



**Consolidated Financial Results of  
the LOTOS Group  
Q1 2006 (IFRS)**

***Paweł Olechnowicz – President of the Management Board***

**15 May 2006**

- **Summary**

- Implementation of Strategy and Important Events
- Operational Information
- Overview of Financial Results
- Supplementary Data

# Summary – Market conditions in Q1 2006



## Crude oil prices and Brent-Ural differential

- Increase of average crude oil price to 61.7 USD/bbl by 8.5% in comparison to Q4 2005 by 29.4% in comparison to Q1 2005.
- Average Ural/Brent differential 3.6 USD/bbl representing a 0.7% decrease against Q4 2005 and a decrease of 28.6% versus Q1 2005 resulting from a decrease in Russian crude oil supply connected with a harsh winter and difficulties in port logistics.
- Average refining margins at 4.1 USD/bbl – a decrease of 30.5% versus Q4 2005 due to a seasonal fall in demand, but an increase of 41.4% on Q1 2005.

## Data for Q4 2005 and Q1 2006\*

	Q4 05	Q1 06	Change
• Brent USD/bbl	56.9	61.7	8.5%
• Ural USD/bbl	53.2	58.1	9.1%
• Differential Brent-Ural	3.7	3.6	-0.7%
• Refining margin (USD/bbl)	5.9	4.1	-30.5%

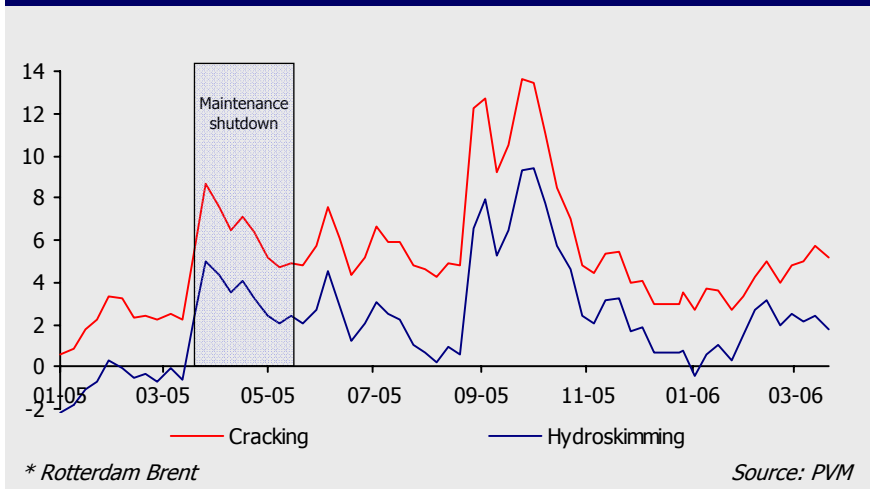
\* Average for period

## Data for Q1 2005 and Q1 2006\*

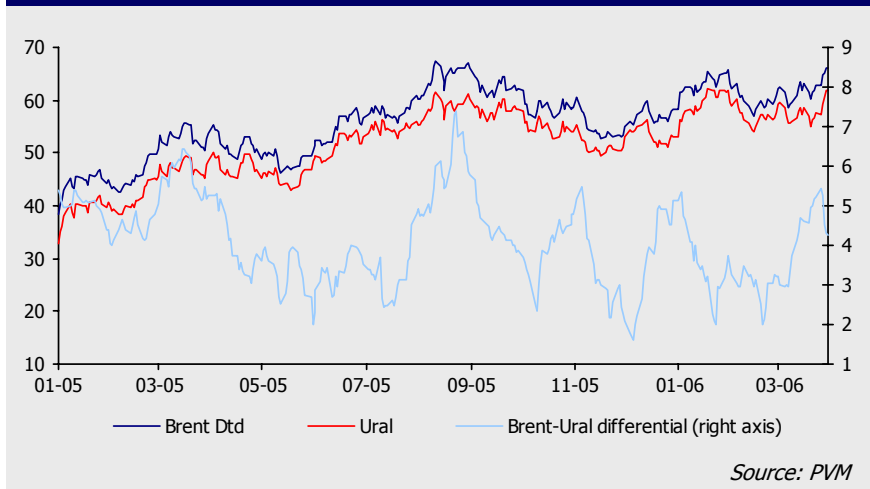
	Q1 05	Q1 06	Change
• Brent USD/bbl	47.7	61.7	29.4%
• Ural USD/bbl	42.6	58.1	36.3%
• Differential Brent-Ural	5.1	3.6	-28.6%
• Refining margin (USD/bbl)	2.9	4.1	41.4%

\* Average for period

## Refining margin\* (USD/bbl)



## Crude oil prices and Brent-Ural differential (USD/b)



## Summary – Financial results (Q1 2006)

### Financial results (IFRS in PLN m, non-audited)

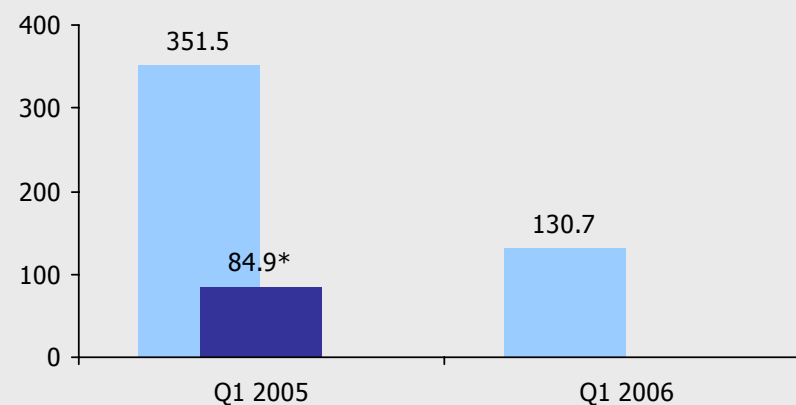
	Q1 2005	Q1 2005 adjusted*	Q1 2006	Change*
<b>Net sales</b>	1 485.8	1 485.8	<b>2 689.6</b>	81.0%
<b>EBITDA</b>	413.7	147.1	<b>202.7</b>	37.8%
<b>EBIT</b>	351.5	84.9	<b>130.7</b>	54.0%
<b>Net profit**</b>	320.6	54.0	<b>102.9</b>	90.6%
<b>NET profit (LIFO)***</b>	288.9	22.2	<b>100.9</b>	354.0%

\* Excluding negative goodwill of PLN 266.6 m

\*\* Net profit attributable to shareholders of the parent company

\*\*\* Net profit of the capital group adjusted by the effect of LIFO inventory valuation

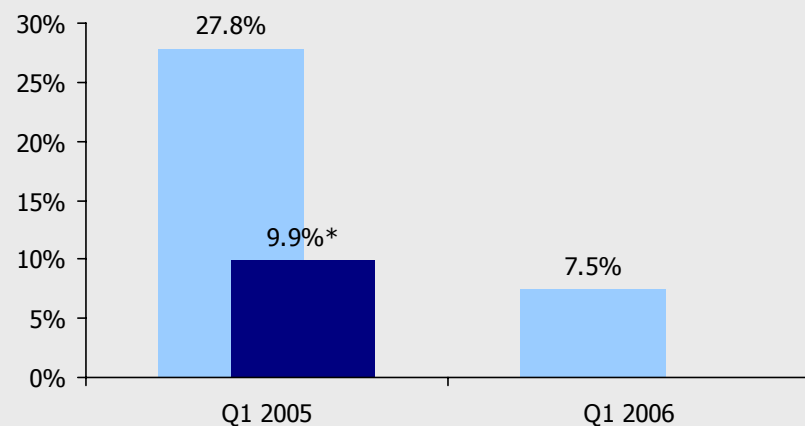
### Operating profit (PLN m)



\* Excluding negative goodwill of PLN 266.6 m.

