



The LOTOS Group

INTERIM FINANCIAL REPORT FOR THE FIRST HALF OF 2018



TOGETHER WITH THE AUDITOR'S REPORT ON THE REVIEW OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30TH 2018, PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS ENDORSED BY THE EUROPEAN UNION

(This is a translation of a document originally issued in Polish)

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I. INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30TH 2018, PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS ENDORSED BY THE EUROPEAN UNION

THE LOTOS GROUP
Interim condensed consolidated financial statements
for the six months ended June 30th 2018
(PLNm)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	3 months ended Jun 30 2018 (unaudited)	6 months ended Jun 30 2018 (unaudited)	3 months ended Jun 30 2017 (unaudited)	6 months ended Jun 30 2017 (unaudited)
Revenue	8	7,531.0	13,855.7	5,454.9	10,902.2
Cost of sales	9	(6,207.1)	(11,671.4)	(4,881.5)	(9,366.5)
Gross profit		1,323.9	2,184.3	573.4	1,535.7
Distribution costs	9	(341.6)	(647.1)	(298.4)	(583.4)
Administrative expenses	9	(92.6)	(199.0)	(106.0)	(215.0)
Other income	10	14.2	18.3	18.8	32.3
Other expenses	11	(6.0)	(10.8)	(14.9)	(20.2)
Operating profit		897.9	1,345.7	172.9	749.4
Finance income	12	13.2	23.1	151.5	258.5
Finance costs	13	(158.2)	(116.4)	(56.9)	(115.4)
Share in net profit/(loss) of equity-accounted joint ventures		1.1	0.7	0.9	1.2
Profit before tax		754.0	1,253.1	268.4	893.7
Corporate income tax	14.1	(219.1)	(397.4)	(111.0)	(325.4)
Net profit		534.9	855.7	157.4	568.3
Other comprehensive income/(loss)					
Items that may be reclassified to profit or loss:		(148.2)	(102.1)	205.1	410.3
Exchange differences on translating foreign operations		13.5	14.7	9.2	22.1
Cash flow hedges		(199.6)	(144.2)	241.8	479.2
Corporate income tax relating to cash flow hedges	14.1	37.9	27.4	(45.9)	(91.0)
Items that will not be reclassified to profit or loss:		0.1	0.1	-	-
Actuarial gain/(loss) relating to post-employment benefits		0.3	0.3	-	-
Corporate income tax relating to actuarial gain/(loss) under post-employment benefit	14.1	(0.2)	(0.2)	-	-
Other comprehensive income/(loss), net		(148.1)	(102.0)	205.1	410.3
Total comprehensive income/(loss)		386.8	753.7	362.5	978.6
Net profit attributable to:					
Owners of the Parent	15	534.9	855.7	157.4	568.3
Total comprehensive income/(loss) attributable to:					
Owners of the Parent		386.8	753.7	362.5	978.6
Net profit attributable to owners of the Parent per share (PLN)					
Weighted average number of shares (million)	15	184.9	184.9	184.9	184.9
- basic	15	2.89	4.63	0.85	3.07
- diluted	15	2.89	4.63	0.85	3.07

The Notes to the interim condensed consolidated financial statements, presented on pages 9 to 26, are an integral part of the statements

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THE LOTOS GROUP
Interim condensed consolidated financial statements
for the six months ended June 30th 2018
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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Note	Jun 30 2018 (unaudited)	Dec 31 2017 (audited)
ASSETS		
Non-current assets		
Property, plant and equipment of the Downstream segment	8,791.5	8,761.5
Intangible assets of the Downstream segment	162.4	163.2
Property, plant and equipment of the Upstream segment	2,542.3	2,404.2
Intangible assets of the Upstream segment	333.4	304.8
Equity-accounted joint ventures	105.2	106.5
Deferred tax assets	14.2 453.6	415.4
Derivative financial instruments	24.1	2.7
Other non-current assets	351.9	303.8
Total non-current assets	12,764.4	12,462.1
Current assets		
Inventories	4,900.5	3,559.6
- including emergency stocks	2,863.4	2,098.7
Trade receivables	2,690.8	2,677.0
Current tax assets	6.4	1.3
Derivative financial instruments	49.2	161.8
Other current assets	386.9	388.7
Cash and cash equivalents	19 1,691.9	1,920.7
Total current assets	9,725.7	8,709.1
Total assets	22,490.1	21,171.2
EQUITY AND LIABILITIES		
Equity		
Share capital	184.9	184.9
Share premium	2,228.3	2,228.3
Cash flow hedge accounting	(342.0)	(225.2)
Retained earnings	9,094.4	8,432.2
Translation reserve	106.9	92.2
Equity attributable to owners of the Parent	11,272.5	10,712.4
Non-controlling interests	0.1	0.1
Total equity	11,272.6	10,712.5
Non-current liabilities		
Borrowings, other debt instruments and finance lease liabilities	20 2,865.4	2,738.3
Derivative financial instruments	1.4	6.7
Deferred tax liabilities	14.2 287.5	277.7
Employee benefit obligations	172.0	169.3
Other liabilities and provisions	1,162.5	1,072.4
Total non-current liabilities	4,488.8	4,264.4
Current liabilities		
Borrowings, other debt instruments and finance lease liabilities	20 1,618.5	1,687.6
Derivative financial instruments	44.7	72.7
Trade payables	2,305.5	2,201.7
Current tax payables	366.8	210.0
Employee benefit obligations	118.6	145.3
Other liabilities and provisions	2,274.6	1,877.0
Total current liabilities	6,728.7	6,194.3
Total liabilities	11,217.5	10,458.7
Total equity and liabilities	22,490.1	21,171.2

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CONSOLIDATED STATEMENT OF CASH FLOWS

(prepared using the indirect method)

	Note	6 months ended Jun 30 2018 (unaudited)	6 months ended Jun 30 2017 (unaudited)
Cash flows from operating activities			
Net profit		855.7	568.3
Adjustments:		(290.3)	370.9
Income tax	14.1	397.4	325.4
Share in net profit/(loss) of equity-accounted joint ventures		(0.7)	(1.2)
Depreciation and amortisation	8; 9	367.2	437.3
Foreign exchange (gains)/losses		50.6	32.8
Interest and dividends		63.6	77.1
(Gain)/loss on investing activities		3.1	3.9
Impairment losses on property, plant and equipment and intangible assets	11	0.1	9.3
Settlement and valuation of derivative financial instruments	12; 13	8.8	(201.8)
(Increase)/Decrease in trade receivables		(13.8)	43.0
(Increase)/Decrease in other assets		(71.4)	26.6
(Increase) in inventories		(1,306.1)	(11.8)
Increase/(Decrease) in trade payables		103.8	(366.3)
Increase in other liabilities and provisions		130.9	13.3
(Decrease) in employee benefit obligations		(23.8)	(16.7)
Income tax paid		(168.8)	(69.5)
Net cash from operating activities		396.6	869.7
Cash flows from investing activities			
Dividends received – equity-accounted joint ventures		3.2	2.1
Dividends received from other entities		1.7	1.7
Interest received		2.3	4.3
Sale of property, plant and equipment and intangible assets		0.6	3.4
Purchase of property, plant and equipment and intangible assets		(419.9)	(835.9)
Cash contributions – equity-accounted joint ventures		(0.1)	(3.0)
Bank deposits		8.0	-
Security deposit		31.2	1.3
Funds for future costs of decommissioning of oil and gas extraction facilities		(36.9)	-
Settlement of derivative financial instruments		7.8	(0.9)
Other cash used in investing activities		-	(2.2)
Net cash from investing activities		(402.1)	(829.2)
Cash flows from financing activities			
Proceeds from bank borrowings	20	186.2	562.8
Issue of notes	20	-	296.1
Repayment of bank borrowings	20	(514.1)	(525.5)
Repayment of non-bank borrowings	20	(6.4)	(6.2)
Redemption of notes	20	(113.8)	(77.0)
Interest paid	20	(92.0)	(104.9)
Finance lease payments	20	(18.1)	(17.8)
Settlement of derivative financial instruments		34.1	(9.1)
Net cash from financing activities		(524.1)	118.4
Total net cash flow		(529.6)	158.9
Effect of exchange rate fluctuations on cash held		8.3	(2.7)
Change in net cash		(521.3)	156.2
Cash at beginning of period		1,920.6	730.8
Cash at end of period	19	1,399.3	887.0

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Share capital	Share premium	Cash flow hedging reserve	Retained earnings	Translation reserve	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
Jan 1 2018 (audited)		184.9	2,228.3	(225.2)	8,432.2	92.2	10,712.4	0.1	10,712.5
Effect of changes in accounting policies	4.1	-	-	-	(8.7)	-	(8.7)	-	(8.7)
Jan 1 2018 (unaudited)		184.9	2,228.3	(225.2)	8,423.5	92.2	10,703.7	0.1	10,703.8
Net profit	15	-	-	-	855.7	-	855.7	-	855.7
Other comprehensive income/(loss), net		-	-	(116.8)	0.1	14.7	(102.0)	-	(102.0)
Total comprehensive income/(loss)		-	-	(116.8)	855.8	14.7	753.7	-	753.7
Dividend	16	-	-	-	(184.9)	-	(184.9)	-	(184.9)
Jun 30 2018 (unaudited)		184.9	2,228.3	(342.0)	9,094.4	106.9	11,272.5	0.1	11,272.6
Jan 1 2017 (audited)		184.9	2,228.3	(812.8)	6,945.4	65.0	8,610.8	0.1	8,610.9
Net profit	15	-	-	-	568.3	-	568.3	-	568.3
Other comprehensive income/(loss), net		-	-	388.2	-	22.1	410.3	-	410.3
Total comprehensive income/(loss)		-	-	388.2	568.3	22.1	978.6	-	978.6
Dividend		-	-	-	(184.9)	-	(184.9)	-	(184.9)
Jun 30 2017 (unaudited)		184.9	2,228.3	(424.6)	7,328.8	87.1	9,404.5	0.1	9,404.6

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THE LOTOS GROUP
Interim condensed consolidated financial statements
for the six months ended June 30th 2018
Notes to the financial statements

(PLNm)

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 Grupa LOTOS S.A.'s 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 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 the foundation.

In addition, the Group holds interests in equity-accounted joint ventures.

Information on the registered addresses and business profiles of the aforementioned entities, as well as on the Group's ownership interests in those entities, is presented below.

Name	Registered office	Business profile	Group's ownership interest		
			Jun 30 2018	Dec 31 2017	Jun 30 2017
Parent					
Downstream segment					
• Grupa LOTOS S.A.	Gdańsk	Manufacturing and processing of refined petroleum products (mainly fuels) and their wholesale	Not applicable	Not applicable	Not applicable
Direct fully-consolidated subsidiaries					
Upstream segment					
• LOTOS Upstream Sp. z o.o. (parent of another group: LOTOS Upstream Group)	Gdańsk	Activities of head offices and holdings	100.00%	100.00%	100.00%
• 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%
Downstream segment					
• 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 Asfalt 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. (parent of another group: the LOTOS Lab Group)	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 operating of own or leased real estate	100.00%	100.00%	100.00%
• 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. w likwidacji (in liquidation) ⁽²⁾	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%

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Name	Registered office	Business profile	Group's ownership interest		
			Jun 30 2018	Dec 31 2017	Jun 30 2017
Indirect fully-consolidated subsidiaries					
Downstream segment					
GK LOTOS Lab Sp. z o.o.					
• LOTOS Vera Sp. z o.o.	Warsaw	Manufacture of cars	100.00%	100.00%	-
LOTOS Infrastruktura Group					
• RCEkoenergia Sp. z o.o.	Czechowice-Dziedzice	Production and distribution of electricity, heat and gas	100.00%	100.00%	100.00%
LOTOS Terminale Group					
• LOTOS Biopaliwa Sp. z o.o.	Czechowice-Dziedzice	Production of fatty acid methyl esters (FAME)	100.00%	100.00%	100.00%
Upstream segment					
LOTOS Upstream Group					
• 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	100.00%	100.00%	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	100.00%	100.00%	99.99%
• UAB Genciu Nafta	Lithuania, Gargždai	Crude oil exploration and production	100.00%	100.00%	99.99%
• UAB Manifoldas	Lithuania, Gargždai	Crude oil exploration and production	100.00%	100.00%	99.99%
• LOTOS Upstream UK Ltd.	United Kingdom, London	Exploration for and production of crude oil and gas	100.00% ⁽³⁾	-	-
LOTOS Petrobaltic Group					
• Aphrodite Offshore Services N.V.	Curaçao	Dormant	- ⁽⁴⁾	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 Company 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%
• SPV Petro Sp. z o.o. ⁽⁵⁾	Gdańsk	Support activities for oil and gas production, sea transport, ship operation advisory services	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)	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%
• 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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(PLNm)

Name	Registered office	Business profile	The Group's ownership interest		
			Jun 30 2018	Dec 31 2017	Jun 30 2017
Equity-accounted joint ventures					
Downstream segment					
• LOTOS - Air BP Polska Sp. z o.o. ⁽⁶⁾	Gdańsk	Sale of aviation fuel and logistics services	50.00%	50.00%	50.00%
Upstream segment					
LOTOS Upstream Group					
• Baltic Gas Sp. z o.o. ⁽⁷⁾	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. ⁽⁷⁾	Gdańsk	Crude oil and gas production	44.78%	44.78%	44.62%
AB LOTOS Geonafta Group					
• UAB Minijos Nafta ⁽⁸⁾	Lithuania, Gargždai	Crude oil exploration and production	49.99%	49.99%	49.99%

⁽¹⁾ The companies were excluded from consolidation due to immateriality of the amounts disclosed in their financial statements as at June 30th 2018 (IFRS 10 *Consolidated Financial Statements*).

