

August 24, 2005

9.00 am

**FINANCIAL RESULTS FOR H1/2005
REFLECT FAVOURABLE ENVIRONMENT**

- High EBIT increase to RON 860 mn (EUR 235 mn)
- Significant changes in the company have started since the privatization
- Petrom enters a modernization process to improve efficiency

Petrom, South Eastern Europe's largest producer of oil and gas, shows a continued strong performance in its first half year results for 2005. Net income reached RON 601 mn (EUR 164 mn), while Earnings before interest and tax (EBIT) recorded a significant growth to RON 860 mn (EUR 235 mn) from RON 263 mn (EUR 65 mn). Turnover reached RON 4,612 mn (EUR 1,259 mn) by 16% higher than in H1/04. Reasons for these results are mainly higher oil prices and hence higher product prices as well as an increase in efficiency and cost awareness in business relations.

«We have reached a good result. However, in order to secure Petrom's activities, we need to enter a lasting modernization process. In a number of benchmarks, we do clearly lack behind the industry average in Europe. We have to close this gap and we will do everything necessary to achieve that. We are facing a very competitive environment in the region and we want our company to be up at the top», said Gheorghe Constantinescu, CEO of Petrom.

Overview

H1/05	H1/04	%	in RON mn	Q2/05	Q1/05	%
860	263	227	EBIT	352	508	(31)
1,318	636	107	EBITDA	616	702	(12)
601	109	454	Net income	318	283	12
4,612	3,971	16	Turnover	2,588	2,024	28
443	535	(17)	Investments*	269	174	55
49,350	50,575	(2)	Employees at the end of period	49,350	49,696	(1)

* figures restated for the first quarter of 2005 for Refining and Petrochemicals

The **EBIT** of the company increased by 227% in H1/05 compared to H1/04, reflecting the favourable oil price environment and an improvement of the operational efficiency of the company.

In the course of the first six months Petrom entered a modernization process in order to be able to use its potential for achieving a better performance and to improve standards to reach international industry benchmarks.

The modernization process will cover the introduction of centralized organization, the achievement of first synergies within the refineries and the upstream business, the implementation of a full agency concept for filling stations as well as closure for unprofitable locations.

In the first six months of 2005 some important events are worthwhile to be mentioned:

- ▶ The first actions of the modernization process were initiated: the organizational structures and the processes have been redesigned and their implementation will follow in the next months.
- ▶ The dialogue with the unions in order to support changes was continued and the new collective labour agreement was negotiated for the first year.
- ▶ Investments in all business divisions were continued in accordance with the budget
- ▶ The knowledge transfer from OMV to Petrom in all business areas has been initiated and will continue on a regular basis.
- ▶ Centralization of Finance, IT and business processes was started and the installation of new infrastructure for communications, reporting, IT-systems is on the way.
- ▶ A new high quality gasoline, Top 99 +, was successfully launched.
- ▶ The new headquarters in Bucharest and in Ploiesti (for E&P business unit) were opened at the beginning of June.

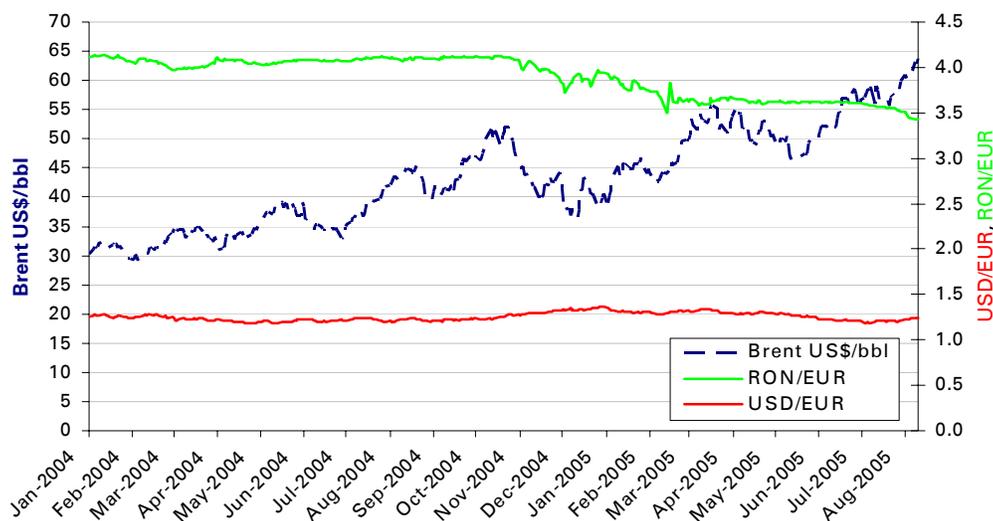
Another important action taken refers to the decision of the Board of Directors to deregister all branches as a precondition for the centralization of Finance, IT and business processes within Petrom, and the realization of the proposed reorganization plans of the business units. This will result in additional benefits for the company, such as:

