



## PETROLINVEST GROUP

MANAGEMENT BOARD REPORT  
ON THE ACTIVITIES  
OF THE CAPITAL GROUP OF THE ISSUER  
FOR 6 MONTHS ENDED 30 JUNE 2008

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1. SELECTED FINANCIAL DATA

1.1. Selected financial data of PETROLINVEST Group

	<i>for 6 months</i>		<i>for 6 months</i>	
	<i>ended 30 June</i>		<i>ended 30 June</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>PLN '000</i>		<i>EUR '000</i>	
1. Net revenue from the sale of products, goods and materials	81 578	72 478	23 458	18 832
2. Profit (loss) from operations	(21 222)	(16 489)	(6 102)	(4 284)
3. Gross profit (loss)	10 505	(10 112)	3 021	(2 627)
4. Net profit (loss) attributable to equity holders of the parent	3 032	(12 806)	872	(3 327)
5. Cash flows from operating activities	(15 802)	(16 624)	(4 544)	(4 319)
6. Cash flows from investing activities	(143 198)	(185 691)	(41 177)	(48 249)
7. Cash flows from financing activities	142 711	178 713	41 037	46 436
8. Net cash flows, total	(16 289)	(23 602)	(4 684)	(6 133)
9. Weighted average number of shares issued in units	6 003 875	5 286 000	6 003 875	5 286 000
10. Number of diluting potential ordinary shares	142 358	142 358	142 358	142 358
11. Earnings (loss) per share (in PLN/EUR)	0.51	(2.42)	0.15	(0.63)
12. Diluted earnings (loss) per share (in PLN/EUR)	0.49	(2.36)	0.14	(0.61)
	<i>as at</i>		<i>as at</i>	
	<i>30 June</i>	<i>31 December</i>	<i>30 June</i>	<i>31 December</i>
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>PLN '000</i>		<i>EUR '000</i>	
12. Total assets	1 053 056	1 035 776	313 951	289 161
13. Liabilities and provisions for liabilities	718 641	674 412	214 251	188 278
14. Non-current liabilities	612 537	546 380	182 618	152 535
15. Current liabilities	106 104	128 032	31 633	35 743
16. Equity attributable to equity holders of the parent	334 089	360 876	99 603	100 747
17. Share capital	61 635	58 730	18 375	16 396
18. Weighted average number of shares issued in units	6 003 875	5 517 584	6 003 875	5 517 584
19. Number of diluting potential ordinary shares	142 358	142 358	142 358	142 358
20. Book value per share (in PLN/EUR)	55.65	65.40	16.59	18.26
21. Diluted book value per share (in PLN/EUR)	54.36	63.76	16.21	17.80
22. Declared or paid dividend per share (in PLN/EUR)	0.00	0.00	0.00	0.00

PETROLINVEST GROUP  
MANAGEMENT BOARD REPORT ON THE ACTIVITIES OF THE CAPITAL GROUP OF THE ISSUER  
for 6 months ended 30 June 2008

1.2. Selected financial data of PETROLINVEST S.A.

	<i>for 6 months ended 30 June</i>		<i>for 6 months ended 30 June</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>PLN '000</i>		<i>EUR '000</i>	
1. Net revenue from the sale of products, goods and materials	81 566	72 401	23 455	18 812
2. Profit (loss) from operations	(11 173)	(11 294)	(3 213)	(2 935)
3. Gross profit (loss)	(12 624)	(15 852)	(3 630)	(4 119)
4. Net profit (loss) attributable to equity holders of the parent	(12 001)	(17 231)	(3 451)	(4 477)
5. Cash flows from operating activities	(9 152)	(9 555)	(2 632)	(2 483)
6. Cash flows from investing activities	(142 298)	(185 905)	(40 918)	(48 305)
7. Cash flows from financing activities	140 359	176 857	40 361	45 954
8. Net cash flows, total	(11 091)	(18 603)	(3 189)	(4 834)
9. Weighted average number of shares issued in units	6 003 875	5 286 000	6 003 875	5 286 000
10. Number of diluting potential ordinary shares	142 358	142 358		
11. Earnings (loss) per share (in PLN/EUR)	(2.00)	(3.26)	(0.57)	(0.85)
12. Diluted earnings (loss) per share (in PLN/EUR)	(1.95)	(3.17)	(0.57)	(0.85)
	<i>as at</i>		<i>as at</i>	
	<i>30 June 2008</i>	<i>31 December 2007</i>	<i>30 June 2008</i>	<i>31 December 2007</i>
	<i>PLN '000</i>		<i>EUR '000</i>	
13. Total assets	1 009 183	932 281	300 871	260 268
14. Liabilities and provisions for liabilities	524 398	514 511	156 341	143 638
15. Non-current liabilities	467 939	427 302	139 508	119 291
16. Current liabilities	56 459	87 209	16 832	24 346
17. Equity attributable to equity holders of the parent	484 785	417 770	144 531	116 630
18. Share capital	61 635	58 730	18 375	16 396
19. Weighted average number of shares issued in units	6 003 875	5 517 584	6 003 875	5 517 584
20. Number of diluting potential ordinary shares	142 358	142 358	142 358	142 358
21. Book value per share (in PLN/EUR)	80.75	75.72	24.07	21.14
22. Diluted book value per share (in PLN/EUR)	78.88	73.81	23.52	20.61
23. Declared or paid dividend per share (in PLN/EUR)	0.00	0.00	0.00	0.00

1.3. Average PLN/EUR exchange rate fixed by NBP

	<i>for 6 months ended 30 June</i>	
	<i>2008</i>	<i>2007</i>
average rate in the period	3.4776	3.8486
	<i>as at</i>	
	<i>30 June 2008</i>	<i>31 December 2007</i>
rate at the end of the period	3.3542	3.5820

## 2. CHARACTERISTICS OF PETROLINVEST GROUP

### 2.1. STRUCTURE OF PETROLINVEST GROUP

#### 2.1.1. Structure of PETROLINVEST Group as of 30 June 2008

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

As of 30 June 2008 PETROLINVEST S.A. possessed stock/shares in the following companies:

Company name	Share capital		Shareholding	Consolidation method
Occidental Resources, Inc. (U.S.A.) (*)	199 332.77	USD	50%	Proportional
TOO EMBA JUG NIEFT (Republic of Kazakhstan)	145 000.00	KZT	50%	Proportional
TOO COMPANY PROFIT (Republic of Kazakhstan)	164 600.00	KZT	50%	Proportional
OOO SIEWIERGEOFIZYKA (Russian Federation)	100 000.00	RUB	59,999%	Full
OOO NIEFTIEGOSERWIS (Russian Federation)	10 000.00	RUB	59,99%	Full
ZAO Peczora-Petroleum (Russian Federation)	20 000.00	RUB	59%	Full
UAB Petrolinvest Mockavos Perpyla (Lithuania)	2 000 000.00	LTL	87%	Full
TPG GAZ S.A. (Poland)	15 720 325.00	PLN	100%	Full

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

#### 2.1.2. Changes in the structure of PETROLINVEST Group in the first half of 2008

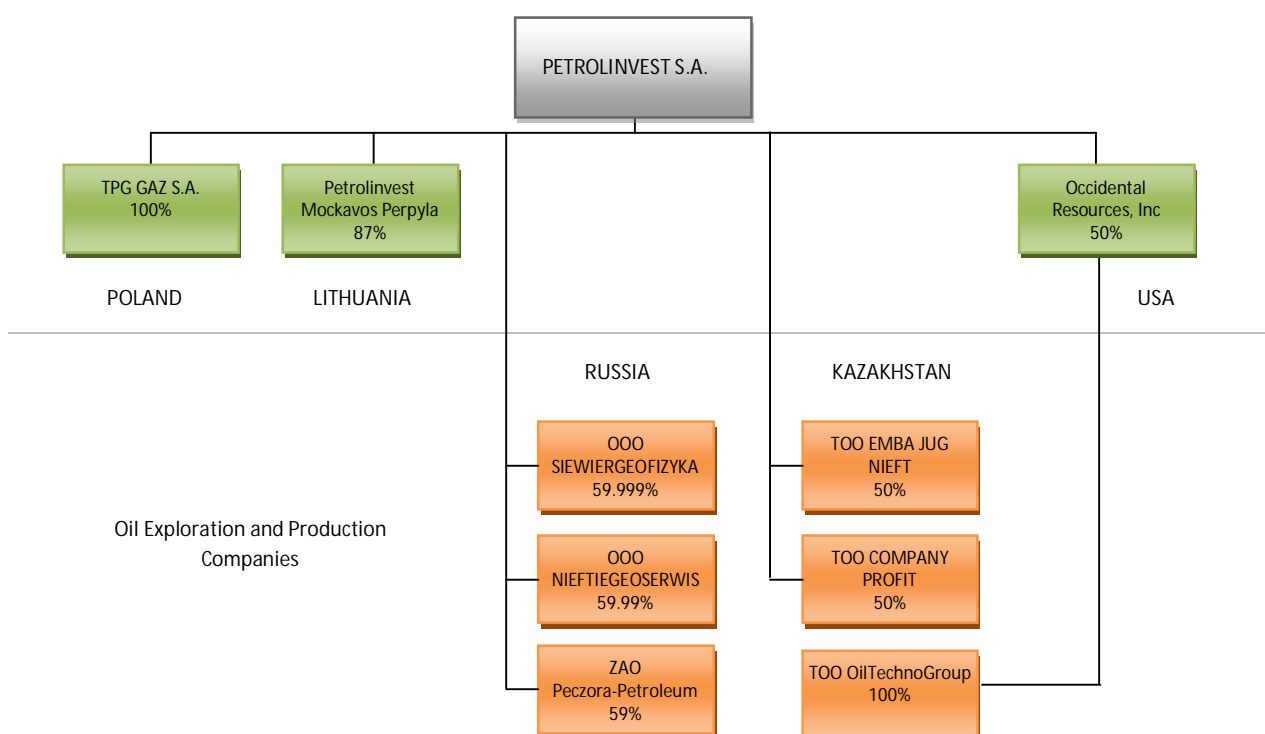
There were no changes in the structure of the Group in the first half of 2008; however, the Company concluded provisional investment agreements regarding acquisitions of new assets and took steps to transfer LPG activities to a subsidiary company, which in the event of it coming to fruition will have a significant impact on the current range of sectors and the size of the Group (detailed information regarding the agreements that have been concluded is given in point 3.2.2 and 3.2.3 herein).

