

# Corporate governance

# Approach to management

Corporate governance strengthens our credibility as an entity listed on the WSE's regulated market, and thus the entire organization's competitive position. Therefore, we have a significant interest in implementing and complying with best practices.

We are concerned about the quality of our investor relations and make every effort to ensure that they are founded on equality and developed to the satisfaction of both sides, on the basis of unambiguous and reliable communication. The information policy of Grupa LOTOS and its subsidiaries focuses on effective support of our corporate governance objectives.



In 2005–2007, the Best Practices in Public Companies 2005 document, modified by general practice, discussions and the European Commission's recommendations, was used as a guide to corporate governance principles by companies wishing to nurture their long-term shareholder relations.

Best practices are principles designed to establish high standards of corporate governance, which thus help bring corporate supervision into line with EU standards.

From its stock market debut in June 2005, Grupa LOTOS adhered to most of the recommendations set out in this document. Then, since the beginning of 2008, it has followed the *Code of Best Practice for WSE Listed Companies* ([more information](#)), and its versions as amended by the WSE's Supervisory Board in its Resolutions of October 19th 2011 and November 21st 2012, the latest of which has been in force since the beginning of 2013.

In line with disclosure requirements, the Company reports on instances of incidental or permanent non-compliance with corporate governance rules. The reports are published through the Electronic Information Base (EBI), and released in two languages on the Company's investor relations website. ([more information](#))

In 2013, we complied with most of the obligatory corporate governance principles set forth in the Code of Best Practice for WSE Listed Companies. In line with the comply-or-explain principle, which provides that public companies should either comply with corporate governance rules or explain any instances of incidental or permanent non-compliance, Grupa LOTOS, acting under Par. 29.3 of the WSE Rules, released non-compliance reports via the EBI system, similarly to current reports.

On May 31st 2013, we reported non-compliance with Rules 10.1 and 10.2 of Section IV of the Code of Best Practice for WSE Listed Companies, on enabling shareholders to participate in General Meetings by means of electronic communication. We do not provide real-time broadcast of General Meetings or publish the recordings of their proceedings, in audio or video format, on our website, although recommended to do so by Section II.1.9a of the Code. ([more information](#))

In our report, we explained that our Articles of Association do not provide for the possibility of participating in General Meetings by means of electronic communication. Further, we do not plan to make audio or video recordings of the proceedings of our General Meetings available, or to publish such recordings on our website, as we believe that our current methods of documenting the proceedings of the General Meeting already ensure the transparency of the Company's activities and protect the rights of all our shareholders. We publish adopted GM resolutions in current reports and releases posted on our website. Pursuant to Article 8.8 of the Company's Articles of Association, the Board of Grupa LOTOS is authorised to make the decision, if any, to broadcast the proceedings of the General Meeting in real time. The possibility of ensuring compliance with the rules specified above will be examined in the future.

We have in place mechanisms enabling our shareholders and employees to submit recommendations and other comments directly to members of the bodies supervising the correctness of the organization's management processes. In line with the Polish Commercial Companies Code, the Articles of Association of Grupa LOTOS and the Rules of Procedure for its General Meeting address these issues in detail. They define the rules governing participation in the General Meeting and exercising voting rights, the manner of convening and closing the General Meeting, its opening and proceedings.

Shareholders, by virtue of their rights, may influence our operations and review the activities undertaken by the Company's management and supervisory bodies.

A key shareholder right is the right to participate in the General Meeting, which accrues to all persons who are Company shareholders sixteen days prior to the date of the General Meeting, i.e. on the record date. Holders of registered shares and temporary certificates and pledgees and usufructees entitled to exercise voting rights are entitled to attend the General Meeting if they are entered in the register of shareholders at the record day.

Additionally, the right to participate in the General Meeting entitles shareholders to:

- submit motions prior to and during the General Meeting,
- request that certain items be placed on the agenda of the General Meeting,
- propose draft resolutions concerning items which have been or are to be placed on the agenda prior to the General Meeting,
- propose draft resolutions concerning items included in the agenda, or placed on the agenda during the General Meeting,
- take the floor during the General Meeting,
- object to or appeal against resolutions of the General Meeting.

Moreover, shareholders representing at least 1/20 of the share capital may request that an Extraordinary General Meeting be convened and certain items be placed on its agenda.

