

PETROM on the Move in 2005

Annual Report



The Essence of Motion



PETROM

Member of OMV Group

Petrom - at a glance

Operational results	2003	2004	2005
Total production, mn boe	80.73	81.31	77.95
Crude oil production, mn tons	5.65	5.46	5.21
Natural gas production, bn cm ³	6.13	6.44	6.19
Crude oil processed, mn tons	6.12	6.42	6.40
Capacity utilisation, %	77	83	80
Petroleum product sales, mn tons	4.84	5.02	5.05
Number of operating filling stations ¹⁾	603	588	553
Number of employees	56,694	50,010	43,546

Financial results	2003	2004	2005
Turnover, RON mn	7,135	8,688	10,760
EBITDA, RON mn	1,011	114	2,775
EBIT, RON mn	458	(581)	1,884
Net income, RON mn	144	(974)	1,416
Operating Cash-flow, RON mn	1,264	1,856	2,771
Investments, RON mn	982	1,303	1,117
ROACE, %	-	(13)	22

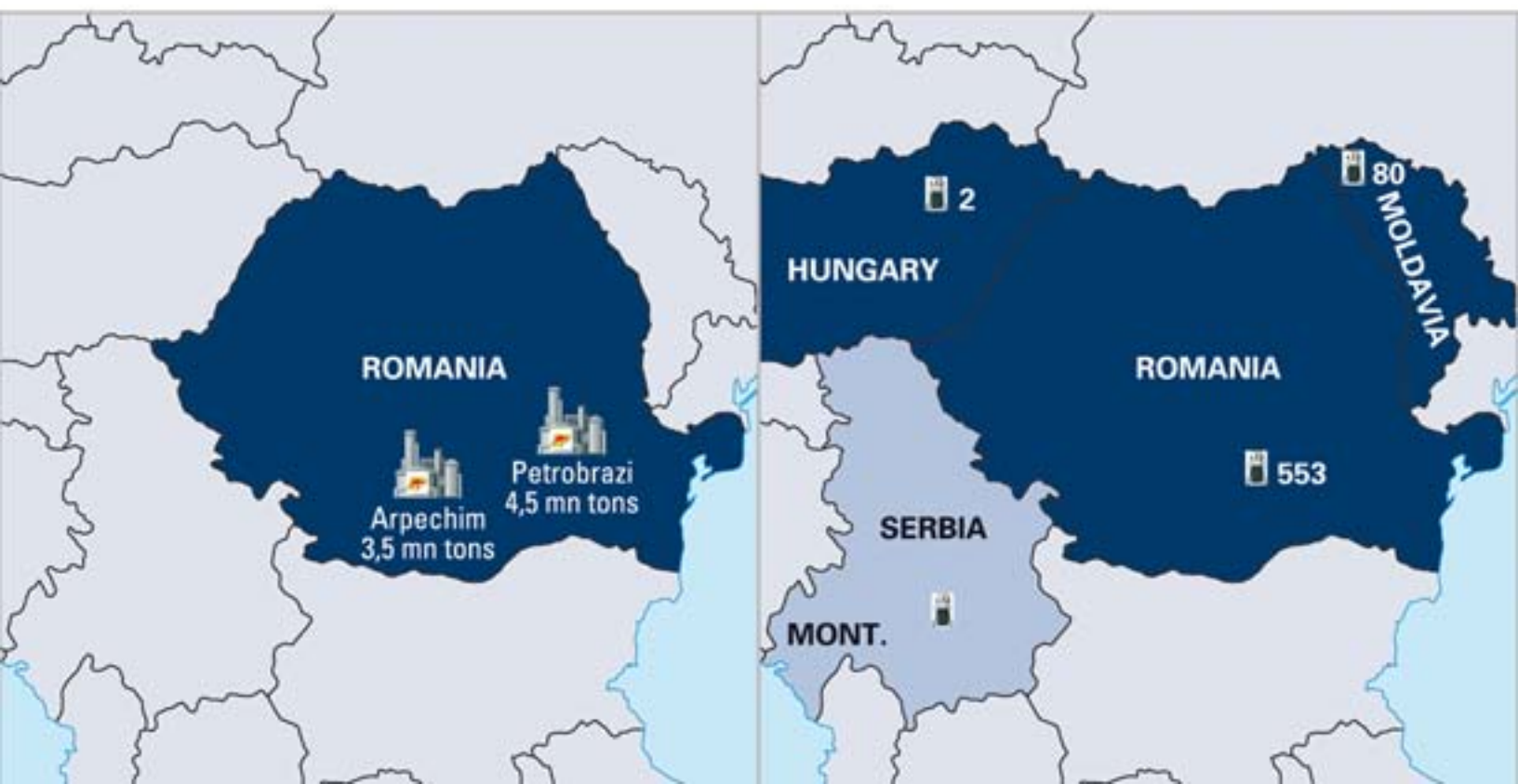
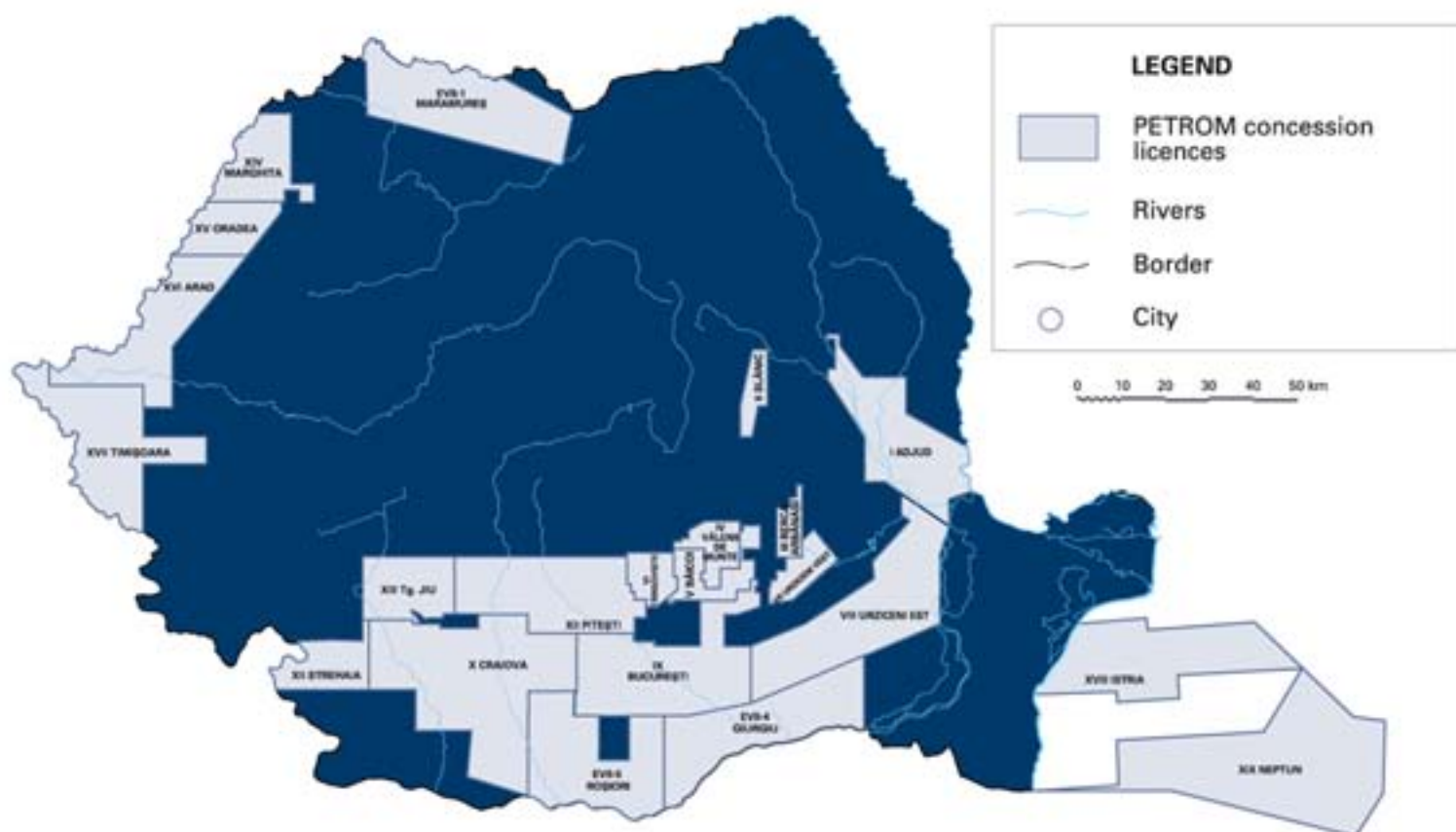
¹⁾ The number of filling stations reported in 2004 Annual Report included non-operating filling stations as well (20 in 2003 and 24 in 2004, respectively).

The Essence of Motion Has no Frontiers...



...in and beyond Romania.

Exploration & Production, Refining and Marketing



2005

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STATEMENT of the President of the Board of Directors

Dear Shareholders, Ladies and Gentlemen,

The year 2005 marks a turning point in Petrom's history. It is the first full year of Petrom since the company has been privatized and many initiatives have been started which are aimed to improve the company.

I would wish to thank the employees and the management of the company specifically for their contribution in 2005 and I am confident that Petrom is on the right track and will continue to be a successful and growing company.

In line with its strategy Petrom has achieved a return which is very satisfactory for all its shareholders and in excess of expectations despite significant restructuring charges.

Undoubtedly the external factors have been favourable insofar as high oil prices and excellent refining margins have helped us in achieving these targets, however it needs to be stressed in this context that also significant progress has been made in reducing costs and streamlining business processes which has resulted in 2005 in better efficiency and we have laid the foundations for the future growth and improvement of operations.

The year 2005 was a difficult year for Romania due to the significant floods which did have a severe impact on many areas of the country and on its population.

Petrom as the biggest Romanian company has also started various initiatives to help those in need and has supported various organisations with the aim to assist those who are in need.

This is part of Petrom's understanding as its responsibility for the country and its population.

Petrom also contributed significantly to the State Budget by paying 4.5 bn RON in taxes, duties and contribution which is approx 1bn RON more than in the year 2004 and remains an important factor for Romanian's economy overall.

Due to the good results achieved in 2005 and the success in the restructuring and modernisation process Petrom's shareholders have not only received a considerable increase in the value of their investment but the Company has also proposed to its shareholders to pay a dividend per share of 0.013 RON.

Petrom will continue a dividend philosophy in line with its competitors in the market to allow a comparable return on your investment.

The year 2006 will be equally challenging like 2005 but I am personally confident that Petrom will succeed in achieving its overall targets and remain an interesting investment opportunity.

Wolfgang Rutenstorfer



Board of Directors

The Board of Directors represents the interests of the Company and of its shareholders and is responsible for the overall management of the company.

Its main objectives are to increase the shareholders value, to ensure the transparency in the company activities and to raise the efficiency and profitability of the company.

The Board consists of 7 members, 4 members representing OMV and 3 members independent of the Majority Shareholder.

Wolfgang Ruttenstorfer - President

CEO and Chairman of the OMV Executive Board, responsible for Natural Gas business and Chemicals of OMV.

Elected at the GMS on January 11, 2005



Gerhard Roiss – Vice-president

Deputy Chairman of OMV Executive Board and responsible for the Refining, including Petrochemicals and Marketing activities of OMV.

Elected at the GMS on January 11, 2005



David C. Davies – Member

Chief Financial Officer of OMV and a member of the company's Executive Board.

Elected at the GMS on January 11, 2005

Board of Directors



Helmut Langanger – Member

Member of the OMV Executive Board, responsible for the Exploration and Production business of OMV. Elected at the GMS on January 11, 2005



Dorinel Mihai Mucea – Member

Deputy Head of the Romanian Privatization Agency (OPSPI), representing the Ministry of Economy and Commerce in Petrom's Board of Directors. Elected at the GMS on January 11, 2005.



Mariana Gheorghe – Member

Senior Banker in South-Eastern Europe and the Caucasus Group, Banking, within EBRD. Elected at the GMS on January 11, 2005.



Victor - Paul Dobre - Member starting with November 22, 2005

Secretary of State for the Relation with Prefectures, Ministry of Administration and Interior. Elected at the GMS on November 22, 2005

Sebastian Teodor Gheorghe Vladescu – Member until August 22, 2005

Represented the Romanian State and was elected at the GMS on January 11, 2005. In August 2005 he was appointed as Minister of Finance and therefore became incompatible with his position as member of a company's Board of Directors.

STATEMENT of the Chief Executive Officer

Dear shareholders,

The year 2005 was extremely important for Petrom, the largest oil and gas producer in South-Eastern Europe, as it was the first year after the closing of the privatization, when we practically initiated the consolidation process of the company.

We operate in a very competitive environment, where we wish Petrom to become the best. We've started a far reaching modernization process which aims at the improving of the company's cost and performance position and we will put out all the efforts in order to close the gap to international standards.

Petrom has now a clear development strategy: we want to become more powerful, more competitive and more profitable in order to successfully meet the requirements of the international market. In this direction, we established firm objectives for each business unit. The achievement of these objectives is sustained by an unprecedented investment program of around EUR 3 billion, until 2010.

The achievements can already be seen. We have a new exploration strategy, which will allow us to secure the oil and gas production, we have modern exploration technologies, such as 3D seismic, and we are determined to refurbish the oil and gas sector. Due to investments in revamping processes, our refineries are already offering products in line with the European standards for 2007 and we'll continue to focus on improving their quality. We successfully launched two new petroleum products, Top Premium 99+ and Top Nordic Diesel while our customers can enjoy the PetromV standards. Petrom will facilitate the continuous growth of the gas business in Romania, as natural gas represents the prevailing primary energy resource. Therefore, we have been paying great attention to the gas business in terms of both exploration and production as well as through strengthening the Gas Division.

Similarly, in 2005, a far reaching career development program for employees was launched. This program is intended to develop the career of each employee depending on their current activities. In this way, our employees benefited from efficient and modern systems of specialization and development which will certainly help increase their performance.

The economic growth of the company implies also a great responsibility for the employees' health and safety and for the environment. One of the 2005 challenges was to set the basis of Petrom integration in the HSEQ OMV standards. The top management taking up the HSEQ policy, purchasing the latest protection equipment as well as improving the report system on incidents are only a few of the successful activities that are to be sustained and completed by further actions.

The modernization process, the focused investments and the favorable business environment contributed to the positive financial results in 2005.

We believe in a good future evolution of our company as we will take all the necessary actions to make Petrom a more efficient and profitable company, able to perform under the best conditions at international standards.

Gheorghe Constantinescu



Managing Committee

The Managing Committee is elected by the Board of Directors and consists of 6 people. It is the body that manages the daily business of the Company. The Managing Committee ensures that the resolutions of the Managing Committee, of the Board of Directors and of the General Meeting of Shareholders, as well as internal guidelines are implemented and that the law is complied with.

The current members of the Managing Committee were appointed on December 15, 2004 by the Interim Directors. The Managing Committee has the following members:

Gheorghe Constantinescu - Chief Executive Officer of Petrom, responsible for Communication, Human Resources, Health, Safety Environment and Gas

He studied at Oil & Gas University in Ploiesti, Technology and Oil chemistry Faculty. He obtained his Doctoral degree at Gheorghe Asachi University in Iasi.

He has been working in the oil & gas industry since 1970.



Werner Schinhan - Deputy CEO, responsible for Corporate Development, Corporate Affairs, Internal Audit, Treasury and Risk Management and Chemicals

He studied and graduated at Vienna University, Economic Sciences Faculty. Between 2000 and 2002 he worked for Treasury, Risk Management and Mergers and Acquisitions at OMV and starting with 2002 he became Senior Vice President and Development and Strategy Director OMV. He has been working in the oil & gas industry since 1981 and has held various management positions abroad.



Managing Committee

Reinhard Pichler - Chief Financial Officer

He studied at Federal College of Engineering in Austria and Economic Studies University in Vienna. He was Deputy Director Controlling Group OMV (1996 -2000), Director of OMV Solutions (2000 – 2002), Vice President and Director of Corporate Controlling and Accounting starting with 2002. He has been working in the oil & gas industry since 1990.



Werner Ladwein - Member of the Managing Committee, responsible for Exploration and Production

He obtained his Doctoral Degree in Geology and Mineralogy at Innsbruck University and his Master Degree at Webster University in Vienna. He was previously General Director of OMV Libya E&P (1993 – 1997), General Director of OMV Albania (1997 – 2001) and General Director of OMV Pakistan starting with 2002. He has been working in the oil & gas industry since 1977.



Florian Constantinescu - Member of the Managing Committee, responsible for Refining

He studied at Oil & Gas University in Ploiesti, Technology and Oil chemistry Faculty. He has been working in the oil & gas industry since 1977.



Managing Committee

Tamas Mayer - Member of the Managing Committee, responsible for Marketing

He obtained his Master Degree at the Economic University in Budapest. He was General Director of OMV Hungary (1992 – 1998), General Director of OMV Bulgaria (1998 – 2002) and responsible for co-ordination of marketing and distribution activities, OMV Romania, Bulgaria, Serbia and Montenegro starting with 2003. He has been working in the oil & gas industry since 1992.



Petrom has a new Managing Committee member for its **Refining Division** starting with January 2006 in the person of **Mr. Jeffrey Rinker**.

Mr. Rinker succeeds Mr. Florian Constantinescu, who became a Senior Consultant within Petrom, remaining closely involved with managing refining operations.

Jeffrey Rinker graduated Chemical Engineering and has been working in the oil and chemicals industry for the past 16 years. Before joining Petrom he worked for BP (formerly British Petroleum) in various technical and commercial management positions in the USA and UK. Most recently, Mr. Rinker held the position of Commercial Manager for BP's Toledo Refinery, located in the USA.



Petrom in 2005 and the Way Forward

Vision

In 2010 Petrom will be the leading integrated oil & gas company in South Eastern Europe.

Mission

We discover, produce and process oil & gas and distribute fuels and other oil products in order to provide Romania and our neighboring region with energy and mobility. The sustainable and profitable growth of our company is of benefit to our shareholders, clients, employees and the Romanian economy in general and is therefore at the focus of all our activities.

Who we are

Petrom SA is the leading Romanian company and the largest oil and gas producer in South-Eastern Europe. The core activities of the company are the Exploration and Production of crude oil and natural gas, Refining of crude oil, production and sale of Petrochemicals and Marketing of petroleum products. Starting with December 2004, Petrom is part of OMV Group, the leading oil and gas group in Central and Eastern Europe.

2005 Key Achievements

2005 represented a turning point for Petrom, as the company entered into a modernization process aimed at increasing performance and bring Petrom closer to its international peers.

All the business units of the company were reorganized in order to improve the operational and financial efficiency of the company and to fully benefit of the synergies specific to an integrated oil company.

The change process was reflected throughout the company with initiatives being undertaken in all the business areas:

- Defining the strategy for the development of the company until 2010
- Centralization of E&P, Marketing, Finance and IT was initiated and is targeting the improvement of efficiency and enhanced control of the business. An important precondition for centralization is the deregistration of Petrom branches, which was started in the second part of the year and will result in a simplified and timely reporting
- The knowledge transfer from OMV to Petrom in all business areas was started and it will

continue also in the following years.

- The definition of a clear set of guidelines in order to improve the coordination of the activities and an improved management control
- The review of all Petrom assets in order to identify and divest the non-core assets
- The dialogue with the unions in order to support changes was continued and the new collective labour agreement was negotiated for the first year
- New offices were opened in Bucharest (Headquarters and Service Center) and Ploiesti (E&P) providing state-of-the-art equipment and a proper environment for efficiency

Our Strategy

In 2005, Petrom has defined its long-term strategy having as vision to become the leading integrated oil and gas company in the South-Eastern Europe.

The company strategic targets are directed towards an increase of performance levels and an improved cost position. A Return on Average Capital Employed (ROACE) of 13% is to be achieved based on the strong commitment of all business units.

Petrom will undertake EUR 3 bn of investments until 2010 in the modernization of its business in order to secure long-term profitability as well as the company's growth.

Milestones

With the strategic objectives as a basis, a 12-quarter set of milestones – detailed planned actions in order to support the achievement of the strategy - was defined. All the business units and corporate functions have outlined their milestones, which are monitored on a quarterly basis by the Managing Committee and the Board of Directors.

Exploration and Production

Who we are

Petrom is the only crude oil producer in Romania and accounts for half of the Romanian gas production. In order to cope with the challenge of declining reserves, Petrom started to internationally diversify its E&P portfolio, by developing activities in four areas in Kazakhstan.

2005 Key achievements

- Petrom's successful bid for three new exploration licenses in Romania;
- Synergies with OMV were realized on the technology transfer side, consequently three 3D seismic programs were already acquired in Romania and one in Kazakhstan;
- The reorganization of E&P business;
- Separation of Operator vs. Contractor role;
- In line with Petrom's new strategy, the company withdrew from non-core international activities (Tanzania, Iran, India) and reorganized its Kazakhstan operations.

Our Strategy

- Keep production level stable at 210,000 boe/day in Romania beyond 2010 through investments exceeding EUR 1 bn in the next 3-4 years and the introduction of modern Reservoir Management Systems;
- Develop the Caspian region into a core region by building new businesses;
- Reduce production costs below 9 USD/boe in 2010 by shutting-in uneconomic wells, centralizing management functions as well as rationalizing and re-organizing field operations;
- Reach reserve replacement rate of 70% in 2010 as a result of exploration expenditures amounting to 100 mn EUR/year and the introduction of 3D technologies.

Refining and Petrochemicals

Who we are

Petrom owns two of the most important Romanian refineries, Arpechim and Petrobrazi, which together account for 35% of domestic crude processing capacity.

2005 Key achievements

- New products with a sulphur content of 50 ppm according to Romanian regulations which are aligned with EU standards were introduced;
- Both refineries obtained the integrated environmental authorization, in accordance with the Romanian legal provisions;
- Significant investments targeting the modernization of the production units, and also the increase of environmental protection were carried out in both refineries;
- The controlling stakes in Rafiserv Arpechim and Rafiserv Petrobrazi were acquired in order to help the restructuring of the maintenance activities in Refining.

Our Strategy

- Raise refinery utilization to 95% and improve the refining cost position by optimizing asset utilization in both Arpechim and Petrobrazi;
- Comply with EU product quality by the end of 2007.
- Refining yield according to market needs – middle distillates yield increased, HFO yield reduced
- Enhance efficiency through a better cost control and increased turnaround interval

Petrom in 2005 and the Way Forward

Marketing

Who we are

Petrom is the main player on the Romanian fuels market, owing a retail network of 553 filling stations and a 24% market share. The company operates a 80 filling stations network in Republic of Moldova and 2 filling stations and a terminal in Hungary.

2005 Key Achievements

- Introduction of the full-agency system for the administration of the filling stations having as objective the establishment of state-of-the-art filling stations
- Fuels price in line with international quotations
- Reorganization of the retail and wholesale network, resulting in the closure of unprofitable locations
- The company has launched PetromV, a new concept for its filling stations, which sets new standards for quality services and facilities
- Two new products were successfully introduced on the fuels market: Top Premium 99+ Gasoline and Top Nordic Diesel

Our Strategy

- Raise throughput ratio of the filling stations to 3 mn ltrs/year;
- Achieve 30% commercial market coverage in 2010 by building up to 250 PetromV stations in highly frequented locations and offering enhanced quality services;
- Knock-down and rebuild 10 major terminals by 2010.

Gas

Who we are

A new gas business unit was created in 2005, in order to have dedicated organization to focus on gas sales and on the best use of the potential and opportunities resulting from the market liberalization.

2005 Key Achievements

- Create a new organization
- Define a clear development strategy until 2010
- Define channel mix for the sale and supply of natural gas

Our Strategy

- Achieve gas marketing volume of more than 7 bcm in Romania with a 35 % market share by entering new market segments;
- Develop the gas business beyond Romanian borders in the neighboring countries, such as: Bulgaria, Serbia, Hungary and other;
- Realize gas prices approximately to the European level once the full liberalization of the Romanian market will take place, estimated not earlier than the end of 2007;
- Enhance competitiveness through own storage facilities and a supply mix between domestic and imported gas.

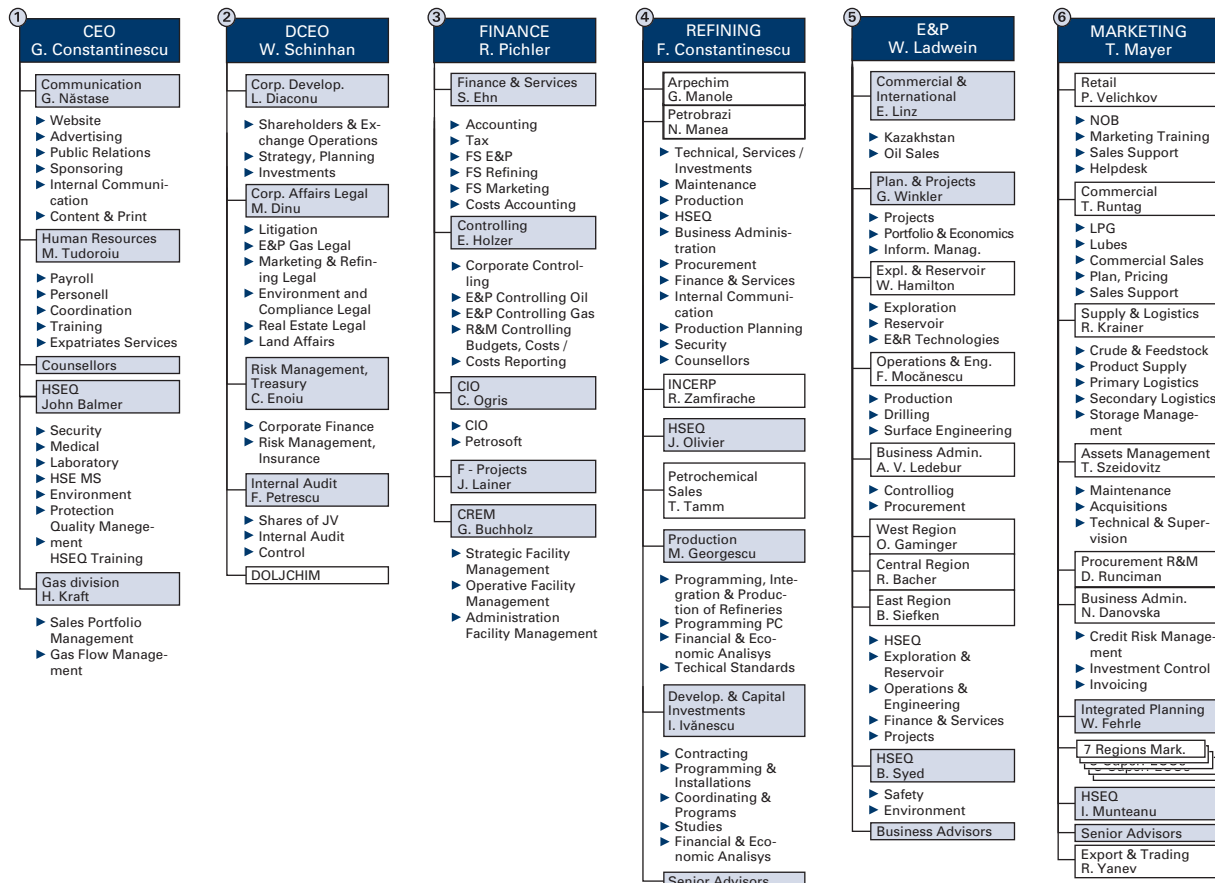
Organizational Structure

Following the acquisition of the majority stake in Petrom by OMV, the company has entered into a significant reorganization process, in order to align with the international standards for oil and gas companies and facilitate the integration in OMV Group. The activity of the company is carried out through four business units - Exploration & Production, Refining & Petrochemicals, Marketing and Gas - and several corporate functions.

