

# Corporate governance

As a public company, we take care to build relationships of partners with investors, which are satisfactory to both sides, in line with the principles of corporate governance. We understand it as, on one hand, acting in accordance with ethical principles generally approved in the business activity, and, on the other hand, complying with regulations aimed at ensuring balance between the interests of all capital market participants engaged in the companies' activities.

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In building long-lasting, good relations with our stakeholders, we aim to effectively align our strategy and activities with a number of social, environmental and corporate governance-related challenges. The LOTOS Group's business and CSR goals are aligned at two levels:

- management systems and organizational structures,
- organizational culture, competencies and capabilities.

## Mission, vision, values

The mission of the LOTOS Group 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.

We strive to be perceived as the most reputable oil company in the Baltic Sea region, widely recognised for:

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

Our overriding strategic objective is to create value for shareholders through optimised deployment of human and material resources and implementation of development programmes in the field of:

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

The efforts we undertake in the social and business spheres, in our relations with key stakeholders and in corporate governance are aimed principally to:

- ensure compliance with law and ethical standards,
- increase our positive contribution to social development,
- mitigate possible adverse impacts of our operations and the associated risks,
- maximise our chances for sustainable development over the long term.

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. Anticipating and addressing the consequences of our decisions. Fulfilling our obligations and being true to our word. Making no empty declarations.

In our activities, we are guided by the key principle of legal compliance and responsibility for the impact of our operations on the world around us. In the Code of Ethics implemented in 2012, employees of the LOTOS Group committed to behave in accordance with the following ethical values:

- **professionalism** – we try to make the most of our knowledge and skills by actively applying them in our work. We build the organization’s value primarily on the professionalism of our staff, who all aspire to being experts in their respective fields. We perform our duties to the highest standards of care and objectivity, striving to continually improve our skills and professional qualifications.
- **respect** - our respect manifests itself in such decisions and actions that do not infringe the dignity of other individuals and entities. We follow the principle of respect in building our relations with employees, as well as with business and social partners.  
We respect the diversity and equality of all our associates and representatives of the LOTOS Group partners, irrespective of their nationality, race, sex, age, disability, religious denomination, political convictions or sexual orientation.
- **transparency** - we act and communicate transparently in our relations with employees, clearly and intelligibly defining their rights and obligations, and justifying decisions that affect them. We make sure that our employees have access to all information they need to properly perform their duties.  
Transparency is a value we adhere to in our external relations, by openly communicating our decisions, actions and reasons by which we are guided in mutual relations, especially with customers, suppliers, participants of the capital market and local communities.
- **cooperation** - cooperation is a defining feature of our approach to building mutual relations in such a way as to maximise benefits for the LOTOS Group, with due regard to the interests of the other party. Cooperation is based on open communication, trust and strong focus on the achievement of common goals. That value is applied both in our internal and external relations.



As a corporate citizen, 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, which we joined in 2009.

## Principles of UN Global Compact

1. Support and respect the protection of internationally proclaimed human rights,

2. Eliminate human rights abuse,
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 employment,
7. Support a precautionary approach to environmental challenges,
8. Undertake initiatives designed to promote environmental responsibility,
9. Encourage development and diffusion of environmentally-friendly technologies,
10. Work against all forms of corruption, including extortion and bribery.

# Management approach

At Grupa LOTOS, we take care to build relationships of partners with investors, which are satisfactory to both sides, in line with the principles of corporate governance. The primary objectives that the Company pursues by adhering to the rules of corporate governance include:

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

## Grupa LOTOS – corporate governance structure



Since its stock market debut in 2005, Grupa LOTOS has 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**”, last amended by the WSE’s Supervisory Board in its Resolution of November 21st 2012. 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.

In 2012, Grupa LOTOS complied with most of the obligatory corporate governance principles set forth in the Code of Best Practice for WSE Listed Companies.

In line with the *comply-or-explain* principle, which provides that companies should either comply with corporate governance rules or explain any recurring or non-recurring instances of non-compliance, the Board has published non-compliance lists with relevant explanations since 2008.

Pursuant to Par. 29.3 of the WSE Rules, on January 27th 2012 the Company reported a single instance of non-compliance with rule 5 set out in Section III of the Code of Best Practice for WSE Listed Companies, connected with the resignation on that day of Rafał Wardziński from his position as member of the Grupa LOTOS Supervisory Board.

We try to communicate an accurate, reliable and clear picture of our operations and financial standing to investors. We provide them with up-to-date information in compliance with the principles of involvement of, availability to and equal treatment of all investors. On the Company's investor relations website, available in two language versions at [www.inwestor.lotos.pl/en](http://www.inwestor.lotos.pl/en) (<http://inwestor.lotos.pl/en/>), we publish corporate governance information, including annual statements of compliance of the Company and the LOTOS Group, as well as reports released via the EBI system.

