

Revision of the methodology for calculating Grupa LOTOS S.A.'s model refining margin

Grupa LOTOS S.A. (GLSA)

(WSE: LTS, Thomson Reuters: LTS.WA, Bloomberg: LTS PW)

In order to facilitate more accurate assessment of the impact of changes in global raw material and product prices on the profitability of Grupa LOTOS S.A.'s refinery, the Company publishes a revised refining margin model.

In accordance with the previous methodology, the value of model refining margin was calculated on the basis of a fixed cost of natural gas used in production, which was estimated, inclusive of transmission costs, at USD 3 per barrel.

Due to the changes in the market environment that have occurred since the publication of the previous methodology (October 2013), the Company has revised the methodology of accounting for the effect of cost of natural gas used in production on the model refining margin by linking this cost to a variable market index. From now on, the estimated model cost of natural gas used per model barrel of crude oil processed will be calculated as the product of 0.075 and the gas index quoted on the Day-Ahead Market of the Polish Power Exchange (TGEgasDA index), converted into USD per 1 MWh.

The comparison and effect of the change in the model refining margin calculation methodology on the margin level is presented in the table below:

Model refining margin*		
Month	Fixed cost of natural gas (USD 3/bbl)	Variable cost of natural gas (based on current market price)
January 2016	5.57	7.25
February 2016	4.32	6.12
March 2016	4.33	6.17
Q1 2016	4.74	6.51
April 2016	4.27	6.07
May 2016	4.42	6.23

* In USD/bbl, based on market data provided by Thomson Reuters and TGE.

The yield structure of petroleum products from crude oil processing assigned to individual market indices remains unchanged:

- 14.14% gasoline (PRM UNL 10 ppm ARA);
- 4.24% naphtha (Naphtha CIF NWE);
- 4.53% LPG (50% Propane FOB NWE, 50% Butane FOB NWE);
- 49.57% diesel oil (ULSD 10 ppm CIF NWE);
- 5.34% jet fuel (Jet CIF NWE);
- 18.11% heavy fuel oil (HFO 3.5%S ARA);

4.07% refinery's own consumption.

Considering that the model does not account for differences in selling prices on markets other than the benchmarked markets and prices of different types of crude used as feedstock for the refinery, the presented margin is an estimate rather than the actual value of the refining margin generated by Grupa LOTOS S.A.'s refinery.