

FOR IMMEDIATE RELEASE

30 MARCH 2010

JKX Oil & Gas plc
PRELIMINARY RESULTS
FOR
THE YEAR ENDED 31 DECEMBER 2009

Results Highlights

	2009	2008	% Change
Revenue	\$196.5m	\$207.0m	-5%
Profit before tax	\$119.3m	\$127.6m	-6%
Production boepd	11,665	11,012	+6%
Realised oil price (per barrel)	\$53.90	\$84.34	-36%
Realised gas price (per Mcf)	\$7.19	\$5.47	+31%
Earnings per share (basic)	54.23 cents	49.85 cents	+9%
Net cash from operating activities	\$126.8m	\$126.5m	0%
Dividend	5.0p	4.8p	+4%

Strategic Highlights

- Steady operating and financial performance
- Initiated workover programme in Russia with excellent results
- Increased gas delivery in Ukraine following successful tie-in to Soyuz gas trunkline
- Initiated production in Hungary
- 4% increase in dividend for period
- Post year-end:
 - Raised \$61m from investors through a share placing
 - Plan to invest \$230m in existing portfolio in 2010
 - Significantly increased production of 20,000 boepd targeted during 2011

JKX Chief Executive, Dr Paul Davies, commented: “2009 was a year of steady progress which laid the foundations for the successful share placement. The initial success of the workover programme in Russia and initiation of production in Hungary were underpinned by solid production in Ukraine. These have combined to reinforce our confidence in the potential of our asset portfolio, and having strengthened our balance sheet, we are positioned for significant growth.”

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Chairman's Statement

2009 saw the Company perform in line with expectations as we built on our strengths and passed a number of important milestones.

We continued to develop our production licences in Ukraine, which remains our major focus for growth. Importantly, we successfully completed our test programme for stimulation of our tight gas reservoirs as a precursor to the expanded drilling programme this year. The connection to the Soyuz trunkline removed earlier delivery constraints and as a result gas production rose in the period to 50 MMcfd.

As forecast in last year's statement, we began production in Hungary, and in Russia we initiated the well workover programme which generated excellent initial results. Workovers on our Russian project are continuing through 2010 leading to field start-up by the end of the year. We maintain our positive view on the project and its potential.

Gas prices in both Ukraine and Russia continued to converge towards European net back levels during the period. Although Russian gas prices rose by some 15%, they have not increased as fast as anticipated and we currently expect net back parity to be achieved by 2015. Net back parity is expected to be achieved in Ukraine during 2010.

Our HSEC commitment

Protecting our people, the environment and the communities where we operate is of paramount importance. Every year we set stretching targets for our health, safety, environmental protection and community liaison (HSEC) and I am pleased to report that during 2009 we achieved accreditation to OHSAS 1801 and began the accreditation process to ISO 1401.

Your Board

This has been a year of stability for your Board, with no changes. I have been Chairman of JKX for just over twelve years. It has been a period of exciting growth and development during which your Company's share and shareholder return performance has substantially exceeded those of the Oil & Gas Sector in particular and the FTSE-250 index as a whole. Your Company is in excellent shape to meet the challenges of the future and I have decided that this is the appropriate point at which to hand my responsibilities on and have initiated the search for my successor.

Dividend

The Board is pleased to report the continuation of our progressive dividend policy with the recommendation of a 4% increase in the dividend over 2009. The Company paid an interim dividend of 2.3 pence per share on 16 October 2009, and the Board is now recommending a final dividend of 2.7 pence, bringing the total dividend for 2009 to 5.0 pence per share (2008: 4.8 pence per share). The dividend will be paid on 11 June 2010 to shareholders who are on the Company's Register of Members at the close of business on 23 April 2010.

Outlook

The positive news from the workover programme in Russia and initiation of production in Hungary are underpinned by a solid year of production in Ukraine. These have combined to strengthen our confidence in the potential of our asset portfolio.

In particular, the achievements of 2009 laid the foundation for the successful share placing in early 2010, which raised in excess of \$60 million. These funds will allow us to more than double our capital investment in our operations to a planned \$230 million during the current year. Our Chief Executive outlines the strategies that will deliver this significant leap forwards in his review.

I would like to thank all our staff for their hard work as it is their expertise, commitment and enthusiasm that places us at this important stage of the Company's development. Equally, I wish to pay tribute to our shareholders for their continued support of the Company.

Rt Hon Lord Fraser of Carmyllie
Chairman

Chief Executive's Statement

Our marketplace

We develop oil and gas interests in and around the former Soviet Union with a particular focus upon Ukraine and Russia. We utilise our extensive regional experience, knowledge and expertise to deliver value to our shareholders.

Locally-based and managed operating subsidiaries have been central to our success throughout the 16 years since JKK was established. The technical, operational and commercial challenges in the former Soviet Union are many and diverse. Geologies, regulations, cultures and working practices vary considerably and these differences are at times exacerbated by the fluid political and economic environment.

Working closely with the skilled and experienced indigenous workforce in Ukraine, Russia and in the other countries where we operate, we have earned a reputation as an efficient and valued partner, able to identify and harness the significant opportunities which the region offers. We currently have a staff of over 600, 95% of whom are operationally focused and based in Ukraine and Russia.

We were among the first western operators to understand the potential value of gas reserves in the region, which in our view had long been undervalued. This belief was endorsed during 2009 as prices in both Russia and Ukraine have moved closer to those achieved in the EU.

Our performance

As I anticipated in last year's statement, 2009 was a difficult year for all businesses, regardless of country of operation or sector. The recession and global credit crisis affected economies everywhere. Against this background, we have again demonstrated our ability to deliver growth and profitability in challenging times.

I am pleased to report that average oil and gas production rose by 6% in 2009 to 11,665 boepd (2008: 11,012 boepd). Revenues eased by 5% to \$196.5m (2008: \$207.0m) due largely to reduced oil prices, partially offset by a strong rise in realisations for gas sold in Ukraine. Operating profits reduced by 5% to \$119.6m (2008: \$125.4m) and net profit rose by 9% to a record \$85.3m (2008: \$78.2m).

Our progress

2009 was a year of stability and steady progress against the objectives outlined in last year's statement.

We enhanced our Ukrainian producing operations, where the completed tie-in with the Soyuz trunkline has increased our production capacity. We also completed fracture stimulation testing at Rudenkovskoye which demonstrated an encouraging rate of potential production improvement and underscores our confidence in the field.

In Russia, we initiated the workover programme required to bring our assets on-stream, achieving excellent results from the first of the well workovers. Contracts for the gas processing facility were placed in 2009 and equipment is currently being fabricated for delivery in the third quarter of this year.

In Hungary, it was pleasing to see exploration broadening into development. We tied-in two wells to bring our first producing field on-stream during the year, as planned, and also continued to extend our exploration portfolio elsewhere in Eastern Europe.

Delivering on our promise

The last 12 months reconfirmed our confidence in the existing portfolio. The steady increases in production, the encouraging results from the frac test programme and the convergence of gas prices in Ukraine and Russia to European net back underpin our optimism in the future.

2009 built the platform for success: 2010 will be the year when we take a significant leap forwards.

In January 2010, following the financial year-end, we announced our intention to place over 14 million new shares with investors to raise approximately \$61 million before expenses. The placement was well-received and the funds have strengthened our balance sheet, giving us the opportunity to increase capital expenditure in order to accelerate production significantly.

In total, we plan to invest \$230 million during 2010. Of this, \$110 million will be spent in Russia, \$90 million in Ukraine with the balance invested in our Hungarian operations and elsewhere. We have four key near-term objectives:

- Accelerate the appraisal and development on non-producing fields and reserves in our existing portfolio. Specifically, these are the Rudenkovskoye field in Ukraine where we will employ a larger rig to develop its tight gas reserves, and the Koshekhablskoye field in Russia where we will extend the initial workover programme to maximise startup production when the field comes on-stream at the end of the year.
- Continue to optimise production from the producing fields in Ukraine with development drilling utilising the existing dedicated drilling rig and the installation of a LPG facility.

- Increase activity on existing exploration and appraisal portfolio in central Europe.
- Maintain flexibility to acquire additional interests in focus area to increase production and diversify geographically.

Seizing our potential

Objectives for 2009	Achievements of 2009	Objectives for 2010
Enhance Ukrainian producing operations.	Tie-in to Soyuz pipeline has removed production constraints. Successful results from proppant fracture stimulation testing at Rudenkovskoye	Commence development of the Rudenkovskoye field. Construct, install and commission an LPG facility in Ukraine.
Initiate the workover programmes required to bring the Russian assets on-stream.	Achieved.	Accelerate the workover programme.
Test the first of the workover wells in Russia.	Achieved. Initial test results were more than twice anticipated.	Test additional wells.
Progress the engineering programme to deliver the Russian gas processing facility.	Achieved. Design completed and contracts placed with suppliers.	Construct and commission the facility, with delivery in third quarter of 2010 followed by installation in the fourth quarter.
Bring on-stream our first producing field in Hungary.	Achieved in August 2009.	Double reserves and production.
Broaden the exploration portfolio in Eastern Europe.	Achieved.	Continue to enhance and develop the exploration portfolio, particularly in Hungary, Bulgaria and Slovakia.

Managing our Risks

We operate in a challenging industry and risk is rightly a primary concern. Key risk areas are in relation to: commodity prices; reservoir performance; capital project risk; and taxation, with the Group subject to uncertainties relating to the determination of its tax liabilities in Ukraine, where tax legislation and practice are in a state of continuous development, and laws subject to varying interpretations. During 2009 we

ensured that robust risk management processes were in place, with oversight at Board level. These risks are further described in the Financial Review and Note 17 to the Financial Information.

Measurable milestones

We aim to:

- Production to reach in excess of 20,000 barrels of oil equivalent per day during 2011.
- Increase production at Rudenkovskoye from 2% of JKX's Ukrainian production in 2009 to 25% in 2012.

Outlook

Although there are signs of improvement in the global economy, we believe that there remains much work to be done before the recession can be considered to have passed. However, for JKX the outlook is extremely positive. We have the balance sheet, the strategy and the expertise to drive forwards during what will be a key twelve month period for the Company.

