

## Ethics and corporate governance

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- Corporate governance is a way to build the LOTOS Group's relations with investors and employees based on transparency and trust.
- 2016 saw the appointment of a new Ethics Officer, who has a ten year track record of working with the trade unions active at the LOTOS Group.
- The LOTOS Group was audited and received the Integrated Management System Certificate for the next three years.
- Grupa LOTOS follows the *Best Practice for WSE Listed Companies 2016*. In line with its information policy, the Company reports all instances of non-compliance on an ongoing basis.

[G4-SO3] [G4-SO5]

- No instance of corruption was reported at the LOTOS Group in 2016. No corruption risk assessment was performed.

## Corporate governance builds our credibility

### Corporate governance

The LOTOS Group is committed to high standards of corporate governance and takes care to ensure they correlate strongly with its corporate social responsibility objectives to build a partnership with stakeholders, from investors to employees. Corporate governance strengthens the credibility of Grupa LOTOS as a company listed on the Warsaw Stock Exchange, which thus enhances the competitive position of the entire LOTOS Group.

The key objectives of corporate governance at Grupa LOTOS are as follows:

- Transparency of operations – presentation of a precise and true image of the Company, its strategy and financial position,
- Building trust in relations with the stakeholders,
- Consistent shareholder value creation,
- Accessibility to and equal treatment of all investors.

From its first listing in June 2005, Grupa LOTOS pursued its information policy in line with most of the recommendations set out in the document *Best Practices for Public Companies*. From 2008, it followed the *Code of Best Practice for WSE Listed Companies* (as amended on October 19th 2011 and November 21st 2012). Since January 1st 2016, the Company has followed the revised *Best Practice for WSE Listed Companies 2016*.

#### More information

[Directors' Report on the operations of Grupa LOTOS S.A. and the LOTOS Group in 2016](#)

Chapter 9.3. Corporate governance principles applied by Grupa LOTOS S.A. in 2016

## Disclosure policy of Grupa LOTOS

The Company uses a variety of tools for communicating with investors, including mailing, newsletters, webcasts, participation in conferences for institutional and individual shareholders and brokers, conference calls, one-on-one meetings, open-house days for analysts and investors.

In addition, Grupa LOTOS operates an [an investor relations website](#) . This service, available in Polish and in English, is updated on an ongoing basis and designed to provide both domestic and foreign investors and analysts with equal access to information.

The reports are published on the EBI (Electronic Information Base) platform, as well as (in English and Polish) on the Company's investor relations website.

## The General Meeting of the LOTOS Group

The powers of the General Meeting cover a wide range of matters detailed in the *Articles of Association* of Grupa LOTOS. All matters to be submitted to the General Meeting are first presented for consideration to the Supervisory Board. The rules of attendance and voting at General Meetings are set forth in the *Rules of Procedure for General Meetings of Grupa LOTOS*, which also specify the procedures for convening and cancelling General Meetings, their proceedings, and holding elections to the Supervisory Board.

#### More information

[Directors' Report on the operations of Grupa LOTOS S.A. and the LOTOS Group in 2016](#)

Chapter 9.2.1. General Meeting of Grupa LOTOS S.A.

The *Articles of Association* and *Rules of Procedure for General Meetings* are available on our [website](#) .

#### More information

[Directors' Report on the operations of Grupa LOTOS S.A. and the LOTOS Group in 2016](#)

[More on the activities of General Meetings](#), including adopted resolutions and shareholders' questions.



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## Corporate governance structure of Grupa LOTOS

### The Supervisory Board

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

The procedures to be followed by the Supervisory Board of Grupa LOTOS are defined in the Company's [Articles of Association and Rules of Procedure for the Supervisory Board](#).

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### Composition of the Supervisory Board of Grupa LOTOS (9th term)

- Beata Kozłowska-Chyła – Chairwoman, [Full profile](#)

- Katarzyna Lewandowska – Deputy Chairwoman, [Full profile](#) 
- Agnieszka Szklarczyk-Mierzwa – Member, [Full profile](#) 
- Dariusz Figura – Member, [Full profile](#) 
- Mariusz Golecki – Member, [Full profile](#) 
- Piotr Ciach – Member, [Full profile](#) 
- Adam Lewandowski – Member, [Full profile](#) 

For details of the Supervisory Board composition as at December 31st 2016 and changes made to the Supervisory Board of the 9th term during the reporting period, see the [Directors' Report](#) on the operations of Grupa LOTOS in 2016.

