



Consolidated Financial Results of LOTOS Group 3Q 2013

Management Board of Grupa LOTOS S.A.

29th October 2013

1 Key highlights

2 Market conditions

3 Upstream

4 Downstream

5 Consolidated financial results

KEY HIGHLIGHTS

3Q 2013 IN A NUTSHELL



Business highlights

- ❑ Development of the B8 field - joint financing agreement signed between LOTOS Petrobaltic S.A. and Polskie Inwestycje Rozwojowe S.A. (PIR)
- ❑ Strong operational performance despite difficult macro environment



Financial highlights

- ❑ Strong EBIT LIFO at the level of PLN +381m in 3Q 2013
- ❑ Continuously decreasing level of indebtedness lowering the gearing ratio to 61%
- ❑ Introduction of the new model refining margin, following the modernisation and reconfiguration of the refining processes (10+ program, maintenance shutdown)

KEY HIGHLIGHTS (CONTINUED)

3Q 2013 OVERALL FIGURES



- ❑ **Crude oil production** amounted to **53.5 k tons** (4,488 bbl/d)
- ❑ **Crude oil throughput** amounted to **2,398 k tons**
- ❑ **Consolidated sales** at the level of **2,516 k tons**
- ❑ Average Brent Dtd price at the level of **110.29 USD/bbl** (+0.7% yoy and +7.7% qoq)
- ❑ Brent/Ural spread down **from 0.68 USD/bbl to 0.16 USD/bbl** yoy, marked however by a strong volatility (for a substantial part of the quarter Brent trading at a discount to Ural)



KEY HIGHLIGHTS (CONTINUED)

FINANCING OF B8 FIELD – SIGNING OF THE AGREEMENT WITH PIR*

Planned SPV to be set up for the further development of B8 field

- ❑ Type of the project: „Project Finance”
- ❑ Asset type: „greenfield”
- ❑ Estimated CAPEX ~1 600m PLN
- ❑ Structure of the deal:
 - ❑ Assets contributed by LOTOS Petrobaltic of ~PLN 700m
 - ❑ Long term contract with LOTOS Petrobaltic for rendering the operator services on the field
 - ❑ Financing by PIR:
 - ❑ Up to 563m PLN
 - ❑ Max duration: 10 years
 - ❑ Preferred instrument: mezzanine
 - ❑ External financing on the remaining part of the project
- ❑ Long term contract with Grupa LOTOS for crude oil supply

* *Polskie Inwestycje Rozwojowe*

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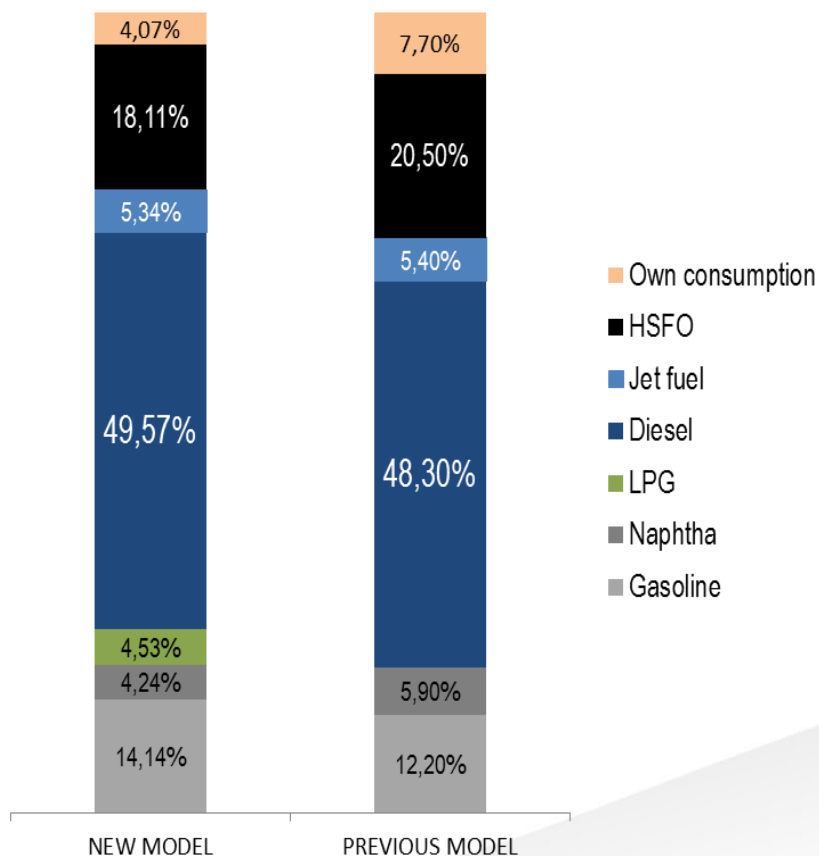
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MARKET CONDITIONS

MODEL REFINING MARGIN – NEW APPROACH (1/2)

Yield structure in the old and new model



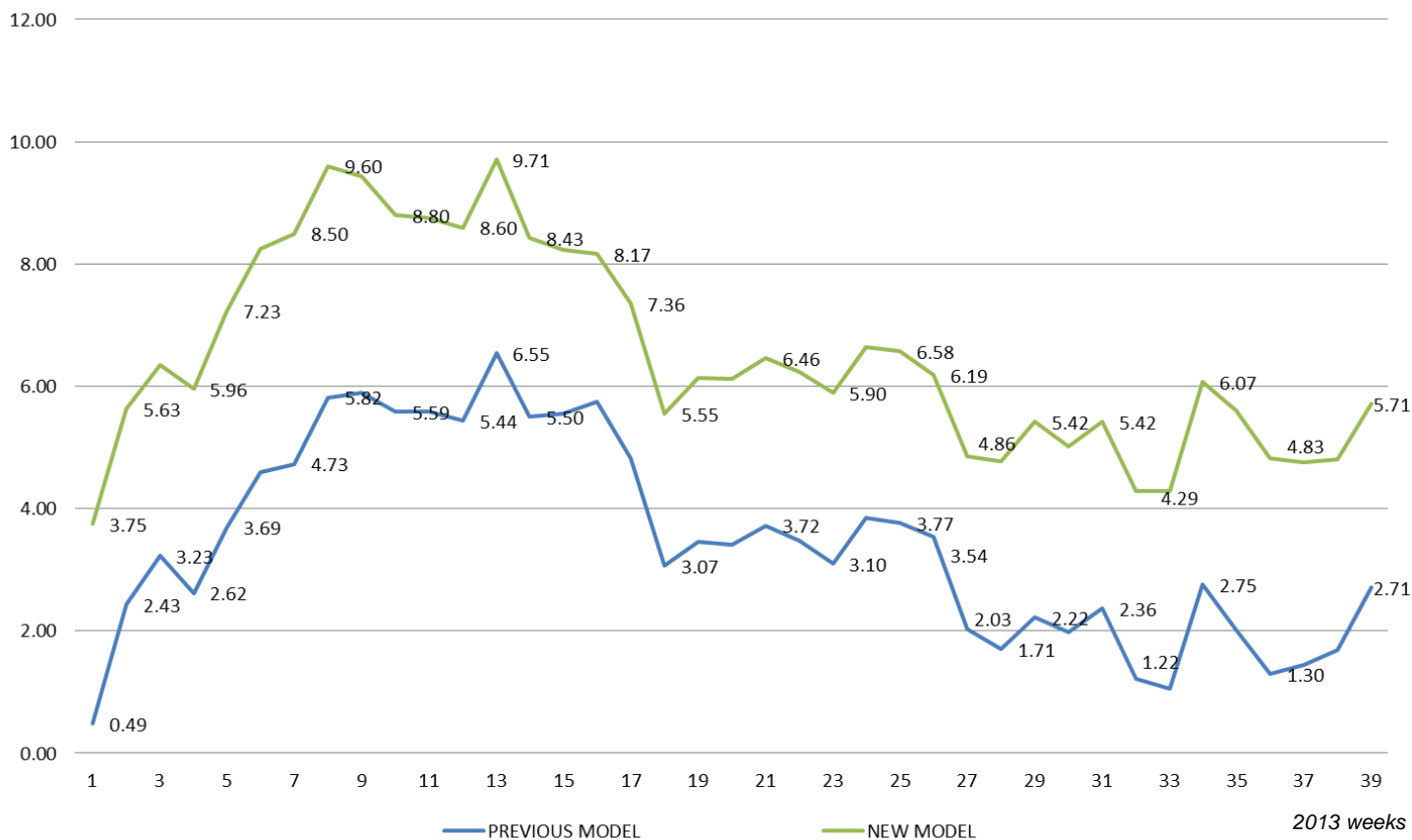
Commentary

- ❑ The method takes into account:
 - ❑ completion of the +10 Programme,
 - ❑ the Gdańsk refinery's switch to natural gas as the fuel source
 - ❑ enhanced energy efficiency profile, achieved through the modernisation (maintenance shutdown).
- ❑ In the new model, the margin is reduced by c.3usd/bbl of natural gas consumption cost.

