

Company Update

Oil & Gas

Poland

21 November 2008

Lotos Group

“Going concern” concerns – TP to “zero”

We keep our Sell rating on Lotos and have set a new 12M TP of “zero” (prev. PLN 25). A zero TP means two things: **A)** we admit that we cannot put a single point value on Lotos’ equity in a credible way; **B)** we see a 50%+ probability that Lotos may not survive in its current structure, in which case equity holders may lose most or all of their money. As said before, we see no fundamental reason to own Lotos’ equity in the next 12M. The company may well be rescued in the end (by the government, or PKN), but the risks, uncertainty (and the share price) are too high to speculate on any bail-out scenario yet.

- **Valuation: why are we so negative?** Lotos has a PLN 2bn net debt and negative FCF of PLN 3bn+ in 2009-11. Anything positive is a post-2011 story. Even if attaching USD 10,000/bbl/d value to the expanded refinery (vs. current market prices of USD 3,000/bbl/d), the discounted value of this terminal value may not, or not materially, exceed the PLN 5bn accumulated debt. Over-gearred, over-stretched, wrong timing.
- **What if? Who will rescue Lotos?** Lotos is majority state-owned, thus it may default, but will not really go bankrupt. It will likely be rescued and it will likely involve other state-controlled entities (rather than a cash injection). Our best bet is PKN, which also makes “industrial” sense.
- **Hedging represents risk, we believe.** Despite the goodwill, we believe timing (and potentially other) mismatch makes hedging a ticking bomb. Lotos would not be the first industrial to see hedging blow up.
- **Forecasts: no predictability due to hedging.** 2008 will be very weak, with hardly any profit left at the bottom line, as losses may widen in 4Q. We still see small profits in 2009-11 (we cut 09 by 30% and made smaller EPS cuts for 10-11), but any macro dislocation may endanger cash flows/profits. And the bottom line is unpredictable due to hedging.

	2006	2007	2008E	2009E	2010E
Sales (PLNm)	12,813	13,133	15,320	12,957	18,377
EBITDA (PLNm)	1,102	1,030	700	673	933
EBIT (PLNm)	804	719	378	339	537
Net income (PLNm)	666	764	22	216	345
EPS reported (PLN)	5.86	6.72	0.19	1.90	3.03
DPS (PLN)	0.36	0.00	0.00	0.00	0.00
ROCE (%)	14.3	11.1	5.3	4.2	5.4
P/E (x)	2.3	2.0	70.1	7.0	4.4
P/CF (x)	1.5	1.4	4.8	2.8	1.9
P/BV (x)	0.3	0.3	0.3	0.3	0.2
EV/EBITDA (x)	1.3	2.1	6.1	8.9	7.9
EV/DACF (x)	1.6	2.6	8.7	12.0	9.8
Net gearing (%)	-8.4	5.7	41.1	66.6	83.3
Div. yield (%)	2.7	0.0	0.0	0.0	0.0

Source: Lotos, UniCredit Global Research estimates

Sell (prev. Sell)

Price on 20 November 2008	PLN 13.32
Target price (prev. PLN 25.00)	PLN 0.00
Upside to TP	n.a.
Cost of equity	14.2%
High/Low (12M)	47.88/13.32

INVESTMENT HIGHLIGHTS

Single-refinery company with upstream flavour
Huge organic growth and spending plan
Weak in marketing

STOCK TRIGGERS

Cash flow crunch at peak of gearing; bankruptcy?
Very seasonal/volatile earnings
Large-scale hedging going wrong

STOCK DATA

Reuters/Bloomberg	LTOS.WA/LTS PW
Average daily volumes ('000)	249.7
Free float (%)	41.1
Market capitalization (USDmn)	492.0
No. of shares in issue (mn)	113.7
Shareholders	Nafta Polska 51.9%, State Treasury 6.9%

UPCOMING EVENTS

4Q08 results	Feb 2009
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STOCK PERFORMANCE (% CHG.)

	1M	3M	6M
absolute	-45.0	-64.0	-72.0
rel. to MSCI EME	-19.4	1.0	2.0
rel. to MSCI Poland	-21.8	-8.3	-9.4

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Will Lotos survive? And if yes, in what form?

