



Petrolinvest

**PETROLINVEST
Spółka Akcyjna**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008
WITH INDEPENDENT AUDITOR'S OPINION**

APPROVAL OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

The Management Board of Petrolinvest S.A. has approved the financial statements of Petrolinvest Spółka Akcyjna (a joint stock company) for the year ended 31 December 2008 for publication.

The income statement, balance sheet, cash flow statement, statement of changes in equity, accounting policies and notes to the financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") approved by the EU.

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from 1 January 2008 to 31 December 2008	with a net loss amounting to (236 015) PLN thousand
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31 December 2008	with total assets and liabilities amounting to 1 050 265 PLN thousand
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from 1 January 2008 to 31 December 2008	with a net cash outflow amounting to (29 493) PLN thousand
4. Consolidated Statement of Changes in Equity for the period:	7
from 1 January 2008 to 31 December 2008	with an increase in equity amounting to 32 573 PLN thousand
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The financial statements were prepared in thousands of Polish zloty unless otherwise explicitly stated.

Paweł Gricuk
President

Marcin Balicki
Vice President

Agnieszka Pochowska
Chief Accountant

Gdynia, 30 April 2009

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PETROLINVEST Spółka Akcyjna
 Financial statements for the year ended 31 December 2008
 (in PLN thousands)

INCOME STATEMENT

	<i>note</i>	<i>for 12 months</i>	
		<i>ended 31 December</i>	
		<i>2008</i>	<i>2007</i>
		<i>PLN '000</i>	<i>PLN '000</i>
Continuing operations			
Sale of goods		255 000	221 014
Rendering of services		261	297
Revenue		255 261	221 311
Value of goods and materials sold		235 603	192 655
Materials and energy		3 289	3 419
Employee benefits	<i>14.1</i>	25 708	11 566
Depreciation and amortisation		2 370	2 058
External services	<i>14.2</i>	16 426	20 512
Taxes and charges		861	791
Other expenses		3 421	2 260
Operating expenses		287 678	233 261
Gross profit/ (loss)		(32 417)	(11 950)
Other operating income	<i>14.3</i>	1 382	1 636
Other operating expenses	<i>14.4</i>	32 076	243
Finance income	<i>14.5</i>	49 620	27 771
Finance costs	<i>14.6</i>	25 810	30 963
Impairment of Oil&Gas investments	<i>14.7</i>	200 250	0
Profit/ (loss) before tax		(239 551)	(13 749)
Income tax expense	<i>15</i>	(3 536)	3 278
Net profit/ (loss) from continuing operations		(236 015)	(17 027)
Net profit/ (loss)		(236 015)	(17 027)
<hr/>			
Weighted average number of issued shares for basic earnings per share computations		6 111 350	5 517 584
Number of diluting potential ordinary shares		469 793	469 793
Earnings (loss) per share in PLN	<i>17</i>	(38.62)	(3.09)
Diluted earnings (loss) per share in PLN	<i>17</i>	(35.86)	(2.84)

PETROLINVEST Spółka Akcyjna
 Financial statements for the year ended 31 December 2008
 (in PLN thousands)

BALANCE SHEET

		<u>31 December</u> <u>2008</u>	<u>31 December</u> <u>2007</u>
	<i>note</i>	<u>PLN '000</u>	<u>PLN '000</u>
ASSETS			
Non-current assets (long-term)			
Property, plant and equipment	19	46 979	45 227
Investment properties	21	2 616	2 567
Intangible assets	22	99	209
Other financial assets	23	218 002	165 164
Shares in subsidiaries and jointly-controlled entities	23	652 016	618 984
Deferred tax	15.3	0	0
		<u>919 712</u>	<u>832 151</u>
Current assets (short-term)			
Inventories	25	2 826	7 869
Trade and other receivables	26	7 831	14 318
Prepayments and deferred costs	32	10 561	1 751
Current investments	23	106 616	62 705
Cash and cash equivalents	27	2 684	6 764
Income tax overpayment	26	35	27
		<u>130 553</u>	<u>93 434</u>
TOTAL ASSETS		<u><u>1 050 265</u></u>	<u><u>925 585</u></u>
EQUITY AND LIABILITIES			
Equity			
Issued capital	28.1	63 481	58 730
Other reserves	28.2	501 533	391 286
Unregistered share capital	28.1	153 590	0
Retained earnings		(268 261)	(32 246)
Total equity		<u>450 343</u>	<u>417 770</u>
Non-current liabilities			
Interest-bearing loans and borrowings	29	505 834	382 387
Non-current provisions	30	422	337
Deferred income tax liabilities	15.3	1 681	4 857
Finance lease liabilities	20.1	145	245
Other non-current liabilities	31	0	32 780
		<u>508 082</u>	<u>420 606</u>
Current liabilities			
Trade and other payables	31	13 496	73 960
Finance lease liabilities	20.1	228	170
Current portion of interest-bearing loans and borrowings	29	44 878	11 553
Current provisions	30	31 395	0
Accruals	32	1 843	1 526
		<u>91 840</u>	<u>87 209</u>
Total liabilities		<u>599 922</u>	<u>507 815</u>
TOTAL EQUITY AND LIABILITIES		<u><u>1 050 265</u></u>	<u><u>925 585</u></u>

CASH FLOW STATEMENT

	note	for 12 months ended 31 December	
		2008	2007
		PLN '000	PLN '000
Cash flows from operating activities			
Profit/ (loss) before taxation		(239 551)	(13 749)
Adjustments for:		233 513	4 017
Depreciation and amortisation		2 370	2 058
Interest and dividends, net		6 222	7 312
Foreign exchange differences		(29 141)	(15 892)
Gain/ (loss) from investing activities		(78)	(330)
(Increase)/ decrease in receivables		6 479	1 629
(Increase)/ decrease in inventories		5 043	(2 849)
Increase/ (decrease) in payables except loans and borrowings	34.1	(3 573)	(4 621)
Change in prepayments and accruals	34.1	(178)	2 360
Change in provisions	34.1	31 480	(397)
Income tax refund (paid)		360	0
Other		214 529	14 747
valuation of warrants		12 009	0
lending costs		541	1 977
discount on share purchase liability		1 729	11 345
impairment of Oil&Gas investments		200 250	1 425
Net cash flows from operating activities		(6 038)	(9 732)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangibles		48	8
Purchase of property, plant and equipment and intangibles		(3 785)	(9 728)
Acquisition of subsidiary and jointly-controlled entity	34.3	(54 089)	(248 256)
Interest received		1 215	680
Repayment of loans granted		6 151	19
Granting of loans	34.3	(122 299)	(122 054)
Other		0	(689)
Net cash flows from investing activities		(172 759)	(380 020)
Cash flows from financing activities			
Proceeds from share capital increase		103 880	119 456
Costs relating to share issue		(9 208)	(932)
Payment of finance lease liabilities		(222)	(139)
Proceeds from loans and borrowings	34.2	71 525	295 720
Repayment of loans and borrowings		(2 880)	(2 500)
Interest paid		(13 250)	(7 486)
Other		(541)	(1 976)
Net cash flows from financing activities		149 304	402 143
Net increase/ (decrease) in cash and cash equivalents		(29 493)	12 391
Cash and cash equivalents at the beginning of the period		6 764	(5 627)
Cash, cash equivalents and long-term deposits at the end of the period		(22 729)	6 764
Including restricted use cash	27	0	0

PETROLINVEST Spółka Akcyjna
 Financial statements for the year ended 31 December 2008
 (in PLN thousands)

STATEMENT OF CHANGES IN EQUITY

	<i>Share capital</i>	<i>Other capital, including</i>	<i>Revaluation and other reserves</i>	<i>From share premium</i>	<i>Other capital</i>	<i>Unregistered share capital increase</i>	<i>Retained earnings/ Accumulated (losses)</i>	<i>Total</i>
	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>
As at 1 January 2008	58 730	391 286	15 593	375 693	0	0	(32 246)	417 770
Loss for the period	0	0	0	0	0	0	(236 015)	(236 015)
Revenues / Expenses for the year	0	0	0	0	0	0	(236 015)	(236 015)
Share issue	4 751	252 720	0	99 130	0	153 590	0	257 471
Cost of share issue	0	(892)	0	(892)	0	0	0	(892)
Warrant issue	0	12 009	0	0	12 009	0	0	12 009
As at 31 December 2008	63 481	655 123	15 593	473 931	12 009	153 590	(268 261)	450 343
	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>
As at 1 January 2007	52 860	277 700	15 593	262 107	0	0	(15 219)	315 341
Loss for the period	0	0	0	0	0	0	(17 027)	(17 027)
Revenues / Expenses for the year	0	0	0	0	0	0	(17 027)	(17 027)
Share issue	5 870	127 379	0	127 379	0	0	0	133 249
Cost of share issue	0	(13 793)	0	(13 793)	0	0	0	(13 793)
As at 31 December 2007	58 730	391 286	15 593	375 693	0	0	(32 246)	417 770

Accounting policies and notes included on pages 8 to 69 are an integral part of these financial statements

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

1. Corporate information

The financial statements of Petrolinvest S.A. cover the year ended 31 December 2008 and contain comparative data for the year ended 31 December 2007.

The Company's registered office is located in Poland, at Podolska 21, Gdynia.

The 22 December 2006 resolution of the Shareholders' Meeting of Petrolinvest Spółka z ograniczoną odpowiedzialnością (limited liability company) regarding the transformation of Petrolinvest Spółka z ograniczoną odpowiedzialnością into Petrolinvest Spółka Akcyjna (joint stock company) was registered on 29 December 2006. On 16 July 2007, rights to shares of Petrolinvest S.A. were first quoted on the Warsaw Stock Exchange.

The Company is entered in the Register of Entrepreneurs kept by the District Court, VIII Economic Department of the National Court Register, Entry No. KRS 0000270970. The Company was granted statistical REGON number 190829082.

The Company has an unlimited period of operation.

The main areas of the Company's business activity include:

- activities incidental to oil and gas extraction,
- wholesale of solid, liquid and gaseous fuels and related products,
- retail sale of automotive fuel,
- manufacture of gaseous fuel,
- services connected with installation of metal structures,
- gas fittings and installations.

As at the date of approval of the financial statements, the parent entity of Petrolinvest S.A. is PROKOM INVESTMENTS S.A. Ryszard Krauze controls, directly and indirectly, 63.11% shares and votes of PROKOM INVESTMENTS S.A. As set out in the Company's statutes, if the Management Board is composed of two or three persons, PROKOM INVESTMENTS S.A. has personal powers to appoint and dismiss the President of the Management Board while Mr. Ryszard Krauze, one of the shareholders of PETROLINVEST S.A. and PROKOM INVESTMENTS S.A., has personal powers to appoint and dismiss the Vice President. The number of Management Board members is determined by PROKOM INVESTMENTS S.A. The Supervisory Board is composed of six members, two of them (including the Chairman and Deputy Chairman of the Supervisory Board) are appointed and dismissed by PROKOM INVESTMENTS S.A. while one member of the Supervisory Board is appointed and dismissed by Mr. Ryszard Krauze.

2. Going concern

The financial statements have been prepared on the assumption that the Company will continue as going concern in the foreseeable future, for at least 12 months from the balance sheet date.

At the same time, the Company's Management Board acknowledges that there are certain factors that may, under certain circumstances, pose a threat to the Company's continuing as going concern in the future. The risks presented below are considered by management to be the most important; they are presented together with the activities undertaken by the Company in order to eliminate the possible negative impact of those risks on the Company's business in the future:

1. The Company and its subsidiaries continue the investment program, the aim of which is to expand the activities of PETROLINVEST in the area of exploration for and production of crude oil and natural gas. Due to the start-up phase of the investment, as at the date of approval of the financial statements for 12 months ended 31 December 2008, there is no certainty that the Company will achieve its goals in the time space given. The investment program is financed with the Company's own cash, loans extended by PROKOM Investments S.A., and external financing. The realisation of the investment program is dependent upon the Company's ability to obtain proper financing, as well as the terms and conditions of such financing. Failure to obtain the necessary financing in the amount required and time space given may result in delays or postponement of a part of or an entire investment program and may have a material adverse effect on the Company's business, financial condition and results of operations. The Company and the entities of PETROLINVEST Group may take a number of steps and decisions in order to minimise any negative effects of limited access to external financing. Those steps and decisions may involve focusing on less capital-intensive projects, reducing the scale of the Group's operations, slowing down the pace of exploration works, selling selected assets etc.
2. As at 31 December 2008, the Group's overall indebtedness ratio was 0.57 and the debt to equity ratio was 1.33. Management believes that the levels of those ratios are appropriate at the current stage of development of the Project, and they do not pose a threat to the Company's going concern in the period of at least 12 months from 31 December 2008. As at the date of approval of these financial statements, the Company is using a credit facility secured on assets made available by PROKOM Investments S.A. Hence, management is of the opinion that the Company's ability to manage its liabilities has been and continues to be unthreatened. Moreover, the Company has a contractual declaration of support and participation in the financing of the Company's business in the future from PROKOM Investments S.A. granted in connection with the credit facility, as well as a declaration regarding subordination of loans extended by PROKOM Investments S.A. to the above-mentioned credit facility.

The Management Board of PETROLINVEST S.A. declares continuity of investments for 12 consecutive months from 31 December 2008 based on the progress and status of negotiations with a group of selected financial and strategic investors. The Management Board is also taking into account the fact that the Company signed an agreement with Prokom Investments S.A. on 20 March 2009, whereby Prokom committed to take appropriate actions to obtain a PLN 150 million financing for the Company's operations. The financing will be provided on the basis of loan agreements or other agreements of similar nature, on an arm's length basis, or as a direct equity investment into Petrolinvest shares, with the reservation that the loans or similar agreements will be uncollateralized and subordinated to the Company's bank debt, unless otherwise agreed by the parties.

In order to provide financing for its investment programme, the Company concluded an agreement with GEM Global Yield Fund on 29 April 2009, under which the Company was provided with a financing of up to PLN 200 million and subscription warrants convertible into 1,300,000 Petrolinvest shares in aggregate are to be issued at PLN 60 per share (for details see note 41).

In the nearest future, the Management Board is expecting to finalise negotiations with the European Bank for Reconstruction and Development (following the Letter of Intent signed in September 2008) and a group of financial investors who are expected to provide the Company with financing for its investment activities in the form of share capital increases or a loan convertible into shares totalling USD 50-60 million.

In parallel to finalising those negotiations, the Management Board intends to engage in talks with strategic investors regarding their involvement in financing investments on the Group's concession areas. The talks have already been initiated by the Management Board.

The Management Board believes that signing appropriate agreements re. the involvement of strategic partners will be possible in the second half of 2009.

Furthermore, the Management Board reiterates that the Company's liabilities to PROKOM Investments S.A. have the option of being converted into equity. This option was partly used in the first quarter of 2009, when over PLN 96 million worth of liabilities to PROKOM were converted. The Management Board expects that the remaining liabilities of the Company to PROKOM Investments S.A. will also be converted into equity, whether fully or partially, which will greatly improve the Company's asset financing structure.

3. Subsidiaries and jointly-controlled entities

Petrolinvest S.A. has the following subsidiaries:

Full name	Short name	Registered office	Business activities	% held by the Group in share capital	
				31 December 2008	31 December 2007
subsidiaries					
UAB Petrolinvest Mockavos Perpylia Sp. z o.o.	Mockavos / MC	Lithuania	Trans-shipment of liquid fuels	87%	87%
TPG GAZ S.A.	TPG	Poland	Trans-shipment of liquid fuels	100%	100%
OOO NK Siewiergeofizyka	Siewiergeofizyka / SG	Russia	Exploration for and extraction of crude petroleum and natural gas	59.999%	59.999%
OOO Nieftiegeoserwis	Nieftiegeoserwis / NG	Russia	Exploration for and extraction of crude petroleum and natural gas	59.99%	59.99%
ZAO Pechora - Petroleum	Pechora Petroleum/PP	Russia	Exploration for and extraction of crude petroleum and natural gas	59.00%	59.00%
Projekt 2008 **	Projekt 2008	Russia	Exploration for and extraction of crude petroleum and natural gas	59.995%	-
Occidental Resources, Inc.	Occidental Resoroes / OR	USA	Investments into entities involved in crude oil exploration and extraction	88.1%	50%
OilTechnoGroup*	OTG	Kazakhstan	Exploration for and extraction of crude petroleum and natural gas	88.1%	50%
TOO EmbaJugNieft	EmbaJugNieft / EM	Kazakhstan	Exploration for and extraction of crude petroleum and natural gas	79%	50%

* Interest in OilTechnoGroup (OTG) is held indirectly through Occidental Resources Inc., owner of a 100% interest in OTG.

** Interest in Projekt 2008 is held indirectly through OOO NK SIEWIERGEOFIZYKA and OOO NIEFTIEGEOSERWIS that each have a 50% interest in OOO Projekt 2008.

Moreover, the Company has joint-control over the following entities:

Full name	Short name	Registered office	Business activities	% held by the Group in share capital	
				31 December 2008	31 December 2007
jointly-controlled entities					
TOO Company Profit	Profit / PR	Kazakhstan	Exploration for and extraction of crude petroleum and natural gas	50%	50%

As at 31 December 2008 and as at 31 December 2007, the percentage of voting rights held by the Company in the subsidiaries and jointly-controlled entities corresponded to the percentage held in the share capital of those entities.

In May 2006, the Company concluded an agreement under which the Company acquired 59.999% shares in OOO NK Siewiergeofizyka (hereinafter: Siewiergeofizyka) of a nominal value of 59,999 roubles, carrying 59.999% votes at shareholders meetings. The share purchase price was USD 7m (PLN 22.5m). On 7 November 2006, acting upon the agreement, the previous

holders of the shares signed and delivered to the Company and Siewiergeofizyka notices regarding the transfer of shares hitherto held by them in the share capital of Siewiergeofizyka, which, in accordance with the Russian Federation law, is a condition precedent to the exercise of rights from shares by a new shareholder – Petrolinvest S.A. As stipulated in the share purchase agreement of Siewiergeofizyka shares, the Company agreed to pay an additional consideration if reserves are discovered and confirmed. The maximum amount of the premium is USD 6m (PLN 18m). The likelihood of the premium being paid out was thought to be 100%, which increased the amount of other non-current liabilities on the Company's balance sheet.

As at 31 December 2008, the Company had covered all liabilities resulting from the purchase of shares and loaned USD 18.6m (PLN 51.4m) to Siewiergeofizyka.

Taking into account the decline in long-term projections of oil prices on the world's markets and difficulties in getting access to financing for the full scope of investment activities, and also considering the reserves estimated by the independent expert for each concession and the results of analyses and discussions with the expert regarding the possible economic effects of production of individual concessions—the Management Board of PETROLINVEST S.A. decided to discontinue exploration on the territory of the Russian Federation and to begin working towards selling those assets. The decision resulted in a one-off impairment charge being made to the net assets associated with the Siewiergeofizyka project in the amount of PLN 81.5 million (including: shares – PLN 37.9m, bills of exchange – PLN 0.3m, extended loans with interest PLN 60.2m, premium liability expired as a result of there being no prospects for any prerequisites for payment – PLN 16.9m).

In September 2006, the Company concluded an agreement under which the Company acquired 59.99% shares in Nieftiegeoserwis of a nominal value of 5,999 roubles (PLN 673) carrying 59.99% votes at its shareholders meetings. The share purchase price was USD 12m (PLN 35.6m) and was payable in instalments. Payment of the last instalment was subject to certain conditions precedent, the transfer of shares to the Company, completion of the first well and introducing amendments to the founding act and articles of incorporation of Nieftiegeoserwis as agreed by the parties. On 28 March 2007, the previous holders of the shares signed and delivered to the Company and Nieftiegeoserwis notices regarding the transfer of shares hitherto held by them in the share capital of Nieftiegeoserwis, which, in accordance with the Russian Federation law, is a condition precedent to the exercise of rights from shares by a new shareholder – Petrolinvest S.A. On 6 August 2007, the Company paid up the remaining part of the liability following from the purchase of Nieftiegeoserwis's shares.

As at 31 December 2008, the Company had covered all liabilities resulting from the purchase of shares and loaned USD 8.2m (PLN 23.7m) to Nieftiegeoserwis.

Taking into account the decline in long-term projections of oil prices on the world's markets and difficulties in getting access to financing for the full scope of investment activities, and also considering the reserves estimated by the independent expert for each concession and the results of analyses and discussions with the expert regarding the possible economic effects of production of individual concessions—the Management Board of PETROLINVEST S.A. decided to discontinue exploration on the territory of the Russian Federation and to begin working towards selling those assets. The decision resulted in a one-off impairment charge being made to the net assets associated with the Nieftiegeoserwis project in the amount of PLN 62.7 million (including: shares – PLN 35.8m, extended loans with interest PLN 26.9m).

On 12 February 2007, the Company entered into three agreements with natural persons: Valery Garipov, Olga Ramzenkova and Aleksey Hitrov whereby the Company acquired 236 shares of ZAO Pechora-Petroleum with its registered office in Ukhta, Komi Republic, Russian Federation, which constitute 59% of the initial capital of Pechora-Petroleum. On 28 August 2007, Petrolinvest S.A. was notified that the transfer of shares had been registered. The total share purchase price was USD 17m (PLN 46.8m). As stipulated in the share purchase agreement of Pechora-Petroleum shares, a portion of the price of shares in the amount of USD 8.5m (PLN 23.9m) constitutes an additional consideration which becomes payable if reserves are discovered and confirmed. The likelihood of the premium being paid out was thought to be 100%, which increased the amount of other non-current liabilities on the Company's balance sheet.

As at 31 December 2008, the Company had paid USD 8.5m (PLN 25.2m) towards the price of shares and loaned USD 10.5m (PLN 27.9m) to Pechora-Petroleum.

Taking into account the decline in long-term projections of oil prices on the world's markets and difficulties in getting access to financing for the full scope of investment activities, and also considering the reserves estimated by the independent expert for each concession and the results of analyses and discussions with the expert regarding the possible economic effects of production of individual concessions—the Management Board of PETROLINVEST S.A. decided to discontinue exploration on the territory of the Russian Federation and to begin working towards selling those assets. The decision resulted in a one-off impairment charge being made to the net assets associated with the Pechora-Petroleum project in the amount of PLN 56.0 million (including: shares – PLN 46.8m, extended loans with interest PLN 33.2m, premium liability expired as a result of there being no prospects for any prerequisites for payment – PLN 24.0m).

Under an agreement concluded in August 2006, the Company acquired 99,666,387 shares, representing 50% of the share capital of Occidental Resources, Inc. (hereinafter: Occidental Resources) in the fourth quarter of 2006 by purchasing 10 million shares, representing 9.12% of the share capital, from shareholders and taking up 89,666,387 new issue shares, representing 40.88% of the increased share capital of the company. The total consideration for the shares acquired and taken up was USD 143.3m (PLN 421m) where USD 20m was the price of shares purchased from the other shareholders, as agreed, and USD 123.3m was the price paid for the new issue shares, as agreed. Occidental Resources have a 100% interest in OilTechnoGroup

(hereinafter: OTG) that owns a petroleum exploration and development licence. As at 31 December 2008, the Company had paid the whole amount due for 50% of the shares in Occidental Resources.

On 16 January 2008, PETROLINVEST's Management Board signed investment agreements, amended on 12 September 2008, to acquire a 48.27% interest in the share capital of Occidental Resources, which will allow the Company to take control over Occidental Resources. The investment agreement envisaged an issue of 3,310,573 Petrolinvest shares in exchange for 48.27% of the shares in Occidental Resources Inc. Upon execution of the investment agreement, PETROLINVEST S.A. will become the owner of 98.27% of the shares in Occidental Resources Inc.

G-series Shares have been offered in a private placement and subscribed for by the then shareholders of Occidental Resources Inc. On 7 November 2008, upon execution of some of the share subscription agreements for G-series Shares, representing in aggregate 2,613,163 shares of that series, the ownership of 75,947,519 shares of Occidental Resources Inc. was transferred to the Company, representing a 38.10% shareholding in the share capital of Occidental Resources Inc. and carrying 38.10% of votes at the company's general meeting. After the acquisition, adding the shares of Occidental Resources Inc. acquired earlier, the Company became the owner of shares representing 88.10% of the share capital of Occidental Resources Inc. and carrying 88.10% of votes at the company's general meeting.