Source: Grupa LOTOS

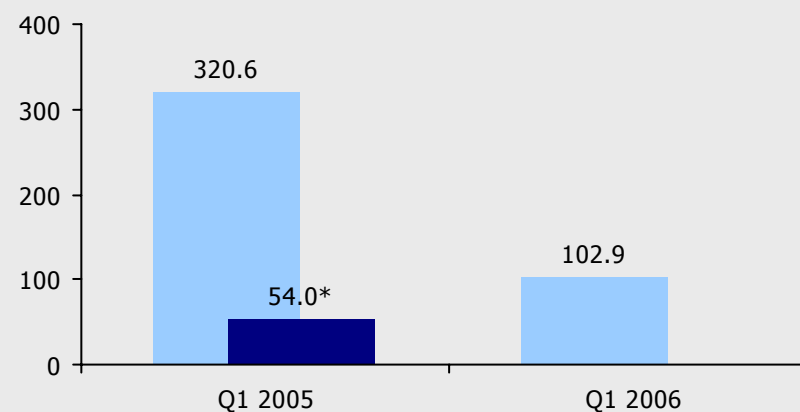
### EBITDA margin



\* Excluding negative goodwill of PLN 266.6 m.

Source: Grupa LOTOS

### Net profit (PLN m)



\* Excluding negative goodwill of PLN 266.6 m.

Source: Grupa LOTOS

## Summary – Operating data



Operating data in Q1 2005 and Q1 2006		
	Q1 2006	Q1 2005
<b>Annual nameplate processing capacity</b>	<b>6 MMTA</b>	4.6 MMTA
<b>Crude oil throughput<sup>1</sup></b>	<b>1 400.3 K tonnes</b>	1 075.8 K tonnes
<b>Average capacity utilisation rate</b>	<b>94.6%</b>	98.5%
<b>Products sales in total</b>	<b>1 599.0 K tonnes</b>	
<b>Employment (end of a period) <sup>2</sup></b>	<b>5 501</b>	5 222 persons

1) Processing at Gdańsk Refinery.

2) Including 840 person employed in Grupa LOTOS S.A. in Q1 2006 and excluding Rafineria Nafty Glimar. Comparable data for Q1 2005 excluding Rafineria Nafty Glimar.

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## Projects central to the implementation of the LOTOS Group strategy to 2010



### **Comprehensive Technical Upgrade Programme ("PKRT")**

Resolution of the issue of heavy residue – deep conversion of crude oil  
Increasing of production through processing of heavy residue



### **Retail Petrol Stations Network Development Programme ("PROSTA")**

Expansion of the network of COCO stations and DOFO stations  
Increase of share in the retail fuel market to 10-12%



### **Restructuring and development of the assets of the Southern Refineries**

Assumption of full control over distribution channels  
Modernisation of the fuel storage base and construction of fuel terminals  
Increase in the share of the fuel wholesale market to 30%



### **Development of Exploration & Production**

Built upon the human and technical resources of Petrobaltic  
Exploration of coastal and inland oil fields in Poland, as well as abroad

## Installation basic design

### **SDA/ROSE (Solvent De-asphalting and Residual Oil Supercritical Extraction)**

- January 2006 – final basic design delivered to Grupa LOTOS.

### **MHC – (Mild Hydrocracking)**

- February 2006 – basic design of MHC installation delivered.

### **IGCC (Integrated Gasification Combined Cycle)**

- January 2006 – P&ID Review Meeting w Shell Global Solutions.
- February 2006 – basic design of IGCC installations delivered.

## Integration basic design

- Agreements with Fluor and UHDE/Technip were signed on 31 January 2006.
- The FEED-PB agreements encompass the following basic stages:
  - Initial Technical Design Stage – project coordination, communications, management and preparing Project documentation, as well as estimates of costs based on initial assumptions.
  - Base Design Stage – engineering work including design of installations not requiring licenses and preparing documentation of the integrated base design.

## Financing

- An information brief intended for commercial financing institutions was sent on 24 January 2006.
- Over 10 commercial banks expressed initial interest in arranging debt financing for the project.
- Work on the financial model with BNP Paribas.
- Work on obtaining EU and preference funds for financing of the project.
- Worked on applications foreseen in the Sector Operating Program – Increasing Competitiveness of Corporations.
- Two ecological applications were filed at the NFOŚ (National Ecological Fund).

## Feedstock supply agreements

- On 11 April 2006 LOTOS Ekoenergia S.A. concluded an agreement with Shell International Trading and Shipping Company Limited for supplying feedstock for the PKRT installations.
- The agreement is conditional upon the implementation of the PKRT program.
- The agreement will be valid for 12 years.
- Estimated value of the agreement is PLN 11 bn.



# Implementation of Strategy – PROSTA Project



## ESSO and Slovnaft transactions

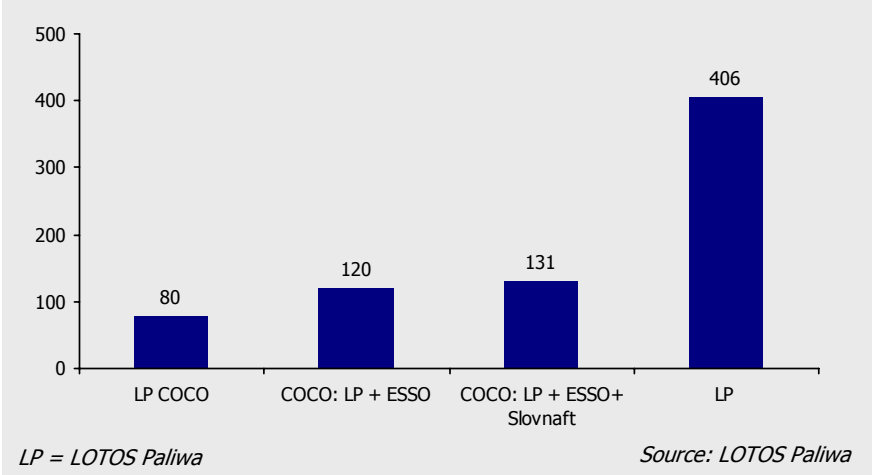
### ESSO

- Currently 35 ESSO stations are operating as COCO stations and 3 as COCO stations.