The quality of our people will again be instrumental in ensuring that we reach our objectives. We will continue to attract, develop and retain high calibre individuals – not only in the countries where we operate but also at our UK head office. Together, this team will help us rise to the challenges and deliver on our promise.

Beyond 2010, we have measurable milestones in place, in particular the clear commitment to significantly increase production during 2011.

We look to the future with great confidence.

Dr Paul Davies
Chief Executive

Operations Review

Ukraine

During 2009, our development programme in Ukraine was supplemented by an increasing number of stimulations and recompletions.

Poltava Petroleum Company (PPC), a wholly owned subsidiary of JKC, holds four production licences covering 271 sq km in the Poltava region of Ukraine. Each production licence contains one or more distinct fields which together form the Novo-Nikolaevskoye Complex.

PPC has three exploration permits in the area: Zaplavskoye, Elizavetovskoye and Chervonoyarske East, representing a total licensed exploration area of 171.2 sq km.

During 2009, the ongoing development drilling programme was supplemented by an increasing number of recompletions and stimulations, all with the aim of maintaining production levels at, or above, previous levels in the face of declining reservoir pressure in the main producing fields of Ignatovskoye and Molchanovskoye North. To achieve this, PPC:

- Drilled, tested and/or completed a total of eight appraisal and development wells.
- Stimulated and tested two exploration wells.
- Carried out 23 workover operations, including 12 recompletions, seven well repairs, three fishing operations and one well abandonment.
- Performed three acid frac operations and one propped frac operation.
- Acquired a 40 sq km extension to the 3D seismic database to cover Rudenkovskoye North and 30 km of additional high resolution 2D data over the Rudenkovskoye area.
- Continued to upgrade and de-bottleneck the production facility.
- Installed additional generating and compression facilities.

Ukrainian reserves

As described in this Review, the ongoing work in the Poltava fields has resulted in no reserves reassessments taking place in 2009. Although drilling, workover and seismic activity will continue in 2010, it is possible that a reassessment could be completed towards the end of the year. However, it may be 2011 before this can be concluded in the Rudenkovskoye field areas.

Ignatovskoye

The Ignatovskoye production licence is located in the centre of the Novo-Nikolaevskoye Complex and contains the first field to be developed by PPC. Evaluation of two additional structural trends continues, one to the west, and one to the southwest of the main field.

The main field is an uplifted fault block containing Devonian sandstone and overlying Carboniferous Tournasian sandstone and limestone. Above that is a carbonate reef build up of Visean age. There is also a series of thin sandstone channels on the flank of the structure, also of Visean age.

Black oil is found in the Devonian sandstone and the lower parts of the Tournasian and Visean reservoirs. The oil is overlain by a rich condensate-bearing gas cap and, therefore, the Visean channels can be oil or gas bearing. Reservoir quality in the Devonian sandstone and Visean reef is generally good while both the Tournasian sandstone and limestone are variable and often dependent on local depositional and tectonic influences. Stimulation is usually necessary and, although this can give high initial flow rates, the rates often decline to more modest levels.

No additional wells were drilled or recompleted on the main structure of the field during 2009. The focus of activity was on recompleting and stimulating the wells in the western structure:

- Well I131 was the subject of a successful acid frac operation with high initial flow back; however the well ceased flowing after 24 hours. Analysis indicated that the fractures had closed, probably due to the presence of a small amount of clay adding a critical degree of plasticity to the limestone. The well is now suspended pending possible recompletion to the V15/16 sandstone reservoir.
- Well I133 was drilled at the northern end of the structure to the west of the Ignatovskoye Field and brought on-stream in 2008 as a gas producer from the Tournasian sandstone. This flow declined and additional perforations in the overlying Tournasian carbonate failed to flow. Stimulation was considered but after the discouraging results from I131 the well was recompleted in the V16 sandstones. There was oil to surface but insufficient flow pressure to justify completion. The well has been suspended.
- Development well I137 was drilled as a Visean carbonate oil producer on the southeast of the main Ignatovskoye Field but was suspended with a fish in the hole below the 7" casing. A sidetrack was drilled in early 2010 but again encountered problems and has been suspended.

Plans for 2010 include a deviated well from the Novo-Nikolaevskoye licence into the crestal area of the western Ignatovskoye structure to test the T2 sandstone and evaluate the Tournasian carbonate. A well on the western flank of the main structure will appraise the potential in the down-dip fault blocks. Well I137 may

also be sidetracked again. Success on the flanks of the field would lead to a further re-appraisal of the field reserves which otherwise have remained relatively stable.

Molchanovskoye

The Molchanovskoye production licence is located approximately 8km from the Ignatovskoye Field and contains the southernmost producing field within the complex. The licence comprises two distinct field areas: Molchanovskoye North and Molchanovskoye Main.

Molchanovskoye North is a black oil reservoir with a gas cap in the Devonian sandstone and an overlying Tournasian sandstone gas condensate reservoir. There are also newly-appraised overlying Tournasian carbonate and sandstone gas condensate reservoirs that extend over the Ignatovskoye licence boundary.

Work during 2009 addressed both the Devonian sandstone and the Tournasian carbonate reservoirs:

- Well M166 has proved to be the most successful well drilled to date in the Poltava fields. It was drilled as a Devonian sandstone infill well with a 300m horizontal section and tested at more than 2,000 bopd with 6 MMcfd of gas. Current production is around 1,600 bopd and 2.4 MMcfd of gas.
- Infill development Well M168 was also drilled as a horizontal Devonian sandstone producer but entered a deeper and more depleted fault block than expected. Initial production was 575 bopd with 1.75 MMcfd of gas. Current production is around 280 bopd and 2.0 MMcfd of gas.
- A new approach to the drilling of the Tournasian carbonate was adopted with Well M167. This was drilled as a high angle well across the whole carbonate interval giving a reservoir section of 400m compared to the vertical thickness of just over 100m. Swelling clays necessitated a sidetrack and the well was finally completed in early 2010. An acid squeeze was performed resulting in an initial flow rate of 4.8 MMcfd.
- Well M162 demonstrated the effectiveness of the acid frac process in the clean carbonates of the Molchanovskoye area by doubling the pre-frac production rate to a sustained 1.4 MMcfd of gas.

Activity planned for 2010 includes an acid fracture stimulation of Well M167 (depending on the performance of the well subsequent to the acid squeeze), and either a further horizontal well to the Devonian sandstone or, again depending on the production history of Well M167, a second high angle well in the Tournasian carbonate.

There has been no reassessment of reserves this year, pending the results of wells M166, M168 and M167.

Molchanovskoye Main produces gas condensate in the Devonian sandstone and is now being evaluated for additional reserves in the overlying Tournasian carbonate and Visean sandstone reservoirs. Two wells were drilled in 2009 and there were four recompletions:

- Development Well M206 was drilled to the Tournasian carbonate and T2 sandstone. Initial production was 4.2 MMcfd with 393 bcpd, mostly from the T2 sandstone. This declined over the year and, following the 2009 frac programme results, the well was identified as a suitable candidate for a propped acid frac of the Tournasian carbonate. The well is now being prepared for treatment in the second quarter of 2010.
- Development Well M207 completed as a Devonian sandstone producer with an initial flow rate of 9.9 MMcfd and 636 bcpd. Production declined to 0.1 MMcfd by year-end and a recompletion is being considered to the T2 sandstone later in 2010.
- Well M204 was recompleted to the Visean V22 sandstone to test for oil production potential but with no success, despite good reservoir pressure. The well was then recompleted to the V16 sandstone, but again without success. We are now investigating the use of coiled tubing run jet perforating to replace conventional perforating guns for recompletions in these larger hole sizes.
- Well M205 was recompleted in the Tournasian carbonate and treated with acid. Despite a modest initial gas flow, the well declined and was recompleted to the V16 sandstone where it flowed at an initial rate of 1.1 MMcfd of gas.

In addition to the acid frac on Well M206, the 2010 programme includes drilling a high angle well (M208) to the Devonian sandstone, a sidetrack on Well M204 and jet perforating trials which should lead to further recompletions/stimulations. The pace of recompletions has meant the deferment of the scheduled reserves revision to the end of 2010.

Novo-Nikolaevskoye

The Novo-Nikolaevskoye production licence lies 3km to the west of the Ignatovskoye Field.

Well N9 continues to produce oil and gas from the shallower Visean sandstone, exceeding all expectations. Remapping of the licence has identified a number of potential drilling targets.

- Well N71 was drilled in 2008 and logged hydrocarbons in two Visean sandstone layers. The lower V22 reservoir was in a small fault block and produced gas and condensate vigorously for a short time before declining. In 2009, the well was recompleted to the upper V15/16 sandstones from which it initially flowed at 6 MMcfd of gas. Current production is 2.9 MMcfd of gas and 76 bopd.
- Well N72 was drilled as an offset to Well N71 and targeted the V15/16 sandstones. Due to an unexpected facies change, the V16 reservoir had poor reservoir properties and flowed at less than

20 bopd. Recompletion to the V15 increased the flow rate to 3.1 MMcfd of gas with 40 bcpd, although the rate has subsequently declined to less than 1 MMcfd.

The success of these wells will lead to an increase in the reserves in the area, which will be reassessed in 2010. Further wells are planned for 2010 with the first (N73) due to spud in the first quarter.

Rudenskoye

The Rudenskoye production licence is the most northern of the four production licences. The principal reservoirs in the licence are the Tournasian and Devonian sandstones at depths of between 3,000m and 5,000m with further potential in the overlying Viséan sandstones.

