

## **Rationale for the proposed draft resolutions of the Extraordinary General Meeting of Grupa LOTOS S.A. convened for October 14th 2021**

The Management Board of Grupa LOTOS S.A. has convened an Extraordinary General Meeting ("EGM"), whose agenda, in addition to procedural and formal issues, includes

- Adoption of a resolution to give consent to the disposal of an organised part of Grupa LOTOS S.A. business to LOTOS Asphalt sp. z o.o. by way of non-cash contribution in exchange for all new shares in the increased share capital of LOTOS Asphalt Sp. z o.o.
- Adoption of a resolution to give consent to the acquisition by Grupa LOTOS S.A. of 19,999 shares in LOTOS Biopaliwa sp. z o.o., representing 99.95% of the share capital of LOTOS Biopaliwa Sp. z o.o.
- Adoption of a resolution to give consent to the disposal by Grupa LOTOS S.A. of 100% of shares in LOTOS Biopaliwa sp. z o.o.
- Adoption of a resolution to give consent to the disposal by Grupa LOTOS S.A. of 100% of shares in LOTOS Terminale S.A.
- Adoption of a resolution to give consent to the disposal by Grupa LOTOS S.A. of 100% of shares in LOTOS Paliwa sp. z o.o. and companies which will acquire part of assets of LOTOS Paliwa sp. z o.o. as a result of demerger of LOTOS Paliwa sp. z o.o.
- Adoption of a resolution to give consent to the disposal by Grupa LOTOS S.A. of 30% of shares in LOTOS Asphalt Sp. z o.o.
- Adoption of a resolution to give consent to the disposal by Grupa LOTOS S.A. of 100% of shares in the company which will acquire part of LOTOS Asphalt Sp. z o.o.'s assets as a result of demerger of LOTOS Asphalt Sp. z o.o.

These resolutions, if passed, will constitute consents required by law or the Articles of Association of Grupa LOTOS S.A. for the actions necessary to continue the process of merging PKN ORLEN S.A. ("PKN Orlen") with Grupa LOTOS S.A. ("GLSA"; "Grupa LOTOS"). These actions are to ensure compliance with the conditions imposed on PKN Orlen and Grupa LOTOS by the decision of the European Commission dated July 14th 2020 (the "Decision") concerning the approval of the acquisition of equity control by PKN Orlen over Grupa LOTOS (the "Concentration"). Further work on the integration of the Polish hydrocarbon sector will only be possible if the conditions set out in the Decision are complied with. However, it should be emphasized that the adoption of the resolutions would not constitute the final decision of the General Meeting to dispose of the specified assets as this will occur only if the Concentration takes effect.

The actions described in the resolutions fall into two groups:

- 1) internal restructuring measures;
- 2) divestment of the assets identified in the Decision of the European Commission Decision to third parties.

Re 1)

The first group includes the following resolutions:

- to give consent to the disposal of an organised part of Grupa LOTOS S.A. business to LOTOS Asphalt sp. z o.o. by way of non-cash contribution in exchange for all new shares in the increased share capital of LOTOS Asphalt Sp. z o.o. (“organised part of enterprise”, “OPE”)
- to give consent to the acquisition by Grupa LOTOS S.A. of 19,999 shares in LOTOS Biopaliwa sp. z o.o., representing 99.95% of the share capital of LOTOS Biopaliwa Sp. z o.o. covered by the first two resolutions.

The first of these resolutions is of particular importance, as the Management Board of Grupa LOTOS believes that the consolidation of GLSA’s refining assets would be beneficial and justified in business terms, regardless of the potential Concentration. At present, part of the refining installations is owned by Grupa LOTOS and part by LOTOS Asphalt Sp. z o.o. This is only due to the historical circumstances caused by the structure of financing the most recent section of the refinery, which is owned by LOTOS Asphalt Sp. z o.o. Based on a study prepared by a renowned consulting company, the integration of the entire refining complex into one company may generate estimated annual savings of at least PLN 10 million on a consolidated basis, in particular due to:

- eliminating artificial internal flows with the potential to improve operating costs (and margins) by eliminating fixed shift pricing,
- savings on administrative, legal and tax costs,
- eliminating overlapping processes and optimal use of available human resources, which is particularly important in the face of the growing imbalance on the labour market,
- increasing the efficiency of shared service centres, as well as unifying systems and standards of employee services at the LOTOS Group,
- improving trading/procurement terms through such measures as joint purchases of materials and repair services,
- unlocking of cash surplus available at LOTOS Asphalt by including the company in the cash pool arrangement and thus reducing finance costs.

The Management Board emphasises that the resolution will be implemented only if, as a result of legislative changes, the negative tax consequences in the form of non-recoverable excise duty will not exceed the amount that justifies the consolidation of the refining assets in LOTOS Asphalt sp. z o.o., that is the contribution of the organised part of Grupa LOTOS enterprise to LOTOS Asphalt sp. z o.o. will be implemented only if the non-recoverable excise duty cost associated with the transfer of assets is less than PLN 41,500,000.

The purchase of LOTOS Biopaliwa sp. z o.o. by LOTOS Group would result in LOTOS Biopaliwa becoming a direct subsidiary in which LOTOS Group would hold 100% of the shares. Such a solution would enable potential sale of LOTOS Biopaliwa Sp. z o.o by a single entity, thus facilitating the operational aspects of the transaction. In addition and irrespective of the above, the acquisition of LOTOS Biopaliwa sp z o.o. is a prerequisite for streamlining the ownership structure in the area of logistics, which would provide benefits by eliminating overlapping support and corporate governance processes. According to a study prepared by a renowned consulting company, this would generate, on a consolidated basis, annual savings estimated at around PLN 1 million.

