

**S.C. PETROM S.A.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**DECEMBER 31, 2007**  
**PREPARED IN ACCORDANCE WITH**  
**INTERNATIONAL FINANCIAL REPORTING**  
**STANDARDS TOGETHER WITH**  
**THE INDEPENDENT AUDITORS' REPORT**

**S.C. PETROM S.A. AND SUBSIDIARIES**  
**AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS**

---

<b>CONTENTS</b>	<b>PAGE</b>
INDEPENDENT AUDITOR'S REPORT	1 - 2
CONSOLIDATED BALANCE SHEET	3 - 4
CONSOLIDATED INCOME STATEMENT	5
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	6 - 7
CONSOLIDATED CASH FLOW STATEMENT	8
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	9 - 42
SUPERVISORY BOARD REPORT ON CONSOLIDATED FINANCIAL STATEMENTS	1 - 6

To the Supervisory Board and the Shareholders  
of S.C. Petrom S.A.  
Bucharest, Romania

## **Independent Auditor's Report**

### **Report on the Consolidated Financial Statements**

1. We have audited the accompanying consolidated financial statements of Petrom S.A. and its subsidiaries (the Group) as at December 31, 2007 which comprise the consolidated balance sheet as at December 31, 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Consolidated Financial Statements*

2. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

3. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the balance sheet in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entities' internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

6. In our opinion, the consolidated financial statements give a true and fair view of the financial position of Petrom S.A. and its subsidiaries as of December 31, 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

#### *Other Matters*

7. This report is made solely to shareholders of the Group companies, as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and the shareholders of the Group companies as a body, for our audit work, for this report, or for the opinion we have formed.

#### **Report on conformity of the Supervisory Board' Report with the Consolidated Financial Statements**

In accordance with the Order of the Minister of Public Finance no 1752/2005, article no. 263 point 2) we have read the Supervisory Board' Report accompanying the consolidated financial statements presented from page 1 to 6. The Supervisory Board' Report is not a part of the consolidated financial statements. In the Supervisory Board' Report we have not identified any financial information which is not in accordance, in all material respects, with the information presented in the accompanying consolidated financial statements.

*Deloitte Audit SRL*

Deloitte Audit SRL  
Bucharest,  
March 18, 2008

**S.C. PETROM S.A. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**  
**AS OF DECEMBER 31, 2007**  
(all amounts are expressed in RON, unless otherwise specified)

	<u>Notes</u>	<u>December 31, 2007</u>	<u>December 31, 2006</u>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	5	352,359,821	185,620,141
Property, plant, equipment	6	15,463,674,525	12,503,353,792
Investment in associates	7	40,536,390	79,059,055
Other financial assets	7	229,485,848	890,605,180
Other receivables and assets	9	1,770,734,988	1,272,167,839
Deferred tax asset	15	265,409,309	186,810,444
<b>Total non-current assets</b>		<b>18,122,200,881</b>	<b>15,117,616,451</b>
<b>Current assets</b>			
Inventories, net	8	2,289,936,846	1,705,591,642
Trade receivables, net	9	1,482,458,290	1,030,827,766
Other receivables and assets, net	9	451,209,917	336,569,036
Securities and investments	10	1,004,642,846	335,843,391
Cash and cash equivalents		1,340,611,643	3,918,642,801
Assets held for sale	11	-	65,795,477
<b>Total current assets</b>		<b>6,568,859,542</b>	<b>7,393,270,113</b>
<b>Total assets</b>		<b>24,691,060,423</b>	<b>22,510,886,564</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital	12	18,983,366,226	18,983,366,226
Retained earnings		(3,513,271,077)	(4,032,379,894)
Other reserves		80,884,746	(152,801,406)
<b>Total equity attributable to equity holders of the parent</b>		<b>15,550,979,895</b>	<b>14,798,184,926</b>
<b>Minority interests</b>		<b>137,311,923</b>	<b>120,243,983</b>
<b>Total equity</b>		<b>15,688,291,818</b>	<b>14,918,428,909</b>
<b>Non-current liabilities</b>			
Pensions and similar liabilities	13	190,438,000	185,590,838
Decommissioning and restoration obligations	13	4,306,728,251	3,706,408,674
Other provisions	13	753,181,350	419,321,434
Other liabilities	14	59,859,000	30,538,257
Deferred tax liability	15	105,963,860	97,873,013
<b>Total non-current liabilities</b>		<b>5,416,170,461</b>	<b>4,439,732,216</b>

The notes on pages 9 to 42 form part of these financial statements.

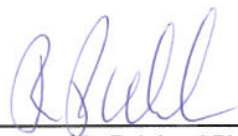


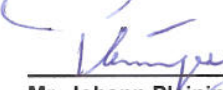
**S.C. PETROM S.A. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**  
**AS OF DECEMBER 31, 2007**  
(all amounts are expressed in RON, unless otherwise specified)


	<u>Notes</u>	<u>December 31, 2007</u>	<u>December 31, 2006</u>
<b>Current liabilities</b>			
Trade payables		981,417,814	799,722,882
Interest bearing debts	16	23,301,983	54,047,150
Provisions for taxes	13	117,604,114	2,677,850
Other provisions	13	1,673,532,353	1,287,949,563
Other liabilities	14	790,741,880	1,007,842,718
Liabilities associated with assets held for sale	11	-	485,276
<b>Total current liabilities</b>		<b><u>3,586,598,144</u></b>	<b><u>3,152,725,439</u></b>
<b>Total equity and liabilities</b>		<b><u>24,691,060,423</u></b>	<b><u>22,510,886,564</u></b>


These financial statements were approved on March 18th, 2008.


  
**Mrs. Mariana Gheorghe**  
Chief Executive Officer


  
**Mr. Reinhard Pichler**  
Chief Financial Officer

  
**Mr. Johann Pleininger**  
M.C. Member E&P

  
**Mr. Jeffrey Rinker**  
M.C. Member Refining

  
**Mr. Tamas Mayer**  
M.C. Member Marketing

  
**Mr. Siegfried Ehn**  
Director Finance and  
Controlling Division

  
**Mrs. Alina Popa**  
Head of Financial Reporting  
and Group Consolidation

The notes on pages 9 to 42 form part of these financial statements.

**S.C. PETROM S.A. AND SUBSIDIARIES**  
**CONSOLIDATED INCOME STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
(all amounts are expressed in RON, unless otherwise specified)

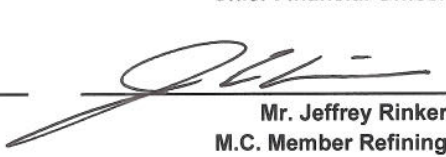
	<b>Notes</b>	<b>December 31, 2007</b>	<b>December 31, 2006</b>
Revenue		14,940,956,936	15,250,023,601
Cost of sales		<u>(10,005,883,627)</u>	<u>(9,919,292,771)</u>
<b>Gross profit</b>		<b><u>4,935,073,309</u></b>	<b><u>5,330,730,830</u></b>
Other operating income	17	277,782,551	545,861,251
Selling expenses		(1,614,065,503)	(1,503,928,955)
Administrative expenses		(318,289,288)	(347,320,732)
Exploration expenses		(376,272,733)	(156,347,518)
Other operating expenses	18	<u>(1,003,608,237)</u>	<u>(1,339,035,287)</u>
<b>Earnings before interest and taxes</b>	19	<b><u>1,900,620,099</u></b>	<b><u>2,529,959,589</u></b>
Income from investments	20	31,228,662	30,681,028
Financial expenses	21	<u>(91,972,982)</u>	<u>(260,389,368)</u>
<b>Net finance cost</b>		<b><u>(60,744,320)</u></b>	<b><u>(229,708,340)</u></b>
<b>Profit from ordinary activities</b>		<b><u>1,839,875,779</u></b>	<b><u>2,300,251,249</u></b>
Taxes on income	22	<u>(299,008,247)</u>	<u>(235,631,579)</u>
<b>Net income for the year</b>		<b><u>1,540,867,532</u></b>	<b><u>2,064,619,670</u></b>
thereof attributable to own shareholders		<u>1,533,038,356</u>	<u>2,065,753,512</u>
thereof attributable to minority interests		7,829,176	(1,133,842)
<b>Earnings per share in RON</b>	23	<b>0.0271</b>	<b>0.0366</b>

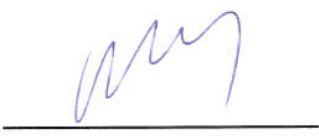
These financial statements were approved on March 18th, 2008.

  
Mrs. Mariana Gheorghe  
Chief Executive Officer

  
Mr. Reinhard Pichler  
Chief Financial Officer

  
Mr. Johann Pleininger  
M.C. Member E&P

  
Mr. Jeffrey Rinker  
M.C. Member Refining

  
Mr. Tamas Mayer  
M.C. Member Marketing

  
Mr. Siegfried Ehn  
Director Finance and  
Controlling Division

  
Mrs. Alina Popa  
Head of Financial Reporting  
and Group Consolidation

The notes on pages 9 to 42 form part of these financial statements.

**S.C. PETROM S.A. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
(all amounts are expressed in RON, unless otherwise specified)

	<u>Share capital</u>	<u>Retained earnings</u>	<u>Other reserves</u>	<u>Petrom shareholders</u>	<u>Minority interests</u>	<u>Shareholders' equity</u>
<b>Balance at January 1, 2007</b>	<b>18,983,366,226</b>	<b>(4,032,379,894)</b>	<b>(152,801,406)</b>	<b>14,798,184,926</b>	<b>120,243,983</b>	<b>14,918,428,909</b>
<b>Unrealized gains / (losses) on hedging of umbrella funds</b>						
Profit / (loss) for the year before taxes on income	-	-	64,958,958	<b>64,958,958</b>	-	<b>64,958,958</b>
Income taxes	-	-	(10,393,400)	<b>(10,393,400)</b>	-	<b>(10,393,400)</b>
<b>Unrealized gains / (losses) on available for sale financial assets</b>						
Realised during the year before taxes on income	-	-	(19,335,904)	<b>(19,335,904)</b>	-	<b>(19,335,904)</b>
Income taxes	-	-	3,091,665	<b>3,091,665</b>	-	<b>3,091,665</b>
<b>Unrealized gains / (losses) on revaluation of hedges</b>						
Realised during the year before taxes on income	-	-	40,955,000	<b>40,955,000</b>	-	<b>40,955,000</b>
Income taxes	-	-	(6,553,000)	<b>(6,553,000)</b>	-	<b>(6,553,000)</b>
Exchange differences from translation of foreign operations	-	-	110,155,114	<b>110,155,114</b>	9,218,835	<b>119,373,949</b>
Assets revaluation surplus according to IFRS 3	-	-	50,807,719	<b>50,807,719</b>	-	<b>50,807,719</b>
Net income for the year	-	1,533,038,356	-	<b>1,533,038,356</b>	7,829,176	<b>1,540,867,532</b>
Dividends distribution	-	(1,013,929,539)	-	<b>(1,013,929,539)</b>	-	<b>(1,013,929,539)</b>
Changes in consolidated Group	-	-	-	-	22,160	<b>22,160</b>
Decrease in minority interests	-	-	-	-	(2,231)	<b>(2,231)</b>
<b>Balance at December 31, 2007</b>	<b><u>18,983,366,226</u></b>	<b><u>(3,513,271,077)</u></b>	<b><u>80,884,746</u></b>	<b><u>15,550,979,895</u></b>	<b><u>137,311,923</u></b>	<b><u>15,688,291,818</u></b>

The notes on pages 9 to 42 form part of these financial statements.



**S.C. PETROM S.A. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
(all amounts are expressed in RON, unless otherwise specified)

	<u>Share capital</u>	<u>Retained earnings</u>	<u>Other reserves</u>	<u>Petrom shareholders</u>	<u>Minority interests</u>	<u>Shareholders' equity</u>
<b>Balance at January 1, 2006</b>	<b>18,919,006,000</b>	<b>(5,359,035,480)</b>	<b>(88,125,587)</b>	<b>13,471,844,933</b>	<b>12,432,595</b>	<b>13,484,277,528</b>
<b>Unrealized gains / (losses) on hedging of umbrella funds and available for sale financial assets</b>						
Profit / (loss) for the year before taxes on income	-	-	55,410,407	<b>55,410,407</b>	-	<b>55,410,407</b>
Income taxes	-	-	(8,863,573)	<b>(8,863,573)</b>	-	<b>(8,863,573)</b>
<b>Unrealized gains / (losses) on revaluation of hedges</b>						
Profit / (loss) for the year before taxes on income	-	-	(10,065,000)	<b>(10,065,000)</b>	-	<b>(10,065,000)</b>
Income taxes	-	-	1,611,000	<b>1,611,000</b>	-	<b>1,611,000</b>
Exchange differences from translation of foreign operations	-	-	(102,768,653)	<b>(102,768,653)</b>	(2,167,463)	<b>(104,936,116)</b>
Net income for the year	-	2,065,753,512	-	<b>2,065,753,512</b>	(1,133,842)	<b>2,064,619,670</b>
Increase in share capital	64,360,226	-	-	<b>64,360,226</b>	-	<b>64,360,226</b>
Dividends distribution	-	(739,097,926)	-	<b>(739,097,926)</b>	-	<b>(739,097,926)</b>
Changes in consolidated Group	-	-	-	-	103,890,548	<b>103,890,548</b>
Increase in minority interests	-	-	-	-	<u>7,222,145</u>	<u><b>7,222,145</b></u>
<b>Balance at December 31, 2006</b>	<u><b>18,983,366,226</b></u>	<u><b>(4,032,379,894)</b></u>	<u><b>(152,801,406)</b></u>	<u><b>14,798,184,926</b></u>	<u><b>120,243,983</b></u>	<u><b>14,918,428,909</b></u>

The notes on pages 9 to 42 form part of these financial statements.

