222	53,216
Net profit	711,728	128,036	162,912	30,789
Net profit attributable to owners of the Parent	711,744	128,051	162,915	30,793
Net loss attributable to non-controlling interests	(16)	(15)	(4)	(4)
Total comprehensive loss	805,261	(75,885)	184,321	(18,249)
Total comprehensive loss attributable to owners of the Parent	805,277	(75,870)	184,325	(18,245)
Total comprehensive loss attributable to non-controlling interests	(16)	(15)	(4)	(4)
Net cash from operating activities	2,126,547	1,085,733	486,758	261,088
Net cash from investing activities	(626,850)	(943,289)	(143,483)	(226,834)
Net cash from financing activities	(529,405)	340,756	(121,179)	81,942
Total net cash flow	970,292	483,200	222,096	116,196
Basic earnings per share (PLN/EUR)	3.85	0.69	0.88	0.17
Diluted earnings per share (PLN/EUR)	3.85	0.69	0.88	0.17

	PLN'000		EUR'000	
	As at	As at	As at	As at
	Sept 30 2016	Dec 31 2015	Sept 30 2016	Dec 31 2015
	(unaudited)	(audited)	(unaudited)	(audited)
Total assets	19,753,356	19,169,332	4,581,019	4,498,259
Equity attributable to owners of the Parent	8,517,337	7,712,060	1,975,264	1,809,706
Non-controlling interests	122	138	28	32
Total equity	8,517,459	7,712,198	1,975,292	1,809,738

FINANCIAL HIGHLIGHTS - SEPARATE

	PLN'000		EUR'000	
	9 months ended	9 months ended	9 months ended	9 months ended
	Sept 30 2016	Sept 30 2015	Sept 30 2016	Sept 30 2015
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	12,547,506	15,817,530	2,872,072	3,803,662
Operating profit	928,838	529,349	212,607	127,293
Pre-tax profit	1,002,704	312,110	229,515	75,054
Net profit	831,379	259,179	190,299	62,325
Total comprehensive profit	929,965	54,696	212,865	13,153
Net cash from operating activities	1,458,035	619,532	333,738	148,979
Net cash from investing activities	(218,515)	(665,308)	(50,017)	(159,987)
Net cash from financing activities	(271,838)	430,129	(62,223)	103,434
Total net cash flow	967,682	384,353	221,498	92,426
Basic earnings per share (PLN/EUR)	4.50	1.40	1.03	0.34
Diluted earnings per share (PLN/EUR)	4.50	1.40	1.03	0.34

	PLN'000		EUR'000	
	As at	As at	As at	As at
	Sept 30 2016	Dec 31 2015	Sept 30 2016	Dec 31 2015
	(unaudited)	(audited)	(unaudited)	(audited)
Total assets	14,692,260	13,909,915	3,407,296	3,264,089
Equity	6,950,015	6,020,050	1,611,785	1,412,660

Items in the Financial Highlights table have been translated at the following EUR exchange rates:

Items of the statement of financial position have been translated at the mid-exchange rates quoted by the National Bank of Poland for the last day of the reporting period:

As at Sept 30 2016	As at Dec 31 2015
1 EUR = 4.3120 PLN	1 EUR = 4.2615 PLN

Items of the statement of comprehensive income and the statement of cash flows have been translated using the arithmetic mean of the mid-exchange rates quoted by the National Bank of Poland for the last day of each month in the reporting period:

9 months ended Sept 30 2016	9 months ended Sept 30 2015
1 EUR = 4.3688 PLN	1 EUR = 4.1585 PLN



THE LOTOS GROUP

**QUARTERLY FINANCIAL REPORT
FOR Q3 2016**

**WITH THE INDEPENDENT AUDITOR'S REPORT ON THE REVIEW OF THE INTERIM
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE
MONTHS ENDED SEPTEMBER 30TH 2016, PREPARED IN ACCORDANCE WITH THE
INTERNATIONAL FINANCIAL REPORTING STANDARDS ENDORSED BY THE
EUROPEAN UNION**

I. INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30TH 2016, PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS ENDORSED BY THE EUROPEAN UNION	3
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**I. INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE
THREE AND NINE MONTHS ENDED SEPTEMBER 30TH 2016, PREPARED IN
ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS
ENDORSED BY THE EUROPEAN UNION**

THE LOTOS GROUP
Interim Condensed Consolidated Financial Statements
for the three and nine months ended September 30th 2016

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

PLN '000	Note	3 months ended	9 months ended	3 months ended	9 months ended
		Sep 30 2016	Sep 30 2016	Sep 30 2015	Sep 30 2015
		(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	8	5,660,039	14,564,955	5,710,431	17,483,671
Cost of sales	9	(4,789,996)	(12,106,273)	(5,189,169)	(15,305,803)
Gross profit		870,043	2,458,682	521,262	2,177,868
Distribution costs	9	(335,109)	(959,186)	(323,530)	(941,414)
Administrative expenses	9	(103,390)	(314,143)	(106,038)	(331,214)
Other income	10	13,043	34,032	5,804	30,783
Other expenses	11	(12,904)	(99,369)	(191,060)	(193,197)
Operating profit/(loss)		431,683	1,120,016	(93,562)	742,826
Finance income	12	125,010	151,620	57,842	18,136
Finance costs	13	(62,930)	(194,192)	(229,034)	(538,579)
Share in net profit/(loss) of equity-accounted joint ventures		1,315	2,619	(160)	(1,084)
Pre-tax profit/(loss)		495,078	1,080,063	(264,914)	221,299
Corporate income tax	14.1	(115,150)	(368,335)	15,712	(93,263)
Net profit/(loss)		379,928	711,728	(249,202)	128,036
Other comprehensive income/(loss)					
<i>Items that may be reclassified to profit or loss:</i>					
Exchange differences on translating foreign operations		(5,055)	(5,054)	1,018	1,241
Cash flow hedges		155,600	121,712	13,161	(253,328)
Corporate income tax relating to cash flow hedges	14.1	(29,564)	(23,125)	(2,500)	48,166
Other comprehensive income/(loss), net		120,981	93,533	11,679	(203,921)
Total comprehensive income/(loss)		500,909	805,261	(237,523)	(75,885)
Net profit/(loss) attributable to:					
Owners of the Parent		379,931	711,744	(249,193)	128,051
Non-controlling interests		(3)	(16)	(9)	(15)
		379,928	711,728	(249,202)	128,036
Total comprehensive income/(loss) attributable to:					
Owners of the Parent		500,912	805,277	(237,514)	(75,870)
Non-controlling interests		(3)	(16)	(9)	(15)
		500,909	805,261	(237,523)	(75,885)
Earnings/(loss) per share attributable to owners of the Parent (PLN)					
Weighted average number of shares ('000)	15	184,873	184,873	184,873	184,873
- basic	15	2.06	3.85	(1.35)	0.69
- diluted	15	2.06	3.85	(1.35)	0.69

The Notes to the interim condensed consolidated financial statements for the three and nine months ended September 30th 2016, presented on pages 8 to 36, are an integral part of the statements.

THE LOTOS GROUP
Interim Condensed Consolidated Financial Statements
for the three and nine months ended September 30th 2016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

PLN '000	Note	Sep 30 2016 (unaudited)	Dec 31 2015 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment		10,722,422	10,568,422
Goodwill		46,688	46,688
Other intangible assets		641,591	617,731
Equity-accounted joint ventures		97,830	70,745
Deferred tax assets	14.2	665,029	924,478
Derivative financial instruments		22,488	8,697
Other non-current assets		238,586	201,008
Total non-current assets		12,434,634	12,437,769
Current assets			
Inventories		3,053,895	3,235,816
- including mandatory stocks		1,895,334	1,881,494
Trade receivables		2,323,324	1,550,900
Current tax assets		6,844	11,953
Derivative financial instruments		43,504	208,482
Other current assets		605,025	856,336
Cash and cash equivalents	19	1,276,876	859,699
Total current assets		7,309,468	6,723,186
Non-current assets (or disposal groups) held for sale		9,254	8,377
Total assets		19,753,356	19,169,332
EQUITY AND LIABILITIES			
Equity			
Share capital		184,873	184,873
Share premium		2,228,310	2,228,310
Cash flow hedging reserve		(602,301)	(700,888)
Retained earnings		6,640,228	5,928,484
Translation differences		66,227	71,281
Equity attributable to owners of the Parent		8,517,337	7,712,060
Non-controlling interests		122	138
Total equity		8,517,459	7,712,198
Non-current liabilities			
Borrowings, other debt instruments and finance lease liabilities	20	4,023,768	4,454,460
Derivative financial instruments		58,558	54,306
Deferred tax liabilities	14.2	41,372	47,626
Employee benefit obligations		191,316	182,252
Other liabilities and provisions		1,261,912	1,292,571
Total non-current liabilities		5,576,926	6,031,215
Current liabilities			
Borrowings, other debt instruments and finance lease liabilities	20	1,711,388	2,544,848
Derivative financial instruments		54,918	110,845
Trade payables		1,840,734	1,232,510
Current tax payables		14,223	11,770
Employee benefit obligations		110,084	122,201
Other liabilities and provisions		1,927,624	1,403,745
Total current liabilities		5,658,971	5,425,919
Total liabilities		11,235,897	11,457,134
Total equity and liabilities		19,753,356	19,169,332

The Notes to the interim condensed consolidated financial statements for the three and nine months ended September 30th 2016, presented on pages 8 to 36, are an integral part of the statements.

THE LOTOS GROUP
Interim Condensed Consolidated Financial Statements
for the three and nine months ended September 30th 2016

CONSOLIDATED STATEMENT OF CASH FLOWS

(prepared using the indirect method)

