



Consolidated non-financial statement

Grupa LOTOS declares to have reached Level A within the three-level reporting system of GRI Application Levels.

Profile of the statement

The 2010 consolidated non-financial statement has been prepared based on the Reporting Framework and Version 3 of the Global Reporting Initiative Guidelines (G3 GRI). Grupa LOTOS is at the Application Level A¹ in the three-level reporting system.

GRI application level	C	C+	B	B+	A	A+
Self-declaration					✓	

This statement provides an overview of the LOTOS Group activities in the financial year 2010. It also covers important corporate events occurring in the first three months of 2011, that is shortly before the report release date.

This consolidated non-financial statement is the fourth in a series of publications which present the non-financial aspects of the LOTOS Group's operations. A sustainability overview formed an integral part of the 2009 Annual Report, which was the first integrated report ever released by a Polish company. It received accolades in the 2010 best social report competition organised by PwC, the Responsible Business Forum and CSR Consulting. The distinction was granted in recognition of the successful incorporation of social and environmental reporting into the corporate reporting system, as well as for the LOTOS Group's determination to prepare integrated corporate reports encompassing the financial and non-financial aspects of its activities. This Annual Report is a continuation of the adopted practice, but at the same time the scope of its non-financial section has been extended to include the exploration and production company, LOTOS Petrobaltic in addition to the parent Grupa LOTOS and its service and distribution subsidiaries, which were covered by the 2009 report.

The previous reports are available at www.csr.lotost.pl.

The Management Board of Grupa LOTOS resolved to start publishing reports on the progress in the implementation of the CSR strategy on a yearly basis.

The Office for Sponsorship, Social Affairs and Corporate Social Responsibility is in charge of coordinating the sustainability reporting processes at the LOTOS Group. Interested parties may contact the Office at csr@grupalotos.pl. For further contact details, see the closing sections of the report.

¹ The individual Application Levels were assigned the letters from C (lowest grade), through C+ (where "+" is given if the report has been verified by an independent external certification body) B, B+, A to A+. The reporting criteria used for each level measure the extent to which the Guidelines and the GRI Reporting Framework have been applied.



Scope of the report

In determining the content of the consolidated non-financial statement and other non-financial sections of the Annual Report, we were guided by the GRI Reporting Framework.

The information contained in the statement was selected based on the materiality criterion, which we define as the potential to impact the LOTOS Group's compliance with the sustainable development principles and the power to influence the LOTOS Group's external stakeholders looking for reliable, comparable and accurate information and data which then affect their decisions and choices.

This statement was prepared using the full range of core indicators, including economic, environmental and social performance indicators, as well as the majority of additional indicators provided for in the GRI Guidelines. As no relevant sector supplement was available at the time of drafting the statement, no sector-specific performance indicators were applied except for those included in the core set. The methods used to calculate the figures presented in the financial statement were the same as applied for the purposes of preparing the LOTOS Group's consolidated financial statements for 2010, i.e. in accordance with the International Financial Reporting Standards (IFRS) effective as at December 31 2010.

For a vast majority of thematic areas, the facts and figures presented in the statement pertain to Grupa LOTOS, the parent company. However, all due care and consideration was given to account for the consolidated data where possible. In sections devoted to product responsibility, information relating to service and distribution companies was disclosed, while in sections focusing on environmental responsibility, we provided data on LOTOS Petrobaltic, our exploration and production subsidiary. In each case, a clear distinction was made by specifically indicating the subsidiary currently discussed. In the previous reporting period, no material changes occurred with respect to the LOTOS Group's subsidiaries which would affect the overall assessment of the organisation, both in terms of specific aspects of its activities and domestic peer comparison.

GRI indicators reported by LOTOS Asphalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Parafiny and LOTOS Petrobaltic, relevant to their activities in 2010

Aspect	Indicator
Products and services	EN26, EN27
Transport	EN29
Customer health and safety	PR1
Product and service labelling	PR3, PR5
Marketing communications	PR7, PR8
Customer privacy	PR8
Compliance	PR2, PR4, PR9
Biodiversity	EN11
Indirect economic impacts	EC9
Market presence	EC5, EC6, EC7

In the course of work on the 2010 Annual Report, 74 GRI reporting indicators were applied.



Data verification

All data contained in the statement was gathered in a reliable and responsible manner and certified by members of senior management staff of Grupa LOTOS and selected subsidiaries, who are responsible for the respective reporting areas.

The financial information is consistent with the data disclosed in the consolidated financial statements for the respective periods.

The content of the consolidated non-financial statement was not verified by an independent external certification body. It should be emphasised, however, that the bulk of the data for the previous financial year contained in this statement was subject to a review by auditors with Ernst&Young Audit Sp. z o.o.; who audited the LOTOS Group's consolidated financial statements.

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 July 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 of the Integrated Management System, see subsection *Management systems*.

Acting in line with the adopted principles of transparent communication with stakeholders, Grupa LOTOS has its CSR performance regularly reviewed by external experts: it participates in professional surveys which serve to compare the achievements of socially responsible companies. A major accomplishment in this area in 2010 was the participation in:

- 2010 Responsible Company Ranking – compiled by Business Ethics Centre of the Kozminski University and Responsible Business Forum. Grupa LOTOS' performance and achievements on which the ranking was based were reviewed by PricewaterhouseCoopers, the project partner;
- RESPECT Rating – providing the basis for selecting companies eligible for the Warsaw Stock Exchange's RESPECT Index. The CSR activities undertaken by Grupa LOTOS were reviewed by the accounting firm Deloitte during the selection process.

In both cases, auditors verified information furnished by the Company by holding interviews with its representatives and by analysing the provided documents.

Economic aspects

In its decision-making processes, the LOTOS Group takes into account their indirect impact on the organisations's environment. By cooperating with local suppliers and business partners, the Concern can improve the quality of life and stimulate the spirit of entrepreneurship in local communities. The financial data related to social responsibility illustrate the flow of capital between all groups involved in the Company along with the economic impact of the entire organisation on the society as a whole.

Economic performance

GRI	INDICATOR				
EC 1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments				
Grupa LOTOS	2006	2007	2008	2009	2010
k PLN					
Revenues, net	11,630,382	11,867,884	14,900,794	12,711,611	18,132,827
Operating costs	10,712,102	10,851,429	14,867,282	12,116,519	17,104,229
Employee compensation and other employee benefits	82,771	94,724	115,587	131,585	136,840
Payments to capital providers	3,093	65,680	61,497	127,114	126,842
Payments to governments	5,249,087	6,730,682	7,108,738	8,557,314	9,425,916
Community investments	1,876	1,121	651	793	1,240

On June 28th 2010, the General Shareholders Meeting of Grupa LOTOS passed a resolution on the distribution of net profit for 2009. Pursuant to the resolution, PLN 1,000 thousand was transferred to a special-purpose fund used by Grupa LOTOS to finance CSR projects.

LOTOS Group	2006	2007	2008	2009	2010
k PLN					
Revenues, net	12,834,708	13,143,463	16,309,960	14,344,851	19,695,002
Operating costs	10,978,033	11,368,625	15,314,995	12,775,790	17,562,048
Employee compensation and other employee benefits	359,998	388,418	422,506	462,948	497,043
Payments to capital providers	32,845	96,768	99,729	176,338	174,154
Payments to governments	5,968,567	7,194,536	7,519,904	8,951,791	9,804,980
Community investments	2,352	1,362	898	839	1,485

GRI	INDICATOR
EC 3	Coverage of the organisation's defined benefit plan obligations

As Grupa LOTOS has obligations under the Collective Bargaining Agreement, it recognises provisions for severance pays and length-of-service awards.

