Cooperation GRUPA LOTOS - Shell.

On the 25th of November 2004 Grupa LOTOS S.A. signed a Memorandum of Understanding with Shell Global Solutions International B.V and Shell International Trading and Shipping Company Ltd. (STASCO), two companies from the Royal Dutch/Shell Group.
The Memorandum of Understanding focuses on the cooperation of Grupa LOTOS with these companies from the Shell Group regarding development and implementation of the PKRT project, the residue upgrading project of Grupa LOTOS at the Gdansk refinery.

Together with the license agreements already signed with Shell Global Solutions and Kellog, Brown & Root the Memorandum creates a solid platform for the implementation of this project. Under the terms of the Memorandum, STASCO and Grupa Lotos will develop the supply agreement for the excess feedstock and the offtake agreement for the oil products coming from the new PKRT facilities. Apart from technology, Shell Global Solutions will provide technical-, project management- and operational advice during the execution of the capital project and the first few years of operation. -Grupa Lotos will benefit from the best practices in oil refining available within Shell Global Solutions, based on Shell's rich history in this industry. Additionally STASCO, one of the largest crude and oil products trading companies in the. world, will provide the required flexibility, competitive pricing and shipping quality to the PKRT project - said John Kvitvang, Vice President Downstream Manufacturing for Shell Global Solutions.

The PKRT program in its modified version was approved by the Supervisory Board of GL S.A. on November 17th, 2004. Work on the program is already in progress. Following the decision of the Management Board of Grupa LOTOS to allocate 80 million PLN for financing the necessary work related to the development of the PKRT/TSS project work related to basic engineering has already started. The total cost of the project is estimated at about USD 760 million. It should be completed by the turn of 2008/09.

Upon the completion of the PKRT project - which is part of the Lockheed Martin offset program - Grupa LOTOS will acquire a set of unique technological units such as: oil residue gasification (IGCC - license from Shell Global Solutions), solvent deasphalting (ROSE - license from Kellog, Brown&Root), and mild hydrocracking (MHC - license from Shell Global Solutions) - said Mr. Paweł Olechnowicz, the President of Grupa Lotos. The implementation of the program will greatly enhance our capabilities. We are not going to be the only beneficiary of the project. - The benefits will spread to the entire economy of the Gdańsk area and beyond - Olechnowicz said.

The modernization program constitues a guarantee for the future of Grupa LOTOS for many years to come and of continued employment for GLSA personnel. The engineering and construction of the new facilities should provide employment to several thousand people for
2 to 3 years. The value of orders placed within the region and within the country is expected to exceed USD 350 million.

Solving the problem of heavy oil residue is absolutely necessary in order to ensure the long-term technological viability, and thus the future of the Gdańsk refinery. The improved rate of conversion of oil into white products will have a significant positive impact on the economics of Grupa Lotos. An important objective of the project is reduction of SO2 and NOx emissions, which should help the Refinery in Gdańsk become the "greenest" refinery in the entire Baltic Sea region - said Paweł Olechnowicz.

Grupa LOTOS SA (www.grupalotos.pl) is the biggest company in the Pomerania region (or Gdańsk area) and the second biggest producer and distributor of oil products in Poland. The company is also a leader in the lubricants sector. Operating since 1975 in the area of oil refining and distribution and sales of oil products, the company sells such products as: unleaded gasoline, diesel, fuel oils, aviation fuels, motor and industrial lubricants, asphalts, and gases.LOTOS group is a holding company composed of 13 companies bearing the LOTOS sign. As of the end of September 2004 Grupa LOTOS employed 2997 people, about 1000 more than in 2001. Net profit of Grupa LOTOS for the 2003 financial year was PLN 248,2 million compared to PLN 102 million in 2002. In 2002 Grupa LOTOS had sales of PLN 6 334,4 million, while in 2003 its sales reached PLN 8 432,8 million, an increase of about 33%. Last year saw also a substantial increase in the operating profit category - from PLN 211 million in 2002 to PLN 351 million in 2003, an increase of over 66%. After three quarters of 2004 the net profit of Grupa LOTOS S.A. stood at PLN 393,5 million. According to budget forecasts net profit for the entire 2004 financial year should reach PLN 500 million.

The Lockheed Martin offset program is a compensation commitment that Lockheed Martin entered into with the Polish Government as part of the sale of F16 fighter planes to Poland. Under this contract, Lockheed Martin will make available funds to the PKRT project that will enable the project to pay for part of the technology licenses required for this project.

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