We believe the above questions are the single most important considerations for equity investors at present and for the next 12-24M. Although we do not pretend to know the answers, we believe there is increasing probability Lotos may not make it in its current structure – hence our Sell rating and our seemingly strange “Zero TP” policy. We do not know how to value the company and we can imagine equity shareholders losing most or all of their money. Even if the worst case does not materialize, the risk is just too great to take.

- **Near-term financing is not the problem.** Lotos theoretically has access to a total of USD 2.1bn (PLN 6bn or so) debt financing (of which USD 1.55bn is capex-related, the rest is working capital financing), collateralized on its existing and future refining assets. Its current net debt is a “mere” PLN 2.2bn, which we see peaking at PLN 5.5bn in 2011-12.
- **Cash flow crunch a risk, covenants unknown.** We believe the key risk is if the completion of the capex and the start of some debt service obligation were to coincide with a total drying-up of operating cash flows (refining weakness, poor oil macro). Also, we do not know the exact loan covenants, and whether net gearing of 100%+ or Net Debt/EBITDA of 5-6x would entail any penalty or early repayment. In any case, Lotos would be too vulnerable with no flexibility left in such a situation.
- **Hedging a real risk.** We believe the timing mismatch inherent in Lotos’ hedging strategy may cause further headaches in terms of margin calls and realized losses (with the potential of hoped-for benefits to be realized over a longer period of time). Improper hedging is not excluded either. Hedging may be the source of further cash calls or liquidity drain at the worst possible time. At the end of 3Q Lotos still had nearly USD 600mn open (short USD) forward positions (including EUR/USD, PLN/USD and PLN/EUR) as well as additional FX options, nearly 15mn barrels of refinery margin hedges and over USD 1bn interest rate hedging positions. The pure size of the positions is scary.
- **Bankruptcy? Well, Lotos is majority state-owned.** Lotos may go bankrupt technically, but the government will not let it die. Minority shareholders, however, should not have high hopes in such a situation. Banks, with pledges on all assets, will enjoy priority.
- **Who could rescue Lotos?** We believe a cash injection is unlikely from the government. A white knight, however, would be welcome. Will PKN (Buy) get Lotos for free (for taking over its debt) after 10+ years of struggling to acquire it? Possibly, and a great LT opportunity for PKN. PKN will unlikely “overpay” for Lotos assets (or liabilities), as it has 73% private shareholders (free float) and the management simply cannot agree to make a value destructive deal (which an EGM may even reject).
- **Earnings outlook (1): huge loss for 4Q too.** Lotos will be hit by triple-whammy negatives in 4Q: A) Inventory holding losses (which we now estimate at PLN 300mn+, but could be worse); B) more FX, hedging losses (which we now put at PLN 350mn); C) deterioration of oil macro (lower oil price and refinery margins). We predict 4Q net losses at PLN 400mn+, but the number is extremely volatile on oil prices (in Dec) and YE closing FX rates.
- **Earnings outlook (2): 2009-10 operations may suffer from poor oil macro, bottom line unpredictable.** We believe the refining macro can only deteriorate from the 2008 level (which was characterized by still very strong, peak-like margins). We have pencilled in a substantial decline in crack spreads (in the forecasts), but not a complete meltdown. Lotos is a high-cost producer with high operating leverage and weak retail/marketing; thus, it is more exposed to refining weakness. And its one-month full refinery shutdown (March/April) will not help either. The low oil price will hurt E&P too. Forecasting the bottom line is impossible due to the hedging positions and the volatility of financials.

Valuing Lotos is difficult, almost impossible

We have already highlighted the practical difficulties regarding Lotos' valuation earlier this year (please see our 3 March 2008 note, *Too much risk, too much downside – Sell*). The problems remain the same and to some extent they have got even worse.