As at 31 December 2008, the Company had loaned USD 16.5m (PLN 42.4m) to Occidental Resources. Up to the date of approval of the financial statements, the Company has transferred another USD 580 thousand (PLN 2.1m) to Occidental Resources under a loan agreement dated 23 July 2008. On 23 April 2009, the Company signed a USD 10,000 thousand loan agreement with Occidental Resources, of which USD 200 thousand (PLN 0.7m) has been drawn as at the date of approval of these financial statements.

On 9 June 2006, shareholders of TOO EmbaJugNieft (D.R. Amankulov, TOO Atameken Prommasz, TOO Geokapital and TOO Marburg Oil) resolved to accept Petrolinvest as a new shareholder. As provided for in the resolution, Petrolinvest was obliged to make a contribution of KZT 72,500 (PLN 1,671) and an outlay of USD 50m (extending loans to EmbaJugNieft) towards capital expenditure. On 26 April 2007, upon concluding an appropriate agreement and taking all actions necessary for its registration obligatory under the laws of the Republic of Kazakhstan for an effective acquisition of shares, Petrolinvest S.A. acquired a 50% interest in TOO EmbaJugNieft.

On 9 June 2006, a loan agreement was concluded by and between the Company and TOO EmbaJugNieft whereby the Company granted a non-interest bearing loan totalling USD 25m to TOO EmbaJugNieft for a period to 8 June 2031. The aim of the loan is to finance operating activities of TOO EmbaJugNieft and, in particular, to provide funds allowing TOO EmbaJugNieft to fulfil its obligations towards the state authorities of the Kazakh Republic in respect of exploration for and production of hydrocarbons. The agreement provides that the loan may also be repaid by means of conversion of loan receivables into shares once TOO EmbaJugNieft is legally transformed into a joint-stock company. If the loan is not converted within 30 days from the transformation, Petrolinvest S.A. is entitled to demand repayment of the loan within 180 days from the transformation. The conversion of the loan into share capital will be possible 366 days from the agreement or earlier if Petrolinvest S.A. should receive a consent from the President of NBP regarding early repayment of the loan, i.e. in under a year from the date of the agreement.

On 16 January 2008, PETROLINVEST's Management Board signed an investment agreement, amended on 12 September 2008, to acquire a 50% interest in the share capital of EmbaJugNieft. The investment agreement envisaged an issue of 772,315 shares in exchange for 50% shares in EmbaJugNieft. In addition, in the event of confirmation that the prospective resources of EmbaJugNieft (unrisked mean estimated of prospective resources) are equal to at least 160 million barrels of oil, an additional 271,517 shares in the Company shall be issued. Upon execution of the investment agreement, PETROLINVEST S.A. will become the owner of 100% of the shares in TOO EmbaJugNieft. H-series Shares were offered in a private placement and subscribed for by the then shareholders of EmbaJugNieft and Capital Vario CR. S.A. On 1 December 2008, in connection with the execution of a number of share subscription agreements for H-series shares amounting to 447,942 shares of that series, the Company entered into agreements transferring the ownership of 29% of the shares in EmbaJugNieft to Petrolinvest. The transfer of ownership of EmbaJugNieft shares to the Company was effected on the day of the registration of the change of shareholders in EmbaJugNieft with a relevant register in Kazakhstan. On 24 December 2008, the Company was informed about the registration of the change of shareholders in EmbaJugNieft. The EmbaJugNieft shares acquired in the transaction represent 29% of Emba share capital and carry 29% of votes at the company's general meeting. After the acquisition of EmbaJugNieft shares described above, adding the shares acquired earlier, the Company became the owner of 79% of Emba shares with an aggregate nominal value of 114,550 tenge, carrying 79% of votes at the company's general meeting.

As at 31 December 2008, the Company had loaned USD 55.1m (PLN 152.5m) to EmbaYugNieft to finance the company's capital expenditures.

On 9 June 2006, the shareholder of TOO Company Profit (TOO Nurmuna Petrogaz) resolved to accept Petrolinvest as a new shareholder. As provided for in the resolution, Petrolinvest was obliged to make a contribution of KZT 82,300 (PLN 1,889) and an outlay of USD 14m (extending loans to Profit) towards capital expenditure. On 7 May 2007, upon concluding an appropriate agreement and taking all actions necessary for its registration obligatory under the laws of the Republic of Kazakhstan for an effective acquisition of shares, Petrolinvest S.A. acquired a 50% interest in TOO Company Profit.

On 9 June 2006, a loan agreement was concluded by and between the Company and TOO Company Profit whereby the Company granted a non-interest bearing loan totalling USD 14m to TOO Company Profit for a period to 8 June 2031. The aim of the loan is to finance operating activities of TOO Company Profit and, in particular, to provide funds allowing TOO Company

Profit to fulfil its obligations towards the state authorities of the Kazakh Republic in respect of exploration for and production of hydrocarbons and to repay loan obligations of USD 2,360 thousand. The loan may also be repaid by conversion of loan receivables into shares once TOO Company Profit is legally transformed into a joint-stock company. If the loan is not converted within 30 days from the transformation, Petrolinvest S.A. is entitled to demand repayment of the loan within 180 days from the transformation. The conversion of the loan into share capital will be possible 366 days from the agreement or earlier if Petrolinvest S.A. should receive a consent from the President of NBP regarding early repayment of the loan, i.e. in under a year from the date of the agreement.

As at 31 December 2008, the Company had transferred to Company Profit a loan of USD 14m (PLN 42.2m) to finance the company's capital expenditures, as provided for in the agreement, and granted an additional loan of USD 5.3m (PLN 13.9m). As at the date of signing of the financial statements, the Company has loaned another USD 125 thousand (PLN 390 thousand) to Company Profit.

The Oil Exploration and Production Companies are OTG, Siewiergeofizyka, EmbaJugNieft, Profit, Neftegeoserwis and Pechora-Petroleum who hold licences for exploration or exploration and production of crude oil and gas.

4. Consolidated financial statements

The Company prepared consolidated financial statements for the year ended 31 December 2008, authorised for issue on 30 April 2009.

5. Composition of the management board

As at 31 December 2008, the Management Board of the Company consisted of:

- Paweł Gricuk – President
- Zenon Grablewski – Vice President
- Marcin Balicki – Board Member

As of 16 January 2009, Mr. Zenon Grablewski resigned from his office as Vice President of the Company Management Board. On 16 January 2009, Mr. Marcin Balicki resigned from his office as Member of the Management Board. On 16 January 2009, in exercise of its personal rights, PROKOM Investments S.A. set the number of the Company's management board members at two. On the same day, exercising his personal rights, Mr. Ryszard Krauze appointed Mr. Marcin Balicki as Vice President of the Company Management Board.

6. Approval of financial statements

The financial statements were authorised for issue by the Management Board on 30 April 2009.

7. Significant accounting judgements and estimates

7.1. Judgements

In the process of applying the accounting policies to the issues discussed below, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

Taking into account the decline in long-term projections of oil prices on the world's markets and difficulties in getting access to financing for the full scope of investment activities, and also considering the reserves estimated by the independent expert for each concession and the results of analyses and discussions with the expert regarding the possible economic effects of production of individual concessions—the Management Board of PETROLINVEST S.A. decided to discontinue exploration on the territory of the Russian Federation and to begin working towards selling those assets. The decision resulted in a one-off impairment charge being made to the net assets associated with those projects of PLN 200,250 thousand.

Going concern

In note 2 above, management presented some threats to the Company's going concern considered to be the most important. At the same time, management emphasised the fact that the financial statements do not contain any possible adjustments that would have to be made should the going concern assumption described above and adopted by management prove false. Any going concern threat would have a primary effect on the valuation of the Company's assets.

Lease agreements

The Company is a party to vehicle lease agreements, which – in the Board's opinion – fall under the scope of financial lease. Those agreements transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item. Capitalised leased assets are depreciated over the estimated useful life of the asset.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease and subsequent lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. The Company leases land with buildings and structures belonging to the Management Board of Morski Port Gdynia S.A. (Gdynia Sea Port) — classified as operating lease.

7.2. Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below and in the respective notes.

Bad debt allowance

The Company re-evaluated the carrying amount of receivables, based on the expected proceeds from overdue receivables, and used it as a basis for estimating the value of bad debt, for which an appropriate allowance was made.

Valuation of provisions

Provisions for employee benefits are determined using actuarial valuations. The assumptions made in this respect are presented in note 24.1.

Fair value of financial instruments

The fair value of financial instruments for which no active market exists is assessed by means of appropriate valuation methods. The Group applies professional judgement in selecting appropriate methods and assumptions. The methods used for measuring the fair value of financial instruments are presented in note 38.2.

Depreciation and amortisation rates

Depreciation and amortisation rates are determined based on the anticipated economic useful lives of property, plant and equipment and intangible assets. The economic useful lives are reviewed annually by the Company based on current estimates.

Deferred income tax assets and liabilities

Deferred income tax assets and liabilities are determined using tax rates that have been enacted by the balance sheet date and are expected to apply when the asset is realised or the liability is settled. The Group recognises a deferred income tax asset based on the assumption that tax earnings will be recorded in the future that will allow the asset to be utilised. In case the Company's financial results deteriorate in the future, this assumption might prove unfounded.

8. Basis of preparation

The financial statements have been prepared on a historical cost basis, except for investment properties and selected categories of financial instruments, which have been measured at fair value.

The financial statements are presented in Polish zloty ("PLN") and all values are rounded to the nearest thousand (PLN '000) except when otherwise indicated.

The financial statements have been prepared on the assumption that the Company will continue as going concern in the foreseeable future. The facts and circumstances that may indicate a threat to the continued activity of the Company are presented in note 2.

8.1. Statement of compliance

These financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and IFRSs endorsed by the European Union. At the date of authorisation of the consolidated financial statements, in light of the current process of IFRS endorsement in the European Union and the nature of the Company's activities, there is no difference between the currently enacted IFRSs applied by the Company and the IFRSs endorsed by the EU.

IFRSs comprise standards and interpretations accepted by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

On 22 December 2006, the Extraordinary Shareholders' Meeting of Petrolinvest Sp. z o.o. resolved that as from 1 January 2007 the Company's financial statements shall be prepared in accordance with IFRS. Petrolinvest S.A. keeps its books of account in accordance with the International Financial Reporting Standards ("IFRS") endorsed by the EU.

8.2. Functional currency and presentation currency

Polish zloty is the functional currency of the Company as well as the presentation currency of the financial statements.

9. Changes in accounting policies

The Company has adopted the following new and amended IFRSs and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial statements, apart from a few additional disclosures.

IFRIC 11 IFRS 2—Group and Treasury Share Transactions

IFRIC 11 provides guidance on whether arrangements, in which suppliers of goods or services of an entity are provided with equity instruments or equity instruments of another entity in the same group, should be accounted for as cash-settled or equity-settled. The interpretation also addresses how to proceed if an entity uses treasury shares to settle the share-based payment obligation. The application of this interpretation did not have any material effect on these financial statements.

Amendment to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures—Reclassification of Financial Assets

The amendment permits reclassification of certain financial instruments held for trading to the held-to-maturity category, available-for-sale category or to loans and receivables. Under some circumstances it is also permitted to transfer instruments from the available-for-sale category to loans and receivables. Those amendments apply to reclassifications made on or after 1 July 2008. The Company did not reclassify any financial instruments, neither out of the held-for-trading category nor out of the available-for-sale category.

IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC 14 provides general guidance on how to assess the limit of IAS 19 Employee Benefits on the amount of the defined benefit surplus that can be recognised as an asset. Due to the fact that at the current stage of defined benefit plans liabilities are higher than assets, the application of this interpretation does not impact the Company's financial standing or results of operations.

10. IFRS and IFRIC Interpretations Issued but not yet Effective

The following standards and interpretations were issued by the IASB or IFRIC but are not yet effective:

- IFRS 8 Operating segments – effective for annual periods beginning on or after 1 January 2009
- IAS 1 Presentation of Financial Statements (revised in September 2007) – effective for annual periods beginning on or after 1 January 2009
- IAS 23 Borrowing Costs (revised in March 2007) – effective for annual periods beginning on or after 1 January 2009
- IFRS 3 Business Combinations (revised in January 2008) – effective for annual periods beginning on or after 1 July 2009 – as at the date of these financial statements not yet endorsed for use by the EU
- IAS 27 Consolidated and Separate Financial Statements (amended in January 2008) – effective for annual periods beginning on or after 1 July 2009 – as at the date of these financial statements not yet endorsed for use by the EU
- IFRS 2 Share-based Payment - Vesting Conditions and Cancellations (amended in January 2008) – effective for annual periods beginning on or after 1 January 2009
- Amendments to IAS 32 and IAS 1: Financial Instruments Puttable at Fair Value and Obligations Arising on (Company) Liquidation (amendments introduced in February 2008) – effective for annual periods beginning on or after 1 January 2009
- IFRIC 13 Customer Loyalty Programmes – effective for annual periods beginning on or after 1 July 2008
- Amendments resulting from annual review of IFRSs – effective for annual periods beginning on or after 1 January 2009
- Amendments to IFRS 1 and IAS 27 Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate – effective for annual periods beginning on or after 1 January 2009
- IFRIC 15 Agreements for the Construction of Real Estate – effective for annual periods beginning on or after 1 January 2009 – as at the date of these financial statements not yet endorsed for use by the EU
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation – effective for annual periods beginning on or after 1 October 2008 – as at the date of these financial statements not yet endorsed for use by the EU
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement: Exposures Qualifying for Hedge Accounting (amendments introduced in July 2008) – effective for annual periods beginning on or after 1 July 2009 – as at the date of the financial statements not yet endorsed for use by the EU
- IFRS 1 First-time Adoption of International Financial Reporting Standards (revised in November 2008) – effective for annual periods beginning on or after 1 July 2009 – as at the date of the financial statements not yet endorsed for use by the EU
- IFRIC 17 Distributions of Non-cash Assets to Owners – effective for annual periods beginning on or after 1 July 2009 – as at the date of the financial statements not yet endorsed for use by the EU
- Amendments to IAS 39 and IFRS 7—Reclassification of Financial Assets – Effective date and transition arrangements (amendments introduced in November 2008) – effective from 1 July 2008 – as at the date of the financial statements not yet endorsed for use by the EU
- IFRIC 18 Transfers of Assets from Customers – effective from 1 July 2009 – as at the date of the financial statements not yet endorsed for use by the EU

- Amendment to IFRS 7 Financial Instruments – disclosures – effective for annual periods beginning on or after 1 January 2009 – as at the date of the financial statements not yet endorsed for use by the EU
- Embedded derivatives – amendments to IFRIC 9 and IAS 39 – effective for annual periods beginning on or after 30 June 2009 – as at the date of the financial statements not yet endorsed for use by the EU
- Amendments resulting from the review of IFRSs (published in April 2009) – some amendments are effective for annual periods beginning on 1 July 2009 and some for annual period beginning on 1 January 2010 – as at the date of the financial statements not yet endorsed for use by the EU
- IFRIC 12 Service Concession Agreements – effective for annual periods beginning on or after 1 January 2008 – the interpretation has been endorsed for use by the EU; however, in compliance with EU regulation entities are required to apply it from the beginning of the first annual period beginning after March 2009 at the latest. The Management Board plans to apply IFRIC 12 from 1 January 2010.

Management does not expect the introduction of the above-mentioned standards and interpretations to have a significant effect on the accounting policies applied by the Group.

11. Summary of significant accounting policies

11.1. Foreign currency translation

Transactions denominated in currencies other than Polish zloty are translated into Polish zloty at the foreign exchange rate prevailing on the date preceding the transaction date.

As at the balance sheet date, assets and liabilities expressed in currencies other than Polish zloty are translated into Polish zloty at the average NBP rate prevailing for the given currency at the year-end. Exchange differences resulting from translation are recorded under finance income or finance costs, or – in cases defined in accounting policies – are capitalised in the cost of the assets. Non-monetary foreign currency assets and liabilities recognised at historical cost are recognised at historical foreign exchange rate prevailing on the transaction date. Non-monetary foreign currency assets and liabilities recognised at fair value are translated into Polish zloty using the rate of exchange binding as at the date of re-measurement to fair value.

The following exchange rates were used for valuation purposes:

	31 December 2008	31 December 2007
USD	2.9618	2.4350
EURO	4.1724	3.5820

11.2. Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The initial cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. Cost comprises also the cost of replacement of components of fixed assets when incurred if the recognition criteria are met. Subsequent expenditures, such as repair or maintenance costs, are expensed in the reporting period in which they were incurred.

Upon purchase, fixed assets are divided into components, which represent items with a significant value and can be allocated a separate depreciation period. Major overhauls are also treated as a separate component.

Property, plant and equipment are depreciated using the straight line method over their estimated useful lives.

Type	Useful life	Depreciation rate
Land (perpetual usufruct)	No depreciation	
Buildings and structures	5 to 40 years	2.5% - 19%
Plant and machinery	3 to 25 years	4% - 30%
Office equipment	5 to 10 years	10% - 20%
Motor vehicles	4 to 7 years	14% - 25%
Computers	3.3 to 5 years	20% - 30%

Residual values, useful lives and depreciation methods of property, plant and equipment are reviewed annually, and, if necessary, adjusted retrospectively i.e. with effect from the beginning of the financial year that has just ended.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its further use. Any gain or loss arising on derecognition of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the income statement for the period in which derecognition took place.

Assets under construction include assets in the course of construction or assembly and are recognised at purchase price or cost of construction, less any impairment losses. Assets under construction are not depreciated until completed and brought into use.

11.3. Investment property

Investment properties are initially measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property.

Subsequent to initial recognition, investment properties are stated at fair value. Any gain or loss arising from a change in the fair value of investment property is recognised in the income statement for the year in which it arose.

Investment property is de-recognised when disposed of or permanently withdrawn from use and no future benefits are expected from its disposal. Gains or losses on derecognition of investment property are recognised in the income statement for the year in which such derecognition took place.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner occupation, commencement of an operating lease to another party or ending of construction or development.

For a transfer from investment property to owner-occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Company as an owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under Property, Plant and Equipment up to the date of change in use. For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss. When the Company completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

11.4. Intangible assets

Intangible assets acquired separately or internally generated (if they meet the criteria of recognition as development) are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Expenditures incurred for internally generated intangible assets, excluding capitalised development costs, are not capitalised and are charged against profits in the year in which they are incurred.

The useful lives of intangible assets are assessed by the Company to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives and those that are not in use are tested for impairment annually either individually or at the cash generating unit level.

Useful lives are reviewed on an annual basis and, if necessary, are adjusted for with effect from the beginning of the financial year that has just ended.

A summary of the policies applied to the Company's intangible assets is as follows:

	Amortisation rate	Useful life
Software	50%	2 years
Other intangible assets	20%	5 years

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds, if any, and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

11.5. Leases

Company as a lessee

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement.

Capitalised leased assets are depreciated over the estimated useful life of the asset.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease and subsequent lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Company as a lessor

Leases where the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

11.6. Impairment of non-financial non-current assets

An assessment is made at each balance sheet date to determine whether there is any indication that a financial non-current asset may be impaired. If such indication exists, or in case annual impairment testing is required, the Company makes an estimate of the recoverable amount of that asset or the cash-generating unit to which that asset has been allocated.

The recoverable amount of an asset or a cash-generating unit is the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the income statement in the expense categories consistent with the function of the impaired asset.

An assessment is made at each balance sheet date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised immediately in the income statement. After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

11.7. Borrowing costs

Borrowing costs are capitalised as part of the cost of property, plant and equipment. Borrowing costs include interest and foreign exchange gains or losses to the extent they are regarded as an adjustment to interest costs.

11.8. Interests in subsidiaries, associates and joint ventures

Interests in subsidiaries, associates and joint ventures are carried at historical cost less impairment.

11.9. Financial assets

Financial assets are classified into one of the following categories:

- financial assets held to maturity,
- financial assets at fair value through profit or loss,
- loans and receivables,
- financial assets available for sale.

Financial assets held to maturity include investments with fixed or determinable payments and fixed maturities, which the Company has the positive intention and ability to hold until maturity. Financial assets held to maturity are measured at amortised cost using the effective interest rate. Financial assets held to maturity are classified as non-current assets if they are falling due within more than 12 months from the balance sheet date.

Financial assets purchased to generate profits due to short-term fluctuation of prices are classified as financial assets at fair value through profit or loss. They are measured at fair value, which takes into account their market value as at the balance sheet date without taking into account the cost of sale. Any change in the fair value of these instruments is disclosed in the income statement as finance costs or finance income (see note 38.2).

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are classified as current assets, provided their maturity does not exceed 12 months after the balance sheet date. Loans and receivables with maturities exceeding 12 months from the balance sheet date are classified under non-current assets.

All other financial assets are classified as available for sale. Available-for-sale financial assets are measured at fair value, without deducting transaction costs, and taking into account their market value at the balance sheet date. Where no quoted market price is available and there is no possibility to determine their fair value using alternative methods, available-for-sale financial assets are measured at cost, adjusted for any impairment losses.

Positive and negative differences between the fair value of financial assets available for sale (if quoted market price determined on the regulated market is available or if the fair value can be determined using other reliable method) and their acquisition cost, net of deferred tax, are taken to the revaluation reserve. Any decrease in the value of financial assets available for sale resulting from impairment losses is taken to the income statement and recorded under finance cost.

Purchase and sale of financial assets is recognised at the transaction date. Financial assets are initially recognised at fair value plus those transaction costs for all financial assets not carried at fair value through profit or loss that are directly attributable to the acquisition.

Financial assets are derecognised if the Company loses its control over contractual rights attached to those assets, which usually takes place upon sale of the asset or where all cash flows attributed to the given asset are transferred to an independent third party.

11.10. Impairment of financial assets

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

11.10.1 Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans granted and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through a provision. The amount of the loss shall be recognised in profit or loss.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included on a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date.

11.10.2 Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and has to be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

11.10.3 Available-for-sale financial assets

If there is objective evidence that an impairment loss has been incurred on an available-for-sale asset, then the amount of the difference between the acquisition cost (net of any principal payment and—in case of financial assets carried at amortised cost using the effective interest rate method—amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the income statement. Reversals of impairment losses on equity instruments classified as available for sale cannot be recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed, with the amount of the reversal recognised in the income statement.

11.11. Inventories

Inventories are valued at the lower of cost and net realizable value.

Costs incurred in bringing each inventory item to its present location and condition—both for this and the previous reporting period—are recognised as follows.

Raw materials	— actual purchase cost when disposed of;
Goods for resale	— purchase cost determined on a first-in, first-out basis.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

11.11.1 Obligatory stocks of liquid fuels

New rules and principles have been in place since 7 April 2007 regarding the functioning of the obligatory stocks system in Poland introduced by the Act of 16 February 2007 on stocks of crude oil, petroleum products and natural gas, the principles of proceeding in circumstances of a threat to the fuel security of the State and disruption on the petroleum market (Journal of Laws No. 52, item 343, dated 23/03/2007).

The Act on Stocks of Crude Oil lays down the principles for accumulating, maintaining and financing stocks of crude oil, petroleum products and natural gas, including liquefied petroleum gas (LPG).

The Act on Stocks of Crude Oil requires the Company to increase its compulsory stocks of liquefied petroleum gas (LPG) up to the levels corresponding at least to: (i) 3 days of the actual average daily amount brought in by the Company in the previous year – by 31 December 2007; (ii) 7 days of the actual average daily amount brought in by the Company in the previous year – by 31 December 2008; (iii) 13 days of the actual average daily amount brought in by the Company in the previous year – by 31 December 2009; (iv) 20 days of the actual average daily amount brought in by the Company in the previous year – by 31 December 2010; (v) 30 days of the actual average daily amount brought in by the Company in the previous year – by 31 December 2011. As from 1 January 2012, compulsory stocks of LPG must be maintained at the level corresponding to a 30-day actual average daily amount brought in by the Company in the preceding calendar year.

