

ROMPETROL RAFINARE S.A.

**CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012**

**PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ENDORSED BY THE EUROPEAN UNION (EU)**

REPORT OF INDEPENDENT AUDITORS

To the shareholders of Rompetrol Rafinare S.A.

Report on the Consolidated 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 statement of financial position as at 31 December 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes, all expressed in United States Dollar (USD). We have also reviewed the translation of these statements into Romanian lei on the basis described in Note 2 (d).

Management's Responsibility for the Consolidated Financial Statements

- 2 Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

- 3 Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with 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 consolidated financial statements are free from material misstatement.
- 4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 expressed in USD, present fairly, in all material respects, the financial position of the Group as of 31 December 2012 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.
- 7 In our opinion, the consolidated financial statements expressed in Romanian Lei have been properly translated on the basis as described in Note 2 (d).

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

- 8 In accordance with the Order of the Minister of Public Finance no 3055/2009, article no. 320 point 1e) 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 consolidated financial statements as at 31 December 2012.

On behalf of

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

ERNST & YOUNG

04 APR 2013

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Name of signing person: Garry R. Collins

Registered with the Chamber of Financial Auditors in Romania
Nr. 179/15 October 2000

Bucharest, Romania
4 April 2013

ROMPETROL RAFINARE S.A.
CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
As endorsed by the European Union (EU)
At 31 December 2012

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ROMPETROL RAFINARE S.A.
Consolidated Statement of Financial Position
as at December 31, 2012

(Amounts in US dollars representing the functional and presentation currency of the Group. Amounts in RON are provided for information purposes only (see Note 2d))

	Notes	December 31, 2012 USD	December 31, 2011 USD Restated	December 31, 2012 RON	December 31, 2011 RON Restated
Intangible assets	3	11,715,765	15,869,666	39,335,678	53,282,402
Goodwill	4	82,871,706	82,871,706	278,241,754	278,241,754
Property, plant and equipment	5	1,150,819,800	1,079,404,528	3,863,877,473	3,624,100,701
Available for sale investments	6	302,272	302,621	1,014,879	1,016,047
Long-term receivable	8	<u>7,292,478</u>	<u>4,781,842</u>	<u>24,484,493</u>	<u>16,055,035</u>
Total non current assets		<u>1,253,002,021</u>	<u>1,183,230,363</u>	<u>4,206,954,277</u>	<u>3,972,695,939</u>
Inventories, net	7	446,917,386	341,849,388	1,500,525,124	1,147,759,321
Receivables and prepayments, net	8	284,613,763	308,347,816	955,590,711	1,035,277,793
Derivative Financial Instruments	28.5	-	5,832,080	-	19,581,209
Cash and cash equivalents	9	<u>159,264,897</u>	<u>53,058,268</u>	<u>534,731,891</u>	<u>178,143,135</u>
Total current assets		<u>890,796,046</u>	<u>709,087,552</u>	<u>2,990,847,726</u>	<u>2,380,761,458</u>
TOTAL ASSETS		<u>2,143,798,067</u>	<u>1,892,317,915</u>	<u>7,197,802,003</u>	<u>6,353,457,397</u>
Share capital	10	1,463,323,897	1,463,323,897	4,913,109,985	4,913,109,985
Share premium	10	74,050,518	74,050,518	248,624,614	248,624,614
Revaluation reserve	10	-	-	-	-
Other reserves	10	283,383	401,011	951,458	1,346,394
Other reserves - Hybrid instrument	10	800,000,000	-	2,686,000,000	-
Effect of transfers with equity holders	10	(596,832,659)	(596,832,659)	(2,003,865,653)	(2,003,865,653)
Accumulated losses		(1,228,338,849)	(971,284,102)	(4,124,147,686)	(3,261,086,371)
Current year result		(162,746,097)	(257,054,747)	(546,420,022)	(863,061,315)
Equity attributable to equity holders of the parent		<u>349,740,193</u>	<u>(287,396,082)</u>	<u>1,174,252,696</u>	<u>(964,932,346)</u>
Non-Controlling interest		12,157,679	12,445,315	40,819,407	41,785,145
Total equity		<u>361,897,872</u>	<u>(274,950,767)</u>	<u>1,215,072,103</u>	<u>(923,147,201)</u>
Net obligations under finance leases	11	-	78,947	-	265,065
Deferred tax liabilities	12	738,795	1,557,049	2,480,505	5,227,792
Provisions	15	68,797,216	21,137,146	230,986,655	70,967,968
Other non-current liabilities		<u>130,990</u>	<u>131,665</u>	<u>439,798</u>	<u>442,065</u>
Total non-current liabilities		<u>69,667,001</u>	<u>22,904,807</u>	<u>233,906,958</u>	<u>76,902,890</u>
Trade and other payables	13	917,143,556	866,114,149	3,079,309,493	2,907,978,253
Derivative financial instruments	28.5	2,520,211	-	8,461,599	-
Net obligations under finance leases	11	80,254	1,707,867	269,453	5,734,163
Short-term borrowings from shareholders	14	576,441,495	1,146,870,633	1,935,402,319	3,850,618,150
Short-term borrowings from banks	14	204,546,337	126,391,655	686,764,326	424,359,982
Provisions - current portion	15	<u>11,501,341</u>	<u>3,279,571</u>	<u>38,615,752</u>	<u>11,011,160</u>
Total current liabilities		<u>1,712,233,194</u>	<u>2,144,363,875</u>	<u>5,748,822,942</u>	<u>7,199,701,708</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>2,143,798,067</u>	<u>1,892,317,915</u>	<u>7,197,802,003</u>	<u>6,353,457,397</u>

04 APR 2013

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The accompanying notes are an integral part of these consolidated financial statements
English translation is for information purposes only. Romanian language text is the official text for submission.

ROMPETROL RAFINARE S.A.
Consolidated Statement of Financial Position
as at December 31, 2012

(Amounts in US dollars representing the functional and presentation currency of the Group. Amounts in RON are provided for information purposes only (see Note 2d))

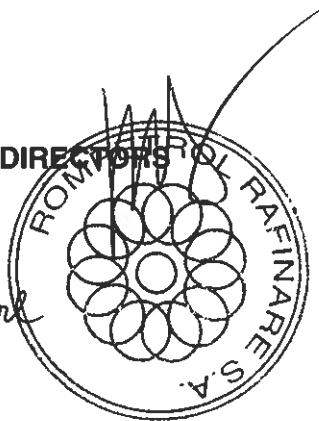
The consolidated financial statements on pages 3 to 76 were approved on April 4, 2013 and submitted for approval by the General Assembly of shareholders on April 29, 2013 by:

AZAMAT ZHANGULOV
PRESIDENT of the BOARD of DIRECTORS

SORIN GRAURE
CHIEF EXECUTIVE OFFICER

VASILE - GABRIEL MANOLE
CHIEF FINANCIAL OFFICER

Prepared by
Cristina Ana Dica



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ROMPETROL RAFINARE S.A.
Consolidated Income Statement
for the year ended at December 31, 2012

(Amounts in US dollars representing the functional and presentation currency of the Group. Amounts in RON are provided for information purposes only (see Note 2d))

Continuing operations	Notes	2012 USD	2011 USD	2012 RON	2011 RON
Revenues	16	3,843,481,873	3,922,906,083	12,904,490,389	13,171,157,174
Cost of sales	17	(3,672,713,538)	(3,755,535,121)	(12,331,135,705)	(12,609,209,169)
Gross profit		<u>170,768,335</u>	<u>167,370,962</u>	<u>573,354,684</u>	<u>561,948,005</u>
Selling, general and administrative expenses, including logistic costs	18	(220,106,359)	(274,335,906)	(739,007,099)	(921,082,803)
Other operating income/(expenses), net	19	(70,194,271)	(76,242,585)	(235,677,266)	(255,984,481)
Operating profit		<u>(119,532,295)</u>	<u>(183,207,529)</u>	<u>(401,329,681)</u>	<u>(615,119,279)</u>
Financial income/(cost) expenses, net	20	(55,988,793)	(80,755,088)	(187,982,372)	(271,135,209)
Foreign exchange gain / (loss), net	20	11,955,758	6,475,655	40,141,456	21,742,012
Loss before income tax		<u>(163,565,330)</u>	<u>(257,486,962)</u>	<u>(549,170,597)</u>	<u>(864,512,476)</u>
Income tax	21	531,597	(688,983)	1,784,837	(2,313,261)
Loss for the year		<u>(163,033,733)</u>	<u>(258,175,945)</u>	<u>(547,385,760)</u>	<u>(866,825,737)</u>
<i>Attributable to:</i>					
Equity holders of the parent		(162,746,097)	(257,054,747)	(546,420,022)	(863,061,315)
Non-Controlling interest		(287,636)	(1,121,198)	(965,738)	(3,764,422)
Earnings per share (US cents/share)					
Basic	24	(0.369)	(0.772)	(1.239)	(2.592)

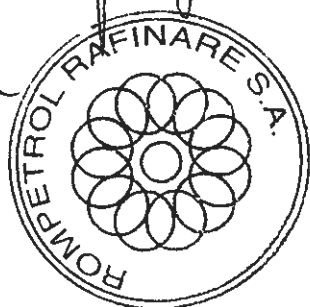
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VASILE - GABRIEL MANOLE
CHIEF FINANCIAL OFFICER

Prepared by
Cristina Ana Dica



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ROMPETROL RAFINARE S.A.
Consolidated Statement of Comprehensive Income
for the year ended at December 31, 2012

(Amounts in US dollars representing the functional and presentation currency of the Group. Amounts in RON are provided for information purposes only (see Note 2d))

	<u>2012</u> USD	<u>2011</u> USD	<u>2012</u> RON	<u>2011</u> RON
Net Loss	(163,033,733)	(258,175,945)	(547,385,760)	(866,825,737)
Other comprehensive income				
Actuarial gains/(losses) on retirement benefits	(117,628)	401,011	(394,936)	1,346,394
Other comprehensive income (loss) for the year, net of tax	(117,628)	401,011	(394,936)	1,346,394
Total comprehensive loss for the year, net of tax	(163,151,361)	(257,774,934)	(547,780,696)	(865,479,343)
<i>Attributable to:</i>				
Equity holders of the parent	(162,863,725)	(256,653,736)	(546,814,958)	(861,714,921)
Non-Controlling interest	(287,636)	(1,121,198)	(965,738)	(3,764,422)
Total comprehensive loss for the year, net of tax	(163,151,361)	(257,774,934)	(547,780,696)	(865,479,343)

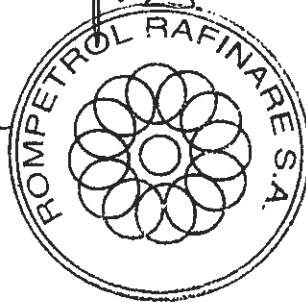
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ROMPETROL RAFINARE S.A.
Consolidated Statement of Cash Flows
for the year ended at December 31, 2012

(Amounts in US dollars representing the functional and presentation currency of the Group. Amounts in RON are provided for information purposes only (see Note 2d))

	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
	USD	USD	RON	RON
Net result before income tax	(163,565,330)	(257,486,962)	(549,170,597)	(864,512,476)
<i>Adjustments for:</i>				
Depreciation and amortisation	76,626,435	108,258,828	257,273,255	363,479,017
Provisions for receivables and inventories (incl write-off)	61,246,822	25,204,195	205,636,204	84,623,085
Impairment for property, plant and equipment (incl write-off)	(999,955)	52,814,816	(3,357,344)	177,325,744
Provision for environmental and other liabilities	59,570,019	5,548,719	200,006,339	18,629,824
Restructuring and retirement benefit provisions	301,050	(1,601,642)	1,010,775	(5,377,513)
Late payment interest	2,309,053	1,181,917	7,752,644	3,968,286
Interest expense and bank charges, net	47,336,777	67,478,757	158,933,230	226,559,928
Unrealised gains from derivatives	12,905,240	1,600,595	43,329,343	5,373,998
(Gain)/Loss on sale or disposal of property, plant and equipment	(138,907)	(352,876)	(466,381)	(1,184,781)
Unrealised foreign exchange (gain)/loss from restatement and monetary items	<u>610,320</u>	<u>(61,585)</u>	<u>2,049,149</u>	<u>(206,772)</u>
Cash generated from operations before working capital changes	96,201,524	2,584,762	322,996,617	8,678,340
<i>Net working capital changes in:</i>				
Receivables and prepayments	(33,268,001)	7,593,291	(111,697,314)	25,494,469
Inventories	(116,781,425)	(424,026)	(392,093,634)	(1,423,667)
Trade and other payables, excluding payables for capital expenditures	<u>82,343,171</u>	<u>115,845,644</u>	<u>276,467,194</u>	<u>388,951,750</u>
Change in working capital	(67,706,255)	123,014,909	(227,323,754)	413,022,552
Income tax paid	-	(870,792)	-	(2,923,684)
Cash payments for derivatives, net	(4,552,949)	(7,432,675)	(15,286,526)	(24,955,206)
Net cash provided by/(used in) operating activities	23,942,320	117,296,204	80,386,337	393,822,002
Cash flows from investing activities				
Purchase of property, plant and equipment	(131,928,665)	(211,758,022)	(442,950,493)	(710,977,558)
Changes in payables for capital expenditures	(33,909,474)	39,626,171	(113,851,059)	133,044,869
Purchase of intangible assets	(1,064,318)	(417,809)	(3,573,448)	(1,402,793)
Proceeds from sale of property, plant and equipment	<u>245,168</u>	<u>5,625,072</u>	<u>823,152</u>	<u>18,886,179</u>
Net cash used in investing activities	(166,657,289)	(166,924,588)	(559,551,848)	(560,449,303)
Cash flows from financing activities				
Loans received from shareholders	229,570,862	70,187,470	770,784,169	235,654,431
Loans (repaid to)/drawn from banks, net	78,154,007	55,334,137	262,402,079	185,784,365
Lease repayments	(1,706,560)	(8,533,451)	(5,729,775)	(28,651,062)
Interest and bank charges paid, net	<u>(57,096,711)</u>	<u>(67,478,757)</u>	<u>(191,702,206)</u>	<u>(226,559,927)</u>
Net cash from financing activities	248,921,598	49,509,399	835,754,267	166,227,807
Increase / (Decrease) in cash and cash equivalents	106,206,629	(118,985)	356,588,756	(399,494)
Cash and cash equivalents at the beginning of period	53,058,268	53,177,253	178,143,135	178,542,629
Cash and cash equivalents at the end of the period	<u>159,264,897</u>	<u>53,058,268</u>	<u>534,731,891</u>	<u>178,143,135</u>

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04 APR 2013

ROMPETROL RAFINARE S.A.
Consolidated Statement of Cash Flows
for the year ended at December 31, 2012

(Amounts in US dollars representing the functional and presentation currency of the Group. Amounts in RON are provided for information purposes only (see Note 2d))

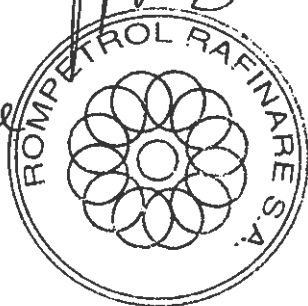
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Prepared by
Cristina Ana Dica



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04 APR 2013

ROMPETROL RAFINARE S.A.
Consolidated Statement of Changes in Equity
for the year ended at December 31, 2012

(Amounts in US dollars representing the functional and presentation currency of the Group. Amounts in RON are provided for information purposes only (see Note 2d))

Amount in USD

	<u>Share capital</u>	<u>Share premium</u>	<u>Accumulated losses</u> Restated	<u>Revaluation reserves</u> Restated	<u>Effect of transfers with equity holders</u>	<u>Other reserves</u>	<u>Equity attributable to equity holders of the parent</u>	<u>Non-Controlling interest</u>	<u>Total equity</u>
December 31, 2010	1,463,323,897	74,050,518	(971,284,102)	-	(596,832,659)	-	(30,742,346)	13,566,513	(17,175,833)
Net loss for 2011	-	-	(257,054,747)	-	-	-	(257,054,747)	(1,121,198)	(258,175,945)
Actuarial gains/(losses) on Retirement Benefits	-	-	-	-	-	401,011	401,011	-	401,011
December 31, 2011	<u>1,463,323,897</u>	<u>74,050,518</u>	<u>(1,228,338,849)</u>	<u>=</u>	<u>(596,832,659)</u>	<u>401,011</u>	<u>(287,396,082)</u>	<u>12,445,315</u>	<u>(274,950,767)</u>
Net loss for 2012	-	-	(162,746,097)	-	-	-	(162,746,097)	(287,636)	(163,033,733)
Hybrid instrument - reserves	-	-	-	-	-	800,000,000	800,000,000	-	800,000,000
Actuarial gains/(losses) on Retirement Benefits	-	-	-	-	-	(117,628)	(117,628)	-	(117,628)
December 31, 2012	<u>1,463,323,897</u>	<u>74,050,518</u>	<u>(1,391,084,946)</u>	<u>=</u>	<u>(596,832,659)</u>	<u>800,283,383</u>	<u>349,740,193</u>	<u>12,157,679</u>	<u>361,897,872</u>

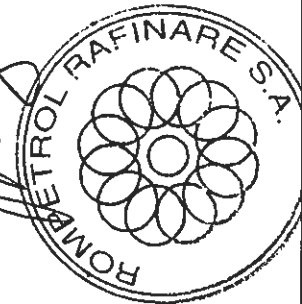
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VASILE - GABRIEL MANOLE
CHIEF FINANCIAL OFFICER

Prepared by
Cristina Ana Dica



ERNST & YOUNG

04 APR 2013

ROMPETROL RAFINARE S.A.
Consolidated Statement of Changes in Equity
for the year ended at December 31, 2012

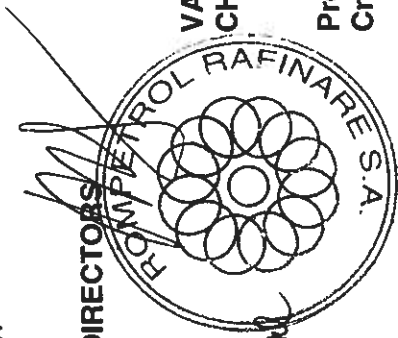
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<u>Amount in RON</u>	<u>Share capital</u>	<u>Share premium</u>	<u>Accumulated losses</u> Restated	<u>Revaluation reserves</u> Restated	<u>Effect of transfers with equity holders</u>	<u>Other reserves</u>	<u>Equity attributable to equity holders of the parent</u>	<u>Non-controlling interest</u>	<u>Total equity</u>
December 31, 2010	4,913,109,985	248,624,614	(3,261,086,371)	-	(2,003,865,653)	-	(103,217,425)	45,549,567	(57,667,858)
Net loss for 2011	-	-	(863,061,315)	-	-	-	(863,061,315)	(3,764,422)	(866,825,737)
Actuarial gains/(losses) on Retirement Benefits	-	-	-	-	-	1,346,394	1,346,394	-	1,346,394
December 31, 2011	<u>4,913,109,985</u>	<u>248,624,614</u>	<u>(4,124,147,686)</u>	=	<u>(2,003,865,653)</u>	<u>1,346,394</u>	<u>(964,932,346)</u>	<u>41,785,145</u>	<u>(923,147,201)</u>
Net loss for 2012	-	-	(546,420,022)	-	-	-	(546,420,022)	(965,738)	(547,385,760)
Hybrid instrument - reserves	-	-	-	-	-	2,686,000,000	2,686,000,000	-	2,686,000,000
Actuarial gains/(losses) on Retirement Benefits	-	-	-	-	-	(394,936)	(394,936)	-	(394,936)
December 31, 2012	<u>4,913,109,985</u>	<u>248,624,614</u>	<u>(4,670,567,708)</u>	=	<u>(2,003,865,653)</u>	<u>2,686,951,458</u>	<u>1,174,252,696</u>	<u>40,819,407</u>	<u>1,215,072,103</u>

The consolidated financial statements on pages 3 to 76 were approved on April 4, 2013 and submitted for approval by the General Assembly of shareholders on April 29, 2013 by:

AZAMAT ZHANGULOV
PRESIDENT of the BOARD of DIRECTORS

SORIN GRAURE
CHIEF EXECUTIVE OFFICER



VASILE - GABRIEL MANOLE
CHIEF FINANCIAL OFFICER

Prepared by
Cristina Ana Dica

ERNST & YOUNG

04 APR 2013

The accompanying notes are an integral part of these consolidated financial statements
 English translation is for information purposes only. Romanian language text is the official text for submission.

