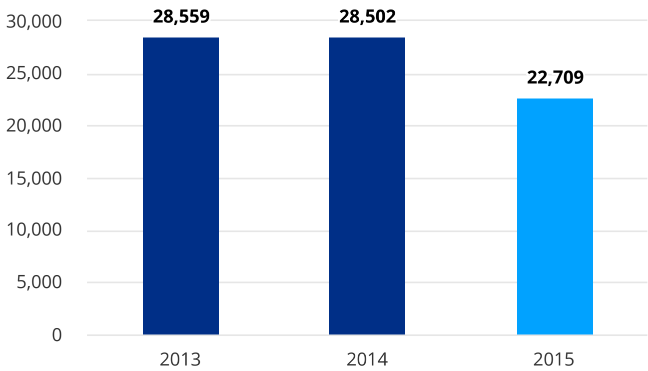
Acting innovatively – financially stable

The drop in revenue in 2015 was caused primarily by falling prices of crude oil and petroleum products on global markets, driving down revenue in both upstream and downstream segments (average selling prices of petroleum products fell by 26.5%).

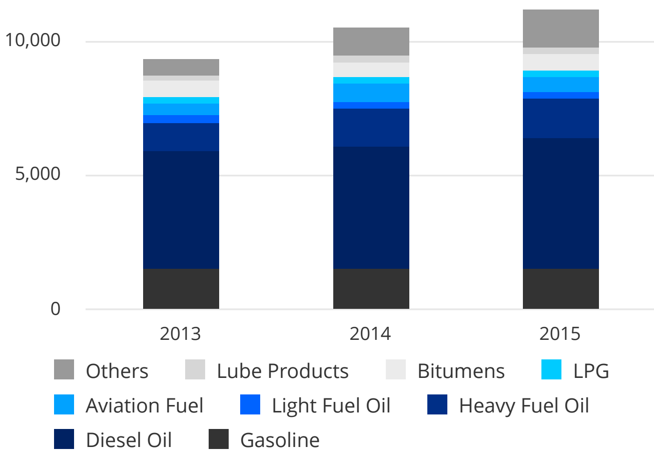
Sales volumes, however, were up. In Poland, the increase was mainly attributable to rising volumes of diesel oil sold through wholesale and retail channels, higher sales of bunker fuel following changes in the sulfur content requirements in the SECA area, and increased sales of LPG.

Export sales grew, supported by very attractive refining margins. As a result, in 2015, it was profitable to maximise production abroad even at prices lower than on the domestic market.

Revenue (PLNm)



LOTOS Group's sales by key products (in thousand tonnes)



PLN 122.8m – year-on-year growth (+10.6% on 2014) in the LOTOS Group's distribution costs, chiefly driven by 8.4% higher sales volumes and higher average USD/PLN exchange rate during the year (up19.7% on 2014)

What were the drivers of the LOTOS Group's operating result in 2015?

A year-on-year increase of PLN 1,425m in gross profit achieved mainly thanks to higher decrease in the cost of sales than in the revenue

In 2015, cost of sales reported by the LOTOS Group stood at **PLN 20,249.0m** (down 26.3% on 2014). In the same period, the estimated unit cost of sales was **PLN 1,803/tonne** (down 32.0% on 2014). The unit sales margin in 2015 came in at **PLN 219/tonne** (up 119.0% on 2014). The LOTOS Group's consolidated gross profit for 2015 was **PLN 2,460.4m** (up PLN 1,425.1m on 2014).

Higher distribution costs resulting from growing sales volumes and foreign exchange movements

Distribution costs grew by PLN 122.8m (up 10.6% on 2014), chiefly on the back of 8.4% higher sales volumes and higher average USD/PLN exchange rate during the year (up 19.7% on 2014).