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

Pursuant to the above regulations, shareholders, by virtue of their rights, may influence our operations and review the activities undertaken by the Company's management and supervisory bodies. A key shareholder right is the right to participate in the General Meeting, which accrues to all persons who are Company shareholders sixteen days prior to the date of the General Meeting, i.e. on the record date. Additionally, the right to participate in the General Meeting entitles shareholders to:

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

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

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

- post on their corporate websites detailed information on General Meetings, including reasons for calling off or postponing a Meeting, changes to a Meeting's agenda together with reasons justifying such changes, notices of adjournment, shareholder questions relating to agenda items asked before and during a Meeting, as well as answers to such questions,
- ensure that General Meetings are attended by Supervisory Board and Board members,

- set the venue and date of General Meetings so as to enable the highest number of shareholders to participate,
- enable representatives of the press to be present at General Meetings.

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#### General Meetings held at Grupa LOTOS in 2012

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<b>Date</b>	<b>Date Meeting</b>	<b>Main issues</b>
February 29th	Extraordinary General Meeting	The Extraordinary General Meeting was convened at the request of a shareholder - State Treasury. The main agenda item related to changes in the composition of the Supervisory Board.
June 28th	Annual General Meeting	The Annual General Meeting reviewed and approved the financial statements and directors' report on the operations of the Company and of the LOTOS Group in 2011; and granted discharge in respect of performance of duties to Members of the Supervisory Board and Members of the Board. During the Meeting, shareholder B. Kamola exercised his right to take the floor. The proposals and comments submitted by the shareholder related to the Company's operations, primarily to financial and economic issues, the LOTOS Group strategy and the YME project. Questions asked by the shareholder and answers provided by the Board have been published on the Company's website. Moreover, the shareholder exercised his right to object to the resolution concerning approval of the directors' report on the Company's operations in the year ended December 31st 2011.
November 28th	Extraordinary General Meeting	The Extraordinary General Meeting was convened to amend the Grupa LOTOS Articles of Association. During the Meeting, shareholder J.H. Lampart exercised his right to actively participate in the Meeting by taking the floor, and by voting against and objecting to all the resolutions adopted by the Meeting.

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## Management systems

The Integrated Management System (IMS) put in place supports development and ensures that uniform standards of management are applied across the organization. Our aim is to further develop the IMS and build a shared management platform within the LOTOS Group, which would account for the specific business characteristics of each company.

IMS solutions are implemented to allow us to derive measurable benefits from the management system. The standards are seen as guidelines towards universal and optimal solutions from the point of view of our business, which would increase the chances of delivering added value, i.e. make the implemented system more efficient and useful.

We are also in the process of implementing two new systems - to support risk management and energy management - in line with our policy to deploy only such management systems which can further the strategy of the LOTOS Group. The Integrated Management System ensures effective management, while preserving the stable flow of business processes.

### Management systems at the LOTOS Group As at December 31st 2012

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, Railway Transport Security Management System (SMS). The Company is implementing the requirements imposed by the Rail Vehicle Maintenance Management System (MMS), management of quality in welding compliant with the EN 15085 standard, Safety and Quality Assessment System and system of Maintaining Freight Cars in accordance with the VPI requirements.
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 Quality 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

LOTOS Serwis	Implemented and certified Integrated Management System compliant with ISO 9001, ISO 14001, and PN-N-18001. Implemented and certified quality in welding management system compliant with the PN-EN ISO 3834-2:2007 standard.
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. Implemented requirements of ISO 14001 and PN-N-18001.
LOTOS Jasło	The company is currently implementing the Integrated Management System.
LOTOS Tank	The company is currently implementing the Integrated Management System.

Audits are a basic tool used to enhance the Integrated Management System of Grupa LOTOS and support the management decision-making process. Their findings provide information on the effectiveness of the processes, help identify intersection points and enhance information flows. In 2010-2012, we performed more than 170 audits, falling into the following categories:

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

The findings of **internal audits** at organizational units, production plants and fuel depots of Grupa LOTOS, as well as cross-sectional audits of specific issues, provide the management with information on compliance with existing regulations and effectiveness of the implemented systemic and organizational solutions. Internal audits represent more than 60% of all audits at the Company.

**Corporate audits** carried out at Grupa LOTOS' subsidiaries assess the degree of implementation of corporate requirements and standards.