The Company is obliged to accumulate and maintain compulsory stocks in quantities calculated based on amounts of liquefied petroleum gas (LPG) brought in less the amounts of liquefied petroleum gas (LPG) brought out of the Republic of Poland. The compulsory stocks established for liquefied petroleum gas (LPG) may be maintained interchangeably in the form of motor spirits. Compulsory stocks may include in particular fuels stored in storage tanks and container-filling plants of liquefied petroleum gas (LPG). Compulsory stocks do not include fuels in rail and road tankers; storage tanks of filling stations, including LPG filling stations; outlets selling LPG in cylinders; tankers out of destination harbours; or tanks of marine vessels. The Company presents compulsory stocks of liquid fuels under inventories.

11.12. Trade receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable.

If the effect of the time value of money is material, the value of receivables is determined by discounting the estimated future cash flows to present value using a pre-tax discount rate that reflects current market assessments of the time value of money. Where discounting is used, any increase in the balance due to the passage of time is recognised as finance income.

11.13. Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

11.14. Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of transaction costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any transaction costs, and any discount or premium received in connection with the liabilities. Revenues and expenses are recognised in the income statement when the liabilities are derecognised as well as by applying the effective interest rate method.

11.15. Trade and other payables

The Company derecognises payables from its balance sheet if such payables expire – which is when obligations set in a relevant agreement had been fulfilled, waived or expired.

Short-term trade payables are carried at the amount due and payable.

Financial liabilities other than financial instruments measured at fair value through profit or loss are measured at amortised cost using the effective interest rate method.

11.16. Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of the provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the estimated future cash flows to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

11.17. Retirement benefits

In accordance with the Labour Code, employees of the Company are entitled to retirement benefits. Retirement benefits are paid out as one-off benefit upon retirement. The amount of those benefits depends on the number of years of employment and the employee's average salary. The Company makes a provision for retirement benefits in order to allocate the costs of those allowances to the periods to which they relate. In accordance with IAS 19, retirement benefits are post-employment defined benefits. The carrying amount of the Company's liabilities resulting from those benefits is calculated at each balance sheet date by an independent actuary. The balance of these liabilities equals discounted payments which will be made in the future and accounts for staff turnover, and relates to the period to the balance sheet date. Demographic information and information on staff turnover are based on historical information. Any actuarial gains and losses are recognised in the income statement.

11.18. Share-based payment transactions

Employees (including management board members) of the Company receive remuneration in the form of share-based payment transactions; therefore, employees render services in exchange for shares or rights to shares ('equity-settled transactions').

11.18.1 Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the company ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the directors of the Company at that date, based on the best available estimate of the number of equity instruments, will ultimately vest.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Company has an employee share incentive plan and an employee share trust for the granting of non-transferable options to executives and senior employees. Shares in the Company held by the employee share trust are treated as treasury shares and presented in the balance sheet as a deduction from equity.

11.19. Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenues are recognised net of Value Added Tax (VAT), excise tax, fuel tax and discounts. The following specific recognition criteria must also be met before revenue is recognised.

11.19.1 Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be reliably measured.

11.19.2 Rendering of services

Revenue from provision of services is recognised by reference to the stage of completion. The stage of completion is measured as a percentage of costs incurred to date in relation to the total estimated costs necessary to complete the contract.

11.19.3 Interest

Revenue is recognised as interest accrues (using the effective interest rate method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

11.19.4 Dividends

Dividends are recognised when the shareholders' rights to receive the payment are established.

11.19.5 Rental income (operating lease income)

Rental income arising on investment properties is accounted for on a straight-line basis over the lease term on ongoing leases.

11.19.6 Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, its fair value is credited to a deferred income account and is released systematically to the income statement over the estimated useful life of the relevant asset by way of equal annual instalments.

11.20. Income tax

11.20.1 Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the balance sheet date.

11.20.2 Deferred tax

For financial reporting purposes deferred income tax is recognised, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts.

Deferred tax liability is recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of goodwill, an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax asset is recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will be available that will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred income tax assets and deferred income tax liabilities are offset, if legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

11.20.3 Value Added Tax

Revenues, expenses, assets and liabilities are recognised net of the amount of value added tax except:

- Where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables, which are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

11.20.4 Excise tax

Revenues and expenses are recognised net of the amount of excise tax. The amount of excise duty payable to tax authorities is included in liabilities in the balance sheet.

11.21. Earnings per share

Earnings per share for each reporting period are calculated as quotient of the net profit for the given reporting period and the weighted average of shares outstanding in that period.

Diluted earnings per share are calculated by dividing the net profit attributable to ordinary shareholders (after deducting interest on the convertible redeemable preference shares) by the weighted average number of ordinary shares outstanding during the year adjusted for the weighted average of ordinary shares that would be issued on conversion of all dilutive potential equity instruments into ordinary shares.

12. Seasonality

As far as the Company's trading activities are concerned, which involve trading in LPG, selected product groups show a high seasonality.

The demand for automotive gas is higher in the months from May to September due to higher seasonal activity of motor vehicle users. In the winter months, there is less vehicular traffic, which is reflected by a decrease in sales of automotive gas.

The demand for gas for heating purposes concentrates in the period before the start of the winter season and throughout that season. The sales of gas for heating purposes are greatly limited in the spring and summer months.

The phenomena discussed above have a material impact on the Company's results generated on those operations. The first half of the year is always a period of weaker sales and results generated on these operations.

13. Segment information

The Company identifies two reportable business segments:

- LPG – trading activities carried out in Poland, comprising import, distribution and sale of liquefied petroleum gas (LPG) for heating and automotive purposes (auto gas), gas cylinders and to wholesale distributors;
- Holding operations (Prospecting and Extraction) – operations carried out in the countries where Prospecting and Production Companies conduct their activities, including geophysical research, site preparation and drilling.

Results of the Prospecting and Extraction segment are characteristic of a start-up phase of a prospecting project. Management expects that the negative results of the segment may be sustained until commercial production of crude oil is commenced.

The following tables present revenues and profits by business segments for the year ended 31 December 2008 and 31 December 2007 as well as assets and liabilities as at 31 December 2008 and 31 December 2007.

PETROLINVEST Spółka Akcyjna
 Financial statements for the year ended 31 December 2008
 Accounting policies and notes to the financial statements
 (in PLN thousands)

<i>for 12 months ended 31 December 2008 and as at 31 December 2008</i>	<i>LPG</i>	<i>Holding operations prospecting and extraction)</i>	<i>Total</i>
Segment revenue	255 261	0	255 261
Segment expenses	291 315	24 231	
Profit/ (loss) of the segment	(36 054)	(24 231)	(60 285)
Other unallocated revenue			1 382
Unallocated expenses			(4 208)
Profit/ (loss) from continuing operations before tax, finance income and costs			(63 111)
Finance costs	(1 322)	(24 488)	(25 810)
Finance income	2 985	46 635	49 620
Impairment of Oil&Gas investments		(200 250)	(200 250)
Income tax expense			(3 536)
Net profit/ (loss) for the year			(236 015)
Assets and liabilities			
Segment assets	57 735	322 773	380 508
Unallocated assets			669 757
Total assets			1 050 265
Segment liabilities	71 557	519 147	590 704
Unallocated liabilities			9 218
Equity			450 343
Total equity and liabilities			1 050 265
Other segment information			
Capital expenditure:			
property, plant and equipment (including assets under construction)	4 170	0	4 170
intangible assets	25	0	25
Depreciation	2 235	0	2 235
Amortisation	135	0	135

PETROLINVEST Spółka Akcyjna
 Financial statements for the year ended 31 December 2008
 Accounting policies and notes to the financial statements
 (in PLN thousands)

<i>for 12 months ended 31 December 2007 and as at 31 December 2007</i>	<i>LPG</i>	<i>Holding operations prospecting and extraction)</i>	<i>Total</i>
Segment revenue	221 311	0	221 311
Segment expenses	215 411	13 548	
Profit/ (loss) of the segment	5 900	(13 548)	(7 648)
Other unallocated revenue			1 636
Unallocated expenses			(4 544)
Profit/ (loss) from continuing operations before tax, finance income and costs			(10 557)
Finance costs	(2 025)	(28 938)	(30 963)
Finance income	2 341	25 430	27 771
Income tax expense			3 278
Net profit/ (loss) for the year			(17 027)
Assets and liabilities			
Segment assets	67 623	226 024	293 647
Unallocated assets			631 938
Total assets			925 585
Segment liabilities	20 300	480 795	501 095
Unallocated liabilities			6 720
Equity			417 770
Total equity and liabilities			925 585
Other segment information			
Capital expenditure:			
property, plant and equipment (including assets under construction)	9 566	0	9 566
intangible assets	226	0	226
Depreciation	2 006	0	2 006
Amortisation	52	0	52

14. Revenues and expenses

14.1. Employee benefits expense

	<i>for 12 months ended 31 December</i>	
	<i>2008</i>	<i>2007</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Wages and salaries	12 015	10 127
Social security costs	1 556	1 327
Social Fund	128	112
Share Incentive Programme	12 009	0
	25 708	11 566

A decision was made by a resolution of the EGM of 29 April 2008 to issue E-series shares in the aggregate amount not higher than 264,285 shares in exercise of the conditional share capital increase. The purpose of the share issue was to exercise the incentive programme for the Company management board members based on the issue of subscription warrants entitling their holders to subscribe for E-series shares.

In July 2008, all eligible persons submitted their declarations of acceptance of the offer and acquisition of subscription Warrants. The rights conferred by the Warrants to subscribe for shares may be realised from the day of issuance of the Warrants, i.e. from 29 July 2008, to 30 April 2011. In compliance with IFRS, the Company was required to make an assessment

of the fair value of the warrants as at the date of granting the rights thereto. The amount arrived at in this way was charged to the Company's payroll costs in Q3 2008 when the rights were granted. The cost of warrant issue of PLN 12m, calculated using the Black-Scholes model, was taken to the Company's payroll costs in Q3 2008. The cost will not impact the Company's cash flows.

14.2. External services expense

	<i>for 12 months ended 31 December</i>	
	<i>2008</i>	<i>2007</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Transport, handling and transhipment	2 781	2 544
Overhauls	1 837	1 381
Property tenancy	3 932	3 848
Legal and accounting services	5 048	8 151
Sponsoring	408	2 360
Other	2 420	2 228
	16 426	20 512

14.3. Other operating income

	<i>for 12 months ended 31 December</i>	
	<i>2008</i>	<i>2007</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Income tax and VAT returned by the Tax Office pursuant to tax decisions	631	327
Release of allowance for doubtful debts	130	133
Gain on re-measurement of investment properties to fair value	49	335
Inventory surpluses	337	670
Compensations	208	169
Other	27	2
	1 382	1 636

14.4. Other operating expenses

	<i>for 12 months ended 31 December</i>	
	<i>2008</i>	<i>2007</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Inventory shortages	117	68
Loss on disposal of property, plant and equipment	75	1
Provision for liabilities	31 395	0
Execution and court costs	216	34
Other	273	140
	32 076	243

The Company made a provision for the Company's potential liabilities towards Morgan Stanley totalling PLN 31,395 thousand. A detailed description of this matter is provided in note 33.1 Legal claims.

14.5. Finance income

	<i>for 12 months</i>	
	<i>ended 31 December</i>	
	<i>2008</i>	<i>2007</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Bank interest receivable	1 818	2 383
Loans granted to other parties	17 114	8 846
Foreign exchange gains	30 669	16 523
Other	19	19
	49 620	27 771

14.6. Finance costs

	<i>for 12 months</i>	
	<i>ended 31 December</i>	
	<i>2008</i>	<i>2007</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Lenders fees	541	1 619
Impairment of finance receivables	0	1 425
Interest on bank loans	13 194	7 405
Finance costs under finance leases	56	81
Interest on borrowings	10 106	8 691
Discount on share purchase liability	1 729	11 345
Other	184	397
	25 810	30 963

14.7. Impairment of Oil&Gas investments

	<i>for 12 months</i>	
	<i>ended 31 December</i>	
	<i>2008</i>	<i>2007</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Impairment of assets and expired liabilities OOO NK Siewiergeofizyka	81 498	0
Impairment of assets OOO Nieftegeoserwis	62 715	0
Impairment of assets and expired liabilities ZAO Pechora - Petroleum	56 037	0
	200 250	0

	Impairment loss in PLN '000			Total
	OOO NK Siewiergeofizyka	OOO Nieftegeoserwis	ZAO Pechora Petroleum	
Shares and stocks	(37 939)	(35 790)	(46 830)	(120 559)
Non-current loans granted	(14 809)	(6 427)	(14 809)	(36 045)
Bills of exchange - non-current	(16)	0	0	(16)
Current loans granted	(45 362)	(20 498)	(18 411)	(84 271)
Bills of exchange - current	(297)	0	0	(297)
Non-current liabilities	16 925	0	24 013	40 938
Total	(81 498)	(62 715)	(56 037)	(200 250)

In 2008, the Management Board decided to cease investments in the Russian oil prospecting and production companies and write off the net assets on those projects totalling PLN 200.2m (see note 3 for more detail).

15. Income tax

15.1. Tax charges

Major components of income tax expense for the year ended 31 December 2008 and 31 December 2007 are:

	<i>for 12 months</i>	
	<i>ended 31 December</i>	
	<i>2008</i>	<i>2007</i>
	<i>PLN '000</i>	<i>PLN '000</i>
<i>Current income tax</i>		
Current income tax charge	0	0
Income tax refunded	(360)	0
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	(3 176)	3 278
Income tax expense reported in the income statement	(3 536)	3 278

15.2. Reconciliation of effective income tax rate

A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Company's effective income tax rate for the years ended 31 December 2008 and 31 December 2007:

	<i>for 12 months</i>	
	<i>ended 31 December</i>	
	<i>2008</i>	<i>2007</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Accounting profit/ (loss) before tax from continuing operations	(239 551)	(13 749)
At Polish statutory income tax rate of 19% (2007: 19%)	(45 515)	(2 612)
Expenditure not allowable for income tax purposes	233 094	31 394
Impairment of finance receivables	0	1 803
Impairment of Oil&Gas investments	200 250	0
The State Fund for Handicapped Persons (PFRON)	120	107
Costs relating to management of the companies	588	3 910
Provision for liabilities	31 395	0
Warrant valuation	12 009	0
Foreign exchange differences on valuation of new investments	(13 170)	11 874
Shortages above norm	156	100
Valuation of liabilities under share purchase transactions	987	12 890
Other expenditure	759	710
Expenditure allowable for income tax purposes, not reported in the Income Statement	(8 428)	(9 732)
Costs of new investments allowed as tax costs when incurred	(8 428)	(9 732)
Not taxable incomes	(3 983)	(4 530)
Resulting from tax decisions	(1 777)	(1 133)
Interest connected with valuation of investments	(2 122)	(3 297)
Other	(84)	(100)
Total permanent differences	220 683	17 132
Effect of permanent tax differences	41 930	3 255
Undisclosed tax losses	18 253	12 570
Effect of permanent tax differences after tax loss	45 398	5 643
Deferred tax not recorded in previous year's financial statements	36	247
Reversal of deferred tax liability related to impairment of Oil&Gas investments	(3 095)	0
Adjustments to current income tax from previous years	(360)	
Income tax expense at effective income tax rate as reported in the income statement	(3 536)	3 278
Effective tax rate	1%	-24%

15.3. Deferred income tax

Deferred income tax relates to the following:

	<i>Balance sheet</i>		<i>Income statement</i>	
	<i>as at</i>		<i>for 12 months</i>	
	<i>31 December</i>	<i>31 December</i>	<i>ended 31 December</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>
Deferred income tax assets				
Unused holiday allowance and employee benefits allowance	246	202	(44)	0
Valuation of receivables and liabilities	4 870	4 611	(259)	(3 407)
Valuation of shareholder loan	3 568	1 648	(1 920)	(1 645)
Tax loss	5 856	2 388	(3 468)	(1 438)
Other	385	235	(150)	(53)
Gross deferred income tax assets	14 925	9 084	(5 841)	(6 543)
Revaluation allowance	(5 856)	(2 388)	3 468	2 388
Net deferred income tax assets	9 069	6 696	(2 373)	(4 155)
Deferred income tax liabilities				
Depreciation	2 502	2 336	166	381
Interest accrued, not received	0	3	(3)	(523)
Cost of purchasing financial investments and raising capital	0	0	0	(443)
Valuation of receivables and liabilities	7 811	8 643	(832)	8 162
Investment property	437	428	9	64
Other	0	143	(143)	(208)
Gross deferred income tax liabilities	10 750	11 553	(803)	7 433
Deferred income tax after set-off - Asset	0	0		
Deferred income tax after set-off - Liability	1 681	4 857		
Effect on the Income Statement			(3 176)	3 278

As at 31 December 2008, the Company did not recognise any deferred tax asset connected with tax losses to be utilised over the next 5 years. The unrecognised tax asset arising on tax losses as at 31 December 2008 was PLN 5,856 thousand (31 December 2007: PLN 2,388 thousand).

16. Social assets and liabilities

The Act on Social Fund of 4 March 1994 with subsequent amendments requires the companies, whose employees' number exceeds 20, to establish and run a Social Fund. The Company operates such a Fund and makes periodical charges to it based on minimum required amount. The Fund's purpose is to subsidize the Company's social activity, loans to employees and other social expenditures.

The Company has netted the assets of the Fund with the liability to the Fund, as these are not separate assets of the Company. The net balance as at 31 December 2008 was therefore PLN 8 thousand (PLN 0 thousand as at 31 December 2007).

The composition and nature of assets, liabilities and costs related to the Social Fund are presented in the following tables.

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	<u>31 December 2008</u>	<u>31 December 2007</u>
	<u>PLN '000</u>	<u>PLN '000</u>
Loans granted to employees	83	102
Cash	143	90
Social Fund liability	(218)	(192)
Net	8	0
Charges to Social Fund made during the year	128	112

17. Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share are calculated by dividing the net profit attributable to ordinary shareholders (after deducting interest on the convertible redeemable preference shares) by the weighted average number of ordinary shares outstanding during the year adjusted for the weighted average of ordinary shares that would be issued on conversion of all dilutive potential equity instruments into ordinary shares.

The following reflects the income and share data used in the total operations basic and diluted earnings per share computations.

	<i>for 12 months ended 31 December</i>	
	<u>2008</u>	<u>2007</u>
Net profit/ loss from continuing operations in PLN '000	(236 015)	(17 027)
Weighted average number of shares for basic earnings per share computations	6 111 350	5 517 584
Number of diluting potential ordinary shares	469 793	469 793
Earnings/ loss per share in PLN	(38.62)	(3.09)
Diluted earnings (loss) per share in PLN	(35.86)	(2.84)

Detailed information on share issued effected in 2007 and 2008 is provided in note 28.

There are diluting instruments existing as at the date of these financial statements.

Following the resolutions passed on 29 April 2008 by the Extraordinary General Shareholders' Meeting regarding the implementation of the Incentive Programme and the Resolution passed by the Supervisory Board on 18 June 2008 implementing the Rules and Regulations of the Incentive Programme – the Management Board Members acquired the right to subscribe for on aggregate not more than 264,285 subscription warrants convertible into the Company E-series shares (see note 28 for more detail on the Incentive Programme).

In July 2008, all eligible persons submitted their declarations of acceptance of the offer and acquisition of subscription Warrants. The rights conferred by the Warrants to subscribe for shares may be realised from the day of issuance of the Warrants, i.e. from 29 July 2008, to 30 April 2011.

On 13 January 2009, the Management Board resolved to increase share capital within the scope of the authorised capital by PLN 5,992,120 via the issuance of 599,212 ordinary bearer K-series shares of a nominal value of PLN 10 each.

In the Company's best interest, the pre-emptive rights of the existing shareholders to K-Series Shares will be entirely precluded. The issue price of K-Series Shares was set at PLN 10. The issue price of K-Series Shares was determined taking into account the conditions prevailing on securities markets and the goals of the issue of K-Series Shares.

The Management Board resolved that K-Series Shares would be offered in a private subscription to the Company's executives, employees and associates, as well as the executives, key employees and associates of the companies of Petrolinvest Group. The Company believes that because the exercise and attractiveness of the Company's existing incentive programmes is doubtful because of the execution price of subscription warrants, which stands at PLN 227 per one Company share, the issue of K-Series Shares is the only realistic aspect of the incentive programme for top management.

Share subscription agreements for K-series shares have been concluded. K-series Shares were paid for at 25% of the issue price. K-series Shares will participate in dividends starting from 1 January 2008.

On 16 February 2009, K-series shares were registered by the District Court of Gdańsk.

The table below sets forth the parameters used to determine the number of potential ordinary shares connected with the share issues described above.

	average price of shares in the period	instrument execution price	total number of instruments issued	number of instruments issued at fair value	number of diluting potential ordinary shares
warrants	191	227	264 285	314 098	0
K-series shares	46.30	10	599 212	129 419	469 793
			863 497	443 517	469 793

18. Dividends paid and declared

There were no limitations existing as at 31 December 2008 that would limit the payment of dividends.

- In the agreement concluded on 21 March 2007 between the Company and Bank PKO BP S.A., the Company agreed not to propose any dividend payments during the term of the agreement without the Bank's prior written consent.

Dividends are paid from profits stated in the standalone financial statements of Petrolinvest S.A. The Company did not pay dividends in 2008 and does not plan to pay dividends in 2009.

19. Property, plant and equipment

As at 31 December 2008 and 31 December 2007, the Company did not have any plant or equipment held under finance lease agreements. The carrying amount of vehicles held under finance lease agreements is PLN 772 thousand (31 December 2007: PLN 876 thousand). Leased assets are not pledged as security for the related finance lease liabilities.

A capped mortgage security of up to PLN 20,000 thousand has been established on real estate located in Łubiana, municipality of Kościerzyna, where the Company owns perpetual usufruct rights. A mortgage security has been established on real estate located in Suwałki for a total of PLN 8,000 thousand with assignment of rights to proceeds from insurance policies. Also a registered pledge has been established over fixed assets with a minimum net value of PLN 2,000 thousand.

The value of capitalised borrowing costs for the year ended 31 December 2008 was PLN 560 thousand (31 December 2007: PLN 277 thousand).

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	including:								
	Land	Perpetual usufruct of land	Buildings, premises and civil engineering structures	Plant and machinery	Vehicles	Other assets	Assets under construction	Prepayments for assets under construction	Total
Net carrying amount									
Opening balance 1 January 2008	572	425	16 294	8 293	6 008	783	13 269	8	45 227
Additions	0	0	159	142	229	44	3 596	0	4 170
Disposals	0	0	(23)	(9)	(115)	(28)	0	(8)	(183)
Transfers	0	0	0	0	0	54	(54)	0	0
Depreciation charge for the year	0	0	(643)	(614)	(899)	(79)	0	0	(2 235)
Closing balance 31 December 2008	572	425	15 787	7 812	5 223	774	16 811	0	46 979
As at 1 January 2008									
Cost	572	425	19 481	11 549	9 332	1 105	13 269	8	55 316
Accumulated depreciation and impairment	0	0	(3 187)	(3 256)	(3 324)	(322)	0	0	(10 089)
Net carrying amount	572	425	16 294	8 293	6 008	783	13 269	8	45 227
As at 31 December 2008									
Cost	572	425	19 605	11 679	9 151	1 171	16 811	0	58 989
Accumulated depreciation and impairment	0	0	(3 818)	(3 867)	(3 928)	(397)	0	0	(12 010)
Net carrying amount	572	425	15 787	7 812	5 223	774	16 811	0	46 979

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	including:								
	Land	Perpetual usufruct of land	Buildings, premises and civil engineering structures	Plant and machinery	Vehicles	Other assets	Assets under construction	Prepayments for assets under construction	Total
Net carrying amount									
Opening balance 1 January 2007	572	425	16 609	8 303	6 422	705	5 071	0	37 682
Additions	0	0	221	568	184	140	8 445	8	9 566
Disposals	0	0	0	(15)	0	0	0	0	(15)
Transfers	0	0	160	63	0	24	(247)	0	(0)
Depreciation charge for the year	0	0	(696)	(626)	(598)	(86)	0	0	(2 006)
Closing balance 31 December 2007	572	425	16 294	8 293	6 008	783	13 269	8	45 227
As at 1 January 2007									
Cost	572	425	19 100	10 933	9 148	941	5 071	0	45 765
Accumulated depreciation and impairment	0	0	(2 491)	(2 630)	(2 726)	(236)	0	0	(8 083)
Net carrying amount	572	425	16 609	8 303	6 422	705	5 071	0	37 682
As at 31 December 2007									
Cost	572	425	19 481	11 549	9 332	1 105	13 269	8	55 316
Accumulated depreciation and impairment	0	0	(3 187)	(3 256)	(3 324)	(322)	0	0	(10 089)
Net carrying amount	572	425	16 294	8 293	6 008	783	13 269	8	45 227

20. Leases

20.1. Finance lease commitments

As at 31 December 2008 and 31 December 2007, future minimum rentals payable under finance leases and the present value of the net minimum lease payments are as follows:

PRESENT VALUE OF LEASE PAYMENTS

	<i>31 December 2008</i>	<i>31 December 2007</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Within 1 year	228	170
Within 1 to 5 years	145	245
	373	415

FUTURE MINIMUM LEASE PAYMENTS

	<i>31 December 2008</i>	<i>31 December 2007</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Amounts payable under finance leases in the period		
Within 1 year	262	214
Within 1 to 5 years	157	274
Minimum lease payments in total	419	488
Less finance charges	(46)	(73)
Present value of minimum lease payments	373	415

The Company is a party to vehicle lease agreements, which – in the Board’s opinion – fall under the scope of financial lease. Those agreements transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item.

