**Rompetrol Rafinare S.A.**

# Consolidated financial statements

Prepared in accordance with International Financial Reporting Standards as endorsed by the European Union (EU)

**31 December 2009**

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# REPORT OF INDEPENDENT AUDITORS

*To the shareholders of Rompetrol Rafinare S.A.*

## Report on the Financial Statements

1 We have audited the accompanying consolidated financial statements of Rompetrol Rafinare S.A. and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2009 and the consolidated income statement and the consolidated statement of changes in equity and the 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 Financial Statements

2 Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by European Union. 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.

## Auditors' 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 auditors' 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 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 entity'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 consolidated financial statements of the Group present fairly, in all material respects, the financial position of the Group as of 31 December 2009 and of its financial performance for the year then ended and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by European Union.

**Report on conformity of the Administrators' Report with the financial statements**

In accordance with the Order of the Minister of Public Finance no 1752/2005, article no. 263 point 2) we have read the Administrators' Report. The Administrators' Report is not a part of the consolidated financial statements. In the Administrators' Report we have not identified any financial information which is not in accordance, in all material respects, with the information presented in the accompanying financial statements as at 31 December 2009.

**Ernst & Young Assurance Services SRL**
Registered with the Chamber of Financial Auditors in Romania
Nr. 77/15 August 2001

Name of signing person: Andreas Hadjidamianou

Registered with the Chamber of Financial Auditors in Romania

3357/11.01.2010

Camera Auditorilor Financiari din România
Hadjidamianou
Andreas
Nr.3357

Bucharest, Romania
14 April 2010

## Rompetrol Rafinare S.A.
## Consolidated Statement of Financial Position
## as at December 31, 2009

*(All amounts in US dollars and RON as presentation currency)*

| | Notes | December 31, 2009 USD | December 31, 2008 USD | December 31, 2009 RON | December 31, 2008 RON |
|---|---|---|---|---|---|
| Intangible assets | 3 | 44,958,147 | 33,734,286 | 132,001,616 | 99,047,237 |
| Goodwill | 4 | 100,355,787 | 100,355,787 | 294,654,626 | 294,654,626 |
| Property, plant and equipment | 5 | 939,880,630 | 870,343,218 | 2,759,583,506 | 2,555,414,709 |
| Available for sale investments | 6 | 945,568 | 315,592 | 2,776,283 | 926,607 |
| Long-term receivable | | 1,206,010 | 1,407,644 | 3,540,966 | 4,132,984 |
| Deferred tax asset | 14 | 223,444 | 223,444 | 656,054 | 656,054 |
| **Total non current assets** | | **1,087,569,586** | **1,006,379,971** | **3,193,213,051** | **2,954,832,217** |
| Inventories, net | 7 | 290,325,030 | 213,291,606 | 852,423,321 | 626,245,484 |
| Receivables and prepayments, net | 8 | 314,185,381 | 365,428,620 | 922,479,697 | 1,072,934,971 |
| Cash and cash equivalents | 9 | 45,565,498 | 66,965,594 | 133,784,859 | 196,617,681 |
| **Total current assets** | | **650,075,909** | **645,685,820** | **1,908,687,877** | **1,895,798,136** |
| **TOTAL ASSETS** | | **1,737,645,495** | **1,652,065,791** | **5,101,900,928** | **4,850,630,353** |
| Share capital | 10 | 735,554,456 | 735,554,456 | 2,159,661,438 | 2,159,661,438 |
| Revaluation reserve | | 153,630,525 | 153,630,525 | 451,074,585 | 451,074,585 |
| Other reserves | | 175,929,529 | 175,929,529 | 516,546,690 | 516,546,690 |
| Accumulated losses | | (746,550,544) | (489,318,297) | (2,191,947,052) | (1,436,687,452) |
| Current year result | | (174,281,605) | (257,232,247) | (511,708,220) | (755,259,600) |
| **Equity attributable to equity holders of the parent** | | **144,282,361** | **318,563,966** | **423,627,441** | **935,335,661** |
| Minority interest | | 17,021,847 | 16,373,178 | 49,977,845 | 48,073,288 |
| **Total equity** | | **161,304,208** | **334,937,144** | **473,605,286** | **983,408,949** |
| Long-term borrowings from banks | 12 | 5,208,938 | 24,176,183 | 15,293,963 | 70,983,691 |
| Hybrid instrument - long-term portion | 11 | - | 32,056,464 | - | 94,120,984 |
| Net obligations under finance leases | 13 | 11,176,218 | 15,194,068 | 32,814,494 | 44,611,303 |
| Deferred tax liabilities | 14 | 849,394 | 960,285 | 2,493,907 | 2,819,493 |
| Provisions | 17 | 11,849,492 | 12,286,923 | 34,791,293 | 36,075,635 |
| Other non-current liabilities | | 7,571,427 | 9,569,199 | 22,230,467 | 28,096,125 |
| **Total non-current liabilities** | | **36,655,469** | **94,243,122** | **107,624,124** | **276,707,231** |
| Trade and other payables | 15 | 530,207,451 | 728,732,342 | 1,556,742,085 | 2,139,631,012 |
| Net obligations under finance leases | 13 | 8,194,110 | 6,413,048 | 24,058,726 | 18,829,350 |
| Short-term borrowings from shareholders | 16 | 949,162,815 | 63,903,805 | 2,786,836,941 | 187,627,962 |
| Short-term borrowings from banks | 16 | 29,519,878 | 396,866,731 | 86,673,314 | 1,165,240,409 |
| Hybrid instrument - current portion | 11 | 22,601,564 | 26,969,599 | 66,360,452 | 79,185,440 |
| **Total current liabilities** | | **1,539,685,818** | **1,222,885,525** | **4,520,671,518** | **3,590,514,173** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **1,737,645,495** | **1,652,065,791** | **5,101,900,928** | **4,850,630,353** |

The consolidated financial statements on pages 3 to 76 were approved by the Board of Administrators and submitted for approval by the General Assembly of shareholders on April 30, 2010 by:

**ALEXANDRU NICOLCIOIU**
**PRESIDENT of the BOARD of DIRECTORS**

ROMPETROL RAFINARE S.A.

**COSMIN TURCU**
**CHIEF EXECUTIVE OFFICER**

**GIANI KACIC**
**CHIEF FINANCIAL OFFICER**

# ROMPETROL RAFINARE S.A.
## Consolidated Statement of Income
## For the year ended December 31, 2009
*(All amounts in US dollars and RON as presentation currency)*

| | Notes | 2009 USD | 2008 USD | 2009 RON | 2008 RON |
|---|---|---|---|---|---|
| **Continuing operations** | | | | | |
| Revenues | 18 | 2,480,440,002 | 3,934,614,309 | 7,282,819,890 | 11,552,421,073 |
| Cost of sales | 19 | (2,283,545,985) | (3,695,621,107) | (6,704,719,367) | (10,850,713,132) |
| **Gross profit** | | 196,894,017 | 238,993,202 | 578,100,523 | 701,707,941 |
| Selling, general and administrative expenses, including logistic costs | 20 | (298,070,317) | (291,301,443) | (875,164,258) | (855,290,167) |
| Other operating income/(expenses), net | 21 | 4,057,936 | (52,210,425) | 11,914,506 | (153,295,029) |
| **Operating profit/(loss)** | | (97,118,364) | (104,518,666) | (285,149,229) | (306,877,255) |
| Financial expenses, net | 22 | (84,228,263) | (131,060,207) | (247,302,602) | (384,805,874) |
| Net foreign exchange gains / (losses) | 22 | 7,982,062 | (17,624,985) | 23,436,132 | (51,748,718) |
| **Profit / (Loss) before income tax** | | (173,364,565) | (253,203,858) | (509,015,699) | (743,431,847) |
| Income tax credit / (expense) | 23 | (356,434) | (1,763,236) | (1,046,526) | (5,177,037) |
| **Net Profit / (Loss) for the year** | | (173,720,999) | (254,967,094) | (510,062,225) | (748,608,884) |
| *Attributable to:* | | | | | |
| Equity holders of the parent | | (174,281,605) | (257,232,247) | (511,708,220) | (755,259,600) |
| Minority interests | | 560,606 | 2,265,153 | 1,645,995 | 6,650,716 |
| **Losses per share** *(US cents/share)* | | | | | |
| Basic | 26 | (0.826) | (1.219) | (2.425) | (3.579) |

The consolidated financial statements on pages 3 to 76 were approved by the Board of Administrators and submitted for approval by the General Assembly of shareholders on April 30, 2010 by:

**ALEXANDRU NICOLCIOIU**
**PRESIDENT of the BOARD of DIRECTORS**

**COSMIN TURCU**
**CHIEF EXECUTIVE OFFICER**

**GIANI KACIC**
**CHIEF FINANCIAL OFFICER**

ROMPETROL RAFINARE S.A.

# ROMPETROL RAFINARE S.A.
## Consolidated Statement of Comprehensive Income
## For the year ended December 31, 2009
*(All amounts in US dollars and RON as presentation currency)*

| | 2009 USD | 2008 USD | 2009 RON | 2008 RON |
|---|---|---|---|---|
| **Net Loss** | **(173,720,999)** | **(254,967,094)** | **(510,062,225)** | **(748,608,884)** |
| **Other comprehensive income** | | | | |
| Revaluation of non current assets - net of tax | - | - | - | - |
| Exchange differences on translation of foreign operations | - | - | - | - |
| Net (loss)/gain on available for sale financial assets - net of tax | - | - | - | - |
| Net gain on hedge of net investment - net of tax | - | - | - | - |
| **Other comprehensive income for the year, net of tax** | - | - | - | - |
| **Total comprehensive income for the year, net of tax** | **(173,720,999)** | **(254,967,094)** | **(510,062,225)** | **(748,608,884)** |
| *Attributable to:* | | | | |
| Equity holders of the parent | (174,281,605) | (257,232,247) | (511,708,220) | (755,259,600) |
| Minority interests | 560,606 | 2,265,153 | 1,645,995 | 6,650,716 |
| **Total comprehensive income for the year, net of tax** | **(173,720,999)** | **(254,967,094)** | **(510,062,225)** | **(748,608,884)** |

## ROMPETROL RAFINARE S.A.
## Consolidated Statement of Cash Flows
## For the year ended December 31, 2009
*(All amounts in US dollars and RON as presentation currency)*

| | Notes | 2009 USD | 2008 USD | 2009 RON | 2008 RON |
|---|---|---|---|---|---|
| **Net result before income tax** | | **(173,364,565)** | **(253,203,858)** | **(509,015,699)** | **(743,431,847)** |
| *Adjustments for:* | | | | | |
| Depreciation and amortization | 19,20 | 104,086,804 | 87,739,321 | 305,609,266 | 257,611,421 |
| Provisions for receivables and inventories | 21 | (7,300,688) | 49,642,671 | (21,435,550) | 145,755,846 |
| Impairment & provisions for property, plant and equipment | 21 | 3,566,098 | 7,274,258 | 10,470,420 | 21,357,949 |
| Provision for environmental liabilities | | (118,630) | (4,398,812) | (348,310) | (12,915,352) |
| Provision for retirement benefit | | (318,801) | (1,277,075) | (936,032) | (3,749,620) |
| Late payment interest | | 11,715,645 | 23,853,109 | 34,398,305 | 70,035,113 |
| Unwinding of discount on hybrid instrument | | (15,546,188) | 34,174,516 | (45,645,163) | 100,339,796 |
| Interest expense and bank charges, net | | 59,165,825 | 61,060,781 | 173,716,780 | 179,280,560 |
| Net result from sale of Group investments | | - | (5,346,277) | - | (15,697,204) |
| (Gain)/Loss on sale or disposal of property, plant and equipment | | (364,666) | 18,469 | (1,070,696) | 54,227 |
| Unrealized foreign exchange (gain)/loss on hybrid instrument and other monetary items | | 1,913,269 | (7,456,227) | 5,617,549 | (21,892,228) |
| **Cash used in operations before working capital changes** | | **(16,565,897)** | **(7,919,124)** | **(48,639,130)** | **(23,251,339)** |
| *Net working capital changes in:* | | | | | |
| Receivables and prepayments | | 38,180,231 | 237,267,745 | 112,100,978 | 696,641,826 |
| Inventories | | (57,004,041) | 75,929,524 | (167,369,565) | 222,936,675 |
| Trade and other payables, excluding payables for capital expenditures | | (192,294,894) | (44,877,374) | (564,597,038) | (131,764,458) |
| **Change in working capital** | | **(211,118,704)** | **268,319,895** | **(619,865,625)** | **787,814,043** |
| **Income tax paid** | | **(442,857)** | **(121,818)** | **(1,300,272)** | **(357,670)** |
| **Net cash provided by/(used in) operating activities** | | **(228,127,458)** | **260,278,953** | **(669,805,027)** | **764,205,034** |
| **Cash flows from investing activities** | | | | | |
| Purchase of property, plant and equipment | | (161,555,901) | (201,604,797) | (474,344,283) | (591,931,840) |
| Changes in payables for capital expenditures | | (17,882,047) | 17,553,067 | (52,503,478) | 51,537,560 |
| Purchase of intangible assets | | (20,193,671) | (31,404,292) | (59,290,638) | (92,206,141) |
| Proceeds from sale of property, plant and equipment and investments | | 617,435 | 8,351,695 | 1,812,851 | 24,521,412 |
| Loans granted / repaid | | - | (642,828) | - | (1,887,407) |
| **Net cash used in investing activities** | | **(199,014,184)** | **(207,747,155)** | **(584,325,548)** | **(609,966,416)** |
| **Cash flows from financing activities** | | | | | |
| Dividends paid to minority shareholders | | - | - | - | - |
| Coupon paid on hybrid instrument | 11 | (22,885,609) | (59,622,872) | (67,194,437) | (175,058,714) |
| Loans received from shareholders | | 885,259,010 | 63,903,805 | 2,599,208,979 | 187,627,962 |
| Loans (repaid to)/ drawn from banks, net | | (395,229,242) | 50,681,922 | (1,160,432,577) | 148,807,191 |
| Lease repayments | | (2,236,788) | (147,657) | (6,567,433) | (433,536) |
| Interest and bank charges paid, net | | (59,165,825) | (61,060,781) | (173,716,779) | (179,280,565) |
| **Net cash from financing activities** | | **405,741,546** | **(6,245,583)** | **1,191,297,753** | **(18,337,662)** |
| **Increase / (Decrease) in cash and cash equivalents** | | **(21,400,096)** | **46,286,215** | **(62,832,822)** | **135,900,956** |

**ROMPETROL RAFINARE S.A.**
**Consolidated Statement of Cash Flows**
**For the year ended December 31, 2009**
*(All amounts in US dollars and RON as presentation currency)*

| | Notes | 2009 USD | 2008 USD | 2009 RON | 2008 RON |
|---|---|---|---|---|---|
| **Cash and cash equivalents at the beginning of period** | | 66,965,594 | 20,679,379 | 196,617,681 | 60,716,725 |
| **Cash and cash equivalents at the end of the period** | | 45,565,498 | 66,965,594 | 133,784,859 | 196,617,681 |

The consolidated financial statements on pages 3 to 76 were approved by the Board of Administrators and submitted for approval by the General Assembly of shareholders on April 30, 2010 by:

**ALEXANDRU NICOLCIOIU**
**PRESIDENT of the BOARD of DIRECTORS**

**COSMIN TURCU**
**CHIEF EXECUTIVE OFFICER**

**GIANI KACIC**
**CHIEF FINANCIAL OFFICER**

ROMPETROL RAFINARE S.A.

**ROMPETROL RAFINARE S.A.**
**Consolidated Statements of Changes in Shareholders' Equity**
**for the year ended December 31, 2009**
*(All amounts in US dollars and RON as presentation currency)*

## Amount in USD

| | Share capital | Accumulated Losses | Revaluation reserves | Other reserves* | Equity attributable to equity holders of the parent | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|
| **December 31, 2007** | 735,554,456 | (489,318,297) | 153,630,525 | 175,929,529 | 575,796,213 | 14,757,726 | 590,553,939 |
| Net loss for 2008 | - | (257,232,247) | - | - | (257,232,247) | 2,265,153 | (254,967,094) |
| **Total comprehensive income** | - | (257,232,247) | - | - | (257,232,247) | 2,265,153 | (254,967,094) |
| Changes in Group structure | - | - | - | - | - | (649,701) | (649,701) |
| **December 31, 2008** | 735,554,456 | (746,550,544) | 153,630,525 | 175,929,529 | 318,563,966 | 16,373,178 | 334,937,144 |
| Net loss for 2009 | - | (174,281,605) | - | - | (174,281,605) | 560,606 | (173,720,999) |
| **Total comprehensive income** | - | (174,281,605) | - | - | (174,281,605) | 560,606 | (173,720,999) |
| Dividends paid to minority shareholders | - | - | - | - | - | - | - |
| Changes in Group structure | - | - | - | - | - | 88,063 | 88,063 |
| **December 31, 2009** | 735,554,456 | (920,832,149) | 153,630,525 | 175,929,529 | 144,282,361 | 17,021,847 | 161,304,208 |

*) Other reserves refer to accounting treatment of the hybrid instrument (see also Note 11)

*(All amounts in US dollars and RON as presentation currency)*

## Amounts in RON

| | Share capital | Accumulated losses | Revaluation reserves | Other reserves* | Equity attributable to equity holders of the parent | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|
| **December 31, 2007** | **2,159,661,438** | **(1,436,687,452)** | **451,074,585** | **516,546,690** | **1,690,595,261** | **43,330,160** | **1,733,925,421** |
| Net loss for 2007 | - | (755,259,600) | - | - | **(755,259,600)** | 6,650,715 | **(748,608,885)** |
| **Total comprehensive income** | **-** | **(755,259,600)** | **-** | **-** | **(755,259,600)** | **6,650,715** | **(748,608,885)** |
| Changes in Group structure | - | - | - | - | - | (1,907,587) | **(1,907,587)** |
| **December 31, 2008** | **2,159,661,438** | **(2,191,947,052)** | **451,074,585** | **516,546,690** | **935,335,661** | **48,073,288** | **983,408,949** |
| Net loss for 2008 | - | (511,708,220) | - | - | **(511,708,220)** | 1,645,995 | **(510,062,225)** |
| **Total comprehensive income** | **-** | **(511,708,220)** | **-** | **-** | **(511,708,220)** | **1,645,995** | **(510,062,225)** |
| Changes in Group structure | - | - | - | - | - | 258,562 | **258,562** |
| **December 31, 2009** | **2,159,661,438** | **(2,703,655,272)** | **451,074,585** | **516,546,690** | **423,627,441** | **49,977,845** | **473,605,286** |

*) Other reserves refer to accounting treatment of the hybrid instrument (see also Note 11)

## 1. GENERAL

Rompetrol Rafinare S.A. (hereinafter referred to as "the Parent Company") is a company incorporated under Romanian law. The Parent Company operates Petromidia – the highest capacity (at 4.8 million tons/annum nameplate capacity) and the only seaside Romanian refinery, which processes exclusively imported crude oil and produces E.U. standard motor fuels, other petroleum products and certain petrochemicals. Petromidia refinery was designed and built during 1975-1977 and was further modernized in the early 1990's.

Rompetrol Rafinare S.A and its subsidiaries (hereinafter referred to as "the Group") are involved in refining, petrochemicals, downstream, transportation and have all the production facilities located in Romania (see also Note 24). The number of employees of the Group at the end of 2009 and 2008 was 5,474 and 5,519 respectively.

The registered address of Rompetrol Rafinare S.A. is DJ 226, km 23, Constanta, Romania. The ultimate parent of the Group is the "State holding enterprise on assets management (Samruk)" JSC, an entity with its headquarters in Kazakhstan.

The Parent Company is a joint stock company listed on the Bucharest Stock Exchange.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a) Basis of preparation and statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") effective as of December 31, 2009, as endorsed by the EU.

The consolidated financial statements are prepared under the historical cost convention. An exception is for Rompetrol Rafinare S.A and Rompetrol Petrochemicals S.R.L where property, plant and equipment are stated at revalued amounts being the fair value as at December 31, 2003 and December 31, 2005 respectively less any accumulated depreciation and accumulated impairment loss, with acquisitions subsequent to the indicated revaluation dates being at acquisition date historic cost (see Note 5 for further comments).

