



Petrolinvest

PETROLINVEST
Spółka Akcyjna

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010
WITH INDEPENDENT AUDITOR'S OPINION

APPROVAL OF FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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 2010 for publication.

The income statement, statement of comprehensive income, 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.

Information is presented in the following order:

	page
1. Income Statement for the period: from 1 January to 31 December 2010	4
with a net loss amounting to (36 765) PLN thousand	
2. Statement of Comprehensive Income from 1 January to 31 December 2010	4
with a net loss amounting to (36 765) PLN thousand	
3. Balance Sheets as at: 31 December 2010	5
with total assets and liabilities amounting to 1 239 137 PLN thousand	
4. Cash Flow Statement for the period: from 1 January to 31 December 2010	6
with a net cash inflow amounting to 20 628 PLN thousand	
5. Statement of Changes in Equity for the period: from 1 January to 31 December 2010	7
with an increase in equity amounting to 386 030 PLN thousand	
6. Accounting policies and notes to the financial statements	8

The financial statements were prepared in thousands of Polish zloty unless otherwise explicitly stated.

Bertrand Le Guern
President

Marek Pietruszewski
Vice President

Franciszek Krok
Board Member

Roman Niewiadomski
Board Member

Maciej Wantke
Board Member

Agnieszka Pochowska
Chief Accountant

Gdynia, 29 April 2011

INCOME STATEMENT	4
STATEMENT OF COMPREHENSIVE INCOME	4
BALANCE SHEET	5
CASH FLOW STATEMENT	6
STATEMENT OF CHANGES IN EQUITY	7
ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS	8
1. CORPORATE INFORMATION	8
2. GOING CONCERN	8
3. SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES	10
4. CONSOLIDATED FINANCIAL STATEMENTS	10
5. COMPOSITION OF THE MANAGEMENT BOARD	10
6. APPROVAL OF FINANCIAL STATEMENTS	11
7. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES	11
7.1. JUDGEMENTS	11
7.2. ESTIMATION UNCERTAINTY	12
8. BASIS OF PREPARATION	13
8.1. STATEMENT OF COMPLIANCE	13
8.2. FUNCTIONAL CURRENCY AND PRESENTATION CURRENCY	13
9. CHANGES IN ACCOUNTING POLICIES	13
10. THE STAGE OF APPROVAL OF THE IFRS BY THE EU	14
11. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	14
11.1. FOREIGN CURRENCY TRANSLATION	14
11.2. PROPERTY, PLANT AND EQUIPMENT	15
11.3. INVESTMENT PROPERTY	15
11.4. INTANGIBLE ASSETS	16
11.5. LEASING	16
11.6. IMPAIRMENT OF NON-FINANCIAL NON-CURRENT ASSETS	16
11.7. BORROWING COSTS	17
11.8. INTERESTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES	17
11.9. FINANCIAL ASSETS	17
11.10. IMPAIRMENT OF FINANCIAL ASSETS	18
11.10.1 <i>Assets carried at amortised cost</i>	18
11.10.2 <i>Financial assets carried at cost</i>	18
11.10.3 <i>Financial assets available for sale</i>	18
11.11. INVENTORIES	18
11.11.1 <i>Obligatory stocks of liquid fuels</i>	19
11.12. TRADE RECEIVABLES	19
11.13. CASH AND CASH EQUIVALENTS	19
11.14. INTEREST-BEARING LOANS AND BORROWINGS	19
11.15. TRADE AND OTHER PAYABLES	20
11.16. PROVISIONS	20
11.17. RETIREMENT BENEFITS	20
11.18. SHARE-BASED PAYMENT TRANSACTIONS	21
11.18.1 <i>Equity-settled transactions</i>	21
11.19. REVENUE	21
11.19.1 <i>Sale of goods</i>	21
11.19.2 <i>Rendering of services</i>	21
11.19.3 <i>Interest</i>	21
11.19.4 <i>Dividends</i>	21
11.19.5 <i>Rental income (operating lease income)</i>	21
11.19.6 <i>Government grants</i>	22
11.20. INCOME TAX	22
11.20.1 <i>Current income tax</i>	22

11.20.2	Deferred tax.....	22
11.20.3	Value Added Tax.....	22
11.20.4	Excise tax.....	23
11.21.	EARNINGS PER SHARE.....	23
12.	SEASONALITY.....	23
13.	SEGMENT INFORMATION.....	23
14.	REVENUES AND EXPENSES.....	25
14.1.	EMPLOYEE BENEFITS.....	25
14.2.	EXTERNAL SERVICES EXPENSE.....	25
14.3.	OTHER OPERATING INCOME.....	25
14.4.	OTHER OPERATING EXPENSES.....	26
14.5.	FINANCIAL REVENUES.....	26
14.6.	FINANCIAL COSTS.....	27
14.7.	IMPAIRMENT OF INVESTMENTS IN FINANCIAL ASSETS.....	27
15.	INCOME TAX.....	28
15.1.	TAX CHARGES.....	28
15.2.	RECONCILIATION OF EFFECTIVE INCOME TAX RATE.....	29
15.3.	DEFERRED INCOME TAX.....	29
16.	SOCIAL ASSETS AND LIABILITIES.....	30
17.	EARNINGS PER SHARE.....	31
18.	DIVIDENDS PAID AND DECLARED.....	32
19.	PROPERTY, PLANT AND EQUIPMENT.....	32
20.	LEASING.....	35
20.1.	FINANCE LEASE COMMITMENTS.....	35
20.2.	OPERATING LEASE.....	35
21.	INVESTMENT PROPERTY.....	36
22.	INTANGIBLE ASSETS.....	36
23.	FINANCIAL ASSETS.....	37
23.1.	FINANCIAL ASSETS IN SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES.....	38
23.2.	LOANS GRANTED — OTHER ENTITIES.....	41
24.	EMPLOYEE BENEFITS.....	44
24.1.	PENSIONS AND OTHER POST-EMPLOYMENT BENEFIT PLANS.....	44
24.2.	EMPLOYEE SHARE INCENTIVE PLANS.....	45
25.	INVENTORIES.....	45
26.	TRADE AND OTHER RECEIVABLES AND RECEIVABLES FROM PUBLIC AUTHORITIES.....	46
27.	CASH AND CASH EQUIVALENTS.....	46
28.	ISSUED CAPITAL AND RESERVES.....	47
28.1.	SHARE CAPITAL.....	47
28.1.1	Nominal value of shares.....	48
28.1.2	Shareholders' rights.....	48
28.2.	RESERVE CAPITAL.....	48
29.	INTEREST-BEARING LOANS AND BORROWINGS.....	48
30.	PROVISIONS.....	52
31.	TRADE AND OTHER PAYABLES (CURRENT AND NON-CURRENT).....	52
32.	PREPAYMENTS AND ACCRUALS.....	53
33.	CONTINGENT LIABILITIES.....	53
33.1.	LEGAL CLAIMS.....	53
33.2.	TAX SETTLEMENTS.....	53

34.	CHANGES IN WORKING CAPITAL, INFLOWS AND OUTFLOWS IN THE CASH FLOW STATEMENT.....	54
34.1.	REASONS BEHIND DIFFERENCES IN THE BALANCE SHEET CHANGES IN WORKING CAPITAL AND THE CHANGES IN OPERATING ACTIVITIES IN THE CASH FLOW STATEMENT.....	54
34.2.	INFLOWS AND OUTFLOWS OF FINANCING ACTIVITIES	55
34.3.	INFLOWS AND OUTFLOWS OF INVESTING ACTIVITIES	55
35.	RELATED PARTY DISCLOSURES.....	55
35.1.	TERMS AND CONDITIONS OF TRANSACTIONS WITH RELATED PARTIES	55
35.2.	RELATED PARTY TRANSACTIONS	59
35.3.	COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE COMPANY	59
36.	INFORMATION ON REMUNERATION PAID TO CERTIFIED AUDITOR OR ENTITY AUTHORISED TO AUDIT FINANCIAL STATEMENTS.....	60
37.	FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES	60
37.1.	INTEREST RATE RISK	60
37.2.	FOREIGN CURRENCY RISK	61
37.3.	COMMODITY PRICE RISK	62
37.4.	CREDIT RISK.....	62
37.5.	LIQUIDITY RISK	63
38.	FINANCIAL INSTRUMENTS	63
38.1.	INTEREST RATE RISK	63
38.2.	FAIR VALUE OF EACH CLASS OF FINANCIAL INSTRUMENTS	65
39.	CAPITAL MANAGEMENT	66
40.	EMPLOYMENT STRUCTURE	66
41.	EVENTS AFTER THE BALANCE SHEET DATE	67

INCOME STATEMENT

	note	<i>for 12 months ended 31 December</i>	
		2010	2009
		PLN '000	PLN '000
Continuing operations			
Sale of goods		148 404	75 066
Rendering of services		726	674
Revenue		149 130	75 740
Value of goods and materials sold		132 594	59 816
Materials and energy		2 250	2 110
Employee benefits	14.1	9 810	89 128
Depreciation and amortisation		3 286	2 903
External services	14.2	17 698	22 637
Taxes and charges		759	884
Other expenses		1 448	1 038
Operating expenses		167 845	178 516
Gross profit/ (loss)		(18 715)	(102 776)
Other operating income	14.3	2 009	3 477
Other operating expenses	14.4	26 530	86 551
Finance income	14.5	35 715	27 662
Finance costs	14.6	28 945	73 399
Impairment of assets	14.7	299	101 045
Profit/ (loss) before tax		(36 765)	(332 632)
Income tax expense	15	0	(1 681)
Net profit/ (loss) for the year from continuing operations		(36 765)	(330 951)
Net profit/ (loss) for the year		(36 765)	(330 951)
Weighted average number of issued shares for basic earnings per share computations		33 127 514	13 518 960
Number of diluting potential ordinary shares		0	0
Earnings (loss) per share in PLN	17	(1,11)	(24,48)
Diluter earnings (loss) per share in PLN	17	(1,11)	(24,48)

STATEMENT OF COMPREHENSIVE INCOME

	<i>for 12 months ended 31 December</i>	
	2010	2009
	PLN '000	PLN '000
Profit/(loss) for the period	(36 765)	(330 951)
Total net other comprehensive income	0	0
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	(36 765)	(330 951)

BALANCE SHEET

		<u>31 December</u>	<u>31 December</u>
		2010	2009
	note	<u>PLN '000</u>	<u>PLN '000</u>
ASSETS			
Non-current assets (long-term)			
Property, plant and equipment	19	42 897	44 229
Investment properties	21	2 567	2 567
Intangible assets	22	35	0
Other financial assets	23	197 925	197 840
Shares in subsidiaries and jointly-controlled entities	23	634 111	633 440
		<u>877 535</u>	<u>878 076</u>
Current assets (short-term)			
Inventories	25	1 372	1 221
Trade and other receivables	26	8 675	4 788
Prepayments and deferred costs	32	7 227	7 562
Current investments	23	343 670	127 410
Cash and cash equivalents	27	658	772
		<u>361 602</u>	<u>141 753</u>
TOTAL ASSETS		<u><u>1 239 137</u></u>	<u><u>1 019 829</u></u>
EQUITY AND LIABILITIES			
Equity			
Equity	28		
Issued capital		505 177	215 266
Contributions to share capital		37 831	0
Other reserves		1 126 975	1 023 399
Unregistered share capital		0	8 523
Retained earnings		(635 977)	(599 212)
Total equity		<u>1 034 006</u>	<u>647 976</u>
Non-current liabilities			
Interest-bearing loans and borrowings	29	49 734	213 630
Non-current provisions	30	6 092	10 196
Finance lease liabilities	20	54	27
Other non-current liabilities	31	3 889	18 986
		<u>59 769</u>	<u>242 839</u>
Current liabilities			
Trade and other payables	31	21 261	13 131
Finance lease liabilities	20	46	118
Current portion of interest-bearing loans and borrowings	29	114 274	104 566
Current provisions	30	8 749	9 277
Accruals and deferred income	32	1 032	1 922
		<u>145 362</u>	<u>129 014</u>
Total liabilities		<u>205 131</u>	<u>371 853</u>
TOTAL EQUITY AND LIABILITIES		<u><u>1 239 137</u></u>	<u><u>1 019 829</u></u>

CASH FLOW STATEMENT

	<i>for 12 months</i>	
	<i>ended 31 December</i>	
	2010	2009
	PLN '000	PLN '000
Cash flows from operating activities		
Profit/ (loss) before taxation	(36 765)	(332 632)
Adjustments for:	6 152	308 237
Depreciation and amortisation	3 286	2 903
Interest and dividends, net	(26 735)	(8 525)
Foreign exchange differences	(1 784)	1 869
Gain/ (loss) from investing activities	11	10
(Increase)/ decrease in receivables	(3 887)	3 078
(Increase)/ decrease in inventories	(151)	1 605
Increase/ (decrease) in payables except loans and borrowings	400	(818)
Change in prepayments and accruals	(793)	(217)
Change in provisions	(9 718)	(13 680)
Other, including	45 523	322 012
share-based payments	0	80 705
lending costs	376	380
valuation of equity instruments	9 021	(2 244)
acquisition cost of right to use financing	0	31 640
impairment charge re-measurement	200	1 684
sale of financial assets	0	(10)
impairment of assets	299	101 055
collateral-related fees	35 627	108 802
Net cash flows from operating activities	(30 613)	(24 395)
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment and intangibles	36	47
Purchase of property, plant and equipment and intangibles	(215)	(62)
Expenditure on exploration for and evaluation of mineral resources	0	10
Acquisition of subsidiary and jointly-controlled entity, net of cash	0	0
Interest received	0	4
Repayment of loans granted	2	5
Granting of loans	(105 841)	(72 823)
Other	0	0
Net cash flows from investing activities	(106 018)	(72 819)
Cash flows from financing activities		
Proceeds from share capital increase	317 578	117 545
Costs relating to share issue	(13 923)	(6 364)
Payment of finance lease liabilities	(45)	(228)
Proceeds from loans and borrowings	2 500	3 000
Repayment of loans and borrowings	(140 083)	(890)
Interest paid	(8 392)	(12 711)
Other	(376)	(379)
Net cash flows from financing activities	157 259	99 973
Net increase/ (decrease) in cash and cash equivalents	20 628	2 759
Cash and cash equivalents at the beginning of the period	(19 970)	(22 729)
Cash, cash equivalents and long-term deposits at the end of the period	658	(19 970)
Including restricted use cash	0	0

PETROLINVEST Spółka Akcyjna
Financial statements for the year ended 31 December 2010
(PLN '000)

STATEMENT OF CHANGES IN EQUITY

	<i>Issued 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>Contributions to share capital</i>	<i>Retained earnings/ Accumulated (losses)</i>	<i>Total equity</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>	<i>PLN '000</i>
As at 1 January 2010	215 266	1 023 399	15 593	879 166	128 640	8 523	0	(599 212)	647 976
Total comprehensive income for the period	0	0	0	0	0	0	0	(36 765)	(36 765)
Issue of share capital	289 911	111 486	0	111 486	0	(8 523)	37 831	0	430 705
Transaction cost	0	(60 212)	0	(60 212)	0	0	0	0	(60 212)
Equity instruments issue	0	52 302	0	0	52 302	0	0	0	52 302
Share-based payments	0	0	0	0	0	0	0	0	0
As at 31 December 2010	505 177	1 126 975	15 593	930 440	180 942	0	37 831	(635 977)	1 034 006
	<i>tys. zł.</i>	<i>tys. zł.</i>	<i>tys. zł.</i>	<i>tys. zł.</i>	<i>tys. zł.</i>	<i>tys. zł.</i>	<i>tys. zł.</i>	<i>tys. zł.</i>	<i>tys. zł.</i>
As at 1 January 2009	63 481	501 533	15 593	473 931	12 009	153 590	0	(268 261)	450 343
Total comprehensive income for the period	0	0	0	0	0	0	0	(330 951)	(330 951)
Issue of share capital	151 785	423 646	0	423 646	0	(145 067)	0	0	430 364
Transaction cost	0	(18 411)	0	(18 411)	0	0	0	0	(18 411)
Equity instruments issue	0	6 286	0	0	6 286	0	0	0	6 286
Warrant issue	0	29 640	0	0	29 640	0	0	0	29 640
Share-based payments	0	80 705	0	0	80 705	0	0	0	80 705
As at 31 December 2009	215 266	1 023 399	15 593	879 166	128 640	8 523	0	(599 212)	647 976

Accounting policies and notes to the financial statements
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

These Financial statements of PETROLINVEST S.A. ("the Company") cover the year ended 31 December 2010 and contain comparative data for the year ended 31 December 2009.

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

The resolution of the Shareholders' Meeting of PETROLINVEST Spółka z ograniczoną odpowiedzialnością (limited liability company) of 22 December 2006 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 Commercial 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:

- oil-field and gas-field development,
- wholesale of solid, liquid and gaseous fuels and derivative products,
- retail of fuels,
- production of gas fuels,
- services consisting in installation of metal constructions,
- development of gas installations.

As from 1 July 2008, gas trading activities are carried out by the Company' branch with a self-balancing set of accounts: PETROLINVEST Spółka Akcyjna — Oddział LPG (LPG Branch) headquartered in Gdynia. The Branch was granted statistical number (REGON) 190829082-00022.

As at the date of approval of the financial statements, the parent company of PETROLINVEST S.A. is PROKOM Investments S.A. The controlling entity of PROKOM INVESTMENTS S.A. is Mr Ryszard Krauze. 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 of PROKOM INVESTMENTS S.A., has personal powers to appoint and dismiss the Vice-President. The number of Board members is determined by PROKOM Investments S.A. The Supervisory Board is composed of nine members, two of them (including the Chairperson and Deputy Chairperson 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, taking into account the assumptions presented below.

In view of the specific scope of activities undertaken by the Company and its Capital Group, which entails risks typical of the exploration and production industry, and considering the present state of advancement of ongoing works regarding exploration and production of hydrocarbons, the Management Board – in keeping with the best market practices – indicates below, by analogy to financial statements of the Company for previous periods, factors which, under extraordinary circumstances, may pose a potential threat to the going concern of the Group in the future. The risks presented below are considered by the 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 Group's business in the future:

1. The Company and its subsidiaries continue the investment programme, the aim of which is to expand PETROLINVEST's activities in the area of exploration for and production of crude oil and natural gas. In view of the early stage of the investments being executed as well as exploration risks commonly associated with this industry, the Management finds that as at the date of approval of the financial statements for the period of 12 months ended 31 December 2010 there exist external risk factors which may pose a threat to the Company reaching its goals within the set deadline, in spite of the fact the ongoing investment programme is being executed pursuant to the schedule approved by the Management Board of the Company. The Company and the entities of PETROLINVEST Group have taken a number of steps and decisions in order to minimise the negative effects of these risk factors. These include: cooperation with reputable and reliable subcontractors, flexibility in responding to changing geological conditions, use of alternative techniques which make it possible to increase the pace of works and minimise costs locally, etc.
2. The investment programme is financed with the Company's own cash, loans extended by PROKOM Investments S.A., and external financing. The execution 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. Of great significance to the raising of funds by the Company is the aforementioned agreement with PROKOM Investments S.A. which is being performed on an ongoing basis, as a result of which the Company is being

provided with a steady inflow of funds by PROKOM Investments S.A and by indicated entities by way of capital increase. Moreover, 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 Company's operations, slowing down the pace of exploration works, selling selected assets, securing alternative sources of finance, renegotiation of debt repayment schedules, etc.