⁽²⁾ On June 28th 2018, the Extraordinary General Meeting of Infrastruktura Kolejowa Sp. z o.o. passed a resolution to dissolve the company and put it into liquidation.

⁽³⁾ A new company with a share capital of GBP 15 thousand; A wholly-owned subsidiary of LOTOS Upstream Sp. z o.o.

⁽⁴⁾ In H1 2018, the company was liquidated.

⁽⁵⁾ A new company with a share capital of PLN 5 thousand; a wholly-owned subsidiary of Technical Ship Management Sp. z o.o.

⁽⁶⁾ Joint venture agreement between Grupa LOTOS S.A. and BP Europe SE on joint operations related to supply of aviation fuel through LOTOS-Air BP Polska Sp. z o.o.

⁽⁷⁾ Agreement on cooperation between LOTOS Upstream Sp. z o.o. and CalEnergy Resources Poland Sp. z o.o. with respect to development and production of 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.

⁽⁸⁾ 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 2017 (see Note 2 to the consolidated financial statements for 2017), 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 ("IAS 34").

These interim condensed consolidated financial statements present the financial position of the Group as at June 30th 2018 and December 31st 2017, the results of the Group's operations for the six months ended June 30th 2018 and June 30th 2017, and cash flows for the six months ended June 30th 2018 and June 30th 2017.

These interim financial statements should be read in conjunction with the audited [consolidated financial statements of the LOTOS Group for 2017](#), issued on March 7th 2018 (the "consolidated financial statements for 2017").

The data presented in these interim consolidated financial statements as at June 30th 2018 and for the six months ended on that date, as well as the comparative financial data for the six months ended June 30th 2017 were subject to a review by an auditor. The financial data presented for the three months ended June 30th 2018, as well as the comparative financial data for the three months ended June 30th 2017, included in these interim consolidated financial statements, were not subject to review by an auditor. Data as at December 31st 2017 were audited. The auditor's report on the consolidated financial statements for 2017 was issued on March 6th 2018.

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 authorisation 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 millions 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 2017 (see Note 7 to the consolidated financial statements for 2017), except to the extent of the policies which were introduced following the adoption, as of January 1st 2018, of new standards IFRS 9 and IFRS 15. There were no changes in comparative data or corrections of errors. For a discussion of the effect of the new IFRS 9 and IFRS 15 standards on the Group's accounting policies, see Note 4 to the consolidated financial statements for 2017. The standards were implemented using the modified retrospective method, according to which the comparative data is not restated. The IFRS 9 standard had no significant effect on the consolidated financial statements; therefore, no temporary adjustment was made as at January 1st 2018. The effect of implementation of IFRS 15 on the Group's equity as at January 1st 2018, amounting to PLN 8.7m, is presented under [Effect of changes in accounting policies](#) in the consolidated statement of changes in equity. The adjustment relates to a change in the method of accounting for transactions in a situation where raw materials produced from Norwegian producing fields are not distributed in a balanced manner.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 introduces a five-step model to be followed in order to appropriately recognise revenue from contracts with customers. The new model provides precise guidance for the identification of contracts and performance obligations, determination of the transaction price, allocation of consideration to performance obligations, and the moment of revenue recognition. In addition, under IFRS 15 revenue is recognised as control is passed and not, as earlier, when risks and rewards are transferred.

The Group changed its accounting policy for recognising revenue from sale of hydrocarbons produced from the fields on the Norwegian Continental Shelf in which the Group holds interests. Previously, the Group applied the entitlement (rights) method, according to which revenue is always recognised in the books in proportion to the Group's share in production from the field. Under the newly adopted sales method, revenue is recognised when the product is transferred to the buyer and all performance obligations set forth in IFRS 15 are met. The Group believes that the replacement of the previously applied entitlement method with the sales method affects the timing of revenue recognition and improves compliance with IFRS 15. The share in production from a field which has not been sold is recognised in accordance with IAS 2 and presented in the consolidated statement of financial position under [Inventories](#).

For logistical reasons, when hydrocarbons are produced from a field by a number of interest holders there are natural differences between the volumes actually produced by the individual interest holders and their respective contractual shares in production. In accordance with the sales method adopted by the Group, the overlift party, i.e. the interest holder who, in a given production cycle, produces hydrocarbons in excess of its contractual share in production from the field, recognises the excess in its accounting books as a liability rather than revenue. Any differences are settled among interest holders in kind (during production). The Group measures the related liability on the basis of the average six-month cost. Revaluation of such liability is recognised in the consolidated statement of comprehensive income as adjustment to [Cost of sales](#).

The cumulative effect of changes in accounting policies on the items of the consolidated statement of financial position as at January 1st 2018 is presented below:

	Dec 31 2017	Effect of changes in accounting policies	Jan 1 2018
ASSETS	6,236.6	(14.8)	6,221.8
Current assets	6,236.6	(14.8)	6,221.8
Inventories	3,559.6	30.8	3,590.4
Trade receivables	2,677.0	(45.6)	2,631.4
EQUITY AND LIABILITIES	10,843.9	(14.8)	10,829.1
Equity			
Retained earnings	8,432.2	(8.7)	8,423.5
Non-current liabilities			
Deferred tax liabilities	210.0	(31.0)	179
Current liabilities			
Trade payables	2,201.7	24.9	2,226.6

IFRS 9 Financial Instruments

[Selected accounting policy](#)

Measurement of financial assets and liabilities

Since January 1st 2018, the Group has been classifying financial assets and financial liabilities into the following categories:

- measured at amortised cost,
- measured at fair value through other comprehensive income,
- measured at fair value through profit or loss.

The Group classifies its assets upon initial recognition.

The Group recognises the following assets and liabilities as assets/liabilities measured at amortised cost:

- financial assets: trade receivables, cash and cash equivalents, deposits, security deposits, other receivables,
- financial liabilities: bank and other borrowings, notes and bonds, trade payables, other liabilities.

The Group recognises shares in other entities as assets measured at fair value through other comprehensive income.

The Group recognises derivative financial instruments not designated for hedge accounting purposes as assets/liabilities measured at fair value through profit or loss.

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Impairment of financial assets

To estimate the impairment of financial assets measured at amortised cost, the Group applies the expected loss model, which is based on the calculation of expected losses, regardless of whether there is any indication of impairment. Previously, the Group applied the incurred loss model. In accordance with IAS 39, with respect to the recognition of impairment losses, the Group was obliged to assess whether there was any evidence of impairment, and if there was such evidence – to estimate the impairment loss.

As regards hedge accounting, the Group did not implement the changes resulting from IFRS 9. As at January 1st 2018, the Group continued to apply hedge accounting principles in accordance with IAS 39 (see Note 7.24 to the consolidated financial statements for 2017).

The table below presents the effect of implementation of IFRS 9 on the change in the classification and measurement of the Group's financial assets as at January 1st 2018:

Categories and classes of financial instruments defined in IAS 39	IAS 39		IFRS 9			Impact of change Jan 1 2018
	Measured at amortised cost/historical cost	Measured at fair value through profit or loss	Measured at amortised cost	Measured at fair value through:		
				Profit or loss	Other comprehensive income	
Financial assets at fair value through profit or loss – held for trading:	-	164.5	-	164.5	-	-
Derivative financial instruments	-	164.5	-	164.5	-	-
Loans and receivables	5,047.5	-	5,047.5	-	-	-
Trade receivables	2,677.0	-	2,677.0	-	-	-
Cash and cash equivalents	1,920.7	-	1,920.7	-	-	-
Other financial assets	449.8	-	449.8	-	-	-
Financial assets available for sale	9.8	-	-	-	9.8	-
Shares*	9.8	-	-	-	9.8	-

* measured at historical cost

4.2 New standards and interpretations which have been published but are not yet effective

New standards, amendments to the existing standards and interpretations which were published after December 31st 2017 and which have not been endorsed by the European Union:

- Amendments to References to the Conceptual Framework in IFRS Standards, issued on March 29th 2018 (effective for annual periods beginning on or after January 1st 2020)

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

IFRS 16 Leases is effective for annual periods beginning on or after January 1st 2019. Under the new standard, all lease contracts (with few exceptions) will be recognised as a right-of-use asset and as a lease liability. The Group plans to implement the standard using the modified retrospective method, with the cumulative effect of the first application of IFRS 16 recognised as at January 1st 2019, without restating the comparative data.

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 valuation of items of the statement of financial position and translation of the financial statements of foreign entities and corporate groups into the Polish zloty:

NBP's mid rate quoted for:	Jun 30 2018 ⁽¹⁾	Dec 31 2017 ⁽²⁾
USD	3.7440	3.4813
EUR	4.3616	4.1709
GBP	4.9270	4.7001
NOK	0.4599	0.4239

⁽¹⁾ NBP's mid rates table effective for June 30th 2018.

⁽²⁾ NBP's mid rates table effective for December 31st 2017.

NBP's average mid rate for the reporting period	6 months ended Jun 30 2018 ⁽¹⁾	6 months ended Jun 30 2017 ⁽²⁾
USD	3.5192	3.8964
EUR	4.2395	4.2474
GBP	4.8179	4.9310
NOK	0.4420	0.4618

⁽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 – June 30th 2018.

⁽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 – June 30th 2017.

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5. Seasonality and cyclicity of business in the reporting period

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

6. Material changes to 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 material changes to reporting items after the end of the last annual reporting period, i.e. 2017, are presented in the key sections of the financial statements and supplemented with additional information contained in the relevant notes to the financial statements.

For a discussion of changes to material reporting items and factors with a bearing on the Group's financial performance in the reporting period, see Section 2 of the Directors' Report on the LOTOS Group's operations in H1 2018 and the Management's Discussion and Analysis of the Q2 2018 financial performance.

7. Changes to estimates reported in previous interim periods of the current financial year or in previous financial years, where they 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 reporting period.