### b) Going concern

The financial statements of the Group are prepared on a going concern basis. As at December 31, 2009 and 2008 the Group reported net assets/(net liabilities), including minority interest, of USD 161 million and USD 335 million, respectively. For the years ended December 31, 2009 and 2008 the Group reported losses of USD 174 million and USD 255 million respectively. The accumulated losses incurred are from the Group undertaking over recent years a programme of development of its refinery and petrochemicals activities and of an expansion of its operational network in Romania. As a result of investments undertaken the Group has achieved EURO 5 standard for 57% gasoline production (2008: 35%); for diesel production EURO 5 standard was 95% for 2009 and 2008; finalized and put into operation during 2009 a marine terminal on the Black Sea coast that provides greater operation and logistic capabilities for the Group, as well as significant transportation cost savings; completed the launch of new petrochemical products and improved petrochemical operations efficiency; and increased market share in Romania.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

At its Petromidia refinery the Group is continuing with the "2010 project" to enable:

- An increase in crude oil processing capacity to 5 million tonnes.
- The ability to produce 10ppm products only from URAL crude oil, instead of the diet consisting of 2 or 3 slides. Currently, the refinery processes a mix between sour URAL crude oil and sweet crude. Sweet crude is priced at Brent DTD, which is more expensive than URAL RCMB quotation and therefore ability to produce only from URAL crude is expected to improve the net refinery margins.
- The ability to achieve a better mix of diesel and gasoline production. Industry experts expect that there will be a growing demand for diesel and improved margins in diesel production will have a direct benefit to the results of the Group.

The "2010 project" is expected to be completed by the end of 2011 and it is planned for commercial production from the improved facilities to commence from January 1, 2012.

For its Petrochemicals operations the Group has undertaken capital investment to increase the production in High Density Poly Ethylene (HDPE) plant from 60,000 tonnes to 100,000 tonnes by 2011. This will result in better margins for the Group. The Group has also undertaken a number of initiatives to further integrate the operations at its Refining Business Unit (includes Refining and Petrochemicals) to enable significant cost reductions for both production and for administrative costs to increase the profitability of operations.

The Group has during 2009 put into operation the Midia Marine Terminal on the Black Sea coast that provides greater operational and logistic capabilities, and significant transportation cost savings, as well as improved control by the Group over operational decisions relating to crude oil imports and product exports.

Also, the Group is in a net current liability position as the current liabilities exceed current assets by USD 890 million. However, the management has taken steps and is considering further actions to improve its liquidity position. As of 31 December 2009 the bank loans have been replaced with the Group loans and in future there are various considerations including potential conversion of the loans from the shareholders to share capital of Rompetrol Rafinare S.A.

The management of the Group has prepared a detailed five year business plan (up to December 2014), indicating that in all Cash Generating Units the business will start generating after tax profits and positive cash flows in the near future (after the Group begins to operate at full capacity following completion of all current projects). Management believes that the budgeted profits and cash flows are achievable, after completion of its development projects, at which point it is considered that the Group will have the most modern and efficient refining and petrochemical operations in Romania and will have enhanced integration of refining, production, and retail operations.

In 2009 tight cost control measures and decrease in financing costs due to a reduction in EURIBOR rate and also due to reduction in logistics costs as a result of investments (including the Midia Marine Terminal) and from the much less volatile oil market, have resulted in a reduced loss for the Group compared with last year. For 2008 results were affected by the most volatile crude oil and consequently petroleum products market in the last 30 years, with crude oil hitting USD 145/bbl in July 2008 and decreasing to USD 36/bbl at 31 December 2008, which resulted in one-off inventory holding losses of more than USD 120 million in 2008. During 2009 crude oil had a high of USD 78.86/bbl in November 2009 and a low of USD 39.67/bbl in February 2009. At 31 December 2009 crude oil was USD 77.67/bbl.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For 2010 management believes that the following will enable it to further improve its results: the completion of the "2010 project"; the development of its retail/wholesale network in Romania; capital expenditure rationalisation; optimization of its capital structure and operational structure.

For 2010 onward management considers that should the need arise for additional funding to what is available from third party sources, that KMG Group (the ultimate parent) will support such funding needs.

### c) Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as noted below.

In 2009, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2009.

- IFRS 1 First-*time Adoption of International Financial Reporting Standards* and IAS 27, *Consolidated and Separate Financial Statements* (Amended)
- IFRS 2 *Share-based Payment: Vesting Conditions and Cancellations* effective January 1, 2009
- IFRS 7 *Financial Instruments: Disclosures* effective January 1, 2009
- IFRS 8 *Operating Segments* effective January 1, 2009
- IAS 1 *Presentation of Financial Statements* effective January 1, 2009
- IAS 23 *Borrowing Costs* (Revised) effective January 1, 2009
- IAS 32 *Financial Instruments: Presentation* and IAS 1 *Puttable Financial Instruments and Obligations Arising on Liquidation* effective January 1, 2009
- IFRIC 9 *Remeasurement of Embedded Derivatives* (Amended) and IAS 39 *Financial Instruments: Recognition and Measurement* (Amended) effective for periods ending on or after June 30, 2009
- IFRIC 13 *Customer Loyalty Program* effective July 1, 2008
- IFRIC 15 *Agreements for the Construction of Real Estate* effective January 1, 2009
- IFRIC 16 *Hedges of a Net Investment in a Foreign* Operation effective October 1, 2008
- IFRIC 18 *Transfers of Assets from Customers effective* July 1, 2009 (early adopted)
- Improvements to IFRSs (May 2008)

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

**IFRS 2** *Share-based Payment (Revised)*
The IASB issued an amendment to IFRS 2 which clarifies the definition of vesting conditions and prescribes the treatment for an award that is cancelled. The Group adopted this amendment as of January 1, 2009. It did not have an impact on the financial position or performance of the Group.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The Group adopted this amendment as of January 1, 2009. It did not have an impact on the financial position or performance of the Group.

**IFRS 1** *First-time Adoption of International Financial Reporting Standards* and **IAS 27** *Consolidated and Separate Financial Statements (Amended)*

The issued amendments are effective for annual periods beginning on or after January 1, 2009. The amendments to IFRS 1 allows an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognized in the income statement in the separate financial statement. The amendment to IAS 27 will have to be applied prospectively. The new requirements affect only the parent's separate financial statement and do not have an impact on the consolidated financial statements. The Group expects that this amendment will have impact on the separate financial statements of the Parent and the management of the Group is currently assessing the impact on the separate financial statements of the Parent. Another amendment was issued in 2009 and is effective for annual periods beginning on or after January 1, 2010. The amendment provides for additional exemptions for first-time adopters and is not relevant to the Group.

***IFRS 7*** *Financial Instruments: Disclosures*

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management.

***IFRS 8*** *Operating Segments*

IFRS 8 replaced IAS 14 *Segment Reporting* upon its effective date. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in Note 24, including the related comparative information.

***IAS 1*** *Presentation of Financial Statements*

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**IAS 23 Borrowing Costs (Revised)**

The benchmark treatment in the existing standard of expensing all borrowing costs to the income statement is eliminated in the case of qualifying assets. All borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset must be capitalized. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. All borrowing costs that are directly attributable to the acquisition or construction were capitalized on qualifying assets with a commencement date on or after January 1, 2009. During the 12 months to December 31, 2009, USD 6.9 million of borrowing costs has been capitalized on qualifying assets.

***IAS 32*** *Financial Instruments: Presentation* and ***IAS 1*** *Puttable Financial Instruments and Obligations Arising on Liquidation*

The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfill a number of specified criteria. The adoption of these amendments did not have any impact on the financial position or the performance of the Group.

***IFRIC 9*** *Reassessment of Embedded Derivatives* and **IAS 39** *Financial Instruments: Recognition and Measurement*

Effective for annual periods beginning on or after June 30, 2009, this amendment to IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group.

***IFRIC 13*** *Customer Loyalty Program*

IFRIC 13 requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognized as revenue over the period that the award credits are redeemed. The Group does not maintain a loyalty program and hence this change does not have an impact on the financial position or performance of the Group.

***IFRIC 15*** *Agreements for the Construction of Real Estate*

This Interpretation provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of IAS 11 'Construction Contracts' or IAS 18 'Revenue' and, accordingly, when revenue from such construction should be recognized. IFRIC 15 is not relevant to the Group's operations as all revenue transactions are accounted for under IAS 18 and not IAS 11.

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***IFRIC 16** Hedges of a Net Investment in a Foreign Operation*

The Interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.

***IFRIC 18** Transfers of Assets from Customers*

This interpretation provides guidance on how to account for items of property, plant and equipment received from customers or cash that is received and used to acquire or construct specific assets. It is only applicable to such assets that are used to connect the customer to a network or to provide ongoing access to a supply of goods or services or both. This does not have any impact on the Group's financial position/performance.

***Improvements to IFRSs***

In May 2008 the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the group.

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations:* clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations. Since the Group does not have any non-current assets held for sale, therefore, this does not have an impact on the Group disclosures.
- IFRS 7 Financial Instruments: Disclosures: This amendment removes the reference to 'total interest income' as a component of finance costs.
- IAS 1 *Presentation of Financial Statements:* Assets and liabilities classified as held for trading in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* are not automatically classified as current in the statement of financial position. The Group analyzed whether the expected period of realization of financial assets and liabilities differed from the classification of the instrument. This did not result in any reclassification of financial instruments between current and non-current in the statement of financial position.
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: This amendment clarifies that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.
- IAS 10 Events after the Reporting Period: This amendment clarifies that dividends declared after the end of the reporting period are not obligations.
- *IAS 16 Property, Plant and Equipment:* Replaces the term "net selling price" with "fair value less costs to sell". The Group amended its accounting policy accordingly, which did not result in any change in the financial position or performance.
- IAS 18 *Revenue:* The Board has added guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:
  - Has primary responsibility for providing the goods or service
  - Has inventory risk
  - Has discretion in establishing prices
  - Bears the credit risk

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as principal in all arrangements. The revenue recognition accounting policy has been updated accordingly.

- IAS 19 *Employee Benefits* : This amendment revises the definitions of 'past service costs', 'return on plan assets' and 'short-term' and 'other long term' employee benefits to focus on the point in time at which the liability is due to be settled.
- IAS 20 *Accounting for Government Grants and Disclosures of Government Assistance:* Loans granted with no or low interest will not be exempt from the requirement to impute interest. Interest is to be imputed on loans granted with below-market interest rates. This amendment did not impact the Group as the government assistance received is not loans but direct grants.
- *IAS 23 Borrowing Costs:* The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one - the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39.
- IAS 27 *Consolidated and Separate Financial Statements:* When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.
- IAS 28 *Investment in Associates:* This interpretation clarifies that (i) if an associate is accounted for at fair value in accordance with IAS 39 only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies and (ii) an investment in an associate is a single asset for the purpose of conducting the impairment test – including any reversal of impairment. Therefore, any impairment is not separately allocated to the goodwill included in the investment balance and any impairment is reversed if the recoverable amount of the associate increases.
- IAS 29 *Financial Reporting in Hyperinflationary Economies*: This amendment revises the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list.
- IAS 31 *Interest in Joint ventures*: This amendment clarifies that if a joint venture is accounted for at fair value, in accordance with IAS 39 only the requirements of IAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expenses will apply.
- IAS 34 *Interim Financial Reporting*: This amendment clarifies that earnings per share is disclosed in interim financial reports if an entity is within the scope of IAS 33.
- *IAS 36 Impairment of Assets:* When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'. To conclude after having FVLCS computation.

  The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.
- IAS 38 *Intangible Assets:* Expenditure on advertising and promotional activities is recognized as an expense when the Group either has the right to access the goods or has received the service. This amendment has no impact on the Group because it does not enter into such promotional activities.

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- IAS 39 *Financial instruments recognition and measurement*:
  - Clarifies that changes in circumstances relating to derivatives – specifically derivatives designated or de-designated as hedging instruments after initial recognition – are not reclassifications. Thus, a derivative may be either removed from, or included in, the 'fair value through profit or loss' classification after initial recognition. Similarly, when financial assets are reclassified as a result of an insurance company changing its accounting policy in accordance with paragraph 45 of IFRS 4 Insurance Contracts, this is a change in circumstance, not a reclassification.
  - Requires use of the revised effective interest rate (rather than the original effective interest rate) when remeasuring a debt instrument on the cessation of fair value hedge accounting.
- IAS 40 *Investment property*: Revises the scope (and the scope of IAS 16) such that property that is being constructed or developed for future use as an investment property is classified as investment property. If an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Clarifies that the carrying amount of investment property held under lease is the valuation obtained increased by any recognized liability.
- IAS 41 *Agriculture*:
  - Replaces the term 'point-of-sale costs' with 'costs to sell'.
  - Removes the reference to the use of a pre-tax discount rate to determine fair value, thereby allowing use of either a pre-tax or post-tax discount rate depending on the valuation methodology used.
  - Removes the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Rather, cash flows that are expected to be generated in the 'most relevant market' are taken into account.

### d) Foreign currency translation

The group currency translations are consistent with those of the previous financial year ("US Dollar" or "USD"), which is the parent company's functional currency. That is the currency of the primary economic environment in which the Group operates.

Transactions and balances not already measured in USD, and that are primarily measured in RON or other currencies, have been re-measured in USD as follows:

<u>Monetary assets and liabilities</u>

Cash and cash equivalents, receivables, payables and short-term loans have been translated into USD at the year-end USD/RON exchange rate. Gain or loss on translation of these assets and liabilities denominated in RON is recorded in the income statement.

<u>Non-monetary assets and liabilities</u>

Non-monetary assets and liabilities are translated from their historical cost or valuation by applying the exchange rate USD/RON from the date of acquisition, valuation or contribution to the balance sheet.

<u>Consolidated statements of income</u>

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidated statements of income items have been translated applying the exchange rate USD/RON from the month when the items were initially recorded to the consolidated income statement.

Exchange gains and losses arising on the re-measurement that are not denominated in USD are credited/ charged to the consolidated Income Statement for the year.

Within Romania, the official exchange rates are determined by the National Bank of Romania ("Central Bank" or "National Bank") and are considered to be a reasonable approximation of market exchange rates.

The translation of RON denominated assets and liabilities into USD for the purpose of these consolidated financial statements do not indicate that the Group could realize or settle in US dollars the reported values of these assets and liabilities. Likewise it does not indicate that the Group could retain or distribute the reported USD values of equity to its shareholders.

Amounts in RON were included only for presentation purposes, obtained by multiplying the values in USD with the closing exchange rate of 2.9361 RON for 1 USD for year 2009 and 2008.

### e) Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. However, uncertainty about these assumptions and estimates could result in outcomes that require an adjustment to the carrying amount of the assets or liabilities affected in the future periods.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The matters presented below are considered to be the most important in understanding the judgments that are involved in preparing these statements and the uncertainties that could impact the amounts reported in the results of operations, financial position and cash flows.

- Impairment of Goodwill on acquisitions

The Group's impairment test for goodwill is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Impairment of assets

The carrying amounts for major property, plant and equipment are reviewed for possible impairment annually, while all assets are reviewed whenever events or changes in circumstances indicate that the carrying amounts for those assets may not be recovered. If assets are determined to be impaired, the carrying amounts of those assets are written down to their recoverable amount, which is higher of fair value less costs to sell, and value in use determined as the amount of estimated discounted future cash flows. Impairments, except those related to goodwill, are reversed as applicable to the extent that the events or circumstances that triggered the original impairment have changed. Estimates of future cash flows are based on management estimates of future commodity prices, market supply and demand and product margins. Other factors that can lead to changes in estimates include restructuring plans and variation in regulatory environments. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model, as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

- Provision for environmental liability

The Group is involved in refining and petrochemicals, wholesale and retail and other related services (logistics). Environmental damage caused by substances related to the activity of the Group may require the Group to incur restoration costs to comply with the regulations in the jurisdiction in which the Group operates, and to settle any legal or constructive obligation. Analysis and estimates are performed by the Group together with its technical and legal advisers, in order to determine the probability, timing and amount involved with probable required outflow of resources. Estimated restoration costs, for which disbursements are determined to be probable, are recognised as a provision in the Group's financial statements. When the final determination of such obligation amounts differs from the recognised provisions, the Group's income statement is impacted.

Further details on provision for environmental liability are provided in Note 17.

- Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Further details on deferred tax assets are provided in Notes 14 and 23.

- Retirement benefits costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state - managed retirement benefit schemes are dealt with as defined contribution plans where the Group's obligations under the scheme are equivalent to those arising in a defined contribution retirement benefit plan.

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

According to collective labour agreements in place in certain of the Group's entities, employees are entitled to certain retirement benefits, payable on retirement, if they are employed with these entities at the date of their retirement. These amounts are estimated as of the balance sheet date based on benefits provided in the agreement, employees with the company and actuarial assumptions on future liabilities. The actuarial valuation method involves various assumptions. These include determination of discount rates, future salary increases, mortality rates and future pension increases. Due to complexity of computation and the long term nature of these benefits a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The present value of this obligation and the related current and past service costs were measured using the Projected Unit Credit Method.

Further details on retirement benefits costs are provided in Note 17.

- Carrying value of trade receivables

The Group assesses at each year end the requirement for an allowance for impairment in trade and other receivables. The management uses its judgement, based on the nature and extent of overdue debtors and historical experience, in order to estimate the amount of such an allowance.

- Carrying value of inventories

The Group considers on a regular basis the carrying value of inventories in comparison to expected use of items, impact of damaged or obsolete items, technical losses and a comparison to estimated net realizable value compared to cost, based on latest available information and market conditions. As applicable a provision against the carrying value of inventories is made.

### f) Standards issued but not yet effective

The Group has not early adopted the following standards/interpretations:

- **IFRIC 17,** *Distributions of Non-cash Assets to Owners*, effective for annual periods beginning on or after 1 July 2009. IFRIC 17 clarifies the following issues, namely:
  - a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity;
  - an entity should measure the dividend payable at the fair value of the net assets to be distributed;
  - an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss; and
  - an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation.

  IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions. It is to be applied prospectively and earlier application is permitted. The Group does not expect this interpretation to impact its financial statements.

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- **IFRIC 19** *Extinguishing Financial Liabilities with Equity Instruments*
  The interpretation is effective for annual periods beginning on or after 1 July 2010. This interpretation addresses the accounting treatment when there is a renegotiation between the entity and the creditor regarding the terms of a financial liability and the creditor agrees to accept the entity's equity instruments to settle the financial liability fully or partially. IFRIC 19 clarifies such equity instruments are "consideration paid" in accordance with paragraph 41 of IAS 39. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability. This interpretation has not yet been endorsed by the EU. The Group does not expect that the amendment will have impact on the financial position or performance of the Group.

- **IFRIC 14** *Prepayments of a Minimum Funding Requirement* (Amended)
  The amendment is effective for annual periods beginning on or after 1 January 2011. The purpose of this amendment was to permit entities to recognise as an asset some voluntary prepayments for minimum funding contributions. This Earlier application permitted and must be applied retrospectively. This amendment has not yet been endorsed by the EU. The Group does not expect that the amendment will have impact on the financial position or performance of the Group.

- **IFRS 3** *Business Combinations* (Revised) and **IAS 27** *Consolidated and Separate Financial Statements* (Amended), effective for annual periods beginning on or after 1 July 2009 and must be applied prospectively and will affect future acquisitions and transactions with non-controlling interests. The revised IFRS 3 introduces a number of changes in the accounting for business combinations which will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. The amended IAS 27 requires that a change in ownership interest of a subsidiary is accounted for as an equity transaction. Furthermore the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Revised IFRS 3 and amendments to IAS 27 will be applied prospectively and will affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests.

- **IFRS 9** *Financial instruments: classification and measurement of financial assets*, effective for annual periods beginning on or after 1 January 2013. Early application is permitted for annual periods beginning on or after 1 January 2009. IFRS 9 brings multiple and significant changes to the classification and reclassification rules for all financial assets and their measurement, and is the phase I of the comprehensive project to replace IAS 39. This standard has not yet been endorsed by EU and the Group is assessing impact this might have on the Group financial position as well as performance.

- **IAS 39** *Financial instruments: Recognition and Measurement*, effective for annual periods beginning on or after 1 July 2009. Eligible Hedged Items the amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- **IFRS 2** *Group Cash-settled Share-based Payment Transactions* (Amended)
  The amendment is effective for annual periods beginning on or after 1 January 2010. This amendment clarifies the accounting for group cash-settled share-based payment transactions and how such transactions should be arranged in the individual financial statements of the subsidiary. This interpretation has not yet been endorsed by the EU. The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

- **IAS 32** *Classification on Rights Issues* (Amended)
  The amendment is effective for annual periods beginning on or after 1 February 2010. This amendment relates to the rights issues offered for a fixed amount of foreign currency which were treated as derivative liabilities by the existing standard. The amendment states that if certain criteria are met, these should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment is to be applied retrospectively The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

- **IAS 24** *Related Party Disclosures* (Revised)
  The revision is effective for annual periods beginning on or after 1 January 2011.This revision relates to the judgment which is required so as to assess whether a government and entities known to the reporting entity to be under the control of that government are considered a single customer. In assessing this, the reporting entity shall consider the extent of economic integration between those entities. Early application is permitted and adoption shall be applied retrospectively. This interpretation has not yet been endorsed by the EU. The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

- **IFRS 1** *Additional Exemptions for First-time Adopters* (Amended)
  The amendment is effective for annual periods beginning on or after 1 January 2010. This interpretation has not yet been endorsed by the EU. The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

In April 2009 the IASB issued its second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. These amendments are effective for periods beginning on or after 1 July 2009. The Group does not expect any of these amendments to have a significant impact on its financial statements.