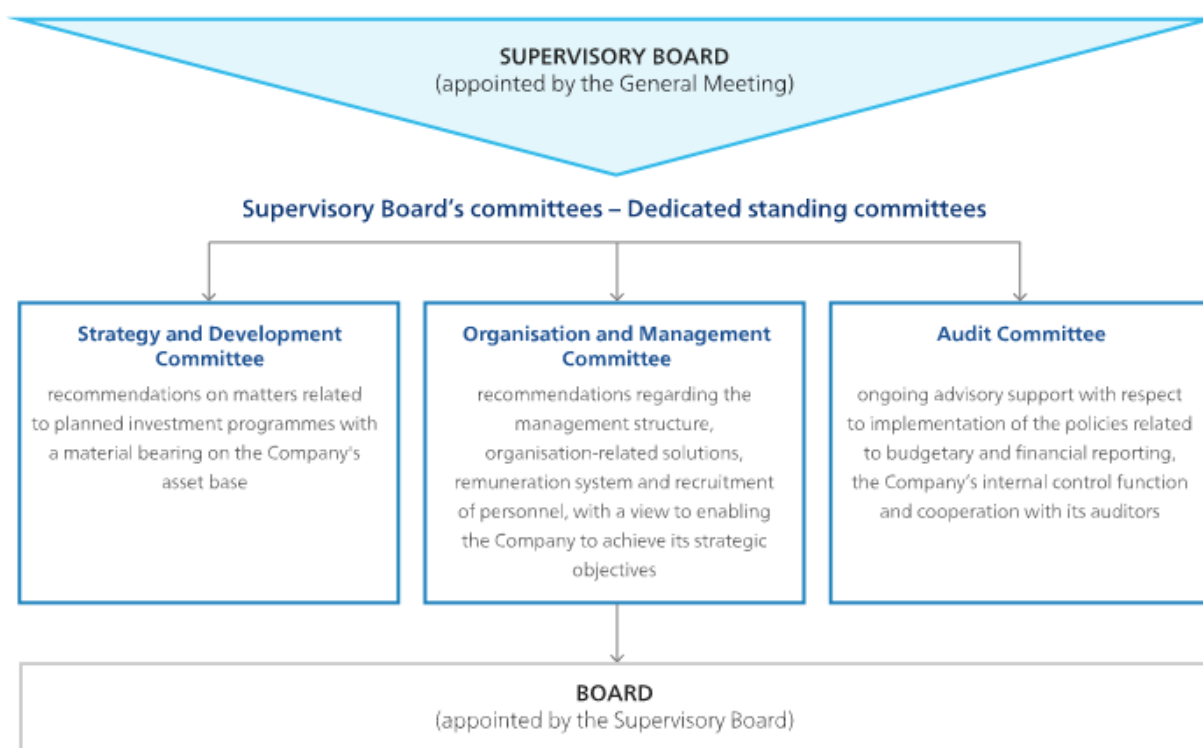
In addition to the requirements imposed by law, the rules laid down in the Code of Best Practice for WSE Listed Companies define mechanisms aimed to improve the quality of corporate relations with investors, while enhancing the protection of shareholder rights, also in matters falling outside the scope governed by law. They encourage companies to:

- post on their corporate websites detailed information on General Meetings, including reasons for calling off or postponing a Meeting, changes to a Meeting's agenda together with reasons justifying such changes, notices of adjournment, shareholder questions relating to agenda items asked before and during a Meeting, as well as answers to such questions,
- ensure that General Meetings are attended by Supervisory Board and Board members,
- set the venue and date of General Meetings so as to enable the highest number of shareholders to participate,
- enable representatives of the press to be present at General Meetings.

In 2013, the Annual General Meeting was convened on June 28th 2013 as an Ordinary General Meeting of Grupa LOTOS and reviewed and approved the financial statements and directors' report on the operations of the Company and of the LOTOS Group in 2012; and granted discharge in respect of performance of duties to Members of the Supervisory Board and Members of the Board. Moreover, the General Meeting granted its approval for the sale of organized parts of Grupa LOTOS business which were the fuel depots in Piotrków Trybunalski and Rypin.

During the Meeting, shareholder B. Kamola exercised his right to take the floor. The proposals and comments submitted by the shareholder related to the Company's operations, primarily to financial and economic issues, the LOTOS Group strategy, the Yme project and the issue of fuel depots. Questions asked by the shareholder and answers provided by the Board have been published on the Company's website. Moreover, the shareholder exercised his right to object to the resolution concerning approval of the directors' report on the Company's operations in the year ended December 31st 2012.

