

Plan for partial deleveraging of the Upstream segment of Grupa LOTOS S.A. [the “PROJECT”].

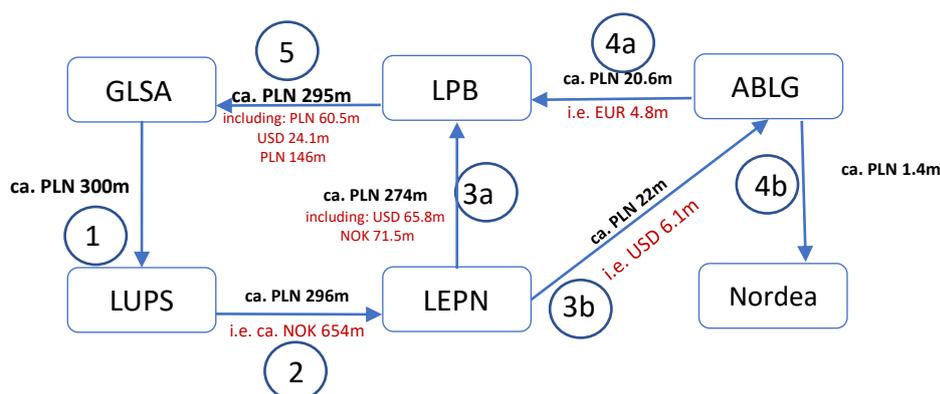
The main objectives of the PROJECT are to:

1. Simplify the existing financial obligations between LOTOS Group companies;
2. Eliminate unnecessary cash outlays at LOTOS E&P Norge AS resulting from thin capitalization;
3. Mitigate potential tax risks that may result from the complex structure of mutual financial obligations between the LOTOS Group companies.

Re. 1

The main objective of the PROJECT is to settle the internal debt of the LOTOS Group companies. Once completed, the planned partial deleveraging will allow the Group to streamline the financing structure of its upstream segment and will create the basis for further growth of this part of the business. The PROJECT will also result in recapitalisation of some of the upstream companies.

Presented below are the steps planned to be taken as part of the deleveraging of the LOTOS Group’s upstream segment:



1. Grupa LOTOS S.A. increases the share capital of LOTOS Upstream sp. z o.o. by ca. PLN 300m¹ (in accordance with Art. 9.13 of the Articles of Association, subscription for shares with a value exceeding PLN 100m requires consent of the General Meeting of Grupa LOTOS). The Management Board of Grupa LOTOS S.A. has requested the General Meeting to grant its consent to subscribe for new shares in LOTOS Upstream sp. z o.o. with a value of up to PLN 330m. The maximum amount of the proposed recapitalisation includes a reserve of PLN 30m in case the planned PLN 300m increase proves insufficient due to changes in exchange rates.

The amount and timing of the recapitalisation will depend on consents of the institutions which provide financing to LOTOS E&P Norge AS and AB LOTOS Geonafta. There is a potential risk that AB LOTOS Geonafta will not obtain a consent from Nordea Bank (currently Luminor Bank AB) to repay all loans to LOTOS Petrobaltic S.A.; therefore, the possible repayment of part of LOTOS E&P Norge AS’s debt to AB LOTOS Geonafta

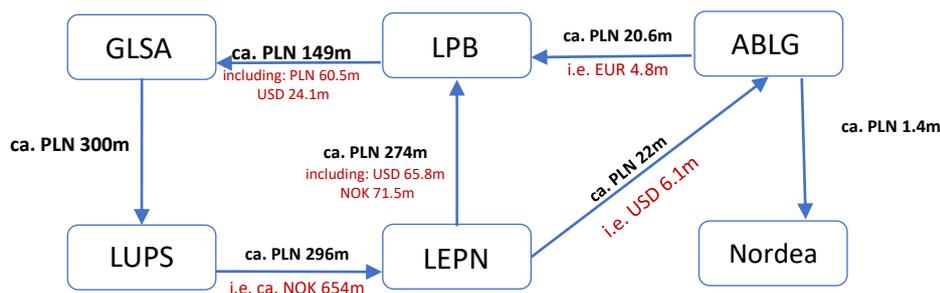
¹ The amount was calculated using the following exchange rates: USD 1 = PLN 3.66; NOK 1 = PLN 0.45; EUR 1 = PLN 4.3

will be subject to the Bank's prior consent. If the Bank does not grant its consent, the amount of the recapitalisation of LOTOS Upstream is expected to be ca. PLN 22m lower or the recapitalisation will be carried out at a later date, once the Bank grants the consent. Therefore, if AB LOTOS Geonafta does not obtain the consent, the amount of recapitalisation of LOTOS Upstream by Grupa LOTOS S.A. will be correspondingly lower;

