



LOTOS Group Q2 Consolidated Financial results

19 August 2014





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Key highlights

Key highlights

+303

m PLN

Clean LIFO
EBITDA

2 454

k tons

Quarterly
Consolidated
sales

12 377

boe/d

Upstream
production

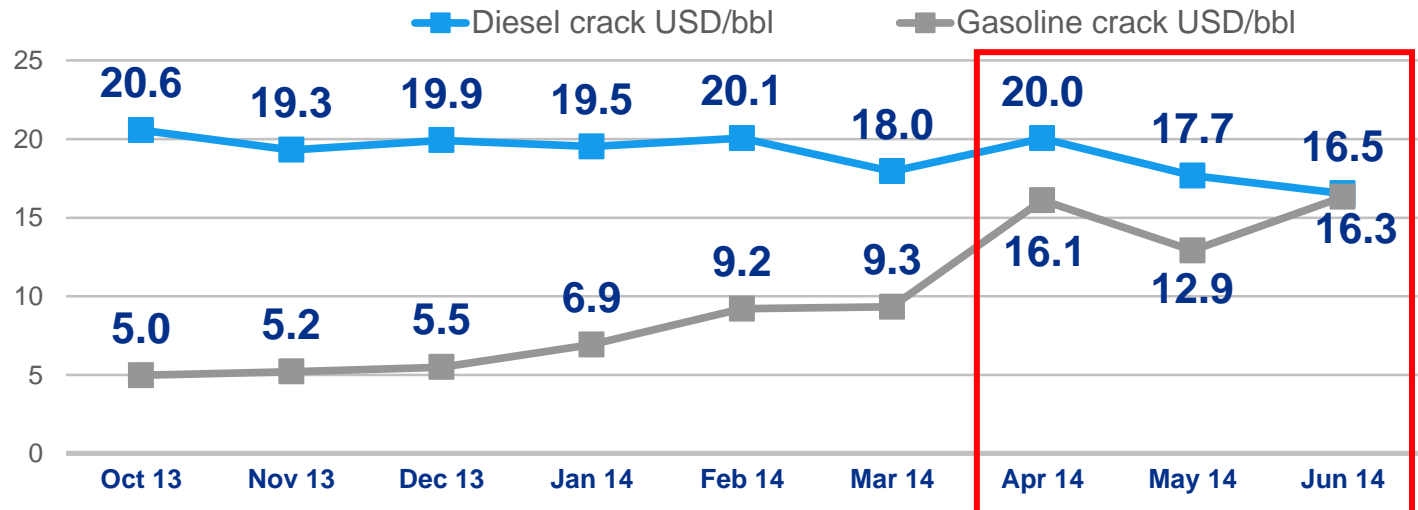
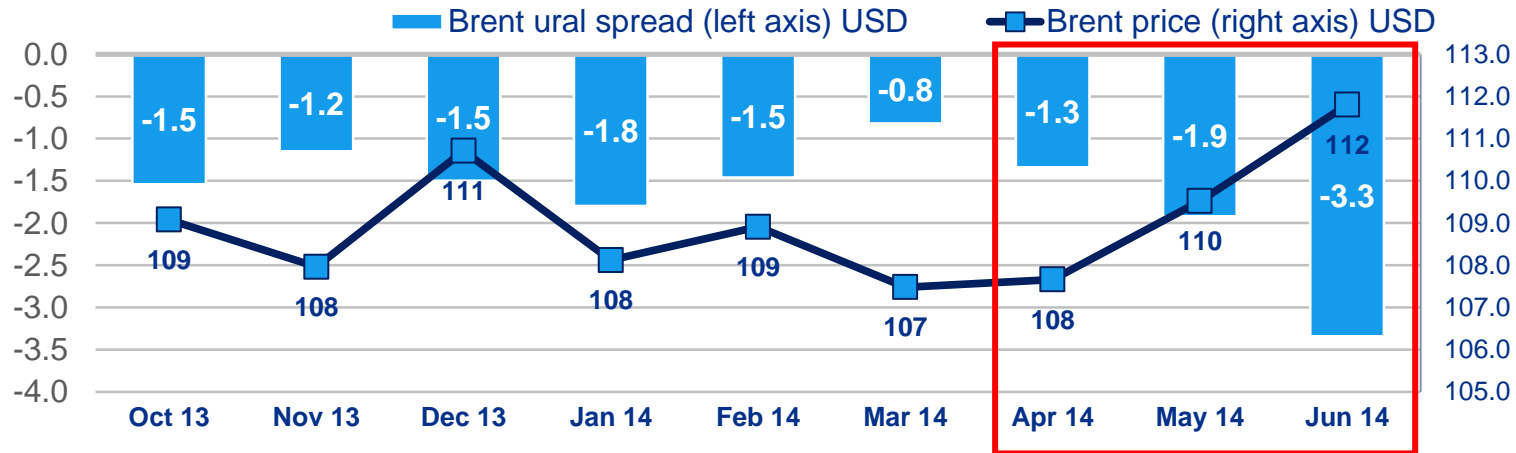
67%