ROMPETROL RAFINARE S.A. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

(Amounts in US dollars representing the functional and presentation currency of the Group. Amounts in RON are provided for information purposes only (see Note 2d))

1. GENERAL

Rompetrol Rafinare S.A. (hereinafter referred to as "the Parent Company" or "the Company" or "the Parent" or "RRC") is a company incorporated under Romanian law. The Parent Company operates Petromidia Refinery – 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 and 2012.

Rompetrol Rafinare S.A and its subsidiaries (hereinafter referred to as "the Group") are involved in refining, petrochemicals and downstream activities, and have all the production facilities located in Romania (see also Note 22). The number of employees of the Group at the end of 2012 and 2011 was 3,803 and 4,024 respectively.

The registered address of Rompetrol Rafinare S.A. is Bd. Navodari no. 215, Navodari, Constanta, Romania. Rompetrol Rafinare S.A. and its subsidiaries are part of The Rompetrol Group N.V. with a registered address World Trade Centre, Strawinskyiaan 807, Tower A, 8th floor, 1077 XX Amsterdam, the Netherlands.

The ultimate parent of the Group is the "State holding enterprise on assets management (Samruk)" JSC, an entity with its headquarters in Kazakhstan.

The 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, 2012, as endorsed by the EU.

The consolidated financial statements are prepared under the historical cost convention

b) Going concern

The financial statements of the Group are prepared on a going concern basis. As at December 31, 2012 and 2011 the Group reported net assets/(net liabilities), including non-controlling interest, of USD 368 million and USD (275) million respectively. For the years ended December 31, 2012 and 2011 the Group reported losses of USD 157 million and USD 257 million respectively. The accumulated losses incurred so far, are due to the fact that the Group has been undertaking an ongoing development of its refinery and petrochemicals activities and has looked to develop its operational network in Romania.

To build on competitiveness of the Kazakh crude based products in the Black Sea market, an ambitious upgrade program has been executed to bring the Petromidia refinery in Romania to world-class standards. Starting Q3 2012, as a result of finalising the Upgrade program implementation, the refining capacity has been incremented from 3.8 million ton per year to 5 million ton per year capable to fully run on Ural's. Also, the desirable middle distillate fraction (Diesel and jet-fuel) has been raised to a world class 43% (40% increase in Diesel). This upgrade makes Petromidia the largest refinery in Romania and one of the largest in the Region. The refinery is strategically located on the Black Sea shore, with easy access to several markets for which forecasted demand is expected to grow over the next years, at the same time offering certain advantages in each, such as: good contribution margins or room for additional market share growth.

Crude oil average quotation in 2012 in amount of USD 111.57/ bbl, has increased by 0.27% compared to 2011 average of USD 111.27/ bbl.

The performance in 2012 was possible due to margins improvements in key operational sectors, such as refining and implementation of costs controlling program. The aggressive costs reduction program has contributed to better 2012 economic performance against the impact on that of past three years.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

While the first semester of 2012 performance was affected by severe weather conditions during first quarter/2012 and crude & products prices volatility (around +/-100USD/ton), the second semester delivered much better results, as Petromidia gross margin achieved has been approximately USD 105 million generated by international highest market margins in past 4 years.

The Petromidia Upgrade program was finalized at the beginning of third quarter 2012, when the refining capacity can be incremented from 3.8 million ton of raw materials per year to 5 million ton per year. As the result of the Upgrade program implementation white products basket yields achieved during December 2012 was of 92.5%, leading to the best yearly average yield from the history of the refinery at 85.4%. For the year 2012 the refining average monthly throughput was higher by 4% compared by 2011.

Even with aggressive cost cutting program in Rompetrol Downstream of approximately USD 30 million compared with 2011 the achieved EBITDA was lower than 2011, due to market margin decrease from 3.6% in 2011 of Gross Price down to 2.9%, which had a negative effect of approximately 20 USD/ton. Following the development of credit control process, Downstream recorded significant improvement of credit indicators evolution, receivable days decreasing from 22 days in December 2011 to 17 days in December 2012.

Rompetrol Gas improved EBITDA by 48% compared with 2011 was incurred following the optimization measures on retail network assessment, logistics contracts renegotiations, corroborated with export sales higher by 12% compared with 2011.

The 2013-2017 strategy is a mixture of cost optimization projects for production, network expansion for retail. The 2013-2017 strategy has the following main business objectives:

To expand distribution operations in countries around the Black Sea, to benefit from increased vertical integration with refining operation for improved financial performance

Specifically the Group plans to:

Strengthen the retail network presence following the upgrading of the Petromidia Refinery.

Develop in the rapidly maturing Black Sea Retail market. The Group is planning to expand in the markets where it is presently active (Romania, Bulgaria, Ukraine, Moldova and Georgia) and to start-up operations in Turkey

Cost reduction initiatives in refining with the purpose to improve Solomon indicators:

The material technological improvements brought by the Refinery Upgrade Package has increased refinery economics by an additional USD 60 – 90 million/year gross margin, and USD 2 – 4 /ton savings on processing costs (from USD 29/ton currently).

Further to the technological improvements, Petromidia refinery management will continue to focus on cost competitiveness (further cost reduction initiatives) and energy efficiency for optimum refinery performance.

The management believes that the developments mentioned above will result in an enhancement of the Group's ability to support its continuing operations, despite the challenges of the ongoing financial crisis.

The Group has a five years business plan that considers its development plans in particular the impact of the Refinery Expansion Project. The estimated operative profit margins for the next 5 years by Cash Generating Units are detailed in Note 4.

The Group has completed during 2012 additional bank borrowings and facilities that have provided additional funding for investments and operations. The Group has received confirmation of KMG Group's continuing support during the next twelve months should the need arise for additional funding which is or will be available from its own operations and/or third party sources

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Based on the Group's plans for 2013, it is considered that the preparation of the financial statements on a going concern basis is appropriate.

c) Changes in accounting policies

The Group has reconsidered its accounting policy for property, plant and equipment with respect to measurement of certain classes of property, plant and equipment. Until 31 December 2011, the accounting policy used for certain classes of property, plant and equipment was disclosed as fair value based on independent valuation. The last valuation of property, plant and equipment items was performed as of 31 December 2003, and no subsequent revaluations have been performed for reporting under International Financial Reporting Standards.

As 31 December 2005, the date of first time preparation of consolidated financial statements prepared in accordance with International Financial Reporting Standards, the revaluation completed as of 31 December 2003 (transition date) can be considered as deemed cost. On this basis the Group has determined that property, plant and equipment items are carried on a cost basis. The impact of the change in accounting policy is included in Note 2 ac).

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except for the following amendments to IFRS effective as of 1 January 2012:

- **IFRS 7 Financial Instruments : Disclosures – Enhanced Derecognition Disclosure Requirements**
- **IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets**

The adoption of the standards or interpretations is described below:

- **IFRS 7 Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements (Amendment)**
The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the financial statements to understand the relationship with their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated such involvement. The Group has assessed that the amendment has no impact on its financial position or performance as the Group does not have any such assets.
- **IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets**
The amendment clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The Group has assessed that the amendment has no impact on its financial position or performance as the Group does not have any such assets.

d) Foreign currency translation

The group currency translations are consistent with those of the previous financial year ("US Dollar" or "USD"), which is the Group's functional currency, representing 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:

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Monetary assets and liabilities

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.

Non-monetary assets and liabilities

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 statement of financial position.

Consolidated statements of income

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.

Romanian lei translation for information purposes basis

Amounts in Romanian lei are provided for information purpose basis only and are translated by multiplying the values in USD with the 31 December 2012 closing exchange rate of RON 3.3575 = USD 1, for both 2012 and 2011 amounts.

e) Significant accounting judgments, 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 consolidated financial statements and the uncertainties that could impact the amounts reported in the results of operations, financial position and cash flows.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Impairment of Goodwill on acquisitions

The Group's impairment test for goodwill is based on Fair Value less costs to sell 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 undertake. 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.

- Impairment of non- financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, 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. Environmental damage caused by such substances may require the Group to incur restoration costs to comply with the regulations in the various jurisdictions 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 recognized as a provision in the Group's financial statements. When the final determination of such obligation amounts differs from the recognized provisions, the Group's income statement is impacted.

Further details on provision for environmental liability are provided in Note 15.

- Deferred tax assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, 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 12 and 21.

- Retirement benefits costs

Payments made to state-managed retirement benefit schemes are dealt with as defined contribution plans, meaning that the Group pays fixed contributions into the state-managed fund and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior period. The contributions are charged as an expense in the same period when the employee service was rendered.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Under collective labor 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 reporting 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 defined benefit liability as of reporting date comprises the present value of the defined benefit obligation with the related service cost charged to the income statement. All actuarial gains and losses are fully recognized in other comprehensive income in the period in which they occur for all defined benefit plans. Actuarial gains and losses recognized in other comprehensive income are presented in statement of comprehensive income.

The Group has no other liabilities with respect to future pension, health and other costs for its employees. Further details on retirement benefits costs are provided in Note 15.

- *Carrying value of trade and other receivables*

The Group assesses at each reporting date the requirement for an allowance for impairment in trade and other receivables. The Company uses its judgment, based on the nature and extent of overdue debtors and historical experience, in order to estimate the amount of such an allowance. The allowance is recognized where there is an objective evidence that a particular trade receivable or a group of trade receivables have impaired.

- *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 reserve against the carrying value of inventories is made.

- *Useful lives of fixed assets and intangibles*

In 2012 the Group reassessed the useful lives for the refinery assets held in Rompetrol Rafinare (Petromidia and Vega) and for the gas station assets and intangible assets held by Rompetrol Downstream.

The new useful lives were applied starting January 1, 2012 and the impact within the 2012 financial statements is presented below:

	<u>2012</u>
Consolidated Statement of Financial Position	
Intangible assets	926,680
Property, plant and equipment	33,712,537
Consolidated Statement of Comprehensive Income	
Cost of sales	(30,362,931)
Selling and distribution expenses	(4,276,286)

Until the end of the fixed assets lives, the decrease in yearly depreciation charge determined by the reassessment is estimated to be approximately USD 32 million.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Standards issued but not yet effective

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

- **IAS 1 Financial Statement Presentation (Amended) – Presentation of Items of Other Comprehensive Income (“OCI”)**
The amendment is effective for annual periods beginning on or after 1 July 2012. The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or ‘recycled’) to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Group’s financial position or performance. The Group is in the process of assessing the impact of this amendment on the disclosure requirements.
- **IAS 19 Employee Benefits (Revised)**
The amendment is effective for annual periods beginning on or after 1 January 2013. The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group is in the process of assessing the impact of this amendment on the financial position or performance of the Group.
- **IAS 27 Separate Financial Statements (Revised)**
The Standard is effective for annual periods beginning on or after 1 January 2013. For companies which apply IFRS as adopted by the EU, the effective date is 1 January 2014. As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. Earlier application is permitted. The Group is in the process of assessing the impact of this amendment on the financial position or performance of the Group mother Company.
- **IAS 28 Investments in Associates and Joint Ventures (Revised)**
The Standard is effective for annual periods beginning on or after 1 January 2013. For companies which apply IFRS as adopted by the EU, the effective date is 1 January 2014. As a consequence of the new IFRS 11 Joint arrangements and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. Since the Group already applies the equity method to account for investments in joint ventures, the Group does not expect that this change will have an impact on the financial position or performance of the Group.
- **IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities**
The amendment is effective for annual periods beginning on or after 1 January 2014. These amendments clarify the meaning of “currently has a legally enforceable right to set-off”. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The Group is in the process of assessing the impact of this amendment on the disclosure requirements.
- **IFRS 7 Financial Instruments: Disclosures (Amended) - Offsetting Financial Assets and Financial Liabilities**
The amendment is effective for annual periods beginning on or after 1 January 2013. These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g. collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity’s financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognized financial instruments.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The Group is in the process of assessing the impact of this amendment on the disclosure requirements.

• **IFRS 9 Financial Instruments: Classification and Measurement**

The new standard is effective for annual periods beginning on or after 1 January 2015. IFRS 9, as issued, reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued. This standard has not yet been endorsed by the EU. The Group is in the process of assessing the impact of the new standard on the financial position or performance of the Group.

• **IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements**

The new standard is effective for annual periods beginning on or after 1 January 2013. For companies which apply IFRS as adopted by the EU, the effective date is 1 January 2014. IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The Group is in the process of assessing the impact of the new standard on the financial position or performance of the Group.

• **IFRS 11 Joint Arrangements**

The new standard is effective for annual periods beginning on or after 1 January 2013. For companies which apply IFRS as adopted by the EU, the effective date is 1 January 2014. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. Since the Group already applies equity method to account for investment in joint venture, therefore the Group does not expect that this change will have an impact on the financial position or performance of the Group.

• **IFRS 12 Disclosures of Interests in Other Entities**

The new standard is effective for annual periods beginning on or after 1 January 2013. For companies which apply IFRS as adopted by the EU, the effective date is 1 January 2014. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The Group is in the process of assessing the impact of this amendment on the disclosure requirements.

• **IFRS 13 Fair Value Measurement**

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is in the process of assessing the impact of the new standard on the financial position or performance of the Group.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

• **IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine**

The interpretation is effective for annual periods beginning on or after 1 January 2013. This interpretation applies to waste removal (stripping costs) incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. Since the Group does not have any such transactions, therefore, the Group does not expect that this change will have an impact on the financial position or performance of the Group.

• **Improvements to IFRS's**

The IASB has issued the Annual Improvements to IFRSs – 2009 – 2011 Cycle, which contains amendments to its standards and the related Basis for Conclusions. The annual improvements project provides a mechanism for making necessary, but non-urgent, amendments to IFRS. The effective date for the amendments is for annual periods beginning on or after 1 January 2013. Earlier application is permitted in all cases, provided that fact is disclosed.

The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group.

- **IAS 1 Presentation of Financial Statements:** This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period.
- **IAS 16 Property, Plant and Equipment:** This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.
- **IAS 32 Financial Instruments, Presentation:** This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.
- **IAS 34 Interim Financial Reporting:** The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

• **Amendments to IFRS 10, IFRS 11 and IFRS 12**

The guidance is effective for annual periods beginning on or after 1 January 2013. The IASB issued amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities. The amendments change the transition guidance to provide further relief from full retrospective application. The date of initial application' in IFRS 10 is defined as 'the beginning of the annual reporting period in which IFRS 10 is applied for the first time'. The assessment of whether control exists is made at 'the date of initial application' rather than at the beginning of the comparative period. If the control assessment is different between IFRS 10 and IAS 27/SIC-12, retrospective adjustments should be determined. However, if the control assessment is the same, no retrospective application is required. If more than one comparative period is presented, additional relief is given to require only one period to be restated. For the same reasons IASB has also amended IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities to provide transition relief. This guidance has not yet been endorsed by the EU. The Group is in the process of assessing the impact of this amendment on the financial position or performance of the Group.

• **Amendments to IFRS 10, IFRS 12 and IAS 27**

The amendment is effective for annual periods beginning on or after 1 January 2014. The amendment applies to a particular class of business that qualify as investment entities. The IASB uses the term 'investment entity' to refer to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. An investment entity must also evaluate the performance of its investments on a fair value basis. Such entities could include

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

private equity organisations, venture capital organisations, pension funds, sovereign wealth funds and other investment funds. Under IFRS 10 Consolidated Financial Statements, reporting entities were required to consolidate all investees that they control (i.e. all subsidiaries). The Investment Entities amendment provides an exception to the consolidation requirements in IFRS 10 and requires investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendment also sets out disclosure requirements for investment entities. This amendment has not yet been endorsed by the EU. Since the Group does not have any such transactions, therefore, the Group does not expect that this change will have an impact on the financial position or performance of the Group.

g) Basis of consolidation

Basis of consolidation from 1 January 2010

The consolidated financial statements comprise the financial statements of the parent company and its subsidiaries as at 31 December 2012.

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 considered to be achieved where the Group (either directly or indirectly), owns more than 50% of the voting rights of the share capital of another enterprise 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 unrealized gains and losses resulting from intra-group transactions are eliminated in full.

Losses within a subsidiary are attributed to Non-controlling Interest even if that results in deficit balance.

Non-controlling interests represents the amount of those non-controlling interests at the date of acquisition and share of changes in equity since the date of combination and are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from the parent shareholders' equity.

Acquisition of non-controlling interest is considered as equity transactions i.e transaction between the shareholders.

A change in ownership interest of subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over subsidiary it:

- o De-recognizes the assets (including goodwill) and liabilities of the subsidiary.
- o Derecognizes the carrying value of Non-controlling Interest.
- o Derecognizes the cumulative translation differences, recorded in equity.
- o Recognizes the fair value of consideration received.
- o Recognizes the fair value of investment retained
- o Recognizes any surplus of deficit in profit and loss account
- o Reclassifies the Parent's share of component's previously recognized Other Comprehensive Income to profit & loss account or retained earnings as appropriate

Basis of consolidation prior 1 January 2010

Certain of the above-mentioned requirements were applied on prospective basis. The following differences, however, are carried forward from the previous basis of consolidation:

- o Acquisition of Non-controlling Interests, prior to 1 January 2010, were accounted for using the Parent-Entity Extension Method, whereby, the difference between the consideration and the book value of the share of net assets acquired were recognized in goodwill.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Losses incurred by the Group were attributed to the Non-controlling Interest until the balance was reduced to nil. Any further excess losses were attributed to the Parent, unless the Non-controlling Interest had a binding obligation to these. Losses prior to 1 January 2010 are not re allocated between Non-controlling Interest and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net assets value at the date control was lost. The carrying value of such investment at 1 January 2010 have not been restated.

h) Business combinations and goodwill

Basis of combination from 1 January 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquired a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date.

If combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through period profit and loss.

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 recognized directly in the income statement. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's Cash Generating Unit that is expected to benefit from the combination.

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 recognized. Impairment losses related to goodwill cannot be reversed in future periods.

Basis of combination prior to 1 January 2010

In comparison to the above-mentioned requirements the following differences applied:

- Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. Non-controlling Interest (formerly known as Minority Interest) was measured at the proportionate share of the acquiree's identifiable net assets.
- Business combination achieved in stages were accounted for as separate steps. An additional acquired share of interest did not affect previously recognized goodwill.
- Contingent consideration was recognized, if and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognized as part of goodwill.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, unquoted financial investments and derivative financial instruments. Financial liabilities include finance lease obligations, interest-bearing bank loans and overdrafts, derivative financial instruments 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.

Financial assets are recognized and derecognized 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 instruments are regarded as a compound instrument, consisting of a liability component and an equity component. At the date of issue of the Hybrid instruments, 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 instruments. Difference in values exceeding 10% is considered to be extinguishment of old debt and issue of a new debt. Such differences are charged to consolidated income statement.

j) Impairment of financial assets

The Group assesses at each reporting 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 reorganization and where observable data indicate that there is a measurable decrease on the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

k) Property, plant and equipment

Property, plant and equipment are stated at cost. Starting 1 January 2012, the Group changed its accounting policy for Rompetrol Rafinare S.A. and Rompetrol Petrochemicals S.R.L. from the revaluation model to the cost model. The Company has elected to regard those values as deemed cost at the date of the revaluation (December 2003) since they were broadly comparable to fair value. Consequently, as of 31 December 2012 all items of property, plant and equipment are stated at cost. The impact of this change in accounting policies is presented in note 2 ac).

