

Corporate governance

As a listed company, Grupa LOTOS adheres to the principles of transparency of its operations and communication, trust building in its relations with stakeholders, and openness and consistency creating value for shareholders.

Mission, vision, values



The Corporate Social Responsibility values of the Company originate from the commonly accepted ethical and environmental standards.

Management approach



The Company adheres to the internationally accepted best practices of responsible and sustainable business.

Management systems



In order to uniform standards of management and behaviour for the LOTOS Group, codes of best practices have been adopted.

Risk management

Risk management supports decision-making processes and choosing the most beneficial solutions for the Company.

Organizational maturity

The results of the assessment for 2011 testify that Grupa LOTOS is oriented towards professionalization of its activities.

Supervisory Board

The Supervisory Board analyses sustainable development issues, i.a. access to raw materials and the social and environmental impact.

Board

In 2011, the Board of Grupa LOTOS received Polish civil state awards for the successful completion of the 10+ Programme.

Mission, vision, values

The Corporate Social Responsibility values of the Company originate from the commonly accepted ethical and environmental standards.

Our mission is to pursue innovation-oriented sustainable development in the areas of exploration, production and processing of hydrocarbons and marketing of high-quality products, which is conducive to creating lasting value for shareholders, ensuring customer satisfaction, enhancing and leveraging the employee potential, and which is carried out:

- in accordance with corporate social responsibility principles,
- in an environmentally friendly manner, and
- in compliance with the energy security policy.

The LOTOS Group strives to emerge as the most reputable oil company in the Baltic Sea region, widely recognised for:

- high-quality petroleum products,
- best-quality customer service, and
- professional management style.

The overriding strategic objective pursued by the LOTOS Group is to create value for shareholders through optimised utilisation of human and material resources and implementation of development programmes in the field of:

- exploration and production,
- crude processing,
- marketing.

Our responsibility for local communities and the environment is manifest in the commitment to ensure that our production activities cause no social or environmental damage. We also assume responsibility for our products towards the government, market participants, business partners, customers and employees.



Values underlying the LOTOS Group's corporate social responsibility:

- **transparency** – stands for compliance with the most exacting environmental standards, commitment to ethical and fair competition, and counteracting human rights abuses,
- **openness** – stands for the right attitude towards change, external needs and expectations, future-oriented approach, and dynamic expansion of international operations,
- **innovativeness** – stands for the capacity to recognise people's intellectual capital and skills driving the strength and prospects of the LOTOS brand,
- **responsibility** – stands for the right attitude towards mankind and its future, the environment, security of our home country and its international position.

Related content:

About us

Management approach

The Company adheres to the internationally accepted best practices of responsible and sustainable business.

Declarations

The principles of conducting its business activities publicly declared by Grupa LOTOS.

Submission of recommendations

The Company's stakeholders exercise their rights to submit comments and recommendations on its activities.

Declarations

The principles of conducting its business activities publicly declared by Grupa LOTOS.

Since its stock market debut in June 2005, Grupa LOTOS adhered to most recommendations set out in the "Best Practices for Public Companies", and since 2008 it has followed the "**Code of Best Practice for WSE Listed Companies**", amended by the WSE's Supervisory Board in its Resolution of October 19th 2011. The latter document comprises a set of principles designed to establish best practices of corporate governance and bring corporate supervision in line with EU standards.

Being a public company, Grupa LOTOS takes care to build relationships of partners with its investors, that are satisfactory to both sides, in line with the principles of *corporate governance*. For the Company, corporate governance stands for a collection of rules of ethical business conduct, but also for regulations aiming to provide a balance between the interests of all participants of the capital market engaged in the functioning of companies.

The primary objectives that Grupa LOTOS pursues by adhering to the rules of corporate governance include:

- transparency of its operations as a listed company,
- trust in its relations with stakeholders,
- openness and consistency in creating value for shareholders.

Pursuant to new disclosure standards embodied in the Code of Best Practice, the Company reports to its stakeholders all instances of breaching a corporate governance principle, whether incidentally or permanently. Such reports, similarly to current reports, are published in two language versions on the Company's investor relations website.



United Nations Global Compact

In all areas of our activity, we endorse and abide by the ten principles of **United Nations Global Compact**, a voluntary international corporate citizenship initiative of unprecedented reach. As the initiative's participant, the Company has committed to:

1. support and respect the protection of internationally proclaimed human rights,
2. make sure that it is not complicit in human rights abuses,
3. uphold the freedom of association,
4. eliminate all forms of forced or compulsory labour,
5. support the effective abolition of child labour,
6. effectively eliminate discrimination in respect of employment and occupation,
7. support a precautionary approach to environmental challenges,
8. undertake initiatives to promote greater environmental responsibility,
9. encourage the development and diffusion of environmentally-friendly technologies,
10. work against corruption in all its forms, including extortion and bribery.

Grupa LOTOS is also a signatory of the Declaration on Sustainable **Development in the Energy Sector in Poland**, initiated by Polskie Górnictwo Naftowe i Gazownictwo SA, which emphasises:

- the need to ensure efficient functioning of companies and the entire industry, with due regard to both energy security and environmental protection,
- the need to jointly promote energy-efficient solutions, develop and implement cleaner and more efficient technologies, overcome investment barriers in the energy sector and take environmental impacts into consideration at all stages of project execution,
- the need to build an open market, where customers and energy providers can successfully assert their rights,
- the need to take care of customers, including socially vulnerable ones, by deploying schemes aimed to facilitate their access to energy,
- participation in development of renewable energy sources, and harnessing to this end the potential offered by scientific and technological innovation, as well as working towards a consistent and stable regulatory framework,

- improvement of occupational safety and health and taking initiatives aimed to ensure equal career opportunities for men and women.

Related content:

Society **Environment**

Submission of recommendations

The Company's stakeholders exercise their rights to submit comments and recommendations on its activities.

The Company has in place mechanisms enabling its shareholders and employees to submit recommendations and other comments directly to members of the bodies supervising the correctness of its 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 Shareholders Meeting address these issues in detail. They define the rules governing participation in the General Shareholders Meeting and exercising voting rights, the manner of convening and closing the General Shareholders Meeting, its opening and proceedings.

Pursuant to the above regulations, shareholders, by virtue of their rights, may influence the Company's 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 Shareholders Meeting, which accrues to all persons who are Company shareholders sixteen days prior to the date of the General Shareholders Meeting, i.e. on the record date. Additionally, the right to participate in the General Shareholders Meeting entitles shareholders to:

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

Moreover, shareholders may request that an Extraordinary General Shareholders Meeting be convened and certain items be placed on its agenda.

General Shareholders Meetings in 2011

In 2011, the General Shareholders Meeting was held twice: as the Ordinary General Shareholders Meeting on June 27th, and as an Extraordinary General Shareholders Meeting on August 8th.

The Ordinary General Shareholders Meeting of Grupa LOTOS reviewed and approved the financial statements and Directors' Report on the Operations of the Company and of the LOTOS Group in 2011; granted discharge in respect of performance of duties to Members of the Supervisory Board and Members of the Board; and appointed a new Supervisory Board for the 8th joint term of office.

During the Meeting, two persons: Mr J. Kotecki, a shareholder's (Stowarzyszenie Inwestorów Indywidualnych - Polish Retail Investors Association) proxy and a non-controlling shareholder Mr B. Kamola exercised their right to take the floor during the Meeting. The proposals and comments submitted by the shareholders related to the Company's operations, primarily to financial and economic issues, and the YME project. Questions asked by the shareholders and answers provided by the Board have been published on the Company's website.

Management systems

In order to uniform standards of management and behaviour for the LOTOS Group, codes of best practices have been adopted.

At Grupa LOTOS, the holding of an Integrated Management System certificate is not an end in itself. Solutions are implemented to allow the organization to benefit from the management system. The standards are seen as guidelines towards universal and optimal solutions from the point of view of the Company's business, which would increase the chances of delivering added value, i.e. make the implemented system more efficient and useful.

An Integrated Management System (IMS) is firmly rooted in the organization. Many years of experience allow us to improve it and establish uniform systems – the LOTOS Group-wide standards of management. Our aim is to further develop the IMS and build a shared management platform within the LOTOS Group, which would account for the specific characteristics of its subsidiaries.



We are aware that we cannot improve the management processes or introduce new systems separately from Grupa LOTOS' segment management and business risk management systems.

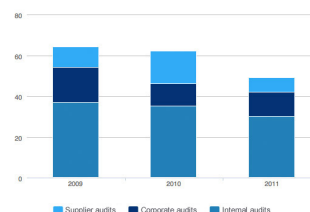
Halina Stasiewicz
 Director of Business Process Management Office
 of Grupa LOTOS

We are aware that we cannot improve the management processes or introduce new systems separately from Grupa LOTOS' segment management and business risk management systems. This approach warrants success in the increasingly changing environment, and makes it easier to adapt to changes, while overcoming communication and organizational barriers.

