

SC PETROM S.A.
INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2008
prepared in accordance with the Ministry of Finance Order no. 1752/2005
and the subsequent amendments issued by the Ministry of Public Finance

Independent Auditor's Report

(free translation)¹

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

Report on the Financial Statements

1 We have audited the accompanying financial statements of S.C. Petrom S.A. ("the Company"), which comprise the balance sheet as at December 31, 2008, the income statement, statement of changes in shareholders' equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, presenting the following:

• Net assets/Total equity:	RON 13,568,598,447
• Net profit for the year:	RON 1,022,387,463

Management's Responsibility for the Financial Statements

2 Management of the Company is responsible for the preparation and fair presentation of these financial statements in accordance with the Order of the Ministry of Public Finance no. 1752/2005 with the subsequent amendments and as described in the accounting policies presented in the notes to the financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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 financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing as adopted by the Romanian Chamber of Financial Auditors. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the 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 Company's preparation and fair presentation of the financial statements 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 Company's 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 accompanying financial statements present fairly, in all material respects, the financial position of S.C. Petrom S.A. as of December 31, 2008, and its financial performance and its cash flows for the year then ended, in accordance with the Order of the Ministry of Public Finance no. 1752/2005 and subsequent amendments and as described in the accounting policies presented in the notes to the financial statements.

Other Matters

- 7 This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state to the Company's 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 Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinion we have formed.
- 8 The accompanying financial statements are not intended to present the financial position, results of operations and a complete set of notes to the financial statements of the Company in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Romania. Accordingly, the accompanying financial statements are not designed for those who are not informed about Romanian legal and statutory requirements, respectively, the Order of the Ministry of Public Finance no. 1752/2005 and subsequent amendments.
- 9 In accordance with the requirements of Law 82/1991 republished, article 31, parent company must issue an annual report regarding its own activity and also a consolidated annual report. As discussed in note 6 to the financial statements, the Company will issue consolidated financial statements for the year ended December 31, 2008 within the timeframe stipulated in the legislation.

¹ TRANSLATOR'S EXPLANATORY NOTE: The above translation is provided as a free translation from Romanian which is the official and binding version

Independent Auditor's Report

(free translation)¹

Report on conformity of the Supervisory Board's Report with the Financial Statements

In accordance with the Order of the Ministry of Public Finance no. 1752/2005 with the subsequent amendments, article no. 263 point 2), we have read the annual report that includes the Supervisory Board's Report attached to the financial statements. The Supervisory Board' Report is not a part of the financial statements. In the Supervisory Board' Report we have not identified any historic financial information which is not in accordance, in all material respects, with the information presented in the accompanying financial statements as at December 31, 2008.



Farrukh Khan, Audit partner

Registered with the Romanian Chamber of Financial Auditors
under No.1533/25.11.2003

On behalf of:

DELOITTE AUDIT SRL

registered with the Romanian Chamber of Financial auditors
under no. 25/25/06/01

Bucharest,
March 17, 2009

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SC PETROM S.A.
BALANCE SHEETS
AS AT DECEMBER 31, 2007 AND DECEMBER 31, 2008
(all amounts are expressed in RON, unless otherwise specified)

COUNTY **Bucharest**
COMPANY **S.C. Petrom S.A.**

TYPE OF PROPERTY **22**
State (<50%) and private owned companies
TYPE OF ACTIVITY **Crude oil extraction**

ADDRESS **Bucharest** sector 1
Str. **Calea Dorobanților nr. 239**,
TEL: **021 4060189** FAX **021 4060431**
NO. OF TRADE REGISTER **J40/8302/1997**

CODE GROUP CAEN **0610**
UNIQUE REGISTRATION CODE **1590082**

No	Notes	Row	December 31, 2007	December 31, 2008
A	FIXED ASSETS			
I	Intangible assets			
1	Set up expenses	01	-	-
2	Development expenses	02	-	-
3	Concessions, patents, licenses, trademarks and other similar rights and assets	03	109,315,384	1,088,659,438
4	Goodwill	04	-	-
5	Advances and intangible assets in progress	05	194,240,901	41,056,083
	Total (rows 01 to 05)	1 b) 06	303,556,285	1,129,715,521
II	Tangible assets			
1	Land and buildings	07	4,625,066,039	6,803,105,041
2	Plant and machinery	08	2,407,088,782	2,372,378,280
3	Other equipment and furniture	09	69,548,752	93,219,526
4	Advances and tangible assets in progress	10	3,462,629,204	4,386,971,350
	Total (rows 07 to 10)	1 a) 11	10,564,332,777	13,655,674,197
III	Financial assets			
1	Investments in companies within the group	12	1,164,914,783	1,098,007,913
2	Loans to the companies within the group	13	1,232,269,360	1,861,948,614
3	Investments in associated companies	14	35,858,363	16,011,111
4	Amounts owed by subsidiaries and associated companies	15	-	-
5	Long term financial Investments as assets	16	1,148,916,872	-
6	Other debts	17	1,924,981,538	2,045,113,862
	Total (rows 12 to 17)	1 c) 18	5,506,940,916	5,021,081,500
	TOTAL FIXED ASSETS (rows 06+11+18)	19	16,374,829,978	19,806,471,218
B	CURRENT ASSETS			
I	Inventories			
1	Raw materials and consumables	20	905,440,044	1,140,181,226
2	Work in progress	21	249,540,812	156,525,477
3	Finished goods and merchandise	22	721,053,519	1,003,210,319
4	Advances for stock purchase	23	46,340,968	94,517,339
	Total (rows 20 to 23)	10.3 24	1,922,375,343	2,394,434,361
II	Receivables			
1	Trade receivables (net)	25	1,701,500,961	1,079,775,706
2	Amounts to be received from affiliates	26	89,769,630	125,353,757
3	Amounts to be received from investments	27	-	-
4	Other receivables	28	224,539,136	499,082,526
5	Receivables for subscribed and not paid in share capital	29	-	-
	Total (rows 25 to 29)	5 30	2,015,809,727	1,704,211,989


Free translation from the Romanian version which is the original
Notes on pages 99 to 129 form integral part of these financial statements.

No		Notes	Row	December 31, 2007	December 31, 2008
III	Short term investments				
	1 Investments in affiliates		31	-	-
	2 Other short term investments		32	7,616	724,024,630
	Total (rows 31 to 32)		33	7,616	724,024,630
IV	Cash and bank accounts	10.2	34	752,634,771	261,438,312
	TOTAL CURRENT ASSETS (rows 24+30+33+34)		35	4,690,827,457	5,084,109,292
C	PREPAYMENTS		36	95,376,124	36,865,667
D	PAYABLES WITHIN ONE YEAR				
	1 Debenture loans		37	-	-
	2 Payables to credit institutions		38	-	300,526,268
	3 Advances cashed for orders		39	24,789,910	59,432,176
	4 Trade payables		40	1,760,904,056	2,230,757,574
	5 Bills of exchange payables		41	-	-
	6 Payables to related parties		42	-	-
	7 Payables to other investment companies		43	-	-
	8 Other payables, including tax and social security payables		44	794,331,461	855,311,352
	Total (rows 37 to 44)	5	45	2,580,025,427	3,446,027,370
E	CURRENT ASSETS LESS CURRENT LIABILITIES (rows 35+36-45-62)		46	2,042,617,251	1,546,602,219
F	TOTAL ASSETS LESS CURRENT LIABILITIES (rows 19+46)		47	18,417,447,229	21,353,073,437
G	PAYABLES IN MORE THAN ONE YEAR				
	1 Debenture loans		48	-	-
	2 Payables to credit institutions		49	-	1,486,003,422
	3 Advances cashed for orders		50	-	-
	4 Trade payables		51	15,719,473	2,841,432
	5 Bills of exchange payables		52	-	-
	6 Amounts payable to related parties		53	-	-
	7 Payables to investments participation		54	-	-
	8 Other payables, including tax and social security payables		55	13,262,537	15,250,548
	Total (rows 48 to 55)	5	56	28,982,010	1,504,095,402
H	PROVISIONS				
	1 Provisions for pensions and other liabilities		57	-	-
	2 Provisions for taxes		58	-	-
	3 Other provisions		59	5,196,454,236	6,262,466,399
	TOTAL PROVISIONS (rows 57 to 59)	2	60	5,196,454,236	6,262,466,399

