



***Petrolinvest***

**PETROLINVEST**

Spółka Akcyjna

**MANAGEMENT BOARD REPORT ON THE ISSUER'S ACTIVITIES  
FOR THE YEAR ENDED 31 DECEMBER 2007**

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**1. SELECTED FINANCIAL DATA**

**1.1. Selected financial data of PETROLINVEST S.A.**

	<i>for the 12 months ended 31 December</i>		<i>for the 12 months ended 31 December</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
	<i>in PLN thousands</i>		<i>in EUR thousands</i>	
1. Net receipts from the sale of products, goods and materials	221.311	213.516	58.503	54.817
2. Profit (loss) from operations	(10.557)	1.916	(2.791)	492
3. Gross profit (loss)	(13.749)	(20.737)	(3.635)	(5.324)
4. Net profit (loss) attributable shareholders of the parent	(17.027)	(20.466)	(4.501)	(5.254)
5. Cash flows from operating activities	(9.732)	5.663	(2.573)	1.454
6. Cash flows from investment activities	(380.020)	(443.735)	(100.457)	(113.921)
7. Cash flows from financial activities	402.143	441.337	106.305	113.306
8. Net cash flows, total	12.391	3.265	3.276	838
9. Weighted average number of shares issued in units	5.517.584	1.446.172	5.517.584	1.446.172
10. Profit (loss) per share (in PLN/EUR)	(3,09)	(14,15)	(0,82)	(3,63)
11. Dilluted profit (loss) per share (in PLN/EUR)	(3,09)	(14,15)	(0,82)	(3,63)
	<i>as of</i>		<i>as of</i>	
	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
	<i>in PLN thousands</i>		<i>in EUR thousands</i>	
12. Total assets	932.281	734.334	260.268	191.672
13. Liabilities and reserves for liabilities	514.511	418.993	143.638	109.363
14. Long-term liabilities	427.302	135.541	119.291	35.378
15. Short-term liabilities	87.209	283.452	24.346	73.985
16. Equity attributable to shareholders of the parent	417.770	315.341	116.630	82.309
17. Share capital	58.730	52.860	16.396	13.797
18. Weighted average number of shares issued in units	5.517.584	1.446.172	5.517.584	1.446.172
19. Book value per share (in PLN/EUR)	75,72	218,05	21,14	56,91
20. Dilluted book value per share (in PLN/EUR)	75,72	218,05	21,14	56,91
21. Declared or paid dividend per share (in PLN/EUR)	0,00	0,00	0,00	0,00

**1.2. Average PLN/EUR exchange rate fixed by NBP**

	<i>for the 12 months ended 31 December</i>	
	<i>2007</i>	<i>2006</i>
	<i>as of</i>	
	<i>31 December</i>	<i>31 December</i>
	<i>2007</i>	<i>2006</i>
average rate in the period	3,7829	3,8951
rate at the end of the period	3,5820	3,8312

The Management Board Report placed below regarding the activities of PETROLINVEST S.A. was drawn up from the point of view of PETROLINVEST Capital Group, as – in the opinion of the Management Board – in wanting to describe the activities of the Issuer, it is not possible to treat the company PETROLINVEST S.A. separately from the whole PETROLINVEST Capital Group.

## 2. CHARACTERISTICS OF THE PETROLINVEST GROUP

### 2.1. STRUCTURE OF THE PETROLINVEST GROUP

#### 2.1.1. Structure of the PETROLINVEST Group as of 31 December 2007

PETROLINVEST Capital Group is comprised of parent company - PETROLINVEST S.A. (the "Company") as well as subsidiary companies. For the needs of this Report, the parent company, its subsidiaries and jointly controlled companies shall be referred to as PETROLINVEST Group (the "Group").

As of 31 December 2007 PETROLINVEST S.A. possessed stock/shares in the following companies:

Company name	Share capital		Shareholding	Consolidation method
Occidental Resources, Inc. (U.S.A.) (*)	199 332,77	USD	50%	Proportional
TOO EMBA JUG NIEFT (Republika Kazachstanu)	145 000,00	KZT	50%	Proportional
TOO COMPANY PROFIT (Republika Kazachstanu)	164 600,00	KZT	50%	Proportional
OOO SIEWIERGEOFIZYKA (Federacja Rosyjska)	100 000,00	RUB	59.999%	Full
OOO NIEFTIEGEOSEWIS (Federacja Rosyjska)	10 000,00	RUB	59.99%	Full
ZAO Peczora-Petroleum (Federacja Rosyjska)	20 000,00	RUB	59%	Full
UAB Petrolinvest Mockavos Perpyla (Litwa)	2 000 000,00	LTL	87%	Full
TPG GAZ S.A. (Polska)	15 720 325,00	PLN	100%	Full

(\*) Occidental Resources, Inc. owns 100% of the shares in TOO OilTechnoGroup, registered in the Republic of Kazakhstan.

#### 2.1.2. Changes in the structure of PETROLINVEST Group in 2007

In 2007, the Company finalised the transaction that was started in 2006 for the purchase of new entities as part of a strategy to develop a prospecting and extraction profile for the Group's investment portfolio.

- ✓ On 28 March 2007, the Company acquired 59.99% of the shares in the company OOO NIEFTIEGEOSEWIS, registered in the Russian Federation.
- ✓ On 26 April 2007, the Company acquired 50% of the shares in the company TOO EMBA JUG NIEFT, registered in the Republic of Kazakhstan.
- ✓ On 7 May 2007, the Company acquired 50% of the shares in the company TOO COMPANY PROFIT, registered in the Republic of Kazakhstan.
- ✓ On 28 August 2007, the Company acquired 59% of the shares in the company ZAO Peczora-Petroleum with its registered office in Ukhta, Komi Republic, Russian Federation.

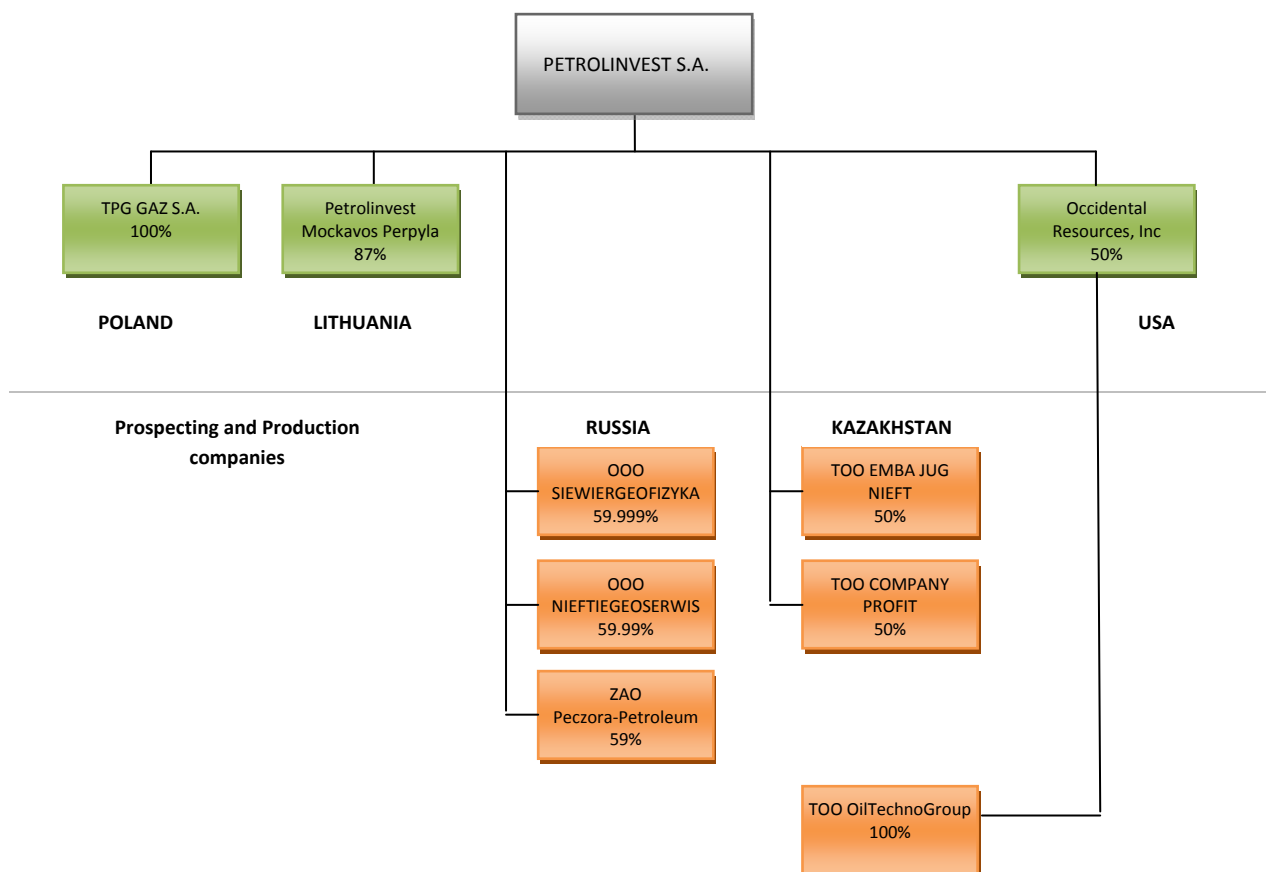
A detailed description of these capital investments was given in notes 3 and 24 of the Financial Report for the year ended 31 December 2007.

#### 2.1.3. Changes in the structure of PETROLINVEST Group after the end of the reporting period

After the end of the reporting period there were no changes in the capital structure of the Group. However, the Company concluded provisional investment agreements regarding the acquisition of new assets and signed a Letter of Intent regarding a new undertaking that will transfer the LPG activities to a subsidiary company, which in the event of it coming to fruition will have a significant impact on the current range of sectors and the size of the Group (detailed information regarding the agreements that have been concluded is given in point 2.2.2. and 2.2.3 of this Report).

Furthermore, the Company Management Board, in view of the results of the Independent Expert's report entitled "Resource assessment of the Tyubedzhik and Zangurschi deposits", (sent to the Company on 19 July 2007), which exceeded the then expectations of the Company as to the size of the deposits in the area of the concessions, took the decision to proceed with the provisions of the agreement from 12 May 2006 between the Company and Mr Bakhytbek Baiseitov, giving the option to purchase 35% of the shares in the company Aktau-Tranzit, which holds the concessions. The Management Board of PETROLINVEST S.A. envisages that the procedures connected with the purchase and the registration of PETROLINVEST S.A. as a shareholder in the company may last up to the third quarter 2008. The Management Board of PETROLINVEST S.A. – despite the incomplete registration procedures – does not rule out entering into financing of the work of the company.

