

Gdańsk, May 30th 2019

**ANNUAL GENERAL MEETING OF GRUPA
LOTOS S.A.**

In connection with the Annual General Meeting of Grupa LOTOS S.A. convened for June 28th 2019, the Management Board of the Company presents its motion and grounds for the draft resolution of the Annual General Meeting concerning distribution of the Company's net profit for 2018.

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Jarosław Wittstock
Vice President of the
Management Board

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Robert Sobków
Vice President of the
Management Board

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Patryk Demski
Vice President of the
Management Board

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Jarosław Kawula
Vice President of the
Management Board

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Mateusz A. Bonca
President of the
Management Board

Grounds for the motion concerning distribution of profit for 2018 and dividend payment

Following approval by the Management Board of Grupa LOTOS S.A. of the separate financial statements for 2018, showing in the statement of comprehensive income a net profit of PLN 1,333,880,991.36, and in connection with the upcoming Annual General Meeting of Grupa LOTOS S.A., the Management Board of Grupa LOTOS S.A. has passed a resolution concerning distribution of profit for 2018, which requests that the General Meeting:

- distributes PLN 554,620,086.00 as dividend for shareholders, at PLN 3 per share. The proposed dividend record date is September 12th 2019 and the proposed dividend payment date is September 27th 2019;
- transfers the remaining amount, being the difference between the net profit and the proposed amount of the dividend, i.e. PLN 779,260,905.36, to statutory reserve funds.

Pursuant to Art. 382.3 of the Commercial Companies Code and Art. 13.2.5 of the Company's Articles of Association, the Management Board requests that the Supervisory Board provides assessment of the proposed distribution of the Company's net profit for 2018.

Pursuant to Art. 395.2.2 of the Commercial Companies Code and Art. 9.3 of the Company's Articles of Association, the Management Board requests that the General Meeting of Grupa LOTOS S.A. distributes the 2018 profit as proposed in Section 1 of this Resolution.

The following arguments support the payment of the proposed dividend from the 2018 profit:

1. In 2018, the Company and its group achieved one of the best financial results in their history.

Key financial results of the LOTOS Group (PLNm)

| | 2018 | 2017 | 2016 | 2018-2017 | 2018/2017 |
|--------------------|-----------|-----------|-----------|-----------|-----------|
| Revenue | 30,121.7 | 24,185.6 | 20,931.1 | 5,936.1 | 24.5% |
| Cost of sales | -25,592.7 | -20,194.1 | -17,215.7 | -5,398.6 | 26.7% |
| Gross profit | 4,529.0 | 3,991.5 | 3,715.4 | 537.5 | 13.5% |
| Distribution costs | -1,355.6 | -1,252.3 | -1,291.1 | -103.3 | 8.2% |

Net profit/(loss) of the LOTOS Group (PLNm)

| | 2018 | 2017 | 2016 | 2018-2017 | 2018/2017 |
|---|----------------|----------------|----------------|--------------|--------------|
| Operating profit | 2,981.3 | 2,228.5 | 1,854.7 | 752.8 | 33.8% |
| Finance income | 41.1 | 450.0 | 26.6 | -408.9 | -90.9% |
| Finance costs | -303.1 | -234.0 | -304.8 | -69.1 | 29.5% |
| Share in net profit/(loss) of equity-accounted joint ventures | 3.3 | 3.2 | 2.9 | 0.1 | 3.1% |
| Profit before tax | 2,722.6 | 2,447.7 | 1,579.4 | 274.9 | 11.2% |
| Income tax | -1,135.2 | -775.9 | -564.2 | -359.3 | 46.3% |
| Net profit | 1,587.4 | 1,671.8 | 1,015.2 | -84.4 | -5.0% |

2. The debt ratio decreased once again and its level is considered to be completely safe, and the proposed dividend amount will not adversely affect this perception of the Company's debt level, as shown in the table below.

Net debt to EBITDA

| Key ratios, consolidated basis | 2017 | 2018 |
|---|-------|-------|
| Net Debt/LIFO-based EBITDA (including finance leases) | 1,15* | 0,95* |

*Estimated value for the amount of finance lease liabilities calculated for 2018.

- The Company has secured financing for its key investment projects, has sufficient liquidity, and the payment of the proposed dividend will be possible within the limits set by covenants of the facility agreements. The recommended amount of the dividend has been provided for in the Company's budget for 2019; the dividend, if approved, will be paid from the Company's own funds earmarked for this purpose, and will not require use of any additional credit facilities.

The Company is also taking steps to refinance the 10+ Programme, which will further increase its liquidity.

- If the dividend is approved at PLN 3 per share, its share in the separate net profit of Grupa Lotos S.A. will 41% and in the net profit of Grupa Lotos S.A. – 35%. Moreover, at the price of Company price as of May 22nd 2019, i.e. approximately PLN 82, the payout ratio would be 3.7%, which is close to the 2018 average for companies listed on the Warsaw Stock Exchange (approximately 3.3 %).
- A positive assessment of the Management Board's recommendation to pay the dividend of PLN 3 per share would come as the best confirmation for stakeholders of the very sound financial standing of the Company.

FINANCE DIRECTOR

/-/

Przemysław Kryszicki

VICE PRESIDENT OF THE
MANAGEMENT BOARD
CHIEF FINANCIAL OFFICER

/-/

Robert Sobków

VICE PRESIDENT OF THE
MANAGEMENT BOARD
FOR CORPORATE AFFAIRS

/-/

Mirosław Wittstock

Gdańsk, May 30th 2019

**ANNUAL GENERAL MEETING OF
GRUPA LOTOS S.A.**

In connection with the Annual General Meeting of Grupa LOTOS S.A. convened for June 28th 2019, the Company's Management Board submits a motion, together with the grounds for the draft resolution of the Annual General Meeting to approve an increase in the share capital of LOTOS Upstream Sp. z o.o. by an aggregate amount not higher than PLN 363,000,000.00 (three hundred and sixty-three million złoty).