3. As at 31 December 2010, the Company's overall indebtedness ratio was 0.17 and the debt to equity ratio was 0.20. 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 2010.
4. 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 secured the 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 and specified under a relevant agreement, as well as a declaration regarding the 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 2010 based on the following facts and circumstances:

1. On 29 March 2010, the Company concluded a Loan Agreement with the European Bank for Reconstruction and Development ("EBRD", "Loan Agreement"), under which EBRD extended a loan facility to the Company in the maximum amount of USD 50 million designated for the purpose of financing exploration and production-related investments of OTG and EmbaJugNieft. The availability of financing under the agreement is conditional on a number of requirements to be met by the Company and by third parties, as described in respective current reports. The Management expects that all conditions precedent contained in the agreement will be fulfilled.
2. On 16 March 2010, the Company and OTG concluded a farm-out agreement with an entity of TOTAL Group. The Company expects that all conditions precedent contained in the agreement will be fulfilled. The involvement of TOTAL Group in the most capital intensive project of Petrolinvest Group will provide finance for the necessary work on the OTG Concession for at least 12 months from the date of the financial statements.
3. On 20 March 2009, the Company signed an agreement with Prokom Investments, whereby Prokom undertook to take appropriate actions to obtain financing for the Company's operations in the amount of PLN 150 million. On 31 December 2010, an annex to the agreement was concluded. Pursuant to the Annex, the parties agreed on extending the period for conducting activities by Prokom aimed at seeking financing for the Company's operations by 18 months, i.e. until 30 June 2012. Simultaneously, Prokom undertook to seek financing in the period of the aforementioned 18 subsequent months up to the amount of PLN 200 million. On 18 April 2011 the Company and Prokom concluded another annex to the aforementioned agreement. Considering the capital requirements of Petrolinvest connected with the implementation of the new development strategy and prospective business projects, as well as the intent to increase the share of Prokom Investments S.A in the shareholding structure of the Company and the intent of Prokom and other financing entities obtained by Prokom to support Petrolinvest's projects, the parties have decided to extend until the end of 2013 the cooperation consisting in obtaining by Prokom financing for Petrolinvest's investment projects on the basis of current provisions of the Agreement, and to increase the financing by the additional amount of PLN 100 million.

The financing is continually 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 are uncollateralised and subordinated to the Company's bank debt, unless otherwise agreed by the parties.

4. In order to provide financing for its investment programme, the Company also concluded an agreement with GEM Global Yield Fund on 29 April 2009 providing the Company with a financing of up to PLN 200 million available in tranches to be drawn at the Company's discretion over the period of 3 years from the date of the agreement and regarding an issue of subscription warrants convertible into a total of 1.3 million Petrolinvest shares at PLN 60 per share. By the date of approval of these financial statements, the Company had issued 1,270,800 shares to GEM Global Yield Fund under the agreement, with the amount of PLN 150 million still being available.

3. Subsidiaries and Jointly-Controlled Entities
 PETROLINVEST S.A. has the following subsidiaries:

Full name	Short name	Registered office	Business activities	% held by the Company in share capital	
				30 June 2010	31 December 2009
subsidiaries					
UAB Petrolinvest Mockavos Perpyla Sp. z o.o.	Mockavos / MC	Lithuania	Trans-shipment of liquid fuels	87%	87%
PETROLINVEST GAZ S.A.**	Petrolinvest Gaz	Poland	Trans-shipment of liquid fuels	100%	100%
SIGNA ENTERPRISES LIMITED **	Signa/SI	Cyprus	Finance and investment	100%	-
Occidental Resources, Inc.	Occidental Resorces / OR	USA	Investments into entities involved in crude oil exploration and extraction	88,1%	88,1%
OilTechnoGroup*	OTG	Kazakhstan	Exploration for and extraction of crude petroleum and natural gas	88,1%	88,1%
TOO EmbaJugNieft	EmbaJugNieft / EM	Kazakhstan	Exploration for and extraction of crude petroleum and natural gas	79%	79%
Silurian Sp. z o.o.	Silurian/SN	Poland	Service activities auxiliary to exploitation of gas deposits	60%	-

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

** Interest in SIGNA ENTERPRISES LIMITED is held indirectly through Petrolinvest Gaz, owner of a 100% interest in SI.

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

Full name	Short name	Registered office	Business activities	% held by the Company in share capital	
				31 December 2010	31 December 2009
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 2010 and as at 31 December 2009, 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.

The Oil Exploration and Production Companies are OTG, EmbaJugNieft and Profit which hold contracts 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 2010, authorised for issue on 29 April 2011.

5. Composition of the Management Board

As at 31 December 2010 and the date of approval of these financial statements, the Management Board of the Company consisted of:

- Bertrand Le Guern — President of the Management Board,
- Marek Pietruszewski — Vice-President of the Management Board
- Franciszek Krok — Member of the Management Board
- Roman Niewiadomski — Member of the Management Board
- Maciej Wantke — Member of the Management Board

On 9 June 2010, in accordance with its personal powers, Prokom Investments S.A. specified that the Board of the Company would consist of three members. On the same day, the Company's Supervisory Board appointed Mr Marek Pietruszewski as Member of the Management Board of PETROLINVEST S.A. responsible for financial affairs.

The mandate of the existing members of the Management Board expired on 30 June 2010, that is on the day of the Annual General Meeting Meeting approving the financial statements for 2009. Mr Paweł Gricuk, President of the Management Board, and Mr Marcin Balicki, Vice-President of the Management Board, decided not to seek re-election to the Management Board.

On the same day, pursuant to his personal powers, Mr Ryszard Krauze appointed Mr Marek Pietruszewski as Vice-President of the Management Board for the term of three years beginning as of 30 June 2010.

On 8 July 2010, Prokom Investments S.A., exercising its personal powers, set the number of Management Board members at two and, having obtained a positive opinion of the Supervisory Board of the Company, entrusted the performance of the duties of Company President during this term of office to Mr Roman Niewiadomski.

On 9 September 2010, in exercise of its personal rights and having obtained a positive opinion of the Supervisory Board of the Company, Prokom Investments S.A.:

- set the number of members of the Management Board at five, including the President, Vice President and three members of the Management Board,
- dismissed President of the Management Board, Mr Roman Niewiadomski,
- appointed Mr Bertrand Le Guern to the Management Board of the Company and entrusted him with the responsibilities of the President of the Management Board,
- appointed Mr Roman Niewiadomski to the Management Board of the Company as a Member of the Management Board responsible for the Company's trading activities in the segment of marketing petroleum products and fuels.

At the same time, on 9 September 2010, the Supervisory Board appointed the following persons to the Management Board of the Company:

- Mr Franciszek Krok, appointed as a Member of the Management Board responsible for the Company's operating activities in the exploration and production segment in Kazakhstan,
- Mr Maciej Wantke, appointed as a Member of the Management Board responsible for the development of new business projects.

6. Approval of financial statements

The financial statements were authorised for issue by the Management Board on 29 April 2011.

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 judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

Impairment of oil&gas investments

In 2010, taking into account the stage of advancement of exploration works, the size of prospective resources, results of the drillings already completed, the stability and attractiveness of the tax and regulatory environments for exploration and production activities in Kazakhstan, the assessment of prospective resources drawn up by McDaniel&Associates Consultants Ltd. (Independent Competent Person) after discussions with advisors to the Company and considering the prolonged period of the world economy's coming out of crisis on financial markets and difficulties in getting access to financing for the full scope of investment activities, the Management Board decided that PETROLINVEST's focus should be around continuing the work in Kazakhstan, with a particular focus on the OTG contract area. Taking into account the results of drilling works so far, the Management found no reason for a reassessment of prospective resources.

In 2009, PETROLINVEST's Management Board decided – based on the assessment of the fair value based on the competent person's report – to write down the assets associated with Profit to an amount not higher than the value of prospective resources quoted in the report and decided to take steps towards selling its stock in Profit (note 14.7, 23).

At the end of 2010, the Management Board of the Company, having assessed the Emba Contract as non-strategic against the exploration and production prospects of the OTG Contract, took steps aimed at securing a partner under the farm-out formula or reselling the shares in TOO EmbaJugNieft. The Management Board may continue to partly finance TOO EmbaJugNieft, to the extent that will ensure that the contract is maintained until a partner is acquired, the stake in the company is sold or access to financial resources is provided, allowing the completion of all the planned investment projects. In compliance with the accounting policies, the assets associated with the exploration and production investments in Kazakhstan for EmbaJugNieft were tested for impairment as at 31 December 2010. The test did not indicate that an impairment loss should be recognised on the investments (note 23). In the case of reselling the shares, the Management Board's aim is to obtain a sale price not lower than the value of the assets in question.

Having considered the facts mentioned above, which prevented PETROLINVEST S.A. from increasing its input in financing the exploration and production activities of Capital Energy S.A. Group, the Management Board of PETROLINVEST decided to write off in 2009 the assets associated with Capital Energy S.A. and MARS International Worldwide (note 14.7, 23).

On 9 December 2010, the Company signed an agreement with Prokom Investments S.A. on the basis of which the Company acquired rights to a loan agreement as well as rights to indirectly purchase shares in the amount of PLN 65.7 million which was settled by the Company by way of issuing shares. The conclusion of the agreement formed one of the stages of the works aimed at the concentration of exploration assets within the framework of PETROLINVEST S.A. The Management Board of the Company is of the opinion that such a concentration will enable an efficient restructuring of exploration assets in Kazakhstan.

Sustaining its decision not to increase the Company's input in financing the exploration and production activities of the Capital Energy Group companies, the Management Board of PETROLINVEST took steps aimed at effective disinvestment of its

involvement in those companies. The results of actions undertaken before the publication of these financial statements provide rationale indicating the possibility of recovering a material part of the assets involved in the Capital Energy Group companies. Bearing these facts in mind, the Management Board of Petrolinvest maintained the impairment of assets related to this investment at the level from 2009.

Impairment of assets associated with the LPG segment

PETROLINVEST's Management has reviewed the business activity of Mockavos and its business development prospects connected with rail reloading at the Poland-Lithuania border crossing in Mockavos. After consideration of the conclusions drawn from the review – related primarily to the economics of railroad transport between Lithuania and Poland – and the profitability of Mockavos and the assessment of its fair value, it was decided that the assets associated with Mockavos should be impaired in full. In 2010, in connection with the further financing of the operation of Mockavos, an impairment charge was made with regard to that company in the amount of PLN 299 thousand.

The Management Board may decide to finance some justified costs of keeping this company operational in the future to have Mockavos ready for transloading LPG delivered to this location by/from other suppliers (note 14.7).

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.

Valuation of receivables and loans

The Company re-evaluated the carrying amount of receivables and loans, based on the expected proceeds from receivables and loans (including proceeds related to the possibility of a future compensation of the Company's liabilities against entities who are its debtors) and used it as a basis for estimating the value of bad debt, for which an appropriate allowance was made.

Valuation of assets involved in the oil&gas segment

The Company re-evaluated its investments in the oil&gas segments, making use of valuations by McDaniel&Associates Consultants Ltd. as well as its own valuation based on the discounted cash flows. The assumptions made in this respect are presented in note 23.1.

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 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.

The IFRS 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 accounting policies adopted in the preparation of these financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2009, except for the adoption of new or amended Standards and Interpretations applicable to annual reporting periods beginning on or after 1 January 2009, as noted below:

- IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions — effective as of 1 January 2010. The purpose of the amendment is to clarify the accounting recognition of group payment transactions as cash-settled shares. The amendment supersedes IFRIC 8 and IFRIC 11.
- IFRS 3 Business Combinations (revised) and IAS 27 Consolidated and Separate Financial Statements (amended) — effective as of 1 July 2009. The revised IFRS 3 introduces significant modifications in the recognition of business combinations following that date. These modifications concern valuation of minority interests, recognition of costs directly related to transactions, initial recognition and subsequent valuation of conditional payment and settlement of multistage connections. These modifications have an impact on the recognised value of the company, the results presented for the period in which the entity was purchased, and the results reported in subsequent periods. The amended IAS 27 requires that changes in equity interest of a subsidiary (which do not result in a loss of control) be recognised as transactions with owners. Consequently, such transactions will not lead to the creation of the company's value or to the recognition of profits or losses. In addition, the standard changes the manner of allocation of losses incurred by subsidiaries and of recognition of a loss of control over them. Amendments to IFRS 3 and IAS 27 will also influence future acquisitions or losses of control over subsidiaries, as well as transactions with minority shareholders.
- IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items — effective as of 1 July 2009. The modifications concern the determination of the unilateral risk in a hedged item as well as the determination, in certain situations, of the inflation as a hedged risk or a part of that risk.
- IFRIC 17 Distribution of Non-cash Assets to Owners — effective as of 1 July 2009. The interpretation includes guidelines concerning accounting recognition of transactions under which owners obtain non-cash assets in the form of distribution of reserves or dividends.
- Amendments to IFRS (issued in May 2008) — in May 2008, the Board issued the first set of amendments to the published standards. After 1 January 2010 the Company applied the following amendments:
 - IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations: the amendment sets forth that if a subsidiary meets classification criteria as an entity held for sale, all its assets and liabilities shall be classified as held for sale, even if after the sale the parent company retains minority interest in that subsidiary.
- Amendments to IFRS (issued in April 2009) — in April 2009, the Board issued the second set of amendments to the published standards, above all in order to state precisely and clarify used expressions. Different transition periods apply to particular standards.
 - IFRS 8 Operating Segments: It was explained that segment assets and liabilities should be shown only when such assets and liabilities are included in measures used by the main body responsible for taking operational decisions.
 - IAS 36 Impairment of assets: It is explained that the maximum unit assigned to the value of a business acquired through the combination of businesses for the purpose of impairment testing is an operational segment as set

forth in IFRS 8 prior to aggregation for accounting purposes. This amendment did not affect the Company's financial statements, as the annual impairment test is carried out prior to aggregation.

- IAS 39 Financial Instruments: Recognition and Measurement: It was explained that the early repayment option is considered to be closely related to the host contract if the price of executing the option gives the creditor a return in the amount approximating to the current value of lost interest for the remaining part of the host contract period.
- IAS 32 Financial instruments: Presentation (of 8 October 2009) — the amendment to IAS 32 states precisely in what way warrants should be recognised if issued financial instruments are denominated in a currency other than the issuer's functional currency. Whenever instruments of this type are offered on a pro rata basis to the issuer's current shareholders in return for a definite amount of money, the said instruments should be classified as equity instruments also when their valuation is expressed in a currency other than the issuer's functional currency.
- Revised 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. The introduced amendments are related to entities adopting IFRS for the first time.
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards: Additional Exemptions for First-time Adopters — effective for annual periods beginning on or after 1 January 2010. The introduced amendments are related to entities adopting IFRS for the first time.

The adoption of the above-mentioned standards and interpretations has not resulted in significant changes either in the accounting policies of the Company or in the representation of data in financial statements.

10. The stage of approval of the IFRS by the EU

The IFRS in the form approved by the EU do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB) except for the below-listed standards, interpretations and amendments to them, which as at 31 December 2010 had not yet been adopted for application by the EU:

- IFRS 9 Financial instruments – effective for annual periods beginning on or after 1 January 2013.
- The amendments to various standards and interpretations "Amendments to IFRS (2010)" published on 6 May 2010, introducing amendments to IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13, aimed at the elimination of inconsistencies and standardisation of terminology. They are effective for annual periods beginning on or after 1 January 2011.
- Amendments to IAS 24 Related Party Disclosures – approved by the EU on 19 July 2010, simplifying the requirements concerning disclosures by parties related to the state and specifying the definition of a related party. They are effective for annual periods beginning on or after 1 January 2011.
- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – approved by the EU on 19 July 2010, effective for annual periods beginning on or after 1 January 2011.
- Interpretation of IFRIC 19 Extinguishing Financial Liabilities with Equity – approved by the EU on 23 July 2010. It is effective for annual periods beginning on or after 1 July 2010.

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 the 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 prevailing on the date of re-measurement to fair value.

The following exchange rates were used for valuation purposes:

	31 December 2010	31 December 2009
USD	2.9641	2.8503
EURO	3.9603	4.1082

11.2. Property, plant and equipment

Property, plant and equipment are measured at acquisition price / manufacturing 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 purchase and 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 and rehabilitation costs 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	Amortisation 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, if any, 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 acquisition price or cost of construction, less any impairment losses. Assets under construction are not depreciated until completed and brought into use.

Each time a major overhaul is performed, the cost of this overhaul is capitalised if the recognition criteria are met.

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 the income statement.

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 acquisition price or cost of construction. 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 acquisition price or cost of construction 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 and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

11.5. Leasing

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 non-financial non-current asset may be impaired. If such an indication exists, or in the 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. Pursuant to IAS 23, the borrowing costs subject to capitalisation are those related to qualifying assets.

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 are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Company has the positive intention and ability to hold until maturity, other than:

those that upon initial recognition are designated as at fair value through profit or loss;

- those that are designated as available for sale; and
- those that meet the definition of loans and receivables.

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.

A financial asset at fair value through profit or loss is a financial asset that meets either of the following conditions:

1) it is classified as held for trading. A financial asset is classified as held for trading if it is:

- acquired principally for the purpose of selling it in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

2) upon initial recognition it is designated as at fair value through profit or loss in accordance with IAS 39.

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 taken to finance costs or finance income on the income statement. When a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss. It does not apply to cases where the embedded derivative does not significantly modify the cash flows or where it is clear that separation of the embedded derivative is prohibited. Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a document risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded. As at 31 December 2010 and as at 31 December 2009, no financial assets have been designated as at fair value through profit and loss.

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.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. 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 and acquisition cost, net of deferred tax, 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), 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 Financial assets available for sale

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 the 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 acquisition price/ cost of construction 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 – 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 March 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 doubtful debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified. 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 costs related to obtaining a loan or borrowing, 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.

Financial liabilities, apart from the hedged items, are measured at adjusted purchase price no later than at the end of the reporting period.

Financial liabilities held for trading are measured at fair value. Gains or losses on re-measurement to fair value are taken to the income statement for the given period.

11.15. Trade and other payables

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

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial liabilities may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) or the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a document risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded. As at 31 December 2010 and as at 31 December 2009, no financial liabilities have been designated as at fair value through profit and loss.

Financial liabilities at fair value through profit or loss are measured at fair value, reflecting their market value at the balance sheet date less transaction costs. Changes in the fair value of these liabilities are recognised in the income statement as finance income or cost.

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.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, this is treated by the Company as a derecognition of the original liability and the recognition of a new liability. Similarly, if the terms of an existing liability are substantially modified, such a modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

Other non-financial liabilities include, in particular, liabilities to the tax office in respect of value added tax and to the Customs House in respect of excise tax and fuel tax, as well as advance payment liabilities which will be settled by way of delivery of goods or services, or fixed assets. Other non-financial liabilities are recognised at the amount due.

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 may receive remuneration in the form of share-based payment transactions; therefore, employees may 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 the 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 operating 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 Oil Exploration and Production Companies conduct their activities, including geophysical research, site preparation and drilling.

Results of the Exploration and Production segment are characteristic of a start-up phase of a exploration project. The Management Board expects that the negative results of the segment may sustain until commercial production of crude oil is commenced.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of business units separately for the purposes of decision making relating to resource allocation, the evaluation of its effects as well as performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss reported in the financial statements. Company financing (including finance costs and finance income) and income taxes are managed on a Company basis and are not allocated to operating segments.

Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties.

With respect to financial statements prepared for reporting periods beginning on 1 January 2009, IFRS 8 Operating Segments, which superseded IAS 14 Segment Reporting, is applicable. Pursuant to IFRS 8, segment reporting is based on information prepared for persons responsible for internal management decisions.

The following tables present revenues and profits by operating segments for the years ended 31 December 2010 and 31 December 2009 as well as assets and liabilities as at 31 December 2010 and 31 December 2009.

