



Petrolinvest

PETROLINVEST GROUP

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR 6 MONTHS ENDED 30 JUNE 2008
WITH THE INDEPENDENT AUDITOR'S REVIEW REPORT**

APPROVAL OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR 6 MONTHS ENDED 30 JUNE 2008

The Management Board of PETROLINVEST S.A. has approved the interim consolidated financial statements of PETROLINVEST Group for 6 months ended 30 June 2008 for publication.

The interim consolidated income statement, interim consolidated balance sheet, interim consolidated cash flow statement, interim consolidated statement of changes in equity and 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. Interim Consolidated Income Statement for the period: from 1 January 2008 to 30 June 2008	3
with a net profit amounting to	2 945 PLN thousand
2. Interim Consolidated Balance Sheet as at: 30 June 2008	4
with total assets and liabilities amounting to	1 053 056 PLN thousand
3. Interim Consolidated Cash Flow Statement for the period: from 1 January 2008 to 30 June 2008	5
with a net cash outflow amounting to	(16 289) PLN thousand
4. Interim Consolidated Statement of Changes in Equity for the period: from 1 January 2008 to 30 June 2008	6
with a decrease in equity amounting to	(26 949) PLN thousand
5. Accounting principles and notes to the financial statements	7

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

Paweł Gricuk
President

Zenon Grablewski
Vice President

Marcin Balicki
Board Member

Gdynia, 29 September 2008

INTERIM CONSOLIDATED INCOME STATEMENT	3
INTERIM CONSOLIDATED BALANCE SHEET	4
INTERIM CONSOLIDATED CASH FLOW STATEMENT	5
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	6
ACCOUNTING POLICIES AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	7
1. CORPORATE INFORMATION	7
2. GOING CONCERN	7
3. COMPOSITION OF THE GROUP	8
4. COMPOSITION OF THE MANAGEMENT BOARD OF THE PARENT ENTITY	10
5. APPROVAL OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS	10
6. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES	10
6.1. JUDGEMENTS	10
6.2. ESTIMATION UNCERTAINTY	11
7. BASIS OF PREPARATION	12
7.1. STATEMENT OF COMPLIANCE	13
7.2. FUNCTIONAL CURRENCY AND PRESENTATION CURRENCY	14
8. CHANGES IN ACCOUNTING POLICIES	14
9. IFRS AND IFRIC INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE	14
10. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	15
10.1. BASIS OF CONSOLIDATION	15
10.2. INTERESTS IN JOINT VENTURES	15
10.3. MINORITY INTEREST	15
10.4. FOREIGN CURRENCY TRANSLATION	15
10.5. PROPERTY, PLANT AND EQUIPMENT	16
10.6. LEASES	17
10.7. IMPAIRMENT OF NON-FINANCIAL ASSETS	17
10.8. BORROWING COSTS	17
10.9. INVESTMENT PROPERTY	17
10.10. INTANGIBLE ASSETS	17
10.10.1 <i>Goodwill</i>	18
10.11. EXPENDITURE ON EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES	18
10.11.1 <i>Concessions</i>	19
10.12. FINANCIAL ASSETS	19
10.13. IMPAIRMENT OF FINANCIAL ASSETS	19
10.13.1 <i>Assets carried at amortised cost</i>	19
10.13.2 <i>Financial assets carried at cost</i>	20
10.13.3 <i>Available-for-sale financial assets</i>	20
10.14. DERIVATIVE FINANCIAL INSTRUMENTS	20
10.15. INVENTORIES	20
10.15.1 <i>Obligatory stocks of liquid fuels</i>	20
10.16. TRADE RECEIVABLES	21
10.17. CASH AND CASH EQUIVALENTS	21
10.18. INTEREST-BEARING LOANS AND BORROWINGS	21
10.19. TRADE AND OTHER PAYABLES	21
10.20. PROVISIONS	21
10.21. RETIREMENT BENEFITS	21
10.22. REVENUE	21
10.22.1 <i>Sale of goods</i>	21
10.22.2 <i>Rendering of services</i>	22
10.22.3 <i>Interest</i>	22
10.22.4 <i>Dividends</i>	22
10.22.5 <i>Rental income</i>	22
10.22.6 <i>Government grants</i>	22
10.23. TAXES	22
10.23.1 <i>Current income tax</i>	22
10.23.2 <i>Deferred tax</i>	22
10.23.3 <i>Value Added Tax</i>	23
10.24. NET EARNINGS PER SHARE	23
10.25. EMPLOYEE BENEFITS SCHEMES	23
10.26. SHARE-BASED PAYMENT TRANSACTIONS	23
10.26.1 <i>Equity-settled transactions</i>	23
11. SEGMENT AND SEASONALITY INFORMATION	24
11.1. SEASONALITY	24
11.2. SEGMENT INFORMATION	24
12. REVENUES AND EXPENSES	25
12.1. FINANCE INCOME	25

12.2.	FINANCE COSTS	26
12.3.	EMPLOYEE BENEFITS EXPENSE	26
12.4.	EXTERNAL SERVICES EXPENSE	26
13.	INCOME TAX	26
13.1.	DEFERRED INCOME TAX	28
14.	EARNINGS PER SHARE	28
15.	EXPENDITURE ON EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES.....	29
15.1.	CONCESSIONS	30
16.	PROPERTY, PLANT AND EQUIPMENT	33
17.	LEASE COMMITMENTS	36
17.1.	FINANCE LEASE AND HIRE PURCHASE COMMITMENTS	36
17.2.	OPERATING LEASE	36
18.	INVESTMENT PROPERTY.....	37
19.	INTANGIBLE ASSETS	37
20.	ACQUISITIONS OF BUSINESSES AND SHARES IN JOINTLY-CONTROLLED ENTITIES.....	38
21.	INTEREST IN JOINT VENTURE.....	42
22.	OTHER FINANCIAL ASSETS	43
23.	EMPLOYEE BENEFITS	46
23.1.	EMPLOYEE SHARE INCENTIVE PLAN	46
23.2.	PENSIONS AND OTHER POST-EMPLOYMENT BENEFIT PLANS	47
24.	INVENTORIES	47
25.	TRADE RECEIVABLES, RECEIVABLES FROM PUBLIC AUTHORITIES AND OTHER SHORT- AND LONG-TERM RECEIVABLES	48
26.	CASH AND LONG-TERM DEPOSITS	48
27.	ISSUED CAPITAL AND RESERVES	49
27.1.	SHARE CAPITAL.....	49
27.1.1	<i>Nominal value of shares</i>	50
27.1.2	<i>Shareholders rights</i>	50
27.2.	OTHER RESERVE CAPITAL	50
27.3.	FOREIGN CURRENCY TRANSLATION	51
27.4.	DIVIDENDS PAID AND DECLARED	51
27.5.	MINORITY INTEREST	51
28.	INTEREST-BEARING LOANS AND BORROWINGS.....	51
29.	PROVISIONS.....	56
30.	TRADE AND OTHER PAYABLES (CURRENT AND NON-CURRENT).....	56
31.	PREPAYMENTS AND ACCRUALS.....	57
32.	CONTINGENT ASSETS AND LIABILITIES.....	57
32.1.	CAPITAL COMMITMENTS	58
32.2.	COURT PROCEEDINGS.....	59
32.3.	TAX SETTLEMENTS	59
32.3.1	<i>Kazakhstan</i>	59
32.3.2	<i>Russia</i>	60
33.	CHANGES IN WORKING CAPITAL, INFLOWS AND OUTFLOWS IN THE CASH FLOW STATEMENT	61
33.1.	REASONS BEHIND DIFFERENCES IN THE BALANCE SHEET CHANGES IN WORKING CAPITAL AND THE CHANGES IN OPERATING ACTIVITIES IN THE CASH FLOW STATEMENT.....	61
33.2.	INFLOWS AND OUTFLOWS OF FINANCING ACTIVITIES	62
33.3.	INFLOWS AND OUTFLOWS OF INVESTING ACTIVITIES.....	62
34.	RELATED PARTY DISCLOSURES.....	63
34.1.	ENTITY WITH SIGNIFICANT INFLUENCE OVER THE GROUP	63
34.2.	TERMS AND CONDITIONS OF TRANSACTIONS WITH RELATED PARTIES	63
34.3.	RE-MEASUREMENT OF RELATED PARTY BALANCES	64
35.	COMPENSATION OF KEY MANAGEMENT PERSONNEL.....	64
36.	FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES	64
36.1.	INTEREST RATE RISK	64
36.2.	FOREIGN CURRENCY RISK	65
36.3.	COMMODITY PRICE RISK	67
36.4.	CREDIT RISK	68
36.5.	LIQUIDITY RISK	68
36.6.	OPERATING RISK	68
37.	FINANCIAL INSTRUMENTS.....	68
37.1.	INTEREST RATE RISK	68
37.2.	FAIR VALUE OF EACH CLASS OF FINANCIAL INSTRUMENTS.....	70
38.	CAPITAL MANAGEMENT.....	71
39.	SOCIAL ASSETS AND LIABILITIES	72
40.	EMPLOYMENT STRUCTURE.....	72
41.	EVENTS AFTER THE BALANCE SHEET DATE.....	72

INTERIM CONSOLIDATED INCOME STATEMENT

	note	for 6 months	
		ended 30 June	
		2008	2007
		unaudited	unaudited
		PLN '000	PLN '000
Continuing operations			
Sale of goods		80 895	72 269
Rendering of services		683	209
Revenue		81 578	72 478
Value of goods and materials sold		74 736	65 903
Materials and energy		1 682	1 747
Employee benefits	12.3	11 818	7 366
Depreciation and amortisation		1 470	1 183
External services	12.4	9 380	10 811
Taxes and charges		1 654	1 207
Other expenses		2 693	1 337
Operating expenses		103 433	89 554
Gross profit/ (loss)		(21 855)	(17 076)
Other operating income		1 331	795
Other operating expenses		698	208
Finance income	12.1	39 536	13 978
Finance costs	12.2	7 809	7 601
Profit/ (loss) before tax		10 505	(10 112)
Income tax expense	13	7 560	2 965
Net profit/ (loss) from continuing operations		2 945	(13 077)
Net profit/ (loss)		2 945	(13 077)
Attributable to:			
Equity holders of the parent		3 032	(12 806)
Minority interest		(87)	(271)
Weighted average number of issued shares for basic earnings per share computations		6 003 875	5 286 000
Number of diluting potential ordinary shares	14	142 358	142 358
Earnings (loss) per share in PLN	14	0.51	(2.42)
Diluted earnings (loss) per share in PLN	14	0.49	(2.36)

INTERIM CONSOLIDATED BALANCE SHEET

		30 June 2008	31 December 2007
		<i>unaudited</i>	<i>audited</i>
	<i>note</i>	<i>PLN '000</i>	<i>PLN '000</i>
ASSETS			
Non-current assets (long-term)			
Goodwill	20	401 513	472 109
Intangible assets	19	547	576
Property, plant and equipment	16	54 138	53 572
Expenditure on exploration for and evaluation of mineral resources	15	324 586	288 463
Investment properties	18	2 567	2 567
Other financial assets	22	103 864	102 986
Non-current receivables	25	16 949	12 560
Long-term deposits	26	1 613	1 747
Deferred tax	13	47 689	45 156
		<u>953 466</u>	<u>979 736</u>
Current assets (short-term)			
Inventories	24	9 321	8 302
Trade and other receivables	25	11 183	14 948
Income tax overpayment		78	69
Prepayments and deferred costs	31	6 160	2 289
Current investments	22	40 761	6 952
Cash and cash equivalents	26	32 087	23 480
		<u>99 590</u>	<u>56 040</u>
TOTAL ASSETS		<u><u>1 053 056</u></u>	<u><u>1 035 776</u></u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	27.1	61 635	58 730
Foreign currency translation	27.3	(168 699)	(59 864)
Other reserves	27.2	467 244	391 133
Retained earnings		(26 091)	(29 123)
		<u>334 089</u>	<u>360 876</u>
Minority interest	27.5	326	488
Total equity		<u>334 415</u>	<u>361 364</u>
Non-current liabilities			
Non-current provisions	29	3 632	3 945
Deferred income tax liabilities	13	34 965	19 175
Interest-bearing loans and borrowings	28	450 387	382 387
Finance lease liabilities	17	231	248
Other non-current liabilities	30	123 322	140 625
		<u>612 537</u>	<u>546 380</u>
Current liabilities			
Current provisions	29	1 278	548
Current portion of interest-bearing loans and borrowings	28	50 801	59 483
Finance lease liabilities	17	217	180
Trade and other payables	30	52 053	65 960
Income tax payable		0	0
Accruals	31	1 755	1 861
		<u>106 104</u>	<u>128 032</u>
Total liabilities		<u>718 641</u>	<u>674 412</u>
TOTAL EQUITY AND LIABILITIES		<u><u>1 053 056</u></u>	<u><u>1 035 776</u></u>

INTERIM CONSOLIDATED CASH FLOW STATEMENT

	note	for 6 months ended 30 June	
		2008	2007
		unaudited	unaudited
		PLN '000	PLN '000
Cash flows from operating activities			
Profit/ (loss) before taxation		10 505	(10 112)
Adjustments for:		(26 307)	(6 512)
Depreciation and amortisation		1 470	1 183
Interest and dividends, net		1 827	224
Foreign exchange differences		(20 685)	(3 139)
Gain/ (loss) from investing activities		53	6
(Increase)/ decrease in receivables	33.1	3 456	1 143
(Increase)/ decrease in inventories	33.1	(1 077)	(2 058)
Increase/ (decrease) in payables except loans and borrowings	33.1	(14 692)	1 138
Change in prepayments and accruals	33.1	(141)	(8 895)
Change in provisions	33.1	1 576	1 074
Income tax paid		7	(55)
Other, including		1 899	2 867
financial fees paid		502	111
valuation (discount) of liabilities under share purchase transactions		1 148	3 803
other		249	(1 047)
Net cash flows from operating activities		(15 802)	(16 624)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangibles		0	0
Purchase of property, plant and equipment and intangibles		(3 191)	(3 935)
Expenditure on exploration for and evaluation of mineral resources		(47 799)	(70 160)
Capitalised costs of external financing		(10 931)	(1 699)
Acquisition of subsidiary and jointly-controlled entity, net of cash acquired	33.3	(30 278)	(55 363)
Interest received		349	0
Repayment of loans granted		9	0
Granting of loans	33.3	(49 799)	(54 258)
Long-term deposits	26	(118)	0
Other	33.3	(1 440)	(276)
Net cash flows from investing activities		(143 198)	(185 691)
Cash flows from financing activities			
Proceeds from share capital increase		79 880	0
Costs relating to share issue		(3 322)	(3 692)
Payment of finance lease liabilities		(29)	(9)
Proceeds from loans and borrowings	33.2	71 525	184 209
Repayment of loans and borrowings		(3 624)	(1 140)
Interest paid		(1 217)	(544)
Other		(502)	(111)
Net cash flows from financing activities		142 711	178 713
Net increase/ (decrease) in cash and cash equivalents		(16 289)	(23 602)
Cash and cash equivalents at the beginning of the period		23 480	25 716
Cash, cash equivalents and long-term deposits at the end of the period	26	7 191	2 114
including restricted use cash		4 497	13 187

PETROLINVEST GROUP
Interim consolidated financial statements for 6 months ended 30 June 2008
(in PLN thousands)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Foreign currency translation	Attributable to equity holders of the parent		Retained earnings/ Accumulated (losses)	Total	Minority interest	Total equity	
			Other capital, including						
			From profit appropriation	From share premium					
<i>unaudited</i>	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	
As at 1 January 2008	58 730	(59 864)	391 133	15 441	375 692	(29 123)	360 876	488	361 364
Currency translation differences	0	(108 835)	0	0	0	0	(108 835)	(75)	(108 910)
Loss for the period	0	0	0	0	0	3 032	3 032	(87)	2 945
Revenues / expenses for the year	0	(108 835)	0	0	0	3 032	(105 803)	(162)	(105 965)
Share issue	2 905	0	76 975	0	76 975	0	79 880	0	79 880
Cost of share issue		0	(864)	0	(864)	0	(864)	0	(864)
As at 30 June 2008	61 635	(168 699)	467 244	15 441	451 803	(26 091)	334 089	326	334 415
<i>unaudited</i>	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
As at 1 January 2007	52 860	(2 085)	277 547	15 441	262 106	(16 639)	311 683	232	311 915
Currency translation differences	0	16 640	0	0	0	0	16 640	248	16 888
Loss for the period	0	0	0	0	0	(12 806)	(12 806)	(271)	(13 077)
Result for the period	0	16 640	0	0	0	(12 806)	3 834	(23)	3 811
As at 30 June 2007	52 860	14 555	277 547	15 441	262 106	(29 445)	315 517	209	315 726
<i>audited</i>	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
As at 1 January 2007	52 860	(2 085)	277 547	15 441	262 106	(16 639)	311 683	232	311 915
Currency translation differences	0	(57 779)	0	0	0	0	(57 779)	274	(57 505)
Loss for the period	0	0	0	0	0	(12 484)	(12 484)	(18)	(12 502)
Revenues / expenses for the year	0	(57 779)	0	0	0	(12 484)	(70 263)	256	(70 007)
Share issue	5 870	0	127 379	0	127 379	0	133 249	0	133 249
Cost of share issue	0	0	(13 793)	0	(13 793)	0	(13 793)	0	(13 793)
As at 31 December 2007	58 730	(59 864)	391 133	15 441	375 692	(29 123)	360 876	488	361 364

Accounting policies and notes included on pages 7 to 76 are an integral part of these interim consolidated financial statements

ACCOUNTING POLICIES AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

PETROLINVEST Group is composed of PETROLINVEST S.A. ("PETROLINVEST" / "the Company") and its subsidiaries. In addition, PETROLINVEST owns shares in companies where it has joint-control. For presentation purposes the parent company, its subsidiaries and jointly-controlled entities are collectively referred to herein as "PETROLINVEST Group" (the Group) (see note 3 for more detail). The consolidated financial statements of the Group cover 6 months ended on 30 June 2008 and contain comparative data for 6 months ended 30 June 2007 and as at 31 December 2007.

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

The 22 December 2006 resolution of the Shareholders' Meeting of PETROLINVEST Spółka z ograniczoną odpowiedzialnością (limited liability company) regarding the transformation of PETROLINVEST Spółka z ograniczoną odpowiedzialnością into PETROLINVEST Spółka Akcyjna (joint stock company) was registered on 29 December 2006.

On 16 July 2007, rights to shares of Pentrolinvest S.A. were first quoted on the Warsaw Stock Exchange.

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

The parent entity, its subsidiaries and jointly-controlled entities have an unlimited period of operation.

The main areas of business activities of the Group include:

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

As 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 REGON number 190829082-00022.

As at the date of approval of these interim consolidated financial statements the parent company of PETROLINVEST S.A. is Prokom Investments S.A. Ryszard Krauze controls, directly or indirectly, 61.58% shares and votes of Prokom Investments S.A. As set out in the Company's statutes, if the management board is composed of two or three persons, Prokom Investments S.A. has personal powers to appoint and dismiss the president of the management board while Mr. Ryszard Krauze, one of the shareholders of PETROLINVEST S.A. and Prokom Investments S.A., has personal powers to appoint and dismiss the vice president. The number of board members is determined by Prokom Investments S.A. The supervisory board is composed of six members, two of them (including the chairman and deputy chairman of the supervisory board) are appointed and dismissed by Prokom Investments S.A. while one member of the supervisory board is appointed and dismissed by Mr. Ryszard Krauze.

2. Going Concern

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

At the same time, the Company's Management Board acknowledges that there are certain factors that may, under exceptional circumstances, pose a threat to the Group's continuing as going concern in the future. The risks presented below are considered by management to be the most important; they are presented together with the activities undertaken by the Group 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 have started an investment program, the aim of which is to expand the activities of PETROLINVEST Group in the area of exploration for and production of crude oil and natural gas. Due to the start-up phase of the investment, as at the date of approval of the interim consolidated financial statements for 6 months ended 30 June 2008, there is no certainty that the Group will achieve its stated goals in the time space given. The investment program is financed with the Group's own cash, loans extended by Prokom Investments S.A., and external financing. The realisation of the investment program is dependent upon the Group'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 Group's business, financial condition and results of operations. The Company and the entities of PETROLINVEST Group may take a number of steps and decisions in order to minimise any negative effects of limited access to external financing. Those steps and decisions may involve, inter alia, focusing on less capital-intensive projects, reducing the scale of the Group's operations, slowing down the pace of exploration works, selling selected assets etc.
- 2) As at 30 June 2008, the Group's overall indebtedness ratio was 0.68 and the debt to equity ratio was 2.15. Management believes that the levels of those ratios are appropriate for the current stage of development of the Project, and they do not pose a threat to the Group Companies' going concern in the period of at least 12 months from 30 June 2008. As at the date of approval of these financial statements, the Group is using a credit facility secured on assets made available by Prokom Investments S.A. Hence, management is of the opinion that the Group's ability to manage its liabilities has been and continues to be unthreatened. Moreover, the Group has a contractual declaration of support and participation in the

financing of the Company's business in the future from Prokom Investments S.A. granted in connection with the credit facility, as well as a declaration regarding subordination of loans extended by Prokom Investments S.A. to the above-mentioned credit facility. On 16 September 2008, PETROLINVEST S.A. signed a Letter of Intent with The European Bank for Reconstruction and Development ("EBOR") and Blue Oak Capital Limited ("Blue Oak") pertaining to their investment in Company shares.

The terms and conditions set out in the Letter of Intent envisage the following terms of the investment:

- The EBOR declared willingness to invest between USD 50 and 100 million in the newly-issued shares of the Company,
- Blue Oak declared willingness to invest USD 150 million in the newly-issued shares of the Company,
- The EBOR also declared intent to provide the Company with debt financing for the purpose of future development of the Company's undertakings in the area of prospecting and extraction and activities of PETROLINVEST Group service companies.

Conditions precedent to signing investment agreements and closing the transaction involve inter alia: completion by investors of the due diligence of the Company, gaining appropriate consents from corporate bodies by Investors and the Company, and gaining by the Company consent from the financing Banks. The Letter of Intent envisages the possibility of expanding the group of investors by adding other entities by signing appropriate annexes to the Letter of Intent or entering into an investment agreement. The Management Board believes that the signing of the Letter of Intent with investors of such renown and experience enables the Company to make long-term plans and develop business undertakings in the prospecting and extraction segment as well as the service segment for the oil industry in the Caspian Sea Region.

3. Composition of the Group

PETROLINVEST Group is composed of PETROLINVEST S.A. and the following subsidiaries:

Full name	Short name	Registered office	Business activities	% held by the Group in share capital		
				30 June 2008	31 December 2007	30 June 2007
subsidiaries						
UAB Petrolinvest Mockavos Perpyla	Mockavos / MC	Lithuania	Trans-shipment of liquid fuels	87%	87%	87%
TPG GAZ S.A.	TPG	Poland	Wholesale of liquid fuels	100%	100%	100%
OOO NK Siewiergeofizyka	Siewiergeofizyka / SG	Russia	Exploration for and extraction of crude petroleum and natural gas	59.999%	59.999%	59.999%
OOO Nieftiegeoserwis	Nieftiegeoserwis / NG	Russia	Exploration for and extraction of crude petroleum and natural gas	59.99%	59.99%	59.99%
ZAO Pechora-Petroleum	Pechora Petroleum / PP	Russia	Exploration for and extraction of crude petroleum and natural gas	59.00%	59.00%	n/a

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

Full name	Short name	Registered office	Business activities	% held by the Group in share capital		
				30 June 2008	31 December 2007	30 June 2007
jointly-controlled entities						
Occidental Resources, Inc.	Occidental Resources / OR	USA	Investments into entities involved in crude oil exploration and extraction	50%	50%	50%
OilTechnoGroup*	OTG	Kazakhstan	Exploration for and extraction of crude petroleum and natural gas	50%	50%	50%
TOO Company Profit	Profit / PR	Kazakhstan	Exploration for and extraction of crude petroleum and natural gas	50%	50%	50%
TOO EmbaJugNefit	EmbaJugNefit / EM	Kazakhstan	Exploration for and extraction of crude petroleum and natural gas	50%	50%	50%

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

For presentation purposes the parent company, its subsidiaries and jointly-controlled entities are collectively referred to herein as "PETROLINVEST Group" (the Group).

As at 30 June 2008, 31 December 2007 and 30 June 2007, the percentage of voting rights held by the Group in the subsidiaries and jointly-controlled entities corresponded to the percentage held in the share capital of those subsidiaries.

In May 2006, the Company concluded an agreement under which the Company acquired 59.999% shares in OOO NK Siewiergeofizyka with a nominal value of 59,999 roubles, carrying 59.999% votes at shareholders meetings. The share purchase price was USD 7m (PLN 22.5m). On 7 November 2006, acting upon the agreement, the previous holders of the shares signed and delivered to the Company and Siewiergeofizyka notices regarding the transfer of shares hitherto held by them in the share capital of Siewiergeofizyka, which, in accordance with the Russian Federation law, is a condition precedent to the exercise of rights from shares by a new shareholder – PETROLINVEST S.A. As stipulated in the share purchase agreement of Siewiergeofizyka shares, the Company agreed to pay an additional consideration if reserves are discovered and confirmed. The maximum amount of the premium is USD 6m (PLN 18m). The likelihood of the premium being paid out is thought to be 100%.

which increased the amount of other non-current liabilities on the Company's balance sheet. Management does not expect the amount to be paid out within one year from the balance sheet date. The value of the liability disclosed in the financial statements has been discounted using applicable discount rates based on the assumption that the payment will be made at the end of 2009.

As at 30 June 2008, the Company had covered all liabilities resulting from the purchase of shares and loaned USD 18.6m (PLN 51.4m) to Siewiergeofizyka.

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

As at 30 June 2008, the Company had covered all liabilities resulting from the purchase of shares and loaned USD 8.2m (PLN 23.7m) to Neftegeoserwis.

On 12 February 2007, the Company entered into three agreements with natural persons whereby the Company acquired 236 shares of ZAO Pechora-Petroleum with its registered office in Ukhta, Komi Republic, Russian Federation, which constitute 59% of the initial capital of Pechora-Petroleum. On 28 August 2007, PETROLINVEST S.A. was notified that the transfer of shares had been registered. The total share purchase price was USD 17m (PLN 49.3m). As stipulated in the share purchase agreement of Pechora-Petroleum shares, a portion of the price of shares in the amount of USD 8.5m (PLN 23.9m) constitutes an additional consideration which becomes payable if reserves are discovered and confirmed. The likelihood of the premium being paid out is thought to be 100%, which increased the amount of other non-current liabilities on the Company's balance sheet. Management does not expect the amount to be paid out within one year from the balance sheet date. The value of the liability disclosed in the financial statements has been discounted using applicable discount rates based on the assumption that the payment will be made at the end of 2009.

