Petrom
Annual Report
2004

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Statement of the President of the Board of Directors

Dear shareholders, Ladies and Gentlemen,

I may welcome you as newly appointed President of the Board of Directors of Petrom.
As you may be aware the Privatisation of Petrom (Petrom) was concluded on December 14, 2004 through a Privatisation Agreement between OMV Aktiengesellschaft (OMV) and OPSPI on behalf of the Romanian State.
This Privatisation Agreement allowed OMV to acquire a 51 % shareholding in Petrom via a direct acquisition of 33.34 % from OPSPI for approx. 669 m Euro and a simultaneous Capital Increase in the amount of approx. 830 m Euro, which increased the shareholding of OMV to 51 %.
This marks the beginning of a new era for Petrom as it was for OMV in 1987 when the first tranche of 15 % of OMV shares were sold to investors via the Stock Exchange.
As a privatised company Petrom will have the increased need like OMV to clearly define targets and corporate governance principles (values, ethics and rules) in line with international practice.
OMV has successfully established such targets and principles for the last decades and is therefore in a position to share this experience with Petrom.
A strategy group has already worked on Petrom targets and they have been defined with a delivery date 2008 as follows:
1. Increase the profitability and efficiency in line with international standards thereby increasing further the value of Petrom. It is anticipated that by 2008 the company will achieve a Return of Average Capital Employed (ROACE) of 13%.
The substance in the various business units is and will be available to achieve these targets subject to overall macroeconomic environment, which looks favorable as of today and for the next few years.
2. Exploration and Production Business
Petrom has with approximately 1 billion barrels of oil equivalent (boe) a very healthy reserve base and new technology will be utilized to significantly reduce the decline in production. The company will actively pursue further developments in the Caspian Region to achieve a reserve replacement ratio of 80 % by 2008.
It is thus envisaged that a stable production in the Exploration and Production business of around 220.000 boe per day can be maintained.
3. Refining and Marketing business
Petrom will keep a market share of at least 35 % in Romania's marketing business as well as a refining capacity of 8 million tons of crude and increase the business activity beyond Romanian borders.
Significant investments in the marketing sector will ultimately set new standards in quality, safety and reliability and convenience. Petrom will operate an efficient retail network in Romania consisting of around 300 premium sites besides other outlets.
Petrom's refineries will further increase efficiency and production to meet the rising market demand for petroleum products and the refineries will be in a position to fully process Petrom's domestic oil production.
Investments will ensure compliance with EU quality requirements and help to develop a competitive export position.
4. Establish and expand the Natural Gas business as gas is the energy of the future and focus on establishing direct sales to customers and thereby create a significant value contribution to Petrom overall. Petrom as a major producer of natural gas in the country will benefit from liberalization of gas prices and will also benefit from OMV's long experience in the gas business, which will be a valuable asset in establishing a gas marketing business.

Due to the Capital Increase on the one hand and the generated cash flow on the other hand Petrom does not only have the required business asset base to capitalize on but is also very well positioned to finance the investments required to achieve these targets. From today's perspective EUR 400 m will be invested per year until 2008.
As a further consequence of these targets the management structure and organization of Petrom has been adjusted with clear business responsibilities and corporate functions and the Board of Directors has entrusted the day-to-day activities of the company to a Managing Committee consisting of 6 persons which is headed by Gheorghe Constantinescu. This Managing Committee will have the task to deliver the respective targets under the supervision of the Board of Directors.
While I am conscious of the fact that a lot of work lies ahead of the company to achieve the targets set, I am convinced that Petrom and its people will be in a position to deliver the required results.
I am equally convinced that a combination of Petrom and OMV will remain the market leader in CEE and that such a combination is excellently positioned to deliver on profitable growth which is undoubtedly a requirement to further enhance the value of the company and hence to all its shareholders.

Wolfgang Ruttenstorfer

Statement of the Chief Executive Officer of Petrom

Dear shareholders,

In 2004, Petrom, the largest company in this area in Romania and in South East Europe, went through the most significant stage of its existence, namely the change of its property legal status following its privatization.
OMV, the majority shareholder, is a strong partner in full process of development, which secures the best conditions for the future of our company.
Along the year 2004, in the context of the privatization process, our main purpose was that the company developed an efficient business activity based on production and development programs while taking all the necessary measures to get in line with the European standards of quality and environment.
The privatization itself, through a significant capital increase and new forms of management, created the grounds of the most important growth of the company. The capital increase, meaning EUR 830 million are exclusively destined to modernization and efficiency increase in Petrom. Only in 2005, Petrom will make investments of EUR 400 million and in 2006 they will rise up to another EUR 400 million, with clear objectives to improve the upstream segment, to implement new technology in refineries, to expand the distribution network and, last but not least, services development.
Me and my colleagues in OMV have the strong conviction that we possess the necessary strategic resources to secure our position as a strong force in the oil and gas industry: modern structure of an integrated company, international know-how combined with the experience of a company with a history that starts together with the history of oil in Romania.
Our strategy aims towards turning Petrom into a more profitable company through modernization and implementation of information technology.
We are a company which evolved with significant impact on the Romanian economy, in full process of modernization, with a clear long and medium term strategy of development. Integration in the European Union will find us prepared to meet all requirements, as we are efficient, skilled and professional and we benefit from an active investment policy, from modern technologies and experience.

In this moment, the company holds all necessary premises to consolidate its leadership position in Romania and South East Europe and to set the standards of quality, safety and convenience.

Gheorghe Constantinescu

Report 2004

Petrom Past and Present

2004
Acquisition of 51% of Petrom's share capital by OMV, Austria

2004
- Binding offers are submitted
- OMV, Occidental and MOL are selected for negotiations

2003
- The privatization strategy of Petrom is approved by the Government
- Data Room for the bidders is organized
- Non-binding offers are submitted

2002
Appointing Credit Suisse First Boston and ING Barings as privatization consultants

2001
The spinning off of Petrotrans - Transport

2001
Trading of Petrom shares on BSE started

1999
First retail station opened in Hungary

1998
First field operated in Kazakhstan

1997
Establishment of the National Oil Company **Petrom S.A.**

1987
The first off-shore crude production, Lebada East field

1991
Establishment of **Petrom R.A.** (E&P company only)

1960-1964
Establishment of Petrobrazi

1965-1969
Establishment of Arpechim

1857
Romania was officially registered as the first crude oil producer worldwide

1907
The first well drilled in Moreni by Rotary system

Petrom Vision for 2008

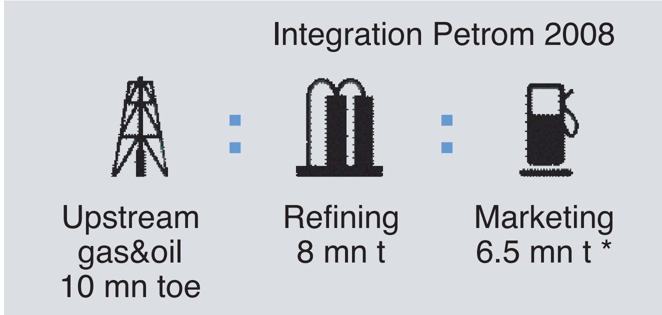
Core businesses Petrom 2008

Exploration & Production	200,000 – 220,000 boed production
Refining & Marketing	- 35% market share in RO* - 8 mn t refining capacity
Gas	6 bcm gas sales

Petrom has set up a basis for an overall strategy and goals for 2008.
Strong earnings delivery via a Return on Average Capital Employed (ROACE) of 13% by 2008 and strong **E&P** performance with a stable production volume of 200,000 to 220,000 boe/d and with further international activities in the Caspian region represent two of the main targets set by the Company.
On the Gas side, Petrom will fully use market liberalization thus supplying gas to all relevant customer channels.
Along with this comes a clear commitment for focusing on cost improvement and increased productivity.
By setting industry benchmarks Petrom will be best positioned to pursue strong and international growth.
In **R&M** Petrom will lead the Romanian downstream operations in market share and significantly improve network efficiency of its filling stations.
With significant **Marketing** investments in 2005 – 2008 the brand sets the quality, safety, reliability and convenience standards in Romania.
Petrom will use its strong national position for export activities and will supply neighboring markets.
Petrom fully controls the refining capacity for its domestic production and with significant refining investments in 2005 – 2008, Petrom complies with EU quality requirements and the market demand structure to reach a competitive cost position.

Amongst the key targets of **Human Resources** for 2005 – 2007 there are the setting up a new concept of social and medical support, the development of Petrom employees and the implementation of human capital survey.

One of the key projects for the next years is the establishment of HSEQ management system and the integration of HSEQ Culture by training programs for each Business Unit and Corporate.



* assumption total market Romania 2008 - 11.3 m tons, total sales volume Romania - 4.5 m tons, export - 2 m tons

Board of Directors

The Board of Directors is responsible for the overall management of the company and its affiliates and the supervision of the day-to-day management by the Managing Committee.

Until December 14th 2004, when 51% of the share capital of the company has been acquired by OMV, the Board structure was as follows:
• **Gheorghe Constantinescu** - President, General Director of Petrom;
• **Adrian Radu** - Member, Deputy General Secretary – Ministry of Economy and Commerce;
• **Marian Aretu** - Member, General Director – Ministry of Economy and Commerce
• **Mihai Albulescu** - Member, Professor – Oil & Gas University;
• **Maria Iuliana Stratulat** – Member, President National Agency for Mineral Resources
• **Nicolae Radu Chiurtu** - Member, Deputy Director – Ministry of Economy and Commerce;
• **Dick Van Den Broek** – Member, EBRD Observer

In accordance with the Privatisation Agreement approved by the Law no 555/2004 regarding the measures for the privatisation of Petrom, the mandate of the Board of Directors ends at the Closing date. Therefore, on December 14th, 2004, OMV has named two Interim Directors: Mr. Werner Schinhan, Senior Vice President and Development and Strategy Director OMV, who has been appointed as Observer starting with the signing of the agreement and Mr. Hilmar Kroat-Reder, Director Mergers & Acquisitions Legal OMV. They were given all the rights and obligations of the Board of Directors as provided by the Company Law no 31/1990.
In the General Meeting of Shareholders dated January 11th, 2005, a new Board of Directors was appointed. The Board has 4 members representing OMV and 3 members independent of the Majority Shareholder. The President of the Board is Mr. Wolfgang Ruttenstorfer.

• **Wolfgang Ruttenstorfer** – OMV CEO and Chairman of the Executive Board, Head of Head Office, Gas, Chemicals.
He received his doctorate at the University of Economics and Business Administration in Vienna and started to work at OMV in 1976. In 1985 he joined the Planning and Controlling Department and in 1989 he took responsibility for the Strategic Development of the Group. After being appointed Head of Marketing in 1990, he joined the Executive Board in 1992 and was responsible for Finance and Chemicals. He remained at the Board until the beginning of 1997, when he became Deputy Minister of Finance. On January 1st, 2000 he rejoined the OMV Executive Board being responsible for Finance and Natural Gas Business. As of January 1st, 2002 he is CEO and Chairman of the Executive Board.

• **Gerhard Roiss** - Deputy Chairman of OMV Executive Board, Head of Refining and Marketing including Petrochemicals.
After studying Economics in Vienna, Linz and Stanford, USA, Gerhard Roiss held various managerial positions in the consumer goods industry. In 1990 he joined OMV and headed the Group marketing. In the same year he was appointed to the Board of PCD Polymere where he became CEO in March 1997. Since September 1997, Mr. Roiss has been the member of the OMV Board and he has held several positions, such as Head of Chemicals, Plastics, Exploration and Production. Since September 2004, he is Vice-Chairman of the Board of Borealis. Since January 2002, he is Deputy Chairman of the Executive Board and responsible for Refining and Marketing including Petrochemicals.

• **David C. Davies** - Chief Financial Officer of OMV, Head of Finance, OMV Solutions GmbH.
After graduating Liverpool University, he began his career as a chartered accountant. He held several positions in different companies in health, food and drinks industries. Before joining OMV team, he was Finance Director for the Morgan Crucible Company Plc, a British company listed at London Stock Exchange, specialized in metallurgy sector. Since April 1st 2002 he is member of the Executive Board and CFO of OMV.

• **Helmut Langanger** - Member of OMV Executive Board, Head of Exploration and Production.
He took the final examination of his study of Petroleum Engineering at Mining University in Leoben and obtained a Batchelor's Degree in Economics in Vienna. In 1974 he began his career in OMV. He was Senior Vice President for Exploration & Production since 1992 and he played a key role in increasing the International Exploration & Production portfolio of the Company. Since January 1st 2002 he is member of the Executive Board of OMV and also responsible for Exploration and Production business.

• **Dorin Mucea** - Senior Advisor of Ministry of Economy and Commerce, Responsible for Privatisation.
He received his doctorate at the Academy of Economic Studies in Bucharest in 1971 and the same year he started his activity as business expert at the Foreign Trade Company Metarom. In 1988 he was appointed Commercial Counselor of the Romanian Embassy in Ankara – Republic of Turkey. Since 2001 he is Senior Advisor of Ministry of Economy and Commerce, Responsible for Privatisation.

• **Sebastian Teodor Gheorghe Vladescu** - He graduated the Academy of Economic Studies in Bucharest in 1983. Between 1990 and 1997 he was Manager at different Romanian Companies. In 1997 he became State Secretary for the Ministry of Industry and Commerce and in 2000 he was appointed State Secretary for the Ministry of Finance and he was also President of the Accreditation Council at AVAB, President of the Auditors Chamber and Member of the BCR Privatisation Committee. Between 2001 and 2002 he was appointed Director of PVB Euroconsulting and starting with 2002 he is Member in the Board of Directors of Petrom Service, UPETROM 1 Mai and C.E.R.O.P.E.

• **Mariana Gheorghe** - Senior Banker, South- Eastern Europe and the Caucasus Group, Banking, European Bank for Reconstruction and Development (EBRD). Mariana Gheorghe graduated the Academy of Economic Studies, International Relations in 1979, the University of Bucharest, Law School in 1989 and London Business School, Corporate Finance in 1995. Between 1991 and 1993, she worked for the Ministry of Finance of Romania where she held the position of Deputy General Director, International Finance Department. Since 1993 she has been working for the European Bank for Reconstruction and Development, at first as Associate Banker and, at the moment, as Senior Banker, South-Eastern Europe and the Caucasus.

Managing Committee

The Managing Committee manages the day-to-day business of the Company and supervises the management of its Group Companies in accordance with the law, the Company's articles of incorporation ("Constitutive Act"), the internal guidelines and the Internal Rules and the resolutions of the Board of Directors.

Until December 2004 the Managing Committee had the following structure:
- **Gheorghe Constantinescu** – General Director of Petrom, President of the Managing Committee;
- **Florin Ciocanelea** – General Director, Petrom International Division
- **Florin Mocanescu** – General Director, Crude & Natural Gas Production Division
- **Marius Velescu** – General Director, Exploration Division
- **Florian Constantinescu** – General Director, Refining Division
- **Florica Nedelcu*** - General Director, Commercial Division
- **Ion Bohalteanu** - General Director, Economic Division
- **Gheorghe Supeala** – Director, Strategy, Planning and Development Department
- **Marian Tudoroiu** – Director, Human Resouces Department.

*in August 2004, Mr. Octavian Stanculet was appointed General Director of the Commercial Division.

On December 15th, 2004 the Interim Directors appointed the new Managing Committee. Mr. Werner Schinhan assumed the Deputy CEO position upon the cease of his office as Interim Director on January 11th, 2005.

- **Gheorghe Constantinescu** - Chief Executive Officer of Petrom , responsible for Communication, Human Resources, Health, Safety and Environment. 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 is former General Director of Petrom.
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.

- **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 is former General Director of Refining Division Petrom and Managing Committee member. He has been working in the oil & gas industry since 1977.

- **Tamas Mayer** - Member of the Managing Committee, responsible for Marketing. He obtained his Master Degree at 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.

- **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.

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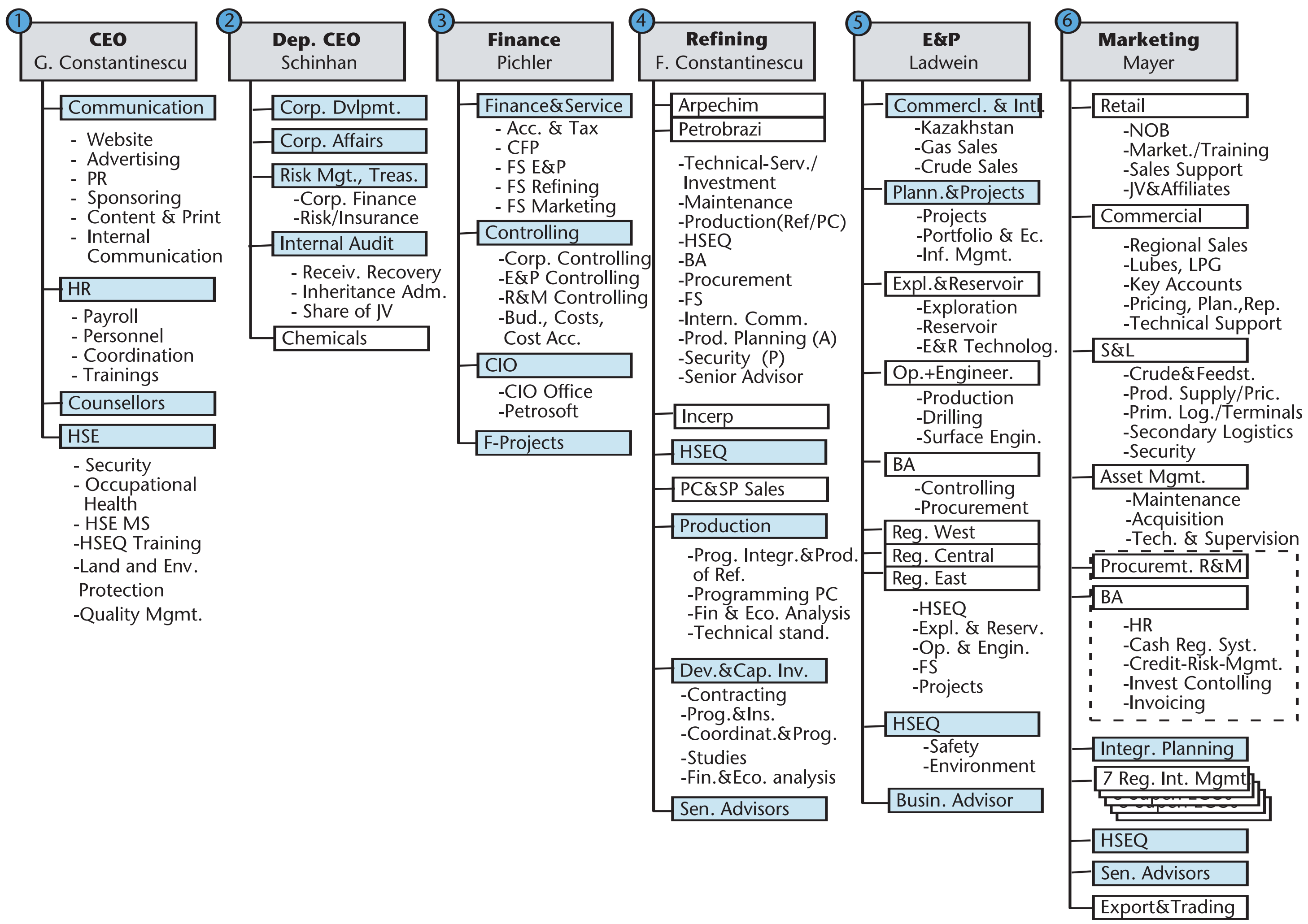
Organizational Structure

The new organizational structure of Petrom S.A. as of the end of 2004 has been approved by the Interim Directors on December 15th, 2004.



