

2. Composition of the Group

As at December 31st 2011, the LOTOS Group comprised Grupa LOTOS S.A. (the Parent) and 34 production and service companies, including:

- 16 subsidiaries of Grupa LOTOS S.A.
- 16 indirect subsidiaries of Grupa LOTOS S.A. and two companies accounted for using the proportional method.

The following table presents the subsidiaries of the LOTOS Group, their core business, consolidation method, and the Group's interests in their share capitals.

Name	Registered office	Core business	Method of consolidation/valuation of shares	Ownership interest (%)	
				Dec 31 2011	Dec 31 2010
Parent					
Grupa LOTOS S.A.	Gdańsk	Production and processing of refined petroleum products (mainly fuels) and their wholesale	Not applicable	Not applicable	Not applicable
Direct subsidiaries					
LOTOS Paliwa Sp. z o.o.	Gdańsk	Wholesale and retail sale of fuels and light fuel oil, management of the LOTOS service station network	full	100.00%	100.00%
LOTOS Gaz S.A. w likwidacji (in liquidation) ⁽¹⁾	Kraków ⁽¹⁾	The company is not conducting operations	full	100.00%	100.00%
LOTOS Oil S.A.	Gdańsk	Production and sale of lubricating oils and lubricants, and sale of base oils	full	100.00%	100.00%
LOTOS Asphalt Sp. z o.o.	Gdańsk	Production and sale of bitumens	full	100.00% ⁽²⁾	100.00%
LOTOS Ekoenergia Sp. z o.o. ⁽³⁾	Gdańsk	The company has not commenced operations	full	100.00%	100.00%
LOTOS Kolej Sp. z o.o.	Gdańsk	Railway transport	full	100.00%	100.00%
LOTOS Serwis Sp. z o.o.	Gdańsk	Maintenance of mechanical and electric operations and controlling devices, overhaul and repair services	full	100.00%	100.00%
LOTOS Lab Sp. z o.o.	Gdańsk	Laboratory analyses	full	100.00%	100.00%
LOTOS Straż Sp. z o.o.	Gdańsk	Fire safety	full	100.00%	100.00%
LOTOS Ochrona Sp. z o.o.	Gdańsk	Personal and property protection	full	100.00%	100.00%
LOTOS Parafiny Sp. z o.o.	Jasło	Production and sale of paraffin	full	100.00% ⁽⁴⁾	100.00%
LOTOS Tank Sp. z o.o.	Gdańsk	Trading in aviation fuel until Oct 16 2011, at present – logistics services	full	100.00%	100.00%
LOTOS Czechowice S.A. (parent of another group)	Czechowice-Dziedzice	Storage and distribution of fuels	full	100.00% ⁽⁶⁾	97.55% ⁽⁵⁾
LOTOS Jasło S.A.	Jasło	Storage and distribution of fuels	full	100.00% ⁽⁶⁾	98.12% ⁽⁵⁾