- **IFRS 2** *Share-based Payment*, effective for annual periods beginning on or after 1 July 2009. Clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of IFRS 2 even though they are out of scope of IFRS 3 (revised). If an entity applies IFRS 3 (revised) for an earlier period, the amendment shall also be applied for that earlier period.

- **IFRS 5** *Non-current Assets Held for Sale and Discontinued Operations* (Amended), effective for annual periods beginning on or after 1 January 2010. Early application is permitted. Applies prospectively. The amendment clarifies that the disclosure requirements in other IFRSs do not apply to non-current assets (or disposal groups) classified as held for sale, unless specifically required by those IFRSs for non-current assets (or disposal groups) classified as held for sale, or if their measurement is not in the scope of IFRS 5 and the respective disclosures are not already included in the financial statements. Additional disclosures may be however necessary in order to meet the requirements of

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- **IFRS 8** *Operating Segment Information*, effective for annual periods beginning on or after 1 January 2010. Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

- **IAS 1** *Presentation of Financial Statements*, effective for annual periods beginning on or after 1 January 2010. The terms of a liability that could result, at any time, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

- **IAS 7** *Statement of Cash Flows*, effective for annual periods beginning on or after 1 January 2010. Explicitly states that only expenditure that results in recognizing an asset can be classified as a cash flow from investing activities. This amendment will impact the presentation in the statement of cash flows of the contingent consideration on the business combination completed in 2009 upon cash settlement.

- **IAS 17** *Leases* (Amended), effective for annual periods beginning on or after 1 January 2010. Early application is permitted. Applies retrospectively. The amendment removes the requirement for leases of land for title to pass to the lessee at the end of the lease for the classification as financial lease. Instead, the land element of a lease will be assessed based on the general classification criteria (paragraphs 7-13), and its normally indefinite useful life will be an important consideration in that assessment.

- **IAS 18** *Revenue*, The Board has added guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:

    - Has primary responsibility for providing the goods or service
    - Has inventory risk
    - Has discretion in establishing prices
    - Bears the credit risk

- **IAS 36** *Impairment of assets* (Amended), effective for annual periods beginning on or after 1 January 2010. Early application is permitted. Applies prospectively. The amendment clarifies that Operating segment for purposes of IAS 36 paragraph 80(b) refers to operating segments identified when applying paragraph 5 of IFRS 8, i.e. before any aggregation of segments for reporting purposes based on paragraph 12 of IFRS 8.

- **IAS 38** *Intangible assets* (Amended), effective for annual periods beginning on or after 1 July 2009. Early application is permitted. Applies prospectively. The first amendment is consequential to the changes in IFRS 3 (Revised) and clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognise the group of intangible assets as a single asset provided the individual assets have similar useful lives. The second amendment is also consequential to the changes in IFRS 3 (Revised) and clarifies that the valuation techniques presented for determining the fair value of an intangible asset acquired in a business combination are only examples and IAS 38 is not intended to be restrictive.

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- **IAS 39** *Financial Instruments* (Amended), effective for annual periods beginning on or after 1 January 2010. Early application is permitted. Applies prospectively.
  - Loan prepayment options are embedded derivatives closely related to the host only when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract;
  - The scope exemption in paragraph 2(g) of IAS 39, for contracts between the acquirer and a vendor in a business combination to buy or sell an acquiree at a future date, applies only to binding forward contracts, and not to derivative contracts where further actions by either party are still to be taken;
  - Gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognised financial instruments should be reclassified from equity to profit or loss in the period that the hedged forecast cash flows affect the profit or loss.

- **IFRIC 9** *Reassessment of Embedded Derivatives*, effective for annual periods beginning on or after 1 July 2009. The Board amended the scope paragraph of IFRIC 9 to clarify that it does not apply to possible reassessment, at the date of acquisition, to embedded derivatives in contracts acquired in a combination between entities or business under common control or the formation of a joint venture. If an entity applies IFRS 3 (revised) for an earlier period, the amendment shall also be applied for that earlier period.

- **IFRIC 16** *Hedges of a Net Investment in a Foreign Operation*, effective for annual periods beginning on or after 1 July 2009. The amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied.

### g) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at 31 December 2009.

Subsidiaries are fully consolidated from the date of the acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Control is achieved where the Group, either directly or indirectly, owns more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Minority interests represent the portion of the profit or loss and net assets that is not held by the Group and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from the parent shareholders' equity. Acquisitions of the non-controlling interests are accounted for using the parent entity extension method, whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised in the goodwill or negative goodwill as appropriate.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 recognised. Businesses acquired or disposed during the year are included in the consolidated financial statements from the date of acquisition or to date of disposal.

### h) Business combinations and goodwill

Acquisitions of businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets acquired, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is tested for impairment annually (as at 31 December) and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash–generating units) to which the goodwill related. Where the recoverable amount of the cash-generating unit is less than their carrying amount an impairment loss is recognised. Impairment losses related to goodwill cannot be reversed in future periods.

### i) Financial instruments

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit and loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

The Group determinates the classification of its financial assets and liabilities at initial recognition.

Group's financial assets include cash and cash equivalents, trade and other receivables and unquoted financial instruments. Financial liabilities include finance lease obligations, interest-bearing bank loans and overdrafts and trade and other payables. For each item the accounting policies on recognition and measurement are disclosed in this note. Management believe that the estimated fair values of these instruments approximate their carrying amounts.

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned and are initially measured at cost, including transaction costs.

For financial assets at fair value through profit and loss, gains and losses arising from changes in fair value are included in net profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognized directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the net profit or loss for the period.

Hybrid instrument is regarded as a compound instrument, consisting of a liability component and an equity component. At the date of issue of the Hybrid instrument, the fair value of the instrument was assessed based on the valuation report prepared by an independent investment bank, engaged by the Group to assist it in establishing the present value of the Hybrid instrument. Difference in values exceeding 10% is considered to be extinguishment of old debt and issue of a new debt. Such difference was charged to consolidated income statement in 2003.

The interest expense on the liability component is calculated by applying the interest rate EURIBOR at 12 months plus 1.5% p.a. payable annually in arrears, for both 2009 and 2008.

### j) Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets than can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter in bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease on the estimated future cash flows, such s changes in arrears or economic conditions that correlate with defaults.

### k) Property, plant and equipment

Property, plant and equipment are stated at cost, except for the Rompetrol Rafinare S.A and Rompetrol Petrochemicals S.R.L where the property, plant and equipment are stated at revalued amounts, being the fair value less any accumulated depreciation and accumulated impairment loss.

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put to operation, such as repairs and maintenance are charged to income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalised as an additional cost of property, plant and equipment.

Construction in progress represents plant and properties under construction and is stated at cost, less any impairment loss. This includes cost of construction and other direct costs. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

For items where there was previously a revaluation completed, the revaluation surplus has been credited to the assets revaluation reserve included in the equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement, in which case the increase was recognised in the income statement. A revaluation deficit is recognised in the income statement, except for the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation for property, plant and equipment except land and construction in progress is computed using the straight-line method over the following estimated useful lives.

| | |
|---|---|
| Buildings and other constructions | 10 to 60 years |
| Reservoirs | 20 to 30 years |
| Tank cars | 25 years |
| Machinery and other equipment | 3 to 20 years |
| Gas pumps | 8 to 12 years |
| Vehicles | 5 years |
| Furniture and office equipment | 3 to 10 years |
| Computers | 3 years |

Assets held under finance leases are recorded in the balance sheet and depreciated over their expected useful lives on the same basis as owned assets, or where shorter the term of the relevant lease.

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### l) Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the best estimate of their useful lives.

Intangible assets consist of software and licenses and are amortised on a straight-line basis over 3 to 5 years.

Development costs for specific projects which are reasonably anticipated to be recovered through commercial activity as well as expenditure on acquired computer software licences are capitalised and amortised using the straight-line method over their useful lives, generally 3 years. The carrying amount of each intangible asset is reviewed annually and adjusted for impairment where it is considered necessary. External and internal costs specifically associated with the maintenance of already existing computer software programmes are expensed as incurred.

### m) Impairment of non-financial assets

At each balance sheet date the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the assets (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is property, plant and equipment stated at revalued amount in which case the impairment loss is treated as a revaluation decrease.

When 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. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Goodwill*

Goodwill is tested for impairment annually (as at December 31) and when circumstances indicated that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

### n) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense related to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

***Environmental liabilities***

Environmental expenditure that relates to current or future revenues is expensed or capitalised as appropriate. Expenditure that relates to an existing condition caused by past operations and that does not contribute to current or future earnings is expensed.

The Group has an environmental policy which complies with existing legislation and any obligations resulting from its environmental and operational licenses. In order to comply with all rules and regulations the Group has set up a monitoring mechanism in accordance with the requirements of the relevant authorities. Furthermore, investment plans are adjusted to reflect any known future environmental requirements. The above mentioned expenses are estimated based on the relevant environmental studies.

Liabilities for environmental remediation costs are recognised when environmental assessments or clean-ups are probable and the associated costs can be reasonably estimated. Generally, the timing of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### o) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of the ownership to the lessee. All other leases are classified as operating leases. The Group has assets held under finance leases and that have been measured at their fair values at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, that represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the consolidated income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

### p) Inventories

Inventories, including work-in-process are stated at the lower of cost and net realizable value. Net realizable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost comprises the acquisition cost and other costs that have been incurred in bringing the inventories to their present location and condition and is determined by weighted average method for all inventories.

### q) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered indicators the receivable should be impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at the effective interest rate.

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### r) Cash and cash equivalents

Cash includes cash on hand, cash with banks and checks in course of being cashed. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with remaining three months or less to maturity from the date of acquisition and that are subject to an insignificant risk of change in value.

### s) Revenue recognition

Revenue comprises the fair value of the sale of goods and services, net of value-added tax and any excise duties and other sales taxes, rebates and sales incentive discounts. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised, that the Group:

- Has primary responsibility for providing the goods or service
- Has inventory risk
- Has discretion in establishing prices
- Bears the credit risk

In addition:

- Sales of goods are recognised when delivery has taken place and transfer of significant risks and rewards has been completed.
- Revenue from rendering transportation services and other services is recognised when services are rendered.
- Interest income is recognised on a time-portion basis using the effective interest method.
- Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Early settlement discounts, for reduction in amounts owed for payment of outstanding receivables in advance of normal trading periods, are included as part of "Finance cost", as being a financial incentive (to improve cash flow and reduce financing costs of the Group) and are not provided as a sales incentive to customers.

### t) Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest method.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well through the amortisation process.

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### u) Borrowings costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All the other costs are expensed in the period they occur. Borrowing costs consists of interest and other cost that an entity incurs in connection with the borrowing of funds.

The Group capitalised borrowing costs for all eligible assets where construction was commenced on or after 1 January 2009. The Group continues to expense borrowing costs relating to construction projects that commenced prior to 1 January 2009 as IAS 23 revised was adopted from that date.

The rate of interest used is the weighted average interest of borrowings from shareholders.

### v) Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state - managed retirement benefit schemes are dealt with as defined contribution plans where the Group's obligations under the scheme are equivalent to those arising in a defined contribution retirement benefit plan.

According to collective labour agreements in place in certain of the Group's entities, employees are entitled to certain retirement benefits, payable on retirement, if they are employed with these entities at the date of their retirement. These amounts are estimated as of the balance sheet date based on benefits provided in the agreement, employees with the company and actuarial assumptions on future liabilities. The defined benefit liability as of balance sheet date comprises the present value of the defined benefit obligation and the related service cost charged to the income statement. Actuarial gains/losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting period exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date.

The Group has no other liabilities with respect to future pension, health and other costs for its employees.

### w) Taxes

- *Current income tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

- *Deferred tax*

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- *Sales tax*

Revenues, expenses and assets are recognized net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

### x) Dividends

Dividends are recorded in the year in which they are approved by the shareholders.

### y) Emission rights

The Group refining and petrochemicals operations are allocated CO2 emission rights quota. The current quota is valid until 2012. The Group accounts for the liability for these emissions by using the net liability method. The liability is recognized only at a point where the actual emissions exceed the quota allocated to the respective companies.

### z) Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

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## 3. INTANGIBLE ASSETS

### Amounts in USD

| USD | Software and licenses | Other | Intangibles in progress | Total |
|---|---|---|---|---|
| *Cost* | | | | |
| **Opening balance as of January 1, 2008** | **8,210,004** | **3,058,955** | **4,043,624** | **15,312,583** |
| Acquisitions | 3,414,334 | 14,907,279 | 14,774,285 | **33,095,898** |
| Disposals | (44,707) | - | (1,691,606) | **(1,736,313)** |
| Transfers | 1,124,242 | 406,114 | (1,530,356) | **-** |
| **Closing balance as of December 31, 2008** | 12,703,873 | 18,372,348 | 15,595,947 | 46,672,168 |
| Acquisitions | 1,135,397 | 2,346,139 | 16,747,251 | **20,228,787** |
| Disposals | (35,116) | - | - | **(35,116)** |
| Transfers | 12,014,677 | 8,686,274 | (20,700,951) | **-** |
| **Closing balance as of December 31, 2009** | 25,818,831 | 29,404,761 | 11,642,247 | 66,865,839 |
| *Accumulated amortisation* | | | | |
| **Opening balance as of January 1, 2008** | **(6,363,890)** | **(2,740,033)** | **-** | **(9,103,923)** |
| Charge for the year | (1,919,857) | (1,932,198) | - | **(3,852,055)** |
| Accumulated depreciation of disposals | 18,096 | - | - | **18,096** |
| **Closing balance as of December 31, 2008** | (8,265,651) | (4,672,231) | - | (12,937,882) |
| Charge for the year | (4,692,226) | (4,277,584) | - | **(8,969,810)** |
| Accumulated depreciation of disposals | - | - | - | **-** |
| **Closing balance as of December 31, 2009** | (12,957,877) | (8,949,815) | - | (21,907,692) |
| *Net book value* | | | | |
| **As of December 31, 2008** | 4,438,222 | 13,700,117 | 15,595,947 | 33,734,286 |
| **As of December 31, 2009** | 12,860,954 | 20,454,946 | 11,642,247 | 44,958,147 |

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## 3. INTANGIBLE ASSETS (continued)

### Amounts in RON

| RON | Software and licenses | Other | Intangibles in progress | Total |
|---|---|---|---|---|
| *Cost* | | | | |
| **Opening balance as of January 1, 2008** | **24,105,393** | **8,981,398** | **11,872,484** | **44,959,275** |
| Acquisitions | 10,024,826 | 43,769,261 | 43,378,778 | **97,172,865** |
| Disposals | (131,264) | - | (4,966,724) | **(5,097,988)** |
| Transfers | 3,300,887 | 1,192,391 | (4,493,278) | - |
| **Closing balance as of December 31, 2008** | 37,299,842 | 53,943,050 | 45,791,260 | 137,034,152 |
| Acquisitions | 3,333,639 | 6,888,499 | 49,171,604 | **59,393,742** |
| Disposals | (103,104) | - | - | **(103,104)** |
| Transfers | 35,276,293 | 25,503,769 | (60,780,062) | - |
| **Closing balance as of December 31, 2009** | 75,806,670 | 86,335,318 | 34,182,802 | 196,324,790 |
| ***Accumulated amortization*** | | | | |
| **Opening balance as of January 1, 2008** | **(18,685,017)** | **(8,045,011)** | - | **(26,730,028)** |
| Charge for the year | (5,636,892) | (5,673,127) | - | **(11,310,019)** |
| Accumulated depreciation of disposals | 53,132 | - | - | **53,132** |
| **Closing balance as of December 31, 2008** | (24,268,777) | (13,718,138) | - | (37,986,915) |
| Charge for the year | (13,776,845) | (12,559,414) | - | **(26,336,259)** |
| Accumulated depreciation of disposals | - | - | - | - |
| **Closing balance as of December 31, 2009** | (38,045,622) | (26,277,552) | - | (64,323,174) |
| ***Net book value*** | | | | |
| **As of December 31, 2008** | 13,031,065 | 40,224,912 | 45,791,260 | 99,047,237 |
| **As of December 31, 2009** | 37,761,048 | 60,057,766 | 34,182,802 | 132,001,616 |

Included in Other intangibles is an amount of USD 9.5 million (RON 27.9 million) related to the acquisition by Rompetrol Gas SRL of a business comprising 150 autogas skids installations, exclusive right to deliver autogas and to benefit from the acquiree's clients portfolio, right to promote the Group brand at the respective locations and to benefit from all existing authorizations/licences. The fair value of intangibles was established based on the revaluation report performed by a qualified independent valuator.

Included in the total additions of USD 20.2 million during 2009, are the licenses and software of Rompetrol Downstream S.R.L, amounting to USD 17 million, which relate mostly to two major projects that aim for a complete customer view, a better control for Sales Management and a better monitoring, and security of the processing gas stations.

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## 4. GOODWILL

As of December 31, 2003, the Group received as contribution in kind to Rompetrol Rafinare 100% of Romoil. Computation of goodwill arising from business combination is presented below. Valuation of the contribution has been made by a professional valuation company.

As of December 31, 2004, the Group received as contribution in kind 100% of Rompetrol Downstream. Computation of goodwill arising from business combination is presented below. Valuation of the acquisition has been made by a professional valuation company.

| | USD | Goodwill value USD | RON | Goodwill value RON |
|---|---|---|---|---|
| Rom Oil acquisition at December 31, 2003 | | 46,483,142 | | 136,479,153 |
| **Purchase consideration** | **48,333,487** | | **141,911,951** | |
| *being* | | | | |
| Contribution in kind to Share Capital from Rompetrol SA and Rompetrol Downstream SA | 48,333,487 | | 141,911,951 | |
| **100% interest in Fair Value of Net Assets** | **1,850,345** | | **5,432,798** | |
| *out of which* | | | | |
| Non-current assets | 22,163,584 | | 65,074,499 | |
| Current assets, other than Cash and cash equivalents | 13,890,164 | | 40,782,911 | |
| Cash and cash equivalents | 987,637 | | 2,899,801 | |
| Non-current liabilities | (4,680,257) | | (13,741,703) | |
| Current liabilities | (30,510,783) | | (89,582,710) | |
| Subsequent sale of Rom Oil 3.4% effective interest in June 2004 | | (1,580,427) | | (4,640,292) |
| Rompetrol Downstream acquisition at December 31, 2004 | | 53,692,479 | | 157,646,488 |
| **Purchase consideration** | **112,644,986** | | **330,736,943** | |
| *being* | | | | |
| Debt conversion due to Rompetrol Financial Group | 112,644,986 | | 330,736,943 | |
| **100% interest in Fair Value of Net Assets** | **58,952,507** | | **173,090,455** | |
| *out of which* | | | | |
| Non-current assets | 123,431,774 | | 362,408,032 | |
| Current assets, other than Cash and cash equivalents | 37,682,313 | | 110,639,039 | |
| Cash and cash equivalents | 1,642,562 | | 4,822,726 | |
| Non-current liabilities | (18,080,005) | | (53,084,703) | |
| Current liabilities | (85,724,137) | | (251,694,639) | |
| **Consolidated goodwill as of December 31, 2004** | | 98,595,194 | | 289,485,349 |
| Subsequent purchase of Rom Oil 2.39% effective interest | | 1,760,593 | | 5,169,277 |
| **Consolidated goodwill as of December 31, 2009 and 2008** | | 100,355,787 | | 294,654,626 |

Impairment tests have been performed by the Group for the carrying value of goodwill as of 31 December 2009 on the following Cash Generating Units. Based on the impairment tests no impairment has been identified.

*Rompetrol Refineries*

Rompetrol Refineries CGU includes the operations of Petromidia Refinery and Vega Refinery. The recoverable amount of Rompetrol Refineries unit has also been determined based on the fair value less costs to sell using financial budgets approved by senior management covering a five-year period. The discount rate applied to cash flow projections is 11.5% and cash flows beyond the 5-year period are extrapolated using a 1.5% growth rate that is the same as the long-term average growth rate for the industry. The capitalization rate used for residual values is 10%.

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## 4. GOODWILL (continued)

*Downstream Romania*

Downstream Romania CGU includes the operations of Rompetrol Downstream SRL, Rom Oil SA and Rompetrol Logistics SRL. The recoverable amount of Downstream Romania unit has also been determined based on the fair value less costs to sell using financial budgets approved by senior management covering a five-year period and same assumptions as for Refining unit. The discount rate applied to cash flow projections is 11.5% and cash flows beyond the 5-year period are extrapolated using a 1.5% growth rate that is the same as the long-term average growth rate for the industry. The capitalization rate used for residual values is 10%.