PLN '000	Note	9 months ended Sep 30 2016 (unaudited)	9 months ended Sep 30 2015 (unaudited)
Cash flows from operating activities			
Net profit		711,728	128,036
Adjustments:		1,463,763	998,739
Income tax expense	14.1	368,335	93,263
Share in net profit/(loss) of equity-accounted joint ventures		(2,619)	1,084
Depreciation and amortisation	8; 9	760,191	540,297
Foreign exchange (gains)/losses		(126,162)	277,188
Interest and dividends		134,822	123,674
(Gain)/loss from investing activities		7,771	1,843
Impairment losses on property, plant and equipment and other intangible assets	11	74,830	18,829
Settlement and valuation of derivative financial instruments	12; 13	(19,705)	4,762
(Increase) in trade receivables		(743,970)	(38,970)
(Increase)/decrease in other assets		(119,495)	17,007
Decrease in inventories		151,982	33,905
Increase/(decrease) in trade payables		580,660	(292,852)
Increase in other liabilities and provisions		400,176	186,086
(Decrease)/Increase in employee benefit obligations		(3,053)	32,623
Income tax paid		(48,944)	(41,042)
Net cash from operating activities		2,126,547	1,085,733
Cash flows from investing activities			
Dividends received from equity-accounted joint ventures		-	832
Dividends received from other entities		1,972	907
Interest received		7,943	13,164
Sale of property, plant and equipment and other intangible assets		19,767	15,657
Sale of organised part of business	18	-	2,300
Purchase of property, plant and equipment and other intangible assets		(915,067)	(435,573)
Cash contributions – equity-accounted joint ventures	2	(19,612)	(1,048)
Cash earmarked for the EFRA project	19	375,772	(535,051)
Security deposit		(26,263)	(7,065)
Funds for future costs of decommissioning of oil and gas extraction facilities		(76,309)	-
Deposit securing the performance of an engineering, procurement and management services contract for the purposes of the offshore production unit on B-8 field		10,619	(2,874)
Option premium expense		-	(4,907)
Settlement of derivative financial instruments		(5,672)	10,369
Net cash from investing activities		(626,850)	(943,289)
Cash flows from financing activities			
Proceeds from bank borrowings	20,1	240,887	524,409
Proceeds from non-bank borrowings	20,2	1,155	-
Proceeds from issue of Series D shares in Grupa LOTOS S.A.	19	-	981,551
Cash flows attributable to changes in interest in subsidiaries not resulting in loss of control		-	(31)
Repayment of bank borrowings	20,1	(751,127)	(814,417)
Repayment of non-bank borrowings	20,2	(8,584)	(8,035)
Redemption of notes	20,3	(19,209)	-
Arrangement fees paid under borrowings		-	(36,620)
Interest paid		(150,117)	(133,873)
Decrease in finance lease liabilities		(22,446)	(13,694)
Settlement of derivative financial instruments		180,036	(158,534)
Net cash from financing activities		(529,405)	340,756
Total net cash flow		970,292	483,200
Effect of exchange rate fluctuations on cash held		(9,322)	(953)
Change in net cash		960,970	482,247
Cash at beginning of period		278,070	(166,687)
Cash at end of period	19	1,239,040	315,560

The Notes to the interim condensed consolidated financial statements for the three and nine months ended September 30th 2016, presented on pages 8 to 36, are an integral part of the statements.

THE LOTOS GROUP
Interim Condensed Consolidated Financial Statements
for the three and nine months ended September 30th 2016

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Cash flow hedging reserve	Retained earnings	Exchange differences on translating foreign operations	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
PLN '000								
Jan 1 2016 (audited)	184,873	2,228,310	(700,888)	5,928,484	71,281	7,712,060	138	7,712,198
<i>Net profit/(loss)</i>	-	-	-	711,744	-	711,744	(16)	711,728
<i>Other comprehensive income/(loss), net</i>	-	-	98,587	-	(5,054)	93,533	-	93,533
Total comprehensive income/(loss)	-	-	98,587	711,744	(5,054)	805,277	(16)	805,261
Sep 30 2016 (unaudited)	184,873	2,228,310	(602,301)	6,640,228	66,227	8,517,337	122	8,517,459
Jan 1 2015 (audited)	184,873	2,229,626	(412,535)	6,190,989	65,335	8,258,288	175	8,258,463
<i>Net profit/(loss)</i>	-	-	-	128,051	-	128,051	(15)	128,036
<i>Other comprehensive income/(loss), net</i>	-	-	(205,162)	-	1,241	(203,921)	-	(203,921)
Total comprehensive income/(loss)	-	-	(205,162)	128,051	1,241	(75,870)	(15)	(75,885)
Cost of issue of Series D shares	-	(1,316)	-	-	-	(1,316)	-	(1,316)
Other	-	-	-	(24)	-	(24)	-	(24)
Sep 30 2015 (unaudited)	184,873	2,228,310	(617,697)	6,319,016	66,576	8,181,078	160	8,181,238

The Notes to the interim condensed consolidated financial statements for the three and nine months ended September 30th 2016, presented on pages 8 to 36, are an integral part of the statements.

THE LOTOS GROUP
Interim Condensed Consolidated Financial Statements
for the three and nine months ended September 30th 2016
Notes to the financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. General information

Grupa LOTOS Spółka Akcyjna ("Grupa LOTOS S.A.", the "Company", the "Parent"), was established on September 18th 1991. The Company's registered address is ul. Elbląska 135, 80-718 Gdańsk, Poland.

The principal business activity of the LOTOS Group (the "LOTOS Group" or the "Group") consists in the manufacturing and processing of refined petroleum products and their wholesale and retail sale. The Group's business also includes acquisition of crude oil and natural gas deposits and oil and gas production. Based on the classification applied by the Warsaw Stock Exchange, Grupa LOTOS S.A. is included in the fuel sector.

2. Composition of the LOTOS Group

The LOTOS Group comprises Grupa LOTOS S.A. (the Parent), a number of production, service and trading companies which are direct or indirect subsidiaries of Grupa LOTOS S.A., and one foundation.

The Group also holds shares in equity-accounted joint ventures.

Contact data and brief description of the principal business activity of these entities, as well as the Group's ownership interests and the applied consolidation method are presented below.

Name	Registered office	Description of business	The Group's ownership interest		
			Sep 30 2016	Dec 31 2015	Sep 30 2015
Parent					
<i>Downstream segment</i>					
• Grupa LOTOS S.A.	Gdańsk	Production and processing of refined petroleum products (mainly fuels) and their wholesale	Not applicable	Not applicable	Not applicable
Direct fully-consolidated subsidiaries					
<i>Upstream segment</i>					
• LOTOS Petrobaltic S.A. (parent of another group: LOTOS Petrobaltic Group)	Gdańsk	Acquisition of crude oil and natural gas deposits, extraction of hydrocarbons	99.99%	99.99%	99.99%
<i>Downstream segment</i>					
• LOTOS Paliwa Sp. z o.o.	Gdańsk	Wholesale and retail sale of fuels and light fuel oil, management of the LOTOS service station network	100.00%	100.00%	100.00%
• LOTOS Oil Sp. z o.o.	Gdańsk	Manufacturing and sale of lubricating oils and lubricants, and sale of base oils	100.00%	100.00%	100.00%
• LOTOS Asphalt Sp. z o.o.	Gdańsk	Manufacturing and sale of bitumens	100.00%	100.00%	100.00%
• LOTOS Kolej Sp. z o.o.	Gdańsk	Railway transport	100.00%	100.00%	100.00%
• LOTOS Serwis Sp. z o.o.	Gdańsk	Maintenance of mechanical and electric operations and controlling devices, overhaul and repair services	100.00%	100.00%	100.00%
• LOTOS Lab Sp. z o.o.	Gdańsk	Laboratory testing	100.00%	100.00%	100.00%
• LOTOS Straż Sp. z o.o.	Gdańsk	Fire service activities	100.00%	100.00%	100.00%
• LOTOS Ochrona Sp. z o.o.	Gdańsk	Security services	100.00%	100.00%	100.00%
• LOTOS Terminale S.A. (parent of another group: LOTOS Terminale Group)	Czechowice-Dziedzice	Storage and distribution of fuels	100.00%	100.00%	100.00%
• LOTOS Infrastruktura S.A. (parent of another group: LOTOS Infrastruktura Group)	Jasło	Storage and distribution of fuels; renting and management of own or leased real estate	100.00%	100.00%	100.00%
<i>Other</i>					
• LOTOS Gaz S.A. w likwidacji (in liquidation)	Kraków	Dormant	100.00%	100.00%	100.00%
Non-consolidated direct subsidiaries ⁽¹⁾					
• Infrastruktura Kolejowa Sp. z o.o.	Gdańsk	Dormant	100.00%	100.00%	100.00%
• LOTOS Foundation	Gdańsk	Socially beneficial activity within the scope of public tasks defined in the Act on Public Benefit and Volunteer Work. The Foundation does not conduct any business activity.	100.00%	100.00%	100.00%

THE LOTOS GROUP
Interim Condensed Consolidated Financial Statements
for the three and nine months ended September 30th 2016
Notes to the financial statements

Name	Registered office	Description of business	The Group's ownership interest		
			Sep 30 2016	Dec 31 2015	Sep 30 2015
Indirect fully-consolidated subsidiaries					
Downstream segment					
<i>LOTOS Infrastruktura Group</i>					
• RCEkoenergia Sp. z o.o.	Czechowice-Dziedzice	Production and distribution of electricity, heat and gas	100.00%	100.00%	100.00%
<i>LOTOS Terminale Group</i>					
• LOTOS Biopaliwa Sp. z o.o.	Czechowice-Dziedzice	Production of fatty acid methyl esters (FAME)	100.00%	100.00%	100.00%
Upstream segment					
<i>LOTOS Petrobaltic Group</i>					
• LOTOS Exploration and Production Norge AS	Norway, Stavanger	Oil exploration and production on the Norwegian Continental Shelf, provision of services incidental to oil and gas exploration and production	99.99%	99.99%	99.99%
• Aphrodite Offshore Services N.V.	Curaçao	Sea transport services (dormant)	99.99%	99.99%	99.99%
• B8 Sp. z o.o.	Gdańsk	Support activities for extraction and quarrying operations	99.99%	99.99%	99.99%
• B8 Spółka z ograniczoną odpowiedzialnością BALTIC S.K.A.	Gdańsk	Exploration for and production of crude oil and natural gas	99.99%	99.99%	99.99%
• Miliana Shipholding Company Ltd. (parent of another group: Miliana Shipholding Group)	Nicosia, Cyprus	Storage and transport of crude oil, other sea transport services	99.99%	99.99%	99.99%
• Technical Ship Management Sp. z o.o. (parent of another group: Technical Ship Management Group)	Gdańsk	Sea transport support activities. ship operation advisory services	99.99%	99.99%	99.99%
• SPV Baltic Sp. z o.o.	Gdańsk	Provision of sea transport and related services	99.99%	99.99%	99.99%
• Miliana Shipmanagement Ltd.	Nicosia, Cyprus	Provision of sea transport and related services	99.99%	99.99%	99.99%
• Miliana Shipping Group Ltd. (parent of another group: Miliana Shipping Group Group)	Nicosia, Cyprus	Management of own assets	99.99%	99.99%	99.99%
• Bazalt Navigation Company Ltd.	Nicosia, Cyprus	Ship chartering	99.99%	99.99%	99.99%
• Granit Navigation Company Ltd.	Nicosia, Cyprus	Ship chartering	99.99%	99.99%	99.99%
• Kambr Navigation Company Ltd.	Nicosia, Cyprus	Ship chartering	99.99%	99.99%	99.99%
• St. Barbara Navigation Company Ltd.	Nicosia, Cyprus	Ship chartering	99.99%	99.99%	99.99%
• Petro Icarus Company Ltd.	Nicosia, Cyprus	Ship chartering	99.99%	99.99%	99.99%
• Petro Aphrodite Company Ltd.	Nicosia, Cyprus	Ship chartering	99.99%	99.99%	99.99%
• AB LOTOS Geonafta (parent of another group: AB LOTOS Geonafta Group)	Lithuania, Gargždai	Crude oil exploration and production, drilling services, and purchase and sale of crude oil	99.99%	99.99%	99.99%
• UAB Genciu Nafta	Lithuania, Gargždai	Crude oil exploration and production	99.99%	99.99%	99.99%
• UAB Manifoldas	Lithuania, Gargždai	Crude oil exploration and production	99.99%	99.99%	99.99%
Other					
<i>LOTOS Petrobaltic Group</i>					
• Energobaltic Sp. z o.o.	Władysławowo	Production of electricity, heat, LPG and natural gas condensate	99.99%	99.99%	99.99%

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Name	Registered office	Description of business	The Group's ownership interest		
			Sep 30 2016	Dec 31 2015	Sep 30 2015
Equity-accounted joint ventures					
• LOTOS - Air BP Polska Sp. z o.o. ⁽²⁾	Gdańsk	Sale of aviation fuel and logistics services	50.00%	50.00%	50.00%
<i>LOTOS Petrobaltic Group</i>					
• Baltic Gas Sp. z o.o. ⁽³⁾	Gdańsk	Oil and gas production (support activities for oil and gas production)	49.99%	49.99%	49.99%
• Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k. ⁽³⁾	Gdańsk	Crude oil and gas production	44.90%	43.96%	44.73%
<i>AB LOTOS Geonafta Group</i>					
• UAB Minijos Nafta ⁽⁴⁾	Lithuania, Gargždai	Crude oil exploration and production	49.99%	49.99%	49.99%

⁽¹⁾ The companies were excluded from consolidation (IFRS 10 *Consolidated Financial Statements*) due to immateriality of the amounts disclosed in their financial statements as at September 30th 2016.