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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 capitalized 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.

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

As mentioned in note 2e 'Useful lives of fixed assets and intangibles' the useful lives of certain property, plant and equipment were reassessed as of January 1, 2012.

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


1) 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 amortized on a straight-line basis over the best estimate of their useful lives.

Intangible assets consist of software and licenses and are amortized 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 licenses are capitalized and amortized 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.

As mentioned in note 2e 'Useful lives of fixed assets and intangibles' the useful lives of certain property, plant and equipment were reassessed as of January 1, 2012.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Impairment of non-financial assets

At each reporting 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.

The 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.

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 recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

n) Provisions

Provisions are recognized 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 recognized 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 recognized as a finance cost.

Provisions are not recognized 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 reporting 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Environmental liabilities

Environmental expenditure that relates to current or future revenues is expensed or capitalized 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 recognized 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.

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 fulfillment 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 statement of financial position 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 recognized 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 the inventories.

q) Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized 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 reorganization and default or delinquency in payments are considered indicators the receivable should be impaired. The amount of the provision is the difference

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

between the asset's carrying amount and the present value of estimated future cash flow discounted at the effective interest rate.

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 recognized 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 recognized, 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 recognized when delivery has taken place and transfer of significant risks and rewards has been completed.
- Revenue from rendering transportation services and other services is recognized when services are rendered.
- Interest income is recognized on a time-portion basis using the effective interest method.
- Dividend income from investments is recognized 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 recognized 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 amortized cost, using the effective interest method.

Gains and losses are recognized in the income statement when the liabilities are derecognized as well through the amortization process.

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 capitalized as part of the cost of the respective assets. All the other costs are expensed in the period they occur.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs consists of interest and other cost that an entity incurs in connection with the borrowing of funds.

The Group capitalized borrowing costs for all eligible assets where construction was commenced on or after 1 January 2008. The Group continues to expense borrowing costs relating to construction projects that commenced prior to 1 January 2008 as IAS 23 revised was early adopted from that date. The rate of interest used is the weighted average interest of borrowings from shareholders.

v) Retirement benefit costs

Payments made to state - managed retirement benefit schemes are dealt with as defined contribution plans where the Group pays fixed contributions into the state-managed fund and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior period. The contributions are charged as an expense in the same period when the employee service was rendered. The total amount of social security, pension contributions and other non-income tax expenses in relation to salaries incurred by the Group during 2012 was USD 11.7 million out of which a sum of USD 9.5 million has been paid during the year.

Under collective labour agreements in certain of the Group's entities, employees are entitled to specified 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 reporting date based on: applicable benefits provided in the agreement; the number of employees with the relevant Group entities; and actuarial assumptions on future liabilities. The defined benefit liability as of reporting date comprises the present value of the defined benefit obligation with the related service cost charged to the income statement. All actuarial gains and losses are fully recognised in other comprehensive income in the period in which they occur for all defined benefit plans. Actuarial gains and losses are recognised in other comprehensive income in the period in which they occur.

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, in the countries where the Group operates and generates taxable income.

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- ▶ 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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

- *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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

y) Emission Rights

The Group refining and petrochemicals operations are allocated CO2 emission rights quota. The current quota is valid until 2013. The Group accounts for the liability for these emissions using net liability method. The liability is recognized only at a point where the actual emissions exceed the quota allocated to the respective companies.

z) Foreign Currencies Transactions

The Group translates its foreign currency transactions and balances into functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of transaction. Exchange rate differences arising on the settlement of monetary assets and liabilities or on reporting them at rates different from those at which they were initially recorded during the period or reported in the previous financial statements are recognized in the consolidated income statement in the period they arise.

aa) Derivative Financial Instruments

The Group enters into contracts to purchase and sell crude oil and oil products at future delivery dates. These contracts expose the Group primarily to commodity risks of changes in fair value of crude oil and related oil products. The Group also uses financial instruments (primarily Options, Swaps and forwards) to hedge its risks associated with the fluctuation of foreign exchange.

For foreign exchange related derivatives, the Group treats the unrealized part as Derivative Financial Asset/Liability in the statement of financial position with corresponding impact on financial charges. The use of financial derivatives is governed by the Group's policies approved by board of directors, which provide written principles on the use of financial derivatives. The Group determines gain/loss on a net basis based on the daily open positions.

Derivative financial instruments are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

Changes in fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognized directly in equity and the ineffective portion is recognized immediately in period profit or loss. The Company's policy with respect to hedging forecasted transactions is to designate it as a cash flow hedge. If the cash flow hedge of a forecasted transaction results in the recognition of an asset or a liability, then at the time the asset or liability is recognized, the associated gains or losses on the derivative that had previously been recognized in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or liability, amounts deferred in equity are recognized in period profit or loss in the same period in which the hedged items affects period profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in period profit or loss as they arise.

For the future contracts (purchase and sales contracts) that are entered into by the Group the realised and unrealised gains/losses are included in Cost of sales for the period (see Note 17).

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

ac) Restatements

The restatement of prior periods had the following impact in 2012:

	USD
Revaluation reserve	153,630,525
Retained earnings	(153,630,525)

The total restatement impact in the 2011 financial statements is presented below:

Consolidated Statement of Financial Position

Account Description	<u>2011</u> <u>as previously</u> <u>reported</u>	<u>Adjustment</u>	<u>2011</u> <u>as restated</u>
Revaluation Reserve	153,630,525	(153,630,525)	-
Retained Earnings	(1,124,914,627)	153,630,525	(971,284,102)

The above has no impact in the consolidate income statement in either 2012 or 2011.

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3. INTANGIBLE ASSETS

Amounts in USD

	<u>Software</u>	<u>Other</u>	<u>Intangibles in progress</u>	<u>Total</u>
Cost				
Opening balance as of January 1, 2011	28,713,489	32,698,878	2,696,973	64,109,340
Additions	103,335	-	314,474	417,809
Transfers from CIP	2,297,777	-	(2,297,777)	-
Disposals	(10,264)	(6,582)	-	(16,846)
Transfers and reclassifications*	749,544	(25,357)	451,492	1,175,679
Closing balance as of December 31, 2011	<u>31,853,881</u>	<u>32,666,939</u>	<u>1,165,162</u>	<u>65,685,982</u>
Additions	-	-	1,064,318	1,064,318
Transfers from CIP	360,339	4,607,694	(4,968,033)	-
Disposals	-	(26,289)	-	(26,289)
Transfers and reclassifications*	(424,200)	620,623	3,916,351	4,112,774
Closing balance as of December 31, 2012	<u>31,790,020</u>	<u>37,868,967</u>	<u>1,177,798</u>	<u>70,836,785</u>
Accumulated amortization				
Opening balance as of January 1, 2011	(18,657,182)	(16,207,702)	-	(34,864,884)
Charge for the year	(12,020,707)	(1,930,068)	-	(13,950,775)
Accumulated amortization of disposals	10,964	-	-	10,964
Reclassification between categories*	(365,049)	-	-	(365,049)
Impairment	(646,572)	-	-	(646,572)
Closing balance as of December 31, 2011	<u>(31,678,546)</u>	<u>(18,137,770)</u>	-	<u>(49,816,316)</u>
Charge for the year	(4,292,695)	(4,929,657)	-	(9,222,352)
Accumulated amortization of disposals	-	17,054	-	17,054
Reclassification between categories*	6,197,058	(6,296,464)	-	(99,406)
Impairment	646,572	(123,192)	(523,380)	-
Closing balance as of December 31, 2012	<u>(29,127,611)</u>	<u>(29,470,029)</u>	<u>(523,380)</u>	<u>(59,121,020)</u>
Net book value				
As of December 31, 2011	<u>175,335</u>	<u>14,529,169</u>	<u>1,165,162</u>	<u>15,869,666</u>
As of December 31, 2012	<u>2,662,409</u>	<u>8,398,938</u>	<u>654,418</u>	<u>11,715,765</u>

*) Include, transfer to property, plant and equipment, reclassifications between categories and other adjustments;

The significant part of "Other Intangible Assets" relate to Licenses.

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3. INTANGIBLE ASSETS (continued)

Amounts in RON

	<u>Software</u>	<u>Other</u>	<u>Intangibles in progress</u>	<u>Total</u>
Cost				
Opening balance as of January 1, 2011	96,405,539	109,786,483	9,055,087	215,247,109
Additions	346,947	-	1,055,846	1,402,793
Transfers from CIP	7,714,786	-	(7,714,786)	-
Disposals	(34,461)	(22,099)	-	(56,560)
Transfers and reclassifications*	2,516,594	(85,136)	1,515,884	3,947,342
Closing balance as of December 31, 2011	<u>106,949,405</u>	<u>109,679,248</u>	<u>3,912,031</u>	<u>220,540,684</u>
Additions	-	-	3,573,448	3,573,448
Transfers from CIP	1,209,838	15,470,333	(16,680,171)	-
Disposals	-	(88,265)	-	(88,265)
Transfers and reclassifications*	(1,424,252)	2,083,742	13,149,148	13,808,638
Closing balance as of December 31, 2012	<u>106,734,991</u>	<u>127,145,058</u>	<u>3,954,456</u>	<u>237,834,505</u>
Accumulated amortization				
Opening balance as of January 1, 2011	(62,641,489)	(54,417,359)	-	(117,058,848)
Charge for the year	(40,359,526)	(6,480,203)	-	(46,839,729)
Accumulated amortization of disposals	36,812	-	-	36,812
Reclassification between categories*	(1,225,652)	-	-	(1,225,652)
Impairment	(2,170,865)	-	-	(2,170,865)
Closing balance as of December 31, 2011	<u>(106,360,720)</u>	<u>(60,897,562)</u>	-	<u>(167,258,282)</u>
Charge for the year	(14,412,725)	(16,551,323)	-	(30,964,048)
Accumulated amortization of disposals	-	57,259	-	57,259
Reclassification between categories*	20,806,622	(21,140,378)	-	(333,756)
Impairment	2,170,865	(413,617)	(1,757,248)	-
Closing balance as of December 31, 2012	<u>(97,795,958)</u>	<u>(98,945,621)</u>	<u>(1,757,248)</u>	<u>(198,498,827)</u>
Net book value				
As of December 31, 2011	<u>588,685</u>	<u>48,781,686</u>	<u>3,912,031</u>	<u>53,282,402</u>
As of December 31, 2012	<u>8,939,033</u>	<u>28,199,437</u>	<u>2,197,208</u>	<u>39,335,678</u>

Transfers and reclassifications of USD 4.1 million (RON 13.8 million) represent transfer to property, plant and equipment, reclassifications between categories and other adjustments.

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4. GOODWILL

The carrying value of goodwill as of 31 December 2012 and 2011 was USD 82,871,706 (RON: 278,241,754).

The whole carrying amount of goodwill has been allocated to Downstream Romania Cash Generating Unit ("Downstream Romania CGU"). Two other cash generating units in the Group are: Refineries and Petrochemicals.

Impairment test

Impairment tests have been performed by the Group for the carrying value of goodwill as of 31 December 2012 on the Downstream Romania cash generating units ("CGU"). 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 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 10.1% 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 8.6%.

Petrochemicals

Petrochemicals CGU includes Rompetrol Petrochemicals involved in the production and distribution of olefins in Romania. The recoverable amount of Rompetrol Petrochemicals unit has 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 10.1% 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 8.6%.

Downstream Romania

The Downstream Romania CGU comprises the retail and wholesale operations of Rompetrol Downstream SRL and the wholesale activity supported by the storage depots owned by Rom Oil S.A.

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 10.1% 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 8.6%.

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:

- Operating profit;
- Discount rates;
- Growth rate used for extrapolate cash flows beyond the budget period.

Following Operating profit margin on the basis of Net revenues were applied for the relevant Cash Generating Units:

	2013	2014	2015	2016	2017
Rompetrol Refinery	0.4%	3.4%	3.7%	4.2%	4.8%
Petrochemicals	-8.0%	2.4%	3.7%	4.3%	4.7%
Downstream Romania	1.2%	2.5%	2.5%	2.6%	2.4%

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4. GOODWILL (continued)

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.

Sensitivity to changes in assumptions

With regard to the assessment of the fair value less costs to sell for cash generating units, management believes that 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 a decrease of 67% of Operating profit, reaching the following Operating profit margins:

	2013	2014	2015	2016	2017
Operating profit margin	0.4%	3.4%	3.7%	4.2%	4.8%

Rompetrol Petrochemicals

The break-even point for the current model is achieved under a decrease of 21% of Operating profit, reaching the following Operating profit margins:

	2013	2014	2015	2016	2017
Operating profit margin	-6.3%	1.9%	2.9%	3.4%	3.7%

Downstream Romania

The break-even point for the current model is achieved under a decrease of Operating profit of 80% reaching the following Operating profit margins:

	2013	2014	2015	2016	2017
Operating profit margin	0.2%	0.5%	0.5%	0.5%	0.5%

**Operating profit margins were re-computed considering net revenue*

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5. PROPERTY, PLANT AND EQUIPMENT

Amounts in USD

	<u>Land and buildings</u>	<u>Plant and equipment</u>	<u>Vehicles and others</u>	<u>Construction in progress</u>	<u>Total</u>
<i>Cost or valuation</i>					
As of January 1, 2011	<u>809,237,321</u>	<u>665,212,414</u>	<u>120,922,651</u>	<u>233,314,410</u>	<u>1,828,686,796</u>
Acquisitions	95,969	446,355	115,938	211,099,760	211,758,022
Transfers from CIP	18,973,334	54,237,153	3,791,861	(77,002,348)	-
Disposals	(364,279)	(2,749,974)	(16,947,660)	502	(20,061,411)
Transfers and reclassifications*	(535,867)	(2,691,224)	(2,309,490)	(663,226)	(6,199,807)
As of December 31, 2011	<u>827,406,478</u>	<u>714,454,724</u>	<u>105,573,300</u>	<u>366,749,098</u>	<u>2,014,183,600</u>
Additions	120,303	403,181	78,552	141,086,563	141,688,599
Transfers from CIP	86,696,977	280,285,873	1,002,004	(367,984,854)	-
Disposals	(276,130)	(966,174)	(2,434,076)	(29,056)	(3,705,436)
Transfers and reclassifications*	2,167,354	(2,004,369)	91,215	(4,023,972)	(3,769,772)
As of December 31, 2012	<u>916,114,982</u>	<u>992,173,235</u>	<u>104,310,995</u>	<u>135,797,779</u>	<u>2,148,396,991</u>
<i>Accumulated depreciation & impairment</i>					
As of January 1, 2011	<u>(335,834,039)</u>	<u>(380,626,637)</u>	<u>(80,633,209)</u>	<u>(9,051,341)</u>	<u>(806,145,226)</u>
Charge for the year	(27,220,060)	(50,645,966)	(16,442,027)	-	(94,308,053)
Accumulated depreciation of disposals	273,404	2,252,749	12,268,944	-	14,795,097
Impairment	(5,949,742)	(25,100,304)	(8,454)	(21,109,744)	(52,168,244)
Transfers and reclassifications*	1,049,701	(780,511)	2,778,164	-	3,047,354
As of December 31, 2011	<u>(367,680,736)</u>	<u>(454,900,669)</u>	<u>(82,036,582)</u>	<u>(30,161,085)</u>	<u>(934,779,072)</u>
Charge for the year	(28,784,032)	(30,197,069)	(8,422,982)	-	(67,404,083)
Accumulated depreciation of disposals	249,046	938,068	2,398,448	-	3,585,562
Impairment	334,875	1,016,065	658	(328,796)	1,022,802
Transfers & Reclassifications*	1,323,472	(1,282,697)	(43,175)	-	(2,400)
As of December 31, 2012	<u>(394,557,375)</u>	<u>(484,426,302)</u>	<u>(88,103,633)</u>	<u>(30,489,881)</u>	<u>(997,577,191)</u>
Net book value as of December 31, 2011	<u>459,725,742</u>	<u>259,554,055</u>	<u>23,536,718</u>	<u>336,588,013</u>	<u>1,079,404,528</u>
Net book value as of December 31, 2012	<u>521,557,607</u>	<u>507,746,933</u>	<u>16,207,362</u>	<u>105,307,898</u>	<u>1,150,819,800</u>

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5. PROPERTY, PLANT AND EQUIPMENT (continued)

Amounts in RON

	<u>Land and buildings</u>	<u>Plant and equipment</u>	<u>Vehicles and others</u>	<u>Construction in progress</u>	<u>Total</u>
<i>Cost or valuation</i>					
As of January 1, 2011	<u>2,717,014,305</u>	<u>2,233,450,680</u>	<u>405,997,801</u>	<u>783,353,132</u>	<u>6,139,815,918</u>
Acquisitions	322,216	1,498,637	389,262	708,767,443	710,977,558
Transfers from CIP	63,702,969	182,101,241	12,731,173	(258,535,383)	-
Disposals	(1,223,067)	(9,233,038)	(56,901,768)	1,685	(67,356,188)
Transfers and reclassifications*	(1,799,173)	(9,035,785)	(7,754,113)	(2,226,782)	<u>(20,815,854)</u>
As of December 31, 2011	<u>2,778,017,250</u>	<u>2,398,781,735</u>	<u>354,462,355</u>	<u>1,231,360,095</u>	<u>6,762,621,435</u>
Additions	403,917	1,353,680	263,737	473,698,137	475,719,471
Transfers from CIP	291,085,100	941,059,819	3,364,228	(1,235,509,147)	-
Disposals	(927,106)	(3,243,929)	(8,172,410)	(97,556)	(12,441,001)
Transfers and reclassifications*	7,276,891	(6,729,669)	306,254	(13,510,486)	(12,657,010)
As of December 31, 2012	<u>3,075,856,052</u>	<u>3,331,221,636</u>	<u>350,224,164</u>	<u>455,941,043</u>	<u>7,213,242,895</u>
<i>Accumulated depreciation & impairment</i>					
As of January 1, 2011	<u>(1,127,562,786)</u>	<u>(1,277,953,934)</u>	<u>(270,725,999)</u>	<u>(30,389,877)</u>	<u>(2,706,632,596)</u>
Charge for the year	(91,391,351)	(170,043,831)	(55,204,106)	-	(316,639,288)
Accumulated depreciation of disposals	917,954	7,563,605	41,192,979	-	49,674,538
Impairment	(19,976,259)	(84,274,271)	(28,384)	(70,875,965)	(175,154,879)
Transfers and reclassifications*	3,524,371	(2,620,566)	9,327,686	0	10,231,491
As of December 31, 2011	<u>(1,234,488,071)</u>	<u>(1,527,328,997)</u>	<u>(275,437,824)</u>	<u>(101,265,842)</u>	<u>(3,138,520,734)</u>
Charge for the year	(96,642,387)	(101,386,658)	(28,280,162)	-	(226,309,207)
Accumulated depreciation of disposals	836,172	3,149,563	8,052,789	-	12,038,524
Impairment	1,124,343	3,411,438	2,209	(1,103,937)	3,434,053
Transfers and reclassifications*	4,443,557	(4,306,655)	(144,960)	-	(8,058)
As of December 31, 2012	<u>(1,324,726,386)</u>	<u>(1,626,461,309)</u>	<u>(295,807,948)</u>	<u>(102,369,779)</u>	<u>(3,349,365,422)</u>
Net book value as of December 31, 2011	<u>1,543,529,179</u>	<u>871,452,738</u>	<u>79,024,531</u>	<u>1,130,094,253</u>	<u>3,624,100,701</u>
Net book value as of December 31, 2012	<u>1,751,129,666</u>	<u>1,704,760,327</u>	<u>54,416,216</u>	<u>353,571,264</u>	<u>3,863,877,473</u>

Transfers and Reclassifications of USD 4 million (RON 13.5 million) represent transfer to intangibles, reclassifications between categories and other adjustments.