20.2. Operating lease

Agreements concluded with the Management Board of Morski Port Gdynia S.A. (Gdynia Sea Port)

On 16 December 2005, Petrolinvest concluded two property lease agreements with the Management Board of Morski Port Gdynia S.A. relating to properties located at the Silesian Quay (Nabrzeże Śląskie), Gdynia. The agreements pertain to the lease of land together with buildings and structures located on the land. The agreements were concluded for a definite term until 31 October 2025. The monthly fee for the lease of land of 1,891 sq. m. was set at PLN 11,156.90, and the monthly fee for the lease of land of 8,151 sq. m. was set at EUR 4,645.55 for land lease and EUR 2,552.50 for using the Gas Trans-shipment Terminal. It was also provided that the fee payable in Polish zloty shall be valorised once a year using the yearly average price index of consumer goods and services for the previous year announced in *Monitor Polski* by the President of the Central Statistical Office, while the fee payable in EUR shall be valorised once a year using the consumer price index published in the Annual Report of the European Central Bank.

On 29 July 2005, Petrolinvest concluded a lease agreement with the Management Board of Morski Port Gdynia S.A. regarding the lease of a building with adjacent land located at 8 Chrzanowskiego St. for office space. The Lessor agreed to perform an overhaul of the premises at the Lessee’s expense. The lease agreement was concluded for a definite term until 31 August 2025 for building lease and until 31 August 2015 for land lease, the latter with an option to sign another land lease agreement for another 10 years. The monthly rent after the overhaul is PLN 2.05 per sq. m. for the building and PLN 1.00 per sq. m. for the land; it was also provided that the rent shall be valorised once a year using the yearly average price index of consumer goods and services for the previous year announced in *Monitor Polski* by the President of the Central Statistical Office.

Future liabilities to unrelated parties in the form of future minimum rentals payable under non-cancellable operating leases are as follows:

	<i>31 December 2008</i>	<i>31 December 2007</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Maturing:		
Within 1 year	518	492
Within 1 to 5 years	2 833	2 696
More than 5 years	7 918	8 352
	<u>11 269</u>	<u>11 540</u>

21. Investment property

	<i>31 December 2008</i>	<i>31 December 2007</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Opening balance at 1 January	2 567	2 232
Net Profit/(Loss) on re-measurement to fair value	49	335
Closing balance at 31 December	<u>2 616</u>	<u>2 567</u>

The fair value of investment property as at 31 December 2008 and 31 December 2007 was determined based on a property valuation by an independent surveyor. The valuation was performed in accordance with the International Valuation Standards on the basis of documented market transactions involving similar type property.

22. Intangible assets

	Concessions, rights, licences	including, software	Total
Net carrying amount			
Opening balance 1 January 2008	209	209	209
Additions	25	25	25
Amortisation charge for the year	(135)	(135)	(135)
Closing balance 31 December 2008	99	99	99
At 1 January 2008			
Cost (gross carrying amount)	330	330	330
Accumulated amortisation and impairment	(121)	(121)	(121)
Net carrying amount	209	209	209
At 31 December 2008			
Cost (gross carrying amount)	355	355	355
Accumulated amortisation and impairment	(256)	(256)	(256)
Net carrying amount	99	99	99
Net carrying amount			
Opening balance 1 January 2007	35	35	35
Additions	226	226	226
Amortisation charge for the year	(52)	(52)	(52)
Closing balance 31 December 2007	209	209	209
At 1 January 2007			
Cost (gross carrying amount)	104	104	104
Accumulated amortisation and impairment	(69)	(69)	(69)
Net carrying amount	35	35	35
At 31 December 2007			
Cost (gross carrying amount)	330	330	330
Accumulated amortisation and impairment	(121)	(121)	(121)
Net carrying amount	209	209	209

During the year ended 31 December 2008, patents and licences were amortised proportionally over their economic useful lives of 2 to 5 years.

23. Investments in subsidiaries and jointly-controlled entities

In 2006, the Company began its investment project aiming at acquiring shares or taking control over foreign companies who own licences for oil and gas exploration, or exploration and extraction. As a result, the Company concluded a number of loan, share purchase and other agreements and made appropriate transfers of funds under those agreements. Payables resulting from the agreements were financed from shareholder loans granted by Prokom Investments S.A., proceeds of share capital increases and bank loans.

On 16 January 2008, PETROLINVEST's Management Board signed investment agreements, amended on 12 September 2008, to acquire a 50% interest in the share capital of EmbaJugNieft and a 48.27% interest in the share capital of Occidental Resources, which will allow the Company to take control over both of the prospecting and extraction companies that have concessions for hydrocarbon exploration and production in the Republic of Kazakhstan. Details of those agreements are provided in current reports 3/2008 and 52/2008 released on 16 January 2008 and 13 September 2008, respectively.

The investment agreements envisaged an issue of 4,082,888 PETROLINVEST S.A. shares in aggregate, including 772,315 shares in exchange for 50% shares in EmbaJugNieft and 3,310,573 shares in exchange for 48.27% shares in Occidental Resources Inc. In addition, in the event of confirmation that the prospective resources of EmbaJugNieft (unrisked mean estimated of prospective resources) are equal to at least 160 million barrels of oil, an additional 271,517 shares in the Company shall be issued.

Upon execution of the investment agreement, PETROLINVEST S.A. will become the owner of 100% of the shares in EmbaJugNieft and 98.27% of the shares in Occidental Resources Inc.

G-series Shares were offered in a private placement and subscribed for by the then shareholders of Occidental Resources Inc. and the H-series Shares were offered in a private placement and subscribed for by the then shareholders of EmbaJugNieft and Capital Vario CR. S.A.

On 7 November 2008, upon execution of some of the share subscription agreements for G-series Shares, representing in aggregate 2,613,163 shares of that series, the ownership of 75,947,519 shares of Occidental Resources Inc. was transferred to the Company, representing a 38.10% shareholding in the share capital of Occidental Resources Inc. and carrying 38.10% of votes at the company's general meeting. After the acquisition, adding the shares of Occidental Resources Inc. acquired earlier, the Company became the owner of shares representing 88.10% of the share capital of Occidental Resources Inc. and carrying 88.10% of votes at the company's general meeting.

On 1 December 2008, in connection with the execution of a number of share subscription agreements for H-series shares, amounting to 447,942 shares of that series, the Company entered into agreements transferring the ownership of 29% of the shares in EmbaJugNieft to the Company.

The transfer of ownership of EmbaJugNieft shares to the Company was effected on the day of registration of the change of shareholders in EmbaJugNieft with a relevant register in Kazakhstan. The Company was informed about the registration of the change of shareholders in EmbaJugNieft on 24 December 2008.

The EmbaJugNieft shares acquired in the transaction represent 29% of Emba share capital and carry 29% of votes at the company's general meeting. After the acquisition of EmbaJugNieft shares described above, adding the shares acquired earlier, the Company became the owner of 79% of Emba shares with an aggregate nominal value of 114,550 tenge, carrying 79% of votes at the company's general meeting.

On 16 January 2008, the Management Board of PETROLINVEST S.A. signed an investment agreement, annexed on 12 September 2008, between the Company and Pruner Group Limited, Mars International Worldwide Inc. and Munivac Global Ventures Inc., regarding the purchase by the Company of 100% of the shares in Capital Energy S.A. Capital Energy S.A. is the owner of the majority shareholdings described below in four Kazakh law companies that possess concessions for oil prospecting and extraction: BMB Munai LLP (75% holding), Bolz LLP (65% holding), Maksat-Munai LLP (100% holding) and Erkin Oil LLP (50% holding). The performance of the agreement has been made conditional on a number of conditions precedent, in particular: the confirmation by a court-appointed auditor of the value of the contribution, gaining appropriate corporate and regulatory consents, and in particular appropriate anti-monopoly consents. Details regarding the agreement were given in current reports 3/2008 and 52/2008 published on 16 January 2008 and 13 September 2008, respectively. Up to the date of approval of these financial statements, the agreement has not been finalised as not all conditions precedent resulting from the agreement had been met.

In the period between 25 April 2008 and the date of approval of these financial statements, the Company entered into five loan agreements with Capital Energy S.A. The agreements were regarding loans granted by the Company for a total of USD 13,200 thousand. The loans mature twelve months from the date the funds are made available. Interest on the loans was set at 14% p.a. The Company also entered into the following agreements serving as collateral for the above-mentioned receivable: (i) three pledge agreements over shares of Bekem Metals Inc (BMI), representing 6.47% of the company's share capital and shares in BOLZ LLP, representing 20% of the company's share capital, held by third parties, and (ii) guarantee agreements with BMB Munai LLP as guarantor for up to USD 25,000 thousand accompanying two loan agreements totalling USD 4,000 thousand each and a guarantee agreement with BMB Munai LLP as guarantor for up to USD 2,000 thousand accompanying a loan agreement totalling USD 1,700 thousand, and (iii) an assignment agreement for receivables payable to Capital Energy S.A. All the loans

have been made available in full amounts. Up to the date of approval of these financial statements, USD 490 thousand has been repaid.

An Investment Agreement was concluded on 21 February 2008, amended on 12 September 2008, between the Company and Mars International Worldwide Inc. and Munivac Global Ventures Inc., regarding the purchase by the Company of 45% of the shares in Kazakhstancaspishelf JSC, a company incorporated under Kazakh law ("Kazakhstancaspishelf"), entitling the Company to 50% of the votes at the general meeting of that company. The performance of the agreement has been made conditional on a number of conditions precedent, in particular: the confirmation by a court-appointed auditor of the value of the contribution, gaining appropriate corporate and regulatory consents, and in particular appropriate anti-monopoly consents. Details regarding the agreement were given in current reports 10/2008 and 52/2008 published on 29 February 2008 and 13 September 2008, respectively. Up to the date of approval of these financial statements, the agreement has not been finalised as not all conditions precedent resulting from the agreement had been met.

On 15 April 2008, the Company concluded a loan agreement with Mars International Worldwide Inc. for USD 2,000 thousand. Interest on the loans was set at 18% p.a. The loan matures six months from the date on which the funds are made available. All funds have been advanced by the date of approval of these financial statements. The loan is secured with a pledge over 33.3% of the shares in Capital Energy S.A. and a power of attorney to vote with those shares.

An Investment Agreement was concluded on 28 February 2008, amended on 12 September 2008, between the Company and Mars International Worldwide Inc., regarding the purchase by the Company of 26.07% of the shares in Caspian Services Inc., a company incorporated under Nevada state law, United States ("Caspian Services"), entitling the Company to 26.07% of the votes at the general meeting of that company. The performance of the agreement has been made conditional on a number of conditions precedent, in particular: the confirmation by a court-appointed auditor of the value of the contribution, gaining appropriate corporate and regulatory consents, and in particular appropriate anti-monopoly consents. Details regarding the agreement were given in current reports 10/2008 and 52/2008 published on 29 February 2008 and 13 September 2008, respectively. Up to the date of approval of these financial statements, the agreement has not been finalised as not all conditions precedent resulting from the agreement had been met.

In the period between 3 April 2008 and the date of approval of these financial statements, the Company concluded two loan agreements with Caspian Services Inc. The agreements were regarding loans granted by the Company to Caspian Services Inc. totalling USD 5,000 thousand. Interest on the loans is based on LIBOR. The loans mature three months from the date on which the funds are made available. All funds have been advanced and then repaid by the date of approval of these financial statements.

On 12 May 2006, the Company entered into a loan agreement with Bakhytbek Baiseitov and Lamda Engineering Inc. (restated on 1 June 2006). The agreement provides that the Company shall grant a loan of USD 25.3m to Bakhytbek Baiseitov that the borrower shall use exclusively towards acquiring shares in Aktau-Tranzit. The loan was extended in three tranches amounting to USD 25.0m. The Company's obligation to make the loan available to the borrower was subject to conditions precedent, which required inter alia that the borrower pledge collateral for the loan. The agreement provides that the loan shall be repaid immediately upon request after 2 June 2007. The Company had not requested any repayment as at 31 December 2008. Lamda Engineering Inc. acts as a guarantor for the borrower's obligations. The following agreements also serve as loan collateral: (i) share pledge agreement over shares constituting 35 per cent of the share capital of Lamda Engineering Inc. with Kulyash Baiseitova as pledgor, (ii) share pledge agreement over 1,714,286 shares of BMB Munai Inc. with Bakhytbek Baiseitov as pledgor, and (iii) guarantee agreement with Kulyash Baiseitova as guarantor. Moreover, Bakhytbek Baiseitov issued a sola bill of exchange.

On 12 May 2006, the Company entered into an agreement with Kulyash Baiseitova and Bakhytbek Baiseitov whereby Kulyash Baiseitova granted to the Company call options for shares constituting 35 per cent of the share capital of Lamda Engineering Inc., a company incorporated in British Virgin Islands, or for shares constituting 35 per cent of the share capital of one of its subsidiaries, especially Aktau-Tranzit, the owner of the Tyubedzhik and Zhangurshi concessions. Should the Company acquire the shares, it shall renounce its claim to the receivables due from Bakhytbek Baiseitov under the loan agreement and the related collateral up to the value of the shares acquired. The value of the shares acquired shall be determined upon execution of the call option by the parties or, in case agreement is not reached, by an independent expert. The option had been granted up until final repayment of the loan granted by the Company. To secure the execution of the agreement, Kulyash Baiseitova granted a power of attorney to the Company to dispose of shares constituting 70 per cent of the share capital of Lamda Engineering Inc. In July 2007, having received an expert's report estimating the Tyubedzhik and Zangurschi oil resources, management decided to execute the agreement of 12 May 2006 by exercising the option to acquire a 35 per cent stake in Aktau-Tranzit. Prior to exercising the option, it will be necessary to secure the relevant approvals and permits, in particular the approval of the Kazakh anti-trust authorities and of the Ministry of Energy. Management may decide to finance the activities of the company before then despite the fact that registration proceedings may still be in progress.

Taking into account the decline in long-term projections of oil prices on the world's markets and difficulties in getting access to financing for the full scope of investment activities, and also considering the reserves estimated by the independent expert for each concession and the results of analyses and discussions with the expert regarding the possible economic effects of production of individual concessions—the Management Board of PETROLINVEST S.A. decided that investment activities

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should be focused around concessions with the highest short-term value increase potential—that is the concessions of OTG and Emba Jug Nieft. With respect to the concessions of the Russian companies, as they are less prospective, the Management Board decided to discontinue exploration on the territory of the Russian Federation and to begin working towards selling those assets. These decisions resulted in a one-off impairment charge being made to the net assets associated with those projects (see also note 3 and 14.7) in the following amounts:

- with respect to the project delivered by Siewiergeofizyka – PLN 81.5 million (including: shares – PLN 37.9m, bills of exchange – PLN 0.3m, extended loans with interest PLN 60.2m, expired premium liability – PLN 16.9m)
- with respect to the project delivered by Nieftegeoserwis – PLN 62.7 million (including: shares – PLN 35.8m, extended loans with interest PLN 26.9m)
- with respect to the project delivered by Pechora Petroleum – PLN 56.0 million (including: shares – PLN 46.8m, extended loans with interest PLN 33.2m, expired premium liability – PLN 24.0m)

	<i>31 December 2008</i>	<i>31 December 2007</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Financial assets		
A. Non-current	870 018	784 148
Shares and stocks	652 016	618 984
Long-term loans granted	218 002	165 137
Bills of exchange	0	27
B. Current	106 616	62 705
Short-term loans granted	106 616	62 438
Bills of exchange	0	267
Total financial assets, including	976 634	846 853
non-current	870 018	784 148
current	106 616	62 705

The value of shares held and loans extended by the Company as at 31 December 2008 and 31 December 2007 was as follows:

No.	Company	nominal value at 31 December 2008		value of shares at 31 December 2008 (PLN '000)		
		currency amount	currency	shares	premium	total
1.	OOO Siewiergeofizyka	13 000	USD	0	0	0
2.	Occidental Resources, Inc	191 040	USD	546 102	0	546 102
3.	UAB Petrolinvest Mockavos Perpyla Sp. z o.o.	1 360	LTL	1 761	0	1 761
4.	TPG GAZ S.A.	85	PLN	85	0	85
5.	OOO Nieftegeoserwis	12 000	USD	0	0	0
6.	TOO Company Profit	1	USD	31 674	0	31 674
7.	TOO EmbaJugNieft	6 079	USD	72 394	0	72 394
8.	ZAO Pechora Petroleum	17 000	USD	0	0	0
Shares / stocks				652 016	0	652 016

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No.	Company	nominal value at 31 December 2007		value of shares at 31 December 2007 (PLN '000)		
		currency amount	currency	shares	premium	total
1.	OOO Siewiergeofizyka	13 000	USD	22 518	15 421	37 939
2.	Occidental Resources, Inc	143 333	USD	410 479	0	410 479
3.	UAB Petrolinvest Mockavos Perpyla Sp. z o.o.	1 360	LTL	1 761	0	1 761
4.	TPG GAZ S.A.	85	PLN	85	0	85
5.	OOO Nieftiegeoserwis	12 000	USD	35 790	0	35 790
6.	TOO Company Profit	1	USD	31 674	0	31 674
7.	TOO EmbaJugNieft	1	USD	54 427	0	54 427
8.	ZAO Pechora Petroleum	17 000	USD	25 455	21 374	46 829
Shares / stocks				582 189	36 795	618 984

As at 31 December 2008, the Company recognised impairment of investments in the Russian companies—also described in note 3. The table below sets forth the value of assets and liabilities for the year 2008 before and after impairment associated with the investment in the Russian companies:

	<i>31 December 2008</i>	<i>31 December 2008</i>	<i>31 December 2008</i>
	<i>before impairment</i>	<i>impairment charge</i>	<i>after impairment</i>
	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>
Non-current assets, including	1 076 332	(156 620)	919 712
Other financial assets	1 026 638	(156 620)	870 018
Current assets	215 121	(84 568)	130 553
Current investments	191 184	(84 568)	106 616
Total Assets	1 291 453	(241 188)	1 050 265
Equity, including	650 593	(200 250)	450 343
Retained earnings	(68 011)	(200 250)	(268 261)
Liabilities, including	640 860	(40 938)	599 922
Other non-current liabilities	40 938	(40 938)	0
Total Equity and Liabilities	1 291 453	(241 188)	1 050 265

In compliance with the accounting policies, the Company tested the companies: Occidental Resources, EmgaYugNieft and Company Profit for impairment as at 31 December 2008.

Impairment testing was based on expected cash flows, forecasted for the full term of the concessions due to the particular character of the project. The main assumptions influencing the profitability of field production under the concessions are as follows:

- the pricing of petroleum – management assumed a fixed price of the Brent blend at USD 60/bbl in the model;
- Brent-Ural differential (price discount on the Ural/REBCO blend in relation to the Brent blend due to lower quality) – for the purpose of financial projections, it was assumed that the Ural-Brent differential will be stable at a level of USD 3/bbl.

Resources adopted for the purpose of impairment testing were determined on the basis of an expert opinion (the Independent Expert's Report) prepared by a duly qualified and experienced independent expert. The Independent Expert assessed the total resources attributable to Petrolinvest. A discount rate of 15% was adopted for the analysis as practiced in the petroleum industry for these types of investments.

The testing did not indicate that an impairment loss should be recognised on the investments.