- ▶ Simplified monthly closing procedure and preparation of tax declarations,
- ▶ One centralized master data register for suppliers, customers and fixed assets (unique code for each customer or supplier),
- ▶ Improved management control on business activities.

Economic environment:

- **World crude demand** in the first half of 2005 increased by 1.2 mn bbl/d to 82.9 mn bbl/d, mainly due to high demand from non OECD countries.
- **World crude production** increased by 1.8 mn bbl/d or 2.1% to 84.2 mn bbl/d, indicating an inventory of 1.3 mn bbl/d.
- The **crude oil prices** continued to increase also in the second quarter of 2005 reaching 60 USD / barrel. The main cause of this increase is the continued growth in world demand, especially due to the significant growth of emerging third world nations, like India and China. The later is developing a car culture close to the western standards, increasing its manufacturing bases very rapidly in recent years.
- **Natural gas prices** on the Romanian market continued to increase as part of the Stand-by Agreement concluded with the International Monetary Fund. In accordance with this agreement, the prices applied by the domestic producers are adjusted quarterly by the National Agency for Natural Gas Regulation.

Brent Price and Forex Evolution



- Rotterdam petroleum **product prices** surged mainly driven by middle distillates.
- **The US dollar (USD)** exchange rate was weaker compared with the values achieved in the same period of the previous year. The USD average exchange rate decreased in H1/05 by 14% in relation to H1/04, from RON 3.31 to RON 2.85. **The Euro** had the same evolution, even though at a slower pace, the average exchange rate decreasing in H1/05 by 10% in comparison with H1/04, from RON 4.06 to RON 3.66. Since the beginning of the year, the **Romanian Lei (RON)** strengthened by 9% against the EUR.

Exploration and Production (E&P)

H1/05	H1/04	%		Q2/05	Q1/05	%
39.28	40.81	(4)	Production (mn boe)	19.52	19.76	(1)
2,643	2,709	(2)	Crude and NGL production (000 tons)	1,322	1,321	(0.1)
3,099	3,266	(5)	Gas production (mn cm)	1,531	1,568	(2)
315	361	(13)	Investments* (RON mn)	209	106	97
26,021	26,711	(3)	No of employees	26,021	26,826	(3)

*includes International capex and own investments;

First Half Year 2005 (H1/05)

- **Crude oil and natural gas production** decreased in the first half of 2005 by 4%, as a result of the decline and maintenance in gas (in Q1/05) and of seasonally lower gas production during summer months (in Q2/05), partially offset by the drilling of new production wells. The **daily production** amounted in H1/05 to 217 thousand boe/day, in comparison with 224 thousand boe/day recorded in H1/04.
- The lower production compared with H1/04 resulted in a decrease of **sales** by 6% for crude and by 14% for NGL. This decrease of crude oil and NGL sales was counterbalanced by a 4% increase of natural gas sales to third parties to 2,386 mn cm.

- 97% of the crude oil produced was transferred internally, while the most part of the natural gas (82%) was sold to third parties.
- In H1/05, **E&P investments** recorded a decrease of 13% in comparison with the same period of the previous year, amounting to RON 315 mn. 55% of the total amount invested in E&P segment was used for drilling. The drilling works for 97 wells continued, out of which 77 new wells. The works for 35 gathering parks and storages and for 10 natural gas distribution networks which started at in the first quarter of 2005 were continued.
- A new **exploration strategy** was approved aiming at acquiring between 850 – 1000 km² of 3D seismic in 2005 and at 70% of exploration wells in 2008 based on 3D seismic.
- Progress is being made to have Petrom's **reserves** evaluated by an independent auditor in accordance with international standards. De Golyer & McNaughton was appointed to review the reserves. This exercise will be an ongoing process and should be finalized in the first half of 2006.
- **Drilling Performance** increased as new mud systems were introduced, rigs were upgraded and the Company Man concept was introduced.
- In the field of **operations**, the following actions were taken:
 - ▶ Roll out of multiphase production systems – 1800 wells with PCPs at year's end
 - ▶ Compressor System Optimization – Concept Phase Completed