[More information on the Supervisory Board of Grupa LOTOS](#) 

#### **More information**

[Directors' Report on the operations of Grupa LOTOS S.A. and the LOTOS Group in 2016](#)

Chapter 9.2.2. Supervisory Board of Grupa LOTOS S.A.

## The Board

The Board of Grupa LOTOS represents the Company before third parties and manages its corporate affairs. Members of the Board manage the respective areas of the Company's operations. Each member of the Board is authorised to represent the Company in court and out of court in relation to its business, with the exception of matters reserved for the General Meeting or the Supervisory Board under the *Commercial Companies Code* or the Company's *Articles of Association*, matters falling outside of the ordinary course of business where they require the Board's prior resolution, and matters within the powers of another member of the Board.

The Board operates on the basis of the Grupa LOTOS' [Articles of Association and its Rules of Procedure](#) 

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## Composition of the Board of Grupa LOTOS as at August 31st 2016

- Marcin Jastrzębski – President of the Board, [Full profile](#) 
- Mariusz Machajewski – Vice President, Chief Financial Officer,
- Mateusz Aleksander Bonca – Vice President, Chief Strategy and Development Officer, [Full profile](#) 
- Jarosław Kawula – Vice President, Chief Refining Officer. [Full profile](#) 

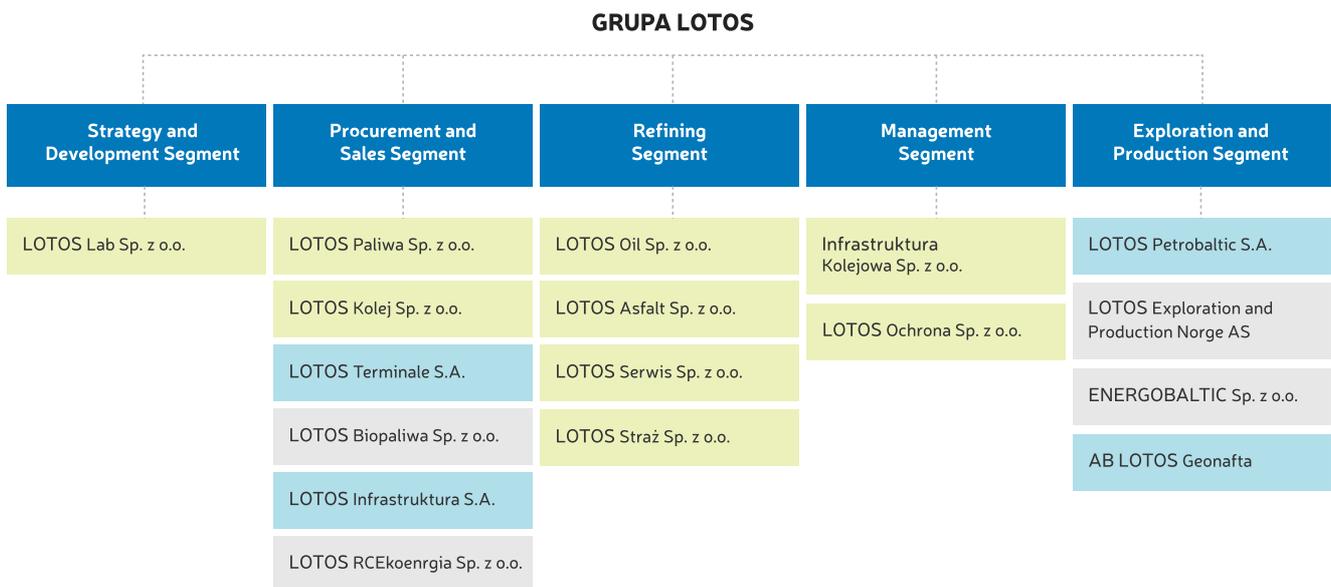
For details of the Board composition as at December 31st 2016 and its changes during the reporting period, see the [Directors' Report](#) on the operations of Grupa LOTOS in 2016 (Chapter 9.2.3. Management Board of Grupa LOTOS S.A. and powers of individual members).

# Management structure

As at December 31st 2016, the LOTOS Group comprised Grupa LOTOS S.A. as the Parent, and 35 production, trading, and service companies, including:

- 13 direct subsidiaries of Grupa LOTOS,
- 21 indirect subsidiaries of Grupa LOTOS,
- and one foundation.

