

## Management approach

In 2010, detailed rules concerning identification and evaluation of risks, methods of monitoring and reporting them as well as verification of the effectiveness of actions taken were set out. The procedure is aimed at ensuring that the actions planned for the LOTOS Group are being completed periodically, that the applied methodology is optimum and adequate to the various areas of activities and also that the risk management process itself is consistent and effective.

At Grupa LOTOS, the Enterprise Risk Management (ERM) system is aimed :

- to provide comprehensive knowledge on threats and opportunities linked to the activities of the LOTOS Group,
- to facilitate taking quick and effective decisions, based on risk analysis,
- to prepare the organisation for an immediate reaction in case any risk materialises.

In order to execute the above principles, a systemic approach to risk management is being implemented, including:

- the identification of the risks and their quality and quantity evaluation,
- the preparation of a strategy of dealing with a particular risk category,
- the implementation of the planned actions,
- the verification of the effectiveness of the actions taken,
- constant monitoring and control of both the risk level and the status of the actions implemented,
- the standardisation of communication and reporting principles.

In Grupa LOTOS, the reaction to risks involves four types of actions:

- limiting the possibility of the risk materialising, e.g. through controlling measures, changing the process, etc.,
- transferring, i.e. shifting the risk onto another entity, eg. through insurance, outsourcing, etc.,
- avoiding risk by withdrawing from the given risk area or not conducting given activities (however, this strategy remains most infrequent)
- accepting the given risk level if it cannot be further limited or if the risk is so low that it is not necessary.

Basic rules and the scope of responsibilities relating to the system are defined in *The LOTOS Group's Enterprise Risk Management Policy*. In Grupa LOTOS, there is also a Strategy and Enterprise Risk Management Committee which serves a consultative function. It is mainly responsible for making sure that the actions planned by the Company to limit the risks are consistent from the point of view of the entire LOTOS Group's functioning and do not result in increasing the risk to a dangerous level in a different area of activities.

Each year, an annual evaluation of the Enterprise Risk Management system is done, whose results are used to further improve the system. Reports on the functioning of the ERM system are then submitted to the Management Board and to the Audit Committee of the Supervisory Board of Grupa LOTOS.