### Corporate governance structure of Grupa LOTOS



# Powers

The Supervisory Board of Grupa LOTOS exercises ongoing supervision of the Company's business, across all areas of its operations. It performs its duties collectively, but may also delegate its members to perform certain tasks or functions individually, and may set up ad hoc or standing committees to exercise supervision of specific areas of the Company's activities.

The procedures followed by the Supervisory Board of Grupa LOTOS are defined in the Company's Articles of Association and the Rules of Procedure for the Supervisory Board.

- [Statute of Grupa LOTOS](#)
- [Rules of Procedure for the General Meeting of Grupa LOTOS](#)
- [Rules of Procedure for the Supervisory Board of Grupa LOTOS](#)

Members of the Supervisory Board of Grupa LOTOS should perform their duties to a professional standard of care. Pursuant to the Rules of Procedure for the General Meeting and the rule set forth in Section I.6 of the Code of Best Practice for WSE Listed Companies, members of the Supervisory Board of Grupa LOTOS should also possess appropriate expertise and experience, and be able to devote the time necessary to perform their duties.

# Composition

## **Wiesław Skwarko**

Chairman of the Supervisory Board of Grupa LOTOS

## **Marcin Majeranowski**

Deputy Chairman of the Supervisory Board of Grupa LOTOS

## **Oskar Pawłowski**

Secretary of the Supervisory Board of Grupa LOTOS

## **Małgorzata Hirszel**

Member of the Supervisory Board of Grupa LOTOS

## **Agnieszka Trzaskalska**

Member of the Supervisory Board of Grupa LOTOS

## **Michał Rumiński**

Member of the Supervisory Board of Grupa LOTOS

The Supervisory Board of Grupa LOTOS may be composed of five to nine members, appointed for a joint three-year term of office by the General Meeting. As long as it remains a shareholder in the Company, the State Treasury is entitled to directly appoint and remove one of the Supervisory Board members. The Supervisory Board may delegate its members to perform certain tasks or functions individually.

### **The Supervisory Board of Grupa LOTOS of the eighth term of office (January 1st – December 31st 2013)**

No.	Name and surname	Function
1.	Wiesław Skwarko	Chairman
2.	Marcin Majeranowski	Deputy Chairman
3.	Oskar Pawłowski	Secretary
4.	Małgorzata Hirszel	Member
5.	Agnieszka Trzaskalska	Member
6.	Michał Rumiński	Member

## Number of women and men on the Supervisory Board of Grupa LOTOS in 2011 – 2013

Year	Period	Total members	Number of women	Number of men
2011	Jan 1st – Jun 27th	8	2	6
	Jun 27th – Nov 8th	7	2	5
	Nov 8th – Dec 31st	6	1	5
2012	Jan 1st – Jun 27th	6	1	5
	Jun 27th – Nov 8th	5	1	4
	Nov 8th – Dec 31st	6	2	4
2013	Jan 1st – Dec 31st	6	2	4

# Standing committees of the Supervisory Board

Standing committees of the Supervisory Board of Grupa LOTOS, acting as supporting, advisory and consultative bodies, include the Audit Committee, Strategy and Development Committee and Organization and Management Committee.

Each committee is composed of three to five persons, appointed by the Supervisory Board from among its members. The committees are headed by chairpersons, who are appointed by the Supervisory Board from among the committee members. All Supervisory Board members have the right to participate in the meetings of each committee.

The powers and duties of the committees are defined by the Rules of Procedure for the Supervisory Board and the Rules of Procedure for the individual committees.

In the period from January 1st to December 31st 2013, the committees of the Supervisory Board of Grupa LOTOS were composed of the following persons:

Audit Committee	
Michał Rumiński	Chairman
Oskar Pawłowski	Member
Wiesław Skwarko	Member
Marcin Majerański	Member
Strategy and Development Committee	
Wiesław Skwarko	Chairman
Małgorzata Hirszel	Member
Michał Rumiński	Member
Agnieszka Trzaskańska	Member
Marcin Majerański	Member
Organization and Management Committee (OMC)	
Agnieszka Trzaskańska	Chairperson
Małgorzata Hirszel	Member
Oskar Pawłowski	Member
Marcin Majerański	Member
On January 18th 2014, the Supervisory Board of Grupa LOTOS appointed Michał Rumiński to the Organization and Management Committee. As of that date, the Committee is composed of the following persons:	
Agnieszka Trzaskańska	Chairperson
Małgorzata Hirszel	Member
Oskar Pawłowski	Member
Marcin Majerański	Member
Michał Rumiński	Member



# Remuneration

The rules of remuneration for members of the Supervisory Board are defined by the General Meeting.