Gearing ratio



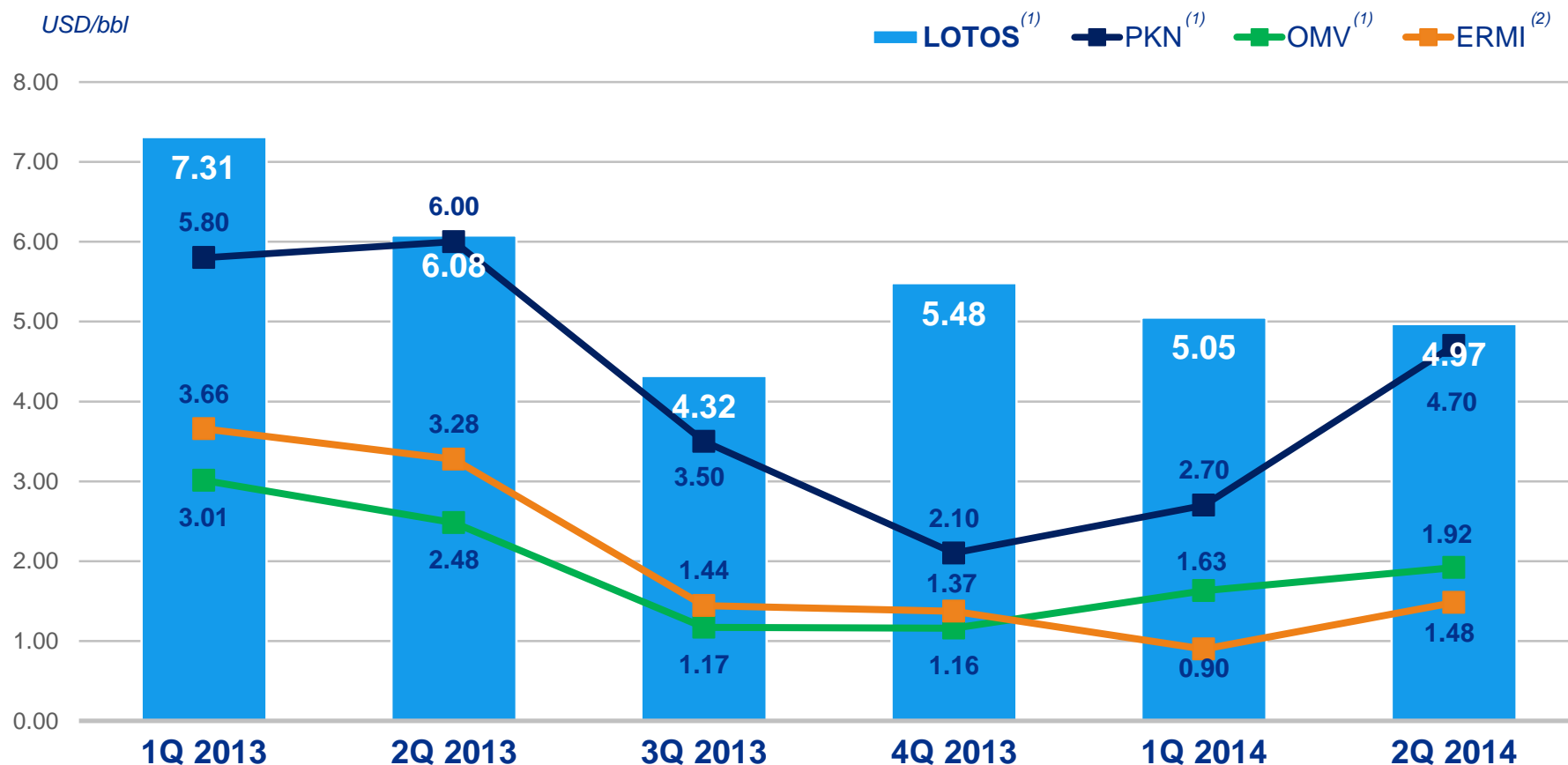
External environment

External environment – oil price & product cracks



Source: Average monthly data, Based on Thomson Reuters. Fuel cracks including Brent/Ural spread

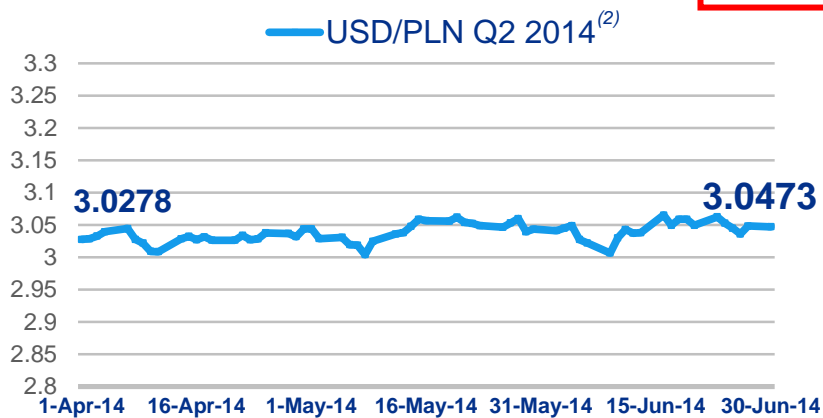
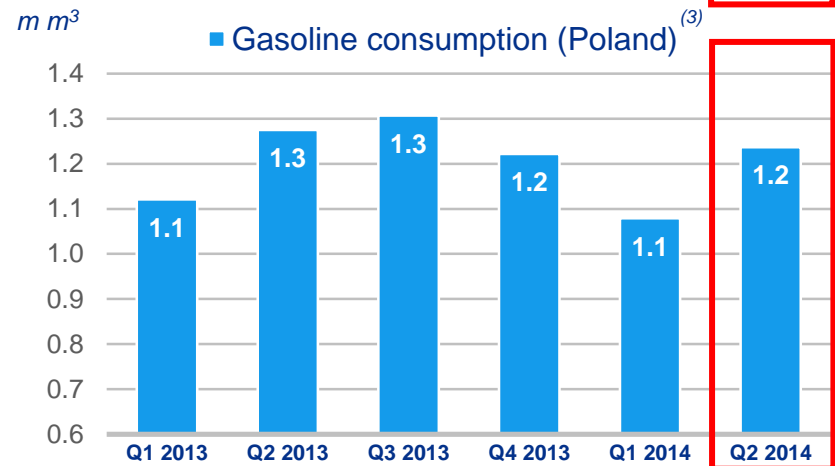
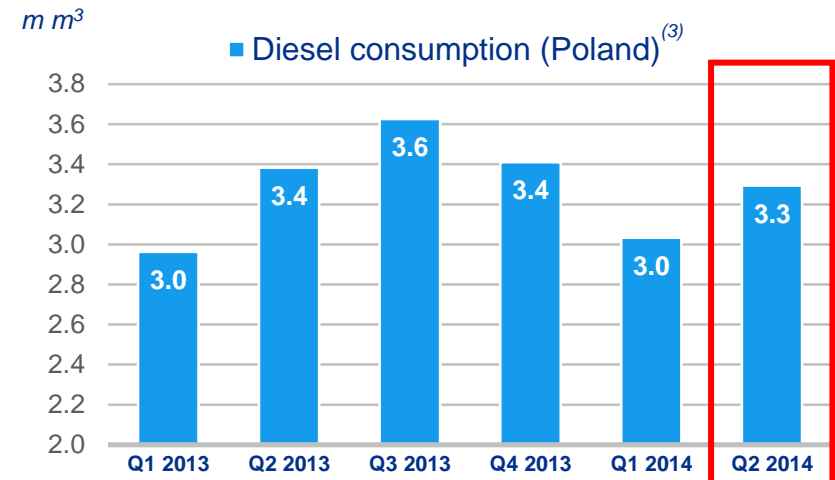
Model refining margin vs peers



(1) Source: Company data

(2) Source: Total; European Refining Margin Indicator (ERMI) is an indicator intended to represent the margin after variable costs for a hypothetical complex refinery located around Rotterdam in Northern Europe that processes a mix of crude oil and other inputs commonly supplied to this region to produce and market the main refined products at prevailing prices in this region.