Productive areas have been identified in the northern and southern areas of the licence and both were targeted in the 2009 propped frac programme:

- Well R101 is located in the northern area of the field. Following an unsuccessful hydraulic fracture stimulation of a 110m Tournasian sandstone interval in 2007, the well was plugged back to the V21 sandstone in 2009. A propped frac was initiated but abandoned following packer failure. Plans are under consideration to drill a sidetrack well back to the Tournasian sandstone and re-enter it at a high angle before testing and fracturing again.
- Well R102 was drilled in early 2007 in the southern area of the field. It found two main gas-bearing zones in the Devonian sandstone and the lower 45m interval was tested at an average rate of 7.7 MMcfd of gas, 90 bcpd and 230 bbl of water per day. The presence of water precluded any fracture stimulation testing in this interval and the well was plugged back to a higher, and much thinner, interval in the Devonian. The propped frac operation was successful and the well flow rate increased significantly to 0.5 MMcfd of gas.
- Additionally, the field-wide 3D seismic survey was extended during the year by 40 sq km to include the whole of the Rudenskoye North area, ahead of further drilling planned for 2010. In addition, a 30 km long offset 2D dataset was acquired to enhance the resolution in the deepest areas of the fields.

The programme for 2010 will intensify, with the drilling of three new wells. Well R103 will be drilled in the southern area as a horizontal well in the Devonian section productive in the wells R12 and R102. A second target in an adjacent fault block is being prepared. In the north, targets being evaluated include a sidetrack of Well R101 (R101ST) and a deep well to be drilled to the north of Well R101, targeting the Upper Tournasian and possibly the higher pressure Lower Tournasian sandstones seen in Well R101. A second rig will be brought in to fulfil this programme, which is in addition to the planned development drilling activity in the other fields.

Reserves reassessment in the Rudenkovskoye field areas will await the results of the 2010 drilling programme.

Conclusions of the 2009 Frac Programme

Despite the loss of the frac test in Well R101, the remaining fracs were technically successful and provided a wealth of information. The propped frac tests were carried on relatively thin intervals and it is evident that to be commercial, smaller multiple fracs on thicker intervals will be required. The 2010 programme will address this by drilling at least two of the planned Rudenkovskoye intervals horizontally in the thickest intervals.

The acid fracs also provided lessons, primarily the need to focus on the cleanest and, if necessary, thinner sections of the carbonate reservoir. These are potentially more brittle and more likely to remain open after fracturing. Propped fracs of carbonate wells are becoming more common and this technique will be included in the 2010 frac programme. The success of Well M167 demonstrates the potential of high angle drilling through the carbonate and this well, and others, may be subjected to multiple propped fracs in due course.

The 2010 programme also includes a complete geological re-evaluation of the carbonate core, reservoir and fracture data in the fields to highlight the areas where further carbonate appraisal/development drilling will be most successful.

Poltava production facilities

Following the major upgrades to the Central Production Facility in 2008, 2009 was a year of consolidation, including:

- Replacement of one of the compressors and the upgrade of a second to give greater reliability and flexibility.
- Installation of an additional 2MW generator to support the additional facilities.
- Addition of a second well testing facility to provide better reservoir monitoring and management as the number of producing wells increases.
- Further work on the fire protection systems.
- Ongoing upgrades to the field camp including replacement of the catering facility.
- Updating of all operating and safety procedures manuals to match the increased sophistication of the plant and implementation of higher standards of health, safety and environmental practice.
- Feasibility study for the construction of an LPG plant to recover liquids from the gas stream.

Construction and installation of the LPG plant will be the main focus of activity in the coming year with completion expected in early 2011. The subsequent small drop in gas production will be balanced by a significant increase in higher value liquids.

Further plans for 2010 include a continuous assessment of the well and flowline line configuration to minimise obstructions and maintain production levels, further optimisation and increases in the capacity of two of the compressors, again to handle declining reservoir pressure, and further improvements to the rail loading facility.

Regarding environmental issues, the sewage treatment facility will be upgraded and there will be further improvements to the fire protection system and the fire station. On the well sites, the storage tanks will be checked and, if necessary, replaced to minimise any risk of seepage.

Zaplavskoye

The Zaplavskoye exploration licence is adjacent to the Molchanovskoye production licence and comprises an area of 95.7 sq km. The permit is valid until 2010 but can be extended.

During 2009, we tested the two exploration wells which had been drilled in 2008.

- Exploration Well Z3 was drilled from a location 2km to the west of the Molchanovskoye Main field. Logs indicated an 80m gross gas bearing T2 carbonate interval at a pressure in excess of 5,000 psi. Despite an extensive acid treatment, production was short lived and the well has been suspended in anticipation of abandonment.
- Exploration Well Z2 was drilled from a location approximately 4 km to the southeast of the Molchanovskoye Main field and encountered thicker than expected T2 carbonate. Logs again indicated an 80m gross gas column in the carbonate, but testing was unsuccessful and the well was plugged and abandoned.

The awarding of the extension to the Zaplavskoye licence area over potentially prospective areas between the licence and the western part of the Ignatovskoye licence, as well as to the east of the licence area, did not come into effect until early 2010. Additional seismic acquisition will be acquired ahead of drilling in 2011 or, possibly, late 2010.

Elizavetovskoye

The Elizavetovskoye exploration licence is located in the central part of the Dnieper-Donets basin and covers an area of 70 sq km. It is approximately 45km from PPC's existing production licences.

Three shut-in production wells on the licence are owned by Ukrgasvydobuvannya, a subsidiary of Naftogaz of Ukraine, the state oil and gas company, and are tied-in to its production facility. Negotiations with Ukrgasvydobuvannya to resolve the issues relating to these wells, and to establish conditions under which PPC can initiate production from this licence, made some progress towards the end of 2009. It appears that, subject to an update to the production history of wells in the adjacent licence, PPC will be able to start preparations for drilling its own production wells in 2011. These preparations will include the acquisition of 3D seismic and the construction of a reservoir model to forecast more accurately the remaining potential in the field.

Chervonoyarske

The Chervonoyarske East exploration licence was acquired in December 2005. The licence covers a total area of 5.5 sq km and is located around 75km from the PPC production licences on the northern margin of the Dnieper-Donets basin.

Evaluation of the 42 sq km 3D seismic survey acquired in 2008 supports the interpretation of potential hydrocarbons trapped against the flanks of a major salt wall. However the cost of drilling to below the salt and the geological risks associated with the traps have resulted in this being identified as a low priority project at the current time.

Russia

Koshekhabskoye

The Koshekhabskoye field is located in the southern Russian autonomous Republic of Adygea. The licence covers an area of 34.7 sq km. JKX completed the purchase of Yuzhgazenergie LLC (YGE) in November 2007. YGE holds the licence for the redevelopment of the field.

The Koshekhabskoye gas field was discovered in 1972 and produced a total 89 Bcf of gas before operations were suspended in January 2006. In June 2006, YGE was granted a new 20 year licence to rehabilitate and further appraise and develop the field.

Following the acquisition, a detailed technical and environmental re-evaluation by JKX concluded that the existing production facility would have to be completely replaced because it could meet neither the new gas specification required for entry to the Gasprom transit system nor the environmental standard for emissions to the immediate environment.

Early in 2009, the Russian authorities authorised a revised schedule of construction and rehabilitation of the field, with start-up scheduled in the fourth quarter of 2010.

During 2009, YGE has:

- Completed the workover and successful testing of Well-27 at a final flow rate of 13.1 MMcfd of gas and 12 bpcd through a 36/64" choke, with a flowing wellhead pressure of 1,741 psi.
- Progressed milling and fishing operations on Well-20. The well is currently suspended awaiting the necessary equipment for a short sidetrack around the pipe stuck in the reservoir section of the well.
- Started milling and fishing operations on Well-25.
- Prepared the site for the recompletion of Callovian Well-09.
- Updated the design of the gas production facility (GPF), finalised the major design and construction contracts and commenced procurement of long lead items. Offsite construction of the skid mounted GPF units is scheduled to commence in the second quarter of 2010.
- Completed clearance of the GPF site. Preparations for construction commenced in the first quarter of 2010.
- Commenced the laying of replacement flowlines for the whole field, which began in the third quarter of 2009. Completion, including the installation of the export line and the tie-in to the local trunk line, is anticipated by the start of the second quarter 2010.
- Completed the construction and hook up of the field camp.

The workover programme has encountered difficult conditions in some of the wells. As commissioning begins in the fourth quarter of 2010, the programme has been revised to ensure that production will meet the targets for the GPF. The aim is to have six wells in production by the end of 2010 with the remaining four due to be completed in the first half of 2011.

The offsite construction of the skid-mounted units is currently underway, and these are scheduled to be transported to site late in the third quarter for positioning, hook up and then commissioning in the fourth quarter. Other major items to be delivered to the site in the fourth quarter include the power generating equipment and the flare system.

Field exploration and appraisal

JKX inherited a YGE obligation to initiate the drilling of an exploration well to appraise the production potential of the underlying Callovian sandstone reservoir in mid 2009.

Recognising the significant amount of exploration and appraisal activity that YGE has undertaken on the reservoir, the State Geological Institute responsible for the YGE ongoing exploration and appraisal programme recommended that the first appraisal well should be deferred to 2011. This work includes:

- Acquisition, processing and interpretation of the 3D seismic.
- Integration of the maps with a complete re-evaluation of the well logs and other geological data to determine reservoir distribution and the potential resources in the Callovian sandstone.
- Acquisition of the shut-in Callovian production Well 9 for early testing.

In light of the high cost of an exploration well, the Russian authorities have subsequently accepted YGE's proposal to deepen an existing dry Oxfordian appraisal well to the Callovian reservoir, thereby reducing the overall cost of the project significantly.

Russian reserves

Early in 2009, an independent assessment of the reserves and resources in the Koshekhabskoye field was carried out by Senergy, subsequent to completion of the 3D seismic survey. A full reassessment of the reservoir petrophysical properties, integrated with the well test and production data, resulted in a revised Proven plus Probable (P+P) reserve estimate of 41 MMboe, an increase of 14% on the reserves estimated by the independent reservoir consultants at the date of acquisition.

Following the results of the Well-27 test, the production characteristics of the field were revised and the material balance reserves forecast was reassessed. This resulted in a further upward revision of 9% to the P+P reserves to 44.8 MMboe.

In addition, YGE has received a letter of assurance from the Russian authorities confirming that any field reserves lying outside the licence boundary could be included in a revised licence area (provided this did not exceed 125% of the existing licence). This would permit YGE to increase the field reserves by a further 40% when the licence has been formally extended.