Net other expenses

In 2015, the LOTOS Group reported net other expenses of PLN 293.0m, including chiefly PLN 161m in the provisions for the risk related to the challenging of the right to deduct VAT by the tax authorities.[1] Net other expenses were also strongly affected by the recognition of impairment losses of approximately PLN 69m on Lithuanian assets related to the AB LOTOS Geonafta Group's deposits, an impairment loss of approximately PLN 12m on the Sambia E area, and an impairment loss of PLN 8m on service stations. Other factors included the ca. PLN 15m charge to expenses representing the net value of liquidated intangible exploration and evaluation assets – Norwegian licences (PL362, PL035B, PL503), expenditure write-offs and costs related to the B8 project (ca. PLN 41m), and remeasurement of the decommissioning provision as a result of the ca. PLN 10m increase in the estimated cost of decommissioning of the MOPU (Mobile Production Offshore Unit) from the Yme field in Norway.

[1] Pursuant to the decision of the Tax Audit Office; see Note 9.4 to the consolidated financial statements for 2015.

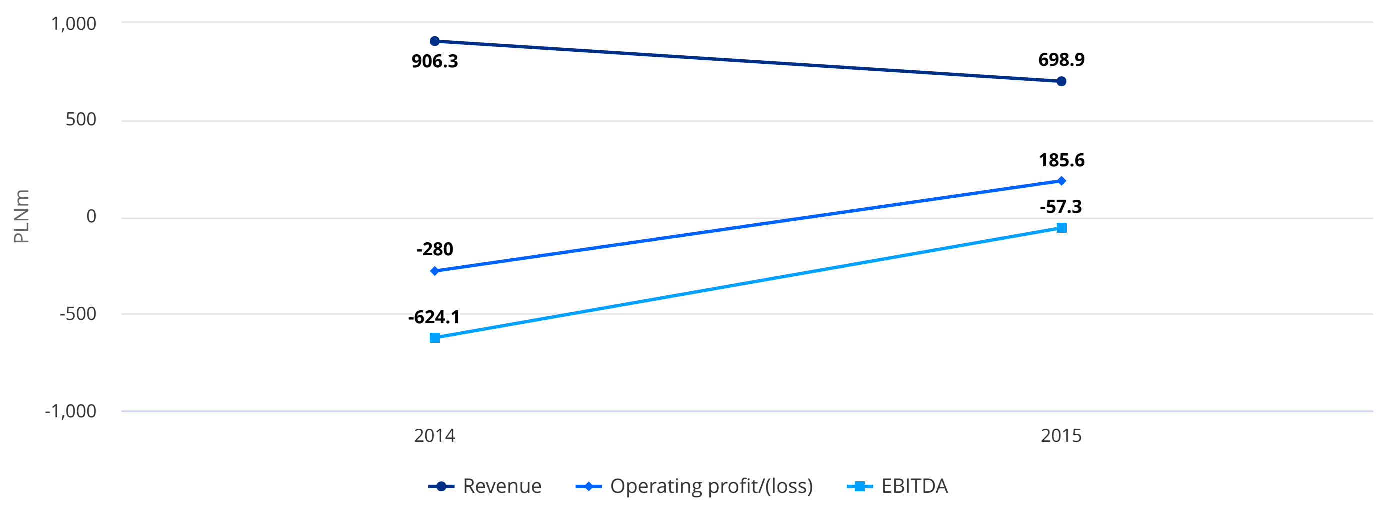
Operating profit

The LOTOS Group's operating profit for 2015, totalling **PLN 423.4m**, included a PLN 449.0m operating profit in the downstream segment, offset by a PLN -57.3m operating loss in the upstream segment.

> *In 2015, the LOTOS Group significantly reduced operating losses in the upstream segment and at the same time reported a profit in the downstream segment, despite lower revenue earned in both segments.*

Upstream segment's key financial data

Upstream segment's key financial data (PLNm)