		Renting and operating of own or leased real estate from March 24th 2011			
LOTOS Petrobaltic S.A. ⁽⁸⁾ (parent of another group)	Gdańsk	Acquisition of crude oil and natural gas deposits and their exploitation	full	99.95% ⁽⁷⁾	99.32%
LOTOS Park Technologiczny Sp. z o.o.	Jasło	The company is not conducting operations	full	100.00%	100.00% ⁽⁹⁾
Indirect subsidiaries					
RCEkoenergia Sp. z o.o.	Czechowice-Dziedzice	Production and distribution of electricity, heat and gas	full	100.00% ⁽¹⁰⁾	97.55% ^(10,11)
LOTOS Biopaliwa Sp. z o.o.	Czechowice-Dziedzice	Production of fatty acid methyl esters (FAME)	full	100.00% ⁽¹⁰⁾	97.55% ^(10,11)
"PLASTEKOL Organizacja Odzysku" S.A.	Jasło	Provision of services		- ⁽¹²⁾	93.70% ⁽¹⁰⁾
Miliana Shipholding Company Ltd. (Miliana Shipping Company Ltd.) (parent of another group) ⁽¹⁵⁾	Nicosia, Cyprus	Storage and transport of crude oil, other sea transport related services, and managing own financial assets	full	99.95 % ^(13,14)	99.32 %
Miliana Shipmanagement Ltd.	Nicosia, Cyprus	Provision of sea transport and related services	full	99.95% ^(13, 15)	-
Miliana Shipping Group Ltd. (parent of another group) ⁽¹⁵⁾	Nicosia, Cyprus	Management of own assets	full	99.95% ^(13, 15)	-
Bazalt Navigation Co. Ltd.	Nicosia, Cyprus	Ship chartering	full	99.95% ^(13, 15)	-
Granit Navigation Company Ltd.	Nicosia, Cyprus	Ship chartering	full	99.95% ^(13, 15)	-
Kambr Navigation Company Ltd.	Nicosia, Cyprus	Ship chartering	full	99.95% ^(13, 15)	-
St. Barbara Navigation Company Ltd.	Nicosia, Cyprus	Ship chartering	full	99.95% ^(13, 15)	-
Petro Icarus Company Ltd.	Nicosia, Cyprus	Ship chartering	full	99.95% ^(13, 15)	-
Petro Aphrodite Company Ltd.	Nicosia, Cyprus	Ship chartering	full	99.95% ^(13, 15)	-
LOTOS Exploration and Production Norge AS	Stavanger, Norway	Oil exploration and production at the Norwegian Continental Shelf, provision of services related to oil exploration and production	full	99.95% ^(13, 16)	99.32% ⁽¹⁶⁾
Aphrodite Offshore Services N.V.	Curaçao, Netherlands Antilles	The company has been dormant since October 17th 2011	full	99.95% ⁽¹³⁾	99.32%
Energobaltic Sp. z o.o.	Władysławowo	Production of electricity, heat, LPG and natural gas condensate	full	99.95% ⁽¹³⁾	99.32%
AB LOTOS Baltija (parent of another group) ^(18,19)	Vilnius, Lithuania	Business and legal advisory services	full	- ^(13,18)	99.32% ⁽¹⁷⁾
AB Meditus (parent of another group) ^(18,20)	Vilnius, Lithuania	Business and legal advisory services	full	- ^(13,18)	-
AB LOTOS Geonafta (parent of another group) ⁽¹⁸⁾	Gargždai, Lithuania	Crude oil exploration and production, drilling services, and purchase and sale of crude oil	full	99.95% ^(13,18, 21)	40.31%
UAB Genciu Nafta	Gargždai, Lithuania	Crude oil exploration and production	full	99.95% ^(13,18)	40.31%
Companies accounted for using the proportional method					
UAB Manifoldas	Gargždai, Lithuania	Crude oil exploration and production	proportional	49.98% ^(13,18)	20,15%
UAB Minijos Nafta	Gargždai, Lithuania	Crude oil exploration and production	proportional	49.98% ^(13,18)	20,15%

⁽¹⁾ On January 10th 2011, the General Meeting of LOTOS Gaz S.A. adopted a resolution to dissolve LOTOS Gaz S.A. by way of its liquidation. Furthermore, on January 3rd 2011 the Management Board of LOTOS Gaz S.A. filed a petition with the Commercial Division of the District Court of Płock requesting that LOTOS Gaz S.A. be declared bankrupt. According to the information received by the Company, the petition was effectively

withdrawal, and the bankruptcy proceedings were discontinued on January 7th 2011. These developments had no effect on the data disclosed in the consolidated financial statements.

The company's new business address in Kraków was registered on July 8th 2011. Previously, the company was based in Mława.

(2) On December 29th 2011, the share capital increase at LOTOS Asfalt Sp. z o.o. was registered. The share capital was increased from PLN 2,000 thousand to PLN 20,000 thousand, by way of raising the par value of the existing shares from PLN 500 per share to PLN 5,000 per share. The share capital increase was financed using own funds of LOTOS Asfalt Sp. z o.o.

(3) On May 6th 2010, a change in the company's legal form (from a joint stock company to a limited liability company) was registered. Currently the company operates under the name LOTOS Ekoenergia Sp. z o.o.

(4) On December 7th 2011, the share capital increase at LOTOS Parafiny Sp. z o.o. was registered. The share capital was increased from PLN 19,783 thousand to PLN 28,783 thousand, by way of creating 9,000 new shares, with a par value of PLN 1,000 thousand per share. The share capital increase was financed using own funds of LOTOS Parafiny Sp. z o.o. All new shares were acquired by Grupa LOTOS S.A. As at December 31st 2011, the Company disclosed the carrying amount of the shares in LOTOS Parafiny Sp. z o.o. under assets held for sale (see [Note 22](#) (<http://raportroczny.lotospol.pl/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/22.-assets-held-for-sale/>)).

(5) By December 31st 2010, Grupa LOTOS S.A. acquired from non-controlling interests an additional 12.51% interest in LOTOS Czechowice S.A. and a 13.11% interest in LOTOS Jasło S.A.

(6) Following the transactions carried out as part of the squeeze-out described below, and relevant entries having been made in the share registers of LOTOS Czechowice S.A. and LOTOS Jasło S.A. on April 7th and 8th 2011, respectively, Grupa LOTOS S.A. holds a 100% interest in LOTOS Czechowice S.A. and a 100% interest in LOTOS Jasło S.A.