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Vice President of the
Management Board

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Mateusz A. Bonca
President of the
Management Board

Plan for partial deleveraging of Grupa LOTOS's upstream segment (Stage 2)

Gdańsk, May 29th 2019

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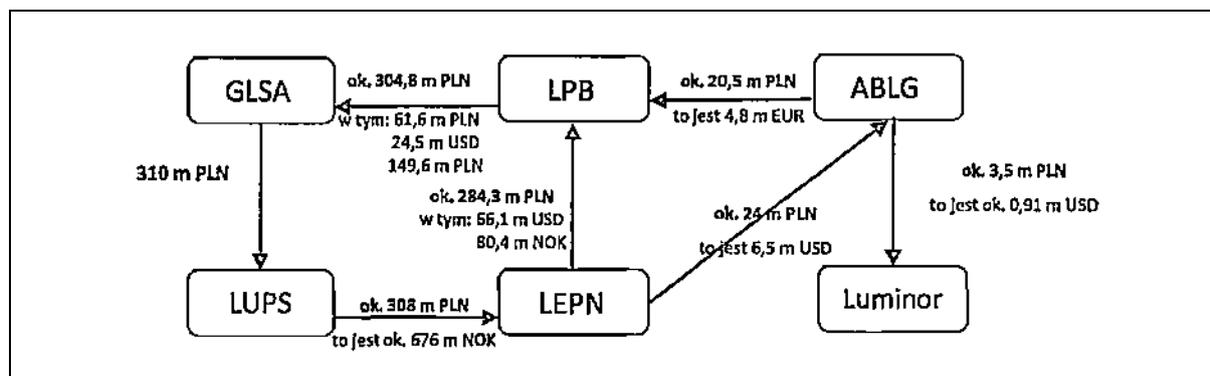
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I. Introduction

Grupa LOTOS S.A. is a vertically integrated oil company involved in oil exploration, production and processing, as well as in sale and distribution of a wide range of petroleum products. The Company has been listed on the Warsaw Stock Exchange since 2005. Its major shareholder is the Polish State Treasury.

As part of the reorganisation of the upstream area in 2017, a holding company LOTOS Upstream sp. z o.o. was established (as a wholly-owned subsidiary of Grupa LOTOS S.A.) within the LOTOS Group, the holding comprising LOTOS E&P Norge AS, AB LOTOS Geonafta (with its own group) and the Baltic Gas project company. In the process, the share capital of LOTOS E&P Norge AS was increased, and LOTOS E&P Norge AS and LOTOS Petrobaltic S.A. were partly deleveraged.

In the second half of 2018, based on the approvals granted by the Supervisory Board (Resolutions No. 85/X/2018 of May 29th 2018 and No. 140/X/2018 of September 28th 2018) and the General Meeting (Resolution No. 22 of July 12th 2018), the Management Board of Grupa LOTOS S.A. partially deleverage the Group's upstream segment ("Project"). The implemented structure of the Project is presented below:



The key objectives of the Project, as defined in the proposal submitted to the General Meeting of Grupa LOTOS S.A., were to:

- Simplify the existing intra-group financial obligations between LOTOS Group companies;
- Eliminate unnecessary cash outlays at LOTOS E&P Norge AS resulting from thin capitalisation;

As a result of the Project, the thin capitalization constraints will be minimised at some of the LOTOS Group companies; 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. the share of its equity in total equity and liabilities is extremely low, the company is not able to recognise the entire interest expense on the loans provided by LOTOS Petrobaltic S.A. as tax deductible expenses. As a result, the LOTOS Group as a whole incurs unnecessary cash expenses in the form of income tax on costs which cannot be recognised as tax deductible.

- Reduce tax exposures and settlements that could arise in connection with intercompany financial liabilities between the LOTOS Group companies.

As a result of the recapitalisation, LOTOS E&P Norge AS will pay to LOTOS Petrobaltic S.A. interest on the loans with a total amount of ca. PLN 274m. As interest is part of tax settlements, the absence of equity links significantly reduces the tax exposure of entities

domiciled under separate tax regimes (one of the companies involved is registered outside of Poland).

As a result of the measures implemented in the third and fourth quarters of 2018, the Group completed the full scope of the work planned, and within the Project budget specified in the request, i.e.:

- ✓ the share capital of LOTOS Upstream Sp. z o.o. was increased to PLN 886m, i.e. by PLN 310m;
- ✓ the share capital of LOTOS E&P Norge was increased to NOK 3,686.8m, i.e. by approximately NOK 676m;
- ✓ LOTOS E&P Norge repaid USD 66.1m and NOK 80.4m of debt to LOTOS Petrobaltic;
- ✓ LOTOS E&P Norge repaid USD 6.5m of debt to LOTOS Geonafta;
- ✓ LOTOS Geonafta repaid all outstanding loans to LOTOS Petrobaltic with a total amount of EUR 4.8m;
- ✓ LOTOS Geonafta repaid a portion of its loan facility to Luminor Bank (formerly Nordea) of USD 911.1 thousand;
- ✓ LOTOS Petrobaltic repaid all outstanding loans to Grupa LOTOS, of USD 24.5m and PLN 61.6m.

All original objectives of the Project were achieved, i.e.:

- a) Simplification of the existing financial liabilities between the Group companies – all outstanding loans between LOTOS Geonafta and LOTOS Petrobaltic were repaid (repayment of the entire EUR 4.8m debt) and between LOTOS Petrobaltic and Grupa LOTOS (repayment of all loans of USD 24.5m and PLN 61.6m); also repaid were parts of the loans outstanding between LOTOS E&P Norge and LOTOS Petrobaltic, and between LOTOS E&P Norge and LOTOS Geonafta. Thus some of the financial links between the companies within the LOTOS Group were eliminated, and that was the first stage of the process of streamlining the Group's financing structure.
- b) Improving the structure of balance sheets of the individual companies – mitigated risk of thin capitalisation.

