

## Answers to questions from a shareholder

1. **The Directors' Report on the operations of Grupa LOTOS S.A. (GL S.A.) and its Group for 2021 shows hydrocarbon production of 17,000 boe/d (from 43% to 64% below the targets set in the corporate strategy of Grupa LOTOS S.A. for 2017–2022).**

**The report says the reason for the lower-than-expected oil and gas production volumes are the startup delays at the YME and B8 projects. When will these projects reach full production capacity?**

The oil and gas production volumes being lower than assumed in the Strategy is primarily due to delays in upstream projects:

- a) **Yme field development project in Norway:** start-up of production from the field (First Oil) was confirmed in October 2021 vs third quarter of 2019 assumed in the Strategy. The YME project is in the final phase of offshore start-ups, with full production capacity planned to be reached in late 2022.
- b) **B4/B6 natural gas fields development project in Poland:** the project is pending investment decision, whereas the Strategy envisaged production startup in 2020.
- c) **B8 field development project in Poland:** production operations were taken over by the Petrobaltic Production Centre in the third quarter of 2020 vs fourth quarter of 2017 assumed in the Strategy. At the B8 project reservoir pressure is being raised by injecting seawater into the deposit, with full production capacity planned to be reached in late 2025.

External factors, including the COVID-19 pandemic and its knock-on effects on commodity and subcontractor markets, largely contributed to the project delays. These factors have delayed or suspended many upstream projects including those carried out by the LOTOS Group.

2. **One of the key metrics used to measure progress against the Strategy of Grupa LOTOS S.A. for 2017–2022 is capital expenditure, which was planned at PLN 9.4bn for the entire period covered by the Strategy, of which about PLN 4.6bn was spent in 2017–2021. Please provide the main reasons why actual spending was very low compared with the Company's CAPEX plan.**

The LOTOS Group aims to grow value for shareholders and other stakeholder groups. The actual level of CAPEX is a means to attain that goal, not an end in itself. In order to achieve that goal, the LOTOS Group planned CAPEX of PLN 9.4bn in its strategy, of which PLN 3.3bn was earmarked for new strategic projects to be ultimately selected based on economic parameters and market developments.

So, implementing capital projects in line with the Strategy is not about spending a specific amount of CAPEX but rather about selecting projects offering the highest rates of return and acceptable risk levels while keeping the financial position of the LOTOS Group and its member companies stable. This should be done taking into account a thorough analysis of external factors.

In 2017 to 2021, the LOTOS Group incurred capital expenditure totalling PLN 5.45bn and made an equity investment with a total commitment of PLN 0.5bn to a project at Grupa Azoty Polyolefins.

Major factors affecting the implementation of capital investment projects were the macroeconomic volatility, which has been particularly strong since the first quarter of 2020, and the advanced phase of preparations for the equity integration of the LOTOS Group and PKN Orlen:

- a) **COVID-19 pandemic** and the subsequent lockdowns largely contributing to reduced fuel demand, accelerating energy transition, including restrictions on funding fossil fuel projects, soaring prices of carbon emission allowances (from EUR 22/t in 2020 to even EUR 100/t), announcement by the European Commission of the Fit-for-55 environmental package proposal, supply chain constraints, all leading to sharp fluctuations in crude oil prices (from less than USD 30 per barrel to USD 120 per barrel) and gas prices (from less than USD 2/MMBtu to over USD 8/MMBtu);
  - b) **advanced phase of the equity integration of PKN Orlen and the LOTOS Group** – after July 14th 2020 (conditional decision of the EC) the LOTOS Group entered into a decisive phase of preparations for the merger and acquisition of partners for the merger remedies; the merger process is so complex that it involves a large part of the organisation and, given the announced remedies relating to M&A best practice, in principle it limits the possibility of creating / implementing strategic goals other than stated ones (due to the anti-trust investigation carried out by the EC) – which further justified the cautious approach taken in evaluating potential acquisition projects. During this time the Company's debt was restructured, resulting in a strong liquidity position at the end of 2021 (net debt/EBITDA at 0.2x), and assets were reorganised: refining assets were transferred from Grupa LOTOS to LOTOS Asphalt (to form the target JV Rafineria Gdańsk) – which was cleared by shareholders at a general meeting;
  - c) also since February 24th 2022 **Russia's military aggression against Ukraine** – packages of sanctions imposed on Russia (including commodity packages), deepening supply chain constraints, strong global inflationary pressures, rising interest rates (higher borrowing costs), depreciation of the złoty.
- 3. Last year GL S.A. incurred marketing expenditure of around PLN 78.3m. By how much, in percentage terms, has this expenditure improved marketing return on investment and other metrics with respect to:**
- market position of the Company and its share in the retail fuels market,
  - customer satisfaction and product image,
  - marketing assets: brand value, customer value.

With respect to:

**a) market position of the Company and its share in the retail fuels market:**

Retail operations in the domestic fuel market are carried out by LOTOS Paliwa, which manages the network of LOTOS service stations. As part of strengthening its position in the strategic segment of highway and expressway stations, in 2021 the Company launched seven new service stations at Motorway Service Areas (MSAs). At the end of 2021, the LOTOS chain comprised 520 locations and had a 6.6% share in the service stations market.

