
**REPORT OF THE MANAGEMENT BOARD
OF POLSKIE GÓRNICTWO NAFTOWE I GAZOWNICTWO S.A.
MADE PURSUANT TO ARTICLE 501 § 1 OF THE COMMERCIAL COMPANIES CODE
PROVIDING THE JUSTIFICATION FOR THE MERGER
OF POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
WITH
POLSKIE GÓRNICTWO NAFTOWE I GAZOWNICTWO SPÓŁKA AKCYJNA**

29 JULY 2022

1. INTRODUCTION AND DEFINITIONS

- 1.1. This Report of the Management Board of PGNiG is made pursuant to Article 501 § 1 of the Commercial Companies Code in connection with the Merger (the “**Report**”).
- 1.2. The Report will be made available pursuant to Article 505 § 3¹ of the Commercial Companies Code on the website of PGNiG at: <https://pgnig.pl/relacje-inwestorskie/polaczenie-z-pkn-orlen>.
- 1.3. The terms used in the Report will have the following meanings or will refer to the following sections of the Report or the Merger Plan:

Merger Shares have the meaning assigned thereto in Section 3.3 of the Merger Plan;

PGNiG Shareholder(s) means one or several entities which, as at the Reference Date, will hold shares in PGNiG registered in their securities accounts, and with respect to omnibus accounts means the entities indicated by the omnibus account holder to the entity keeping such account as the beneficial owners of the shares in PGNiG registered in that account as at the Reference Date;

Expert has the meaning assigned thereto in Section **Błąd! Nie można odnaleźć źródła odwołania.** of the Report;

DCF has the meaning assigned thereto in Section 3.7 of the Report;

Payout has the meaning assigned thereto in Section 5.4 of Merger Plan;

Merger Date the date on which the Merger is entered in the Register of Business Entities of the National Court Register by the registry court having jurisdiction over the registered office of PKN ORLEN, in accordance with Article 493 § 2 of the Commercial Companies Code;

Reference Date has the meaning assigned thereto in Section 5.1 and 5.2 of the Merger Plan;

Energa Energa Spółka Akcyjna with its registered seat in Gdańsk, at ul. Aleja Grunwaldzka 472, 80-309 Gdańsk,

entered in the Register of Business Entities of the National Court Register under the KRS No. 0000271591, the registry files of which are maintained by the District Court Gdańsk – Północ in Gdańsk, VII Commercial Division of the National Court Register, NIP: 9570957722 , REGON: 220353024 , with the share capital of PLN 4,521,612,884.88, paid up in full;

WSE

The Warsaw Stock Exchange (*Giełda Papierów Wartościowych w Warszawie Spółka Akcyjna*) with its registered seat in Warsaw;

Grupa LOTOS

Grupa LOTOS Spółka Akcyjna with its registered seat in Gdańsk, at ul. Elbląska 135, 80-718 Gdańsk, entered in the Register of Business Entities of the National Court Register under the KRS No. 0000106150, the registry files of which are maintained by the District Court Gdańsk – Północ in Gdańsk, VII Commercial Division of the National Court Register, NIP: 5830000960, REGON: 190541636, with the share capital of PLN 184,873,362.00, paid up in full;

Civil Code

the act of 23 April 1964 – the Civil Code (consolidated text: Journal of Laws of 2022, item 1360, as amended);

Commercial Companies Code

the act of 15 September 2000 – the Commercial Companies Code (consolidated text: Journal of Laws of 2022, item 1467, as amended);

Merging Company

PKN ORLEN and PGNiG jointly;

Share Exchange Ratio

the ratio of exchange of the shares in PGNiG for the shares in PKN ORLEN (Merger Shares) as a result of the Merger, as provided in Section 4 of the Merger Plan;

PGNiG

Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna with its registered seat in Warsaw, at ul. Marcina Kasprzaka 25, 01-224 Warsaw, entered in the Register of Business Entities of the National Court

Register under KRS No. 0000059492, the registry files of which are maintained by the District Court for the Capital City of Warsaw in Warsaw, XIII Commercial Division of the National Court Register, NIP: 5250008028, REGON: 012216736, with the share capital of PLN 5,778,314,857.00, paid up in full;