The remuneration of Supervisory Board members is subject to the limitations and conditions prescribed under the Act on Remunerating Persons Who Manage Certain Legal Entities of March 3rd 2000 (Dz.U. of 2000 No. 26, item 306, as amended). In accordance with the Act, in 2000 the Extraordinary General Meeting defined a remuneration policy for Supervisory Board members. Pursuant to the policy:

- Supervisory Board members receive monthly remuneration equal to the average monthly salary in the non-financial corporate sector, net of bonuses paid from profit in the fourth quarter of the preceding year, as announced by the President of the GUS (Central Statistics Office),
- The remuneration is payable irrespective of the frequency of Supervisory Board meetings, except if, in a given month, a member of the Supervisory Board is absent from all meetings held in that month without valid reason,
- If a Supervisory Board member is appointed or removed from office during a calendar month, the remuneration amount is calculated according to their number of days in office,
- The Company reimburses any expenses incurred by the Supervisory Board members in connection with the performance of their duties, and – pursuant to the Personal Income Tax Act – calculates and deducts personal income tax prepayments from their remuneration.

In line with amendments to the aforementioned Act, in 2013 Supervisory Board members were entitled to receive monthly remuneration calculated on the basis of the average monthly salary in the non-financial corporate sector net of bonuses paid from profit in the fourth quarter of 2009.

## Remuneration of the Supervisory Board members in 2013

Name and surname	Amount (PLN '000)
Wiesław Skwarko	41
Marcin Majeranowski	41
Oskar Pawłowski	41
Małgorzata Hirszel	41
Michał Rumiński	41
Agnieszka Trzaskańska	41
<b>Total</b>	<b>246</b>

# Independence status

The term "independent members of the supervisory board" in reference to public companies was introduced in the Code of Best Practice for WSE Listed Companies, which is the cornerstone of Polish corporate governance tradition and main driver of transparency in listed companies.

In accordance with Rule 6, Section III of the Code, at least two supervisory board members should meet the independence criteria set out in Annex II to the Commission Recommendation of February 15th 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board. In addition, a person who is an employee of the company, its subsidiary company or its associated company, or has an actual and significant relationship with any shareholder who has the right to exercise at least 5% of all votes at the general meeting, cannot be deemed to meet these independence criteria.

Independent members of the supervisory board are persons who are not linked in any way with the shareholders, the company or its employees, as such relations could potentially result in a conflict of interests.

Grupa LOTOS has no information on the independence of its supervisory board members. Full compliance with Rule 6 in Section III of the Code will be ensured once the Company receives relevant confirmation that at least two existing or newly appointed members of the Supervisory Board satisfy the independence criteria, in accordance with the conditions set out by the European Commission.

# Avoidance of conflicts of interest

Under Art. 387 of the Commercial Companies Code, which aims to prevent the combination of management and supervisory roles, particularly with respect to supervisory boards, a current member of the management board of a company, its commercial proxy, liquidator, head of a division or production facility, or internal chief accountant, legal counsel or lawyer may not sit on the company's supervisory board. Article 387 also prohibits combining management and supervisory functions at an incorporated company in accordance with the principle that the supervised may not exercise supervision.

In addition to the requirements imposed by law, pursuant to Rules 2 and 4 in Section III of the Code, a member of the supervisory board should submit to the company's management board information on any relationship with a shareholder who holds shares representing 5% or more of all votes at the general meeting. This obligation concerns financial, family, and other relationships which may affect the position of the member of the supervisory board on issues decided by the supervisory board. Additionally, a member of the supervisory board should notify the supervisory board of any actual or potential conflicts of interest and should refrain from taking part in the discussion and from voting on the adoption of a resolution on the issue which gives rise to such a conflict of interest. These are the obligations of supervisory board members of listed companies.

