

GENERAL MEETING Of Grupa LOTOS S.A.

Dotyczy: proposal concerning allocation of profit for 2019 and dividend payment

In connection with the 2019 separate financial statements approved by the Grupa LOTOS S.A. Management Board, showing in the statement of comprehensive income a net profit of **PLN 834,306,038.97**, and in connection with the upcoming Annual General Meeting of Grupa LOTOS S.A., the Grupa LOTOS S.A. Management Board has passed a resolution on allocation of the net profit for 2019, requesting that the General Meeting to:

- allocate **PLN 184,873,362.00**, i.e. **PLN 1.0 per share**, as dividend for shareholders. The proposed dividend record date is September 14th 2020 and the proposed dividend payment date is September 28th 2020;
- allocate the remaining amount, being the difference between the net profit and the proposed dividend amount, i.e. **PLN 649,432,676.97**, to statutory reserve funds.

Pursuant to Art. 382.3 of the Commercial Companies Code and Art. 13.2.5 of the Company's Articles of Association, the Management Board requests the Supervisory Board to provide an assessment of the proposed allocation of the Company's net profit for 2019. The Supervisory Board gives a positive assessment of the proposal of the Grupa LOTOS S.A. Management Board (Resolution of Supervisory Board no. 313/X/2020 of May 11th 2020)

Pursuant to Art. 395.2.2 of the Commercial Companies Code and Art. 9.3 of the Company's Articles of Association, the Management Board requests the General Meeting of Grupa LOTOS S.A. to allocate the net profit for 2019.

Grounds for the proposal concerning allocation of profit for 2019 and dividend payment

The following arguments support the payment of dividend from the 2019 net profit in the proposed amount:

1. In 2019, the Company and its Group again reported very good financial performance, but weaker than in the previous year.

Key financial results of the LOTOS Group (PLNm)

	2019	2018	2017
Revenue	29,493.3	30,121.7	24,185.6
Cost of sales	-25,649.1	-25,592.7	-20,194.1
Gross profit	3,844.2	4,529.0	3,991.5

Distribution costs	-1,425.6	-1,355.6	-1,252.3
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Net profit/(loss) of the LOTOS Group (PLNm)

	2019	2018	2017
Operating profit	1,969.7	2,981.3	2,228.5
Finance income	70.1	41.1	450.0
Finance costs	-351.8	-303.1	-234.0
Share in net profit/(loss) of equity-accounted joint ventures	4.2	3.3	3.2
Profit before tax	1,692.2	2,722.6	2,447.7
Income tax	-539.3	1,135.2	-775.9
Net profit	1,152.9	1,587.4	1,671.8

2. The debt ratio remained flat year on year, but is considered to be completely safe, and the proposed dividend amount will not adversely affect this perception of the Company's debt level.

The ratio of net debt to LIFO-based EBITDA* for 2019 was 1.0, of which 0.4 was the effect of applying IFRS 16 (*Leases*) in the financial statements. The ratio was as follows:

- for 2018: 0.6, with the effect of leases slightly below 0.1
- for 2017: approximately 0.8, with the effect of leases at approximately 0.1.

It may be therefore confirmed that net of the effect of IFRS 16 the ratio for 2019 did not change materially from 2018 and remains safe.

*LIFO-based EBITDA – estimated EBITDA for the last 12 months, according to LIFO-based valuation, net of one-off items.

The Company's liquidity position enables it to effectively perform its processes, and the payment of dividend in the proposed amount will be possible within the limits set by the credit facility agreements. In 2019, the Company also completed work on refinancing the 10+ Programme and repaid 75% of its debt under the inventory credit facility (reducing it from USD 200m to USD 50m), which further reduced the Company's borrowing costs and increased its cash flexibility.

The Company's budget and liquidity forecast for 2020 provide for payment of dividend of up to PLN 555m. However, it should be remembered that the Company has numerous investment projects underway, one of which, i.e. Polimery Police, is of key importance for its further development. The Company's share in the project is PLN 500m. The Company sourced a part of that amount from funds generated in 2019.

Moreover, one of the key factors currently impacting the Company's operations is the recession resulting from the coronavirus pandemic. We are now dealing with a global economic slowdown, which translates into negative macroeconomic forecasts for 2020, thus

also affecting global refining margins and access to financing sources. If a negative scenario (no rebound after the second quarter of 2020) materialises, it is highly likely that production volumes and margins will decrease. In addition, low crude oil prices significantly reduce the amount of available financing based on inventory valuation and have a negative effect on the profitability and liquidity of the upstream projects run by the Group companies. In this situation, they may need support from Grupa LOTOS S.A.

Considering the above circumstances, the potential for dividend payment for 2019 was estimated reasonably, reconciling investors' dividend expectations with the need to pursue a prudent liquidity and investment policy, especially in view of the abovementioned potential consequences of the coronavirus pandemic.

3. **Assuming that the dividend for 2019 will be set at PLN 1 per share**, the share of dividend in Grupa LOTOS S.A.'s separate net profit would be 22% (2018: 41%) and in the LOTOS Group's net profit – 16% (2018: 35%).
Moreover, based on the Company's share price as at April 27th 2020 (approximately PLN 61), the dividend payout ratio would be 1.63% (2018: 3.7%, based on the stock price as at May 22nd 2019).
4. A favourable assessment of the Management Board's recommendation to pay dividend of PLN 1.0 per share would not only confirm the Company's continued financial soundness and mark the continuation of a reasonable dividend policy assuming dividend payment based on generated profits, but also demonstrate care for the Company's liquidity in the challenging period of stabilisation following the COVID 19 pandemic crisis. It would also evidence the Company's care for maintaining the ability to meet investment commitments, and in particular to secure funds for the Polimery Police project and other projects carried out by Grupa LOTOS S.A. and other Group Companies.

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