Hungary

Hernad

JKX holds 50% equity in the northern Pannonian Basin Hernád licences, through a joint venture with the operator, Hungarian Horizon Energy (HHE). The Hernad I licence covers 2,903 sq km with the Hernad II licence covering 2,507 sq km.

The Pannonian Basin comprises numerous sub-basins developed across Hungary, Slovenia and Romania. It is prospective for gas and oil, and exploration risk can be reduced by the use of seismic data attributes (amplitude versus offset, or AVO) and calibrated well log data. The post-rift sequence contains channelised and lobe turbidite sand reservoirs in combined structural/stratigraphic traps. Miocene age pro-delta shales provide the source for the gas and condensates.

Hajdunanas

Following the acquisition of 348 sq km of 3D seismic data over the south eastern portion of the Hernad licence, the Hajdunanas Field was discovered in May 2008, with successful gas tests from three levels at combined flow rates in excess of 13 MMSCFD of gas. The discovery was confirmed by a second well spudded in November 2008 which encountered a thicker sequence of Pannonian sands that tested a combined flow rate of 15 MMSCFD of gas. The reservoirs include two Pannonian sand intervals and a Miocene fractured volcanoclastic sequence. Gas quality is excellent and requires minimal processing before export.

2009 highlights included:

- Completing the installation of the production facilities, comprising a gas processing plant and a 14km 200mm diameter export pipeline.
- The tie-in of the export pipeline into the Hungarian national pipeline network at Tiszavasvári, with first gas delivered in August 2009.
- Re-completing the Miocene sandstone oil bearing horizon in the Hajdunanas-1 well for co-mingling with the rest of the production, and increasing the potential liquids rate to 350 bopd.

The Hajdunanas Field is currently producing at 11 MMcfd and 240 bcpd. Following a revision to the gas sales contract, production will increase in the second quarter of 2010 to 17 MMcfd and 350 bpd.

Hajdunanas reserves

Following better than expected reservoir performance in 2009, field reserves are estimated at 12BCF for the Pannonian intervals with an additional 0.5 MMbbl of oil in the underlying volcanoclastic sequence. A production test of the fractured Miocene below the currently producing Pannonian gas sands flowed 400 bopd.

Further Hernad exploration activity

The Tiszatarjan -1 exploration well reached a TD of 2,794m in early 2009 and encountered significant gas shows in Lower Pannonian siltstones and in the Miocene volcanoclastics. An open hole DST was run with only limited amounts of oil and gas recovered, but no water. The well has now been suspended while stimulation treatment (fracturing) is considered. If successful, a second processing plant will be built and the pipeline tie-in will be made to Tiszavasvári.

In August 2009, a further 220 sq km of 3D seismic data was acquired to the northeast of the existing survey. This has been processed and interpreted and further exploration drilling is planned for the second

quarter of 2010. The targets are on the flank of the productive Hajdunanas Ridge, while numerous low risk shallow targets have been identified on the Hajdunanas Ridge itself.

Nyírseg Licence

In late 2008, JKX farmed-in for a 33.3% interest in 120 sq km of the adjacent Nyírseg licence operated by PetroHungaria. This area is immediately south of the Hajdunanas trend and is expected to show similar prospectivity at both the Pannonian and Miocene volcanoclastic intervals.

2009 highlights include:

- Acquiring and processing 110 sq km of 3D seismic data.
- Drilling and testing the Görbeháza-1 well in two Upper Pannonian horizons.

Located 2.5 km from the Hajdunanas gas production facility, the well tested 3.74 MMcfd of gas and 20 bcpd.

Activity planned for 2010 includes the drilling of the offset Görbeháza-5 well, due to spud in the first quarter, a further exploration well and the hook-up to the Hajdunanas facility together with the sale of the Görbeháza production.

Veszto Licence

In March 2009, JKX farmed-in for a 25% interest in a 15.6 sq km area of the Veszto exploration licence held by HHE in the eastern Pannonian Basin. A 3D seismic survey covering the entire 219 sq km licence has been completed and interpreted with two prospects identified.

The Nyekpuszta-1 well was drilled to 3,708m within a Middle Miocene Sarmatian age clastic reservoir interval and encountered significant gas shows over a 160m volcanoclastic interval. Unfortunately, the well had to be temporarily abandoned before testing because of unexpected high pressures (12,000psi) and temperatures (175°C) in the well. The Nyekpuszta-2 appraisal well was designed to cope with these conditions and was successfully drilled to 3,695m in the fourth quarter of 2009. The well encountered a gross hydrocarbon column of 85m and is currently being prepared for fracture stimulation and testing.

In addition to the testing and completion of the Nyekpuszta-2 well, activity planned in 2010 includes the evaluation of a similar prospect within the Veszto Licence in which JKX has the option to participate.

Rest of World

Bulgaria

JKX operates two onshore exploration permits, B Golitza and B1 Golitza, covering a total of 3,355 sq km in eastern Bulgaria.

The licences include the area of the Kamchia Trough, an onshore extension of the Tertiary age western Black Sea Basin, now the subject of renewed deepwater exploration activity. In April 2009, Sorgenia E&P SpA farmed-in for a 30% working interest in the Golitza licences. Following the earning of Sorgenia's interest and subject to the approval of the Bulgarian authorities, participation in the licences will be: JKX (40% and operator), Aurelian Oil & Gas (30%) and Sorgenia (30%).

In February 2009, the acquisition of a 250 sq km 3D seismic survey was completed in the Kamchia Trough, south of Varna, and builds on the interpretation of 250km of 2D seismic data acquired in 2005. The 2009 seismic data were processed and interpreted in the period. The initial interpretation revealed several prospects and a two well drilling campaign is being finalized for 2010. The target intervals vary between 800 and 1,800m in depth and are all amplitude supported. The prospects are fault controlled with a lateral stratigraphic sealing element. Numerous follow-on prospects have been identified for future drilling as well as larger, higher-risk, structural plays deeper in the basin.

Slovakia

In 2008, JKX farmed-in for a 25% interest in the Svidnik, Medzilaborce and Snina exploration licences in the Carpathian Fold Belt in north east Slovakia, covering a total area of 2,278 sq km.

A 238 km 2D seismic programme was started in 2008 but suspended due to poor weather conditions. The remaining 108 km was acquired in 2009 and provided basic regional information in the two eastern licences, as well as infill to the 2008 data in the western Svidnik licence.

Activity in 2010 will include the acquisition of additional seismic data to firm-up leads identified in the 2008/2009 seismic, with a view to drilling in 2011.

Georgia

JKX held a 4% net profit interest in the Georgian Black Sea Production Sharing Contract operated by Anadarko Petroleum Corporation.

Anadarko was unsuccessful in its search for additional partners to continue exploration in the PSC and withdrew from the licence.

Negotiations continue between JKX and the Georgian authorities to agree an appropriate work programme which would be attractive to JKX, TPAO and potential partners in the current economic climate.

Turkey

The exploration results in the Turkish licences were considered to be disappointing and we consequently withdrew from all Turkish licences in 2009.

USA

In 2009, JKX sold its 34.4% working interest in the Phoenix Unit (formerly the West Huxley Deep Federal Unit) in east Texas, in line with our stated strategy of focusing on our core area of central and eastern Europe. We have now completed the divestment of our US assets.

Production summary	Total 2009	Second half 2009	First half 2009	Total 2008
Production				
Oil (Mbbbl)	1,457	879	578	1,445
Gas (Bcf)	16.8	9.2	7.6	15.5
Oil equivalent (Mboe)	4,258	2,413	1,845	4,030
Daily production				
Oil (bopd)	3,991	4,777	3,191	3,948
Gas (MMcfd)	46	50	42	42
Oil equivalent (boepd)	11,665	13,114	10,191	11,012
Operating results	Total 2009 \$m	Second half 2009 \$m	First half 2009 \$m	Total 2008 \$m
Revenue				
Oil	76.4	52.2	24.2	121.8
Gas	118.1	64.5	53.6	83.1
Other	2.0	1.2	0.8	2.1
	196.5	117.9	78.6	207.0
Cost of sales				
Operating costs	(20.6)	(11.2)	(9.4)	(23.9)
Depreciation, depletion and amortisation - oil and gas assets	(32.8)	(20.1)	(12.7)	(27.2)
Production based taxes	(4.0)	(2.6)	(1.4)	(4.0)
	(57.4)	(33.9)	(23.5)	(55.1)
Provision for impairment/write off of exploration costs	(5.0)	(4.9)	(0.1)	(6.9)
Total cost of sales	(62.4)	(38.8)	(23.6)	(62.0)
Gross profit	134.1	79.1	55.0	145.0
Operating expenses				
General and administrative expenses	(14.7)	(7.0)	(7.7)	(12.7)
(Loss)/gain on foreign exchange	(2.3)	0.5	(2.8)	(6.9)
Profit on sale of assets	2.5	2.5	-	-
Operating profit	119.6	75.1	44.5	125.4

Earnings	Total 2009	Second half 2009	First half 2009	Total 2008
Net profit (\$m)	85.3	53.5	31.8	78.2
Basic weighted average number of shares in issue (m)	157	157	157	157
Earnings per share (basic, cents)	54.23	34.00	20.23	49.85
Earnings before interest, tax, depreciation and amortisation (\$m)	154.9	96.4	58.5	154.9

Realisations	Total 2009	Second half 2009	First half 2009	Total 2008
Oil (per bbl)	\$53.90	\$59.48	\$42.29	\$84.34
Gas (per Mcf)	\$7.19	\$7.20	\$7.18	\$5.47

Cost of production (\$/boe)	Total 2009	Second half 2009	First half 2009	Total 2008
Production costs	\$4.85	\$4.65	\$5.13	\$5.97
Depreciation, depletion and amortisation	\$7.71	\$8.33	\$6.90	\$6.75
Production based taxes	\$0.93	\$1.09	\$0.73	\$0.99

Cash flow	Total 2009	Second half 2009	First half 2009	Total 2008
Cash generated from operations (\$m)	160.0	100.1	59.9	161.8
Operating cash flow per share (cents)	101.7	63.6	38.1	103.2