MARKET CONDITIONS

MODEL REFINING MARGIN – NEW APPROACH (2/2)

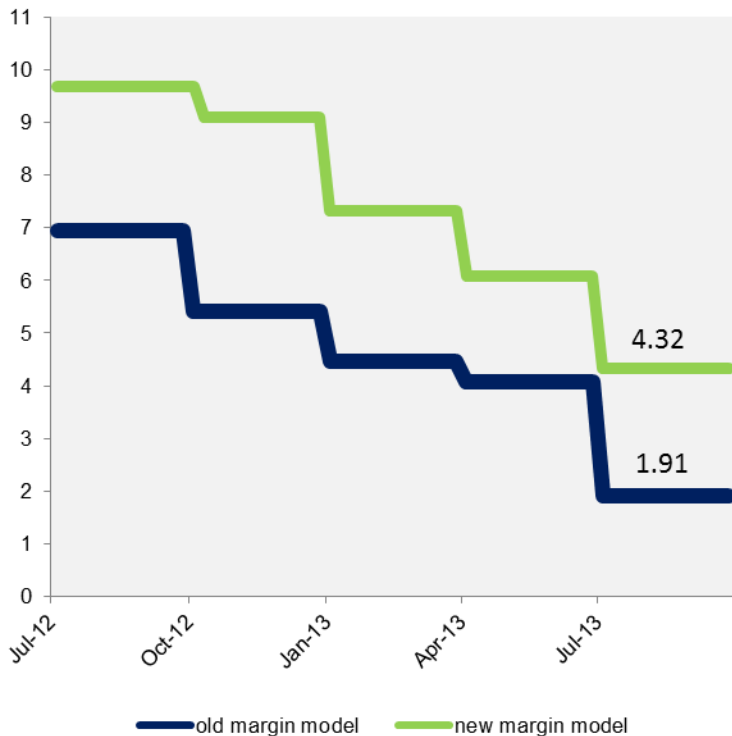
Comparison of the old vs new model (USD/bbl)



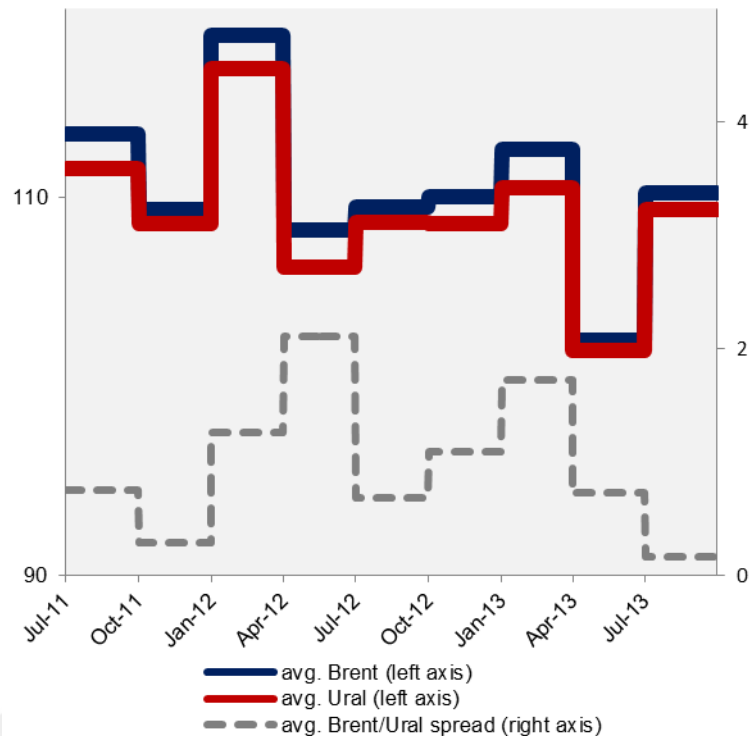
MARKET CONDITIONS

MARGIN AND OIL PRICES

Average quarterly model refining margin (USD/bbl)



Crude oil prices and spread (USD/bbl)

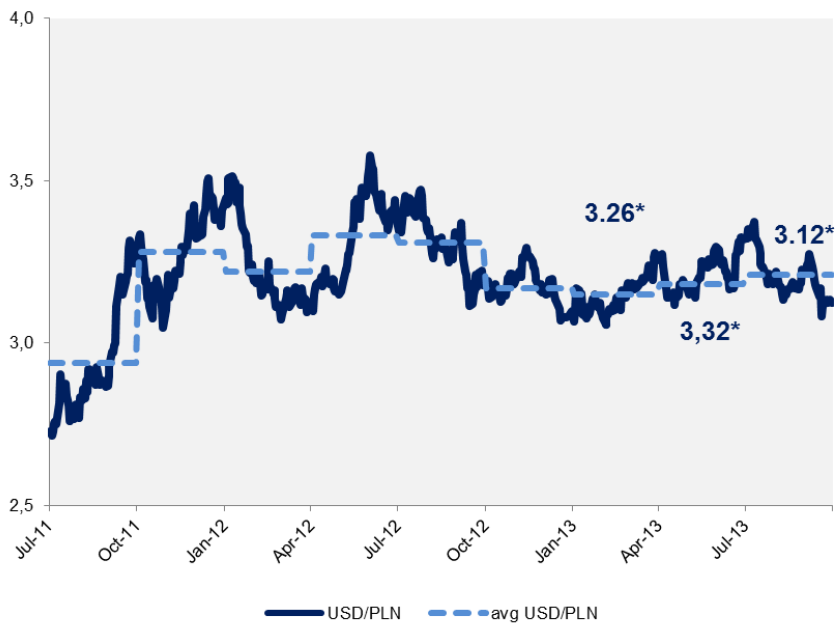


- ❑ Decrease in terms of avg Brent/Ural spread in comparison with previous quarters (negative spread until mid August, with a rebound in the second part of the 3Q)
- ❑ Continuously unfavorable margin in terms of model refining margin

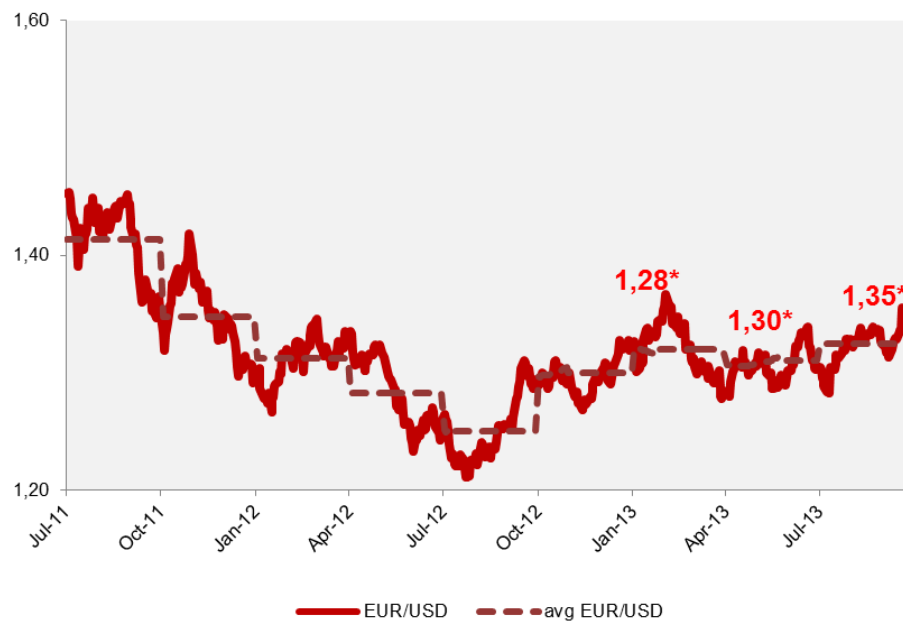
MARKET CONDITIONS

FLUCTUATIONS OF FOREIGN EXCHANGE RATES

USD/PLN rate



EUR/USD rate



*end of period values

- ❑ The EUR/USD rate increased qoq
- ❑ USD appreciated versus PLN by 20gr comparing with the end of the 2Q