At the beginning of 2005, three regions in E&P and seven regions in Marketing were defined.

The Gas business unit was established in 2005, under the direct subordination of Petrom CEO. 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, the Board of Directors decided in June 2005 to deregister all 60 branches. The process started with the deregistration of the Peco branches and by the end of the year almost half of Petrom branches were already deregistered.

Petrom Organization Chart



Petrom's Participations

Domestic Participations

Petroleum Products		Chemicals		Financial Services	
S.C. Petrom Nădlac S.R.L.	98.51%	S.C. Poliflex Romania S.R.L.	96.84%	S.C. Braşov Business Centre	2.53%
Societatea Română de Petrol S.A.	49.00%	S.C. Petrogas S.R.L.	100.00%	Romexterra Bank	2.00%
S.C. Petrom Aviation S.A.	48.50%	S.C. Linde Gaz Brazi S.R.L.	49.00%	S.C. Financial & Commodity Exchange, Sibiu*	0.58%
S.C. Shell Gas Romania S.A.	44.47%	S.C. Beyfin Gaz S.R.L.	40.00%	IRASIG S.A.	0.16%
S.C. Brazi Oil&Angelescu Prod Com S.R.L.	37.70%	S.C. Robiplast CO S.R.L.**	45.00%	Romanian Commodity Exchange Bucharest	0.53%
S.C. Fontegas Peco Mehedinti	37.40%	S.C. M-I Petrogas Services	40.00%	S.C. Franciza Petrom 2001 S.A.	40.00%
S.C. Deem Algocar S.A.	27.92%	S.C. Acetilena Brazi S.R.L.	21.28%	Maritime and Commodities Exchange**	20.09%
S.C. GTI OIL CO S.A.	13.00%	S.C. Butan Gas Romania S.A.	8.54%	Credit Bank**	0.22%
S.C. Prima Petrol S.R.L.	11.98%	Others		Gas	
S.C. Benz Oil S.A.	0.48%	S.C. Carpatina S.A.*	82.89%	S.C. Petrom Gas S.R.L.	99.99%
S.C. Grivcorelf S.A.	6.41%	Oltenia Management Office	2.47%	S.C. Congaz S.A.	28.59%
		S.C. Telescaun Tihuța S.A.	1.68%	S.C. Transgaz Services	20.00%
		Agribac**	0.79%		

Foreign Participations

Exploration and Production		Fuels Distribution	
Oztiurk Munai	95.00%	I.C.S. Petrom Moldova	65.00%
Tasbulat Oil Corp	100.00%	Petrom Hungaria	100.00%
Kom-Munai LLP	95.00%	DOO Petrom Yu	100.00%

As part of the divestment strategy started by Petrom in 2005 for its non-care assets, a few minority participations were sold during 2005.

These had as scope of work different types of financial services, which did not present any strategic interest for Petrom.

* See also "Subsequent Events"

** Undergoing bankruptcy procedure

Directors' Report



Shares and Bonds



Shares and Bonds

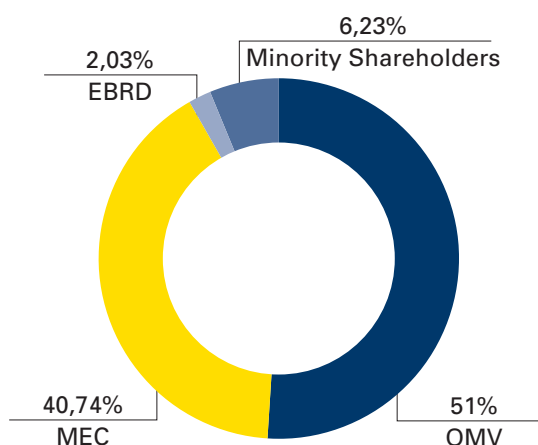
Shareholding

Following the listing on the Bucharest Stock Exchange in 2001, Petrom is complying with specific requirements stipulated by the Capital Market with respect to transparency and reporting.

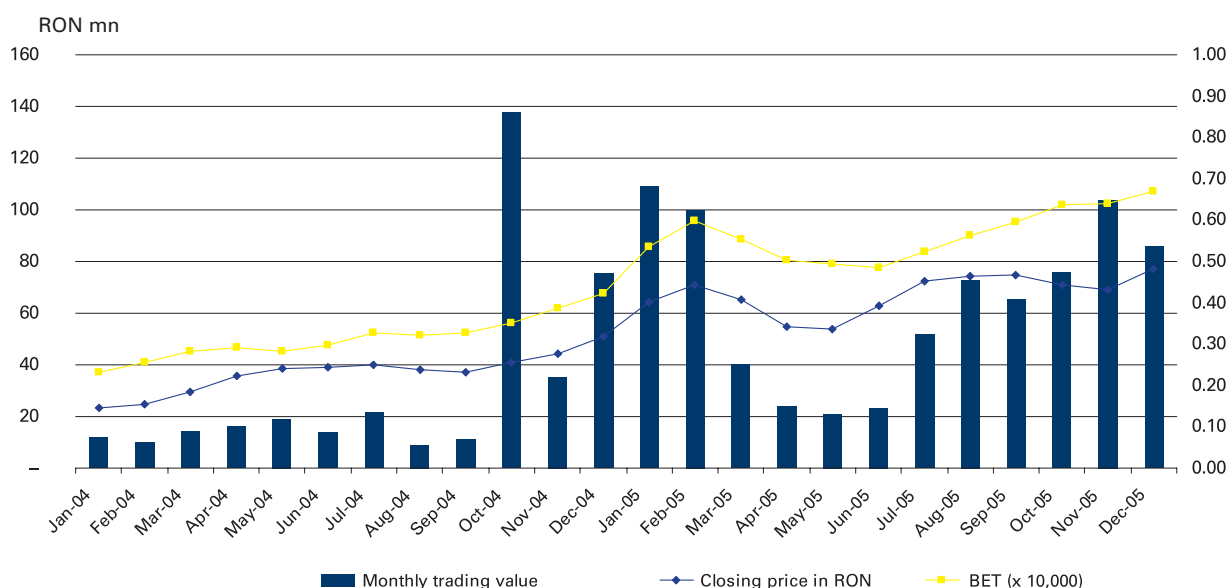
Following the closing of the transaction between the Romanian State and OMV as of December 14, 2004 with respect to the privatization of the company, OMV became the majority shareholder of Petrom with 51% of the share capital. The Ministry of Economy and Commerce holds 40.74% of the share capital, while EBRD owns a stake of 2.03%. The rest of 6.23% of the share capital is free-float, and is traded on the Bucharest Stock Exchange.

The 6.23% free-float is held by around 550,000 private and institutional investors, from both Romania and abroad.

Shareholding Structure



Evolution of Petrom share price and BET



Shares and Bonds

Shares

In 2005, BET Index, which includes the ten most liquid bluechip stocks from BSE, increased by 50.90%, while BET C Index (BET Composite), which includes all the companies listed on BSE, except for the SIFs, increased by 38.22%.

On March 15, 2005, on Vienna Stock Exchange, ROTX Index was launched. The index reflects in real-time the movement of the seven most liquid blue chip stocks traded at the BSE. In 2005, ROTX index increased by almost 20%.

Petrom had as of December 31, 2005 a share capital of RON 5,600 mn, divided into 56,000,506,078 shares with a nominal value of RON 0.1.

On December 23, 2005, Petrom represented 47.6% of the total market capitalization.

In 2005, more than 1.7 bn Petrom shares have been traded at an average price of RON 0.4345, the share price increasing by 44%.

Petrom shares - at a glance

	2003	2004	2005
Number of shares	38,210,381,859	56,000,506,078	56,000,506,078
Market capitalization, RON mn	5,617	18,592	26,712
Market capitalization, EUR mn	1,370	4,721	7,264
Volume traded on the BSE, RON mn	1,023	2,705	7,960
Year's high, RON	0.1490	0.3430	0.5300
Year's low, RON	0.1000	0.1400	0.2760
Year end, RON	0.1470	0.3320	0.4770

Shares and Bonds



General Meeting of Shareholders

On May 24, 2005 Petrom held the General Meeting of Shareholders for the approval of 2004 results and the 2005 Budget.

On November 22, 2005, the company organized another GMS where the budget for 2006 was approved and the appointment of Mr. Victor Paul Dobre as the new member of the Board of Directors took place. During this GMS the increase of the company's share capital was also approved. The Ministry of Economy and Commerce will receive a number of shares representing the value of the land for which the Company has obtained ownership titles between December 16, 2004 and October 10, 2005. The existing shareholders as of December 8, 2005 („the Registration Date”) were offered the preference right to subscribe for a number of new shares needed in order to maintain their shareholding in the Company.

Under these circumstances, the share capital will be increased with maximum RON 65,531,238, namely from RON 5,600,050,607.8 to RON 5,665,581,845.8.

The maximum number of new shares to be issued was 655,312,380, with a nominal value of 0.1 RON/share, with a total value of RON 65,531,238, out of which 266,977,088 shares were to be issued in favor of the Ministry of Economy and Commerce representing the value of the land, while the rest of 388,335,292 newly issued shares could be subscribed based on the preference right.

The trading period of the preference rights started on December 14, 2005 and ended on December 23, 2005. During this period, almost 198 mn Petrom rights were traded on the Bucharest Stock Exchange, the daily volume ranging between 12 mn and 58 mn rights. The price fluctuated between RON 0.0040 and RON 0.0046.

Investor Relations

Starting with 2005 the Investor Relations function was established, enlarging the scope of work of the already existing office dealing with the large individual investors base.

Petrom organized for the first time a presentation of the company for investors and financial analysts, where they were offered the possibility to address questions to the company's management and to find out where is the company heading to. Besides this event, Petrom organized a series of one-to-one meetings with different analysts and institutional investors, both from Romania and abroad.

The company supported OMV's event in Romania - Capital Markets Day. Around 50 foreign analysts were invited to this event, which was organized in Bucharest for two days, where both OMV and Petrom strategies were presented and a tour of a few representative assets of Petrom and OMV (Petrobraz refinery, two gathering parks and filling stations) was also organized for the participants.

Shares and Bonds

Dividends

The Board of Directors decided on March 13, 2006 to propose for the forthcoming General Meeting of Shareholders on April 25, 2006 the payment of dividends amounting to RON 738,420 thousand, resulting in a payout ratio of 52%.

The payment of dividends was possible due to the capital restructuring which took place in the fourth quarter of 2005 and which placed the company in a stronger position to recommence the payment of dividends to its shareholders. The loss carry forward was netted to the maximum extent possible through a set-off with the revaluation reserve and the share premium account.

Own shares

During 2005, Petrom did not purchase or held, at any moment, any of its own shares.

All important information and news for shareholders and analysts with respect to the company's activity are posted on our corporate website at **www.petrom.com / Investor Relations**.

Mailing service

To obtain quarterly and annual reports in Romanian and English, please send us an e-mail to investor.relations.petrom@petrom.com or use the ordering service under **www.petrom.com**.

Symbols	
Petrom shares	ISIN: SNPPACNOR9
Symbol:	Bucharest Stock Exchange: SNP
Reuters:	SNPP.BX
Petrom bonds	Cod: XS0136561429
Symbol:	Luxembourg Stock Exchange: SNPPetro

2006 Financial Calendar

Financial Events	Date
The presentation of the results for January-December and Q4 2005 ^{1),2)}	March 14, 2006
Publication of the Annual Report 2005	April 25, 2006
The General Meeting of Shareholders	April 25, 2006
The presentation of the results for January-March 2006	May 16, 2006
The presentation of the results for January-June and Q2 2006	August 17, 2006
The presentation of the results for January-September and Q3 2006	November 15, 2006

1) according to Romanian Accounting Standards

2) approved by the Board of Directors and to be submitted for the GMS approval

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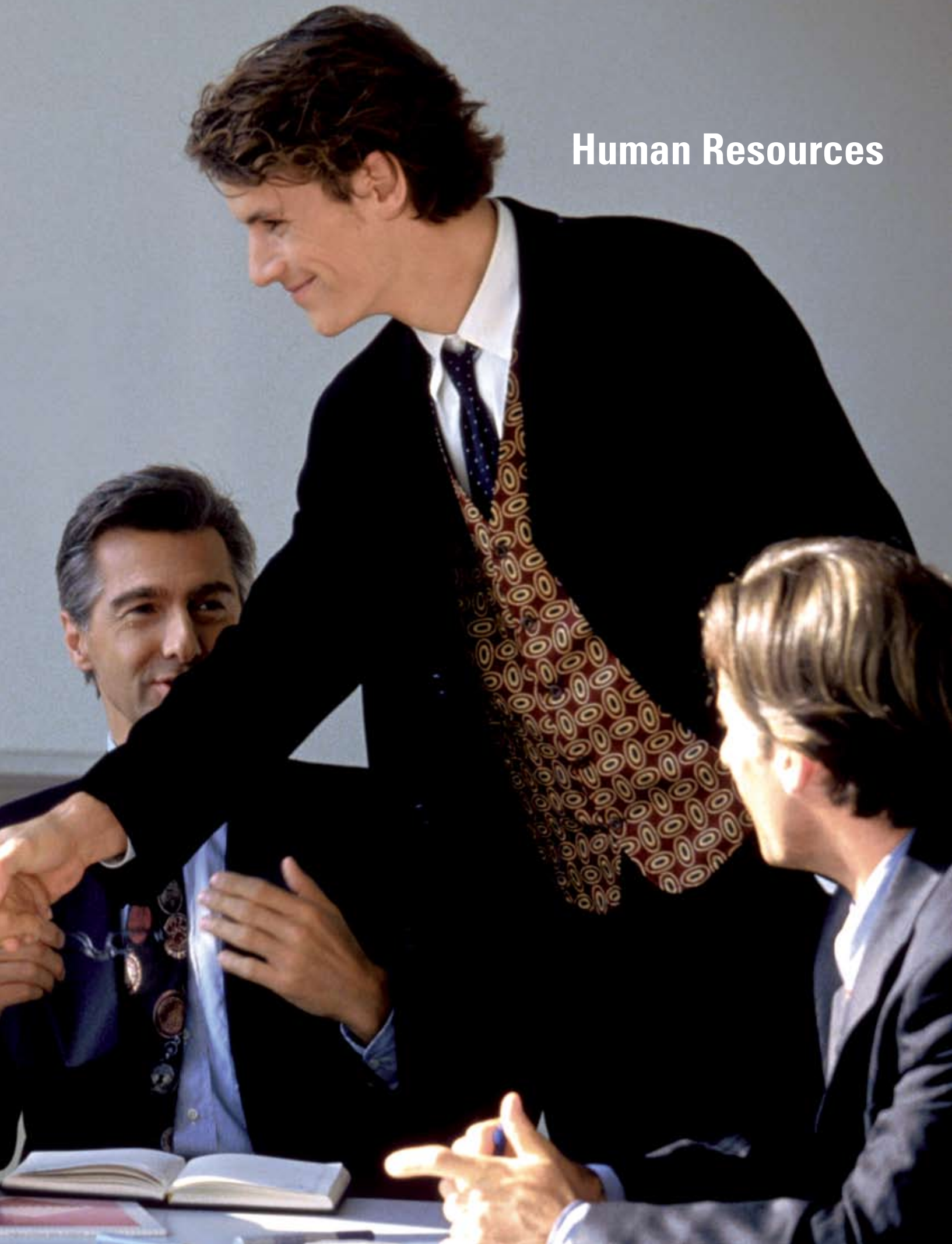
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Human Resources



Human Resources



Human Resources plays a proactive role, with the main responsibility to offer the necessary support to implement the new organizational structure. In this respect all the efforts were directed to ensure the smooth transition to the new structure of the company.

Human Resources (HR) applied a new working approach whereby HR E&P, Refining and Marketing were introduced. The HR organization was supported by an Advisory team, a cooperation which allowed to better address the challenges of the reorganization process and to define the next steps to be followed towards international standards.

New policies and working procedures were defined and rolled out throughout the company, such as: Relocation Policy, Job Description Procedure, etc.

Human Resources played an important role in the dialogue with the unions in order to support changes throughout the company and also to negotiate the collective labour agreement.

Petrom has implemented a new Human Resources policy insofar that internal candidates are the primary source of recruitment for new job openings.

Another important step was the detailing of qualification and promotion criteria and also the elaboration of career model trainings.

The management encourages Petrom employees willing to improve their performances to participate to training programs on specialized topics.

Within Marketing and Refining Divisions the ROPE program (ROtation program PEtrom) was started, with the aim to develop management potentials within Petrom for future middle management positions. A number of 29 employees participated in a professional exchange program with OMV key specialists in the business areas. The program lasts for 18 months and takes place in Austria.

The preparations for an extensive training program to be rolled in during 2006 – Developing Petrom – were initiated in 2005. This program is addressed to all management levels and it will benefit from the participation of OMV and Petrom directors. The framework of the training program is based on explaining the strategy (corporate mission, strategy and objectives), structure (corporate guidelines and international standards) and culture (new working style clarified in the “10 principles”) of the company.

The use of English language in day-to-day business has significantly increased and in order to improve the knowledge of the employees and to ensure a better communication within the company, 1500 employees have enrolled to participate in intensive English courses.

Headcount as of December 31

Activity	2003	2004	2005
E&P	32,668	26,273	22,598
Refining	7,464	7,414	6,492
Marketing	14,351	14,010	12,285
Doljchim	1,611	1,548	1,588
Corporate	600	565	583
TOTAL	56,694	50,010	43,546



Health, Safety and Environment



Health, Safety and Environment

During 2005, it was agreed that Petrom would be fully aligned with OMV Group targets and strategy for 2010. This is extremely ambitious for Petrom as it means that the company must be ranked among the 1st quartile in HSE performance of Western & CEE regional oil and gas companies. Furthermore, new topics are entering the company agenda particularly a focus on security, including Petrom emergency and crisis management. For example, the company has spent considerable resources preparing for the possibility of a pandemic flu outbreak.

Health

Employee health was given a very high priority during 2005, especially planning to ensure that the company supports employees with adequate health management and medical services. The key activity in this area was a company wide review of Petrom health management and services to determine the model for activity in this area in the following years. The project has identified a new structure of clinics and mobile support units, proposals for the re-organisation of the health management team and an investment program of over EUR 4 mn for upgrading medical equipment and providing a range of training for our medical personnel.

In addition, Petrom will participate in an OMV group wide scheme to ensure medical assistance during emergencies for all travelling employees that uses a highly recognised international provider.

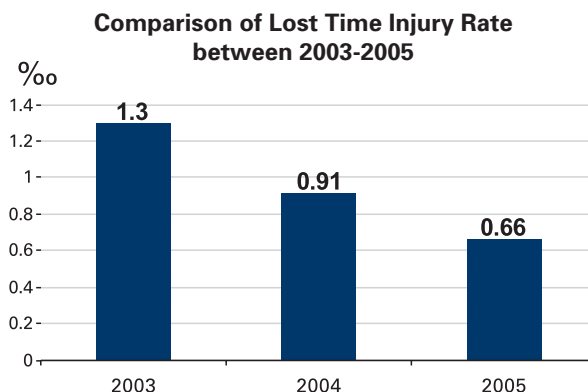
Safety

Petrom aims to ensure that everyone who works for or with the company goes home safely each day. In order to put this aim into practice Petrom has been running extensive safety training and awareness campaigns that have included thousands of employees, so far. This has already increased the volume and accuracy of incident reporting. On top of this Petrom has also embarked on an ambitious campaign to upgrade internal

standards of Personal Protective Equipment, to ensure these are based on the risks our workforce are exposed to and that these are manufactured according to the appropriate European standard.

A safety awareness campaign will further supplement Petrom training activities during 2006, using a variety of communication media to raise the profile of safety issues and highlight how best to reduce work related work accidents particularly vehicle accidents and working at height as these situations have the highest impact on the company accident record.

Overall, the key indicator for safety (Lost Time Incident Rate or LTIR) continues to show positive progress showing a decrease of nearly 30% from 0.91‰ in 2004 to 0.66 ‰ in 2005. Given that the number of employees is also decreasing as part of the re-organization process this is a particularly significant achievement. Nonetheless, Petrom regrets that it has to report 10 fatalities during 2005, 3 among the Petrom workforce and 7 among contractor personnel. A main objective for 2006 is to try and stabilize LTIR and reduce the number of work related fatalities.



Health, Safety and Environment

Environmental Protection

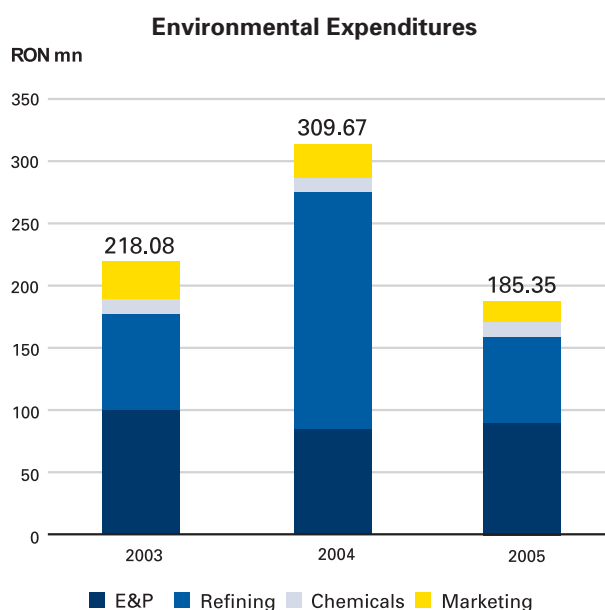
Environmental protection expenditure amounted to approximately RON 185.35 mn in 2005, which is a decrease of almost 40% when compared to 2004. However, this must be understood in the context of the privatisation and the fact that 2005 was a year of evaluation and design rather than implementation. Petrom fully expects that in the coming years the amount of environmental expenditure will steadily increase in line with implementation of the overall investment programme of EUR 3 bn by 2010.

According to current national legislation, Petrom must hold environmental permits for all relevant working units. As a consequence of privatisation Petrom had to undertake an enormous re-authorisation process, which is well underway. As of December 31, 2005, Petrom required 1001 environmental permits. From this total 494 had been successfully re-authorised during 2005 with a further 448 under re-authorisation and 47 more being regulated under their old permits. This

leaves only 12 working units that have not started re-authorisation and have expired old permits. Obviously, Petrom will work diligently during 2006 to continue the pace of re-authorisation and achieve total compliance.

In 2005 there were a number of reported environmental incidents. These were mainly related to pipe leakages from old and corroded pipelines that affected primarily the soil and surface water. To combat this Petrom has initiated and will continue an ambitious programme of pipeline modernisation and replacement. It is expected that this will reap significant environmental benefits, especially from 2007 onwards.

As in other areas of HSE, 2005 was mainly a year of evaluation and Petrom conducted a company wide review of environmental aspects to determine high risk areas and help establish investment priorities. This project was successfully completed in November 2005 and will be used as the blueprint for the ongoing improvement programme.



Petrom and the Community

Petrom has been and still is actively involved in ample social responsibility projects, not only through partnerships with international institutions such as the Red Cross and Unicef Romania, but also through direct actions.

The company is aware of the responsibility it has towards to the community and takes action in this direction through the involvement in far reaching social projects

Petrom gets directly involved

The direct actions of Petrom are a part of short-term programs, which aim at helping those in need, after the floods. Thus, beginning with June and until October 2005, Petrom supplied fuels, mineral water, stoves and first aid kits in all the areas affected by the floods – Teleorman, Vrancea,

Bacău – Asău, Cluj, Covasna, Maramureș, Harghita, Ialomița, Călărași. The aid value amounts to EUR 1.1 mn.

Of all the above-mentioned actions, the most important regarding Petrom's involvement in community life is the donation of 245 stoves and 245 gas cylinders to the victims of the floods from Asău village, Bacău county, where 108 homes were entirely destroyed and 150 more were damaged.

Petrom has supported its employees whose homes had been destroyed by the last year's floods. The total value of the financial support offered to the 150 employees amounts to EUR 250,000.



Petrom and the Community

Petrom active partner of Romanian Red Cross (SNCR)

After last year's floods which caused disasters in several counties, Petrom has decided to help the victims of floods through a long-term partnership with the Romanian Red Cross. Due to the financial support offered by Petrom, worth EUR 750,000, 140 temporary shelters were created for more than 500 people in several areas affected by the floods. Also due to Petrom's financial support, through the Romanian Red Cross, the 140 shelters included necessary things such as blankets, tables, chairs, sheets and electrical stoves. They were set up in a modular system and included heating systems, thus offering a decent living alternative before the winter for those whose homes had been entirely destroyed by the floods.

Petrom and SNCR, partners in the project "Prevention against disasters"

In 2005, Petrom and the National Company of the Romanian Red Cross have started an ample program which aims at informing the population about the specific measures recommended in case of disasters, by the elaboration and distribution of instruction materials, adapted according to local risks.

The project called "Prevention against disasters" is a project concerning regions with major disaster risks, including Prahova, Dambovita and Arges counties. Approx. 30,000 people benefit from this project. For this project, Petrom has invested EUR 120,000.

