

S.C. PETROM S.A.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED
DECEMBER 31, 2008

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, 2008
PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

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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, 2008 which comprise the consolidated balance sheet 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, 2008, and their financial performance and their 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 with the subsequent amendments, 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 17, 2009

S.C. PETROM S.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2008
(all amounts are expressed in RON, unless otherwise specified)

	<u>Notes</u>	<u>December 31, 2008</u>	<u>December 31, 2007</u>
ASSETS			
Non-current assets			
Intangible assets*	5	1,457,298,270	702,483,376
Property, plant, equipment*	6	19,167,713,672	15,113,550,970
Investment in associates	7	33,011,037	40,536,390
Other financial assets	7	15,716,640	229,485,848
Other receivables and assets	9	2,138,216,352	1,770,734,988
Deferred tax asset	15	508,055,271	265,409,309
Total non-current assets		<u>23,320,011,242</u>	<u>18,122,200,881</u>
Current assets			
Inventories, net	8	2,758,910,410	2,289,936,846
Trade receivables, net	9	1,021,586,652	1,482,458,290
Other receivables and assets, net	9	474,564,144	451,209,917
Other financial assets	10	707,823,486	1,004,642,846
Cash and cash equivalents		572,497,418	1,340,611,643
Assets held for sale	11	61,918,055	-
Total current assets		<u>5,597,300,165</u>	<u>6,568,859,542</u>
Total assets		<u>28,917,311,407</u>	<u>24,691,060,423</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	12	18,983,366,226	18,983,366,226
Retained earnings		(3,616,877,485)	(3,513,271,077)
Other reserves		578,389,694	80,884,746
Total equity attributable to equity holders of the parent		<u>15,944,878,435</u>	<u>15,550,979,895</u>
Minority interests		<u>44,873,232</u>	<u>137,311,923</u>
Total equity		<u>15,989,751,667</u>	<u>15,688,291,818</u>
Non-current liabilities			
Interest bearing debts long term	16	1,468,205,036	-
Pensions and similar liabilities	13	251,456,981	190,438,000
Decommissioning and restoration obligations	13	5,103,316,398	4,306,728,251
Other provisions	13	873,310,532	753,181,350
Other liabilities	14	117,470,309	59,859,000
Deferred tax liability	15	56,796,904	105,963,860
Total non-current liabilities		<u>7,870,556,160</u>	<u>5,416,170,461</u>

*) Unproved mineral property and related assets have been reclassified from tangible to intangible assets. Figures for previous period have been adjusted accordingly.

The notes on pages 9 to 46 form part of these financial statements.


S.C. PETROM S.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2008
(all amounts are expressed in RON, unless otherwise specified)

	<u>Notes</u>	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Current liabilities			
Trade payables**		2,627,990,200	2,168,652,526
Interest bearing debts	16	357,063,304	23,301,983
Provisions for taxes	13	21,871,634	117,604,114
Other provisions**	13	1,102,327,190	483,213,291
Other liabilities**	14	<u>947,751,252</u>	<u>793,826,230</u>
Total current liabilities		<u>5,057,003,580</u>	<u>3,586,598,144</u>
Total equity and liabilities		<u>28,917,311,407</u>	<u>24,691,060,423</u>


These financial statements were approved on March 17th, 2009.



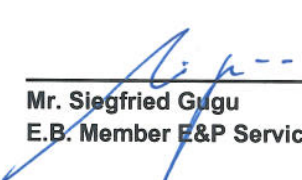
Mrs. Mariana Gheorghe
Chief Executive Officer




Mr. Reinhard Pichler
Chief Financial Officer



Mr. Johann Pleininger
E.B. Member E&P



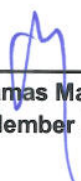
Mr. Siegfried Gugu
E.B. Member E&P Services



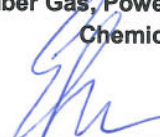
Mr. Gerald Kappes
E.B. Member Gas, Power &
Chemicals




Mr. Neil Morgan
E.B. Member Refining



Mr. Tamas Mayer
E.B. Member Marketing



Mr. Siegfried Ehn
Director Finance and
Controlling Division



Mrs. Alina Popa
Head of Financial Reporting
and Group Consolidation

**) As at December 31, 2008 accruals have been reclassified from other provisions to trade payables and other liabilities. Figures for previous periods have been adjusted accordingly.


The notes on pages 9 to 46 form part of these financial statements.

S.C. PETROM S.A. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(all amounts are expressed in RON, unless otherwise specified)


	<u>Notes</u>	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Revenue		20,127,361,508	14,940,956,936
Cost of sales		(14,120,840,886)	(10,005,883,627)
Gross profit		6,006,520,622	4,935,073,309
Other operating income	17	439,862,972	277,782,551
Selling expenses		(1,575,441,404)	(1,614,065,503)
Administrative expenses		(208,077,385)	(318,289,288)
Exploration expenses		(615,484,412)	(376,272,733)
Other operating expenses	18	(2,842,454,639)	(1,003,608,237)
Earnings before interest and taxes	19	1,204,925,754	1,900,620,099
Income from investments	20	58,125,490	31,228,662
Financial expenses	21	(134,211,231)	(91,972,982)
Net finance cost		(76,085,741)	(60,744,320)
Profit from ordinary activities		1,128,840,013	1,839,875,779
Taxes on income	22	(233,276,892)	(299,008,247)
Net income for the year		895,563,121	1,540,867,532
thereof attributable to own shareholders		978,296,061	1,533,038,356
thereof attributable to minority interests		(82,732,940)	7,829,176
Earnings per share in RON	23	0.0173	0.0271


These financial statements were approved on March 17th, 2009.


Mrs. Mariana Gheorghe
Chief Executive Officer



Mr. Reinhard Pichler
Chief Financial Officer

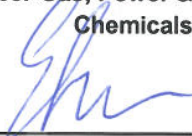

Mr. Johann Pleininger
E.B. Member E&P



Mr. Siegfried Gugu
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S.C. PETROM S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2008
(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>
Balance at January 1, 2008	<u>18,983,366,226</u>	<u>(3,513,271,077)</u>	<u>80,884,746</u>	<u>15,550,979,895</u>	<u>137,311,923</u>	<u>15,688,291,818</u>
Unrealized gains / (losses) on revaluation of hedges						
Gain for the year before taxes on income	-	-	574,967,312	574,967,312	-	574,967,312
Income taxes	-	-	(91,994,770)	(91,994,770)	-	(91,994,770)
Fair value adjustment on available for sale financial assets						
Realized during the year before taxes on income	-	-	(9,803,240)	(9,803,240)	-	(9,803,240)
Income taxes	-	-	1,568,518	1,568,518	-	1,568,518
Exchange differences from translation of foreign operations	-	-	73,704,048	73,704,048	13,022,914	86,726,962
Fair value surplus on change of control	-	-	10,538,699	10,538,699	-	10,538,699
Net income for the year	-	978,296,061	-	978,296,061	(82,732,940)	895,563,121
Dividends distribution	-	(1,081,902,469)	-	(1,081,902,469)	(140,846)	(1,082,043,315)
Changes in consolidated Group	<u>-</u>	<u>-</u>	<u>(61,475,619)</u>	<u>(61,475,619)</u>	<u>(22,587,819)</u>	<u>(84,063,438)</u>
Balance at December 31, 2008	<u>18,983,366,226</u>	<u>(3,616,877,485)</u>	<u>578,389,694</u>	<u>15,944,878,435</u>	<u>44,873,232</u>	<u>15,989,751,667</u>

The notes on pages 9 to 46 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>
Balance at January 1, 2007	18,983,366,226	(4,032,379,894)	(152,801,406)	14,798,184,926	120,243,983	14,918,428,909
Unrealized gains / (losses) on hedging of umbrella funds						
Gain for the year before taxes on income	-	-	64,958,958	64,958,958	-	64,958,958
Income taxes	-	-	(10,393,400)	(10,393,400)	-	(10,393,400)
Unrealized gains / (losses) on available for sale financial assets						
Loss during the year before taxes on income	-	-	(19,335,904)	(19,335,904)	-	(19,335,904)
Income taxes	-	-	3,091,665	3,091,665	-	3,091,665
Unrealized gains / (losses) on revaluation of hedges						
Gain during the year before taxes on income	-	-	40,955,000	40,955,000	-	40,955,000
Income taxes	-	-	(6,553,000)	(6,553,000)	-	(6,553,000)
Exchange differences from translation of foreign operations	-	-	110,155,114	110,155,114	9,218,835	119,373,949
Fair value surplus on change of control	-	-	50,807,719	50,807,719	-	50,807,719
Net income for the year	-	1,533,038,356	-	1,533,038,356	7,829,176	1,540,867,532
Dividends distribution	-	(1,013,929,539)	-	(1,013,929,539)	-	(1,013,929,539)
Changes in consolidated Group	-	-	-	-	22,160	22,160
Decrease in minority interests	-	-	-	-	(2,231)	(2,231)
Balance at December 31, 2007	<u>18,983,366,226</u>	<u>(3,513,271,077)</u>	<u>80,884,746</u>	<u>15,550,979,895</u>	<u>137,311,923</u>	<u>15,688,291,818</u>

The notes on pages 9 to 46 form part of these financial statements.

