



## **Consolidated Financial Results of the LOTOS Group**

**Q4 2005 (IFRS) and**

**Q1 – Q4 2005 (IFRS)**

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

**1 March 2006**

- **Summary**

- Implementation of Strategy and Important Events
- Operational Information
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- Supplementary Data

# Summary – Market Conditions in Q4 2005



## Crude oil prices and Brent-Ural differential

- Decrease of crude oil prices by 7.7% as compared to Q3 2005.
- The decrease in Ural/Brent differential resulted from a decrease in Russian crude oil supply connected with difficult weather conditions.
- Relative calm on the oil products market in Q4 2005, after a period of very high demand and high prices, resulting among others from the consequences of weather anomalies in USA (hurricanes).
- Decrease of the average refining margin in Q4 2005 as compared to Q3 2005 by 23.1% to 5.92 USD/b.

## Data for Q3 and Q4 2005\*

	Q3 05	Q4 05	Change
• Brent USD/b	61.7	56.9	-7.7%
• Ural USD/b	57.2	53.2	-7.0%
• Differential Brent-Ural	4.5	3.7	-18.8%
• Refining margin (USD/b)	7.7	5.9	-23.1%

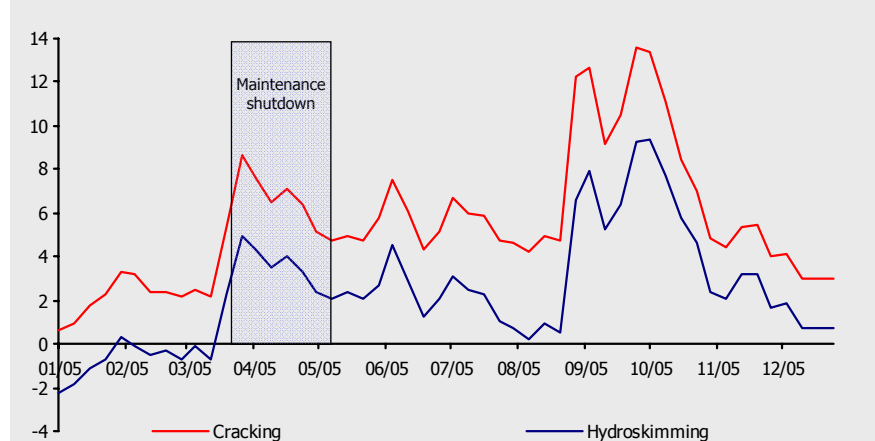
\* Average for period

## Data for Q4 2004 and 2005\*

	Q4 04	Q4 05	Change
• Brent USD/b	43.9	56.9	29.7%
• Ural USD/b	37.8	53.2	40.9%
• Differential Brent-Ural	6.1	3.7	-39.8%
• Refining margin (USD/b)	7.0	5.9	-15.7%

\* Average for period

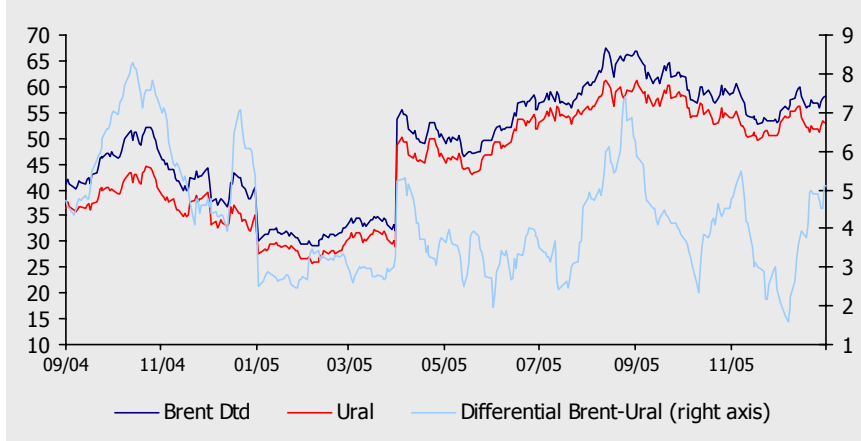
## Refining margin\* (USD/b)



\* Rotterdam Brent

Source: PVM

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



Source: Grupa LOTOS

## Summary – Financial Results (Q4 2005)

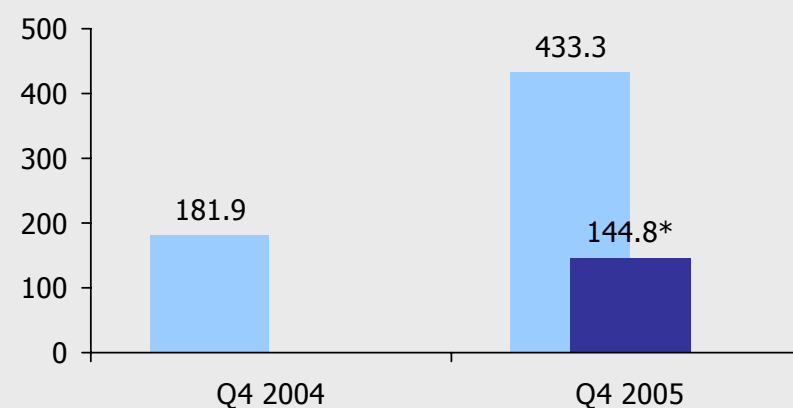


### Financial results (IFRS in PLN m, non-audited)

	Q4 2004	Q4 2005	Change	Q4 2005*	Change*
<b>Net sales</b>	2 046.8	2 954.5	44.3%	2 954.5	44.3%
<b>EBITDA</b>	232.5	507.1	118.1%	218.7	-5.9%
<b>EBIT</b>	181.9	433.3	138.2%	144.8	-20.4%
<b>Net profit</b>	174.6	408.1	133.7%	119.6	-31.5%

\* Excluding negative goodwill of PLN 288,4 m

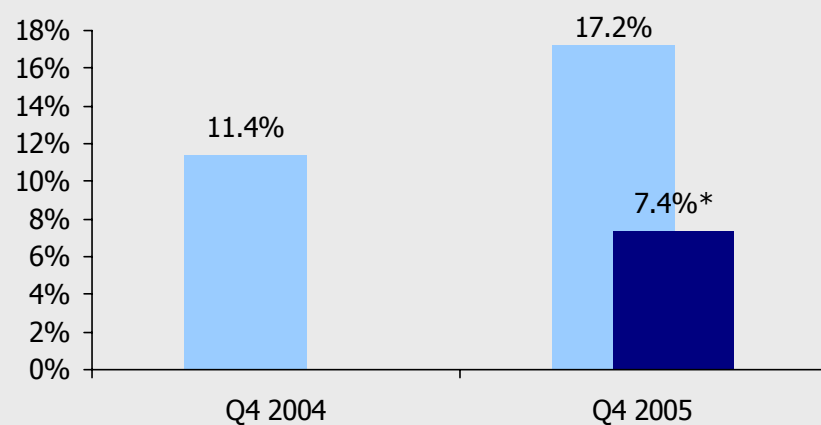
### Operating profit (PLN m)