External environment – GDP growth & FX development



Source:

(1) National Statistics Bureau

(2) National Bank of Poland

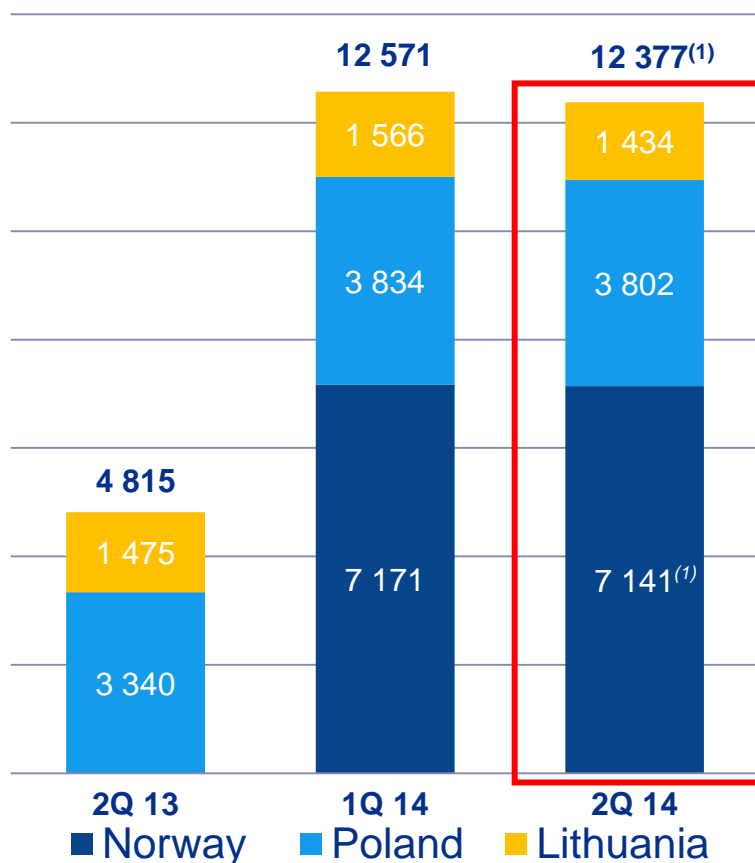
(3) POPIHN – Organisation for Oil Trade and Industry



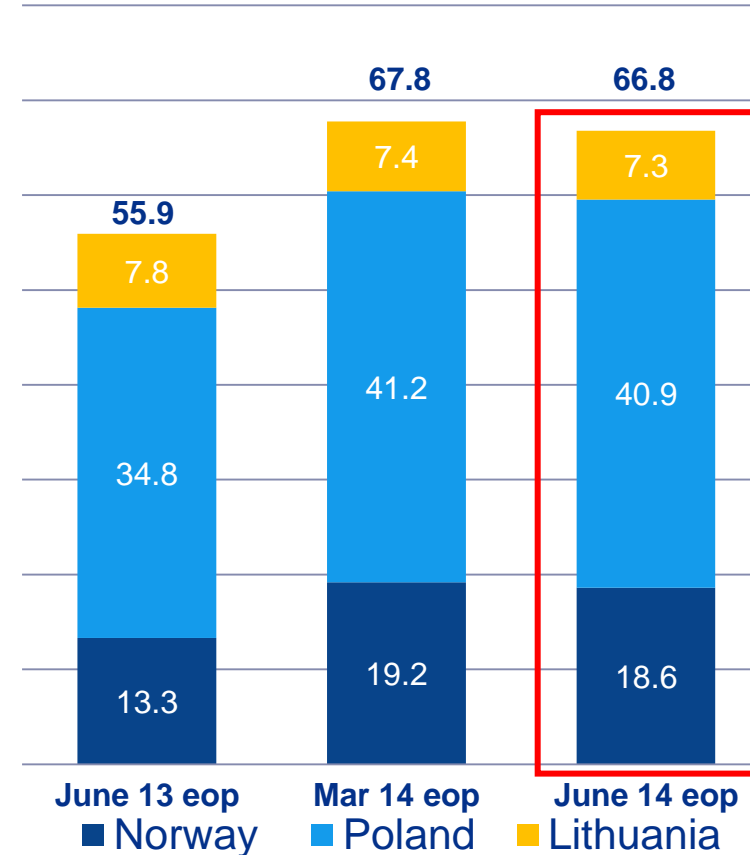
Upstream

Hydrocarbons reserves and production figures

Average daily oil&gas production (boe/d)



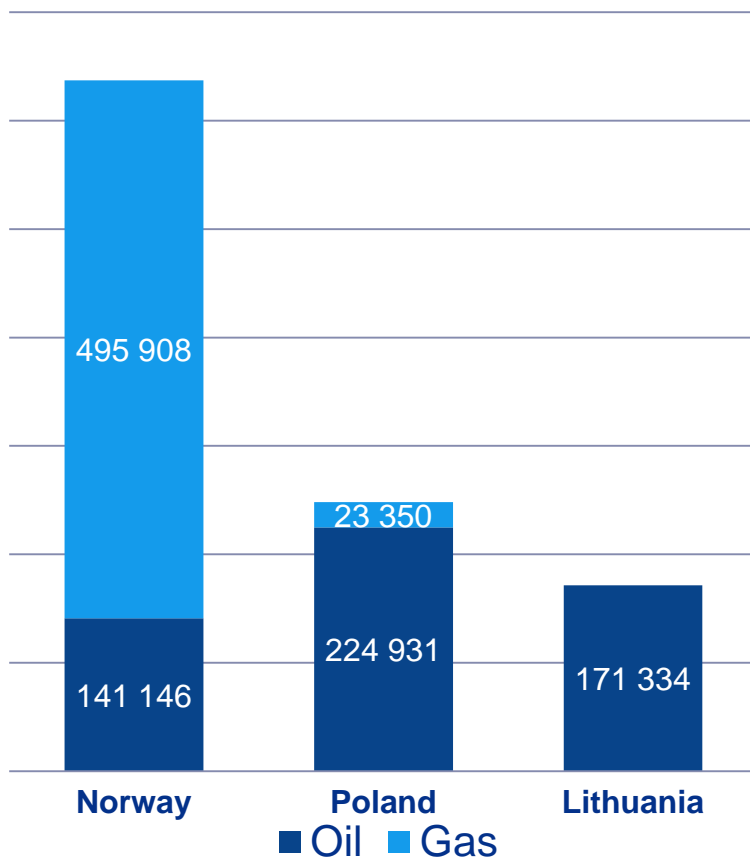
2P oil&gas reserves (m boe)



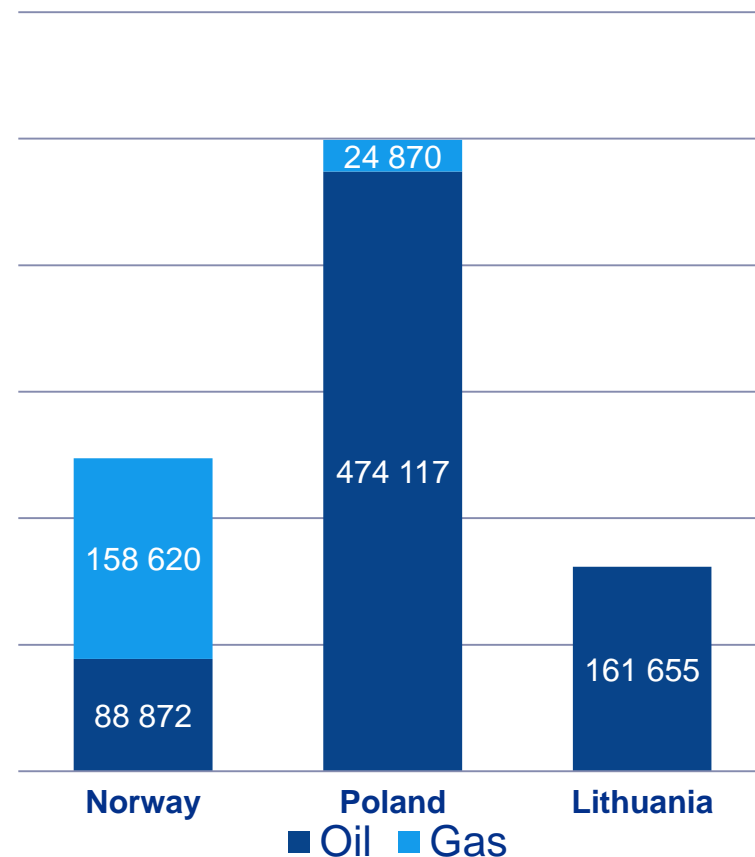
(1) For Norway – calculated on effective production days – 31 days (60 days for the planned Heimdal maintenance shutdown not included)