⁽²⁾ Joint venture agreement between Grupa LOTOS S.A. and BP Europe SE on joint operations consisting in supply of aviation fuel through LOTOS - Air BP Polska Sp. z o.o.

⁽³⁾ Agreement on cooperation between LOTOS Petrobaltic S.A. and CalEnergy Resources Poland Sp. z o.o. providing for development of and production from gas and condensate reserves from the B-4 and B-6 fields in the Baltic Sea, performed through special purpose vehicles Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k. and Baltic Gas Sp. z o.o. (general partner). Within the meaning of IFRS 11, Baltic Gas Sp. z o.o. i wspólnicy sp.k. and Baltic Gas Sp. z o.o. are the Group's equity-accounted joint ventures. In the nine months ended September 30th 2016, Cal Energy Resources Poland Sp. z o.o. and LOTOS Petrobaltic S.A. made the agreed cash contributions to Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp. k. of PLN 27,163 thousand and PLN 24,515 thousand, respectively, which changed the Group's ownership interest in the company. Furthermore, in the current reporting period, the shareholders acquired new shares in the increased (by PLN 81 thousand) share capital of Baltic Gas Sp. z o.o. The expenditure of PLN 19,612 thousand, representing the cash contributions made by LOTOS Petrobaltic S.A. to these companies, was disclosed in the consolidated statement of cash flows for the period of nine months ended September 30th 2016 under *Cash contributions – equity-accounted joint ventures*.

⁽⁴⁾ Joint venture set up for the purpose of oil exploration and production in Lithuania, operated in the form of UAB Minijos Nafta.

3. Changes in the entity's structure in the interim period, including changes which follow from mergers, acquisitions or sale of subsidiaries, long-term investments, restructuring or discontinuation of business

Since the end of the previous financial year, i.e. December 31st 2015 (see Note 2 to the consolidated financial statements for 2015) there have been no material changes in the structure of the Group.

4. Basis of preparation and presentation

These interim condensed consolidated financial statements of the LOTOS Group (the "interim consolidated financial statements", "interim financial statements", "consolidated financial statements", "financial statements") have been prepared in accordance with EU-endorsed International Accounting Standard No. 34 ("IFRS 34").

These interim condensed consolidated financial statements present the financial position of the Group as at September 30th 2016 and December 31st 2015, the Group's results for the three and nine months ended September 30th 2016 and September 30th 2015, and cash flows for the nine months ended September 30th 2016 and September 30th 2015.

These interim financial statements should be read in conjunction with the audited *consolidated financial statements of the LOTOS Group for 2015*, issued on March 3rd 2016 (the "consolidated financial statements for 2015").

The data as at September 30th 2016 and for the nine months then ended, and the comparative financial data for the nine months ended September 30th 2015, contained in these interim consolidated financial statements have been reviewed by an independent auditor. The financial data for the three months ended September 30th 2016 and the comparative financial data for the three months ended September 30th 2015, contained in these interim condensed consolidated financial statements, have not been reviewed by an independent auditor. The financial information as at December 31st 2015 was audited. The auditor's opinion on the consolidated financial statements for 2015 was issued on March 2nd 2016.

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These interim condensed consolidated financial statements have been prepared on the assumption that the Group companies will continue as going concerns in the foreseeable future. As at the date of approval of these financial statements for issue, no circumstances were identified which would indicate any threat to the Group companies' continuing as going concerns.

The Parent's functional currency and the reporting currency of these interim consolidated financial statements is the Polish zloty, and all amounts presented herein, unless indicated otherwise, are stated in thousands of zloty.

4.1 Accounting policies

The accounting policies and calculation methods applied in the preparation of these interim condensed consolidated financial statements are the same as those applied in the preparation of the consolidated financial statements for 2015 (see Note 7 to the consolidated financial statements for 2015), and no changes to comparative data or error corrections were made.

4.2 New standards and interpretations which are in issue but not yet effective

New standards, amendments to the existing standards and interpretations which have not been endorsed by the European Union:

- IFRS 9 *Financial Instruments* (issued on July 24th 2014) – effective for annual periods beginning on or after January 1st 2018;
- IFRS 14 *Regulatory Deferral Accounts* (issued on January 30th 2014) – pursuant to the European Commission's decision, the process leading to the approval of a preliminary version of the standard will not be initiated until the issue of its final version; effective for annual periods beginning on or after January 1st 2016;
- IFRS 15 *Revenue from Contracts with Customers* (issued on May 28th 2014), including amendments to IFRS 15 Effective Date of IFRS 15, issued on September 11th 2015 – effective for annual periods beginning on or after January 1st 2018;
- IFRS 16 *Leases* (issued on January 13th 2016) – effective for annual periods beginning on or after January 1st 2019;
- Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (issued on September 11th 2014) – work on approval of the amendments has been postponed by the EU for an indefinite term; thus, the effective date of the amendments has been postponed by the IASB for an indefinite term;
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses* (issued on January 19th 2016) – effective for annual periods beginning on or after January 1st 2017;
- Amendments to IAS 7 *Disclosure Initiative* (issued on January 29th 2016) – effective for annual periods beginning on or after January 1st 2017;
- Clarifications to IFRS 15 *Revenue from Contracts with Customers* (issued on April 12th 2016) – effective for annual periods beginning on or after January 1st 2018;
- Amendments to IFRS 2: *Share-based Payment* (issued on June 20th 2016) – effective for annual periods beginning on or after January 1st 2018;
- Amendments to IFRS 4: *Application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* (issued on September 12th 2016) – effective for annual periods beginning on or after January 1st 2018.

The Group has not elected to early adopt any of the standards, interpretations, or amendments which have not yet become effective. The Company's Management Board is analysing and assessing the effect of the new standards and interpretations on the accounting policies applied by the Group and on the Group's future financial statements.

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4.3 Exchange rates

The following exchange rates, determined on the basis of the exchange rates quoted by the National Bank of Poland (the "NBP"), have been used for the purpose of the valuation of items of the statement of financial position and translation of the financial statements of foreign entities and groups:

NBP's mid rate quoted for:	Sep 30 2016 ⁽¹⁾	Dec 31 2015 ⁽²⁾
USD	3.8558	3.9011
EUR	4.3120	4.2615
NOK	0.4796	0.4431

⁽¹⁾ NBP's mid rates table, effective for September 30th 2016.

⁽²⁾ NBP's mid rates table, effective for December 31st 2015.

NBP's average mid rate for the reporting period	9 months ended Sep 30 2016 ⁽¹⁾	9 months ended Sep 30 2015 ⁽²⁾
USD	3.9240	3.7453
EUR	4.3688	4.1585
NOK	0.4683	0.4709

⁽¹⁾ Based on the arithmetic mean of the mid rates quoted by the NBP for the last day of each full month in the period January 1st 2015–September 30th 2016.

⁽²⁾ Based on the arithmetic mean of the mid rates quoted by the NBP for the last day of each full month in the period January 1st–September 30th 2015.

5. Seasonality and cyclicity of business in the reporting period

There was no seasonality or cyclicity of the Group's business in the reporting period.

6. Significant changes in reporting items, including amounts which significantly affect assets, liabilities, equity, net profit/(loss) or cash flows and which are non-typical due to their nature, value, effect or frequency

All significant changes in reporting items subsequent to the last full-year reporting period, i.e. 2015, presented in the key sections of the financial statements were supplemented with additional information presented in the relevant notes to the financial statements.

Changes in material reporting items and factors with a bearing on the Group's financial performance in the reporting period are presented in Sections 5–7 of the Management's Discussion and Analysis of Q3 2016 consolidated financial performance. A brief summary of the performance of the Group's business segments is presented in Sections 2-4 of that document.

7. Changes of estimated amounts reported in prior interim periods of the current financial year or changes in estimated amounts reported in prior financial years, where such changes have a material effect on the current interim period

The Group recorded no material changes of estimated amounts reported in prior periods, where such changes would have a material effect on the current interim period.

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8. Business segments

	Upstream segment		Downstream segment		Other ⁽¹⁾		Consolidation adjustments		Consolidated	
	3 months ended Sep 30									
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
PLN '000	(unaudited)									
Revenue:	243,439	160,424	5,521,952	5,614,437	2,674	3,410	(108,026)	(67,840)	5,660,039	5,710,431
Intersegment sales	89,235	53,941	17,216	11,775	1,575	2,124	(108,026)	(67,840)	-	-
External sales	154,204	106,483	5,504,736	5,602,662	1,099	1,286	-	-	5,660,039	5,710,431
Operating profit/(loss) (EBIT)	(11,384)	15,234	445,550	(106,490)	(1,316)	(504)	(1,167)	(1,802)	431,683	(93,562)
Depreciation and amortisation	114,830	58,361	121,926	116,276	1,632	1,739	(388)	(421)	238,000	175,955
Operating profit/(loss) before depreciation and amortisation (EBITDA)	103,446	73,595	567,476	9,786	316	1,235	(1,555)	(2,223)	669,683	82,393

	Upstream segment		Downstream segment		Other ⁽¹⁾		Consolidation adjustments		Consolidated	
	9 months ended Sep 30									
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
PLN '000	(unaudited)									
Revenue:	854,431	539,850	14,010,168	17,189,250	9,428	11,631	(309,072)	(257,060)	14,564,955	17,483,671
Intersegment sales	264,851	220,632	39,790	29,954	4,431	6,474	(309,072)	(257,060)	-	-
External sales	589,580	319,218	13,970,378	17,159,296	4,997	5,157	-	-	14,564,955	17,483,671
Operating profit/(loss) (EBIT)	(28,191)	61,035	1,151,879	644,162	(3,436)	(1,447)	(236)	39,076	1,120,016	742,826
Depreciation and amortisation	395,451	190,296	361,087	346,000	4,911	5,261	(1,258)	(1,260)	760,191	540,297
Operating profit/(loss) before depreciation and amortisation (EBITDA)	367,260	251,331	1,512,966	990,162	1,475	3,814	(1,494)	37,816	1,880,207	1,283,123