The companies which participated in the Project improved the structure of their respective balance sheets, chiefly through reduction of debt and, in some cases, by increasing their capital.

LOTOS E&P Norge – at the end of 2017, the company's equity accounted for approximately 2% of total equity and liabilities; as part of the Project, the company's share capital was increased by approximately NOK 676m, with the funds fully applied towards partial repayment of the debt owed to LOTOS Petrobaltic and LOTOS Geonafta. The measures taken, combined with the profit earned in 2018, helped the company increase the share of equity in total equity and liabilities to ca. 19%. With the equity restored, the company was able to reduce the constraints imposed by thin capitalisation and to rebuild its ability to raise bank financing for development projects.

LOTOS Petrobaltic – some of the loans granted to LOTOS E&P Norge were repaid (USD 66.1m and NOK 80.4m), as were all loans advanced to LOTOS Geonafta (EUR 4.8m). As a result, the company received funds equivalent to approximately PLN 304.8m, which were fully applied to repayment of the entire debt under borrowings from Grupa LOTOS (ca. PLN 155m) and some of the debt under the cash pool limit (nearly PLN 150m). In total, LOTOS Petrobaltic's debt was reduced by over PLN 300m.

LOTOS Geonafta – the company received ca. PLN 24m from LOTOS E&P Norge as repayment of the advanced loans. The funds were applied to repayment of the entire debt

towards LOTOS Petrobaltic (equivalent of ca. PLN 20.5m). The balance, of ca. PLN 3.5m, was applied to repay part of the debt under the credit facility provided by Luminor Bank.

- d) Reduction of tax exposures and settlements that could arise in connection with intercompany financial liabilities between the LOTOS Group companies.

With the increased share of equity in the total equity and liabilities, the efficiency of LOTOS E&P Norge's tax settlements improved and the company was again able to recognise borrowing costs as tax deductible. Having received interest accrued on the loans granted in previous years, LOTOS Petrobaltic recognised the income in the income tax calculation and reported it in tax returns in 2019.

Another effect of the Project, which was not presented in the original assumptions, was LOTOS E&P Norge's restored ability to raise external financing for its development projects. The structure of liabilities in the company's balance sheet materially improved following completion of the Project. As a result of the share capital increase and partial repayment of debt, the share of equity in total equity and liabilities increased significantly to ca. 19%. These changes contributed to the company's ability to raise bank financing. With the support of the Grupa LOTOS Finance Division, LOTOS E&P Norge entered into negotiations with a syndicate of five banks (BNP Paribas, PKO BP, Pekao S.A., BGK and SEB) to secure credit financing. As a result of the negotiations, in March 2019 the company executed a reserve based loan ("RBL") agreement with the banks, whereby it obtained a USD 220m multi-currency credit limit. As part of the facility, a guarantee sub-facility of USD 145m was originated, under which guarantees will be issued to secure payment of future decommissioning liabilities. The obtained funding allowed the company not only to stabilise its liquidity position but, primarily, to secure funding for the company's capital projects in its current portfolio of assets (including financing for the completion of development of the Utgard and Yme fields).

II. Assumptions for Stage 2 of the Project

Considering the effects of the Project implemented in the second half of 2018 and the deleveraging of the upstream segment, the Grupa LOTOS Management Board plans to carry out a similar project to ensure that the financing structure of the upstream segment is fully reorganised and streamlined.

Following the launch of the RBL facility, LOTOS E&P Norge presented bank guarantees to secure future decommissioning liabilities, which enabled the company to unlock the cash deposited in the Sleipner escrow account. As a result, LOTOS E&P Norge repaid further debt under the intra-group loans provided by LOTOS Petrobaltic and LOTOS Geonafta, for a total amount equivalent to approximately PLN 247.6m. Following the repayments, LOTOS E&P Norge's outstanding debt under other intra-group loans is ca. PLN 325.2m* (including PLN 234.8m borrowed from LOTOS Petrobaltic and PLN 90.4m from Grupa LOTOS), compared with PLN 755.4m* disclosed in the financial statements as at the end of 2017.

The other liabilities under intra-group loans are presented in the table below:

| | Currency | Debt | Contractual repayment date |
|-------------------|----------|---------|----------------------------|
| LOTOS Petrobaltic | NOK | 474,538 | Mar 31 2026 |
| LOTOS Petrobaltic | USD | 6,184 | Mar 31 2026 |
| Grupa LOTOS | NOK | 203,298 | Dec 31 2026 |

*All amounts in foreign currencies were translated into the zloty at the mid-rates quoted by the National Bank of Poland for April 4th 2019: USD 1 = PLN 3.8215; 1 NOK = PLN 0.4449.

The presented amounts are principal only. Interest on the loans accrued as at March 31st 2019 was equivalent to approximately PLN 1.18m. The interest is expected to be paid by LOTOS E&P Norge on a semi-annual basis.

