



**Grupa LOTOS S.A.**

**STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES**

**April 2009**

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## 1. Corporate Governance Principles Applicable to Grupa LOTOS S.A.

Grupa LOTOS S.A. follows corporate governance principles contained in the document *Best Practices for WSE Listed Companies*, which was adopted by the Supervisory Board of the Warsaw Stock Exchange on July 4th 2007. The full text of the document is available to the public on the official website of the Warsaw Stock Exchange, in the section dedicated to corporate governance principles, at <http://www.corp-gov.gpw.pl/assets/library/polish/dobrepraktyki2007.pdf>

In 2008, Grupa LOTOS S.A. released two reports regarding non-compliance with the principles outlined in *Best Practices for WSE Listed Companies*.

In connection with the coming into force of corporate governance principles enunciated in *Best Practices for WSE Listed Companies*, and acting in accordance with Par. 29.3 of the WSE Rules, on January 1st 2008 the Management Board of Grupa LOTOS S.A. reported that Grupa LOTOS S.A. did not apply the following corporate governance principles:

### - Principle 1.11 contained in Section II

*"A company should operate a corporate website and publish: ... information known to the Management Board based on a statement by a member of the Supervisory Board on any relationship of a member of the Supervisory Board with a shareholder who holds shares representing no less than 5% of all votes at the company's General Meeting."*

Grupa LOTOS S.A. does not comply with the abovementioned principle as it holds no information on a possible relationship between Supervisory Board members and a shareholder who holds shares representing 5% or more of the total vote at the General Shareholders Meeting. The Company plans to implement a procedure for collecting such information, which will make it possible to conform to the abovementioned principle.

### - Principle 6 contained in Section III

*"At least two members of the Supervisory Board should meet the criteria of being independent from the company and entities with significant connections with the company. The independence criteria should be applied under 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. Irrespective of the provisions of item b) of the said Annex, a person who is an employee of the company, or its subsidiary or associated company, cannot be deemed to meet the independence criteria described in the Annex. In addition, a relationship with a shareholder which precludes the independence of a member of the Supervisory Board as understood in this principle is an actual and significant relationship with any shareholder who has the right to exercise at least 5% of all votes at the General Meeting."*

Grupa LOTOS S.A. does not comply with the abovementioned principle due to the fact that it holds no information regarding the independence of Supervisory Board members, and that there were no independent members on the Company's Supervisory Board because of the Company's current shareholder structure and its role in the Polish fuel sector.

The Company will follow the principle after it has been notified that at least two independent members are appointed to the Supervisory Board or that at least two existing members are deemed independent, in accordance with 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.

### - Principle 7 contained in Section III

*"The Supervisory Board should establish at least an audit committee. The committee should include at least one member independent of the company and entities with significant connections with the company, who has qualifications in accounting and finance. In companies where the Supervisory Board consists of the minimum number of members required by law, the tasks of the committee may be performed by the Supervisory Board."*

Grupa LOTOS S.A. does not comply with the abovementioned principle as there are no independent members on the Company's Supervisory Board who could serve on the existing audit committee.

The Company will follow the principle after it has been notified that a member who meets the independence criteria, in accordance with 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, has been appointed to the existing audit committee.

**- Principle 8 contained in Section III**

*"Annex I to the Commission Recommendation of February 15th 2005 on the role of non-executive or supervisory directors ... should apply to the tasks and operation of the committees of the Supervisory Board."*

Grupa LOTOS S.A. does not comply with the abovementioned principle as there are no independent members of the Supervisory Board who should serve on the existing Supervisory Board committees, as required by Annex I to the Commission Recommendation of February 15th 2005 on the role of non-executive or supervisory directors ... –.

The Company will follow the principle after it has been notified that a proper number of members who meet the independence criteria have been appointed to the existing Supervisory Board committees, and that the tasks and operation of committees are consistent with the requirements set forth in Annex I 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.

Acting in accordance with Par. 29.3 of the WSE Rules, on January 9th the Management Board of Grupa LOTOS S.A. reported the company did not apply the following principles:

**- Principle 1.4 contained in Section II**

*"A company should operate a corporate website and publish: the date and place of a General Meeting, its agenda and draft resolutions together with their justification as well as other available materials related to the company's General Meetings, at least 14 days before the set date of the General Meeting."*

Non-compliance with the abovementioned principle was a non-recurring incident which stemmed from the inability to meet the deadline for publication of the full text of draft resolutions, together with justification, and other materials related to the General Shareholders Meeting, the deadline being at least 14 days before the date of the Extraordinary General Shareholders Meeting convened for January 22nd 2008.

Furthermore, the Management Board of Grupa LOTOS S.A. reported that, acting in line with Par. 39.1 of the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities, the Company will publish draft resolutions, together with justification, and other materials related to the General Shareholders Meeting, in the form of a current report no later than eight days prior to the date of the General Shareholders Meeting.

## **2. Internal Audit and Risk Management Systems**

As prescribed by the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009, the Management Board of Grupa LOTOS S.A. is responsible for the internal audit system and its effective functioning in the process of preparing financial statements.

The guidelines to be followed in the preparation, approval and publication of financial statements are laid down in "Rules for the Preparation, Approval and Publication of Annual, Semi-Annual and Quarterly Reports of the LOTOS Group". In line with the existing procedure, preparation of consolidated and non-consolidated financial statements is overseen by Head of the Finance and Accounting Centre's Office together with the person responsible for keeping the accounting books of the parent company (Chief Accountant). Responsibility for preparing the consolidated and non-

consolidated financial statements lies with the Financial Reporting Office operating at the parent company.

The basis for the preparation of consolidated financial statements are the financial statements of the parent company and of the undertakings controlled by the parent company. The financial statements of subsidiaries, after restatements made to ensure compliance with the International Financial Reporting Standards ("IFRS"), are prepared in accordance with uniform accounting policies applied to transactions and economic events of similar nature. In order to ensure accounting uniformity, the accounting policies effective at the Company were implemented across the LOTOS Group companies for application in preparing their consolidation packages.