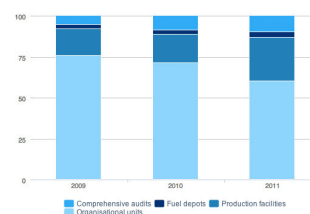
We always strive to take advantage of the cross-dependencies and links between various areas of Grupa LOTOS' operations, and therefore universal solutions are never implemented without taking into account the processes going on at the Company. We realise that these processes and their participants stand behind the quality of the organization.

A well organised and measured process, accounting for the Company's strategic objectives as well as any identified and assessed risks (with the use of the ERM system), may be a source of lasting competitive advantage

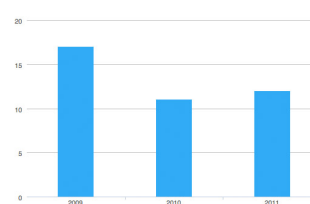
Structure of audits



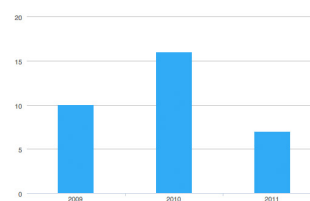
Structure of internal audits



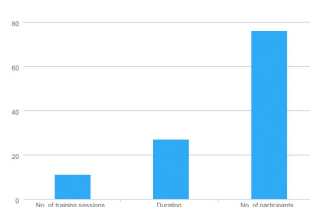
Corporate audits



Supplier audits



Auditor School 2011

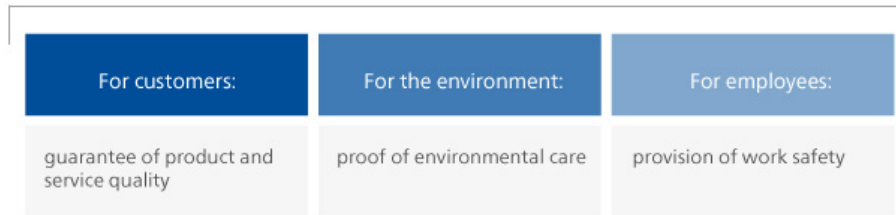


and provide the foundation for successful pursuit of the adopted strategy.

Halina Stasiewicz

– Director of Business Process Management Office of Grupa LOTOS

Integrated Management System



The LOTOS Group's management systems As at December 31st 2011

Company name	Implemented management systems
Grupa LOTOS	Implemented and certified Integrated Management System compliant with ISO 9001, ISO 14001, and PN-N-18001. The requirements of AQAP 2110 (Allied Quality Assurance Publication) and requirements of the Internal Control System for trading in strategic materials (consistent with the PN-N-19001 standard) are met.
LOTOS Asfalt	Implemented and certified Integrated Management System compliant with ISO 9001, ISO 14001, and PN-N-18001. Implemented and certified Site Production Control management system.
LOTOS Kolej	Implemented and certified Integrated Management System compliant with ISO 9001, ISO 14001, and PN-N-18001. Implemented and certified Railway Transport Security Management System (SMS).
LOTOS Lab	Implemented and certified Integrated Management System compliant with ISO 9001, ISO 14001, and PN-N-18001. Certificate of compliance with PN-EN ISO/IEC 17025:2005 issued by the Polish Centre for Accreditation.
LOTOS Ochrona	Implemented and certified Integrated Management System compliant with ISO 9001, ISO 14001, and PN-N-18001.
LOTOS Oil	Implemented and certified Integrated Management System compliant with ISO 9001 and AQAP 2110 (Allied Quality Assurance Publication). Requirements of ISO 14001 and PN-N-18001 have also been implemented.
LOTOS Parafiny	Implemented and certified Integrated Management System compliant with ISO 9001, ISO 14001, and PN-N-18001.
LOTOS Petrobaltic	Implemented and certified Integrated Management System compliant with ISO 9001, ISO 14001, and PN-N-18001. Implemented ISM Code (for compliance with the International Management Code for the Safe Operation of Ships and for Pollution Prevention) and ISPS Code (International Ship and Port Facility Security System).
LOTOS Serwis	Implemented and certified Integrated Management System compliant with ISO 9001, ISO 14001, and PN-N-18001. Implemented requirements for welding quality assurance compliant with PN-EN ISO 3834-2:2007.
LOTOS Straż	Implemented and certified Integrated Management System compliant with ISO 9001, ISO 14001, and PN-N-18001.
LOTOS Czechowice	Implemented Integrated Management System compliant with ISO 9001, ISO 14001, and PN-N-18001.
LOTOS Paliwa	Implemented and certified Integrated Management System compliant with ISO 9001. Requirements of ISO 14001 and PN-N-18001 have also been implemented.
LOTOS Jasio	The company is currently implementing the Integrated Management System.
LOTOS Tank	The company is currently implementing the Integrated Management System.

Audits of the Integrated Management System

Audits are a basic tool used to enhance the Integrated Management System and support the achievement of strategic and operational objectives of the LOTOS Group.

Nearly 300 audits have been performed at Grupa LOTOS in the last five years, and the number of audits carried out each year is comparable. The audits at Grupa LOTOS may be divided into three categories:

- internal audits,
- corporate audits,
- supplier audits.

The findings of **internal audits** reveal areas where the processes, existing system solutions and efficiency can be improved, while being a valuable source of information on process efficiency. Thus, the audits enable the management of Grupa LOTOS to make informed management and operational decisions.

Corporate **audits carried out** at Grupa LOTOS' subsidiaries, assess the implementation of requirements set out in relevant standards and corporate paradigms.

Supplier audits confirm whether individual suppliers are able to meet Grupa LOTOS' requirements. As an additional tool of supplier supervision, such audits enable the Company to assess its suppliers and improve the quality of relationships between the business partners. The Company primarily audits suppliers performing construction works and repairs at the Gdańsk refinery, where compliance with OHS and environmental protection requirements is of paramount importance.

Additionally, other companies of the LOTOS Group carry out internal audits as part of their internal management systems, and supplier audits (where necessary).

Key system changes and projects completed in 2011

Enterprise Risk Management System (*ERM*)

To ensure secure and effective pursuit of its strategic and operational objectives, the LOTOS Group has been consistently implementing and developing the enterprise risk management system. The system supports fast, appropriate and informed decision making based on prior risk analysis. The existing rules of risk identification and assessment allow us to promptly respond to threats, so as to mitigate or altogether eliminate them. Thanks to response plans, the ERM system makes it possible to adequately prepare for the occurrence of a given risk. The LOTOS Group also identifies newly emerging opportunities and possibilities, and strives to exploit them. The enterprise risk management enables the Company to undertake activities optimal for its business (within the acceptable risk limits). The ERM website, built and implemented in reliance on Grupa LOTOS' existing IT infrastructure, is an important element supporting the ERM system.

Process management

Process management – which is adapted dynamically to both inside and outside changes – has been in place at Grupa LOTOS for years. In 2011, new tools started to be implemented that will allow process owners, taking into account their own best practices, to communicate their performance so as to optimise a given process with the use of all available and relevant information.

Project management

Based on positive experience of implementing investments in property, plant and equipment, including the 10+ Programme, the process of introducing the project management methodology with respect to other projects executed at Grupa LOTOS has begun. In 2011, the existing practices and needs were reviewed, whereupon the relevant implementation model and project management rules were defined.

Energy Management System (*EnMS*)

In 2011, the implementation of the energy management system compliant with EN 16001:2009 and ISO 50001:2011 was started. Steps were taken to introduce systemic solutions in the area of energy management, in order to improve Grupa LOTOS' energy efficiency through:

- systematised and standardised approach to the management of energy (in all its forms),
- identification of significant energy aspects of Grupa LOTOS' operations,
- documentation of sub-tasks undertaken in areas covered by the EnMS,
- identification of upgrade and development work required to achieve energy efficiency.

Auditor School

A series of Auditor School training sessions took place at the LOTOS Group in 2011, as part of its efforts aimed at developing a consistent audit policy and a team of well-trained auditors. The training was tailored to the specific needs and situation of the LOTOS Group, and focused on practical development of all auditor skills.