8. Business segments

	Upstream segment		Downstream segment		Consolidation adjustments		Consolidated	
	3 months ended June 30							
	2018	2017	2018	2017	2018	2017	2018	2017
	(unaudited)							
Revenue:	368.8	344.3	7,305.0	5,256.1	(142.8)	(145.5)	7,531.0	5,454.9
Intersegment sales	128.0	132.5	14.8	13.0	(142.8)	(145.5)	-	-
External sales	240.8	211.8	7,290.2	5,243.1	-	-	7,531.0	5,454.9
Operating profit/(loss) (EBIT)	176.4	123.7	719.2	45.1	2.3	4.1	897.9	172.9
Depreciation and amortisation	60.3	79.8	123.8	131.2	-	(0.3)	184.1	210.7
Operating profit/(loss) before depreciation and amortisation (EBITDA)	236.7	203.5	843.0	176.3	2.3	3.8	1,082.0	383.6

	Upstream segment		Downstream segment		Consolidation adjustments		Consolidated	
	6 months ended Jun 30							
	2018	2017	2018	2017	2018	2017	2018	2017
	(unaudited)							
Revenue:	665.5	712.9	13,396.2	10,436.8	(206.0)	(247.5)	13,855.7	10,902.2
Intersegment sales	178.5	219.3	27.5	28.2	(206.0)	(247.5)	-	-
External sales	487.0	493.6	13,368.7	10,408.6	-	-	13,855.7	10,902.2
Operating profit/(loss) (EBIT)	322.4	306.1	1,009.5	449.4	13.8	(6.1)	1,345.7	749.4
Depreciation and amortisation	119.0	162.9	248.2	275.1	-	(0.7)	367.2	437.3
Operating profit/(loss) before depreciation and amortisation (EBITDA)	441.4	469.0	1,257.7	724.5	13.8	(6.8)	1,712.9	1,186.7

	Upstream segment		Downstream segment		Consolidation adjustments		Consolidated	
	Jun 30 2018	Dec 31 2017	Jun 30 2018	Dec 31 2017	Jun 30 2018	Dec 31 2017	Jun 30 2018	Dec 31 2017
	(unaudited)	(audited)	(unaudited)	(audited)	(unaudited)	(audited)	(unaudited)	(audited)
Total assets	4,313.2	4,267.1	20,026.1	18,744.6	(1,849.2)	(1,840.5)	22,490.1	21,171.2

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Geographical structure	Upstream segment		Downstream segment		Consolidated	
	3 months ended June 30					
	2018	2017	2018	2017	2018	2017
Domestic sales:	1.3	1.0	5,861.8	4,406.0	5,863.1	4,407.0
products and services	1.0	1.0	5,639.5	4,136.1	5,640.5	4,137.1
merchandise and materials	0.3	-	222.3	269.9	222.6	269.9
Export sales:	239.5	210.8	1,428.4	837.1	1,667.9	1,047.9
products and services	239.4	210.7	1,367.7	766.9	1,607.1	977.6
merchandise and materials	0.1	0.1	60.7	70.2	60.8	70.3
Total	240.8	211.8	7,290.2	5,243.1	7,531.0	5,454.9

Geographical structure	Upstream segment		Downstream segment		Consolidated	
	6 months ended Jun 30					
	2018	2017	2018	2017	2018	2017
Domestic sales:	4.7	2.9	10,398.3	8,488.4	10,403.0	8,491.3
products and services	4.2	2.8	9,687.9	7,927.2	9,692.1	7,930.0
merchandise and materials	0.5	0.1	710.4	561.2	710.9	561.3
Export sales:	482.3	490.7	2,970.4	1,920.2	3,452.7	2,410.9
products and services	482.2	490.6	2,843.8	1,793.1	3,326.0	2,283.7
merchandise and materials	0.1	0.1	126.6	127.1	126.7	127.2
Total	487.0	493.6	13,368.7	10,408.6	13,855.7	10,902.2

Sales by type of products, merchandise and services	Upstream segment		Downstream segment		Consolidated	
	3 months ended June 30					
	2018	2017	2018	2017	2018	2017
Gasolines	-	-	1,170.4	833.3	1,170.4	833.3
Naphtha	-	-	291.4	166.3	291.4	166.3
Diesel oils	-	-	3,778.0	2,749.2	3,778.0	2,749.2
Bunker fuel	-	-	50.1	34.0	50.1	34.0
Light fuel oil	-	-	87.5	95.6	87.5	95.6
Heavy fuel oil	-	-	486.2	220.4	486.2	220.4
Aviation fuel	-	-	363.1	230.8	363.1	230.8
Lubricants	-	-	72.3	69.5	72.3	69.5
Base oils	-	-	141.9	124.5	141.9	124.5
Bitumens	-	-	332.2	302.8	332.2	302.8
LPG	-	-	134.9	116.3	134.9	116.3
Crude oil	60.8	56.8	-	-	60.8	56.8
Natural gas	167.2	141.9	-	-	167.2	141.9
Other refinery products, merchandise and materials	0.2	-	150.8	126.2	151.0	126.2
Other products, merchandise and materials	9.5	1.0	149.2	115.2	158.7	116.2
Services	3.1	12.1	91.2	97.0	94.3	109.1
Effect of cash flow hedge accounting	-	-	(9.0)	(38.0)	(9.0)	(38.0)
Total	240.8	211.8	7,290.2	5,243.1	7,531.0	5,454.9

Sales by type of products, merchandise and services	Upstream segment		Downstream segment		Consolidated	
	6 months ended Jun 30					
	2018	2017	2018	2017	2018	2017
Gasolines	-	-	2,157.6	1,749.5	2,157.6	1,749.5
Naphtha	-	-	594.2	395.6	594.2	395.6
Diesel oils	-	-	6,555.0	5,427.8	6,555.0	5,427.8
Bunker fuel	-	-	90.9	60.7	90.9	60.7
Light fuel oil	-	-	290.4	300.7	290.4	300.7
Heavy fuel oil	-	-	1,000.6	641.8	1,000.6	641.8
Aviation fuel	-	-	648.2	340.2	648.2	340.2
Lubricants	-	-	144.3	132.0	144.3	132.0
Base oils	-	-	276.2	248.5	276.2	248.5
Bitumens	-	-	358.3	348.1	358.3	348.1
LPG	-	-	233.2	220.2	233.2	220.2
Crude oil	138.5	141.6	320.8	-	459.3	141.6
Natural gas	321.2	318.9	0.3	-	321.5	318.9
Other refinery products, merchandise and materials	0.2	-	271.9	196.8	272.1	196.8
Other products, merchandise and materials	17.8	2.9	258.5	218.0	276.3	220.9
Services	9.3	30.2	186.9	199.1	196.2	229.3
Effect of cash flow hedge accounting	-	-	(18.6)	(70.4)	(18.6)	(70.4)
Total	487.0	493.6	13,368.7	10,408.6	13,855.7	10,902.2

(This is a translation of a document originally issued in Polish)

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9. Expenses by nature

	Note	3 months ended	6 months ended	3 months ended	6 months ended
		Jun 30 2018	Jun 30 2018	Jun 30 2017	Jun 30 2017
		(unaudited)	(unaudited)	(unaudited)	(unaudited)
Depreciation and amortisation	8	184.1	367.2	210.7	437.3
Raw materials and consumables used ⁽¹⁾		5,631.6	10,340.0	3,883.9	7,782.7
Services		380.3	711.6	449.0	784.4
Taxes and charges		124.2	261.6	115.2	242.1
Employee benefits expense		180.3	378.1	180.4	376.2
Other expenses by nature		63.2	115.2	76.2	117.5
Cost of merchandise and materials sold		234.1	722.2	290.7	589.4
Total expenses by nature		6,797.8	12,895.9	5,206.1	10,329.6
Change in products and adjustments to cost of sales		(156.5)	(378.4)	79.8	(164.7)
Total		6,641.3	12,517.5	5,285.9	10,164.9
including:					
Cost of sales		6,207.1	11,671.4	4,881.5	9,366.5
Distribution costs		341.6	647.1	298.4	583.4
Administrative expenses		92.6	199.0	106.0	215.0

⁽¹⁾ Including foreign exchange losses related to operating activities, recognised in cost of sales for the three and six months ended June 30th 2018: PLN 57.8m and PLN 63.6m, respectively (for the three and six months ended June 30th 2017: foreign exchange gains of PLN 0.6m and PLN 7.0m, respectively).

10. Other income

	3 months ended	6 months ended	3 months ended	6 months ended
	Jun 30 2018	Jun 30 2018	Jun 30 2017	Jun 30 2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Gain on disposal of non-financial non-current assets	-	-	0.4	1.5
Grants	7.9	8.3	2.7	11.8
Provisions	-	0.1	12.4	12.1
Compensation	4.9	6.0	0.5	1.9
Excise duty refunds ⁽¹⁾	-	-	1.1	1.6
Other	1.4	3.9	1.7	3.4
Total	14.2	18.3	18.8	32.3

⁽¹⁾ 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 excise duty had been settled at earlier stages of the trading process.

11. Other expenses

	Note	3 months ended	6 months ended	3 months ended	6 months ended
		Jun 30 2018	Jun 30 2018	Jun 30 2017	Jun 30 2017
		(unaudited)	(unaudited)	(unaudited)	(unaudited)
Impairment losses on property, plant and equipment and intangible assets, including:		0.1	0.1	8.5	9.3
- impairment loss on property, plant and equipment related to gas pipeline infrastructure on the B-3 field	17	-	-	9.3	9.3
- other		0.1	0.1	(0.8)	-
Gain on disposal of non-financial non-current assets		1.1	1.1	-	-
Impairment losses on receivables		1.7	1.3	0.2	0.9
Fines and compensation		0.9	1.4	1.6	2.5
Damage to property arising in ordinary course of business		0.4	0.7	0.5	1.3
Membership fees		0.3	0.9	0.1	0.8
Charitable donations		-	2.4	3.0	3.1
Other		1.5	2.9	1.0	2.3
Total		6.0	10.8	14.9	20.2

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12. Finance income

	3 months ended	6 months ended	3 months ended	6 months ended
	Jun 30 2018	Jun 30 2018	Jun 30 2017	Jun 30 2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Dividends	5.3	5.3	4.2	4.2
Interest:	7.9	15.7	4.5	9.3
- on trade receivables	0.5	1.3	0.7	1.6
- on cash	1.0	1.6	0.7	1.2
- on deposits	6.4	12.4	1.9	4.9
- other	-	0.4	1.2	1.6
Exchange differences:	-	-	36.4	43.2
- on bank borrowings	-	-	60.2	109.3
- on translation of intercompany loans ⁽¹⁾	-	-	(28.3)	(68.1)
- on realised foreign-currency transactions in bank accounts	-	-	5.8	2.7
- on notes, including intercompany notes ⁽¹⁾	-	-	3.0	(2.9)
- on deposits and other cash	-	-	(4.1)	(3.2)
- other	-	-	(0.2)	5.4
Revaluation of derivative financial instruments:	-	-	106.4	201.8
- measurement	-	-	88.2	212.6
- settlement	-	-	18.2	(10.8)
Other	-	2.1	-	-
Total	13.2	23.1	151.5	258.5

⁽¹⁾ According to IAS 21 The Effects of Changes in Foreign Exchange Rates, foreign exchange gains and losses on intercompany 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. Material items of income and expenses charged to profit or loss are disclosed separately, as presented in the table above.

13. Finance costs

	Note	3 months ended	6 months ended	3 months ended	6 months ended
		Jun 30 2018	Jun 30 2018	Jun 30 2017	Jun 30 2017
		(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interest:		48.8	89.3	52.6	106.6
- on bank borrowings		23.8	46.8	28.8	62.7
- on non-bank borrowings		0.7	1.5	0.9	1.8
- on notes		5.2	7.7	5.0	6.7
- on finance lease liabilities		5.3	9.4	4.7	9.7
- discount on provisions for oil and natural gas production facilities and for land reclamation, and other provisions	21	12.0	20.6	12.2	22.0
- cost of discount on employee benefit obligations		1.3	2.7	1.5	2.9
- other		0.5	0.6	(0.5)	0.8
Exchange differences:		84.4	7.8	-	-
- on bank borrowings		110.6	79.4	-	-
- on translation of intercompany loans ⁽¹⁾		(37.7)	(57.5)	-	-
- on realised foreign-currency transactions in bank accounts		9.5	(19.6)	-	-
- on notes		8.9	9.8	-	-
- on deposits and other cash		(9.4)	(7.0)	-	-
- other		2.5	2.7	-	-
Revaluation of derivative financial instruments:		18.1	8.8	-	-
- measurement		1.6	50.7	-	-
- settlement		16.5	(41.9)	-	-
Bank fees		6.9	10.4	3.8	8.0
Other		-	0.1	0.5	0.8
Total		158.2	116.4	56.9	115.4

⁽¹⁾ According to IAS 21 The Effects of Changes in Foreign Exchange Rates, foreign exchange gains and losses on intercompany 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. Material items of income and expenses charged to profit or loss are disclosed separately, as presented in the table above.

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14. Income tax

14.1 Tax expense

	3 months ended Jun 30 2018 (unaudited)	6 months ended Jun 30 2018 (unaudited)	3 months ended Jun 30 2017 (unaudited)	6 months ended Jun 30 2017 (unaudited)
Current tax	206.6	336.4	96.7	108.6
Deferred tax	12.5	61.0	14.3	216.8
Total income tax charged to net profit or loss	219.1	397.4	111.0	325.4
Tax expense recognised in other comprehensive income/(loss) (net)	(37.7)	(27.2)	45.9	91.0

For the 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 by this subsidiary is subject to taxation under two parallel tax systems: the corporate income tax system (23% tax rate) and the petroleum tax system (additional tax rate of 55%).