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

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	Upstream segment		Downstream segment		Other ⁽¹⁾		Consolidation adjustments		Consolidated	
	Sep 30 2016	Dec 31 2015	Sep 30 2016	Dec 31 2015	Sep 30 2016	Dec 31 2015	Sep 30 2016	Dec 31 2015	Sep 30 2016	Dec 31 2015
	(unaudited)	(audited)	(unaudited)	(audited)	(unaudited)	(audited)	(unaudited)	(audited)	(unaudited)	(audited)
PLN '000										
Total assets	4,424,576	4,382,325	16,888,566	16,099,172	96,615	101,004	(1,656,401)	(1,413,169)	19,753,356	19,169,332
<i>including:</i>										
- assets related to exploration for and evaluation of crude oil and natural gas resources	438,349	462,126							438,349	462,126
- assets related to development and production of crude oil and natural gas resources	2,265,387	2,316,381							2,265,387	2,316,381

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

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9. Expenses by nature

PLN '000	3 months ended	9 months ended	3 months ended	9 months ended
	Sep 30 2016	Sep 30 2016	Sep 30 2015	Sep 30 2015
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Depreciation and amortisation	238,000	760,191	175,955	540,297
Raw materials and consumables used ⁽¹⁾	3,943,958	10,117,647	4,375,058	13,233,577
Services	384,115	1,095,619	359,677	1,038,539
Taxes and charges	114,433	335,507	101,329	305,591
Employee benefits expense	163,717	519,301	163,006	515,373
Other expenses by nature	62,232	189,595	48,442	148,030
Merchandise and materials sold	357,918	627,725	252,397	890,083
Total expenses by nature	5,264,373	13,645,585	5,475,864	16,671,490
Change in products and adjustments to cost of sales	(35,878)	(265,983)	142,873	(93,059)
Total	5,228,495	13,379,602	5,618,737	16,578,431
including:				
Cost of sales	4,789,996	12,106,273	5,189,169	15,305,803
Distribution costs	335,109	959,186	323,530	941,414
Administrative expenses	103,390	314,143	106,038	331,214

⁽¹⁾ Including foreign exchange gains related to operating activities in the three and nine months ended September 30th 2016, in the amounts of PLN 14,209 thousand and PLN 23,941 thousand (for the three and nine months ended September 30th 2015: PLN 6,573 thousand and PLN 770 thousand of foreign exchange gains). Exchange gains and losses on operating activities are recognised in cost of sales.

10. Other income

PLN '000	3 months ended	9 months ended	3 months ended	9 months ended
	Sep 30 2016	Sep 30 2016	Sep 30 2015	Sep 30 2015
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Gain on sale of non-financial non-current assets	-	13,081 ⁽¹⁾	563	5,295
Grants	457	1,373	457	6,893
Provisions	8,255	6,674	-	-
Reversal of impairment losses on receivables	-	-	-	2,082
Compensation	2,029	5,822	2,087	4,885
Gain on sale of organised part of business	-	-	-	1,030
Gain on disposal of assets held for sale	-	1,313	1,200	1,200
Reimbursed excise duty ⁽²⁾	1,357	2,443	391	6,762
Other	945	3,326	1,106	2,636
Total	13,043	34,032	5,804	30,783

⁽¹⁾ Including PLN 13,785 thousand on sale of certificates of origin for electricity from cogeneration (nine months ended September 30th 2015: PLN 7,578 thousand). Cash proceeds from these transactions are presented in the statement of cash flows under *Sale of property, plant and equipment and other intangible assets*.

⁽²⁾ Refund of excise duty unduly paid in earlier periods and deductions due to consumption of components or additives used in manufacture of finished products for which the excise duty had been settled at earlier stages of the trading process.

The Group offsets similar transaction items in accordance with IAS 1 – *Presentation of Financial Statements*, sections 34 and 35. The Group discloses material items of income and expense charged to profit or loss separately, as presented in the table above.

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11. Other expenses

PLN '000	Note	3 months ended Sep 30 2016 (unaudited)	9 months ended Sep 30 2016 (unaudited)	3 months ended Sep 30 2015 (unaudited)	9 months ended Sep 30 2015 (unaudited)
Loss on discontinued project related to hydrocarbon exploration in PL643 and PL655 licence areas in Norway		1,476	12,218	-	9
Impairment loss on property, plant and equipment and other intangible assets, including:		4,779	74,830	17,303	18,829
- impairment loss on Sambia E licence assets	17	-	-	12,425	12,425
- impairment loss on Norwegian exploration licences	17	-	-	4,920	4,920
- impairment loss on property, plant and equipment related to Gaz Południe area in the Baltic Sea, including B-21 field	17	-	64,849	-	-
- impairment loss on assets associated with Auksoras field in Lithuania	17	(15)	5,293	-	-
- impairment loss on refinery property, plant and equipment – ships	17	4,804	4,804	-	-
- other		(10)	(116)	(42)	1,484
Loss on sale of non-financial non-current assets		1,619	-	-	-
Impairment losses on receivables		37	25	237	-
Provisions		-	-	7,304	3,746
Fines and compensation		87	552	138	855
Damage to property caused in ordinary course of business		330	1,102	585	1,332
Cost brought forward		2	569	8	614
Charitable donations		2,145	5,157	761	1,292
VAT expense	23.1	-	-	160,909	160,909
Other		2,429	4,916	3,815	5,611
Total		12,904	99,369	191,060	193,197

The Group offsets similar transaction items in accordance with IAS 1 – *Presentation of Financial Statements*, sections 34 and 35. The Group discloses material items of income and expense charged to profit or loss separately, as presented in the table above.

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12. Finance income

PLN '000	3 months ended Sep 30 2016 (unaudited)	9 months ended Sep 30 2016 (unaudited)	3 months ended Sep 30 2015 (unaudited)	9 months ended Sep 30 2015 (unaudited)
Dividends received	-	2,435	-	1,120
Interest:	3,488	10,847	4,379	17,005
- on trade receivables	478	1,845	470	2,390
- on cash	125	323	380	589
- on deposits	2,884	8,567	3,264	12,563
- other	1	112	265	1,463
Exchange differences:	61,857	118,619	-	-
- on bank borrowings	38,781	42,028	-	-
- on translation of intra-Group borrowings ⁽¹⁾	10,444	57,701	-	-
- on realised foreign-currency transactions in bank accounts	8,393	7,987	-	-
- on notes, including intra-Group notes ⁽¹⁾	9,572	25,155	-	-
- on cash	(7,358)	(13,918)	-	-
- on cash blocked in bank accounts	1,244	11,827	-	-
- on investment commitments	3,282	1,667	-	-
- on other assets and liabilities	(2,501)	(13,828)	-	-
Revaluation of financial assets:	59,665	19,705	53,463	-
- valuation of derivative financial instruments	38,828	(152,475)	82,199	-
- settlement of derivative financial instruments	20,837	172,180	(28,736)	-
Other	-	14	-	11
Total	125,010	151,620	57,842	18,136

⁽¹⁾ In accordance with IAS 21, *Effects of Changes in Foreign Exchange Rates*, foreign exchange gains and losses on intra-group foreign currency transactions are recognised in the Group's net profit or loss.

The Group offsets similar transaction items in accordance with IAS 1 – *Presentation of Financial Statements*, sections 34 and 35. The Group discloses material items of income and expenses charged to profit or loss separately, as presented in the table above.

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13. Finance costs

PLN '000	Note	3 months ended	9 months ended	3 months ended	9 months ended
		Sep 30 2016	Sep 30 2016	Sep 30 2015	Sep 30 2015
		(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interest:		56,224	173,248	128,175	228,990
- on bank borrowings		35,993	112,282	38,499	114,718
- on non-bank borrowings		1,646	5,055	1,902	6,064
- on notes		1,109	3,142	941	2,784
- on finance lease liabilities		5,189	15,595	1,671	5,453
- on factoring arrangements		14	425	1,101	3,913
- discount related to provisions for oil and natural gas production facilities and for land reclamation, and other provisions	21	10,838	32,289	4,185	13,025
- cost of discount on employee benefit obligations		1,307	3,921	1,261	3,811
- on liabilities to the state budget		12	100	77,854 ⁽¹⁾	77,925 ⁽¹⁾
- other		116	439	761	1,297
Exchange differences:		-	-	88,982	276,654
- on bank borrowings		-	-	31,428	121,453
- on translation of intra-Group borrowings ⁽²⁾		-	-	47,485	39,398
- on realised foreign-currency transactions in bank accounts		-	-	11,294	108,417
- on notes, including intra-Group notes ⁽²⁾		-	-	17,858	31,589
- on cash		-	-	(4,400)	(162)
- on cash blocked in bank accounts		-	-	(16,304)	(25,221)
- on investment commitments		-	-	3,815	2,177
- on other financial assets and liabilities		-	-	(2,194)	(997)
Revaluation of financial assets:		-	-	-	4,762
- valuation of derivative financial instruments		-	-	-	(143,403)
- settlement of derivative financial instruments		-	-	-	148,165
Bank fees		5,058	13,842	7,491	19,424
Bank guarantees		1,246	4,661	1,011	5,320
Other		402	2,441	3,375	3,429
Total		62,930	194,192	229,034	538,579

⁽¹⁾ Including a PLN 77.9m cost related to interest on the tax arrears of the Parent (see Note 23.1).

⁽²⁾ According to IAS 21 – *The Effects of Changes in Foreign Exchange Rates*, foreign exchange gains and losses on intra-Group foreign currency transactions are recognised in the Group's net profit or loss.

The Group offsets similar transaction items in accordance with IAS 1 – *Presentation of Financial Statements*, sections 34 and 35. The Group discloses material items of income and expenses charged to profit or loss separately, as presented in the table above.

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14. Income tax

14.1 Tax expense

PLN '000	3 months ended	9 months ended	3 months ended	9 months ended
	Sep 30 2016	Sep 30 2016	Sep 30 2015	Sep 30 2015
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Current tax	29,028	58,051	17,239	45,768
Deferred tax	86,122	310,284	(32,951)	47,495
Total income tax charged to net profit or loss	115,150	368,335	(15,712)	93,263
Tax expense recognised in other comprehensive income/(loss) (net), including:				
	29,564	23,125	2,500	(48,166)
- cash flow hedging	29,564	23,125	2,500	(48,166)

For the Group entities operating in Poland, the current and deferred portion of income tax was calculated at the rate of 19%.

In the case of Norwegian subsidiary LOTOS Exploration and Production Norge AS, the marginal tax rate is 78% of the tax base. Income earned on the operations of LOTOS E&P Norge AS is subject to taxation under two parallel tax systems: the corporate income tax system (27% tax rate) and the petroleum tax system (additional tax rate of 51%).

In the case of Lithuanian subsidiaries (AB LOTOS Geonafta Group), the current and deferred portion of income tax was calculated at the rate of 15%.