1 Key highlights

2 Market conditions

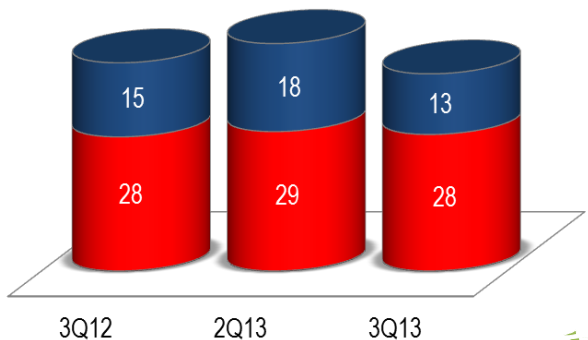
3 **Upstream**

4 Downstream

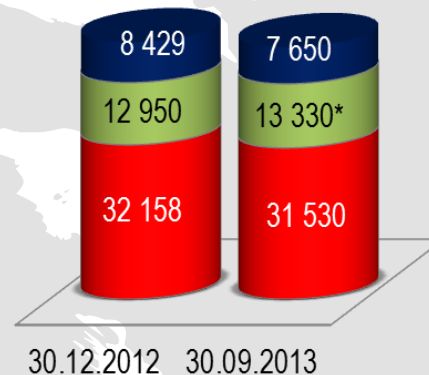
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UPSTREAM GEOGRAPHICAL COVERAGE OF LOTOS' UPSTREAM OPERATIONS

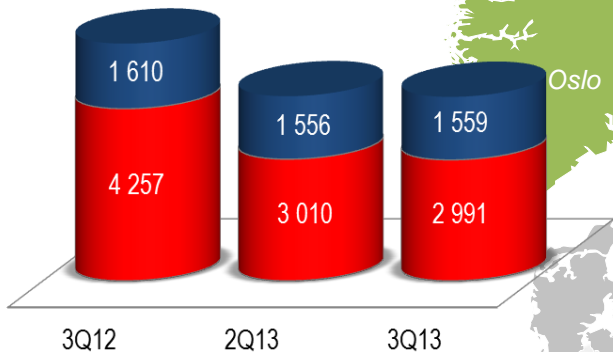
Sales volumes (ths tonnes)



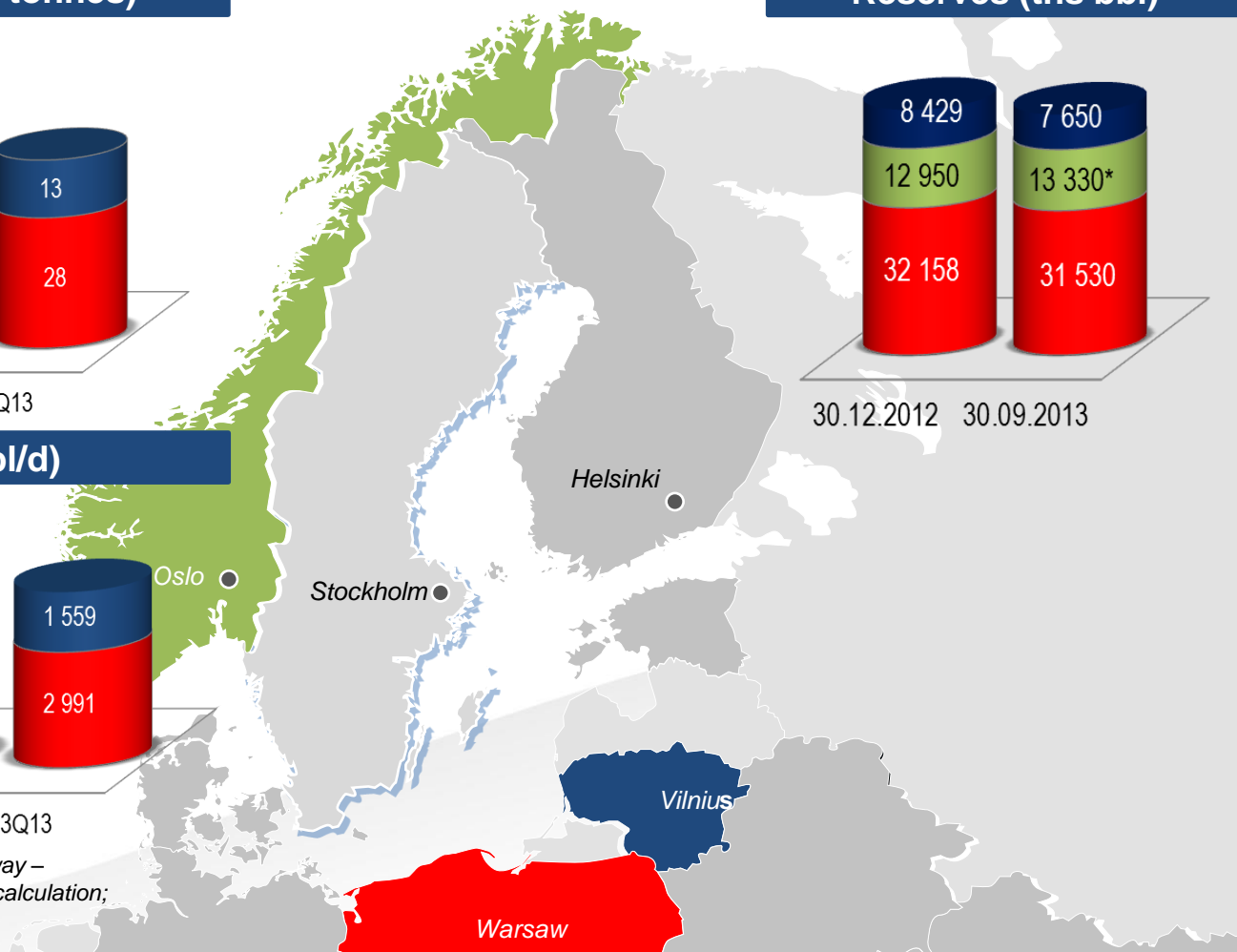
Reserves (ths bbl)



Production (bbl/d)



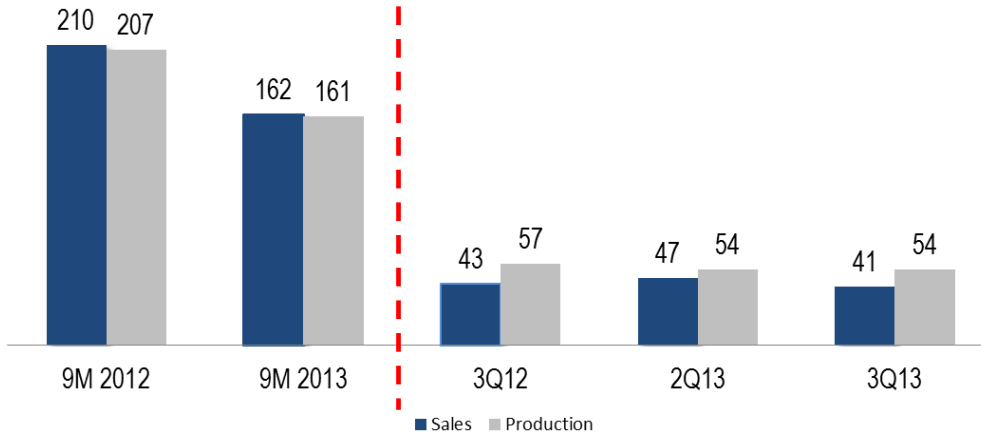
* increase in the level of 2P reserves in Norway – following methodological changes to way of calculation; no physical increase in the level of reserves



UPSTREAM

UPSTREAM SALES AND PRODUCTION

Crude oil production (k tonnes)



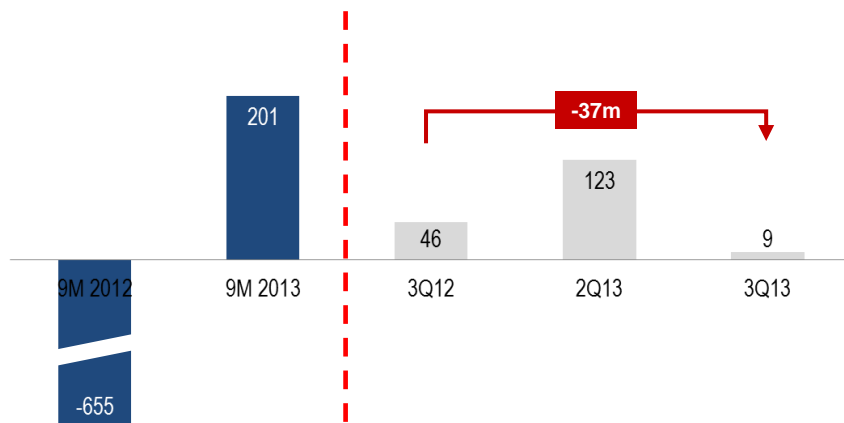
Commentary

- ❑ Stable q/q production, with linear contributions from AB Geonafta and B3 field
- ❑ Level of sales staying slightly below the production levels, due to delayed delivery schedule to Gdansk refinery

