

RESOLUTION NO. 155/XI/2021
OF THE SUPERVISORY BOARD OF GRUPA LOTOS S.A.
of May 27th 2021

concerning: adoption of the Supervisory Board's report on the results of assessment of the financial statements of Grupa LOTOS S.A. for 2020, the consolidated financial statements of the LOTOS Group for 2020, the Directors' Report on the operations of Grupa LOTOS S.A. and the LOTOS Group in 2020, and the Management Board's proposal concerning coverage of net loss for 2020

Acting pursuant to Art. 382.3 of the Commercial Companies Code and Art. 13.2.5 of the Articles of Association, in accordance with Art. 388.1(1) of the Commercial Companies Code, the Supervisory Board of Grupa LOTOS S.A. resolves as follows:

Section 1

1. Considering the positive recommendation of the Audit Committee and having read the documents listed in items a) to d) below, the Supervisory Board adopts the report on the results of assessment of:
 - a) the financial statements of Grupa LOTOS S.A. for 2020,
 - b) the consolidated financial statements of the LOTOS Group for 2020,
 - c) the Directors' Report on the operations of Grupa LOTOS S.A. and the LOTOS Group in 2020,
 - d) the Management Board's proposal concerning coverage of net loss for 2020.
2. The report referred to in Section 1.1 is attached as an appendix hereto.

Section 2

The Supervisory Board resolves to submit the report to the Annual General Meeting of Grupa LOTOS S.A.

Section 3

This Resolution shall become effective upon its adoption.

- | | | |
|----------------------------------|-------------|----------------------------------|
| 1. Votes in favour: | _____6_____ | Members of the Supervisory Board |
| 2. Votes against the resolution: | _____0_____ | Members of the Supervisory Board |
| 3. Abstaining votes: | _____0_____ | Members of the Supervisory Board |

The resolution has been passed by open ballot.

Supervisory Board

1. Beata Kozłowska-Chyła
2. Piotr Ciach
3. Katarzyna Lewandowska
4. Dariusz Figura
5. Adam Lewandowski
6. Grzegorz Rybicki

Report of the Grupa LOTOS Supervisory Board on the results of assessment of the financial statements of Grupa LOTOS and the consolidated financial statements of the LOTOS Group for 2020, and the Directors' Report on the operations of Grupa LOTOS S.A and the LOTOS Group in 2020, as well as of the Management Board's proposal concerning coverage of loss for 2020, along with recommendation

Acting pursuant to Art. 2.1.5 of the Rules of Procedure for the Supervisory Board of Grupa LOTOS S.A. and Art. 13.2.5 of the Articles of Association, the Supervisory Board of Grupa LOTOS S.A. gives a positive assessment of the consolidated financial statements of the LOTOS Group for the year ended December 31st 2020, the separate financial statements of Grupa LOTOS S.A. for the year ended December 31st 2020, and the Directors' Report on the operations of Grupa LOTOS S.A. and the LOTOS Group in 2020.

The assessment is based on:

- contents of the financial statements and reports referred to above, submitted and discussed by the Management Board of Grupa LOTOS S.A.,
- auditor's reports on the separate and consolidated financial statements and the audit firm's additional report for the Audit Committee of the Supervisory Board of Grupa LOTOS S.A.,
- meetings with representatives of the audit firm Deloitte Audyt Spółka z ograniczoną odpowiedzialnością Sp. k., appointed by the Supervisory Board to audit the financial statements of the Company and the Group, including with the lead auditor.

In its assessment, the Supervisory Board took into consideration the following:

In 2020, the LOTOS Group's operating profit before depreciation and amortisation and adjusted for one-off items (adjusted LIFO-based EBITDA) came in at PLN 1,356.6m, compared with PLN 2,861.1m in 2019 (down by 52.6%). The Group's net profit was negative at PLN -1,146.2m, compared with a net profit of PLN 1,152.9m reported for 2019.