*Key assumptions used in fair value less costs to sell calculations*

The key assumptions used in the fair value less costs to sell calculations for the above-mentioned are:

- Gross margin;
- Discount rates;
- Growth rate used to extrapolate cash flows beyond the budget period.

Gross margins - Gross margins are based on average values achieved in the two years preceding the start of the budget period. These are increased over the budget period for anticipated efficiency improvements.

Following per annum increase was applied for the relevant Cash Generating Units:

*Rompetrol Refinery*

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Gross profit margin * | 7.61% | 7.55% | 6.64% | 9.74% | 10.50% |

*Downstream Romania*

| ***Retail*** | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Gross profit margin * | 13.51% | 11.18% | 8.96% | 9.38% | 9.10% |

| ***Wholesale*** | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Gross profit margin * | 7.60% | 6.71% | 5.10% | 5.55% | 5.48% |

Discount rates - Discount rates reflect the current market assessment of the risks specific to each cash generating unit. The discount rate was estimated based on the average percentage of a weighted average cost of capital for the industry. This rate was further adjusted to reflect the market assessment of any risk specific to the cash generating unit for which future estimates of cash-flows have not been adjusted.

Growth rate estimates - Rates are based on published industry research.

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## 4. GOODWILL (CONTINUED)

### Sensitivity to changes in assumptions

With regard to the assessment of the fair value less costs to sell for cash generating units, management believes than no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount, other than as disclosed below:

*Rompetrol Refinery*

The break-even point for the current model is achieved under the following Gross profit margin:

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Gross profit margin * | 5.29% | 5.25% | 4.61% | 6.77% | 7.30% |

*Downstream Romania*

The break-even point for the current model is achieved using the following Gross profit margin:

| ***Retail*** | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Gross profit margin | 10.37% | 8.58% | 6.88% | 7.20% | 6.98% |
| ***Wholesale*** | **2010** | **2011** | **2012** | **2013** | **2014** |
| Gross profit margin | 6.66% | 5.87% | 4.47% | 4.86% | 4.80% |

* Gross profit margins were re-computed considering the net revenue

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## 5. PROPERTY, PLANT AND EQUIPMENT

**Amounts in USD**

| | Land and buildings | Plant and equipment | Vehicles and others | Construction in progress | Total |
|---|---|---|---|---|---|
| ***Gross carrying value*** | | | | | |
| **As of January 1, 2008** | 684,138,062 | 447,495,654 | 94,283,512 | 99,918,049 | 1,325,835,277 |
| Acquisitions | 8,569,289 | 5,260,649 | 5,929,916 | 181,844,943 | 201,604,797 |
| Disposals through sale of subsidiaries Eurojet | (14,561) | (142,040) | (18,463,838) | (167,095) | (18,787,534) |
| Disposals | (68,463) | (5,193,092) | (9,112,845) | (612,032) | (14,986,432) |
| Transfers | 41,787,188 | 55,931,288 | 23,599,602 | (121,318,078) | - |
| **As of December 31, 2008** | 734,411,515 | 503,352,459 | 96,236,347 | 159,665,787 | 1,493,666,108 |
| Acquisitions | 3,513,237 | - | 2,130,611 | 162,829,425 | 168,473,273 |
| Disposals | (240,337) | (588,718) | (1,972,859) | 273,641 | (2,528,273) |
| Transfers | 52,215,965 | 68,692,585 | 29,066,370 | (149,974,920) | - |
| **As of December 31, 2009** | 789,900,380 | 571,456,326 | 125,460,469 | 172,793,933 | 1,659,611,108 |
| ***Accumulated depreciation*** | | | | | |
| **As of January 1, 2008** | (253,987,874) | (245,304,118) | (38,816,996) | (2,553,181) | (540,662,169) |
| Charge for the year | (24,874,602) | (45.149,757) | (13,862,907) | - | (83,887,266) |
| Disposals through sale of subsidiaries Eurojet | 2,790 | 21,140 | 1,833,994 | - | 1,857,924 |
| Accumulated depreciation of disposals | 23,823 | 4,585,815 | 2,033,241 | - | 6,642,879 |
| Impairment | (2,788,343) | (1,383,336) | (5,390) | (3,097,189) | (7,274,258) |
| **As of December 31, 2008** | (281,624,206) | (287,230,256) | (48,818,058) | (5,650,370) | (623,322,890) |
| Charge for the year | (28,726,904) | (44,931,335) | (21,458,755) | - | (95,116,994) |
| Accumulated depreciation of disposals | 182,362 | 537,119 | 1,556,023 | - | 2,275,504 |
| Impairment | (807,546) | (1,880,034) | (224,386) | (654,132) | (3,566,098) |
| **As of December 31, 2009** | (310,976,294) | (333,504,506) | (68,945,176) | (6,304,502) | (719,730,478) |
| **Net book value as of December 31, 2008** | 452,787,309 | 216,122,203 | 47,418,289 | 154,015,417 | 870,343,218 |
| **Net book value as of December 31, 2009** | 478,924,086 | 237,951,820 | 56,515,293 | 166,489,431 | 939,880,630 |

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## 5. PROPERTY, PLANT AND EQUIPMENT (continued)

### Amounts in RON

| | Land and buildings | Plant and equipment | Vehicles and others | Construction in progress | Total |
|---|---|---|---|---|---|
| *Gross carrying value* | | | | | |
| As of January 1, 2008 | 2,008,697,764 | 1,313,891,990 | 276,825,820 | 293,369,384 | 3,892,784,958 |
| Acquisitions | 25,160,289 | 15,445,792 | 17,410,822 | 533,914,937 | 591,931,840 |
| Disposals through sale of subsidiaries Eurojet | (42,753) | (417,044) | (54,211,679) | (490,608) | (55,162,084) |
| Disposals | (201,014) | (15,247,437) | (26,756,228) | (1,796,987) | (44,001,666) |
| Transfers | 122,691,363 | 164,219,855 | 69,290,791 | (356,202,009) | - |
| As of December 31, 2008 | 2,156,305,649 | 1,477,893,156 | 282,559,526 | 468,794,717 | 4,385,553,048 |
| Acquisitions | 10,315,215 | - | 6,255,689 | 478,083,475 | 494,654,379 |
| Disposals | (705,653) | (1,728,535) | (5,792,510) | 803,437 | (7,423,261) |
| Transfers | 153,311,295 | 201,688,299 | 85,341,769 | (440,341,363) | - |
| As of December 31, 2009 | 2,319,226,506 | 1,677,852,920 | 368,364,474 | 507,340,266 | 4,872,784,166 |
| *Accumulated depreciation* | | | | | |
| As of January 1, 2008 | (745,733,797) | (720,237,421) | (113,970,582) | (7,496,395) | (1,587,438,195) |
| Charge for the year | (73,034,319) | (132,564,202) | (40,702,881) | - | (246,301,402) |
| Disposals through sale of subsidiaries Eurojet | 8,192 | 62,069 | 5,384,790 | - | 5,455,051 |
| Accumulated depreciation of disposals | 69,947 | 13,464,411 | 5,969,799 | - | 19,504,157 |
| Impairment | (8,186,854) | (4,061,613) | (15,826) | (9,093,657) | (21,357,950) |
| As of December 31, 2008 | (826,876,831) | (843,336,756) | (143,334,700) | (16,590,052) | (1,830,138,339) |
| Charge for the year | (84,345,063) | (131,922,893) | (63,005,051) | - | (279,273,007) |
| Accumulated depreciation of disposals | 535,433 | 1,577,035 | 4,568,639 | - | 6,681,107 |
| Impairment | (2,371,036) | (5,519,968) | (658,820) | (1,920,597) | (10,470,421) |
| As of December 31, 2009 | (913,057,497) | (979,202,582) | (202,429,932) | (18,510,649) | (2,113,200,660) |
| **Net book value as of December 31, 2008** | 1,329,428,818 | 634,556,400 | 139,224,826 | 452,204,665 | 2,555,414,709 |
| **Net book value as of December 31, 2009** | 1,406,169,009 | 698,650,338 | 165,934,542 | 488,829,617 | 2,759,583,506 |

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## 5. PROPERTY, PLANT AND EQUIPMENT (continued)

- *Revaluation of certain assets*

As mentioned in Note 2.k) property, plant and equipment held at Rompetrol Rafinare S.A. (including the Petromidia and Vega refineries) as at December 31, 2003 and those held at Rompetrol Petrochemicals as at December 31, 2005 are carried at revalued amounts. Revaluations were undertaken by an independent valuer considering the depreciated replacement cost as of the valuation dates. Subsequent to the revaluation these assets have been depreciated in accordance with Group policy and considered for any impairment. Items of property, plant and equipment acquired after the dates mentioned are recorded at historic cost and depreciated, which is considered to be indicative of depreciated replacement cost.

The net book values of the assets held by Rompetrol Rafinare S.A. and Rompetrol Petrochemicals are presented in the table below:

**USD**

| | Land and buildings | Plant and equipment | Vehicles and others | Construction in progress | Total |
|---|---|---|---|---|---|
| Rompetrol Rafinare S.A. | 200,275,740 | 133,738,997 | 7,687,011 | 105,112,118 | **446,813,866** |
| Rompetrol Petrochemicals S.R.L. | 63,765,813 | 58,056,885 | 3,511,852 | 19,318,329 | **144,652,879** |
| **Net book value at 31 December 2009** | **264,041,553** | **191,795,882** | **11,198,863** | **124,430,447** | **591,466,745** |
| Rompetrol Rafinare S.A. | 195,127,105 | 113,710,501 | 5,117,836 | 83,536,397 | **397,491,839** |
| Rompetrol Petrochemicals S.R.L. | 66,922,880 | 61,373,533 | 3,690,603 | 11,940,283 | **143,927,299** |
| **Net book value at 31 December 2008** | **262,049,985** | **175,084,034** | **8,808,439** | **95,476,680** | **541,419,138** |

**RON**

| | Land and buildings | Plant and equipment | Vehicles and others | Construction in progress | Total |
|---|---|---|---|---|---|
| Rompetrol Rafinare S.A. | 588,029,600 | 392,671,069 | 22,569,833 | 308,619,690 | **1,311,890,192** |
| Rompetrol Petrochemicals S.R.L. | 187,222,804 | 170,460,820 | 10,311,149 | 56,720,546 | **424,715,319** |
| **Net book value at 31 December 2009** | **775,252,404** | **563,131,889** | **32,880,982** | **365,340,236** | **1,736,605,511** |
| Rompetrol Rafinare S.A. | 572,912,693 | 333,865,402 | 15,026,478 | 245,271,215 | **1,167,075,788** |
| Rompetrol Petrochemicals S.R.L. | 196,492,268 | 180,198,830 | 10,835,979 | 35,057,865 | **422,584,942** |
| **Net book value at 31 December 2008** | **769,404,961** | **514,064,232** | **25,862,457** | **280,329,080** | **1,589,660,730** |

If Rompetrol Rafinare S.A. and Rompetrol Petrochemicals S.R.L. were to measure the revalued assets using the historic cost model the net book value of these assets would have been USD 549.71 million instead of current reported net book value of USD 591.47 million (2008: USD 495.11 million instead of USD 541.42 million).

- *Construction in progress*

The Group has significant assets under construction. A major part of these assets are expected to be completed by 2011.

- *Borrowing costs capitalized*

The Group is financing its operations significantly from borrowings and hence cost of these borrowings related to acquisition of qualifying assets is capitalized as part of the cost of those qualifying assets. The amount of capitalized cost during the year ended 31 December 2009 was USD 6.9 million. The rate used to determine the amount of borrowing costs eligible for capitalization was 4.25%.

## 5. PROPERTY, PLANT AND EQUIPMENT (continued)

- *Disposals through sales of subsidiaries*

Disposals through sales of subsidiaries in 2008 of USD 5.3 million, related to property, plant and equipment owned by Eurojet S.A., being a company that the Group disposed of its shareholding during 2008.

During 2009 there were no disposals of subsidiaries.

- *Rompetrol Petrochemicals S.R.L. – steam cracker production line*

Rompetrol Petrochemicals S.R.L. has items of plant and equipment relating to a steam cracker production line. Of the total steam cracker production line about 3/4, consisting of multiple pieces of equipment and sub-lines, is not in use. The remaining 1/4 of the steam cracking production line is used by Rompetrol Petrochemical S.R.L. for PP production. Related to the assets currently not in use is an impairment provision of USD 30.3 million that has been recorded in prior periods and is still included in the balance of "Accumulated depreciation and impairment" as at December 31, 2009. The Group has been considering for the past periods if it will undertake the significant investment required to put the steam cracker production line into use. The decision has been delayed with the change in ownership of The Rompetrol Group since 2007 and with full ownership transferring to the new owners in 2009 and the finalisation of the medium to long term strategy for The Rompetrol Group. The matter has been discussed representatives of the ultimate parent for approval of further expenditure. As of December 31, 2009 the management is of the view that given the viability of the project, it is probable that the investment will be approved by the ultimate parent and hence no further impairment to the carrying values of assets related to the steam cracker, to that currently provided for specific items (as mentioned above), is considered to be required. A decision on this matter from the ultimate parent is expected during 2010.

Following is an analysis of the net book value of steam cracker production line as of December 31, 2009:

| Description | 2009 USD 000' | 2008 USD '000 |
|---|---|---|
| Value of plant and equipment not used | 55,294 | 55,294 |
| Impairment provision | (30,291) | (30,291) |
| | 25,003 | 25,003 |
| Construction in progress | 13,937 | 1,819 |
| Total carrying value for team cracker production line (not in use) | 38,940 | 26,822 |

- *Impairment*

The Group completes an annual evaluation of impairment considerations for all entities based on specific asset considerations, as applicable, and taking into consideration expectations on future estimated business cash flows.

In 2009, the provision for impairment increased by USD 3.5 million, as follows: USD 2.5 million at Rompetrol Petrochemicals for damage from a fire during the year and impairment on assets held in Rompetrol Downstream, Rompetrol Logistics and Vega.

For 2008 there have been some specific impairments determined on a by asset basis of USD 7.2 million.

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## 5. PROPERTY, PLANT AND EQUIPMENT (continued)

- *Held under finance leases*

The carrying amount of the Group's vehicles includes an amount of approximately USD 19.9 million as at December 31, 2009 and USD 18.6 million as at December 31, 2008, in respect of assets held under finance leases.

- *Pledged property, plant and equipment*

The Group has pledged property, plant and equipment of approximately USD 104.1 million (RON 305.6 million) as at December 31, 2009 and USD 441.5 million (RON 1,296.3 million) as at December 31, 2008, to secure banking facilities granted to the Group.

## 6. INVESTMENTS

### a) Investments in Consolidated Subsidiaries

Details of the Group consolidated subsidiaries at December 31, 2009 and 2008 are as follows:

| Company name | Range of activity | Effective ownership December 31, 2009 | Control December 31, 2009 | Effective ownership December 31, 2008 | Control December 31, 2008 |
|---|---|---|---|---|---|
| Rompetrol Downstream S.R.L. | Retail Trade of Fuels and Lubricants | 100.00% | 100.00% | 100.00% | 100.00% |
| Rom Oil S.A. | Wholesale of Fuels | 100.00% | 100.00% | 100.00% | 100.00% |
| Rompetrol Logistics S.R.L. | Fuels Transportation | 66.19% | 66.26% | 66.19% | 66.26% |
| Rompetrol Petrochemicals S.R.L. | Petrochemicals | 100.00% | 100.00% | 100.00% | 100.00% |
| Rompetrol Quality Control S.R.L. | Quality Control Services | 100.00% | 100.00% | 100.00% | 100.00% |
| Rompetrol Gas S.R.L. | LPG Sales | 66.19% | 100.00% | 66.19% | 100.00% |

Effective ownership interests for the Group takes into consideration indirect shareholding weighted with corresponding Group ownership in the intermediate shareholder and are used for consolidation, while the control percent takes into consideration the total interest controlled directly and indirectly.

### b) Available for sale Investments

| | 2009 USD | 2008 USD | 2009 RON | 2008 RON |
|---|---|---|---|---|
| Bursa Maritima de Marfuri | 257,312 | 257,312 | 755,494 | 755,493 |
| IM Moldintergaz SRL | 653,569 | 13,284 | 1,918,944 | 39,002 |
| Other | 34,687 | 44,996 | 101,845 | 132,112 |
| **Total** | 945,568 | 315,592 | 2,776,283 | 926,607 |

Other investments are investments in companies in Romania, which are held primarily for long-term growth potential. These investments are carried at cost.

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## 7. INVENTORIES, NET

| | 2009 USD | 2008 USD | 2009 RON | 2008 RON |
|---|---|---|---|---|
| Crude oil and other feedstock materials | 140,324,169 | 95,119,681 | 412,005,793 | 279,280,894 |
| Petroleum and petrochemical products | 98,188,398 | 105,403,148 | 288,290,955 | 309,474,183 |
| Work in progress | 44,218,286 | 22,499,459 | 129,829,310 | 66,060,662 |
| Spare parts | 7,507,311 | 7,801,780 | 22,042,216 | 22,906,806 |
| Consumables and other raw materials | 9,736,871 | 12,825,782 | 28,588,427 | 37,657,779 |
| Merchandises | 13,029,925 | 13,225,084 | 38,257,163 | 38,830,169 |
| Other inventories | 4,344,535 | 3,470,520 | 12,755,989 | 10,189,794 |
| Inventories provision | (27,024,465) | (47,053,848) | (79,346,532) | (138,154,803) |
| | **290,325,030** | **213,291,606** | **852,423,321** | **626,245,484** |

Finished goods mainly comprise petroleum and petrochemical products. No inventories are pledged to obtain credit facilities.

The inventories provision movement in 2009 and 2008 is provided below:

| | 2009 USD | 2008 USD | 2009 RON | 2008 RON |
|---|---|---|---|---|
| **Reserve as of January 1** | (47,053,848) | (15,887,579) | (138,154,803) | (46,647,521) |
| Accrued provision | (8,410,332) | (35,251,918) | (24,693,576) | (103,503,156) |
| Write off | - | - | - | - |
| Reversal provision inventories reserve | 28,439,715 | 4,085,649 | 83,501,847 | 11,995,874 |
| Exchange rate differences | - | - | - | - |
| **Reserve as of December 31** | **(27,024,465)** | **(47,053,848)** | **(79,346,532)** | **(138,154,803)** |

The inventory provision decreased in 2009 due to the fact that during the year the companies Rompetrol Petrochemicals S.R.L., Rompetrol Rafinare S.A.maintained a minimum stock level for inventories which correlated with the increase in price, mostly for petrochemicals products, resulted in a lower provision from the comparison with the net realizable value.

## 8. RECEIVABLES AND PREPAYMENTS, NET

| | 2009 USD | 2008 USD | 2009 RON | 2008 RON |
|---|---|---|---|---|
| Trade receivables | 268,542,015 | 271,845,553 | 788,466,210 | 798,165,728 |
| Advances to suppliers | 68,863,818 | 89,005,678 | 202,191,056 | 261,329,571 |
| Sundry debtors | 10,622,346 | 5,921,837 | 31,188,270 | 17,387,106 |
| VAT to be recovered | 3,439,714 | 15,466,298 | 10,099,344 | 45,410,598 |
| Other receivables | 17,486,543 | 25,323,643 | 51,342,239 | 74,352,748 |
| Provision for bad and doubtful debts | (54,769,055) | (42,134,389) | (160,807,422) | (123,710,780) |
| | **314,185,381** | **365,428,620** | **922,479,697** | **1,072,934,971** |

As mentioned in Note 1 the Parent company and its subsidiaries are part of the Rompetrol Group. The balances with related parties are disclosed in Note 25.

Trade receivables totalling USD 107.4 million (RON 315.3 million) as at December 31, 2009 and USD 162.0 million (RON 475.6 million) as at December 31, 2008 are pledged to obtain credit facilities (see Notes 12 and 16).

*(All amounts in US dollars and RON as presentation currency)*

## 8. RECEIVABLES AND PREPAYMENTS, NET (continued)

The movement in provision for doubtful debts is as follows:

| | 2009 USD | 2008 USD | 2009 RON | 2008 RON |
|---|---|---|---|---|
| **Balance at the beginning of the year** | 42,134,389 | 30,392,865 | 123,710,780 | 89,236,491 |
| Impairment losses recognized on receivables | 12,878,063 | 16,623,008 | 37,811,281 | 48,806,814 |
| Impairment losses reversed | (149,368) | (975,269) | (438,559) | (2,863,487) |
| Exchange rate differences | (94,029) | (3,906,215) | (276,080) | (11,469,038) |
| **Balance at the end of the year** | 54,769,055 | 42,134,389 | 160,807,422 | 123,710,780 |

The most significant items that have resulted in an increase in the provision for bad and doubtful debts as of 31 December 2009 relate to specific items and collective impairment made in relation to retail and wholesale sales of petroleum products in Romania amounting to USD 11.5 million.