Petrom's business activities are organised into three business segments:
* Exploration and Production
* Refining & Petrochemicals
* Marketing

These business sectors are further broken down into branches, which are not separate legal entities. Based on the Company's latest organizational structure, Petrom is organized into 64 operational branches, out of which 63 located in Romania and 1 branch located in Kazakhstan.

Domestic and Foreign Participations

Domestic

Petroleum products

•SC Petrom Nadlac SRL	97.77%
•SC Romana de Petrol SA	49.00%
•SC Petrom Aviation SA	48.50%
•SC Shell Gas Romania SA	44.47%
•SC Brazi Oil & Angelescu Prod Com SRL	37.70%
•SC Fontegas PECO Mehedinti	37.40%
•SC Deem Algocar SA	27.92%
•SC GTI OIL CO SA	13.00%
•SC Prima Petrol SA	11.98%
•SC Super BVT SA	10.85%
•SC Benz Oil SA	0.48%
•SC Grivcorelf SA	6.41%

Gas

•SC Petrom Gas SRL	50.99%
•SC Congaz SA	28.59%
•S.C. Transgaz Services S.R.L	20.00%

Chemicals & Other Products

•SC Poliflex Romania SRL	96.84%	•SC Robiplast CO SRL	45.00%
•SC Petrogas SRL	100.00%	•SC M-I Petrogas Services	40.00%
•SC Linde Gaz Brazi SRL	49.00%	•SC Acetilena Brazi SRL	21.28%
•SC Beyfin Gaz SRL	40.00%	•SC Butan Gas Romania SA	8.54%

Financial Services

•Maritime&Commodity Exchange, Constanta	20.09%	•SC Actinvest SA	0.70%
•SC Investico SA	0.0555%	•IRASIG SA	0.56%
•SC Brasov Business Centre	2.53%	•Romanian Commodity Exchange, Bucharest	0.53%
•Romexterra Bank	2.00%	•SC Nova Invest SA	0.34%
•SC Financial&Commodity Stock, Sibiu	1.17%	•Renasterea Creditului Romanesc Bank – undergoing bankruptcy procedure	
•SVM Oltenia Grup Invest SA	1.11%	•Albina Bank - undergoing bankruptcy and reorganization procedures	
		•SC Franciza Petrom 2001 SA	40.00%

Miscellaneous

•SC Carpatina SA	75.02%	•SC Telescaun Tihuta SA	1.68%
•Oltenia Management Office	2.47%	•SC Agribac SA	0.79%

Foreign

Exploration & Production

•MD Petrom Oil&Gas	40.00%
•Oztiurk Munai	95.00%
•Tasbulat Oil Corp	100.00%
•Kom-Munai LLP	95.00%

Fuels Distribution

•ICS Petrom Moldova	40.00%
•Petrom Hungaria	100.00%
•DOO Petrom Yu	100.00%

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Directors' Report

Investor relations

Shares

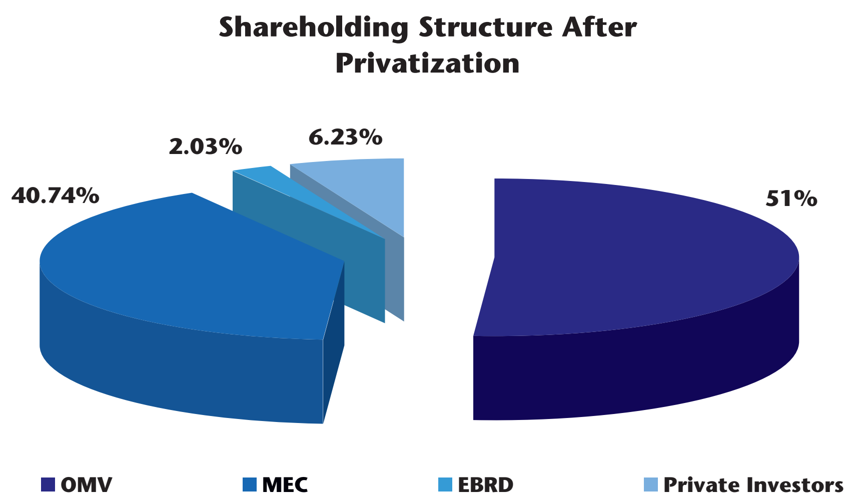
An important moment in the history of the company was September 3rd, 2001, when the trading of Petrom's shares on the Bucharest Stock Exchange started. The trading volume and value increased significantly as a large number of investors were eager to own Petrom shares.

Notwithstanding the significant accumulated growth (1047%) of the Bucharest Stock Exchange over the last 6 years, the three indexes reached several times historical maximums in 2004 strongly influenced by the economic growth of Romania. In 2004 Petrom shares were actively traded on the BSE with the share price increasing by 221% between January and December 2004.

In 2004, 71,831 trades were performed, by which 1,471,065,005 shares changed their owner. The total trading value was of ROL 3,556 bn, which led to a medium price of 2,418 ROL/share.

In the reporting year, Petrom held 15.52% of the total trading value performed at Bucharest Stock Exchange and on December 24th, 2004, Petrom represented 54.45% of the total market capitalization.

On July 23rd, MEC and OMV signed the privatisation contract whereby OMV acquired 51% stake in Petrom through a combination of a direct purchase of 33.34% (EUR 669 m) and a simultaneous capital increase in Petrom (EUR 831 m). On December 7th, OMV paid EUR 1.5 bn for 51% of Petrom share capital in an Escrow account and on December 14th the Closing of the Privatisation Agreement took place. As a result, Petrom share capital as of December 31st 2004 increased to ROL 56,000,506,078 thousand, with a nominal value of ROL 1,000 per share. EBRD converted USD 73 m of the Loan Agreement concluded with Petrom in 2002 into 2.03% of the Company's share capital.



ROL	2004
Market capitalization (as of December 24th, 2004), bn ROL	185,921
Minimum price (January 20th 2004) per share	1,420
Maximum price (December 20th 2004) per share	3,330
Price per share as of December 24th 2004	3,320
Total assets per share	2.79
Cash flow per share	664
Price per Cash flow	5x

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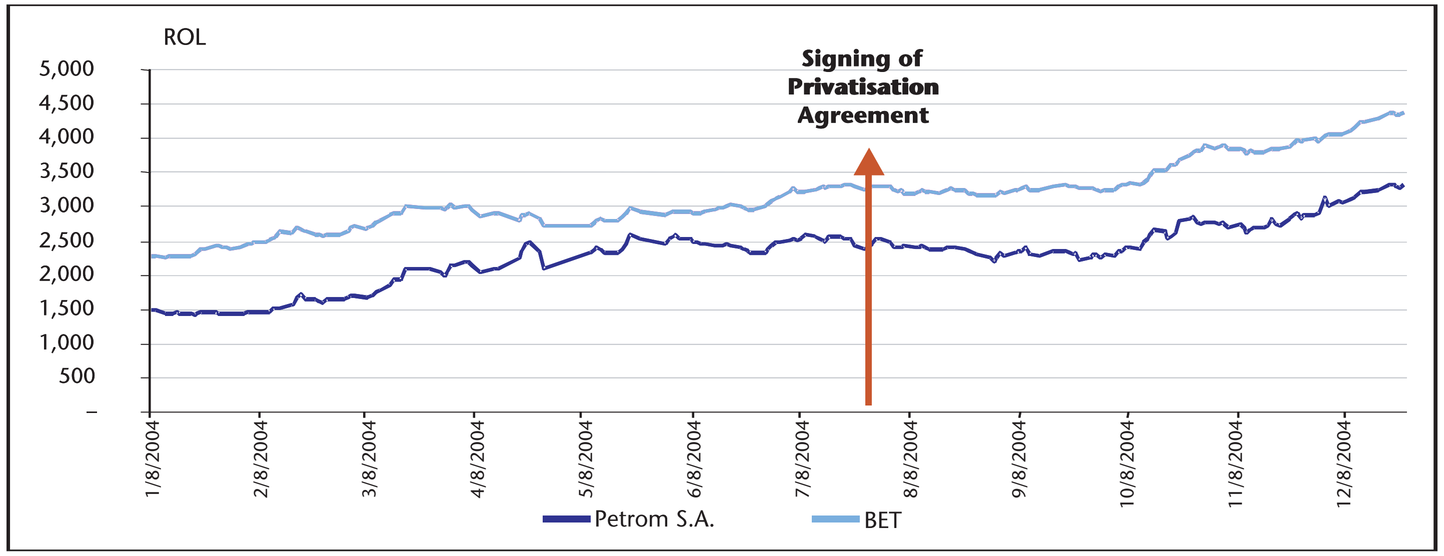


Dividends

At the next Shareholders' Meeting on May 24th, 2005 the Board of Directors will be proposing not to distribute any dividends due to the absence of distributable earnings as reflected by the financial statements of Petrom for the financial year 2004 prepared in accordance with the local Romanian Accounting Standards (RAS).

Own shares

During 2004, Petrom did not purchase or hold, at any moment, any of its own shares.

Human Resources

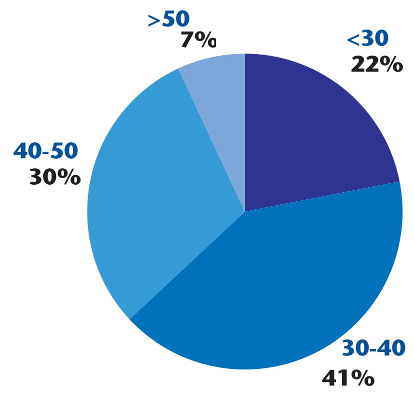
In 2004, Petrom continued the application of the human resources policy. The headcount at the end of 2004 was in line with the figures estimated in the restructuring program for this period and was one of the clearly defined objectives of Petrom's strategy.
As a result of the changes in labor law and in order to solve some issues related thereto some of the provisions of the Collective Labor Agreement were changed and appended through negotiations carried out between Petrom and FSLI Petrom representatives.

Personnel breakdown by field of activity, 2002-2004

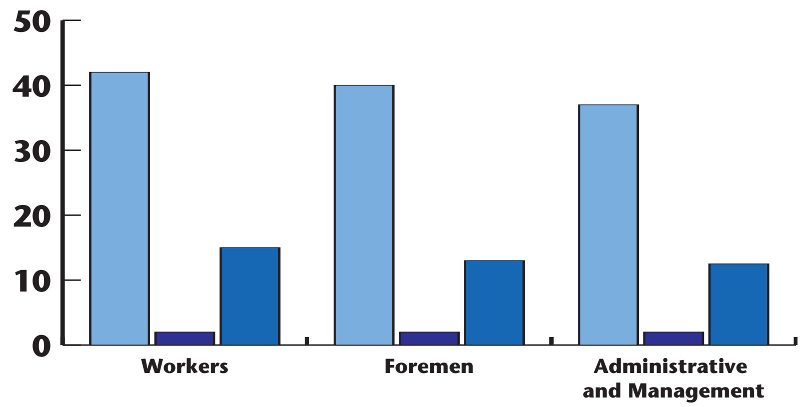
Activity	2002	2003	2004
E&P	33,268	32,668	26,473
Refining	11,797	9,075	8,962
Marketing	14,070	13,635	13,276
Transportation	579	716	734
Corporate	745	600	565
TOTAL	**60,459**	**56,694**	**50,010**

The E&P headcount decreased in comparison with 2003 by 19%, representing 93% of the net personnel reduction of 2004. This reduction was mainly due to the spin off of the work over activities in seven of the E&P production branches (5,661 people). The decrease of the marketing headcount in 2004 by 3 % compared to 2003 is due to both the transfer of the car fleet existing in Peco branches to Transpeco, a branch specialized in transportation and especially to the employees leaving the company.
The majority of the company's employees have attained secondary school graduation as maximum training level (73%). In 2004 university graduates represented 15% of the company's employees, whereas the high school graduates accounted for 12%.
The restructuring program modified the educational profile of the employees, especially in the case of secondary school graduates which recorded a decrease of 5% in 2004, mainly due by the spin-off of non-core activities (maintenance, repairs and transportation). The spin off led also to a change of the professional profile, resulting in a significant decrease of the number of workers.
The age structure changed during the last years, especially in the case of the employees with an age exceeding 50 years. In spite of the continuous reduction of the headcount in the last three years, the average age of the company's employees maintained at the same level of around 37 years.

Age Structure



Professional Profile



The training of the employees is performed either in-house or in collaboration with state-owned specialized institutions (Petroleum and Gas high schools, the Petroleum and Gas University in Ploiesti), or in the case of administrative employees by various private institutions.Overall 17,163 employees benefited from training – 34% of the labour force – compared to 2003 when they accounted for 12 % of the total, in order to further increase the qualification of Petrom's employees.

Outlook

One of the key objectives is to finalize the collective labour bargaining agreement, the social plan and the development of outplacement structure.

Therewith, introduction of a new salary system for management, development of a new training organization and of a modern HR philosophy, changing work contracts to western standards and developing new working time models are also of high priority.

Environment, Health and Safety

Environmental Protection

Environment protection expenditure amounted to USD 94.8 m in 2004. This means an overall increase of 32% compared to 2003. Petrom has invested in 2004 in all business divisions. The expenditure structure is presented in the following table:

Environmental expenditure structure, 2002 - 2004

Business Division	2002		2003		2004	
	USD m	%	USD m	%	USD m	%
E&P	38	48.7	35	48.6	28.3	29.8
Refining	18	23.1	25	34.7	58.2	61.4
Marketing	22	28.2	12	16.7	8.3	8.8
TOTAL	78	100	72	100	94.8	100

The highest environmental protection related expenditure was allocated to Refining (61% of the total environmental expenditure), representing a significant increase of approximately 133% in comparison with 2003. This was mainly used for gas emission reduction and wastewater treatment systems.

The environmental expenditure in E&P represented 30% of the whole environment amount spent in 2004, representing a decrease of 19% compared to 2003. The main investment projects related to water, air and soil pollution prevention, to the fight against corrosion, through the installation of glass fibre pipes, and the application of surface coating & anticorrosion treatments. Other measures focused on improving quality of life and the environment: decommissioning of old equipment, modernizing oil separation, establishing new and improving existing oil waste pits.

The environmental expenditure in Marketing represented 9% of the whole amount spent in 2004, representing a decrease of 31% compared to 2003. The main concern was to modernize the retail facilities in order to meet EU requirements. In this respect, filling stations have had double wall tanks, vapour recovery pumps and oil separators installed.

According to current national legislation, Petrom must hold environmental permits for all relevant units. As of December 31st, 2004, Petrom was in possession of 1,062 environmental permits, from a total of 1,349 relevant units, while the remaining units were in the process of being either authorized or reauthorized.

In 2004 there were a small number of reported environmental incidents. These were mainly related to pipe leakages that affected mainly the soil and surface water. In spite of these incidents, the company tried to meet its own environment objectives, by implementing several measures in line with the EU requirements. These measures related to the production technologies as well as product distribution.

At the beginning of 2004 Petrom started building the system and the certification process for the Environmental Management System according to the standard ISO 14001:1997.

Health

Employees' health remains a permanent concern of the company and Petrom has established its own large and complex medical care network to manage this.
The prevention and the routine treatment of diseases caused by working conditions are carried out throughout the 37 company medical offices, the Arpechim medical centre and Videle hospital, with a total personnel comprising 68 company medical doctors and 309 undergraduate level medical workers. Petrom is aiming to comply with international HSE standards in order to ensure a healthy life for employees and the community.

Safety

The safety of employees and the community is one of the main objectives of Petrom A series of actions were taken in order to improve personnel working conditions in order to maintain production without incidents. These covered all elements of the work place system: operator / equipment / work task / work environment.

The company has been focusing on maintaining and improving the performance of the technological installations, processes, units and equipment, which has had an incidental effect on work safety and health, and on raising the awareness of the employees regarding compliance with the laws governing this field.

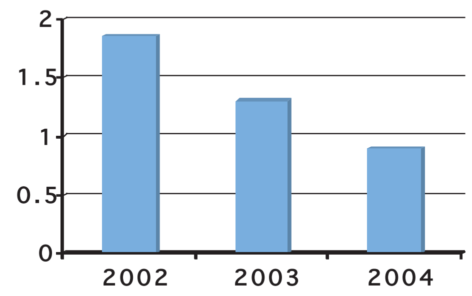
The performance indicator for occupational safety, which is the frequency coefficient for occupational accidents, shows a 32% decrease from 1.305 in 2003 to 0.89 in 2004. The decrease of this coefficient represents an important positive fact for Petrom. The cause of this evolution is a significant decrease in the number of accidents (from 74 in 2003 to 45 in 2004), especially given that the number of employees has also diminished.

Among the main causes of the accidents were the inappropriate performance of operations, of actions, control and handling and not taking compulsory occupational safety actions in due time.

Training Programs

Petrom intends to continue training its employees in the areas of occupational health, safety and environmental protection with the aim of raising awareness of the importance of these activities and of improving performances. Therefore in 2004, the company trained its employees with respect to work safety and environmental issues, organizing simulation exercises in cooperation with the local occupational safety, environment and other authorities and civil protection.

Frecvency coefficient for occupational accidents



Outlook

In 2005 the main targets of HSEQ are focused on protecting the environment and introducing a corporate health concept, along with a process safety analysis and the organization of the Crisis Management.

Research & Development

Research and development activities aim at introducing the latest innovations in terms of production technologies, of modernizing existing technologies, products and services, determining an increase in efficiency.

Exploration and Production

These activities are carried out at the Research and Design Centre for Geological Explorations (CCPEG) and at the Institute for Research and Technological Design (ICPT), and target the discovery of crude reserves and resources, and the increase of crude fields by applying IOR and EOR techniques.

The two institutes are developing research activities with respect to the following:

- Studying the characteristics of the sedimentary basins,
- Evaluating the hydrocarbon potential of various exploration blocks;
- Establishing an optimal strategy for maximizing the crude and natural as reserves and production and a strategy for minimizing the production and the development costs;
- Extending the use of water injection and of EOR techniques, especially in situ combustion and steam injection
- Improving sand control techniques, stimulation of the formation flow, the blockage of water sources etc, techniques for well improvement and well life extension;
- Synthesizing and producing chemical agents used in the treatment of fluids, stimulating productive formations and sand control, corrosion protection and polluted soil treatment;
- Formulating technologies, equipment and products for crude and gas treatment and processing and for preparing the injected fluids, etc.