Balance sheet	Total 2009	Second half 2009	First half 2009	Total 2008
Net cash (\$m)	74.4	74.4	54.1	64.8
Net cash to equity (%)	18.4	18.4	15.1	19.3
Return on average capital employed (%)	23.1	28.1	18.4	25.2
Increase in property, plant and equipment/intangible assets (\$m)				
Ukraine	45.2	19.7	25.5	56.2
Russia	41.9	24.3	17.6	32.5
Other	20.5	12.0	8.5	21.5
Total	107.6	56.0	51.6	110.2

Unaudited consolidated income statement

For the year ended 31 December

	Notes	2009 \$000	2008 \$000
Revenue	4	196,508	207,047
Cost of sales			
Operating costs - excluding impairment/write off of exploration costs		(57,411)	(55,077)
Provision for impairment/write off of exploration costs		(5,039)	(6,883)
Total cost of sales	14	(62,450)	(61,960)
Gross profit		134,058	145,087
General and administrative expenses		(14,667)	(12,700)
Loss on foreign exchange		(2,286)	(6,994)
Profit on sale of assets		2,486	-
Operating profit		119,591	125,393
Finance income	12	878	3,172
Finance cost	13	(1,142)	(1,004)
Profit before tax		119,327	127,561
Taxation – current		(34,863)	(39,374)
Taxation – deferred		865	(10,033)
Total taxation	17	(33,998)	(49,407)
Profit for the year attributed to equity shareholders		85,329	78,154
Earnings per share			
– basic earnings per 10p ordinary share (in cents)	19	54.23	49.85
– diluted earnings per 10p ordinary share (in cents)		54.05	49.44

Unaudited consolidated statement of comprehensive income

For the year ended 31 December

	2009 \$000	2008 \$000
Profit for the year	85,329	78,154
Currency translation differences	(3,671)	(16,985)
Assets held for sale	-	(803)
Total comprehensive income attributed to:		
Equity shareholders	81,658	60,366

Unaudited consolidated balance sheet

As at 31 December

	Notes	2009 \$000	2008 \$000
Assets			
Non-current assets			
Property, plant and equipment	5 (a)	344,166	278,902
Other intangible assets	5 (c)	27,134	22,359
Long term receivable		2,531	-
Goodwill	5 (d)	2,101	2,165
		375,932	303,426
Current assets			
Inventories - finished goods		2,203	1,758
Trade and other receivables	8	31,817	15,002
Cash and cash equivalents	9	74,368	64,805
		108,388	81,565
Assets of disposal group classified as held for sale	7	-	7,347
		108,388	88,912
Total assets		484,320	392,338
Liabilities			
Current liabilities			
Current tax liabilities		(1,293)	(10)
Trade and other payables	11	(44,008)	(26,670)
		(45,301)	(26,680)
Liabilities directly associated with the assets classified as held for sale	7	-	(8)
		(45,301)	(26,688)
Non-current liabilities			
Provisions		(2,818)	(2,396)
Long term payable		(2,531)	-
Deferred tax	18	(29,346)	(29,097)
		(34,695)	(31,493)
Total liabilities		(79,996)	(58,181)
Net assets		404,324	334,157
Equity			
Share capital	10	24,335	24,256
Share premium		41,317	41,015
Merger reserve		30,680	30,680
Other reserves		587	587
Capital redemption reserve			
Equity – share options		3,139	2,719
Equity - foreign currency translation		(25,306)	(21,635)
Retained earnings		329,572	256,535
Total shareholders' equity		404,324	334,157

Unaudited consolidated statement of changes in equity

	Share Capital \$000	Merger reserve \$000	Capital redemption reserve \$000	Equity share options reserve \$000	Foreign currency translation reserve \$000	Assets held for sale \$000	Share premium \$000	Retained earnings \$000	Total \$000
At 1 January 2008	24,148	30,680	587	2,448	(4,650)	803	40,217	191,991	286,224
Comprehensive income									
Profit	-	-	-	-	-	-	-	78,154	78,154
Other comprehensive income									
Exchange differences arising on translation of overseas operations	-	-	-	-	(16,985)	(803)	-	-	(17,788)
Total other comprehensive income	-	-	-	-	(16,985)	(803)	-	-	(17,788)
Total comprehensive income	-	-	-	-	(16,985)	(803)	-	78,154	60,366
Transactions with owners									
Issue of employee share options	108	-	-	-	-	-	798	-	906
IFRS 2 Share option charge	-	-	-	271	-	-	-	-	271
Dividends paid	-	-	-	-	-	-	-	(13,610)	(13,610)
Total transactions with owners	108	-	-	271	-	-	798	(13,610)	(12,433)
At 31 December 2008	24,256	30,680	587	2,719	(21,635)	-	41,015	256,535	334,157
At 1 January 2009	24,256	30,680	587	2,719	(21,635)	-	41,015	256,535	334,157
Comprehensive income									
Profit	-	-	-	-	-	-	-	85,329	85,329
Other comprehensive income									
Exchange differences arising on translation of overseas operations	-	-	-	-	(3,671)	-	-	-	(3,671)
Total other comprehensive income	-	-	-	-	(3,671)	-	-	-	(3,671)
Total comprehensive income	-	-	-	-	(3,671)	-	-	85,329	81,658
Transactions with owners									
Issue of employee share options	79	-	-	-	-	-	302	-	381
IFRS 2 Share option charge	-	-	-	420	-	-	-	-	420
Dividends paid	-	-	-	-	-	-	-	(12,292)	(12,292)
Total transactions with owners	79	-	-	420	-	-	302	(12,292)	(11,491)
At 31 December 2009	24,335	30,680	587	3,139	(25,306)	-	41,317	329,572	404,324

Merger reserve

On 30 May 1995 JKC Oil & Gas plc acquired the issued share capital of JP Kenny Exploration & Production Limited for the issue of ordinary shares. At that date the share premium reserve of JP Kenny Exploration & Production Limited was the equivalent of \$30.7m.

Capital redemption reserve

The balance held in the capital redemption reserve relates to the buy back of shares in 2002, there have been no additional share buy-backs since this time.

Equity share options reserves

The balance held in the share options reserve relates to the fair value of the share options that have been expensed through the income statement since adoption of IFRS.

Foreign currency reserve

The foreign currency reserve includes movements that relate to the retranslation of the subsidiaries whose functional currencies are not the US Dollar.

Unaudited consolidated cash flow statement

For the year ended 31 December

	2009 \$000	2008 \$000
Cash flows from operating activities		
Cash generated from operations	159,976	161,762
Interest received	296	3,045
Interest paid	(369)	(2)
Income tax paid	(33,065)	(38,300)
Net cash from operating activities	126,838	126,505
Cash flows from investing activities		
Acquisition of subsidiary, net of cash acquired	-	(5,119)
Disposal of subsidiary	-	2,911
Proceeds from sale of property, plant and equipment	11,726	-
Short term loan repaid/(advanced)	10	(130)
Purchase of property, plant and equipment and intangible assets	(108,718)	(102,594)
Net cash used in investing activities	(96,982)	(104,932)
Cash flows from financing activities		
Proceeds from issue of shares	381	906
(Repayment)/proceeds from borrowing	-	(6)
Dividends paid to shareholders	(12,292)	(13,610)
Net cash used in financing activities	(11,911)	(12,710)
Increase/(decrease) in cash and cash equivalents in the year	17,945	8,863
Effect of exchange rates on cash and cash equivalents	(8,382)	(12,184)
Cash and cash equivalents at 1 January	64,805	68,126
	74,368	64,805

At 31 December 2009 \$1.1m of the cash held in Hungary at K & H Bank Zrt was restricted. The Hungarian Mining Act provides that a guarantee is held to cover compensation for any mine damages and the costs of recultivation, including environmental damage of the waste management facilities (2008: \$5.8m of the cash held in Ukraine at Prominvest Bank was on term deposit and categorised as restricted. Subsequent to 31 December 2008 the deposit has matured and the funds were no longer restricted).

Notes to the unaudited financial information

1. Basis of preparation

The financial information in this statement is not audited and does not constitute statutory accounts. Full accounts for JKX Oil and Gas plc for the year ended 31 December 2008 have been delivered to the Registrar of Companies. The auditors' report on these accounts was unqualified and did not contain a statement under Section 237(2) or Section 237(3) of the UK Companies Act 1985.

The financial information in this statement contains extracts from the 2009 Annual Report, which will be issued in April 2010 and prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted for use in the European Union. The accounting policies used by JKX Oil and Gas plc (the "group") are consistent with those set out in the 2008 Annual Report. A full list of policies will be presented in the 2009 Annual Report.

This financial information has been prepared on a going concern basis following a review by the Directors of forecast cash flows for the next 12 months, including consideration of the ability of the Group to change the timing and scale of capital expenditure, if required.

2. Ukrainian and Russian business environment

Ukraine and Russia display emerging market characteristics, and the legislation and business practices regarding banking operations, foreign currency transactions and taxation are constantly evolving as the governments attempt to manage the economies. Risks inherent in conducting business in an emerging market economy include, but are not limited to, volatility in the financial markets and the general economy. Uncertainties over the development of the tax and legal environment, as well as difficulties associated with the consistent interpretation and application of current laws and regulations, have continued. As at 31 December 2009, oil and gas assets based in Ukraine and Russia represent approximately 54% (2008: 63%) and 36% (2008: 29%) respectively of the Group's oil and gas assets.

The Group's operations and financial position may be affected by these uncertainties. The Group's financial statements do not include any adjustments to reflect the possible future effects on the recoverability, and classification of assets or the amounts or classifications of liabilities that may result from these uncertainties.

3. Revenue

Sales of oil and gas products are recognised when the significant risks and rewards of ownership have passed to the buyer and it can be reliably measured. Other services are recognised when the services have been performed. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty.

4. Segmental analysis

Segmental Information

Reportable operating segments are based on the internal reports provided to the Chief Operating Decision Maker ("CODM") to evaluate segment performance, decide how to allocate resources and make other operating decisions. The primary segmental reporting format is determined to be the geographical segment according to the location of the asset. The Group has one single class of business, being the exploration for, development and production of oil and gas reserves. Accordingly no secondary segmental information is presented.