- *Change in accounting policy*

As mentioned in Notes 2c) and 2k) the accounting policy presented by the Company for the property, plant and equipment held at Rompetrol Rafinare S.A (for its Petromidia and Vega refineries) and Rompetrol Petrochemicals S.R.L. was amended from the revaluation model to the cost model. This amendment represents solely a correction of disclosure, with no impact in the value of the property, plant and equipment.

- *Construction in progress*

During 2012 the Group had transferred into function a significant part of the assets from construction in progress. A major part of these assets relate to the Petromidia Expansion Package and include the Hydrogen plant (USD 81 million), Mild Hydrocracking unit (USD 176 million) and New Claus Unit (USD 49 million).

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5. PROPERTY, PLANT AND EQUIPMENT (continued)

- *Borrowing costs capitalized*

The Group is financing part of its operations from borrowings and hence the 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 2012 was USD 9.8 million (2011: USD 6.6 million). The rate used to determine the amount of borrowing costs eligible for capitalization was 4.2% (2011: 2.24%).

- *Disposals through sales of subsidiaries and liquidations*

During 2012 there was no disposal of companies.

- *Impairment*

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

There were no significant impairments during 2012.

The impairment balance as at December 31, 2012 is related mainly to the impairment booked in 2011 in relation to certain fixed assets not in use as at December 31, 2011 amounting to USD 52.17 million. The main items impaired as of 2011 are: USD 34.94 million value of equipment and sub-lines of the steam cracker not in use; USD 6.8 million related to Simleu depot; USD 2.4 million in relation to express stations not in use; and certain production equipment at the Petromidia refinery amounting to USD 3.04 million.

- *Held under finance leases*

The carrying amount of the Group's property, plant and equipment includes an amount of approximately USD 0.6 million (2011: USD 4.5 million) in respect of assets held under finance leases.

- *Pledged property, plant and equipment*

The Group has pledged property, plant and equipment of approximately USD 274.9 million (2011: 266.1 million) the main part being for securing banking facilities granted to Group entities.

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6. INVESTMENTS

a) Investments in Consolidated Subsidiaries

Details of the Group consolidated subsidiaries at December 31, 2012 and 2011 are as follows:

<u>Company name</u>	<u>Range of activity</u>	<u>Effective ownership December 31, 2012</u>	<u>Control December 31, 2012</u>	<u>Effective ownership December 31, 2011</u>	<u>Control December 31, 2011</u>
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

	<u>2012</u> <u>USD</u>	<u>2011</u> <u>USD</u>	<u>2012</u> <u>RON</u>	<u>2011</u> <u>RON</u>
Bursa Maritima de Marfuri	257,312	257,312	863,926	863,922
IM Moldintergaz SRL	-	-	-	-
Other	44,960	45,309	150,953	152,125
Total	<u>302,272</u>	<u>302,621</u>	<u>1,014,879</u>	<u>1,016,047</u>

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

	<u>2012</u> USD	<u>2011</u> USD	<u>2012</u> RON	<u>2011</u> RON
Crude oil and other feedstock materials	207,300,686	142,650,858	696,012,054	478,950,256
Petroleum and petrochemical products	195,919,331	141,559,144	657,799,154	475,284,826
Work in progress	64,795,302	68,350,063	217,550,226	229,485,337
Spare parts	6,532,509	5,699,515	21,932,899	19,136,122
Consumables and other raw materials	7,817,515	9,176,273	26,247,307	30,809,337
Merchandises	6,147,731	10,443,162	20,641,007	35,062,916
Other inventories	9,740,630	3,641,580	32,704,165	12,226,605
Inventories provision	(51,336,318)	(39,671,207)	(172,361,688)	(133,196,078)
	<u>446,917,386</u>	<u>341,849,388</u>	<u>1,500,525,124</u>	<u>1,147,759,321</u>

The inventories provision movement in 2012 and 2011 is provided below:

	<u>2012</u> USD	<u>2011</u> USD	<u>2012</u> RON	<u>2011</u> RON
Reserve as of January 1	(39,671,207)	(23,727,650)	(133,196,078)	(79,665,585)
Accrued provision	(28,672,472)	(23,282,715)	(96,267,826)	(78,171,716)
Write off	48,301	-	162,171	-
Reversal provision inventories reserve	16,959,060	7,339,158	56,940,045	24,641,223
Reserve as of December 31	(51,336,318)	(39,671,207)	(172,361,688)	(133,196,078)

The inventories provisions mainly represent the provision for Net Realizable Value in relation to refineries and petrochemical plant. The provision has slightly increased at the end of December 31, 2012 compared with 2011, due to oil and gas market conditions with selling prices having decreased.

8. RECEIVABLES AND PREPAYMENTS, NET

	<u>2012</u> USD	<u>2011</u> USD	<u>2012</u> RON	<u>2011</u> RON
Trade receivables	292,183,071	277,994,339	981,004,661	933,365,993
Advances to suppliers	21,888,919	15,198,203	73,492,046	51,027,967
Sundry debtors	39,058,116	18,861,020	131,137,624	63,325,875
VAT to be recovered	394,883	10,371,013	1,325,820	34,820,676
Other receivables	44,372,996	44,716,760	148,982,335	150,136,522
Provision for bad and doubtful debts	(113,284,222)	(58,793,519)	(380,351,775)	(197,399,240)
	<u>284,613,763</u>	<u>308,347,816</u>	<u>955,590,711</u>	<u>1,035,277,793</u>

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 23. Movement in the above provision is disclosed below and in Note 19.

Included in Sundry debtors in 2012 is USD 33.79 million relating to: an amount of USD 19.5 million for payment made by Rompetrol Rafinare to the Romanian Taxation Authorities ("ANAF") for antidumping and countervailing taxes for Biodiesel import; and USD 14.70 million for principal liabilities and related penalties paid to ANAF following General Tax Audit Report covering 2007-2010 period (see Note 26). These amounts are fully provisioned.

Trade receivables totaling USD 188.65 million (RON 633.39 million) as at December 31, 2012 and USD 136.7 million (RON 458.97 million) as at December 31, 2011 are pledged to obtain credit facilities (see Note 14).

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8. RECEIVABLES AND PREPAYMENTS, NET (continued)

The movement in provision for doubtful debts is as follows:

Movements in receivables reserve:

	<u>2012</u> USD	<u>2011</u> USD	<u>2012</u> RON	<u>2011</u> RON
Balance at the beginning of the year	(58,793,519)	(53,717,067)	(197,399,240)	(180,355,052)
Impairment losses recognised on receivables	(50,627,616)	(8,549,029)	(169,982,220)	(28,703,365)
Impairment losses reversed	1,095,285	1,069,169	3,677,419	3,589,735
Transfer from provisions	(4,106,857)	-	(13,788,772)	-
Exchange rate differences	(851,515)	2,403,408	(2,858,962)	8,069,442
Balance at the end of the year	(113,284,222)	(58,793,519)	(380,351,775)	(197,399,240)

Out of total provision for bad and doubtful debts of USD 113.3 million (2011: USD 58.8 million), the amount of USD 75.3 million (2011: USD 57.17) relates to allowances for trade receivables.

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
2012	216,833,644	129,564,970	47,286,968	12,162,163	6,984,354	3,922,273	16,912,916
2011	220,820,593	124,590,098	36,191,855	16,673,178	5,299,099	3,255,087	34,811,276

	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
2012	728,018,960	435,014,387	158,765,995	40,834,462	23,449,969	13,169,032	56,785,115
2011	741,405,141	418,311,254	121,514,153	55,980,195	17,791,725	10,928,955	116,878,859

As at 31 December 2012, trade receivables at initial value of USD million 75.35 (2011: USD 57.17 million) were impaired and fully provided for. See below for the movements in the provision for impairment of trade receivables.

	<u>Individually impaired</u> USD	<u>Collectively impaired</u> USD	<u>Total</u> USD
At 1 January 2011	3,955,799	47,933,287	51,889,086
Charge for the year	7,510,586	907,826	8,418,412
Utilised	(551,382)	(340,602)	(891,984)
Unused amounts reversed	1,883	(99,946)	(98,063)
Reclassification between categories trade receivables and other receivables	235,519	(43,999)	191,520
Reclassification between individually and collectively	32,835,113	(32,835,113)	-
Exchange rate differences	(1,743,987)	(591,238)	(2,335,225)
At 31 December 2011	42,243,531	14,930,215	57,173,746
Charge for the year	15,234,738	4,469,549	19,704,287
Utilised	-	(6,486)	(6,486)
Unused amounts reversed	(856,825)	(195,592)	(1,052,417)
Reclassification between categories trade receivables and other receivables	(460,511)	(79,123)	(539,634)
Reclassification between individually and collectively	(147,597)	147,597	-
Exchange rate differences	(107,057)	176,988	69,931
At 31 December 2012	55,906,279	19,443,148	75,349,427

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	<u>Individually impaired RON</u>	<u>Collectively impaired RON</u>	<u>Total RON</u>
At 1 January 2011	13,281,595	160,936,012	174,217,607
Charge for the year	25,216,792	3,048,026	28,264,818
Utilised	(1,851,265)	(1,143,571)	(2,994,836)
Unused amounts reversed	6,322	(335,569)	(329,247)
Reclassification between categories trade receivables and other receivables	790,755	(147,727)	643,028
Reclassification between individually and collectively	110,243,892	(110,243,892)	-
Exchange rate differences	(5,855,436)	(1,985,082)	(7,840,518)
At 31 December 2011	141,832,655	50,128,197	191,960,852
Charge for the year	51,150,632	15,006,511	66,157,143
Utilised	-	(21,777)	(21,777)
Unused amounts reversed	(2,876,790)	(656,700)	(3,533,490)
Reclassification between categories trade receivables and other receivables	(1,546,166)	(265,655)	(1,811,821)
Reclassification between individually and collectively	(495,557)	495,557	-
Exchange rate differences	(359,444)	594,238	234,794
At 31 December 2012	187,705,330	65,280,371	252,985,701

Long term receivables relate to guarantees for auction participation by Rompetrol Downstream S.R.L..

9. CASH AND CASH EQUIVALENTS

	<u>2012 USD</u>	<u>2011 USD</u>	<u>2012 RON</u>	<u>2011 RON</u>
Cash at bank	155,390,895	45,812,938	521,724,929	153,816,940
Cash on hand	1,360,959	2,233,565	4,569,420	7,499,194
Cash equivalents	2,513,043	5,011,765	8,437,542	16,827,001
	<u>159,264,897</u>	<u>53,058,268</u>	<u>534,731,891</u>	<u>178,143,135</u>

Included in cash at bank is an amount of approximately USD 1.1 million (RON 3.69 million) as at December 31, 2012 and USD 8.6 million (RON 28.87 million) as at December 31, 2011 representing cash collateral for certain bank facilities (see Note 14). Cash equivalents represent mainly cheques in the course of being cashed.

10. SHARE CAPITAL

As of December 31, 2012 and 2011 the share capital consisted of 24,394,196, 673, authorized, issued and fully paid ordinary shares with a face value of RON 0.1 each.

Shareholders' structure as at December 31, 2012 is as follows:

Shareholders	<u>Ownership</u>	<u>Amount per statutory documents [RON]</u>	<u>Amount under IFRS [USD]</u>	<u>Amount under IFRS [RON]</u>
The Rompetrol Group NV	45.85%	2,022,604,013	670,999,338	2,252,880,277
Romanian State represented by The Ministry of Economy, Trade and Business Environment	44.70%	1,971,500,905	654,045,871	2,195,959,012
Rompetrol Financial Group S.R.L.	6.47%	285,408,308	94,684,271	317,902,440
Rompetrol S.A.	2.26%	99,646,630	33,057,792	110,991,537
Rompetrol Well Services S.A.	0.05%	2,198,030	729,197	2,448,279
Others (not state)	<u>0.67%</u>	<u>29,562,686</u>	<u>9,807,428</u>	<u>32,928,440</u>
Total	<u>100%</u>	<u>4,410,920,572</u>	<u>1,463,323,897</u>	<u>4,913,109,985</u>

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Shareholders' structure as at December 31, 2011 was as follows:

Shareholders	<u>Ownership</u>	<u>Amount per statutory documents [RON]</u>	<u>Amount under IFRS [USD]</u>	<u>Amount under IFRS [RON]</u>
The Rompetrol Group NV	43.74%	1,929,404,013	640,080,217	2,149,069,329
Romanian State represented by The Ministry of Public Finance	44.70%	1,971,500,905	654,045,871	2,195,959,012
Rompetrol Financial Group S.R.L.	6.47%	285,408,308	94,684,271	317,902,440
Rompetrol S.A.	4.37%	192,846,630	63,976,913	214,802,485
Rompetrol Well Services S.A.	0.05%	2,198,030	729,197	2,448,279
Others (not state)	0.67%	29,562,686	9,807,428	32,928,440
Total	<u>100%</u>	<u>4,410,920,572</u>	<u>1,463,323,897</u>	<u>4,913,109,985</u>

On September 4, 2012 The Rompetrol Group NV acquired from Rompetrol S.A., an additional 932,000,000 shares of Rompetrol Rafinare S.A (RRC), representing 2.1129% from the company share capital. There were no changes in the total value of Rompetrol Rafinare SA share capital in 2012 and 2011.

Revaluation reserve

As mentioned in Note 2k) the accounting policy for the property, plant and equipment held at Rompetrol Rafinare S.A (for its Petromidia and Vega refineries) and Rompetrol Petrochemicals S.R.L. was changed as of 1 January 2012 from fair value model to cost model. The change has been applied retrospectively, in accordance with IAS 8. The prior period recorded revaluation reserve has been restated, see Note 2 ac).

Share premium and Effect of transfers with equity holders

Share premium and Effect of transfers with equity holders are the result of conversion the bonds into ordinary shares as at September 30, 2010 in favor of the Romanian State represented by the Ministry of Finance, following the Emergency Ordinance ("EGO") 118/2003 ratified by Law 89/2005.

The transactions resulted in an impact on the Effect on equity transaction reserve amounting USD 596.83 million and share premium of USD 74 million.

Hybrid Loan

Starting May 2012, USD 800,000,000 million of the total outstanding balance of the loan payable to TRG Group NV was converted into a hybrid loan, repayable in 51 years. The interest rate is 15% of the aggregate amount of the company's annual EBIT (operational profit), and is recorded and becomes payable if the below conditions are met cumulatively:

- ✓ the company records net profit after tax in the year
- ✓ the company distributes dividends as per the Romanian law requirements

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11. OBLIGATIONS UNDER FINANCE LEASES

	<u>2012</u> <u>USD</u>	<u>2011</u> <u>USD</u>	<u>2012</u> <u>RON</u>	<u>2011</u> <u>RON</u>
Amounts due within 1 year	80,951	1,714,418	271,793	5,756,159
Amounts due after more than 1 year but not later than 5 years	-	79,934	-	268,378
Total lease obligations	80,951	1,794,352	271,793	6,024,537
Less future finance charges on finance leases	(697)	(7,538)	(2,340)	(25,309)
Present value of finance lease liabilities	<u>80,254</u>	<u>1,786,814</u>	<u>269,453</u>	<u>5,999,228</u>
Analysed as follows:				
Maturing within one year	80,254	1,707,867	269,453	5,734,163
Maturing after more than one year but not later than five years	-	78,947	-	265,065
Total	<u>80,254</u>	<u>1,786,814</u>	<u>269,453</u>	<u>5,999,228</u>

It is the Group's policy to lease certain of its vehicles under finance leases. The average lease term is one to five years. For the year ended December 31, 2012 the effective borrowing rate ranked between 4% - 9%. The lease obligations are denominated in USD and EUR.

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

12. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax, net balances are presented in the statement of financial position as follows:

	<u>2012</u> <u>USD</u>	<u>2011</u> <u>USD</u>	<u>2012</u> <u>RON</u>	<u>2011</u> <u>RON</u>
Deferred tax liability, net	<u>738,795</u>	<u>1,557,049</u>	<u>2,480,505</u>	<u>5,227,792</u>

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

USD

<u>2012</u>	<u>Opening balance</u>	<u>Charged/(Credited) to income</u>	<u>Charged/(Credited) to equity</u>	<u>Closing balance</u>
Temporary differences				
Intangible assets	276,233	(178,061)	0	98,172
Property, plant and equipment	909,433	(326,399)	0	583,034
Investments	244,190	(244,190)	0	0
Inventories	22,328	(3,422)	0	18,906
Other	104,865	(66,182)	0	38,683
Deferred tax (asset)/liability recognized	<u>1,557,049</u>	<u>(818,254)</u>	<u>0</u>	<u>738,795</u>

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RON

<u>2012</u>	<u>Opening balance</u>	<u>Charged/(Credited) to income</u>	<u>Charged/(Credited) to equity</u>	<u>Closing balance</u>
<i>Temporary differences</i>				
Intangible assets	927,453	(597,839)	-	329,614
Property, plant and equipment	3,053,421	(1,095,885)	-	1,957,536
Investments	819,868	(819,868)	-	0
Inventories	74,966	(11,489)	-	63,477
Other	352,084	(222,206)	-	129,878
Deferred tax (asset)/liability recognized	<u>5,227,792</u>	<u>(2,747,288)</u>	:	<u>2,480,505</u>

USD

<u>2011</u>	<u>Opening balance</u>	<u>Charged/(Credited) to income</u>	<u>Charged/(Credited) to equity</u>	<u>Closing balance</u>
Intangible assets	373,727	(97,494)	-	276,233
Property, plant and equipment	684,078	225,355	-	909,433
Investments	31,235	212,955	-	244,190
Inventories	633	21,695	-	22,328
Other	168,868	(64,003)	-	104,865
Deferred tax (asset)/liability recognized	<u>1,258,541</u>	<u>298,508</u>	:	<u>1,557,049</u>

RON

<u>2011</u>	<u>Opening balance</u>	<u>Charged/(Credited) to income</u>	<u>Charged/(Credited) to equity</u>	<u>Closing balance</u>
Intangible assets	1,254,788	(327,336)	-	927,452
Property, plant and equipment	2,296,792	756,630	-	3,053,422
Investments	104,872	714,996	-	819,868
Inventories	2,125	72,841	-	74,966
Other	566,974	(214,890)	-	352,084
Deferred tax (asset)/liability recognized	<u>4,225,551</u>	<u>1,002,241</u>	:	<u>5,227,792</u>

See also note 21 for details for the income tax rate and other related matters.

