



Management's Discussion and Analysis of Q4 2015 consolidated financial results

This is the translated version originally issued in Polish

GRUPA LOTOS S.A.

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

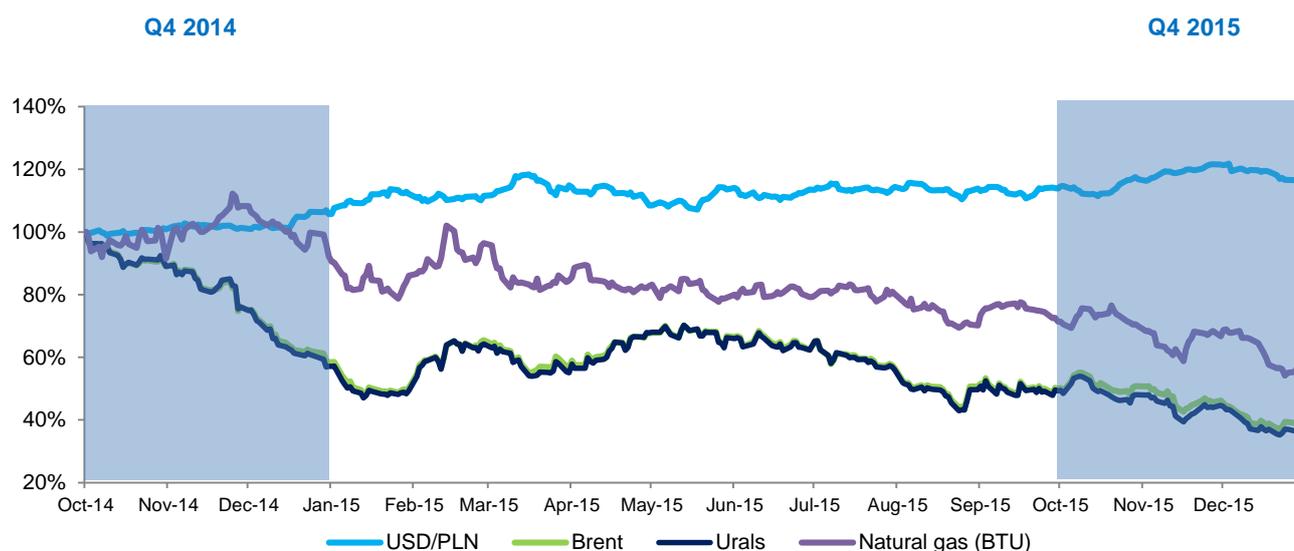
1	Market environment.....	3
2	Upstream segment	5
3	Downstream segment	9
4	Other business	15
5	Consolidated statement of comprehensive income.....	15
6	Consolidated statement of financial position.....	19
7	Consolidated statement of cash flows.....	21

An excel file with the operational and financial data for Q4 2015 and the previous reporting periods is published in the Investor Relations section of our website as [“databook”](#).

1 Market environment

- Crude oil and natural gas prices trending downwards (down 43% or ca. USD 33/bbl yoy and down 33.5% or ca. USD 15.6/boe yoy, respectively)
- Year-on-year rise in the gasoline crack spread, a key component of LOTOS' model barrel (up by approximately 19% yoy), combined with continued year-on-year and quarter-on-quarter declines in middle distillate crack spreads and a significant increase in the Brent/Urals spread (up by approximately by 74% yoy)
- Year-on-year appreciation of the US dollar against the zloty at the end of Q4 2015 (up by approximately 11% year) and increase of the average quarterly USD/PLN exchange rate (up by approximately 15%)
- Grupa LOTOS' average model refining margin during the quarter (taking into account the Brent/Urals spread) at USD 6.21/bbl

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



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

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

USD/bbl	Q4 2015	Q3 2015	Q4 2014	Q4 2015 /Q3 2015	Q4 2015 /Q4 2014
DATED Brent FOB prices ⁽¹⁾	43.66	50.44	76.63	-13.4%	-43.0%
Brent/Urals spread ⁽¹⁾	2.68	1.41	1.54	90.1%	74.0%
UK NBP natural gas prices ⁽²⁾	30.90	35.71	46.50	-13.4	-33.5%
Model refining margin ⁽³⁾	6.21	7.41	7.32	-16.2%	-15.2%

⁽¹⁾ and ⁽²⁾ Source: Thomson Reuters.

⁽²⁾ To ensure comparability, the UK NBP natural gas prices have been converted from USD/MWh to USD/boe, using the conversion factor of 1.6282 MWh/boe.

⁽³⁾ In line with the methodology applied by the Company, the model margin was computed based on Thomson Reuters data, which indicate a long-term direction of trends in prices based on which the Company conducts its trading activity. In a shorter term, the prices used to compute the model margin may differ from those used in the course of trading activity.

Product cracks⁽¹⁾

USD/bbl	Q4 2015	Q3 2015	Q4 2014	Q4 2015 /Q3 2015	Q4 2015 /Q4 2014
Gasoline	14.69	22.97	12.35	-36.1%	18.9%
Naphtha	5.53	-0.55	-6.12	-	-
Diesel oil (10 ppm)	15.31	16.89	20.61	-9.4%	-25.7%
Light fuel oil	12.98	14.97	16.85	-13.3%	-23.0%
Aviation fuel	14.18	14.54	20.24	-2.5%	-29.9%
Heavy fuel oil	-11.92	-10.62	-11.86	-12.2%	-0.5%

⁽¹⁾ Product crack spread is calculated as the difference between the price per barrel of a given product (price per tonne reflecting an appropriate density factor) and the price of Urals crude (the Brent crude price adjusted for the Brent/Urals spread).

Source: Thomson Reuters.

Exchange rates

USD/PLN	Q4 2015	Q3 2015	Q4 2014	Q4 2015 /Q3 2015	Q4 2015 /Q4 2014
PLN/USD exchange rate at end of period	3.90	3.78	3.51	3.2%	11.1%
Average PLN/USD exchange rate	3.89	3.77	3.37	3.2%	15.4%

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

In Q4 2015, the LOTOS Group's financial performance was mainly affected by:

Feedstock and products:

- **Downstream segment:**

- Declining crude oil prices, which reduced the cost of sales, and higher gasoline crack allowed the Company to increase to 96.5% the refinery's capacity utilisation rate to maximise refining margins, and helped generate normalised LIFO-based EBITDA of approximately PLN 486.4m, up by approximately 32% yoy,
- Strong year-on-year declines in global prices of middle distillates, including diesel oil, aviation fuel and light fuel oil (down by over 40% yoy) dragged down revenue (-20% yoy),
- Stable year-on-year heavy fuel oil cracks supported profitability of crude refining with higher potential for medium and heavy distillate yields at the Company's refinery (with heavy fuel oil accounting for nearly 20% of the LOTOS [model barrel](#)).

- **Upstream segment:**

- Year-on-year drop of Brent Dated crude prices by approximately 43% and of natural gas prices by approximately 33.5% at the UK National Balancing Point, partly offset by the strengthening of the average quarterly USD/PLN exchange rate (up 15%) reduced adjusted EBITDA to PLN 70.5m (-40% yoy).