Development plans

The plans for 2012 envisage the continuation of existing projects and implementation of new ones to meet the LOTOS Group's actual needs. The projects are going to be included in the Integrated Management System, which provides for:

- implementation of the Enterprise Risk Management System (ERM). For information on the Enterprise Risk Management System at the LOTOS Group, see the "Risk management" chapter,
- implementation of the Energy Management System (EnMS) in order to support measures aimed at improving the LOTOS Group's energy efficiency. The process will comply with the objectives of Poland's Energy Policy until 2030 (with respect to energy efficiency and environmental impact), and with quantitative targets relating to a reduction of greenhouse gas emissions by 2020. Grupa LOTOS intends to harness the potential of the already completed energy efficiency projects and to implement best practices, solutions and technical standards designed to save energy,
- continuous development of process management by implementing IT tools intended to facilitate the work of process owners (publishing and making available the results of process monitoring) and providing process participants with access to all required information. Optimal solutions or their elements will be selected from the available process management concepts,
- implementation of project management at the LOTOS Group is aimed at developing tools and methods for effective strategy delivery. Drawing on the world's best models and experience and using IT support, a uniform system will be introduced to enable:
 - selection of optimal projects to further the achievement of strategic objectives;
 - successful implementation of the projects;
 - effective monitoring of the implementation process;
 - reliable assessment of their results,
- improvement and extension of the Integrated Management System portal operated by the LOTOS Group – a tool for communicating internal requirements and legal acts, and for collecting information on environmental protection, as well as any powers of proxy granted and credentials issued.

Related content:

Structure of the organization

Risk management

Risk management supports decision-making processes and choosing the most beneficial solutions for the Company.

The procedure set forth in the LOTOS Group's Integrated Management System document specifies detailed rules for risk identification and assessment, monitoring and reporting methods, and reviews aimed to check if the measures taken have brought the expected results. The procedure is designed to ensure that the planned activities are carried out regularly, the applied methodology is optimal and suitable for various areas of operations, and the risk management process is coherent and effective.

Enterprise Risk Management (ERM) at the LOTOS Group is designed to:

- support stable and sustainable growth with a view to meeting the stated objectives through regular and recurrent identification of risks which may hinder their achievement;
- provide comprehensive information on risks inherent in the LOTOS Group's operations (both threats and opportunities);
- enable swift and effective decision-making based on risk analysis;
- prepare the LOTOS Group to respond promptly if a risk materialises.

In order to meet the above objectives, a systemic approach to risk management is being implemented, which covers:

- identification of risks and their qualitative and quantitative assessment,
- determination of risk management strategy,
- implementation of planned measures,
- review of implemented measures to check if they have delivered the expected results,
- constant monitoring and control of both the risk level and status of implemented measures,
- introduction of uniform communication and reporting rules.

Grupa LOTOS' response to risk involves the following four types of measures:

- reducing the probability of risk occurrence, for instance through control measures or process adjustments,
- transferring risk, for instance by means of insurance or outsourcing,
- avoiding risk through withdrawal from a given risk area or refraining from risk laden activities (the least frequently applied strategy),
- accepting a given risk level when it is impossible to reduce it or the risk is too immaterial to be mitigated.

The key principles and scope of responsibilities under the system are defined in the Enterprise Risk Management Policy of the LOTOS Group, available to all the Company's employees. Additionally, an Enterprise Risk Management Committee operates at Grupa LOTOS as advisory body. The Committee's primary function is to check whether any mitigation measures planned by risk owners are consistent from the point of view of the entire Group's operations and do not raise risks in other areas to dangerous levels.

Once a year, a review of the Enterprise Risk Management System is undertaken (as part of the so-called maturity assessment). The results serve to further improve the system. Information on the operation of the Enterprise Risk Management System is provided to the Board and the Audit Committee of the Supervisory Board of Grupa LOTOS.

Key instruments

Grupa LOTOS identifies risks which may affect the achievement of its strategic, process and operational objectives. In most cases, the identification is made at group workshops, but each employee is also obliged and entitled to report any observed risks and opportunities relating to ongoing processes which may affect the Company's performance against objectives.

Risk assessment is undertaken from two different time perspectives – the following year and until the end of the period covered by the LOTOS Group's strategy (currently until the end of 2015). For each risk, the probability of its occurrence is estimated, followed by an assessment of its possible impact on Grupa LOTOS' financial standing and reputation. The assessment takes into account the expected impact on safety of people, environmental impact and reception by key stakeholders.

Relevant controls, security measures and monitoring methods are indicated for all registered risks. Each risk has its owner,

who is responsible for overseeing the risk, monitoring it in line with adopted criteria and implementing agreed mitigation plans. The monitoring results are regularly reported.

The risk assessment serves as a basis for the LOTOS Group's aggregated Risk Map. The Map is subject to changes and is regularly updated in response to external volatility, internal business processes, completion of some projects and commencement of other (which may entail new risks), as well as application of measures aimed at mitigating identified risks, which has the effect of reducing risk pricing.

All risks assessed as significant relative to the stated objectives are subject to detailed analysis aimed to identify the relevant risk factors and the management and monitoring methods to be applied at a given time. Based on the analysis, risk mitigation plans and action plans in case the risk materialises are prepared.

Grupa LOTOS also manages project risks, especially with respect to its investment projects. The risk assessment criteria are slightly different in this case, as they are adjusted to the specific nature of project management. However, the risk management procedures remain consistent for the entire Company, enabling the secure and effective execution of planned projects.

Development plans

Grupa LOTOS is working on the implementation and development of an IT tool designed to support the Enterprise Risk Management System, with a view to enhancing its functionality to end users and preparing required analyses.

In 2011, Grupa LOTOS completed the first stage of development of the new comprehensive IT tool. The new IT system will be subject to constant expansion and functional improvement based on user suggestions, as well as process and system needs. It will allow us to monitor the levels of different risks using predefined Key Risk Indicators (KRI) and will be integrated with the other systems used by Grupa LOTOS (e.g. SAP), so as to be able to directly retrieve and process data stored in those systems.

Work is also in progress on an incident database to be used across the entire Company (incidents being events which may cause the related risks to materialise and may provide information on new, emerging threats and opportunities that have not been previously identified).

Related content:

Key risks, opportunities and challenges in the context of sustainable development

Organizational maturity

The results of the assessment for 2011 testify that Grupa LOTOS is oriented towards professionalization of its activities.

In 2011, an assessment of Grupa LOTOS' organizational maturity was carried out for the period covered by this report. It has been assumed that such an assessment will be performed on an annual basis by the internal audit function supported by an external consultant.

The organizational maturity of a corporation is the level of professionalism of its key organizational solutions, processes and activities, as well as their consistency with the best operating and management practices, which determine the organization's potential to achieve success in terms of stakeholder protection and stakeholder value creation.

In connection with the approach to management adopted by Grupa LOTOS, which assumes continuous improvement, the Company has been taking steps to obtain an objective assurance as to the maturity of solutions it has adopted with respect to:

- internal control,
- risk management,
- compliance,
- counteracting abuse,
- corporate governance.

In order to make an assessment of the above systems, a model has been prepared for the needs of Grupa LOTOS relying on the best business practices included in the GRC (Governance, Risk Management, and Compliance) model developed by Open Compliance & Ethics Group and other sources, for instance - with respect to corporate governance - "The Code of Best Practice for WSE Listed Companies". The model envisages a uniform approach to reviewing and assessing the design of the individual systems, as well as assessing the consistency of the systems' operation with their design. With the model in place, it is possible to assess each of the systems individually and to make a comprehensive assessment of the organizational maturity of the Company as a whole. The approach allows us to identify areas where performance has been improving or deteriorating, as well as to formulate recommendations and initiate steps to enhance them.

- The internal control system was audited both with respect to the solutions constituting the internal control framework, as well as solutions embedded in the particular defined processes within the organization. The assessment of the **internal control system** found that Grupa LOTOS had in place key organizational and process solutions, designed to the best practice standard, which constitute the framework of the internal control system, and that these solutions work as designed.
- The corporate risk management system was examined in terms of the design of elements aimed to ensure that the system's framework is correctly defined and that it works in a proper way, and that all risks are identified and assessed. The assessment of the corporate risk management system found that Grupa LOTOS had developed and put in place a **corporate risk management system** framework which is key to ensuring that the system meets its objective of effectively supporting the corporate management process and creating value added.
- The compliance system is assessed first of all in terms of the correctness of solutions aimed at ensuring compliance with both external and internal regulations. The assessment of the **compliance system** found that active steps were taken at Grupa LOTOS to ensure compliance of the Company's activities and internal regulations with the generally applicable provisions of the law. The Company also takes care to ensure compliance of its practical actions with the requirements laid down in the organization's internal regulations.
- The system of counteracting abuse is examined to verify whether the Company has in place any solutions whose purpose is to counteract abuse, including solutions which concentrate on fostering proper ethical attitudes, and whether it takes any actions to identify and assess areas susceptible to abuse. The assessment of the **system of counteracting abuse** found that it was advisable to take measures with a view to improving the Company's resilience to abuse, by taking a systemic approach to the issue.
- Corporate governance was examined in terms of effective management and organizational efficiency both within the Company, and in its relations with stakeholders. The assessment of the solutions making up the **corporate governance system** led to a conclusion that Grupa LOTOS had established most of the key corporate governance solutions, including solutions governing the relations between the Company's corporate bodies and solutions of strictly internal nature (related to its approach to managing the organization and its resources), and that these solutions were consistent with the applicable standards and best practices.