**S.C. PETROM S.A. AND SUBSIDIARIES**  
**CONSOLIDATED CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
(all amounts are expressed in RON, unless otherwise specified)

	<u>Notes</u>	<u>December 31, 2007</u>	<u>December 31, 2006</u>
<b>Cash flow from operating activities</b>			
<b>Profit before taxation</b>		<b>1,839,875,779</b>	<b>2,300,251,249</b>
<b>Adjustments for:</b>			
Interest expenses	<b>21</b>	3,970,438	61,555,352
Interest income	<b>21</b>	(182,117,226)	(298,552,065)
Net movement in provisions for:			
- Financial assets		(19,773,163)	35,320,252
- Inventories		6,274,204	(6,937,311)
- Receivables		(33,054,370)	(47,086,118)
- Pensions and similar liabilities		4,847,820	12,787,270
- Decommissioning and restoration obligations		167,294,346	143,177,255
- Other provisions for risk and charges		462,180,710	244,753,885
Income from investments in associates	<b>20</b>	(7,241,914)	(16,775,375)
Goodwill written off		4,563,634	(63,390,518)
Cash flow hedge recycled through income statement		64,958,958	29,418,407
Loss / (Gain) on disposals of fixed assets		44,450,938	(173,289,917)
Loss on disposals of financial assets		69,555,952	-
Depreciation, amortization and impairment expense		1,480,293,830	1,176,329,859
Other non cash items		(10,296,568)	6,493,047
<b>Cash generated from operating activities before working capital movements</b>		<b>3,895,783,368</b>	<b>3,404,055,272</b>
Working capital movements		(686,000,189)	(150,505,623)
Interest received		200,255,538	298,552,065
Interest paid		(3,970,438)	(74,563,094)
Tax on profit paid		(278,537,730)	(683,264,216)
<b>Net cash generated from operating activities</b>		<b>3,127,530,549</b>	<b>2,794,274,404</b>
<b>Cash flow from investment activities</b>			
Purchase of tangible and intangible assets		(4,266,668,407)	(2,201,280,606)
Proceeds from sale of fixed assets		133,154,634	416,254,688
Acquisition of financial assets		(98,817,118)	(264,072,972)
Proceeds from sale of financial assets		16,979,723	-
Acquisition of subsidiaries net of cash acquired	<b>28</b>	(83,218,705)	(635,132,289)
Proceeds from sale of Group companies less cash and cash equivalents	<b>28</b>	46,739,831	3,596,897
<b>Net cash used from investment activities</b>		<b>(4,251,830,042)</b>	<b>(2,680,634,282)</b>
<b>Cash flow from financial activities</b>			
Repayment of loans		(30,745,167)	(451,595,204)
Dividends paid		(1,422,986,498)	(395,505,162)
Proceeds from share capital increase		-	37,662,517
<b>Net cash provided by/ (used) for financial activities</b>		<b>(1,453,731,665)</b>	<b>(809,437,849)</b>
<b>Total cash flows</b>		<b>(2,578,031,158)</b>	<b>(695,797,727)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>3,918,642,801</b>	<b>4,614,440,528</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>1,340,611,643</b>	<b>3,918,642,801</b>

The notes on pages 9 to 42 form part of these financial statements.

**S.C. PETROM S.A. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
(all amounts are expressed in RON, unless otherwise specified)

**1. LEGAL PRINCIPLES AND ACCOUNTING POLICIES**

Petrom S.A. (239, Calea Dorobantilor, 010567 Bucharest, Romania), is an international oil and gas company with activities in Exploration and Production (E&P), Refining& Marketing, Chemicals and Gas segments.

Shareholders' structure as at December 31, 2007 was as follows:

	<b>Percent</b>
OMV Aktiengesellschaft	51.01%
The Authority for State Assets Recovery	20.64%
Property Fund S.A.	20.11%
European Bank for Reconstruction and Development	2.03%
Legal entities and physical persons	6.21%
<b>Total</b>	<b><u>100.00%</u></b>

*Statement of compliance*

These financial statements have been drawn up in compliance with International Financial Reporting Standards (IFRSs). The US GAAP industry standards (in particular SFAS 19 and SFAS 69) are applied in the preparation of the consolidated financial statements to the extent that these are compatible with existing IFRS and IAS.

Romanian listed Companies such as Petrom S.A. are required by Ministry of Finance Order 1121/2006 to submit the consolidated financial statements prepared in accordance with IFRS starting 2007. In addition, according to Ministry of Finance Order 2001/22.11.2006, companies can also choose to prepare first time consolidated financial statements for the year ended 31<sup>st</sup> December 2006 in accordance with IFRS. As a result, Petrom S.A. prepared first time consolidated financial statements in accordance with IFRS for the year ended December 31, 2006.

*Basis of preparation*

Consolidated financial statements of Petrom Group are presented in RON ("Romanian Lei"), using going concern principles. The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain non-current assets and financial instruments.

*Critical areas and use of management judgment*

Preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported for assets, liabilities, income and expenses, as well as the amounts disclosed in the notes. Actual outcomes may differ from these estimates. The management believes that any deviations from these estimates will not have a material influence on the consolidated financial statements in the near-term. The management does not believe that the Group is exposed to the effects of any major concentration of risks in the short-term.

Estimates and assumptions need to be made particularly with respect to reserves, provisions for restoration costs and impairment of fixed assets.

a) Reserves are estimated by the Group's own engineers. The estimates are audited externally every two years. Property, plant and equipment at December 31, 2007 includes oil reserves and related assets of thousands RON 8,817,092 as at December 31, 2007 (thousands RON 7,863,000 as at December 31, 2006).

b) Estimates of future restoration costs are also based on reports by Group engineers and on past experience. The resulting provision for restoration costs amounts to thousands RON 4,306,728 as at December 31, 2007 (2006: thousands RON 3,706,409). Provisions for restoration costs and impairment losses require estimates of interest rates. These estimates have a material effect on the amount of the provisions.

c) In accordance with IAS 36, both, intangible assets and property, plant and equipment are reviewed at balance sheet date for any indications of impairment. If the carrying amount of an asset exceeds the recoverable amount, an impairment loss is recognized to reduce the asset to its lower recoverable amount. The asset's value is written back up to its depreciated cost if the reasons for recognition of an impairment loss disappear in subsequent periods. The difference is disclosed under other operating income.

**S.C. PETROM S.A. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
(all amounts are expressed in RON, unless otherwise specified)

**1. LEGAL PRINCIPLES AND ACCOUNTING POLICIES (continued)**

*Adoption of new and revised Standards*

a) Standards and Interpretations effective in the current period

IFRS 7 "Financial Instruments: Disclosures" comes into effect as of January 1, 2007; this standard extends the existing disclosure requirements for financial instruments under IAS 32, replaces the current disclosure requirements under IAS 30 and consolidates all the disclosure requirements for financial instruments. The Group applies this standard starting with financial year 2007.

b) Standards and Interpretations in issue not yet adopted

At the date of authorization of these financial statements the following Interpretations were in issue, but not yet effective:

- IFRIC 11 - IFRS 2: Group and Treasury Share Transactions (effective for the period starting with 1<sup>st</sup> of March 2007);
- IFRIC 12 - Service Concession Arrangements (effective 1<sup>st</sup> of January 2008); and
- IFRIC 14 - IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective 1<sup>st</sup> of January 2008).

The Group anticipates that all of the above Interpretations will be adopted in the Group's financial statements for the period commencing 1 January 2008 and that the adoption of those Interpretations will have no material impact on the financial statements of the Group in the period of initial application.

**2. CONSOLIDATION**

**a) Subsidiaries**

The consolidated financial statements comprise the financial statements of Petrom SA and its subsidiaries as at 31 December 2007, prepared in accordance with consistent accounting and valuation principles. The financial statements of the subsidiaries are prepared for the same reporting date, 31 December 2007, as the parent company.

The valuation of assets and liabilities from subsidiaries is based on fair values at acquisition dates. Goodwill arising on acquisition is recognized as an asset, being the excess of the initially measured cost of the business combination over the Group's interest in the net fair value of the identifiable assets and liabilities recognized. If the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized in profit and loss account. The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized. Goodwill is recognized as an asset and reviewed for impairment at least annually. All impairments are immediately charged against income, and there are no subsequent write-backs to amortized cost.

Minority interests represent the portion of profit and loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent's shareholders' equity.

The number of consolidated companies is as follows:

	<b>Full consolidation</b>	<b>Equity consolidation</b>
<b>As at January 1, 2007</b>	<b>25</b>	<b>4</b>
Included for the first time	3	-
Disposed of	3	2
<b>As at December 31, 2007</b>	<b>25</b>	<b>2</b>
thereof, Romanian companies	9	2
thereof, Foreign companies	16	-

**S.C. PETROM S.A. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(all amounts are expressed in RON, unless otherwise specified)**

---

**2 CONSOLIDATION (continued)**

The results of subsidiaries acquired or disposed off during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

**b) Associates**

An associate is an enterprise over which the Group is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee. The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. The carrying amount of such investments is reduced to recognise any decline, other than a temporary decline, in the value of individual investments. Where a group enterprise transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

**3. ACCOUNTING AND VALUATION PRINCIPLES**

**a) Exploration and appraisal costs**

Exploration and appraisal costs are accounted for on the successful efforts basis. Costs relating to geological and geophysical activity are expensed as and when incurred. The costs associated to exploration and appraisal drilling are initially capitalized as capital work in progress oil and gas assets pending determination of the commercial viability of the relevant oil and gas properties. If prospects are subsequently deemed to be unsuccessful on completion of evaluation, the associated costs are included in the profit and loss account for the year. If the prospects are deemed commercially viable, such costs are transferred to tangible oil and gas assets upon commencement of the production. The status of such prospects is reviewed regularly by executive management.

**b) Development and production costs**

Development costs including costs incurred to gain access to proved reserves and to prepare well locations for drilling, to drill and equip development wells and to construct and install production facilities, are capitalized as incurred. Production costs, including those costs incurred to operate and maintain wells and related equipment and facilities (including depletion, depreciation and amortization charges as described below) and other costs of operating and maintaining those wells and related equipment and facilities, are expensed as incurred.

**c) Intangible assets and property, plant and equipment**

Intangible assets acquired by the Group are stated at cost less accumulated amortization and impairment losses.

Property, plant and equipment are recognized at cost of acquisition or construction and is presented net of accumulated depreciation and impairment losses.

The cost of purchased tangible assets is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to their present location and condition necessary for their intended use. The cost of self-constructed assets includes cost of direct materials, labour, overheads and other directly attributable costs that have been incurred in bringing the assets to their present location and condition.

Depreciation and amortization are calculated on a straight-line basis, except for core items within E&P activities which are depreciated using the unit of production method.



**S.C. PETROM S.A. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
(all amounts are expressed in RON, unless otherwise specified)

**3. ACCOUNTING AND VALUATION PRINCIPLES (continued)**

In accordance with IAS 36, both, intangible assets and property, plant and equipment are reviewed at balance sheet date for any indications of impairment. For non-tangible assets with undetermined useful lives and for goodwill, impairment loss tests are carried out annually. This applies even if there are no indications of impairment. If the carrying amount of an asset exceeds the recoverable amount, an impairment loss is recognized to reduce the asset to its lower recoverable amount. The asset's value is written back up to its depreciated cost if the reasons for recognition of an impairment loss disappear in subsequent periods. The difference is disclosed under other operating income.

Depreciation and amortization are disclosed in the consolidated income statement under production costs of sales.

Scheduled depreciation and amortization calculated on a straight line basis is largely based on the following useful lives:

<b>Intangible assets</b>	<b>Useful life (years)</b>
Goodwill	unlimited
Software	3-5
Concessions, licenses, etc.	5-20, or contract duration
<b>Business-specific property, plant and equipment</b>	
E&P Oil and gas core assets	Unit of production method
R&M Storage tanks	40
Refinery facilities	25
Pipeline systems	20
Filling station equipment	10
Filling station buildings and outdoor facilities	5-20
Gas pipelines	20
Chemicals plant	8-20
<b>Other property, plant and equipment</b>	
Production and office buildings	20 or 40-50
Other plant and equipment	10-20
Fixtures and fittings	5-10

Non-current assets classified as held for sale are disclosed at the lower of carrying value and fair value net of any disposal costs. Non-current assets and groups of assets are classified as held for sale if their carrying value can better be realized by sale than by continuous usage. This classification requires that the sale must be estimated as extremely probable, and that the asset must be available for immediate disposal in its present condition.