(7) By December 31st 2011, Grupa LOTOS S.A. acquired from non-controlling shareholders an additional 0.63% interest in LOTOS Petrobaltic S.A. On November 29th 2011, an increase in the share capital of LOTOS Petrobaltic S.A. was registered. The share capital was increased from PLN 92,400 thousand to PLN 96,600 thousand i.e. by PLN 4,200 thousand, through the issue of 420,000 Series B registered shares with a par value of PLN 10 per share in return for a cash contribution. Grupa LOTOS S.A. acquired in total 419,979 new Series B shares, in return for a cash contribution of PLN 80,968 thousand. As at December 31st 2011, Grupa LOTOS S.A. held a 99.95% interest in LOTOS Petrobaltic S.A.

(8) On March 31st 2010, a change in the name of Przedsiębiorstw o Poszukiwani i Eksploatacji Złóż Ropy i Gazu Petrobaltic Spółka Akcyjna to LOTOS Petrobaltic Spółka Akcyjna (abbreviated name: LOTOS Petrobaltic S.A.) was registered in the National Court Register.

(9) On March 31st 2010, a reduction in the share capital of LOTOS Park Technologiczny Sp. z o.o. to PLN 50 thousand was registered. The share capital of LOTOS Park Technologiczny Sp. z o.o. is divided into 100 shares. Following registration of the changes in the National Court Register, Grupa LOTOS S.A. holds a 100% interest in LOTOS Park Technologiczny Sp. z o.o.

(10) The shareholding changes described in items (5, 6) above resulted in changes in the Group's indirect interests in the share capitals of the subsidiaries of LOTOS Czechowice S.A. and LOTOS Jasło S.A.

(11) On November 5th 2010, Grupa LOTOS S.A. acquired from LOTOS Czechowice S.A. one share in LOTOS Biopaliw a Sp. z o.o., representing 0.005% of the company's share capital, and one share in RCEkoenergiaSp. z o.o., representing 0.005% of the company's share capital.

(12) On February 11th 2011, LOTOS Jasło S.A. entered into an agreement with an external partner concerning sale of five investment areas, including an organised part of business and a block of 95.5% of shares in PLASTEKOL Organizacja Odzysku S.A. The effect of the loss of control over the subsidiary has been presented in the statement of comprehensive income for the year ended December 31st 2011 under "Loss of control over subsidiary", of PLN 679 thousand.

(13) The shareholding changes described in item (7) above resulted in changes in the Group's indirect interests in the share capitals of the subsidiaries of LOTOS Petrobaltic S.A.

(14) On June 24th 2011, LOTOS Petrobaltic S.A. acquired one share in Miliana Shipping Company Ltd. under an agreement of April 21st 2011 providing for the sale of one share in Miliana Shipping Company Ltd. by Aphrodite Offshore Services N.V. to LOTOS Petrobaltic S.A. for a price of USD 19.8 thousand (PLN 53.8 thousand translated at the mid-exchange rate for USD quoted by the National Bank of Poland for April 21st 2011). LOTOS Petrobaltic S.A. currently holds 100% of shares in Miliana Shipping Company Ltd.

(15) In connection with the restructuring of the sea shipping business in the LOTOS Petrobaltic Group, on July 22nd 2011 Miliana Shipping Company Ltd. established two subsidiaries registered in the Republic of Cyprus: Miliana Shipmanagement Ltd. and Miliana Shipping Group Ltd. Miliana Shipping Company Ltd. is the sole shareholder in both undertakings. Indirectly through LOTOS Petrobaltic S.A., the Group holds 99.95% in each of the companies. Furthermore, on September 13th 2011, LOTOS Petrobaltic S.A. received a formal confirmation that on July 28th 2011 Miliana Shipping Company Ltd. assumed control over four companies, i.e. Granit Navigation Company Limited, Kambr Navigation Company Limited, Petro Icarus Company Limited and St. Barbara Navigation Company Limited, and another two companies, i.e. Bazalt Navigation Company Limited and Petro Aphrodite Company Limited on July 29th 2011.

On January 23rd 2012 a name change from Miliana Shipping Company Limited to Miliana Shipholding Company Limited was registered.

(16) On November 15th 2010, the share capital of LOTOS Exploration and Production Norge AS was increased by NOK 1. One new share in the company, with a par value of NOK 1 (PLN 0.4822, translated using the NOK mid-exchange rate quoted by the National Bank of Poland for November 15th 2010) was acquired by Grupa LOTOS S.A.