Grupa LOTOS	2006	2007	2008	2009	2010
k PLN					
Provisions for severance pays and length-of-service awards:					
- long-term	15,150	19,072	27,612	28,820	31,420
- short-term	2,189	2,753	3,666	4,348	4,973
Total provisions	17,339	21,825	31,278	33,168	36,393

Contributions under insurance contract with investment fund covering Grupa LOTOS employees (Pillar 3 of the Polish pension system)	1,453	2,496	3,105	3,439	3,800
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LOTOS Group					
k PLN					
Provisions for severance pays and length-of-service awards:					
- long-term	54,232	60,295	82,587	87,961	95,370
- short-term	7,472	8,888	9,505	10,733	12,459
Total provisions	61,704	69,183	92,092	98,694	107,829
Contributions under insurance contract with investment fund covering LOTOS Group employees (Pillar 3 of the Polish pension system)	4,524	7,068	8,720	10,195	10,174

GRI	INDICATOR
EC 4	Significant financial assistance received from government

Grupa LOTOS	2006	2007	2008	2009	2010
k PLN					
Subsidies received	3,416	2,808	-	5,908	-
Subsidies settled	-	-	-	-	-
Subsidies at end of year	16,560	19,368	19,368	25,276	25,276

LOTOS Group					
k PLN					
Subsidies received	3,486	4,322	19	5,908	791
Subsidies settled	634	601	663	744	1,122
Subsidies at end of year	20,819	24,540	23,896	40,343	40,012

LOTOS Asphalt conducts its operations within the Tarnobrzeg Special Economic Zone, EURO-PARK WISŁOSAN, under Permit No. 158/ARP S.A./2008 issued on

January 23rd 2008. The permit is valid through November 15th 2017. In light of the applicable regulations, LOTOS Asphalt is exempt from corporate income tax over the period covered by the permit. The company assesses the taxable income in accordance with the Act on Corporate Income Tax of February 15th 1992. For the purposes of calculating the taxable income and tax exempt income, LOTOS Asphalt makes a distinction between costs and income associated with in-zone operations and out-of-zone operations. The tax exemption is applied under the Act on Special Economic Zones of October 20th 1994 and Permit No. 158/ARP S.A./2008 of January 23rd 2008. Also, owing to the fact that its investments are conducted within the Tarnobrzeg Special Economic Zone, LOTOS Asphalt is entitled to a tax exemption which allows it to reduce the income tax due by an amount not exceeding 50% of total investment expenditures incurred within the Tarnobrzeg Special Economic Zone.

Market presence

GRI	INDICATOR
EC 5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operations

No.	Location	Minimum base pay in 2010 (PLN)	Ratio of minimum base pay to national minimum wage in 2010 of PLN 1,317 (%)
Grupa LOTOS			
1.	Gdańsk	2,550	194
2.	Czechowice	2,755	209
3.	Jasło	2,600	197
4.	Kraków	4,284	325
5.	Piotrków Trybunalski	4,419	336
6.	Poznań	2,900	220
7.	Rypin	3,162	240
8.	Warszawa	3,490	265
LOTOS Asphalt			
1.	Gdańsk	2,500	190
2.	Czechowice	2,464	187
3.	Jasło	1,500	114
LOTOS Kolej			
1.	Gdańsk	2,600	197
2.	Czechowice	2,421	184
3.	Jasło	2,475	188
4.	Zduńska Wola	2,700	205
LOTOS Oil			
1.	all locations	2,199	167
LOTOS Paliwa			
1.	all locations	2,550	194
LOTOS Oil			
1.	all locations	1,600	121

In 2010, the minimum national wage in Poland was PLN 1,317.

GRI	INDICATOR
EC 6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operations

As one of the largest business enterprises in the Gdańsk region, Grupa LOTOS feels responsible for the local communities and their dynamic growth. In the course of doing business, the Company is guided by the principles of sustainable development and corporate social responsibility. This means that ethics, transparency and openness play an important role in its day-to-day activities.

According to in-house estimates, local suppliers account for 84% of all business partners in the Company's key locations (Gdańsk, Warsaw and Kraków), and

50% of all contracts are signed with suppliers from the region of Pomerania. The chart below presents the percentage shares of liabilities to business partners having registered offices in the Company's key locations.

Percentage shares of liabilities to business partners having registered offices in Grupa LOTOS' key business locations (2010)

No. of contracts with business partners having registered offices in Grupa LOTOS' key business locations (2010)

Registered office	No. of contracts
Gdańsk and the region of Pomerania	385
Warsaw	197
Kraków	59
Other	125
Total	766

LOTOS Paliwa: The company purchases nearly 100% of its fuel stocks for resale from Grupa LOTOS. A major portion of the fuel is produced domestically at the Gdańsk refinery.

LOTOS Asfalt: In the process of choosing service and product suppliers, the company must follow a selection procedure which defines the rules to be applied and the course of action to be taken when purchasing products or services of any kind, with the key criteria being the quality and environmental impact of the product or service, compliance with health and safety regulations by the supplier, and the proposed terms of payment and warranty. The strategic supplier of feedstock to LOTOS Asfalt (Gdańsk, Jasło, Czechowice) is Grupa LOTOS. The share of local suppliers in the company's supply structure is 5%, with Polish importers and international producers of raw materials and semi-finished products accounting for the balance.

LOTOS Kolej: The company's procurement team seeks to optimise the purchasing process, including by selecting the best possible supplier, with one of the criteria being its location in the region. The largest item under costs of materials is the cost of spare parts for the rolling stock. A vast majority of spare part suppliers operate in the south of Poland, therefore only a portion of the supplies may be procured from local partners operating in the region of Pomerania.

LOTOS Parafiny: The company operates production plants in the towns of Czechowice and Jasło, where local means from the south of Poland. Approximately 60% of transport services to or from Jasło and Czechowice are provided by local firms. As regards procurement of investment- or overhaul-related services, no special rules or restrictions apply as to the supplier's location. In 2010, the local versus non-local supplier breakdown for the Jasło and Czechowice plants was 68%/32% and 85%/15%, respectively.

LOTOS Oil: The company tends to follow a supplier selection policy which enables it to secure at least two sources of supplies in each product category. If a monopoly is identified, the company monitors the market for any changes in the status quo on a regular basis. In line with the currently applied procurement policy, the company searches local markets for potential suppliers, and, if a reliable prospective partner is found, it is invited to participate in a tender procedure. In 2010, the procurement structure by value (net of services), accounting for all production units, the Distribution Centre, and business arrangements with Grupa LOTOS, was as follows: local suppliers represented 82% of total purchases, with the other 18% attributable to non-local suppliers. As regards the structure of service purchases by value, local providers accounted for 90% and non-local providers – for 10% of total purchases.

GRI	INDICATOR
EC 7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation

Grupa LOTOS hires members of senior management staff according to the job profile and skills required for the position. Only those candidates are selected who best satisfy the employment criteria. Managerial positions are often filled by persons selected in an internal recruitment process. At the Company's key locations, 76.4% of senior management staff are persons from local communities.

LOTOS Asfalt: When creating a new job, or filling a managerial vacancy, priority is given to persons from the local labour market, provided that their skills and qualifications meet the relevant criteria. In 2010, local-community members represented, respectively, 82%, 100%, and 75% of the management staff employed in Gdańsk, Czechowice and Jasło.

LOTOS Kolej: When selecting senior managers, the company is guided by a pragmatic evaluation of the candidates, including their expertise and skills required for a given position. During a recruitment process, internal candidates, i.e. the Company's or the LOTOS Group's current employees, are considered first. All senior executives employed at the company come from the region of Pomerania.

LOTOS Oil: The company has adopted a global recruitment policy: the same procedures apply at each of its branches. The policy provides for no special treatment of candidates from the local labour market. However, all senior management staff members (directors, deputy directors, plant managers, heads of office) employed at the company's key business locations (the Gdańsk Branch, the Czechowice Branch, the Jasło Branch and the Distribution Office in Piotrków Trybunalski) are locals. Similarly, 100% of staff employed at the offices established across the country as part of the management function diversification process are members of local communities.

LOTOS Parafiny: The company selects well-qualified candidates for senior executive positions in line with relevant procedures. During a recruitment process, applications from the existing employees of the LOTOS Group are considered first. Ninety-one percent of senior management staff employed at the company's key locations represent local communities.

LOTOS Paliwa: The company does not follow the global policy of favouring local community members in the recruitment of managerial personnel. Due to the nature of the Company's operations, management staff members across Poland are hired on an as needed basis.

Indirect economic impacts

GRI	INDICATOR
EC 8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement

Detailed information on Grupa LOTOS activities in this area are available on the Company's website [[link](#)].