Direct subsidiaries and selected indirect subsidiaries relevant to this report are attributed to the following management segments (as at June 2nd 2017):



## More information

[Directors' Report on the operations of Grupa LOTOS S.A. and the LOTOS Group in 2016](#)

Chapter 1.2. Overview of the Group's organisation and management

## Integrated Management System

In 2016, a recertification audit was carried out at Grupa LOTOS to review its Integrated Management System (quality, environment and OHS). The audit demonstrated adequate specialist knowledge of the people working in the audited areas and their commitment to continuous improvement of the Integrated Management System (IMS) processes. As a result of the audit the Company maintained its IMS certification.

### Benefits from the IMS implementation:

- Meeting the customers' and trading partners' requirements.

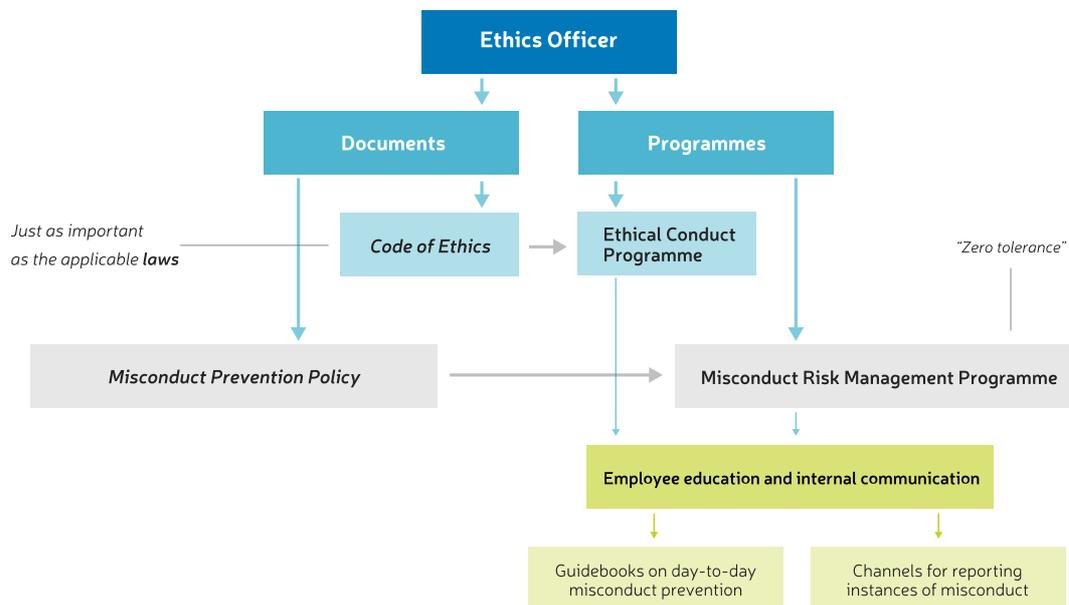
- Meeting the legal requirements.
- Enhancing the organisation's effectiveness and efficiency in attaining its strategic and operating objectives.
- Streamlining of the organisation's processes.
- Mitigating the risks inherent in the business and taking advantage of opportunities as they arise.
- Management efficiency improvement, streamlining of the organisation.
- Improved work organisation, clear definition of the employees' tasks, competencies and responsibilities.
- Standardisation and centralisation of activities in defined areas across the LOTOS Group.
- Identification of areas for improvement.
- Encouraging pro-environmental activities at the organisation.
- Work safety improvement.
- Openness to other standardised management systems.