Petrom, an active partner for UNICEF Romania

Beginning with 2005, Petrom has become a partner for UNICEF Romania, through the support of the project called "Parental education in pre-school education in Romania." The project aims at improving the access to modern programs of parental education for the parents who have children in the pre-school system and at stimulating the participation in the children's pre-school education.

The project financed by Petrom is worth EUR 150,000 and will be carried out throughout 18 months, providing parental education for approx. 20,000 families from Bucharest and other counties. More than 40,000 children will benefit from the stimulation of participation in the pre-school system.



Risk Management

Petrom, as fully consolidated affiliate of OMV Group has to build up and develop a standardized risk management system as in OMV – the so-called Enterprise Wide Risk Management (EWRM). This will be applicable also for all companies controlled by Petrom, where the Company will use its supervisory role to encourage the introduction of appropriate risk management systems.

This system is horizontally integrated into the business process, and vertically integrated in Petrom's strategy and medium term objectives.

EWRM in Petrom covers operational risks, with a time horizon of up to 3 years, and also highlights strategic risks which could endanger the competitive situation in the long run. At the same time, ongoing management reporting and regular and ad-hoc review meetings ensure systematic monitoring of business performance.

Petrom started the implementation of EWRM system in May 2005 by setting up the infrastructure necessary for identification, evaluation, control and reporting of key risks.

The identification and evaluation of important risks are monitored and reported twice a year.

This evaluation is conducted on a Business Unit level, based on their best knowledge of the business, as well as consolidated and prioritized for Petrom as a whole. The resulting Risk Report shows the Company's Risk Map and describes taken and planned risk measures. This report is presented by Risk Management and Treasury to the Managing Committee as well as Operating Risk Committee within OMV.

Petrom's Risk Map is consolidated into OMV Group's Risk Map as a whole. The management of risks is done on all levels by the employees and the respective management up to Managing Committee level.

All material legal and regulatory requirements are to be known and strictly complied with.

Areas such as health, safety and environment, and personnel are monitored on a Group-wide basis, and are governed by corporate regulatory documents. Financial and strategic price risks are centrally managed by Group Treasury in order to leverage the advantages of Group integration, diversification and expertise.

Major facilities will be sufficiently insured against risks of major accidents as well as risks which impact life and injury, people and/or assets as required by law and regulations.

In the event of a major increase of a substantial risk (>30%) or new substantial risk arises, Petrom's Managing Committee is to be informed as soon as possible.

It is important to note that the risk management process in Petrom has relatively recently started and will go through a process of refinement, while appropriate updates will be made on an ongoing basis.

IT

Petrom is on a journey towards a modern company and has started to substantially invest in new information technology as this is an essential area for Petrom to meet current and future business and finance requirements.

In 2005, IT division worked on many projects in parallel in order to achieve very ambitious business goals. To support the current re-organization process is a key priority.

An IT strategy aligned with OMV was developed in order to realize synergies between Bucharest and Vienna and to ensure a congruent development. The main imperatives were consolidation, standardization and integration.

Now there is one IT organization with distinctive demand, delivery and governance functions comprising around 200 employees. With a clear focus on short and mid-term needs, different departments were defined: SAP Competence Center, Application Management and Infrastructure Management. Last but not least the CIO Office serves as facilitator regarding business IT alignment.

The redenomination of ROL on July 1, 2005 created a major challenge for a large company as Petrom. Thanks to a dedicated project across headquarters and branches, the redenomination challenge was mastered successfully and Petrom met all requirements set by the government in time.

The IT division started dedicated initiatives to solve the most important security issues quickly and to meet the requirements for high-quality IT services, matched to business needs and user requirements as they evolve.

The new IT infrastructure will lead to a totally new quality of communication and way of cooperation between different business units and departments. Raising Petrom's IT infrastructure to international IT standards is an ongoing program. Based on business priorities, the rollout of a reliable and highly secured wide area network progresses as planned. The mobile and fixed telephony optimization projects enhanced business communication as well as commercial conditions. Furthermore, a modern data centre (Service Center) that complies with Western European standards is operational since September 2005. New offices are being equipped with state-of-the-art working places including client, software and IP telephony. More than 2000 working places have already been implemented. To improve the interface to IT an IT service desk has been established as single point of contact for all IT-related requests and problems.

The Application Management activities concentrate on the following four major areas: migrating to SAP as Petrom's ERP backbone will be SAP-based, supporting end-to-end processes, standardizing the application landscape and maintaining legacy systems.

Macroeconomic Environment

World

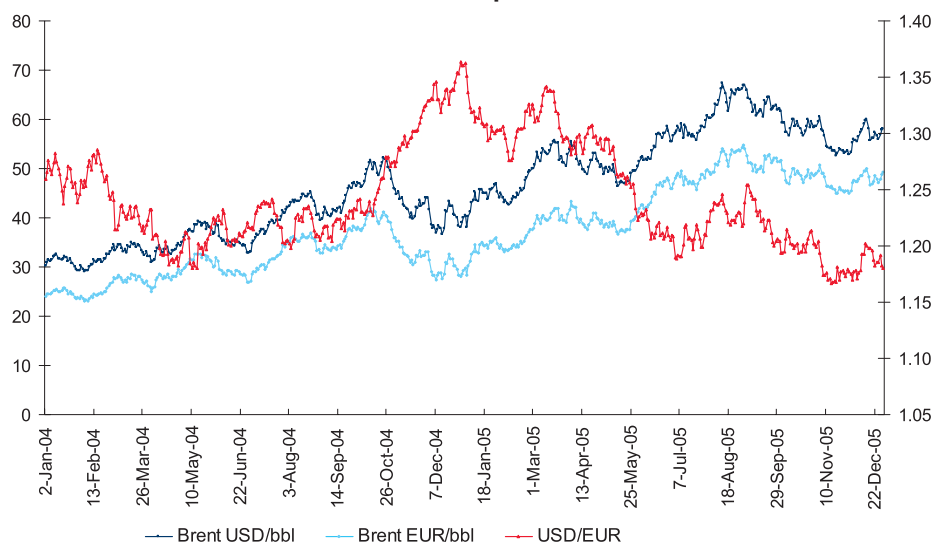
World crude demand in 2005 increased by 1.1 mn bbl/d or 1.3% over the previous year, representing a yearly average of 83.3 mn bbl/d. This increase was mainly due to high demand from non-OECD countries. There was a marked drop in product deliveries in the months following Hurricanes Katrina and Rita. A weak demand was already present in the first half of the year as product supplies contracted between February and July showed below-average growth rates in January and March of last year.

World crude production increased by 1 mn bbl/d (1.2%) from 83.1 mn bbl/d in 2004 to 84.1 mn bbl/d in 2005. OPEC countries raised their production of crude and NGL by 1 mn bbl/d from 32.9 mn bbl/d in 2004 to 33.9 mn bbl/d in 2005. Non-OPEC supply in 2005 recorded a yearly average of 50.2 mn bbl/d, representing an increase of 0.1 mn bbl/d over 2004. Non-OPEC oil production was affected by the intense storms in the US Gulf of Mexico, the strongest in the last 100 years.

In 2005 the Brent price registered an average of 54.38 USD/bbl, by 42% higher than the average price recorded in 2004, i.e. 38.22 USD/bbl. Imported gas price in Romania was by 37% higher in 2005 as compared to 2004, with an average of USD 218 /1000 cm [2004: USD 158 / 1000 cm]. The regulated gas price for industry increased by 50% in the same period, from USD 130 /1000 cm to USD 195 /1000 cm.

Product prices in 2005 varied significantly due to the natural disasters which affected USA refining capacities, resulting in a high demand for fuels. Gasoline Platts quotation has increased from 0.292 USD/litre at the beginning of the year to 0.399 USD/litre at the end of December 2005, reaching a maximum level of 0.619 USD/litre on September 1, heavily influenced by Katrina Hurricane. Diesel Platts quotation reached 0.439 USD/litre at the end of 2005, after a maximum of 0.579 USD/litre recorded also on September 1. In comparison with the beginning of 2005, gasoline price increased by 37%, while diesel was by 16% higher at the end of 2005.

Evolution of Brent price and forex



Macroeconomic Environment

Romania

The major event for Romania in 2005 was the signing of the EU accession treaty, officially sealing the country's entrance into EU in 2007 or 2008 at the latest.

The GDP growth in 2005 was of 4.1%, by 50% lower than in 2004 (8.3%), but remaining still high in comparison with the figures recorded by the neighboring countries. The decrease is mainly the result of the floods which affected Romania in 2005 and had a negative impact on the country's agriculture.

2005 inflation was 8.6%, marginally above the target of the National Bank of Romania, set at 7.5% with an allowed variation of +/- 1%. In the first year of direct inflation targeting, the decrease in comparison with 2004 figure (9.3%), was of only 7.5%.

The USD average exchange rate decreased in 2005 by 10.7% against 2004, from RON 3.26 to RON 2.91. The Euro had the same evolution, the average exchange rate decreasing in 2005 by 11.9% in comparison with 2004, from RON 4.05 to RON 3.62.

On January 1, 2005, following the fiscal reforms adopted at the end of 2004, the corporate tax rate was reduced to 16% from 25% in 2004, while the individual's global income was also reduced to one single quota of 16% as compared to the 5 different levels in 2004.

On July 1, 2005, the redenomination of the Romanian currency took place. Four zeros were deleted from the ROL's tail, one new ROL (RON) is now worth 10,000 old ROL. Prices and tariffs will be shown in both systems between March 1, 2005 – June 30, 2006.

The energy sector has continued the series of significant changes started in the previous year. The two national gas distribution companies, i.e. Distrigaz Sud and Distrigaz Nord, were privatized.

The same strategy was applied for both companies, i.e. acquisition of 30% of the share capital, followed by a capital increase to reach majority shareholdings. The privatization contracts were signed in 2004, while the price payment and shares transfer took place in 2005.

Distrigaz Sud was acquired by Gaz de France, which paid EUR 128 mn for a 30% stake and another EUR 183 mn in the subsequent capital increase, while Distrigaz Nord was acquired by Ruhr Gas, for EUR 303 mn (EUR 125 mn for the 30% stake and EUR 178 mn for the capital increase).

Other important privatizations took place in the electricity distribution segment. The 51% stakes of Electrica Banat and Electrica Dobrogea were sold to Enel for EUR 112 mn, out of which around EUR 40 mn represented the stakes of 24.6% in each of the two companies, while the difference represented share capital increase. The signing of the contracts took place in 2004, while the payment and closing of the transaction were in 2005.

The privatization of Electrica Oltenia and Moldova also took place in 2005. CEZ acquired Electrica Oltenia for EUR 151 mn (EUR 47.4 mn for the 24.6% stake and EUR 103.6 mn in the capital increase). Electrica Moldova was acquired by E.ON Germany, which paid EUR 31.4 mn for the 24.6% stake and EUR 68.8 mn in the capital increase.

In 2005, the privatization process of Electrica Muntenia Sud (which includes Bucharest) was also started and is expected to be finalized in 2006.



Exploration and Production



Exploration and Production

In 2005, a new E&P business division was formed and a new headquarters was opened in Ploiesti in May, where 450 people are currently working. A new organization with 3 regions and 8 Operating Areas was designed, implemented and aligned to the strategy. This includes also a centralized procurement utilizing Petrom's purchasing power and new HSEQ organization to fit the new standards and processes.

Key-players, both Romanian and expatriates, were introduced in the new organization, both technical and managerial. In addition a massive training program of local staff was rolled out including more than 2000 persons in HSEQ, economics, project management, English language etc. Furthermore a management assessment was carried out for more than 200 people.

Operational quick wins for immediate performance improvements could be achieved in drilling and work-over by improved supervision and a separation of contractor vs. operator role. Following the completion of the new E&P organization, the restructuring of the field operations commenced in the second half of 2005 with new roles assigned to the new Operating Areas.

A new economic evaluation and portfolio management system was introduced for both running activities as well as new exploration and investment projects. In order to focus on E&P's core business, Petrom signed agreements for the sale of six off-shore mobile drilling units at the end

of 2005. The total consideration payable for these assets amounts to the RON equivalent of USD 100 million. Transfer of ownership is scheduled during the year 2006. Furthermore, according to Petrom's new strategy, the company withdrew from non-core international activities (Tanzania, Iran, India) and reorganized its Kazakhstan Operational setup.

Synergies with OMV were realized on the technology transfer side, consequently three 3D seismic programs could already be planned and acquired in Romania during 2005. Also proven concepts for mature field management have been introduced.

During the first half of 2005, all the operations and investment projects and initiatives were assessed and included in a new project portfolio system; consequently this portfolio was aligned with the new strategy and implementation commenced already.

Petrom and Petromservice S.A. have agreed to replace their existing contract for the provision of services, entered into in 2002 and valid until 2007, with a new contract, which will be valid until 2012. The new contract represents a significant step in the restructuring of Petrom's operations, as it constitutes the basis for a more efficient organization of the maintenance and work-over related activities of the company. Petromservice has agreed to improve the quality standards and procedures, and also to implement a plan that would ensure compliance with Petrom's health, safety and environmental standards.

E&P - at a glance	2003	2004	2005
Total production (mn boe)	80.73	81.31	77.95
Crude and NGL production (mn tons)	5.65	5.46	5.21
Gas production (mn cm)	6.13	6.44	6.19
Total revenues (RON mn), o/w	-	6,158	7,137
Inter-segment sales (RON mn)	-	4,206	5,379
External sales (RON mn)	-	1,536	1,704
EBIT (RON mn)	1,303	572	2,782
EBITDA (RON mn)	1,854	1071	3,414
Exploration (RON mn)	NA	50.7	150.6
Investments (RON mn)*	619.8	669.3	530.5
No of employees	32,668	26,473	22,598

* the investments for unsuccessful wells are not included as they are expensed
Figures in the above table refer only to Petrom SA, excl Kazakhstan affiliates

Exploration and Production

Exploration

Petrom holds 17 onshore exploration blocks and 2 offshore blocks in Romania, with a total area of 67,200 km² based on two Licensing Agreements signed with the National Agency of Mineral Resources. The expiry date for 18 blocks is September 12, 2008, while for one block (Neptun-offshore) is November 10, 2006 with the option for extension. Approximately 70% of the minimum work obligation has already been executed.

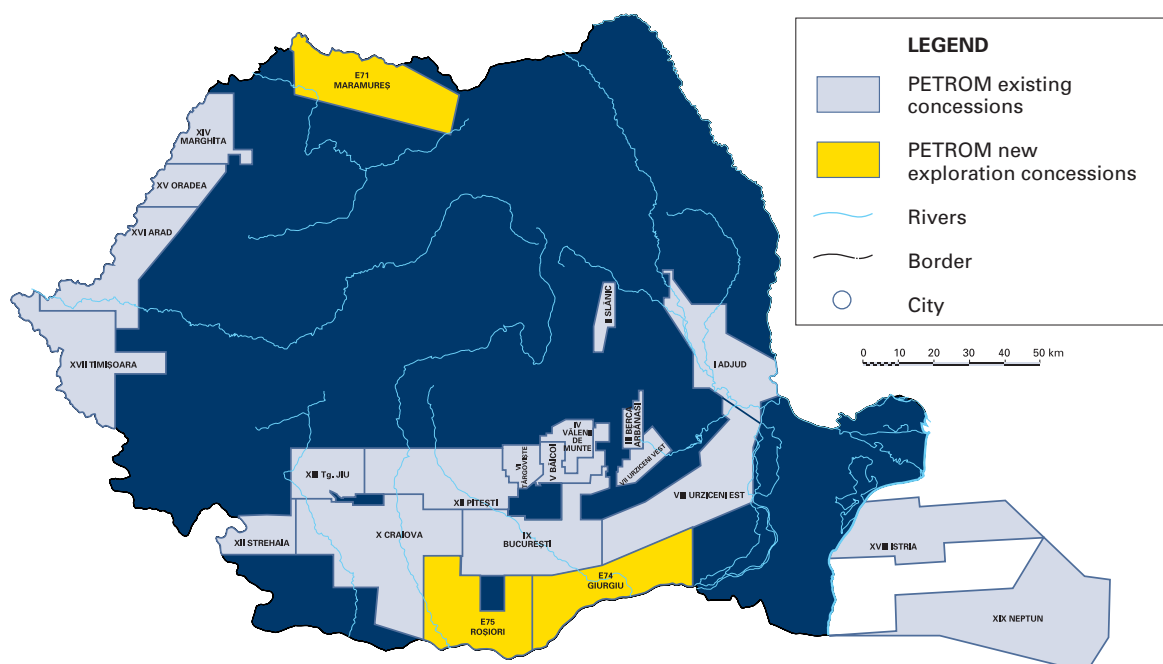
Petrom participated in the 7th National Licensing Round 2005, organized by the National Agency of Mineral Resources, and won the bidding for three exploration blocks, namely E VII-1 Maramures (5,334km²), E VII-4 Giurgiu (4,875 km²) and E VII-5 Rosiori (5,192km²). The final Government approval is expected in the summer of 2006.

The newly implemented exploration strategy is primarily based on new modern 3D seismic application on a large scale. In 2005, two onshore

3D seismic surveys amounting to 228 km² (Mamu and Colibasi) and one offshore (Istria) of 645 km² were planned and executed. In addition 262 km 2D seismic lines have been also acquired and 780 km of 2D seismic lines and 150 km² of 3D seismic lines were reprocessed in Romania. A fourth 3D campaign of 70 km² was launched in Kazakhstan and 137.5 km² of 3D seismic have been reprocessed. Exploration drilling during 2005 was still based on 2D seismic and consisted of 13 exploration and appraisal wells: 4 discoveries, 7 dry wells and 2 wells under investigation were drilled until the end of 2005. The first exploration wells based on results of 3D seismic will be drilled in 2006.

De Golyer & McNaughton was appointed to audit Petrom's reserves. This exercise started in the third quarter of 2005 and is planned to be finalized in the second quarter of 2006. Projects for new future Enhanced Oil Recovery (EOR) initiatives were launched in order to increase the recovery efficiency.

Petrom's Exploration, Development and Production Concessions in Romania





Exploration and Production

All of Petrom's oil & gas fields were assessed and studies are currently underway. A major technology rollout program was launched in the new HQs in Ploiesti, including state of the art E&P specific computer technology applications using 25 new workstations.

Production

In 2005 Petrom produced 5.21 mn tons of crude and NGL and 6.19 bn cm of natural gas in Romania or an equivalent of 77.95 mn boe.

In Kazakhstan, Petrom produced a total of 1.1 mn barrels of crude. Petrom's overall production amounted to 79.07 mn boe (216.6 m boe / day). Overall, the Group's oil and gas production decreased by 3.57% in 2005. The domestic crude production was significantly affected by the electricity shut downs caused by the severe floods in Romania during the summer of 2005. The domestic gas production decreased with 252 mn Stcm, due to the high pressure on Transgaz system and to the reduced gas consumption.

Drilling Performance increased as new mud systems were introduced, rigs were upgraded and the Company Man concept was introduced in order to enhance the operator supervision. In total, 162 production wells were drilled, delivering a production of 106,233 tons of oil and 33 mn Stcm of gas. Furthermore 6 injection wells have been drilled.

The efficiency improvement program of artificial lift systems including the accelerated rollout of

Progressive Cavity Pumps (PCPs) was continued through 2005 with 1,975 wells involved in total (1,554 wells with new PCPs and 421 wells with other new artificial lift systems).

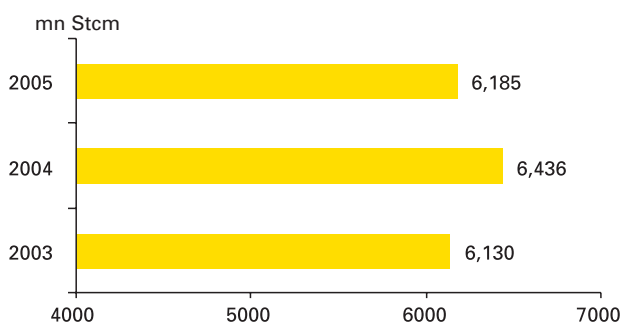
Sales

In 2005, sales quantities went down by 6% in crude, by 8% in NGL and by 2% in gas. 96% of the crude oil produced was transferred internally, while the main part of the natural gas (80%) was sold to third parties.

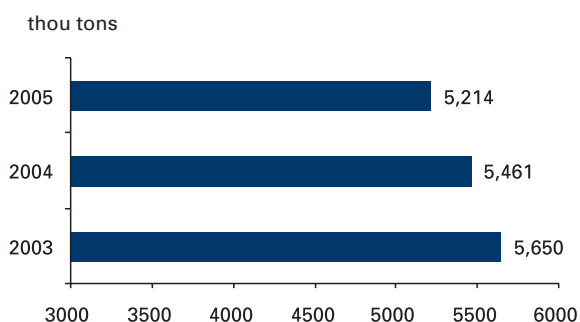
To put Petrom refineries onto a comparable crude cost basis with other Romanian refineries, which are largely importing crude from the Black Sea, a new transfer price mechanism for crude "sold" from the E&P business unit to the Refining business unit became effective in 2005. The transfer price is based on Urals with a premium due to the higher quality of the Romanian oil. All crude "sold" from E&P to Refining is reflected in the results next month. Accumulated realized oil price increased to 49.43 USD/boe in 2005 as compared to 31.97 USD/boe in 2004 (+ 54.6%).

As part of the agreement the government has entered into with the International Monetary Fund (IMF), i.e. to increase gas prices to international levels by 2007, the regulated price levels in 2005 (about 195 USD/1000 Stcm for industrial customers) were by around 50% higher than the comparable levels in 2004.

Natural Gas Production



Crude Oil Production



Exploration and Production

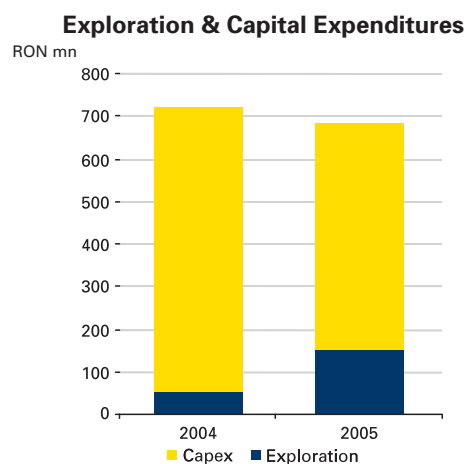
Investments

In 2005, E&P Capital Investments amounted to RON 530.5 mn, out of which 46% were for development (growth), 39% for production (running business) and 15% for corporate and other investments. In addition RON 150.6 mn were spent for the 2005 Exploration campaign, increasing the expenditure share of Exploration in total investments from app. 7% in 2004 to app. 22% in 2005.

The Exploration expenditures tripled, whilst the Capital Investments decreased as rigorous conceptual, technical and economical project reviews and selection were performed. By the end of the third quarter of 2005, the revision of the concepts for numerous investment projects was finalized. Starting with the fourth quarter of 2005, investments increased significantly, especially for drilling projects.

2005 key activities include:

- Acquisition of three 3D seismic surveys
- Drilling of 13 exploration and appraisal wells
- Drilling of 162 production wells
- Construction and modernization of 45 surface production facilities
- Construction works for 8 gas distribution networks
- Finalization of the E&P office building in Ploiesti.



Kazakhstan

During 2005 Petrom Kazakhstan Branch office has been re-organized to fulfill its new role as Petrom's technical and business centre in Kazakhstan. Petrom's production in Kazakhstan increased from 0.7 mm boe in 2004 to 1.1 mm boe in 2005. Petrom, together with its Kazakhstan affiliates, spent for its 4 areas of operation in Kazakhstan RON 13.6 mn for Exploration and RON 110.66 mn RON on capex.

Jusaly

In March 1999 Petrom signed the exploration and production contract for the Jusaly block (100%). The current size of the license is of 20,078 km². The validity period of the license is 25 years, out of which 5 years account for exploration and 20 years for the production phase. In May 2005 the exploration was extended for a further 2-year period until September 2007.

During 2005 one exploration well was completed and a second one commenced in December.

TOO Tasbulat Oil Corporation

Since 1999 Tasbulat Oil Corporation LLP (Petrom 100%) is the license holder of the Tasbulat, Aktas and Turkmenoy fields, with full development and production rights for the Tasbulat field over a period of 25 years and with full exploration, development and production rights for the Aktas and Turkmenoy blocks over a period of 20 years. For Aktas and Turkmenoy an extension of the exploration period was granted by the Kazakh authorities until July 2006. A review of the exploration portfolio has led to the decision not to apply for another extension.

Exploration and Production



In 2005, three appraisal wells were drilled in Turkmenoy, two development wells in Aktas field and two development wells have been completed in the Tasbulat field. A fracturing campaign was performed in the Tasbulat field for five wells and in the Aktas field for two wells. These activities have increased the production level by around 1,000 bbl/day up to 3,500 bbl/day crude oil in the last quarter of 2005.

TOO Oztiurk Munai

TOO Oztiurk Munai (Petrom - 95%) signed at the end of 2000 with the State Investment Agency of the Republic of Kazakhstan an agreement for hydrocarbon exploration and production in the Sinelnikovskoe block with a five-year exploration phase followed by a 20-year production phase. In December 2004, the Kazakh State Commission of Exploration approved a 2-year extension of the exploration period until May 2007.

In 2005, one exploration well was drilled and tested. Additionally, a fracturing campaign for six wells and related completion work has been implemented aiming at production increase.

TOO Kom – Munai

In March 2003 Petrom S.A. acquired 95% of the shares of TOO KOM – MUNAI, holding the development and production rights for the Komsomolskoe block.

The 2005 work program included a new 3D seismic across the Komsomolskoe field, construction of a road and platforms within the license area and the construction of Central Production Facilities for testing purposes. The work-over and testing campaign of five wells started in December 2005.



Refining



Refining

General overview

Petrom operates two refineries, located in the main strategic industrial areas in the Southern Central region of Romania. The two refineries, Arpechim and Petrobrazî, are accounting for about 35% of the overall crude processing capacity in Romania. Both refineries are able to process domestic and imported crude oil.

The nameplate capacity of the two refineries is 4.5 mn tons/year for Petrobrazî and 3.5 mn tons/year for Arpechim.

Arpechim has a very well represented petrochemical site, which serves both the domestic and the international market. The main products are ethylene, propylene, polyethylene and acrylonitrile.