The research integrates biostratigraphical, sedimentological, geochemical data, resulting in integrated studies targeting the reconstruction of the evolution of some major geological units and the areas with high potential for containing gases located in the country and abroad. Production feasibility studies are performed in an integrated system by complex teams and highly skilled researchers equipped with advanced software and simulators in high-tech laboratories.

The institute incorporates a training centre, which insures the periodical technical training of the operating personnel by highly trained professionals.

Refining

The research conducted at INCERP Ploiesti in 2004 consisted in studies elaborated in compliance with the Agreement signed with Petrom and self-funded studies for beneficiaries outside Petrom and studies stipulated in the contract signed with the National Agency for Science, Technology and Innovation.

In addition to research, the company also developed a micro production on the basis of own technologies: industrial waxes with various uses, dye diluents, molecular sieves, vacuum oils, antifreeze liquid, etc. Also various petroleum product-testing services have been provided to Petrom or to third parties.

IT Activity

Organisation

In 2004, IT and communications activities were organized, taken into consideration the Petrom organizational frame. The activity has been fulfilled by Petrosoft, the special IT&C branch, at central level and by IT offices in the branches.

In 2004, Petrosoft was responsible for database administration, development and implementation of IT software packages, training of the end users and coordination and effective participation to the achievement of IT projects.

Petrom has a wide area network (WAN) comprising 6,899 computers, which ensures data transmission and Internet services. The distribution stations have local area networks, which ensure the sales of oil products (front office), as well as data processing and transmission to the branches (back office).

A total number of 376 people are involved in the IT activity, out of which 79 are working in Petrosoft branch.

Petrom has a star topology network structure, comprising routers, modems, switches, servers connected on different levels, being administrated by Petrosoft through a dedicated software - CISCOWORKS.

During the year 2004, the implementation of EMSYS software, delivered by ROMSYS, within the E&P branches was finalized. The system is now operational in 11 branches and 23 production sites.

Within the commercial branches a complex system ("Complete System for Data Administration and Activities control") has been developed.

A new hardware and telecommunication infrastructure was implemented and put in place in 39 distribution branches as well as in Petrom headquarters. An ERP software - SIVECO APPLICATIONS - was also implemented, the implementation process being almost completed.

In 2004, Petrosoft analysts developed several IT systems for E&P (performance of drilling activities, monitoring crude production), Marketing (monitoring system for the use of smart cards) and Finance activities.

Outlook

"FIT-together" is a new and very important project aiming at harmonizing the existing IT systems and the strong integration of business, finance and IT.

The project team consists of more than 80 team members from Petrom employees, expatriates from OMV as well as local and international consultants.

Another important project is the acquisition of modern IT Infrastructure for New Headquarter Offices, which will include 800 PCs and new office communication infrastructure

The redenomination of ROL on July 1st, 2005 creates a major challenge for a large company as Petrom. In order to meet the requirements set by the government, a large project was established across headquarters and branches and has highest priority within Petrom.

Report 2004

Exploration and Production

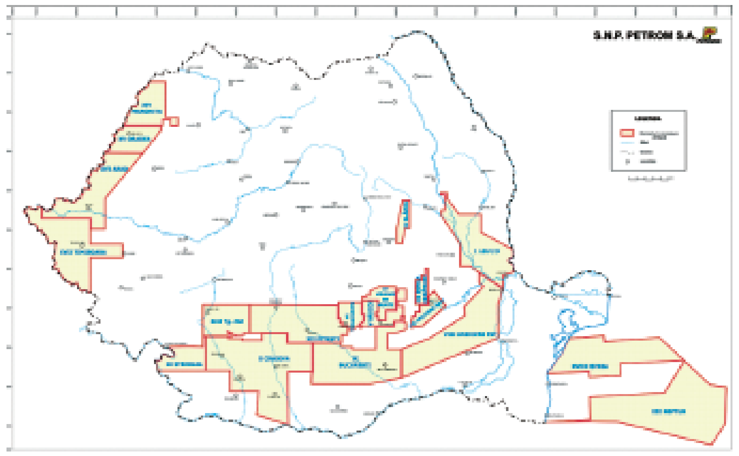
	2002	2003	2004
Crude Production, m tons	5.81	5.65	5.46
Natural gas Production, bn Stcm	6.06	6.13	6.44
Production, m boe	81.42	80.73	81.31
Operating Revenues[1], ROL bn	N/a	17,063	16,702
EBIT, ROL bn	N/a	13,025	5,715
EBITDA, ROL bn	N/a	18,541	10,711
Capex, ROL bn	8,137	6,198	6,693
No of employees	33,268	32,668	26,473

1 Net of inter-segment revenues

Exploration activity

During 2004, Petrom carried out oil and gas operations on 18 exploration, development and production blocks in Romania, based on the License Agreement concluded with the National Agency of Mineral Resources (NAMR) and approved by the G.D. no 287/2000.
Petrom started negotiations with N.A.M.R. for Block XIX Neptun Est (offshore Black Sea) in order to carry out the activity based on a new work program, after TotalFinaElf and Conocco had withdrawn. A new Licensing Addendum has been signed, having an initial exploration period of 4 years and the right to extend it by two successive exploration periods of two years each. This Addendum was approved by the G.D. no. 1928/ November 10th 2004.

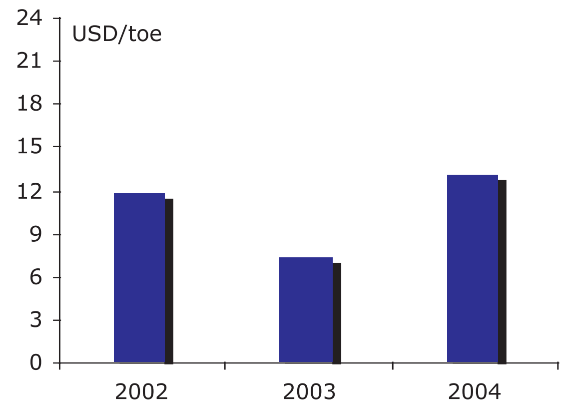
Perimeters under license agreement with Petrom



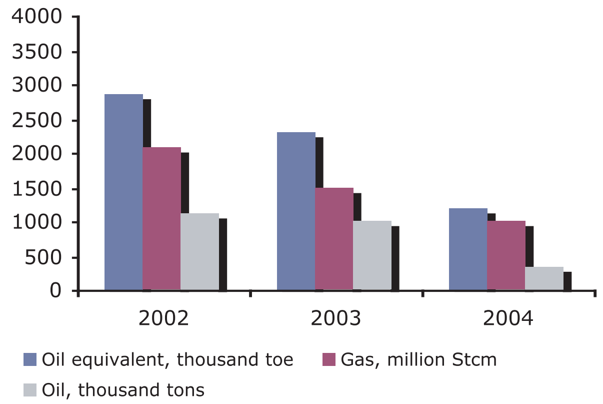
As part of the Minimum Work Program committed under the License Agreement for the 18 blocks, during 2004, drilling works for 11 exploration wells were initiated and 7 exploration wells were drilled, while for 31 wells production tests were performed. The total length of the exploration drilling amounted to 16,800 m.

The contracted volume of seismic acquisition amounted to 695 km of 2D seismic, amounting to ROL 174 billion (EUR 4.3 m), based on an approved budget of ROL 200 billion (EUR 4.9 m).

Reserve addition cost



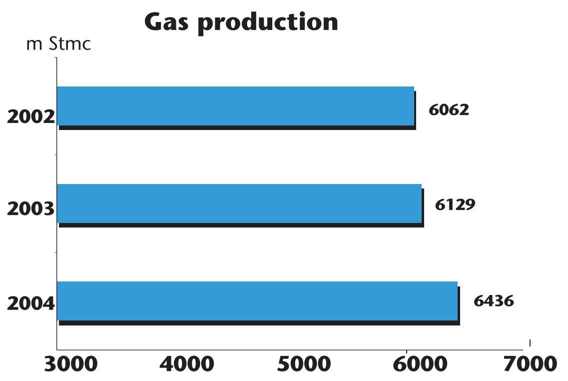
Reserve Replacement

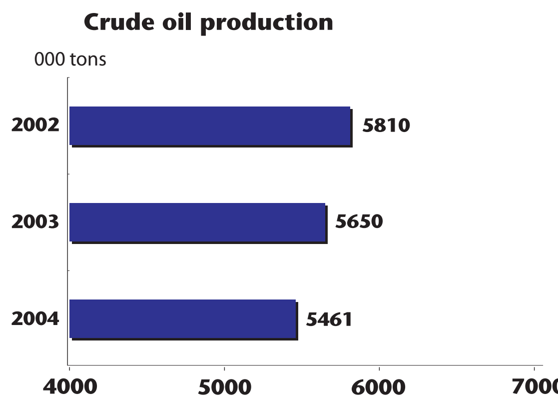


The processing of the whole amount of acquired seismic data as well as the seismic interpretation are performed by Petrom's Branch C.C.P.E.G. - Bucuresti in its own laboratories, equipped with ProMax software, Landmark and Schlumberger GeoQuest.
Two wells on Craiova Block X, have identified a new structure, and a new non-associated gas field, at the Sarmatian level respectively, with a potential over 1.65 bn Stcm and 812 m Stcm geological resources respectively.
The total reserves replaced in 2004 amounted to 316 thousand tons of crude oil and 1,000 million Stcm of gas.
The total expenses incurred by the exploration activity (exploration drilling plus seismic) amounted to ROL 506.7 billion (EUR 12.5 m) or ROL 428 thousand/ toe (USD 13.1 / toe) of discovered proved reserves.

Crude Oil and Natural Gas Production

Petrom is the main crude oil producer in the country even if it is not the only company involved in exploration activities in Romania.
The total crude production amounted to 5.461 m tons, slightly below the budgeted level (by 4.2%), while the natural gas production amounted to 6.436 bn Stcm (42.02 m boe), exceeding by 3.8% the planned level.
These figures are in line with the objective of maintaining the production levels set out in the strategy of the company.
This production resulted mainly from old (mature) reservoirs using intensively new technologies in order to improve the exploitation of the reservoirs. In this context, the concepts of "Reservoir Management" and "Field Rehabilitation" have seen a wide range of application, so that the production activity was focused on the optimisation of the interaction between Reserves - Production Volumes and Costs.
At the end of 2004, 300 commercial fields were developed, out of which 106 are crude oil fields, 147 are crude oil and associated gas fields and 47 are free gas fields. In addition, two CO_2 reservoirs were also developed.





In order to increase the recovery of crude oil on 71 fields, different processes for Enhanced and Improved Oil Recovery (EOR and IOR) were applied. Their contribution to the overall production amounted to 23.7%.
The main methods applied for oil recovery enhancement were: water flooding, in-situ combustion and steam injection.
76.7% of the production resulted by using primary recovery, 15.5% following the application of water flooding while on the remaining fields (7%) production was obtained by using thermal methods.
The crude oil production is obtained nearly exclusive by applying artificial lift systems, with the down hole pumping system being used more frequently.
Together with the efficient management of the existing wells, the drilling of new wells has been continued, the majority of them being drilled as infill wells. In 2004, 212 production wells were drilled (out of which 17 on free gas fields) achieving a crude oil production of 111 thousand tons and 85 m Stcm. In the same period progresses in the domains of sand control, acidizing, selective fracturing of productive zones, water blockage and control, etc were recorded.
These kinds of operations were provided with own surface equipments present at the Base for Special Operations at Wells (BOSS) Campina, a Petrom branch, which uses own technologies or technologies resulted from technological transfer.
In view of improving the efficiency of the artificial lift systems, measures have been undertaken for the modernisation of down hole equipment, especially through the use of progressive cavity pump installations and subsurface sucker rod pumps with simple barrel.
These actions have led to the reduction of the operating costs for different fields.
The program for revamping oil and gas gathering systems has been continued through commissioning 12 new gathering stations on different areas and through the modernising program of workover rigs providing the acquisition of 30 new rigs AM-10 type, suitable for complex workover operations.

Crude Oil Sales

Most of the revenues obtained from E&P are accounted for by crude oil sales, followed by natural gas, NGL and CO_2 sales.
Petrom's crude oil sales are dominated by sales to the own refineries, Arpechim and Petrobrazi, for processing.
The total sales amounted to 5.48 m tons in 2004 decreasing by 3% compared with 2003 as a result of the slightly lower production level.

Natural Gas Sales

In 2004, Petrom sold 5.44 bn Stcm of natural gas. Petrom's gas is sold internally through its own refineries and its fertilizer producer, Doljchim. Outside of Petrom, natural gas is supplied to both industrial and wholesale customers.
The sales of natural gas increased by around 1% in comparison with 2003 due to higher production quantities in 2004.

Crude Oil Prices

The price of the domestic crude is correlated, starting with 2001, with the international market prices for the Brent crude. As the Brent quality is superior to Petrom's average oil adjustments for this quality difference are made accordingly in view of obtaining the ex-schela price.
Nonetheless the crude sales price generally follows the price path of the Brent index.

Natural Gas Prices

Romania distinguishes 2 different gas markets - the regulated market (captive consumers) and the eligible consumer market. The regulatory authority sets the prices for captive consumers, whereas in the eligible market gas prices are negotiated. In 2004 the eligible consumer market met about 40% of the Romanian gas market. In 2005, 50% of the gas market will be liberalised. Full liberalisation of the market is expected when Romania joins the European Union.
Petrom supplies both the eligible consumers market and the captive market segment. As a consequence Petrom's realized gas prices reflect both the regulatory influence and the competition on the market.

Transportation

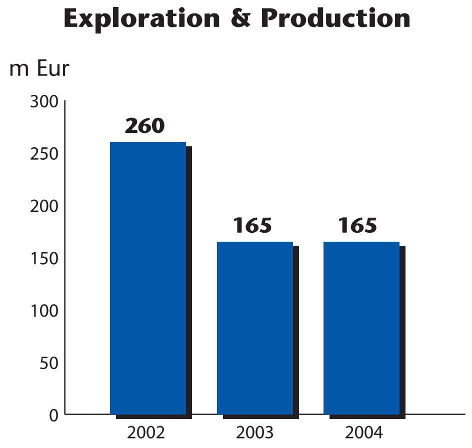
Petrom performs its crude oil transportation through Conpet's transport management services covering pipeline premises (domestic and imported crude) and railway cargo tankers.
The transportation of the natural gases produced by Petrom is achieved through SNTGN Transgaz SA Medias. Distrigaz Nord and Distrigaz Sud provide distribution services through their own distribution network.

Capital Expenditures*

In 2004, the exploration and production investments amounted EUR 165 m, out of which 43.4% have been distributed to development, 36.7% to production, 6.4% for exploration, 2.4% for appraisal, 5.7% for corporate expenditures and 5.7% for other activities.

The 2004 key projects were as follows:

- commissioning works for 7 research wells;
- production drilling works for 183 wells;
- drilling works for the off-shore Pescarus structure;
- revamping works for 26 gathering stations, out of which 20 have been completed;
- construction works for 16 own gas distribution networks, out of which 4 have been completed.



*for the estimation of the investment value in current prices, the annual average exchange rate used relative to each year was as follows: ROL/EUR 31,255 (2002), 37,556(2003), 40,532 (2004).

International E&P Activity

Kazakhstan

Petrom is directly present in Kazakhstan, through its Petrom Kazakhstan Branch carrying out exploration in the Jusaly block. Exploration and production activities are carried out through Tasbulat Oil Corporation LLP Company (100% owned by Petrom) in the Tasbulat, Aktas and Turkmenoy fields, through Oztiurk Munai LLP Company (95% owned by Petrom) on the Sinelnikovskoe block and through Kom Munai LLP Company (95% owned by Petrom) in the Komsomolskoe field.

In September 1998, Petrom Kazakhstan Branch obtained the exploration and production license for the Jusaly block. In March 1999 the exploration and production contract was signed between Petrom and the State Investment Agency of the Republic of Kazakhstan. The initial contractual area was of 34,224 km2. After two relinquishments 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 December 2003 the exploration phase was extended for two years until September 2005.

The total value of investments stipulated in the minimum-working program is of USD 33.47 m. In 2004 the investment was of USD 8.417 m. During 2004 three exploration wells were drilled and tested. The Kazakh Reserve State Committee approved the reserve evaluation for the Jilankir discovery. For 2005 the drilling of a new exploration well in the in the Jusaly block is envisaged.

Tasbulat Oil Corporation

In 1999 the sale & purchase agreement for all the shares of Tasbulat Oil Corporation LLC, the 100 % owner of TOC LLP Kazakhstan, was signed between Petrom and Lisburne Holdings LTD. Tasbulat Oil Corporation LLP 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.

In 2004 separate contract addendums were signed for the Tasbulat, Aktas and Turkmenoy fields reducing the applicable VAT rate from 16% to 15% and the social tax rate from 21% to 15%. For Aktas and Turkmenoy an extension of the exploration period was granted by the Kazakh authorities until July 2006.

In 2004 four appraisal wells were drilled in Turkmenoy, one exploration well in Aktas field and the drilling of further two wells commenced in the Tasbulat field. The daily production increased from 1,575.16 bbl/day, at the beginning of 2004, to 2,172.14 bbl/day at December 31st, 2004. The amounts invested in 2004 by TOC LLP were of USD 17.14 m on Tasbulat field, USD 2.12 m on Aktas field and USD 10.27 m on Turkmenoi field.

Oztiurk Munai

In 2000, Petrom entered into negotiations in order to acquire 95% of the shares of Oztiurk Munai Ltd. Company. In 2001 the company was registered in Kazakhstan with Petrom as the majority shareholder. Oztiurk Munai 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. Until then Oztiurk Munai has the obligation to execute the minimum work program with exploration and appraisal drilling as well as infrastructure development with a minimum investment commitment of USD 17.5 m.

In 2004 two exploration wells were drilled and tested. Together with the related field infrastructure and facilities four suspended production wells were re-completed and put into production. For 2004 the total investment was of USD 13.24 m. For 2005 the drilling of a third exploration well as well as a campaign of hydraulic fracturing works in the existing wells is planned.

TOO KOM - MUNAI

In March 2003 Petrom acquired 95% of the shares of TOO KOM - MUNAI, holding the development and production rights for the Komsomolskoe block. The value of the minimum work commitment is of USD 50.3 m for the development of the Komsomolskoe block.

In 2004 the investment amounted to USD 1.5 m mainly for preparation works. For 2005 the work over of five suspended production wells and the acquisition of 3D seismic data are planned.

Tanzania

Petrom is having a 30% interest in the Nyuni license, offshore Tanzania. During 2004 the drilling of the Nyuni 1 well, which has been started in the previous year 2003, continued. Drilling was finalized in March and well testing was completed in May with insignificant results.

Outlook

The focus of the management lies on further improving the cost structure, increasing productivity and concentrating on the three core businesses approaching industry benchmarks.

Exploration expenses of EUR 100 m per year supported by 3D seismic and other best in class technology, will add important reserve potentials.

Therewith, investments of EUR 800 m in 2005 - 2007 will drive the upstream assets towards a step change in profitability and further exploration and development activities in the Caspian Region lead to substantial additional production volumes beyond 2010.