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

14.2 Deferred income tax

	Statement of financial position				Change
	Dec 31 2017	Effect of changes in accounting policies	Jan 1 2018	Jun 30 2018	
	(audited)		(unaudited)	(unaudited)	
Deferred tax assets	415.4	-	415.4	453.6	38.2
Deferred tax liabilities	(277.7)	31.0	(246.7)	(287.5)	(40.8)
Net deferred tax assets/(liabilities)	137.7	31.0	168.7	166.1	(2.6)
Exchange differences on translating deferred tax of foreign operations					(31.2)
Deferred tax disclosed under other comprehensive income/(loss), net					(27.2)
Deferred tax expense charged to net profit or loss					(61.0)

14.3 Deferred tax assets and liabilities

Given that the Group companies are separate taxpayers, the deferred tax (deferred tax assets and liabilities) is calculated separately by individual companies. The Group companies offset deferred tax assets against deferred tax liabilities.

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

	Dec 31 2017	Effect of changes in accounting policies	Jan 1 2018	Deferred tax disclosed under net profit or loss	Deferred tax disclosed under other comprehensive income/(loss), net	Exchange differences on translating deferred tax of foreign operations	Jun 30 2018
	(audited)		(unaudited)				(unaudited)
Deferred tax assets							
Employee benefit obligations	59.1	-	59.1	(6.6)	(0.2)	0.2	52.5
Inventory write-downs	0.9	-	0.9	(0.1)	-	-	0.8
Impairment losses on property, plant and equipment and other intangible assets	301.7	-	301.7	(1.0)	-	28.1	328.8
Negative fair value of derivative financial instruments	6.0	-	6.0	(4.6)	-	-	1.4
Exchange differences on revaluation of foreign-currency items	-	-	-	0.4	-	-	0.4
Impairment losses on receivables	7.9	-	7.9	-	-	-	7.9
Finance lease liabilities	26.4	-	26.4	11.7	-	-	38.1
Provisions for/assets related to decommissioning of crude oil and natural gas extraction facilities and site restoration	499.4	-	499.4	34.4	-	41.8	575.6
Unrealised margin assets	6.7	-	6.7	(2.7)	-	-	4.0
Tax losses carried forward	2.3	-	2.3	9.0	-	-	11.3
Other provisions	9.2	-	9.2	0.8	-	-	10.0
Cash flow hedge accounting	52.9	-	52.9	-	27.4	-	80.3
Other	15.2	-	15.2	11.3	-	0.1	26.6
	987.7	-	987.7	52.6	27.2	70.2	1,137.7
Deferred tax liabilities							
Difference between current tax base and carrying amount of property, plant and equipment and other intangible assets	714.0	-	714.0	72.9	-	36.5	823.4
Difference between current tax value and carrying amount of settlements under joint operations (Norwegian fields)	15.5	(31.0)	(15.5)	32.2	-	-	16.7
Positive fair value of derivative financial instruments	8.4	-	8.4	5.3	-	-	13.7
Exchange differences on revaluation of foreign-currency items	2.3	-	2.3	(2.3)	-	-	-
Tax liabilities associated with acquired exploration and production licences in Lithuania	15.4	-	15.4	(0.5)	-	0.7	15.6
Accrued interest	46.6	-	46.6	1.0	-	-	47.6
Other	47.8	-	47.8	5.0	-	1.8	54.6
	850.0	(31.0)	819.0	113.6	-	39.0	971.6
Net deferred tax assets/(liabilities)	137.7	31.0	168.7	(61.0)	27.2	31.2	166.1

Taxable temporary differences are expected to expire in 2018–2083.

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15. Earnings per share

	3 months ended Jun 30 2018 (unaudited)	6 months ended Jun 30 2018 (unaudited)	3 months ended Jun 30 2017 (unaudited)	6 months ended Jun 30 2017 (unaudited)
Net profit attributable to owners of the Parent (PLNm) (A)	534.9	855.7	157.4	568.3
Weighted average number of shares (million) (B)	184.9	184.9	184.9	184.9
Earnings per share (PLN) (A/B)	2.89	4.63	0.85	3.07

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

In the three and six months ended June 30th 2018 and June 30th 2017, diluted earnings per share were equal to basic earnings per share as the Group carried no instruments with a dilutive effect.

16. Dividends

As at June 30th 2018 and December 31st 2017, 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, whereby dividend payment and amounts are subject to certain conditions, including generation of sufficient free cash and achievement of certain levels of financial ratios.

On June 28th 2018, the General Meeting of Grupa LOTOS S.A. passed a resolution on allocation of the Company's net profit for 2017. Under the resolution, the 2017 net profit of PLN 1,419.5m is to be applied towards:

- dividend payment – PLN 184.9m.
- coverage of the 2014 and 2015 net loss – PLN 347.0m,
- increase of statutory reserve funds – PLN 887.6m.

Dividend will be paid on September 28th 2018. The dividend per share will be PLN 1, pre-tax.

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17. Impairment losses

	Non-current assets of the Upstream segment		Non-current assets of the Downstream segment		Inventories		Receivables		Total	
	3 months ended June 30									
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
At beginning of period (unaudited)	1,908.3	1,940.8	89.8	64.0	4.1	2.6	102.5	165.8	2,104.7	2,173.2
Recognised	0.3	9.3	-	-	0.4	8.7	2.0	2.5	2.7	20.5
Exchange differences on translating foreign operations	92.3	(60.0)	-	-	-	-	-	-	92.3	(60.0)
Used / Reversed	-	-	(5.4)	(0.9)	(0.2)	(0.1)	(0.9)	(5.6)	(6.5)	(6.6)
At end of period (unaudited)	2,000.9	1,890.1	84.4	63.1	4.3	11.2	103.6	162.7	2,193.2	2,127.1

	Non-current assets of the Upstream segment		Non-current assets of the Downstream segment		Inventories		Receivables		Total	
	6 months ended Jun 30									
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
At beginning of period (audited)	1,863.3	2,044.0	89.8	86.1	4.0	2.1	104.2	165.3	2,061.3	2,297.5
Recognised	0.3	10.1 ⁽¹⁾	-	-	1.3	9.3	3.1	4.2	4.7	23.6
Exchange differences on translating foreign operations	137.3	(164.0)	-	-	-	-	-	-	137.3	(164.0)
Used / Reversed	-	-	(5.4)	(23.0) ⁽²⁾	(1.0)	(0.2)	(3.7)	(6.8)	(10.1)	(30.0)
At end of period (unaudited)	2,000.9	1,890.1	84.4	63.1	4.3	11.2	103.6	162.7	2,193.2	2,127.1

⁽¹⁾ Including an impairment loss of PLN 9.3m on gas pipeline infrastructure on the B-3 field. Charged to other expenses in the consolidated statement of comprehensive income (see also Note 11).

⁽²⁾ Including PLN 22.1m of used impairment losses on discontinued investments in refining units (no effect on net profit or loss).

In accordance with IAS 2, inventories are measured at the lower of cost and cost less write-downs to net realisable value.

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. 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. Acquisition and sale of property, plant and equipment and intangible assets

	6 months ended Jun 30 2018 (unaudited)	6 months ended Jun 30 2017 (unaudited)
Purchase of Upstream segment assets	195.2	115.9
Purchase of Downstream segment assets	173.0	658.9
Total	368.2	774.8

In the six months ended June 30th 2018, purchases made in the Upstream segment related mainly to the B-8 field in the Baltic Sea and production from the Sleipner and YME fields in Norway. Purchases in the Downstream segment were mostly associated with the EFRA Project.

In the six months ended June 30th 2017, purchases made in the Upstream segment related mainly to the B-8 field in the Baltic Sea and production from the Heimdal and Sleipner fields in Norway. Purchases in the Downstream segment were associated with the EFRA Project, construction of the Hydrogen Recovery Unit, and expansion of the service station chain. In H1 2017, the Group also purchased catalysts used in the refining process.

As at June 30th 2018, the Group's future contractual commitments related to purchases of property, plant and equipment and intangible assets, undisclosed in the statement of financial position, were PLN 277.3m (December 31st 2017: PLN 395.0m). As at June 30th 2018, the contracted expenditure was related, among other things, to the EFRA Project, the B-8 field development, upgrade of the unit for solvent-based removal of paraffins, the Hydrogen Recovery Unit (HRU), as well as modernisation of locomotives.

In the six months ended June 30th 2018 and June 30th 2017, the Group did not sell any material items of property, plant and equipment or intangible assets.

19. Cash and cash equivalents

	Jun 30 2018 (unaudited)	Jun 30 2017 (unaudited)
Cash and cash equivalents in the statement of financial position	1,691.9	1,047.2
Overdraft facilities	(292.6)	(160.2)
Total cash and cash equivalents in the statement of cash flows	1,399.3	887.0

20. Borrowings, other debt instruments and finance lease liabilities

	Jun 30 2018 (unaudited)	Dec 31 2017 (audited)
Bank borrowings:	4,010.3	3,903.0
- investment facilities contracted for a specific purpose	3,470.7	3,426.9
- working-capital facilities	307.7	139.4
- inventory financing and refinancing facility	753.9	696.8
- funds in bank deposits securing payment of interest and principal	(522.0)	(360.1)
Non-bank borrowings	62.1	68.3
Notes	214.1	313.0
Finance lease liabilities	197.4	141.6
Total	4,483.9	4,425.9
including:		
non-current	2,865.4	2,738.3
current	1,618.5	1,687.6

	6 months ended Jun 30 2018	6 months ended Jun 30 2017
At beginning of period (audited)	4,425.9	5,557.2
Proceeds from borrowings	186.2	562.8
Issue of notes	-	296.1
Repayment of borrowings	(520.5)	(531.7)
Redemption of notes	(113.8)	(77.0)
Decrease in finance lease liabilities	(18.1)	(17.8)
Interest, fees and commissions paid	(92.0)	(104.9)
Interest, fees and commissions accrued	102.2	100.9
Prepayments and accruals	7.6	1.1
Exchange differences:	302.1	(626.4)
Change in overdraft facilities	292.5	146.3
Change in deposits securing payment of interest and principal	(161.9)	(138.7)
Acquisition of property, plant and equipment under lease agreements	72.6	1.4
Other	1.1	0.9
At end of period (unaudited)	4,483.9	5,170.2

In the six months ended June 30th 2018 and June 30th 2017, there were no defaults under any credit facility, loan or finance lease agreements, or breaches of any material provisions of those agreements having an effect on the Group's financial statements.

In the six months ended June 30th 2018, proceeds from bank borrowings incurred by the Group amounted to PLN 186.2m and were related to investment facilities of LOTOS Asphalt Sp. z o.o. (PLN 107m) and the working capital facility of AB LOTOS Geonafra (PLN 79.2m).

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In the same period, repayments of bank borrowings amounted to PLN 514.1m and mainly included repayments under investment facilities of the Parent (PLN 214.7m), credit facilities of LOTOS Exploration and Production Norge AS (PLN 180.8m) and credit facilities of AB LOTOS Geonafra (PLN 91.7m, chiefly to refinance existing debt). These amounts are presented in the statement of cash flows as cash flows from financing activities under [Proceeds from bank borrowings](#) and [Repayment of bank borrowings](#), respectively.

The Group did not incur any non-bank borrowings in the six months ended June 30th 2018. Repayments of non-bank borrowings in the period amounted to PLN 6.4m and were primarily related to a loan contracted in 2014 in the upstream segment to finance the purchase of a drilling platform. This amount was disclosed in cash flows from financing activities under [Repayment of non-bank borrowings](#).

In the six months ended June 30th 2018, the notes issued by LOTOS Petrobaltic S.A. were partially redeemed. The redemption amount of PLN 113.8m is presented in cash flows from financing activities under [Redemption of notes](#).

In 2016, the SPV B8 Spółka z ograniczoną odpowiedzialnością Baltic S.K.A. (upstream segment) concluded agreements with Bank Gospodarstwa Krajowego ("BGK") and Polski Fundusz Rozwoju S.A. (the Polish Development Fund) (Fundusz Inwestycji Infrastrukturalnych – Dłużny Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, "PFR") for financing of the development of the B8 oil field in the Baltic Sea, including senior notes and subordinated notes programme agreements. As at June 30th 2018, the liability under the outstanding notes issued by B8 Spółka z ograniczoną odpowiedzialnością Baltic S.K.A., net of issue costs, was PLN 214.1m. Due to an event of default under the terms and conditions of the notes on the last day of the reporting period there were grounds for their early redemption at the option of PFR and BGK. The financing entities did not notify the Group of their intention to exercise this right.

