



Grounds for the resolution to establish an extraction facility decommissioning fund by PKN ORLEN S.A.

Extraordinary General Meeting of Polski Koncern Naftowy ORLEN S.A.

Ladies and Gentlemen,

In order to properly implement the intention to merge PKN ORLEN S.A. ("PKN") and PGNiG S.A. ("PGNiG") through the acquisition of PGNiG, one of the most important issues remains the correct (legal and unchallengeable) transfer of hydrocarbon exploration, appraisal and production licences to PKN ORLEN. One of the requirements for the transfer to take place is the establishment of an extraction facility decommissioning fund.

Purpose of an extraction facility decommissioning fund

Pursuant to the Geological and Mining Law of June 9th 2011 (consolidated text: Dz.U. of 2022, item 1072, as amended; the "Geological and Mining Law"), the establishment of an extraction facility decommissioning fund is obligatory for any undertaking which has obtained a licence to conduct activities consisting in, *inter alia*, extraction of minerals from deposits or a licence to explore for, appraise and produce hydrocarbons from deposits. This obligation arises under Art. 128.1 of the Geological and Mining Law.

The purpose of the fund is to secure funds for future decommissioning of the extraction facility.

Pursuant to Article 128 (4), the decommissioning fund is mainly created by recognising a 3% depreciation charge on the property, plant and equipment of the extraction facility (once a year). As provided for in Art. 128.3, the fund is also increased by interest income from cash, proceeds from treasury bills and proceeds from bonds issued or guaranteed by the State Treasury.

Pursuant to Article 130, funds accumulated in the decommissioning fund are excluded from enforcement and are not part of the bankruptcy estate of the entity obliged to establish the fund.

Technically, the extraction facility decommissioning fund is a separate bank account (for holding cash collateral), with the proviso that the fund may also be created from proceeds from treasury bills or bonds, as mentioned above.



PKN ORLEN's obligation to establish an extraction facility decommissioning fund in view of the intention to merge with PGNiG (through the acquisition of PGNiG)

In connection with the merger between PKN and PGNiG, all licences for exploration, appraisal and production of hydrocarbons from deposits (crude oil and natural gas) should (must) be transferred to the acquirer. Such transfer will be made by way of a universal succession (PKN ORLEN will assume all existing rights and obligations of PGNiG) under a special procedure introduced into the Geological and Mining Law under the Act Amending the Act on Investments Relating to the Liquefied Natural Gas Regasification Terminal in Świnoujście and Certain Other Acts of April 28th 2022 (Dz.U. of 2022, item 1261). The procedure, mainly set out in Art. 36a of the Geological and Mining Law, provides that an entity which intends to assume the rights and obligations of an undertaking which holds, *inter alia*, a licence for the production and exploration for or appraisal of hydrocarbons is required to notify the licensing authority of the intention in advance. Upon making the notification and subject to fulfilment of certain detailed conditions provided for in Art. 36a.3 and Art. 49zda.1 of the Geological and Mining Law, by operation of law the licences are transferred to the acquirer once the merger is effected.

Pursuant to Art. 36a.3.4 of the Geological and Mining Law in conjunction with Art. 36.6 of the Geological and Mining Law, one of the conditions to be met by PKN ORLEN as the acquirer in order to make a valid notification of the intention to acquire PGNiG and, as a result, make it possible for PGNiG's licences to be transferred to PKN ORLEN, is to provide evidence in the form of "opening of a bank account for the extraction facility decommissioning fund and accumulating in the account financial resources in an amount equal to the amount of funds accumulated by the previous undertaking".

It should be therefore emphasised that prior establishment by PKN ORLEN of an extraction facility decommissioning fund is one of the formal prerequisites for proper notification of the intended acquisition of PGNiG and transfer to PKN ORLEN of the licences held by PGNiG for hydrocarbon exploration, appraisal and production.

In view of the foregoing, we inform you that the agenda for the Extraordinary General Meeting includes an item concerning the establishment of an extraction facility decommissioning fund. We hereby submit to you a draft resolution of the Extraordinary General Meeting on the matter, requesting that it be adopted.