Refining

	2002	2003	2004
Processed crude, m tons	6.52	6.12	6.42
Petroleum product sales[1], m tons	3.43	3.01	3.29
Operating Revenues[2], ROL bn	N/a	34,336	48,653
EBIT, ROL bn	N/a	(7,728)	(10,007)
EBITDA, ROL bn	N/a	(6,932)	(9,240)
Capex, ROL bn	1,198	1,983	3,747
No of employees	11,797	9,075	8,962

1 Only sales to third parties
2 Net of inter-segment revenues

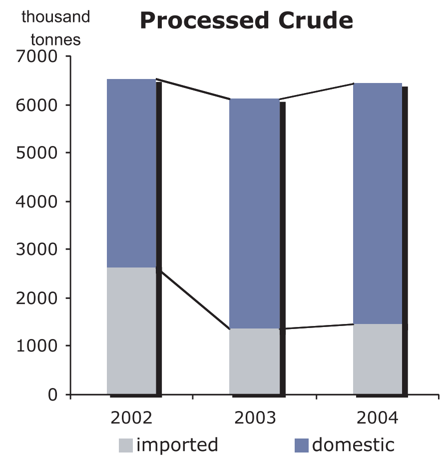
Petrom operated two refineries, located in the main strategic industrial areas in the Southern Central region of Romania. The refineries Arpechim and Petrobrazi are near the towns Pitesti and Ploiesti respectively and are accounting for about 35% of the overall crude processing capacity in Romania. Both refineries are capable of processing domestic and imported crude oil, due to their equipment and technical standards.
The crude oil is distributed to the refineries using a specifically designed crude pipeline network of Conpet or railway tankers.

On the other hand the refineries offer a well-equipped infrastructure for distribution of products using Conpet's product pipeline network, railway tankers and road tankers.
Arpechim and Petrobrazi refineries as well as INCERP have implemented Quality Management System certified according to ISO 9001:2000 requirements. In 2004, this Quality Management System was certified according to ISO 14001:1996.

Processed Crude Volume, 2002-2004 **m tons**

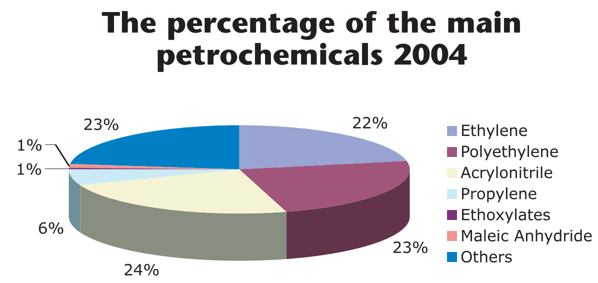
	2002	2003	2004
Arpechim	3.10	2.93	2.99
Petrobrazi	3.42	3.19	3.43
Total	**6.52**	**6.12**	**6.42**

The crude processed by the two refineries in 2004 amounts up to 6.42 million tons representing an increase of 5% over the previous year, which leads to an increase of 3.8% of the utilization.
As the crude coming from the domestic production was increasingly processed in Petrom's refineries the share of imported crude declined significantly in the previous years.
In order to meet the demand of the market and the quality specifications according to the European Union's standards imports changed to lighter crude with low sulphur content, mainly Syberian light.
The quality standards for fuels set by the European Union's fuels directive have been adopted into national Romanian law ensuring the compliance with these regulations. Meeting these targets will be achieved as a direct result of continuous improvement.
Petrom will be able to offer products according to the European Unions Quality standards on regional markets.
Part of the petroleum products produced by the refineries is sold to domestic market or to export while the rest is transferred to the Marketing system. The export sales amounted to 2.2 million tons, representing an increase of about 30% from previous year, and accounted for 44% of the total sales. Euro Premium Gasoline and Euro Diesel accounted for most of the export, which targeted European Union and South-Eastern European markets.

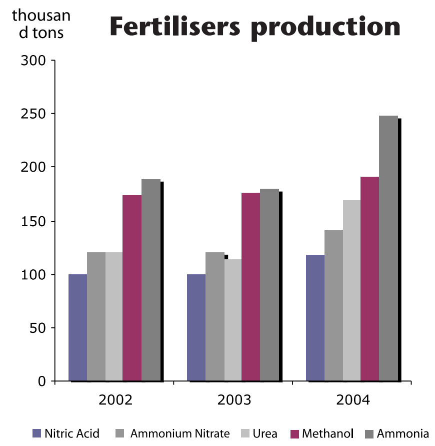


Petrochemicals

Petrochemical units in Arpechim and Petrobrazi are able to produce a wide range of chemicals and petrochemicals by processing petroleum cuts obtained in refineries. In Romania, Arpechim is the most important supplier of petrochemicals and the sole supplier of ethylene.
The high quality of petrochemical products takes the credit for the international reputation of Petrom's brand.
In 2004, the total production of petrochemical products increased by roughly 20% to 575 thousand tons due to operational improvement and better conditions in the specific market.
The revenues obtained from petrochemicals sales amounted to around USD 300 m and represented approx. 20% of total refineries sales.
Petrochemicals were mainly exported to the European Union and South-Eastern European market.



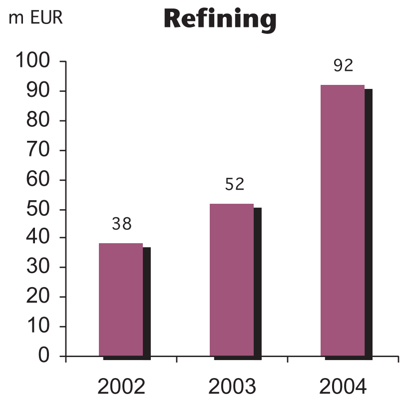
Fertilisers



Doljchim Craiova is one of Romania's main fertiliser and organic product producers. Its main throughput source is Petrom's natural gas production. In 2004, Petrom delivered to Doljchim approx 646.5 m cm of natural gas, representing 11.8% from the total gas sales of Petrom. The main products produced by Doljchim include ammonia, nitric acid, ammonium nitrate, urea and methanol. On the basis of the plant production capacity and of its competitors, Petrom estimates that Doljchim holds a fertiliser market share of 35%*.
In 2004, Doljchim exported 312 thousand tons fertilisers, which represents 42% of Doljchim's total production. The export value was of USD 59 m.

Capital Expenditures**

The main task of Refining is to cover the future demand of the market in terms of quantity and standards according to the European Unions requirement as well as increasing efficiency to improve the cost position of the refineries to be competitive in the relevant market. In order to carry out this strategy, the capital expenditure was significantly increased by 77% as major projects were initiated and continued.



Arpechim
- FCC feed hydrotreating unit;
- thermal energy recovery from burnt gas ACN;
- Implementation of the DCS system for the functioning installations;

Petrobrazi
- revamping of the FCC installation;
- revamp of catalytic reforming installation;
- TAME unit
- revamp of railway unit (skid) for petroleum products

Outlook

With significant refining investments in 2005 - 2008 Petrom complies with EU quality requirements and the market demand structure to reach a competitive cost position.

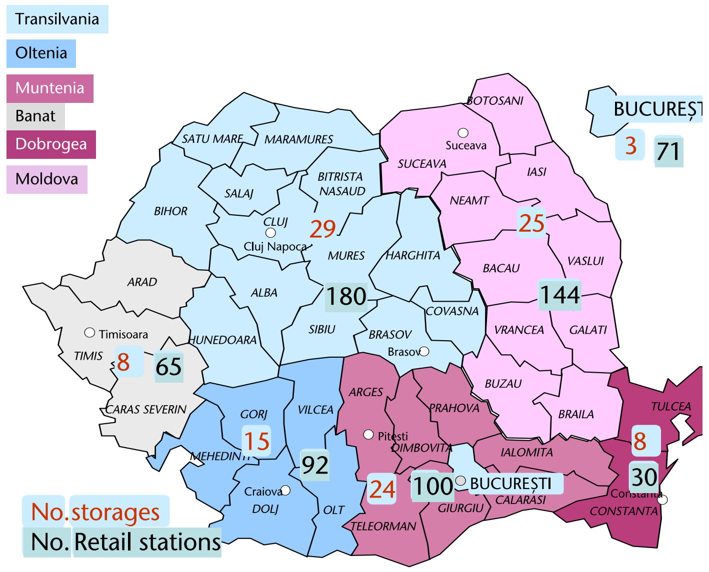
* Source: Nitrofosfor
**for the estimation of the investment value in current prices, the annual average exchange rate used relative to each year was as follows: ROL/EUR 31,255 (2002), 37,556(2003), 40,532 (2004).

Marketing

	2002	2003	2004
Sales*, million tons, o/w:	2.22	1.83	1.73
Gasoline	0.89	0.72	0.64
Diesel	1.04	0.95	0.91
Market share** %			
Gasoline	42	46.8	45.0
Diesel	42	36.4	36.0
Operating Revenues, bn ROL	N/a	23,572	26,051
EBIT, bn ROL	N/a	(719)	(1,520)
EBITDA, bn ROL	N/a	229	(335)
Capex, bn ROL	2,851	1,643	2,588
No of employees	14,649	14,351	14,010

* sales to third parties - filling stations and storages.
** 2004 market share is obtained by dividing Petrom's sales to domestic demand (estimated based on domestic demand for 9 months 2004).

As of December 31st, 2004 Marketing sector consisted of the following: 112 storage facilities, with a storage capacity of 909,413 cm, 612 filling stations and 34 LPG skids. Petrom has a strong position on the domestic market. Out of the 2,600 filling stations existing in Romania, 53% are no-brand stations, while 26% are owned by Petrom. The following competitors are Lukoil and Rompetrol, which made significant investments in their retail network in 2004.
Almost half of Petrom's filling stations have been recently modernized and reconditioned.
The decrease of 6% in sales was due to a combination of strengthening of the competitive environment and the significant increase of export sales by 30%.
Petroleum products prices are fully liberalised in Romania, allowing to each distributor to settle its own prices.



Petrom's distribution branches are presented a reference price settled at HQ's level, but branches were free to adjust this price within +/-5% depending on local market.

Filling stations	2002	2003	2004
Romania	614	623	612
- modernised	191	216	221
- new	37	41	48
International	35	56	70

Transportation

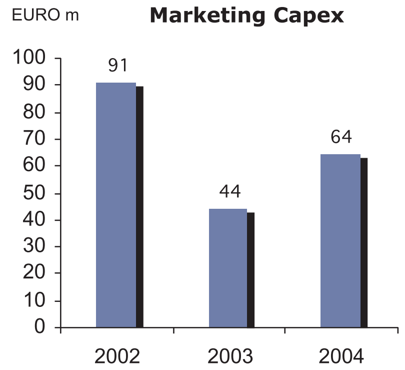
The transportation of petroleum products from the refinery to the final consumers is performed through the pipelines operated by Petrotrans (Conpet) (12%), by road (Petrom specialized vehicles) (46%) and by railway (rail tanks) (42%).
Petrom owns 1,106 road vehicles for petroleum product transportation, out of which 682 belong to Transpeco (total capacity of approx. 9,600 cm) and 424 road vehicles belonging to the distribution branches (total capacity of 5,500 cm).
Currently Petrom car fleet modernizing and restructuring is in progress.
Simultaneously the transfer of car fleets from Peco branches to Transpeco is taking place; Transpeco has the logistics and equipment for a better management.
Domestic transportation for exported products was primarily done by rail tanks.
In 2004, 415 thousands tons of petroleum products were transported by pipeline, out of which 218 thousands tons were intended for export. The Petrotrans (Conpet) pipelines transported 332 thousands tons, and 83 thousands tons were distributed through own pipelines.

Capital Expenditures*

The capital expenditures of Marketing were as follows:

- revamping and commissioning works for 10 distribution stations and construction works for 8 new ones;
- revamping works for 2 storage facilities;
- 3 new motels have been commissioned.

*for the estimation of the investment value in current prices, the annual average exchange rate used relative to each year was as follows: ROL/EUR 31255 (2002), 37556(2003), 40532 (2004).



International Activity

Republic of Moldova

ICS Petrom Moldova S.A., a joint venture company where Petrom has 65% of the stake, with a subscribed and paid in share capital of USD 2.3 m, was established in 2000 and its activity was continuously growing during three years of operating mainly in the area of petroleum products sales. Petrom Moldova distribution network includes 68 filling stations, out of which: 17 owned filling stations, 31 rented and 20 filling stations under leasing contract. In 2004, 98.3 thousand tons of petroleum products have been imported (29.6 thousand tons more than in 2003) based on increased retail sales (as number of filling stations increased from 41 to 68) and with the intention to decrease wholesales in order to avoid competition with proper products on the market in Moldova; this decision lead to the increase of gross profit up to USD 7,642,592 (2.7 times higher than in 2003).
Revenues obtained by selling petroleum products almost doubled in 2004 (USD 52,969,142) compared with previous year (USD 27,796,630).

Hungary

In July 1998, PETROM Hungary Kft SRL subsidiary was established, having as object of activity the selling of petroleum products. In 2001, the share capital was increased by USD 500,000, reaching USD 8,325,176.
At present, the subsidiary has two filling stations in Bekescsaba and Nagylak and a petroleum products terminal in Telekgerendas.
In 2004, the supply of petroleum products was carried out by importing diesel from Romania and buying gasoline locally. Gasoline has not been imported from Romania because there are still low sales volumes in the two filling stations and the terminal in Telekgerendas has no double walled tanks for gasoline.
In 2004, retail sales in the two filling stations increased by 7% based on increased sales of diesel (+33%), while gasoline sales increased by 25% compared to 2003.
In 2004, the subsidiary sold significantly higher amounts of products than in 2003 (45,000 tons vs. 22,950 tons), which reflected in increased revenues (USD 43,177,617 vs. USD 19,096,658) while the profit amounted to USD 580,793.
Also in 2004, the largest part of revenues came from terminal Telekgerendas activity, which represents 92.92% share of total revenues.

Serbia and Montenegro

In 1999, DOO Petrom Yu SRL subsidiary was established, 100% ownership of Petrom, having as object of activity the selling of petroleum products.
Petrom intended to purchase 19 sites for building up filling stations, but as a result of a decision issued by the Serbian Government, imposing minimal areas for building up filling stations on highways E70 and E75, the company decided to purchase only 12 sites.
In 2004, Doo Petrom Yu Beograd did not enter the local petroleum products market due to restrictions on import activity (only National Company Nis being allowed to make imports) and due to much lower prices offered by Ukraine and Russia.
Once the liberalization of petroleum products imports from Romania is accomplished in 2005, it is foreseen that Serbia will be a reliable partner for petroleum products imports, as there is a significant potential demand on the markets in this county and in the countries from former Yugoslavia.

Outlook

With significant Marketing investments in the next period, the brand sets the quality, safety, reliability and convenience standards in Romania.

Report 2004

Financial Analysis

Financial highlights, ROL bn	Year ended December 31st 2004	December 31st 2003
Sales	86,879	71,346
EBIT	(5,812)	4,579
EBITDA	1,136	10,107
Net (loss)/profit	(9,737)	1,440
Fixed assets	95,894	76,928
Current assets	60,237	39,986
Net cash flow from operating activities including change in Working Capital	18,559	12,640

Principles used for drawing up financial statements

The Company maintains its accounting records in Romanian Lei ("ROL") 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 (GD) 168/1998 (subsequently amended by HG 168/2000, HG 1116/2002 and Law 555/2004) with respect to accounting for geological quota. 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 internationally accepted accounting standards. Although starting with January 1st, 2004, Romania ceased to be hyperinflationary economy, the beginning balances should have been restated in accordance with IAS29 "Financial Reporting in Hyperinflationary Economies". Therefore, these financial statements do not fully comply with International Financial Reporting Standards (formerly known as International Accounting Standards).

Retained Earnings from prior year restatements

The financial statements 2004 are prepared in accordance with the Romanian statutory accounting requirements (RAS). Due to differences between Romanian and International Accounting Standards (IFRS), the financial statements do not fully comply with IFRS.
Towards the end of 2004 the management revisited the application of accounting standards with respect to impairment, employee benefits and accounting for inventories, keeping in mind the changes faced by the company in light of changing market dynamics.
Additionally the management also assessed the implication of matters of emphasis raised with regards to prior year financial statements. As a result the management assessed adjustments necessary to reflect the application of various accounting standards. The management decided that restatement of comparative financial statements is not desirable due to unnecessary costs and delay in the financial reporting process. As a result restatements relating to 2003 were booked against the retained earnings.
At the end of 2004, the company created additional provisions - for environment liabilities, employee benefits, impairment and inventories - in order to be in compliance with the International Financial Reporting Standards. These standards will be mandatory starting with 2006, but they will use 2004 and 2005 as a basis for their application. The preparation of 2004 financials was done in accordance with the provisions of OMF 94/2001.
The Company engaged independent professional appraisers (Smith & Hodgkinson, Colliers International, E&Y actuarial) 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.

The impact on 2003 retained earnings is presented below:

	ROL bn
Adjustment for impairment of fixed assets	10,845
Eliminations of geological quota and profit margin from inventory	3,231
Provision for investments based on share of net assets	1,153
Provision for retirement benefits	1,014
Expenses related to prior years	702
Write off of the prepaid expenses with capital repairs	656
Provision for Arpechim Spare parts	439
Provision for capital work in progress	104
Provision of old inventory based on aging analysis	95
Interest income adjustment related to loans granted to subsidiaries	(101)
To increase the value of Zestrea to current cost	(937)
Retained earnings adjusted due to prior year circumstances	**17,201**

Earnings

Petrom financial statements at December 31st, 2004 showed an operating loss of ROL 5,812 bn, a loss before tax of ROL 8,240 bn, while the net loss from operations amounted to ROL 9,737 bn.
The Company recorded a net loss after tax of ROL 9,737 bn (EUR 246 m), consequent to properly assessing and recording the effects of environmental related liabilities of ROL 2,850 bn (EUR 72 m) and litigation liability of ROL 839 bn (EUR 21 m) and provisions against current assets of ROL 3,551 bn (EUR 90 m). Additionally the Company also recorded the losses incurred on missing inventories kept at third parties, including excise and VAT of ROL 1,212 bn (EUR 30 m).

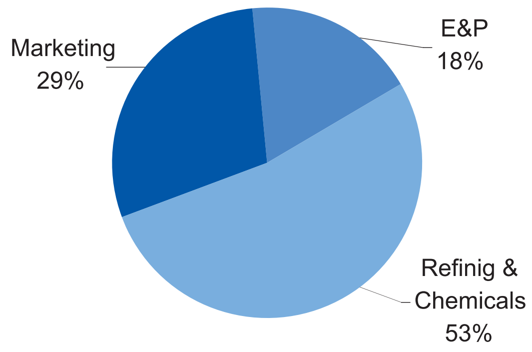
Key operating statistics	Year ended December 31st 2004	December 31st 2003
Revenues growth, % from previous year	21.9%	(3.5)%
EBIT margin %	(6.7%)	6.4%
EBITDA margin %	1.3%	14.2%
Net profit/(loss) margin %	(11.2%)	2.0%

In 2004, in spite of a negative profit before income tax, Petrom had a taxable position due to the significant amount of non-deductible expenses, where the provisions account for the most part.
Sales and other operating revenues for the year ended December 31st, 2004 increased by around 22% compared to 2003, mainly due to an increase of the sales of the Refining and Petrochemicals sector.
Total expenses have increased by 42% mainly due to the operating expenses, which account for 94% of the total. The remaining 6% is covered by the financial expenses.
The increase of operating expenses by 38% reflects the impact of the effects mentioned above.