On July 25th 2018, B8 spółka z ograniczoną odpowiedzialnością Baltic S.K.A. concluded with Bank Gospodarstwa Krajowego an annex to the Senior Note Programme Agreement and annexes to the terms and conditions of the notes issued by the company and acquired by BGK. The annexes postponed the maturity dates to fall between December 31st 2020 and January 31st 2021. The issuer also undertook to early redeem part of the notes on September 30th 2020. On July 27th 2018, B8 Spółka z ograniczoną odpowiedzialnością Baltic S.K.A. issued notes with a total nominal value of USD 30m. The proceeds from the issue were used to redeem all notes acquired by Polski Fundusz Rozwoju S.A. As at June 30th 2018, in relation to the outstanding notes of B8 Spółka z ograniczoną odpowiedzialnością Baltic S.K.A. there was no default on the financial ratios changed by the annex and thus no grounds for BGK to exercise the early redemption option.

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21. Provisions

	Note	Provisions for decommissioning and restoration costs				Total	Other provisions	Total
		Provision for oil and gas extraction facilities			Provisions for retired refining and other units			
		Poland	Norway	Lithuania				
Jan 1 2018 (audited)		196.9	814.8	13.1	12.5	1,037.3	37.0	1,074.3
Recognised		-	-	-	-	-	0.3	0.3
Remeasurement of decommissioning costs		-	-	-	-	-	(0.1)	(0.1)
Change in provisions attributable to approaching due date of liability (discount unwinding effect)	13	3.1	16.9	0.5	-	20.5	0.1	20.6
Interest on Oil and Gas Facility Decommissioning Fund		0.2	-	-	-	0.2	-	0.2
Exchange differences on translating foreign operations		-	69.8	0.6	-	70.4	0.4	70.8
Used		-	(2.1)	-	-	(2.1)	(11.4)	(13.5)
Reversed		-	-	-	(0.3)	(0.3)	(3.1)	(3.4)
Jun 30 2018 (unaudited)		200.2	899.4	14.2	12.2	1,126.0	23.2	1,149.2
including:								
non-current		200.2	896.7	14.2	12.1	1,123.2	1.4	1,124.6
current		-	2.7	-	0.1	2.8	21.8	24.6
Jan 1 2017 (audited)		186.5	958.6	14.0	15.2	1,174.3	82.8	1,257.1
Recognised		-	-	-	-	-	4.1	4.1
Remeasurement of decommissioning costs		-	-	-	-	-	(0.4)	(0.4)
Change in provisions attributable to approaching due date of liability (discount unwinding effect)	13	3.3	17.9	0.3	0.1	21.6	0.4	22.0
Interest on Oil and Gas Facility Decommissioning Fund		0.2	-	-	-	0.2	-	0.2
Exchange differences on translating foreign operations		-	(86.8)	(0.6)	-	(87.4)	(2.3)	(89.7)
Used		-	(4.3)	-	-	(4.3)	(32.3)	(36.6)
Reversed		-	-	-	-	-	(15.4)	(15.4)
Jun 30 2017 (unaudited)		190.0	885.4	13.7	15.3	1,104.4	36.9	1,141.3
including:								
non-current		190.0	876.6	13.7	13.9	1,094.2	5.2	1,099.4
current		-	8.8	-	1.4	10.2	31.7	41.9

Provisions for decommissioning and site restoration costs:

Provision for oil and gas extraction facilities in Poland – a provision for future costs of decommissioning of the oil and gas extraction facilities in the B-3 and B-8 licence areas, and the Oil and Gas Extraction Facility Decommissioning Fund, set up to cover future costs of decommissioning of oil and gas extraction 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 oil and gas extraction facilities in Norway – a provision for future costs of decommissioning of the oil extraction facilities in the YME field, and the oil and gas extraction facilities in the Heimdal and Sleipner fields.

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

Provisions for retired refining and other units – a provision for site restoration and the cost of disassembly and decommissioning of the retired units 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 site restoration and clean-up.

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

In the six months ended June 30th ., the Group made no changes to the method of fair value measurement applied to financial instruments measured at fair value through profit or loss (for description of the method, see Note 7.21 to the consolidated financial statements for 2017), made no transfers of financial instruments between fair value hierarchy levels (see Note 23.1 to the consolidated financial statements for 2017). As at June 30th 2018 and December 31st 2017, the Group held derivative instruments classified as fair value hierarchy Level 2.

Fair value hierarchy (Level 2)	Jun 30 2018 (unaudited)	Dec 31 2017 (audited)
Financial assets		
Commodity swap	53.6	34.7
Currency forward and spot contracts	1.0	13.1
Interest rate swap (IRS)	18.0	9.3
Currency swap	0.7	107.4
Total	73.3	164.5
Financial liabilities		
Commodity swap	6.2	3.8
Currency forward and spot contracts	10.3	9.5
Interest rate swap (IRS)	1.2	27.8
Currency swap	28.4	38.3
Total	46.1	79.4

As at June 30th 2018 and December 31st 2017, there was no reclassification of financial instruments other than that required by the implementation of IFRS 9 (see Note 4.1). As at June 30th 2018, the Group recognised shares in other entities, of PLN 9.8m, under assets measured at fair value through other comprehensive income. In accordance with IAS 39, as at December 31st 2017 those assets were disclosed as available for sale and measured at historical cost less impairment.

As at June 30th 2018 and December 31st 2017, the fair values of financial assets and liabilities did not materially differ from their carrying amounts.

23. Contingent liabilities and assets

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

In the period between the end of the previous financial year, i.e. December 31st 2017, and the date of issue of these interim financial statements, there were no significant changes with respect to pending material court, arbitration, and administrative proceedings or with respect to other risks to the Company or its subsidiaries. For information on pending material proceedings, see Note 29.1 to the consolidated financial statements for 2017.

23.2 Other contingent liabilities

In the period between the end of the previous financial year, i.e. December 31st 2017, 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.

24. Related parties

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

In the three and six months ended June 30th 2018, the Group made material transactions with LOTOS-Air BP Polska Sp. z o.o., with the total value of PLN 165.1m and PLN 255.3m, respectively (in the three and six months ended June 30th 2017: PLN 96.2m and PLN 163.3m, respectively). As at June 30th 2018, the balance of outstanding receivables under these transactions was PLN 66.1m (December 31st 2017: PLN 34.5m). The transactions concluded with LOTOS-Air BP Polska Sp. z o.o. involved mainly sale of aviation fuel.

24.2 Entity having control of the Group

As at June 30th 2018 and December 31st 2017, the State Treasury held 53.19% of Grupa LOTOS S.A. shares. In the six months ended June 30th 2018 and June 30th 2017, there were no transactions between the Company 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 six months ended June 30th 2018 and June 30th 2017, the aggregate value of transactions executed by the Group with parties related to it through the State Treasury was material. The transactions were concluded on an arm's length basis in the course of the Group's day-to-day operations And involved mainly purchase and sale of fuels, purchase of crude oil and natural gas, and transport services.

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	3 months ended Jun 30 2018 (unaudited)	6 months ended Jun 30 2018 (unaudited)	3 months ended Jun 30 2017 (unaudited)	6 months ended Jun 30 2017 (unaudited)
Sales	216.2	279.5	123.8	199.6
Procurement	440.7	893.7	353.4	798.0
			Jun 30 2018 (unaudited)	Dec 31 2017 (audited)
Receivables			121.0	82.9
Liabilities			265.7	263.4

In addition, the Group had liabilities under credit facilities, loans, notes and finance leases towards banks and financial institutions of which the State Treasury has control or joint control or over which it exercises significant influence. These entities included PKO BP S.A., PEKAO S.A., Bank Gospodarstwa Krajowego, Polski Fundusz Rozwoju S.A., and Agencja Rozwoju Przemysłu S.A.

	Jun 30 2018 (unaudited)	Dec 31 2017 (audited)
Bank borrowings	1,227.7	1,039.3
Non-bank borrowings	62.1	68.3
Notes	214.1	201.7
Finance lease liabilities	24.6	27.4
Total	1,528.5	1,336.7

24.3 Remuneration of members of the Company's governing bodies and its key management staff

Remuneration paid to members of the Company's Management and Supervisory Boards	6 months ended Jun 30 2018 (unaudited)	6 months ended Jun 30 2017 (unaudited)
Management Board		
Short-term employee benefits (salaries)	1.0	1.2
Management Board – subsidiaries ⁽¹⁾		
Short-term employee benefits (salaries)	-	0.3
Supervisory Board		
Short-term employee benefits (salaries)	0.3	0.3
Total (2)	1.3	1.8

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

⁽²⁾ The amount reflects changes in the composition of the Company's Management and Supervisory Boards.

In the six months ended June 30th 2018 and June 30th 2017, the Group did not enter into any significant transactions with any Management Board or Supervisory Board members, did not advance any loans, make any advance payments, issue any guarantees for or conclude any other agreements with any Management Board or Supervisory Board member, which could have a material bearing on these financial statements or would be advanced, made, issued or concluded otherwise than on an arm's length basis.

Based on representations submitted by members of the Company's Management and Supervisory Boards, in the six months ended June 30th 2018 and June 30th 2017, 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 Grupa LOTOS Management Board)	6 months ended Jun 30 2018 (unaudited)	6 months ended Jun 30 2017 (unaudited)
Short-term employee benefits (salaries), including:	20.5	22.9
- annual bonus paid	4.6 ⁽¹⁾	6.7 ⁽²⁾
- length-of-service award paid	0.2	0.3

⁽¹⁾ Remuneration paid in 2018 on account of annual bonus for 2017.

⁽²⁾ Remuneration paid in 2017 on account of annual bonus for 2016.

In the six months ended June 30th 2018 and June 30th 2017, the Group did not provide any loans or similar benefits to members of its key management staff.

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

In the six months ended June 30th 2018 and June 30th 2017, the Group entered into transactions with parties related to it through members of the Management and Supervisory Boards. Those transactions were connected with the Group's day-to-day operations and related mainly to the purchase of civil liability insurance policies and property insurance policies for PLN 6.6m (six months ended June 30th 2017: PLN 25.8m); as at June 30th 2018, unsettled transactions totalled PLN 5.3m (December 31st 2017: PLN 0.9m).

Moreover, as at June 30th 2018, the Group disclosed liabilities under a borrowing in the amount of PLN 4.6m.

All transactions with parties related to the Group through members of the Management Board and the Supervisory Board were executed on an arm's length basis.

II. INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30TH 2018, PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS ENDORSED BY THE EUROPEAN UNION

GRUPA LOTOS S.A.
Interim condensed separate financial statements
for the six months ended June 30th 2018
(PLNm)

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

	Note	3 months ended Jun 30 2018 (unaudited)	6 months ended Jun 30 2018 (unaudited)	3 months ended Jun 30 2017 (unaudited)	6 months ended Jun 30 2017 (unaudited)
Revenue	7.1	6,679.9	12,325.5	4,661.7	9,411.7
Cost of sales	7.2	(5,890.3)	(11,061.2)	(4,559.5)	(8,757.2)
Gross profit		789.6	1,264.3	102.2	654.5
Distribution costs	7.2	(189.5)	(365.3)	(159.1)	(320.6)
Administrative expenses	7.2	(49.6)	(104.9)	(53.6)	(104.2)
Other income	7.3	8.9	9.6	4.6	14.3
Other expenses		(1.6)	(5.1)	(3.9)	(5.2)
Operating profit/(loss)		557.8	798.6	(109.8)	238.8
Finance income	7.4	374.5	402.0	227.7	346.3
Finance costs	7.5	(70.2)	(69.4)	(29.6)	(61.1)
Profit before tax		862.1	1,131.2	88.3	524.0
Corporate income tax	8.1	(94.9)	(145.5)	4.9	(77.1)
Net profit		767.2	985.7	93.2	446.9
Other comprehensive income/(loss)					
Items that may be reclassified to profit or loss:					
Cash flow hedges		(199.4)	(144.1)	241.7	479.2
Corporate income tax relating to cash flow hedges	8.1	37.9	27.4	(45.9)	(91.0)
Other comprehensive income/(loss), net		(161.5)	(116.7)	195.8	388.2
Total comprehensive income/(loss)		605.7	869.0	289.0	835.1
Earnings per share (PLN)					
Weighted average number of shares (million)	9	184.9	184.9	184.9	184.9
- basic	9	4.15	5.33	0.50	2.42
- diluted	9	4.15	5.33	0.50	2.42

The Notes to the interim condensed separate financial statements, presented on pages 32 to 42, are an integral part of the statements

GRUPA LOTOS S.A.
Interim condensed separate financial statements
for the six months ended June 30th 2018
(PLNm)