The results of the assessment of the Company's organizational maturity for 2011 testify that Grupa LOTOS is an organization oriented towards professionalization of its activities and adoption of solutions amounting to the best operating and management practices. Overall, the standards of design and consistency with the design were rated as "high" in the case of most systems, although there are differences with respect to the adoption and application of best practices for the individual systems determining the Company's organizational maturity.

The rating obtained by Grupa LOTOS was largely possible thanks to the efforts made in previous years in order to secure the value and sound operation of the enterprise, which have translated into an efficient internal control system, as well as solutions in the area of corporate governance and compliance. It was also possible thanks to consistent efforts aimed at establishing and embedding in the organization a risk management system, which - if consistently implemented and linked with the Company's decision-making processes - becomes an important factor in the process of creating value for shareholders and other stakeholders.

Related content:

Counteracting abuse

Supervisory Board

The Supervisory Board analyses sustainable development issues, i.a. access to raw materials and the social and environmental impact.

Supervisory Board Powers

The Supervisory Board exercises ongoing supervision over the Company's operations.

Composition of the Supervisory Board

The Supervisory Board of Grupa LOTOS of the 8th term comprises 6 members.

Standing committees of the Supervisory Board

The standing committees are Audit Committee, Strategy and Development Committee, and Organization and Management Committee.

Remuneration of the Supervisory Board

The remuneration policy for the Supervisory Board members was defined by the Extraordinary General Shareholders Meeting in 2000.

Independence status

Grupa LOTOS has no information regarding independence of the Supervisory Board members of the 8th term.

Avoidance of conflicts of interest

The Company is not aware of any conflicts of interest originating in 2011 with regard to the members of the Supervisory Board.

Commitment to sustainable development

The Supervisory Board took a stance on the Company's performance, opportunities and risks in the area of sustainable development.

Supervisory Board Powers

The Supervisory Board exercises ongoing supervision over the Company's operations.

The Supervisory Board exercises ongoing supervision over the Company's business, across all areas of its operations. The Supervisory Board performs its duties collectively, but it may also delegate its members to individually perform certain tasks or functions and may set up ad hoc or standing committees to exercise supervision in specific areas of the Company's activities. Standing committees include the Audit Committee, Strategy and Development Committee and Organization and Management Committee.

Members of the Supervisory Board are appointed by the General Shareholders Meeting. The procedures to be followed by the Board are defined in the Company's Articles of Association and the Rules of Procedure for the Supervisory Board. The documents are available on the Company's website.

Articles of Association of Grupa LOTOS [Link → \(http://www.lotost.pl/pobierz_plik/37250/\)](http://www.lotost.pl/pobierz_plik/37250/)

Rules of Procedure for the General Shareholders Meeting of Grupa LOTOS [Link → \(http://www.lotost.pl/pobierz_plik/35063/\)](http://www.lotost.pl/pobierz_plik/35063/)

Rules of Procedure for the Supervisory Board of Grupa LOTOS [Link → \(http://www.lotost.pl/pobierz_plik/35062/\)](http://www.lotost.pl/pobierz_plik/35062/)

Composition of the Supervisory Board

The Supervisory Board of Grupa LOTOS of the 8th term comprises 6 members.

The Company's Articles of Association state that the Supervisory Board should comprise six to nine members, including the chairperson, deputy chairperson and secretary. It is the General Shareholders Meeting's role to determine the number of Supervisory Board members. Members are appointed and removed from office by the General Shareholders Meeting in a secret ballot, by an absolute majority of votes. The General Shareholders Meeting may appoint new members to the Supervisory Board from an unlimited number of candidates. Notwithstanding the above, as long as the State Treasury remains a shareholder in the Company, it is entitled to appoint and remove from office one member of the Supervisory Board. The Chairperson of the Supervisory Board is appointed by the General Shareholders Meeting, while the Deputy Chairperson and the Secretary are elected by the Supervisory Board from among its members. The term of office of the Supervisory Board is a joint term of three years.

Pursuant to Par. 9.4 of the Rules of Procedure for the General Shareholders Meeting, a Supervisory Board member should have the relevant education, the appropriate professional and practical experience, be of high moral standing and be able to devote all the time required to properly perform his/her supervisory duties. A shareholder proposing candidates for Supervisory Board members should provide the Company with reasons for proposing the candidates together with their professional CVs, within a timeframe enabling other shareholders to review the documents provided in order to verify the candidates' qualifications and experience.



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



Wiesław Skwarko
Chairman of the Supervisory Board of Grupa LOTOS

Wiesław Skwarko has been a member of the Supervisory Board of Grupa LOTOS since June 30th 2008.

Mr Skwarko graduated from the Faculty of Foreign Trade of the Warsaw School of Economics.

In 1987-1994, he was a junior lecturer at the Warsaw School of Economics. From 1990 to 1999, he was partner at Access Sp. z o.o., then became member of the Management Board of Rothschild Polska Sp. z o.o. In 2005–2006, Mr Skwarko served as Head of the Privatisation Office at Nafta Polska S.A. In 2006, he took the position of the Financial Strategy and Capital Development Director, initially at CTL Maczki Bór of Sosnowiec and then at CTL Logistics S.A. of Warsaw. From January 10th 2008 to December 31st 2009 Mr Skwarko was member of the Management Board of Nafta Polska S.A., and from January 1st 2010 to the end of April 2011 he acted as the liquidator at Nafta Polska S.A. w likwidacji (in liquidation). Since October 27th 2010, he has served as Vice-President of the Management Board of ZAK S.A. of Kędzierzyn Koźle.



Marcin Majeranowski
Deputy Chairman of the Supervisory Board of Grupa LOTOS

Marcin Majeranowski was appointed to the Supervisory Board of Grupa LOTOS on February 29th 2012.

He is a graduate of the Faculty of Law and Administration of the Warsaw University. In 2003, he was entered in the register of legal counsels maintained by the District Chamber of Legal Counsels in Warsaw. He has attended various courses, including the Faculté Internationale de Droit Comparé comparative law course, run by the Robert Schuman University in Strasbourg.

Since 1997, he has been with the Ministry of State Treasury. In 2006-2010, he was Head of the Legal Representation Department, where, apart from assisting in legal proceedings, he also gained experience in international arbitration in investment and trade disputes. Since 2010, Mr Majeranowski has been Head of the Strategic Companies Department, whose remit covers the exercise of rights and discharge of obligations of the State Treasury associated with its equity holdings in companies established under commercial law, developing comprehensive solutions to improve the owner's supervision over companies of strategic importance to the State Treasury, as well as coordination and performance of the Ministry's tasks specified in the Act on Investments Related to the Świnoujście LNG Regasification Terminal Project, dated April 24th 2009.

Mr Majeranowski has many years of experience in serving on supervisory boards of various companies, including Powszechny Zakład Ubezpieczeń S.A. and Agencja Rozwoju Przemysłu S.A.



Oskar Pawłowski
Secretary of the Supervisory Board of Grupa LOTOS

Oskar Pawłowski has been a member of the Supervisory Board of Grupa LOTOS since February 11th 2010.

Mr Pawłowski is a graduate of the Faculty of Law and Administration of the Adam Mickiewicz University of Poznań, and Cambridge University (where he specialised in UK and EU law). In 2006, he completed legal counsel training held by the Board of the District Chamber of Legal Counsels in Poznań and was entered in the register of legal counsels.

In 2000-2002, Mr Pawłowski was with Głowacki, Grynhoff, Hałaziński s.j., a law firm. He worked as a lawyer for D. Janczak i Wspólnicy Sp. k. /Domański Zakrzewki Palinka Sp. k. – Ernst & Young Law Alliance – Grupa Energetyczna in 2002-2003, and then from 2003 to 2007 – at Kancelaria Radcy Prawnego Włodzimierz Głowacki, a firm of solicitors. Currently, Mr Pawłowski is Managing Partner at Oskar Pawłowski i Wspólnicy Sp. k., a law firm.

He has over 10 years of experience in providing legal assistance. He specialises in the energy sector's regulatory environment and in legal services related to real estate trade and investment processes. He has extensive experience in corporate

law, mergers and acquisitions.

