

# H1 2008



## Financial Report H1 2008

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## 1 PERSON RESPONSIBLE FOR THE HALF-YEARLY FINANCIAL REPORT

As Chief Financial Officer of Maurel & Prom (hereinafter "**Maurel & Prom**" or the "**Company**"), and under the responsibility of Jean-François Hénin, Chairman and Chief Executive Officer, Michel Hochard is responsible for the financial information and in particular for the half-yearly financial report.

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### **Attestation**

*"I hereby certify that, to my knowledge, the financial statements have been established in accordance with the applicable accounting standards and that they present a true and fair view of the assets, financial position, and earnings of the Company and of all the companies included in the consolidation, and that the half-yearly activity report presents a true and fair view of the significant events that have occurred during the first six months of the financial year their impact on the half-yearly financial statements, the main related-parties transactions, as well as a description of the principal risks and uncertainties to which they are exposed."*

Chief Financial Officer

Michel Hochard,

Paris, Friday, 03 October 2008

To facilitate the reading of this report, Etablissements Maurel & Prom shall be referred to indiscriminately as the "**Company**" or "**Maurel & Prom**" and Maurel & Prom and/or any of its subsidiaries together shall be referred to as "**Maurel & Prom Group**" or the "**Group**".

## **2 BUSINESS ACTIVITIES FOR THE PERIOD**

The Group's oil and gas activities are largely focused on exploration and developing the Group's mining portfolio. Maurel & Prom also rapidly brings its discoveries to production by launching ambitious development campaigns backed by Caroil, its drilling subsidiary.

### **2.1 Mining assets management**

#### **2.1.1 Colombia**

Maurel & Prom continued expanding its exploration territory in Colombia by acquiring an exploration permit during first half 2008. Located in the Llanos region, approximately 400km East of Bogota, the Clarinero permit (2 298 km<sup>2</sup>) is wholly-owned by Maurel & Prom.

The expired Achira permit, in which Maurel & Prom held 25.67% as operator, was relinquished at the end of March 2008 (Notes 4 and 5).

In addition, the EGOE permits were renegotiated: Maurel & Prom, which held 31.75% in all EGOE contracts, now holds 6.98% in the Estero permit, 15.22% in the Garcero permit, 23.47% in the Orocué permit and 27.91% in the Corocora permit. These changes in the contract took effect on 1 February 2008. The reduced stake in production is offset by an extension to the end of the economic life of the relevant fields (Notes 4 and 5).

#### **2.1.2 Gabon**

Maurel & Prom increased its stake in the Etekamba permit from 65% to 100% in buying 35% of the remaining rights hold by Transworld (Note 4).

### **2.2 Financial summary for the period**

#### **Lagopetrol (Venezuela)**

After long negotiations with the Venezuelan State, Maurel & Prom group obtained 26.35% of the equity and 2 Board members (out of 5) in Lagopetrol in exchange for the Group's previous Venezuela-based oil assets, in particular oil reserves.

An agreement on the transfer of those assets to Lagopetrol was signed with PdVSA on 12 December 2007, which was made official through the publication of a transfer decree in the Venezuelan Official Journal on 11 January 2008. As a result, Maurel & Prom has been consolidating Lagopetrol under the equity method since January 2008 (Notes 4, 7 and 9).

## Environmental data

Financial market data are as follows:

Environmental data	H1 2008	H1 2007	Change
Average exchange rate (US\$/€)	0.65	0.75	-13%
Average exchange rate (€/US\$)	1.53	1.33	
Closing exchange rate (US\$/€)	0.63	0.74	-15%
Closing exchange rate (€/US\$)	1.58	1.35	
Brent (US\$/bbl)	109.3	63.2	+73%
WTI (US\$/bbl)	111.0	61.3	+81%

At 31 December 2007, the closing exchange rate was 0.68€ for 1US\$.

### 2.2.1 Production

The Group's entitled production for the half-year of 15,098 barrels per day comes mainly (13,204 b/d) from Colombia. The average sale price was \$82.95/bbl taking account of the hedge on a portion of Colombian production.

The rest of the production comes from Venezuela (1,678 b/d), from Gabon via the Banio well currently undergoing long term testing and from Congo via the Tilapia field.

### 2.2.2 Revenues

Revenues increased 29% to €176.5 million over first half 2007, largely comprising sales of oil in Colombia (78%) and drilling activities of the wholly-owned subsidiary, Caroil (22%).

Revenues were boosted by the quantity increase and by oil price increases (Brent +73% and WTI +81%) but held back by the US\$/€ exchange rate (-13%). The sales price increase was limited by the WTI hedge in Colombia.

In US dollars, total Group first half 2008 revenues came in at \$270.1 million, up 48% from \$182.1 million in first half 2007.

According to the accounting policy (Lagopetrol being consolidated under the equity method), Venezuela's production was not included in Group revenues.

Caroil's first half 2008 contribution to revenues amounted to €38.2 million down 14% from €44.2 million in first half 2007. In US dollars, first half 2008 contribution to revenues are stable at \$58.5 million.

Caroil's first half 2008 revenues rose 18% to €58.5 million compared to €49.5 million for first half 2007. Expressed in US dollars, Caroil's company revenues were \$89.6 million, up 36.2% compared to first half 2007.

For the first half 2008, 65% of Caroil's revenues were earned with non-Group customers, compared to 89% for the first half 2007.

### **2.2.3 Operating income**

The Group's operating income for first half 2008 was €86.4 million, up 301% over first half 2007. The operating margin therefore went up from 16% to 49%.

The increase in operating income can be mainly explained by:

- the increase in revenues;
- The positive impact of the consolidation of Lagopetrol in Venezuela under the equity method for +€16.2 million.

Exploration expenses of €10.3 million correspond to the plugged and abandoned exploration wells (Cumbia, Brassia, Cocli NE, and Cocli SO) as well as to the relinquishment of the Achira permit.

The contribution of the drilling subsidiary Caroil to operating income was €7.4 million.

### **2.2.4 Financial result**

The financial result was a loss of €52.4 million broken down as follows:

- Interest expenses on OCEANE bonds of €12,187K for first half 2008 up from €11,832K for first half 2007;
- A net loss of €36.8m on derivative instruments :
  - A latent loss of €33.1 million including:
    - €10.4 million for swaps on crude corresponding to a hedge on 2,250b/d. Starting on April 1<sup>st</sup>, this hedge is allocated to the Colombian production;
    - €21.1 million on foreign exchange options broken down in €6.3 million on common cash management, and €14.8 million coming from a series of complex and structured operations initiated by a single individual and performed out of the Group's standards and procedures. Management's analysis confirms that the additional risk comes to €21m based on the EUR-USD exchange rate at end September 2008. This is in addition to the €14.8m in unrealised losses already recorded in the first half of 2008. Discussions are still ongoing to reduce the level of this risk.
  - A loss of €3.7m from derivatives transactions undertaken in the first half 2008 that were closed out in July 08.
- Exchange losses on foreign currency cash holdings totalled €17.2m owing to the unfavourable EUR-USD exchange rate and the fact that some of our suppliers have adapted their billing procedures to this new situation by no longer invoicing in USD.
- Cash investment income of €1.3 million and other income of €14.3 million which include:
  - interest income on term deposits of €8.7 million;
  - €3.2 million in gains related to oil trades.

### 2.2.5 Consolidated net income

Consolidated net income from continuing activities amounted to €17.3 million, up 25% over first half 2007.

This increase can be explained by:

- A rise in operating income;
- A deteriorated financial result;
- The first time consolidation under the equity method of Lagopetrol in Venezuela;
- Change in the income tax charge.

Caroil posted first half 2008 consolidated net income of €6.6 million.

### 2.2.6 Balance sheet

The balance sheet total was €1,665.3 million down from €1,844.0 million as at 31 December 2007.

The change in non-current assets can be explained by:

- Operating capital expenditures totalling €163 million, primarily intended for Onal (67%) and Ocelote (20%) fields, and for Caroil (8%);
- Exploration capital expenditures of €79.0 million;
- Partial relinquishment of EGO of €(40.0) million;
- €20.8 million increase in assets due to accounting for Lagopetrol under the equity method;
- Exchange differences on tangible and intangible assets of €(71.2) million.

Group shareholders' equity totalled €639.8 million down from €1,057.8 million as at 31 December 2007 due to a €(207.7) million adjustment on derivative instruments as at 30 June 2008, a dividend amounting to €(137.1) million, the net income of the period, exchange losses of €(59.8) million and €(31.6) million of treasury shares bought back.

### 2.2.7 Investments

First half 2008 actual capital expenditure came to €243 million broken down as follows:

€M	Colombia	Gabon	Tanzania	Other	TOTAL
Exploration	45	18	14	3	79
Development	33	111		1	145
Oil services	3			15	18
<b>TOTAL</b>	<b>80</b>	<b>129</b>	<b>14</b>	<b>19</b>	<b>243</b>

### **2.2.8 Cash flows**

First half 2008 Group cash flow before tax in was €103.8 million.

Net cash flow from operating activities was €81.1 million.

At 30 June 2008, Maurel & Prom's net cash amounted to €273.2 million, excluding €72 million accounted in non-current assets, down €421.1 million compared to 31 December 2007. This change can be explained by:

- The activity of the period: increase in cash flow from operations for €81 million;
- A strong investment effort:
  - Exploration expenses of €79 million;
  - Development capex of €145 million;
  - Oil services investments of €18 million.
- The shareholder payback:
  - Dividend payment for €137 million;
  - Share buy back for €32 million
- €(72) million in outflows for margin calls on financial instruments paid temporarily to banks under the crude hedging transactions (based on the market value of those instruments as at 30 June 2008).

## **2.3 Exploration and appraisal**

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In addition to the preliminary study phases, exploration can be divided into two parts: seismic campaigns and drilling.

### **2.3.1 Seismic campaigns**

The various seismic campaigns acquired a total of 2,437 km of 2D lines and 270 km<sup>2</sup> of 3D lines distributed as follows:

- Gabon: Omoueyi: 360 km (2D).
- Syria: Alasi: 880 km (2D).
- Tanzania: Bigwa - Rufiji – Mafia: 500 km (2D).
- Colombia
  - Tangara: 142 km (2D);
  - Niscota: 158 km (2D);
  - Saltarin: 120 km (2D);
  - Lince: 20 km (2D);
  - Sabanero: 242 km (2D);
  - Cocli: 15 km (2D);
  - Saman: 270 km<sup>2</sup> (3D).

In addition, aeromagnetic acquisition campaigns related to the Etekamba permit in Gabon and the Bigwa – Rufiji – Mafia permit in Tanzania, were undertaken during first half 2008.



### **2.3.2 Exploration drilling**

During first half 2008, 12 exploration drilling projects were undertaken as follows:

- Seven exploration wells were completed at 30 June 2008. Four were abandoned and two yielded positive results. The results obtained during the drilling of the Lince-1 well are under review.
- Five exploration wells were undergoing drilling at 30 June 2008, including OMKO-1 and Ortega Sur which yielded positive results in July 2008. The Guanabana and Huron wells in Colombia and M'Bezi well in Tanzania are still undergoing drilling at 31 July 2008.