Key drivers of the LOTOS Group's performance:

- Revenue was PLN 20,908.6m, down by PLN 8,584.7m (-29.1%) compared with 2019, due mainly to falling prices of crude oil and petroleum products on global markets and lower sales volumes. Average net revenue per tonne of the volume sold in 2020 was PLN 1,770, down by PLN 665 (-27.3%) relative to 2019. The total sales volume of petroleum products, merchandise and materials decreased by 2.5% on 2019. The largest decline was recorded for heavy products (bitumens and heavy fuel oil).
- Gross profit was reported at PLN 1,466.9m (down by PLN 2,377.3m on 2019), driven by volatile crude oil prices and low petroleum product crack spreads. As the Group applies

the weighted average cost method to measure inventories, the impact of price changes on cost of sales is deferred in time. Therefore, Grupa LOTOS presents its earnings net of inventory valuation (i.e. as LIFO-based EBIT and LIFO-based EBITDA), which more accurately approximates the Refining & Marketing segment's actual profitability.

- Selling expenses decreased by 0.9%, mainly on lower export volumes.
- A 6.2% increase was recorded in administrative expenses, attributable mainly to higher employee benefits, which were driven, among others, by an increase in workforce.
- Significant net other expenses of PLN -929.8m were attributable mainly to impairment losses in the Exploration & Production segment.
- Net finance costs of PLN -254.1m were caused mainly by interest expense, fee and commission expense and impairment losses on investment in the B4/B6 project (gas development project in the Baltic Sea).

As a result of application of cash flow hedge accounting with respect to foreign-currency loans contracted to finance the 10+ Programme, intended as hedges of future USD-denominated petroleum product sales transactions, in 2020 foreign exchange gains on cash flow hedges of PLN 221.2m were taken to reserve capital.

Table 1. Key items of the LOTOS Group's statement of profit or loss (PLNm)

	2020	2019	2020/2019	
			(PLNm)	(%)
Revenue	20908.6	29493.3	-8584.7	-29.1%
Cost of sales	-19,441.7	-25,649.1	6,207.4	-24.2%
Selling expenses	-1,412.9	-1,425.6	12.7	-0.9%
Administrative expenses	-521.0	-490.8	-30.2	6.2%
Net other income/(expenses)	-929.8	41.9	-971.7	-2,319.1%
Operating profit/(loss)	-1,396.8	1,969.7	-3,366.5	-170.9%
Net finance income/(costs)	-254.1	-281.7	27.6	-9.8%
Share in net profit/(loss) of equity-accounted joint ventures	-1.9	4.2	-6.1	-145.2%
Profit/(loss) before tax	-1,652.8	1,692.2	-3,345.0	-197.7%
Income tax	506.6	-539.3	1,045.9	-
Net profit/(loss), of which:	-1,146.2	1,152.9	-2,299.1	-199.4%
– attributable to owners of the parent	-1,146.2	1,152.9	-2,299.1	-199.4%

Source: the Company.

Revenue

In 2020, the LOTOS Group's revenue was PLN 20,908.6m (down 29.1% year on year). Sales of diesel oil accounted for the major share of revenue, having totalled PLN 11,814.0m (56.5% of the Group's total revenue). In 2020, they were up 27.3% year on year. Sales of gasolines, which were also an important contributor to revenue, amounted to PLN 3,032.7m (14.5% of total revenue) and fell by 30.2% year on year. In 2020, heavy products accounted for 5.8% of the LOTOS Group's revenue. Their value was PLN 1,209.0m (down by 54.2% compared with 2019).

In 2020, the share of domestic sales in the LOTOS Group's revenue went up. However, revenue from domestic sales dropped by 26.5% compared with the previous year, to PLN 17,735.6m (84.8% of total revenue).

Operating expenses

Operating expenses of the LOTOS Group in 2020 totalled PLN 21,375.6m, 22.5% less than in the previous year.