Exchange rates:

- Higher average quarterly USD/PLN exchange rate (up by approximately 15% yoy) offset the negative effect of lower cracks on middle distillates on the downstream segment's performance, and partly offset the negative effect of low crude oil and gas prices on the upstream segment's performance,
- Stable upward trend in USD/PLN exchange rate in Q4 2015 resulted in low foreign exchange gains from operating activities of approximately PLN 10m.

2 Upstream segment

- Acquisition of the Sleipner production assets closed
- At the end of 2015, the average daily output exceeded the LOTOS Group's strategic target in the upstream segment.

Crude oil and natural gas reserves, production and sales

Crude oil and natural gas reserves as at (mboe) ⁽¹⁾	Dec 31 2015	Sep 30 2015	Dec 31 2014
Norway	19.12	3.46	4.86
Poland	40.58	41.11	40.00
Lithuania	7.14	7.25	7.62
Total	66.84	51.82	52.48

Production (boe/d) ⁽²⁾	Q4 2015	Q3 2015	Q4 2014	Q4 2015/ Q3 2015	Q4 2015/ Q4 2014
Norway	6,739	7,230	9,008	-6.79%	-25.19%
Poland	5,829	3,232	3,342	80.35%	74.42%
Lithuania	1,203	1,278	1,443	-5.87%	-16.63%
Total	13,771	11,740	13,793	17.30%	-0.16%

Production (boe)	Q4 2015	Q3 2015	Q4 2014	Q4 2015/ Q3 2015	Q4 2015/ Q4 2014
Norway	552,526	621,825	621,570	-11.14%	-11.11%
Poland	524,567	294,070	307,417	78.38%	70.64%
Lithuania	110,682	117,615	132,713	-5.89%	-16.60%
Total	1,187,775	1,033,510	1,061,700	14.93%	11.87%

Sales of own products (boe)	Q4 2015	Q3 2015	Q4 2014	Q4 2015/ Q3 2015	Q4 2015/ Q4 2014
Norway	446,902	601,312	641,223	-25.68%	-30.30%
Poland	563,044	205,648	247,335	173.79%	127.64%
Lithuania	90,887	90,740	155,113	0.16%	-41.41%
Total	1,100,833	897,700	1,043,671	22.63%	5.48%

⁽¹⁾ 2P – proved and probable reserves (according to the SPE-PRMS classification).

⁽²⁾ Production was calculated based only on the days of mechanical availability of the production infrastructure.

LOTOS Petrobaltic S.A. (LPB)

In Q4 2015, LPB continued to produce crude oil from the B3 field.

The special purpose vehicle B8 Sp. z o.o. Baltic S.K.A. ran initial production operations under the B8 oil field development project. In December 2015, a downhole pump was installed and started up, and oil production commenced. First oil from the field was sold by LOTOS Petrobaltic in late December 2015.

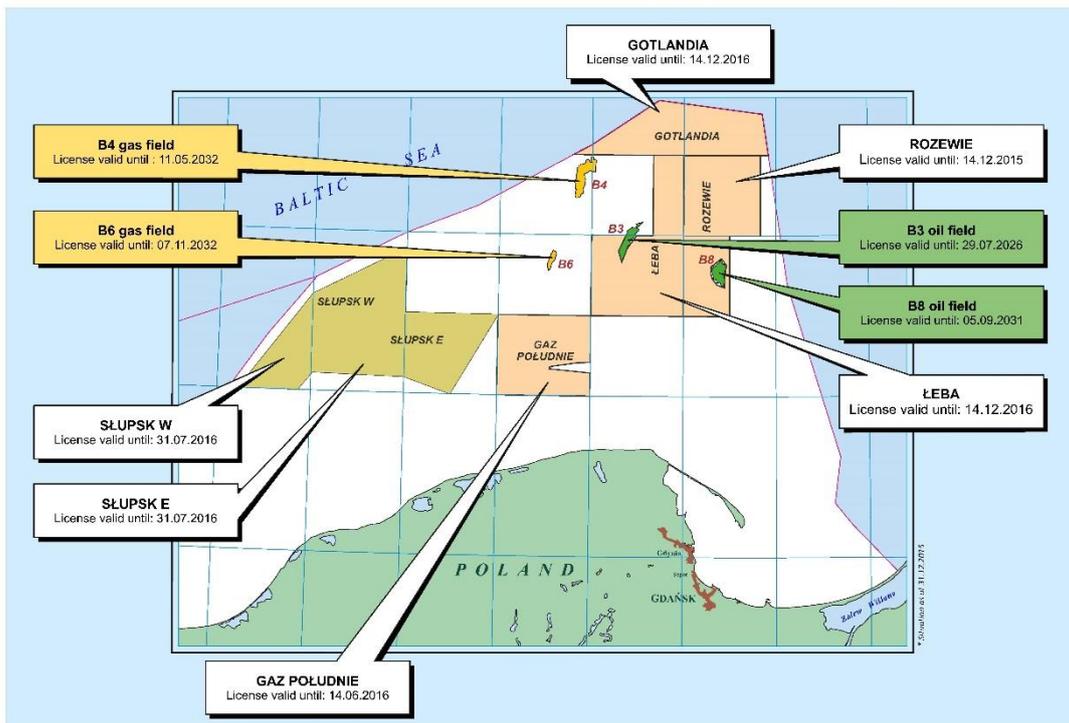
LPB and its partner CalEnergy Resources Poland Sp. z o.o. continued preparations for the development of the B4 and B6 gas fields (the Baltic Gas Project), which included engineering design work (detailed engineering design for the fields' development).

Based on the findings of geological and economic analyses, LPB decided to carry on with exploration and appraisal operations in the Łeba and Rozewie licence areas.

To enable the operations to continue, at the beginning of November 2015 applications were filed with the Ministry of Environment to convert the Łeba and Rozewie licences into combined oil and gas exploration, appraisal and production licences.

On September 30th 2015, LPB decided to relinquish the Sambia E licence for exploration and appraisal of crude oil and natural gas deposits due to infeasibility of the analysed method of development of deposits within the licence area. By its decision of December 10th 2015, the Minister of Environment declared expiry of the licence with effect from October 1st 2015.

Licences held by LOTOS Petrobaltic Group in the Baltic Sea as at December 31st 2015



Source: In-house analysis.

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

In Q4 2015, LEPN, operating in a consortium, continued to produce gas and condensate from the Heimdal fields (Atla, Vale, and Skirne).

On October 30th 2015, LOTOS Norge entered into an agreement with ExxonMobil Exploration and Production Norway AS of Stavanger, Norway, to acquire a portfolio of assets in the Sleipner area on the Norwegian Continental Shelf.