14.2 Deferred income tax

PLN '000	Statement of financial position		Change
	Sep 30 2016	Dec 31 2015	
	(unaudited)	(audited)	
Deferred tax assets	665,029	924,478	(259,449)
Deferred tax liabilities	(41,372)	(47,626)	6,254
Net deferred tax assets/(liabilities)	623,657	876,852	(253,195)
Exchange differences on translating deferred tax of foreign operations			(55,481)
Deferred tax disclosed under other comprehensive income/(loss), net			23,125
Effect of accounting for the acquisition price of the Sleipner assets ⁽¹⁾			(24,733)
Deferred tax expense recognised in net profit or loss			(310,284)

⁽¹⁾ In accordance with the agreement providing for the acquisition of the Sleipner assets from ExxonMobil Exploration and Production Norway AS, made on October 30th 2015 (see Note 13.1.3 to the consolidated financial statements for 2015), within three months after the acquisition date the parties revised the accounting for the transaction, as a result of which on April 4th 2016 the Group paid USD 4.76m to ExxonMobil Exploration and Production Norway AS. The revision had no effect on the Group's statement of comprehensive income.

14.2.1 Deferred tax assets and liabilities

As the Group entities are separate taxpayers, deferred tax (deferred tax assets and liabilities) is assessed separately by each entity. The Group entities offset deferred tax assets and deferred tax liabilities.

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Deferred tax assets/(liabilities) before set-off comprised the following items:

	Dec 31 2015	Deferred tax charged to net profit or loss	Deferred tax disclosed under other comprehensive income/(loss)	Exchange differences on translating deferred tax of foreign operations	Other differences	Sep 30 2016
PLN '000	(audited)					(unaudited)
Deferred tax assets						
Employee benefit obligations	54,871	(22,430)	-	(370)	-	32,071
Inventory write-downs	50,912	(49,615)	-	5	-	1,302
Impairment losses on property, plant and equipment and other intangible assets	297,553	13,008	-	28,315	-	338,876
Negative fair value of derivative financial instruments	25,594	(6,341)	-	-	-	19,253
Exchange differences on revaluation of foreign-currency denominated items	1,228	350	-	(31)	-	1,547
Impairment losses on receivables	16,893	(161)	-	-	-	16,732
Finance lease liabilities	39,373	(4,637)	-	-	-	34,736
Provisions for/Assets related to decommissioning of crude oil and natural gas facilities and land reclamation	268,972	128,919	-	23,198	-	421,089
Unrealised margin assets	3,479	2,598	-	-	-	6,077
Tax losses carried forward	781,746	(363,993)	-	29,041	24,733	471,527
Other provisions	11,676	5,600	-	137	-	17,413
Cash flow hedge accounting	164,407	-	(23,125)	-	-	141,282
Other	20,685	197	-	16	-	20,898
Total	1,737,389	(296,505)	(23,125)	80,311	24,733	1,522,803
Deferred tax liabilities						
Difference between current tax base and carrying amount of property, plant and equipment and other intangible assets	724,707	(922)	-	23,458	-	747,243
Difference between current tax value and carrying amount of settlements under joint operations (Norwegian fields)	952	43,617	-	1,131	-	45,700
Positive fair value of derivative financial instruments	37,921	(32,096)	-	-	-	5,825
Tax liabilities associated with acquired exploration and production licences in Lithuania	18,828	(1,293)	-	240	-	17,775
Accrued interest	67,576	5,743	-	1	-	73,320
Other	10,553	(1,270)	-	-	-	9,283
Total	860,537	13,779	-	24,830	-	899,146
Net deferred tax assets/(liabilities)	876,852	(310,284)	(23,125)	55,481	24,733	623,657

Taxable temporary differences are expected to expire in 2016–2083.

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15. Earnings/(loss) per share

	3 months ended Sep 30 2016	9 months ended Sep 30 2016	3 months ended Sep 30 2015	9 months ended Sep 30 2015
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net profit/(loss) attributable to owners of the Parent (PLN '000) (A)	379,931	711,744	(249,193)	128,051
Weighted average number of shares ('000) (B)	184,873	184,873	184,873	184,873
Earnings/(loss) per share (PLN) (A/B)	2.06	3.85	(1.35)	0.69

Earnings/(loss) per share for each reporting period are calculated by dividing net profit/(loss) for the reporting period by the weighted average number of shares in the reporting period.

In the three and nine months ended September 30th 2016 and September 30th 2015, diluted earnings/(loss) per share were equal to basic earnings/(loss) per share, as the Group carries no instruments with a dilutive effect.

16. Dividends

As at September 30th 2016 and December 31st 2015, Grupa LOTOS S.A. was restricted in its ability to distribute funds in the form of dividends. The restrictions followed from the credit facility agreement executed on June 27th 2008 for the financing of the 10+ Programme, which provides that amount of dividend is conditional upon fulfilment of specific requirements, including generation of a sufficient cash surplus and achievement of financial ratios at prescribed levels.

On June 28th 2016, the General Meeting of Grupa LOTOS S.A. passed a resolution on coverage of the Company's net loss for 2015. In accordance with the resolution, the 2015 net loss of PLN 37,102 thousand will be offset against future profits.

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17. Impairment losses

	Assets related to exploration for, development and production of crude oil and natural gas resources		Refining and other assets		Inventories		Receivables		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
3 months ended Sep 30										
PLN '000										
At beginning of period (audited)	2,066,456	1,908,097	80,134	68,142	6,158	3,218	170,387	173,264	2,323,135	2,152,721
<i>Recognised</i>	9	17,319	4,804 ⁽¹⁾	-	15,280	6,498	351	1,035	20,444	24,852
<i>Exchange differences on translating foreign operations</i>	11,583	(107,788)	(1,042)	-	(5)	1	-	-	10,536	(107,787)
<i>Used / Reversed</i>	-	-	733	(54)	(13,633)	(37)	(1,251)	(992)	(14,151)	(1,083)
At end of period (unaudited)	2,078,048	1,817,628	84,629	68,088	7,800	9,680	169,487	173,307	2,339,964	2,068,703
9 months ended Sep 30										
PLN '000										
At beginning of period (audited)	1,872,250	1,894,248	82,541	69,619	267,695	453,409	171,640	177,694	2,394,126	2,594,970
<i>Recognised</i>	70,134 ⁽²⁾	18,843 ⁽³⁾	4,804 ⁽¹⁾	46	18,044	7,516	2,317	5,618	95,299	32,023
<i>Exchange differences on translating foreign operations</i>	135,664	(95,461)	(137)	-	29	(1)	-	-	135,556	(95,462)
<i>Used / Reversed</i>	-	(2)	(2,579)	(1,577)	(277,968) ⁽⁴⁾	(451,244) ⁽⁵⁾	(4,470)	(10,005)	(285,017)	(462,828)
At end of period (unaudited)	2,078,048	1,817,628	84,629	68,088	7,800	9,680	169,487	173,307	2,339,964	2,068,703

⁽¹⁾ Impairment loss on a vessel, presented in the consolidated statement of comprehensive income under *Other expenses*.

⁽²⁾ Including a PLN 5,308 thousand impairment loss on assets related to the Auksoras field in Lithuania, recognised in Q1 2016, and a PLN 64,818 thousand impairment loss on assets related to the Gaz Poludnie licence in the Baltic Sea, including the B-21 field, recognised in Q2 2016. The write-offs were presented in the consolidated statement of comprehensive income under *Other expenses*.

⁽³⁾ Including a PLN 12,425 thousand impairment loss, made after geological and economic analyses, on assets related to exploration for and evaluation of resources in the Sambia E licence and a PLN 4,920 thousand impairment loss on assets related to PL362 and PL035B exploration licences in Norway, recognised in the statement of comprehensive income under *Other expenses*.

⁽⁴⁾ Reversal of write-downs on inventories of crude oil and refining products was made for a total of PLN 262,680 thousand (recognised in 2015, see Note 19.1 to the consolidated financial statements for 2015), of which PLN 237,062 thousand was reversed in Q1 2016 and PLN 25,618 thousand in Q2 2016.

⁽⁵⁾ Reversal of write-downs on inventories of crude oil and refining products was made for a total of PLN 450,891 thousand (recognised in 2014, see Note 19.1 to the consolidated financial statements for 2014), of which PLN 411,518 thousand was reversed in Q1 2015 and PLN 39,373 thousand in Q2 2015.

- Changes in impairment losses on property, plant and equipment and intangible assets are recognised under other income or expenses.
- The effect of revaluation of inventories is taken to cost of sales. In accordance with IAS 2, inventories are measured at the lower of cost or cost less write-downs to net realisable value.
- The amounts resulting from recognition or reversal of impairment losses on receivables are presented under Other income or Other expenses (the principal portion) and under Finance income or Finance costs (the default interest portion).

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18. Purchase or sale of property, plant and equipment and intangible assets

PLN '000	9 months ended Sep 30 2016 (unaudited)	9 months ended Sep 30 2015 (unaudited)
Acquisition of assets related to exploration for, development and production of crude oil and natural gas resources	251,742	231,407
Acquisition of refining and other assets	667,755	273,590
Total	919,497	504,997

In the nine months ended September 30th 2016 and in the comparative period, the Group's expenditure on assets related to exploration for crude oil and natural gas resources was made chiefly on the B-8 field in the Baltic Sea, as well as to production from the Heimdal and Sleipner fields in Norway. In the comparative period, the Group also incurred expenditure on modernisation of the Petrobaltic platform and production infrastructure on its Lithuanian fields. Capital expenditure incurred by the Group on refining assets and other property, plant and equipment, both in the nine months ended September 30th 2016 and in the comparative period, related to the EFRA Project, construction of the Hydrogen Recovery Unit, and expansion of the service station chain.

As at September 30th 2016, the Group's future contractual commitments for expenditure on property, plant and equipment and intangible assets not disclosed in the statement of financial position amounted to PLN 1,578,615 thousand and were chiefly related to the construction of the Delayed Coking Unit (DCU) (the EFRA Project), construction of the Hydrogen Recovery Unit (HRU) at the Refinery, and expansion of the service station chain (December 31st 2015: PLN 1,773,814 thousand).

In the nine months ended September 30th 2016, the Group did not sell any material item of its property, plant and equipment or intangible assets. In the comparative period, the Group mainly sold assets related to a retired crude oil distillation facility (DRW-100) in Czechowice-Dziedzice, assets related to service stations, organised parts of businesses located in Jasło and Czechowice-Dziedzice, providing services that consist in technical tests and analyses, and a helicopter classified as a non-current asset held for sale. In the comparative period, the Group recognised net income from the sale of these assets (PLN 5,532 thousand) in the consolidated statement of comprehensive income under Other income (see Note 10).

19. Cash and cash equivalents

PLN '000	Sep 30 2016 (unaudited)	Sep 30 2015 (unaudited)
Cash at bank	1,274,499	739,835
Cash in hand	591	509
Other cash	1,786	1,024
Total cash and cash equivalents in the statement of financial position	1,276,876	741,368
Overdraft facilities	(37,836)	(425,808)
Total cash and cash equivalents in the statement of cash flows	1,239,040	315,560

In the consolidated statement of cash flows for the nine months ended September 30th 2015, the Group presented proceeds from the issue of Series D shares for a total amount of PLN 981.6m (net of issue costs) as part of its financing activities. The Company uses the issue proceeds to pursue the objectives specified in the Prospectus approved by the Polish Financial Supervision Authority on November 7th 2014 (the "Prospectus"), including the construction of a delayed coking unit with auxiliary infrastructure (the "EFRA Project") and development of the B-4 and B-6 gas fields by LOTOS Petrobaltic S.A. in collaboration with CalEnergy Resources Poland Sp. z o.o. (see 'Use of proceeds from the offering' in the Prospectus).