PETROLINVEST Group diagram – as of the day of the Report.



## 2.2. DESCRIPTION OF THE GROUP'S ENTITIES INCLUDED IN CONSOLIDATION

The core activities of PETROLINVEST Group are:

- ✓ Activities connected with the exploitation of oil and gas deposits,
- ✓ The wholesale of solid, liquid and gas fuels and derivative products,
- ✓ Retail fuel sales,
- ✓ Production of gas fuels,
- ✓ Services connected to the installation of metal constructions,
- ✓ Production of gas installations.

Range of activity of individual Group entities:

Company name	Range of activity
PETROLINVEST S.A.	Investing in entities prospecting for and extracting oil as well as trade in liquid fuels
Occidental Resources, Inc.	Investing in entities prospecting for and extracting oil
TOO OilTechnoGroup*	prospecting for and extracting oil and gas
TOO EMBA JUG NIEFT	prospecting for and extracting oil and gas
TOO COMPANY PROFIT	prospecting for and extracting oil and gas
OOO SIEWIERGEOFIZYKA	prospecting for and extracting oil and gas
OOO NIEFTIEGOSERWIS	prospecting for and extracting oil and gas
ZAO Peczora-Petroleum	prospecting for and extracting oil and gas
UAB Petroinvest Mockavos Perpyla	Liquid fuel handling services
TPG GAZ S.A.	Trade in liquid fuels (currently not engaged in business activities, on 2 February 2007 the Company received a URE license for LPG sales)

\*the holding in TOO OilTechnoGroup (OTG) is indirect via Occidental Resources Inc., which owns 100% of the shares in OTG

### 2.3. INFORMATION ABOUT PETROLINVEST GROUP'S CORE PRODUCTS, GOODS AND SERVICES AS WELL AS MARKETS AND SOURCES OF SUPPLY

PETROLINVEST Group's source of income in 2007, as in the previous year, mainly came from activities connected with LPG trade, carried out by the parent company PETROLINVEST S.A. The activities of the Prospecting and Extraction Companies of PETROLINVEST Group, at the current stage of the Project, as of 31.12.2007, do not generate any income.

Size and selected structure of income from sales of PETROLINVEST S.A.:

	31 December 2007		31 December 2006	
	value in PLN thousands	share in %	value in PLN thousands	share in %
<b>Sales of goods, including:</b>	<b>221 014</b>	<b>99.9%</b>	<b>213 121</b>	<b>99.8%</b>
<b>Gas</b>	<b>221 014</b>	<b>100.0%</b>	<b>211 861</b>	<b>99.4%</b>
autogas	172 301	78.0%	160 979	76.0%
gas to foreign tax warehouses	20 813	9.4%	20 282	9.6%
gas for heating purposes	16 044	7.3%	18 371	8.7%
gas in bottles	11 856	5.3%	12 229	5.7%
<b>oil*</b>	<b>0</b>	<b>0.0%</b>	<b>1 260</b>	<b>0.6%</b>
<b>Sales of services</b>	<b>297</b>	<b>0.1%</b>	<b>395</b>	<b>0.2%</b>
<b>TOTAL</b>	<b>221 311</b>	<b>100.0%</b>	<b>213 516</b>	<b>100.0%</b>

In 2007, the Company stopped the sale of oil imported into Poland, the share of which in 2006 income was 0.6%. Sales of autogas strengthened, which achieved a 78% share in gas sales. The vast majority of sales were in the domestic market.

The recipient, sales to which in the first half year of 2007 exceeded 10% of the Company's total gas sales, was the company Wasbruk Sp. z o.o. (concentration indicator 12%). Wasbruk Sp. z o.o. is not an associated entity of PETROLINVEST Group.

Company supply structure:

	31 December 2007	31 December 2006
	share in %	share in %
<b>Purchase of goods, including:</b>	<b>79.0%</b>	<b>83.8%</b>
SHELL	62.2%	48.1%
PREEM PETROLEUM AB	12.9%	4.9%
STATOIL ASA	8.6%	16.2%
Orlen Gaz Sp. z o.o. (Możejki Litwa)	7.0%	10.4%
Remaining	9.3%	20.4%
<b>Purchase of services</b>	<b>21.0%</b>	<b>16.2%</b>
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>

In 2007, the Company cooperated mainly with SHELL and PREEM PETROLEUM AB as regards gas supplies. Deliveries from these two entities exceeded 75% of combined purchases. None of these entities are connected to PETROLINVEST Group.

PETROLINVEST Group territorial structure of supply:

	31 December 2007	31 December 2006
	share in %	share in %
Domestic	23.74%	15.55%
Foreign	76.26%	84.45%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>

The structure of suppliers in the period under analysis changed. However, foreign suppliers still dominate. The increase in the proportion of domestic partners in the structure of supply was caused by an increase in the purchase of services, of which over 80% were rendered by providers from Poland.

As indicated above, the activity of PETROLINVEST Group Prospecting and Extraction Companies, at the current stage of the Project, are not generating income, while their purchases are mainly connected with prospecting activities. These companies are implementing their investment programs using mainly local subcontractors and materials suppliers for the construction of boreholes. In certain areas they use foreign suppliers, mainly coming from European Union countries.

### **3. SIGNIFICANT FACTORS FOR THE DEVELOPMENT OF PETROLINVEST GROUP**

#### **3.1. DESCRIPTION OF FUNDAMENTAL RISKS AND THREATS**

Among the most important risk factors affecting PETROLINVEST Group's business activities **in the area of prospecting and extraction** are:

- ✓ the risk of not discovering oil deposits – the prospecting and extraction of oil is connected with a high level of risk. PETROLINVEST Group at the current stage of its development is carrying out prospecting work and is not yet involved in extraction. At the current stage of prospecting PETROLINVEST Group cannot guarantee that it will find oil in the areas where prospecting is taking place. Furthermore, there is a risk that any deposits discovered will not have the character of mineral reserves, which means that they will not be suitable for profitable, economic extraction;
- ✓ the risk connected with access to warehouse, transport and transmission infrastructure – such access depends to a large extent on the discretionary decisions of governments in individual countries and consortia of companies controlling transmission infrastructure;
- ✓ operational risk connected with carrying out prospecting and extraction activities – prospecting and extraction activities and the distribution of oil and gas is prone to natural disasters, human error, terrorist attacks or other events that can cause oil and gas leaks, explosions, fires, damage to property and damage to the environment;
- ✓ risk connected to concessions, licenses and permits – gaining appropriate documents is dependent on the undertaking of legal activities by various interested parties, including ecological organisations or other non-governmental organisations, which constitutes a high risk of delay in issuing or extending concession. Very rigorous formal requirements making it difficult to carry out the conditions of concessions can influence the risk of concessions being suspended, limited or withdrawn;
- ✓ the risk connected with being dependent on subcontractors and the reliability of contractors – not being able to find within an appropriate timescale qualified subcontractors and their non-reliability can lead to stoppages in work or additional costs;
- ✓ political, social and economic risk in countries where prospecting and extraction work is taking place – bureaucratization of procedures, limitations to the free market, changes in government, changes in government policy and applied practices and a lack of fiscal stability can exert negative effects on the financial situation of the Group;
- ✓ legal risk connected with the necessity of adhering to a wide range of formal requirements of law that are binding in areas where Group entities carry out prospecting and extraction work;
- ✓ risk connected environmental protection regulations – the risk that more rigorous requirements regarding activity in the oil and gas sector will be introduced causing significantly more financial obligations and a deterioration in the Group's prospects for development. Additionally, there is a risk that regulations shall be introduced limiting the emission of greenhouse gases, which in consequence will cause investment expenditures and operating costs to increase;
- ✓ exchange risk connected with the observed strengthening of the of the Kazakh currency, which can have a negative effect on the distribution and value of reserves of the Group's companies operating in Kazakhstan. The risk of losses that may arise from the appearance of inflation cannot be ruled out.

Among the most important risk factors affecting PETROLINVEST Group's business activities **in the area of LPG sales** are:

- ✓ frequent changes in the legal and regulatory environment;
- ✓ risk of competition from companies with a stronger position, which are able to influence negatively the Group's ability to buy and sell raw materials as well as competition from companies without technical support that apply price dumping. Additionally, there is a risk of oversupply in the domestic market resulting from chaotic imports from the East, leading to disadvantageous prices and making it necessary to sell goods below purchase costs;
- ✓ the risk of the development of the grey zone, estimated currently at 20% of total imports, lowering the attractiveness of the goods offered by the Group;
- ✓ the risk of being dependent on a defined group of suppliers from Eastern and Northern Europe;
- ✓ storage risks – connected with storage capacity limitations in the event of a fall in LPG prices and the necessity of stopping sales of supplies that were contracted earlier in order to wait for the market to offer more advantageous prices.

#### **3.2. REVIEW OF THE MOST IMPORTANT EVENTS AND SIGNIFICANT AGREEMENTS CONCLUDED THAT HAVE HAD AN IMPACT ON THE ACTIVITY OF PETROLINVEST GROUP AND THE RESULTS ACHIEVED IN 2007 OR THAT MAY HAVE AN IMPACT IN FUTURE YEARS**

##### **3.2.1. Prospecting and extraction**

###### **Prospecting and research work**

In 2007, PETROLINVEST Group carried out intensive prospecting and research work, which in effect lead to such a state of advancement in the whole prospecting and extraction undertaking that it was possible for an independent expert to assess the confirmed, conditional and predicted reserves of the PETROLINVEST Group as published in the current report 4/2008 from 17 January 2008.

As regards the Russian concessions belonging to the companies OOO SIEWIERGEOFIZYKA, OOO NIEFTIEGOSERWIS and ZAO Peczora-Petroleum selected work has been carried out regarding the processing and reinterpretation of existing 2D seismic

research, new 3D seismic photographs have been taken, passive seismic research has been carried out and geochemical surface photographs have been taken.

Results of the work described above form the basis for dividing perspective oil deposit areas.

Furthermore, the companies have carried work in making boreholes, including:

OOO SIEWIERGEOFIZYKA

- ✓ Making a reconstruction of the CA-1 borehole in the Central-Ajuvinska structure, in order to carry out tests to identify the level of oil saturation – the results of measurements confirmed the occurrence of permeable carbon reservoir rock, oil saturation was not confirmed though and the borehole was closed down as being negative.
- ✓ Preparatory work regarding commencing the drilling of a new exploratory borehole on the Mazhielska structure.

