

**RESOLUTION NO. 291/XI/2022**  
**OF THE SUPERVISORY BOARD OF GRUPA LOTOS S.A.**  
**of May 19<sup>th</sup> 2022**

**concerning: adoption of the Supervisory Board's report on the results of assessment of the financial statements of Grupa LOTOS S.A. for 2021, the consolidated financial statements of the LOTOS Group for 2021, the Directors' Report on the operations of Grupa LOTOS S.A. and the LOTOS Group in 2021, and the Management Board's proposal concerning allocation of net profit for 2021**

Acting pursuant to Art. 382.3 of the Commercial Companies Code and Art. 13.2.5 of the Articles of Association of the Company, 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 separate financial statements of Grupa LOTOS S.A. for 2021,
  - b. the consolidated financial statements of the LOTOS Group for 2021,
  - c. the Directors' Report on the operations of Grupa LOTOS S.A. and the LOTOS Group in 2021,
  - d. the Management Board's proposal concerning allocation of net profit for 2021.
2. The report referred to in Section 1.1 above is attached as an appendix hereto.

Section 2

The Supervisory Board resolves to submit the report referred to in Section 1.1 to the Annual General Meeting of Grupa LOTOS S.A.

Section 3

This Resolution shall become effective upon its adoption.

- |                                       |               |                                  |
|---------------------------------------|---------------|----------------------------------|
| 1. Votes in favour of the resolution: | _____ 6 _____ | Members of the Supervisory Board |
| 2. Votes against of 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. Katarzyna Maćkowska
6. Grzegorz Rybicki

7. Rafał Włodarski

## **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 2021, and the Directors' Report on the operations of Grupa LOTOS S.A and the LOTOS Group in 2021, as well as of the Management Board's proposal concerning allocation of profit for 2021, 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 2021, the separate financial statements of Grupa LOTOS S.A. for the year ended December 31st 2021, and the Directors' Report on the operations of Grupa LOTOS S.A. and the LOTOS Group in 2021.

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 2021, the LOTOS Group's operating profit before depreciation and amortisation and adjusted for one-off items (adjusted LIFO-based EBITDA) was PLN 4,229.1 million, compared with PLN 1,356.6 million in 2020 (an increase of 211.7%). The Group's net profit was PLN 3,211.8 million, compared with a net loss of PLN -1,146.2 million in 2020.

Key drivers of the LOTOS Group's performance:

- Revenue was PLN 33,123.6 million, having increased by PLN 12,215.0 million (58.4%) on 2020, mainly as a result of rising prices of crude oil and petroleum products on global markets. The average net revenue per tonne of the volume sold in 2021 was PLN 2,943, an increase of PLN 1,173 (66.3%) relative to 2020.
- Gross profit was reported at PLN 6,348.5 million (an increase of PLN 4,881.6 million on 2020), driven by rising crude oil prices and high 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 approximate the Refining & Marketing segment's actual profitability.
- Distribution costs increased by 3%, mainly as a result of the increase in the number of service stations in the LOTOS chain and higher volumes of fuels sold at the service stations;

- A 6.3% increase was recorded in administrative expenses, attributable mainly to higher employee benefits;
- Net other income of PLN 138.4 million was attributable mainly to reversal of impairment losses in the Exploration & Production segment;
- Net finance costs of PLN -26.0 million.

As a result of the 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 2021 foreign exchange losses on cash flow hedges of PLN -35.7 million were taken to reserve capital.

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

	2021	2020	2021/2020	
			(PLNm)	(%)
Revenue	33,123.6	20,908.6	12,215.0	58.4%
Cost of sales	-26,775.1	-19,441.7	-7,333.4	37.7%
Selling expenses	-1,455.3	-1,412.9	-42.4	3.0%
Administrative expenses	-553.7	-521.0	-32.7	6.3%
Net other income/(expenses)	138.4	-929.8	1,068.2	-
<b>Operating profit/(loss)</b>	<b>4,477.9</b>	<b>-1,396.8</b>	<b>5,874.7</b>	-
Net finance income/(costs)	-26.0	-254.1	228.1	-89.8%
Share in net profit/(loss) of equity-accounted joint ventures	4.6	-1.9	6.5	-
<b>Profit/(loss) before tax</b>	<b>4,456.5</b>	<b>-1,652.8</b>	<b>6,109.3</b>	-
Income tax	-1,244.7	506.6	-1,751.3	-345.7%
<b>Net profit/(loss), of which:</b>	<b>3,211.8</b>	<b>-1,146.2</b>	<b>4,358.0</b>	-
– attributable to owners of the parent	3,211.8	-1,146.2	4,358.0	-

Source: the Company.