### **2.3.3 Appraisal drilling**

The Ocelote field on the Guarrojo permit in Colombia is in the appraisal phase with three wells already drilled as at 30 June 2008.

An appraisal well has already been drilled on the Pacande field located on the Ortega Incremental Production Contract.

The two appraisal wells drilled on the San Jacinto & Rio Paez (La Canada Norte field) permit confirmed the findings from early 2007.

In addition, the long-term production test on the Banio well (Gabon, Nyanga-Mayombe permit) had to be interrupted for lack of eruptivity from the well in October 2007. The workover of the well, including the lowering of a pump, was carried out in May 2008 and led to the restart of the well with an average production of approximately 400 b/day.

## **2.4 Production and development**

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### **2.4.1 Colombia**

The development drilling campaign was primarily focused on the following permits:

Palermo Association (Maurel & Prom operator, 50%)

On the Balcon field the Balcon-22 well was drilled.

On the San-Francisco field the SF-208 and SF-209 wells were drilled.

Llanos associations (Perenco operator)

In the Eastern Llanos region where Perenco is the operator, eight new wells were drilled and five workovers were performed. The effect of this campaign has been to limit the natural decline of these mature fields.

### **2.4.2 Gabon**

The development activities in Gabon were focused mainly on the Omoueyi permit with the Onal field.

Onal field (Maurel & Prom operator, 85%)

In first half 2008, 6 development wells (including 2 water injection wells) and 2 water producing wells were drilled on the Onal field for a total at 30 June 2008 of 18 development wells (including 6 water injection wells) and 3 water producing wells.

At the end of June 2008, the earthwork and foundations of the production center and the storage tanks were completed and the facilities are being installed on the site.

## **2.5 Drilling activities: Caroil**

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In first half 2008 Caroil continued development work as follows:

- The Caroil 11 and Caroil 15 rigs started working;
- "Non-Group" customers were acquired;
- Order and building of a new drilling rig (Caroil 16).

At 30 June 2008, 13 drilling rigs were operational, one was in the process of being delivered and another one was in maintenance.

Out of the 13 drilling rigs in service, 8 were operating for non-Group customers including 5 in Congo and 3 in Colombia.

### **3 CAPITAL AND COMPANY ITEMS**

#### **3.1 General Meeting**

The Maurel & Prom Combined Ordinary and Extraordinary Meeting of Shareholders held on Thursday, 12 June 2008, and chaired by Mr Jean-François Hénin, Chairman and Chief Executive Officer, approved all draft resolutions submitted.

The General Meeting approved the company and consolidated financial statements for the year ended 31 December 2007 and discharged the Board of Directors.

#### **3.2 Dividend**

On motion of the Board of Directors, the General Meeting approved a dividend of €1.20 for 2007, which was paid on Thursday 19 June 2008.

#### **3.3 Total number of voting rights and shares comprising share capital**

In application of Article L. 233-8 II of the Commercial Code and the General Regulation of the AMF, Maurel & Prom is required to inform its shareholders of the total number of voting rights and shares comprising its capital as at 12 June 2008:

<b>Date</b>	<b>Number of shares comprising share capital</b>	<b>Number of voting rights</b>
12 June 2008	120,569,807	Theoretical*: 120,735,948 Exercisable: 114,434,042

\* Theoretical voting rights = total voting rights in respect of all shares including treasury shares, which have no voting rights. Exercisable voting rights = theoretical voting rights – voting rights attached to the treasury shares.

During the period, share capital rose by €28K following the exercise of 35,890 stock options resulting in the issue of 35,890 shares that led to a gross premium on issue of €35K.

#### **3.4 Memorandum on the OCEANES**

Following the €1.20 dividend per share distribution on 19 June 2008, the share allotment ratio was automatically increased from 1.05 Maurel & Prom share per 1 OCEANE to 1.10 share per OCEANE. This change conforms to the Prospectus on the OCEANE Bonds published on 4 March 2005.

#### **3.5 Share buyback programme**

At 30 June 2008, Maurel & Prom held 5.27% of its share capital representing 6,352,266 shares out of a total of 120,569,807.

## 4 OUTLOOK

### 4.1 Post-balance sheet events

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#### 4.1.1 Colombia

The Ortega Sur well (Ortega incremental production contract) came across three gas-impregnated intervals in the Caballos and Tetuan formations.

The successive tests of the three intervals showed gas production of 2.5 million cubic feet, 3.0 million cubic feet and 2.0 million cubic feet per day respectively. The total estimated production of the well is 7.5 million cubic feet per day, that is, 1,350 b/day.

The Guanabana-1 well was suspended due to technical problems and will be resumed later.

#### 4.1.2 Gabon

The OMKO-1 well found two oil-impregnated sandstone intervals in the following geological formations:

- Kissenda on 56 m, a new oil play in the Gabon region, which produced flows of 3,050 b/day on a 40/64" choke with a head pressure of 595 psi;
- Grès de Base on 43.5 m, an oil play that Maurel & Prom has already demonstrated in Congo with the M'Boundi and Kouakouala field and in Gabon with the Onal field. This produced flows of 2,460 b/day on a 32/64" choke with a head pressure of 660 psi;

The oil produced is between 35.7° and 36.7° API.

### 4.2 Risks and uncertainties

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The Group's results are sensitive to various market risks, of which the most significant are oil and natural gas prices and the EUR/USD exchange rate.

The Group has put into shape a hedge policy described in note 8 to prevent hydrocarbons prices volatility. In terms of exchange rates, the Group has a foreseeing management of currencies accounts.

However, it is to be noticed that a series of complex and structured operations, due to a single individual and performed out of the Group standards and procedures, has been identified and analysed by the management. Management's analysis confirms that the additional risk comes to €21m based on the EUR-USD exchange rate at end September 2008. This is in addition to the €14.8m in unrealised losses already recorded in the first half of 2008. Discussions are still ongoing to reduce the level of this risk.

Maurel & Prom operational risks are described in Chapter 7 of the Group's 2007 annual report.

### 4.3 Second half activity

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The Group is currently on track to meet its two strategic objectives, namely to meet production levels of 30,000 b/day and reserves of 250 to 300 Mboe by the end of 2009.

Given the additional productions through Lagopetrol (Venezuela, 1,700 b/d), Ocelote (Colombia) and Onl field first oil, the Group's entitled production should raise up to 30,000 b/d by the end of 2008, thus enabling the Group to achieve the first objective one year in advance.

Growth in reserves will be ensured by the appraisal campaigns of the various discoveries such as that of OMKO-1 in Gabon, and by continuing and stepping up the exploration drilling campaign.

At 31 July 2008, 3 wells were underway and another 9 wells are expected to be undertaken by the end of the year.

## 5 GROUP CONSOLIDATED FINANCIAL STATEMENTS

### 5.1 Balance Sheet

#### Assets

€000	Notes	30/06/2008	31/12/2007
Intangible assets	4	538,904	554,922
Tangible assets	5	514,940	389,954
Non-current financial assets	6	100,100	28,216
Investments accounted under the equity method	7	35,838	3,138
Deferred tax assets	15	36,623	22,786
<b>Non-current assets</b>		<b>1,226,405</b>	<b>999,016</b>
Inventories		16,624	7,389
Trade receivables		54,537	52,852
Other current financial assets	6	40,380	29,671
Other current assets		45,565	42,615
Income tax receivable	15	1,496	7,074
Derivative instruments	8	2,650	5,430
Cash and cash equivalents	10	277,662	699,939
<b>Current assets</b>		<b>438,914</b>	<b>844,970</b>
<b>Total Assets</b>		<b>1,665,319</b>	<b>1,843,986</b>

#### Liabilities

€000	Notes	30/06/2008	31/12/2007
Share capital		92,839	92,811
Issue, merger and acquisition premiums		201,174	201,139
Consolidated retained earnings		414,390	52,385
Treasury shares		(85,898)	(54,296)
Net income, Group share		17,320	766,096
<b>Shareholders' equity, Group share</b>		<b>639,825</b>	<b>1,058,135</b>
Minority interests		0	(342)
<b>Total equity:</b>		<b>639,825</b>	<b>1,057,793</b>
Non-current provisions	11	36,777	30,795
Non-current bonds	12	355,660	336,932
Other non-current loans and borrowings	12	14,016	15,754
Non-current trade payables		0	3,624
Non-current derivative instruments	8	141,565	-
Deferred tax liabilities	15	130,105	146,199
<b>Non-current liabilities</b>		<b>678,123</b>	<b>533,304</b>
Current bonds	12	6,542	13,089
Other current loans and borrowings	12	11,685	16,145
Trade payables		128,085	107,685
Income tax payable	15	3,986	121
Other payables and sundry liabilities		42,679	71,899
Current derivative instruments	8	135,800	22,274
Current provisions	11	18,594	21,676
<b>Current liabilities</b>		<b>347,371</b>	<b>252,889</b>
<b>Total liabilities</b>		<b>1,665,319</b>	<b>1,843,986</b>

## Statement of change in shareholders' equity

€000	Share capital	Treasury shares	Premiums	Retained earnings	Exchange gain/loss	Net income for the financial year	Shareholders' equity, Group share	Minority interests	Total shareholders' equity:
<b>1 January 2007</b>	<b>92,546</b>	<b>(10,483)</b>	<b>198,500</b>	<b>148,849</b>	<b>(40,760)</b>	<b>180,665</b>	<b>569,317</b>		<b>569,317</b>
Exchange gains/losses					(22,690)		(22,690)		(22,690)
OCEANes									
Deferred taxes on OCEANes									
Derivative instruments				(3,942)			(3,942)		(3,942)
<b>Net income posted directly to shareholders' equity</b>				<b>(3,942)</b>	<b>(22,690)</b>		<b>(26,632)</b>		<b>(26,632)</b>
Appropriation of net income - Dividends				20,653	16,126	(180,665)	(143,886)		(143,886)
Net income						812,106	812,106		812,106
<b>TOTAL income and expenses recorded for the year</b>				<b>16,711</b>	<b>(6,564)</b>	<b>631,441</b>	<b>641,588</b>		<b>641,588</b>
Capital increase	250		2,630				2,880		2,880
Stock options				536			536		536
Movements on treasury shares		(1,010)					(1,010)		(1,010)
<b>30 June 2007</b>	<b>92,796</b>	<b>(11,493)</b>	<b>201,130</b>	<b>166,096</b>	<b>(47,324)</b>	<b>812,106</b>	<b>1,213,311</b>		<b>1,213,311</b>
<b>1 July 2007</b>	<b>92,796</b>	<b>(11,493)</b>	<b>201,130</b>	<b>166,096</b>	<b>(47,324)</b>	<b>812,106</b>	<b>1,213,311</b>		<b>1,213,311</b>
Exchange gains/losses					(58,512)		(58,512)		(58,512)
OCEANes									
Deferred taxes on OCEANes									
Derivative instruments				(8,575)			(8,575)		(8,575)
<b>Income posted directly to shareholders' equity</b>				<b>(8,575)</b>	<b>(58,512)</b>		<b>(67,087)</b>		<b>(67,087)</b>
Appropriation of net income - Dividends				149	(1)		148		148
Net income						(46,010)	(46,010)	(342)	(46,352)
<b>TOTAL income and expenses recorded for the half-year</b>				<b>(8,426)</b>	<b>(58,513)</b>	<b>(46,010)</b>	<b>(112,949)</b>	<b>(342)</b>	<b>(113,291)</b>
Capital increase	15		9				24		24
Stock options - bonus shares				552			552		552
Movements on treasury shares		(42,803)					(42,803)		(42,803)
<b>31 December 2007</b>	<b>92,811</b>	<b>(54,296)</b>	<b>201,139</b>	<b>158,222</b>	<b>(105,837)</b>	<b>766,096</b>	<b>1,058,135</b>	<b>(342)</b>	<b>1,057,793</b>