OOO NIEFTIEGEOSEKOWIS

- ✓ Drilling the Jermalowskie-1 borehole to a depth of 2266 m – the results of measurements confirmed the occurrence of permeable carbon reservoir rock, oil saturation was not confirmed though and the borehole was closed down as being negative.
- ✓ Further drilling work shall be carried out on the basis of the results of a comprehensive interpretation of the results of 3D photographs, passive seismic research and geochemical photographs.

ZAO PECZORA-PETROLEUM

- ✓ Making and testing the Ajuvinska 1 borehole to a depth of 1450 m - oil saturation horizons have been stated. However, after tests were regarded as non-productive and the borehole was closed down.

The following work has been carried out regarding the Kazakh concessions:

TOO EMBA JUG NIEFT

- ✓ Interpretation work regarding 3D seismic research, Anchar low-frequency seismic research and gravimetric research, in order to identify proposed boreholes.
- ✓ Making and testing the G-4D borehole on the Zhubantam concession to a depth of 750 m. Test results have been made public. Oil flow has been found in 4 horizons.
- ✓ Making the G14-D borehole on the Zhubantam deposit to a depth of 650 m and commencing tests. After making the first tests, the borehole was secured and further tests shall be made after additional preparatory work. In the event of a negative result it is planned that the hole will be used to inject water, which will be extracted along with oil
- ✓ Starting the assembly of drilling devices at the G 40 opening.
- ✓ Starting drilling the SG-2 borehole to a planned depth of 4950 m as well as the whole 101.

TOO COMPANY PROFIT

- ✓ Interpretation work regarding 3D seismic research, Anchar low-frequency seismic research and gravimetric research, in order to identify proposed boreholes.
- ✓ Making borehole G-1 to a depth of 1200 m and borehole G-4. In borehole G-1 traces of hydrocarbons have been confirmed, and tests with a deposit tester on one of the horizons showed deposit water flow. Tests of collected matrix and reservoir rocks are being made as well as deposit flows.

OIL TECHNO GROUP

- ✓ Field work as part of 3D seismic photographs of Koblanda-Syrgala.
- ✓ Processing 2D seismic lines throughout the whole concession as well as 3D seismic photographs in the Bestau region. Interpretation of research results has started.
- ✓ Processing and interpreting new seismic data: 3D seismic photography in the Bestau and Koblanda regions as well as SD seismic data.
- ✓ Making 3 boreholes in the Zheleznaya structure to a depth of 3800 m, Ajghany 1 to a depth of 3800 m, Raushan 1 to a depth of 2700 m. Due to carbohydrate symptoms not being confirmed during drilling as well as negative results from the interpretation of geophysics measurements, the borehole was closed down.
- ✓ Making 2 boreholes in order to supply 2 drilling devices with water (Ajghany 1 and Raushan 1 boreholes) to a depth of 200 and 250 m.
- ✓ Making the Ajghany 2 borehole to a depth of 3800 m.
- ✓ Work is ongoing to make the deep Koblanda 3 borehole to a depth of 6800 m.

AKTAU TRANZIT (a company in which PETROLINVEST S.A. owns options to buy 35% of the shares)

- ✓ On 19 July 2007, the Company Management Board received an expert's report confirming oil reserves in the area of the Tyubedzhik and Zangurschi concessions. The expert estimated oil deposits in the area at 137.06 million bbl, of which 11.39 million in the category "probable" and 7.06 million bbl in the category "possible". Updated information regarding the Tyubedzhik and Zangurschi concessions can be found in the expert's report published on 17 January 2008.

**Remaining**

- ✓ On 30 March 2007, an agreement was signed between OilTechnoGroup and Saipem S.p.A. for the drilling of a borehole to a depth of 6200 m. The performance of this agreement commenced in September 2007. The estimated value of work

connected to making the borehole is approximately USD 30,000 thousand. In accordance with the agreement, security for the prompt payment for work resulting from the agreement is provided by two bank guarantees for USD 2,950 thousand and USD 960 thousand.

- ✓ On 21 May 2007, an agreement was signed between OOO SIEWIERGEOFIZYKA and OJSC Northern Geophysical Enterprise Siewiergeofizyka in order to conduct seismic-exploratory work on the Vysovskye (Wysowskie) Concession. The total value of work connected to the agreement is USD 5,261 thousand.
- ✓ On 29 November 2007, TOO EMBA JUG NIEFT signed Annex 1 with the Energy and Natural Resources Ministry of the Republic of Kazakhstan to the contract for prospecting for and extracting oil. The Annex extends the prospecting period of the contract to 29 June 2009 and places a duty on the company bear expenses connected with geological-prospecting work amounting to USD 39,975 thousand in the extended period.

#### **Events occurring after the end of the reporting period**

- ✓ On 17 January 2008, the PETROLINVEST S.A. Management Board published the **report about contracts and licenses** (referred to from here as "concessions") for prospecting for and extracting oil by Prospecting and Extraction Companies that PETROLINVEST S.A. owns or has options to buy shares, which was received from the independent expert employed by the Company from **McDaniel & Associates Consultants**.

The Company Management Board draws attention to the fact that the report received from the independent expert, summarising the work of recent months carried out in concessions owned by the Company, constitutes significant progress and a qualitative change in relation to the report published by the Company in the Issue Prospectus prepared in connection with the public offer for B shares.

As a result of the analysis carried out by the independent expert covering:

- results of 2D and 3D seismic research,
- results of geochemical research,
- effects of new interpretations of earlier results, and
- results from boreholes made,

the independent expert defined the size of oil reserves in the concessions that are owned by the Company in appropriate categories in accordance with the classification of reserves in international standards and described in detail in the report mentioned above, which was not possible in the independent expert's report published in Company's Issue Prospectus in 2007.

The Management Board of the Company also draws attention to the fact that the perspective oil reserves (*unrisked mean estimated of prospective resources*) of the companies TOO EMBA JUG NIEFT and Occidental Resources, Inc., estimated only for those structures for which the expert possessed sufficient documented research and analysis, amount to 81.6 million and 966.9 million barrels of equivalent oil respectively. Completion of the transaction for the purchase of shares, which the Company informed about in the current Report No. 3/2008 means in practice taking over full control of further work and future exploitation of all the reserves. The independent expert's opinion as well as the size of oil deposits as defined by him do not reflect oil deposits in concessions owned by companies that are part of the Capital Energy SA capital group, with whose shareholders the Company has signed an investment agreements, as mentioned in the Report No. 3/2008.

Furthermore, the independent expert categorised:

- 3.1 million barrels as reserves in the category "Proved Plus Probable Plus Possible" in the Zhubantam deposit, located in concessions owned by TOO EMBA JUG NIEFT,
- 10.7 million barrels as **contingent resources** in category 2C, in deposits owned by the company Aktau-Tranzit, in which PETROLINVEST owns an option to purchase 35% of shares,
- In total 42.1 million barrels as unrisked mean estimated of prospective resources in the concession owned by a Russian company in which PETROLINVEST owns shares.

- ✓ On 8 March 2008, the Company published information about the **signing by TOO Company Profit with the Energy and Mineral Resources Ministry of the Republic of Kazakhstan of Annex No. to the Contract for prospecting for hydrocarbons** in the Kyzylorda oblast, the Republic of Kazakhstan ("Contract") also referred to as the Dautskoye Licence. As expected the area covered by the Contract was extended by 903.12 sq. km. In connection with the extension of the licensed area, the obligation of TOO Company Profit to incur additional capital expenditure on geological and prospecting works was also increased by USD 32m. The obligation is to be performed within the next four years.

The Company Management Board were satisfied with news about the expansion of the territory covered by the Contract owned by TOO Company Profit. The expanded territory possesses a range of perspective geological structures, which have not been able to be tested in detail and drilled up to now. The Company Management Board drew attention to the fact that this decision by the Kazakhstan authorities reflects the positive perception of the Company as an investor.

The restated Contract augurs well for the discovery of significant amounts of crude oil; hence, even though the Company is not obliged to finance prospecting activities of TOO Company Profit, its Management may within the next 6 months consider the purposefulness and possibility of providing some financing for the investment programme covering the extended Contract area. The basic criteria in taking the decision regarding participation in the financing will be (i) the possibility of generating positive cash flows from the project in the nearest future, and (ii) resources available to be confirmed by an independent expert.

### 3.2.2. Gas sales

- ✓ On 7 September 2007, the Company signed an agreement for delivery of LPG gas in the period up to December 2007 from **Shell Trading International Ltd. For a value of 21,420,000 USD.**
- ✓ On 14 March 2008, the Company signed a **Letter of Intent with the company T.B.S. Enterprises – Limited Partnership**, registered in the United Kingdom (hereinafter referred to as the “Partner”).

The Letter of Intent provides for a joint venture in which the Company will transfer its activities concerned with trading in LPG to TPG GAZ S.A. (a joint-stock company registered in Poland, now wholly-owned by the Company), including rights and obligations resulting from contracts concluded by the Company and other rights hitherto enjoyed by the Company with respect to the activities being transferred, excluding however the rights connected with the lease of the LPG sea terminal located in Port Gdynia, which will be made available by the Company to TPG GAZ S.A. for a consideration covering the Company's costs incurred in that respect.

The Partner and the Company will conclude an investment agreement within 90 days from the signing of the Letter of Intent whereby the Partner will take up a 49% interest in TPG GAZ S.A. and cover it with a cash contribution being an equivalent of USD 5m. In addition, the Partner will enable TPG GAZ S.A. to enter into a direct LPG supply contract with a Russian LPG producer for a period of at least 36 consecutive months and a total volume of no less than 450 thousand tonnes of gas.

The Partner also agreed that it shall not sell or in any way dispose of the shares of TPG GAZ S.A. acquired as a result of the investment agreement for a period of 48 months from the date of signing of the LPG supply contract by TPG GAZ S.A.

The Partner and the Company will have pre-emptive rights to acquire TPG GAZ S.A. shares should any of the parties decide to sell.

The parties also agreed that, in the case the investment agreement is concluded, the parties will cooperate in building the market value of TPG GAZ S.A. and introducing TPG GAZ S.A.'s shares to public trading on the market of their choice.

