

16. Equity-accounted joint ventures

The Group holds interests in equity-accounted joint ventures, which include:

- Joint venture agreement between Grupa LOTOS S.A. and BP Europe SE on joint operations related to supply of aviation fuel through **LOTOS - Air BP Polska Sp. z o.o.**
- Agreement on cooperation between LOTOS Petrobaltic S.A. and CalEnergy Resources Poland Sp. z o.o. with respect to development and production of gas and condensate reserves from the B-4 and B-6 fields in the Baltic Sea, performed through special purpose vehicles **Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k. and Baltic Gas Sp. z o.o.** (general partner).
- Joint venture set up for the purpose of oil exploration and production operations in Lithuania, operated in the form of **UAB Minijos Nafta**.

For key information on equity-accounted joint ventures, see Note 2 <<http://raportroczny.lotos.pl/en/financial-information/consolidated-financial-statements-for-2014/notes-to-the-financial-statements/2.-composition-of-the-group-and-its-changes>> .

	The Group's ownership interest			Carrying amount of (PLN '000)		
	Dec 31 2014	Dec 31 2013	Jan 1 2013	Dec 31 2014	Dec 31 2013	Jan 1 2013
Downstream segment						
LOTOS-Air BP Polska Sp. z o.o.	50.00%	50.00%	-	14,551	14,419	-
Upstream segment (LOTOS Petrobaltic Group)						
Baltic Gas Sp. z o.o.	49.99%	49.99%	-	12	7	-
Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k. ⁽¹⁾	62.40%	81.68%	-	51,433	51,796	-
UAB Minijos Nafta	49.99%	49.99%	49.98%	33,603	63,576	85,214
Total				99,599	129,798	85,214

⁽¹⁾ The ownership interests as at December 31st 2014 were determined based on the value of contributions made by individual partners relative to the sum of all contributions:

- Baltic Gas Sp. z o.o. (general partner) 0.001% (December 31st 2013: 0.002%),
- LOTOS Petrobaltic S.A. (limited partner) 62.403% (December 31st 2013: 81.693%),
- CalEnergy Resources Poland Sp. z o.o. ("CalEnergy") (limited partner) 37.596% (December 31st 2013: 18.305%).

The Group's indirect ownership interest in Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp. k. (jointly-controlled entity) is 62.40% (December 31st 2013: 81.68%).

PLN '000	The Group's share in the companies' net profit or loss	
	Year ended Dec 31 2014	Year ended Dec 31 2013
Downstream segment		
LOTOS - Air BP Polska Sp. z o.o.	185	(488)
Upstream segment (LOTOS Petrobaltic Group)		
Baltic Gas Sp. z o.o.	(25)	(15)
Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k. ⁽¹⁾	(711)	(505)
UAB Minijos Nafta	(23,914) (2)	(17,123)
Total	(24,465)	(18,131)

⁽¹⁾ In the partnership agreement, the shares of each of the partners in the profit or loss of Baltic Gas Sp. z o.o. i wspólnicy sp.k. were defined as follows:

- Baltic Gas Sp. z o.o. holds a 0.001% share in profit and a 100% share in loss,
- LOTOS Petrobaltic S.A. holds a 50.9995% share in profit and
- CalEnergy holds a 48.9995% share in profit.

Accordingly, for IFRS purposes, Baltic Gas Sp. z o.o. i wspólnicy sp.k. is an entity jointly controlled by the Group (equity-accounted joint arrangement under IFRS 11; see Note 2 to the consolidated financial statements for 2013).

(2) Including an impairment loss on the interest in UAB Minijos Nafta of PLN 21,983 thousand (LTL 18,118 thousand), see Note 16.1.

16.1 Change in shareholdings in equity-accounted joint ventures

Downstream segment

LOTOS – Air BP Polska Sp. z o.o.

PLN '000	Year ended Dec 31 2014	Year ended Dec 31 2013
At beginning the period	14,419	-
Acquisition price	-	14,907
Share in net profit/(loss)	185	(488)
Share in other comprehensive income/(losses), net (actuarial losses on post-employment benefits)	(30)	-
Share in losses on intra-Group transactions	(23)	-
At end of the period	14,551	14,419

Upstream segment (LOTOS Petrobaltic Group)

Baltic Gas Sp. z o.o.