\* Excluding negative goodwill of PLN 288,4 m

Source: Grupa LOTOS

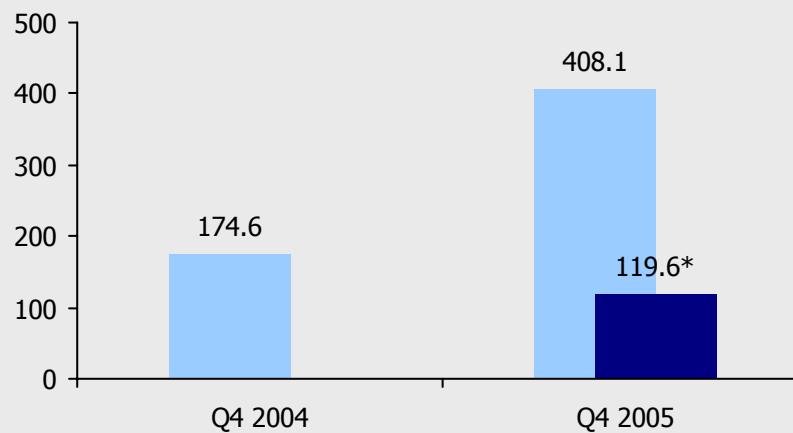
### EBITDA margin



\* Excluding negative goodwill of PLN 288,4 m

Source: Grupa LOTOS

### Net profit (PLN m)



\* Excluding negative goodwill of PLN 288,4 m

Source: Grupa LOTOS

## Summary – Financial Results (Q1-Q4 2005 cumulative)



### Results for 2005 (IFRS in PLN m, non-audited)

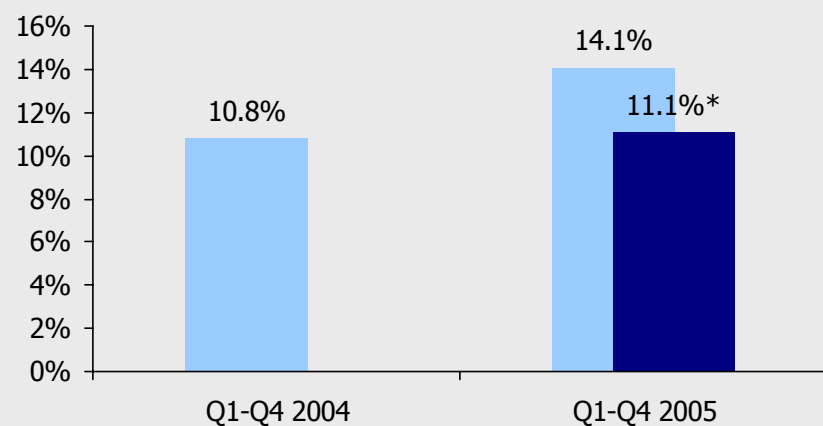
	2004	2005	Change	2005*	Change*
<b>Net sales</b>	7 450.3	9 646.5	29.5%	9 646.5	29.5%
<b>EBITDA</b>	804.7	1 363.4	69.4%	1 075.0	33.6%
<b>EBIT</b>	612.2	1 100.3	79.7%	811.9	32.6%
<b>Net profit</b>	542.8	930.3	71.4%	641.9	18.3%

\* Excluding negative goodwill of PLN 288,4 m

### Commentary

- In 2005 the Company reported growth of net sales of 29.5% in relation to 2004, among others due to an increase of crude processing, high prices of oil products worldwide and consolidation with the Southern Refineries and Petrobaltic.
- Increase of EBITDA by PLN 570.4 m was primarily driven by:
  - increase of profit on sales by about PLN 326.9 m,
  - accounting of negative goodwill of PLN 288.4 m as a result of fair value revaluation (in accordance with IFRS) of entities acquired (Southern Refineries & Petrobaltic)

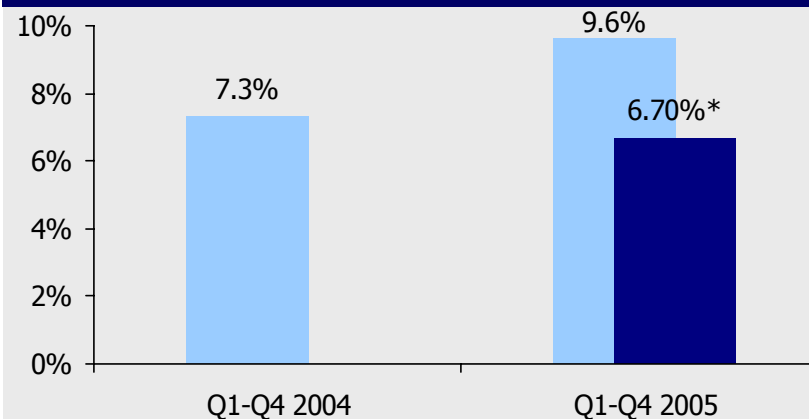
### EBITDA margin (Q1-Q4 2005)



\* Excluding negative goodwill of PLN 288,4 m

Source: Grupa LOTOS

### Net margin (Q1-Q4 2005)



\* Excluding negative goodwill of PLN 288,4 m

Source: Grupa LOTOS

## Summary – Operating Data



Operating data in Q4 2005 and Q1-Q4 2005 cumulative		
	Q4 2005	2005
<b>Annual nameplate processing capacity<sup>1</sup></b>	<b>6 MMTA</b>	<b>4.9 MMTA<sup>2</sup></b>
<b>Crude oil throughput<sup>3</sup></b>	<b>1 499.7 K tonnes</b>	<b>4 836.9 K tonnes</b>
<b>Average capacity utilisation rate</b>	<b>99,2%</b>	<b>98,7%</b>
<b>Products sales in total</b>	<b>1 420 K tonnes</b>	<b>4 746 K tonnes</b>
<b>Employment (end of a period)<sup>4</sup></b>		<b>5 435 persons</b>

1) Annual following modernisation of refining installations

2) Weighted average annual capacity, including maintenance shutdown in Q2 2005 and increase of processing capacity

3) Processing at Gdańsk Refinery

4) Including 823 person employed in Grupa LOTOS S.A. and excluding Rafineria Nafty Glimar

## Summary – Financial forecast realisation



<b>Forecast of consolidated financial results and actual financial results (IFRS in PLN thousands)</b>				
	<b>Q1-Q4 2005</b>			<b>Forecast realisation</b>
	<b>Actual results</b>	<b>Adjusted results</b>	<b>Forecast</b>	
<b>Net sales*</b>	<b>9 646.5</b>	<b>9 646.5</b>	<b>9 825.3</b>	<b>98.2%</b>
<b>EBITDA</b>	<b>1 363.4</b>	<b>1 075.0</b>	<b>1 093.6</b>	<b>98.3%</b>
<b>EBIT</b>	<b>1 100.3</b>	<b>811.9</b>	<b>854.4</b>	<b>95.0%</b>
<b>Net profit</b>	<b>930.3</b>	<b>641.9</b>	<b>643.5</b>	<b>99.7%</b>

### **Realisation of financial forecast for Q1-Q4 2005**

- Very good financial results generated in the four quarters of 2005 enabled almost full realisation of the verified forecast of consolidated financial results of the LOTOS Group presented by the Management Board of Grupa LOTOS in current reports No. 84/2005 and 90/2005.
- The presented financial results do not include the impact of the activity of the UAB Naftos Gavyba capital group on the consolidated financial results of the LOTOS Group in 2005, which was assumed in the forecast. This impact is estimated to be positive but immaterial.

\* Calculation variant of profit and loss account

\*\* Excluding negative goodwill of PLN 288.4 m, in accordance with information included in the forecast of financial results presented in current report No. 84 dated 14 November 2005 and current report No. 90 dated 5 December 2005.

- Summary
- **Implementation of Strategy and Important Events**
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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 (150 stations by YE 2006) and DOFO stations (250 by YE 2006)  
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 Deasphalting and Residual Oil Supercritical Extraction)**

- November 2005 – P&ID (piping and instruments diagrams) Review with Kellogg Brown & Root (KBR).
- January 2006 – final basic design delivered to Grupa LOTOS.

### **MHC – (Mild Hydrocracking)**

- December 2005 – P&ID Review Meeting with Shell Global Solutions (SGS).
- February 2006 – basic design of MHC installation delivered.

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

- January 2006 – P&ID Review Meeting w SGS.

## Integration basic design

- The tender commission published its final report together with recommendations to the management on 7 November 2005.
- Negotiations were conducted with selected contractors in November and December 2005.
- Terms of cooperation were agreed with Fluor and the UHDE/Technip consortium.
- Agreements with Fluor and UHDE/Technip were signed on 31 January 2006.

