ANNUAL REPORT 2006

prepared in compliance with the requirements of the Regulation no 1/2006 issued by the National Securities Commission

SC PETROM SA

Headquarters	239 Calea Dorobantilor, district 1, postal code 010567, Bucharest
Telephone/fax:	0040-21-4060500/ 0040-21-4060425
Number and date of registration with the Trade Registry Office:	J40/8302/1997
Unique Registration Code	1590082
Fiscal attribute	R
Subscribed and paid in share capital	**5,664,410,833.5 lei**
The tier, type, number and main characteristics of the securities issued by the company	
• Dematerialized nominative common shares registered with the Independent Registry REGISCO S.A. in Bucharest, as per Contract No. 413/12.11.1998	
• Nominal Value, lei/share	0,1
• Number of shares	56,644,108,335
• The shares of S.C. Petrom S.A. are traded at the first tier of the Bucharest Stock Exchange	
• Total market value of the Petrom shares as of December 19, 2006	32,003,921,209 lei

1. The Activity of the Company

1.1. a) The activity developed or which is to be developed by the company.

Petrom develops the following main activities:

- The production of crude and natural gas fields located onshore and offshore;
- Crude and petroleum products transportation;
- Product sales through own distribution networks;
- The import and export of crude, petroleum products, equipment, machines and specific technologies;
- Crude refining;
- Surface and underground water management and distribution;
- Agricultural field cultivation;
- Power production;
- Thermal energy and heated water production;
- Medical assistance services;
- Other activities established and detailed on in the Constitutive Act of the company.

b) The date when the company was established.

The company S.N.P. Petrom S.A. was established on October 27, 1997 and began its activity as of November 1, 1997, as per the Emergency Ordinance no. 49/1997 approved through Law no. 70/1998. In the General Extraordinary Meeting of Shareholders dated September 14, 2004 the change of the company's name from SNP Petrom SA to SC Petrom SA was approved.

c) Mergers or significant reorganizations of the company, the subsidiaries or the companies controlled achieved during the financial year.

As a precondition of the centralization of Finance, IT and business processes within Petrom, as well as the realization of the proposed reorganization plans of the business units, the Board of Directors decided in 2005 to deregister all 60 branches. The process ended in September 2006.

The restructuring of the gas business which was started in the 2nd half of 2005 was continued and almost completed in 2006. This structure is required in preparation for the challenges of a more liberalized gas market. The organizational split between natural gas production and natural gas marketing contributes to the performance of Petrom in a market which will become more and more competitive. The Natural Gas Division of Petrom is serving the segment of major customers and gas distribution companies and is responsible for the logistics. The 100% daughter company Petrom Gas SRL is focused on the eligible market.

d) Asset acquisitions and/or alienation

In January, Petrom acquired 99.9% of the share capital of three OMV retail networks, i.e. OMV Romania, OMV Bulgaria and OMV Jugoslavja. The OMV Bulgaria deal was closed in March while OMV Romania and OMV Jugoslavija in August.

In January as well, the majority ownership of Rafiserv Petrobrazi and Rafiserv Arpechim (two previously outsourced maintenance companies) was acquired and integration and restructuring of these companies commenced. During the year, Rafiserv reduced staff by 1,250 positions and 4 non-core business activities were outsourced.

In April, Petrom signed a contract with MOL Romania for the taking over of 30 filling stations, of which 15 are located in Bucharest. In exchange, MOL received 11 Petrom and OMV Romania filling stations and a difference in cash. At the same time, Petrom acquired a 95% share in Aviation Petroleum, the aviation business of MOL Romania.

In September, Petrom acquired a 74.9% stake in Ring Oil Holding & Trading Ltd. The company is operating 8 exploration and one exploration and production licenses in Russia.

In 2005, the company decided to focus on its core business and hence to initiate a process of reviewing all the assets in order to identify and divest the non-core assets. This process continued in 2006. At the beginning of the year, Petrom sold its 83% participation in carpatina SA to Lipomin SA – a mineral water bottling company. In December, Petrom sold a package of 16 non-core real estate properties to Practic SA, which submitted the most competitive bid.

e) Main results of the company's evaluation

In **E&P** segment, a review of the situation at the end of 2006 resulted in the following:

- Based on the 2005 3D seismic work in Romania and Kazakhstan the Reserves Replacement Rate was increased from 11% in 2004 to 33%.
- First exploration wells based on new technologies drilled, achieving a success rate of 50%.
- Downhole Technology: pilot successfully completed, resulting in the reduction of the intervention frequency from 20 to 3 per well per year, full roll-out started in December.
- Up to 20 drilling rigs active in second half of 2006, the highest rig count since privatization.
- An agreement for three new exploration blocks in Romania has been signed with the National Agency for Mineral Resources.
- Petrom has approved a USD 190 mn development plan for the Komsomolskoe oil field located in Kazakhstan which is planned to be finalized in 2008 and is expected to result in a daily production rate of 10,000 boe towards the end of 2008.
- According to its strategy for international growth, Petrom entered into Russia through the acquisition of a 74.9% share in Ring Oil Holding & Trading Ltd. The company is operating 8 exploration licenses and one exploration and production license in Russia.
- In Exploration, the planned six 3D seismic campaigns have been carried out and drilling of the first exploration wells based on new technologies has been started in 2006.

In **Refining** segment the valuation of the activity at the end of the year highlighted the following issues:

- Reduction in total fuel consumption & loss by 1 percentage point of inputs
- Increased refinery utilization from 80% to 86%
- Rationalization of petrochemicals portfolio

In 2006, **Refining division** intensified the restructuring and reorganization program that started in 2005, including a major repositioning of the petrochemicals operations. The first results of this program can be seen in the reduced energy consumption, higher refinery utilization, and improvement in yield of higher-value products.

Financial results were significantly poorer than in the previous year, and were strongly influenced by depressed refining margins and the high cost of energy, as well as by the one-time restructuring-related costs.

Sustained efforts made throughout the year with technical modernization and improved operations and process control, resulted in improved product yields for diesel and lower yield for fuel oil compared with 2005. To comply with market demand and legal requirements, in 2006 production was shifted to lower sulphur gasoline grades and cleaner diesel.

