

Integrated reporting

The Report integrates financial and non-financial data, and meets the criteria for the Global Reporting Initiative Application Level A+.

The Annual Report of the LOTOS Group for 2011 is an integrated report covering the organization's operations in the financial year 2011, which coincides with the calendar year. It also covers important events occurring in the first quarter of 2012, that is shortly before the release date of the Report. The previous integrated annual report was published in April 2011.

In 2007-2009, Grupa LOTOS published separate reports on the financial and non-financial aspects of its activity. In 2010, the Company's Board decided to integrate reports for stakeholders presenting the organization's management approach and performance across all aspects of its activity, i.e. economic, social and environmental. The change of the reporting model was driven mainly by the need to provide key stakeholders with a full picture of corporate achievements, with respect to the results of its core business, and in the areas of CSR initiatives and reduction of environmental impact. This decision coincided with the inclusion of Grupa LOTOS in Central and Eastern Europe's first index of socially responsible companies – the RESPECT Index listed on the Warsaw Stock Exchange. This publication is the Company's third integrated report.

The Board's intent is to enable the organization's stakeholders to make a comprehensive, measurable and objective assessment of the entirety of Grupa LOTOS' involvement in sustainable development through the integrated and reader-friendly presentation of its financial statements and non-financial reports for a given financial year. The Company follows the best communication practices applicable to public companies:

- for financial reporting, it adheres to the International Financial Reporting Standards (IFRS) as endorsed by the European Union, published and effective as at December 31st 2011,
- for non-financial reporting, it adheres to the Guidelines and the Sustainability Reporting Framework of the Global Reporting Initiative (G3 GRI) and the United Nations Global Compact's Principles. Grupa LOTOS is at the Application Level A+* in the three-level GRI reporting system.

* The individual Application Levels were assigned letters from C (the lowest level), to C+ (where "+" is given if a report has been verified by an independent assurance body), B, B+, A, through to A+. The reporting criteria used for each level measure the extent to which the Guidelines and the GRI Reporting Framework have been applied.

The application of the GRI reporting standard and integrated reporting are an international trend for sustainability and social responsibility management among a growing number of companies around the world. The CSR reporting guidelines prepared by GRI have been in use for over 10 years. For integrated reporting, there are currently no internationally recognised and uniform standards.

In the middle of 2010, the Global Reporting Initiative and Prince Charles' Accounting for Sustainability Project established the International Integrated Reporting Committee (IIRC), whose aim is to establish an internationally recognised framework of integrated reporting. IIRC comprises representatives of the reporting sector, insurers, policy-makers, corporations, investors, non-profit organizations and higher education institutions. Until the preparation of this Report, IIRC had published a discussion paper "Towards Integrated Reporting – Communicating Value in the 21st Century", which was subject to public consultations until the end of 2011. IIRC believes that integrating financial analysis with analysis of the social, environmental and economic context of a company's operations is a valuable source of information allowing the company's stakeholders to assess its long-term profitability.

Guided by similar considerations, Grupa LOTOS is looking to improve its reporting model. Given the current lack of applicable standards for preparation of integrated reports, when preparing its Annual Report for 2011 the Company adhered to the best available practices for financial and non-financial reporting. We also embraced the key principles of accuracy, materiality, completeness, comparability, balance and credibility.

All data contained in this Report was collected in a reliable and responsible manner, and authenticated as consistent with facts.

The Consolidated financial statements of the LOTOS Group included in this Report were audited by independent auditors, Ernst & Young Audit Sp. z o.o. with registered seat in Warsaw, pursuant to the provisions of Chapter 7 of the Polish Accountancy Act of September 29th 1994 (Journal of Laws (Dz.U.) of 2009, No. 152, item 1223, as amended), and the Polish financial auditing standards issued by the National Council of Statutory Auditors (Krajowa Rada Biegłych)

Rewidentów), and the auditors issued an opinion without reservations. To ensure an appropriate level of transparency and credibility, in 2011 the Board of Grupa LOTOS decided that third-party assurance of non-financial data included in the Annual Report for 2011 should be provided by an independent body. The Company commissioned this task to Deloitte Advisory Sp. z o.o. with its registered seat in Warsaw. The Report was also drawn up under the conceptual supervision of Martis CONSULTING in the area of CSR.

This task was entrusted to Deloitte, which carried it out using the applicable **International Standard on Assurance Engagements 3000** (ISAE 3000). ISAE 3000, the International Standard on Assurance Engagements (assurance engagements other than audits or reviews of historical financial information), was established by the International Federation of Accountants (IFAC). It is based on parts A and B of IFAC's Code of Conduct and the International Standard of Quality Control (ISQC-1), and used to provide assurance with respect to CSR reports. The Standard defines the key principles and procedures for assurance engagements, including "limited assurance" engagements.

The Board of Grupa LOTOS resolved to publish reports on the progress in the implementation of the LOTOS Group's CSR strategy on a yearly basis. The Annual Report for 2011 is our first report with independently verified CSR information. Besides the above procedure, the Company has made every effort to ensure proper quality of the data collecting process (both in the case of current and previous reports). The process is supported by the organization's management systems

Grupa LOTOS has implemented the Integrated Management System which is certified for compliance with ISO 9001, ISO 14001, and PN-N-18001. In addition, 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. In 2010, the Integrated Management System recertification audit was successfully completed at the Company. The audit is designed to determine whether the management system is compliant with the ISO 9001, ISO 14001 and PN-N-18001 standards. The recertification audit is performed every three years. Both recertification and surveillance audits (carried out annually) are performed by an independent external certification body. Moreover, internal audits are carried out at the LOTOS Group which aim to monitor the progress achieved in the implementation of the Integrated Management System requirements, as well as the efficiency of related processes. For more information on the audits, see subchapter "Management systems". Link → (<http://raportroczny.lotos.pl/en/corporate-governance/management-systems/>)



Grupa LOTOS is publishing this Report in electronic form only, which is driven by environmental concerns, but also by the intention to provide readers with the broadest possible range of convenient solutions that would make this publication a friendly tool for readers to perform their own analyses.

Marcin Zachowicz
Head of Information Office of Grupa LOTOS

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The functional solutions embedded in the electronic format are regularly improved, e.g. based on consultations with internal stakeholders carried out in 2011, or the appraisal of traffic on the Company's website featuring the Report. Readers can display selected numerical data by periods, GRI indicators, operating segments, etc. Information included in the Report is integrated with the contents of the Company's website, including previous years' reports. Readers can also submit feedback. Accessibility options, such as voice over, increased contrast and text zoom, were added for people with disabilities, the elderly and the vision impaired. Environmental friendliness is ensured by the economical printout option.

Marcin Zachowicz
– Head of Information Office of Grupa LOTOS

The previous reports are available at Link → (<http://www.lotos.pl>). For contact details, refer to the "Useful information" chapter. Link → (<http://raportroczny.lotos.pl/en/useful-information/>).

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