As at December, the aging analysis of trade receivables is as follows:

| USD | | | Past due but not impaired | | | | |
|---|---|---|---|---|---|---|---|
| | Total | Neither past due not impaired | 1-30 days | 30-60 days | 60-90 days | 90-120 days | >120 days |
| 2009 | 215,600,940 | 53,089,610 | 128,152,809 | 13,441,831 | 9,114,977 | 5,738,069 | 6,063,644 |
| 2008 | 231,280,763 | 79,560,656 | 106,905,164 | 25,027,814 | 8,139,850 | 3,631,185 | 8,016,094 |

| RON | | | Past due but not impaired | | | | |
|---|---|---|---|---|---|---|---|
| | Total | Neither past due not impaired | 1-30 days | 30-60 days | 60-90 days | 90-120 days | >120 days |
| 2009 | 633,025,920 | 155,876,404 | 376,269,463 | 39,466,560 | 26,762,484 | 16,847,544 | 17,803,465 |
| 2008 | 679,063,449 | 233,598,042 | 313,884,252 | 73,484,165 | 23,899,414 | 10,661,522 | 23,536,054 |

Trade receivables are non-interest bearing and are generally on 30 day terms (2008: 30).

As at 31 December 2009, trade receivables at initial value of USD 52.94 million. (2008: USD 40.56 million) were impaired and fully provided for. See below for the movements in the provision for impairment of receivables.

| | Individually impaired USD | Collectively impaired USD | Total USD |
|---|---|---|---|
| **At 1 January 2008** | 2,659,768 | 27,021,171 | 29,680,939 |
| Charge for the year | 597,452 | 15,204,905 | 15,802,357 |
| Utilized | - | - | - |
| Unused amounts reversed | - | (975,269) | (975,269) |
| Exchange rate differences | (350,463) | (3,592,774) | (3,943,237) |
| **At 31 December 2008** | 2,906,757 | 37,658,033 | 40,564,790 |
| Charge for the year | 1,293,932 | 11,326,495 | 12,620,427 |
| Utilized | (149.369) | - | (149.368) |
| Unused amounts reversed | - | - | - |
| Exchange rate differences | 9,742 | (104,516) | (94,774) |
| **At 31 December 2009** | 4,210,282 | 48,880,012 | 52,941,075 |

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## 8. RECEIVABLES AND PREPAYMENTS, NET (continued)

| | Individually impaired<br>RON | Collectively impaired<br>RON | Total<br>RON |
|---|---|---|---|
| **At 1 January 2008** | 7,809,345 | 79,336,860 | 87,146,205 |
| Charge for the year | 1,754,179 | 44,643,122 | 46,397,301 |
| Utilized | | - | - |
| Unused amounts reversed | - | (2,863,487) | (2,863,487) |
| Exchange rate differences | (1,028,994) | (10,548,746) | (11,577,740) |
| **At 31 December 2008** | **8,534,530** | **110,567,749** | **119,102,279** |
| Charge for the year | 3,799,114 | 33,255,721 | 37,054,835 |
| Utilized | (438,559) | - | (438,559) |
| Unused amounts reversed | - | | - |
| Exchange rate differences | 28,603 | (306,868) | (278,265) |
| **At 31 December 2009** | **11,923,688** | **143,516,602** | **155,440,290** |

## 9. CASH AND CASH EQUIVALENTS

| | 2009<br>USD | 2008<br>USD | 2009<br>RON | 2008<br>RON |
|---|---|---|---|---|
| Cash at bank | 42,714,205 | 63,552,237 | 125,413,178 | 186,595,723 |
| Cash on hand | 1,888,462 | 1,636,296 | 5,544,713 | 4,804,329 |
| Cash equivalents | 962,831 | 1,777,061 | 2,826,968 | 5,217,629 |
| | **45,565,498** | **66,965,594** | **133,784,859** | **196,617,681** |

Included in cash at bank is an amount of approximately USD 2.3 million as at December 31, 2009 and USD 2.5 million as at December 31, 2008 representing cash collateral for certain bank facilities (see Notes 12 and 16). Cash equivalents represent mainly cheques in the course of being cashed.

At 31 December 2009, the Group did not have any amounts available of undrawn committed borrowing facilities in respect of which all conditions precedent had been met (2008: USD 11.06 million).

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## 10. SHARE CAPITAL

As of December 31, 2009 and 2008 the share capital consisted of 21,099,276,002 authorized, issued and fully paid ordinary shares with a face value of RON 0.1 each.

Shareholders' structure as at December 31, 2009 is as follows:

| Shareholders | Ownership | Amount per statutory documents [RON] | Amount under IFRS [USD] | Amount under IFRS [RON] |
|---|---|---|---|---|
| The Rompetrol Group NV | 50.59% | 1,067,463,648 | 372,116,999 | 1,092,572,721 |
| Rompetrol Financial Group S.R.L. | 13.53% | 285,408,308 | 99,520,518 | 292,202,193 |
| Rompetrol S.A. | 9.14% | 192,846,630 | 67,229,677 | 197,393,055 |
| Rompetrol Downstream S.R.L | 2.62% | 55,180,217 | 19,271,527 | 56,583,130 |
| Rompetrol Well Services S.A. | 0.10% | 2,198,030 | 735,554 | 2,159,660 |
| Others | 24.02% | 506,830,767 | 176,680,181 | 518,750,679 |
| **Total** | **100%** | **2,109,927,600** | **735,554,456** | **2,159,661,438** |

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

| Shareholders | Ownership | Amount per statutory documents [RON] | Amount under IFRS [USD] | Amount under IFRS [RON] |
|---|---|---|---|---|
| The Rompetrol Group NV | 50.59% | 1,067,463,648 | 372,116,999 | 1,092,572,721 |
| Rompetrol Financial Group S.R.L. | 13.53% | 285,408,308 | 99,520,518 | 292,202,193 |
| Rompetrol S.A. | 9.14% | 192,846,630 | 67,229,677 | 197,393,055 |
| Rompetrol Downstream S.R.L | 2.62% | 55,180,217 | 19,271,527 | 56,583,130 |
| Rompetrol Well Services S.A. | 0.10% | 2,198,030 | 735,554 | 2,159,660 |
| Others | 24.02% | 506,830,767 | 176,680,181 | 518,750,679 |
| **Total** | **100%** | **2,109,927,600** | **735,554,456** | **2,159,661,438** |

*Other Reserves*

Other reserves comprise the equity component of the Hybrid instrument in amount of USD 175,929,529 as of December 31, 2009 and 2008.

*Revaluation reserve*

The revaluation reserve is used to record increase in the fair value of property, plant and equipment in Rompetrol Rafinare S.A. and Rompetrol Petrochemicals S.R.L. conducted in 2003 and 2005 respectively. These reserves cannot be used to pay dividends.

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## 11. HYBRID INSTRUMENT

| | USD | EUR | RON |
|---|---|---|---|
| **Nominal value of Hybrid Instrument Issues** | **719,408,676** | **570,302,441** | **2,112,255,813** |
| Less: | | | |
| Equity component | 175,929,538 | 139,465,994 | 516,546,717 |
| Fair value of extinguishment of debt | 415,525,081 | 329,402,441 | 1,220,023,190 |
| **Liability component at the date of issue** | **127,954,057** | **101,434,006** | **375,685,906** |
| Interest accrued 2003 | 3,598,703 | 2,852,831 | 10,566,152 |
| **Balance brought forward 2004** | **131,552,760** | **104,286,837** | **386,252,058** |
| Coupon payment 2004 | (27,436,013) | (22,258,904) | (80,554,878) |
| Interest accrued 2004 | 14,553,928 | 11,710,162 | 42,731,788 |
| Exchange rate effect 2004 | 9,238,434 | - | 27,124,966 |
| **Balance brought forward 2005** | **127,909,109** | **93,738,095** | **375,553,934** |
| Coupon payment 2005 | (26,636,411) | (21,717,117) | (78,207,166) |
| Interest accrued 2005 | 12,423,987 | 9,960,696 | 36,478,068 |
| Exchange rate effect 2005 | (16,695,968) | - | (49,021,032) |
| **Balance carried forward 2005** | **97,000,717** | **81,981,674** | **284,803,804** |
| Coupon payment 2006 | (38,056,462) | (30,037,829) | (111,737,578) |
| Interest accrued 2006 | 24,716,896 | 19,490,493 | 72,571,278 |
| Exchange rate effect 2006 | 10,425,015 | - | 30,608,887 |
| **Balance carried forward 2006** | **94,086,166** | **71,434,338** | **276,246,391** |
| Coupon payment 2007 | (50,990,386) | (35,963,272) | (149,712,872) |
| Interest accrued 2007 | 33,608,613 | 24,421,239 | 98,678,249 |
| Exchange rate effect 2007 | 11,320,038 | - | 33,236,764 |
| **Balance carried forward 2007** | **88,024,431** | **59,892,305** | **258,448,532** |
| Coupon payment 2008 | (59,622,872) | (40,189,213) | (175,058,714) |
| Interest accrued 2008 | 34,174,516 | 22,275,103 | 100,339,796 |
| Exchange rate effect 2008 | (3,550,012) | - | (10,423,190) |
| **Balance carried forward 2008** | **59,026,063** | **41,978,195** | **173,306,424** |
| Coupon payment 2009 | (22,885,609) | (15,694,723) | (67,194,437) |
| Interest accrued 2009 | (15,546,188) | (10,588,749) | (45,645,163) |
| Exchange rate effect 2009 | 2,007,298 | - | 5,893,628 |
| **Balance carried forward 2009** | **22,601,564** | **15,694,723** | **66,360,452** |
| *classified as:* | | | |
| Current portion | 22,601,564 | 15,694,723 | 66,360,452 |
| Long-term portion | - | - | - |

The Hybrid instrument is issued in accordance with Emergency Ordinance ("EO") 118/2003 approved by Law 89/2005, converting the state budget liabilities, including penalties, totalling RON 2,177.7 million into a long-term bond. In accordance with provisions of EO 118/Law 89, the nominal value of state budget liabilities of RON 2,177.7 million equals to EUR 570.3 million using the exchange rate between RON and Euro as of September 30, 2003 of 3.8185 RON/EUR. The liability is then fixed in EUR and a fixed conversion rate between the Hybrid instrument and equity is established.

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## 11. HYBRID INSTRUMENT (continued)

The main provisions of the issuance agreement are:

- The instrument is convertible into equity at due date at issuer's choice; this choice was irrevocably confirmed by the Company.
- The conversion rate was fixed (4.456 shares for one instrument title) at the date of the issuance based on a formula being subsequently affected by shares splits; as of December 31, 2008 the conversion rate is 954.56 shares for one instrument title.
- The instrument is denominated in Euro (one instrument title has a nominal value of 25).
- The instrument has 7 years maturity (till September 30, 2010).
- Interest rate is EURIBOR at 12 months plus 1.5% p.a. payable annually in arrears.
- The instrument is unsecured.

At the issuance of the bonds in 2003, the Group engaged an independent investment bank to assist in establishing the present value of the Hybrid instrument. Using this valuation report the management assessed the fair value of the Hybrid on issue to be EUR 240.9 million. As the difference between the present value and nominal value of the Bond was more than 10%, this was considered as extinguishment of the debt and charged to statement of income for 2003.

In accordance with issuance document the issuer, being the Group, has the option to convert before maturity, however pursuant to a board resolution dated November 14, 2004 the Parent Company intends not to settle the liability and convert the entire amount only on maturity.

Under current share ownership The Rompetrol Group NV would lose control over Rompetrol Rafinare S.A. if this debt instrument is settled in full by issuance of new shares. Subsequent to 31 December 2009 the management has undertaken a mandatory public offer, which would enable the Group to maintain its control over Rompetrol Rafinare S.A. if the debt instrument is settled in shares considering that Rompetrol Rafinare has the option in respect of this debt instrument, according to the law.

The significant reversal of accrued interest in 2009 is due to the significant decrease of Euribor compared with 2008, as the balance carried forward is recomputed each year based on the Euribor rates estimated for the coupon payment.

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## 12. LONG-TERM BORROWINGS FROM BANK

The long term debt is repayable as follows:

| | 2009 USD | 2008 USD | 2009 RON | 2008 RON |
|---|---|---|---|---|
| **Romanian Commercial Bank**<br>Rompetrol Downstream SRL: Investment loan of USD 20 million used for construction of filling stations and acquisition of related equipment. Repayment will be made in 19 quarterly installments starting in November 2006, the interest is: LIBOR 3M+ 3%. The loan is secured by mortgage over 24 filling stations and filling station financed by the loan, by a promissory note issued by The Company, by a guarantee letter issued by The Rompetrol Group NV and the assignment over the current account open at the bank. The maturity date is 15 April 2011. | 7,000,000 | 11,000,000 | 20,552,700 | 32,297,100 |
| **Piraeus Bank**<br>Rompetrol Downstream SRL: Investment loan of EUR 2.7 million, interest rate EURIBOR 3M+3.75%, secured by pledge over 3 filling stations and related equipment. Bail contract with Rompetrol Rafinare SA, The Rompetrol Grup NV, cession over the insurance policy of the pledged stations and equipment. The repayment will be made in monthly installments starting March 2009, the maturity date being 16 March 2015. | 3,359,087 | 3,808,874 | 9,862,615 | 11,183,235 |
| **Anglo-Romanian Bank LTD**<br>Rompetrol Petrochemicals SRL: Facility for investment needs (commissioning of LDPE production plant and ethylene transportation/storage capacities) up to EUR 12.7 million granted to Rompetrol Petrochemicals SRL; interest rate: EURIBOR 1YR +2.5% p.a.; maturity date: October 10, 2010; guarantees: mortgage on existing and financed LDPE installation, assignment of future LDPE receivables, pledge on future LDPE inventories. The facility was reimbursed on August 25, 2009. | - | 8,929,816 | - | 26,218,833 |
| **Raiffeisen Bank Romania S.A.**<br>Rompetrol Petrochemicals SRL: Facility for investment needs (commissioning of HDPE production plant) up to EUR 8 million granted to Rompetrol Petrochemicals SRL; interest rate: EURIBOR 1 month + 4% p.a.; maturity date: January 31, 2012; guarantees: mortgage on HDPE unit and Marine Terminal, assignment of future HDPE receivables. The facility was reimbursed on August 25, 2009. | - | 8,324,177 | - | 24,440,616 |
| **Romanian Commercial Bank**<br>Rompetrol Logistics SRL: Long term facility for investment purposes of EUR 10.11 million, interest rate of EURIBOR 6M+3%, repayable in 11 installments from October 2006 until June 2011; the guarantees are represented by mortgages on lands and buildings, collateral deposits, assignment of receivables; During 2009 loan was settled in full. | - | 7,109,614 | - | 20,874,538 |
| **Romanian Commercial Bank**<br>Rompetrol Downstream SRL: Investment loan of USD 20 million used for construction of filling stations and acquisition of related equipment. Repayment will be made in 20 equal quarterly installments starting in December 2004. Variable annual interest rate, consisting of the bank prime rate plus a margin 0.5%. The loan is secured by mortgage over 9 filling stations and filling station financed by the loan and by letter of corporate guarantee issued by The Rompetrol Group N.V. During 2009 the loan was settled in full. | - | 3,000,000 | - | 8,808,300 |
| **VolksBank Romania S.A.**<br>Rompetrol Petrochemicals SRL: Facility for investment needs (equipments & accessories) up to EUR 1.6 million, interest rate: EURIBOR at 1 month + 3.45% p.a.; maturity date: December 15, 2009; guarantees: equipments & accessories financed, assignment of receivables. The facility was reimbursed on November 02, 2009. | - | 458,810 | - | 1,347,112 |
| Amount payable within one year principal | (5,150,149) | (18,455,108) | (15,121,352) | (54,186,043) |
| **Total** | 5,208,938 | 24,176,183 | 15,293,963 | 70,983,691 |

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## 12. LONG-TERM BORROWINGS FROM BANK (continued)

The long term debt is repayable as follows:

| | 2008 USD | 2007 USD | 2008 RON | 2007 RON |
|---|---|---|---|---|
| One year or less - principal | 5,150,149 | 18,455,108 | 15,121,352 | 54,186,043 |
| One year or less - accrued interest long-term loans | - | - | - | - |
| Between two and five years | **5,208,938** | **24,176,183** | **15,293,963** | **70,983,691** |
| **Total** | **10,359,087** | **42,631,291** | **30,415,315** | **125,169,734** |

## 13. OBLIGATIONS UNDER FINANCE LEASES

| | 2009 USD | 2008 USD | 2009 RON | 2008 RON |
|---|---|---|---|---|
| Amounts due within 1 year | 8,730,074 | 7,744,358 | 25,632,370 | 22,738,210 |
| Amounts due after more than 1 year but not later than 5 years | 11,536,763 | 16,667,470 | 33,873,090 | 48,937,359 |
| **Total lease obligations** | **20,266,837** | **24,411,828** | **59,505,460** | **71,675,569** |
| Less future finance charges on finance leases | (896,509) | (2,804,712) | (2,632,240) | (8,234,916) |
| **Present value of finance lease liabilities** | **19,370,328** | **21,607,116** | **56,873,220** | **63,440,653** |
| Analyzed as follows: | | | | |
| Maturing within one year | 8,194,110 | 6,413,048 | 24,058,726 | 18,829,350 |
| Maturing after more than one year but not later than five years | 11,176,218 | 15,194,068 | 32,814,494 | 44,611,303 |
| **Total** | **19,370,328** | **21,607,116** | **56,873,220** | **63,440,653** |

It is the Group's policy to lease certain of its vehicles under finance leases. The average lease term is two to four years. For the year ended December 31, 2009 the effective borrowing rate ranked between 4% - 6%.

The lease obligations are denominated in USD and Euro. The fair value of the Group's lease obligations approximates to their carrying amount. The Company's obligations under finance leases are secured by the lessor's charge over the leased assets.

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## 14. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax, net balances are presented in the balance sheet as follows:

| | 2009 USD | 2008 USD | 2009 RON | 2008 RON |
|---|---|---|---|---|
| Deferred tax liabilities | 849,394 | 960,285 | 2,493,907 | 2,819,493 |
| Deferred tax assets | (223,444) | (223,444) | (656,054) | (656,054) |
| **Deferred tax liability, net** | 625,950 | 736,841 | 1,837,853 | 2,163,439 |

The deferred tax (assets) /liabilities comprised of the tax effect of the temporary differences related to:

USD

| 2009 | Opening balance | Charged to income | Charged to equity | Closing balance |
|---|---|---|---|---|
| *Temporary differences* | | | | |
| Intangible assets | 161,293 | 58,761 | - | 220,054 |
| Property, plant and equipment | 205,582 | (31,865) | - | 173,717 |
| Investments | (7,264) | (2,860) | - | (10,124) |
| Inventories | 16,287 | (7,870) | - | 8,417 |
| Trade and other payables | 361,553 | (127,057) | - | 234,496 |
| Other | (610) | - | - | (610) |
| **Deferred tax (asset)/liability recognized** | 736,841 | (110,891) | - | 625,950 |

RON

| 2009 | Opening balance | Charged to income | Charged to equity | Closing balance |
|---|---|---|---|---|
| *Temporary differences* | | | | |
| Intangible assets | 473,572 | 172,528 | - | 646,100 |
| Property, plant and equipment | 603,609 | (93,559) | - | 510,050 |
| Investments | (21,328) | (8,397) | - | (29,725) |
| Inventories | 47,820 | (23,107) | - | 24,713 |
| Trade and other payables | 1,061,557 | (373,051) | - | 688,506 |
| Other | (1,791) | - | - | (1,791) |
| **Deferred tax (asset)/liability recognized** | 2,163,439 | (325,586) | - | 1,837,853 |

See also note 23 for details for the income tax rate and other related matters.

