

22. Retained earnings

Retained earnings comprise capital reserves created and used in accordance with the rules stipulated by the applicable laws and provisions of the Articles of Association, as well as current period's profit.

Furthermore, retained earnings include actuarial gains/losses relating to defined post-employment benefits, recognised inclusive of tax effect, which are posted under Other comprehensive income/(loss), net in the statement of comprehensive income.

As at December 31st 2016 and December 31st 2015, Grupa LOTOS S.A. was restricted in its ability to distribute dividends, as described in detail in [Note 12](#).

22.1 Restricted ability of subsidiaries to transfer funds to the Parent in the form of dividends

In 2016 and 2015, the ability of subsidiaries of the LOTOS Group to transfer funds to Grupa LOTOS S.A. in the form of dividends was restricted due to the following arrangements:

- The amount of cash surplus generated by LOTOS Paliwa Sp. z o.o. in a financial year that is available for distribution depends on the achievement of certain ratios defined in credit facility agreements.
- At LOTOS Asphalt Sp. z o.o., dividend payment is restricted under the credit facility agreement for the financing of the EFRA Project, whereby distribution of dividends is not permitted until the first repayment is made, with its due date scheduled for December 21st 2018. Payment of dividends from operating cash flows is conditional upon fulfilment of the requirements defined in the agreement, including generation of a sufficient cash surplus and achievement of financial ratios at prescribed levels.

The dividend restrictions were binding as at December 31st 2016 and December 31st 2015. Furthermore, LOTOS Petrobaltic S.A. signed an annex to its note issue programme agreement, prohibiting the company from declaring and distributing dividend without the approval by the Noteholders Meeting. This prohibition remained effective as at December 31st 2016.

The Notes to the consolidated financial statements are an integral part of the statements.
(This is a translation of a document originally issued in Polish)