**d) Goodwill**

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Goodwill is not amortized, and instead it is tested annually for impairment at least once a year. Impairment losses are recognized against income immediately, and there are no subsequent write-backs to amortized cost.

**e) Leases**

Property, plant and equipment contains assets being used under finance leases. Since the Group enjoys the economic benefits of ownership, the assets must be capitalized, at the lower of the present value of minimum lease obligation and fair value, and then depreciated over their expected useful life or the duration of the lease, if shorter. A liability equivalent to the capitalized amount is recognized, and future lease payments are split into the finance charge and the capital repayment element.

**S.C. PETROM S.A. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(all amounts are expressed in RON, unless otherwise specified)**

---

**3. ACCOUNTING AND VALUATION PRINCIPLES (continued)**

All lease agreements not classified as finance leases are treated as operating leases – and the lease payments then form part of the expenses of the period.

**f) Investments in associates**

The Group's investment in its associate is accounted for under the equity method. An associate is an entity in which the Group has significant influence and which is neither a subsidiary.

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to Group's net investment in the associate. The income statement reflects the share of the results of operations of the associate. Where has been a change recognized directly in the equity of the associate, the Group recognizes its share of the changes and discloses it in the statement of changes in equity.

**g) Financial assets**

Investments in associated, but not consolidated, companies and other investments for which there is no listed market price on an active market are carried at acquisition cost or at an appropriate lower value if there is impairment which is expected to be permanent. Associated companies are recognized at the proportionate share of equity. Interest-bearing loans are disclosed at nominal value, and interest-free loans, and loans at low rates of interest, at present value.

Available-for-sale securities are recognized at fair value. Temporary decreases in value and all increases in fair value are however not recognized as income, but included directly as part of stockholders' equity. Permanent decreases in fair value are recognized in the income statement.

Held-to-maturity securities and investments are carried at amortized cost (subject to temporary impairment). Securities designated as assets at fair value through profit or loss are recognized in the income statement for the period at fair value including gains and losses. Securities and investments without stock exchange listings or market values, whose fair value cannot be reliably estimated, are disclosed at acquisition cost less any impairment losses.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

**h) Interest on borrowings**

Interest on borrowings incurred directly for the acquisition, construction or production of qualifying assets is capitalized until the assets are effectively ready for their intended use or for sale. In connection with international E&P activities, all interest incurred which is directly attributable to the purchase and subsequent development of a field is capitalized. All other costs of borrowing are expensed in the period in which they are incurred.

**i) Government grants**

In accordance with IAS 20, government grants are only recognized where there is reasonable assurance that the conditions attaching to them will be fulfilled and that the grants will be received. Grants satisfying these criteria are disclosed under other liabilities and released over the depreciable life of the assets to which they relate.

**S.C. PETROM S.A. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(all amounts are expressed in RON, unless otherwise specified)**

---

**3. ACCOUNTING AND VALUATION PRINCIPLES (continued)**

**j) Inventories**

Costs of production comprise directly attributable costs and fixed and variable indirect material and production overheads. Inventories are registered at the lower of cost and net realizable value. Net realizable value is estimated on selling price in the normal course of activity less estimated costs of completion and selling expenses. Appropriate provisions are made for any obsolete or slow moving stocks based on the management's assessments.

**k) Receivables and other assets**

With the exception of derivative financial instruments, which are recognized at fair value, and foreign currency items, which are translated at closing rates, receivables and other assets are carried at acquisition cost. This can be taken to be a reasonable estimate of fair value, since in the majority of cases the residual maturity is less than a year. Long-term receivables are discounted using the effective interest rate method.

**l) Provisions**

Provisions are normally made for all present obligations to third parties where it is probable that the obligation will be settled and the amount of the obligation can reliably be estimated. Provision for individual obligations is based on the best estimate of the amount necessary to settle the obligation.

Decommissioning of oil and gas production assets describes the process of:

- plugging and abandoning wells;
- cleaning of sludge pits;
- dismantlement of wellheads and production and transport facilities;
- restoration of producing areas in accordance with license requirements and the relevant legislation.

The Group's core activities regularly give rise to dismantling and removal, asset retirement and soil remediation obligations. These decommissioning and restoration obligations are mainly of material importance in the E&P segment (oil and gas wells, above-ground facilities), and in connection with filling stations on third-party property. They are therefore disclosed as a separate item. At the time the obligation arises, it is provided for in full by recognizing as a liability the present value of future decommissioning and restoration expenses. An equivalent amount is capitalized as part of the carrying value of the long-lived asset. In general, the obligation is calculated on the basis of best estimates. The capitalized asset is depreciated on a straight-line basis for downstream activities and using the unit-of-production method for upstream activities, and compound interest is accrued on the obligation at each balance sheet date until decommissioning and restoration.

For present obligations relating to other environmental risks and measures, provisions are made where it is likely that such obligations will arise and the amount of the obligation can reasonably be estimated.

Based on the privatization agreement of Petrom S.A., part of Petrom decommissioning and environmental cost will be reimbursed by the Romanian State. The portion of provision to be reimbursed by the Romanian State has been presented as a non-current receivable and reassessed in order to reflect the current best estimate of the cost at present value.

Provisions for pensions and severance payments are calculated using the projected-unit-credit-method, which divides the costs of the estimated benefit entitlements over the whole period of employment and thus takes future increases in remuneration into account. Provisions for voluntary and involuntary separations under restructuring programs are recognized if a detailed plan has been approved by management prior to balance sheet date, and an irrevocable commitment is thereby established. Voluntary amendments to employees' remuneration arrangements are recognized if the respective employees have accepted the company's offer. Provisions for obligations under individual separation agreements are recognized at the present value of the obligation where the amounts and dates of payment are fixed and known.

**S.C. PETROM S.A. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
(all amounts are expressed in RON, unless otherwise specified)

---

**3. ACCOUNTING AND VALUATION PRINCIPLES (continued)**

**m) Liabilities**

Liabilities are carried at acquisition cost, with the exception of derivative financial instruments, which are recognized at fair value, and foreign currency liabilities, which are translated at closing rates. Long-term liabilities are discounted using the effective interest rate method. The interest rate used for this purpose is the rate ruling at balance sheet date for similar securities with similar maturities. The carrying value of other liabilities is effectively the same as their fair value, because they are predominantly short-term.

If goods and services supplied in connection with operating activities have not yet been invoiced but both the dates and amounts of supply are already established, the obligations are included under liabilities rather than as provisions.

Convertible bonds are considered as composite instruments, consisting of a debt component and an equity component. The fair value of the debt component is calculated as of the date of issue by applying the market interest rate for comparable non-convertible debt prevailing at the time. The difference between the proceeds of issue of the convertible bond and the fair value of the debt component gives the value of the option to convert the debt into equity, which is disclosed at equity.

**n) Taxes on income including deferred taxes**

Provision is made for deferred taxes on temporary differences (differences between Group carrying values and tax bases which reverse in subsequent years). Tax loss carry-forwards are taken into account in calculating deferred tax assets. Deferred tax assets and liabilities at Group level are shown netted where there is a right of setoff and the taxes relate to matters subject to the same tax jurisdiction. If the probability of deferred tax assets being realized is greater than 50%, then the values are retained. Otherwise a valuation allowance is deducted.

**o) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

**Sale of goods**

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

**Rendering of services**

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- installation fees are recognized by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the balance sheet date;
- servicing fees included in the price of products sold are recognized by reference to the proportion of the total cost of providing the servicing for the product sold, taking into account historical trends in the number of services actually provided on past goods sold; and
- revenue from time and material contracts is recognized at the contractual rates as labour hours are delivered and direct expenses are incurred.

**S.C. PETROM S.A. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(all amounts are expressed in RON, unless otherwise specified)**

---

**3. ACCOUNTING AND VALUATION PRINCIPLES (continued)**

**Dividend and interest revenue**

Dividend revenue from investments is recognized when the shareholder's right to receive payment has been established.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

**Rental income**

Rental income from investment properties is recognized on a straight-line basis over the term of the relevant lease.

**p) Geological quota**

Until December 31, 2006, the parent company, Petrom S.A. benefited from geological quota facility whereby it could charge up to 35% of the market value of the volume of oil and gas extracted during the year. This facility was recognized directly in reserves. This quota was restricted to investment purposes and is not distributable. The quota was non-taxable.

**r) Derivatives**

Derivative instruments are used to hedge risks resulting from changes in interest rates, currency exchange rates and commodity prices. Valuation is at market value (fair value).

The fair value of derivative financial instruments reflects the estimated amounts that Group would pay or receive if the positions were closed at balance sheet date, and thus the unrealized gains and losses on open positions. Quotations from banks or appropriate pricing models have been used to estimate the fair value of financial instruments at balance sheet date.

Derivatives embedded in other financial instruments or host contracts are treated as independent instruments if their risks and characteristics are not closely associated with the host instruments and the host instruments were not recognized at fair value, so that the related unrealized gains and losses are recognized against income.

That part of the change in fair value of derivative financial instruments that serves to hedge future cash flows is recognized directly in equity, and the other part is recognized immediately in the income statement.

Where the hedging of cash flows results in an asset or liability, the amounts that are provided under equity are recognized in the income statement in the period in which the hedged position affects earnings.



**S.C. PETROM S.A. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
(all amounts are expressed in RON, unless otherwise specified)

---

**4. FOREIGN CURRENCY TRANSLATION**

The consolidated financial statements are presented in RON, which is Petrom S.A. functional currency. Each entity in the Group determines its own functional currency and items included in its financial statements are measured using the functional currency. The functional currency of the foreign operations is generally their local currency, except for Kazakhstan entities that use USD as functional currency.

Where the functional currency differs from the national currency, monetary assets are valued at closing rates and non-monetary assets at transaction rates. Also, where the functional currency differs from the Group presentation currency, financial statements are translated using closing rate method. Differences arising between balance sheet items translated at closing and historical rates are disclosed as a separate balancing item directly in changes in stockholders' equity (foreign exchange differences).

Income statement items are translated at average rates for the period (mean rates). Differences arising from the use of average rather than closing rates also result in direct adjustments to equity.

The most important rates applied in translating currencies were as follows:

<b>Exchange rates</b>	<b>Year ended December 31, 2007</b>	<b>Average for the year ended December 31, 2007</b>	<b>Year ended December 31, 2006</b>	<b>Average for the year ended December 31, 2006</b>
US dollar (USD)	2.4564	2.4361	2.5676	2.8104
Euro (EUR)	3.6102	3.3337	3.3817	3.5258
Moldavian Leu (MDL)	0.2161	0.2014	0.1983	0.2134
Russian Rouble (RUB)	0.1003	0.0952	0.0975	0.1034
Yugoslavian Dinar (YUM)	0.0456	0.0417	0.0428	0.0418
Bulgarian Leva (BGN)	1.8457	1.7044	1.7291	1.8027

**S.C. PETROM S.A. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
(all amounts are expressed in RON, unless otherwise specified)

---

**5. INTANGIBLE ASSETS**

	<b><u>Concessions, licenses, rights</u></b>
<b>COST</b>	
<b>Balance as at January 1, 2007</b>	<b>245,167,562</b>
Exchange differences	2,097,410
Changes in consolidated Group	202,000
Additions	229,117,136
Transfers to tangible assets (Note 6)	(1,546,122)
Disposals	<u>(13,210,038)</u>
<b>Balance as at December 31, 2007</b>	<b><u>461,827,948</u></b>
 <b>ACCUMULATED AMORTISATION AND IMPAIRMENT</b>	
<b>Balance as at January 1, 2007</b>	<b>59,547,421</b>
Exchange differences	975,556
Changes in consolidated Group	-
Amortisation	55,122,217
Impairment	1,082,000
Transfers to tangible assets (Note 6)	(1,811,034)
Disposals	(5,295,033)
Write-ups	<u>(153,000)</u>
<b>Balance as at December 31, 2007</b>	<b><u>109,468,127</u></b>
 <b>CARRYING AMOUNT</b>	
<b>As at January 1, 2007</b>	<b><u>185,620,141</u></b>
<b>As at December 31, 2007</b>	<b><u>352,359,821</u></b>

**S.C. PETROM S.A. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
(all amounts are expressed in RON, unless otherwise specified)