In accordance with the agreement for assistance in the form of non-public aid, signed with the Minister of State Treasury, a part of the proceeds from the issue of Series D shares acquired by the State Treasury, assigned exclusively to the financing of the EFRA Project, was deposited in a separate bank account, as presented in the consolidated statement of cash flows for the nine months ended September 30th 2015 in Cash earmarked for the EFRA project under cash flows from investing activities in the amount of PLN 535.0m.

In the nine months ended September 30th 2016, PLN 375.8m disclosed in the consolidated statement of cash flows comprised cash allocated for the financing of current expenditure on the EFRA project, while the portion of the cash earmarked for this project that remained unused as at September 30th 2016, in the amount of PLN 57.7m, deposited in a separate bank account, is disclosed under Other current assets in the statement of financial position.

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20. Borrowings, other debt instruments and finance lease liabilities

PLN '000	Sep 30 2016 (unaudited)	Dec 31 2015 (audited)
Bank borrowings:	5,267,094	6,481,034
- investment credit facilities	4,279,054	4,744,306
- working capital facilities	252,576	883,818
- inventory refinancing and financing facilities	1,160,300	1,170,728
- funds in bank deposits securing repayment of interest and principal instalments	(424,836)	(317,818)
Non-bank borrowings	84,824	92,146
Notes	196,336	218,100
Finance lease liabilities	186,902	208,028
Total	5,735,156	6,999,308
<i>including:</i>		
non-current	4,023,768	4,454,460
current	1,711,388	2,544,848

20.1 Bank borrowings

Material credit facility agreements

Most of the Group's bank borrowings were incurred by the Parent and the LOTOS Petrobaltic Group companies.

As at September 30th 2016, the nominal amount outstanding under the investment facility contracted by the Parent to finance the 10+ Programme was PLN 3,666.0m (USD 950.8m). As at December 31st 2015, the amount was PLN 4,074.8m (USD 1,044.5m).

The Parent also uses a credit facility for the refinancing and financing of its inventory. As at September 30th 2016, the nominal amount drawn under the facility was PLN 1,156.7m (USD 300m). As at December 31st 2015, the amount was PLN 1,170.3m (USD 300m).

In addition, the Parent also has access to working capital instruments in the form of overdraft facilities and funds available on demand, which are used by the Parent on an as-needed basis.

As at September 30th 2016, liabilities under bank borrowings incurred by companies of the LOTOS Petrobaltic Group totalled PLN 467.9m. The amount outstanding as at December 31st 2015 was PLN 577.9m.

Changes in credit agreements

On May 10th 2016, the amount of the investment credit facility granted to LOTOS Asphalt Sp. z o.o. by a syndicate of financial institutions under the agreement of June 30th 2015 was reduced. As a result, the total amount available under the facility decreased from USD 432m to USD 382m. The reduction was requested by LOTOS Asphalt Sp. z o.o. in line with its rights under the agreement. The other terms of the agreement remained unchanged.

As at September 30th 2016, the amount outstanding under the investment facility was PLN 58.6m (USD 15.9m).

Proceeds from and repayment of bank borrowings

In the nine months ended September 30th 2016, proceeds from bank borrowings contracted by the Group were PLN 240.9m and included credit facilities contracted by LOTOS Asphalt Sp. z o.o. (PLN 103.6m) and AB LOTOS Geonafta (PLN 137.3m). In the same period, repayments of bank borrowings amounted to PLN 751.1m and mainly included repayments under investment facilities of the Parent (PLN 366.4m), credit facilities of LOTOS Asphalt Sp. z o.o. (PLN 112.5m), credit facilities of AB LOTOS Geonafta (PLN 150.1m) (chiefly to refinance its existing debt), and credit facilities of LOTOS Exploration and Production Norge AS (PLN 85m). These amounts are presented in the statement of cash flows from financing activities under Proceeds from bank borrowings and Repayment of bank borrowings, respectively.

In the nine months ended September 30th 2016 and September 30th 2015, none of the Group companies defaulted on their credit facilities.

20.2 Non-bank borrowings

Material loan agreements

The Group's liabilities under loans include mainly liabilities under a loan agreement made by SPV Baltic Sp. z o.o. (an upstream company of the LOTOS Petrobaltic Group) in January 2014 with Agencja Rozwoju Przemysłu S.A. to finance purchase of a drilling platform.

As at September 30th 2016, the amount outstanding under the agreement was PLN 76.6m (December 31st 2015: PLN 83.6m).

New loan agreements executed in the reporting period

On May 17th 2016, RCEkoenergia Sp. z o.o. executed a PLN 1.2m loan agreement with the Provincial Fund for Environmental Protection and Water Management of Katowice to co-finance modernisation of the dust removal unit at the CHP plant in Czechowice-Dziedzice. The loan matures on December 31st 2019 and bears interest based on the rediscount rate. It is secured with a statement on submission to enforcement, as well as the assignment of claims from bank accounts and under heat sales contracts.

As at September 30th 2016, the amount outstanding under the agreement was PLN 1m.

Proceeds from and repayment of loans

In the nine months ended September 30th 2016, proceeds from loans contracted by the Group totalled PLN 1.2m and primarily included the loan advanced to RCEkoenergia Sp. z o.o., whereas loan repayments in the same period amounted to PLN 8.6m and were primarily related to the loan advanced in Q1 2014 by Agencja Rozwoju Przemysłu S.A. to SPV Baltic Sp. z o.o. These amounts were disclosed in the statement of cash flows from financing activities under *Proceeds from non-bank borrowings* and *Repayment of non-bank borrowings, respectively*.

In the nine months ended September 30th 2016 and September 30th 2015, none of the Group companies defaulted on borrowings or breached any material covenants under borrowing agreements.

20.3 Notes

Pursuant to the note issue programme agreement of October 29th 2013 with Bank Pekao S.A., LOTOS Petrobaltic S.A. may issue medium-term USD-denominated notes for up to the equivalent of PLN 200m.

On September 23rd 2016, annexes were signed to the Note Issue Programme Agreement and to the Terms and Conditions of Series C, Series D and Series E notes, and an agreement was concluded between LOTOS Petrobaltic S.A., as the issuer, and Bank Pekao S.A.

In the agreement, Bank Pekao S.A. declared that any breach of the Note Issue Programme Agreement and of the Terms and Conditions of the notes (including breach of the debt ratio covenant) will not constitute an early redemption trigger.

Furthermore, the parties agreed on a new redemption schedule and creation of new security for the notes, including a mortgage over the onshore facilities of LOTOS Petrobaltic S.A., assignment of claims under property insurance contracts covering the onshore facilities, and assignment of claims under a contract for drilling work with respect to the payment for services provided using the LOTOS Petrobaltic rig.

As at September 30th 2016, PLN 196,3m was outstanding under the notes issued in 2013 (December 31st 2015: PLN 218,1m).

Proceeds and payments related to notes

In the nine months ended September 30th 2016, LOTOS Petrobaltic S.A. redeemed PLN 19.2m worth of notes, which was presented in the statement of cash flows from financing activities, under *Redemption of notes*.

In the nine months ended September 30th 2015, no notes or other debt or equity securities were issued, redeemed or repaid.

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21. Provisions

PLN '000	Note	Provisions for decommissioning and reclamation costs				Total	Other provisions	Total
		Provision for oil and gas extraction facilities			Provisions for retired refining and other units			
		Poland	Norway	Lithuania				
Jan 1 2016 (audited)		191,837	986,439	14,133	25,770	1,218,179	194,165	1,412,344
<i>Recognised</i>		-	-	-	-	-	17,710	17,710
<i>Remeasurement of decommissioning costs</i>		-	3,653	-	-	3,653	(11,996)	(8,343)
<i>Change in provisions for liabilities attributable to approaching maturity date (discount unwinding effect)</i>	13	-	29,992	613	58	30,663	1,626	32,289
<i>Interest on Oil and Gas Facility Decommissioning Fund</i>		221	-	-	-	221	-	221
<i>Exchange differences on translating foreign operations</i>		-	81,304	160	-	81,464	12,763	94,227
<i>Used</i>		-	(31,775) ⁽¹⁾	-	(117)	(31,892)	(2,525)	(34,417)
<i>Reversed</i>		-	-	-	(995)	(995)	(8,981)	(9,976)
Sep 30 2016 (unaudited)		192,058	1,069,613	14,906	24,716	1,301,293	202,762	1,504,055
<i>including:</i>								
<i>non-current</i>		192,058	986,186	14,906	23,287	1,216,437	28,005	1,244,442
<i>current</i>		-	83,427	-	1,429	84,856	174,757	259,613

Provisions for decommissioning and reclamation costs:

Provision for the Polish oil and gas extraction facilities – a provision for future costs of decommissioning of the oil and gas extraction facilities in the B-3 and B-8 licences areas and the Oil and Gas Facility Decommissioning Fund, set up to cover future costs of decommissioning of oil and gas facilities, in accordance with the Geological and Mining Law of February 4th 1994 and the Minister of Economy's Regulation of June 24th 2002.

Provision for the Norwegian oil and gas extraction facilities – a provision for future costs of decommissioning of the oil extraction facilities in the YME field, and the gas extraction facilities in the Heimdal and Sleipner fields.

Provision for the Lithuanian oil and gas extraction facilities – a provision for future costs of decommissioning of the Lithuanian oil extraction facilities.

Provisions for retired refining units and other installations – a provision for land reclamation and the cost of disassembly and decommissioning of the retired installations at LOTOS Terminale S.A., a provision for estimated cost of disassembly of the subsea pipeline operated by a subsidiary Energobaltic Sp. z o.o. (a company of the LOTOS Petrobaltic Group), as well as for land reclamation and clean-up.

⁽¹⁾ The amount mainly includes PLN 27,494 thousand of used provisions for future costs of removal of the MOPU and disassembly of plant and equipment at the YME field. The provision was recognised in connection with the agreement between Talisman (the YME field operator) and SBM (the MOPU owner) reached in March 2013 (for details, see Note 23.1 to the consolidated financial statements for 2015). 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.