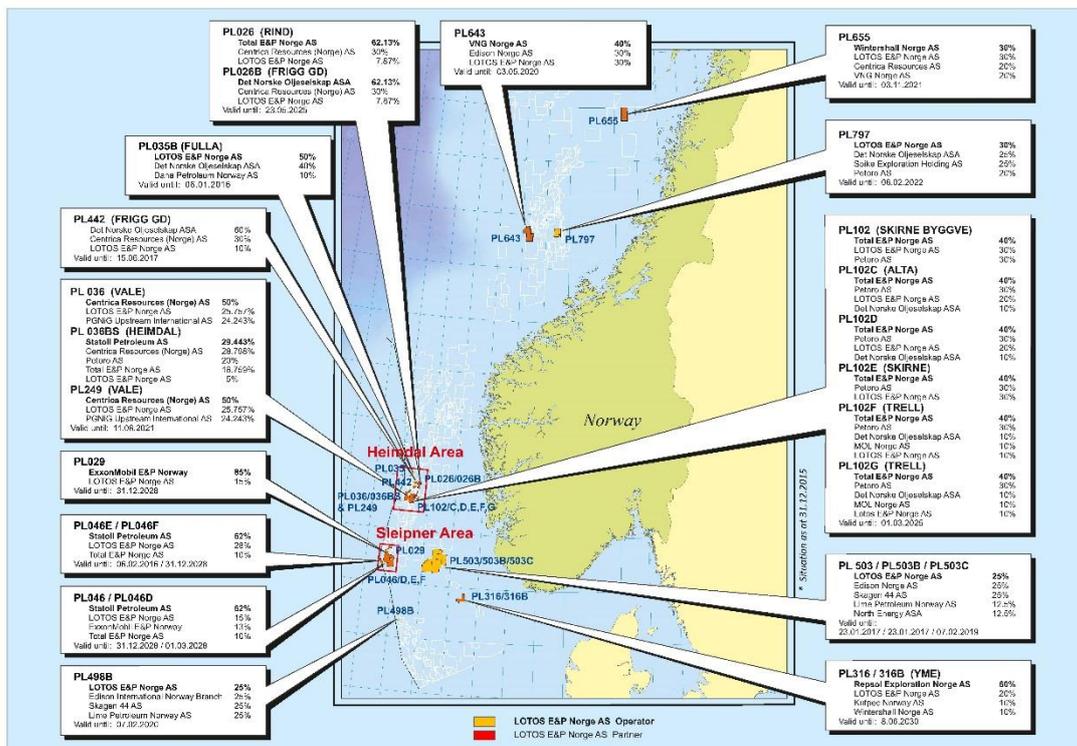
The assets comprise 15% interests in the following production fields in the Sleipner area: Sleipner Ost, Sleipner Vest, Gungne and Loke (the operator on each of the fields is Statoil). Sleipner is a major gas hub (distribution centre) on the Norwegian Continental Shelf, linked to Continental Europe and Great Britain by gas pipelines. The acquired assets also include a 28% interest in the Alfa Sentral field, which is currently at a pre-development stage. Production from the field is expected to commence in 2020.

The 2015 estimated average daily production from the acquired fields attributable to LOTOS Norge is approximately 16,000 boe/d. The output is 70% natural gas and 30% condensate (light crude oil). The estimated average daily production in 2016–2018 is approximately 9,500 boe/d. Proven and probable (2P) recoverable volumes of gas (70%) and condensate (30%) in the producing fields, attributable to the interests acquired by LOTOS Norge, amount to 20.8 mboe. 2C contingent resources in the discoveries attributable to LOTOS Norge's interest amount to 17.6 mboe.

The transaction was executed by unlocking the tax asset generated from the Yme project, without having to use equity or debt financing. The base purchase price was USD 160m. An additional payment of USD 25m is conditional on the approval of the Alfa Sentral field development plan by the Norwegian regulator (the Ministry of Petroleum and Energy). The parties also agreed on a price adjustment mechanism linked to oil price movements in 2016–2020.

On December 22nd 2015, the conditions precedent set out in the agreement, which required obtaining regulatory approvals from the Norwegian Finance and Petroleum Ministries, were satisfied. The transaction was closed on December 31st 2015.

Licences held by LOTOS Exploration & Production Norge AS as at December 31st 2015



Source: In-house analysis.

AB LOTOS Geonafra Group

In Q4 2015, the AB LOTOS Geonafra Group continued to produce crude oil from the Girkaliai, Kretinga, Nausodis, Genciu, Vezaiciai, Liziai and Abilinga onshore fields.

3 Downstream segment

- Normalised LIFO-based EBITDA of the downstream segment in Q4 2015 at PLN 420.4m (+71% yoy)
- High capacity utilisation of the Grupa LOTOS refinery at 96.5%
- EFRA project – contracts signed for the construction of key units; disbursements under the credit facility
- 35 new locations added to the LOTOS service station network as of beginning of 2016 (17 new stations added in Q4 2015).

Crude slate ⁽¹⁾

'000 tonnes	Q4 2015	Q3 2015	Q4 2014	Q4 2015 / Q3 2015	Q4 2015 / Q4 2014
		2,555.3	2,650.6	2,482.4	-3.6%
including:					
Urals crude	1,861.0	1,979.3	2,170.3	-6.0%	-14.3%
Rozewie crude	48.6	33.2	33.2	46.4%	46.4%
Lithuanian crude	14.2	15.9	16.5	-10.7%	-13.9%
Lubiatów crude	77.8	45.8	0.9	69.9%	8,544.4%
Other types of crude	553.7	576.4	261.5	-3.9%	111.7%

The refinery's capacity utilisation rate in Q4 2015 was 96.5% (up 2.6pp yoy). With its operations stable, the refinery maintained throughput of 2,555.3 thousand tonnes (up 2.9% yoy).

On June 26th 2015, Grupa LOTOS S.A. launched the EFRA Project together with its subsidiary LOTOS Asphalt, following approval by the Company's Supervisory Board of the terms of financing and related collateral, and a share capital increase at LOTOS Asphalt. Further steps were possible once LOTOS Asphalt, which provides 79% of financing for the Project, executed a credit facility agreement with eight institutions and signed the financing and project documentation.

The value of the EFRA Project capex totals EUR 517.8m, and the project is scheduled for completion in mid 2018.

In mid July 2015, the Project entered the engineering design phase after LOTOS Asphalt and KT Kinetics Technology signed the engineering, procurement and construction (EPC) contract for turn-key delivery of the following main units: the Delayed Coking Unit (DCU), the Coker Naphtha Hydrotreating Unit (CNHT) and the Hydrogen Generation Unit (HGU).

To secure demand for the by-product from the DCU, Grupa LOTOS signed a 10-year contract to sell approximately 350,000 tonnes of coke (produced as part of the EFRA Project) with Oxbow Energy Solutions B.V. of the Netherlands.

On October 9th 2015, LOTOS Asphalt received a notice from the facility agent confirming the satisfaction of all conditions precedent for disbursement of funds under the credit facility agreement, for an estimated amount of approximately PLN 1,926m, executed between LOTOS Asphalt and a syndicate of financial institutions comprising: Bank Gospodarstwa Krajowego (which is to advance financing under the Polish Investments Programme), Bank Millennium S.A., Bank Polska Kasa Opieki S.A. (coordinator of the EFRA Project financing), Bank Zachodni WBK S.A., Powszechna Kasa Oszczędności Bank Polski S.A., Powszechny Zakład Ubezpieczeń S.A., Powszechny Zakład Ubezpieczeń na Życie S.A. and Société Générale. The agreement provides for a USD-denominated investment facility (TLF) and a PLN-denominated working capital facility.

For more details, see [Current Report No. 4/2015](#), [Current Report No. 20/2015](#), [Current Report No. 28/2015](#).