Both consolidated and non-consolidated financial statements are subject to review and audit by an independent qualified auditor. In line with the adopted procedure, the Audit Committee of the Supervisory Board is required to acquaint itself with the findings of the review/audit, as well as the contents of the auditor's opinion and report from the review/audit of the consolidated and non-consolidated semi-annual and annual reports, paying particular attention to:

- main areas covered by the audit
- material non-typical transactions and possibility of using various solutions
- issues which involve adoption of certain assumptions and use of estimates
- material adjustments resulting from the audit
- compliance with the applicable accounting and reporting regulations in order to issue recommendations to the Supervisory Board on matters related to the Company's financial statements.

### **3. Shareholders Holding Significant Blocks of Shares**

Shareholders holding more than 5% of shares in Grupa LOTOS S.A. as at December 31st 2008.

	No. of shares held	% of the share capital	No. of votes at the General Shareholders Meeting	% of the total vote at the General Shareholders Meeting
Nafta Polska S.A. *	59,025,000	51.91%	59,025,000	51.91%
State Treasury	7,878,030	6.93%	7,878,030	6.93%

\* The State Treasury owns 100% of shares in Nafta Polska S.A.

### **4. Holders of Securities Which Confer Special Control Powers, Along with the Description of the Powers**

Grupa LOTOS S.A. did not issue any securities which would vest shareholders with any special control powers.

### **5. Limitation of Voting Rights**

One share of Grupa LOTOS S.A. confers the right to one vote at the General Shareholders Meeting, with the proviso that as long as Nafta Polska S.A. holds the Company shares conferring the rights to at least one-fifth of the total vote at the General Shareholders Meeting, the rights of the Company shareholders are limited so that none of them can exercise at the General Shareholders Meeting more than one-fifth of the total number of votes at the Company as at the day of the General Shareholders Meeting. The limitation described in the preceding sentence does not apply to Nafta Polska S.A. The exercise of a voting right by a subsidiary is deemed as the exercise of that right by the parent company within the meaning of the regulations on public trading in securities. The limitation of the voting rights, referred to in the first sentence of subparagraph 3 of Par. 10 of the Company's Articles of

Association does not release the buyers and holders of the Company shares from the obligations provided for in laws governing public trading in securities, including in particular the disclosure requirement related to the purchase and sale of shares in a public company, the obligation to obtain approval of a relevant authority for purchase of a specific number of shares in a public company, the obligation to publicly announce tender offers for sale or exchange of shares in a public company, and to announce and carry out tender offers for sale of the remaining shares in a public company.

## **6. Restrictions on Transferability of the Securities**

Grupa LOTOS S.A. did not issue any shares with restricted transferability.

## **7. Rules for Amending the Articles of Association of Grupa LOTOS S.A.**

Making amendments to the Articles of Association of Grupa LOTOS S.A. falls within the scope of powers of the General Shareholders Meeting and requires that a relevant resolution be adopted by the General Shareholders Meeting of Grupa LOTOS S.A. with absolute majority of votes.

As required by the Commercial Companies Code, if any amendments are to be introduced to the Articles of Association, the notice convening the General Shareholders Meeting, which is published in *Monitor Sądowy i Gospodarczy*, should contain the existing provisions of the Articles of Association, along with the proposed amendments.

After the General Shareholders Meeting adopts a resolution on amendments to the Company's Articles of Association, the Management Board of Grupa LOTOS S.A. notifies a registry court of the amendments. An amendment to the Articles of Association takes effect upon being registered by the court.

Subsequently, the Supervisory Board compiles a consolidated text of the Articles of Association which incorporates the amendments, provided that the General Shareholders Meeting authorises the Supervisory Board to do so.

## **8. General Shareholders Meeting of Grupa LOTOS S.A.**

The General Shareholders Meeting of Grupa LOTOS S.A. operates in accordance with:

- the Articles of Association of Grupa LOTOS S.A. – consolidated text, incorporating amendments introduced by Resolution No. 32 of the Annual General Shareholders Meeting, dated June 30th 2008;
- Rules of Procedure for the General Shareholders Meeting of Grupa LOTOS S.A. – Resolution No. 18 of the Extraordinary General Shareholders Meeting of Grupa LOTOS S.A., dated January 30th 2006; the Rules of Procedure specify the rules governing the participation in the General Shareholders Meeting and exercising voting rights, manner of convening and closing of the General Shareholders Meeting, its opening and proceedings, and the procedure for election of the Supervisory Board members.

A General Shareholders Meeting takes place at the Company's registered office and is convened by the Management Board of Grupa LOTOS S.A. as provided for in the Articles of Association or in the Commercial Companies Code. However, a General Shareholders Meeting should be held no later than within six months after the end of the financial year. In 2008, the Annual General Shareholders Meeting was held on June 30th. The right to convene a General Shareholders Meeting rests also with the Supervisory Board in the event that the Management Board fails to convene it within the specified timeframe.

An Annual and Extraordinary General Shareholders Meeting is convened by the Management Board on its own initiative, at the request of the Supervisory Board, or at the request of a shareholder(s) representing no less than one tenth of the Company's share capital, within two weeks from submission of such a request. A request to convene a General Shareholders Meeting should specify the issues to be addressed at the meeting. A shareholder representing at least one fifth of the Company's share

capital has the right to convene an Annual General Shareholders Meeting – if the Management Board fails to convene it within the specified timeframe, and an Extraordinary General Shareholders Meeting – if the shareholder deems it appropriate and the Management Board fails to convene such a Meeting within two weeks from the date of the shareholder's request.

A General Shareholders Meeting is convened by publishing a relevant notice in *Monitor Sądowy i Gospodarczy*, no later than three weeks before the date of the Meeting.

Persons entitled to participate in the General Shareholders Meeting are holders of registered shares entered into the share register at least a week prior to the date of the Meeting, and holders of bearer shares on condition that they submit deposit certificates issued to their names at the Company's registered office at least a week prior to the date of the Meeting and do not collect them until after the Meeting is finished. Holders of shares admitted to public trading should submit to the Company, within the timeframe specified above, deposit certificates issued to their names by the entities keeping their securities accounts in accordance with the laws governing public trading in securities. The list of shareholders entitled to participate in a General Shareholders Meeting is prepared and signed by the Management Board.