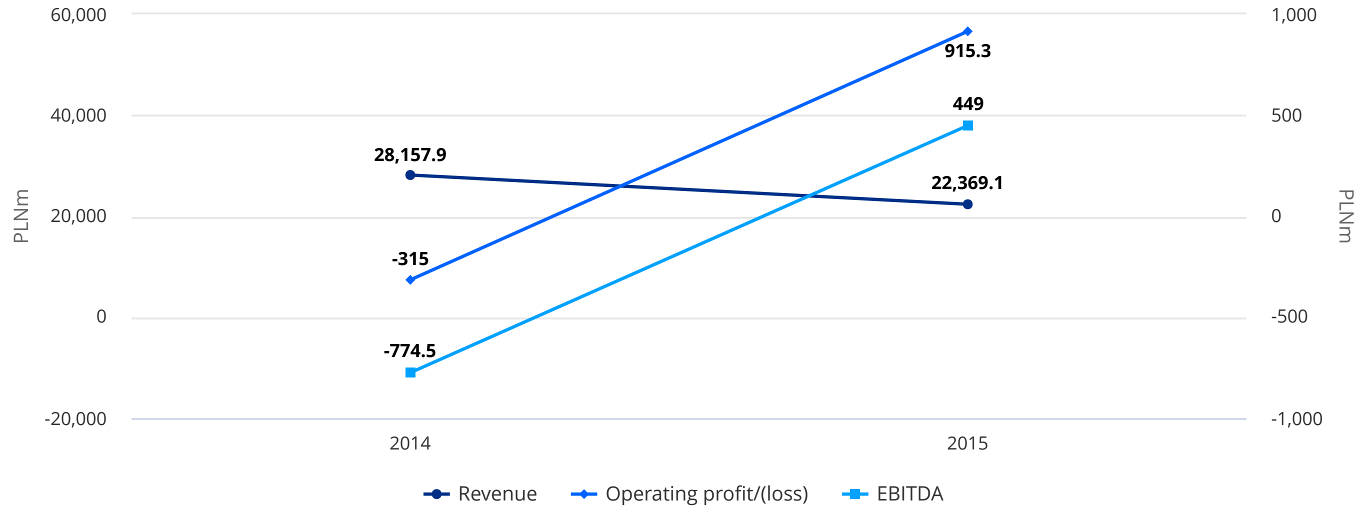


The decrease in the upstream segment's revenue in 2015 (down 22.9% on 2014) was driven primarily by falling prices of crude oil and petroleum products on global markets, offset by improved crude oil and natural gas sales volumes and a higher average annual USD/PLN exchange rate.

Weighing down on the upstream segment's 2015 operating result were non-recurring items (mainly impairment losses and asset liquidation), valued at some PLN 151m (2014: PLN 785m, including mainly impairment losses and write-offs on discontinued projects). The impact of non-recurring items was smaller than in 2014, which translated into the LOTOS Group's lower operating loss of PLN 57.3m. The year-on-year change in EBITDA followed from a PLN 101.2m reduction in depreciation and amortization.

Downstream segment's key financial data

Downstream segment's key financial data (PLNm)



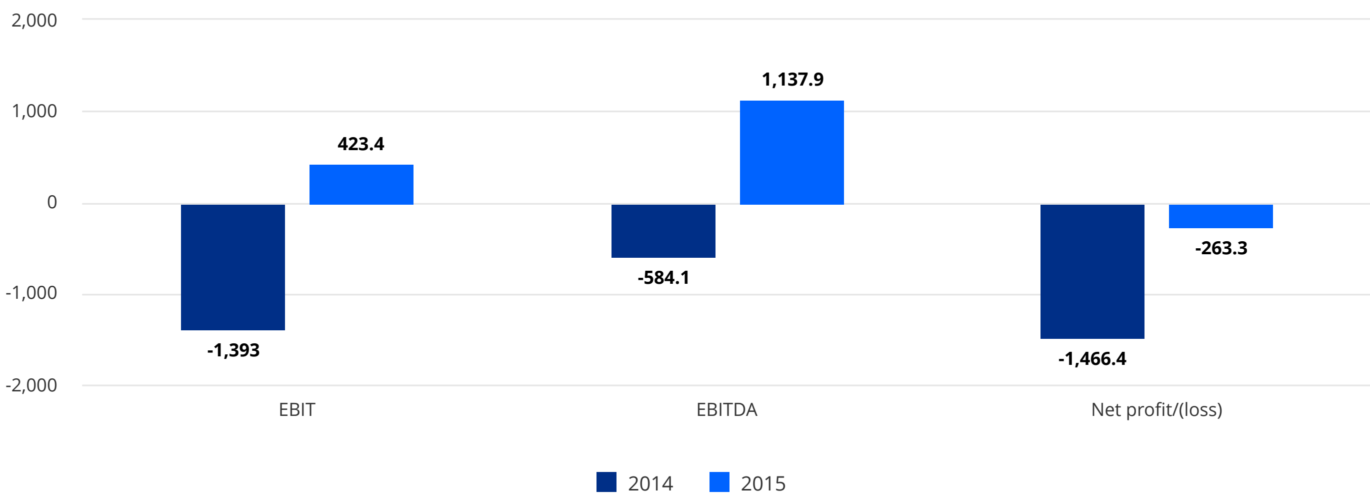
The lower revenue posted by the downstream segment in 2015 relative to 2014 was due mainly to a 26.5% fall in average selling prices, caused by lower prices of petroleum products on global markets, offset by a higher USD/PLN exchange rate.