PKN ORLEN

Polski Koncern Naftowy ORLEN Spółka Akcyjna with its registered seat in Płock, at ul. Chemików 7, 09-411 Płock, entered in the Register of Business Entities of the National Court Register under KRS No. 0000028860, the registry files of which are maintained by the District Court for Łódź-Śródmieście in Łódź, XX Commercial Division of the National Court Register, NIP: 7740001454, REGON: 610188201, with the share capital of PLN 534,636,326.25, paid up in full;

Merger Plan

the merger plan prepared pursuant to Articles 498 and 499 of the Commercial Companies Code in connection with the proposed Merger, agreed in writing on 29 July 2022 and signed by the Management Boards of the Merging Companies;

Merger

the merger of PKN ORLEN with PGNiG conducted in compliance with Article 492 § 1(1) of the Commercial Companies Code by transfer of the entire estate (*majątek*) (all of the assets and liabilities) of PGNiG (Target Company) to PKN ORLEN (Acquiring Company), with a simultaneous increase in the share capital of PKN ORLEN by way of the issue of the Merger Shares which will be issued by PKN ORLEN to the existing PGNiG Shareholders;

Prospectus

means the prospectus that will be drafted and published in accordance with the Prospectus Regulation and the Act on Public Offering by PKN ORLEN in connection with the public offering of the Merger Shares addressed to the PGNiG Shareholders in conjunction with the Merger which needs to be approved by the PFSA;

Prospectus Regulation

Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the

prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71 (Official Journal of the EU L 168/12 of 30 June 2017, as amended);

Target Company

PGNiG;

Acquiring Company

PKN ORLEN;

Report

means this report justifying the merger and made for the purposes of the Merger pursuant to Article 501 §1 of the Commercial Companies Code by the Management Board of PGNiG;

Act on Formation of the Agricultural System

act of 11 April 2003 on the formation of the agricultural system (consolidated text: Journal of Laws of 2022, item 461);

Act on Public Offering

the act of 29 July 2005 on public offerings, conditions governing the introduction of financial instruments to organised trading, and public companies (consolidated text: Journal of Laws of 2021, item 1983, as amended);

GMS

the General Meeting of PKN ORLEN or the General Meeting of PGNiG, depending on the context;

Management Board

the Management Board of PKN ORLEN or the Management Board of PGNiG, depending on the context.

2. LEGAL BASIS FOR THE MERGER

2.1. General

2.1.1. The Merger will be conducted pursuant to Article 492 § 1(1) of the Commercial Companies Code by transferring the entire estate (*majątek*) comprising all the assets and liabilities of PGNiG (Target Company) to PKN ORLEN (Acquiring Company) with a simultaneous increase of the share capital of PKN ORLEN by way of the issue of Merger Shares which will be allotted by PKN ORLEN to the PGNiG Shareholders.

- 2.1.2.** Both the Acquiring Company and the Target Company are public companies in the meaning given by the Act on Public Offering.
- 2.1.3.** Pursuant to Article 506 § 2 and 4 of the Commercial Companies Code and the terms of the articles of association (*statuty*) of each of the Merging Companies, the GMSs of the Merging Companies will be requested to vote on the resolutions concerning the Merger which will comprise, in particular: (i) the consent for the Merger Plan; and (ii) the consent for the proposed amendments to the articles of association (*statut*) of PKN ORLEN in connection with the Merger, as listed in Schedule 3 to the Merger Plan. Moreover, the GMS of PKN ORLEN will be requested to vote on the resolution regarding the adoption of the consolidated version of the articles of association of PKN ORLEN incorporating the amendments proposed in connection with the Merger, as an amendment of such articles of association.
- 2.1.4.** Based on the resolution of the GMS of PKN ORLEN referred to above the share capital of PKN ORLEN will be increased from PLN 783,059,906.25 (seven hundred and eighty-three million, fifty-nine thousand, nine hundred and six and 25/100) up to PLN 1,415,177,561.25 (one billion four hundred and fifteen million, one hundred and seventy-seven thousand, five hundred and sixty-one and 25/100) through the issuance of 534,494,124 (five hundred and thirty-four million, four hundred and ninety-four thousand, one hundred and twenty-four) series F ordinary bearer shares with the nominal value of PLN 1.25 (one and 25/100) each and the total nominal value of PLN 668,117,655 (six hundred and sixty-eight million, one hundred and seventeen thousand, six hundred and fifty-five) (the “**Merger Shares**”) which will be subsequently allotted to the PGNiG Shareholders in accordance with the rules provided in section 5 of the Merger Plan.
- 2.1.5.** The objective of the amendments of the articles of association of PKN ORLEN made in connection with the Merger which were introduced by the resolution of the GMS of PKN ORLEN referred to above will be to comply with Article 511 § 1 of the Commercial Companies Code providing the need to incorporate the special rights already existing in the Target Company granted under the articles of association of the Target Company to certain authorities of the State Treasury (which is a shareholder of both the Target Company and the Acquiring Company). In addition, the Merger Plan assumes that specifically § 33(3)(10)-§33(3)15) and § 56(6) of the articles of association of the Target Company will be respectively (that is with some modifications) transposed to the articles of association of the Acquiring Company. Moreover, with respect to the transposition of §56(5) of the articles of association of the Target Company to the articles of association of the Acquiring Company, the Merger Plan assumes that provisions concerning the consequence of a decrease of the State Treasury’s share in the share capital below a specific level will be introduced in §7(9) of the articles of association of the Acquiring Company.
- 2.1.6.** PKN ORLEN will complete the procedure required to admit and introduce the Merger Shares to trading on the regulated market operated by the WSE.
- 2.1.7.** The offering of the Merger Shares will be public in the meaning of the Prospectus Regulation which requires the Acquiring Company to draft a Prospectus and to submit