SEPARATE STATEMENT OF FINANCIAL POSITION

Note	Jun 30 2018 (unaudited)	Dec 31 2017 (audited)
ASSETS		
Non-current assets		
Property, plant and equipment	5,948.4	6,042.6
Intangible assets	97.4	99.9
Shares	2,344.5	2,288.5
Derivative financial instruments	10.8	0.7
Other non-current assets	288.9	208.7
Total non-current assets	8,690.0	8,640.4
Current assets		
Inventories	4,562.7	3,335.5
- including emergency stocks	2,866.5	2,116.9
Trade receivables	2,906.4	2,597.1
Derivative financial instruments	48.2	152.8
Other current assets	188.2	225.4
Cash and cash equivalents	13 738.5	828.1
Total current assets	8,444.0	7,138.9
Total assets	17,134.0	15,779.3
EQUITY AND LIABILITIES		
Equity		
Share capital	184.9	184.9
Share premium	2,228.3	2,228.3
Cash flow hedging reserve	(341.9)	(225.2)
Retained earnings	7,505.1	6,704.3
Total equity	9,576.4	8,892.3
Non-current liabilities		
Bank borrowings	14 1,733.8	1,839.8
Derivative financial instruments	1.4	6.7
Deferred tax liabilities	8.2 237.4	227.2
Employee benefit obligations	61.5	58.6
Other liabilities and provisions	15.3	17.5
Total non-current liabilities	2,049.4	2,149.8
Current liabilities		
Bank borrowings	14 1,153.0	899.9
Derivative financial instruments	42.4	72.7
Trade payables	2,220.8	2,122.3
Current tax payables	87.9	22.6
Employee benefit obligations	39.5	51.9
Other liabilities and provisions	1,964.6	1,567.8
Total current liabilities	5,508.2	4,737.2
Total liabilities	7,557.6	6,887.0
Total equity and liabilities	17,134.0	15,779.3

The Notes to the interim condensed separate financial statements, presented on pages 32 to 42, are an integral part of the statements

GRUPA LOTOS S.A.
Interim condensed separate financial statements
for the six months ended June 30th 2018
(PLNm)

SEPARATE STATEMENT OF CASH FLOWS

(prepared using the indirect method)

	Note	6 months ended Jun 30 2018 (unaudited)	6 months ended Jun 30 2017 (unaudited)
Cash flows from operating activities			
Net profit		985.7	446.9
Adjustments:		(1,343.9)	(16.7)
Income tax	8.1	145.5	77.1
Depreciation and amortisation	7.2	181.7	204.0
Foreign exchange (gains)/losses		67.4	(15.3)
Interest and dividends		(332.3)	(79.5)
Settlement and valuation of derivative financial instruments	7.4; 7.5	14.2	(166.6)
(Increase)/Decrease in trade receivables		(309.3)	23.1
(Increase)/Decrease in other assets		(4.9)	119.2
(Increase)/Decrease in inventories		(1,227.5)	10.6
Increase/(Decrease) in trade payables		98.5	(296.9)
Increase in other liabilities and provisions		32.3	114.2
(Decrease) in employee benefit obligations		(9.5)	(6.6)
Income tax (paid)/refunded		(42.3)	(48.9)
Net cash from operating activities		(400.5)	381.3
Cash flows from investing activities			
Dividends received		313.0	28.8
Interest received		6.7	4.7
Sale of property, plant and equipment and intangible assets		0.7	0.3
Decrease in loans advanced to related parties	18.1	36.0	-
Purchase of property, plant and equipment and intangible assets		(92.2)	(263.3)
Acquisition of shares in LOTOS Upstream Sp. z o.o.		(56.0)	-
Loans advanced to related parties		-	(2.5)
Security deposit		31.2	1.4
Cash flows under cash pooling arrangement		(0.1)	41.9
Settlement of derivative financial instruments		7.8	(0.9)
Net cash from investing activities		247.1	(189.6)
Cash flows from financing activities			
Repayment of bank borrowings	14	(214.7)	(302.7)
Interest paid	14	(45.7)	(59.2)
Settlement of derivative financial instruments		29.7	(10.6)
Net cash from financing activities		(230.7)	(372.5)
Total net cash flow		(384.1)	(180.8)
Effect of exchange rate fluctuations on cash held		2.0	(2.1)
Change in net cash		(382.1)	(182.9)
Cash at beginning of period		828.0	536.9
Cash at end of period	13	445.9	354.0

The Notes to the interim condensed separate financial statements, presented on pages 32 to 42, are an integral part of the statements

GRUPA LOTOS S.A.
Interim condensed separate financial statements
for the six months ended June 30th 2018
(PLNm)

SEPARATE STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Cash flow hedging reserve	Retained earnings	Total equity
Note					
Jan 1 2018 (audited)	184.9	2,228.3	(225.2)	6,704.3	8,892.3
Net profit	9	-	-	985.7	985.7
Other comprehensive income/(loss), net	-	-	(116.7)	-	(116.7)
Total comprehensive income/(loss)	-	-	(116.7)	985.7	869.0
Dividend	10	-	-	(184.9)	(184.9)
Jun 30 2018 (unaudited)	184.9	2,228.3	(341.9)	7,505.1	9,576.4
Jan 1 2017 (audited)	184.9	2,228.3	(812.8)	5,469.2	7,069.6
Net profit	9	-	-	446.9	446.9
Other comprehensive income/(loss), net	-	-	388.2	-	388.2
Total comprehensive income/(loss)	-	-	388.2	446.9	835.1
Dividend	-	-	-	(184.9)	(184.9)
Jun 30 2017 (unaudited)	184.9	2,228.3	(424.6)	5,731.2	7,719.8

The Notes to the interim condensed separate financial statements, presented on pages 32 to 42, are an integral part of the statements

(This is a translation of a document originally issued in Polish)

NOTES TO THE FINANCIAL STATEMENTS

1. General information

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

Grupa LOTOS S.A.'s business comprises production, services and trading activities. The Company's principal business activity consists in the manufacture and processing of refined petroleum products. Based on the classification applied by the Warsaw Stock Exchange, Grupa LOTOS S.A. is included in the fuel sector.

2. Basis of preparation and presentation

These interim condensed separate financial statements of Grupa LOTOS S.A. (the "interim financial statements", "financial statements") have been prepared in accordance with EU-endorsed International Accounting Standard IAS 34 *Interim Financial Reporting*.

These interim condensed separate financial statements present the financial position of the Company as at June 30th 2018 and December 31st 2017, results of the Company's operations for the six months ended June 30th 2018 and June 30th 2017, and cash flows for the six months ended June 30th 2018 and June 30th 2017.

These interim financial statements should be read in conjunction with the audited [financial statements of Grupa LOTOS S.A. for 2017](#), issued on March 7th 2018 (the "financial statements for 2017").

The data presented in these interim financial statements as at June 30th 2018 and for the period of six months ended on that date, as well as the comparative financial data for the period of six months ended June 30th 2017 were subject to a review by an auditor. The financial data presented for the period of three months ended June 30th 2018, as well as the comparative financial data for the period of three months ended June 30th 2017, included in these interim separate financial statements, were not subject to a review by an auditor. The data as at December 31st 2017 was audited. The auditor's report on the financial statements for 2017 was issued on March 6th 2018.

These interim condensed separate financial statements have been prepared on the assumption that the Company would continue as a going concern in the foreseeable future. As at the date of authorisation of these financial statements for issue, no circumstances were identified which would indicate any threat to the Company's continuing as a going concern.

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

2.1 Accounting policies

The accounting policies and calculation methods applied in the preparation of these interim condensed separate financial statements are the same as those applied in the preparation of the separate financial statements for 2017 (see Note 6 to the separate financial statements for 2017), except to the extent of the policies which were introduced following the adoption, as of January 1st 2018, of new standards IFRS 9 and IFRS 15. For a discussion of the effect of the new standards on the Company's accounting policies, see Note 4 to the separate financial statements for 2017. IFRS 9 and IFRS 15 were implemented using the modified retrospective method, according to which the comparative data is not restated. IFRS 9 and IFRS 15 had no significant effect on the Company's financial statements; therefore, no temporary adjustment was made as at January 1st 2018. There were no other changes in comparative data or corrections of errors.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 introduces a five-step model to be followed in order to appropriately recognise revenue from contracts with customers. The new model provides precise guidance for the identification of contracts and performance obligations, determination of the transaction price, allocation of consideration to performance obligations, and the moment of revenue recognition. In addition, under IFRS 15 revenue is recognised as control is passed and not, as earlier, when risks and rewards are transferred.

IFRS 9 Financial Instruments

[Selected accounting policy](#)

Measurement of financial assets and liabilities

Since January 1st 2018, the Company has been classifying financial assets and financial liabilities into the following categories:

- measured at amortised cost,
- measured at fair value through other comprehensive income,
- measured at fair value through profit or loss.

The Company classifies its assets upon initial recognition.

The following items are classified by the Company as assets and liabilities at amortised cost:

- financial assets: trade receivables, loans advanced, cash pool, cash and cash equivalents, deposits, security deposits, other receivables,
- financial liabilities: bank borrowings, trade payables, other liabilities.

The Company recognises shares in other entities in the category of assets measured at fair value through other comprehensive income.

The Company recognises derivative financial instruments not designated for hedge accounting purposes in the category of assets/liabilities measured at fair value through profit or loss.

Impairment of financial assets

To estimate the impairment of financial assets measured at amortised cost, the Company applies the expected loss model, which is based on the calculation of expected losses, regardless of whether there is any indication of impairment. Previously, the Company applied the incurred loss model. In accordance with IAS 39, with respect to the recognition of impairment losses, the Company was obliged to assess whether there was any evidence of impairment, and if there was such evidence – to estimate the impairment loss.

As regards hedge accounting, the Company did not implement the changes resulting from IFRS 9. As at January 1st 2018, the Company continued to apply hedge accounting principles in accordance with IAS 39 (see Note 6.21 to the financial statements for 2017).

The table below presents the effect of implementation of IFRS 9 on the change in the classification and measurement of the Company's financial assets as at January 1st 2018:

Categories and classes of financial instruments defined in IAS 39	IAS 39		IFRS 9			Effect of change Jan 1 2018
	Measurement at amortized/historical cost	Measurement at fair value through profit or loss	Measurement at amortized cost	Measurement at fair value through: Profit or loss	Other comprehensive income	
Financial assets at fair value through profit or loss – held for trading:	-	153.5	-	153.5	-	-
Derivative financial instruments	-	153.5	-	153.5	-	-
Loans and receivables	3,666.3	-	3,666.3	-	-	-
Trade receivables	2,597.1	-	2,677.0	-	-	-
Cash and cash equivalents	828.1	-	1,920.7	-	-	-
Other financial assets:	241.1	-	449.8	-	-	-
Loans advanced to related entities	190.2	-	190.2	-	-	-
Bank deposits	29.0	-	29.0	-	-	-
Security deposits (margins)	15.8	-	15.8	-	-	-
Other	6.1	-	6.1	-	-	-
Financial assets available for sale	6.3	-	-	-	6.3	-
Shares*	6.3	-	-	-	6.3	-

*valuation at historical cost

2.2 New standards and interpretations which have been published but are not yet effective

[New standards, amendments to the existing standards and interpretations which were published after December 31st 2017 and which have not been endorsed by the European Union:](#)

- Amendments to References to the Conceptual Framework in IFRS Standards, issued on March 29th 2018 (effective for annual periods beginning on or after January 1st 2020)

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

IFRS 16 Leases is effective for annual periods beginning on or after January 1st 2019. Under the new standard, all lease contracts (with few exceptions) will be recognised as a right-of-use asset and as a lease liability. The Company plans to implement the standard using the modified retrospective method, with the cumulative effect of the first application of IFRS 16 recognised as at January 1st 2019, without restating the comparative data.

2.3 Exchange rates

The following exchange rates, determined on the basis of the exchange rates quoted by the National Bank of Poland, were used for the purpose of the balance-sheet valuation:

NBP's mid rate quoted for:	Jun 30 2018 ⁽¹⁾	Dec 31 2017 ⁽²⁾
USD	3.7440	3.4813
EUR	4.3616	4.1709

⁽¹⁾ NBP's mid rates table effective for June 30th 2018.

⁽²⁾ NBP's mid rates table effective for December 31st 2017.

NBP's average mid rate for the reporting period	6 months ended Jun 30 2018 ⁽¹⁾	6 months ended Jun 30 2017 ⁽²⁾
USD	3.5192	3.8964
EUR	4.2395	4.2474

⁽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 – June 30th 2018.

⁽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 – June 30th 2017.

GRUPA LOTOS S.A.
Interim condensed separate financial statements
for the six months ended June 30th 2018
Notes to the financial statements

(PLNm)

3. Seasonality and cyclicalities of business in the reporting period

There was no seasonality or cyclicalities in the Company's business in the reporting period.