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PLN '000	Note	Provisions for decommissioning and reclamation costs				Other provisions		Total
		Provision for oil and gas extraction facilities			Provisions for retired refining and other units	Total	Total	
		Poland	Norway	Lithuania				
Jan 1 2015 (audited)		183,579	497,194	14,302	30,504	725,579	52,849	778,428
<i>Recognised</i>		-	4,744	-	-	4,744	10,238	14,982
<i>Remeasurement of decommissioning costs</i>		-	1,735	-	(2,320)	(585)	-	(585)
<i>Change in provisions for liabilities attributable to approaching maturity date (discount unwinding effect)</i>	13	-	12,073	530	45	12,648	377	13,025
<i>Interest on Oil and Gas Facility Decommissioning Fund</i>		398	-	-	-	398	-	398
<i>Exchange differences on translating foreign operations</i>		-	(23,225)	(69)	-	(23,294)	2,111	(21,183)
<i>Used</i>		-	(102,329) ⁽¹⁾	-	(480)	(102,809)	(1,230)	(104,039)
<i>Reversed</i>		(2,750)	-	-	(2,509)	(5,259)	(1,088)	(6,347)
Sep 30 2015 (unaudited)		181,227	390,192 ⁽²⁾	14,763	25,240	611,422	63,257	674,679
<i>including:</i>								
<i>non-current</i>		181,227	357,715	14,763	24,176	577,881	29,005	606,886
<i>current</i>		-	32,477	-	1,064	33,541	34,252	67,793

Provisions for decommissioning and reclamation costs:

Provision for the Polish oil and gas extraction facilities – a provision for future costs of decommissioning of the oil and gas extraction facilities in the B-3 and B-8 licences areas and the Oil and Gas Facility Decommissioning Fund, set up to cover future costs of decommissioning of oil and gas facilities, in accordance with the Geological and Mining Law of February 4th 1994 and the Minister of Economy's Regulation of June 24th 2002.

Provision for the Norwegian oil and gas extraction facilities – a provision for future costs of decommissioning of the oil extraction facilities in the YME field, and the gas extraction facilities in the Heimdal fields.

Provision for the Lithuanian oil and gas extraction facilities – a provision for future costs of decommissioning of the Lithuanian oil extraction facilities.

Provisions for retired refining units and other installations – a provision for land reclamation and the cost of disassembly and decommissioning of the retired installations at LOTOS Terminale S.A., a provision for estimated cost of disassembly of the subsea pipeline operated by a subsidiary Energobaltic Sp. z o.o. (a company of the LOTOS Petrobaltic Group), as well as for land reclamation and clean-up.

⁽¹⁾ The amount mainly includes PLN 62,192 thousand of used provisions for future costs of removal of the MOPU and disassembly of plant and equipment in the YME field. The provision was recognised in connection with the agreement between Talisman (the YME field operator) and SBM (the MOPU owner) reached in March 2013 (see Note 23.1). Furthermore, in Q3 2015, provisions of PLN 28,061 thousand were utilised in connection with the decommissioning of wells in the Rind and Byggve fields (Heimdal assets).

⁽²⁾ Including provisions of PLN 142,770 thousand for future costs of decommissioning of the oil extraction facilities in the YME field and provisions of PLN 30,025 thousand for future costs of removal of the MOPU and disassembly of plant and equipment in the YME field.

22. Changes in the method of fair value measurement applied to financial instruments measured at fair value and changes in the classification of financial instruments

In the nine months ended September 30th 2016, the Group made no changes in the method of fair value measurement applied to financial instruments measured at fair value (the method is described in more detail in Note 7.23 to the 2015 consolidated financial statements), made no transfers of financial instruments between fair value hierarchy levels (see Note 31.2 to the 2015 consolidated financial statements), and did not reclassify any of its financial instruments. As at September 30th 2016 and December 31st 2015, the Group held financial derivatives classified under fair value hierarchy Level 2.

As at September 30th 2016 and December 31st 2015, the fair value of financial assets and liabilities did not materially differ from their carrying amounts.

Fair value hierarchy

	Sep 30 2016	Dec 31 2015
	(unaudited)	(audited)
PLN '000	Level 2	
Financial assets		
Commodity swap	30,656	198,591
Commodity options	583	363
Currency forward and spot contracts	27,574	14,082
Interest rate swap (IRS)	-	992
Currency swap	7,179	3,151
Total	65,992	217,179
Financial liabilities		
Commodity swap	22,007	58,055
Currency forward and spot contracts	11,066	909
Interest rate swap (IRS)	77,444	72,263
Currency swap	2,959	33,924
Total	113,476	165,151

23. Contingent liabilities and assets

23.1 Material court, arbitration or administrative proceedings and other risks of the Parent or its subsidiaries, and material settlements under court proceedings

There were no significant changes with respect to pending material court, arbitration, or administrative proceedings or with respect to other risks of the Company or its subsidiaries in the period between the end of the previous financial year, i.e. December 31st 2015, and the date of issue of these interim financial statements. For information on pending material proceedings, see Note 35.1 to the consolidated financial statements for 2015. In addition, please note that:

Tax settlements

Tax settlements of the Parent

In 2015, the Company's VAT settlements for 2010–2011 were subject to two inspections by tax inspection authorities. On June 23rd 2015, the Company received post-inspection reports and challenged some of the findings contained in the reports. On September 30th 2015, the Company received two decisions issued by the Director of the Tax Audit Office in Bydgoszcz, in which the Tax Audit Office assessed the VAT payable by the Company for the period from January to December 2010 and from January to December 2011, identifying VAT arrears of PLN 48.4m for 2010 and PLN 112.5m for 2011. In these decisions, the Director of the Tax Audit Office stated that certain transactions with two of the Company's trade partners involved fraudulent tax practices, arguing that the Company failed to exercise due care in executing transactions with those trade partners and that it should at least have been aware that the transactions were connected to and resulted from a tax fraud committed at an earlier stage, which precluded the Company from making any VAT deductions. Having reviewed the decisions, the Company dismissed the allegations of the Director of the Tax Audit Office as entirely groundless and on October 14th 2015 filed an appeal with the Director of the Tax Chamber in Gdańsk. The Director of the Tax Chamber in Gdańsk upheld the decisions of the Director of the Tax Audit Office in Bydgoszcz, whereas the complaint lodged by the Company in the first half of 2016 with the Provincial Administrative Court was dismissed. As at the date of issue of these financial statements, both decisions of the Director of the Tax Audit Office in Bydgoszcz in which it assessed the VAT payable by the Company for individual months of 2010 and 2011 remain upheld. In Q3 2016, the Company lodged cassation complaints with the Supreme Administrative Court of Warsaw.

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Tax settlements of LOTOS Exploration and Production Norge AS

In the nine months ended September 30th 2016, the income tax settlements of LOTOS Exploration and Production Norge AS ("LOTOS E&P Norge AS") for 2013–2014 were investigated by the Norwegian Oil Taxation Office (the "OTO"). On June 1st 2016, LOTOS E&P Norge AS received a notice of May 31st 2016 requesting the company to provide explanations. In the notice, the OTO questioned recognition of some of the finance costs incurred by LOTOS E&P Norge AS in 2013–2014 as tax deductible expenses due to the company's thin capitalisation in that period. Considering the risk of a dispute with the taxation authority and the company's financial position in the period 2013–2014, to which the OTO refers, as well as the fact that the company applies the same approach to the period 2015–2016, LOTOS E&P Norge AS, taking into account the adverse effect of its thin capitalisation, made an assessment as at September 30th 2016 of its ability to realise deferred tax assets on account of tax losses carried forward, and made a downward revision of the deferred tax asset amount in Q3 2016 by PLN 53.3m (NOK 113.7m). As at the date of issue of these financial statements, the proceedings were pending.

In the nine months ended September 30th 2016, there were no material settlements under court or other proceedings, save for those presented above.

23.2 Other contingent liabilities

In the period between the end of the previous financial year, i.e. December 31st 2015, and the date of issue of these interim financial statements, there were no changes in the Company's or its subsidiaries' other material contingent liabilities (see Note 35.2 to the consolidated financial statements for 2015).

The Group presents information on its off-balance sheet future investment commitments in Note 18.

24. Related parties

24.1 Transactions with related entities in which the Group holds equity interests

In the period of three and nine months ended September 30th 2016 and September 30th 2015, the Group entered into material transactions with LOTOS-Air BP Polska Sp. z o.o. The transactions involved mainly sale of aviation fuel. The total value of the transactions in the periods of three and nine months ended September 30th 2016 was PLN 70,495 thousand and PLN 146,451 thousand (in the periods of three and nine months ended September 30th 2015: PLN 62,764 thousand and PLN 156,827 thousand, respectively). As at September 30th 2016, the balance of outstanding receivables under these transactions was PLN 14,751 thousand (December 31st 2015: PLN 12,219 thousand).

24.2 Entity having control of the Group

As at September 30th 2016 and December 31st 2015, the State Treasury held a 53.19% interest in Grupa LOTOS S.A. In the three and nine months ended September 30th 2016 and September 30th 2015, no transactions were concluded between Grupa LOTOS S.A. and the State Treasury.

24.2.1 Transactions with related entities of which the State Treasury has control or joint control or on which the State Treasury has significant influence

In the three and nine months ended September 30th 2016 and September 30th 2015, the Group executed transactions with parties related to it through the State Treasury. The aggregate value of the transactions was material. The transactions were concluded at arm's length in the course of the Group's day-to-day business and involved mainly sale of fuels, purchase of storage services, transport services, energy, natural gas and other fuels.

PLN '000	3 months ended	9 months ended	3 months ended	9 months ended
	Sep 30 2016	Sep 30 2016	Sep 30 2015	Sep 30 2015
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sale	117,707	238,193	71,431	263,045
Purchases	361,859	846,754	456,958	1,452,495

PLN '000	Sep 30 2016	Dec 31 2015
	(unaudited)	(audited)
Receivables	49,087	27,859
Liabilities	215,918	130,356

Furthermore, as at September 30th 2016, the Group disclosed PLN 76,554 thousand (December 31st 2015: PLN 83,648 thousand) in liabilities under a loan from a party related to it through the State Treasury for the purchase of a drilling platform (see Note 20.2).

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24.3 Executive remuneration

Remuneration paid to members of the Company's Management and Supervisory Boards

PLN '000	9 months ended Sep 30 2016 (unaudited)	9 months ended Sep 30 2015 (unaudited)
Management Board		
Short-term employee benefits (salaries)	1,120	863
Management Board – subsidiaries ⁽¹⁾		
Short-term employee benefits (salaries)	2,292	2,711
Supervisory Board		
Short-term employee benefits (salaries)	246	187
Total	3,658	3,761

⁽¹⁾ Remuneration paid to members of the Company's Management Board for serving on corporate bodies of direct and indirect subsidiaries.

The Group did not enter into any material transactions with any Management Board or Supervisory Board members, did not advance any loans, make any advance payments, issue any guarantees to or conclude any other agreements with any Management Board or Supervisory Board member which would be advanced, made, issued or concluded otherwise than on an arm's length basis or which would have a material bearing on these financial statements. Based on representations submitted by members of the Company's Management and Supervisory Boards, in the nine months ended September 30th 2016 and September 30th 2015, Grupa LOTOS S.A. did not become aware of any transactions concluded with the Company or a company of the LOTOS Group by the spouses, relatives, or relatives by affinity in the direct line up to the second degree, of the members of the Management and Supervisory Boards or persons related to them through guardianship or adoption or other persons with whom they have personal relationships.

Remuneration paid to members of key management staff (other than members of the Management Board of Grupa LOTOS S.A.)