- **Multiples are (still) useless for valuations.** 1) Multiples are distorted by the ongoing capex (capex is included; related future return is not); 2) hedging makes short-term profits and cash flows extremely volatile and not a good proxy for underlying earnings. 3) Multiples cannot capture liquidity, financing issues, especially during grace periods.
- **DCF is not too credible in current situation.** Possible, but not credible. Why not? Because the NPV of 2008-2011 cash flows are PLN 5bn+ negative (i.e. PLN 2bn net debt + PLN 3bn+ negative FCF in the next 3Y). In other words, any sort of positive value will come from post-2011 cash flows and primarily from terminal value, i.e. the value (even if positive) is extremely end-loaded, hence carries a huge amount of uncertainty. And similarly to multiples, DCF cannot properly capture the financial risk of a cash flow crunch and the binary outcome of such a scenario.
- **Asset valuation – likely the best measure, but equally inconclusive in the ST.** This does not capture the short-term default risk either, but it does highlight how uncertain the inherent value of the assets is in such a highly leveraged situation. And also underscores that even in relatively aggressive scenarios, the upside is not extremely big in a 2-3 year perspective.
 - 2011 Net debt is PLN 5.5bn.
 - For simplicity we have assigned zero value to all non-refining assets (retail has never made money, and the value of E&P may be offset by other liabilities – the latter is arguably a very harsh assumption, but we would like to focus on the underlying refining value).
 - The key question is how we value the expanded/upgraded refinery. It will be a larger, better refinery, but still not a state-of-the-art one (i.e. still high heavy products yield at 17%). Also some feedstock advantage may be lost if the Druzhba supply is deliberately downscaled.
 - New construction cost for grass-root refineries peaked at USD 25,000/bbl/d in 1H 2008. The value is already on a sharp decline and may bottom at USD 15,000/bbl/d. Probably, we can reasonably put USD 10,000-12,000/bbl/d value on Lotos' 210,000 bbl/d capacity, arriving at a USD 2.1-2.5bn (or PLN 6.3-7.5bn) asset value.
 - This could leave up to PLN 0.8bn-2.0bn (or PLN 7.0-17.6/share) value as of 2011. How much would you pay for this today?
 - **A word of warning:** A) currently listed refining assets trade at a USD 3,000-4,000/bbl/d unit capacity value in the US, Europe and EME alike – an extremely depressed level. Why would anyone pay 3-4x more assumed value for Lotos' refinery? B) Several new refinery projects will be completed exactly when Lotos plans to complete. Competition will be first in the short term, which usually does not favour short-term asset valuation.

3Q08: weak operations, huge FX/hedging losses

Lotos has reported a PLN 236mn net loss for 3Q, much larger than expected. EBIT was positive at PLN 43mn, but it was also below expectations, though not as much as the bottom line. The negative surprise was clearly in financials, as Lotos reported PLN 321mn net financial expenses, much larger than estimated, although we did warn (in our previous update) that due to the large amount of derivatives, the exact loss was difficult to estimate.

- **Very poor LIFO earnings.** In operations, the main surprise was that Lotos reported inventory holding gains (PLN 24mn, instead of losses expected), implying that the underlying LIFO operating profit was even weaker and extremely poor (and, in fact, negative in refining).
- **Financial losses everywhere.** Lotos said it has recorded PLN 83mn FX loss on its FX loans (mostly non-cash), PLN 175mn realized hedging losses (nearly 50%-50% FX + refinery margin hedging) and PLN 106mn unrealized hedging losses (mostly FX). The losses on refinery margin hedging are especially tricky to reconcile with the reported operating earnings (which were also losses despite hefty margins). Apparently, some hedges were not as perfect as those in Japanese gardens.

3Q 2008 EARNINGS (IFRS)

PLNm	3Q 2008	2Q 2008	Chg. q-o-q (%)	3Q 2007	Chg. y-o-y (%)	1-3Q 2008	1-3Q 2007	Chg. y-o-y (%)	3Q 08E
Net sales	4,764	4,218	13.0	3,535	34.8	12,544	9,157	38.4	4,393
CoGS	-4,458	-3,544	25.8	-3,017	47.7	-11,216	-7,869	39.3	-4,053
Gross profit	307	673	-54.5	518	-40.9	1,327	1,288	32.6	340
Gross margin (%)	6.4	16.0		14.7		10.6	14.1		7.7
Selling & distribution exp.	-188	-185	1.3	-178	5.2	-534	-513	3.4	-178
G&A expenses	-65	-88	-26.0	-79	-17.5	-241	-227	18.3	-87
Other income/expense	-11	-18		-6		-33	13		0
EBIT	43	382	-88.7	255	-83.1	520	560	55.8	75
EBIT margin (%)	0.9	9.1		7.2		4.1	6.1		1.7
EBIT by segment									
Upstream	25	49	-49.0	46	-45.7	116	108	46.8	45
Refining LIFO	-29	124		105		112	224	17.8	27
Inventory gain/(loss)	24	212	-88.7	108	-77.7	281	235	101.6	-96
Retail	5	-7		-9		-11	-24	6.7	0
Others	18	4		5		22	17		3
Total EBIT	43	382	-88.7	255	-83.1	520	560	55.8	75
Net financials	-321	139		46		73	127	387.3	-100
Pre-tax profit	-278	521		300		593	687	125.3	-25
Income tax	55	-99		-48		-115	-135	96.5	5
Minority interest	-13	-26		-10		-50	-20	261.9	-20
Net income	-236	397		242		428	532	129.1	-41
Depreciation	-77	-81	-3.9	-77	0.2	-237	-227	6.2	-80
EBITDA	120	462	-74.0	332	-63.7	756	788	39.5	155
EBITDA margin (%)	2.5	11.0		9.4		6.0	8.6		3.5