Sales split by products and countries q/q

Q1 2014 sales (total quarterly boe)

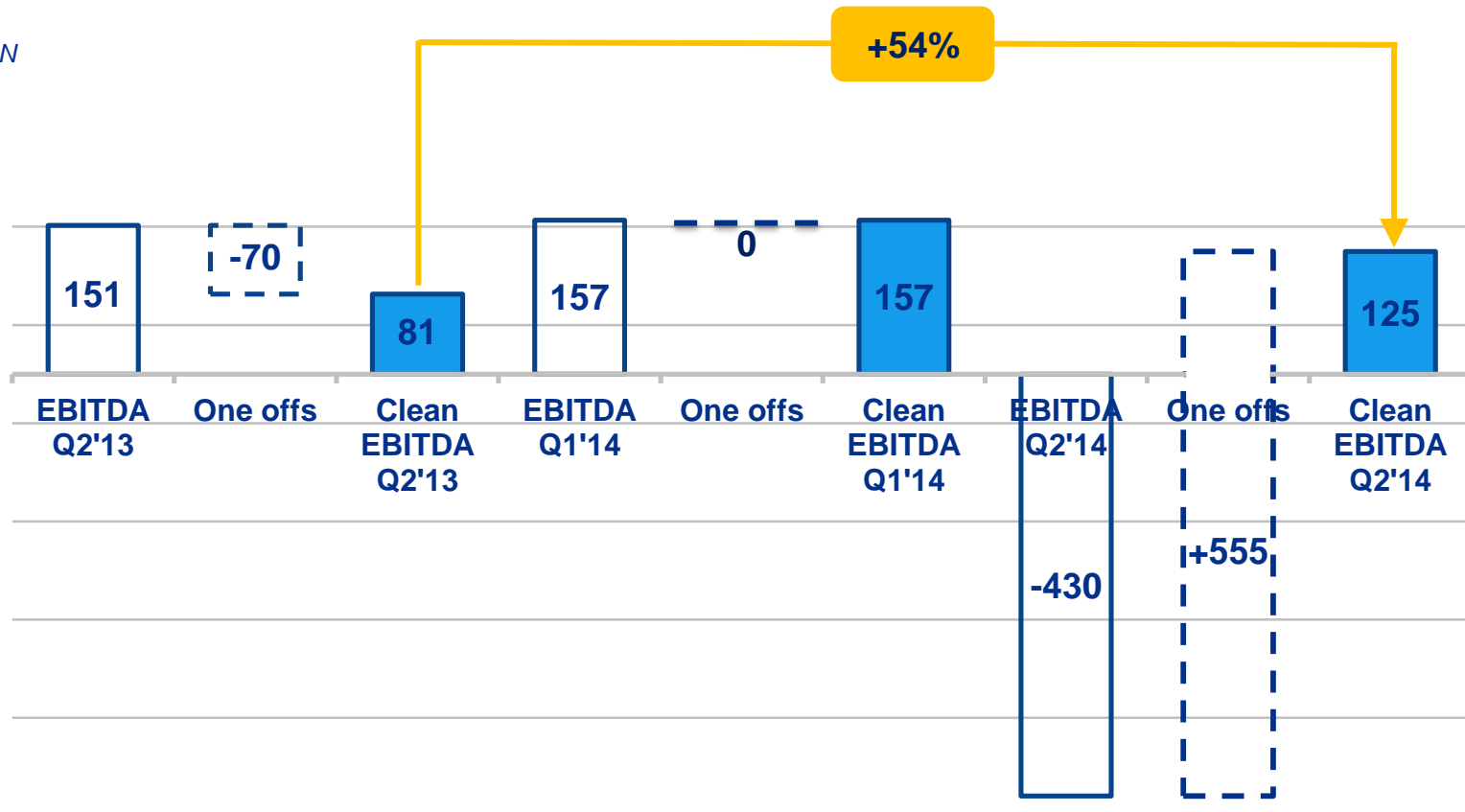


Q2 2014 sales (total quarterly boe)



Upstream segment Clean EBITDA development

m PLN



- Upstream's Clean EBITDA at PLN 125m, despite lower production from Norway (due to the planned Heimdal maintenance shutdown)

Write-off – YME project

- On August 12th, 2014, Management Board of Grupa LOTOS S.A. announced its intention to include in the interim consolidated financial statement a final impairment on the investment in the YME field, accounting for PLN 545m, as of 30.06.2014 (impact on the consolidated net income around PLN 191m)
- Despite the write-off, the Board remains fully committed to recovering the funds invested in the project
- Strategy aimed at acquisitions of new production assets on the Norwegian Continental Shelf may allow for the recovery of most of the funds invested, including the utilisation of the accumulated deferred tax asset
- In the Board's opinion, it will be possible to exploit YME's potential through the either divestment or resumption of the field's development process, subject to agreement of a suitable development plan, and removal of the existing platform
- Execution of the full impairment on this project is a sign of transparency and integrity in settling of the past actions