PETROLINVEST Spółka Akcyjna
 Financial statements for the year ended 31 December 2010
 Accounting policies and notes to the financial statements
 (PLN '000)

<i>for 12 months ended 31 December 2010 and assets as at 31 December 2010</i>	<i>LPG</i>	<i>Holding operations (prospecting and extraction)</i>	<i>Unallocated</i>	<i>Tptal operations</i>
Revenue				
Third party	149 130	0	0	149 130
Inter-segment	0	0	0	0
Total segment revenue	149 130	0	0	149 130

Results				
Depreciation and amortisation	(3 176)	(110)	0	(3 286)
Segment profit/loss	(6 577)	(30 014)	(173)	(36 765)

Segment assets	53 064	1 182 848	3 225	1 239 137
Segment liabilities	36 736	166 464	1 931	205 131
Capital expenditure	241	0	0	241

1. Revenues from transactions between the segments are eliminated upon consolidation.
2. The operating result of the segment does not reflect costs relating to interest calculated on the created provision amounting to PLN 173 thousand.
3. Segment assets do not include investment properties of PLN 2,567 thousand, and cash and cash equivalents of PLN 658 thousand because those assets are managed by the Company.
4. Segment liabilities do not include accrued expenses of PLN 1,032 thousand and a portion of other provisions of PLN 899 thousand because those liabilities are managed at the level of the Company.

<i>for 12 months ended 31 December 2009 and assets as at 31 December 2009</i>	<i>LPG</i>	<i>Holding operations (prospecting and extraction)</i>	<i>Unallocated</i>	<i>Tptal operations</i>
Revenue				
Third party	75 740	0	0	75 740
Inter-segment	0	0	0	0
Total segment revenue	75 740	0	0	75 740

Results				
Depreciation and amortisation	(2 734)	(169)	0	(2 903)
Segment profit/loss	(6 452)	(244 749)	(79 750)	(330 951)

Assets				
Segment assets	50 323	958 605	10 901	1 019 829
Segment liabilities	60 720	308 485	2 648	371 853
Capital expenditure	178	0	0	178

1. Revenues from transactions between the segments are eliminated upon consolidation.
2. The operating result of the segment does not reflect the cost of wages and salaries of PLN 79,513 thousand, external services of PLN 1,918 thousand (share-based payments) and income tax of PLN 1,681 thousand. The result of the LPG segment does reflect, however, impairment of LPG assets (connected with Mockavos) of PLN 3,036 thousand.
3. Segment assets do not contain prepayments and accruals of PLN 7,562 thousand, investment properties of PLN 2,567 thousand, and cash and cash equivalents of PLN 772 thousand because those assets are managed at the level of the Company.
4. Segment liabilities do not include accrued expenses of PLN 1,922 thousand and a portion of other provisions of PLN 726 thousand because those liabilities are managed at the level of the Company.

14. Revenues and expenses

14.1. Employee benefits

	<i>for 12 months ended 31 December</i>	
	<i>2010</i>	<i>2009</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Wages and salaries	8 451	8 993
Social security costs	1 233	1 223
Social Fund	126	125
Share-based payments	0	78 787
	<u>9 810</u>	<u>89 128</u>

During the 12-month period ended 31 December 2009, the Management Board of PETROLINVEST S.A. resolved to increase the Company's share capital by a total of PLN 23,812 thousand via the issue of 2,381,212 ordinary series K, M and N shares, each of a nominal value of PLN 10. The Series K, M and N Shares were offered in a private placement to the Company's executives, employees and associates, as well as the executives, key employees and associates of the companies of PETROLINVEST Group. In compliance with IFRS 2, the Company was required to measure the fair value of the shares granted. The measurement to fair value was performed as at the subscription date. The excess of fair value over nominal value of the shares paid up by eligible persons totalling PLN 80.6 million was charged to the Group's expenses for 2009 (the amount of PLN 78.7 million was taken to payroll expenses and PLN 1.9 million — to external services). The cost will not impact the Company's cash flows.

14.2. External services expense

	<i>for 12 months ended 31 December</i>	
	<i>2010</i>	<i>2009</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Transport, handling and transshipment	4 330	3 145
Overhauls	460	353
Property tenancy	3 951	4 448
Legal and accounting services	6 344	12 012
Sponsoring	222	228
Other	2 391	2 451
	<u>17 698</u>	<u>22 637</u>

14.3. Other operating income

	<i>for 12 months ended 31 December</i>	
	<i>2010</i>	<i>2009</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Income tax and VAT returned by the Tax Office upon issued decisions	0	152
Release of allowance for doubtful debts	1 609	3 135
Inventory surpluses	295	136
Compensations	24	45
Other	81	9
	<u>2 009</u>	<u>3 477</u>

In 2009, after a new contract was signed with Morgan Stanley, the Company paid USD 3.5 million to Morgan Stanley. Management reassessed the risks and decided to reduce the provision to USD 6 million. The PLN 3.1 million income on the release of the provision was taken to other operating income. In 2010, the Company paid another USD 3 million to Morgan

Stanley. As at 31 December 2010, in connection with the agreement signed on 18 November 2010, the provision was reduced to USD 2,450 thousand. The PLN 1.6 million income on the release of the provision was taken to other operating income. In 2011, as at the publication date of these financial statements, the Company had repaid the subsequent amounts under the contract, as a result of which the provision was decreased to the amount of USD 1,200 thousand.

14.4. Other operating expenses

	<i>for 12 months</i>	
	<i>ended 31 December</i>	
	<i>2010</i>	<i>2009</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Inventory shortages	373	177
Valuation of investment properties to fair value	0	49
Loss on disposal of property, plant and equipment	1	10
Costs of collateral	25 985	85 958
Execution and court costs	1	91
Other	170	266
	<u>26 530</u>	<u>86 551</u>

On 14 May 2009, the Company signed three agreements with: PROKOM Investments S.A., Osiedle Wilanowskie Spółka z ograniczoną odpowiedzialnością and Agro Jazowa S.A., setting forth the terms on which those companies make their assets available to the Company to serve as collateral for the credit facility extended under the agreement dated 21 March 2007 by the consortium of PKO Bank Polski S.A. and Bank Gospodarstwa Krajowego. The commission is calculated as 6.5% of the value of the collateral from the moment it is established to the moment it is released. The discounted commission calculated under the agreements referred to above for the 12-month period ended 31 December 2010 was PLN 35.6 million, of which PLN 26 million were taken to other operating expenses and PLN 9.6 were taken to the Company's financial costs (the discounted fee calculated for the 12-month period ended 31 December 2009 was PLN 108.6 million, of which PLN 86 million was taken to other operating expenses and PLN 22.6 million was taken to the Company's financial costs). The commission-related liabilities are convertible to equity. By 31 December 2010, a part of the commission charged for the year 2010 amounting to PLN 28 million was converted into the Company's equity. The Management Board believes that the remainder of the commission-related liability will also be converted, which means that the costs of execution of that agreement will not entail any cash outflow.

14.5. Financial revenues

	<i>for 12 months</i>	
	<i>ended 31 December</i>	
	<i>2010</i>	<i>2009</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Bank interest receivable	227	399
Loans granted to other parties	35 488	25 019
Valuation of equity instruments	0	2 244
	<u>35 715</u>	<u>27 662</u>

The PLN 2.2 million valuation of equity instruments is connected with the assessment of the effects of the issue of subscription warrants, issued in consecutive draw-downs on the basis of the agreement with GEM Global Yield Fund (note 14.6) which provides GEM with the right to subscribe for PETROLINVEST shares.

14.6. Financial costs

	<i>for 12 months ended 31 December</i>	
	<i>2010</i>	<i>2009</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Lenders fees	376	380
Revaluation of finance receivables	9 642	22 644
Acquisition cost of right to use financing	0	31 640
Interest on bank loans	8 379	12 680
Finance costs under finance leases	9 021	0
Finance costs under finance leases	13	31
Interest on borrowings	270	3 789
Foreign exchange differences	319	2 028
Other	925	207
	<u>28 945</u>	<u>73 399</u>

On 18 March 2010, the Company concluded an agreement with Kingsbrook Opportunities Master Fund LP, Iroquois Master Fund Ltd. ("Investors") and GEM Global Yield Fund Limited under which a PLN 127.5 million financing was made available to the Company. On 28 May 2010, the Company and Kingsbrook Opportunities Master Fund LP, Iroquois Master Fund Ltd. and Prokom Investments S.A. executed an agreement regarding the assumption by Prokom Investments S.A. of certain rights of the Investors under the agreement dated 18 March 2010.

Upon signing the agreement, the Investors also gained the right to demand that the Company issue subscription warrants under the 4 tranches. The right of the Investors to call for the issue of the above specified instruments was a derivative, which, according to the IFRS, is subject to fair value measurement. The measured value of the derivative was PLN 9 million, and was charged to the finance costs. The cost did not have any impact on the Group's cash flows.

Under the Agreements the Company issued four tranches of prepaid subscription warrants at a total issue price of PLN 127.5 million.

On 29 April 2009, the Company entered into an agreement with GEM Global Yield Fund Limited under which a PLN 200 million financing was made available to the Company through an equity line of credit. 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 within 3 years from signing the agreement. The issue price per share is determined based on 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. The Company is not obliged to use the full amount of the equity line of credit. In exchange for the right to use the committed equity line of credit, the Company agreed to pay to GEM a remuneration (commission) of PLN 2 million and to issue subscription warrants convertible into 1.3 million Company shares in total at PLN 60 per share.

In compliance with IFRS, the Company was required to make an assessment of the fair value of the warrants issued to GEM. The cost of warrant issue calculated using the Black-Scholes model was PLN 29.6 million. IFRS does not allow to treat the right to use the equity line of credit acquired by the Company as the cost of capital; hence, the full cost was taken to the Company's financial costs for 2009. The cost of PLN 29.6 million pertaining to warrant issue did not impact the Company's cash flows.

14.7. Impairment of investments in financial assets

	<i>for 12 months ended 31 December</i>	
	<i>2010</i>	<i>2009</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Impairment of assets and expired liabilities OOO NK Siewiergeofizyka	0	(7)
Impairment of assets OOO Nieftegeoserwis	0	(1)
Impairment of assets and expired liabilities ZAO Pechora-Petroleum	0	(2)
Impairment of assets Company Profit	0	46 653
Impairment of assets Capital Energy and Mars International	0	51 366
Impairment of assets Petrolinvest Mockavos Perpyla	299	3 036
	<u>299</u>	<u>101 045</u>

Impairment of LPG assets

PETROLINVEST's Management has reviewed the business activity of Mockavos and its business development prospects connected with rail reloading at the Poland-Lithuania border crossing in Mockavos. After consideration of the conclusions

drawn from the review—related primarily to the economics of railroad transport between Lithuania and Poland—and the profitability of Mockavos and the assessment of its fair value, it was decided that the assets associated with Mockavos totalling PLN 3 million should be impaired in full.

The Management Board may decide to finance some justified costs of keeping this company operational in the future to have Mockavos ready for transloading LPG delivered to this location by/from other suppliers.

In 2010, in connection with the further financing of the operation of Mockavos, an impairment charge was made with regard to that company in the amount of PLN 299 thousand.

Impairment of oil & gas investments

Due to the prolonged period of the world economy's coming out of crisis on financial markets and difficulties in getting access to financing for the full scope of investment activities, PETROLINVEST S.A. has limited financial resources that may prove insufficient for full and complete delivery of investment programs on all concessions held by the companies in which PETROLINVEST owns shares or stocks. Taking into account the stage of advancement of exploration work, the size of prospective resources, results of the drillings already completed, the stability and attractiveness of the tax and regulatory environments for exploration and production activities in Russia and Kazakhstan, the assessment of prospective resources drawn up by McDaniel&Associates Consultants Ltd. (Independent Competent Person), and after discussions with advisors to the Company, the Management Board decided that PETROLINVEST's focus should be around continuing the work in Kazakhstan, with a particular focus on the OTG contract area.

According to the Independent Competent Person's report, the value of prospective resources on the contract area of Company Profit was estimated at USD 5,213 thousand, which according to the Management Board — given the geological and economic conditions of Company Profit concession, the independent nature of the valuation and conservative assumptions underlying the valuation — may be treated as fair value at the current stage of the project. The decision resulted in the recognition of a one-off impairment loss of PLN 46.7 million.

Having considered the facts mentioned above, which prevented PETROLINVEST S.A. from increasing its input in financing the exploration and production activities of Capital Energy S.A. Group, the Management Board of PETROLINVEST decided in 2009 to write off the assets associated with Capital Energy S.A. (PLN 43.9 million / USD 15.4 million) and MARS International Worldwide (PLN 7.5 million / USD 2.6 million).

On 9 December 2010, the Company signed an agreement with Prokom Investments S.A. on the basis of which the Company acquired rights to a loan agreement as well as rights to indirectly purchase shares in the amount of PLN 65.7 million which was settled by the Company by way of issuing shares. The conclusion of the agreement formed one of the stages of the works aimed at the concentration of exploration assets within the framework of PETROLINVEST S.A. The Management Board of the Company is of the opinion that such a concentration will enable an efficient restructuring of exploration assets in Kazakhstan. Sustaining its decision not to increase the Company's input in financing the exploration and production activities of the Capital Energy Group companies, the Management Board of PETROLINVEST took steps aimed at effective disinvestment of its involvement in those companies. The results of actions undertaken before the publication of these financial statements provide rationale indicating the possibility of recovering a material part of the assets involved in the Capital Energy Group companies. Bearing these facts in mind, the Management Board of Petrolinvest decided to maintain the impairment of assets related to this investment at the level from 2009.

15. Income tax

15.1. Tax charges

Major components of income tax expense for the year ended 31 December 2010 and 31 December 2009 are:

	<i>for 12 months</i>	
	<i>ended 31 December</i>	
	<i>2010</i>	<i>2009</i>
	<i>PLN '000</i>	<i>PLN '000</i>
<i>Current income tax</i>		
Current income tax charge	0	0
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	0	(1 681)
Income tax expense reported in consolidated income statement	0	(1 681)

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 2010 and 31 December 2009:

	<i>for 12 months</i>	
	<i>ended 31 December</i>	
	<i>2010</i>	<i>2009</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Accounting profit/(loss) before tax from continuing operations	(36 764)	(332 631)
At Polish statutory income tax rate of 19% (2008: 19%)	(6 985)	(63 200)
Expenditure not allowable for income tax purposes	14 272	219 330
Impairment of finance receivables	0	80 705
Impairment of Oil&Gas investments	299	101 055
The State Fund for Handicapped Persons (PFRON)	103	114
Costs relating to management of the companies	975	2 283
Provision for liabilities	0	0
Warrant valuation	9 021	31 640
Foreign exchange differences on valuation of new investments	2 845	2 788
Shortages above norm	408	207
Valuation of liabilities under share purchase transactions	0	0
Other expenditure	621	538
Expenditure allowable for income tax purposes, not reported in the Income Statement	(15 714)	(3 535)
Costs of new investments allowed as tax costs when incurred	(15 714)	(3 535)
Not taxable incomes	(1 443)	(2 580)
Resulting from tax decisions	0	(467)
Interest connected with valuation of investments	(1 428)	146
Valuation of equity instruments	0	(2 244)
Other	(15)	(15)
Total permanent differences	(2 885)	213 215
Effect of permanent tax differences	(548)	40 511
Undisclosed tax losses	84 633	174 539
Effect of permanent tax differences after tax loss	15 532	73 673
Deferred tax not recorded in previous year's financial statements	20 381	(5 965)
Reversal of deferred tax liability related to impairment of Oil&Gas investments	0	(4 108)
Adjustment of tax loss asset allowance	(28 928)	(2 081)
Adjustments to current income tax from previous years	0	0
Income tax expense at effective income tax rate as reported in the income statement	0	(1 681)
Effective tax rate	0%	1%

15.3. Deferred income tax

Deferred income tax relates to the following:

PETROLINVEST Spółka Akcyjna
 Financial statements for the year ended 31 December 2010
 Accounting policies and notes to the financial statements
 (PLN '000)

	<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>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</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	121	134	13	112
Valuation of receivables and liabilities	3 885	2 737	(1 148)	2 133
Valuation of shareholder loan	25	31	6	3 537
Tax loss	50 394	39 019	(11 375)	(33 163)
Provisions for liabilities	1 556	3 387	1 832	(3 387)
Agreement relating collateral	21 627	254	(21 373)	(254)
Other	262	296	33	89
Gross deferred income tax assets	77 870	45 858	(32 011)	(30 933)
Revaluation of tax loss asset	(61 161)	(36 938)	24 222	31 082
Net deferred income tax assets	16 709	8 920	(7 789)	149
Deferred income tax liabilities				
Depreciation	2 142	2 256	(114)	(246)
Interest accrued, not received	0	0	0	0
Valuation of receivables and liabilities	14 135	6 236	7 899	(1 575)
Investment property	428	428	0	(9)
Other	4	0	4	0
Gross deferred income tax liabilities	16 709	8 920	7 789	(1 830)
Deferred tax after compensation - Asset	0	0		
Deferred tax after compensation - Liability	0	0		
Effect on Income Statement			0	(1 681)

As at 31 December 2010, the Company recognised a PLN 50,394 thousand deferred tax asset connected with tax losses to be utilised over the next 5 years. The entire asset was subject to a revaluation write-off.

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 subsidise 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. Therefore, the net balance as at 31 December 2010 is PLN 5 thousand (as at 31 December 2009 – PLN 0 thousand).

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

	<i>31 December</i>	<i>31 December</i>
	<i>2010</i>	<i>2009</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Loans granted to employees	119	129
Cash	133	110
Social Fund liability	(246)	(239)
Net	5	0
Charger to Social Fund made during the year	126	125

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 basic and diluted earnings per share computations.

	<i>for 12 months</i>	
	<i>ended 31 December</i>	
	<i>2010</i>	<i>2009</i>
Net profit/ loss from continuing operations attributable to equity holders of the parent (in PLN '000)	(36 765)	(330 951)
Weighted average number of shares for basic earnings per share computations	33 127 514	13 518 960
Number of diluting potential ordinary shares	0	0
Earnings/ loss per share in PLN	(1,11)	(24,48)
Diluted earnings (loss) per share in PLN	(1,11)	(24,48)

Detailed information on share issued effected in 2009 and 2010 is provided in note 28.

As at the date of these financial statements, the shares issued do not have a diluting effect.

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 were granted the right to subscribe for in aggregate not more than 264,285 subscription warrants convertible into the Company series E 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 exercised from the day of issuance of the Warrants, i.e. from 29 July 2008, to 30 April 2011.

On 19 October 2009, the Company concluded a subscription option agreement for the Company's shares with four open investment funds incorporated in Poland. The Agreement was concluded in consideration of the fact that the funds had subscribed for the greatest number of subscription warrants for the Company shares issued to increase the Company's share capital through the issue of ordinary bearer shares of T series. The Company agreed under the Agreement that at the request of any one of the Funds it will issue on aggregate 182,000 subscription warrants free of charge where each warrant will entitle its holder to acquire one Company share at an issue price of PLN 50 per share. Each of the Funds has the right to submit the request referred to above at any point, however no later than within two years from the date of the Agreement.

On 2 November 2009, the Company entered into a subscription option agreement giving the brokerage house Dom Maklerski IDM S.A., which organised and carried out the issue of the series T shares, the option to subscribe for shares in the Company. The Company agreed under the Agreement that at the request of the Investor it will make a single issue of 65,000 transferable subscription warrants free of charge where each warrant will entitle its holder to acquire one Company bearer share at an issue price of PLN 50 per share. The Investor has the right to file the request referred to above at any point falling no later than within 2 years from the date of signing the Agreement. In compliance with IFRS, the Company was required to make an assessment of the fair value of the share options issued to the Funds and IDM. The cost of share option issue calculated using the Black-Scholes model was PLN 3.4 million and was charged to equity in the 2009 financial statements.