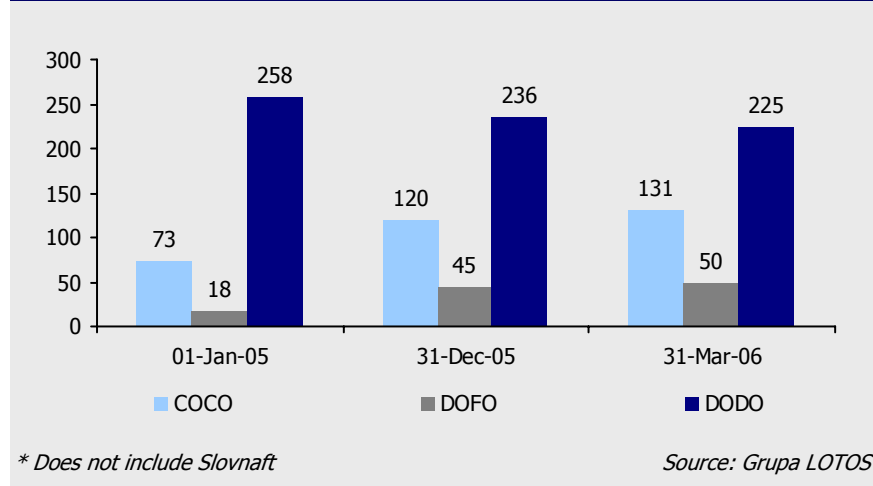
### Slovnaft

- The final agreement was signed on 9 March 2006.
- LOTOS Paliwa will take over cooperation with selected Slovnaft Polska S.A. franchises.

## Number of stations after ESSO & Slovnaft



## Change in the petrol station network structure



## Implementation of PROSTA in Q1 2006

- As of 31 March 2006, 38 ESSO stations and 1 Slovnaft station were handed-over, with the remaining stations still not ready to be handed-over.
- From the moment of hand-over of the stations, work is performed on the stations related to changing the visualisation of the stations.
- The number of DOFO stations increased from 45 to 50 stations.
- The number of DODO stations decreased from 236 to 225 stations.

### Restructuring activity

In Q4 2005 restructuring activities aimed at rationalisation of the capital group and organisation of the operations of the LOTOS Group in southern Poland were continued:

#### **LOTOS Czechowice (former Rafineria Czechowice)**

- Termination of oil refining LOTOS Czechowice as of 31 March 2006.

#### **LOTOS Park Technologiczny**

- Two increases of the equity of LOTOS Park Technologiczny – a key company involved in the restructuring of the assets of Grupa LOTOS that are located in the south of Poland.
- Newly issued shares were covered by contribution in kind or cash payments and were acquired by LOTOS Czechowice and Grupa LOTOS.
- As a result of these capital increases, the share capital of LOTOS Park Technologiczny is composed of 24 748 shares, and companies of capital group of Grupa LOTOS hold a total of 24 648 shares.

#### **LOTOS Serwis**

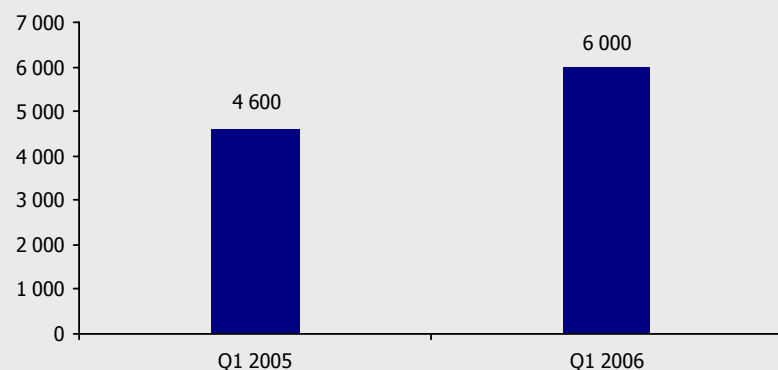
- As part of the process of consolidation of the maintenance operations, LOTOS Serwis. Acquired 100% of shares in Monto-Rem and 100% of shares in RC REMO. Both transactions were effected on the 5 January 2006. They were preceded by a purchase of minority shareholdings in Monto-Rem by LOTOS Jasło.
- Currently underway is integration of the companies acquired by LOTOS Serwis.

#### **LOTOS Oil**

- As part of the restructuring process in the area of production and sales of lubricants, on 2 January 2006, LOTOS Oil S.A. acquired from LOTOS Czechowice assets related to lubricant production.

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## Annual production capacity (in 000 tonnes p.a.)\*



\* Gdańsk Refinery

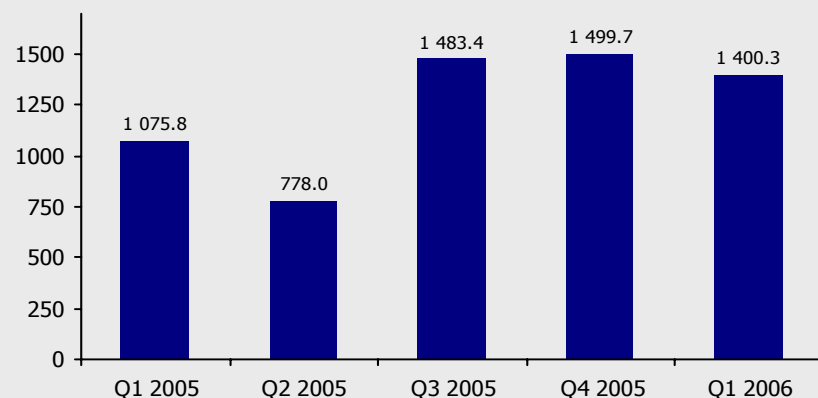
Source: Grupa LOTOS

## Commentary

- Capacity utilisation rate in Q4 2005 of 94.6%.\*
- Growth of throughput of oil at the Gdańsk Refinery in versus Q1 2005 and insignificant fall as compared to Q4 2005.
- Total sales of products in Q1 2006 amounting to 1 599 K tonnes.

