Gdańsk, June 3rd 2020

General Meeting

of Grupa LOTOS S.A.

Ladies and gentlemen,

Considering that the Management Board of Grupa LOTOS S.A. (the "Company" or "GL S.A.") has decided that the Company would participate, as a co-sponsor, in the Polimery Police project (the Project), as part of which the Company would invest an aggregate amount of PLN 500,000.00 (five hundred million złoty) by:

(i) making a cash contribution to cover an increase in the share capital of Group Azoty Polyolefins S.A. and to subscribe for new shares in the company, for a total amount up to PLN 300,000,000.00 (three hundred million złoty) and,

(ii) providing to Grupa Azoty Polyolefins S.A. a loan of up to PLN 200,000,000.00 (two hundred million złoty),

in connection with the planned new issue of ordinary bearer shares by Grupa Azoty Polyolefins S.A. of Police,

the Company's Management Board requests that the General Meeting approves the purchase by the Company of new shares for the issue price specified by the General Meeting of Grupa Azoty Polyolefins S.A. by way of a private placement within the meaning of Art. 431.2.1 of the Commercial Companies Code, in a number ensuring that the Company holds a 17.3% interest in the share capital of Grupa Azoty Polyolefins S.A. (and total voting rights), for a total amount of up to PLN 300,000,000 (three hundred million złoty). The share capital of Grupa Azoty Polyolefins S.A. will be increased by the amount specified by the company's General Meeting.

As the Company intends to spend more than PLN 100m to purchase new shares in Grupa Azoty Polyolefins S.A., pursuant to Art. 9.13.a of the Company's Articles of Association, a consent of the Company's General Meeting must be secured to purchase the shares on the terms specified in the draft resolution attached hereto.

RATIONALE

<u>The Project</u>

The project is carried out by the Grupa Azoty Group. The original sponsors of the Project are Grupa Azoty S.A. and Grupa Azoty Zakłady Chemiczne Police S.A. A special purpose vehicle – Grupa Azoty Polyolefins S.A. (former PDH Polska S.A.; "GA Polyolefins") – was established by the Original Sponsors to carry out the Project.

Once completed, the project will be one of the most advanced chemical plants in Central and Eastern Europe. It will produce polypropylene (the assumed annual capacity is ca. 437 thousand tonnes of the product) and propylene necessary for its production. The convenient location of GA Polyolefins (close to the main plant of Grupa Azoty Zakłady Chemiczne Police S.A.) provides access to feedstock (propane) supplies by sea, via the Szczecin-Świnoujście waterway. The project includes construction of:

- a transshipment and storage terminal (liquid fuels);
- PDH units (propylene production)
- PP units (polypropylene production)

- auxiliary units;
- logistics infrastructure.

The estimated total budget of the Project is ca. EUR 1.52bn (including financing costs during the construction phase and reserves required under the project finance formula). The Project schedule provides for a test start-up of PDH and PP installation in the second quarter of 2022 and launch of commercial production in the fourth quarter of 2022.

The project is based on advanced production technologies:(i) the Oleflex technology for the production of propylene, supplied by a global provider of innovative industrial technology, UOP, a US company owned by Honeywell, and (ii) the Unipol technology for the production of polypropylene, supplied by the US company Grace. Oleflex and Unipol are proven technologies and offer advanced technical solutions and cost efficiency; additionally Unipol ensures product flexibility, which will ultimately enable a wide range of polypropylene types to be produced.

The Project is characterized by a high level of competitiveness in relation to other polypropylene plants in Europe. Its major competitive advantage is the location, with access to feedstock supply sources from Russia or the North Sea at attractive prices. Moreover, the proximity of markets with a significant supply deficit and low polypropylene production capacities (Central and Eastern Europe, Germany, Scandinavia) will be another important advantage of the Project. The production complex is strategically located between European markets (Polish, German, Scandinavian, Central European) characterised by polypropylene supply deficits.

The Project is of strategic importance to the Polish economy, as it is expected to materially reduce Poland's trade deficit in plastics, lessen Poland's reliance on energy and feedstock supplies through the construction of a new liquid fuels terminal as part of the project, create new jobs for highly qualified staff and establish a platform for the advancement of science and R&D&I.

