



Petrolinvest

**REPORT ON COMPLIANCE WITH
CORPORATE GOVERNANCE RULES - 2007**

PETROLINVEST
Spółka Akcyjna

PART I

LIST OF CORPORATE GOVERNANCE RULES WHICH WERE NOT COMPLIED WITH BY THE COMPANY, STATING THE CIRCUMSTANCES AND REASONS FOR NOT COMPLYING WITH A GIVEN RULE AND THE MANNER IN WHICH THE COMPANY INTENDS TO REMOVE THE POSSIBLE CONSEQUENCES OF NON-COMPLIANCE OR WHAT STEPS IT INTENDS TO TAKE TO MITIGATE THE RISK OF NON-COMPLIANCE WITH THE GIVEN RULE IN THE FUTURE

The Management Board of PETROLINVEST S.A. (the “**Company**”) attaches great importance to applying Corporate Governance rules—understood as a set of rules of conduct necessary to maintain proper relations among the interests of all entities and natural persons engaged in the Company’s business—in Company management. The Management Board of PETROLINVEST S.A. shares the ideas and assumptions behind the individual corporate governance rules. The rules are to a large extent an exemplary code of conduct and ethical standards and an embodiment of good practice.

In 2007, the Company complied with the corporate governance rules set out in “Best Practices in Public Companies 2005” (“**Best Practices 2005**”) as provided in the Company’s statement published in current report no. 4/2007 of 2 July 2007. Detailed information regarding the scope of observance of the rules, reasons for any non-compliance and steps taken to remove the consequences of non-compliance with Corporate Governance rules was provided in the current report referred to above. All rules, with respect to which the Company declared readiness to comply, were complied with in 2007.

The Company did not comply with the following rules.

- 1) General Rule no. II of Best Practices 2005
- 2) Rule no. 2 chapter Best Practices of General Meetings
- 3) Rule no. 6 chapter Best Practices of General Meetings
- 4) Rule no. 7 chapter Best Practices of General Meetings
- 5) Rule no. 9 chapter Best Practices of General Meetings
- 6) Rule no. 10 chapter Best Practices of General Meetings
- 7) Rule no. 20 chapter Best Practices of Supervisory Boards
- 8) Rule no. 24 chapter Best Practices of Supervisory Boards
- 9) Rule no. 28 chapter Best Practices of Supervisory Boards
- 10) Rule no. 43 chapter Best Practices in Relations with Third Persons and Third Party Institutions

The Company Management Board would like to reiterate that departing from the model and/or voicing certain reservations with respect to some of the rules does not adversely impact the clarity of supervision and management principles of PETROLINVEST S.A. nor does it adversely affect the implementation of best practices, and so it does not lead to any infringement of the assumptions underlying corporate governance. The Management Board of PETROLINVEST S.A. will continue to assess the management and supervision principles implemented in the Company on an ongoing basis and will also analyse investors’ expectations regarding the Company’s perspective on the best practices not complied with, and if any alteration is required and possible, a decision will be made to adopt such best practices as proposed by the Warsaw Stock Exchange (*Giełda Papierów Wartościowych w Warszawie S.A.*). If compliance with any such rules requires a decision of another Company body, the Management Board will apply to it to make an appropriate decision.

PART II

DESCRIPTION OF THE MANNER IN WHICH THE GENERAL MEETING OPERATES AND ITS PRINCIPAL POWERS AND RIGHTS OF SHAREHOLDERS, AND THE MANNER OF PERFORMING THEREOF

The General Shareholders’ Meeting is the Company’s highest authority. The General Shareholders’ Meeting operates in accordance with generally binding laws and regulations, including in particular the Commercial Companies Code and the Statutes of the Company. The Statutes are available on the Company’s website. The GSM is convened by way of an announcement in the official court journal *Monitor Sądowy i Gospodarczy*.

In accordance with the Statutes, resolutions of the General Shareholders’ Meeting shall be adopted by an absolute majority of validly cast votes, unless the Statute or the applicable laws provide for stricter majority rules. Resolutions of the General Shareholders’ Meeting regarding the matters referred to below shall require a qualified majority of three-quarters of votes cast in favour of the resolution:

- 1) redemption of shares in the case referred to in Article 415 § 4 of the Commercial Companies Code;
- 2) acquisition of own shares in the case referred to in Article 362 § 1.2 of the Commercial Companies Code;
- 3) merger of the Company with another company in the case referred to in Article 506 § 2 of the Commercial Companies Code.