**6. PROPERTY, PLANT AND EQUIPMENT**

<b>COST</b>	<b>Land, land rights and buildings, incl. buildings on third-party property</b>	<b>Unproved mineral properties and related assets</b>	<b>Proved mineral properties and related assets</b>	<b>Plant and machinery</b>	<b>Other fixtures and fittings, tools and equipment</b>	<b>Assets under construction</b>	<b>Payments in advance</b>	<b>Total</b>
<b>Balance as at January 1, 2007</b>	<b>2,128,974,969</b>	<b>310,409,924</b>	<b>8,891,013,557</b>	<b>1,128,416,613</b>	<b>458,886,690</b>	<b>1,684,260,718</b>	<b>161,334,162</b>	<b>14,763,296,633</b>
Exchange differences	50,300,955	6,266,379	(17,173,658)	12,115,640	8,018,361	(55,097)	858,128	<b>60,330,708</b>
Changes in consolidated Group	73,946,000	16,359,427	(2,000)	106,879,000	1,512,549	5,197,419	363,000	<b>204,255,395</b>
Additions	147,239,462	268,898,313	904,997,118	127,875,620	72,679,386	2,230,598,242	335,898,272	<b>4,088,186,413</b>
Transfers *	226,644,235	23,979,786	532,781,981	210,982,499	24,571,133	(951,240,906)	(66,172,606)	<b>1,546,122</b>
Disposals **	(149,811,892)	(131,471)	185,344,831	(99,878,677)	(53,166,516)	1,494,769	(1,595,000)	<b>(117,743,956)</b>
<b>Balance as at December 31, 2007</b>	<b>2,477,293,729</b>	<b>625,782,358</b>	<b>10,496,961,829</b>	<b>1,486,390,695</b>	<b>512,501,603</b>	<b>2,970,255,145</b>	<b>430,685,956</b>	<b>18,999,871,315</b>

**ACCUMULATED DEPRECIATION AND IMPAIRMENT**

<b>Balance as at January 1, 2007</b>	<b>249,634,874</b>	<b>-</b>	<b>1,338,423,893</b>	<b>348,928,981</b>	<b>164,805,660</b>	<b>132,197,001</b>	<b>25,952,432</b>	<b>2,259,942,841</b>
Exchange differences	5,301,979	4,107,244	(1,966,102)	4,791,038	3,191,021	329,865	18,287	<b>15,773,332</b>
Changes in consolidated Group	-	-	1,000	-	(5,807)	(2,000)	-	<b>(6,807)</b>
Depreciation	87,514,556	1,859,732	714,558,601	155,451,945	65,671,949	-	-	<b>1,025,056,783</b>
Impairment	81,447,000	170,818,257	13,860,999	73,625,000	6,566,999	61,372,574	225,001	<b>407,915,830</b>
Transfers *	(1,160,815)	73,448,570	(4,870,000)	22,396,066	12,525,180	(100,527,967)	-	<b>1,811,034</b>
Disposals	(55,739,555)	-	(4,590,415)	(73,105,723)	(39,612,404)	7,481,874	-	<b>(165,566,223)</b>
Write-ups	(171,000)	-	-	(309,000)	(1,152,000)	(7,098,000)	-	<b>(8,730,000)</b>
<b>Balance as at December 31, 2007</b>	<b>366,827,039</b>	<b>250,233,803</b>	<b>2,055,417,976</b>	<b>531,778,307</b>	<b>211,990,598</b>	<b>93,753,347</b>	<b>26,195,720</b>	<b>3,536,196,790</b>

**CARRYING AMOUNT**

<b>As at January 1, 2007</b>	<b>1,879,340,095</b>	<b>310,409,924</b>	<b>7,552,589,664</b>	<b>779,487,632</b>	<b>294,081,030</b>	<b>1,552,063,717</b>	<b>135,381,730</b>	<b>12,503,353,792</b>
<b>As at December 31, 2007</b>	<b>2,110,466,690</b>	<b>375,548,555</b>	<b>8,441,543,853</b>	<b>954,612,388</b>	<b>300,511,005</b>	<b>2,876,501,798</b>	<b>404,490,236</b>	<b>15,463,674,525</b>

The value of fixed assets pledged for the bank loans contracted by the Group is RON 11 million (2006: RON 11.8 million) for assets held by the Moldova subsidiary.

\*) – Transfers to intangibles. See Note 5.

\*\*) – Disposals include decommissioning liability reassessment amounting to RON 214,827,596.

**S.C. PETROM S.A. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
(all amounts are expressed in RON, unless otherwise specified)

**7. INVESTMENTS IN ASSOCIATED COMPANIES AND OTHER FINANCIAL ASSETS**

Changes in investments and other financial assets during the year were as follows:

	<b>Associated companies</b>	<b>Total associated companies</b>	<b>Investments</b>	<b>Available for sale securities</b>	<b>Loans</b>	<b>Total other financial assets</b>
<b>COST</b>						
<b>Balance as at January 1, 2007</b>	<b>79,059,055</b>	<b>79,059,055</b>	<b>108,265,462</b>	<b>870,573,552</b>	<b>14,558,802</b>	<b>993,397,816</b>
Exchange differences	-	-	-	(9,427,536)	554,381	(8,873,155)
Changes in consolidated Group	(41,931,109)	(41,931,109)	(1,990)	-	-	(1,990)
Additions/increases/decreases in value	7,241,914	7,241,914	6,626,296	(7,382,663)	8,910,507	8,154,140
Disposals	(3,833,470)	(3,833,470)	(26,117,715)	(653,775,241) *	(278,534)	(680,171,490)
<b>Balance as at December 31, 2007</b>	<b>40,536,390</b>	<b>40,536,390</b>	<b>88,772,053</b>	<b>199,988,112</b>	<b>23,745,156</b>	<b>312,505,321</b>
<b>WRITE DOWN ALLOWANCE</b>						
<b>Balance as at January 1, 2007</b>	-	-	<b>88,233,834</b>	-	<b>14,558,802</b>	<b>102,792,636</b>
Exchange differences	-	-	-	-	-	-
Changes in consolidated Group	-	-	-	-	-	-
Impairment	-	-	322,646	-	1,315,109	1,637,755
Disposals	-	-	(16,632,169)	-	(278,534)	(16,910,703)
Write-ups	-	-	(4,500,215)	-	-	(4,500,215)
<b>Balance as at December 31, 2007</b>	<b>-</b>	<b>-</b>	<b>67,424,096</b>	<b>-</b>	<b>15,595,377</b>	<b>83,019,473</b>
<b>CARRYING AMOUNT</b>						
<b>Balance as at January 1, 2007</b>	<b>79,059,055</b>	<b>79,059,055</b>	<b>20,031,628</b>	<b>870,573,552</b>	<b>-</b>	<b>890,605,180</b>
<b>Balance as at December 31, 2007</b>	<b>40,536,390</b>	<b>40,536,390</b>	<b>21,347,957</b>	<b>199,988,112</b>	<b>8,149,779</b>	<b>229,485,848</b>

\* In the disposals from Available for sales securities is included the amount of RON 597,472,381 representing a transfer of the securities owned by Umbrella Funds into current assets as securities at fair value through profit or loss (Note 10).

**S.C. PETROM S.A. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
(all amounts are expressed in RON, unless otherwise specified)

**7. INVESTMENTS IN ASSOCIATED COMPANIES AND OTHER FINANCIAL ASSETS (continued)**

**Associated companies**

As at December 31, 2006, the Group has investments in the following associated companies: Congaz S.A., Petrom Aviation, Linde Gaz and Shell Gas Romania SA. During 2007 Linde Gaz was disposed and Shell Gas Romania SA became fully consolidated subsidiary. Subsequent to the acquisition, the name of Shell Gas Romania SA was changed in Petrom LPG SA.

As a result, at December 31, 2007 the Group has two associated companies: Congaz S.A. and Petrom Aviation. The summarized balance sheet and income statement information for these companies are as follows:

	<b>December 31, 2007</b>	<b>December 31, 2006</b>
Current assets	41,142,460	104,787,380
Non-current assets	131,751,719	196,385,507
Liabilities	46,019,661	92,752,229
Net sales	221,531,802	472,727,366
Earnings before interest and tax	18,528,381	39,082,569
Net income for the year	14,138,217	32,139,192

**Investments**

The position Investments comprises all the investments in subsidiaries and associates that were not consolidated, as the Group does not have control or significant influence over their operations or they were considered immaterial for the Group. These financial assets are accounted for at amortized cost.

**Available for sale securities**

At the beginning of the year, the amount under the position Available-for-sale securities represents the investment in mutual funds and other financial instruments held through umbrella funds and also public bonds acquired by Petrom. During 2007, securities have been either sold or transferred to current assets. As a result, closing balance is represented by the bonds issued by World Bank and acquired by Petrom in September 2006. The bonds bear an interest of 6.5% p.a. payable each semester and the maturity is September 2009. Bonds are carried at fair value through equity. Their fair value of the bonds at December 31, 2007 is of RON 199,988,112.

**8. INVENTORIES**

	<b>December 31, 2007</b>	<b>December 31, 2006</b>
Crude oil	402,958,385	348,912,697
Other raw materials	631,213,455	485,950,279
Work in progress	252,083,000	231,806,000
Finished products	935,427,237	584,918,846
Advances paid for inventories	68,254,769	54,003,820
<b>Total</b>	<b>2,289,936,846</b>	<b>1,705,591,642</b>

**9. RECEIVABLES AND ASSETS**

Trade receivables are amounting RON 1,482,458,290 as at December 2007 and RON 1,030,827,766 as at December 2006. They are presented net of provisions, which are detailed in the movement below.



**S.C. PETROM S.A. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
(all amounts are expressed in RON, unless otherwise specified)

**9. RECEIVABLES AND ASSETS (continued)**

	<b>December 31, 2007</b>	<b>Liquidity term</b>	
		<b>less than 1 year</b>	<b>over 1 year</b>
Prepaid expenses and deferred charges	57,390,896	56,926,814	464,082
Rental and lease prepayments	19,806,647	19,806,647	-
Expenditure recoverable from State	1,707,751,023	-	1,707,751,023
Other receivables	436,996,339	374,476,456	62,519,883
<b>Total</b>	<b>2,221,944,905</b>	<b>451,209,917</b>	<b>1,770,734,988</b>

	<b>December 31, 2006</b>	<b>Liquidity term</b>	
		<b>less than 1 year</b>	<b>over 1 year</b>
Prepaid expenses and deferred charges	34,624,853	34,180,064	444,789
Rental and lease prepayments	7,204,153	7,204,153	-
Expenditure recoverable from State	1,244,184,533	-	1,244,184,533
Other receivables, net	322,723,336	295,184,819	27,538,517
<b>Total</b>	<b>1,608,736,875</b>	<b>336,569,036</b>	<b>1,272,167,839</b>

The movement of provisions for trade and other receivables were as follows:

	<b>Trade receivables</b>	<b>Other receivables</b>	<b>Total</b>
<b>January 1, 2007</b>	<b>242,588,132</b>	<b>411,370,265</b>	<b>653,958,397</b>
Additions / (releases)	17,536,941	29,363,775	46,900,716
Disposals	(48,752,000)	(31,203,086)	(79,955,086)
Exchange differences and changes in consolidated Group	1,955,544	1,674,822	3,630,366
<b>December 31, 2007</b>	<b>213,328,617</b>	<b>411,205,776</b>	<b>624,534,393</b>

**Expenditure recoverable from State**

As part of the privatization agreement, the Company is required to close wells, which are abandoned and are awaiting closure. However, such expenditures will be recoverable by the Company from the State as these pertain to E&P activities prior to privatization of the Company in 2004. Consequently, the Company has recorded decommissioning liabilities against receivable from the State for approximately 11,120 wells as at December 31, 2007. The Company also recorded receivable from the State related to environmental liabilities for sludge lagoons amounting to RON 250,137,318 as these were existing in refineries prior to privatization of the Company.

**S.C. PETROM S.A. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
(all amounts are expressed in RON, unless otherwise specified)

**10. SECURITIES HELD AND SHORT TERM ASSETS**

	<b>December 31, 2007</b>	<b>December 31, 2006</b>
Opening balance	335,843,391	-
Transfers from available for sale financial assets	597,472,381	357,029,560
Movements during the period	<u>71,327,074</u>	<u>(21,186,169)</u>
<b>Total</b>	<b><u>1,004,642,846</u></b>	<b><u>335,843,391</u></b>

Included into securities at fair value through profit or loss are the securities owned by Umbrella funds. During 2007, the amount of RON 597,472,381 was transferred from available for sale assets (Note 7).

**11. ASSETS AND LIABILITIES HELD FOR SALE**

	<b>December 31, 2007</b>	<b>December 31, 2006</b>
Property, plant and equipment	-	58,431,600
Current assets and deferred taxes	<u>-</u>	<u>7,363,877</u>
<b>Assets held for sale</b>	<b><u>-</u></b>	<b><u>65,795,477</u></b>
Provisions	-	23,108
Liabilities	<u>-</u>	<u>462,168</u>
<b>Liabilities associated with assets held for sale</b>	<b><u>-</u></b>	<b><u>485,276</u></b>

Assets and liabilities held for sale in 2006 were owned by OZTYURK MUNAI subsidiary which has been assessed as highly probable disposal. During 2007 the OZTYURK MUNAI subsidiary has been sold.