Pechora-Petroleum deals with the exploration for and production of crude oil and holds an exploration concession in the Porozhskye area as well as an exploration and production concession in the Vyerkhnye-Pechorskyye area. As a result of the transaction, the Company holds a 59% interest in the initial capital of Pechora-Petroleum, carrying 59% voting rights at the general meeting of Pechora-Petroleum. The face value of the shares acquired is 11,800 roubles.

As at 30 June 2008, the Company had paid USD 8.5m (PLN 25.2m) towards the price of shares and loaned USD 10.5m (PLN 27.9m) to Pechora-Petroleum.

Under an agreement concluded in August 2006, the Company acquired 99,666,387 shares, representing 50% of the share capital of Occidental Resources, Inc. (hereinafter: Occidental Resources) in the fourth quarter of 2006 by purchasing 10 million shares, representing 9.12% of the share capital from shareholders and taking up 89,666,387 new issue shares, representing 40.88% of the increased share capital of the company. The total consideration for the shares acquired and taken up was USD 143.3m (PLN 421m) where USD 20m was the price of shares purchased from the other shareholders, as agreed, and USD 123.3m was the price paid for the new issue shares, as agreed. Occidental Resources have a 100% interest in OilTechnoGroup (hereinafter: OTG) that owns a petroleum exploration and development concession. As at 30 June 2008, the Company had paid in aggregate USD 142.85m (PLN 332.9m) towards the price of shares acquired and taken up. As at the date of approval of the interim consolidated financial statements, the Company had advanced the remainder of the liability, i.e. up to the date of approval of the interim consolidated financial statements, the Company had transferred in aggregate USD 143,333m (PLN 333.9m). In addition, pursuant to an agreement concluded in 2006, the Company extended a loan to Occidental Resources of USD 5m (PLN 14.9m). In July 2008, the Company entered into another loan agreement with Occidental Resources for USD 11m under which, by the date of approval of these interim consolidated financial statements, it had advanced USD 8.6m (PLN 18.9m).

On 9 June 2006, shareholders of TOO EmbajugNefit (D.R. Amankulov, TOO Atameken Prommasz, TOO Geokapital and TOO Marburg Oil) resolved to accept PETROLINVEST S.A. as a new shareholder. As provided for in the resolution, PETROLINVEST was obliged to make a contribution of KZT 72,500 (PLN 1,671) and an outlay of USD 50m (extending loans to EmbajugNefit) 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, the Company acquired a 50% interest in TOO EmbajugNefit.

On 9 June 2006, a loan agreement was concluded by and between PETROLINVEST and TOO EmbajugNefit whereby the Company granted a non-interest bearing loan totalling USD 25m to TOO EmbajugNefit for a period to 8 June 2031. The aim of the loan is to finance operating activities of TOO EmbajugNefit and, in particular, to provide funds allowing TOO EmbajugNefit 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 EmbajugNefit 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.

Furthermore, in the period from the acquisition of control to the date of approval of the interim consolidated financial statements, the Company extended two loans to EmbajugNieft totalling USD 45m.

As at 30 June 2008, the Company had transferred to EmbajugNieft USD 53m (PLN 147.8m) as loans granted to finance the company's capital expenditures. As at the date of approval of these interim consolidated financial statements, the Company had loaned another USD 1.6m (PLN 3.62m) to EmbajugNieft.

On 9 June 2006, the shareholder of TOO Nurmunay Petrogaz resolved to accept PETROLINVEST as a new shareholder of TOO Company Profit. As provided for in the resolution, PETROLINVEST S.A. was obliged to make a contribution of KZT 82,300 (PLN 1,889) and an outlay of USD 14m (extending loans to the company) 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 PETROLINVEST and TOO Company Profit whereby the Company granted a non-interest bearing loan totalling USD 14m to TOO Company Profit for a period to 8 June 2031. The aim of the loan is to finance operating activities of TOO Company Profit and, in particular, to provide funds allowing TOO Company Profit to fulfil its obligations towards the state authorities of the Kazakh Republic in respect of exploration for and production of hydrocarbons and to repay loan obligations of USD 2.36m. 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.

Furthermore, in the period from the acquisition of control to the date of approval of the interim consolidated financial statements, the Company extended two loans to EmbajugNieft totalling USD 16.8m.

As at 30 June 2008, the Company had transferred to TOO Company Profit USD 18.45m (PLN 54m) as loans granted to finance the company's capital expenditures. As at the date of approval of the interim consolidated financial statements, the Company had loaned another USD 425 thousand (PLN 0.9m) to TOO Company Profit.

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

Information regarding the value of net assets of the companies acquired in 2007 as at the date of the change of control/joint-control and the purchase price is provided in note 20.

4. Composition of the Management Board of the Parent Entity

As at the date of approval of the financial statements, as at 30 June 2008 and as at 31 December 2007, the Management Board of the Company consisted of:

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

5. Approval of Interim Consolidated Financial Statements

These interim consolidated financial statements were authorised for issue by the Management Board on 29 September 2008.

6. Significant Accounting Judgements and Estimates

6.1. Judgements

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

Going concern

In note 2 above, management presented some threats to the Group companies' going concern considered to be the most important. At the same time, management emphasises the fact that the interim consolidated 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 Group's assets.

Lease agreements

The Group 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 Group substantially all the risks and benefits incidental to ownership of the leased item. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

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.

6.2. 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.

Impairment of assets

Property, plant and equipment

The Group runs tests for impairment of property, plant and equipment. This requires an estimation of the value in use of the cash-generating unit to which those assets are allocated. Estimating the value in use amount requires to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment is recognised as a result of, among other things, unfavourable changes in renewable petroleum and gas resources, under-utilization of installations or lower profitability. If petroleum and gas prices remain low for a longer period of time, the Group may be forced to make significant impairment charges.

Goodwill

Regardless of whether or not circumstances indicate that the carrying amount of goodwill may be impaired, all and any goodwill acquired as a result of a business combination is reviewed for impairment. Goodwill is reviewed for impairment annually or more frequently if circumstances indicate that the carrying amount may be impaired. The Group treats the areas of individual concessions for exploration and development of hydrocarbons as cash generating units.

As at the acquisition date, goodwill is allocated to cash-generating units. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit to which the goodwill has been allocated. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Bad debt allowance

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

Valuation of Provisions

Provisions for employee benefits are determined using actuarial valuations. The assumptions made in this respect are presented in note 23.2.

Provisions for restoration works result from an obligation imposed on companies dealing in exploration and production of crude oil and gas to perform restoration works in the area where resources have been explored and exploited. The Group has a policy of recognising a restoration provision for well decommissioning and site restoration costs—calculated using parameters relating to the depth and type of well—whenever drilling works commence.

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 37.2.

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 Group based on current estimates.

Valuation of non-current financial liabilities under share purchase transactions

Other non-current liabilities comprise discounted undue liabilities towards the previous shareholders of Siewiergeofizyka and Pechora-Petroleum. As stipulated in share purchase agreements of Siewiergeofizyka and Pechora-Petroleum shares, the Company agreed to pay an additional premium if reserves are discovered and confirmed. When making a discount rate estimate, it was assumed that the above-mentioned liabilities will be settled at the end of 2009.

Valuation of concession liabilities

Concession liabilities are selected discounted liabilities resulting from the execution of concessions held by the Oil Exploration and Production Companies for oil and gas exploration or exploration and production which were taken into account in the valuation of the acquired companies' net assets as at the date of the acquisition of control or joint-control. These liabilities involve historical costs, social schemes and a commercial premium. The payment of those liabilities is in most cases dependent on whether resources are discovered and confirmed. Those liabilities as at the date of the acquisition of control or

joint-control and each consecutive balance sheet date are re-measured to current value using the amortised cost method based on the effective interest rate. The effect of re-measurement as at the balance sheet date is taken to the income statement.

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 Group's financial results deteriorate in the future, this assumption might prove unfounded.

7. Basis of Preparation

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

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

In connection with changes on the balance sheet as at 31 December 2006, resulting from an adjustment of the provisional valuation of assets and liabilities of Occidental Resources and OOO NK Siewiergeofizyka, both acquired in 2006 (for more detail see note 7 to the consolidated financial statements for the year ended 31 December 2007), PETROLINVEST made appropriate adjustments in the interim consolidated financial statements for 6 months ended on 30 June 2008 to the comparable data for 6 months ended 30 June 2007 as compared to the data presented in the interim consolidated financial statements for 6 months ended 30 June 2007 published on 29 September 2007.

PETROLINVEST S.A. conducted a thorough analysis of liabilities resulting from the concession for hydrocarbon exploration and production. As a result, PETROLINVEST S.A. identified two separate groups of liabilities – one consisting of liabilities connected with concession acquisition costs, and the other involving liabilities connected with the execution of rights and obligations resulting from the concession. PETROLINVEST S.A. made an assessment of the current value of the liabilities belonging to the first group of concession liabilities of OilTechnoGroup where it allocated liabilities relating to historical costs (USD 14.5m), social schemes (USD 40m) and commercial premium (USD 46.3m). The Company also made an assessment of the value of a deferred tax asset arising on the concession liabilities recognised in OilTechnoGroup's net assets. PETROLINVEST S.A. also changed the presentation of provisions for executive share options into non-current and current provisions. PETROLINVEST S.A. has a 50% share in the estimated value of the assets and liabilities. The recognition of concession liabilities as at the date of assuming joint-control and the valuation thereof as at 30 June 2007, resulting from the settlement of a discount on the liabilities for 6 months 2007 and the valuation of liabilities at the close-of-period exchange rate, resulted in an increase in finance income in the period of ca. PLN 6m.

When accounting for the acquisition, PETROLINVEST S.A. also made an assessment of the current value of unpaid receivables of Occidental Resources due from share issue. The value of receivables was discounted and, consequently, the company's net assets as at the date of the change of control decreased by USD 3.7m (PLN 10.7m). In addition, PETROLINVEST made an assessment of the current value of unpaid liabilities resulting from the take-up of shares in Occidental Resources and the acquisition of shares in OOO Siewiergeofizyka (premium). The Company's liabilities after the discount decreased by USD 3.7m (PLN 10.7m) and USD 860 thousand (PLN 2.6m), respectively. Goodwill arising on the acquisition of those companies was decreased by the same amounts. The recognition and subsequent settlement of the discount on liabilities in the period of 6 months 2007 resulted in an increase in finance costs in the period of over PLN 3.6m.

PETROLINVEST S.A. computed new goodwill arising on those adjustments using an average exchange rate for the Kazakh tenge and Russian rouble, accordingly, as at 30 June 2007, which resulted in an increase in foreign currency translation of some PLN 13.4m.

The additional adjustments influenced the level of deferred tax and influenced the value of deferred tax asset and liability as well as income tax in the period of 6 months ended 30 June 2007.

The Group changed the method of presentation of expenditures incurred on exploration for and evaluation of mineral resources which in the interim consolidated financial statements for 6 months ended 30 June 2007 were presented under property, plant and equipment and intangible assets. The Group also changed the method of presentation of cash deposited on long-term time accounts as obligatory deposits made to a decommissioning fund by the Oil Exploration and Production Companies in connection with the realisation by them of concession obligations (more detail see note 32.1). Those time deposits were hitherto presented under cash. An additional change was made in the presentation of VAT receivables connected with expenditures on exploration for and evaluation of mineral resources, which were previously presented as current receivables.

PETROLINVEST GROUP
Interim consolidated financial statements for 6 months ended 30 June 2008
Accounting principles and notes to the financial statements
(in PLN thousands)

The table below provides details of changes to the balance sheet and income statement as at 30 June 2007 and for 6 months ended 30 June 2007.

	<u>for 6 months ended 30 June 2007 changed</u>	<u>for 6 months ended 30 June 2007 published</u>	<u>for 6 months ended 30 June 2007 difference</u>
Gross profit/ (loss)	(17 076)	(17 076)	0
Finance income	13 978	7 773	6 205
Finance costs	7 601	3 968	3 633
Profit/ (loss) before tax	(10 112)	(12 684)	2 572
Income tax expense	2 965	1 379	1 586
Net profit/ (loss)	(13 077)	(14 063)	986
	<u>30 June 2007 changed</u>	<u>30 June 2007 published</u>	<u>30 June 2007 difference</u>
Non-current assets, including	901 984	777 486	124 498
Goodwill	464 686	385 381	79 305
Intangible assets	38	44 445	(44 407)
Property, plant and equipment	43 809	199 880	(156 071)
Expenditure on exploration for and evaluation of mineral resources	204 240	0	204 240
Other financial assets	133 840	134 403	(563)
Non-current receivables	5 838	0	5 838
Long-term deposits	1 102	0	1 102
Deferred tax	46 199	11 145	35 054
Current assets, including	69 052	75 499	(6 447)
Inventories	7 473	7 455	18
Trade and other receivables	10 758	16 610	(5 852)
Prepayments and deferred costs	15 119	15 105	14
Cash and cash equivalents	27 832	28 459	(627)
Total assets	971 036	852 985	118 051
Equity, including	315 726	301 332	14 394
Foreign currency translation	14 555	1 166	13 389
Retained earnings	(29 445)	(30 450)	1 005
Liabilities, including	655 310	551 653	103 657
Provisions	3 169	6 836	(3 667)
Deferred income tax liabilities	9 171	7 526	1 645
Interest-bearing loans and borrowings	383 901	382 805	1 096
Trade and other payables	257 267	152 684	104 583
Total equity and liabilities	971 036	852 985	118 051

7.1. Statement of compliance

These interim consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), particularly in accordance with International Accounting Standard no. 34, and IFRSs endorsed by the European Union. At the date of authorisation of these interim consolidated financial statements for issue, in light of the current process of IFRS endorsement in the European Union and the nature of the Group's activities, there is no difference between the currently enacted IFRSs applied by the Group and the IFRSs endorsed by the EU.

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

PETROLINVEST S.A. and the other Group companies operating in Poland keep their books of account in accordance with the International Financial Reporting Standards ("IFRS") endorsed by the EU. The subsidiaries and jointly-controlled entities operating outside of Poland keep their books of account in accordance with the applicable national regulations. The interim consolidated financial statements include a number of adjustments not included in the books of account of the subsidiaries and jointly-controlled entities, which were made in order to bring the financial accounts of those entities to conformity with IFRS.

7.2. Functional currency and presentation currency

Polish zloty is the functional currency of the parent entity and TPG GAZ S.A. in these interim consolidated financial statements as well as the presentation currency of these financial statements.

The Litas is the functional currency of UAB PETROLINVEST Mockavos Perpyla headquartered in Lithuania. The functional currency of Occidental Resources, Inc. headquartered in the United States is the American dollar, the functional currency of Siewiergeofizyka, Neftegeoserwis and Pechora Petroleum headquartered in Russia is the Russian rouble, and OilTechnoGroup, EmbaJugNieft and Profit headquartered in Kazakhstan is the Kazakh tenge.

8. Changes in Accounting Policies

While preparing these interim consolidated financial statements for 6 months ended 30 June 2008, the same general policies were adopted as in the preparation of consolidated financial statements for the year ended 31 December 2007.

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

IFRIC 11 IFRS 2—Group and Treasury Share Transactions

IFRIC 11 provides guidance on whether arrangements, in which suppliers of goods or services of an entity are provided with equity instruments or equity instruments of another entity in the same group, should be accounted for as cash-settled or equity-settled. The Interpretation also addresses how to proceed if an entity uses treasury shares to settle the share-based payment obligation.

9. IFRS and IFRIC Interpretations Issued but not yet Effective

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

- IFRS 8 *Operating segments* – effective for annual periods beginning on or after 1 January 2009
- IAS 1 *Presentation of Financial Statements* (amended in September 2007) – effective for annual periods beginning on or after 1 January 2009 – as at the date of these financial statements not yet endorsed for use by the EU
- IAS 23 *Borrowing Costs* (amended in March 2007) – effective for annual periods beginning on or after 1 January 2009 – as at the date of these financial statements not yet endorsed for use by the EU
- IFRS 3 *Business Combinations* (amended in January 2008) – effective for annual periods beginning on or after 1 July 2009 – as at the date of these financial statements not yet endorsed for use by the EU
- IAS 27 *Consolidated and Separate Financial Statements* (amended in January 2008) – effective for annual periods beginning on or after 1 July 2009 – as at the date of these financial statements not yet endorsed for use by the EU
- IFRS 2 *Share-based Payment - Vesting Conditions and Cancellations* (amended in January 2008) – effective for annual periods beginning on or after 1 January 2009 – as at the date of these financial statements not yet endorsed for use by the EU
- Amendments to IAS 32 and IAS 1: *Financial instruments Puttable at Fair Value* (amendments introduced in February 2008) – effective for annual periods beginning on or after 1 January 2009 – as at the date of the financial statements not yet endorsed for use by the EU
- IFRIC 12 *Service Concession Agreements* – effective for annual periods beginning on or after 1 January 2008 – as at the date of these financial statements not yet endorsed for use by the EU
- IFRIC 13 *Customer Loyalty Programmes* – effective for annual periods beginning on or after 1 July 2008 – as at the date of these financial statements not yet endorsed for use by the EU
- IFRIC 14 IAS 19—*The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* – effective for annual periods beginning on or after 1 January 2008 – as at the date of the financial statements not yet endorsed for use by the EU
- Amendments resulting from annual review of IFRSs – effective for annual periods beginning on or after 1 January 2009 – as at the date of the financial statements not yet endorsed for use by the EU
- Amendments to IFRS 1 and IAS 27 *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* – effective for annual periods beginning on or after 1 January 2009 – as at the date of the financial statements not yet endorsed for use by the EU

- IFRIC 15 *Agreements for the Construction of Real Estate* – effective for annual periods beginning on or after 1 January 2009 – as at the date of these financial statements not yet endorsed for use by the EU
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* – effective for annual periods beginning on or after 1 October 2008 – as at the date of these financial statements not yet endorsed for use by the EU
- Amendments to IAS 39 *Exposures Qualifying for Hedge Accounting* (amendments introduced in July 2008) – effective for annual periods beginning on or after 1 July 2009 – as at the date of the financial statements not yet endorsed for use by the EU

Management is in the process of assessing the impact of the introduction of the above-mentioned amendments and interpretations on the accounting policies applied by the Company.

10. Summary of Significant Accounting Policies

10.1. Basis of consolidation

The interim consolidated financial statements comprise the financial statements of PETROLINVEST S.A. and the consolidation packages of its subsidiaries and jointly-controlled entities for 6 months ended 30 June 2008. The consolidation packages of the subsidiaries and jointly-controlled entities are prepared for the same reporting period as those of the parent entity and based on the same accounting policies applied to similar business transactions and events. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All significant intercompany balances and transactions, including unrealised gains arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless they indicate an impairment.

Subsidiaries are consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which such control is transferred out of the Group. An entity is controlled by the parent company when the parent has, directly or indirectly, through its subsidiaries, more than half of the votes at the shareholders' meeting of that entity, unless it is possible to prove that such holding does not represent control. Control is also exercised if the company has the power to govern the financial or operating policy of an enterprise so as to obtain benefits from its activities.

10.2. Interests in joint ventures

The Group has interest in a joint venture, which is a jointly-controlled entity. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The Group recognises its interest in a jointly controlled entity using proportionate consolidation. The Group's share of each of the assets, liabilities, income and expenses of a jointly controlled entity is combined line by line with similar items in the Group's financial statements. The financial statements of the jointly-controlled entity are prepared for the same reporting period as those of the investor, using consistent accounting policies. Any adjustments are made to bring into line any dissimilar accounting policies that may exist.

When the Group contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction reflects the substance of the transaction. When the Group purchases assets from a joint venture, it does not recognise its share of the profits of the joint venture from the transaction in the interim consolidated financial statements until it resells the assets to an independent party.

The Group ceases to apply proportionate consolidation when it ceases to jointly control the joint venture.

10.3. Minority interest

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity. Acquisitions of minority interests are accounted for using the parent entity extension method, whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

10.4. Foreign currency translation

Transactions denominated in currencies other than the functional currency are translated into the functional currency at the foreign exchange rate prevailing on the transaction date.

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

As at the date of these interim consolidated financial statements, assets and liabilities of the Group companies whose functional currency is different from the currency of the parent entity (Polish zloty) are translated at the average exchange rate announced for that day by the National Bank of Poland. Revenues and expenses generated during the period reported in these interim consolidated financial statements by the Group companies whose functional currency is different from the currency of the parent entity are translated using average exchange rates for periods not longer than one month.

The following exchange rates were used for valuation purposes:

	30 June 2008	31 December 2007
USD	2.1194	2.4350
EURO	3.3542	3.5820
LTL	0.9714	1.0374
RUB	0.0906	0.0995
KZT	0.0179	0.0208

The functional currency of the foreign subsidiaries and jointly-controlled entities is the American dollar, the Russian rouble, the Kazakh tenge, or the Lithuanian litas. At each reporting date, the assets and liabilities of these entities are translated into the presentation currency of the Group using the rate of exchange prevailing at the balance sheet date, and their income statements are translated using the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to equity and recognised as a separate item. On disposal of a foreign operation, the cumulative amount of the deferred exchange differences recognised in equity and relating to that particular foreign operation shall be recognised in the income statement.

The weighted average exchange rates for the respective reporting periods were as follows:

	for 6 months ended 30 June 2008	for the year ended 31 December 2007	for 6 months ended 30 June 2007
USD	2.2854	2.7686	2.8954
EURO	3.4924	3.7843	3.8451
LIT	1.0115	1.0960	1.1136
RUB	0.0954	0.1081	0.1110
KZT	0.0190	0.0226	0.0235

10.5. Property, plant and equipment

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

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

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

<i>Type</i>	<i>Useful life</i>	<i>Depreciation rate</i>
Land (perpetual usufruct)	No depreciation	
Buildings and structures	10 to 60 years	1.7% - 10%
Plant and machinery	3 to 30 years	3% - 33%
Office equipment	5 to 10 years	10% - 20%
Motor vehicles	5 to 7 years	14% - 20%
Computers	3.3 to 5 years	20% - 30%

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

Assets under construction (construction in progress) include assets in the course of construction or assembly and are recognised at purchase price or cost of construction. Assets under construction are not depreciated until completed and brought into use.

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.

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

10.6. Leases

Finance leases, which transfer to the Group 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 shorter of the estimated useful life of the asset or the lease term.

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.

10.7. Impairment of non-financial assets

An assessment is made at each reporting date to determine whether there is any indication that an asset may be impaired. If such indication exists, or in case an annual impairment testing is required, the Group 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 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 reporting 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 Group 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.

10.8. 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 of interest costs to debt costs expressed in the entity's functional currency.

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

10.10. Intangible assets

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

The useful lives of intangible assets are assessed by the Group 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 Group's intangible assets is as follows:

	<i>Amortisation rate</i>	<i>Useful life</i>
Software	25%-50%	2-4 years
Other intangible assets	20%	5 years

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

10.10.1 Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. In compliance with IAS 21 goodwill of entities using currencies other than the Polish zloty as their functional currency was revalued at the balance sheet date to a new amount resulting from adjustments and translated at the average exchange rate prevailing on the balance sheet date. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. Goodwill is not amortised.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units that is expected to benefit from the combination. Each unit, or set of units, to which the goodwill has been allocated should:

- represent the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- be not greater than a single business segment, in accordance with the definition of the Group's primary or secondary reporting format determined on the basis of IAS 14 Segment Reporting.

Regardless of whether or not circumstances indicate that the carrying amount of goodwill may be impaired, all and any goodwill acquired as a result of a business combination is reviewed by the Group annually for impairment. As at the acquisition date, goodwill is allocated to cash-generating units.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit to which the goodwill has been allocated. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill represents part of a cash-generating unit and part of the operations within that unit is disposed of, the goodwill associated with the operations disposed of is included in the carrying amount of the operations when determining gain or loss on disposal of the operation. Goodwill disposed of in such circumstances is measured on the basis of the relative value of the operations disposed of and the value of the portion of the cash-generating unit retained.

Impairment is recognised as a result of, amongst other things, unfavourable changes in renewable petroleum and gas resources, under-utilization of installations or lower profitability. If petroleum and gas prices remain low for a longer period of time, the Group may be forced to make significant impairment charges.

10.11. Expenditure on exploration for and evaluation of mineral resources

Exploration and evaluation assets are expenditures incurred in connection with the exploration for and evaluation of mineral resources recognised as assets in compliance with the Group's accounting policy. Exploration and evaluation expenditures are expenditures incurred by the Group in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting those resources can be proved. Exploration for and evaluation of mineral resources includes the search for mineral resources, such as oil, natural gas and similar non-regenerative resources, after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting those resources.

The Group classifies exploration and evaluation assets according to the nature of the assets acquired and applies the classification consistently. Those assets comprise geological studies, assets under construction related to exploration for and evaluation of mineral resources and materials used to construct such assets, intangible assets involving fees paid in connection with concession acquisition and performance, provisions for restoration works connected with the decommissioning of wells, advance payments for services and materials, non-deductible VAT on purchases of materials and services, and costs of external financing of those expenditures. The Group ceases to classify exploration and evaluation assets as such once the technical feasibility and commercial viability of extracting a mineral resource becomes demonstrable. The Group recognises and discloses impairment of exploration and evaluation assets in accordance with IAS 36. The Group discloses the amounts of assets, liabilities, income and expenses, as well as operating and investing cash flows generated in connection with the exploration for and evaluation of mineral resources.

The Group verifies whether or not there is a need for recording impairment losses on assets relating to exploration for and evaluation of mineral resources taking into account the following facts and circumstances, among other things, that may occur with respect to a given prospected area:

- the entity's right to explore in an area has expired, or will expire in the near future, without any indication of renewal;
- no further exploration or evaluation is planned or budgeted for in the long-term;
- a decision has been made to discontinue exploration and evaluation in an area because of the absence of commercial reserves; or
- sufficient data exists to indicate that, despite ongoing development works, the book value of assets relating to exploration for and evaluation of mineral resources will not be fully recovered from future development and production.

10.11.1 Concessions

Concessions owned by subsidiaries and jointly-controlled entities are not amortised while exploration is in progress. Those assets are tested for impairment on an annual basis and are amortised from the moment the mineral resources are first produced and sold. The Group starts to amortise a given concession, applying 'natural' amortisation based on the number of manufactured products, once production begins.

10.12. Financial assets

Financial assets are classified into one of the following categories:

- financial assets held to maturity,
- financial assets at fair value through income statement,
- loans and receivables,
- financial assets available for sale.

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

Financial assets purchased to generate profits due to short-term fluctuation of prices are classified as financial assets at fair value through income statement. 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 (see note 37.2).

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

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

Positive and negative differences between the fair value 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.

Financial assets are derecognised if the Group 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.