On 30 June 2008, the Management Board of PETROLINVEST S.A. passed a Resolution establishing a self-balancing branch of the Company as from 1 July 2008 under the name of PETROLINVEST Spółka Akcyjna – Oddział LPG (LPG Branch) with its registered office in Gdynia to handle the Company's gas trading activities.

The Management Board decided to change the structure of the Company in order to make the organisation more suited to the business activities currently performed in order to increase effectiveness and rationalise the Company's property management.

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

After the end of the reporting period there were no changes in the capital structure of the Group.  
 PETROLINVEST Group diagram – as of the day of the Report.



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

The core activities of PETROLINVEST Group are:

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

Range of activity of individual Group entities:

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

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

PETROLINVEST S.A., the parent entity of PETROLINVEST Group, was incorporated pursuant to Resolution of the Shareholders' Meeting of Petrolinvest Sp. z o.o. (limited liability company) dated 22 December 2006 regarding its transformation into Spółka Akcyjna (a joint stock company). The Company was registered with the National Court Register kept by the District Court, VIII Economic Department of the National Court Register under entry no. KRS 0000270970 on 29 December 2006. The Company was granted statistical REGON number 190829082. The Company's registered office is located in Poland, at Podolska 21, Gdynia.

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 separated on 1 July 2008. The Branch was granted statistical REGON number 190829082-00022.

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

The parent entity and the other entities of the Group have an unlimited period of operation.

As of the date of the Report, the largest shareholder of PETROLINVEST S.A. is PROKOM INVESTMENTS S.A. The controlling entity of PROKOM INVESTMENTS S.A. is Mr. Ryszard Krauze.

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

PETROLINVEST Group's sales revenues in the first half of 2008, as in the previous periods, mainly came from activities connected with LPG trade, carried out by the parent company PETROLINVEST S.A. The activities of the Oil Exploration and Production Companies of PETROLINVEST Group, at the current stage of the Project as of 30 June 2008, do not generate any material revenues.

Size and product structure of the Company's sales revenues:

	30 June 2008		30 June 2007		change %
	value in PLN '000	share in %	value in PLN '000	share in %	
Sales of goods, including:	80 883	99.2%	72 269	99.8%	111.9%
autogas	56 157	69.4%	56 674	78.4%	99.1%
gas to foreign tax warehouses	9 315	11.5%	4 014	5.6%	232.1%
gas for heating purposes	9 755	12.1%	6 854	9.5%	142.3%
gas in bottles	5 656	7.0%	4 727	6.5%	119.6%
Sales of services	683	0.8%	132	0.2%	518.3%
<b>TOTAL</b>	<b>81 566</b>	<b>100.0%</b>	<b>72 401</b>	<b>100.0%</b>	<b>112.7%</b>

In the first half of 2008, the Company delivered 13% growth in revenues in relation to the results of the same period the previous year. Sales levels were increased primarily as a result of intensifying gas sales to recipients who have their own tax warehouses and recipients of gas for heating purposes. The leading product in the Company's product structure is still autogas; however—given the high growth dynamics in the turnover of the products listed above—its share in sales revenues dropped from 78% to 69%.

In the period covered by the Report, the Company did not make any sales to foreign markets.

The recipient, sales to which in the first half of 2008 exceeded 10% of the Company's total sales, was the company Generon (concentration indicator 10.3%). Generon is not an associated entity of PETROLINVEST Group. The structure of recipients is dispersed and, apart from Generon, the concentration of sales does not exceed 5%.

Company supply structure:

	30 June 2008	30 June 2007
	<i>share in %</i>	<i>share in %</i>
Purchase of goods, including:	80.7%	83.8%
SHELL	17.8%	13.9%
PREEM PETROLEUM AB	11.7%	16.2%
STATOIL ASA	26.6%	42.8%
Orlen Gaz Sp. z o.o. (Możejki, Lithuania)	19.0%	10.0%
Remaining	24.9%	17.1%
Purchase of services	19.3%	20.2%
TOTAL	100.0%	100.0%

In the first half of 2008, as in the same period of the previous year, the Company cooperated mainly with STATOIL ASA, Orlen Gaz Sp. z o.o., SHELL and PREEM PETROLEUM AB as regards gas supplies. Deliveries from these entities exceeded 75% of combined purchases. None of these entities are related to PETROLINVEST Group.

The extent of cooperation with particular suppliers changed materially, as illustrated in the table above.

Company territorial structure of supply:

	30 June 2008	30 June 2007
	<i>share in %</i>	<i>share in %</i>
Domestic	31.42%	29.01%
Foreign	68.58%	70.99%
TOTAL	100.0%	100.0%

The structure of suppliers in the period under analysis changed slightly to the benefit of domestic suppliers. However, foreign suppliers still dominate. The increase in the proportion of domestic partners in the structure of supply was caused by increased co-operation with Orlen Gaz Sp. z o.o.

As indicated above, the activity of PETROLINVEST Group Oil Exploration and Production Companies, at the current stage of the Project, are not generating income, while their purchases are mainly connected with prospecting activities. These companies are implementing their investment programs using mainly local subcontractors and suppliers of materials for the construction of wells. In certain areas they use foreign suppliers, mainly coming from European Union countries. Any works of material importance for prospecting activities are commissioned to recognised international entities.

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

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

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

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

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

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

#### 3.2. REVIEW OF THE MOST IMPORTANT EVENTS AND SIGNIFICANT AGREEMENTS CONCLUDED THAT HAVE HAD AN IMPACT ON THE ACTIVITY OF PETROLINVEST GROUP AND THE RESULTS ACHIEVED IN THE FIRST HALF OF 2008 OR THAT MAY HAVE AN IMPACT IN FUTURE YEARS

##### 3.2.1. Prospecting and extraction

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

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

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

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

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

The prospective oil reserves (*unrisked mean estimated of prospective resources*) of the companies TOO EMBA JUG NIEFT and Occidental Resources, Inc., estimated only for those structures for which the expert possessed sufficient documented research and analysis, amount to 81.6 million and 966.9 million barrels of equivalent oil respectively. Completion of the transaction for the purchase of shares (details in point 3.2.3. herein) means in practice taking over full control of further work and future exploitation of all the reserves. The independent expert's opinion as well as the size of oil deposits as defined by him do not reflect oil deposits in concessions owned by companies that are part of the Capital Energy SA capital group, with whose shareholders the Company has signed an investment agreements, as mentioned in point 3.2.2. herein.

Furthermore, the independent expert categorised:

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

In the first half of 2008, PETROLINVEST Group carried out prospecting and research work, the scope of which is presented below.

#### OOO SIEWIERGEOFIZYKA

- ✓ A report on the progress of work on the concession and a schedule of works for 2008 were prepared and filed with the competent local inspection authorities and approved without reservations.
- ✓ Interpretation of the first part of the 3D seismic image made in 2007 was completed.
- ✓ Field works on the second part of the 3D seismic image in the Northern part of the concession area were ongoing.
- ✓ Interpretation of research results was carried out in order to prepare prospecting apparatus for drilling. Based on the obtained research results, two structures within the licensed area were selected for drilling. Relevant documentation is currently being prepared for the structures to assess category C3 resources and later enter the magnitude of the resources into the state balance sheet of mineral resources.

#### OOO NIEFTIEGEOSERWIS

- ✓ A report on the progress of work on the concession was prepared and filed with the competent local inspection authorities and approved without reservations as far as the Yermolovskye concession is concerned. Due to the fact that part of the Yuzhno-Nyertsovskye concession area was put under environmental protection, a competent commission requested the company to prepare and present appropriate amendments to the schedule of works for 2008.
- ✓ Field works were finalised on a part of the 3D seismic image in the Southern part of the Yuzhno-Nyertsovskye concession area.
- ✓ Prospective structures were selected for exploratory drilling based on interpretations of the research results obtained in the area of the Yermolovskye concession (3D seismic image, micro-seismic research and a surface geochemical image). Preparatory works were commenced to draw up geological research plans and technical designs of wells, access roads and sites for drilling devices.
- ✓ Design works were carried out of drillings on sites selected on the basis of 3D seismic research results.

#### ZAO PECHORA-PETROLEUM

- ✓ On 4 June 2008, the Company announced that it had been informed that ZAO Pechora-Petroleum had entered into Annex no. 3 to the Porozhskye Prospecting Concession with the Office for the Use of Mineral Resources of the Komi Republic. The Annex prolongs the prospecting period of the Concession to 30 April 2010 and obliges ZAO Pechora-Petroleum, in connection with the prolongation, to carry out an additional scope of geological and prospecting work.
- ✓ A report on the progress of work on the concession was prepared and filed with the competent local inspection authorities and approved without reservations as far as the Porozhskye concession is concerned. As far as the Vyerkhnye-Pechorskyye concession is concerned, a competent commission requested the company to prepare and agree a new work schedule.
- ✓ Re-interpretation of the processed 2D seismic data for the Porozhskye concession was finalised.
- ✓ Prospective structures were selected for exploratory drilling based on interpretations of the obtained research results (3D seismic image, micro-seismic research and a surface geochemical image). Preparatory works were commenced to draw up geological research plans and technical designs of wells, access roads and sites for drilling devices.

- ✓ Field works on a new 2D seismic research in the Southern part of the Porozhskye concession area were finalised.
- ✓ Drilling of the Sriednie Palju 2 well was finished.