Members of the Supervisory Board of Grupa LOTOS make IFRS-compliant disclosures on related-party transactions in accordance with IAS 24 Related Party Disclosures for the purposes of the Company's financial statements. According to disclosures made in 2013, two members of the Supervisory Board of Grupa LOTOS are employed by the Ministry of State Treasury, which both claim has no influence on their duties on the Supervisory Board of Grupa LOTOS. The remaining Supervisory Board members declare that they do not have any economic links, family ties or other relations with a shareholder holding 5% or more of total votes at the General Meeting of Grupa LOTOS and which might sway their position on matters decided by the Supervisory Board.

The Company is not aware of any conflicts of interest that arose or could have arisen in 2013, which the member concerned should have notified the Supervisory Board about, and as a result of which the member should refrain from taking the floor and voting on resolutions pertaining to the matter giving rise to such conflict of interest.

In addition to the above requirements, upon appointment, members of the Company's Supervisory Board are required to make a representation to the effect that they are not engaged in any activities competing with the Company's business, and that they are not partners in any competing partnership under civil law or another type of partnership, nor members of a governing body of an incorporated company or of any other competing legal entity.

# Commitment to sustainable development

The Supervisory Board is an important element of the system assessing the performance, opportunities and risks of Grupa LOTOS, and ensuring that the Company's activities in the area of sustainability remain transparent.

In 2013, the Supervisory Board reviewed the core issues and areas of the Company's operations, both in the context of natural resources, as well as the Company's social and environmental impact. In the year, the Supervisory Board met seven times and adopted 43 resolutions.

Key matters pertaining to the Company's performance, opportunities and risks in the area of sustainable development brought under discussion by the Supervisory Board in 2013 included:

- implementation of the 2013–2015 Effective and Rising Programme, which aims to expand and restructure the LOTOS Group,
- exploration and production operations,
- investment activities and the overhaul shutdown of the refinery,
- current financial performance, spending under the 2013 budget, and preparation of a new budget for 2014,
- refinancing of the Company's inventories,
- financing of CSR projects by Grupa LOTOS,
- Company sponsorship activities.

In 2013, the committees of the Supervisory Board, viewing sustainability as an essential process for the Company and appreciating the importance of a responsible approach to business, brought the following matters under discussion:

- implementation of the LOTOS Group's strategy,
- results of the audit and review of the LOTOS Group's financial statements,
- the budget for 2014,
- debt servicing forecasts and liquidity management plan,
- the management of current assets,
- hedge accounting,
- the Company's internal audit function,
- organizational maturity assessment,
- risk management.

The activities of the Supervisory Board are evaluated by the General Meeting, which has the authority to grant discharge to members of the Supervisory Board in respect of performance of their duties. The basis for the granting of such discharge is a report containing an assessment of the Company's standing, covering the sustainable development issues detailed above, presented annually by the Supervisory Board pursuant to the Rules of Procedure for the Supervisory Board and the Code of Best Practice for WSE Listed Companies.

# Powers

The Board of Grupa LOTOS represents the Company before third parties and manages its corporate affairs. Individual Board members perform their duties in line with the division of powers and responsibilities resulting from their operational functions. Each member of the Board is authorised to represent the Company in all court and out-of-court transactions, with the exception of matters reserved for the General Meeting or Supervisory Board under the Commercial Companies Code or the Company's Articles of Association, as well as matters falling outside the scope of ordinary management of the business where they require the Board's prior resolution and matters within the powers of another member of the Board.

The Board operates on the basis of the Grupa LOTOS Articles of Association and its Rules of Procedure. The documents are publicly available on the Company's website.

- [Statute of Grupa LOTOS](#)
- [Rules of Procedure for the Board of Grupa LOTOS](#)

# Composition

## **Paweł Olechnowicz**

President of the Board

## **Mariusz Machajewski**

Vice-President of the Board

## **Zbigniew Paszkowicz**

Vice-President of the Management Board

## **Marek Sokołowski**

Vice-President of the Management Board

## **Maciej Szozda**

Vice-President of the Management Board

The Board of Grupa LOTOS may consist of three to seven members. Members of the Board are appointed by the Supervisory Board, which also determines their number. Board members are appointed for a joint term of three years.