13. TRADE AND OTHER PAYABLES

	<u>2012</u> <u>USD</u>	<u>2011</u> <u>USD</u>	<u>2012</u> <u>RON</u>	<u>2011</u> <u>RON</u>
Trade payables	838,593,199	723,488,459	2,815,576,669	2,429,112,499
Advances from customers	6,722,213	8,145,005	22,569,830	27,346,854
FSPP	8,208,658	60,311,509	27,560,569	202,495,891
VAT payable	42,553,325	37,591,870	142,872,789	126,214,704
Profit tax payable	-	-	-	-
Taxes payable	667,233	3,114	2,240,235	10,455
Employees and social obligations	5,347,751	8,103,064	17,955,074	27,206,037
Deferred revenues	5,489,442	4,835,389	18,430,802	16,234,819
Other liabilities	9,561,721	23,635,739	32,103,478	79,356,994
Total	<u>917,143,556</u>	<u>866,114,149</u>	<u>3,079,309,493</u>	<u>2,907,978,253</u>

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14. SHORT-TERM DEBT

	<u>2012</u> USD	<u>2011</u> USD	<u>2012</u> RON	<u>2011</u> RON
Royal Bank of Scotland Romp petrol Downstream SRL: Working capital facility for EUR 35 million, bearing guarantees. The maturity date is January 27, 2013 with the possibility to be extended automatically with the agreement of both parties.	45,876,173	-	154,029,249	-
ING BANK N.V. Romp petrol Downstream SRL: Short-term facility for working capital needs for USD 50 million, bearing guarantees. The maturity date is December 31, 2013.	44,235,183	-	148,519,627	-
EFG EUROBANK Romp petrol Downstream SRL: Short term credit facility for general purposes, bearing guarantees, up to a total amount of USD 43 million. Maturity date is July 26, 2013	36,383,800	40,462,848	122,158,609	135,854,012
Raiffeisen Bank Romp petrol Petrochemicals SRL: Overdraft facility, granted by Raiffeisen Bank SA, up to EUR 30 Million, for working capital needs, bearing guarantees; Maturity date November 30, 2013; Drawings in EUR/RON.	31,917,870	22,118,144	107,164,249	74,261,668
Royal Bank of Scotland Romp petrol Gas SRL: Overdraft facility up to USD 25 million, for working capital needs, bearing guarantees. Maturity date is February 25, 2013.	20,000,000	-	67,150,000	-
Royal Bank of Scotland Romp petrol Downstream SRL: Working capital facility for EUR 20 million, bearing guarantees. The maturity date is March 27, 2013.	15,000,000	6,467,972	50,362,500	21,716,216
Piraeus Bank Romoil SA: Short term credit for working capital needs, in amount of EUR 8 million, maturity date: June 30, 2013; bearing guarantees.	10,552,375	10,295,608	35,429,599	34,567,504
Bancpost Romp petrol 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 29, 2013. Drawings in USD/EUR/RON.	13,084	29,807,113	43,930	100,077,382
Royal Bank of Scotland Romp petrol Downstream SRL: General corporate purposes and working capital facility of EUR 9.5 million, bearing guarantees. The maturity date was Sept 28, 2012.	-	12,250,640	-	41,131,524
Bancpost Romp petrol Petrochemicals SRL: Non-revolving working capital facility agreement, up to 4,712,129 USD, bearing guarantees, maturity date was July 7, 2012.	-	4,712,129	-	15,820,973
Accrued interest	567,852	277,201	1,906,563	930,703
Current portion of long-term debt	-	-	-	-

			
204,546,337	126,391,655	686,764,326	424,359,982

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14 SHORT-TERM DEBT (continued)

	<u>2012</u> USD	<u>2011</u> USD	<u>2012</u> RON	<u>2011</u> RON
<u>Borrowings from shareholders</u>				
The Rompetrol Group N.V. Rompetrol Rafinare SA: Short-term facility for working capital needs in amount of up to USD 400 million, maturity date - September 20, 2013, assignment of receivables, real movable security interest over movable asstes, real movable security interest over the participations over Rompetrol Logistics SRL, Rompetrol Petrochemicals SRL, Rompetrol Downstream SRL, Romoil SA; real movable security interest over the bank accounts.	379,516,902	983,854,469	1,274,227,997	3,303,291,379
The Rompetrol Group N.V. Rompetrol Downstream SRL: Working capital facility for USD 39,260,000. Maturity date is December 1, 2012.	65,261,257	39,261,257	219,114,670	131,819,670
Midia Marine Terminal Rompetrol Rafinare SA: Short-term facility for working capital needs in amount of USD 7 million granted to Rompetrol Rafinare SA, bearing guarantees, maturity date - 30 October 2013.	7,000,000	-	23,502,500	-
Rompetrol Well Services S.A Rompetrol Rafinare SA: Short-term facility for working capital needs in amount of up to RON 13 million granted to Rompetrol Rafinare SA, maturity date - January 9, 2013. The loan is secured with a promissory note covering the debt.	3,871,929	3,893,031	13,000,002	13,070,852
Rompetrol Well Services S.A Rompetrol Rafinare SA: Short-term facility for working capital needs in amount of up to RON 7 million granted to Rompetrol Rafinare SA, maturity date - January 13, 2013. The loan is secured with a promissory note covering the debt.	2,084,885	2,096,248	7,000,001	7,038,153
Rompetrol Well Services S.A Rompetrol Rafinare SA: Short-term facility for working capital needs in amount of up to RON 3,1 million granted to Rompetrol Rafinare SA, maturity date - January 3, 2013. The loan is secured with a promissory note covering the debt.	923,306	928,338	3,100,000	3,116,895
Rompetrol Well Services S.A Rompetrol Rafinare SA: Short-term facility for working capital needs in amount of up to RON 1,5 million granted to Rompetrol Rafinare SA, maturity date - 27 January 2013. The loan is secured with a promissory note covering the debt.	446,761	449,196	1,500,000	1,508,176
The Rompetrol Group N.V. Rompetrol Gas SRL: Short-term facility for working capital needs in amount of USD 23 million, maturity date - April 2013.	-	23,000,000	-	77,222,500
Rompetrol S.A. Rompetrol Downstream SRL: Short-term facility for working capital needs in amount of up to RON 63.9 million. The facility was reimbursed in June 2012.	-	309,464	-	1,039,025
Accrued interest	117,336,455	93,078,630	393,957,149	312,511,500
	576,441,495	1,146,870,633	1,935,402,357	5,750,641,150

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In relation to the RBS Bank credit facility of EUR 35 million to Rompetrol Downstream SRL the financial covenants applicable were not complied with as of December 31, 2012. For these covenants a formal waiver has been received subsequent to December 31, 2012. The credit facility was prolonged until June 30, 2013.

All loans are interest bearing and the weighted average interest rates per currency are the following: EUR 4.26% (2011:5.88%), RON 8.52% (2011:8.16%) and USD 3.97% (2011:4.28%).

The loans bearing guarantees are secured with pledges on property plant and equipment USD 236 million (2011: USD 219.1 million), inventories USD 210.95 million (2011: USD 180.1 million) and trade receivables USD 188.65 million (2011: USD 136.7 million).

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15. PROVISIONS

The movement in provisions is presented below:

	<u>At 1 January 2012</u>	<u>Charged to equity</u>	<u>Arising during the year</u>	<u>Utilised</u>	<u>Unused amounts reversed</u>	<u>Reclassification between balance sheet items</u>	<u>At 31 December 2012</u>
USD							
Provision for retirement benefit	2,761,333	117,628	309,036	-	-	-	3,187,997
Provision for restructuring	21,472	-	-	(7,986)	-	-	13,486
Environmental provisions	17,527,056	-	51,348,248	(1,530,921)	0	0	67,344,383
Other provisions	4,106,856	-	9,752,691	0	0	(4,106,856)	9,752,691
Total	24,416,717	117,628	61,409,975	(1,538,907)	0	(4,106,856)	80,298,557
RON							
Provision for retirement benefit	9,271,176	394,936	1,037,587	-	-	-	10,703,699
Provision for restructuring	72,092	-	-	(26,813)	-	-	45,279
Environmental provisions	58,847,090	-	172,401,743	(5,140,067)	0	0	226,108,766
Other provisions	13,788,770	-	32,744,663	0	0	(13,788,770)	32,744,663
Total	81,979,128	394,936	206,183,993	(5,166,880)	0	(13,788,770)	269,602,407
USD							
Provision for retirement benefit	3,792,662	(401,011)	655,686	-	(1,286,004)	0	2,761,333
Provision for restructuring	992,796	-	-	(971,324)	-	-	21,472
Environmental provisions	16,085,193	-	3,279,571	0	(1,837,708)	-	17,527,056
Other provisions	-	-	4,106,856	0	-	-	4,106,856
Total	20,870,651	(401,011)	8,042,113	(971,324)	(3,123,712)	0	24,416,717
RON							
Provision for retirement benefit	12,733,863	(1,346,394)	2,201,465	-	(4,317,758)	0	9,271,176
Provision for restructuring	3,333,313	-	-	(3,261,221)	-	-	72,092
Environmental provisions	54,006,035	-	11,011,160	0	(6,170,105)	-	58,847,090
Other provisions	-	-	13,788,770	0	-	-	13,788,770
Total	70,073,211	(1,346,394)	27,001,395	(3,261,221)	(10,487,863)	0	81,979,128

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15. PROVISIONS (continued)

Provisions comprise the following:

	<u>2012</u> USD	<u>2011</u> USD	<u>2012</u> RON	<u>2011</u> RON
Non-current provisions	68,797,216	21,137,146	230,986,655	70,967,968
Current provisions	<u>11,501,341</u>	<u>3,279,571</u>	<u>38,615,752</u>	<u>11,011,160</u>
Total Provisions	<u>80,298,557</u>	<u>24,416,717</u>	<u>269,602,407</u>	<u>81,979,128</u>

For 2012 the current provision represents the current liability for environmental and tax provision in relation to Rompetrol Rafinare S.A.

An environmental provision has been recognised in prior periods for Rompetrol Rafinare S.A (Vega refinery) for the cleaning of the oil sludge pools and restoration of contaminated land. As of 31 December 2011 the provision was USD 14 million. During 2012 an evaluation report was issued by the third party expert estimating the costs associated to the technical methods to realize the remediation action. Based on these preliminary cost estimates and the estimated completion over a 10 year period a discounted cash flow cost estimate of USD 67.35 million has been provided by the Group. As a result an additional provision was included as of December 31, 2012 of USD 51.35 million by the Group. A 10.1% discount factor was applied for the discounted cash flow calculation. The work is expected to start on the last quarter of 2013.

In other provisions the most significant amount of USD 9.75 million represents penalties and VAT related to Biodiesel import in Rompetrol Rafinare (please see note 26), which are subject to a payment schedule with ANAF and will be paid in the following period. As of December 31, 2012 Rompetrol Rafinare paid and amount of USD 19.09 million, fully provisioned as other receivable (please see note 8).

Under the collective labor agreements that certain Group's entities have in force provided that, employees are entitled to certain retirement benefits that are payable on retirement, if the employees are employed with Group entities at the date of their retirement. These amounts are estimated as of the reporting date based on: the specific benefits provided in the agreement, the number of employees working within the company at date and actuarial assumptions on future liabilities. These liabilities are recorded at their fair values as of the reporting date. The related service cost and interest expense are charged to period profit and loss, while all the actuarial gains and losses are fully recognized in other comprehensive income in the period in which they occur.

The present value of this obligation and the related current and past service costs were measured using the Projected Unit Credit Method. The discount rates used were 6.38% (2011: 7.33%), with an expected rate of long-term salary increase of 3.7% (2011: 3%).

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

	<u>2012</u> USD	<u>2011</u> USD	<u>2012</u> RON	<u>2011</u> RON
Interest on obligation	107,140	172,606	359,723	579,525
Service cost	201,896	483,080	677,866	1,621,941
Curtailment due to restructuring	-	(1,286,004)	-	(4,317,758)
Total	309,036	(630,318)	1,037,589	(2,116,292)

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15. PROVISIONS (continued)

The amounts included in the statement of financial position arising from the retirement benefit obligation are as follows:

	<u>2012</u> USD	<u>2011</u> USD	<u>2012</u> RON	<u>2011</u> RON
Opening balance	2,761,333	3,792,662	9,271,176	12,733,863
Interest on obligation	107,140	172,606	359,722	579,525
Service cost	201,896	483,080	677,866	1,621,941
Curtailment due to restructuring	-	(1,286,004)	-	(4,317,758)
Change in assumptions (tax rate, salary increase, turnover)	117,628	(401,011)	394,935	(1,346,395)
Closing balance	3,187,997	2,761,333	10,703,699	9,271,176

The charge for the year is included in the salaries expenses in the income statement for 2012.

It is considered that there are no significant liabilities relating to the provisions that will arise in the twelve months to 31 December 2013.

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16. REVENUES

	<u>2012</u> USD	<u>2011</u> USD	<u>2012</u> RON	<u>2011</u> RON
Gross revenues from petroleum products production	4,300,142,149	4,228,579,304	14,437,727,266	14,197,455,014
Gross revenues from petroleum products trading	10,196,982	155,909,337	34,236,367	523,465,599
Revenues from petrochemicals production	228,221,929	327,155,325	766,255,127	1,098,424,004
Revenues from petrochemicals trading	17,817,495	22,442,376	59,822,239	75,350,277
Revenues from merchandise sales	50,141,713	60,824,360	168,350,801	204,217,789
Revenues from utilities sold	2,677,871	2,567,201	8,990,952	8,619,377
Revenues from transportation fees	1,673,941	2,441,860	5,620,257	8,198,545
Revenues from rents and other services	8,677,231	12,667,542	29,133,803	42,531,272
Gross Revenues	4,619,549,311	4,812,587,305	15,510,136,812	16,158,261,877
Less sales taxes	(718,643,792)	(816,860,708)	(2,412,846,532)	(2,742,609,827)
Less commercial discounts	(57,423,646)	(72,820,514)	(192,799,891)	(244,494,876)
Total	<u>3,843,481,873</u>	<u>3,922,906,083</u>	<u>12,904,490,389</u>	<u>13,171,157,174</u>

17. COST OF SALES

	<u>2012</u> USD	<u>2011</u> USD	<u>2012</u> RON	<u>2011</u> RON
Crude oil and other raw materials	3,383,084,115	3,330,478,502	11,358,704,916	11,182,081,570
Consumables and other materials	15,435,633	21,018,054	51,825,138	70,568,116
Utilities	114,735,609	98,589,146	385,224,807	331,013,058
Staff costs	21,970,259	32,509,063	73,765,145	109,149,179
Transportation	381,210	599,137	1,279,913	2,011,602
Maintenance	17,422,615	20,404,352	58,496,430	68,507,612
Insurance	834,816	1,526,853	2,802,895	5,126,409
Environmental expenses	2,244,427	1,419,794	7,535,664	4,766,958
Other	9,496,123	9,478,350	31,883,233	31,823,560
Cash production cost	3,565,604,807	3,516,023,251	11,971,518,141	11,805,048,064
Depreciation and amortization	31,001,816	53,601,251	104,088,597	179,966,202
Production costs	3,596,606,623	3,569,624,502	12,075,606,738	11,985,014,266
Less: Change in inventories	(6,175,854)	(42,240,447)	(20,735,430)	(141,822,301)
Less: Own production of property, plant & equipment	(2,811,810)	(1,671,494)	(9,440,652)	(5,612,041)
Cost of petroleum products trading	9,483,194	141,877,496	31,839,824	476,353,693
Cost of petrochemicals trading	18,083,132	22,574,106	60,714,116	75,792,561
Cost of merchandise sold	39,803,293	44,142,574	133,639,556	148,208,692
Cost of utilities resold	1,438,733	1,301,796	4,830,546	4,370,780
Realised (gains)/losses on derivatives	17,169,885	19,042,930	57,647,889	63,936,637
Unrealised losses on derivatives	(883,658)	883,658	(2,966,882)	2,966,882
Total	<u>3,672,713,538</u>	<u>3,755,535,121</u>	<u>12,331,135,705</u>	<u>12,609,209,169</u>

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18. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES, INCLUDING LOGISTIC COSTS

	<u>2012</u> USD	<u>2011</u> USD	<u>2012</u> RON	<u>2011</u> RON
Staff costs	34,944,890	58,295,117	117,327,468	195,725,853
Utilities	6,046,166	7,831,221	20,300,002	26,293,325
Transportation	45,244,042	48,156,455	151,906,871	161,685,298
Professional and consulting fees	33,028,434	39,449,885	110,892,967	132,452,989
Royalties and rents	7,306,059	8,367,451	24,530,093	28,093,717
Consumables	1,563,763	3,314,170	5,250,334	11,127,326
Marketing	1,962,276	2,249,668	6,588,342	7,553,260
Taxes	6,200,378	6,029,551	20,817,769	20,244,217
Communications	490,926	1,261,262	1,648,284	4,234,687
Insurance	757,783	1,758,927	2,544,256	5,905,597
Computer related expenses	17,019,540	19,315,207	57,143,106	64,850,808
Environmental expenses	3,509,633	2,623,553	11,783,593	8,808,579
Maintenance	8,272,793	7,803,199	27,775,902	26,199,241
Other expenses	8,135,057	13,222,663	27,313,454	44,395,091
Costs before depreciation	174,481,740	219,678,329	585,822,441	737,569,988
Depreciation and amortisation	45,624,619	54,657,577	153,184,658	183,512,815
Total	<u>220,106,359</u>	<u>274,335,906</u>	<u>739,007,099</u>	<u>921,082,803</u>

19. OTHER OPERATING INCOME/ (EXPENSES), NET

	<u>2012</u> USD	<u>2011</u> USD	<u>2012</u> RON	<u>2011</u> RON
Net book value of non-current assets disposals	(106,261)	(5,272,196)	(356,771)	(17,701,398)
Proceeds on disposals of non-current assets	245,168	5,625,072	823,152	18,886,179
Provision for impairment of tangible assets, net	1,022,802	(52,814,816)	3,434,053	(177,325,744)
Provision for receivables, net	(49,532,331)	(7,479,860)	(166,304,801)	(25,113,630)
Provision for inventories, net	(11,665,111)	(15,943,557)	(39,165,610)	(53,530,493)
Receivables write-off	(1,064)	(1,780,778)	(3,572)	(5,978,962)
Tangible assets write-off	(22,847)	-	(76,709)	-
Inventories write-off	(48,316)	(26,553)	(162,221)	(89,152)
Other provisions	(59,562,033)	(4,577,395)	(199,979,526)	(15,368,604)
Other, net	49,475,722	6,027,498	166,114,739	20,237,323
Total	<u>(70,194,271)</u>	<u>(76,242,585)</u>	<u>(235,677,266)</u>	<u>(255,984,481)</u>

The movement in provisions is presented in Notes 5, 7 and 8.

The 2012 movement in provision for inventories, net includes an additional reserve of USD 5.5 million (2011: 15.9 million) as the difference between cost and net realizable value on crude oil and petroleum products held as of 31 December 2012.

Other provision movement in 2012 include the increase in the environmental provision in relation to Rompetrol Rafinare (Vega refinery). See Note 15.

As of 2012, Rompetrol Rafinare S.A. reversed previously accrued tax charges in respect of interest for FSPP (Special Fund of Petroleum Products) in amount of USD 48 million, included in caption Other, net, based on management's assessment that no liability still exists.

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Reserve for receivables net, includes:

- an amount of USD (10.73) million for a doubtful allowance by Rompetrol Downstream for a client which initiated an insolvency process starting September 2012;
- USD (10.38) million from Rompetrol Rafinare S.A., representing additional principal tax liabilities and late payment interest and penalties in relation to fiscal control carried on by ANAF DGAMC for the period 2007-2010;
- USD (19.09) million for amounts paid to the Romania Tax Authorities relating to an assessment for antidumping and countervailing taxes for Biodiesel import on Rompetrol Rafinare (see Note 26).

In addition to the amount of USD (19.09) million recorded in Reserve for receivables net, an amount of USD (9.75) million was recorded as part of Other provisions in relation to the Biodiesel import. The amount represents late payment interests and penalties for which a rescheduling payment agreement was concluded with the Romanian Customs Authorities (see Note 26).

Other net movement in 2011 include revenues of USD 6 million from the sale of CO2 certificates from Rompetrol Rafinare SA.

20. FINANCIAL COST, FINANCE INCOME AND FOREIGN EXCHANGE

	<u>2012</u> USD	<u>2011</u> USD	<u>2012</u> RON	<u>2011</u> RON
Finance cost				
Late payment interest	(2,309,053)	(28,436)	(7,752,644)	(95,475)
Interest expense	(104,438)	(1,298,741)	(350,651)	(4,360,523)
Interest expense shareholders	(25,710,919)	(46,739,930)	(86,324,411)	(156,929,315)
Unwinding of discount on hybrid	-	-	-	-
Commission and other bank charges	(22,849,982)	(21,983,522)	(76,718,815)	(73,809,675)
Collection discounts expenses	(6,342,963)	(12,094,414)	(21,296,498)	(40,606,995)
	(57,317,355)	(82,145,043)	(192,443,019)	(275,801,983)
Finance income				
Interest income	1,328,562	1,389,955	4,460,647	4,666,774
	1,328,562	1,389,955	4,460,647	4,666,774
Finance income/(cost) net	(55,988,793)	(80,755,088)	(187,982,372)	(271,135,209)
Unrealized net foreign exchange (losses)/gains	22,681,452	4,663,826	76,152,974	15,658,796
Realized net foreign exchange (losses)/gains	(10,725,694)	1,811,829	(36,011,518)	6,083,216
Foreign exchange gain/(loss), net	11,955,758	6,475,655	40,141,456	21,742,012
Total	(44,033,035)	(74,279,433)	(147,840,916)	(249,393,197)

21. INCOME TAX

a) The current income tax rate in 2012 was 16%, the same as in 2012.