€000	Share capital	Treasury shares	Premiums	Retained earnings	Exchange gains/losses	Net income for the financial year	Shareholders' equity, Group share	Minority interests	Total shareholders' equity
<b>1 January 2008</b>	<b>92,811</b>	<b>(54,296)</b>	<b>201,139</b>	<b>158,222</b>	<b>(105,837)</b>	<b>766,096</b>	<b>1,058,135</b>	<b>(342)</b>	<b>1,057,793</b>
Exchange gains/losses				(342)	(59,834)		(60,176)	342	(59,834)
OCEANES									
Deferred taxes on OCEANES									
Derivative instruments				(207,701)			(207,701)		(207,701)
<b>Net income posted directly to shareholders' equity</b>				<b>(208,043)</b>	<b>(59,834)</b>		<b>(267,877)</b>	<b>342</b>	<b>(267,535)</b>
Appropriation of net income - Dividends				628,961		(766,096)	(137,135)		(137,135)
Net income						17,320	17,320		17,320
<b>TOTAL income and expenses recorded for the year</b>				<b>420,918</b>	<b>(59,834)</b>	<b>(748,776)</b>	<b>(387,692)</b>	<b>342</b>	<b>(387,350)</b>
Capital increase	28		35				62		62
Stock options - bonus shares				747			747		747
Movements on treasury shares		(31,602)		174			(31,428)		(31,428)
<b>30 June 2008</b>	<b>92,839</b>	<b>(85,898)</b>	<b>201,174</b>	<b>580,061</b>	<b>(165,671)</b>	<b>17,320</b>	<b>639,825</b>		<b>639,825</b>

## 5.2 Income statement

€000		30/06/2008	30/06/2007
	Notes		
<b>Sales</b>		176,477	137,052
Other income		7,870	15,911
Purchases and change in inventory		(11,381)	(12,055)
Other purchases and operating expenses		(29,486)	(48,105)
Other taxes		(5,100)	(2,963)
Payroll		(15,393)	(18,522)
Amortisation and depreciation		(42,436)	(35,064)
Impairment of exploration and production assets		(10,303)	(9,567)
Provisions and impairment on current assets		(621)	(2,930)
Reversals of operating provisions		1,498	2,012
Gains (losses) on sale of assets		16,200	(2,533)
Other expenses		(912)	(1,665)
<b>Operating income</b>		<b>86,413</b>	<b>21,571</b>
<i>Gross cost of debt</i>		<i>(13,948)</i>	<i>(14,894)</i>
<i>Income from cash</i>		<i>1,305</i>	<i>3,729</i>
<i>Net gains or losses on derivative instruments</i>		<i>(36,799)</i>	<i>(5,848)</i>
Net cost of debt		(49,442)	(17,013)
Other interest income and expenses		(2,950)	10,505
<b>Financial income</b>	<b>14</b>	<b>(52,392)</b>	<b>(6,509)</b>
<b>Income before tax</b>		<b>34,021</b>	<b>15,062</b>
Income taxes	15	(21,448)	(862)
<b>Net income of consolidated companies</b>		<b>12,573</b>	<b>14,200</b>
Total share in net income of equity-accounted companies	7	4,747	(341)
<b>Net earnings from continuing operations</b>		<b>17,320</b>	<b>13,859</b>
Net earnings from discontinued operations		0	798,247
<b>Net income of consolidated group</b>		<b>17,320</b>	<b>812,106</b>
<i>Net income -- Group share</i>		<i>17,320</i>	<i>812,106</i>
<i>Minority interests</i>		<i>0</i>	<i>0</i>
<b>Earnings per share</b>	<b>16</b>		
Basic		0.15	6.80
Diluted		0.13	5.93
<b>Earnings per share from discontinued operations</b>			
Basic		0.00	6.68
Diluted		0.00	5.83
<b>Earnings per share from continuing operations</b>			
Basic		0.15	0.12
Diluted		0.13	0.10

### 5.3 Cash flow statement

€000	Notes	30/06/2008	30/06/2007
<b>Consolidated income from continuing operations before tax</b>		<b>42,502</b>	<b>14,721</b>
Net amortisation, depreciation and provision charges (write backs)		47,548	36,554
Unrealised gains and losses related to changes in fair value		25,607	5,848
Exploration posted to expenses		10,859	9,567
Calculated income and expenses in relation to stock options and similar items		564	537
Other estimated income and expenses		10,669	1,123
Capital gains (losses) on disposals		(20,486)	2,533
Share in income of equity-accounted companies	7	(4,747)	341
Income from cash	14	(6,734)	(11,666)
Cost of gross financial debt		1,785	3,063
<b>Cash flow before tax</b>		<b>103,832</b>	<b>62,621</b>
Tax		(13,382)	(13,254)
Change in operating working capital		(9,383)	(33,989)
- Trade receivables		(9,368)	(5,123)
- Trade payables		24,361	(19,893)
- Inventories		(9,996)	(6,751)
- Other:		(14,380)	(2,222)
<b>Net cash flow from operating activities</b>		<b>81 067</b>	<b>15,378</b>
Disbursements for acquisitions of tangible and intangible assets		(243 102)	(130,008)
Receipts from sales of tangibles and intangible assets		591	21
Disbursements for acquisitions of financial assets (unconsolidated securities)		211	(762)
Receipts from sales of financial assets (unconsolidated securities)		0	0
Business combination		0	0
Investments in equity-accounted companies		0	0
Change in loans and advances granted		(72 290)	(5,846)
Other cash flows from investing activities		(76)	0
<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>		<b>(314 666)</b>	<b>(136,595)</b>
Amounts received from shareholders during capital increases		(98)	2,880
Dividends paid		(137 135)	(143,885)
Receipts from new loans		1 455	6,626
Interest paid		(1 785)	(3,063)
Interest received		6 734	11,666
Loan repayments		(4 810)	(4,299)
Treasury share acquisitions		(31 601)	(1,010)
<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>		<b>(167 240)</b>	<b>(131,085)</b>
Impact of foreign-currency fluctuations		(20 223)	(2,018)
Net receipts from activities sold*		0	961,820
<b>Net change in cash</b>		<b>(421 062)</b>	<b>707,500</b>
Opening cash and cash equivalents		694 307	186,342
Closing net cash and cash equivalents from sold activities		0	
<b>Closing net cash and cash equivalents</b>	<b>10</b>	<b>273 245</b>	<b>893,842</b>
Closing net cash and cash equivalents from sold activities		0	
* Net cash flow from operating activities less capital expenditure and repayment of RBL			

## 5.4 Notes to the financial statements

### 5.4.1 NOTE 1: GENERAL INFORMATION

The Group's oil and gas activities are largely focused on exploration and developing the Group's mining portfolio. Maurel & Prom also rapidly brings its discoveries to production by launching ambitious development campaigns backed by Caroil, its drilling subsidiary.

First half 2008 earnings come mainly from sales of oil in Colombia and the drilling activities of its wholly-owned subsidiary Caroil. Lagopetrol, a company in which Maurel & Prom holds 26.35%, was consolidated for the first time at 30 June 2008 under the equity method.

Financial market data are as follows:

Environmental data	H1 2008	H1 2007	Change
<b>Average exchange rate (US\$/€)</b>	<b>0.65</b>	0.75	-13%
Average exchange rate (€/US\$)	1.53	1.33	
<b>Closing exchange rate (US\$/€)</b>	<b>0.63</b>	0.74	-15%
Closing exchange rate (€/US\$)	1.58	1.35	
<b>Brent (US\$/bbl)</b>	<b>109.3</b>	63.2	+73%
<b>WTI (US\$/bbl)</b>	<b>111.0</b>	61.3	+81%

At 31 December 2007, the closing exchange rate was 0.68€ for 1US\$.

The exploration activities of the Group can be divided between seismic campaigns and drilling. The various seismic campaigns acquired a total of 2,437 km of 2D lines and 270 km<sup>2</sup> of 3D lines. In addition, aeromagnetic acquisition campaigns related to the Etekamba permit in Gabon and the Bigwa – Rufiji – Mafia permit in Tanzania were undertaken during first half 2008 which enabled the Group to update the former seismic appraisal thereby providing visibility on future prospects.

During first half 2008, 12 exploration wells were undertaken as follows:

- Seven exploration wells were completed at 30 June 2008. Four were abandoned and two yielded positive results. The results obtained during the drilling of the Lince-1 are under review;
- Five exploration wells were undergoing drilling at 30 June 2008, including OMKO-1 and Ortega Sur which yielded positive results during July 2008. Guanabana and Huron wells in Colombia and M'Bezi well in Tanzania are still under going drilling.

The Ocelote field on the Guarrojo permit in Colombia is in the appraisal phase with three wells already drilled as at 30 June 2008. An appraisal well has already been drilled on the Pacande field located on the Ortega Incremental Production Contract. Two appraisal wells drilled on the San Jacinto & Rio Paez permit (La Canada Norte field) confirmed the finding from early 2007. In addition, the long-term production test on the Banio well (Gabon, Nyanga-Mayombe permit) had to be interrupted for lack of pressure from the well in October 2007. The workover of the well, including the lowering of a pump, was carried out in May 2008 which led to the restart of the well with an average production of approximately 400 b/day.

In Gabon, the development of the ONAL field continues with, as at 30 June 2008, 6 development wells and 2 water producing wells drilled for a total of 18 development wells and 2 water producing wells. At the end of June 2008, the earthwork and foundations of the production centre and the storage tanks were completed and the facilities are in the process of being installed on the site.

Caroil continued to develop in first half 2008: At 30 June 2008, 12 drilling rigs were operational, one was in the process of being delivered and a last one was in the process of being assembled. Out of the 12 drilling rigs in service, 8 operate for non-Group customers including 5 in Congo and 3 in Colombia.