PLN '000	Year ended Dec 31 2014	Year ended Dec 31 2013
At beginning the period	7	-
Consolidation	-	5
Share capital increase	30	20
Sale of shares	-	(3)
Share in net loss	(25)	(15)
At end of the period	12	7

On April 10th 2014, the share capital of Baltic Gas Sp. z o.o. was increased from PLN 45 thousand to PLN 105 thousand, i.e. by PLN 60 thousand, through the issue of 1,200 new shares with a par value of PLN 50 per share. All new shares were paid for in cash and acquired by the company's existing shareholders, i.e. LOTOS Petrobaltic S.A. and CalEnergy. LOTOS Petrobaltic S.A. acquired 600 shares with a total par value of PLN 30 thousand. The expenditure of PLN 30 thousand, representing the cash contribution made by LOTOS Petrobaltic S.A., has been disclosed in the consolidated statement of cash flows from investing activities under *Cash contributions – equity-accounted joint ventures*. The share capital increase was registered on May 27th 2014.

Baltic Gas Sp. z o.o. i wspólnicy sp.k.

PLN '000	Note	Year ended Dec 31 2014	Year ended Dec 31 2013
At beginning the period		51,796	-
Consolidation		-	5
Contributions made:		-	52,296
- contribution of assets for the development of B-4 and B-6 fields		-	51,700
- cash contribution		-	428
- unpaid contribution		-	168
Share capital increase	2	348	-
Share in net loss		(711)	(505)
At end of the period		51,433	51,796

In 2014, the expenditure on cash contributions made to Baltic Gas Spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k. totalled PLN 309 thousand, of which PLN 168 thousand was attributable to contributions made in 2013. The expenditure on these cash contributions was presented in the statement of cash flows from investing activities under *Cash contributions – equity-accounted joint ventures*. As at December 31st 2014, the Group recognised PLN 207 thousand in liabilities under an increase in the contributions in 2014.

UAB Minijos Nafta

	Year ended	Year ended
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PLN '000	Dec 31 2014	Dec 31 2013 (restated)
At beginning the period	63,576	85,214
Dividends paid	(7,280)	(6,098)
Share in net loss:	(23,914)	(17,123)
- share in net loss of joint venture	(1,931)	(17,123)
- impairment loss on interests held in joint venture	(21,983)	-
Exchange differences on translating foreign operations	1,221	1,583
At end of the period	33,603	63,576

The interest held in UAB Minijos Nafta (the AB LOTOS Geonafta Group) were tested for impairment as at December 31st 2014. The Group determined the recoverable amount of the tested assets as their value in use measured using the discounted future cash flows method.

The key assumptions underlying computation of the recoverable amount of the tested assets are consistent with the assumptions used to compute the recoverable amount of the Lithuanian production licences held by companies of the AB LOTOS Geonafta Group (AB LOTOS Geonafta (Girkaliai, Kretinga and Nausodis fields), UAB Manifoldas (Vėžaičiai, Ližiai and Ablinga fields)) tested for impairment as at December 31st 2014, see Note 15.1.2.

Following the impairment tests, the Group recognised an impairment loss on the interest held in UAB Minijos Nafta for a total amount of PLN 21,983 thousand (LTL 18,118 thousand). The impairment loss on the interest held in UAB Minijos Nafta was disclosed in the consolidated statement of comprehensive income under *Share in net profit/loss of equity-accounted joint ventures*.

16.2 Condensed financial information on equity-accounted joint ventures

Statement of comprehensive income

PLN '000	LOTOS – Air BP Polska Sp. z o.o.	Baltic Gas Sp. z o.o.	Baltic Gas Sp. z o.o. i wspólnicy sp.k.	UAB Minijos Nafta
	Year ended Dec 31 2014			
Revenue	478,279	-	-	57,212
Cost of sales	(457,504)	-	(626)	(47,228)
Gross profit/(loss)	20,775	-	(626)	9,984
Distribution costs	(15,849)	-	-	(1,088)
Administrative expenses	(4,347)	(50)	(615)	(14,488)
Net other income/(expenses)	56	-	(123)	(148)
Operating profit/(loss)	635	(50)	(1,364)	(5,740)
Net finance income/(costs)	(137)	-	(58)	289
Pre-tax profit/(loss)	498	(50)	(1,422)	(5,451)
Income tax expense	(129)	-	-	1,076
Net profit/(loss)	369	(50)	(1,422)	(4,375)
<i>Amortisation and depreciation</i>	(779)	-	(626)	(10,900)