The crude oil is distributed to the refineries mainly by a crude pipeline network or railway tankers.

In 2005, a program targeting the optimization of the crude intake mix was implemented. This was needed in order to diversify the crude types so as to meet the product quality requirements of the refineries.

A new procurement organization was created, while the maintenance activity was reviewed having as consequence an improvement of the cost position. Petrom decided to acquire the controlling stake in Rafiserv Arpechim S.A. and Rafiserv Petrobrazî S.A., from Asociatia Salariatilor SNP Petrom and other shareholders. These companies are service providers to the two refineries of Petrom and are employing former Petrom employees. The rationale for these acquisitions is to help restructure the refinery maintenance activities of Petrom by increasing efficiency and the quality of the service.

Refining - at a glance

	2003	2004	2005
Crude input (mn tons)	6.12	6.42	6.40
o/w imported crude (mn tons)	1.35	1.47	1.40
Utilization rate (%)	77	83	80
Total revenues*,** (RON mn), o/w	-	7,034	8,250
Inter-segment (RON mn)	-	2,062	3,095
External sales (RON mn)	-	4,562	5,012
EBIT** (RON mn)	(773)	(1,001)	(386)
EBITDA** (RON mn)	(693)	(924)	(253)
Investments (RON mn)	198.3	374.7	449.7
No of employees	9,075	8,962	6,492

*Revenues resulting from the direct sales from Refining; all quantities of fuel sales are shown under Marketing as they are centrally managed by this business unit

** Financial results (revenues, EBIT, EBITDA) and investments for 2003 and 2004 include also Doljchim

Refining



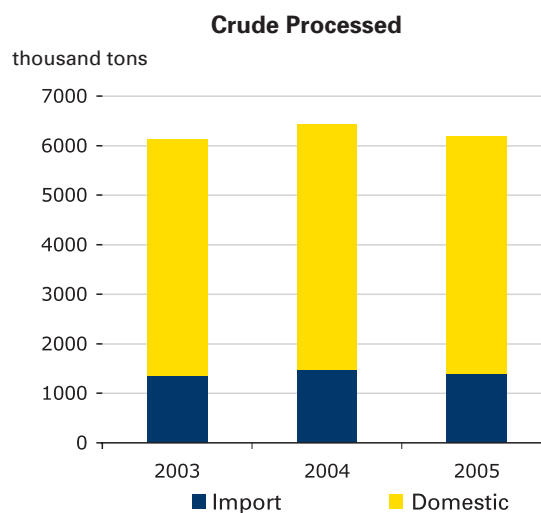
Crude processed

In 2005, 6.4 mn tons of crude oil were processed, representing a decrease in comparison with 2004, due to the turnaround performed in Petrobraz. In Arpechim, the quantity processed increased, as the turnaround of the refinery was carried out in 2004. Currently, the turnarounds of the two refineries take place every 2 years, alternatively.

In the last years, as part of Petrom strategy to increase the synergies between its business units, 77% of the crude processed in the refineries came from Petrom's fields. As a result, the share of the imports declined significantly, representing only 23% in the total crude processed in 2005 by Petrom.

In order to meet the demand of the market and the quality specifications according to the European Union's standards, crude imports changed to lighter crude with low sulphur content, mainly CPC blend.

Following the decrease of the crude processed by the two refineries, the utilization rate reached only 80%, below the level of 2004, i.e. 83%. In the following years the company targets a 95% refining utilization capacity, based on a higher period between turnarounds and on the reorganization of its assets maintenance.



Crude processed

	2003	2004	2005
Arpechim (mn tons)	2.93	2.99	3.29
Petrobraz (mn tons)	3.19	3.43	3.11
TOTAL	6.12	6.42	6.40*

* Processed crude figure includes condensate

Refining

Production

In view of the future accession to the European Union, the Romanian specific legal framework has aligned the quality standards set through the EU fuels Directive. The achievement of these targets involves continuous improvement and commitment from all the parties involved in accordance with the provisions of the EU Directive - all the fuels produced starting with 2007 must have 50 ppm, while by 2009, they will have 10 ppm.

The capacity to produce fuels with 50 ppm was increased in 2005, while new products were introduced, e.g. gasoline TOP Premium unleaded 99+ (RON min 99, sulfur content max. 50 ppm) and diesel Top Nordic Diesel (CFPP – 29 Celsius degrees, sulfur content max. 50 ppm).

The high share of Euro products is the result of the company's strategy to increase its presence on the regional markets and to offer products according to the European Unions quality standards.

Refining margin reached an average of approx. 22 EUR/ton in 2005, recording a significant increase in comparison with the previous year, when it amounted to only 12 EUR/ton.

The production of petrochemicals was lower in 2005 in comparison with 2004 as a result of the steam cracker turnaround in Arpechim.

Sales

Starting with 2005, all the sales volumes of petroleum products from both refineries are reported under the Marketing segment.

Petrochemicals sales decreased by 6.6% from 592 thousand tons to 553 thousand tons in 2005, due to the previously mentioned turnaround in Arpechim.

In 2005, Petrom applied a new pricing policy for petrochemicals, based on West-European market quotations. Due to this policy change as well as the tight market, the revenues increased by 24% to USD 372 mn (2004: USD 300 mn).

Production

Product, thousand tons	2003	2004	2005
Gasoline	2,066	2,286	2,308
Diesel	1,885	1,860	1,617
HFO	1,018	1,065	1,084
LFO	88	78.3	39.6
LPG	124	143.2	177
LPG - auto	16.5	7.4	23
Ethylene	158	183	173.5
Propylene	100	117.3	99.5
Polyethylene	69.7	84	72.2
Acrylonitrile	81.8	83.4	85.1

Refining



Investments

In 2005, Petrom invested significant amounts in its two refineries, in order to achieve the refining targets with respect to cost position and compliance with the quality standards imposed by the European Union.

Two thirds of the amount invested in 2005 were directed towards Arpechim (RON 300 mn), while the rest was used for investment projects in Petrobrazî (RON 150 mn).

The most important projects started or continued in each refinery were as follows:

Arpechim

- FCC feed Hydrotreating Unit
- New Hydrogen Unit
- DCS implementation
- Desulphurization of FCC heavy gasoline - ISAL process

Petrobrazî

- Revamp Gasoil Hydrotreating Unit
- DCS implementation
- Revamp Railway station for Oil Products
- Revamping CCR Plant



VIVA

88888
88888
88888
88888
88888

EURO Diesel	8,88
Super EURO Diesel	8,88
Premium 95	8,88
ECO Premium 95	8,88
TOP Premium 95+	8,88



VIVA



PETROM✓

Marketing



Marketing



Network

Petrom is the main player on the Romanian fuels retail market, owing a wide network consisting of 56 terminals, with a storage capacity of 540,000 cm, 553 operating filling stations and 34 LPG skids.

As part of its newly defined strategy, the company aims to provide its customers with the best products and services available on the market. In order to achieve this target, a new concept for filling stations – Petrom V – was introduced in the fall of 2005. The new filling stations offer a wide range of convenience services, from the basic ones to additional facilities, like restaurants, terraces and playgrounds for children.

Following the reorganization process started at the beginning of 2005 within the company, a new system for the administration of the filling stations was defined and introduced, i.e. the Full Agency system, replacing the old one, i.e. COCO system (Company Owned, Company Operated). Its main objectives were the development of modern filling stations and the increase of sales and margins.

Under this new concept the filling stations are administrated by a dealer selected by the company, who receives in return a commission. The dealer is in charge with the employees of the filling station and has to follow very strictly Petrom rules.

Sales

Another change resulting from the reorganization process is related to the reporting of sales volumes. Until 2005, the fuel sales were divided into refining sales (the ones from the refinery gate) and marketing sales (wholesale and retail sales carried out through Petrom network). Starting with 2005, all petroleum products sales are reported under the Marketing segment.

The total sales volume in 2005 was in line with the 2004 figure adjusted in accordance with the new reporting system, amounting to 5,046 thousand tons. Commercial domestic sales (refinery's gate plus terminals) of 1,859 thousand tons were above last year's figure by 1.7%, while retail sales recorded a decrease by 3% against 2004, amounting to 924 thousand tons.

Export sales stood at 2,263 thousand tons, by 1.5% higher than the previous year's level. Gasoline RON 92 and Super Euro diesel represented around 50% of the fuels export figure.

In the second quarter of 2005, 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. Top Nordic Diesel was another new product introduced on the market in the second part of the year.

TOP
Premium 99+
FĂRĂ PLUMB

TOP NORDIC
Diesel

Marketing - at a glance

	2003	2004	2005
Sales (thousand tons), o/w:	1,830	1,722	5,046*
Gasoline	720	643	1,849
Diesel	950	909	1,581
Total revenues (RON mn), o/w	-	2,610	3,726*
Inter-segment sales (RON mn)	-	1	4
External sales (RON mn)	-	2,590	3,740
EBIT (RON mn)	(71.9)	(152)	(528)
EBITDA (RON mn)	22.9	(33.5)	(409)
Investments (RON mn)	164.3	258.8	135.4
No of employees	14,351	14,010	12,285

* Revenues resulting from the direct sales from Refining are shown in Refining section; all quantities of fuel sales are shown under Marketing as they are centrally managed by this business unit
Figures in the above table refer only to Petrom SA

Marketing

According to Petrom's estimations, the company's retail market share at the end of December was of 24%.

The non-oil business (NOB) was also reorganized, resulting in the streamlining of the products portfolio and NOB suppliers, which were reduced by 90%. This reflects the centralization policy of the company in procurement activities, having as main objective the increase of the share of NOB in total Marketing revenues.

Prices

Starting with 2005, Petrom defined a new pricing policy based on the average international quotations for crude and for basic oil products (e.g. gasoline, diesel) as well on the exchange rate.

In 2005, the fuel prices have widely varied as a result of the geo-political instability and of the natural disasters. The hurricanes in the USA destroyed part of the country's refining capacities resulting in high imports from Europe and an increasing price for gasoline and diesel, which recorded the highest values of the year during September.

Petrom has adjusted the prices for terminal deliveries and retail pump sales in accordance with the fluctuations of the corresponding Platts quotations.

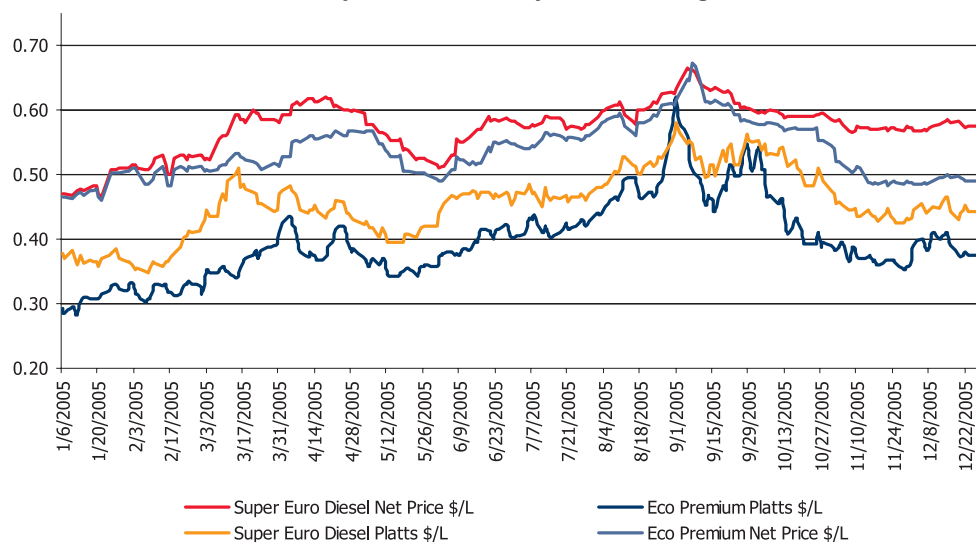
Transportation

The transportation of petroleum products from the refinery to the storages and final consumers was performed by Petrom owned road tankers (32%) and by railway tanks (68%).

Petrom owns approx. 1,100 road vehicles for product transportation, with a total capacity of around 15,000 cm. In 2005 the restructuring and modernization process of the fleet was completed. Within the last 2 years, 180 new trucks for fuel and LPG transportation purchased.

Also the centralization project for the Transpeco fleet was finalised in March 2005. All active road tankers have been transferred from the Peco branches into the Transpeco organization to improve the service and operating management. A new dispatching system and organization is now in

Evolution of Petrom price and Platts quotations for gasoline and diesel



Marketing



place to ensure in-time supply for all our customers and filling stations.

200 new rail tanks, ordered in 2003, were delivered, out of which 70 for white and black products, respectively and another 60 for LPG transportation.

In order to improve the utilization rate of the rail tanks and reduce the maintenance costs, the fleet previously split between Arpechim and Petrobrazii refineries was transferred into a centralized managed organization inside the Supply & Logistics department (S&L).

The entire logistics, loading and dispatching organization from both refineries was transferred into the S&L organization and a full re-engineering project to improve the performance of this activity is in progress.

Investments

The investments in Marketing amounted to RON 135.4 mn and were directed towards the construction of new filling stations and the modernization of the existing ones.

60% of the investments were used for continuing the projects started in the previous years.

International Marketing

Republic of Moldova

The company entered the Republic of Moldova fuels market in 2000 through a joint venture company, ICS Petrom Moldova S.A, 65% owned by Petrom. The activity of the JV has continuously grown since the establishment and currently its distribution network includes 80 filling stations, out of which: 23 owned filling stations, 28 rented and 29 filling stations under leasing contract. The total number of employees amounts to 760.

In 2005, the total gasoline sales increased by 19%, while the total diesel sales increased by only 3% compared to 2004. 86 thousand tons of petroleum products have been imported, with 12 thousand tons less than in 2004.

Revenues obtained by selling petroleum products amounted to EUR 64 mn, by 49% higher than the previous year (EUR 43 mn). With the building of a terminal in 2005, ICS Petrom Moldova S.A is prepared for entering in the wholesale business, as the potential demand on the market is high.

Hungary

Petrom Hungary Kft is a subsidiary of Petrom established in 1998, having as main scope of work the selling of petroleum products. The subsidiary owns two filling stations in Bekescsaba and Nagylak and a petroleum products terminal in Telekgerendas and has 75 employees.

In 2005, retail sales in the two filling stations increased by 29% based on higher sales of diesel (+22%), while gasoline sales increased by 43% compared to 2004.

In total, the subsidiary sold lower amounts of products than in 2004 (35,199 tons vs. 45,168 tons) due to the decrease of the commercial sales (by 25%). The decrease of overall sales resulted in weak results a loss of EUR 1.6 mn.

Gas

Until 2005, crude oil and natural gas production and sales were monitored together within the Exploration and Production Division. Starting with 2005, a separate Gas Division was established in Petrom, under the direct subordination of the company's CEO, responsible for natural gas sales and management of the activity.

Sales

In 2005, total natural gas production amounted to 6.19 bn Stcm, out of which 6.01 bn Stcm represented dry gas available for sale.

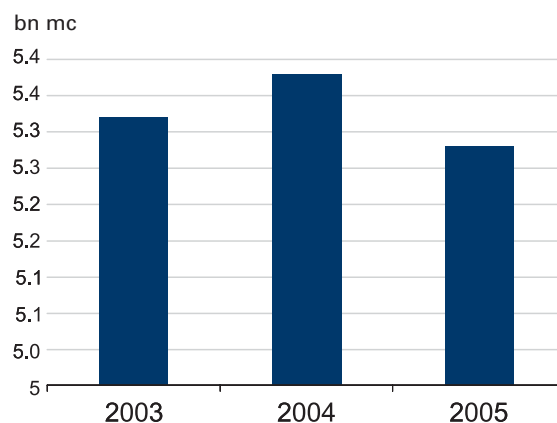
The total natural gas sales in 2005 amounted to 5.33 bn Stcm, by 2% lower than in 2004. The main third party eligible customers were Distrigaz Sud and Distrigaz Nord, Petrom Gas, Electrocentrale Bucuresti and Termoelectrica. Petrom has also two significant natural gas consumers within its business units, i.e. Doljchim, the fertiliser plant and Arpechim.

Petrom owns a small gas distribution network with a length of 803 km. At the end of 2005, the company had 526 direct consumers, to whom a quantity of 23,784 thousand Stcm was delivered.

Storage

Each year, during the summer period, Petrom stores a part of its natural gas production in the underground storages owned by Romgaz for additional deliveries during the winter time. As a result of this policy, in 2005 Petrom stored 485 mil Stcm.

Natural Gas Sales



Doljchim

In 1999, Petrom acquired one of the main fertiliser plant in Romania, Doljchim Craiova. The plant was integrated in Petrom's activity and uses as raw material the natural gas produced by the company. In 2005 Doljchim used 680 mn cm of natural gas, by 5% more than in 2004 (646.5 mn cm).

Production

Doljchim produces fertilisers and methanol. The main fertilisers include ammonia, nitric acid, ammonia nitrate and urea.

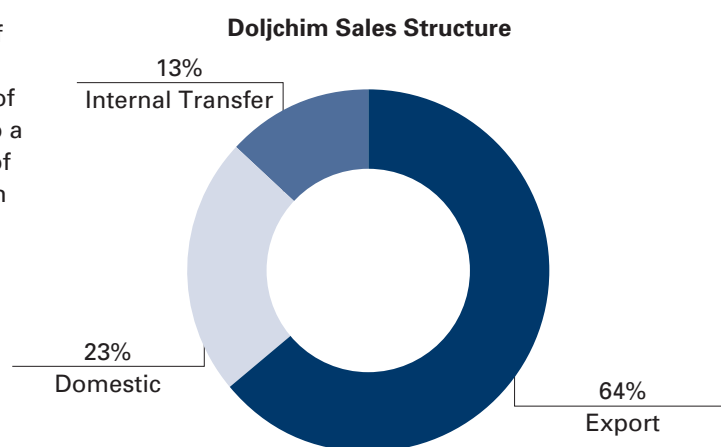
In 2005, methanol production increased by 11% as a result of a higher demand for the product on the market and improved operation of the plant. Fertilizer production decreased for most of the products, except for urea, which recorded a significant increase of 24%. The slight decrease of the ammonium nitrate production was caused to a favorable market for urea resulting in a change of the production structure and also to the delays in issuing vouchers for agriculture.

Sales

Doljchim sales amounted to 617 thousand tons, out of which export sales accounted for the highest part (64%).

Internal transfers amounted to 81 thousand tons and included ammonia and methanol which were used by the refineries as raw materials for MTBE and acrylonitrile.

90% of urea sales and 70% of methanol sales were exported mainly in the neighboring countries, such as Hungary, Serbia, Bulgaria, but also in Austria, Greece, Turkey, and Italy.

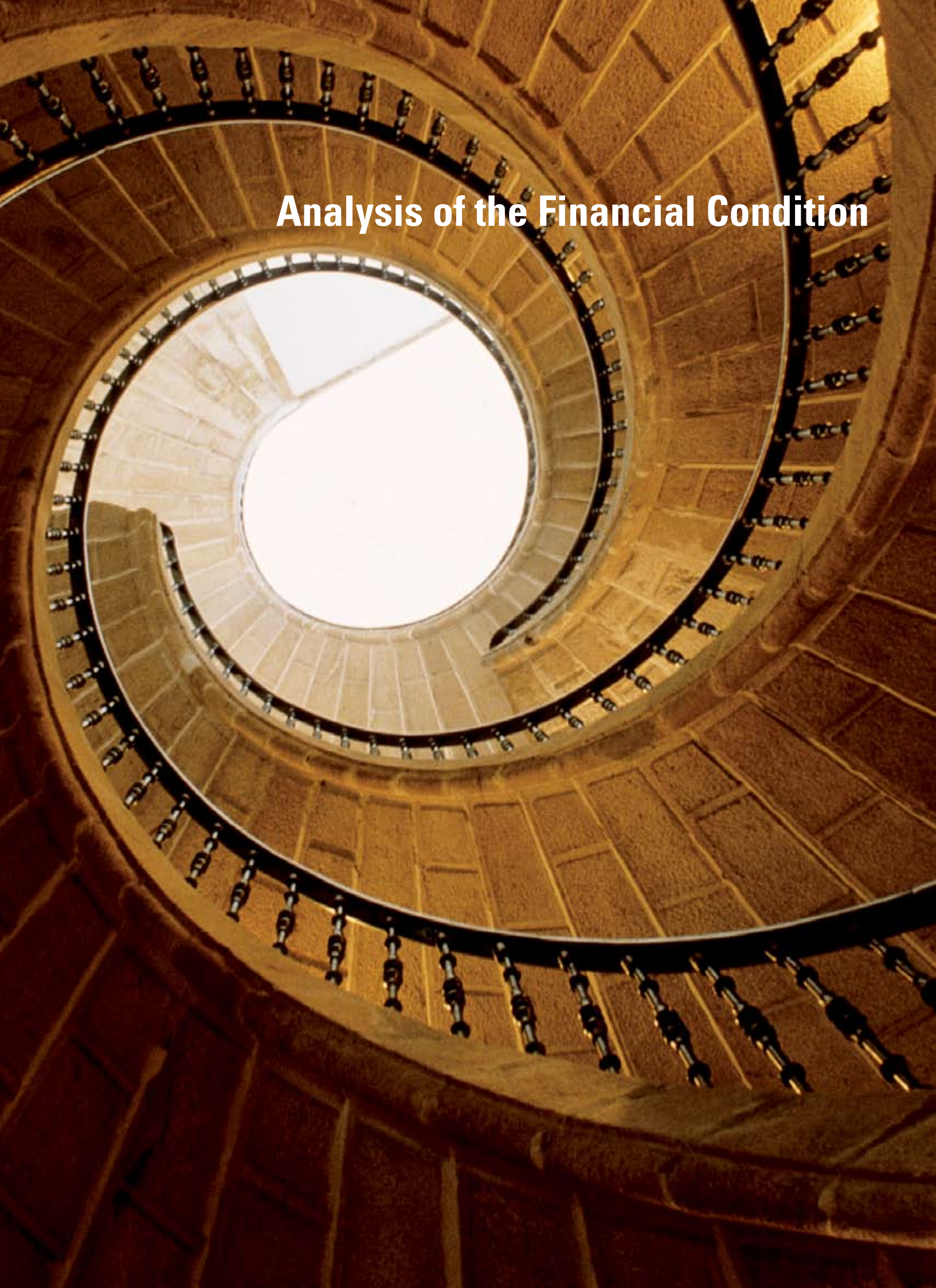


Fertilisers

Product, tons	2003	2004	2005
Ammonia	179,650	248,022	245,045
Nitric Acid	99,825	117,734	110,760
Urea	113,825	169,655	210,674
Ammonium Nitrate	120,548	141,377	135,399
Methanol	175,670	191,218	212,160



Analysis of the Financial Condition



Analysis of the Financial Condition

2005 showed for Petrom a significant improvement of its financial condition as a result of the favorable environment as well as of the increase in efficiency and cost awareness in business relations.

The restructuring of the equity approved by the Board of Directors resulted in an improved and fair view of the balance sheet and, in particular, in more transparency of the equity position of the company. The loss carry forward (RON 3,048 mn) was netted to the maximum extent possible with the revaluation reserve (RON 697 mn net of tax) and the share premium account (RON 2,060 mn). The loss carry forward after the capital restructuring amounts to RON 290 mn.

This restructuring had the benefit that it placed the company in a stronger position to recommence the payment of dividends to its shareholders in 2005.

In 2005, all the profitability ratios turned positive as the company recorded an improved net profit.

NOPAT increased significantly, due to both a high net profit and the decrease of the tax rate from 25% to 16%. The company recorded a ROACE of 22%, significantly above the target of 13%.

As in 2004, the company recorded a net cash position due to the high amount of cash, hence the debt to equity ratio was negative.

Liquidity ratios decreased in comparison with 2004, as current liabilities increased due to the reclassification of the outstanding balance of the Eurobonds issued in October 2001 as short term debenture (due in October 2006).

The turnover of the company increased by 24% reaching RON 10,760 mn as the volumes sold were slightly above the previous year levels and the trading conditions have been more favorable.

Financial highlights

RON mn	2005	2004
Turnover	10,760	8,688
EBIT	1,884	(581)
EBITDA	2,775	114
Net profit	1,416	(974)
Fixed assets	10,609	9,589
Current assets	7,204	6,080
Non-current liabilities	4,855	5,020
Current liabilities	2,231	1,257
Shareholders' Equity	10,727	9,392
Net cash flow from operating activities incl. changes in Working Capital	2,771	1,856

Financial Ratios

Ratio	2005	2004
RoFA	13%	(11%)
ROACE	22%	(13%)
ROE	14%	(11%)
Debt to Equity	(45%)	(42%)
Current ratio	3.2	4.9
Quick ratio	2.6	3.9

Analysis of the Financial Condition

The operating expenses amounting to RON 9.09 bn, were down by 6% against 2004 figure and were influenced by:

- The increase of the expenses with raw materials, materials and consumables by RON 138 mn due to higher acquisition prices for imported crude oil,
- The increase in salary expense and other benefits by RON 205 mn,
- The booking of the restructuring provisions (RON 488 mn),
- The decrease by RON 305 mn related to the depreciation on tangibles and intangibles which was generated mainly by the change in the computation method of the depreciation to UOP method and less impairment of fixed assets in 2005 compared to 2004,
- Other expenses, such as third party services, royalties for crude oil and gas and other services which had a net impact of RON 105 mn increase on the operating expenses.

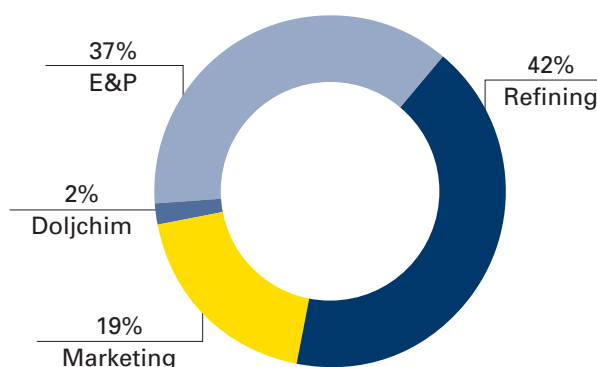
The EBIT turned positive in 2005 (RON 1,884 mn), driven by the increase of the result in E&P as well as the improvement in the refinery segment. However, it was negatively impacted by the charges related to the reorganization process undertaken by the company. The results were particularly impacted by special items amounting to RON 769 mn.