## 15. TRADE AND OTHER PAYABLES

| | 2009 USD | 2008 USD | 2009 RON | 2008 RON |
|---|---|---|---|---|
| Trade payables | 404,976,275 | 598,777,881 | 1,189,050,829 | 1,758,071,718 |
| Advances from customers | 5,522,909 | 5,130,426 | 16,215,813 | 15,063,444 |
| Excise taxes | - | - | - | - |
| FSPP | 77,725,109 | 68,167,899 | 228,208,693 | 200,147,768 |
| VAT payable | 26,579,317 | 44,181,067 | 78,039,533 | 129,720,031 |
| Profit tax payable | 3,597 | - | 10,561 | - |
| Taxes payable | 973,764 | 916,091 | 2,859,068 | 2,689,735 |
| Employees and social obligations | 7,910,836 | 6,453,951 | 23,227,006 | 18,949,446 |
| Other liabilities | 6,515,644 | 5,105,027 | 19,130,582 | 14,988,870 |
| **Total** | 530,207,451 | 728,732,342 | 1,556,742,085 | 2,139,631,012 |

*(All amounts in US dollars and RON as presentation currency)*

## 16. SHORT-TERM DEBT

| | 2009 USD | 2008 USD | 2009 RON | 2008 RON |
|---|---|---|---|---|
| **Bancpost**<br>Rompetrol Rafinare SA: Revolving credit ceiling on short term of up to EUR 30 million, for issue of letters of credit and letters of guarantee, maturity January 31, 2010, interest rate Euribor/Libor 3M+5.9% or Robor +5%, guarantee on current account balances and assignment of collections from Rompetrol Downstream 120 % and mortgage on the coke unit and two filling stations. | 12,828,107 | - | 37,664,605 | - |
| **Piraeus Bank**<br>Rom Oil SA:Short term credit for working capital needs, in amount of EUR 8 million, maturity date: June 30, 2010; interest rate: EURIBOR 3M+3.75%; guarantees: mortgage on land and constructions from Vatra Dornei and Zarnesti warehouses; mortgage on land and constructions located in Ploiesti, Valeni 146 str owned by Rompetrol Logistics SA; Security guaranteed by Rompetrol Rafinare SA and The Rompetrol Group N.V.. | 11,520,589 | 11,248,889 | 33,825,601 | 33,027,863 |
| **Unicredit Tiriac Bank**<br>Rompetrol Rafinare SA: Letter of credit issuance facility agreement for crude oil imports, in amount of USD 110 million, interest rate LIBOR 2W+1.65% p.a, secured by The Rompetrol Group N.V. and Rompetrol SA, pledge on present and future stocks of crude oil and finished products, security on receivables and over credit balances on bank accounts, on insurance policies and on import contracts rights; The facility was fully reimbursed during 2009. | - | 105,750,000 | - | 310,492,575 |
| **BRD Societe Generale**<br>Rompetrol Rafinare SA: Letter of credit issuance facility agreement for crude oil imports, granted to Rompetrol Rafinare in amount of USD 65 million, interest rate LIBOR 1M+3.25% p.a. The facility was fully reimbursed during 2009 | - | 52,459,409 | - | 154,026,071 |
| **EFG Luxembourg**<br>Rompetrol Rafinare SA: Revolving credit ceiling on short term, for current activities, interest rate BUBOR 1M+3.75%, guarantee on curent account balances and assignment of collections from Rompetrol Downstream. The facility was fully reimbursed during 2009. | - | 36,926,650 | - | 108,420,337 |
| **ABN AMRO Bank**<br>Rompetrol Downstream SRL: Overdraft facility for EUR 20 million, interest rate formula EURIBOR 1M + 2.1% p.a. Secured by pledge over the current account. The facility was prolonged until September 30, 2009. | - | 28,122,221 | - | 82,569,653 |
| **Raiffeisen Bank Romania S.A.**<br>Rompetrol Petrochemicals SRL: Revolving facility for working capital needs up to EUR 25 Million including Credit Facility (LG&LC), EURIBOR interest rate at 1 week + 3.62% p.a., duration to January 31, 2009, guarantees - pledge on inventories, assignment of receivables, and mortgage on buildings and cooling station. The facility was reimbursed on August 18, 2009. | - | 26,453,279 | - | 77,669,472 |
| **Anglo-Romanian Bank Limited**<br>Rompetrol Petrochemicals SRL: Revolving Facility for LDPE Unit working capital needs up to EUR 9.2 Million, EURIBOR interest rate at 1 month + 3% p.a., duration to October 02, 2009, guarantees - pledge on LDPE and Ethylene inventories, LDPE Unit mortgage, assignment of LDPE receivables, mortgage on buildings. The facility was reimbursed on August 18, 2009. | - | 12,936,222 | - | 37,982,041 |
| Other short-term loans | - | 104,112,716 | - | 305,685,345 |
| Accrued interest | 21,033 | 402,237 | 61,756 | 1,181,009 |
| Current portion of long-term debt | 5,150,149 | 18,455,108 | 15,121,352 | 54,186,043 |
| | 29,519,878 | 396,866,731 | 86,673,314 | 1,165,240,409 |

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## 16. SHORT-TERM DEBT (continued)

| | 2009 USD | 2008 USD | 2009 RON | 2008 RON |
|---|---|---|---|---|
| **Borrowings from shareholders** | | | | |
| **The Rompetrol Group N.V.** Rompetrol Rafinare SA: Short-term facility for working capital needs in amount of up to USD 700 million, maturity date - 12 August 2010, interest rate 1M LIBOR+4% p.a. | 670,670,000 | - | 1,969,154,187 | - |
| **The Rompetrol Group N.V.** Rompetrol Rafinare SA: Short-term facility for working capital needs in amount of up to USD 184 million, maturity date - 16 December 2010, interest rate 3M LIBOR+3.5% p.a. | 149,200,000 | 33,900,000 | 438,066,120 | 99,533,790 |
| **The Rompetrol Group N.V.** Rompetrol Downstream S.R.L.: Short-term facility for working capital needs in amount of up to USD 48.75 million, maturity date - 2 December 2010 interest rate 1M LIBOR+4% p.a. | 48,750,000 | - | 143,134,875 | - |
| **Rompetrol S.A.** Rompetrol Downstream S.R.L.: Short-term facility for working capital needs in amount of up to USD 25 million, maturity date - 18 May 2010 interest rate 3M LIBOR+4.0% p.a. | 25,000,000 | - | 73,402,500 | - |
| **Rompetrol S.A.** Rompetrol Downstream S.R.L: Short-term facility for working capital needs in amount of up to USD 20.5 million, maturity date - 2 October 2010 interest rate 3M LIBOR+3 % p.a. | 20,500,000 | 20,500,000 | 60,190,050 | 60,190,050 |
| **The Rompetrol Group N.V.** Rompetrol Downstream S.R.L: Short-term facility for working capital needs in amount of up to USD 7.9 million, maturity date - 9 June 2010 interest rate 1M LIBOR+3.5% p.a. | 7,900,000 | - | 23,195,190 | - |
| **The Rompetrol Group N.V.** Rompetrol Gas S.R.L.: Short-term facility for working capital needs in amount of USD 6 million, maturity date - December 2010, interest rate Libor 1M +4%. | 6,000,000 | - | 17,616,600 | - |
| **Rompetrol Well Services** Rompetrol Rafinare SA: Short-term facility for working capital needs in amount of up to RON 9.6 million, maturity date - 9 January 2010, interest rate 15%. The loan is secured with a promissory note covering the debt. | 3,269,643 | 8,150,448 | 9,599,999 | 23,930,530 |
| **Rompetrol Well Services** Rompetrol Rafinare SA: Short-term facility for working capital needs in amount of up to RON 7 million, maturity date - 13 January 2010, interest rate 15%. The loan is secured with a promissory note covering the debt. | 2,384,115 | - | 7,000,000 | - |
| **Rompetrol Well Services** Rompetrol Rafinare SA: Short-term facility for working capital needs in amount of up to RON 3 million, maturity date - 3 January 2010, interest rate 15%. The loan is secured with a promissory note covering the debt. | 1,055,823 | - | 3,100,002 | - |
| **Other loans** | - | 600,000 | - | 1,761,660 |
| Accrued interest | 14,433,234 | 753,357 | 42,377,418 | 2,211,932 |
| | 949,162,815 | 63,903,805 | 2,786,836,941 | 187,627,962 |

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## 17. PROVISIONS

The movement in provisions is presented below:

| USD | Opening balance | Increase | Decrease | Exchange rate impact | Closing balance |
|---|---|---|---|---|---|
| Provision for retirement benefit | 2,477,056 | 213,552 | (532,353) | - | 2,158,255 |
| Environmental and other provisions | 9,809,867 | 70,205 | (188,835) | - | 9,691,237 |
| TOTAL | 12,286,923 | 283,757 | (721,188) | - | 11,849,492 |

| RON | Opening balance | Increase | Decrease | Exchange rate impact | Closing balance |
|---|---|---|---|---|---|
| Provision for retirement benefit | 7,272,884 | 627,010 | (1,563,042) | - | 6,336,852 |
| Environmental and other provisions | 28,802,751 | 206,129 | (554,439) | - | 28,454,441 |
| TOTAL | 36,075,635 | 833,139 | (2,117,481) | - | 34,791,293 |

According to collective labour agreements in place in certain of the Group's entities, employees are entitled to certain retirement benefits, payable on retirement, if they are employed with these entities at the date of their retirement. These amounts are estimated as of the balance sheet date based on benefits provided in the agreement, employees with the company and actuarial assumptions on future liabilities. These liabilities are recorded at their fair values as of the balance sheet date with the related service cost charged to the income statement.

The present value of this obligation and the related current and past service costs were measured using the Projected Unit Credit Method. The discount rate used was 11.25% (8% in 2008), with an expected rate of long-term salary increase of 4.5% for 2009 and 2008.

The charge for the year is included in the salaries expenses in the income statement for 2009.

Amounts recognised in the profit or loss in respect of this obligation are as follows:

| | USD | RON |
|---|---|---|
| **Opening balance** | 2,477,056 | 7,272,884 |
| Interest on obligation | 191,972 | 563,649 |
| Initial recognition of obligations | - | - |
| Service cost | 142,126 | 417,296 |
| Benefits paid in the year | - | - |
| Actuarial losses /(gains) recognized in the year | (652,899) | (1,916,977) |
| **Closing balance** | 2,158,255 | 6,336,852 |

The Group also recorded a provision for environmental liabilities in amount of USD 9,809,867 as of December 31, 2008 and of USD 9,691,237 as at December 31, 2009, related to the environmental obligations assumed by Vega Refinery for cleaning of the oil sludge pools and restoration of contaminated land. The discount rate used for calculation of the expected cost was of 12% (2008: 12%).

It is considered that there are no significant liabilities relating to the provisions that will arise in the twelve months to 31 December 2010.

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## 18. REVENUES

| | 2009 USD | 2008 USD | 2009 RON | 2008 RON |
|---|---|---|---|---|
| Gross revenues from petroleum products production | 2,866,661,380 | 4,221,165,759 | 8,416,804,478 | 12,393,764,785 |
| Gross revenues from petroleum products trading | - | 931,506 | - | 2,734,995 |
| Revenues from petrochemicals production | 217,761,219 | 324,931,865 | 639,368,715 | 954,032,449 |
| Revenues from petrochemicals trading | 20,224,193 | 31,756,803 | 59,380,253 | 93,241,149 |
| Revenues from merchandise sales | 50,765,839 | 54,575,121 | 149,053,580 | 160,238,013 |
| Revenues from utilities sold | 3,166,791 | 4,919,021 | 9,298,015 | 14,442,738 |
| Revenues from transportation fees | 5,281,402 | 16,666,481 | 15,506,724 | 48,934,455 |
| Revenues from rents and other services | 20,934,127 | 24,434,783 | 61,464,690 | 71,742,966 |
| **Gross Revenues** | 3,184,794,951 | 4,679,381,339 | 9,350,876,455 | 13,739,131,550 |
| Less sales taxes | (644,029,571) | (698,875,834) | (1,890,935,223) | (2,051,969,336) |
| Less commercial discounts | (60,325,378) | (45,891,196) | (177,121,342) | (134,741,141) |
| **Total** | 2,480,440,002 | 3,934,614,309 | 7,282,819,890 | 11,552,421,073 |

## 19. COST OF SALES

| | 2009 USD | 2008 USD | 2009 RON | 2008 RON |
|---|---|---|---|---|
| Crude oil and other raw materials | 1,951,399,055 | 3,323,297,808 | 5,729,502,766 | 9,757,534,692 |
| Consumables and other materials | 20,298,037 | 19,577,408 | 59,597,066 | 57,481,228 |
| Utilities | 89,539,387 | 107,728,939 | 262,896,594 | 316,302,938 |
| Staff costs | 31,263,298 | 35,276,593 | 91,792,169 | 103,575,605 |
| Transportation | 4,605,476 | 4,129,633 | 13,522,138 | 12,125,015 |
| Maintenance | 27,768,031 | 28,475,963 | 81,529,716 | 83,608,275 |
| Insurance | 2,267,226 | 2,419,537 | 6,656,802 | 7,104,003 |
| Environmental expenses | 3,657,384 | 4,573,934 | 10,738,445 | 13,429,528 |
| Other | 9,895,350 | 23,063,375 | 29,053,737 | 67,716,375 |
| **Production cost before depreciation and amortization** | 2,140,693,244 | 3,548,543,190 | 6,285,289,433 | 10,418,877,659 |
| Depreciation and amortization | 53,950,873 | 48,480,460 | 158,405,159 | 142,343,479 |
| **Production costs** | 2,194,644,117 | 3,597,023,650 | 6,443,694,592 | 10,561,221,138 |
| Less: Change in inventories | 27,136,415 | 20,971,991 | 79,675,229 | 61,575,863 |
| Less: Own production of PPE | (1,256,576) | (1,032,624) | (3,689,433) | (3,031,887) |
| Cost of petroleum products trading | - | 879,969 | - | 2,583,677 |
| Cost of petrochemicals trading | 20,373,236 | 31,791,832 | 59,817,858 | 93,343,998 |
| Cost of merchandise sold | 40,122,679 | 42,312,178 | 117,804,198 | 124,232,786 |
| Cost of utilities resold | 2,526,114 | 3,674,111 | 7,416,923 | 10,787,557 |
| **Total** | 2,283,545,985 | 3,695,621,107 | 6,704,719,367 | 10,850,713,132 |

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## 20. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES, INCLUDING LOGISTIC COSTS

| | 2009<br>USD | 2008<br>USD | 2009<br>RON | 2008<br>RON |
|---|---|---|---|---|
| Staff costs | 68,529,491 | 75,282,654 | 201,209,438 | 221,037,398 |
| Utilities | 6,235,165 | 8,925,020 | 18,307,068 | 26,204,751 |
| Transportation | 31,889,585 | 25,679,350 | 93,631,011 | 75,397,140 |
| Professional and consulting fees | 32,975,534 | 35,747,387 | 96,819,465 | 104,957,903 |
| Royalties and rents | 12,970,923 | 14,494,340 | 38,083,927 | 42,556,832 |
| Consumables | 5,892,210 | 11,262,134 | 17,300,118 | 33,066,752 |
| Marketing | 10,861,429 | 15,440,487 | 31,890,242 | 45,334,814 |
| Taxes | 4,997,040 | 6,586,199 | 14,671,809 | 19,337,739 |
| Communications | 3,788,917 | 3,241,405 | 11,124,639 | 9,517,089 |
| Insurance | 3,183,790 | 3,343,857 | 9,347,926 | 9,817,899 |
| Computer related expenses | 14,562,551 | 4,670,112 | 42,757,106 | 13,711,916 |
| Environmental expenses | 6,236,461 | 9,946,016 | 18,310,873 | 29,202,498 |
| Maintenance | 18,977,123 | 9,807,656 | 55,718,731 | 28,796,259 |
| Other expenses | 26,834,167 | 27,615,965 | 78,787,798 | 81,083,235 |
| **Costs before depreciation** | **247,934,386** | **252,042,582** | **727,960,151** | **740,022,225** |
| Depreciation and amortization | 50,135,931 | 39,258,861 | 147,204,107 | 115,267,942 |
| **Total** | **298,070,317** | **291,301,443** | **875,164,258** | **855,290,167** |

## 21. OTHER INCOME/ (EXPENSES), NET

| | 2009<br>USD | 2008<br>USD | 2009<br>RON | 2008<br>RON |
|---|---|---|---|---|
| Net book value of non-current assets disposals | (252,769) | (8,370,164) | (742,155) | (24,575,639) |
| Proceeds on disposals of non-current assets | 617,435 | 8,351,695 | 1,812,851 | 24,521,412 |
| Provision for impairment of tangible assets, net | (3,566,098) | (7,274,258) | (10,470,420) | (21,357,949) |
| Provision for receivables, net | (12,728,695) | (15,647,739) | (37,372,721) | (45,943,326) |
| Provision for inventories, net | 20,029,383 | (33,994,932) | 58,808,271 | (99,812,520) |
| Net result from sale of Group investments | - | 5,346,277 | - | 15,697,204 |
| Inventories write-off | (878,814) | (667,343) | (2,580,286) | (1,959,386) |
| Other provisions | (24,717) | 4,398,812 | (72,572) | 12,915,352 |
| Other, net | 862,211 | (4,352,773) | 2,531,538 | (12,780,177) |
| **Total** | **4,057,936** | **(52,210,425)** | **11,914,506** | **(153,295,029)** |

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## 22. FINANCIAL COST, FINANCE INCOME AND FOREIGN EXCHANGE

| | 2009 USD | 2008 USD | 2009 RON | 2008 RON |
|---|---|---|---|---|
| **Finance cost** | | | | |
| Late payment interest | (17,633,093) | (23,853,109) | (51,772,524) | (70,035,113) |
| Interest expense | (23,344,310) | (33,263,481) | (68,541,229) | (97,664,907) |
| Unwinding of discount on hybrid (Note 11) | 15,546,188 | (34,174,516) | 45,645,163 | (100,339,796) |
| Commission and other bank charges | (38,975,601) | (29,071,580) | (114,436,262) | (85,357,067) |
| Collection discounts expenses | (22,975,533) | (11,971,801) | (67,458,462) | (35,150,405) |
| | (87,382,349) | (132,334,487) | (256,563,314) | (388,547,288) |
| **Finance income** | | | | |
| Interest income | 2,123,669 | 1,274,280 | 6,235,305 | 3,741,414 |
| Other financial income | 1,030,417 | - | 3,025,407 | - |
| | 3,154,086 | 1,274,280 | 9,260,712 | 3,741,414 |
| **Finance income/(cost), net** | (84,228,263) | (131,060,207) | (247,302,602) | (384,805,874) |
| Unrealized net foreign exchange (losses)/gains | 19,894,310 | 58,476,761 | 58,411,683 | 171,693,618 |
| Realized net foreign exchange (losses)/gains | (11,912,248) | (76,101,746) | (34,975,551) | (223,442,336) |
| **Foreign exchange gain/(loss), net** | 7,982,062 | (17,624,985) | 23,436,132 | (51,748,718) |
| **Total** | (76,246,201) | (148,685,192) | (223,866,470) | (436,554,592) |

## 23. INCOME TAX

a) The current income tax rate in 2009 was 16%, the same as in 2008.

Tax expense comprises:

| | 2009 USD | 2008 USD | 2009 RON | 2008 RON |
|---|---|---|---|---|
| Current tax expense | 467,325 | 802,951 | 1,372,113 | 2,357,544 |
| Deferred tax expense relating to the origination and reversal of temporary differences | (110,891) | 960,285 | (325,587) | 2,819,493 |
| **Total tax expense/(income)** | 356,434 | 1,763,236 | 1,046,526 | 5,177,037 |

As of December 31, 2009, the Group had the following unused fiscal losses:

| Entity | Taxable loss 2009 USD million | Taxable loss 2009 RON million |
|---|---|---|
| Rompetrol Rafinare SA | 251.43 | 738.22 |
| Rompetrol Petrochemicals SRL | 101.18 | 297.08 |
| Rompetrol Downstream SRL | 9.29 | 27.28 |
| Rom Oil SA | 7.85 | 23.05 |
| **As at December 31 2009** | 369.75 | 1,085.63 |

As realization is uncertain, no deferred tax asset was computed in relation to unused fiscal losses.

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## 23. INCOME TAX (continued)

A breakdown of tax losses by Group entity and by year are:

| Entity | Taxable loss Amount USD million | Taxable loss Amount RON million | Tax loss Expires in |
|---|---|---|---|
| **Rompetrol Rafinare SA** | | | |
| 2006 | 9.90 | 29.07 | 2011 |
| 2007 | 50.40 | 147.98 | 2012 |
| 2008 | 105.90 | 310.93 | 2013 |
| 2009 | 85.23 | 250.24 | 2016 |
| | 251.43 | 738.22 | |
| **Rompetrol Petrochemicals SRL** | | | |
| 2007 | 25.80 | 75.75 | 2012 |
| 2008 | 53.40 | 156.79 | 2013 |
| 2009 | 21.98 | 64.54 | 2016 |
| | 101.18 | 297.08 | |
| **Rom Oil SA** | | | |
| 2008 | 3.43 | 10.07 | 2013 |
| 2009 | 4.42 | 12.98 | 2016 |
| | 7.85 | 23.05 | |
| **Rompetrol Downstream SRL** | | | |
| 2008 | 4.30 | 12.63 | 2013 |
| 2009 | 4.99 | 14.65 | 2016 |
| | 9.29 | 27.28 | |

The Romanian Government has a number of agencies that are authorized to conduct audits (controls) of Romanian companies as well as 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 appear to be subject to significantly less regulation and the company under review appears to have less practically safeguards than is customary in many countries.