2. LOTOS Upstream sp. z o.o. applies the entire amount of the proceeds (less the necessary transaction costs) to increase the share capital of LOTOS E&P Norge AS;
3. LOTOS E&P Norge AS uses all of the obtained funds to repay:
 - a) a portion of the debt outstanding under the intra-group loans received from LOTOS Petrobaltic S.A., of ca. PLN 274m;
 - b) a portion of the debt outstanding under the intra-group loans received from AB LOTOS Geonafta, of ca. PLN 22m;
4. Subject to the consent of the lending bank, AB LOTOS Geonafta uses all of the obtained funds to repay:
 - a) a portion of the debt outstanding under the intra-group loans received from LOTOS Petrobaltic S.A., of ca. PLN 20.6m;
 - b) a portion of the debt under the credit facility obtained from Nordea Bank (currently Luminor Bank AB), of ca. PLN 1.4m.
5. In this way, LOTOS Petrobaltic S.A. receives the entire amount, less the necessary transaction costs described in items 2 and 4, i.e. ca. PLN 295m, and allocates some the funds, i.e. approximately PLN 149m, to repayment of the loans to Grupa LOTOS S.A., and the balance is paid to Grupa LOTOS S.A., to be used to pay off LOTOS Petrobaltic S.A.'s intra-group debt (cash pool).

In connection with the planned development of the B8 oil field in the Baltic Sea by LOTOS Petrobaltic S.A. (details of the B8 project are presented below), it is anticipated that if the PROJECT is executed and LOTOS Petrobaltic S.A. pays PLN 295m to Grupa LOTOS S.A. and if Grupa LOTOS S.A. simultaneously provides a PLN 132m loan to LOTOS Petrobaltic S.A. to finance the B8 project, then as a result the two cash flows (PLN 295m and PLN 132m) could be offset. As a result, as part of the PROJECT LOTOS Petrobaltic S.A. will transfer to Grupa LOTOS S.A. an amount of ca. PLN 149m, instead of PLN 295m, with ca. PLN 146m (PLN 295m less PLN 149m) left at LOTOS Petrobaltic S.A. as the loan to finance development of the B8 field and the working capital reserve.

Therefore, the final structure of the PROJECT could be as proposed by Grupa LOTOS S.A. (see below) which was presented in the materials prepared for the Extraordinary General Meeting (page 2 of Appendix 1 to Resolution No. 15/X/2018).



Additional information

In accordance with the CIT prepayment mechanism applicable at the LOTOS Group companies, the payment of tax on LOTOS Petrobaltic S.A.'s interest income will be deferred until March 31st 2019.

Pursuant to Art. 1.1.k and Art. 1.3.2 of the Act on Tax on Civil Law Transactions, a share capital increase in a company is subject to tax on civil law transactions as it is regarded as an amendment to the articles of association. The obligation to pay tax on civil law transactions lies with the company whose share capital is increased. The rate of tax on civil law transactions is 0.5% of the amount of the capital increase.

Re.2

As a result of the PROJECT, the risk of thin capitalization in some LOTOS Group companies will be mitigated; at present, these companies are not able to recognise the entire amount of borrowing costs as tax deductible. As LOTOS E&P Norge AS has thin capitalization, i.e. an extremely low share of equity in total equity and liabilities, the company is not able to recognise the entire interest expense on loans provided by LOTOS Petrobaltic S.A. as tax deductible costs. At the same time, LOTOS Petrobaltic S.A. must recognise taxable income earned on such interest. As a result, the LOTOS Group as a whole incurs unnecessary cash expenses, which constitute income tax on costs not recognised as tax deductible.

Re. 3

Through recapitalisation, LOTOS E&P Norge AS will make interest and principal payments of ca. PLN 274m (item 3a of the PROJECT) to LOTOS Petrobaltic SA, which will significantly reduce the CIT tax risk related to recognition of interest income on loans obtained in previous years in the tax calculation.