GRI	INDICATOR
EC 9	Understanding and describing significant indirect economic impacts, including the extent of impacts – cooperation with suppliers at significant location of operation

Grupa LOTOS seeks to align its decision-making process with the corporate social responsibility strategy by giving due consideration to the potential impact of its decisions on local communities and the development of the Gdańsk region as a whole. Half of the contracts for the supply of goods or services are signed with local suppliers. Around 35% of all contracts are recurring or long-term arrangements entered into with small and medium-sized enterprises operating on local markets. This fact alone demonstrates our commitment to the local market and its economic prosperity.

By contracting locally, the Company indirectly contributes to improved financial standing of local populations. For many small and medium-sized businesses in the region, Grupa LOTOS is a source of additional capital, which fuels their operations and helps increase employment rates in the SME sector. This, in turn, supports improvement in the living standards, stimulates consumer spending, including on luxury goods and services, and encourages investment in education and intellectual resources, which the Company considers pillars of the economy. Intellectual assets offer measurable benefits: hired by Grupa LOTOS, the competent and well-educated members of the Gdańsk region community build the Company's potential and innovation at the local, national and international levels.

LOTOS Asfalt: The company is a wholesaler of bitumens, heavy fuel oil, bunker fuel and waterproofing materials. These are produced and sold under business-to-business (B2B) arrangements. Accordingly, by establishing business links with its partners, the company has an indirect impact on their growth prospects and economic standing. Moreover, the company contributes to maintaining or increasing employment rates and stimulates economic activity on its local markets. Since 2009, LOTOS Asfalt's indirect economic impact on the Jasło region, suffering from an economic slowdown, took the form of investments in a new manufacturing business, the Waterproofing Materials Production Plant. The large-scale project located in the Tarnów Special Economic Zone in the south-east of Poland helped improve the local labour market, affected by unemployment concerns. Launched in 2009, the plant, after becoming fully operational, created 104 new jobs (data as at the end of 2010). As at the end of 2009 the headcount was 69 persons. Thanks to relevant training, employees of the newly launched modern production facility were offered an opportunity to gain hands-on experience and skills in operating technologically advanced manufacturing equipment and to learn how to function in organisational, logistics and distribution systems based on contemporary IT tools.

LOTOS Kolej: Although no monitoring takes place in this area, certain aspects of the company's activities may be classified as having an indirect economic impact. One such aspect is the company's consistent efforts to upgrade the operated rolling stock. Purchases of new road locomotives strengthen the company's competitive edge and position it among leading carriers that invest in new technologies. In late 2009, the company signed a contract for the sale of ST 43 Diesel locomotives (the last engine of this type left the company's premises in 2010). In September 2009, LOTOS Kolej signed a contract for the delivery of the highly advanced TRAXX F140 DE diesel locomotives with Bombardier Transportation GmbH and an operating lease of 14 TRAXX F140 MS electric locomotives with Railpool GmbH. As a result, the company owns the most modern railroad plant and equipment in Poland, adding to the technological advancement of the local market.

LOTOS Oil: In distributing its products, the company supports employment at its business partners operating locally and nationally. Entering into cooperation agreements at home and abroad, LOTOS Oil obtains access to new technologies. The company undertakes efforts to upgrade its processes, enhance the quality of its products and services, and provide employees with opportunities to improve their professional qualifications through training. These efforts make the company the most sought after employer in the country, which offers prospects for improvement and development and attracts specialists with extensive experience.

LOTOS Parafiny: The company's indirect economic impact on local communities is reflected in its efforts to create new jobs across the supply chain and improve professional qualifications and skills on the local labour markets, which is linked with recruiting more suppliers.

Social performance

Human rights and product responsibility are linked to the LOTOS Group's social impact and are an important element of sustainable growth. Social indicators illustrate the organisation's impact on local communities along with methods applied to build relations with social institutions. Significant information is provided by data on bribery and corruption, participation in public policy development, monopoly practices and compliance with laws and regulations concerning areas other than the environment and workforce.

Labour practices and decent work

Employment

GRI	INDICATOR
LA 1	Total workforce by employment type, employment contract and region

Workforce	As at Dec 31 2006		As at Dec 31 2007		As at Dec 31 2008		As at Dec 31 2009		As at Dec 31 2010	
	Headcount	%	Headcount	%	Headcount	%	Headcount	%	Headcount	%
Grupa LOTOS	945	15	1,098	16	1,246	13	1,305	5	1,310	0.4
LOTOS Group	5,624	3	4,764	-15	4,878	2	4,949	1	5,010	1

Workforce by employment type and region

	As at Dec 31 2010
- indefinite-term employment	
Gdańsk	993
Czechowice	33
Jasło	16
Kraków	6
Piotrków Trybunalski	9
Poznań	4
Rypin	10
Warsaw	16
Total:	1,087
- fixed-term or temporary employment	
Gdańsk	212
Czechowice	0
Jasło	1
Kraków	0
Piotrków Trybunalski	0
Poznań	2

Rypin	1
Warsaw	7
Total:	223

	As at Dec 31 2010
- full-time employees	
Gdańsk	1,192
Czechowice	32
Jasło	16
Kraków	2
Piotrków Trybunalski	9
Poznań	6
Rypin	11
Warsaw	20
Total:	1,288
- part-time employees	
Gdańsk	13
Czechowice	1
Jasło	1
Kraków	4
Piotrków Trybunalski	0
Poznań	0
Rypin	0
Warsaw	3
Total:	22

GRI	INDICATOR
LA 2	Total number of employee departures and employee turnover by age group, gender and region

In 2010, the employee turnover rate at Grupa LOTOS was 10.6%.

GRI	INDICATOR
LA 3	Benefits provided to full-time employees that are not provided to part-time or temporary employees, by significant locations of operation

Grupa LOTOS offers all its employees, i.e. employees working under indefinite-term (permanent) contracts or fixed-term (temporary) contracts, on a full-time or part-time basis, the same package of social benefits, guaranteed under the Collective Bargaining Agreement and the Rules of the Social Benefits Fund. The benefits offered to the Company's employees include a unit-linked life insurance, additional medical care provided by a non-public healthcare establishment, parental leave for mothers and fathers, and social benefits in the form of loans, allowances, and partial financing of holidays for employees and their children.

Labour/management relations

GRI	INDICATOR
LA 4	Percentage of employees covered by collective bargaining agreements

The Collective Bargaining Agreement in place at the Company covers 95.5% of its employees.

GRI	INDICATOR
LA 5	Minimum notice periods regarding significant organisational changes, including whether it is specified in collective bargaining agreements

In accordance with the labour law provisions, the minimum notice period for an indefinite-term employment contract depends on the duration of work with the employer. The minimum notice period is two weeks if an employee has worked less than six months and three days if an employee has been employed as a substitute.

Occupational health and safety

GRI	INDICATOR
LA 6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes

In accordance with the labour law provisions, Grupa LOTOS has set up a Health and Safety-at-Work Committee. It is composed of:

- proxy for trade unions,
- staff responsible for health and safety,
- doctor responsible for prophylactic care of employees,
- the Company's Social Labour Inspector,
- trade union representatives.

GRI	INDICATOR
LA 7	Rates of injury, occupational diseases, lost days and absenteeism, and total number of work-related fatalities by region

The most frequent accident-related injuries at the LOTOS Group are injuries of upper and lower limbs. Incidents have mostly occurred while moving around or operating machinery and equipment. In 2010, there were no serious accidents or fatalities.

2010 saw a year-on-year decline of the rate of accidents at work and the LTIF value at Grupa LOTOS. This was attributable to higher employee awareness regarding occupational safety, resulting, among other things, from large-scale awareness initiatives, increased commitment and fostering the culture of occupational safety. Employees took part in training and informal sessions focusing on occupational safety. Other communication channels were also made available for that purpose. The above initiatives have delivered the expected results, as the level of employee awareness has been steadily rising. At the same time, the focused and planned process aimed at raising employee awareness and fostering the culture of occupational safety is meant to be a long-term effort and pursued also in the years to come. In recent years, there has been a welcome downward trend in accident frequency at Grupa LOTOS, which shows that our efforts in the area of health and occupational safety have put the Company on the right track. A major problem, however, has been a lack of harmonisation between Polish and EU laws. If the applicable legal regimes were harmonised, it would be possible to adopt a uniform approach to the classification and statistical reporting of accidents. This in turn would significantly reduce the number of accidents at work occurring at Grupa LOTOS, while allowing fair benchmarking between Grupa LOTOS and other businesses from the global chemical industry.