On October 21st 2015, Grupa LOTOS and Kinetics Technology S.p.A. (KT) signed a contract for the construction of a Hydrowax Vacuum Distillation Unit (HVDU), which forms part of the EFRA complex. The annual processing capacity of the HVDU is approximately 800,000 tonnes hydrowax (residue from the hydrocracking unit). Hydrowax, after being separated by distillation, will be fed into other units for further refining, thereby increasing the flexibility of crude processing at the LOTOS refinery, and improving the yields and quality of finished products, including base oils. The HVDU will be constructed in Gdańsk, within the premises of the Grupa LOTOS refinery, next to the DCU. The contractor undertook to complete the project by the end of January 2018. Grupa LOTOS estimates its value at approximately EUR 36m, or PLN 150m.

By the end of 2015, EPCM (engineering, procurement, and construction management) contracts for inter-unit connections and auxiliary facilities were signed. In addition to the design and contract execution activities, construction works (such as construction of an electrical substation and a new pipeline flyover) also commenced.

The Group was also in the process of obtaining building permits (by December 11 permits were obtained for the facilities covered by the EPCM contract for inter-unit connections and auxiliary facilities). As at December 31st 2015, the overall progress of work under the EFRA Project was 7.7%, compared with the planned 3.6%.

Refining products ⁽¹⁾

	Q4 2015	Q3 2015	Q4 2014	Q4 2015 /Q3 2015	Q4 2015 /Q4 2014
Total output	2,707.5	2,756.2	2,675.2	-1.8%	1.2%
Gasolines	402.7	355.1	367.4	13.4%	9.6%
Naphtha	139.4	138.9	57.0	0.4%	144.6%
Diesel oils	1,119.6	1,200.5	1,114.9	-6.7%	0.4%
Light fuel oils	83.5	58.2	89.6	43.5%	-6.8%
Jet fuel	122.5	138.0	188.4	-11.2%	-35.0%
Heavy products ⁽²⁾	522.5	544.2	511.0	-4.0%	2.3%
Other ⁽³⁾	317.3	321.3	346.9	-1.2%	-8.5%

⁽¹⁾ The difference between the volume of crude oil processed and output of products stems from the fact that, apart from crude oil, the processing units and finished product blenders receive streams of biocomponents, enhancing additives and middle distillates purchased from third-party suppliers.

⁽²⁾ Heavy fuel oil and bitumen components.

⁽³⁾ Other products include fuel and technical gases, sulfur, base oils, xylene fraction, LPG, bunker fuel, extracts, raffinates, and slack wax.

Structure of sales in the downstream segment

Refining products, merchandise and materials (000' tonnes)	Q4 2015	Q3 2015	Q4 2014	Q4 2015 /Q3 2015	Q4 2015 /Q4 2014
	2,917.3	2,744.7	2,642.5	6.3%	10.4%
Gasolines	399.9	393.9	409.9	1.5%	-2.4%
Naphtha	139.4	138.9	57.0	0.4%	144.6%
Diesel oils	1,201.3	1,260.8	1,145.5	-4.7%	4.9%
Light fuel oils	77.9	54.7	87.1	42.4%	-10.6%
Jet fuel	118.4	124.8	185.0	-5.1%	-36.0%
Heavy products ⁽¹⁾	530.8	532.2	547.5	-0.3%	-3.1%
Crude oil for resale	243.0	0.0	0.0	-	-
Other petroleum products ⁽²⁾	206.6	239.4	210.5	-13.7%	-1.9%

⁽¹⁾ Heavy fuel oil and bitumen components.

⁽²⁾ Other products include gas liquids, base oils, lubricants, sulfur, xylene fraction, slack wax, reformate, bunker fuels, plasticizer.

Petroleum products market in Poland and LOTOS Group's sales in Q4 2015

Data for the period January–December 2015³

In Q4 2015, the consumption of fuels (i.e. diesel oil, gasolines and light fuel oil) in Poland grew by 6.3% yoy. In the reporting period, the gasoline and diesel markets expanded 3.7% and 8.2%, respectively, while the light fuel oil market shrank 6% in Q4 2015 alone.

In January–December 2015, overall demand for fuels in Poland grew by 7.2% yoy. Stronger consumption was seen across all product categories, i.e. light fuel oil (up 4.4%) diesel oil (up 8.4%), and gasolines (up 4.3%).

The LOTOS Group's share in the Polish fuel market in 2015 was 31.1% (32.3% in Q4 2015), exceeding the Group's 2015 strategic target of 30%. The pace of increasing the share in the Polish fuel market above the target is currently subject to sales optimisation measures to maximise margin. It may vary in subsequent periods depending on the supply and demand relations on individual micro markets.

⁽³⁾ Source: Based on data published by the Polish Organisation of Oil Industry and Trade (POPiHN).

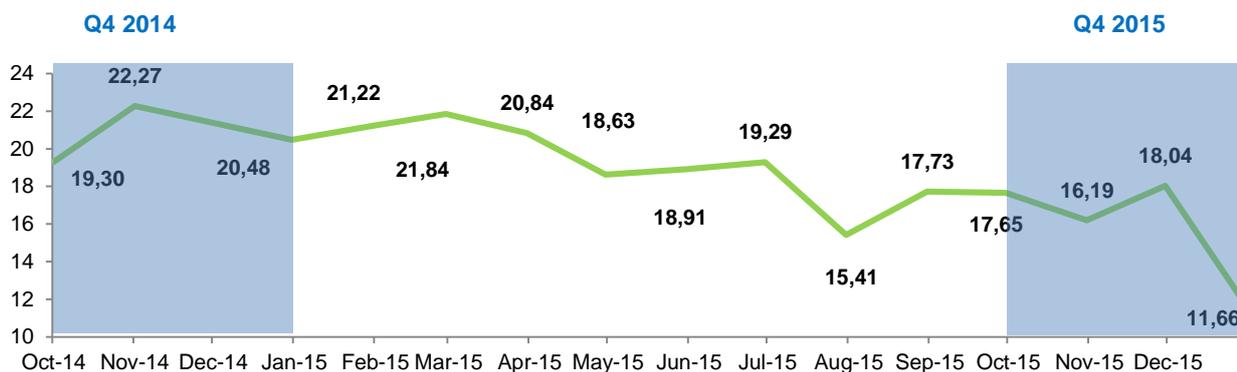
Diesel oil

In January–December 2015, the increase in diesel oil consumption brought significant benefits to companies that were not associated within the Polish Organisation of Oil Industry and Trade (POPiHN). Some 58% of the growth of domestic consumption growth was covered with diesel imports by non-POPiHN companies.

In Q4 2015, growth in imports by non-POPiHN companies accounted for 55.5% of the increase in domestic consumption of diesel oil.

Stronger demand for diesel oil, both in Q4 and in January–December 2015, was largely attributable to significantly lower retail prices (down 14% in Q4 2015 yoy), as well as improved macroeconomic situation in Poland (GDP growth and lower unemployment).

Diesel oil – average monthly crack margin, USD/bbl (October 2014–December 2015)



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

In Q4 2015, the volume of diesel oil sales by the LOTOS Group grew by 5% yoy, driven by higher domestic sales (up 8% yoy) resulting from the continued expansion of the retail network and increased sales in the wholesale channel.