**12. SHAREHOLDERS' EQUITY**

The share capital of Petrom S.A. consists of 56,644,108,335 fully paid shares with a total nominal value of RON 5,664,410,834. The balance up to RON 18,983,366,226 represents inflation adjustment, as Romania was a hyperinflationary economy until January 2004.

The Company set up a cash flow hedge in January 2005 for EUR 410 million. The hedge has been designed to be used for investments in umbrella funds for EUR 300 million and investments in fixed assets to be acquired from foreign suppliers (EUR 110 million). As at December 31, 2007, the entire amount of EUR 110 million has already been used for investments in property, plant and equipment in Marketing and E&P. Also, the amount reflected in equity related to the investments in umbrella funds has been recycled to P&L in 2007 as the investments were either sold or classified as financial assets through profit and loss account.

Revenue reserves include retained earnings, as well as other non-distributable reserves (legal and geological quota facility reserves). Geological quota included in retained earnings is RON 5,062,836,164.

**S.C. PETROM S.A. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
(all amounts are expressed in RON, unless otherwise specified)

**13. PROVISIONS**

	<b>Pensions and similar obligations</b>	<b>Taxes</b>	<b>Decommissioning and restoration</b>	<b>Other provisions</b>	<b>Total</b>
<b>January 1, 2007</b>	<b>185,590,838</b>	<b>2,677,850</b>	<b>3,706,408,674</b>	<b>1,707,270,997</b>	<b>5,601,948,359</b>
Exchange differences	(658)	430,792	(378,611)	1,162,678	<b>1,214,201</b>
Changes in consolidated Group	-	2,036,000	-	5,132,000	<b>7,168,000</b>
Used	(30,001,181)	(262,600,000)	(16,231,197)	(1,194,282,006)	<b>(1,503,114,384)</b>
Allocations	34,849,001	375,889,472	616,929,385	1,906,600,034	<b>2,934,267,892</b>
<b>December 31, 2007</b>	<b>190,438,000</b>	<b>118,434,114</b>	<b>4,306,728,251</b>	<b>2,425,883,703</b>	<b>7,041,484,068</b>
thereof short-term	-	117,604,114	-	1,673,532,353	<b>1,791,136,467</b>
thereof long-term	190,438,000	830,000	4,306,728,251	752,351,350	<b>5,250,347,601</b>

**Provisions for pensions and similar obligations**

Employees of Group companies whose are entitled to receive severance payments upon termination of employment or on reaching normal retirement age. The entitlements depend on years of service and final compensation levels. Provisions have been set up based on qualified actuarial calculations.

**Provisions for decommissioning and restoration**

Changes in provisions for decommissioning and restoration and in capitalized decommissioning costs are shown in the table below. In the event of subsequent changes in estimated restoration costs only the effect of the change in present value is recognized in the period concerned. If the value increases, the increase is depreciated over the remaining useful life of the asset, and if it decreases, the decrease is deducted from capitalized asset value.

The provision for restoration costs includes obligations in respect of Petrom S.A., amounting to RON 4,310 million (2006: RON 3,727 million). There is a corresponding claim against the Romanian State of RON 1,458 million (2006: RON 1,244 million), which is disclosed as a non – current asset under receivables and other assets.

Details on the Decommissioning and restoration obligations are as follows:

	<b>December 31, 2007 Carrying value</b>	<b>December 31, 2006 Carrying value</b>
<b>Balance as at January 1, 2007</b>	<b>3,706,408,674</b>	<b>3,627,778,126</b>
Exchange differences	(378,611)	(1,248,402)
New obligations	1,638,780	1,726,327
Change in consolidated Group	-	5,355,152
Revisions in estimates	337,717,405	(75,495,689)
Unwinding effect	277,573,200	163,261,676
Settlements current period	(16,231,197)	(14,968,516)
<b>Balance as at December 31, 2007</b>	<b>4,306,728,251</b>	<b>3,706,408,674</b>

**S.C. PETROM S.A. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
(all amounts are expressed in RON, unless otherwise specified)

**13. PROVISIONS (continued)**

Other provisions were as follows:

<b>2007</b>	<b><u>Total</u></b>	<b><u>less than 1 year</u></b>	<b><u>over 1 year</u></b>
Environmental costs	370,579,256	321,000	370,258,256
Other personnel provisions	389,535,098	389,535,098	-
Accruals for goods and services not yet invoiced	1,187,234,712	1,187,234,712	-
Other	<u>478,534,637</u>	<u>96,441,543</u>	<u>382,093,094</u>
<b>Total</b>	<b><u>2,425,883,703</u></b>	<b><u>1,673,532,353</u></b>	<b><u>752,351,350</u></b>

In other provisions is included the provision for litigations against the Group. The Group monitors all litigations instigated against it and assesses the likelihood of losses and related financial cost using in house lawyers and outside legal advisors. The Group has assessed the potential liabilities with respect to ongoing cases and recorded its best estimate of likely cash outflows.

<b>2006</b>	<b><u>Total</u></b>	<b><u>less than 1 year</u></b>	<b><u>over 1 year</u></b>
Environmental costs	219,602,000	1,571,000	218,031,000
Other personnel provisions	525,176,052	525,176,052	-
Accruals for goods and services not yet invoiced	640,489,415	640,489,415	-
Other	<u>322,003,530</u>	<u>120,713,096</u>	<u>201,290,434</u>
<b>Total</b>	<b><u>1,707,270,997</u></b>	<b><u>1,287,949,563</u></b>	<b><u>419,321,434</u></b>

**14. OTHER LIABILITIES**

	<b><u>December 31, 2007</u></b>	<b><u>less than 1 year</u></b>	<b><u>over 1 year</u></b>
Deferred income	173,900,694	173,900,694	-
Tax liabilities	291,416,439	291,416,439	-
Social security	27,852,695	27,852,695	-
Other liabilities	<u>357,431,052</u>	<u>297,572,052</u>	<u>59,859,000</u>
<b>Total</b>	<b><u>850,600,880</u></b>	<b><u>790,741,880</u></b>	<b><u>59,859,000</u></b>

	<b><u>December 31, 2006</u></b>	<b><u>less than 1 year</u></b>	<b><u>over 1 year</u></b>
Deferred income	102,199,877	102,199,877	-
Tax liabilities	246,070,682	246,070,682	-
Social security	39,808,268	39,808,268	-
Other liabilities	<u>650,302,148</u>	<u>619,763,891</u>	<u>30,538,257</u>
<b>Total</b>	<b><u>1,038,380,975</u></b>	<b><u>1,007,842,718</u></b>	<b><u>30,538,257</u></b>

In other liabilities over 1 year as at December 31, 2006 is included a loan contracted in December 2006 by OMV Yugoslavia from Raiffeisen Bank in total amount of EUR 21,000,000 with maturity of December 31, 2008. The loan was earlier repaid in January and February 2007. The withdrawn amount in balance as at December 31, 2006 was of EUR 1,941,921 (equivalent of RON 6,567,005).

**S.C. PETROM S.A. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
(all amounts are expressed in RON, unless otherwise specified)

**15. DEFERRED TAX**

**2007**

	<b>Deferred tax assets without allowances</b>	<b>Allowances</b>	<b>Net deferred tax assets</b>	<b>Deferred tax liabilities</b>
Intangible assets	1,077,377	-	1,077,377	4,311,000
Property, plant and equipment	6,444,229	2,078,005	4,366,223	489,577,990
Financial assets	4,704,666	16,826	4,687,840	4,594,000
Inventories	11,309,721	467,840	10,841,881	108,000
Receivables and other assets	125,417,633	64,311,096	61,106,536	14,584,750
Untaxed reserves	1,440	-	1,440	90,780,304
Provisions for pensions and severance payments	30,470,080	-	30,470,080	-
Other provisions	614,482,424	2,712,000	611,770,424	-
Liabilities	7,999,910	-	7,999,910	1,284,225
Tax loss carried forwards	32,364,006	-	32,364,006	-
<b>Total</b>	<b>834,271,486</b>	<b>69,585,768</b>	<b>764,685,718</b>	<b>605,240,269</b>
<b>Netting (same tax jurisdictions/country)</b>			<b>(499,276,409)</b>	<b>(499,276,409)</b>
<b>Deferred tax, net</b>			<b>265,409,309</b>	<b>105,963,860</b>

**2006**

	<b>Deferred tax assets without allowances</b>	<b>Allowances</b>	<b>Net deferred tax assets</b>	<b>Deferred tax liabilities</b>
Intangible assets	491,164	-	491,164	572,000
Property, plan and equipment	94,400	-	94,400	491,317,892
Financial assets	28,873,120	23,110,080	5,763,040	6,490,117
Inventories	11,189,872	-	11,189,872	38,708
Receivables and other assets	117,480,753	61,622,080	55,858,673	9,187,403
Untaxed reserves	-	-	-	91,761,335
Provisions for pensions and severance payments	29,696,331	-	29,696,331	-
Other provisions	560,425,441	-	560,425,441	-
Liabilities	13,529,588	-	13,529,588	11,872,935
Tax loss carried forwards	23,129,311	-	23,129,311	-
<b>Total</b>	<b>784,909,980</b>	<b>84,732,160</b>	<b>700,177,820</b>	<b>611,240,389</b>
<b>Netting (same tax jurisdictions/country)</b>			<b>(513,367,376)</b>	<b>(513,367,376)</b>
<b>Deferred tax, net</b>			<b>186,810,444</b>	<b>97,873,013</b>

At the end of 2007, tax loss carry-forward amounted to RON 136,057,386 (2006: RON 89,376,555). Eligibility of losses for carry-forward expires as follows:

	<b>2007</b>	<b>2006</b>
2007	-	1,705,000
2008	-	1,705,000
2009	22,655,377	1,705,000
2010	37,371,013	1,705,000
2011	10,206,556	1,705,000
After 2011	26,551,516	12,450,691
Unlimited	39,272,923	68,400,864
<b>Total</b>	<b>136,057,386</b>	<b>89,376,555</b>

**S.C. PETROM S.A. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
(all amounts are expressed in RON, unless otherwise specified)

**16. INTEREST BEARING DEBTS**

	<u>Total</u>	<u>Less than 1 year</u>	<u>Over 1 year</u>
<b>2007</b>			
Interest-bearing financial liabilities to banks	23,301,983	23,301,983	-
<b>TOTAL</b>	<b>23,301,983</b>	<b>23,301,983</b>	<b>-</b>
<b>2006</b>			
Interest-bearing financial liabilities to banks	54,047,150	54,047,150	-
<b>TOTAL</b>	<b>54,047,150</b>	<b>54,047,150</b>	<b>-</b>

As at December 31, 2007 and 2006, the Group had only short term loans from financial institutions:

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Petrom Moldova (BCR, BC Victoriabank)	23,301,983	15,480,416
OMV Bulgaria (CITIBANK Sofia, HVB Biohim)	-	38,566,734
<b>Total</b>	<b>23,301,983</b>	<b>54,047,150</b>

As at December 31, 2007, OMV Bulgaria did not use any of the loan facilities available for the Company.

**Petrom Moldova**

Lender	Banca Comerciala Romana Chisinau SA
Borrower	ICS Petrom Moldova SA
Value	Credit line of USD 3,050,000
Purpose	Oil products purchase
Maturity	August 12, 2008
Interest	10.50%
Repayments	Daily
Undrawn amounts	-
Security	Real estate

**Petrom Moldova**

Lender	Banca Comerciala Romana Chisinau SA
Borrower	ICS Petrom Moldova SA
Value	Credit line of MDL 6,000,000
Purpose	Oil products purchase
Maturity	August 12, 2008
Interest	17.50%
Repayments	Daily
Undrawn amounts	-
Security	Real estate, inventory

**S.C. PETROM S.A. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
(all amounts are expressed in RON, unless otherwise specified)

---

**16. BONDS AND INTEREST BEARING DEBTS (continued)**

**Petrom Moldova**

Lender	BC Victoriabank SA (Republic of Moldova)
Borrower	ICS Petrom Moldova SA
Value	Credit line of USD 6,500,000
Purpose	Oil products purchase
Maturity	May 29, 2009
Interest	10.50%
Repayments	Daily
Undrawn amounts	-
Security	Real estate

**OMV Bulgaria**

Lender	CITIBANK Sofia
Borrower	OMV Bulgaria
Value	EUR 29,907,015
Purpose	Working capital
Maturity	July 15, 2009
Interest	5.71%
Repayments	Daily
Undrawn amounts	EUR 29,907,015
Security	Letter of comfort

**OMV Bulgaria**

Lender	Unicredit Bulbank, Sofia
Borrower	OMV Bulgaria
Value	EUR 16,872,632
Purpose	Working capital
Maturity	October 31, 2008
Interest	5.72%
Repayments	Daily
Undrawn amounts	EUR 16,872,632
Security	Letter of comfort

**17. OTHER OPERATING INCOME**

	<b>December 31, 2007</b>	<b>December 31, 2006</b>
Exchange gains from operating activities	106,790,604	95,838,391
Gains from disposal of fixed assets	77,353,008	175,204,602
Write-up tangible and intangible assets	8,883,000	11,983,000
Other operating income	<u>84,755,939</u>	<u>262,835,258</u>
<b>Total</b>	<b><u>277,782,551</u></b>	<b><u>545,861,251</u></b>

**S.C. PETROM S.A. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
(all amounts are expressed in RON, unless otherwise specified)

**18. OTHER OPERATING EXPENSES**

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Exchange losses from operating activities	115,012,931	160,778,913
Losses from the disposal of fixed assets	121,803,946	1,914,684
Other operating expenses	<u>766,791,360</u>	<u>1,176,341,690</u>
<b>Total</b>	<b><u>1,003,608,237</u></b>	<b><u>1,339,035,287</u></b>

Other operating expenses include an amount of RON 159,507,881 in 2007 (2006: RON 435,932,734) representing restructuring expenses. Restructuring expenses have been booked based on the management approval and communication of the restructuring plan.