The E&P contribution to EBIT raised significantly to RON 2.8 bn [2004: RON 572 mn] due to higher crude and gas prices which compensated the decline of the production as well as a result of the reorganization of the assets and projects portfolio.

E&P Revenues amounted to RON 7.1 bn, increasing by 16% while 75% were generated by the inter-segment sales to Petrom's business units.

The EBIT generated by Refining improved, due to better refining margins but remained negative as the main refinery of the company, Petrobrazil, undertook a 6-week turnaround in the fourth quarter. More than 60% of total revenues resulted from sales to third parties, while inter-segment sales accounted for the rest, or RON 3.1 bn.

Total Revenues by Segment in 2005



Key operating statistics

%yoy	2005	2004
Revenues growth	24%	22%
EBIT margin	18%	(7%)
EBITDA margin	26%	1%
Net profit/(loss) margin	13%	(11%)

Analysis of the Financial Condition

The reorganization process undertaken by the company has impacted significantly Marketing results as during the year the unprofitable filling stations and terminals were closed and the related impairment was booked, a new commercial policy was introduced (resulting in a review of the portfolio of customers and suppliers) while centralizing the entire Marketing organization.

Doljchim EBIT was positive in 2005, but it decreased significantly in comparison with 2004, following the increase of the price for natural gas, which represents the main raw material used for the production of fertilisers.

Financial result improved by 17% as a result of the gains from interest income and of the significant reduction of the interest expense as the company repaid all the loans during 2005. Due to significant amounts of cash owned by the company following the privatization process, an unrealized forex loss was generated as the RON appreciated against EUR. Income tax increased by 78% as the taxable profit in 2005 was significantly higher than in 2004.

In 2005, total investments decreased by 14% as the review of the project portfolio delayed the approval of the budget and hence its execution. 47% of the total investments were directed towards E&P, followed by refining with 40%, while the remaining of 13% was spent in Marketing and Chemicals.

The difference between the capital additions shown in the financial statements and the investment reporting represents the amount used for unsuccessful exploration and the increase of the share participation in different companies.

Total assets increased by 14% amounting to RON 17.8 bn, as both fixed and current assets exceeded last year levels.

Fixed assets recorded a 11% increase against 2004 figure, mainly due to the acquisition of three umbrella funds in the amount of RON 1.1 bn. The investments in other companies also increased during 2005, as a result of the acquisition of 49% of Petrom Gas and the increase of the investments in Doo Petrom Yu by a total of RON 10.3 mn.

Current assets, including prepayments, increased by 18% compared to 2004, reaching RON 7,204 mn. The increase is attributable to all current items:

- inventories increased by 31% mainly due to higher price levels
- accounts receivable increased by 46% as the turnover within the last two months of 2005 was higher in comparison with the similar period of 2004
- cash increase of 9% was the result of the higher net cash from operating activities due to an enhanced profitability.

EBIT per segment of activity

RON mn	2005	2004
Exploration and Production	2,782	572
Refining and Petrochemicals	(386)	(893)
Marketing	(528)	(152)
Chemicals (Doljchim)	17	107

Investments

RON mn	2005	2004
Exploration and Production	530.5	669.3
Refining	449.7	366.1
Marketing	135.4	258.8
Chemicals (Doljchim)	1.6	8.6
TOTAL	1,117.1	1,302.8

Analysis of the Financial Condition

Total liabilities accounted for EUR 7.1 bn, increasing by 13%, as current liabilities were by 77% higher than in 2004.

Non-current liabilities decreased by 3%. The non-current part of the bonds liability was reclassified as short term debenture (due on October 2, 2006). The provisions increased by 7% as a result of the booking in 2005 of the restructuring provisions (year-end balance - RON 349 mn), but also following the increase in other provisions (severance benefits, VAT, excises and other related taxes for missing stock, environmental provision, provision for litigations and claims) which was offset by the decrease of the decommissioning provisions.

Current liabilities significant increase (77%) is associated mainly with the reclassification of the debenture loans as current (RON 471 mn), and the booking of the provision for current tax (RON 382 mn).

Total taxes paid by Petrom to the State budget increased from RON 3.7 bn to RON 4.6 bn in 2005, out of which excise duty – RON 2,326 mn (15% increase over 2004), corporate tax – RON 400 mn (2.5 times above 2004 figure) and royalties – RON 508 mn (25% higher than in the previous year).

Shareholders' equity in 2005 was 14% above 2004 figure, the increase representing mainly the profit of the year. In addition, the equity was adjusted with the reserve for the umbrella funds purchased in 2005 and the tax on transfer of the revaluation reserve to retained earnings resulting from the capital restructuring.

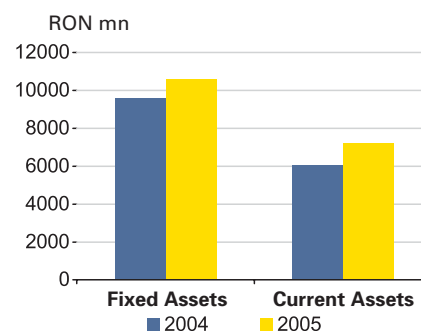
The net cash generated from operating activities (CFO) recorded a significant increase in comparison with the previous year (+49%), mainly due to the high profit before taxation, but also to positive working capital movements and higher interest received. The net cash used for investing activities (CFI) increased in comparison with 2004, recording

an amount of RON 2,170 mn, mainly due to the acquisition of three umbrella funds (RON 1,126 mn). In 2005, the cash flow used for financial activities (CFF) was RON 219 mn, as the company repaid its debt to IBRD.

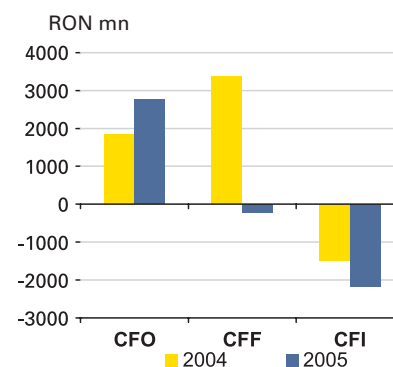
The cash and cash equivalents at the end of the year amounted to RON 4,499 mn, by 9% higher than in 2004. The total cash flow of the company amounted to RON 382 mn, much lower than 2004 figure.

However, the cash flow in 2004 was increased with the share capital subscribed by OMV (RON 3,839 mn) following the privatization process, whereas in 2005 no share capital increase took place.

Asset Structure



Cash Flow Structure



Subsequent Events

Managing Committee

As of January 1, 2006, Mr. Jeffrey Rinker was appointed as member of the Managing Committee, responsible for Refining. Previously, this position was held by Mr. Florian Constantinescu who now became the Senior Consultant of Mr. Rinker on refining and petrochemicals issues.

Acquisition of OMV Mineraloel Romania, OMV Bulgarien and OMV Jugoslavjia

At the beginning of the year, Petrom Board of Directors approved the acquisition of OMV Mineraloel Romania, OMV Bulgarien and OMV Jugoslavjia. The transaction was structured as a share deal; therefore, Petrom acquired a shareholding in the magnitude of 99.9% in the respective companies, and left 0.1% to OMV. As a result of the transaction, 178 OMV stations operating at the highest standards belong now to Petrom but will continue to operate under the OMV brand. The enterprise value (equity value and assumed debts) of the three companies has been assessed by KPMG which has been mandated by Petrom, at Euro 234.4 million.

Sale of non-core assets

As part of the divestment process of its non-core assets, Petrom sold at the beginning of the year its 83% participation in Carpatina SA to Lipomin SA, also a mineral water bottling company. The winning bidder, Lipomin SA, was selected from several national and international companies which showed their interest in the acquisition of Petrom stake in Carpatina.

Petrom also sold its minority stake in the Financial and Commodities Exchange in Sibiu, where it held 0.58% of the share capital.

Share Capital increase

On February 21, 2006, the Board of Directors decided the increase of the share capital from RON 5,600,050,607.8 up to RON 5,664,410,833.5 by issuing a number of 643,602,257 new shares with a nominal value of RON 0.1. Following the capital increase, the shareholding of the company changed as follows:

- OMV: 51.011%
- MEC: 40.749%
- EBRD: 2.026%
- Free float: 6.214%

Significant shareholder

According with the relevant legal provisions (e.g. the Law for the reform of property and justice) at the end of February, a number of 5,600,050,607 of Petrom shares (representing 9.99% of the total before the share capital increase) were transferred to Fondul Proprietatea SA, from the share of the Ministry of Economy and Commerce.

Following the transfer, the Ministry of Economy and Commerce owned 17,214,796,909 shares representing 30.740% of the share capital and Fondul Proprietatea SA owned 5,600,050,607 shares, representing 9.999% of the share capital.

Fondul Proprietatea SA is a closed end fund which was established in order to solve the restitution of the real estate properties which cannot be returned in kind to the former owners. The fund will manage a portfolio of shares with different stakes in Romanian companies.

Outlook 2006

In 2006, the management will continue its focus on efficiency improvement throughout the company by further implementing the modernization program that Petrom has embarked on during 2005. In the same time, Petrom will seek to further develop the business in its core regions (Caspian Area and South-Eastern Europe).

After a year with very high crude prices in 2005, the international crude quotations are even higher at the beginning of 2006. Crude prices remaining at such high level will have a significant positive impact on Petrom's 2006 results and might offset the expected decline of E&P production in 2006.

During 2006 the first wells based on the new modern 3D of 2005 will be drilled onshore and offshore Romania, while the seismic acquisition program will continue at a higher level than in 2005. For the three new exploration blocks, the exploration activities are expected to be initiated.

For 2006 substantial steps are scheduled to stabilize Petrom's upstream production in the medium term and decrease production costs: investments in modernization and rationalization of production and surface drilling, continued development of operations in Kazakhstan, exploration activity and drilling of new production wells. However, the production is expected to decrease due to the natural decline on the one hand and the shut-in of unprofitable wells on the other hand.

In the course of liberalization of the gas market, the gas price is expected to steadily increase in line with the Memorandum between Romania and International Monetary Fund, based on a common understanding between the Ministry of Economy and Commerce, the National Regulatory Authority in Natural Gas Sector on one hand, and the gas producers on the other hand.

The main focus of Refining Business for the year 2006 is the further optimization and consolidation of the business. An ambitious investment

programme is planned to increase capacity and product quality in order to meet EU clean fuels standards by 2007. A further centralization of the organization is expected to raise efficiency. The acquisition of Rafiserv provides the basis for further restructuring and efficiency increases. The turnaround of Arpechim refinery, initially scheduled for 2006, was postponed for 2007. Medium term target is to double the turnaround cycles.

Marketing Business has scheduled important steps for 2006 in order to centralize the organization, implement the franchising concept for filling stations, divest and close down unprofitable locations (non-competitive filling stations, storage farms). Investments for 2006 target plot purchases and construction of new filling stations, modernization and rebuilding of existing filling stations, modernization of storages, IT support and automation.

For 2006 significant efforts are scheduled in order to centralize and modernize Finance, Accounting and IT processes. The Service Center (in Finance) will be further developed and SAP system will be implemented. The replacing of the legacy (old) systems and further optimization of the application portfolio will determine significant changes in terms of commercial, administration and business processes.

Another important project is TAS (Terminal Automation System), which will follow OMV group standards and provide all newly built and upgraded terminals and refineries with technical operation control as well as monitoring and execution control of commercial processes. Furthermore, by the end of 2006, 500 filling stations will be equipped with the target system.

Petrom will also set up a fully integrated software platform for the E&P division which is able to provide real-time information to improve decision making significantly.

Outlook 2006

According with the Romanian law, Petrom's budget for 2006 was approved by the General Meeting of Shareholders on November 22, 2005.

For 2006, the company estimates a turnover of RON 10,970 mn, an EBIT of RON 2,253 mn and a net income of RON 1,979 mn.

The total investments of Petrom Group will amount to RON 2,334.5 mn, with around 50% of the total amount invested in Exploration and Production segment.

Petrom estimates a total crude and gas production of 75,263.5 thousand boe, out of which 36,798.8 thousand tons crude production.

2006 Buget RAS	RON mn
Turnover	10,970
EBIT	2,253
EBT	2,144
Net Income	1,979
NOPAT	1,855
EBITD	3,060

The total quantity of crude processed by the two refineries is expected to amount to 6,788.6 thousand tons, with sales of 6,032.6 thousand tons, out of which 5,359.7 thousand tons represent fuel sales and the rest petrochemicals.

For fertilisers, the total sales are estimated at 663 thousand tons, out of which urea holds the main percentage (34%), followed by methanol (33%) and ammonium nitrate (26%).

During 2006, Petrom will focus strongly on safety awareness and performance in an attempt to control risks when large changes in technology, methods of work, personnel and organisation are going on. The health and medical services will also be improved following significant enhancements in the competence of medical staff, the quality of facilities and equipment and a much more focused occupational health organisation.

With regard to the environment, Petrom anticipates

that Romania will participate in the European Emission Trading Scheme and is already getting ready to negotiate and fulfil our obligations under this scheme.

In order to offer a single location to all Petrom employees in the Bucharest headquarters and other central locations a future central office for the whole company will be developed in the coming years. Petrom City will bring increased space flexibility which will facilitate the communication and workflow between the various departments in the company. When finalized, Petrom City will have 46,000 m² office space and will host around 3,000 employees located in five offices in Bucharest and its surroundings.

This move will represent an important efficiency increase for Petrom regarding the company's overall infrastructure costs. With this new office complex Petrom will not only set new standards related to working environment but also contribute to the further development of the city.

March 13, 2006
Bucharest



Wolfgang Ruttenstorfer

Glossary

CEE	Central and Eastern Europe
EBRD	European Bank for Reconstruction and Development
IBRD	International Bank for Reconstruction and Development
BSE	Bucharest Stock Exchange
GMS	General Meeting of Shareholders
mn	Million
bn	Billion
t	Tons
toe	Tons of oil equivalent
boe	Barrels of oil equivalent
bbl	Barrel
Stcm	Standard Cubic meters
ppm	Parts per million
ROL	Romanian leu
UOP	Unit of Production
MTBE	Methyl-Tertiary-Butyl-Ether
NGL	Natural Gas Liquids
DCS	Distributed Control System
LPG	Liquefied Petroleum Gas
LFO	Light Fuel Oil
HFO	Heavy Fuel Oil
RAS	Romanian Accounting Standards
CAPEX	Capital Expenditures
Capital employed	Equity + (Financial Current liabilities + Financial Non-current liabilities – Cash)
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
ROACE	Return On Average Capital Employed <i>NOPAT / Average Capital Employed</i>
ROFA	Return On Fixed Assets <i>NOPAT / Average Fixed Assets</i>
ROE	Return On Equity <i>Net Profit / Average Equity</i>
Debt to Equity	<i>Net Debt (Cash) / Average Equity</i>
Current ratio	<i>Current Assets / Current Liabilities</i>
Quick ratio	<i>(Current Assets - Inventories) / Current Liabilities</i>
NOPAT	Net Operating Profit After Taxes = Net income + (Interest Expense - Interest income)*(1-tax rate)

INDEPENDENT AUDITORS' REPORT AND FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2004 AND DECEMBER 31, 2005

To the board of directors and shareholders of
S.C. Petrom S.A.
Bucharest, Romania

INDEPENDENT AUDITORS' REPORT

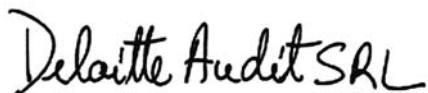
We have audited the accompanying balance sheet of S.C. Petrom S.A. (the Company) as of December 31, 2005 and related statements of operations, cash flows and changes in shareholders' equity for the year then ended. These financial statements, from page 3 to 53 are the responsibility of the Company's management and are prepared in accordance with the Romanian statutory accounting requirements, which comprise the accounting Law no. 82/1991, the Ministry of Finance (MoF) Order no. 94/2001, the Ministry of Finance (MoF) Order no. 1827/2003 and the Ministry of Finance (MoF) Order no. 1775/2004. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with national auditing standards of Romania adopted by the Romanian Chamber of Auditors, which are aligned to International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2005 and the results of its operations, cash flows and changes in shareholders' equity for the year then ended in accordance with Romanian statutory accounting requirements, which comprise the accounting Law no. 82/1991, the Ministry of Finance (MoF) Order no. 94/2001, the Ministry of Finance (MoF) Order no. 1827/2003 and the Ministry of Finance (MoF) Order no. 1775/2004.

Without qualifying our opinion, we draw attention to the following:

1. As presented in Note "Accounting Principles and Methods" of these financial statements, during year 2000, the Romanian accounting regulations have been harmonized to the IV Directive of European Economic Community and to International Financial Reporting Standards. Nevertheless, the last Ministry of Public Finance's regulations (MPFO no. 1827/2003 and MPFO no. 1775/2004) are prepared in order to be in conformity to the Ministry of Public Finance fiscal needs and are applicable in Romania only. These new regulations are not similar with the financial reporting for the hyperinflationary economies as they are described by the Order no. 94/2001, and differ from the International Financial Reporting Standards in other areas such as accounting for investments in subsidiaries and associates. Although starting with January 1, 2004, Romania ceased to be hyperinflationary economy, the beginning balances should have been restated in accordance with IAS29 "Financial Reporting in Hyperinflationary Economies". Keeping in mind the above, these financial statements are not in accordance with International Financial Reporting Standards (formerly known as International Accounting Standards).
2. Our report on the financial statements of the Company as of December 31, 2004 was qualified because i) significant adjustments were made to opening equity instead of restating prior year financial statements and therefore prior year financial statements were not presented on a comparable basis, and ii) the Company recorded RON 25,8 million as unreconciled inter-branch differences in its statement of operations due to impracticability with respect to identification of these differences.
3. As discussed in note 10.10, geological quota was presented in 2004 statement of operations as an expense of the Company, although in substance it is not an expense in accordance with International Financial Reporting Standards and MOF Order no. 94/2001, but instead represents a facility available to companies operating in mineral extraction activities. In its 2004 financial statements the Company applied the accounting requirements of Government Decision 168/1998 (subsequently amended by HG 768/2000, HG 1116/2002 and Law 555/2004). Starting in 2005, in accordance with Law 555/2004, geological quota is recorded as an allocation of retained earnings. As a result, the statements of operations for the years ended December 31, 2005 and December 31, 2004 are not presented on a comparable basis.



Deloitte Audit SRL
February 14, 2006

SC PETROM S.A.
BALANCE SHEETS
AS AT DECEMBER 31, 2004 AND DECEMBER 31, 2005
(all amounts are expressed in RON, unless otherwise specified)

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

TYPE OF PROPERTY **14**
COMPANII SI SOCIETATI NATIONALE
TYPE OF ACTIVITY **Hydrocarbon extraction**

ADDRESS **Bucharest** sector **1**
Str. **Calea Dorobanti** nr. **239**,
TEL: **4060189** FAX **4060429**
NO. OF TRADE REGISTER **J40/8302/1997**

CODE GROUP CAEN **1110**
UNIQUE REGISTRATION CODE **1590082**

No	Notes	Row	December 31, 2004	December 31, 2005
A	FIXED ASSETS			
I	Intangible assets			
1	Set up expenses	01	-	-
2	Development expenses	02	54,194	
3	Concessions, patents, licenses, trademarks and other similar rights and assets	03	71,101,381	66,652,476
4	Goodwill	04	-	
5	Advances and intangible assets in progress	05	110,931,540	7,244,716
	Total (row 01 to 05)	1 b) 06	182,087,115	73,897,192
II	Tangible assets			
1	Land and buildings	07	4,683,518,443	4,451,939,794
2	Machinery and equipment	08	2,116,354,675	2,149,133,401
3	Other equipments and furniture	09	33,690,584	38,595,338
4	Advances and tangibles in progress	10	695,553,492	882,435,277
	Total (row 07 to 10)	1 a) 11	7,529,117,194	7,522,103,810
III	Financial assets			
1	Investments in companies within the group	12	99,570,946	104,072,697
2	Debts upon the companies within the group	13	-	-
3	Investments	14	1,570,851	4,077,402
4	Amounts owed by subsidiaries and associated companies	15	-	-
5	Investments as assets	16	29,767,765	1,159,946,054
6	Other debts	17	1,747,286,378	1,745,146,614
7	Own shares	18	-	-
	Total (from row 12 to 18)	1 c) 19	1,878,195,939	3,013,242,767
	TOTAL FIXED ASSETS (rows 06+11+19)	20	9,589,400,247	10,609,243,769
B	CURRENT ASSETS			
I	Inventories			
1	Raw materials and consumables	21	395,128,326	546,707,521
2	Work in progress	22	288,360,479	187,726,492
3	Finished goods and merchandise	23	429,603,503	694,305,724
4	Advances for stock purchase	24	16,141,764	55,390,491
	Total (from row 21 to 24)	10.3 25	1,129,234,072	1,484,130,228
II	Receivables			
1	Trade receivables (net)	26	660,742,751	970,097,990
2	Amounts to be received from related parties	27	12,044	21,563,576
3	Amounts to be received from investments	28	-	-
4	Other receivables	29	115,574,732	155,216,556
5	Debts related to subscribed and not paid in capital	30	-	-
	Total (from row 26 to 30)	5 31	776,329,527	1,146,878,122

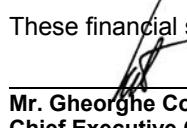
SC PETROM S.A.
BALANCE SHEETS
AS AT DECEMBER 31, 2004 AND DECEMBER 31, 2005
(all amounts are expressed in RON, unless otherwise specified)

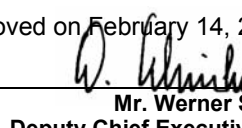
No	Notes	Row	December 31, 2004	December 31, 2005
III	Short term investments			
1	Investments hold on related parties	32	-	-
2	Own shares	33	-	-
3	Other short term investments	34	576,722	112,932
	Total (from row 32 to 34)	35	<u>576,722</u>	<u>112,932</u>
IV	Cash and bank accounts	10.2 36	<u>4,117,609,227</u>	<u>4,499,960,346</u>
	TOTAL CURRENT ASSETS			
	(rows 25+31+35+36)	37	<u>6,023,749,547</u>	<u>7,131,081,628</u>
C	PREPAYMENTS	38	<u>56,367,566</u>	<u>73,201,848</u>
D	PAYABLES WITHIN ONE YEAR			
1	Debenture loans	39	14,729,023	471,139,144
2	Payables to credit institutions	40	145,756,924	7,118,676
3	Advances cashed for orders	41	26,092,626	18,470,562
4	Trade payables	42	444,286,168	756,332,083
5	Bills of exchange payables	43	-	-
6	Amounts payable to related parties	44	6,521,985	3,554,628
7	Payables to investments participation	45	-	-
8	Other payables, including tax and social security payables	46	619,991,292	974,301,445
	Total (from row 39 to 46)	5 47	<u>1,257,378,017</u>	<u>2,230,916,538</u>
E	CURRENT ASSETS LESS CURRENT LIABILITIES (rows 37+38-47-64)	48	<u>4,772,078,119</u>	<u>4,921,569,778</u>
F	TOTAL ASSETS LESS CURRENT LIABILITIES (rows 20+48-63)	49	<u>14,353,542,130</u>	<u>15,522,569,796</u>
G	PAYABLES IN MORE THAN ONE YEAR			
1	Debenture loans	50	491,171,766	-
2	Payables to credit institutions	51	-	-
3	Advances cashed for orders	52	-	-
4	Trade payables	53	-	-
5	Bills of exchange payables	54	-	-
6	Amounts payable to related parties	55	-	-
7	Payables to investments participation	56	-	-
8	Other payables, including tax and social security payables	57	39,207,125	34,900,751
	Total (from row 50 to 57)	5 58	<u>530,378,891</u>	<u>34,900,751</u>

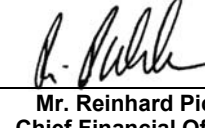
SC PETROM S.A.
BALANCE SHEETS
AS AT DECEMBER 31, 2004 AND DECEMBER 31, 2005
(all amounts are expressed in RON, unless otherwise specified)


No	Notes	Row	December 31, 2004	December 31, 2005
H	PROVISIONS FOR RISKS AND CHARGES			
1	Provisions for pensions and other liabilities	59	-	-
2	Other provisions	60	4,431,051,981	4,760,579,208
	TOTAL PROVISIONS (rows 59+60)	61	4,431,051,981	4,760,579,208
I	DEFERRED INCOME	62	58,597,214	60,040,911
	Investments subsidies	63	7,936,236	8,243,751
	Deferred income	64	50,660,978	51,797,160
J	SHARE CAPITAL AND RESERVES			
I	Share capital (rows 66 to 68)	65	5,600,050,608	5,600,050,608
	out of which:			
	- subscribed and not paid in share capital	66	-	-
	- subscribed and paid in share capital	67	5,600,050,608	5,600,050,608
	- patrimony	68	-	-
II	Premium related to capital	69	2,060,096,385	-
III	Revaluation reserve			
	- Cr balance	70	830,831,549	-
	- Dr balance	71	-	-
IV	Reserves (rows 73 to 76)	72	3,949,798,617	4,388,619,303
1	Legal reserve	73	85,596,417	166,638,190
2	Own shares reserve	74	-	-
3	Statutory or contractual capital reserve	75	-	-
4	Other reserves	76	3,864,202,200	4,221,981,113
V	Retained earnings			
	- Cr balance	77	-	738,419,926
	- Dr balance	78	2,074,988,573	-
VI	Profit(loss) for the period			
	- Cr balance	79	-	1,416,422,558
	- Dr balance	80	973,677,328	-
	Profit appropriation	81	-	1,416,422,558
	Total shareholders' equity			
	(rows 65+69+70-71+72+77-78+79-80-81)	82	9,392,111,257	10,727,089,837
	Public patrimony	83	-	-
	TOTAL EQUITY (rows 82+83)	84	9,392,111,257	10,727,089,837

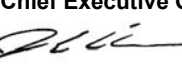
These financial statements were approved on February 14, 2006.