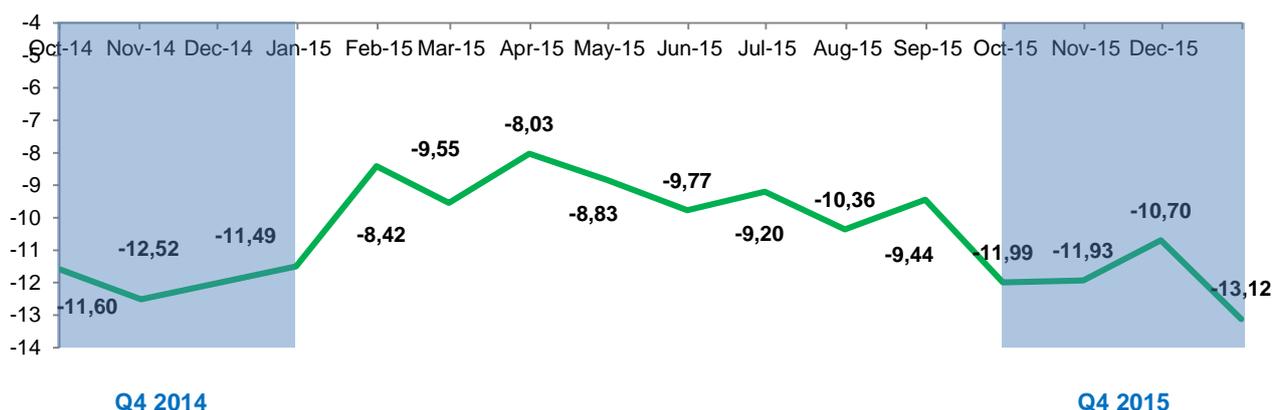
In the reporting period, exports fell 3% following optimisation of the refinery's operations.

In Q4 2015, the LOTOS Group secured a 33.5% share of the diesel oil market in Poland, with a 32.3% share in January–September 2015.

Heavy fuel oil

In Q4 2015, the average negative heavy fuel oil crack spread on global markets was close to level seen in the previous-year (USD 11.92/bbl in Q4 2015, vs. USD 11.86/bbl in Q4 2014). Despite the stable margins, the LOTOS Group recorded a 20% decline in heavy fuel oil exports, which was related to redirection of the product stream to bitumen production.

Heavy fuel oil – average monthly crack margin, USD/bbl (October 2014–December 2015)



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

Light fuel oil

Consumption of light fuel oil fell 6% yoy in Q4 2015 due to milder weather conditions in the period and market saturation in the first nine months of the year.

In the entire 2015, light fuel oil consumption grew 4.4%, mainly benefiting independent importers.

In Q4 2015, the LOTOS Group's sales of light fuel oil fell 10% yoy, reflecting a wider market trend. On a full-year basis, the Group's sales declined 2% yoy, mainly on weaker demand from regular customers.

In Q4 2015, the LOTOS Group secured a 37.4% share of the light fuel oil market in Poland, with a 35.2% share in January–September 2015.

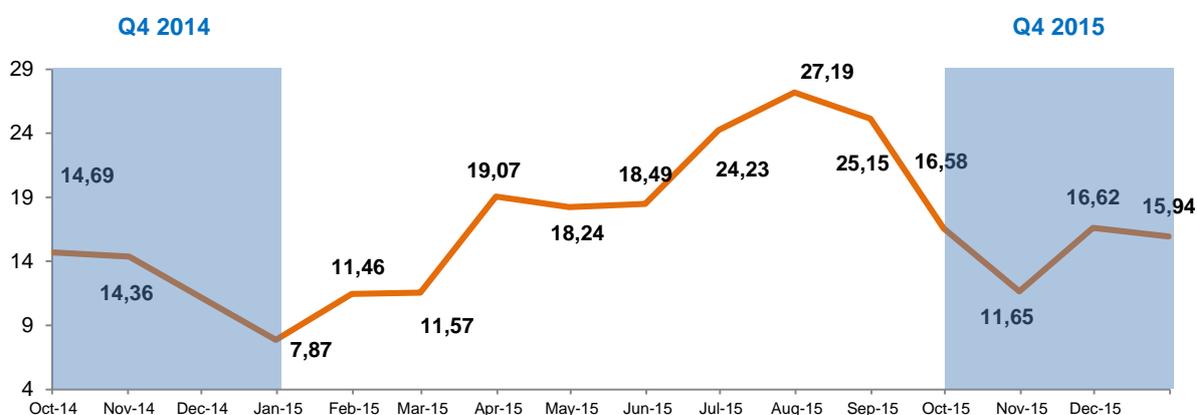
Motor gasoline

In Q4 2015, demand for gasoline grew by 3.7% yoy. The upward trend prevailing since Q3 2014 has been attributable to a substantial fall in retail prices. In the reporting period, the prices dropped by 12% yoy (or PLN 0.65 per litre). In the entire 2015, gasoline consumption rose 4.3%.

In Q4 2015, the LOTOS Group reduced its gasoline sales by 2% yoy. Lower output and, consequently, lower sales of gasoline in Q4 2015 were an effect of production process optimisation measures taken in response to the fast-changing crack spread environment. On a full-year basis, the volume of gasoline sold by the Group in 2015 rose 2%.

In Q4 2015, the LOTOS Group secured a 27.8% share of the gasoline market in Poland, with a 26.9% share in January–September 2015.

Motor gasoline – average monthly crack margin, USD/bbl (October 2014–December 2015)



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

Downstream segment's operating highlights

PLNm	Q4 2015	Q3 2015	Q4 2014	Q4 2015 /Q3 2015	Q4 2015 /Q4 2014
Revenue	5,179.9	5,614.4	6,471.5	-7.7%	-20.0%
EBIT	-195.2	-106.5	-928.1	-	-
Amortisation	120.3	116.3	114.3	3.4%	5.2%
EBITDA	-74.9	9.8	-813.8	-	-
LIFO-based EBIT	-189.0	211.5	-64.8	-	-
LIFO EBITDA	-68.7	327.8	49.5	-	-
Normalised LIFO-based EBITDA ⁽¹⁾	420.4	519.0	245.9	-19.0%	71.0%

⁽¹⁾Net of non-recurring items and excluding the theoretical LIFO write-down:

Q4 2015: inventory write-down, foreign exchange gains, impairment loss on service stations – PLN 489.1m in total;

Q3 2015: non-deductible VAT for 2010 and 2011, inventory write-down, foreign exchange gains on operating activities – PLN 191.2m in total;

Q4 2014: inventory write-down, foreign exchange losses, impairment loss on service stations, impairment loss on property, plant and equipment at LOTOS Asphalt, foreign exchange losses on operating activities – PLN 196.4m in total;

The downstream segment's revenue dropped 20.0% yoy as a result of a decline in the average net selling price. In Q4 2015, the average net selling price in the segment was PLN 1,776 per tonne, having decreased 27.5% yoy, chiefly on account of lower prices of petroleum products on global markets, partly offset by a the higher average USD/PLN exchange rate in the quarter. The effect of declining prices was partly mitigated by a 10.4% increase in the segment's sales volumes.

Sales of the downstream segment were down 7.7% qoq in Q4 2015, mainly on falling prices of petroleum products on global markets. In Q4 2015, the average net selling price in the segment was 13.2% (PLN 270 per tonne) lower compared with the preceding quarter.

The downstream segment's EBIT in Q4 2015 was PLN -195.2m, with the decline caused mainly by inventory write-downs of PLN 258.2m and, to a lesser extent, by an impairment loss on service stations of PLN 7.9m.