The main items of operating expenses were:

- raw materials and consumables used – down by 30.6%, or PLN 6,820.6m, year on year due mainly to lower volumes and value of crude oil processed;
- services – totalling PLN 1,433.1m (down by 2.4% on 2019). The drop resulted mainly from lower costs of transport services reflecting a decrease in export volumes;
- employee benefits expense – amounting to PLN 938.7m (up by 2.0%);
- depreciation and amortisation of PLN 1,089.9m, 19.9% more than in 2019. The increase was largely attributable to the EFRA Project units placed in service, mainly the Delayed Coking Unit (DCU) in the Refining & Marketing segment, as well as depreciation of the Norwegian upstream assets using the units-of-production method;
- taxes and charges of PLN 764.1m, having increased by 28.5% (PLN 169.5m) year on year. The increase included a PLN 75.1m provision for the National Reduction Target (NIT), a PLN 71.7m increase in the provision for a deficit of CO₂ emission allowances, and a PLN 62.6m increase in the provision for emission charge (NIT).

Net other income/(expenses)

In 2020, the LOTOS Group reported net other expenses of PLN -929.8m, compared with net other income of PLN +41.9m in 2019. It was mainly an outcome of non-recurring events:

- impairment loss on assets related to the YME field of PLN -460.6m (vs a PLN +105.4m impairment reversal in the previous year),
- impairment losses on assets related to the Utgard field of PLN -155.0m,
- impairment losses on the B3 field assets of PLN -118.3m;
- impairment losses on the B8 field assets of PLN -135.0m;
- impairment loss on assets associated with the Lithuanian fields of PLN -29.1m (PLN -8.9m in 2019),
- impairment losses on assets in the Młynary and Górowo Iłowieckie areas of PLN -15.8m,
- impairment losses on service stations in the amount of PLN -8.8m (vs PLN -21.3m in 2019),

- reversal of impairment losses on Heimdal assets in the Vale field of PLN +16.6m,
- provision for unfavourable court rulings at LOTOS Petrobaltic of PLN -32.1m,
-
- reversal and remeasurement of the provision for costs of decommissioning of oil and gas extraction facilities in the Heimdal area of PLN +13.8m,
- reversal and remeasurement of the provision for liabilities in respect of contingent payments related to the acquisition of Sleipner assets, in the amount of PLN +4.5m (2019: PLN +44.5m).

Table 2. LIFO-based EBITDA

	2020	2019	Change 2020/2019	
			(PLNm)	(%)
EBIT (1)	-1,396.8	1,969.7	-3,366.5	-170.9%
Depreciation and amortisation (2)	1089.9	909.3	180.6	19.9%
One-off items (3)	923.6	-159.1	1082.7	-
LIFO effect (4)	739.9	141.2	598.7	-
LIFO-based EBITDA * (1+2 +3 +4)	1,356.6	2,861.1	-1,504.5	-52.6%

*Adjusted for one-off items.

Source: the Company.

The LOTOS Group's adjusted LIFO-based EBITDA for 2020 was PLN 1,356.6m. The Company believes the year-on-year decline of PLN 1,504.5m (-52.6%) in this key metric of the Group's performance should be considered justified given the price decline in the Exploration & Production segment and deteriorated margins on the four key products of the Refining & Marketing segment (gasoline, diesel oil, aviation fuel, light fuel oil).

The adjusted LIFO-based EBITDA was calculated based on the results delivered by:

- the Refining & Marketing segment of PLN 905.3m – with fluctuations in the oil inventories and differences between the volumes purchased and processed during the second quarter of 2020, the result reflected the cost of crude oil processed based on the LIFO (First in First out) inventory method, being calculated at a higher unit cost than the currently prevailing price, as the effect of old (significantly more expensive) oil inventories. This effect reflects a shortcoming of the adopted inventory valuation model and does not affect the generated flows. This negative effect on the LIFO-based result for 2020 is estimated at approximately PLN 370m.
- the Exploration & Production segment – PLN 468.8m;
- consolidation adjustments of PLN -17.5m.