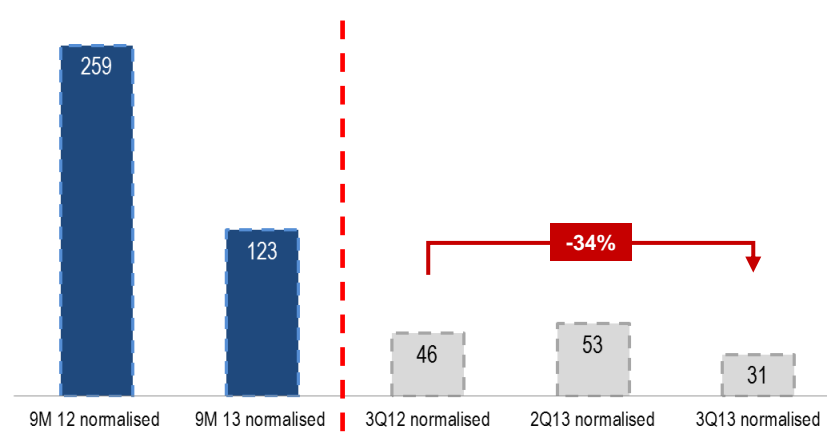


UPSTREAM EBIT DEVELOPMENT & NORMALISED EBIT

EBIT UPSTREAM (PLN m)



NORMALISED EBIT UPSTREAM (PLN m)

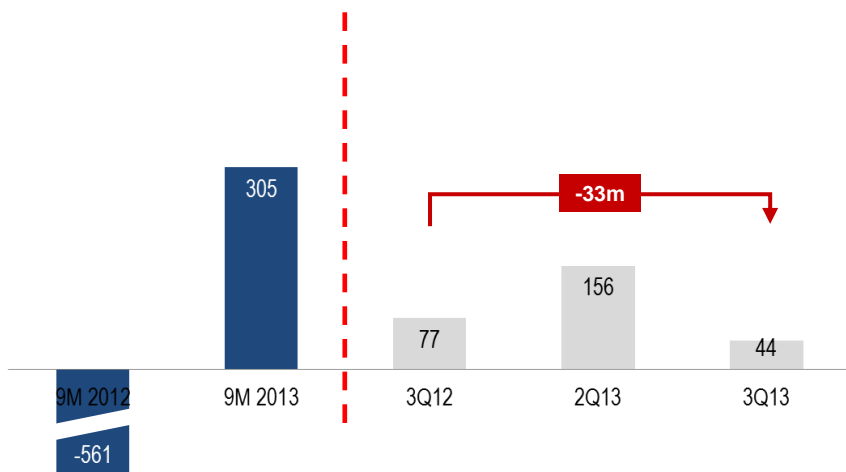


Commentary

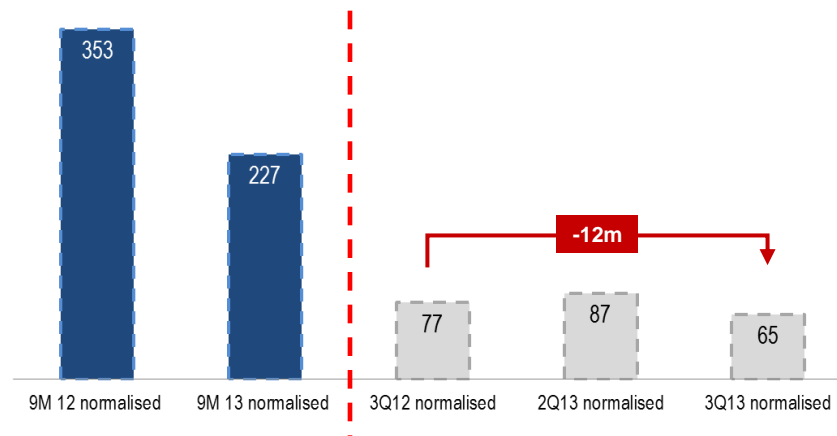
- ▣ The quarterly upstream EBIT at a level of PLN 9m, lower than in 3Q'12 and significantly lower than in 2Q'12; negatively influenced by one-off effect – costs related to the PG1 platform maintenance (c.PLN 21m)
- ▣ Results for 9 months of 2012 including the effect of the impact of YME impairment in the amount of PLN 935m

UPSTREAM EBITDA DEVELOPMENT & NORMALISED EBITDA

EBITDA UPSTREAM (PLN m)



NORMALISED EBITDA UPSTREAM (PLN m)



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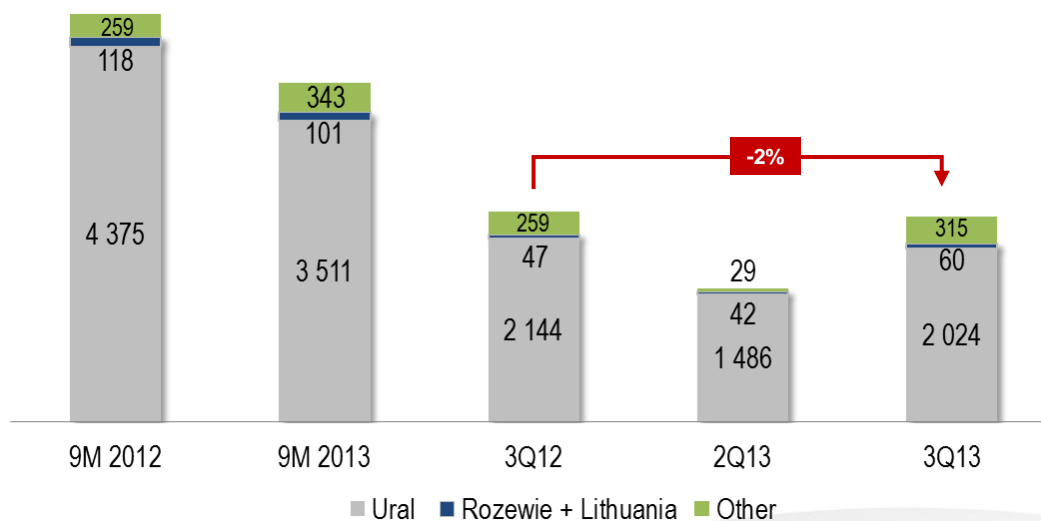
4 **Downstream**

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DOWNSTREAM REFINERY THROUGHPUT



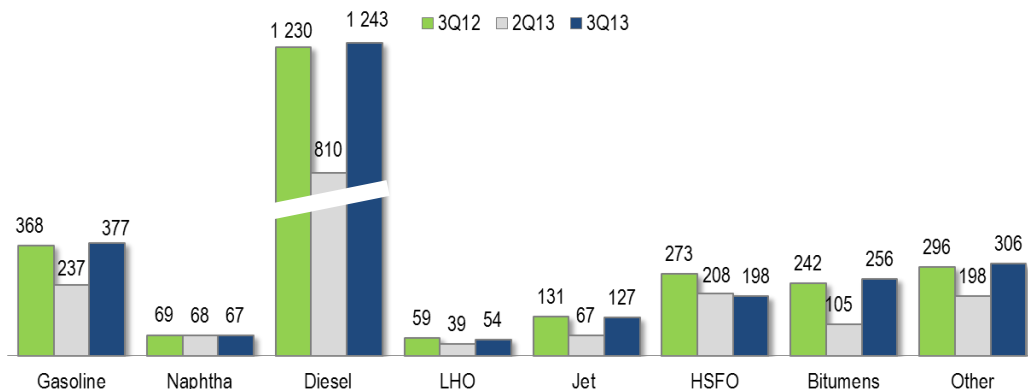
Crude oil throughput (k tonnes)



- ❑ 3Q 13 fairly in line with the comparable period of 2012, and a visible rebound after lower throughput levels in 2Q 13, impacted by the maintenance shutdown
- ❑ Since the beginning of the year AB Geonafta oil is being processed in the Gdańsk refinery

DOWNSTREAM PRODUCTION & SALES DATA OF PRODUCTS AND GOODS

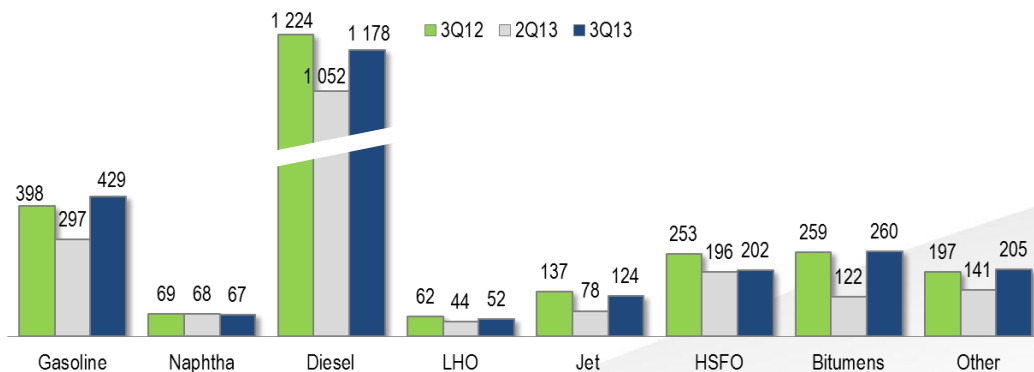
Volume of production (k tons)