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

	minimum issue price	instrument execution price	number of instruments issued	number of instruments issued at fair value	number of diluting potential ordinary shares
series E - warrants	10,00	227	264 285	5 999 270	0
options	10,00	50,00	247 000	1 235 000	0
			511 285	7 234 270	0

18. Dividends paid and declared

As at 31 December 2010, the following limitations existed with regard to the payment of dividends:

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

Dividends are paid from the profit reported in the standalone financial statements of PETROLINVEST S.A. The Company did not pay dividends in 2010 and is not planning to pay dividends in 2011.

19. Property, plant and equipment

As at 31 December 2010 and 31 December 2009, 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 277.8 thousand (31 December 2009: PLN 333.7 thousand). Leased assets are not pledged as security for the related finance lease liabilities.

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 in Łubiana with a value of PLN 2 million and over fixed assets in the LPG Terminal in Gdynia with a value of PLN 7.8 million.

The Company did not capitalise borrowing costs in 2009 and 2010.

PETROLINVEST Spółka Akcyjna
 Financial statements for the year ended 31 December 2010
 Accounting policies and notes to the financial statements
 (PLN '000)

Movements for the period from 1 January 2010 to 31 December 2010

	Land	Perpetual usufruct of land	Buildings, premises and civil engineering	Plant and machinery	Vehicles	Other assets	Assets under construction	Prepayments for assets under construction	Total
Net carrying amount									
Opening balance 1 January 2010	572	425	27 593	10 925	4 173	885	81	0	44 229
Additions	0	0	1 357	547	80	15	19	0	2 018
Disposals	0	0	0	(44)	(1)	(26)	0	0	(71)
Transfers	0	0	(480)	566	0	(86)	0	0	0
Depreciation charge for the year	0	0	(1 375)	(896)	(928)	(80)	0	0	(3 279)
Closing balance 31 December 2010	572	425	27 094	11 099	3 324	708	100	0	42 897
As at 1 January 2010									
Cost	572	425	32 383	15 427	8 855	1 341	81	0	58 659
Accumulated depreciation and impairment	0	0	(4 790)	(4 502)	(4 682)	(456)	0	0	(14 430)
Net carrying amount	572	425	27 593	10 925	4 173	885	81	0	44 229
As at 31 December 2010									
Cost	572	425	33 260	16 471	8 909	1 234	100	0	60 546
Accumulated depreciation and impairment	0	0	(6 166)	(5 372)	(5 585)	(526)	0	0	(17 649)
Net carrying amount	572	425	27 094	11 099	3 324	708	100	0	42 897

PETROLINVEST Spółka Akcyjna
 Financial statements for the year ended 31 December 2010
 Accounting policies and notes to the financial statements
 (PLN '000)

Movements for the period from 1 January 2009 to 31 December 2009

	Land	Perpetual usufruct of land	Buildings, premises and civil engineering	Plant and machinery	Vehicles	Other assets	Assets under construction	Prepayments for assets under construction	Total
Net carrying amount									
Opening balance 1 January 2009	572	425	15 787	7 812	5 223	774	16 811	0	46 979
Additions	0	0	0	61	0	3	114	0	178
Disposals	0	0	(50)	(17)	(49)	(8)	0	0	(124)
Transfers	0	0	12 834	3 812	0	198	(16 844)	0	0
Depreciation charge for the year	0	0	(978)	(743)	(1 001)	(82)	0	0	(2 804)
Closing balance 31 December 2009	572	425	27 593	10 925	4 173	885	81	0	44 229
As at 1 January 2009									
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
As at 31 December 2009									
Cost	572	425	32 383	15 427	8 855	1 341	81	0	58 659
Accumulated depreciation and impairment	0	0	(4 790)	(4 502)	(4 682)	(456)	0	0	(14 430)
Net carrying amount	572	425	27 593	10 925	4 173	885	81	0	44 229

20. Leasing

20.1. Finance lease commitments

As at 31 December 2010 and 31 December 2009, 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

	31 December 2010	31 December 2009
	PLN '000	PLN '000
Within 1 year	46	118
Within 1 to 5 years	54	27
	100	145

FUTURE MINIMUM LEASE PAYMENTS

	31 December 2010	31 December 2009
	PLN '000	PLN '000
Amounts payable under finance leases in the period		
Within 1 year	53	127
Within 1 to 5 years	59	28
Minimum lease payments in total	112	155
Less finance charges	(12)	(10)
Present value of minimum lease payments	100	145

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 (Nabrzeze Slaskie), 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 m² was set at PLN 11,156.90, and the monthly fee for the lease of land of 8,151 m² 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 1 m² for the building and PLN 1.00 per 1 m² 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:

	31 December 2010 PLN '000	31 December 2009 PLN '000
Maturing:		
Within 1 year	628	613
Within 1 to 5 years	2 674	2 609
More than 5 years	7 963	8 656
	11 265	11 878

21. Investment property

	31 December 2010 PLN '000	31 December 2009 tys. zł.
Opening balance at 1 January	2 567	2 616
Net Profit/(Loss) on re-measurement to fair value	0	(49)
Closing balance at 31 December	2 567	2 567

The fair value of investment property as at 31 December 2009 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. As a result of stabilisation of prices in the property market, the fair value of investment property as at 31 December 2010 was equal to that of 31 December 2009.

22. Intangible assets

	Concessions, rights, licences	including, software	Total
Net carrying amount			
Opening balance 1 January 2010	0	0	0
Additions	42	42	42
Amortisation charge for the year	(7)	(7)	(7)
Closing balance 31 December 2010	35	35	35
At 1 January 2010			
Cost (gross carrying amount)	355	355	355
Accumulated amortisation and impairment	(355)	(355)	(355)
Net carrying amount	0	0	0
At 31 December 2010			
Cost (gross carrying amount)	397	397	397
Accumulated amortisation and impairment	(362)	(362)	(362)
Net carrying amount	35	35	35

PETROLINVEST Spółka Akcyjna
 Financial statements for the year ended 31 December 2010
 Accounting policies and notes to the financial statements
 (PLN '000)

	Concessions, rights, licences	including, software	Total
Net carrying amount			
Opening balance 1 January 2009	99	99	99
Additions	0	0	0
Amortisation charge for the year	(99)	(99)	(99)
Closing balance 31 December 2009	0	0	0
At 1 January 2009			
Cost (gross carrying amount)	355	355	355
Accumulated amortisation and impairment	(256)	(256)	(256)
Net carrying amount	99	100	99
At 31 December 2009			
Cost (gross carrying amount)	355	355	355
Accumulated amortisation and impairment	(355)	(355)	(355)
Net carrying amount	0	0	0

During the year ended 31 December 2010, patents and licences were amortised proportionally over their economic useful lives of 2 to 5 years.

23. Financial assets

In 2006, the Company began its investment project aiming at acquiring shares or taking control over foreign companies who hold concessions for oil and gas exploration, or exploration and production. 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.

	<i>31 December 2010</i>	<i>31 December 2009</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Financial assets		
Non-current	832 036	831 280
Shares	634 111	633 440
Other financial assets, of which:	197 925	197 840
Long-term loans granted	177 675	197 840
Costs of new investments	20 250	0
Current	343 670	127 410
Short-term loans granted	343 670	127 410
Total financial assets, including	1 175 706	958 690
Non-current	832 036	831 280
current	343 670	127 410
	832 036	831 280
	343 670	127 410

23.1. Financial assets in subsidiaries and jointly-controlled entities

As at 31 December 2010 and as at 31 December 2009, the value of shares and stocks held by the Company was as follows:

No.	Company	nominal value at 31 December 2010		value of shares at 31 December 2010 (PLN'000)			
		currency amount	currency	stocks/shares before impairment	impairment charge	re-measurement of impairment charge	stocks/shares after impairment
1.	OOO Siewiergeofizyka						
	Occidental Resources, Inc	191 040	USD	546 102	0	0	546 102
2.	UAB Petrolinvest Mockavos Perpyla Sp. z o.o.	1 360	LTL	1 761	(1 761)	0	0
3.	PETROLINVEST GAZ S.A.	85	PLN	85	0	0	85
4.	TOO Company Profit	1	USD	31 674	(15 132)	(1 090)	15 452
5.	TOO EmbaJugNieft	6 079	USD	72 394	0	0	72 394
6.	Silurian Sp z o.o.	5	PLN	78	0	0	78
Stocks / shares				652 094	(16 893)	(1 090)	634 111

No.	Company	nominal value at 31 December 2009		value of shares at 31 December 2009 (PLN'000)			
		currency amount	currency	stocks/shares before impairment	impairment charge	re-measurement of impairment charge	stocks/shares after impairment
1.	Occidental Resources, Inc	191 040	USD	546 102	0	0	546 102
2.	UAB Petrolinvest Mockavos Perpyla Sp. z o.o.	1 360	LTL	1 761	(1 761)	0	0
3.	PETROLINVEST GAZ S.A.	85	PLN	85	0	0	85
4.	TOO Company Profit	1	USD	31 674	(15 132)	(1 683)	14 859
5.	TOO EmbaJugNieft	6 079	USD	72 394	0	0	72 394
Stocks / shares				652 016	(16 893)		633 440

On 16 December 2010, the Company signed an agreement, whereby it purchased from Mr Wiesław Skrobowski shares that jointly represent 60% of Silurian's share capital, at the selling price totalling PLN 3,000.00 and the equivalent in PLN of USD 25,000.00.

Moreover, on 16 December 2010, the Company concluded an investment agreement with Mr Wiesław Skrobowski on investing funds in Silurian Sp. z o.o. The subject matter of the Agreement is the establishment, as part of business conducted by Silurian, of cooperation regarding development, ensuring organisational and legal security as well as provision of services to companies which are active in Poland in the field of shale gas exploration. Silurian intends to offer comprehensive services to entities holding concessions for exploration of shale gas. The services will include general contracting, project management and performance of drilling works during both exploration and production of shale gas and will be provided using Silurian's own drilling installations. Silurian will operate based on reliable, American drilling technologies and methodologies related to drilling during exploration and production of shale gas.

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 143.3 million (PLN 421 million) where USD 20 million was the price of shares purchased from the other shareholders, as agreed, and USD 123.3 million 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 production concession. The Company had paid the whole amount due for 50% of the shares in Occidental Resources by the end of 2008.

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 allowed 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. has eventually become the owner of 88.10% 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 2010, the Company had loaned USD 69.1 million (PLN 199.3 million) to Occidental Resources.

On 9 June 2006, the 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 50 million (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 25 million 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 the performance of the investment agreement, PETROLINVEST S.A. eventually holds 79% of TOO EmbajugNieft shares. 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 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 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 EmbajugNieft 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 EmbajugNieft shares with an aggregate nominal value of 114,550 tenge, carrying 79% of votes at the company's general meeting.

The Zhubantam-Zhusalisay Contract (owned by EmbajugNieft) involves a 5-year exploration period that may be extended twice, by consecutive 2-year periods, and a subsequent 25-year production period. Annex no. 1 to the concession contract was signed on 29 November 2007 whereby the exploration period of the Zhubantam-Zhusalisay Contract was extended to 29 June 2009, and the contract period was extended to 12 June 2034. As provided in the decision of the Ministry of Energy and Mineral Resources dated 10 November 2009, the exploration period has been prolonged by two years to June 2011. On 21 January 2010, the draft annex No. 2 to the Contract No. 976 dated 29 June 2009 was examined at the meeting of the Working Group of the Ministry of Energy and Mineral Resources. Having introduced into it the recommended amendments, the Company submitted the amended draft of the annex for expert evaluation to relevant state authorities. In 2010, the draft of the annex No. 2 was positively evaluated by the Ministry of Emergency Situations of the Republic of Kazakhstan, the Committee for Geology and Subsoil Use of the Ministry of Energy and Mineral Resources, the Ministry of Environmental Protection, the Ministry of Justice, the Ministry of Industry and Trade. As a consequence of the passing of the new Act on Subsoil and Subsoil Use on 24 June 2010 as well as the establishment of the Ministry of Oil and Gas (created through transformation of the Ministry of Energy and Mineral Resources), the Company had to introduce new amendments in the draft of the annex No 2 and resubmit the draft to the Ministry of Oil and Gas. On 14 March 2011, the draft prepared by the Company passed the expert evaluation by the Central Dispatch Office of Oil and Gas Industry. As at the publication of this report, following the introduction of all the necessary amendments agreed upon with the Legal Department of the Ministry of Oil and Gas, the draft of the annex No. 2 is at the final stage of processing and approval by the Contract Department of the Ministry of Oil and Gas. The Company is expecting the annex to the contract to be signed in the nearest future. Directly after the signing of the annex No. 2 the Company will request the Ministry of Oil and Gas to prolong the exploration period. The Company's experience with regard to prolonging the OTG contract by a third exploration period shows that such a prolongation is likely to be granted.

As at 31 December 2010, the Company had loaned USD 61.9 million (PLN 172.2 million) to EmbajugNieft to finance the company's capital expenditures.

In compliance with the accounting policies, the assets associated with the exploration and production investments in Kazakhstan (for EmbajugNieft and OilTechnoGroup) were tested for impairment as at 31 December 2010.

Impairment testing was based on expected cash flows, forecast 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 – the model is based on the forecast of the Brent blend published by the Independent Competent Person in January 2011; variable prices are used for the years 2011 to 2024; pricing ranges between USD 85/bbl and USD 117/bbl.
- a differential is used in the model for the Brent blend - an average 23% throughout the forecast period (price discount is applied to reserves located within PETROLINVEST concessions in relation to the Brent blend due to transport costs and lower quality).

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 10% 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.

In addition, when assessing the fair value of the assets of EmbaJugNieft and OilTechnoGroup, Management relied on the results of the evaluation report prepared by the independent competent person McDaniel Consultants & Associates Ltd. that estimated discounted, fully-risked cash flows on those projects at USD 132.6 million for EmbaJugNieft and USD 2,628.5 million for OilTechnoGroup (evaluation published by the Company in current report number 64/2009).

On 9 June 2006, the shareholder of TOO Company Profit (TOO Nurmunay 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 14 million (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 14 million 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 2010, the Company had loaned USD 19.7 million (PLN 57.3 million) to Company Profit to finance the company's capital expenditures.

Taking into account the prolonged period of the world economy's coming out of crisis on financial markets and difficulties in getting access to financing for the full scope of investment activities, and also considering the reserves estimated by the independent competent person for each concession and the results of analyses and discussions with the competent person regarding the possible economic effects of exploitation of individual concessions, the Management Board of PETROLINVEST S.A. decided that investment activities should be focused around concessions with the highest short-term value increase potential — that is the OTG and EmbaJugNieft contracts.

According to the Independent Competent Person's report, the value of prospective resources on the concession of Company Profit was estimated at USD 5,213 thousand, which, according to the Management Board — given the geological and economic conditions of Company Profit concession, the independent nature of the valuation and conservative assumptions underlying the valuation — may be treated as fair value at the current stage of the project. Therefore, the Management Board of PETROLINVEST decided to take steps to sell its stake in Company Profit. The Management Board will attempt to obtain the maximum possible price for its stake in Company Profit; however, Management believes that the fair value determined by the Independent Competent Person at USD 5,213 thousand is currently the best estimate of the realisable selling price.

It is possible that PETROLINVEST S.A. will continue to finance partly the work and/or activities of Company Profit to the extent that will allow to maintain the concession until the stake in the company is sold or access to financial resources is provided, allowing all the planned investment projects to be completed, even if that means that the expected NPV of the project does not fully cover the expenditures incurred to date. The ongoing exploration works may translate into higher prospective resources or a reclassification of prospective resources to the proven category, which in both cases may lead to a reassessment of the fair value of the net assets associated with the project delivered by Company Profit.

In consideration of the above, in June 2009 the Management Board decided — based on the assessment of the fair value — to write down the assets associated with Profit to an amount not higher than USD 5,213 thousand. The Management Board undertook steps towards selling the shares in Profit. The decision resulted in the recognition of a one-off impairment loss on the assets associated with the project totalling PLN 46.7 million.

Moreover, at the end of 2010, the Management Board of the Company, having assessed the Emba Contract as non-strategic against the exploration and production prospects of the OTG Contract, undertook steps aimed at securing a partner under the farm-out formula or reselling the shares in TOO EmbaJugNieft. The Management Board may continue to partly finance TOO EmbaJugNieft, to the extent that will ensure that the contract is maintained until a partner is acquired, the stake in the company is sold or access to financial resources is provided, allowing the completion of all the planned investment projects. As described above, impairment tests to which EmbaJugNieft was subject did not indicate that an impairment loss should be recognised on the investment.

23.2. Loans granted — other entities

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 25.3 million 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 25.0 million. 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 2010. 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 contracts. 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 the case agreement is not reached, by an independent expert. The option had been granted for the period up until the 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.

As described in note 7, the Management Board decided that PETROLINVEST's focus should be around continuing the work in Kazakhstan, with a particular focus on the OTG contract area. In view of these facts, the Management Board of PETROLINVEST undertook actions aimed at recovering the funds involved in the aforementioned loan. The results of actions undertaken before the publication of these financial statements provide rationale pointing to the possibility of recovering the assets involved in the aforementioned loan.

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. As at 31 December 2009, the value of loans granted was USD 12,710 thousand (PLN 36,228 thousand) and interest accrued on the loans granted was USD 2,696 thousand (PLN 7,683 thousand).

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.

On 15 April 2008, the Company concluded a loan agreement with Mars International Worldwide Inc. for USD 2,000 thousand (PLN 5,701 thousand); all funds had been advanced by 31 December 2009, interest accrued on the loan totalled USD 615 thousand (PLN 1,754 thousand). 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. According to the best knowledge of PETROLINVEST's Management, the loan was used to finance a project delivered by Capital Energy S.A.

Through loan agreements, PETROLINVEST S.A. financed exploration activities of BMB Munai LLP, Bolz LLP, Maksat-Munai LLP, and Erkin Oil LLP, including in particular: conducting and interpreting the results of seismic research, drilling exploration wells, performing other obligations resulting from the concession contracts owned by those companies, and also costs of operations and other expenses.

Having considered i.a. an independent expert's opinion (note 7), the Management Board of PETROLINVEST decided in 2009 to write off the assets associated with Capital Energy S.A. (PLN 43.9 million / USD 15.4 million) and MARS International Worldwide (PLN 7.5 million / USD 2.6 million).

On 9 December 2010, the Company signed an agreement with Prokom Investments S.A. on the transfer by Prokom to the Company of:

- (i) Accounts receivable under the loan agreement concluded on 14 January 2008 between Prokom and Capital Energy S.A. The Company acquired the receivable from Prokom for the price of PLN 45,460,579.37; and
- (ii) Accounts receivable 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 Company acquired the receivable from Prokom for the price of PLN 20,250,000.00.

The Assignment Agreement was concluded in exercise of one of the obligations under the agreement of 13 January 2009 concluded by the Company and Prokom and in connection with being granted the consent of PKO Bank Polski S.A. on 9 December 2010, acting as the Consortium Agent, to perform the Agreement as regards the part thereof relating to the acquisition of the above accounts receivable. The Bank's consent was granted subject to conditions which guarantee the legal security of the Company as a party to the Assignment Agreement.