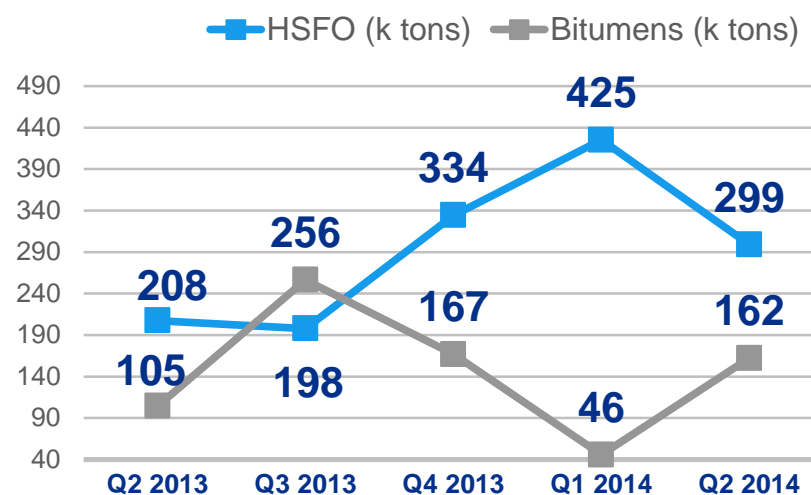
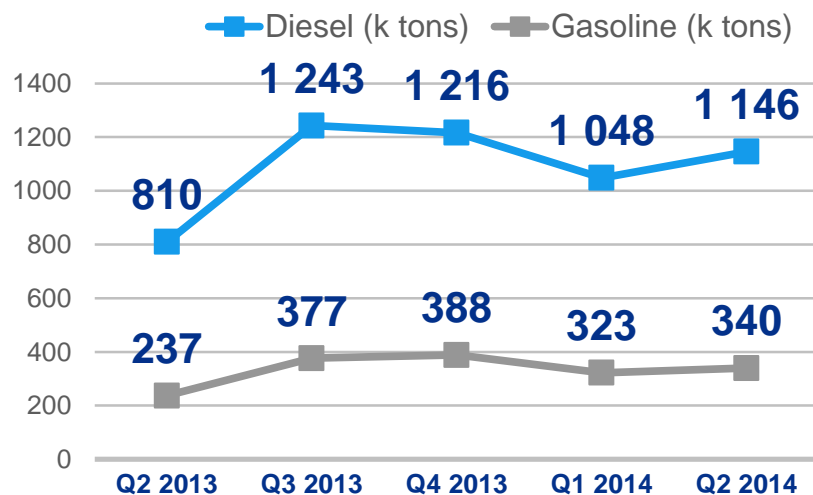
Planned capital increase of Grupa LOTOS S.A. is not associated with the allowance for impairment on the investment in the YME project

Total proceeds from the planned capital increase will be used for investments on development, in line with the „Effective and Rising” program



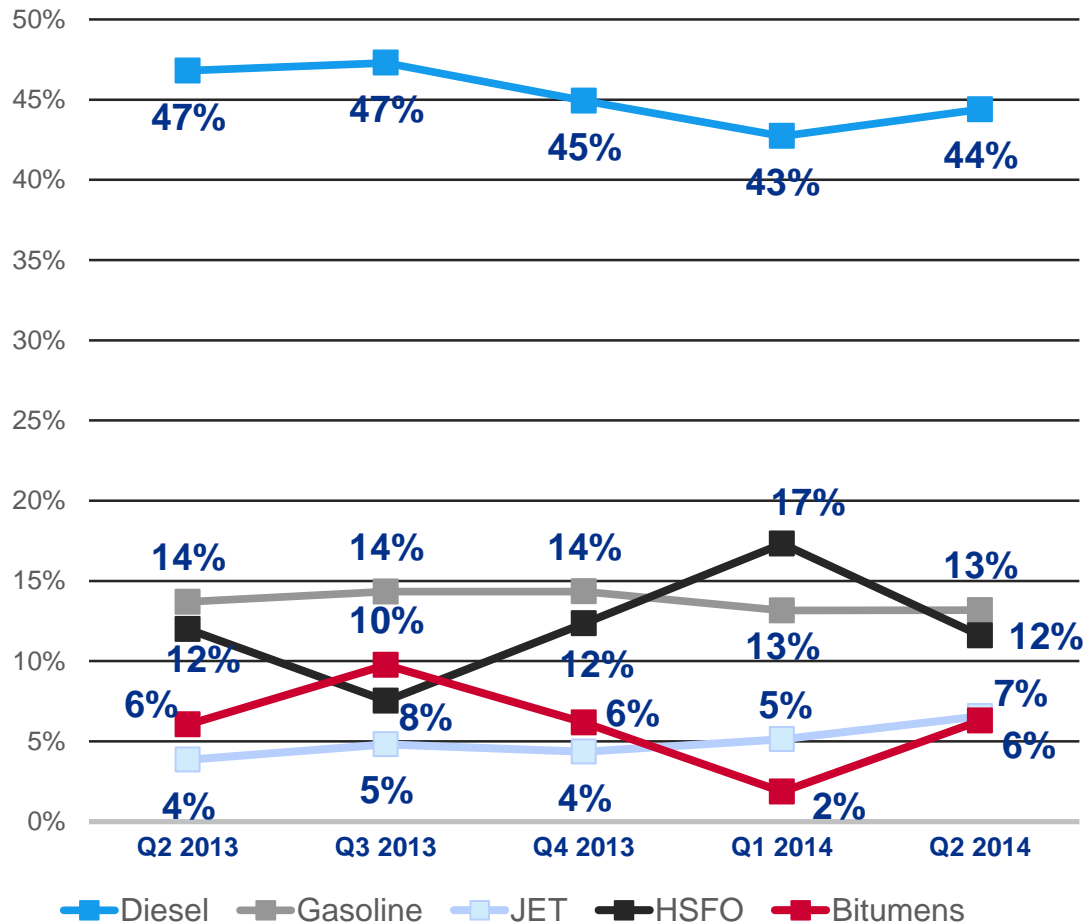
Downstream

Refinery production - volumes of key products



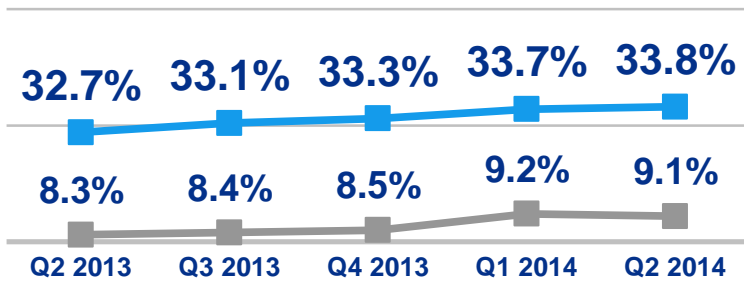
- Substantially higher Diesel output in the second quarter, compared with Q2 2013 and Q1 2014
- Fairly stable level of gasoline production
- Seasonal improvement of HSFO/Bitumen production swing q/q

Share of key products in the overall refinery throughput



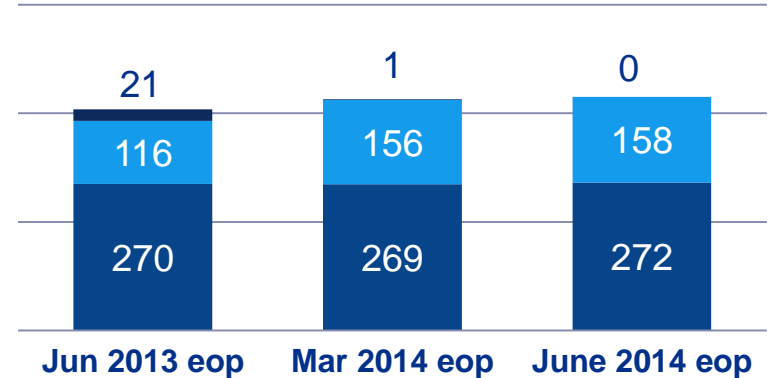
Market share evolution and petrol station network

■ Wholesale market share
■ Retail market share (vol.)

