

PLN '000	Dec 31 2009	Dec 31 2008
Carrying value of consolidation goodwill:		
- LOTOS Partner Sp. z o.o.	1,862	1,862
- LOTOS Gaz S.A. ⁽¹⁾	10,009	10,009
- Energobaltic Sp. z o.o. ⁽²⁾	1,126	-
- KRAK-GAZ Sp. z o.o. w upadłości likwidacyjnej (in bankruptcy by liquidation) ⁽³⁾	-	-
Total	12,997	11,871
Carrying value of acquisition goodwill ⁽⁴⁾ :		
- purchase of ESSO service stations network	31,759	31,759
- purchase of Slovnaft Polska service stations network	1,932	1,932
Total	33,691	33,691
Total goodwill	46,688	45,562

⁽¹⁾ Formerly LOTOS Mazowsze S.A. The goodwill relates to an organized part of LOTOS Gaz S.A.'s business (wholesale of fuels) acquired by LOTOS Paliwa Sp. z o.o.

⁽²⁾ Acquisition of Shares in Energobaltic Sp. z o.o. by Petrobaltic S.A. (currently LOTOS Petrobaltic S.A.)

On October 29th 2009, the Extraordinary General Shareholders Meeting of Energobaltic Sp. z o.o. adopted a resolution to increase Energobaltic Sp. z o.o.'s share capital in accordance with the Arrangement with the Creditors of Energobaltic Sp. z o.o., which was approved by the Court. The key provisions of the Arrangement with the Creditors are as follows:

1. Bank Ochrony Środowiska S.A. will grant a grace period whereby the beginning of repayment of the principal amounts of all the loans will be postponed until June 30th 2014,
2. The loans granted by the shareholders (Petrobaltic S.A. and Stablewood Power Ventures (Wladyslawowo) Ltd.) will be converted into shares in Energobaltic Sp. z o.o.,
3. Petrobaltic S.A. will submit declarations to the effect that:
 - a. gas deliveries from the [B8 field](#) will commence on January 1st 2014,
 - b. the agreement with Energobaltic Sp. z o.o. will be extended by 7 years, that is until 2025,
 - c. the gas delivery price and the current pricing formula will remain unchanged for the period by which the agreement is to be extended,
4. Petrobaltic S.A. will also agree to provide a security deposit of EUR 500 thousand (in the złoty) to secure the repayment of interest by Energobaltic Sp. z o.o. to Bank Ochrony Środowiska S.A., until June 30th 2014.

Energobaltic Sp. z o.o. Recovery Proceedings

On March 13th 2009, the Management Board of Energobaltic Sp. z o.o. filed a declaration of instituting recovery proceedings with the District Court for Gdańsk. On March 30th 2009, following examination of the case of Energobaltic Sp. z o.o.'s declaration, the District Court for Gdańsk, VI Commercial Division, appointed (under Art. 497.1 of the Act on Bankruptcy and Recovery of February 28th 2003) a court supervisor for Energobaltic Sp. z o.o. recovery proceedings. As part of the proceedings, an Arrangement was entered into by Energobaltic Sp. z o.o. and Bank Ochrony Środowiska S.A., Petrobaltic S.A. and Stablewood Power Ventures (Wladyslawowo) Ltd. on June 29th 2009.

The Arrangement entered into by Energobaltic Sp. z o.o. and the creditors as part of the recovery proceedings instituted at the request of Energobaltic Sp. z o.o. was approved by the District Court in Gdańsk, VI Commercial Division, after a hearing held on September 1st 2009. The court's decision regarding approval of the Arrangement became final on September 9th 2009.

Following the creation of the new shares, Petrobaltic S.A. acquired 1,985 new shares, while Stablewood Power Ventures (Wladyslawowo) Ltd. acquired 1,769 shares; the par value of the shares acquired by both companies was PLN 8,100 per share. Petrobaltic S.A.'s stake increased from 46.61% to 50.92%. Amendments to the Articles of Association of Energobaltic Sp. z o.o. were registered by the District Court of Gdańsk, VII Commercial Division of the National Court Register, on November 9th 2009.