Commentary

- ❑ The 3Q 13 production level was at the level 2 628k tons (-1% y/y)
- ❑ Visibly improved product slate with lower share of HSFO and slightly higher gasoline and diesel y/y

Volume of sales (k tons)

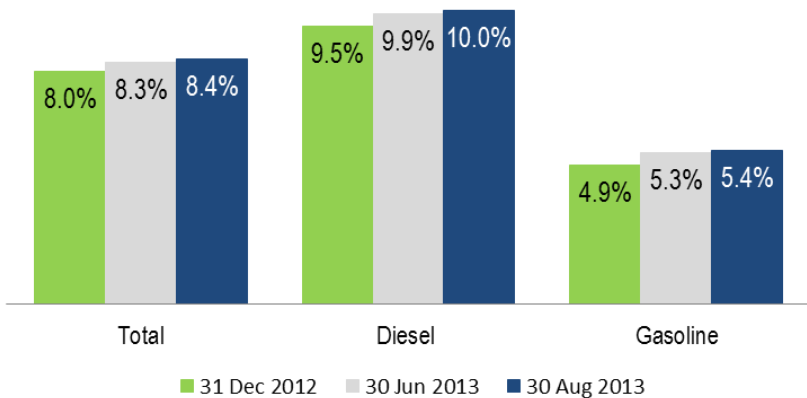


Commentary

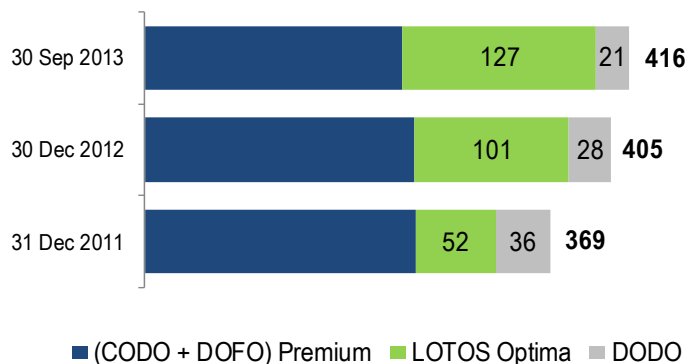
- ❑ In 3Q 13 total sales reached 2 516k tons (-3% y/y)
- ❑ Lower share of HSFO and higher share of gasoline improving the effective margin achieved

DOWNSTREAM RETAIL MARKET SHARE

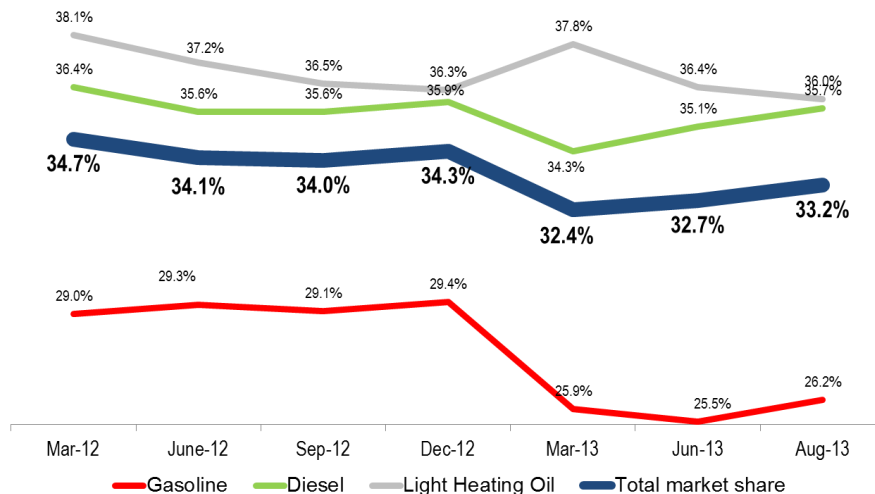
Retail market share



Petrol station network by type



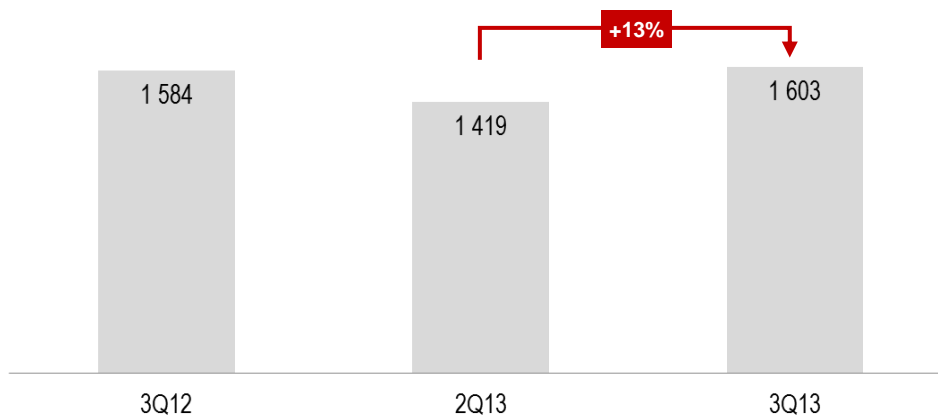
Wholesale market share



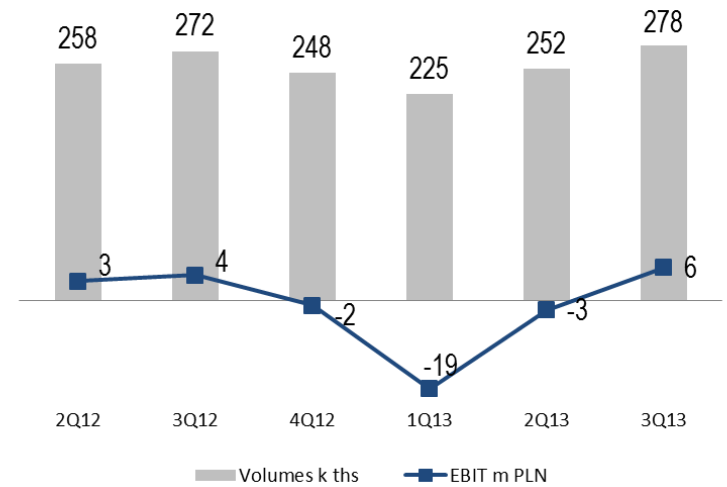
- Second quarter in a row marked by an improvement in terms of wholesale market share
- Continuously increasing market share in terms of retail (following the development of the petrol station network)

DOWNSTREAM RETAIL RESULTS

Retail Net Sales (PLN m)



Retail EBIT & Sales Volumes

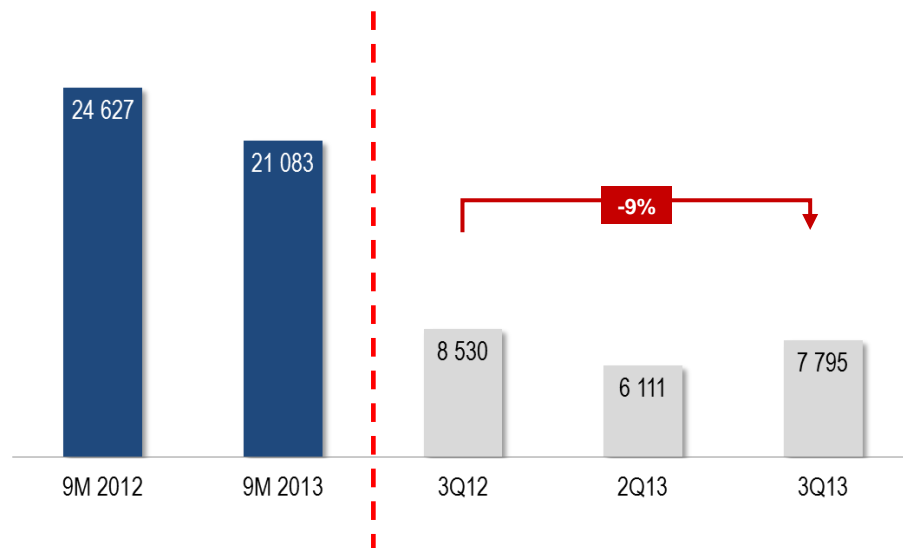


- Record high sales in retail following improving demand in the market in the third quarter
- Improved q/q sales volumes for the second consecutive quarter and achieving a positive EBIT of PLN 6m