## Financing

- Further to the Preliminary Project Information Memorandum, initial declarations of interest were received from the following institutions – EBRD, EIB, Nordic Investment Bank, NFOŚiGW and BOŚ.
- An information brief intended for commercial financing institutions was prepared in December 2005 and sent out on 24 January 2006.

## Feedstock supply agreements

- Final negotiations were underway with STASCO, regarding supplementary feedstock supply agreements for the PKRT installations.
- The agreement document has been completed and is currently undergoing corporate approval procedures.
- Signing of the agreement is foreseen in March 2006.

# Implementation of Strategy – PROSTA Project



## ESSO and Slovnaft transactions

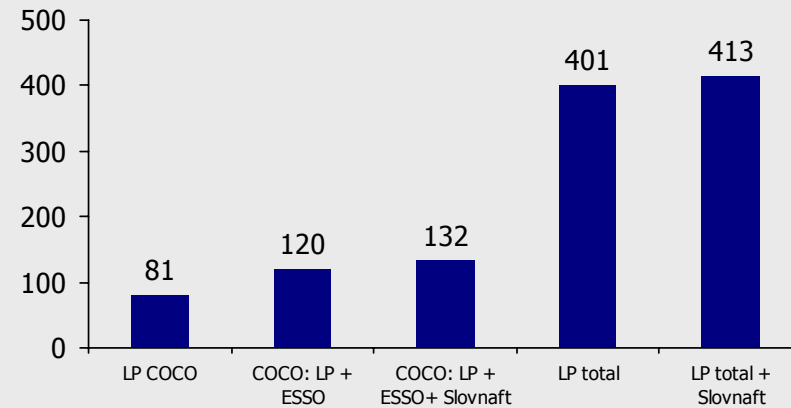
### ESSO

- Acquisition for PLN 278.5 m of 39 petrol stations together with 14 plots of land.
- Final agreement signed on 14 December 2005.

### Slovnaft

- Acquisition of 12 COCO stations and 2 plots of land from Slovnaft for EUR 15 m.
- Preliminary agreement: 28 September 2005; final agreement expected in March 2006.

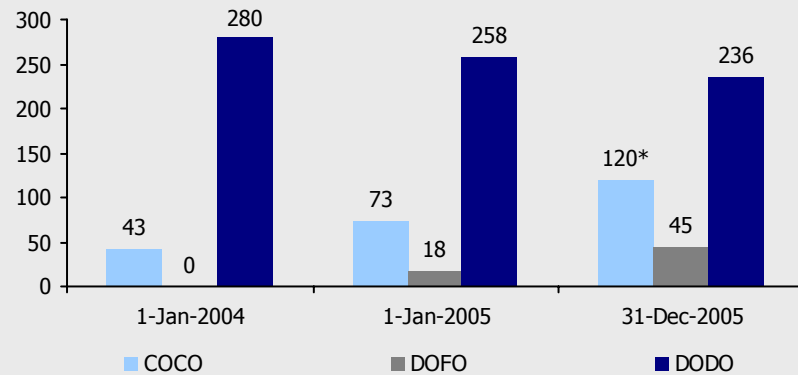
## Number of stations after ESSO & Slovnaft



LP = LOTOS Paliwa

Source: LOTOS Paliwa

## Change in the petrol station network structure



\* Does not include Slovnaft

Source: Grupa LOTOS

## Implementation of PROSTA in Q4 2005

- The LOTOS Group increased the number of COCO petrol stages managed by LOTOS Paliwa from 75 to 81.
- Incorporation of the ESSO stations into the LOTOS Group network resulted in an increase of the number of own petrol stations by 39 to 120 stations (31 Dec 2005).
- The number of DOFO stations increased from 32 to 45 stations.
- The number of DODO stations decreased from 242 to 229 stations.
- Following completion of the Slovnaft transaction, the number of COCO stations will grow by a further 12 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:

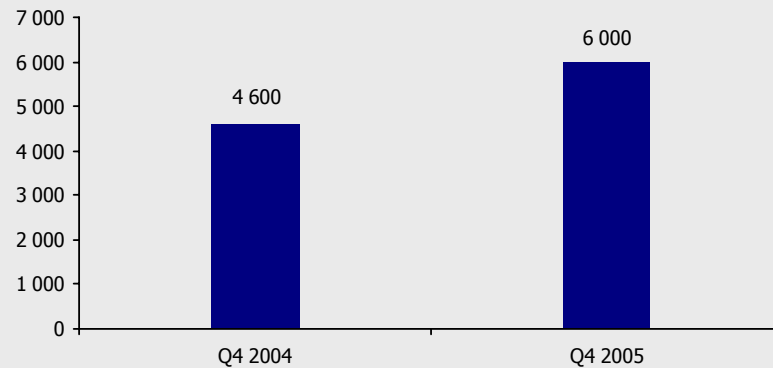
- Rafineria Czechowice S.A. and Rafineria Jasło S.A. were renamed LOTOS Czechowice S.A. and LOTOS Jasło S.A.
- LOTOS Asphalt Sp. z o.o. – acquisition of asphalt production related assets from LOTOS Jasło. LOTOS Park Technologiczny Sp. z o.o. – raising of equity by Grupa LOTOS S.A., LOTOS Czechowice, RC Remo Sp. z o.o. and CBA Racer Sp. z o.o. (subsidiaries of LOTOS Czechowice).
- LOTOS Lab Sp. z o.o. – acquisition of 100% of shares in a research subsidiary of LOTOS Jasło – Laboratorium „Badacz” Sp. z o.o. and research laboratory of LOTOS Czechowice – CBA Racer).
- LOTOS Serwis Sp. z o.o. – preparation for the acquisition of 100% of shares in maintenance subsidiary of LOTOS Jasło – Monto-Rem Sp. z o.o. and 100% of shares in the maintenance subsidiary of LOTOS Czechowice – RCRemo Sp. z o.o.
- LOTOS Parafiny Sp. z o.o. – increasing stake in equity by Grupa LOTOS to 100% through acquiring PLN 15,5 mln worth of shares from Rafineria Czechowice Parafiny Sp. z o.o. (100% subsidiary of LOTOS Czechowice) and Chemipetrol Sp. z o.o. (100% subsidiary of LOTOS Jasło).
- LOTOS Oil S.A. – acquisition of assets related to low volume production of lubricants from CBA Racer.

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# Operational Information – Capacity, Throughput, Production yields



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



\* Gdańsk Refinery

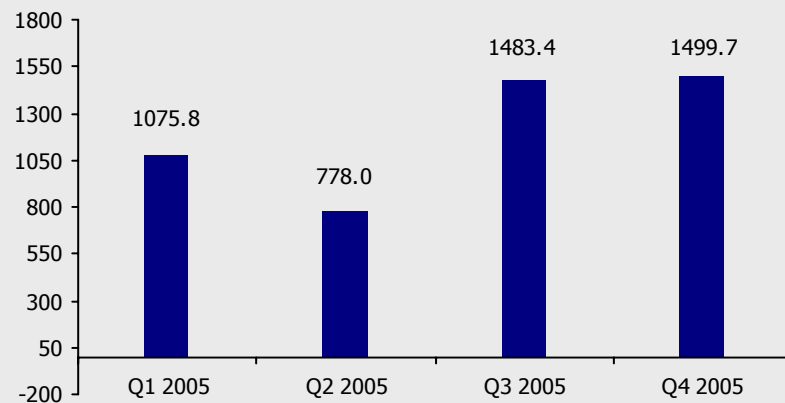
Source: Grupa LOTOS

## Commentary

- Capacity utilisation rate in Q4 2005 of 99,2%.\*
- Maintenance of throughput of oil at the Gdańsk Refinery in Q4 2005, as compared to Q3 2005.
- Total sales of products in Q4 2005 amounting to 1 420 K tonnes.

