

Questions submitted by Bogdan Kamola, a shareholder, at the Annual General Meeting of Grupa LOTOS S.A. on June 28th 2019

1. The LOTOS Group's consolidated financial statements for 2018 reveal a negative trend, with net profit down by 9.02% year on year.

What were the main reasons for net profit falling year on year between 2017 and 2018?

2. Please provide the amounts of capital expenditure incurred by the LOTOS Group by December 31st 2018

on key business development projects, including:

- B8 project,
- B4/B6 project,
- Utgard project,
- Yme project,
- NOAM project,
- EFRA project,
- Hydrogen Recovery Unit project,
- project to sustainably develop the LOTOS-brand service station network in the economy and premium segments.

3. Was the increase in expenses on marketing services by approximately 24% (from PLN 70.2m in 2017 to PLN 86.9m in 2018) coordinated with sales targets and changes in Grupa LOTOS S.A.'s share in the domestic market of retail fuel sales?

4. What will be the sources of financing PKN Orlen S.A.'s intended acquisition of control over Grupa LOTOS S.A. by way of purchasing, directly or indirectly, at least 53.19% of Grupa LOTOS shares from the State Treasury?

5. Will the consolidation of the two companies involve acquisition by PKN Orlen S.A. of 53.19% of the Grupa LOTOS shares held by the State Treasury, followed by a tender offer for Grupa LOTOS shares with a view to increasing PKN Orlen S.A.'s equity interest to 66%?

6. Please list the potential and actual risks related to acquisition of:

- a) PKN ORLEN S.A. by Grupa LOTOS S.A.
- b) Grupa LOTOS S.A. by PKN ORLEN S.A.

7. What is the progress in the due diligence of Grupa LOTOS S.A. by PKN Orlen S.A. in the areas listed below and when is the process expected to be completed:

- legal matters,
- financial matters,
- financial charges,
- human capital management,
- technical matters,
- organisational structures,
- information flow,
- psychological and ethical aspects,
- legal status of the real property.

8. What is the amount of costs incurred by Grupa LOTOS S.A. on the remedial development plan related to the B8 field, resulting from design errors and alterations to the original concept of the platform conversion and field development?

9. By how much was the Upstream segment's debt reduced as at December 31st 2018?
10. What will be the economic performance of the *Polimery Police* Project, as part of which Grupa LOTOS S.A. is to acquire Grupa Azoty shares worth PLN 500m and invest in the project?
11. Please provide the date by which the in-house Legal Office will have taken over the business currently handled by external law firms.
- a) What are the expected economic benefits of expanding the internal legal function?
12. What was the effectiveness of hedge accounting in offsetting fair value or cash flow changes arising from the hedged risks in 2018?

Company's answers

Re. 1.

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

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

The year-on-year decline in net profit, despite the improvement in operating profit, was mainly attributable to net finance costs of PLN 262m in 2018, compared with net finance income of PLN 216m the year before (see commentary on page 79 of the Directors' Report on the Operations of Grupa LOTOS S.A. and the LOTOS Group in 2018). Additionally, the increase in income tax from PLN 775.9m to PLN 1,135.2m, i.e. by 46.3%, due mainly to reversal of impairment losses on the YME project (see Note 9.3 on page 35 and commentary on page 52 of the consolidated financial statements for 2018, as well as commentary on page 76 of the Directors' Report on the operations of Grupa LOTOS S.A. and the LOTOS Group in 2018), took 5% year on year off the LOTOS Group's net profit in 2018.

Re. 2.

The LOTOS Group's capital expenditure in 2018 by key projects (PLNm)

(see Directors' Report on the operations of Grupa LOTOS S.A. and the LOTOS Group in 2018, p. 93)

Downstream segment	2018
EFRA	290.4
Expansion of service station network	63.5
Hydrogen Recovery Unit (HRU)	11.5
Other	77.8
Total	443.2
Upstream segment	2018
B-8 field	132.8
Sleipner, Norway	127.4
Heimdal, Norway	14.7
YME, Norway	212.9
Other	73.0
Total	560.8

Investment in the B4/B6 field – Note 14 to the consolidated financial statements for 2018:

In 2018, CalEnergy Resources Poland Sp. z o.o. and LOTOS Upstream Sp. z o.o made the agreed cash contributions to Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp. k. of PLN 8.1m and PLN 7.6m, respectively, which changed the Group's ownership interest in the company. The expenditure on the cash contributions made by LOTOS Upstream Sp. z o.o was disclosed by the Group in the consolidated statement of cash flows under Cash contributions – equity-accounted joint ventures.

