

Questions asked during the Annual General Meeting of Grupa LOTOS S.A.
on June 14th 2017

Questions asked by Mr Bogdan Kamola, a retail shareholder

What were the reasons for Grupa LOTOS S.A.'s lower than expected net profit for Q4 2016, which amounted to PLN 303m versus the PLN 331m market consensus?

What factors drove the net finance cost to PLN -236m in Q4 2016? Did hedging transactions have any bearing on this result?

What is the outcome of the case concerning the Company's VAT settlements for 2010–2011, which were subject to two inspections by tax inspection authorities, in view of the fact that in Q2 2016 the Company appealed to the Supreme Administrative Court in Warsaw for a cassation review?

Given that the impact of the macroeconomic environment and microeconomic competitive pressure on the Company's financial performance is discussed at length by the Management Board in the annual financial report, has the Management Board been able to pinpoint the reasons for Grupa LOTOS S.A.'s 2016 net profit coming in weaker than PKN Orlen's financial performance for the same period? Grupa LOTOS S.A. posted PLN 1.160bn in net profit, against PKN Orlen's PLN 5.364bn.

In 2016, the Company's spending on entertainment and advertising was PLN 67m. By how much was that spending lower relative to 2015?

Answers to the shareholder's questions given by Mariusz Machajewski, Vice President of the Management Board of Grupa LOTOS S.A.

In Q4 2016, the Company posted its third best net profit since the beginning of 2014, though slightly lower than in Q3 2016, seasonally the strongest quarter for the industry. The Management Board does not comment on equity analysts' forecasts or expectations. Owing to the volatile nature of relevant external factors, net finance income/cost can fluctuate considerably from quarter to quarter.

Its decline in Q4 2016 was attributable to depreciation of the Polish zloty, which resulted in Grupa LOTOS S.A. incurring higher costs on revaluation of its foreign-currency credit facilities. The valuation of foreign-exchange hedging transactions was also a negative contributor. In this respect, I would like to draw your attention to the fact that the effect of hedging transactions in a specific reporting period depends on a range of factors and reflects the Company's effective risk management policy. As regards the VAT settlement proceedings, the case is pending before the Supreme Administrative Court.

The Company does not comment on the performance of its competitors. In 2016, the Company achieved its best ever consolidated and separate net profit. Although the Company's spending on entertainment and advertising has slightly fallen in recent years, its levels remain relatively stable and no major changes are planned.

Questions asked by Mr Bogdan Kamola, a retail shareholder

Why do the consolidated financial statements of Grupa LOTOS S.A. for 2016 not contain a sensitivity analysis with regard to risk related to higher costs and shorter period of decommissioning and restoration of oil and gas production sites in Poland, Norway and Lithuania in the light of very high provisions of more than PLN 1.2bn set up for that purpose?

Answers to the shareholder's questions given by Mariusz Machajewski, Vice President of the Management Board of Grupa LOTOS S.A.

The financial statements disclose all the required information on the provisions recognised for offshore operations decommissioning and site restoration in accordance with the financial reporting standards. No additional sensitivity analyses need to be prepared. In fact, no one reading the financial statements should find it too complicated to make such an analysis for

themselves, since the Company has reported the currently most probable estimates of costs it should incur on such decommissioning and restoration work.

Questions asked by Mr Bogdan Kamola, a retail shareholder

How will the commissioning of the EFRA project in 2018 affect the yield structure estimated in the averaged scenario of the Grupa LOTOS S.A. refinery's typical annual operation, which is used to calculate model refining margin?

Answers to the shareholder's questions given by Mateusz Aleksander Bonca, Vice President of the Management Board of Grupa LOTOS S.A.

The EFRA project is intended to eliminate heavy fractions from the refinery's yield structure as products with negative margins relative to crude oil prices. They will be replaced by approximately 900,000 tonnes of high-margin products, which should, according to our estimates, add USD 2/barrel to the effective refining margin. Once the EFRA programme is completed, both the efficiency and flexibility of the refinery will increase, but the specific portfolio of products will depend on the external market environment from 2018 onwards.

Questions asked by Mr Bogdan Kamola, a retail shareholder

Could you provide a breakdown of capital expenditure incurred by Grupa LOTOS S.A. to implement its 2011–2015 business strategy?

What capital expenditure did Grupa LOTOS S.A. incur on key upstream projects until the end of 2016?

When will the B8 project reach its full production capacity of 250,000 tonnes per year?

How much progress has been made on the HESTOR project in terms of expenditure and stage of completion?

What is the proportion of the Company's own funds in the 2017–2022 CAPEX budget given the PLN 9.4bn of internal financing allocated for the related projects?

Stage 1 of the 2017–2022 strategy is focused on stabilising cash flows, reducing debt, and carrying on the planned CAPEX projects. What cash flows does the strategy refer to?

What will the Company's dividend capacity be in relation to profit generated over the years of the 2017–2022 strategy?

Answers to the shareholder's questions given by Mateusz Aleksander Bonca, Vice President of the Management Board of Grupa LOTOS S.A.

For a few years now, Grupa LOTOS S.A. has been implementing a large capital investment programme. In 2016, with the new Management Board installed, the Company developed a new strategy, incorporating the EFRA project as its integral part until the end of 2018. When completed, the project will generate significant additional cash flows, which will help reduce debt. In addition, the Company is still working to enhance its portfolio of upstream projects. We believe that in late 2018 we will be able to define a portfolio of business expansion projects offering optimum rates of return, and prepare an efficient financing structure for the projects to enable the Company to grow dynamically and generate satisfactory returns for its shareholders.

Considerable progress has been made on the HESTOR project. From the Company's perspective, the hydrogen research has yielded very promising results. Since HESTOR is a research project, there is no immediate follow-up implementation of its results. The research into hydrogen storage methods is extremely complex.

One of the key objectives of our 2017–2022 strategy is to maintain the Company's ability to pay dividends.

Answers to the shareholder's questions given by Mariusz Machajewski, Vice President of the Management Board of Grupa LOTOS S.A.

All data on the 2011–2015 capital expenditure is disclosed in the financial statements.

The proportion of the Company's own funds allocated to implement the strategy has not been expressly defined. Some of the capital expenditure allocated to projects that are under way has already been incurred. In the coming years, the Company will be taking a number of decisions to commence new business expansion projects at the LOTOS Group. Until such decisions are taken, it is not possible to define the proportion of the Company's own funds allocated for this purpose. It will depend on the level of internally generated funds, debt service, and many other factors.