Energy efficiency improvement efforts began to take effect in 2006, as 1 percentage point reduction of own fuels and losses was achieved on a year-average basis. Quantities of purchased utilities (gas, steam and electricity) were also reduced throughout the year.

Petrom's petrochemical production activities were successfully rationalized and repositioned. Units were closed that were not economically or environmentally viable, and a number of products (including acrylonitrile, sodium cyanide, ethoxylate and ethanolamine) were discontinued.

The quality of the remaining chemicals products was improved to international standards allowing access to more international customers. Shortly before the end of the year, the first sales ever of propylene to a Western European customer were realized.

A sustained effort was made throughout the year to implement an Integrated Management system across the Division. The effort was recognized in December, when Refining Division obtained certification of its Quality Management System (ISO 9001) and Environmental Management System (ISO 14001: 2004), issued by TÜV Rheinland Intercert.

On **Marketing** segment, the valuation of the activity at the end of 2006 highlighted the following issues:

- At the end of 2006 a total of 359 filling stations were running under the newly introduced Full Agency System.
- Throughput per filling station was at 2.4 mn liters per year and improved by 17% vs. previous year.
- Domestic Sales increased by 16% year over year, amounting to 3.2 mn tons.
- Non-Oil-Business turnover increased by 44% in comparison with 2005.
- Petrom successfully finished the construction of 46 brand new filling stations.
- Petrom acquired 99.9% of the share capital of three OMV retail networks (OMV Romania, OMV Bulgaria and OMV Jugoslavija).
- Petrom signed a contract with MOL Romania for the taking over of 30 filling stations, of which 15 are located in Bucharest.

Petrom is the main player on the Romanian fuels market, with a wide network consisting of 40 terminals and about 500 operating filling stations.

As part of its defined strategy, Petrom aims to provide its customers with the best products and services available. In order to achieve this target, the **PetromV** concept for filling stations was introduced in the autumn of 2005, being extended during 2006 by a network of 43 PetromV filling stations. In addition to standard services, the new filling stations offer a variety of services, from standard to additional facilities, like restaurants, terraces and playgrounds for children. The total number of rebuilt filling stations end of 2006 is 49.

The retail and commercial segments are supported by the Supply&Logistics activity, which consists of storage facilities and all means of transportation. Suply&Logistic is also undergoing a major restructuring process.

The closing of storages started in 2005 and continued in 2006, with 14 terminals being closed. Until 2010, only 10 out of the 150 storages existing in 2005 will remain.

During 2006, the 32 warehouses that supplied materials and consumables have been replaced in the Marketing Division by a single centralized outsourced location. This **central warehouse** leads to lower stock levels, less redundant stock and will result in bulk savings.

On Gas segment, the valuation of the activity at the end of 2006 highlighted the following issues:

The gas sales[1] of Petrom SA amounted to 4.86 bn cm while the consolidated gas sales of the Petrom group amounted to 5.24 bn cm, 1.7% lower than in the previous year. Petrom, as other domestic producers was affected by a slight reduction of the overall domestic natural gas consumption in Romania. In addition the inundations in 2006 have caused some landslides, which had impact on Petrom's production and the transportation capacity in the National Transmission System. The main third party eligible customers were Distrigaz Sud and Distrigaz Nord, Petrom Gas, Electrocentrale Bucuresti and Termoelectrica. Petrom also has two significant natural gas consumers within its business units, i.e. Doljchim, the fertilizers plant and Arpechim.

As a result of the new regulation introduced as of July 1, new gas does not any more substitute imports; thus Petrom had to import gases in order to offer the mandatory gas basket (import and domestic mix) to its eligible customers. In addition, the regulated price for new gas has been reduced substantially, i.e. from 80% of the price for imported gas of the previous year to 10USD/1000 cm above the price for old gas. Based on current regulations, starting from January 2007 the category new gas was discontinued.

While the price achieved for domestic natural gas remained, due to the regulation in force, at an unsatisfactory level of around 45% of the international price (Russian gas), an increasing trend for the domestic price is anticipated for the year 2007.
The EBIT for the gas business of Petrom SA in 2006 amounted to lei 118 mn.

The organizational separation of the distribution activity from the upstream activity was completed. Starting from January 1, 2007 gas distribution will be a part of the natural Gas Division. In total, Petrom's gas distribution network has a grid of 950 km through which more than 13,500 customers are supplied with natural gas.

Each year, during the summer period, Petrom stores a part of its natural gas production in the underground storages owned and operated by Romgaz, for additional deliveries during the winter time and added security of supply for Romania. As a result of this policy, in 2006 Petrom stored 540 mn Stcm.

In 2006 the volume of Doljchim **sales** was of 601 thousand tons, out of which export sales accounted for the highest part, i.e. 64%. Doljchim's products were exported mainly in the neighboring countries, such as Hungary, Bulgaria and Serbia, but also in other countries, like Turkey, Spain, Macedonia, Italy and Greece.

In 2006 the **investments** in Doljchim almost tripled as compared with 2005, amounting to lei 5.5 mn and were directed mainly towards the modernization of the infrastructure and logistics combined with environment-related projects.

The EBIT showed a positive tendency in comparison with 2005 amounting to lei 51 mn which is mainly the result of improved margins and the gas price which was still relatively modest in 2006.

[1] All gas volumes were measured at 15 degrees Celsius

1.1.1. General evaluation elements

Indicator	2004	2005	2006
Net Profit, RON mn	(974)	1,416	2,285
Turnover, RON mn	8,688	10,760	13,078
Exports, USD mn	939	1,033	1,482
Operating expenses, RON mn	9,720	9,088	10,638
Market share retail, %	-	24	28
Liquidity (cash and cash equivalents), RON mn	4,118	4,500	3,451

The net profit increased significantly to RON 1,416 mn, while the operating expenses increased by 17%. The company's turnover increased by 22% in comparison with 2005, reaching 13,078 mn lei as the volumes sold were significantly above the previous year levels and the trading conditions have been more favorable.[2]

1.1.2. Evaluation of the company's technical expertise

a) Main products and services

As Petrom is an integrated oil and gas company, covering the full chain of upstream and downstream activities, the number of products is significant. However, they can be grouped in a few main categories representative for the company's activity:

- Crude, natural gas, ethane;
- Petroleum products: gasoline, diesel, heavy fuel oil, kerosen, LFO, mineral oils, bitumen;
- Petrochemicals: benzene, polyethylene, propylene, acrylonitrile;
- Fertilizers: urea, ammonium nitrate, ammonia, methanol, nitric acid.