Shareholders may participate in the General Shareholders Meeting and exercise voting rights in person or by proxy. A power-of-proxy authorising participation in the General Shareholders Meeting should be rendered in writing under pain of nullity. A shareholder may grant the power-of-proxy to more than one person, with the proviso that he or she may be represented at the Meeting by no more than one person: a joint representation by more than one proxy is inadmissible. The provision referred to above pertains also to organisational entities with collective bodies represented by more than one person, which entities may participate in the Meeting exclusively through a proxy.

All and any issues addressed at the General Shareholders Meeting are subject to prior consideration of the Supervisory Board. New items cannot be introduced to the agenda of the General Shareholders Meeting, unless the Company's entire share capital is represented at the Meeting and no objections are submitted by any of the persons participating in the Meeting, with the exception of motions to convene an Extraordinary General Shareholders Meeting and procedural motions.

The General Shareholders Meeting adopts resolutions by absolute majority of votes, unless the Articles of Association or the Commercial Companies Code state otherwise. Votes are cast in an open ballot. However, a secret ballot is ordered during elections and in the case of motions to dismiss a member of a governing body of the Company or its liquidator, or to hold them liable, motions concerning personnel-related matters, as well as in situations where at least one shareholder so demands.

Resolutions and proceedings of the General Shareholders Meeting are recorded by a notary public. The minutes should include information on the correctness of convening the Meeting, its capacity to adopt resolutions, resolutions adopted, number of votes cast in favour of each resolution and objections. Evidence of convening the Meeting, along with the names and signatures of persons participating in the Meeting, should be enclosed to the minutes. The minutes are signed by the Chairperson of the General Shareholders Meeting and the notary public, and their copy is included in the file of minutes held at the Company's registered office.

According to the Articles of Association of Grupa LOTOS S.A., the powers of the General Shareholders Meeting include in particular:

1. Review and approval of the annual financial statements of the Company, the annual Directors' Report on the Company's operations, as well as the consolidated financial statements of the Group and the Directors' Report on the Group's operations, for the previous financial year,
2. Granting discharge to members of the Supervisory and Management Boards in respect of their duties,
3. Making decisions with respect to profit distribution or coverage of loss, as well as on the use of funds/special accounts created out of profits, subject to specific regulations which provide for a different use of such funds/special accounts,
4. Appointment and removal of the Supervisory Board members and definition of the rules of remuneration of the Supervisory Board members,
5. Share capital increase and reduction,



6. Any decisions concerning claims for repair of damage inflicted in the establishment of the Company or in exercise of supervision or management,
7. Disposal and lease of a business or its organised part and creation of limited property rights in a business or its organised part,
8. Approval of purchase of real estate, perpetual usufruct rights to or an interest in real estate, whose value, determined on the basis of valuation by an appraiser, exceeds PLN 5,000,000, as well as approval of disposal of real estate, perpetual usufruct rights to or an interest in real estate, whose value, determined on the basis of valuation by an appraiser, exceeds PLN 200,000,
9. Issuing consent to encumber and dispose of shares in Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu Petrobaltic S.A. and shares in Przedsiębiorstwo Przeladunku Paliw Płynnych Naftoport Sp. z o.o.,
10. Amendment to the Articles of Association,
11. Creation and liquidation of funds/special accounts, including the reserve account,
12. Approval of share retirement or purchase of shares for retirement, and defining the terms of such retirement,
13. Bonds issue,
14. Dissolution, liquidation and transformation of the Company or merger with another company,
15. Defining the rules of remuneration of the Management Board members,
16. Defining the amount of monthly remuneration of the Management Board members,
17. Approval of purchase of shares issued by the Company (treasury shares) and creation of pledge on treasury shares in the circumstances defined in Art. 362.1.2 of the Commercial Companies Code,
18. Defining the amount of the annual bonus for the President of the Management Board,
19. Approval of implementation of incentive programmes,
20. Dissolution of the Company,
21. Transfer of the Company registered office abroad,
22. Change of the Company's business profile which limits its operations in the area of production, processing and sale of refined petroleum products,
23. Sale or lease of the Company's business or its organised part whose activities include production, processing and sale of refined petroleum products, as well as encumbering such business or its organised part with limited property rights,
24. Merger with another company,
25. Division of the Company,
26. Establishment of share preference,
27. Establishment of a European company, joining such company or transforming the Company into a European company,
28. Amending the provisions of Par. 10.1 of the Articles of Association.

### **Proceedings of the General Shareholders Meeting**

The person opening the General Shareholders Meeting (Chairperson of the Supervisory Board or Supervisory Board member designated by the Chairperson of the Supervisory Board, or in the event of their absence, President of the Management Board or a person designated by the Management Board) orders an immediate election of the Chairperson of the Meeting from among the persons entitled to participate in the General Shareholders Meeting.

The Chairperson of the General Shareholders Meeting conducts the meeting and is authorised to interpret the Rules of Procedure of the General Shareholders Meeting. The responsibilities of the Chairperson include ensuring the efficient conduct of the meeting, ensuring that the rights and interests of all the shareholders are respected, giving floor to the participants, receiving motions and draft resolutions, submitting them for discussion, ordering and conducting voting, and ascertaining that all the items on the agenda have been addressed. In particular, the Chairperson should prevent any abuse of rights by the participants of the General Shareholders Meeting and ensure that the rights and interests of the minority shareholders are respected. In accordance with the Rules of Procedure of the General Shareholders Meeting, the Meeting should be attended by members of the Management and Supervisory Boards, and the auditor if financial issues are discussed at the Meeting.