\* Gdańsk Refinery

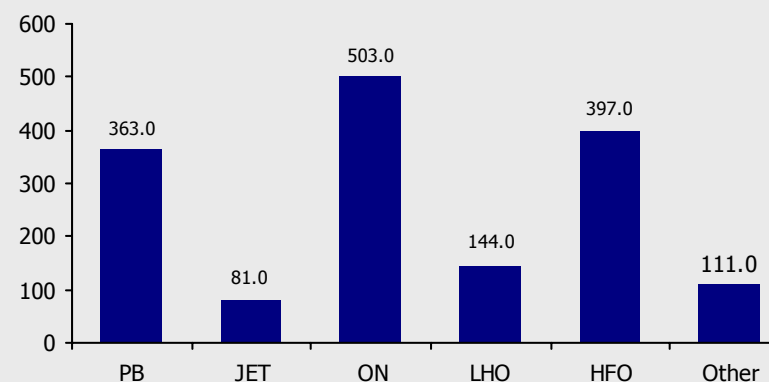
## Crude oil throughput (in 000 tonnes)\*



\* Gdańsk Refinery

Source: Grupa LOTOS

## Sales of products (Q1 2006 in 000 tonnes)\*



\* Gdańsk Refinery

Source: Grupa LOTOS

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## Financial Results – Profit & Loss Account



IFRS (PLN m)	Q1 05	Q1 06	Δ 06/05
<b>Net sales</b>	1 485.8	<b>2 689.6</b>	81.0%
Cost of sales	1 268.0	2 348.2	85.2%
<b>Gross profit</b>	217.9	<b>341.4</b>	56.7%
Negative goodwill	266.6	-	-100.0%
Distribution expenses	76.9	141.4	83.9%
Administrative expenses	60.1	62.1	3.3%
Other operating costs	5.9	12.8	118.2%
<b>EBITDA</b>	413.7	<b>202.7</b>	-51.0%
<b>Operating profit (EBIT)</b>	351.5	<b>130.7</b>	-62.8%
Pre-tax profit	351.6	149.8	-57.4%
Income tax	30.4	32.2	6.0%
<b>Net profit*</b>	320.6	<b>102.9</b>	-67.9%

*\* Net profit attributable to shareholders of the parent company*

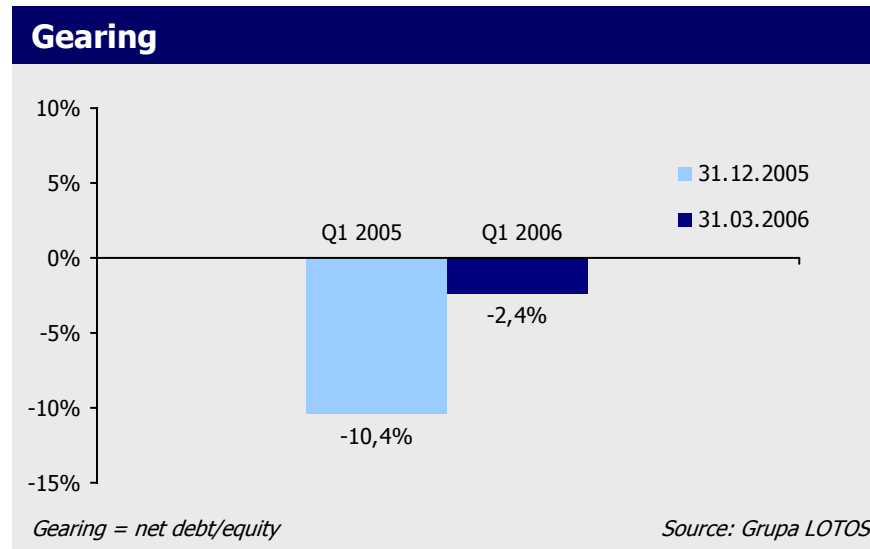
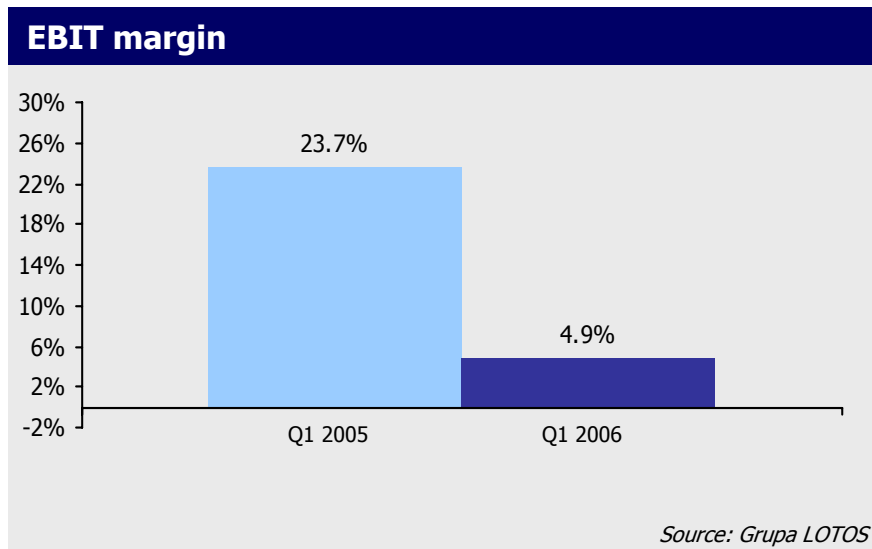
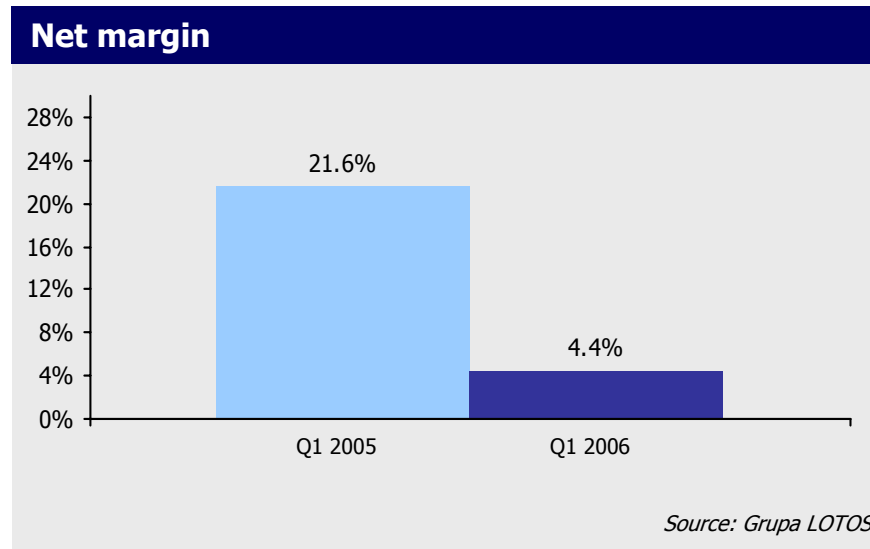
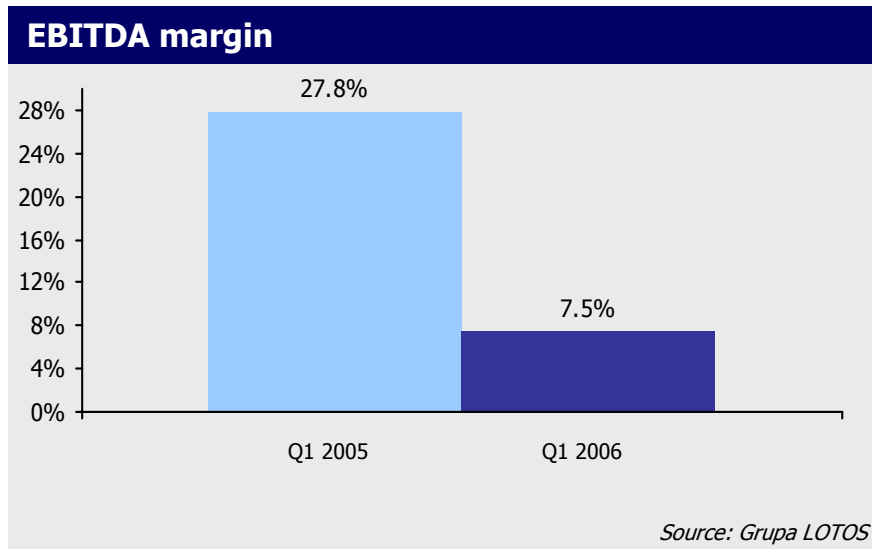
Commentary
<ul style="list-style-type: none"> <li>Drivers behind growth of net sales by 81.0% as compared to Q1 2004, to PLN 2 689.6 m, included:                             <ul style="list-style-type: none"> <li>– Increase of the volume of sales of the parent company resulting from increase of production.</li> <li>– Increasing crude oil prices and growth of oil product prices.</li> </ul> </li> <li>Fall of operating profit by 62.8% to PLN 130.7 m in Q1 2006, as compared to Q1 2005, resulted from:                             <ul style="list-style-type: none"> <li>– Negative goodwill in the amount of PLN 266.6 m related to recognising excess of the share in net assets over the acquisition cost of the Southern Refineries and Petrobaltic.</li> <li>– Increase of the cost of sales by PLN 64.5 m related to the increased volumes of sales in Q1 2006.</li> </ul> </li> <li>The consolidated pre-tax profit in Q1 2006 fell by PLN 201.8 m in comparison to the analogous period of the previous year and amounted to PLN 149.8 m.</li> <li>The net profit attributable to shareholders of the parent company amounted to PLN 102.9 m, i.e. 67.9% less than in Q1 2005.</li> </ul>