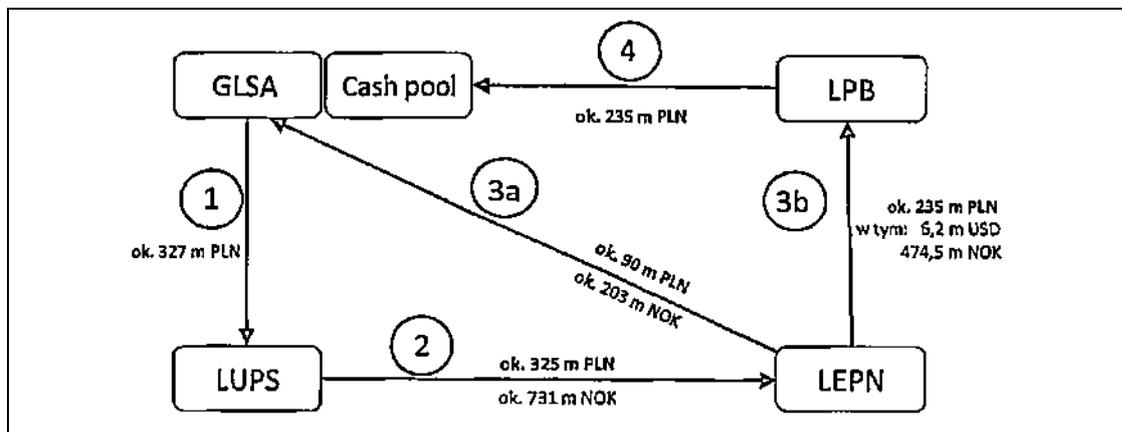
LOTOS Petrobaltic holds receivables under loans from LOTOS E&P Norge equivalent to approximately PLN 234.8m. The company uses cash pool financing with a permitted debt limit of up to PLN 230.4m. As previously agreed, Grupa LOTOS is to provide financial support to the company to finance its own contribution to the B8 Project for a total amount of up to PLN 132m. LOTOS Petrobaltic has “used” PLN 80m from this pool of funds.

Grupa LOTOS has receivables under a loan from LOTOS E&P Norge of PLN 90.4m (i.e. NOK 203,298 thousand at the exchange rate as at the loan disbursement date). The loan was applied to partial repayment of debt towards LOTOS Petrobaltic.

The purpose of Stage 2 is to provide LOTOS Upstream sp. z o.o. with funds to further deleverage the upstream business (including, in particular, to recapitalise LOTOS E&P Norge and repay all loans to LOTOS Petrobaltic S.A.), and to create a capital base for growth of the LOTOS Group’s upstream business. The repayment of interest and loans significantly reduces the CIT tax exposure and simplifies the tax settlements of both companies. Moreover, as a result of the proposed deleveraging, almost the entire amount of internal debt between the LOTOS Petrobaltic Group companies and other LOTOS Group entities would be repaid. The only loans remaining would be those within the LOTOS Petrobaltic Group and a loan advanced by Grupa LOTOS S.A. to Energobaltic Sp. z o.o. to secure a deposit required for the fuel production licence. Further, the thin capitalisation restrictions will be minimised at some of the companies thus enabling them to recognise the entire amount of borrowing costs as tax deductible.

III. Description of the process

It is assumed that the measures taken as part of Stage 2 will follow the successful model employed in the second half of 2018. Presented below are the steps planned to be taken as part of Stage 2 of deleveraging of the LOTOS Group’s upstream segment:



A detailed description of individual processes is presented below:

1. Grupa LOTOS S.A. increases the share capital of LOTOS Upstream by approximately PLN 327m (in accordance with Art. 9.13 of the Articles of Association, subscription for shares with a value exceeding PLN 100m requires approval by the General Meeting of Grupa LOTOS). So far, as part of the restructuring projects in the Upstream segment, LOTOS Upstream was recapitalised with PLN 886m.

The amount and timing of the recapitalisation will depend on consents of the lending institutions. LOTOS E&P Norge must obtain, from the five banks providing the RBL

financing, consents for early repayment of the loans, which are subordinated to the bank financing (as per the list).

The amount of the capital increase at LOTOS Upstream includes a reserve of approximately PLN 2m, to be used by the company to finance costs of the capital increase (tax on transactions under civil law and notary fees, ca. PLN 1.65m in total) and PLN/NOK currency conversion costs (ca. PLN 90 thousand).

2. After the PLN-to-NOK currency conversion, LOTOS Upstream applies the entire amount of the funds raised (less the necessary transaction costs) to increase the share capital of LOTOS E&P Norge (the FX transaction will be executed through Grupa LOTOS).

It is assumed that, in order to ensure maximum flexibility of the recapitalisation process, the General Meeting of LOTOS E&P Norge would issue to LOTOS Upstream 800m subscription warrants for a total amount of NOK 800m (ca. PLN 355.9m at the mid rate quoted by the National Bank of Poland for April 4th). The warrants would be acquired free of charge. Each warrant would carry the right to subscribe for one Series B new issue share at the issue price of NOK 1 per share. Subsequently, LOTOS Upstream, as the holder of warrants, would subscribe for and pay cash for such a number of new shares as will correspond to the amount of LEPN's debt under loans expressed in NOK. In accordance with the Norwegian law, any funds raised through the capital increase must be paid to the company's bank account in Norway, and the fact that funds have been credited to the account must be confirmed by the company's auditor. A certificate signed by the auditor is a necessary document when registering the capital increase in the business register.

- 3a. Once LOTOS E&P Norge AS has received the funds and completed the necessary formalities (confirmation by the auditor), it will be able to initiate the intra-group debt repayment procedure. First, the company applies a portion of the funds raised to repay the entire debt under the loan advanced by Grupa LOTOS, of ca. NOK 203m (equivalent of PLN 90.4m).
- 3b. LOTOS E&P Norge AS intends to use the balance to repay debt outstanding under the loans advanced by LOTOS Petrobaltic, totalling ca. PLN 235m, including USD 6.2m and NOK 474.5m. The NOK loans will be repaid with funds raised as part of the capital increase, while repayment of the USD loan will require a prior conversion of the recapitalisation proceeds. Alternatively, the company may also repay the loan with its current operating cash inflows denominated in the US dollars, and use the NOK-equivalent of the amount to pay its current operating expenses. This would further reduce the Project's transaction costs. LOTOS E&P Norge receives some of its revenue in USD, which is subsequently converted into NOK and used to pay current expenses (taxes, operating costs, etc.). By using the USD-denominated operating cash inflows, the company would avoid conversion transactions and thus reduce transaction costs.
4. Funds received by LOTOS Petrobaltic are used to repay the company's debt under the cash pooling arrangement. Under the loan agreements, repayments to LOTOS Petrobaltic would be denominated in NOK and USD. It is expected that the entire amounts would be converted into PLN (the foreign exchange transactions would be effected through the Grupa LOTOS Finance Management Office). Following the conversion, all proceeds to LOTOS Petrobaltic would be used to repay its cash pool debt in full.