In connection with the conclusion of the Assignment Agreement, the Company and Prokom concluded an agreement concerning the transfer to Prokom of rights and obligations under the pledge agreement concluded on 13 January 2008 between InvestTechnoGroup LLP, a company established under Kazakh law ("ITG") and Prokom, on the basis of which ITG established a pledge over 75% of shares in BMB Munai LLP, a company established under Kazakh law, to serve as collateral for the accounts receivable by Prokom under the Loan Agreement ("Pledge Agreement"). The agreement on the transfer of rights and obligations under the Pledge Agreement shall enter into force upon the fulfilment of the following conditions precedent:

(i) granting by the Ministry of Oil and Gas of the Republic of Kazakhstan ("MRG") of consent to the transfer of rights and obligations under the Pledge Agreement to the Company or issuing a confirmation in writing by the MRG that such a consent is not required; and

(ii) registration of the agreement on the transfer of rights and obligations under the Pledge Agreement with the Almaty Regional Department of Justice or the MRG.

As at the day of approving these financial statements, the conditions precedent had not been met.

Sustaining its decision not to increase the Company's input in financing the exploration and production activities of the Capital Energy Group companies, the Management Board of PETROLINVEST took steps aimed at effective disinvestment of its involvement in those companies. The results of actions undertaken before the publication of these financial statements provide rationale indicating the possibility of recovering a material part of the assets involved in the Capital Energy Group companies.

Bearing these facts in mind, the Management Board of Petrolinvest decided to maintain the impairment of assets related to this investment at the level from 2009.

PETROLINVEST Spółka Akcyjna
 Financial statements for the year ended 31 December 2010
 Accounting policies and notes to the financial statements
 (PLN '000)

The carrying amount of loans granted by the Company as at 31 December 2010 and as at 31 December 2009 was as follows (loans are classified as long- and short-term as per the payment date under the relevant agreement):

No.	entity	agreement	original repayment date	maturity	Interest terms	nominal value as at 31 December 2010		loan valuation as at 31 December 2010 (PLN '000)			
						amount	currency	non-current	current	discount	total
1	Bakhtybek Baiseilov	loan agreement with natural person (non-resident), dated 12.05.2006, amended by annex dated 01.06.2006 for USD 25.3m				25 000	USD	74 103	0	4 356	78 459
		individual loans/tranches	2007-06-30	2007-06-30	non-interest bearing	10 000	USD				
			2007-06-30	2007-06-30	non-interest bearing	9 500	USD				
			2007-06-30	2007-06-30	non-interest bearing	5 500	USD				
2	TOO Company Profit	Investment Agreement dated 09.06.2006 totalling USD 14m	2031-06-08	2031-06-08		14 000	USD	0	0	0	0
		individual loans/tranches	2031-06-08	2031-06-08	non-interest bearing	5 000	USD				
			2031-06-08	2031-06-08	non-interest bearing	4 500	USD				
			2031-06-08	2031-06-08	non-interest bearing	1 000	USD				
			2031-06-08	2031-06-08	non-interest bearing	300	USD				
			2031-06-08	2031-06-08	non-interest bearing	1 370	USD				
			2031-06-08	2031-06-08	non-interest bearing	800	USD				
			2031-06-08	2031-06-08	non-interest bearing	1 030	USD				
	loan agreement dated 27.08.2007 totalling USD 1.8m	2012-12-31	2012-12-31	LIBOR 3 M for USD + 1,6%	1 800	USD	0	0	0	0	
	loan agreement dated 17.10.2007 totalling USD 15m	2012-12-31	2012-12-31	LIBOR 3 M for USD + 1,6%	3 890	USD					
3	TOO EmbaJugNefit	Investment Agreement dated 09.06.2006 totalling USD 25m				25 000	USD	25 064	0	0	25 064
		individual loans/tranches	2031-06-08	2031-06-08	non-interest bearing	5 000	USD				
			2031-06-08	2031-06-08	non-interest bearing	12 902	USD				
			2031-06-08	2031-06-08	non-interest bearing	2 700	USD				
			2031-06-08	2031-06-08	non-interest bearing	300	USD				
			2031-06-08	2031-06-08	non-interest bearing	3 000	USD				
	loan agreement dated 11.06.2007 totalling USD 25m	2012-12-31	2012-12-31	LIBOR 3 M for USD + 1,6%	25 000	USD	74 103	49 245	0	123 348	
	loan agreement dated 6 March 2008 totalling USD 20m	2011-01-31	2011-01-31	LIBOR 3 M for USD + 11%	11 905	USD					
4	Occidental Resources	loan agreement dated 15.11.2006 totalling USD 5m	2009-11-30	2011-11-30	LIBOR 1 Y for USD + 1,2% od 01.12.2008 - 18%	5 000	USD	0	248 367	0	248 367
		loan agreement dated 23.07.2008 with annexes totalling USD 11,461m	2009-11-30	2011-11-30	18%	12 041	USD				
			2009-11-30	2011-11-30	18%	10 000	USD				
			2010-09-30	2011-11-30	18%	10 000	USD				
			2010-11-30	2011-11-30	18%	20 000	USD				
			2011-06-30	2011-06-30	18%	10 000	USD				
			2011-11-30	2011-11-30	18%	2 027	USD				
5	Mars International	loan agreement dated 15.04.2008 totalling USD 2m	2008-10-15	2010-06-30	18%	2 000	USD	0	0	0	0
6	Capital Energy	loan agreement dated 25.04.2008 totalling USD 4m	2009-04-24	2010-06-30	14%	4 000	USD	0	45 461	0	45 461
		loan agreement dated 12.05.2008 totalling USD 4m	2009-05-12	2010-06-30	14%	4 000	USD				
		loan agreement dated 04.06.2008 with annex totalling USD 1.7m	2009-06-14	2010-06-30	14%	1 700	USD				
		loan agreement dated 08.10.2008 totalling USD 0.5m	2009-10-09	2010-06-30	14%	10	USD				
		loan agreement dated 17.11.2008 totalling USD 3m	2009-11-16	2010-06-30	14%	3 000	USD				
		2009-01-13	2009-01-13	LIBOR 3M for USD + 3%	10 000	USD					
7	other						50	595	0	645	
Loans granted								173 320	343 670	4 356	521 345

PETROLINVEST Spółka Akcyjna
 Financial statements for the year ended 31 December 2010
 Accounting policies and notes to the financial statements
 (PLN '000)

No.	entity	agreement	original repayment date	maturity	Interest terms	nominal value as at 31 December 2009		loan valuation as at 31 December 2009 (PLN '000)			
						amount	currency	non-current	current	discount	total
1	Bakhytbek Baiseilov	loan agreement with natural person (non-resident), dated 12.05.2006, amended by annex dated 01.06.2006 for USD 25,3m				25 000	USD	71 257	0	4 356	75 613
		individual loans/branches	2007-06-30	2007-06-30	non-interest bearing	10 000	USD				
			2007-06-30	2007-06-30	non-interest bearing	9 500	USD				
			2007-06-30	2007-06-30	non-interest bearing	5 500	USD				
2	TOO Company Profit	Investment Agreement dated 09.06.2006 totalling USD 14m	2031-06-08	2031-06-08		14 000	USD	0	0	0	0
		individual loans/branches	2031-06-08	2031-06-08	non-interest bearing	5 000	USD				
			2031-06-08	2031-06-08	non-interest bearing	4 500	USD				
			2031-06-08	2031-06-08	non-interest bearing	1 000	USD				
			2031-06-08	2031-06-08	non-interest bearing	300	USD				
			2031-06-08	2031-06-08	non-interest bearing	1 370	USD				
			2031-06-08	2031-06-08	non-interest bearing	800	USD				
			2031-06-08	2031-06-08	non-interest bearing	1 030	USD				
	loan agreement dated 27.08.2007 totalling USD 1.8m	2012-12-31	2012-12-31	LIBOR 3 M for USD + 1,6%	1 800	USD	0	0	0	0	
	loan agreement dated 17.10.2007 totalling USD 15m	2012-12-31	2012-12-31	LIBOR 3 M for USD + 1,6%	3 600	USD					
3	TOO EmbaJugNef	Investment Agreement dated 09.06.2006 totalling USD 25m				25 000	USD	22 860	0	0	22 860
		individual loans/branches	2031-06-08	2031-06-08	non-interest bearing	5 000	USD				
			2031-06-08	2031-06-08	non-interest bearing	12 902	USD				
			2031-06-08	2031-06-08	non-interest bearing	2 700	USD				
			2031-06-08	2031-06-08	non-interest bearing	300	USD				
			2031-06-08	2031-06-08	non-interest bearing	3 000	USD				
			2031-06-08	2031-06-08	non-interest bearing	1 098	USD				
	loan agreement dated 11.06.2007 totalling USD 25m	2012-12-31	2012-12-31	LIBOR 3 M for USD + 1,6%	25 000	USD	99 317	8 466	0	107 783	
	loan agreement dated 6 March 2008 totalling USD 20m				9 844						
4	Occidental Resources, Inc	loan agreement dated 15.11.2006 totalling USD 5m	2009-11-30	2010-11-30	LIBOR 1 Y for USD + 1,2%	5 000	USD	0	118 469	0	118 469
		loan agreement dated 23.07.2008 with annexes totalling USD 12,041m	2009-11-30	2010-11-30	18%	12 041	USD				
		loan agreement dated 23.04.2009 totalling USD 10m	2009-11-30	2010-11-30		10 000	USD				
		loan agreement dated 30.09.2009 totalling USD 10m	2010-09-30	2010-09-30		9 212	USD				
5	Mars International	loan agreement dated 15.04.2008 totalling USD 2m	2008-10-15	2010-06-30	18%	2 000	USD	0	0	0	0
6	Capital Energy	loan agreement dated 25.04.2008 totalling USD 4m	2009-04-24	2010-06-30	14%	4 000	USD	0	0	0	0
		loan agreement dated 12.05.2008 totalling USD 4m	2009-05-12	2010-06-30	14%	4 000	USD				
		loan agreement dated 04.06.2008 with annex totalling USD 1.7m	2009-06-14	2010-06-30	14%	1 700	USD				
		loan agreement dated 08.10.2008 totalling USD 0.5m	2009-10-09	2010-06-30	14%	10	USD				
		loan agreement dated 17.11.2008 totalling USD 3m	2009-11-16	2010-06-30	14%	3 000	USD				
7	other						50	475	0	525	
Loans granted								193 484	127 410	4 356	325 250

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:

	2010	2009
At 1 January	220	326
Provision recognized	35	0
Provision released	0	(106)
At 31 December	255	220

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 2010	31 December 2009
Discount rate (%)	5,5%	6,0%
Pay increase ratio	3,0%	3,0%

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 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 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 12 million, 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.

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.

In 2009, the Management Board of PETROLINVEST S.A. resolved to increase the Company's share capital by a total PLN 23,812 thousand via the issuance of 2,381,212 ordinary series K, M and N shares, each of a nominal value of PLN 10. The Series K, M and N Shares were offered in a private placement to the Company's executives, employees and associates, as well as the executives, key employees and associates of the companies of PETROLINVEST Group. In compliance with IFRS 2, the Company was required to measure the fair value of the shares granted. The measurement to fair value was performed as at the subscription date. The excess of fair value over nominal value of the shares paid up by eligible persons totalling PLN 80.7 million was charged to the Company's expenses. Details of the issue of the series K, M and N shares are provided in notes 14.1 and 28.1.

25. Inventories

	31 December 2010	31 December 2009
	PLN '000	PLN '000
Raw materials	121	127
Goods	1 251	621
Prepaid goods	0	473
	1 372	1 221

There were no inventories measured at net selling price as at 31 December 2010 or as at 31 December 2009.

As at 31 December 2010, the Company recognised in the balance sheet obligatory stocks valued at PLN 14.6 thousand (as at 31 December 2009: PLN 68.6 thousand)

26. Trade and other receivables and receivables from public authorities

	31 December 2010	31 December 2009
	PLN '000	PLN '000
Trade receivables	8 341	4 550
Receivables from public authorities due to indirect taxes	31	0
Receivables from employees	303	238
	<u>8 675</u>	<u>4 788</u>
	8 675	4 788

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 2010, trade receivables of PLN 974 thousand (2009: PLN 989 thousand) were deemed uncollectible and thus were written off. Movements in revaluation allowances for receivables were as follows:

	2010	2009
	PLN '000	PLN '000
Revaluation allowance at 1 January	989	1 012
Increase	1	66
Utilisation	(16)	(89)
Revaluation allowance at 31 December	<u>974</u>	<u>989</u>

The table below sets forth trade receivables which were overdue as at 31 December 2010 and 31 December 2009 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 2010	8 341	5 597	2 399	193	13	103	36
31 December 2009	4 550	3 347	800	185	116	92	10

27. Cash and cash equivalents

Cash and cash equivalents at bank earn 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 2010 was PLN 657.8 thousand (31 December 2009: PLN 772.4 thousand). As at 31 December 2010, the Company had no bank overdraft facilities at its disposal (as at 31 December 2009, the Company had available un-drawn committed overdraft facilities in the amount of PLN 5,258).

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

	31 December 2010	31 December 2009
	PLN '000	PLN '000
Cash at bank and in hand	658	772
Revolving credit facility	0	(20 742)
Cash and cash equivalents in the cash flow statement	<u>658</u>	<u>(19 970)</u>

28. Issued capital and reserves

28.1. Share capital

As at 31 December 2010, the Company's share capital amounted to PLN 505,177 thousand and was composed of 50,517,656 shares of a nominal value of PLN 10 each.

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

	Number of shares	number of votes	Nominal value of shares	percentage in share capital
PROKOM INVESTMENTS S.A.	11 366 001	11 366 001	113 660 010	22,50%
Osiedle Wilanowskie Sp. zo.o.	2 344 715	2 344 715	23 447 150	4,64%
Ryszard Krauze	3 586	3 586	35 860	0,01%
Other shareholders	36 803 354	36 803 354	368 033 540	72,85%
Share capital, total	50 517 656	50 517 656	505 176 560	100,00%

During the 12-month period ended 31 December 2010, the share capital increased by PLN 289,911 thousand in consequence of the following share issues:

- 300,000 shares of S series — the increase of share capital on 19 February 2010,
- 70,800 shares of P series — the increase of share capital on 20 January 2010,
- 1,313,780 shares of V series — the increase of share capital on 17 March 2010,
- 3,824,241 shares of V series — the increase of share capital on 23 March 2010,
- 1,440,354 shares of V series — the increase of share capital on 23 March 2010,
- 394,736 shares of V series — the increase of share capital on 24 March 2010,
- 1,578,945 shares of V series — the increase of share capital on 25 March 2010,
- 2,323,777 shares of V series — the increase of share capital on 15 June 2010,
- 56,550 shares of V series — the increase of share capital on 3 August 2010,
- 131,950 shares of V series — the increase of share capital on 4 August 2010,
- 754,004 shares of V series — the increase of share capital on 5 August 2010,
- 4,712,534 shares of V series — the increase of share capital on 18 August 2010,
- 2,469,129 shares of V series — the increase of share capital on 21 September 2010,
- 399,200 shares of P series — the increase of share capital on 29 September 2010,
- 9,221,057 shares of B series — the increase of share capital on 13 December 2010.

Shares of P, V and B series were issued within the registered conditional capital of the Company.

For a detailed description of the share issues by the Company, refer to the current reports published upon each issue.

On 8 November 2010, pursuant to the resolutions of the Extraordinary General Meeting of the Company of 30 October 2010, the Court registered the change in labelling of Company shares series: A, B, C, D, F, G, H, K, L, M, N, Q, R, S, T, U and V by marking the shares of these series as series "A".

The Company's share capital structure as at 31 December 2010 was as follows:

Series	Number of shares	Type of shares	Nominal value	Share capital
Series A	40 526 599	bearer	10	405 265 990
Series B	9 221 057	bearer	10	92 210 570
Series P	770 000	bearer	10	7 700 000
Share capital, total	50 517 656			505 176 560

As at 31 December 2009, the Company's share capital amounted to PLN 215,266 thousand and was divided into 21,526,599 shares of a nominal value of PLN 10 each. The Company's share capital structure as of 31 December 2009 was as follows:

PETROLINVEST Spółka Akcyjna
 Financial statements for the year ended 31 December 2010
 Accounting policies and notes to the financial statements
 (PLN '000)

	Number of shares	Number of votes	Nominal value of shares	Percentage in share capital
PROKOM INVESTMENTS S.A. with				
Osiedle Wilanowskie	9 617 307	9 617 307	96 173 070	44,68%
Ryszard Krauze	3 586	3 586	35 860	0,02%
Other shareholders	11 905 706	11 905 706	119 057 060	55,30%
Share capital, total	21 526 599	21 526 599	215 265 990	100,00%

The Company's share capital structure as at 31 December 2009 was as follows:

Series	Number of shares	Type of shares	Nominal value	Share capital
Series A	5 286 000	bearer	10	52 860 000
Series B	528 600	bearer	10	5 286 000
Series C	58 402	bearer	10	584 020
Series D	290 474	bearer	10	2 904 740
Series F	184 616	bearer	10	1 846 160
Series G	2 613 163	bearer	10	26 131 630
Series H	447 942	bearer	10	4 479 420
Series K	599 212	bearer	10	5 992 120
Series L	2 100 000	bearer	10	21 000 000
Series M	730 000	bearer	10	7 300 000
Series Q	2 778 991	bearer	10	27 789 910
Series R	600 000	bearer	10	6 000 000
Series N	1 052 000	bearer	10	10 520 000
Series PA	300 000	bearer	10	3 000 000
Series T	1 453 571	bearer	10	14 535 710
Series U	2 503 628	bearer	10	25 036 280
Share capital, total	21 526 599			215 265 990

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

Pursuant to 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 2010 and 31 December 2009, 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 930,440 thousand as at 31 December 2010 and PLN 879,166 thousand as at 31 December 2009) and capital arising on the valuation of equity instruments of PLN 180,942 thousand (PLN 128,640 thousand as at 31 December 2009). Components of equity instruments valuation are: valuation of shares and management warrants of PLN 92,714 thousand (the whole amount concerns previous years), valuation of the warrant and share issues connected with the agreement with GEM Global Yield Fund of PLN 29,640 thousand and PLN 1,607 thousand, respectively; the valuation of the issue of share options to the Funds that had subscribed for series T shares and for IDM totalling PLN 3,354 thousand and valuation of the warrant and share issue connected with the agreement with Kingsbrook Opportunities Master Fund LP and Iroquois Master Fund Ltd. totalling PLN 53,627. The items listed above are discussed in more detail in notes 14 and 17.

29. Interest-bearing loans and borrowings

Powszechna Kasa Oszczędności Bank Polski S.A.

On 15, 17 and 31 March 2010, the outstanding balance of the credit facility extended to the Company under the credit facility agreement of 21 March 2007 by PKO Bank Polski S.A. and Bank Gospodarstwa Krajowego was reduced to USD 68.7 million.

The purpose of the repayments was to meet the provisions of the annex of 6 November 2009, in which the parties to the credit facility agreement had decided to release one of the loan securities in exchange for the early repayment in the amount of PLN 60 million, and repayment of USD 11.2 million in connection with the permission from the banks to sell companies in Russia.

On 9 August, as a result of an early payment, a further reduction by USD 3.5 million of the outstanding credit facility extended by PKO BP and BGK occurred. On 29 December, the Company repaid the amount of USD 11,835 thousand, which constituted a part of the instalment payable on 31 December 2010. The Lender did not deem the non-payment of the instalment within the set deadline as breach of the credit facility agreement and consented to the repayment of the remaining part of the instalment amounting to USD 4,862 by 30 June 2011 (pursuant to the annex no. 12 dated 31 March 2011). The outstanding balance of the credit facility as at 31 December 2010 was USD 53,371 thousand.

The Company has entered the final stage of negotiations held with the bank consortium regarding the bank facility repayment schedule. The negotiations are expected to finish by the end of the first half of 2011.

Fortis Bank Polska S.A.