Source: Lotos, UniCredit Global Research estimates

Segmental & operating details: Key segments disappoint

- **Upstream: disappointing.** After a decent 2Q, E&P EBIT again fell substantially, plunging nearly 50% both q-o-q and y-o-y. Meanwhile oil prices were still close to record-high and production was reasonable (61.1kt, down only 10% q-o-q and up materially y-o-y). Poor profit in this segment remains a mystery.
- **LIFO-adjusted refining in the red in 3Q, a huge negative surprise.** LIFO EBIT was in the red (PLN 29mn loss in 3Q), which was the biggest negative surprise in the period, and it is just impossible to reconcile with the external macro and internal operating data. A) Headline margins as well as key motor fuel crack spreads were still close to record highs in 3Q and substantially higher than a year ago or most of the earlier quarters. B) Lotos' refinery was run flat out (1,577kt throughput, or 105% CUR). C) Lotos continues to engage in additional trading too to keep its market shares. Losses in such a period are simply inconceivable.
- **Retail finally broke even.** After several loss-making periods retail posted a tiny, PLN 5mn, EBIT in the seasonally strongest quarter. Lotos still massively underperforms PKN's retail business.

Balance sheet: debt on the rise, as the refinery project advances

Net debt jumped to PLN 2.16bn in 3Q from PLN 0.87bn in 2Q on the back of the very poor operating cash flow and financial losses, as well as the increasing capex as the refinery project progresses. Capex was PLN 704mn in 3Q alone.

OPERATING DATA

PLNm	3Q 2008	2Q 2008	Chg. q-o-q (%)	3Q 2007	Chg. y-o-y (%)	1-3Q 2008	1-3Q 2007	Chg. y-o-y (%)
Brent-ROT ref. margin (USD/bbl)	10.39	9.47	9.7	3.53	194.3	8.00	4.76	68.0
Ural-Brent diff. (USD/bbl)	2.50	4.66	-46.4	2.33	7.3	3.45	3.12	10.5
PLN/USD	2.20	2.18	1.0	2.76	-20.2	2.26	2.85	-20.7
Refinery throughput kt	1,577	1,539	2.5	1,555	1.4	4,658	4,598	1.3
CUR (%)	105.2	102.6		103.7		103.5	102.2	
Sales volumes (kt)								
Gasoline	371	374	-0.8	341	8.8	1,124	1,050	7.1
Diesel	860	720	19.4	804	7.0	2,210	2,084	6.0
Jet	122	121	0.8	131	-6.9	366	313	17.1
LHO	74	53	39.6	84	-11.9	227	228	-0.2
HFO	58	104	-44.2	47	23.4	502	748	-32.9
Other (incl. bitumen)	545	402	35.6	485	12.4	1,109	760	46.0
TOTAL	2,030	1,774	14.4	1,892	7.3	5,538	5,181	6.9
Realised margins								
R&M EBITDA/bbl (USD)	3.44	16.46	-79.1	8.84	-61.1	8.00	6.85	16.8
R&M EBIT/bbl (USD)	0.71	13.52	-94.8	6.63	-89.3	5.23	4.71	11.0
R&M EBITDA/bbl (USD), LIFO	2.50	7.85	-68.2	5.42	-53.9	4.35	4.40	-1.0
R&M EBIT/bbl (USD), LIFO	-0.23	4.91		3.21		1.59	2.26	-29.8
Retail sites								
COCO	137	134	2.2	132	3.8	137	132	3.8
DOFO	76	76	0.0	64	18.8	76	64	18.8
DODO	138	138	0.0	177	-22.0	138	177	-22.0
Total	351	348	0.9	373	-5.9	351	373	-5.9