Due to the size and complexity of the Project, it was assumed that it would be carried out under one contract, on an EPC LSTK basis (*Engineering, Procurement and Construction - Lump Sum Turn Key*). The turnkey formula assumes that the EPC Contractor undertakes to deliver the unit according to an agreed schedule at a fixed price. The EPC Contractor will guarantee that the unit achieves and maintains all parameters specified in the EPC contract. The EPC Contractor assumes the risks associated with the timely execution of the Project. The risk of increase in labour and materials costs and the exchange risk are also borne by the EPC Contractor. This is reflected in the amount of remuneration asked by the EPC Contractor.
The EPC Contractor is Hyundai Engineering Co. Ltd., having the appropriate know-how and technical and economic resources necessary to carry out the work. Construction works are monitored by an internal team of specialists at GA Polyolefins, with the support of renowned external advisors, including the Contract Engineer and the Technical Advisor. The Project will also be monitored by an independent technical advisor acting on behalf of the financing institutions.

Financing is provided on a project-finance basis, without recourse to the Sponsors (shareholders) of the special purpose vehicle (GA Polyolefins).
The target structure of the financing was negotiated by the Original Sponsors (i.e. Grupa Azoty S.A. and Grupa Azoty Zakłady Chemiczne "Police" S.A. and GA Polyolefins) with Co-sponsors (i.e. Hyundai Engineering Co., Ltd. (HEC), Korea Overseas Infrastructure & Urban Development Corporation (KIND) and GL S.A.), and is provided for in the term sheets concerning equity financing executed in December 2019; and with the financing institutions with whom senior debt financing term sheets were signed. Project financing structure:

- approximately 60% of the financing will be senior debt provided by the financing institutions in the form of term facilities, complementary working capital facilities, and VAT facilities (on a project-finance basis);

- approximately 40% of the financing will be provided by the Original Sponsors and the Co-sponsors in the form of equity and equity-equivalent instruments (loans provided by Original Sponsors and Co-sponsors, subordinated to the senior debt).

The target shareholding structure of the special purpose vehicle (GA Polyolefins) will be as follows: 64.93% of the shares will be held by the Original Sponsors (including 30.52% by Grupa Azoty S.A. and 34.41% by GA Zakłady Chemiczne “Police” S.A.); GL SA will hold 17.3% of the shares; HEC will hold 16.63% of the shares; and KIND will hold 1.14% of the shares. These percentages will represent both respective interests in the share capital of and in the total voting rights in Grupa Azoty Polyolefins S.A.

Profitability analyses confirm the Project’s economic viability – the net present value (NPV) is positive and the internal rate of return (IRR) is higher than the required minimum rate of return (cost of capital), which indicates that the Project is profitable.

The Project is in progress. On December 23rd 2019, GA Polyolefins issued the Full Notice to Proceed (FNTP) to the general contractor. On January 7th 2020, the site was formally handed over to HEC, the general contractor, and the works started.

The formal process of arranging the financing is nearing completion – on May 31st 2020 the final debt financing agreement was signed between the financing syndicate and GA Polyolefins.

Also on May 31st 2020, project documentation (including the Investment Agreement, the Shareholders Agreement, and Loan Agreements) was executed by and between the Co-sponsors – separately by each of Hyundai Engineering Co. Ltd., Korea Overseas Infrastructure & Urban Development Corporation and GL S.A. with the Original Sponsors, i.e. Grupa Azoty S.A., Grupa Azoty Zakłady Chemiczne Police S.A. and GA Polyolefins.

LOTOS Group’s interest in the Police Polymers Project

On April 26th 2019, the Company, PDH Polska S.A. (currently GA Polyolefins), Grupa Azoty S.A., and Grupa Azoty Zakłady Chemiczne “Police” S.A. (jointly “Parties”) executed a letter of intent as a starting point for negotiations of the Company’s potential contribution to the financing of the Polimery Police, including though purchase of new shares in GA Polyolefins and contribution of up to PLN 500m towards the company’s share capital (see Current Report No. 9/2019 of April 26th 2019).

The context of the Company's interest in the Project is as follows:

- The Project has been known to the Company and has been analysed (in various business scenarios) in the past as an opportunity for the Group’s vertical diversification into petrochemicals;
- The Project's logistics infrastructure offers regional synergies (related to the potential directions for development of GL S.A.) – a new liquid fuel terminal, with the potential for GL’s further expansion and access to the sea in the West Pomerania region;
- There are also product synergies, including the possibility of cooperation between the Project and GL S.A. with respect to the use of significant amounts of hydrogen in technological and energy-generation processes.