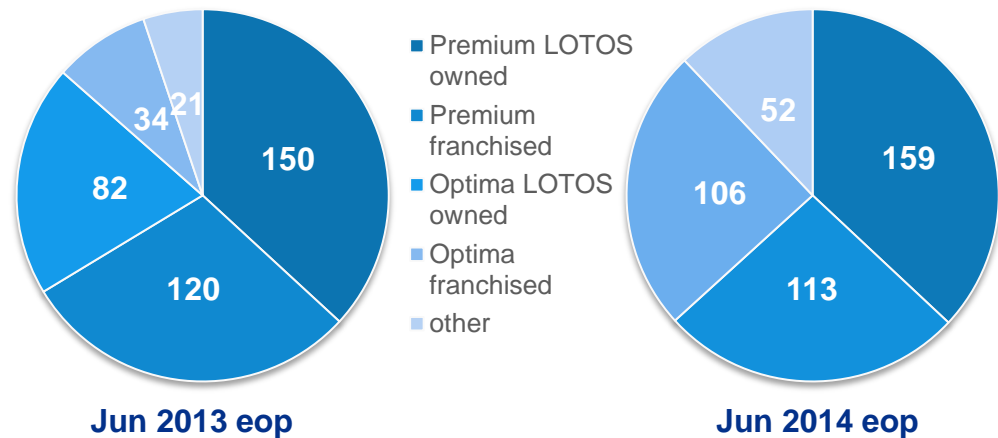


- Retail market share at 9.1%
- Further improvement of the station network by eliminating the DODO stations