On 15 June 2010 the overdraft credit facility agreement, concluded with Fortis Bank Polska S.A., expired. All obligations of the Company under the aforementioned agreement were settled in a timely fashion.

BRE Bank S.A.

On 31 March 2010, the overdraft credit facility agreement, concluded with BRE Bank S.A., expired. All obligations of the Company under the aforementioned agreement were settled in a timely fashion.

Bank Polska Kasa Opieki Spółka Akcyjna

On 31 December 2010, the overdraft credit facility agreement, concluded with BRE Bank S.A., expired. All obligations of the Company under the aforementioned agreement were settled in a timely fashion.

European Bank for Reconstruction and Development

On 29 March 2010, the Company concluded a Loan Agreement with the European Bank for Reconstruction and Development, under which EBRD extended a loan facility to the Company in the maximum amount of USD 50,000,000.

The loan will be used to finance geological work carried out by TOO OilTechnoGroup and TOO EmbaJugNief in 2010–2011 in the areas covered by the OTG Contract and the Emba Contract respectively, in the Republic of Kazakhstan. The Loan amount will be transferred by PETROLINVEST S.A. to OTG and Emba through project loans. The loan interest is based on LIBOR plus a margin of 3.5% p.a. The lending period is 3 years from the date of conclusion of the Loan Agreement.

The extension of the Loan depended on a number of conditions precedent. As at the day of approving these statements, the conditions precedent had not been met and the credit facility had not been opened.

A detailed description of the agreement concluded with C. Ulrich założone w 1805 roku w Warszawie is provided in the note "Related Party Transactions".

PETROLINVEST Spółka Akcyjna
 Financial statements for the year ended 31 December 2010
 Accounting policies and notes to the financial statements
 (PLN '000)

As at December 2010

entity's name and legal form	loan amount (based on currency loan agreement)		outstanding as at balance sheet date			interest	maturity	loan security
			current	non-current	total			
			up to 1 year					
	(000)	PLN	PLN '000	PLN '000	PLN '000			
Bank Pekao S.A.	8 000	PLN	880	4 480	5 360	1M Wibor + bank premium	2016-06-30	- mortgage on fixed assets located in Suwałki - assignment of rights from insurance policy - registered pledge over fixed assets - 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	PLN	113 394	44 803	158 197	3 M Libor + bank premium 3 M Wibor + bank premium	2012-12-31	- mortgage - pledges over shares - assignment of dividend receivable by third parties - registered pledges over special fund accounts - power of attorney to bank account - declaration on submission to enforcement of judgements - 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	406	406	5%	14 days from receipt of repayment request	
Prokom Investments S.A. loans subordinated to senior credit facility	0	PLN	0	45	45		14 days from receipt of repayment request	
Other loans borrowings			114 274	49 734	164 008			
Total			114 274	49 734	164 008			

The bank margins added to base interest rates are not materially different from the market interest rates and are not higher than 3.5% p.a.

PETROLINVEST Spółka Akcyjna
 Financial statements for the year ended 31 December 2010
 Accounting policies and notes to the financial statements
 (PLN '000)

As at December 2009

entity's name and legal form	loan amount (based on currency loan agreement)		outstanding as at balance sheet date			interest	maturity	loan security
			current up to 1 year	non-current	total			
	(000)		PLN '000	PLN '000	PLN '000			
Bank Pekao S.A.	6 000	PLN	5 771	0	5 771	1M Wibor + bank premium	2010-01-31	- blank promissory note - borrower's declaration on submission to enforcement of judgements - power of attorney to bank account
BRE Bank S.A.	13 000	PLN	8 776	0	8 776	O/N Wibor + bank premium	2010-01-29	- blank promissory note - assignment of receivables from purchase/sale contracts with buyers of liquid gas - borrower's declaration on submission to enforcement of judgements - power of attorney to bank account
Fortis Bank Polska S.A.	7 000	PLN	6 195	0	6 195	1 M Wibor + bank premium	2010-01-15	- borrower's declaration on submission to enforcement of judgements - capped mortgage up to PLN 20m on real estate in Lubiana - assignment of rights from insurance policy
Overdrafts			20 742	0	20 742			
Bank Pekao S.A.	8 000	PLN	880	5 360	6 240	1M Wibor + bank premium	2016-06-30	- mortgage on fixed assets located in Suwałki - assignment of rights from insurance policy - registered pledge over fixed assets - blank promissory note - borrower's declaration on submission to enforcement of judgements - 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	79 894	207 835	287 729	3 M Libor + bank premium 3 M Wibor + bank premium	2012-12-31	- mortgage on real estate owned by third parties - pledges over shares owned by third parties - assignment of dividend receivable by third parties - registered pledges over special fund accounts - power of attorney to bank account - declaration on submission to enforcement of judgements - project sponsor support agreement - pledge over shares of Occidental Resources - assignment of cash receivable for the premium payable to PETROLINVEST S.A. under agreements for disposal of shares/stocks in the companies on the territory of the Russian Federation - transfer as security of receivables under loans granted by the Company to entities of PETROLINVEST Group
Krauze Ryszard	320	PLN	0	390	390	5%	14 days from receipt of repayment request	
Prokom Investments S.A. loans subordinated to senior credit facility	0	PLN	0	45	45	5%	14 days from receipt of repayment request	
North Shipping & Trading Sp. z o.o.	3 000	PLN	3 050	0	3 050	7%	14 days from receipt of repayment request	- blank promissory note
Other loans/borrowings			83 824	213 630	297 454			
Total			104 566	213 630	318 196			

The bank margins added to base interest rates are not materially different from the market interest rates and are not higher than 3.5% p.a.

30. Provisions

	Post employment benefits	Provision for liabilities relating to loan	Provisions for liabilities	Other	Total
As at 1 January 2010	220	1 335	17 828	90	19 473
Arising during the year	35	12 879	1 842	1 826	16 582
Balance sheet valuation	0	0	1 617	0	1 617
Utilised	0	(10 287)	(10 929)	(6)	(21 222)
Released	0	0	(1 609)	0	(1 609)
As at 31 December 2010	255	3 927	8 749	1 910	14 841
Current provisions	0	0	8 749	0	8 749
Non-current provisions	255	3 927	0	1 910	6 092

	Post employment benefits	Provision for liabilities relating to loan	Provisions for liabilities	Other	Total
As at 1 January 2009	326	0	31 395	96	31 817
Arising during the year	0	7 958	726	2	8 686
Balance sheet valuation	0	0	0	0	0
Utilised	0	(6 623)	(11 158)	(8)	(17 789)
Released	(106)	0	(3 135)	0	(3 241)
As at 31 December 2009	220	1 335	17 828	90	19 473
Current provisions	0	0	9 277	0	9 277
Non-current provisions	220	1 335	8 551	90	10 196

As at 31 December 2008 the Company had created a provision of PLN 31.4 million for the pending court action between Morgan Stanley Capital Group Inc. and the Company. In 2009, the court proceedings were over and the Company paid USD 3.5 million to Morgan Stanley under the contract concluded with that entity. Management reassessed the risks and decided to reduce the provision to USD 6 million. The PLN 3.1 million income on the release of the provision was taken to other operating income. In 2010, the Company paid another USD 3 million to Morgan Stanley. As at 31 December 2010, in connection with the agreement signed on 18 November 2010, the provision was reduced to USD 2,450 thousand. The PLN 1.6 million income on the release of the provision was taken to other operating income. In 2011, as at the publication date of these financial statements, the Company had repaid the subsequent amounts under the contract, as a result of which the provision was decreased to the amount of USD 1,200 thousand.

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

	<u>31 December</u> <u>2010</u> <u>PLN '000</u>	<u>31 December</u> <u>2009</u> <u>PLN '000</u>
Current liabilities	21 261	13 131
Trade liabilities	13 644	10 728
Liabilities to public authorities	1 768	2 365
Financial liabilities	5 826	0
Other liabilities	23	38
Non-current liabilities	3 889	18 986
	<u>25 150</u>	<u>32 117</u>

Liabilities to public authorities comprise primarily current liabilities towards the customs office amounting to PLN 1.8 million. Non-current liabilities of PLN 3.9 million as at 31 December 2010 chiefly comprise discounted liabilities towards Prokom Investments resulting from the fee due for providing assets as collateral for the credit facility. On 14 May 2009, the Company signed three agreements with: PROKOM Investments S.A., Osiedle Wilanowskie Spółka z ograniczoną odpowiedzialnością and Agro Jazowa S.A. setting forth the terms on which those companies make their assets available to the Company to use as

security for the credit facility extended under the agreement dated 21 March 2007 by the consortium of PKO Bank Polska S.A. and Bank Gospodarstwa Krajowego. Those liabilities were converted to equity after the balance sheet date and so they will not entail any cash outflow.

32. Prepayments and accruals

Current prepayments and accruals are:
 on the assets side:

	<i>31 December</i> 2010	<i>31 December</i> 2009
	PLN '000	PLN '000
Capital raising expenses	6 945	7 183
Gas cylinders expensed over time	60	148
Other	222	231
	<u>7 227</u>	<u>7 562</u>

on the liabilities side:

	<i>31 December</i> 2010	<i>31 December</i> 2009
	PLN '000	PLN '000
Unused holiday allowance	382	488
Financial statement audit allowance	650	700
Undelivered invoices allowance	0	734
	<u>1 032</u>	<u>1 922</u>

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 enables the transfer 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 2010 and as at 31 December 2009 was PLN 2,850 thousand.

33.1. Legal claims

As at 31 December 2010, the Company was party to court proceedings as a plaintiff, claimant or applicant. The value of the said proceedings does not exceed 10% of the Company's equity. Due to payment orders issued by court, execution proceedings are being performed. The Company's claims for collection orders from the court pertain to the ongoing business of the Company, in particular the sale of liquefied petroleum gas (LPG). The Company created impairments on receivables in appropriate amounts.

As at 31 December 2010, the Company was party to court proceedings as the defending party with regard to its LPG activity. The value of the said proceedings does not exceed 10% of the Company's equity. The Company made allowances to secure those commitments in appropriate amounts.

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 2010.

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

movements in liabilities	<i>for 12 months ended 31 December 2010</i>
balance sheet change in non-current and current liabilities, other than income tax liabilities	(6 967)
change in liabilities in the cash flow statement	322
<u>difference</u>	<u>7 289</u>
liabilities under loan collateral agreement	(3 889)
outstanding costs of share issue	(2 770)
	630
 movements in liabilities	 <i>for 12 months ended 31 December 2009</i>
balance sheet change in non-current and current liabilities, other than income tax liabilities	18 621
change in liabilities in the cash flow statement	(818)
<u>difference</u>	<u>(19 439)</u>
liabilities under loan collateral agreement	(18 986)
outstanding costs of share issue	(2 222)
non-convertible liabilities	1 769
 movements in provisions and prepayments and accruals	 <i>for 12 months ended 31 December 2010</i>
balance sheet change in provisions and prepayments and accruals	(555)
balance sheet change in prepayments and accruals - as assets	335
balance sheet change in prepayments and accruals - liabilities	(890)
change in provisions and prepayments and accruals in the cash flow statement	(793)
<u>difference</u>	<u>(238)</u>
costs of share issue	238
 movements in provisions and prepayments and accruals	 <i>for 12 months ended 31 December 2009</i>
balance sheet change in provisions and prepayments and accruals - as assets	3 078
balance sheet change in prepayments and accruals - assets	2 999
balance sheet change in prepayments and accruals - liabilities	79
change in provisions and prepayments and accruals in the cash flow statement	(217)
<u>difference</u>	<u>(3 295)</u>
costs of share issue	3 295

34.2. Inflows and outflows of financing activities

	for 12 months ended 31 December 2010
Inflows from loans and borrowings disclosed in the cash flow statement	2 500
borrowings received	2 500
	for 12 months ended 31 December 2009
Inflows from loans and borrowings disclosed in the cash flow statement	3 000
borrowings received	3 000

34.3. Inflows and outflows of investing activities

	for 12 months ended 31 December 2010
Granting of loans	(105 841)
Subsidiaries and jointly-controlled entities	(105 841)
TOO Company Profit	(871)
TOO EmbaJugNieft	(6 300)
Occidental Resources	(98 274)
UAB Petrolinvest Mockavos Perpyla Sp. z o.o.	(299)
PETROLINVEST GAZ S.A. (TPG GAZ S.A.)	(97)
	for 12 months ended 31 December 2009
Granting of loans	(72 823)
Subsidiaries and jointly-controlled entities	(72 823)
TOO Company Profit	(390)
TOO EmbaJugNieft	(13 435)
Occidental Resources	(58 638)
UAB Petrolinvest Mockavos Perpyla Sp. z o.o.	(105)
PETROLINVEST GAZ S.A. (TPG GAZ S.A.)	(255)

35. Related party disclosures

35.1. Terms and conditions of transactions with related parties

Agreements concluded between the Company and Occidental Resources, Inc.

During the reporting period covered herein, the Company concluded three agreements with Occidental Resources, Inc. The subject of those agreements was a loan granted by the Company for a total amount of USD 50,000 thousand. As at 31 December 2010, USD 32,027 thousand had been made available by the Company (USD 46,981 thousand were made available as at the date of these financial statements). Additionally, during the period under discussion, annexes were signed to extend the repayment date of the loans that matured in 2010. All loan agreements, save for the one dated 12 July 2010, are payable on or before 30 November 2011. The agreement dated 12 July 2010 becomes payable on or before 30 June 2011. Interest accruing on the loans was agreed upon at 18% p.a. In order to secure the above-mentioned receivable, the Company entered into three guarantee agreements with OTG as the guarantor for USD 75,000 thousand in total.

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

During the reporting period, the Company concluded three loan agreements with PETROLINVEST GAZ S.A., for a total amount of PLN 97 thousand. As at 31 December 2010, the whole amount had been made available by the Company. The interest rate of the loan in the amount of PLN 22 thousand of 14 January 2010 is 5% p.a. The other loans are subject to an interest rate of 7%

p.a. These loans are payable within 14 days of termination by the Lender. Moreover, within the period in question, annexes to all loan agreements were signed, changing maturity dates to 14 days of termination by the Lender. During the period under discussion, the Company entered into three agreements with PETROLINVEST GAZ regarding the sale of liquefied propane gas with a total value up to PLN 6,516 thousand. The terms and conditions of the agreements did not deviate from market conditions, the sale of LPG was effected using the "FCA Morski Terminal Gazowy Gdynia" formula in accordance with the Incoterms 2000. The performance term of the last of those agreements expired on 31 October 2010. All the gas sale agreements had been performed as at 31 December 2010.

Agreements concluded between the Company and Petrolinvest Mockavos Perpyla

During the reporting period covered herein an annex was signed to increase the agreement amount from EUR 350 thousand to EUR 400 thousand. Moreover, during the reporting period, the repayment period of the loan was extended until 30 June 2011. Other terms of the agreement remained unchanged.

Agreements concluded between the Company, PROKOM Investments S.A. ("Prokom") and Osiedle Wilanowskie Sp. z o.o. ("Osiedle Wilanowskie")

On 25 February 2010, the Company received from Prokom a call and a request, filed in compliance with the credit facility collateral agreements of 14 May 2009, to offer to Prokom 1,313,780 ordinary bearer shares at an issue price of PLN 21.8654 per share, i.e. for a total amount of PLN 28,726,325.21.

The payments for shares of V series were made as a result of a set-off agreement between the Company and Prokom, under which the Parties set off the accounts receivable under the share subscription agreement for the shares of V series totalling PLN 28,726,325.21 against due accounts payable to Prokom by the Company under the credit facility collateral agreement of 14 May 2009.

On 18 March 2010, in compliance with the provisions of the agreement dated 13 January 2009 concluded with Prokom regarding, among other things, expanding the scope of the call option to cover all accounts receivable by Prokom from the Company, as well as the credit facility collateral agreements concluded on 14 May 2009 with Prokom, AGRO JAZOWA S.A. and Osiedle Wilanowskie, the Company received a call to offer to Prokom and Osiedle Wilanowskie a total of 3,824,241 series V ordinary bearer shares at an issue price of PLN 20.5544 per share and 1,440,254 ordinary bearer shares at an issue price of PLN 20.8282 per share, i.e. for a total amount of PLN 108,604,960.38.

Payments towards Series V Shares were made as a result of the following netting agreements concluded by the Company on 18 March 2010:

1. a netting agreement with Prokom under which the Parties netted an outstanding account receivable by the Company under the share subscription agreements for Series V Shares totalling PLN 77,022,948.15 with outstanding accounts payable to Prokom by the Company for the early repayment by Prokom of a portion of the credit facility extended to the Company under the credit facility agreement with PKO Bank Polski S.A. and Bank Gospodarstwa Krajowego dated 21 March 2007 and under the Credit Facility Collateral Agreement dated 14 May 2009,
2. a netting agreement with Osiedle Wilanowskie under which the Parties netted an outstanding account receivable by the Company under the share subscription agreements for Series V Shares totalling PLN 1,582,031.05 with outstanding accounts payable to Osiedle Wilanowskie by the Company under the Credit Facility Collateral Agreement dated 14 May 2009,
3. a netting agreement with Prokom under which the Parties netted an outstanding account receivable by the Company under the share subscription agreement for Series V Shares totalling PLN 29,999,981.18 with outstanding accounts payable to Prokom by the Company for the payment of PLN 30,000,000.00 to the Company's account on 18 March 2010.

On 28 May 2010, the Company and Kingsbrook Opportunities Master Fund LP, Iroquois Master Fund Ltd. ("Investors") and Prokom executed an agreement regarding the assumption by Prokom of certain of the Investors' rights under the agreement dated 18 March 2010 between the Company, the Investors and GEM Global Yield Fund Limited.

Under the Assumption Agreement, the Investors transferred to Prokom all the rights to subscribe for second tranche convertible bonds or second tranche prepaid subscription warrants for the total issue price of PLN 30 million. Prokom also had the right to demand that the Investors assign to Prokom or an entity designated by Prokom any rights to subscribe for the third and fourth tranche convertible bonds and the third and fourth tranche prepaid subscription warrants that the Company agreed to issue in favour of the Investors under the Agreement. Prokom was entitled to exercise the rights referred to in the preceding sentence within 180 days from the date of execution of the Assumption Agreement. Once Prokom or an entity designated by Prokom had exercised the said rights, the terms of conversion of the convertible bonds into shares in the Company and the terms of exercise of the rights to the prepaid subscription warrants were to remain as originally stated in the Agreement.

The Assumption Agreement had been performed as at the approval date of this Report. As a result of performance of the above-mentioned agreement:

– On 9 June 2010, Osiedle Wilanowskie was designated by Prokom as an entity entitled to subscribe for II Tranche Subscription Warrants with the prepayment amount of PLN 30 million. As a result, Osiedle Wilanowskie acquired 2,323,77 series V ordinary bearer shares at a price of PLN 12.91 per share.

– On 5 and 13 August 2010, Osiedle Wilanowskie was designated as an entity entitled to subscribe for and exercise a part of III and IV tranche prepaid subscription warrants with the total prepayment amount of PLN 50 million. In connection with the

execution of III and IV tranche prepaid subscription warrants, the company and Osiedle Wilanowskie executed a Netting Agreement for the amount of PLN 8,117 thousand. The right to subscribe for and exercise III and IV tranche subscription warrants was transferred by Osiedle Wilanowskie to a group of entities, each of which acquired the right to such a number of the prepaid warrants in the case of exercise of which no investor can subscribe for the number of the Company's shares that would entitle him to execute 5% or more of the overall number of votes at the general meeting of the Company. The entities designated by Osiedle Wilanowskie acquired 4,712,534 series V ordinary bearer shares in the Company at a price of PLN 10.61 per share.