On December 21st 2011, the court registered an increase in the share capital of LOTOS Exploration and Production Norge AS from NOK 430,000,001 to NOK 572,733,964, i.e. by NOK 142,733,963, through the issue of new Series B shares with a par value of NOK 1 per share in return for a cash contribution. All the new issue shares were acquired by LOTOS Petrobaltic S.A.

(17) On December 9th 2010, Grupa LOTOS S.A. and LOTOS Petrobaltic S.A. executed an agreement for the sale of 5,876 shares in UAB LOTOS Baltija, representing 100% of the company's share capital, for a total price of PLN 485 thousand.

(18) Following corporate approvals by the General Meeting of LOTOS Petrobaltic S.A. and the Lithuanian anti-trust authority, on February 3rd 2011 UAB LOTOS Baltija (a subsidiary of LOTOS Petrobaltic S.A.) acquired 100% of shares in UAB Meditus, which holds 59.41% of shares in AB Geonafta. LOTOS Petrobaltic S.A. directly holds 40.59% of shares in AB Geonafta, therefore, as a result of the transaction, LOTOS Petrobaltic S.A. gained control of AB Geonafta.

On November 30th 2011, the merger of AB Geonafta, AB LOTOS Baltija, and AB Meditus, as well as the name change from AB Geonafta to AB LOTOS Geonafta were registered. Following registration of the merger, the shareholder structure of AB LOTOS Geonafta was as follows: LOTOS Petrobaltic S.A. – 43.1980822%, Grupa LOTOS S.A. – 0.0005934%, own shares held by AB LOTOS Geonafta – 56.8013244%. However, the proportions of shares conferring the right to vote at the General Meeting of AB LOTOS Geonafta were as follows: LOTOS Petrobaltic S.A. – 99.99862%, Grupa LOTOS S.A. – 0.00137%. LOTOS Petrobaltic S.A. retained control of AB LOTOS Geonafta. AB LOTOS Geonafta intends to voluntarily cancel its own shares acquired in the merger process.

⁽¹⁹⁾ On May 23rd 2011, a change in the legal form of UAB LOTOS Baltija to AB LOTOS Baltija was registered. Prior to the merger referred to in ⁽¹⁸⁾, the company operated under the name of AB LOTOS Baltija.

⁽²⁰⁾ On May 10th 2011, a change in the legal form of UAB Meditus to AB Meditus was registered. Prior to the merger referred to in ⁽¹⁸⁾, the company operated under the name of AB Meditus.

⁽²¹⁾ On March 23rd 2011, LOTOS Petrobaltic S.A. and Grupa LOTOS S.A. executed an agreement whereby Grupa LOTOS S.A. purchased one share in AB Geonafta for LTL 3 thousand (PLN 3.5 thousand).

As at December 31st 2011, the Group's shares in the total vote at the general meetings of its subsidiaries were equal to its interests in their share capitals, except in the case of AB LOTOS Geonafta (see below). As at December 31st 2009, the Group's shares in the total vote at the general meetings of its subsidiaries were equal to its shares in their share capitals.

Acquisition of LOTOS Jasło S.A. shares

On February 4th 2010, Grupa LOTOS S.A. made an offer to purchase LOTOS Jasło S.A. shares. The offer was addressed only to the following persons: employees and former employees of LOTOS Jasło S.A. who acquired the shares free of charge under the Act on Commercialisation and Privatisation of State-Owned Enterprises, dated August 30th 1996, as well as their heirs and members of their immediate family who acquired the shares through donation directly from such persons. The offer was valid until March 22nd 2010. The purchase price offered for the shares was PLN 4.90 per share in the period from February 8th 2010 to March 8th 2010, and PLN 4.23 per share in the period from March 9th 2010 to March 22nd 2010. On May 20th 2010, Grupa LOTOS S.A. made another offer to purchase shares in LOTOS Jasło S.A. at a price of PLN 4.45 per share. The offer was addressed to all remaining shareholders and was valid until June 11th 2010. The share purchase process was completed at the end of 2010. With respect to the remaining shares held by non-controlling shareholders, on November 30th 2010 the General Meeting of LOTOS Jasło S.A. adopted a resolution regarding a minority squeeze-out. Following the transactions carried out as part of the squeeze-out and relevant entries having been made in the share register of LOTOS Jasło S.A., as of April 8th 2011 Grupa LOTOS S.A. has held a 100% interest in LOTOS Jasło S.A.