S.C. PETROM S.A. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(all amounts are expressed in RON, unless otherwise specified)

	Notes	December 31, 2008	December 31, 2007
Cash flow from operating activities			
Profit before taxation		1,128,840,013	1,839,875,779
Adjustments for:			
Interest expenses	21	28,442,510	3,970,438
Interest income	21	(77,176,981)	(182,117,226)
Net movement in provisions for:			
- Financial assets		1,894,543	(19,773,163)
- Inventories		57,639,256	6,274,204
- Receivables		30,995,371	(33,054,370)
- Pensions and similar liabilities		(13,256,977)	4,847,820
- Decommissioning and restoration obligations		206,316,616	167,294,346
- Other provisions for risk and charges		640,564,687	462,180,710
Write off of receivables		132,914,220	-
Income from investments in associates	20	(2,482,632)	(7,241,914)
Gain on disposal of subsidiaries	28	(44,398,049)	(10,294,336)
Cash flow hedge recycled through income statement		57,326,682	64,958,958
(Gain)/ Loss on disposals of fixed assets		(58,526,188)	44,450,938
Loss on disposals of financial assets		6,209,963	69,555,952
Depreciation, amortization and impairment expense		2,650,739,723	1,480,293,830
Goodwill written off		581,179	4,563,634
Other non cash items*		-	(2,232)
Cash generated from operating activities before working capital movements		4,746,623,936	3,895,783,368
Increase in inventories		(510,859,414)	(567,007,644)
Decrease / (Increase) in receivables and other assets		174,958,249	(486,667,791)
Increase in liabilities		558,871,820	359,578,283
Interest received		79,006,869	200,255,538
Interest paid		(28,442,510)	(3,970,438)
Tax on profit paid		(723,358,128)	(278,537,730)
Net cash generated from operating activities		4,296,800,822	3,119,433,586
Cash flow from investment activities			
Purchase of tangible and intangible assets		(5,718,301,444)	(4,266,668,407)
Proceeds from sale of fixed assets		154,794,615	133,154,634
Proceeds from sale of financial assets		1,023,381,819	16,979,723
Acquisition of financial assets		(97,039,837)	(98,817,118)
Acquisition of businesses net of cash acquired	28	(1,201,632,349)	(83,218,705)
Proceeds from sale of Group companies less cash and cash equivalents	28	35,688,130	46,739,831
Net cash used for investment activities		(5,803,109,066)	(4,251,830,042)
Cash flow from financing activities			
Net increase in/ (repayment of) loans		1,810,118,143	(30,745,167)
Dividends paid		(1,114,441,209)	(1,422,986,498)
Net cash provided by/ (used) for financial activities		695,676,934	(1,453,731,665)
Effect of foreign exchange rate changes on cash and cash equivalents		42,517,085	8,096,963
Total cash flows		(768,114,225)	(2,578,031,158)
Cash and cash equivalents at the beginning of the year		1,340,611,643	3,918,642,801
Cash and cash equivalents at the end of the period		572,497,418	1,340,611,643

*) For comparison purposes, as at December 31, 2007 the amount of RON 10,294,336 representing gain on disposal of subsidiaries was reclassified from line "Other non-cash items" to line "Gain on disposal of subsidiaries".

The notes on pages 9 to 46 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, 2008
(all amounts are expressed in RON, unless otherwise specified)

1. LEGAL PRINCIPLES AND ACCOUNTING POLICIES

Petrom S.A. (239, Calea Dorobantilor, 010567 Bucharest, Romania), has with activities in Exploration and Production (E&P), Refining and Marketing, Gas and Power segments.

Shareholders' structure as at December 31, 2008 was as follows:

	Percent
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%
Total	100.00%

Statement of compliance

These financial statements have been drawn up in compliance with International Financial Reporting Standards (IFRSs).

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 choose to prepare first time consolidated financial statements for the year ended 31st December 2006 in accordance with IFRS. As a result, Petrom S.A. prepared first time consolidated financial statements in accordance with IFRS starting with 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.

Standards and Interpretations effective in the current period

Three interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are:

- IFRIC 11, 'Scope of IFRS 2 – 'Group and Treasury Share Transactions' (effective from 1 March 2007)
- IFRIC 12 Service Concession Arrangements (effective January 1, 2008)
- IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective January 1, 2008)

There were also amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets* (effective on or after 1 July 2008). The adoption of these Interpretations and amendments to existing standards has not led to any changes in the Group's accounting policies.

Standards and Interpretations in issue not yet adopted

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

- IFRS 8, 'Operating segments' (effective from 1 January 2009). IFRS 8 supersedes IAS 14, under which segments were identified and reported on risk and return analysis. Items were reported on the accounting policies used for external reporting. Under IFRS 8, segments are components of an entity regularly reviewed by an entity's chief operating decision-maker. Items are reported based on the internal reporting. The Group will apply IFRS 8 starting with annual reporting period beginning 1 January 2009;

S.C. PETROM S.A. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(all amounts are expressed in RON, unless otherwise specified)

1. LEGAL PRINCIPLES AND ACCOUNTING POLICIES (continued)

- IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). IAS 23 requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply IAS 23 (Amended) from 1 January 2009 if applicable;
- Amendment to IFRS 2 'Share-based Payment: Vesting Conditions and Cancellations' (effective 1 January 2009). The amendment limits vesting conditions to service conditions and performance conditions. Other features of share-based payment are not vesting conditions. The Group will apply IFRS 3 from 1 January 2009 if applicable;
- Revised IFRS 3 'Business Combinations' (effective 1 July 2009). The scope of IFRS 3 has been revised to include combinations of mutual entities and combinations without consideration (dual listed shares), thereby capturing more transactions. The Group will apply IFRS 3 from 1 July 2009 if applicable;
- Amendments to IAS 1 'Presentation of Financial Statements: A Revised Presentation' (effective 1 January 2009). IAS 1 has been revised to enhance the usefulness of information presented in the financial statements. Entities will need to consider whether to present the statement of comprehensive income as a single statement or two statements. The Group will apply IAS 1 (Amended) from 1 January 2009.
- IAS 32 (revised in 2008) Financial Instruments: presentation and IAS 1 (revised in 2008) Presentation of Financial Statements: Puttable Financial Instruments and Obligations Arising on Liquidation (effective for annual periods beginning on or after 1 January 2009);
- IFRS 1 (revised in 2008) First adoption and IAS 27 (revised in 2008) Consolidated and Separate Financial Statements: Cost of an Investment in a subsidiary, jointly-controlled entity or associate (effective for annual periods beginning on or after 1 January 2009);
- In addition IFRIC 15, 17 and 18 will become effective at various dates in 2009. The Company does not see them as applicable.
- In May 2008 the Board issued its first omnibus of amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS (IAS 1, IFRS 5, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 36, IAS 38, IAS 40, IAS 41) primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. Company has not early adopted the amendments to standards and anticipates that these changes will have no material effect on the financial statements.

The Company anticipates that all of the above Standards and Interpretations will have no material impact on the financial statements of the Company in the period of initial application.

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.

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.

b) Estimates of future restoration costs are also based on reports by Group engineers and on past experience. Provisions for restoration costs and impairment losses require estimates of interest rates. These estimates have a material effect on the amount of the provisions.

S.C. PETROM S.A. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(all amounts are expressed in RON, unless otherwise specified)

1. LEGAL PRINCIPLES AND ACCOUNTING POLICIES (continued)

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.

2. CONSOLIDATION

a) Subsidiaries

The consolidated financial statements comprise the financial statements of Petrom S.A. and its subsidiaries as at 31 December 2008, prepared in accordance with consistent accounting and valuation principles. The financial statements of the subsidiaries are prepared for the same reporting date, 31 December 2008, 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:

	Full consolidation	Equity consolidation
As at January 1, 2008	25	2
Acquired during the year	1	-
Disposed of	5	1
As at December 31, 2008	21	1
thereof, Romanian companies	8	1
thereof, Foreign companies	13	-

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.

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3. ACCOUNTING AND VALUATION PRINCIPLES

a) Exploration and appraisal costs

Exploration and appraisal costs are accounted for using the successful efforts method of accounting. Costs related to geological and geophysical activity are expensed as and when incurred. The costs associated to exploration and appraisal drilling are initially capitalized as unproved mineral properties and related 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.

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, impairment 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.

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3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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

Intangible assets	Useful life (years)
Goodwill	Unlimited
Software	3-5
Concessions, licenses and other intangibles	4-20, or contract duration
Business-specific property, plant and equipment	
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
Other property, plant and equipment	
Production and office buildings	20 or 40-50
Other plant and equipment	10-20
Fixtures and fittings	5-10

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 benefits from 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.

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.

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3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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

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.

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3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

j) Inventories

Inventories are recorded 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 amortised 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 in Marketing division. 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.

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3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

m) Liabilities

Liabilities are carried at amortised 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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

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.

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3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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.

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.

p) Components of cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash is considered to be cash on hand and in operating accounts in banks. Cash equivalents represent deposits and highly liquid investments with maturities of less than three months.

r) 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 quota was restricted to investment purposes and is not distributable. The quota was non-taxable.

s) 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.

Unrealized gains and losses are as a general rule recognized as income or expense, except where the requirements for hedge accounting are met. For hedge accounting to be applied the hedging relationship must be regularly documented and actual hedge effectiveness must be in the range 80%–125%.

In the case of fair value hedges, changes in the fair value resulting from the risk being hedged for both the hedged item and the hedging instrument are recognized as income or expense.

For cash flow hedges, the effective part of the changes in fair value is recognized directly in equity, while the ineffective 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.

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3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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 as income or expense.

t) Comparatives

Certain comparative information of the previous year have been reclassified in order to ensure comparability with the presentation of the financial statements for the current year.