#### TOO EMBA JUG NIEFT

- ✓ A work programme performance report for 2007 and a schedule of works for 2008 were prepared and filed with the competent local inspection authorities. Both documents were admitted without reservations.
- ✓ On the Zhubantam deposit, testing of the G-4D well was continued after drilling devices were supplemented. During testing approx. 20 sq. m. of fluid a day was extracted from 3 horizons with ca. 40% deposit waters. This does not exhaust the full potential of the well as there are other oil-bearing horizons remaining to be tested.
- ✓ The G 40 well was made on the Zhubantam deposit to a depth of 650 m. Based on well measurements, it was decided that 6 horizons shall be tested where there is high probability of crude oil saturation. Preparations to well testing were ongoing.
- ✓ On the Zhubantam-Zhusalisay concession, 101 (1,491 m) and 107 (1,700 m) wells were made. Traces of hydrocarbons were found only in the 107 well but they were non-commercial and the wells were closed down.
- ✓ Drilling of the SG-2 well to a depth of 4,476 m was completed. No oil-bearing horizons were encountered.
- ✓ Re-interpretation of 3D seismic image was finalised.
- ✓ Working documentation of reserves was prepared for the Zhubantam deposit, which—following approval by the regional geological supervisory body in Aktobe—was filed with the Ministry of Natural Resources of the Republic of Kazakhstan.
- ✓ Plan of trial exploitation of the Zhubantam deposit was drawn up.
- ✓ Geological designs of 13 appraisal drillings on the Zhubantam deposit were drawn up.
- ✓ Technical designs of appraisal drillings on the Zhubantam deposit were deployed.

#### TOO COMPANY PROFIT

- ✓ On 8 March 2008, the Company published information about the signing by TOO Company Profit with the Energy and Mineral Resources Ministry of the Republic of Kazakhstan of Annex No. 1 to the Contract for prospecting for hydrocarbons in the Kyzylorda oblast, the Republic of Kazakhstan ("Contract") also referred to as the Dautskoye Concession. As expected, the area covered by the Contract was extended by 903.12 sq. km. In connection with the extension of the contract area, the obligation of TOO Company Profit to incur additional capital expenditure on geological and prospecting works was also increased by USD 32m. The obligation is to be performed within the next four years.  
The Company Management Board were satisfied with news about the expansion of the territory covered by the Contract owned by TOO Company Profit. The expanded territory possesses a range of prospective geological structures, which have not been able to be tested in detail and drilled up to now. The Company Management Board drew attention to the fact that this decision by the Kazakhstan authorities reflects the positive perception of the Company as an investor.  
The restated Contract augurs well for the discovery of significant amounts of crude oil; hence, even though the Company is not obliged to finance prospecting activities of TOO Company Profit, the Company Management Board will consider the purposefulness and possibility of providing some financing for the investment programme covering the extended Contract area. The basic criteria in taking the decision regarding participation in the financing will be (i) the possibility of generating positive cash flows from the project in the nearest future, and (ii) resources available to be confirmed by an independent expert.
- ✓ A work programme performance report for 2007 and a schedule of works for 2008 were prepared and filed with the competent local inspection authorities. Both documents were admitted without reservations.
- ✓ Geochemical research was conducted to define prognostic resources of crude oil and natural gas.
- ✓ Prospectivity analysis was carried out for the extended (pursuant to Annex no. 1 to the Contract for prospecting for hydrocarbons in the Kyzylorda oblast, the Republic of Kazakhstan) territory of the Dautskoye Concession, as well as works relating to estimation of the project's budget resulting from the above-mentioned extension.

#### OIL TECHNO GROUP

- ✓ A work programme performance report for 2007 and a schedule of works for 2008 were prepared and filed with the competent local inspection authorities. Both documents were admitted without reservations.
- ✓ Work was ongoing to make the deep Koblanda 3 (K-3) well to a depth of ca. 6,900 m.
- ✓ Interpretation was ongoing of 2D and 3D seismic data from the Koblanda, Bestau, Shyrak and Sarkol areas.
- ✓ Preparation of prospecting objects for drilling in the Bestau, Tamdy and Shyrak areas was continued.
- ✓ Preparation of project documentation for the Shyrak well was commenced alongside work connected with the preparation of access roads and site for drilling devices.

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

- ✓ On 7 September 2008, the Company Management Board published the following information regarding work 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 indicates existence of 12 oil-bearing horizons. The Company will carry out tests of the remaining horizons and a production test within 8 weeks.  
Drilling of hole no. K-3 was made to a depth of 6,750 m. Work is ongoing to pipe and cement the most recently drilled portion of the hole; also 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 mmboe (million barrels of oil equivalent). The geological potential of OTG concession is estimated at 960 mmboe 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 Management Board underlined 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 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 unrisksed 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 mmmboe 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 mmmboe.  
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 unrisksed mean prospective resources hitherto assessed by the Expert will total 1,344 mmmboe.

### 3.2.2. Gas sales

- ✓ On 14 March 2008, the Company signed a Letter of Intent with the company T.B.S. Enterprises – Limited Partnership, registered in the United Kingdom (hereinafter referred to as the "Partner").  
The Letter of Intent provides for a joint venture in which the Company will transfer its activities concerned with trading in LPG to TPG GAZ S.A. (a joint-stock company registered in Poland, now wholly-owned by the Company), including rights and obligations resulting from contracts concluded by the Company and other rights hitherto enjoyed by the Company with respect to the activities being transferred, excluding however the rights connected with the lease of the LPG sea terminal located in Port Gdynia, which will be made available by the Company to TPG GAZ S.A. for a consideration covering the Company's costs incurred in that respect.  
The Partner and the Company declared that they would conclude an investment agreement within 90 days from the signing of the Letter of Intent whereby the Partner will take up a 49% interest in TPG GAZ S.A. and cover it with a cash contribution being an equivalent of USD 5m. In addition, the Partner will enable TPG GAZ S.A. to enter into a direct LPG supply contract with a Russian LPG producer for a period of at least 36 consecutive months and a total volume of no less than 450 thousand tonnes of gas.  
The Partner also agreed that it shall not sell or in any way dispose of the shares of TPG GAZ S.A. acquired as a result of the investment agreement for a period of 48 months from the date of signing of the LPG supply contract by TPG GAZ S.A.  
The Partner and the Company will have pre-emptive rights to acquire TPG GAZ S.A. shares should any of the parties decide to sell.  
The parties also agreed that, in the case the investment agreement is concluded, the parties will cooperate in building the market value of TPG GAZ S.A. and introducing TPG GAZ S.A.'s shares to public trading on the market of their choice.  
The execution of the investment agreement, should it be concluded, will be dependent upon obtaining relevant administrative, legal, corporate and other consents and permits.
- ✓ On 30 June 2008, the Company Management Board passed a resolution to separate gas trading activities from the structures of the Company and establish a self-balancing branch named PETROLINVEST Spółka Akcyjna – Oddział LPG with its registered office in Gdynia (for details see point 2.1.2. herein).

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

- ✓ On 7 July 2008, the President of the Energy Regulatory Office issued a decision prolonging the concession of PETROLINVEST S.A. for trading in liquid fuels for the period from 1 March 2009 to 28 February 2029.
- ✓ 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.

### 3.2.3. Capital acquisitions

- ✓ The Management Board of PETROLINVEST S.A. on 16 January 2008, on the basis of the Letter of Intent signed on 10 January 2008, signed an investment agreement with Dzhumageldy Rakhishevich Amankulov, Atameken-Prommash LLP, GEOKAPITAL LLP and MARBURG OIL LLP regarding the purchase by the Company of 50% of the shares in TOO EMBA JUG NIEFT, a Kazakhstan company in which PETROLINVEST S.A. already owns 50% of the shares.  
The investment agreement envisaged the issue of 543,034 shares in PETROLINVEST S.A., at an issue price PLN 320 per share, in exchange for 50% of the shares in TOO EMBA JUG NIEFT. In addition, in the event of confirmation that the prospective resources of TOO EMBA JUG NIEFT (*unrisksed mean estimated of prospective resources*) are equal to at least 160 million barrels of oil, an additional 271,517 shares in the Company shall be issued at an issue price equal to PLN 10. Furthermore, PETROLINVEST S.A. agreed to recommend two representatives of the Kazakh party to the Company's supervisory board.  
The performance of the investment agreement has been made dependent on the fulfilment of a range of conditions, in particular on: the confirmation by a court-appointed auditor of the value of the contribution, gaining appropriate corporate consents, gaining by the company of consent and renouncing priority rights by the Kazakh Energy Ministry, gaining by the Kazakh party the appropriate anti-monopoly consents, the effective acquisition by investors of 2,353,149 PETROLINVEST S.A. shares in exchange for 48.8% of the shares in Occidental Resources Inc. As a result of the performance of the investment agreement, PETROLINVEST S.A. will become the owner of 100% of the shares in TOO EMBA JUG NIEFT.  
As part of the investment agreement, the Kazakh party has a duty to not sell shares in PETROLINVEST S.A. acquired in the performance of this agreement for a period of 12 months after the time of their acquisition.
- ✓ The Management Board of PETROLINVEST S.A. on 16 January 2008, on the basis of the Letter of Intent from 10 January 2008, signed an investment agreement between the Company and eleven shareholders of the company Occidental Resources Inc., a company under Utah state law, regarding the purchase by PETROLINVEST S.A. of 48.8% of the shares in Occidental Resources Inc., in which the Company already owns 50% of the shares.  
Occidental Resources Inc. is the owner of 100% of the shares in a Kazakh law company OilTechnoGroup. The investment agreement envisaged the issue of 2,353,149 shares in PETROLINVEST S.A., at an issue price of PLN 320 per share in exchange for 48.8% of the shares in Occidental Resources Inc.  
The performance of this investment agreement has been made dependent on the fulfilment of a range of conditions, in particular on: the confirmation by a court-appointed auditor of the value of the contribution, gaining appropriate corporate consents, the gaining by PETROLINVEST S.A. and Occidental Resources Inc. consent and renouncing priority rights by the Kazakh Energy Ministry, gaining by the Kazakh party the appropriate anti-monopoly consents, the effective acquisition by investors of 517,034 shares in PETROLINVEST S.A. in exchange for 50% of the shares in TOO EMBA JUG NIEFT. The investment agreement envisaged that PETROLINVEST S.A. would become the owner of 98.8% of the shares in Occidental Resources Inc.  
As part of the investment agreement the company Occidental Resources, Inc. has a duty not to sell shares in PETROLINVEST S.A. acquired in the performance of this agreement for a period of 12 months after the time of their acquisition, with the exception of 382,813 shares about which the above limitation expires after 6 months.
- ✓ The Management Board of PETROLINVEST S.A. on 16 January 2008, on the basis of the Letter of Intent from 10 January 2008, signed an investment agreement between the Company and Pruner Group Limited, Mars International Worldwide Inc. and Munivac Global Ventures Inc., regarding the purchase by the Company of 100% of the shares in Capital Energy S.A., a British Virgin Islands law company.  
Capital Energy S.A. is the owner of the majority shareholdings described below in four Kazakh law companies that possess concessions for oil prospecting and extraction: BMB Munai LLP (75% holding), Bolz LLP (65% holding), Maksat-Munai LLP (100% holding) and Erkin Oil LLP (50% holding). The investment agreement envisaged the issue of 964,190 shares in PETROLINVEST S.A., at an issue price of PLN 320 per share in exchange for 100% of the shares in Capital Energy S.A. As part of the valuation of Capital Energy S.A. the size of prospective resources (*unrisksed mean estimated of prospective resources*) at a level of 309 million bbl was taken into account, of which approx. 50 million bbl are assessed as P2 (probable) reserves according to a report presented to the Company by Capital Energy S.A. shareholders, prepared by an independent expert.  
The performance of the agreement has been made conditional on the Company receiving satisfactory results from a review of the assets of Capital Energy S.A., in particular a confirmation by independent experts of the size of oil resources owned by subsidiaries of Capital Energy S.A. (the results of research carried out by McDaniel & Associates may constitute a basis for negotiations into the final number of shares issued by PETROLINVEST S.A.), as well as on: the confirmation by a court-appointed auditor of the value of the contribution, gaining appropriate corporate consents, the gaining by PETROLINVEST S.A. and Capital Energy S.A. consent and renouncing priority rights by the Kazakh Energy Ministry, gaining by the Kazakh party the appropriate anti-monopoly consents, the effective acquisition by investors of PETROLINVEST S.A. shares in exchange for 48.8% of the shares in Occidental Resources Inc. as well as 517,034 shares in PETROLINVEST S.A. in exchange for 50% of the shares in TOO EMBA JUG NIEFT.  
As part of the investment agreement shareholders of Capital Energy S.A. have a duty not to sell shares in PETROLINVEST S.A. acquired in the performance of this agreement for a period of 12 months after the time of their acquisition.
- ✓ On 21 February 2008 an investment agreement was concluded between the Company and Mars International Worldwide Inc. and Munivac Global Ventures Inc., regarding the purchase by the Company of 45% of the shares in Kazakhstancaspishelf JSC, a Kazakh law company ("Kazakhstancaspishelf"), entitling the Company to 50% of the votes at the shareholders' meeting of the company.