Acquisition of LOTOS Czechowice S.A. shares

On February 4th 2010, Grupa LOTOS S.A. made an offer to purchase LOTOS Czechowice S.A. shares. The offer was addressed only to the following persons: employees and former employees of LOTOS Czechowice S.A. who acquired the shares free of charge under the Act on Commercialisation and Privatisation of State-Owned Enterprises, dated August 30th 1996, as well as their heirs and members of their immediate family who acquired the shares through donation directly from such persons. The offer was valid until March 22nd 2010. The purchase price offered for the shares was PLN 7.98 per share in the period from February 8th 2010 to March 8th 2010, and PLN 6.89 per share in the period from March 9th 2010 to March 22nd 2010. On May 20th 2010, Grupa LOTOS S.A. made another offer to purchase shares in LOTOS Czechowice S.A. at a price of PLN 7.25 per share. The offer was addressed to all remaining shareholders and was valid until June 11th 2010. The share purchase process was completed at the end of 2010. With respect to the remaining shares held by non-controlling shareholders, on December 1st 2010 the General Meeting of LOTOS Czechowice S.A. adopted a resolution regarding a minority squeeze-out. Following the transactions carried out as part of the squeeze-out and relevant entries having been made in the share register of LOTOS Czechowice S.A., as of April 7th 2011 Grupa LOTOS S.A. has held a 100% interest in LOTOS Czechowice S.A.

Accounting for the acquisition of shares in LOTOS Jasło S.A. and LOTOS Czechowice S.A. from non-controlling shareholders by December 31st 2010

By December 31st 2010 Grupa LOTOS S.A. acquired 938,701 shares in LOTOS Czechowice S.A. with the total value of PLN 7,574 thousand, representing 12.51% of the company's share capital, and 786,924 shares in LOTOS Jasło S.A. with the total value of PLN 3,980 thousand, representing 13.11% of the company's share capital.

As at December 31st 2010, following completion of the share purchase transactions, Grupa LOTOS S.A. held 97.55% of the share capital of LOTOS Czechowice S.A. and 98.12% of the share capital of LOTOS Jasło S.A.

In line with IAS 27 Consolidated and Separate Financial Statements, the transaction described above has been accounted for as an equity transaction, as a result of which an amount of PLN 12,976 thousand was recognised under retained earnings attributable to the Parent.

Accounting for the acquisition of LOTOS Jasło S.A. and LOTOS Czechowice S.A. shares from non-controlling shareholders, as at December 31st 2010:

(PLN '000)	
Value of non-controlling interests as at Dec 31 2010 (A)	24,253
Value of (price paid for) the 12.51% interest in LOTOS Czechowice S.A. and the 13.11% interest in LOTOS Jasło S.A. (B)	11,554
Costs related to the acquisition (C)	(277)
Excess of the value of non-controlling interests over the value of the acquired shares (A-B-C)	12,976

Accounting for the acquisition of shares in LOTOS Czechowice S.A. and LOTOS Jasło S.A. from non-controlling shareholders as part of the minority squeeze-out

In the period from January 1st to December 31st 2011, as part of the minority squeeze-out described above, Grupa LOTOS S.A. acquired 183,429 shares in LOTOS Czechowice S.A. with a total value of PLN 1,833 thousand, representing 2.45% of the company's share capital, and 112,908 shares in LOTOS Jasło S.A. with a total value of PLN 471 thousand, representing

1.88% of the company's share capital. As a result of the executed transactions, as at December 31st 2011 Grupa LOTOS S.A. held 100% of the share capital of LOTOS Czechowice S.A. and 100% of the share capital of LOTOS Jasło S.A.

In line with IAS 27 Consolidated and Separate Financial Statements, the transactions described above have been accounted for as equity transactions, as a result of which an amount of PLN 2,773 thousand was recognised under retained earnings attributable to the Parent.

Accounting for the acquisition of LOTOS Czechowice S.A. and LOTOS Jasło S.A. shares from non-controlling shareholders as part of the minority squeeze-out as at December 31st 2011:

(PLN '000)	
Value of non-controlling interests as at Dec 31 2011 (A)	5,072
Value of the acquired 2.45% of shares in LOTOS Czechowice S.A. and 1.88% of shares in LOTOS Jasło S.A. (B)	2,304
Costs related to the acquisition (C)	(5)
Excess of the value of non-controlling interests over the value of the acquired shares (A-B-C)	2,773

Offer to purchase Series A shares in LOTOS Petrobaltic S.A.

On December 17th 2010, Grupa LOTOS S.A. made an offer to purchase LOTOS Petrobaltic S.A. shares. The offer was addressed only to the following persons: employees and former employees of LOTOS Petrobaltic S.A. who acquired the shares free of charge under the Act on Commercialisation and Privatisation of State-Owned Enterprises, dated August 30th 1996, as well as their heirs and members of their immediate family who acquired the shares through donation directly from such persons. The offer was valid until January 30th 2011. The purchase price was PLN 126 per share. As at the date of approval of these consolidated financial statements, the share purchase process has not been completed.