## Management systems at the LOTOS Group as at December 31st 2016

Company name	Management systems in place
Grupa LOTOS	Implemented and certified Integrated Management System compliant with the <a href="#">ISO 9001</a> , <a href="#">ISO 14001</a> and <a href="#">PN-N-18001</a> standards. Implemented requirements of AQAP 2110 (Allied Quality Assurance Publication) and requirements of the Internal Control System for trading in strategic materials (conforming with the <a href="#">PN-N-19001</a> standard).
LOTOS Asfalt	Implemented and certified Integrated Management System compliant with the <a href="#">ISO 9001</a> , <a href="#">ISO 14001</a> and <a href="#">PN-N-18001</a> standards. Implemented and certified Site Production Control System.
LOTOS Kolej	Implemented and certified Integrated Management System compliant with the <a href="#">ISO 9001</a> , <a href="#">ISO 14001</a> , and <a href="#">PN-N-18001</a> standards; Railway Transport Security Management System (SMS) compliant with Directive 2004/49/EC and national regulations; Rail Vehicle Maintenance Management System (MMS) compliant with Directive 2004/49/EC and Regulation (EU) 445/2011; Quality in Welding Management System compliant with the DIN EN <a href="#">ISO 3834-2</a> (EN 729-2) and EN 15085-2 standards; and system of Maintaining Freight Cars in accordance with the VPI requirements. In 2015, LOTOS Kolej's Railway Transport Security Management System (SMS) received Safety Certificate - PART B, compliant with Directive 2004/49/EC and national regulations, enabling the company to carry out rail freight operations using German rail infrastructure. In 2016, LOTOS Kolej implemented and obtained certification of the GMP+ B4 system, so it can contract freight for transport and transport fodders and grains by rail in the GMP+ system.
LOTOS Lab	Implemented and certified Integrated Management System compliant with the <a href="#">ISO 9001</a> , <a href="#">ISO 14001</a> and <a href="#">PN-N-18001</a> standards. Polish Centre for Accreditation certificate of compliance with the <a href="#">PN-EN ISO/IEC 17025:2005</a> standard.
LOTOS Ochrona	Implemented and certified Integrated Management System compliant with the <a href="#">ISO 9001</a> , <a href="#">ISO 14001</a> and <a href="#">PN-N-18001</a> standards.
LOTOS Oil	Implemented and certified Quality Management System compliant with the <a href="#">ISO 9001</a> standard and with the Allied Quality Assurance Publication (AQAP) 2110. Implemented requirements of the <a href="#">ISO 14001</a> and <a href="#">PN-N-18001</a> standards.

Company name	Management systems in place
LOTOS Petrobaltic	Implemented and certified Integrated Management System compliant with the <a href="#">ISO 9001</a> , <a href="#">ISO 14001</a> and <a href="#">PN-N-18001</a> standards. Implemented ISM Code (for compliance with the International Management Code for the Safe Operation of Ships and for Pollution Prevention) and ISPS Code (International Ship and Port Facility Security System).
LOTOS Serwis	Implemented and certified Integrated Management System compliant with the <a href="#">ISO 9001</a> , <a href="#">ISO 14001</a> and <a href="#">PN-N-18001</a> standards. Implemented and certified requirements of Quality in Welding Management System, compliant with the <a href="#">PN-EN ISO 3834-2:2007</a> standard, covering the construction of metal structures and auxiliary elements, EXC1, EXC2, EXC3 class steel structures in accordance with the <a href="#">PN-EN ISO 1090-1:2009+A1:2012</a> IDT <a href="#">EN 1090-1:2009+A:2011</a> standard, covering the requirements for the competence of testing and calibration laboratories in accordance with the <a href="#">PN-EN ISO/IEC 17025:2005</a> standard, and covering the repair of explosion-proof electrical equipment in accordance with the <a href="#">PN-EN 60079-19:2011</a> standard.
LOTOS Straż	Implemented and certified Integrated Management System compliant with the <a href="#">ISO 9001</a> , <a href="#">ISO 14001</a> and <a href="#">PN-N-18001</a> standards.
LOTOS Terminale	Implemented Integrated Management System compliant with the <a href="#">ISO 9001</a> , <a href="#">ISO 14001</a> and <a href="#">PN-N-18001</a> standards.
LOTOS Paliwa	Implemented and certified Quality Management System compliant with the <a href="#">ISO 9001</a> standard. Implemented requirements of the <a href="#">ISO 14001</a> and <a href="#">PN-N-18001</a> standards.

## Business ethics system



In 2016, the LOTOS Group continued its efforts to build a corporate culture of ethics. The intention of the LOTOS Group as an organisation aware of its impact on the environment is to conduct its business with due respect for generally accepted social standards. This approach is pursued by:

- Implementing the **Ethical Conduct Programme** addressed to the employees and external stakeholders; the Programme is a real foundation for the corporate culture and management of the organisation.

- Enhancing business process security through the **Misconduct Risk Management Programme**, which supports effective misconduct risk management throughout the organisation.

ETHICAL CONDUCT PROGRAMME	MISCONDUCT RISK MANAGEMENT PROGRAMME
<p><b>OBJECTIVE:</b> Business ethics as the principal strategic standard of the organisation</p>	<p><b>OBJECTIVE:</b> Deliberate and active building of the organisation's immunity to misconduct</p>
<p><b>Programme components:</b></p> <ul style="list-style-type: none"> <li>■ Code of Ethics</li> <li>■ Ethics Officer</li> <li>■ Reporting channels</li> <li>■ Education</li> <li>■ Communication</li> </ul>	<p><b>Programme components:</b></p> <ul style="list-style-type: none"> <li>■ Misconduct Prevention Policy</li> <li>■ Assessment of the organisation's immunity to misconduct</li> <li>■ Identyfikacja ryzyka nadużycia w procesach</li> <li>■ Education</li> <li>■ Communication</li> </ul>