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

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

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

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

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

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

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

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

Additionally, in connection with the conclusion of this agreement, the Company proposed Caspian Services loans of a value of USD 10 million, which entitle the Company – or an entity nominated by the Company – to acquire newly-issued shares in Caspian Services increased share capital. The issue price of the shares so acquired shall be USD 2.75 per share in Caspian Services, which shall constitute approx. 6.7% of the current share capital. The loan was not contracted.

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

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

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

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

- ✓ On 8 May 2008, the Company was informed that the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan decided to renounce its right of first refusal and granted its unrestricted consent to the issue of shares, as well as convertible bonds and other instruments conferring rights to the Company's shares, and to trading of such instruments on organised and non-organised stock exchange markets.

Obtaining this consent was one of the conditions precedent of the investment agreements concluded on 16 January 2008:

- the investment agreement between the Company and Dzhumageldy Rakhishevich Amankulov, Atameken-Prommash LLP, GEOKAPITAL LLP and MARBURG OIL LLP regarding the purchase by the Company of 50% of the shares in TOO EMBA JUG NIEFT,
- the investment agreement between the Company and eleven shareholders of Occidental Resources Inc., a company incorporated under Utah state law, regarding the purchase by PETROLINVEST S.A. of 48.8% of the shares in Occidental Resources Inc.,
- the investment agreement between the Company and Pruner Group Limited, Mars International Worldwide Inc. and Munivac Global Ventures Inc., regarding the purchase by the Company of 100% of the shares in Capital Energy S.A.

Obtaining of the above-mentioned consent allows the Management Board to shape the Company's policy in respect of obtaining any necessary financing of its activities on domestic and international capital markets in a flexible manner; it

enables the performance of investment agreements referred to in current report no. 10/2008 (regarding the acquisition by the Company of 45% shares in Kazakhstancaspishelf JSC and 26.07% shares in Caspian Services Inc.), and materially increases the attractiveness of the Company's shares to investors.

- ✓ On 30 May 2008, the Company made public a Management Board Report on non-monetary contributions to the increased share capital together with an Independent Certified Auditor's Opinion regarding the truthfulness and fairness of the Management Board Report and asserting whether or not the value of non-monetary contributions corresponded to at least the issue price of the shares provided in return.  
The non-monetary contributions, in return for which 2,896,183 Company shares were to be issued, pertained to the shares of Occidental Resources Inc., representing 48.8% of its share capital and the shares of TOO EMBA JUG NIEFT, representing 50% of its share capital. Information regarding conditional investment agreements concluded as part of the realisation of the transaction was published in Current Report no. 3/2008. The Management Board Report and the Independent Certified Auditor's Opinion were published in Current Report no. 32/2008.

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

- ✓ 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 EMBA JUG NIEFT (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).
- ✓ 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 EMBA JUG NIEFT. The granting of such 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 EMBA JUG NIEFT.
- ✓ 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 EMBA JUG NIEFT, 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:
    - (i) 50% of the shares in Erkin Oil LLP and/or
    - (ii) 100% of the shares in Maksat Munai LLP and/or
    - (iii) 65% of the shares in Bolz LLP and/or
    - (iv) 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.

#### 3.2.4. Financial area

- ✓ On 5 June 2008, the Company entered into a loan agreement with Prokom Investments S.A. (the "Lender") for PLN 17,476 thousand, which contained a clause about an authorisation granted to the Lender to request that the Company issue shares within the limits of target capital and offer the shares to the Lender precluding the pre-emptive rights of the existing shareholders (call option). Similar clauses were incorporated in the form of annexes concluded on 6 June 2008 to the existing loan agreements with Prokom Investments S.A.; the principal outstanding balance of those loans as at the date of the annexes was PLN 182.49m.  
As of 6 June 2008, the aggregate balance of principal and interest accrued on the loans granted by the Lender which contained the Call Option was PLN 212.59m.  
Under the Call Option, the Lender has been entitled to take up the Company shares that will be covered with monetary contributions made by way of contractual offsetting of outstanding receivables due to the Company from the Lender under the share take-up with outstanding receivables due to the Lender from the Company under claims for the full or partial repayment of loans and interest. The issue price of shares acquired in exercise of the Call Option will be determined as the average bid price of one Petrolinvest share quoted at the close of the WSE during the last 3 months preceding the date on which the request to issue shares in exercise of the Call Option has been made. The number of shares issued in exercise of the Call Option will follow from the request or requests to exercise the Call Option made by the Lender; however, it shall not in aggregate be higher than the number resulting from the quotient of the aggregate indebtedness under the loans (principal and interest) which at 6 June 2008 amounted to PLN 212.59 thousand and the issue price determined in the manner described above.
- ✓ Information on any material agreements/annexes concluded in the first half year with respect to the financing of the Group are presented in point 4.3. herein and in note 28 to the Interim Consolidated Financial Statements.

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

- ✓ 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, i.e. up 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.

### 3.2.5. Capital area

- ✓ On 19 February 2008, the Management Board of PETROLINVEST S.A. announced that it filed a motion for approval of the Company's Registration Document with the Polish Financial Supervision Authority.
- ✓ In the first half of 2008, the Company issued 290,474 D-series shares. The aim of the issue was to provide the Company with appropriate financing to support its investment projects.

#### Timetable of events relating to the issue of D-series shares

- |                      |  |
|----------------------|--|
| <i>5 March 2008</i>  | The Management Board of the Company passed a ruling about the increase by an amount not higher than PLN 2,904,740 of the Company's share capital within the limits of the target capital – by the issue of not more than 290,474 ordinary bearer D-series shares of a nominal value of PLN 10 and regarding the exclusion of current shareholders in the allocation. The D-series shares were offered as part of a public offer aimed at qualified investors.  |
| <i>7 March 2008</i>  | Ending of the offer for D-series shares. 290,474 D-series shares were acquired as part of the offer at an issue price of PLN 275 per share. As a result of the offer, the Company obtained gross proceeds of PLN 79,880.4 thousand. The shares were bought by 22 investors. The aggregate costs of the offering amounted to PLN 864.1 thousand; the average cost of subscription per one security offered for subscription was PLN 2.97.   |
| <i>25 March 2008</i> | A decision of the National Depository for Securities about the acceptance into the National Depository for Securities of D-series shares as well as issuing them the code PLPTRLI00018, under the condition of entering the increased share capital due to the issue of D-series shares into the commercial register on the condition that the company operating the regulated market takes a decision about entering the D-series shares into public trading in the same regulated market as other shares in the Company given the code PLPTRLI00018.   |
| <i>9 April 2008</i>  | Registration by the District Court for Gdańsk-Północ of Gdańsk, VIII Economic Department of the National Court Register, of the share capital increase of the Company. Following the registration: <ul style="list-style-type: none"><li>– the Company's share capital was increased from PLN 58,730,020 to PLN 61,634,760;</li><li>– the total number of votes resulting from all of the Company's shares issued is 6,163,476.</li></ul>  |
| <i>17 April 2008</i> | A resolution passed by the Management Board of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) regarding the admission and introduction to exchange trading at the WSE Main Market of 290,474 ordinary bearer D-series shares of the Company with a nominal value of PLN 10 each. The Management Board of WSE resolved to introduce the Company's D-series Shares to exchange trading on the main market by way of an ordinary procedure as from 22 April 2008, provided that D-series Shares are registered by the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A.) on 22 April 2008 and issued code "PLPTRLI00018". |
| <i>18 April 2008</i> | An announcement by the Operations Department of the National Depository for Securities stating that the registration of 290,474 of the Company's D-series shares bearing code "PLPTRLI00018" will be effected on 22 April 2008.  |
| <i>22 April 2008</i> | Admission of D-series shares to trading.   |
- ✓ A decision was made by resolution of EGM of 29 April 2008 to issue E-series shares in the aggregate amount not higher than 264,285 shares in exercise of the conditional share capital increase. The purpose of the share issue is to exercise the incentive programme for the Company management board members based on the issue of subscription warrants entitling their holders to take up E-series shares (details in point 5.3. herein).