The execution of the investment agreement, should it be concluded, will be dependent upon obtaining relevant administrative, legal, corporate and other consents and permits.

### 3.2.3. Capital acquisitions

- ✓ On 12 February 2007, three agreements were signed between the Company, **ZAO Peczora-Petroleum** and Valery Garipov, Olga Ramzenkova and Aleksey Hitrov, the subject of which was the purchase by the Company of 236 shares in ZAO Peczora-Petroleum, a non-public joint-stock Russian law company, constituting **59% of the share capital of that company** for a price of 17,000 thousand USD, which is comprised of an advance payment of 8,500 thousand USD and an additional payment of 8,500 thousand USD in the event of the discovery of oil deposits fit for economically viable extraction in the area covered by the license owned by ZAO Peczora-Petroleum. The shares were acquired on 28 August 2007 (details in note 3 of the Financial Report for the year ended 31 December 2007).
- ✓ On 28 March 2007, the Company acquired **59.99% of the shares in the company OOO NIEFTIEGEOSERWIS**, registered in the Russian Federation.
- ✓ On 26 April 2007, the Company acquired **50% of the shares in the company TOO EMBA JUG NIEFT**, registered in the Republic of Kazakhstan.
- ✓ On 7 May 2007, the Company acquired **50% of the shares in the company TOO COMPANY PROFIT**, registered in the Republic of Kazakhstan.
- ✓ In the second half of 2007, the Company conducted negotiations with ZAO NK Nobel Oil regarding the purchase of shares in the group of companies that possess concessions for prospecting and extraction of oil in the Russian Federation (on 26 July 2007, the Company signed a Letter of Intent; on 6 September 2007 a cooperation agreement was signed), the suspension of which the Company Management Board informed about on 3 December 2007. The Company Management Board suspended negotiations for the following reasons:
  - the option of participating in the consolidation of the extraction market in Kazakhstan,
  - the concentration of the extraction potential of concessions owned in Kazakhstan,
  - the unstable situation in capital markets.

In the opinion of the Company Management Board, the concentration in the Kazakh projects at the current level of the Company's development allow the Company to achieve the assumed level of documented oil reserves and extract them in the most effective method possible from the point of view of Company's Shareholders and to ensure Shareholders the highest possible return on capital.

### *Events occurring after the end of the reporting period*

- ✓ The Management Board of PETROLINVEST S.A. on 16 January 2008, on the basis of the Letter of Intent signed on 10 January, signed an investment agreement with Dzhumageldy Rakhishevich Amankulov, Atameken-Prommash LLP, GEOKAPITAL LLP and MARBURG OIL LLP regarding **the purchase by the Company of 50% of the shares in TOO EMBA JUG NIEFT**, a Kazakhstan company in which PETROLINVEST S.A. already owns 50% of the shares.

The investment agreement envisages the issue of 543,034 shares in PETROLINVEST S.A., at an issue price PLN 320 per share, in exchange for 50% of the shares in TOO EMBA JUG NIEFT. In addition, in the event of confirmation that the prospective

resources of TOO EMBA JUG NIEFT (*unrisksed 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 at an issue price equal to PLN 10. Furthermore, PETROLINVEST S.A. has a duty to appoint two representatives of the Kazakh party to the Company's supervisory board.

The performance of the investment agreement has been made dependent the fulfilment of a range of conditions, in particular on: the confirmation by a court-appointed auditor of the value of the contribution, gaining appropriate corporate consents, gaining by the company of consent and renouncing priority rights by the Kazakh Energy Ministry, gaining by the Kazakh party the appropriate anti-monopoly consents, the effective acquisition by investors of 2,353,149 PETROLINVEST S.A. shares in exchange for 48.8% of shares in Occidental Resources Inc. As a result of the performance of the investment agreement, PETROLINVEST S.A. will become the owner of 100% of the shares in TOO EMBA JUG NIEFT.

As part of the investment agreement, the Kazakh party has a duty to not sell shares in PETROLINVEST S.A. acquired in the performance of this agreement for a period of 12 months after the time of their acquisition.

- ✓ The Management Board of PETROLINVEST S.A. on 16 January 2008, on the basis of the Letter of Intent from 10 January 2008, signed an investment agreement between the Company and eleven shareholders of the company Occidental Resources Inc., a company under Utah state law, regarding the **purchase by PETROLINVEST S.A. of 48.8% of the shares in Occidental Resources Inc.**, in which the Company already owns 50% of the shares.

Occidental Resources Inc. is the owner of 100% of the shares Kazakh law company OilTechnoGroup. The investment agreement envisages the issue of 2,353,149 shares in PETROLINVEST S.A., at an issue price of PLN 320 per share in exchange for 48.8% of the shares in Occidental Resources Inc.

The performance of this investment agreement has been made dependent on the fulfilment of a range of conditions, in particular on: the confirmation by a court-appointed auditor of the value of the contribution, gaining appropriate corporate consents, the gaining by PETROLINVEST S.A. and Occidental Resources Inc. consent and renouncing priority rights by the Kazakh Energy Ministry, gaining by the Kazakh party the appropriate anti-monopoly consents, the effective acquisition by investors of 517,034 shares in PETROLINVEST S.A. in exchange for 50% of the shares in TOO EMBA JUG NIEFT. As a result of the performance of the investment agreement, PETROLINVEST S.A. will become the owner of 98.8% of the shares in Occidental Resources Inc.

As part of the investment agreement the company Occidental Resources, Inc. has a duty not to sell shares in PETROLINVEST S.A. acquired in the performance of this agreement for a period of 12 months after the time of their acquisition, with the exception of 382,813 shares about which the above limitation expires after 6 months.

- ✓ The Management Board of PETROLINVEST S.A. on 16 January 2008, on the basis of the Letter of Intent from 10 January 2008, signed an investment agreement between the Company and Pruner Group Limited, Mars International Worldwide Inc. and Munivac Global Ventures Inc., regarding the **purchase by the Company of 100% of the shares in Capital Energy S.A.**, a British Virgin Islands law company.

Capital Energy S.A. is the owner of the majority shareholdings described below in four Kazakh law companies that possess concessions for oil prospecting and extraction: BMB Munai LLP (75% holding), Bolz LLP (65% holding), Maksat-Munai LLP (100% holding) and Erkin Oil LLP (50% holding). The investment agreement envisages the issue of 964,190 shares in PETROLINVEST S.A., at an issue price of PLN 320 per share in exchange for 100% of the shares in Capital Energy S.A. As part of the valuation of Capital Energy S.A. the size of prospective resources (*unrisksed mean estimated of prospective resources*) at a level of 309 million bbl was taken into account, of which approx 50 million bbl are assessed as P2 (probable) reserves according to a report presented to the Company by Capital Energy S.A. shareholders, prepared by an independent expert.

The performance of the agreement has been made conditional on the Company receiving satisfactory results from a review of the assets of Capital Energy S.A., in particular a confirmation by independent experts of the size of oil resources owned by subsidiaries of Capital Energy S.A. (the results of research carried out by McDaniel & Associates may constitute a basis for negotiations into the final number of shares issued by PETROLINVEST S.A.), as well as on: the confirmation by a court-appointed auditor of the value of the contribution, gaining appropriate corporate consents, the gaining by PETROLINVEST S.A. and Capital Energy S.A. consent and renouncing priority rights by the Kazakh Energy Ministry, gaining by the Kazakh party the appropriate anti-monopoly consents, the effective acquisition by investors of PETROLINVEST S.A. shares in exchange for 48.8% of the shares in Occidental Resources Inc. As well as 517,034 shares in PETROLINVEST S.A. in exchange for 50% of the shares in TOO EMBA JUG NIEFT.

As part of the investment agreement shareholders of Capital Energy S.A. have a duty not to sell shares in PETROLINVEST S.A. acquired in the performance of this agreement for a period of 12 months after the time of their acquisition.

- ✓ On 21 February 2008 an investment agreement was concluded between the Company and Mars International Worldwide Inc. and Munivac Global Ventures Inc., regarding the **purchase by the Company of 45% of the shares in Kazakhstancaspishelf JSC**, a Kazakh law company ("Kazakhstancaspishelf"), entitling the Company to 50% of the votes at the Shareholders' Meeting of the company.

The investment agreement envisages the issue of 363,550 shares in the Company at an issue price of PLN 310 per share, in exchange for 193,807 shares in Kazakhstancaspishelf, constituting approx. 38.33% of the share capital entitling the Company to 42.59% of the votes at the Shareholders' Meeting. Furthermore, the Company – or an entity indicated by the Company – shall purchase 33,705 shares in Kazakhstancaspishelf, constituting approx. 6.67% of the share capital and entitling the Company to 7.41% of the votes at the Shareholders' Meeting, in exchange for a cash payment of USD 8,000 thousand.

The performance of this investment agreement has been made dependent on the fulfilment of a range of conditions, in particular on: the confirmation by a court-appointed auditor of the value of the contribution, gaining appropriate regulatory and corporate consents, in particular the seller obtaining anti-monopoly consents.

As part of the investment agreement the seller has a duty not to sell shares in the Company acquired in the performance of this agreement for a period of 12 months after the time of their acquisition.

Kazakhstan Caspian shelf has been in existence since 1993 and specialises in 2D and 3D seismic research as well as preparing geological and geochemical analyses both on land and – thanks to owning a specialist fleet of ships – at sea. It is one of the leading companies in this field in Kazakhstan. The company cooperates with other companies such as KazMunaiGaz, TengizChevroil as well as with companies constituting a consortium that operates the Kashagan deposits in the Caspian sea.

- ✓ On 28 February 2008, an investment agreement was concluded between the Company and Mars International Worldwide Inc., regarding the **purchase by the Company of 26.07% of the shares in Caspian Services Inc.**, a company under Nevada State law, United States (“Caspian Services”), entitling the Company to 26.07% of the votes at the Shareholders’ Meeting. The investment agreement envisages the issue of 312,142 shares in the Company at an issue price of PLN 310 per share, in exchange for 13,165,177 of the shares in Caspian Services, comprising 26.07% of the share capital and entitling the Company to 26.07% of the votes at the Shareholders’ Meeting.

The performance of this investment agreement has been made dependent on the fulfilment of a range of conditions, in particular on: the confirmation by a court-appointed auditor of the value of the contribution, gaining appropriate regulatory and corporate consents, in particular the seller obtaining anti-monopoly consents.

As part of the investment agreement the seller has a duty not to sell shares in the Company acquired in the performance of this agreement for a period of 12 months after the time of their acquisition.