On 1 June and 16 July 2010, Prokom, as a collateral of trade payables of Petrolinvest, guaranteed the blank promissory note issued by Petrolinvest up to the amount of PLN 10 million for Orlen Gaz Sp. z o.o.

On 9 September 2010, the Company and Kingsbrook Opportunities Master Fund LP, Iroquois Master Fund Ltd. and Prokom Investments S.A. executed an agreement regarding the transfer by the Investors to Prokom of 2,400,000 subscription warrants entitling their holders to take up 2,400,000 shares in the Company at an issue price of PLN 20 per share, issued in favour of the Investors under the subscription agreement of 18 March 2010.

On 15 September 2010, the Company, Prokom and Osiedle Wilanowskie concluded annexes to the following agreements:

- the agreement of 13 January 2009 concluded with Prokom, regarding, among other things, expanding the scope of the call option to cover all accounts receivable by Prokom from the Company,
- agreements concluded on 14 May 2009 with Prokom and Osiedle Wilanowskie Sp. z o.o. setting forth the terms on which the said entities make their assets available to the Company to serve as collateral for the credit facility extended under the agreement dated 21 March 2007 by the consortium of PKO Bank Polska S.A. and Bank Gospodarstwa Krajowego.

Under the annexes it became possible to fulfil the requests of Prokom and Osiedle Wilanowskie by changing the conditions of executing 2,400,000 subscription warrants of the Company owned by Prokom and Osiedle Wilanowskie, the rights to which were transferred to Prokom under the agreement of 9 September 2010. On 15 September 2010, Prokom transferred to Osiedle Wilanowskie the rights to 952,604 out of 2,400,000 subscription warrants.

On 15 September 2010, in compliance with the provisions of the agreement dated 13 January 2009 concluded with Prokom regarding, among other things, expanding the scope of the call option to cover all accounts receivable by Prokom from the Company, as well as the credit facility collateral agreements concluded on 14 May 2009 with Prokom, AGRO JAZOWA S.A. and Osiedle Wilanowskie Sp. z o.o., the Company received a call to offer to Prokom and Osiedle Wilanowskie a total of 2,553,950 ordinary bearer shares at an issue price of PLN 11,8918 per share, i.e. for a total amount of PLN 30,371,062.60.

Payments of Prokom and Osiedle Wilanowskie for the series V and P Shares were made by netting mutual accounts receivable/accounts payable by the Company and Prokom and Osiedle Wilanowskie. On 15 September 2010, the Company entered into the following netting agreements:

1. a netting agreement with Prokom under which the Parties netted an outstanding account receivable by the Company under the subscription for series V Shares totalling PLN 17,212,143.75 with outstanding accounts payable by the Company to Prokom for an advance towards the fee for providing and maintaining collateral for the credit facility charged for the period ending 14 September 2010 in the amount of PLN 12,161,416.19 and the payment of PLN 5,050,744.71 to PKO BP SA of 9 August 2010 for the partial repayment on behalf of Petrolinvest of the credit facility extended to the Company by PKO Bank Polski S.A. and Bank Gospodarstwa Krajowego under the credit agreement dated 21 March 2007.
2. two netting agreements with Osiedle Wilanowskie under which the Parties netted an outstanding accounts receivable by the Company in relation to the subscription for series V Shares totalling PLN 12,150,244.48 and the subscription for series P Shares totalling PLN 1,008,674.37 with outstanding accounts payable by the Company to Osiedle Wilanowskie for an advance towards the fee for providing and maintaining collateral for the credit facility charged for the period ending 14 September 2010 in the amount of PLN 2,928,421.35, the payment of PLN 5,426,195.29 to PKO BP SA of 9 August 2010 for the partial repayment on behalf of Petrolinvest of the credit facility extended to the Company by PKO Bank Polski S.A. and Bank Gospodarstwa Krajowego under the credit agreement dated 21 March 2007, and other accounts payable by Petrolinvest totalling PLN 4,804,315.07.

On 9 December 2010, the Company signed an agreement with Prokom Investments S.A. ("Assignment Agreement") on the transfer by Prokom to the Company:

- (i) Accounts receivable under the loan agreement concluded on 14 January 2008 between Prokom and Capital Energy S.A. The Company acquired these accounts from Prokom for PLN 45,460,579.37 and the transaction will be settled in a non-cash manner, through the issue of shares by the Company; and
- (ii) Accounts receivable 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 Company acquired these accounts from Prokom for PLN 20,250,000.00 and the transaction will be settled in a non-cash manner, through the issue of shares by the Company.

The Assignment Agreement was concluded in exercise of one of the obligations under the agreement of 13 January 2009 concluded by the Company and Prokom and in connection with being granted on 9 December 2010 the consent of PKO Bank Polski S.A., acting as the Consortium Agent, to perform the Agreement as regards the part thereof relating to the acquisition of

the above accounts receivable. The Bank's consent was granted subject to conditions which guarantee the legal security of the Company as a party to the Assignment Agreement.

In connection with the conclusion of the Assignment Agreement, the Company and Prokom concluded an agreement concerning the transfer to Prokom of rights and obligations under the pledge agreement concluded on 13 January 2008 between InvestTechnoGroup LLP, a company established under Kazakh law ("ITG") and Prokom, on the basis of which ITG established a pledge over 75% of shares in BMB Munai LLP, a company established under Kazakh law, to serve as collateral for the accounts receivable by Prokom under the Loan Agreement ("Pledge Agreement").

The agreement on the transfer of rights and obligations under the Pledge Agreement shall enter into force upon the fulfilment of the following conditions precedent:

- (i) granting by the Ministry of Oil and Gas of the Republic of Kazakhstan ("MRG") of consent to the transfer of rights and obligations under the Pledge Agreement to the Company or issuing a confirmation in writing by the MRG that such a consent is not required; and
- (ii) registration of the agreement on the transfer of rights and obligations under the Pledge Agreement with the Almaty Regional Department of Justice or the MRG.

At the same time, on 9 December 2010, in exercise of the agreement of 13 January 2009 providing for the possibility of settling the accounts payable by the Company to Prokom through the issue of shares, the Company received from PROKOM:

- (i) a request to transfer to Prokom a number of shares that corresponds to the quotient of the aggregate amount of accounts receivable by Prokom from the Company under the Assignment Agreement, i.e. PLN 65,710,579.37 and the issue price of PLN 10.00, as well as
- (ii) a call to offer to Prokom 6,571,057 ordinary bearer shares of the Company at an issue price of PLN 10.00 per share, that is for a total amount of PLN 65,710,570.

The Subscription Warrants were taken up on 9 December 2010. At the same time Prokom exercised its rights under the Subscription Warrants to take up series B shares and filed a statement of acquisition of ordinary series B bearer shares of the Company.

The payment for the series B shares was made by Prokom by netting the accounts receivable by the Company and Prokom's receivables under the Assignment Agreement. As a result, on 9 December 2010, the Company and Prokom concluded a netting agreement under which the Company and Prokom netted an outstanding account receivable by the Company under the subscription for series B shares totalling PLN 65,710,570.00 with outstanding accounts payable by the Company to Prokom totalling PLN 65,710,579.37.

On 31 December 2010, the Company concluded with Prokom an annex to the agreement setting out terms and conditions for cooperation in seeking financing for the Company dated 20 March 2009. Pursuant to the Annex, the parties agreed on extending the period for conducting activities by Prokom aimed at seeking financing for the Company's operations by 18 months, i.e. until 30 June 2012. Simultaneously, Prokom undertook to seek financing in the period of the aforementioned 18 subsequent months up to the amount of PLN 200 million. Pursuant to the Annex, all other terms and conditions of the agreement dated 20 March 2009 were maintained. The Financing for the Company will be provided by Prokom or third parties indicated by Prokom ("Financing Entities") on the basis of loan agreements or other agreements of similar nature, on an arm's length basis with the possibility of conversion into the Company's equity, or as a direct equity investment in shares of the Company.

The request to convert the whole or a part of the Financing into the Company's equity shall be effected through the issue of new Petrolinvest shares at an issue price 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 equal to the close price of the Company's shares at the WSE from the day preceding the date of the request, whereas the issue price shall not be lower than the face value of a share, i.e. PLN 10.

If Prokom obtains 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 Annex was concluded at arm's length.

Agreements concluded between the Company and C. Ulrich założone w 1805 roku w Warszawie S.A. (with Mr Ryszard Krauze as the parent entity)

During the period from 1 January 2010 to 31 December 2010, the Company concluded one agreement with C. Ulrich założone w 1805 roku w Warszawie S.A. the subject of which was granting to the Company a loan of PLN 2,500 thousand. The Company received all the funds under the agreement. By 31 December 2010, the loan had been fully repaid. The loan was payable within 6 weeks of termination by the Lender and was subject to an interest rate of 7% p.a. The loan was secured by a blank promissory note.

35.2. Related party transactions

The table below sets forth aggregate amounts of transactions concluded with related entities during the twelve months periods ended 31 December 2010 and 2009.

Related party		Sales to related	Purchases from	Receivables from	Liabilities to related
		parties	related parties	related parties	parties
		(PLN '000)	(PLN '000)	(PLN '000)	(PLN '000)
Ryszard Krauze	2010	0	0	50	406
	2009	0	0	50	390
Prokom Investments with Osiedle Wilanowskie Sp. z o.o.	2010	10	46 731	1	10 283
	2009	0	109 053	0	20 914
UAB Petrolinvest Mockavos Perpyla Sp. z o.o.	2010	0	54	0	0
	2009	0	271	0	0
PETROLINVEST GAZ S.A.	2010	6 054	0	558	0
	2009	2	0	435	0
Occidental Resources, Inc.	2010	0	0	248 367	0
	2009	0	0	118 469	0
TOO Profit Company	2010	0	0	0	0
	2009	0	0	0	0
TOO EmbaJugNief	2010	0	0	148 413	0
	2009	0	0	130 643	0

35.3. 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 1,849 thousand in 2010 and PLN 2,122 thousand in 2009.

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

Name	Position	2010	2009
		PLN '000	PLN '000
Le Guern Bertrand	President (in the Management Board since 9 September 2010)	162	-
Pietruszewski Marek	Vice President (in the Management Board (since 9 June 2010)	294	-
Krok Franciszek	Board Member (in the Management Board since 9 September 2010)	149	-
Niewiadomski Roman	Board Member (in the Management Board since 8 July 2010)	138	-
Wantke Maciej	Board Member (in the Management Board since 9 September 2010)	106	-
Gricuk Paweł	Board Member (in the Management Board until 30 June 2010)	312	677
Balicki Marcin	Board Member (in the Management Board until 30 June 2010)	223	433
		1 384	1 111

In 2009, the Management Board Members participated in the issues of series K and N shares, which are discussed in detail in note 14.1. The cost of issue of series K and N shares charged to wages and salaries in 2009 for each management board member was as follows: Paweł Gricuk PLN 31.3 million, Marcin Balicki PLN 1.9 million.

Compensation for Supervisory Board members had not been determined.

In 2009, the Supervisory Board Members participated in the issue of series M shares, which is discussed in detail in note 14.1. The cost of issue of series M shares charged to wages and salaries in 2009 jointly for all Supervisory Board members was PLN 28 million.

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 2010 and 31 December 2009, per service type:

Service type	31 December	
	2010	2009
	PLN '000	PLN '000
Obligatory audit of standalone and consolidated financial statements	900	975
Other services	0	32
	900	1 007

The entire cost of remuneration for 2010 pertains to BDO Sp. z o.o. (the entire cost of remuneration for 2009 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 main risks arising from the Company's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board controls policies for managing each of these risks and they are summarised below. The Group also monitors the market price risk arising from all financial instruments. The Company did not use any derivatives, grant any options, or conclude any agreements with regard to currency option structures.

The carrying amount of financial assets and liabilities not disclosed in the balance sheet at fair value is not materially different from fair value.

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 (loan agreements) and floating (bank facility agreements) rate debt. The Company does not enter into interest rate hedges. As at 31 December 2010, over 99% of interest-bearing liabilities were bank facilities that had floating rates of interest.

Interest rate risk – sensitivity analysis

As at 31 December 2010, the Company's financial assets and liabilities were exposed to the following interest rate movements: WIBOR (1M) 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 and LIBOR will rise or fall by 25 base points.

As at 31 December 2010, the Company's financial assets exposed to interest rate movements were valued at PLN 109.4 million. 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 2010 may amount to PLN 273 thousand. In the case of a 25 bps drop, the Company will incur a loss of PLN 273 thousand.

As at 31 December 2010, the Company's financial liabilities exposed to interest rate movements amounted to PLN 163.6 million. Assuming no change in other factors, the Company's projected costs arising due to a 25 bps increase in WIBOR in the period of 12 months from 31 December 2010 may be ca. PLN 13 thousand higher. If USD LIBOR should rise by 25 bps, assuming the level of indebtedness as at 31 December 2010 and no change in other factors, the Company's projected costs in the period of 12 months from 31 December 2010 may be ca. PLN 395 thousand higher.

Likewise, if WIBOR should fall by 25 bps, the Company's finance costs will fall by PLN 13 thousand. A 25 bps drop in USD LIBOR will entail a PLN 395 thousand decrease in finance costs.

PETROLINVEST Spółka Akcyjna
 Financial statements for the year ended 31 December 2010
 Accounting policies and notes to the financial statements
 (PLN '000)

12 month period ended 31 December 2010	category		percentage point increase	effect on gross profit (loss)	percentage point decrease	effect on gross profit (loss)
	currency	according to IAS 39				
financial assets	USD	LR	0,25%	273	-0,25%	(273)
financial liabilities	PLN	AC	0,25%	(13)	-0,25%	13
	USD	AC	0,25%	(395)	-0,25%	395
Abbreviations:						
LR - Loans and receivables						
AC - Other financial liabilities measured at amortised cost						

12 month period ended 31 December 2009	category		percentage point increase	effect on gross profit (loss)	percentage point decrease	effect on gross profit (loss)
	currency	according to IAS 39				
financial assets	USD	LR	0,25%	248	-0,25%	(248)
financial liabilities	PLN	AC	0,25%	(21)	-0,25%	21
	USD	AC	0,25%	(714)	-0,25%	714
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 some costs associated with the purchase of goods for resale are denominated in other currencies. 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

The global crisis on financial markets is slowly beginning to fade. Since foreign exchange rates have recently stabilised, it was assumed that the fluctuations will be in the range of +/-10%. In line with the assumptions, the USD/PLN exchange rate, if increased by 10%, will reach a level of 3.26 and if decreased by 10% will be at 2.67. Similarly, should the EUR/PLN exchange rate increase by 10%, it will reach 4.36, should it fall by 10%, it will be at 3.56.

As at 31 December 2010, the Company's assets exposed to exchange rate fluctuations of USD/PLN totalled PLN 518.4 million and liabilities totalled PLN 159.9 million.

On the one hand, if the USD exchange rate goes up by 10% during the next 12 months from 31 December 2010, assuming the level of financial assets as at 31 December 2010 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 2010 may amount to ca. PLN 51.8 million. Assuming the level of indebtedness as at 31 December 2010 and no change in other factors, the Company's projected costs in the period of 12 months from 31 December 2010 may be ca. PLN 16 million higher.

On the other hand, if in 12 months from 31 December 2010 the USD exchange rate falls by 10%, assuming the level of financial assets as at 31 December 2010 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 2010 may amount to ca. PLN 51.8 million. Assuming the level of indebtedness as at 31 December 2010 and no change in other factors, the Company's projected costs in the period of 12 months from 31 December 2010 may be ca. PLN 16 million lower.

As at 31 December 2010, the Company's assets exposed to exchange rate fluctuations of EUR/PLN totalled PLN 2.6 thousand and liabilities totalled PLN 118.8 thousand.

Due to the low level of assets exposed to exchange rate fluctuations of EUR/PLN, a 10% rise or fall of the exchange rate will not have any material impact on the value of the assets. Assuming the level of indebtedness as at 31 December 2010 and no

change in other factors, the Company's projected costs in the period of 12 months from 31 December 2010 may be higher by ca. PLN 12 thousand.

If, however, in the 12 months following 31 December 2010 the EUR exchange rate falls by 10%, assuming the level of indebtedness as at 31 December 2010 and no change in other factors, the Company's projected costs in the period of 12 months from 31 December 2010 may be ca. PLN 12 thousand lower.

12 month period ended 31 December 2010	category		exchange rate	effect on gross	exchange rate	effect on gross
	according to	IAS 39				
	currency			PLN' 000		PLN' 000
assets	USD / PLN	LR	10,00%	51 839	-10,00%	(51 839)
	EUR / PLN	LR	10,00%	0	-10,00%	0
financial liabilities	USD / PLN	AC	10,00%	(15 820)	-10,00%	15 820
	EUR / PLN	AC	10,00%	0	-10,00%	0
other liabilities	USD / PLN	AC	10,00%	(168)	-10,00%	168
	EUR / PLN	AC	10,00%	(12)	-10,00%	12
<i>total effect on gross profit (loss)</i>				35 839		(35 839)
<i>Abbreviations:</i>						
<i>LR - Loans and receivables</i>						
<i>AC - Other financial liabilities measured at amortised cost</i>						

12 month period ended 31 December 2009	category		exchange rate	effect on gross	exchange rate	effect on gross
	according to	IAS 39				
	currency			PLN'000		PLN'000
assets	USD / PLN	LR	10,00%	36 891	-10,00%	(36 891)
	EUR / PLN	LR	10,00%	0	-10,00%	0
financial liabilities	USD / PLN	AC	10,00%	(28 555)	-10,00%	28 555
	EUR / PLN	AC	10,00%	0	-10,00%	0
other liabilities	USD / PLN	AC	10,00%	(178)	-10,00%	178
	EUR / PLN	AC	10,00%	(12)	-10,00%	12
<i>total effect on gross profit (loss)</i>				8 146		(8 146)
<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 2010, the Company did not have any long-term contracts with a fixed commodity purchase price. The Company had stocks of 450 tonnes of LPG. The Company concluded that in the period in question the average inventory turnover ratio was 8 days. The Company analysed the fluctuations in gas prices according to Platts and Argus in the period of 12 months to 31 December 2010. The Company concluded that in the period under analysis the prices of gas at eight-day intervals increased on average by USD 3 per tonne. The largest decrease was recorded between 30 September and 7 October 2010, when gas prices fell on average by USD 138.50 per tonne. Assuming a maximum USD 138,50 fall in price, the level of stocks as at 31 December 2010 and no change in other factors, the Company's losses may be by USD 185 thousand higher.

37.4. Credit risk

The Company trades only with recognised, creditworthy third parties. In the 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 2010 and as at 31 December 2009 by maturity based on contractual non-discount payment terms.

31 December 2010	<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	15 944	103 401	51 796	0	171 141
Finance lease liabilities	0	23	30	60	0	112
Other financial liabilities	0	0	0	33 157	0	33 157
Trade and other payables	0	21 261	0	0	0	21 261
	<u>0</u>	<u>37 228</u>	<u>103 431</u>	<u>85 012</u>	<u>0</u>	<u>225 671</u>
31 December 2009	<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	3 050	55 337	55 134	223 204	1 796	338 521
Finance lease liabilities	0	34	92	25	0	151
Other financial liabilities	0	0	0	92 551	0	92 551
Trade and other payables	0	13 131	0	0	0	13 131
	<u>3 050</u>	<u>68 502</u>	<u>55 226</u>	<u>315 780</u>	<u>1 796</u>	<u>444 354</u>

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.