After presentation of each item on the agenda, the Chairperson of the General Shareholders Meeting opens the discussion and gives floor in the order in which the participants request to speak. Subject to the General Shareholders Meeting's consent, several related items on the agenda may be discussed



jointly. While taking the floor, the speakers may speak only on the issues included in the agenda and discussed at a given moment. During the discussion of each item on the agenda, each shareholder is entitled to a five-minute speech and three-minute reply. The shareholders may propose amendments and additions to draft resolutions included in the agenda until the discussion on the agenda item to which the resolution pertains is closed. At the request of a person participating in the General Shareholders Meeting, his or her written statement is included in the minutes.

In formal matters, the Chairperson gives the floor to speakers disregarding the set order. Each shareholder may submit a motion concerning a formal matter. Motions concerning the procedure of the Meeting or voting are considered motions on formal matters. The Chairperson resolves on formal matters; if need arises the Chairperson may seek opinion of a persons he or she appoints.

If an issue contained in a formal motion cannot be resolved by reference to the Commercial Companies Code, Articles of Association or the Rules of Procedure of the General Shareholders Meeting, the Chairperson submits the motion to the General Shareholders Meeting for voting.

If no objections are submitted, the Chairperson declares that a given item on the agenda has been addressed. Once all the items on the agenda are addressed, the Chairperson closes the Meeting.

The General Shareholders Meeting may decide on adjourning the Meeting by up to 30 days with a majority of two-thirds of votes. Short recesses ordered by the Chairperson of the General Shareholders Meeting in justified circumstances may not be aimed at impeding the exercise of shareholders' rights.

## **9. Grupa LOTOS S.A.'s Supervisory Board**

The Supervisory Board of Grupa LOTOS S.A. operates on the basis of:

- Grupa LOTOS S.A.'s Articles of Association – consolidated text incorporating amendments introduced by Resolution No. 32 of the Annual General Shareholders Meeting, dated June 30th 2008;
- Rules of Procedure for the Supervisory Board of Grupa LOTOS S.A. – consolidated text of August 12th 2008, Resolution No. 8/VII/2008 of the Supervisory Board dated August 12th 2008.

In 2008, the following persons served as members of the Supervisory Board of Grupa LOTOS S.A.:

### **In the period January 1st–June 30th 2008, the following persons were members of the Supervisory Board of the sixth term of office:**

1. Jan Stefanowicz – Chairperson
2. Henryk Siodmok – Deputy Chairperson
3. Beata Zawadzka – Member
4. Marta Busz – Member
5. Izabela Emerling – Member
6. Jacek Mościcki – Member
7. Grzegorz Szczodrowski – Secretary

### **On June 30th 2008, the Supervisory Board's term of office expired and the Annual General Shareholders Meeting appointed the Supervisory Board of the seventh term of office, composed of the following members:**

1. Wiesław Skwarko – Chairperson of the Supervisory Board
2. Leszek Starosta
3. Jan Stefanowicz
4. Radosław Barszcz
5. Piotr Chajderowski
6. Mariusz Obszyński

Pursuant to Par. 11.2 of the Company's Articles of Association, the State Treasury as the Company's shareholder, represented by the Minister of State Treasury, removed Ms Beata Zawadzka from the Supervisory Board with effect from June 30th 2008, and appointed Ms Małgorzata Hirszel as a new member to the Supervisory Board with effect from July 1st 2008.

**In the period July 1st–December 31st 2008, the following persons were members of the Supervisory Board of the seventh term of office:**

1. Wiesław Skwarko – Chairperson
2. Leszek Starosta – Deputy Chairperson  
(appointed on August 12th 2008)
3. Jan Stefanowicz – member
4. Radosław Barszcz – member
5. Piotr Chajderowski – member
6. Małgorzata Hirszel – member
7. Mariusz Obszyński – Secretary  
(appointed on August 12th 2008)

**On March 10th 2009, Mr Piotr Chajderowski tendered his resignation as member of the Supervisory Board,** as his current professional duties could materially interfere with his ability to actively participate in the work of the Supervisory Board.

As required by Grupa LOTOS S.A.'s Articles of Association, the Supervisory Board is composed of six to nine members, including the Chairperson, Deputy Chairperson and Secretary. The number of the Supervisory Board members is determined by the General Shareholders Meeting. On June 30th 2008, pursuant to Resolution No. 34, the General Shareholders Meeting decided that the Supervisory Board of the seventh term of office would be composed of seven members. Supervisory Board 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, the State Treasury, represented by the competent minister, is entitled to appoint and remove one member of the Supervisory Board. The Chairperson of the Supervisory Board is appointed by the General Shareholders Meeting. The Deputy Chairperson and the Secretary are elected by the Supervisory Board from among its other members.

The term of office of the Supervisory Board is a joint term of three years. Any or all Supervisory Board members may be removed from office at any time prior to the expiry of their term.

The Supervisory Board takes decisions during its meetings, which are held as need arises, however not less frequently than once every two months. A meeting of the Supervisory Board may be held if all Supervisory Board members have been duly invited. Meetings of the Supervisory Board are held in Gdańsk, Poland, at the Company's registered office, however, the Chairperson may choose a different venue where justified by special circumstances.

A Supervisory Board meeting should be convened within two weeks from the receipt of a relevant request, otherwise the person requesting the convening of a Supervisory Board meeting may convene the meeting on his or her own. Supervisory Board meetings are convened by way of sending written invitations to the members of the Supervisory Board at least seven days prior to the planned meeting date, except where a Supervisory Board meeting is convened at a written request of the Management Board to deal with matters of urgency. Then, the Chairperson should convene a Supervisory Board meeting within two days from the receipt of a relevant request. Under special circumstances, a meeting of the Supervisory Board may be held without being formally convened if all the Supervisory Board members are present and agree to holding the meeting and including specific items in its agenda.

The Supervisory Board may only adopt resolutions regarding matters included in the agenda. The Supervisory Board adopts its resolutions with an absolute majority of valid votes cast, in the presence of at least one-half of the Supervisory Board members, except resolutions concerning appointment and removal from office of any or all members of the Management Board of Grupa LOTOS S.A. which require the presence of at least two-thirds of the Supervisory Board members to be adopted.

