

Remuneration

As the State Treasury's equity interest in the Company exceeds 50%, Grupa LOTOS is subject to the provisions of the Compensation Cap Act.

In 2000, the powers to determine the remuneration policy for members of the Management Board rested with the General Shareholders Meeting, which exercised its powers by adopting, in August 2000, of resolutions setting out the rules of remuneration and employment of members of the Company's Management Board. The resolutions remained in effect until June 30th 2009, when the Annual General Shareholders Meeting amended the Company's Articles of Association regarding the division of powers between the General Shareholders Meeting and the Supervisory Board, so that the powers to determine the remuneration policy for members of the Management Board, the amount of monthly remuneration for members of the Management Board and the amount of the annual bonus for President of the Board, were transferred from the General Shareholders Meeting to the Supervisory Board. The amendments were introduced to render the Articles of Association flexible enough to incorporate a general principle set forth in Art. 378.1 of the Commercial Companies Code, whereby the powers to determine the remuneration of Management Board members rest with the Supervisory Board, with the proviso: "unless specifically provided for otherwise in applicable laws", which refers to the Act on Remunerating Persons Who Manage Certain Legal Entities of March 3rd 2000 (Dz. U. of 2000, No. 26, item 306, as amended).

The proposal of the Supervisory Board concerning the transfer of powers from the General Shareholders Meeting to the Supervisory Board, put to vote at the General Shareholders Meeting, was justifiable and not in conflict with the provisions of the Compensation Cap Act by which the Company was bound, since the same General Shareholders Meeting approved an increase in the Company's share capital by way of a non-cash contribution in the form of shares in Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu Petrobaltic, LOTOS Czechowice and LOTOS Jasło held by the State Treasury. By virtue of the General Shareholders Meeting's decision, the share capital of Grupa LOTOS was increased from PLN 113,700,000 to PLN 129,873,362, through the issue of 16,173,362 new Series C ordinary bearer shares, which were offered to the State Treasury in private placement, with the pre-emptive rights of existing shareholders waived. In return, the State Treasury transferred to Grupa LOTOS 2,801,400 shares in Petrobaltic, 375,000 shares in LOTOS Czechowice and 300,000 shares in LOTOS Jasło. As a result of the transaction, upon the registration of the share capital increase by the competent court (on July 17th 2009), the Company's ownership structure changed. The equity interest of shareholder Nafta Polska S.A. fell from 51.91% to 45.45%, and consequently Grupa LOTOS ceased to be subject to the provisions of the Compensation Cap Act.

However, on July 22nd 2009, the State Treasury acquired another significant block of shares in Grupa LOTOS based on an agreement of July 16th 2009 between Nafta Polska and the Minister of the State Treasury. In performance of the agreement, Nafta Polska transferred to the State Treasury a total of 59,025,000 shares in Grupa LOTOS. As a result, Nafta Polska does no longer hold any shares in the Company, while the State Treasury's equity interest has risen to 63.97%.

In connection with the transaction, the provisions of the Compensation Cap Act are again applicable to Grupa LOTOS. Accordingly, as provided for in the Act, the powers to determine the remuneration policy for President of the Board are vested with the General Shareholders Meeting, acting upon a proposal from the Supervisory Board, whereas the powers to determine the rules and amounts of remuneration for other members of the Management Board rest with the Supervisory Board.

Given that the State Treasury's equity interest in the Company exceeds 50% (50% of all shares), Grupa LOTOS is subject to the provisions of Art. 8.4 of the Act.

In view of the foregoing, on November 13th 2009, the Supervisory Board – acting within the powers vested in it by Par. 13.2.1 of the Company's Articles of Association and the Act of March 3rd 2000 – decided that Vice-Presidents of the Company's Management Board would receive remuneration equal to six-fold the average monthly salary in the non-financial corporate sector, net of bonuses paid from profit in the fourth quarter of the preceding year, as announced by President of the GUS (Central Statistics Office), and proposed that the General Shareholders Meeting determine the remuneration for President of the Board at the same level.

Concurring with the proposal of the Supervisory Board, contained in Resolution No. 63/VII/2009 of November 13th 2009, on December 17th 2009 the Extraordinary General Shareholders Meeting determined the remuneration policy for President of the Board, while repealing the General Shareholders Meeting's resolution of August 18th 2000, which until then defined the rules of remuneration for members of the Management Board.

On January 22nd 2010, the State Treasury sold 14,000,000 ordinary bearer shares in Grupa LOTOS, which however did not affect the rules of remuneration for members of the Management Board, as the provisions of the Compensation Cap Act continue to apply to Grupa LOTOS. Following the above transaction, the State Treasury currently holds a total of 69,076,392 ordinary bearer shares, representing 53.19% of the Company's share capital and conferring the right to 53.19% of the total vote.

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

- the costs of life insurance (incl. monthly premiums),

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

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

At the same time, pursuant to the Act on Remunerating Persons Who Manage Certain Legal Entities dated March 3rd 2000 (Dz. U. of 2000, No. 26, item 306, as amended) and the Regulation of the Minister of State Treasury concerning Detailed Rules and Procedure for Granting Annual Bonuses to the Management Staff of Certain Legal Entities, dated March 12th 2001 (Dz. U. of 2001, No. 22, item 259), members of the Management Board may receive annual bonuses. Annual bonuses may be awarded if the Company:

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

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

Remuneration of the Management Board members in 2010

Name	Amount (PLN)
Paweł Olechnowicz	301,842
Marek Sokołowski	300,808
Mariusz Machajewski	300,808
Maciej Szozda	261,613

Marek Sokołowski, Vice-President of the Board, holds 8,636 shares in Grupa LOTOS. The other members of the Management Board do not hold any shares in the Company.