Management believes that it has adequately provided for tax liabilities in the accompanying financial statements.

b) The deferred tax liabilities details are disclosed in Note 14

c) The prima facie tax charge to the statements of income calculated based on regulatory accounts is reconciled to the profit tax expense calculated based on tax rules as follows, taking into account temporary differences and non-deductible items :

| | 2009 USD | 2008 USD | 2009 RON | 2008 RON |
|---|---|---|---|---|
| Profit/(loss) from operations | (173,364,565) | (253,203,858) | (509,015,699) | (743,431,847) |
| Tax at prevailing tax rate | (27,738,330) | 1,206,976 | (81,442,512) | 3,543,802 |
| Effect of statutory items non deductible / (not taxable) for tax purposes | 28,205,655 | (404,025) | 82,814,624 | (1,186,258) |
| Effect of temporary differences | (110,891) | 960,285 | (325,586) | 2,819,493 |
| **Income tax expense recognized in profit or loss** | 356,434 | 1,763,236 | 1,046,526 | 5,177,037 |

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## 24. OPERATING SEGMENT INFORMATION

### a) Business Segments

For management decision making purposes the Group is currently organised in 3 segments – refining, petrochemicals and marketing. Refining comprises Petromidia and Vega refineries, Petrochemicals comprises, Rompetrol Petrochemicals operations, Marketing comprises Rompetrol Downstream, Romoil, Rompetrol Logistics, and other subsidiaries operations.

The management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Operating Segment performance is evaluated based on operating profit or loss and measured consistently with operating profit or loss in the consolidated financial statements.

**2009 Income Statement information**

| USD | Refining | Petrochemicals | Marketing | Consolidation adjustments | Consolidated |
|---|---|---|---|---|---|
| Revenues-net | 2,038,188,994 | 240,151,382 | 1,257,350,026 | (1,055,250,400) | 2,480,440,002 |
| Cost of sales | (2,054,056,108) | (249,627,971) | (1,075,094,797) | 1,095,232,891 | (2,283,545,985) |
| **Gross margin** | **(15,867,114)** | **(9,476,589)** | **182,255,229** | **39,982,491** | **196,894,017** |
| Selling, general and administrative expenses | (70,222,049) | (15,227,716) | (174,712,708) | (37,907,844) | (298,070,317) |
| Other operating income /(expenses), net | 3,734,686 | 12,657,921 | (12,772,320) | 437,649 | 4,057,936 |
| **Operating margin** | **(82,354,477)** | **(12,046,384)** | **(5,229,799)** | **2,512,296** | **(97,118,364)** |
| Financial expenses, net | (57,285,897) | (2,628,341) | (28,337,413) | 4,023,388 | (84,228,263) |
| Net foreign exchange result | (3,979,703) | 6,393,395 | 5,605,129 | (36,759) | 7,982,062 |
| **Loss before income tax** | **(143,620,077)** | **(8,281,330)** | **(27,962,083)** | **6,498,925** | **(173,364,565)** |
| Income tax | (9,789) | (9,789) | (336,856) | - | (356,434) |
| **Net Loss** | **(143,629,866)** | **(8,291,119)** | **(28,298,939)** | **6,498,925** | **(173,720,999)** |
| Minority interests | - | - | - | (560,606) | (560,606) |
| **Net Loss Group** | **(143,629,866)** | **(8,291,119)** | **(28,298,939)** | **5,938,319** | **(174,281,605)** |

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## 24. OPERATING SEGMENT INFORMATION (continued)

| RON | Refining | Petrochemicals | Marketing | Consolidation adjustments | Consolidated |
|---|---|---|---|---|---|
| Revenues-net | 5,984,326,705 | 705,108,473 | 3,691,705,411 | (3,098,320,699) | 7,282,819,890 |
| Cost of sales | (6,030,914,139) | (732,932,686) | (3,156,585,833) | 3,215,713,291 | (6,704,719,367) |
| **Gross margin** | **(46,587,434)** | **(27,824,213)** | **535,119,578** | **117,392,592** | **578,100,523** |
| Selling, general and administrative expenses | (206,178,958) | (44,710,097) | (512,973,982) | (111,301,221) | (875,164,258) |
| Other operating income/(expenses), net | 10,965,412 | 37,164,922 | (37,500,809) | 1,284,981 | 11,914,506 |
| **Operating margin** | **(241,800,980)** | **(35,369,388)** | **(15,355,213)** | **7,376,352** | **(285,149,229)** |
| Financial expenses, net | (168,197,122) | (7,717,072) | (83,201,478) | 11,813,070 | (247,302,602) |
| Net foreign exchange result | (11,684,806) | 18,771,647 | 16,457,219 | (107,928) | 23,436,132 |
| **Loss before income tax** | **(421,682,908)** | **(24,314,813)** | **(82,099,472)** | **19,081,494** | **(509,015,699)** |
| Income tax | (28,741) | (28,741) | (989,044) | - | (1,046,526) |
| **Net Loss** | **(421,711,649)** | **(24,343,554)** | **(83,088,516)** | **19,081,494** | **(510,062,225)** |
| Minority interests | - | - | - | (1,645,995) | (1,645,995) |
| **Net Loss Group** | **(421,711,649)** | **(24,343,554)** | **(83,088,516)** | **17,435,499** | **(511,708,220)** |

## Balance sheet information

| USD | Refining | Petrochemicals | Marketing | Consolidation adjustments | Consolidated |
|---|---|---|---|---|---|
| Total non current assets | 1,120,695,325 | 145,421,724 | 377,822,684 | (556,370,147) | 1,087,569,586 |
| Total current assets | 530,903,950 | 63,763,274 | 277,830,543 | (222,421,858) | 650,075,909 |
| **TOTAL ASSETS** | **1,651,599,275** | **209,184,998** | **655,653,227** | **(778,792,005)** | **1,737,645,495** |
| Total equity | 360,953,666 | 114,027,080 | 244,763,304 | (558,439,842) | 161,304,208 |
| Total non-current liabilities | 11,695,722 | 42,614 | 24,917,133 | - | 36,655,469 |
| Total current liabilities | 1,278,949,887 | 95,115,304 | 385,972,790 | (220,352,163) | 1,539,685,818 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **1,651,599,275** | **209,184,998** | **655,653,227** | **(778,792,005)** | **1,737,645,495** |
| Capital expenditure | 100,079,512 | 14,414,692 | 67,255,368 | 6,917,372 | 188,666,944 |
| Depreciation and amortization | 50,354,526 | 11,057,110 | 39,247,403 | 3,427,765 | 104,086,804 |
| Impairment losses | (329,051) | (2,541,315) | (695,732) | - | (3,566,098) |

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## 24. OPERATING SEGMENT INFORMATION (continued)

| RON | Refining | Petrochemicals | Marketing | Consolidation adjustments | Consolidated |
|---|---|---|---|---|---|
| Total non current assets | 3,290,473,543 | 426,972,724 | 1,109,325,183 | (1,633,558,399) | 3,193,213,051 |
| Total current assets | 1,558,787,088 | 187,215,349 | 815,738,257 | (653,052,817) | 1,908,687,877 |
| **TOTAL ASSETS** | 4,849,260,631 | 614,188,073 | 1,925,063,440 | (2,286,611,216) | 5,101,900,928 |
| Total equity | 1,059,796,059 | 334,794,909 | 718,649,538 | (1,639,635,219) | 473,605,286 |
| Total non-current liabilities | 34,339,809 | 125,120 | 73,159,194 | - | 107,624,124 |
| Total current liabilities | 3,755,124,763 | 279,268,044 | 1,133,254,708 | (646,975,997) | 4,520,671,518 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | 4,849,260,631 | 614,188,073 | 1,925,063,440 | (2,286,611,216) | 5,101,900,928 |
| Capital expenditure | 293,843,455 | 42,322,977 | 197,468,489 | 20,310,096 | 553,945,017 |
| Depreciation and amortization | 147,845,924 | 32,464,781 | 115,234,300 | 10,064,261 | 305,609,266 |
| Impairment losses | (966,127) | (7,461,554) | (2,042,739) | - | (10,470,420) |

## 2008 Income Statement Information

| USD | Refining | Petrochemicals | Marketing | Consolidation adjustments | Consolidated |
|---|---|---|---|---|---|
| Revenues - net | 3,498,106,019 | 358,678,457 | 1,775,657,350 | (1,697,827,517) | 3,934,614,309 |
| Cost of sales | (3,404,832,251) | (398,684,688) | (1,612,943,695) | 1,720,839,527 | (3,695,621,107) |
| **Gross margin** | **93,273,768** | **(40,006,231)** | **162,713,655** | **23,012,010** | **238,993,202** |
| Selling, general and administrative expenses | (82,310,415) | (18,531,154) | (154,238,954) | (36,220,920) | (291,301,443) |
| Other operating income /(expenses), net | (20,179,636) | (12,630,682) | (20,957,505) | 1,557,398 | (52,210,425) |
| **Operating margin** | **(9,216,283)** | **(71,168,067)** | **(12,482,804)** | **(11,651,512)** | **(104,518,666)** |
| Financial expenses, net | (93,289,413) | (8,834,852) | (48,820,624) | 19,884,682 | (131,060,207) |
| Net foreign exchange result | (52,801,723) | 10,249,527 | 24,978,479 | (51,268) | (17,624,985) |
| **Lossbefore income tax** | **(155,307,419)** | **(69,753,392)** | **(36,324,949)** | **8,181,902** | **(253,203,858)** |
| Income tax | - | - | (1,763,236) | - | (1,763,236) |
| **Net Loss** | **(155,307,419)** | **(69,753,392)** | **(38,088,185)** | **8,181,902** | **(254,967,094)** |
| Minority interests | - | - | - | (2,265,153) | (2,265,153) |
| **Net Loss Group** | **(155,307,419)** | **(69,753,392)** | **(38,088,185)** | **5,916,749** | **(257,232,247)** |

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## 24. OPERATING SEGMENT INFORMATION (continued)

| RON | Refining | Petrochemicals | Marketing | Consolidation adjustments | Consolidated |
|---|---|---|---|---|---|
| Revenues, net | 10,270,789,082 | 1,053,115,818 | 5,213,507,545 | (4,984,991,372) | 11,552,421,073 |
| Cost of sales | (9,996,927,972) | (1,170,578,112) | (4,735,763,983) | 5,052,556,935 | (10,850,713,132) |
| **Gross margin** | 273,861,110 | (117,462,294) | 477,743,562 | 67,565,563 | 701,707,941 |
| Selling, general and administrative expenses | (241,671,609) | (54,409,321) | (452,860,993) | (106,348,244) | (855,290,167) |
| Other operating expenses, net | (59,249,429) | (37,084,945) | (61,533,330) | 4,572,675 | (153,295,029) |
| **Operating margin** | (27,059,928) | (208,956,560) | (36,650,761) | (34,210,006) | (306,877,255) |
| Financial expenses, net | (273,907,046) | (25,940,009) | (143,342,234) | 58,383,415 | (384,805,874) |
| Net foreign exchange result | (155,031,139) | 30,093,636 | 73,339,312 | (150,527) | (51,748,718) |
| **Loss before income tax** | (455,998,113) | (204,802,933) | (106,653,683) | 24,022,882 | (743,431,847) |
| Income tax | - | - | (5,177,037) | - | (5,177,037) |
| **Net Loss** | (455,998,113) | (204,802,933) | (111,830,720) | 24,022,882 | (748,608,884) |
| Minority interests | - | - | - | (6,650,716) | (6,650,716) |
| **Net Loss Group** | (455,998,113) | (204,802,933) | (111,830,720) | 17,372,166 | (755,259,600) |

## Balance sheet information

| USD | Refining | Petrochemicals | Marketing | Consolidation adjustments | Consolidated |
|---|---|---|---|---|---|
| Total non current assets | 777,404,428 | 144,609,011 | 338,961,923 | (254,595,391) | 1,006,379,971 |
| Total current assets | 696,239,570 | 80,056,607 | 271,418,383 | (402,028,740) | 645,685,820 |
| TOTAL ASSETS | 1,473,643,998 | 224,665,618 | 610,380,306 | (656,624,131) | 1,652,065,791 |
| Total equity | 504,583,532 | 39,989,619 | 53,087,247 | (262,723,254) | 334,937,144 |
| Total non-current liabilities | 44,497,365 | 9,697,541 | 40,048,216 | - | 94,243,122 |
| Total current liabilities | 924,563,101 | 174,978,458 | 517,244,843 | (393,900,877) | 1,222,885,525 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 1,473,643,998 | 224,665,618 | 610,380,306 | (656,624,131) | 1,652,065,791 |
| Capital expenditure | 93,714,125 | 12,148,710 | 127,101,547 | - | 232,964,382 |
| Depreciation and amortization | 45,683,437 | 10,004,387 | 27,177,251 | 4,874,246 | 87,739,321 |
| Impairment losses | (4,571,911) | 2,756,238 | (2,702,347) | (2,756,238) | (7,274,258) |

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## 24. OPERATING SEGMENT INFORMATION (continued)

| RON | Refining | Petrochemicals | Marketing | Consolidation adjustments | Consolidated |
|---|---|---|---|---|---|
| Total non current assets | 2,282,537,141 | 424,586,517 | 995,226,103 | (747,517,544) | 2,954,832,217 |
| Total current assets | 2,044,229,001 | 235,054,204 | 796,911,514 | (1,180,396,583) | 1,895,798,136 |
| **TOTAL ASSETS** | 4,326,766,142 | 659,640,721 | 1,792,137,617 | (1,927,914,127) | 4,850,630,353 |
| Total equity | 1,481,507,708 | 117,413,520 | 155,869,466 | (771,381,745) | 983,408,949 |
| Total non-current liabilities | 130,648,713 | 28,472,950 | 117,585,567 | - | 276,707,231 |
| Total current liabilities | 2,714,609,721 | 513,754,251 | 1,518,682,584 | (1,156,532,382) | 3,590,514,173 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | 4,326,766,142 | 659,640,721 | 1,792,137,617 | (1,927,914,127) | 4,850,630,353 |
| Capital expenditure | 275,154,042 | 35,669,827 | 373,182,848 | - | 684,006,717 |
| Depreciation and amortization | 134,131,139 | 29,373,881 | 79,795,127 | 14,311,274 | 257,611,421 |
| Impairment losses | (13,423,588) | 8,092,590 | (7,934,361) | (8,092,590) | (21,357,949) |

## b) Geographical segments

All the Group's production facilities are located in Romania. The following table provides an analysis of the Group's net revenues by geographical market:

| | 2009 USD | 2008 USD | 2009 RON | 2008 RON |
|---|---|---|---|---|
| **Romania** | 1,583,019,886 | 2,301,634,482 | 4,647,904,687 | 6,757,829,003 |
| **Export** | 897,420,116 | 1,632,979,827 | 2,634,915,203 | 4,794,592,070 |
| *out of which* | | | | |
| Petroleum products | 754,437,517 | 1,416,181,038 | 2,215,103,994 | 4,158,049,146 |
| Petrochemical products | 142,982,599 | 216,798,789 | 419,811,209 | 636,542,924 |
| **Total** | 2,480,440,002 | 3,934,614,309 | 7,282,819,890 | 11,552,421,073 |

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## 25. RELATED PARTIES

The ultimate parent of the Group is the "State holding enterprise on assets management (Samruk)" JSC, an entity with its headquarters in Kazakhstan. The related parties and the nature of relationship are presented below:

| **Name of related party** | **Nature of relationship** |
|---|---|
| The Rompetrol Group N.V. | Majority Shareholder |
| Rompetrol S.A. | Common shareholding |
| Rominserv S.A. | Controlled by majority shareholder |
| Ecomaster Servicii Ecologice S.R.L | Controlled by majority shareholder |
| Vector Energy AG | Common shareholding |
| Rompetrol Well Services S.A. | Common shareholding |
| Rominservices Therm S.R.L. | Common shareholding |
| Palplast S.A. | Controlled by majority shareholder |
| Rompetrol Bulgaria JSC | Common shareholding |
| Rompetrol Moldova ICS | Common shareholding |
| Rompetrol Industrial Park S.R.L | Common shareholding |
| Rompetrol Georgia LLC | Common shareholding |
| Romcalor Oil Services S.A. | Common shareholding |
| Midia Marine Terminal S.R.L. | Common shareholding |
| Rompetrol Financial Group S.R.L. | Common shareholding |

Rompetrol Rafinare Group enters into a significant number of transactions with its affiliated companies (its parent company, companies under common shareholding and its subsidiaries). The management reviews the underlying commercial terms and conditions of these transactions on a regular basis and ensures that such transactions are carried out at terms and conditions that are similar to terms and conditions that we would have accepted with third parties. As of December 31, 2009 and 2008 the balances with related parties are as follows:

| Name of related party | Receivables | | | |
|---|---|---|---|---|
| | 31-Dec-09 | 31-Dec-08 | 31-Dec-09 | 31-Dec-08 |
| | USD | USD | RON | RON |
| The Rompetrol Group N.V. | 4,278,042 | 3,764,710 | 12,560,759 | 11,053,565 |
| Vector Energy AG | 2,661,169 | 18,205,379 | 7,813,458 | 53,452,813 |
| Rominserv S.A. | 61,950,517 | 74,250,770 | 181,892,913 | 218,007,686 |
| Rominservices Therm S.R.L. | 3,612,274 | 4,988,869 | 10,605,998 | 14,647,818 |
| Rompetrol Bulgaria JSC | 1,663,016 | 1,455,774 | 4,882,781 | 4,274,298 |
| Rompetrol S.A. | 229,661 | 2,480,180 | 674,308 | 7,282,056 |
| Rompetrol Georgia LLC | 1,124,301 | 643,594 | 3,301,060 | 1,889,656 |
| Ecomaster Servicii Ecologice S.R.L | 617,066 | 656,804 | 1,811,767 | 1,928,442 |
| Rompetrol Well Services S.A. | 236,248 | 267,599 | 693,648 | 785,697 |
| Palplast S.A. | 99,555 | 1,348,598 | 292,303 | 3,959,619 |
| Rompetrol Industrial Park S.R.L | 84,091 | 148,691 | 246,900 | 436,572 |
| Midia Marine Terminal S.R.L. | 199,593 | - | 586,025 | - |
| Rompetrol Ucraina | 34,755 | - | 102,044 | - |
| Uzina Termoelectrica Midia S.A. | - | - | - | - |
| Rompetrol Moldova ICS | - | 1,333,133 | - | 3,914,212 |
| Romcalor Oil Services S.A. | - | 9,159 | - | 26,892 |
| **Total** | 76,790,288 | 109,553,260 | 225,463,964 | 321,659,326 |

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## 25. RELATED PARTIES (continued)

| Name of related party | Liabilities | | | |
|---|---|---|---|---|
| | 31-Dec-09 | 31-Dec-08 | 31-Dec-09 | 31-Dec-08 |
| | USD | USD | RON | RON |
| The Rompetrol Group N.V. | 906,600,814 | 43,772,844 | 2,661,870,650 | 128,521,447 |
| Vector Energy AG | 243,787,743 | 364,267,332 | 715,785,192 | 1,069,525,313 |
| Rominserv S.A. | 10,530,464 | 76,938,200 | 30,918,495 | 225,898,249 |
| Rominservices Therm S.R.L. | - | - | - | - |
| Rompetrol Bulgaria JSC | 86,705 | - | 254,575 | - |
| Rompetrol S.A. | 48,938,141 | 36,441,549 | 143,687,276 | 106,996,032 |
| Rompetrol Georgia LLC | - | - | - | - |
| Ecomaster Servicii Ecologice S.R.L | 5,088,628 | 6,381,444 | 14,940,721 | 18,736,558 |
| Rompetrol Well Services S.A. | 7,003,455 | 8,367,822 | 20,562,844 | 24,568,762 |
| Palplast S.A. | - | - | - | - |
| Rompetrol Industrial Park S.R.L | - | - | - | - |
| Midia Marine Terminal S.R.L. | 831,647 | - | 2,441,799 | - |
| Rompetrol Ucraina | - | - | - | - |
| Uzina Termoelectrica Midia S.A. | 3,931,187 | - | 11,542,358 | - |
| Rompetrol Moldova ICS | 128,296 | - | 376,690 | - |
| Romcalor Oil Services S.A. | 1,611 | 156,353 | 4,730 | 459,068 |
| **Total** | 1,226,928,691 | 536,325,544 | 3,602,385,330 | 1,574,705,429 |