The share of the LOTOS chain in domestic retail fuel sales remained broadly flat year on year in 2021 at 10.7% (according to POPiHN). Year-on-year sales growth (average refuelling volume at LOTOS stations according to POPiHN) was the same as for the rest of the market and stood at 7.8%.

**b) customer satisfaction and product image:**

Customer satisfaction is a key non-financial performance indicator monitored at the LOTOS Group level – Net Promoter Score (NPS) based on a survey of customers in the Navigator Programme, which was positive and remained unchanged year on year (see Section 13.1

'Key non-financial performance indicators' of the Directors' Report on the operations of Grupa LOTOS S.A. and the LOTOS Group in 2021).

For the purposes of monitoring the execution of the Grupa LOTOS S.A. Strategy for 2017–2022, an NPS survey is conducted by Grupa LOTOS S.A. on a nationwide, representative group of motorists including customers of LOTOS stations. After 2021, NPS has increased among customers of the LOTOS service stations from 58 to 65, among all respondents from 18 to 25, and among competitors' customers from -8 to -3. A majority of LOTOS customers are brand promoters willing to recommend the brand to others. As in the previous year, motorists are most inclined to recommend LOTOS because they believe the fuel is of good quality. Positive perceptions of and liking for the quality of customer service at stations have gained in importance.

**c) marketing assets: brand value, customer value:**

In the 15th edition of a ranking of the most valuable Polish brands compiled by *Rzeczpospolita* (2021), LOTOS ranked 5th (brand value of PLN 3,322.8m). For comparison, the brand was worth PLN 220m in 2004 and PLN 1,385m in 2016.

The LOTOS Group does not use the 'customer value' metric to measure the effectiveness of its marketing efforts.

**4. Please provide your marketing expenditure broken down by:**

- a) sports sponsorship
- b) culture sponsorship
- c) sponsorship of social programmes
- d) projects supporting the LOTOS corporate brand
- e) projects supporting the image of LOTOS Group product brands
- f) projects supporting product sales at LOTOS stations through media activities.

The LOTOS Group's expenditures in 2021 were as follows:

- a) sports sponsorship: PLN 46.5m net;
- b) culture sponsorship: PLN 4.2m net;
- c) sponsorship of social programmes: PLN 1.3m net;
- d) projects supporting the LOTOS corporate brand: PLN 10.2m net;
- e) projects supporting the image of LOTOS Group product brands: PLN 6.8m net;
- f) projects supporting product sales at LOTOS stations through media activities: PLN 7.6m net.

**5. Post-merger will Grupa LOTOS S.A. be structurally and procedurally capable of building a new strategy by formulating a mission and strategic goals and of adopting a desired model of operation?**

This question does not concern matters included in the agenda of the Annual General Meeting of Grupa LOTOS.

**6. What was the indexation coefficient and interest accrued as at December 31st 2021 on the bonds of USD 84.1m used to fund the B8 project?**

The bonds issued to finance the B8 project are not index-linked bonds. Interest is paid every calendar quarter, with interest accrued as at December 31st 2021 paid on December 31st 2021. Consequently, as at December 31st 2021 there was no accrued interest to be paid in the future.

**7. Will elimination of the Brent-Ural differential as of 2023 adversely impact the financial results of Grupa LOTOS S.A. and PKN Orlen S.A.?**

This question does not concern matters included in the agenda of the Annual General Meeting of Grupa LOTOS.

**8. How will the acquisition of Grupa LOTOS S.A. by PKN Orlen S.A. increase their bargaining power in procurement of crude oil and other commodities?**

This question does not concern matters included in the agenda of the Annual General Meeting of Grupa LOTOS.

**9. Saudi Aramco is to acquire a 30% stake in the Gdańsk Refinery for approximately PLN 1.0bn and secure oil supplies of roughly 20 million tonnes a year. How beneficial will the partnership with Saudi Aramco be for Poland (in terms of political and energy security)?**

This question does not concern matters included in the agenda of the Annual General Meeting of Grupa LOTOS.

**10. This is regarding the planned acquisition of Grupa LOTOS S.A. by PKN Orlen S.A. Has the State Treasury requested consultations under Article 4 of the NATO Agreement?**

This question does not concern matters included in the agenda of the Annual General Meeting of Grupa LOTOS.

**11. What will be the impact of the change in sources of oil imports to the companies post-merger on the agri-food index?**

This question does not concern matters included in the agenda of the Annual General Meeting of Grupa LOTOS.

**12. Grupa LOTOS S.A.'s legal and management consultancy expenses rose from PLN 10.45m in 2020 to PLN 21.6m in 2022 (106%). Please specify what percentage of these expenses was legal support related to the acquisition of Grupa LOTOS S.A. by PKN Orlen S.A.**

In 2021, the LOTOS Group entered a phase of intensive preparations for the equity integration with PKN Orlen, finding investors for the assets covered by the merger remedies, development of business models for the spun-off assets and pre-transaction preparation. So, when working in project mode, the amount of advisory support naturally increases with the rapid expansion of the scope of work needed to be done (relative to the reference amount of PLN 21.6m, the cost of professional services related to the merger was in excess of 75%). Relative to 2020, expenditures on the project have been increased particularly in the following areas:

- a) legal advisory,
- b) strategic advisory,
- c) transaction advisory,
- d) IT advisory.