From January 1st to December 31st 2013 and as at the release date of this Report, the composition of the Board of Grupa LOTOS in its eighth term of office was as follows:

Name and surname	Function
Paweł Olechnowicz	President of the Board, Chief Executive Officer
Mariusz Machajewski	Vice-President of the Board, Chief Financial Officer
Zbigniew Paszkowicz	Vice-President of the Management Board, Exploration & Production
Marek Sokołowski	Vice-President of the Management Board, Chief Operation Officer
Maciej Szozda	Vice-President of the Management Board, Chief Commercial Officer

## Positions held by members of the Board of Grupa LOTOS at other companies in 2013

Name and surname	Function on the Board of Grupa LOTOS	Company	Function at the company	Term of office in 2013
Paweł Olechnowicz	President of the Board	LOTOS Exploration and Production Norge AS	Chairman of the Board of Directors	Jan 1 – Dec 31 2013 and as at the release date of this report
Paweł Olechnowicz	President of the Board	AB LOTOS Geonafta	Chairman of the Board of Directors	Jan 1 – Dec 31 2013 and as at the release date of this report
Mariusz Machajewski	Vice-President of the Board	LOTOS Paliwa Sp. z o.o.	Deputy Chairman of the Supervisory Board	Jan 1 – Dec 31 2013 and as at the release date of this report
Mariusz Machajewski	Vice-President of the Board	RCEkoenergia Sp. z o.o.	Chairman of the Supervisory Board	Jan 1 – Dec 31 2013 and as at the release date of this report
Zbigniew Paszkowicz	Vice-President of the Management Board	LOTOS Petrobaltic S.A.	President of the Management Board	Jan 1 – Dec 31 2013 and as at the release date of this report
Zbigniew Paszkowicz	Vice-President of the Management Board	LOTOS Exploration and Production Norge AS	Member of the Board of Directors	Jan 1 – Dec 31 2013 and as at the release date of this report
Marek Sokołowski	Vice-President of the Management Board	LOTOS Czechowice S.A. (LOTOS Terminals S.A. – since July 30th 2013)	Chairman of the Supervisory Board	Jan 1 – Dec 31 2013 and as at the release date of this report
Marek Sokołowski	Vice-President of the Management Board	LOTOS Biopaliwa Sp. z o.o.	Chairman of the Supervisory Board	Jan 1 – Dec 31 2013 and as at the release date of this report
Maciej Szozda	Vice-President of the Management Board	LOTOS Paliwa Sp. z o.o.	Chairman of the Supervisory Board	Jan 1 – Dec 31 2013 and as at the release date of this report
Maciej Szozda	Vice-President of the Management Board	LOTOS Biopaliwa Sp. z o.o.	Deputy Chairman of the Supervisory Board	Jan 1 – Dec 31 2013 and as at the release date of this report

# Remuneration

As the State Treasury's equity interest in the Company exceeds 50% (50% of the total number of shares), remuneration paid to members of the Board of Grupa LOTOS is regulated by the Act of March 3rd 2000 on Remunerating Persons Who Manage Certain Legal Entities (Dz.U. of 2000 No. 26, item 306, as amended). Under the Act, the body authorised to determine the monthly remuneration payable to President of the Board is the General Meeting. Remuneration paid to the other Board members is determined by the Supervisory Board, as provided for under the Company's Articles of Association. The remuneration policy is discussed in greater detail in the 2012 Report. ([more information](#))

In line with an amendment to the Act, in 2013 the Board members were entitled to receive monthly remuneration calculated on the basis of the average monthly salary in the non-financial corporate sector net of bonuses paid from profit in the fourth quarter of 2009.

## Remuneration of the Grupa LOTOS Board members in 2013

Name and surname	Amount (PLN '000)
Paweł Olechnowicz	319
Mariusz Machajewski	320
Zbigniew Pażkiewicz	260
Marek Sokołowski	358
Maciej Szozda	323
<b>Total</b>	<b>1,580</b>



# Avoidance of conflicts of interest

As a means of avoiding conflicts of interest, the Company complies with the provisions of the Commercial Companies Code, the Rules of Procedure for the Board and the Code of Best Practice for WSE Listed Companies.

If a conflict of interests arises between the Company and a Board member and persons with whom the member has personal ties, the member should refrain from swaying the Company's decisions on matters which gave rise to such conflict. Additionally, a member of the Board of Grupa LOTOS should notify the Board of any actual or potential conflicts of interest and should refrain from taking part in the discussion and from voting on the adoption of a resolution on the issue which gives rise to such a conflict of interest. Furthermore, the Board members and their immediate subordinates are prohibited from serving on the Supervisory Board of Grupa LOTOS. Members of the Board who wish to serve on management or supervisory bodies of other companies are required to seek the approval of the Company's Supervisory Board.