No	Notes	Row	December 31, 2007	December 31, 2008
I	DEFERRED INCOME			
1	Investments subsidies	61	7,892,378	17,913,189
2	Deferred income	62	163,560,903	128,345,370
	TOTAL (rows 61+62)	63	171,453,281	146,258,559
J	SHARE CAPITAL AND RESERVES			
I	Share capital			
-	subscribed and paid in share capital	64	5,664,410,834	5,664,410,834
-	subscribed and not paid in share capital	65	-	-
-	patrimony	66	-	-
	TOTAL (rows 64 to 66)	67	5,664,410,834	5,664,410,834
II	Premium related to capital	68	-	-
III	Revaluation reserve	69	57,417,759	50,904,252
IV	Reserves			
1	Legal reserve	70	402,579,752	474,624,841
2	Statutory or contractual capital reserve	71	-	-
3	Realized revaluation reserves	72	15,843,269	20,780,867
4	Other reserves	73	5,374,332,251	5,819,903,009
	TOTAL (row 70 to 73)	74	5,792,755,272	6,315,308,717
	Own shares	75	-	-
	Earnings related to owners' equity items	76	-	-
	Losses related to owners' equity items	77	-	-
V	Retained earnings			
-	Cr balance	78	1,521,411	587,632,269
-	Dr balance	79	-	-
VI	Profit for the period			
-	Cr balance	80	1,778,042,301	1,022,387,463
-	Dr balance	81	-	-
	Profit appropriation	82	110,028,972	72,045,088
	Total shareholders' equity			
	(rows 67+68+69+74-75+76-77+78-79+80-81-82)	83	13,184,118,605	13,568,598,447
	Public patrimony	84	-	-
	TOTAL EQUITY (rows 83+84)	85	13,184,118,605	13,568,598,447


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. Mihaela Milinschi
Director of Accounting Department

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Notes on pages 99 to 129 form integral part of these financial statements.

SC PETROM S.A.
INCOME STATEMENTS
AS AT DECEMBER 31, 2007 AND DECEMBER 31, 2008
(all amounts are expressed in RON, unless otherwise specified)

No		Notes	Row	Year ended December 31, 2007	Year ended December 31, 2008
1	Net turnover (rows 02 to 05)		01	12,284,378,408	16,750,726,457
	Sales of production		02	11,795,873,413	15,795,814,081
	Sales of merchandise		03	488,504,995	954,912,376
	Interest income- from lease companies		04	-	-
	Interest from subsidies related to net turnover		05	-	-
2	Movements in stocks of finished goods				
	– Cr balance		06	120,783,952	366,871,954
	– Dr balance		07	-	-
3	Own work capitalized		08	22,145,515	142,029,297
4	Other operating revenue		09	57,638,849	139,996,979
	Total operating revenue (rows 01+06-07+08+09)		10	12,484,946,724	17,399,624,687
5	a) Raw materials and consumables expenses		11	3,157,730,454	5,112,307,267
	Other materials expenses		12	42,880,206	54,885,214
	b) Other utilities expenses (energy and water)		13	450,008,740	538,886,526
	Purchases of goods for resale		14	395,873,972	874,769,042
6	Salary expenses (rows 16+17)		15	1,657,798,742	2,328,955,335
	a) Salaries	8	16	1,276,888,854	1,820,059,602
	b) Social security contributions		17	380,909,888	508,895,733
7	a) Adjusting the value of tangible and intangible assets (rows 19-20)		18	1,146,101,922	2,256,092,738
	a. 1) Expenses		19	1,167,435,970	2,268,743,945
	a. 2) Revenues		20	21,334,048	12,651,207
	b) Adjusting the value of current assets (rows 22-23)		21	(35,304,253)	143,291,376
	b. 1) Expenses		22	180,519,872	288,238,885
	b. 2) Revenues		23	215,824,125	144,947,509
8	Other operating expenses (rows 25 to 28)		24	3,747,555,913	4,137,052,619
	8.1 Third parties services		25	2,722,199,495	2,896,215,547
	8.2 Other taxes, duties and similar expenses		26	601,895,562	828,870,302
	8.3 Other operating expenses		27	423,460,856	411,966,770
	Interest related to refinancing activities		28	-	-
	Adjustments for provisions for risks and charges (rows 30-31)		29	(42,297,402)	644,151,339
	Expenses		30	460,666,444	1,547,984,039
	Revenues		31	502,963,846	903,832,700
	Total operating expenses (rows 11 to 15+18+21+24+29)		32	10,520,348,294	16,090,391,456
	Operating Result				
	- profit (rows 10-32)	4	33	1,964,598,430	1,309,233,231
	- loss (rows 32-10)		34	-	-

Free translation from the Romanian version which is the original
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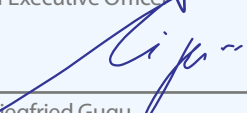
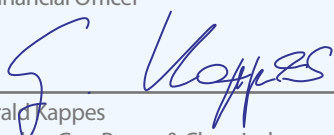


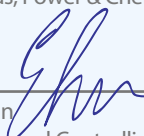

SC PETROM S.A.
INCOME STATEMENTS
AS AT DECEMBER 31, 2007 AND DECEMBER 31, 2008
(all amounts are expressed in RON, unless otherwise specified)

No		Notes	Row	Year ended December 31, 2007	Year ended December 31, 2008
9	Income from investments		35	35,417,362	175,686,353
	- out of which, within the group		36	26,142,904	174,153,842
10	Income from other financial investments and receivables, part of financial assets		37	-	-
	- out of which, within the group		38	-	-
11	Income from interest		39	233,590,275	135,263,405
	- out of which, within the group		40	74,674,023	87,520,178
	Other financial revenues including forex gain		41	229,289,327	1,620,812,172
	Total financial revenues (rows 35+37+39+41)		42	498,296,964	1,931,761,930
12	Adjustment of financial assets and investments held (rows 44-45)		43	(85,928,284)	133,753,212
	Expenses		44	114,827,010	180,604,658
	Revenues		45	200,755,294	46,851,446
13	Interest expenses		46	-	23,563,439
	- out of which, within the group		47	-	-
	Other financial expenses including forex loss		48	399,196,650	1,478,115,170
	Total financial expenses (rows 43+46+48)		49	313,268,366	1,635,431,821
	Financial result				
	- profit (rows 42-49)		50	185,028,598	296,330,109
	- loss (rows 49-42)		51	-	-
14	Current profit(loss)				
	- profit (rows 10+42-32-49)		52	2,149,627,028	1,605,563,340
	- loss (rows 32+49-10-42)		53	-	-
15	Extraordinary revenues		54	-	-
16	Extraordinary expenses		55	-	-
17	Extraordinary result				
	- profit (rows 54-55)		56	-	-
	- loss (rows 55-54)		57	-	-
	Total revenues (rows 10+42+54)		58	12,983,243,688	19,331,386,617
	Total expenses (rows 32+49+55)		59	10,833,616,660	17,725,823,277
	Profit before tax				
	- profit (rows 58-59)		60	2,149,627,028	1,605,563,340
	- loss (rows 59-58)		61	-	-
18	Tax on profit	10.8	62	371,584,727	583,175,877

Free translation from the Romanian version which is the original
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No		Notes	Row	Year ended December 31, 2007	Year ended December 31, 2008
19	Other tax expenses not shown above		63	-	-
20	Net result of financial year				
	- profit (rows 60-62-63)		64	1,778,042,301	1,022,387,463
	- loss (rows 61+62+63); (rows 62+63-60)		65	-	-

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. Mihaela Milinschi Director of Accounting Department


SC PETROM S.A.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2008
(all amounts are expressed in RON, unless otherwise specified)