**19. EARNING BEFORE INTEREST AND TAX PRESENTATION USING A CLASSIFICATION BASED ON NATURE OF EXPENSES**

As at December 31, 2007 and December 31, 2006 earnings before interest and tax under the total cost method were as follows:

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
<b>Revenues</b>	<b>14,940,956,936</b>	<b>15,250,023,601</b>
Inventory changes	119,670,459	(98,489,529)
Own work accounted for in fixed assets	25,681,860	31,295,638
Other operating income	268,899,275	532,556,823
Costs of material	(5,279,549,779)	(5,388,339,833)
Costs of energy	(455,814,828)	(510,789,689)
Other costs of production	<u>(1,436,668,869)</u>	<u>(1,131,276,178)</u>
<b>Cost of material and services</b>	<b><u>(7,172,033,476)</u></b>	<b><u>(7,030,405,700)</u></b>
Wages and salaries	(1,507,582,734)	(1,543,485,030)
Other personnel expenses	<u>(244,292,806)</u>	<u>(569,366,626)</u>
<b>Personnel expenses</b>	<b><u>(1,751,875,540)</u></b>	<b><u>(2,112,851,656)</u></b>
Depreciation	(1,080,179,000)	(946,025,990)
Impairment	<u>(400,114,830)</u>	<u>(230,303,869)</u>
<b>Depreciation and impairment</b>	<b><u>(1,480,293,830)</u></b>	<b><u>(1,176,329,859)</u></b>
Transportation and postage expenses	(564,312,710)	(488,302,508)
Rental expenses	(106,544,447)	(96,304,601)
Advertising and protocol expenses	(62,079,069)	(62,204,306)
Insurance expenses	(42,045,015)	(35,712,106)
Travel expenses and daily allowances	(68,046,124)	(66,978,449)
Other operating expenses	<u>(2,207,358,220)</u>	<u>(2,116,337,759)</u>
<b>Total other operating expenses</b>	<b><u>(3,050,385,585)</u></b>	<b><u>(2,865,839,729)</u></b>
<b>EARNINGS BEFORE INTEREST AND TAX</b>	<b><u>(1,900,620,099)</u></b>	<b><u>2,529,959,589</u></b>



**S.C. PETROM S.A. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
(all amounts are expressed in RON, unless otherwise specified)

**20. INCOME AND EXPENSES FROM INVESTMENTS**

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Income from associated companies	7,241,939	18,398,164
Income from investments - others	9,230,000	8,246,000
Income from disposal of investments	10,507,723	10,228,000
Gains from write-ups of investments	<u>4,500,000</u>	<u>909,000</u>
<b>Total income</b>	<b><u>31,479,662</u></b>	<b><u>37,781,164</u></b>
Expenses for associated companies	-	(1,623,136)
Expenses on disposal of investments	<u>(251,000)</u>	<u>(5,477,000)</u>
<b>Total expenses</b>	<b><u>(251,000)</u></b>	<b><u>(7,100,136)</u></b>
<b>Net financial income from associated companies and investments</b>	<b><u>31,228,662</u></b>	<b><u>30,681,028</u></b>

**21. FINANCIAL INCOME AND EXPENSES**

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Interest income from short term bank deposits	166,915,226	294,729,720
Interest income from available-for-sale financial instruments	1,786,000	-
Interest income from receivables	13,416,000	3,822,345
Gains from securities	44,148,189	50,577,601
Exchange gains from financing activities	45,845,446	47,745,700
Income from disposal of financial assets (excluding investments)	<u>171,130,110</u>	<u>578,055,813</u>
<b>Total income</b>	<b><u>443,240,971</u></b>	<b><u>974,931,179</u></b>
Interest expenses	(3,970,438)	(61,555,352)
Losses from securities	(11,344,581)	-
Unwinding expenses for retirement benefits provision	(13,351,000)	(11,875,000)
Unwinding expenses for decommissioning provision	(180,258,151)	(163,261,676)
Unwinding expenses for other provisions	(7,612,461)	(5,478,290)
Exchange losses from financing activities	(119,264,060)	(387,320,998)
Expenses on disposal of financial assets (excluding investments)	(194,825,863)	(580,985,252)
Depreciation of financial assets and securities	<u>(4,587,399)</u>	<u>(24,843,979)</u>
<b>Total expenses</b>	<b><u>(535,213,953)</u></b>	<b><u>(1,235,320,547)</u></b>
<b>Net financial expense</b>	<b><u>(91,972,982)</u></b>	<b><u>(260,389,368)</u></b>

**S.C. PETROM S.A. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
(all amounts are expressed in RON, unless otherwise specified)

**22. TAXES ON INCOME**

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Taxes on income - current year	391,827,202	302,451,556
Deferred Tax	<u>(92,818,955)</u>	<u>(66,819,977)</u>
<b>Total</b>	<b><u>299,008,247</u></b>	<b><u>235,631,579</u></b>

The reconciliation of deferred taxes is as follows:

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Deferred taxes January 1	88,937,431	113,110,040
Deferred taxes December 31	<u>159,445,449</u>	<u>88,937,431</u>
<b>Changes in deferred taxes</b>	<b><u>70,508,018</u></b>	<b><u>(24,172,609)</u></b>
Deferred taxes on revaluation of hedges charged directly to equity	(16,946,400)	(7,252,573)
Changes in consolidated Group, exchange differences and similar items	<u>(5,364,537)</u>	<u>(83,740,013)</u>
<b>Deferred taxes per income statement</b>	<b><u>92,818,955</u></b>	<b><u>66,819,977</u></b>

**Reconciliation**

<b>Net profit before taxation</b>	<b>1,839,875,779</b>	<b>2,300,251,249</b>
Applicable tax	16.01%	16.00%
Profits tax based on applicable rate	294,515,252	368,040,200
Decrease in opening deferred taxes resulting from reduction in tax rate	(1,582,601)	-
Tax effect of permanent differences	6,075,596	(132,408,621)
Profits tax expense in Income Statement	<u>299,008,247</u>	<u>235,631,579</u>
Tax effect of other temporary differences	<u>92,818,955</u>	<u>66,819,977</u>
<b>Profits tax to be paid for the year</b>	<b><u>391,827,202</u></b>	<b><u>302,451,556</u></b>

**S.C. PETROM S.A. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
(all amounts are expressed in RON, unless otherwise specified)

---

**23. EARNINGS PER SHARE**

Calculation of earnings per share is based on the following data:

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Net profit for the shares attributable to own shareholders	1,533,038,356	2,065,753,512
Number of shares	<u>56,644,108,335</u>	<u>56,429,574,249</u>
<b>Earnings per share</b>	<u><b>0.0271</b></u>	<u><b>0.0366</b></u>

**24. BUSINESS OPERATIONS AND KEY MARKETS**

Petrom is divided into four operating segments: Exploration and Production (E&P), Refining and Marketing, Gas and Chemicals. Group management, financing activities and certain service functions are concentrated in the Corporate segment.

The Group's involvement in the oil and gas industry, by its nature, exposes it to certain risks. These include political stability, economic conditions, changes in legislation or fiscal regimes, as well as other operating risks inherent in the industry such as the high volatility of crude prices and US dollar. A variety of measures are used to manage these risks.

Apart from the integration of the Group's upstream and downstream operations, and the policy of maintaining a balanced portfolio of assets in the E&P segment, the main instruments used are operational in nature. There is a Group-wide environmental risk reporting system in operation, designed to identify existing and potential obligations and to enable timely action to be taken. Insurance and taxation are also dealt with on a Group-wide basis.

Regular surveys are undertaken across the Group to identify current litigation and pending court and administrative proceedings.

Business decisions of fundamental importance are made by the Executive Board of Petrom. The business segments are independently managed, as each represents a strategic unit with different products and markets.

**E&P** activities are mainly focused on Romania and Kazakhstan. In Romania, Petrom S.A. is the only crude oil producer and accounts for half of the Romanian gas production. In order to cope with the challenge of declining reserves, Petrom S.A. started to internationally diversify its E&P portfolio, by developing activities in Kazakhstan and Russia.

**Gas** business unit was created in 2005 in Petrom S.A., in order to have a dedicated organization to focus on gas sales and on the best use of the potential and opportunities resulting from the market liberalization.

**Refining** segment includes two of the most important Romanian refineries, Arpechim and Petrobrazi, which together account for 35% of Romanian crude processing capacity. **Marketing** operates in Romania, Bulgaria, Serbia, Hungary and Moldova. Petrom S.A. is the main player on the Romanian fuels market.

**Chemicals** segment operates the main fertilizer plant in Romania, Doljchim Craiova. The plant was integrated in Petrom's activity and uses as raw material the natural gas produced by the Petrom S.A..

**S.C. PETROM S.A. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
(all amounts are expressed in RON, unless otherwise specified)

**24. BUSINESS OPERATIONS AND KEY MARKETS (continued)**

Petrom segment reporting is based on business segments:

	<b>E&amp;P</b>	<b>Refining &amp; Marketing</b>	<b>Gas</b>	<b>Corporate &amp; Other</b>	<b>Chemicals</b>	<b>Total</b>	<b>Consolidation</b>	<b>Consolidated total</b>
Intersegment sales	6,965,533,869	50,085,796	555,847,056	523,563,611	36,167,549	<b>8,131,197,881</b>	(8,131,197,881)	-
Sales with third parties	533,893,463	11,614,294,693	2,359,564,481	126,299	433,078,000	<b>14,940,956,936</b>	-	<b>14,940,956,936</b>
<b>Total sales</b>	<b>7,499,427,332</b>	<b>11,664,380,489</b>	<b>2,915,411,537</b>	<b>523,689,910</b>	<b>469,245,549</b>	<b>23,072,154,817</b>	<b>(8,131,197,881)</b>	<b>14,940,956,936</b>
 <b>EBIT</b>	 <b>2,641,829,172</b>	 <b>(909,839,647)</b>	 <b>163,277,216</b>	 <b>(2,496)</b>	 <b>57,565,969</b>	 <b>1,952,830,214</b>	 <b>(52,210,115)</b>	 <b>1,900,620,099</b>
Investments in fixed assets	2,842,300,199	1,136,203,479	23,136,785	299,614,654	16,048,432	<b>4,317,303,549</b>	-	<b>4,317,303,549</b>
Investment in associated companies	-	10,380,980	30,155,410	-	-	<b>40,536,390</b>	-	<b>40,536,390</b>
Depreciation and amortization	744,262,323	264,062,677	8,697,000	63,143,000	14,000	<b>1,080,179,000</b>	-	<b>1,080,179,000</b>
Impairment losses	202,935,830	165,080,000	14,943,000	170,000	16,986,000	<b>400,114,830</b>	-	<b>400,114,830</b>
Result from associated companies	-	3,743,264	3,498,650	-	-	<b>7,241,914</b>	-	<b>7,241,914</b>

The key figure of operating performance for the Group is earnings before interest and tax (EBIT). In compiling the segment results, business activities with similar characteristics have been aggregated. Intra-Group sales and cost allocations by the parent company are determined in accordance with internal Petrom policies. Management is of the opinion that the transfer prices of goods and services exchanged between segments correspond to market prices.

**S.C. PETROM S.A. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
(all amounts are expressed in RON, unless otherwise specified)

**25. AVERAGE NUMBER OF EMPLOYEES**

	<u>December 31,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
<b>Total Petrom Group</b>	<b>32,635</b>	<b>40,067</b>
thereof:		
Petrom S.A.	29,624	38,192
Other subsidiaries	3,011	1,875

**26. RELATED PARTIES**

Under IAS 24, details of relationships with related parties and related enterprises not included in consolidation must be disclosed. Enterprises and individuals are considered to be related if one party is able to control or exercise significant influence over the business of the other.