[G4-56]

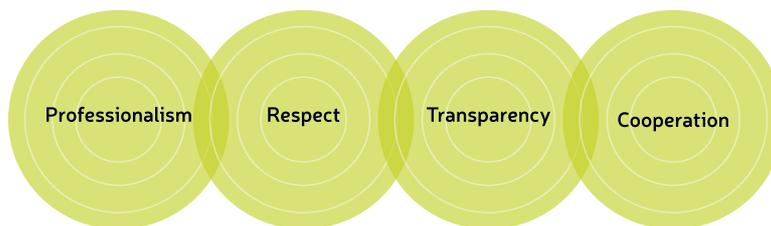
The Programmes are founded on two key documents: [the Code of Ethics](#) and [the Misconduct Prevention Policy](#).

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## Ethical Conduct Programme

The cornerstone of the Ethical Conduct Programme is the *Code of Ethics* and the values we chose to guide us in managing the organisation.

### Ethical values of the LOTOS Group:



The Ethical Conduct Programme is a bridge between the *Code of Ethics* and its implementation in everyday life and management of the organisation. With the Programme, we want to make business ethics a true ethical touchstone in managing the LOTOS Group.

LOTOS Group values  
written into the *Code  
of Ethics*

Ethical Conduct  
Programme  
and its tools

Business ethics as a true  
touchstone in managing  
the organisation

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## New Ethics Officer

The duties of the dissolved Ethics Board that had operated for three years were taken over in mid-2016 by the Ethics Officer Paweł Pettke, who had been the LOTOS Group's Unions Officer for the previous ten years. The experiences of the former Ethics Officer attest to the great weight our employees attach to ethics. Meetings that address ethical issues attract large audiences. Several dozen ethics meetings were held in 2015 and 2016, attracting some **3,000 staff**. Over that time, the Ethics Officer received **more than 200 enquiries and advice requests**. In 2016, the Ethics Officer continued to interact with employees using proven direct communication channels, and received over 60 new enquiries. In line with the internal practice, the work of the Ethics Officer is performed without compensation.

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## Reporting misconduct

The Ethics Officer is available to all employees of the LOTOS Group and its trading partners. The following methods can be used to communicate with the Ethics Officer:

- A meeting in person at a time convenient to the employee, arranged in advance by phone,
- By phone or voicemail to the Ethics Officer (tel. no. +48 58 308 80 70)
- By email to: [liniaetyki@grupalotos.pl](mailto:liniaetyki@grupalotos.pl),
- Online report form available at [www.lotos.pl](http://www.lotos.pl),
- By regular mail.

## Zero tolerance for misconduct

*The Misconduct Prevention Policy* defines our strict approach as “**zero tolerance for criminal behaviour**”. By signing the *Code of Ethics*, our employees commit to behaving ethically and lawfully.

We support them through communication and education, showing them how to identify potential risks and prevent misconduct in everyday work. The *Guide* published by the Internal Audit Office serves this purpose. We also ran the 'Monday with Ethics' competition in 2016.

In addition, we have developed solutions that effectively prevent misconduct, as demonstrated by the results of periodic organisational maturity assessments.

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## Prevention of misconduct

- We have the Internal Audit Office in place as a body responsible for controlling the risk of misconduct.
- Employees and partners are trained in fraud detection and prevention.
- All suspected misconduct reports are kept confidential.
- We have a non-retaliation policy in place.

78 is the total number of unethical or illegal conduct reports submitted in 2016.

## Monday with Ethics

'Monday with Ethics' is an educational programme for all staff, promoting knowledge of the *Code of Ethics*. The competition asked employees to provide their interpretations of potential workplace misconduct scenarios in the light of the *Code of Ethics*.

The ethical dilemmas concerned the use of company property, dealing with conflicts of interest, and responding to unusual behaviour of a colleague or a discovered machine failure. The winners came from different LOTOS Group companies and organisational units.

[G4-57] [G4-58]

## The LOTOS Group's areas for development in ethics

### Setting up mechanisms for:

- Seeking advice outside the organisation/anonymously,
- Reporting concerns and instances of misconduct independently from the organisation (for example through a third party company).

### Implementing surveys to assess the level of satisfaction of those that:

- Requested ethical or legal advice,

Used unethical or illegal conduct reporting mechanisms.