Moreover, the Supervisory Board may adopt resolutions in writing or by means of remote communication, subject to Art. 388.4 of the Commercial Companies Code. However, such manner of voting is not allowed for votes on the election of the Chairperson and Deputy Chairperson of the Supervisory Board, appointment of a Management Board member, and removal or suspension from office of such persons. Adoption of a resolution in this manner requires prior submission of the draft resolution to all Supervisory Board members. Resolutions adopted in this manner are presented at the next meeting of the Supervisory Board, along with the voting results.

Each Supervisory Board meeting is recorded in the form of minutes, containing information on the venue and time of the meeting, its agenda, names of the persons present at the meeting, proceedings of the meeting, wording of the adopted resolutions, the manner of voting and voting results, as well as objections and dissenting opinions of the Supervisory Board members. The minutes are approved and signed by all members of the Supervisory Board who are present at the meeting. The minutes are kept in a file of minutes.

Between Supervisory Board meetings, declarations of will and letters addressed to the Supervisory Board are accepted by the Chairperson or, in his or her absence, by the Deputy Chairperson.

The Supervisory Board exercises ongoing supervision over the Company's business, across all areas of its operations. The Supervisory Board may issue its opinions on all matters related to the Company's business, and submit motions and proposals to the Management Board.

Powers of the Supervisory Board include:

1. Appointing and removing from office the President, the Vice-Presidents, and other Management Board members, and proposing rules of remuneration for the Management Board members,
2. Suspending from office (for a good reason) any or all Management Board members, and delegating Supervisory Board member(s) to temporarily substitute for the Management Board members who are unable to perform their duties,
3. Approving the Rules of Procedure of the Management Board,
4. Selecting an auditor to audit the financial statements of the Company and its Group, in accordance with the provisions of the Polish Accountancy Act,
5. Reviewing financial statements for compliance with accounting books and documents, as well as the actual state of affairs, reviewing the Directors' Report and the Management Board's recommendations concerning the distribution of profit or coverage of loss, and submitting written reports on the findings of such reviews to the General Shareholders Meeting,
6. Issuing opinions on all issues submitted for consideration to an Annual or Extraordinary General Shareholders Meeting,
7. Granting consent to Management Board members to serve on the managing or supervisory bodies of other companies and to receive remuneration on account of this service,
8. Granting approval to implement investment projects and to assume obligations related to such projects, if the value of the resulting expenditure or encumbrances exceeds the equivalent of one-half of the Company's share capital,
9. Defining the content and scope of detail of annual budgets and long-term strategies and deadlines for their submission by the Management Board,
10. Approving long-term strategies,
11. Issuing opinions on annual budgets,
12. Awarding annual bonuses to Vice-Presidents and members of the Management Board and recommending award of the annual bonus for the President of the Management Board,
13. Approving the Rules of Procedure of the Supervisory Board,
14. Granting approval to:
  - establish a foreign branch within the meaning of the provisions of Double-Tax Treaties signed by Poland;
  - sell non-current assets whose value exceeds the equivalent of one-twentieth of the net value of the Company's assets;
  - contract another liability or make another disposal whose value – whether in a single or a series of related legal transactions which fall outside the scope of day-to-day management – exceeds the equivalent of one-half of the Company's share capital, unless it requires approval of the General Shareholders Meeting;
  - make equity investments abroad, if their value exceeds one-twentieth of the Company's share capital, and any investments in property, plant and equipment;
  - exercise the Company's voting rights at the general shareholders meetings of all subsidiaries and other companies, if the value, determined on the basis of the acquisition cost, of the shares the Company holds in a given company exceeds one-fifth of the Company's share capital (in the case of voting on the following issues: distribution of profit or coverage of loss, increase or reduction of share capital, merger with another company, transformation of the company, sale and lease of the company's business and encumbering it with usufruct rights, or amendment of the company's articles of association);
  - establish companies under commercial law and acquire interests in companies, as well as make payments for the share capital of a company or sell shares in a company, if the value, determined on the basis of the acquisition cost, of the Company's equity investment before

or after the acquisition of the shares, exceeds one-twentieth of the Company's share capital, except for acquisitions of shares by way of conversion of claims pursuant to the provisions of the Polish Act on Financial Restructuring of Enterprises and Banks and Acquisition of Shares as Part of Public Trading in Securities, dated February 3rd 1993; purchase real estate, perpetual usufruct rights to or an interest in real estate, whose value, determined on the basis of an appraiser's valuation, does not exceed PLN 5,000,000, as well as sell real estate, perpetual usufruct rights or an interest in real estate, whose value, determined on the basis of an appraiser's valuation, does not exceed PLN 200,000.

In 2008, the Supervisory Board held 11 meetings and adopted 73 resolutions (the Supervisory Board of the sixth term of office held 6 meetings and adopted 51 resolutions, and the Supervisory Board of the seventh term of office held 5 meetings and adopted 22 resolutions).

### **Committees of the Supervisory Board**

The Supervisory Board may set up standing or *ad-hoc* committees composed of its members to examine specific issues. The committees report their activities to the Supervisory Board as need arises, however standing committees must report to the Supervisory Board at least once a year.

A committee is composed of three to five persons. The chairperson of a committee, who manages the committee's work, is appointed by the Supervisory Board from among the committee members. The chairperson, acting on his or her own initiative or upon request of a committee member, convenes committee meetings. The right to convene a committee meeting is also vested in the Chairperson of the Supervisory Board or a Supervisory Board member designated by the Chairperson. All Supervisory Board members have the right to participate in the committees' work.

The chairperson of a committee, or a person designated by the chairperson, has the right to request the Supervisory Board to adopt resolutions on the preparation of opinions or expert opinions for the committee, concerning the scope of the committee's remit or engagement of an adviser.

The committees adopt their decisions at the meetings. Notices of a meeting should be delivered to the committee members and to other Supervisory Board members not later than five days prior to the meeting or, in urgent cases, not later than one day prior to the meeting.

A committee adopts resolutions by absolute majority of votes, unless provided otherwise in the resolution establishing the committee.