On October 28th 2009, Petrobaltic S.A., Stablewood Power Ventures (Wladyslawowo) Ltd. and Stablewood Power Ventures Ltd. executed a preliminary agreement concerning for the acquisition of the remaining 49.08% stake in Energobaltic Sp. z o.o. by Petrobaltic S.A. In

performance of the preliminary agreement, on November 27th 2009 Petrobaltic S.A. acquired from Stablewood Power Ventures (Wladyslawowo) Ltd. and from Stablewood Power Ventures Ltd. respectively 2,512 shares (representing 45.18% of the share capital) and 217 shares (3.90% of the share capital) in Energobaltic Sp. z o.o., as a result of which Petrobaltic S.A. came to hold 100% of the shares in Energobaltic Sp. z o.o. Amendments to the Articles of Association of Energobaltic Sp. z o.o. were registered by the District Court of Gdańsk, VII Commercial Division of the National Court Register, on January 25th 2010.

The above transaction was accounted for and presented in these consolidated financial statements as a business combination achieved in stages within the meaning of the revised IFRS 3 *Business Combinations*, based on the fair values of identifiable assets acquired and liabilities assumed.

Below are presented the fair values of identifiable assets acquired and liabilities assumed, as well as the initial accounting for the goodwill as at the acquisition date, that is November 27th 2009:

(PLN '000)	November 27th 2009
Consideration transferred (acquisition-date fair value) (A)	34,179
Acquisition-date fair value of the acquirer's previously held equity interest in the acquiree (B)	35,456
Total (A+B)	69,635
Equity interest in the acquiree	100.00%
Current assets, including:	8,164
Cash and cash equivalents	4,561
Non-current assets	130,620
Total assets	138,784
Provisions	10,303
Non-current liabilities	45,660

Current liabilities, and accruals and deferred income	14,312
Total liabilities and provisions	70,275
Net assets	68,509
Company's share in net assets	68,509

Excess of the share in net assets over acquisition cost (goodwill) 1,126

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, if any, in the statement of comprehensive income. The remeasurement of Petrobaltic S.A.'s previously held equity interest in Energobaltic Sp. z o.o. at its acquisition-date fair value was posted to finance income in the amount of PLN 12,525 thousand.

Determination of the fair value of the consideration transferred had to take into account the valuation of the liabilities and receivables taken over by Petrobaltic S.A. as part of the business combination, of PLN 321 thousand.

By December 31st 2009, Petrobaltic S.A. had discharged its liabilities connected with the acquisition of shares, amounting to PLN 3,035 thousand. After deducting the cash acquired in the business combination, of PLN 4,561 thousand, the acquisition value of Energobaltic Sp. z o.o. as shown in the consolidated statement of cash flows amounted to PLN (1,526) thousand.

As at the balance-sheet date, that is December 31st 2009, Petrobaltic S.A.'s liability under the acquisition of shares in Energobaltic Sp. z o.o. from Stablewood Power Ventures (Wladyslawowo) Ltd. amounted to PLN 30,011 thousand.

⁽³⁾ Impairment Loss on Goodwill from the Acquisition of KRAK-GAZ Sp. z o.o. (from July 23rd 2009 KRAK-GAZ Sp. z o.o. w upadłości likwidacyjnej (in bankruptcy by liquidation))

As at December 31st 2008, following the events which are discussed below, the Group recognised an impairment loss in the total amount of PLN 12,645 thousand on the goodwill which arose on the acquisition of KRAK-GAZ Sp. z o.o. by LOTOS Gaz S.A. on July 9th 2007.