During 2007, the Group had the following transactions with related parties:

	<u>Purchases</u>	<u>Payables</u>
OMV Croatia d.o.o.	50,337	-
OMV GAS GmbH	1,063,450	191,714
OMV Hungaria GmbH	5,719,279	-
OMV Aktiengesellschaft	8,144,229	335,568
OMV Deutschland GmbH	1,343,481	-
OMV Exploration & Production GmbH	32,670,260	1,177,416
OMV Refining & Marketing GmbH	366,476,975	47,340,492
OMV Supply & Trading AG	2,156,119,027	238,382,546
OMV Solutions GmbH	19,882,187	2,184,779
OMV Gas International GmbH	926,769	143,570
OMV Austria Exploration & Production GmbH	106,678	114,985
Borealis AG	11,536,492	-
OMV – International Services Ges. m.b.H.	14,407,533	21,389,508
OMV GAS Germany GmbH	740,942	-
OMV Ceska republika s.r.o.	11,918	-
Petrom Exploration & Production LTD	2,489,636	2,489,636
Petrom Nadlac SRL	5,574,414	-
Poliflex SRL	-	16,144
Petrom Aviation SA	684,324	683,324
Linde Gaz Brazi SRL	2,948,988	-
Congaz SA	27,844	-
Beyfin Gaz SRL	117,105	-
Fontegas Peco Mehedinti SA	-	7,203
Acetilena Brazi SRL	55,184	-
Butan Gas Romania SA	13,007,135	576,481
Petrol Ofisi A.S.	67,234	429,552
<b>Total</b>	<b><u>2,644,171,421</u></b>	<b><u>315,462,918</u></b>

**S.C. PETROM S.A. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
(all amounts are expressed in RON, unless otherwise specified)

**26. RELATED PARTIES (continued)**

	<u>Sales</u>	<u>Receivables</u>
OMV – International Services Ges. m.b.H.	9,673,774	5,729,935
OMV Croatia d.o.o.	320,780	312,553
OMV Ceska republika s.r.o.	528	687
OMV (Bulgaria) Offshore Exploration GmbH	33,643	1,074
OMV Aktiengesellschaft	31,456	-
OMV Refining & Marketing GmbH	7,491,105	9,860,350
OMV Slovensko s.r.o	228,364	14,675
Petrom Exploration & Production LTD	-	1,083,060
Petrogas	52,761	-
Petrom Nadlac SRL	5,280,213	-
Poliflex SRL	2,028,173	2,380
Petrom Aviation SA	146,558,928	35,712,274
Linde Gaz Brazi SRL	1,808,289	-
Beyfin Gaz SRL	382,572	-
Acetilena Brazi SRL	34,795	-
Air Total Romania S.A.	68,539,796	9,700,263
Butan Gas Romania SA	57,655,167	661,588
Linzer Agro Trade S.r.l.	29,463,552	6,748,330
Trans Gas Services SRL	25,992	82
Linzer Agro Trade GmbH Austria	139,261,119	7,847,204
OMV BH. d.o.o.	293,322	25,226
Petrol Ofisi A.S.	115,101,347	10,651,824
Brazi Oil & Anghelescu Prod Com SRL	2,051	-
<b>Total</b>	<b><u>584,267,727</u></b>	<b><u>88,351,505</u></b>

**S.C. PETROM S.A. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
(all amounts are expressed in RON, unless otherwise specified)

**27. DIRECT AND INDIRECT INVESTMENTS OF PETROM GROUP**

<b>Company Name</b>	<b>Share interest percentage</b>	<b>Consolidation treatment*</b>
<b>Subsidiaries (&gt;50%)</b>		
DBI FONDS	100.00%	FC
RAIFFEISEN FONDS	100.00%	FC
OPPENHEIM FONDS	100.00%	FC
TASBULAT OIL CORPORATION LLP	100.00%	FC
PETROM EXPLORATION & PRODUCTION LIMITED	100.00%	NC
PETROM GAS SRL	100.00%	FC
PETROMED SOLUTION SRL	99.99%	NC
M.P. PETROLEUM DISTRIBUTIE SRL	99.99%	FC
AVIATION PETROLEUM SRL	99.99%	FC
PETROM DISTRIBUTIE GAZE SRL	99.99%	FC
PETROM LPG SA	99.99%	FC
RAFISERV PETROBRAZI SA	99.94%	FC
OMV BULGARIA LTD	99.90%	FC
OMV ROMANIA MINERALOEL SRL	99.90%	FC
OMV SRBIJA DOO	99.90%	FC
RAFISERV ARPECHIM SA	99.78%	FC
PETROM NADLAC SRL	98.51%	NC
POLIFLEX SRL	96.84%	NC
KOM MUNAI LLP	95.00%	FC
PETROCHEMICALS ARGES SRL	95.00%	NC
TRANS GAS SERVICES SRL	80.00%	NC
RING OIL HOLDING & TRADING LTD	74.90%	FC
LLC MANAGEMENT COMPANY CORSARNEFT	74.90%	FC
LLC ARTAMIRA	74.90%	FC
OJSC CHALYKNEFT	74.90%	FC
OJSC KARNEFT	74.90%	FC
SOK RENATA LLC	74.90%	FC
LLC NEFTEPOISK	74.90%	FC
CJSC SARATOVNEFTEDOBYCHA	74.90%	FC
ICS PETROM MOLDOVA SA	65.00%	FC
<b>Associated companies (20-50%)</b>		
SOCIETATEA ROMANA DE PETROL SA	49.00%	NAE
SOCIETATEA COMERCIALA PETROM AVIATION SA	48.50%	EM
ROBIPLAST COMPANY SRL	45.00%	NAE
BEYFIN GAZ SRL	40.00%	NAE
FRANCIZA PITESTI SRL	40.00%	NAE
BRAZI OIL & ANGHELESCU PROD COM SRL	37.70%	NAE
Fontegas PECO MEHEDINTI SA	37.40%	NAE
CONGAZ SA	28.59%	EM
D.E.E.M. ALGOCAR SA	27.92%	NAE

**S.C. PETROM S.A. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
(all amounts are expressed in RON, unless otherwise specified)

**27. DIRECT AND INDIRECT INVESTMENTS OF PETROM GROUP (continued)**

<b>Company Name</b>	<b>Share interest percentage</b>	<b>Consolidation treatment*</b>
BURSA MARITIMA SI DE MARFURI SA	20.09%	NAE
ASOCIATIA ROMANA PENTRU RELATIA CU INVESTITORII	20.00%	NAE
<b>Other financial investments (&lt;20%)</b>		
GTI OIL CO SA	13.00%	NC
PRIMA PETROL SRL	11.98%	NC
AIR TOTAL ROMANIA SA	6.41%	NC
BUTAN GAS ROMANIA SA	6.07%	NC
BURSA DE MARFURI OLTENIA CRAIOVA	2.63%	NC
TELESCAUN TIHUTA SA	1.68%	NC
AGRIBAC SA	0.79%	NC
BENZ OIL SA	0.48%	NC
CREDIT BANK	0.22%	NC
INSTITUTUL ROMAN PENTRU ASIGURARI	0.10%	NC
OFICIUL PATRONAL JUDETEAN MURES	0.01%	NC
MD INDIA	0.01%	NC

\* Consolidation treatment:

FC Full consolidation

EM Accounted for at equity (Associated company)

NAE Other investment, recognized at acquisition cost:

(associated companies, of relatively little importance to the assets and earnings of the consolidated financial statements).

NC Non – consolidated subsidiary

(shell or distribution companies, of relative insignificance individually and collectively to the consolidated financial statements)

Most of the subsidiaries which are not consolidated either have low volumes of business or are distribution companies; the total sales, net income/losses and equity of such companies represent less than 2% of the consolidated totals.



**S.C. PETROM S.A. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
(all amounts are expressed in RON, unless otherwise specified)

**28. ACQUISITION AND DISPOSALS OF SUBSIDIARIES**

During 2007, the Group acquired the following subsidiaries: SOK Renata and Petrom LPG S.A.(former Shell Gas Romania), which was previously accounted for as an associate and became fully consolidated subsidiary. These transactions have been accounted for by purchase method of accounting.

Net assets of acquired subsidiaries at the date of acquisition were as follows:

	<b>As of acquisition date</b>
Property, plant and equipment	210,736,006
Inventories	14,010,000
Trade and other receivables	27,343,168
Bank balances and cash	52,223,000
Provisions	(7,168,000)
Deferred tax liability, net	(26,072,489)
Liabilities	(47,434,155)
Minority interest	(20,859)
Less equity accounted investment in Shell Gas Romania	(41,930,881)
Less assets revaluation surplus presented in equity	(50,807,719)
<b>Share of net assets at the acquisition dates</b>	<b>130,878,071</b>
Goodwill	(4,563,634)
Total consideration	135,441,705
<b>Cash used on acquisition net of cash acquired</b>	<b>83,218,705</b>

During 2007, the Group disposed the following subsidiaries: OZTYURK MUNAI, CLAIRE NAFTA LTD. and LLC EKOLOGICHESKAYA TEKHNIKA. Net assets of disposed subsidiaries at the date of disposal were as follows:

	<b>As of disposal date</b>
Property, plant and equipment	6,271,804
Inventories	63,596
Trade and other receivables	859,173
Bank balances and cash	39,106,347
Assets held for sale	53,444,879
Deferred tax liability, net	(1,890,935)
Liabilities	(22,303,022)
<b>Share of net assets at the disposal dates</b>	<b>75,551,842</b>
Gain on disposal	10,294,336
Total consideration	85,846,178
<b>Net cash inflow arising on disposal</b>	<b>46,739,831</b>

**S.C. PETROM S.A. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
(all amounts are expressed in RON, unless otherwise specified)

---

**29. FAIR VALUE OF FINANCIAL ASSETS**

Estimates of fair value at balance sheet date, discussed below, are normally based on the market information available. The fair value of other financial assets and securities and investments is calculated primarily on the basis of quoted market prices. Where no quoted price and no present value can be established, the determination of a fair value is not feasible.

The book values of accounts receivable and other assets and cash in hand, checks and cash at bank are reasonable estimates of their fair values, as the assets in question generally have maturities of less than one year.

The fair value of financial liabilities, for which market prices are not available, was established by discounting future cash flows using the interest rates prevailing at balance sheet date for similar liabilities with like maturities.

The carrying values of tax provisions and other current provisions is the same as their fair value. The fair value of non-current provisions is not considered to differ materially from their carrying value.

The carrying value of other liabilities is effectively the same as their fair value, because they are predominantly short-term. The fair value of derivative financial instruments corresponds to their market value.

**30. COMMITMENTS AND CONTINGENCIES**

**Litigations**

The Group is making provisions against litigations that is likely to result in obligations. Management is of the opinion that litigations, to the extent not covered by provisions or insurance, will not materially affect the Group's financial position. The production facilities and properties of all Group companies are subject to a variety of environmental protection laws and regulations in the countries where they operate: provisions are made for probable obligations arising from environmental protection measures. The management believes that compliance with current laws and regulations, and future more stringent laws and regulations, will not have a material negative impact on consolidated results in the next three years.

**31. RISK MANAGEMENT**

**Capital risk management**

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders. The capital structure of the Group consists of debt, which includes the short-term borrowings disclosed in Note 16, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the "Consolidated Statement of Changes in Equity".

**Significant accounting policies**

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 3 to the financial statements.

**S.C. PETROM S.A. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
(all amounts are expressed in RON, unless otherwise specified)

**31. RISK MANAGEMENT (continued)**

**Financial risk management objectives**

The Group's Corporate Treasury function supports the business with services and co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value, interest rate risk and price risk), credit risk and liquidity risk.

The Group seeks to minimize the effects of these risks. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The Corporate Treasury function reports twice per year to the Group's risk management committee, that monitors risks and policies implemented to mitigate risk exposures.

**Market risk**

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

**Foreign currency risk management**

Because the Group operates in many countries and currencies, industry specific activities and the corresponding exchange risks are being analyzed. The Group is mostly exposed to the movement of the US dollar and Euro against Romanian leu. Other currencies have only limited impact on cash flow and EBIT.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the reporting date are as follows:

	<b>Assets</b>		<b>Liabilities</b>	
	31-Dec-07	31-Dec-06	31-Dec-07	31-Dec-06
th EUR	20,409	89,425	108,681	37,223
th USD	415,545	278,980	12,050	20,049

**Foreign currency sensitivity analysis**

**Translation risk** arises on the consolidation of subsidiaries preparing their financial statements other than in Romanian lei. The largest exposures result from changes in the value of the US dollar and Euro against the Romanian lei-

The following table details the Group's sensitivity to a 10% increase and decrease in the USD and EUR against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit generated by a 10% currency fluctuation and a negative number below indicates a decrease in profit with the same value.

**S.C. PETROM S.A. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
(all amounts are expressed in RON, unless otherwise specified)

---

**31. RISK MANAGEMENT (continued)**

+10% Sensitivity increase in the foreign currency rate

	ThUSD Impact (i)		ThEUR Impact (ii)	
	2007	2006	2007	2006
Profit or loss	40,349	25,893	(8,827)	5,220

-10% Sensitivity increase in the foreign currency rate

	ThUSD Impact (i)		ThEUR Impact (ii)	
	2007	2006	2007	2006
Profit or loss	(40,349)	(25,893)	8,827	(5,220)

(i) This is mainly attributable to the exposure on USD cash and receivables at the year end.