Accounting for the acquisition of Series A shares in LOTOS Petrobaltic S.A. from non-controlling shareholders

By December 31st 2011, Grupa LOTOS S.A. acquired 57,850 shares in LOTOS Petrobaltic S.A. with an aggregate value of PLN 7,422 thousand, representing 0.63% of the company's share capital.

In line with IAS 27 Consolidated and Separate Financial Statements, the transaction described above has been accounted for as an equity transaction, as a result of which an amount of PLN 1,493 thousand was recognised under retained earnings attributable to the Parent.

Accounting for the acquisition of shares in LOTOS Petrobaltic S.A. from non-controlling shareholders as at December 31st 2011:

(PLN '000)	
Value of non-controlling interests as at Dec 31 2011 (A)	8,782
Value of the acquired 0.63% of shares in LOTOS Petrobaltic S.A. (B)	7,422
Costs related to the acquisition (C)	(133)
Excess of the value of non-controlling interests over the value of the acquired shares (A-B-C)	1,493

Increase of the share capital of LOTOS Petrobaltic S.A.

On November 29th 2011, the court registered the increase in the share capital of LOTOS Petrobaltic S.A. by PLN 4,200 thousand, i.e. from PLN 92,400 thousand to PLN 96,600 thousand, through the issue of 420,000 Series B registered shares with a par value of PLN 10 per share, paid for with cash. Grupa LOTOS S.A. acquired in total 419,979 new Series B shares, in return for a cash contribution of PLN 80,968 thousand.

As a result of the executed transactions, consisting in the purchase of shares in LOTOS Petrobaltic S.A. from non-controlling shareholders and the increase in the share capital of LOTOS Petrobaltic S.A., as at December 31st 2011 Grupa LOTOS S.A. held a 99.95% stake in LOTOS Petrobaltic S.A., including 9,654,829 shares conferring the right to vote at the company's General Shareholders Meeting.

Acquisition of shares in AB Geonafta by an indirect subsidiary

Following approvals by the General Meeting of LOTOS Petrobaltic S.A. and the Lithuanian anti-trust authority, on February 3rd 2011 UAB LOTOS Baltija (a subsidiary of LOTOS Petrobaltic S.A.) acquired 100% of shares in UAB Meditus, which holds 59.41% of shares in AB Geonafta. As at the acquisition date, LOTOS Petrobaltic S.A. held directly 40.59% of shares in AB Geonafta, therefore, as a result of the transaction, LOTOS Petrobaltic S.A. gained control of AB Geonafta.

AB Geonafta (currently AB LOTOS Geonafta) is the parent of its own group, which comprises:

- UAB Minijos Nafta (50% of shares held by AB Geonafta),
- UAB Genciu Nafta (100% of shares held by AB Geonafta),
- UAB Manifoldas (50% of shares held by AB Geonafta).

The business of AB Geonafta (currently AB LOTOS Geonafta) and its group companies, including UAB Genciu Nafta, UAB Minijos Nafta and UAB Manifoldas, consists in oil exploration and production in Lithuania. Oil production operations are conducted on shore. As at the transaction date, the volume of crude oil reserves and resources (2P – proved and probable reserves, and 2C – contingent resources) attributable to the AB Geonafta Group was approximately 1 million tonnes.

The acquisition price of UAB Meditus, which holds 59.41% of shares in AB Geonafta, comprised EUR 56.8m, adjusted for net debt and a portion of the potential payment to be received from one of AB Geonafta's debtors.

Given the fact that as at the business combination date the Group held a 40.59% interest in AB Geonafta, acquired jointly with its group through the purchase of 100% shares in UAB Meditus by UAB LOTOS Baltija, the business combination was accounted for and presented as a step acquisition within the meaning of IFRS 3 Business Combinations. In a business combination achieved in stages, the acquirer remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and recognises the resulting gain or loss in finance income or expenses.

The initial accounting for the merger was presented by the Group in its interim financial statements published in 2011. In accordance with the revised IFRS 3 Business Combinations, when initially accounting for the business combination, the Group used the initial fair values of the identified acquired assets and assumed liabilities.

The business combination was finally accounted for and presented in these consolidated financial statements (in accordance with IFRS 3 Business Combinations, a business combination must be finally accounted for within a year from the acquisition date).