an application to the Polish Financial Supervision Authority for the approval of the Prospectus and the issuance of the decision on such approval.

2.1.1. The Merger depends on the satisfaction of certain legal conditions such as obtaining all the legally required permits and taking all other actions required by law in connection with the Merger, including in particular that:

- a) the Acquiring Company drafts the Prospectus and submits an application to the Polish Financial Supervision Authority for the approval of the Prospectus and the issuance of the decision on the approval of the Prospectus;
- b) the Prospectus is made available to the persons that are the addressees of the public offering related to the Merger;
- c) the Council of Ministers issues the consent for the Merger pursuant to Article 13 section 5 in conjunction with sections 1(9) and 1(23) of the Polish act of 16 December 2016 on the terms of managing state-owned property (consolidated text: Journal of Laws of 2021, item 1933, as amended);
- d) the controlling entity does not issue a decision objecting against the secondary acquisition of the dominance in the Acquiring Company as provided in Article 3 section 7(2) of the Polish act of 24 July 2015 on the control of certain investments (consolidated text: Journal of Laws of 2020, item 2145, as amended), following prior notification by the Acquiring Company or issues a decision refusing to commence proceedings based on the fact that the action covered by the notification by the Acquiring Company is not subject to the said act.

2.1.8. The Merger Shares will entitle their holders to a share in the profits of PKN ORLEN starting from the first day of the financial year in which the Merger Shares are registered in the securities accounts of the PGNiG Shareholders, i.e. from 1 January 2022. The above means that the Merger Shares may participate in the dividend determined in accordance with Article 348 of the Commercial Companies Code based on the financial statements of PKN ORLEN for the financial year commencing on 1 January 2022 and ending on 31 December 2022 r.

2.2. The State Treasury's right to acquire the Merger Shares and the agricultural real properties of the Target Company of at least 0.3 ha

2.2.1. Both the Acquiring Company and the Target Company are owners of agricultural land as defined in the Act on the Formation of the Agricultural System which are subject to trading restrictions.

2.2.2. Pursuant to Article 4 section 6, in conjunction with Article 4 section 1 of the Act on the Formation of the Agricultural System, the National Centre For the Support of Agriculture, acting to the benefit of the State Treasury, may submit a representation on the acquisition of the Merger Shares for the price equal to the issue price, excluding the shares allotted to the State Treasury. The National Centre For the Support of Agriculture will be able to exercise such right within two months from the date of receipt of notification from the Acquiring Company.

2.2.3. The Acquiring Company will notify the National Centre For the Support of Agriculture of the option of exercising the right to acquire the Merger Shares directly after the registration by the registry court of the increase of the share capital of the Acquiring Company.