This investment agreement was preceded by the signing on 21 February 2008 by the Company and Mars International Worldwide Inc. of a Letter of Intent.

Additionally, in connection with the conclusion of this agreement, the Company proposed Caspian Services loans of a value of USD 10 million, which entitle the Company – or an entity nominated by the Company – to acquire newly-issued shares in Caspian Services increased share capital. The issue price of the such acquired shares shall be USD 2.75 per share in Caspian Services, which shall constitute approx. 6.7% of the current share capital.

Furthermore, the Company has initially agreed to conclude an agreement with Mars International Worldwide Inc., in accordance with which the Company shall offer Mars International Worldwide Inc. 51,371 newly-issued shares in the Company in exchange for a cash payment of an amount equal to the nominal price of the above-mentioned shares and shall make a premium payment to Mars International Worldwide Inc. of USD 3,500 thousand. In exchange, Mars International Worldwide Inc. shall provide services connected with acquiring shares in the sector or oil industry services. The payment of the premium and the issue of shares is dependent on fulfilling a range of conditions.

Caspian Services is one of the leading companies in Kazakhstan providing services to prospecting and extraction companies operating in the Caspian Sea area. Caspian Services customers include Saipem, AGIP and Shell. The company employs over 500 staff employed in three areas of business:

- offshore marine services – aimed at prospecting and extraction companies operating in the Caspian Sea including the transport of passengers and goods as well as seismic research at sea;
- onshore seismic services (including 2D and 3D surveys);
- development of infrastructure of a sea port capable of servicing a fleet providing services to oil and gas prospecting and development companies in the Caspian Sea.

Caspian Services is listed on the OTC market in the United States. Its consolidated income for the 2007 fiscal year was USD 64.8 million (an increase of 51% in relation to 2006), EBITDA – USD 21 million (with an EBITDA margin of 32.4%), EBIT USD 14.9 million compared to USD 1.6 million in 2006.

#### **3.2.4. Financial area**

Information about credit agreement concluded in 2007 between the Company, PKO BP S.A. and BGK, granting financing of 300,000 thousand PLN were described in detail in note 30 of the Financial Report for the year ended 31 December 2007.

#### **3.2.5. Capital area**

The Company, in the scope covered by this Report, made two rights issues for 587,002 series B and C shares. The aim of the issues was to finance prospecting and extraction projects. The total gross value of the funds raised from the issues was PLN 133,249 thousand. Details regarding how the funds from the issues are being used is given in point 6.5. of this report.

##### **Issue of B-series shares**

13 June 2007	The Polish Financial Supervision Authority approved the PETROLINVEST S.A. Issue Prospectus published in connection with the public offer of 528,600 B-series shares.
3 July 2007	Establishment of the issue price of B-series shares at PLN 227.
6 July 2007	The Management Board of the Company passed a ruling about the allocation of B series shares for public issue.
16 July 2007	Debut of the Company’s B-series shares on the Warsaw Stock Exchange.
9 August 2007	Registration of the increase in the share capital in connection with the issue B-series shares.
23 August 2007	Registration of B-series shares in the National Depository for Securities (KDPW) as well as the first quotations of the shares on the Warsaw Stock Exchange.

##### **Issue of C-series**

10 July 2007	The Management Board of the Company passed a ruling about the issue of 58,402 C-series shares, as part of target capital aimed at members of the Company's authorities as well as selected Company employees and employees of Prospecting and Extraction Companies. These shares were acquired by 16 people. The issue price was fixed at PLN 227 per share.
9 August 2007	Registration of the increase in the share capital in connection with the issue C-series shares.
5 September 2007	Registration of C-series shares in the National Depository for Securities (KDPW).
5 September 2007	Introduction of C-series shares to public trading on the primary market.

**Events occurring after the end of the reporting period**

19 February 2008	Submission to the Polish Financial Supervision Authority of an application for the approval of the Company Registration Document.
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**Issue of D-series shares**

5 March 2008	The Management Board of the Company passed a ruling about the increase by an amount not higher than PLN 2,904,740 of the Company's share capital as part of the target capital – by the issue of not more than 290,474 ordinary shares for the bearer of D-series of a nominal value of PLN 10 and regarding the exclusion of current shareholders in the allocation. The D-series shares were offered as part of a public offer aimed at qualified investors.
7 March 2008	Ending of the offer for D-series shares. 290,474 D-series shares were acquired as part of the offer at an issue price of PLN 275 per share. As a result of the offer, the Company obtained gross funds of PLN 79,880.4 thousand. The shares were bought by 22 people.
25 March 2008	A decision of the National Depository for Securities about the acceptance into the National Depository for Securities of D-series shares as well as issuing them the code PLPTRLI00018, under the condition of entering the increased share capital due to the issue of D-series shares into the commercial register on the condition that the company operating the regulated market takes a decision about entering the D-series shares into public trading in the same regulated market as other shares in the Company given the code PLPTRLI00018.

**3.3. MAJOR FACTORS FOR THE DEVELOPMENT OF PETROLINVEST GROUP**

The development of PETROLINVEST Group is dependent on a range of internal and external factors, among which those that deserve special attention are:

**External factors**

- The discovery of oil deposits in areas covered by concessions, as well as their parameters, in particular the size of deposits, the productivity of individual boreholes and the quality of the oil found in the deposits,
- The price of oil in global markets and level of demand,
- The economic policy of countries in which the Group operates, in particular regarding taxes and duties,
- Exchange rates,
- The level of competition in the prospecting sector in Kazakhstan and Russia.

**Internal factors**

- The level of competency of the teams carrying out prospecting and extraction works as well as that of management,
- The correct employment structure, ensuring that the requirements of complicated technical processes are met as part of the oil prospecting process,
- The financial condition of the Group and the ability to obtain financing for investment.

Furthermore, taking into account the Group's strategy to supplement the investment portfolio with companies from the prospecting and extraction sector as well as companies that provide services to the sector, it cannot be ruled out that a factor in the Group's development in the coming months will also be the quality and effectiveness of assets that are acquired as part of this strategy. The Management Board of the Company will apply the highest standards in preparing to make decisions about eventual acquisitions, and shall be guided by expertise in the areas of geology, law and finance prepared by renowned specialist companies.

It should be underlined that PETROLINVEST Group receives know-how and financial support from Prokom Group, and is also able to take advantage of the considerable experience of a team of key managers and employees, who in the opinion of the Management Board constitute a guarantee of professionalism in the correct and effective management of prospecting and extraction process.

**3.4. DEVELOPMENT PROSPECTS**

The development prospects of PETROLINVEST Group are connected directly the success of the acquisition strategy, an undertaking that envisages the separation of the LPG business from the current structure of the Company, as well as depending on the pace and results of the prospecting work in the area of concessions owned by PETROLINVEST Group companies.

Achieving the first effects of the discovery of oil, i.e. the formal registration of resources possessed, will allow financing to be obtained for further development work thanks to stable cash flow. The chances of achieving the aims set by the Company were confirmed by the results of the report prepared by the independent expert McDaniel & Associates Consultants regarding contracts and licenses belonging to the Company.

Progress in the strategy to develop the Group's investment is proved by the investment agreements signed by the Company in January and March 2008, i.e. in the period covered by this report.

The signing of investment agreements for the purchase of stocks/shares in TOO EMBA JUG NIEFT, Occidental Resources Inc. and Capital Energy S.A. constitute a further step in realising the Company's strategy to consolidate its operations in Kazakhstan around deposits with the highest potential.

The Company's Management Board believes that the transactions envisaged in the signed agreements will result in:

- an increase in the prospective resources of the Petrolinvest Group by over 150 per cent and a significant increase in oil extraction already in 2008;
- increased shareholding of Petrolinvest S.A. in TOO EmbaJugNieft and Occidental Resources, Inc., which will provide full control over revenues generated by those companies and their resources without increasing investment commitments;
- simplified and more effective management and cash flow structures within Petrolinvest Group, in the first instance in the area of dividend payments and loan repayments made by Occidental Resources Inc., TOO EmbaJugNieft and Capital Energy S.A.;
- closer cooperation with the local business partners in respect of the joint investments in TOO EmbaJugNieft and Occidental Resources, Inc.;
- obtaining the attractive geological potential of Capital Energy Group companies with relatively insignificant obligatory investment programs to be implemented.

Moreover, the new significant shareholders will strengthen Petrolinvest Group's capabilities and potential for expansion in international markets and the Company's position in Kazakhstan.

The conclusion of investment agreements for the purchase of shares in Kazakhstancaspishelf JSC and in Caspian Services Inc., constitutes a strategic strengthening of PETROLINVEST Group by adding a strong service segment to the portfolio of prospecting and extraction companies. The Management Board of the Company believes that the performance of transactions that have already been signed will mean for the Company:

- acquiring companies that generate stable, positive cash flow and offer very promising growth prospects without the necessity of the Company engaging additional funds,
- PETROLINVEST Group acquiring companies that operate in the huge and dynamically growing market for servicing oil prospecting and extraction companies in the Caspian Sea region,
- the chance to benefit from synergy effects between Kazakhstancaspishelf and Caspian Services in all areas of services provided to the oil industry, as well as in functioning costs,
- the opportunity to gain orders as well as take advantage of the strong, business relations built up by the companies acquired with large international corporations, the state company KazMunaiGaz and Russian corporations,
- acquiring an experienced management team, and also – particularly in the case of Caspian Services, which is a public registered company in the United States – a group of unusually high transparency and corporate culture.
- The opportunity to expand PETROLINVEST Group's activities into drilling services, which up to now have not been provided by purchased companies.

The performance of resolutions from the Letter of Intent signed with the company T.B.S. Enterprises – Limited Partnership, the subject of which is a joint venture as part of which the Company shall transfer its LPG business to TPG GAZ S.A.:

- will lead to a significant increase in the scale of PETROLINVEST Group's LPG activities in Poland and throughout the whole of Central and Eastern Europe,
- will make possible the dynamic development of the distribution network based on high and stable deliveries from all directions from which deliveries of LPG will be made to Poland, both on the basis of currently owned assets and assets arising from acquisitions,
- will increase shareholder value for PETROLINVEST Group shareholders in a significant way by significantly increasing the scale of gas sales as well as increasing the margin connected with cooperation with a leading Russian LPG gas producer.