PLN '000	9 months ended Sep 30 2016 (unaudited)	9 months ended Sep 30 2015 (unaudited)
Short-term employee benefits (salaries), including:	25,682	19,047
- annual bonus paid	7,001 ⁽¹⁾	3,312 ⁽²⁾
- length-of-service award paid	456	-

⁽¹⁾ Remuneration paid in 2016 on account of annual bonus for 2015.

⁽²⁾ Remuneration paid in 2015 on account of annual bonus for 2014.

In the nine months ended September 30th 2016 and September 30th 2015, the Group did not provide any loans or similar benefits to members of its key management staff.

24.4 Transactions with related parties of members of the Management Board and the Supervisory Board

In the nine months ended September 30th 2016, the Group executed transactions with parties related to it through members of the Management Board and Supervisory Board. The transactions were executed on an arm's length basis and related to the Group's day-to-day operations, including mainly purchase of civil liability and property insurance policies for a total amount of PLN 9,964 thousand. As at September 30th 2016, the value of outstanding transactions with parties related to the Group through members of the Management Board and Supervisory Board was PLN 9,172 thousand.

In the comparative period, the Group did not execute any material transactions with parties related to it through members of the Supervisory Board.

25. Material events which occurred after the end of the interim period

On October 19th 2016, B8 Spółka z ograniczoną odpowiedzialnością Baltic Spółka komandytowo-akcyjna ("B8 SPV"), Fundusz Inwestycji Infrastrukturalnych – Dłużny Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych ("PFR", formerly "PIR", Polskie Inwestycje Rozwojowe S.A.) and Bank Gospodarstwa Krajowego ("BGK") entered into the following agreements on the financing of the development of the B8 oil field on the Baltic Sea: Senior Note Programme Agreement and Subordinated Note Programme Agreement. The relations between senior and subordinate creditors and the seniority of claims against the B8 SPV are regulated by the Intercreditor Agreement.

To finance the remaining expenditure on the project, the B8 SPV will obtain USD 42.5m under the Senior Note Programme Agreement with BGK and PLN 160m under the Subordinated Note Programme Agreement with PFR. Furthermore, pursuant to the Senior Note Issue Programme Agreement, the B8 SPV will be able to issue notes to cover its VAT liabilities up the amount of PLN 90m. The notes subscribed for by BGK are to be redeemed by March 31st 2018, while those subscribed for by PFR – by December 31st 2022.

Additionally, on October 19th 2016, the B8 SPV, PFR (formerly "PIR", Polskie Inwestycje Rozwojowe S.A.), BGK and Bank Polska Kasa Opieki S.A. ("Pekao") executed agreements on termination of the Senior Note Programme Agreement for financing of the development of the B-8 field up to USD 210m and PLN 80m, the Subordinated Note Issue Programme Agreement of up to PLN 430.6m, and the Intercreditor Agreement, executed on August 25th 2014.

II. QUARTERLY FINANCIAL INFORMATION OF THE PARENT FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30TH 2016

GRUPA LOTOS S.A.
Quarterly financial information
for the three and nine months ended September 30th 2016

STATEMENT OF COMPREHENSIVE INCOME

PLN '000	3 months ended	9 months ended	3 months ended	9 months ended
	Sep 30 2016	Sep 30 2016	Sep 30 2015	Sep 30 2015
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	4,940,528	12,547,506	5,074,900	15,817,530
Cost of sales	(4,414,861)	(10,901,201)	(4,909,968)	(14,402,721)
Gross profit	525,667	1,646,305	164,932	1,414,809
Distribution costs	(199,258)	(579,757)	(193,078)	(584,404)
Administrative expenses	(50,208)	(149,751)	(53,793)	(162,891)
Other income	2,121	19,542	1,561	33,103
Other expenses	(3,090)	(7,501)	(169,393)	(171,268)
Operating profit/(loss)	275,232	928,838	(249,771)	529,349
Finance income	83,565	177,802	56,536	136,441
Finance costs	(33,048)	(103,936)	(125,555)	(353,680)
Pre-tax profit/(loss)	325,749	1,002,704	(318,790)	312,110
Corporate income tax	(62,927)	(171,325)	44,406	(52,931)
Net profit/(loss)	262,822	831,379	(274,384)	259,179
Other comprehensive income/(loss)				
<i>Items that may be reclassified to profit or loss:</i>				
Cash flow hedges	155,599	121,711	13,960	(252,529)
Corporate income tax relating to cash flow hedges	(29,564)	(23,125)	(2,620)	48,046
Other comprehensive income/(loss), net	126,035	98,586	11,340	(204,483)
Total comprehensive income/(loss)	388,857	929,965	(263,044)	54,696

Earnings/(loss) per share (PLN)

Weighted average number of shares ('000)	184,873	184,873	184,873	184,873
- basic	1.42	4.50	(1.48)	1.40
- diluted	1.42	4.50	(1.48)	1.40

STATEMENT OF FINANCIAL POSITION

PLN '000	Sep 30 2016 (unaudited)	Dec 31 2015 (audited)
ASSETS		
Non-current assets		
Property, plant and equipment	6,046,184	6,114,824
Intangible assets	105,742	110,732
Shares	1,670,541	1,670,541
Deferred tax assets	21,319	216,348
Derivative financial instruments	19,834	681
Other non-current assets	356,599	244,205
Total non-current assets	8,220,219	8,357,331
Current assets		
Inventories	2,830,339	2,902,793
<i>- including mandatory stocks</i>	<i>1,904,279</i>	<i>1,824,511</i>
Trade receivables	1,952,801	1,308,973
Derivative financial instruments	24,400	206,893
Other current assets	698,120	604,592
Cash and cash equivalents	966,381	529,333
Total current assets	6,472,041	5,552,584
Total assets	14,692,260	13,909,915
EQUITY AND LIABILITIES		
Equity		
Share capital	184,873	184,873
Share premium	2,228,310	2,228,310
Cash flow hedging reserve	(602,302)	(700,888)
Retained earnings	5,139,134	4,307,755
Total equity	6,950,015	6,020,050
Non-current liabilities		
Bank borrowings	3,122,004	3,501,680
Derivative financial instruments	32,388	54,136
Employee benefit obligations	71,614	66,975
Other liabilities and provisions	-	580
Total non-current liabilities	3,226,006	3,623,371
Current liabilities		
Bank borrowings	1,291,408	1,960,205
Derivative financial instruments	54,918	110,845
Trade payables	1,738,035	1,112,285
Employee benefit obligations	36,168	44,011
Other liabilities and provisions	1,395,710	1,039,148
Total current liabilities	4,516,239	4,266,494
Total liabilities	7,742,245	7,889,865
Total equity and liabilities	14,692,260	13,909,915

STATEMENT OF CASH FLOWS
(prepared using the indirect method)

PLN '000	9 months ended Sep 30 2016 (unaudited)	9 months ended Sep 30 2015 (unaudited)
Cash flows from operating activities		
Net profit	831,379	259,179
Adjustments:	625,113	360,353
<i>Income tax expense</i>	171,325	52,931
<i>Depreciation and amortisation</i>	257,982	260,016
<i>Foreign exchange (gains)/losses</i>	66,544	130,371
<i>Interest and dividends</i>	(37,703)	(47,937)
<i>(Gain)/loss from investing activities</i>	(13,690)	(11,010)
<i>Settlement and valuation of derivative financial instruments</i>	(33,896)	4,716
<i>(Increase)/decrease in trade receivables</i>	(643,828)	51,691
<i>(Increase) in other assets</i>	(69,800)	(42,068)
<i>(Increase)/decrease in inventories</i>	57,585	(47,898)
<i>Increase/(decrease) in trade payables</i>	625,750	(422,543)
<i>Increase in other liabilities and provisions</i>	248,048	421,750
<i>(Decrease)/Increase in employee benefit obligations</i>	(3,204)	10,334
Income tax refund	1,543	-
Net cash from operating activities	1,458,035	619,532
Cash flows from investing activities		
Dividends received	36,254	61,686
Interest received	9,815	14,318
Disposal of assets held for sale	-	51,000
Sale of property, plant and equipment and intangible assets	13,807	33,573
Refund of additional contributions to LOTOS Kolej Sp. z o.o.'s equity	-	4,281
Repayment of loans advanced to LOTOS Gaz S.A. w likwidacji (in liquidation)	-	523
Purchase of property, plant and equipment and intangible assets	(172,352)	(126,766)
Option premium expenses	-	(4,907)
Additional contributions to equity – LOTOS Asphalt Sp. z o.o.	-	(450,006)
Loans advanced to LOTOS Petrobaltic S.A.	(173,609)	-
Cash earmarked for the EFRA project	51,597	(84,351)
Security deposit	(26,263)	(7,065)
Cash flows under cash pooling	47,908	(164,623)
Settlement of derivative financial instruments	(5,672)	7,045
Other investment cash outflows	-	-(16)
Net cash from investing activities	(218,515)	(665,308)
Cash flows from financing activities		
Proceeds from issue of Series D shares	-	981,551
Proceeds from bank borrowings	-	47,279
Repayment of bank borrowings	(366,405)	(361,071)
Interest paid	(85,757)	(79,151)
Settlement of derivative financial instruments	180,324	(158,479)
Net cash from financing activities	(271,838)	430,129
Total net cash flow	967,682	384,353
Effect of exchange rate fluctuations on cash held	(1,589)	(392)
Change in net cash	966,093	383,961
Cash at beginning of period	(31,136)	(188,568)
Cash at end of period	934,957	195,393

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Cash flow hedging reserve	Retained earnings	Total equity
PLN '000					
Jan 1 2016 (audited)	184,873	2,228,310	(700,888)	4,307,755	6,020,050
<i>Net profit</i>	-	-	-	831,379	831,379
<i>Other comprehensive income, net</i>	-	-	98,586	-	98,586
Total comprehensive income	-	-	98,586	831,379	929,965
Sep 30 2016 (unaudited)	184,873	2,228,310	(602,302)	5,139,134	6,950,015
Jan 1 2015 (audited)	184,873	2,229,626	(412,535)	4,344,812	6,346,776
<i>Net profit</i>	-	-	-	259,179	259,179
<i>Other comprehensive loss, net</i>	-	-	(204,483)	-	(204,483)
Total comprehensive income/(loss)	-	-	(204,483)	259,179	54,696
<i>Cost of issue of Series D shares</i>	-	(1,316)	-	-	(1,316)
Sep 30 2015 (unaudited)	184,873	2,228,310	(617,018)	4,603,991	6,400,156

APPROVAL OF QUARTERLY FINANCIAL REPORT

This quarterly financial report was approved for issue by the Management Board on October 25th 2016.

Signatures of the Management Board members and the person responsible for keeping the accounting books of Grupa LOTOS S.A.

President of the Management Board

Robert Pietryszyn

Vice President of the Management Board, Chief Strategy
and Development Officer

Mateusz Aleksander Bonca

Vice President of the Management Board, Chief Operating
Officer

Marcin Jastrzęski

Vice President of the Management Board, Chief Financial
Officer

Mariusz Machajewski

Vice President of the Management Board, Corporate Affairs

Przemysław Marchlewicz

Chief Accountant

Tomasz Południewski