Second Quarter 2005 (Q2/05)

- In Q2/05, **production costs** excluding royalties (opex) were 12.49 USD/boe and increased by 8% compared to Q1/05 (USD 11.56/boe) due to lower production volumes.
- E&P's **average realized crude prices** were 46.39 USD/bbl and increased by 19% compared to Q1/05 (USD 39.09/bbl). To put Petrom refineries onto a comparable crude cost basis with other Romanian refineries, which are largely importing crude from the Black Sea, a new transfer price mechanism for crude "sold" from the E&P division to the Refining division became effective in 2005. The transfer price is based on Urals with a premium due to the higher quality of the Romanian oil. All crude sold from E&P to Refining is invoiced with a one's month time lag. Therefore the realized crude price figures always refer to the reporting period deferred by one month.
- The **average realized gas prices** was 98.93 USD/1,000 cm and increased by 11% compared to Q1/05 (USD 89.07 / 1,000 cm) and the imported gas price was USD 215.09 /1,000 cm. As part of the agreement the government has entered with the International Monetary Fund (IMF), i.e. to increase gas prices to world levels by 2007, the regulated price as of end-June 2005 was higher by 42% than the level of June 2004.

Refining and Petrochemicals

H1/05	H1/04	%		Q2/05	Q1/05	%
3,147	3,277	(4)	Crude input (thousand tons)	1,650	1,497	10
575	738	(22)	o/w imported crude (thousand tons)	280	295	(5)
79	82	(4)	Utilization rate (%)	83	77	4
85	90	(6)	Investments* (RON mn)	47	38	24
7,389	7,472	(1)	No of employees	7,389	7,406	(1)

* figures restated for the first quarter of 2005

First Half Year 2005 (H1/05)

- The quantity of **crude oil processed** by the two refineries, Arpechim and Petrobrazi, amounted to 3,147 thousand tons, by 4% lower than the quantity processed in H1/04,

mainly due to the turnaround of petrochemical units. The units in Arpechim are now prepared for a 4-year (from 2-year period previously) period between regular turnarounds

- **Capacity utilisation** reached 79%, slightly below the level recorded in H1/04 (82%).
- **Petrochemicals sales** decreased in the first half of 2005 by 15%, from 300 thousand tons in H1/04 to 256 thousand tons in H1/05 due to the maintenance explained above.
- **Refining investments** in H1/05 amounted to RON 85 mn, by 6% lower than the investments performed in H1/04 and were directed towards the improvement of product quality and emission control in Arpechim as well as to the increase of conversion capacity in Petrobrazi (CCR revamping).

Second Quarter 2005 (Q2/05)

- **Total processed crude** increased by 10% compared to Q1/05 (in Q2/05 definitions were aligned with OMV standards). Therefore overall capacity utilization increased to 83%.
- Despite a turnaround of the petrochemical plant in the Arpechim refinery resulting in lower petrochemical sales, **total sales volumes** in Refining increased by 14% compared to Q1/05 (1.25 mn tons) because of higher bulk sales.

Marketing

H1/05	H1/04	%		Q2/05	Q1/05	%
2,387	2,375	1	Sales (thousand tons)	1,344	1,043	29
43	78	(45)	Investments (RON mn)	13	30	(57)
13,840	14,250	(3)	No of employees	13,840	13,013	6

First Half Year 2005 (H1/05)

- **Total sales** slightly increased by 1%, due to higher domestic sales. **Export sales** in H1/05 remained almost the same value from H1/04, i.e. 1,138 thousand tons, while **domestic sales** recorded a slight increase of 1% (H1/04: 1,237 thousand tons versus H1/05: 1,249 thousand tons). Starting with 2005, all the sales from both refineries and marketing are reported under the Marketing business unit.
- **Market share** according to the estimation for the total market was about 30%.
- **Investments** amounted to RON 43 mn decreasing by 45% in comparison with H1/04 and having as main destination the building and modernization of filling stations. The modernization works for 8 filling stations were completed, out of which 3 were new.
- As of June 30, 2005 Petrom's **retail network** totalled 670 filling stations in operation including 73 filling stations in Moldova and 2 in Hungary. A new concept for filling stations, **Petrom V Greenfield Filling Stations**, will be introduced by Petrom starting with October 2005.
- Total **non-oil business turnover** increased by 12% due to the introduction of road vignettes. At the end of June, most of the contracts with Peco dry goods suppliers expired and the new contracts are signed at HQ level, reflecting the centralization policy of the company.

