

Questions submitted by a shareholder Bogdan Kamola during the Annual General Meeting of Grupa LOTOS S.A. on June 30th 2021, and Grupa LOTOS S.A.'s answers:

1. **The Directors' Report on the operations of Grupa LOTOS S.A. (GL S.A.) and the LOTOS Group in 2020** shows revenue of PLN 20,908.6m (down 29.1% on 2019) and operating expenses of PLN 21,375m (down 22.5% on 2019). Please provide the reasons for the negative divergence between the declines in revenue and expenses.

Answer:

The lower decrease in expenses compared with the decrease in revenue was caused by continued significantly lower crack spreads for petroleum products, further exacerbated by an unstable supply-demand situation on the global oil markets related to COVID-19 pandemic and measures taken by countries to limit its spread.

Also, please note that a significant portion of the Company's expenses are fixed costs, whose amount is completely independent of the amount of revenue in the short term. The lower year-year decrease in operating expenses in 2020 (by PLN 6.19bn) compared with the decrease in revenue (by PLN 8.58bn) was caused by:

- 1) increase in depreciation and amortisation (by PLN 180.6m), largely attributable to the EFRA units placed in service in Downstream, and depreciation of the Norwegian upstream assets using the units-of-production method;
 - 2) increase in taxes and charges (by PLN 169.5m) including a provision for the National Reduction Target (PLN 75.1m), an increase in the provision for a deficit of CO₂ emission allowances (PLN 71.7m), and a provision for emission charge (PLN 62.6m);
 - 3) increase in employee benefits expense (by PLN 18.3m), mainly in Grupa LOTOS S.A., reflecting a rise in pay of white-collar employees and a higher bonus provision;
 - 4) increase in other expenses (by PLN 24.3m), including mainly property insurance in GL S.A.;
 - 5) increase in change in product inventories and adjustment to cost of sales (by PLN 328.1m) as a result of a larger decrease in products inventories.
2. Please provide the amount of expenditure incurred by the Group (including restoration assets) on the following key upstream projects from their **conceptual phase to December 31st 2020**:
- B8 Project,
 - B3 Project, including the Giant platform,
 - Sleipner Project,
 - Heimdal Project,
 - Yme Project,
 - Other projects in the segment,
- and the financial safety buffer for the projects as at December 31st 2020.

Answer:

Capital expenditure on the projects, reflected in gross non-current assets (excluding right-of-use assets), and net restoration assets disclosed in the consolidated statement of financial position of Grupa LOTOS S.A. as at December 31st 2020 is presented below:

Project	Gross capital expenditure as at December 31st 2020 [PLNm]	Net restoration assets as at December 31st 2020 [PLNm]
B8	1,587.1	50.3
B4/B6 ⁽¹⁾	110.3	-
Utgard	379.5	8.4
YME	1,233.9	39.7
NOAKA	225.2	-
Sleipner	493.0	46.1
Heimdal	364.7	2.6
B3, including the Giant platform	559.3	99.9

⁽¹⁾ contributions to the share capital of Baltic Gas Sp. z o.o. and Baltic Gas Spółka z ograniczoną odpowiedzialnością i wspólnicy sp. k. as at December 31st 2020.

3. In 2020, GL S.A.'s marketing expenditure was ca. PLN 80.7m. Has the effectiveness of marketing services and their actual impact on sales during the COVID-19 pandemic been measured? Also, has a methodical assessment of the decline in revenue been performed, and have appropriate conclusions been drawn from the assessment for future reference?
- a) What was the LOTOS Group's share of the domestic retail fuel market in 2020?

Answer:

The analysis of effectiveness of the marketing and sponsorship activities carried out by the LOTOS Group includes monitoring of indicators which depend on the type of project and objectives of specific activities (e.g. short-term sales promotion campaigns at the service stations, sports sponsorship).

Periodic reports on sales and market dynamics published by POPIHN indicate that the marketing activities contributed to the successful delivery of both fuel and non-fuel retail sales targets at the service stations.

LOTOS Paliwa S.A. monitors sales and current efficiency improvement activities on an ongoing basis.

Measurements of the effectiveness of sponsorship activities also showed their high effectiveness, as demonstrated by a record advertising value equivalent for 2020.

In reference to item (a) of the question, the LOTOS Group's share of the domestic market in 2020 reached 6.1% for diesel and gasoline combined.

4. Grupa LOTOS S.A.'s strategy for 2017–2022 provided for hydrocarbon production of approximately 30–50 thousand barrels of oil equivalent (boe) per day. Production in 2020 was 20.3 thousand boe/d. Please explain the main reasons (other than delays in the work on the YME and B8 projects) why the actual production volumes in 2020 were below the target set in the strategy.