Purchase and sale of financial assets is recognised at the transaction date. Financial assets, except financial assets at fair value through profit or loss, are initially recognised at acquisition cost, i.e. at fair value plus transaction costs.

10.13. Impairment of financial assets

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

10.13.1 Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans 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 impairment. The amount of the loss shall be recognised in profit or loss.

The Group 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.

10.13.2 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.

10.13.3 Available-for-sale financial assets

If there is objective evidence that an impairment loss has been incurred on an available-for-sale asset, then the amount of the difference between the acquisition cost (net of any principal payment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in the 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.

10.14. Derivative financial instruments

Derivative financial instruments are measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the net profit or loss for the period.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

10.15. Inventories

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

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

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

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

10.15.1 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:

- 3 days of the actual average daily amount brought in by the Company in the previous year – by 30 June 2008;
- 7 days of the actual average daily amount brought in by the Company in the previous year – by 31 December 2008;
- 13 days of the actual average daily amount brought in by the Company in the previous year – by 31 December 2009;
- 20 days of the actual average daily amount brought in by the Company in the previous year – by 31 December 2010;
- 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.

10.16. Trade receivables

Trade receivables, which generally have 1-30 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. 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.

10.17. 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 consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

10.18. Interest-bearing loans and borrowings

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

After initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any transaction costs, and any discount or premium received in connection with the liabilities. Gains and losses are recognised in net profit or loss 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.

10.19. Trade and other payables

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

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

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

10.20. Provisions

Provisions are recognised when the Group 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 Group 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.

10.21. Retirement benefits

In accordance with the Labour Code, employees of the Group companies 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 Group 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 Group's liabilities resulting from those benefits is calculated at each balance sheet date by an independent actuary or, if during the year certain changes associated with factors influencing the amount of the provision are insignificant, the Group makes appropriate calculations. 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.

10.22. Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group 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.

10.22.1 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.

10.22.2 Rendering of services

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

10.22.3 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.

10.22.4 Dividends

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

10.22.5 Rental income

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

10.22.6 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.

10.23. Taxes

10.23.1 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.

10.23.2 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.

10.23.3 Value Added Tax

Revenues, expenses and assets 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.

Revenues are recognised net of the amount of excise cost.

10.24. Net earnings per share

Earnings per share for each reporting period are calculated as quotient of the net profit attributable to the Company's shareholders for the given accounting period and the weighted average of shares outstanding in that period.

The Group presents diluted earnings/loss per share because there are potential ordinary shares with dilutive effect. Note 14 provides a description of agreements connected with share issues as well as parameters used to determine the number of potential ordinary shares connected with the share issues.

10.25. Employee benefits schemes

For cash-settled share-based payments, the goods or services received and the liability incurred are measured at the fair value of the liability at grant date. The liability is then measured at fair value at each balance sheet date up to and including the settlement date with any changes in fair value being recognised in profit or loss for the period.

10.26. Share-based payment transactions

Employees (including management board members) of the Group 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').

10.26.1 Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value of the equity instruments 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 parent entity ('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 parent entity 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.

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

11. Segment and Seasonality Information

11.1. Seasonality

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

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

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

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

11.2. Segment information

The Group's primary reporting format is business segments. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties.

The following tables present a breakdown of revenues and profits for 6 months ended on 30 June 2008 and 30 June 2007 and selected assets and liabilities as at 30 June 2008 and 31 December 2007 by business segments.

<i>for 6 months ended 30 June 2008 and as at 30 June 2008</i>	<i>LPG</i>	<i>Prospecting and extraction</i>	<i>Total</i>
Segment revenue	81 578	0	81 578
Profit/ (loss) of the segment	(4 199)	(17 656)	(21 855)
Other unallocated revenue			1 331
Unallocated expenses			(698)
Profit/ (loss) from continuing operations before tax, finance income and costs			(21 222)
Finance costs			(7 809)
Finance income			39 536
Profit/ (loss) before tax and minority interest			10 505
Income tax expense			7 560
Net profit/ (loss) for the year			2 945
Segment assets	66 109	922 602	988 711
Unallocated assets			64 345
Total assets			1 053 056
Segment liabilities	15 093	655 980	671 073
Unallocated liabilities			47 568
Equity			334 415
Total equity and liabilities			1 053 056
Capital expenditure:			
property, plant and equipment (including assets under construction)	2 996	0	2 996
expenditures on exploration for and evaluation of mineral resources	0	73 671	73 671
intangible assets	0	195	195
Depreciation	1 180	105	1 285
Amortisation	185	0	185

PETROLINVEST GROUP
Interim consolidated financial statements for 6 months ended 30 June 2008
Accounting principles and notes to the financial statements
(in PLN thousands)

<i>for 6 months ended 30 June 2007 and as at 31 December 2007</i>	<i>LPG</i>	<i>Prospecting and extraction</i>	<i>Total</i>
Segment revenue	72 478	0	72 478
Profit/ (loss) of the segment	(6 439)	(10 637)	(17 076)
Other unallocated revenue			795
Unallocated expenses			(208)
Profit/ (loss) from continuing operations before tax, finance income and costs			(16 489)
Finance costs			(7 601)
Finance income			13 978
Profit/ (loss) before tax and minority interest			(10 112)
Income tax expense			2 965
Net profit/ (loss) for the year			(13 077)
Segment assets	59 572	926 124	985 696
Unallocated assets			50 080
Total assets			1 035 776
Segment liabilities	21 320	638 537	659 856
Unallocated liabilities			14 556
Equity			361 364
Total equity and liabilities			1 035 776
Capital expenditure:			
property, plant and equipment (including assets under construction)	3 935	0	3 935
expenditures on exploration for and evaluation of mineral resources	0	72 792	72 792
intangible assets	0	0	0
Depreciation	994	175	1 169
Amortisation	14	0	14

12. Revenues and Expenses

12.1. Finance income

	<i>for 6 months ended 30 June</i>	
	<i>2008</i>	<i>2007</i>
	<i>unaudited</i>	<i>unaudited</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Bank interest receivable	1 706	1 213
Loans granted to other parties	2 079	3 013
Valuation (discount) of future liabilities	0	2 405
Foreign exchange differences	35 751	7 318
Other	0	29
	<u>39 536</u>	<u>13 978</u>

More information regarding foreign exchange differences is provided in note 37.2.

12.2. Finance costs

	<i>for 6 months ended 30 June</i>	
	<i>2008</i>	<i>2007</i>
	<i>unaudited</i>	<i>unaudited</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Interest on bank loans and overdrafts	3 877	3 193
Lenders fees	511	122
Finance costs under finance leases	29	44
Valuation (discount) of future liabilities	3 282	3 882
Other	110	360
	<u>7 809</u>	<u>7 601</u>

12.3. Employee benefits expense

	<i>for 6 months ended 30 June</i>	
	<i>2008</i>	<i>2007</i>
	<i>unaudited</i>	<i>unaudited</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Wages and salaries	10 608	6 379
Social security costs	1 074	870
Social Fund	136	117
	<u>11 818</u>	<u>7 366</u>

12.4. External services expense

	<i>for 6 months ended 30 June</i>	
	<i>2008</i>	<i>2007</i>
	<i>unaudited</i>	<i>unaudited</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Transport, handling and transshipment	850	1 004
Overhauls	627	522
Property tenancy	3 765	2 835
Legal and accounting services	2 258	3 682
Sponsoring	281	1 342
Other	1 599	1 426
	<u>9 380</u>	<u>10 811</u>

13. Income Tax

Major components of income tax expense for 6 months ended 30 June 2008 and 30 June 2007 are:

	<i>for 6 months ended 30 June</i>	
	<i>2008</i>	<i>2007</i>
	<i>unaudited</i>	<i>unaudited</i>
	<i>PLN '000</i>	<i>PLN '000</i>
<i>Current income tax</i>		
Current income tax charge	7	0
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	7 553	2 965
Income tax expense reported in consolidated income statement	<u>7 560</u>	<u>2 965</u>

PETROLINVEST GROUP
Interim consolidated financial statements for 6 months ended 30 June 2008
Accounting principles and notes to the financial statements
(in PLN thousands)

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 Group's effective income tax rate for 6 months ended 30 June 2008:

	<i>Poland</i>	<i>Kazakhstan</i>	<i>Russia</i>	<i>USA</i>	<i>Lithuania</i>	<i>Total tax of the Group companies</i>	<i>Adjustments and eliminations</i>	<i>Total effective tax rate</i>
<i>for 6 months ended 30 June 2008</i>								
Accounting profit/ (loss) before tax	(12 634)	2 903	2 358	3 150	(102)	(4 325)	14 830	10 505
Statutory income tax rate	19%	30%	24%	34%	18%	n/a	n/a	n/a
Tax at statutory income tax rate	(2 400)	871	566	1 071	(18)	90	n/a	90
Tax loss	6 078	1 518	11 390	817	102	19 905	n/a	19 905
Tax effect due to tax loss	1 155	0	0	0	18	1 173	n/a	1 173
Revaluation of tax asset (tax losses and other assets)	0	779	2 733	278	0	3 790	58	3 848
Other differences	3 269	(297)	(4 054)	(1 103)	(2)	(2 186)	n/a	(2 186)
Tax effect of other differences	621	(89)	(973)	(375)	(0)	(816)	n/a	(816)
Income tax expense at effective income tax rate	(624)	1 561	2 326	974	0	4 237	3 323	7 560
Effective tax rate	5%	54%	99%	31%	0%	-98%	22%	72%

A description of risks and regulations with respect to corporate income tax and other taxes paid and payable by the parent company and its subsidiaries and jointly-controlled entities is provided in note 32.3.

A reconciliation of income tax expense applicable to the parent entity's accounting profit before income tax at the statutory income tax rate to income tax expense at the effective income tax rate applicable in Poland for 6 months ended 30 June 2008 and 30 June 2007:

	<i>for 6 months ended 30 June</i>	
	<i>2008</i>	<i>2007</i>
	<i>unaudited</i>	<i>unaudited</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Accounting profit/ (loss) before tax from continuing operations	(12 624)	(15 852)
At Polish statutory income tax rate of 19% (2006: 19%)	(2 399)	(3 012)
Permanent differences		
Expenditure not allowable for income tax purposes	10 291	9 209
Revaluation of finance receivables	0	8
The State Fund for Handicapped Persons (PFRON)	60	43
Costs relating to management of companies	446	1 291
Foreign exchange differences on valuation of new investments	7 890	0
Shortages above norm	21	55
Valuation of liabilities under share purchase transactions	1 430	7 737
Other expenditure	444	75
Expenditure allowable for income tax purposes, not reported in the Income Statement	(4 189)	(327)
Costs of new investments allowed as tax costs when incurred	(1 440)	(327)
Costs of share capital increase allowed as tax costs when incurred	(2 749)	0
Not taxable incomes	(2 844)	(893)
Resulting from tax decisions	(2 137)	(865)
Interest connected with valuation of investments	(676)	0
Other	(31)	(28)
Total permanent differences	3 258	7 989
Effect of permanent tax differences	619	1 518
Company tax loss	6 078	15 202
Effect of permanent tax differences after tax loss	1 774	4 406
Deferred income tax not accounted for in previous-year financial statements	1	(15)
Income tax expense at effective income tax rate as reported in income statement	(623)	1 379
Effective tax rate	5%	-9%

13.1. Deferred income tax

Deferred income tax relates to the following:

	Balance sheet			Income statement	
	as at			for 6 months	
	30 June 2008	31 December 2007	30 June 2007	ended 30 June	
	<i>unaudited</i>	<i>audited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Deferred income tax assets					
Unused holiday allowance and employee benefits allowance	221	202	157	(19)	45
Valuation of receivables and liabilities	11 571	5 878	2 653	(6 542)	(1 449)
Valuation of shareholder loan	2 530	1 648	772	(882)	(769)
Tax loss	8 689	5 575	748	(3 467)	202
Depreciation	3 495	2 131	0	(1 663)	0
Other	416	437	332	(5)	(150)
Relating to valuation of the acquirees net assets	31 777	36 960	41 537	n/a	n/a
measurement of fair value of property, plant and equipment	4 443	5 168	5 808	n/a	n/a
disclosure and valuation of liabilities	27 334	31 792	35 729	n/a	n/a
Gross deferred income tax assets	58 699	52 831	46 199	(12 578)	(2 121)
Revaluation of tax loss asset	(8 689)	(5 575)	0	3 467	0
Revaluation - other	(2 321)	(2 100)	0	381	0
Net deferred income tax assets	47 689	45 156	46 199	(8 730)	(2 121)
Deferred income tax liabilities					
Depreciation	8 908	6 494	2 288	2 652	333
Interest accrued, not received	5	3	1 392	2	866
Cost of purchasing financial investments and raising capital	0	0	2 289	0	1 846
Valuation of receivables and liabilities	25 147	12 108	2 584	13 294	2 103
Investment property	428	428	364	0	0
Other	477	142	254	335	(62)
Gross deferred income tax liabilities	34 965	19 175	9 171	16 283	5 086
Effect on Income Statement				7 553	2 965

14. Earnings Per Share

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

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

	for 6 months	
	ended 30 June	
	2008	2007
	<i>unaudited</i>	<i>unaudited</i>
Net profit/ loss from continuing operations attributable to equity holders of the parent (in PLN '000)	3 032	(12 806)
Weighted average number of shares for basic earnings per share computations	6 003 875	5 286 000
Number of diluting potential ordinary shares	142 358	142 358
Earnings/ loss per share in PLN	0.51	(2.42)
Diluted earnings (loss) per share in PLN	0.49	(2.36)

Note 27.1 contains detailed information on share issues which took place in 2007 and 2008.

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

Following 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 – Management Board Members acquired the right to take up in aggregate not more than 264,285 subscription warrants convertible into the Company E-series shares (for more detail see description of the Incentive Programme, note 23).

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

On 16 September 2008, the Company's Management Board resolved to increase share capital within the limits of target capital by PLN 1,846,160 via the issuance of 184,616 ordinary bearer F-series shares with a nominal value of PLN 10 each.

With a view to the Company's best interest and subject to consent from the Supervisory Board, the pre-emptive rights of the existing shareholders to F-series Shares were entirely precluded. In addition, subject to consent from the Chairman of the Supervisory Board, the issue price of F-series Shares was set at PLN 130. F-series Shares will participate in dividends starting from 1 January 2008.

F-series Shares were offered in a private subscription to Mr. Bakhytbek Baiseitov. The offering was effected on 22 September 2008 on the terms set out by the Management Board. As a result of the offering, the Company received gross proceeds of PLN 24,000,080.

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

	average market price of shares in the period	instrument execution price as per agreement	total number of instruments issued	number of instruments issued at fair value	number of diluting potential ordinary shares
warrants	274	227	264 285	218 951	45 334
F-series shares	274	130	184 616	87 592	97 024
			448 901	306 543	142 358

15. Expenditure on Exploration for and Evaluation of Mineral Resources

Expenditure on exploration for and evaluation of mineral resources for 6 months ended 30 June 2008

	Concession acquisition and execution costs	Geological research, construction in progress	Restoration provisions	Prepayments	Materials	Total
Opening balance 1 January 2008	41 150	205 165	3 609	14 952	23 587	288 463
Additions	0	57 157	666	4 210	11 638	73 671
Disposals	0	0	(524)	0	0	(524)
Transfers	0	11 117	0	(11 117)	0	0
Foreign exchange adjustment	(5 757)	(25 420)	(466)	(2 083)	(3 298)	(37 024)
Closing balance 30 June 2008	35 393	248 019	3 285	5 962	31 927	324 586

Expenditure on exploration for and evaluation of mineral resources for 6 months ended 30 June 2007

	Concession acquisition and execution costs	Geological research, construction in progress	Restoration provisions	Prepayments	Materials	Total
Opening balance 1 January 2007	43 658	25 924	1 164	12 364	1 447	84 557
Additions, including:	2 355	90 766	0	21 672	3 889	118 682
acquisition of subsidiaries	2 355	35 823	0	3 558	4 154	45 890
Disposals	0	0	0	0	0	0
Transfers	0	1 904	0	(1 904)	0	0
Foreign exchange adjustment	280	412	24	184	101	1 001
Closing balance 30 June 2007	46 293	119 006	1 188	32 316	5 437	204 240

The value of capitalised borrowing costs relating to expenditure on exploration for and evaluation of mineral resources in 6 months ended 30 June 2008 was PLN 13.7m (in 6 months ended 30 June 2007 it was PLN 2.6m).

15.1. Concessions

Subsidiaries and jointly-controlled entities acquired in the fourth quarter of 2006 and in 2007 own concessions for exploration and development of crude oil and gas (hydrocarbons) – for more detail see note 32.1.

The value of the concessions in OilTechnoGroup, EmbajugNief, and Company Profit was presented in line with the historical cost of acquisition quoted in the financial statements of those companies. The Group has a 50% share in that value.

The concession for OilTechnoGroup (OTG) (an entity controlled by Occidental Resources) was acquired from BOLZ LLC pursuant to an agreement concluded between OTG, Occidental Resources and BOLZ LLC on 15 March 2006. Acting upon the agreement, on 17 March 2008 BOLZ LLC, OTG and the Ministry of Energy signed an annex to the concession agreement dated 18 September 2002 which provided for the registration of the OTG Concession. The contract was concluded by BOLZ S.A. with the Minister of Energy and Natural Resources of the Kazakh Republic on 18 September 2002. The contract is valid for 24.5 years, until 2027, and covers two periods: a 4.5-year exploration period and a 20-year production period. The exploration period may be extended by two 2-year periods. Pursuant to an annex dated 22 December 2006, the exploration period was extended to March 2009, and the concession period was extended to 2029.

The term of the concession may be extended if the parties so agree. OTG may not cede the OTG Concession to any third party without the prior consent of the Ministry of Energy.

The key terms and conditions of the OTG concession are presented below:

1. The country has priority to purchase the production of natural resources from OTG at market prices.
2. OTG is obliged to deliver 100% production of crude oil during exploration phase and 20% production of crude oil during production phase to local refineries.
3. OTG is obliged to inform the Ministry of Energy of all and any commercial discoveries and to prepare a report on estimated resources within 180 days from discovery.
4. The Ministry of Energy may suspend the OTG Concession in the following circumstances:
 - a) undertaking by OTG of actions outside the scope of the OTG concession or the schedule of works;
 - b) breach by OTG of the Kazakh law regarding the protection of mineral deposits and environmental protection or any security regulations;
 - c) failure to make due payments of tax or other;
 - d) transfer of rights to exploit deposits under the OTG Concession to third persons without the prior consent of the Ministry of Energy;
 - e) suspension by OTG of works set forth in the schedule of works for a period longer than 180 days unless such suspension is a result of force majeure.
5. The Ministry of Energy may terminate the OTG concession by written notice to OTG in the following circumstances:
 - a) if OTG refuses or fails to remove the causes which led to the suspension of the OTG concession;
 - b) if OTG fails to commence activities connected with the development of mineral deposits in the timeframe provided in the OTG concession;
 - c) if removal of causes which led to the suspension of activities connected with the development of mineral deposits proves impossible;
 - d) if OTG is declared insolvent;
 - e) if OTG should violate any material provisions of the OTG concession; and
 - f) if a court declares the OTG concession invalid.

TOO Company Profit is the holder of a Dautskoye Concession. The Dautskoye Concession was granted pursuant to an agreement dated 18 August 2005 concluded between the Ministry of Energy and Profit. The concession is valid until 18 August 2010. Its term may be extended by two 2-year periods as may be agreed by both parties. In March 2008, the company signed an annex under which the licensed area was expanded by 903.12 sq. km. Profit is not authorised to transfer the Dautskoye Concession to any third party (except for related parties or in accordance with general succession principles) without the prior consent of the Ministry of Energy. The Dautskoye Concession provides Profit with the right to exploit mineral deposits in connection with prospecting for natural resources within specified licensed areas.

The key terms and conditions of the Dautskoye concession:

1. Exploration period granted under the Dautskoye Concession is 5 years.
2. The country has priority to purchase the production of natural resources from Profit at prices, in quantities and on terms and conditions defined in a separate agreement.
3. Profit is obliged to deliver 100% production of crude oil during exploration phase to local refineries on terms and conditions agreed upon with the refineries.
4. Profit is obliged to inform the Ministry of Energy without delay of all and any commercial discoveries and shall prepare a report on estimated resources within 180 days from discovery.
5. The Ministry of Energy may suspend the Dautskoye Concession in the following circumstances:
 - a) undertaking by Profit of actions outside the scope of the Dautskoye Concession or the schedule of works;
 - b) breach by Profit of the Kazakh law regarding the protection of mineral deposits and environmental protection or any security regulations;
 - c) transfer of rights to exploit deposits granted under the Dautskoye Concession without the prior consent of the Ministry of Energy;
 - d) suspension by Profit of works set forth in the schedule of works for a period longer than 90 days unless such suspension is a result of force majeure; and
 - e) breach by Profit of the confidentiality clauses of the Dautskoye Concession.

6. The Ministry of Energy may terminate the Dautskoye Concession at a 60 day notice in the following circumstances:
- a) if Profit refuses or fails to remove the causes which led to the suspension of the Dautskoye Concession;
 - b) if Profit fails to commence activities connected with the development of mineral deposits in compliance with the provisions of the Dautskoye Concession;
 - c) if removal of causes relating to damage to human health and life which led to the suspension of activities connected with the development of mineral deposits proves impossible;
 - d) if Profit should violate any material provisions of the Dautskoye Concession or the schedule of works;
 - e) if Profit is declared insolvent; and
 - f) if there is a judgement declaring the Dautskoye Concession invalid.

EmbaJugNieft owns a Zhubantam-Zhusalisay Concession (Zhubantam-Zusatysaj). The concession was granted pursuant to an agreement dated 29 June 2002 concluded between the Ministry of Energy and EmbaJugNieft. The Zhubantam-Zhusalisay Concession is valid until 12 June 2032. The term of the Zhubantam-Zhusalisay Concession may be extended by agreement between the parties. EmbaJugNieft is not authorised to transfer the Zhubantam-Zhusalisay Concession to any third party (except for related parties) without the prior consent of the Ministry of Energy. The Zhubantam-Zhusalisay Concession provides EmbaJugNieft with the right to exploit mineral deposits in connection with prospecting for and production of natural resources within specified licensed areas.

The Zhubantam-Zhusalisay Concession 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 Concession was extended to 29 June 2009, and the concession period was extended to 12 June 2034.

The key terms and conditions of the Zhubantam-Zhusalisay Concession:

1. Exploration period granted under the Zhubantam-Zhusalisay Concession is 7 years; production period is 25 years.
2. The country has priority to purchase the production from EmbaJugNieft at prices not higher than world market prices.
3. EmbaJugNieft is obliged to deliver 100% production of crude oil during exploration phase and 20% production of crude oil during production phase to local refineries.
4. EmbaJugNieft shall inform the Ministry of Energy of all and any commercial discoveries and prepare a report on estimated resources within 180 days from discovery.
5. The Ministry of Energy may suspend the Zhubantam-Zhusalisay Concession in the following circumstances:
 - a) undertaking by EmbaJugNieft of actions outside the scope of the Zhubantam-Zhusalisay Concession or the schedule of works;
 - b) breach by EmbaJugNieft of the Kazakh law regarding the protection of mineral deposits and environmental protection or any security regulations;
 - c) failure to make due payments of tax or other;
 - d) transfer of rights to exploit deposits under the Zhubantam-Zhusalisay Concession to third persons without the prior consent of the Ministry of Energy;
 - e) suspension by EmbaJugNieft of works set forth in the schedule of works for a period longer than 180 days unless such suspension is a result of force majeure.
6. The Ministry of Energy may terminate the Zhubantam-Zhusalisay Concession at a 60 day notice in the following circumstances:
 - a) if EmbaJugNieft refuses or fails to remove the causes which led to the suspension of the Zhubantam-Zhusalisay Concession;
 - b) if EmbaJugNieft fails to commence activities connected with the development of mineral deposits in compliance with the provisions of the Zhubantam-Zhusalisay Concession;
 - c) if removal of causes relating to damage to human health and life which led to the suspension of activities connected with the development of mineral deposits proves impossible;
 - d) if EmbaJugNieft is declared insolvent;
 - e) if a court rules that there has been a breach of law when the Zhubantam-Zhusalisay Concession was concluded and registered; and
 - f) if a court declares that EmbaJugNieft deliberately presented authorised state authorities with untrue information regarding exploration and production.

OOO Siewiergeofizyka holds a Vysovskye (Wysowskie) Concession. The Vysovskye Concession, securing the right to explore, develop, and produce hydrocarbons, was granted on 22 November 2000 and is valid until 2018. In addition, an annex concluded in April 2006 provides the concessionaire with a right to five-year trial exploitation. The Vysovskye Concession also provides a timeframe for the exploration works programme. The key terms and conditions of Siewiergeofizyka's concession include:

1. the obligation of Siewiergeofizyka to perform specified works within three years from 14 April 2006, including updating seismic 2D and 3D data, conducting supplementary research, drilling and testing of two wells, completing additional expert research: low-frequency seismic and geochemical research, completing profile works, such as accumulating and analysing geophysical information and preparing geological project documentation not later than December 2010;
2. the obligation of Siewiergeofizyka to make regular payments (including payments for the development of mineral deposits) stipulated in the Vysovskye Concession and currently binding laws;

3. the obligation of Siewiergeofizyka to ensure, amongst other things, the reliability of computations of produced hydrocarbons and other elements; to prepare and keep record of geological, technical and other documentation for mineral fields in use; to comply with currently binding laws and regulations (standards, norms, principles etc.) in respect of the development of mineral deposits and environmental protection; to comply with the requirements of currently binding laws and regulations to ensure that wells used and closed by Siewiergeofizyka are kept safe and that protection of mineral deposits is ensured, as well as to comply with the requirements regarding drilling and well maintenance safety; to ensure proper safety conditions for high-quality works; comprehensive survey of geological areas with no drilling works in compliance with "Rules of Procedure for Testing and Survey of Oil and Gas Wells in the Komi Republic"; to undertake hazardous works under the concession issued by the state inspection authority Gosgortekhnadzor for certain types of works; to conclude an agreement for protection against explosion during exploration drilling for oil and gas, testing and pilot production; to use drilling and testing technologies most safe for the environment, thus preventing environmental pollution over the set limits; to ensure quality maintenance and closure of wells, as well as bringing the fields to a state which allows for future utilisation; to transport selected dangerous materials and substances to appropriate storehouses during drilling; to ensure certain levels of oil rates, active agent (reagent), and the volume of exploration and production wells as provided for in the documentation of the project and technical documentation endorsed in the usual manner, provided, however, that the technology used for the development of oil fields shall provide optimal oil regeneration indexes (KIN), in any case not lower than the values endorsed by the State Committee for Natural Reserves; to comply with the requirements relating to the development of fields endorsed in the technical documentation; and to utilise associated gas as provided for in the project documentation.