Minutes are taken at each committee meeting. The minutes should be signed by all attending committee members and include the resolutions, conclusions and reports of the committee.

The following standing committees operate within the Supervisory Board of Grupa LOTOS S.A.:

#### **Strategy and Development Committee**

The Strategy and Development Committee is responsible for providing to the Supervisory Board opinions and recommendations regarding planned investment projects with material effect on the Company's assets, and in particular:

1. Issuing opinions on long-term development strategies of the Company and the Group,
2. Evaluating the impact of planned and implemented investment projects on the Company's assets,
3. Monitoring the implementation of investment projects financed with proceeds from share issues performed as part of share capital increases,
4. Evaluating actions, agreements and other documents related to the activities aimed at acquisition, sale, encumbrance or any other action with respect to the Company's material assets,
5. Issuing opinions on all strategic documents submitted to the Supervisory Board by the Management Board.

In 2008, the Strategy and Development Committee was composed of:

from January 1st to June 30th 2008

1. Jan Stefanowicz – Chairperson
2. Marta Busz
3. Henryk Siodmok

4. Jacek Tarnowski

from August 12th to December 31st 2008

1. Wiesław Skwarko – Chairperson
2. Radosław Barszcz
3. Leszek Starosta
4. Jan Stefanowicz
5. Małgorzata Hirszel

#### **Organisation and Management Committee**

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

1. Assessing candidates for members of the Management Board,
2. Issuing recommendations as to terms of employment for newly appointed members of the Management Board,
3. Evaluating activities of the members of the Management Board,
4. Performing periodic reviews and evaluation of the Company's remuneration system,
5. Assessing the human resources management system adopted at the Company.

In 2008, the Organisation and Management Committee was composed of:

from January 1st to June 30th 2008

1. Marta Busz – Chairperson
2. Grzegorz Szczodrowski
3. Beata Zawadzka

from August 12th to December 31st 2008

1. Leszek Starosta – Chairperson
2. Małgorzata Hirszel
3. Mariusz Obszyński

#### **Audit Committee**

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

1. Monitoring the work of the Company's auditors and presenting to the Supervisory Board recommendations concerning the selection of the auditor and its remuneration,
2. Discussing any problems or qualifications which may result from the audit of the financial statements,
3. Overseeing the Company's internal audit function,
4. Providing ongoing information to the Supervisory Board on any material issues with respect to the Audit Committee's activities.

In 2008, the Audit Committee was composed of:

from January 1st to June 30th 2008

1. Henryk Siodmok – Chairperson
2. Beata Zawadzka
3. Jacek Mościcki
4. Izabela Emerling



from August 12th to December 31st 2008

1. Jan Stefanowicz – Chairperson
2. Mariusz Obszyński
3. Piotr Chajderowski

In connection with Piotr Chajderowski's resignation from his position on the Supervisory Board, on March 19th 2009 the Supervisory Board resolved to fill the vacant posts on the Audit Committee by appointing Wiesław Skwarko and Radosław Barszcz (members of the Supervisory Board). As a result, as of March 19th 2009, the Audit Committee has been composed of:

- a. Jan Stefanowicz – Chairperson
- b. Mariusz Obszyński
- c. Wiesław Skwarko
- d. Radosław Barszcz

### **Delegation of Specific Duties to Individual Supervisory Board members**

The Supervisory Board performs its duties collectively, but it may also delegate specific duties to individual members. Therefore, on August 12th 2008 the Supervisory Board designated the following members of the Supervisory Board of Grupa LOTOS S.A. to exercise ongoing detailed supervision over the implementation of the 10+ Programme and assigned them the following duties:

1. Wiesław Skwarko:
  - monitoring the progress of work under the project and its compliance with the schedule,
  - supervising the implementation of the strategy of the raw materials procurement for the project,
  - supervising the implementation of the strategy of sales of the project's products,
  - supervising the consistent management of logistics during the project execution,
2. Leszek Starosta:
  - supervising the legal aspects related to the contracts performed and concluded under the projects,
  - supervising the procedures for the conclusion of contracts,
  - supervising the administration proceedings related to the execution of the project,
3. Piotr Chajderowski (until resignation):
  - analysing the business and financing documentation of the project,
  - overseeing the financial liquidity of the project.

### **10. Management Board of Grupa LOTOS S.A. and Rules Governing the Appointment and Removal of Management Staff**

The Management Board of Grupa LOTOS S.A. operates on the basis of:

- Grupa LOTOS S.A.'s Articles of Association – consolidated text incorporating amendments introduced by Resolution No. 32 of the Annual General Shareholders Meeting, dated June 30th 2008;
- Rules of Procedure for the Management Board of Grupa LOTOS S.A. – adopted by Resolution No. 6/VI/2007 of the Management Board of Grupa LOTOS S.A., dated January 23rd 2007, and approved by Resolution No. 70/VI/2007 of the Supervisory Board, dated January 29th 2007.

### **Composition of the Management Board of Grupa LOTOS S.A. in 2008 and Its Operations**

In 2008, the Management Board of Grupa LOTOS S.A. was composed of:

1. Paweł Olechnowicz – President of the Management Board
2. Marek Sokołowski – Vice-President of the Management Board
3. Mariusz Machajewski – Vice-President of the Management Board



Due to unsuccessful recruitment procedures for the positions of:

- Vice-President of the Management Board responsible for Oil & Gas Exploration and Production,
- Vice-President of the Management Board, Chief Commercial Officer,

pursuant to the decision of the Supervisory Board, since June 2006 and November 2007, respectively, the President of the Management Board of Grupa LOTOS S.A. has performed the duties assigned to those positions, and the situation will continue until new Management Board members are appointed.

The Management Board manages all corporate affairs of Grupa LOTOS S.A. and represents the Company towards third parties, with the exception of the actions which rest with the General Shareholders Meeting or the Supervisory Board and matters which fall outside the scope of day-to-day management, which require prior resolution by the Management Board, as well as matters assigned to particular Management Board members under the Rules of Procedure of the Management Board.