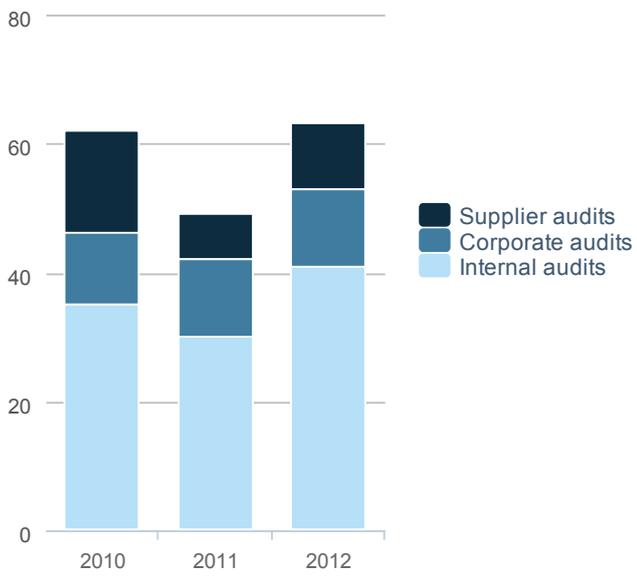
An important corporate audit performed in 2012 was an assessment of customer service quality at LOTOS service stations. Thanks to the findings of the audit, performed at all stations using the Mystery Shopper method, we obtained valuable information supporting our efforts to secure maximum customer approval and increasingly better service quality.

In addition to quality requirements, in our cooperation with suppliers working on the premises of Grupa LOTOS we focus on occupational safety and environmental protection. **Supplier audits** provide information on the degree to which these requirements are met, while serving as a tool of additional supervision over suppliers. Companies to be covered by supplier audits are indicated by managers of the technical and investment divisions.

Subsidiaries of Grupa LOTOS carry out internal audits, corporate audits and supplier audits, as necessary.

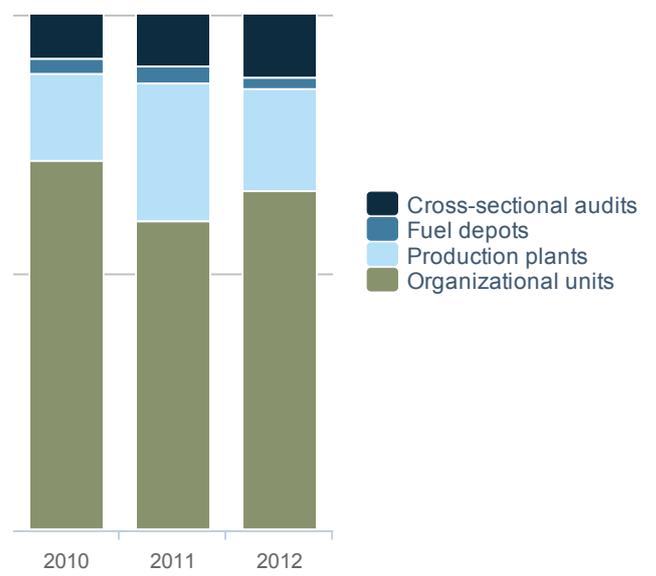
As part of the Auditor School initiative (in place since 2008), we raise - by means of training and other methods - the qualifications of our auditors, to ensure high quality and reliable results of audits.

**Audits in 2010-2012**



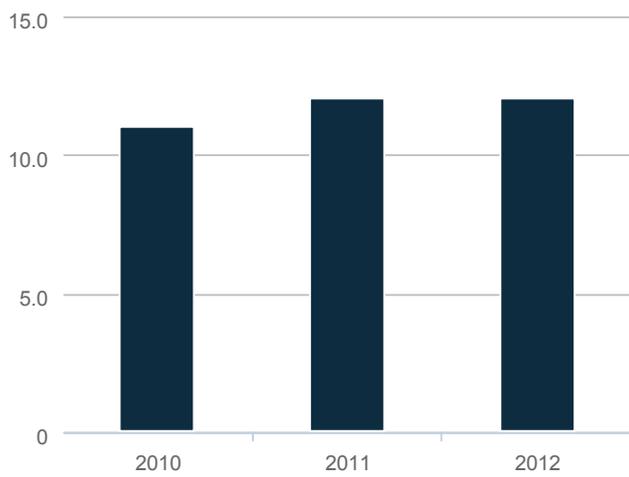
Source: Grupa LOTOS' in-house data.

**Structure of internal audits in 2010-2012**



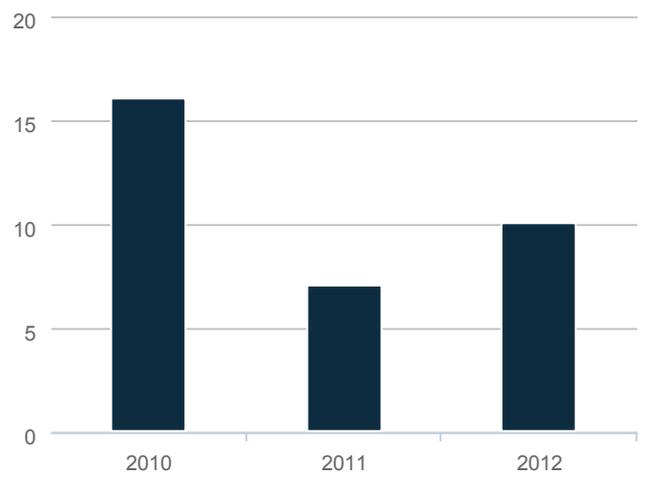
Source: Grupa LOTOS' in-house data.