#### Timetable of events relating to the issue of E-series shares

- |                      |  |
|----------------------|--|
| <i>29 April 2008</i> | EGM of PETROLINVEST S.A. passed a resolution on a conditional share capital increase by the amount not higher than PLN 2,642,850 via the issuance of not more than 264,285 ordinary bearer E-series shares with a nominal value of PLN 10 each, precluding the pre-emptive rights of the existing shareholders to subscribe for E-series Shares in order to grant the rights to E-series Shares to Warrant holders. The issue price of E-series Shares was set at PLN 227 per share. |
| <i>10 June 2008</i>  | Registration by the District Court for Gdańsk-Północ of Gdańsk, VIII Economic Department of the National Court Register of the conditional share capital increase by the amount not higher than PLN 2,642,850 via the issuance of not more than 264,285 ordinary bearer E-series shares with a nominal value of PLN 10 each.   |
| <i>29 July 2008</i>  | Distribution of Warrants to beneficiaries.   |

*Events occurring after the end of the reporting period*

- ✓ 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, of which the Company informed the public in current report no. 9/2008.
- ✓ After the period covered by this Report, on 5 August 2008, the Company Management Board resolved to convene an Extraordinary General Shareholders' Meeting of PETROLINVEST S.A. for 5 September 2008 with a view to:
  - 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. It was specified that the issue would 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. It was specified that the issue would 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 EMBA JUG NIEFT shares in exchange for 543,034 Company shares.

The amount of the share capital of the Company following the issue of F- and G-series shares was specified at a level of PLN 90,596,590.

On 5 September 2008, the General Meeting announced suspension of the Extraordinary General Meeting until 30 September 2008. The Meeting was suspended at the request of the Management Board due to the fact that the Kazakh partners failed to appoint entities authorised to take up PETROLINVEST S.A. shares in accordance with the investment agreements concluded on 16 January 2008. Moreover, by 5 September 2008 the Company had not received the consent of the Ministry of Energy and Mineral Resources of Kazakhstan to acquire shares in TOO EMBA JUG NIEFT (the consent came in on 12 September 2008 of which the Company informed the public in current report no. 51/2008).

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 EMBA JUG NIEFT (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 28 August 2008, the Company 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.

It was specified that 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.

The amount of the share capital of the Company following the issue of H- and I-series shares was specified at a level of 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 16 September 2008, the Company 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.

Following the issue of F-series shares, the share capital of the Company will increase to PLN 63,480,920.

As at the date of this Report, the Company's share capital arising from the issue of F-series Shares had not yet been registered.

- ✓ On 16 September 2008, the Company signed a Letter of Intent with The European Bank of Reconstruction (EBOR) and Development 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](http://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 17 September 2008, the Management Board informed the public that it decided to convene an Extraordinary General Meeting for 24 October 2008 at 14.00. 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 EMBA YUG NIEFT, 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.

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

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

#### External factors

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

#### Internal factors

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

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

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

#### 3.4. DEVELOPMENT PROSPECTS

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

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

Progress in the strategy of expanding the Group's investment portfolio is evidenced by the investment agreements signed by the Company in January and March 2008.

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

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

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

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

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

- acquiring companies that generate stable, positive cash flow and offer very promising growth prospects without the necessity of the Company engaging additional funds,
- PETROLINVEST Group acquiring companies that operate in the huge and dynamically growing market for servicing oil prospecting and production companies in the Caspian Sea region,
- the chance to benefit from synergy effects between Kazakhstancaspishelf and Caspian Services in all areas of services provided to the oil industry, as well as in functioning costs,
- the opportunity to gain orders as well as take advantage of the strong, business relations built up by the companies acquired with large international corporations, the state company KazMunaiGaz and Russian corporations,
- acquiring an experienced management team, and also – particularly in the case of Caspian Services, which is a public registered company in the United States – a group of unusually high transparency and corporate culture.

- The opportunity to expand PETROLINVEST Group's activities into drilling services, which up to now have not been provided by purchased companies.

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

The projected capital expenditures resulting from the share/stock purchase agreements concluded in the first half of 2008 for the purchase of shares in entities operating in Kazakhstan (described in point 3.2.3. herein)—owing to their nature (purchase of shares in exchange for issue of own shares)—do not require the engagement of any additional funds.

At the same time, the Company 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 this Report, 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 of 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 this Report, 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.

#### 4. PETROLINVEST GROUP FINANCIAL SITUATION

##### 4.1. REVIEW OF BASIC FINANCIAL DATA DISCLOSED IN THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

###### 4.1.1. Consolidated income statement

In the first half of 2008, PETROLINVEST Group generated total revenues of PLN 122.4m, which means a 40% increase in relation to the same period of last year. Financial revenues were the main reason behind the pace of revenue increases, which in relation to the previous comparable period increased almost 3-fold, mainly the effect of positive exchange rate differences for the valuation of foreign currency loan liabilities, licence liabilities and liabilities relating to the take-up and acquisition of shares and stocks in the Group companies.

The 13% increase in sales of goods and services was a smaller factor in the increase in revenues (against a 10% growth rate of sales in the first half of 2007).

The consolidated net profit of PETROLINVEST Group in the first half of 2008 was PLN 2.9m (profitability of 2.4%) compared to a net loss in the same period of last year of PLN 13.1m (unprofitability of 15%). The main area of profit were financial activities, which covered the loss generated on operations.

In the first half of 2008, the Group incurred a loss on operations of PLN 21.2m, 29% higher than in the same period of last year. The negative result on operations was the effect of costs incurred in the first half of 2008 in connection with prospecting and extraction projects, which due to the fact that these projects are still in their start-up stages (exploration phase), they are not yet generating income; it was also the effect of seasonality of LPG sales. The main cost item that determined the extent of the operating loss were wages and salaries which increased 60% on the back of higher headcount resulting from the assumption of control or joint-control and an increase in headcount accompanying business development.

The main item (72%) in the operating costs structure was the value of goods and materials sold, the growth dynamics were similar to sales at 113%.

In the LPG segment, the Group incurred a loss on sales of PLN 4.2m against PLN 6.4m recorded in the first half of 2007. The unprofitability of LPG operations in the first 6 months of the year reflects its seasonality. It must be noted that the unprofitability of sales was considerably reduced from 8.8% to 5.1%.

Selected data from the income statement	<i>PLN '000</i>		
	30 June 2008	30 June 2007	Change %
Sales revenue	81 578	72 478	112.56%
Operating expenses	103 433	89 554	115.50%
Profit (loss) from sales	(21 855)	(17 076)	127.99%
<i>Profitability from sales</i>	-26.8%	-23.6%	
Other operating income	1 331	795	167.42%
Other operating expenses	698	208	335.58%
Profit (loss) from operations	(21 222)	(16 489)	128.70%
<i>Profitability from operations</i>	-25.6%	-22.5%	
Finance income	39 536	13 978	282.84%
Finance costs	7 809	7 601	102.74%
Impairment of goodwill	0	0	
Profit (loss) gross	10 505	(10 112)	
<i>Profitability from operations gross</i>	8.6%	-11.6%	
Profit (loss) net	2 945	(13 077)	
<i>Profitability from operations net</i>	2.4%	-15.0%	

In the first half of 2008, there were no extraordinary events that had an effect on the financial result achieved by PETROLINVEST Group. All business events of PETROLINVEST Group were connected to the nature of the business.

#### 4.1.2. Consolidated balance sheet

##### Assets

Below is presented the structure and dynamics of the Company's assets in the period covered by this Report.

ASSETS	PLN '000		PLN '000		Change %
	30 June 2008	Structure %	31 December 2007	Structure %	
Non-current assets (long-term)	953 466	90.54%	979 736	94.59%	97.32%
Goodwill	401 513	38.13%	472 109	45.58%	85.05%
Intangible assets	547	0.05%	576	0.06%	94.97%
Property, plant and equipment	54 138	5.14%	53 572	5.17%	101.06%
Expenditures on exploration for and valuation of resources	324 586	30.82%	288 463	27.85%	112.52%
Investment properties	2 567	0.24%	2 567	0.25%	100.00%
Financial assets	103 864	9.86%	102 986	9.94%	100.85%
Non-current liabilities	16 949	1.61%	12 560	1.21%	134.94%
Long-term deposits	1 613	0.15%	1 747	0.17%	92.33%
Deferred tax	47 689	4.53%	45 156	4.36%	105.61%
Current assets (short-term)	99 590	9.46%	56 040	5.41%	177.71%
Inventories	9 321	0.89%	8 302	0.80%	112.27%
Trade and other receivables	11 183	1.06%	14 948	1.44%	74.81%
Income tax overpayment	78	0.01%	69	0.01%	113.04%
Prepayments and deferred costs	6 160	0.58%	2 289	0.22%	269.11%
Current investments	40 761	3.87%	6 952	0.67%	586.32%
Cash and cash equivalents	32 087	3.05%	23 480	2.27%	136.66%
<b>TOTAL ASSETS</b>	<b>1 053 056</b>	<b>100.00%</b>	<b>1 035 776</b>	<b>100.00%</b>	<b>101.67%</b>

As of 30 June 2008, PETROLINVEST Group's total assets amounted to PLN 1,053.1 million, which represents a 2% increase in relation to the end of 2007. The Group's assets comprise 91% non-current assets, which corresponds to the current nature of the Group's operations.

The largest item in PETROLINVEST Group's assets as at 30 June 2008—similar to 2007 year-end—was goodwill, but its share in the overall asset structure fell from 46% to 38%. The 15% decrease in this item across the period under analysis was the result of the zloty strengthening against the functional currencies in which the goodwill of the acquired companies was valued.