There are five geographic reporting segments. The Ukraine and Hungary are involved with production and exploration; Russia and the 'Rest of World' are involved in exploration and development and the UK is the home of the head office and purchases material capital assets and services on behalf of other segments. The 'Rest of the World' segment comprises operations in Bulgaria, Georgia and Slovakia, and for 2008, the USA and Turkey. Transfer prices between segments are set on an arms length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment results include transfers between segments. Those transfers are eliminated on consolidation.

Segment results and assets include items directly attributable to the segment. Segment assets consist primarily of property, plant and equipment, inventories and receivables. Capital expenditures comprise additions to property, plant and equipment.

2009

		UK	Ukraine	Russia	Hungary	Rest of world	Sub Total	Eliminations	Total
		\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<i>External revenue</i>									
<i>Revenue by location of asset</i>									
	Oil	-	75,816	-	607	-	76,423	-	76,423
	Gas	-	112,976	-	5,155	8	118,139	-	118,139
	Management services/other	-	1,946	-	-	-	1,946	-	1,946
		-	190,738	-	5,762	8	196,508	-	196,508
<i>Inter segment revenue</i>									
	Management services/other	12,661	-	-	-	-	12,661	(12,661)	-
	Equipment	19,034	-	-	-	71	19,105	(19,105)	-
		31,695	-	-	-	71	31,766	(31,766)	-
<i>Total revenue</i>									
	Oil	-	75,816	-	607	-	76,423	-	76,423
	Gas	-	112,976	-	5,155	8	118,139	-	118,139
	Management services/other	12,661	1,946	-	-	-	14,607	(12,661)	1,946
	Equipment	19,034	-	-	-	71	19,105	(19,105)	-
		31,695	190,738	-	5,762	79	228,274	(31,766)	196,508
<i>Operating profit/(loss)</i>									
		(5,814)	125,176	(1,432)	1,161	2,680	121,771	(2,180)	119,591
	Finance income						878	-	878
	Finance cost						(1,142)	-	(1,142)
	Profit before tax						121,507	(2,180)	119,327
<i>Assets</i>									
	Segment assets	3,539	206,298	140,391	44,008	11,084	405,320	-	405,320
	Goodwill	-	-	2,101	-	-	2,101	-	2,101
	Long term receivable	-	-	2,531	-	-	2,531	-	2,531
	Cash at bank and in hand	47,650	19,377	3,463	1,192	2,686	74,368	-	74,368
	Total assets	51,189	225,675	148,486	45,200	13,770	484,320	-	484,320
<i>Non cash expense (other than depreciation)</i>									
		541	3,845	-	1,088	105	5,579	-	5,579
	Increase in property, plant and equipment and intangible assets	377	45,164	41,863	18,613	1,583	107,600	-	107,600
	Depreciation, depletion & amortization	450	33,097	66	1,739	-	35,352	-	35,352

2008

<i>External revenue</i>		UK	Ukraine	Russia	Hungary	Rest of world	Sub Total	Eliminations	Total
		\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<i>Revenue by location of asset</i>	Oil	-	121,823	-	-	-	121,823	-	121,823
	Gas	-	83,059	-	-	35	83,094	-	83,094
	Management services/other	-	2,130	-	-	-	2,130	-	2,130
		-	207,012	-	-	35	207,047	-	207,047
Inter segment revenue	Management services/other	20,357	-	-	-	-	20,357	(20,357)	-
	Equipment	25,917	-	-	-	-	25,917	(25,917)	-
		46,274	-	-	-	-	46,274	(46,274)	-
Total revenue	Oil	-	121,823	-	-	-	121,823	-	121,823
	Gas	-	83,059	-	-	35	83,094	-	83,094
	Management services/other	20,357	2,130	-	-	-	22,487	(20,357)	2,130
	Equipment	25,917	-	-	-	-	25,917	(25,917)	-
		46,274	207,012	-	-	35	253,321	(46,274)	207,047
<i>Operating profit/(loss)</i>		(6,597)	140,041	(538)	(203)	(3,830)	128,873	(3,480)	125,393
Finance income							3,172	-	3,172
Finance cost							(1,004)	-	(1,004)
Profit before tax							131,041	(3,480)	127,561
<i>Assets</i>									
Segment assets		2,607	199,951	87,789	13,195	14,479	318,021	-	318,021
Goodwill		-	-	2,165	-	-	2,165	-	2,165
Assets held for sale – assets		-	-	-	-	7,347	7,347	-	7,347
Cash at bank and in hand		42,099	13,587	8,044	41	1,034	64,805	-	64,805
Total assets		44,706	213,538	97,998	13,236	22,860	392,338	-	392,338
Non cash expense (other than depreciation)		1,281	7,889	-	3	7,494	16,667	-	16,667
Increase in property, plant and equipment and intangible assets		576	56,180	32,524	7,533	13,423	110,236	-	110,236
Depreciation, depletion & amortisation		362	29,088	65	-	1	29,516	-	29,516

2009		UK	Ukraine	Russia	Hungary	Rest of world	Total
<i>Revenue by location of customer</i>		\$000	\$000	\$000	\$000	\$000	\$000
External revenue	Oil	-	75,816	-	607	-	76,423
	Gas	-	112,976	-	5,155	8	118,139
	Management services/other	-	1,946	-	-	-	1,946
		-	190,738	-	5,762	8	196,508

				\$000
Major customers	1	Ukraine		64,690
	2	Ukraine		21,203

There are 2 customers whereby the revenue generated by each of them exceeded 10% of the Group's total revenues.

2008		UK	Ukraine	Russia	Hungary	Rest of world	Total
<i>Revenue by location of customer</i>		\$000	\$000	\$000	\$000	\$000	\$000
External revenue	Oil	-	121,823	-	-	-	121,823
	Gas	-	83,059	-	-	35	83,094
	Management services/other	-	2,130	-	-	-	2,130
		-	207,012	-	-	35	207,047

				\$000
Major customers	1	Ukraine		49,493
	2	Ukraine		41,807
	3	Ukraine		32,585
	4	Ukraine		28,196

There are 4 customers whereby the revenue generated by each of them exceeded 10% of the Group's total revenues.

5. (a) Property, plant and equipment

Group	Oil and gas	Gas field	Gas field	Other	Total	Oil and gas	Gas field	Gas	Other	Total
	fields	field	field	fixed		fields	field	field	fixed	
	Ukraine	Russia	Hungary	assets		Ukraine	Russia	Hungary	assets	
	2009	2009	2009	2009		2008	2008	2008	2008	
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Cost:										
At 1 January	319,725	83,993	11,593	14,857	430,168	274,117	67,782	-	12,256	354,155
Additions during the year	42,061	41,885	9,285	1,061	94,292	45,565	32,139	5,930	2,903	86,537
Foreign exchange equity adjustment	-	4,975	-	20	4,995	-	(15,885)	-	(145)	(16,030)
Reclassification	-	22	1,603	(22)	1,603	43	(43)	5,663	-	5,663
Disposals of property, plant and equipment	-	(266)	-	(145)	(411)	-	-	-	(157)	(157)
At 31 December	361,786	130,609	22,481	15,771	530,647	319,725	83,993	11,593	14,857	430,168
Accumulated depreciation, depletion and amortization:										
At 1 January	142,908	-	-	8,358	151,266	115,686	-	-	6,228	121,914
Depreciation on disposals of property, plant and equipment	-	-	-	(137)	(137)	-	-	-	(148)	(148)
Foreign exchange equity adjustment	-	-	-	14	14	-	-	-	(16)	(16)
Depreciation charge for the year	31,092	-	1,739	2,507	35,338	27,222	-	-	2,294	29,516
At 31 December	174,000	-	1,739	10,742	186,481	142,908	-	-	8,358	151,266
Carrying amount:										
At 31 December	187,786	130,609	20,742	5,029	344,166	176,817	83,993	11,593	6,499	278,902
On 20 January 2009, the Group acquired 50% of the share capital of HHE North Kft (HHN), a Hungarian registered company set up for the purpose of holding the Hernad I and Hernad II licences. JKX had previously funded the exploration and appraisal of its 50% interest through their contribution to joint venture assets since farming into the licences in December 2007. With the formation of the new joint venture entity and JKX's formal registration of shares in HHN in January 2009, the Group's accounting treatment changed from a jointly controlled asset to a jointly controlled entity and the accounts of HHN have been proportionally consolidated.										
5. (b) Exploration for and evaluation of oil and natural gas resources										
The following amounts relating to exploration activities are included in cost of sales or capitalised within intangible assets (refer to note 5c).										
Exploration and evaluation costs									2009	2008
									\$000	\$000
Provision for impairment/write off of exploration costs									5,039	6,883
Expense for the year									5,039	6,883
Intangible assets									27,134	22,359
Net assets									27,134	22,359
Capital expenditure for the year									13,308	23,699
During the year net cash used in investing activities									13,308	23,699

5. (c) Intangible assets: exploration and appraisal expenditure

	Ukraine \$000	USA \$000	Hungary \$000	Rest of world \$000	Total \$000
Cost:					
At 1 January 2008	3,544	7,053	5,663	14,674	30,934
Additions during the year	8,680	1,858	1,603	11,558	23,699
Reclassification	-	(8,911)	(5,663)	-	(14,574)
Write off of unsuccessful exploration costs	-	-	-	(6,753)	(6,753)
Sale of Italian assets	-	-	-	(3,284)	(3,284)
At 31 December 2008	12,224	-	1,603	16,195	30,022
Provision against oil and gas assets/release of costs against test revenue					
At 1 January 2008	1,308	1,564	-	9,639	12,511
Reclassification	-	(1,564)	-	-	(1,564)
Sale of Italian assets	-	-	-	(3,284)	(3,284)
At 31 December 2008	1,308	-	-	6,355	7,663
Carrying amount:					
At 1 January 2008	2,236	5,489	5,663	5,035	18,423
At 31 December 2008	10,916	-	1,603	9,840	22,359
Cost:					
At 1 January 2009	12,224	-	1,603	16,195	30,022
Additions during the year	2,385	290	9,327	1,306	13,308
Write off of unsuccessful exploration costs	(3,845)	-	(1,088)	(106)	(5,039)
Reduction of interest in Bulgaria	-	-	-	(1,601)	(1,601)
Reclassification	-	(290)	(1,603)	-	(1,893)
At 31 December 2009	10,764	-	8,239	15,794	34,797
Provision against oil and gas assets/release of costs against test revenue					
At 1 January 2009	1,308	-	-	6,355	7,663
Reclassification	-	-	-	-	-
At 31 December 2009	1,308	-	-	6,355	7,663
Carrying amount:					
At 1 January 2009	10,916	-	1,603	9,840	22,359
At 31 December 2009	9,456	-	8,239	9,439	27,134

The write off of exploration costs of \$5.0m relates to a Ukrainian well, Zaplavskoye 2, which was dry (\$3.8m), a dry hole in Hungary, Hajdunanas 5 (\$1.1m) and further write off of the Group's Turkish assets (\$0.1m), (2008: the \$6.8m write off relates to the Karakilise well which was dry and includes impairment of the Group's Turkish licence South East Bismil). Reclassifications include \$0.3m relating to the assets held for sale in the USA being reclassified to assets held for sale (2008: \$8.9m for the US which were moved to assets held for sale) and \$1.6m for Hungary (2008: \$5.7m for Hungary which was reclassified to property, plant and equipment).