## Financial Results – Balance Sheet



IFRS (in PLN m)	31.12.05	31.03.06	Δ	Commentary
<b>Assets</b>	6 989.6	<b>7 064.4</b>	1.1%	<ul style="list-style-type: none"> <li>• Growth of the value of assets by 1.1% as of 31 march 2006 in comparison to YE 2005 resulted from the increase of the value of tangible fixed assets by 74.8 m.</li> <li>• Decrease of the value of current assets by PLN 49.6 m resulted primarily from: <ul style="list-style-type: none"> <li>– Increasing of inventories by PLN 60.1 m as a result of prices of raw materials and products.</li> <li>– Increase of receivables by PLN 186.8 m.</li> <li>– Fall in cash and short-term investments investments by PLN 312.5 m.</li> </ul> </li> <li>• Increase of long-term liabilities and reserves by PLN 18.4 m occurred as a result of: <ul style="list-style-type: none"> <li>– Increasing of long-term debt by PLN 44.2 m.</li> <li>– Fall of provisions by PLN 25.1 m.</li> </ul> </li> <li>• Decrease of short-term liabilities by PLN 62.3 m as a result of: <ul style="list-style-type: none"> <li>– Fall in the level of liabilities and accruals by PLN 116.7 m.</li> <li>– Increase of short-term financial debt by PLN 23.8 m.</li> <li>– Increase of short-term provisions by PLN 30.8 m.</li> </ul> </li> </ul>
<b>Fixed assets</b>	3 581.5	<b>3 705.9</b>	3.5%	
Tangible fixed assets	3 311.8	3 430.2	3.6%	
Financial assets	20.2	21.6	7.1%	
<b>Current assets</b>	3 408.1	<b>3 358.5</b>	-1.5%	
Inventories	1 432.9	1 493.0	4.2%	
Receivables	1 069.1	1 256.0	17.5%	
Short-term securities	135.8	14.0	-89.7%	
Cash and equivalents	767.8	577.2	-24.8%	
<b>Equity &amp; Liabilities</b>	6 989.6	<b>7 064.4</b>	1.1%	
<b>Shareholders equity</b>	4 808.1	<b>4 926.8</b>	2.3%	
Long-term liabilities	715.9	734.3	2.6%	
Short-term liabilities	1 465.6	1 403.3	-4.2%	
including financial debt	405.7	473.6	16.8%	

# Financial Results – Financial ratios

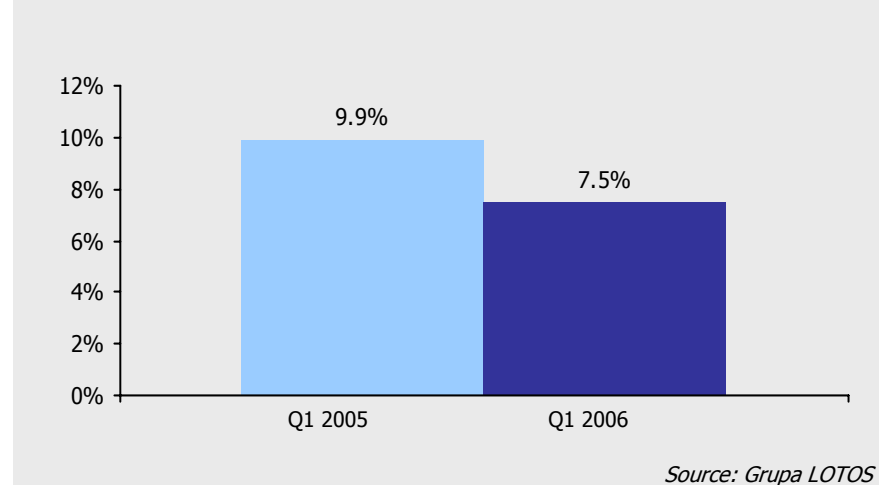




# Financial Results – Financial ratios (excluding non-recurring adjustments related to revaluation of Southern Refineries & Petrobaltic)