Other large items in the structure of the Group's assets were expenditures on the exploration for and evaluation of mineral resources and long-term financial assets, which accounted for 31% and 10% of total assets, respectively. There were no major changes to the value of long-term borrowings advanced by PETROLINVEST S.A., which fall under long-term non-current assets, while expenditures on the exploration for and evaluation of resources increased by 13% mainly on the back of expenditures incurred on geological research and the construction of non-current assets associated with exploration for mineral resources.

Current assets of PETROLINVEST Group as at 30 June 2008 accounted for 9% of total assets. This item comprised primarily current investments and cash, which increased in the period covered by this Report by 486% and 37%, respectively. The surge in current investments was attributable primarily to the drawdown of loans and borrowings associated with the investment agreements concluded by PETROLINVEST S.A. regarding the acquisition of new prospecting and production companies and service companies (for details see point 3.2.3. herein).

## Equity and Liabilities

Below is presented the structure and dynamics of the Company's equity and liabilities in the period covered by this Report.

LIABILITIES	PLN '000		PLN '000		
	30 June 2008	Structure %	31 December 2007	Structure %	Change %
Total equity	334 415	31.76%	361 364	34.89%	92.54%
Equity attributable to equity holders of the Parent	360 180	34.20%	389 999	37.65%	92.35%
Retained earnings	(26 091)	-2.48%	(29 123)	-2.81%	89.59%
Minority interest	326	0.03%	488	0.05%	66.80%
<b>Total liabilities</b>	<b>718 641</b>	<b>68.24%</b>	<b>674 412</b>	<b>65.11%</b>	<b>106.56%</b>
Non-current liabilities	612 537	58.17%	546 380	52.75%	112.11%
Non-current reserves	3 632	0.34%	3 945	0.38%	92.07%
Deferred income tax liabilities	34 965	3.32%	19 175	1.85%	182.35%
Interest-bearing loans and borrowings	450 387	42.77%	382 387	36.92%	117.78%
Finance lease liabilities	231	0.02%	248	0.02%	93.15%
Other non-current liabilities	123 322	11.71%	140 625	13.58%	87.70%
Current liabilities	106 104	10.08%	128 032	12.36%	82.87%
Current provisions	1 278	0.12%	548	0.05%	233.21%
Current portion of interest-bearing loans and borrowings	50 801	4.82%	59 483	5.74%	85.40%
Finance lease liabilities	217	0.02%	180	0.02%	120.56%
Trade and other payables	52 053	4.94%	65 960	6.37%	78.92%
Income tax liabilities	0	0.00%	0	0.00%	
Accruals	1 755	0.17%	1 861	0.18%	94.30%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1 053 056</b>	<b>100.00%</b>	<b>1 035 776</b>	<b>100.00%</b>	<b>101.67%</b>
<b>Debt indicators</b>	<b>30 June 2008</b>		<b>31 December 2007</b>		
asset to equity	31.76%		34.89%		
debt to equity	214.89%		186.63%		
interest-bearing debt to equity	149.87%		122.28%		

The amount of PETROLINVEST Group's equity as at 30 June 2008 was PLN 334 million. The 7% decrease in shareholder equity over the period covered by this Report was attributable to an increase in foreign exchange losses due to the valuation of goodwill on consolidation. The increase in negative items of equity outweighed the increase of the Group's equity generated on the issue of D-series Shares carried out in the first half of 2008, which brought PETROLINVEST S.A. gross proceeds of PLN 79.9m.

The decrease in equity—with the Group's assets sustained at a similar level to that recorded at 2007 year-end—was reflected in the asset to equity ratio of the Group which dropped from 35% to 32%. Taking into account the fact that liabilities due to the majority shareholder Prokom Investments S.A., subordinated to the senior credit facility granted by the consortium of PKO BP SA and BGK, is treated by the Management Board as an equivalent of equity—the self-financing ratio was 52%.

The main source of financing of the Group's assets are non-current liabilities, which increased over the period under analysis by 12% to reach a 58% share in equity and liabilities as at 30 June 2008. The increase in non-current liabilities was primarily the effect of an increase in interest-bearing debt, including the senior loan (increase of PLN 22.3m) and a loan granted by Prokom Investments S.A. in June 2008 (PLN 17.5m). Furthermore, a significant portion of the loan of TOO OilTechnoGroup advanced by Bank CenterCredit JDC (PLN 28.5m) was reclassified from current to non-current indebtedness.

The item that had additional impact on the increase of non-current liabilities was a deferred tax liability resulting from an increase in foreign exchange gains associated with the balance-sheet valuation of foreign currency liabilities of the Group (including loans) and liabilities relating to the acquisition and take-up of shares (an aggregate increase of PLN 15.8m). Other non-current liabilities decreased by 12% in relation to 2007 year-end. The decrease was primarily the result of a stronger zloty.

As a result of the events described above, the scale of financing by fixed capital (i.e. shareholder equity and non-current liabilities) at the end of the period covered by this Report reached a level of 90% compared to 88% recorded at the end of 2007, which shows an improvement in the stability of the sources of financing. Any assessment of the stability of financing of the Group's assets should also account for the fact that close to half the items on non-current liabilities are subordinated loans extended to the Group by Prokom Investments S.A.

Current liabilities as at 30 June 2008 amounted to 106.1m, financing 10% of the Group's assets. The 17% fall in this item was caused primarily by the payment of liabilities resulting from the acquisition of a holding in the increased capital of Occidental Resources and the reclassification of a portion of interest-bearing debt from current to non-current, as described above.

The interest-bearing debt to equity ratio with interest debt reached a level of 150% compared to 122% recorded at the end of 2007. The total amount of liabilities exceeded the amount of engaged shareholder equity by 115%, while the significant scale of financing in the form of loans provided by the main shareholder (PLN 213.2m) (which due the subordination of the loans to PKO BP are treated by the Management Board as equivalent to shareholder equity) should have an effect on the assessment of financial stability, as discussed above.

#### 4.1.3. Consolidated cash flows

The cash flow position as shown in PETROLINVEST Group's cash flow statement on 30 June 2008 was PLN 7.2m, a reduction on the opening balance of PLN 16.3m.

Net cash flows from operating activities ended in the first half of 2008 with a negative balance of PLN 15.8m

Cash flows from investing activities in the period covered by this Report were negative and amounted to PLN 143.2m. The negative balance of cash flows from investing activities was primarily attributable to expenditures on the exploration for and evaluation of resources of PLN 47.8m, the payment of liabilities relating to the acquisition of subsidiaries and jointly-controlled entities (net of cash acquired) of PLN 30.3m and loans granted in the amount of PLN 49.8m.

The negative balance from operating and investing activities were covered by inflows generated from financial activities as well as the high cash balance at the beginning of the period, accumulated in order to cover future outlays connected to the investment project. The positive balance from financial activities was due to the increase in shareholder equity of PLN 79.9m as well as loans and borrowings worth PLN 71.5m.

Cash flows	<i>PLN '000</i>	
	6 months 2008	6 months 2007
Net cash flows from operating activities	(15 802)	(16 624)
Net cash flows from investing activities	(143 198)	(185 691)
Net cash flows from financing activities	142 711	178 713
Net cash flows	(16 289)	(23 602)

#### 4.2. FINANCIAL RESOURCE MANAGEMENT

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

In the first half of 2008, PETROLINVEST Group's activities were funded through its own funds and external debt (to a large extent through loans from the main shareholder, which due to their subordination to the loan provided by the consortium comprised of PKO BP SA and BGK, the Management Board treats as an equivalent of shareholder equity). As of 30 June 2008, the proportion of liabilities on the balance sheet of PETROLINVEST Group was 68% and constituted 215% of shareholder equity; if indebtedness towards the main shareholder were treated as quasi capital, the ratios would be 48% and 151%, respectively. Current financial liquidity ratio was 0.94, showing significant improvement over the figure recorded at the end of 2007 – 0.44. Adjusting the value of liabilities payable within the next 12 month by interest accrued on subordinated loans—the current liquidity ratio is 1.07, which reflects the ability of PETROLINVEST Group to fulfil its short-term contracted obligations.

The Company's own funds, including those raised from the issuing of shares, external financing and receipts from contracting parties allow PETROLINVEST Group to fulfil its current obligations without disruptions.

On 16 September 2008, the Company signed a letter of intent with EBOR and Blue Oak Capital Ltd., in which both institutions declared their willingness to invest in aggregate USD 200-250m in the newly-issued shares of the Company; the EBOR also declared its willingness to provide the Company with debt financing to finance future developments in the area of prospecting and service projects (details in point 3.2.5 herein).

Furthermore, up to the date of this Report, the Company received gross proceeds from the issue of F-series Shares of PLN 24m.

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

##### Loans and borrowings

In the first half of 2008, in connection with overdraft facility agreements nearing expiry, the Company entered into an annex with BRE Bank S.A. regarding the renewal of the existing financing of PLN 20,000 thousand for another year and was given consent by Fortis Bank Polska S.A. to make available the overdraft facility of PLN 10,000 thousand for another 12 months (after the end of the reporting period, the Company entered into an annex with Fortis Bank Polska increasing the level of indebtedness to PLN 20,000 thousand, details are given in point 3.2.4. herein).

Changes in the availability period of the existing financing were also made in respect of the credit line of USD 37,800 provided by Bank CenterCredit JSC to TOO OilTechnoGroup. Following an annex signed in the first half-year, the final repayment date of the line of credit was set for 5 April 2012.

In the period covered by this Report, the Company increased its indebtedness to Prokom Investments S.A. by concluding another loan agreement for PLN 17,476 thousand.

Agreements and annexes granting PETROLINVEST Group finance in the first half of 2008:

Date	Creditor	Type of finance	Amount	Final repayment date
<i>TOO OilTechnoGroup:</i>				
31-03-2008	Bank CenterCredit JSC*	Line of credit	USD 37,800 thsnd	5-04-2012
<i>PETROLINVEST S.A.:</i>				
30-05-2008	BRE Bank S.A.*	Short-term overdraft facility	PLN 20,000 thsnd	28-05-2009
05-06-2008	Prokom Investments	Loan	PLN 17,476 thsnd	-
18-06-2008	Fortis Bank Polska S.A.*	Short-term overdraft facility	PLN 10,000 thsnd	16-06-2009

(\* ) *prolongation of the term of the agreement*

In the period covered by this Report, 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 is PLN 2,183 thousand and USD 100,184 thousand.