Mr Pawłowski is also Energy Arbitrator at the Arbitration Court of the Chamber of Industrial Power and Energy Customers. He is a fluent speaker of English. He has authored the following papers: "The Rights of Electricity Consumers and Methods of Protecting Them" in *Rynek Energii* (2/2009) and "Legal Due Diligence of Real Estate" in *Inwestor* (1/2010).



Małgorzata Hirszel

Member of the Supervisory Board of Grupa LOTOS

Małgorzata Hirszel has been a member of the Supervisory Board of Grupa LOTOS since June 30th 2008.

Ms Hirszel is a graduate of the Faculty of Law and Administration of the Warsaw University, and has completed a post-graduate programme in European Studies run by the Warsaw University's Faculty of Journalism and Political Science. Currently Ms Hirszel is pursuing doctoral studies at the Institute of Legal Sciences of the Polish Academy of Sciences.

Since 2000, she has worked at the Chancellery of the Polish Prime Minister. Ms Hirszel was the Chief Specialist/Counsel to the Head of the Chancellery until 2002, and then Counsel to Deputy Prime Minister and Prime Minister at the Economic and Social Department (later transformed into the Council of Ministers Committee Department). In 2002–2006, Ms Hirszel served as Acting Deputy Head of the Economic Division of the Council of Ministers Committee Department, and then as Acting Head of the Programme Department of the Chancellery. In 2007, she became Head of the Council of Ministers Committee Department and Secretary of the Council of Ministers Standing Committee.

She passed an examination for candidates for supervisory board members in state-owned companies in 2002.



Agnieszka Trzaskalska

Member of the Supervisory Board of Grupa LOTOS

Ms Trzaskalska was appointed to the Supervisory Board of Grupa LOTOS on February 29th 2012.

She has completed doctoral studies at the Faculty of Law and Administration of the Warsaw University; she holds a graduate diploma in law from the Faculty of Law and Administration of the University of Silesia.

Since 1999, she has worked for the Ministry of State Treasury in various positions at the following departments: the Agencies and Foundations Department, the Financial Institutions Department, the 5th and 4th Ownership Supervision and Privatisation Department. At present, she serves as unit head at the Privatisation Department, where she coordinates projects related to sale of shares in state-owned or partially state-owned companies. She has many years of experience in the area of corporate law and owner supervision, as well as extensive experience gained serving on the supervisory bodies of commercial-law companies and other entities, including as: Deputy Chairperson/Member of the Supervisory Board of TAURON Polska Energia S.A. (since 2007 until now), Deputy Chairperson of the Supervisory Board of LOTOS Petrobaltic S.A. (2007-2012), Board Member of the Foundation of the Polish Students' Parliament in Warsaw (2000-2003), Deputy Chairperson of the Supervisory Board of PKRB FABUD S.A. of Siemianowice Śląskie (2005-2007).



Michał Rumiński

Member of the Supervisory Board of Grupa LOTOS

Michał Rumiński has been a member of the Supervisory Board of Grupa LOTOS since February 11th 2010.

Mr Rumiński is a graduate of the University of Chicago - Booth School of Business, the Warsaw School of Economics and the Faculty of Law and Administration of the Warsaw University.

Mr Rumiński currently serves as President of the Management Board of Data S.A. Since 2007, he has been associated with MCI Euroventures (investment fund),

holding the following positions: Investment Partner, Member of the Management Board of ABC Data S.A. and President of the Management Board and Managing Partner of Cleantech Venture Partners. Earlier, i.e. until MCI sold its shares in the companies, he had also served as Member of the Supervisory Board of Grupa Lew Sp. z o.o. and Bankier.pl S.A. In 2000-2007, Mr Rumiński worked for the KBC Group, including from 2004 as Corporate Finance Director at KBC Securities S.A., where he was responsible for strategy development and building the corporate finance department at the KBC Securities investment bank in Poland. Prior to that, Mr Rumiński had served as Head of the Investment Banking Division at Kredyt Bank S.A.

Mr Rumiński is the author of the following publications: "The 1997 Currency Crisis vs. Restructuring of the Financial and Corporate Sectors in South Korea", Narodowy Bank Polski (September 2004); "Free Flow of Capital in the European Community", INFOR (February 2000).

In 2011, the composition of the Supervisory Board of Grupa LOTOS was as follows:

In the period January 1st – June 27th 2011, the Supervisory Board of the seventh term of office comprised the following persons:

1. Wiesław Skwarko – Chairman,
2. Leszek Starosta – Deputy Chairman,
3. Oskar Pawłowski – Secretary,
4. Małgorzata Hirszel – Member,
5. Michał Rumiński – Member,
6. Rafał Wardziński – Member,
7. Ewa Sibrecht-Ośka – Member,
8. Rafał Lorek – Independent Member.

In connection with the expiry of the Supervisory Board's seventh term of office, on June 27th 2011, pursuant to Par. 11.1 of the Company's Articles of Association and under Resolution No. 24, the Ordinary General Shareholders Meeting of Grupa LOTOS decided that the Supervisory Board of the next (eighth) term of office would be composed of seven members and, pursuant to the provisions of Art. 385.1 and 2 of the Polish Commercial Companies Code and Par. 9.4 and Par. 11.2 of the Company's Articles of Association, appointed the following persons to the Supervisory Board of the eighth term of office: Leszek Starosta, Oskar Pawłowski, Małgorzata Hirszel, Michał Rumiński, Rafał Wardziński and Ewa Sibrecht-Ośka.

Pursuant to Par. 11.2 of the Articles of Association of Grupa LOTOS, its shareholder State Treasury, represented by the Minister of State Treasury, appointed Mr Wiesław Skwarko to the Company's Supervisory Board of the eighth joint three-year term of office, effective as of the date of the Ordinary General Shareholders Meeting held on June 27th 2011. The aforementioned General Shareholders Meeting, acting pursuant to Par. 11.4 of the Articles of Association of Grupa LOTOS and under Resolution No. 31, appointed Mr Wiesław Skwarko to the position of Chairman of the Supervisory Board of the eighth term of office.

Accordingly, as at June 27th 2011, the Company's Supervisory Board of the eighth term of office comprised the following persons:

1. Wiesław Skwarko – Chairman,
2. Rafał Wardziński – Deputy Chairman (*appointed Deputy Chairman of the Supervisory Board on July 11th 2011*),
3. Oskar Pawłowski – Secretary (*appointed Secretary of the Supervisory Board on July 11th 2011*),
4. Leszek Starosta – Member,
5. Małgorzata Hirszel – Member,
6. Michał Rumiński – Member,
7. Ewa Sibrecht Ośka – Member.

On November 8th 2011, Ms Ewa Sibrecht-Ośka tendered her resignation as Member of the Supervisory Board of Grupa LOTOS. Following her resignation, from November 8th 2011 the number of the Company's Supervisory Board members was below seven, which was the number prescribed by Resolution No. 24 of the Ordinary General Shareholders Meeting of June 27th 2011.

As at December 31st 2011, the composition of the Supervisory Board of the eighth term of office was as follows:

1. Wiesław Skwarko – Chairman,
2. Rafał Wardziński – Deputy Chairman,
3. Oskar Pawłowski – Secretary,
4. Leszek Starosta – Member,
5. Małgorzata Hirszel – Member,
6. Michał Rumiński – Member.

On January 27th 2012, Mr Rafał Wardziński, Deputy Chairman of the Supervisory Board of Grupa LOTOS, tendered his resignation from the Supervisory Board. Following Mr Wardziński's resignation, the number of the Company's Supervisory Board members fell below the minimum number of six members required by the Articles of Association. As a result, from January 27th 2012 until the vacancy was filled, the Supervisory Board could not perform its duties and exercise its powers stipulated in the generally applicable laws and in the Company's Articles of Association. However, the loss by the Supervisory Board of its ability to perform its function as a governing body of the Company did not affect the mandates of its remaining Members who, once the vacant post was filled, continued to perform their functions. The above rule also applied to the Supervisory Board Committees, which were also unable to perform their functions during that period.

Considering the circumstances, on February 29th 2012, the Extraordinary General Shareholders Meeting of Grupa LOTOS made changes to the composition of the Supervisory Board of the eighth term of office by appointing Ms Agnieszka Trzaskalska and Mr Marcin Majeranowski to the Supervisory Board and by removing Mr Leszek Starosta from the Board.

Following the changes, as of February 29th 2012 and as at the release date of this report, the composition of the Supervisory Board of Grupa LOTOS of the eight joint term of office was as follows:

1. Wiesław Skwarko – Chairman,
2. Marcin Majeranowski – Deputy Chairman (appointed Deputy Chairman of the Supervisory Board on March 8th 2012),
3. Oskar Pawłowski – Secretary,
4. Małgorzata Hirszel – Member,
5. Agnieszka Trzaskalska – Member,
6. Michał Rumiński – Member.