The appreciation of the local currency ROL, determined a significant rise of other financial expenses, accounting for 85% of total financial expenses. In comparison with 2003, the expenses due to foreign exchange differences (part of other financial expenses) increased almost 4 times.

Personnel expenses decreased by 1.3% as a result of the restructuring process carried out by the company.
Other operating expenses include (a) Expenses with third party services (higher by 41% in 2004, with main influence from E&P), (b) Other taxes, duties (slight increase of 9%) and (c) other operating expenses (i.e. donations, assets disposed). The last category mainly reflects in 2003 the value of the product transfer between Petrom business units (crude, gas, petroleum products). In 2004 those expenses were reclassified to raw materials and purchases of goods for resale.

Operating Revenues by Segment in 2004



Report 2004

EBIT

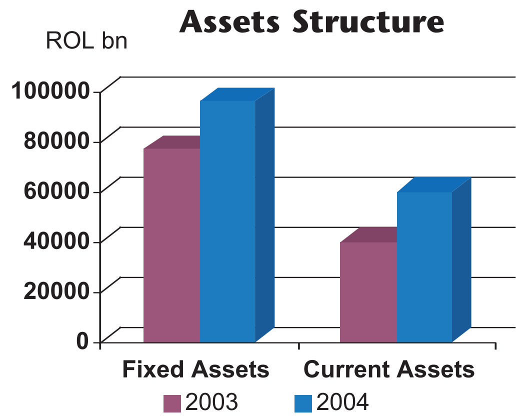
From a positive value recorded in 2003 (ROL 4,579 bn), in 2004 EBIT turned negative (ROL 5,812 bn) mainly due to the reduction of the EBIT generated by E&P.

EBIT per segments of activity, ROL bn	Year ended December 31st	December 31st
	2004	2003
Exploration and Production	5,715	13,025
Refining and Petrochemicals	(10,007)	(7,727)
Marketing	(1,520)	(719)

Revenues of the Exploration and Production sector decreased by 2.1%, which is in line with the decrease in quantities of crude oil sold to third parties in 2004 compared to 2003. Operating expenses increased by 172%, mainly due to an increase of third party services (43%), combined with higher level of the geological quota due to full utilisation (by 120%). The third party services increased as a result of the second step of the restructuring program in E&P, i.e. the spin off of work over activities in some of the E&P branches. The rise of the geological quota is the result of the higher amounts of crude transferred to Petrom branches, generating a better realization of revenues, the basis for the calculation of the quota and the full utilisation available to the company.

In the Marketing sector, EBIT recorded negative values due to a more rapid increase of the expenses in comparison with the revenues. Revenues of the Marketing sector increased by around 10.5%, mainly due to an increase of the merchandise sales, while expenses increased by 13.5% as a result of a higher cost of merchandises sold and a higher value of the depreciation.

Revenues of the Refining and Petrochemicals sector increased by 40.4% as a result of a significant increase of products sales (by 40.5%), while the expenses increased by 39.5%, but still resulting in a negative EBIT.



Assets and Liabilities

The total assets increased by 33%, mainly as a result of an increase in financial assets and a very significant increase of the cash from ROL 3,992 bn to ROL 41,176 bn, following the capital increase of OMV, the new majority shareholder of Petrom.
In 2004 compared to 2003, the total liabilities increased by 60% mainly due to a strong increase of the provisions in the amount of ROL 39,434 bn.
The current liabilities decreased mainly due to an important reduction of other liabilities, including Fiscal and social security liabilities (by 63%), mainly as a result of the GO no 15/2004 referring to the cancellation of Petrom debts to state budget (ROL 9,525 bn) and also to the decrease of trade payables from ROL 7,001 bn to ROL 4,443 bn, (elimination of delayed payment period was targeted in the second part of the year).
In 2004, payables in more than one year amounted to ROL 5,304 bn, representing a decrease by 30% in comparison with 2003 from ROL 7,529 bn. The main causes of the reduction are: the conversion of the EBRD loan into shares (USD 73 m), the appreciation of the ROL towards USD and EUR, as well as the prepayment of EBRD loan (USD 29.2 m).
Total shareholders' equity increased by 19% from ROL 78,819 bn in 2003 to ROL 93,921 bn in 2004 due to the share capital increase resulting from the privatisation process (from ROL 37,735 to ROL 56,001 bn).

Key Ratios

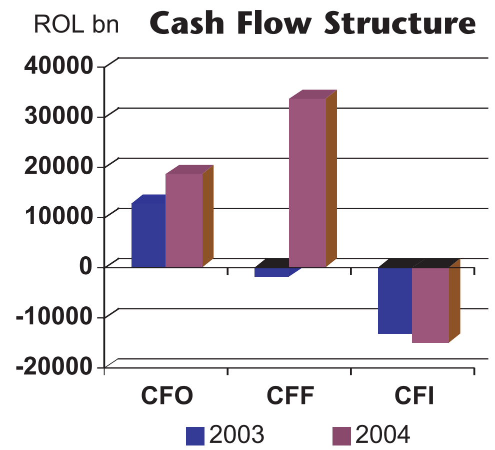
Ratio	Formula	2004	2003
Profitability			
RoFA	NOPAT* / Average Fixed Assets	(2.70)%	2.63%
ROACE	NOPAT / Average Capital Employed**	(3.24)%	2.40%
ROE	Net Profit / Average Equity	(2.82)%	1.83%
Financing			
Debt to Equity	Net Debt / Average Equity	(10.03)%	7.16%
Liquidity			
Current ratio	Current Assets / Current Liabilities	4.79	1.52
Quick ratio	(Current Assets - Inventories) / Current Liabilities	3.89	0.96

* NOPAT = Net income + (Interest Expense - Interest income)*(1-tax rate)
** Capital employed = Equity + (Financial Current liabilities + Financial Non-current liabilities - Cash)

All the profitability ratios were negative in 2004 as a result of a negative net profit due to the properly assessing and recording of the provisions.
The net debt of the company recorded a negative value in 2004, as the cash amount exceeded the short and long term liabilities of the company, resulting in a negative debt to equity ratio.
The liquidity ratios recorded very high values in 2004 in comparison with 2003, due to the large amount of cash owned by the company as a result of the share capital increase which resulted from the privatization process.

Cash flows

The cash flows of the company showed a significant improvement compared to prior year (from ROL -1,865 bn to ROL 37,184 bn) reflecting the cash inflow from the capital increase at the end of the year 2004.
The Cash Flow from Operations was by 47% higher, while the Cash Flows to Investing activities decreased by 16%.
The net cash flow from operating activities increased with ROL 5,920 bn, as a result of both the non-cash adjustments and the changes in net working capital.
The geological quota increased from ROL 5,324 bn to ROL 11,680 bn (as a result of a higher amount of crude delivered into the system), while the provisions influenced both upwards and downwards the net cash flow. The upward adjustments were determined by the decommissioning provisions, as well as by the provisions for current assets and for risk and charges, while the downward adjustments were made for the provisions for impairment of financial investments held as current assets and for the provisions and other non-monetary elements adjustments for shareholders' equity.
The changes in net working capital had a negative impact on the cash flow of ROL 2,102 bn.
The cash flow to investing activities was mainly allocated to the investment projects included in the budget of the company for the year 2004. The differences between the figures reported for capex and the fixed assets acquisition comes from the advance payments and materials purchased for the investment projects.



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Subsequent Events

Board of Directors

In the General Meeting of Shareholders dated January 11th, 2005 a new Board of Directors was elected and replaced the two Interim Directors appointed on December 14th 2004 at the Closing of the privatisation process.
Information regarding the new BoD is presented in the Section "Board of Directors".

Debt

Petrom has authorized through a Subscription Agreement concluded on October 2nd, 2001, the creation and issue of EUR 125 m in aggregate principal amount of 11.652%. These Eurobonds have as maturity date October 2nd, 2006.
Following the privatisation of the company, the Note holders redeemed only Notes amounting to EUR 35,000.
Due to this redemption, the outstanding amount as of March 15th, 2005 is of EUR 124,965,000.

Exploration Activities

In February, a long running dispute between Petrom and Aminex's subsidiary Ndovu Resources Ltd. with regard to the costs of the Nyuni-1 well offshore Tanzania, drilled in late 2003/early 2004 was resolved.
Under the terms of a formal settlement agreement (1) Petrom will pay Ndovu the sum of USD 3,400,000 in respect of past costs due for the Nyuni-1 well (2) Petrom will pay Ndovu the sum of USD 1,275,000 in settlement of all of its other obligations as a joint-venture partner for the Nyuni project (3) Petrom will have no further obligations or claims under the Nyuni Farm-in and Nyuni joint operating agreements (4) but Ndovu is providing an option expiring on June 30th, 2006 for Petrom to rejoin the Nyuni project and (5) Ndovu is withdrawing all legal claims against Petrom in the English High Court.

May 4th 2005
Bucharest

Wolfgang Ruttenstorfer

Glossary

EBRD	European Bank for Reconstruction and Development
m	Million
bn	Billion
t	Tons
toe	Tons of oil equivalent
boe	Barrels of oil equivalent
bbl	Barrel
Stcm	Standard Cubic meters
ROL	Romanian leu
MTBE	Methyl Tertiary-Butyl Ether
LPG	Liquefied Petroleum Gas
LFO	Light Fuel Oil
HFO	Heavy Fuel Oil
CAPEX	Capital Expenditures
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
ROACE	Return On Average Capital Employed
ROFA	Return On Fixed Assets
ROE	Return On Equity
NOPAT	Net Operating Profit After Taxes

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Independent Auditors' Report and Financial Statements for the years ended December 31st, 2004 and December 31st, 2003

Deloitte.

To the board of directors
and shareholders of Petrom
Bucharest, Romania

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheet of Petrom (the Company) as of December 31st, 2004 and related statements of operations, cash flows and changes in shareholders' equity for the year then ended. These financial statements, from page 3 to 49 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 Government Decision No. 168/1998 (subsequently amended by HG 768/2000, HG 1116/2002 and Law 555/2004) with respect to accounting for geological quota. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Company for the year ended December 31th, 2003, before restatements as noted in note 10.9, were audited by other auditors whose report dated April 20th, 2004 rendered an unqualified opinion while emphasizing on some material aspects such as 1) non-provision of obsolete inventories; 2) inadequate provision against trade receivables; and 3) capitalization of inter-branch differences in amount of ROL 752 billion.
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.

1. As disclosed in note 10.9 to the financial statements during 2004 the Company has made significant adjustments by restating opening shareholders' equity. In accordance with IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors some of these adjustments should have been presented by restating the prior period financial statements on a retrospective basis. Management has concluded that retrospective restatement of prior period financial statements is only possible through changes in the opening shareholders' equity without restatement of prior period financial statements and that appropriate disclosures have been made in the financial statements. Consequently, the prior period financial statements are not presented on a comparable basis.

2. The Company carries out significant inter-branch and inter-segment transactions, both of an income/expense and capital nature. Such transactions should be eliminated upon compilation of consolidated trial balance of the Company. During 2004 the Company has recorded as expense ROL 258 billions as un-reconciled inter-branch differences in its statement of operations. No such adjustments were made as at December 31st, 2003 as noted by previous auditors. Due to impracticability with respect to identification of these differences we are unable to determine the amount of adjustment, if any, necessary to correct the opening balance sheet as of January 1st, 2004.
In our opinion, except for the effects of the matters described in paragraphs above, the financial statements referred to in the opening paragraph present fairly, in all material respects, the financial position of the Company as of December 31st, 2004 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 and the Ministry of Finance (MoF) Order no. 94/2001, the Government Decision No. 168/1998 (subsequently amended by HG 768/2000, HG 1116/2002 and Law 555/2004) with respect to accounting for geological quota.

Without further qualifying our opinion, we draw attention to the following:
3. 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. 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 Internationally Accepted Accounting Standards in other areas such as accounting for investments in Subsidiaries and associated undertaking. Although starting with January 1st, 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.

4. As discussed in note 10.10, geological quota is presented as an expense of the Company, which in substance is not an expense as described by the accounting framework to IFRS and Order no. 94/2001 but instead represents a facility available to companies operating in mineral extraction activities. For the purpose of these financial statements the Company has applied the accounting requirements of Government Decision 168/1998 (subsequently amended by HG 768/2000, HG 1116/2002 and Law 555/2004). Had the Company applied a different accounting treatment its results for the year ended December 31st, 2004 would have been significantly different.

5. As disclosed in Notes 2 and 6 to the financial statements, during 2004 the management has assessed decommissioning liabilities, environmental liabilities, and provisions for threatened litigations and provision for impairment of tangible and other assets. In assessing the recoverable amounts and fair value of assets and liabilities management has used certain estimates and assumptions based on the best available technical information. As a result, these individual estimations present a certain degree of uncertainty, and therefore may differ from actual results.

6. The prior period financial statements before and after adjustments (note 10.9) have not been audited by us and consequently we express no opinion on December 31st, 2003 financial statements.

Deloitte & Touche Romania S.R.L.
April 11th, 2005

Deloitte & Touche

Report 2004

(all amounts are expressed in ROL thousand, unless otherwise specified)

COUNTY Bucharest
COMPANY Petrom

ADDRESS 109 Calea Victoriei,
Bucharest - 1
TEL: 2125001 FAX 2125013
NO. OF TRADE REGISTER J40/8302/1997

TYPE OF PROPERTY 14
COMPANII ȘI SOCIETĂȚI NAȚIONALE
TYPE OF ACTIVITY Hydrocarbure extraction

CODE GROUP CAEN 1110
UNIQUE REGISTRATION CODE 1590082

No	Row	December 31st, 2003	December 31st, 2004
A FIXED ASSETS			
I Intangible assets			
1 Set up expenses	01	-	-
2 Development expenses	02	830,120	541,935
3 Concessions, patents, licenses, trademarks and other similar rights and assets	03	302,946,665	711,013,806
4 Goodwill	04	-	-
5 Advances and intangible assets in progress	05	3,864,450,337	1,109,315,396
Total (row 01 to 05)	06	4,168,227,122	1,820,871,137
II Tangible assets			
1 Land and buildings	07	44,904,524,775	46,835,184,433
2 Machinery and equipment	08	14,461,243,514	21,163,546,754
3 Other equipments and furniture	09	803,010,019	336,905,837
4 Advances and tangibles in progress	10	7,907,922,357	6,955,534,919
Total (row 07 to 10)	11	68,076,700,665	75,291,171,943
III Financial assets			
1 Investments in companies within the group	12	1,507,060,152	995,709,464
2 Debts upon the companies within the group	13	-	-
3 Investments	14	19,269,449	15,708,506
4 Amounts owed by subsidiaries and associated companies	15	2,095,864	-
5 Investments as assets	16	187,547,451	297,677,648
6 Other debts	17	2,967,455,166	17,472,863,776
7 Own shares	18	-	-
Total (from row 12 to 18)	19	4,683,428,082	18,781,959,394
TOTAL FIXED ASSETS (rows 06+11+19)	**20**	**76,928,355,869**	**95,894,002,474**

B CURRENT ASSETS			
I Inventories			
1 Raw materials and consumables	21	3,783,646,312	3,951,283,264
2 Work in progress	22	3,109,440,686	2,883,604,787
3 Finished goods and merchandise	23	7,373,739,749	4,296,035,025
4 Advances for stock purchase	24	577,129,751	161,417,640
Total (from row 21 to 24)	25	14,843,956,498	11,292,340,716
II Receivables			
1 Trade receivables (net)	26	9,647,712,050	6,607,427,508
2 Amounts to be received from related parties	27	217,317,563	120,439
3 Amounts to be received from investments	28	-	-
4 Other receivables	29	10,680,383,641	1,155,747,318
5 Debts related to subscribed and not paid in capital	30	-	-
Total (from row 26 to 30)	31	20,545,413,254	7,763,295,265

No	Row	December 31st, 2003	December 31st, 2004
III Short term investments			
1 Investments hold on related parties	32	-	-
2 Own shares	33	-	-
3 Other short term investments	34	605,170,134	5,767,222
Total (from row 32 to 34)	35	605,170,134	5,767,222
IV Cash and bank accounts	**36**	**3,991,815,909**	**41,176,092,266**
TOTAL CURRENT ASSETS (rows 25+31+35+36)	37	39,986,355,795	60,237,495,469
C PREPAYMENTS	**38**	**1,174,060,974**	**563,675,660**
D PAYABLES WITHIN ONE YEAR			
1 Debenture loans	39	149,370,352	147,290,232
2 Payables to credit institutions	40	2,279,996,459	1,457,569,236
3 Advances cashed for orders	41	139,804,001	260,926,255
4 Trade payables	42	7,000,973,987	4,442,861,677
5 Bills of exchange payables	43	28,143	-
6 Amounts payable to related parties	44	46,156	65,219,846
7 Payables to investments participation	45	33,121,000	-
8 Other payables, including tax and social security payables	46	16,627,665,435	6,199,912,922
Total (from row 39 to 46)	47	26,231,005,533	12,573,780,168

Report 2004

SC Petrom S.A.
BALANCE SHEETS
AS AT DECEMBER 31st, 2003 AND DECEMBER 31st, 2004
(all amounts are expressed in ROL thousand, unless otherwise specified)

No	Row	December 31st, 2003	December 31st, 2004
E CURRENT ASSETS,NET CURRENT LIABILITIES, RESPECTIVELY (rows 37+38-47-64)	48	14,296,248,749	47,720,781,185
F TOTAL ASSETS LESS CURRENT LIABILITIES (rows 20+48+63)	49	91,224,604,618	143,535,421,298
G PAYABLES IN MORE THAN ONE YEAR			
1 Debenture loans	50	5,064,432,615	4,911,717,660
2 Payables to credit institutions	51	2,142,905,235	-
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	321,246,390	392,071,254
Total (from row 50 to 57)	58	7,528,584,240	5,303,788,914

No	Row	December 31st, 2003	December 31st, 2004
H PROVISIONS FOR RISKS AND CHARGES			
1 Provisions for pensions and other liabilities	59	-	-
2 Other provisions	60	4,876,671,626	44,310,519,810
TOTAL PROVISIONS (rows 59+60)	61	4,876,671,626	44,310,519,810
I DEFERRED INCOME	62	633,162,487	585,972,137
Investments subsidies	63	-	79,362,361
Deferred income	64	-	506,609,776
J SHARE CAPITAL AND RESERVES			
I Share capital (rows 66 to 68)	65	37,734,522,958	56,000,506,078
- out of which:			
- subscribed and not paid in share capital	66	-	-
- subscribed and paid in share capital	67	37,734,522,958	56,000,506,078
- patrimony	68	-	-
II Premium related to capital	69	-	20,600,963,846
III Revaluation reserve			
- Cr balance	70	12,764,481,364	8,308,315,487
- Dr balance	71	-	-

SC Petrom S.A.
BALANCE SHEETS
AS AT DECEMBER 31st, 2003 AND DECEMBER 31st, 2004
(all amounts are expressed in ROL thousand, unless otherwise specified)

No	Row	December 31st, 2003	December 31st, 2004
IV Reserves (rows 73 to 76)	72	30,746,532,448	39,497,986,170
1 Legal reserve	73	863,203,513	855,964,172
2 Own shares reserve	74	-	-
3 Statutory or contractual capital reserve	75	-	-
4 Other reserves	76	29,883,319,935	38,642,021,998
V Retained earnings			
- Cr balance	77	-	-
- Dr balance	78	2,426,179,018	20,749,885,725
VI Profit(loss) for the period			
- Cr balance	79	1,440,493,816	-
- Dr balance	80	-	9,736,773,282
Profit appropriation	81	1,440,493,816	-
Total shareholders' equity (rows 65+69+70-71+72+77-78+79-80-81)	82	78,819,348,752	93,921,112,574
Public patrimony	83	-	-
TOTAL EQUITY (rows 82+83)	84	78,819,348,752	93,921,112,574

These financial statements were approved on April 11th, 2005.