- 2.2.4.** If the right to acquire the Merger Shares is exercised in compliance with Article 4 section 6 in conjunction with Article 4 section 1 of the said act, the Shareholders of the Target Company who own Merger Shares will receive from the State Treasury, represented by the National Centre For the Support of Agriculture, an amount equal to the product of the issue price and the number of Merger Shares owned thereby with respect to which the said right of acquisition was exercised.
- 2.2.5.** Until the submission by the National Centre For the Support of Agriculture of the representation concerning the exercise of the right to acquire the Merger Shares or the lapse of the deadline for the exercise of such right, the actions referred to in section 5 of the Merger Plan will be suspended, although it will not impact the determination of the reference date and the terms of the procedure of exchange of the Shares in the Target Company for the Merger Shares.
- 2.2.6.** Moreover, pursuant to Article 4 section 1 of the Act on the Formation of the Agricultural System, the National Centre For the Support of Agriculture, representing the State Treasury, may submit a statement on the acquisition of an agricultural real property owned by PGNiG for a specific market value determined by the National Centre For the Support of Agriculture using methods of determination of the value of real property as provided in the regulations on real property management. The National Centre For the Support of Agriculture will be able to exercise such right after obtaining notification from the Acquiring Company (the laws does not specify the deadline for exercising such right, but, in view of the relevant application of Article 589 §1 of the Civil Code, this obligation needs to be complied with immediately, within the shortest time possible).
- 2.2.7.** Articles 2a and 2b of Act on the Formation of the Agricultural System provides also for the obligations to obtain the consent of the General Director of the National Centre For the Support of Agriculture for the acquisition of an agricultural property by any entity other than a farmer (Article 2a) and for sale of agricultural property before the lapse of 5 years from the acquisition thereof. Article 2a provides for a direct exemption from this regulation in case of acquisition of agricultural property in consequence of demerger, transformation or merger of commercial company companies, but no such exemption is provided in Article 2b. Therefore, no assurance may be given that it will not be required to obtain the consent of the General Director of the National Centre For the Support of Agriculture for the sale of agricultural properties prior to the lapse of 5 years from the acquisition thereof.

2.3. Sanctions related with the armed conflict in Ukraine

- 2.3.1.** In connection with the introduction of the regulations of Article 5e to the Council Regulation (EU) No 833/2014 of 31 July 2014 concerning restrictive measures in view of Russia's actions destabilising the situation in Ukraine (Official Journal of the European Union L of 2014, No. 229 p. 1, as amended) central depositories of securities in the European Union have been prohibited to render any services provided in an annex to the regulation (EU) No. 909/2014 with respect to any transferrable securities issued after 12 April 2022 to any Russian citizens or any natural persons residing in Russia or any legal persons, entities or authorities having their registered office in Russia. The Polish National Depository of Securities (*Krajowy Depozyt Papierów Wartościowych*) (KDPW), which is subject to that regulation in Poland, is required to

comply with that prohibition with respect to any actions described in section 5.1 of the Merger Plan. That may have adverse consequences to the PGNiG Shareholders who are addressees of the services referred to in that regulation.

2.3.2. If it transpires during the Merger procedure that KDPW does apply such measures, the Acquiring Company will take that into consideration in its actions and will notify the public of taking any such actions.

3. JUSTIFICATION FOR THE RATIO FOR EXCHANGE OF PGNIG SHARES INTO PKN ORLEN SHARES

- 3.1.** In exchange for their shares in PGNiG in connection with the Merger, PGNiG Shareholders will be issued the Merger Shares in the following ratio: 0.0925 (shares in PKN ORLEN): 1 (share in PGNiG).
- 3.2.** The above means that PGNiG Shareholders will receive 0.0925 shares in PKN ORLEN (the Merger Shares) in exchange for 1 (one) share in PGNiG, it being understood that the number of allocated shares will always be a natural number, and PGNiG Shareholders will receive payouts in cash in accordance with Section 5.4 of the Merger Plan for any unallocated fractions of the Merger Shares resulting from the application of the Share Exchange Ratio.
- 3.3.** Various generally accepted valuation methods were used to establish the share exchange ratio between the Merging Companies.
- 3.4.** At the time determination of the share exchange ratio, the merger of PKN ORLEN and Grupa LOTOS was still in progress and the exact impact of the merger on the price of the shares in PKN ORLEN was not known. For the purposes of the valuation it was assumed that the PKN ORLEN group combined with Grupa LOTOS is a sum of both companies and that the potential future synergies associated with the Merger exceed the costs related with the implementation of the remedies based on the information included in the Plan of Merger of PKN ORLEN and Grupa LOTOS. It was also assumed that the remedies will be implemented as planned and in compliance with the arrangements with the European Commission.
- 3.5.** The analysis of valuation comprised, *inter alia*, market valuation methods: historical prices of both Merging Companies, including the average volume weighted prices and the ultimate prices estimated by independent stock exchange analysts who consistently cover both entities, and valuation based on the analysis of comparable companies, relevant for the segments in which the Merging Companies operate.
- 3.6.** A large market volatility caused by the Russian invasion of Ukraine was the largest challenge for the valuation and caused limitations in the prepared analyses.
- 3.7.** The Management Board of the Merging Company adopted the recommendations of the advisors involved in the transaction process, global investment banks, to refrain from determination of the share exchange ratio for the Merging Companies based on the valuation of the companies made in accordance with discounted cash flows (“DCF”) method. In their recommendation the advisors noted the high volatility of the macroeconomic environment which prevents confirmation between the Merging Companies of consistent macroeconomic assumptions and preparing financial projections for the Companies based thereon. Consequently, the results of valuation of each of the Companies using the DCF method would be incomparable and applying this approach to determine the ratios would be subject to methodical error.