\* Gdańsk Refinery

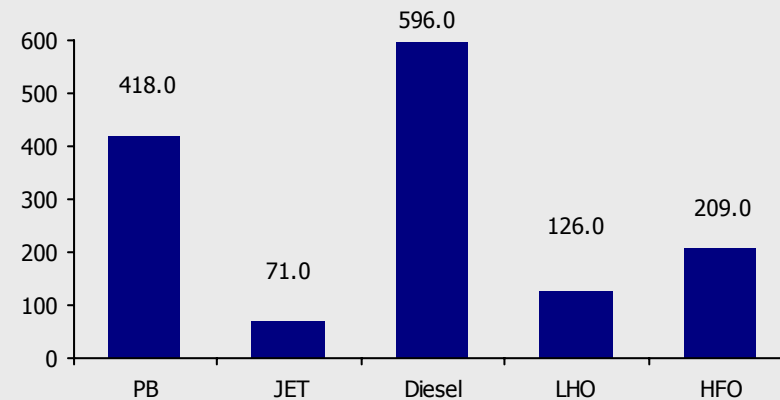
## Crude oil throughput (in 000 tonnes)\*



\* Gdańsk Refinery

Source: Grupa LOTOS

## Sales of products (Q4 2005 in 000 tonnes)\*



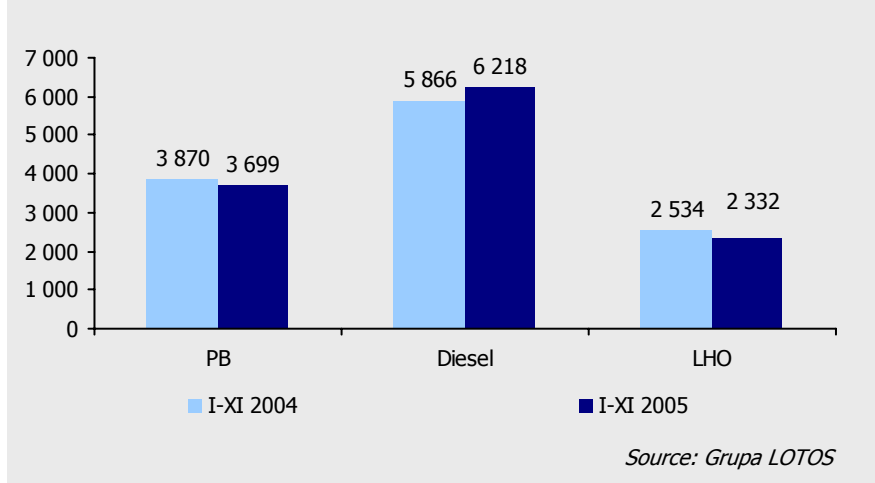
\* Gdańsk Refinery

Source: Grupa LOTOS

# Operational Information – LOTOS Group market position



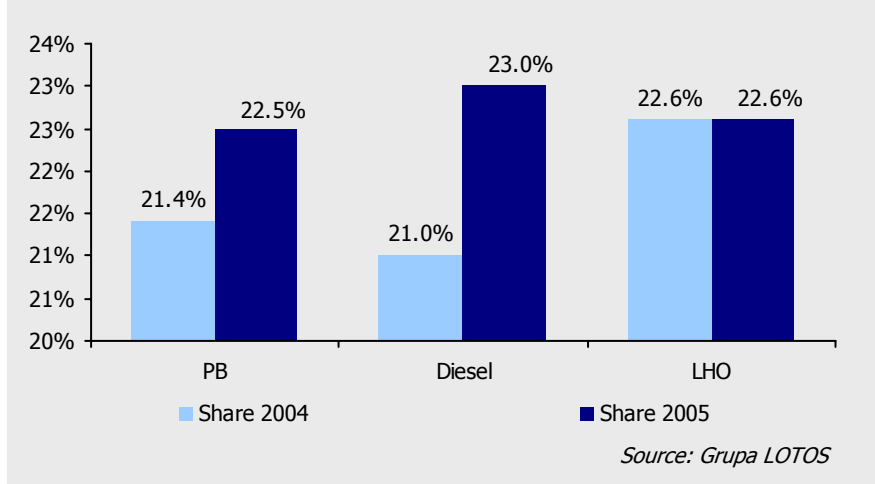
## National Fuel Consumption (000 tonnes)



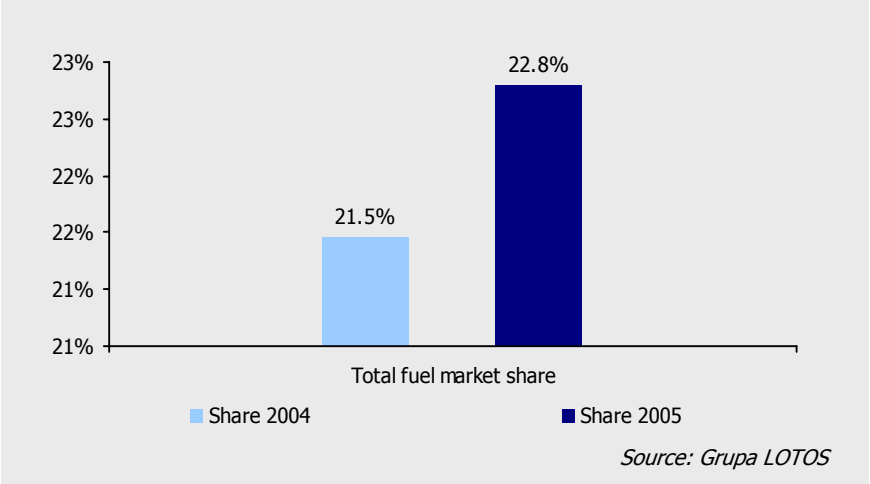
## Commentary

- Growth of sales of Diesel produced by the LOTOS Group with an insignificant fall of petrol and LHO consumption.
- Increase or maintenance of share of the LOTOS Group in all segments of the fuel market in comparison to the same period of 2004.
- Increase of share of LOTOS Group in overall fuel market compared to 2004.

## Market Share (PB, Diesel, LHO)



## Fuel Market Share



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## Financial Results – Profit & Loss Account



IFRS (PLN m)	Q4 04	Q4 05	Δ 05/04
<b>Net sales</b>	2 046.8	<b>2 954.5</b>	<i>44.3%</i>
Cost of sales	1 664.4	2 557.6	<i>53.7%</i>
<b>Gross profit</b>	382.4	<b>396.9</b>	<i>3.8%</i>
Negative goodwill	0	288,4	-
Distribution expenses	128.4	153.0	<i>19.2%</i>
Administrative expenses	71.7	85.9	<i>19.7%</i>
Other operating costs	5.7	17.9	<i>211.7%</i>
<b>EBITDA</b>	232.5	<b>507.1</b>	<i>118.1%</i>
<b>Operating profit (EBIT)</b>	181.9	<b>433.3</b>	<i>138.2%</i>
Pre-tax profit	215.7	454.2	<i>110.6%</i>
Income tax	40.9	35.8	<i>-12.5%</i>
<b>Net profit</b>	174.6	<b>408.1</b>	<i>133.7%</i>

Commentary
<ul style="list-style-type: none"> <li>• Drivers behind growth of net sales by 44.3% as compared to Q4 2004, to PLN 2,954.5 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>• Drivers behind growth of operating profit by PLN 138.2% as compared to Q4 2004, to PLN 433.3 m, included among others: <ul style="list-style-type: none"> <li>– Completion of independent revaluation of assets, liabilities and contingent liabilities of the Southern Refineries and Petrobaltic acquired on February 3, 2005,</li> <li>– Lower growth of cost of sales and distribution expenses compared to the same period of 2004.</li> </ul> </li> <li>• The consolidated pre-tax profit in Q4 2005 amounted to PLN 454.2 m and increased by PLN 238.5 m as compared to the analogous period of the previous year.</li> <li>• The net profit was reduced by minority interests (primarily Petrobaltic) of PLN 10.4 m and amounted to PLN 408.1 m, i.e. 133.7% more than in Q4 2004.</li> </ul>