Standing committees of the Supervisory Board

The standing committees are Audit Committee, Strategy and Development Committee, and Organization and Management Committee.

The Supervisory Board of Grupa LOTOS may set up standing or ad-hoc Committees, which are support, advisory and opinion-giving bodies.

Each Committee is composed of three to five members, 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 meetings of each Committee.

Standing committees of the Supervisory Board of Grupa LOTOS include the Audit Committee, Strategy and Development Committee and Organization and Management Committee. Specific 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.

Audit Committee

The Audit Committee is responsible for the provision of ongoing advisory support to the Supervisory Board with respect to proper implementation of the policies related to budgetary and financial reporting, the Company's internal control function and cooperation with its auditors.

In 2011, the composition of the Audit Committee of the Supervisory Board of Grupa LOTOS was as follows:

January 1st – June 27th 2011 (until the expiry of the Supervisory Board's seventh term of office):

1. Michał Rumiński – Chairman,
2. Rafał Lorek,
3. Oskar Pawłowski,
4. Wiesław Skwarko,
5. Rafał Wardziński.

Following the appointment of the Supervisory Board of the eighth joint term of office by the Ordinary General Shareholders Meeting held on June 27th 2011, the newly appointed Supervisory Board at its first meeting held on July 11th 2011 appointed the following persons to the Audit Committee:

1. Michał Rumiński – Chairman, (*appointed Committee Chairman on August 11th 2011*),
2. Oskar Pawłowski,
3. Ewa Sibrecht-Ośka,
4. Wiesław Skwarko,
5. Rafał Wardziński.

Following Ms Sibrecht-Ośka's resignation from the Supervisory Board of Grupa LOTOS on November 8th 2011, as at December 31st 2011, the composition of the Audit Committee was as follows:

1. Michał Rumiński – Chairman,
2. Oskar Pawłowski,
3. Wiesław Skwarko,
4. Rafał Wardziński.

From January 27th 2012 (the date of resignation by Mr Rafał Wardziński from his position on the Supervisory Board) until February 29th 2012, the Audit Committee did not work.

Following the changes in the composition of the Supervisory Board of the eighth term of office made by the Extraordinary General Shareholders Meeting held on February 29th 2012 (removal of Mr Leszek Starosta and appointment of Ms Agnieszka Trzaskalska and Mr Marcin Majeranowski), the new Supervisory Board at its first meeting held on March 8th 2012 appointed, from among the Supervisory Board members, Mr Marcin Majeranowski to the Audit Committee.

Considering the above, as of March 8th 2012 and as at the release date of this report, the Audit Committee comprised the

following persons:

1. Michał Rumiński – Chairman,
2. Oskar Pawłowski,
3. Wiesław Skwarko,
4. Marcin Majeranowski.

Strategy and Development Committee

The Strategy and Development Committee is responsible for providing the Supervisory Board with opinions and recommendations regarding planned capital expenditure projects with a material bearing on the Company's assets and relating to the Company's long-term strategies.

In 2011, the composition of the Strategy and Development Committee of the Supervisory Board of Grupa LOTOS was as follows:

January 1st – June 27th 2011 (until the expiry of the Supervisory Board's seventh term of office):

1. Wiesław Skwarko – Chairman,
2. Małgorzata Hirszel,
3. Michał Rumiński,
4. Leszek Starosta,
5. Rafał Wardziński.

Following the appointment of the Supervisory Board of the eighth term of office by the Ordinary General Shareholders Meeting held on June 27th 2011, the Supervisory Board at its first meeting on July 11th 2011 appointed the Strategy and Development Committee, which until December 31st 2011 was composed of the following persons:

1. Wiesław Skwarko – Chairman (*appointed Committee Chairman on July 11th 2011*),
2. Małgorzata Hirszel,
3. Michał Rumiński,
4. Leszek Starosta,
5. Rafał Wardziński.

From January 27th 2012 (the date of resignation by Mr Rafał Wardziński from his position on the Supervisory Board) until February 29th 2012, the Strategy and Development Committee did not work.

Considering the circumstances, the Extraordinary General Shareholders Meeting held on February 29th 2012 resolved to change the composition of the Supervisory Board of the eighth term of office (*removing from the Board Mr Leszek Starosta and appointing to the Board Ms Agnieszka Trzaskalska and Mr Marcin Majeranowski*), and the new Supervisory Board at its first meeting held on March 8th 2012 appointed, from among the Supervisory Board members, Ms Agnieszka Trzaskalska and Mr Marcin Majeranowski to the Strategy and Development Committee.

Considering the above, as of March 8th 2012 and as at the release date of this report, the Strategy and Development Committee comprised the following persons:

1. Wiesław Skwarko – Chairman,
2. Małgorzata Hirszel,
3. Michał Rumiński,
4. Agnieszka Trzaskalska,
5. Marcin Majeranowski.

Organization and Management Committee

The Organization and Management Committee is responsible for providing the Supervisory Board with opinions and recommendations regarding the management structure, including organization-related solutions, remuneration system and recruitment of personnel, with a view to enabling the Company to achieve its strategic objectives.

In 2011, the composition of the Organization and Management Committee of the Supervisory Board of Grupa LOTOS was as follows:

January 1st – June 27th 2011 (until the expiry of the Supervisory Board's seventh term of office):

1. Leszek Starosta – Chairman,
2. Małgorzata Hirszel,
3. Oskar Pawłowski,
4. Michał Rumiński,
5. Ewa Sibrecht-Ośka.

Following the appointment of the Supervisory Board of the eighth term of office by the Ordinary General Shareholders Meeting held on June 27th 2011, the Supervisory Board at its first meeting held on July 11th 2011 appointed the following persons to the Organization and Management Committee:

1. Leszek Starosta – Chairman, (*appointed Committee Chairman on July 11th 2011*),
2. Małgorzata Hirszel,
3. Oskar Pawłowski,
4. Michał Rumiński,
5. Ewa Sibrecht-Ośka.

Following Ms Sibrecht-Ośka's resignation from the Supervisory Board of Grupa LOTOS on November 8th 2011, as at December 31st 2011, the composition of the Organization and Management Committee was as follows:

1. Leszek Starosta – Chairman,
2. Małgorzata Hirszel,
3. Oskar Pawłowski,
4. Michał Rumiński.

From January 27th 2012 (*the date of resignation by Rafał Wardziński from his position on the Supervisory Board*) until February 29th 2012, the Organization and Management Committee did not work.

Considering the circumstances, the Extraordinary General Shareholders Meeting held on February 29th 2012 resolved to change the composition of the Supervisory Board of the eighth term of office (*removing from the Board Mr Leszek Starosta, also serving as Chairman of the Organization and Management Committee*; and appointing to the Board Ms Agnieszka Trzaskalska and Mr Marcin Majeranowski). Accordingly, the new Supervisory Board at its first meeting held on March 8th 2012 filled the vacancies on the Organization and Management Committee by appointing to the Committee, from among the Supervisory Board members, Mr Marcin Majeranowski and Ms Agnieszka Trzaskalska (the latter was also appointed Chairperson of the Committee). Moreover, at the meeting referred to above, Mr Michał Rumiński tendered his resignation from his position on the Committee.

Considering the above, as of March 8th 2012 and as at the release date of this report, the Organization and Management Committee comprised the following persons:

1. Agnieszka Trzaskalska - Chairperson (*appointed Committee Chairperson on March 8th 2012*),
2. Małgorzata Hirszel,
3. Oskar Pawłowski,
4. Marcin Majeranowski.

Remuneration of the Supervisory Board

The remuneration policy for the Supervisory Board members was defined by the Extraordinary General Shareholders Meeting in 2000.

Determination of the remuneration policy for members of the Supervisory Board rests within the scope of powers of the General Shareholders Meeting.

Remuneration of the Supervisory Board members is subject to limitations and conditions prescribed under the Act on Remunerating Persons Who Manage Certain Legal Entities of March 3rd 2000 (Journal of Laws of 2000 No 26, item 306, as amended). Acting in accordance with the Act, in 2000 the Extraordinary General Shareholders Meeting defined a remuneration policy for the Supervisory Board members, which provides as follows:

- 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 Board meetings. This, however, does not apply if in a given month a member of the Board is absent from all meetings held in that month without a valid reason,
- if a Board member is appointed or removed from office during a calendar month, the remuneration amount is calculated according to the number of days in office,
- the Company covers all costs and expenses incurred in the performance of duties by members of the Supervisory Board and, acting pursuant to the Act on Personal Income Tax, it assesses and withholds tax payments on their remuneration income.

In line with an amendment to the said Act, in 2011 the Supervisory Board members were entitled to receive remuneration in the amounts fixed in 2010.