	Notes	December 31, 2007	December 31, 2008
Cash flow from operating activities			
Profit before taxation		2,149,627,028	1,605,563,340
Adjustments for:			
Interest expenses		-	23,563,439
Interest income		(233,590,275)	(135,263,405)
Net movement in provisions for:			
- Fixed asset impairment		284,208,231	1,085,094,436
- Financial assets	2	(93,980,150)	135,568,674
- Inventories	2	354,384	48,720,913
- Receivables	2	(74,836,771)	19,994,770
- Litigations	2	179,797,383	692,715,236
- Environmental expenditures	2	(100,583,281)	(29,042,225)
- Retirement benefits	2	6,769,483	(15,661,454)
- Other provisions for risk and charges	2	(12,501,929)	(34,170,398)
- Restructuring	2	(94,333,814)	48,216,515
Loss / (Gain) on disposals of fixed assets		14,737,604	(54,076,097)
Depreciation and amortization expense	1	860,459,210	1,170,900,413
Gain on disposal of financial assets		(11,177,863)	(64,350,516)
Cash generated from operating activities before working capital movements		2,874,949,240	4,497,773,641
(Increase)/ decrease in inventories		(457,601,108)	(520,779,931)
(Increase)/ decrease in receivables and prepayments		(604,111,657)	368,555,162
Increase/ (decrease) in liabilities and deferred revenues		699,418,312	658,621,555
Interest received		235,254,945	68,715,234
Interest paid		-	(5,375,581)
Tax on profit paid		(262,532,626)	(683,894,489)
Net cash generated from operating activities		2,485,377,106	4,383,615,591
Cash flow from investment activities			
Purchase of tangible and intangible assets		(3,637,786,297)	(6,217,797,162)
Proceeds from sale of fixed assets		180,311,618	176,555,215
Proceeds from sale of financial assets		54,711,875	1,198,347,052
Acquisition of financial assets		(358,018,714)	(685,863,596)
Net cash used from investment activities		(3,760,781,518)	(5,528,758,491)
Cash flow from financial activities			
Loans received during the year		-	1,768,387,650
Dividends paid		(1,422,986,498)	(1,114,441,209)
Net cash used for financial activities		(1,422,986,498)	653,946,441
Total cash flows		(2,698,390,910)	(491,196,459)
Cash and cash equivalents at the beginning of the year	10.2	3,451,025,681	752,634,771
Cash and cash equivalents at the end of the year	10.2	752,634,771	261,438,312


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




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SC PETROM S.A.
STATEMENT OF CHANGES IN EQUITY
AS AT DECEMBER 31, 2007
(all amounts are expressed in RON, unless otherwise specified)

Shareholders' equity	Balance at 1.01.2007	Increase out of which	Transfer	Decrease out of which	Transfer	Balance at 31.12.2007
Subscribed share capital	5,664,410,834	-	-	-	-	5,664,410,834
Revaluation reserve	74,590,359	-	-	17,172,600*	15,843,269	57,417,759
Legal reserves	292,550,780	110,028,972	110,028,972	-	-	402,579,752
Reserves representing surplus from revaluation reserves	-	15,843,269	15,843,269	-	-	15,843,269
Other reserves	214,865,543	96,630,544**	-	-	-	311,496,087
Other reserves-geological quota	5,062,836,164	-	-	-	-	5,062,836,164
Retained earnings	1,015,450,950	-	-	1,013,929,539***	-	1,521,411
Profit for the year	-	1,778,042,301	-	110,028,972	110,028,972	1,668,013,329
Total	12,324,704,630	2,000,545,086	125,872,241	1,141,131,111	125,872,241	13,184,118,605

* RON 17,172,600 is made up from RON 15,843,269 representing the amount transferred to reserves representing surplus from revaluation reserves following write off of buildings that were revalued at December 2006 and RON 1,329,329 representing impairment of buildings and other special constructions related to closure of filling stations.

** RON 96,630,544 is made up from RON 86,950,402 representing revaluation for available for sale investments at their fair value and RON 9,680,142 representing land for which ownership was obtained but was not included in social capital.

*** RON 1,013,929,539 represents dividends distributed to shareholders in 2007.

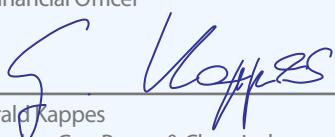
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E.B. Member Marketing


Mr. Siegfried Ehn
Director Finance and Controlling Division


Mrs. Mihaela Milinschi
Director of Accounting Department

SC PETROM S.A.
STATEMENT OF CHANGES IN EQUITY
AS AT DECEMBER 31, 2008
(all amounts are expressed in RON, unless otherwise specified)

Shareholders' equity	Balance at 1.01.2008	Increase out of which	Transfer	Decrease out of which	Transfer	Balance at 31.12.2008
Subscribed share capital	5,664,410,834	-	-	-	-	5,664,410,834
Revaluation reserve	57,417,759	-	-	6,513,507*	4,937,598	50,904,252
Legal reserves	402,579,752	72,045,089	72,045,089	-	-	474,624,841
Reserves representing surplus from revaluation reserves	15,843,269	4,937,598	4,937,598	-	-	20,780,867
Other reserves	311,496,087	445,570,757**	-	-	-	757,066,844
Other reserves-geological quota	5,062,836,164	-	-	-	-	5,062,836,164
Retained earnings	1,669,534,740	-	-	1,081,902,469***	-	587,632,271
Profit for the year	-	1,022,387,463	-	72,045,089	72,045,089	950,342,374
Total	13,184,118,605	1,544,940,907	76,982,687	1,160,461,065	76,982,687	13,568,598,447

* RON 6,513,507 is made up from RON 4,937,598 representing the amount transferred to reserves representing surplus from revaluation reserves following write off of buildings that were revalued at December 2006 and RON 1,575,909 representing impairment of buildings and other special constructions that were revalued at December 2006.

** RON 445,570,757 is made up from:

- a. RON 517,640,630 represents fair value of the hedging made by the Company in 2008.
- b. RON (74,056,386) relates to the fair value of the available for sale investments that have been disposed during 2008.
- c. RON 1,986,513 represents land for which ownership was obtained but was not included in share capital.

*** RON 1,081,902,469 represents dividends distributed to shareholders in 2008

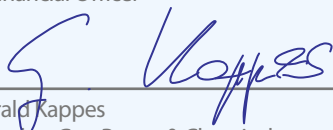
These financial statements were approved on March 17th, 2009..



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. Mihaela Milinschi
Director of Accounting Department

1. FIXED ASSETS

a) Tangible assets

GROSS BOOK VALUE	Balance as at 1.01.2008	Increase out of which	Transfers	Decrease out of which	Transfers	Balance as at 31.12.2008
Land	601,489,142	80,693,299**	56,322,211	76,221,204	50,001,891	605,961,237
Buildings and constructions	7,094,618,913	3,850,647,921	2,721,147,759	983,238,276	827,344,336	9,962,028,558
Machinery and equipment	3,970,057,056	1,723,211,332	1,036,755,404	1,120,188,109	985,371,233	4,573,080,279
Other equipment and furniture	132,364,191	57,382,285	22,693,573	15,252,792	2,291,708	174,493,684
Advances and tangible assets in progress	3,878,587,935	3,457,567,769	116,529,205	2,201,280,920	2,091,180,013	5,134,874,784
Total	15,677,117,237	9,169,502,606	3,953,448,152	4,396,181,301*	3,956,189,181	20,450,438,542

ACCUMULATED DEPRECIATION	Balance as at 1.01.2008	Increase out of which	Transfers	Decrease out of which	Transfers	Balance as at 31.12.2008
Buildings and constructions	1,836,494,522	958,037,014	396,446,504	298,011,103	273,585,172	2,496,520,433
Machinery and equipment	974,753,575	443,234,943	90,461,511	268,599,359	212,936,784	1,149,389,159
Other equipment and furniture	37,078,435	18,926,913	277,316	4,443,647	666,808	51,561,701
Total	2,848,326,532	1,420,198,870	487,185,331	571,054,109	487,188,764	3,697,471,293

* The decrease in tangible assets includes also write off of capital work in progress amounting to RON 110,100,907.

** The increase in land includes an amount of RON 1,986,513 representing land title deeds obtained by the Company during 2008.