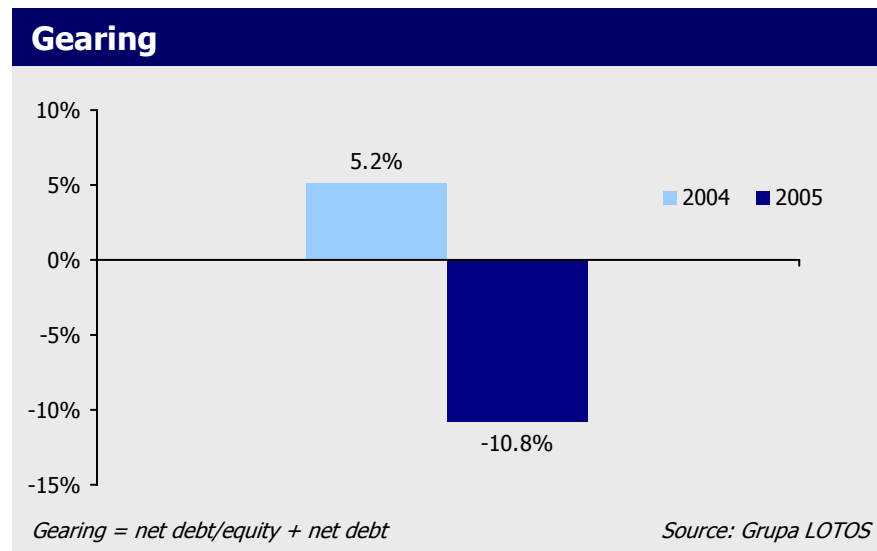
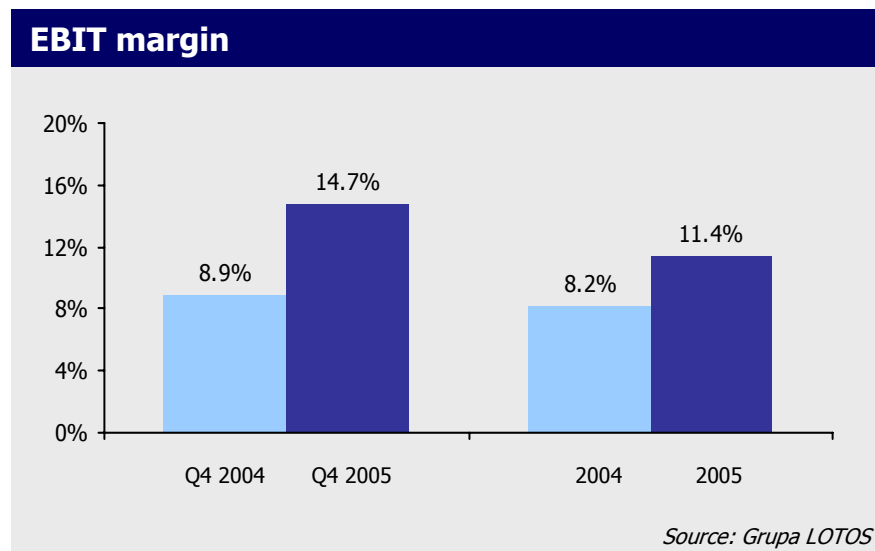
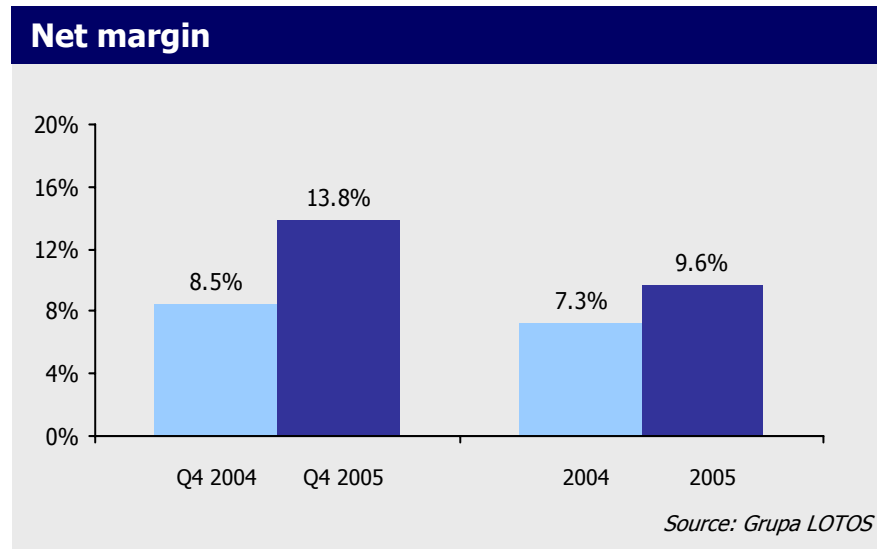
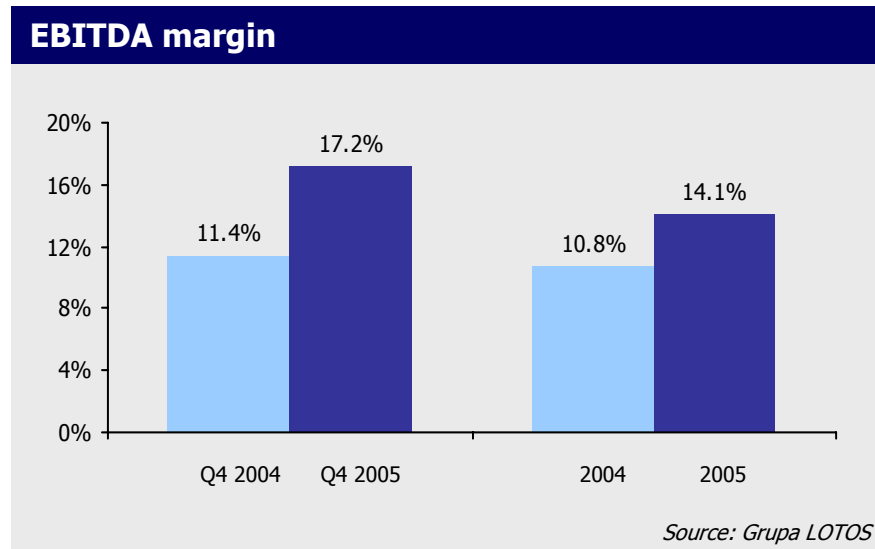
## Financial Results – Balance Sheet



IFRS (in PLN m)	31.12. 04	31.12. 05	Δ 05/04
<b>Assets</b>	4 022.5	<b>7 044.2</b>	<i>75.1%</i>
<b>Fixed assets</b>	2 240.6	<b>3 582.6</b>	<i>59.9%</i>
Tangible fixed assets	2 139.5	3 330.1	<i>55.6%</i>
Financial assets	6.2	17.4	<i>182.3%</i>
<b>Current assets</b>	1 781.9	<b>3 461.6</b>	<i>94.3%</i>
Inventories	828.7	1 429.8	<i>72.6%</i>
Receivables	749.0	1 110.2	<i>48.2%</i>
Short-term securities	43.2	135.8	<i>214.2%</i>
Cash and equivalents	156.3	774.4	<i>395.3%</i>
<b>Equity &amp; Liabilities</b>	4 022.5	<b>7 044.2</b>	<i>75.1%</i>
<b>Shareholders equity</b>	2 657.5	<b>4 826.5</b>	<i>81.6%</i>
Long-term liabilities	376.9	697.8	<i>85.2%</i>
Short-term liabilities	988.2	1 519.9	<i>53.8%</i>
including financial debt	184.6	111.5	<i>-39.6%</i>