#### Guarantees

In the period covered by this Report, Bank CenterCredit JSC provided a guarantee of USD 360.3 thousand securing payments due from TOO OilTechnoGroup under an agreement concluded with Baker Hughes Services International, Inc.

Detailed information regarding loan/credit agreements is given in note 28 to the Consolidated Financial Statements.

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

##### Loans

In the first half-year, the Company concluded agreements that forwarded loans for a total value of USD 47,000 thousand and PLN 20 thousand. The majority of financing was granted to related entities in order to carry out prospecting and extraction projects, which is in line with the nature of the Company's business and its strategy. Loans of USD 16,500 thousand were forwarded to entities outside the Group in connection with the investment agreements relating to acquisitions in new prospecting and production companies and services companies.

The total value of loan agreements concluded in the first half of 2008 with Oil Exploration and Production Companies was USD 30,500 thousand; after the end of the reporting period the Company concluded a loan agreement with Occidental Resources for a total value of USD 11,000 thousand and continued to pay out funds under the existing agreements.

Debtor	Share in the Group's assets *	from 1.01.2008 to 30.06.2008		from 1.07.2008 to 29.09.2008		At the date of the Report	
		Value	Amount disbursed	Value	Amount disbursed	Value	Amount disbursed
<i>USD '000</i>							
Occidental Resources, Inc.	50%	0	0	11 000	8 625	16 000	13 625
OOO SIEWIERGEOFIZYKA	0%	4 000	5 009	0	0	19 190	18 572
OOO NIEFTIEGEOSEKOWIS	0%	0	301	0	0	10 570	8 240
ZAO Pechora-Petroleum	0%	6 500	3 482	0	0	13 937	10 462
TOO EMBA JUG NIEFT	50%	20 000	11 508	0	1 625	70 000	54 625
TOO Company Profit	50%	0	1 100	0	425	30 800	18 875
Total Oil Exploration and Production Companies		30 500	21 400	11 000	10 675	160 497	124 399
Caspian Services Inc.	-	5 000	5 000	0	0	5 000	5 000
Capital Energy S.A.	-	9 500	8 740	200	960	9 700	9 700
Mars International Worldwide Inc.	-	2 000	2 000	0	0	2 000	2 000
Total other		16 500	15 740	200	960	16 700	16 700
<i>EUR '000</i>							
Petrolinvest Mockavos Perpyla	0%	0	48	0	19	350	240
<i>PLN '000</i>							
TPG GAZ S.A.	0%	20	20	100	100	160	160

(\* ) *100% of the value of loans granted to subsidiaries is excluded from the Group's assets; 50% of the value of loans granted to jointly-controlled entities is excluded from the Group's assets.*

Detailed terms and conditions of loan agreements granted from the beginning of 2008 to the date of this Report together with maturity dates are given in note 34.2 to the Interim Consolidated Financial Statements.

#### Sureties and Guarantees

On 31 March 2008, TOO EMBA JUG NIEFT provided a guarantee to Bank CenterCredit JSC securing a credit line totalling USD 37,800 thousand granted to TOO OilTechnoGroup on 13 April 2006, annexed on 31 March 2008. The guarantee will be in force until the final repayment of the liabilities resulting from the credit line which matures on 5 April 2012. The value of the guarantee comprises the principal amount of the credit line and covers other fees payable to Bank CenterCredit JSD under the credit facility agreement. TOO EMBA JUG NIEFT and TOO OilTechnoGroup are jointly-controlled by PETROLINVEST S.A.

After the end of the period covered by this Report, on 23 July 2008, TOO OilTechnoGroup provided a guarantee of USD 8,000 thousand to PETROLINVEST S.A. securing the loan of USD 6,500 thousand granted by PETROLINVEST S.A. to Occidental Resources, Inc. On 25 September 2008, following the conclusion of an annex to the loan agreement, increasing the loan amount to USD 11,000 thousand, TOO OilTechnoGroup increased the value of its responsibility under the guarantee to USD 14,000 thousand. The Guarantee remains in force until final repayment of the obligations resulting from the loan agreement which matures on 31 January 2009.

## 5. MANAGEMENT AND SUPERVISION AUTHORITIES OF PETROLINVEST GROUP

### 5.1. CHANGES IN THE COMPOSITION OF MANAGEMENT AND SUPERVISION AUTHORITIES IN THE FIRST HALF 2008

There were no changes in the composition of management and supervision authorities in the period covered by this Report.

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

The following persons were Management Board members in the first half of 2008:

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

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

In the first half 2008, supervision of the Parent was conducted by six-member Supervisory Board comprised as follows:

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

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

There were no significant changes in the rules for managing PETROLINVEST Group in the period covered by this Report.

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

As of 30 June 2008, in accordance with information in the possession of the Company, the amounts of PETROLINVEST S.A. shares held by members of the Management and Supervisory Board are as follows:

Shareholder	At 30 June 2008		At the date of the Report	
	Number of shares	Nominal value	Number of shares	Nominal value
<b>Supervisory Board</b>				
Ryszard Krauze	162 410	1 624 100	103 586	1 035 860
Dariusz Górka	1 321	13 210	1 321	13 210
Maciej Grelowski	1 321	13 210	1 321	13 210
Grzegorz Maciąg	1 321	13 210	1 321	13 210
Zbigniew Szachniewicz	1 321	13 210	1 321	13 210
Krzysztof Wilski	1 321	13 210	1 321	13 210
<b>Management Board</b>				
Paweł Gricuk	24 317	243 170	24 317	243 170
Zenon Grablewski	12 159	121 590	12 159	121 590
Marcin Balicki	1 216	12 160	1 216	12 160

In accordance with information in the possession of the Company, Management and Supervisory Board members did not own as of 30 June 2008 shares in PETROLINVEST Group companies.

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 – the following 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:

- Paweł Gricuk – President 176,190 warrants,
- Zenon Grablewski – Vice-President 58,730 warrants,

- Marcin Balicki – Board Member 29,365 warrants.

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.

#### 5.4. CONTROL SYSTEM FOR EMPLOYEE SHARE PROGRAMMES

The Company has an Incentive Programme for members of the management board of PETROLINVEST S.A. as provided in the Rules and Regulations of the Programme, the approval of which by the Company Supervisory Board was announced in current report no. 40/2008 dated 19 June 2008.

The terms and conditions of the Incentive Programme specified in the Rules and Regulations are compliant with the assumptions adopted by the Extraordinary General Meeting of PETROLINVEST S.A. on 29 April 2008.

As provided for in the regulations, the Company has a specification for each multiple Warrant certificate so as to control the number of rights to shares that have been executed by a warrant holder to date and the date of execution as well as the number of Rights to Shares that such warrant holder is still eligible for.

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.

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

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

#### 5.6. VALUE OF REMUNERATION, AWARDS OR BENEFITS DUE OR POTENTIALLY DUE TO MANAGING AND SUPERVISORY PERSONS

The value of remuneration for managing and supervisory persons of PETROLINVEST S.A. were described in notes to the Interim Consolidated Financial Statements.

## 6. MAIN SHAREHOLDERS AND SHARE CAPITAL

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

As of 30 June 2008, the shareholdings were as follows:

Shareholder	No. of shares	Proportion of share capital	No. of votes	Share in the number of votes at AGM
Ryszard Krauze	162 410	2.64%	162 410	2.64%
Prokom Investments S.A.	2 487 144	40.35%	2 487 144	40.35%
NIHONSWI AG	1 581 640	25.66%	1 581 640	25.66%
Transcontinental Fund Limited	792 900	12.86%	792 900	12.86%
Remaining shareholders	1 139 382	18.49%	1 139 382	18.49%
<b>TOTAL</b>	<b>6 163 476</b>	<b>100.00%</b>	<b>6 163 476</b>	<b>100.00%</b>

As of the day of this Report, the shareholding structure and the structure of voting rights at AGM, according to information in the possession of the Company, is as follows:

Shareholder	No. of shares	Proportion of share capital	No. of votes	Share in the number of votes at AGM
Ryszard Krauze	103 586	1.68%	103 586	1.68%
Prokom Investments S.A.	2 487 144	40.35%	2 487 144	40.35%
NIHONSWI AG	1 640 464	26.62%	1 640 464	26.62%
Transcontinental Fund Limited	792 900	12.86%	792 900	12.86%
Remaining shareholders	1 139 382	18.49%	1 139 382	18.49%
<b>TOTAL</b>	<b>6 163 476</b>	<b>100.00%</b>	<b>6 163 476</b>	<b>100.00%</b>

The Company's share capital as of 30 June 2008 and the date of this Report is PLN 61,634,760, and is comprised as follows:

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

In connection with the close of the issue of F-series Shares, the Company will apply to the National Register Court to register F-series shares in the amount of 184,616 units and increase the share capital within the limits of target capital to PLN 63,480,920.

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

The Company concluded the following agreements that may result in changes to the proportion of shares held by current shareholders:

- ✓ Investment agreement dated 16 January 2008 together with an annex dated 12 September 2008 concluded with Dzhumageldy Rakhishevich Amankulov, Atameken-Prommash LLP, GEOKAPITAL LLP and MARBURG OIL LLP, which envisages the issue of 772,315 PETROLINVEST S.A. shares at an issue price of PLN 225 per share in exchange for 50% of the shares in TOO EMBA JUG NIEFT. In addition, in the event of confirmation that the prospective resources of TOO EMBA JUG NIEFT (*unrisksed mean estimated of prospective resources*) are equal to at least 160 million barrels of oil, an additional 271,517 shares in the Company shall be issued at an issue price equal to PLN 10. (details in point 3.2.3. herein).
- ✓ Investment agreement dated 16 January 2008 together with an annex dated 12 September 2008 concluded with eleven shareholders of the company Occidental Resources Inc., a company under Utah state law, which envisages the issue of 3,310,573 PETROLINVEST S.A. shares at an issue price of PLN 225 per share in exchange for 48.27% of the shares in Occidental Resources Inc. (details in point 3.2.3. herein).
- ✓ Investment agreement dated 16 January 2008 together with an annex dated 12 September 2008 concluded with Pruner Group Limited, Mars International Worldwide Inc. and Munivac Global Ventures Inc., which envisages the issue of 1,371,292 PETROLINVEST S.A. shares at an issue price of PLN 225 per share in exchange for 100% of the shares in Capital Energy S.A. (details in point 3.2.3. herein).
- ✓ Investment agreement dated 21 February 2008 concluded with Mars International Worldwide Inc. and Munivac Global Ventures Inc., which envisages the issue of 500,892 PETROLINVEST S.A. shares at an issue price of PLN 225 per share, in exchange for 45% of the shares in Kazakhstancaspishelf JSC (details in point 3.2.3. herein).