PETROLINVEST Spółka Akcyjna
 Financial statements for the year ended 31 December 2010
 Accounting policies and notes to the financial statements
 (PLN '000)

Fixed rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Financial assets	248 963	0	0	0	0	0	248 963
Finance lease liabilities	46	21	33	0	0	0	100
Loans for PLN 182.494 thousand	0	0	45	0	0	0	45
Loans for PLN 320 thousand	0	0	406	0	0	0	406
Loans for PLN 3 thousand	0	0	0	0	0	0	0
Liabilities	46	21	484	0	0	0	551
Floating rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Financial assets	94 706	0	0	0	0	0	94 706
Overdraft facilities	0	0	0	0	0	0	0
Bank loans:	114 274	880	880	1 000	1 120	600	163 557
for PLN 8.000 thousand	880	880	880	1 000	1 120	600	5 360
for PLN 300.000 thousand or USD equivalent	113 394	44 803	0	0	0	0	158 197
Liabilities	114 274	45 683	880	1 000	1 120	600	163 557
<i>31 December 2009</i>							
Fixed rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Financial assets	118 904	0	0	0	0	0	118 904
Finance lease liabilities	118	27	0	0	0	0	145
Loans from Prokom Investments	0	0	0	45	0	0	45
Loans for PLN 320 thousand	0	0	0	390	0	0	390
Loans for PLN 3 thousand	3 050	0	0	0	0	0	3 050
Liabilities	3 168	27	0	435	0	0	3 630
Floating rate	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Financial assets	8 466	28 059	71 258	0	0	0	107 783
Overdraft facilities	20 742	0	0	0	0	0	20 742
Bank loans:	80 774	96 793	112 802	880	1 000	1 720	293 969
for PLN 10.000 thousand	0	0	0	0	0	0	0
for PLN 8.000 thousand	880	880	880	880	1 000	1 720	6 240
for PLN 300.000 thousand or USD equivalent	79 894	95 913	111 922	0	0	0	287 729
Liabilities	101 516	96 793	112 802	880	1 000	1 720	314 711

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 in accordance with IAS 39	Carrying amount		Income statement for 12 months ended 31 December 2010				Income statement for 12 months ended 31 December 2009			
		31 December 2010	31 December 2009	interest and fees	F/X differences	impairment of investments	other	interest and fees	F/X differences	impairment of investments	other
Financial assets		530 678	330 810	35 714	10 478	(299)	0	25 417	(14 732)	(101 045)	0
Non-current financial assets, including		177 675	197 840	35 488	7 701	0	0	25 019	(1 684)	(47 417)	0
- loans advanced and receivables	LR	177 675	197 840	35 488	7 701	0	0	25 019	(1 684)	(30 535)	0
- other non-current assets	AFS	0	(0)	0	0	0	0	0	0	(16 882)	0
Trade and other receivables	LR	8 675	4 788	0	0	0	0	0	(11)	0	0
Current investments	LR	343 670	127 410	0	2 777	(299)	0	0	(13 037)	(53 628)	0
Cash and cash equivalents	FVPL	658	772	227	0	0	0	399	0	0	0
Financial liabilities		189 258	350 458	(8 878)	(10 797)	0	(19 746)	(16 522)	12 705	0	(23 210)
Interest-bearing loans and borrowings, including	AC	164 008	318 196	(8 648)	(8 672)	0	(376)	(16 469)	11 357	0	(380)
- bearing variable interest rates	AC	163 557	293 969	(8 228)	(8 672)	0	(376)	(11 669)	11 171	0	(264)
- bearing fixed interest rates	AC	451	3 485	(16)	0	0	0	(3 202)	186	0	0
- overdraft	AC	0	20 742	(404)	0	0	0	(1 598)	0	0	0
- other	AC	0	0	0	0	0	0	0	0	0	(116)
Other non-current liabilities, including	AC	3 943	19 013	(13)	0	0	(9 642)	(31)	0	0	(22 644)
- finance lease liabilities	AC	54	27	(13)	0	0	0	(31)	0	0	0
- other non-current liabilities	AC	3 889	18 986	0	0	0	(9 642)	0	0	0	(22 644)
Trade and other payables	AC	21 307	13 249	(217)	(2 126)	0	(9 728)	(22)	1 348	0	(186)

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

There are no financial assets and liabilities carried at fair value on the Company's balance sheet.

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 2010 and 31 December 2009, 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.

	31 December 2010 PLN '000	31 December 2009 PLN '000
Interest-bearing loans and borrowings and finance lease liabilities	164 108	318 341
Subordinated shareholder loans	(451)	(435)
Trade and other payables	25 150	32 117
Liabilities convertible to equity	(3 889)	(18 986)
Less: cash and cash equivalents	(658)	(772)
Net debt	<u>184 260</u>	<u>330 265</u>
Convertible preference shares	-	-
Equity	1 034 006	647 976
Subordinated shareholder loans	451	435
Liabilities convertible to equity	3 889	18 986
Total equity	<u>1 038 346</u>	<u>667 397</u>
Net debt and equity	<u>1 222 606</u>	<u>997 662</u>
Leverage ratio	<u>15,07%</u>	<u>33,10%</u>

40. Employment structure

The average employment in the Company in the years ended 31 December 2010 and 31 December 2009 was as follows:

	31 December 2010	31 December 2009
Management Board of the Company	5	2
Administration	36	36
Sales Dept	39	40
Production	40	48
Total	<u>120</u>	<u>126</u>

41. Events after the balance sheet date

O 18 January 2011 the Company received from an entity indicated by Prokom as the financing entity — within the meaning of the agreement on financing concluded by the Company and Prokom Investments S.A. on 20 March 2009, amended by the annex dated 31 December 2010 — which makes a direct equity investment into Company's shares:

- (i) a request to transfer to the Financing Entity a number of shares that corresponds to the quotient of the amount equal to the direct equity investment in Company's shares in the amount of PLN 25,000,000 performed by the Financing Entity in the form of cash payment and the issue price of PLN 10.00, as well as
- (ii) a call to offer to the Financing Entity 2,500,000 ordinary bearer Company shares at an issue price of PLN 10.00 per share, that is for a total amount of PLN 25,000,000.

Consequently, the Management Board of the Company adopted a resolution regarding the offering of registered subscription warrants over series B shares and setting forth detailed terms and conditions of issue of Subscription Warrants. The Management Board decided to issue 2,500,000 Subscription Warrants and offered them for take-up to the Financing Entity. Subscription Warrants were subsequently taken up by the Financing Entity. At the same time the Financing Entity exercised its rights under the Subscription Warrants to take up series B shares and filed a statement of acquisition of 2,500,000 ordinary series B bearer shares of the Company. The issue price of the ordinary series B bearer shares, issued to holders of Subscription Warrants on the basis of the Issue Resolution within the scope of the conditional increase of the Company's share capital, was set by the Management Board at PLN 10.00 per share, considering statutory restrictions regarding the minimum issue price of shares. The issue price was approved by the Supervisory Board on 18 January 2011.

The value of the cash payment for the take-up of series B shares was PLN 25 million. The whole amount received by the Company was designated for reducing the credit debt of PETROLINVEST S.A.

On 20 January 2011, 2,500,000 series B Company shares subscribed for in exercise of 2,500,000 subscription warrants at an issue price of PLN 10.00 per share were registered with the National Depository for Securities and introduced to trading on the WSE. The Company's share capital increased to PLN 530,176,560 on the day when the 2,500,000 series B ordinary bearer shares, each with a nominal value of PLN 10.00, acquired by the shareholder as part of the registered conditional share capital, were introduced to trading on the WSE.

O 26 January 2011 the Company received from an entity indicated by Prokom as the financing entity – within the meaning of the agreement on financing concluded by the Company and Prokom Investments S.A. on 20 March 2009, amended by the annex dated 31 December 2010 – which makes a direct equity investment into Company's shares:

- (i) a request to transfer to the Financing Entity a number of shares that corresponds to the quotient of the amount equal to the direct equity investment in Company's shares in the amount of PLN 18,000,000 performed by the Financing Entity in the form of cash payment and the issue price of PLN 10.00, as well as
- (ii) a call to offer to the Financing Entity 1,800,000 ordinary bearer Company shares at an issue price of PLN 10.00 per share, that is for a total amount of PLN 18,000,000.

Consequently, the Management Board of the Company adopted a resolution regarding the offering of registered subscription warrants over series B shares and setting forth detailed terms and conditions of issue of Subscription Warrants. The Management Board decided to issue 1,800,000 Subscription Warrants and offered them for take-up to the Financing Entity. Subscription Warrants were subsequently taken up by the Financing Entity. At the same time the Financing Entity exercised its rights under the Subscription Warrants to take up series B shares and filed a statement of acquisition of 1,800,000 series B ordinary bearer shares of the Company. The issue price of the ordinary series B bearer shares, issued to holders of Subscription Warrants on the basis of the Issue Resolution within the scope of the conditional increase of the Company's share capital, was set by the Management Board at PLN 10.00 per share, considering statutory restrictions regarding the minimum issue price of shares. The issue price was approved by the Supervisory Board on 26 January 2011.

The value of the cash payment for the take-up of series B shares was PLN 18 million. Funds in the amount of PLN 12 million were designated for reducing the credit debt of PETROLINVEST S.A., whereas the outstanding amount covered mainly expenses related to the fulfilment of the exploration and production project.

On 28 January 2011, 1,800,000 series B Company shares subscribed for in exercise of 1,800,000 subscription warrants at an issue price of PLN 10.00 per share were registered with the National Depository for Securities and introduced to trading on the WSE. The Company's share capital increased to PLN 548,176,560 on the day when the 1,800,000 series B ordinary bearer shares, each with a nominal value of PLN 10.00, acquired by the shareholder as part of the registered conditional share capital, were introduced to trading on the WSE.

On 10 February 2011, in relation to the recent cash payments in the total amount of PLN 19,000,000, including the payment of PLN 15,000,000 made by PROKOM Investments S.A. on 8 February 2011, the Company received:

a) from Prokom acting as the financing entity — within the meaning of the agreement on financing concluded by the Company and Prokom on 20 March 2009, amended by the annex dated 31 December 2010 — which makes a direct equity investment into Company's shares:

- (i) a request to transfer to Prokom a number of shares that corresponds to the quotient of the amount equal to the direct equity investment in Company's shares in the amount of PLN 15,000,000 performed by Prokom and the issue price equal to PLN 10.00, as well as

- (ii) a call to offer to Prokom 1,500,000 ordinary bearer Company shares at an issue price of PLN 10.00 per share, that is for a total amount of PLN 15,000,000.
- b) from an entity indicated by Prokom as the financing entity which makes a direct equity investment into Company's shares:
- (i) a request to transfer to the Financing Entity a number of shares that corresponds to the quotient of the amount equal to the direct equity investment in Company's shares in the amount of PLN 4,000,000 performed by the Financing Entity and the issue price equal to PLN 10.00 and
 - (ii) a call to offer to the Financing Entity 400,000 ordinary bearer Company shares at an issue price of PLN 10.00 per share, that is for a total amount of PLN 4,000,000.

Consequently, the Management Board of the Company adopted a resolution regarding the offering of registered subscription warrants over series B shares and setting forth detailed terms and conditions of issue of Subscription Warrants. The Management Board decided to issue 1,900,000 Subscription Warrants and offered them for subscription to: Prokom, in the amount of 1,500,000; and the Financing Entity in the amount of 400,000. Subscription Warrants were subsequently taken up by Prokom and the Financing Entity. At the same time Prokom and the Financing Entity exercised its rights under the Subscription Warrants to take up series B shares and filed a statement of acquisition of 1,900,000 ordinary series B bearer shares of the Company. The issue price of the ordinary series B bearer shares, issued to holders of Subscription Warrants on the basis of the Issue Resolution within the scope of the conditional increase of the Company's share capital, was set by the Management Board at PLN 10.00 per share, considering statutory restrictions regarding the minimum issue price of shares. The issue price was approved by the Supervisory Board on 10 February 2011.

The value of the cash payment for the take-up of series B shares was PLN 19,000,000.

On 14 February 2011, 1,900,000 series B Company shares subscribed for in exercise of 1,900,000 subscription warrants at an issue price of PLN 10.00 per share were registered with the National Depository for Securities and introduced to trading on the WSE. The Company's share capital increased to PLN 567,176,560 on the day when the 1,900,000 series B ordinary bearer shares, each with a nominal value of PLN 10.00, acquired by the shareholders as part of the registered conditional share capital, were introduced to trading on the WSE.

In relation to the cash payment in the amount of PLN 10,000,000, received from Prokom Investments S.A. on 3 March 2011, made in execution of the agreement on financing concluded by the Company and Prokom on 20 March 2009, amended by the annex dated 31 December 2010, on 8 March 2011 the Company received from Prokom as the entity which makes a direct equity investment into Company's shares:

- (i) a request to transfer to Prokom a number of shares that corresponds to the quotient of the amount equal to the direct equity investment in Company's shares in the amount of PLN 10,000,000 performed by Prokom and the issue price equal to PLN 10.00, as well as
- (ii) a call to offer to Prokom 1,000,000 ordinary bearer Company shares at an issue price of PLN 10.00 per share, that is for a total amount of PLN 10,000,000.

Furthermore, on 8 March 2011 – in compliance with the provisions of the agreement dated 13 January 2009 concluded with Prokom regarding, among other things, expanding the scope of the call option to cover all accounts receivable by Prokom from the Company and the agreement concluded on 14 May 2009 with Prokom, setting forth the terms on which Prokom makes its assets available to the Company to use as security for the credit facility extended by the consortium of PKO Bank Polski S.A. and Bank Gospodarstwa Krajowego under the agreement dated 21 March 2007 – the Company received from Prokom:

a) a request to transfer to Prokom a number of shares that corresponds to the quotient of (i) the accounts payable to Prokom by Petrolinvest for a PLN 11,337,151.37 advance towards the fee for providing and maintaining collateral for the credit facility charged for the period until 7 March 2011, the commercial accounts payable in the amount of PLN 2,527,255.62 charged for the period until 31 December 2010 and the accounts payable to Prokom by Petrolinvest pursuant to the agreement dated 3 February 2001 on paid collateral in the amount of PLN 239,075.34, and (ii) an issue price of PLN 10.00;

b) a call to offer to Prokom, within the period of 5 days from 8 March 2011, 1,410,348 ordinary bearer Company shares at an issue price of PLN 10.00 per share, that is for a total amount of PLN 14,103,480.

Consequently, on 8 March 2011, the Management Board of the Company adopted a resolution regarding the offering of registered subscription warrants over series B shares and setting forth detailed terms and conditions of issue of Subscription Warrants. The Management Board decided to issue 2,410,348 Subscription Warrants and offered them for subscription to Prokom. Subscription Warrants were subsequently taken up by Prokom. At the same time Prokom exercised its rights under the Subscription Warrants to take up series B shares and filed a statement of acquisition of 2,410,348 ordinary series B bearer shares of the Company.

The issue price of the ordinary series B bearer shares, issued to holders of Subscription Warrants on the basis of the Issue Resolution within the scope of the conditional increase of the Company's share capital, was set by the Management Board at PLN 10.00 per share, considering statutory restrictions regarding the minimum issue price of shares. The issue price was approved by the Supervisory Board on 8 March 2011.

Payments of Prokom for the series B shares were made by netting mutual accounts receivable/accounts payable by the Company and Prokom. On 8 March 2011, the Company concluded a netting agreement with Prokom under which the Company and Prokom netted an outstanding account receivable by the Company under the subscription for series B shares totalling PLN 14,103,480 with outstanding accounts payable by the Company to Prokom, set forth in item a) above. As a result of the netting,

the cash contribution due by Prokom to the Company in connection with the take-up by Prokom of 1,410,348 series B shares was fully covered.

The value of the cash payment made by Prokom for the take-up of 1,000,000 series B shares was PLN 10 million. Funds acquired by the Company were first used to finance works related to the Shyrak 1 well within the scope of the exploration and production projects in Kazakhstan.

On 10 March 2011, 2,410,348 series B Company shares subscribed for by Prokom Investments S.A. in exercise of 2,410,348 subscription warrants at an issue price of PLN 10.00 per share were registered with the National Depository for Securities and introduced to trading on the WSE. The Company's share capital increased to PLN 591,280,040 on the day when the 2,410,348 series B ordinary bearer shares, each with a nominal value of PLN 10.00, acquired by the shareholder as part of the registered conditional share capital, were introduced to trading on the WSE.

In relation to the cash payments in the amounts of PLN 10,000,000 and 2,000,000 received from Prokom Investments S.A. on 15 March 2011 and 17 March 2011 respectively, made in execution of the agreement on financing concluded by the Company and Prokom on 20 March 2009, amended by the annex dated 31 December 2010, on 18 March 2011 the Company received from Prokom as the entity which makes a direct equity investment into Company's shares:

- (i) a request to transfer to Prokom a number of shares that corresponds to the quotient of the amount equal to the direct equity investment in Company's shares in the amount of PLN 12,000,000 performed by Prokom and the issue price equal to PLN 10.00, as well as
- (ii) a call to offer to Prokom 1,200,000 ordinary bearer Company shares at an issue price of PLN 10.00 per share, that is for a total amount of PLN 12,000,000.

Consequently, on 18 March 2011, the Management Board of the Company adopted a resolution regarding the offering of registered subscription warrants over series B shares and setting forth detailed terms and conditions of the issue of the Subscription Warrants. The Management Board decided to issue 1,168,595 Subscription Warrants and offered them for subscription to Prokom. Subscription Warrants were subsequently taken up by Prokom. At the same time Prokom exercised its rights under the Subscription Warrants to take up series B shares and filed a statement of acquisition of 1,168,595 ordinary series B bearer shares of the Company. The Company shares, in a number which constitutes the difference between the number of shares participating in the call of Prokom and the number of shares to the acquisition of which the Warrants authorise, i.e. 31,405 shares in the Company, will be offered to Prokom later.

The issue price of the ordinary series B bearer shares, issued to holders of Subscription Warrants on the basis of the Issue Resolution within the scope of the conditional increase of the Company's share capital, was set by the Management Board at PLN 10.00 per share, considering statutory restrictions regarding the minimum issue price of shares. The issue price was approved by the Supervisory Board on 18 March 2011.

The value of the cash payment made by Prokom for the take-up of 1,168,595 series B shares was PLN 11,685,950. Funds acquired by the Company will first be used to finance works related to the Shyrak 1 well within the scope of the exploration and production projects in Kazakhstan.

On 22 March 2011, 1,168,595 series B Company shares subscribed for by Prokom Investments S.A. in exercise of 1,168,595 subscription warrants at an issue price of PLN 10.00 per share were registered with the National Depository for Securities and introduced to trading on the WSE. The Company's share capital increased to PLN 602,965,990 on the day when the 1,168,595 series B ordinary bearer shares, each with a nominal value of PLN 10.00, acquired by the shareholder as part of the registered conditional share capital, were introduced to trading on the WSE.

On 18 April 2011, the Company and Prokom Investments S.A. headquartered in Gdynia, the Company's parent entity, concluded an annex to the agreement between the Company and Prokom, dated 20 March 2009, setting forth terms and conditions for cooperation in seeking financing for the Company, which was announced by the Company in current report no. 33/2009 dated 20 March 2009 and in current report no. 1/2011 dated 3 January 2011 (the "Annex"). Considering the capital requirements of Petrolinvest connected with the implementation of the new development strategy and prospective business projects, as well as the intent to increase the share of Prokom Investments S.A. in the shareholding structure of the Company and the intent of Prokom and other financing entities obtained by Prokom to support Petrolinvest's projects, the parties have decided to extend until the end of 2013 the cooperation consisting in obtaining by Prokom financing for Petrolinvest's investment projects on the basis of current provisions of the Agreement, and to increase the financing by the additional amount of PLN 100 million.

Pursuant to the Annex, all other terms and conditions of the agreement dated 20 March 2009 were maintained. The Annex was concluded at arm's length.