Source: Lotos, UniCredit Global Research estimates

Financials

INCOME STATEMENT (IFRS SINCE 2004)

PLNm	2004	2005	2006	2007	2008E	2009E	2010E	2011E
Net sales	7,450	9,646	12,813	13,133	15,320	12,957	18,377	22,200
CoGS	-6,139	-8,051	-10,990	-11,360	-13,881	-11,616	-16,751	-20,207
Gross profit	1,311	1,596	1,823	1,773	1,438	1,341	1,626	1,993
Gross margin (%)	17.6	16.5	14.2	13.5	9.4	10.4	8.8	9.0
Selling & distribution exp.	-387	-507	-665	-696	-703	-668	-722	-794
G&A expenses	-213	-268	-316	-327	-327	-334	-367	-404
Other income/expense	-99	-9	-38	-30	-30	0	0	0
EBIT	612	812	804	719	378	339	537	795
EBIT margin (%)	8.2	8.4	6.3	5.5	2.5	2.6	2.9	3.6
EBIT by segment								
Upstream	n.a.	n.a.	201	135	155	115	149	172
Refining	n.a.	n.a.	623	621	203	199	339	563
Refining LIFO	n.a.	n.a.	755	228	236	191	318	531
Inventory gain/(loss)	n.a.	n.a.	-132	393	-33	8	20	32
Retail	n.a.	n.a.	-37	-50	-10	10	30	40
Others	n.a.	n.a.	18	13	30	15	20	20
Total EBIT	612	812	804	719	378	339	537	795
Net financials	70	46	97	265	-281	-7	-41	-310
Exceptional items	0	288	0	0	0	0	0	0
Pre-tax profit	682	1,147	901	984	96	332	496	486
Income tax	-144	-173	-186	-191	-18	-63	-94	-92
Associates	6	2	0	0	0	0	0	0
Minority interest	-1	-46	-49	-30	-57	-53	-57	-62
Net income	543	930	666	764	22	216	345	331
Depreciation	-193	-263	-297	-311	-322	-334	-396	-631
EBITDA	805	1,075	1,102	1,030	700	673	933	1,427
EBITDA margin (%)	10.8	11.1	8.6	7.8	4.6	5.2	5.1	6.4

Source: Lotos, UniCredit Global Research estimates

CASH FLOW STATEMENT (IFRS SINCE 2004)

PLNm	2004	2005	2006	2007	2008E	2009E	2010E	2011E
Net profit	543	930	666	764	22	216	345	331
Depreciation	193	263	297	311	322	334	396	631
Other non-cash items	-48	-256	22	35	-31	-7	47	62
Cash earnings	688	938	985	1,110	312	543	788	1,025
Capital investment	-229	-792	-655	-1,048	-2,155	-2,328	-1,245	-1,000
Acquisition/asset disposal	0	-120	0	0	0	10	10	0
Previous year dividend	-14	-18	0	-41	0	0	0	0
Outflows from operations	-242	-930	-656	-1,089	-2,155	-2,318	-1,235	-1,000
Net flows from operations	445	7	330	21	-1,843	-1,775	-447	25
Working capital change	-378	-397	-391	-787	-224	143	-846	-466
Other	0	0	0	0	0	0	0	0
Finance need/excess	67	-389	-61	-767	-2,067	-1,632	-1,293	-441
Capital contribution	6	1,015	0	0	0	0	0	0
Change in net debt	73	626	-61	-767	-2,067	-1,632	-1,293	-441

Source: Lotos, UniCredit Global Research estimates

BALANCE SHEET (IFRS SINCE 2004)