## Revenue

In 2021, the LOTOS Group's revenue was PLN 33,123.6 million (an increase of 58.4% year on year). Sales of diesel oil accounted for the major share of revenue, and totalled PLN 18,890.6 million (57% of the Group's total revenue). In 2021, they increased 59.9% year on year. Sales of gasolines were also an important contributor to revenue, amounting to PLN 4,603.7 million (13.9% of total revenue), i.e. 51.8% more year on year. In 2021, heavy products accounted for 4.5% of the LOTOS Group's revenue, or PLN 1,504.7 million (an increase of 24.5% on 2020).

In 2021, the share of domestic sales in the LOTOS Group's revenue went up. Revenue from domestic sales was PLN 28,293.0 million (85.4% of total revenue), having increased by 59.5% year on year.

## Operating expenses

Operating expenses of the LOTOS Group in 2021 were PLN 28,784.1 million, or 34.7% more than in the previous year.

The main items of operating expenses were:

- Raw materials and consumables used – an increase of 54.9%, or PLN 8,490.3 million, year on year mainly due to the higher value of crude oil processed;
- Services – PLN 1,496.5 million (an increase of 4.4% on 2020). The increase was a result of, among other things, higher costs of financial services related to the increase in market prices and higher costs of service stations;
- Employee benefits expense – amounting to PLN 981.3 million (up by 4.5%);
- Depreciation and amortisation of PLN 1,049.0 million, 3.8% less than in 2020. This decrease was mainly attributable to the effect of the units-of-method estimates of production assets in Norway;
- Taxes and charges – of PLN 762.1 million, similar to the amount reported in 2020.

## Net other income/(expenses)

In 2021, the LOTOS Group reported net other income of PLN 138.4 million, compared with net other expenses of PLN -929.8 million the year before. It was mainly an outcome of non-recurring events:

- Impairment losses on assets related to the Utgard field of PLN -39.2 million,
- Reversal of impairment losses on Heimdal assets in the Vale field of PLN +35.1 million,
- Impairment losses on assets in the Kamień Pomorski and Górowo Iłowieckie areas of PLN -0.6 million,
- Reversal of impairment losses on the B3 field assets of PLN +116.2 million,
- Reversal of impairment losses on the B8 field assets of PLN +135.0 million,
- Reversal of impairment losses on the Lithuanian assets of PLN +6.6 million,
- Reversal of impairment loss on ships at the Miliana Group of PLN +1.5 million,
- Impairment losses on assets subject to the remedies of PLN -127.0 million,
- Impairment losses of PLN -3.6 million on service stations.

## LIFO-based EBITDA

Table 2. LIFO-based EBITDA (PLNm)

	2021	2020	Change 2021/2020	
			(PLNm)	(%)
<b>EBIT (1)</b>	<b>4,477.9</b>	<b>-1,396.8</b>	<b>5,874.7</b>	-
Depreciation and amortisation (2)	1,049.0	1,089.9	-40.9	-3.8%
Effect of one-off items (3)	-45.3	923.6	-968.9	-104.9%

LIFO effect (4)	-1,252.5	739.9	-1,992.4	-
LIFO-based EBITDA* (1+2+3+4)	4,229.1	1,356.6	2,872.5	211.7%

\* LIFO-based EBITDA adjusted for one-offs.

Source: the Company.

The LOTOS Group's adjusted LIFO-based EBITDA for 2021 was PLN 4,229.1 million. The Company believes that the increase of PLN 2,872.5 million, or 211.7% over 2020, in the financial measure key to the assessment of the business is due to a significant increase in gas and oil prices in the Exploration & Production segment and higher margins on the main product groups in the Refining & Marketing segment.

The adjusted LIFO-based EBITDA was calculated based on:

- the result of the Refining & Marketing segment of 3,018.9 million;
- the result of the Exploration & Production segment of PLN 1,221.0 million;
- consolidation adjustments of PLN -10.8 million.

### Net finance income/(costs)

Key factors behind the net finance costs in 2021, totalling PLN -26 million (vs PLN -254.1 million in the previous year):

- Net balance of interest on debt, interest income, and commission fees of PLN -193.3 million (2020: PLN -223.8 million),
- Impairment losses on investment in the B4/B6 project of PLN -2.8 million (2020: PLN -114.5 million),
- Net foreign exchange losses gains of PLN -70.5 million (2020: net foreign exchange gains of PLN +42.1 million),
- Net gain on measurement and settlement of market risk hedging derivative instruments of PLN +242.7 million (2020: PLN +65.7 million).

### The LOTOS Group's financial performance by business segment

#### Refining & Marketing

In 2021, the Refining & Marketing segment's revenue was PLN 31,850.5 million, having increased by 56.7% year on year. The increase was mainly a result of a 61.1% increase in the segment's average selling price, which in 2021 was PLN 2,966/tonne.

Sales of diesel oil accounted for the major share of revenue, and amounted to PLN 18,890.6 million, representing 59.4% of the segment's total revenue. Sales of gasolines were also an important contributor to the segment's revenue, having added PLN 4,603.7 million, or 14.5% of the segment's total.