**Corporate audits in 2010-2012**



Source: Grupa LOTOS' in-house data.

**Supplier audits in 2010-2012**



Source: Grupa LOTOS' in-house data.

## Key system changes and projects

### Enterprise Risk Management System (ERM)

To ensure secure and effective pursuit of our strategic and operational objectives, in 2012 we successfully implemented the enterprise risk management system at the LOTOS Group. The rules of risk identification and assessment allow us to promptly respond to threats, so as to mitigate or altogether eliminate them. Thanks to well-designed response plans, the ERM system makes it possible to adequately prepare for the occurrence of a given risk. The ERM procedures are consistently implemented, monitored and enhanced, to deliver maximum benefits for the LOTOS Group.

Risk management is operationally supported by the ERM portal - an IT system specifically designed to meet the LOTOS Group's requirements and tailored to our needs. Thus, we have gained a tool which is improved as the internal enterprise risk management system develops.

For detailed information on the risk management policies followed by the LOTOS Group, see the "[Risk management \(http://raportroczny.lotost.pl/en/risk-management\)](http://raportroczny.lotost.pl/en/risk-management)" chapter.

### Process management

In 2012, we reviewed the processes in place at the Company with a view to optimising them. A process monitoring website was established to allow process owners to communicate their performance, while drawing on all available information about a given process.

### Project management

In 2012, we implemented policies applicable to the management of the LOTOS Group's projects. They are aimed to systematise and establish links between the various practices applied by individual segments. We have introduced a uniform process of launching, monitoring and reporting projects, which is designed to ensure efficient execution, effective monitoring of project status and deliverables, as well as standardisation of management methods.

In line with the introduced regulations, Segment Project Monitors have been appointed at individual segments and a special tool has been deployed to facilitate the process - an electronic register of all the LOTOS Group's projects, by means of which it is possible to monitor their current status. We have also started a training programme focusing on project execution and documentation.

### Energy Management System (EnMS)

In 2012, we continued the implementation of the energy management system compliant with ISO 50001, which aims to establish uniform standards for a range of measures designed to improve Grupa LOTOS' energy efficiency through:

- systematised and standardised approach to energy management across different operating areas,
- identification of significant energy aspects of the Company's operations,
- documentation of sub-tasks undertaken in areas covered by the EnMS,

- identification of upgrade and development work required to achieve energy efficiency.

## Development plans

In 2013, we will carry on the existing projects and implement new ones, including them in the Integrated Management System. Our plans provide for:

- improvement of the Enterprise Risk Management System (ERM), e.g. by incorporating new functionalities into the IT system supporting ERM,
- completion of work and validation of solutions adopted and procedures developed within the framework of the Energy Management System (EnMS) to support measures designed to improve the Company's energy efficiency profile,
- improvement of process management through implementation of projects designed to optimise business processes and completion of work related to the implementation of process monitoring tools, including provision of internal training and workshops on how to use such tools,
- improvement of project management at the LOTOS Group, supported by IT 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 necessary information.

## Organizational maturity

In the reporting period, an assessment for Grupa LOTOS' organizational maturity in 2012 was performed. The exercise is undertaken annually, since 2011, by the Company's internal audit function.

**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 we have adopted, which assumes continuous improvement, we have been taking steps to obtain an objective assurance as to the maturity of solutions adopted with respect to:

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

Each system was assessed using a model tailored specifically to our needs, based on best business practice, such as the GRC (*ang. Governance, Risk Management, and Compliance*) Open Compliance & Ethics Group and other recommendations related to corporate governance, e.g. those contained in 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 and make a comprehensive assessment of the organizational maturity of the Company as a whole.

- Within the framework of the **internal control system**, we have put in place key organizational and process solutions, designed to the best practice standard. We have defined the organizational structure, developed organizational rules, determined the allocation of key functions within the organization and adopted formal standards by which to formulate internal regulations. The Company has in place a management reporting system as well as an economic and financial performance reporting system. In addition, there is a process for monitoring and assessing solutions which constitute the internal control system. The key organizational and process solutions which constitute the framework of the internal control system work as designed.
- Within the framework of the **risk management system**, we have put in place all key solutions needed to correctly design its operation. The Company has developed and communicated an enterprise risk management policy, and appointed participants of the risk management process, including risk owners, Risk Management Coordinator and Risk Management Committee. Detailed internal regulations have also been established defining the manner in which to operate and take appropriate actions within the framework of the risk management system. The Company has developed and put in place a system framework which is key to ensuring that the system meets its objective of

effectively supporting the management process and creating value added. The key organizational and process solutions which constitute the framework of the risk management system work as designed.