Petrom also provides services in connection with the activity of sales within the filling stations (car wash and service, restaurant/fast food/ bar and hotel/motel).

b) Main outlets for each product or service and the distribution methods.

Petrom is present on relevant markets as a producer and supplier of crude oil and natural gas, petroleum products, petrochemicals and fertilizers.

- **Crude**: Petrom is the only producer, 96% of the crude oil being delivered to its own refineries, Arpechim – Pitesti and Petrobrazi – Ploiesti and the rest to other refineries; the crude transportation is handled by Conpet.
- **Natural gas**: Natural gas is (1) used internally by other Petrom branches as consumption on site (E&P working points) or as a raw material (Doljchim and Arpechim); (2) sold to industrial and residential customers. For the delivery of the natural gas, Petrom uses the national pipeline system of Transgaz and its own network.
- **Petroleum products, petrochemicals and fertilizers**: These products are sold to both Romanian and international markets.

[2] Please see section 5 for a detailed analysis of the financial statements

c) The weight of each product or service type in the income and the total turnover of the company during the last three years.

Most part of Petrom revenues resulted from the sale of crude oil, natural gas and petroleum products. In 2006, the turnover of the company increased by 22%, as the volumes sold were significantly above the previous year levels and the trading conditions have been more favorable. Please see the section 5 for a detailed analyze of the revenues by segments.

The weight of each revenue category in total revenues is presented in the table below:

Indicator	**Total value – mn lei**			**Percentage in revenues**		
	2004	**2005**	**2006**	**2004**	**2005**	**2006**
Operating revenues	9,139,245	10,973,183	13,415,790	95.9	95.1	96.3
o/w Turnover	8,687,897	10,760,228	13,078,308			
Financial revenues	393,201	569,200	517,245	4.1	4.9	3.7
Extraordinary revenues		-		-	-	-
TOTAL	**9,532,446**	**11,542,383**	**13,933,035**	**100**	**100**	**100**

d) New products

In view of complying with the EU requirements, in 2005 Petrom continued to develop and launch new products, as follows: **Euro Diesel 4, Top Euro Diesel 4, Unleaded Premium 95 and Eco Premium.**

The new line follows the series begun with Top Premium 99, launched in May 2005, and Top Nordic Diesel, introduced in January 2006. Euro Diesel 4, Top Euro Diesel 4, Top Premium 99+, Unleaded Premium 95 and Eco Premium 95 replace the product line that was sold in our filling stations until recently. The new fuels have maximum 50 ppm sulfur content and are in line with Euro 4 standards.

Top Euro Diesel 4 and Euro Diesel 4 are meant for the use on diesel engines of the generation Euro 4, but can also be used for generations Euro 1 – Euro 3. The sulfur content of these products has been reduced from 350 ppm up to 50 ppm. In the case of Top Premium 99+ and Unleaded Premium 95, for Euro 1 – Euro 4 engines, the sulfur content was reduced from 150 ppm to 50 ppm.
Eco Premium 95 is a special type of gasoline for older vehicles that are not provided with catalyst and contains a special additive which replaces the lead.

By the end of 2006, both refineries were producing the full range of 50 ppm fuels for the Romanian market, and could produce sufficient quantities of 10 ppm fuels to meet market demand. Investment plans are on track to allow production of 10 ppm fuels for the Romanian market by 2009, according with the quality standards set through the EU Fuels Directive.

1.1.3 Evaluation of the provision of technical and material resources (domestic and imports)

The main feedstock for an integrated oil company as Petrom is crude oil, which is supplied mainly by E&P - 69%. The remaining of 31% was supplied by OMV Supply & Trading.

1.1.4. Evaluation of the sale activity

a) Description of the sales evolution on the domestic and/or international market and the medium and long-term estimates

	2006	2005	2004	Δ 06/05 (%)	Δ 06/04 (%)	Δ 05/04 (%)
Fuel Sales, thousand tons	5,465	5,046	4,992	8.3	9.5	1.1
Turnover, mn lei	13,078	10,760	8,688	21.5	50.5	24

Petrom is the main player on the Romanian fuels market, with a wide network consisting of 40 terminals and about 500 operating filling stations.

As part of its defined strategy, Petrom aims to provide its customers with the best products and services available. In order to achieve this target, the **PetromV** concept for filling stations was introduced in the autumn of 2005, being extended during 2006 by a network of 43 PetromV filling stations. In addition to standard services, the new filling stations offer a variety of services, from standard to additional facilities, like restaurants, terraces and playgrounds for children. The total number of rebuilt filling stations end of 2006 is 49.

Following the reorganization process which started in 2005, a new system for the administration of the filling stations was defined and introduced, namely the **Full Agency** System, replacing the old COCO system (Company Owned, Company Operated).

Under this new concept the filling stations are administrated by a dealer selected by Petrom, who receives sales oriented commission in return. The dealer is responsible for the personnel of the filling station and has to follow very strictly the Petrom rules.

A total of 359 filling stations were running at the end of 2006 under the Full Agency System, the rest of the network being planned to be handed over to dealers during 2007.

According to Petrom´s estimations, the retail market share at the end of 2006 stood at 28%.

Within Marketing Division a strong commercial department is dedicated to wholesale clients for oil products, LPG, lubricants and jet fuel.

In September 2005, the new Petrom Card system was introduced which offers an efficient fleet control and consumption monitoring tool for corporate customers. In order to better meet customer needs, a centralized key account management system was established.

The **total sales volume** in 2006 is 8% over 2005, amounting to 5,465 thousand tons. **Commercial domestic sales** of 2,230 thousand tons were 20% higher than last year, while **retail sales** recorded an increase by 7% against 2005, amounting to 990 thousand tons.

Export sales stood at 2,245 thousand tons, 1% lower than the previous year's level.

Throughput per filling station improved by 17% to 2.4 mn liters per year.

The Card sales in 2006 amounted to 57.3 mn liters, representing 4.7% of total retail sales. They increased gradually from 2.9% in January to 6.6% of total retail sales in December 2006.