Second Quarter 2005 (Q2/05)

- The Company's sales volumes in Marketing have grown by 29% compared to Q1/05 (1.04 mn tons) driven by much higher export and retail sales.

- The company introduced a new type of high quality gasoline, **Top Premium 99+**, which recorded a real success on the market, the total sales exceeding by 60% the budgeted quantities.

Doljchim

H1/05	H1/04	%		Q2/05	Q1/05	%
321	300	7	Sales (thousand tons)	153	168	(9)
0.2	6.5	(97)	Investments (RON mn)	0	0.2	-
1,573	1,604	(2)	No of employees	1,573	1,545	2

- **Gas prices** have risen by 40% compared with 2004 which had a negative effect on the contribution margin. Nevertheless, a part of the higher gas prices has been compensated by **higher sales prices** that increased by 23%. Still, on an average, sales prices were 1% below budget.
- The H1/05 planned **sales** were estimated at 305 thousand tons, whereas the actual sold quantities represented 321 thousand tons, exceeding by 5.2% the budget.
- The **exports** accounted for 67% of the total sales, while the internal transfers represented 22% and the domestic sales 11% of the total.

Financial overview¹

Profit and Loss Account

- The **EBIT** increase from RON 263 mn to RON 860 mn was driven mainly by the favourable price environment, and to a less extent, by higher marketing sales.
- A slight increase of quantities sold along with higher prices resulted in a 16% increase of the **turnover**, while **total revenues** increased only by 13% as changes in inventories and other operating revenues recorded decreases.
- The **operating expenses** recorded a slight decrease of approx. 1% as a result of higher deliveries into the system. Two of the expenses categories accounted for more than 50% of the operating expenses: other operating expenses - 36% and raw materials expenses - 30%. The increase in personnel expenses (of 11%) was mainly driven by the rise of the salaries by 13% as provided by the Collective Labor Agreement negotiated with the Unions.
- The **net income** of the company rose from RON 109 mn to RON 601 mn, due to a high operational profit of RON 860 mn (H1/04: RON 263 mn).
- The **financial expenses** had a negative impact on net profit, as the unrealized losses from foreign exchange differences recorded high values due to the strengthening of the national currency against the Euro.

Balance sheet:

- **Total assets** increased by 44% in H1/05 in comparison with the same period of the previous year, mainly due to a significant increase of current assets from RON 3,477 mn to RON 7,073 mn.
- The **fixed assets** increased by 20% mainly due to the rise of financial assets by 285% as a result of the loans granted to the international subsidiaries of the company, especially Kazakhstan companies.
- The increase of **current assets** was due to the privatization process which resulted in a cash increase of 459%.

¹ Figures only for Petrom SA, according to Romanian Accounting Standards (limited reviewed by the auditors of the company, Deloitte & Touche); include controlled affiliates at cost

- The **current ratio** of the company increased considerably, from 2.12 in H1/04 to 5.05 in H1/05, due to the higher amount of cash available for the day-to-day business. Therefore, Petrom faced no problems in meeting its financial obligations to the State budget during the first half of 2005.
- **Tangible assets** hold the main percentage of total assets (45%), followed by cash (26%) and financial assets (12%).
- **Total liabilities** of the company decreased by 31%, due to the reduction of both payables - within one year (by 14%) and more than one year (by 49%).
- Lower short and long term liabilities together with a higher amount of cash resulted in a net cash position of more than RON 2.5 bn
- **Provisions for risks and charges** increased almost 6 times, due to the provisions created at the end of the year 2004 (as explained in the 2004 Annual Report) and additionally, to the reorganization provisions created by the company in the amount of RON 220 mn (EUR 60 mn).
- **Shareholders' equity** increased by 21% in the first half of 2005 compared to H1/04, as a result of a 47% increase of the share capital from the privatization process.
- **The reserves** went up by 46% following the accounting change in the bookkeeping of the geological quota in the first quarter of 2005.