In Q4 2015, the downstream segment's LIFO-based EBITDA (accounting for the reversal of PLN -491.5m of theoretical write-downs computed based on the LIFO method), net of non-recurring items (normalised LIFO-based EBITDA), was PLN 420.4m (down 19.0% qoq and up 71.0% yoy).

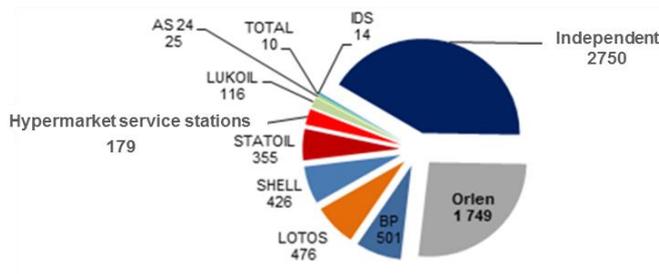
LOTOS service station network

Number of service stations in the LOTOS network as at December 31st 2015

	Dec 31 2015	Sep 30 2015	Dec 31 2014	Q4 2015 /Q3 2015	Q4 2015 /Q4 2014
Total	476	459	441	3.7%	7.9%
CODO	290	280	269	3.6%	7.8%
including: LOTOS OPTIMA	121	114	108	6.1%	12.0%
DOFO	186	179	172	3.9%	8.1%
including: LOTOS OPTIMA	73	68	61	7.4%	19.7%
franchise agreements signed	188	196	176	-4.1%	6.8%

As at the end of December 2015, the LOTOS Group operated a chain of 476 service stations. Thirty-five new service stations, including 25 sites in the LOTOS Optima economy segment, were added during the year.

Polish retail market as at December 31st 2015



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

Retail segment's operating highlights

PLNm	Q4 2015	Q3 2015	Q4 2014	Q4 2015 /Q3 2015	Q4 2015 /Q4 2014
Sales volume (thousand tonnes)	328.8	323.6	269.0	1.6%	22.2%
Revenue	1,475.8	1,539.7	1,401.4	-4.2%	5.3%
EBIT	-8.2	32.0	-11.5	-	-
Amortisation	16.6	16.2	15.8	2.5%	5.1%
EBITDA	8.4	48.2	4.3	-82.6%	95.3%

In Q4 2015, the retail segment reported an operating loss of PLN -8.2m, which was mainly driven by a PLN 7.9m impairment loss on service station assets, and low margins on fuel and non-fuel products, combined with higher marketing costs.

4 Other business

Other business – operating highlights ⁽¹⁾

PLNm	Q4 2015	Q3 2015	Q4 2014	Q4 2015 /Q3 2015	Q4 2015 /Q4 2014
Revenue	4.1	3.4	6.0	20.6%	-31.7%
EBIT	0.9	-0.5	1.4	-	-35.7%
Amortisation	1.7	1.7	0.5	0.0%	240.0%
EBITDA	2.6	1.2	1.9	116.7%	36.8%

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

5 Consolidated statement of comprehensive income

Operating highlights of the LOTOS Group

PLNm	Q4 2015	Q3 2015	Q4 2014	Q4 2015 /Q3 2015	Q4 2015 /Q4 2014
Revenue	5,225.8	5,710.4	6,575.8	-8.5%	-20.5%
EBIT	-319.4	-93.6	-1,074.9	-	-
Amortisation	174.2	176.0	218.1	-1.0%	-20.1%
EBITDA	-145.2	82.4	-856.8	-	-
LIFO effect ⁽¹⁾	6.2	318.0	863.3	-98.1%	-99.3%
LIFO-based EBIT	-313.2	224.4	-211.6	-	-
Normalised LIFO-based EBIT ⁽²⁾	312.2	433.0	150.3	-27.9%	107.7%
Normalised LIFO-based EBITDA ⁽²⁾	486.4	609.0	368.4	-20.1%	32.0%

⁽¹⁾ LIFO effect = LIFO-based EBIT (estimated with the LIFO method of inventory measurement) – EBIT
In line with its inventory measurement policies, the LOTOS Group uses the weighted average method to measure change in inventories. This method defers the impact of changes in crude oil prices on the prices of finished goods. Thus, an increase in crude oil prices has a positive effect on financial performance, while a decrease adversely affects the performance. Operating results accounting for the above inventory measurement method are presented in the EBITDA and EBIT lines of the table. The table also presents estimated inventory decreases measured using the LIFO method, as well as LIFO effect, LIFO-based EBIT, normalised LIFO-based EBIT and normalised LIFO-based EBITDA.

⁽²⁾ Net of non-recurring items excluding theoretical LIFO write-down:

Q4 2015: inventory write-down, foreign exchange gains on operating activities, impairment loss on service stations, impairment loss on Lithuanian fields, net value of decommissioned intangible assets used in exploration for and appraisal of reserves – Heimdal licences (PL503), adjustment to the provision for decommissioning of the MOPU at LOTOS Norge, write-down of the value of vessels used at the Petrobaltic Group, write-off of expenditure and costs related to the B8 project, write-off of expenditure on the Słupsk licences – PLN 625.4m in total,

Q3 2015: non-deductible VAT for 2010 and 2011, inventory write-down, foreign exchange gains on operating activities, impairment loss on the Sambia E area, impairment losses related to the Norwegian exploration licences PL362 and PL035B – PLN 208.6m in total,

Q4 2014: impairment loss on the Heimdal fields, impairment loss on the Lithuanian fields, loss on the discontinued investment projects in the Baltic Sea – the Sambia licence, impairment loss on the value of service stations, impairment loss on tangible assets at LOTOS Asphalt, inventory write-down, foreign exchange losses on operating activities – PLN 361.9m in total.

In Q4 2015, the LOTOS Group posted negative EBIT of PLN -319.4m, being the result of the downstream segment's operating loss of PLN -195.2m, the upstream segment's operating loss of PLN 118.4m, operating profit from other business of PLN 0.9m, less PLN 6.7m in consolidation adjustments (mainly margin realised on sales of the Rozewie and Lithuanian crudes being adjusted for the margin on crude stocks held by the Group).

The reported operating profit for Q4 2015, calculated in accordance with International Financial Reporting Standards and based on the weighted average method of inventory measurement applied by the LOTOS Group, was affected by write-downs on the carrying amount of inventories of PLN 264.2m as at December 31st 2015. After accounting for the impairment losses and write-downs of PLN 6.0m recognised in Q3 2015, the Q4 2015 EBIT included impairment losses and write-downs of PLN 258.2m recognised in Q4 2015.

In Q4 2015, the LIFO-based EBITDA (excluding theoretical LIFO write-down), net of non-recurring items and exchange differences on foreign operations, (normalised LIFO-based EBITDA) was PLN 486.4m (down 20.1% on Q3 2015 and up 32.0% on Q4 2014).