(ii) This is mainly attributable to the exposure on EUR payables at the year end.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

**Interest rate risk management**

To facilitate management of interest rate risk, Group's liabilities are analyzed in terms of fixed and variable rate borrowings, currencies and maturities. However, the interest risk of the Group is very low due to reduced level of interest bearing liabilities held by the Group.

**Commodity price risk management**

The Group produces crude oil & gas and uses crude oil mainly for its own production, but the Group also acquires crude oil from third parties.

In 2007, Petrom acquired put options for a price/ premium of USD 13,185,150 that become exercisable in 2008. Put options are classified as financial assets at fair value through profit and loss account. Fair value as at December 31, 2007 was in amount of thousands RON 585 and adjustment booked in profit and loss account amounted to thousands RON 31,486 for 2007.

**Credit risk management**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The main counterparty credit risks are assessed and monitored at Group level using predetermined limits for specific countries, banks and business partners. On the basis of creditworthiness, customers are assigned maximum permitted exposures in terms of amounts and maturities, and the creditworthiness assessments are reviewed on a regular basis. The procedures are governed by guidelines.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities.

**Liquidity risk management**

For the purpose of assessing liquidity risk, budgeted operating and financial cash inflows and outflows throughout the Group are monitored and analyzed on a monthly basis in order to establish the expected net change in liquidity. This is then compared with current money and financial investments and their budgeted maturities, and the available liquidity reserves. This analysis provides the basis for financing decisions and capital commitments.

**S.C. PETROM S.A. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
**(all amounts are expressed in RON, unless otherwise specified)**

---

**32. SUBSEQUENT EVENTS**

Significant events subsequent to the balance sheet date:

- a) In January 2008 the Group sold the investments held in umbrella funds. The selling price was of RON 1,200 million. The fair value of the umbrella funds net assets as at December 31, 2007 was RON 1,148 million and the original cost of acquisition RON 1,074 million.
- b) Petrom closed the transaction for the acquisition of the oil service activities of Petromservice related to the exploration and production activities, effective February 1st 2008. As a result, Petrom took over related oil service assets and 9,775 employees. The acquisition price for this business is EUR 328.5 million. Further to the acquisition, these activities will be integrated into Petrom E&P segment.

## Supervisory Board Report on Consolidated Financial Statements of Petrom Group prepared in accordance with IFRS

### Consolidated Financial Statements prepared for Petrom Group

Petrom is an international oil and gas group with activities in Exploration and Production (E&P), Refining & Marketing, Chemicals and Gas segments.

The consolidated financial statements comprise the financial statements of Petrom SA and its subsidiaries as at December 31, 2007 prepared in accordance with IFRS. The financial statements of the subsidiaries are prepared for the same reporting date, 31 December 2007, as the parent company.

The number of consolidated companies is as follows:

	<u>Full consolidation</u>	<u>Equity consolidation</u>
<b>As at January 1, 2007</b>	<b>25</b>	<b>4</b>
Included for the first time	3	-
Disposed of	<u>3</u>	<u>2</u>
<b>As at December 31, 2007</b>	<b><u>25</u></b>	<b><u>2</u></b>
thereof, Romanian companies	9	2
thereof, Foreign companies	16	-

During 2007, three subsidiaries were sold (OZTYURK MUNAI, LLC EKOLOGICHESKAYA TEKHNIKA and CLAIRE NAFTA LTD) and three new companies were included into the consolidation for the first time (SOK Renata LLC (acquired via Ring Oil), SHELL GAS ROMANIA SA (associate in 2006 became subsidiary fully consolidated in 2007), PETROM DISTRIBUTIE GAZE SRL (spin off from Petrom in October 2007)).

The list of consolidated subsidiaries as at December 31, 2007 is the following:

<b>Company Name</b>	<b>Effective interest</b>
DBI FONDS	100.00%
RAIFFEISEN FONDS	100.00%
OPPENHEIM FONDS	100.00%
TASBULAT OIL CORPORATION LLP	100.00%
PETROM GAS SRL	100.00%
M.P. PETROLEUM DISTRIBUTIE SRL	99.99%
AVIATION PETROLEUM SRL	99.99%
PETROM DISTRIBUTIE GAZE SRL	99.99%
PETROM LPG SA	99.99%
RAFISERV PETROBRAZI SA	99.94%
OMV BULGARIA LTD	99.90%
OMV ROMANIA MINERALOEL SRL	99.90%
OMV SRBIJA DOO	99.90%
RAFISERV ARPECHIM SA	99.78%
KOM MUNAI LLP	95.00%
RING OIL HOLDING & TRADING LTD	74.90%
LLC MANAGEMENT COMPANY CORSARNEFT	74.90%
LLC ARTAMIRA	74.90%
OJSC CHALYKNEFT	74.90%
OJSC KARNEFT	74.90%
SOK RENATA LLC	74.90%
LLC NEFTEPOISK	74.90%
CJSC SARATOVNEFTEDOBYCHA	74.90%
ICS PETROM MOLDOVA SA	65.00%

The results of subsidiaries acquired or disposed off during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

The list of associated companies accounted for at equity as at December 31, 2007 is the following:

<b>Company Name</b>	<b>Percentage</b>
SOCIETATEA COMERCIALA PETROM AVIATION SA	48.50%
CONGAZ SA	28.59%

An associate is an enterprise over which the Group is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee. The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. The carrying amount of such investments is reduced to recognise any decline, other than a temporary decline, in the value of individual investments. Where a group enterprise transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

### Shareholder Structure of Petrom S.A. as at December 31, 2007

The total share capital amounts to RON 5,664,410,834, representing 56,644,108,335 shares with a nominal value of RON 0.1 per share.

	<u>No. of shares</u>	<u>Percent</u>
OMV Aktiengesellschaft	28,894,467,414	51.01%
The Authority for State Assets Recovery	11,690,694,418	20.64%
Property Fund SA	11,391,130,186	20.11%
European Bank for Reconstruction and Development	1,147,770,061	2.03%
Legal entities and physical persons	<u>3,520,046,256</u>	<u>6.21%</u>
<b>Total</b>	<b><u>56,644,108,335</u></b>	<b><u>100.00%</u></b>

### Summarized Petrom Group Balance Sheet

<b>Balance Sheet Item</b>	<b>December 31, 2007</b>	<b>December 31, 2006</b>
	<b>MRON</b>	<b>MRON</b>
Non-current assets	18,122	15,118
Current assets	<u>6,569</u>	<u>7,393</u>
<b>Total assets</b>	<b><u>24,691</u></b>	<b><u>22,511</u></b>
Equity of the parent holders	15,551	14,798
Minority interests	<u>137</u>	<u>120</u>
<b>Shareholders' equity</b>	<b><u>15,688</u></b>	<b><u>14,918</u></b>
Non - current liabilities	5,416	4,440
Current liabilities	<u>3,587</u>	<u>3,153</u>
<b>Total liabilities and shareholders' equity</b>	<b><u>24,691</u></b>	<b><u>22,511</u></b>

Non current assets mainly consist in tangible and intangible assets, out of which oil and gas assets in E&P segment represent the biggest part. The increase shows significant investments made during the year. The investments in 2007 have been directed mostly to E&P represented by drilling, modernization and efficiency programs. Additionally, the Technology roll-out, i.e. Downhole Technology Modernization Program/Well Modernization Program has returned excellent results in terms of reduced intervention frequencies per well per year.

Non-current assets also include the non-current receivable to be reimbursed by the Romanian State for decommissioning of 11,120 wells as well as for decommissioning of several sludge pits and sludge lagoons in E&P and Refining amounting to 1,707 MRON.

Current assets include cash and cash equivalents amounting 1,341 MRON, which decreased from 3,919 MRON in previous year due to significant investments and allocation of dividends by the Parent Company Petrom.

Inventories amounting 2,290 MRON and receivables amounting 1,482 MRON increased in comparison with previous year mainly due to the new subsidiaries acquired and also due to increase in oil and gas prices. In current assets are also included securities owned by Umbrella Funds which are held for trading.

Group equity position increased from 14,798 MRON at the beginning of the year to 15,551 MRON as at December 31, 2007. The increase is mainly due to net profit generated by the Group during the year (1,533 MRON) which was compensated by the decrease in equity due to dividends allocated by the parent company Petrom SA amounting to 1,014 MRON.



Minority interest increased mainly due to the profits for the year attributable to minority shareholders and exchange rates on operations.

Non current liabilities mainly consist in decommissioning obligations amounting to 4,307 MRON, environmental obligations amounting 370 MRON, severance payments and similar obligations amounting to 190 MRON, provisions (383 MRON) and deferred tax liabilities (106 MRON). The increase versus previous year is due to the increase of decommissioning provision with 600 MRON as a result of the unwinding effect and revision in estimates and also due to additional provision for environmental exposure and higher provision for litigations.

Current liabilities consist of trade payables amounting to 981 MRON, short term interest bearing bank loans (23 MRON) and short term provisions such as restructuring provision (383 MRON), accruals (1,187 MRON), tax and social security liabilities (319 MRON), deferred income (174 MRON).

### Summarized Petrom Group Income Statement

Income Statement item	December 31, 2007	December 31, 2006
	MRON	MRON
Revenue	14,941	15,250
Cost of sales	(10,006)	(9,919)
<b>Gross profit</b>	<b>4,935</b>	<b>5,331</b>
Selling and Admin expenses	(1,932)	(1,851)
Other income and expenses	(1,102)	(949)
<b>EBIT</b>	<b>1,901</b>	<b>2,531</b>
Net finance cost	(61)	(230)
Taxes on income	(299)	(236)
<b>Net income for the year</b>	<b>1,541</b>	<b>2,065</b>
thereof attributable to minority interests	8	(1)
<b>thereof attributable to own shareholders</b>	<b>1,533</b>	<b>2,066</b>

The decrease in EBIT is due to lower EBIT generated by Petrom S.A. This was mainly due to the weaker result generated by E&P segment resulting from the negative impact of the RON appreciation by 13% against the USD, the production decline which could be arrested in the second quarter of 2007, and also higher year-end inventories of oil products in segments other than E&P.

The results are in line with the expectations of the company's management, despite the mixed impact of the volatile macroeconomic environment, increasing international oil prices and supply costs. Petrom succeeded in arresting the production decline in the second quarter of the year and continued to improve operational efficiency, based on the ongoing restructuring programs and heavy investing activities in all business segments.

The EBIT of the Group was negatively influenced by the losses incurred by the E&P Russian entities owned by Ring Oil which are in exploratory phase.

The EBIT of the Group for the year ended December 31, 2007 was generated by the following subsidiaries.

<b>Consolidated Company</b>	<b>MRON</b>
Petrom SA	1,789
OMV Romania	58
Petrom Gas	51
Tasbulat Oil Corporation	49
OMV Bulgaria	37
OMV Serbia	36
Rafiserv Companies	32
Petrom Moldova	26
Oztyurk Munai	9
Petrom LPG	0
Petrom Distributie Gaze	(6)
MPP and Aviation Petroleum	(9)
Kom Munai	(15)
Ring Oil Companies	(144)
Consolidation Adjustments	<u>(10)</u>
<b>Petrom Group EBIT</b>	<b><u>1,901</u></b>

As presented in the table above, Petrom SA contributes with more than 90% in the Group EBIT. Group EBIT is also positively influenced by the three OMV companies ( OMV Romania, OMV Bulgaria and OMV Serbia) acquired in R&M segment last year, which contribute with 131 MRON (6%).

Petrom Group EBIT is negatively influenced by the Russian E&P companies Ring Oil that were acquired last year and are in exploration phase.

Petrom LPG is the new name of Shell Gas Romania SA acquired in December 2007. The acquisition will allow Petrom to increase its market share, strengthen its position on the LPG market in Romania and realize synergies together with its own LPG business. Due to the fact that the acquisition was made in December 2007, no profit was consolidated into Petrom Group in 2007.

Group financial result improved in 2007, mainly due to FX effects generated by cash and cash equivalents, loans and other borrowings. The corporate tax charge increased in 2007 due to the termination of the geological quota facility with effect from 2007.

### **Risk Management**

Petrom Group, as an integrated oil company, is exposed to many different risks, such as international economic climate and other factors that are specific for the oil and gas business.

Risk awareness within the Petrom and its subsidiaries is reflected in an integrated report which is given twice per year each May and October. While the findings are reported to management, the parameters of all risks form part of the OMV wide simulation model.

As Petrom moves forward, the focus is on using the risk management process in order to support Group strategy and business targets.

**Petrom Group objectives for 2010**

Main Group objectives for 2010 are the following: stabilization of Romanian oil and gas production at 210,000 boe/d, achievement of a 70% reserve replacement ratio, reduction of production costs in Romania, expansion of international operations in the Caspian region, selling of 7bcm/year of gas, for a 35% share of the Romanian market, increase the throughput per filling station and open 250 new PetromV filling stations, Expand capacity at Petrobrazi Refinery to 6mn t and improve the cost base and Commission the Petrobrazi gas fired power plant.

**March 18, 2008  
Bucharest**

**Wolfgang Rutenstorfer**