4. Material changes to 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 material changes to reporting items after the end of the last annual reporting period, i.e. 2017, are presented in the key sections of the financial statements and supplemented with additional information contained in the relevant notes to the financial statements.

5. Changes to estimates reported in previous interim periods of the current financial year or in previous financial years, where they have a material effect on the current interim period

The Company recorded no material changes in estimated amounts reported in prior periods which would have a material effect on the current interim reporting period.

6. Business segments

The results of the operating segments for the three and six months ended June 30th 2018 are presented in Note 8 to the interim condensed consolidated financial statements for the six months ended June 30th 2018, given that the LOTOS Group companies have been allocated to the identified business segments. The Company is included in the downstream segment.

7. Income and expenses

7.1 Revenue

	3 months ended Jun 30 2018 (unaudited)	6 months ended Jun 30 2018 (unaudited)	3 months ended Jun 30 2017 (unaudited)	6 months ended Jun 30 2017 (unaudited)
Revenue from sale of products	6,594.0	11,846.7	4,493.4	9,047.1
- including the effect of cash flow hedge accounting	(9.0)	(18.6)	(38.0)	(70.4)
Revenue from rendering of services	40.2	71.9	33.4	65.7
Revenue from sale of products and rendering of services	6,634.2	11,918.6	4,526.8	9,112.8
Revenue from sale of merchandise and materials	45.7	406.9	134.9	298.9
Total	6,679.9	12,325.5	4,661.7	9,411.7
- including to related entities	3,942.5	6,789.0	2,704.9	5,275.6

Geographical structure	3 months ended Jun 30 2018 (unaudited)	6 months ended Jun 30 2018 (unaudited)	3 months ended Jun 30 2017 (unaudited)	6 months ended Jun 30 2017 (unaudited)
Domestic sales:	5,437.0	9,676.9	4,045.8	7,848.9
products and services	5,391.3	9,270.0	3,910.9	7,550.0
merchandise and materials	45.7	406.9	134.9	298.9
Export sales:	1,242.9	2,648.6	615.9	1,562.8
products and services	1,242.9	2,648.6	615.9	1,562.8
Total	6,679.9	12,325.5	4,661.7	9,411.7

GRUPA LOTOS S.A.
Interim condensed separate financial statements
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(PLNm)

Sales by type of products, merchandise and services	3 months ended	6 months ended	3 months ended	6 months ended
	Jun 30 2018	Jun 30 2018	Jun 30 2017	Jun 30 2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Gasolines	1,133.2	2,088.0	800.0	1,688.7
Naphtha	291.4	594.2	166.3	395.6
Diesel oil	3,599.6	6,237.4	2,615.8	5,173.8
Light fuel oil	85.3	283.6	92.7	292.6
Heavy fuel oil	486.1	1,000.6	220.4	641.8
Aviation fuel	363.1	648.2	230.8	340.2
Bunker fuel	44.9	83.9	35.6	65.5
Bitumen production components	231.0	266.4	173.0	214.7
Base oils	173.3	340.0	147.9	293.8
Liquid gas	97.2	162.7	70.6	133.9
Crude oil	-	320.7	-	-
Other refinery products, merchandise and materials	133.9	235.5	109.1	161.5
Other merchandise and materials	9.7	11.0	4.1	14.3
Services	40.2	71.9	33.4	65.7
Effect of cash flow hedge accounting	(9.0)	(18.6)	(38.0)	(70.4)
Total	6,679.9	12,325.5	4,661.7	9,411.7

7.2 Expenses by nature

	3 months ended	6 months ended	3 months ended	6 months ended
	Jun 30 2018	Jun 30 2018	Jun 30 2017	Jun 30 2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Depreciation and amortisation	90.7	181.7	95.1	204.0
Raw materials and consumables used ⁽¹⁾	5,673.4	10,399.0	3,940.8	7,838.9
Services	241.0	467.5	335.1	554.8
Taxes and charges	111.9	221.4	93.7	192.4
Employee benefits expense	53.0	118.7	57.9	121.6
Other expenses by nature	28.9	44.7	38.0	46.8
Cost of merchandise and materials sold	45.1	383.0	137.1	291.5
Total expenses by nature	6,244.0	11,816.0	4,697.7	9,250.0
Change in products	(114.6)	(284.6)	74.5	(68.0)
Total	6,129.4	11,531.4	4,772.2	9,182.0
including:				
Cost of sales	5,890.3	11,061.2	4,559.5	8,757.2
Distribution costs	189.5	365.3	159.1	320.6
Administrative expenses	49.6	104.9	53.6	104.2

⁽¹⁾ Including foreign exchange losses related to operating activities, recognised in cost of sales for the three and six months ended June 30th 2018: PLN 57.6m and PLN 63.4m, respectively (for the three and six months ended June 30th 2017: foreign exchange gains of PLN 0.4m and PLN 7.0m, respectively).

7.3 Other income

	3 months ended	6 months ended	3 months ended	6 months ended
	Jun 30 2018	Jun 30 2018	Jun 30 2017	Jun 30 2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Grants	7.8	8.0	2.5	11.3
Fines and compensation	1.0	1.4	0.2	0.3
Reimbursed excise duty	-	-	1.1	1.6
Other	0.1	0.2	0.8	1.1
Total	8.9	9.6	4.6	14.3

GRUPA LOTOS S.A.
Interim condensed separate financial statements
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Notes to the financial statements

(PLNm)

7.4 Finance income

	Note	3 months ended	6 months ended	3 months ended	6 months ended
		Jun 30 2018 (unaudited)	Jun 30 2018 (unaudited)	Jun 30 2017 (unaudited)	Jun 30 2017 (unaudited)
Dividends:		367.0	371.8	119.2	125.9
- from related entities	18.1	364.9	369.7	117.2	123.9
- from other entities		2.1	2.1	2.0	2.0
Interest:		7.1	14.2	6.0	11.7
- on deposits		4.9	9.1	1.6	4.3
- on loans advanced	18.1	2.1	4.7	2.5	5.1
- other		0.1	0.4	1.9	2.3
Exchange differences:		-	13.2	20.8	41.2
- on bank borrowings		-	(18.0)	20.3	49.3
- on loans advanced		-	6.3	(5.5)	(10.7)
- on realised foreign-currency transactions in bank accounts		-	22.9	5.9	3.5
- other		-	2.0	0.1	(0.9)
Revaluation of derivative financial instruments:		-	-	81.3	166.6
- measurement		-	-	71.4	178.9
- settlement		-	-	9.9	(12.3)
Other		0.4	2.8	0.4	0.9
Total		374.5	402.0	227.7	346.3

7.5 Finance costs

	3 months ended	6 months ended	3 months ended	6 months ended
	Jun 30 2018 (unaudited)	Jun 30 2018 (unaudited)	Jun 30 2017 (unaudited)	Jun 30 2017 (unaudited)
Interest:	25.0	46.1	26.2	54.1
- on bank borrowings	24.3	44.7	25.8	52.5
- other	0.7	1.4	0.4	1.6
Exchange differences:	27.6	-	-	-
- on foreign-currency bank borrowings	25.1	-	-	-
- on loans advanced	(7.9)	-	-	-
- on commissions and fees for borrowings	(0.5)	-	-	-
- on realised foreign-currency transactions in bank accounts	10.8	-	-	-
- on cash	(0.3)	-	-	-
- on investment liabilities	0.4	-	-	-
Revaluation of derivative financial instruments:	11.2	14.2	-	-
- measurement	(1.1)	51.7	-	-
- settlement	12.3	(37.5)	-	-
Bank fees	6.4	9.1	3.1	6.3
Other	-	-	0.3	0.7
Total	70.2	69.4	29.6	61.1

8. Income tax

8.1 Tax expense

	3 months ended	6 months ended	3 months ended	6 months ended
	Jun 30 2018 (unaudited)	Jun 30 2018 (unaudited)	Jun 30 2017 (unaudited)	Jun 30 2017 (unaudited)
Current tax	74.9	107.9	0.4	0.4
Deferred tax	20.0	37.6	(5.3)	76.7
Total income tax charged to net profit or loss	94.9	145.5	(4.9)	77.1
Tax expense recognised in other comprehensive income/(loss) (net), relating to cash flow hedges	(37.9)	(27.4)	45.9	91.0

The income tax expense was calculated at the rate of 19% of the income tax base.

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8.2 Deferred income tax

	Note	Statement of financial position		Statement of comprehensive income
		Jun 30 2018 (unaudited)	Dec 31 2017 (audited)	6 months ended Jun 30 2018 (unaudited)
Deferred tax assets				
Employee benefit obligations		18.3	19.9	(1.6)
Impairment losses on receivables		2.0	1.9	0.1
Negative fair value of derivative financial instruments		1.4	6.0	(4.6)
Cash flow hedges		80.3	52.9	27.4
Other		22.0	12.1	9.9
		124.0	92.8	31.2
Deferred tax liabilities				
Difference between current tax value and carrying amount: of property, plant and equipment and intangible assets		345.7	307.5	38.2
Positive fair value of derivative financial instruments		10.9	7.9	3.0
Other		4.8	4.6	0.2
		361.4	320.0	41.4
Deferred tax expense recognised in:				(10.2)
- net profit or loss				(37.6)
- other comprehensive income/(loss), net	8.1			27.4
Net deferred tax assets/(liabilities)		(237.4)	(227.2)	

Taxable temporary differences are expected to expire in 2018–2083.

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9. Earnings per share

	3 months ended Jun 30 2018 (unaudited)	6 months ended Jun 30 2018 (unaudited)	3 months ended Jun 30 2017 (unaudited)	6 months ended Jun 30 2017 (unaudited)
	Net profit (PLNm) (A)	767.2	985.7	93.2
Weighted average number of shares (million) (B)	184.9	184.9	184.9	184.9
Earnings per share (PLN) (A/B)	4.15	5.33	0.50	2.42

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

In the three and six months ended June 30th 2018 and June 30th 2017, diluted earnings per share were equal to basic earnings per share as the Group carried no instruments with a dilutive effect.

10. Dividends

As at June 30th 2018 and December 31st 2017, 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, whereby dividend payment and amounts are subject to certain conditions, including generation of sufficient free cash and achievement of certain levels of financial ratios.

On June 28th 2018, the General Meeting of Grupa LOTOS S.A. passed a resolution on allocation of the Company's net profit for 2017. Under the resolution, the 2017 net profit of PLN 1,419.5m is to be applied towards:

- dividend payment – PLN 184.9m,
- coverage of the 2014 and 2015 net loss – PLN 347.0m,
- increase of statutory reserve funds – PLN 887.6m.

The dividend will be paid on September 28th 2018. The dividend per share will be PLN 1, pre-tax.

11. Impairment losses

	Property, plant and equipment and intangible assets		Inventories		Receivables		Total		
	2018	2017	2018	2017	2018	2017	2018	2017	
3 months ended June 30									
At beginning of period (unaudited)	0.8	0.3	2.3	1.1	24.9	81.1	28.0	82.5	
Recognised	-	-	-	8.0	0.4	-	0.4	8.0	
Used / Reversed	-	-	-	-	0.1	(0.9)	0.1	(0.9)	
At end of period (unaudited)	0.8	0.3	2.3	9.1	25.4	80.2	28.5	89.6	
6 months ended Jun 30									
At beginning of period (audited)	0.8	22.4	2.4	1.1	24.8	80.8	28.0	104.3	
Recognised	-	-	-	8.0	0.6	0.7	0.6	8.7	
Used / Reversed	-	(22.1)	(0.1)	-	-	(1.3)	(0.1)	(23.4)	
At end of period (unaudited)	0.8	0.3	2.3	9.1	25.4	80.2	28.5	89.6	

In accordance with IAS 2, inventories are measured at the lower of cost and cost less write-downs to net realisable value.

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. 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).

12. Acquisition and sale of property, plant and equipment and intangible assets

	6 months ended Jun 30 2018 (unaudited)	6 months ended Jun 30 2017 (unaudited)
Purchase of property, plant and equipment and intangible assets	76.3	268.7

In the six months ended June 30th 2018, as well as in the comparative period, purchases were made mainly in connection with the Delayed Coking Unit (DCU) project (EFRA Project) and the construction of the Hydrogen Recovery Unit (HRU); catalysts used in the production process were also purchased.

As at June 30th 2018, the Company's future contractual commitments related to purchases of property, plant and equipment and intangible assets, undisclosed in the statement of financial position, were PLN 63.8m (December 31st 2017: PLN 108.2m).

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As at June 30th 2018, the contracted expenditure was related, *inter alia*, to the EFRA Project, the construction of the Hydrogen Recovery Unit (HRU) at the refinery and upgrade of the unit for solvent-based removal of paraffins.