After long negotiations with the Venezuelan State, Maurel & Prom group obtained 26.35% of the equity and 2 Board members (out of 5) in Lagopetrol, in which Corporacion Venezolana del Petroleo, a subsidiary of the state-owned PdVSA, holds 69%, in exchange for the Group's previous Venezuela-based oil assets, in particular oil reserves. Lagopetrol exploits the B2X-70/80 permit.

An agreement on the transfer of those assets to Lagopetrol was signed with PdVSA on 12 December 2007 and made official through the publication of a transfer decree in the Venezuelan Official Journal on 11 January 2008. As a result, Maurel & Prom has been consolidating Lagopetrol under the equity method since January 2008.

The first time consolidation under the equity method resulted in recognising a capital gain of €16,210K on the sale of Maurel & Prom's share of Lagopetrol calculated as the excess of the net fair value over the cost of the assets contributed.

In addition, the group received an indemnity of €2,333K for 80% of the operating income from the B2X-70/80 permit for the period from 1 April to 31 December 2006. This indemnity was recorded under other income.

Finally, Maurel & Prom's share in the income from operations of Lagopetrol for first half 2008 amounted to €5,003K.

During the period, share capital rose by €28K following the exercise of 35,890 stock options resulting in the issue of 35,890 shares that led to a gross premium on issue of €35K.

#### **5.4.2 NOTE 2: ACCOUNTING POLICIES**

The condensed half-yearly Group consolidated financial statements for the six-month period ended 30 June 2008, were prepared in accordance with the provisions of IAS 34 – Interim Financial Reporting which allows disclosure of certain notes to the financial statements. Consequently, the interim consolidated financial statements do not include all notes and disclosures required by IFRS for annual financial statements and should therefore be read in conjunction with the 2007 annual financial statements. The consolidated financial statements as at 30 June 2008 were approved by the Board of Directors of the Company on 28 August 2008.

The accounting policies applied to the interim financial statements do not differ materially from those used for the consolidated financial statements for the year ended 31 December 2007, which were established in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union; these standards are available from [http://ec.europa.eu/internal\\_market/accounting/ias\\_fr.htm#adopted-commission](http://ec.europa.eu/internal_market/accounting/ias_fr.htm#adopted-commission).

The new standards or amendments adopted by the European Union and whose application is mandatory on or after the first of January 2008 described in Note 2 to the

Group consolidated financial statements for the year ended 31 December 2007 do not have a material effect on the consolidated financial statements for the period ended 30 June 2008 (IFRIC 11, Group and treasury share transactions).

In addition, these policies do not differ from IFRS as published by the IASB given that the application of IFRIC 12 (concessions) and IFRIC 14 (funding and interaction of retirement benefits), which are mandatory for financial years starting on or after 1 January 2008 and not yet approved by the European Union, do not impact the Group financial statements:.

The Group did not adopt early any standards or interpretations whose application was not mandatory as at 1 January 2008, such as IAS1 (presentation of financial statements – capital management), IAS23 (borrowing costs), IFRS8 (operating segments), IFRIC 13 (customer loyalty programs), IFRS3 revised (business combinations), IAS27 amended (consolidated and separate financial statements), IFRS2 amended (share-based payments, vesting conditions and cancellation), and IAS32 amended (financial instruments: classification of “puttable instruments”).

The process for determining the potential impact on the Group consolidated financial statements is in progress, but the Group does not anticipate, at this stage of the analysis, any material impact on the consolidated financial statements.

IFRS were applied by the Group in a consistent manner for all the periods presented.

In order to prepare the consolidated financial statements in accordance with IFRS, the Group has to make certain accounting choices, undertake a certain number of estimates and apply certain assumptions that affect the amount of assets and liabilities, the notes to potential assets and liabilities at the end of the year, and the income and expenses recorded for the period. Changes in facts and circumstances may lead the Group to revise those estimates.

Actual results may differ materially from such estimates when different circumstances or assumptions apply.

In addition, when a specific transaction is not covered by any standard or interpretation, the Group's management applies its own judgment to define and apply the accounting policies used in order to provide relevant and reliable information. The financial statements give a true and fair view of the Group's financial position, results and cash flows. They reflect the substance of the transactions, are prepared in accordance with the principles of prudence, and are complete in all material respects.

Management's key accounting choices and estimates include:

- the preliminary, then final allocation of the acquisition price;
- impairment tests on oil reserves;
- provisions for site restoration;
- provisions for severance and retirement benefits;
- accounting for financing of petroleum costs on behalf of third parties;
- recognition of deferred tax assets.

### 5.4.3 NOTE 3: CHANGES IN THE GROUP SUBSIDIARIES

Company	Registered Office	Method of consolidation	% control	
			30/06/2008	31/12/2007
Établissements Maurel & Prom	Paris	Holding company	Holding company	
<b>Oil and gas activities</b>				
Caroil	Paris	Full consolidation	100.00%	100.00%
Panther Eureka Srl	Ragusa, Sicily	Equity method	30.00%	30.00%
Maurel & Prom Gabon Ltd (ex Rockover Oil and Gas)	British Virgin Islands	Full consolidation	100.00%	100.00%
SA M&P Gabon Etekamba (ex Ofoubou)	Libreville	Full consolidation	100.00%	100.00%
SA M&P Gabon Omoueyi (ONAL)	Libreville	Full consolidation	100.00%	100.00%
SA M&P Gabon Nyanga Mayombe	Libreville	Full consolidation	100.00%	100.00%
SA M&P Gabon Quartier General	Libreville	Full consolidation	100.00%	100.00%
Maurel & Prom Syrie	France	Full consolidation	100.00%	100.00%
Hocol Petroleum Ltd	Bermuda	Full consolidation	100.00%	100.00%
Hocol Ltd	Bermuda	Full consolidation	100.00%	100.00%
Hocol SA	Cayman Islands	Full consolidation	100.00%	100.00%
Homcol Cayman Inc	Cayman Islands	Full consolidation	100.00%	100.00%
Hocol Peru	Peru	Full consolidation	100.00%	100.00%
Hocol Maurel & Prom Venezuela SAS	France	Full consolidation	100.00%	100.00%
Hocol (UK) Petroleum Holdings Ltd	United Kingdom	Full consolidation	100.00%	100.00%
Hocol Venezuela BV	Netherlands	Full consolidation	100.00%	100.00%
Oleoducto de Colombia SA	Colombia	Proportionate consolidation	21.82%	21.82%
Lagopetrol	Venezuela	Equity method	26.35%	26.35%
Pebercan Inc	Montreal, Canada	Non-consolidated	19.15%	19.15%
Zetah M&P Congo	Congo	Full consolidation	100.00%	100.00%
Zetah Kouilou Limited	Nassau, Bahamas	Proportionate consolidation	15.00%	15.00%
Zetah Noubi Limited	Nassau, Bahamas	Proportionate consolidation	49.00%	49.00%
Maurel & Prom Congo SA	Pointe Noire, Congo	Full consolidation	100.00%	100.00%
Maurel & Prom Tanzania Limited	Tanzania	Full consolidation	100.00%	100.00%
Raba Xprom Energia Kft	Hungary	Equity method	34.30%	34.30%
Orchard SA	France	Full consolidation	100.00%	100.00%
Renaissance Energy	Switzerland	Equity method	35.00%	35.00%
<b>Miscellaneous activities</b>				
Compagnie Européenne et Africaine du Bois	Luxembourg	Full consolidation	100.00%	100.00%
New Gold Mali (NGM)	Bamako, Mali	Equity method	26.00%	26.00%
Maurel & Prom International SA	Geneva, Switzerland	Full consolidation	99.99%	99.99%
Maurel & Prom International Shipping Limited (Mepis)	Saint Vincent et Grenadines	Non-consolidated	-	100%
Mepis Clémentine Limited	Saint Vincent et Grenadines	Non-consolidated	-	100%
Mepis Marie Limited	Saint Vincent et Grenadines	Non-consolidated	-	100%

The Group financial statements for the period ended 30 June 2008 were impacted by two events affecting the consolidation scope as follows:

- Lagopetrol:

The transaction is described in Note 1 General.

Lagopétrol was consolidated for the first time in the Group financial statements under the equity method with effect from 1 January 2008.

- New Gold Mali:

Since Maurel & Prom no longer controlled but retained significant influence over New Gold Mali, consolidation of New Gold Mali's accounts was changed from full consolidation to the equity method in the Group financial statements.

In addition, it should be noted that the entities of the MEPIS division were removed from the consolidation following their liquidation.

Finally, the following items should also be noted:

Since the Company no longer exercises significant influence over Pebercan, it was not included in the consolidated financial statements as at 31 December 2007. The value of Pebercan was frozen at its value at 30 June 2006 in the financial statements as at 31 December 2007 and the stocks held are listed under assets available for sale in the amount of €21,076K (Note 6).

In Hungary, following the bankruptcy of a partner (the holder of a 29.3% interest), the share in the income of Raba XProm Energia Kft used in the consolidation has been at 63.6% since the 2<sup>nd</sup> half of 2005. The company is in the process of being liquidated.



#### 5.4.4 NOTE 4: INTANGIBLE ASSETS

##### Change in intangible assets

€000	Goodwill	Oil search and exploitation rights	Exploration costs	Other	Total
<b>Gross value at 01/01/07</b>		<b>606,338</b>	<b>78,955</b>	<b>13,957</b>	<b>699,251</b>
Acquisitions		43,768	129,060	181	173,009
Disposals / Decreases			(1,792)		(1,792)
Write-offs			(34,501)		(34,501)
Acquisitions on changes in consolidation scope					
Disposals on changes in consolidation scope		(70,040)	(20,906)		(90,946)
Exchange gains / losses		(61,302)	(9,767)	(232)	(71,301)
Transfers		241	(10,501)	(546)	(10,806)
<b>Gross value at 31/12/2007</b>		<b>519,005</b>	<b>130,548</b>	<b>13,360</b>	<b>662,914</b>
Acquisitions		1,760	77,071	204	79,035
Disposals / Decreases		(1,901)	(717)		(2,618)
Write-offs			(10,215)	(163)	(10,378)
Changes in consolidation		866	(2,341)	(876)	(2,351)
Exchange gains / losses		(33,506)	(7,727)	(131)	(41,365)
Exchange		(20,779)			(20,779)
Transfers			(12,020)	(12)	(12,032)
<b>Gross value at 30/06/2008</b>		<b>465,445</b>	<b>174,599</b>	<b>12,382</b>	<b>652,426</b>
<b>Cumulative amortisation and impairment at 01/01/07</b>		<b>65,235</b>	<b>11,319</b>	<b>1,490</b>	<b>78,044</b>
Amortisation and depreciation		30,312	23,268	1,844	55,424
Disposals / Reversals				(274)	(274)
Write-offs			(8,448)		(8,448)
Exchange gains / losses		(7,824)	(1,601)	(212)	(9,637)
Disposals on changes in consolidation scope		(7,046)			(7,046)
Transfers				(71)	(71)
<b>Cumulative amortisation and impairment at 31/12/2007</b>		<b>80,677</b>	<b>24,538</b>	<b>2,777</b>	<b>107,992</b>
Amortisation and depreciation		14,474	1	692	15,167
Disposals / Reversals		(1,901)			(1,901)
Write-offs				(75)	(75)
Exchange gains / losses		(5,270)	(1,427)	(122)	(6,819)
Changes in consolidation			(1,124)	(8)	(1,132)
Transfers		289		1	290
<b>Cumulative amortisation and impairment at 30/06/2008</b>		<b>88,269</b>	<b>21,988</b>	<b>3,265</b>	<b>113,522</b>
<b>Net book value as at 30/06/2008</b>		<b>377,176</b>	<b>152,611</b>	<b>9,117</b>	<b>538,904</b>
<b>Net book value as at 31/12/2007</b>		<b>438,328</b>	<b>106,010</b>	<b>10,583</b>	<b>554,922</b>

##### Acquisitions

Acquisitions of intangible assets in first half 2008 totalled €79,035K and relate primarily to:

- Exploration work carried out in Colombia of €44,533K primarily on Ortega, Guarrojo, Cocli, Lince, Upar, and Corocora;

- Exploration drilling carried out in Gabon on the Omoueyi permit for €12,870K;
- Seismic and drilling preparation work started in Tanzania for €13,780K;
- An increase in the stake held in the Etekamba mining permit in Gabon, following the acquisition of a 35% stake from Transworld for €1,760K, and capital expenditure made on this permit for €2,381K;
- Seismic work started in Syria for €2,013K.