- ✓ Investment agreement dated 28 February 2008 concluded with Mars International Worldwide Inc., which envisages the issue of 430,062 PETROLINVEST S.A. shares at an issue price of PLN 225 per share, in exchange for 26.07% of the shares in Caspian Services. Furthermore, the Company has initially agreed to conclude an agreement with Mars International Worldwide Inc., in accordance with which the Company shall offer Mars International Worldwide Inc. 51,371 newly-issued shares in the Company in exchange for a cash payment of an amount equal to the nominal price of the above-mentioned shares (details in point 3.2.3. herein).
- ✓ Loan agreement dated 5 June 2008 and annexes to loan agreements dated 6 June 2008 concluded with Prokom Investments S.A. (the "Lender"), containing a clause about an authorisation granted to the Lender to request that the Company issue shares within the limits of target capital and offer the shares to the Lender precluding the pre-emptive rights of the existing shareholders (Call Option). The number of shares issued in exercise of the Call Option will follow from the request or requests to exercise the Call Option made by the Lender; however, it shall not in aggregate be higher than the quotient of the aggregate indebtedness under the loans (principal and interest) which at 6 June 2008 amounted to PLN 212.59 thousand and the issue price determined as the average bid price of one Petrolinvest share quoted at the close of the WSE during the last 3 months preceding the date on which the request to issue shares in exercise of the Call Option has been made (details in point 3.2.4. herein).
- ✓ On 29 July 2008, the eligible Members of the Management Board of the Company, in accordance with the Resolution of the Supervisory Board of 18 June 2008 implementing the Rules and Regulations of the Incentive Programme, took up 264,285 subscription warrants convertible into the Company E-series shares. Each Warrant carries the right to take up one share (details in point 5.3. herein).
- ✓ On 16 September 2008, the Company signed a letter of intent with The European Bank of Reconstruction (EBOR) and Development 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 (details in point 5.3. herein).

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

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

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

Par. 25 of the Statutes of PETROLINVEST S.A. limits the shareholders' voting rights in principle so that no Shareholder may exercise more than 20% of total vote at the General Meeting; however, the limitation does not apply in the case of determining the obligations of acquirers of significant blocks of shares, provided for in the Act on Public Offering. For the purpose of calculating the above-mentioned 20% of total vote, the Statutes assume that any exercise of voting rights by a subsidiary or a subordinated entity is treated as an exercise of voting rights by a parent company or parent entity, as the case may be, while entities related in the manner defined in Art. 87.1.2-87.1.6 of the Act on Public Offering or acting under other arrangements aimed at bypassing the limitations provided for in par. 1 are treated as if they were a single shareholder. Furthermore, the application of the above-mentioned limitation is lifted in the case of the following: Prokom Investments S.A., the shareholders who on the date on which the transformation was entered in the register of entrepreneurs held shares constituting at least 10% of the share capital, and in the case of any shareholder who acquires—following admission of the shares to regulated trading (acting on their own behalf and to their own benefit)—and registers at the General Meeting shares constituting at least 85% of the total number of shares in the Company's share capital, provided that all of the shares which result in exceeding 10% of the total number of shares in the Company's share capital have been acquired by such shareholder in the manner defined in par. 25.3 a) and b) of the Company's Statutes.

#### 6.5. DESCRIPTION OF THE USE OF PROCEEDS FROM SHARE ISSUES DURING THE REPORTING PERIOD

In the first half of 2008, the Company used proceeds from issues of series B, C and D shares.

The public issue of B-series shares was carried out at the turn of the second quarter 2007. The Company issued 528,600 shares offered to institutional investors (396,450 shares) and individuals (132,150 shares). The reduction rate for subscriptions in the tranche for individual investors was 90.9972%.

The value of subscriptions was PLN 119,992.2 thousand while the cost of the issue was PLN 13,793.3 thousand, or PLN 26.09 per share.

Up to the date of this Report, the Company has used all proceeds of the B issue.

The private issue of C-series shares was carried out in the third quarter of 2007.

The Company issued 58,402 registered shares offered to members of the Company's authorities as well as employees of the Oil Exploration and Production Companies that were put forward by the Company Management Board. The C-series shares remained as registered shares until unconditional admittance to trade of A-series and B-series shares.

The value of proceeds from the issue was PLN 13,257.3 thousand.

Up to the date of this Report, the Company has used all proceeds of the C issue.

The public issue of D-series shares was carried out at the turn of the first quarter of 2008.

The Company issued 290,474 shares offered to qualified investors.

The value of proceeds from the issue was PLN 79,880.4 thousand; the cost of share issue – PLN 864.1 thousand, or PLN 2.97 per share.

Up to the date of this Report, the Company has used all proceeds of the D issue.

Proceeds from the issue of series B, C and D shares as of the day of this Report have been used as follows:

Purpose of use	<i>PLN '000</i>
Value	
Financing of prospecting and extraction projects	
TOO EMBA JUG NIEFT	12 757.6
TOO COMPANY PROFIT	6 642.0
OOO SIEWIERGEOFIZYKA	16 131.3
OOO NIEFTIEGEOSEWIS	1 657.2
CJSC PECHORA PETROLEUM	14 769.3
Occidental Resources, Inc.	8 969.9
Capital Energy S.A.	21 263.3
Mars International. Inc.	4 310.0
Caspian Services, Inc.	11 092.5
Payment for shares in increased capital of Occidental Resources, Inc	81 797.2
Purchase of shares in OOO NIEFTIEGEOSEWIS	10 988.0
Costs incurred in connection with engagement in prospecting and extraction projects (legal, advisory services etc.)	8 094.1
Share issue costs	14 657.4
<b>Funds used total</b>	<b>213 129.8</b>

7. OTHER INFORMATION

7.1. TRANSACTIONS OF THE PARENT WITH RELATED ENTITIES IF THE SINGLE OR JOINT VALUE OF TRANSACTIONS CONCLUDED BY A GIVEN RELATED ENTITY IN THE FIRST HALF 2008 EXCEEDS A VALUE IN POLISH ZLOTY EQUAL TO EUR 500,000

Agreements concluded by the Company in the first half of 2008 with related entities of a joint value exceeding EUR 500 thousand are described in detail in note 27 to the Interim Condensed Financial Statements.

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

As of 30 June 2008, PETROLINVEST Group possessed the following significant conditional liabilities:

Entity	Subject	Value
PETROLINVEST S.A.	Blank bill of exchange submitted in the Customs Office in Gdynia as excise security for transferring goods in excise duty suspension procedure.	PLN 2,850,000
TOO OilTechnoGroup	Two bank guarantees given by AO HSBC Bank Kazachstan, constituting a guarantee for the performance of an agreement between OilTechnoGroup and Saipem S.p.A. The guarantees are valid up to 31 December 2008. The company established a conditional deposit as security for eventual liabilities to the bank.	USD 3,885,000
TOO OilTechnoGroup	The subject of the agreement is a guarantee given by AO CenterCredit for USD 360.3 thousand to secure payments due under the agreement concluded between TOO OilTechnoGroup and Baker Hughes Services International Inc.	USD 360,300*
TOO EMBA JUG NIEFT	Guarantee securing the repayment of obligations of TOO OilTechnoGroup to Bank CenterCredit JSC resulting from a USD 37,800 thousand line of credit provided by the bank. The guarantee is valid until full repayment of the liabilities resulting from the line of credit, which matures on 5 April 2012. The guarantee does not envisage any arrangement fee. The guarantee provides for a contractual penalty in case of failure to pay any outstanding amount, equal to 0.1% of such amount for each day of delay in payment, and a contractual penalty equal to 0.1% of the amount of the guarantee for any other breach of the guarantee arrangement.	USD 37,800,000*

*(\*) The value of the guarantee comprises the principal amount of the line of credit and other benefits payable to Bank CenterCredit JSC under the credit facility agreement.*

7.3. EXPLANATIONS REGARDING THE DIFFERENCE BETWEEN FINANCIAL RESULTS AND EARLIER PUBLISHED FORECASTS FOR 2008 RESULTS

PETROLINVEST Group did not publish forecasts regarding 2008 results.

The results published in the consolidated report for 6 months 2008 are not materially different from the results published in the consolidated report for the second quarter 2008.

8. ADDITIONAL REPRESENTATIONS OF THE MANAGEMENT BOARD

The Management Board of PETROLINVEST S.A. represents that to the best of its knowledge the interim consolidated financial statements for 6 months ended 30 June 2008 and comparable data were prepared in accordance with current accounting regulations, give a true, reliable and clear view of the material and financial standing of PETROLINVEST Group and its financial results and represents that the management board report for 6 months ended 30 June 2008 contains a true picture of the development and achievements as well as the situation of PETROLINVEST Group, including a description of risks and threats.

The Management Board of PETROLINVEST S.A. represents that the entity authorised to audit the financial statements and review the interim consolidated financial statements for 6 months ended 30 June 2008 was selected in accordance with the provisions of law and that that entity and the auditors performing the review fulfilled the conditions to issue an impartial and independent report from the review in accordance with appropriate provisions of domestic law.

Paweł Gricuk  
President

Zenon Grablewski  
Vice-President

Marcin Balicki  
Member of the Board

Gdynia, 29 September 2008