PLNm	2004	2005	2006	2007	2008E	2009E	2010E	2011E
Property, plant & equipment	2,139	3,312	3,639	4,255	6,088	8,082	8,931	9,300
Intangibles fixed assets	57	106	120	127	127	127	127	127
Investments	28	89	89	38	38	38	38	38
Other LT assets	16	75	85	79	79	79	79	79
Fixed assets	2,241	3,581	3,932	4,500	6,333	8,327	9,176	9,544
Inventories	829	1,433	1,707	2,588	2,604	2,332	3,124	3,774
Receivables	749	1,060	1,274	1,539	1,685	1,555	1,838	1,998
Other current assets	5	11	24	29	29	29	29	29
Current assets	1,582	2,505	3,005	4,156	4,318	3,916	4,990	5,801
Trade and other payables	-748	-1,274	-1,383	-1,747	-1,685	-1,425	-1,654	-1,998
Net working capital	834	1,231	1,622	2,409	2,633	2,490	3,336	3,803
Net capital employed	3,075	4,813	5,554	6,909	8,966	10,817	12,512	13,347
Share capital	79	114	114	114	114	114	114	114
Retained earnings, reserves	2,021	4,438	5,101	5,698	5,698	5,720	5,935	6,280
Profit for the year	543	0	0	0	22	216	345	331
Shareholders' equity	2,643	4,554	5,215	5,812	5,833	6,049	6,394	6,725
Minority interest	15	254	301	328	384	438	495	557
LT debt	144	294	341	852	1,500	2,500	3,000	3,000
ST debt	185	112	176	523	1,398	1,731	2,524	2,965
Total debt	328	407	517	1,375	2,898	4,231	5,524	5,965
Cash & cash equivalent	-200	-904	-953	-1,044	-500	-200	-200	-200
Net debt/(cash)	129	(497)	(436)	331	2,398	4,031	5,324	5,765
Provisions and other LT liab.	289	501	474	438	350	300	300	300
Net capital employed	3,075	4,813	5,554	6,909	8,966	10,817	12,512	13,347
Total assets	4,023	6,990	7,890	9,700	11,151	12,443	14,366	15,545

Source: Lotos, UniCredit Global Research estimates

QUARTERLY EARNINGS, IFRS

PLNm	3Q 2006	4Q 2006	1Q 2007	2Q 2007	3Q 2007	4Q 2007	1Q 2008	2Q 2008	3Q 2008
Net Sales	3,702	3,156	2,548	3,073	3,535	3,976	3,561	4,218	4,764
Gross profit	497	420	274	495	521	485	347	673	307
Gross margin (%)	13.4	13.3	10.8	16.1	14.7	12.2	9.8	16.0	6.4
Selling expenses	-185	-189	-165	-170	-178	-183	-161	-185	-188
G&A expenses	-62	-112	-74	-75	-78	-100	-87	-88	-65
Other income/exp.	4	-33	17	2	-8	-44	-4	-18	-11
EBIT	254	86	53	253	256	159	95	382	43
Net financials	20	28	28	53	46	139	255	139	-321
Pre-tax profit	274	114	81	306	303	297	350	521	-278
Income tax	-57	-28	-18	-69	-55	-56	-71	-99	55
Minority interests	-17	1	-7	-3	-11	-10	-11	-26	-13
Net profit	200	88	56	234	237	231	268	397	-236
EBITDA	331	159	128	328	334	243	174	462	120
EBITDA margin (%)	8.9	5.0	5.0	10.7	9.4	6.1	4.9	11.0	2.5