■ Premium ■ Optima ■ Other

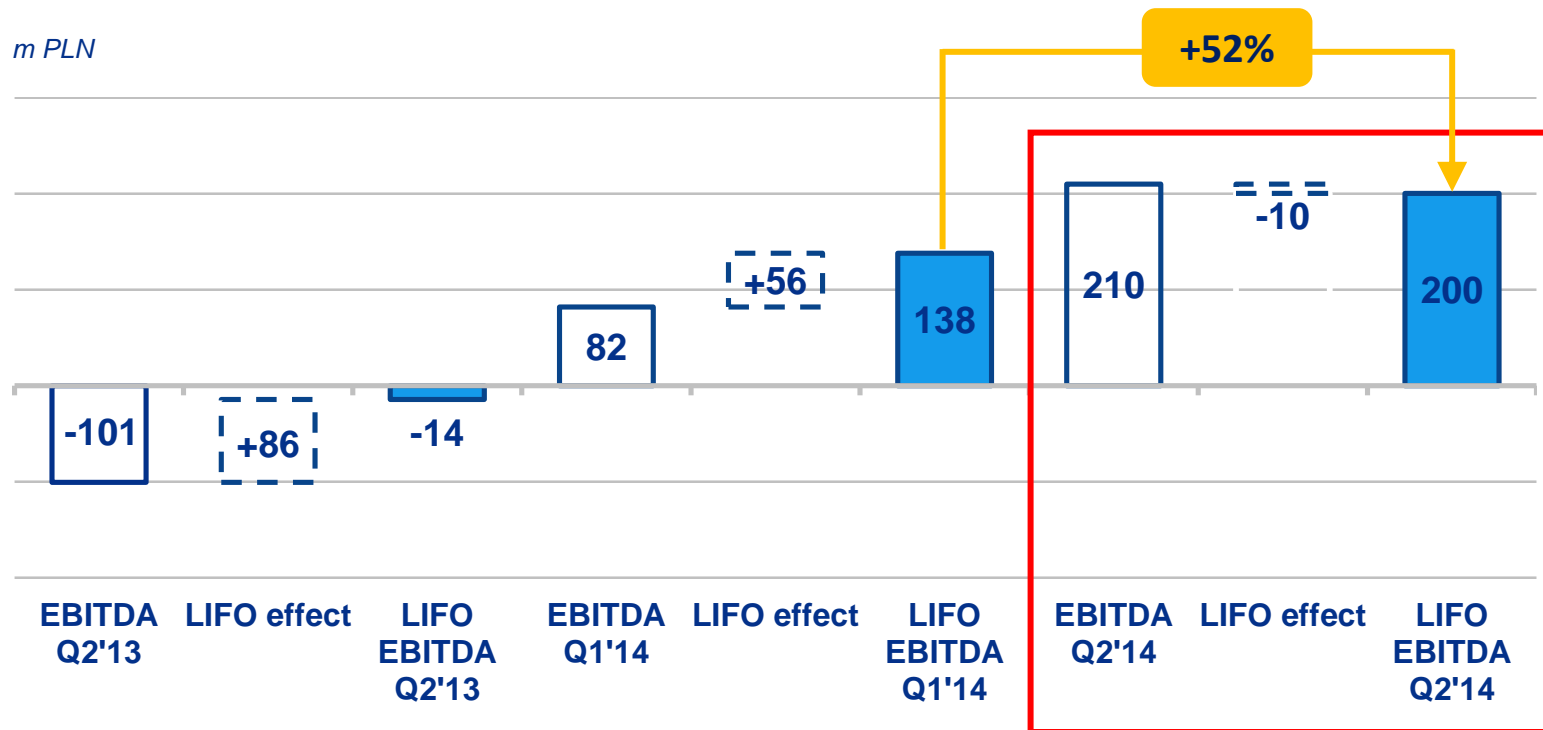


Number of stations by type



Downstream segment LIFO EBITDA development

m PLN

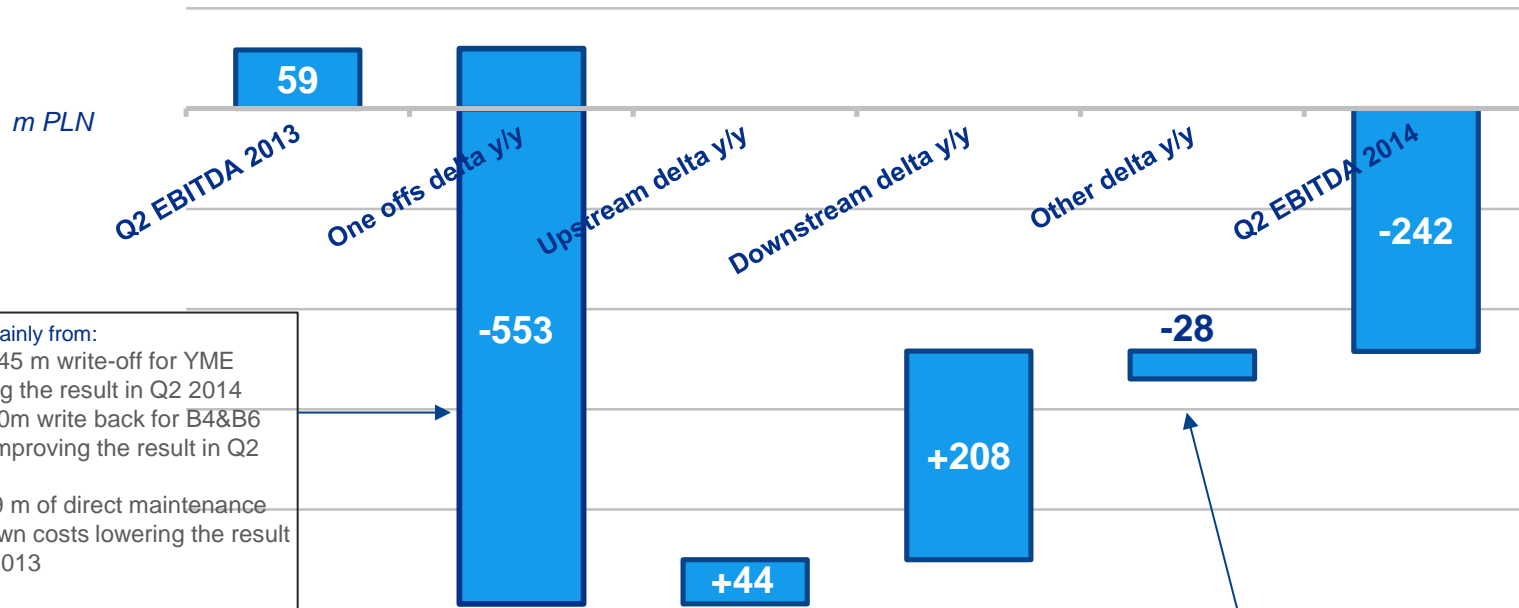


- Substantially improved LIFO EBITDA in Q2 2014 in comparison with Q1 2014 and Q2 2013



Consolidated financial results

Changes in segments EBITDA results y/y



Resulting mainly from:

- PLN 545 m write-off for YME lowering the result in Q2 2014
- PLN 70m write back for B4&B6 fields improving the result in Q2 2013
- PLN 79 m of direct maintenance shutdown costs lowering the result in Q2 2013

Resulting mainly from:

- Including Heimdal in the results of Q2 2014

Resulting mainly from:

- Increased sales
- Improved sales structure
- Increased Ural/Brent differential

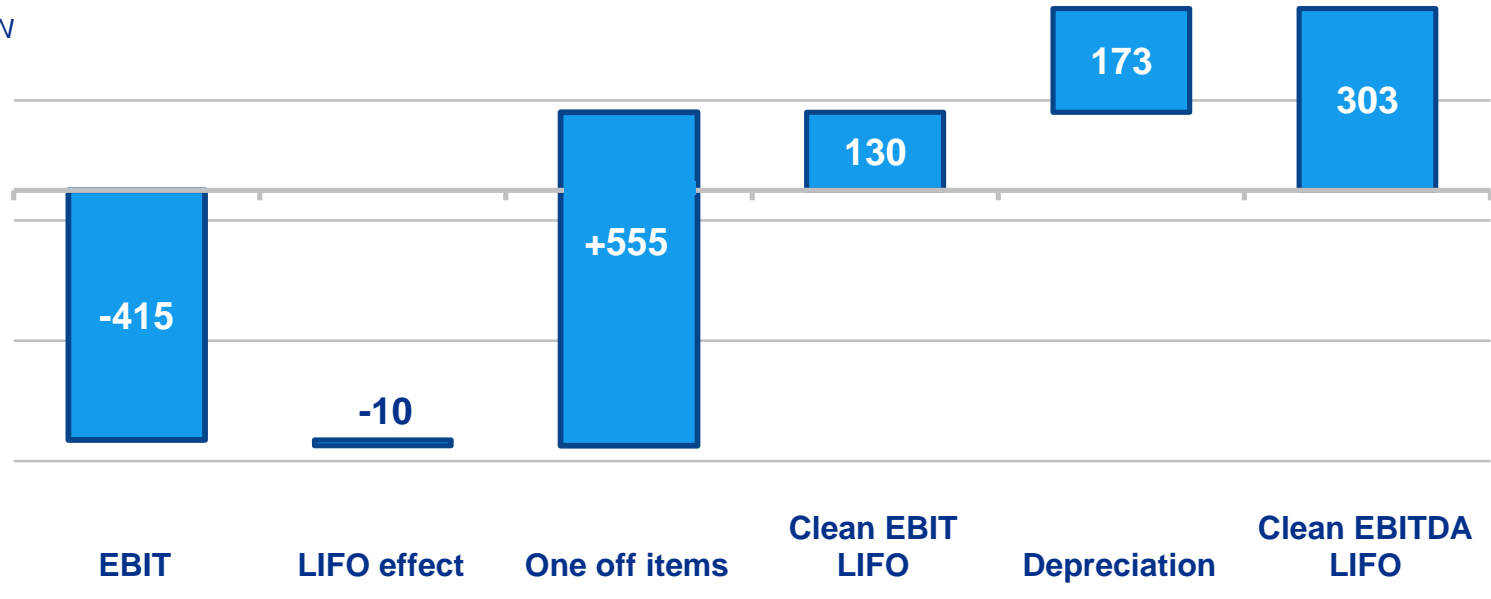
Resulting mainly from:

- Higher level of intragroup trading (crude oil)

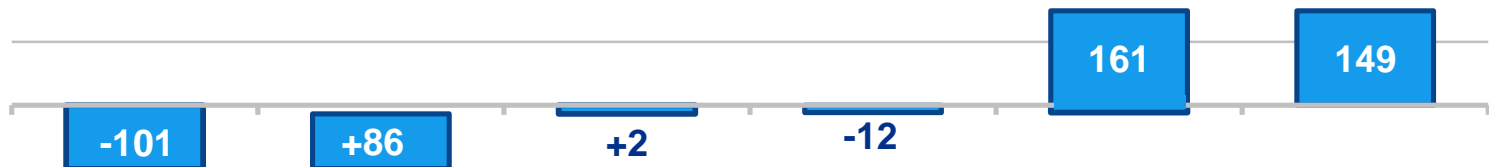
Q2 2014 results breakdown vs Q2 2013

m PLN

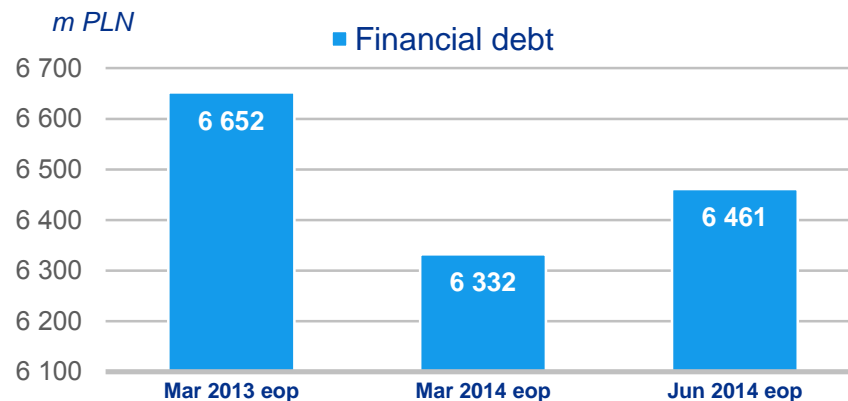
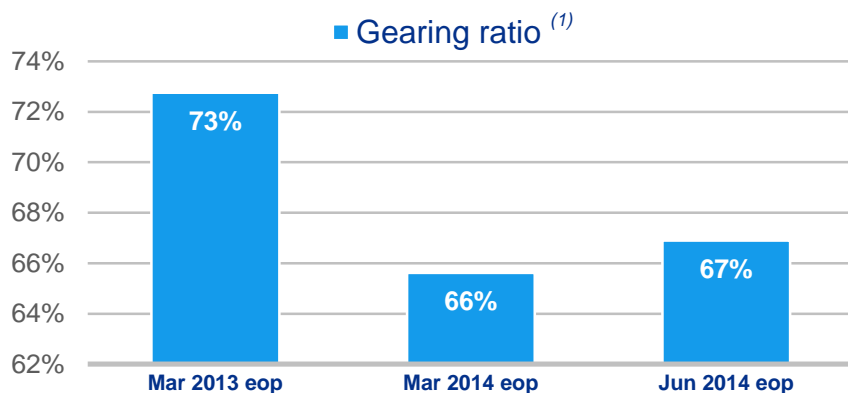
Q2 2014