On June 20th 2008, the Tax Supervision Authority in Kraków issued a post-inspection report as part of the proceedings instituted on November 21st 2006 (i.e. prior to the purchase of shares in KRAK-GAZ Sp. z o.o. by LOTOS Gaz S.A.) in order to review the correctness of settlement of excise duty for the years 2003–2004 by KRAK-GAZ Sp. z o.o. In the course of the proceedings, it was established that

KRAK–GAZ Sp. z o.o. failed to pay the excise duty due in the total amount of PLN 7,545 thousand plus interest (the figure as at June 30th 2008).

On October 31st 2008, the Director of Tax Supervision Authority in Kraków issued a decision whereby the excise duty liability for the years 2003–2004 was established at PLN 16,408 thousand. On November 25th 2008, KRAK–GAZ Sp. z o.o. appealed against that administrative decision. The appeal has not yet been considered by the appellate body. With the letter of February 6th 2009, the Director of the Customs Chamber in Kraków notified KRAK–GAZ Sp. z o.o. that there was a delay in processing the appeal, and set March 31st 2009 as the new deadline for considering it.

On November 26th 2008, the Director of the Customs Chamber initiated enforcement proceedings against KRAK–GAZ Sp. z o.o. by issuing enforcement orders covering the amount specified in the decision issued by the Director of Tax Supervision Authority. On December 8th 2008, KRAK–GAZ Sp. z o.o. appealed against the decision to initiate enforcement proceedings. In accordance with the letter of December 17th 2008, the Director of the Customs Chamber decided to allow the appeal concerning errors in calculating the amount of excise duty arrears and to discontinue the proceedings.

On December 19th 2008, the company received another final decision and enforcement orders from the Customs Chamber, for the revised amounts of excise duty arrears and interest. The excise duty due for 2003-2004 was established at PLN 8,309 thousand, including interest and costs of enforcement proceedings.

On December 29th 2008, KRAK–GAZ Sp. z o.o. submitted objections against the aforementioned enforcement orders, citing, *inter alia*, incorrect identification of the creditor. By virtue of a decision of January 19th 2009, the Director of the Customs Chamber in Kraków dismissed the objections as groundless. On January 27th 2009, KRAK–GAZ Sp. z o.o. filed a complaint against the decision of January 19th 2009 directly with the Head of the Kraków Tax Chamber, who by virtue of his decision of March 9th 2009 upheld the Customs Chamber Director's decision of January 19th 2009. Through the Director of the Customs Chamber, KRAK–GAZ Sp. z o.o. lodged an appeal against the decision, in a letter dated April 6th 2009, with the Provincial Administrative Court of Kraków.

Furthermore, KRAK-GAZ Sp. z o.o. submitted with the Director of Tax Supervision Authority in Kraków a request to stay execution of the decisions and, if this request were not to be granted, a request to allow payment of the tax arrears in instalments. By virtue of a decision of February 24th 2009, the Director of the Customs Chamber in Kraków dismissed the request to stay the execution of the decisions. KRAK-GAZ Sp. z o.o. lodged a complaint against the dismissal on March 9th 2009, seeking reversal of the decision of February 24th 2009 and stay of execution of the decision issued by the Director of Tax Supervision Authority on October 31st 2008.

Concurrently, KRAK-GAZ Sp. z o.o. filed an appeal against the decision by the Director of the Customs Office in Kraków of October 31st 2008, establishing the amount of excise duty liability for the years 2003–2004. By virtue of his decisions of May 6th 2009, the Director of the Customs Chamber in Kraków upheld the decisions issued by the Director of the Customs Office. On June 8th 2009, KRAK-GAZ Sp. z o.o. filed complaints with the Provincial Administrative Court against the decisions of the second instance authority. These complaints have not yet been considered.

On July 20th 2009, the Director of the Customs Chamber in Kraków submitted to the Provincial Administrative Court responses to the 16 complaints by KRAK-GAZ Sp. z o.o. against the decisions of May 6th 2009.