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. Florian Constantinescu M.C. Member Refining	Mr. Tamas Meyer M.C. Member Marketing
Mr. Siegfried Ehn Director Finance and Services Division	Mrs. Mihaela Milinschi Director Accounting Department	

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SNP Petrom S.A.
STATEMENTS OF OPERATIONS
AS AT DECEMBER 31st, 2003 AND DECEMBER 31st, 2004
(all amounts are expressed in ROL thousand, unless otherwise specified)

No	Row	December 31st, 2003	December 31st, 2004
1 Net turnover (rows 02 to 04)	01	71,345,927,021	86,878,966,788
Sales of finished goods (a)	02	46,449,877,480	60,082,415,055
Sales of goods purchased for resale (b)	03	24,896,049,541	26,796,551,733
Revenues from subsidies related to net turnover	04	-	-
2 Movements in stocks of finished goods			
- Cr balance	05	1,168,591,590	2,051,938,328
- Dr balance	06	-	-
3 Own work capitalized	07	619,335,127	467,550,401
4 Other operating revenue	08	1,836,911,178	1,993,996,217
Total operating revenue (rows 01+05-06+07+08)	09	74,970,764,916	91,392,451,734
5 a) Raw materials and consumables expenses	10	54,266,826,120	21,172,961,550
Other materials expenses	11	250,584,569	640,341,509
b) Other utilities expenses (energy and water)	12	5,841,689,650	6,328,237,997
Purchases of goods for resale	13	21,338,244,446	2,752,544,018
6 Salary expenses (rows 15+16)	14	12,091,104,342	11,938,688,280
a) Salaries	15	8,613,367,092	8,772,637,814
b) Social security contributions	16	3,477,737,250	3,166,050,466
7 a)Adjusting the value of tangible and intangible assets (rows 18-19)	17	6,541,108,947	11,442,319,981
a.1) Expenses	18	7,259,301,395	11,831,938,234
a 2) Revenues	19	718,192,448	389,618,253
b) Adjusting the value of current assets (row 21-22)	20	3,051,017,489	3,987,628,491
b.1) Expenses	21	3,067,638,351	7,365,633,256
b.2) Revenues	22	16,620,862	3,378,004,765

a) represent sale of gas and refined products to third parties by E&P and refining segment.
b) represent sales of refined products and merchandise through Company's marketing segment.

SNP Petrom S.A.
STATEMENTS OF OPERATIONS
AS AT DECEMBER 31st, 2003 AND DECEMBER 31st, 2004
(all amounts are expressed in ROL thousand, unless otherwise specified)

No	Row	December 31st, 2003	December 31st, 2004
8 Other operating expenses (rows 24 to 26)	23	(32,982,474,113)	34,300,074,658
8.1 Third parties services	24	11,994,562,577	16,885,980,885
8.2 Other taxes, duties and similar expenses	25	4,238,494,189	4,619,954,959
8.3 Other operating expenses (Note 10.9)	26	(49,215,530,879)	12,794,138,814
Adjustments for provisions for risks and charges (rows 28-29)	27	(6,009,309)	4,641,156,367
Expenses	28	136,431,325	5,179,881,192
Revenues	29	142,440,634	538,724,825
Total operational expenses (rows 10 la 14+17+20+23+27)	30	70,392,092,141	97,203,952,851
Operating Result			
- profit (rows 09-30)	31	4,578,672,775	-
- loss (rows 30-09)	32	-	5,811,501,117
9 Income from investments	33	4,215,404	16,130
- out of which, within the group	34	-	-
10 Income from other financial investments and receivables, part of fixed assets	35	50,811,866	69,132,277
- out of which, within the group	36	-	-
11 Income from interest	37	260,927,870	442,379,827
- out of which, within the group	38	-	-
Other financial revenues	39	735,482,945	3,420,478,548
Total financial revenues (rows 33+35+37+39)	40	1,051,438,085	3,932,006,782
12 Adjustment of financial assets and investments held (rows 42-43)	41	280,600	(62,250,313)
Expenses	42	280,600	1,092,069,994
Revenues	43	-	1,154,320,307
13 Interest expenses	44	1,040,596,155	988,675,522
- out of which, within the group	45	-	-
Other financial expenses	46	1,390,974,291	5,434,076,285
Total financial expenses (rows 41+44+46)	47	2,431,851,046	6,360,501,494
Financial result			
- profit (rows 40-47)	48	-	-
- loss (rows 47-40)	49	1,380,412,961	2,428,494,712

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SNP Petrom S.A.
STATEMENTS OF OPERATIONS
AS AT DECEMBER 31st, 2003 AND DECEMBER 31st, 2004
(all amounts are expressed in ROL thousand, unless otherwise specified)

No	Row	December 31st, 2003	December 31st, 2004
14 Current profit(loss)			
- profit (rows 31-49) or (rows 31+48)	50	3,198,259,814	-
- loss (rows 32+49)	51	-	8,239,995,829
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	76,022,203,001	95,324,458,516
Total expenses (rows 30+47+53)	57	72,823,943,187	103,564,454,345
Gross profit			
- profit (rows 56-57)	58	3,198,259,814	-
- loss (rows 57-56)	59	-	8,239,995,829
18 Tax on profit (61+62-63)	60	1,757,765,998	1,496,777,453
- Current income tax	61	1,757,765,998	-
- Deferred tax expense	62	-	-
- Deferred tax income	63	-	-
19 Other tax expenses not shown above	64	-	-
20 Net result of financial year			
- profit (rows 58-60)	65	1,440,493,816	-
- loss (rows 58-60)	66	-	9,736,773,282
21 Profit/(loss) per share			
- basic (ROL '000/share)	67	38	(248)

These financial statements were approved on April 11th, 2005.

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SNP Petrom S.A.
STATEMENTS OF CASH FLOW
AS AT DECEMBER 31st, 2003 AND DECEMBER 31st, 2004
(all amounts are expressed in ROL thousand, unless otherwise specified)

Cash flow from operating activities	Note	December 31st, 2003	December 31st, 2004
Profit before taxation		3,198,259,814	(8,239,995,829)
Adjustments for:			
Interest expenses		1,040,596,155	988,675,522
Interest income		(260,927,870)	(442,379,827)
Net provisions for fixed assets impairment	2	23,947,583	3,900,975,799
Net provisions for financial assets	2	-	(62,250,313)
Net provisions for inventories	2	-	1,592,789,289
Net provisions for receivables	2	3,050,119,983	2,376,327,452
Provisions for litigations	2	-	839,260,070
Provisions for environmental expenditures	2	-	2,850,247,759
Provisions for retirement benefits	2	-	209,315,576
Other provisions for risks and charges	2	(6,009,309)	796,927,852
Loss from fixed assets disposed		563,869,423	105,996,624
Depreciation and amortization expense	1	7,235,353,812	7,541,344,182
Expenses with geological quota	10.9	5,323,907,569	11,679,518,507
Cash generated from operating activities before working capital movements		20,169,117,160	24,136,752,663
Working capital movements		(4,798,982,287)	(2,101,523,911)
Interest received		261,667,377	442,379,827
Interest paid		(1,024,270,283)	(997,707,366)
Tax on profit paid		(1,967,854,470)	(2,921,210,252)
Net cash generated from operating activities		12,639,677,497	18,558,690,961
Cash flow from investment activities			
Purchase of tangible and intangible assets		(11,084,945,260)	(13,766,955,755)
Proceeds from sale of fixed assets		581,212,241	22,873,529
Acquisition of financial assets		(2,450,710,892)	(1,249,840,981)
Net cash generated from investment activities		(12,954,443,911)	(14,993,923,207)
Cash flow from financial activities			
Net variation of loans		(1,550,541,228)	(3,120,127,533)
Dividends paid		-	(1,396,986,072)
Employees share of profit		-	(254,465,857)
Proceeds from share capital increase		-	38,391,088,065
Net cash used for financial activities		(1,550,541,228)	33,619,508,603
Total cash flows		(1,865,307,642)	37,184,276,357
Cash and cash equivalents at the beginning of the year	10.2	5,857,123,551	3,991,815,909
Cash and cash equivalents at the end of the year	10.2	3,991,815,909	41,176,092,266

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SNP Petrom
STATEMENT OF CHANGES IN SHAREHOLDERS'EQUITY
AS AT DECEMBER 31st, 2003
(all amounts are expressed in ROL thousand, unless otherwise specified)

Shareholders'equity	Balance at 1.01.2003	Increase out of which	Transfer	Decrease out of which	Transfer	Balance at 31.12.2003
Subscribed share capital	37,734,522,958	-		-		37,734,522,958
Share premium						
Revaluation reserve	2,859,147,640	10,271,153,503		365,819,779		12,764,481,364
Legal reserve	705,799,612	157,403,901				863,203,513
Other reserves	25,462,482,989	5,911,535,185		1,490,698,239		29,883,319,935
Retained earnings	1,973,357,408	1,134,348,682		1,973,357,408		
1,134,348,682						
Retained earnings from first application of IAS, without IAS 29	(822,185,974)	-		(822,185,974)		-
Retained earnings from correction of errors	(5,543,984,891)			(1,973,357,408)		(3,570,627,483)
Retained earnings from revaluation reserve	3,880,881	6,218,902				10,099,783
Total	62,373,020,623	17,480,660,173		1,034,332,044		78,819,348,752

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	37,734,522,958	18,265,983,120	475,858,901	-		56,000,506,078
Share premium	-	20,600,963,846		-		20,600,963,846
Revaluation reserve	12,764,481,364	12,681,393		4,468,847,270	11,355,802	8,308,315,487
Legal reserves	863,203,513	-		7,239,341		855,964,172
Other reserves	2,900,582,605	133,446,512		579,102,126	546,217,295	2,454,926,991
Other reserves- geological quota	26,982,737,331	11,749,876,901	70,358,394	2,545,519,225		36,187,095,007
Retained earnings	1,134,348,682	-		1,134,348,682		-
Retained earnings from the first time application of IAS and the correction of errors	(3,570,627,484)	(17,200,713,826)*	-			(20,771,341,310)
Retained earnings from revaluation reserve	10,099,783	11,355,802	11,355,802		-	
21,455,585						
Result of the year						
credit balance						
debit balance	-	(9,736,773,282)		-		(9,736,773,282)
Total	78,819,348,752	23,836,820,466	557,573,0978,735,056,644		557,573,097	93,921,112,574

* For details, see Note 10.9.

1. FIXED ASSETS

a) Tangible assets

COST	Balance at 01.01.2004	Increase	Decrease	Balance at 31.12.2004
Land	5,320,957,263	133,668,721	3,171,839	5,451,454,145
Buildings	39,939,759,657	18,421,615,840	117,730,179	58,243,645,318
Machinery and equipment	14,650,761,751	13,256,615,314	61,888,312	27,845,488,753
Other equipment and furniture	597,717,761	160,774,669	5,554,512	752,937,918
Advances and tangible assets in progress (*)	7,907,922,357	13,694,809,985	11,189,392,757	10,413,339,585
Total	68,417,118,789	45,667,484,529	11,377,737,599	102,706,865,719

ACCUMULATED DEPRECIATION	Balance at 01.01.2004	Increase	Decrease	Balance at 31.12.2004
Land				
Buildings	280,191,023	4,484,826,238	51,767,841	4,713,249,420
Machinery and equipment	60,227,101	2,808,447,751	6,289,929	2,862,384,923
Other equipment and furniture	-	114,877,894	1,470,167	113,407,727
Total	340,418,124	7,408,151,883	59,527,937	7,689,042,070

PROVISIONS (**)	Balance at 01.01.2004	Increase	Decrease	Balance at 31.12.2004
Land	-	3,610,186,359	-	3,610,186,359
Buildings	-	8,536,479,251	-	8,536,479,251
Machinery and equipment	-	3,819,557,077	-	3,819,557,077
Other equipment and furniture	-	302,624,355	-	302,624,355
Advances and tangible assets in progress	-	3,457,823,127	18,463	3,457,804,664
Total	-	19,726,670,169	18,463	19,726,651,706
Net value	68,076,700,665			75,291,171,943

* Decrease in exploration and development expenditures represents successful exploration transferred to operating fixed assets and unsuccessful efforts written off to income statement.

1. FIXED ASSETS (continued)

** As detailed in Note 2 and 10.9, the Company assessed 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 E&P and refinery segment and the filling station at the marketing segment.

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

As discussed in Note 6, impairment adjustment is 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 total provision against the cash generating units is as follows:

	2004 P&L and geological quota	Revaluation reserve	Retained earnings	Total
Exploration and production				
Suplacul de Barcau	205,417,985	229,017,129	627,562,439	1,061,987,553
Others	120,869,398	129,188,965	556,741,845	806,800,208
Capital work in progress against				
geological quota reserve	984,400,262	-		-
984,400,262				
	1,310,687,645	358,206,094	1,184,294,284	2,853,188,023
Refinery				
Arpechim	2,466,080,670	444,221,659	3,177,337,724	6,087,640,053
Doljchim	39,557,617	71,243,294	453,281,134	564,082,045
Petrobrazi	317,387,573	861,316,870	1,663,558,702	2,842,263,145
	2,823,025,860	**1,376,781,823**	**5,294,177,560**	**9,493,985,243**
Marketing	751,671,516	2,722,503,551	4,470,304,711	7,944,479,778
Total	4,885,385,021	4,457,491,468	10,948,776,555	20,291,653,044
	(Note 2)		(Note 10.9)	

b) Intangible assets

COST	Balance at 01.01.2004	Increase	Decrease	Balance at 31.12.2004
Intangible assets	477,333,940	673,534,307	2,407,732	1,148,460,515
Exploration and development expenditures	3,864,450,337	1,699,782,938	4,022,435,301*	1,541,797,974
Total	4,341,784,277	2,373,317,245	4,024,843,033	2,690,258,489

1. FIXED ASSETS (continued)

ACCUMULATED DEPRECIATION	Balance at 01.01.2004	Increase	Decrease	Balance at 31.12.2004
Intangible assets	25,446,787	32,473,758	842,799	57,077,746
Exploration and development expenditures	148,101,412	100,718,541	1,511,685	247,308,268
Total	173,548,199	133,192,299	2,354,484	304,386,014

PROVISIONS	Balance at 01.01.2004	Increase	Balance at Decrease	31.12.2004
Intangible assets	-	-	-	-
Unsuccessful E&P projects	8,956	565,001,338	8,956	565,001,338
Total	8,956	565,001,338	8,956	565,001,338
Net value	4,168,227,122			1,820,871,137

c) Financial assets

COST	Balance at 01.01.2004	Increase	Balance at Decrease	31.12.2004
Investments	1,714,102,652	1,014,740,670	328,350,499	2,400,492,823
Other long-term receivables	55,000	(55,000)	-	-
Receivables from participation titles	2,095,864	2,079,674	4,175,538	-
Other receivables (a)	2,967,455,166	3,150,786,130	1,884,886,920	4,233,354,376
Decommissioning receivable from State (b)	-	13,239,509,400	-	13,239,509,400
Total	4,683,708,682	17,407,060,874	2,217,412,957	19,873,356,599

PROVISIONS	Balance at 01.01.2004	Increase	Balance at Decrease	31.12.2004
Investments	280,600	1,092,089,359	972,754	1,091,397,205
Total	280,600	1,092,089,359	972,754	1,091,397,205
Net book value	4,683,428,082			18,781,959,394

(a) represents loans extended to subsidiaries in Kazakhstan and Moldova, whose principle activities are exploration and production of oil and gas.
(b) 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 7,000 wells. Also, refer to Note 2 (iii).