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:

Exchange rates	Year ended December 31, 2008	Average for the year ended December 31, 2008	Year ended December 31, 2007	Average for the year ended December 31, 2007
US dollar (USD)	2.8054	2.5147	2.4564	2.4361
Euro (EUR)	3.9860	3.6797	3.6102	3.3337
Moldavian Leu (MDL)	0.2762	0.2416	0.2161	0.2014
Russian Rouble (RUB)	0.0966	0.1010	0.1003	0.0952
Serbian Dinar (RSD)	0.0450	0.0452	0.0456	0.0417
Bulgarian Leva (BGN)	2.0380	1.8814	1.8457	1.7044

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5. INTANGIBLE ASSETS

	Concessions, licenses, and other intangible assets	Unproved mineral properties and related assets*	Total
COST			
Balance as at January 1, 2008	461,827,948	600,357,357	1,062,185,305
Exchange differences	1,325,704	(12,537,546)	(11,211,842)
Changes in consolidated Group	19,000	-	19,000
Additions**	1,089,289,832	436,038,904	1,525,328,736
Transfers (Note 6)	2,564,844	(72,916,000)	(70,351,156)
Disposals	(49,223,367)	(4,417,966)	(53,641,333)
Assets Held for Sale	(10,415)	-	(10,415)
Balance as at December 31, 2008	<u>1,505,793,546</u>	<u>946,524,749</u>	<u>2,452,318,295</u>
ACCUMULATED AMORTISATION AND IMPAIRMENT			
Balance as at January 1, 2008	109,468,127	250,233,802	359,701,929
Exchange differences	1,107,031	(7,793,690)	(6,686,659)
Amortization	222,666,033	1,969,803	224,635,836
Impairment	4,597,000	461,341,671	465,938,671
Transfers (Note 6)	(524,305)	(9,747,000)	(10,271,305)
Disposals	(32,244,078)	(386,000)	(32,630,078)
Write-ups	-	(5,661,000)	(5,661,000)
Assets Held for Sale	(7,369)	-	(7,369)
Balance as at December 31, 2008	<u>305,062,439</u>	<u>689,957,586</u>	<u>995,020,025</u>
CARRYING AMOUNT			
As at January 1, 2008	<u>352,359,821</u>	<u>350,123,555</u>	<u>702,483,376</u>
As at December 31, 2008	<u>1,200,731,107</u>	<u>256,567,163</u>	<u>1,457,298,270</u>

*) Unproved mineral property and related assets have been reclassified from tangible assets to intangible assets. Figures for previous period have been adjusted accordingly.

**) Additions include the amount of RON 1,107,795,005 related to oil service business acquired from Petromservice.

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6. PROPERTY, PLANT AND EQUIPMENT

	Land, land rights and buildings, incl.buildings on third-party property	Proved mineral properties and related assets*	Plant and machinery	Other fixtures and fittings, tools and equipment	Assets under construction	Payments in advance	Total
COST							
Balance as at January 1, 2008	2,477,293,729	11,676,586,830	1,486,390,695	512,501,603	1,816,055,145	430,685,956	18,399,513,958
Exchange differences	39,100,691	105,650,105	14,401,050	17,766,092	78,646,566	10,325,432	265,889,936
Changes in consolidated Group	26,934,000	-	18,788,000	84,000	703,000	-	46,509,000
Additions***	269,601,855	3,249,263,853	247,025,536	174,620,951	1,565,502,241	320,003,915	5,826,018,351
Transfers**	303,676,964	(67,045,463)	822,983,196	100,068,576	(947,782,720)	(141,549,397)	70,351,156
Assets Held for Sale	(19,990,711)	-	(1,485,080)	(771,782)	(30,176,438)	-	(52,424,011)
Disposals	(93,796,252)	(39,253,774)	(64,031,382)	(20,116,543)	(73,978,000)	(247,882)	(291,423,833)
Balance as at December 31, 2008	3,002,820,276	14,925,201,551	2,524,072,015	784,152,897	2,408,969,794	619,218,024	24,264,434,557
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
Balance as at January 1, 2008	366,827,039	2,058,563,977	531,778,307	211,990,598	90,607,347	26,195,720	3,285,962,988
Exchange differences	6,896,378	26,593,086	6,993,663	6,682,275	(238,613)	26,161	46,952,950
Changes in consolidated Group	-	-	-	-	-	-	-
Depreciation	119,026,561	812,083,256	238,335,036	109,451,636	-	-	1,278,896,489
Impairment	129,249,727	1,142,000	353,775,000	41,796,000	173,183,000	1,168,000	700,313,727
Transfers**	9,022,356	(191,538,000)	243,617,665	26,585,284	(51,967,000)	(25,449,000)	10,271,305
Assets Held for Sale	(2,492,483)	-	(845,029)	(446,888)	-	-	(3,784,400)
Disposals	(54,844,115)	(27,680,323)	(55,404,836)	(14,847,018)	(55,484,000)	(247,882)	(208,508,174)
Write-ups	(4,353,000)	(725,000)	(5,558,000)	(494,000)	(2,254,000)	-	(13,384,000)
Balance as at December 31, 2008	569,332,463	2,678,438,996	1,312,691,806	380,717,887	153,846,734	1,692,999	5,096,720,885
CARRYING AMOUNT							
As at January 1, 2008	2,110,466,690	9,618,022,853	954,612,388	300,511,005	1,725,447,798	404,490,236	15,113,550,970
As at December 31, 2008	2,433,487,813	12,246,762,555	1,211,380,209	403,435,010	2,255,123,060	617,525,025	19,167,713,672

*) Unproved mineral property and related assets have been reclassified from tangible to intangible assets. Figures for previous period have been adjusted accordingly.

**) Net amount represents transfers from intangibles. See Note 5.

***) Include RON 355,901,386 representing decommissioning liability reassessment, RON 171,335,767 related to oil service business acquired from Petromservice and RON 1,986,513 land titles obtained.

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6. PROPERTY, PLANT AND EQUIPMENT (continued)

The value of fixed assets pledged for the bank loans contracted by the Group is RON 20 million (2007: RON 11 million) for assets held by the Moldova subsidiary.

Fixed assets presented above, in categories "Plant and machinery" and "Other fixtures and fittings, tools and equipment" include fixed assets acquired in 2008 through finance lease with a carrying amount of RON 11 million as at December 31, 2008.

7. INVESTMENTS IN ASSOCIATED COMPANIES AND OTHER FINANCIAL ASSETS

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

COST	Associated companies	Investments	Available for sale securities	Loans	Total other financial assets
Balance as at January 1, 2008	40,536,390	88,772,053	199,986,096	23,747,172	312,505,321
Changes in consolidated Group	(10,007,985)	-	-	-	-
Additions / increases / decreases in value	2,482,632	10	(9,803,240)	1,868,082	(7,935,148)
Transfers*	-	-	(190,182,856)	-	(190,182,856)
Disposals	-	(16,724,676)	-	(8,151,795)	(24,876,471)
Balance as at December 31, 2008	33,011,037	72,047,387	-	17,463,459	89,510,846
WRITE DOWN ALLOWANCE					
Balance as at January 1, 2008	-	67,424,096	-	15,595,377	83,019,473
Impairment	-	27,569	-	1,868,082	1,895,651
Disposals	-	(11,119,810)	-	-	(11,119,810)
Write-ups	-	(1,108)	-	-	(1,108)
Balance as at December 31, 2008	-	56,330,747	-	17,463,459	73,794,206
CARRYING AMOUNT					
Balance as at January 1, 2008	40,536,390	21,347,957	199,986,096	8,151,795	229,485,848
Balance as at December 31, 2008	33,011,037	15,716,640	-	-	15,716,640

*) Representing a transfer of the available for sale securities (bonds acquired by Petrom S.A. from World Bank) to current assets – see details below and also see Note 10.

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

Associated companies

As at December 31, 2007 the Group had two associated companies: Congaz S.A. and Petrom Aviation S.A.. During 2008 Petrom Aviation S.A. became fully consolidated subsidiary.

As a result, at December 31, 2008 the Group had one associated company: Congaz S.A..

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 public bonds acquired by Petrom S.A. in September 2006. The bonds bear an interest of 6.5% p.a. payable each semester and the maturity is September 2009. During 2008 the bonds have been transferred to current assets (see Note 10).

8. INVENTORIES, NET

	December 31, 2008	December 31, 2007
Crude oil	413,314,038	402,958,385
Other raw materials	906,879,225	631,213,455
Work in progress	158,195,000	252,083,000
Finished products	1,173,642,462	935,427,237
Advances paid for inventories	106,879,685	68,254,769
Total	2,758,910,410	2,289,936,846

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9. RECEIVABLES AND ASSETS, NET

a) Trade receivables are amounting to RON 1,021,586,652 as at December 2008 and to RON 1,482,458,290 as at December 2007. They are presented net of provisions, which are detailed in the movement below.

b) Other receivables and assets

	December 31, 2008	Liquidity term	
		less than 1 year	over 1 year
Prepaid expenses and deferred charges	14,720,475	14,720,475	-
Rental and lease prepayments	49,534,920	49,122,110	412,810
Expenditure recoverable from Romanian State	2,037,919,562	-	2,037,919,562
Other receivables	510,605,539	410,721,559	99,883,980
Total	2,612,780,496	474,564,144	2,138,216,352

	December 31, 2007	Liquidity term	
		less than 1 year	over 1 year
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 Romanian State	1,707,751,023	-	1,707,751,023
Other receivables	436,996,339	374,476,456	62,519,883
Total	2,221,944,905	451,209,917	1,770,734,988

c) Provisions for trade receivables, other receivables and other assets

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

	Trade receivables	Other receivables	Total
January 1, 2008	213,328,617	411,205,776	624,534,393
Additions	136,843,768	31,807,595	168,651,363
Disposals	(99,187,216)	(38,468,776)	(137,655,992)
Exchange differences and changes in consolidated Group	2,568,831	(1,201,618)	1,367,213
December 31, 2008	253,554,000	403,342,977	656,896,977

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9. RECEIVABLES AND ASSETS, NET (continued)

Expenditure recoverable from Romanian State

As part of the privatization agreement, Petrom S.A. is required to close wells, which are abandoned and are awaiting closure. However, such expenditures will be recoverable by the Company from the Romanian State as these pertain to E&P activities prior to privatization of the Company in 2004. Consequently, the Company has recorded the estimated decommissioning expenditures against receivable from the Romanian State in amount of RON 1,695,105,426 as at December 31, 2008 (2007: RON 1,457,613,705). The Company also recorded receivable from the Romanian State related to environmental liabilities for sludge pits and sludge lagoons in E&P, Refining and Doljchim amounting to RON 342,814,136 (2007: RON 250,137,318) as these were existing prior to privatization of the Company.