Grupa LOTOS	2006	2007	2008	2009	2010
Number of employees	945	1,098	1,246	1,305	1,310
Accidents at work	7	6	7	13	9
Post-accident absenteeism (calendar days). Lost days are counted from the day when the injured employee obtains a sick leave certificate from a doctor	177	133	171	537	287
Occupational diseases	none	none	none	none	none
The lost time injury frequency (LTIF) (per 1 million hours worked)	4.5	3.1	2.86	5.6	3.4
The lost day incident rate (LDIR) (per 200 thousand hours worked)	0.8	0.6	0.6	1.1	0.7

LOTOS Group	2006	2007	2008	2009	2010
Number of employees	5,624	4,764	4,878	4,949	5,010

Accidents at work	70	50	49	45	55
Post-accident absenteeism (calendar days). Lost days are counted from the day when the injured employee obtains a sick leave certificate from a doctor	2,819	2,008	1,375	1,257	2,502
Occupational diseases	none	none	none	none	none
The lost time injury frequency (LTIF) (per 1 million hours worked)	6.9	5.6	5.2	4.4	4.9
The lost day incident rate (LDIR) (per 200 thousand hours worked)	1.4	1.2	0.9	0.9	1.2

The LOTOS Group classifies accidents at work in accordance with the Polish legislation. In addition, the LOTOS Group records and keeps statistics of incidents according to the European scale, i.e. dangerous occurrences (including dangerous states and incidents with potential to cause an injury), accidents resulting in incapacity for work lasting more than one day (LTI – Lost Time Injury), based on which the LITIF (Lost Time Injury Frequency) rate is computed, incidents requiring first-aid treatment and road accidents.

In line with the guidelines contained in the ILO (International Labour Organization) Code of Practice *Recording and notification of occupational accidents and diseases*, companies of the LOTOS Group:

- have established uniform procedures to address accidents at work,
- perform cause and effect analysis of accidents at work,
- draw conclusions and take appropriate corrective and preventive measures to eliminate the risk of recurrence of similar incidents,
- document accidents at work and other dangerous occurrences,
- identify and analyse dangerous occurrences, based on which they take appropriate proactive and reactive measures to prevent their recurrence.

GRI	INDICATOR
LA 8	Education, training, counselling, preventive and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases

The obligatory actions which the Company is required to take under applicable laws concerning occupational safety and health, as well as safety of processes and technologies, are presented on the Company's corporate website [[link](#)].

GRI	INDICATOR
LA 9	Health and safety topics covered in formal agreements with trade unions

Polish law does not provide for the possibility of concluding agreements related specifically to health and safety at work. The issue is governed by mandatory provisions of law. To the extent provided for by law, representatives of employees have their say in all matters related to the whole area of occupational health and safety, as evidenced by their membership in and attendance of meetings of the Health and Safety-at-Work Committee, an advisory body of the employer. In this way, the obligation to consult employees on all matters related to occupational health and safety is fulfilled.

Training and education

GRI	INDICATOR
LA 10	Average hours of training per year per employee, and by employee category

Employee category	2006	2007	2008	2009	2010
Senior management	51.6	41.5	45.8	35.2	61.2
Lower management	60.6	38.3	44.7	51.9	60.3
Back-office staff	24.8	35.9	33.1	38.7	29.6
Production staff	13.4	13.8	10.2	10.3	12.6

GRI	INDICATOR
LA 11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings

All employees of Grupa LOTOS, irrespective of age and time left to retirement, are offered the opportunity to attend internal (the LOTOS Academy) and third-party training programmes designed to help them acquire and enhance knowledge and professional qualifications and develop general skill sets. Development of staff's skills is ensured through financing or co-financing of learning, paid leave to travel and attend training courses aimed to enhance their professional qualifications, as well as educational leave.

Moreover, the Company's employees may declare that they want to retire early. Employees who at any time during the two years before their due retirement date choose to switch from an indefinite-term to a fixed-term employment contract are offered a one-off 8.5% rise of their monthly base pay, paid under the amended employment contract.

Retiring employees are entitled to a one-off cash severance payment, whose amount depends on the length of service. Its amount may range from an employee's monthly pay where his or her length of service does not exceed 15 years to 500% of the base amount if the employee has worked 35 years.

GRI	INDICATOR
LA 12	Percentage of employees receiving regular performance and career development reviews

	2006	2007	2008	2009 r.	2010
Employees receiving regular performance and career path reviews (%)	69	86	79	87	(*)

(*) Employee reviews for 2010 will be performed in Q3 2011.

Based on the Periodic Evaluation of Employees Procedure, all employees working with Grupa LOTOS under employment contracts (save for Management Board members) are subject to evaluation, provided that they have worked for at least 6 months at a given organisational unit at the time when a periodic evaluation is performed. The direct superior of an employee who performs the evaluation must also hold the position for least 6 months at the time of the evaluation. Accordingly, depending on the rate of organisational changes and number of newly recruited staff, the percentage of employees subject to evaluation varies from year to year. The evaluation results are consistent with assumptions.

Diversity and equal opportunity

GRI	INDICATOR
LA 13	Composition of management and supervisory bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity

Composition of the management and supervisory bodies of Grupa LOTOS and breakdown according to gender

	As at Dec 31 2010	%
- men		
Management Board	4	0.31
Senior management	39	2.98
Middle management	36	2.75
Total:	79	6.03
- women		
Management Board	0	0.00
Senior management	8	0.61
Middle management	15	1.15
Total:	23	1.76

Composition of the management and supervisory bodies of Grupa LOTOS and breakdown according to age

	As at Dec 31 2010	%
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– up to 30 years		
Management Board	0	0.00
Senior management	0	0.00
Middle management	1	0.08
Total:	1	0.08
– 30 – 50 years		
Zarząd	1	0.08
Senior management	31	2.37
Middle management	29	2.21
Total:	61	4.66
– over 50 years		
Management Board	3	0.23
Senior management	16	1.22
Middle management	21	1.6
Total:	40	3.05

GRI	INDICATOR
LA 14	Ratio of base pay of women to men by employee category

Base pay at Grupa LOTOS according to gender, as at December 31st 2010

Employee category	Women		Men		Ratio of base pay of women to men (%)
	number	average base pay (PLN)	number	average base pay (PLN)	
Management Board	0	-	4	20,728	-
Senior management	7	20,286	24	21,832	106
Lower management	39	10,040	81	12,276	118
Back-office staff	348	5,244	250	7,386	126
Production staff	1	3,653	542	6,185	79
TOTAL	395	5,776	901	6,867	114

Human rights

Investment and procurement practices

GRI	INDICATOR
HR 1	Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening

To date, Grupa LOTOS has not incorporated human rights concerns into its agreements or contracts, however work is under way to prepare relevant contractual provisions. A document entitled "Ethical principles to be followed by employees of Grupa LOTOS in their dealings with business partners" has also been drafted. The draft document, which is a sort of "Code of Ethics", is now being reviewed and awaiting approval. It contains provisions designed to counteract violation of human rights.

GRI	INDICATOR
HR 2	Percentage of significant suppliers and contractors that have undergone human rights screening, and actions taken

Grupa LOTOS has not yet undertaken human rights screening when selecting its suppliers and contractors or during the ensuing cooperation.

GRI	INDICATOR
HR 3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to business operations, including the percentage of employees trained

Grupa LOTOS has provided 550 hours of employee training on policies and procedures concerning aspects of human rights that are relevant to its business operations. In total, such training has been provided to 22.6% of employees.

Non-discrimination

GRI	INDICATOR
HR 4	Total number of incidents of discrimination and corrective actions taken

At Grupa LOTOS there have been no incidents of discrimination against employees on account of their race, colour, gender, religion, political leanings, national origins or social background.

Freedom of association and collective bargaining

GRI	INDICATOR
HR 5	Operations identified in which the right to exercise the freedom of association and collective bargaining may be at risk, and actions taken to support these rights

At Grupa LOTOS there have been no operations in which the right to exercise the freedom of association or collective bargaining would be at risk.