IV. Expected effects

LOTOS Upstream Sp. z o.o.:

- ✓ as a result of the Project, the company's share capital would be increased by more than PLN 325m.

LOTOS E&P Norge AS:

- ✓ *increase in equity by ca. NOK 730m, which would significantly reduce the financial constraints connected with thin capitalisation;*
- ✓ *repayment of all intra-group loans;*
- ✓ *as a result of the two factors described above, the structure of equity and liabilities in the company's balance sheet would improve. Assuming that only the capital increase is effected and that the entire amount of the proceeds is applied to repay the intra-group loans, it is expected that the share of equity in the total equity and liabilities would increase from ca. 19% at the end of 2018 to more than 30% upon completion of the Project (the fourth quarter of 2019);*
- ✓ *increased ability to secure external financing for growth projects (field development, acquisitions).*

LOTOS Petrobaltic S.A.:

- ✓ *repayment of debt towards the LOTOS Group; LOTOS Petrobaltic's debt would be further reduced by approximately PLN 235m, resulting in a material improvement in the company's balance-sheet position;*
- ✓ *discontinuation of long-term funding within the limits available in the cash pool;*
- ✓ *securing funds to supplement the company's own contribution to finance the equity required for the completion of the B8 Project;*

Once completed, the planned partial deleveraging will enable further financial streamlining of the Group's upstream segment and will create the basis for further growth of the upstream business.

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, involving an amendment to the articles of association, is subject to tax on civil law transactions. 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 share capital increase.

The process is subject to confirmation that the above transactions are feasible at the companies which are parties to binding agreements for external financing and if there is a risk of subordination of the funds, the Companies will obtain relevant bank approvals.

Finance Director
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Przemysław Krysiński

VICE PRESIDENT OF THE
MANAGEMENT BOARD
CHIEF FINANCIAL OFFICER
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Robert Sobków

VICE PRESIDENT OF THE
MANAGEMENT BOARD
FOR INVESTMENT AND
INNOVATION
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Patryk Demski

**ANNUAL GENERAL MEETING OF
GRUPA LOTOS S.A.**

In connection with the Annual General Meeting of Grupa LOTOS S.A. convened for June 28th 2019, the Management Board submits a motion, together with the grounds and a draft resolution of the Annual General Meeting, to approve the subscription for up to 400,000 (four hundred thousand) shares in LOTOS Upstream Sp. z o.o., with a par value of PLN 100 (one hundred złoty) per share, to be paid up in cash by way of a single increase or a series of successive increases in the share capital of LOTOS Upstream Sp. z o.o. of Gdańsk (National Court Register No. KRS 0000660548), by a total amount of no more than PLN 40,000,000.00 (forty million złoty).

The Company's Management Board submits this motion in view of the fact that the Company also requests the General Meeting – in a separate motion – for consent to subscription and payment for shares in the increased share capital of LOTOS Upstream sp. z o.o. – partial reduction of debt of Grupa LOTOS S.A.'s upstream area by PLN 363,000,000.00 (three hundred and sixty-three million złoty). Therefore, the total value of the shares to be subscribed for exceeds the threshold referred to in Art.9.13 of the Articles of Association of Grupa LOTOS S.A.

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President of the
Management Board



Gdańsk, May 30th 2019

ANNUAL GENERAL MEETING OF GRUPA LOTOS S.A.

The Management Board of Grupa LOTOS S.A. recommends that the General Meeting of Grupa LOTOS S.A. grants its consent for the planned acquisition of shares in LOTOS Upstream Sp. z o.o. to be paid up in cash by way of a single increase or a series of successive increases in the share capital, by a total amount of no more than PLN 40m.

The purpose of the recommended share capital increase is to finance the current phase of preparation for the final investment decision (Final Investment Decision, FID) by the end of the fourth quarter 2019 for the B4/B6 gas development project in the Baltic Sea.

The purposes of the proposed consent are:

- repayment of intra-group loans previously granted by Grupa LOTOS S.A. to LOTOS Upstream sp. z o.o.:
 - of PLN 8,849,000 in 2018, to cover project costs incurred in 2018;
 - of PLN 9,550,000 in 2019, to cover project costs incurred in the first half 2019;
 - with interest accrued on the loans (PLN 175,000) and costs of the capital increase at LOTOS Upstream Sp. z o.o. (tax on civil law transactions).
- providing LOTOS Upstream sp. z o.o. with funds to cover previously declared increased contributions to the Baltic Gas project company of PLN 20m.

Considering the above, the total amount of the recapitalisation will amount to up to PLN 40,000,000. The breakdown of costs as per the 2019 budget is presented in the table below.

| Company | Intended use | Estimated costs |
|---|--|-----------------|
| Baltic Gaz Sp. z o.o. z o.o. | Operating expenses | PLN 50,000 |
| Baltic Gaz Sp. z o.o. i wspólnicy sp. K | <ul style="list-style-type: none"> • Operating expenses • Notarised transmission easement agreements • Fees for the lease of land for onshore gas purification and separation facility • Update of B4 and B6 production licences • Securing debt financing for implementation phase • Conclusion of connection agreement with OGP Gaz System • Documentation and fees for location decision for raw gas pipeline • Documentation and obtaining Environmental Decision for onshore facility | PLN 9,500,000 |
| | <ul style="list-style-type: none"> • Detailed engineering design | PLN 20,000,000 |
| | <ul style="list-style-type: none"> • Revalidation of cost estimates and execution schedule • Contract negotiations (long lead items) • Reservation of production slots • Specialist marine ground engineering surveys • Ground engineering surveys for Energobaltic-Władysławowo gas pipeline | |

| | | |
|--------|----------------------|----------------|
| | • Project management | |
| Total: | | PLN 29,550,000 |

The total amount of the share capital of LOTOS Upstream Sp. z o.o. following the capital increase will be PLN 926,000,000.