## EBITDA margin

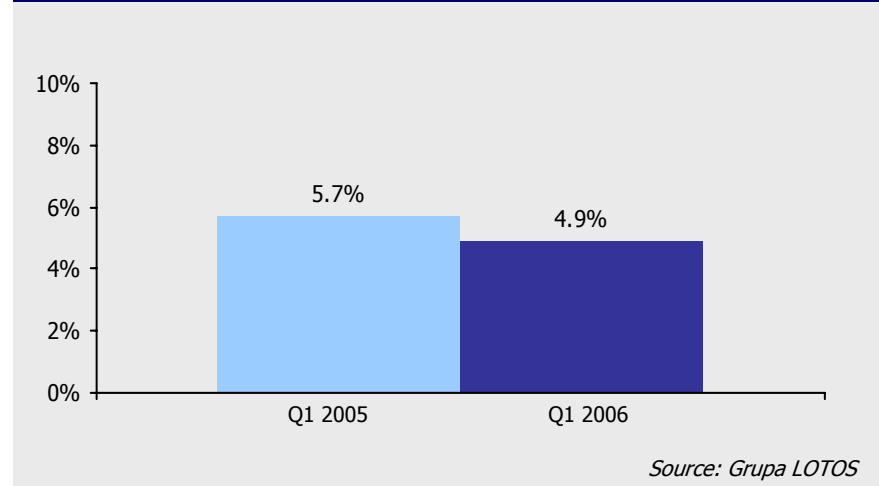


## Commentary

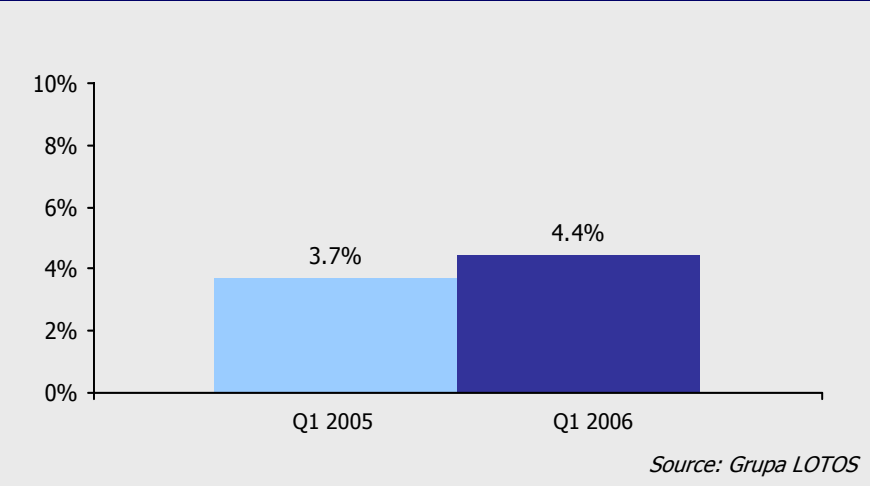
Following adjustment of the Q1 2005 financial results by subtracting the excess of the share in net assets over acquisition cost (negative goodwill), the following comparable financial ratios are obtained:

- EBITDA margin fell in Q1 2006 to 7.5% from 9.9% in Q1 2005
- EBIT margin fell in Q1 2006 to 4.9% in comparison to 5.7% in Q1 2005.
- Net margin increased in Q1 2006 to 4.4% from 3.7% in Q1 2005.

## EBIT margin



## Net margin



## Financial results – Operating profit in areas of activity



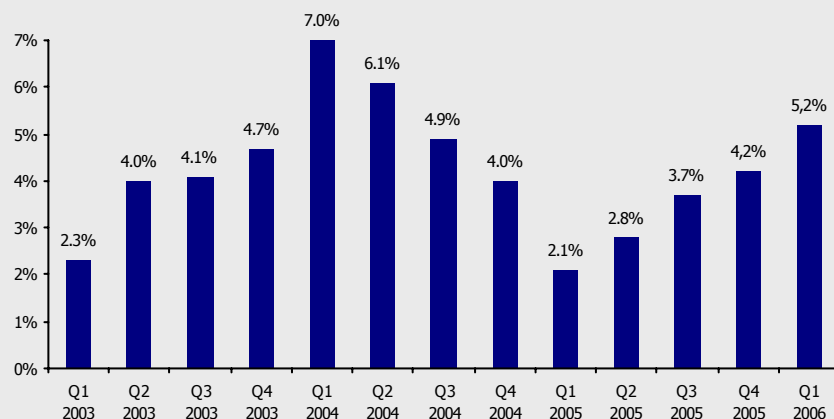
Areas of activity (PLN m)	E&P	Refining & trade	Retail stations	Other operations
Sales	82.0	2 661.7	202.1	62.7
Operating costs	(29.3)	(2 583.4)	(210.1)	(54.2)
Adjustments	(2.0)	1.7	0.2	(0.9)
Operating profit	50.7	80.0	(7.8)	7.7
Depreciation	10.6	52.4	6.4	2.0

### Commentary

- The operating activity of the LOTOS Group Capital Group has been divided into four areas of operations: exploration & production, refining & trade, retail stations and other operations that include transport, maintenance and other operations.
- Factors impacting the operating profit in individual areas of operations in Q1 2006:
  - E&P – increase of the price of sweet crude oil on international markets and increase of the level of production of crude oil in Petrobaltic.
  - Refining & trade – raising of refining capacity in the Grupa LOTOS refinery in Gdańsk from 4.6 to 6 m tons *per annum* thus increasing throughput and market variables, including a fall in the Ural/Brent differential and refining margins.
  - Retail stations – fall in retail margins on COCO stations, work related to restructuring and modernisation of the network of stations of Grupa LOTOS managed by LOTOS Paliwa, costs related to acquisition of Slovnaft and ESSO petrol stations and also costs of preparing loyalty programmes.

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## Growth of real GDP (%)

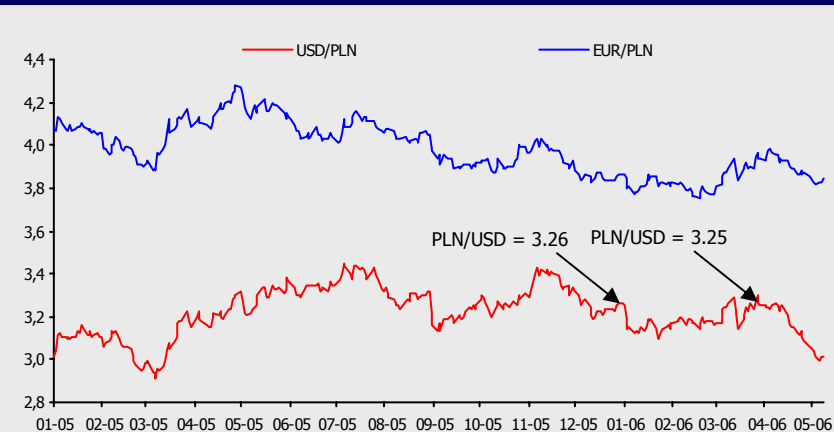


Source: The Polish Ministry of Finance

## Commentary

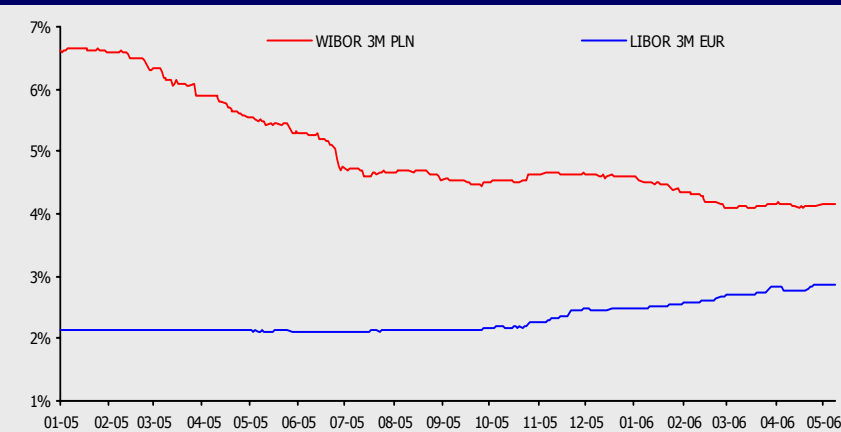
- According to the estimates of The Polish Ministry of Finance in Q1 2006 GDP growth amounted to 5.2%, as compared to 2.1% in the analogous period of 2005. The Budget Bill for 2006 assumes that the GDP growth in 2006 will amount to 4.3%.
- In Q1 2006 the USD/PLN exchange rate ranged from 3.10 to 3.30 and at the end of March 2006 amounted to 3.25. In the same period the EUR/USD exchange rate ranged from 1.18 to 1.23 and at the end of March 2006 amounted to 1.21.
- Decrease of the WIBOR 3M rate from 4.61% at the end of 2005 to 4.15% at the end of Q1 2006.