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No.	entity	agreement	maturity	nominal value as at 31 December 2008		loan valuation as at 31 December 2008 (PLN '000)				
				amount	currency	non-current	current	discount	total	
1.	OOO Sevegeofizika	Line of Credit Agreements with the Company incorporated in the Russian Federation		18 572	USD	0	0	0	0	
		individual loans / tranches	2009-06-22	250	USD					
			2009-12-15	420	USD					
			2009-12-15	1 047	USD					
			2009-12-15	900	USD					
			2009-12-15	500	USD					
			2009-12-15	1 200	USD					
			2009-12-15	799	USD					
			2009-12-15	979	USD					
			2009-12-15	2 437	USD					
			2009-12-15	580	USD					
			2009-12-15	1 078	USD					
			loan agreement totalling USD 5m	2012-12-31	5 000	USD				
	loan agreement totalling USD 4m	2009-01-31	3 382	USD						
2.	OOO Niefiegeoservis	loan agreements with the Company incorporated in the Russian Federation		8 240	USD	0	0	0	0	
		individual loans / tranches	2009-12-15	300	USD					
			2009-12-15	500	USD					
			2009-12-15	990	USD					
			2009-12-15	358	USD					
			2009-12-15	528	USD					
			2009-12-15	709	USD					
			2009-12-15	445	USD					
			2009-12-15	2 240	USD					
			2012-12-31	2 170	USD					
			loan agreement totalling USD 4.5m							
3.	ZAO Pechora - Petroleum	loan agreements with the Company incorporated in the Russian Federation		10 462	USD	0	0	0	0	
		individual loans / tranches	2009-12-15	833	USD					
			2009-12-15	494	USD					
			2009-12-15	358	USD					
			2009-12-15	345	USD					
			2009-12-15	407	USD					
			2012-12-31	5 000	USD					
			loan agreement totalling USD 5m							
			loan agreement totalling USD 3.5m	2009-01-31	3 025	USD				
4.	Bakhytbek Baiseitov	loan agreement with a natural person (non-resident), dated 12.05.2006, amended by annex dated 01.06.2006, for USD 25.3m		25 000	USD	74 045	0	4 356	78 401	
		individual loans / tranches	2007-06-30	10 000	USD					
			2007-06-30	9 500	USD					
			2007-06-30	5 500	USD					
5.	TOO Company Profit	Investment Agreement dated 9.06.2006 totalling USD 14m	2031-06-08	14 000	USD	12 173	0	0	12 173	
		individual loans / tranches	2031-06-08	5 000	USD					
			2031-06-08	4 500	USD					
			2031-06-08	1 000	USD					
			2031-06-08	300	USD					
			2031-06-08	1 370	USD					
			2031-06-08	800	USD					
			2031-06-08	1 030	USD					
			loan agreement dated 27.08.2007 totalling USD 1.8m	2012-12-31	1 800	USD	15 623	693	0	16 316
			loan agreement dated 17.10.2007 totalling USD 15m	2012-12-31	3 475	USD				
6.	TOO EmbajugNieft	Investment Agreement dated 9.06.2006 totalling USD 25m		25 000	USD	22 530	0	0	22 530	
		individual loans / tranches	2031-06-08	5 000	USD					
			2031-06-08	12 902	USD					
			2031-06-08	2 700	USD					
			2031-06-08	300	USD					
			2031-06-08	3 000	USD					
			2031-06-08	1 098	USD					
			loan agreement dated 11.06.2007 totalling USD 25m	2012-12-31	25 000	USD	89 225	4 904	0	94 129
			loan agreement dated 6 March 2008 totalling USD 20m	2011-01-31	5 125	USD				
7.	Occidental Resources	loan agreement dated 15.11.2006 totalling USD 5m	2009-11-30	5 000	USD	0	52 648	0	52 648	
		loan agreement dated 23.07.2008 with annexes totalling USD 11,461m	2009-11-30	11 461	USD					
8.	Mars International	Loan agreement dated 15.04.2008 totalling USD 2m	2008-10-15	2 000	USD	0	6 680	0	6 680	
9.	Capital Energy	Loan Agreement dated 25.04.2008 totalling USD 4m	2009-04-24	4 000	USD	0	40 358	0	40 358	
		Loan Agreement dated 12.05.2008 totalling USD 4m	2009-05-12	4 000	USD					
		Loan Agreement dated 04.06.2008 with annex totalling USD 1.7m	2009-06-14	1 700	USD					
		Loan Agreement dated 08.10.2008 totalling USD 0.5m	2009-10-09	10	USD					
		Loan Agreement dated 17.11.2008 totalling USD 3m	2009-11-16	3 000	USD					
10.	other					50	1 333	0	1 383	
Loans granted						213 646	106 616	4 356	324 617	

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No.	entity	agreement	maturity	nominal value as at 31 December 2007		loan valuation as at 31 December 2007 (PLN '000)			
				amount	currency	non-current	current	discount	total
1.	OOO Severgeofizika	Line of Credit Agreements with the Company incorporated in the Russian Federation		13 563	USD	8 885	25 848	0	34 733
		individual loans / tranches	2009-06-22	250	USD				
			2008-12-15	420	USD				
			2008-12-15	1 047	USD				
			2008-12-15	900	USD				
			2008-12-15	500	USD				
			2008-12-15	1 200	USD				
			2008-12-15	799	USD				
			2008-12-15	979	USD				
			2008-12-15	2 437	USD				
			2008-04-12	580	USD				
	2008-05-14	1 078	USD						
	2012-12-31	3 373	USD						
		loan agreement totalling USD 5m							
2	OOO Neftegeoservis	loan agreements with the Company incorporated in the Russian Federation		7 939	USD	4 551	15 676	0	20 227
		individual loans / tranches	2008-12-15	300	USD				
			2008-12-15	500	USD				
			2008-12-15	990	USD				
			2008-12-15	358	USD				
			2008-12-15	528	USD				
			2008-12-15	709	USD				
			2008-04-12	445	USD				
			2008-05-14	2 240	USD				
			2012-12-31	1 869	USD				
				loan agreement totalling USD 4.5m					
3	ZAO Pechora - Petroleum	loan agreements with the Company incorporated in the Russian Federation		6 980	USD	11 062	6 451	0	17 513
		individual loans / tranches	2008-12-15	833	USD				
			2008-12-15	494	USD				
			2008-12-15	358	USD				
			2008-04-12	345	USD				
			2008-05-14	407	USD				
			2012-12-31	4 543	USD				
		loan agreement totalling USD 5m							
4	Bakhytbek Baiseitov	loan agreement with a natural person (non-resident), dated 12.05.2006, amended by annex dated 01.06.2006, for USD 25.3m; loan collateral: bill of exchange, pledge over shares, call option		25 000	USD	60 875	0	4 356	65 231
		individual loans / tranches	2007-06-30	10 000	USD				
			2007-06-30	9 500	USD				
			2007-06-30	5 500	USD				
5	TOO Company Profit	Investment Agreement with the company incorporated in Kazakhstan dated 9.06.2006 totalling USD 14m	2031-06-08	14 000	USD	9 476	0	0	9 476
		individual loans / tranches	2031-06-08	5 000	USD				
			2031-06-08	4 500	USD				
			2031-06-08	1 000	USD				
			2031-06-08	300	USD				
			2031-06-08	1 370	USD				
			2031-06-08	800	USD				
			2031-06-08	1 030	USD				
			2012-12-31	1 800	USD	8 157	90	0	8 247
			2012-12-31	1 550	USD				
		loan agreement with the company incorporated in Kazakhstan dated 27.08.2007 totalling USD 1.8m							
		loan agreement with the company incorporated in Kazakhstan dated 17.10.2007 totalling USD 15m							
6	TOO EmbajugNieft	Investment Agreement with the company incorporated in Kazakhstan dated 9.06.2006 totalling USD 25m		25 000	USD	17 566	0	0	17 566
		individual loans / tranches	2031-06-08	5 000	USD				
			2031-06-08	12 902	USD				
			2031-06-08	2 700	USD				
			2031-06-08	300	USD				
			2031-06-08	3 000	USD				
			2031-06-08	1 098	USD				
	2012-12-31	16 492	USD	40 158	602	0	40 760		
		loan agreement with the company incorporated in Kazakhstan dated 11.06.2007 totalling USD 25m							
7	Occidental Resources, Inc	loan agreement with the company incorporated in the US dated 15.11.2006 totalling USD 5m	2008-11-30	5 000	USD	0	13 051	0	13 051
8	other					51	720	0	771
Loans granted						160 781	62 438	4 356	227 575

24. Employee benefits

24.1. Pensions and other post-employment benefit plans

The entity provides post-employment benefits to retiring employees in accordance with labour law. As a result – based on a valuation carried out by a professional actuarial company – the Company recognised a provision for the current value of this retirement benefit liability. The following table summarises the amounts of the provision and movements in the benefit liability over the period:

	2008	2007
At 1 January	253	260
Provision recognized	73	0
Benefits paid	0	0
Provision released	0	(7)
At 31 December	326	253

The principal assumptions used by the actuary in determining retirement and other benefit obligations as at the balance sheet date are shown below:

	31 December 2008	31 December 2007
Discount rate (%)	5.5%	5.1%
Pay increase ratio	2.5%	2.7%

24.2. Employee share incentive plans

Pursuant to the resolutions passed on 29 April 2008 by the Extraordinary General Shareholders' Meeting regarding the implementation of an Incentive Programme and the Resolution passed by the Supervisory Board on 18 June 2008 implementing the Rules and Regulations of the Incentive Programme – the following Management Board Members (hereinafter "Eligible Persons") acquired the right to take up in aggregate not more than 264,285 subscription warrants convertible into the Company E-series shares:

- Paweł Gricuk – President 176,190 warrants,
- Zenon Grablewski – Vice-President 58,730 warrants,
- Marcin Balicki – Board Member 29,365 warrants.

In accordance with the Rules and Regulations of the Incentive Programme, each Warrant carries the right to one E-series PETROLINVEST share at the issue price of PLN 227 per share.

In July 2008, all eligible persons submitted their declarations of acceptance of the offer and acquisition of subscription Warrants. The rights conferred by the Warrants to take up shares may be realised from the day of issuance of the Warrants, i.e. from 29 July 2008, to 30 April 2011.

In compliance with the requirements of IFRS, the Company was required to make an assessment of the fair value of the warrants as at the date of granting the rights thereto. The amount arrived at in this way was charged to the Company's payroll costs in the third quarter of 2008 when the rights were granted. The cost of warrant issue of PLN 12m, calculated using the Black-Scholes model, was taken to the Company's payroll costs in the third quarter of 2008. The cost will not impact the Company's cash flows.

The options were valued using the following metrics:

1. current share price was the close price of shares at the date of acceptance of the offer and acquisition of subscription warrants by eligible persons,
2. option exercise price was PLN 227 in accordance with the Rules and Regulations of the Incentive Programme,
3. risk-free interest rate, continuously compounded, was the interest rate of treasury bills of 6.5%,
4. annualised volatility of the stock was 46%,
5. in compliance with the Rules and Regulations of the Incentive Programme, the maturity date was set for 30 April 2011.

25. Inventories

	<u>31 December</u> <u>2008</u>	<u>31 December</u> <u>2007</u>
	<u>PLN '000</u>	<u>PLN '000</u>
Raw materials	153	173
Goods	2 673	5 043
Prepaid goods	0	2 653
	<u>2 826</u>	<u>7 869</u>

In accordance with the loan agreement dated 16 December 2004 concluded between the Company and Bank Millennium SA, the bank's receivables were secured by a registered pledge on inventory with a minimum value of PLN 1,000 thousand and an assignment of proceeds from an insurance policy. As the loan agreement was terminated, the Bank gave its consent to clear the pledge entry on 25 May 2007. The pledge entry was deleted from the register of pledges by the District Court on 3 March 2008.

There were no inventories measured at net selling price as at 31 December 2008 or as at 31 December 2007.

As at 31 December 2008, the Company disclosed in the balance sheet obligatory stocks valued at PLN 802 thousand (as at 31 December 2007: PLN 2,151 thousand).

26. Trade and other receivables and receivables from public authorities

	<u>31 December</u> <u>2008</u>	<u>31 December</u> <u>2007</u>
	<u>PLN '000</u>	<u>PLN '000</u>
Trade receivables	7 801	14 290
Receivables from employees	30	28
Income tax receivable	35	27
	<u>7 866</u>	<u>14 345</u>

For terms and conditions of related party transactions, refer to note 35.3.

Trade receivables are non-interest bearing and are generally payable on 1 to 30-day terms.

The company has a policy to sell only to verified customers. Thanks to that, as Management believes, there is no additional credit risk that would not be covered by the doubtful debts allowance related to trade receivables of the Company.

As at 31 December 2008, trade receivables of PLN 1,012 thousand (2007: PLN 1,142 thousand) were deemed uncollectible and were written off. Movements in revaluation allowances for receivables were as follows:

	<u>2008</u>	<u>2007</u>
	<u>PLN '000</u>	<u>PLN '000</u>
Revaluation allowance at 1 January	1 142	1 269
Increase	47	219
Utilisation	(177)	(346)
Revaluation allowance at 31 December	<u>1 012</u>	<u>1 142</u>

The table below sets forth trade receivables which were overdue as at 31 December 2008 and 31 December 2007 but which were not deemed uncollectible.

	Total	Not overdue	Overdue but collectible				
			< 30 days	31 – 90 days	91 – 180 days	181 – 360 days	>360 days
31 December 2008	7 801	4 710	2 748	312	26	1	4
31 December 2007	14 290	8 109	6 100	64	1	15	1

27. Cash

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for one day. The fair value of cash and cash equivalents as at 31 December 2008 is PLN 2,684 thousand (31 December 2007: PLN 6,764 thousand). As at 31 December 2008, the Company had available PLN 20,587 thousand (31 December 2007: PLN 36,000 thousand) of un-drawn committed overdraft facilities.

For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

	<i>31 December 2008</i>	<i>31 December 2007</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Cash at bank and in hand	2 684	6 764
Revolving credit facility	(25 413)	0
Cash and cash equivalents in the cash flow statement	<u>(22 729)</u>	<u>6 764</u>

28. Issued capital and reserves

28.1. Share capital

As at 31 December 2008, the Company's share capital amounted to PLN 63,481 thousand and was composed of 6,348,092 shares of a nominal value of PLN 10 each.

The Company's share capital structure as at the balance sheet date was as follows:

Shareholder	Number of shares	Number of votes	Nominal value of shares	Percentage in share capital
PROKOM INVESTMENTS S.A.	2 487 144	2 487 144	24 871 440	39.18%
NIHONSWI AG	1 456 760	1 456 760	14 567 600	22.95%
Transcontinental Fund Limited	792 900	792 900	7 929 000	12.49%
Ryszard Krauze	3 586	3 586	35 860	0.06%
Other shareholders	1 607 702	1 607 702	16 077 020	25.32%
TOTAL	6 348 092	6 348 092	63 480 920	100.00%

In March 2008, the Company issued D-series shares. 290,474 D-series shares were sold as part of the offer at an issue price of PLN 275 per share. As a result of the offer, the Company obtained gross proceeds of PLN 79,880 thousand. The share capital increase was registered with the National Court Register on 9 April 2008.

A decision was made by a resolution of the EGM of 29 April 2008 to issue E-series shares in the aggregate amount not higher than 264,285 shares in exercise of the conditional share capital increase. The purpose of the share issue is to exercise the incentive programme for the Company management board members based on the issue of subscription warrants entitling their holders to subscribe for E-series shares.

In July 2008, all eligible persons submitted their declarations of acceptance of the offer and acquisition of subscription Warrants. The rights conferred by the Warrants to subscribe for shares may be realised from the day of issuance of the Warrants, i.e. from 29 July 2008, to 30 April 2011. In compliance with IFRS, the Company was required to make an assessment of the fair value of the warrants as at the date of granting the rights thereto. The amount arrived at in this way was charged to the Company's payroll costs in Q3 2008 when the rights were granted. The cost of warrant issue of PLN 12m, calculated using the Black-Scholes model, was taken to the Company's payroll costs in Q3 2008. The cost will not impact the Company's cash flows.

On 16 September 2008, the Company's Management Board resolved to increase share capital within the scope of the authorised capital by PLN 1,846,160 via the issuance of 184,616 ordinary bearer F-series shares, each of a nominal value of PLN 10. The offering was effected on 22 September 2008 on the terms set out by the Management Board. As a result of the offering, the Company received gross proceeds of PLN 24,000,080. The goal of the issue was to provide the Company with finance to support investment projects. On 7 November 2008, the increase of the share capital of the Company through the F issue was registered by the District Court for Gdańsk-Północ of Gdańsk, VIII Economic Department of the National Court Register.

On 17 September 2008, the Management Board resolved to convene an Extraordinary General Meeting for 24 October 2008 in order to increase the share capital by PLN 45,129,500 via the issuance of shares series G, H, I, and J.

The goal of the issue is to execute the investment agreements pertaining to the acquisition of shares/stocks in TOO EMBA YUG NIEFT, Occidental Resources Inc., and Caspian Services Inc.

On 24 October 2008, the EGM of PETROLINVEST S.A. passed the following resolutions on share capital increases of the Company via:

- the issuance of up to 3,310,573 G-series shares
- the issuance of up to 772,315 H-series shares
- the issuance of up to 412,221 I-series shares, and
- the issuance of up to 17,841 J-series shares.

As a result of the issues of series G, H, I and J shares, the Company's share capital will increase to PLN 108,610,420.

G-series Shares were offered in a private placement and subscribed for by the then shareholders of Occidental Resources Inc. and the H-series Shares were offered in a private placement and subscribed for by the then shareholders of EmbajugNieft and Capital Vario CR. S.A.

Series G and H shares were registered by the District Court of Gdańsk on 12 March 2009.

The Company's share capital structure as at 31 December 2008 was as follows:

Series	Number of shares	Nominal value of shares	Share capital (PLN)
Series A bearer shares	5 286 000	10	52 860 000
Series B bearer shares	528 600	10	5 286 000
Series C bearer shares	58 402	10	584 020
Series D bearer shares	290 474	10	2 904 740
Series F bearer shares	184 616	10	1 846 160
TOTAL	6 348 092		63 480 920

As at 31 December 2007, the Company's share capital amounted to PLN 58,730 thousand and was divided into 5,873,002 shares of a nominal value of PLN 10 each. The Company's share capital structure as at 31 December 2007 was as follows:

Shareholder	Number of shares	Number of votes	Nominal value of shares	Percentage in share capital
PROKOM INVESTMENTS S.A.	2 336 000	2 336 000	23 360 000	39.78%
NIHONSWI AG	1 216 250	1 216 250	12 162 500	20.71%
Transcontinental Fund Limited	792 900	792 900	7 929 000	13.50%
Ryszard Krauze	527 800	527 800	5 278 000	8.99%
Other shareholders	1 000 052	1 000 052	10 000 520	17.02%
TOTAL	5 873 002	5 873 002	58 730 020	100%

At the turn of June/July 2007, the Company issued new series B shares in a public offering; allotment of the shares was effected by the resolution of the Management Board dated 6 July 2007. The Company issued 528,600 shares in the public offering to institutional and retail investors (396,450 and 132,150 shares, respectively).

The reduction rate for the tranche offered to retail investors was 90.9972%.

Proceeds from the subscription amounted to PLN 119,992,200, while aggregate costs of the offering amounted to PLN 13,793,304.66, i.e. PLN 26.09 per share.

On 13 June 2007, the Polish Financial Supervision Authority approved the Issue Prospectus of Petrolinvest S.A., and on 16 July 2007 rights to shares of Petrolinvest S.A. were first quoted on the Warsaw Stock Exchange.

On 11 July 2007, the Company's Management Board resolved to issue series C shares to increase the authorised share capital and offer them to members of the Company's governing bodies and selected employees of the Company and the Oil Exploration and Production Companies.

On 5 September 2007, the National Depository for Securities (KDPW) registered 58,402 (fifty eight thousand four hundred and two) series C shares of Petrolinvest S.A. pursuant to the Resolution of the Management Board of KDPW dated 27 August 2007.

The Management Board of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.), by way of resolution dated 31 August 2007, resolved to introduce the Company's series C shares to exchange trading on the main market by way of an ordinary procedure on 5 September 2007.

On 10 August 2007, the Company was notified of registration of the share capital increase as a result of the issue of series B and series C shares. The registration of the share capital increase resulted in an increase of the Company's authorised share capital from PLN 52,860,000 to PLN 58,730,020.

The Company's share capital structure as at 31 December 2007 was as follows:

Series	Number of shares	Nominal value (PLN)	Share capital (PLN)
Series A bearer shares	5 286 000	10	52 860 000
Series B bearer shares	528 600	10	5 286 000
Series C bearer shares	58 402	10	584 020
TOTAL	5 873 002		58 730 020

28.1.1 Nominal value of shares

All issued shares have a nominal value of PLN 10 and have been fully paid.

28.1.2 Shareholders rights

Shares of all series are equal with respect to the distribution of votes, dividends or repayment of capital.

28.2. Reserve capital

In compliance with Article 396 § 1 of the Commercial Companies Code, the Company creates reserve capital to which a minimum of 8% profit for the current financial year is transferred until the amount of reserve capital reaches the minimum level of 1/3 of the share capital. As at 31 December 2008 and 31 December 2007, reserve capital and revaluation capital amounted to PLN 15,593 thousand.

The remaining part of other reserve capital is share premium (share premium was PLN 473,931 thousand as at 31 December 2008; as at 31 December 2007 it was PLN 375,693 thousand) and capital arising on the valuation of warrants of PLN 12,009 thousand.

29. Interest-bearing loans and borrowings

Powszechna Kasa Oszczędności Bank Polski S.A.

An agreement was concluded on 21 March 2007 by and between the Company and Powszechna Kasa Oszczędności Bank Polski S.A. whereby the participating banks (PKO BP S.A. and any new bank that may become a party to the credit agreement and assume a portion of rights and obligations of PKO BP S.A. stipulated therein) undertook to extend a credit facility to the Company in the amount of PLN 300,000 thousand or its USD equivalent. The purpose of the credit facility is to finance an investment undertaking involving crude exploration and production in Kazakhstan and the Russian Federation (Komi Republic) by selected entities of PETROLINVEST S.A. Capital Group and to enable PETROLINVEST S.A. to finance such activities by providing project loans or funding PETROLINVEST's stake in the increased share capital of any of the Oil Exploration and Production Companies. On 20 July 2007, the Company signed Annex no. 1 to the credit facility agreement with PKO BP S.A. providing that a portion of rights and obligations of PKO BP S.A. arising from the agreement shall be assumed by Bank Gospodarstwa Krajowego.

During the term of the facility, the parties concluded annexes whereby they made changes with respect to collateral in the form of capped mortgages on real property and in the form of a pledge over financial assets owned by a third party – an entity of Prokom Investments Group and changed the draw-down formula. All the other conditions remained unchanged. Interest accruing on the loan continues to be based on WIBOR and LIBOR, accordingly, depending on the currency of the facility.

In the period covered by the financial statements, the Company finished drawing down tranches of the facility extended under the agreement dated 21 March 2007 by PKO BP S.A. and BGK. The amount of the facility that has been utilised is PLN 2,183 thousand and USD 100,184 thousand.

The facility matures in December 2012; the first instalment is to be paid in December 2010. The facility will be payable in three yearly instalments. A detailed repayment schedule is given in the table below.

Repayment Dates	Repayment
31 December 2010	PLN 50,000,000 of the PLN Facility or USD equivalent of PLN 50,000,000 of the USD Facility, in proportions corresponding to proportions of Facilities advanced
31 December 2011	PLN 100,000,000 of the PLN Facility or USD equivalent of PLN 100,000,000 of the USD Facility, in proportions corresponding to proportions of Facilities advanced
31 December 2012	repayment of the remaining balance

The Agreement introduces an obligation of early repayment of a portion or all of the facility in case the aggregate proceeds from the repayment of Project Loans by Oil Production Companies and dividends or other payments of profits from the Oil Production Companies shall be higher than projected in the Business Plan. Another factor triggering the early repayment obligation is failure to effectively acquire shares in any of the Oil Exploration and Production Companies before or on

30 September 2007. Up to the date of preparation of the financial statements, acquisition of shares in all Oil Exploration and Production Companies has been effectively completed (owned Oil Exploration and Production Companies are listed in note 3).

The Credit Facility Agreement imposes certain restrictions on the Company, including restrictions with respect to encumbering property, incurring new liabilities etc.

The Credit Facility Agreement provides that the Company must maintain a certain level of the ratio of balance sheet debt to equity and EBITDA to total debt service, starting on and as from 30 June 2009.

The Credit Facility Agreement provides for the following security:

1. Capped mortgages on real property owned by a third party – an entity of Prokom Investments Group,
2. Registered and financial pledge over financial assets made available for this purpose by Prokom Investments S.A.,
3. Registered and financial pledge over rights in respect of separate fund accounts,
4. Powers of attorney to bank accounts,
5. Declaration on submission to enforcement of judgments,
6. Support Agreement with Prokom Investments S.A., and
7. Pledge Agreement over the shares of Occidental Resources.

In connection with global crisis phenomena prevailing over the world economy as well as global and domestic financial markets, including in particular those which lead to an abrupt and unprecedented decline in value of a number of financial instruments and foreign currencies, the value of a portion of collateral against the aforementioned facility fell below the level required by the credit facility agreement. The loan agreement had not been terminated by the banks, the facility had not become mature, and the Company, in performing its obligations resulting from the agreement, provided additional collateral on 30 December 2008 in the form of a pledge over 50% shares held by the company in Occidental Resources, Inc., the value of which is significantly above the value of the facility and agreed to pledge other shares of Occidental Resources, Inc. held by it as security. The pledge over 38.1% of ORI shares was established on 18 March 2009.

On 30 March 2009, the Company concluded an annex to the credit facility agreement with the banks PKO BP S.A. and BGK. On the terms set out in the annex to the credit facility agreement, the participating banks confirmed that they did not recognise the decline in value of a portion of the collateral portfolio below the level required by the credit facility agreement as an event of default. Also on 30 March 2009, the Company provided the participating banks with additional collateral in the form of a transfer as collateral of receivables totalling USD 72,678,500 from loans extended by the Company to the companies and committed to provide further collateral in the future, including a pledge over the Company's shares and stocks and transfer as collateral of USD 56,136,000 loan receivables with accrued interest.

Fortis Bank Polska S.A.

On 20 June 2007, the Company entered into an agreement with Fortis Bank Polska S.A. under which the Company was granted a credit facility of PLN 10m. The agreed term of the facility expires on 19 June 2017, while the first availability period expired on 18 June 2008. On 18 June 2008, the bank gave its consent to make available to the Company a credit line facility of PLN 10m for another current availability period from 18 June 2008 to 16 June 2009. On 16 September 2008, the Company and Fortis Bank Polska SA concluded an annex increasing the current account overdraft facility by PLN 10m to PLN 20m. The overdraft is secured by a declaration on submission to enforcement of judgments and a capped mortgage on real estate. Interest accruing on the loan continues to be based on WIBOR. Other terms of the financing remained unchanged.

BRE Bank S.A.

On 24 August 2007, the Company entered into an overdraft facility agreement with BRE Bank Spółka Akcyjna providing a financing of PLN 20m for a period to 29 May 2008. The facility was granted in place of the previous financing granted by Bank Millennium S.A. totalling PLN 16m. Interest has been determined based on WIBOR. On 30 May 2008, the Company entered into an annex to the Overdraft Facility Agreement with BRE Bank Spółka Akcyjna renewing the available financing of PLN 20m for another 12-month period to 28 May 2009. Other terms of the agreement remained unchanged.