In 2015, the LOTOS Group's downstream segment posted operating profit of PLN 499.0m. The key factors contributing to the year-on-year change in operating result included PLN 450.9m inventory write-downs recognized in 2014 and the related lower cost of products sold in H1 2015. At the same time, a plunge in crude oil and petroleum products prices in H2 2015, and remeasurement of inventories of raw materials, products, semi-finished products and merchandise held at the end of 2015, performed to reflect the current prices, reduced the operating result by PLN 264.2m (inventory write-down in 2015).

LOTOS Group' net loss reduction

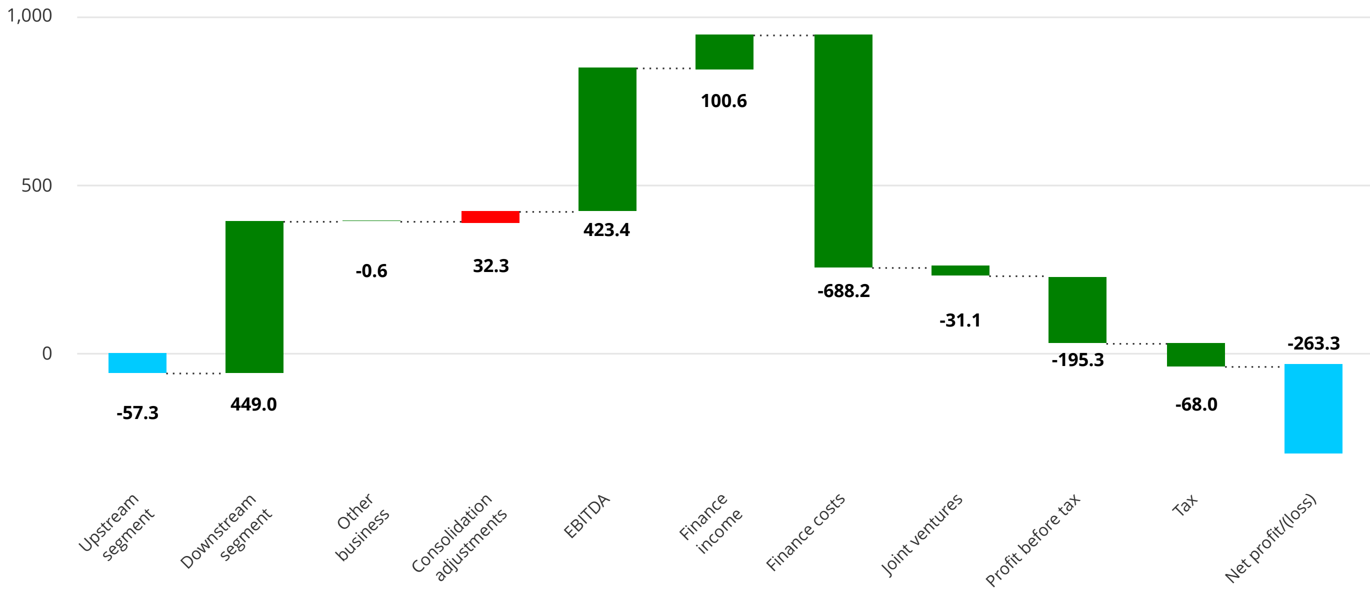
> *In 2015, the LOTOS Group considerably improved its operating performance and reduced the net loss.*

Key financial data



The year-on-year improvement at the net profit/(loss) level was caused mainly by stronger operating performance in both business segments. In 2015, the negative effect of finance costs (mainly exchange differences and interest on debt and commissions) on the net profit/(loss) was amplified by a decrease in deferred tax assets, following from partial expiry and loss of the right to offset tax losses brought forward. In 2014, the adverse effect of finance activity totalling PLN 730.7m was partly offset by the positive impact of an increase in deferred tax assets.