1. FIXED ASSETS (continued)

a) Tangible assets (continued)

ACCUMULATED IMPAIRMENT LOSSES	Balance as at 1.01.2008	Increase out of which	Transfers	Decrease out of which	Transfers	Balance as at 31.12.2008
Land	408,544,975	45,813,749	45,419,812	62,586,069	46,558,136	391,772,655
Buildings and constructions	826,002,521	154,292,298	16,267,592	103,703,153	2,505,648	876,591,666
Machinery and equipment	588,214,700	517,192,595	102,423,895	54,094,455	6,121,820	1,051,312,840
Other equipment and furniture	25,737,004	7,373,727	141,842	3,398,274	582,228	29,712,457
Advances and tangible assets in progress	415,958,728	581,886,076	47,497,452	249,941,370	155,668,963	747,903,434
Total	2,264,457,928	1,306,558,445	211,750,593	473,723,321	211,436,795	3,097,293,052
NET BOOK VALUE	10,564,332,777					13,655,674,197

Included in fixed assets presented above, in category "Machinery and equipment" are fixed assets acquired in 2008 through finance lease with a carrying amount of RON 5,622,751 as at December 31, 2008.

1. FIXED ASSETS (continued)

b) Intangible assets

COST	Balance as at 1.01.2008	Increase out of which	Transfers	Decrease out of which	Transfers	Balance as at 31.12.2008
Intangible assets	247,497,235	1,234,985,418*	162,382,905	64,720,104	648,723	1,417,762,549
Advances and intangible assets in progress	197,150,843	8,893,560	-	161,557,648	158,993,153	44,486,755
Total	444,648,078	1,243,878,978	162,382,905	226,277,752	159,641,876	1,462,249,304

ACCUMULATED DEPRECIATION	Balance as at 1.01.2008	Increase out of which	Transfers	Decrease out of which	Transfers	Balance as at 31.12.2008
Intangible assets	131,030,614	238,397,367	510,493	47,420,733	507,064	322,007,248
Total	131,030,614	238,397,367	510,493	47,420,733	507,064	322,007,248

ACCUMULATED IMPAIRMENT LOSSES	Balance as at 1.01.2008	Increase out of which	Transfers	Decrease out of which	Transfers	Balance as at 31.12.2008
Intangible assets	10,061,179	1,256,333	160,005	4,221,649	3,051,599	7,095,863
Advances and intangible assets in progress	-	6,327,308	2,909,941	2,896,636	332,141	3,430,672
Total	10,061,179	7,583,641	3,069,946	7,118,285	3,383,740	10,526,535

NET BOOK VALUE	303,556,285	1,129,715,521
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* During the year the Company acquired the business of an oilfield service Company. Upon the fair value exercise the Company identified the fair value of tangible and intangible assets of the business acquired.

1. FIXED ASSETS (continued)

c) Financial assets

COST	Balance at 1.01.2008	Increase	Decrease	Balance at 31.12.2008
Investments (a)	1,276,056,014	106,152,177	27,650,274	1,354,557,917
Other financial assets (b)	1,180,402,647	-	1,180,402,647	-
Other receivables (c)	1,464,523,289	627,825,463	206,384,000	1,885,964,752
Expenditure recoverable from Romanian State (d)	1,707,751,023	330,168,539	-	2,037,919,562
Total	5,628,732,973	1,064,146,179	1,414,436,921	5,278,442,231
WRITE DOWN ALLOWANCE				
Investments	75,282,861	176,687,183	11,431,151	240,538,893
Other financial assets	31,485,773	-	31,485,773	-
Other receivables (c)	15,023,423	1,798,415	-	16,821,838
Total	121,792,057	178,485,598	42,916,924	257,360,731
NET BOOK VALUE	5,506,940,916			5,021,081,500

(a) The increase in investments during 2008 represents mainly acquisition of additional shares in the companies ICS PETROM MOLDOVA S.A. and PETROM AVIATION S.A.. The decrease represents the sale of investment in RAFISERV PETROBRAZI S.A., RAFISERV ARPECHIM S.A. and BUTAN GAS ROMANIA S.A..

(b) The decrease in other financial assets represents the disposal of investment in mutual funds and in other financial instruments through umbrella funds.

(c) Other receivables include loans given to subsidiaries in Kazakhstan (KOM MUNAI LLP, TASBULAT OIL CORPORATION BVI) whose principal activities are exploration and production of oil and gas and also loans given to the other subsidiaries in R&M and Gas segments, such as OMV BULGARIA LTD, OMV SRBIJA d.o.o., PETROM DISTRIBUȚIE GAZE SRL. Loans given to subsidiaries bear an interest rate based on Euribor plus a variable margin and have different maturities. The decrease in other receivables represents bonds issued by the World Bank and acquired by Petrom in 2006 with maturity in September 2009 that were reclassified from long term financial assets to short term investments.

(d) As part of the privatization agreement, the Company is required to close wells, which are abandoned and are awaiting closure. However, such expenditures will be recoverable by the Company from the Romanian State as these pertain to Exploration and Production (E&P) activities prior to privatization of the Company in 2004. The change during the year 2008 (RON 237,491,721) is related to reassessment of the decommissioning expenditure and consequently of the recoverable amounts from the Romanian State. The Company also recorded an increase of the receivable from State related to environmental liabilities for sludge pits and lagoons belonging to E&P, Refining and Doljchim amounting to RON 92,676,818 as these were existing prior to privatization of the Company.

1. FIXED ASSETS (continued)

c) Financial assets (continued)

Investments as at December 31, 2008 consist of the following:

Company Name	Field of Activity	Share interest percentage	Cost	Write down allowance
Subsidiaries (>50%)				
TASBULAT OIL CORPORATION BVI	Oil exploration and drilling in Kazakhstan	100.00%	13,426,985	-
PETROM GAS SRL	Intermediary in fuel, minerals and chemical products trade	100.00%	8,601,510	-
PETROM DISTRIBUȚIE GAZE SRL	Gas distribution	99.99%	13,010,677	-
OMV ROMANIA MINERALOEL SRL	Fuel distribution	99.90%	380,125,971	-
OMV BULGARIA LTD	Fuel distribution	99.90%	138,024,259	-
OMV SRBIJA DOO	Fuel distribution	99.90%	5,594,968	-
PETROM NĂDLAC SRL	Oil products distribution	98.51%	6,521,923	1,910,711
POLIFLEX SRL	Polyethylene production and distribution	96.84%	518,170	-
M.P. PETROLEUM DISTRIBUTIE SRL	Fuel distribution	95.00%	116,638,420	-
KOM MUNAI LLP	Oil products distribution	95.00%	33,121,000	-
AVIATION PETROLEUM SRL	Kerosene distribution	95.00%	13,126,576	-
RING OIL HOLDING & TRADING LTD	Holding Company	74.90%	333,946,263	229,223,974
ICS PETROM MOLDOVA S.A.	Fuel distribution	100.00%	104,378,150	-
PETROM LPG S.A.	LPG distribution	99.99%	122,307,743	-
PETROMED SOLUTION SRL	Medical services	99.99%	2,999,900	-
TRANS GAS SERVICES SRL	Transfer of LPG (buthane; propane) from large railroad system trucks to normal railroad system trucks	80.00%	3,909,919	-
PETROM EXPLORATION & PRODUCTION LIMITED	Exploration and production services	100.00%	5	-
PETROCHEMICALS ARGEȘ SRL	Refining petrochemicals production	95.00%	200	-
PETROM AVIATION S.A.	Kerosene distribution	69.37%	32,889,956	-

1. FIXED ASSETS (continued)

c) Financial assets (continued)