The non-oil business (NOB) also registered a significant increase. The total turnover stood at EUR 52.9 mn, 44% above the 2005 figure. This increase resulted from portfolio reorganization, purchase process optimization and from saving consumables through centralized supply.

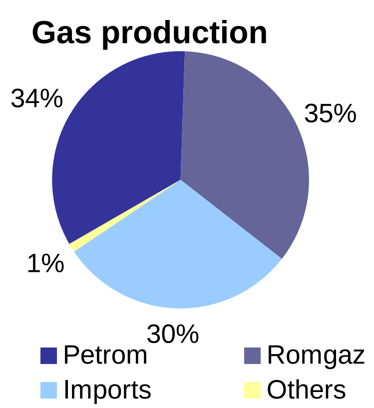
The turnover of the company increased by 22% reaching lei 13,078 mn as the volumes sold were significantly above the previous year levels and the trading conditions have been more favorable.

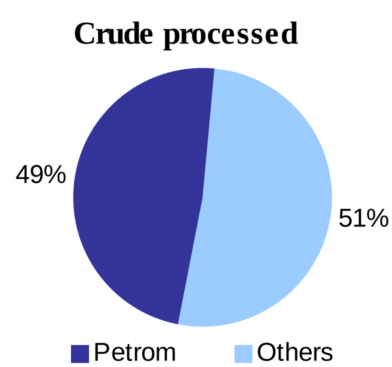
The medium and long-term strategy establishes a level of fuel sales which results in a market share of 35% and also the increase of the filling stations efficiency, the annual throughput per filling station to be reached amounting to 3 mn litres.

More than 250 standard PetromV filling stations will be opened by 2010. Also, the newly introduced Full Agency concept strives towards attaining a higher service level in both oil and non-oil business.

b) Description of the competition within the company's field of activity, of the market share, of the company's products or services and of its main competitors

98% of the natural gas is produced by two companies, Romgaz and Petrom, while the rest of 2% represents the production of two private operators, Amromco and Wintershall. The Romanian consumption of natural gas is covered 70% from domestic production, while the rest of 30% is supplied from Russia.





The Romanian refining sector consists of 10 refineries. Four of them are not operational: Astra, Darmanesti, Vega and Petrolsub. The rest of six refineries: Arpechim and Petrobrazi (owned by Petrom), Petromidia (Rompetrol), Petrotel (Lukoil), Rafo (Balkan Petroleum) and Steaua Romana (Omnimpex) have a total operational capacity of 19.2 mil. tones. In 2006, the refineries have processed a total quantity of 13.7 mil tons of crude.

Petrom has a strong position on the domestic market, both in terms of market share and number of filling stations. According to Petrom's estimations, the company retail market share at the end of December was 28%.

Out of the 2,100 filling stations existing in Romania, 33% are no brand stations, while almost 28% are owned by Petrom.

Petrom is a major player in the Petrochemical sector in Romania. Due to the structure of the Romanian petrochemical industry the different sites are specialized on products, which are complementary in the Romanian petrochemical processing. Thereby the different sectors are suppliers to each other and compete with imports (on domestic markets) or with other companies on the European Union and South-Eastern Europe markets.

c) Description of any significant dependency of the company on a single customer or on a group of customers whose loss would have a negative impact on the company's income

Given the wide range of products, Petrom has a large base of customers. Therefore, there are no clients which can materially affect the activity of the company.
If a domestic client decides to change the supplier, Petrom is able to find other customers to do business with. For the products exported, the company organizes auctions, where are participating more bidders so that Petrom is able to choose the best offers with respect to price and payment terms.
In addition, as a member of OMV Group, Petrom has broadened its customers' base with some of the affiliated companies within the Group.

1.1.5. Evaluation of issues related to the company's employees/staff

a) The number and the expertise of the company's employees.

The number of company employees as of December 31, 2006 was 32,837.
The majority of the employees are affiliated to F.S.L.I. PETROM, while a reduced number of employees are affiliated to "Lazar Edeleanu" union.

b) The relationship between manager and employees as well as of any conflict elements which characterize this relationship

The relations between the management and the employees are normal, without the occurrence of collective actions to challenge the management.
The dialogue between unions and management continued on a regular basis. All the steps of the reorganization process that the company has entered were discussed and agreed by both parties.

1.1.6. Evaluation of issues related to the impact of the issuer's main activity on the environment

Our environmental priorities have covered:
- Improving the environmental impact of Petrom activities;
- Developing the Petrom Carbon Strategy;
- Developing the Environmental Management Accounting system in Petrom;
- Developing GIS for HSE in Petrom.

As part of Petrom's EU accession project, the company's environmental status has been evaluated for compliance with EU environmental directives, and measures have been established to narrow existing gaps. Progress in this area is being monitored by Corporate HSE on a regular basis.
Our company's **current environmental status** has been evaluated and programs have started designed to improve environmental performance, as for example energy efficiency and waste management programs. Proper monitoring of energy sources has started, measures have been taken to save energy including closing the low efficiency sources or increasing their efficiency through replacing or upgrading old equipment.
The Waste Management Master Plan in the Refining Division and the Abandonment and Waste Management Project in E&P are yet other examples showing that waste management is being seriously addressed at Petrom.
In view of the recent public concern about climate change, Petrom places emphasis on environmental protection. Corporate HSEQ has started developing the **Petrom Carbon Strategy**. GHG emission levels for 2002 – 2004 were evaluated, in order to receive credit allocations for emissions trading, based on the National Allocation Plan. Currently, Petrom focuses on establishing monitoring systems for CO_2 emissions at relevant sites and identifying GHG emission reduction possibilities in order to meet EU requirements related to climate change.
In July 2006, the **Environmental Management Accounting Project** has been initiated having the main goal of accurately identifying environmental expenditures in Petrom. The project is in line with the Environmental Management Accounting guidance documents elaborated by the International

Federation of Accountants, with direct support from the Division for Sustainable Development of the United Nations Department of Economic and Social Affairs. The evaluation phase was completed, and currently, the development of related corporate directive is in progress.
A project aimed at implementing **GIS for HSE** in Petrom started in January 2006. The main goal is to develop a tool to help acquiring better knowledge of Petrom assets boundaries and infrastructure. Currently, this project is in the model implementation phase.