Commentary
<ul style="list-style-type: none"> <li>• Growth of the value of assets by 75.1% in 2005 resulted from the increase of the value of tangible fixed assets by over PLN 1 342 m, as a result of the acquisition of the Southern Refineries and Petrobaltic.</li> <li>• Growth of the value of current assets to PLN 1 679.7 m resulted primarily from: <ul style="list-style-type: none"> <li>– Increasing of production capacity of the parent company,</li> <li>– Higher prices of feedstock and products, and</li> <li>– Increased levels of cash and equivalents.</li> </ul> </li> <li>• Increase of the value of shareholders equity by PLN 2 169 m compared to the end of 2004 includes increase of share capital by PLN 35 m and reserve capital by over PLN 971 m (increase of retained earnings by over PLN 918 m).</li> <li>• Increase of long-term liabilities and reserves by PLN 321 m occurred as a result of: <ul style="list-style-type: none"> <li>– Taking on liabilities related to the PROSTA programme; and</li> <li>– Increased long-term reserves as a result of consolidation of the Southern Refineries and Petrobaltic.</li> </ul> </li> <li>• Increase of short-term liabilities by PLN 531.7 m as a result of high oil prices and increased oil stockage resulted from an increase of oil throughput by the parent company.</li> </ul>

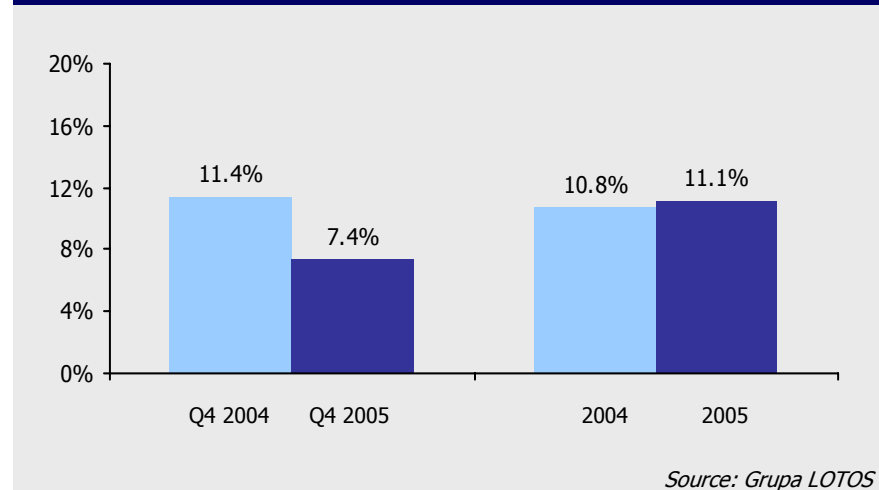
# Financial Results – Financial ratios



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



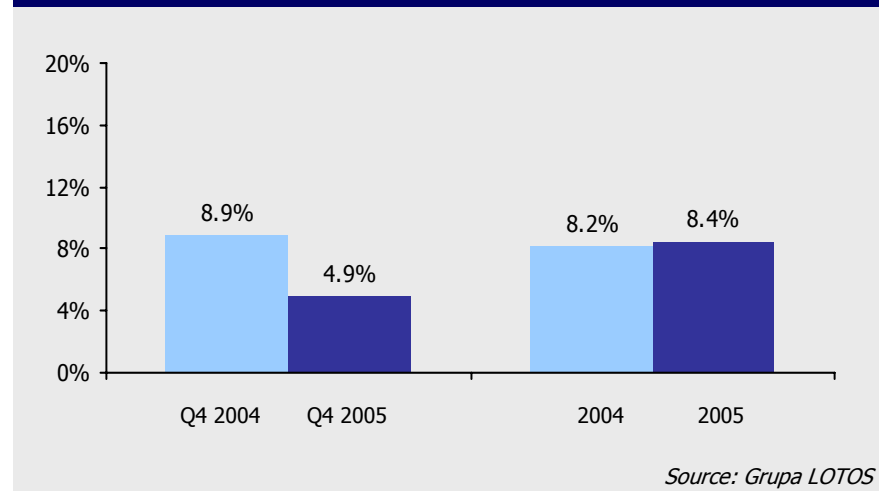
## EBITDA margin



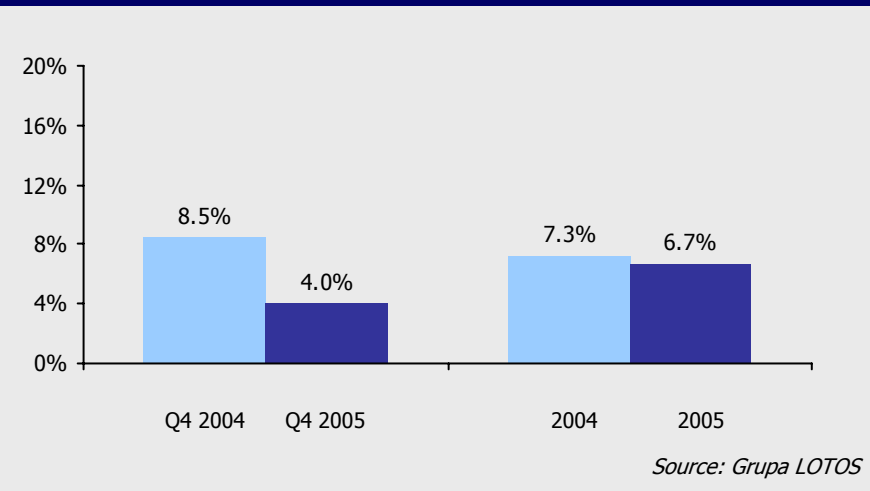
## Commentary

- EBITDA margin decreased to 7.4% from 11.4% in the same period of last year, but in cumulative terms after 4 quarters of 2005, the margin increased to 11.1% from 10.8% in 2004.
- Operating margin fell to 4.9% in comparison to 8.9% in the analogous period of 2004, but in cumulative terms, after 4 quarters of 2005, the margin increased to 8.4%.
- Net profit margin decreased only slightly after 4 quarters of 2005, to 6.7% from 7.3% in 2004 year.

## EBIT margin

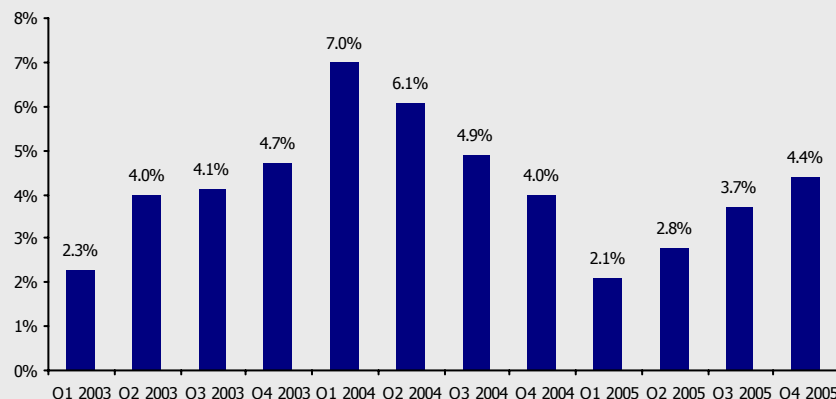


## Net margin



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## Growth of real GDP (%)