### **3.5. ASSESSMENT OF THE CHANCES OF ACHIEVING THE INVESTMENT OBJECTIVES, INCLUDING CAPITAL INVESTMENTS IN COMPARISON TO THE SIZE OF FUNDS POSSESSED**

The funds possessed by PETROLINVEST S.A., including those from the recent issue of D-series shares, signed credit agreements and a support agreement signed with Prokom Investments S.A., secure planned outlays connected with carrying out the investment tasks and capital investments in the near future. Furthermore, the Company does not rule out the issue of shares, bonds or convertible bonds in the near future in order to finance prospecting work and the acquisition of new companies.

#### 4. PETROLINVEST S.A. FINANCIAL SITUATION

##### 4.1. REVIEW OF BASIC FINANCIAL DATA DISCLOSED IN THE ANNUAL STAND-ALONE FINANCIAL REPORT

##### 4.1.1. Profit and loss account

In 2007, the Company achieved total revenues of PLN 250.7 million, which means a 14% increase in relation to the previous year's results. Financial revenues were the main reason behind the pace of revenue increases, which in relation to 2006 increased 7-fold, mainly the effect of positive exchange rate differences for the valuation of financial instruments on reporting day. Income from interest on loans granted showed a 32% share in financial revenues.

To a lesser extent, a 4% increase in sales of goods and services had an effect on the increase in total revenues.

The Company finished 2007 with a net loss of PLN 17 million (unprofitability of 6.8%) compared to a net loss in 2006 of PLN 20.5 million (unprofitability of 9.3%).

Losses from sales is the main element that can be noticed in the Company's negative financial result for 2007 (unprofitability of 5.4%), which results mainly from high costs connected with the floatation of the Company on Warsaw Stock Exchange as well as managing prospecting of extraction projects. The Company's LPG sales achieved a profit of PLN 5.6 million compared to a profit of PLN 11.8 million in 2006.

A negative balance from financial activities also had a negative impact on the financial result, which despite high financial revenues amounted to – PLN 3.2 million. The loss on financial activities was caused by share purchases.

The deepening of unprofitability in 2007 at a net level in relation to the gross result was caused by calculating deferred tax from temporary exchange rate differences.

Selected data from the profit and loss account	PLN '000	PLN '000	Change %
	31 December 2007	31 December 2006	
Income from sales	221 311	213 516	103.7%
Operating costs	233 261	212 015	110.0%
<b>Profit (loss) from sales</b>	<b>-11 950</b>	<b>1 501</b>	
<i>Profitability from sales</i>	<i>-5.4%</i>	<i>0.7%</i>	
Remaining operating income	1 636	1 377	118.8%
Remaining operating costs	243	962	25.3%
<b>Profit (loss) from operations</b>	<b>-10 557</b>	<b>1 916</b>	
<i>Profitability from operations</i>	<i>-4.7%</i>	<i>0.9%</i>	
Financial revenues	27 771	4 077	681.2%
Financial costs	30 963	26 730	115.8%
Impairment charges	0	0	
<b>Profit (loss) gross</b>	<b>-13 749</b>	<b>-20 737</b>	66.3%
<i>Profitability from operations gross</i>	<i>-5.5%</i>	<i>-9.5%</i>	
<b>Profit (loss) net</b>	<b>-17 027</b>	<b>-20 466</b>	83.2%
<i>Profitability from operations net</i>	<i>-6.8%</i>	<i>-9.3%</i>	

In 2007, there were no extraordinary events that had an effect on the financial result achieved by the Company. All events were connected to the nature of the business.

##### 4.1.2. Balance sheet

As of 31 December 2007, the Company's net balance was PLN 932.3 million, which represents a 27% increase in relation to the end of 2006. The increase in the balance was achieved mainly as a result of prospecting and extraction projects – in comparison with 31 December 2006 fixed assets increased by 24%, and their share in total assets was 90%.

The largest element in the Company's assets in 2007 – as in the previous year – was financial assets, which increased in relation to 2006 by PLN 149.8 million (achieving an 84% share of the balance). The 24% increase in this position was achieved mainly as a result of the purchase and acquisition of shares in the companies OOO NIEFTIEGOSERWIS, TOO COMPANY PROFIT, TOO EMBA JUG NIEFT and ZAO Peczora-Petroleum. The total value of the shares as at 31 December 2007 was PLN 619 million. Besides shares, long-term loans also contribute to the size of financial assets, which at the end of the period accounted for PLN 165.1 million.

Property plant and equipment (5%) are an important element of the Company's assets as regards gas related activities, covering mainly the value of buildings and structures in gas bottling plants as well as fixed assets connected to the construction of the LPG marine terminal in Gdynia. The amount of property plant and equipment in 2007 increased by 20% as a result of the "LPG Marine Terminal Expansion" investment.

The Company's current assets increased in 2007 by 63% to reach a level of PLN 93 million. This increase was caused by a 162% increase in the amount of loans granted to related companies for which the contractual repayment date is shorter than 12 months (in the position – short-term investments).

ASSETS	PLN '000		PLN '000		Change %
	31 December 2007	Structure %	31 December 2006	Structure %	
<b>Non-current assets (long-term)</b>	<b>839 260</b>	90.0%	<b>677 277</b>	92.2%	123.9%
Property plant and equipment	45 227	4.9%	37 682	5.1%	120.0%
Investment properties	2 567	0.3%	2 232	0.3%	115.0%
Intangible assets	209	0.0%	35	0.0%	597.1%
Financial assets	784 561	84.2%	634 787	86.4%	123.6%
Deferred tax	6 696	0.7%	2 541	0.3%	263.5%
<b>Current assets (short-term)</b>	<b>93 021</b>	10.0%	<b>57 057</b>	7.8%	163.0%
Inventories	7 869	0.8%	5 021	0.7%	156.7%
Trade and other receivables	14 318	1.5%	16 183	2.2%	88.5%
Current investments	1 338	0.1%	6 758	0.9%	19.8%
Short-term investments	62 705	6.7%	23 873	3.3%	262.7%
Cash and cash equivalents	6 764	0.7%	5 222	0.7%	129.5%
Income tax overpayment	27	0.0%	0	0.0%	-
<b>TOTAL ASSETS</b>	<b>932 281</b>	<b>100.0%</b>	<b>734 334</b>	<b>100.0%</b>	<b>127.0%</b>

The amount of the Company's shareholder equity as of 31 December 2007 was PLN 417.8 million. This 33% increase in shareholder equity over 2006 was achieved mainly by the Company's issue of B and C-series shares in July 2007, which increased capital by PLN 119.5 million. The net loss for 2007 had a negative effect on shareholder equity, causing a 2-fold increase in the negative retained earnings compared to the year before.

Despite the sharp increase in shareholder equity, the indicator for the coverage of assets with shareholder equity only improved slightly from 43% to 45%, which is explained by the adoption by PETROLINVEST Group of a policy for financing prospecting and extraction investments that also includes external sources, i.e. bank credits and loans from the main shareholder - Prokom Investments S.A. As a result, the Company's long-term liabilities from bank credits and loans grew 3-fold in 2007 to PLN 382.4 million, constituting 41% of financing sources (at the end of 2006 – 16%), of which almost half (48%) are liabilities to the main shareholder.

Long-term liabilities, besides interest liabilities, are comprised of undue liabilities towards a previous shareholder of Siewiergeofizyka and Peczoza-Petroleum for the payment of an additional consideration if reserves are discovered and confirmed. The total value of remaining long-term liabilities increased in 2007 by 120%, constituting 4% of the Company's liabilities.

Reserve for deferred tax also recorded a high increase in long-term liabilities. The occurrence of positive, temporary differences in the valuation of receivables and liabilities was the main reason for the 2-fold increase.

As a result of the events described above, the scale of financing by long-term liabilities reached a level of 46% compared to 19% recorded at the end of 2006, which taking into account the amount of engaged equity shows an improvement in the stability of the source of financing – stable capital (i.e. shareholder equity and long-term liabilities) financed, as of 31 December 2007, 91% of the Company's assets.

Short-term liabilities at the end of 2007 amounted to PLN 87.2 million, financing 9% of the Company's assets. The payment of liabilities resulting from the acquisition of a holding in the increased capital of Occidental Resources caused the 69% fall in this position.

The Company's debt to equity ratio with interest debt reached a level of 94% compared to 41% recorded at the end of 2006. The total amount of liabilities exceeded the amount of engaged shareholder equity by 23% (in 2006 this was 33%), while the significant scale of financing in the form of loans provided by the main shareholder (PLN 191.4 million) (which due the subordination of the loans to PKO BP are treated by the Management Board as equivalent to shareholder equity) should have an effect on the assessment of financial stability.

LIABILITIES	PLN '000		PLN '000		Change %
	31 December 2007	Structure %	31 December 2006	Structure %	
<b>Total equity</b>	<b>417 770</b>	44.8%	<b>315 341</b>	42.9%	132.5%
Issued capital	58 730	6.3%	52 860	7.2%	111.1%
Other reserves	391 286	42.0%	277 700	37.8%	140.9%
Retained earnings	-32 246	-3.5%	-15 219	-2.1%	211.9%
<b>Long-term liabilities</b>	<b>427 302</b>	45.8%	<b>135 541</b>	18.5%	315.3%

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Interest-bearing loans and borrowings	382 387	41.0%	115 963	15.8%	329.7%
Non-current provisions	337	0.0%	260	0.0%	129.6%
Deferred income tax liabilities	11 553	1.2%	4 120	0.6%	280.4%
Finance lease liabilities	245	0.0%	314	0.0%	78.0%
Other non-current liabilities	32 780	3.5%	14 884	2.0%	220.2%
<b>Current liabilities</b>	<b>87 209</b>	<b>9.4%</b>	<b>283 452</b>	<b>38.6%</b>	<b>30.8%</b>
Trade and other payables	73 960	7.9%	267 849	36.5%	27.6%
Financial lease liabilities	170	0.0%	239	0.0%	71.1%
Interest-bearing loans and liabilities	11 553	1.2%	13 985	1.9%	82.6%
Current provisions	0	0.0%	473	0.1%	0.0%
Income tax liabilities	0	0.0%	0	0.0%	-
Accruals	1 526	0.2%	906	0.1%	168.4%
<b>Total payables</b>	<b>514 511</b>	<b>55.2%</b>	<b>418 993</b>	<b>57.1%</b>	<b>122.8%</b>
<b>TOTAL LIABILITIES</b>	<b>932 281</b>	<b>100%</b>	<b>734 334</b>	<b>100%</b>	<b>127%</b>
	31		31		
	December		December		
	2007		2006		
<b>Capital Group debt ratios</b>					
equity to asset coverage ratio		44.8%		42.9%	
equity to debt ratio		123.2%		132.9%	
equity to debt ratio with interest debt		94.3%		41.2%	

#### 4.1.3. Cash flow

The cash flow position as shown in the Company's cash flow statement on 31 December 2007 was PLN 6.7 million, an increase on from the start of the financial year of PLN 12.4 million.