During 2009 and 2008, Rompetrol Rafinare Group entered into the following transactions with related parties:

| Name of related party | Sales | | | |
|---|---|---|---|---|
| | 31-Dec-09 | 31-Dec-08 | 31-Dec-09 | 31-Dec-08 |
| | USD | USD | RON | RON |
| Vector Energy AG | 726,018,776 | 1,114,624,525 | 2,131,663,728 | 3,272,649,068 |
| Rominserv S.A. | 35,576,558 | 3,151,399 | 104,456,332 | 9,252,823 |
| Rompetrol Moldova ICS | 22,260,450 | 57,740,006 | 65,358,907 | 169,530,432 |
| Uzina Termoelectrica Midia S.A. | 19,624,253 | - | 57,618,769 | - |
| Rompetrol S.A. | 298,108 | 483,458 | 875,275 | 1,419,481 |
| Ecomaster Servicii Ecologice S.R.L | 2,161,598 | 2,496,212 | 6,346,668 | 7,329,128 |
| Rominservices Therm S.R.L. | 1,931,879 | 4,808,253 | 5,672,190 | 14,117,512 |
| Rompetrol Bulgaria JSC | 6,298,473 | 11,891,150 | 18,492,947 | 34,913,606 |
| Rompetrol Georgia LLC | 649,334 | 1,055,695 | 1,906,510 | 3,099,626 |
| Romcalor Oil Services S.A. | 610 | 3,153,282 | 1,791 | 9,258,351 |
| Midia Marine Terminal S.R.L. | 526,328 | - | 1,545,352 | - |
| The Rompetrol Group N.V. | - | 154,448,467 | - | 453,476,144 |
| Rompetrol Well Services S.A. | - | 4,022,222 | - | 11,809,646 |
| Rompetrol Industrial Park S.R.L | - | 29,398 | - | 86,315 |
| Palplast S.A. | 40 | 4,374,524 | 117 | 12,844,040 |
| | 815,346,407 | 1,362,278,591 | 2,393,938,586 | 3,999,786,172 |

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## 25. RELATED PARTIES (continued)

The nature of sale transactions consists in sale of petroleum products. Sales to related parties are presented before deduction of sales taxes:

| Name of related party | Nature of transaction | Purchases 31-Dec-09 USD | 31-Dec-08 USD | 31-Dec-09 RON | 31-Dec-08 RON |
|---|---|---|---|---|---|
| Vector Energy AG | Purchase of crude oil | 1,826,928,582 | 3,701,621,851 | 5,364,045,010 | 10,868,331,917 |
| Rominserv S.A. | Acquisition and maintenance of fixed assets | 167,239,923 | 160,548,634 | 491,033,138 | 471,386,844 |
| Uzina Termoelectrica Midia S.A. | Acquisition of utilities | 23,741,329 | - | 69,706,916 | - |
| Rompetrol S.A. | Management services | 9,309,162 | 32,216,410 | 27,332,631 | 94,590,601 |
| Ecomaster Servicii Ecologice S.R.L | Environmental services | 8,995,010 | 11,908,111 | 26,410,249 | 34,963,405 |
| Rominservices Therm S.R.L. | Rental Services | 20,782 | - | 61,018 | - |
| Romcalor Oil Services S.A. | Sales intermediary services | - | 1,013,920 | - | 2,976,971 |
| Midia Marine Terminal S.R.L. | Shipping services | 10,705,366 | 2,955,235 | 31,432,025 | 8,676,865 |
| Rompetrol Financial Group S.R.L. | Interest on loan | - | 793,932 | - | 2,331,064 |
| The Rompetrol Group N.V. | Purchase of crude oil / Management services | 10,106,759 | 7,598,781 | 29,674,455 | 22,310,781 |
| Rompetrol Well Services S.A. | Interest on loan | - | 305,979 | - | 898,385 |
| | | 2,057,046,913 | 3,918,962,853 | 6,039,695,442 | 11,506,466,833 |

The amount of remuneration for key management personnel for 2009 was of USD1.41 million (2008: USD 1.58 million), representing short term benefits and bonuses.

## 26. LOSSES PER SHARE

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

| | 2009 USD | 2008 USD | 2009 RON | 2008 RON |
|---|---|---|---|---|
| ***Losses*** | | | | |
| Losses for the purpose of basic losses per share | | | | |
| Loss for the year attributable to ordinary equity holders of the parent entity | (174,281,605) | (257,232,247) | (511,708,220) | (755,259,600) |
| Interest on hybrid instrument, net of tax | (19,207,885) | 24,634,856 | (56,396,271) | 72,330,401 |
| Losses for the purpose of diluted losses per share | (193,489,490) | (232,597,391) | (568,104,491) | (682,929,199) |
| ***Number of shares*** | | | | |
| Weighted average number of shares for the purpose of basic earnings per share (see Note 10) | 21,099,276,002 | 21,099,276,002 | 21,099,276,002 | 21,099,276,002 |
| Hybrid instrument (see Note 11) | 21,775,607,172 | 21,775,607,172 | 21,775,607,172 | 21,775,607,172 |
| Weighted average number of shares for the purpose of diluted earnings per share | 42,874,883,174 | 42,874,883,174 | 42,874,883,174 | 42,874,883,174 |
| **Losses per share** *(US cents/share)* | | | | |
| Basic | (0.826) | (1.219) | (2.425) | (3.579) |
| Diluted | (0.451) | (0.543) | (1.324) | (1.594) |

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## 27. CONTINGENCIES

Related to the Parent's oil products technological lending practice to other refineries, D.G.F.P Constanta claimed unrecorded income, excise, VAT and related penalties totaling RON 47.7 million (USD 15.3 million) to be paid by the Parent. These claims (the legal effects) were suspended by the local court for admission. Subsequently, a second suspension has been issued by the fiscal authorities (D.G.S.C. – A.N.A.F.) until the final sentence regarding the criminal case, as the fiscal authority believes that this matter is now to be dealt as part of the criminal investigation started by the General Prosecutor Office (see note 28). The management is confident that the Parent is able to defend itself and the likelihood of a negative outcome is remote.

In 2001, the Parent processed crude oil for another refinery for which it originally raised excise invoices. However due to the law prevailing at the time, such invoices raised by the Parent were challenged by the respective refinery and the courts held at the time that the Company is not to issue the excise invoices and therefore the Parent cancelled such invoices. The Parent is now challenged for such reversals by D.G.F.P. Constanta, which concluded not to acknowledge the conclusions of the court decision and held the Parent liable for paying such excises; the Parent appealed the tax audit, which is now being suspended as described in the paragraph above. The amounts noted in the minutes issued by D.G.F.P Constanta is RON 9.5 Million (USD 3 million). The management is confident that the likelihood of reversal of the earlier court decision is very little.

## 28. LEGAL MATTERS

Starting with March 22, 2005 and as of the date of this report, the investigations concerning current and past administrators, officers and external censors of S.C. Rompetrol Rafinare S.A. ("RRC") have been formally developing (despite certain discontinuities occurred from time in the course of the criminal investigation stage). At present, the Prosecutors' General Office attached to the High Court of Cassation and Justice ("PGO") is investigating only one of the current administrators.

The charges apprehended upon the initiation of the investigation were: a) failure to fulfill the investment commitments undertaken under the privatization contract concerning the Parent; b) unlawful statement of excises and other debts to the state budget; c) incorrect maintenance of accounting registries regarding the transactions undertaken at the oil terminal owned by Oil Terminal. These charges concern events taken place during April 2001 – October 2002. The said charges have been split by the prosecutors' office from the initial file (which has been sent to trial following such split) and are subject to a separate file currently open before PGO - DIICOT.

For certain charges under investigation – charges not concerning the Parent directly, that are part of the initial file open by the prosecutors' office, even after the split of the file – the PGO decided to send to trial certain officials of The Rompetrol Group N.V. ("TRG"), the controlling company of S.C. Rompetrol Rafinare S.A. Following the control of the regularity of intimation act, the first competent court, the Bucharest Tribunal, was assigned to pursue with the criminal trial on its merits, to date the matter being subject to several discussions on various procedural; following such discussions the court is expected to open the inquiry on the merits (the factual background) by interviewing the accused persons.

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## 28. LEGAL MATTERS (continued)

The Rompetrol Group N.V. and the Parent Company publicly stated and continues to consider, in relation with all charges, that it has provided clear, reasonable and legitimate explanations with respect to all the activities undertaken by the Parent and the related persons.

The Parent finds all charges brought against it as legally ungrounded. The Parent's standing has been confirmed also by the court of law when ruling in favor of the motion submitted by The Rompetrol Group N.V. and S.C. Rompetrol Rafinare S.A. against the sequester that was established in relation with its assets and shares. The respective sequester, established unilaterally by the PGO, has been definitively and irrevocably annulled by the competent court of law.

Furthermore, on December 15, 2005, The Rompetrol Group N.V. submitted a request for arbitration before the International Centre for Settlement of Investment Disputes within the World Bank ("ICSID") of Washington DC against the Government of Romania whereby it requested compensation for the damages incurred. The request for arbitration emphasizes the breach by the Romanian State of The Rompetrol Group N.V.'s rights under the Agreement on Encouragement and Reciprocal Protection of Investments between the Government of the Kingdom of the Netherlands and the Government of Romania, in force as of February 1, 1995 (the "Dutch-Romanian BIT"). The request has been registered with ICSID and has already been subject to a preliminary analysis regarding the admissibility thereof and the competence of ICSID over the case; the decision on these topics was favorable to The Rompetrol Group N.V., which opened the stage of debates on the merits of the said request submitted by The Rompetrol Group N.V.

## 29. COMMITMENTS

### Environmental commitments

The principal activity of Rompetrol Rafinare SA (including Vega Refinery) of refinery petroleum products and Rompetrol Petrochemicals has inherent effects on the environment in term of emission into land, water and air. The environmental effects of the Group's activities are monitored by local authorities and the management of the Group.

As of December 31, 2009 Rompetrol Rafinare SA (including Vega Refinery) has environmental commitments amounting to USD 59.7 million in order to conform to the Integrated Environmental Authorization.

### Other commitments

As of December 31, 2009 Rompetrol Rafinare S.A. has contracted capital commitments in projects related to capacity increase and compliance with Euro standards at the Petromidia refinery of USD 153.6 million (2008: USD 50 million). As of December 31, 2009, Rompetrol Petrochemicals S.R.L has contracted capital commitments amounting to USD 5.5 million (2008 - no commitments).

The Group's subsidiary Rompetrol Downstream S.R.L. has certain concession and rental agreements with City Halls and other companies/individuals in Romania. Usually the conditions for these agreements are the following: terms from 5 to 49 years, fixed or variable fees per year. According to these agreements, the approximate amount to be paid in 2010 is USD 3.7 million (USD 1.7 million in 2009).

*(All amounts in US dollars and RON as presentation currency)*

## 29. COMMITMENTS (continued)

### Sale and purchase commitments

As of December 31, 2009 Rompetrol Rafinare S.A has commitments for purchases of raw materials and utilities of USD 2,129 million and for petroleum products and utilities sales amounting to USD 1,068 million.

As of December 31, 2009 Rompetrol Petrochemicals S.R.L has commitments for purchases of raw materials of USD 71.3 million and for petrochemical products sales amounting to USD 16.6 million.

### Operating leases

The Group has entered into commercial leases for hiring of vessels and certain train wagons. Also, the Group has entered into an operating leasing agreement for IT equipment and services. These leases have an average life of between one and five years.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

| | 2009 USD | 2008 USD | 2009 RON | 2008 RON |
|---|---|---|---|---|
| Within one year | 2,848,713 | 2,782,395 | 8,364,106 | 8,169,390 |
| After one year but not more than five years | 6,866,734 | 7,763,539 | 20,161,418 | 22,794,527 |
| More than five years | - | | | |
| | 9,715,447 | 10,545,934 | 28,525,524 | 30,963,917 |

## 30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### 30. 1. 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 through the optimization of the debt and equity balance. The capital structure of the Group consists of bank debt and shareholder loans (see Notes 12 and 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 the Shareholders' Equity".

### 30.2. GEARING RATIO

The gearing ratio at the year end was as follows:

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Debt (excluding shareholder loans - see Note 16) | 76,700,708 | 501,676,093 |
| Cash and cash equivalents | (45,565,498) | (66,965,594) |
| **Net debt** | 31,135,210 | 434,710,499 |
| Equity (including shareholder loans - see Note 16) | 1,110,467,023 | 398,840,949 |
| **Net debt to equity ratio** | 0.03 | 1.09 |

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## 30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### 30.3. 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 2 to the financial statements.

### 30.4. CATEGORIES OF FINANCIAL INSTRUMENTS

The estimated fair values of these instruments approximate their carrying amounts.

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| **Financial assets** | | |
| Trade and other receivables | 314,185,381 | 365,428,620 |
| Cash and cash equivalents | 45,565,498 | 66,965,594 |
| **TOTAL FINANCIAL ASSETS** | 359,750,879 | 432,394,214 |
| **Financial liabilities** | | |
| Long-term borrowings | 5,208,938 | 24,176,183 |
| Hybrid instrument | 22,601,564 | 59,026,063 |
| Net obligations under finance lease | 19,370,328 | 21,607,116 |
| Trade and other payables | 530,207,451 | 728,732,342 |
| Short-term borrowings banks | 29,519,878 | 396,866,731 |
| **TOTAL FINANCIAL LIABILITIES** | 606,908,159 | 1,230,408,435 |

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash and short-term deposits, trade receivables, trade payables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Fair value of unquoted available-for-sale financial assets is estimated using appropriate valuation techniques.

**Fair value hierarchy**

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are based on observable market data, either directly or indirectly
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

## 30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

| | December 31, 2009 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Trade and other receivables | 314,185,381 | | | 314,185,381 |
| Cash and cash equivalents | 45,565,498 | | | 45,565,498 |
| **TOTAL FINANCIAL ASSETS** | 359,750,879 | - | - | 359,750,879 |
| **Financial liabilities** | | | | |
| Long-term borrowings | 5,208,938 | | | 5,208,938 |
| Hybrid instrument | 22,601,564 | | 22,601,564 | |
| Net obligations under finance lease | 19,370,328 | | | 19,370,328 |
| Trade and other payables | 530,207,451 | | | 530,207,451 |
| Short-term borrowings banks | 29,519,878 | | | 29,519,878 |
| **TOTAL FINANCIAL LIABILITIES** | 606,908,159 | - | 22,601,564 | 584,306,595 |

During the reporting period ending 31 December 2009, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

### 30.5 MARKET RISK

The Group's activities expose it to a variety of risks including the effects of: changes in the international quotations for crude oil and petroleum products, foreign currency exchange rates and interest rates. The Group's overall risk management main objective is to minimize the potential adverse effects on the financial performance of the Group companies.

### 30.6. FOREIGN CURRENCY RISK MANAGEMENT

The Group's functional currency is United States Dollar ("USD") and crude oil imports and a significant part of petroleum products are all denominated principally in US Dollars, therefore, limited foreign currency exposure arises in this context. Certain assets and liabilities are denominated in foreign currencies, which are retranslated at the prevailing exchange rate at each balance sheet date. The resulting differences are charged or credited to the income statement but do not affect cash flows. Group Treasury is responsible for handling the Group foreign currency transactions.

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

| | Liabilities | | Assets | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Currency RON | 216,560,012 | 254,484,060 | 229,181,667 | 287,206,636 |
| Currency EUR | 80,375,591 | 233,931,971 | 24,788,587 | 23,898,334 |

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## 30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### 30.7. FOREIGN CURRENCY SENSITIVITY ANALYSIS

The Group is mainly exposed to the RON and EUR currencies.

The following table details the Group's sensitivity to a 5% increase and decrease in the USD 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 5% change in foreign currency rates. A positive number below indicates an increase in profit and other equity here the USD strengthens 5% against the relevant currency. For a 5% weakening of the USD against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

| | RON | | EUR | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| USD | | | | |
| Profit or loss | 631,083 | 1,636,129 | (2,779,350) | (10,501,682) |

### 30.8. INTEREST RATE RISK MANAGEMENT

Interest rate price risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates relative to the interest rate that applies to the financial instrument. Interest rate cash flow risk is the risk that the interest cost will fluctuate over time. The Group has long-term debt and short-term debt that incur interest at fixed and variable interest rates that exposes the Group to both fair value and cash flow risk. Details of the interest rate terms, which apply to the Group's borrowings, are provided in Notes 12 and 16.

The sensitivity analyses below have been determined based on the financial 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.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's: profit for the year ended 31 December 2009 would decrease/increase by USD 243 thousand (2008: decrease/increase by USD 2,201thousand).

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## 30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### 30.9. LIQUIDITY RISK MANAGEMENT

The tables below summarizes the maturity profile of the Group's financial liabilities at 31 December 2009 and 31 December 2008 based on contractual undiscounted payments, including interest payable until the end of the contracts for finance leasing and loans.

| Year ended December 31, 2009 | Less than 1 month or on call | <3 months | 3-12 months | 1-5 years | >5 years | Total |
|---|---|---|---|---|---|---|
| Long-term borrowings from shareholders | - | - | - | - | - | - |
| Hybrid instrument - long-term portion | - | - | - | - | - | - |
| Long-term debt | - | 68,632 | 205,895 | 5,503,596 | - | 5,778,123 |
| Net obligations under finance lease | - | - | - | 11,696,193 | - | 11,696,193 |
| Trade and other payables | 137,082,254 | 360,997,017 | 22,435,946 | 9,692,234 | - | 530,207,451 |
| Net obligations under finance lease | 287,072 | 505,632 | 7,777,939 | - | - | 8,570,643 |
| Short-term borrowings from shareholders | 14,433,234 | 16,337,477 | 946,472,934 | - | - | 977,243,645 |
| Short-term debt | - | 13,088,831 | 16,819,938 | - | - | 29,908,769 |
| Hybrid instrument - current portion | - | - | 22,601,564 | - | - | 22,601,564 |
| | 151,802,560 | 390,997,589 | 1,016,314,216 | 26,892,023 | - | 1,586,006,388 |

| Year ended December 31, 2008 | Less than 1 month or on call | <3 months | 3-12 months | 1-5 years | >5 years | Total |
|---|---|---|---|---|---|---|
| Long-term borrowings from shareholders | - | - | - | - | - | - |
| Hybrid instrument - long-term portion | - | - | - | 32,056,464 | - | 32,056,464 |
| Long-term debt | - | 596,383 | 1,749,148 | 28,127,645 | - | 30,473,176 |
| Net obligations under finance lease | 164,924 | - | - | 16,992,442 | - | 17,157,366 |
| Trade and other payables | 341,938,529 | 384,871,887 | 1,921,926 | - | - | 728,732,342 |
| Net obligations under finance lease | 125,002 | 245,936 | 6,883,524 | - | - | 7,254,462 |
| Short-term borrowings from shareholders | 753,357 | 550,629 | 64,624,091 | - | - | 65,928,077 |
| Short-term debt | 14,061,111 | 83,143,770 | 308,507,418 | - | - | 405,712,299 |
| Hybrid instrument - current portion | - | - | 26,969,599 | - | - | 26,969,599 |
| | 357,042,923 | 469,408,605 | 410,655,706 | 77,176,551 | - | 1,314,283,785 |

### 30.10. COMMODITY PRICE RISK

The Group is affected by the volatility of crude oil prices. Its operating activities require ongoing purchase of crude oil to be used in its production. Due to significantly increased volatility of crude oil, the Group's Board of Directors has developed and enacted a risk management strategy regarding commodity price risk and its mitigation.

### 30.11. CREDIT RISK

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract leading to a financial loss. The Group is exposed to credit risk from its operating activities primarily for trade receivables and from its financing activities including bank deposits, foreign exchange transactions and other financial instruments.

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## 30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### Trade receivables

The retail operational segment is exposed to credit risk. Outstanding customer receivables are regularly monitored. Sales to top 10 customers the most significant of which is Vector Energy AG represent 23% of the Group revenues. The requirement for impairment is analyzed on regular basis on individual basis as well as collectively on the basis of ageing.

### Financial instruments and bank deposits

Credit risk from balances with banks and financial institutions is managed by the Group's treasury in accordance with the Group's policy.

## 31. SUBSEQUENT EVENTS

The maturity of the short-term loans contracted by Rompetrol Rafinare S.A. from Bancpost was prolonged until April 29, 2010.

The maturity of the short-term loans contracted by Rompetrol Rafinare S.A. from Rompetrol Well Services was prolonged until April 2010.

On 8 February 2010 The Rompetrol Group N.V. initiated the mandatory public offer for the acquisition of 5,062.17 million Rompetrol Rafinare S.A. shares (representing approximately 24% of the company's share capital) available on stock exchange, that are not in the property of the Group, for a price of RON 0.0741/share (USD 0.0246/share). The offer period ended on 26 March 2010. During the offer period, the Group already acquired from the market an additional 22.62% of Rompetrol Rafinare S.A. shares for approximately RON 358 million (USD 119 million). In the same period, the offer price has been increased to RON 0.0751/share (USD 0.0249/share).

In March 2010, Rompetrol Petrochemicals contracted a non-cash facility from Bancpost SA in amount of EUR 3 million, in order to guarantee its credit purchases from a supplier of merchandises. The validity of the facility is of one year.

Also in March 2010, Rompetrol Rafinare and Rompetrol Petrochemicals subscribed to the facility concluded prior between Unicredit Tiriac Bank and other Rompetrol Group companies and jointly have access to a non-cash facility in amount of EUR 5 million, to be used for issuing letters of guarantee in favor of HVB Munchen and other letters of guarantee in order to guarantee CO2 certificates transactions.

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