### **Transfers**

Transfers relate to the reclassification of exploration costs as technical production facilities for €12,020K, on the Guarrojo permit in Colombia.

### **Exchange**

Exchanges include the disposal of oil reserves contributed in exchange for the 26.35% of voting rights and equity in Lagopetrol which has been consolidated under the equity method since 1 January 2008 (see Note 1 General).

### **Write-offs**

Write-offs largely concern Colombia where €10,215K was recorded as exploration expenses (primarily San Jacinto, Orquidea, Achira, and Cocli).

### **Disposals / Decreases**

€2,423K of Disposals / Decreases relates to the EGOC partnership contract in Colombia, under which the EGOC permits have been renegotiated. Maurel & Prom, which held 31.75% of all EGOC contracts now holds 6.98% in the Estero permit, 15.22% in the Garcero permit, 23.47% in the Orocué permit and 27.91% in the Corocora permit. In exchange for the reduced stake, the term of these contracts has been extended.

### **Changes in the scope of consolidation**

The intangible assets movements related to the changes in the consolidation scope correspond primarily to:

- A change in the consolidation method for New Gold Mali from full consolidation to 26% equity accounted. This change in the consolidation scope is reflected in a €3,216K decrease to fixed assets;
- Capitalisation of interest incurred on the cost of the Rockover acquisition of reserves in Gabon.

### **Amortisation and impairment**

These charges include primarily:

- €14,137K for write down of the reserves acquired in Colombia;
- Write down of various mining rights.

### **Exchange gains/losses**

Revaluation of dollar-denominated assets based on the closing rate led to a foreign exchange loss of €41,365K.

## 5.4.5 NOTE 5: TANGIBLE ASSETS

### Change in tangible assets

€000	Land and buildings	Technical facilities	Down payments and construction in progress	Other fixed assets	Total
<b>Gross value at 01/01/2007</b>	<b>8,537</b>	<b>494,531</b>	<b>40,933</b>	<b>8,323</b>	<b>552,325</b>
Acquisitions	26	193,726	79,582	2,010	275,343
Disposals / Decreases	(303)	(1,509)	(126)	(2,254)	(4,191)
Write-offs		(1,516)	(1,094)		(2,610)
Acquisitions on changes in consolidation scope					
Disposals on changes in consolidation scope		(259,618)	(42,819)	(2)	(302,439)
Exchange gains / losses	(865)	(42,528)	(4,244)	(528)	(48,166)
Transfers	121	14,530	(2,988)	515	12,179
<b>Gross value at 31/12/2007</b>	<b>7,516</b>	<b>397,616</b>	<b>69,244</b>	<b>8,064</b>	<b>482,441</b>
Acquisitions	2,104	123,501	36,374	850	162,829
Dismantling assets		4,695			4,695
Disposals / Decreases		(37,260)		(1,040)	(38,300)
Write-offs		(784)		(136)	(920)
Changes in the scope of consolidation	(38)	(88)		(159)	(285)
Exchange gains / losses	(384)	(25,998)	(3,004)	(404)	(29,791)
Transfers	(3,688)	48,206	(36,211)	3,685	11,992
<b>Gross value at 30/06/2008</b>	<b>5,510</b>	<b>509,888</b>	<b>66,403</b>	<b>10,860</b>	<b>592,661</b>
<b>Cumulative amortisation and impairment at 01/01/2007</b>	<b>2,672</b>	<b>119,531</b>		<b>5,307</b>	<b>127,510</b>
Amortisation and depreciation	267	58,985		1,407	60,659
Disposals / Reversals	(20)	(16,819)		(1,115)	(17,954)
Write-offs		(1,466)			(1,466)
Exchange gains / losses	(286)	(8,751)		(392)	(9,429)
Acquisitions on changes in consolidation scope					
Disposals on changes in consolidation scope		(68,937)		299	(68,638)
Transfers	(77)	2,209		(326)	1,809
<b>Cumulative amortisation and impairment at 31/12/2007</b>	<b>2,557</b>	<b>84,752</b>		<b>5,179</b>	<b>92,488</b>
Amortisation and depreciation	116	27,431		526	28,073
Disposals / Reversals		(37,192)		(1,029)	(38,221)
Write-offs		(325)		(38)	(363)
Exchange gains / losses	(170)	(3,578)		(211)	(3,959)
Changes in the scope of consolidation	(38)	(88)		(154)	(280)
Transfers		(24)		7	(17)
<b>Cumulative amortisation and impairment at 30/06/2008</b>	<b>2,465</b>	<b>70,976</b>		<b>4,280</b>	<b>77,721</b>
<b>Net book value at 30/06/2008</b>	<b>3,045</b>	<b>438,912</b>	<b>66,403</b>	<b>6,580</b>	<b>514,940</b>
<b>Net book value at 31/12/2007</b>	<b>4,959</b>	<b>312,865</b>	<b>69,244</b>	<b>2,885</b>	<b>389,954</b>

### Acquisitions

Acquisitions of tangible assets, totalling €162,829K, concern primarily:

- €108,678K for development work performed on the ONAL field in Gabon;
- €32,501K for production capital expenditure in Colombia, namely on the Guarrojo permit;
- €18,083K for Caroli's acquisitions of drilling rigs and related installations.

### **Disposals / Decreases**

€37,568K of Disposals / Decreases relates to the EGOC partnership agreement in Colombia, under which the EGOC permits have been renegotiated. Maurel & Prom, which held 31.75% of these contracts now holds 6.98% in the Estero permit, 15.22% in the Garcero permit, 23.47% in the Orocue permit and 27.91% in the Corocora permit. In exchange for the reduced stake, the term of these contracts has been extended.

### **Transfers**

The transfers correspond for the most part to the following transactions:

- €12,004K for transfers to production of the Ocelote assets in Colombia including transfer of exploration work to oil installation in Colombia;
- €36,202K for reclassification of Caroil's assets to other technical facilities, previously under down payments and advances on other tangible fixed assets.

### **Dismantling assets**

€4,695K for recognition of dismantling assets to offset the provision for the restoration of production sites on Omouyei.

### **Amortisation and impairment**

These charges mainly relate to:

- €21,941K for Hocol;
- €5,028K for Caroil.

The reduction in amortisation is related to the renegotiation of the EGOC contracts (see above).

### **Exchange gains / losses**

*The revaluation of dollar-denominated assets based on the closing rate led to a foreign exchange loss of €29,791K.*

#### 5.4.6 NOTE 6: OTHER NON-CURRENT FINANCIAL ASSETS

Other non-current financial assets are broken down as follows:

<b>€000</b>	<b>Financial assets</b>		<b>Total</b>
	<b>available for sale</b>	<b>Loans and receivables</b>	
<b>Value at 01/01/2007</b>	<b>59</b>	<b>13,733</b>	<b>13,792</b>
Changes in the scope of consolidation	21,076	(5,432)	15,644
Increase	847	1,095	1,942
Decrease	0	(1,211)	(1,211)
Impairment	0	0	0
Fair value	0	0	0
Reversal of impairment	0	0	0
Exchange gains / losses	0	(521)	(521)
Transfers	(59)	(1,371)	(1,431)
<b>Value at 31/12/2007</b>	<b>21,924</b>	<b>6,292</b>	<b>28,216</b>
Changes in the scope of consolidation	(85)	(1)	(86)
Increase	0	72,174	72,174
Decrease	0	(13)	(13)
Impairment	0	0	0
Fair value	0	0	0
Reversal of impairment	0	0	0
Exchange gains / losses	0	(18)	(18)
Transfers	15	(188)	(173)
<b>Value at 30/06/2008</b>	<b>21,854</b>	<b>78,246</b>	<b>100,100</b>

#### Financial assets available for sale

At 30 June 2008, total shares available for sale included primarily €21,076K in Pebercan shares. Given that Maurel & Prom no longer exercises significant influence over Pebercan, these shares, accounted for under the equity method until 31 December 2006, have been reclassified as shares available for sale at their consolidated value at the date of transfer. At 31 December 2007, the shares were stated at transfer price.

#### Non-current loans and receivables

The main change for the period relates to margin call deposits of BNP and Calyon on derivative instruments subscribed by the Group. The margin calls paid amounted to €72,122K.

#### 5.4.7 NOTE 7: INVESTMENTS ACCOUNTED UNDER THE EQUITY METHOD

This line includes shares held in Panther Eureka Srl, RabaXProm Energia Kft, Renaissance Energy, New Gold Mali, and Lagopetrol.

Lagopetrol, in which Maurel & Prom holds a 26.35% stake, was consolidated for the first time at 1 January 2008 under the equity method.

New Gold Mali has been accounted under the equity method since 1 January 2008 following the loss of exclusive control (see note on Changes in the consolidation scope).