- Within the framework of the **compliance system**, active steps are taken to ensure compliance of the Company's activities and internal regulations with the 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. Responsibility for ensuring compliance has been formally assigned. The key organizational and process solutions which constitute the framework of the compliance system work as designed.
- Within the framework of the **abuse prevention system**, new solutions were introduced in 2012. An Abuse Prevention Policy was developed and communicated, and the duties of responsibility for and coordination of related activities were assigned to appointed individuals. Channels for reporting suspected instances of abuse were established, along with relevant organizational and process solutions. Education and awareness raising initiatives were undertaken amongst staff, focusing on abuse prevention and relevance of the system. Moreover, foundations were laid for building a desirable ethical culture, for which key solutions were developed in 2012 to support the achievement of objectives in this area, for instance the LOTOS Group's Code of Ethics put in place in January 2013. The key organizational and process solutions which constitute the framework of the abuse prevention system work as designed.
- Within the **corporate governance** system, we have established most key solutions, including solutions governing the relations between the Company's corporate bodies and related to its approach to managing the organization and its resources, which are consistent with the applicable standards and best practices. Among other things, the Company has defined its approach to managing the organization and established solutions providing for formal allocation of tasks to staff and managers, evaluation of their performance and remuneration in accordance detailed policies. A dedicated organizational unit has been set up with the role of developing, implementing, maintaining and enhancing management systems and exercising supervision over the organizational processes and structures. The Company's mission, vision and strategic objectives have been defined. A dedicated internal audit unit has been established to support the Board in managing the organization, by carrying out the audit functions with respect to core areas of the Company's operations. Moreover, the Company is active in the CSR area, for which a LOTOS Group-wide strategy has been formulated and periodic reports are published). The key organizational and process solutions which constitute the framework of the corporate governance system work as designed.



The results of the assessment of the Company's organizational maturity in 2012 testify that we are an organization oriented towards increasing professionalism and adoption of solutions amounting to the best operating and management practices. 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 in individual areas covered by the assessment.

## Powers

The Supervisory Board exercises ongoing supervision over the Grupa LOTOS' 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 Meeting. The procedures to be followed by the Supervisory Board are defined in the Company's Articles of Association (Statute of Grupa LOTOS) and the Rules of Procedure for the Supervisory Board. The documents are publicly available on the Company's website.

[Statute of Grupa LOTOS \(http://inwestor.lotos.pl/en/1002/corporate\\_governance/documents\\_of\\_grupa\\_lotos\)→](http://inwestor.lotos.pl/en/1002/corporate_governance/documents_of_grupa_lotos)  
[http://inwestor.lotos.pl/en/1002/corporate\\_governance/documents\\_of\\_grupa\\_lotos](http://inwestor.lotos.pl/en/1002/corporate_governance/documents_of_grupa_lotos)

[Rules of Procedure for the General Meeting of Grupa LOTOS](http://inwestor.lotos.pl/en/1002/corporate_governance/documents_of_grupa_lotos)  
[http://inwestor.lotos.pl/en/1002/corporate\\_governance/documents\\_of\\_grupa\\_lotos](http://inwestor.lotos.pl/en/1002/corporate_governance/documents_of_grupa_lotos)→

[Rules of Procedure for the Supervisory Board of Grupa LOTOS →](http://inwestor.lotos.pl/en/1002/corporate_governance/documents_of_grupa_lotos)  
[http://inwestor.lotos.pl/en/1002/corporate\\_governance/documents\\_of\\_grupa\\_lotos](http://inwestor.lotos.pl/en/1002/corporate_governance/documents_of_grupa_lotos)

## Composition

 - data has been verified, [full text of the Independent Assurance Report \(/en/the-organization-and-its-report/integrated-reporting/auditing-and-reviews#opinia-pwc\)](/en/the-organization-and-its-report/integrated-reporting/auditing-and-reviews#opinia-pwc)

In accordance with the Company's Articles of Association as currently in effect, the Supervisory Board may be composed of five to nine members,<sup>1</sup> appointed for a joint three-year term of office by the General Meeting, with an absolute majority of votes, in a secret ballot, from among an unlimited number of candidates. The number of Supervisory Board members is determined by the General Meeting. The Chairperson of the Supervisory Board is appointed by the General Meeting, while the Deputy Chairperson and the Secretary are elected by the Supervisory Board from among its members. A Supervisory Board member or the entire Supervisory Board may be removed at any time prior to expiry of the office term.

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.

In accordance with the Commercial Companies Code, members of the Supervisory Board should perform their duties to a professional standard of care. Furthermore, pursuant to the Rules of Procedure for the General Meeting and the Rule set forth in Section I.6 of the Code of Best Practice for WSE Listed Companies, members of the Supervisory Board should possess appropriate expertise and experience, and be able to devote the time necessary to perform their duties.

Currently, the Supervisory Board of Grupa LOTOS is composed of six members, including two women and four men.

<sup>1</sup> By virtue of a decision of the General Meeting of Grupa LOTOS of November 28th 2012 concerning amendments to the Company's Articles of Association in respect of Par. 11.1; until the day on which the amendments to the Company's Articles of Association were registered in the National Court Register, i.e. until December 17th 2012, the Supervisory Board could be composed of six to nine members.