OOO Nieftiegeoserwis has two concessions, Yermolovskye (Jermołowskie) and Yuzhno-Nyertsovskye (Južno-Niercowskie).

The Yermolovskye Concession was granted on 1 October 2004 for a maximum of five years and is an exploration type of concession. The key terms and conditions of the Yermolovskye concession:

1. the obligation of Nieftiegeoserwis to commence prospecting works in the licensed area and to secure delivery of the work schedule defined in the Yermolovskye Concession;
2. the obligation of Nieftiegeoserwis to make regular payments as stipulated in the Yermolovskye Concession and currently binding regulations;
3. the obligation of Nieftiegeoserwis to present reports, statements and other information and documents required by law and the Yermolovskye Concession;
4. the obligation of Nieftiegeoserwis to ensure:
 - a) compliance with currently binding laws (standards, norms, principles etc.) as far as conducting exploration works and environmental protection are concerned;
 - b) compliance with standards for the maintenance and decommissioning of exploration and production wells and land restoration.

The Yuzhno-Nyertsovskye Concession was granted in October 2004 and expires on 30 August 2009. The Yuzhno-Nyertsovskye Concession is an exploration type of concession. The key terms and conditions of the Yuzhno-Nyertsovskye concession:

1. the obligation of Nieftiegeoserwis to commence prospecting works in the licensed area and to secure delivery of the work schedule defined in the Yuzhno-Nyertsovskye Concession;
2. the obligation of Nieftiegeoserwis to make regular payments as stipulated in the Yuzhno-Nyertsovskye Concession and currently binding regulations;
3. the obligation of Nieftiegeoserwis to present reports, statements and other information and documents required by law and the Yuzhno-Nyertsovskye Concession;
4. the obligation of Nieftiegeoserwis to ensure:
 - a) compliance with currently binding laws (standards, norms, principles etc.) as far as conducting exploration works and environmental protection are concerned;
 - b) compliance with standards for the maintenance and decommissioning of exploration and production wells and land restoration.

There is a nature reserve of Sebys situated within the territory of the Yuzhno-Nyertsovskye Concession. Thus, prospecting works in the area of the nature reserve may be conducted under but not limited to the following conditions:

- a) works should be conducted using technologies that are environmentally safe;
- b) a positive opinion is required issued based on tests run by a state expert on ecology; and
- c) works in particularly protected forest areas are prohibited.

ZAO Pechora-Petroleum has two concessions, the Porozhskye Concession and the Vyerkhnye-Pechorskyye Concession.

The Porozhskye Concession was issued on 1 June 2001 for a period ending on 30 April 2006; however, it was prolonged twice, in February 2006 until 31 December 2008 and then in May 2008 until 30 April 2010. The rights to exploit deposits under the above-mentioned concessions are set out in concession agreements which are components of the concession. The Porozhskye Concession is an exploration type of concession.

The Vyerkhnye-Pechorskyye Concession was issued on 25 June 2001 and provided for two five-year exploration periods and a subsequent development period should commercial reserves be found. The Vyerkhnye-Pechorskyye Concession ultimately expires in February 2018. The Vyerkhnye-Pechorskyye Concession is an exploration and production type of concession.

According to Russian Mineral Resources Law, concessions pertaining to mineral resources may be revoked after they have been issued or later in compliance with the provisions of a given concession and the provisions of law. As provided for in Art. 20

of the Russian Mineral Resources Law, the right to exploit mineral resources may be terminated early, suspended or limited by the state authorities that granted the concession. Such powers are currently within the competences of the Federal Agency for Management of Mineral Resources.

16. Property, Plant and Equipment

As at 30 June 2008 and 31 December 2007, the Group did not have any plant or equipment held under finance lease agreements or hire purchase contracts. The carrying amount of vehicles held under finance lease agreements and hire purchase contracts was PLN 0.8m (31 December 2007: PLN 0.9m). Leased assets and assets under hire purchase contracts are not pledged as security for the related finance lease and hire purchase liabilities.

A mortgage security in the amount of PLN 10m and a capped mortgage security of up to PLN 5m have been established on real estate located in Łubiana, municipality of Kościerzyna, where the Company is the owner of perpetual usufruct rights. A mortgage security has been established on real estate located in Suwałki for a total of PLN 8m with an assignment of rights to proceeds from insurance policies. Also a registered pledge has been established over fixed assets with a minimum net value of PLN 2m.

The value of capitalised borrowing costs for 6 months ended 30 June 2008 was PLN 276 thousand.

PETROLINVEST GROUP
Interim consolidated financial statements for 6 months ended 30 June 2008
Accounting principles and notes to the financial statements
(in PLN thousands)

Property, plant and equipment for 6 months ended 30 June 2008

	<i>Buildings, premises Land and civil engineering structures</i>	<i>Plant and machinery</i>	<i>Vehicles</i>	<i>Other assets</i>	<i>Assets under construction</i>	<i>Prepaid assets under construction</i>	<i>Total</i>	
Opening balance 1 January 2008	2 543	20 253	9 125	6 944	1 430	13 269	8	53 572
Additions	0	59	72	135	107	2 623	0	2 996
Disposals	0	0	(7)	(65)	(9)	0	(8)	(89)
Transfers	0	0	25	(5)	35	(55)	0	0
Depreciation charge for the year, including: capitalised depreciation	0	(451)	(394)	(370)	(119)	0	0	(1 334)
Foreign exchange adjustment	(276)	(468)	(80)	(96)	(87)	0	0	(1 007)
Closing balance 30 June 2008	2 267	19 393	8 741	6 543	1 357	15 837	0	54 138
<i>As at 1 January 2008</i>								
Cost	2 543	24 298	12 752	10 618	1 898	13 269	8	65 386
Accumulated depreciation and impairment	0	(4 045)	(3 627)	(3 674)	(468)	0	0	(11 814)
Net carrying amount	2 543	20 253	9 125	6 944	1 430	13 269	8	53 572
<i>As at 30 June 2008</i>								
Cost	2 267	23 835	12 781	10 409	1 896	15 837	0	67 025
Accumulated depreciation and impairment	0	(4 442)	(4 040)	(3 866)	(539)	0	0	(12 887)
Net carrying amount	2 267	19 393	8 741	6 543	1 357	15 837	0	54 138

PETROLINVEST GROUP
Interim consolidated financial statements for 6 months ended 30 June 2008
Accounting principles and notes to the financial statements
(in PLN thousands)

Property, plant and equipment for 6 months ended 30 June 2007

	<i>Land</i>	<i>Buildings, premises and civil engineering structures</i>	<i>Plant and machinery</i>	<i>Vehicles</i>	<i>Other assets</i>	<i>Assets under construction</i>	<i>Prepaid assets under construction</i>	<i>Total</i>
Opening balance 1 January 2007	572	17 929	9 392	7 160	785	5 071	0	40 909
Additions, including:	0	106	371	539	213	2 952	0	4 181
acquisition of subsidiaries	0	0	0	206	40	0	0	246
Disposals	0	0	(3)	0	0	0	0	(3)
Transfers	0	469	(293)	(8)	4	(172)	0	0
Depreciation charge for the period, including:	0	(410)	(336)	(367)	(56)	0	0	(1 169)
Foreign exchange adjustment	0	(24)	(25)	(38)	(22)	0	0	(109)
Closing balance 30 June 2007	572	18 070	9 106	7 286	924	7 851	0	43 809
<i>As at 1 January 2007</i>								
Cost	572	21 330	12 932	10 072	1 099	5 071	0	51 076
Accumulated depreciation and impairment	0	(3 401)	(3 540)	(2 912)	(314)	0	0	(10 167)
Net carrying amount	572	17 929	9 392	7 160	785	5 071	0	40 909
<i>As at 30 June 2007</i>								
Cost	572	21 750	12 451	10 595	1 288	7 851	0	54 507
Accumulated depreciation and impairment	0	(3 680)	(3 345)	(3 309)	(364)	0	0	(10 698)
Net carrying amount	572	18 070	9 106	7 286	924	7 851	0	43 809

17. Lease Commitments

17.1. Finance lease and hire purchase commitments

As at 30 June 2008 and 31 December 2007, future minimum rentals payable under finance leases and hire purchase contracts and the present value of the net minimum lease payments are as follows:

present value of lease payments

	30 June 2008	31 December 2007
	<i>unaudited</i>	<i>audited</i>
	PLN '000	PLN '000
Within 1 year	217	180
Within 1 to 5 years	231	248
	<u>448</u>	<u>428</u>
future minimum lease payments		
	30 June 2008	31 December 2007
	<i>unaudited</i>	<i>audited</i>
	PLN '000	PLN '000
Amounts payable under finance leases in the period		
Within 1 year	259	214
Within 1 to 5 years	251	274
Minimum lease payments in total	<u>510</u>	<u>488</u>
Less finance charges	<u>(62)</u>	<u>(60)</u>
Present value of minimum lease payments	<u>448</u>	<u>428</u>

The Group 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 Group substantially all the risks and benefits incidental to ownership of the leased item.

17.2. Operating lease

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

On 16 December 2005, PETROLINVEST concluded two property lease agreements with the Management Board of Morski Port Gdynia S.A. relating to properties located at the Silesian Quay (Nabrzeże Śląskie), Gdynia. The agreements pertain to the lease of land together with buildings and structures located on the land. The agreements were concluded for a definite term until 31 October 2025. The monthly fee for the lease of land of 1,891 sq. m. was set at PLN 11 thousand, and the monthly fee for the lease of land of 8,151 sq. m. was set at EUR 4.6 thousand for land lease and EUR 2.6 thousand for using the Gas Trans-shipment Terminal. It was also provided that the fee payable in Polish zloty shall be valorised once a year using the yearly average price index of consumer goods and services for the previous year announced in *Monitor Polski* by the president of the Central Statistical Office, while the fee payable in EUR shall be valorised once a year using the consumer price index published in the Annual Report of the European Central Bank.

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

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

	30 June 2008	31 December 2007
	<i>unaudited</i>	<i>audited</i>
	PLN '000	PLN '000
Maturing:		
Within 1 year	510	492
Within 1 to 5 years	2 792	2 696
More than 5 years	8 218	8 352
	<u>11 520</u>	<u>11 540</u>

18. Investment Property

	<i>for 6 months ended</i>	<i>for 12 months ended</i>	<i>for 6 months ended</i>
	<i>30 June 2008</i>	<i>31 December 2007</i>	<i>30 June 2007</i>
	<i>unaudited</i>	<i>audited</i>	<i>unaudited</i>
	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>
Opening balance	2 567	2 232	2 232
Profit/(loss) on re-measurement to fair value	0	335	0
Closing balance	2 567	2 567	2 232

The fair value of investment property as at 31 December 2007 was determined based on a property valuation by an independent surveyor. The valuation was performed in accordance with the International Valuation Standards on the basis of documented market transactions involving similar type property. As at 30 June 2008, the Group assumed that the fair value assessment of investment property as at 31 December 2007 remained unchanged.

19. Intangible Assets

Intangible assets for 6 months ended 30 June 2008

	<i>Concessions, rights, licences</i>	<i>Other</i>	<i>Total</i>
Opening balance 1 January 2008	209	367	576
Additions	13	182	195
Transfers	0	0	0
Amortisation charge for the year	(76)	(109)	(185)
Foreign exchange adjustment	0	(39)	(39)
Closing balance 30 June 2008	146	401	547
As at 1 January 2008			
Cost (gross carrying amount)	331	367	698
Accumulated amortisation and impairment	(122)	0	(122)
Net carrying amount	209	367	576
As at 30 June 2008			
Cost (gross carrying amount)	343	557	900
Accumulated amortisation and impairment	(197)	(156)	(353)
Net carrying amount	146	401	547

Intangible assets for 6 months ended 30 June 2007

	<i>Concessions, rights, licences</i>	<i>Other</i>	<i>Total</i>
Opening balance 1 January 2007	35	18	53
Additions, including:	0	1	1
acquired companies	0	1	1
Transfers	0	0	0
Amortisation charge for the year	(14)	0	(14)
Foreign exchange adjustment	(2)	0	(2)
Closing balance 30 June 2007	19	19	38
As at 1 January 2007			
Cost (gross carrying amount)	105	23	128
Accumulated amortisation and impairment	(70)	(5)	(75)
Net carrying amount	35	18	53
As at 30 June 2007			
Cost (gross carrying amount)	104	24	128
Accumulated amortisation and impairment	(85)	(5)	(90)
Net carrying amount	19	19	38

In 6 months ended 30 June 2008 and in the year ended 31 December 2007, patents and licences were amortised proportionally over their economic useful lives of 2 to 5 years.

20. Acquisitions of Businesses and Shares in Jointly-Controlled Entities

Goodwill on consolidation

	30 June 2008	31 December 2007
	<i>unaudited</i>	<i>audited</i>
	PLN '000	PLN '000
Occidental Resources, Inc.	256 767	307 244
TOO EmbaJugNieft	31 301	38 428
TOO Company Profit	16 277	19 557
OOO NK Siewiergeofizyka	30 223	33 312
OOO Nieftegeoserwis	28 886	31 748
ZAO Pechora - Petroleum	38 059	41 820
Total carrying amount	401 513	472 109

The reporting year of subsidiaries and jointly-controlled entities is the same as the reporting year used by PETROLINVEST S.A.

The Group made an assessment at the balance sheet date that there were no circumstances indicating that goodwill may be impaired and decided that all assumptions adopted for impairment testing at the end of 2007 (that were described in the consolidated financial statements for the year ended 31 December 2007) remain valid as at the balance sheet date, 30 June 2008.

In the period of 6 months ended 30 June 2008 and 30 June 2007 and the year ended 31 December 2007, there were the following changes in the carrying amount of goodwill on consolidation:

	<i>for 6 months ended</i>	<i>for 12 months ended</i>	<i>for 6 months ended</i>
	30 June 2008	31 December 2007	30 June 2007
	<i>unaudited</i>	<i>audited</i>	<i>unaudited</i>
	PLN '000	PLN '000	PLN '000
Goodwill on consolidation at the beginning of the period	472 109	352 661	352 661
Increases due to acquisitions	0	154 071	107 209
Foreign exchange differences on valuation of goodwill at balance sheet date	(70 596)	(34 623)	4 816
Total carrying amount at the end of the period	401 513	472 109	464 686

Information regarding the value of the net assets of the companies acquired in 2007 as at the date of the acquisition of control/ joint-control and the purchase price adopted for final accounting for the acquisition is provided below.

OOO Nieftegeoserwis

In September 2006, the Company concluded three agreements under which the Company acquired 59.99% shares in Nieftegeoserwis with a nominal value of 5,999 roubles (PLN 673) carrying 59.99% votes at the shareholders meetings. The share purchase price was USD 12m (PLN 35.6m) and was payable in instalments. Payment of the last instalment was subject to certain conditions precedent, the transfer of shares to the Company, completion of the first well and introducing amendments to the founding act and articles of incorporation of Nieftegeoserwis as agreed by the parties. On 28 March 2007, the previous holders of the shares signed and delivered to the Company and Nieftegeoserwis notices regarding the transfer of shares hitherto held by them in the share capital of Nieftegeoserwis, which, in accordance with the Russian Federation law, is a condition precedent to the exercise of rights from shares by a new shareholder – PETROLINVEST S.A. On 6 August 2007, the Company paid the remaining part of the liability following from the purchase of Nieftegeoserwis's shares. As at 30 June 2008, all liabilities payable in connection with the share purchase had been paid.

As transactions in OOO Nieftegeoserwis were insignificant in the period from 28 to 31 March 2007, for consolidation purposes 1 April 2007 was treated as the date of the change of control. The scope of OOO Nieftegeoserwis's business activities did not change materially following its acquisition by PETROLINVEST S.A.

Goodwill arising from accounting for the acquisition of shares in OOO Nieftegeoserwis results primarily from the expected cash flows from the sale of hydrocarbons. Rights to the cash flows follow from the licence granted by the Ministry of Natural Resources and Environmental Protection of the Republic of Komi as discussed in more detail in note 32.1.

In the period of 6 months ended on 30 June 2008, the company recorded revenue primarily due to foreign exchange gains, and its share in the Group's profit was PLN 0.9m. In the period of 6 months ended 30 June 2008, the company did not generate any revenues from the sale of goods.

The fair value of the identifiable assets, liabilities and contingent liabilities of OOO Nieftegeoserwis as at the date of acquisition is as follows:

	PLN'000	Carrying amount	Amount recognised on acquisition
Property, plant and equipment		11 047	11 047
Cash and cash equivalents		90	90
Trade and other receivables		1 635	1 635
		<u>12 772</u>	<u>12 772</u>
Prepayments and accruals		12 908	12 908
		<u>12 908</u>	<u>12 908</u>
Fair value of net assets			(136)
Share in net assets controlled			59.99%
Goodwill arising on acquisition			35 925
Consideration:			
Total consideration (cash)			35 790
The cash outflow on acquisition is as follows:			
Net cash acquired with the subsidiary			90
Cash paid			(35 790)
Net cash outflow			(35 700)

TOO EmbajugNieft

On 9 June 2006, shareholders of TOO EmbajugNieft (D.R. Amankulov, TOO Atameken Prommasz, TOO Geokapital and TOO Marburg Oil) resolved to accept PETROLINVEST S.A. as a new shareholder. As provided for in the resolution, PETROLINVEST was obliged to make a contribution of KZT 72,500 (PLN 1,671) and an outlay of USD 50m (extending loans to the company) 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 PETROLINVEST and TOO EmbajugNieft whereby the Company granted a non-interest bearing loan totalling USD 25m to TOO EmbajugNieft for a period to 8 June 2031. The aim of the loan is to finance operating activities of TOO EmbajugNieft and, in particular, to provide funds allowing TOO EmbajugNieft to fulfil its obligations towards the state authorities of the Kazakh Republic in respect of exploration for and production of hydrocarbons. The agreement provides that the loan may also be repaid by means of conversion of loan receivables into shares once TOO EmbajugNieft is legally transformed into a joint-stock company. If the loan is not converted within 30 days from the transformation, PETROLINVEST S.A. is entitled to demand repayment of the loan within 180 days from the transformation. The conversion of the loan into share capital will be possible 366 days from the agreement or earlier if PETROLINVEST S.A. should receive a consent from the President of NBP regarding early repayment of the loan, i.e. in under a year from the date of the agreement.

The loan advanced in connection with the acquisition of shares was measured at amortised cost using the effective interest rate. As the loan had to be granted on specific conditions (no interest) in order for the agreements to be concluded (the agreements resulting in the acquisition of joint-control over the entity), discount on the valuation of the loan was disclosed as a financial asset of USD 18.2m (PLN 53.98m), of which USD 15.2m (PLN 45.03m) had been transferred by the Company before the date of the acquisition of joint-control.

As transactions in TOO EmbajugNieft were insignificant in the period from 26 to 30 April 2007, for consolidation purposes 1 May 2007 was treated as the date of control. The scope of TOO EmbajugNieft's business activities did not change materially following its acquisition by PETROLINVEST S.A.

In accounting for the transaction, PETROLINVEST S.A. remeasured the assets of TOO EmbajugNieft as at the date of the acquisition of joint-control and increased the company's loan receivables. The USD 3m (PLN 8.95m) discount on the remaining portion of the loan connected with the acquisition of shares, which PETROLINVEST S.A. advanced upon assuming joint-control over TOO EmbajugNieft, increased the net assets of the company as at the date of the acquisition of joint-control and was disclosed as an account receivable of TOO EmbajugNieft.

PETROLINVEST S.A. conducted a thorough analysis of the liabilities resulting from the concession for hydrocarbon exploration and production. As a result, PETROLINVEST identified two separate groups of liabilities – one consisting of liabilities connected with concession acquisition costs, and the other involving liabilities connected with the execution of rights and obligations resulting from such concession. PETROLINVEST made an assessment of the liabilities of the first group of the concession liabilities of EmbajugNieft where it allocated liabilities relating to historical costs (USD 4.4m), social schemes (USD 5m) and commercial premium (USD 6.1m). Those liabilities will be paid as agreed over the entire term of the concession. PETROLINVEST made an assessment of the current value of future concession liabilities in this group. The Company also made an assessment of the value of a deferred tax asset arising on the concession liabilities recognised in EmbajugNieft's net assets.

Goodwill arising on accounting for the acquisition of shares in TOO EmbajugNieft results primarily from the expected cash flows from the sale of hydrocarbons. Rights to the cash flows follow from the licence granted by the Ministry of Energy and Natural Resources of the Republic of Kazakhstan as discussed in more detail in note 32.1. As the fair value of the licence cannot be reliably measured on a provisional basis, the value of the licence has not been separated from goodwill.

In the period of 6 months ended on 30 June 2008, the company recorded revenue primarily due to foreign exchange gains, and its share in the Group's profit was PLN 1.5m. In the period of 6 months ended 30 June 2008, the company did not generate any revenues from the sale of goods.

The fair value of the identifiable assets, liabilities and contingent liabilities of TOO EmbajugNieft as at the date of acquisition is as follows:

	<i>PLN'000</i>	<i>Carrying amount</i>	<i>Amount recognised on acquisition</i>
Property, plant and equipment		45 903	45 903
Cash and cash equivalents		1 189	1 189
Inventories		198	198
Trade and other receivables		6 107	14 498
Prepayments and accruals		89	89
		<u>53 486</u>	<u>61 878</u>
Liabilities and other accruals		16 370	46 532
Provisions		213	213
		<u>16 582</u>	<u>46 745</u>
Fair value of net assets		36 904	15 133
Share in net assets controlled			50.00%
Goodwill arising on acquisition			46 861
Consideration:			
Total consideration			54 427
cash			444
discount on long-term loans granted			53 983
The cash outflow on acquisition is as follows:			
Net cash acquired with the jointly-controlled entity (50% share)			595
Cash transferred in connection with the acquisition			(54 427)
Net cash outflow			(53 832)

TOO Company Profit

On 9 June 2006, the shareholder of TOO Nurmunay Petrogaz resolved to accept PETROLINVEST as a new shareholder of TOO Company Profit. As provided for in the resolution, PETROLINVEST S.A. was obliged to make a contribution of KZT 82,300 (PLN 1,889) and an outlay of USD 14m (extending loans to the company) 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 PETROLINVEST and TOO Company Profit whereby the Company granted a non-interest bearing loan totalling USD 14m to TOO Company Profit for a period to 8 June 2031. The aim of the loan is to finance operating activities of TOO Company Profit and, in particular, to provide funds allowing TOO Company Profit to fulfil its obligations towards the state authorities of the Kazakh Republic in respect of exploration for and production of hydrocarbons and to repay loan obligations of USD 2.36m. 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.

The loan advanced in connection with the acquisition of shares was measured at amortised cost using the effective interest rate. As the loan had to be granted on specific conditions (no interest) in order for the agreements to be concluded (the agreements resulting in the acquisition of joint-control over the entity), discount on the valuation of the loan was disclosed as a financial asset of USD 10.3m (PLN 31.1m), of which USD 7.8m (PLN 24m) had been transferred by the Company before the date of the acquisition of joint-control.

As transactions in TOO Company Profit were insignificant in the period from 1 to 7 May 2007, for consolidation purposes 1 May 2007 was treated as the date of the change of control. The scope of TOO Company Profit's business activities did not change materially following its acquisition by PETROLINVEST.

In accounting for the transaction, PETROLINVEST S.A. remeasured the assets of TOO Company Profit as at the date of the acquisition of joint-control and increased the company's loan receivables. The USD 2.5m (PLN 7m) discount on the remaining portion of the loan connected with the acquisition of shares, which PETROLINVEST S.A. advanced upon assuming joint-control

over TOO Company Profit, increased the company's net assets as at the date of the acquisition of joint-control and was disclosed as an account receivable of TOO Company Profit.

PETROLINVEST S.A. conducted a thorough analysis of the liabilities resulting from the concession for hydrocarbon exploration. As a result, PETROLINVEST identified two separate groups of liabilities – one consisting of liabilities connected with concession acquisition costs, and the other involving liabilities connected with the execution of rights and obligations resulting from such concession. PETROLINVEST made an assessment of the liabilities of the first group of the concession liabilities of TOO Company Profit where it allocated liabilities relating to historical costs (USD 1.76m), social schemes (USD 0.6m) and commercial premium (USD 1.9m). Those liabilities will be paid as agreed over the entire term of the concession. PETROLINVEST made an assessment of the current value of future concession liabilities in this group. The Company also made an assessment of the value of a deferred tax asset arising on the concession liabilities recognised in Company Profit's net assets.

Goodwill arising on accounting for the acquisition of shares in TOO Company Profit results primarily from the expected cash flows from the sale of hydrocarbons. Rights to the cash flows follow from the licence granted by the Ministry of Energy and Natural Resources of the Republic of Kazakhstan as discussed in more detail in note 32.1. As the fair value of the licence cannot be reliably measured on a provisional basis, the value of the licence has not been separated from goodwill.

In the period from of 6 months ended on 30 June 2008, the company incurred a loss, and its share in the Group's net loss was PLN -0.4m. In the period of 6 months ended 30 June 2008, the company did not generate any revenues from the sale of goods.

The fair value of the identifiable assets, liabilities and contingent liabilities of TOO Company Profit as at the date of acquisition is as follows:

	PLN'000	Carrying amount	Amount recognised on acquisition
Property, plant and equipment and intangible assets		24 278	24 278
Cash and cash equivalents		246	246
Inventories		4	4
Trade and other receivables		267	7 212
Prepayments and accruals		139	139
		<u>24 934</u>	<u>31 879</u>
Liabilities and other accruals		8 662	17 248
Provisions		128	128
		<u>8 790</u>	<u>17 376</u>
Fair value of net assets			14 503
Share in net assets controlled			50.00%
Goodwill arising on acquisition			24 423
Consideration:			
Total consideration			31 674
cash			550
discount on long-term loans granted			31 124
The cash outflow on acquisition is as follows:			
Net cash acquired with the jointly-controlled entity (50% share)			123
Cash transferred in connection with the acquisition			(31 674)
Net cash outflow			(31 551)

ZAO Pechora Petroleum

On 28 August 2007, PETROLINVEST S.A. received a notification that the acquisition by the Company of 236 shares of ZAO Pechora-Petroleum, with its registered office in Ukhta, Komi Republic, Russian Federation, which constitute 59% of the initial capital of Pechora-Petroleum had been registered. The acquisition was effected through execution of three agreements between the Company and Valery Garipov, Olga Ramzenkova and Aleksey Hitrov concluded on 12 February 2007. The total purchase price of shares was USD 17m (PLN 49.3m). Up to the date of approval of the financial statements, the Company had paid USD 8.5m (PLN 25.2m). Pechora-Petroleum deals with the exploration for and production of crude oil and holds an exploration concession in the Porozhskye area as well as an exploration and production concession in the Vyerkhnye-Pechorskyye area. As a result of the transaction, the Company holds a 59% interest in the initial capital of Pechora-Petroleum, carrying 59% voting rights at the general meeting of Pechora-Petroleum. The face value of the shares acquired is 11,800 roubles. The Company treats the acquisition of Pechora-Petroleum shares as a long-term capital investment. The shares of Pechora-Petroleum acquired by the Company are treated as assets of substantial value because their value represents more than 10% of the Company's equity.