10. OTHER FINANCIAL ASSETS

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Receivable from hedge contracts	517,640,630	-
Bonds issued by World Bank (see Note 7)	190,182,856	-
Securities held as short term assets	<u>-</u>	<u>1,004,642,846</u>
Total	<u>707,823,486</u>	<u>1,004,642,846</u>

Receivable from hedge contracts

In 2008 Petrom S.A. entered into several derivatives contracts in order to hedge the adverse impact of falling oil prices in 2009. These derivative instruments were designed and effective as hedging instruments according to cash-flow hedge accounting. The receivable from hedge contracts is valued at the market value as at December 31, 2008 (RON 517,640,630) (see Note 31). The effective part of the changes in fair value is recognized directly in equity (RON 574,967,312), while the ineffective part and time value are recognized in the income statement (RON (57,326,682)).

Bonds issued by World Bank

The bonds bear an interest of 6.5% p.a. payable each semester and the maturity is September 2009. They are carried at fair value through equity amounting to RON 190,182,856 as at December 31, 2008 (2007: RON 199,986,096).

Securities held as short term assets

Included into other financial assets at fair value through profit or loss in 2007 are the securities owned by Umbrella funds. During 2008 the Umbrella funds subsidiaries have been sold.

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11. ASSETS HELD FOR SALE

	December 31, 2008	December 31, 2007
Land	44,805,304	-
Property, plant and equipment	11,067,117	-
Intangible assets	3,046	-
Deferred tax asset (see Note 15)	<u>6,042,588</u>	<u>-</u>
Assets held for sale	<u>61,918,055</u>	<u>-</u>

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.

In order to protect the Group's cash flow from the adverse impact of falling oil prices, derivative instruments have been used to hedge the proceeds from the production of 40,000 bbl/d in 2009. These are accounted as cash flow hedge and the effective part of the changes in fair value is recognized directly in equity (RON 574,967,312), including the related deferred tax liability (RON 91,994,770).

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.

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13. PROVISIONS

	Pensions and similar obligations	Taxes	Decommissioning and restoration	Other provisions*	Total
January 1, 2008	190,438,000	118,434,114	4,306,728,251	1,235,564,641	5,851,165,006
Exchange differences	-	442,525	2,027,220	2,734,576	5,204,321
Changes in consolidated Group	490,010	-	-	4,097,000	4,587,010
Used	(15,445,002)	(118,507,247)	(18,583,437)	(583,917,070)	(736,452,756)
Allocations	<u>75,973,973</u>	<u>21,502,242</u>	<u>813,144,364</u>	<u>1,317,158,575</u>	<u>2,227,779,154</u>
December 31, 2008	<u>251,456,981</u>	<u>21,871,634</u>	<u>5,103,316,398</u>	<u>1,975,637,722</u>	<u>7,352,282,735</u>
thereof short-term	-	21,871,634	-	1,102,327,190	1,124,198,824
thereof long-term	251,456,981	-	5,103,316,398	873,310,532	6,228,083,911

*) As at December 31, 2008 accruals have been reclassified from other provisions to trade payables and other liabilities. Figures for previous periods have been adjusted accordingly.

Provisions for pensions and similar obligations

Employees of Group companies 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 using a discount rate of 5.5%. Increase of pensions and similar obligations in 2008 includes an amount of RON 73,785,948 for employees taken over together with oil services business from Petromservice.

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. Decommissioning and restoration provision for the year ended December 31, 2008 was calculated using a discount rate of 8% and an inflation rate of 4.19%.

The provision for restoration costs includes obligations in respect of Petrom S.A. amounting to RON 5,078 million (2007: RON 4,310 million). There is a corresponding claim against the Romanian State of RON 1,695 million (2007: RON 1,458 million), which is disclosed as a non – current asset under receivables and other assets.

Details on the Decommissioning and restoration obligations are as follows:

	December 31, 2008	December 31, 2007
	<u>Carrying value</u>	<u>Carrying value</u>
Balance as at January 1, 2008	4,306,728,251	3,706,408,674
Exchange differences	2,027,220	(378,611)
New obligations	7,963,630	1,638,780
Revisions in estimates	507,818,602	337,717,405
Unwinding effect	297,362,132	277,573,200
Settlements current period	<u>(18,583,437)</u>	<u>(16,231,197)</u>
Balance as at December 31, 2008	<u>5,103,316,398</u>	<u>4,306,728,251</u>

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13. PROVISIONS (continued)

Other provisions were as follows:

2008	Total	less than 1 year	over 1 year
Environmental provision	434,017,960	2,049,960	431,968,000
Other personnel provisions	442,886,926	442,886,926	-
Provisions for litigations	1,052,070,607	616,564,827	435,505,780
Other	46,662,229	40,825,477	5,836,752
Total	1,975,637,722	1,102,327,190	873,310,532

Environmental provisions

The environmental provision is estimated by the management based on the list of environment related projects that must be completed by the Group. The Group experts in environmental issues made their best estimates in order to determine the necessary provisions recorded as at December 31, 2008. Petrom S.A. recorded environmental liabilities against receivable from the Romanian State for sludge pits and sludge lagoons belonging to E&P, Refining and Doljchim as these lagoons existed prior to privatization of the Company.

As at December 31, 2008, Petrom Group had not shortfall in EU allowances allocated compared to the CO2 emissions of installations subject to the EU Emission Trading Scheme.

Other personnel provisions

Included in other personnel provisions is mainly the restructuring provision recorded by Petrom S.A.. The Company started a restructuring plan in 2005 and continued with this plan in 2006, 2007 and 2008. In order to run the Company in the most effective and efficient manner, the Company's management has approved this restructuring plan and the plan has been communicated.

Provisions for litigations

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. The increase of litigation provision in 2008 is due to litigations with former and current employees for various types of claims due to differing interpretations of some of the clauses of the Petrom S.A. Collective Labour Agreement.

2007	Total	less than 1 year	over 1 year
Environmental provision	370,579,256	321,000	370,258,256
Other personnel provisions	386,450,748	386,450,748	-
Provisions for litigations	359,895,433	9,904,896	349,990,537
Other	118,639,204	86,536,647	32,102,557
Total	1,235,564,641	483,213,291	752,351,350

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14. OTHER LIABILITIES

	December 31, 2008	less than 1 year	over 1 year
Deferred income	167,415,296	167,415,296	-
Tax liabilities	480,336,989	480,336,989	-
Social security	22,993,322	22,993,322	-
Other liabilities	394,475,954	277,005,645	117,470,309
Total	1,065,221,561	947,751,252	117,470,309

	December 31, 2007	less than 1 year	over 1 year
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 *	360,515,402	300,656,402	59,859,000
Total	853,685,230	793,826,230	59,859,000

*) As at December 31, 2008 accruals have been reclassified from other provisions to trade payables and other liabilities. Figures for previous periods have been adjusted accordingly.

Finance lease liability

In other liabilities as at December 31, 2008 is included the finance lease liability. The Group acquired in 2008 through finance lease mainly cars, trucks and few power generators held by Petrom S.A. and Petrom Aviation S.A.

A breakdown of present value of finance lease liabilities is presented below.