Remuneration of the Supervisory Board members in 2011

	Amount (PLN)
Wiesław Skwarko	41,454.96
Rafał Wardziński	41,454.96
Oskar Pawłowski	41,454.96
Małgorzata Hirszel	41,454.96
Michał Rumiński	41,454.96
Leszek Starosta	41,454.96
Ewa Sibrecht-Ośka	38,921.58
Rafał Lorek	23,836.53

Independence status

Grupa LOTOS has no information regarding independence of the Supervisory Board members of the 8th term.

The term "independent members of the Supervisory Board" in reference to public companies has been introduced by the Code of Best Practice for WSE Listed Companies, a set of rules which embody the tradition of Polish corporate governance and aim to enhance the transparency of listed companies.

In accordance with Rule 6 contained in 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. A person who is an employee of the company or its subsidiary or associated company, or a person having an actual and significant relationship with a shareholder who has the right to exercise 5% or more of the total vote at its General Shareholders Meeting, cannot be deemed to meet the independence criteria as defined in the Rule.

Accordingly, the status of an independent member of the Supervisory Board may only refer to persons having no relations whatsoever with the company, its shareholders or employees, which could potentially lead to a conflict of interest.

With regard to the last 6 months of the 7th term Supervisory Board's operation, which fell in the first half of 2011, Grupa LOTOS had information concerning independence about only one of the members of the Supervisory Board - Rafał Lorek. Therefore, Rule 6 was not fully observed by the Company in 2011.

Grupa LOTOS has no information regarding independence of the members of the 8th term Supervisory Board. Full compliance with Rule 6 will be ensured after the Company receives relevant confirmation that at least two existing or newly appointed members of the Supervisory Board satisfy the independence criteria, as stipulated by Annex II to the Commission Recommendation of February 15th 2005.

Avoidance of conflicts of interest

The Company is not aware of any conflicts of interest originating in 2011 with regard to the members of the Supervisory Board.

Under Art. 387 of the Commercial Companies Code, which aims to prevent combining management and supervisory roles particularly with respect to supervisory boards, a current member of the management board of a company, its 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. The said provision 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, Rule 2 and Rule 4 contained in Section III of the Code of Best Practice for WSE Listed Companies place an obligation on supervisory board members to submit to the company's management board information on any relationships with a shareholder who holds shares representing 5% or more of the total vote at its general meeting. The obligation relates to economic links, family ties and other relations which may sway the member's position on issues decided by the supervisory board. Furthermore, a member of the supervisory board should notify the supervisory board of any conflicts of interest which have arisen or may arise, and should refrain from taking part in discussions and from voting on resolutions on the issue which gives rise to such a conflict of interest. The discharge of obligations described above lies within the scope of responsibilities of members of the supervisory board of listed companies.

Twice a year, 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 annual and semi-annual financial statements. According to the disclosures made by members of the Company's Supervisory Board in respect of 2011, none of the members had any economic links, family ties or other relations with a shareholder holding 5% or more of the total voting rights at the General Shareholders Meeting of Grupa LOTOS 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 2011, which the member concerned should notify to the Supervisory Board 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 requirements described above, members of the Company's Supervisory Board, upon appointment, 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 took a stance on the Company's performance, opportunities and risks in the area of sustainable development.

Striving to comply with the international standards of sustainable development, which are a vital element of international legislation and which have received recognition by being incorporated into Art. 5 of the Polish Constitution, the Supervisory Board, in line with the principle of sustainable development, has extended the scope of its review activities to include areas key to Grupa LOTOS' operations: its access to natural resources and its environmental and social impacts.

In 2011, the Supervisory Board met six times and adopted 41 resolutions, including one in writing (the Supervisory Board of the seventh term held three meetings and adopted 27 resolutions, while the Supervisory Board of the eight term met three times and adopted 14 resolutions).

Key matters pertaining to the Company's performance, opportunities and risks in the area of sustainable development put under discussion by the Supervisory Board in 2011 included:

- upstream opportunities,
- financial results reported by Grupa LOTOS and its subsidiaries and performance against the 2011 budget,
- progress of work under the 10+ Programme,
- sale by Grupa LOTOS of its entire equity interest in LOTOS Parafiny Sp. z o.o.,
- financing of CSR projects, and
- corporate sponsorship.

The activities of the Supervisory Board are reviewed by the General Shareholders Meeting. Under Par. 9.2 of the Company's Articles of Association, the General Shareholders Meeting has the authority to grant discharge to members of the Supervisory Board in respect of performance of their duties. The basis for granting such discharge is the report containing an assessment of the Company's standing, covering sustainable development, which is presented annually by the Supervisory Board pursuant to Par. 3.2 of the Rules of Procedure for the Supervisory Board.

Board

In 2011, the Board of Grupa LOTOS received Polish civil state awards for the successful completion of the 10+ Programme.

Board powers

The Board manages all corporate issues of Grupa LOTOS.

Composition of the Board

The Board of Grupa LOTOS of the 7th term comprises 4 persons.

Remuneration of the Board

Remuneration of the Company's Board is regulated by the provisions of the so-called public sector salary cap act.

Avoidance of conflicts of interest

To avoid conflicts of interest, the Company complies with the Code of Best Practice for WSE Listed Companies.

Board powers

The Board manages all corporate issues of Grupa LOTOS.

The Board represents the Company before third parties and manages its affairs. This, however, does not apply to matters reserved to the General Shareholders Meeting or the Supervisory Board, nor matters falling outside the scope of ordinary management duties delegated to individual Board members. The Board of Grupa LOTOS acts in accordance with the Articles of Association and the Rules of Procedure for the Board. The documents are available on the Company's website.

Rules of Procedure for the Board of Grupa LOTOS [Link → \(http://www.lotost.pl/pobierz_plik/35061/\)](http://www.lotost.pl/pobierz_plik/35061/)

Composition of the Board

The Board of Grupa LOTOS of the 7th term comprises 4 persons.

Pursuant to the Articles of Association of Grupa LOTOS, the Board is composed of three to seven members, including the president and vice-presidents, appointed by the Supervisory Board. The term of office of the Board is a joint term of three years. The president, vice-presidents and members of the Board, as well as the entire Board, may at any time be removed from office or suspended in duties by the Supervisory Board if there is a valid reason for doing so.

From January 1st to December 31st 2011 and as at the date of release of this report, the Board of Grupa LOTOS of the seventh term of office was composed of four members:

1. Paweł Olechnowicz – President of the Board, Chief Executive Officer,
2. Mariusz Machajewski – Vice-President of the Board, Chief Financial Officer,
3. Marek Sokołowski – Vice-President of the Board, Chief Operation Officer,
4. Maciej Szozda – Vice-President of the Board, Chief Commercial Officer.



Paweł Olechnowicz
President of the Board,
Chief Executive Officer



Marek Sokołowski
Vice-President of the
Board, Chief Operation
Officer



Mariusz Machajewski
Vice-President of the
Board, Chief Financial
Officer



Maciej Szozda
Vice-President of the
Board, Chief Commercial
Officer



Paweł Olechnowicz President of the Board, Chief Executive Officer

Paweł Olechnowicz was appointed President of the Board on March 12th 2002. In this capacity, he is in charge of, and takes responsibility for, the overall management of the Company's operations. He is also acting Vice-President of the Board responsible for Oil and Gas Exploration & Production. He is also charged with oversight of companies allocated to the LOTOS Group's management and exploration and production segments.

Paweł Olechnowicz graduated from the Faculty of Technology and Mechanisation of Foundry Engineering of the AGH University of Science and Technology in Kraków. He also holds a post-graduate diploma from the Gdańsk University of Technology (Organization, Economics and Management of Industry) and an MBA degree from INSEAD in Fontainebleau, France. He has completed a number of professional courses in management both in Poland and abroad.

In 1977, he started his professional career at Zakłady Mechaniczne Zamech of Elbląg (from 1990 – ABB Zamech Sp. z o.o.). In 1990-1996, he was President of the Management Board and CEO of ABB Zamech Ltd. Subsequently, for two years Paweł Olechnowicz worked at the head office of ABB Ltd in Zurich, Switzerland, as Vice-President for Central and Eastern Europe. In 1999-2000, Mr Olechnowicz served as Vice-President and Deputy CEO of ZML Kęty S.A., and

from 2001 he ran his own consulting business: Paweł Olechnowicz – Consulting.



Marek Paweł Sokołowski
Vice-President of the Board, Chief Operation Officer

Marek Paweł Sokołowski was appointed Vice-President of the Board on April 19th 2002. He is in charge of, and takes responsibility for, the overall production and technical management, technology development (including health, safety and environmental management), and capex programmes (projects oriented towards technical and technological advancement).