## At 31/12/2007

€000	Group share of shareholders' equity	Goodwill	Total	Group share of net income for the year
Panther Eureka Srl	(1,497)	6,403	4,906	(461)
Raba Xprom Energia Kft	(1,756)	0	(1,756)	(77)
Renaissance Energy	(11)	0	(11)	(33)
<b>Total</b>	<b>(3,264)</b>	<b>6,403</b>	<b>3,138</b>	<b>(571)</b>

## At 30/06/2008

€000	Group share of shareholders' equity	Goodwill	Total	Group share of net income for the year
Lagopetrol	33,007	0	33,007	5,063
New Gold Mali*	0	0	0	(149)
Panther Eureka Srl	(1,606)	6,403	4,797	(109)
Raba Xprom Energia Kft	(1,934)	0	(1,934)	(38)
Renaissance Energy	(32)	0	(32)	(20)
<b>Total</b>	<b>29,435</b>	<b>6,403</b>	<b>35,838</b>	<b>4,747</b>

\* See Note 11 Provisions

## Financial information at 30 June 2008

€000	Lagopetrol	New Gold Mali*	Panther Eureka Srl	Raba Xprom Energia Kft	Renaissance Energy
Assets	216,208	2,865	8,423	184	16
Liabilities	125,982	0	13,776	3,222	106
Sales	48,013	0	0	0	0
Net income	19,215	(575)	(364)	(60)	(56)

### 5.4.8 NOTE 8: DERIVATIVE INSTRUMENTS

€000	30/06/2008			31/12/2007
	Current	Non-current	Total	Total
<b>Derivative instruments (assets)</b>	<b>2,650</b>	<b>0</b>	<b>2,650</b>	<b>5,430</b>
<i>Interest-rate derivative instruments</i>	0	0	0	0
<i>Foreign-exchange derivative instruments</i>	2,246	0	2,246	5,185
<i>Oil and gas derivative instruments.</i>	404	0	404	245
<b>Derivative instruments (liabilities)</b>	<b>135,800</b>	<b>141,565</b>	<b>277,365</b>	<b>22,274</b>
<i>Interest-rate derivative instruments</i>	0	0	0	0
<i>Currency derivative instruments</i>	17,606	7,228	24,834	0
<i>Oil and gas derivative instruments</i>	118,194	134,337	252,531	22,274
<b>Total</b>	<b>(133,150)</b>	<b>(141,565)</b>	<b>(274,715)</b>	<b>(16,844)</b>

In the course of its activities, the Group uses derivative instruments to reduce its exposure to the risk of fluctuating oil prices and foreign exchange rates.

Various instruments are used, including contracts on organised markets or over-the-counter markets such as futures, forward contracts, swaps and options. The change in fair value of derivative instruments is posted to the income statement or shareholders' equity in accordance with IFRS, and specifically IAS 32&39.

During 2007, the Group's Colombian subsidiary hedged part of future production (8,500 bbl/day) over a period of one year: from 1 April to 31 March 2008

The hedges of the Colombian subsidiary have been renewed, under which new swap transactions have replaced the previous ones. This new programme began in December 2007 and continued through first half 2008. These transactions involve the following quantities:

- 10,250 bbls/day at \$89.9/bbl for the year 2008;
- 7,750 bbls/day at \$90.5/bbl for the year 2009;
- 5,750 bbls/day at \$91.2/bbl for the year 2010;
- 2,250 bbls/day at \$95.9/bbl from 1 January 2011 to 31 January 2012.

The swaps related to this new programme are fully accounted as hedging transactions in accordance with IFRS as at 1 April 2008. Prior to that date, those transactions did not meet the IFRS requirements, but represented an economic hedge. As a result, the impact of their revaluation at 30 June 2008 was posted to financial income for €10.4 million (see Note 14 Financial income).

At 30 June, the revaluation at market price of these various transactions had a negative impact of €253 million. Since this is a sale hedging instrument, the contra entry to the revaluation amounting to €207.7 million is posted to equity.

In addition, foreign exchange futures and options hedging a portion of the group's cash and cash equivalents have been liquidated. At 30 June, the revaluation of these instruments at market price had a negative impact of €6.3 million. To this, it has to be added the €14.8M impact of the impairment due to an uncharacteristic series of complex and structured operations performed by a single individual and out of the Group standards and procedures. It has been identified and analysed by the management. Management's analysis confirms that the additional risk comes to €21m based on the EUR-USD exchange rate at end September 2008. This is in addition to the €14.8m in unrealised losses already recorded in the first half of 2008. Discussions are still ongoing to reduce the level of this risk.

The loan in Colombian pesos taken out by Hocol for an equivalent dollar value of \$40 million led to a currency risk linked to fluctuations in the COP/USD exchange rate. The Group hedged this risk with a long-term currency swap.

## 5.4.9 NOTE 9: RELATED PARTIES

### Commercial and financial transactions

<b>31/12/2007</b> €000	Income	Expenses	Amounts due by related parties	Amounts due to related parties
<b>1) Companies carried on an equity basis</b>				
- Panther Eureka SRL	711		9,264	
- Raba Xprom Energia Kft	103		1,229	
<b>2) Other related parties</b>				
- Pacifico	58	1,547	31	503
<b>30/06/2008</b> €000	Income	Expenses	Amounts due by related parties	Amounts due to related parties
<b>1) Companies carried on an equity basis</b>				
- Lagopetrol	-		-	-
- New Gold Mali (NGM)	202		2,554	0
- Panther Eureka SRL	538		13,506	-
- Raba Xprom Energia Kft	53		1,270	15
- Renaissance Energy	3		77	-
<b>2) Other related parties</b>				
- Pacifico	154	691	-	98

Transactions with equity-accounted companies concern interest-bearing advances granted to Panther Eureka Srl to finance its exploration work pursuant to contractual commitments agreed for this purpose when the stakes were acquired.

An investment agreement was signed with Panther on 31 December 2007 taking effect on 1 February 2008 specifying the financing methods and the sharing in the profit of Maurel & Prom. The agreement provides that:

- Starting with the first profit and until full repayment of the current account, M&P is entitled to 80% of distributions made by Panther and to remuneration on the result corresponding to 8.3% of the current account since 1 January 2008;
- Maurel & Prom may hold up to 60% of Panther shares instead of the 55% stipulated in the initial contract.

An advance was also granted to the Hungarian subsidiary Raba Xprom Energia Kft for exploration work; given the failure of this exploration, this investment is written off in view of the risks incurred.

In addition as part of its activities, the Group provides €8,972K of finance for the Mali business (NGM). This investment is written off in view of the risks incurred. With respect to related parties, arm's length transactions pertain to leasing services and to support services.

Therefore, as at 30 June 2008, Maurel & Prom signed a sub-lease agreement with Pacifico, a 23.82% shareholder. Since January 2005, Pacifico provides Maurel & Prom assistance in the form of technical and financial services. The service agreement with Pacifico was amended in a rider approved by Maurel & Prom's Supervisory Board on 29 May 2007 and signed on 11 June 2007 (effective 1 February 2007). This rider concerns primarily an adjustment to fees for services provided.

### Senior executives' compensation



Principal senior executives refers first to Directors (former members of the Management Board and Department Heads) and second to the members of the Board of Directors (former members of the Supervisory Board).

€000	30/06/2008	30/06/2007
Short-term benefits	1,605	2,215
Severance benefits	449	
Post-employment benefits	40	
Share-based compensation	337	374
<b>TOTAL</b>	<b>2,431</b>	<b>2,589</b>

#### 5.4.10 NOTE 10: CASH AND CASH EQUIVALENTS

Under assets, cash equivalents consist of liquid assets and short-term investments.

€000	30/06/2008	31/12/2007
Liquid assets, cash at bank and in hand	123,744	61,166
Short term bank deposits	153,380	637,986
Short-term investments	538	787
<b>Total</b>	<b>277,662</b>	<b>699,939</b>
Bank loans	4,420	5,633
<b>Closing net cash and cash equivalents</b>	<b>273,242</b>	<b>694,306</b>

At 30 June 2008, Maurel & Prom's net cash amounted to €273.2 million, excluding €72 million accounted in non-current assets, down €421.1 million compared to 31 December 2007. This change can be explained by:

- The activity of the period: increase in cash flow from operations for €81 million;
- A strong investment effort:
  - Exploration expenses for €79 million;
  - Development capex for €145 million;
  - Oil services investments for €18 million.
- The shareholder payback:
  - Dividende payment for €137 million;
  - Share buy back for €32 million.
- €(72) million in outflows for margin calls on financial instruments paid temporarily to banks under the crude hedging transactions (based on the market value of those instruments as at 30 June 2008).

#### 5.4.11 NOTE 11: PROVISIONS

€000	Restoring sites	Employee benefits	Other	Total
<b>Balance at 01/01/2007</b>	9,806	11,533	12,444	33,784
Exchange gains / losses	(869)	(1,125)	(1,986)	(3,981)
Changes in the scope of consolidation	(2,996)	0	31	(2,965)
Charge for the period	(44)	4,141	18,788	22,885
Utilisation	(260)	(5,932)	(7,148)	(13,339)
Write-back and reclassification	559	0	14,086	14,645
Discounting effect	349	1,093		1,442
<b>Balance at 31/12/2007</b>	<b>6,545</b>	<b>9,710</b>	<b>36,215</b>	<b>52,471</b>
<i>Current portion</i>	1,685	592	19,399	21,676
<i>Non-current portion</i>	4,860	9,118	16,816	30,795

€000	Restoring sites	Employee benefits	Other	Total
<b>Balance at 01/01/2008</b>	6,545	9,710	36,215	52,471
Exchange gains / losses	(578)	(631)	(1,393)	(2,602)
Changes in the scope of consolidation	0	0	0	0
Charge for the period	(41)	1,619	1,278	2,856
Utilisation	(4)	(1,130)	(3,298)	(4,432)
Write-back and reclassification	4,695	0	1,627	6,322
Discounting effect	295	462		757
<b>Balance at 30/06/2008</b>	<b>10,912</b>	<b>10,030</b>	<b>34,429</b>	<b>55,371</b>
<i>Current portion</i>	1,538	1,085	15,971	18,594
<i>Non-current portion</i>	9,374	8,945	18,458	36,777

#### Restoring sites

At 30 June 2008, the main change in the amount of €4,695 relates to a provision charge for restoring sites as the contra entry to the dismantling assets in Gabon on the ONAL permit, pursuant to the Group's contractual commitments.

#### Pensions and other post-employment benefits

Nearly all the pensions and other post-employment benefits provisions are related to the South American subsidiaries (€9,152K as at 31 December 2007 and €9,382K at 30 June 2008).

€000	HOCOL	Other	Total
<b>Change in the actuarial value of accumulated rights</b>			
<b>Opening actuarial value of accumulated rights</b>	<b>9,152</b>	<b>558</b>	<b>9,710</b>
Accumulated rights during the year	1,189	90	1,279
Financial cost	802		802
Benefits paid	-1,130		-1,130
Assumption changes			
Exchange rate adjustments (foreign plans)	-631		-631
<b>Actuarial value of accumulated rights at 30 June 2008</b>	<b>9,382</b>	<b>648</b>	<b>10,030</b>
<b>At 30 June 2008</b>			
<b>Retirement commitments</b>			
Actuarial value of accumulated rights	9,382	648	10,030
Current value of investments			
<b>(Surplus) shortfall in investments on accumulated rights</b>	<b>9,382</b>	<b>648</b>	<b>10,030</b>
<b>Estimate of future payments</b>			
2008	902	183	1,085
2009		64	64
2010	645	58	703
2011		217	217
2012		16	16
2013-2016	13,780	322	14,102
<b>Assumptions used to determine liability as at 30 June 2008</b>			
Discount rate	11.95%	5.00%	
Inflation	6.40%	2.00%	
Average salary increase rate	8.40%	4.32%	
<b>The 2008 expense can be analysed as follows:</b>			
Rights accumulated during the year	1,189	90	<b>1,279</b>
Financial cost	802	0	<b>802</b>
Assumption changes	0	0	<b>0</b>
<b>Net expense (income) of the consolidated group</b>	<b>1,991</b>	<b>90</b>	<b>2,081</b>

*These calculations were taken from a report issued by an independent actuary.*

Compared to 2007, the actuarial assumptions were revised to take into account a 0.98 point increase in the inflation rate, a 0.98 point increase in average salaries, and a 1.72point revaluation of the discount rate.