Bank Polska Kasa Opieki Spółka Akcyjna

On 30 September 2008, the Company entered into an Annex to the overdraft credit facility agreement with Bank Polska Kasa Opieki Spółka Akcyjna to prolong the credit line of PLN 6m for another 12 month period to 30 September 2009. Interest was again determined based on WIBOR.

On 28 September 2007, the Company concluded and Annex to the investment facility agreement with Bank Polska Kasa Opieki Spółka Akcyjna in which the parties agreed to prolong the drawdown period by 3 months and postpone the repayment date of the facility (to 31 December 2007 and 31 March 2008, respectively) totalling PLN 8m to finance the investment project named Extension of the LPG Sea Terminal in Gdynia. Interest was again determined based on WIBOR.

Prokom Investments S.A.

On 21 March 2007, an agreement was concluded by and between Petrolinvest S.A., Prokom Investments S.A. and PKO BP S.A., whereby Prokom Investments S.A. undertook to support the Company in connection with the credit facility agreement concluded on 21 March 2007 between the Company and PKO BP S.A.; in particular Prokom Investments S.A. is obliged to support the investment project involving extending loans or other forms of financing to the Company to carry out investment

projects. As stipulated in the agreement, Prokom Investments S.A. is obliged to remain the shareholder of the Company until final repayment of the facility. The agreement also provides that any receivables due by the Company to Prokom Investments S.A. shall be subordinated in favour of any receivables arising in connection with the Credit Facility Agreement, and in particular the Company is obliged not to repay any receivables to Petrolinvest S.A. without the bank's prior consent until the loan has been fully repaid, except for interest accrued on loans extended by Prokom Investments S.A.

In 2007, the Company concluded six agreements with Prokom Investments S.A. The agreements were regarding loans extended by Prokom Investments S.A. for PLN 71.4m, where each of the loans becomes payable within 14 days from the termination of the agreement by Prokom Investments S.A. Interest was agreed at 5% p.a. for each loan.

In the period from 1 January 2008 to the date of these Financial Statements, the Company concluded one loan agreement with Prokom Investments S.A. totalling PLN 17.5m. The loan was received in full. The loan becomes payable within 5 working days from the date on which a request for full or partial repayment of the loan is delivered by the Lender. The loan also contains a clause whereby an authorisation is granted to the Lender to request that the Company issue shares as part of the authorised capital and offer the shares to the Lender precluding pre-emptive rights of the existing shareholders (call option). Interest accruing on the loans is based on WIBOR. Moreover, annexes to seven loan agreements were signed in the reporting period, the principal outstanding balance of which with interest accrued as at 31 December 2008 was PLN 200.0m. The Annexes incorporated the clause providing authorisation to the Lender to request that the Company issue shares as part of the authorised capital and offer the shares to the Lender precluding the pre-emptive rights of the existing shareholders (call option).

All loan agreements concluded before and after 21 March 2007 are subject to provisions of the support agreement discussed above.

On 13 January 2009, the Company signed an agreement with PROKOM Investments S.A. regarding:

- a) conditional acquisition by the Company of accounts receivable from Prokom,
- b) replacing the Call option available to Prokom under loan agreements extended in 2006-2008 to finance acquisitions of oil prospecting and production companies in Kazakhstan and Russia, as well as the prospecting works carried out by those companies, with the Call option granted under the Agreement,
- c) expanding the scope of the Call option to all accounts receivable by Prokom from the Company.

On 28 January 2009, pursuant to the provisions of the agreement dated 13 January 2009, the Company received from PROKOM Investments S.A.:

- a) a request to transfer to PROKOM a number of shares that corresponds to the product of (i) the aggregate amount of all accounts receivable by PROKOM from the Company as specified in the Agreement with accrued interest, the value of which as of 13 January 2009 was made public in current report no. 4/2009 published by the Company on 14 January 2009, and (ii) the average closing price of one Company share at the WSE in the three months preceding 28 January 2009, i.e. Petrolinvest share price quote of PLN 45.9387; and
- b) a call to offer to PROKOM, within five days from 28 January 2009, to subscribe for 2,100,000 ordinary bearer Petrolinvest shares at an issue price of PLN 45.9387 per share, that is for a total consideration of PLN 96,471,270.00.

On 28 January 2009, the Company Management Board resolved:

- a) to increase the Company's share capital by PLN 21,000,000 via the issuance of 2,100,000 ordinary bearer L-series shares of a nominal value of PLN 10 each ("L-Series Shares");

On 16 February 2009, the District Court for Gdańsk-Północ of Gdańsk, VIII Economic Department of the National Court Register, in a secret ballot registered the share capital increase of the Company effected via the issuance of 2,100,000 ordinary bearer L-series shares of a nominal value of PLN 10 each.

A detailed description of these events is provided in note 41.

PETROLINVEST Spółka Akcyjna
 Financial statements for the year ended 31 December 2008
 Accounting policies and notes to the financial statements
 (in PLN thousands)

As at 31 December 2008

entity's name and legal form	loan amount (based on loan agreement)	currency	outstanding as at the balance sheet date			interest	maturity	loan security
			current up to 1 year	non-current	total			
	(<i>'000</i>)		PLN <i>'000</i>	PLN <i>'000</i>	PLN <i>'000</i>			
Bank Pekao S.A.	6 000	PLN	5 963	0	5 963	1M Wibor + bank premium	2009-09-30	- blank promissory note - dividend payment restrictions - borrower's declaration on submission to enforcement of judgements - power of attorney to bank account
BRE Bank S.A.	20 000	PLN	11 965	0	11 965	O/N Wibur + bank premium	2009-05-28	- blank promissory note - assignment of receivables from purchase/sale contracts with buyers of liquid gas
Fortis Bank Polska S.A.	20 000	PLN	7 485	0	7 485	1 M Wibur + bank premium	2009-06-16	- borrower's declaration on submission to enforcement of judgements - capped mortgage up to PLN 20m on real estate in Lubiana
Overdrafts			25 413	0	25 413			
Bank Pekao S.A.	8 000	PLN	880	6 240	7 120	1M Wibur + bank premium	2016-03-31	- mortgage on fixed assets located in Suwalki - pledge over and transfer of ownership of fixed assets of min. PLN 2m - blank promissory note - power of attorney to bank account
Bank PKO BP S.A.	100 184	USD	0	298 909	298 909	3 M Libor + bank premium	2012-12-31	- mortgage
Pursuant to an annex to the credit facility agreement Bank Gospodarstwa Krajowego assumed a portion of rights and obligations of PKO Bank Polski S.A. resulting from the credit facility agreement	2 183	PLN				3 M Wibur + bank premium		- pledges over shares - registered pledges over special fund accounts - power of attorney to bank accounts - declaration on submission to enforcement of judgments - project sponsor support agreement
Krauze Ryszard	320	PLN	0	374	374	5%	14 days from receipt of repayment request	
Prokom Investments S.A. loans subordinated to senior credit facility	199 970	PLN	18 585	199 970	218 555	5% 3 M Wibur + premium	14 days from receipt of repayment request 5 days from receipt of repayment request	
Prokom Investments S.A.	200	PLN	0	341	341	10%	14 days from receipt of repayment request	
Other loans and borrowings			19 465	505 834	525 299			
Total			44 878	505 834	550 712			

The bank margins added to base interest rates are not materially different from the market interest rates and are not higher than 2% p.a.

PETROLINVEST Spółka Akcyjna
 Financial statements for the year ended 31 December 2008
 Accounting policies and notes to the financial statements
 (in PLN thousands)

As at 31 December 2007

entity's name and legal form	loan amount (based on loan agreement)	currency	outstanding as at the balance sheet date			interest	maturity	loan security
			current up to 1 year	non-current	total			
			(<i>'000</i>) <i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>			
Bank Pekao S.A.	6 000	PLN	0	0	0	1M WIBOR+bank premium	2008-09-30 - blank promissory note - dividend payment restrictions - borrower's declaration on submission to enforcement of judgements - power of attorney to bank account	
BRE Bank S.A.	20 000	PLN	0	0	0	O/N Wibor +bank premium	2008-05-29 - blank promissory note - assignment of receivables from purchase/sale contracts with buyers of liquid gas	
Fortis Bank Polska S.A.	10 000	PLN	0	0	0	1 M WIBOR +bank premium	2008-06-18 borrower's declaration on submission to enforcement of judgements	
Overdrafts			0	0	0			
Bank Gospodarstwa Krajowego	10 000	PLN	2 000	0	2 000	3M WIBOR +bank premium	2008-12-31 - assignment of rights to insurance proceeds from policies covering the - mortgages on real property of PLN 10.0m and capped mortgages of up to PLN 5.0m - blank promissory note	
Bank Pekao S.A.	8 000	PLN	880	7 120	8 000	1M WIBOR +bank premium	2016-03-31 - mortgage on fixed assets located in Suwalki - pledge over and transfer of ownership of fixed assets of min. PLN 2m - blank promissory note - power of attorney to bank account	
Bank PKO BP S.A. Pursuant to an annex to the credit facility agreement Bank Gospodarstwa Krajowego assumed a portion of rights and obligations of PKO Bank Polski S.A. resulting from the credit facility agreement	300 000 or USD equivalent	PLN	0	192 253	192 253	3 M Libor + bank premium 3 M Wibor + bank premium	2012-12-31 - mortgage - pledges over shares - registered pledges over special fund accounts - power of attorney to bank accounts - declaration on submission to enforcement of judgments - project sponsor support agreement	
Krauze Ryszard	320	PLN	0	320	320	5%	14 days from receipt of repayment request	
Prokom Investments S.A.	212 400	PLN	8 673	182 494	191 167	5%	14 days from receipt of repayment request	
Prokom Investments S.A.	200	PLN	0	200	200	10%	14 days from receipt of repayment request	
Other loans and borrowings			11 553	382 387	393 940			
Total			11 553	382 387	393 940			

The bank margins added to base interest rates are not materially different from the market interest rates and are not higher than 2% p.a.

30. Provisions

	Post employment benefits	Provisions for liabilities	Other	Total
As at 1 January 2008	253	0	84	337
Arising during the year	73	31 395	14	31 482
Utilised	0	0	(2)	(2)
Released	0	0	0	0
As at 31 December 2008	326	31 395	96	31 817
Current provisions	0	31 395	0	31 395
Non-current provisions	326	0	96	422

On 16 September, 30 September, and 6 October 2008, the Company entered into three propane supply contracts with Morgan Stanley for the purchase of 38.4-48 thousand tons of gas in total. The Company reported the conclusion of the second of the contracts because of the significant nature of the contract (current report number 59/2008 of 1/10/2008). The contracts were intended to secure access to the commodity during the strongest boom for sales of LPG brought in from Northern and Western Europe, i.e. until mid-December. The contracts were delivered in respect of 23 thousand tons.

As the deadline for delivering the second contract expired and the delivery of the third contract had not been started, the Company decided that the obligations under the contracts had expired. The legal action brought against the Company by Morgan Stanley as a result of differences of opinion regarding the legal consequences of the situation is described in point 33.1 herein.

In addition, despite the fact that Management is convinced that the contracts in their unrealised portion had effectively expired, the Company made a PLN 31.4 million provision for any possible future payments connected with the proceedings filed by Morgan Stanley.

However, the Management Board would like to reiterate that it is involved in advanced negotiations with Morgan Stanley with respect to both parties withdrawing from mutual claims arising from non-performance of the contracts described above and agreeing new terms of close cooperation with Morgan Stanley in respect of propane deliveries over the next 3-4 years.

	Post employment benefits	Other	Total
As at 1 January 2007	260	473	733
Arising during the year	0	84	84
Utilised	0	(473)	(473)
Released	(7)	0	(7)
As at 31 December 2007	253	84	337
Current provisions	0	0	0
Non-current provisions	253	84	337

31. Trade and other payables (current and non-current)

	<i>31 December 2008</i>	<i>31 December 2007</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Current liabilities	13 496	73 960
Trade liabilities	8 884	6 834
Liabilities resulting from acquisition of financial assets	0	56 955
Liabilities to public authorities	4 553	10 079
Other liabilities	59	92
Non-current liabilities	0	32 780
	13 496	106 740

Liabilities to public authorities comprise primarily current VAT liabilities of PLN 1.5m and customs liabilities of PLN 2.7m.

Liabilities resulting from acquisition of financial assets in the amount of PLN 57.0m as at 31 December 2007 comprised Petrolinvest S.A.'s unpaid discounted share in the increased share capital of Occidental Resources. The whole amount of the liability was paid up in 2008.

Non-current liabilities were discounted undue liabilities towards the previous shareholders of Siewiergeofizyka and Pechora-Petroleum. As stipulated in the share purchase agreements for Siewiergeofizyka and Pechora-Petroleum shares, the Company agreed to pay an additional consideration if reserves are discovered and confirmed.

Since in 2008 the Management Board decided to discontinue exploration on the territory of the Russian Federation and to begin working towards selling those assets (see note 3 for more detail) and there were no prospects for any prerequisites for the payment of the additional consideration, those liabilities expired.

32. Prepayments and accruals

Current prepayments and accruals are:
 on the assets' side:

	<i>31 December 2008</i>	<i>31 December 2007</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Capital raising expenses	9 745	1 345
Gas cylinders expensed over time	170	151
Other	646	255
	10 561	1 751

on the liabilities' side:

	<i>31 December 2008</i>	<i>31 December 2007</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Unused holiday allowance	968	706
Financial statement audit allowance	875	820
	1 843	1 526

33. Contingent liabilities

The Company's contingent liabilities are blank promissory notes deposited with the Customs House in Gdynia and serving as security for excise duty, which allows for transferring of goods under suspended excise duty procedures. This type of security is a substitute for a deposit securing the above-mentioned receivables of the Customs House. The Company has been verified by the Customs House as a blank promissory note issuer and thus need not freeze cash on deposits. The Company has full control over its liabilities and continues to perform well under the suspended excise duty procedures; hence, it does not make any provisions for potential liabilities resulting from the promissory notes issued. The value of promissory notes as at 31 December 2008 and as at 31 December 2007 was PLN 2,850 thousand.

33.1. Legal claims

As at 31 December 2008, the Company was party to the following proceedings as the plaintiff, claimant or applicant:

1. regarding collection order to be made by the court—court proceedings regarding a collection order to be issued for PLN 13.4 thousand. As at the date of these Financial Statements, the Company is expecting the writ to become enforceable. The Company made an appropriate allowance to secure this receivable.
2. regarding the reversal of tax decisions—appeal proceedings in respect of VAT paid by the Company for the months from January to September 1998 amounting to PLN 321.9 thousand and December 1997 in the amount of PLN 24.1 thousand because of the favourable 14 March 2006 judgements of the Voivodship Administrative Court in Gdańsk in which the Court reversed the 23 December 2003 decision of the Director of the Tax Chamber in Gdańsk. In the appeal, the Company motioned to reverse the decision of the body of the first instance and discontinue the proceedings. On 27 April 2009, the Company received decisions partly reversing the decision of the body of the first instance and reducing the amount of tax liability, overdue tax and interest and annulling the additional tax liability specified by the body of the first instance. As a result, in respect of VAT due for 1997/1998, the Company will be refunded VAT with statutory interest accrued from the date the Company paid the annulled amounts to the refund date. The Company will consider whether it is expedient to file a complaint with respect to the sustained part of the decision.

As at 31 December 2008, the Company was involved in the following legal proceedings as the defendant:

1. There is a pending court action brought against the Company by Morgan Stanley Capital Group Inc. headquartered in Purchase, New York, USA ("Morgan Stanley"). The claim filed on 11 December 2008 in the High Court of Justice in London is a claim for compensation from two propane supply agreements concluded at the turn of September 2008 by PETROLINVEST S.A. and Morgan Stanley ("the Agreements"). Morgan Stanley is seeking to execute from PETROLINVEST S.A. (i) USD 10,601,850 compensation in connection with the Company refusing to perform the Agreements and (ii) compensation (the value of the compensation had not been stipulated in the claim) within the scope of liability for damages towards owners of the vessel providing freight services under the Agreements; together with (iii) interest (the amount of interest is left for the court to settle). The statement of claim was delivered to the Company on 27 February 2009. The Company's standpoint is that, apart from a number of procedural reservations, the Company was not obliged to perform the aforementioned Agreements because Morgan Stanley had failed to supply propane on the delivery deadlines stipulated in the Agreements. Moreover, the Company is in the process of negotiating with Morgan Stanley to withdraw the statement of claim and agree the terms and conditions of cooperation in respect of LPG supplies over the next 3-4 years. The Management Board is convinced that the negotiations will lead to an agreement; however, conservatively, the Company created a PLN 31.4 million provision for liabilities connected with those proceedings.

After the period covered by the Financial Statements, the Company filed a claim for judgement against Morgan Stanley Capital Group Inc. with the District Court of Gdynia. The purpose of the statement of claim is to state that the Company is not obliged to perform the contracts dated 1 October 2008 and 6 October 2008 concluded with the defendant for propane supplies and is not obliged to pay damages to the defendant for non-performance of the contracts in question.

33.2. Tax settlements

Tax settlements, together with other areas of legal compliance (e.g. customs or foreign exchange law) are subject to review and investigation by a number of authorities, which are entitled to impose severe fines, penalties and interest charges. The lack of reference to well established regulations in Poland results in a lack of clarity and integrity in the regulations. Frequent contradictions in legal interpretations both within government bodies and between companies and government bodies create uncertainties and conflicts. These facts create tax risks in Poland that are substantially more significant than those typically found in countries with more developed tax systems.

Tax authorities may examine the accounting records up to five years after the end of the year in which the final tax payments were to be made. Consequently, the Company may be subject to additional tax liabilities, which may arise as a result of additional tax audits. The Company believes that adequate provisions have been recorded for known and quantifiable risks in this regard as at 31 December 2008.

34. Changes in working capital, inflows and outflows in the cash flow statement

34.1. Reasons behind differences in the balance sheet changes in working capital and the changes in operating activities in the cash flow statement

	<i>for 12 months ended 31 December 2008</i>
movements in liabilities	
balance sheet change in non-current and current liabilities, other than income tax liabilities	(93 243)
change in liabilities in the cash flow statement	(3 573)
<u>difference</u>	<u>89 670</u>
liabilities arising from acquisition of financial assets	(89 735)
investment liabilities related to purchases of non-current assets	(65)
movements in provisions and prepayments and accruals	<i>for 12 months ended 31 December 2008</i>
balance sheet change in provisions and prepayments and accruals, including:	(8 493)
balance sheet change in prepayments and accruals - assets	(8 810)
balance sheet change in prepayments and accruals - liabilities	317
change in provisions and prepayments and accruals in the cash flow statement	(178)
<u>difference</u>	<u>8 315</u>
costs of share issue	(8 315)

34.2. Inflows and outflows of financing activities

	<i>for 12 months ended 31 December 2008</i>
Inflows from loans and borrowings disclosed in the cash flow statement	71 525
shareholder loans	17 476
bank loans received	54 049

34.3. Inflows and outflows of investing activities

	<i>for 12 months ended 31 December 2008</i>
Acquisition of subsidiary and jointly-controlled entity	(54 089)
Other expenditure related to acquisitions	(54 089)
payment of a portion of liabilities resulting from the share capital increase in Occidental Resources	(54 089)
Granting of loans	(122 299)
Subsidiaries and jointly-controlled entities	(84 369)
TOO Company Profit	(4 806)
TOO EmbaJugNieft	(32 411)
Occidental Resources	(26 023)
OOO Niefiegeoserwis	(739)
OOO NK Siewiergeofizyka	(11 750)
ZAO Pechora-Petroleum	(8 234)
UAB Petrolinvest Mockavos Perpyla Sp. z o.o.	(286)
TPG GAZ S.A.	(120)
Other entities	(37 930)
Capital Energy	(22 527)
Mars International	(4 310)
Caspian Services	(11 093)

35. Related party disclosures

35.1. Terms and conditions of transactions with related parties

Agreements concluded between the Company and Occidental Resources, Inc.

In the period from 1 January 2008 to the date of these Financial Statements, the Company concluded two agreements with Occidental Resources, Inc. The agreements were regarding loans granted by the Company for a total of USD 22,041 thousand. Up to the date of these Financial Statements, USD 12,241 thousand has been made available by the Company (USD 11,461 thousand was made available as at 31 December 2008). The loans become payable on or before 30 November 2009. Interest accruing on the loans was agreed at 18% p.a. In order to secure the above-mentioned receivable, the Company also entered into two guarantee agreements with OTG as the guarantor for USD 8,000 thousand, which was subsequently increased to USD 14,000 thousand, and for USD 15,000 thousand.

Additionally, in the reporting period the repayment period of one loan agreement totalling USD 5,000 thousand, which originally matured on 30 November 2008, was extended to 30 November 2009.

Agreements concluded between the Company and TOO EmbaJugNieft

In the period from 1 January 2008 to the date of these Financial Statements, the Company concluded one agreement with TOO EmbaJugNieft. The agreement was regarding a loan granted by the Company for a total of USD 20,000 thousand. Up until the date of these Financial Statements, the Company has advanced USD 5,125 thousand of the loan. The loan becomes payable on or before 31 January 2011. Interest accruing on the loans is based on LIBOR plus a margin of 11%.

Agreements concluded between the Company and Petrolinvest Mockavos Perpyla

In the period from 1 January 2008 to the date of these Financial Statements, the repayment period of the EURO 350 thousand loan, which originally matured on 31 December 2008, was extended to 30 June 2009. Interest accruing on the loans is based on LIBOR plus a margin of 1.6%.

Agreements concluded between the Company and TPG GAZ S.A.

In the period from 1 January 2008 to the date of these Financial Statements, the Company concluded three loan agreements with TPG GAZ S.A. totalling PLN 225 thousand. The loans have been advanced in full (as at 31 December PLN 120 thousand had been advanced). The loans become payable on or before 30 June 2009. Interest was agreed at 5% p.a. In the reporting period, the repayment periods of four loans totalling PLN 160 thousand, which originally matured on 31 December 2008, were extended to 30 June 2009.

Agreements concluded between the Company and Prokom Investments S.A.

In the period from 1 January 2008 to the date of these Financial Statements, the Company concluded one loan agreement with Prokom Investments S.A. totalling PLN 17,476 thousand. The loan was received in full. The loan becomes payable within 5 working days from the date on which a request for full or partial repayment of the loan is delivered by the Lender. The loan also contains a clause whereby an authorisation is granted to the Lender to request that the Company issue shares within the scope of the authorised capital and offer the shares to the Lender precluding pre-emptive rights of the existing shareholders (call option). Interest accruing on the loans is based on WIBOR. Furthermore, seven loan agreements were amended by annexes signed during the reporting period; the loans' outstanding balance (principal plus interest accrued to 31 December 2008) was PLN 200.0m. The annexes incorporated the call option clause (authorisation of the Lender to request that the Company issue shares within the scope of the authorised capital and offer the shares to the Lender precluding the pre-emptive rights of the existing shareholders).

On 13 January 2009, the Company signed an agreement with PROKOM Investments S.A. regarding:

- a) conditional acquisition by the Company of accounts receivable from Prokom,
- b) replacing the Call option available to Prokom under loan agreements extended in 2006-2008 to finance acquisitions of oil prospecting and production companies in Kazakhstan and Russia, as well as the prospecting works carried out by those companies, with the Call option granted under the Agreement,
- c) expanding the scope of the Call option to all accounts receivable by Prokom from the Company.

35.2. Compensation of key management personnel of the Company

The costs of compensation of key management personnel (excluding members of the Company's governing bodies) amounted to PLN 3,565 thousand in 2008 and PLN 2,789 thousand in 2007.

The costs of compensation of members of the Management Board were as follows:

Name	Position	2008	2007
		PLN '000	PLN '000
Gricuk Pawel	President	520	273
Grablewski Zenon	Vice President	1 063	1 098
Balicki Marcin	Board Member	439	249
		2 022	1 620

All members of the Management Board are holders of subscription warrants described in more detail in note 24.2.

The cost of warrant issue per each management board member was as follows: Paweł Gricuk PLN 7.9m, Zenon Grablewski PLN 2.8m, Marcin Balicki PLN 1.3m.