Meetings of the Management Board are held as need arises. They are convened by the President of the Management Board or, in his or her absence, a Management Board member authorised by the President, who also chairs the meetings in absence of the President.

The notices of the meeting are delivered to the Management Board members at least two days prior to the date of the meeting. The notice should contain the meeting agenda, conclusions and materials (in the form of appendices) relating to the matters included in the meeting agenda.

A resolution will be deemed validly adopted if all Management Board members have been notified of the Management Board meeting and if at least three-fifths of the Management Board members are in attendance at that meeting. Resolutions are adopted by a simple majority of votes in favour of a resolution; abstaining votes are disregarded. Voting is open. A secret ballot may be held at the request of the President or two members of the Management Board. In the case of a voting tie, the President of the Management Board has the casting vote. The Management Board may also adopt resolutions in writing or by means of remote communication. Adoption of a resolution in this manner requires prior submission of the draft resolution to all Management Board members. Resolutions adopted in this manner are presented at the next meeting of the Management Board, along with the voting results.

Each Management Board meeting is recorded in the form of minutes. The minutes should contain information on which Management Board members are present at the meeting, the venue and date of the meeting, its agenda, names of the persons present at the meeting, proceedings of the meeting, wording of the adopted resolutions, the manner of voting and voting results, as well as objections and dissenting opinions of the Management Board members. The minutes are approved and signed by all members of the Management Board who are present at the meeting. The minutes are kept at the Management Board Office.

### **Rules Governing the Appointment and Removal of Management Staff and the Scope of Their Powers**

In accordance with the Articles of Association of Grupa LOTOS S.A., the Management Board is composed of three to seven members, including the President and Vice-Presidents of the Management Board. The number of the Management Board members is determined by a resolution of the Supervisory Board. The Supervisory Board appoints the Management Board, by first appointing the President of the Management Board, and then – acting upon the President's proposal – the Vice-Presidents and the other Management Board members. The term of office of the Management Board is a joint term of three years.

Mandates of the Management Board members expire not later than on the date of the General Shareholders Meeting approving the financial statements for the last full financial year during the term of office, but the President, Vice-Presidents, other Management Board members and the entire Management Board may be dismissed or suspended for sound reasons by the Supervisory Board at any time before the end of their term of office. Supervisory Board adopts resolutions on appointment to or removal from office of any or all Management Board members by way of a vote cast in the presence of at least two-thirds of the Supervisory Board members. A Management Board member's mandate may also expire following a member's resignation.

Management of the Company's affairs by the Management Board is subject to limitations resulting from the provisions of law, the Articles of Association, and resolutions of the General Shareholders Meeting and the Supervisory Board. The Management Board represents the Company in dealings with third parties and in all legal activities, with the exception of the Company's actions concerning the Management Board members.

Management Board resolutions are required with regard to the following matters:

- 1) setting the organisational rules of the Company, including organisation of the Company's business,
- 2) setting annual budget for the Company,
- 3) adoption of strategy for the LOTOS Group,
- 4) setting rules of procedure for the Company's business as required under the law,
- 5) making the Company's equity investments and implementing all projects related to capital expenditure in property, plant and equipment (with the exception of replacement investment projects) with the value of up to PLN 100,000,
- 6) exercising the Company's voting rights at the General Shareholders Meetings of the subsidiaries, with regard to:
  - appointing or removing members of the Management and Supervisory Boards,
  - coverage of loss,
  - increasing or reducing the share capital,
  - merging with another company or transforming the company,
  - selling or leasing the Company's business and/or encumbering it with usufruct rights,
- 7) appointing and removing members of the Management and Supervisory Boards who are appointed or removed directly by Grupa LOTOS S.A.,
- 8) establishing companies under commercial law,
- 9) acquiring and selling shares in limited-liability companies,
- 10) acquiring and selling shares, except where the shares are acquired or disposed of as part of public trading in securities, unless such acquisition or disposal results in gaining or losing the status of the parent,
- 11) acquiring and disposing of real property, perpetual usufruct rights or interest in real property,
- 12) establishing or joining partnerships, organisations or ventures which involve unlimited liability enforceable against the Company's assets.
- 13) preparing:
  - the Company's financial statements for the previous financial year, in accordance with the Polish Accountancy Act, along with the Directors' Report on the Company's operations for the previous financial year – no later than within three months from the balance-sheet date
  - consolidated financial statements and a report on the LOTOS Group's operations for the previous financial year – no later than within five months from the balance-sheet date,
- 14) convening ordinary and extraordinary General Shareholders Meetings in due time, on its own initiative, at a written motion of the Supervisory Board or at the request of a shareholder or shareholders representing at least one-tenth of the share capital, as well as in other cases as provided for in the Commercial Companies Code,
- 15) establishing the agenda for a General Shareholders Meeting,
- 16) matters going beyond the scope of the ordinary management of the enterprise,
- 17) matters which have been objected to by at least one of the members of the Management Board,
- 18) matters which must be resolved by way of Management Board resolutions if so required by the President of the Management Board or at least half of the members of the Management Board, and which fall within the scope of responsibilities of particular members of the Management Board,
- 19) establishing powers of proxy.

In 2008, the Management Board held in total 46 meetings in which it adopted 154 resolutions.

Any matters not specified above are assigned to individual members of the Management Board in line with the division of powers and responsibilities, as provided below:

In view of the decision of the Supervisory Board entrusting the President of the Management Board with the duties of Vice-President of the Management Board responsible for Oil & Gas Exploration and Production and Vice-President of the Management Board – Chief Commercial Officer (until new Management Board Members are appointed to those posits), the President of the Management Board is now responsible for three organisational segments within the LOTOS Group, i.e. the Management Segment, the Marketing Segment and the Exploration & Production Segment.