	December 31, 2008	December 31, 2007
Obligations under finance leases		
Amounts due within 1 year	1,609,000	-
Amounts due after more than 1 year but not later than 5 years	2,835,422	-
Total lease obligations	4,444,422	-
Less future finance charges on finance leases	(498,000)	-
Present value of finance lease liabilities	3,946,422	-
<i>Analysed as follows:</i>		
Maturing within 1 year	1,366,000	-
Maturing after more than 1 year but not later than 5 years	2,580,422	-
Total present value of finance lease liabilities	3,946,422	-

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15. DEFERRED TAX

2008	Deferred tax assets without allowances	Allowances	Net deferred tax assets	Deferred tax liabilities
Tangible and Intangible assets	3,849,669	-	3,849,669	368,104,536
Financial assets	5,696,640	-	5,696,640	4,679,578
Inventories	36,354,400	506,819	35,847,581	-
Receivables and other assets	106,050,108	63,835,813	42,214,295	92,822,506
Untaxed reserves	14,609,682	-	14,609,682	47,482,522
Provisions for pensions and severance payments	40,232,960	-	40,232,960	-
Other provisions	781,534,668	1,507,570	780,027,098	27,993
Liabilities	6,197,623	309,410	5,888,213	11,222
Tax loss carried forward	36,020,998	-	36,020,998	-
TOTAL	1,030,546,748	66,159,612	964,387,136	513,128,357
Netting (same tax jurisdictions/country)			(456,331,865)	(456,331,453)
Deferred tax, net			508,055,271	56,796,904
Deferred tax for assets held for sale (see Note 11)	6,042,588	-	6,042,588	-
Deferred tax including assets held for sale, net			514,097,859	56,796,904
2007	Deferred tax assets without allowances	Allowances	Net deferred tax assets	Deferred tax liabilities
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	-
Total	834,271,486	69,585,768	764,685,718	605,240,269
Netting (same tax jurisdictions/country)			(499,276,409)	(499,276,409)
Deferred tax, net			265,409,309	105,963,860

At the end of 2008, losses carry-forward for tax purposes amounted to RON 226,507,516 (2007: RON 136,057,385). Eligibility of losses for carry-forward expires as follows:

	2008	2007
2009	9,745,630	-
2010	14,812,182	22,655,377
2011	10,642,756	37,371,013
2012	67,001	10,206,556
2013 / After 2012	73,636,292	65,824,439
After 2013	117,603,655	-
Total	226,507,516	136,057,385

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16. INTEREST BEARING DEBTS

2008	Total	Less than 1 year	Over 1 year
Interest-bearing financial liabilities to banks	1,825,268,340	357,063,304	1,468,205,036
TOTAL	1,825,268,340	357,063,304	1,468,205,036

2007	Total	Less than 1 year	Over 1 year
Interest-bearing financial liabilities to banks	23,301,983	23,301,983	-
TOTAL	23,301,983	23,301,983	-

As at December 31, 2008 and 2007, the Group had the following loans from financial institutions:

Short term loans from financial institutions

Subsidiary	Financial Institution	December 31, 2008	December 31, 2007
PETROM S.A.	Raiffeisen Bank SA (a)	100,882,614	-
PETROM S.A.	Unicredit Bank Austria AG (b)	199,300,000	-
OMV BULGARIA LTD	Citibank Sofia (c)	33,963,211	-
OMV BULGARIA LTD	Unicredit Bulbank, Sofia (d)	4,775,438	-
ICS PETROM MOLDOVA SA	Banca Comerciala Romana Chisinau SA (e)	-	7,460,541
ICS PETROM MOLDOVA SA	BC Victoriabank SA (f)	-	15,841,442
PETROM S.A.	Accrued interest	18,142,041	-
Total interest bearing debts short term		357,063,304	23,301,983

Long term loans from financial institutions

Subsidiary	Financial Institution	December 31, 2008	December 31, 2007
PETROM S.A.	Banks Consortium (agent: UNICREDIT BANK AUSTRIA AG) (g)	1,468,205,036	-
Total interest bearing debts long term		1,468,205,036	-

(a) Overdraft facility up to EUR 85,000,000 obtained by Petrom S.A. with maturity date May 31, 2009 and interest rate 1 month ROBOR plus an applicable margin. The facility is not secured.

(b) Short-term loan of EUR 50,000,000 signed by Petrom S.A. with Unicredit Bank Austria AG as Bank and Unicredit Tiriack Bank as Agent. The maturity date is October 15, 2009 and the interest rate is variable, being calculated as EURIBOR plus an applicable margin. The facility is not secured.

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16. INTEREST BEARING DEBTS (continued)

- (c) Overdraft facility of maximum EUR 29,907,015 from Citibank Sofia to OMV Bulgaria LTD with maturity date July 15, 2009. The facility is secured by letter of comfort.
- (d) Overdraft facility of maximum EUR 16,872,632 from Unicredit Bulbank Sofia to OMV Bulgaria with maturity date October 31, 2009. The facility is secured by letter of comfort.
- (e) The credit facilities from Banca Comerciala Romana Chisinau SA existing in December 2007 in Petrom Moldova SA were closed and replaced by a new facility amounting USD 4,150,000. It expires on February 11, 2010 and it is secured by real estate. No amount was withdrawn as at December 31, 2008.
- (f) The credit line from BC Victoriabank SA was granted to Petrom Moldova SA in 2007 up to USD 6,500,000. Maturity date is May 21, 2009. The facility is secured by real estate. No amount was withdrawn as at December 31, 2008.
- (g) Long-term loans represent a revolving credit facility given to Petrom S.A. by a Consortium of Banks that include BRD – Groupe Société Générale S.A., Crédit Agricole Luxembourg S.A., Emporiki Bank-Romania S.A., Erste Group Bank AG, Raiffeisen Zentralbank Österreich AG, Société Générale Bank & Trust S.A. and UniCredit Bank Austria AG. The agreement was signed on October 14, 2008 and the final maturity date is October 14, 2011. The total facility is EUR 375,000,000 and the drawings can be made in EUR, USD or RON. The drawings as at December 31, 2008 were RON 953,705,036 (equivalent of EUR 239,263,682) and RON 514,500,000. The interest rate is based on EURIBOR, LIBOR and respectively ROBOR plus an applicable margin.

17. OTHER OPERATING INCOME

	December 31, 2008	December 31, 2007
Exchange gains from operating activities	191,742,213	106,790,604
Gains from disposal of fixed assets	112,273,000	77,353,008
Write-up tangible and intangible assets	19,045,000	8,883,000
Other operating income	<u>116,802,759</u>	<u>84,755,939</u>
Total	<u>439,862,972</u>	<u>277,782,551</u>

18. OTHER OPERATING EXPENSES

	December 31, 2008	December 31, 2007
Exchange losses from operating activities	199,737,470	115,012,931
Losses from the disposal of fixed assets	53,786,812	121,803,946
Net increase in provisions for litigations	1,223,467,513	184,426,554
Other operating expenses	<u>1,365,462,844</u>	<u>582,364,806</u>
Total	<u>2,842,454,639</u>	<u>1,003,608,237</u>

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18. OTHER OPERATING EXPENSES (continued)

“Other operating expenses” include an amount of RON 180,340,858 in 2008 (2007: RON 159,507,881) 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, 2008 and December 31, 2007 earnings before interest and tax under the total cost method were as follows:

	December 31, 2008	December 31, 2007
Revenues	20,127,361,508	14,940,956,936
Inventory changes	444,497,874	119,670,459
Own work accounted for in fixed assets	145,195,007	25,681,860
Other operating income	439,862,972	268,899,275
Costs of material	(8,564,131,455)	(5,279,549,779)
Costs of energy	(544,506,883)	(455,814,828)
Other costs of production	(1,551,426,189)	(1,436,668,869)
Cost of material and services	(10,660,064,527)	(7,172,033,476)
Wages and salaries	(1,801,906,905)	(1,507,582,734)
Other personnel expenses	(267,844,985)	(244,292,806)
Personnel expenses	(2,069,751,890)	(1,751,875,540)
Depreciation	(1,503,532,324)	(1,080,179,000)
Impairment	(1,166,252,398)	(400,114,830)
Depreciation and impairment	(2,669,784,722)	(1,480,293,830)
Transportation and postage expenses	(537,791,887)	(564,312,710)
Rental expenses	(153,128,597)	(106,544,447)
Advertising and protocol expenses	(93,846,124)	(62,079,069)
Insurance expenses	(48,975,268)	(42,045,015)
Travel expenses and daily allowances	(71,399,246)	(68,046,124)
Other operating expenses	(3,647,249,346)	(2,207,358,220)
Total other operating expenses	(4,552,390,468)	(3,050,385,585)
EARNINGS BEFORE INTEREST AND TAX	1,204,925,754	1,900,620,099

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20. INCOME AND EXPENSES FROM INVESTMENTS

	December 31, 2008	December 31, 2007
Income from associated companies	2,855,076	7,241,939
Income from investments - others	364,000	9,230,000
Income from disposal of investments	55,278,858	10,507,723
Gains from write-ups of investments	-	4,500,000
Total income	58,497,934	31,479,662
Expenses for associated companies	(372,444)	-
Expenses on disposal of investments	-	(251,000)
Total expenses	(372,444)	(251,000)
Net financial income from associated companies and investments	58,125,490	31,228,662

21. FINANCIAL INCOME AND EXPENSES

	December 31, 2008	December 31, 2007
Interest income from short term bank deposits	54,846,981	166,915,226
Interest income from available-for-sale financial instruments	13,452,000	13,416,000
Interest income from receivables	8,878,000	1,786,000
Gains from securities	11,883,996	44,148,189
Exchange gains from financing activities	289,088,858	45,845,446
Income from disposal of financial assets (excluding investments)	-	171,130,110
Total income	378,149,835	443,240,971
Interest expenses	(28,442,510)	(3,970,438)
Losses from securities	(20,448,093)	(11,344,581)
Unwinding expenses for retirement benefits provision	(17,153,000)	(13,351,000)
Unwinding expenses for decommissioning provision	(193,377,668)	(180,258,151)
Unwinding expenses for other provisions	(7,158,909)	(7,612,461)
Exchange losses from financing activities	(243,216,135)	(119,264,060)
Expenses on disposal of financial assets (excluding investments)	-	(194,825,863)
Provisions for financial assets and securities	(2,564,751)	(4,587,399)
Total expenses	(512,361,066)	(535,213,953)
Net financial expense	(134,211,231)	(91,972,982)

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22. TAXES ON INCOME

	December 31, 2008	December 31, 2007
Taxes on income - current year	626,353,123	391,827,202
Deferred tax	<u>(393,076,231)</u>	<u>(92,818,955)</u>
Total	<u>233,276,892</u>	<u>299,008,247</u>