The LIFO-based EBITDA in Q4 2015 followed from a PLN +239.6 change in inventory estimated using the LIFO methodology, as well as other events/items of non-recurring nature:

- PLN -7.9m impairment loss on service stations,
- PLN -68.8m impairment loss on Lithuanian fields in the AB Geonafra Group,
- PLN -9.9m net value of decommissioned intangible assets used in exploration for and appraisal of reserves – Heimdal licences (PL503),
- PLN -10.3m adjustment to the provision for decommissioning of the MOPU in LOTOS NORGE,
- PLN -40.7m expenditure write-off and costs related to the B8 project,
- PLN -2.1 expenditure write-off on the Słupsk licences,
- PLN -4.5m write-down of the value of vessels used at the Petrobaltic Group,
- PLN +10.3m foreign exchange gains.

In Q4 2015, the LOTOS Group recorded net finance loss of PLN -67.1m, with the main contributors including a PLN -53.0m negative balance of interest on debt, interest income and commissions, net foreign exchange losses of PLN -68.3m, write-off of capitalised expenditure on the B8 project of PLN -29.2m, and a PLN 83.6m gain on measurement and settlement of hedging transactions.

In Q4 2015, the effect of measurement and settlement of market risk hedging transactions at the LOTOS Group included a PLN 99.9m net gain on settlement and measurement of transactions used to hedge petroleum product prices and net loss of PLN -21.6m on settlement and measurement of transactions used to hedge foreign exchange risk.

Transactions used to hedge petroleum product prices as at December 31st 2015

Period	Product/commodity	Heavy fuel oil	Crude oil	Light fuel oil
		3.5 PCT Barges FOB Rotterdam	Brent (Dtd)	Gasoil .1 Cargoes CIF NWE / Basis ARA
1Q2016	Volume (mt)	1,484	-100,139	
	Price range (USD/mt)	360-483	488.12-490.28	
2Q2016	Volume (mt)	23,437	-149,792	-351
	Price range (USD/mt)	184.25-483	456.39-473.7	384.5-479.5
3Q2016	Volume (mt)	43,540		-767
	Price range (USD/mt)	184.25-489.5		384.5-479.5
4Q2016	Volume (mt)	20,579		-182
	Price range (USD/mt)	253.75-489.50		479.50
1Q2017	Volume (mt)	1,445		-35
	Price range (USD/mt)	218-488.5		428.50
2Q2017	Volume (mt)	14,521		-750
	Price range (USD/mt)	218-488.5		428.5-626.25
3Q2017	Volume (mt)	12,033		-375
	Price range (USD/mt)	218-488.5		428.50
4Q2017	Volume (mt)	2,911		-143
	Price range (USD/mt)	218-380		428.50

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

Transactions used to hedge foreign exchange risk as at December 31st 2015

Currency pair	Instrument	Volume	Currency	FX exchange range
EUR/USD exchange rate	Forward	186,699,999	EUR	1.0887 - 1.1286
EUR/PLN exchange rate	Forward	500,000	EUR	4.2615
USD/PLN exchange rate	Forward	-377,000,000	USD	3.7120 - 3.9747

Transactions used to hedge interest rate risk as at December 31st 2015

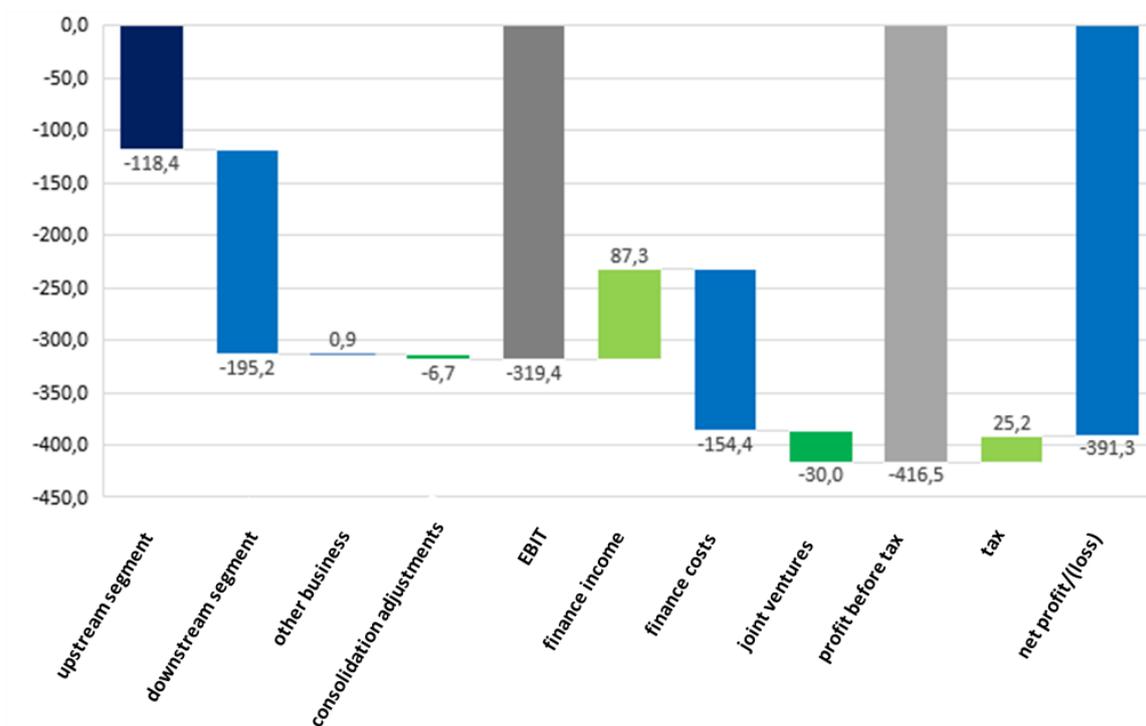
Instrument	Start date	End date	Notional amount	Currency	Interest rate range	Reference rate
IRS	from Jul 15 2011 to Sep 21 2021	from Jan 15 2018 to Dec 21 2021	561 500 019	USD	1.52% - 4.045%	3M LIBOR – 6M LIBOR

Futures used to hedge the risk related to prices of carbon dioxide (CO₂) emission allowances as at December 31st 2015

Instrument	Type of instrument	Volume (mt)	Price range (EUR/mt)						
		2016		2017		2018		2019	
EUAs	Futures	1,133,000	6.64 - 7.83	664,000	7.03 - 8.29	-115,000	8.14	33,000	8.57-8.6

Structure of LOTOS Group's consolidated result in Q4 2015

PLNm



In Q4 2015, the LOTOS Group posted consolidated net loss of PLN -391.3m.

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

PLNm	Q4 2015	Q3 2015	Q4 2014
EBIT	-319.4	-93.6	-1,074.9
Profit/(loss) before tax	-416.5	-264.9	-1,502.6
Net profit/(loss)	-391.3	-249.2	-1,276.4

6 Consolidated statement of financial position

Consolidated statement of financial position – assets (PLNm)

	Dec 31 2015	Dec 31 2014	Dec 31 2013	change in 2015	%
Assets (PLNm)	19,169.3	18,947.2	20,284.8	222.1	1.2%
Non-current assets	12,437.7	11,781.9	11,979.9	655.8	5.6%
Property, plant and equipment	10,568.4	9,481.9	10,009.1	1,086.5	11.5%
Goodwill	46.7	46.7	46.7	0.0	0.0%
Other intangible assets	617.7	557.5	658.8	60.2	10.8%
Equity-accounted joint ventures	70.7	99.6	129.8	-28.9	-
Deferred tax assets	924.5	1,488.9	924.5	-564.4	-37.9%
Derivative financial instruments	8.7	-	-	8.7	-
Other non-current assets	201.0	107.3	211.0	93.7	87.3%
Current assets	6,723.2	7,154.9	8,304.1	-431.7	-6.0%
Inventories	3,235.8	3,917.1	5,728.9	-681.3	-17.4%
Trade receivables	1,550.9	1,406.5	1,591.7	144.4	10.3%
Current tax assets	12.0	59.1	76.7	-47.1	-79.7%
Derivative financial instruments	208.5	4.4	73.9	204.1	4638.6%
Other current assets	856.3	1,419.6	337.1	-563.3	-39.7%
Cash and cash equivalents	859.7	348.2	495.8	511.5	146.9%
Assets held for sale	8.4	10.4	0.8	-2.0	-19.2%

As at December 31st 2015, the LOTOS Group carried total assets of PLN 19,169.3m (up PLN 222.1m on December 31st 2014).