5. (d) Impairment test for property, plant and equipment and goodwill

A review was undertaken at the balance sheet date of the carrying amounts of property, plant and equipment to determine whether there was any indication of triggers that may have led to these assets suffering an impairment loss. Following this review an impairment trigger was noted in relation to Yuzhgazenergie (YGE) in Russia.

Following the 2007 acquisition of YGE in Russia, a technical and environmental re-evaluation of YGE's Koshekhablskoye gas field re-development was undertaken by the Group. The re-evaluation resulted in a revised development plan and production profile. The development plan and production profile have continued to be refined since that time, on the basis of: 3D seismic acquisition and interpretation; testing of well 27; and engineering design and procurement. The anticipated cost of the development plan has increased by approximately 60% from that forecast at the time of the acquisition and first gas sales from the project are now expected around the 2010 year end, two years later than originally planned. The Group considered this delay, along with anticipated delay in convergence of Adygean gas prices to net-back European levels and further increases in forecast capital expenditure, to represent an indication of impairment in accordance with IAS 36. An impairment test was therefore undertaken. The test compared the recoverable amount of the Cash Generating Unit (CGU), being YGE for the purpose of the review, to the carrying value of the CGU including goodwill. The estimate of recoverable amount was based on fair value less costs to sell, derived by estimating discounted after tax cash flows for the CGU based on estimates that a typical market participant would use in valuing such assets. In accordance with IAS 36, the impairment review has been undertaken in Russian Roubles, the currency in which the CGU's future cash flows will be generated.

The key assumptions used in the impairment testing were:

- Production profiles: these were based on the latest available 2P reserves (44.8 mmboe) and contingent resources (119.3 mmboe) information provided by independent reserve engineers.
- Economic life of field: it is assumed YGE will be successful in extending the licence term beyond its current 2026 expiration to the economic life of the field (expected to be around 2046).
- Gas prices: these were based on the Russian government's intention to achieve net-back convergence with the European gas markets, which we have assumed as occurring in 2015, which is consistent with views expressed by market commentators. The gas price is assumed to increase in line with inflation after 2015.
- Capital and operating costs: these were based on project estimates provided by third parties.
- Post tax Rouble discount rate of 15.9%: this was based on a Capital Asset Pricing Model analysis, and consistent with that used in the 2008 impairment review.

Accordingly the impairment test is dependent upon judgment used in determining such assumptions.

Having undertaken the review it was concluded Koshekhablskoye gas field re-development was not impaired. This position will continue to be monitored as the project progresses.

Goodwill

Goodwill was recognized in 2007 in relation to the Group's acquisition of Yuzhgazenergie LLC (YGE) amounting to \$2.1m at 31 December 2009 (2008: \$2.2m). The goodwill arose after the application of IAS12 "Incomes Taxes", and is attributable principally to expanded growth opportunities in Russia. In accordance with IAS36 "Impairment of Assets", and following the Group's decision that an indication of potential impairment arose in relation to the property, plant and equipment (for reasons more fully disclosed above) a review for impairment of the related goodwill was undertaken. The carrying amount of the goodwill was allocated to the YGE Cash Generating Unit (CGU) as described above. The test compared the recoverable amount of the CGU, being YGE for the purpose of the review, to the carrying value of the CGU including goodwill. The calculations use the same assumptions as used for property, plant and equipment as more fully described above.

	\$000
Goodwill on acquisition	2,716
Foreign exchange equity adjustment	(551)
At 31 December 2008	2,165
Foreign exchange equity adjustment	(64)
At 31 December 2009	2,101

6. Investments

The net book value of unlisted fixed asset investments comprise:

Other investments

	2009	2008
Cost	\$000	\$000
At 1 January	5,617	5,617
Additions	-	-
At 31 December	5,617	5,617
Accumulated impairment		
At 1 January	5,617	5,617
Additions	-	-
At 31 December	5,617	5,617
Carrying amount:		
At 31 December 2008	-	-
At 31 December 2009	-	-

A provision was made in 2007 against other investments which comprises an investment in a Ukrainian oil and gas company. At the end of 2007 there were no clear development plans relating to the investment and this continues to be the position at 31 December 2009. The investment reflects a 10% holding of the company's ordinary share capital.

7. Assets held for sale

In 2009 the Group disposed of its assets in the US. Cash proceeds of \$10.1m were received against a holding value of \$7.3m. After selling costs of \$0.3m a profit on disposal of \$2.5m was realised.

The major classes of assets and liabilities classified as held for sale as at 31 December are as follows:	2009	2008
	\$000	\$000
<i>Assets</i>		
Other intangible assets	-	7,347
Trade and other receivables	-	-
Cash in hand and at bank	-	-
Assets classified as held for sale	-	7,347
<i>Liabilities</i>		
Trade and other payables	-	-
Provision for decommissioning	-	(8)
Liabilities directly associated with assets classified as held for sale	-	(8)
Net assets directly associated with the disposal group	-	7,339

8. Trade and other receivables

	2009 \$000	2008 \$000
Trade receivables	5,794	4,582
Other receivables	10,181	4,367
VAT receivable	12,467	5,115
Prepayments	3,375	938
	31,817	15,002

As of 31 December 2009, there were no trade receivables which were impaired (2008: nil). At this date there were no trade receivables past due (2008: nil).

Included within other receivables is an amount of \$9.1m relating to the Group's share of a receivable of HHE North Kft (HHN) that is unsecured, bears interest based on LIBOR plus a mark up and is expected to be repaid within 12 months of the balance sheet date.

There is no difference between the carrying value of trade and other receivables and their fair value.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2009 \$000	2008 \$000
US Dollar	9,134	679
Sterling	2,658	1,000
Euros	5,234	4,587
Hungarian Forints	2,295	-
Ukrainian Hryvna	3,333	5,478
Russian Roubles	9,163	3,258
	31,817	15,002

9. Cash and cash equivalents

	2009 \$000	2008 \$000
Cash	736	962
Short term deposits	73,632	63,843
Cash and cash equivalents	74,368	64,805

Short term deposits comprise amounts which are held on deposit, but are readily convertible to cash.

At 31 December 2009 \$1.1m of the cash held in Hungary at K & H Bank Zrt was restricted. The Hungarian Mining Act provides that a guarantee is held to cover compensation for any mine damages and the costs of recultivation, including environmental damage of the waste management facilities (2008: \$5.8m of the cash held in Ukraine at Prominvest Bank was on term deposit and categorised as restricted. Subsequent to 31 December 2008 the deposit has matured and the funds were no longer restricted).

10. Share capital

Equity share capital, denominated in Sterling, was as follows:

Authorised	2009 Number	2009 £000	2009 \$000	2008 Number	2008 £000	2008 \$000
Ordinary shares of 10p each	250,000,000	25,000	40,368	250,000,000	25,000	35,940
	2009 Number	2009 £000	2009 \$000	2008 Number	2008 £000	2008 \$000
Allotted, called up and fully paid						
Opening balance of 1 January	156,974,380	15,697	24,256	156,415,131	15,642	24,148
Exercise of share options	539,500	54	79	559,249	55	108
Closing balance at 31 December	157,513,880	15,751	24,335	156,974,380	15,697	24,256
<i>Of which the following are shares held in treasury :</i>						
Treasury shares held at 1 January	402,771	40	77	402,771	40	77
Treasury shares held at 31 December	402,771	40	77	402,771	40	77

The Company did not purchase any treasury shares during 2009 (2008: nil). There were no treasury shares used in 2009 (2008: nil) to settle share options. There are no shares reserved for issue under options or contracts.

11. Trade and other payables

	2009 \$000	2008 \$000
Trade payables	11,151	4,069
Other payables	13,181	1,251
Other taxes and social security costs	862	967
VAT payable	2,123	174
Deferred consideration relating to the acquisition of Yuzhgzenergie LLC (note below)	5,000	4,545
Accruals and deferred income	11,691	15,664
	44,008	26,670

There is no difference between the carrying value of trade and other payables and their fair value.

During the year \$nil was paid to Mostotal as part of the deferred consideration (2008: \$5.119m) for the acquisition of the Group's Russian asset, Yuzhgzenergie LLC. At 31 December 2009 the remaining deferred consideration was \$5.0m (2008: \$4.545m (un discounted: \$5.0m)) payable in two tranches; \$3.0m payable on 28 February 2010 and \$2.0m on conditions precedent, expected to be November 2010.

Included within other payables is an amount of \$9.1m relating to the Group's share of a payable of HHE North Kft (HHN) that is unsecured, bears interest based on LIBOR plus a mark up and is expected to be repaid within 12 months of the balance sheet date.

12. Finance income

	2009	2008
	\$000	\$000
Interest income on deposits	876	3,165
Other	2	7
	878	3,172

13. Finance costs

	2009	2008
	\$000	\$000
Other interest	369	2
Unwinding of discount on deferred consideration	455	617
Unwinding of discount on site restoration	318	385
	1,142	1,004

Interest capitalised during 2009 was \$nil (2008: \$nil).