The reconciliation of deferred taxes is as follows:

	December 31, 2008	December 31, 2007
Deferred taxes January 1	159,445,449	88,937,431
Deferred taxes December 31	<u>457,300,955</u>	<u>159,445,449</u>
Changes in deferred taxes	<u>297,855,506</u>	<u>70,508,018</u>
Deferred taxes on revaluation of hedges charged directly to equity	90,426,252	16,946,400
Changes in consolidated Group, exchange differences and similar items	<u>4,794,473</u>	<u>5,364,537</u>
Deferred taxes per income statement	<u>393,076,231</u>	<u>92,818,955</u>

Reconciliation*

Net profit before taxation	1,128,840,013	1,839,875,779
Income tax rate applicable for Parent company	16.00%	16.00%
Profits tax based on income tax rate of the Parent	180,614,402	294,380,125
Effect of differing foreign tax rates	46,695,467	135,127
Profits tax based on applicable rates	227,309,869	294,515,252
Decrease in opening deferred taxes resulting from reduction in tax rate	-	(1,582,601)
Tax effect of permanent differences	<u>5,967,023</u>	<u>6,075,596</u>
Profits tax expense in Income Statement	<u>233,276,892</u>	<u>299,008,247</u>
Tax effect of other temporary differences	<u>393,076,231</u>	<u>92,818,955</u>
Profits tax to be paid for the year	<u>626,353,123</u>	<u>391,827,202</u>

*) For comparison purposes changes were made to the reconciliation presentation for year ended December 31, 2007.

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23. EARNINGS PER SHARE

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

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Net profit for the shares attributable to own shareholders	978,296,061	1,533,038,356
Number of shares	<u>56,644,108,335</u>	<u>56,644,108,335</u>
Earnings per share	<u>0.0173</u>	<u>0.0271</u>

24. BUSINESS OPERATIONS AND KEY MARKETS

Petrom is divided into four operating segments: Exploration and Production (E&P), Refining and Marketing, Gas and Power. 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. Business division **Power** is a newly established business with the purpose of diversifying the activity of Petrom S.A. in the Romanian energy sector. Chemicals division assimilated to Gas and Power segment operates the main fertilizer plant in Romania, Doljchim Craiova.

Refining segment includes two of the most important Romanian refineries, Arpechim and Petrobrazi. **Marketing** operates in Romania, Bulgaria, Serbia and Moldova. Petrom S.A. is the main player on the Romanian fuels market.

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24. BUSINESS OPERATIONS AND KEY MARKETS (continued)

Primary segment reporting:

	E&P	Refining & Marketing	Gas & Power	Corporate & Other	Total	Consolidation	Consolidated total
Intersegment sales	9,117,744,266	137,223,992	347,028,147	483,221,677	10,085,218,082	(10,085,218,082)	-
Sales with third parties	695,733,341	16,390,328,167	3,040,343,000	957,000	20,127,361,508	-	20,127,361,508
Total sales	9,813,477,607	16,527,552,159	3,387,371,147	484,178,677	30,212,579,590	(10,085,218,082)	20,127,361,508
EBIT	3,023,365,120	(1,793,066,267)	109,055,000	(127,316,000)	1,212,037,853	(7,112,099)	1,204,925,754
Total assets	18,298,112,329	8,078,690,076	1,104,460,174	1,436,048,827	28,917,311,407		28,917,311,407
Investments in PPE/IA	5,058,520,461	1,359,045,211	387,522,504	190,357,525	6,995,445,701	-	6,995,445,701
Investment in associated companies	-	-	33,011,037	-	33,011,037	-	33,011,037
Assets Held for Sale	-	12,432,695	-	49,485,360	61,918,055		61,918,055
Total liabilities	7,054,030,512	2,321,345,635	94,437,505	3,457,746,088	12,927,559,740		12,927,559,740
Depreciation and amortization	1,066,014,669	340,113,656	4,120,000	93,284,000	1,503,532,325	-	1,503,532,325
Impairment losses	462,122,398	644,224,000	40,608,000	253,000	1,147,207,398	-	1,147,207,398
Result from associated companies	-	(372,444)	2,855,076	-	2,482,632	-	2,482,632

Secondary segment reporting:

	Romania	Rest of CEE	Rest of Europe	Rest of world	Consolidation	Consolidated total
Sales with third parties	13,643,372,007	3,934,028,741	2,196,488,000	353,472,760	-	20,127,361,508
EBIT	1,245,708,318	(74,710,370)	-	41,039,905	(7,112,099)	1,204,925,754
Total assets	25,627,976,188	1,649,041,431	-	1,640,293,788	-	28,917,311,407
Investments in PPE/IA	6,341,107,103	166,084,445	-	488,254,153	-	6,995,445,701

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.

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25. AVERAGE NUMBER OF EMPLOYEES

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Total Petrom Group	32,026	32,635
thereof:		
Petrom S.A.	29,861	29,624
Other subsidiaries	2,165	3,011

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 2008, the Group had the following transactions with related parties:

	<u>Purchases</u>	<u>Payables</u>
OMV International Services GesmbH	18,103,764	11,119,955
OMV GAS GmbH	974,824	179,370
OMV Hungaria GmbH	10,208,064	-
OMV Aktiengesellschaft	4,035,117	47,832
OMV Deutschland GmbH	10,753,196	51,347
OMV Refining & Marketing AG	383,872,774	65,957,384
OMV Supply & Trading AG	3,562,739,274	240,543,273
OMV Solutions GmbH	21,676,764	4,748,508
OMV Gas International GmbH	547,770	-
OMV Croatia d.o.o.	200,172	-
OMV (Bulgaria) Offshore Exploration GmbH	21,414	-
OMV Austria Exploration & Production AG	179,511	181,658
OMV Exploration & Production GmbH	17,964,910	344,760
OMV BH d.o.o.	76,809	-
MOL Hungarien Oil and Gas PLC	12,515,285	-
Petrom Nadlac SRL	780,838	-
Petrom Aviation SA	5,155,686	-
Congaz SA	52,303	17,366
Poliflex SRL	-	5,526
Fontegas Peco Mehedinti SA	-	7,203
Petrol Ofisi AS	11,729,405	973,688
Petrom Exploration & Production Limited	24,600,266	2,276,901
Petromed Solution SRL	11,310,660	2,487,257
Borealis AG	10,062,878	1,989,834
Butan Gas Romania SA	22,074	-
Trans Gas Services SRL	457,413	35
Total	<u>4,108,041,171</u>	<u>330,931,897</u>

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26. RELATED PARTIES (continued)

	<u>Sales</u>	<u>Receivables</u>
OMV International Services GesmbH	56,354,025	5,688,711
OMV Aktiengesellschaft	28,453	-
OMV (Bulgaria) Offshore Exploration GmbH	62,128	-
OMV Refining & Marketing AG	7,720,955	146,839
OMV Slovensko s.r.o.	487,765	51,962
OMV Croatia d.o.o.	404,060	148,127
OMV Exploration & Production GmbH	112,883	758
OMV Solutions GmbH	104,355	11,996
OMV Deutschland GmbH	8,713,523	8,965,929
OMV Exploration & Production Ltd	18,494	-
OMV BH d.o.o.	453,649	6,205
Petrom Nadlac SRL	-	373,602
Petrom Aviation SA	177,485,961	-
Poliflex SRL	2,035,535	61,106
Beyfin Gaz SRL	6,769	-
Trans Gas Services SRL	30,255	1,659
Petrol Ofisi AS	88,310	39,357
Air Total Romania SA	131,060,772	13,146,432
Butan Gas Romania SA	7,488,234	-
Petromed Solution SRL	960,779	153,549
Borealis AG	342,835,614	16,683,582
Total	<u>736,452,519</u>	<u>45,479,814</u>

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27. DIRECT AND INDIRECT INVESTMENTS OF PETROM GROUP

<u>Company Name</u>	<u>Share interest percentage</u>	<u>Consolidation treatment*</u>	<u>Activity</u>	<u>Country of incorporation</u>
Subsidiaries (>50%)				
TASBULAT OIL CORPORATION			Oil exploration and drilling	
BVI	100.00%	FC	in Kazakhstan	Kazakhstan
PETROM EXPLORATION & PRODUCTION LIMITED	100.00%	NC	Exploration and production services	Isle of Man
			Intermediary in fuel, minerals and chemical products trade	
PETROM GAS SRL	100.00%	FC		Romania
ICS PETROM MOLDOVA SA	100.00%	FC	Fuel distribution	Moldova
M.P. PETROLEUM DISTRIBUTIE SRL	99.99%	FC	Fuel distribution	Romania
AVIATION PETROLEUM SRL	99.99%	FC	Kerosene distribution	Romania
PETROMED SOLUTION SRL	99.99%	NC	Medical services	Romania
PETROM DISTRIBUTIE GAZE SRL	99.99%	FC	Gas distribution	Romania
PETROM LPG SA	99.99%	FC	LPG distribution	Romania
OMV BULGARIA LTD	99.90%	FC	Fuel distribution	Bulgaria
OMV ROMANIA MINERALOEL SRL	99.90%	FC	Fuel distribution	Romania
OMV SRBIJA DOO	99.90%	FC	Fuel distribution	Serbia
PETROM NADLAC SRL	98.51%	NC	Oil products distribution	Romania
			Polyethylene production and distribution	
POLIFLEX SRL	96.84%	NC		Romania
KOM MUNAI LLP	95.00%	FC	Oil products distribution	Kazakhstan
			Refining petrochemicals production	
PETROCHEMICALS ARGES SRL	95.00%	NC	Transfer of LPG (buthane; propane) from large railroad system trucks to normal railroad system trucks	Romania
TRANS GAS SERVICES SRL	80.00%	NC		Romania
RING OIL HOLDING & TRADING LTD	74.90%	FC	Holding company	Cyprus
LLC MANAGEMENT COMPANY CORSARNEFT	74.90%	FC	Oil exploration and drilling in Russia	Russia
LLC ARTAMIRA	74.90%	FC	Oil exploration and drilling in Russia	Russia
OJSC CHALYKNEFT	74.90%	FC	Oil exploration and drilling in Russia	Russia
OJSC KARNEFT	74.90%	FC	Oil exploration and drilling in Russia	Russia
SOK RENATA LLC	74.90%	FC	Oil exploration and drilling in Russia	Russia
LLC NEFTEPOISK	74.90%	FC	Oil exploration and drilling in Russia	Russia
CJSC			Oil exploration and drilling in Russia	
SARATOVNEFTEDOBYCHA	74.90%	FC		Russia
PETROM AVIATION SA	69.37%	FC	Kerosene distribution	Romania