DOWNSTREAM FINANCIAL RESULTS – QUARTERLY VIEW



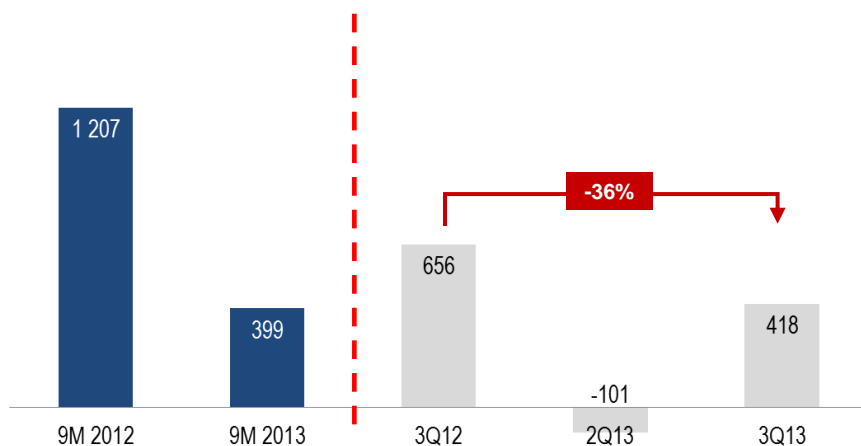
Downstream Net Sales (PLN m)



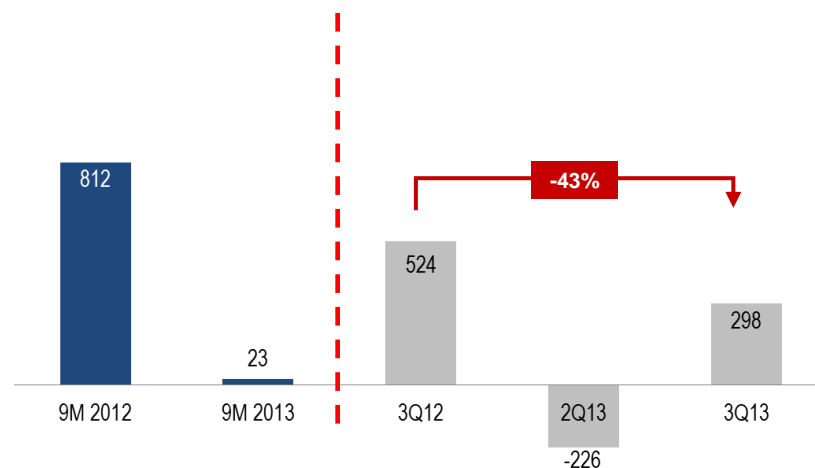
- ▣ 9% decrease in terms of quarterly net sales year on year following lower sales volumes and a drop of revenues from Diesel following lower prices in the market

DOWNSTREAM FINANCIAL RESULTS – EBITDA & EBIT

Downstream EBITDA (PLN m)



Downstream EBIT (PLN m)



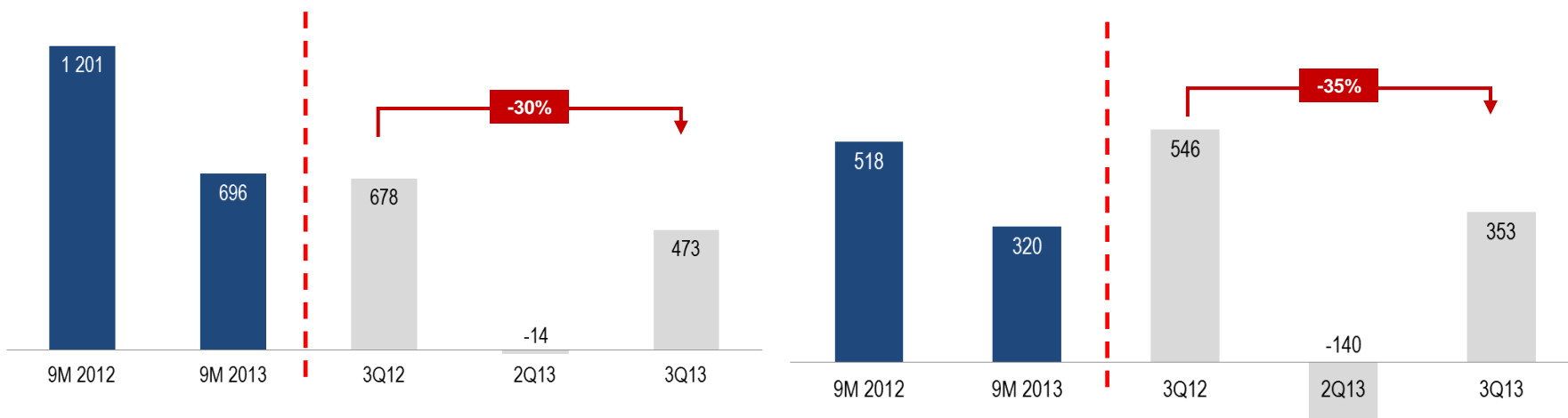
- ❑ Reported EBITDA and EBIT for the current quarter following the worsened overall cracks by the key products, still delivering solid results despite a severe slump in terms of model refining margin
- ❑ Cumulative figures for 9M 2013 worsened by the direct costs of the maintenance shutdown and as a consequence a loss of the refining margin

DOWNSTREAM

LIFO EBITDA & EBIT ANALYSIS

LIFO EBITDA Downstream (PLN m)

LIFO EBIT Downstream (PLN m)



- ❑ The LIFO EBITDA and LIFO EBIT at the respective levels of PLN 473m and PLN 353m
- ❑ Following the decrease of oil inventories, the calculation of the EBIT LIFO took into account lower oil prices (50-90 USD bbl) for oil bought in 2007 and 2008, which increased the LIFO EBIT by over PLN 100m

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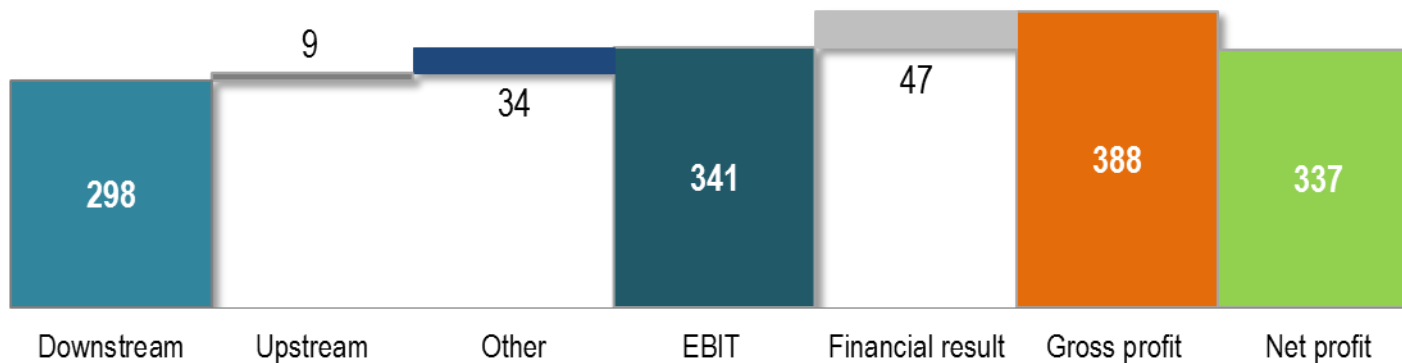
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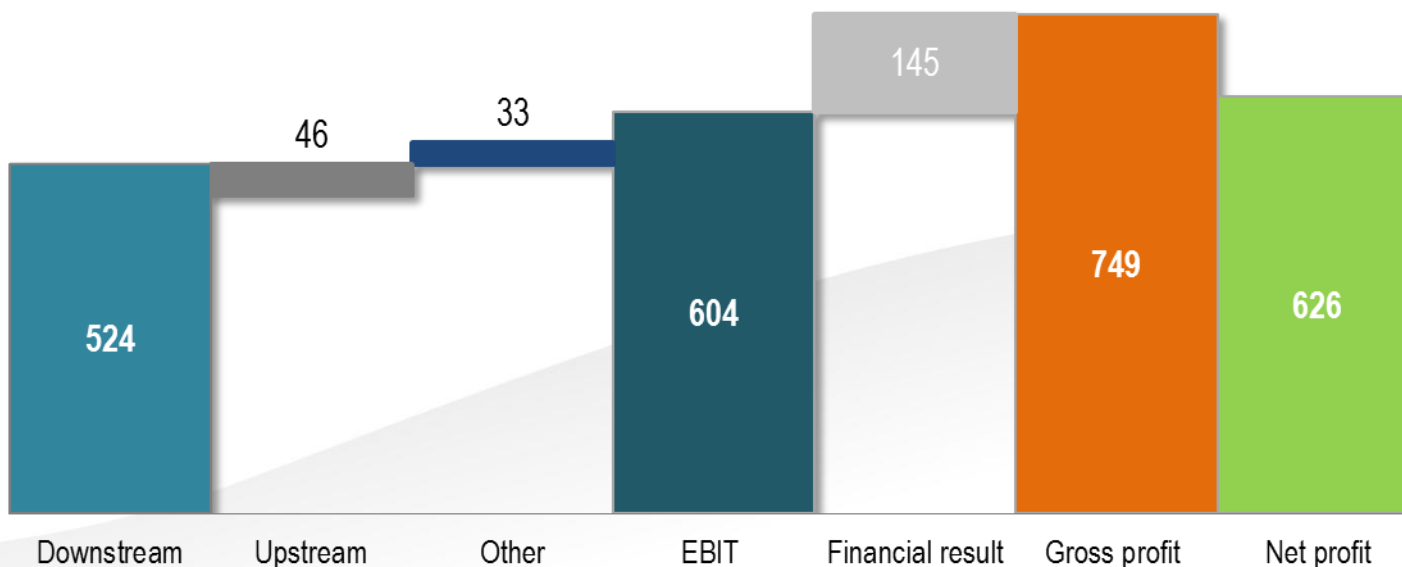
CONSOLIDATED FINANCIAL RESULTS