Personnel

- At the end of June 2005 the headcount of Petrom SA totalled 49,350 employees, by 2.4% lower against the figures valid for the end of June, 2004 as a result of the natural mobility of the personnel.

Modernization process

In order to consolidate the company's position and to ensure its future, it has now embarked into a **long-term programme** aimed at modernizing Petrom and making the company more efficient.

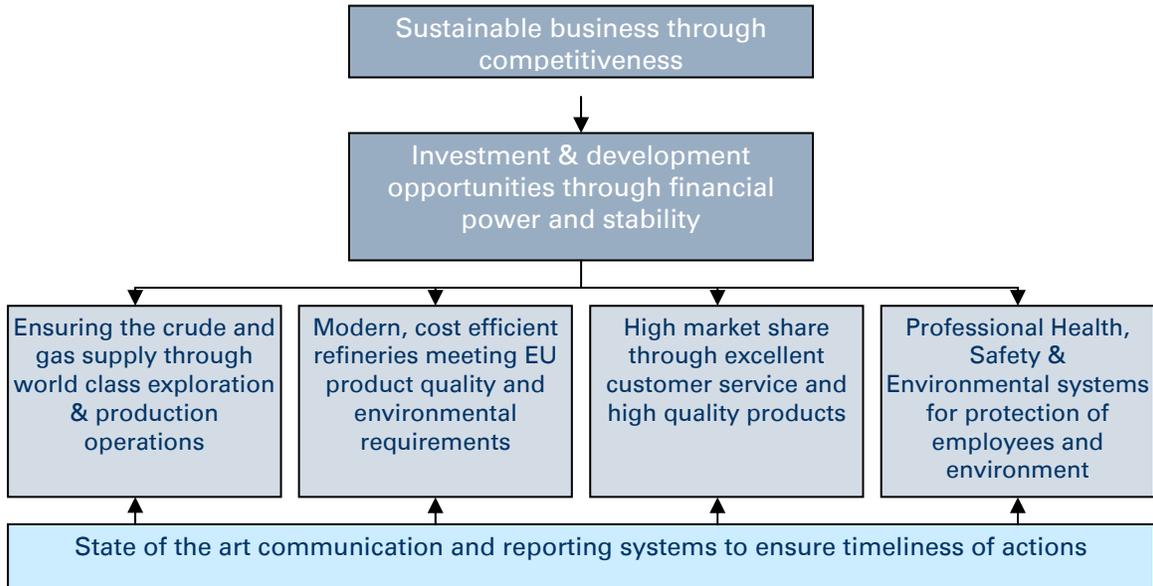
As part of this programme the company aims at improving standards to **reach international industry benchmarks** and to **achieve top service levels** in order to best service its customers and business partners.

Petrom is initiating the **restructuring process** due to the need to improve costs and performance position considering the highly competitive environment to which the company is exposed. The main restructuring objectives include the following:

- ▶ Introducing centralized organizations and systems mainly in Marketing to increase customer orientation, but also in Procurement and Finance. Centralization of processes is the key to uniform operations in such a large and wide-spread company.
- ▶ Realizing first synergies between the two refineries and between different upstream entities through optimised crude intake mix and production planning will prove very effective for the company.
- ▶ Starting with a full agency concept for filling stations as this proved to be the best performing system at international level. Petrom filling stations will shift from being Company Owned Company Operated (COCO) and will become Full Agency, meaning that each station will be managed individually, by a dealer, and will comply strictly with the regulations of Petrom.
- ▶ Closing down of unprofitable locations (non-competitive filling stations, terminals etc) based on a few criteria: negative cash-flow, old infrastructure/equipment, location without future.

Principles of the process were agreed with the unions to be implemented step by step. A first amount of EUR 60 mn to finance the cost of the process for 2005/06 was agreed with