	<u>2012</u> USD	<u>2011</u> USD	<u>2012</u> RON	<u>2011</u> RON
Tax expense comprises:				
Current tax expense	286,657	390,475	962,451	1,311,020
Deferred tax expense relating to the origination and reversal of temporary differences	(818,254)	298,508	(2,747,288)	1,002,241
Total tax expense/(income)	(531,597)	688,983	(1,784,837)	2,313,261

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21. INCOME TAX (continued)

As of December 31, 2012, the Group had the following unused fiscal losses:

Entity	Taxable loss	Taxable loss	Carry	Carry forward
	2012	2012	forward tax	tax losses 2011
	USD million	RON million	losses 2011	RON million
			USD million	
Romp petrol Rafinare SA	658.74	2,211.73	516.79	1,735.12
Romp petrol Petrochemicals SRL	105.96	355.75	87.10	292.44
Romp petrol Downstream SRL	68.58	230.26	54.03	181.41
Rom Oil SA	12.93	43.45	11.73	39.38
As at December 31 2012	846.21	2,841.19	669.65	2,248.35

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

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

Entity	Taxable loss	Taxable loss	Tax loss
	Amount USD	Amount RON	Expires in
	million	million	
Romp petrol Rafinare SA			
2007	50.24	168.68	2012
2008	89.98	302.11	2013
2009	95.82	321.72	2016
2010	141.08	473.68	2017
2011	139.67	468.94	2018
2012	141.95	476.60	2019
	658.74	2,211.73	
Romp petrol Petrochemicals SRL			
2007	10.18	34.18	2012
2008	48.42	162.57	2013
2009	19.23	64.56	2016
2010	3.86	12.96	2017
2011	5.41	18.16	2018
2012	18.86	63.32	2019
	105.96	355.75	
Rom Oil SA			
2008	3.43	11.52	2013
2009	4.42	14.84	2016
2010	3.24	10.89	2017
2011	0.64	2.16	2018
2012	1.2	4.04	2019
	12.93	43.45	
Romp petrol Downstream SRL			
2008	25.17	84.51	2013
2009	8.83	29.65	2016
2010	12.88	43.24	2017
2011	7.15	24.01	2018
2012	14.55	48.85	2019
	68.58	230.26	
	846.21	2,841.19	

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21. INCOME TAX (continued)

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 12

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 :

	<u>2012</u> USD	<u>2011</u> USD	<u>2012</u> RON	<u>2011</u> RON
Profit/(loss) from operations	(163,565,330)	(257,486,962)	(549,170,597)	(864,512,476)
Tax at prevailing tax rate	(26,170,453)	(41,197,914)	(87,867,296)	(138,321,996)
Effect of statutory items non deductible / (not taxable) for tax purposes	26,457,110	41,588,389	88,829,747	139,633,016
Effect of temporary differences	(818,254)	298,508	(2,747,288)	1,002,241
Income tax expense recognised in profit or loss	<u>(531,597)</u>	<u>688,983</u>	<u>(1,784,837)</u>	<u>2,313,261</u>

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22. OPERATING SEGMENT INFORMATION

a) Business Segments

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

2012 Income Statement information

<u>USD</u>	<u>Refining</u>	<u>Petrochemicals</u>	<u>Marketing</u>	<u>Consolidation adjustments</u>	<u>Consolidated</u>
Net revenues	3,554,601,432	247,294,513	1,898,715,067	(1,857,129,139)	3,843,481,873
Cost of sales	<u>(3,528,387,091)</u>	<u>(256,317,654)</u>	<u>(1,763,305,046)</u>	<u>1,875,296,253</u>	<u>(3,672,713,538)</u>
Gross margin	26,214,341	(9,023,141)	135,410,021	18,167,114	170,768,335
Selling, general and administrative expenses	(47,974,956)	(12,374,173)	(136,179,474)	(23,577,756)	(220,106,359)
Other operating expenses, net	(48,851,614)	1,157,357	(22,486,019)	(13,995)	(70,194,271)
Operating margin	(70,612,229)	(20,239,957)	(23,255,472)	(5,424,637)	(119,532,295)
Financial expenses, net	(46,293,363)	(1,750,028)	(17,597,998)	9,652,596	(55,988,793)
Net foreign exchange result	(1,793,760)	495,030	(3,704,500)	16,958,988	11,955,758
Profit before income tax	(118,699,352)	(21,494,955)	(44,557,970)	21,186,947	(163,565,330)
Income tax	-	-	531,597	-	531,597
Net Profit	(118,699,352)	(21,494,955)	(44,026,373)	21,186,947	(163,033,733)
Non-Controlling interest	-	-	-	287,636	287,636
Net Profit Group	<u>(118,699,352)</u>	<u>(21,494,955)</u>	<u>(44,026,373)</u>	<u>21,474,583</u>	<u>(162,746,097)</u>
<u>RON</u>	<u>Refining</u>	<u>Petrochemicals</u>	<u>Marketing</u>	<u>Consolidation adjustments</u>	<u>Consolidated</u>
Net revenues	11,934,574,308	830,291,327	6,374,935,837	(6,235,311,083)	12,904,490,389
Cost of sales	<u>(11,846,559,658)</u>	<u>(860,586,523)</u>	<u>(5,920,296,692)</u>	<u>6,296,307,168</u>	<u>(12,331,135,705)</u>
Gross margin	88,014,650	(30,295,196)	454,639,145	60,996,085	573,354,684
Selling, general and administrative expenses	(161,075,915)	(41,546,286)	(457,222,584)	(79,162,314)	(739,007,099)
Other operating expenses, net	<u>(164,019,294)</u>	<u>3,885,826</u>	<u>(75,496,809)</u>	<u>(46,989)</u>	<u>(235,677,266)</u>
Operating margin	(237,080,559)	(67,955,656)	(78,080,248)	(18,213,218)	(401,329,681)
Financial expenses, net	(155,429,966)	(5,875,719)	(59,085,278)	32,408,591	(187,982,372)
Net foreign exchange result	<u>(6,022,549)</u>	<u>1,662,063</u>	<u>(12,437,859)</u>	<u>56,939,801</u>	<u>40,141,456</u>
Profit before income tax	(398,533,074)	(72,169,312)	(149,603,385)	71,135,174	(549,170,597)
Income tax	-	-	1,784,837	-	1,784,837
Net Profit	(398,533,074)	(72,169,312)	(147,818,548)	71,135,174	(547,385,760)
Non-Controlling interest	-	-	-	965,738	965,738
Net Profit Group	<u>(398,533,074)</u>	<u>(72,169,312)</u>	<u>(147,818,548)</u>	<u>72,500,912</u>	<u>(547,019,022)</u>

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22. OPERATING SEGMENT INFORMATION (continued)

Statement of financial position information

<u>USD</u>	<u>Refining</u>	<u>Petrochemicals</u>	<u>Marketing</u>	<u>Consolidation adjustments</u>	<u>Consolidated</u>
Total non current assets	1,472,873,970	99,478,362	230,938,436	(550,288,747)	1,253,002,021
Total current assets	658,254,177	65,514,674	325,609,287	(158,582,092)	890,796,046
TOTAL ASSETS	<u>2,131,128,147</u>	<u>164,993,036</u>	<u>556,547,723</u>	<u>(708,870,839)</u>	<u>2,143,798,067</u>
Total equity	756,608,319	52,538,991	108,055,698	(555,305,136)	361,897,872
Total non-current liabilities	67,470,230	-	953,476	1,243,295	69,667,001
Total current liabilities	<u>1,307,049,598</u>	<u>112,454,045</u>	<u>447,538,549</u>	<u>(154,808,998)</u>	<u>1,712,233,194</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>2,131,128,147</u>	<u>164,993,036</u>	<u>556,547,723</u>	<u>(708,870,839)</u>	<u>2,143,798,067</u>
Capital expenditure	118,597,827	9,177,793	5,228,255	9,749,042	142,752,917
Depreciation and amortisation	30,539,016	13,237,490	29,417,289	3,432,640	76,626,435
Impairment losses	1,249,327	102,271	(328,796)	-	1,022,802
<u>RON</u>	<u>Refining</u>	<u>Petrochemicals</u>	<u>Marketing</u>	<u>Consolidation adjustments</u>	<u>Consolidated</u>
Total non current assets	4,945,174,355	333,998,600	775,375,800	(1,847,594,478)	4,206,954,277
Total current assets	<u>2,210,088,399</u>	<u>219,965,518</u>	<u>1,093,233,180</u>	<u>(532,439,371)</u>	<u>2,990,847,726</u>
TOTAL ASSETS	<u>7,155,262,754</u>	<u>553,964,118</u>	<u>1,868,608,980</u>	<u>(2,380,033,849)</u>	<u>7,197,802,003</u>
Total equity	2,540,312,432	176,399,662	362,797,007	(1,864,436,998)	1,215,072,103
Total non-current liabilities	226,531,297	-	3,201,295	4,174,366	233,906,958
Total current liabilities	<u>4,388,419,025</u>	<u>377,564,456</u>	<u>1,502,610,678</u>	<u>(519,771,217)</u>	<u>5,748,822,942</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>7,155,262,754</u>	<u>553,964,118</u>	<u>1,868,608,980</u>	<u>(2,380,033,849)</u>	<u>7,197,802,003</u>
Capital expenditure	398,192,204	30,814,440	17,553,867	32,732,408	479,292,919
Depreciation and amortisation	102,534,746	44,444,873	98,768,548	11,525,088	257,273,255
Impairment losses	4,194,613	343,374	(1,103,934)	-	3,434,053

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22. OPERATING SEGMENT INFORMATION (continued)

2011 Income Statement Information

<u>USD</u>	<u>Refining</u>	<u>Petrochemicals</u>	<u>Marketing</u>	<u>Consolidation adjustments</u>	<u>Consolidated</u>
Net revenues	3,362,589,233	355,055,334	1,970,776,707	(1,765,515,191)	3,922,906,083
Cost of sales	(3,393,468,739)	(354,981,165)	(1,796,935,572)	1,789,850,355	(3,755,535,121)
Gross margin	(30,879,506)	74,169	173,841,135	24,335,164	167,370,962
Selling, general and administrative expenses	(59,481,132)	(13,722,619)	(177,536,436)	(23,595,719)	(274,335,906)
Other operating expenses, net	(23,744,872)	(33,778,104)	(17,980,873)	(738,736)	(76,242,585)
Operating margin	(114,105,510)	(47,426,554)	(21,676,174)	709	(183,207,529)
Financial expenses, net	(61,617,308)	(1,872,047)	(23,744,175)	6,478,442	(80,755,088)
Net foreign exchange result	4,147,340	7,725,756	(5,397,441)	-	6,475,655
Profit before income tax	(171,575,478)	(41,572,845)	(50,817,790)	6,479,151	(257,486,962)
Income tax	:	:	(688,983)	:	(688,983)
Net Profit	(171,575,478)	(41,572,845)	(51,506,773)	6,479,151	(258,175,945)
Non-Controlling interest	:	:	:	1,121,198	1,121,198
Net Profit Group	(171,575,478)	(41,572,845)	(51,506,773)	7,600,349	(257,054,747)
<u>RON</u>	<u>Refining</u>	<u>Petrochemicals</u>	<u>Marketing</u>	<u>Consolidation adjustments</u>	<u>Consolidated</u>
Net revenues	11,289,893,350	1,192,098,284	6,616,882,794	(5,927,717,254)	13,171,157,174
Cost of sales	(11,393,571,291)	(1,191,849,261)	(6,033,211,183)	6,009,422,566	(12,609,209,169)
Gross margin	(103,677,941)	249,023	583,671,611	81,705,312	561,948,005
Selling, general and administrative expenses	(199,707,901)	(46,073,693)	(596,078,584)	(79,222,625)	(921,082,803)
Other operating expenses, net	(79,723,408)	(113,409,984)	(60,370,781)	(2,480,308)	(255,984,481)
Operating margin	(383,109,250)	(159,234,654)	(72,777,754)	2,379	(615,119,279)
Financial expenses, net	(206,880,112)	(6,285,398)	(79,721,068)	21,751,369	(271,135,209)
Net foreign exchange result	13,924,694	25,939,226	(18,121,908)	-	21,742,012
Profit before income tax	(576,064,668)	(139,580,826)	(170,620,730)	21,753,748	(864,512,476)
Income tax	:	:	(2,313,261)	:	(2,313,261)
Net Profit	(576,064,668)	(139,580,826)	(172,933,991)	21,753,748	(866,825,737)
Non-Controlling interest	:	:	:	3,764,422	3,764,422
Net Profit Group	(576,064,668)	(139,580,826)	(172,933,991)	25,518,170	(863,061,315)

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22. OPERATING SEGMENT INFORMATION (continued)

Statement of financial position information

<u>USD</u>	<u>Refining</u>	<u>Petrochemicals</u>	<u>Marketing</u>	<u>Consolidation adjustments</u>	<u>Consolidated</u>
Total non current assets	1,400,518,787	103,443,244	250,380,629	(571,112,297)	1,183,230,363
Total current assets	569,821,509	59,022,982	311,671,893	(231,428,832)	709,087,552
TOTAL ASSETS	<u>1,970,340,296</u>	<u>162,466,226</u>	<u>562,052,522</u>	<u>(802,541,129)</u>	<u>1,892,317,915</u>
Total equity	75,307,671	74,033,946	149,598,537	(573,890,921)	(274,950,767)
Total non-current liabilities	20,228,838	-	1,859,338	816,631	22,904,807
Total current liabilities	<u>1,874,803,787</u>	<u>88,432,280</u>	<u>410,594,647</u>	<u>(229,466,839)</u>	<u>2,144,363,875</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>1,970,340,296</u>	<u>162,466,226</u>	<u>562,052,522</u>	<u>(802,541,129)</u>	<u>1,892,317,915</u>
Capital expenditure	193,453,500	8,043,136	4,028,146	6,651,049	212,175,831
Depreciation and amortisation	49,044,121	12,808,014	43,259,083	3,147,610	108,258,828
Impairment losses	(3,287,043)	(34,927,761)	(14,600,012)	-	(52,814,816)

<u>RON</u>	<u>Refining</u>	<u>Petrochemicals</u>	<u>Marketing</u>	<u>Consolidation adjustments</u>	<u>Consolidated</u>
Total non current assets	4,702,241,827	347,310,692	840,652,962	(1,917,509,542)	3,972,695,939
Total current assets	<u>1,913,175,716</u>	<u>198,169,662</u>	<u>1,046,438,381</u>	<u>(777,022,301)</u>	<u>2,380,761,458</u>
TOTAL ASSETS	<u>6,615,417,543</u>	<u>545,480,354</u>	<u>1,887,091,343</u>	<u>(2,694,531,843)</u>	<u>6,353,457,397</u>
Total equity	252,845,505	248,568,974	502,277,088	(1,926,838,768)	(923,147,201)
Total non-current liabilities	67,918,324	-	6,242,727	2,741,839	76,902,890
Total current liabilities	<u>6,294,653,714</u>	<u>296,911,380</u>	<u>1,378,571,528</u>	<u>(770,434,914)</u>	<u>7,199,701,708</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>6,615,417,543</u>	<u>545,480,354</u>	<u>1,887,091,343</u>	<u>(2,694,531,843)</u>	<u>6,353,457,397</u>
Capital expenditure	649,520,129	27,004,829	13,524,496	22,330,897	712,380,351
Depreciation and amortisation	164,665,636	43,002,907	145,242,371	10,568,103	363,479,017
Impairment losses	(11,036,247)	(117,269,958)	(49,019,539)	-	(177,325,744)

- Inter segment revenues are eliminated on consolidation.
- Capital expenditure represents additions to property, plant and equipment and intangible assets including acquisition of subsidiaries.
- Transfer pricing between operating segments is determined based on internal rules agreed between the segments. These transfer prices take in to account the latest Crude/Refined products prices on markets adjusted by various discounts allowed taking into account, quantity, quality, payment terms, transportation costs etc.

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:

	<u>2012</u> <u>USD</u>	<u>2011</u> <u>USD</u>	<u>2012</u> <u>RON</u>	<u>2011</u> <u>RON</u>
Romania	2,375,055,428	2,484,646,995	7,974,248,600	8,342,202,286
Export	1,468,426,445	1,438,259,088	4,930,241,789	4,828,954,888
<i>out of which</i>				
Petroleum products	1,333,336,852	1,227,833,826	4,476,678,481	4,122,452,074
Petrochemical products	135,089,593	210,425,262	453,563,308	706,502,817
Total	<u>3,843,481,873</u>	<u>3,922,906,083</u>	<u>12,904,490,389</u>	<u>13,171,157,174</u>

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23. 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 is presented below:

Name of related party	Nature of relationship
The Rompetrol Group N.V.	Majority Shareholder
Rompetrol S.A.	Company owned by The Rompetrol Group
Rominserv S.A.	Company owned by The Rompetrol Group
Ecomaster Servicii Ecologice S.R.L	Company owned by The Rompetrol Group
Vector Energy AG	Company owned by The Rompetrol Group
Rompetrol Well Services S.A.	Company owned by The Rompetrol Group
Rominservices Therm S.R.L.	Company owned by The Rompetrol Group
Palplast S.A.	Company owned by The Rompetrol Group
Rompetrol Bulgaria JSC	Company owned by The Rompetrol Group
Rompetrol Moldova SA	Company owned by The Rompetrol Group
Rompetrol Industrial Park S.R.L	Company owned by The Rompetrol Group
Rompetrol Georgia LLC	Company owned by The Rompetrol Group
Romcalor Oil Services S.A.	Company owned by The Rompetrol Group
Midia Marine Terminal S.R.L.	Company owned by The Rompetrol Group
Rompetrol Financial Group S.R.L.	Company owned by The Rompetrol Group
Dyneff SA	Company owned by The Rompetrol Group
Byron Shipping Ltd	Company owned by The Rompetrol Group
The Rompetrol Group Corporate Center S.R.L	Company owned by The Rompetrol Group
Rompetrol Albania Wholesale Sh.A.	Company owned by The Rompetrol Group
Rompetrol Ukraine LLC	Company owned by The Rompetrol Group
Rominserv Valves Iaifo SRL	Company owned by The Rompetrol Group
Rominserv Kazakhstan Ltd	Company owned by The Rompetrol Group
Uzina Termoelectrica Midia S.A.	Associate of the Rompetrol Group
Global Security Systems SA	Company owned by The Rompetrol Group
Rompetrol Georgia LLC	Company owned by The Rompetrol Group
Kazmotransflot	Company affiliated to KMG Group
Tengizchevroil LLP	Company affiliated to KMG Group