1. Project description and grounds

LOTOS Upstream sp. z o.o. (a company in which Grupa LOTOS S.A. holds 100% of shares; "LUPS"), through Baltic Gas sp. z o.o. i Wspólnicy sp.k. ("Baltic Gas") and jointly with CalEnergy Resources, its equity and trade partner in the project, is implementing the B4/B6 gas field development project in the Baltic Sea (Baltic Gas Project).

Description of the Baltic Gas Project

- The Baltic Gas project involves development of the B4 and B6 natural gas fields in the Baltic Sea – B6 is located 85 km northwest of Władysławowo, and B4 – a further 30 km north of B6 (see Map 1). The deposits were discovered in the 1980s, but it was not until the global industry gathered the necessary experience and sufficient technological progress was made that it was possible to consider economically viable production from the fields. The project is being implemented by a special purpose vehicle Baltic Gas LLP. LOTOS Upstream holds a 51% interest in the project, with CalEnergy holding 49%.
- The B4/B6 Project is a strategic project of Grupa LOTOS S.A., provided for in the GLSA Group Strategy for 2017-2022 as one of the four key upstream projects. The project had been a part of Grupa LOTOS' development plans before, and was one of the two main development objectives declared during Grupa LOTOS' share issue in 2014 (the other one being the EFRA programme).
- The estimated recoverable reserves of the B4/B6 deposits are 4.8 bcm (billion cubic metres), which represents 9.5% of the industrial reserves of gas in Poland.¹ Under the current project schedule, launch of production is expected in the fourth quarter of 2022, with the target output of ca. 0.4-0.5 bcm annually from 2023 (average 0.43 bcm). The total value of the project is ca. USD 492m, including ca. USD 430m to be incurred in the period from the start of field development to the production launch. The project is economically attractive. According to current assumptions, production from B4/B6 will be profitable until 2038 (over 15 years). It will bring a number of social and economic benefits for businesses and the labour market. Based on today's forecasts, the project is expected to generate about USD 325m in tax revenues in 2023-2038 (ca. PLN 1.2bn).²
- Launch of production from those deposits may have additional strategic importance for Poland in the context of the expiry of long-term contracts for the supply of natural gas to Poland (the Yamal Contract). Therefore, the B4/B6 Project is one of the initiatives implemented as part of Grupa LOTOS's growth strategy aimed at expanding the national natural gas resources, thus ensuring security of supplies of strategic energy resources. In 2017, natural gas production in Poland was 5.009 bcm.³ Assuming production from Polish fields is maintained at 5 bcm in subsequent years, the launch of gas production from the B4/B6 fields will increase domestic gas production by approximately 9%.
- Grupa LOTOS S.A. is the only planned customer for gas from the B4/B6 gas fields. At present, the Gdańsk refinery uses approximately 0.95 bcm of natural gas per year, which means that the B4/B6 fields will satisfy 40-45% of the refinery's demand for gas. The mixture of hydrocarbons (raw gas) will be transported onshore via underwater pipelines

¹ See *Bilans zasobów złóż kopalin w Polsce wg stanu na 31 XII 2017 r.*, Państwowa Służba Geologiczna, Warszawa 2018, p. 13.

²In nominal terms, at USD 1 = PLN 3.7.

³ See *Bilans zasobów złóż kopalin w Polsce wg stanu na 31 XII 2017 r.*, p. 14.

and processed into commercial products: natural gas, LPG and condensate, to be subsequently delivered to end users (the development concept is presented in the figure below).

- An important element of the project is a stable high level of production in the first eight years of its life. It is a long plateau ensuring sound economics of the project.

Cooperation with CAL Energy

- Cal Energy is an international company with American origins (a subsidiary of one of the largest corporations in the world, Berkshire Hathaway Energy Company, based in Des Moines, Iowa, USA).
- The group of operating companies led by CalEnergy has extensive experience in managing exploration and production projects, as well as experience in transporting, processing and selling natural gas. CalEnergy participated, as an operator or licence co-owner, in oil and gas exploration and production projects in Australia, Poland and the United Kingdom.⁴
- As part of the joint implementation of the Baltic Gas project, CalEnergy is responsible for the preparation of the B4/B6 gas development plan and uses for this purpose specialists from its Perth office as well as engineering subcontractors with a proven track record.
- One of the main benefits of the cooperation is the transfer of experience and technologies acquired by CalEnergy on other markets, and the possibility to exchange the experience with LUPS employees. Thus far, CalEnergy's performance as project manager confirms the advantages of joint project execution with a reputable and experienced external partner. Thanks to the cooperation, knowledge is exchanged with the entity operating on the most developed hydrocarbon production markets (Australia, Great Britain), which mitigates the design and operational risks.

Another important factor is the **reduction of exposure to financial risks, and thus reduction of the financial burden on Grupa LOTOS, which has made execution of the project possible (for years, the project was deemed unprofitable).**

The B4/B6 project structure is based on a **model of partnership between two or more licensed and risk-sharing companies, widely used in the global exploration and production industry**; the terms of cooperation are based on the international standard of joint venture agreement used in the oil industry, which has been applied, inter alia, in Norway, the United Kingdom and the US.