As at December 31st 2018, LOTOS Upstream Sp. z o.o.'s outstanding liabilities under the contributions made to Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp. k. amounted to PLN 1.7m.

Re. 3.

In 2018 our revenue grew 24.5% with our existing share in the retail market maintained. We also recorded:

1. Increase in the unprompted LOTOS brand awareness by 5pp;
2. Increase in the 'first choice service station' indicator by 2pp;
3. NPS ratio 21pp above the market average;
4. Media return on sponsorship of PLN 427m.

Re. 4.

No information is available to Grupa LOTOS S.A. on PKN Orlen S.A.'s financing sources or any aspects of the latter's activities and plans to take over control of Grupa LOTOS S.A.

Re. 5.

Same as above

Re. 6.

Same as above

Re. 7.

Same as above

Re. 8.

Grupa LOTOS S.A. is not engaged in the B8 project or any related remedial development plans, as the project is being implemented by the subsidiary LOTOS Petrobaltic S.A. and its own dedicated subsidiaries.

Re. 9.

In the second half of 2018, based on approvals granted by the Supervisory Board (in Resolutions No. 85/X/2018 of May 29th 2018 and No. 140/X/2018 of September 28th 2018) and by the General Meeting (in Resolution No. 22 of July 12th 2018), the Management Board of Grupa LOTOS S.A. carried out a project to partially deleverage the Group's upstream segment ("Project").

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.

LOTOS Petrobaltic currently holds receivables under loans from LOTOS E&P Norge equivalent to approximately PLN 235m. The company uses cash pool financing with a permitted debt limit of up to PLN 196m.

Grupa LOTOS has receivables under a loan from LOTOS E&P Norge equivalent to approximately PLN 90m. The loan was applied to partially repay debt towards LOTOS Petrobaltic.

Re. 10.

At present, no information on the economic viability of the *Polimery Police* Project is available to Grupa LOTOS S.A. Grupa LOTOS S.A. is now investigating into the project in connection with the letter of intent signed on April 26th 2019 (see Current Report No. 9/2019 of April 26th 2019).

Re. 11.

The Company relies on the services of external law firms whenever it needs an opinion on foreign law or experts in a specific area of law. The in-house Legal Office provides day-to-day legal support of the Company's operations. All court proceedings instituted before the Legal Office was established are being and will be handled until their final conclusion by the originally appointed attorneys.

The establishment of our own Legal Office has increased control over legal costs and improved the process of their planning.

The Company is not currently conducting any additional analyses of the expected economic benefits of the extension of its in-house legal function.

Re. 12.

Grupa LOTOS does not apply fair value hedge accounting. For information on the measurement of hedges for the purposes of cash flow hedge accounting, see Note 20 to the consolidated financial statements for 2018.

20. Cash flow hedging reserve

Cash flow hedging reserve comprises changes in the valuation of foreign-currency bank borrowings used as cash flow hedges for USD-denominated sales, less the effect of deferred income tax.

Changes in the fair value of derivative financial instruments designated as cash flow hedges are charged to the cash flow hedging reserve to the extent they represent an effective hedge, while the ineffective portion is charged to finance income or costs in the reporting period.

	Note	2018	2017
At beginning of period		(225,2)	(812,8)
Valuation of cash flow hedging instruments:	26.2	(77,8)	725.4
- effective portion		(78.7)	724.7
- ineffective portion		0.9	0.7
Income tax on valuation of cash flow hedging instruments	10.1	14.8	(137.8)
At end of period		(288.2)	(225.2)