Net finance income/(costs)

Key factors behind the net finance costs in 2020, totalling PLN -254.1m (vs PLN -281.7m in the previous year):

- net balance of interest on debt, interest income, and commission fees of PLN -223.8m (2019: PLN -259.7m),
- impairment losses on investment in the B4/B6 project of PLN -114.5m,
- net foreign exchange gains of PLN +42.1m (2019: net foreign exchange losses of PLN -46.0m),
- net gain on measurement and settlement of market risk hedging derivative instruments of PLN +65.7m (2019: PLN +15.8m),
- impairment loss on financial instruments of PLN -9.4m related to a loan advanced to Grupa Azoty Polyolefins S.A.

The LOTOS Group's financial performance by business segment

Refining & Marketing

In 2020, the Refining & Marketing segment's revenue came in at PLN 20,319.5m, down by 29.5% compared with 2019. The decrease was mainly attributable to a 26.8% drop in the segment's average selling price, which fell to PLN 1,841 per tonne in 2020. The segment's sales volume fell by 3.7% year on year, to 11,040.1 thousand tonnes.

Sales of diesel oil accounted for the major share of revenue. They amounted to PLN 11,814.0m, down 27.3% year on year.

Another important contributor to the segment's revenue were sales of gasolines, which amounted to PLN 3,032.7m (down by 30.2% year on year).

The LOTOS Group's 2020 operating loss in the Refining & Marketing segment was PLN -615.1m.

In order to eliminate the effect of inventory measurement with the weighted average cost method on operating profit, and the deferred effect of changes in crude oil prices on the prices of finished products, the LIFO-based EBITDA is used in the refining sector as management standard. Additionally, for management purposes, operating profit/(loss) is adjusted to account for any non-recurring/one-off items (e.g. foreign exchange gains or losses on operating activities, impairment losses on assets).

In the Refining & Marketing segment, LIFO-based EBITDA adjusted for one-off items fell by 59.3% year on year, to PLN 905.3m. The fall mainly reflected lower crack spreads for key petroleum products.

Table 3. Financial results of the Refining & Marketing segment (PLNm)

	2020	2019	2020/2019	
			(PLNm)	(%)
Revenue	20,319.5	28826.2	-8506.7	-29.5%
EBIT	-615.1	1,474.7	-2,089.8	-141.7%
Depreciation and amortisation	767.9	673.1	94.8	14.1%

EBITDA	152.8	2,147.8	-1,995.0	-92.9%
LIFO effect	739.9	141.2	598.7	423.9%
One-off items	12.6	-65.2	77.8	-
Adjusted LIFO-based EBITDA	905.3	2,223.8	-1,318.5	-59.3%

Source: the Company.

Exploration & Production

In 2020, revenue in the Exploration & Production segment was PLN 1,111.5m, a decline of PLN 75.2m compared with 2019. The main reason was a drop in the Brent **dtd** prices (-34.7%) and natural gas prices (-27.6%) on global markets. The decrease in prices was significantly offset by an 18.0% increase in hydrocarbon sales volumes.

The major decline in hydrocarbon prices resulted in a PLN 160.7m decrease in adjusted EBITDA compared with 2019.

Table 4. Financial results of the Exploration & Production segment (PLNm)

	2020	2019	2020/2019	
			(PLNm)	(%)
Revenue	1,111.5	1186.7	-75.2	-6.3%
EBIT	-764.2	487.2	-1,251.4	-256.9%
Depreciation and amortisation	322.0	236.2	85.8	36.3%
EBITDA	-442.2	723.4	-1,165.6	-161.1%
One-off items	911.0	-93.9	1004.9	-
Adjusted EBITDA	468.8	629.5	-160.7	-25.5%

Source: the Company

The Supervisory Board has determined that the financial statements were prepared within the legally prescribed time limit, in accordance with International Financial Reporting Standards as endorsed by the European Union and the applied accounting policies.

The Directors' Report on the operations of Grupa LOTOS S.A. and the LOTOS Group in 2020 complies in all material respects with the requirements set out in Art. 49 and Art. 55.2a of the Accounting Act of September 29th 1994 (Dz.U. of 2019, item 351, as amended) and the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated March 29th 2018 (Dz.U. of 2018, item 757, as amended).