Project status and implementation concept

The concept of the deposit development assumes designing, building and launching:

- unmanned production platforms on the B4 and B6 fields
- drilling of boreholes from a drilling platform
- submarine pipelines connecting the offshore platforms with an onshore facility
- an onshore gas separation and purification facility, also to be used to prepare commercial products for sale
- an onshore gas pipeline supplying high-methane gas to the nearest connection point in the national transmission network

⁴CalEnergy currently has three offices located in:

- London (United Kingdom) - including both the UK and Poland, as well as the central reporting division;
- Perth (Australia) - Australian business unit and subsurface team;
- Warsaw - representation office.

Map 1. Location of the B4/B6 deposits in the Baltic Sea.

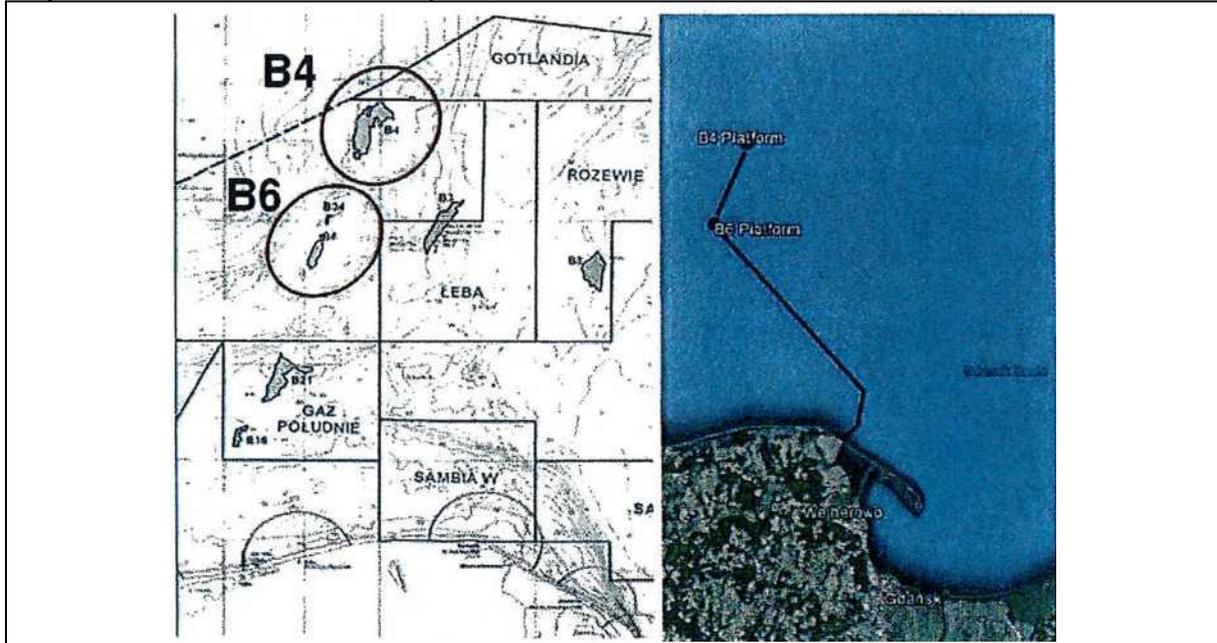
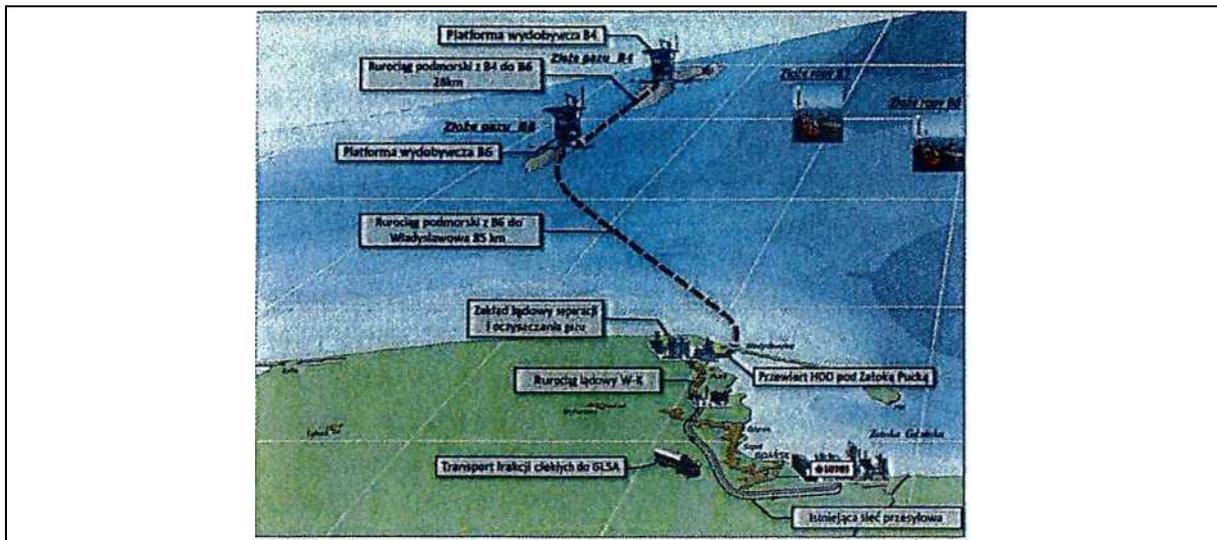


Figure 1. B4/B6 deposit development project in the Baltic Sea, location of the main elements



The following key stages of the project have already been **completed**:

- (i) selection of the development concept,
- (ii) 3D seismic surveys,
- (iii) front-end engineering & design,
- (iv) verification of geological and recoverable resources,
- (v) field development plan, preliminary project implementation plan.

Currently, the base-case scenario provides for the following milestones:

- Preparation of the project for implementation and for the final investment decision (FID) by the end of the fourth quarter 2019
- Engineering design, contracting, manufacturing of elements: Q1 2020 – Q2 2022
- Construction, assembly, launch: Q2 2021– 4Q 2022

The favourable results of economic analyses have strengthened the partners' determination to pursue the project, resulting in the work and budget programme proposed by the Operator (CalEnergy in the pre-production phase) for 2019, accepted by LOTOS once all required corporate approvals were obtained.