Source: Lotos, UniCredit Global Research

KEY ASSUMPTIONS, RATIOS AND MULTIPLES

	2004	2005	2006	2007	2008E	2009E	2010E	2011E
Operating data and assumptions								
Brent crude (USD/bbl)	38.22	54.36	65.13	72.45	98.27	76.70	85.50	89.50
Urals (USD/bbl)	34.61	50.34	60.93	69.49	95.27	73.70	82.50	86.50
Ural-Brent differential (USD/bbl)	-3.61	-4.02	-4.20	-2.96	-3.0	-3.0	-3.0	-3.0
Brent-ROT ref. margin (USD/bbl)	4.75	6.23	4.82	4.88	7.40	5.00	5.00	6.00
Ural-ROT ref. margin (USD/bbl)	6.41	7.76	6.64	5.47	7.20	5.00	5.00	6.00
PLN/USD avg.	3.62	3.23	3.10	2.77	2.39	2.70	2.70	2.70
Refinery throughput kt	4,744	4,837	6,098	6,157	6,120	5,880	7,875	9,766
Nameplate capacity	4,500	5,250	6,000	6,000	6,000	6,000	10,500	10,500
CUR (%)	105.4	92.1	101.6	102.6	102.0	98.0	75.0	93.0
Sales volumes (kt)	5,019	4,919	7,043	7,116	7,220	6,880	7,796	9,180
R&M EBITDA/bbl (USD)	6.25	7.83	6.28	6.92	4.78	5.41	5.74	7.40
R&M EBIT/bbl (USD)	4.87	5.77	4.35	4.68	2.08	1.93	2.49	3.22
R&M EBITDA/bbl (USD), LIFO	5.67	5.93	7.24	3.77	5.08	5.34	5.61	7.23
R&M EBIT/bbl (USD), LIFO	4.29	3.86	5.31	1.53	2.38	1.86	2.36	3.06
E&P production (bbl/d)	6,582	4,915	5,485	3,936	5,485	6,329	6,329	6,329
E&P unit profits (USD/bbl)	n.a.	25.93	32.31	33.96	32.29	22.11	28.59	33.14
Retail sites (No.)	349	401	401	379	355	360	380	400
Financials ratios								
EPS (PLN)	6.90	6.67	5.86	6.72	0.19	1.90	3.03	2.92
EPS growth (%)	87.5	-3.3	-12.2	14.6	-97.2	898.9	59.7	-3.8
CEPS (PLN)	8.74	9.75	8.67	9.76	2.75	4.77	6.93	9.01
Gross DPS (PLN)	0.20	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Payout ratio (%)	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NAVPS (PLN)	33.6	47.3	45.9	51.1	51.3	53.2	56.2	59.2
Effective tax rate (%)	21.1	15.1	20.6	19.4	19.0	19.0	19.0	19.0
Net gearing (%)	4.9	-10.9	-8.4	5.7	41.1	66.6	83.3	85.7
Net debt/EBITDA (x)	0.2	-0.5	-0.4	0.3	3.4	6.0	5.7	4.0
Interest cover (x)	-8.7	-17.5	-8.3	-2.7	1.3	47.0	13.1	2.6
Current ratio (x)	2.12	1.97	2.17	2.38	2.56	2.75	3.02	2.90
Multiples								
P/E (x)	1.9	2.0	2.3	2.0	70.1	7.0	4.4	4.6
P/CE (x)	1.5	1.4	1.5	1.4	4.8	2.8	1.9	1.5
EV/EBITDA (x)	1.5	1.2	1.3	2.1	6.1	8.9	7.9	5.5
EV/DACF (x)	2.0	1.4	1.6	2.6	8.7	12.0	9.8	6.8
P/NAVPS (x)	0.40	0.28	0.29	0.26	0.26	0.25	0.24	0.23
P/Sales (x)	0.14	0.16	0.12	0.12	0.10	0.12	0.08	0.07
EV/Sales (x)	0.16	0.13	0.11	0.17	0.28	0.46	0.40	0.35
EV/EBIT (x)	1.9	1.6	1.7	3.0	11.4	17.6	13.6	9.9
ROE (%)	26.0	25.9	13.6	13.8	0.4	3.6	5.5	5.1
ROA (%)	15.6	16.9	9.0	8.7	0.2	1.8	2.6	2.2
ROACE (%)	22.7	21.6	14.0	10.2	4.3	3.1	4.0	5.2

Source: Lotos, UniCredit Global Research estimates

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Aareal Bank 2, 3; adidas 4; ADLER Real Estate 3; Air Liquide 3; Alcatel-Lucent 3; Allianz 1b, 3, 4, 6a; AMB Generali Holding 3; Aragon AG 3; BASF 2; Bertrand 3; BMW 2, 3, 4; Carrefour 3; Daimler 2, 3, 4; Data Modul 3; DEPFA BANK plc 2, 3; Deutsche Bank 3; Deutsche Telekom 2, 3; DIC Asset 3; Dr. Höhle AG 3; E.ON 2, 3; EADS 3; ENEL 2, 3, 6a, 7; Escada 2; F&A 4; France Telecom 2, 3; Fresenius Medical Care 2; Fresenius Pref. 2; Grammer 3, 4; Graphit Kropfmühl 3, 4; HeidelbergCement 1a; hotel.de 1a, 3; Hypo Real Estate Group 2, 3; IDS Scheer 3; Infineon 4; intelligence 3; Koenig & Bauer 2, 3, 4; LEONI 4; Munich Re 4; Nabaltec 3; Nokia 3; Nordex AG 1a; Novartis 2; POLIS Immobilien AG 3; Postbank 2, 3; Premiere 1a; PROCON MultiMedia AG 2, 3, 4, 5, 7; Qimonda 2, 4; Rhön-Klinikum 3; SAP 4; Schmack Biogas 3; SGL Group 6a; Sixt 3; SoftM 3, 4; STMicroelectronics 3; Teles 3; UBS 2, 4; Vizrt 3; Volkswagen 1a, 2, 3

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