Mr. Gheorghe Constantinescu
Chief Executive Officer

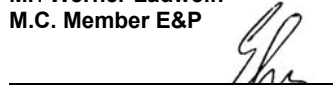

Mr. Werner Schinhan
Deputy Chief Executive Officer


Mr. Reinhard Pichler
Chief Financial Officer


Mr. Werner Ladwein
M.C. Member E&P


Mr. Jeffrey Rinker
M.C. Member Refining


Mr. Tamas Mayer
M.C. Member Marketing


Mr. Siegfried Ehn
Director Finance and
Services Division


Mrs. Mihaela Milinschi
Director Accounting Department

SC PETROM S.A.
STATEMENTS OF OPERATIONS
AS AT DECEMBER 31, 2004 AND DECEMBER 31, 2005
(all amounts are expressed in RON, unless otherwise specified)

No	Notes	Row	Year ended December 31, 2004	Year ended December 31, 2005
1	Net turnover (rows 02 to 04)	10.8		
	Sales of production	01	8,687,896,679	10,760,228,198
	Sales of merchandise	02	6,008,241,506	6,992,774,802
	Revenues from subsidies related to net turnover	03	2,679,655,173	3,767,453,396
		04	-	-
2	Movements in stocks of finished goods			
	– Cr balance	05	205,193,833	120,730,635
	– Dr balance	06	-	-
3	Own work capitalized	07	46,755,040	28,350,560
4	Other operating revenue	08	<u>199,399,622</u>	<u>63,873,984</u>
	Total operating revenue (rows 01+05-06+07+08)	09	<u>9,139,245,173</u>	<u>10,973,183,377</u>
5	a) Raw materials and consumables expenses	10	2,117,296,155	2,278,837,087
	Other materials expenses	11	64,034,151	40,593,658
	b) Other utilities expenses (energy and water)	12	632,823,800	709,688,576
	Purchases of goods for resale	13	275,254,402	329,737,178
6	Salary expenses (rows 15+16)	14	1,193,868,828	1,537,408,745
	a) Salaries	15	877,263,781	1,147,967,635
	b) Social security contributions	16	316,605,047	389,441,110
7	a) Adjusting the value of tangible and intangible assets (rows 18-19)	17	1,144,231,998	839,092,170
	a. 1) Expenses	18	1,183,193,823	1,115,944,074
	a. 2) Revenues	19	38,961,825	276,851,904
	b) Adjusting the value of current assets (row 21-22) (a)	20	398,762,849	(454,403,630)
	b. 1) Expenses	21	736,563,326	72,022,137
	b. 2) Revenues	22	337,800,477	526,425,767
8	Other operating expenses (rows 24 to 26)	23	3,430,007,466	3,285,563,733
	8.1 Third parties services	24	1,688,598,089	2,389,945,946
	8.2 Other taxes, duties and similar expenses	25	461,995,496	566,628,467
	8.3 Other operating expenses	26	1,279,413,881	328,989,320
	Adjustments for provisions for risks and charges (rows 28-29)	27	464,115,637	522,466,841
	Expenses	28	517,988,119	886,230,301
	Revenues	29	53,872,483	363,763,460
	Total operational expenses (rows 10 la 14+17+20+23+27)	30	<u>9,720,395,285</u>	<u>9,088,984,358</u>
	Operating Result			
	- profit (rows 09-30)	4	31	-
	- loss (rows 30-09)	4	32	581,150,112

a) Refer to Note 2.

SC PETROM S.A.
STATEMENTS OF OPERATIONS
AS AT DECEMBER 31, 2004 AND DECEMBER 31, 2005
(all amounts are expressed in RON, unless otherwise specified)

No	Notes	Row	Year ended December 31, 2004	Year ended December 31, 2005
9	Income from investments	33	1,613	149,192
	- out of which, within the group	34	-	-
10	Income from other financial investments and receivables, part of fixed assets	35	6,913,228	7,218,015
	- out of which, within the group	36	-	-
11	Income from interest	37	44,237,983	165,587,324
	- out of which, within the group	38	-	-
	Other financial revenues including forex gain	39	342,047,855	396,245,721
	Total financial revenues (rows 33+35+37+39)	40	393,200,678	569,200,252
12	Adjustment of financial assets and investments held (rows 42-43)	41	(6,225,031)	(42,965,468)
	Expenses	42	109,206,999	17,544,507
	Revenues	43	115,432,031	60,509,975
13	Interest expenses	44	98,867,552	55,891,422
	- out of which, within the group	45	-	-
	Other financial expenses including forex loss	46	543,407,629	757,050,109
	Total financial expenses (rows 41+44+46)	47	636,050,149	769,976,063
	Financial result			
	- profit (rows 40-47)	48	-	-
	- loss (rows 47-40)	49	242,849,471	200,775,811
14	Current profit(loss)			
	- profit (rows 31-49) or (rows 31+48)	50		1,683,423,208
	- loss (rows 32+49)	51	823,999,583	-
15	Extraordinary revenues	52	-	-
16	Extraordinary expenses	53	-	-
17	Extraordinary result			
	- profit (rows 52-53)	54	-	-
	- loss (rows 53-52)	55	-	-
	Total revenues (rows 09+40+52)	56	9,532,445,852	11,542,383,629
	Total expenses (rows 30+47+53)	57	10,356,445,435	9,858,960,421

These financial statements were approved on February 14, 2006,

SC PETROM S.A.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND DECEMBER 31, 2005
(all amounts are expressed in RON, unless otherwise specified)

	Notes	December 31, 2004	December 31, 2005
Cash flow from operating activities			
Profit before taxation		(823,999,583)	1,683,423,208
Adjustments for:			
Interest expenses		98,867,552	55,891,422
Interest income		(44,237,983)	(165,587,324)
Net movement in provisions for:			
- Fixed asset impairment	2	390,097,580	112,444,248
- Financial assets	2	(6,225,031)	(42,965,468)
- Inventories		159,278,929	(454,201,957)
- Receivables		237,632,745	1,119,216
- Litigations	2	83,926,007	7,354,119
- Environmental expenditures	2	285,024,776	30,484,443
- Retirement benefits	2	20,931,558	38,467,225
- Other provisions for risk and charges	2	79,692,785	46,265,759
- Restructuring	2	-	349,112,353
Loss on disposals of fixed assets		10,599,662	24,095,507
Depreciation and amortization expense	1	754,134,418	730,750,979
Write off of financial assets		-	45,691,768
Unwinding effect of decommissioning provision		-	226,577,140
Expensed geological quota		1,167,951,851	-
Cash generated from operating activities before working capital movements		2,413,675,266	2,688,922,638
Working capital movements		(210,152,391)	13,050,195
Interest received		44,237,983	135,301,189
Interest paid		(99,770,737)	(57,444,858)
Tax on profit paid		(292,121,025)	(8,518,904)
Net cash generated from operating activities		1,855,869,096	2,771,310,260
Cash flow from investment activities			
Purchase of tangible and intangible assets		(1,376,695,576)	(1,015,707,082)
Proceeds from sale of fixed assets		2,287,353	19,912,624
Acquisition of financial assets		(124,984,098)	(1,174,316,888)
Net cash used from investment activities		(1,499,392,321)	(2,170,111,346)
Cash flow from financial activities			
Repayment of loans		(312,012,753)	(173,399,893)
Dividends paid		(139,698,607)	(45,447,902)
Employees share of profit		(25,446,586)	-
Proceeds from share capital increase		3,839,108,807	-
Net cash provided by/ (used) for financial activities		3,361,950,861	(218,847,795)
Total cash flows		3,718,427,636	382,351,119
Cash and cash equivalents at the beginning of the year	10.2	399,181,591	4,117,609,227
Cash and cash equivalents at the end of the year	10.2	4,117,609,227	4,499,960,346

SC PETROM S.A.
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
AS AT DECEMBER 31, 2004
(all amounts are expressed in RON, unless otherwise specified)

Shareholders' equity	Balance at 1.01.2004	Increase, out of which	Transfer	Decrease, out of which	Transfer	Balance at 31.12.2004
Subscribed share capital	3,773,452,296	1,826,598,312	47,585,890	-	-	5,600,050,608
Share premium	-	2,060,096,385	-	-	-	2,060,096,385
Revaluation reserve	1,276,448,136	1,268,139	-	446,884,727	1,135,580	830,831,549
Legal reserves	86,320,351	-	-	723,934	-	85,596,417
Other reserves	290,058,261	13,344,651	-	57,910,213	54,621,730	245,492,699
Other reserves-geological quota	2,698,273,733	1,174,987,690	7,035,839	254,551,923	-	3,618,709,501
Retained earnings	113,434,868	-	-	113,434,868	-	-
Retained earnings from the first time application of IAS and the correction of errors *	(357,062,748)	(1,720,071,383)	-	-	-	(2,077,134,131)
Retained earnings from revaluation reserve	1,009,978	1,135,580	1,135,580	-	-	2,145,559
Result of the year credit balance						
debit balance	-	(973,677,328)	-	-	-	(973,677,328)
Total	7,881,934,875	2,383,682,047	55,757,310	873,505,664	55,757,310	9,392,111,258

* For details, see Note 10.9

SC PETROM S.A.
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
AS AT DECEMBER 31, 2005
(all amounts are expressed in RON, unless otherwise specified)

Shareholders' equity	Balance at 1.01.2005	Increase out of which	Transfer	Decrease out of which	Transfer	Balance at 31.12.2005
Subscribed share capital	5,600,050,608					5,600,050,608
Share premium	2,060,096,385			2,060,096,385	2,060,096,385	-
Revaluation reserve	830,831,549			830,831,549	830,785,733	-
Legal reserves	85,596,417	81,041,773	81,041,773			166,638,190
Other reserves	245,492,699	57,778,913 *	-	-	-	303,271,612
Other reserves-geological quota	3,618,709,501	300,000,000	300,000,000	-	-	3,918,709,501
Retained earnings	(3,048,665,901)	3,187,842,977	3,187,842,977	139,177,076 **		-
Profit for the year		1,416,422,558		678,002,632	678,002,632	738,419,926
Total	9,392,111,258	5,043,086,221	3,568,884,750	3,708,107,642	3,568,884,750	10,727,089,837

*RON 51,595,648 represents the revaluation of available for sale investments at their fair value. The remaining represents land for which ownership was obtained and will be incorporated in shareholders equity.

* *RON 132,752,109 represents tax on revaluation reserve transferred to retained earnings. The remaining RON 6,424,967 represents corrections for expenses related to prior year.

SC PETROM S.A.
ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND DECEMBER 31, 2005
(all amounts are expressed in RON, unless otherwise specified)

1. FIXED ASSETS

a) Tangible assets

COST	Balance as at January 1, 2005	Reclassifications*	Increase	Decrease	Balance as at December 31, 2005
Land	545,145,415	-	13,854,374	583,625	558,416,164
Buildings and constructions (including wells)	5,824,364,532	(9,108,844)	532,988,117	323,534,814	6,024,708,991
Machinery and equipment	2,784,548,875	16,737,613	366,139,133	36,790,567	3,130,635,054
Other equipment and furniture	75,293,792	(7,628,769)	9,043,368	595,932	76,112,459
Advances and tangible assets in progress (*)	1,041,333,959	113,601,631**	1,137,008,750	990,548,366	1,301,395,974
Total	10,270,686,573	113,601,631	2,059,033,742	1,352,053,304	11,091,268,642

Accumulated depreciation	Balance as at January 1, 2005	Reclassifications*	Increase	Decrease	Balance as at December 31, 2005
Buildings and constructions (including wells)	471,324,942	315,522	441,175,734	561,791	912,254,407
Machinery and equipment	286,238,492	874,998	262,339,460	13,969,215	535,483,735
Other equipment and furniture	11,340,773	(1,190,520)	7,189,378	163,065	17,176,566
Total	768,904,207	-	710,704,572	14,694,071	1,464,914,708

* Consequent to a detailed exercise, the Company reclassified assets between various categories. See also note 1b).

** The Company reclassified the exploration and appraisal expenditures from intangible assets to tangible assets in accordance with IFRS 6 requirements.

SC PETROM S.A.
ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND DECEMBER 31, 2005
(all amounts are expressed in RON, unless otherwise specified)

1. FIXED ASSETS (continued)

a) Tangible assets (continued)

Provisions **	Balance as at January 1, 2005	Reclassifications*	Increase	Decrease	Balance as at December 31, 2005
Land	361,018,636	58,859,523	45,450,394	11,675,733	453,652,820
Buildings	853,647,925	(94,539,406)	39,336,549	33,166,932	765,278,136
Machinery and equipment	381,955,708	14,947,127	84,001,301	34,886,219	446,017,917
Other equipment and furniture	30,262,436	(11,650,789)	1,919,924	191,016	20,340,555
Advances and tangible assets in progress (*)	345,780,466	51,935,156	344,324,522	323,079,448	418,960,696
Total	1,972,665,171	19,551,611	515,032,690	402,999,348	2,104,250,124
Net book value	7,529,117,195				7,522,103,810

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ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS
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(all amounts are expressed in RON, unless otherwise specified)

1. FIXED ASSETS (continued)

*** As at December 31, 2004, as detailed in Note 2 and 10.9. the Company assessed for the first time the carrying value of its property, plant and equipment in accordance with the provision of IAS 36, which requires that "an entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset". To assess the recoverable amount, the Company identified cash generating units within the Company to be the branch for Exploration and Production and refinery segments and the filling stations for the marketing segment.

The Company engaged professional appraisers, Smith Hodgkinson who assessed the carrying value of the independent cash generating units of the refinery and marketing segments. The market value of properties was assessed by Colliers International. For the E&P segment, the Company used its own estimates.

As discussed in Note 6, for the financial statements for the year ended December 31, 2004, the impairment adjustment was effected retrospectively, due to the fact that IAS 36 was not appropriately applied in 2003 and the management believes that impairment would have been identified and recorded in its earlier period financial statements, had such calculation been appropriately made.

The net increase in impairment provision in 2005 reflects additional costs incurred in completing projects that were fully impaired in 2004 for which the Company was contractually obligated to perform.

SC PETROM S.A.
ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND DECEMBER 31, 2005
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1. FIXED ASSETS (continued)

The total impairment provision against the cash generating units is as follows:

	2004 Statement of Operations and geological quota	Revaluation reserve	Retained earnings	Total as at December 31, 2004	Total as at December 31, 2005
Exploration and production	131,068,765	35,820,609	118,429,428	285,318,802	284,896,798
Refinery	-	-	-	-	-
Arpechim	246,608,067	44,422,166	317,733,772	608,764,005	595,199,307
Doljchim	3,955,762	7,124,329	45,328,113	56,408,205	62,628,327
Petrobraz	31,738,757	86,131,687	166,355,870	284,226,315	369,619,368
	282,302,586	137,678,182	529,417,756	949,398,524	1,027,447,002
Marketing	75,167,152	272,250,355	447,030,471	794,447,978	829,265,753
Total	488,538,502 (Note 2)	445,749,147 (Note 10.9)	1,094,877,656	2,029,165,304	2,141,609,553

As at December 31, 2005 the Company engaged Smith Hodgkinson in order to assess recoverable amount of its property plant and equipment for refining and marketing segments. No further impairment was necessary.

In 2005, the entire movement in impairment provision was charged in the Statement of Operations and is related mainly to capital work in progress.

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ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS
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1. FIXED ASSETS (continued)

b) Intangible assets

COST	Balance at January 1, 2005	Reclassifications *	Increase	Decrease	Balance at December 31, 2005
Intangible assets	114,846,052	-	40,486,007	1,550,397	153,781,662
Advances and intangible assets in progress	154,179,797	(113,601,631)**	4,080,882	37,414,332	7,244,716
Total	269,025,849	(113,601,631)	44,566,889	38,964,729	161,026,378
ACCUMULATED DEPRECIATION	Balance as at January 1, 2005	Reclassifications *	Increase	Decrease	Balance as at December 31, 2005
Intangible assets	30,438,602	-	20,046,407	715,252	49,769,757
Total	30,438,602	-	20,046,407	715,252	49,769,757
PROVISIONS	Balance at January 1, 2005	Reclassifications *	Increase	Decrease	Balance at December 31, 2005
Intangible assets	56,500,134	(19,551,611)	939,940	529,034	37,359,429
Total	56,500,134	(19,551,611)	939,940	529,034	37,359,429
Net book value	182,087,113				73,897,192

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1. FIXED ASSETS (continued)

c) Financial assets

COST	Balance at 01.01.2005	Increase	Decrease	Balance at 31.12.2005
Investments (a)	240,049,282	10,214,300	45,703,220	204,560,362
Other financial assets (b)	-	1,125,880,928	9,839	1,125,871,089
Other receivables (c)	423,335,438	149,516,404	28,927,857	543,923,985
Decommissioning receivable from State (d)	1,323,950,940	57,137,359	176,026,715	1,205,061,584
Total	1,987,335,660	1,342,748,991	250,667,631	3,079,417,020
PROVISIONS				
Investments	109,139,721	13,716,805	60,521,230	62,335,296
Other receivables	-	3,838,957	-	3,838,957
Total	109,139,721	17,555,762	60,521,230	66,174,253
Net book value	1,878,195,939			3,013,242,767

(a) The increase in investments represents the acquisition in 2005 of an additional 49% of Petrom Gas in the amount of 8,460,000 RON and a further investment in DOO PETROM YU for RON 1,754,300. The decrease mainly represents the write off of investment in CS Resita in amount of RON 45,691,745.

(b) The amount represents investment in mutual funds and other financial instruments through umbrella funds. The fair value of those investments as at December 31, 2005 is EUR 306,184,517. Umbrella funds are classified as available for sale financial assets and are presented at fair value at year end. The differences in fair value are treated in equity until sold.

(c) This amount represents loans extended to subsidiaries in Kazakhstan (KOM MUNAI, OZTIURK MUNAY, TASBULAT OIL CORPORATION) whose principal activities are exploration and production of oil and gas.

(d) As part of the agreement between the Company and Romanian State, the Company is required to close wells, which are abandoned and are awaiting closure. However, such expenditures will be recoverable by the Company from the State as these pertain to E&P activities prior to privatization of the Company in 2004. Consequently, the Company has recorded decommissioning liabilities against receivable from the State for approximately 11,229 wells. As described in Note 2 (iii), the decommissioning recorded as at December 31, 2004 was reassessed.

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ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS
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1. FIXED ASSETS (continued)

c) Financial assets (continued)

Investments as at December 31, 2005 consist of the following:

Company Name	Field of Activity	Share interest percentage	Cost	Provision
Subsidiaries (>50%)				
Petrogas	Carbon dioxide production and distribution	100.00%	17,999,597	9,235,202
Petrom Hungaria Kft	Fuel distribution in Hungary	100.00%	15,538,051	-
Tasbulat Oil CorporationLLP.	Oil exploration and drilling In Kazakhstan	100.00%	13,426,985	-
Doo Petrom Yu	Oil products distribution - wholesale and retail	100.00%	1,761,655	-
Petrom Gas SRL Bucuresti	Intermediary in fuel, minerals and chemical products trade	99.99%	8,599,852	-
Petrom Nadlac SRL Nadlac	Oil products distribution	98.51%	6,521,923	1,634,670
Poliflex Romania SRL Brazi	Polyethylene production and distribution	96.84%	518,170	-
Kom Munai	Oil products distribution	95.00%	33,121,000	4,580,185
Oztyurk Munai	Oil fields exploration and production	95.00%	22,383,557	22,383,557
MBH Carpatina SA Radauti	Mineral water production and distribution	82.89%	18,871,444	4,174,235
Petrom Moldova	Oil products import and distribution	65.00%	7,338,313	-
Associated companies (20-50%)				
Linde Gaz Brazi SRL Brazi	Industrial gas production and distribution	49.00%	1,910,243	-
Soc Romana de petrol	Oil products production and distribution	49.00%	49,000	49,000
Petrom Aviation Otopeni-Ilfov	Aircraft fuel distribution	48.50%	23,467,291	9,857,889
Robiplast Co SRL Bucuresti	Plastic materials production	45.00%	1,080	1,080
Shell Gas ROMANIA	GPL distribution	44.47%	1,914,723	-
Beyfin Gaz SRL	Gas production and distribution	40.00%	1,222,367	469,721
M-I Petrogas Services ROMANIA SRL Bucuresti	Drilling services and fluids	40.00%	242,416	-
Franciza Pitesti	Other financial services	40.00%	144,000	-
Brazi Oil & Angelescu Prod Com SRL Brazi	Oil products distribution	37.70%	310,800	310,800
Fontegas – Peco SA Mehedinti	Fuel distribution	37.40%	295,881	195,094
Congaz SA Constanta	Natural gas distribution	28.59%	14,158,085	-
Deem Algocar SA Buzias	Oil products distribution	27.92%	17,035	17,035
Acetilena Brazi SRL Brazi	Basic chemical products processing	21.28%	1,242,664	-
Bursa Maritima si de Marfuri CONSTANTA	Other financial services	20.09%	100,000	100,000
Transgaz Services SRL Bucuresti	Transportation G.P.I on railroad	20.00%	284,219	284,219

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1. FIXED ASSETS (continued)

c) Financial assets (continued)

Company Name	Field of Activity	Share interest percentage	Cost	Provision
Other financial investments (<20%)			-	-
GTI Oil Co	Fuel distribution	13.00%	61,722	61,722
Prima Petrol	Fuel distribution	11.98%	11,975	11,975
Butan Gas Romania SRL Bucuresti	Natural gas distribution	8.54%	1,559,520	-
Grivcorelf	Aircraft fuel distribution in Romania	6.41%	8,929,975	8,860,750
Bursa Universala Brasov	Other financial services	2.53%	2,000	-
Bursa de Marfuri Oltenia Craiova	Other financial services	2.47%	1,526	230
Romexterra	Banking services	2.00%	2,440,000	
Telescaun Tihuta	Installations for cable transportation	1.68%	420	420
Bursa Financiar Monetara	Other financial services	1.17%	1,913	-
Agribac SA Bacau	Animals breeding	0.79%	28,060	28,060
Institutul Roman pentru Asigurari	Insurance services	0.56%	7,250	4,502
Benz Oil	Oil products distribution	0.48%	700	-
Credit Bank	Other financial services	0.22%	500	500
Oficiul Patronal Judetean Mures		0.01%	1,000	1,000
MD India	Onshore and offshore oil and gas exploration and exploitation activities in India	0.00%	73,450	73,450
TOTAL			204,560,362	62,335,296

SC PETROM S.A.
ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND DECEMBER 31, 2005
(all amounts are expressed in RON, unless otherwise specified)

2. PROVISIONS FOR RISK AND CHARGES AND OTHER PROVISIONS

	Balance at 01.01.2005	Increase	Decrease	Balance at 31.12.2005
PROVISIONS FOR RISKS AND CHARGES				
Provision for litigations (ii)	132,510,636	56,450,761	49,096,642	139,864,755
Provision for decommissioning expenses (iii)	3,811,431,979	250,318,401	392,475,072	3,669,275,308
Provision for retirement benefits (iv)	122,365,474	71,798,714	33,331,489	160,832,699
Provision for environmental expenditures (v)	285,024,776	95,926,376	65,441,934	315,509,218
Provision for restructuring (vi))	-	488,453,375	139,341,022	349,112,353
Other provisions for risk and charges (vii)	79,719,116	88,588,050	42,322,291	125,984,875
Total	4,431,051,981	1,051,535,677	722,008,450	4,760,579,208
OTHER PROVISIONS				
Provisions for clients (Note 5)	660,989,058	133,844,125	97,853,051	696,980,132
Provisions for depreciation of inventories (Note 10,3)	545,848,407	-	489,073,815	56,774,592
Provisions for impairment of fixed assets (Note 1) and Note i) below	2,029,165,305	542,879,259	430,435,011	2,141,609,553
Provisions for depreciation of financial assets (Note 1 c)	109,139,721	17,555,761	60,521,229	66,174,253
Total	3,345,142,490	694,279,145	1,077,883,106	2,961,538,531

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ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS
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(all amounts are expressed in RON, unless otherwise specified)

2. PROVISIONS FOR RISK AND CHARGES AND OTHER PROVISIONS (continued)

(i) In 2004 the impairment provision was calculated in accordance with IAS 36 based on appraisals carried out by Smith Hodgkinson and Colliers International, independent professional appraisers, on the basis of the present value of future cash flows expected to be derived from an asset or cash generating unit. Consequently, in 2004 the Company recorded impairment provisions which represented the difference between the original carrying values of the Company's assets and their recoverable amounts. In recording those provisions the Company considered reflecting the amounts against appropriate balances in either statement of operations, retained earnings or previously recognized revaluation reserve.

In 2005 an impairment exercise was carried out in accordance with IAS 36, by taking in consideration the appraisals carried out by Smith Hodgkinson in order to obtain the present value of future cash flows expected as at December 31, 2005. The net increase in impairment provision in 2005 reflects additional costs incurred in completing projects that were fully impaired in 2004 for which the Company was contractually obligated to perform.

(ii) The Company monitors all litigations instigated against it and assesses the likelihood of losses and related financial cost using in house lawyers and outside legal advisors. The Company has assessed the potential liabilities with respect to ongoing cases and recorded its best estimate of likely cash outflows.

(iii) Decommissioning provisions are set up using the best possible estimate considering the applicable legislation currently in force and also the possible effect of changes in these requirements considering Romania's planned accession to the European Union. In determining these provisions management has considered existing and future technologies that are expected to be used. Costs are estimated at current prices using an inflation rate of 2,5% and discounted, at a discount rate of 7% in 2005 (2004 inflation rate of 5% and discounted, at a discount rate of 9,48%), from the period when it is expected that the costs will be incurred. Estimation of costs, discount rates and timing of cash flows requires judgments, projections and use of forecasts. The management believes that it has used the best available information and recognizes that certain data and information used in these estimations will be reviewed and improved on an on-going basis. Any revisions will be accounted for on a prospective basis in accordance with industry practice.

As at December 31, 2005, provisions have been recorded in the E&P segment, in respect of decommissioning costs related to the closure of 14,460 wells, 1,120 parks, 23 sludge pits and 54 wells and offshore facilities in Petromar. In the marketing segment, provisions relate to 233 filling stations and 146 oil terminals. In addition the Company recorded a provision of RON 1,205,061,584 which is recoverable from the Romanian government representing the closure cost of approximately 11,229 wells and therefore the Company has recorded an equivalent receivable in respect of these wells. (See note 1c.) The decommissioning provision in respect of these closures is RON 3,669,275,308.

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2. PROVISIONS FOR RISK AND CHARGES AND OTHER PROVISIONS (continued)

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

(v) The environmental provision is estimated by the management based on the list of environment related projects that must be completed by the Company to address prior environmental obligations as stipulated in the privatization agreement concluded between the Romanian state and OMV AG.