Net cash flow from operations ended in 2007 with a negative balance of PLN 9.7 million. The high costs related to the Company's debut on the Warsaw Stock Exchange and the management of prospecting and extraction projects, which are not generating income at their current stage of development, accounted for this level of cash balance.

Cash flow from investments in 2007 were negative and amounted to PLN 380 million. This negative cash balance from investments was caused mainly by expenditure on dependent and jointly-controlled units amounting to PLN 248.3 million as well as loans of PLN 122 million.

The negative net cash flow from operations and investments were covered by cash flows from financial activities. This positive balance from financial activities was due to the increase in shareholder equity of PLN 119.5 million as well as loans and credits worth PLN 295.7 million.

Cash flow	PLN '000	PLN '000
	12 months 2007	12 months 2006
Net cash flow from operations	- 9 732	5 663
Net cash flow from investments	- 380 020	- 443 735
Net cash flow from financial activities	402 143	441 337
Net cash flow	12 391	3 265

#### 4.2. FINANCIAL RESOURCE MANAGEMENT

During the period of the report PETROLINVEST Group showed that it was fully capable of fulfilling its duties towards other entities.

In 2007, PETROLINVEST Group's financial activity funded through its own funds and external debt (to a large extent through loans from the main shareholder, which due to the subordination of loans provided by the consortium comprised of PKO BP SA and BGK, the Management Board treats this as an equivalent of shareholder equity. At the end of 2007, the proportion of liabilities in on the balance sheet of PETROLINVEST Group was 65% and constituted 187% of shareholder equity. In the Company, these figures were 55% and 123% respectively.

Current financial liquidity of PETROLINVEST Group at the end of 2007 was 0.43, while in the Company this was 1.07.

In the case of the Group, the liquidity indicator does not reflect the true ability of PETROLINVEST Group to fulfill its short-term obligations. The Company has a guaranteed source of payment for its obligations in the form of a loan granted by a consortium comprised of PKO BP SA and BGK, of which the unused part as of 31 December 2007 stood at PLN 80.7 million. The Company also possesses funds raised from the sale of D-series shares in an issue from 5-7 March 2008, the net value of which is PLN 79 million. Furthermore, in connection with the credit, the Company received a contractual declaration from Prokom Investments S.A. of support and participation in financing its activities in the future.

The Company's own funds, including those raised from the issuing of shares, external financing and receipts from contracting parties allow PETROLINVEST Group to fulfill its current obligations.

The Management Board of the Company does not see any threats to PETROLINVEST Group's ability to meet its obligations.

#### 4.3. INFORMATION ABOUT CREDITS AND LAONS TAKEN AND GUARANTEES PROVIDED

In 2007, the Company concluded a credit agreement and annex regarding a renewal of credit for the next period worth a total of PLN 336 million as well as loans from the main shareholder worth PLN 71.4 million. 91% of the financing granted is intended to be used for PETROLINVEST Group's prospecting and extraction activities.

Agreements and annexes granting the Company finance in 2007:

Date	Bank	Type of finance	Amount in PLN '000	Final repayment date
21-03-2007	PKO BP S.A.	Investment credit	300 000	31-12-2012
20-06-2007	Fortis Bank Polska S.A	Short-term credit in the current account	10 000	18-06-2008
24-08-2007	BRE Bank S.A.*	Short-term credit in the current account	20 000	29-05-2008
28-09-2007	PEKAO S.A.**	Short-term credit in the current account	6 000	30-09-2008

(\*) This credit was granted in place of the finance granted by Bank Millennium S.A., amounting to PLN 16,000 thousand

(\*\*) Renewal of financing for the next 12-month period

Detailed information regarding credit agreements and loan agreements concluded in 2007 were presented in note 30 of the Financial Report for the year ended 31 December 2007.

#### 4.4. INFORMATION ABOUT LOANS AND GUARANTEES PROVIDED

In 2007, the Company concluded agreements that forwarded loans for a total value of USD 66,899.5 thousand, EUR 350 thousand and PLN 75 thousand. The majority of financing was granted to entities connected to the Company in order to carry out Prospecting and Extraction projects, which is in line with the character of the Company's business and its strategy.

The total value of loan agreements concluded in 2007 for Prospecting and Extraction Companies was USD 66,899.5 thousand. As of the day of this report, new loan agreements were concluded for a total value of USD 27.5 million. The value of loans granted to related companies is excluded from the Group's assets up to 100%. The value of loans granted to jointly-controlled companies is excluded from the Group's assets up to 50%.

	% share Presented in the Group's assets	PLN '000		PLN '000	
		from 1.01.2007 to 31.12.2007 Value	Amount disbursed	from 1.01.2008 to 07.04.2008 Value of new agreement	Amount disbursed
OOO SIEWIERGEOFIZYKA	0%	10 074.0	8 447.0	4 000.0	3 759.0
OOO NIEFTIEGEOSEWIS	0%	8 421.5	5 790.5	0.0	301.0
ZAO Peczora-Petroleum	0%	6 604.0	6 147.0	3 500.0	3 482.0
TOO EMBA JUG NIEFT	50%	25 000.0	16 492.0	20 000.0	10 508.0
TOO Company Profit	50%	16 800.0	3 350.0	0.0	850.0
<b>Total loans granted</b>		<b>66 899.5</b>	<b>40 226.5</b>	<b>27 500.0</b>	<b>18 900.0</b>

Detailed conditions of loan agreements with final payment dates were given in note 34 of the Consolidated Financial Report for the year ended 31 December 2007.

## **5. MANAGEMENT AND SUPERVISION AUTHORITIES OF PETROLINVEST GROUP**

### **5.1. CHANGES IN THE COMPOSITION OF MANAGEMENT AND SUPERVISION AUTHORITIES IN 2007**

In accordance with the Company's articles of association, the Management Board is comprised of two, three or five members, including the President of the Management Board and Vice-President of the Management Board. In the event of a two or three-member management board, Prokom Investments S.A. is entitled to appoint and dismiss the President of the Management Board, while Mr Ryszard Krauze, who is a shareholder in PETROLINVEST S.A., is entitled to appoint and dismiss the Vice-President of the Management Board. The number of members of the management board is determined by Prokom Investments S.A.

The following persons were Management Board members in 2007:

- Paweł Gricuk – President of the Management Board
- Zenon Grablewski – Vice-President of the Management Board
- Appointed on 1 August 2007 - Marcin Balicki – Member of the Management Board, supervising the Company's financial affairs.

Matters not being the exclusive competency of the General Shareholders' Meeting and the Supervisory Board are also included in the powers of the Management Board. The Company's Articles of Association state in particular that the Management Board has the power to increase the Company's share capital through new share issues in order to make one or several increases in share capital within the limits of target capital (by issuing new shares with a total nominal value of not more than PLN 39,645,000.00). The right of the Management Board to raise share capital and to issue new shares as part of target capital expires after 3 years from the date of entering the transformation of the Company to the Commercial Register.

With the consent of the Supervisory Board, the Management Board may remove shareholders' subscription rights in part or in whole as regards shares issued within the limits of target capital.

The Management Board - to the extent that the provisions of the Companies Code do not state otherwise – decides about all matters connected with increases in share capital as part of target capital (including passing resolutions regarding setting the issue price of shares as part of target capital or issuing shares in exchange for non-pecuniary contributions that require the consent of Chairman of the Supervisory Board), in particular the Management Board is authorised to:

- concluding agreements for investment underwriting or service underwriting or underwriting services that secure the success of a share issue, and also concluding agreements on the strength of which deposit receipts would be issued outside in connection with the shares,
- passing resolutions and other activities regarding the dematerialisation of shares and concluding agreements with the National Depository for Securities for the registration of shares,
- passing resolutions and other activities regarding the issue of shares via public offerings or applying for shares to be traded on regulated markets.

Subject to agreement from the Chairman of the Supervisory Board, the Management Board as part of its authority to raise share capital may issue subscription warrants with an execution date not later than the expiry date of the Management Board's authority to raise share capital.

The Supervisory Board is comprised of between five and thirteen members, including a Chairman and a Vice-Chairman. In accordance with the Articles of Association, two of the members of the Supervisory Board (including the Chairman and a Vice-Chairman) are appointed and dismissed by Prokom Investments S.A., and one of the members of the Supervisory Board is appointed and dismissed by Mr Ryszard Krauze.

In 2007, supervision of the Parent was conducted by six-member Supervisory Board comprised as follows:

- Ryszard Krauze – Chairman of the Supervisory Board
- Zbigniew Szachniewicz – Member of the Supervisory Board
- Grzegorz Maciąg – Member of the Supervisory Board
- Krzysztof Wilski – Member of the Supervisory Board
- Dariusz Górka – Member of the Supervisory Board
- Appointed on 15 February 2007 - Maciej Grelowski - Member of the Supervisory Board.

### **5.2. CHANGES IN THE RULES FOR MANAGING PETROLINVEST GROUP**

There were no significant changes in the rules for managing the company PETROLINVEST Group.

**5.3. TOTAL NUMBER AND NOMINAL VALUE OF ALL SHARES IN PETROLINVEST S.A. AS WELL AS SHAREHOLDINGS HELD BY MEMBERS OF THE MANAGEMENT AND SUPERVISORY BOARDS**

As of 31 December 2007 (the date of this report), in accordance with information in the possession of the Company, the amounts of shares held by members of the Management and Supervisory Board of PETROLINVEST S.A. are as follows:

Shareholder	Number of shares	Nominal value
<b>Supervisory Board</b>		
Ryszard Krauze	527 800	5 278 000
Dariusz Górka	1 321	13 210
Maciej Grelowski	1 321	13 210
Grzegorz Maciąg	1 321	13 210
Zbigniew Szachniewicz	1 321	13 210
Krzysztof Wilski	1 321	13 210
<b>Management Board</b>		
Paweł Gricuk	24 317	243 170
Zenon Grablewski	12 159	121 590
Marcin Balicki	1 216	12 160

In accordance with information in the possession of the Company, Management and Supervisory Board did not own as of 31 December 2007 shares in PETROLINVEST Group companies.