### **Other provisions**

The changes in other provisions mainly correspond to:

- The €1,958K provision designed to cover the negative value resulting from equity accounting applied to New Gold Mali;
- a reversal of a €2,500K provision on risks related to the disposal transactions carried out in 2007 on the Congolese assets.

#### 5.4.12 NOTE 12: BONDS, OTHER BORROWINGS, AND FINANCIAL DEBT

At 30 June 2008, bonds, other borrowings and financial debt broke down as follows:

€000	Currency	30/06/2008			31/12/2007
		Current	Non-current	Total	Total
<b>Bonds</b>		6,542	355,660	362,202	350,021
<b>Borrowings, debt and bank loans</b>					
Natexis Banques Populaires/BNP Paribas (syndicated loan)	USD			0	0
Banco Colombia (syndicated loan)	USD/COP	6,778	10,167	16,945	19,409
Banco Colombia	USD/COP			0	2,259
<b>Finance lease liabilities</b>	USD/COP	487	3,849	4,336	4,598
<b>Bank loans</b>		4,420	0	4,420	5,633
<b>Total of other borrowings and financial debt</b>		<b>11,685</b>	<b>14,016</b>	<b>25,701</b>	<b>31,899</b>

#### Bonds

On 9 March 2005, the Company issued 16,711,229 bonds with an option to convert into and/or exchange them for new or existing shares (OCEANE bonds) for a total amount of €374,999K. The bonds carry interest at 3.5% per year (coupons payable on the first day of each year) and will be fully repaid at par by 1 January 2010. Conversion or exchange may be exercised at any time at the rate of one share per OCEANE bond. The bond issue was fully subscribed.

Initially, the OCEANE bond issue was booked under financial liabilities at its amortised cost of €327,658K. This amortised cost was determined by discounting contractual future cash flow at the effective interest rate of 7.17%

Shareholders' equity was also credited with the value of the conversion option for €44,003K, or €29,115K net of deferred tax.

As at 30 June 2008 the bond issue posted to the balance sheet was €362,201K (versus €350,021K at 31 December 2007). In first half 2008, 361 bonds were converted. They were delivered by debiting treasury stock (without impact on earnings); the number of outstanding bonds as at 30 June 2008 was 16,703,903.

#### Other borrowings and financial debt

In July 2006, a credit facility (a "Reserve Based Loan" or RBL) of \$150,000K secured on the Group's Colombian reserves was negotiated with a consortium of banks led jointly by BNP Paribas.

From this credit facility, \$40,000K was borrowed in Colombian pesos by the Colombian subsidiary Hocol SA. The exchange risk on the Colombian peso in relation to the US dollar is hedged with a long-term currency swap.

The maturity date for this credit line was set at 31 December 2009 and bears interest at DTF + 3.25%. In addition to the security provided by the Colombian reserves, the Group has committed to ensuring that its balance sheet structure is compliant at all times with the three ratios below:

- *working capital ratio greater than 1.1;*
- *total debt (including non-converted OCEANES)/EBITDA less than 2.5;*
- *EBITDA / interest expense greater than 5.*

As at 30 June 2008, the pesos equivalent of \$26,712K of the credit facility had been drawn by the Colombian subsidiary.

The payment schedule for other borrowings and financial debt is as follows:

€000	June	December
Payment schedule	2008	2007
- from 1 to 5 years	13,250	14,589
- more than 5 years	766	1,164
<b>Total</b>	<b>14,016</b>	<b>15,754</b>

#### **5.4.13 NOTE 13: POTENTIAL ASSETS AND LIABILITIES**

To Maurel & Prom's knowledge, there are no exceptional events, disputes, risks or off-balance-sheet commitments, others than those described in Note 18, Note 8 and those listed below, liable to affect the Group's financial position, assets, results or business activities.

##### **Rockover**

The February 2005 acquisition contract for Rockover stipulated payment to the former shareholders of 10% in case of discovery in one of the permits transferred (Ofoubou/Ankani, Omoueyi, Nyanga Mayombe, Kari) and 50% for the Banio permit. The contract also stipulated that Maurel & Prom would pay each of the two vendors a bonus of \$0.45 per barrel of P2 reserves in excess of 54 Mb and up to 80 Mb.

At the initiative of Maurel & Prom, a buyback agreement for these clauses was signed on 13 July 2007. This agreement stipulates that Maurel & Prom would pay the former shareholders \$55 million (including \$30 million paid on 30 July and \$25 million, plus interest payable 5 days after the first production, i.e., 1,000 b/d for 30 days for the Onal field currently under development) with a 2% royalty when the accumulated production would exceed 39Mb for all the fields sold to Maurel & Prom in 2005 (exclusive of Banio) as well as a 10% royalty for the production derived from the Banio field when the production accumulated on that field exceeds 3.9 Mb.

In addition, the following commitments were continued:

- Maurel & Prom must pay to the sellers total royalties amounting to \$1.30 per barrel produced as from the date on which the accumulated production in all the license zones exceeds 80 Mb;
- Maurel & Prom must pay one of the two vendors a royalty equivalent to 2% of the total production available up to a limit of 30 Mboe and 1.5% over that limit, on the production originating from the exploitation permits arising from the MT 2000-Nyanga Mayombé exploration permit.

##### **Omoueyi exploration and production sharing contract**

With the first oil of the Onal field, the Gabonese government has an automatic 15% interest in the rights and obligations resulting from the Omoueyi exploration and production sharing contract, unless it expressly withdraws from the agreement within 120 days following the start of production on the permit. On 13 December 2006, an exclusive exploitation authorisation was granted for the Onal area located on this permit. In addition, M&P Gabon is subject to a 5% customs duty on the exploration and production fixed assets which were admitted tax free until then. Such custom duties will

only become due if the production on the ONAL field exceeds 10,000 tons (approx. 75,000 bbls).

### **Transworld**

Following the acquisition of Transworld's residual stake in the Etekamba permit on 18 March 2008, a "net profit interest agreement" was signed, under which Maurel & Prom has to pay back 10% of the oil profit and 8% of the gas profit to Transworld Exploration Ltd.

### **Agricher**

The following are subject to a joint and several guarantee from the Agricher cooperative:

- The loan of €3,659K, interest included, granted to the Transagra group;
- The €1,528K receivable from Transagra.

Because these two companies have filed for bankruptcy, Maurel & Prom claimed under its guarantee.

### **Legal disputes**

#### **Messier Partners**

Messier Partners brought legal proceedings against the Company for the payment of a success commission following the signing of the sale agreement with ENI. The claims tabled by Messier Partners in these proceedings totalled €14.7 million. For 2007, the Court partially allowed Messier Partners' claim and the Company was ordered to pay Messier Partners the amount of €5.7 million. The Company has lodged an appeal against the ruling. A provision has been booked in the Company's 2007 accounts for this sum. As at 30 June 2008, no new event had occurred.

#### **Agricher/Transagra**

In 1996, an action was brought against Maurel & Prom in relation to the Transagra receivership proceedings and the insolvency of the Agricher cooperative.

In addition, Maurel & Prom has also brought proceedings against the individuals who were the managers of the cooperative Group holding Transagra, for losses incurred by Maurel & Prom through Promagra.

To date, this litigation is still in progress.

#### 5.4.14 NOTE 14: FINANCIAL RESULT

€000

Cost of debt	30/06/2008	30/06/2007
Interest on overdrafts	-78	-84
Interest on OCEANES	-12,187	-11,832
Interest on other borrowings	-1,683	-2,978
<b>Gross cost of debt</b>	<b>-13,948</b>	<b>-14,894</b>
Income from cash	1,305	3,729
Net gains or losses on derivative instruments	-36,799	-5,848
<b>Net cost of debt</b>	<b>-49,442</b>	<b>-17,013</b>
<b>Other net financial income and expenses</b>	<b>-2,950</b>	<b>10,505</b>
Net exchange differentials	-17,205	1,314
Other	14,255	9,191

The financial result was a loss of €52.4 million broken down as follows:

- Interest expenses on OCEANE bonds of €12,187K for first half 2008 up from €11,832K for first half 2007;
- A net loss of €36.8m on derivative instruments :
  - A latent loss of €33.1 million including:
    - €10.4 million for swaps on crude corresponding to a hedge on 2,250b/d. Starting on April 1<sup>st</sup>, this hedge is allocated to the Colombian production;
    - €21.1 million on foreign exchange options broken down in €6.3 million on common cash management, and €14.8 million coming from a series of complex and structured operations initiated by a single individual and performed out of the Group's standards and procedures. Management's analysis confirms that the additional risk comes to €21m based on the EUR-USD exchange rate at end September 2008. This is in addition to the €14.8m in unrealised losses already recorded in the first half of 2008. Discussions are still ongoing to reduce the level of this risk.
  - A loss of €3.7m from derivatives transactions undertaken in the first half 2008 that were closed out in July 08.
- Exchange losses on foreign currency cash holdings totalled €17.2m owing to the unfavourable EUR-USD exchange rate and the fact that some of our suppliers have adapted their billing procedures to this new situation by no longer invoicing in USD.
- Cash investment income of €1.3 million and other income of €14.3 million which include:
  - interest income on term deposits of €8.7 million;
  - €3.2 million in gains related to oil trades.

#### 5.4.15 NOTE 15: INCOME TAX

Since 2004, Maurel & Prom and its French subsidiary Caroil have been subject to the French tax consolidation treatment.

#### Breakdown of expenses for the year

€000	30/06/08	30/06/07
Income tax due for the period	22,033	11,934
Capitalisation of prior tax losses as assets		
Adjustment on tax due for the year		
	<b>22,033</b>	<b>11,934</b>
Deferred tax income or expense	-585	-6,190
Deferred tax adjustment due to change in tax rates		-4,882
Deferred tax income resulting from prior losses		
	<b>-585</b>	<b>-11,072</b>
<b>TOTAL</b>	<b>21,448</b>	<b>862</b>

The tax expense increase is mainly related to the increase in income before tax, which rose from €15.1 million for first half 2007 to €34.0 million in first half 2008.

€4,882 K in the change in deferred tax income is related to the income recorded for first half 2007 due to the change in the Colombian tax rate and the balance is due to changes in timing differences in Colombia.