Child labour

GRI	INDICATOR
HR 6	Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour

At Grupa LOTOS there have been no operations deemed as involving significant risk for incidents of labour of children and minors in which they would be put in danger of developing health problems and losing their lives.

Forced and compulsory labour

GRI	INDICATOR
HR 7	Operations identified as having significant risk for incidents of forced or compulsory labour, and measures taken to contribute to the elimination of all forms of forced and compulsory labour

At Grupa LOTOS there have been no incidents of forced or compulsory labour.

Security practices

GRI	INDICATOR
HR 8	Percentage of security personnel trained in the organisation's policy or procedures concerning aspects of human rights that are relevant to business operations

In accordance with the policy and procedures concerning aspects of human rights that are relevant to the Company's business operations, training has been provided to 90.9% of security personnel. In the case of the external firm providing Grupa LOTOS with security services, similar training has been provided to 84.5% of personnel.

Product responsibility

Customer health and safety

GRI	INDICATOR
PR 1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant product and service categories subject to such procedures

The Polish and EU legislation requires Grupa LOTOS to assess the impact of all its products on human health and safety. All products of crude oil refining are subject to classification, and thus to a health and safety impact assessment. Most products of crude oil refining are subject to registration or at least classification, and thus to a health and safety impact assessment. These activities are defined by the REACH (Registration Evaluation Authorisation of Chemicals) Regulation, together with numerous amendments – an EU initiative aimed to provide a systematic and disciplined framework for placing chemical

substances on the market [Regulation EC 1907/2006 of the European Parliament and of the Council of 18 December 2006]. Articles demonstrating the level of the Company's fulfilment of its obligation to assess health and safety impacts of its products are available on the corporate website [[link](#)].

GRI	INDICATOR
PR 2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services

No incidents of non-compliance with regulations concerning health and safety impacts of products occurred at the LOTOS Group in the reporting period.

Products and service labelling

GRI	INDICATOR
PR 3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements

Under applicable laws, documents referred to as Material Safety Data Sheets are drafted for all products manufactured by Grupa LOTOS. They provide information on the product's health and environmental impacts, presence of hazardous ingredients, exposure controls, measures to take in the case of a fire or product release to the environment, as well as on waste disposal.

Our products' Material Safety Data Sheets are available at the Internet portal of Grupa LOTOS [[link](#)].

Grupa LOTOS

Scope of product and service information required by the reporting organization's procedures	Yes
The sourcing of components of the product or service	x
Content, particularly with regard to substances that might produce an environmental or social impact	x
Safe use of the product or service	x
Disposal of the product and environmental/social impacts	x
Other: handling during storage and transport, physical and chemical properties, stability and reactivity, waste handling	x

Details on the type of product and service information required under internal procedures and published by individual commercial companies of the LOTOS Group, can be found on the Company's website. [[link](#)].

GRI	INDICATOR
PR 4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling

No incidents of non-compliance with regulations and codes concerning product information were identified at the LOTOS Group in the reporting period.

GRI	INDICATOR
PR 5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction

Major service and distribution companies of the LOTOS Group conduct customer satisfaction surveys on a regular basis. Methodologies used in such surveys, along with their scopes and findings, are posted on the Company's website. [[link](#)].

Marketing communications

GRI	INDICATOR
PR 6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship

The following rules are strictly applied in the management of the overall process relating to the corporate brand strategy, product brands, promotion strategies, value creation, creation of the desired image of the LOTOS brand, promotional materials distribution and marketing research:

- compliance with the effective laws,
- no deliberate harm or damage,
- accountability,
- putting to good use the education, professional background and experience of our personnel.

All our operations are carried out with regard for human dignity and gender equality; without presenting controversial content which may offend social groups, and without inciting negative emotions. These rules complement the effective and unconditionally binding laws and regulations, in particular: the Constitution of the Republic of Poland and the following Polish Acts: the Civil Code, the Act on Combating Unfair Competition, the Press Law Act, the Radio and Television Act, the Act on Protection of Certain Consumer Rights, the Act on Provision of Electronic Services, the Act on Personal Data Protection, the Act on Copyrights and Related Rights, the Act on Industrial Property, and the Code of Ethics in Advertising.

Internal procedures are governed by the Rules of the Committee for Marketing and Communication, whose purpose is to ensure appropriate marketing across the LOTOS Group.

The LOTOS Group's partners for marketing communications are under an obligation to comply with the International Code of Advertising Practice, published by the International Chamber of Commerce.

In its sponsorship activities, Grupa LOTOS adheres to standards and applies rules spelled out in voluntary codes of conduct published e.g. by unions of entrepreneurs, whose members carry out operations in the area of promotion, advertising or sponsorship, as well as by organisations which promote good business practices. All sponsorship contracts are transparent in terms of their nature, and clearly specify all obligations of the parties to such contracts. Grupa LOTOS does not engage itself in any events which may cause damage to objects or facilities of historical or artistic value, or events which could have an adverse environmental impact.

With respect to marketing communications and sponsorship, the Company, as a member of the Global Compact, acts on the Global Compact's Principle 7 related to responsibility for natural environment, which states that businesses should support a precautionary approach to environmental challenges, and on Principle 8, which calls for undertaking initiatives to promote greater environmental responsibility.

GRI	INDICATOR
PR 7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by types of outcomes

No incidents of non-compliance with regulations and codes concerning marketing communications were identified in the reporting period.

Customer privacy

GRI	INDICATOR
PR 8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data

No complaints regarding breaches of customer privacy or loss of data were received by the distribution and service companies of the LOTOS Group.

Compliance

GRI	INDICATOR
PR 9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services

No significant incidents concerning the provision and use of products and services occurred in 2010. Accordingly, no administrative or court sanctions, imposed on business entities as a result of their non-compliance with laws or regulations concerning the provision and use of products and services, were placed on members of the LOTOS Group. However, in 2010 proceedings were pending within this subject matter, which are described under **Anti-competitive behaviour**.

Society

Corruption

GRI	INDICATOR
SO 2	Percentage and total number of business units analyzed for risks related to corruption

Internal regulations, procedures and instructions implemented at the LOTOS Group have embedded controls, whose aim is also to mitigate the risk of malpractice or corrupt practices.

In addition, internal regulations are defined for the Company which specify desirable ethical and moral behaviours. These include:

- the Code of Conduct of LOTOS Group' Employees,
- the Code of Managers of the LOTOS Group,
- Corporate Decalogue,
- Internal Auditor Code of Ethics.

There are also solutions in place at the Company which seek to counteract abuse and corrupt practices in certain areas, such as physical security, information

security, transacting, or business partner selection process. Furthermore, if events or areas exposed to corrupt practices are identified at the Company, there is a procedure in place providing for ad-hoc audits, which facilitate a speedy response to such risks or practices. Grupa LOTOS also clearly communicates, through its website, its adherence to the Global Compact Principles, which require the Company to counteract all forms of corruption, including extortion and bribery.

GRI	INDICATOR
SO 3	Percentage of employees trained in organization's anti-corruption policies and procedures

Type of position	Trained employees (%)
Management	3.5
Other	3.1

GRI	INDICATOR
SO 4	Actions taken in response to incidents of corruption

No corrupt practices which would require litigation were identified in the reporting period.

Public policy

GRI	INDICATOR
SO 5	Public policy positions and participation in public policy development and lobbying

Grupa LOTOS operates in the oil sector, a part of the larger energy sector, which is strategic to the state. The majority shareholder of the Company is the Polish Treasury. However, even if this was not the case, the state would still be granting certain rights to and imposing certain obligations on companies from the strategic sectors by using regulation. One such obligation is the requirement to cooperate on energy sector security.

Accordingly, Grupa LOTOS is an active participant in the process of developing and guiding the public policy in the area of the broad energy sector. Our experts are members of expert teams set up by public institutions to develop new legislative solutions in the energy sector, who actively participate in the public consultation of draft laws regulating the sector.

Such activities include e.g. cooperation with the Ministry of Economy on the report for the International Energy Agency concerning the fuel industry, participation in the work of the Poland-Ukraine Intergovernmental Committee for Economic Cooperation, or of the Interdepartmental Team for Shale Gas.