EBIT QUARTERLY SEGMENT CONTRIBUTION

3Q 2013
(PLN m)



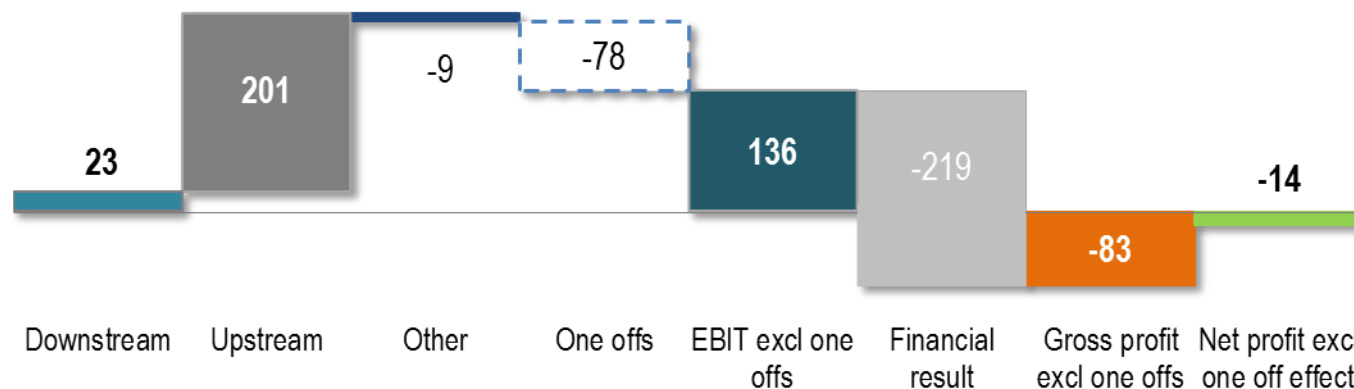
3Q 2012
(PLN m)



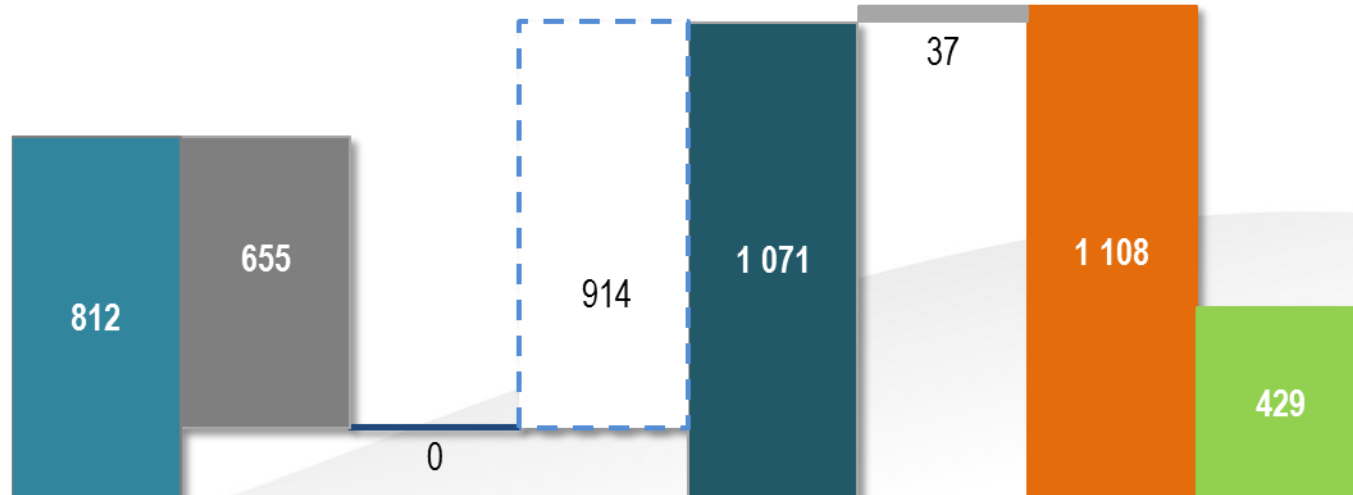
CONSOLIDATED FINANCIAL RESULTS

CUMULATIVE EBIT 9M 2013 SEGMENT CONTRIBUTION

9M 2013
(PLN m)



9M 2012
(PLN m)

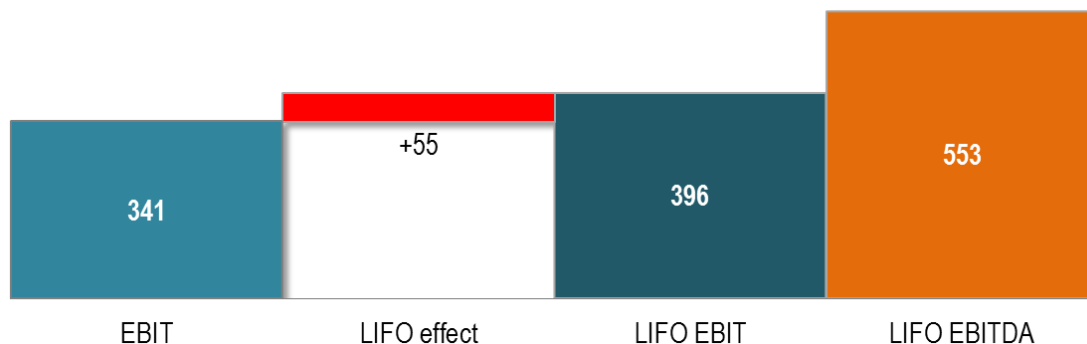


*9M 2013: reversal of impairment related to B4 and B6 fields, and revaluation of estimated provision for offshore oil and gas facilities in Norway
 9M 2012: write down related to YME project

CONSOLIDATED FINANCIAL RESULTS

LIFO EFFECT ANALYSIS

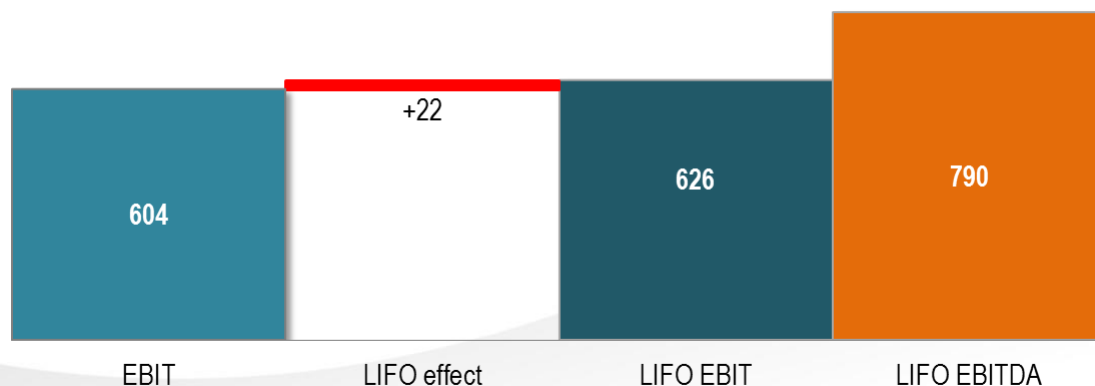
3Q 2013 LIFO effect analysis (PLN m)



Commentary

- ❑ LIFO EBITDA at the level of PLN 553m in 3Q 2013, comparing with PLN 790m in 3Q 2012
- ❑ The worse performance in the 3Q 2013, was mainly a result of worsened consolidated operational margin
- ❑ Following the decrease of oil inventories, the calculation of the EBIT LIFO took into account lower oil prices (50-90 USD bbl) for oil bought in 2007 and 2008, which increased the LIFO EBIT by over PLN 100m