In the six months ended June 30th 2018 and June 30th 2017, Grupa LOTOS S.A. did not sell any material items of property, plant and equipment or intangible assets.

13. Cash and cash equivalents

	Jun 30 2018	Jun 30 2017
	(unaudited)	(unaudited)
Cash and cash equivalents in the statement of financial position	738.5	510.1
Overdraft facilities	(292.6)	(156.1)
Total cash and cash equivalents in the statement of cash flows	445.9	354.0

14. Bank borrowings

	Jun 30 2018	Dec 31 2017
	(unaudited)	(audited)
Inventory financing and refinancing facility	753.9	696.8
Investment facilities	2,362.3	2,402.9
Working-capital facilities	292.6	0.1
Funds in bank deposits securing payment of interest and principal	(522.0)	(360.1)
Total	2,886.8	2,739.7
including:		
non-current	1,733.8	1,839.8
current	1,153.0	899.9

The Company's significant credit facility agreements

As at June 30th 2018, the nominal amount drawn by the Company under the investment facility financing the 10+ Programme was PLN 2,366.4m (USD 632.1m). As at December 31st 2017, the amount was PLN 2,414.6m (USD 693.6m).

The Company also uses an inventory financing and refinancing facility. As at June 30th 2018, the amount drawn under the facility was PLN 748.8m (USD 200m). As at December 31st 2017, the amount was PLN 696.3m (USD 200m).

The Company also uses a working-capital facilities available in the form of overdraft facilities and the funds made available on demand upon instruction. The Company uses these facilities to finance its working capital requirements as they arise.

Change in borrowings	Jun 30 2018	Jun 30 2017
At beginning of period (audited)	2,739.7	4,284.9
Repayment of bank borrowings	(214.7)	(302.7)
Interest, fees and commissions paid	(45.7)	(59.2)
Interest, fees and commissions accrued	52.6	56.4
Deferred fees and commissions	4.6	4.6
Principal and interest	200.0	(571.4)
Realised exchange differences	19.7	65.7
Change in overdraft facilities	292.5	142.2
Change in deposits securing payment of interest and principal	(161.9)	(138.7)
At end of period (unaudited)	2,886.8	3,481.8

Proceeds from and repayment of bank borrowings

In the six months ended June 30th 2018, the Company did not borrow any funds from banks, while repayment of bank borrowings in the same period amounted to PLN 214.7m and was related to investment facilities. This amount was disclosed in the statement of cash flows from financing activities, under [Repayment of bank borrowings](#)

In the six months ended June 30th 2018 and June 30th 2017, there were no defaults under any credit facility or breaches of any material provisions of credit facility agreements.

15. Issue, redemption and repayment of debt and equity securities

In the six months ended June 30th 2018 and June 30th 2017, no issue, redemption or repayment of debt or equity securities took place.

16. Changes in the fair value determination method applied to financial instruments measured at fair value and in the classification of financial instruments

In the six months ended June 30th 2018, the Company made no changes to the method of fair value measurement applied to financial instruments measured at fair value through profit or loss (for a description of the method, see Note 6.20 to the financial statements for 2017), made no transfers of financial instruments between fair value hierarchy levels (see Note 23.1 to the financial statements for 2017). As at June 30th 2018 and December 31st 2017, the Company held financial derivatives classified as fair value hierarchy Level 2.

Fair value hierarchy (Level 2)	Jun 30 2018 (unaudited)	Dec 31 2017 (audited)
Financial assets		
Commodity swap	53.6	34.7
Currency forward and spot contracts	1.0	7.3
Interest rate swap (IRS)	3.7	7.1
Currency swap	0.7	104.4
Total	59.0	153.5
Financial liabilities		
Commodity swap	6.2	3.8
Currency forward and spot contracts	10.3	9.5
Interest rate swap (IRS)	1.2	27.8
Currency swap	26.1	38.3
Total	43.8	79.4

As at June 30th 2018 and December 31st 2017, there was no reclassification of financial instruments other than that required by the implementation of IFRS 9 (see Note 2.1). As at June 30th 2018, the Company recognised shares in other entities, of PLN 6.3m, under assets measured at fair value through other comprehensive income. In accordance with IAS 39, as at December 31st 2017 those assets were disclosed as available for sale and measured at historical cost less impairment.

As at June 30th 2018 and December 31st 2017, the fair values of financial assets and liabilities did not materially differ from their carrying amounts.

17. Contingent liabilities and assets

17.1 Material court, arbitration or administrative proceedings, other risks to the Company, and material settlements under court proceedings

In the period between the end of the previous financial year, i.e. December 31st 2017, and the date of issue of these interim financial statements, there were no significant changes with respect to pending material court, arbitration, and administrative proceedings or with respect to other risks to the Company. For information on pending material proceedings, see Note 29.1 to the financial statements for 2017.

17.2 Other contingent liabilities

In the period between the end of the previous financial year, i.e. December 31st 2017, and the date of issue of these interim financial statements, there were no changes in the Company's other material contingent liabilities.

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18. Related parties

18.1 Material transactions with related entities in which Grupa LOTOS S.A. holds equity interests

	Note	3 months ended	6 months ended	3 months ended	6 months ended
		Jun 30 2018	Jun 30 2018	Jun 30 2017	Jun 30 2017
		(unaudited)	(unaudited)	(unaudited)	(unaudited)
Subsidiaries					
Sales	7.1	3,779.7	6,537.5	2,610.5	5,115.0
Procurement		359.1	622.0	382.6	708.1
Purchase of property, plant and equipment and intangible assets		13.0	14.9	2.3	7.8
Dividends received	7.4	363.0	367.8	117.2	123.9
Interest income on loans advanced	7.4	2.1	4.7	2.5	5.1
Joint ventures					
Sales	7.1	162.8	251.5	94.4	160.6
Dividends received	7.4	1.9	1.9	-	-
				Jun 30 2018	Dec 31 2017
				(unaudited)	(unaudited)
Subsidiaries					
Receivables, including:				1,964.7	1,451.1
- dividends receivable				58.4	-
Contributions to equity				121.3	121.3
Receivables under loans				160.8	190.2
Liabilities				159.2	187.9
Joint ventures					
Receivables				65.1	33.8

As at June 30th 2018, trade receivables from related parties assigned by way of security amounted to PLN 1,962.0m (December 31st 2017: PLN 1,477.3m).

In the six months ended June 30th 2018 and June 30th 2017, the Company did not issue sureties to related parties.

As at June 30th 2018 and December 31st 2017, Grupa LOTOS S.A. issued the following sureties to the Group companies:

- Surety for amounts due to bondholders (Bank Gospodarstwa Krajowego S.A. and Polski Fundusz Rozwoju S.A.) under the senior and subordinated note programme of B8 Spółka z ograniczoną odpowiedzialnością BALTIC S.K.A. for up to PLN 116.2m (December 31st 2017: PLN 113.5m).
- Securing funds of PLN 51.8m for the purchase of modern rolling stock for intermodal transport services provided by LOTOS Kolej Sp. z o.o.

On July 25th 2018, B8 Spółka z ograniczoną odpowiedzialnością BALTIC S.K.A. renegotiated the terms of financing, following which the surety issued by Grupa LOTOS S.A. for the benefit of Bank Gospodarstwa Krajowego, in force as at June 30th 2018, was replaced with a surety of up to USD 91.5m. On July 27th 2018, B8 Spółka z ograniczoną odpowiedzialnością BALTIC S.K.A. redeemed all notes subscribed for by Polski Fundusz Rozwojowy S.A. and, consequently, the security relating to these amounts due expired.

In the six months ended June 30th 2018, Grupa LOTOS S.A. did not grant any loans to related entities (in the six months ended June 30th 2017: PLN 2.5m). In the six months ended June 30th 2018, related entities repaid PLN 36.0m under loans advanced to them in previous years. Repayment of loans advanced to related entities is presented in cash flows from investing activities under Decrease in loans advanced to related parties. In the comparative period, related entities did not repay loans advanced to them by the Company.

Moreover, in the six months ended June 30th 2018, Grupa LOTOS S.A. made cash contributions for new shares acquired in the increased share capital of LOTOS Upstream Sp. z o.o. in the amount of PLN 56.0m. Cash outflows related to the acquisition of these new shares are presented in cash flows from investing activities under Acquisition of shares in LOTOS Upstream Sp. z o.o.

18.2 Entity exercising control of the Company

As at June 30th 2018 and December 31st 2017, the State Treasury held 53.19% of Grupa LOTOS S.A. shares. In the six months ended June 30th 2018 and June 30th 2017, there were no transactions between the Company and the State Treasury.

18.2.1 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 six months ended June 30th 2018 and June 30th 2017, the aggregate value of transactions executed by Grupa LOTOS S.A. with parties related to it through the State Treasury was material. The transactions were concluded at arm's length in the course of the Company's day-to-day business and involved mainly purchase and sale of fuels, purchase of crude oil and natural gas, and transport services.

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	3 months ended Jun 30 2018 (unaudited)	6 months ended Jun 30 2018 (unaudited)	3 months ended Jun 30 2017 (unaudited)	6 months ended Jun 30 2017 (unaudited)
Sales	182.8	202.4	49.8	51.7
Procurement	398.9	816.0	300.0	691.8

	Jun 30 2018 (unaudited)	Dec 31 2017 (audited)
Receivables	94.5	41.3
Liabilities	241.4	226.9

In addition, as at June 30th 2018, the Company had borrowings from banks over which the State Treasury has control or joint control or over which it exercises significant influence, in the total amount of PLN 353.1m (PKO BP S.A. and PEKAO S.A.) (December 31st 2017: PLN 341.8m).

18.3 Remuneration of members of the Company's governing bodies and its key management staff

Remuneration paid to members of the Company's Management and Supervisory Boards	6 months ended Jun 30 2018 (unaudited)	6 months ended Jun 30 2017 (unaudited)
Management Board		
Short-term employee benefits (salaries)	1.0	1.2
Management Board – subsidiaries ⁽¹⁾		
Short-term employee benefits (salaries)	-	0.3
Supervisory Board		
Short-term employee benefits (salaries)	0.3	0.3
Total (2)	1.3	1.8

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

⁽²⁾ The amount reflects changes in the composition of the Company's Management and Supervisory Boards.

In the six months ended June 30th 2018 and June 30th 2017, the Company did not enter into any significant transactions with any Management Board or Supervisory Board members, did not advance any loans, make any advance payments, issue any guarantees for or conclude any other agreements with any Management Board or Supervisory Board member, which could have a material bearing on these financial statements or were advanced, made, issued or concluded otherwise than on an arm's length basis.

Based on representations submitted by members of the Company's Management and Supervisory Boards, in the six months ended June 30th 2018 and June 30th 2017, 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 Grupa LOTOS Management Board)	6 months ended Jun 30 2018 (unaudited)	6 months ended Jun 30 2017 (unaudited)
Short-term employee benefits (salaries), including:	12.0	17.5
- annual bonus paid	3.8 ⁽¹⁾	5.5 ⁽²⁾
- length-of-service award paid	0.1	0.3

⁽¹⁾ Remuneration paid in 2018 on account of annual bonus for 2017.

⁽²⁾ Remuneration paid in 2017 on account of annual bonus for 2016.

In the six months ended June 30th 2018 and June 30th 2017, the Company did not provide any loans or similar benefits to the other members of its key management staff.

18.4 Transactions with parties related to the Company through members of the Management Board and the Supervisory Board

In the six months ended June 30th 2018 and June 30th 2017, Grupa LOTOS S.A. entered into transactions with parties related to it through members of the Management and Supervisory Boards. Those transactions were connected with the Company's day-to-day operations and related mainly to the purchase of civil liability insurance policies and property insurance policies for PLN 2.1m (six months ended June 30th 2017: PLN 24.4m) All transactions with parties related to the Company through members of the Management Board and the Supervisory Board were executed on an arm's length basis. As at June 30th 2018, unsettled transactions with parties related to the Company through members of the Management and Supervisory Boards totalled PLN 2.1m (December 31st 2017: PLN 0.1m).

AUTHORISATION OF INTERIM FINANCIAL REPORT FOR ISSUE

This half-year financial report was authorised for issue by the Management Board on August 8th 2018.

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

Mateusz Aleksander Bonca

Vice President of the Management Board, Chief Investment and
Innovation Officer

Patryk Demski

Vice President of the Management Board, Chief Refining and
Marketing Officer

Jarosław Kawula

Vice President of the Management Board, Chief Financial Officer

Robert Sobków

Finance and Accounting Centre Director - Chief Accountant

Tomasz Południewski