Legislation-related work in 2010 included provision of opinions on the bills on biocomponents and liquid fuels, and on mandatory stock of crude oil and liquid fuels. Grupa LOTOS provides ongoing information to the Ministry of Economy and the Ministry of Treasury regarding the energy sector for top-level departmental meetings.

Being a member of the Polish Academic and Economic Forum, Grupa LOTOS is an active contributor to initiatives aimed at strengthening cooperation between academic and business communities, promoting innovation and building a knowledge-based economy.

The Company is also monitoring the European Union regulations on the energy sector on an ongoing basis, and cooperates with state authorities in the process of developing documents which implement EU directives into the national law.

On the initiative of Grupa LOTOS, supported by three other entities, namely Energa, Jastrzębska Spółka Węglowa and Kulczyk Investments, as well as by the Polish Academic and Economic Forum, a non-profit organisation Central European Energy Partners (CEEP) was registered in Brussels in June 2010. The organisation represents the energy sector from Central Europe (including crude oil, natural gas, coal, electricity, renewable energy sources, nuclear energy, interconnectors, etc.). The prime objective of the organisation as defined by its charter is to contribute to integration of the Central European energy sector under a common energy and security policy for the EU's energy sector. To that end, CEEP initiated close cooperation with recognised international think tanks, such as the Center for Strategic & International Studies (Washington), the Windsor Energy Group (London, UK), the King's College (London), the Atlantic Council (Washington), and such organisations as the International Energy Agency (Paris), or Europia (Brussels). CEEP is an active stakeholder in all major events in the energy sector organised under the auspices of the European Union. It is also a keen participant of consultations organised by the European Commission, is involved in preparing expert materials for the EU institutions, as well as attends working group meetings, including the Berlin Fossil Fuels Forum. President of the Management Board of Grupa LOTOS Paweł Olechnowicz is the Chairman of CEEP's Directors' Council.

Grupa LOTOS is also involved in the development of policies and regulations regarding a wide range of energy sector-related matters, in particular those pertaining to the fuel sector, also through membership in the various organisations.

As a member of the Windsor Energy Group (WEG), Grupa LOTOS maintains its active involvement in discussing and analysing global energy matters and challenges, with top experts of the private and public sector also involved in the process. The organisation boasts a long list of recognised personalities, who have decided, and will decide on the lines of development of the oil and gas industry worldwide. In February 2010, the Company hosted an international conference, named "North European Energy Security Forum", with energy sector security in the European Union and globally on the conference's agenda.

GRI	INDICATOR
SO 6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions

Anti-competitive behaviour

GRI	INDICATOR
SO 7	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes

1. By decision of President of the UOKIK (Polish Office for Competition and Consumer Protection), dated March 21st 2005, anti-trust proceedings were instigated in connection with a suspected restrictive agreement between Polski Koncern Naftowy ORLEN S.A. of Plock and Grupa LOTOS of Gdańsk, concerning a concurrent termination of production and distribution of U95 gasoline. Since the production and sale of U95 continued, the Management Board of the Company claimed that the UOKIK's charges were unfounded and, in April 2005, applied for a decision that Grupa had not been engaged in restrictive practices. In July 2005, the Company filed a complaint with the Anti-Trust Court against the UOKIK's decision, arguing it had had limited access to some case-related evidence. Notwithstanding the complaint, in September 2005 the Company filed another application for a decision that would expressly state that Grupa LOTOS had not been involved in monopolistic practices. In October 2005, another decision was issued by the UOKIK, concerning limited access to some case-related evidence, that the Company complained against to the Anti-Trust Court. The Competition and Consumer Protection Department of the Regional Court dismissed the complaints. Grupa LOTOS filed complaints with the Court of Appeal in Warsaw concerning the dismissal of the previous complaints, which again were dismissed.

By decision of April 18th 2007 Grupa LOTOS' right of access to evidence in the anti-trust proceedings, namely the materials collected in the course of an inspection at PKN ORLEN S.A. in Plock, and specifically certain annexes to the report from the inspection at Plock offices, was restricted upon a motion from PKN ORLEN S.A., and access to the report from the inspection of their Warsaw offices, and annexes thereto, was also restricted. By the same decision, PKN ORLEN S.A.'s petition for restriction of the right of access to evidence, being the report from the inspection of the petitioner's Plock offices, was dismissed. On April 26th 2007, Grupa LOTOS filed a complaint against the decision restricting Grupa LOTOS' right of access to evidence. On May 9th 2007, Grupa LOTOS was served a notice from the UOKIK, whereby the latter demanded information on the change in U95 and Pb95 fuel prices. The Company provided the required information to the UOKIK on the same day. On August 2nd 2007, a notice of termination of U95 petrol production was delivered by Grupa LOTOS to the UOKIK. On December 31st 2007, President of the UOKIK imposed a fine of PLN 1,000 thousand on Grupa LOTOS. An appeal against the decision was subsequently filed with the Regional Court in Warsaw on January 17th 2008.

On September 23rd 2008, the Competition and Consumer Protection of the Regional Court in Warsaw, forwarded the UOKIK President's reply to the appeal against the UOKIK President's decision. In the reply to Grupa LOTOS' appeal, the UOKIK President stated that Grupa LOTOS' arguments, where they related to both substantive and formal provisions, were unfounded, and applied for dismissal of the petitioner's case in entirety, and award of legal representation costs from the petitioner. On April 27th 2010, the Court adjourned the decision until May 6th 2010. On May 6th 2010, the Regional Court in Warsaw issued a judgment dismissing the appeal against the UOKIK's decision in the anti-trust proceedings instigated on own initiative by the UOKIK President on March 21st 2005 and concerning distribution of U95 gasoline, and upheld the fines imposed by UOKIK on Grupa LOTOS, totalling PLN 1,000 thousand, and fines on PKN ORLEN S.A., totalling PLN 4,000 thousand. On June 15th 2010, the judgment dismissing the appeal against the UOKIK President's decision was served. On June 28th 2010, Grupa LOTOS appealed against the judgment. Subsequently, Grupa LOTOS and the UOKIK filed a reply to PKN ORLEN S.A.'s appeal, whereas PKN ORLEN S.A. and the UOKIK filed a reply to Grupa LOTOS' appeal. The court announced a judgment dismissing the appeal by Grupa LOTOS and PKN ORLEN S.A. on February 11th 2011. After examining the grounds for the judgment, the Company will consider filing a last resort appeal. The case is pending. Provisions for potential liabilities resulting from lost litigation were made in the amount of PLN 1,000,000. On March 10th 2011, the Company paid off the liability amounting to PLN 1,000,000 following the court ruling of February 11th 2011.