Company Name	Field of Activity	Share interest percentage	Cost	Write down allowance
Associated companies (20-50%)				
SOCIETATEA ROMÂNĂ DE PETROL S.A.	Oil products production and distribution	49.00%	49,000	49,000
ROBIPLAST COMPANY SRL	Plastic materials production	45.00%	1,080	1,080
BEYFIN GAZ SRL	Gas production and distribution	40.00%	1,222,363	-
FRANCIZA PITEȘTI SRL	Other financial services	40.00%	144,000	-
BRAZI OIL & ANGHELESCU PROD COM SRL	Oil products distribution	37.70%	310,800	-
FONTEGAS PECO MEHEDINȚI S.A.	Fuel distribution	37.40%	295,881	194,442
CONGAZ S.A.	Natural gas distribution	28.59%	14,158,085	-
D.E.E.M. ALGOCAR S.A.	Oil products distribution	27.92%	17,035	17,035
BURSA MARITIMĂ ȘI DE MĂRFURI S.A.	Other financial services	20.09%	100,000	100,000
ASOCIAȚIA ROMÂNĂ PENTRU RELAȚIA CU INVESTITORII	Public relations and public representation	20.00%	500	-
Other financial investments (<20%)				
GTI OIL CO S.A.	Fuel distribution	13.00%	61,722	61,722
PRIMA PETROL SRL	Fuel distribution	11.98%	11,975	11,975
AIR TOTAL ROMANIA S.A.	Kerosene distribution in Romania	6.41%	8,929,975	8,865,240
BURSA DE MĂRFURI OLTENIA CRAIOVA	Other financial services	2.63%	1,526	691
TELESCAUN TIHUȚA S.A.	Cable transportation	1.68%	420	13
AGRIBAC S.A.	Animals breeding	0.79%	28,060	28,060
BENZ OIL S.A.	Oil products distribution	0.48%	700	-
CREDIT BANK	Other financial services	0.22%	500	500
INSTITUTUL ROMÂN PENTRU ASIGURĂRI	Insurance services	0.10%	7,250	-
OFICIUL PATRONAL JUDEȚEAN MUREȘ	Economic and Union activities development	0.01%	1,000	1,000
MD INDIA	Exploration and production	0.01%	73,450	73,450
TOTAL			1,354,557,917	240,538,893

2. PROVISIONS AND ADJUSTMENTS ON THE VALUE OF ASSETS

PROVISIONS	Balance at 1.01.2008	Increase	Decrease	Balance at 31.12.2008
Provision for litigations (i)	341,938,306	1,329,420,166	636,704,930	1,034,653,542
Provision for decommissioning expenses – Petrom (ii)	2,401,676,759	-	17,954,805	2,383,721,954
Provision for expenditure to be incurred on behalf of State (Note 1c)	1,457,613,705	237,491,721	-	1,695,105,426
Provision for retirement benefits (iii)	188,366,479	102,282,443	44,157,947	246,490,975
Provision for environmental expenditures- Petrom (iv)	119,018,093	28,905,743	48,124,103	99,799,733
Provision for environmental expenditures to be incurred on behalf of State (iv) (Note 1c)	250,137,318	92,676,818	9,823,865	332,990,271
Provision for restructuring (v)	382,499,634	180,340,857	132,124,342	430,716,149
Other provisions for risk and charges (vi)	55,203,942	3,948,690	20,164,283	38,988,349
Total	5,196,454,236	1,975,066,438	909,054,275	6,262,466,399
PROVISIONS/ ADJUSTMENTS ON THE VALUE OF ASSETS				
Provisions for clients (Note 5)	566,751,408	149,813,763	129,889,173	586,675,998
Provisions for short term financial assets (Note 5)	7,995,587	138,979	68,799	8,065,767
Provisions for depreciation of inventories (Note 10.3)	66,939,890	63,820,971	15,100,058	115,660,803
Provisions for impairment of fixed assets (Note 1)	2,274,519,107	1,314,142,085	480,841,605	3,107,819,587
Provisions for depreciation of financial assets (Note 1c)	121,792,057	178,485,598	42,916,924	257,360,731
Total	3,037,998,049	1,706,401,396	668,816,559	4,075,582,886

2. PROVISIONS (continued)

(i) The Company 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 Company 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 Collective Labour Agreement.

(ii) Until December 31, 2005 decommissioning provisions were set up using the best possible estimate considering the applicable legislation. In determining those provisions management considered existing and future technologies that were expected to be used from the period when it was expected that the costs will be incurred.

Since then, in accordance with the provisions of Romanian accounting law, the decommissioning provision related to Company liability has not been reassessed, being only used for the decommissioning work done during the year. As at December 31, 2008, the decommissioning provision for Company liability is RON 2,383,721,954.

(iii) The Collective Labor Agreement concluded between the Company and its employees provides that on retirement an employee will receive a one-off payment amounting to two to four month salaries according to the length of service. Employees that have worked for more than 15 years in the oil industry are entitled to receive a payment of four monthly salaries. The collective labor agreement also provides that the Company will pay funeral expenses for employees and also for the family members. The Company assessed the accrual of post-employment obligations based on independent professional actuarial calculation.

(iv) The environmental provision is estimated by the management based on the list of environment related projects that must be completed by the Company. The Company experts in environmental issues made their best estimates in order to determine the necessary provisions recorded as at December 31, 2008. The Company 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, the Company had not shortfall in EU allowances allocated compared to the CO2 emissions of installations subject to the EU Emission Trading Scheme.

(v) 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.

(vi) Other risks and charges primarily relate to the provision for excises, VAT and other taxes related to the missing stocks.

3. PROFIT ALLOCATION

	December 31, 2007	December 31, 2008
Net profit to be allocated	1,778,042,301	1,022,387,463
- legal reserve	110,028,972	72,045,089
- dividends	1,081,902,469	-
Profit not allocated	586,110,860	950,342,374

Allocation of the 2007 profit amounting to RON 1,081,902,469 to dividends has been approved by General Meeting of the Shareholders on April 22, 2008. The profit for the year ended December 31, 2008 will be allocated based on the decision of the General Meeting of the Shareholders.

4. ANALYSIS OF OPERATING PROFIT

	December 31, 2007	December 31, 2008
1. Net turnover	12,284,378,408	16,750,726,457
2. Costs of goods sold and services rendered (3+4+5)	9,162,016,827	14,577,604,116
3. Operating activity expenses	6,904,713,982	10,986,029,480
4. Secondary activity expenses	1,410,800,280	2,244,711,875
5. Indirect production expenses	846,502,565	1,346,862,761
6. Gross profit due to net turnover (1-2)	3,122,361,581	2,173,122,341
7. Selling and distribution expenses	969,209,000	801,944,866
8. Administrative expenses	246,193,000	201,941,223
9. Other operating revenues	57,638,849	139,996,979
10. Operating profit (6-7-8+9)	1,964,598,430	1,309,233,231

5. RECEIVABLES AND PAYABLES

Receivables	December 31, 2007	Liquidity term	
		Up to 1 year	Over 1 year
Customers and similar accounts	1,604,181,114	1,604,181,114	-
Advances to suppliers	281,245,332	281,245,332	-
Other debtors	352,990,054	352,990,054	-
Advances to personnel	6,224,338	6,224,338	-
Interest receivable	5,687,383	5,687,383	-
Other receivables	90,580,672	90,580,672	-
Provision for doubtful receivables*	(574,746,995)	(574,746,995)	-
VAT not due	92,080,533	92,080,533	-
Other taxes and similar accounts	69,966,925	69,966,925	-
Special funds - taxes and similar accounts	847,412	847,412	-
Loans given to subsidiaries – short term portion	86,752,959	86,752,959	-
Total	2,015,809,727	2,015,809,727	-

*) Refer to Note 2 for movement in above provision.

Payables	December 31, 2007	Up to 1 year	Due term	
			Between 1-5 years	Over 5 years
Suppliers and similar accounts	1,776,623,529	1,760,904,056	15,719,473	-
Advance payments from customers	24,789,910	24,789,910	-	-
Other creditors	57,087,141	57,087,141	-	-
Guarantees from suppliers	29,810,741	16,548,204	13,262,537	-
Employees rights	60,925,557	60,925,557	-	-
Contribution to social security	29,090,233	29,090,233	-	-
Contribution to unemployment fund	1,464,334	1,464,334	-	-
Contribution to special funds	9,997,344	9,997,344	-	-
Tax on salaries	10,331,794	10,331,794	-	-
Tax on profit	110,698,913	110,698,913	-	-
VAT payable	104,689,927	104,689,927	-	-
Dividends to be paid	76,030,144	76,030,144	-	-
Other payables	317,467,870	317,467,870	-	-
Total	2,609,007,437	2,580,025,427	28,982,010	-

5. RECEIVABLES AND PAYABLES (continued)

Receivables	December 31, 2008	Liquidity term	
		Up to 1 year	Over 1 year
Customers and similar accounts	1,225,113,924	1,225,113,924	-
Advances to suppliers	64,095,470	64,095,470	-
Other debtors	571,110,241	571,110,241	-
Advances to personnel	7,559,483	7,559,483	-
Interest receivable	3,857,494	3,857,494	-
Other receivables	87,653,129	87,653,129	-
Provision for doubtful receivables*	(594,741,765)	(594,741,765)	-
VAT not due	129,976,051	129,976,051	-
Other taxes and similar accounts	80,266,053	80,266,053	-
Special funds - taxes and similar accounts	847,414	847,414	-
Loans given to subsidiaries – short term portion	128,474,495	128,474,495	-
Total	1,704,211,989	1,704,211,989	-

*) Refer to Note 2 for movement in above provision.