The sales to and purchases from related parties are made in the ordinary course of business and are undertaken on a basis that considers prevailing market terms and conditions as applicable to the nature of goods and services provided or received. Outstanding balances at the year-end are unsecured, interest free (except for shareholders loans) and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended December 31, 2012, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2011: nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Name of related party	Receivables			
	31-Dec-12	31-Dec-11	31-Dec-12	31-Dec-11
	USD	USD	RON	RON
Vector Energy AG	10,281,245	-	34,519,280	-
Rominserv S.A.	35,149,476	27,584,828	118,014,366	92,616,060
The Rompetrol Group N.V.	208,040	431,713	698,494	1,449,476
The Rompetrol Group Corporate Center S.R.L	492,900	425,477	1,654,912	1,428,539
Rompetrol S.A.	3,677,806	351,103	12,348,234	1,178,828
Ecomaster Servicii Ecologice S.R.L	798,646	494,104	2,681,454	1,658,954
Rompetrol Well Services S.A.	514,536	191,121	1,727,555	641,689
Palplast S.A.	2,735,183	2,525,083	9,183,377	8,477,966
Rompetrol Bulgaria JSC	2,539,825	3,591,137	8,527,462	12,057,242
Rompetrol Moldova SA	2,534,964	837,070	8,511,142	2,810,463
Rompetrol Georgia LLC	1,808,077	1,773,189	6,070,619	5,953,482
Dyneff SA	268,297	255,331	900,807	857,274
Byron Shipping Ltd.	1,542	53,930	5,177	181,070
Rompetrol Albania Wholesale Sh.A.	13,442	13,190	45,132	44,285
Midia Marine Terminal SRL	74,582	23,908	250,409	221,111
Rominserv Valves Iaifo SRL	10,468	3,340	35,146	11,214

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Name of related party	<u>Receivables</u>			
	<u>31-Dec-12</u>	<u>31-Dec-11</u>	<u>31-Dec-12</u>	<u>31-Dec-11</u>
	USD	USD	RON	RON
Rominserv Kazakhstan Ltd	168,167	179,283	564,621	601,943
Rompetroil Ukraine LLC	1,186,107	739	3,982,354	2,481
Uzina Termoelectrica Midia S.A.	-	2,399	-	8,055
Global Security Systems S.A.	184,028	260,301	617,874	873,961
Total	<u>62,647,331</u>	<u>38,997,246</u>	<u>210,338,415</u>	<u>130,933,253</u>

Name of related party	<u>Liabilities</u>			
	<u>31-Dec-12</u>	<u>31-Dec-11</u>	<u>31-Dec-12</u>	<u>31-Dec-11</u>
	USD	USD	RON	RON
Vector Energy AG	675,269,260	532,689,793	2,267,216,540	1,788,505,980
Rominserv S.A.	64,355,151	122,333,467	216,072,419	410,734,615
The Rompetrol Group N.V.	564,315,942	1,143,158,569	1,894,690,775	3,838,154,895
The Rompetrol Group Corporate Center S.R.L.	9,273,702	5,030,921	31,136,454	16,891,317
Rompetroil S.A.	4,976,823	1,023,150	16,709,683	3,435,226
Ecomaster Servicii Ecologice S.R.L.	1,841	144,983	6,181	486,780
Rompetroil Well Services S.A.	7,437,860	7,480,337	24,972,615	25,115,231
Rompetroil Bulgaria JSC	402	4,132	1,350	13,873
Dyneff SA	116	1,056	389	3,546
Byron Shipping Ltd.	26	7,376	87	24,765
Midia Marine Terminal SRL	7,272,797	6,024,899	24,418,416	20,228,598
Rominserv Valves Iaifo SRL	25,548	4,616	85,777	15,498
Rominserv Kazakhstan Ltd	-	5,621	-	18,873
Uzina Termoelectrica Midia S.A.	3,364,045	2,111,218	11,294,781	7,088,414
Global Security Systems S.A.	687,401	696,713	2,307,949	2,339,214
Tengizchevroil LLP	-	151,609	-	509,027
Total	<u>1,336,980,914</u>	<u>1,820,868,460</u>	<u>4,488,913,416</u>	<u>6,113,565,852</u>

During 2012 and 2011, Rompetrol Rafinare Group entered into the following transactions with related parties:

Name of related party	<u>Sales</u>			
	<u>31-Dec-12</u>	<u>31-Dec-11</u>	<u>31-Dec-12</u>	<u>31-Dec-11</u>
	USD	USD	RON	RON
Vector Energy AG	1,251,570,446	1,113,837,456	4,202,147,772	3,739,709,259
Rominserv S.A.	5,025,377	1,802,995	16,872,703	6,053,556
The Rompetrol Group N.V.	-	64	-	215
The Rompetrol Group Corporate Center S.R.L.	182,507	294,601	612,767	989,123
Rompetroil S.A.	2,205,084	141,359	7,403,570	474,613
Ecomaster Servicii Ecologice S.R.L.	219,160	260,234	735,830	873,736
Rompetroil Well Services S.A.	2,228,736	2,640,953	7,482,981	8,867,000
Palplast S.A.	2,603,727	1,054,285	8,742,013	3,539,762
Rompetroil Bulgaria JSC	29,824,908	36,162,192	100,137,129	121,414,560
Rompetroil Moldova SA	76,251,089	56,594,237	256,013,031	190,015,151
Rompetroil Georgia LLC	-	329,834	-	1,107,418
Midia Marine Terminal SRL	655,330	724,793	2,200,270	2,433,492
Dyneff SA	7,059	84,690	23,701	284,347
Byron Shipping Ltd.	25,773	65,799	86,533	220,920
Rominserv Valves Iaifo SRL	23,050	2,737	77,390	9,189
Rominserv Kazakhstan Ltd	-	172,312	-	578,538
Uzina Termoelectrica Midia S.A.	23,401,506	13,016,677	78,570,556	43,703,493
Global Security Systems S.A.	26,628	10,403	89,404	34,928
Total	<u>1,398,436,795</u>	<u>1,227,195,621</u>	<u>4,695,251,538</u>	<u>4,120,309,300</u>

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23. RELATED PARTIES (continued)

Name of related party	Nature of transaction	<u>Purchases</u>			
		<u>31-Dec-12</u> USD	<u>31-Dec-11</u> USD	<u>31-Dec-12</u> RON	<u>31-Dec-11</u> RON
Vector Energy AG	Purchase of crude oil	3,312,534,090	3,090,238,790	11,121,833,207	10,375,476,737
Rominserv S.A.	Acquisition and maintenance of fixed assets	139,365,436	214,238,395	467,919,451	719,305,411
The Rompetrol Group N.V.	Purchase of crude oil / Management services	3,189,402	5,233,661	10,708,417	17,572,017
The Rompetrol Group Corporate Center S.R.L.	Management services	27,135,211	31,831,617	91,106,471	106,874,654
Rompetrol S.A.	Management services	41,701	28,467	140,011	95,578
Ecomaster Servicii Ecologice S.R.L.	Environmental services	828,205	728,503	2,780,698	2,445,949
Rompetrol Well Services S.A.	Interest on loan	31,200	38,485	104,754	129,213
Rompetrol Bulgaria JSC	Sales intermediary services	-	1,357,931	-	4,559,253
Midia Marine Terminal SRL	Shipping services	5,905,129	12,828,758	19,826,471	43,072,555
Byron Shipping Ltd	Shipping services	41,858	23,144	140,538	77,706
Uzina Termoelectrica Midia S.A.	Acquisition of utilities	30,995,028	19,452,577	104,065,807	65,312,027
Global Security Systems S.A.	Security and protection services	2,282,841	3,217,210	7,664,639	10,801,783
Tengizchevroil LLP	Liquefied Petroleum Gas	5,979,832	20,684,971	20,077,286	69,449,790
		<u>3,528,329,933</u>	<u>3,399,902,509</u>	<u>11,846,367,750</u>	<u>11,415,172,673</u>

The nature of sale transactions consists in sale of petroleum products. Sales to related parties include sales taxes

The Ministry of Public Finance of Romania ("MFPR") was the holder of 44.6959% of the share in Rompetrol Rafinare SA since September 2010 until July 2012. Starting July 2012, through a Government Ordinance, the share holder became Ministry of Economy Trade and Business Environment ("MECMA"). As a result MFPR, MECMA and Other Authorities are considered to be a related party of the Group. No entities in the Group have had any transactions during the period since MFPR and MECMA became a related party or balances as of period end, other than those arising from Romanian fiscal and legislative requirements, with MFPR, MECMA and Other Authorities in Romania.

The amount of remuneration for key management personnel for 2012 was of USD 0.64 million (2011: USD 0.63 million), representing short term benefits and bonuses.

24. EARNINGS PER SHARE

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

	<u>2012</u> USD	<u>2011</u> USD	<u>2012</u> RON	<u>2011</u> RON
Earnings				
Loss for the year attributable to ordinary equity holders of the parent entity	(162,746,097)	(257,054,747)	(546,420,022)	(863,061,315)
Number of shares				
Weighted average number of shares for the purpose of basic earnings per share (see Note 10)	44,109,205,726	33,306,461,039	44,109,205,726	33,306,461,039
Earnings per share (US cents/share)				
Basis	(0.369)	(0.772)	(1.239)	(2.592)

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25. 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 14.2 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 26). 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 amount noted in the minutes issued by D.G.F.P Constanta is RON 9.5 Million (USD 2.8 million). The management is confident that the likelihood of reversal of the earlier court decision is very little. In 2012 no changes were incurred.

26. LEGAL MATTERS

Litigation with the State involving criminal charges

Starting with 22 March 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 intensive discussions on several procedural matters, the first competent court, the Bucharest Tribunal, initiated the inquiry on the merits (the factual background) by interviewing the accused persons. Following the hearing of 17 September 2010, the court decided to refer the file to the Constitutional Court for settlement of certain motions raised by the defense. Currently, the trial is suspended before the Bucharest Tribunal and will resume after the Constitutional Court will issue its decision (there is no particular time-frame for the Constitutional Court to take-up such discussions).

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.

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26. LEGAL MATTERS (continued)

Furthermore, on 15 December 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 1 February 1995 (the "Dutch-Romanian BIT"). In May 2010, the debates on the merits of the dispute were closed (followed by two rounds of post-hearing briefs) and the award (including any individual or dissenting opinion) is expected during 2013. During 2012 the criminal charges against individuals was dismissed on merits. Based on the grounds submitted in the file and the recent court decision, the management consider that the allegations of PGO are ill founded even the case is still not settled.

Litigations related to Hybrid Conversion

A) The Romanian Ministry of Public Finance (MFP) has initiated various litigations against Rompetrol Rafinare S.A. ("RRC") regarding the legality of combined redemption and conversion of bonds issued in 2003 into Rompetrol Rafinare shares.

Emergency Ordinance ("EGO") 118/2003, approved by Law 89/2005, and the Issuing Convention of December 5, 2003 ("Issuing Convention"), regulated the conversion of RON 2,177.7 million of state budget liabilities, including penalties, into 22,812,098 Euro-denominated long-term reverse-convertible bonds with face value EUR 25 each (i.e. a total of EUR 570.3 million at the RON/EUR exchange rate as of September 30, 2003 of 3.8185 RON/EUR or USD 719.4 million at the same date), hereinafter referred to as "Hybrid Instruments" or "Bonds". The Bonds carried interest and were redeemable on or before maturity, whereas EGO specifically provided that bonds not redeemed by September 30, 2010 should be convertible, at a fixed conversion rate, into ordinary shares of Rompetrol Rafinare S.A., at the option of the Company.

In accordance with the requirements of EGO 118/2003 and the Issuing Convention, Rompetrol Rafinare S.A. undertook the following transactions in relations to bonds settlement during the period ended 30 September 2010:

- 1) the Extraordinary General Meeting of the Shareholders as of June 30, 2010 approved, among others, the increase of the Company's share capital by USD 100.2 million, for the purpose of raising financing to redeem part of the Bonds and to pay trade and other liabilities;
- 2) on August 9, 2010, RRC redeemed 2,160,000 Bonds in aggregate amount of EUR 54 million;
- 3) the Extraordinary General Meeting of the Shareholders on September 14, 2010 issued, among others, the preliminary approval of the conversion of the unredeemed Bonds into shares. Subsequently, on September 30, 2010, the Extraordinary General Meeting of the Shareholders of Rompetrol Rafinare S.A. approved the conversion of the unredeemed Bonds into shares, the corresponding share capital increase and the exact numbers of shares to be received by the Romanian Ministry of Public Finance for the Bonds it held. The number of shares was calculated based on the conversion rate of bonds into shares indicated by the EGO 118/2003 and the Issuing Convention.

The Ministry of Public Finance (MFP) has publicly taken an adverse position against such course of action and challenged it in various court procedures as detailed below. The MFP position may be summarized as follows:

- 1) the Company had the right to either redeem or to convert the Bonds, in each case in their entirety, but no legal option to combine a partial redemption and a partial conversion of the Bonds issue;
- 2) the payment of August 9, 2010 effected by the Company should be deemed as an irrevocable expression of will by Rompetrol Rafinare S.A. to opt for redeeming the entire Bonds issue and, consequently,
- 3) the possibility of the Company to convert the balance of the unredeemed Bonds upon maturity was barred. Thus the conversion performed on September 30, 2010 is illegal and affectless, and

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26. LEGAL MATTERS (continued)

- 4) commencing October 1, 2010, the Company has had a budgetary debt to the Romanian treasury of 2.205.592.436 RON (the RON equivalent of the Bonds not redeemed in cash, approximately Euro 516 million).

On the basis of these allegations, the Ministry of Public Finance has taken the following main actions:

- 1) MFP filed a request, asking by an injunction relief, for suspending the execution of General Meeting of Shareholders ("GMS") Decisions of June 30, 2010. The injunction request was irrevocably dismissed.
- 2) MFP filed also an intervention to the registration of the share capital increase of June 30, 2010 with the Trade Registry. The first court dismissed it and MFP filed an appeal which was also dismissed. The share capital increase was fully registered with the Trade Registry and the capital market institutions.
- 3) MFP submitted a request for annulment of the GMS decisions of:
 - a. June 30, 2010, referring to the share capital increase by USD 100 million;
 - b. September 14, 2010, referring to the preliminary approval of the conversion option; and
 - c. September 30, 2010, referring to share capital increase by conversion of the unredeemed bonds into ordinary shares adopted by RRC's shareholders. Constanta Tribunal dismissed the Romanian State request: (a) for some of the annulment reasons considering that the Romanian State lacks the capacity to stand trial, arguing that same did not have the capacity of shareholder when such acts were adopted, (b) for some of the annulment reasons considering that there were not grounded. MFP submitted a final appeal before Constanta Court of Appeal.
- 4) MFP submitted interventions to the registration of the all GMS decisions (decisions of June 30, 2010, of September 14, 2010 and of September 30, 2010) to the Trade Registry. Most of the cases were dismissed by Constanta Tribunal and MFP submitted appeal requests which are pending with Constanta Court of Appeal. The rest of the cases are either pending in first court proceedings, or suspended as result of relocation requests submitted to High Court of Justice and Cassation by MFP. The relocation requests were also dismissed, but the interventions requests are not yet reopened and settled. In relation to the MFP intervention to the registration to the Trade Registry of the GMS dated June 30, 2010 the Constanta Court rejected the claim. Therefore, the Trade Registry registered on December 27, 2010 the share capital increase according to GMS as of June 30, 2010. Consequently, CNVM approved on February 8, 2011 the issuing of the new shares registrations certificate following the share capital increase. MFP appealed the Constanta Court decision mentioned above. Both Constanta Tribunal and Constanta Court of Appeal dismissed the Romanian State intervention request.

B) On September 10, 2010 the National Agency of Fiscal Administration ("ANAF") issued a decision for establishment of a precautionary seizure on all the participations held by Rompetrol Rafinare S.A. in its affiliates as well as on all movable and immovable assets of Rompetrol Rafinare S.A. except inventories. This measure is still in force and it is challenged by the Group. As of the date of these financial statements this seizure has not produced direct effects on the Company's recurring operations.

The Group has challenged this decision and requested the court to annul the seizure. The main ground the Group has taken is that starting October 1, 2010 no liability of RRC to MFP exists as the bonds were settled through conversion into share capital under the Issuance Convention. The case was dismissed at the first court hearing by Bucharest District 5 Court and Rompetrol Rafinare S.A. filed a final appeal. The hearing of the case had been suspended in June 2012 pursuant to the joint request of the Company and of the Ministry of Public Finances and can be resumed during one year period, until June 6, 2013.

On February 15, 2013, The Rompetrol Group NV and the Office of State Ownership and Privatisation in Industry ("OPSPI"), representing the Romanian State, signed a memorandum of understanding whereby they agreed the amiable settlement of the dispute over the conversion of the Bonds, including the following key aspects:

- OPSPI will sell and The Rompetrol Group NV will acquire shares owned by OPSPI and representing 26.6959% of RRC's share capital for a cash consideration of USD 200 million;

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26. LEGAL MATTERS (continued)

- The Rompetrol Group NV will invest in energy project related to its core activities an amount estimated at USD 1 billion over 7 years;
- MFP will drop all cases against the GMS decisions related to the conversion and will cancel the forced execution title.

The agreement is subject to proper approvals of each party's governing bodies.

As a result of the memorandum, the parties agreed the suspension of the court proceedings, in order to allow the time to implement the memorandum, which was acknowledged by the court on February 18, 2013.

Litigation regarding the import of Biodiesel

On June 20, 2012 the National Authority of Customs, the Excise Supervision and Customs Operations Department issued a Minute in which they assessed that Rompetrol Rafinare should pay an amount of RON 108 million for antidumping and countervailing duties, VAT and interests for late payment plus penalties related to imports of biodiesel made during 2009 and 2010.

During 2009 and 2010, Rompetrol Rafinare concluded a series of import operations of biodiesel origin from Canada according to the Certificate of origin issued by the relevant Canadian authorities in this respect.

The investigation and related Minutes were issued by the Romanian Customs Authorities following contacts with OLAF (European Antifraud Office) which led an investigation in Canada in cooperation with Canadian Customs (CBSA) regarding the export of Canadian biodiesel into the European Union. OLAF issued its preliminary findings indicating a belief that biodiesel exported into the EU had an origin from the USA rather than Canada and was being imported by various means from the USA to Canada before being exported to the EU.

OLAF final conclusions do not contain any explanation and / or additional proof from those presented on June 20, 2012

Rompetrol Rafinare considers that it has acted in good faith and that documents received by it indicate that the biodiesel has a Canadian origin, as long as the certificates of origin were issued by Canadian authorities in accordance with the 2012 legal dispositions.

In the additional taxes imposed by the Romanian Customs Authorities it has included both duties (antidumping and countervailing), which under European and Romanian legislation such an approach can be done only in specific cases which must be very well grounded by the customs authorities. In the assessment minutes, there are no arguments and explanations as to why both duties were imposed.

Rompetrol Rafinare requested the competent Court to postpone (or suspend) the payment of the fine until the entire situation is finalised by a final and irrevocable Court decision. On July 5, 2012 the Court rejected this request. The appeal in this case was examined on March 7 2013 by the Supreme Court of Justice. The appeal was rejected.

On July 20, 2012 Rompetrol Rafinare submitted a contestation against the findings of the tax inspection for the entire amount of RON 108 million (equivalent to USD 32 million). As the National Agency for Fiscal Administration – General Directorate of Solving Contestations ("ANAF – DGSC) did not respond within the deadline provided by the law, a court proceeding was commenced by Rompetrol Rafinare to request a reply from ANAF. On February 20, 2013, the Court decided in the favour of Rompetrol Rafinare SA.

Given that ANAF, through its answer, largely maintained conclusions from the findings of the tax inspection from June 20, 2012, the Company will request from the competent court an appeal of the Court's findings.

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26. LEGAL MATTERS (continued)

To avoid triggering additional tax risks (i.e. cancellation of VAT deferment certificate, cancellation of reduction of the guarantee for tax warehouse, etc.) Rompetrol Rafinare has paid an amount of RON 58 million representing antidumping and countervailing taxes.

For the remaining amount of RON 50 million, Rompetrol Rafinare initiated legal procedures to obtain an approval for reschedule of payment, which was granted by the competent authority.

Rompetrol Rafinare considers that it has met all technical requirements in accordance with European and national legislation. Even so, there are frequent cases in practice when the tax authorities have an aggressive approach in interpreting national and European legislation, assessing and enforcing payment of additional tax liabilities, leaving the taxpayer the burden to prove the incorrect assessments and to recover the amounts through time long and costly contestation and appeal processes. Therefore a provision has been included for the full amount of USD 28.8 million although Rompetrol Rafinare considers it has a supportable case and management believes that the amounts related to the matter will be cancelled or significantly reduced.