1.1.8. Evaluation of the company's risk management activity

Risk identification at Petrom is tailored to the company's strategy, its business and project objectives and to the successful outcomes expected to result from attaining those objectives.
Any events and developments that are likely to endanger the attainment of the company's objectives are being identified by the Risk Manager together with the Risk Coordinators in the Business Divisions.
As the risk management process has started relatively recently, in 2006 training courses were organized for the implementation of the Integrated Risk Management System (IRMS). During these training courses important concepts were explained, such as: risk, risk management, corporate risk management, including processes and the importance of corporate risk management for the value-driven management.
Petrom's Risk Manager, responsible for identification, evaluation and documentation of company-wide risks, assisted Business Divisions in identifying and documenting their risks by compiling a checklist of function-specific risks on the basis of the functional strategies.
Petrom has taken the most appropriate approach to the risk factors identified and a conservative approach towards assessing likelihoods and impacts using Mid Term Plan financial indicators.
The two Risk Reports of May and October 2006 reflected a fair Company risk position, with risks any integrated oil and gas company would normally face, including oil and gas price risks as well as margin risks attached to refining and marketing businesses. In addition, Petrom, like any other company in this line of business, is affected by the changes in demand and, more recently, by climate changes. Petrom's risks in some cases differ from those of other integrated oil companies due specific currency risks and to the fact that the gas market in Romania is not yet fully liberalized. Petrom has already improved the risk awareness throughout the company but needs to further focus on a clear risk analysis and risk strategy.
Focus will be put on applying consistent methodologies for assessing certain risks (e.g. currency risks, margin/volume risks, country risks), as well as very low-likelihood risks that could have significant impact on the company.
The best practice guideline for risk evaluation is under preparation. More reliable historical data will be available for consideration, while risk likelihoods and impacts will be more accurately and more adequately assessed.

1.1.9. Estimates of the company's activity

a) Factors which affect or could affect the company's cash position

The liquidity of the company was good as a result of the cash flow generated by the operational activity in 2006, but also by the high level of cash existed at the end of 2005.

b) Capital expenditures

Investments*, lei mn	2004	2005	2006
Exploration and Production**	669	531	1,336
Refining & Marketing	625	585	1,298
Gas	-	-	1
Chemicals	9	1,6	5,5
Corporate	-	-	297
Total	**1,303**	**1,117**	**2,937**

**investments include increases of Petrom share participations*
*** include the investments of Corporate (in 2004 and 2005)*

In 2006, **total investments** were 2.6 times higher than in 2005, both E&P (45.6% of total investments) and R&M (44.3% of investments) showing similarly impressive growth figures.

E&P capital expenditures were aimed at growth and development projects (42%) and production modernization projects (58%).
The group spent 193 mn lei for exploration and 1,511 mn lei on Investments in 2006. Whilst exploration expenditures increased by 14% from last year, the investments more than doubled compared to 2005.
In Romania, E&P investments amounted to 1,336 mn lei in 2006 and targeted production & modernization, growth & development projects as well as investments in participations. In addition, the group invested 175 mn lei through its Kazakhstan affiliates.
Furthermore, 170 mn lei were spent for the 2006 exploration in Romania, thereof 141 mn lei were expensed and 29 mn lei were capitalized for the successful exploration wells. In the Kazakhstan affiliates the exploration expenditures amounted to 23 mn lei.

In 2006, Petrom made substantial investments in its two refineries, in order to reduce costs, improve product yield, improve mechanical reliability and comply with the quality and environmental standards imposed by the European Union. The most important projects started or continued in each refinery were as follows:

Petrobrazi	Arpechim
▪ Gasoil Hydrotreating Unit Revamp ▪ DCS Implementation ▪ Railway and truck Logistics Modernization ▪ CCR Revamp (completed)	▪ DCS Implementation ▪ New Hydrogen Plant ▪ FCC Feed Hydrotreating Unit (completed) ▪ ADV/VB Revamp ▪ Online Analyzers Implementation ▪ New high pressure boiler for olefins unit

The **investments** in Marketing segment were directed towards the acquisition of the three OMV filling stations networks, the construction of new filling stations, reconstruction of existing stations and small retail projects and the other business supporting operations ("Petrom Storage Project", "Filling Station System Project" and "Gastro Project").
Corporate investments were previously recorded in E&P. Starting with 2006 corporate level investments are reported separately. The most important projects relate to corporate real estate (mainly works on Petrom City) and to SAP implementations.

c) Factors which significantly affect the income generated by the company's main activity.

The factors that contributed significantly to Petrom's 2006 income and had a positive influence are the favourable trading conditions, such as the higher level of crude prices and to a lesser extent to the increase of the gas prices, and the sales growth.

On the other hand, a negative influence on Petrom's income derives from the poor refining and marketing margins and the production decline as a result of the natural decline in combination with the restructuring efforts and infrastructure issues (like Transgaz).

2. Tangible Assets of the Company

2.1. The location and the main features of the production equipment owned by the company

Petrom S.A. develops its activities in all the counties of the country, in Bucharest and in the Black Sea Continental Shelf, but also in Russia, Kazakhstan and the neighbouring countries (Moldova, Bulgaria and Serbia).

Exploration & Production:

Petrom holds 17 onshore and 2 offshore exploration blocks in Romania, with a total area of 67,000 km^2. The expiry date for 18 of these blocks is September 12, 2008, and for one block (Neptun – offshore) is November 10, 2008. Activities are underway to secure key exploration acreage beyond these dates.
The production is ensured by 1,176 wells for natural gas production and 11,338 wells for oil production.

Refining:

Petrom operates two integrated petrochemicals and refining complexes, Arpechim and Petrobrazi, with a total operational capacity of 8 millions tones /year.

Marketing:

Petrom is the main player on the Romanian fuels market, with a wide network consisting of 40 terminals and about 500 operating filling stations.

The closing of storages started in 2005 and continued in 2006, with 14 terminals being closed. Until 2010, only 10 out of the 150 storages existing in 2005 will remain.

During 2006, the 32 warehouses that supplied materials and consumables have been replaced in the Marketing Division by a single centralized outsourced location. This **central warehouse** leads to lower stock levels, less redundant stock and will result in bulk savings.