- 3.8. The Management Boards established the Share Exchange Ratio in the course of negotiations after reviewing the valuation results for each of the Merging Companies.

4. ECONOMIC JUSTIFICATION FOR THE MERGER

- 4.1. The ongoing energy transition is a huge challenge for companies in the fuel and energy sector as it involves a gradual shift from hydrocarbons and conventional fuels to new energy sources that are more sustainable. The transformation is driven by dynamic technological development, improved cost effectiveness of generating energy from RES and alternative fuels, climate policy, the evolution of social preferences as well as greater corporate and public environmental awareness. Solutions that support sustainable growth are also becoming more and more accentuated by rigorous environmental regulations, including by requirements concerning the growing importance of low-emission energy sources in all key economic segments, such as, for example, the Fit for 55 package or the REPowerEU plan. Based on global expectations and market trends the demand for RES and alternative fuel will continue to grow over the next few decades.
- 4.2. Therefore, the share of RES in the energy mix of Poland will increase. Natural gas will also play a significant role and it should be used as fuel for power supplementing RES capacity. In addition, including natural gas and nuclear energy in EU taxonomy as sustainable energy sources will have a positive impact on the ability to use such sources in striving for low-emission development. Such change allows to raise financing from EU funds that support the country's energy transformation based on, among other things, natural gas. Therefore, investments in natural gas industry, including the production and use thereof, become an important element of the strategy of integrated power companies.
- 4.3. PGNiG is one of the largest gas companies in Central and Eastern Europe with strong operating and financial backgrounds. The merger of PGNiG and PKN ORLEN follows global trends in the fuel and power industry: the consolidation of financial strengths and reconfiguration of production assets towards low-emission are considered that priority of the transformation strategy of regional and global companies. The merger will create a multi-utility group with diversified and complementary revenue structure, based on strong operating and financial supports, which will accelerate and facilitate the achievement of strategic objectives assumed in both entities.
- 4.4. The merger of both entities opens new opportunities of consistent, coordinated development that allows diversification of business operations and maintaining competitiveness in the long term. The combined company will aim at operating excellence in the existing areas of business and development of new segments. Integration of assets that are currently held by various entities will result in improved effectiveness in many areas. The consolidation of PGNiG with PKN ORLEN will increase the impact of the capital group of the combined entity on the entire industry sector thanks to, *inter alia*, better coordination of efforts at decarbonisation of the Polish economy by 2050. In this context, the objective of the multi-utility group's strategy will be the development of the natural gas industry with natural gas being the key resource for the petrochemical and energy sectors. The merger of PGNiG with PKN ORLEN after Grupa LOTOS has been incorporated into PKN ORLEN, will result in optimisation and integration of own production of hydrocarbons on exiting market with the option of further development in other countries and coordinated action to diversify the energy sources, including continued development of a diversified portfolio of LNG supplies. The combination of the upstream efforts

will allow for more efficient management of the resource base and limit the risk of volatility of the oil and gas market and for the increase of the scale of use of PGNiG's unique potential in delivering prospecting projects, both in terms of geological research and drilling. Consequently, the merger of PGNiG with PKN ORLEN will contribute to increasing energy security in Poland and the region, which is particularly important in the current geopolitical situation.