From January 1st to January 27th 2012, the Supervisory Board of the eighth term of office comprised the following persons:

First name and surname	Function
Wiesław Skwarko	Chairman
Rafał Wardziński	Deputy Chairman
Oskar Pawłowski	Secretary
Leszek Starosta	Member
Małgorzata Hirszel	Member
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 then 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.

Considering the circumstances, on February 29th 2012, the Extraordinary General 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 Supervisory Board.

From February 29th to December 31st 2012 and as at the release date of this report, the composition of the Supervisory Board of Grupa LOTOS of the eighth term of office was as follows:

<b>First name and surname</b>	<b>Function</b>
Wiesław Skwarko	Chairman
Marcin Majeranowski	Deputy Chairman
Oskar Pawłowski	Secretary
Leszek Starosta	Member
Małgorzata Hirszel	Member
Michał Rumiński	Member



**Wiesław Skwarko**

Chairman of the Supervisory Board of Grupa LOTOS



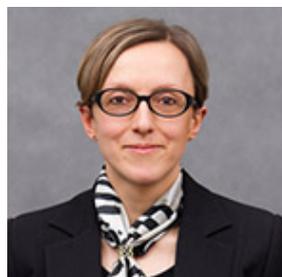
**Marcin Majeranowski**

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

**Number of women and men on the Supervisory Board of Grupa LOTOS in 2010-2012**

<b>Year</b>	<b>Period</b>	<b>Total number of members</b>	<b>Number of women</b>	<b>Number of women</b>	<b>Number of men</b>
2010	2010 Jan 1 - Feb 11	7	1		6
	Feb 11 - Mar 29	7	1		6
	Mar 29 - Jun 28	6	1		5
	Jun 28 - Dec 31	8	2		6
2011	2011 Jan 1 - Jun 27	8	2		6
	Jun 27 - Nov 8	7	2		6
	Nov 8 - Dec 31	6	1		5
2012	2012 Jan 1 - Jan 27	6 ✓	1 ✓		5 ✓
	Jan 27 - Feb 29	5 ✓	1 ✓		4 ✓
	Feb 29 - Dec 31	6 ✓	2 ✓		4 ✓

## Standing committees of the Supervisory Board

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

Each committee is composed of three to five 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.

- 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.
- 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.
- 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.

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.

As at January 1st 2012, the committees of the Supervisory Board were composed of the following persons:

Committee	First name and surname	Function
Audit Committee	Michał Rumiński	Chairman
	Oskar Pawłowski	Member
	Wiesław Skwarko	Member
	Rafał Wardziński	Member
Strategy and Development Committee	Wiesław Skwarko	Chairman
	Małgorzata Hirszel	Member
	Michał Rumiński	Member
	Leszek Starosta	Member
	Rafał Wardziński	Member
Organization and Management Committee	Leszek Starosta	Chairman
	Małgorzata Hirszel	Member

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Oskar Pawłowski	Member
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Michał Rumiński	Member
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Following Mr Rafał Wardziński's resignation from the Supervisory Board of Grupa LOTOS on January 27th 2012, 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 applicable laws and in the Company's Articles of Association. The same was the case for the committees of the Supervisory Board, which - in those circumstances - did not work until the vacancy on the Supervisory Board was filled.

As a result of the changes in the composition of the Supervisory Board of the eighth term of office effected by the Extraordinary General Meeting on February 29th 2012, the new Supervisory Board at its first meeting held on March 8th 2012 resolved to appoint Mr Marcin Majeranowski to the Audit Committee, Ms Agnieszka Trzaskalska and Mr Marcin Majeranowski to the Strategy and Development Committee, and finally Mr Marcin Majeranowski and Ms Agnieszka Trzaskalska to the Organization and Management Committee (the latter as chairperson). Moreover, at the meeting referred to above, Mr Michał Rumiński tendered a resignation from his position on the Organization and Management Committee.

From March 8th to December 31st 2012 and as at the release date of this report, the composition of the committees of the Supervisory Board was as follows:

<b>Committee</b>	<b>First name and surname</b>	<b>Function</b>
Audit Committee	Michał Rumiński	Chairman
	Oskar Pawłowski	Member
	Wiesław Skwarko	Member
	Marcin Majeranowski	Member
Strategy and Development Committee	Wiesław Skwarko	Chairman
	Małgorzata Hirszel	Member
	Michał Rumiński	Member
	Agnieszka Trzaskalska	Member
	Marcin Majeranowski	Member
Organization and Management Committee	Agnieszka Trzaskalska	Chairman
	Małgorzata Hirszel	Member
	Oskar Pawłowski	Member
	Marcin Majeranowski	Member

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## Remuneration

Determination of the remuneration policy for members of the Supervisory Board rests within the scope of powers of the General 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 (Dz. U. of 2000 No 26, item 306, as amended). Acting in accordance with the Act, in 2000 the Extraordinary General Meeting defined a remuneration policy for the Supervisory Board members, which provides as follows:

- Supervisory Board members receive monthly remuneration equal to the average monthly salary in the non-financial corporate sector, net of bonuses paid from profit in the fourth quarter of the preceding year, as announced by the President of the GUS (Central Statistics Office),
- the remuneration is payable irrespective of the frequency of Supervisory Board meetings. This, however, does not apply if in a given month a member of the Supervisory Board is absent from all meetings held in that month without a valid reason,
- if a Supervisory 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 2012 the Supervisory Board members were entitled to receive monthly remuneration calculated on the basis of the average monthly salary in the non-financial corporate sector net of bonuses paid from profit in the fourth quarter of 2009.