Transportation logistics: in 2006 the re-engineering process for the whole primary logistic chain was almost completed. The core priorities were to improve the refinery logistics, to have remote control on all the processes, to reduce the order-fulfillment time and to increase the utilization of Petrom´s own railcar fleet. Most of the old and unusable RTC`s were sold and more than 200 RTC´s of the old park were repaired and brought back into production. The newly installed technical check-up facility for RTC´s is now in full operation and will reduce the loading of defective wagons by 90%.

Following the reorganization process which started in 2005, a new system for the administration of the filling stations was defined and introduced, namely the **Full Agency** System, replacing the old COCO system (Company Owned, Company Operated).

A total of 359 filling stations were running at the end of 2006 under the Full Agency System, the rest of the network being planned to be handed over to dealers during 2007.

Doljchim:

The chemical fertilizer plant has a production capacity of approx.1.4 mil. tones p.a. of chemical products (ammonia, nitric acid, ammonium nitrate, urea and methanol).

Gas:

Petrom's gas distribution network has a grid of 950 km through which more than 13,500 customers are supplied with natural gas.

Fixed assets, tangible assets, lei (Net Book Value)	Balance at 1.01.2006	Balance at 31.12.2006
Lands	104,763,344	157,945,917
Buildings and constructions	566,541,257	636,979,333
Wells, infrastructure and related assets	3,780,635,191	3,774,539,628
Machinery and equipment	2,149,133,402	2,166,773,871
Other equipment and furniture	38,595,338	49,123,969
Advances and tangible assets in progress	882,435,278	1,620,069,728
Total fixed assets, tangible assets	**7,522,103,810**	**8,405,432,446**

2.2. The degree of wear-out for fixed assets

Due to the change of the reporting system this information cannot be computed anymore.
The wear-out is reflected in the depreciation of the assets.

Fixed assets, tangible assets, lei (Accumulated depreciation)	Balance at 1.01.2006	Balance at 31.12.2006
Lands		
Buildings and constructions	70,097,403	109,049,668
Wells, infrastructure and related assets	842,157,004	1,237,304,261
Machinery and equipment	535,483,735	781,418,396
Other equipment and furniture	17,176,566	26,697,409
Total fixed assets, tangible assets	**1,464,914,708**	**2,154,469,734**

2.3. Potential issues related to ownership rights over the company's tangible assets.

The company received further notifications sent in consideration of the Law no. 10/2001, which provides the legal framework for the restitution of the nationalized assets between March 6, 1945 and December 22, 1989. Their status as of December 31, 2006 was the following:

- 1024 notifications were transmitted to Petrom, out of which:
    - 13 buildings have been returned;
    - 967 notifications have been rejected;
    - 27 notifications were redirected towards other entities.
- 17 files are under analysis.

As per Article 7.2, in conjunction with the provisions of Article 26 of the Methodological Norms for the application of Law no. 10/2001, approved through Government Decision no. 498/2002, the City Hall or the notified prefecture is under the obligations to identify the owning unit and to communicate in writing to the entitled person, the identification elements for this unit, and to submit the notification to the owning unit for finding a solution.

3. The Market of the Securities issued by the Company

3.1. The markets in Romania and in other countries where the securities issued by the company are traded

Petrom shares are traded on the Bucharest Stock Exchange as of September 3, 2001.
On October 2, 2001, the Company issued bonds amounting to EUR 125 million with maturity on October 2, 2006. The bonds were bearing interest of 11.625% p.a. and were listed on the Luxembourg Stock Exchange. The bonds were fully reimbursed in 2006 at their maturity date.

3.2. Description of the company's dividend policy for the last 3 years.

In the General Meeting of Shareholders dated May 24, 2005, the Board of Directors proposed not to distribute any dividends for 2004, due to the lack of distributable profit as reflected by the financial statements of Petrom for the financial year 2004 prepared in accordance with the local Romanian Accounting Standards.

The General Meeting of Shareholders held on April 25, 2006 decided the payment of dividends for 2005 amounting to 738,420 thousand lei (0.0130/share), resulting in a payout ratio of 52%.
The payment of dividends was possible due to the capital restructuring which took place in the fourth quarter of 2005 and which placed the company in a stronger position to recommence the payment of dividends to its shareholders. The loss carry forward was netted to the maximum extent possible by the set-off with the revaluation reserve and the share premium account.

For the year 2006, the General Meeting of Shareholders held on April 17, 2007 approved the payment of dividends amounting to 1,013.9 mn lei (0.0179 lei per share), resulting in a payout ratio of 44%. This has been made possible due to the strong results supported by favourable oil prices.

3.3 Description of any activity involving the company's purchasing its own shares

In 2006, Petrom did not purchase any of its shares.

3.4. Where the company owns subsidiaries, mention of the number and the nominal value of the shares issued by the parent company and held by the branches

Petrom has subsidiaries, but none of these own shares issued by the parent company.

3.5. Where the company has issued bonds and /or other debt securities, presentation of the way in which the company fulfilled its obligations towards the holders of such securities

The distribution of dividends, approved on GMS from April 25, 2006, is performed based on the following procedure:

1. To the shareholders – natural persons with the domicile in Romania, the payment of the dividends will be carried out through BANCPOST SA units, based on the valid identity card;
2. To the shareholders – Romanian legal entities, the payment of the dividends will be carried out through bank transfer, based on a specific request, addressed to Petrom SA, Mergers & Acquisitions, Capital Market Relations Department, Corporate Projects Office, mentioning the full name of the shareholder, the account and the bank where the payment should be done;

3. To the shareholders – foreign natural persons, the payment of the dividends will be carried out through bank transfer, based on a specific request, addressed to Petrom SA, Mergers & Acquisitions, Capital Market Relations Department, Corporate Projects Office, mentioning the full identity data of the shareholder (surname, name, Personal identification number, domicile), the bank and the account where the payment should be done, together with a copy of the valid identity card and the Fiscal Residence Certificate, in original and a legalized translation, if applicable.
4. To the shareholders – foreign legal entities, the payment of dividends will be carried out through bank transfer, based on a specific request, addressed to Petrom SA, Mergers & Acquisitions, Capital Market Relations Department, Corporate Projects Office, mentioning the full name of the shareholder, the account and the bank where the payment should be done, together with the Fiscal Residence Certificate, in original and a legalized translation, if applicable.