Key changes in assets:

- PLN 1,086.5m increase in property, plant and equipment attributable chiefly to the acquisition of the Sleipner assets (see Note 13 to the consolidated financial statements for 2015),
- PLN 564.4m decrease in deferred tax asset, including PLN 558.0m on acquisition of the Sleipner assets (see Note 10.3 to the consolidated financial statements for 2015),
- PLN 681.3m decrease in inventories, including in mandatory stocks (down PLN -362.2m), attributable to lower prices of petroleum product and crude oil inventories as at the end of 2015 relative to the end of 2014 (see Note 19 to the consolidated financial statements for 2015),
- PLN 563.3m decrease in other current assets, chiefly related to PLN 996.9m of proceeds from Grupa LOTOS S.A. share issue, deposited in a separate bank account of the Central Securities Depository of Poland in 2014 and partially used in 2015 (see Note 18 to the consolidated financial statements for 2015),
- PLN 511.5m increase in cash and cash equivalents (see Note 20 to the consolidated financial statements for 2015),
- PLN 204.1m increase in positive fair value of financial instruments.

Table 32. Financial position – equity and liabilities (PLNm)

	Dec 31 2015	Dec 31 2014	Dec 31 2013	change in 2015	%
Equity and liabilities (PLNm)	19,169.3	18,947.2	20,284.8	221.2	1.2%
Equity	7,712.2	8,258.5	9,189.6	-546.3	-6.6%
Share capital	184.9	184.9	129.9	0.0	0.0%
Share premium	2,228.3	2,229.6	1,311.3	-1.3	-0.1%
Cash flow hedging reserve	-700.9	-412.5	61.0	-288.4	69.9%
Retained earnings	5,928.5	6,191.0	7,666.8	-262.5	-4.2%
Translation differences	71.3	65.3	20.3	6.0	9.2%
Non-controlling interests	0.1	0.2	0.3	-0.1	-50.0%
Non-current liabilities	6,031.2	5,456.7	5,682.0	574.5	10.5%
Borrowings, other debt instruments and finance lease liabilities	4,454.5	4,495.6	4,496.2	-41.1	-0.9%
Derivative financial instruments	54.3	62.6	52.9	-8.3	-13.3%
Deferred tax liabilities	47.6	55.5	275.8	-7.9	-14.2%
Employee benefit obligations	182.2	185.4	151.4	-3.2	-1.7%
Other liabilities and provisions	1,292.6	657.6	705.7	635.0	96.6%
Current liabilities	5,425.9	5,222.9	5,413.2	203.0	3.9%
Borrowings, other debt instruments and finance lease liabilities	2,544.8	2,168.1	1,715.2	376.7	17.4%
Derivative financial instruments	110.8	135.9	21.3	-25.1	-18.5%
Trade payables	1,232.5	1,692.8	2,395.2	-460.3	-27.2%
Current tax payables	11.8	4.7	8.8	7.1	151.1%
Employee benefit obligations	122.2	84.1	104.0	38.1	45.3%
Other liabilities and provisions	1,403.8	1,137.3	1,168.7	266.5	23.4%
Liabilities directly associated with assets held for sale	0.0	9.1	0.0	-9.1	-

The PLN -546.3m decrease in the LOTOS Group's equity relative to December 31st 2014, to PLN 7,712.2m as at the end of 2015, was mainly a result of:

- PLN 262.5m decrease in retained earnings, attributable to the net loss posted in 2015 (see Note 24 to the consolidated financial statements for 2015),
- PLN 288.4m foreign exchange losses on measurement of cash flow hedges normalised for the tax effect and charged to reserve capital (see Note 23 to the consolidated financial statements for 2015),

The share of share capital in total equity and liabilities decreased by 3.4pp yoy, to 40.2%.

In 2015, non-current liabilities increased by PLN 574.5m, mainly in connection with an increase in other provisions and liabilities resulting from the LOTOS Norge provision for decommissioning and reclamation costs of the oil and gas facilities, associated with the Sleipner fields (see Note 30 to the consolidated financial statements for 2015).

Year on year, current liabilities as at December 31st 2015 were up PLN 203.0m, mainly due to:

- PLN 376.7m increase in current borrowings, chiefly at the Parent and in the upstream segment, attributable to remeasurement of the borrowings at higher USD/PLN exchange rates (see Note 27 to the consolidated financial statements for 2015),
- PLN 266.5m rise in other liabilities and provisions, including mainly liabilities to the state budget, chiefly related to:

- a new deadline for settling VAT on imported oil delivered through pipelines in connection with the Authorised Economic Operator (AEO) certificate (later deadline for VAT settlement),
- an increase in excise duty, fuel charge and stock charge liabilities,
- PLN 460.3m decrease in trade payables, primarily as a result of a year-on-year decline in prices and volumes of crude oil purchases made in November and December 2015 (see Note 30 to the consolidated financial statements for 2015),

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 to be used to finance objectives of the issue of Series D shares) to equity was 73.9% (up 9.5pp on December 31st 2014.)

7 Consolidated statement of cash flows

Consolidated statement of cash flows

PLNm	Q4 2015	Q3 2015	Q4 2014
Cash flows from operating activities	402.4	564.4	450.6
Cash flows from investing activities	-218.7	-134.2	-194.5
Cash flows from financing activities	-226.1	-265.7	-343.2
Effect of exchange rate fluctuations on cash held	4.9	-2	8.1
Change in net cash	-37.5	162.5	-79
Cash and cash equivalents at beginning of period	315.6	153.1	-87.7
Cash and cash equivalents at end of period	278.1	315.6	-166.7

As at December 31st 2015, the LOTOS Group's cash balance (including current account overdrafts) was PLN 278.1m.

In Q4 2015, net cash flows from operating activities were positive at PLN 402.4m, primarily due to the decrease in inventories following the drop in prices in Q4 2015 and the related write-downs on the carrying amount of inventories. The net cash flows also reflect a decrease in trade payables.

Negative net cash flows from investing activities (PLN -218.7m) were mainly attributable to purchases of property, plant and equipment and other intangible assets, chiefly for the upstream segment, expansion of the service station network, the EFRA Project, and construction of the Hydrogen Recovery Unit.

Net cash flows from financing activities in Q4 2015, of PLN -226.1m, chiefly comprised net repayments of borrowings and related outflows on principal, interest and arrangement fee payments of PLN -136.5m, and a loss on settlement of financial instruments of PLN -63.6m.