Marek Sokołowski graduated from the Faculty of Electrical Engineering of the Gdańsk University of Technology. He also completed a postgraduate programme in industrial investment and a number of specialist courses in management, both in Poland and abroad.

In 1973, Marek Sokołowski joined Rafineria Gdańska S.A. (currently: Grupa LOTOS), where in 1990 he became Technical Director and Member of the Management Board. For three consecutive terms in office, his chief responsibility was the refinery's plant engineering and execution of investment projects. In 1996–2000, he was in charge of an investment programme involving the refinery's expansion and technical upgrade. In mid-2000, he was appointed Chief of Technical Service and the Company's Commercial Proxy. In 2004-2011, as the Vice-President of the Board, Chief Operating Officer, he was in charge of the refinery expansion project (the 10+ Programme). He is also charged with oversight of companies allocated to the LOTOS Group's operating segment.



Mariusz Machajewski
Vice-President of the Board, Chief Financial Officer

Mariusz Machajewski was appointed Vice-President of the Board on June 19th 2006. In this capacity, is in charge of, and takes responsibility for, the overall management of the Company's economic, financial and accounting activities, as well as the asset base and restructuring processes.

He graduated from the Faculty of Economics of the University of Gdańsk and has completed a number of specialist courses in leadership, management and economics, both in Poland and abroad.

In 1994–1997, he worked at Stocznia Gdynia S.A. In 1997, he joined Rafineria Gdańska S.A. (currently: Grupa LOTOS) and in 1999 he was put in charge of the Company's controlling function. Since mid-2002, he has held the position of Chief Financial Officer. In the period April 2005 - June 2006, he served as the Company's Commercial Proxy.



Maciej Szozda
Vice-President of the Board, Chief Commercial Officer

Maciej Szozda was appointed Vice-President of the Board on July 1st 2009. He is in charge of, and takes responsibility for, the overall management of marketing, supply and distribution processes at the LOTOS Group. He is also charged with oversight of companies allocated to the LOTOS Group's marketing segment.

Maciej Szozda graduated from the Warsaw School of Economics (Faculty of Economics).

In 1980, he started to work for PHZ Labimex. In 1983-1984, he was Managing Director at KMW Engineering. Then, until 1986, he worked in the US as Contract Manager. In 1986, he joined Przedsiębiorstwo Zagraniczne Ipaco, where he held the position of Director, while in 1987–1989 he was Export Manager for Sinexim GmbH of West Berlin. Starting from 1989, he operated as a sole trader, performing mandates for Eassey Garments UK Ltd. (Easy Jeans) as Head of its Representative Office for Poland and the CIS countries. In 2002, he joined PKN Orlen S.A., where he served (in chronological order) as Director of the Office of Planning and Development of Retail Network, Director of the Office of Development of Retail Network – Europe, and Retail Sales Executive Director. From October 2008 to February 2009, Maciej Szozda was Member of the Supervisory Board of Orlen Deutschland AG. From 2007 to March 2009, he served as Member and then President of the Management Board of AB VENTUS NAFTA of Vilnius, a company of the ORLEN Group.

Positions held by members of Grupa LOTOS' Board at other companies in 2011

	Company	Function	Period
Paweł Olechnowicz	Board of Directors LOTOS E&P Norge AS	Chairman	Jan 1–Dec 31 2011 and as at the release date of this report
	Board of Directors of AB LOTOS Geonafta	Chairman	Apr 26–Dec 31 2011 and as at the release date of this report
Marek Sokolowski	Supervisory Board of LOTOS Czechowice S.A.	Chairman	Jan 1–Dec 31 2011 and as at the release date of this report
	Supervisory Board of LOTOS Biopaliwa Sp. z o.o.	Chairman	Jan 1–Dec 31 2011 and as at the release date of this report
Mariusz Machajewski	Supervisory Board of LOTOS Paliwa Sp. z o.o.	Deputy Chairman	Jan 1–Dec 31 2011 and as at the release date of this report
	Supervisory Board of RCEkoenergia Sp. z o.o.	Chairman	Jan 1–Dec 31 2011 and as at the release date of this report
Maciej Szozda	Supervisory Board of LOTOS Paliwa Sp. z o.o.	Chairman	Jan 1–Dec 31 2011 and as at the release date of this report
	Supervisory Board of LOTOS Biopaliwa Sp. z o.o.	Deputy Chairman	Jan 1–Dec 31 2011 and as at the release date of this report

Remuneration of the Board

Remuneration of the Company's Board is regulated by the provisions of the so-called public sector salary cap act.

As the State Treasury's equity interest in the Company exceeds 50% (50% of the total number of shares), remuneration paid to members of Grupa LOTOS' Board is regulated by the Act on Remunerating Persons Who Manage Certain Legal Entities dated March 3rd 2000 (Journal of Laws 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 Shareholders Meeting. Remuneration paid to the other Board members is determined by the Supervisory Board, as provided for under the Company's Articles of Association.

In view of the foregoing, in 2009 the Supervisory Board – acting within the powers vested in it by Par. 13.2.1 of the Company's Articles of Association and the Act of March 3rd 2000 – decided that Vice-Presidents of the Company's Board would receive remuneration equal to six-fold 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 President of the GUS (Central Statistics Office), and proposed that the General Shareholders Meeting determine the remuneration for President of the Board at the same level.

Concurring with the proposal of the Supervisory Board, in 2009 the Extraordinary General Shareholders Meeting determined the remuneration policy for President of the Board, while repealing the General Shareholders Meeting's resolution adopted in 2000, which until then defined the rules of remuneration for members of the Board.

Furthermore, pursuant to individual employment contracts, members of the Board are entitled – for the duration of their respective employment contracts – to fringe benefits including:

- the costs of life insurance (incl. monthly premiums),
- above-standard medical care, provided by non-public healthcare establishments in Poland and abroad, for members of the Board and their families.

In addition, the President of the Board and Vice-President of the Board, Chief Commercial Officer, are entitled to a fringe benefit in the form of tied accommodation in the Gdańsk-Gdynia-Sopot conglomeration (incl. payment of rent and service charges), although the above persons have not yet claimed that benefit.

Additionally, pursuant to the said Act and the Regulation of the Minister of State Treasury concerning Detailed Rules and Procedure for Granting Annual Bonuses to Management Staff of Certain Legal Entities, dated March 12th 2001 (Journal of Laws of 2001, No. 22, item 259), members of the Board may be awarded annual bonuses. Annual bonuses may be awarded if the Company has:

- improved its financial performance,
- strengthened its position on the market or in the industry,
- successfully implemented restructuring or growth plans,
- not exceeded the maximum annualised average monthly remuneration growth ratio,
- settled its public charges in a timely manner.

Annual bonuses may only be granted after the financial statements have been approved. Eligibility to receive an annual bonus is limited to members of the Board who served in that capacity for the full financial year and during that time were not found guilty of gross dereliction of duty, their employment was not terminated for reasons attributable to them, their management contracts were not terminated or they were not removed from office for reasons constituting grounds for summary dismissal. In accordance with the applicable regulations, the maximum amount of annual bonus is equal to three-fold the average monthly salary in the year preceding the bonus award. A decision to grant an annual bonus to the President of the Board rests with the General Shareholders Meeting, upon a proposal from the Supervisory Board. Under the Company's Articles of Association, a decision to award annual bonuses to other Board members rests with the Supervisory Board.

In line with the amended Compensation Cap Act, in 2011 the Board members were entitled to receive remuneration in the amounts fixed in 2010.

Remuneration of the Board members in 2011

	Amount (PLN)
Paweł Olechnowicz	315,156.00
Marek Sokołowski	315,156.00
Mariusz Machajewski	315,156.00
Maciej Szozda	316,011.00

Avoidance of conflicts of interest

To avoid conflicts of interest, the Company complies with the Code of Best Practice for WSE Listed Companies.

As a means to avoid 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.

Pursuant to the Rules of Procedure for the Board in conjunction with Art. 377 of the Commercial Companies Code, if a conflict arises between the interests of the Company and those of a Board member or any persons to whom the Board member is personally related, then the Board member should refrain from participating in the resolution of a given matter. Furthermore, in accordance with the Code of Best Practice for WSE Listed Companies, a Board member should notify the Board of any conflict of interests which has arisen or may arise, and should refrain from taking part in discussions and from voting on resolutions on the issue which gives rise to such conflict of interests. Pursuant to the Rules of Procedure for the Board, the Supervisory Board's approval is required for members of the Board to hold positions on the supervisory or management bodies of other companies. Concurrently, the provisions of the Commercial Companies Code apply which prohibit a current member of the Board from serving on the Supervisory Board. This also applies to other persons reporting directly to a Board member.