## Foreign exchange rates



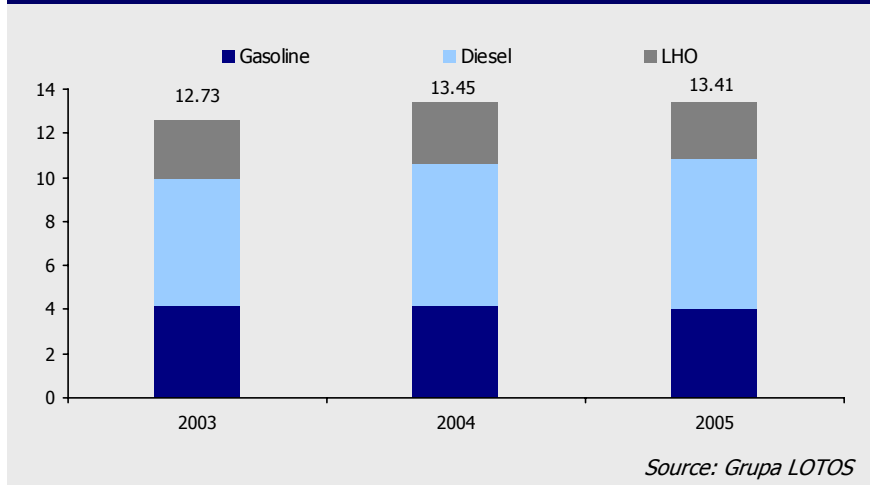
Source: NBP

## Interest rates



Source: NBP

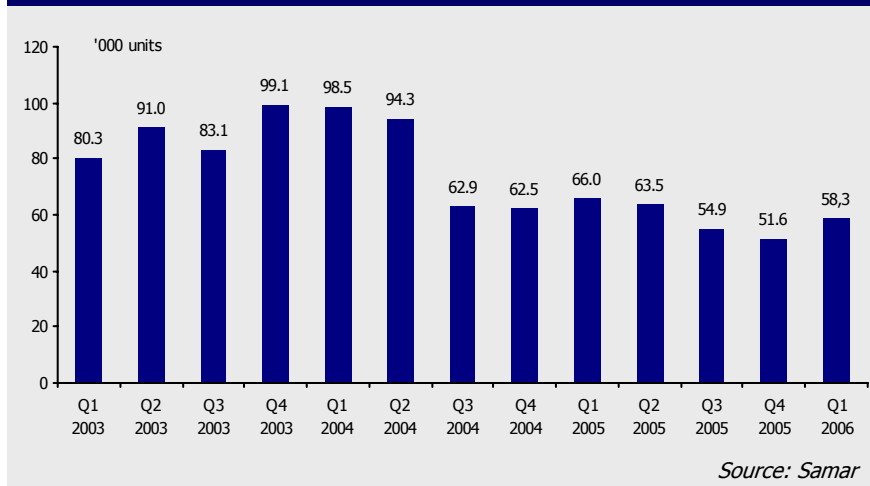
## National fuel consumption (tonnes m)



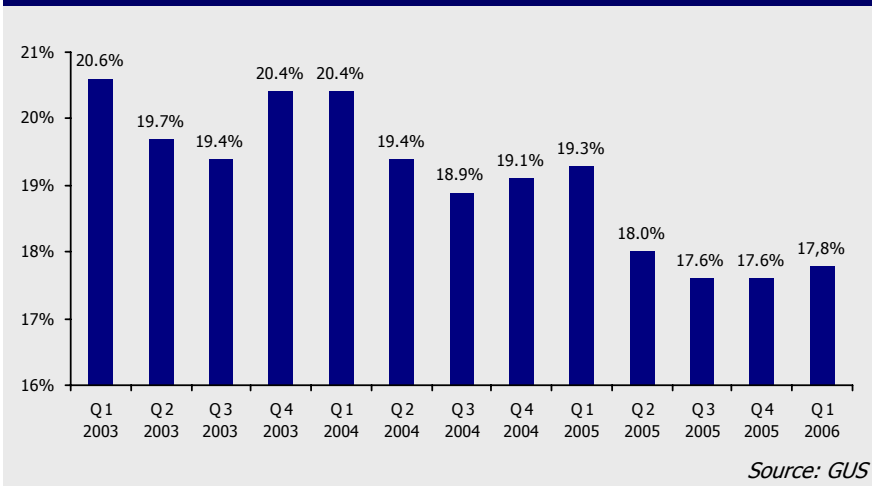
## Commentary

- National consumption of fuels in 2005 fell slightly (-0.4%) compared to 2004. The highest growth in consumption (6.6%) was recorded in the Diesel segment. Consumption of gasoline fell by 4.8%, and consumption of LHO fell by 9.7%.
- Sales of new cars in Q1 2006 amounted to 58 261 and fell by 11.7% in comparison to the analogous period of 2005. In the same period Poland imported 128 251 new cars, which was a decrease 33.5% as compared to Q1 2005.
- At the end of March 2006 the number of unemployed amounted to 2 822 thousands of people, representing 17.8% of economically active population. Poland has the highest unemployment rate in EU.