2. By petition of May 18th 2001, PETROECCO JV Sp. z o.o. filed for award of PLN 6,975 thousand, and statutory interest charged from May 1st 1999, in compensation for the damage suffered by PETROECCO JV Sp. z o.o. as a result of monopolistic practices of the Company involving the sale of BS base oil in a way which put certain recipients at an advantage, by having a disproportionately higher volume of their orders delivered as compared to deliveries of orders made by PETROECCO JV Sp. z o.o. Engagement of the Company in such monopolistic practices was ascertained by decision of the Anti-Trust Office of September 26th 1996. By the same decision, the Office ordered that the Company should discontinue such practices. The Company appealed against the decision. By judgement of October 22nd 1997, the Anti-Trust Department of the Provincial Court in Warsaw made some editing changes only to the decision, and also ordered discontinuation of the monopolistic practices. The Supreme Court dismissed the Company's last resort appeal by judgment of June 2nd 1999. By ruling of December 21st 2002, the Regional Court in Gdańsk dismissed the petition for compensation, acknowledging in entirety the Company's defence that the petition was time-barred. The ruling was however rescinded by the Court of Appeal in Gdańsk on December 4th 2003, case ref. I ACa 824/03, and referred for re-examination to the Regional Court in Gdańsk. The Court of Appeal found that the time-bar defence was unwarranted. As argued by the Court, it was not until June 2nd 1999 (date of the Supreme Court judgment) that it came to PETROECCO JV Sp. z o.o.'s attention that the damage they had suffered was an effect of monopolistic practices, resulting in the Company's liability in tort and, only on that date, as argued by the Court, did the three-year time-bar period for compensation claims commence. The case was examined by the Regional Court in Gdańsk (court of first instance), file ref. IX GC 134/04. The Company replied with substantive defences (by challenging the fact that any damage had been suffered by PETROECCO JV Sp. z o.o., and also challenged the value of the damage, and the presence of a causal relation between the monopolistic practice and the damage). Following the hearing in June 2005, the Regional Court in Gdańsk tasked a court expert in accounting and economy with drafting an opinion on the determination of the value of damage that the petitioner had suffered as a result of Grupa LOTOS' actions. The expert stated in the opinion that, based on materials provided by PETROECCO JV Sp. z o.o., it was not possible to determine the value of the damage, or ascertain that it actually existed. The court expert also found that the opinion should be drafted by an expert in a field other than accounting. No evidence to support the drafting of such opinion frustrated the petitioner in being granted the claim for appointment of another expert. The hearing took place on March 27th 2007. Announcement of the judgment was originally scheduled for April 10th 2007, but subsequently rescheduled to April 20th 2007. By judgment of April 20th 2007, the petition was dismissed. On May 17th 2007, the Company appealed against the decision on the costs of proceedings. On June 4th 2007, PETROECCO JV Sp. z o.o. appealed against the judgment of April 20th 2007. On August 12th 2007, Grupa LOTOS filed a reply to the appeal. On December 20th 2007, the court dismissed PETROECCO JV Sp. z o.o.'s appeal against the judgment by the Regional Court. On March 19th 2008, a petition for enforcement against PETROECCO JV Sp. z o.o. was filed with the court enforcement officer. On April 17th 2008, PETROECCO JV Sp. z o.o. filed a last resort appeal against the judgment of December 20th 2007. The appeal was served to Grupa LOTOS on June 17th 2008. On June 30th 2008, a reply to the appeal was served. The case was referred for preliminary examination, to be held on November 14th 2008. On January 14th 2009, the Supreme Court rescinded the judgement which was appealed against, and referred the case to the Court of Appeal in Gdańsk for re-examination. On March 10th 2009, files of the case were submitted to the Court of Appeal. On April 3rd 2009, the court enforcement officer served a decision on discontinuation of the enforcement procedure. On May 14th 2009, the Court of Appeal referred the case to the Regional Court for re-examination. In a session held on November 3rd 2009, the court ordered that PETROECCO JV Sp. z o.o. appoint an expert. A hearing was held on October 1st 2010, where the expert gave testimony. The case is pending. The position of

the Management Board of the Company is that the risk of losing the dispute is insignificant and therefore no provisions for potential compensation have been made.

Compliance

GRI	INDICATOR
SO 8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations

In 2010, companies of the LOTOS Group did not pay any significant fines, and no significant non-monetary sanctions were imposed on the companies for non-compliance with laws and regulations. However, in 2010 proceedings were pending within this subject matter, which are described under **Anit-competitive behaviour**.

Environment

The companies of the LOTOS Group monitor their environmental impact with a range of indicators referring to the level of emissions, energy and water consumption, and the use of materials. Also, impacts of products and services on the LOTOS Group's environment are examined, including the compliance of its activities with legal regulations in the aspect of managing the environmental impact.

Materials

GRI	INDICATOR
EN 1	Materials used by weight or volume

Crude oil processing

Item	2006	2007	2008	2009	2010
Total crude oil	6,098,600	6,156,431	6,203,414	5,461,540	8,095,655
Raw materials and components		1,088,605	1,146,989	1,699,034	844,327
Refining additives		2,052	1,825	2,229	2,010

GRI	INDICATOR
EN 2	Percentage of materials used that are recycled input materials

Only a small proportion of recycled products can be used by Grupa LOTOS owing to the inherent properties of its operations. Each company of the LOTOS Group involved in production is subject to the statutory requirement to submit spent materials for recycling through independent Recovery Organisations. Still, the potential for reuse of recycled materials is negligible.

Energy

GRI	INDICATOR
EN 3	Direct energy consumption by primary energy source

Item	Unit	Direct energy sources purchased	Direct energy sources produced	Direct energy sources sold	Total direct energy consumption
Natural gas	GJ	1,244,784			1,244,784
Heating gas	GJ		8,085,394		8,085,394
HSFO fuel oil	GJ		2,660,714		2,660,714
LSFO fuel oil	GJ	1,153,159			1,153,159
HON light fuel oil			103,973		103,973
Electricity	GJ			8,471	-8,471
Heat	GJ			0	0
Total	GJ	3,397,943	15,221,725	8,471	17,628,139

GRI	INDICATOR
EN 4	Indirect energy consumption by primary source

Item	Unit	Intermediate energy purchased
Electricity	GJ	1,263,049

GRI	INDICATOR
EN 5	Energy saved due to conservation and efficiency improvements

In 2010, a computer system Visual Mesa by Soteica used to visualise and optimise energy consumption continued to be used. The system supervises energy infrastructure of the refineries on a continuous basis, including gas and heating oil systems, and the process steam system, and uses optimisation algorithms to suggest changes to the energy system which reduce energy system costs. Production processes are continuously monitored.

GRI	INDICATOR
EN 6	Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives

Ingredients and their shares in fuel products produced by Grupa LOTOS comply with requirements for the implementation of the National Indicative Target concerning the share of renewable materials in road fuels. Both gasolines and Diesel oils contain biocomponents produced with the use of renewable materials.

In addition, assessment of greenhouse gas emissions over the entire production cycle is conducted (LCA, Life Cycle Assessment). The assessment addresses regulations of the European Union aiming to reduce greenhouses gas emissions at the stage of fuel production.

Water

GRI	INDICATOR
EN 8	Total water withdrawal by source

[m ³]	2006	2007	2008	2009	2010
ground water	168,110	144,907	179,735	209,147	195,024
surface water	2,559,165	2,598,158	2,520,603	3,557,093	3,766,470
total	2,727,275	2,743,065	2,700,338	3,766,240	3,961,494

GRI	INDICATOR
EN 9	Water sources significantly affected by withdrawal of water

Grupa LOTOS' operations do not significantly affect its surface water source, which means that the value of environmental flow determined for Motława river (0.56 m³/s) is not exceeded. The average annual withdrawal is below 5% of the river's average flow.

GRI	INDICATOR
EN 10	Percentage and total volume of water recycled and reused

[m ³]	2006	2007	2008	2009	2010
production of grey water from treated sewage	801,575	891,708	845,397	870,230	1,555,969

Biodiversity

GRI	INDICATOR
EN 11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas

Details on the location and size of land owned, leased or managed by Grupa LOTOS and the LOTOS Group's service and distribution companies in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas are available on the Company's website [[link](#)].

GRI	INDICATOR
EN 12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas

The proper use of products by Grupa LOTOS does not generate a significant environmental impact.

GRI	INDICATOR
EN 14	Strategies, current actions, and future plans for managing impacts on biodiversity

No adverse impact of Grupa LOTOS' production operations on the level of biodiversity in land, freshwater and marine environments was found to exist. Actions undertaken in this respect by service and distribution companies of the LOTOS Group and by LOTOS Petrobaltic are presented on the Company's website [[link](#)].

GRI	INDICATOR
EN 15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk

Operations of Grupa LOTOS do not affect IUCN Red List species. There are no conservation list species, and there is no risk of their extinction, in areas affected by the Grupa LOTOS' operations.

Emissions, effluents and waste

GRI	INDICATOR
EN 16	Total direct and indirect greenhouse gas emissions by weight

Emissions [thousand tonnes per year]

	2006	2007	2008	2009	2010
CO ₂	1,154	1,153	1,135	1,121	1,607

GRI	INDICATOR
EN 18	Initiatives to reduce greenhouse gas emissions and reductions achieved

Grupa LOTOS has undertaken a number of initiatives to that end. These are:

- recovery and reuse of flare gas,
- use of natural gas for hydrogen production,
- introduction of natural gas to Grupa LOTOS' energy system,

GRI	INDICATOR
EN 19	Emissions of ozone-depleting substances by weight

Grupa LOTOS does not use or emit substances which deplete the ozone layer.