Resolutions of the General Shareholders' Meeting concerning the dismissal or suspension of any individual member or all members of the Management Board in compliance with Article 368 § 4 of the Commercial Companies Code by the General Shareholders' Meeting shall require a majority of four-fifths of the votes cast.

The shareholders' voting rights have been restricted in such a way that none of the shareholders may exercise more than 20 (twenty) percent of the overall number of votes at the General Shareholders' Meeting, although it is assumed that the restriction shall not apply for the purposes of determining the obligations of purchasers of large blocks of shares as provided for in the act dated July 29th 2005 on public offering, conditions governing the introduction of financial instruments to organised trading, and public companies ("Act on Public Offering"). The restriction of the voting rights shall not apply to:

- 1) Prokom Investments;
- 2) any shareholders which, on the date of the registration of the Company's transformation in the Register of Business Entities, held shares constituting at least 10% (ten percent) of the share capital;
- 3) any shareholder which, following the admission of shares to regulated trading (acting in its own name and on its own account), acquires and registers at the General Shareholders' Meeting shares constituting at least 85% (eighty-five percent) of the overall number of votes in the Company's share capital, out of which all shares causing such shareholder to exceed the threshold of 10% (ten percent) of the overall number of votes in the Company were acquired by such shareholder:
 - (a) in result of a public tender for the sale of all shares of the Company announced in compliance with the Act on Public Offering, from shareholders not related to such shareholder in any manner described in Article 87, sections 1.2-1.6 of the Act on Public Offering or which do not act in concert with such a shareholder in order to circumvent the restrictions discussed in §25 section 1; or
 - (b) on the primary market (as defined in the Act on Public Offering).

The exercise of voting rights by a dependent company or a subsidiary shall be deemed as the exercise of voting rights by the dominant company or a parent entity, respectively.

The parties related in the manner provided for in Article 87, sections 1.2 – 1.6 of the Act on Public Offerings or otherwise acting in concert for the purposes of circumventing the restrictions provided for in section 1, shall be considered as one shareholder.

The consent of the General Shareholders' Meeting is not required for any acquisition or sale of ownership rights to real estate, long-term public lease rights (i.e. the right of perpetual usufruct) or any share of those rights, regardless of the value of the rights acquired or sold, and the Company's purchase of its own shares for the purposes of redemption, subject to Article 393.6 of the Commercial Companies Code.

PART III

COMPOSITION AND RULES OF PROCEDURE OF MANAGING AND SUPERVISORY BODIES OF THE COMPANY AND THEIR COMMITTEES

SUPERVISORY BOARD

The Supervisory Board provides general supervision over the activities of the Company. The Supervisory Board operates in accordance with the Commercial Companies Code, the Statutes of the Company, and the By-Laws of the Supervisory Board available on the Company's website. The term of office of individual members of the Supervisory Board is three years.

The Supervisory Board consists of five to thirteen members. Members of the Supervisory Board are appointed and dismissed by the General Meeting; however, according to the Statutes, two members of the Supervisory Board (including the chairman and the deputy chairman) are appointed and dismissed by PROKOM INVESTMENTS S.A. and one member of the Supervisory Board is appointed and dismissed by Mr Ryszard Krauze.

As at the date of presentation of this report, the Supervisory Board is composed of: Ryszard Krauze – Chairman, Dariusz Górka – Deputy Chairman, Maciej Grelowski, Grzegorz Maciąg, Zbigniew Szachniewicz, and Krzysztof Wilski.

The Company's Statutes do not regulate the obligation of independence of Supervisory Board members; however, as provided for in the communication regarding the Company's compliance with "Best Practices of WSE Listed Companies" published in current report no. 1/2008 on 2 January 2008, the Company will consider compliance with the rule of independence of at least two members of the Board in the future.

The duties of the Supervisory Board involve ongoing supervision over the activities of the Company in all areas of its operation. Resolutions of the Supervisory Board are required in matters reserved for the Supervisory Board in the Commercial Companies Code and § 20 of the Company's Statutes (Statutes are available at: <http://www.petrolinvest.pl/en/tekst-jednolity-statutu-petrolinvest-spolka-akcyjna.html>[AM1]).