#### Changes in current taxes

€000	30/06/08	31/12/07
Current tax assets	1,496	7,074
Current tax liabilities	3,986	121

#### Origin of deferred tax assets and liabilities

	30/06/08	31/12/07
Tax losses	5,402	6,952
Provisions for dismantling	2,072	2,134
Retirement provisions	3,096	3,020
Deferred taxes on financial instruments	23,348	2,303
Other	2,705	8,377
<b>TOTAL DEFERRED TAX ASSETS</b>	<b>36,623</b>	<b>22,786</b>
Differences in oil reserves valuation	107,551	119,551
Accelerated amortisation and depreciation	17,102	14,737
OCEANE equity portion	5,402	6,952
Other	50	4,959
<b>TOTAL DEFERRED TAX LIABILITIES</b>	<b>130,105</b>	<b>146,199</b>
<b>Net</b>	<b>93,482</b>	<b>123,413</b>



Only the deferred tax assets on financial instruments of €23,348K are recognised under shareholders' equity.

#### Reconciliation of the tax expense to income before tax

	30/06/08	30/06/07
Income before tax from continuing operations	38,768	14,721
-Net income of equity accounted companies	4,747	341
<b>Income before tax</b>	<b>34,021</b>	<b>15,062</b>
Theoretical tax charge 33.33%	11,339	5,020
Reconciliation		
-Taxes paid in kind		
-Divergence of tax rates	-2,535	
-Recognition of prior tax losses in assets		-1,028
-Non capitalised loss	12,643	-3,130
<b>Actual tax expense</b>	<b>21,448</b>	<b>862</b>

#### 5.4.16 NOTE 16: EARNINGS PER SHARE

	30/06/2008	30/06/2007
Net income, Group share	17,320	812,106
Net earnings from discontinued operations	0	798,247
Net earnings from continuing operations	17,320	13,859
Average number of shares outstanding	114,187,302	119,474,621
Stock options and bonus shares (weighted)	901,752	828,450
OCEANEs (weighted)	18,374,293	16,704,966
Average diluted number of shares	133,463,347	137,008,037

The potential ordinary shares are treated as dilutive if, and only if, their conversion to ordinary shares results in reducing the earnings per share of the ordinary activities pursued.

#### 5.4.17 NOTE 17: SEGMENT INFORMATION

According to the Group's internal reporting policies, the segment information is presented by geographic region (on the basis of the location of the Company's plants), and then by activity.

## Information by geographic region

2008	Congo	Gabon	Colombia	Venezuela	Tanzania	Syria	Other	Total
<b>Income statement period ended 30/06/2008</b>								
Oil sales	258	2.431	135.520	-	-	-	-	138.209
Services rendered	29.115	47	7.073	-	1.998	-	849	39.082
Inter-region sales	-	-	-	-	-	-	(814)	(814)
<b>Total sales</b>	<b>29.373</b>	<b>2.478</b>	<b>142.593</b>	<b>-</b>	<b>1.998</b>	<b>-</b>	<b>35</b>	<b>176.477</b>
Operating income	4.577	(653)	70.110	18.537	465	(378)	(6.245)	86.413
Depreciation and amortisation	3.446	162	37.624	-	846	138	220	42.436
Impairment	88	-	10.215	-	-	-	0	10.303
Other non-cash expenses	1.113	-	4	85	391	-	3.186	4.779
Share in the earnings of equity-accounted companies	-	-	-	5.063	-	-	(316)	4.747
<b>Balance sheet as at 30/06/2008</b>								
Segment assets	100.985	375.314	648.167	2.333	54.772	9.917	118.294	1.309.782
Investments accounted under the equity method	-	-	-	33.007	-	-	2.831	35.838
<b>TOTAL SEGMENT ASSETS</b>	<b>100.985</b>	<b>375.314</b>	<b>648.167</b>	<b>35.340</b>	<b>54.772</b>	<b>9.917</b>	<b>121.125</b>	<b>1.345.620</b>
Segment liabilities	9.649	45.789	128.198	874	5.894	1	35.731	226.136
<b>TOTAL SEGMENT LIABILITIES</b>	<b>9.649</b>	<b>45.789</b>	<b>128.198</b>	<b>874</b>	<b>5.894</b>	<b>1</b>	<b>35.731</b>	<b>226.136</b>
Acquisitions of tangible and intangible assets	16.655	128.946	79.760	-	13.969	2.113	421	241.864

In 2007, current and deferred tax assets are excluded from segment assets, in accordance with IAS 14. Current and deferred tax liabilities, as well as borrowings, are also excluded from segment liabilities.

2007	Congo	Gabon	Colombia	Venezuela	Tanzania	Syria	Other	Total
<b>Income statement period ended 30/06/2007</b>								
Oil sales	426	-	88.990	-	-	-	-	89.416
Services rendered	40.246	274	69	-	3.661	-	3.386	47.636
Inter-region sales	-	-	-	-	-	-	-	-
<b>Total sales</b>	<b>40.672</b>	<b>274</b>	<b>89.059</b>	<b>0</b>	<b>3.661</b>	<b>-</b>	<b>3.386</b>	<b>137.052</b>
Operating income	17.964	2.080	28.060	(223)	1.768	0	(28.078)	21.571
Depreciation and amortisation	(450)	(1)	(28.012)	(11)	-	-	(6.589)	(35.063)
Impairment	-	71	(575)	413	-	-	(828)	(919)
Other non-cash expenses	-	-	-	-	-	-	-	-
Share in the earnings of equity-accounted companies	-	-	-	-	-	-	(341)	(341)
<b>Balance sheet as at 30/06/2007</b>								
Segment assets	124.502	261.097	603.174	31.848	36.994	9.146	43.842	1.110.603
Investments accounted by the equity method	-	-	-	-	-	-	3.138	3.138
<b>TOTAL SEGMENT ASSETS</b>	<b>124.502</b>	<b>261.097</b>	<b>603.174</b>	<b>31.848</b>	<b>36.994</b>	<b>9.146</b>	<b>46.980</b>	<b>1.113.741</b>
Segment liabilities	14.490	20.489	159.714	15.945	8.308	-	39.007	257.953
<b>TOTAL SEGMENT LIABILITIES</b>	<b>14.490</b>	<b>20.489</b>	<b>159.714</b>	<b>15.945</b>	<b>8.308</b>	<b>-</b>	<b>39.007</b>	<b>257.953</b>
Acquisitions of tangible and intangible assets	59.115	56.783	46.536	-	3.021	-	15.625	181.080

## Information by activity

2008	Exploration Oil and gas Production	Oil drilling	Other	Total
Sales	138.209	-	-	138.209
Services rendered	-	38.233	35	38.268
<b>TOTAL SALES</b>	<b>138.209</b>	<b>38.233</b>	<b>35</b>	<b>176.477</b>
Segment assets	1.064.684	127.123	117.975	1.309.782
Acquisitions of tangible and intangible assets	223.362	18.148	354	241.864

2007	Exploration Oil and gas production	Oil drilling	Other	Total
Sales	89.416	-	-	89.416
Services rendered	70	44.180	3.386	47.636
<b>TOTAL SALES as at 30/06/2007</b>	<b>89.486</b>	<b>44.180</b>	<b>3.386</b>	<b>137.052</b>
Segment assets at 31/12/07	944.526	122.407	43.670	1.110.603
Acquisitions of tangible and intangible assets	158.196	19.522	3.362	181.080

### 5.4.18 NOTE 18: POST-BALANCE SHEET EVENTS

*The Group's results are sensitive to various market risks, of which the most significant are oil and natural gas prices and the EUR/USD exchange rate. Maurel & Prom operational risks are described in Chapter 7 of the Group's 2007 annual report.*

In Gabon, the OMKO-1 well met two oil-impregnated sandstone intervals in the following geological formations:

- Kissenda on 56 m, a new oil play in the Gabon region, which produced flows of 3,050 b/day on a 40/64" choke with a head pressure of 595 psi;
- Base sandstones on 43.5 m, an oil play that Maurel & Prom has already demonstrated in Congo with the M'Boundi and Kouakouala field and in Gabon with the Onal field. This produced flows of 2,460 b/day on a 32/64" choke with a head pressure of 660 psi;

The oil produced is between 35.7° and 36.7° API.

In Colombia, the Ortega Sur well (Ortega incremental production contract) met three gas-impregnated intervals in the Caballos and Tetuan formations.

The successive tests of the three intervals made it possible to show gas production of 2.5 million cubic feet, 3.0 million cubic feet, and 2.0 million cubic feet per day respectively. The total estimated production of the well is 7.5 million cubic feet per day, corresponding to 1,350 b/day.

The Guanabana-1 well was suspended due to technical problems and will be resumed later.

## 6 FINANCIAL STATEMENTS VALIDATION

To the Shareholders,

In our capacity as statutory auditors and in accordance with articles L. 232-7 of the French Company Law (Code de commerce) and L. 451-1-2 III of the French Monetary and Financial Code (Code monétaire et financier), we hereby report to you on:

- our review of the accompanying condensed half-yearly consolidated financial statements of the company Etablissements Maurel & Prom, for the period January 1 2008 to June 30 2008, and
- the verification of the information contained in the interim management report.

These condensed half-yearly consolidated financial statements are the responsibility of the Board of Directors. Our role is to express a conclusion on these financial statements based on our review.

### 1. Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently can only provide moderate assurance that the financial statements, taken as a whole, do not contain any material misstatements. This level of assurance is less than can be obtained from an audit.

Based on our review, nothing has come to our attention that causes us to believe that these condensed half-yearly consolidated financial statements are not prepared in all material respects in accordance with IAS 34 – IFRS as adopted by the European Union applicable to Interim financial information.

Without qualifying the conclusion expressed above, we draw attention to the complex and structured operations carried out by your company during the first half-year and described in the notes 8 and 14 to the interim consolidated financial statements. These operations led your company to book a financial expense during the first half-year 2008, resulting from marked to market valuation of these financial instruments as of June 30, 2008. As mentioned in the notes to the interim consolidated financial statements, these financial instruments could lead to further financial expenses in the subsequent reporting periods.

### 2. Specific verification

We have also verified the information provided in the interim management report in respect of the half-yearly financial statements that were the object of our review.

We have nothing to report on the fairness and consistency of this information with the condensed half-yearly financial statements.

Paris and Paris-La Défense, October 6, 2008

The statutory auditors

Daniel de Beaurepaire

Ernst & Young Audit (Patrick Atzel)

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DISCLAIMER

This document may contain forward-looking statements regarding the financial positions, results, activities, and industrial strategy of Maurel & Prom. By their nature, such forward-looking statements carry risks and uncertainties to the extent that they are based on events and circumstances the future outcome of which is uncertain. They are made on the basis of assumptions we deem reasonable but that could nevertheless prove inaccurate and that depend on certain risk factors such as changes in the price of crude; changes in currency rates; uncertainties related to the valuation of our oil reserves; effective oil production rates as well as costs related thereto; operational issues; political stability; legislative reforms, as well as wars, terrorist acts or sabotage.

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Maurel & Prom is listed on Euronext Paris – compartment A - *CAC mid 100 Index*

Isin **FR0000051070** / Bloomberg **MAU.FP** / Reuters **MAUP.PA**