### Remuneration of the Supervisory Board members in 2012

First name and surname	Amount (PLN)
Wiesław Skwarko	41,454.96
Leszek Starosta	10,363.74
Małgorzata Hirszel	41,454.96
Oskar Pawłowski	41,454.96
Michał Rumiński	41,454.96
Rafał Wardziński	6,463.41
Marcin Majeranowski	31,091.22
Agnieszka Trzaskalska	31,091.22

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**Total**

**244,829.43**

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## Independence status

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. 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 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.

Grupa LOTOS has no information regarding independence of the Supervisory Board members. 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 above.

## Avoidance of conflicts of interest

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 financial statements. According to the disclosures made by members of the Company's Supervisory Board in respect of 2012, 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 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 2012, 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 above requirements, 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

An important element of the system designed to assess the performance, opportunities and risks of Grupa LOTOS, which ensures that the Company's actions in the sustainability area remain transparent, is the Supervisory Board along with its committees.

In order to meet the internationally adopted standards of sustainable development, the Supervisory Board reviews the core issues and areas of Grupa LOTOS' operations, both from the point of view of access to natural resources, as well as the Company's social and environmental impacts.

In 2012, the Supervisory Board met eight times and adopted 52 resolutions, five of which were voted by written ballot, in accordance with Par. 12.3 of the Company's Articles of Association.

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 2013 included:

- upstream opportunities,
- delivery of strategic objectives and financial performance of Grupa LOTOS and its subsidiaries,
- refinancing/financing of the Company's inventories and securing of crude oil supplies for the refinery,
- changes in the LOTOS Group's structure,
- preparing the Company to bring its business in line with the climate package requirements,
- financing of CSR projects, and
- corporate sponsorship.

In 2012, the committees of the Supervisory Board - carrying out their supporting, advisory and consultative roles, viewing sustainability as an essential process for the Company and appreciating the importance of responsible approach to business - put the following matters under discussion:

- delivery of strategic objectives and strategic cooperation between the Company and other entities,
- results of the audit and review of financial statements,
- the Company's 2013 budget and debt service projections,
- management of current assets,
- internal audit and risk management at the Company,
- review of the Company's operating costs, along with planned and ongoing investments,
- review of remuneration and structure of the LOTOS Group,
- restructuring of the LOTOS Group.

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

## Powers

The Board represents the Company before third parties and manages its affairs. Each member of the Board is authorised to represent the Company in all court and out-of-court transactions relating to the operation of the Company's business, with the exception of matters reserved for the General Meeting or Supervisory Board under the Commercial Companies Code or the Company's Articles of Association, as well as matters falling outside the scope of ordinary management of the business where they require the Board's prior resolution. Ordinary matters of the Company are carried out by the President acting independently and by individual members of the Board, in line with the division of powers and responsibilities defined under Grupa LOTOS' Organizational Rules.

The Board of Grupa LOTOS acts in accordance with the Articles of Association and the Rules of Procedure for the Board. The documents are publicly available on the Company's website.

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

[http://inwestor.lotos.pl/en/1002/corporate\\_governance/documents\\_of\\_grupa\\_lotos](http://inwestor.lotos.pl/en/1002/corporate_governance/documents_of_grupa_lotos)

## Composition

 - data has been verified, [full text of the Independent Assurance Report \(/en/the-organization-and-its-report/integrated-reporting/auditing-and-reviews#opinia-pwc\)](#)

Under the Company's Articles of Association, the Board may be composed from three to seven members. The Board is appointed by the Supervisory Board, which also determines the number of Board members. The term of office of the Board is a joint term of three years.

The composition of the Board of Grupa LOTOS in 2012 is presented below.

In the period from January 1st 2012 to the end of the seventh term of office:

First name and surname	Function
Paweł Olechnowicz 	President of the Board, Chief Executive Officer
Mariusz Machajewski 	Vice-President of the Board, Chief Financial Officer
Marek Sokołowski 	Vice-President of the Board, Chief Operation Officer
Maciej Szozda 	Vice-President of the Board, Chief Commercial Officer

As the seventh term of office of the Board expired, five candidates were elected by the Supervisory Board in the procedure of recruiting Board members for the joint eighth term of office, which commenced on June 28th 2012.