Following the signing of the letter of intent, GL S.A. (supported by reputable financial and legal advisers) has started to analyse the Project and GL S.A.'s participation The starting point for the profitability analysis of Grupa LOTOS S.A.'s equity participation in the Project was the financial model developed and updated by GA Polyolefins, supported by an independent financial adviser and audited by a reputable auditor. The Project was evaluated in terms of its profitability indicators typically used to assess investment opportunities, i.e.:

- net present value – NPV,
- internal rate of return – IRR,
- payback period – PP.

In terms of its commercial aspects and the adopted price paths, the model was based on a report prepared by an independent market advisor retained by the financing banks. Prices of polypropylene, propylene and propane follow similar trends, although the correlation is not strong and historically there have been situations where the spread between prices of propane, propylene and polypropylene expanded or shrank driven by conditions affecting only one of the markets.

The results of the profitability analyses of GL S.A.'s participation in the Project confirm the validity of the investment – the net present value (NPV) is positive and the internal rate of return (IRR) is higher than the minimum rate of return required by GL S.A. as an investor in this type of projects (weighted average cost of capital).

Negotiations of the legal and financial terms of GL S.A.'s potential participation in the Project were conducted in parallel to the analyses. On December 13th 2019, the equity term sheet was signed by and between the Original Sponsors, GL S.A. and GA Polyolefins (Current Report No. 41/2019 of December 13th 2019).

It was finally decided that GL S.A.'s participation in the Project would take the form of a PLN 300m equity investment in the shares of GA Polyolefins and a PLN 200m shareholder loan (subordinated to the senior debt financing).

The risk of the Project (carried out on a project-finance basis) is fully based on the success of the Project and its ability to generate the planned free cash as a source of the equity premium for the GA Polyolefins shareholders.The analyses and simulations have indicated a number of risk factors typical for such large and complex projects (including risk of delays in project delivery, market risk, technical risks, financing risks). Some of these risks will be mitigated as the Project progresses. It should be emphasised that the applied formula of project execution (EPC) is in itself an important risk-mitigating element The equity participation of Hyundai Engineering Co. Ltd. (general EPC contractor) as a shareholder of GA Polyolefins further strengthens the Project’s foundations.

The Project documentation signed by the Company on May 31st 2020 (Investment Agreement, Shareholders Agreement, Loan Agreement) contains provisions strengthening the position of GL S.A. (minority shareholder), including through reduction of the risk of failure to achieve the minimum acceptable rate of return. The corporate powers conferred on GL S.A. as a potential shareholder should be deemed to be at least in line with the market standard (among other things, GL S.A. has been granted the right to appoint a Supervisory Board member with a blocking vote on important matters, and the right to convene a General Meeting with a blocking vote with respect to a broad list of restricted matters).

The entire framework of the investment agreements is broadly in line with market standards, however in the case of a project of this scale and value, implemented on a project-finance basis, it is difficult to determine a well-developed and definite market standard.

Given the extensive experience of GL S.A. in the organisation and execution of large and complex investment projects, the Company is a natural support for and a guarantor of the Project which is currently viewed as the most important development initiative in the Polish chemical industry. This is one of the reasons why GL S.A. has secured the right to independent, above-standard technical and operational monitoring of the Project and has declared extensive cooperation with the Original Sponsors.

The Project investment agreements were signed on May 31st 2020, the entry into force of the main provisions of the main investment agreement and, consequently, the shareholder agreement and loan agreements is contingent upon:

(i) adoption by the Supervisory Board of GL S.A. of a resolution to grant consent for the execution of the Project (i.e. contribution of a PLN 300m equity and granting of a PLN 200m GAP loan) and

(ii) adoption by the General Meeting of GL S.A. of a resolution to grant consent for the purchase by GL S.A. of shares in GA Polyolefins S.A.

In view of the above, the Management Board of GL S.A. moves that the General Meeting of Grupa LOTOS S.A. adopts the resolution as proposed herein.

Yours faithfully,

Management Board of Grupa LOTOS S.A.