The LOTOS Group's 2021 operating profit in the Refining & Marketing segment was PLN 3,278.0 million (compared with a loss of PLN -615.1 million in 2020).

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 increased 233.5% year on year, to PLN 3,018.9 million. The rise was mainly a result of higher crack spreads on key petroleum products.

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

	2021	2020	2021/2020	
			(PLNm)	(%)
Revenue	31,850.5	20,319.5	11,531.0	56.7%
<b>EBIT</b>	<b>3,278.0</b>	<b>-615.1</b>	<b>3,893.1</b>	-
Depreciation and amortisation	784.1	767.9	16.2	2.1%
<b>EBITDA</b>	<b>4,062.1</b>	<b>152.8</b>	<b>3,909.3</b>	<b>2,558.4%</b>
LIFO effect	-1,252.5	739.9	-1,992.4	-
Effect of one-off items	209.3	12.6	196.7	1,561.1%
<b>Adjusted LIFO-based EBITDA</b>	<b>3,018.9</b>	<b>905.3</b>	<b>2,113.6</b>	<b>233.5%</b>

Source: the Company.

### Exploration & Production

In 2021, revenue in the Exploration & Production segment was PLN 1,858.9 million, an increase of PLN 747.4 million compared with 2020, driven chiefly by a rise in natural gas prices (+389.8%) and Brent crude prices (+68.9%) on global markets. However, the significant price increases were partially offset by a 23.4% decrease in the volume of hydrocarbons sold.

The decrease in depreciation and amortisation expense was mainly attributable to depreciation of a significant portion of the Norwegian fields in 2020, as well as lower production from these fields in 2021 compared with 2020.

The increase in hydrocarbon prices resulted in a PLN 752.2 million year-on-year increase in adjusted EBITDA.

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

	2021	2020	2021/2020
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			(PLNm)	(%)
Revenue	1,858.9	1,111.5	747.4	67.2%
<b>EBIT</b>	<b>1,210.7</b>	<b>-764.2</b>	<b>1,974.9</b>	-
Depreciation and amortisation	264.9	322.0	-57.1	-17.7%
<b>EBITDA</b>	<b>1,475.6</b>	<b>-442.2</b>	<b>1,917.8</b>	-
Effect of one-off items	-254.6	911.0	-1,165.6	-127.9%
<b>Adjusted EBITDA</b>	<b>1,221.0</b>	<b>468.8</b>	<b>752.2</b>	<b>160.5%</b>

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 2021 complies in all material respects with the requirements set out in Art. 49 and Art. 55.2a of the Accounting Act of September 29<sup>th</sup> 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 29<sup>th</sup> 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 31<sup>st</sup> 2021 were discussed with the auditor of Deloitte Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. on March 21<sup>st</sup> 2022.

In particular, the following matters were discussed:

- audit methodology, audit scope,
- significant risks of material misstatement,
- key estimates and areas of professional judgement, including impairment of non-current assets, measurement of the Exploration and Production segment's property, plant and equipment,
- planned merger with PKN ORLEN, including implementation of the remedies and effect on the measurement of shares in subsidiaries – Grupa LOTOS S.A.'s report, effect on the measurement of the LOTOS assets to be disposed of – the Group's consolidated financial statements,
- the control environment, including IT systems,
- tax inspections carried out at Grupa LOTOS S.A.,
- impact of the COVID-19 pandemic on the financial statements and the audit,
- outbreak of an armed conflict in Ukraine – a significant event subsequent to the reporting date; effect on the financial statements and the audit,
- 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 2021 financial statements, including information on key events in 2021, assets and financial position of the Company and the Group as at the end of 2021, as well as their foreseen financial condition in 2022 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 2021, 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 2021 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 "IFRSs") 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 2021 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 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 2021:

- 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.

Furthermore, in the light of 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 2021.

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 2021, the separate financial statements of Grupa LOTOS S.A. for the year ended December 31st 2021, and the Directors' Report on the operations of Grupa LOTOS S.A. and the LOTOS Group for the year 2021 are consistent with the accounting books, documents and facts.

In relation to the Management Board's proposal on the net profit for 2021, the Supervisory Board recommends acceptance of the Management Board's proposal that the net profit of PLN 2,519,835,199.42 (two billion, five hundred and nineteen million, eight hundred and thirty-five thousand, one hundred and ninety-nine złoty, 42/100) disclosed in the separate financial statements for 2021 be transferred in its entirety to the statutory reserve funds.

In view of the above, the Supervisory Board issues a positive opinion for the Annual General Meeting regarding the allocation of net profit for 2021 in accordance with the Management Board's proposal.

**Supervisory Board:**

1. Beata Kozłowska-Chyła
2. Piotr Ciach
3. Katarzyna Lewandowska
4. Dariusz Figura
5. Grzegorz Rybicki
6. Katarzyna Maćkowska
7. Rafał Włodarski