Consolidated financial performance of the LOTOS Group in 2015 (PLNm)



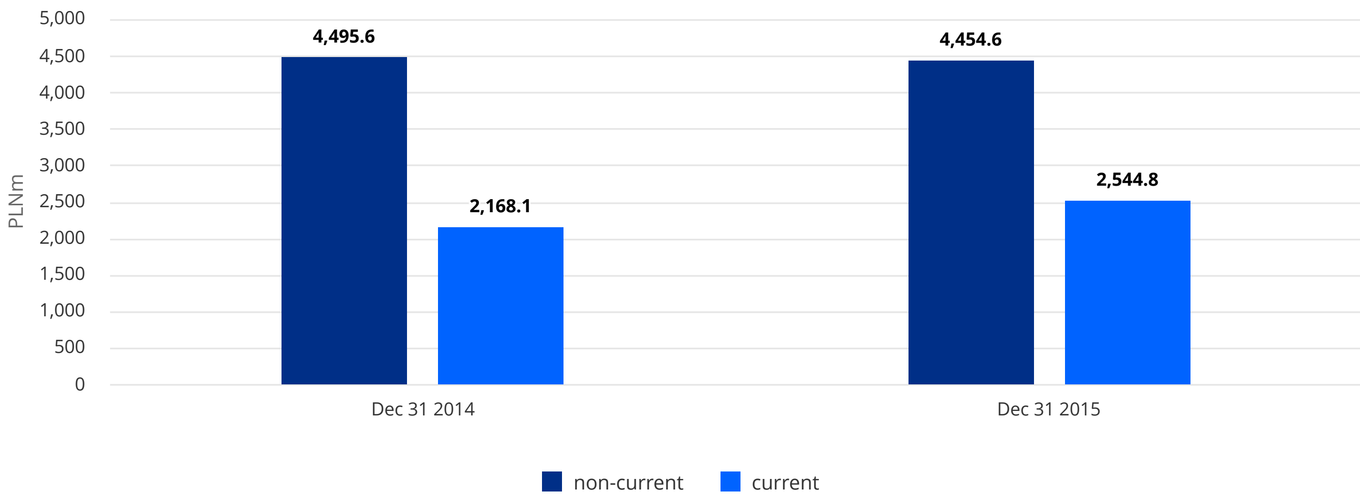
Efficient debt management

> *Efficient debt management in 2015 translated into a lower rate of debt growth relative to the capital expenditure incurred.*

As at December 31st 2015, the LOTOS Group's financial debt totalled PLN 6,999.3m, up PLN 335.6m on December 31st 2014. The increase was chiefly related to a higher USD exchange rate (up PLN 0.39/USD on December 31st 2014.) 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 73.9% (up 9.5pp on December 31st 2014).

Liabilities under borrowings, other debt instruments, and finance lease liabilities

Liabilities under borrowings, other debt instruments, and finance lease liabilities (PLNm)



As at December 31st 2015 and December 31st 2014, the LOTOS Group complied with its financial covenants, including:

- requirement to maintain Tangible Consolidated Net Worth ratio at the level specified in the facility agreements or higher;
- requirement to maintain Loan to Pledged Inventory Value ratio at the level specified in the facility agreement or lower.

*In 2015, the LOTOS Group financed **investment projects** (negative cash flows from investing activities) with positive cash flows from operating activities and, to a lesser extent, with cash flows from financing activities, which is indicative of the Group's improving financial position.*

Cash flows

(PLNm)	2015	2014
Cash flows from operating activities	1,488.1	1,380.5
Cash flows from investing activities	-1,162.0	-958.3
Cash flows from financing activities	114.7	-597.3