1. FIXED ASSETS (continued)

Investments are made of the following:

Company Name	Field of Activity	Share interest percentage	Cost	Provision
Subsidiaries (>50%)				
Petrogas	Carbon dioxide production and distribution	100.00%	179,995,964	90,259,000
Petrom Hungaria Kft	Fuel distribution-Hungary	100.00%	155,380,514	-
Tasbulat Oil CorporationLLP.	Oil exploration and drilling In Kazakhstan	100.00%	134,269,850	-
Doo Petrom Yu	Oil products distribution-wholesale and retail	100.00%	73,553	-
Petrom Nadlac S.R.L. Nadlac	Oil products distribution	98.51%	65,219,225	-
Poliflex Romania S.R.L. Brazi	Polyetilene production and distribution	96.84%	5,181,700	-
Kom Munai	Oil products distribution	95.00%	331,210,000	-
Oztyurk Munai	Oil fields exploration and production	95.00%	223,835,574	223,835,574
MBH Carpatina S.A. Radauti	Mineral water production and distribution	82.89%	188,714,436	-
Petrom Moldova	Oil products import and distribution	65.00%	73,383,132	48,858,000
Petrom Gas S.R.L. Bucuresti	Intermediary in fuel, minerals and chemical products trade	50.99%	1,398,517	-
Associated companies (20-50%)				
Linde Gaz Brazi S.R.L. Brazi	Industrial gas production and distribution	49.00%	19,102,428	-
Soc Romana de petrol	Oil products production and distribution	49.00%	490,000	490,000
Petrom Aviation Otopeni-Ilfov	Aircraft fuel distribution	48.50%	234,672,905	133,213,365
Robiplast Co S.R.L. Bucuresti	Plastic materials production	45.00%	10,800	10,800
Shell Gas ROMANIA	GPL distribution	44.47%	19,147,232	-
Beyfin Gaz S.R.L.	Gas production and distribution	40.00%	12,223,670	12,014,000
M-I Petrogas Services ROMANIA S.R.L. Bucuresti	Drilling services and fluids	40.00%	2,424,164	-
Franciza Pitesti	Other financial services	40.00%	1,440,000	-
Brazi Oil & Angelescu Prod Com S.R.L. Brazi	Oil products distribution	37.70%	3,108,000	3,108,000
Fontegas - Peco S.A. Mehedinti	Fuel distribution	37.40%	2,958,814	2,958,814
Congaz S.A. Constanta	Natural gas distribution	28.59%	141,580,850	-
Deem Algocar S.A. Buzias	Oil products distribution	27.92%	170,350	170,350
CS Resita	Metals processing	22.24%	456,917,445	456,917, 445
Acetilena Brazi S.R.L. Brazi	Basic chemical products processing	21.28%	12,426,643	-
Bursa Maritima si de Marfuri CONSTANTA	Other financial services	20.09%	1,000,000	1,000,000
Transgaz Services S.R.L. Bucuresti	Transportation G.P.I on railroad	20.00%	2,842,190	2,842, 190

1. FIXED ASSETS (continued)

Company Name	Field of Activity	Share interest percentage	Cost	Provision
Other financial investments (<20%)				
GTI Oil Co	Fuel distribution	13.00%	617,224	617,224
Prima Petrol	Fuel distribution	11.98%	119,750	119,750
Super BVT	Oil products distribution	10.85%	30,125	30,125
Butan Gas Romania S.R.L. Bucuresti	Natural gas distribution	8.54%	15,595,200	-
Grivcorelf	Aircraft fuel distribution in Romania	6.41%	89,299,748	89,299,748
Bursa Universala Brasov	Other financial services	2.53%	20,000	20,000
Bursa de Marfuri Oltenia Craiova	Other financial services	2.47%	15,000	15,000
Romexterra	Banking services	2.00%	24,400,000	24,400,000
Telescaun Tihuta	Installations for cable transportation	1.68%	4,200	4,200
Bursa Financiar Monetara	Other financial services	1.17%	19,130	19,130
Sum Oltenia Grup	Other financial services	1.11%	18,760	18,760
Agribac S.A. Bacau	Animals breeding	0.79%	280,600	280,600
Actinvest	Other financial services	0.70%	35,000	35,000
Institutul Roman pentru Asigurari	Insurance services	0.56%	72,500	72,500
Benz Oil	Oil products distribution	0.48%	7,000	7,000
Nova Invest S.A. Satu Mare	Other financial services	0.34%	31,130	31,130
Credit Bank	Other financial services	0.22%	5,000	5,000
Oficiul Patronal Judetean Mures		0.01%	10,000	10,000
MD India	Onshore and offshore oil and gas exploration and exploitation activities in India	0.00%	734,500	734,500
TOTAL			**2,400,492,823**	**1,091,397,205**

Report 2004

2. PROVISIONS FOR RISK AND CHARGES AND OTHER PROVISIONS

PROVISIONS FOR RISKS AND CHARGES – Presented as liability	Balance at 01.01.2004	Adjustments to opening balance	Increase	Reversals	Balance at 31.12.2004
Provision for litigations (ii)	485,846,294	-	932,600,352	93,340,282	1,325,106,364
Provision for decommissioning expenses (iii)	4,390,562,029	-	33,778,352,650	54,594,890	38,114,319,789
Provision for pension benefits (iv)	-	1,014,339,167	209,315,576	-	1,223,654,743
Environment provision (v)	-	-	2,850,247,759	-	2,850,247,759
Other provisions for risk and charges (vi)	263,303		800,331,237	3,403,385	797,191,155
Total	4,876,671,626	1,014,339,167	38,570,847,574	151,338,557	44,310,519,810

OTHER PROVISIONS/Allowances (Applied against cost of assets)	Balance at 01.01.2004	Adjustments to opening balance	Increase	Reversals	Balance at 31.12.2004
Provisions for clients (Note 5)	4,233,563,129	-	2,910,268,315	533,940,863	6,609,890,581
Provisions for depreciation of stocks (Note 10.3)	100,903,255	3,764,791,528	1,623,331,001	30,541,712	5,458,484,072
Provisions for depreciation of fixed assets (Note 1) and Note i) below	8,956	15,406,268,027	4,885,403,481	27,420	20,291,653,044
Provisions for depreciation of financial assets (Note 1 c)	280,600	1,153,366,918	-	62,250,313	1,091,397,205

(i) Current year charge for impairment on fixed assets is arrived at as follows:

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 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. In recording these provisions the Company has considered reflecting the amounts to against appropriate balances in current statement of operations, retained earnings and previously recognized revaluation reserve as fully disclosed in note 1.

(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. As at December 31st, 2004, there are two hundred cases in which the Company is defendant. The Company has assessed the potential liabilities with respect to ongoing cases and recorded its best estimate of likely cash out flows.

(iii) Decommissioning provisions are set up using the best possible estimate considering the applicable legislation at present and also the possible effect of changes in these requirements considering Romania's accession to the European Union. In determining these provisions management has considered using existing and future technologies that are expected to be used, costs are estimated at current prices using an 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 require judgments, projections and use of forecasts. The management believes that it has used best available information and recognizes that certain data and information used in these estimations will be reviewed and improved on an on-going basis and any revisions will be accounted for on prospective basis in accordance with industry practices.

The Company is liable to close approximately 13,228 wells, 1,000 parks, 25 sludge pits and its Petromar offshore facility in the E&P segment. In addition, in marketing segment, the Company is liable to close 80 gas stations and 34 oil terminals. The decommissioning provision in respect of these closures is ROL 38,114,319,789 thousand. Out of the total provision, ROL 13,239,509,400 thousand is recoverable from the Romanian government representing closure cost of approximately 7,000 wells and therefore the Company has recorded an equivalent receivable in respect of these wells. See note 1c.

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

(iv)The Collective Labour Agreement between the Company and its employees provides that on retirement an employee will receive a one-off payment amounting to two monthly salaries. 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. As discussed in Note 6, such adjustments were required in 2003, as well. Therefore, the Company restated its opening shareholders' equity in this respect (see Note 10.9 for opening balance adjustment).

(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) Other risks and charges primarily relates to the provision for excises, VAT and other taxes related to the missing stock amounting to ROL 794,481,600 thousands.

3. PROFIT ALLOCATION

	December 31st, 2003	December 31st, 2004
Net profit/ (loss) to be allocated	1,440,493,816	(9,736,773,282)
- legal reserve	157,403,901	-
- fiscal facilities financing	148,741,233	-
Profit/ (loss) not allocated	**1,134,348,682**	**(9,736,773,282)**

4. ANALYSIS OF OPERATING PROFIT / LOSS

	December 31st, 2003	December 31st, 2004
1. Net turnover	71,345,927,021	86,878,966,788
2. Costs of goods sold and services rendered (3+4+5)	59,017,928,723	77,428,829,349
3. Operating activity expenses	42,240,513,913	59,466,477,724
4. Secondary activity expenses	8,339,828,848	8,790,492,116
5. Overheads	8,437,585,962	9,171,859,509
6. Gross profit/loss due to net turnover (1-2)	12,327,998,298	9,450,137,439
7. Marketing expenses	1,015,700,984	1,465,732,022
8. Administrative expenses	10,358,462,434	24,828,091,983
9. Other operating expenses	3,624,837,895	11,032,185,449
10. Operating profit/loss (6-7-8+9)	**4,578,672,775**	**(5,811,501,117)**

5. RECEIVABLES AND PAYABLES

Receivables	December 31st, 2003	Liquidity term Up to 1 year	Over 1 year
Customers and similar accounts	13,742,145,841	13,742,145,841	-
Advances to suppliers	82,595,053	82,595,053	-
Sundry debtors	1,473,635,392	1,473,635,392	-
Advances to personnel	70,300,176	70,300,176	-
Interest receivable	1,490,421	1,490,421	-
Other receivables	9,355,927,247	9,355,927,247	-
Provision for impairment of trade receivables*	(4,233,563,129)	(4,233,563,129)	-
VAT not due	52,757,041	52,757,041	-
Other taxes and similar accounts	124,495	124,495	-
Special funds –taxes and similar accounts	717	717	-
TOTAL	20,545,413,254	20,545,413,254	-

* Refer to Note 2 for movement in above provision.

Payables	December 31st, 2003	Due term Up to 1 year	Between 1 – 5 years	Over 5 years
Loans	9,551,436,538	2,344,098,688	7,207,337,850	-
Interest for loans	159,208,582	-	159,208,582	
Suppliers and similar accounts	7,001,002,130	7,001,002,130	-	-
Advance payments from customers	139,804,001	139,804,001	-	-
Sundry creditors	116,109,597	116,109,597	-	-
Guarantees from suppliers	371,992,586	209,954,778	162,037,808	-
Employees rights	1,079,158,056	1,079,158,056	-	-
Contribution to social security	609,268,592	609,268,592	-	-
Contribution to unemployment fund	52,491,239	52,491,239	-	-
Contribution to special funds	233,392,945	233,392,945	-	-
Tax on salaries	99,778,309	99,778,309	-	-
Tax on profit	1,337,952,818	1,337,952,818		
VAT payable	90,962,617	90,962,617	-	-
Dividends to be paid	2,252,274,672	2,252,274,672	-	-
Other payables	10,664,757,091	10,664,757,091	-	-
Total	33,759,589,773	26,231,005,533	7,528,584,240	-

5. RECEIVABLES AND PAYABLES (continued)

Receivables	December 31st, 2004	Liquidity term Up to 1 year	Over 1 year
Customers and similar accounts	11,747,294,470	11,747,294,470	-
Advances to suppliers	82,396,988	82,396,988	-
Sundry debtors	1,661,658,321	1,661,658,321	-
Advances to personnel	84,601,132	84,601,132	-
Interest receivable	36,359,802	36,359,802	-
Other receivables	685,722,943	685,722,943	-
Provision for impairment of trade receivables*)	(6,609,890,581)	(6,609,890,581)	-
VAT not due	27,602,468	27,602,468	-
Other taxes and similar accounts	40,110,740	40,110,740	-
Special funds – taxes and similar accounts	7,438,982	7,438,982	-
TOTAL	7,763,295,265	7,763,295,265	-

* Refer to Note 2 for movement in above provision.

During 2004, the Company conducted an assessment of the receivables aging and their recoverable amounts and recorded appropriate provision, using best estimates.

Payables	December 31st, 2004	Due term Up to 1 year	Between 1 – 5 years	Over 5 years
Long term loans	4,911,717,660	-	4,911,717,660	-
Short term loans	1,454,682,730	1,454,682,730	-	-
Interest for loans	150,176,738	150,176,738	-	-
Suppliers and similar accounts	4,442,861,677	4,442,861,677	-	-
Advance payments from customers	260,926,255	260,926,255	-	-
Sundry creditors	374,687,215	374,687,215	-	-
Guarantees from suppliers	516,738,052	516,738,052	-	-
Employees rights	612,437,918	612,437,918	-	-
Contribution to social security	298,905,501	298,905,501	-	-
Contribution to unemployment fund	24,265,135	24,265,135	-	-
Contribution to special funds	65,970,777	65,970,777	-	-
Tax on salaries	104,784,284	104,784,284	-	-
VAT payable	271,284,083	271,284,083	-	-
VAT not due	-	-	-	-
Dividends to be paid	1,876,202,414	1,876,202,414	-	-
Other payables	2,511,928,643	2,119,857,389	392,071,254	-
Total	17,877,569,082	12,573,780,168	5,303,788,914	-

5. RECEIVABLES AND PAYABLES (continued)

As at December 31st, 2004, the short-term loans from financial institutions were as follows:

Short term loans	December 31st, 2003	December 31st, 2004
Loans in currency		
ING Bank	95,816,941	-
ABN Amro	695,328,837	-
Citibank	659,383,934	-
Raiffeisen Bank	284,479,153	-
BCR	-	64,645,008
Kexim Korea	-	260,822,319
Mediocredito Italia	-	116,616,804
Black Sea	-	194,506,675
BIRD II 3723	-	818,091,936
Other loans	609,089,823	-
Total short term loans	2,344,098,688	1,454,682,742

As at December 31st, 2004, the long-term loans from financial institutions were as follows:

Long term loans	December 31st, 2003	December 31st, 2004
Loans in currency		
BCR	108,736,920	-
BERD	977,850,000	-
Kexim Korea	409,471,395	-
Mediocredito Italia	196,156,710	-
BIRD II 3723	984,587,647	-
Eurobonds	5,064,432,615	4,911,717,660
Total long term loans	7,741,235,287	4,911,717,660
Total loans	10,085,333,975	6,366,400,402

5. RECEIVABLES AND PAYABLES (continued)

LONG TERM LOANS

1. Petrom – Ministry of Finances – 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	SNP "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
Interest	The interest rate is the cost qualified borrowings of the previous three months plus 0.5% per annum.
Repayments	Repayments half-yearly, began on October 25th, 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 1st 1994, between Romania and IBRD.
Undrawn amounts	USD 0,00
Outstanding as of 31.12.2004	USD 28,145,051.33
Security	MoF
Comments	

2. International Eurobonds issue – October 2st, 2001

Managers	ABN Amro and ING Bank (Lead Managers), Alpha Bank, Caboto, HVB, NBG International, RZB Austria (co- managers)
Issuer	SNP "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 2nd each year
Repayment	Bullet (October 2006)
Undrawn amounts	USD 0,00
Outstanding as of 31.12.04	Euro 125,000,000.00
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 Note holders will be notified in 7 days from Closing date.

5. RECEIVABLES AND PAYABLES (continued)

LONG TERM LOANS (continued)

3. Loan agreement no. 75/2000 - RCB – April 13th, 2000 - Petrobrazi

Lenders	Romanian Commercial Bank
Borrower	SNP "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 Petrobrazi refinery
Maturity	December 2006
Interest	LIBOR/6 months + 2%, payable semiannually
Repayment	10 semiannually installments (1st repayment - May 30th, 2002)
Undrawn amounts	USD 0,00
Outstanding as of 31.12.04	USD 2,224,000
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 Petrobrazi 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.

4. Loan Agreement - KEXIM Korea - Petrobrazi - Contract no. 2381/May 29th, 2000

Lenders	KEXIM Korea
Borrower	SNP "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 Petrobrazi
Maturity	June 2007
Interest	6,94% per annum
Repayment	10 semiannually installments (1st repayment – December 2002) but the management notified the Bank of their intention of pay earlier
Undrawn amounts	USD 0,00
Outstanding as of 31.12.04	USD 8,973,142.00
Security	The security is provided by a RCB guarantee, counter-guaranteed by: - Second rank mortgage over the land owned by Petrobrazi 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).

5. RECEIVABLES AND PAYABLES (continued)

LONG TERM LOANS (continued)

5. Loan Agreement - Mediocredito Centrale - Italy - Petrobrazi - Contract no. 2381/June 1st, 2000

Lenders	Mediocredito Centrale – Italy
Borrower	SNP "Petrom" SA
Value	USD 10,030,000
Purpose	to finance the payment of a certain portion of the co-generation plant at Petrobrazi.
Maturity	December 2006
Interest	6,94% per annum
Repayment	10 semiannually installments (1st repayment – May 30th, 2002) but the management notified the Bank of their intention of pay earlier
Undrawn amounts	USD 0,00
Outstanding as of 31.12.04	USD 4,012,000
Security	The security is provided by a RCB guarantee, counter-guaranteed by: - Second rank mortgage over the land owned by Petrobrazi 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).

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

Lenders	EBRD and Black Sea Trade and Development Bank	
Borrower	SNP "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	
Outstanding as of 31.12.04	USD 6,691,666.66 (USD 0,00 - USD 0,00 - USD 6,691,666.66 -	EBRD A Loan EBRD B Loan BSTD B Loan)
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 14th, 2004.	

5. RECEIVABLES AND PAYABLES (continued)

SHORT TERM FINANCING

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

Lenders	ING Bank
Borrower	SNP "Petrom" SA
Value	USD 20 mill, extended at USD 25 mill on 15.12.2001. On October 28th, 2002 a new contract was signed for the same amount, i.e. USD 25 mill. On August 23rd, 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
Outstanding as of 31.12.04	USD 0.00
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 equiv.

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

Lenders	ABN Amro Bank
Borrower	SNP "Petrom" SA
Value	USD 20 mill. on May 24th, 2001, increased at USD 25 mill on May 2002, extended in May 28th, 2003, in November 28th, 2003, and in July 1st, 2004. On December 29th, 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 29th, 2005 with the possibility of extension
Interest	LIBOR/EURIBOR/COF/1month;
Repayment	Overdraft
Outstanding as of 31.12.04	USD 620,548.57 (L/C without cash-collateral) Euro 1,885,206.17 (L/C without cash-collateral)
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.

5. RECEIVABLES AND PAYABLES (continued)

SHORT TERM FINANCING (continued)

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

Lenders	Citibank
Borrower	SNP "Petrom" SA
Value	USD 10 mill, extended at USD 20 mill. on September 21st, 2001, increased at USD 30 mill on April 2002 (out of which USD 10 mill in ROL equiv.). On July 28th, 2003, the facility was extended for USD 20 mill multicurrency. On July 21st, 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
Outstanding as of 31.12.04	USD 326,948.45 (L/C without cash-collateral)
Security	- Assignment over receivables under the contract no. 2846/28.05.1999 (together with the addenda to this contract), signed between SNP Petrom and Petrom-Gas.
Comments	Petrom has the obligation to route quarterly through the bank USD 25 mill. or other currency equiv.

4. Loan Agreement – overdraft – Raiffeisen Bank – 0314/August 8st, 2002

Lenders	Raiffeisenbank Romania SA
Borrower	SNP "Petrom" SA
Value	USD 10,000,000 signed in August 2002, extended in July 2003 and in July 21st, 2004,
Purpose requirements.	Working capital financing and import financing of crude oil, oil products and equipment
Maturity	July 31st, 2005, with the possibility of extension.
Interest	Base Rate plus 2% per annum
Repayment	overdraft
Outstanding as of 31.12.04	USD 0.00
Security	Pledge over the crude oil stocks in Arpechim refinery – USD 8.5 mill.
Comments	Petrom has the obligation to route quarterly through the bank USD 20 mill. or ROL equiv.

6. ACCOUNTING PRINCIPLES AND METHODS

Accounting principles used for drawing up financial statements

The Company maintains its accounting records in Romanian Lei ("ROL") 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 (subsequently amended by HG 768/2000, HG 1116/2002 and Law 555/2004). 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 internationally accepted accounting standards. Although starting with January 1st, 2004, Romania ceased to be hyperinflationary economy, the beginning balances should have been restated in accordance with IAS29 "Financial Reporting in Hyperinflationary Economies". Also the Company did not apply IAS 39 "Financial Instruments: Recognition and measurement", IAS 32 "Financial Instruments: Disclosure and Presentation" and 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 the 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 specific as 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 where by it can charge up to 35% of the market value of the volume of oil and gas extracted during the year. 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 ROL currency. Romanian Leu is not readily convertible outside Romanian territory.

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.

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 IAS 29, meaning adjusting to inflation rate. 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 1st, 2004, Romania has ceased to be hyperinflationary economy. However, the beginning balances of non-monetary assets and liabilities have not been restated in terms of measuring unit current at the balance sheet date.

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 initially credited in the revaluation reserves account and then in the social capital accounts, as per the stipulations of different decisions. Consequently, the tangible assets, acquired before December 31st, 2003 are presented at revalued cost and those acquired after January 1st, 2004 are presented at historical cost.

(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.