As transactions in ZAO Pechora-Petroleum were insignificant in the period from 28 August to 1 September 2007, for consolidation purposes 1 September 2007 was treated as the date of the change of control. The scope of ZAO Pechora-Petroleum's business activities did not change materially following its acquisition by PETROLINVEST.

In accounting for the transaction, PETROLINVEST S.A. remeasured the assets of TOO EmbajugNiefert as at the date of the change of control. Goodwill arising on the acquisition of shares in ZAO Pechora-Petroleum, accounted for on a provisional basis,

results primarily from the expected cash flows from the sale of hydrocarbons. Rights to the cash flows follow from the licence granted by the Ministry of Natural Resources and Environmental Protection of the Republic of Komi. As the fair value of the licence cannot be reliably measured on a provisional basis, the value of the licence has not been separated from goodwill.

In the period of 6 months ended on 30 June 2008, the company recorded revenue primarily due to foreign exchange gains, and its share in the Group's profit was PLN 1m. In the period of 6 months ended 30 June 2008, the company did not generate any revenues from the sale of goods.

The fair value of the identifiable assets, liabilities and contingent liabilities of ZAO Pechora-Petroleum as at the date of acquisition is as follows:

	<i>PLN'000</i>	<i>Carrying amount</i>	<i>Amount recognised on acquisition</i>
Property, plant and equipment and intangible assets		12 586	12 586
Cash and cash equivalents		45	45
Trade and other receivables		1 838	1 838
Prepayments and accruals		6	6
		<u>14 475</u>	<u>14 475</u>
Liabilities and other accruals		14 529	14 529
		<u>14 529</u>	<u>14 529</u>
Fair value of net assets			(54)
Share in net assets controlled			59.00%
Goodwill arising on acquisition			46 862
Consideration:			
Total consideration (cash)			46 830
The cash outflow on acquisition is as follows:			
Net cash acquired with the jointly-controlled entity			23
Cash paid and payable			(49 099)
Net cash outflow			(49 077)

21. Interest in Joint Venture

The Group has a 50% interest in Occidental Resources Inc., which invests in entities involved in exploration for and production of crude oil and natural gas, and a 50% interest in TOO EmbaJugNiefert and TOO Company Profit which are involved in exploration for and production of crude oil and natural gas. Those companies are consolidated using the proportionate method.

The Group's share of the assets, liabilities, revenue and expenses of joint ventures included in the interim consolidated financial statements for 6 months ended 30 June 2008 and 30 June 2007 and for the year ended 31 December 2007, and as at 30 June 2008 and 31 December 2007 is as follows:

	<i>30 June 2008 unaudited PLN '000</i>	<i>31 December 2007 audited PLN '000</i>
Current assets (short-term)	11 996	43 010
Non-current assets (long-term)	422 515	402 516
	<u>434 511</u>	<u>445 526</u>
Current liabilities	41 341	72 237
Non-current liabilities	326 867	284 852
	<u>368 208</u>	<u>357 089</u>
Net assets of the company (50% share)	<u>66 303</u>	<u>88 437</u>
Goodwill on consolidation	304 345	365 229
Net assets of the company from consolidation	<u>370 648</u>	<u>453 666</u>

PETROLINVEST GROUP
Interim consolidated financial statements for 6 months ended 30 June 2008
Accounting principles and notes to the financial statements
(in PLN thousands)

	<i>for 6 months ended</i>	<i>for 12 months ended</i>	<i>for 6 months ended</i>
	<i>30 June 2008</i>	<i>31 December 2007</i>	<i>30 June 2007</i>
	<i>unaudited</i>	<i>audited</i>	<i>unaudited</i>
	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>
Revenue	0	0	0
Operating expenses	(8 655)	(14 163)	(3 827)
Finance income/ costs, net	15 073	20 471	9 613
Profit/ (loss) before tax	6 418	6 309	5 786
Income tax expense	2 535	4 554	1 586
Net profit/ (loss)	3 883	1 755	4 200

Information regarding contingent liabilities and capital expenditures is provided in note 32.

22. Other Financial Assets

In 2006, the Group began its investment project aiming at acquiring shares or taking control over foreign companies who own concessions for oil and gas exploration, or exploration and exploitation. 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 loans extended by Prokom Investments S.A., proceeds of the share capital increase, and bank loans.

On 16 January 2008, the Management Board of PETROLINVEST signed investment agreements, annexed on 12 September 2008, pertaining to the acquisition of a 50% stake in the share capital of EmbajugNieft and a 48.27% stake in the share capital of Occidental Resources, the execution of which will enable the Company to gain control over those exploration and production companies holding concessions for exploration and production of hydrocarbons in the Republic of Kazakhstan. Details regarding the agreements were given in current reports 3/2008 and 52/2008 published on 16 January 2008 and 13 September 2008, respectively. Up to the date of approval of these interim consolidated financial statements, the agreements have not been finalised.

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

In the period between 25 April 2008 and the date of approval of these interim consolidated financial statements, the Company entered into three loan agreements with Capital Energy S.A. The agreements were regarding loans to be granted by the Company for a total amount of USD 9,700 thousand. The loans mature twelve months from the date the funds are made available. Interest on the loans was set at 14% p.a. The Company also entered into the following agreements serving as collateral for the above-mentioned receivable: (i) three pledge agreements over third-party assets 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. Up to the date of approval of the interim consolidated financial statements, all funds have been made available (an amount of USD 8,740 thousand was available as at 30 June 2008). The loans are secured with a pledge over an aggregate of 6.47% of the share capital of Bekem Metals Inc (BMI) and 20% of the share capital of BOLZ LLP and a guarantee given by BMB Munai.

An Investment Agreement was concluded on 21 February 2008, annexed on 12 September 2008, between the Company and Mars International Worldwide Inc. and Munivac Global Ventures Inc., regarding the purchase by the Company of 45% of the shares in Kazakhstancaspishelf JSC, a company incorporated under Kazakh law ("Kazakhstancaspishelf"), entitling the Company to 50% of the votes at the general meeting of that company. The performance of the agreement has been made conditional on a number of conditions precedent, in particular: the confirmation by a court-appointed auditor of the value of the contribution, gaining appropriate corporate and regulatory consents, and in particular appropriate anti-monopoly consents. Details regarding the agreement were given in current reports 10/2008 and 52/2008 published on 29 February 2008 and 13

September 2008, respectively. Up to the date of approval of these interim consolidated financial statements, the agreement has not been finalised as not all conditions precedent resulting from the agreement had been met.

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

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

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

On 12 May 2006, the Company entered into a loan agreement with Bakhytbek Baiseitov and Lamda Engineering Inc. (restated on 1 June 2006). The agreement provides that the Company shall grant a loan of USD 25.3m to Bakhytbek Baiseitov that the borrower shall use exclusively towards acquiring shares in Aktau-Tranzit. The loan was extended in three tranches. 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, and in particular grant options for shares of Lamda Engineering Inc. 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 2007. 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 Zangurschi concessions. Should the Company acquire the shares, it shall renounce its claim to the receivables due from Bakhytbek Baiseitov under the loan agreement and the related collateral up to the value of the shares acquired. The value of the shares acquired shall be determined upon execution of the call option by the parties or, in case agreement is not reached, by an independent expert. The option had been granted up until final repayment of the loan granted by the Company. To secure the execution of the agreement, Kulyash Baiseitova granted a power of attorney to the Company to dispose of shares constituting 70 per cent of the share capital of Lamda Engineering Inc. In July 2007, having received an expert's report estimating the Tyubedzhik and Zangurschi oil resources, management decided to execute the agreement of 12 May 2006 by exercising the option to acquire a 35 per cent stake in Aktau-Tranzit. Prior to exercising the option, it will be necessary to secure the relevant approvals and permits, in particular the approval of the Kazakh anti-trust authorities and of the Ministry of Energy. Management may decide to finance the activities of the company before then despite the fact that registration proceedings may still be in progress.

In 2006, Petrolinvest S.A. granted loans to The Decapolis Group of USD 585 thousand. Up to the date of these consolidated financial statements, the loan had not been repaid and the Management Board of Petrolinvest S.A. made a write-off of the entire amount of the loan receivable of PLN 1.4m in 2007.

PETROLINVEST GROUP
Interim consolidated financial statements for 6 months ended 30 June 2008
Accounting principles and notes to the financial statements
(in PLN thousands)

The following table presents the value of the Group's financial assets as at 31 December 2007 and as at 30 June 2008.

	30 June 2008	31 December 2007
	<i>unaudited</i>	<i>audited</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Loans granted and loan discounts	144 625	109 912
including current loans and borrowings	40 761	6 952
Other	0	26
Total other financial assets, including	144 625	109 938
non-current	103 864	102 986
current	40 761	6 952

The following tables present the value of loans granted by the Group as at 31 December 2007 and as at 30 June 2008. In the interim consolidated financial statements, loans granted to jointly-controlled entities are disclosed at 50 percent of their value as the jointly-controlled entities are consolidated using the proportionate method.

No.	entity	agreement	maturity	nominal value as at 31 December 2007		interest	loan valuation as at 31 December 2007 (PLN '000)				
				amount	currency		non-current	current	discount	total	
1	Bakhytbek Baiseitov	loan agreement with a natural person (non-resident), dated 12.05.2006, amended by an annex dated 01.06.2006, for USD 25.3m		25 000	USD		60 875	0	4 356	65 231	
			individual loans / tranches	2007-06-30	10 000	USD	no interest				
				2007-06-30	9 500	USD	no interest				
				2007-06-30	5 500	USD	no interest				
2	TOO Company Profit	Investment Agreement dated 9.06.2006 totalling USD 14m	2031-06-08	14 000	USD		4 738	0	0	4 738	
			individual loans / tranches	2031-06-08	5 000	USD	no interest				
				2031-06-08	4 500	USD	no interest				
				2031-06-08	1 000	USD	no interest				
				2031-06-08	300	USD	no interest				
				2031-06-08	1 370	USD	no interest				
				2031-06-08	800	USD	no interest				
				2031-06-08	1 030	USD	no interest				
	loan agreement dated 27.08.2007 totalling USD 1.8m	2012-12-31	1 800	USD	LIBOR 3 M for USD + 1.6%	4 079	45	0	4 124		
	loan agreement dated 17.10.2007 totalling USD 15m	2012-12-31	1 550	USD	LIBOR 3 M for USD + 1.6%						
3	TOO EmbaJugNieft	Investment Agreement dated 9.06.2006 totalling USD 25m		25 000	USD		8 783	0	0	8 783	
			individual loans / tranches	2031-06-08	5 000	USD	no interest				
				2031-06-08	12 902	USD	no interest				
				2031-06-08	2 700	USD	no interest				
				2031-06-08	300	USD	no interest				
				2031-06-08	3 000	USD	no interest				
				2031-06-08	1 098	USD	no interest				
	loan agreement , dated 11.06.2007 totalling USD 25m	2012-12-31	16 492	USD	LIBOR 3 M for USD + 1.6%	20 079	301	0	20 380		
4	Occidental Resources	loan agreement dated 15.11.2006 totalling USD 5m	2008-11-30	5 000	USD	LIBOR 1 Y for USD + 1.2%	0	6 525	0	6 525	
5	other						51	80	0	131	
Loans granted							98 604	6 952	4 356	109 912	

PETROLINVEST GROUP
Interim consolidated financial statements for 6 months ended 30 June 2008
Accounting principles and notes to the financial statements
(in PLN thousands)

No.	entity	agreement	maturity	nominal value as at 30 June 2008		interest	loan valuation as at 30 June 2008 (PLN '000)			
				amount	currency		non-current	current	discount	total
1	Bakhytbek Baiseitov	loan agreement with a natural person (non-resident), dated 12.05.2006, amended by an annex dated 01.06.2006, for USD 25.3m		25 000	USD		52 985	0	4 356	57 341
		individual loans / tranches	2007-06-30	10 000	USD	no interest				
			2007-06-30	9 500	USD	no interest				
			2007-06-30	5 500	USD	no interest				
2	TOO Company Profit	Investment Agreement dated 9.06.2006 totalling USD 14m	2031-06-08	14 000	USD		8 953	114	0	9 067
		individual loans / tranches	2031-06-08	5 000	USD	no interest				
			2031-06-08	4 500	USD	no interest				
			2031-06-08	1 000	USD	no interest				
			2031-06-08	300	USD	no interest				
			2031-06-08	1 370	USD	no interest				
			2031-06-08	800	USD	no interest				
			2031-06-08	1 030	USD	no interest				
		loan agreement dated 27.08.2007 totalling USD 1.8m	2012-12-31	1 800	USD	LIBOR 3 M for USD + 1.6%				
		loan agreement dated 17.10.2007 totalling USD 15m	2012-12-31	2 650	USD	LIBOR 3 M for USD + 1.6%				
3	TOO EmbaJugNieft	Investment Agreement dated 9.06.2006 totalling USD 25m		25 000	USD		37 520	734	0	38 254
		individual loans / tranches	2031-06-08	5 000	USD	no interest				
			2031-06-08	12 902	USD	no interest				
			2031-06-08	2 700	USD	no interest				
			2031-06-08	300	USD	no interest				
			2031-06-08	3 000	USD	no interest				
			2031-06-08	1 098	USD	no interest				
loan agreement , dated 11.06.2007 totalling USD 25m	2012-12-31	25 000	USD	LIBOR 3 M for USD + 1.6%						
loan agreement dated 6 March 2008 totalling USD 20m	2011-01-31	3 000	USD	LIBOR 3 M for USD + 11%						
4	Occidental Resources	loan agreement dated 15.11.2006 totalling USD 5m	2008-11-30	5 000	USD	LIBOR 1 Y for USD + 1.2%	0	5 851	0	5 851
5	Caspian Services	Loan agreement dated 03.04.2008 for USD 2.5m	2008-07-08	2 500	USD	LIBOR 3 M for USD + 2%	0	10 701	0	10 701
		Loan agreement dated 23.04.2008 for USD 2.5m	2008-07-28	2 500	USD	LIBOR 3 M for USD + 2%	0	0	0	0
6	Mars International	Loan agreement dated 15.04.2008 for USD 2m	2008-10-15	2 000	USD	18%	0	4 396	0	4 396
7	Capital Energy	Loan agreement dated 25.04.2008 for USD 4m	2009-04-25	4 000	USD	14%	0	18 909	0	18 909
		Loan agreement dated 12.05.2008 for USD 4m	2009-05-12	4 000	USD	14%				
		Loan agreement dated 04.06.2008 for USD 1.5m with annex no. 1 dated 07.07.2008 amending loan amount to USD 1.7m	2009-06-04	740	USD	14%				
8	other					50	56	0	106	
Loans granted							99 508	40 761	4 356	144 625

23. Employee Benefits

23.1. Employee share incentive plan

A jointly-controlled entity, Occidental Resources Inc., implemented an employee incentive plan. The plan involves granting of phantom options for the jointly-controlled entity's shares. The plan provides that employees selected by the plan's administrator, who play a key role in the jointly-controlled entity (e.g. executives), will receive phantom options for its shares. Options granted under the plan vest on the first day on which they become exercisable, which is typically between three and five years after grant date. The overall life of the options is 10 years. Rights to options were assumed when granted.

The share option plan was approved on 23 November 2006. Up to 5,000,000 phantom options may be granted under the plan. Phantom options are exercised by payment to an employee of an amount equivalent to the value of the phantom options held by him and by payment of dividends which the employee would be entitled to if he were a shareholder of the jointly-controlled entity.

Phantom options under this scheme were outstanding over 1,390,699 shares. Their value was estimated at USD 2 million as at the grant date. This amount was calculated based on an average purchase price of the jointly-controlled entity's shares in 2006. Payment dates are 1 February 2007, 1 February 2008, 1 February 2009, and 1 February 2010. Employees may exercise

25% of options granted to them on each of those dates. The first payment relating to the share option plan was made in 2007 as agreed. The payment was not charged to the Group's income statement for 6 months ended on 30 June 2008 as the liability arising on the options was part of the acquired net assets of Occidental Resources Inc. Owing to the strengthening of the zloty against USD and a drop in interest rates for USD, income from re-measurement of the liability to fair value disclosed in the Group's consolidated result for the period of 6 months ended 30 June 2008 was PLN 962 thousand.

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

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

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

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

In compliance with the requirements of IFRS, the Group 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 will be charged to the Group's payroll costs in the third quarter of 2008 when the rights were granted. The cost of warrant issue of PLN 12m, calculated using the Black-Scholes model, will be taken to the Group's payroll costs in the third quarter of 2008. The cost will not impact the Group's cash flows.

23.2. Pensions and other post-employment benefit plans

The Group companies provide 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 Group 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:

	<i>for 6 months ended</i>	<i>for 12 months ended</i>	<i>for 6 months ended</i>
	<i>30 June 2008</i>	<i>31 December 2007</i>	<i>30 June 2007</i>
	<i>unaudited</i>	<i>audited</i>	<i>unaudited</i>
	<i>PLN '000</i>	<i>PLN '000</i>	<i>PLN '000</i>
Opening balance	253	260	260
Provision recognized	0	0	0
Benefits paid	0	0	0
Provision released	0	(7)	(51)
Closing balance	253	253	209

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

	<i>30 June 2008</i>	<i>31 December 2007</i>	<i>30 June 2007</i>
discount rate (%)	5.1	5.1	4.6
mobility ratio	0.01	0.01	0.01
pay increase ratio (%)	2.7	2.7	2.4

24. Inventories

	<i>30 June 2008</i>	<i>31 December 2007</i>
	<i>unaudited</i>	<i>audited</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Other raw materials	1 057	341
Goods	5 389	5 043
Prepaid goods	2 875	2 918
	9 321	8 302

There were no inventories measured at net selling price as at 30 June 2008 or as at 31 December 2007. As at 30 June 2008, the Company disclosed obligatory stocks in the balance sheet valued at PLN 1,316 thousand (as at 31 December 2007 PLN 2,151 thousand).

25. Trade Receivables, Receivables from Public Authorities and Other Short- and Long-Term Receivables

	30 June 2008	31 December 2007
	<i>unaudited</i>	<i>audited</i>
	PLN '000	PLN '000
Trade receivables	10 729	14 260
Receivables from public authorities	17 038	12 780
including non-current	16 949	12 560
Receivables from employees	64	126
Other receivables	301	342
	<u>28 132</u>	<u>27 508</u>

For terms and conditions of related party transactions, refer to note 34.2.

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

The Group 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 Group.

Receivables from public authorities are primarily long-term VAT receivables relating to purchases of materials and services in connection with the Group's activities in the area of exploration for and evaluation of mineral resources.

As at 30 June 2008, trade receivables of PLN 0.97m (31 December 2007: PLN 1.14m) were deemed uncollectible and were written off. Movements in revaluation of receivables were as follows:

	<i>for 6 months ended</i>	<i>for 12 months ended</i>	<i>for 6 months ended</i>
	30 June 2008	31 December 2007	30 June 2007
	<i>unaudited</i>	<i>audited</i>	<i>unaudited</i>
	PLN '000	PLN '000	PLN '000
Revaluation allowance at the beginning of the period	1 142	1 269	1 269
Increase	0	219	65
Utilisation	(170)	(346)	(143)
Revaluation allowance at the end of the period	<u>972</u>	<u>1 142</u>	<u>1 191</u>

The table below sets forth trade receivables which were overdue as at 30 June 2008 and 31 December 2007 but which were not deemed uncollectible.

	Total	Not overdue	Overdue but collectible				
			< 30 days	31 – 90 days	91 – 180 days	181 – 360 days	>360 days
30 June 2008	10 729	7 327	2 831	478	80	5	8
31 December 2007	14 260	8 079	6 100	64	1	15	1

26. Cash and Long-Term Deposits

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents as at 30 June 2008 is PLN 32.1m (31 December 2007: PLN 23.5m).

At 30 June 2008, the Group had available PLN 11.1m (31 December 2007: PLN 36m) of un-drawn committed overdraft facilities in respect of which all conditions precedent had been met.

Also a jointly-controlled entity (OTG) had USD 4.2m (PLN 8.8m) cash placed on a blocked account serving as collateral for payment for services. PETROLINVEST had a 50% share in that deposit.

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

	30 June 2008	31 December 2007
	unaudited	audited
	PLN '000	PLN '000
Cash at bank and in hand	32 087	23 480
Revolving credit facility	(24 896)	0
Cash and cash equivalents in the cash flow statement	7 191	23 480

The Group has long-term cash deposits connected with the realisation of contracts for exploration for and production of crude oil and gas under which companies are obliged to establish a decommissioning fund in the amount of 0.5% to 1% of annual capital expenditure, which is transferred to a special purpose deposit account (for more detail see note 32.1). As at 30 June 2008, PETROLINVEST had a 50% share in the deposits, which in aggregate amounted to USD 3.2m. As at 31 December 2007, PETROLINVEST had a 50% share in the deposits, which totalled USD 3.5m.

27. Issued Capital and Reserves

27.1. Share capital

As at 30 June 2008, the Company's share capital amounted to PLN 61.6m and was divided into 6,163,476 shares with a nominal value of PLN 10 each.

The Company's share capital ownership structure as at 30 June 2008 was as follows:

Shareholder	Number of shares	Number of votes	Nominal value of shares	Percentage in share capital
PROKOM INVESTMENTS S.A.	2 487 144	2 487 144	24 871 440	40.35%
NIHONSWI AG	1 581 640	1 581 640	15 816 400	25.66%
Transcontinental Fund Limited	792 900	792 900	7 929 000	12.86%
Ryszard Krauze	162 410	162 410	1 624 100	2.64%
Other shareholders	1 139 382	1 139 382	11 393 820	18.49%
TOTAL	6 163 476	6 163 476	61 634 760	100.00%

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

The Company's share capital structure as at 30 June 2008 was as follows:

Series	Number of shares	Nominal value (PLN)	Share capital (PLN)
Series A bearer shares	5 286 000	10	52 860 000
Series B bearer shares	528 600	10	5 286 000
Series C bearer shares	58 402	10	584 020
Series D bearer shares	290 474	10	2 904 740
TOTAL	6 163 476		61 634 760

Following 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 – Management Board Members acquired the right to take up in aggregate not more than 264,285 subscription warrants convertible into the Company E-series shares (see note 23 for a broader description of the Incentive Programme).

On 16 September 2008, the Company's Management Board resolved to increase share capital within the limits of target capital by PLN 1,846,160 via the issuance of 184,616 ordinary bearer F-series shares with a nominal value of PLN 10 each.

With a view to the Company's best interest and subject to consent from the Supervisory Board, the pre-emptive rights of the existing shareholders to F-series Shares were entirely precluded. In addition, subject to consent from the Chairman of the Supervisory Board, the issue price of F-series Shares was set at PLN 130. F-series Shares will participate in dividends starting from 1 January 2008.

F-series Shares were offered in a private subscription to Mr. Bakhytbek Baiseitov. The offering was effected on 22 September 2008 on the terms set out by the Management Board. As a result of the offering, the Company received gross proceeds of PLN 24,000,080.

As at 31 December 2007, the Company's share capital amounted to PLN 58.730m and was divided into 5,873,002 shares with a nominal value of PLN 10 each.

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

Shareholder	Number of shares	Number of votes	Nominal value of shares	Percentage in share capital
PROKOM INVESTMENTS S.A.	2 336 000	2 336 000	23 360 000	39.78%
NIHONSWI AG	1 216 250	1 216 250	12 162 500	20.71%
Transcontinental Fund Limited	792 900	792 900	7 929 000	13.50%
Ryszard Krauze	527 800	527 800	5 278 000	8.99%
Other shareholders	1 000 052	1 000 052	10 000 520	17.02%
TOTAL	5 873 002	5 873 002	58 730 020	100.00%

On 16 July 2007, rights to shares of Petrolinvest S.A. were first quoted on the Warsaw Stock Exchange. At the turn of June/July 2007, the Company issued new series B shares in a public offering; allotment of the shares was effected by resolution of the Management Board dated 6 July 2007. The Company issued 528,600 shares in the public offering to institutional and retail investors (396,450 and 132,150 shares, respectively). The reduction rate for the tranche offered to retail investors was 90.9972%. Proceeds from the subscription amounted to PLN 119,992,200, while aggregate costs of the offering amounted to PLN 13,793,304.66, i.e. PLN 26.09 per share. On 10 July 2007, the Company Management Board resolved to issue series C shares to increase the authorised share capital and offer them to members of the Company's governing bodies and selected employees of the Company and the Oil Exploration and Production Companies.

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

Pursuant to Resolution no. 481/07 of the Management Board of KDPW S.A. dated 2 July 2007, the Company series A and series B shares were registered in the National Depository for Securities on 22 and 23 August 2007, and on 23 August 2007 the Company shares were introduced to public trading.

On 5 September 2007, the National Depository for Securities (KDPW) registered 58,402 (fifty eight thousand four hundred and two) series C shares of PETROLINVEST S.A. pursuant to the Resolution of the Management Board of KDPW dated 27 August 2007. The Management Board of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.), by way of resolution dated 31 August 2007, resolved to introduce the Company series C shares to exchange trading on the main market by way of an ordinary procedure on 5 September 2007.

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

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

27.1.1 Nominal value of shares

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

27.1.2 Shareholders rights

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

27.2. Other reserve capital

In compliance with Article 396 § 1 of the Commercial Companies Code, the Company creates reserve capital to which a minimum of 8% net 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 30 June 2008 and 31 December 2007, reserve capital and revaluation capital amounted to PLN 15.4m.

The remaining part of other reserve capital is share premium. Share premium was PLN 451.8m as at 30 June 2008 (PLN 375.7m as at 31 December 2007).

27.3. Foreign currency translation

The balance of currency translation capital is adjusted by exchange differences arising from translation of the financial statements of foreign subsidiaries and jointly-controlled entities.

	<i>30 June 2008</i>	<i>31 December 2007</i>
	<i>unaudited</i>	<i>audited</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Foreign exchange differences on valuation of goodwill at balance sheet date	(102 684)	(34 623)
Other foreign currency translation	(66 015)	(25 241)
Total carrying amount at the end of the period	(168 699)	(59 864)

27.4. Dividends paid and declared

There were certain restrictions regarding the payment of dividends as at 30 June 2008. In an 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 for 2007 and is not planning to pay dividends for 2008.