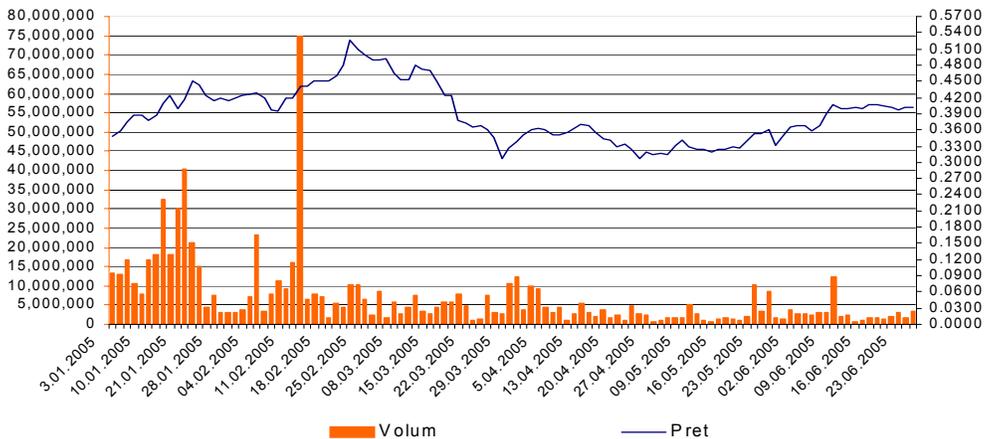
the union (this covers expenses for e.g. the closing of filling stations, terminals, outplacement center, training measures and severance payments)



This will be a long-term process which will be implemented gradually within the entire company in order to make a smooth transition to a new type of organization closed to the international standards.

Stock watch: January – June 2005

Evolution of Petrom Price and volume January-June 2005



- 2005 started strongly on the Bucharest Stock Exchange, BET index recording spectacular evolutions, as well as Petrom’s share price, which increased significantly.
- On February 24, 2005 the share price reached the historic maximum of RON 0.530.

- Starting with March, Petrom price followed a decreasing trend. The minimum for H1/05 was registered on March 29, when the price decreased up to RON 0.276, 50% lower than the maximum level in February. Between March and June, the price of Petrom shares was mainly under RON 0.400.

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Abbreviations

PCP	Progressive Cavities Pumps
CCR	Catalytic Cracking
NGL	Natural Gasoline
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortization
mn	Million
bn	Billion
RON	New Romanian Lei
cm	Cubic meters

Profit and Loss Account as of June 30, 2005

(Figures only for Petrom SA, according to Romanian Accounting Standards -limited reviewed by the auditors of the company, Deloitte & Touche)

<i>RON</i>	June 30. 2004	June 30. 2005
Net turnover	3,970,796,060	4,612,035,219
Sales of finished goods	2,924,680,133	3,050,041,609
Sales of goods purchased for resale (acc. 707)	1,046,115,927	1,561,993,609
Revenues from subsidies related to net turnover	0	0
Movements in stocks of finished goods (acc. 711)		
Cr balance	150,713,740	133,802,123
Dr balance	0	0
Own work capitalized (ct. 721+722)	34,936,461	19,765,159
Other operating revenues	155,039,274	117,138,133
TOTAL OPERATING REVENUES	4,311,485,534	4,882,740,633
a) Raw materials and consumables expenses	3,042,386,870	1,216,611,265
Other materials expenses	18,174,402	17,291,886
b) Other utilities expenses (energy and water)	314,386,334	344,731,103
c) Purchase of goods for resale (acc. 607)	826,969,542	99,600,186
Salary expenses, of which:	585,447,667	652,230,344
a) Salaries (acc. 641-7414)	426,349,638	488,367,028
b) Social security contributions (acc. 645-7415)	159,098,030	163,863,316
a) Adjusting the value of tangible and intangible assets	373,064,213	470,969,094
a.1) Expenses (acc. 6811+6813)	373,105,952	617,698,167
a.2) Revenues (acc. 7813+7815)	41,739	146,729,073
b) Adjusting the value of current assets	165,975,571	(435,983,666)
b.1) Expenses (acc. 654+6814)	170,814,800	(8,433,199)
b.2) Revenues (acc. 754+7814)	4,839,229	427,550,468
Other operating expenses	(1,303,991,616)	1,457,106,538
8.1 Third parties services (acc. 611+612+613+614+621+622+623+624+625+626+627+628-7416)	718,971,285	1,051,993,411
8.2 Other taxes, duties and similar expenses (acc. 635)	209,753,081	256,780,384
8.3 Other operating expenses (acc. 658)	(2,232,715,982)	148,332,743
Adjustments for provisions for risks and charges	25,694,944	200,162,480
Expenses (acc. 6812)	27,520,619	321,012,520
Revenues (acc. 7812)	1,825,674	120,850,040
TOTAL OPERATIONAL EXPENSES	4,048,107,926	4,022,719,228
OPERATING RESULT:		
- Profit (rows 09-30)	263,377,608	860,021,406
- Loss (rows 30-09)	0	0
Income from investments (acc. 7613+7614+7615+7616)	0	149,192
- out of which, within the group	0	0
Income from other financial investments and receivables (acc. 7611+7612)	1,732,927	1,733,400
- out of which, within the group	0	0
Income from interest (a c. 766)	9,868,180	71,449,180
- out of which, within the group	0	0
Other financial revenues (acc. 7617+762+763+764+765+767+768+788)	71,859,937	279,150,555
TOTAL FINANCIAL REVENUES	83,461,044	352,482,327
Adjustment of financial assets and investments held	0	10,056,771
Expenses (acc. 686)	0	13,311,199
Revenues (acc. 786)	0	3,254,428