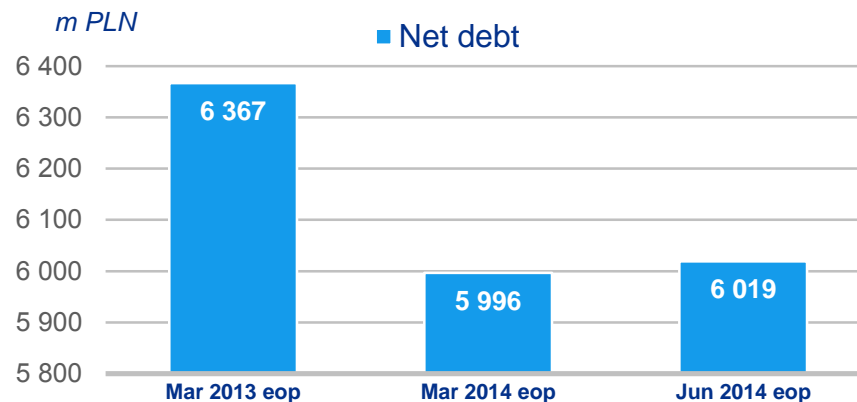
Q2 2013



Indebtedness



- Gearing ratio only slightly increased q/q despite YME impairment which resulted in a net loss
- Financial and net debt figures including loans, borrowings, leasing and bonds



(1) Gearing ratio = net debt / total shareholders equity



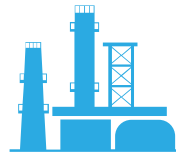
Planned Capital Increase

Background of the proposed capital increase



upstream

Upstream diversification: development of a balanced asset portfolio



downstream

The 10+ Program created one of the most complex refineries in Europe



Expansion of the wholesale and retail market shares

2006 - 2014

TODAY

- **Challenging refining environment in Europe calls for disciplined investment plans to enhance configuration and further development of a balanced portfolio, with greater exposure to E&P**

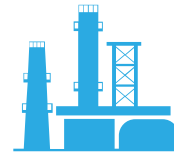
Strategic plan for growth using proceeds from the proposed capital increase



upstream

Preparation and launch of B4/B6 gas fields in Poland

Possible further acquisitions on the Norwegian Continental Shelf



downstream

Delayed Coking Unit – Further efficiency upgrade of the refinery

- Attractive IRR ~ 20%
- Total Capex – up to EUR 500 m
- Increased refining margin by ~ USD 2/bbl

Hydrogen Recovery Unit – Additional annual production of LPG, Naphtha and Hydrogen

- Total Capex ~ EUR 25m
- Replacing high margin products with natural gas

Strong rationale for the proposed capital increase

- **Capital increase provides Grupa LOTOS with the financial flexibility to swiftly execute its strategic plan for growth**
 - Investments at the refinery may further enhance higher value product yields, with attractive economics
 - Improvements in marketing channels to secure share of domestic market and enhance logistics
 - Further expansion of E&P portfolio, through organic and inorganic investment, may offer higher margins
- **Capex plan may create a better balanced portfolio and a stronger, integrated CEE player**

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CAPITAL STRENGTHENING TO FINANCE CAPEX PROGRAM LEADING TO FURTHER COMPETITIVE REPOSITIONING AND PROFITABILITY INCREASE

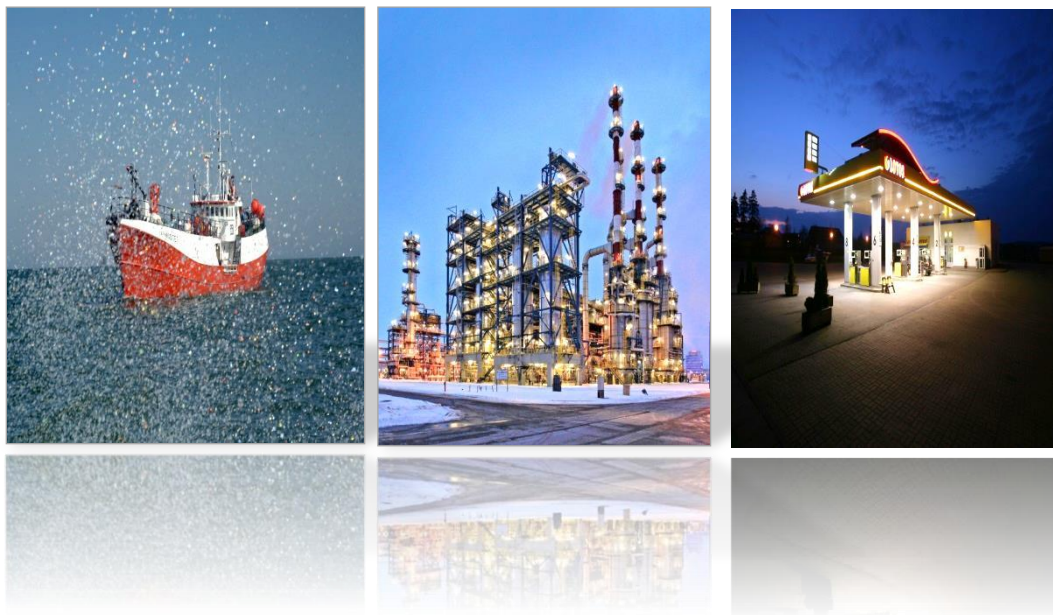
EGM will decide on the proposed capital increase

- **EGM scheduled for 8 September 2014**
- **Proceeds expected at around PLN 1 bn⁽¹⁾**
- **Offer directed to the existing shareholders of Grupa LOTOS S.A. having pre-emptive rights**
- **Proposed capital increase subject to the Polish State Treasury retaining a controlling stake in Grupa LOTOS S.A.⁽²⁾**
- **Proposed pre-emptive right record date – 18 November 2014**

⁽¹⁾ Issuance of up to 55m new shares

⁽²⁾ Offer will be subject to Grupa LOTOS S.A. and the Polish State Treasury entering into an agreement concerning the use of resources from the fund defined in art. 56.1.2 of the Polish Commercialisation and Privatisation Act

Thank You



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