14. Cost of sales

	2009	2008
	\$000	\$000
Operating costs	20,599	23,874
Depreciation, depletion and amortisation	32,831	27,222
Production based taxes	3,981	3,981
	57,411	55,077
Provision for impairment/write off of exploration costs	5,039	6,883
	62,450	61,960

The 2009 provision for impairment/write off of exploration costs, includes a write off of an exploration well in Hungary (\$1.1m), write off of remaining assets in Turkey (\$0.1m) and the write off of \$3.8m relating to an exploration well in Ukraine.

The 2008 provision for impairment/write off of exploration costs, includes impairment of the Group's Turkish licence South East Bismil and the write off of the Karakilise well which was dry (\$6.8m) and \$0.1m relating to exploration expenditure in Ukraine.

15. Operating profit - analysis of costs by nature

Operating profit derives solely from continuing operations and is stated after charging the following:

	2009	2008
	\$000	\$000
Depreciation - other assets	2,521	2,281
Depreciation, depletion and amortisation - oil and gas assets	32,831	27,222
Staff costs	15,397	14,581
Foreign exchange loss	2,286	6,994
Minimum operating lease payments		
– land and buildings	1,117	960
– plant and machinery	-	2

During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditor as detailed below:

Auditor remuneration

	2009	2008
	\$000	\$000
Fees payable to company auditor for the audit of the parent company and consolidated accounts	320	448
Fees payable to company auditor and its associates for other services		
The audit of the Company's subsidiaries pursuant to such legislation	222	310
Tax services	556	721

16. Staff costs

	2009	2008
	\$000	\$000
Staff costs		
Wages and salaries	14,091	13,635
UK social security costs	626	425
Pension contributions	2,042	2,268
Share based payments (equity-settled)	420	271

These costs are shown gross and a relevant proportion is capitalised, representing time spent on exploration and development activities.

During the year, the average monthly number of employees was:

	2009	2008
	Number	Number
Management/operational	598	546
Administration support	44	42

17. Taxation

Taxes charged on production of hydrocarbons are included in cost of sales (note 14).

Analysis of tax on profit on ordinary activities.

	2009 \$000	2008 \$000
Current tax		
Overseas - current year	34,863	39,384
Overseas - prior year	-	(10)
Current tax total	34,863	39,374
Deferred tax		
Overseas - current year	(865)	10,033
	33,998	49,407

The total tax charge for the year of \$34.0m (2008: \$49.4m) is higher (2008: higher) than the standard rate of UK corporation tax of 28% (2008: 28.5%). The differences are explained below:

Total tax reconciliation

	2009 \$000	2009 %	2008 \$000	2008 %
Profit on ordinary activities before tax	119,327		127,561	
Total tax calculated at 28% (2008: 28.5%)	33,412	28.0%	36,352	28.5%
Impairment and write down of fixed assets	40	0.0%	(192)	-0.2%
Other fixed asset differences	13	0.0%	115	0.1%
Effect of changes in tax rates	-	0.0%	(2,699)	-2.1%
Net increase in unrecognised losses carried forward	286	0.2%	1,003	0.8%
Other temporary differences not recognised	(743)	-0.6%	(96)	-0.1%
Effect of tax rates in foreign jurisdictions	(3,818)	-3.2%	(6,921)	-5.4%
Withholding tax suffered	89	0.1%	2,537	2.0%
Other non-taxable items	4,266	3.6%	3,327	2.6%
Sub total	33,544	28.1%	33,426	26.2%
Foreign exchange movement on tax balances	454	0.4%	15,981	12.5%
Total tax charge	33,998	28.5%	49,407	38.7%

Factors that may affect future tax charges

A significant proportion of the group's income will be generated overseas. Profits made overseas will not be able to be offset by costs elsewhere in the group. This could lead to a higher than expected tax rate for the group.

Taxation in Ukraine

The Group is subject to uncertainties relating to the determination of its tax liabilities. Ukrainian tax legislation and practice are in a state of continuous development, with new laws coming into effect at times which can conflict with others and, therefore, are subject to varying interpretations and changes which may be applied retrospectively. Management's interpretation of tax legislation as applied to the transactions and activities of the Group may at times not coincide with that of the tax authorities. As a result, the tax authorities may challenge transactions and the Group may be assessed for additional taxes, penalties and fines which could have a material adverse effect on the Group's financial position and results of operations.

Since PPC's inception in 1994 the Company has operated in a regime where conflicting laws have often existed, including in relation to effective taxes on oil and gas production. Various laws and regulations have existed and have implied a number of variable rates.

PPC has at times since 1994 sought clarification of their status regarding a number of production related taxes, and has been subject to a number of such taxes, at various rates, which have been paid and accounted for within Operating Costs within the Group Income Statement. In late 2009, coinciding with the lead up to the recent Presidential election in Ukraine, PPC was subjected to increased operational pressures in several areas, including broader taxation. Specifically, application of production related tax pre 2009 has attracted scrutiny.

On 1st January 2010 yet another law came into force in Ukraine in the area of production related tax, the Law of Ukraine on "On Rent Charges for Oil, Natural Gas and Gas Condensate" which had been suspended since 2004. There are currently conflicting laws (most particularly the Law of Ukraine on "Amending Certain Legislative Acts of Ukraine") which may be a basis for the Ukrainian Tax Authorities to assert that further production related taxes are due from various oil and gas companies, including PPC.

PPC will continue to seek clarification from advisors and the tax authorities concerning rules of calculation and payment of various production related taxes. The statutory period of limitation in Ukraine for such matters is three years. If PPC was subject to maximum production related taxes over the three year period to 31 December 2009, increased taxes could have been up to an amount equivalent to twenty percent of gross revenues (net of corporate tax savings). In particular, the Group considers that the likelihood of additional production related taxes for the period from May 2007 to December 2008 is remote on the basis of tax audits completed, and the related legal position. The Group also believes the possibility of any penalties or interest for any period, to be remote. Going forward from 1st January 2010, if the most punitive current variants of production related taxes were to apply to PPC it could represent an overall cost to PPC, equal to approximately thirty percent of gross revenue (net of corporate tax savings). The Group would exhaustively challenge the payment of any further production related taxes (over and above those it already pays). Given the lack of clarity over the legal position, in conjunction with the arguments the Group has to defend its position, the Group considers that no payments are likely to be made in the next 12 months. Further, the Group has flexibility in relation to capital and other expenditure to mitigate impact of any future additional production related payments on the Group's financial position.

The Group will review the provision at the half year, and continues to believe no form of material additional production related taxes is currently applicable to PPC.

18. Deferred taxation

A deferred tax liability of \$18.4m (2008:\$19.3m) arises in respect of the activities of Poltava Petroleum Company, based in Ukraine, \$9.6m (2008: \$9.8m) relating to the acquisition of Yuzhgazenergie LLC in Russia and \$1.4m relating to Hungary.

Provided deferred taxation	Assets		Liabilities		Net	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Fixed asset differences	-	-	35,064	31,843	35,064	31,843
Other temporary differences	(3,227)	(2,746)	-	-	(3,227)	(2,746)
Tax losses	(2,491)	-	-	-	(2,491)	-
Net deferred tax (asset)/liability recognized					29,346	29,097
Unprovided deferred taxation					2009 \$000	2008 \$000
Tax losses					(12,587)	(8,893)
Fixed asset differences					(2,032)	(4,294)
Other temporary differences					(59)	(266)
Net deferred tax asset not recognized					(14,678)	(13,453)

Of the tax losses \$2,881,403 (2008: \$1,005,388) will expire principally between 2017 and 2029 (2008: 2021 and 2028). There is no expiry date on the remaining losses. The deductible temporary differences do not expire under current tax legislation.

Deferred tax assets have not been recognised in respect of unprovided items because it is not probable that future taxable profit will be available to utilise these deductible temporary differences and tax losses.

At 31 December 2009, there is no potential tax liability relating to investments in subsidiaries (2008: potential deferred tax liability \$1.8m was not recognised).

19. Earnings per share

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders is based on the following data:

Earnings	2009 \$000	2008 \$000
Earnings for the purposes of basic earnings per share (profit for the year attributable to equity holders)	85,329	78,154
Earnings for the purposes of diluted earnings per share	85,329	78,154

Number of shares	2009	2008
Basic weighted average number of shares	157,341,791	156,769,466
Dilutive potential ordinary shares:		
Share options	533,071	1,293,920
Weighted average number of shares for diluted earnings per share	157,874,862	158,063,386

There were 2,099,551 (2008: 2,022,251) outstanding share options at 31 December 2009, of which 360,969 (2008: 981,037) have a dilutive effect.

20. Dividends

On 5 June 2009, a dividend of 2.6 pence per share (2008: 2.4 pence per share) was paid to shareholders and on 16 October 2009, an interim dividend for 2009 of 2.3 pence per share (2008: 2.2 pence per share) was also paid to shareholders. The total dividends paid during the year were 4.9 pence per share (2008: 4.6 pence per share).

Total dividends paid during the year amounted to \$12.3 million (2008: \$13.6 million).

In respect of the full year 2009, the directors propose that a final dividend of 2.7 pence per share (2008: 2.6 pence per share) be paid to shareholders on 11 June 2010. The total estimated dividend to be paid is \$7.1m (2008: \$5.9m). This dividend is subject to approval by the shareholders at the Annual General Meeting.

21. Reconciliation of operating profit to net cash inflow from operations

	2009 \$000	2008 \$000
Operating profit	119,591	125,393
Depreciation, depletion and amortisation	35,351	29,503
Impairment of property, plant and equipment/intangible assets	4,821	6,883
Gain on disposal of subsidiary/asset disposal	(2,486)	(915)
Share-based payment costs	420	271
Exchange differences	(4,439)	6,435
Cash generated from operations before changes in working capital	153,258	167,570
(Increase)/Decrease in operating debtors	(17,399)	(4,780)
(Decrease)/Increase in operating creditors	24,561	(661)
Increase in inventory	(444)	(367)
Cash generated from operations	159,976	161,762