RON	June 30. 2004	June 30. 2005
Interest expenses (acc. 666-7418)	52,503,845	29,155,355
- out of which, within the group	0	0
Other financial expenses (acc. 663+664+665+667+668+688)	61,527,212	572,317,422
TOTAL FINANCIAL EXPENSES	114,031,057	611,529,547
FINANCIAL RESULT		
- Profit	0	0
- Loss	30,570,013	259,047,220
Current result:		
- Profit	232,807,595	600,974,185
- Loss	0	0
Extraordinary revenues	0	0
Extraordinary expenses	0	0
Extraordinary result :		
- Profit	0	0
- Loss	0	0
TOTAL REVENUES	4,394,946,578	5,235,222,960
TOTAL EXPENSES	4,162,138,983	4,634,248,775
Gross profit:		
- Profit	232,807,595	600,974,185
- Loss	0	0
Tax on profit	124,263,221	0
- Deferred tax expense	124,263,221	0
- Deferred tax income	0	0
Other tax expenses not shown above	0	0
NET RESULT OF FINANCIAL YEAR:		
- Profit	108,544,374	600,974,185
- Loss	0	0

Balance Sheet as of June 30, 2005

(Figures only for Petrom SA, according to Romanian Accounting Standards -limited reviewed by the auditors of the company, Deloitte & Touche)

<i>RON</i>	June 30, 2004	June 30, 2005
A. Fixed assets		
I Intangible assets	379,048,061	133,662,654
II Tangible assets	7,113,563,332	7,476,386,014
III Financial Assets	520,309,818	2,005,078,169
Total Fixed Assets	8,012,921,211	9,615,126,836
B. Current assets		
I. Inventories	1,607,097,433	1,366,816,479
II. Receivables	1,039,793,086	1,305,045,808
III. Short term investments	42,736,818	372,673
IV. Cash and Bank accounts	787,726,213	4,401,125,082
Total Current Assets	3,477,353,551	7,073,360,043
C. Prepayments	146,784,287	72,116,618
D. Payables within one year	1,636,742,836	1,402,029,084
E. Current assets, net current liabilities, respectively	1,918,592,050	5,688,701,988
F. Total assets less current liabilities	9,929,790,046	15,295,770,824
G. Payables in more than one year	951,122,365	483,023,997
H. Provisions for risks and charges	694,195,761	4,816,136,041
I. Deferred income	70,526,167	62,803,588
1. Investments subsidies (acc.131)	1,723,215	8,057,999
2. Deferred income (acc.472)	68,802,952	54,745,589
J. Share capital and reserves		
I. Share capital (rows 66 la 68)	3,821,038,186	5,600,050,608
Out of which:		
- subscribed and unpaid share capital (acc. 1011)	0	0
- subscribed and paid in share capital (acc. 1012)	3,821,038,186	5,600,050,608
- patrimony (acc. 1015)		
II. Premium related to capital		2,060,096,385
III. Revaluation reserves (acc. 105)		
Credit balance	1,276,142,805	830,155,636
Debit balance	0	0
IV. Reserves (acc. 106)	3,434,428,448	5,026,110,788
V. Retained earnings (acc. 117)		
Sold C	0	0
Sold D	355,681,893	3,047,989,988
VI. Retained Earnings (ct. 121)		
Credit balance	108,544,374	600,974,185
Debit balance	0	0
Profit appropriation (acc. 129)	0	1,072,786,826
Total Shareholders' Equity	8,284,471,920	9,996,610,787
Public patrimony (acc. 1016)	0	0
Total equity	8,284,471,920	9,996,610,787