27.5. Minority interest

	<i>for 6 months ended</i>	<i>for 12 months ended</i>
	<i>30 June 2008</i>	<i>31 December 2007</i>
	<i>unaudited</i>	<i>audited</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Opening balance	488	232
Acquisition of a company	0	0
Share of profit of subsidiaries	(87)	(18)
Foreign currency translation	(75)	274
Closing balance	326	488

28. Interest-Bearing Loans and Borrowings

Powszechna Kasa Oszczędności Bank Polski S.A.

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

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

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

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

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

The Agreement introduces an obligation of early repayment of a portion or all of the loan in case the aggregate proceeds from the repayment of Project Loans by Oil Exploration and Production Companies and dividends or other payments of profits from the Oil Producing Companies shall be higher than projected in the Business Plan. Another factor triggering the early repayment obligation is failure to effectively acquire shares in any of the Oil Exploration and Production Companies before or on 30 September 2007. Up to the date of the interim consolidated financial statements, acquisition of shares in all Oil Exploration and Production Companies has been effectively completed (owned Oil Exploration and Production Companies are listed in note 3 to the interim consolidated financial statements).

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

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

The Credit Facility Agreement provides for the following security:

1. capped mortgages on real property owned by a third party – entities of Prokom Investments Group;
2. registered and financial pledge over financial assets made available for this purpose by entities of Prokom Investments Group;
3. registered and financial pledge over rights in respect of separate fund accounts;
4. powers of attorney to bank accounts;
5. declaration on submission to enforcement of judgments; and
6. a Support Agreement with Prokom Investments S.A.

Fortis Bank Polska S.A.

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

BRE Bank S.A.

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

Bank Polska Kasa Opieki Spółka Akcyjna

On 28 September 2007, the Company entered into an annex to the overdraft credit facility agreement with Bank Polska Kasa Opieki Spółka Akcyjna to prolong the credit line of PLN 6m for another 12 month period to 30 September 2008. Interest was again determined based on WIBOR.

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

Bank CenterCredit JSC

Between 25 April and 15 August 2006, OilTechnoGroup concluded three loan agreements with Bank CenterCredit JSC totalling USD 37.8m. All of those agreements were concluded in line with an earlier arrangement regarding the granting of a credit facility dated 3 April 2006. As agreed, the loans were to mature on 31 March 2008. On 31 March and 30 June 2008, OilTechnoGroup signed an annex to the arrangement dated 13 April 2006 with Bank CenterCredit JSC regarding the granting of a credit line facility of USD 37.8m and annexes to loan agreements concluded as part of the arrangement. The current terms and conditions of the financing are as follows:

- The loan shall be repaid in instalments and the final repayment date shall be 5 April 2012.
- Interest on the loan accrues at 19.6% p.a. (effective interest rate).
- The bank's receivables shall be collateralized by a pledge over rights arising from the OTG Concession and the guarantee provided by EmbajugNieft.

Prokom Investments S.A.

On 21 March 2007, an agreement was concluded by and between PETROLINVEST S.A., Prokom Investments S.A. and PKO BP S.A., whereby Prokom Investments S.A. undertook to support the Company in connection with the credit agreement concluded on 21 March 2007 between the Company and PKO BP S.A.; in particular Prokom Investments S.A. is obliged to support the investment project involving extending loans or other forms of financing to the Company to carry out investment projects. As stipulated in the agreement, Prokom Investments S.A. is obliged to remain the shareholder of the Company until final repayment of the facility. The agreement also provides that any receivables due by the Company to Prokom Investments S.A. shall be subordinated in favour of any receivables arising in connection with the credit agreement, and in particular the Company is obliged not to repay any receivables to PETROLINVEST S.A. without the bank's prior consent until the loan has been fully repaid, except for interest accrued on loans extended by Prokom Investments S.A.

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

In the period from 1 January 2008 to the date of this Report, the Company concluded one loan agreement with Prokom Investments S.A. totalling PLN 17.5m. The loan was received in full. The loan becomes payable within 5 working days from the date on which a request for full or partial repayment of the loan is delivered by the Lender. The loan also contains a clause whereby an authorisation is granted to the Lender to request that the Company issue shares as part of the target capital and offer the shares to the Lender precluding pre-emptive rights of the existing shareholders (call option). Interest accruing on the loans is based on WIBOR. Moreover, in the reporting period annexes to seven loan agreements were signed, the principal outstanding balance of which with interest accrued as at 30 June 2008 was PLN 195.7m. The Annexes incorporated the clause providing authorisation to the Lender to request that the Company issue shares as part of the target capital and offer the shares to the Lender precluding the pre-emptive rights of the existing shareholders (call option).

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

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

PETROLINVEST GROUP
Interim consolidated financial statements for 6 months ended 30 June 2008
Accounting principles and notes to the financial statements
(in PLN thousands)

As at 30 June 2008

entity's name and legal form	loan amount (based on loan agreement)	currency	outstanding as at the balance sheet date			interest	maturity	loan security
			current up to 1 year	non-current	total			
			(000)	PLN '000	PLN '000			
Bank Pekao S.A.	6 000	PLN	5 532	0	5 532	1M WIBOR+bank premium	2008-09-30 - blank promissory note - dividend payment restrictions - borrower's declaration on submission to enforcement of judgements - power of attorney to bank account	
BRE Bank S.A.	20 000	PLN	19 364	0	19 364	O/N Wibar +bank premium	2009-05-28 - blank promissory note - assignment of receivables from purchase/sale contracts with buyers of liquid gas	
Fortis Bank S.A.	10 000	PLN	0	0	0	1 M WIBOR +bank premium	2009-06-16 borrower's declaration on submission to enforcement of judgements	
Overdraft			24 896	0	24 896			
Bank Gospodarstwa Krajowego S.A.	10 000	PLN	1 000	0	1 000	3M WIBOR +bank premium	2008-12-31 - assignment of rights to insurance proceeds from policies covering the - mortgages on real property of PLN 10.0m and capped mortgages of up to PLN 5.0m - blank promissory note	
Bank Pekao S.A.	8 000	PLN	880	6 680	7 560	1M WIBOR +bank premium	2016-03-31 - mortgage on fixed assets located in Suwalki - pledge over and transfer of ownership of fixed assets of min. PLN 2m - blank promissory note - power of attorney to bank account	
Bank PKO BP S.A.	100 184	USD	0	214 514	214 514	3M LIBOR / WIBOR +bank premium	2012-12-31 - mortgage - pledges over shares - registered pledges over special fund accounts - power of attorney to bank accounts - declaration on submission to enforcement of judgments - project sponsor support agreement	
Pursuant to an annex to the loan agreement Bank Gospodarstwa Krajowego assumed a portion of rights and obligations of PKO BP S.A. resulting from the loan agreement	2 183	PLN						
Centrkredit Bank	37 800	USD	10 671	28 527	39 198	19.6%	2012-04-05 loan is secured by a guarantee given by EmbajugNieft and OTG's rights following from the hydrocarbon exploration and development contract for the Aklobe Region, Republic of Kazakhstan; security remains in force until final repayment of the loan	
AB Siauliu bankas	285	USD	41	0	41	6M LIBOR +bank premium	2008-10-14 Trans-shipment Terminal serving as security – pledge over a fuel tank and five tankers	
Krauze Ryszard	320	PLN	0	366	366	5%		
Prokom Investments S.A.	229 876	PLN	13 313	199 970	213 283	5% / 3M WIBOR + premium		
Prokom Investments S.A.	200	PLN	0	330	330	10%		
Other loans and borrowings			25 905	450 387	476 292			
Total			50 801	450 387	501 188			

PETROLINVEST GROUP
Interim consolidated financial statements for 6 months ended 30 June 2008
Accounting principles and notes to the financial statements
(in PLN thousands)

As at 31 December 2007

entity's name and legal form	loan amount (based on loan agreement)	currency	outstanding as at the balance sheet date			interest	maturity	loan security
			current up to 1 year	non-current	total			
			('000)	PLN '000	PLN '000			
Bank Pekao S.A.	6 000	PLN	0	0	0	1M WIBOR+bank premium	2008-09-30 - blank promissory note - dividend payment restrictions - borrower's declaration on submission to enforcement of judgements - power of attorney to bank account	
BRE Bank S.A.	20 000	PLN	0	0	0	0/N Wibar +bank premium	2008-05-29 - blank promissory note - assignment of receivables from purchase/sale contracts with buyers of liquid gas	
Fortis Bank S.A.	10 000	PLN	0	0	0	1 M WIBOR +bank premium	2008-06-18 borrower's declaration on submission to enforcement of judgements	
Overdraft			0	0	0			
Bank Gospodarstwa Krajowego S.A.	10 000	PLN	2 000	0	2 000	3M WIBOR +bank premium	2009-03-31 - assignment of rights to insurance proceeds from policies covering the - mortgages on real property of PLN 10.0m and capped mortgages of up to PLN 5.0m - blank promissory note	
Bank Pekao S.A.	8 000	PLN	880	7 120	8 000	1M WIBOR +bank premium	2016-03-31 - mortgage on fixed assets located in Suwalki - pledge over and transfer of ownership of fixed assets of min. PLN 2m - blank promissory note - power of attorney to bank account	
Bank PKO BP S.A. Pursuant to an annex to the loan agreement Bank Gospodarstwa Krajowego assumed a portion of rights and obligations of PKO BP S.A. resulting from the loan agreement	300 000 or USD equivalent	PLN	0	192 253	192 253	3M LIBOR / WIBOR +bank premium	2012-12-31 - mortgage - pledges over shares - registered pledges over special fund accounts - power of attorney to bank accounts - declaration on submission to enforcement of judgments - project sponsor support agreement	
Centrkredit Bank	37 800	USD	47 811	0	47 811	14%	2012-04-05 Loan secured by OTG's rights following from the hydrocarbon exploration and development contract for the Aktobe Region, Republic of Kazakhstan; security remains in force until final repayment of the loan	
AB Siauliu bankas	285	USD	119	0	119	6M LIBOR +bank premium	2008-10-14 Trans-shipment Terminal serving as security – pledge over a fuel tank and five tankers	
Krauze Ryszard	320	PLN	0	320	320	5%		
Prokom Investments S.A.	212 400	PLN	8 673	182 494	191 167	5%		
Prokom Investments S.A.	200	PLN	0	200	200	10%		
Other loans and borrowings			59 483	382 387	441 870			
Total			59 483	382 387	441 870			

29. Provisions

	Post employment benefits	Site restoration works	For liabilities associated with well drilling	Other	Total
As at 1 January 2008	253	3 609	0	631	4 493
Arising during the year	0	666	0	741	1 407
Foreign currency translation	0	(466)	0	0	(466)
Utilised	0	(524)	0	0	(524)
Released	0	0	0	0	0
As at 30 June 2008	253	3 285	0	1 372	4 910
Current provisions	0	0	0	1 278	1 278
Non-current provisions	253	3 285	0	94	3 632

	Post employment benefits	Site restoration works	For liabilities associated with well drilling	Other	Total
As at 1 January 2007	260	1 164	2 901	727	5 052
Arising during the year	0	2 551	0	158	2 709
Foreign currency translation	0	(106)	0	0	(106)
Utilised	0	0	(2 901)	(254)	(3 155)
Released	(7)	0	0	0	(7)
As at 31 December 2007	253	3 609	0	631	4 493
Current provisions	0	0	0	548	548
Non-current provisions	253	3 609	0	83	3 945

The provision for restoration works results from an obligation imposed on companies dealing in exploration for and production of crude oil and gas to perform restoration works in the area where resources have been explored and exploited. The Group has a policy of recognising a restoration provision for well decommissioning and site restoration costs—calculated using parameters relating to the depth and type of well—whenever drilling works commence.

30. Trade and Other Payables (Current and Non-current)

	30 June 2008	31 December 2007
	<i>unaudited</i>	<i>audited</i>
	PLN '000	PLN '000
Trade liabilities	9 568	7 081
Liabilities to public authorities	4 767	10 395
Liabilities related to construction in progress	32 820	17 658
Liabilities resulting from acquisition of financial assets	509	28 478
Concession and share option liabilities	3 111	2 191
Other liabilities	1 278	157
Current liabilities	<u>52 053</u>	<u>65 960</u>
Liabilities resulting from acquisition of financial assets	29 169	32 780
Concession and share option liabilities	94 153	107 845
Non-current liabilities	<u>123 322</u>	<u>140 625</u>
	<u>175 375</u>	<u>206 585</u>

Liabilities resulting from acquisition of financial assets in the amount of PLN 29.7m represent 50% of PETROLINVEST S.A.'s unpaid share in the increased share capital of Occidental Resources (PLN 0.5m) and undue liabilities towards the previous shareholders of Siewiergeofizyka and Pechora-Petroleum. As stipulated in the share purchase agreement of Siewiergeofizyka shares, the Company agreed to pay an additional consideration if reserves are discovered and confirmed. The maximum amount of the bonus is USD 6m (discounted value as at 30 June 2008 was PLN 12.1m). The likelihood of the bonus being paid out is thought to be 100%, which duly increased the purchase price while also increasing other non-current liabilities. Management does not expect the amount to be paid out within one year from the balance sheet date. As stipulated in the share purchase agreement of Pechora-Petroleum shares, the Company agreed to pay an additional consideration if reserves are discovered and confirmed. The maximum amount of the bonus is USD 8.5m (discounted value as at 30 June 2008 was PLN

17.1m). The likelihood of the bonus being paid out is thought to be 100%, which duly increased the purchase price while also increasing other non-current liabilities. Management does not expect the amount to be paid out within one year from the balance sheet date. The liabilities were re-measured to current value as at the date of the change of control and at each balance sheet date based on the assumption that the payments will be made at the end of 2009. The effect of re-measurement as at the balance sheet date was taken to the income statement.

Liabilities to public authorities comprise primarily current VAT liabilities of PLN 2.5m and customs liabilities of PLN 2.3m.

Concession liabilities are selected liabilities resulting from the performance of concessions held by the Oil Exploration and Production Companies for oil and gas exploration or exploration and production which were taken into account to value the acquired companies' net assets as at the date of the acquisition of control or joint-control (see note 20 for more detail). These liabilities involve historical costs, social schemes and a commercial premium (those liabilities were described in note 32.1). Liabilities relating to employee share options result from the employee share incentive plan described in more detail in note 23.1. Those liabilities as at the date of the acquisition of control or joint-control and each consecutive balance sheet date were re-measured to current value using the amortised cost method, based on the effective interest rate. The effects of re-measurement as at the balance sheet date were taken to the income statement.

31. Prepayments and Accruals

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

	<i>30 June 2008</i>	<i>31 December 2007</i>
	<i>unaudited</i>	<i>audited</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Capital raising expenses	3 389	932
Gas cylinders expensed over time	83	200
Expenses relating to purchases of goods	479	66
Costs of unfinished capital acquisitions	1 854	414
Other	355	677
	<u>6 160</u>	<u>2 289</u>

on the equity and liabilities' side:

	<i>30 June 2008</i>	<i>31 December 2007</i>
	<i>unaudited</i>	<i>audited</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Unused holiday allowance	1 123	991
Financial statement audit allowance	600	820
Other	32	50
	<u>1 755</u>	<u>1 861</u>

32. Contingent Assets and Liabilities

The Company's contingent liabilities are blank promissory notes deposited with the Customs House in Gdynia and serving as security for excise duty, which allows for transferring of goods under suspended excise duty procedures. This type of security is a substitute for a deposit securing the above-mentioned receivables of the Customs House. The Company has been verified by the Customs House as a blank promissory note issuer and thus need not freeze cash on deposits. The Company has full control over its liabilities and continues to perform well under the suspended excise duty procedures; hence, it does not make any provisions for potential liabilities resulting from the promissory notes issued. The value of promissory notes as at 30 June 2008 and 31 December 2007 was PLN 2.85m.

Bank guarantee agreement and conditional deposit agreement dated 7 May 2007 between OilTechnoGroup and AO HSBC Bank Kazakhstan

The agreement provides that AO HSBC Bank Kazakhstan shall issue a bank guarantee for USD 2.9m as collateral for the performance by OilTechnoGroup of an agreement with Saipem S.p.A. The guarantee is in force until 31 December 2008. In order to secure any potential liabilities due to the bank, OTG signed a conditional deposit agreement.

Bank guarantee agreement and conditional deposit agreement dated 7 December 2007 between OilTechnoGroup and AO HSBC Bank Kazakhstan

The agreement provides that AO HSBC Bank Kazakhstan shall issue a bank guarantee for USD 0.96m as collateral for the payment by OilTechnoGroup of a demobilization fee as provided for in the agreement with Saipem S.p.A. The guarantee is in

force until 31 December 2008. In order to secure any potential liabilities due to the bank, OTG signed a conditional deposit agreement.

Bank guarantee agreement between TOO OilTechnoGroup and AO CenterCredit Bank

The agreement provides that AO CenterCredit Bank shall issue a guarantee for USD 360.3 thousand to secure payments under the agreement concluded by and between TOO OilTechnoGroup and Baker Hughes Services International Inc.

Guarantee agreement between TOO EmbajugNieft, TOO OilTechnoGroup and AO CenterCredit Bank

The agreement provides that EmbajugNieft shall issue a guarantee to secure the repayment of liabilities of OTG to Bank CenterCredit, resulting from a line of credit granted in the amount of USD 37,800 thousand to secure payments under the agreement concluded by and between TOO OilTechnoGroup and Baker Hughes Services International Inc.

32.1. Capital commitments

Commitments resulting from the performance of concessions for exploration for and production of petroleum and natural gas

In 2006, the Company began its investment project aiming at acquiring shares and taking control over foreign companies who own concessions for oil and gas exploration, or exploration and production (for more detail see note 3). The entities over which the Company has gained control, or intends to gain control, have liabilities resulting from petroleum exploration and production concessions.

Siewiergeofizyka, headquartered in Ukhta, the Komi Republic, Russian Federation, owns a licence for the Vysovskye concession in the Sosnogorski region, registered by the Ministry of Natural Resources and Environmental Protection of the Komi Republic on 22 November 2000. The licence gives the company the right to explore, develop and produce hydrocarbons until February 2018. In the contract, the company agreed to incur capital expenditures relating to the scope of works required by the licence. The company's capital expenditure up until 30 June 2008 was USD 15.6m.

Nieftiegeoserwis, headquartered in Ukhta, the Komi Republic, Russian Federation, is the owner of two concessions, the Yermolovskye Concession and the Yuzhno-Nyertsovskye Concession. The former was issued on 1 October 2004 for a maximum of five years while the latter is an exploration type of concession. In the contract, the company agreed to incur capital expenditures relating to the scope of works required by the licence. Up to 30 June 2008, the company incurred expenditures of USD 8.2m.

ZAO Pechora-Petroleum has two concessions, the Porozhskye Concession and the Vyerkhnye-Pechorskyye Concession.

The Porozhskyye Concession was issued on 1 June 2001 for a period ending on 30 April 2006; however, it was prolonged twice, in February 2006 until 31 December 2008 and then in May 2008 until 30 April 2010. The rights to exploit deposits under the above-mentioned concessions are set out in licence agreements which are components of the concession. The Porozhskyye Concession is an exploration type of concession. The Vyerkhnye-Pechorskyye Concession was issued on 25 June 2001 and provided for two five-year exploration periods and a subsequent development period should commercial reserves be found. The Vyerkhnye-Pechorskyye Concession ultimately expires in February 2018. The Vyerkhnye-Pechorskyye Concession is an exploration and production type of concession. In the contracts, the company agreed to incur capital expenditures relating to the scope of works required by the licence. The company's capital expenditure up until 30 June 2008 was USD 9.4m.

On 17 March 2006, OTG, headquartered in Aktobe, Kazakhstan, a company wholly-owned by Occidental Resources, acquired from BOLZ S.A. the rights to perform a contract for petroleum exploration and production in the Aktobe and West Kazakhtan provinces (oblasts) of the Kazakh Republic pursuant to an agreement with the Ministry and an annex thereto. The contract was concluded by BOLZ S.A. with the Minister of Energy and Natural Resources of the Kazakh Republic on 18 September 2002. The contract is valid for 24.5 years and covers two periods: a 4.5-year exploration period and a 20-year production period. The exploration period may be extended by two 2-year periods. Pursuant to an annex dated 22 December 2006, the exploration period was extended to March 2009.

On 3 January 2007, the OTG Concession was suspended on account of insufficient performance of obligations following from the minimum work programme for 2006. This occurred before the Company indirectly acquired OTG shares. After appropriate explanations regarding fulfilment of investment obligations were delivered, the decision on the suspension of the OTG Concession was reversed on 25 March 2007 and OTG is currently enjoying all rights provided in the OTG Concession. The fulfilment by OilTechnoGroup of concession obligations was inspected in October 2007. No material violations were found as a result of the inspection, and the company was only given post-inspection recommendations which had all been fulfilled as at the date of approval of these interim consolidated financial statements. The recommendations were given with respect to the preparation of the minimum work programme for 2007, securing the completion of two wells, the use of funds allocated to the professional training of Kazakh specialists and the transfer of funds to the decommissioning fund.

As provided for in the contract, the company is obliged to spend a minimum of USD 931.5m on capital expenditure, of which USD 269.3m in the exploration phase and USD 662.2 in the production phase. The company is also obliged under the contract to cover expenses connected with professional training of Kazakh specialists hired under the contract in the amount of at least 1% of capital expenditure incurred in the year and USD 40m expenses connected with social schemes and infrastructure development programs over the whole term of the contract. Moreover, if crude oil is found and production commenced, the company will have to begin repayment of historical costs of USD 14.7m in 2014 at the latest (they are costs incurred by the government of Kazakhstan in connection with the licence issued by it), of which USD 0.2m was paid when the concession was

issued and the remaining USD 14.5m will be payable in equal instalments over the period of 9 years. In order to secure proper financing of the decommissioning project, the Company sets up a decommissioning fund in the amount of 0.5% of annual capital expenditure, which is transferred to a special purpose deposit account held with any bank in the Republic and accounted for as refundable costs of petroleum operations. The Company's capital expenditure up until 30 June 2008 was USD 186.0m.

On 29 June 2002, EmbajugNieft, headquartered in Almaty, Kazakhstan, entered into a contract with the Kazakh Ministry of Energy and Natural Resources for petroleum exploration and production in the Atyrau province, Republic of Kazakhstan. The contract is valid for 30 years and covers two periods: a 5-year exploration period and a 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 Concession was extended to 29 June 2009. As provided for in the contract, the company is obliged to spend a minimum of USD 12.6m on capital expenditure in the exploration period; due to the prolongation of the exploration period, the amount was increased to USD 39.975m. The company is also obliged under the Contract to cover expenses connected with professional training of Kazakh specialists hired under the Contract in the amount of at least 1% of capital expenditure incurred in the year. Moreover, if crude oil is found, the company is obliged to sign an agreement defining the manner in which historical costs of USD 4.4m will be repaid. The Company sets up a decommissioning fund in the amount of 1% of annual capital expenditure, which is transferred to a special purpose deposit account held with any bank in the Republic and accounted for as refundable costs of petroleum operations. The Company's capital expenditure up until 30 June 2008 was USD 51.0m.

On 18 August 2005, TOO Company Profit, headquartered in Almaty, Kazakhstan, entered into a contract with the Kazakh Ministry of Energy and Natural Resources for hydrocarbon exploration, with an exclusive right to sign a contract for hydrocarbon production if resources are discovered in the licensed area located in the Qyzylorda province, Republic of Kazakhstan. The contract is valid until August 2010. As provided for in the contract, the company is obliged to spend a minimum of USD 14m on capital expenditure. The company is also obliged under the Contract to cover expenses connected with professional training of Kazakh specialists hired under the Contract in the amount of at least 1% of capital expenditure incurred in the year. Moreover, if crude oil is found, the company is obliged to sign an agreement defining the manner in which historical costs of USD 1.8m will be repaid. The Company is obliged to incur expenditure of USD 0.7m on the implementation of social programmes during the term of the licence. In order to secure proper financing of the decommissioning project, the Company sets up a decommissioning fund in the amount of 1% of annual capital expenditure, which is transferred to a special purpose deposit account held with any bank in the Republic of Kazakhstan and accounted for as refundable costs of petroleum operations. The Company's capital expenditure up until 30 June 2008 was USD 15.8m.

32.2. Court proceedings

As at 30 June 2008, the Company, as plaintiff, was party to the following legal proceedings:

1. regarding collection orders to be made by the court
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).
2. regarding the reversal of tax decisions
The proceedings, where the Company acts as plaintiff, pertain to collection orders to be made by the court and the reversal of tax decisions made by tax authorities.

As at 30 June 2008, the other subsidiaries and jointly-controlled entities were not party to any court proceedings as plaintiff. As at 30 June 2008, the Company and other subsidiaries and jointly-controlled entities were not party to any significant court proceedings as defendant.

32.3. 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, and in the countries where the subsidiaries and jointly-controlled entities have their headquarters, 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, both in Poland and in the countries where the Group operates, 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 Group may be subject to additional tax liabilities, which may arise as a result of additional tax audits. The Group believes that adequate provisions have been recorded for known and quantifiable risks in this regard as at 30 June 2008.

32.3.1 Kazakhstan Corporate income tax

The rate of corporate income tax is 30% and it is transferred in whole to the central budget. As provided in Kazakh law, expenditures incurred by hydrocarbon exploration and production companies for: (i) geological research, (ii) exploration and preparation works conducted during the exploration and evaluation phase, (iii) general administrative expenses, (iv) any premium paid for signing and any commercial discoveries shall be activated during the exploration phase and amortised when production is started for a minimum of 4 years. Companies may utilise their tax losses over a period no longer than 7 years.

Value Added Tax (VAT)

The VAT rate was reduced from 15% to 14% as from 1 January 2007 and was further reduced to 13% as from 1 January 2008. The rate of VAT on export is 0%. The key exemption from VAT is the exemption regarding exploration works. VAT is transferred in whole to the central budget. VAT is also levied by customs authorities on goods imported to the Republic of Kazakhstan. For contracts with guaranteed tax stability, the rates of value-added tax on imported goods are based on the rates prevailing at the date of signing of the contract. If such stability is not guaranteed, VAT on imported goods is equal to the currently binding VAT rate.

Excise tax

Excisable goods and products involve crude oil. The current excise tax rate is 0% both for export and domestic sales. Excise tax is payable to the central budget.

Excess profits tax

The rate of the excess profits tax depends on the internal rate of return recorded by an oil producing company at the end of the reporting period. The tax becomes payable if the internal rate of return calculated using progressive rates is over 20%. The maximum tax rate is 30% and is payable if the rate of return is over 30%. For contracts signed after 1 January 2004 and other contracts without a tax stability clause, the tax is calculated on the basis of the proportion of accumulated revenues to accumulated costs. The tax is levied if the ratio is over 1.2. The maximum tax rate is 50% if the ratio in question is higher than 1.7. The excess profits tax is payable to the central budget.

