

**RESOLUTION NO. 74/X/2018**  
**OF THE SUPERVISORY BOARD OF GRUPA LOTOS S.A.**  
**dated May 29th 2018**

concerning: **approval of the Supervisory Board's Report on the results of assessment of the financial statements of Grupa LOTOS S.A. for 2017, the consolidated financial statements of the LOTOS Group for 2017, the Directors' Report on the operations of Grupa LOTOS S.A. and the LOTOS Group in 2017, and the Management Board's proposal concerning distribution of the Company's net profit for 2017**

Acting pursuant to Art. 382.3 of the Commercial Companies Code, and pursuant to Art. 13.2.5 of the Company's Articles of Association, the Supervisory Board of Grupa LOTOS S.A. hereby resolves as follows:

Section 1.

1. Considering the positive recommendation of the Audit Committee and having read the documents listed in items a) to d) below, the Supervisory Board approves the report on the results of assessment of the following documents:
  - a) the financial statements of Grupa LOTOS S.A. for 2017,
  - b) the consolidated financial statements of the LOTOS Group for 2017,
  - c) the Directors' Report on the operations of Grupa LOTOS S.A. and the LOTOS Group in 2017,
  - d) the Management Board's proposal concerning allocation of net profit for 2017.
2. The report referred to in Section 1.1 is attached as an appendix hereto.

Section 2.

The Supervisory Board resolves to submit the report to the Annual General Meeting of Grupa LOTOS S.A.

Section 3.

This Resolution shall become effective as of its date.

- |                      |             |  |
|----------------------|-------------|--|
| 1. Votes in favour:  | _____6_____ | Members of the Supervisory Board voted in favour of the resolution       |
| 2. Votes against:    | _____0_____ | Members of the Supervisory Board voted against the resolution            |
| 3. Abstaining votes: | _____0_____ | Members of the Supervisory Board abstained from voting on the resolution |

This Resolution has been passed by open ballot.

Supervisory Board

- |                                 |        |
|---------------------------------|--------|
| 1. Beata Kozłowska-Chyła        | _____  |
| 2. Piotr Ciach                  | _____  |
| 3. Katarzyna Lewandowska        | _____  |
| 4. Dariusz Figura               | _____  |
| 5. Mariusz Golecki              | absent |
| 6. Adam Lewandowski             | _____  |
| 7. Agnieszka Szklarczyk-Mierzwa | _____  |

**Report of the Supervisory Board of Grupa LOTOS S.A.  
on the results of assessment of the financial statements of Grupa LOTOS S.A.  
and the consolidated financial statements  
of the LOTOS Group for 2017  
along with a recommendation**

Acting pursuant to Par. 2.1.5 of the Rules of Procedure for the Supervisory Board of Grupa LOTOS S.A., the Supervisory Board of Grupa LOTOS S.A. has read the drafts and the final versions of the following statements and reports:

- the financial statements of Grupa LOTOS S.A. for 2017,
- the consolidated financial statements of the LOTOS Group for 2017,
- the Directors' Report on the operations of Grupa LOTOS S.A. and the LOTOS Group in 2017,

and the Management Board's proposal concerning allocation of the Company's net profit for 2017 (Management Board Resolution No. 14/X/2018 of May 29th 2018).

In 2017, the LOTOS Group posted PLN 24,185.6m in revenue (up 15.5% on 2016), mainly on the back of higher prices of crude oil and petroleum products on global markets. Average net revenue per tonne/(toe) of products sold in 2017 was PLN 2,083 (up PLN 322/t (toe), or 18.3%, on 2016). The total volume of petroleum products, merchandise and materials sold in 2017 by the LOTOS Group decreased by approximately 2.3% on 2016. The highest decline was reported for aviation fuel and heavy products in the Downstream segment and for natural gas in the Upstream segment.