Payables	December 31, 2008	Due term		
		Up to 1 year	Between 1-5 years	Over 5 years
Loans from financial institutions	1,768,387,650	300,182,614	1,468,205,036	-
Interest for loans	18,187,858	389,472	17,798,386	-
Suppliers and similar accounts	2,233,599,007	2,230,757,575	2,841,432	-
Advance payments from customers	59,432,176	59,432,176	-	-
Other creditors	63,549,656	63,549,656	-	-
Guarantees from suppliers	45,881,856	31,819,071	14,062,785	-
Employees rights	224,169,047	224,169,047	-	-
Contribution to social security	41,372,457	41,372,457	-	-
Contribution to unemployment fund	1,007,263	1,007,263	-	-
Contribution to special funds	12,566,444	12,566,444	-	-
Tax on salaries	15,671,658	15,671,658	-	-
Tax on profit	9,980,301	9,980,301	-	-
VAT payable	13,339,060	13,339,060	-	-
Dividends to be paid	43,491,404	43,491,404	-	-
Other payables	399,486,935	398,299,172	1,187,763	-
Total	4,950,122,772	3,446,027,370	1,504,095,402	-

5. RECEIVABLES AND PAYABLES (continued)

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

Short term loans from financial institutions

	December 31, 2008	December 31, 2007
Raiffeisen Bank SA (a)	100,882,614	-
Unicredit Bank Austria AG (b)	199,300,000	-
Total interest bearing debts short term	300,182,614	-

- (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 Tirioc Bank SA 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.

Long term loans from financial institutions

As of December 31, 2008 Petrom SA contracted a revolving credit facility from 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.

5. RECEIVABLES AND PAYABLES (continued)

Finance lease liability

In other payables as at December 31, 2008 is included the short and long portion of finance lease liability. The Company acquired in 2008 through finance lease mainly cars, equipments and few power generators.

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	1,016,179	-
Amounts due after more than 1 year but not later than 5 years	1,290,081	-
Total lease obligations	2,306,260	-
Less future finance charges on finance leases	(227,781)	-
Present value of finance lease liabilities	2,078,479	-
<i>Analyzed as follows:</i>		
Maturing within 1 year	890,715	-
Maturing after more than 1 year but not later than 5 years	1,187,764	-
Total present value of finance lease liabilities	2,078,479	-

6. ACCOUNTING PRINCIPLES AND METHODS

Basis of preparation

These financial statements are the responsibility of the management of the Company and are prepared in accordance with the Ministry of Finance Order ("MOF") no. 1752/2005 with the subsequent amendments.

Currency of presentation

These financial statements are stated in lei (RON), using going concern principles.

ORDER No. 1752/2005 of the Ministry of Public Finances ("Accounting Regulations conformant with the European Directives) as amended

These financial statements are under the responsibility of the Company's management and have been drafted in accordance with the Order of Ministry of Public Finance no. 1752/ 2005 ("OMF nr. 1752/ 2005"), with the subsequent amendments.

The Order comprises Accounting Regulations in accordance with European Directives, namely:

- a) EEC Directive IV 78/660/EEC dated July 25, 1978, as revised and detailed in MOF No.1752/2005;
- b) EEC Directive VII 83/349/EEC dated June 13, 1983 related to consolidated financial statements, as revised and detailed in MOF No. 1752/2005.

The MOF No.1752/2005 is harmonized to the EEC Directive IV and EEC Directive VII and differs from the International Financial Reporting Standards. Therefore, these financial statements are not in accordance with International Financial Reporting Standards.

Consolidated financial statements

These are the stand alone statutory financial statements. The Company also prepares consolidated financial statements for the same period in accordance with International Financial Reporting Standards (IFRS). IFRS Consolidated financial statements have been authorized for issue by the management on March 17th, 2009.

6. ACCOUNTING PRINCIPLES AND METHODS (continued)

Prior Year Restatements and Retained Earnings

Potential current period errors discovered in that period are corrected before the financial statements are authorized for issue. However, material errors are sometimes not discovered until a subsequent period, which leads to retrospective correction in the account "Retained earnings from correction of errors".

Geological quota

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

Use of estimates

The preparation of financial statements in conformity with Romanian Accounting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. As discussed in Notes 1 and 2 the Company used best possible information and estimation available. Actual results could differ from those estimates.

6. ACCOUNTING PRINCIPLES AND METHODS (continued)

Property plant and equipment

(i) Cost/Valuation

Property, plant and equipment is valued at cost, except for buildings which are stated at revalued amounts.

The cost of purchased fixed 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 produced assets includes cost of direct materials, labor, overheads and other directly attributable costs that have been incurred in bringing the assets to their present location and condition.

The last revaluation of buildings has been performed as at December 2006. Revaluations of buildings are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of buildings is credited in equity to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of buildings is charged to profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset. Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognized.

The revaluation of the buildings recorded in December 2006 did not influence the fiscal book value of the assets and consequently the profit tax calculation for the year ended December 31, 2006.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and it is recognized in Statement of Operations.

Exploration and Appraisal Costs

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

6. ACCOUNTING PRINCIPLES AND METHODS (continued)

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.

(ii) Depreciation

Tangible and intangible assets are depreciated on a straight-line basis according to estimated useful life, starting with the following month to the put in function date, except for the core items within the Exploration & Production segment which are depreciated using the unit of production method.

Useful lives used for different categories of tangible assets are as follows:

	Years
Intangible assets	4 - 20
Property and plant	10 - 40
Machinery and equipment	5 - 20
Vehicles	5
Office equipment	5 - 10

Intangible assets

(iii) Intangible assets

Intangible assets that are acquired by the Company are stated at cost or fair value less accumulated amortization and impairment losses. They are depreciated on the estimated useful life.

(iv) Impairment of assets

Provision is made for the impairment of the Company's assets whenever the carrying value of an asset exceeds its recoverable amount. Recoverable amount of an asset is the higher of its net selling price and value in use. Value in use of an asset is the present value of estimated future cash flows expected from the continuing use of an asset and from its disposal.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss shall be recognized immediately in profit or loss, unless the asset is carried at revalued amount. Any impairment loss of a revalued asset shall be treated as a revaluation decrease.

6. ACCOUNTING PRINCIPLES AND METHODS (continued)

(v) Provision for Decommissioning Costs

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.

Until December 2005, a decommissioning provision was made for oil and gas installations in accordance with environmental regulations in force. These provisions were recorded in full at the commencement of oil and gas production. The amount recognized was the present value of the expenditures expected to be required to settle the obligation, determined in accordance with local conditions and requirements. A corresponding property, plant and equipment of an amount equivalent to the provision was also created. This was subsequently depreciated as part of the capital costs of the production and transportation facilities. Any change in the present value of the estimated expenditure was reflected as an adjustment to the provision.

Starting January 1st, 2006, changes in the amount of estimated expenditure are not recorded as an adjustment to the amount already capitalized. Decommissioning provision is only decreased with the amounts used for actual work performed.

Based on the privatization agreement, part of the Company decommissioning cost will be reimbursed by the Romanian State. The portion of decommissioning provision to be reimbursed by the Romanian State has been reassessed in order to reflect the current best estimate of the cost at present value. A non-current receivable is established in respect of the reimbursement.

Inventories

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

In 2007, the Company changed the accounting policy for evaluation of the inventories from first in first out to weighted average cost. However, due to significant turnover of stocks, this change does not have any material effects on the financial statements.

Receivables

Receivables are stated at their recoverable amounts. Doubtful debts are removed from the balance sheet when they are considered to be irrecoverable.

Contributions for employees

The Company pays all contributions to the State Budget according to the levels established by the legislation during the year. The value of these contributions is recorded in the income statement in the same period with corresponding salary expenses.