On November 22, The General Meeting of Shareholders approved the share capital increase, giving to the existing shareholders the right to subscribe new shares, with the nominal value of 0.1 lei, in order to keep their holdings. The Ministry of Economy and Commerce has received 266,977,088 shares representing the value of the land for which the Company has obtained ownership titles between December 16, 2004 and October 10, 2005. During the subscription period (January 9 – February 9, 2006), OMV subscribed 334,209,314 shares, the European bank for reconstruction and Development (EBRD) subscribed 13,275,740 shares and a number of 3,924 shareholders, natural persons and legal entities, subscribed 29,140,115 shares.

Minority shareholder Dan Paul filed a nullity request of the Extraordinary Shareholders Assembly decisions dated 22 November, 2005 related to the share capital increasing, request that made the purpose of the file no 47.958/3/2005.
In April, 2006 the court rejected the request applied by the claimant as ungrounded.
The claimant appealed against this decision, which was rejected as baseless.
The claimant made, also, recourse against the appeal decision, the next trial session established by the Supreme Court being 1 June, 2007.
The shares issued as result of subscription, based on the pre-emption right, were restricted to trading by the National Securities Commission, until the final and irrevocable settlement of the judicial request.

4. Company administration

4.1. Presentation of the company's administrators and the following information for each administrator:

a) CV (family name, first name, age, skills, professional expertise, position and length of employment)

The management of the company is ensured by the Board of Directors consisting of 9 members [previously 7], following the decisions of the General meeting of Shareholders on April 25, 2006. The Board of Directors structure in 2006 was as follows:

Name	Age (years)	Position	Other information
Wolfgang Ruttenstorfer	57	OMV CEO and Chairman of the Executive Board	Doctorate at the University of Economics and Business Administration in Vienna Started to work at OMV in 1976
Gerhard Roiss	55	Deputy Chairman of OMV Executive Board and responsible for the Refining and Marketing, including Petrochemicals	Economics studies in Vienna, Linz and Stanford, USA. Started to work at OMV in 1990
David Davies	52	Member, Chief Financial Officer of OMV	Graduated Liverpool University Since April 1, 2002, he is member of the Executive Board and CFO of OMV
Helmut Langanger	57	Member, Member of OMV Executive Board, responsible for Exploration and Production	Graduated Leobon University and obtained a Batchelor's Degree in Economics in Vienna. Started to work at OMV in 1974
Werner Auli	46	Member starting with April 25, 2006. Chairman and CEO of OMV Gas International. As of January 1, 2007 Member of the OMV Executive Board, responsible for Gas	Graduated Technical University of Vienna and he is a Doctor of Technical Sciences. He started working for OMV in 1987
Kevin E. Bortz	47	Member starting with April 25, 2006. Director of Natural Resources Team within EBRD	Graduated Indiana University of Pennsylvania and holds a Master of International Affairs at Columbia University, New York. He started working for BERD in 1993
Georghe Ionescu	54	Member starting with April 25, 2006. Representative of the Ministry of Economy and Commerce. He is counselor at IATSA Pitesti.	Graduated the Academy of Economic Studies Bucharest and he has a Master of Science in Economic Management at Economic Development Institute

Victor Paul Dobre	55	State secretary for the Relations with the Prefecture, the Ministry of Administration and Internal Affairs	Graduated the Mechanics Faculty, Galati – Ships Section
Dorinel Mihai Mucea	60	Member, Senior Advisor of Ministry of Economy and Commerce, Responsible for Privatization.	Graduated the Academy of Economic Studies Bucharest. He is holding the current position since 2001.

b) Any agreements, understanding or family connection between the respective Director and another person who is responsible for appointing of the respective person in the position of Director.

There are no such agreements and understandings.

c) The participation of the director at the share capital of the company.

None of the members of the Board of Directors held at any moment in 2005 shares issued by the company.

e) The list of related parties to the company

Please see appendix c.

4.2. Managing Committee

a) Terms of office for the person who is member of the executive management

The Managing Committee who ran in 2006 the daily business activity of the company is shown in the table below.

Name	Position
Mariana Gheorghe	Chief Executive Officer of Petrom, President of the Managing Committee
Werner Schinhan	Deputy Chief Executive Officer of Petrom
Reinhard Pichler	Chief Financial Officer.
Jeffrey Rinker	Member of the Managing Committee, responsible for Refining.
Werner Ladwein	Member of the Managing Committee, responsible for Exploration and Production.
Tamas Mayer	Member of the Managing Committee, responsible for Marketing.

Staring with June 15 2006, Mrs. Mariana Gheorghe replaced Mr. Gheorghe Constantinescu as Chief Executive Officer. Mr. Constantinescu holds now the position of Counselor of Mr. Wolfgang Ruttenstorfer.

Each member of the Managing Committee was granted representation powers and signature rights. The members of the Managing Committee are appointed for an unlimited period of time.

b) Any agreement, understanding or family connection between that person and another person who is responsible for appointing him/her member of the executive management

There are no such agreements or understandings.

c) The participation of the respective person at the share capital of the company.

Gheorghe Constantinescu – 7,890 shares representing 0.00000014% of the share capital.

4.3. The possible litigation instances and administrative procedures in which all persons presented under Sections 4.1 and 4.2 were involved during the last 5 years

A litigation resulted from the claim of Foraj Sonde Braila SA, and has as respondents Petrom SA and the former Board of Directors and Censors. The litigation is pending in Bucharest Tribunal, with the first hearing scheduled on May 2, 2007.

Mr. Dorinel Mucea, member of the Board of Directors during 2006, is involved in a litigation which refers to aspects regarding his activity as Deputy Head of the Romanian Privatization Agency (OPSPI). At the end of 2006, the Ministry of Economy and Commerce issued a decision whereby the state representatives in Petrom GMS will be mandated to revoke Mr. Mucea from his position.