**Paweł Olechnowicz, President of the Management Board and CEO**, is charged with the overall management and direction of the operations of Grupa LOTOS S.A., and holds responsibility for managing and directing them. He is also acting as Vice-President of the Management Board, Chief Commercial Officer and Vice-President of the Management Board responsible for Oil & Gas Exploration and Production, and will continue to serve in those capacities until new members are appointed to the Management Board. His duties include in particular:

*In his capacity as President of the Management Board:*

1. with respect to the operations of the LOTOS Group:
  - seeking to enhance the value of the LOTOS Group.
2. with respect to the operations of Grupa LOTOS S.A.:
  - running the operations of Grupa LOTOS S.A. within the following scope:
    - restructuring and consolidation,
    - strategy and development,
    - organisational and administrative support of the Company's corporate bodies,
    - HR management,
    - business process management,
    - monitoring and identification of risks associated with the Company's operations,
    - PR,
    - communication process,
    - strategic marketing,
    - sponsorship, charity and CSR projects,
    - civil defence,
    - security and protection of confidential data,
    - maintaining dialogue with the trade union organisations active at the Company,
3. Within the scope of the above duties, the President of the Management Board has the authority to issue and delegate the authority to issue: instructions, regulations, directions, as well as directives relating to the LOTOS Group's operations.

*In his capacity as Vice-President of the Management Board, Chief Commercial Officer:*

1. With respect to the operations of the LOTOS Group:
  - strategic sales-related decision-making,
  - approval of long- and near-term sales plans and policies,
  - supervision over the process aimed at optimising the Group-wide logistic resources, including management of the supply chain,
  - supervision over the marketing activities of companies forming the Group's marketing segment.
2. With respect to the operations of Grupa LOTOS S.A.:
  - management of all processes connected with the sale of products,
  - coordination of the planning process related to the sale of products to customers from all business sectors,
  - effective management of all distribution channels,
  - supervision over the drafting and performance of contracts concluded as part of the sales division's activities,
  - approval of the rules and standards relating to sales and market research,
  - development of the strategy aimed to optimize the supply chain, in line with the business strategy,

- approval of the inventory and transfer pricing management policies,
- supervision over the strategy aimed to diversify and secure new sources of crude oil supplies, as well as the strategy towards procurement of components, chemicals and semi-finished products,
- supervision over the drafting and performance of agreements on provision of logistic services,
- monitoring the implementation of the strategy towards management of the supply chain and business activity;
- supervision over compliance with applicable regulations and fulfillment of obligations in the area of sales, procurement and distribution, including supervision over the process of obtaining the required licences and permits,
- supervision over the optimisation of mandatory stocks.

*In his capacity as Vice-President of the Management Board responsible for Oil & Gas Exploration and Production:*

1. With respect to the operations of the LOTOS Group:

- formulation - based on the Company's strategy - of the E&P policy objectives,
- initiation of E&P work,
- preliminary review and evaluation of projects in terms of reserves, development technologies to be used and economic feasibility,
- supervision over the processing of geological, technology and economic data for promotional and marketing purposes,
- supervision over compliance with the requirements imposed under relevant regulations applicable to upstream operations.

**Marek Sokołowski, Vice-President of the Management Board, Production and Development Director**, is charged with the overall management, coordination and direction of the activities of the production division, technology division, technology development division and refinery extension division (which is implementing the 10+ Programme), and holds overall responsibility for managing, coordinating and directing them. His duties include in particular:

1. With respect to the operations of the LOTOS Group.

- formulation of objectives that are to underlie the LOTOS Group's policy in the area of refining,
- overall supervision over R&D work in the area of production,
- designing of the strategy towards maintenance and extension of the production facilities,
- overall coordination of investment projects related to development work in the area of the LOTOS Group's processes and technologies, including supervision over the execution of the Management Board's decisions in that area,
- supervision over maintenance of the requisite level of technical performance of the Group's assets,
- supervision over the process of obtaining and maintaining the required production-related licences and permits.

2. With respect to the operations of Grupa LOTOS S.A.:

- ensuring supervision over the production process to make sure that the relevant quantity and quality targets are met,
- ensuring that the production facilities are maintained in a state enabling the implementation of assumed objectives,
- ensuring the implementation of investment and modernisation projects, in line with assumed objectives,
- overall coordination of planning, preparation and implementation of the 10+ Programme,
- ensuring supervision over the production process to make sure that the environmental requirements are met and that the relevant administrative decisions are complied with,
- securing the supply of power utilities needed for the production process,
- ensuring supervision over technical safety,

- ensuring supervision over procurement of materials and spare parts for the production facilities
- ensuring an adequate level of fire protection,
- ensuring supervision and control over compliance with health-and-safety-at-work and environmental procedures, as well as securing resources needed to ensure such compliance,
- ensuring that necessary quality controls are in place in the area of production,
- supervision over product volumes to make sure that Grupa LOTOS S.A.'s schedule for the maintenance of mandatory stocks is kept.

**Mariusz Machajewski, Vice-President of the Management Board, Chief Financial Officer**, is charged with the overall management of the Company's economic and financial affairs and its accounting function, and holds responsibility for their management. His duties include in particular:

1. With respect to the operations of the LOTOS Group:

- supervision over the arrangement of financing for the Group's development projects,
- management of assets,
- supervision over coordination of the implementation of and compliance with the best practice in the area of corporate governance,
- coordination of and supervision over the preparation of the Group's consolidated financial statements.

2. With respect to the operations of Grupa LOTOS S.A.

- designing the Company's financial and tax strategies, as well as its strategy towards insurance coverage, and supervision over their execution,
- supervision over the financial and tax reporting systems, and over the relevant settlements,
- supervision over cost budgeting and the operation of the cost budgeting system,
- supervision over the preparation and implementation across the Company of uniform accounting policies, and ensuring that they conform with the applicable legislation,
- supervision over the process of securing financing for mandatory stocks, established pursuant to applicable regulations,
- designing the investor relations strategy,
- fulfillment of the disclosure requirements imposed on Grupa LOTOS S.A. as a listed company, in accordance with the applicable laws.

## 11. Signatures of the Management Board Members

President of the Management Board, Chief Executive Officer	
	Paweł Olechnowicz
Vice-President of the Management Board, Chief Financial Officer	
	Mariusz Machajewski
Vice-President of the Management Board, Production and Development Director	
	Marek Sokołowski