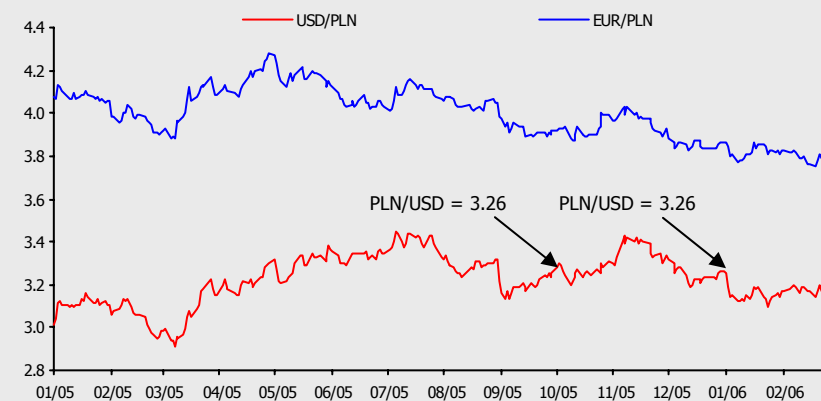


Source: GUS, The Polish Ministry of Finance

## Commentary

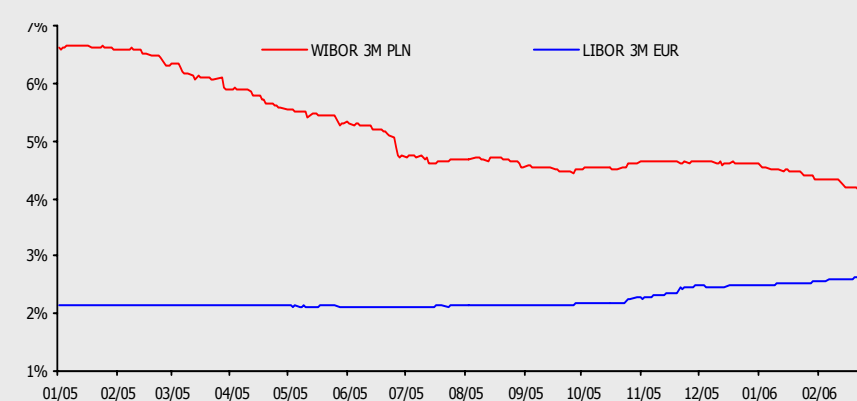
- According to the estimates of The Polish Ministry of Finance in Q4 2005 GDP growth amounted to 4.4%. The GDP growth for 2005 is estimated at 3.3%, as compared to 5.4% in 2004, what is in line with macroeconomic assumptions of the Budget Bill for 2006.
- In Q4 2005 the USD/PLN exchange rate ranged from 3.18 to 3.43 and at the end of December 2005 amounted to 3.26. In the same period the EUR/USD exchange rate ranged from 1.17 to 1.22 and at the end of December 2005 amounted to 1.18.
- Growth of the WIBOR 3M rate from 4.5% at the end of September 2005 to 4.6% at the end of 2005.

## Foreign exchange rates



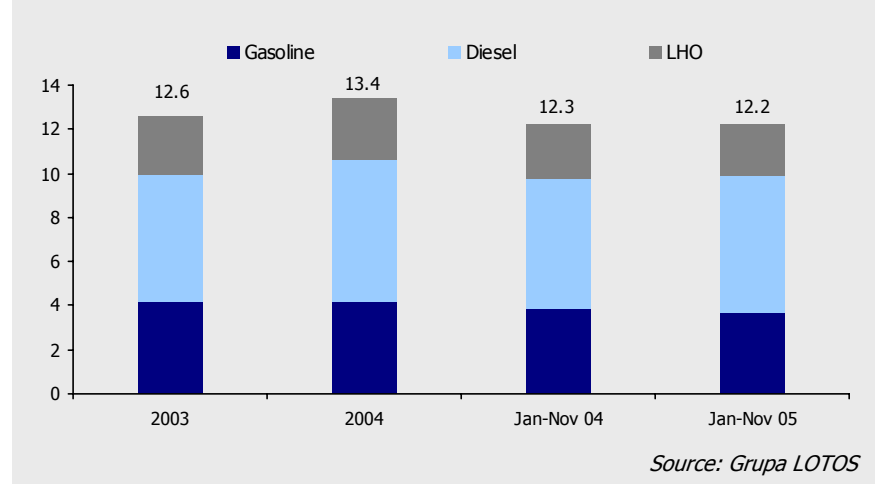
Source: NBP

## Interest rates



Source: NBP

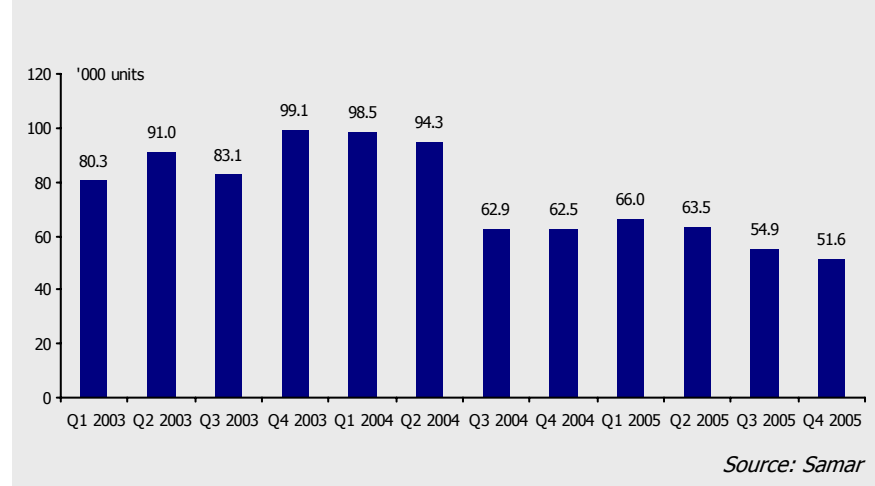
## National fuel consumption (tonnes m)



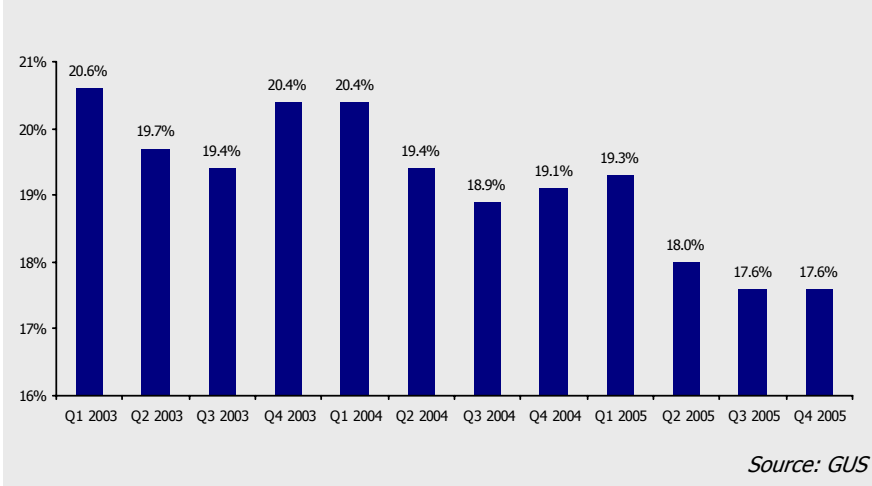
## Commentary

- National consumption of fuels in the period January - November 2005 fell slightly (-0.2%) compared to the same period of 2004. The highest growth in consumption (6.0%) was recorded in the Diesel segment. Consumption of gasoline fell by 4.4%, and consumption of LHO by 8.0%.
- Sales of new cars in 2005 amounted to 235.5 thousands cars and fell by 26% in comparison to the analogous period of 2004. The low level of sales results, among others, from high unemployment rate and lack of financial stabilisation of citizens, as well as rising imports of used cars.
- At the end of December 2005 the number of unemployed amounted to 2 773 thousands of people, representing 17.6% of economically active population. Poland has the highest unemployment rate in EU.