Social tax

Social tax is payable by employers and is calculated on the basis of remuneration paid to employees under employment contracts. The rate is regressive and ranges depending on annual salary between 20% and 7% for domestic employees and between 11% and 5% for foreigners. For contracts signed after 1 January 2004 and other contracts without a tax stability clause, the tax is calculated in the same manner for all employees according to degressive rates of 13% - 5%. The tax base is reduced by the amount of social insurance contributions and other, smaller items.

Property tax

Property tax is a local tax. The tax rate is 1%. The tax base is the average annual book value of assets excluding land and vehicles. Property tax is deducted from income tax.

Royalties

Royalties are calculated based on the volume of mineral resources extracted, separately for each type of product, regardless of whether or not such reserves have been sold. Royalties are determined on the basis of the weighted average selling price of a given product during the reporting period less indirect taxes and shipment costs. Royalty rates are stipulated in extraction contracts and depend on the volume of production. The Group's Kazakh-based companies are taxed at royalty rates of 2-3%.

Other local taxes

Other local taxes involve motor vehicle taxes, land taxes etc.

32.3.2 Russia

Russian law comprises federal regulations, including presidential, government and ministerial decrees, sometimes complemented with local and regional laws. Those legal systems do not necessarily coincide and may even be contradictory, and there are no clear collision rules in place.

Taxes payable to federal, regional and local budgets by companies involved in the production of crude oil and gas in the Russian Federation include tax on organisations' profit, value added tax, mineral resource recovery tax and many more. The basic taxes payable are presented below.

Tax on organisations' profit

As from 1 January 2002, the rate of tax on organisations' profit has been reduced from 35% to 24%, of which 6.5% and 17.5% is payable to federal and regional budgets, respectively. The Russian law sets forth certain exemptions from the tax, including (i) statutory capital contributions; (ii) free of charge investments received from foreign investors for financing the capital production-intended investments, under the condition that they are used within one calendar year from the moment of their receipt; and (iii) property received by a Russian organization free of charge from a controlling shareholder, provided that in the course of one year from the date of its receipt the property is not handed over to third persons (safe for monetary funds).

Value Added Tax (VAT)

As from 1 January 2004, the VAT rate has been reduced from 20% to 18%. In 2007, VAT tax will be transferred in whole to the federal budget. VAT is also levied by customs authorities on goods imported to the Russian Federation. The rates of VAT on imported goods are the same as those applicable to goods traded on the territory of the Russian Federation. The key exemption from VAT is the exemption regarding technical equipment imported by foreign investors which qualifies as statutory contribution to a Russian-based company. VAT on import may be charged when entered into the books of the receiving party.

Mineral Resource Recovery Tax

Following changes in the Russian tax law, the rate of mineral resource recovery tax is 419 roubles per 1 tonne of water-free, salt-free and stabilised oil multiplied by the index reflecting the dynamics of oil prices on the world market and multiplied by a field maturity index.

Other taxes

There are a number of other regional and local taxes and fees, including in particular real estate, transport and land taxes. Rates of the above-mentioned taxes may change and other taxes and fees may be introduced in the future while hitherto available tax exemptions or exemptions previously considered available may cease to be available or it may transpire that they had not been available, which in each case may have a material adverse effect on the Group's business.

33. Changes in Working Capital, Inflows and Outflows in the Cash Flow Statement

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

	<i>for 6 months ended 30 June 2008</i>
	<i>unaudited</i>
	<i>PLN '000</i>
movements in receivables	
balance sheet change in non-current and current receivables	(624)
change in receivables in the cash flow statement	3 456
<u>difference</u>	<u>4 080</u>
exchange differences arising on balance sheet valuation of foreign operations in presentation currency	1 512
non-current VAT receivable on expenditures on exploration for and evaluation of resources	(5 588)
other	(4)
movements in provisions and prepayments and accruals	
balance sheet change in provisions and prepayments and accruals, including	(3 560)
balance sheet change in prepayments and accruals - assets	(3 871)
balance sheet change in prepayments and accruals - liabilities	(106)
balance sheet change in provisions	417
change in provisions and prepayments and accruals in the cash flow statement	1 435
<u>difference</u>	<u>4 995</u>
costs of share issue	(2 458)
costs of unfinished capital acquisitions	(1 440)
decommissioning provision	(324)
exchange differences arising on balance sheet valuation of foreign operations in presentation currency	(519)
other	(254)

PETROLINVEST GROUP
Interim consolidated financial statements for 6 months ended 30 June 2008
Accounting principles and notes to the financial statements
(in PLN thousands)

	<i>for 6 months ended 30 June 2008 unaudited PLN '000</i>
movements in liabilities	
balance sheet change in non-current and current liabilities, other than financial and income tax liabilities	(31 210)
change in liabilities in the cash flow statement	(14 692)
<u>difference</u>	<u>16 518</u>
liabilities arising from acquisition of financial assets	(31 027)
investment liabilities related to construction in progress	17 312
exchange differences arising on balance sheet valuation of foreign operations in presentation currency	(2 256)
other	(547)
movements in inventories	
balance sheet change in inventories	(1 019)
change in inventories in the cash flow statement	(1 077)
<u>difference</u>	<u>(58)</u>
exchange differences arising on balance sheet valuation of foreign operations in presentation currency	58
 33.2. Inflows and outflows of financing activities	
	 <i>for 6 months ended 30 June 2008 unaudited PLN '000</i>
Inflows from loans and borrowings disclosed in the cash flow statement	71 525
shareholder loans and borrowings	17 476
bank loans received	54 049
 33.3. Inflows and outflows of investing activities	
	 <i>for 6 months ended 30 June 2008 unaudited PLN '000</i>
Payment of a portion of liabilities resulting from the share capital increase in Occidental Resources (50%)	(30 278)
Loans granted	(49 799)
Subsidiaries and jointly-controlled entities	(15 186)
TOO EmbaJugNief	(13 833)
TOO Company Profit	(1 353)
Other entities	(34 613)
Capital Energy	(19 210)
Mars International	(4 310)
Caspian Services	(11 093)

34. Related Party Disclosures

34.1. Entity with significant influence over the Group

Holdings in the share capital of PETROLINVEST S.A. held by entities listed below as at 30 June 2008 and as at 31 December 2007 are presented in note 27.1 above.

The table below sets forth aggregate amounts of transactions concluded by the Company with related entities in the period of six months ended 30 June 2008 and 2007 as well as balances of receivables and liabilities as at 30 June 2008 and 31 December 2007.

Related party		Sales to related parties (PLN '000)	Purchases from related parties (PLN '000)	Receivables from related parties (PLN '000)	Liabilities to related parties (PLN '000)
Ryszard Krauze	2008	0	0	50	366
	2007	0	0	50	320
Prokom Investments	2008	0	1 492	0	214 996
	2007	0	206	0	191 458

Information on terms and conditions of the loans listed above and loan security, if applicable, is provided in note 28 to the interim consolidated financial statements.

34.2. Terms and conditions of transactions with related parties

The agreements discussed below are agreements pertaining to transactions within the Group as well as transactions with related parties of the Group companies.

Agreements concluded between the Company and OOO Siewiergeofizyka

In the period from 1 January 2008 to the date of these Financial Statements, the Company concluded one agreement with OOO Siewiergeofizyka. The agreement was regarding a loan to be granted by the Company for a total of USD 4,000 thousand (up until the date of these Financial Statements the Company loaned USD 3,382 thousand). The loan becomes payable on or before 31 January 2009. The aim of the loan is to finance the ongoing operations of OOO Siewiergeofizyka. Interest accruing on the loan is based on LIBOR.

In addition, in the reporting period, the repayment dates of four loans totalling USD 5,074 thousand granted in 2007 for one year were extended to 15 December 2008.

Agreements concluded between the Company and OOO Nieftegeoserwis

In the period from 1 January 2008 to the date of these Financial Statements, the repayment dates of four loans totalling USD 3,922 thousand granted in 2007 for one year were extended to 15 December 2008.

Agreements concluded between the Company and ZAO Pechora Petroleum

In the period from 1 January 2008 to the date of these Financial Statements, the Company concluded two agreements with ZAO Pechora Petroleum. The agreements were regarding loans to be granted by the Company for a total of USD 6,500 thousand (up until the date of these Financial Statements, the Company loaned USD 3,025 thousand). The loans become payable on or before 31 January 2009. The aim of the loans is to finance the ongoing operations of ZAO Pechora Petroleum. Interest accruing on the loans is based on LIBOR.

In addition, in the reporting period, the repayment dates of four loans totalling USD 1,604 thousand granted in 2007 for one year was extended to 15 December 2008.

Agreements concluded between the Company and Occidental Resources, Inc.

In the period from 1 January 2008 to the date of these Financial Statements, the Company concluded one agreement (and annex increasing the loan amount) with Occidental Resources, Inc. The agreement was regarding a loan to be granted by the Company for a total of USD 11,000 thousand (up until the date of these Financial Statements the Company loaned USD 8,625 thousand). The loan becomes payable on or before 31 January 2009. Interest accruing on the loans is set at 18% p.a. In order to secure the above-mentioned receivable, the Company also concluded a guarantee agreement for USD 8,000 thousand with OTG as guarantor, which was increased to USD 14,000 thousand when the annex to the loan agreement was signed.

Agreements concluded between the Company and TOO EmbajugNieft

In the period from 1 January 2008 to the date of these Financial Statements, the Company concluded one loan agreement with TOO EmbajugNieft. The agreement is regarding a loan to be granted by the Company to TOO EmbajugNieft totalling USD 20,000 thousand (up until the date of these Financial Statements the Company loaned USD 4,625 thousand). The loan becomes payable on or before 31 January 2011. Interest accruing on the loan is based on LIBOR.

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

In the period from 1 January 2008 to the date of these Financial Statements, the Company concluded two loan agreements with TPG GAZ S.A. totalling PLN 120 thousand. Both loans were advanced in full. The loans become payable on or before 31 December 2008. Interest was agreed at 5% p.a. for each loan. In addition, in the reporting period, the repayment dates of two loans totalling USD 40 thousand, originally maturing on 31 January 2008, were extended to 31 December 2008.

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

In the period from 1 January 2008 to the date of these Financial Statements, the Company concluded one loan agreement with Prokom Investments S.A. totalling PLN 17,476 thousand. The loan was received in full. The loan becomes payable within 5 working days from the date on which a request for full or partial repayment of the loan is delivered by the Lender. The loan also contains a clause whereby an authorisation is granted to the Lender to request that the Company issue shares as part of the target capital and offer the shares to the Lender precluding pre-emptive rights of the existing shareholders (call option). Interest accruing on the loans is based on WIBOR. Moreover, in the reporting period annexes to seven loan agreements were signed, the principal outstanding balance of which with interest accrued as at 30 June 2008 was PLN 195.7m. The Annexes incorporated the clause providing authorisation to the Lender to request that the Company issue shares as part of the target capital and offer the shares to the Lender precluding the pre-emptive rights of the existing shareholders (call option).

Agreements concluded by and between TOO EmbajugNieft and TOO Company Profit

In the period from 1 January 2008 to the date of these Financial Statements, EmbajugNieft and TOO Company Profit entered into eight financial support agreements totalling KZT 100,671 thousand. The loans become payable within one year from the date on which funds become available, with the exception of the loan of 31 July 2008 for KZT 2,000 thousand, which becomes payable on or before 31 December 2008. Financial support agreements are non-interest bearing.

34.3. Re-measurement of related party balances

In the period from 1 January to 30 June 2008, the Group did not re-measure related party balances and no write-downs were made. As at 30 June 2008 and as at 31 December 2007, related party balances were PLN 0.

35. Compensation of Key Management Personnel

Compensation of the Company's key management personnel (excluding members of the Company's governing bodies) in the period of 6 months ended 30 June 2008 amounted to PLN 1.9m; in the period of 6 months ended 30 June 2007 amounted to PLN 1.4m.

Compensation paid to members of the Management Board of the Company (parent entity) is presented in the table below:

	<i>for 6 months</i>	
	<i>ended 30 June</i>	
	<i>2008</i>	<i>2007</i>
	<i>unaudited</i>	<i>unaudited</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Gricuk Pawel - President	249	0
Gablewski Zenon - Vice President	433	470
Balicki Marcin - Board Member	210	n/a
	892	470

Compensation for Supervisory Board members had not been determined.

36. Financial Risk Management Objectives and Policies

In identifying the types of risks connected with its business activity, the Group 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. Due to a relatively small scale of its hedging activities, the Group does not apply hedge accounting.

The Group'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 Group's operations. The Group 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 Group's policy that no trading in financial instruments shall be undertaken.

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

36.1. Interest rate risk

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

The Group's policy is to manage its interest cost using a mix of fixed and floating rate debt. The Group does not enter into interest rate hedging contracts. As at 30 June 2008, ca. 44% of the Group's liabilities had fixed rates of interest.

As at 30 June 2008, the loan granted to OTG had a fixed rate of interest while all other bank loan liabilities had a floating rates of interest. Liabilities to Prokom Investments S.A. under a loan totalling PLN 200m are 90% based on a fixed rate of interest of 5% p.a., the remainder are based on a floating rate.

As at 30 June 2008, 90% of finance lease liabilities had a fixed rate of interest.

Interest rate risk – sensitivity analysis

As at 30 June 2008, the Group's financial assets and liabilities were exposed to the following interest rate movements: WIBOR (1M, 3M) and USD LIBOR (3M, 6M).

After a longer period of activity of the U.S. Federal Reserve (FED) aimed at stimulating the economy by reducing interest rates, in view of certain indications of improvement of the situation in the US market, the FED did not make any further reductions and sustained the base interest rate at 2% during its meeting in August 2008. Representatives of the U.S. Federal Reserve project that the interest rate reduction cycle has come to an end. The FED has recently increased its inflation projections. According to analysts, if the U.S. inflation remains at such high levels, the cost of money may be increased by the end of the year in order to reduce inflation. Hence, it was assumed that both 3M and 6M USD LIBOR will rise by 0.25 percentage points during the next 12 months from the balance sheet date.

At its last sitting on 27 August 2008, the Polish Monetary Policy Council (MPC) left interest rates unchanged. In August 2008, the inflation rate was 4.8% but did not cross 5% as originally expected. However, the level of inflation is still far from the target of 2.5%. Statements made by members of the MPC indicate that if economic growth is sustained at the projected level until the end of 2008, it is possible that one more increase of interest rates of 0.25 percentage points will be made. If, however, economic growth is slower than projected, the MPC is planning to leave interest rates unchanged in the mid-term. Hence, for the purpose of interest rate sensitivity analysis, it was assumed that both 3M and 1M WIBOR will rise by 0.25 percentage points during the next 12 months from the balance sheet date.

As at 30 June 2008, the Group's financial assets exposed to interest rate movements were valued at PLN 34.4m. Assuming no change in other factors, the Group's projected profit from a 25 bps increase in LIBOR for USD in the period of 12 months from 30 June 2008 may amount to PLN 86 thousand.

As at 30 June 2008, the Group's financial liabilities exposed to interest rate movements were valued at PLN 240.6m. Assuming no change in other factors, the Company's projected costs arising due to WIBOR increases of 25 bps in the period of 12 months from 30 June 2008 may be ca. PLN 71 thousand higher. Furthermore, due to the projected rise in USD LIBOR of 25 bps, assuming the level of indebtedness as at 30 June 2008 and no change in other factors, the Group's projected costs in the period of 12 months from 30 June 2008 may be ca. PLN 531 thousand higher.

The table below sets out an analysis of gross profit sensitivity to reasonably possible changes in interest rates, assuming no change in other factors.

<i>for 6 months ended 30 June 2008</i>	<i>category according to IAS 39</i>	<i>% point increase/ decrease</i>	<i>increase on gross profit/ (loss)</i>
financial assets	USD LR	0.25%	86
financial liabilities	PLN AC	0.25%	(71)
	USD AC	0.25%	(531)
<i>Abbreviations:</i>			
<i>LR - Loans and receivables</i>			
<i>AC - Other financial liabilities measured at amortised cost</i>			
<i>for 6 months ended 30 June 2007</i>	<i>category according to IAS 39</i>	<i>% point increase/ decrease</i>	<i>increase on gross profit/ (loss)</i>
financial assets	USD LR	-0.60%	(58)
financial liabilities	PLN AC	0.80%	(283)
	USD AC	-0.60%	229

36.2. Foreign currency risk

The Group 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 Group's sales are denominated in the reporting currency of the operating unit making the sale, whilst all costs associated with the purchase of goods for resale are denominated in other currencies. In order to minimise foreign currency risk, the Group intends to secure financing of assets denominated in foreign currencies and exposed to foreign currency risks from sources denominated in the respective currencies. The Group 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

As at 30 June 2008, the Group's financial assets and liabilities exposed to foreign exchange movements totalled PLN 184.3m and PLN 334m, respectively. When performing a foreign currency sensitivity analysis, the Group does not take into account prepayments as the probability that they will be returned is marginal.

As at 30 June 2008, the Group's assets exposed to exchange rate fluctuations of USD/PLN totalled PLN 171.3m, and liabilities totalled PLN 244.1m. As the market is not consistent as to the future rate of USD to EUR and PLN, the impact of both an increase and a decrease in the exchange rate of USD to PLN on gross profit is presented. The upward trend in USD that can be observed at the moment is tightly correlated to price decreases on oil markets. It is difficult to predict with some certainty whether the decrease will be long-term and so the US currency will strengthen, or whether it is a temporary phenomenon that will be followed by a further drop in USD exchange rates.

On the one hand, if the USD/PLN exchange rate goes up by 10% during the next 12 months from 30 June 2008, assuming the level of financial assets as at 30 June 2008 and no change in other factors, the Group's projected gain on the increase of the exchange rate of USD/PLN in the period of 12 months from 30 June 2008 may amount to ca. PLN 17.1m. Assuming the level of indebtedness as at 30 June 2008 and no change in other factors, the Company's projected costs in the period of 12 months from 30 June 2008 may be ca. PLN 24.4m higher.

On the other hand, if in the 12 months following 30 June 2008 the USD/PLN exchange rate falls by 10%, assuming the level of financial assets as at 30 June 2008 and no change in other factors, the Group's projected loss due to the decrease in the USD/PLN exchange rate in the period of 12 months from 30 June 2008 may amount to ca. PLN 17.1m. Assuming the level of indebtedness as at 30 June 2008 and no change in other factors, the Group's projected costs in the period of 12 months from 30 June 2008 may be ca. PLN 24.4m lower.

As at 30 June 2008, the Group's assets exposed to exchange rate fluctuations of EUR/PLN totalled PLN 53.5m and liabilities totalled PLN 23.8m. In both cases, the items are marginal from the perspective of the balance sheet total and so the fluctuations of EUR/PLN will not have any significant impact on the Group's gross profit. Details are given in the table below.

As at 30 June 2008, the Group's assets exposed to exchange rate fluctuations of USD/KZT totalled PLN 13m and liabilities totalled PLN 89.8m. In the first half of 2008, the central bank of Kazakhstan stabilised the rate of USD/KZT at 120, in line with earlier declarations. Fluctuations of the exchange rate over the first half-year did not exceed +/-0.5%. In all probability, the situation will be sustained. Despite liquidity problems in the banking sector caused by instability in the Western financial markets and the associated restricted access to Western funds, the central bank of Kazakhstan has enough foreign currency reserves to counteract exchange rate fluctuations. Hence, the Group assumed that the USD/KZT rate during the next 12 months from 30 June 2008 will fluctuate in the range of +/-0.5%.

Assuming the level of financial assets as at 30 June 2008 and no change in other factors, the Group's projected gain on the increase of the exchange rate of USD/KZT in the period of 12 months from 30 June 2008 may amount to ca. PLN 48 thousand. Assuming the level of indebtedness as at 30 June 2008 and no change in other factors, the Group's projected costs due to the increase of the USD/KZT exchange rate in the period of 12 months from 30 June 2008 may be ca. PLN 448 thousand higher.

Assuming the level of financial assets as at 30 June 2008 and no change in other factors, the Group's projected loss on the decrease of the exchange rate of USD/KZT in the period of 12 months from 30 June 2008 may amount to ca. PLN 48 thousand. Assuming the level of indebtedness as at 30 June 2008 and no change in other factors, the Group's projected costs due to the decrease of the USD/KZT exchange rate in the period of 12 months from 30 June 2008 may be ca. PLN 448 thousand lower.

The table below sets out an analysis of gross profit sensitivity (due to the change in the fair value of monetary assets and liabilities) to reasonably possible exchange rate fluctuations, assuming no change in other factors.

6 months ended 30 June 2008	category according to IAS		exchange rate increase	effect on gross profit (loss)	exchange rate decrease	effect on gross profit (loss)
	currency	39				
assets	USD / PLN	LR	10.00%	17 129	-10.00%	(17 129)
	EUR / PLN	LR	5.00%	3	-5.00%	(3)
	USD / KZT	LR	0.50%	48	-0.50%	(48)
financial liabilities	USD / PLN	AC	10.00%	(21 233)	-10.00%	21 233
	EUR / PLN	AC	5.00%	0	-5.00%	0
	USD / KZT	AC	0.50%	(392)	-0.50%	392
other liabilities	USD / PLN	AC	10.00%	(3 178)	-10.00%	3 178
	EUR / PLN	AC	5.00%	(1)	-5.00%	1
	USD / KZT	AC	0.50%	(56)	-0.50%	56
<i>effect on gross profit (loss) in total:</i>				<i>(7 680)</i>		<i>7 680</i>

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

PETROLINVEST GROUP
Interim consolidated financial statements for 6 months ended 30 June 2008
Accounting principles and notes to the financial statements
(in PLN thousands)

6 months ended 30 June 2007	category according to IAS		exchange rate decrease	effect on gross profit (loss)
	currency	39		
assets	USD / PLN	LR	-9.00%	(17 394)
	EUR / PLN	LR	-5.00%	(18)
financial liabilities	USD / PLN	AC	-9.00%	29 017
	EUR / PLN	AC	-5.00%	19
<i>effect on gross profit (loss) in total:</i>				11 624
<i>Abbreviations:</i>				
LR - Loans and receivables				
AC - Other financial liabilities measured at amortised cost				

The table below sets out an analysis of equity—currency translation differences sensitivity (due to the change in the fair value of monetary assets and liabilities) to reasonably possible exchange rate fluctuations, assuming no change in other factors.

6 month period ended 30 June 2008	category according to IAS		exchange rate % increase	effect on shareholder equity	exchange rate % decrease	effect on shareholder equity
	currency	39				
	kategoria zgodnie z MSR 39	zmniejszenie procentowe kursu	wpływ na kapitał własny	zwiększenie procentowe kursu	wpływ na kapitał własny	
assets	USD / PLN	LR	-10.00%	(526)	10.00%	526
	KZT / PLN	LR	-10.00%	(685)	10.00%	685
	RUB / KZT	LR	-10.00%	(158)	10.00%	158
financial liabilities	USD / PLN	AC	-10.00%	0	10.00%	0
	KZT / PLN	AC	-10.00%	3 920	10.00%	(3 920)
	RUB / KZT	AC	-10.00%	0	10.00%	0
other liabilities	USD / PLN	AC	-10.00%	307	10.00%	(307)
	KZT / PLN	AC	-10.00%	15 326	10.00%	(15 326)
	RUB / KZT	AC	-10.00%	1 391	10.00%	(1 391)
<i>total effect on shareholder equity —foreign currency translation</i>				19 575		(19 575)

Risks relating to fluctuations of the tenge (currency of Kazakhstan) and foreign exchange control regime

One cannot rule out the possibility of the tenge rising or falling abruptly to the dollar within the next 12 months from the balance sheet date. Any increase in the exchange rate of the Kazakh currency to the dollar, whether current or future, may affect the distribution and value of the companies' resources and the costs of the Kazakh prospecting and production companies converted to dollar. There is also no assurance that the Kazakh currency will be fully exchangeable into dollar or that the oil exploration and production companies will be able to exchange sufficient sums of tenge to dollar in order to satisfy their obligations denominated in other currencies. There is also certain exposure to losses which may arise on the back of inflation: devaluation of national currencies, introduction of state control over pricing in order to curb inflation or increase of interest rates. Although tenge is not fully exchangeable outside of Kazakhstan, there are currently no limitations regarding the exchange of tenge for other currencies in Kazakhstan. However, if the government decides to take control over foreign exchange, the ability of oil exploration and production companies to continue their business activities in Kazakhstan may be restricted. There is no assurance that legislative changes in respect of foreign exchange control will not adversely affect the level of cash flows of the Kazakh oil exploration and production companies.

36.3. Commodity price risk

The Group 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 Group 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 Group takes into account the current market conditions, immediate market trends and the minimal possible margin, which serves as a buffer against possible changes in market conditions.

As at 30 June 2008, the Group did not have any long-term contracts with a fixed commodity purchase price. The Group had stocks of 2,899,225 tonnes of LPG. The Group concluded that in the period in question the average inventory turnover ratio was 12 days. The Group analysed the fluctuations in gas prices according to Platts in the period of 12 months to 30 June 2008 and concluded that in the period under analysis the prices of gas at twelve-day intervals increased on average by USD 11.5 per tonne. Hence, the Group does not assume that commodity price fluctuations in short 12-day periods would have a significant impact on the Group's financial results.

36.4. Credit risk

The Group trades only with recognised, creditworthy third parties. In case of first-time sales to new customers, the payment is made in cash or sales are prepaid. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Group 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 Group's exposure to bad debts is not significant.

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

There are no significant concentrations of credit risk within the Group.

36.5. Liquidity risk

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

The table below provides an analysis of the Group's financial liabilities as at 30 June 2008 and as at 31 December 2007 by maturity based on contractual non-discount payment terms.

<i>30 June 2008</i>	<i>On request</i>	<i>Under 3 months</i>	<i>from 3 to 12 months</i>	<i>from 1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Interest-bearing loans and borrowings	0	16 852	33 949	447 227	3 160	501 188
Finance lease liabilities	0	54	163	231	0	448
Liabilities resulting from acquisition of financial assets	0	511	0	30 731	0	31 242
Concession and share option liabilities	0	1 557	1 571	65 292	61 986	130 406
Trade and other payables	0	49 985	0	0	0	49 985
	<u>0</u>	<u>68 959</u>	<u>35 683</u>	<u>543 481</u>	<u>65 146</u>	<u>713 269</u>
<i>31 December 2007</i>	<i>On request</i>	<i>Under 3 months</i>	<i>from 3 to 12 months</i>	<i>from 1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Interest-bearing loans and borrowings	0	9 393	50 610	195 773	186 094	441 870
Finance lease liabilities	0	55	125	248	0	428
Liabilities resulting from acquisition of financial assets	0	8 523	20 189	35 308	0	64 020
Concession and share option liabilities	0	1 915	455	76 364	71 217	149 951
Trade and other payables	0	35 566	0	0	0	35 566
	<u>0</u>	<u>55 452</u>	<u>71 379</u>	<u>307 693</u>	<u>257 311</u>	<u>691 835</u>

The remaining financial liabilities are discussed in note 30.