**Key financial results of the LOTOS Group (PLNm)**

	2017	2016	2015	2017-2016	2017/2016
Revenue	<b>24,185.6</b>	20,931.1	22,709.4	3,254.5	15.5%
Cost of sales	<b>-20,194.1</b>	-17,215.7	-20,249.0	-2,978.4	17.3%
<b>Gross profit</b>	<b>3,991.5</b>	<b>3,715.4</b>	<b>2,460.4</b>	<b>276.1</b>	<b>7.3%</b>
Distribution costs	<b>-1,252.3</b>	-1,291.1	-1,284.9	38.8	-3.0%
Administrative expenses	<b>-450.0</b>	-425.9	-459.1	-24.1	5.7%
Other income	<b>60.3</b>	107.1	48.3	-46.8	-43.7%
Other expenses	<b>-121.0</b>	-250.8	-341.3	129.8	-51.8%
<b>Operating profit/(loss)</b>	<b>2,228.5</b>	<b>1,854.7</b>	<b>423.4</b>	<b>373.8</b>	<b>20.2%</b>

In 2017, cost of sales of the LOTOS Group stood at PLN 20,194.1m (up 17.3% on 2016). In the same period, the estimated unit cost of sales was PLN 1,739/t (up PLN 291/t or 20.1% on 2016). The unit sales margin in 2017 came in at PLN 344/t (up 9.9% on 2016). The LOTOS Group's consolidated gross profit for 2017 was PLN 3,991.5m (up PLN 276.1m, or 7.3% on 2016). Distribution costs in 2017 decreased by PLN 38.8m (down 3.0% relative to 2016), driven chiefly by lower average USD/PLN exchange rate, lower sales volumes, and lower foreign sales. Administrative expenses rose by PLN 24.1m (up 5.7% on 2016), mainly on higher employee benefits expense.

The Group's operating profit for 2017, of PLN 2,228.5m, includes:

- operating profit of PLN 1,730.7m in the Downstream segment,
- operating profit of PLN 507.2m in the Upstream segment.

The 2017 increase in operating profit was driven mainly by higher average annual prices of crude oil and natural gas, higher margins on petroleum products, and the uptrend in crude oil and petroleum product prices in the second half of 2017.

### Operating segments

#### Upstream segment's key financial data (PLNm)

	2017	2016	2015	2017-2016	2017/2016
Revenue	1,358.7	1,228.5	711.1	130.2	10.6%
<b>Operating profit/(loss)</b>	<b>507.2</b>	<b>17.8</b>	<b>-59.4</b>	<b>489.4</b>	<b>2,749.4%</b>
Depreciation and amortisation	307.4	582.0	249.9	-274.6	-47.2%
<b>EBITDA</b>	<b>814.6</b>	<b>599.8</b>	<b>190.5</b>	<b>214.8</b>	<b>35.8%</b>

The higher revenues (up PLN 130.2m on 2016) and higher operating profit (up PLN 489.4m) reported by the Upstream segment in 2017 were primarily driven by growing prices of Brent Dated crude (up 24.3%) and natural gas (up 24.6%) on global markets.

Weighing down on the Upstream segment's operating profit in 2017 were non-recurring items of approximately PLN 50m.

The decrease in the segment's depreciation and amortisation charges follows from a change in the units-of-production method estimates for the assets of offshore oil and gas extraction facilities in Norway following, among other things, from an increase in the Sleipner and Heimdal recoverable reserves at LOTOS Norge and lower hydrocarbon production.

#### Downstream segment's key financial data (PLNm)

	2017	2016	2015	2017-2016	2017/2016
Revenue	23,326.4	20,120.7	22,372.6	3,205.7	15.9%
<b>Operating profit/(loss)</b>	<b>1,730.7</b>	<b>1,834.7</b>	<b>450.7</b>	<b>-104.0</b>	<b>-5.7%</b>
Depreciation	537.9	487.4	466.2	50.5	10.4%
<b>EBITDA</b>	<b>2,268.6</b>	<b>2,322.1</b>	<b>916.9</b>	<b>-53.5</b>	<b>-2.3%</b>

The higher revenue posted by the Downstream segment in 2017 relative to 2016 was mainly due to a 17.3% rise in average selling prices, caused by higher prices of petroleum products on global markets, offset by lower USD/PLN exchange rate.

Operating profit reported by the Group in the Downstream segment was PLN 1,730.7m, and its 5.7% decline was partly due to the 'Spring 2017' maintenance shutdown.

In 2017, Downstream segment's depreciation and amortisation charges rose, mainly on depreciation of the spare parts used for the 'Spring 2017' maintenance shutdown project at Grupa LOTOS S.A. (accounted for in accordance with IFRS 16).