On April 30th 2009, KRAK-GAZ Sp. z o.o. filed a petition requesting a declaration of its bankruptcy by liquidation of assets. On July 23rd 2009, District Court for Kraków-Śródmieście in Kraków declared KRAK-GAZ Sp. z o.o. bankrupt. As at the date of approval of these consolidated financial statements, the bankruptcy proceedings are pending.

Taking into consideration the decision issued by the Director of Tax Supervision Authority in Kraków and the contents of the post-inspection report prepared by the Tax Supervision Authority in Kraków on June 20th 2008, the Management Board of LOTOS Gaz S.A. made two representations (on July 11th 2008 and December 9th 2008) towards the sellers of shares in KRAK-Gaz Sp. z o.o. regarding the reduction of the purchase price of shares in KRAK-GAZ Sp. z o.o. by a total amount of PLN 16,368 thousand. Accordingly, the sellers' claim for the last payment of the Purchase Price in the amount of PLN 1,500 thousand expired.

On July 28th 2008, the Management Board of LOTOS Gaz S.A. called upon the former owners of shares in KRAK-GAZ Sp. z o.o. to enter into mandatory negotiations, in line with the provisions of the share purchase agreement.

On December 15th 2008, the Management Board of LOTOS Gaz S.A. instigated arbitration proceedings against the sellers of shares in KRAK-Gaz Sp. z o.o. On April 14th 2010 the Arbitration Court issued its award in the case instituted by LOTOS Gaz S.A. against the sellers of the company shares and in the cross action for payment instituted by the sellers. The court awarded (i) to LOTOS Gaz S.A.: PLN 4,155 thousand along with interest from December 19th 2008 until the payment date, to be paid jointly and severally by the defendants, and (ii) to the sellers, based on the cross action: PLN 1,682 thousand along with interest from July 5th 2009 until the payment date, to be paid by LOTOS Gaz S.A. Furthermore, as reimbursement of the costs of proceedings, the court awarded PLN 209 thousand to LOTOS Gaz S.A. to be paid by the sellers, and PLN 98 thousand to the sellers to be paid by LOTOS Gaz. S.A. Any other mutual claims for reimbursement of costs/expenses between the parties were cancelled by the court. LOTOS Gaz. S.A. intends to file a complaint seeking reversal of the Arbitration Court's award.

LOTOS Gaz S.A. additionally obtained a decision from the Regional Court in Kraków, dated November 17th 2008, establishing a claim bond to secure LOTOS Gaz S.A.'s claims against the sellers of the shares up to the amount of PLN 5,975 thousand (the enforcement clause was appended on January 20th 2009). On February 2nd 2009, the sellers petitioned for cancellation of the claim bond. In its decision of April 23rd 2009, the Regional Court in Kraków declared cancellation of the claim bond. Next, following a complaint filed by LOTOS Gaz S.A., by virtue of its decision of June 15th 2009, the Kraków Court of Appeals changed the decision appealed against in such a manner that the sellers' petition for cancellation of the claim bond was dismissed. On the basis of the final decision granting the claim bond, LOTOS Gaz S.A. instigated enforcement proceedings concerning the claim bond before the court enforcement officer of the District Court for Gdańsk-Północ in Gdańsk. As at the date of approval of these consolidated financial statements the proceedings are pending, but have so far been ineffective i.e. no sellers' property has been seized.

On December 10th 2008, a notification of suspected offence against KRAK-GAZ Sp. z o.o. was submitted with the Regional Prosecutor's Office of Kraków Podgórze in Kraków, alleging an offence consisting in failure to fulfil professional duties by former members of the company's Management Board.

On January 29th 2009, two former members of KRAK-GAZ Sp. z o.o.'s Management Board received calls for payment of PLN 801 thousand as remedy for the damage done to the company.

As at the date of approval of these consolidated financial statements, the cases concerning the former members of KRAK-GAZ Sp. z o.o.'s Management Board were pending.