The key matters relating to the audit of the financial statements of Grupa LOTOS S.A. and significant companies of the LOTOS Group for the year ended December 31st 2020 were discussed with the auditors of Deloitte Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. on March 29th 2021.

In particular, the following matters were discussed:

- audit methodology,
- significant risks of material misstatement,

- key estimates and areas of professional judgement, including impairment of investments in subsidiaries, impairment of property, plant and equipment and intangible assets, estimate of site restoration provisions in the exploration and production segment,
- tax inspections carried out at Grupa LOTOS S.A. and the LOTOS Group companies,
- planned merger with PKN Orlen,
- eSEF reporting,
- key audit matters,
- impact of the COVID-19 pandemic on the financial statements
- confirmation of the audit firm's independence.

The Supervisory Board members received from the audit firm's and the Company's representatives supplementary information relating to the 2020 financial statements, including information on key events in 2020, assets and financial position of the Company and the Group as at the end of 2020, as well as their foreseen financial condition in 2021 and thereafter.

The Supervisory Board also reviewed the additional report of the audit firm for the Audit Committee and the auditor's reports on the full-year consolidated financial statements and the full-year separate financial statements for 2020, which contained the opinions of Deloitte Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. on the audit of those financial statements and in which the statutory auditor concluded that the consolidated financial statements:

- give a true and fair view of the Group's assets and financial position as at December 31st 2020 and of its financial result and cash flows in the financial year then ended, in accordance with International Financial Reporting Standards as endorsed by the European Union and the applied accounting policies;
- comply with the form and content requirements laid down in the laws and regulations applicable to the Group and in the Parent's Articles of Association;

and the separate financial statements:

- give a true and fair view of the Company's assets and financial position as at December 31st 2020 and of its financial result and cash flows in the financial year then ended, in accordance with International Financial Reporting Standards as endorsed by the European Union (the "IFRS") and the applied accounting policies;
- comply with the form and content requirements laid down in the laws and regulations applicable to the Company and its Articles of Association;
- were prepared on the basis of properly maintained accounting records, in accordance with Chapter 2 of the Accounting Act of September 29th 1994 (Dz.U. of 2019, item 351).

In addition, in the auditor's opinion, based on the work performed during the audit, the Directors' Report on the operations of Grupa LOTOS S.A. and the LOTOS Group in 2020:

- has been prepared in accordance with applicable laws,
- is consistent with the information contained in the consolidated financial statements and in the separate financial statements.

In addition, in the light the knowledge of the Group, the Company and their environment obtained during the audit, the auditor did not identify any material misstatements in the Directors' Report on the operations of Grupa LOTOS S.A. and the LOTOS Group in 2020.

Considering the above, the Supervisory Board is of the opinion that the consolidated financial statements of the LOTOS Group for the year ended December 31st 2020, the separate financial statements of Grupa LOTOS S.A. for the year ended December 31st 2020, and the Directors' Report on the operations of Grupa LOTOS S.A. and the LOTOS Group for the year 2020 are consistent with the accounting books, documents and facts.

With respect to the Management Board's proposal regarding coverage of the net loss for 2020, the Supervisory Board recommends complying with the Management Board's proposal that the net loss of PLN -881,331,986.81 (eight hundred and eighty-one million, three hundred and thirty-one thousand, nine hundred and eighty-six zloty, 81/100), disclosed in the separate financial statements for 2020, be fully covered with the Company's statutory reserve funds.

In view of the above, the Supervisory Board issues a positive opinion for the Annual General Meeting regarding the coverage of net loss for 2020 in accordance with the Management Board's proposal.

Supervisory Board

1. Beata Kozłowska-Chyła
2. Piotr Ciach
3. Katarzyna Lewandowska
4. Dariusz Figura
5. Adam Lewandowski
6. Grzegorz Rybicki

Gdańsk, May 27th 2021.