36.6. Operating risk

The investment program is run in the Russian Federation and Kazakhstan, both of which have relatively young legal and tax systems. The lack of reference to well established legal and tax regulations in those countries may result in a lack of clarity and integrity in the regulations. Frequent contradictions may arise in legal interpretations of tax regulations, as well as regulations applicable to the exploration and development of oil fields, both within government bodies and between companies and government bodies, which may create uncertainties and conflicts. These facts create investment risks in those countries that are substantially more significant than those typically found in countries with more developed tax systems, which may have a potential direct impact on the valuation of the Group's assets. In order to minimise those risks, management uses consultancy and legal advice provided by well established law offices. Such consultancy and advice is provided during the process of identifying potential investments and beyond in order to safeguard the Group against the risks described above. Management was assured by its legal counsel that all investments made to date are lawful and the Company is a legitimate owner of the acquired shares.

37. Financial Instruments

37.1. 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 Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

PETROLINVEST GROUP
Interim consolidated financial statements for 6 months ended 30 June 2008
Accounting principles and notes to the financial statements
(in PLN thousands)

30 June 2008	<1year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Fixed rate							
Financial assets	39 858	0	0	0	0	0	39 858
Finance lease liabilities	217	218	13	0	0	0	448
Loans for PLN 212,400 thousand	13 227	0	0	0	182 494	0	195 721
Loans for PLN 320 thousand	0	366	0	0	0	0	366
Loans for PLN 200 thousand	0	330	0	0	0	0	330
Bank loan for USD 37,800 thousand (50% in a jointly-controlled entity)	10 672	10 068	10 068	8 390	0	0	39 198
Liabilities	24 116	10 982	10 081	8 390	182 494	0	236 063
Floating rate							
Financial assets	849	0	0	34 387	0	0	35 236
Overdraft facilities	24 896	0	0	0	0	0	24 896
Bank loans:	1 921	880	40 120	79 360	97 674	3 160	223 115
for PLN 10,000 thousand	1 000	0	0	0	0	0	1 000
for PLN 8,000 thousand	880	880	880	880	880	3 160	7 560
for PLN 300,000 thousand	0	0	39 240	78 480	96 794	0	214 514
for USD 285 thousand	41	0	0	0	0	0	41
Loans for PLN 17,476 thousand	86	0	0	0	17 476	0	17 562
Liabilities	26 903	880	40 120	79 360	115 150	3 160	265 573

31 December 2007	<1year	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Total
Fixed rate							
Financial assets	6 952	51	0	0	24 158	0	31 160
Finance lease liabilities	180	177	58	13	0	0	428
Loans for PLN 212,400 thousand	8 673	0	0	0	0	182 494	191 167
Loans for PLN 320 thousand	0	320	0	0	0	0	320
Loans for PLN 200 thousand	0	200	0	0	0	0	200
Bank loan for USD 37,800 thousand (50% in a jointly-controlled entity)	47 811	0	0	0	0	0	47 811
Liabilities	56 664	697	58	13	0	182 494	239 926
Floating rate							
Financial assets	0	0	0	0	0	0	0
Overdraft facilities	0	0	0	0	0	0	0
Bank loans:	2 999	880	50 980	100 780	43 133	3 600	202 372
for PLN 10,000 thousand	2 000	0	0	0	0	0	2 000
for PLN 8,000 thousand	880	880	880	880	880	3 600	8 000
for PLN 300,000 thousand	0	0	50 100	99 900	42 253	0	192 253
for USD 285 thousand	119	0	0	0	0	0	119
Liabilities	2 999	880	50 980	100 780	43 133	3 600	202 372

PETROLINVEST GROUP
Interim consolidated financial statements for 6 months ended 30 June 2008
Accounting principles and notes to the financial statements
(in PLN thousands)

37.2. Fair value of each class of financial instruments

The table below sets forth the carrying value of all financial instruments held by the Group by classes and categories of assets and liabilities.

	Category according to IAS 39	Carrying amount		Income statement			Income statement		
		30 June 2008	31 December 2007	for 6 months ended 30 June 2008			for 6 months ended 30 June 2007		
		PLN '000	PLN '000	PLN '000			PLN '000		
				interest and fees	F/X differences	other	interest and fees	F/X differences	other
Financial assets		206 457	162 673	3 785	(9 929)	135	4 226	(4 298)	79
Financial assets, including		144 625	109 938	2 079	(9 803)	0	3 013	(4 247)	0
- loans advanced and receivables	LR	144 625	109 912	2 079	(9 803)	0	3 013	(4 247)	0
- other financial assets	AFS	0	26	0	0	0	0	0	0
Trade receivables and other non-current and current receivables	LR	28 132	27 508	0	0	135	0	0	79
Cash, cash equivalents and long-term deposits	FVPL	33 700	25 227	1 706	(126)	0	1 213	(51)	0
Financial liabilities		677 011	648 883	(4 417)	45 680	(3 282)	(3 359)	11 616	(1 477)
Interest-bearing loans and borrowings, including	AC	501 188	441 870	(4 388)	31 630	0	(3 315)	2 843	0
- bearing floating interest rates	AC	235 615	239 498	(1 718)	31 630	0	(511)	2 843	0
- bearing fixed interest rates	AC	240 677	202 372	(2 660)	0	0	(2 693)	0	0
- overdraft	AC	24 896	0	(10)	0	0	(111)	0	0
- other	AC	0	0	0	0	0	0	0	0
Other liabilities, including	AC	123 770	141 053	(29)	18 987	(3 002)	(44)	3 569	1 837
- finance lease liabilities	AC	448	428	(29)	0	0	(44)	0	0
- other non-current liabilities	AC	123 322	140 625	0	18 987	(3 002)	0	3 569	1 837
Trade and other payables	AC	52 053	65 960	0	(4 937)	(280)	0	5 204	(3 314)

Abbreviations:

HTM – Financial assets held to maturity

FVPL – Financial assets/liabilities at fair value through profit or loss

LR – Loans and receivables

AFS – Available-for-sale financial assets

AC – Other financial liabilities measured at amortised cost

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

38. Capital Management

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

The Group 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—subject to the restriction referred to in note 27.4 above—the Group may issue new shares or bonds convertible into shares, adjust the amount of dividends paid to shareholders, return capital to shareholders, or issue new shares. In the reporting periods ended 30 June 2008 and 31 December 2007, there were no changes to the Group's objectives, policies and processes for managing capital.

The Group 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 parent entity is aware that the Group 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.

	<u>30 June</u> <u>2008</u>	<u>31 December</u> <u>2007</u>
	<u>unaudited</u>	<u>audited</u>
	<u>PLN '000</u>	<u>PLN '000</u>
Interest-bearing loans and borrowings and finance lease liabilities	501 636	442 298
Subordinated shareholder loans	(213 979)	(191 687)
Trade and other payables	175 375	206 585
Less: cash and cash equivalents and long-term deposits	(33 700)	(25 227)
Net debt	<u>429 332</u>	<u>431 969</u>
Convertible preference shares		
Equity attributable to equity holders of the parent	334 278	360 876
Subordinated shareholder loans	213 979	191 687
Reserve capital relating to unrealised net gains	0	0
Total equity	<u>548 257</u>	<u>552 563</u>
Net debt and equity	<u>977 589</u>	<u>984 532</u>
Leverage ratio	43.9%	43.9%

39. Social Assets and Liabilities

In Poland, the Act on Social Fund dated 4 March 1994 with subsequent amendments requires the companies, whose employees' number exceeds 20, to establish and run a Social Fund. The Group operates such a Fund at the level of each company and makes periodical charges to it based on minimum required amount. The Funds' purpose is to subsidize the operation of the Companies' social activity, loans to employees and other social expenditures.

The Group has netted the assets of the Fund with the liability to the Fund, as these are not separate assets of the Group. The net balance is therefore PLN 33 thousand.

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

	<i>for 6 months ended</i>	<i>for 12 months ended</i>
	<i>30 June 2008</i>	<i>31 December 2007</i>
	<i>unaudited</i>	<i>audited</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Loans granted to employees	98	102
Cash	188	90
Social Fund liability	(319)	(192)
Net	(33)	0
Charges to Social Fund made during the period	136	112

40. Employment Structure

The average employment in the Group was as follows:

	<i>30 June 2008</i>	<i>31 December 2007</i>
	<i>unaudited</i>	<i>audited</i>
	<i>PLN '000</i>	<i>PLN '000</i>
Management Board of the Parent Entity	3	2
Management Board of Group Entities	12	14
Administration	107	114
Sales Dept.	58	41
Production	106	92
Other	39	27
	325	290

41. Events after the Balance Sheet Date

On 30 June 2008, the Management Board passed a resolution to separate gas trading activities from the structure of the Company and establish a self-balancing branch named PETROLINVEST Spółka Akcyjna – Oddział LPG (LGP Branch) with its registered office in Gdynia. On 22 July 2008, the District Court for Gdańsk-Północ of Gdańsk, VIII Economic Department of the National Court Register, in a secret session, registered the establishment of a self-balancing branch of the Company named PETROLINVEST Spółka Akcyjna – Oddział LPG with its registered office in Gdynia.

On 28 July 2008, the Company was granted permission by the bank Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ("PKO BP S.A."), acting as the Facility Agent for the facility granted to the Company under a credit facility agreement dated 21 March 2007 as amended, to carry out activities following from conditional investment agreements concluded by the Company to acquire a 48.8% stake in Occidental Resources Inc., a 50% stake in TOO EmbajugNieft (agreements dated 16 January 2008), a 45% stake in Kazakhstancaspishelf JSC (agreement dated 21 February 2008), and a 26.07% stake in Caspian Services Inc. (agreement dated 28 February 2008). Details regarding the terms of the agreements are given in note no. 22.

On 5 August 2008, the Company's Management Board resolved to convene an Extraordinary General Shareholders' Meeting of PETROLINVEST S.A. for 5 September 2008 with the agenda including, among other things:

- taking a resolution on a share capital increase of the Company by PLN 23,531,490 via the issuance of 2,353,149 F-series bearer shares with a nominal value of PLN 10 per share, precluding the pre-emptive rights of the existing

shareholders. The issue will be addressed to eleven shareholders of Occidental Resources Inc. ("ORI") with a view to execute the investment agreement dated 16 January 2008 pertaining to the acquisition by the Company of 48.8% ORI shares in exchange for 2,353,149 Company shares; and

- taking a resolution on a share capital increase of the Company by PLN 5,430,340 via the issuance of 543,034 G-series bearer shares with a nominal value of PLN 10 per share, precluding the pre-emptive rights of the existing shareholders. The issue will be addressed to Dzhumageldy Rakhishevich Amankulov, Atameken-Prommash LLP, GEOKAPITAL LLP and MARBURG OIL LLP with a view to execute the investment agreement dated 16 January 2008 pertaining to the acquisition by the Company of 50% TOO EmbaJugNieft shares in exchange for 543,034 Company shares.

As a result of the issue of F and G-series shares, the share capital of the Company will amount to PLN 90,596,590.

The Extraordinary General Meeting taking place on 5 September 2008 took a decision motioned by the Management Board to announce suspension of the meeting. The Meeting set forth the date on which the meeting would be resumed, 30 September 2008. The Meeting was suspended owing to the fact that by 5 September 2008 the Kazakh partners had not appointed entities authorised to take up PETROLINVEST S.A. shares in accordance with the investment agreements concluded on 16 January 2008. Moreover, the Company had not yet received the consent of the Ministry of Energy and Mineral Resources of Kazakhstan to acquire shares in TOO EmbaJugNieft LLP. Management believes that the Company will receive the above-mentioned consent and agree with the Kazakh partners all details necessary to close the transaction by 30 September 2008.

Supplementing the announcement regarding the suspension of the Meeting, the Company, in cooperation with the Kazakh Partners, announced that all details connected with the issue of shares and acquisition of Occidental Resources and EmbaJugNieft will be agreed before the EGM is resumed. In addition, the company informed the public on the current status of works on two main prospecting drillings: no. 200 on BMB Munai concession and no. K-3 on OTG concession:

- Drilling of hole no. 200 was completed at a depth of 4,650 m. Geophysical research on the hole indicate existence of 12 oil-bearing horizons. Sampling and a production test will be run within 8-10 weeks.
- Drilling of hole no. K-3 was made to a depth of 6,750 m. Currently work is ongoing to pipe and cement the most recently drilled portion of the hole and—geophysical research of the drilled-through layers is continued. The target depth of the drilling is ca. 6,900 m. The results of geophysical research carried out to date indicate the existence of hydrocarbon saturated horizons of ca. 150 m. Management and the Company's geological team believe that the results obtained to date confirm that resources recoverable from the structures drilled through by K-3 may reach 200-300 mmbob (million barrels of oil equivalent). The geological potential of OTG concession is estimated at 960 mmbob in aggregate according to the independent expert McDaniel & Associates Consultants Ltd. The Company is planning to finish drilling and run a production test within the next 3 months. The Company will keep the public informed on the progress of the testing in current and periodical reports.

The Management Board also accentuated that the results of the drillings confirm the considerable geological potential of both concessions and, after the issuance of an independent expert's report, will allow the Company to reclassify the prospective resources to the category of confirmed resources (P1/P2/P3) both in the case of OTG and BMB Munai concessions and to prepare to start trial production from the drillings.

On 17 September 2008, the Company announced that due to the fact that a different number of Company shares had to be issued to be taken up in exchange for the shares in Occidental Resources Inc. and TOO EmbaJugNieft (as a result of annexes amending the terms and conditions of the investments agreements of 16 January 2008)—the Management Board would recommend to the Extraordinary General Shareholders' Meeting convened for 5 September 2008 and suspended until 30 September 2008 not to pass the resolutions on the share capital increase which are on the agenda of the Meeting.

On 12 August 2008, the Company received a decision issued by the Polish Financial Supervision Authority on 11 August 2008 regarding approval of the Registration Document of PETROLINVEST S.A. The decision was issued following the Company's request made on 19 February 2008.

On 28 August 2008, the Management Board resolved to convene an Extraordinary General Shareholders' Meeting of PETROLINVEST S.A. for 30 September 2008 with a view to:

- taking a resolution on a share capital increase of the Company by up to PLN 2,993,310 via the issuance of up to 299,331 H-series bearer shares with a nominal value of PLN 10 per share, precluding the pre-emptive rights of the existing shareholders.
- taking a resolution on a share capital increase of the Company by up to PLN 128,110 via the issuance of up to 12,811 I-series bearer shares with a nominal value of PLN 10 per share, precluding the pre-emptive rights of the existing shareholders.

The H and I issues will be addressed to Mars International Worldwide Ltd. to execute the investment agreement dated 28 February 2008 pertaining to the acquisition by the Company of an aggregate of 26.07% of the shares in Caspian Services Inc. in exchange for 312,142 Company shares. As a result of the issue of H and I-series shares, the share capital of the Company will amount to PLN 93,718,010.

On 17 September 2008, the Company announced that due to the fact that a different number of Company shares had to be issued to be taken up in exchange for the shares in Caspian Services Inc. (as a result of an annex amending the terms and conditions of the investments agreement of 28 February 2008)—the Management Board had decided to call off the Extraordinary General Meeting convened for 30 September 2008.

On 12 September 2008, the Management Board of PETROLINVEST S.A. was informed that the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan decided to renounce its priority rights with respect to 50% of the shares in TOO EmbajugNieft. The granting of the consent was the last regulatory requirement of the Kazakh law being a condition precedent to the execution of the investment agreement pertaining to the acquisition by the Company of 50% of the shares in TOO EmbajugNieft.

On 12 September 2008, the Company concluded annexes to the following significant investment agreements:

- Investment agreement between the Company and Dzhumageldy Rakhishevich Amankulov, Atameken-Prommash LLP, GEOKAPITAL LLP and MARBURG OIL LLP of 16 January 2008 regarding the purchase by the Company of 50% of the shares in TOO EmbajugNieft, a company incorporated under Kazakhstan law ("EMBA"), in which the Company already owns 50% of the shares ("Investment Agreement I"). The Annex to the Investment Agreement I amended the number of Company shares that are to be issued in exchange for 50% of EMBA shares. Following the amendment, the Company agreed to issue 772,315 shares at an issue price of PLN 225 per share. The terms and conditions of a potential additional issue of Company shares remained unchanged. The Annex to the Investment Agreement I provides a list of all entities authorised to take up Company shares in exchange for 50% of EMBA shares. The Investment Agreement I is a significant agreement because the value of its subject matter exceeds 10% of the Company's equity.
- Investment agreement between the Company and the shareholders of Occidental Resources Inc., a company incorporated under Utah state law, United States ("OCR"), of 16 January 2008 regarding the purchase by the Company of 48.8% of OCR shares, in which the Company already owns 50% of the shares ("Investment Agreement II"). The Annex to the Investment Agreement II set forth the number of OCR shares acquired by the Company at 48.27%. In addition, the Annex to the Investment Agreement II also amended the number of Company shares that are to be issued in exchange for 48.27% of OCR shares. Following the amendment, the Company agreed to issue 3,310,573 shares at an issue price of PLN 225 per share. The Investment Agreement II is a significant agreement because the value of its subject matter exceeds 10% of the Company's equity.
- Investment agreement between the Company and Pruner Group Limited, Mars International Worldwide Inc. and Munivac Global Ventures Inc. of 16 January 2008 ("Investment Agreement III") regarding the purchase by the Company of 100% of the shares in Capital Energy S.A., a company incorporated under British Virgin Islands law ("CE"). The Annex to the Investment Agreement III amended the number of Company shares that are to be issued in exchange for 100% of CE shares or at the Company's discretion:
 - 50% of the shares in Erkin Oil LLP and/or
 - 100% of the shares in Maksat Munai LLP and/or
 - 65% of the shares in Bolz LLP and/or
 - 75% of the shares in InvestTechno Group LLP or 75% of the shares in BMB Munai LLP.Following the amendment, the Company agreed to issue 1,371,292 shares at an issue price of PLN 225 per share, provided, however, that the final number of shares issued will be determined on the basis of an assessment performed by McDaniel & Associates Consultants Ltd of the resources belonging to those companies of Capital Energy Group that the Company shall decide to acquire. The Investment Agreement III is a significant agreement because the value of its subject matter exceeds 10% of the Company's equity.
- Investment agreement of 21 February 2008 between the Company and Mars International Worldwide Inc. and Munivac Global Ventures Inc. ("Investment Agreement IV") regarding the purchase by the Company of 45% of the shares in Kazakhstancaspishelf JSC, a company incorporated under Kazakh law ("KCS"), entitling the Company to 50% of the votes at the General Meeting of KCS. The Annex to the Investment Agreement IV amended the number of Company shares that are to be issued in exchange for 45% of KCS shares. Following the amendment, the Company agreed to issue 500,892 shares at an issue price of PLN 225 per share. The Investment Agreement IV is a significant agreement because the value of its subject matter exceeds 10% of the Company's equity.
- Investment agreement of 28 February 2008 between the Company and Mars International Worldwide Inc. ("Investment Agreement V") regarding the purchase by the Company of 26.07% of the shares in Caspian Services Inc., a company incorporated under Nevada State law, United States ("CS"), entitling the Company to 26.07% of the votes at the General Meeting of CS. The Annex to the Investment Agreement V amended the number of Company shares that are to be issued in exchange for 26.07% of CS shares. Following the amendment, the Company agreed to issue 430,062 shares at an issue price of PLN 225 per share. CS shares will be available for purchase in two tranches of 24.99% CS shares and 1.08% CS shares. The Investment Agreement V is a significant agreement because the value of its subject matter exceeds 10% of the Company's equity.

In connection with the amendments introduced to Investment Agreement I and Investment Agreement II, the Company pointed to the necessity of correcting the Management Board report with respect to non-monetary contributions of EMBA shares and OCR shares contributed to the Company and the related Independent Auditor's Opinion published in current report no. 32/2008 of 30 May 2008.

Parties to Investment Agreement I and Investment Agreement II agreed that the transactions shall be closed by 30 October 2008 or some other date set by the Company, provided that all conditions precedent stipulated in Investment Agreement I and

Investment Agreement II will have been fulfilled by that date, in particular appropriate resolutions will have been taken by the General Shareholder's Meeting of the Company.

The new issue price of the Company shares is approximately equal to the average price between the signing of the Investment Agreements and the date of the Annexes and approximately corresponds to the price at which the Company shares were available in the first public offering. The Management Board would like to accentuate that the signing of the annexes referred to above was the last step in building the largest investment platform for assets connected with the oil industry in the Caspian sea, with a geological potential exceeding 1.3 million barrels of oil, and opens doors to further acquisitions of assets in the region.

Upon finalising all formal actions connected with the execution of the above-mentioned agreements, the Company will become one of the largest private Kazakh capital investments in the European Union.

On 16 September 2008, the Company and Fortis Bank Polska SA concluded an annex to the loan agreement of 20 June 2007 increasing the current account overdraft facility by PLN 10,000 thousand to PLN 20,000 thousand. The overdraft is secured by a declaration on submission to enforcement of judgments and a capped mortgage on real estate. Interest accruing on the loan is based on WIBOR.

On 16 September 2008, the Company's Management Board resolved to increase share capital within the limits of target capital by PLN 1,846,160 via the issuance of 184,616 ordinary bearer F-series shares with a nominal value of PLN 10 each.

With a view to the Company's best interest and subject to consent from the Supervisory Board, the pre-emptive rights of the existing shareholders to F-series Shares were entirely precluded. In addition, subject to consent from the Chairman of the Supervisory Board, the issue price of F-series Shares was set at PLN 130. F-series Shares will participate in dividends starting from 1 January 2008.

The issue price was set at the level equal to the price determined in the Letter of Intent signed on 16 September 2008 between the Company, The European Bank for Reconstruction and Development and Blue Oak Capital Limited.

F-series Shares were offered in a private subscription to Mr. Bakhytbek Baiseitov. Bakhytbek Baiseitov is a founder and Chairman of the Board of Bank CenterCredit of Kazakhstan and one of the Company's leading Partners.

The offering was effected on 22 September 2008 on the terms set out by the Management Board. As a result of the offering, the Company received gross proceeds of PLN 24,000,080.

The goal of the issue is to provide the Company with finance to support investment projects.

On 17 September 2008, the Management Board informed the public that it decided to convene an Extraordinary General Meeting for 24 October 2008 at 1400. The agenda of the Meeting will involve resolutions on share capital increase, necessary to execute the investment agreements pertaining to the acquisition of shares/stocks in TOO EmbajugNieft, Occidental Resources Inc., and Caspian Services Inc.:

- A resolution on a share capital increase of the Company by up to PLN 33,105,730 via the issuance of up to 3,310,573 G-series bearer shares with a nominal value of PLN 10 per share, precluding the pre-emptive rights of the existing shareholders.
- A resolution on a share capital increase of the Company by up to PLN 7,723,150 via the issuance of up to 772,315 H-series bearer shares with a nominal value of PLN 10 per share, precluding the pre-emptive rights of the existing shareholders.
- A resolution on a share capital increase of the Company by up to PLN 4,122,210 via the issuance of up to 412,221 I-series bearer shares with a nominal value of PLN 10 per share, precluding the pre-emptive rights of the existing shareholders.
- A resolution on a share capital increase of the Company by up to PLN 178,410 via the issuance of up to 17,841 J-series bearer shares with a nominal value of PLN 10 per share, precluding the pre-emptive rights of the existing shareholders.

Following the issue of G, H I and J-series shares, the share capital of the Company will increase to PLN 108,610,420.

On 16 September 2008, the Company signed a Letter of Intent with The European Bank for Reconstruction and Development (EBOR) and Blue Oak Capital Limited pertaining to their investment in Company shares.

The terms and conditions set out in the Letter of Intent envisage the following terms of the investment:

The EBOR declared willingness to invest between USD 50 and 100 million in the newly-issued shares of the Company at an issue price equal to PLN 130 per share,

- Blue Oak declared willingness to invest USD 150 million in the newly-issued shares of the Company at an issue price equal to PLN 130 per share,
- The EBOR also declared intent to provide the Company with debt financing for the purpose of future development of the Company's undertakings in the area of prospecting and extraction and activities of PETROLINVEST Group service companies.
- Conditions precedent to signing investment agreements and closing the transaction involve inter alia: completion by investors of the due diligence of the Company, gaining appropriate consents from corporate bodies by Investors and the Company, and gaining by the Company consent from the financing Banks.

- It is the intention of the parties to enter the Company shares into trade on the London Stock Exchange's parallel market or another market as quickly as possible.
- The investors will each have the right to appoint one representative to the Company's Supervisory Board. Moreover, two independent members will also be appointed to the Supervisory Board, having international experience in the oil industry and/or service companies providing services for the oil industry.
- The investors taking up shares will be subject to a 360 day lock-up, counting from the first day their shares are listed on the Warsaw Stock Exchange.
- The Letter of Intent envisages the possibility of expanding the group of investors by adding other entities by signing appropriate annexes to the Letter of Intent or entering into an investment agreement.

The European Bank for Reconstruction and Development is an international financial institution headquartered in London. Currently the EBOR's members comprise 61 countries, the European Community and the European Investment Bank. The aim of the bank's activities is to accelerate the processes of economical change in Central and Eastern Europe as well as Central Asia by providing financial support for effective economic initiatives, particularly in the private sector.

Blue Oak Capital Limited (www.blueoakcapital.com) is among major hedging funds headquartered in London.

The Management Board believes that the signing of the Letter of Intent with investors of such renown and experience, being the product of several months of due diligence, enables the Company to make long-term plans and develop business undertakings in the prospecting and extraction segment as well as the service segment for the oil industry in the Caspian Sea Region.

On 18 September 2008, the independent expert McDaniel & Associates Consultants Ltd. drew up a report on the appraisal of additional reserves in the Shyrak area located within OTG Concession.

Based on seismic research performed by the Company in recent months, the independent Expert estimated the unrisks mean of additional recoverable prospective resources on top of those covered by the report published by the Company in January 2008 (current report no. 4/2008 dated 17 January 2008) in respect of OTG Concession at a level of 302.25 mmboe located in prospecting structures in the Shyrak area, North-East part of the Concession area. Thus, the aggregate prospective resources for OTG Concession, described in both Expert reports, amount to 1,269.13 mmboe.

The Company's indirect share in OTG Concession is currently 50% and will increase to 98.27% once the investment agreements of which the Company informed the public in current reports no. 3/2008 dated 16 January 2008 and no. 52/2008 dated 13 September 2008 regarding the acquisition of prospecting assets in Kazakhstan have been executed.

When the investment agreements referred to in the current reports quoted above have been finalised, the Company's unrisks mean prospective resources hitherto assessed by the Expert will total 1,344 mmboe.