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

	Years
Property and plant	15 - 50
Machinery and equipment	5 - 10
Vehicles	5
Office equipment	5 - 10

6. ACCOUNTING PRINCIPLES AND METHODS (continued)

Intangible assets

(iii) Intangible assets

Intangible assets that are acquired by the Company are stated at cost less accumulated amortization and impairment losses.

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 intangible 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. 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. Unsuccessful development drilling costs are expensed 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.

(iv) Impairment of assets

The carrying amount of the Company's assets, other than deferred tax asset and financial assets are provided for impairment whenever 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.

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, of dismantlement of wellheads;
- production and transport facilities; and
- 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.

6. ACCOUNTING PRINCIPLES AND METHODS (continued)

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 supported by the Romanian State. Therefore, these costs are presented as a non-current receivable.

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 necessary expenses for finish and selling expenses. Appropriate provisions are made for any obsolete or slow moving stocks based on the management's assessments.

Receivables

Receivables are evaluated at the estimated value that is going to be received, after the provisions for doubtful debtors were established. For doubtful clients an estimation was performed based on the analysis of all the remained amounts in balance at the balance sheet date. 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 transferred to the lessee. Rental payables under operating leases are charged to expenses on accrual basis over the term if the relevant lease.

Borrowing costs

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

6. ACCOUNTING PRINCIPLES AND METHODS (continued)

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. At each balance sheet date the management assess, based on their best estimates, the provision for warranty costs and untaken employee leave.

Operational expenses

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

Foreign currency transactions

Foreign currency transactions are recorded in accounting records at the exchange rate from the date of transaction. Monetary assets and liabilities expressed in foreign currency are converted into ROL at the exchange rate from the balance sheet date. At December 31st 2004 the exchange rate was 29,067 ROL for US $1. (December 31st, 2003: ROL 32,595 for US $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 investee 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.

Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Company's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

7. SHARES AND BONDS

SHARE CAPITAL

The total share capital amounts to ROL 56,000,506,078 thousand, representing 56,000,506,078 shares with a nominal value of ROL 1000 per share.

	December 31st, 2003	December 31st, 2004
As at January 1st	37,734,522,958	37,734,522,958
Share issued	-	18,265,983,120
As at December 31st, 2004	37,734,522,958	56,000,506,078

Shareholder Structure as at December 31st, 2003	No. of shares	Percent
Ministry of Economy and Commerce	35,078,329,927	92.96%
Legal entities	1,558,449,799	4.13%
Physical persons	1,097,743,232	2.91%
Total	**37,734,522,958**	**100.00%**

Shareholder Structure as at December 31st, 2004	No. of shares	Percent
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	3,490,906,141	6.234%
Total	**56,000,506,078**	**100.00%**

On July 23rd 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 17,790,124,219. During the year the share capital increase is:

a)OMV	15,820,916,788
b) Conversion of debt by IBRD to equity (USD 73 million)	1,134,494,321
c) Others	834,713,110
Total	**17,790,124,219**
Land incorporation	475,858,901
Total share capital increase	**18,265,983,120**

7. SHARES AND BONDS (continued)

BONDS

As a result of the international capital markets development, on September 25th 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 2nd, 2001;
- Falling due date – October 2nd, 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 2nd, 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 2nd 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, off which:
• Management commission (1,75%)	1.187.500 Euro
• Out-of-pocket expenses:	200.000 Euro

The effective amount received by Petrom 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:

Principle liability	4,911,717,660
Interest accrued as at December 31st, 2004	147,290,232
Total	5,059,007,892

8. INFORMATION REGARDING EMPLOYEES, ADMINISTRATORS AND MANAGERS

The average number of employees during 2003 and 2004 as well as the salaries for 2003 and 2004 were as follows:

	No. of employees in 2003	Salaries in 2003	No. of employees in 2004	Salaries in 2004
HO Management	7	9,391,351	7	16,638,684
Direct and administrative employees	57,549	8,603,975,741	52,339	8,755,999,130
Total	57,556	8,613,367,092	52,346	8,772,637,814

9. EXAMPLES OF COMPUTATION AND ANALYSIS FOR MAJOR FINANCIAL INDICATORS

	2003	2004
Liquidity ratios		
Current assets	1.52	4.89
Acid test	0.96	3.89
Risk ratios		
Gearing	8.72	5.31
Interest cover	4.07	(7.33)
Operational ratios		
Stock turnover - days	56.01	55.53
Days in receivables - days	59.40	34.15
Days in payables - days	40.16	24.38
Total assets turnover	0.60	0.55
Profitability ratios		
Return on capital employed (%) ROCE	4.91%	(7.31)%
Earnings per share (ROL thousand)	38.17	(248)
Gross margin (%)	0.64%	(9.48)%

10. OTHER INFORMATION

10.1. Nature of activity

Petrom located in 109 Calea Victoriei, Bucharest - 1, Romania, was founded according to the Government Emergency ordinance no.49/oct.1997, modified with Law no.70/april 1998 and includes the following segments:

-E&P: the former State Autonomous Regie "Petrom" RA; INCERP;
-refining: the refineries Petrobrazi and Arpechim,
-chemicals: the chemical fertilizers producer Doljchim,
-marketing: 41 branches (PECO), located in every county and in Bucharest, and the branch of Transpeco Bucharest.

The main object of activity of Petrom is oil and gas fields' exploration and exploiment from the land and from the continental platform of the Black Sea, oil refining and processing, oil products transportation and distribution, gas distribution, brut oil, oil products, equipment and specific technologies import and export. PETROM SA owns a branch in Kazakhstan. This branch keeps its books in local currency, draw up the trial balance also in ROL and send it on monthly basis to be centralized.

10. OTHER INFORMATION (continued)

10.2. Cash and bank accounts

	December 31st, 2003	December 31st, 2004
Raw materials and materials	3,115,421,048	4,960,330,233
Bank accounts	3,952,717,543	41,148,370,042
Petty cash	29,453,790	21,737,186
Treasury advances	5,820,003	1,749,073
Other values	3,824,574	4,235,965
Total	3,991,815,910	41,176,092,266

As at December 31st, 2004 the bank accounts in currency represented 91% of the total bank accounts of the company. The Company has restricted cash amounting to ROL 930,107,063 thousand as at December 31st, 2004.

10.3. Stocks

	December 31st 2003	December 31st 2004
Raw materials and materials	3,115,421,048	4,960,330,233
Materials of inventory objects kind	122,824,439	327,193,079
Finished goods	3,189,394,616	3,263,854,200
Work in progress	3,109,440,686	2,883,604,787
Goods purchased for resale	2,833,045,886	2,022,790,876
Provision for elimination of geological quota and margin (a)	-	(3,155,411,671)
Packaging	9,940,467	11,307,342
Animals & poultry	814,389	344,266
Residual products	195,334	75,598
Materials at third parties	598,829,746	186,254,561
Products at third parties	1,207,284,463	1,819,770,971
Goods purchased for resale at third parties	263,036,813	1,191,215,352
Packaging at third parties	-	30,765
Provision for missing stocks (b)	-	(417,866,326)
Provisions for the depreciation of the inventories (c)	(100,903,255)	(1,885,206,075)
Advances for stocks	577,129,751	161,417,640
TVA not due for goods purchased for resale	(82,497,885)	(77,364,882)
Total	14,843,956,498	11,292,340,716

(a) The Company benefits from geological quota which is 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.

(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.

10. OTHER INFORMATION (continued)

10.3. Stocks (continued)

(c) During the 2004 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.

10.4. Earning per share

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

	December 31st, 2003	December 31st 2004
Net profit for the year	1,440,493,816	(9,736,773,282)
Weighted average of ordinary shares during the year	37,734,522,958	39,256,688,218
Basic earnings per share – ROL	38	(248)

10.5. Related Parties Transactions and Balances

During 2004, the company had the following purchases transactions with related parties:

Related party suppliers

	Transactions	Balance
Petrom Moldova	-	207
AMI Agrolinz Melamine International GmbH	-	10,464,120
OMV Bulgarien EOOD EMGes.mbH, Sofia	1,359,008	-
Petrogas	1,751,076	17,123
Petrom Nadlac SRL Nadlac	3,734,936	323,100
Poliflex Romania SRL Brazi	4,034,436	9,192
Mbh Carpatina SA Radauti	383,608,041	30,395,382
Petrom Gas SRL Bucuresti	14,868,347	1,773,226
Agrolinz Magyarorszag Kft.	-	20,559,743
Petrom Aviation Otopeni-Ilfov	15,733	2,370
Linde Gaz Brazi SRL Brazi	39,302,384	272,835
Shell Gas Romania	7,130,937	555,479
Congaz SA Constanta	194,045	229,391
M-I Petrogas Services Romania SRL Bucuresti	130,315,054	29,698,872
Franciza Pitesti	39,784,481	7,313,980
Beyfin Gas SRL	6,321,857	1,710
Fontegas-Peco SA Mehedinti	415,942	72,032
CS Resita	78,453	16,572
Acetilena Brazi SRL Brazi	1,083,873	11,260
Bursa Maritima si de Marfuri Constanta	-	15,765
Butan Gas Romania SRL Bucuresti	2,189,255	422,407
Romexterra	1,838,246	44,343
MOL	5,014,810	4,908,047
Total	643,040,916	107,107,15

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10. OTHER INFORMATION (continued)

10.5. Related Parties Transactions and Balances (continued)

During 2004, the company had the following sales transactions with related parties:

Related party receivables	Transactions	Balance
Petrom Hungary Kft	-	300,346,873
Petrom Moldova	4,993,631,532	132,412,573
Tasbulat Oil Corporation Llp.	464,050,822	697,004,299
Oztyurk Munai	137,417,968	37,116,679
Kom Munai	22,897	44,166
OMV Bulgarien EOOD EMGes.mbH,Sofia	122,054,858	843
OMV Refining & Marketing AG	4,019,448,420	4,019,448,420
SC OMV Rumanien Mineralol GmbH	39,902,836,795	17,974,337
Petrogas	2,233,289	392,072
Doo Petrom Yu	-	81,763,291
Petrom Nadlac S.R.L. Nadlac	189,241,022	12,924,552
Poliflex Romania S.R.L. Brazi	16,265,721	127,421
Mbh Carpatina S.A. Radauti	1,929,151	83,313
Petrom Gas S.R.L. Bucuresti	1,193,381,885	290,673,875
Petrom Aviation Otopeni-Ilfov	401,545,977	12,644,886
Linde Gaz Brazi S.R.L. Brazi	31,717,008	-
Shell Gas Romania	789,598,246	17,428,305
Congaz S.A. Constanta	46,623,606	8,392,613
Robiplast Co S.R.L. Bucuresti	-	13,877,203
M-I Petrogas Services Romania S.R.L. Bucuresti	120,763	143,708
Franciza Pitesti	10,272,762,144	414,961,519
Beyfin Gaz S.R.L.	4,497,639	-
Brazi Oil & Angelescu Prod Com S.R.L. Brazi	-	1,489,137
Fontegas - Peco S.A. Mehedinti	23,603,988	902,864
CS Resita	106,443	-
Acetilena Brazi S.R.L. Brazi	1,112,271	-
Grivcorelf	61,709,242	3,318,269
Gti Oil Co	24,833	2,262,910
Prima Petrol	34	5,995,748
Super BVT	575	1,281,466
Butan Gas Romania S.R.L. Bucuresti	35,155,328	30,315
Romextera	5,913,945	-
Benz Oil	5,284,512	-
Institutul Roman Pentru Asigurari	3,550	-
Credit Bank	-	1,791,669
MOL	4,974	444
Total	62,722,299,438	6,074,833,770

10. OTHER INFORMATION (continued)

10.6. Legal reserves

At December 31st, 2004 the legal reserve amounted to ROL 855,964,172 thousand. 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 to the local regulations.

10.7. Tax on profit calculation

	December 31st, 2003	December 31st, 2004
Packaging	9,940,467	11,307,342
Total revenues	77,395,509,204	99,249,201,529
Total expenses	74,197,249,390	107,489,197,358
Gross profit	3,198,259,814	(8,239,995,829)
Deductions	1,623,114,255	6,268,994,788
Non-deductible expenses	6,050,883,364	21,156,203,540
Fiscal depreciation for E&P assets	-	2,303,620,361
Accounting depreciation for E&P assets	-	2,280,938,190
Taxable profit	7,626,028,923	6,624,530,752
Preliminary tax on profit 25%	1,906,507,231	1,656,132,688
less the sponsorship expenses	-	159,355,235
reduction (percent of export income)	148,741,233	-
Tax on profit	1,757,765,998	1,496,777,453

Deferred tax

During 2003 and 2004, 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%.

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

10. OTHER INFORMATION (continued)

10.7. Tax on profit calculation (continued)

	December 31st, 2004 KROL
Net profit before taxation	(8,239,995,829)
Romanian tax rate applicable	25%
Profits tax based on applicable rate	(2,059,998,957)
Tax effect of permanent differences	3,556,776,410
Profits tax (benefit)/ expense in Income Statement	1,496,777,453
Tax effect o temporary differences	-
Profits tax to be paid for the year	1,496,777,453

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

	December 31st 2004 KROL
Environment provision	456,039,641
Exchange differences from first time application of IAS	66,026,789
Provision for fixed assets impairment	3,246,664,487
Provision for spare parts	129,542,078
Retirement benefits provision	195,784,759
E&P depreciation	(3,629,147)
Revaluation reserve	(2,045,962,006)
Provision for elimination of quota and profit margin from inventorie	504,865,867
Other reserves from fiscal facilities	(74,826,126)
Other	100,539,816
Deferred tax asset	2,575,046,158
Less valuation adjustment	(2,575,046,158)
Deferred tax asset reserved	-

10. OTHER INFORMATION (continued)

10.8. Segmental reporting

	E&P	Refinery	Chemicals	Marketing	Total
Revenue					
External sales	15,357,403,768	42,919,576,671	2,702,099,845	25,899,886,504	86,878,966,788
Inter-segment sales (65883)	42,061,426,409	19,974,876,663	643,327,390	9,815,508	62,689,445,970
Elimination of inter-segment sales	(42,061,426,409)	(19,974,876,663)	(643,327,390)	(9,815,508)	(62,689,445,970)
Other revenues	4,160,667,750	3,991,727,272	112,096,802	189,890,861	8,445,491,730
Total revenue	19,518,071,518	46,911,303,943	2,814,196,647	26,089,777,365	95,324,458,518
Total expenses	17,661,292,314	55,981,861,097	3,888,196,695	27,538,772,639	105,061,231,800
Result	1.856,779,204	(9,070,557,154)	(1,074,000,048)	(1,448,995,274)	(9,736,773,282)
Other information					
Capital additions	28,044,109,681	4,358,162,517	82,365,766	2,033,453,808	34,478,091,772
Depreciation and amortization	5,548,216,549	760,399,212	41,383,985	1,191,344,436	7,541,344,182
Impairment losses recognized in income statement	326,278,423	2,783,178,136	39,847,724	751,671,516	3,900,975,799
Balance Sheet					
Segment tangible and intangible assets	63,352,465,099	5,470,691,353	3,083,095	8,285,803,533	77,112,043,080
Segment financial assets	18,599,228,739	80,835,919	-	101,894,736	18,781,959,394
Segment current assets	70,361,035,003	9,951,204,464	1,568,416,627	3,306,986,210	60,237,495,469
Segment liabilities	16,301,615,070	14,858,530,921	84,342,414	11,583,227,509	17,877,569,082

10.9. Prior Year Restatement and Retained Earnings

Management has assessed the corrections presented in the following table and concluded that reissue of prior period financial statements is not necessary as the Company's will not be able to withdraw and revise financial statements for the year ended December 31st, 2003 and prior years without undue expense and delay. Furthermore, as the restatement has been done through changes in opening shareholders' equity, issue of financial statements for the following period i.e. December 31st, 2004 is imminent, which reflect appropriately the changes and that appropriate disclosures have been made in these financial statements, the management is of the opinion that shareholders and other interested parties in receipt of the previously issued financial statements together with the auditor's report thereon are informed of the situation through 2004 Annual Report of the Company.

10. OTHER INFORMATION (continued)

10.9. Prior Year Restatement and Retained Earnings (continued)

Description	E&P	Refinery	Marketing	Chemicals	Total
Adjustment for impairment of fixed assets (a)	1,174,688,010	4,840,896,426	4,375,833,977	453,281,134	10,844,699,547
Eliminations of geological quota and profit margin from inventory (b)	640,660,924	2,162,033,366	428,209,899	-	3,230,904,189
Provision for capital work in progress (c)	9,606,274	-	94,470,734	-	104,077,008
Provision of old inventory based on aging analysis (d)	72,186,525	11,687,457	5,424,691	5,558,299	94,856,972
Write off of the prepaid expenses with capital repairs (e)	466,050,092	182,029,751	-	8,016,000	656,095,843
Provision for investments based on share of net assets (f)	1,096,313,918	3,119,000	53,934,000	-	1,153,366,918
Provision for retirement benefits (g)	512,176,291	195,225,677	269,949,233	36,987,966	1,014,339,167
Interest income adjustment related to loans granted to subsidiaries (h)	(100,894,619)	-	-	-	(100,894,619)
To increase the value of Zestrea to current cost (i)	(937,561,604)	-	-	-	(937,561,604)
Provision for Arpechim Spare parts (j)	-	439,030,366	-	-	439,030,366
Expenses related to prior years (k)	693,580,663	-	8,219,376	-	701,800,039
TOTAL	3,626,806,474	7,834,022,043	5,236,041,910	503,843,399	17,200,713,826

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.

10. OTHER INFORMATION (continued)

10.9. Prior Year Restatement and Retained Earnings (continued)

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 Labour 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.

10.10. Other operating expenses

	December 31st, 2003	December 31st, 2004
Geological quota	5,323,907,569	11,679,518,507
Intersegment sales	(56,384,139,158)	(62,689,445,971)
Intersegment sales elimination	-	62,689,445,971
Other operating expenses	1,844,700,710	1,114,620,307
Total	(49,215,530,879)	12,794,138,814

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 requires calculating the geological quota as 35% of the crude oil and gas selling prices. Until December 31st, 2004, the quota was designed for development and modernization of crude oil and gas production, refining, transport and distribution of petroleum products. The quota is charged to income statement as an expense.

10. OTHER INFORMATION (continued)

10.11. Commitments and guarantees

The Company has the following guarantees as at the end of the year:

Guarantee agreement	
Initial value	USD 44,040,000
As at Dec 31st, 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 favour of K-EXIM KOREA
Guarantee letter no. K 007592/830 (7291/2000/BMA) issued in favour of MCC ITALIA

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 in a provision for certain potential duties that result from the on-going litigations.

Tax system

The Romanian Government has 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

Fee for the audit of the financial statements for the year ended December 31st, 2004 prepared in accordance with OMF 94/ 2001 was EUR 35,000.

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 31st, 2004 was under 10% (respectively 9.3%) 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 1st, 2004. The official exchange rates for the years ended December 31st, 2003 and 2004 were 32,595 and 29,067 LEI/USD, respectively.

10.16. Interest rate risk

The Company has a variable interest rate for both short-term facilities and long- term loans used to fund its ongoing activities (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.

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