(vi) The Company embarked on a restructuring plan during the year. In order to run the Company in the most effective and efficient manner, the Company's Board of Directors has approved a plan to reduce the number of employees. The plan has been communicated to the representatives of the employees' union (FSLI) and out of the total provision recorded of RON 488,453,375, the Company had by the year end made payments of RON 139,341,022 to 5,250 employees.

(vii) Other risks and charges primarily relate to the provision for excises, VAT and other taxes related to the missing stock and alkalation unit.

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3. PROFIT ALLOCATION

	<u>December 31, 2004</u>	<u>December 31, 2005</u>
Net profit/ (loss) to be allocated	(973,677,328)	1,416,422,558
- legal reserve	-	81,041,772
- geological quota	-	300,000,000
- coverage of previous loss		<u>296,960,860</u>
Profit/ (loss) not allocated	<u>(973,677,328)</u>	<u>738,419,926</u>

On November 22, 2005 the Ordinary General Meeting of Shareholders approved the decision to use the share premium reserves and the revaluation reserve to cover the loss from prior years.

4. ANALYSIS OF OPERATING PROFIT / LOSS

	<u>December 31, 2004</u>	<u>December 31, 2005</u>
1. Net turnover	8,687,896,679	10,760,228,198
2. Costs of goods sold and services rendered (3+4+5)	7,182,199,252	9,178,651,948
3. Operating activity expenses	5,385,964,089	6,917,250,605
4. Secondary activity expenses	879,049,212	1,413,361,816
5. Indirect expenses	917,185,951	848,039,527
6. Gross profit/loss due to net turnover (1-2)	1,505,697,427	1,581,576,250
7. Selling & Distribution expenses	707,256,885	798,146,365
8. Administrative expenses*	2,482,809,198	299,139,905
9. Other operating revenues	<u>1,103,218,545</u>	<u>1,399,909,039</u>
10. Operating profit/(loss) (6-7-8+9)	<u>(581,150,111)</u>	<u>1,884,199,019</u>

* 2004 administrative expenses include administration costs by various branches which are charged within the operating activities of those branches in 2005.

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5. RECEIVABLES AND PAYABLES

Receivables	December 31, 2004	Liquidity term	
		Up to 1 year	Over 1 year
Customers and similar accounts	1,174,729,448	1,174,729,448	
Advances to suppliers	8,239,699	8,239,699	-
Sundry debtors	166,165,832	166,165,832	-
Advances to personnel	8,460,113	8,460,113	-
Interest receivable	3,635,980	3,635,980	-
Other receivables	68,572,295	68,572,295	-
Provision for doubtful receivables*	(660,989,058)	(660,989,058)	-
VAT not due	2,760,247	2,760,247	-
Other taxes and similar accounts	4,011,074	4,011,074	-
Special funds – taxes and similar accounts	743,898	743,898	-
TOTAL	776,329,527	776,329,527	

* Refer to Note 2 for movement in above provision.

Payables	December 31, 2004	Due term		
		Up to 1 year	Between 1 – 5 years	Over 5 years
Long term loans	491,171,766		491,171,766	-
Short term loans	145,468,273	145,468,273	-	-
Interest for loans	15,017,674	15,017,674	-	-
Suppliers and similar accounts	444,286,168	444,286,168	-	-
Advance payments from customers	26,092,626	26,092,626	-	-
Sundry creditors	37,468,722	37,468,722	-	-
Guarantees from suppliers	51,673,805	51,673,805	-	-
Employees rights	61,243,792	61,243,792	-	-
Contribution to social security	29,890,550	29,890,550	-	-
Contribution to unemployment fund	2,426,513	2,426,513	-	-
Contribution to special funds	6,597,078	6,597,078	-	-
Tax on salaries	10,478,428	10,478,428	-	-
VAT payable	27,128,408	27,128,408	-	-
VAT not due	-	-	-	-
Dividends to be paid	187,620,241	187,620,241	-	-
Other payables	251,192,864	211,985,739	39,207,125	-
TOTAL	1,787,756,908	1,257,378,017	530,378,891	

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5. RECEIVABLES AND PAYABLES (continued)

Receivables	December 31, 2005	Liquidity term	
		Up to 1 year	Over 1 year
Customers and similar accounts	1,451,040,640	1,449,829,411	1,211,229
Advances to suppliers	16,710,474	16,710,474	-
Sundry debtors	166,721,031	127,981,390	38,739,641
Advances to personnel	9,037,752	8,677,103	360,649
Interest receivable	21,909,452	21,909,452	-
Other receivables	49,737,401	49,737,401	-
Provision for doubtful receivables	(696,980,132)	(696,980,132)	-
VAT not due	150	150	-
Other taxes and similar accounts	127,324,528	127,324,528	-
Special funds – taxes and similar accounts	1,376,826	1,376,826	-
TOTAL	1,146,878,122	1,106,566,603	40,311,519

Payables	December 31, 2005	Due term		
		Up to 1 year	Between 1 – 5 years	Over 5 years
Short term loans	464,793,583	464,793,583	-	-
Interest for loans	13,464,237	13,464,237	-	-
Suppliers and similar accounts	756,332,080	756,332,080	-	-
Advance payments from customers	18,470,562	18,470,562	-	-
Sundry creditors	21,241,727	21,241,727	-	-
Guarantee deposits from suppliers	45,343,808	10,443,057	13,009,071	21,891,680
Employees rights	66,126,331	66,126,331	-	-
Contribution to social security	39,622,662	39,622,662	-	-
Contribution to unemployment fund	3,283,933	3,283,933	-	-
Contribution to special funds	8,630,392	8,630,392	-	-
Tax on salaries	9,674,584	9,674,584	-	-
Tax on profit	382,585,857	382,585,857	-	-
VAT payable	5,546,844	5,546,844	-	-
Dividends to be paid	142,172,339	142,172,339	-	-
Other payables	288,528,350	288,528,350	-	-
TOTAL	2,265,817,289	2,230,916,538	13,009,071	21,891,680

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5. RECEIVABLES AND PAYABLES (continued)

As at December 31, 2005, the short-term loans from financial institutions were as follows:

	December 31, 2004	December 31, 2005
Short term loans		
Loans in currency		
BCR (a)	6,464,501	-
Kexim Korea (a)	26,082,232	-
Mediocredito Italia (a)	11,661,680	-
Marea Neagră (a)	19,450,668	-
BIRD II 3723	81,809,194	7,118,676
Eurobonds	-	471,139,144
	<hr/>	<hr/>
Total short term loans	<u>145,468,274</u>	<u>478,257,820</u>

As at December 31, 2005, the long-term loans from financial institutions were as follows:

	December 31, 2004	December 31, 2005
Long term loans		
Loans in currency		
Eurobonds	491,171,766	-
	<hr/>	<hr/>
Total long term loans	<u>491,171,766</u>	<u>-</u>
	<hr/>	<hr/>
Total loans	<u>636,640,040</u>	<u>478,257,820</u>

(a) All loans were repaid during the year.

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5. RECEIVABLES AND PAYABLES (continued)

LONG TERM LOANS

Loan agreement no. 75/2000 - RCB – April 13, 2000 - Petrobrazî

Lenders	Romanian Commercial Bank
Borrower	SC "Petrom" SA
Value	USD 5.560.000
Purpose	to ensure the necessary funds for an advance payment on the Hyundai investment (co-generation plant) in Petrobrazî refinery
Maturity	December 2006
Interest	LIBOR/6 months + 2%, payable semiannually
Repayment	10 semiannual installments (1 st repayment - May 30, 2002)
Undrawn amounts	USD 0,00
Security	The security for the loan is the assignment of accounts receivable and a mortgage over inventory and tangible assets: - First rank mortgage over the land owned by Petrobrazî branch (two parcels of 17,631 sqm and 14,230 sqm respectively) and over the buildings related to the Cogeneration Plant. - Pledge without dispossession over the component equipments of the Cogeneration Plant (including the related know-how). - Annual assignment of receivables (ROL and/or other currencies) within the limit of the company financial obligation to the bank. The value of the security may be reduced periodically, proportionally with loan repayments.

Loan Agreement - KEXIM Korea - Petrobrazî - Contract no. 2381/May 29, 2000

Lenders	KEXIM Korea
Borrower	SC "Petrom" SA
Value	USD 21,000,000. Beginning with December 2002, the credit value was diminished to USD 17,946,628
Purpose	to finance the payment of a certain portion of the co-generation plant at Petrobrazî
Maturity	June 2007
Interest	6,94% per annum
Repayment	10 semiannual installments (1 st repayment – December 2002) but the management notified the Bank of their intention to make earlier repayment
Undrawn amounts	USD 0,00
Security	The security is provided by a RCB guarantee, counter-guaranteed by: <ul style="list-style-type: none"> • Second rank mortgage over the land owned by Petrobrazî branch (two parcels of 17,631 sqm and 14,230 sqm respectively) and over the buildings related to the Cogeneration Plant. • Pledge without dispossession over the component equipments of the Cogeneration Plant (including the related know-how).

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5. RECEIVABLES AND PAYABLES (continued)

LONG TERM LOANS (continued)

Loan Agreement - Mediocredito Centrale - Italy - Petrobrazî - Contract no. 2381/June 1, 2000

Lenders	Mediocredito Centrale – Italy
Borrower	SC "Petrom" SA
Value	USD 10,030,000
Purpose	to finance the payment of a certain portion of the co-generation plant at Petrobrazî.
Maturity	December 2006
Interest	6,94% per annum
Repayment	10 semiannual installments (1 st repayment – May 30, 2002) but the management notified the Bank of their intention to make earlier repayment
Undrawn amounts	USD 0,00
Security	The security is provided by a RCB guarantee, counter-guaranteed by: <ul style="list-style-type: none"> • Second rank mortgage over the land owned by Petrobrazî branch (two parcels of 17,631 sqm and 14,230 sqm respectively) and over the buildings related to the Cogeneration Plant. • Pledge without dispossession over the component equipments of the Cogeneration Plant (including the related know-how).

Loan Agreements BERD and Black Sea Trade and Development Bank - 1 August 2002

Lenders	EBRD and Black Sea Trade and Development Bank
Borrower	SC "Petrom" SA
Value	USD 150.000.000
Purpose	finance the implementation of the investment projects, with an important part related to environment, for the modernization of the refinery sector
Structure	Part A - Loan BERD - USD 100,000,000 - Loan BSTDB - USD 10,000,000 Part B – Syndicated loan - USD 40,000,000
Maturity	Part A – 2010 Part B – 2008
Interest	Part A - LIBOR +4.65% Part B - LIBOR + 4.15 %
Repayment	Part A – 24 quarterly installments Part B – 16 quarterly installments
Undrawn amounts	USD 00.00
Security	Unsecured
Comments	- EBRD has exerted its Conversion Option into shares for the entire principal amount of the A Loan. The amount was converted on the Closing Date, together with the prepayment of the full outstanding amount of the B Loan. - Closing occurred on December 14 th , 2004.

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5. RECEIVABLES AND PAYABLES (continued)

SHORT TERM LOANS

Petrom – Ministry of Finance – Subsidiary Loan Agreement no,3723/June 1994

Lender	Ministry of Finances (MoF) under the Main Loan Agreement between MOF and IBRD for USD 175,600,000
Borrower	SC "Petrom" SA - Subsidiary Loan Agreement for USD 36,900,000
Value	USD 36,900,000
Purpose	finance the acquisition of assets and/or services necessary to upgrade production units and environmental protection
Maturity	April 25, 2014 per contract but the management notified the Bank of their intention of pay earlier. Almost the entire loan was paid in 2005.
Interest	The interest rate is the cost qualified borrowings of the previous three months plus 0.5% per annum.
Repayments	As per agreement the repayments are half-yearly, began on 25 October 1999 and end on October 2014, and installments are due 15 days prior to the Ministry of Finance having to pay its installments to IBRD, according to the loan agreement dated June 1 st 1994, between Romania and IBRD In 2006 the remaining loan is expected to be paid.
Undrawn amounts	USD 0,00
Security	MoF
Comments	

International Eurobonds issue – October 2, 2001

Managers	ABN Amro and ING Bank (Lead Managers), Alpha Bank, Caboto, HVB, NBG International, RZB Austria (co- managers)
Issuer	SC "Petrom" SA
Value	Euro 125 mill.
Purpose	The net proceeds of the issue of the bonds are to be used by Petrom for general corporate purposes.
Maturity	October 2, 2006
Interest	11.625% payable annually in arrears on October 2 nd each year
Repayment	Bullet (October 2006)
Undrawn amounts	USD 0.00
Security	Unsecured
Comments	Redemption at the option of note holders: If at any time any of the following events occurs: (i) the government of Romania, acting directly or through any authorized institution, ceases to control the Issuer or no longer directly owns shares of the Issuer representing a majority of the nominal value of the issued share capital of the Issuer; or (ii) the Issuer ceases to be a producer of crude oil

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5. RECEIVABLES AND PAYABLES (continued)

SHORT TERM LOANS (continued)

Overdraft facility - ING Bank - Contract nr. 64875/October 28, 2002

Lenders	ING Bank
Borrower	SC "Petrom" SA
Facility	USD 20 mill, extended to USD 25 mill on 15.12.2001. On October 28 th , 2002 a new contract was signed for the same amount, i.e. USD 25 mill. On August 23 rd , 2004 was signed the Addendum no 2 for reducing the interest rate and the commissions of the Contingent Engagements.
Purpose	Working capital financing and import financing of crude oil, oil products and equipment requirements.
Maturity	"Until further notice"
Interest	LIBOR/1month plus 1.85% per annum
Repayment	Overdraft
Security	General pledge on receivables under the commercial contracts within the limit of the company financial obligation to the bank
Comments	Petrom has the obligation to route quarterly through the bank USD 25 mill. or ROL equivalent

Overdraft - facility - ABN Amro - Contract nr. 1177/May 2001

Lenders	ABN Amro Bank
Borrower	SC "Petrom" SA
Facility	USD 20 mill. on May 24, 2001, increased at USD 25 mill on May 2002, extended in May 28, 2003, in November 28, 2003, and in July 1, 2004. On December 29, 2004, a new contract was signed for the amount i.e. USD 10 mill multicurrency. Draw-downs could be done in USD, EUR or ROL.
Purpose	Working capital financing.
Maturity	December 29, 2005 with the possibility of extension
Interest	LIBOR/EURIBOR/COF/1month;
Repayment	Overdraft
Security	Unsecured
Comments	Petrom has the obligation to route monthly through the bank part of its turnover pro-rata with the utilization of the Facility.

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5. RECEIVABLES AND PAYABLES (continued)

SHORT TERM FINANCING (continued)

Overdraft facility – Citibank – Contract nr. 606/May 7, 2001

Lenders	Citibank
Borrower	SC "Petrom" SA
Facility	USD 10 mill, extended at USD 20 mill. on September 21, 2001, increased at USD 30 mill on April 2002 (out of which USD 10 mill in ROL equiv.). On July 28, 2003, the facility was extended for USD 20 mill multicurrency. On July 21, 2004 a new contract was signed for the same amount i.e. USD 20 mill multicurrency.
Purpose	Working capital needs and other purposes
Maturity	"Until further notice"
Interest	LIBOR/1month + 1,95%, per annum
Repayment	Clean up clause: 1 day every 6 month
Security	- Assignment over receivables under the contract no. 2846/28.05.1999 (together with the addenda to this contract), signed between SNP Petrom S.A. and Petrom-Gas.
Comments	Petrom has the obligation to route quarterly through the bank USD 25 mill. or other currency equivalent.

Overdraft - facility - ABN Amro - Contract nr. 4220/06.10.2005

Lender	ABN Amro Bank
Borrower	SC "Petrom" SA
Facility	USD 13 million USD din care : - USD 3 million USD for letter of guarantee issuance ; - USD 10 million USD for letter of credit issuance The withdrawals can be made in USD, EUR and RON.
Purpose	Working capital financing.
Maturity	December 29, 2006 with the possibility of extension,
Interest	LIBOR/EURIBOR/COF/1 month
Security	Unsecured
Comments	Petrom has the obligation to route monthly through the bank part of its turnover pro-rata with the utilization of the Facility

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5. RECEIVABLES AND PAYABLES (continued)

SHORT TERM FINANCING (continued)

Overdraft - facility – Raiffeisen Bank – 0314/August 8, 2002

Lenders	Raiffeisenbank Romania SA
Borrower	SC "Petro" SA
Facility	USD 20 million signed in August 2002, extended in July 2003, July 21, 2004 and July 29, 2005
Purpose	Working capital financing and import financing of crude oil, oil products and equipment requirements.
Maturity	July 31, 2007, with the possibility of extension.
Interest	Base Rate plus 0.4% per annum
Repayment	Overdraft
Security	Unsecured
Comments	Petrom has the obligation to route quarterly through the bank USD 20 mill, or ROL equivalent

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6. ACCOUNTING PRINCIPLES AND METHODS

Accounting principles used for drawing up financial statements

The Company maintains its accounting records in Romanian Lei ("RON") and prepares its statutory financial statements in accordance with the Regulations on Accounting and Reporting issued by the Ministry of Finance in Romania.

Financial Statements are prepared in accordance with the Ministry of Public Finance's regulations (MPFO no. 1827/2003) modified by Government Decision 168/1998 with respect to accounting for geological quota as at December 31, 2004 (subsequently amended by HG 768/2000, HG 1116/2002 and Law 555/2004). Order 1827/2003 is not similar with the financial reporting for the hyperinflationary economies as they are described by the Order no. 94/2001, and differ from the internationally accepted accounting standards. Although starting with January 1, 2004, Romania ceased to be hyperinflationary economy, the beginning balances were not restated in accordance with IAS29 "Financial Reporting in Hyperinflationary Economies". Also the Company did not apply IAS22 "Business Combination".

Prior Year Restatements and Retained Earnings

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

During 2004, the Company assessed its compliance application with all Romanian Accounting Standards (RAS) and identified that it did not fully comply with the provision of Accounting Standards, in respect to impairment, employee benefits and accounting for inventories.

Consequently, the Company engaged independent professional appraisers to assess the recoverable amounts of the cash generating units, the liability with respect to employee benefits and recalculated the actual cost of closing stocks and retrospectively adjusted its assets and liabilities. See Note 10.9 for details.

Geological quota

The Company benefits from geological quota facility whereby it can charge up to 35% of the market value of the volume of oil and gas extracted during the year. Starting with 2005, this facility was recognized directly in reserves without recording as an expense. This quota is restricted to investment purposes and is not distributable. The quota is non-taxable.

Currency used for presentation

Financial statements are presented in Romanian Leu (RON).

Use of estimates

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. As discussed in Note 1, 2 and 10.9 the Company made significant adjustments to its opening and current year balance sheet using best possible information and estimation available. Actual results could differ from those estimates.

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6. ACCOUNTING PRINCIPLES AND METHODS (continued)

MINISTRY OF FINANCE ORDINANCE NO. 94 ("ACCOUNTING REGULATIONS HARMONISED TO 4TH DIRECTIVE OF EUROPEAN ECONOMIC COMMITTEE AND TO INTERNATIONAL ACCOUNTING STANDARDS")

The Ministry of Finance Ordinance no. 94 (MoF 94) is applicable beginning with financial statements of year 2000 for the commercial companies quoted to Bucharest Stock Exchange, for some state owned companies, national companies, as well as for some specific categories of companies that operates on the capital market. According to MoF 94, financial statements will be elaborated at historical cost, but nevertheless, the companies may choose to apply IAS 29 "Financial Reporting in Hyperinflationary Economies". IAS 29 requires financial statements to be expressed in terms of purchasing power at the balance sheet date, and any gain or loss on net monetary position to be included into Profit and Loss account and to be separately disclosed. The restatement of financial statements, according to IAS 29, requires the use of General Price Index (GPI) that reflects the changes in purchasing power.

Starting January 1, 2004, Romania has ceased to be a hyperinflationary economy. In these circumstances, IAS 29 requires the restatement of the opening balances of non-monetary assets and liabilities in terms of measuring unit current at the balance sheet date. However, in accordance with Romanian regulations, these balances have not been restated.

Property plant and equipment

(i) Cost/ Indexation

The cost of purchased fixed assets is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to their present location and condition necessary for their intended use.

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

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

The Company has also revalued the fixed assets in accordance with Romanian legislation. The increase of the book value of the tangible assets resulting from these revaluations was credited in the revaluation reserves account. Consequently, the tangible assets, acquired before December 31, 2003 are presented at revalued cost and those acquired after January 1, 2004 are presented at historical cost.

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6. ACCOUNTING PRINCIPLES AND METHODS (continued)

Exploration and Appraisal Costs

Exploration and appraisal costs are accounted for on the successful efforts basis. Costs relating to license and data acquisition, geological and geophysical activity and exploration and appraisal drilling are initially capitalized as tangible oil and gas assets pending determination of the commercial viability of the relevant oil and gas properties. If prospects are subsequently deemed to be unsuccessful on completion of evaluation, the associated costs are used against geological quota from other reserves. Starting with January 2005 these are included in the profit and loss account for the year, except for those that are already provided in 2004 using the geological quota. If the prospects are deemed commercially viable, such costs are transferred to tangible oil and gas assets upon commencement of the production. The status of such prospects is reviewed regularly by executive management.

Development and Production Costs

Development costs including costs incurred to gain access to proved reserves and to prepare well locations for drilling, to drill and equip development wells and to construct and install production facilities, are capitalized as incurred. Production costs, including those costs incurred to operate and maintain wells and related equipment and facilities (including depletion, depreciation and amortization charges as described below) and other costs of operating and maintaining those wells and related equipment and facilities, are expensed as incurred.

(ii) Depreciation

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

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

	<u>Years</u>
Property and plant	10 - 40
Machinery and equipment	5 - 20
Vehicles	5
Office equipment	5 - 10

Intangible assets

(iii) Intangible assets

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

(iv) Impairment of assets

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

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6. ACCOUNTING PRINCIPLES AND METHODS (continued)

The impaired values are restored subsequently for the portion of carrying values if the impairment conditions cease to exist. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss shall be recognized immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another Standard (for example, in accordance with the revaluation model in IAS 16 Property, Plant and Equipment). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard.

(v) Provision for Decommissioning Costs

Decommissioning of oil and gas production assets describes the process of:

- plugging and abandoning wells,
- dismantlement of wellheads and production and transport facilities;
- restoration of producing areas in accordance with license requirements and the relevant legislation.

A provision is made for oil installations requiring decommissioning costs to the extent that the entity is obliged to rectify environmental damage already caused. Environmental regulations currently in force in Romania require entities that operate mineral resources to restore the environment to its original condition at the end of operations. Provisions are recorded in full at the commencement of oil and gas production. The amount recognized is the present value of the expenditures expected to be required to settle the obligation, determined in accordance with local conditions and requirements. A corresponding property, plant and equipment of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the capital costs of the production and transportation facilities. Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision.

Provisions are reviewed at each balance sheet date to reflect the current best estimate of the cost at present value. Changes in the amount of estimated expenditure are recorded as an adjustment to the amount already capitalized. Decommissioning costs for assets in other business segments are recognized when the plans for decommissioning are agreed and the associated costs can be reasonably determined. As such, the timing and magnitude of these accruals are generally based on the Company's commitment to a formal plan or disposal of assets.

Based on the privatization agreement, part of the Company decommissioning cost will be reimbursed by the Romanian State. A non-current receivable is established in respect of the reimbursement.

Inventories

Inventories are registered at the lower of cost and net realizable value. Cost is determined by first in first out method for all types of stocks. Net realizable value is estimated on selling price in the normal course of activity less estimated costs of completion and selling expenses. Appropriate provisions are made for any obsolete or slow moving stocks based on the management's assessments.

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6. ACCOUNTING PRINCIPLES AND METHODS (continued)

Receivables

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

Contributions for employees

The Company pays contributions to the State Budget for social insurance, pension fund and unemployment fund according to the levels established by the legislation during the year. The value of these contributions is recorded in the income statement in the same period with corresponding salary expenses.

Tax on profit

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

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Operating leases

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

Borrowing costs

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

Revenue recognition

- Revenue for goods sold is recognized upon transfer of title of the goods to customers.
- Services revenue is recognized upon delivery of services.
- Interest income is recognized when due.

Provisions

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

Operational expenses

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

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6. ACCOUNTING PRINCIPLES AND METHODS (continued)

Foreign currency transactions

Foreign currency transactions are recorded at the exchange rate ruling on transaction date. Monetary assets and liabilities expressed in foreign currency are converted into RON at the exchange rate on the balance sheet date. At December 31, 2005 the exchange rate was RON 3.1078 to USD 1 and RON 3.6771 to EUR 1 (31 December 2004: RON 2.9067 to USD 1 and RON 3.9663 EUR 1).

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

Components of cash and cash equivalents

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

Long-term investments

Subsidiaries and associates are not consolidated as per Romanian requirements. Long term investments are carried at lower of cost and share of net assets of the invested or quoted market value of shares if available.

Retirement Benefit Costs

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

Restructuring provision

A provision for restructuring is recognized in accordance with IAS 37 when the entity has a detailed formal plan for the restructuring of a part of the business and has raised valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it.

Available-for-sale financial assets

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

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7. SHARES AND BONDS

SHARE CAPITAL

The total share capital amounts to RON 5,600,050,608, representing 56,000,506,078 shares with a nominal value of RON 0.1 per share.

	<u>December 31, 2004</u>	<u>December 31, 2005</u>
As at January 1 (no of shares)	37.734.522.958	56.000.506.078
Share issued	<u>18.265.983.120</u>	<u>-</u>
As at December	<u>56.000.506.078</u>	<u>56.000.506.078</u>

Shareholder Structure as at December 31, 2004 and December 31, 2005

	<u>No. of shares</u>	<u>Percent</u>
OMV Aktiengesellschaft	28,560,258,100	51.00%
Ministry of Economy and Commerce	22,814,847,516	40.74%
European Bank for Reconstruction and Development	1,134,494,321	2.026%
Legal entities and physical persons	<u>3,490,906,141</u>	<u>6.234%</u>
Total	<u>56,000,506,078</u>	<u>100.00%</u>

On July 23 2004, Ministry of Economy and Commerce and OMV signed the privatization contract according to which OMV purchased 51% of Petrom's share capital through the acquisition of 33.34% of the existing shares followed by an increase of the share capital of RON 1,779,012,422. During 2004 the share capital increase was made up as follows:

a) OMV	1,582,091,679
b) Conversion of debt by EBRD to equity (USD 73 million)	113,449,433
c) Others	<u>8,347,310</u>
Total	<u>1,779,012,422</u>
Land incorporation	<u>47,585,890</u>
Total share capital increase	<u>1,826,598,312</u>

The Ordinary General Meeting of Shareholders on November 22, 2005 decided to increase the share capital in 2006 with shares to be subscribed between January 9 – February 9, 2006, due to land ownerships obtained as per HG 834 / 1999.