Compensation for Supervisory Board members had not been determined.

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35.3. Transactions with related parties

The table below sets forth the aggregate amounts of transactions concluded with related parties in the period of twelve months ended 31 December 2008 and 2007.

Related party		<i>Sales to related parties</i>	<i>Purchases from related parties</i>	<i>Receivables from related parties</i>	<i>Liabilities to related parties</i>
		<i>(PLN '000)</i>	<i>(PLN '000)</i>	<i>(PLN '000)</i>	<i>(PLN '000)</i>
Ryszard Krauze	2008	0	0	50	374
	2007	0	0	50	320
Prokom Investments	2008	0	1 742	0	220 648
	2007	3	490	0	191 458
UAB Petrolinvest Mockavos Perpyla Sp. z o.o.	2008	0	322	1 122	39
	2007	29	1	652	0
TPG GAZ S.A.	2008	2	0	165	0
	2007	2	0	40	0
OOO NK Siewiergeofizyka	2008	0	0	0	0
	2007	0	0	34 733	0
OOO Nieftegeoserwis	2008	0	0	0	0
	2007	0	0	20 227	0
ZAO Pechora Petroleum	2008	0	0	0	0
	2007	0	0	17 513	0
Occidental Resources, Inc.	2008	0	0	52 648	0
	2007	0	0	13 051	56 955
TOO Profit Company	2008	0	0	28 489	0
	2007	0	0	17 724	0
TOO EmbaJugNieft	2008	0	0	116 659	0
	2007	0	0	58 325	0

As at 31 December 2008, the Company recognised impairment of investments in the Russian companies, which are the Company's related entities. Hence, receivables from those related parties were PLN 0 as at 31 December 2008. Before impairment, the balances with those related parties were as follows:

Related party		<i>Sales to related parties</i>	<i>Purchases from related parties</i>	<i>Receivables from related parties</i>	<i>Liabilities to related parties</i>
		<i>(PLN '000)</i>	<i>(PLN '000)</i>	<i>(PLN '000)</i>	<i>(PLN '000)</i>
OOO NK Siewiergeofizyka	2008	0	0	60 170	0
	2007	0	0	34 733	0
OOO Nieftegeoserwis	2008	0	0	26 925	0
	2007	0	0	20 227	0
ZAO Pechora Petroleum	2008	0	0	33 220	0
	2007	0	0	17 513	0

A description of the agreements concluded since 1 January 2008 with the related parties that were impaired is provided below:

Agreements concluded between the Company and OOO Siewiergeofizyka

In the period from 1 January 2008 to the date of these Financial Statements, the Company concluded one agreement with OOO Siewiergeofizyka. The agreement was regarding a loan granted by the Company for a total of USD 4,000 thousand (up to the date of these Financial Statements, the Company has advanced USD 3,382 thousand of the loan). The loan was payable on or before 31 January 2009. An annex to the loan agreement was signed in the reporting period, which extended the repayment date to 15 December 2009. The aim of the loan is to finance ongoing operations of OOO Siewiergeofizyka. Interest accruing on the loan is based on LIBOR plus a margin of 1.6%.

Additionally, in the reporting period repayment periods of ten loan agreements totalling USD 9,940 thousand, which originally matured on 15 December 2008, were extended to 15 December 2009.

Agreements concluded between the Company and OOO Nieftegeoserwis

In the period from 1 January 2008 to the date of these Financial Statements, repayment periods of eight loan agreements totalling USD 6,069.5 thousand, which originally matured on 15 December 2008, were extended to 15 December 2009.

Agreements concluded between the Company and ZAO Pechora Petroleum

In the period from 1 January 2008 to the date of these Financial Statements, the Company concluded two agreements with ZAO Pechora Petroleum. The agreements were regarding loans granted by the Company for a total of USD 6,500 thousand (up to the date of these Financial Statements, the Company has advanced USD 3,025 thousand). The loans were payable on or before 31 January 2009. However, an annex to the loan agreement for USD 3,500 thousand was signed in the reporting period, which extended the repayment date to 15 December 2009. The availability period of the USD 3,000 thousand loan expired. The aim of the loans is to finance the ongoing operations of ZAO Pechora Petroleum. Interest accruing on the loans is based on LIBOR plus a margin of 1.6%.

Additionally, in the reporting period repayment periods of five loans totalling USD 2,437 thousand, which originally matured on 15 December 2008, were extended to 15 December 2009.

36. Information on remuneration paid to certified auditor or entity authorised to audit financial statements

The table below sets forth remuneration of the entity authorised to audit financial statements, paid or payable for the year ended 31 December 2008 and 31 December 2007, per service type:

Service type	31 December 2008	31 December 2007
	PLN '000	PLN '000
Obligatory audit of standalone and consolidated financial statements	1 295	1 230
Other services	249	48
	1 544	1 278

The entire cost of remuneration pertains to Ernst&Young Audit Sp. z o.o.

37. Financial risk management objectives and policies

In identifying the types of risks connected with its business activity, the Company seeks the best possible set of hedging instruments and, in particular, makes an appropriate decision whether to use natural hedging, to hedge using appropriate financial instruments or whether to quit hedging against exposure to certain risks. The Company does not apply hedge accounting.

The Company's principal financial instruments comprise bank loans, finance leases, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Company's operations. The Company has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

It is – and has been throughout the reporting period – the Company's policy that no trading in financial instruments shall be undertaken for speculation purposes. The Company did not use any derivatives, grant any options, or conclude any agreements with regard to currency option structures.

37.1. Interest rate risk

The Company's exposure to market risk of changes in interest rates relates primarily to the Company's long-term debt obligations and certain loans extended to foreign entities involved in exploration for hydrocarbons.

The Company's policy is to manage its interest cost using a mix of fixed and floating rate debt. The Company does not enter into interest rate hedges. As at 31 December 2008, ca. 37% of the Company's liabilities had a fixed rate of interest. As at 31 December 2008, all bank loan borrowings had floating rates of interest. Loan liabilities to Prokom Investments S.A. in the amount of PLN 182.5m had a fixed rate of interest of 5% p.a.

Interest rate risk – sensitivity analysis

As at 31 December 2008, the Company's financial assets and liabilities were exposed to the following interest rate movements: WIBOR (1M, 3M) and USD LIBOR (3M).

In order to provide a sensitivity analysis to interest rate fluctuations, it was assumed that in the 12 months from the balance sheet date WIBOR will rise or fall by 200 base points, while LIBOR for USD will rise or fall by 25 base points.

As at 31 December 2008, the Company's financial assets exposed to interest rate movements were valued at PLN 104.8m. Assuming no change in other factors, the Company's projected profit from a 25 bps increase in LIBOR for USD in the period of 12 months from 31 December 2008 may amount to PLN 262 thousand. In case of a 25 bps drop, the Company will incur a PLN 262 thousand loss.

As at 31 December 2008, the Company's financial liabilities exposed to interest rate movements amounted to PLN 323.5m. Assuming no change in other factors, the Company's projected costs arising due to a 200 bps increase in WIBOR in the period of 12 months from 31 December 2008 may be ca. PLN 536 thousand higher. If USD LIBOR should rise by 25 bps, assuming the level of indebtedness as at 31 December 2008 and no change in other factors, the Company's projected costs in the period of 12 months from 31 December 2008 may be ca. PLN 742 thousand higher.

Likewise, if WIBOR should fall by 200 bps, the Company's finance costs will fall by PLN 536 thousand. A 25 bps drop in USD LIBOR will entail a PLN 742 thousand decrease in finance costs.

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<i>12 month period ended 31 December 2008</i>	<i>category according to currency</i>	<i>percentage point increase</i>	<i>effect on gross profit (loss) PLN '000</i>	<i>percentage point decrease</i>	<i>effect on gross profit (loss) PLN '000</i>
financial assets	<i>USD</i>	<i>LR</i>	0.25%	262	-0.25% (262)
financial liabilities	<i>PLN</i>	<i>AC</i>	2.00%	(536)	-2.00% 536
	<i>USD</i>	<i>AC</i>	0.25%	(742)	-0.25% 742

Abbreviations:
LR - Loans and receivables
AC - Other financial liabilities measured at amortised cost

37.2. Foreign currency risk

The Company has transactional currency exposures. Such exposure arises from purchases by an operating unit in currencies other than its functional currency and from purchases of financial instruments denominated in foreign currencies. The Company's sales are denominated in the reporting currency of the operating unit making the sale, whilst all costs associated with the purchase of goods for resale are denominated in other currencies (as at 31 December 2008 13% of trade payables were denominated in American dollars; as at 31 December 2007 60% of trade payables were denominated in American dollars). In order to minimise foreign currency risk, the Company intends to secure financing of assets denominated in foreign currencies and exposed to foreign currency risks from sources denominated in the respective currencies. The Company does not rule out the possibility of using foreign currency hedging instruments to the extent to which a foreign currency item will remain open.

Foreign currency risk – sensitivity analysis

In connection with the unfolding global crisis, violent fluctuations in currency markets and inconsistent analytical projections regarding future foreign exchange rates, it is impossible to provide any possible trend for the next 12 months with reasonable certainty. The foreign currency sensitivity analysis was based on the following assumptions: for USD/PLN and EUR/PLN exchange rates we measured the impact on our results of a 30% rise and 20% fall. In line with the assumptions, the USD/PLN exchange rate, if increased by 30%, will reach a level of 3.85 and if decreased by 20% will be at 2.37. Similarly, should the EUR/PLN exchange rate increase by 30%, it will reach 5.42, should it fall by 20%, it will be at 3.34.

As at 31 December 2008, the Company's assets exposed to exchange rate fluctuations of USD/PLN totalled PLN 399.8m and liabilities totalled PLN 297.8m.

On the one hand, if the USD exchange rate goes up by 30% during the next 12 months from 31 December 2008, assuming the level of financial assets as at 31 December 2008 and no change in other factors, the Company's projected gain on the increase of the exchange rate of USD/PLN in the period of 12 months from 31 December 2008 may amount to ca. PLN 120.0m. Assuming the level of indebtedness as at 31 December 2008 and no change in other factors, the Company's projected costs in the period of 12 months from 31 December 2008 may be ca. PLN 89.3m higher.

On the other hand, if in 12 months from 31 December 2008 the USD exchange rate falls by 20%, assuming the level of financial assets as at 31 December 2008 and no change in other factors, the Company's projected loss due to the decrease in the USD/PLN exchange rate in the period of 12 months from 31 December 2008 may amount to ca. PLN 80.0m. Assuming the level of indebtedness as at 31 December 2008 and no change in other factors, the Company's projected costs in the period of 12 months from 31 December 2008 may be ca. PLN 59.6m lower.

As at 31 December 2008, the Company's assets exposed to exchange rate fluctuations of EUR/PLN totalled PLN 1.1m and liabilities totalled PLN 45.8m.

On the one hand, if the EUR exchange rate goes up by 30% during the next 12 months from 31 December 2008, assuming the level of financial assets as at 31 December 2008 and no change in other factors, the Company's projected gain on the increase of the exchange rate of EUR/PLN in the period of 12 months from 31 December 2008 may amount to ca. PLN 338 thousand. Assuming the level of indebtedness as at 31 December 2008 and no change in other factors, the Company's projected costs in the period of 12 months from 31 December 2008 may be ca. PLN 14 thousand higher.

On the other hand, if in the 12 months following 31 December 2008 the EUR exchange rate falls by 20%, assuming the level of financial assets as at 31 December 2008 and no change in other factors, the Company's projected loss due to the decrease in the EUR/PLN exchange rate in the period of 12 months from 31 December 2008 may amount to ca. PLN 225 thousand. Assuming the level of indebtedness as at 31 December 2008 and no change in other factors, the Company's projected costs in the period of 12 months from 31 December 2008 may be ca. PLN 9 thousand lower.

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<i>12 month period ended 31 December 2008</i>	<i>category according to IAS 39</i>	<i>exchange rate % increase</i>	<i>effect on gross profit (loss)</i>	<i>exchange rate % decrease</i>	<i>effect on gross profit (loss)</i>
<i>currency</i>			<i>PLN '000</i>		<i>PLN '000</i>
assets					
	<i>USD / PLN</i>	<i>LR</i>	119 951	-20.00%	(79 967)
	<i>EUR / PLN</i>	<i>LR</i>	338	-20.00%	(225)
financial liabilities					
	<i>USD / PLN</i>	<i>AC</i>	(89 018)	-20.00%	59 345
	<i>EUR / PLN</i>	<i>AC</i>	0	-20.00%	0
other liabilities					
	<i>USD / PLN</i>	<i>AC</i>	(310)	-20.00%	207
	<i>EUR / PLN</i>	<i>AC</i>	(14)	-20.00%	9
	<i>total effect on gross profit (loss)</i>		30 947		(20 631)
	<i>Abbreviations:</i>				
	<i>LR - Loans and receivables</i>				
	<i>AC - Other financial liabilities measured at amortised cost</i>				

37.3. Commodity price risk

The Company is exposed to commodity price risk: prices may change between a binding purchase decision is made and the goods are made available for resale. As a result, the Company purchases goods with the shortest possible or reliable delivery date. In practice, the period between a binding purchase decision is made and the goods are made available for resale is one month or less. In making the purchase decision, the Company takes into account current market conditions, immediate market trends and the minimal possible margin, which serves as a buffer against possible changes in market conditions.

As at 31 December 2008, the Company did not have any long-term contracts with a fixed commodity purchase price. The Company had stocks of 2,595 tonnes of LPG. The Company concluded that in the period in question the average inventory turnover ratio was 11 days. The Company analysed the fluctuations in gas prices according to Platts in the period of 12 months to 31 December 2008 and concluded that in the period under analysis the prices of gas at eleven-day intervals decreased on average by USD 16 per tonne. The largest decrease was recorded between 5 and 16 October 2008, when gas prices fell on average by USD 245 per tonne. Assuming a maximum USD 245 fall in price, the level of stocks as at 31 December 2008 and no change in other factors, the Company's costs may be USD 636 thousand higher.

37.4. Credit risk

The Company trades only with recognised, creditworthy third parties. In case of first-time sales to new customers, the payment is made in cash or sales are prepaid. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Company is developing the means and standards of managing credit risk. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

With respect to credit risk arising from other financial assets of the Company, which comprise cash and cash equivalents, available-for-sale financial assets and certain derivative instruments, the Company's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

37.5. Liquidity risk

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of loans from related parties, bank overdrafts, bank loans, and finance leases.

The table below provides an analysis of the Company's financial liabilities as at 31 December 2008 and as at 31 December 2007 by maturity based on contractual non-discount payment terms.

<i>31 December 2008</i>	<i>On request</i>	<i>Under 3 months</i>	<i>From 3 to 12 months</i>	<i>From 1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Interest-bearing loans and borrowings	18 584	2 403	32 598	523 662	2 986	580 233
Finance lease liabilities	0	66	196	157	0	419
Other financial liabilities	0	0	0	0	0	0
Trade and other payables	0	13 496	0	0	0	13 496
	18 584	15 965	32 794	523 819	2 986	594 148

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<i>31 December 2007</i>	<i>On request</i>	<i>Under 3 months</i>	<i>From 3 to 12 months</i>	<i>From 1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Interest-bearing loans and borrowings	0	9 393	2 160	187 420	194 967	393 940
Finance lease liabilities	0	44	126	245	0	415
Other financial liabilities	0	0	0	35 308	0	35 308
Trade and other payables	0	34 050	40 378	0	0	74 428
	0	43 487	42 664	222 973	194 967	504 091

38. Financial instruments

38.1. Interest rate risk

The following table sets out the carrying amount, by maturity, of the Group's financial instruments that are exposed to interest rate risk.

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Company that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

31 December 2008

<i>Fixed rate</i>	<i><1 year</i>	<i>1-2 years</i>	<i>2-3 years</i>	<i>3-4 years</i>	<i>4-5 years</i>	<i>>5 years</i>	<i>Total</i>
Financial assets	101 019	0	0	0	0	0	101 019
Finance lease liabilities	228	118	27	0	0	0	373
Loans for PLN 182.494 thousand	17 823	0	0	0	182 494	0	200 317
Loan for PLN 320 thousand	0	374	0	0	0	0	374
Loan for PLN 200 thousand	0	0	0	0	341	0	341
Liabilities	18 051	492	27	0	182 835	0	201 405
Floating rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Financial assets	5 598	0	15 179	89 669	0	0	110 446
Overdraft facilities	25 413	0	0	0	0	0	25 413
Loan for PLN 17,476 thousand	762	0	0	0	17 476	0	18 238
Bank loans:	880	880	55 558	110 236	135 755	2 720	306 029
for PLN 10.000 thousand	0	0	0	0	0	0	0
for PLN 8.000 thousand	880	880	880	880	880	2 720	7 120
for PLN 300.000 thousand or USD equivalent	0	0	54 678	109 356	134 875	0	298 909
Liabilities	27 055	880	55 558	110 236	153 231	2 720	349 680

31 December 2007

<i>Fixed rate</i>	<i><1 year</i>	<i>1-2 years</i>	<i>2-3 years</i>	<i>3-4 years</i>	<i>4-5 years</i>	<i>>5 years</i>	<i>Total</i>
Financial assets	62 438	683	0	0	0	0	63 121
Finance lease liabilities	170	174	58	13	0	0	415
Loans for PLN 195.000 thousand	8 673	0	0	0	0	182 494	191 167
Loan for PLN 320 thousand	0	320	0	0	0	0	320
Loan for PLN 200 thousand	0	0	0	0	0	200	200
Liabilities	8 843	494	58	13	0	182 694	192 102
Floating rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Financial assets	0	0	0	0	72 130	0	72 130
Overdraft facilities	0	0	0	0	0	0	0
Bank loans:	2 880	880	50 980	100 780	43 133	3 600	202 253
for PLN 10.000 thousand	2 000	0	0	0	0	0	2 000
for PLN 8.000 thousand	880	880	880	880	880	3 600	8 000
for PLN 300.000 thousand or USD equivalent	0	0	50 100	99 900	42 253	0	192 253
Liabilities	2 880	880	50 980	100 780	43 133	3 600	202 253

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38.2. Fair value of each class of financial instruments

The table below provides a comparative analysis of the carrying amounts and fair values of all financial instruments held by the Company by classes and categories of assets and liabilities.

	Category according to IAS 39	Carrying amount		Income statement			
		31 December 2008	31 December 2007	for 12 months ended 31 December 2008			
				interest	FX differences	impairment of Oil&Gas investments	other
Financial assets		335 168	248 978	18 932	81 856	(241 188)	19
Non-current (long-term) financial assets, including		218 002	165 164	17 114	81 749	(156 620)	0
- loans advanced and receivables	LR	218 002	165 137	17 114	81 749	(36 045)	0
- other non-current assets	AFS	0	27	0	0	(120 575)	0
Trade and other receivables	LR	7 866	14 345	0	55	0	0
Current investments	LR	106 616	62 705	0	0	(84 568)	19
Cash	FVPL	2 684	6 764	1 818	52	0	0
Financial liabilities		564 581	501 095	(25 085)	(51 187)	40 938	(725)
Interest-bearing loans and borrowings, including	AC	550 712	393 940	(23 300)	(52 608)	0	(628)
- non-current bearing variable interest rates	AC	322 625	199 373	0	(52 608)	0	(87)
- non-current bearing fixed interest rates	AC	183 209	183 014	(10 106)	0	0	0
- overdraft	AC	25 413	0	(10)	0	0	0
- other	AC	19 465	11 553	(13 184)	0	0	(541)
Other non-current (long-term) liabilities, including	AC	145	33 025	(1 785)	0	40 938	0
- finance lease liabilities	AC	145	245	(56)	0	0	0
- other non-current liabilities	AC	0	32 780	(1 729)	0	40 938	0
Trade and other payables	AC	13 724	74 130	0	1 421	0	(97)

Abbreviations:

HTM – Financial assets held to maturity
 FVPL – Financial assets/liabilities at fair value through profit or loss
 LR – Loans and receivables
 AFS – Available-for-sale financial assets
 AC – Other financial liabilities measured at amortised cost

The carrying amount of financial assets and financial liabilities is not materially different from their fair value.

39. Capital management

The Company's main objective when managing capital is to maintain a good credit rating and safe capital ratios that can support the Company's operating activities and increase its value to shareholders.

The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, with the reservation of note 18 to the financial statements, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, or issue new shares. In the reporting periods ended 31 December 2008 and 30 December 2007, there were no changes to the Company's objectives, policies and processes for managing capital.

The Company monitors capital using the leverage ratio calculated as the ratio of net debt to net debt plus total equity. Net debt is calculated as interest-bearing loans and borrowings and trade and other payables less cash and cash equivalents. Capital comprises equity attributable to equity holders of the parent less reserve capital relating to unrealised net gains and shareholder loans, which due to the existence of certain contractual obligations are treated as subordinated debt.

The Management Board of the Company is aware that the Company is in the start-up phase of a long-term development programme and so an increase in the scale and variety of the sources of finance used (both equity and debt instruments) is to be expected in future reporting periods. The scale and long-term character of the undertaking may result in there being material fluctuations in the financial leverage ratio calculated at the end of each reporting period when exploration works are in progress.

	<i>31 December 2008</i>	<i>31 December 2007</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Interest-bearing loans and borrowings and finance lease liabilities	551 085	394 355
Shareholder loans	(219 270)	(191 367)
Trade and other payables	13 496	106 740
Less: cash and cash equivalents	(2 684)	(6 764)
Net debt	342 627	302 964
Equity	450 343	417 770
Shareholder loans	219 270	191 367
Total equity	669 613	609 137
Net debt and equity	1 012 240	912 101
Leverage ratio	33.85%	33.22%

40. Employment structure

The average employment in the Company in the years ended 31 December 2008 and 31 December 2007 was as follows:

	<i>31 December 2008</i>	<i>31 December 2007</i>
<i>Management Board of the Company</i>	3	2
<i>Administration</i>	43	41
<i>Sales Dept</i>	42	41
<i>Production</i>	54	55
<i>Total</i>	142	139

41. Events after the balance sheet date

On 6 January 2009, the Company received a decision of the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan prolonging the prospecting period of OTG Contract—registered to TOO OilTechnoGroup—by two years to 18 March 2011. The decision sets the amount of obligatory capital expenditure to be incurred by TOO OilTechnoGroup during the extended prospecting period at USD 23 million. The provisions of the decision will be implemented in the form of an annex to OTG Contract no. 993 dated 18 September 2002. OTG Contract is the largest contract in the Company's investment portfolio. An independent expert estimated the prospective resources located within the area of OTG Contract at a level of 1,269.13 mmbob (million barrels of oil equivalent)—as published by the Company in current report no. 56/2008 of 18 September 2008.

The work presently ongoing within the OTG Contract area involves testing of hydrocarbon-saturated horizons in the K-3 well and drilling of the Shyrak-1 well. The Company owns 88.10% of the shares in Occidental Resources, Inc. (which holds 100% of the shares of TOO OilTechnoGroup) and is currently in the process of finalising the acquisition of another 10% of the shares in the company.

On 13 January 2009, the Management Board of PETROLINVEST S.A. resolved to increase the Company's share capital by PLN 5,992,120 via the issuance of 599,212 ordinary registered K-series shares of a nominal value of PLN 10 each.

In the Company's best interest and subject to consent from the Supervisory Board, the pre-emptive rights of the existing shareholders to K-Series Shares will be entirely precluded. The Supervisory Board gave its consent. Furthermore, subject to consent from the Chairman of the Supervisory Board, the issue price of K-Series Shares was set at PLN 10. The Chairman of the Supervisory Board gave his consent. The issue price of K-Series Shares was determined taking into account the conditions prevailing on securities markets and the goals of the issue of K-Series Shares.

The Management Board decided that K-Series Shares would be offered in a private subscription to the Company's executives, employees and associates, as well as the executives, key employees and associates of the companies of Petrolinvest Group. The Company believes that because the exercise and attractiveness of the Company's existing incentive programmes is doubtful because of the execution price of subscription warrants which stands at PLN 227 per one Company share, the issue of K-Series Shares is the only realistic aspect of the incentive programme for top management.