The Group finally accounted for the business combination as at February 3rd 2011 in the following manner:

(PLN '000)	Feb 3 2011
Consideration paid (fair value as at acquisition date) (A) ⁽¹⁾	163,735
Acquisition-date fair value of the acquirer's previously held equity interest in the acquiree (B)	202,423
Total (A+B)	366,158
Equity interest in the acquiree	100%
Current assets, including:	74,222
Cash and cash equivalents	37,513
Non-current assets, including:	451,288
Intangible Assets	358,148
Property, plant and equipment	85,281
Total assets	525,510
Provisions	69,726
Non-current liabilities	38,387
Current liabilities, and accruals and deferred income	31,319
Total liabilities and provisions	139,432
Net assets (C)	386,078
Interest in acquired net assets	386,078
Gain on bargain purchase (C-A-B)	19,920

(A) Represents the acquisition-date fair value of the consideration transferred for 100% of shares in UAB Meditus, which holds 59.41% of shares in AB Geonafta.

(B) Represents the fair value of the 40.59% shares in AB Geonafta, held directly by LOTOS Petrobaltic S.A.

(C) Represents the fair value of net assets as at the acquisition date.

⁽¹⁾ For the purpose of accounting for the business combination, the paid consideration of PLN 283,505 thousand (at acquisition-date fair value) was reduced by the value of the previously assumed liabilities of the shareholders selling UAB Meditus shares towards the acquirees, of LTL 105,571 thousand (PLN 119,770 thousand, translated at the mid-exchange rate for LTL quoted by the National Bank of Poland for February 3rd 2011).

As part of the business combination, the Group recognised identifiable intangible assets of LTL 315,600 thousand (PLN 358,048 thousand, translated at the mid-exchange rate for LTL quoted by the National Bank of Poland for February 3rd 2011), representing licences awarded to AB Geonafta and its group companies, including UAB Genciu Nafta, UAB Minijos Nafta and UAB Manifoldas. The licences confer the right to exploit crude oil and natural gas reserves in Lithuania. The recognised value of the licence has been adjusted for a 15% tax effect of LTL 47,340 thousand (PLN 53,707 thousand, translated at the mid-exchange rate for LTL quoted by the National Bank of Poland for February 3rd 2011).

Following the relevant procedures concerning the allocation of acquisition cost, the Group analysed and investigated forecasts of revenue and expenses related to future exploitation of deposits the licences for which the Group acquired through the business combination, as well as other parameters, including market rates of return and a risk-adjusted discount rate.

The fair value of the licences identified as part of the business combination was estimated in accordance with internationally recognised valuation standards (the excess earnings method was applied). The facts and assumptions underlying the valuation, relating in particular to the field reserves, forecast production volumes and crude oil prices higher than previously assumed for transactional purposes, resulted in the fair value of the licences, estimated on their basis as at the settlement date of the transaction of assuming control over the AB Geonafta Group, being higher than originally expected. This was the reason behind the disclosed excess of fair value of the acquired net assets over the price paid, and consequently the recognition of gain on a bargain purchase. The valuation, as well as the assumptions and methodology applied, were corroborated by independent experts' reports and subject to prudential standards.

The gain on bargain purchase of PLN 19,920 thousand and the increase in the value of LOTOS Petrobaltic S.A.'s 40.59% interest previously held in AB Geonafta, resulting from its measurement to fair value at the acquisition-date, of PLN 106,463 thousand was recognised in the statement of comprehensive income under "Effect of accounting for the step acquisition of control over AB LOTOS Geonafta" at PLN 126,383 thousand.

Until February 3rd 2011 (the business combination date), LOTOS Petrobaltic Group held 40.59% of shares in AB Geonafta. The share in the appreciation of net assets of the AB Geonafta Group in the period from January 1st 2011 to the date of business combination amounted to PLN 2,896 thousand, and is presented in the consolidated statement of comprehensive income for the year ended December 31st 2011 under "Share of investments in associates".

The acquiree's revenue and profit as of the acquisition date were PLN 230,971 thousand and PLN 38,918 thousand, respectively, and were included in the statement of comprehensive income for 2011. As the business combination took place at the beginning of the 2011 reporting period, the Group believes that, in conformity with the materiality principle, it may be assumed that the combined entity's revenue and profit presented in the statement of comprehensive income reflect relevant values calculated as if the beginning of the reporting period was the date of the acquisition.

By December 31st 2011, AB LOTOS Baltija settled its liabilities for the shares acquired in UAB Meditus, of LTL 229,437 thousand (PLN 293,496 thousand, translated at the LTL exchange rate quoted by the National Bank of Poland for December 31st 2011), including LTL 105,571 thousand (PLN 135,046 thousand, translated at the LTL mid-exchange rate quoted by the National Bank of Poland for December 31st 2011) in connection with assuming previous liabilities of the shareholders selling shares in UAB Meditus towards the acquirees.