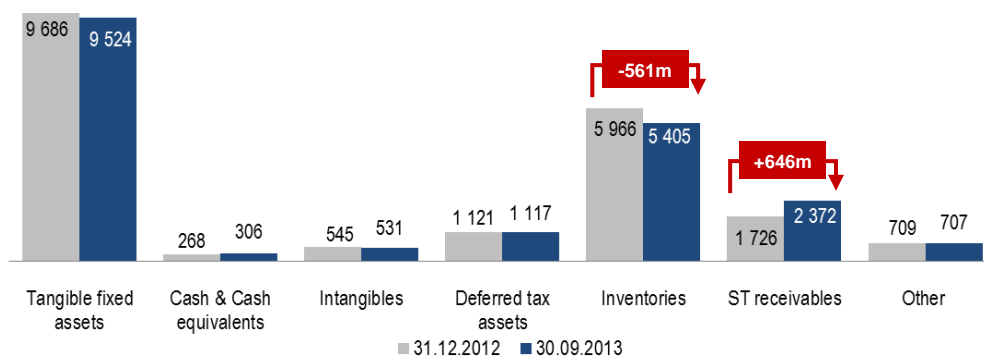
3Q 2012 LIFO effect analysis (PLN m)



CONSOLIDATED FINANCIAL RESULTS

BALANCE SHEET EVOLUTION

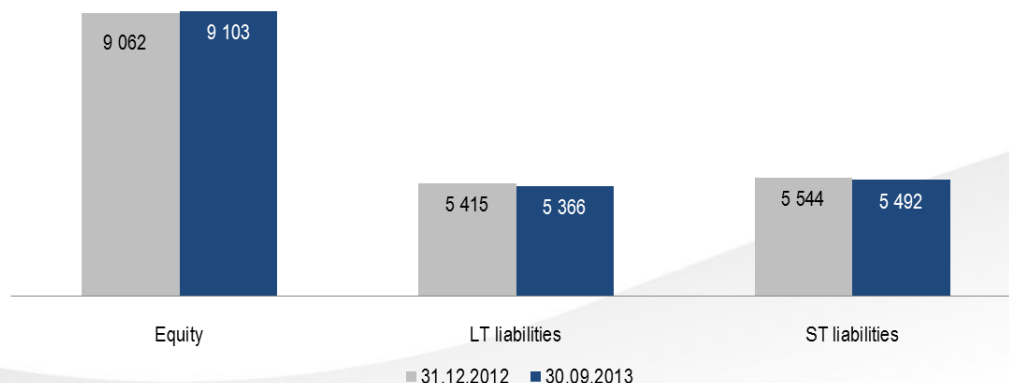
Assets



Commentary

- Inventories fell by PLN 561m, driven mainly by a decline in inventories of crude oil and finished products
- ST receivables increased by PLN 646m, led primarily by higher sales volume in September 2013 relative to December 2012

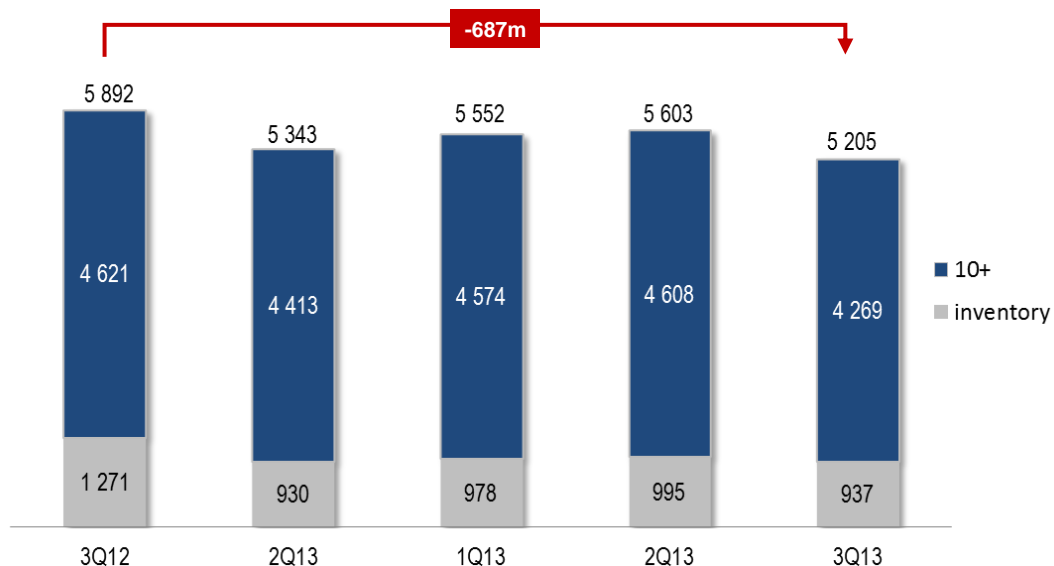
Liabilities



CONSOLIDATED FINANCIAL RESULTS

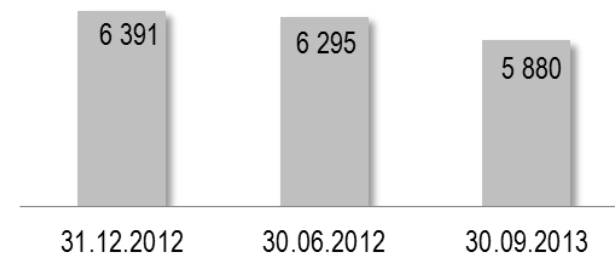
FINANCIAL DEBT

10+ and inventory related debt denominated in USD (PLN m)

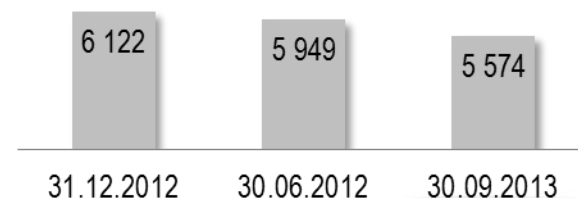


- Continuously decreasing level of indebtedness, partially explained by the development by the appreciation of PLN vs USD
- Gearing ratio closing down to the level of 60%

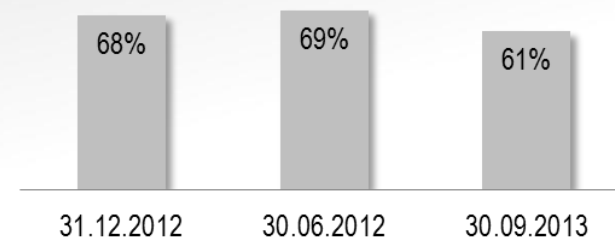
Financial debt (PLN m)



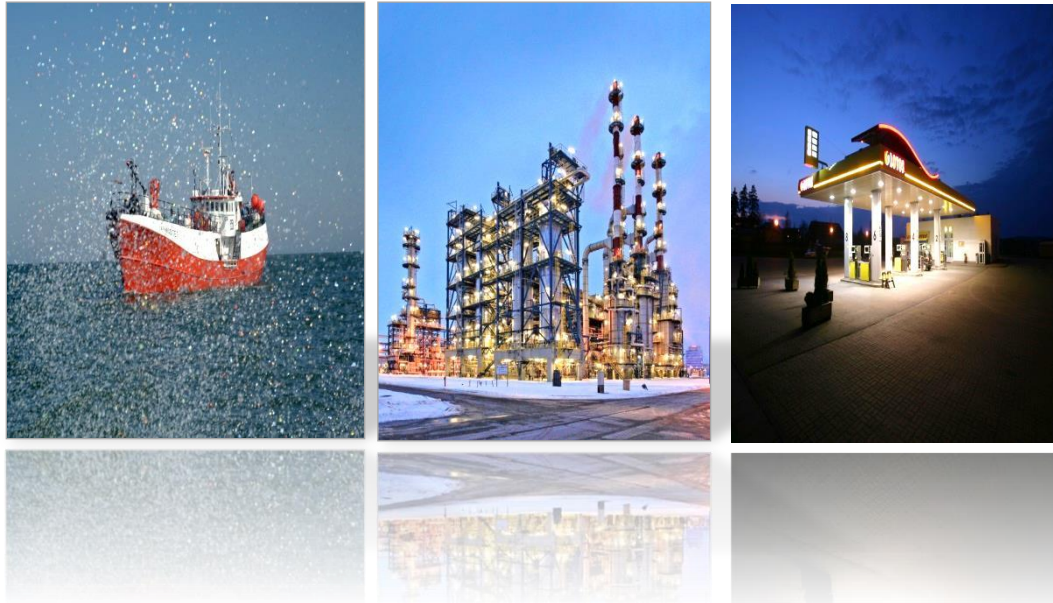
Net debt (PLN m)



Gearing ratio



Thank You



Investor Relations

tel: +48 58 308 73 93

fax: +48 58 346 22 35

e-mail: ir@grupalotos.pl



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