

JUSTIFICATION

of the draft resolutions of the Annual General Meeting of Grupa LOTOS S.A. of June 14th, 2017

In connection with the Annual General Meeting of Grupa LOTOS S.A. convened for June 14th, 2017, the Management Board of Grupa LOTOS S.A. presents below the justification of the draft resolutions of the Annual General Meeting.

Re: Item 12 of the agenda.

Allocation of the Company's net profit for 2016.

The Management Board of Grupa LOTOS S.A. (the "Company") recommends that the net profit of PLN 1,160,834,375.58 disclosed in the separate financial statements for 2016 be allocated as follows:

- PLN 184,873,362.00 be paid as a dividend to shareholders, of PLN 1 per share; the proposed dividend record date is September 12th 2017 and the proposed dividend payment date is September 29th 2017,
- PLN 975,961,013.58 be used to cover a portion of the net loss for 2014.

Sound financial condition of the LOTOS Group

A primary objective to be achieved in the initial period (2017–2018) of Grupa LOTOS S.A.'s Strategy, announced in late 2016, is to secure a stable financial position for the LOTOS Group companies in order to enhance their capacity to pay dividends, among other things.

Analysis of the Company's and its Group's financial statements clearly indicates that their financial performance has steadily improved over the last three years.

The Group's consolidated net profit, which provides the basis for calculating dividends distributed to shareholders, grew rapidly in 2014, 2015 and 2016, to reach PLN -1,466m, PLN -263m, and PLN 1,015m, respectively.

Consolidated LIFO-based EBITDA, used as a measure of the ability to generate cash flows, stood at PLN 1,391m, PLN 2,156m and PLN 2,589m in 2014, 2015 and 2016, respectively.

In those three years, the Group's financial liquidity ratios also improved: quick ratio (current assets net of inventories to current liabilities) rose from 0.62x in 2014 to 0.69x in 2016.

Over the last three years, the Group's bank debt has been consistently reduced, and its current level is safe. Net debt to LIFO-based EBITDA in 2014, 2015 and 2016 fell to 3.8x, 2.6x and 1.8x, respectively.

In conclusion, the LOTOS Group's consolidated financial results for 2016 were the best on record, and the Group's financial performance in Q1 2017 only confirms this strong trend. In the opinion of the Company's Management Board, this means the Company has regained a limited ability to pay dividends.

Funding for key expansion projects secured

Funding has been secured for the Group's three major CAPEX projects currently under way: (i) the EFRA Programme, (ii) the construction of a hydrogen recovery unit, and (iii) the launch of full crude oil production from the B8 field in the Baltic Sea. The Company's Management

Board expects that no cash generated from the Group's day-to-day operations will need to be used to complete those projects.

Recommended dividend per share

The Company is consistent with its commitment to building shareholder trust. In order to finance its key CAPEX projects, the Company has twice – in 2005 and 2014 – raised funds from its shareholders through new share issues on the Warsaw Stock Exchange.

Having considered investors' expectations and the Company's financial capacity, the Management Board has resolved to recommend to the General Meeting a dividend payment in order to ensure the realisation of the shareholders' right to share in the Company's profits in the long term and to enhance their long-term trust in the Company and its investment projects.

The resumption of dividend payments after ten years (the last dividend was paid in July 2007) would confirm the Company's business maturity and provide an undisputed proof of its stable financial position.

Having regard to the Company's requirements relating to:

- **execution of its key CAPEX projects covered by the Strategy,**
- **need to meet its financial obligations towards banks financing the Group's expansion**
- **accumulated losses brought forward,**

we recommend that the dividend to be paid from profit for 2016 be PLN 1 per share, or approximately PLN 185m in total.

The Company has surplus cash which may be distributed to shareholders as a dividend, and the proposed dividend amount will not adversely affect the Company's ability to implement the initiatives envisaged in the Strategy.

Re: Item 15 of the agenda.

Granting consent to acquire non-current assets through an increase in the share capital and subscription for new shares in LOTOS Upstream Sp. z o.o. of Gdańsk.

As part of the ongoing capital restructuring of the LOTOS Group's upstream segment, in its Resolution No. 53/IX/2017 of April 13th 2017 the Management Board of Grupa LOTOS S.A. decided – subject approval from the General Meeting – to increase the share capital of LOTOS Upstream Sp. z o.o., of which Grupa LOTOS S.A. is the sole shareholder. The share capital will be increased through a series of successive increases, by a maximum total amount of PLN 632,517,000 (six hundred and thirty-two million, five hundred and seventeen thousand zloty, 00/100), through an issue of not more than 6,325,170 (six million, three hundred and twenty-five thousand, one hundred and seventy) new shares in LOTOS Upstream Sp. z o.o., with a par value of PLN 100 (one hundred zloty, 00/100) per share, to be paid up in cash; the Articles of Association of LOTOS Upstream Sp. z o.o. will be amended accordingly.

To increase the share capital of LOTOS Upstream sp. z o.o., the Management Board of Grupa LOTOS is required to obtain approval from the General Meeting pursuant to Par. 9.12 and Par. 9.13 of the Company's Articles of Association, which stipulate that such approval is required in the case of any:

- 1) acquisition of non-current assets within the meaning of the Accountancy Act of September 29th 1994, where the value of such assets exceeds:
 - a) PLN 100,000,000, or

- b) 5% of total assets within the meaning of the Accountancy Act of September 29th 1994, as determined based on the most recent approved financial statements;
- 2) acquisition of or subscription for shares in another company where the value of such shares exceeds:
 - a) PLN 100,000,000, or
 - b) 10% of total assets within the meaning of the Accountancy Act of September 29th 1994, as determined based on the most recent approved financial statements (10% of total assets equals PLN 1.45bn).

In its Resolution No. 185/IX/2017 of April 20th 2017, the Supervisory Board of Grupa LOTOS S.A. gave its approving opinion of the proposal by the Management Board of Grupa LOTOS S.A. to increase the share capital of LOTOS Upstream Sp. z o.o.

In view of the foregoing, the Management Board of Grupa LOTOS S.A. requests that the General Meeting of Grupa LOTOS S.A. approve the action described herein.

Re: Item 16 i 17 of the agenda.

*Determination of the number of members of the Supervisory Board of the tenth term of office.
Appointment of the Supervisory Board of the tenth term of office.*

Due to the end of the 9th term of office of the Supervisory Board of Grupa LOTOS S.A., it shall be necessary to appoint the Supervisory Board for the next joint 10th term of office.

In consideration of the above, pursuant to Articles 385.1 and 385.2 of the Commercial Companies Code and Sections 9.4 and 11.2 of the Company's Articles of Association, the General Meeting appoints Members of Grupa LOTOS S.A. Supervisory Board. Notwithstanding the foregoing, as long as the State Treasury remains a shareholder of the Company, it shall be entitled to appoint and dismiss one member of the Supervisory Board.

Additionally, in accordance with Section 11.1 of the Company's Articles of Association and Section 9.1. of the Rules of Procedure for General Meetings, while appointing the Supervisory Board, the General Meeting of Grupa LOTOS S.A. shall also specify the number of the Supervisory Board Members which may range from five to nine.