The Management Board decided that subscription agreements for K-Series Shares would be concluded by 28 February 2009. Payments for K-Series Shares amounting to 25 percent of the issue price will be made before the date on which the share capital increase is filed with a register court, in the timeframe specified in the subscription agreement for K-Series Shares. K-Series Shares will participate in dividends starting from 1 January 2008. K-Series Shares may be paid for only by cash contributions.

K-Series Shares may be convertible into ordinary bearer shares after they have been paid up in full. In addition, K-Series Shares may be dematerialised. In case of dematerialisation of K-Series Shares, the Management Board will apply to have K-Series Shares admitted and introduced to trading on a regulated market and enter into an appropriate agreement with the National Depository For Securities (KDPW S.A.).

As a result of the issue of K-Series Shares, the Company's share capital will amount to PLN 69,473,040.

On 13 January 2009, the Company signed an agreement with PROKOM Investments S.A. ("Prokom") (the "Agreement") pertaining to:

- a) conditional acquisition by the Company from Prokom of accounts receivable associated with the financing of prospecting works on the Bozoba field which belongs to BMB Munai, as well as accounts receivable and rights pertaining to indirect acquisition of shares in BMB Munai (BMB Munai is involved in testing the B-200 well located on the Bozoba field),
- b) replacing the Call option available to Prokom under loan agreements extended in 2006-2008 to finance acquisitions of oil prospecting and production companies in Kazakhstan and Russia, as well as the prospecting works carried out by those companies, with the Call option granted under the Agreement,
- c) expanding the scope of the Call option to all accounts receivable by Prokom from the Company.

The Agreement envisages that Prokom shall transfer to the Company:

- accounts receivable under the loan agreement concluded on 14 January 2008 between Prokom and Capital Energy S.A.; the transfer shall entitle Prokom to a PLN 44,633,884 account receivable from the Company, reflecting interest accrued as at 30 September 2008; and
- rights and obligations under the share sale agreement of 20 December 2007 concluded between Prokom and Mars International Worldwide Inc. pertaining to indirect acquisition of shares in BMB Munai, one of the companies of Capital Energy S.A. group; the transfer entitles Prokom to a PLN 20,250,000 account receivable from the Company;

additionally, if the transfer of the accounts receivable and rights specified above (or any other collateral established in connection with the above-mentioned loan agreement) should require any consent or permit from any administrative authorities, corporate authorities, or third parties, the Company and Prokom agreed to co-operate in good faith to obtain such consents or permits as quickly as possible. Specifically, until the consent of the consortium agent bank is granted, the transfer of the accounts receivable and rights specified above is effectively only a commitment.

Furthermore, the parties confirmed in the Agreement that apart from the accounts receivable described above:

- the aggregate value of trade accounts receivable by Prokom from the Company which arose in the course of regular business activities of both companies, with accrued interest, is PLN 2,100,629.79 as at 13 January 2009 (as per the correction made in the annex dated 28 January 2009); and
- the aggregate value of accounts receivable by Prokom from the Company under the loans extended by Prokom, with accrued interest, is PLN 218,922,996.05 as at 13 January 2009.

As at 13 January 2009, the aggregate balance of the above-listed accounts receivable by Prokom from the Company, including the accounts receivable transferred on condition, was PLN 285,907,509.84; with the reservation that the interest accrued on the Capital Energy S.A. account receivable was calculated as of 30 September 2008.

As provided in the agreement, Prokom has the right to demand that the Company transfer to Prokom (on one or many occasions) such a number of Company shares that is the product of the value of Prokom's accounts receivable (or a portion thereof) with accrued interest and the average closing price of one Company share at the WSE in the three months preceding the date on which Prokom makes the demand. The Company will be obliged to transfer to Prokom, or issue and offer to Prokom, the shares specified in such a demand within five days from the date of the request, however not later than within three years from 13 January 2009. The Company may also fulfil this obligation by taking a resolution on a share capital increase in the Company—within the limits of the authorised capital as envisaged in Par. 11 of the Company's Statutes—through the issuance of Company shares that will be offered exclusively to Prokom, precluding the pre-emptive rights of the remaining shareholders.

Prokom will be obliged to cover the shares subscribed for (pay for the shares acquired) in the manner described above—with a financial contribution (in cash) which shall be made (which shall be paid) by netting outstanding accounts receivable by the Company from Prokom under a given share subscription (sale) agreement and accounts receivable by Prokom from the Company.

The provisions of the Agreement described above—referring to Prokom's rights—replace, in respect of the loan agreements concluded between Prokom and the Company, the Call Option granted to Prokom which was the subject of current report no. 34/2008 released on 6 June 2008.

The composition of the Company Management Board changed on 16 January 2009. Mr. Zenon Grablewski resigned from his office as Vice President of the Management Board for health reasons. On the same day, in exercise of its personal rights PROKOM Investments S.A. set the number of the Company's management board members at two, while Mr. Ryszard Krauze—exercising his personal rights—appointed Mr. Marcin Balicki, who had previously resigned from his office as Member of the Management Board, as Vice President of the Management Board.

On 28 January 2009, pursuant to the provisions of the agreement dated 13 January 2009, the Company received from PROKOM Investments S.A.:

- a) a request to transfer to Prokom a number of shares that corresponds to the product of (i) the aggregate amount of all accounts receivable by Prokom from the Company as specified in the Agreement with accrued interest, the value of which as of 13 January 2009 was made public in current report no. 4/2009 published by the Company on 14 January 2009, and (ii) the average closing price of one Company share at the WSE in the three months preceding 28 January 2009, i.e. Petrolinvest share price quote of PLN 45.9387; and
- b) a call to offer to Prokom, within five days from 28 January 2009, to subscribe for 2,100,000 ordinary bearer Petrolinvest shares at an issue price of PLN 45.9387 per share, that is for a total consideration of PLN 96,471,270.00.

In the statement delivered to the Company, Prokom indicated that the aggregate amount of the accounts receivable which serves as the basis for calculating the number of shares participating in the call comprises:

- (i) all trade accounts receivable by Prokom from the Company which arose in the course of regular business activities of both companies, with interest accrued thereon as at 13 January 2009, which amount to PLN 2,100,629.79; and
- (ii) a fraction of accounts receivable by Prokom from the Company under the loans extended by Prokom, comprised of a principal amount following from the loan agreement concluded on 2 October 2006 of up to PLN 92,370,640.21 and interest accrued thereon—following from the same loan agreement—of up to PLN 2,000,000.

On 28 January 2009, the Company Management Board resolved:

- a) to increase the Company's share capital by PLN 21,000,000 via the issuance of 2,100,000 ordinary bearer L-series shares of a nominal value of PLN 10 each ("L-Series Shares");
- b) to increase the Company's share capital by PLN 4,500,000 via the issuance of 450,000 ordinary bearer M-series shares of a nominal value of PLN 10 each ("M-Series Shares"); the resolution was amended on 2 March 2009 so that the resolution now envisages an increase of up to PLN 7,300,000 via the issuance of up to 730,000 ordinary bearer M-series shares.

Ad. a) In the Company's best interest and subject to consent from the Supervisory Board, the pre-emptive rights of the existing shareholders to L-Series Shares were entirely precluded. The Supervisory Board gave its consent. Furthermore, subject to consent from the Chairman of the Company Supervisory Board, the issue price of L-Series Shares was set at PLN 45.9387. The Chairman of the Supervisory Board gave his consent. The issue price of L-Series Shares was determined taking into account the provisions of the agreement concluded by the Company with Prokom Investments S.A. on 13 January 2009, which regulates the terms and conditions of satisfying accounts receivable by Prokom Investments S.A. from the Company (the Management Board announced the conclusion of this agreement in current report no. 4/2009 of 14 January 2009), as well as the content of the transfer request and the call for the Company shares to be offered, addressed to the Company by Prokom Investments S.A. on 28 January 2009 (the Management Board announced the receipt of the request in current report no. 8/2009 of 28 January 2009).

L-Series Shares will be offered in a private subscription to PROKOM Investments S.A. Payments for L-Series Shares will be made entirely by netting mutual accounts receivable/accounts payable before the date on which the share capital increase is

filed with a register court, in the timeframe and manner specified in the subscription agreement for L-Series Shares. L-Series Shares will participate in dividends starting from 1 January 2008. L-Series Shares may be paid for only by cash contributions.

The Management Board will apply to have L-Series Shares admitted and introduced to regulated trading. As a result, L-Series Shares will be dematerialised. Moreover, the Management Board will enter into an appropriate agreement with the National Depository For Securities (KDPW S.A.).

As a result of the issue of L-Series Shares, if the Company's share capital increase via the issuance of ordinary registered K-series shares should be registered previously, the Company's share capital will amount to PLN 90,473,040.

Ad. b) In the Company's best interest and subject to consent from the Supervisory Board, the pre-emptive rights of the existing shareholders to M-Series Shares were entirely precluded. Furthermore, subject to consent from the Chairman of the Company Supervisory Board, the issue price of M-Series Shares was set at PLN 10. The issue price of M-Series Shares was determined taking into account the conditions prevailing on securities markets and the goals of the issue of M-Series Shares.

M-Series Shares will be offered in a private subscription to the Company Supervisory Board Members, the Company's employees and associates, as well as the executives, employees and associates of the companies of its capital group not included in the incentive programme connected with the issue of K-series shares. The goal of the issue of M-Series Shares is to implement the incentive programme for the Supervisory Board members and associates of the Company.

Subscription agreements for M-Series Shares will be concluded by 15 July 2009. Payments for M-Series Shares will be made in full before the date on which the share capital increase is filed with a register court, in the timeframe specified in the subscription agreement for M-Series Shares. M-Series Shares will participate in dividends starting from 1 January 2008. M-Series Shares may be paid for only by cash contributions.

The Management Board will apply to have M-Series Shares admitted and introduced to regulated trading. As a result, M-Series Shares will be dematerialised. Moreover, the Management Board will enter into an appropriate agreement with the National Depository For Securities (KDPW S.A.).

On 16 March 2009, the EGM adopted the resolution regarding allocation of ordinary bearer M-series shares to members of the Company's Supervisory Board.

The offering of the Company's ordinary bearer M-series shares ("M-Series Shares") (the "Offering") was effected on 16 April 2009. 730,000 M-Series Shares were subscribed for in the Offering at an issue price of PLN 10 each. The Company received gross proceeds of PLN 7,300,000 as a result of the Offering.

The offering of the Company's ordinary registered K-series shares was effected on 6 February 2009. 599,212 K-Series Shares were subscribed for in the Offering at an issue price of PLN 10 each. All payments towards K-Series Shares have been made. The Company has received gross proceeds of PLN 5,992,120 as a result of the Offering to date.

The offering of the Company's ordinary bearer L-series shares was effected on 9 February 2009. PROKOM Investments S.A. (the "Subscriber") subscribed for 2,100,000 L-Series Shares in the Offering at an issue price of PLN 45.9387 per share.

Furthermore, the Company concluded a netting agreement with the Subscriber (the "Netting Agreement") on 9 February 2009 under which the Parties netted an outstanding account receivable by the Company under the share subscription agreement for L-Series Shares totalling PLN 96,471,270.00 with: (i) an outstanding account payable in connection with the performance by the Company of its obligation to repay the principal amount of the loan due under the agreement dated 2 October 2006 concluded between the Subscriber and the Company (the "Loan Agreement") of up to PLN 92,370,640.21, (ii) an outstanding account payable in connection with the performance by the Company of its obligation to repay interest accrued under the Loan Agreement of up to PLN 2,000,000.00, and (iii) an outstanding trade account payable which arose in the course of regular business activity of the Company and the Subscriber, with interest accrued thereon, amounting to PLN 2,100,629.79, all payable to the Subscriber.

The Netting Agreement meets the criteria of a significant agreement because its value exceeds 10% of the Company's equity.

As a result of the netting, the cash contribution due by the Subscriber to the Company in connection with the subscription by the Subscriber for 2,100,000 L-Series Shares was fully covered.

On 16 February 2009, the District Court for Gdańsk-Północ of Gdańsk, VIII Economic Department of the National Court Register, in a secret ballot registered the share capital increase of the Company effected by way of:

- an issue of 599,212 ordinary registered K-series shares of a nominal value of PLN 10 each, and
- an issue of 2,100,000 ordinary bearer L-series shares of a nominal value of PLN 10 each.

In consequence:

- (i) the Company's share capital after the registration is PLN 90,473,040 and
- (ii) the total number of votes attached to all Company shares issued, following the registration, is 9,047,304.

On 18 February 2009, OOO Nieftiegeoserwis, in which PETROLINVEST S.A. has a 59.99% interest, signed Annex no. 6 to the Yermolovskye Exploration Concession with the Federal Agency for the Use of Mineral Resources.

The Annex prolongs the prospecting period of the Concession to 31 December 2010 and sets out a minimum work programme for the years 2009 and 2010, which involves the construction of at least one exploration well in each year and filing a report on the results of completed work with relevant offices in 2010.

On 20 February 2009, the Company was informed that Occidental Resources, Inc. gave a guarantee to Bank CenterCredit JSC.

It is a guarantee of payment of liabilities due from TOO OilTechnoGroup to Bank CenterCredit JSC under the credit line agreement totalling USD 37,800 thousand granted to TOO OilTechnoGroup on 13 April 2006, later amended by subsequent annexes. The guarantee remains in force until the final repayment of the liabilities resulting from the credit line which matures on 5 April 2012. The value of the guarantee is not limited to the principal amount of the credit line and covers other fees payable to Bank CenterCredit JSD under the credit facility agreement.

The guarantee does not provide for any charges to be paid for its granting. The guarantee specifies a contractual penalty—in case of non-payment of the amount due—equal to 0.1 per cent of such amount for each day of delay and a contractual penalty of 0.1 per cent of the total amount of the guarantee for other breaches of the guarantee.

Occidental Resources, Inc. and TOO OilTechnoGroup are subsidiaries of PETROLINVEST S.A.

On 12 March 2009, the District Court for Gdańsk-Północ of Gdańsk, VIII Economic Department of the National Court Register, in a secret ballot registered the share capital increase of the Company effected by way of:

- an issue of 2,613,163 ordinary bearer G-series shares of a nominal value of PLN 10 each, and
- an issue of 447,942 ordinary bearer H-series shares of a nominal value of PLN 10 each.

On 16 March 2009, the EGM of PETROLINVEST S.A. approved the widening of the scope of the Company's activities by adding accounting, book-keeping and auditing activities, tax consultancy, activities of head offices and holding companies, except financial holding companies, and other business and management consulting activities. The widening of the scope of activities is a part of the Company's plan to implement a more efficient model with regard to business transactions with companies within PETROLINVEST Group and supervision of those entities, as part of which the Company will fulfil the role of a central facility for management and financial and book-keeping centre with respect to its subsidiaries. The changes are closely connected with the distribution of powers within the Capital Group and are not connected with a change to the Company's current business profile.

On 18 March 2009, the Company and PKO BP, acting as Facility Agent, entered into a pledge agreement over the shares of Occidental Resources Inc. ("ORI"). The Pledge Agreement was concluded in execution of the obligation provided for in the pledge agreement concluded with PKO BP on 30 December 2008. The Pledge Agreement established a pledge over 75,947,519 ORI shares.

The nominal value of each ORI share is USD 0.001. The Pledged ORI Shares are the Company's long-term equity investment. The Company owns shares representing 88.10% of ORI share capital and carrying 88.10% of the votes at the company's general meeting. The nominal value of the Pledged ORI Shares is USD 75,947.52 and they represent a 38.10% stake in ORI share capital.

The Pledge Agreement was concluded in order to secure receivables due under the Credit Facility Agreement dated 21 March 2007 concluded between the Company, PKO BP and Bank Gospodarstwa Krajowego. The receivables that have been secured comprise all amounts due, including the principal amount, interest and other lending costs that the Company agreed to pay under the Credit Facility Agreement. The current principal amount of the facility under the Credit Facility Agreement is USD 100,184,412.75 and PLN 2,183,100.

On 20 March 2009 the Company concluded an agreement with its dominant shareholder, Prokom Investments S.A. headquartered in Gdynia ("Prokom"), which sets out terms and conditions for cooperation in seeking financing for the Company (the "Agreement").

In the Agreement, Prokom has committed to take appropriate actions to obtain a PLN 150 million financing for the Company's operations (the "Financing"), while the Company has committed to accept the Financing obtained by Prokom under the Agreement. The Financing will be provided on the basis of loan agreements or other agreements of similar nature, on an arm's length basis, or as a direct equity investment into Petrolinvest shares, with the reservation that the loans or similar agreements will be uncollateralized and subordinated to the Company's bank debt, unless otherwise agreed by the parties.

The Financing will be provided to the Company by Prokom, or another entity appointed by Prokom (Prokom or another entity appointed by Prokom hereinafter referred to as the "Financing Entity"), based on agreements which should stipulate the authority of the Financing Entity to file a conversion request for an outstanding amount of the Financing, with accrued interest and other costs resulting from the Financing documents, to be converted, whether fully or partially, into Petrolinvest equity (the "Request").

If the Financing Entity should have the intention to make a direct equity investment into Petrolinvest shares, the Request will apply accordingly to an issue of Petrolinvest shares on terms stipulated in the Agreement.

The Request will be irrevocable and may be made by the Financing Entity at any date set by the Financing Entity or at the date stipulated in the Financing document. Subscription and payment for the shares in execution of the Request will be made within two months from the date of the Request. If the share issue is not made from the authorised capital, the deadline for subscription and payment for the shares in execution of the Request will be four months from the date of the Request.

Once the Request is made, the Company is committed to take all actions necessary to increase the share capital through the issue of new Petrolinvest shares ("New Shares") within the timeframe specified in the Request in exchange for a cash contribution, at an issue price per New Share equal to an average close price of the Company's shares at the Warsaw Stock Exchange ("WSE") from 180 quoting days preceding the date of the Request, or—if the Financing Entity shall decide so—at an

issue price per New Share equal to the close price of the Company's shares at the WSE from the day preceding the date of the Request, in each case reflecting the effects of possible distribution of the shares.

New Shares will first be issued within the scope of the authorised capital, and the Company is obliged to provide such a level of authorised capital that allows for an issue of New Shares to be effected within its limits.

If a Request is made for full or partial conversion of the outstanding amount of the Financing, New Shares shall be paid for by way of contractual netting of accounts receivable by the Financing Entity and accounts receivable by the Company under the New Share issue.

If, in execution of the Agreement, Prokom should obtain financing from another Financing Entity, other than Prokom, then Prokom shall be entitled to remuneration from the Company equal to 2% (net) of the value of the Financing so obtained.

The Agreement provides that the Financing should be obtained by 31 December 2010.

The Agreement was concluded at arm's length.

On 30 March 2009 the Company concluded:

- a) with the bank Powszechna Kasa Oszczędności Bank Polski S.A. ("PKO BP") and Bank Gospodarstwa Krajowego Bank Państwowy ("BGK") – an annex to the Credit Facility Agreement dated 21 March 2007 (the "Credit Facility Agreement") concluded with those banks (the "Consortium") and
- b) with PKO BP acting as the facility agent – agreements for the transfer of rights under loan agreements extended by the Company to companies of PETROLINVEST Group with a book value of USD 72,678,500 with interest to collateralise the Credit Facility Agreement (the "Rights" and "Transfer Agreements").

The Annex to the Credit Facility Agreement was concluded in order to regulate the mutual rights and obligations of the parties to the Credit Facility Agreement in connection with an earlier decline in value of a portion of the loan collateral portfolio, of which the Company informed the public in the Consolidated Quarterly Report for Q4 2008, and also in connection with additional collateral being provided by the Company on 30 December 2008 and 18 March 2009 in the form of a pledge over 88.1% of the shares in Occidental Resources, Inc. owned by the Company.

On the terms set out in the Annex to the Credit Facility Agreement, the Consortium confirmed that it did not recognise the decline in value of the portion of the collateral portfolio below the level required by the Credit Facility Agreement as an event of default. Also, the Company provided additional collateral in the form of a transfer as collateral of receivables totalling USD 72,678,500 from loans extended by the Company pursuant to Transfer Agreements and committed to provide further collateral in the future, including a pledge over the Company's shares and stocks and transfer as collateral of USD 56,136,000 loan receivables with accrued interest.

The Management Board convened an Extraordinary General Meeting of the Company for 7 May 2009. The agenda of the General Meeting will involve in particular adopting a resolution expressing consent to sell, lease or otherwise dispose of the organised part of the Company's enterprise involved in gas trading.

The Management Board of PETROLINVEST S.A. (the "Company") announces that on 29 April 2009 the Company entered into an agreement with GEM Investments Advisers, Inc ("GEMIA") and GEM Global Yield Fund Limited ("GEM") under which a PLN 200 million financing was made available to the Company through an equity line of credit (the "Agreement") and subscription warrants convertible into 1,300,000 Petrolinvest shares are to be issued to GEM at PLN 60 per share (aggregate value PLN 78 million) (the "Warrants").

The Agreement gives the Company the option to demand within three years from the date of the Agreement that GEM subscribe for subscription warrants, exercise the rights to subscribe for the shares, and take up Petrolinvest shares issued within the scope of the authorised capital, the total issue price of which shall not exceed PLN 200 million, provided that the number of warrants and shares in one draw will not be higher than seven times the average turnover volume of Petrolinvest shares during 15 trading days preceding the day on which the Company uses the equity line of credit that has been granted to it. The Company may decide when to use the equity line of credit at its own discretion, depending on its current capital requirements, and use each tranche of the financing as needed. The Company is not obliged to use the full amount of the equity line of credit.

Petrolinvest shares issued under the Agreement will be taken up in exchange for cash contributions. The issue price per share will vary depending on the time when the Company chooses to use the equity line of credit and will be determined using 90% of the average Petrolinvest close price quoted on 15 consecutive quoting days preceding the day on which subscription warrants conferring the right to subscribe for shares are taken up ("Subscription Date").

In each draw, as a rule GEM will be obliged to take up subscription warrants conferring rights to subscribe for Petrolinvest shares—and following that the Company's shares—that represent no less than 50% and no more than 200% of such number of Company shares that the Company sets out at the moment it decides to use the equity line of credit, which does not in any way reduce the amount of the credit line.

On a day falling within 4 months from the earliest Subscription Date on which the subscription warrants were taken up and for which Petrolinvest shares have not yet been issued ("Closing Date"), the Management Board will adopt a resolution to issue such a number of Company shares—within the scope of the authorised capital and excluding the pre-emptive rights—that corresponds to the number of subscription warrants held by GEM on the Closing Date (the "Shares") (as provided in the Agreement, appropriate consents from the Chairman of the Company's Supervisory Board and the Supervisory Board itself will be given on the Closing Date as well). The Agreement provides that the Shares will be offered and taken up by GEM on the

Closing Date. Immediately following the registration of the Shares in the National Court Register, the Company will take all actions necessary to introduce the Shares to trading at the WSE.

As provided in the Agreement, on the first Subscription Date the Company will pay to GEMIA remuneration totalling PLN 2,000,000.

In addition, the Company agreed to issue Warrants convertible into Petrolinvest shares at an issue price of PLN 60 per share (the price may change in certain circumstances) as follows: (i) 650,000 Warrants issued within the scope of the authorised capital, immediately following registration by the court of the amendments to the Company's statutes determining the authorised capital; and (ii) another 650,000 Warrants pursuant to an appropriate resolution of the Company's Extraordinary General Meeting convened within 60 days from the date of the Agreement ("EGM"). If the EGM does not take the resolution, the Company will issue the Warrants referred to in point (ii) from the authorised capital.

The Agreement meets the criteria of a significant agreement because its value exceeds 10% of the Company's equity.

The equity line of credit is a recognised solution used in US and UK markets that provides a flexible mechanism of increasing share capital – by amounts and on dates suited to the Company's current requirements.

The GEM Group is a US-based private equity group founded in 1991, with offices in New York, London, and Beijing. The GEM Group manages US\$ 3.4 billion worth of assets and has completed more than 200 transactions in 29 countries across the world. It specialises in private investments but also invests in publicly-listed companies. The GEM Group operates in the US and internationally, across a broad spectrum of industries and transactional structures. Investments of GEM Group usually involve engagement in shares. GEM Group often provides financing for an entire undertaking or acts as the leading investor.