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

<u>Company Name</u>	<u>Share interest percentage</u>	<u>Consolidation treatment*</u>	<u>Activity</u>	<u>Country of incorporation</u>
Associated companies (20-50%)				
SOCIETATEA ROMANA DE PETROL SA	49.00%	NAE	Oil products production and distribution	Romania
ROBIPLAST COMPANY SRL	45.00%	NAE	Plastic materials production	Romania
BEYFIN GAZ SRL	40.00%	NAE	Gas production and distribution	Romania
FRANCIZA PITESTI SRL	40.00%	NAE	Other financial services	Romania
BRAZI OIL & ANGHELESCU PROD COM SRL	37.70%	NAE	Oil products distribution	Romania
FONTEGAS PECO MEHEDINTI SA	37.40%	NAE	Fuel distribution	Romania
CONGAZ SA	28.59%	EM	Natural gas distribution	Romania
D.E.E.M. ALGOCAR SA	27.92%	NAE	Oil products distribution	Romania
BURSA MARITIMA SI DE MARFURI SA	20.09%	NAE	Other financial services	Romania
ASOCIATIA ROMANA PENTRU RELATIA CU INVESTITORII	20.00%	NAE	Public relations and public representation	Romania
Other financial investments (<20%)				
GTI OIL CO SA	13.00%	NC	Fuel distribution	Romania
PRIMA PETROL SRL	11.98%	NC	Fuel distribution	Romania
AIR TOTAL ROMANIA SA	6.41%	NC	Kerosene distribution in Romania	Romania
BURSA DE MARFURI OLTENIA CRAIOVA	2.63%	NC	Other financial services	Romania
TELESCAUN TIHUTA SA	1.68%	NC	Cable transportation	Romania
AGRIBAC SA	0.79%	NC	Animals breeding	Romania
BENZ OIL SA	0.48%	NC	Oil products distribution	Romania
CREDIT BANK	0.22%	NC	Other financial services	Romania
INSTITUTUL ROMAN PENTRU ASIGURARI	0.10%	NC	Insurance services	Romania
OFICIUL PATRONAL JUDETEAN MURES	0.01%	NC	Economic and Union activities development	Romania
MD INDIA	0.01%	NC	Exploration and production	India

*) 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.

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28. ACQUISITION AND DISPOSALS OF SUBSIDIARIES

During the year ended December 31, 2008, the Group acquired oil service business from Petromservice and additional shares and control in Petrom Aviation SA. Petrom Aviation SA was previously accounted for as an associate and became fully consolidated subsidiary in 2008. These transactions have been accounted for as business combinations in accordance with IFRS 3.

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

	December 31, 2008	December 31, 2007
Oil field service capacity and other intangible assets	1,107,813,560	-
Property, plant and equipment	217,845,299	210,736,006
Inventories	8,141,919	14,010,000
Trade and other receivables	30,415,971	27,343,168
Cash and cash equivalents	9,154,236	52,223,000
Provisions	(78,372,530)	(7,168,000)
Trade and other liabilities	(47,851,787)	(47,434,155)
Deferred tax liability, net	(3,418,179)	(26,072,489)
Minority interest	(12,976,400)	(20,859)
Less equity accounted investment	(10,007,985)	(41,930,881)
Less assets revaluation surplus presented in equity	(10,538,699)	(50,807,719)
Share of net assets at the acquisition date	1,210,205,405	130,878,071
Goodwill	581,180	4,563,634
Total consideration	1,210,786,585	135,441,705
Cash used on acquisition net of cash acquired	1,201,632,349	83,218,705

During the year ended December 31, 2008, the Group disposed the following subsidiaries: DBI Fonds, Oppenheim Fonds, Raiffeisen Fonds, Rafiserv Arpechim SA and Rafiserv Petrobrazil SA.

Net assets of disposed subsidiaries at the date of disposal were as follows:

	December 31, 2008	December 31, 2007
Property, plant and equipment	40,000	6,271,804
Inventories	7,000	63,596
Trade and other receivables	31,930,361	859,173
Deferred tax asset, net	2,109,000	-
Cash and cash equivalents	1,164,755,491	39,106,347
Assets held for sale	-	53,444,879
Deferred tax liability, net	-	(1,890,935)
Liabilities	(42,796,280)	(22,303,022)
Share of net assets at the disposal dates	1,156,045,572	75,551,842
Gain on disposal	44,398,049	10,294,336
Total consideration	1,200,443,621	85,846,178
Net cash inflow arising at disposal	35,688,130	46,739,831

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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

Commitments

As at December 31, 2008 the total commitments engaged by the Group for investments amount to RON 2,641,415,887.

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.

Contingent assets

In accordance with the provisions of the Business Transfer Agreement ("BTA") signed on February 4, 2008, Petrom S.A. and Petromservice agreed to deposit certain portion of the purchase price into an Escrow Account opened with an Escrow Agent in the name of Petrom S.A.. The amount in this account is kept as a guarantee for Petrom S.A. for any damages that may be claimed under the BTA stipulations during the 18 months period from February 4, 2008. After the expiry of that period, the Escrow Agent shall release to Petromservice all the amounts existing in the Escrow Account (including the interest), but excluding any arbitration claimed amounts by Petrom S.A., if the case.

As of December 31, 2008 the amount in the Escrow Account is of RON 132,449,872, while RON 121,065,390 represents the initial amount deposited and RON 11,384,482 interest earned until December 31, 2008.

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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 and long 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".

The Group's management reviews the capital structure regularly. As part of this review, the cost of capital and the risks associated with each class of capital are being considered.

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.

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:

	Assets		Liabilities	
	31-Dec-08	31-Dec-07	31-Dec-08	31-Dec-07
th USD	837,704	415,545	23,563	12,050
th EUR	22,500	20,409	475,111	108,681

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31. RISK MANAGEMENT (continued)

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. 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.

+10% Sensitivity increase in the foreign currency rate

	ThUSD Impact (i)		ThEUR Impact (ii)	
	2008	2007	2008	2007
Profit or (loss)	42,468	40,349	(45,261)	(8,827)
Other equity	20,495	-	-	-

-10% Sensitivity increase in the foreign currency rate

	ThUSD Impact (i)		ThEUR Impact (ii)	
	2008	2007	2008	2007
Profit or (loss)	(42,468)	(40,349)	45,261	8,827
Other equity	(20,495)	-	-	-

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

(ii) This is mainly attributable to the exposure on EUR loans and 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.

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 1% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

Analysis for change in interest rate risk

Variable rate borrowing:

	As at 31-Dec-08	Effect of 1% change in interest rate
Short Term Borrowings at variable rates	357,063,304	3,570,633
Long Term Borrowings at variable rates	1,468,205,036	14,682,050

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31. RISK MANAGEMENT (continued)

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. Financial instruments are used where appropriate to hedge the main industry risks associated with price volatility, such as the highly negative impact of low oil prices on cash flow.

In 2007, Petrom acquired put options for a price/ premium of USD 13,185,150 that expired in 2008. Put options were classified as financial assets at fair value through profit and loss account. The fair value as at December 31, 2007 was in amount of thousands RON 585.

In 2008, in order to protect the Group's cash flow from the adverse impact of falling oil prices, derivative instruments have been used to hedge the proceeds from the production of 40,000 bbl/d in 2009. To achieve this goal, put spreads were used, where a price floor of USD 80/bbl is secured as long as the oil price is above USD 65/bbl. In case the oil price is below USD 65/bbl in 2009, the hedge pays out USD 15/bbl in addition to the realized market price. The put spreads were financed via call options in order to avoid initial investment (zero cost structure), whereby the Group would not be able to profit from oil prices above approximately USD 110/bbl in 2009 for the above stated volume. The hedges are over-the-counter (OTC) contracts with first class banks and will be settled on a quarterly basis in 2009. As at December 31, 2008 the nominal value of the open contracts is of RON 1,468,840,808 and the fair value amounts to RON 517,640,630, same as the related receivable (see Note 10).

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 analysis provides the basis for financing decisions and capital commitments. To ensure that Petrom Group remains solvent all the times and retains the necessary financial flexibility, liquidity reserves in form of committed credit lines are maintained.

Details of Group financial liabilities are shown in Note 14 and 16 to the Financial Statements.