In May 2009, LOTOS Gaz S.A. filed a notification of suspected offence of fraud to the detriment of LOTOS Gaz S.A. by the sellers of KRAK-GAZ Sp. z o.o. An investigation was launched by the prosecutor's office and is still under way. In February 2010, the proceedings were extended to investigate the issue of exercise of due diligence by the persons who participated in the KRAK-GAZ Sp. z o.o. acquisition process on the part of LOTOS.

Loss of Control over KRAK-GAZ Sp. z o.o. (Subsidiary of LOTOS Gaz S.A.)

On April 30th 2009, KRAK-GAZ Sp. z o.o. filed a bankruptcy petition with the District Court for Kraków Śródmieście, VIII Commercial Division for Bankruptcy and Recovery.

On July 1st 2009, a provisional court supervisor was appointed. On July 13th 2009, the supervisor submitted a report containing an analysis of

the debtor's documentation and condition of its business.

On July 23rd 2009, the District Court for Kraków Śródmieście, VIII Commercial Division for Bankruptcy and Recovery, resolved to declare bankruptcy by way of liquidation of assets of KRAK-GAZ Sp. z o.o. (KRAK-GAZ Sp. z o.o. w upadłości likwidacyjnej (in bankruptcy by liquidation)).

On July 1st 2009, as a result of the provisional appointment of a court supervisor, LOTOS Gaz S.A. lost control over its subsidiary KRAK-GAZ Sp. z o.o. within the meaning of the revised IAS 27 *Consolidated and Separate Financial Statements*. Consequently, KRAK-GAZ Sp. z o.o. was not consolidated in these consolidated financial statements of the LOTOS Group for the year ended December 31st 2009 and as at December 31st 2009.

Accounting for the Loss of Control over KRAK-GAZ Sp. z o.o.

(PLN '000)	December 31st 2009
Net assets of KRAK-GAZ Sp. z o.o. as at the date of control takeover ⁽¹⁾	4,684
Change in net assets of KRAK-GAZ Sp. z o.o. from the date of control takeover to the date of loss of control	(35,239)
Net assets of KRAK-GAZ Sp. z o.o. as at the date of loss of control	(30,555)
Fair value of KRAK-GAZ Sp. z o.o. shares	0
Impact of the loss of control over KRAK-GAZ Sp. z o.o. on the consolidated financial result of the LOTOS Group	30,555

⁽¹⁾ The company was consolidated with the full method from July 7th 2007.

By December 31st 2009, LOTOS Gaz S.A. recognised an impairment charge for the full value of KRAK-GAZ Sp. z o.o. shares (PLN 17,329 thousand). Moreover, in 2008 an impairment charge was made for the goodwill of PLN 12,645 thousand which had arisen after taking over control of KRAK-GAZ Sp. z o.o. on July 7th 2007. Until the date of loss of control, other operating expenses of the LOTOS Gaz Group included an impairment charge for receivables from KRAK-GAZ Sp. z o.o., in the amount of PLN 21,243 thousand (previously, the impairment charge had been subject to intra-Group eliminations). The net profit of KRAK-GAZ Sp. z o.o. by the date of the loss of control, accounted for in

this consolidated statement of comprehensive income, amounts to PLN (16,423) thousand.

⁽⁴⁾ Goodwill Arising on Acquisition of an Organised Part of Business from ExxonMobil Poland and Slovnaft Polska

As at December 31st 2009 and December 31st 2008, the Group disclosed goodwill from the acquisition of an organised part of business from ExxonMobil Poland and Slovnaft Polska, with a net value of PLN 31,759 thousand and PLN 1,932 thousand, respectively.

As at December 31st 2009 and December 31st 2008, the Group tested its assets for impairment. As at December 31st 2009 and December 31st 2008, no additional impairment loss on goodwill was recognised.

This is a translation of a document originally issued in Polish