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7. SHARES AND BONDS (continued)

BONDS

As a result of the international capital markets development, on September 25, 2001 an issue of PETROM bonds was decided in the following terms and conditions

- Size – 125 Euro Mio;
- Share – 11.625% (fixed interest – annually payable);
- Discount – 98.29%;
- YTM – 12.10% at the issuing date;
- Maturity – 5 years;
- Payment date – October 2, 2001;
- Falling due date – October 2, 2006 (“bullet” reimbursement);
- Listing location –Luxemburg Exchange Stock;
- Fiscal Agent – BNP Paribas Luxemburg;
- Funds destination – company’s general purposes.

The bonds issuing price was 98.29% of the issuing value. The nominal value of the bonds is EUR 1,000. The bonds are issued over 5 years, respective October 2, 2006, when they are to be redeemed by Petrom from the investors at their nominal value (1,000 Euro). The investors have also the possibility to provide their right to buy back before the maturity in the specified conditions of Section 5(c) “Terms and Conditions related to the Bonds”, as follows:

- If the Romanian Government, acting directly or through an authorized institution stops controlling the Issuer or doesn’t directly own issuer’s shares which represents the majority of the nominal value of the equity;
- In the case the Issuer stops producing oil.

The bonds are interest bearer beginning with October 2 2001, meaning 11.625% annually, annually payable at the issuing value. The bonds are listed with the Luxemburg Stock Exchange.

Issuing value: 125,000,000 Euro

- Issuing price (discount – 98.29%) 122,862,500 Euro, *of which*:
 - Management commission (1.75%) 1,187,500 Euro
 - Out-of-pocket expenses: 200,000 Euro

The effective amount received by "Petrom" SA was Euro 121,475,000, equally distributed in the accounts opened with ING Barings and ABN Amro Bank (Euro 60,737,500).

The closing value of bonds is arrived at as follows:

Principal liability	457,674,907
Interest accrued as at December 31, 2005	<u>13,464,237</u>
Total	<u>471,139,144</u>

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8. INFORMATION REGARDING EMPLOYEES, ADMINISTRATORS AND MANAGERS

The average number of employees during 2004 and 2005 as well as the salaries for 2004 and 2005 were as follows:

	<u>No. of employees in 2004</u>	<u>Salaries in 2004</u>	<u>No. of employees in 2005</u>	<u>Salaries in 2005</u>
Administrators and directors	45	4,793,626	37	4,425,857
Direct and administrative employees	<u>52.346</u>	<u>872.470.155</u>	<u>48,408</u>	<u>1,143,541,778</u>
Total	<u>52,391</u>	<u>877,263,781</u>	<u>48,445</u>	<u>1,147,967,635</u>

9. EXAMPLES OF COMPUTATION AND ANALYSIS FOR MAJOR FINANCIAL INDICATORS

	<u>2004</u>	<u>2005</u>
Liquidity ratios		
Current assets	4.89	3.23
Acid test	3.89	2.56
Risk ratios		
Gearing	5.31	0.32%
Interest cover	(7.33)	31.12
Operational ratios		
Stock turnover – days	55.53	43.53
Days in receivables – days	34.15	27.66
Days in payables – days	24.38	16.17
Total assets turnover	0.55	0.60
Profitability ratios		
Return on capital employed (%) ROCE	(7.31)%	16.16%
Earnings per share (RON)	(248)	0.0253
Gross margin (%)	(9.48)%	15.64%

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10. OTHER INFORMATION

10.1. Nature of activity

The Company is located at Calea Dorobanti no 239, sector 1 Bucharest, Romania. The Company was set up according to the Government Ordinance no.49/oct.1997, modified by Law no.70/April 1998 and includes the following segments:

- E&P: 10 onshore branches and 1 offshore branch
- refining: the refineries Petrobrazi and Arpechim;
- chemicals: the chemical fertilizers producer Doljchim;
- marketing: 41 branches (PECO) and 1 transportation branch (Transpeco).

The Company has activities in exploration and production, refining, oil products transportation and distribution, gas distribution, petrochemicals and marketing. PETROM SA owns a branch in Kazakhstan which is consolidated on a monthly basis. The Company is listed on Bucharest Stock Exchange.

10.2. Cash and bank accounts

	December 31, 2004	December 31, 2005
Bank accounts	4,114,837,004	4,497,232,958
Petty cash	2,173,719	1,718,145
Treasury advances	174,907	351,109
Other values	423,597	658,134
Total	4,117,609,227	4,499,960,346

As at December 31, 2005 the bank accounts in foreign currency represented 49% of the total bank accounts of the company. The Company has restricted cash amounting to RON 7,235,605 as at December 31, 2005.

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10. OTHER INFORMATION (continued)

10.3. Inventories

	December 31 2004	December 31 2005
Raw materials and materials	496,033,023	420,692,380
Small tools	32,719,308	35,652,466
Finished goods	326,385,420	185,422,759
Work in progress	288,360,479	188,314,349
Goods purchased for resale	202,279,088	245,518,988
Provision for elimination of geological quota and margin (a)	(315,541,167)	-
Packaging	1,130,734	1,126,484
Animals & poultry	34,427	15,786
Residual products	7,560	23,486
Materials at third parties	18,625,456	133,645,240
Products at third parties	181,977,097	151,946,522
Goods purchased for resale at third parties	111,385,047	123,155,869
Packaging at third parties	3,077	-
Provision for missing stocks (b)	(41,786,633)	(4,560,867)
Provisions for depreciation of inventories I	(188,520,608)	(52,213,725)
Advances for stocks	16,141,764	55,390,491
Total	<u>1,129,234,072</u>	<u>1,484,130,228</u>

(a) The Company benefits from geological quota which was until 2004 taken as an expense through profit and loss account by HG 168/ 1998. Additionally, inventories of crude oil and refined products are transferred within segment at profit margin. Until 2003, the Company included these two items in its closing inventory values. In 2004, the Company analyzed and assessed costs included in value of inventories in accordance with IAS 2 – “Inventories”, which require that only purchase costs, conversions costs and other costs incurred in bringing inventories to their present location and condition can be included. As a result, the effects of geological quota and unrealized profit margins previously included in the value of closing inventories have been retrospectively adjusted to eliminate such amounts.

Beginning 2005, in accordance with Law 555/2004 regarding the PETROM privatization, geological quota was recognized directly in reserves, without affecting the expense or closing stock. In addition elimination of inter segment margin was made directly against inventories.

(b) The Company has arrangements with third parties such as Conpet and Petrotrans, whereby these parties hold and transport the Company's inventories. During 2004, the third parties reported differences in actual quantities held on behalf of the Company. Since reasons for such differences are being investigated by the Company and the third parties full provision has been made against the cost of such missing inventories.

In 2005, the missing stock related to refining segment was transferred to unsettled transactions, where is fully provided. The provision for missing stock amounting RON 4,560,867 represents mainly missing inventories in E&P segment.

I The Company's technical and other departments conducted a thorough inventory and spare parts assessment for commercial usage, age and condition and assessed their recoverable amounts and recorded appropriate provision, using best estimates.

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10. OTHER INFORMATION (continued)

10.4. Earning per share

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

	December 31, 2004	December 31, 2005
Net profit for the year	(973,677,328)	1,416,422,558
Weighted average of ordinary shares during the year	39,256,688,218	56,000,506,078
Basic earnings per share – RON	(0.02)	0.03

10.5. Related Parties Transactions and Balances

During 2005, the company had the following purchases transactions with related parties:

Related party suppliers	Transactions	Balance
PRIMA PETROL	-	245
PETROM MOLDOVA	18	22
CS RESITA	71	71
OMV ADRIATIK Holding d.o.o.	374	374
PETROM AVIATION Otopeni-Ifov	1,837	-
BURSA DE MARFURI OLTENIA Craiova	2,890	-
POLIFLEX ROMANIA SRL Brazi	11,183	732
OMV Hungaria GmbH	27,473	-
FONTEGAS – PECO SA Mehedinti	31,504	22,428
ROMEXTERA	59,543	-
BUTAN GAS ROMANIA SRL Bucuresti	97,181	95,122
PETROGAS	104,849	7,593
CONGAZ SA Constanta	118,308	2,636
ACETILENA BRAZI SRL Brazi	120,099	285
AMI Agrolinz Melamine International GmbH	316,336	254,455
IOB Holdings A/S, Copenhagen	321,994	397,523
BEYFIN GAZ SRL	323,984	49,237
OMV Bulgarien EOOD EMGes.mbH,Sofia	363,569	927
BURSA MARITIMA SI DE MARFURI Constanta	386,375	-
PETROM NADLAC SRL Nadlac	445,836	33,132
FRANCIZA PITESTI	877,464	7,082
SHELL GAS ROMANIA	1,035,894	5,175
PETROM GAS SRL Bucuresti	1,176,873	-
Linzer Agro Trade GmbH	1,815,017	1,815,017
SC CARPATINA SA	2,089,365	148,515
TRANSGAS SERVICES SRL Bucuresti	2,409,615	-
OMV GAS GmbH	2,687,155	1,700,128
LINDE GAZ BRAZI SRL Brazi	3,295,114	375,551
SC OMV Romania Mineraloel SRL	5,706,409	677,218
M-I PETROGAS SERVICES ROM. SRL Bucuresti	11,454,322	3,287,827
OMV Solutions GmbH (OMV Service Netzwerk GesmbH)	13,544,973	2,295,144
OMV Aktiengesellschaft	14,206,744	6,263,757
OMV Exploration & Production GmbH	28,184,847	4,773,335
OMV Refining & Marketing AG	28,272,929	5,779,651
OMV Supply & Trading AG	1,718,425,045	78,808,779
Total	1,837,915,190	106,801,961

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10. OTHER INFORMATION (continued)

10.5 Related Parties Transactions and Balances (continued)

During 2005, the company had the following sales transactions with related parties:

Related party receivables

	<u>Transactions</u>	<u>Balance</u>
PETROM HUNGARY KFT	47,552,280	4,491,860
TASBULAT OIL CORPORATION LLP.	20,270,506	108,835,750
OZTYURK MUNAI	4,634,607	5,208,375
KOM MUNAI	558,538	33,996
OMV – JUGOSLAVIJA d.o.o.	17,501,300	922,314
DOO PETROM YU	-	409,813
Agrolinz Magyarország Kft.	2,972,805	-
SOC ROMANA DE PETROL	-	-
ROBIPLAST CO SRL Bucuresti	128,498	884,723
BRAZI OIL & ANGELESCU PROD COM SRL Brazi	-	141,914
DEEM ALGOCAR SA Buzias	-	-
AIR TOTAL ROMANIA S.A.	26,310,725	5,733,687
BURSA UNIVERSALA BRASOV	198,050	-
AGRIBAC SA Bacau	-	-
MD INDIA	248,624	248,624
PETROM MOLDOVA	133,625,267	7,981,315
PETROM AVIATION Otopeni-Ilfov	80,387,889	12,859,139
POLIFLEX ROMANIA SRL Brazi	2,463,321	154,112
FONTEGAS – PECO SA Mehedinti	977,586	80,632
ROMEXTERA	592,577	147,760
BUTAN GAS ROMANIA SRL Bucuresti	30,118,141	1,122,306
ACETILENA BRAZI SRL Brazi	29,357	7,542
AMI Agrolinz Melamine International GmbH	62,632,384	-
BEYFIN GAZ SRL	1,384,281	3,609
OMV Bulgarien EOOD EMGes.mbH,Sofia	214,882,483	23,469,603
PETROM NADLAC SRL Nadlac	14,388,006	1,619,241
FRANCIZA PITESTI	7,502,731	161,672
SHELL GAS ROMANIA	50,570,370	3,487,496
PETROM GAS SRL Bucuresti	177,088,847	45,703,420
SC CARPATINA SA	44,952	17
LINDE GAZ BRAZI SRL Brazi	3,070,938	329,665
SC OMV Romania Mineraloel SRL	670,300,877	61,905,416
M-I PETROGAS SERVICES ROMANIA SRL Bucuresti	952	138
OMV Exploration & Production GmbH	5,898	-
OMV Refining & Marketing AG	95,324	-
GTI OIL CO	-	224,514
PRIMA PETROL	-	600,075
SUPER BVT	-	128,147
Total	<u>1,570,538,114</u>	<u>286,896,875</u>

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10. OTHER INFORMATION (continued)

10.6. Legal reserves

At December 31st, 2005 the legal reserve amounted to RON 166,638,190. The legal reserve is established as a transfer of net income up to 5% of gross profit but no more than 20% of share capital. Legal reserve cannot be distributed to the shareholders but can be utilized by the Company in accordance with relevant regulations.

10.7. Tax on profit calculation

	December 31, 2004	December 31, 2005
Revenues	9,924,920,153	12,851,224,090
Expenses	10,748,919,736	11,167,800,882
Gross profit	(823,999,583)	1,683,423,208
Deductions	(621,027,855)	(1,569,700,265)
Non-deductible expenses	2,114,484,654	1,837,278,812
Fiscal depreciation for fixed assets	(756,402,635)	(795,153,938)
Accounting depreciation for fixed assets	754,134,418	704,452,973
Other taxable elements	1,127,456	51,816,409
Other non taxable elements	(5,863,380)	(139,679,191)
Taxable profit	662,453,075	1,772,438,008
Preliminary tax on profit	165,613,269	283,590,081
less sponsorship expenses	(15,935,524)	(16,589,431)
Income tax due	149,677,745	267,000,650

Deferred tax

Starting with 2003, the fiscal authorities have requested application of IAS 12 "Income Taxes" and have issued certain methodological norms relating to the taxation of certain reserves such as property revaluation reserve and other reserves from fiscal facilities. The Company assessed deferred tax for all temporary differences between fiscal and accounting basis and has calculated deferred tax on revaluation reserves and other reserves from fiscal facilities as required by Minister of Finance Order 1088/2004.

The differences between fiscal regulations issued by the Romanian Ministry of Finance and the accounting rules applied in preparing these financial statements give rise to temporary differences between the carrying value of certain assets and liabilities for financial reporting and tax purposes. Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 16%.

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10. OTHER INFORMATION (continued)

10.7 Tax on profit calculation (continued)

a) The prima facie tax charge to the Statement of Operations is reconciled to the profits tax expense as follows:

	December 31, 2004	December 31, 2005
Profit before taxation	(823,999,583)	1,683,423,208
Romanian tax rate applicable	25%	16%
Profits tax based on applicable rate	(205,999,896)	269,347,713
Tax effect of permanent differences and valuation allowance	355,677,641	(2,347,063)
Profits tax expense in Income Statement	149,677,745	267,000,650
Tax effect on temporary differences	-	-
Profits tax to be paid for the year	149,677,745	267,000,650

b) The deferred income tax asset at December 31, 2004 and December 31, 2005 is comprised of:

	December 31, 2004	December 31, 2005
Environment provision	45,603,964	50,481,475
Exchange differences from first time application of IAS	6,602,679	-
Decommissioning provision and asset net	-	85,297,286
Provision for fixed assets impairment	324,666,449	321,344,069
Provision for spare parts	12,954,208	9,083,935
Retirement benefits provision	19,578,476	25,733,232
Restructuring provision	-	55,857,977
E&P depreciation	(362,915)	-
Revaluation reserve	(204,596,201)	(69,804,796)
Provision for elimination of quota and profit margin from inventories	50,486,587	-
Other reserves from fiscal facilities	(7,482,613)	(35,313,839)
Other	10,053,982	41,896,959
Deferred tax asset	257,504,616	562,638,073
Less valuation adjustment	(257,504,616)	(562,638,073)
Deferred tax asset recorded	-	-

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10. OTHER INFORMATION (continued)

10.8 Segmental reporting

	<u>E&P</u>	<u>Refining</u>	<u>Chemicals</u>	<u>Marketing</u>	<u>Intersegmental elimination</u>	<u>Total</u>
Revenue						
External Sales	1,704,016,312	5,012,111,522	303,730,440	3,740,369,924		10,760,228,198
Inter-segment Sales	5,379,059,766	3,094,580,494	72,048,435	3,948,196	(8,549,636,891)	-
Other revenues	53,805,316	143,144,337	(2,009,140)	18,014,662		212,955,175
Total Revenue	7,136,881,394	8,249,836,353	373,769,735	3,762,332,782	(8,549,636,891)	10,973,183,373
Total Expenses	4,355,271,227	8,635,693,502	357,089,317	4,290,567,199	(8,549,636,891)	9,088,984,354
EBIT	2,781,610,167	(385,857,149)	16,680,418	(528,234,417)	-	1,884,199,019
Financial loss						(200,775,811)
Income tax						(267,000,650)
Net Result						1,416,422,558
Other information						
Capital expenditure - Tangibles and intangibles	556,327,887	449,656,463	1,597,447	133,507,835		1,141,089,632
Depreciation and amortization	577,901,487	60,822,365	71,580	91,955,542		730,750,974
Impairment losses	68,840,011	71,828,354	6,220,122	12,025,196		158,913,683
Write back of impairment	(46,469,437)	-	-	-		(46,469,437)
Balance Sheet						
Segment tangibles and intangibles assets	5,865,957,473	892,294,302	316,704	837,432,523		7,596,001,002
Segment financial assets	3,000,188,451	3,671,577	-	9,382,740		3,013,242,767
Segment current assets	4,585,151,579	1,139,579,784	45,745,025	1,430,754,850		7,204,283,476
Segment liabilities	1,988,349,221	150,401,473	9,016,700	107,308,013		2,265,817,289

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10. OTHER INFORMATION (continued)

10.9 Prior Year Restatement and Retained Earnings for 2004

Management assessed the corrections presented in the following table and concluded that reissue of prior period financial statements was not necessary as the Company was not able to withdraw and revise financial statements for the year ended December, 31, 2003 and prior years without undue expense and delay. Furthermore, as the restatement was done through changes in opening shareholders' equity, issue of financial statements for December 31, 2004 was imminent, which reflected appropriately the changes and appropriate disclosures were made in those financial statements.

Description	<u>E&P</u>	<u>Refinery</u>	<u>Marketing</u>	<u>Chemicals</u>	<u>Total</u>
Adjustment for impairment of fixed assets (a)	117,468,801	484,089,643	437,583,398	45,328,113	1,084,469,955
Eliminations of geological quota and profit margin from inventory (b)	64,066,092	216,203,337	42,820,990	-	323,090,419
Provision for capital work in progress (c)	960,627	-	9,447,074	-	10,407,701
Provision of old inventory based on aging analysis (d)	7,218,652	1,168,746	542,469	555,830	9,485,697
Write off of the prepaid expenses with capital repairs (e)	46,605,009	18,202,975	-	801,600	65,609,584
Provision for investments based on share of net assets (f)	109,631,392	311,900	5,393,400	-	115,336,692
Provision for retirement benefits (g)	51,217,629	19,522,568	26,994,923	3,698,797	101,433,917
Interest income adjustment related to loans granted to subsidiaries (h)	(10,089,462)	-	-	-	(10,089,462)
To increase the value of Zestrea to current cost (i)	(93,756,160)	-	-	-	(93,756,160)
Provision for Arpechim Spare parts (j)	-	43,903,037	-	-	43,903,037
Expenses related to prior years (k)	69,358,066	-	821,938	-	70,180,004
TOTAL	362,680,646	783,402,206	523,604,192	50,384,340	1,720,071,384

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10. OTHER INFORMATION (continued)

10.9 Prior Year Restatement and Retained Earnings for 2004 (continued)

- a) During 2004, the Company fixed assets were appraised by Smith Hodgkinson and Colliers International, independent professional appraisers, on the basis of present value of future cash flows expected to be derived from an asset or cash generating unit in accordance with the provisions of IAS 36. Consequently, the Company has recorded impairment provisions, which represent the difference between the original carrying values of the Company's assets and their recoverable amounts.
- b) As fully disclosed in note 10,3 during 2004 for the first time the Company assessed costs included in value of inventories in accordance with IAS 2 – "Inventories" and adjusted cost of inventories for the effects of geological quota and unrealized profit margins previously included in the value of closing inventories.
- c) During 2004, for the first time the Company also assessed the recoverable value of its ongoing capital work in progress within different business segments and recorded appropriate opening balance adjustments where it was assessed that incomplete capital projects have either been abandoned or their recoverable amount on completion will be lower than the amounts previously recorded. As result, provisions were recorded for abandoned projects or projects with no commercial viability.
- d) As fully disclosed in note 10,3 inventory aging was analyzed by the Company departments and provisions were recorded for old and obsolete items.
- e) In prior years the Company recorded repair and maintenance expenses as prepaid expenses. During 2004, based on detailed assessment and analysis, the Company identified item in prepayment accounts that represent routine repairs and maintenance and should have been expensed in prior years.
- f) This amount represents difference between the quoted market price, if applicable, or the Company's share of net assets of the companies held as investments and their respective recorded costs. Such an assessment was not carried out in prior periods.
- g) As disclosed in note 6, the Company has fully assessed and recorded provision for future employee benefit cost in accordance with IAS. This retirement benefits provision was calculated by an independent professional actuary, a member of the Romanian Actuarial Association, in accordance with employees benefits stipulated in the Company's collective Labor Contract.
- h) During prior years the Company did not calculate interest on loans provided to its foreign subsidiaries as stipulated in the loan agreements. An adjustment has been recorded in order to reflect the interest for the loans related to periods before 2004 as required under accrual concept of accounting.
- i) This amount represents correction to the value of inventories as the Company carried a part of its crude oil inventories (included in pipelines) at historic values instead of FIFO method of accounting. In 2004, the Company calculated and adjusted the opening balances with respect to this stock known as "Zestrea".
- j) This amount represents provision for the spare parts of Arpechim refinery because it relate mainly to plants that have been fully impaired (see (a) above) or plant and equipment that will not be used by the Company.
- k) The adjustment mainly represents expenses related to 2003 and prior periods not recorded in the previous financial statements.

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10. OTHER INFORMATION (continued)

10.10 Other operating expenses

	December 31, 2004	December 31, 2005
Geological quota	1,167,951,851	-
Intersegment sales	(6,268,944,597)	(8,549,636,891)
Intersegment sales elimination	6,268,944,597	8,549,636,891
Other operating expenses	<u>111,462,030</u>	<u>328,989,320</u>
Total	<u>1,279,413,881</u>	<u>328,989,320</u>

Geological quota is a facility given by Romanian legislation through HG 168/1998 (subsequently amended by HG 768/2000, GD 1116/2002 and Law 555/2004). Such legislation allows a company operating in Oil & Gas extraction activities to set aside up to 35% of the sales value crude oil and gas produced during the year, as a non-taxable amount. The quota was designed for development and modernization of crude oil and gas production, refining, transport and distribution of petroleum products and for the year ended December 31, 2004, was charged to statement of operations for the year. In 2005, the geological quota is accounted for within shareholders' equity.

10.11 Commitments and guarantees

At the end of 2004, the Company had the following guarantees as at the end of the year:

Guarantee agreement

Initial value	USD 44,040,000
As at Dec 31, 2004	USD 21,720,918,08
Agreement date	November 8, 2000
Agreement due date	December 1, 2006

Guarantee agreement/Credit contract no. 42007/17.10.2000 concluded for the issue of two guarantee letters for two buyer credits:

- Guarantee letter no. K 007582/830 (7291/2000/BMA) issued in favor of K-EXIM KOREA
- Guarantee letter no. K 007592/830 (7291/2000/BMA) issued in favor of MCC ITALIA

There were no similar guarantees in place at December 31, 2005.

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10. OTHER INFORMATION (continued)

10.12. Contingent liabilities

Litigations

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

Tax system

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

10.13. Audit fees

The fee for the audit of the financial statements for the year ended December 31, 2005 prepared in accordance with OMF 94/ 2001 was EUR 45,000.

10.14. Market risk

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

10.15. Foreign exchange and inflation risk

The Company undertakes transactions denominated in other currencies, including US Dollars. The official inflation rate in Romania, during the year ended December 31 2005 was under 10% (respectively 8.6%) as provided by the National Commission for Statistics of Romania. The cumulative inflation rate for the last 3 years was under 100%. This factor, among others, led to the conclusion that Romania is not a hyperinflationary economy starting with January 1, 2004. The official exchange rates for the years ended December 31, 2004 and 2005 were RON 2.9067 and RON 3.1078 for 1USD.

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10. OTHER INFORMATION (continued)

10.16. Interest rate risk

The Company has a variable and a fix interest rate for short-term facilities. (see note 5).

10.17. Credit risk

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

The Company believes that it does not require any further collateral or security to support the financial instruments due to the quality of the financial institutions dealt with.

10.18. Subsequent events

The following events have occurred subsequent to the balance sheet date:

- a) In January 2006 6 off-shore platforms (Atlas, Prometeu, Orizont, Saturn, Fortuna and Jupiter), the nautical base, the fluid station and also for the control and transit center were sold to Grup Servicii Petoliere for USD 100 million.
- b) In 2006, the new service agreement with Petromservice was approved by Competition Council and became effective. The agreement is valid until 2012 and also the Company made a commitment to sale until 2007 all assets related to the activity from joint venture.
- c) Agreement of purchase of OMV filling stations from Romania, Bulgaria, Serbia and Muntenegru was signed. After the acquisition the Company will own 99.8% from OMV Mineral Oil Romania S.R.L., OMV Bulgaria, EOOD and OMV Jugoslavia d.o.o.
- d) According with the relevant legal provisions (e.g. the Law for the reform of property and justice) at the end of February, a number of 5,600,050,607 of Petrom shares (representing 9.99% of the total before the share capital increase) were transferred to Fondul Proprietatea SA, from the share of the Ministry of Economy and Commerce. Following the transfer, the Ministry of Economy and Commerce owned 17,214,796,909 shares representing 30.740% of the share capital and Fondul Proprietatea SA owned 5,600,050,607 shares, representing 9.999% of the share capital. Fondul Proprietatea SA is a closed end fund which was established in order to solve the restitution of the real estate properties which cannot be returned in kind to the former owners.

PETROM S.A.
239, Calea Dorobanților
sector 1, Bucharest,
Romania
Phone: 40 21 406 0000; 40 7251 60000
Fax: 40 21 406 0425
www.petrom.com