- 4.5.** Another area of strategic development of the merged company will be the energy sector. The integration of four capital groups will allow them to carry out ambitious investments in low and zero-emission energy, more extensive operations in research and development and expansion of innovative business sectors – for example in terms of delivering innovative energy solutions. In that respect the merger will increase RES investment opportunities by combining capital and providing access to competence in construction and operation of gas and steam units, onshore and offshore wind farms and photovoltaics, by supporting strategic objectives of the combined company to increase spending on energy transformation and development of competence in low-emission power generation. In the long term, the combined company will develop future-proof solutions such as nuclear energy based on small nuclear reactors, and hydrogen-related technologies in which areas the combined company intends to take the lead.
- 4.6.** Yet another important element will be the development in the retail business. An extended client base and the broad range of available products will allow to develop a complex offering and address client needs based on modern communication and sales channels.
- 4.7.** The Merger will also allow to achieve the scale of operations and financial stability that will increase their resilience to market changes (the total capitalisation of PKN ORLEN, Grupa LOTOS and PGNiG equals approximately PLN 81.4 billion as at 28 July 2022). Increased resilience to economic shocks and flexibility of responding to change in economic situation of the merged entity will have a positive effect on job stability. The scale of the organisation will also have a positive impact on the organisation's ability to raise financing on the international financial markets.
- 4.8.** The process of consolidation of the four energy groups began as early as 2018 with the signing of a letter of intent between PKN ORLEN and the State Treasury regarding the potential consolidation of PKN ORLEN and Grupa LOTOS. Subsequently, on 14 July 2020, as a result of the decision issued by the European Commission, PKN ORLEN obtained conditional approval of the European Commission to take over Grupa LOTOS. On the same day, PKN ORLEN and the State Treasury signed a letter of intent regarding the acquisition of PGNiG by PKN ORLEN. In the meantime, the acquisition of Energa by PKN ORLEN was completed in the first half of 2020. On 12 May 2021, a cooperation agreement was signed among PKN ORLEN, Grupa LOTOS, PGNiG and the State Treasury, concerning the acquisition of control by PKN ORLEN over Grupa LOTOS and PGNiG. On 2 June 2022, the management boards of PKN ORLEN and Grupa LOTOS signed a merger plan and the resolutions regarding the merger were voted and adopted by the GMS of Grupa LOTOS on 20 July 2022 and by the GMS of PKN ORLEN on 21 July 2022. The merger of PGNiG and PKN ORLEN is a natural next step in the strategic consolidation of the Polish market.
- 4.9.** The Merger will contribute to the achievement of a number of positive economic effects, both at the strategic development level and the operational level. The most important of these include:
 - 4.9.1.** Ensuring long-term growth based on energy transformation. The projected development of the Production and Distribution segments and the natural gas expertise of PGNiG will

allow for long-term growth in the areas crucial to energy transformation in view of the need to use gas as interim fuel. Based on the resolution of the European Parliament nuclear power and gas have been included in the European green taxonomy.

- 4.9.2.** Diversification and stabilisation of revenue sources. A balanced portfolio of upstream and downstream assets, including energy assets, will result in reducing the risk related with business cycles in those areas. The various segments asymmetrically subject to macroeconomic factors will complement one another and thus will allow to achieve more stable financial results in the combined multi-utility group.
- 4.9.3.** Strengthening the financial position and investment potential of the combined Company. The improved financial standing of the combined company in the future may have a positive impact on the costs of financing, specifically in the foreign markets. The Merger will facilitate raising and securing funds for the energy transformation, the implementation of advanced investment projects, including in renewable energy, gas energy, in the area of prospecting hydrocarbons (upstream and biogas projects), petrochemical production, involvement in innovation projects, including those related with production of alternative fuels and further geographical expansion.
- 4.9.4.** Improving competitive position. The increase of the scale of operations and financial strength of the combined company will result in a significant reinforcement on the European market. The merged Company will be in a better negotiating position in terms of raw material suppliers, as well as business and technology partners with which it must cooperate to continue the development of the multi-energy company, and it may also benefit from the potential growth of the sales of a broad range of its products on the extended markets.
- 4.9.5.** Implementation of operational synergies. The most important of these involve management, prospecting and production, trading, manufacturing, distribution and storage:
- (a) Improved operating efficiency of corporate centre. The use of the best practices of both companies and the scale of their combined operations accompanied by optimisation of processes, overhead, joint marketing and sponsoring as well as outlays and resources related to, *inter alia*, energy transformation in a single entity will assist in streamlining administrative functions.
 - (b) Optimised upstream segment both in Poland and abroad. Thanks to the merger the management of fossil fuels in Poland and Norway will be improved. Joint management of the portfolio of prospective and production projects and implementing the best practices in terms of operating and investment effectiveness will result in the growth of and will strengthen the prospecting and production segment in the combined Group.
 - (c) Combined retail customer bases of all merging companies and integrated product offering. A wide range of products dedicated to the retail segment and the integration of communication and distribution channels will allow to develop a complex product offering for customers comprising electricity, gas, heat, power services, insurance, conventional, low-emission and alternative fuels. Addressing client needs based on the existing and new communication