6. ACCOUNTING PRINCIPLES AND METHODS (continued)

Tax on profit

The charge for current tax is based on the results for the year as adjusted for items, which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Operating leases

Leases are classified as operating leases whenever risks and rewards of ownership are not assumed by the Company. Rental payables under operating leases are charged to expenses on accrual basis over the term of the relevant lease.

Financial leases

Property, plant and equipment contains assets being used under finance leases. Since the Company 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.

Borrowing costs

All borrowing costs are recognized in the statement of operations in the period in which they are incurred.

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

Rendering of services

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

- installation fees are recognized by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the balance sheet date;

6. ACCOUNTING PRINCIPLES AND METHODS (continued)

- 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.

Rental income

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

Provisions

Provisions are recognized where it is probable that expenditure will be required and liability will arise in the future as a result of a past transaction.

Operational expenses

Operational expenses are recorded as expenses within the period they occurred.

Foreign currency transactions

Foreign currency transactions are recorded at the exchange rate ruling on transaction date. Monetary assets and liabilities expressed in foreign currency are converted into RON at the exchange rate on the balance sheet date. At December 31, 2008 the exchange rate was RON 2.8054 to USD 1 and RON 3.9860 to EUR 1 (31 December 2007: RON 2.4564 to USD 1 and RON 3.6102 to EUR 1).

All differences resulting from foreign currency amounts settlements are recognized in profit and loss account in the year they occurred. Unrealized foreign exchange gains and losses related to monetary items are recognized in profit and loss account for the year.

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.

Long-term investments

Long term investments are carried at lower of cost and share of net assets of the investee or quoted market value of shares if available.

6. ACCOUNTING PRINCIPLES AND METHODS (continued)

Retirement Benefit Costs

Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested. The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized past service cost, and as reduced by the fair value of scheme assets. Actuarial gains and losses are recognized in full in the period in which they occur as a provision for risks and charges.

Restructuring provision

A provision for restructuring is recognized when the entity has a detailed formal plan for the restructuring of a part of the business and has raised valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it.

Available-for-sale financial assets

Available-for-sale financial assets represent investments intended to be held for an undetermined period of time, which may be sold for liquidity purposes due to changes in interest rates, exchange rates and equity prices. They are initially recorded at cost and are subsequently measured at fair value without any deduction for transaction costs that may be incurred on sale or disposal. Gains and losses resulting from subsequent measurement are recognized in equity until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recycled to the Income Statement.

Held-to-maturity investments

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity and shall be measured at amortized cost.

Hedging

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 the Company 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.

The changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recorded in equity. The amounts recorded in equity are recycled in profit or loss in the periods when the hedging effect is realized. 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 recorded in equity is recognized immediately in profit or loss.

6. ACCOUNTING PRINCIPLES AND METHODS (continued)

Segmental reporting

The Company has vertical integrated activities and presents the following reportable segments: Exploration and Production, Refining and Marketing, Gas and Power, Corporate and Other. The pricing of inter-segment transfer is based on market price for various types of products transferred between segments. As a result, the Earnings Before Interest and Taxes per segments presented in Note 10.9 reflects the results of each segment based on the transfer price. Financial assets have been presented according to their nature of activity.

7. SHARE CAPITAL

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.

	December 31, 2007	December 31, 2008
As at December 31	56,644,108,335	56,644,108,335

Shareholder Structure as at December 31, 2007 and December 31, 2008

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

8. INFORMATION REGARDING EMPLOYEES, ADMINISTRATORS AND MANAGERS

The average number of employees in 2008 is 29,854 (2007: 29,617). In addition to the average number of employees, in the table below are also included 7 administrators representing members of the Supervisory Board.

	No. of employees in 2007	Salaries in 2007	No. of employees in 2008	Salaries in 2008
Administrators and directors	52	8,737,127	54	12,497,774
Direct and administrative employees	29,572	1,268,151,727	29,807	1,807,561,828
Total	29,624	1,276,888,854	29,861	1,820,059,602

9. EXAMPLES OF COMPUTATION AND ANALYSIS FOR MAJOR FINANCIAL INDICATORS

	2007	2008
Liquidity ratios		
Current assets	1.86	1.49
Acid test	1.11	0.79
Risk ratios		
Indebtness ratio*	0.22%	11.09%
Interest cover	-	69.14
Operational ratios		
Stock turnover – days	52	52
Days in receivables – days	41	30
Days in payables – days	36	40
Total assets turnover	0.59	0.67
Profitability ratios		
Return on capital employed (%) ROCE	16.27%	10.81%
Earnings per share (RON)	0.0314	0.0180
Profit before tax (%)	17.50%	9.59%

*) Indebtness ratio is calculated as Long term debt/Equity x100

10. OTHER INFORMATION

10.1. Nature of activity

The Company's headquarters is located at Calea Dorobanților no 239, sector 1 Bucuresti, Romania. The Company was set up according to the Government Ordinance no.49/ oct.1997, modified by Law no.70/ April 1998. The Company has activities in exploration and production and related services, refining and marketing, gas distribution, chemicals, gas and power production and also has operations in Kazakhstan. The Company is listed on Bucharest Stock Exchange.

10.2. Cash and bank accounts

	December 31, 2007	December 31, 2008
Bank accounts	739,517,192	239,500,792
Petty cash	12,567,410	21,817,637
Other values	550,169	119,883
Total	752,634,771	261,438,312

10. OTHER INFORMATION (continued)

10.3. Inventories

	December 31, 2007	December 31, 2008
Raw materials and materials	621,029,613	1,000,385,295
Small tools	18,434,664	23,314,360
Finished products	620,646,908	719,492,112
Work in progress	249,573,292	156,525,477
Packaging and other	1,138,252	1,022,270
Materials at third parties	325,069,804	224,312,286
Products at third parties	65,341,704	114,429,160
Goods purchased for resale at third parties	41,740,028	176,096,865
Provision for inventories *	(66,939,890)	(115,660,803)
Advances for stocks	46,340,968	94,517,339
Total	1,922,375,343	2,394,434,361

*) Refer to Note 2 for movement in above provision.

10.4. Short term financial investments

	December 31, 2007	December 31, 2008
Receivable from hedge contracts	-	517,640,630
Bonds issued by World Bank (see Note 1c)	-	206,384,000
Other	7,616	-
Total	7,616	724,024,630

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), being recognized directly in equity.

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 cost amounting to RON 206,384,000 as at December 31, 2008.

10. OTHER INFORMATION (CONTINUED)

10.5. Earning per share

Calculations of earnings per share are based on the following data:

	December 31, 2007	December 31, 2008
Net profit for the year	1,778,042,301	1,022,387,463
Weighted average of ordinary shares during the year	56,644,108,335	56,644,108,335
Basic earnings per share – RON	0.03	0.02

10.6. Related Parties Transactions and Balances

During 2008, the Company had the following purchases transactions with related parties:

Related party suppliers

Name	Balance	Transactions
Aviation Petroleum SRL	855,830	3,545,958
M.P. Petroleum Distribuție SRL	17,340,913	57,585,908
Petrom Distribuție Gaze SRL	150,594	197,455
Petrom Gas SRL	-	171,043,012
Rafiserv Arpechim S.A.	4,842,052	14,932,859
Rafiserv Petrobrazi S.A.	-	44,604,062
OMV Romania Mineraloel SRL	10,686,548	10,738,615
ICS Petrom Moldova S.A.	558,539	134,642
OMV Aktiengesellschaft	47,832	4,035,117
OMV Bulgaria Ltd	395,878	1,285,721
OMV Exploration & Production GmbH	344,760	17,964,910
OMV Gas GmbH	179,370	974,824
OMV Deutschland GmbH	42,453	10,744,986
OMV Gas International GmbH	-	547,770
OMV Refining & Marketing GmbH	41,612,538	188,435,012
OMV Solutions GmbH	3,083,007	13,114,407
OMV Supply & Trading AG	240,543,273	3,562,739,274
Petrom Exploration & Production Limited	2,276,901	24,600,266
OMV Austria Exploration & Production GmbH	181,658	179,511
Poliflex SRL	5,526	-
Petrol Ofisi A.S.	973,688	11,729,405
Petrom Aviation S.A.	1,466,292	10,555,945
Fontegas Peco Mehedinți S.A.	7,203	-
Borealis AG	1,989,834	10,062,878
Congaz S.A.	17,366	52,303
OMV Srbija d.o.o.	1,692	-
Petrom LPG S.A.	10,534,499	33,137,723
Petromed Solution SRL	2,487,257	11,310,660
Trans Gas Services SRL	35	457,413
Petrom Nădlac SRL	-	780,838
Total	340,625,538	4,205,491,474