**5.4. CONTROL SYSTEM FOR EMPLOYEE SHARE PROGRAMS**

In PETROLINVEST Group in 2007, no employee share programs or systems for their control were functioning.

**5.5. AGREEMENTS CONCLUDED BETWEEN PETROLINVEST S.A. AND MANAGERS REGARDING COMPENSATION IN THE EVENT OF THEIR RESIGNATION OR DISMISSAL WITHOUT GOOD CAUSE**

During the period of this report, there were no agreements concluded between the Company and managers regarding compensation in the event of their resignation or dismissal without good cause.

**5.6. VALUE OF REMUNERATION, AWARDS OR BENEFITS DUE OR POTENTIALLY DUE TO MEMBERS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD**

The value of remuneration for members of the Management Board AND Supervisory Board of PETROLINVEST S.A. were described in additional explanatory notes to the financial report for 2007 (note 36.2).

## 6. MAIN SHAREHOLDERS AND SHARE CAPITAL

### 6.1. SHAREHOLDERS OWNING, DIRECTLY OR INDIRECTLY THROUGH DEPENDENT COMPANIES, AT LEAST 5% OF THE TOTAL NUMBER OF VOTES AT THE GENERAL SHAREHOLDERS' MEETING OF PETROLINVEST S.A.

As of 31 December 2007, the main shareholders were as follows:

Shareholder	No. of shares	Proportion of share capital	No. of votes	Share in the number of votes at AGM
Ryszard Krauze	527 800	8.99%	527 800	8.99%
Prokom Investments S.A.	2 336 000	39.78%	2 336 000	39.78%
NIHONSWI AG	1 216 250	20.71%	1 216 250	20.71%
Transcontinental Fund Limited	792 900	13.50%	792 900	13.50%
Remaining shareholders	1 000 052	17.02%	1 000 052	17.02%
<b>TOTAL</b>	<b>5 873 002</b>	<b>100.00%</b>	<b>5 873 002</b>	<b>100.00%</b>

As of the day of this Report, in connection with the acquisition on 7 March 2008 of D-series ordinary shares, after registering the increase in capital, there was a change in the shareholder structure and the number of votes at the AGM, which according to the Company's information is as now as follows:

Shareholder	No. of shares	Proportion of share capital	No. of votes	Share in the number of votes at AGM
Ryszard Krauze	527 800	8.56%	527 800	8.56%
Prokom Investments S.A.	2 487 144	40.35%	2 487 144	40.35%
NIHONSWI AG	1 216 250	19.73%	1 216 250	19.73%
Transcontinental Fund Limited	792 900	12.86%	792 900	12.86%
Remaining shareholders	1 139 382	18.49%	1 139 382	18.50%
<b>TOTAL</b>	<b>6 163 476</b>	<b>100.00%</b>	<b>6 163 476</b>	<b>100.00%</b>

After registering the increase in capital arising from the issue of D-series shares, the Company's share capital increased by PLN 2,904,740 and is now PLN 61,634,760, and is comprised as follows:

Series	No. of shares	Nominal value in PLN	Value of share capital
A-series bearer shares	5 286 000	10	52 860 000
B-series bearer shares	528 600	10	5 286 000
C-series bearer shares	58 402	10	584 020
D-series bearer shares	290 474	10	2 904 740
<b>Total</b>	<b>6 163 476</b>		<b>61 634 760</b>

As of the day of this Report, the increase in share capital has not been registered.

### 6.2. AGREEMENTS AS A RESULT OF WHICH CHANGES MAY OCCUR IN THE FUTURE IN THE PROPORTION OF SHARES OWNED BY CURRENT SHAREHOLDERS AND BOND HOLDERS

According to information in the possession of the Management Board of the Company, no agreements have been concluded that would result in changes to the proportion of shares held by current shareholders and bond holders.

### 6.3. HOLDERS OF SECURITIES THAT GIVE SPECIAL CONTROLLING RIGHTS IN RELATION TO THE ISSUER, WITH A DESCRIPTION OF THE RIGHTS

In accordance with the Company's Articles of Association, in the event of a two or three-person management board, Prokom Investments S.A. holds the right to appoint and dismiss the President of the Management Board, while Mr Ryszard Krauze, who is a shareholder in PETROLINVEST S.A., has the right to appoint and dismiss the Vice-President of the Management Board. The number of management board members is determined by Prokom Investments S.A. In accordance with the Articles of Association, two members of the supervisory board (including the Chairman and the Vice-Chairman) are appointed and dismissed by Prokom Investments S.A., and one member of the supervisory board is appointed and dismissed by Mr Ryszard Krauze.

### 6.4. LIMITATIONS REGARDING THE TRANSFER OF OWNERSHIP RIGHTS OF THE ISSUER'S SECURITIES AS WELL AS ALL LIMITATIONS IN EXERCISING VOTING RIGHTS CONNECTED TO THE ISSUER'S SHARES

According to the Management Board's information, there are no limitations regarding the transfer of ownership rights of the issuer's securities or limitations regarding the exercising of voting rights connected to the issuer's shares.

**6.5. DESCRIPTION OF HOW THE ISSUER SHALL USE THE FUNDS RAISED FROM ISSUES MADE DURING THE PERIOD OF THIS REPORT**

At the beginning of the third quarter 2007, the Company carried out a public issue of B-series shares, which ended with a share allocation made on the basis of a resolution by the Company Management Board on 6 July 2007. As part of the public offer, the Company issued 528,600 shares offered to institutional investors (396,450 shares) and individuals (132,150 shares). The reduction rate for subscriptions in the tranche for individual investors was 90.9972%. The value of subscriptions was PLN 119,992,200 while the cost of the issue was PLN 13,793,304.66, or PLN 26.09 for each share issued.

In the third quarter 2007, the Company, on the basis of a resolution passed by the Company's Management Board on 10 July 2007, carried out a private issue of 58,402 C-series shares for members of the Company's authorities as well as employees of Prospecting and Extraction Companies that were indicated by the Company's Management Board. The C-series shares remained as registered shares until their unconditional admittance to trade of A-series and B-series shares. The value of funds raised from this issue was PLN 13,257,254.

Funds from the issue of B-series and C-series ordinary shares as of the day of this Report have been used as follows:

<b>Intention</b>	<i>PLN '000</i> <b>Value</b>
Financing prospecting and extraction projects	
TOO EMBA JUG NIEFT	8 788
TOO COMPANY PROFIT	5 603
OOO SIEWIERGEOFIZYKA	13 362
OOO NIEFTIEGEOSEWIS	1 557
CJSC PECZORA PETROLEUM	14 700
Paying up shares in increased capital of Occidental Resources, Inc	55 488
Purchase of shares in OOO NIEFTIEGEOSEWIS	10 988
Costs borne in connection with involvement in prospecting and extraction projects (legal and advisory services, etc.)	7 829
Costs of share issues	13 793
<b>Total of used funds</b>	<b>132 108</b>
Amount not used	1 141

**7. OTHER INFORMATION**

**7.1. TRANSACTIONS OF THE PARENT WITH CONNECTED ENTITIES IF THE SINGLE OR JOINT VALUE OF TRANSACTIONS CONCLUDED BY A GIVEN CONNECTED ENTITY IN 2007 EXCEEDS A VALUE IN POLISH ZLOTY EQUAL TO EUR 500,000**

Agreements concluded by the Company with connected entities of a joint value exceeding EUR 500 thousand were described in detail in note 36.3 of the Financial Report for the year ended 31 December 2007.

**7.2. DESCRIPTION OF OFF-BALANCE SHEET ITEMS IN SUBJECTIVE, OBJECTIVE AND VALUE TERMS**

As of 31 December 2007, PETROLINVEST Group possessed the following significant conditional liabilities:

Entity	Subject	Value
PETROLINVEST S.A.	Blank bill of exchange submitted in the Customs Office in Gdynia as excise security for transferring goods in excise duty suspension procedure.	2 850 000 PLN
TOO OilTechnoGroup	Two bank guarantees given by AO HSBC Bank Kazachstan, constituting a guarantee for the performance of an agreement between OilTechnoGroup and Saipem S.p.A. The guarantees are valid up to 31 December 2008. The company established a conditional deposit as security for eventual liabilities to the bank.	3 885 000 USD

**7.3. EXPLANATIONS REGARDING THE DIFFERENCE BETWEEN FINANCIAL RESULTS AND EARLIER PUBLISHED FORECASTS FOR 2007 RESULTS**

PETROLINVEST Group did not publish forecasts regarding 2007 results.

In regard to the results published in the consolidated report for the fourth quarter 2007, the net financial result of PETROLINVEST S.A. changed by PLN 14.5 million. This change in large measure concerned discounts on share purchase liability. The Company also made write-offs of liabilities on loans forwarded.

**7.4. INFORMATION ABOUT THE ENTITY AUTHORISED REVIEW FINANCIAL REPORTS**

Review of the PETROLINVEST S.A. financial report and the consolidated financial report of PETROLINVEST Group for 2006 and 2007 was carried out by Ernst & Young Audit Spółka z o.o. on the basis of agreements concluded on 1 December 2006 and 30 July 2007 respectively.

The total amount of remuneration resulting from agreements with the entity authorised to review financial reports either due or paid for the review of financial reports and for other services is presented below.

Title	PLN '000	
	2007	2006
Examination of stand-alone and consolidated financial reports	820.0	390.4
Review of stand-alone and consolidated financial reports	410.0	0.0
Other services	175.7	654.5
<b>Total</b>	<b>1 405.7</b>	<b>1 044.9</b>

**8. MANAGEMENT BOARD DECLARATION**

The Management Board of PETROLINVEST S.A. declares that to the best of its knowledge the annual consolidated financial report and comparable data were prepared in accordance with current accounting rules, reflect is a true, reliable and clear way the material and financial situation of PETROLINVEST S.A. and its financial results and declare that the annual management board reports contain a true picture of the development and achievements as well as the situation of PETROLINVEST S.A., including a description of risks and threats.

The Management Board of PETROLINVEST S.A. declares that the entity authorised to examine the financial reports and review the annual consolidated financial report was selected in accordance with the provisions law and that that entity and the auditors performing the examinations fulfilled the conditions to issue an impartial and independent opinion from the examinations in accordance with appropriate provisions of domestic law.

Paweł Gricuk  
President of the Management Board

Zenon Grablewski  
Vice-President of the Management Board

Marcin Balicki  
Member of the Management Board

Gdynia, 7 April 2008