GRI	INDICATOR
EN 20	NO _x , SO _x and other significant air emissions by type and weight

Emissions [tonnes per year]

	2006	2007	2008	2009	2010
SO ₂	4,859	4,808	5,022	4,170	4,758

Maximum permitted

for SO ₂	8,256	6,056	6,056	6,470	6,470
NO₂	1,601	1,583	1,317	1,132	1,315
Maximum permitted for NO ₂	2,262	2,262	2,095	2,405	2,475
Particulate matter /Particulate matter from CHP	364 94	282 82	306 86	220 84	260
Maximum permitted for particulate matter/ CHP	- 163	- 163	- 163	521 209	538

GRI	INDICATOR
EN 21	Total water discharge by quality and destination

Volume of effluents discharged [m³]

	2006	2007	2008	2009	2010
Receiving waters					
Rozwójka	3,960,830	3,873,534	3,294,540	4,083,604	3,880,741
Martwa Wisła		379,080	724,249	1,094,220	1,306,041
Total	3,960,830	4,252,614	4,018,789	5,177,824	5,186,782

Parameters of treated effluents discharged to receiving waters by Grupa LOTOS were as follows:

Rozwójka

	2006	2007	2008	2009	2010
pH	7.9	7.8	--	--	--
permitted value	6.5 – 9.0	6.5 – 9.0	--	--	--
BOD [mg O ₂ /dm ³]	7.4	7.5	--	--	--
permitted value	20	20	--	--	--
COD [mg O ₂ /dm ³]	43.4	50.9	--	--	--
permitted value	100	100	--	--	--
total suspended solids [mg/dm ³]	7.2	7.3	9.0	9.6	9.9
permitted value	35	35	35	35	35
volatile phenols [mg/dm ³]	0.009	0.011	--	--	--
permitted value	0.08	0.08	--	--	--
petroleum ether-extracted substances [mg/dm ³]	1.1	2.2	--	--	--
permitted value	40	40	--	--	--
hydrocarbons of petroleum origin [mg/dm ³]	1.7	1.25	1.54	1.64	1.02
permitted value	5	5	5	5	5
total nitrogen [mg N/dm ³]	5.7	4.9	--	--	--
permitted value	25	25	--	--	--
total phosphorus [mg P/dm ³]	0.50	0.40	--	--	--
permitted value	2.5	2.5	--	--	--
sulphides [mg S/dm ³]	0.008	0.01	--	--	--
permitted value	0.16	0.16	--	--	--
nickel [mg Ni/dm ³]	0.0158	0.0127	--	--	--

permitted value	0.4	0.4	--	--	--
vanadium[mg V/dm ³]	0.0660	0.0243	--	--	--
permitted value	1.6	1.6			--
aluminium [mg Al/dm ³]	0.0712	0.0867			--
permitted value	2.4	2.4			--

Martwa Wisia

	2006	2007	2008	2009	2010
pH	--	7.5	7.9	7.5	7.5
permitted value	--	6.5 – 9.0	6.5 – 9.0	6.5 – 9.0	6.5 – 9.1
BOD [mg O ₂ /dm ³]	--	2.6	3.9	5.5	4.6
permitted value	--	20	20	25	25
COD [mg O ₂ /dm ³]	--	56.4	54.8	51.5	51.4
permitted value	--	100	100	125	125
total suspended solids [mg/dm ³]	--	5.6	8.6	12.5	6.2
permitted value	--	35	35	35	35
volatile phenols [mg/dm ³]	--	0.002	0.003	0.005	0.006
permitted value	--	0.08	0.08	0.1	0.1
petroleum ether-extracted substances [mg/dm ³]	--	2.7	1.2	1.21	2.56
permitted value	--	40	40	50	50
hydrocarbons of petroleum origin [mg/dm ³]	--	1.1	0.51	0.73	0.38
permitted value	--	5	5	5	5
total nitrogen [mg N/dm ³]	--	3.1	4.0	4.3	3.6
permitted value	--	25	25	30	30
total phosphorus [mg P/dm ³]	--	0.4	0.4	0.9	1.0
permitted value	--	2.5	2.5	3.0	3.0
sulphides [mg S/dm ³]	--	0.004	0.01	0.01	<0.01
permitted value	--	0.16	0.16	2.0	2.0
nickel [mg Ni/dm ³]	--	0.0124	0.0089	0.0548	0.0077
permitted value	--	0.4	0.4	0.5	0.5
vanadium [mg V/dm ³]	--	0.0296	0.0254	0.0679	0.0178
permitted value	--	1.6	1.6	2.0	2.0
aluminium [mg Al/dm ³]	--	0.0320	0.0383	0.0420	0.0243
permitted value	--	2.4	2.4	3.0	3.0

GRI	INDICATOR
EN 22	Total weight of waste by type and disposal method (in tonnes)

Year	2006	2007	2008	2009	2010
Waste generated in the year,	8,294	9,100	8,806	10,305	11,472
including:					
Hazardous waste	3,919	4,151	4,126	4,242	4,218
Non-hazardous waste	4,375	4,949	4,680	6,063	7,254
Waste stored as at the end of the previous year	3,882	3,446	3,680	3,367	2,215
Total: waste to be managed in the year	12,176	12,546	12,486	13,672	13,687
Permitted value (data from the integrated permit)	57,991	57,991	57,991	89,627	89,627
Recovered waste (recovery)	8,369	8,765	8,964	10,215	10,836
Waste disposed of, including:	361	101	155	1,243	607
incineration		36	99	966	519
landfill		65	56	277	81
Waste stored as at the end of the year,	3,446	3,680	3,367	2,214	2,244
including:					
hazardous	1,119	970	988	953	1,044
non-hazardous	2,327	2,710	2,379	1,261	1,200

GRI	INDICATOR
EN 23	Total number and volume of significant spills

Out of seven emergency cases in 2007, no significant spills were identified from the standpoint of environmental impact.

GRI	INDICATOR
EN 24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally

Grupa LOTOS did not ship waste internationally in 2010.

GRI	INDICATOR
EN 25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff

Receiving bodies for water and effluents generated by Grupa LOTOS do not have the protected status. No significant influence on biodiversity of the discharges of water and runoff exists.

Products and services

GRI	INDICATOR
EN 26	Initiatives to mitigate environmental impacts of products and services and extend of impact mitigation

Detailed information on Grupa LOTOS activities in this area are available on the Company's website [[link](#)].

GRI	INDICATOR
EN 27	Percentage of products sold and their packaging materials that are reclaimed by category

Detailed information on Grupa LOTOS activities in this area are available on the Company's website [[link](#)].

Compliance

GRI	INDICATOR
EN 28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations

No fines/non-monetary sanctions were imposed in 2010 on the LOTOS Group companies for non-compliance with environmental laws and regulations.

Transport

GRI	INDICATOR
EN 29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce

A detailed description of the environmental impact of Grupa LOTOS as a result of transport is posted on the Company's website [[link](#)].

Environmental protection expenditures

GRI	INDICATOR
EN 30	Total environmental protection expenditures and investments by type

Charges for economic use of the environment incurred by Grupa LOTOS:

Emissions (PLN thousand)					
	2006	2007	2008	2009	2010
Air emissions	3,518	3,521	3,181	3,089	3,817
Water withdrawal	109	100	113	211	160
Effluent discharge	266	280	213	260	306
Total	3,893	3,902	3,508	3,560	4,283

Expenditure on environmental protection incurred by Grupa LOTOS:

Expenditure (PLN thousand)					
	2006	2007	2008	2009	2010
Total expenditure	284,104	858,462	1,910,687	2,271,034	587,610
Environmental expenditure	34,387	99,880	224,723	138,818	16,812

Charges for economic use of the environment incurred by the LOTOS Group:

Emissions (PLN thousand)					
	2006	2007	2008	2009	2010
Air emissions	4,122	4,061	3,708	3,576	4,306
Water withdrawal	172	156	172	288	245
Effluent discharge	416	389	323	401	528
Waste landfilling	0	0	1	5	2
Total	4,710	4,606	4,204	4,270	5,081

Expenditure on environmental protection incurred by the LOTOS Group:

Expenditure (PLN thousand)					
	2006	2007	2008	2009	2010
Total expenditure	585,335	1,087,273	2,141,754	2,495,553	759,510

Environmental expenditure	54,455	120,692	255,240	153,893	33,648
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