The 2019 budget reflects the project implementation strategy, i.e. to limit the risks while protecting the schedule, as well as freeze of prices of materials and services, whose growth is a result of improved economic situation on the offshore market.

The following activities are carried out in 2018-19 (the project preparation phase):

1. The technical design of the onshore facility, drilling, production platforms and offshore pipelines has been completed. CAPEX costs have been reduced by 20% compared with the originally estimates.
2. In preparation for the construction of the onshore facility, administrative, environmental and low-cost technical work has been carried out. **Changes have been secured in the local spatial development plans for the onshore facility (Władysławowo Municipality) and the land gas pipeline (Puck and Kosakowo Municipalities).** Terms of a long-term land lease contract for the onshore facility have been agreed with the Władysławowo municipal authorities, preliminary geotechnical and archaeological surveys have been carried out at relevant sites, arrangements have been made with utility suppliers, an environmental impact study has been prepared, and a procedure for obtaining an Environmental Decision for the onshore facility has been implemented.
3. Terms of supply and sale of gas, LPG and condensate extracted from the B41B6 have been agreed with GLSA. Draft trade agreements have been prepared.
4. Much of the work has been completed on the base design of the onshore gas pipeline, which will transport natural gas from the onshore plant to the customer. The route of the gas pipeline, which is approximately 30 km long, has been marked out, and documentation containing information on the owners and status of land plots through which the pipeline is to run has been prepared. Real estate valuation surveys have been prepared to estimate the amount of compensation and indemnities for the property owners. An environmental survey and an environmental impact assessment report have been prepared. As a result, the Environmental Decision has been obtained for the onshore gas pipeline.
5. Baltic Gas has commenced work on the gas pipeline construction concept and its direct connection to the nationwide gas transmission grid. Completion of all these efforts, prior to the FID, will significantly contribute to the optimisation and shortening of the onshore gas pipeline construction process. This will also ensure that the ownership of the land on the gas pipeline route is precisely established. Lack of complete knowledge in this respect increases the risks to timely completion of the gas pipeline construction.
6. The conditions for connection of the onshore gas pipeline to the National Transmission Network have been obtained from the transmission grid operator, and a grid connection agreement has been concluded with the operator.
7. The last element required prior to the FID is the conclusion of notarised transmission easement agreements with about 260 landowners. To date, permissions have been obtained from 80% of them.
8. As more precise information on the geological structure of the B4 and B6 deposits is now available, the estimates of recoverable reserves have been revised upward, and a more precise date of the production launch is now known, it has become necessary to apply for an update to the B4 B6 production licence. Meaningful progress in the updating procedure is an important element of the FID decision. The necessary documentation has been prepared and applications for approval of the Geological and Investment Documentation have been submitted to the Ministry of the Environment. Funds for additional analyses and studies are provided for the 2019 project. To complete the updating process, it will be necessary to perform additional work and to incur additional costs.

The most important works that must be continued and are planned to be completed before the FID is made include:

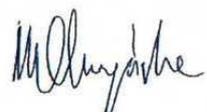
1. Preparation of analyses, reports, expert opinions and analytical studies necessary to secure favourable financing terms from banks. Conclusion of binding agreements with financial institutions to finance the implementation stage of the project;
2. Conclusion of notarised easement agreements with landowners for the onshore gas pipeline and payment of compensation;
3. Payment of land lease fees for the onshore facility in 2019 to enable further preparatory work to be carried out;
4. Completion of detailed engineering design and calculations for the key elements of the platforms, boreholes, gas pipelines and the onshore facility;
5. Conducting procedures to select suppliers of materials, and construction and assembly contractors; negotiating binding contracts that specify detailed schedules and budgets for work that can be started immediately after the FID is made;
6. Reservation of production slots and engineering resources for the production of pipes for the gas pipelines;
7. Preparation of ground engineering plans to allow for the continuation of further ground engineering work;
8. Verification of designs for construction and foundations of the onshore facility, taking into account the results of the conducted geotechnical surveys;
9. Performing specialist marine ground engineering surveys to identify possible erratic boulders under the surface of the seabed or other anomalies which would hinder and delay assembly of the platforms at the designated locations;
10. Performing ground engineering surveys for horizontal drilling (HDD) in the Puck Bay (for the section of the gas pipeline connecting Energobaltic with the onshore plant);
11. Execution of necessary studies and payment of appropriate fees for the issuance of the location decision for the raw gas pipeline connecting the sea pipeline to the onshore plant;
12. Completion of environmental procedures and obtaining valid environmental decisions for the onshore facility;
13. Update of the B4 and B6 production licences.

Execution of the work planned for 2019 will minimize the risk of not making the FID or making a wrong investment decision due to insufficiently accurate estimation of the parameters for the cost-intensive part of the project.

2. Recommendation

In view of the above, it is recommended that the Annual General Meeting of Grupa LOTOS S.A. approves the planned acquisition of up to 400,000 (four hundred thousand) shares in LOTOS Upstream Sp. z o.o. with a par value of PLN 100 (one hundred złoty) per share, to be paid up in cash by way of a single increase or a series of successive increases in the share capital, by a total amount of no more than PLN 40m.


Zastępca Dyrektora Planu
ds. Rozwikłania i Wydobycia


Dyrektor ds. Rozwikłania i Wydobycia

VICE PRESIDENT OF THE MANAGEMENT
BOARD
CHIEF FINANCIAL OFFICER

/-/

Robert Sobków

VICE PRESIDENT OF THE MANAGEMENT
BOARD
for INVESTMENT AND INNOVATION

/-/

Patryk Demski

Wice Prezes ds. Inwestycji i Innowacji

GLSA