In the period from June 28th to December 31st 2012, and as at the date of this report:

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



**Paweł Olechnowicz**

President of the Board of Grupa LOTOS



**Mariusz Machajewski**

Vice-President of the Board of  
Grupa LOTOS



**Zbigniew Paszkowicz**

Vice-President of the Board of  
Grupa LOTOS



**Marek Sokołowski**

Vice-President of the Board of  
Grupa LOTOS



**Maciej Szozda**

Vice-President of the Board of  
Grupa LOTOS

#### Positions held by members of Grupa LOTOS' Board at other companies in 2012

<b>First name and surname</b>	<b>Function on the Board of Grupa LOTOS</b>	<b>Entity</b>	<b>Function at the company</b>	<b>Term of office</b>
Paweł Olechnowicz	President of the Board	LOTOS Exploration and Production Norge AS	Chairman of the Board of Directors	Jan 1 - Dec 31 2012 and as at the release date of this report
Paweł Olechnowicz	President of the Board	AB LOTOS Geonafta	Chairman of the Board of Directors	Jan 1 - Dec 31 2012 and as at the release date of this report
Marek Sokołowski	Vice-President of the Board	LOTOS Czechowice S.A.	Chairman of the Supervisory Board	Jan 1 - Dec 31 2012 and as at the release date of this report
Marek Sokołowski	Vice-President of the Board	LOTOS Biopaliwa Sp. z o.o.	Chairman of the Supervisory Board	Jan 1 - Dec 31 2012 and as at the release date of this report
Mariusz Machajewski	Vice-President of the Board	LOTOS Paliwa Sp. z o.o.	Deputy Chairman of the Supervisory Board	Jan 1 - Dec 31 2012 and as at the release date of this report
Mariusz Machajewski	Vice-President of the Board	RCEkoenergia Sp. z o.o.	Chairman of the Supervisory Board	Jan 1 - Dec 31 2012 and as at the release date of this report
Maciej Szozda	Vice-President of the Board	LOTOS Paliwa Sp. z o.o.	Chairman of the Supervisory Board	Jan 1 - Dec 31 2012 and as at the release date of this report
Maciej Szozda	Vice-President of the Board	LOTOS Biopaliwa Sp. z o.o.	Deputy Chairman of the Supervisory Board	Jan 1 - Dec 31 2012 and as at the release date of this report
Zbigniew Paszkowicz	Vice-President of the Board *	LOTOS Petrobaltic S.A.	Chairman of the Supervisory Board **	Jan 18 - Oct 3 2012 **

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Zbigniew Paszkowicz	Vice-President of the Board *	LOTOS Petrobaltic S.A.	President of the Management Board	Oct 3 - Dec 31 2012 and as at the release date of this report
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\* on the Board of Grupa LOTOS since June 28th 2012.

\*\* between July 6th and October 3rd 2012, he was delegated to temporarily fill in the position of President of the Management Board of LOTOS Petrobaltic S.A.; on October 3rd 2012, he tendered a resignation from his position on the Supervisory Board of LOTOS Petrobaltic; on October 3rd 2012, he was appointed to the Management Board of LOTOS Petrobaltic and entrusted the position of President (until the date of this report).

## Remuneration

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

In view of the foregoing, on November 13th 2009 the Supervisory Board 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 Meeting set the remuneration for President of the Board at the same level. Concurring with the proposal of the Supervisory Board, on December 17th 2009 the Extraordinary General Meeting resolved to set the remuneration for President of the Board at the same level.

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 and above-standard medical care, provided by non-public healthcare establishments in Poland and abroad, for members of the Board and their families.

The President of the Board and Vice-President of the Board, Chief Commercial Officer - provided they reside outside the city in which the Company's registered office is located - 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 Act of March 3rd 2000 and the Regulation of the Minister of State Treasury of March 12th 2001 concerning Detailed Rules and Procedure for Granting Annual Bonuses to Management Staff of Certain Legal Entities (Dz. U. of 2001, No. 22, item 259), members of the Board may receive annual bonuses in a maximum amount 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 Meeting, upon a proposal from the Supervisory Board. A decision to award annual bonuses to other Board members rests with the Supervisory Board. Annual bonuses may only be granted after the financial statements have been approved by the General Meeting if the company:

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

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 line with an amendment to the said Compensation Cap Act, in 2012 the Board members were entitled to receive monthly remuneration calculated on the basis of the average monthly salary in the non-financial corporate sector net of bonuses paid from profit in the fourth quarter of 2009.

#### Remuneration of the Board members in 2012

First name and surname	Amount (PLN)
Paweł Olechnowicz	319,182.98
Marek Sokołowski	314,917.05
Mariusz Machajewski	319,259.00
Maciej Szozda	322,459.30
Zbigniew Paszkowicz	129,207.60
<b>Total</b>	<b>1,405,025.93</b>

## Avoidance of conflicts of interest

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.