The other proposed resolutions, if passed, will represent the EGM's consent to the divestment of assets required by the European Commission under the Decision. This consent will enable relevant agreements to be signed with investors, the conclusion of which will be subject to the fulfilment of certain conditions, i.e. acceptance by the European Commission of the parties to the agreements and the final substance of the agreements, securing formal antimonopoly clearances and, first and foremost, completion of the Concentration. Please note that the agreements referred to above will only be executed if the Shareholders express their consent to the Concentration at the next General Meeting.

Re 2)

The Management Board of Grupa LOTOS submits to the General Meeting draft resolutions to give consent to the disposal of the assets specified in the Decision of the European Commission. The Management Board would like to emphasise that the adoption of the resolutions is necessitated by the process of the merger with PKN Orlen in the context of negotiating detailed terms and conditions of potential divestment agreements.

Prices and other terms of the divestment agreements are subject of months-long negotiations with potential partners. This process is led by a multi-disciplined, competent team of experts, with the Management Board being supported in the process by reputable consultancies to assess the terms of potential transactions.

**Rationale for the resolution to give consent to the disposal by Grupa LOTOS S.A. of 100% of shares in the company which will acquire part of LOTOS Asphalt Sp. z o.o.'s assets as a result of demerger of LOTOS Asphalt Sp. z o.o.**

In accordance with the conditions imposed on Grupa LOTOS and PKN Orlen by the Decision of the European Commission of July 14th 2020 on conditional approval of the Concentration, it is necessary to divest the southern production assets spun off from LOTOS Asphalt sp. z o.o., used by the Group to produce bitumens; the assets are to be disposed of together with the bitumens sales function. The remedy is for the entity currently engaged in the business of manufacturing of and trading in bitumen products. At present, it is cost-effective to maintain the existing organisational structure, as it is optimal for the business. The resolution will be implemented if an agreement with an investor is concluded, the approvals specified in the EC Decision are obtained and the merger between PKN Orlen and LOTOS Group takes place. If adopted in its current wording, the resolution would not constitute a consent of the General Meeting to the merger between PKN Orlen and Grupa LOTOS.

**Rationale for the resolution to give consent to the disposal by Grupa LOTOS S.A. of 100% of shares in LOTOS Paliwa sp. z o.o. and companies which will acquire part of assets of LOTOS Paliwa sp. z o.o. as a result of demerger of LOTOS Paliwa sp. z o.o.**

In accordance with the conditions imposed on Grupa LOTOS and PKN Orlen by the Decision of the European Commission of July 14th 2020 on conditional approval of the Concentration, it is necessary to dispose of 100% of shares in LOTOS Paliwa Sp. z o.o. The Board is requesting this broad approval in order to maintain flexibility in how it implements the remedies required under the Commission's Decision. The assets of LOTOS Paliwa sp. z o.o. comprise petrol stations that must be disposed of, petrol stations whose disposal may be commercially justified and wholesale operations whose disposal is also required under the Decision. Different investors make differently structured bids for the assets that are subject to the remedies.

LOTOS Group is determined to split LOTOS Paliwa sp. z o.o. into a wholesale business and one or more businesses operating petrol stations in order to be able to negotiate with all entities interested in either the wholesale business only, the retail business only, or both. At present, it is cost-effective to maintain the existing organisational structure, as it is optimal for the business. Therefore, the resolution will be implemented if the required prerequisites are satisfied, including: an agreement (agreements) with an investor (or multiple investors) for the divestment of the respective businesses is (are) concluded, the approvals specified in the EC Decision are obtained and the merger between PKN Orlen and LOTOS Group takes place. If adopted in its current wording, the resolution would not constitute a consent of the General Meeting to the merger between PKN Orlen and Grupa LOTOS.

**Rationale for the resolution to give consent to the disposal by Grupa LOTOS S.A. of 100% of shares in LOTOS Biopaliwa sp. z o.o.**

In accordance with the conditions imposed on Grupa LOTOS and PKN Orlen by the Decision of the European Commission of July 14th 2020 on conditional approval of the Concentration, it is necessary to dispose of 100% of shares in LOTOS Biopaliwa Sp. z o.o.

In view of the above obligation, the Management Board has submitted to the General Meeting a prior resolution to obtain consent to the purchase of 19,999 shares in LOTOS Biopaliwa by Grupa LOTOS, the purchase to result in LOTOS Biopaliwa becoming a direct subsidiary in which LOTOS Group holds 100% of the shares. Such streamlining of the governance structure would enable potential sale of the company by a single entity, thus facilitating the operational aspects of the transaction.

If adopted in its current wording, the resolution would not constitute a consent of the General Meeting to the merger between PKN Orlen and Grupa LOTOS.

**Rationale for the resolution to give consent to the disposal by Grupa LOTOS S.A. of 100% of shares in LOTOS Terminale S.A.**

In accordance with the conditions imposed on Grupa LOTOS and PKN Orlen by the Decision of the European Commission of July 14th 2020 on conditional approval of the Concentration, it is necessary to dispose of 100% of shares in LOTOS Terminale S.A.

This disposal would enable the creation of an independent logistics operator based on the assets of LOTOS Terminale, assets of LOTOS Infrastruktura, assets of PKN Orlen and assets of RC Ekoenergia, as indicated in the Decision.

If adopted in its current wording, the resolution would not constitute a consent of the General Meeting to the merger between PKN Orlen and Grupa LOTOS.