Key issues related to the audit of the financial statements of Grupa LOTOS S.A. and other material companies of the LOTOS Group for the year ended December 31st 2017 were discussed with the auditors of Ernst & Young Audyt Polska sp. z o.o. sp. k. on February 27th 2018.

In particular, the following matters were discussed:

- the financial results of the Company and material companies of the LOTOS Group, including the consolidated results for the year 2017 by segment (comprehensive and adjusted for one-off items),
- key estimates and areas of professional judgment,
- financial liquidity of material upstream segment companies in 2018–2020,
- tax inspections carried out at Grupa Lotos S.A. and the LOTOS Group companies,
- debt ratios,
- recommendations for the individual LOTOS Group companies.

The Supervisory Board members received from the audit firm's and the Company's representatives supplementary information relating to the 2017 financial statements, including information on key events in 2017, assets and financial position of the Company and the Group as at the end of 2017, as well as their foreseen financial condition in 2018 and thereafter.

The Supervisory Board members did not raise any material issues regarding the content of the presented financial statements or the method and scope of their audit by the auditor.

The Supervisory Board also read the auditor's reports on the full-year separate and consolidated financial statements for 2017, containing the opinions of Ernst & Young Audyt Polska sp. z o.o. sp. k. on those financial statements, stating that the Company's and its Group's financial statements:

- give a true and fair view of their assets and financial position as at December 31st 2017 and of their profit or loss for the financial year January 1st – December 31st 2017, in compliance with the International Accounting Standards, the International Financial Reporting Standards and the related interpretations issued in the form of the European Commission's regulations as well as the applied accounting policies,
- were prepared on the basis of properly maintained accounting records,
- comply in form and content with the laws and regulations applicable to the Company and the Group and with the Company's Articles of Association.

Moreover, in the auditor's opinion, the Directors' Report on the Company's and the Group's operations in 2017 was prepared in accordance with applicable laws and regulations and is consistent with the information presented in the financial statements. In addition, the auditor

identified no material misstatements in the Directors' Report on the Company's and the Group's operations.

In view of the above, the Supervisory Board finds that the 2017 financial statements prepared by the Company, the 2017 consolidated financial statements, and the Directors' Report on the Company's and the Group's operations in 2017 have been prepared correctly in all material respects, comply in form and content with the laws applicable to the Company, and give a true and fair view of the Group's assets and financial position.

**In view of the above, the Supervisory Board gives a positive assessment of the above financial statements and recommends their approval by the General Meeting.**

With regard to the Management Board's proposal on the allocation of net profit for 2017, the Supervisory Board agrees with the Management Board's proposal to allocate the net profit of Grupa LOTOS for 2017 of **PLN 1,419,501,109.93 PLN** (one billion, four hundred and nineteen million, five hundred and one thousand, one hundred and nine złoty, 93/100) in the following manner:

- 1) **PLN 184,873,362.00** (one hundred and eighty-four million, eight hundred and seventy-three thousand, three hundred and sixty-two złoty, 00/100) to be paid as dividend (**PLN 1 per share**),
- 2) **PLN 347,051,700.66** (three hundred and forty-seven million, fifty-one thousand, seven hundred złoty, 66/100) to cover the net loss for 2014 and 2015,
- 3) **PLN 887,576,047.27** (eight hundred and eighty-seven million, five hundred and seventy-six thousand, forty-seven złoty, 27/100) to be transferred to the statutory reserve funds.

The Supervisory Board also agrees with the proposal of the Grupa LOTOS Management Board to set the dividend record date for September 12th 2018 and the dividend payment date for September 28th 2018.

**In view of the above, the Supervisory Board issues a positive opinion for the Annual General Meeting regarding the allocation of net profit for 2017 in accordance with the Management Board's proposal.**

Supervisory Board

1. Beata Kozłowska-Chyła \_\_\_\_\_
2. Piotr Ciach \_\_\_\_\_
3. Katarzyna Lewandowska \_\_\_\_\_
4. Dariusz Figura \_\_\_\_\_
5. Mariusz Golecki \_\_\_\_\_
6. Adam Lewandowski \_\_\_\_\_
7. Agnieszka Szklarczyk-Mierzwa \_\_\_\_\_

Warsaw, May 29th 2018