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32. SUBSEQUENT EVENTS

Significant events subsequent to the balance sheet date:

- a) According to the provisions of Law no 308/30.12.2008, the Central Depositary performed on January 15, 2009 the transfer of Petrom S.A. shares owned by the Authority for State Assets Recovery (AVAS) in the account of the Ministry of Economy, representing 20.64% of Petrom's share capital.
- b) Following the closure of the mandatory public take over, Petrom S.A. increased its participation in Petrom Aviation S.A. to 93.14%.
- c) In 2009 the Group contracted a loan facility amounting EUR 500 million from OMV Aktiengesellschaft.

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

Consolidated Financial Statements prepared for Petrom Group

Petrom Group has activities in Exploration and Production (E&P), Refining and Marketing, Gas and Power segments.

The consolidated financial statements comprise the financial statements of Petrom S.A. and its subsidiaries as at December 31, 2008 prepared in accordance with IFRS. The financial statements of the subsidiaries are prepared for the same reporting date, 31 December 2008, as the parent company.

The number of consolidated companies is as follows:

	<u>Full consolidation</u>	<u>Equity consolidation</u>
As at January 1, 2008	25	2
Acquired during the year	1	-
Disposed of	5	1
	<hr/>	<hr/>
As at December 31, 2008	21	1
thereof, Romanian companies	8	1
thereof, Foreign companies	13	-

During 2008, one company was included into the consolidation for the first time (PETROM AVIATION SA – associate in 2007, became subsidiary fully consolidated in 2008) and five subsidiaries were deconsolidated (Umbrella Funds - RAIFFEISEN FONDS, OPPENHEIM FONDS and DBI FONDS, RAFISERV ARPECHIM SA and RAFISERV PETROBRAZI SA).

The list of consolidated subsidiaries as at December 31, 2008 is the following:

Company name	Share interest percentage
Subsidiaries (>50%)	
TASBULAT OIL CORPORATION BVI	100.00%
PETROM GAS SRL	100.00%
ICS PETROM MOLDOVA SA	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%
OMV BULGARIA LTD	99.90%
OMV ROMANIA MINERALOEL SRL	99.90%
OMV SRBIJA DOO	99.90%
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%
PETROM AVIATION SA	69.37%

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, 2008 is the following:

Company Name	Percentage
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, 2008

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>
Total	<u>56,644,108,335</u>	<u>100.00%</u>

Summarized Petrom Group Balance Sheet

Balance Sheet Item	<u>December 31, 2008</u>	<u>December 31, 2007</u>
	<u>MRON</u>	<u>MRON</u>
Non-current assets	23,320	18,122
Current assets	<u>5,597</u>	<u>6,569</u>
Total assets	<u>28,917</u>	<u>24,691</u>
Equity of the parent holders	15,945	15,551
Minority interests	<u>45</u>	<u>137</u>
Shareholders' equity	<u>15,990</u>	<u>15,688</u>
Non - current liabilities	7,870	5,416
Current liabilities	<u>5,057</u>	<u>3,587</u>
Total liabilities and shareholders' equity	<u>28,917</u>	<u>24,691</u>

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 2008 have been directed mostly to E&P due to continuous focus on development and production drilling and to the ongoing well modernization program, but also as a result of the acquisition of the oil services business of Petromservice.

Non-current assets also include the non-current receivable to be reimbursed by the Romanian State for decommissioning of wells, as well as for decommissioning of several sludge pits and sludge lagoons in E&P, Refining and Chemicals amounting to 2,038 MRON (2007: 1,707 MRON).

Current assets include cash and cash equivalents amounting 572 MRON, which decreased from 1,341 MRON in previous year mainly due to significant investments.

Inventories amounting 2,759 MRON increased in comparison with previous year (2007: 2,290 MRON) mainly due to cost increases, but also due to higher stock quantities. Receivables amounting 1,022 MRON decreased in comparison with previous year (2007: 1,482 MRON) although turnover increased, being the result of the lower sales during November and December 2008 versus 2007 due to lower market price levels. In current assets are also included the bonds issued by the World Bank and acquired by Petrom in 2006 (190 MRON) and the fair value of the options acquired to hedge the risks of decrease in prices for petroleum products (518 MRON).

Group equity position increased from 15,551 MRON at the beginning of the year to 15,945 MRON as at December 31, 2008. The increase is mainly due to net profit generated by the Group during the year (978 MRON) which was compensated by the decrease in equity due to dividends allocated by the parent company Petrom S.A. amounting to 1,082 MRON.

Minority interest amounting to 45 MRON decreased (2007: 137 MRON) in relation with the losses (mainly from Russian companies) for the year attributable to minority shareholders and also in relation to the acquisition of 100% in Petrom Moldova (35% minority interest in 2007).

Non current liabilities - mainly consist in decommissioning obligations (5,103 MRON), environmental obligations (432 MRON), severance payments and similar obligations (251 MRON), litigation provisions (436 MRON), other provisions (5 MRON) and deferred tax liabilities (57 MRON). The increase versus previous year is due to increase of decommissioning (797 MRON), additional provision for environmental exposure (62 MRON) and net increase in long term portion of the provision for litigations related to employees in Petrom S.A. (177 MRON).

Another important portion (1,468 MRON) is represented by interest bearing debts long term including the Club Deal loan contracted by Petrom S.A. in October 2008. The total loan facility amounts to 375 MEUR payable in three years (maturity in October 2011). The facility was fully used at end of December 2008.

Current liabilities - consist mainly of trade payables amounting to 2,628 MRON, short term provisions (1,124 MRON) such as: restructuring provision (443 MRON), provision for litigations with former and current employees (current portion) – 605 MRON and provision for other litigations - 11 MRON, tax and social security liabilities (503 MRON) and deferred income (167 MRON).

Current liabilities position includes also an amount of 357 MRON representing short term bank loans related to Petrom S.A. (318 MRON) and to OMV Bulgaria Ltd (39 MRON). Petrom S.A. concluded in 2008 two short term loan contracts with Raiffeisen Bank S.A. (total facility amounts to 85 MEUR) and with Unicredit Bank Austria AG (total facility amounts to 50 MEUR). The facility from Unicredit Bank Austria AG was fully used as at December 2008 and the facility from Raiffeisen Bank S.A. was used in amount of 101 MRON at the same date.

Summarized Petrom Group Income Statement

Income Statement item	December 31, 2008 MRON	December 31, 2007 MRON
Revenue	20,127	14,941
Cost of sales	(14,121)	(10,006)
Gross profit	6,006	4,935
Selling and Admin expenses	(1,783)	(1,932)
Other income and expenses	(3,018)	(1,102)
EBIT	1,205	1,901
Net finance cost	(76)	(61)
Taxes on income	(233)	(299)
Net income for the year	896	1,541
thereof attributable to minority interests	(82)	8
thereof attributable to own shareholders	978	1,533

The decrease in EBIT was significantly impacted by one-off items such as provisions for litigations and restructuring and impairment of assets, despite the overall favorable oil price environment.

The EBIT of the Group was also negatively influenced by the losses incurred by the E&P Russian entities owned by Ring Oil Holding & Trading Ltd and by E&P Kazakhstan entities.

The EBIT of the Group for the year ended December 31, 2008 was generated by the following subsidiaries.

Consolidated Company	MRON
Petrom SA	1,202
Tasbulat Oil Corporation Bvi	78
OMV Romania Mineraloel SRL	49
OMV Srbija Doo	35
OMV Bulgaria Ltd	28
ICS Petrom Moldova SA	27
Petrom Gas SRL	9
Petrom LPG SA	6
Petrom Aviation SA	(2)
Rafiserv Companies	(4)
Petrom Distributie Gaze SRL	(4)
MP Petroluem Distributie SRL and Aviation Petroleum SRL	(10)
Kom Munai LLP	(37)
Ring Oil Companies	(165)
Consolidation Adjustments	<u>(7)</u>
Petrom Group EBIT	<u>1,205</u>

As presented in the table above, Petrom S.A. 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 in 2007, which contribute with 112 MRON (9%).

Group financial loss increased compared with 2007 mainly due to lower interest income on bank deposits. The corporate tax charge decreased in 2008 compared to 2008 as a result of lower taxable profits in 2008.

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.

Risks are monitored at corporate level and also at business division level. In order to mitigate some of the risks, appropriate insurances were contracted where possible and applicable.

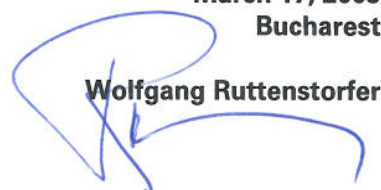
Also, to protect Petrom's cash flow from the negative impact of falling oil prices, hedging instruments have been used to partly secure the cash earnings in the E&P segment for approximately 40% of planned oil production in 2009. To achieve this goal, put spreads were used, securing a price floor of USD 80/bbl. In case the average oil prices drop below USD 65/bbl in 2009, the hedge would still pay out an additional USD 15/bbl to actual oil prices. The put spreads were financed via calls in order to avoid initial investment (zero cost structure), whereby Petrom will not be able to profit from oil prices above approximately USD 110/bbl in 2009 for the above stated volume.

As Petrom moves forward, the focus is on incorporating the risk management process and in doing so risk awareness, risk analysis and risk control measures form part of the daily work of each business area and can support Group strategy and business targets.

Corporate Governance

The maintenance of high standards in complying with the relevant national and international laws is one of Petrom's core principles. As the largest oil and gas company in South Eastern Europe, Petrom acts in full observance of the laws and regulations in force in the various countries where it operates and ensures implementation of high standards of integrity in business transactions. In this respect, Petrom strongly believes in Corporate Governance as the central tool in achieving performance in a sustainable manner.

**March 17, 2009
Bucharest**



Wolfgang Ruttenstorfer

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