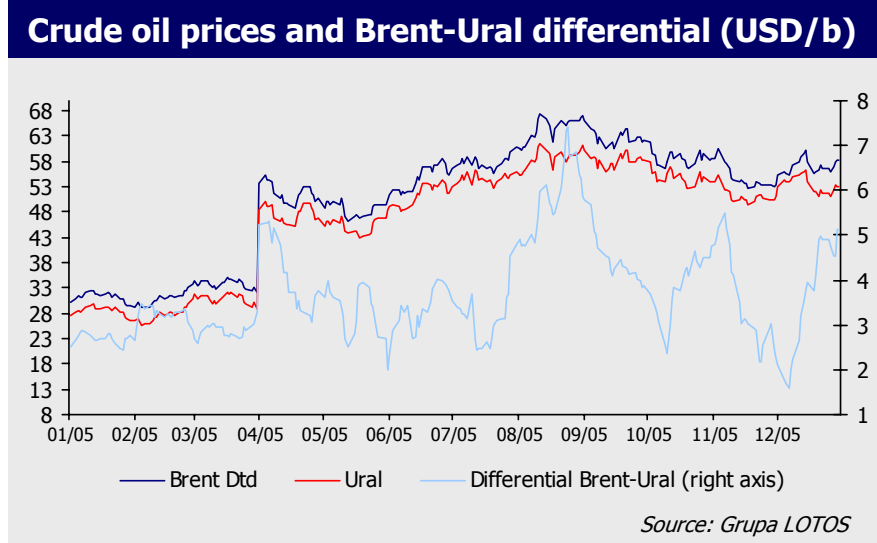
## Sales of new automobiles



## Unemployment



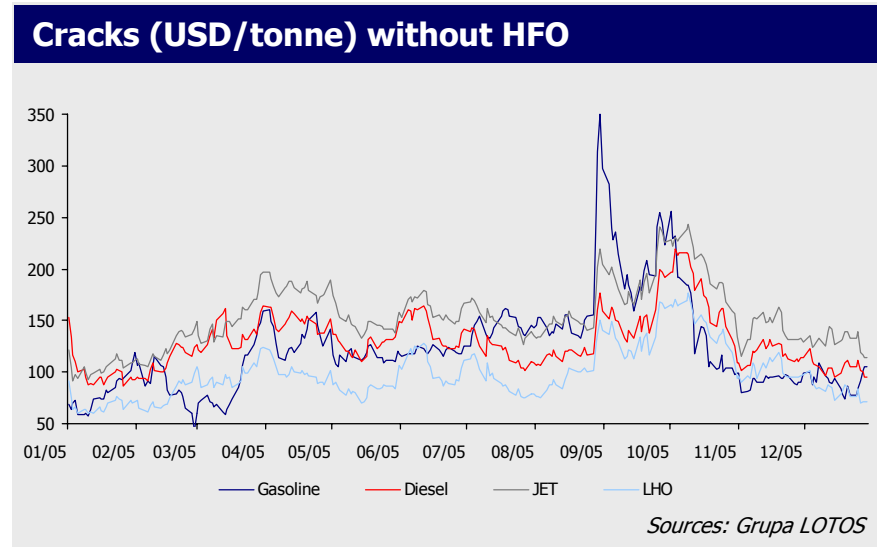
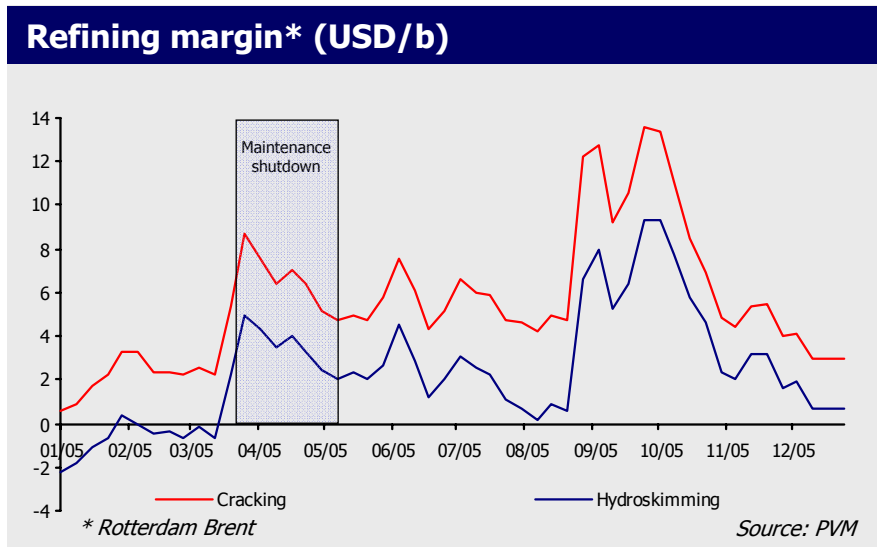
# Supplementary data – Market Conditions in Q1 to Q4 2005



### Key values\*

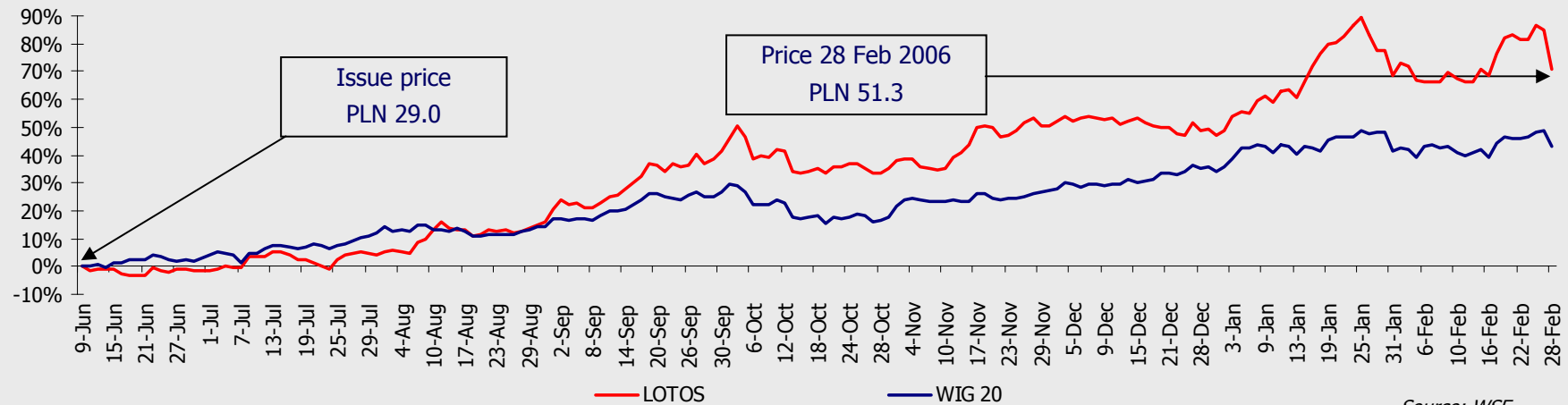
	Q4 04	Q4 05	2005
• Brent USD/b	43.9	56.9	50.7
• Ural USD/b	37.8	53.2	47.0
• Differential Brent-Ural	6.1	3.7	3.7
• Refining margin (USD/b)	7.0	5.9	5.6
<b>Cracks</b>			
• Gasoline	89.6	110.9	123.6
• Diesel (0,005)	161.4	133.4	130.2
• LHO	106.9	110.7	99.1
• JET	141.4	158.8	153.4
• HFO	-182.8	-178.8	-184.3

\* Average for period





## 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	454 389 shares
• Average daily value of trading	PLN 17.7 m
• Value of daily trading to market capitalisation	0.30%
• Issue price capitalisation	PLN 3 297.3 m
• Latest capitalisation	PLN 5 832.8 m
• Growth in value since IPO	76.9%

\* As of 28 February 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\*:** **9**
- **Share in WIG20 Cap\*:** **3.5%**

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