## Sales of new automobiles



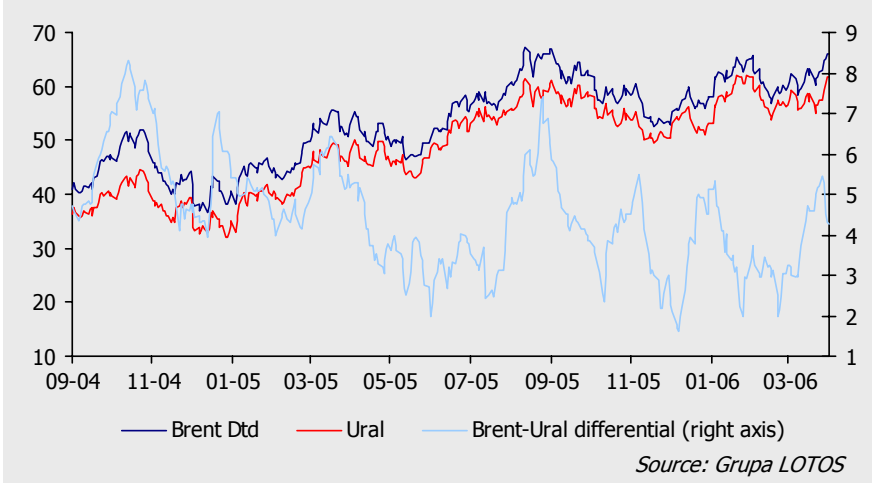
## Unemployment



# Supplementary data – Market Conditions in Q1 2006



## Crude oil prices and Brent-Ural differential (USD/b)

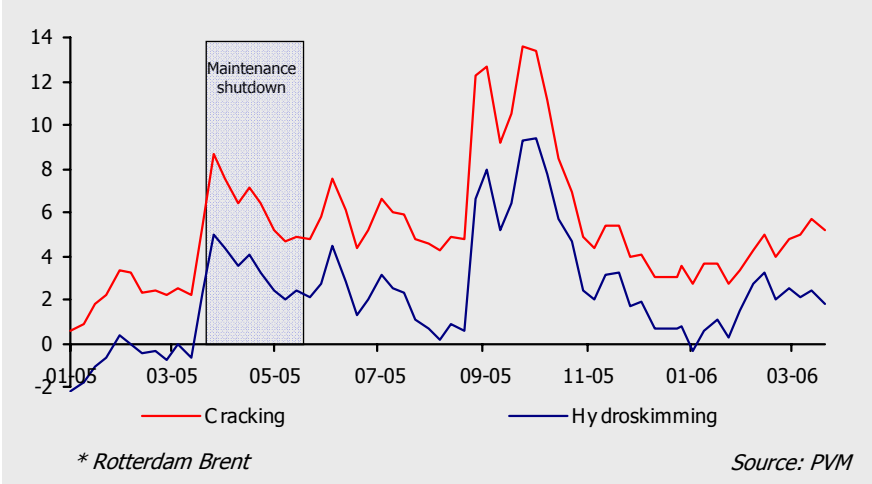


## Key values\*

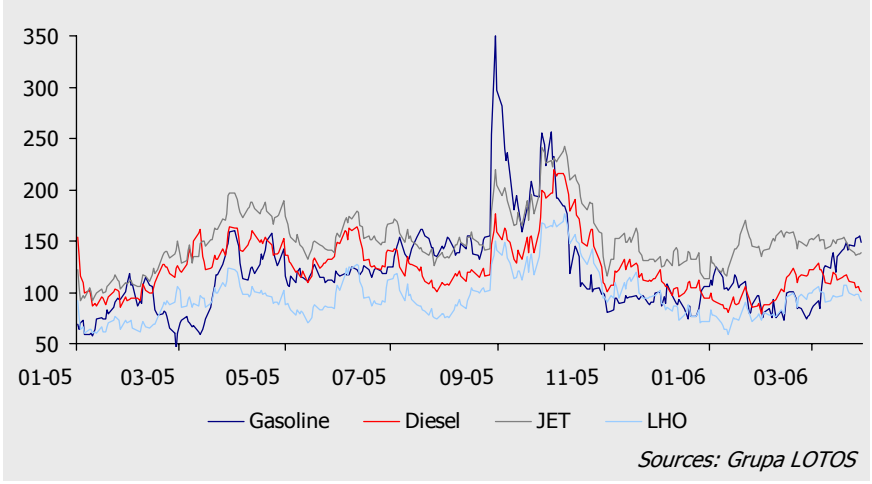
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• Ural USD/b	42.6	58.1	50.3
• Differential Brent-Ural	5.1	3.6	4.2
• Refining margin (USD/b)	2.9	4.1	5.6
<b>Cracks</b>			
• Gasoline	84.9	106.1	123.6
• Diesel (0,005)	115.3	103.1	130.2
• LHO	80.4	86.6	99.1
• JET	125.9	144.7	153.4
• HFO	-186.6	-181.6	-184.3

\* Average for period

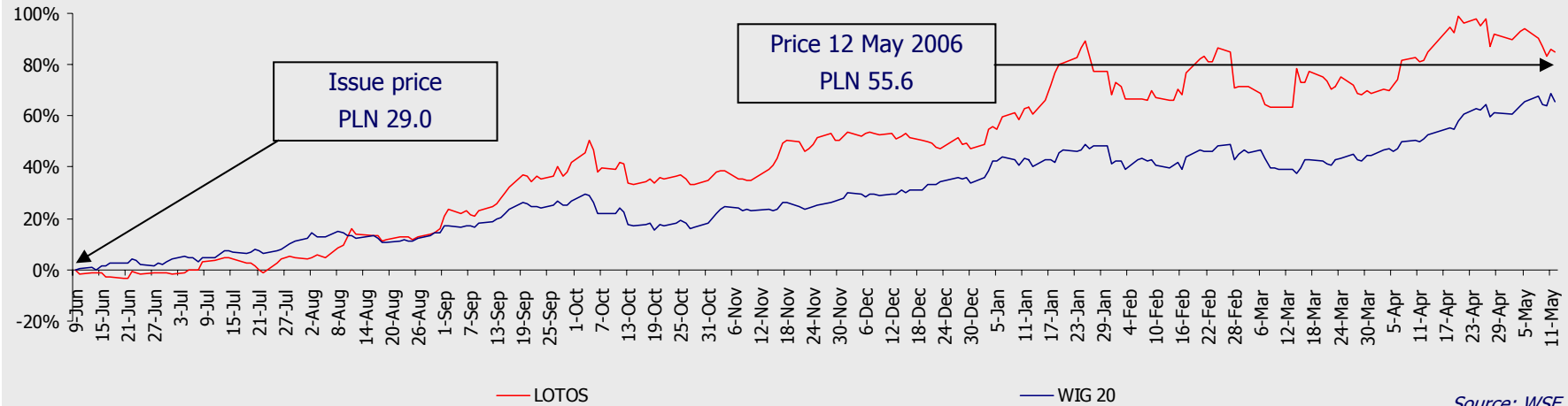
## Refining margin\* (USD/b)



## Cracks (USD/tonne) without HFO



## Share price



Source: WSE

### GRUPA LOTOS ON THE WSE \*

• Market debut date	9 June 2005
• Share issue price	PLN 29.0
• Average daily trading volume	356 910 shares
• Average daily value of trading	PLN 15.0 m
• Value of daily trading to market capitalisation	0.24%
• Issue price capitalisation	PLN 3 297.3 m
• Latest capitalisation	PLN 6 321.7 m
• Growth in value since IPO	91.7%

\* As of 12 May 2006

### Grupa LOTOS in the WIG20 index

- **Grupa LOTOS is a member of the WIG20 blue chip stock index as of 16 September 2005**
- **Rank in WIG20\*: 8**
- **Share in WIG20 Cap\*: 4.1%**

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