Unless the Statutes provide specified exception, resolutions of the Supervisory Board shall be adopted by an absolute majority of votes cast. Resolutions of the Supervisory Board may be adopted if at least half of the Members are present at

the meeting, including the Chairman or Deputy Chairman. If the vote is tied, the Chairman shall have the casting vote. According to the By-Laws of the Supervisory Board, Board meetings are held at least quarterly. The Chairman also convenes Supervisory Board meetings when requested by the Company's Management Board member or a Supervisory Board Member.

As provided for in the communication regarding the Company's compliance with "Best Practices of WSE Listed Companies" published in current report no. 1/2008 on 2 January 2008, the rule pertaining to the appointment of an audit committee within the Supervisory Board, which committee would consist of at least one independent member, is not complied with due to the current composition of the Supervisory Board. The Company will consider possible adoption of this rule in the future.

MANAGEMENT BOARD

The Management Board is the Company's executive body and manages all aspects of the Company's operations. The Management Board operates in accordance with the Commercial Companies Code, the Statutes of the Company and the By-Laws of the Management Board.

According to the Company's Statutes, the Management Board shall consist of two, or three, or five members; the number of members is determined by Prokom Investments S.A. If the Management Board consists of two or three members, Prokom Investments S.A. shall have a personal right to appoint and dismiss the President of the Management Board, while Ryszard Krauze shall have a personal right to appoint and dismiss the Vice-President of the Management Board. If the Management Board consists of five members, Prokom Investments S.A. shall have a personal right to appoint and dismiss two members of the Management Board, including the President of the Management Board, while Ryszard Krauze shall have a personal right to appoint and dismiss the Vice-President of the Management Board. The other Members of the Management Board, if any, shall be appointed and dismissed by the Supervisory Board.

As at the date of presentation of this report, the Management Board is composed of: Paweł Gricuk - President, Zenon Grablewski – Vice President, and Marcin Balicki. Members of the Management Board are appointed for three year terms of office.

The Management Board manages the Company's affairs and represents the Company vis-à-vis third parties. The Management Board sets forth the Company's development strategy, goals and objectives, and the manner of achieving them, which are subject to approval by the Supervisory Board.

All matters that are not expressly reserved for the General Shareholders' Meeting or the Supervisory Board fall within the powers of the Management Board. The Company's Statutes provide specifically that the Management Board is authorised to increase the Company's share capital through the issuance of new shares through a single or several share capital increases within the limits of authorised capital. The authorisation of the Management Board to increase the share capital and to issue new shares within the scope of the authorised capital shall expire on the third anniversary of the date on which the transformation of the Company into a joint-stock company was entered in the Register of Business Entities.

In accordance with the Company's Statutes, the Management Board shall adopt resolutions by a simple majority of votes, and if the vote is tied, the President of the Management Board shall have the casting vote. The President of the Management Board jointly with another Management Board member or a registered proxy, or the Vice-President of the Management Board jointly with another Management Board member or a registered proxy, shall be authorised to make representations on behalf of the Company.

PART IV

DESCRIPTION OF BASIC FEATURES OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO THE PROCESS OF PREPARING FINANCIAL STATEMENTS

The Company's internal control system guarantees that the Company's operations are secure and that financial information provided in financial statements is both adequate and accurate.

Internal control is exercised by a Team of Financial Controllers who monitor the correctness, efficiency, and security of the process of preparing financial statements and is responsible for identifying and managing risks.

The Management board is responsible for the Company's internal control system and the effectiveness of the system in the process of preparing financial statements.

The Company keeps its books of account using a software system. Access to the database is restricted and requires appropriate authorisation from selected personnel; there is also access control throughout the process of preparing financial statements.

The process of preparing financial statements is based on well-organized co-operation in all aspects of the process, including a well-defined scope of financial reporting and a clear division of duties among the participants of the process.

In the process of preparing the Company's financial statements, one of the key elements of control is the verification of the financial statements by an independent certified auditor. The Company commissions in particular: a review of half-year financial statements and a preliminary and detailed audit of full-year financial statements.

Certified auditors are selected by the Supervisory Board through a bid process, with particular attention being given to the guarantee of high standards of the service and the required independence of the auditor.

Each time, the Management Board acquaints itself with the problems identified in the mechanisms of the control process. All post-audit recommendations from the auditor and comments from the Company's internal units which arose during the audit of financial statements are gradually implemented.

Paweł Gricuk
President

Zenon Grablewski
Vice President

Marcin Balicki
Management Board Member

Gdynia, 7 April 2008