Answer:

The strategic target of 30–50 thousand boe/d you have mentioned is an annual average target defined for the 2019–2022 period. The production metric (annual average) can be fully evaluated at the end of the period covered by the LOTOS Group's Strategy, in 2022.

Having said that, the observed and predicted deviations from the strategic path result from delays on the strategic upstream projects: B8, B4B6, YME and NOAKA (which is an extension of the previously planned project of a smaller scope and scale, i.e. Frigg Gamma Delta).

5. Why does the model of consolidation of PKN ORLEN S.A. and Grupa LOTOS S.A. provides for the acquisition of Grupa LOTOS S.A. by PKN ORLEN S.A. in which Grupa LOTOS S.A. (to be liquidated) loses its legal personality and *its assets are to be purchased by competitors for next to nothing*? Furthermore, I would like to remind you that the European Commission's conditional clearance of the acquisition of the LOTOS Group by PKN ORLEN S.A. does not provide for such a rigorous equity alliance, in which the target company, including its brand, is to be liquidated.

Answer:

The Company would like to note that in its Current Report No. 21/2020 it announced that on July 14th 2020 the European Commission issued a conditional approval for a concentration consisting of the acquisition of control of the LOTOS Group by PKN Orlen S.A., i.e. the enforceability of the decision is subject to the implementation of certain remedies, including structural and behavioural commitments relating to the structure and policies of the undertakings involved in the concentration. In order to implement the remedies, conditional agreements should be executed to dispose of certain assets and companies of the LOTOS Group. The process is being carried out in compliance with applicable laws and with due care exercised by the Company. The European Commission's decision did not determine the method of acquiring control of Grupa LOTOS S.A. by PKN ORLEN S.A.

The decision to effect the merger pursuant to Art. 492.1.1 of the Commercial Companies Code was made in consultation with PKN ORLEN S.A., PGNiG S.A. and the State Treasury, as announced by the Company in Current Report No. 16/2021.

6. The 6.2% year-on-year increase in administrative expenses was primarily due to higher employee benefits and service costs. Did any other expenses related to overall management of Grupa LOTOS' operations or other general expenses contribute to the increase in administrative expenses?

Answer:

In 2020, Grupa LOTOS S.A.'s administrative expenses amounted to PLN 279m compared with PLN 262.8m in 2019, having increased PLN 16.2m (by 6.2%). In addition to a rise in wages and salaries and social security (up PLN 7.6m and PLN 3.8m, respectively), the increase was also driven by higher depreciation and amortisation (up PLN 2m), repair services (up PLN 3m) and other services (up PLN 1.6m) in 2020, which was partially offset by lower taxes and charges (down PLN 2.2m) and lower business travel expenses (down PLN 1.7m) in the same period.

7. **Were Exploration and Production Norge AS' tax settlements with the Oil Taxation Office (OTO) regarding thin capitalisation in 2015–2016 finalised as at June 30th 2021, i.e. challenging the company's ability to include in its tax deductible expenses all debt service costs and exchange differences on debt financing due to its equity being too low in the stated period. Has the OTO assessed taxes of NOK 172m?**

According to the information provided in the Directors' Report on the operations of Grupa LOTOS S.A. and the LOTOS Group in 2020, on September 30th 2020 LOTOS Exploration and Production Norge submitted to the Oil Taxation Office (OTO) its position on a draft decision challenging the company's ability to include in its tax deductible expenses all debt service costs and exchange differences on debt financing due to its equity being too low, covering the years 2015 and 2016, and up to the date of issue of that document the company had not received any information that a final tax decision had been issued by the OTO. This information will be updated as at June 30th 2021 in connection with the publication of an interim report for the first half of 2021, scheduled for August 12th 2021.

8. **Please provide the main reasons for the increase in legal expenses and management consultancy fees incurred by Grupa LOTOS, from PLN 4.65m in 2019 to PLN 10.45m in 2020 (an increase of 125%).**

Answer:

The increase was due to a change in the data presentation methodology applied by the Company – the item comprising legal expenses and management consultancy fees of approximately PLN 4.7m contained in the Management Board's report on entertainment expenses, legal expenses, marketing costs, public relations and social communication expenses, and management consultancy fees for 2019, did not include expenses treated as management consultancy services, which amounted to PLN 6.5m in the period (and which were included in this item in the 2020 report, amounting to PLN 5.4m).