10. OTHER INFORMATION (continued)

10.6 Related Parties Transactions and Balances (continued)

During 2008, the Company had the following sales transactions with related parties:

Related party receivables

Name	Balance	Transactions
Aviation Petroleum SRL	53,994	210,792
M.P. Petroleum Distribuție SRL	35,480,272	241,632,628
Petrom Distribuție Gaze SRL	5,651,261	35,604,556
Petrom Gas SRL	102,863,728	397,826,729
Rafiserv Arpechim S.A.	-	24,588
Rafiserv Petrobrazil S.A.	-	105,065
OMV Romania Mineraloel SRL	147,103,236	1,249,729,789
OMV Bulgaria LTD	31,230,965	698,455,479
ICS Petrom Moldova S.A.	236,251	211,617,953
OMV Srbija d.o.o.	6,812,695	207,889,950
Tasbulat Oil Corporation BVI	7,913,780	22,014,887
OMV Refining & Marketing GmbH	-	5,915,828
Kom Munai LLP	41,898,283	46,894,733
Butan Gas România S.A.	-	7,488,234
Petrom Nădlac SRL	373,602	-
Air Total Romania S.A.	13,146,432	131,060,772
Beyfin Gaz SRL	-	6,769
Petrom Aviation S.A.	28,227,733	234,464,339
Petrol Ofisi A.S.	7,474	55,783
Trans Gas Services SRL	1,659	30,255
Borealis AG	16,683,582	342,835,614
OMV Deutschland GmbH	8,965,929	8,713,523
OMV Exploration & Production GmbH	758	112,883
Petrom LPG S.A.	41,954,400	163,635,261
Petromed Solution SRL	153,549	960,779
Poliflex SRL	61,106	2,035,535
Total	488,820,689	4,009,322,724

10. OTHER INFORMATION (continued)

10.7. Legal reserves

At December 31, 2008 the legal reserve amounted to RON 474,624,841 (December 31, 2007: RON 402,579,752). The legal reserve is established as a transfer of net income up to 5% of gross profit but not more than 20% of share capital. Legal reserve cannot be distributed to the shareholders but can be utilized by the Company in accordance with relevant regulations.

10.8. Tax on profit calculation

	December 31, 2007	December 31, 2008
Revenues	12,983,243,688	19,331,386,617
Expenses	10,833,616,660	17,725,823,277
Gross profit	2,149,627,028	1,605,563,340
Deductions	(1,169,519,139)	(1,412,133,519)
Non-deductible expenses	1,617,201,891	3,705,524,061
Fiscal depreciation for fixed assets	(809,879,352)	(1,160,516,069)
Accounting depreciation for fixed assets	860,458,193	1,170,900,413
Other taxable elements	25,200,122	38,752,808
Other non taxable elements	(225,630,018)	(243,718,659)
Taxable profit	2,447,458,725	3,704,372,375
Preliminary tax on profit	391,593,396	592,699,580
less sponsorship expenses	(15,909,412)	(20,672,898)
Income tax related to previous years	(4,099,257)	11,149,195
Income tax due for the period	371,584,727	583,175,877

10. OTHER INFORMATION (continued)

10.9 Segmental reporting

Primary segmental reporting

	E&P	Refining & Marketing	Gas & Power	Corporate & Other	Intersegmental elimination	Total
Revenue						
External Sales	502,357,297	13,718,161,177	2,524,182,170	6,025,813	-	16,750,726,457
Inter-segment Sales	9,110,258,669	137,024,932	714,693,709	-	(9,961,977,310)	-
Other revenues	214,943,384	(166,016,092)	19,337,177	(3,803,604)	584,437,365	648,898,230
Total Revenues	9,827,559,350	13,689,170,017	3,258,213,056	2,222,209	(9,377,539,945)	17,399,624,687
Total Expenses	6,599,654,698	15,584,594,705	3,154,592,821	129,089,177	(9,377,539,945)	16,090,391,456
Operating result (EBIT)	3,227,904,652	(1,895,424,688)	103,620,235	(126,866,968)	-	1,309,233,231
Financial gain						296,330,109
Income tax						(583,175,877)
Net Result						1,022,387,463
Other information						
Capital expenditure - Tangibles and intangibles	4,524,029,224	1,190,577,490	385,353,478	197,590,335	-	6,297,550,527
Capital expenditure - Investments	-	106,152,177	-	-	-	106,152,177
Depreciation and amortization	839,663,307	217,835,674	235,783	113,165,649	-	1,170,900,413
Impairment loss, net	422,029,591	622,946,080	39,963,474	253,180	-	1,085,192,325
Balance Sheet						
Segment tangibles and intangibles assets	10,972,960,526	2,908,410,905	365,868,209	538,150,078	-	14,785,389,718
Segment financial assets	3,141,817,694	1,784,963,735	91,291,179	3,008,892	-	5,021,081,500

Turnover reporting on geographical areas

	Romania	Rest of Central and Eastern Europe	Rest of Europe	Rest of world	Total
External Sales	12,805,667,201	1,644,698,495	2,195,711,631	104,649,130	16,750,726,457

10. OTHER INFORMATION (continued)

10.10 Commitments and guarantees

Commitments

As at December 31, 2008 the total commitments engaged by the Company for investments amount to RON 2,565,799,136.

10.11. Contingencies

Litigations

The Company is and may become party in some lawsuits in front of different courts and governmental agencies, involving contractual aspects, tax and duties and other aspects. As presented in Note 2 the Company booked a provision for certain potential liabilities related on-going litigation.

Tax system

In Romania there are a number of agencies that are authorized to conduct audits (controls) of Romanian companies as well as of foreign companies doing business in Romania. These controls are similar in nature to tax audits performed by tax authorities in many countries, but may extend not only to tax matters but to other legal and regulatory matters in which the applicable agency may be interested. In addition, the agencies conducting these controls appears to be subject to significantly less regulation and the company under review appears to have significantly less safeguard than is customary in many countries. It is likely that the Company will continue to be subject to controls from time to time for violations and alleged violations of existing and new laws and regulations. Although, the Company can contest the allegations of violations and resulting penalties when management believe there is cause to do so, the adoption or implementation of laws or regulations in Romania could have a material effect on the Company.

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 portions 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.

10. OTHER INFORMATION (continued)

10.12. Audit fees

The fee for the audit of the financial statements for the year ended December 31, 2008 prepared in accordance with OMF 1752/2005 was of EUR 45,000.

10.13. Market risk

The financial assets, which could lead the Company to an exposure credit risk, mainly consist of receivables (customers and assimilated receivables). Given the big number of Company's customers, the credit risk is quite limited.

10.14. Foreign exchange and inflation risk

The Company undertakes transactions denominated in other currencies, including US Dollars and EUR. The official inflation rate in Romania, during the year ended December 31 2008 was under 10% (respectively 7.85%) as provided by the National Commission for Statistics of Romania. The cumulative inflation rate for the last 3 years was under 100%. This factor, among others, led to the conclusion that Romania is not a hyperinflationary economy starting with January 1, 2004. The official exchange rates were RON 2.8054 to USD 1 and RON 3.9860 to EUR 1 (31 December 2007: RON 2.4564 to USD 1 and RON 3.6102 to USD 1).

10.15. Commodity price risk management

The Company produces crude oil & gas and uses crude oil mainly for its own production and 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 2008, in order to protect the Company'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 Company 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 517,640,614.

10.16. Credit risk

In the normal course of its business, the Company incurs credit risk from trade debtors and on funds deposited at the financial institutions. Management closely monitors its exposure to credit risk on a regular basis.

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

10.17. 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 Company contracted a loan facility amounting EUR 500 million from OMV Aktiengesellschaft.