After deducting the cash acquired in the business combination, of LTL 33,066 thousand (PLN 42,298 thousand, translated at the LTL mid-exchange rate quoted by the National Bank of Poland for December 31st 2011), the acquisition value of UAB Meditus as shown in the consolidated statement of cash flows for the year ended December 31st 2011 amounted to LTL (90,800) thousand (i.e. PLN 108,879 thousand).

As at December 31st 2011, total liabilities of AB LOTOS Geonafta (previously AB LOTOS Baltija) related to acquisition of shares in UAB Meditus amounted to LTL 20,457 thousand (PLN 26,169 thousand, translated at the mid-exchange rate for LTL quoted by the National Bank of Poland for December 31st 2011). The amount of the liabilities has been held in an escrow account for one year from the business combination date to secure AB LOTOS Geonafta's (previously AB LOTOS Baltija's) potential claims against the selling shareholders. The amount was paid on February 3rd 2012.

Acquisition of one share in Miliana Shipping Company Ltd. by LOTOS Petrobaltic S.A.

On June 24th 2011, LOTOS Petrobaltic S.A. acquired one share in Miliana Shipping Company Ltd. under the agreement of April 21st 2011 with Aphrodite Offshore Services N.V. for a price of USD 19.8 thousand (PLN 53.8 thousand, translated at the mid-exchange rate for USD quoted by the National Bank of Poland for April 21st 2011).

LOTOS Petrobaltic S.A. currently holds 100% of shares in Miliana Shipping Company Ltd.

Incorporation of new subsidiaries by Miliana Shipping Company Ltd.

In connection with the restructuring of the sea shipping business within the LOTOS Petrobaltic Group, on July 22nd 2011 Miliana Shipping Company Ltd. established two subsidiaries registered in the Republic of Cyprus: Miliana Shipmanagement Ltd. and Miliana Shipping Group Ltd. Miliana Shipping Company Ltd. is the sole shareholder in both undertakings.

On September 13th 2011, LOTOS Petrobaltic S.A. received a formal confirmation that on July 28th 2011 Miliana Shipping Company Ltd. assumed control over four companies, i.e. Granit Navigation Company Limited, Kambr Navigation Company Limited, Petro Icarus Company Limited and St. Barbara Navigation Company Limited, and another two companies, i.e. Bazalt Navigation Company Limited and Petro Aphrodite Company Limited on July 29th 2011.

Increase of the share capital of Miliana Shipping Company Ltd.

On October 12th 2011, the General Meeting of Miliana Shipping Company Ltd. adopted a resolution to increase the share capital of Miliana Shipping Company Ltd. by 9,000 shares with a par value of EUR 1.71 per share and to allocate these shares to LOTOS Petrobaltic S.A. in return for a non-cash contribution in the form of Granit and Bazalt ships. The share capital increase at Miliana Shipping Company Ltd. and the transfer of the ships took place on November 1st 2011.

Increase of the share capital of shipping companies. Transfer of ships to shipping companies

Miliana Shipping Company increased the share capital of:

- Petro Icarus Company Ltd.
- Kambr Navigation Company Ltd.
- St. Barbara Navigation Company Ltd.
- Granit Navigation Company Ltd.
- Bazalt Navigation Company Ltd.

by acquiring new shares in these companies in exchange for the contribution of MV Icarus III, MV Kambr, MV ST. Barbara, MV Granit, and MV Bazalt ships.

In October and November 2011, the ships were transferred to the following entities: Kambr Navigation Company Ltd., Petro Icarus Company Ltd., Petro Aphrodite Company Ltd., St. Barbara Navigation Company Ltd., Bazalt Navigation Company Ltd. and Granit Navigation Company Ltd. The total value of the transferred ships was determined at about EUR 17,027 thousand.

Increase of the share capital of Miliana Shipping Group Ltd.

On December 13th 2011, the share capital of Miliana Shipping Group Ltd. was increased by 1,000 shares with a par value of EUR 1 per share. The new shares were acquired by Miliana Shipping Company Ltd. in exchange for a non-cash contribution in the form of shares in the following companies:

- Petro Icarus Company Ltd.
- Kambr Navigation Company Ltd.
- Petro Aphrodite Company Ltd.
- St. Barbara Navigation Company Ltd.
- Granit Navigation Company Ltd.
- Bazalt Navigation Company Ltd.

On December 12th and 13th 2011, Cypriot certificates were issued confirming transfer of shares in the six companies from Miliana Shipping Company Ltd. to Miliana Shipping Group Ltd., which marked completion the process aimed at forming the target capital structure for the sea shipping business of the LOTOS Petrobaltic Group.

On January 23rd 2012 a name change from Miliana Shipping Company Limited to Miliana Shipholding Company Limited was registered.

These developments had no effect on the data disclosed in the consolidated financial statements.

This is a translation of a document originally issued in Polish.