channels, and digital technology will result in an increase of quality and effectiveness in sales and optimisation of customer service costs.

- (d) Thanks to the combination of both entities and consolidation of the areas dealing with energy and gas wholesale the costs related to, *inter alia*, trading on the Commodities Exchange, will be optimised as a result of the possible reduction of cash assets maintained as security deposit or limiting costs of fees and required licences. In addition, the common policy in terms of commodity and currency hedging as well as increased volume and the possibility of concluding opposite transactions will have a positive impact on the economics of those transactions.
- (e) Synergies in production relate to, *inter alia*, consolidation of assets related with energy and heat generation and renewable energy sources. The benefits are expected in, among other things, coordination of production capacities and joint operations which will allow to carry out more ambitious programmes of investing in innovative and low-emission energy sources such as RES, hydrogen and biogas.
- (f) Ensuring and integrated and consistent approach to energy security in Poland in terms of keeping reserves of liquid hydrocarbons (crude oil, liquid fuels) and gas (natural gas) by optimal use of tangible assets and employee expertise in construction and management of storage facilities for hydrocarbons in underground caverns, including the water and brine infrastructure associated therewith.
- (g) Greater efficiency of projects, outlays and resources in the RDI projects portfolio to increase their reach and effectiveness. The optimum use of the creative potential of employees of the combined company will both contribute to a more dynamic and innovative development of the combined Group, and to the multi-utility group becoming a more attractive employer.

4.10. One of the principal elements that decide the value of the combined company are its employees who are the major and fundamental resource. The development and competitiveness of the organisation, both domestically and internationally, depend on their knowledge, skills, quality of work and involvement.

4.11. It is the ambition of the combined company to create an effective organisation based on unique competence and qualifications of its employees. A consistent organisational culture based on business ethics principles and corporate value is an integral part thereof. In the combined company it is our intention to foster the culture of employee involvement in their work and the development of our organisation. One of the key elements of employee care are the issues related to multigenerational management, employee relations, improved communications or strengthening management competence.

4.12. The combined company envisages maintaining employment stability and strengthening the potential for employee development, as a result of more opportunities to share experience and know-how and due to greater mobility. A coordinated CSR policy, supported by technological partnerships and consolidated human capital of the merged company, will allow for more effective identification and development of new solutions responding to the challenges of the

energy and petrochemical sectors in terms of sustainable, ecological development, and will enable greater and more comprehensive support of local communities. In addition, the support within the scope of involvement in social, cultural and sports initiatives will be continued.

5. EXAMINATION OF THE MERGER PLAN BY AN EXPERT

- 5.1.** The Merger Plan will be examined by an expert appointed by the competent registry court (the “Expert”).
- 5.2.** The Expert will draw up a detailed written opinion in accordance with Article 503 § 1 of the Commercial Companies Code and file it with the competent registry court and the Management Boards of the Merging Companies.
- 5.3.** The Expert’s opinion will be published in accordance with Article 505 § 3¹ of the Commercial Companies Code on PGNiG’s website at <https://pgnig.pl/relacje-inwestorskie/polaczenie-z-pkn-orlen>.

6. RECOMMENDATION OF THE MANAGEMENT BOARD OF PGNIG

- 6.1.** In view of the above, the Management Board of PGNiG recommends that the GMS of PGNiG adopt a resolution regarding the Merger and approves the proposed amendments to the articles of association of PKN ORLEN, the draft of which is attached as schedule No. 1 to the Merger Plan.

IN THE NAME OF PGNIG S.A.

Przemysław Waclawski
Vice President of the Management Board
Finance

Artur Cieřlik
Vice President of the Management Board
Strategy and Regulations