Rompetrol Rafinare, through Vector Energy, can also consider recourse against the Canadian supplier of the biodiesel. To date no formal action has been commenced in this regard.

Litigation on Tax Assessments received by Rompetrol Rafinare S.A. from ANAF DGAMC

In March 2012, the National Agency for Tax Administration sent to Rompetrol Rafinare SA a General Tax Audit Report covering the period 2007-2010 and an Assessment Decision for Payment of RON 48 million (equivalent USD 15 million), out of which half represents additional principal tax liabilities and the other half represents late payment interest and penalties.

The following has subsequently occurred relating to this matter:

- Both the Report and the Decision were challenged subject to a prior administrative appeal, which is currently still pending settlement by the National Agency for Tax Administration – General Division for Appeals Settlement. As ANAF did not respond within the deadline provided by the law, a court proceeding has been commenced by the Rompetrol Rafinare to request a reply from ANAF. On February 20, 2013, the Court decided in the favour of the company. After being communicated to ANAF and becoming final the court decision is enforceable, meaning that any further failure of responding by ANAF may result in fines against those responsible. The company believes that once receiving this court decision ANAF should not go on challenging this necessity and solutions to the company's pending applications will soon be issued. As well, a payment suspension application for all the amounts additionally charged was filed, but it was rejected by the relevant Court.
- The settlement term was set as May 31, 2012. The Court (Constanta Court of Appeal) dismissed the request of Rompetrol Rafinare for the rescheduling of the hearing term and for a more expedient settlement of the suspension application, Rompetrol Rafinare was requested to pay the additionally charged amounts on May 5, 2012.
- The main arguments put forward by Rompetrol Rafinare for its administrative appeal were: it had used and benefitted from the management and advertising service referred to; it has related justifying documents that were not taken into consideration by the tax authorities; and the Tax authorities did not consider the definition provided by the Fiscal Code and its Application Norms, as well as, applicable, Double Tax Treaties and Commentaries to the OECD model conventions as regards definition of royalties versus services.

Although Rompetrol Rafinare considers that all technical requirements have been met by it and it is challenging all the items included in the report issued by the National Agency for Tax Administration, there is a chance that Rompetrol Rafinare may not recover the amount in whole or part, based on the high ambiguity in respect of the legislation and the court practice in a similar cases in Romania.

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26. LEGAL MATTERS (continued)

a provision has been recognized for an overall amount of USD 15 million, out of which USD 11 million was expensed during 2012.

On February 22, 2013 Rompetrol Rafinare SA received a response from ANAF indicating that it would re-audit for an amount of approximately RON 10 million in relation to the assessment previously issued. It is the intention of Group Management to proceed with further legal action in relation to the assessment.

Litigation between Rompetrol Downstream SRL and the Romanian Competition Council

Based on its Decision no. 97/21 December 2011, the Romanian Competition Council (RCC) ruled that an alleged breach of the Romanian Competition Law and of Treaty for the Functioning of the European Union took place on the Romanian market (the allegations concerned an alleged mutual understanding of all major oil players to jointly withdraw from the market a type of fuel ECO Premium in 2008, during the Romanian Petroleum Association – RPA - meetings held in 2007 -2008). As a result, RCC imposed fines to all major players on the Romanian oil market ranging from 2.6 % (Rompetrol) to 3.2 % computed based on 2010 turnovers (the amount for Rompetrol Downstream case was RON 159.55 million (equivalent of USD 46.83 million).

Among the fined oil companies, the Rompetrol position was the only one distinctive (as Rompetrol Downstream did not attend any RPA meetings in that period nor exchanged any communication with the other companies); RCC recognized Rompetrol Downstream has a specific position (based on its lower level of involvement) and granted the benefit of extenuating circumstances but refused to exonerate the company ruling that Rompetrol Downstream had knowledge of the anti competition behavior of its competitors and did not distance itself publicly from the action of its competitors.

The Group believes that all the charges are without any legal merit as Rompetrol Downstream did not take part in meetings in which this topic was discussed, did not receive correspondence in which it was announced that the others actually took a decision in this respect, did not answer to the questions regarding its own conduct and had an independent conduct on the market – there was therefore no illegal cooperation by removing the risks of competition by adopting a joint plan.

Rompetrol Downstream challenged the RCC in court to get the annulment of the fine or a significant decrease of the fine amount. To this date, in the Annulment Case, the parties submitted their claims and counterclaims, the court ruled on the evidences to be submitted: documentary evidence and technical expertise in machine construction technology. The technical expert designated by the Court did not submit its report yet. The next hearing is set for May 7, 2013. The Court decided to replace the expert and submitted a request to the Local Expertise Office.

Rompetrol Downstream also submitted an injunction in court to suspend the payment of the fine until the Court will issue a final and irrevocably decision within the trial regarding the annulment of the fine. On March 22, 2012, Bucharest Court of Appeal rejected the petition on the merits (the same decision was issued for all the oil companies in their similar claims). The Company appealed this decision before the High Court of Cassation and Justice. On December 12, 2012, the Supreme Court rejected the second appeal filed by the Company. The decision is definitive and cannot be further challenged or appealed.

Starting with April 2012, the Romanian Fiscal Authority (ANAF) initiated procedures for recovery of amounts from Rompetrol Downstream. Since then and grounded on the fiscal legislation regarding the rescheduling of the budgetary debts (under the condition of bringing the proper guarantees, according to the law), the Group has held discussions with ANAF representatives to identify legal steps to finally settle this matter. No final outcome on this issue has been reached to date, and additional steps for forced execution were further taken by ANAF. Based on the preliminary draft agreement for reschedule this payment into monthly installments (for 5 years), as proposed by Rompetrol Downstream but not expressly agreed by ANAF an amount of USD 7.6 million was paid until December 31, 2012 of the total assessment of USD 46.83 million.

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26. LEGAL MATTERS (continued)

Group management considers that Rompetrol Downstream has a supportable position to successfully contest the alleged breach of the Romanian Competition legislation. Based on this assessment by Group management no provision has been made for this matter as of December 31, 2012 and Group management consider that amounts paid to the Romanian State will be fully recovered.

Litigation regarding CO2 emission allowances.

On February 28, 2011 Rompetrol Rafinare S.A. won the court case against The Romanian Government and The Ministry of Environment which obliged the Romanian authorities to allocate to Rompetrol Rafinare an additional number of 2.577.938 CO2 emission certificates for the entire period 2008-2012. This first decision issued by the Constanta Court of Appeal was challenged by the The Ministry of Environment and The Romanian Government but the appeals were rejected by the Supreme Court of Justice on October 30, 2012 and the first court decision became final.

Currently, Rompetrol Rafinare is in the position to ask for enforcement of the above mentioned final decision by the Romanian relevant authorities.

According to the current Romanian and European legislation, the certificates obtained for 2008 – 2012 period may be owned and used also for the next period of 2013 – 2020. The current market value for a CO2 emission certificate is Euro 4.5 per certificate.

Other litigations

The litigations initiated in 2010 and 2011 by three Unions of certain Group companies from Romania, requesting the increase of the salaries of the Union members have been irrevocably solved in the favour of the companies.

27. 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, 2012 Rompetrol Rafinare SA has environmental commitments amounting to USD 7.98 million (2011: 52.62 million) to conform to the Integrated Environmental Authorization.

Other commitments


As of December 31, 2012 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 19.63 million (2011: 75.3 million). As of December 31, 2012, Rompetrol Petrochemicals S.R.L has contracted capital commitments amounting to USD 0.37 million (2011: USD 4.21 million).

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 2013 is USD 5.66 million (USD 3.87 million in 2012).

Sale and purchase commitments

As of December 31, 2012 Rompetrol Rafinare S.A has non-TRG Group commitments for purchases of raw materials and utilities of USD 133.65 (2011: USD: 137.38 million) and for petroleum products and utilities sales amounting to USD 198.37 (2011: USD 267.10 million).

As of December 31, 2012 Rompetrol Petrochemicals S.R.L has non-TRG Group commitments for purchases of raw materials of USD 6.12 million (2011: USD 5.82 million) and for petrochemical products sales amounting to USD 43.6 million (2011: USD 197.80 million).


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28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

28.1. 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 Note 14), 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".

28.2. GEARING RATIO

The gearing ratio at the year end was as follows:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Debt (excluding shareholder loans)	204,626,591	128,178,469
Cash and cash equivalents	<u>(159,264,897)</u>	<u>(53,058,268)</u>
Net debt	45,361,694	75,120,201
Equity (including shareholder loans)	938,339,367	871,919,866
Net debt to equity ratio	0.05	0.09

28.3. 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.

28.4. CATEGORIES OF FINANCIAL INSTRUMENTS AND FAIR VALUES

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

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Financial assets		
Trade and other receivables	252,442,559	269,551,583
Long-term receivables	7,292,478	4,781,842
Available for sale investments	302,272	302,621
Derivative financial instruments	-	5,832,080
Cash and cash equivalents	<u>159,264,897</u>	<u>53,058,268</u>
TOTAL FINANCIAL ASSETS	419,302,206	333,526,394
Financial liabilities		
Derivative financial instruments	2,520,211	-
Short term borrowings from shareholders	576,441,495	1,146,870,633
Other non-current liabilities	130,990	131,665
Net obligations under finance lease	80,254	1,786,814
Trade and other payables	851,312,695	752,122,568
Short-term borrowings banks	<u>204,546,337</u>	<u>126,391,655</u>
TOTAL FINANCIAL LIABILITIES	1,635,031,982	2,027,303,335

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Trade and other receivables are at net recoverable value the following are not considered as financial assets:

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28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

- Advances to suppliers
- VAT to be recovered
- Profit tax receivables
- Other taxes receivables

Similarly, for trade and other payables the following are not considered as financial liabilities:

- Advances from customers
- Excises taxes
- FSPP
- VAT payable
- Profit tax payable
- Salary taxes payable
- Other taxes
- Deferred revenues;

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

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.
- The Group enters into derivative financial instruments with various counterparties. As at 31 December 2012, the marked to market value of derivative position is for financial instruments recognised at fair value.

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.

	<u>December 31, 2012</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets				
Trade and other receivables	252,442,559			252,442,559
Long-term receivables	7,292,478			7,292,478
Available for sale investments	302,272			302,272
Cash and cash equivalents	<u>159,264,897</u>		:	<u>159,264,897</u>
TOTAL FINANCIAL ASSETS	419,302,206	-	-	419,302,206
Financial liabilities				
Derivative financial instruments	2,520,211		2,520,211	2,520,211
Short term borrowings from shareholders	576,441,495			576,441,495
Other non-current liabilities	130,990			130,990
Net obligations under finance lease	80,254			80,254
Trade and other payables	851,312,695			851,312,695
Short-term borrowings banks	<u>204,546,337</u>			<u>204,546,337</u>
TOTAL FINANCIAL LIABILITIES	1,635,031,982	-	2,520,211	1,635,031,982

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28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

	<u>December 31, 2011</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets				
Trade and other receivables	269,551,583			269,551,583
Long-term receivables	4,781,842			4,781,842
Available for sale investments	302,621			302,621
Derivative Financial Instruments	5,832,080		5,832,080	
Cash and cash equivalents	<u>53,058,268</u>		-	<u>53,058,268</u>
TOTAL FINANCIAL ASSETS	333,526,394	-	5,832,080	327,694,314
Financial liabilities				
Short term borrowings from shareholders	1,146,870,633			1,146,870,633
Other non-current liabilities	131,665			131,665
Net obligations under finance lease	1,786,814			1,786,814
Trade and other payables	752,122,568			752,122,568
Short-term borrowings banks	<u>126,391,655</u>			<u>126,391,655</u>
TOTAL FINANCIAL LIABILITIES	2,027,303,335	-	-	2,027,303,335

During the reporting period ending 31 December 2012 and 2011, 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.

28.5 DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses different commodity derivatives as a part of price risk management in trading of crude oil and products. Generally the instruments are allocated to individual instruments.

The Group started in January 2011 the hedge of commodities in Rompetrol Rafinare SA.

Balance Sheet:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Derivative financial asset	-	5,832,080
Derivative financial liability	<u>(2,520,211)</u>	-
Net position - asset/(liability)	(2,520,211)	5,832,080

Income Statement:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Unrealised (gains)	(883,658)	-
Unrealised losses	-	883,658
Net position - (gain)/loss - in		
Cost of sales	(883,658)	883,658
Realised losses - net	17,169,885	19,042,930
Total position - loss/(gain) - in Cost of sales	16,286,227	19,926,588

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28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

A movement in derivatives assets/ (liabilities) is shown below:

	<u>December 31,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
Derivative asset/(liability) 2011	5,832,080	
Unrealized derivative gains/(loss)	883,658	(883,658)
Forex unrealized (hedging of forex)	(13,795,446)	(716,937)
Cash payments	4,552,949	7,432,675
Translation adjustment	6,548	-
Derivative asset/(liability) 2012	(2,520,211)	5,832,080

Derivative financial instruments are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments are recognized in profit or loss as they arise.

28.6 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.

28.7. 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:

	<u>Liabilities</u>		<u>Assets</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Currency RON	223,695,319	307,781,217	271,195,741	327,857,216
Currency EUR	92,455,634	98,907,174	26,002,249	24,610,166

28.8. 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 Yolumes below would be negative.

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28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

	RON		EUR	
	2012	2011	2012	2011
USD				
5%	2,375,021	1,003,800	(3,322,669)	(3,714,850)
-5%	(2,375,021)	(1,003,800)	3,322,669	3,714,850

28.9. 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 Note 14.

The sensitivity analyses below have been determined based on the financial instruments at the reporting date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the reporting 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 2012 would decrease/increase by USD 948 thousand (2011: decrease/increase by USD 2711 thousand).

28.10. LIQUIDITY RISK MANAGEMENT

The tables below summarize the maturity profile of the Group's financial liabilities at 31 December 2012 and 31 December 2011 based on contractual undiscounted payments, including interest payable until the end of the contracts for finance leasing and loans.

Year ended December 31, 2012	<u>Less than 1 month or on call</u>	<u><3 months</u>	<u>3-12 months</u>	<u>1-5 years</u>	<u>>5 years</u>	<u>Total</u>
Trade and other payables	394,438,108	522,704,332	1,116	-	-	917,143,556
Derivative financial instruments	-	2,520,211	-	-	-	2,520,211
Net obligations under finance lease	-	40,151	40,800	-	-	80,951
Short-term borrowings from shareholders	74,136,176	4,121,754	510,493,922	-	-	588,751,852
Short-term debt	112,922,673	1,223,927	93,208,076	-	-	207,354,676
Other non-current liabilities	-	-	-	130,990	-	130,990
	581,496,957	530,610,375	603,743,914	130,990	-	1,715,982,236
Year ended December 31, 2011	<u>Less than 1 month or on call</u>	<u><3 months</u>	<u>3-12 months</u>	<u>1-5 years</u>	<u>>5 years</u>	<u>Total</u>
Trade and other payables	408,923,043	412,187,685	29,313,498	15,689,923	-	866,114,149
Net obligations under finance lease	-	1,593,942	121,126	79,283	-	1,794,351
Short-term borrowings from shareholders	-	18,467,126	1,161,110,242	-	-	1,179,577,368
Short-term debt	-	49,870,208	78,936,494	-	-	128,806,702
Other non-current liabilities	-	-	-	-	131,665	131,665
	408,923,043	482,118,961	1,269,481,360	15,769,206	131,665	2,176,424,235

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28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

28.11. COMMODITY PRICE RISK

The Group is affected by the volatility of crude oil, oil product and refinery margin prices. Its operating activities require ongoing purchase of crude oil to be used in its production as well as supplies to its clients. Due to significantly increased volatility of crude oil, the management developed a hedge policy which was presented to the Group's Board of Directors and was approved in most significant aspects in 2010 and with some further amendments in February 2011. Following this approval, the Group started on January 2011 to hedge commodities held by Rompetrol Rafinare.

According to the hedge policy, on the commodity side, the flat price risk for priced inventories above a certain threshold (called base operating stock) is hedged using future contracts traded on ICE Exchange and some OTC instruments for the basis risks. The base operating stock is the equivalent of priced stocks that are held at any moment in time in the Group, hence price fluctuations will not affect the cash-flow. The Group started a few transactions of refinery margin hedge during 2012 and the intention is to extend refinery margin hedge transactions in 2013.

Trading activities are separated into physical (purchase from third parties other than KazmunayGas Group, and sales to third parties or Intercompany) and paper trades (for economic hedging purposes). Each physical transaction is covered through a related futures position according to the exposure parameters set by management (i.e. based on physical quantities sold or purchased). The Group sells or buys the equivalent number of future contracts. This paper trade is done only to hedge the risk of the Physical Trade and not to gain from the trading of these instruments. As of 2012, the net trading position taking into consideration the realized and unrealized gains and losses on derivatives and physical trades was a net loss of USD 4.8 million (2011: net gain of USD 8.6 million).

28.12 CREDIT RISK

Credit risk is the risk that a 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.

Trade receivables

The retail operational segment is exposed to credit risk. Outstanding customer receivables are regularly monitored. Sales to Vector Energy AG, a related party represent 33% of the Group's revenues. The requirement for impairment is analyzed on a regular basis, being undertaken on an 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.

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29. SUBSEQUENT EVENTS

On January 28, 2013, the maturity date of loan given by Banc Post to Rompetrol Rafinare S.A. was prolonged up to April 30, 2013.

Rompetrol Rafinare S.A credit facility in amount of RON 13 million granted by Rompetrol Well Services S.A was prolonged until May 10, 2013.

Rompetrol Rafinare S.A credit facility in amount of RON 7 million granted by Rompetrol Well Services S.A was prolonged until April 14, 2013.

Rompetrol Rafinare S.A credit facility in amount of RON 3.1 million granted by Rompetrol Well Services S.A was prolonged until May 3, 2013.

Rompetrol Rafinare S.A credit facility in amount of RON 1.5 million granted by Rompetrol Well Services S.A was prolonged until April 27, 2013.

During February 2013, the maturity date of the loan given by Raiffeisen Bank to Rompetrol Petrochemicals S.R.L. was prolonged up to November 30, 2013.

During February 2013, part of Rompetrol Downstream S.R.L credit facility granted by The Rompetrol Group N.V in amount of USD 50 million was converted in to a Hybrid loan. For the remaining amount an addendum is in the process of being signed during April 2013.

During March 2013, the maturity date of the loan given by Royal Bank of Scotland to Rompetrol Downstream S.R L. was prolonged up to June 30, 2013.

The credit facility in amount of EUR 20 million granted by Royal Bank of Scotland to Rompetrol Downstream S.R L. is in the process of being signed during April 2013.

In February 2013 the facility granted to Rompetrol Gas SRL by Royal Bank of Scotland was fully reimbursed.

On February 15, 2013, The Rompetrol Group NV and the Office of State Ownership and Privatisation in Industry ("OPSPI"), representing the Romanian State, signed a memorandum of understanding whereby they agreed the amiable settlement of the dispute over the conversion of the Bonds, including the following key aspects:

- OPSPI will sell and The Rompetrol Group NV will acquire shares owned by OPSPI and representing 26.6959% of Rompetrol Rafinare's share capital for a cash consideration of USD 200 million;
- The Rompetrol Group NV will invest in energy project related to its core activities an amount estimated at USD 1 billion over 7 years;
- MFP will drop all cases against the GMS decisions related to the conversion and will cancel the forced execution title.

The agreement is subject to proper approvals of each party's governing bodies.

As a result of the memorandum, the parties agreed the suspension of the court proceedings, in order to allow the time to implement the memorandum, which was acknowledged by the court on February 18, 2013.

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