Statement of comprehensive income

PLN '000	LOTOS – Air BP Polska Sp. z o.o.	Baltic Gas Sp. z o.o.	Baltic Gas Sp. z o.o. i wspólnicy sp.k.	UAB Minijos Nafta
	year ended Dec 31 2013			
Revenue	19,478	-	-	76,354
Cost of sales	(19,103)	-	(530)	(68,810)
Gross profit/(loss)	375	-	(530)	7,544
Distribution costs	(1,108)	-	-	(1,120)
Administrative expenses	(388)	(30)	(479)	(9,614)
Net other income/(expenses)	(3)	-	-	(37,022)
Operating loss	(1,124)	(30)	(1,009)	(40,212)
Net finance income/(costs)	(36)	-	-	(640)

Pre-tax loss	(1,160)	(30)	(1,009)	(40,852)
Income tax expense	184	-	-	6,606
Net loss	(976)	(30)	(1,009)	(34,246)
<i>Amortisation and depreciation</i>	<i>(126)</i>	<i>-</i>	<i>(530)</i>	<i>(27,170)</i>

Statement of financial position

PLN '000	Note	LOTOS – Air BP Polska Sp. z o.o.	Baltic Gas Sp. z o.o.	Baltic Gas Sp. z o.o. i wspólnicy sp.k.	UAB Minijos Nafta
		Dec 31 2014			
Non-current assets		11,598	1	97,869	122,455
Current assets, including:		37,046	25	7,596	13,401
<i>Cash and cash equivalents</i>		<i>6,220</i>	<i>9</i>	<i>3,375</i>	<i>2,791</i>
Total assets		48,644	26	105,465	135,856
Non-current liabilities		5,081	-	-	18,031
Current liabilities		27,888	2	23,859	5,889
Total liabilities		32,969	2	23,859	23,920
Net assets		15,675	24	81,606	111,936
		50%	49.99%	*	49.99%
Share of net assets		7,838	12	51,433	55,968
Impairment loss on shares		-	-	-	(22,365)
Fair value measurement		6,736 (1)	-	-	-
Elimination of intra-Group transactions		(23)	-	-	-
Interest in joint ventures	16	14,551	12	51,433	33,603

Statement of financial position

PLN '000	Note	LOTOS – Air BP Polska Sp. z o.o.	Baltic Gas Sp. z o.o.	Baltic Gas Sp. z o.o. i wspólnicy sp.k.	UAB Minijos Nafta
		Dec 31 2013			
Non-current assets		12,013	1	67,750	127,458
Current assets, including:		27,213	15	3,032	29,420
<i>Cash and cash equivalents</i>		<i>4,327</i>	<i>10</i>	<i>740</i>	<i>15,694</i>
Total assets		39,226	16	70,782	156,878
Non-current liabilities		5,186	-	-	23,282
Current liabilities		18,675	2	7,975	6,444
Total liabilities		23,861	2	7,975	29,726
Net assets		15,365	14	62,807	127,152
		50%	49.99%	*	49.99%
Share of net assets		7,683	7	51,796	63,576
Fair value measurement		6,736 (1)	-	-	-
Interest in joint ventures	16	14,419	7	51,796	63,576

* For IFRS purposes, Baltic Gas Sp. z o.o. i wspólnicy sp.k is an entity jointly controlled by the Group (equity-accounted joint arrangement under IFRS 11); see Note 16 <<http://raportroczny.lotus.pl/en/financial-information/consolidated-financial-statements-for-2014/notes-to-the-financial-statements/16.-equity-accounted-joint-ventures>> above.

(1) PLN 6,736 thousand gain on fair value measurement of a retained interest in a previously controlled entity as at the date of loss of control (see Note 2 to consolidated financial statements for 2013).

For information on transactions with joint ventures in which the Group holds interests, see Note 36.1.

The Notes to the consolidated financial statements are an integral part of the statements.
(This is a translation of a document originally issued in Polish)