Expected results:

LOTOS E&P Norge AS:

- ✓ increase in equity (reduced risk of thin capitalisation). It is expected that as a result of the PROJECT the share of equity in the company's total equity and liabilities will increase from ca. 2% at the end of 2017 to ca. 15% at the end of the third quarter 2018;
- ✓ settlement of some of the intra-group loans (elimination of the tax risk related to accrued interest on loans) – planned repayment of USD 65.8m and NOK 71.5m to LOTOS Petrobaltic (in total ca. PLN 274m), and of ca. USD 6.1m (ca. PLN 22m) to LOTOS Geonafta;
- ✓ reduction of unnecessary cash expenditure in the form of income tax on interest expenses not recognised as tax deductible;
- ✓ improved structure of the balance sheet – improved ability of the company to raise external funding for development projects.

LOTOS Petrobaltic S.A.:

- ✓ the company will receive about PLN 295m as repayment of intra-group loans;
- ✓ repayment of debt to Grupa LOTOS S.A. – planned repayment of ca. USD 24.1m and PLN 60.5m (i.e. ca. PLN 149m in total);
- ✓ the remaining amount, of ca. PLN 145m, will enable the Group to repay its intra-group debt (cash pool) in the short term, and then will become LOTOS Petrobaltic S.A.'s contribution to the B8 deposit project.

AB LOTOS Geonafta:

- ✓ repayment of debt to LOTOS Petrobaltic S.A. – planned repayment of ca. EUR 4.8m (ca. PLN 20.6m), additionally it was assumed that the equivalent of ca. PLN 1.4m would be repaid to Nordea Bank (currently Luminor Bank AB) – depending on the level of foreign exchange rates.

LOTOS Upstream Sp. z o.o.:

- ✓ share capital increase by ca. PLN 300m, to PLN 876m.

Schedule of the PROJECT:

1. Resolution of the General Meeting to increase capital at LOTOS Upstream – July 2018
2. Obtaining consents from Nordea (currently Luminor Bank AB) by AB LOTOS Geonafra, and from PKO BP by LOTOS E&P Norge AS to carry out the transactions; and obtaining corporate approvals (LOTOS E&P Norge AS) for capital increase – July/August 2018
3. Start of cash flows under the PROJECT and PROJECT close – September/October 2018

Note

Flows of funds between companies will be made in small batches (PLN 1–5m). A new transfer of funds to a given company will be released only after the company transfers previously obtained funds to another company. This will minimise the risk of funds being used by the companies for purposes other than those intended under the PROJECT. Another option would be that each of the companies covered by the PROJECT establishes a separate account for the purpose of bank transfers, and employees of Grupa LOTOS S.A. would be appointed as proxies to these accounts.

Development of the B8 oil field in the Baltic Sea:

At present, initial crude oil production is carried out by the LOTOS Petrobaltic drilling rig (the production was launched on September 30th 2015). At the same time, work continues at the Gdańsk Repair Shipyard to convert the Petrobaltic platform into a Production Centre, and at the same time; further, efforts are made to enable full development of the field and offshore works continue to complete the construction of the gas pipeline (protection with concrete mats). The platform conversion process is at the stage of mechanical fit-out and preparations for the testing and commissioning phase. Work on electrical and automation control systems is on the critical path. The production centre is scheduled to go to sea in the first quarter of 2019, and the current stage of the project completion is: 80.5%. Full production is expected to start in the third quarter of 2019 (risk a 90-day delay factored in).

Key parameters of the deposit:

- 2P reserves: 36.7m boe (mainly crude oil) as at March 31st 2018
- Current production: 2.5 thousand boe/d in Q2 2018
- Planned average output after start of full production: ca. 5,000 boe/d in the initial five years.

Value of the project:

Expenditures incurred by the SPV on development of the B8 field until June 30th 2018: ca. PLN 1.55bn. About PLN 0.37bn remains to be spent. The total expenditure on the development of the B8 field is estimated at PLN 1.9bn.

Financing:

To date, the project has been financed with own funds of B8 sp. z o.o. Baltic S.K.A. (subsidiary of LOTOS Petrobaltic S.A.), a shareholder contribution, shareholder loans provided by LOTOS Petrobaltic S.A., and issue of bonds subscribed for by Bank Gospodarstwa Krajowego (BGK) and the Polish Development Fund (PFR).

Further financing of the project is assumed to be based on new bond issues, to be taken up by BGK (some of the proceeds to be used for redemption of bonds held by PFR), own funds of B8 sp. z o.o. Baltic S.K.A., and loans from LOTOS Petrobaltic S.A.

Currently, Grupa LOTOS S.A. holds the required corporate approvals (resolutions of the Management Board and the Supervisory Board) to grant a PLN 132m loan to LOTOS Petrobaltic S.A.