5. Analysis of the Financial Condition

Financial highlights, mn lei	Year ended December 31		
	2004	2005	2006
Sales	8,688	10,760	13,078
EBIT	(581)	1,884	2,777
EBITDA	114	2,775	3,596
Net (loss)/profit	(974)	1,416	2,285
Fixed assets	9,589	10,609	13,093
Current assets	6,080	7,204	6,366
Non-current liabilities	5,020	4,855	4,878
Current liabilities	1,257	2,231	2,258
Shareholders' Equity	9,392	10,727	12,325
Net cash flow from operating activities incl. change in Working Capital	1,856	2,771	2,955

The financial condition of the company continued to improve in 2006 driven by the favorable environment for international commodity prices as well as a result of the higher product sales.

In 2006, all the profitability ratios remained at high levels as the company recorded an improved net profit. NOPAT increased significantly (+55%), mainly due to a higher net profit.

Liquidity ratios decreased in comparison with 2005, as current assets are lower in 2006 due to the decrease of the cash position as a result of the investments in financial assets during the year, presented as non current assets.

Ratio	Formula	2004	2005	2006
RoFA	NOPAT / Average Fixed Assets, %	(11)	13	17
ROACE	NOPAT / Average Capital Employed, %	(13)	22	21
ROE	Net Profit / Average Equity, %	(11)	14	20
Debt to Equity	Net Debt (Cash) / Average Equity, %	(42)	(45)	(30)
Current ratio	Current Assets / Current Liabilities	4.9	3.2	2.8
Quick ratio	(Current Assets - Inventories) / Current Liabilities	3.9	2.6	2.2

Key operating statistics, % yoy	Year ended December 31		
	2004	2005	2006
Revenues growth	22	24	22
EBIT margin	(7)	18	21
EBITDA margin	1	26	28
Net profit margin	(11)	13	17

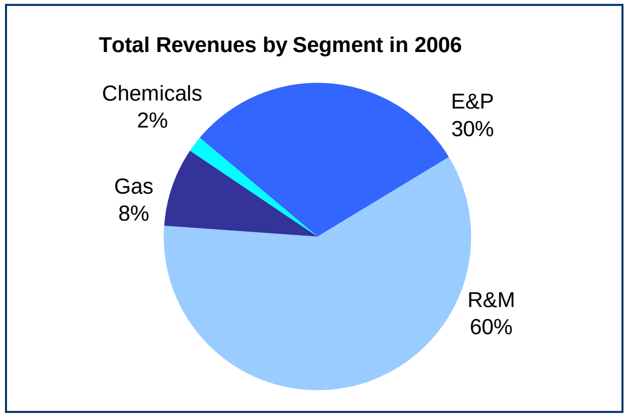
The turnover of the company increased by 22% reaching lei 13,078 mn as the volumes sold were significantly above the previous year levels and the trading conditions have been more favorable.

The operating expenses amounting to lei 10,638 mn, were up by 17% against 2005 figure and were influenced by:

- The increase of the expenses with raw materials, materials and consumables by lei 1,404 mn due to both higher acquisition prices for imported crude oil and quantities used

- The increase in salary expense and other benefits by lei 208 mn
- Other expenses, such as third party services, royalties for crude oil and gas, commissions for the filling stations given in administration to third parties and other services which had a net impact of lei 388 mn increase on the operating expenses.

The growth of the EBIT in 2006 to lei 2,777 mn (+47%) was driven by the increase of the result in E&P as well as the sales growth. The results were negatively impacted by special items amounting to lei 324 mn. The E&P contribution to EBIT raised significantly to lei 3,744 mn [2005: lei 2,782 mn] mainly due to the higher level of crude prices and to a lesser extent to the increase of the gas prices.



E&P Revenues amounted to lei 7,370 mn, accounting for 30% of the total revenues while the R&M generated lei 14,525 mn or 60% of the total. The rest of 10% resulted from the contribution of Gas[3] and Chemicals.

The EBIT generated by downstream activities remained negative under the combined pressure of poor refining and marketing margins partially offset by the sales growth and the booking of the special items.

During the year unprofitable filling stations and terminals were closed and the related impairment was booked and a cost reduction related to centralizing the entire Marketing organization was noted.

EBIT per segments of activity, lei mn	**Year ended December 31**		
	2004	**2005**	**2006**
Exploration and Production	572	2,782	3,744
Refining and Marketing	(1,153)*	(914)	(1,136)
Gas**	-	-	118
Chemicals (Doljchim)	-	17	51
Total	**(581)**	1,884	**2,777**

** Includes Doljchim*

***The reporting of gas results started in 2006, previously included in E&P*

Financial result decreased by 15% as a result of appreciation of lei against EUR and USD during the year.

Income tax decreased by 2% due to higher use of geological quota facility.

Total assets increased by 9% amounting to lei 19,370 mn, mainly due to a growth in the fixed assets.

Fixed assets recorded a 23% increase against the 2005 figure, mainly due to the acquisition of tangible and intangible assets. The investments in other companies also contributed to the increase of fixed assets during 2006, due to: OMV Bulgaria, OMV Romania, OMV Yugoslavia, SC MP Petroleum Distributie and Ring Oil group of companies, refining service companies (Rafiserv Arpechim, Rafiserv Petrobrazi) and due to the increase in loans granted to subsidiaries.

[3] Gas revenues were included in E&P revenues in the previous years. The separate reporting started in 2006.

Current assets, including prepayments, decreased by 12% compared to 2005, reaching lei 6,366 mn. The change is attributable to all current items:

Decrease of inventories by 1% mainly due to lower quantities in stock

- Increase of accounts receivable by 19% as the turnover within the last month of 2006 was higher in comparison with the similar period of 2005 by 20%

- Decrease of cash by 23% as a result of the higher investments made in 2006.

Total liabilities accounted for lei 7,033 mn, slightly increasing by 1% as compared to the level registered in 2005.

Non-current liabilities did not change significantly compared to 2005. The company repaid the entire EUR 125 million Eurobond loan and other bank loans (classified as payables in more than one year in 2005). The provisions remained constant, in total being influenced mainly by: increase in restructuring provisions (lei 127 mn), decrease in environment provision (lei 96 mn), and decrease in provisions for taxes (lei 83 mn).

The slight increase (1%) in **current liabilities** is associated mainly with the repayment of the Eurobonds (lei 471 mn), repayment of the IBRD bank loan (lei 7 mn), decrease in provision for current tax (lei 381 mn) and higher dividends payable to the shareholders (lei 342 mn)**,** as well as with higher amount of other payables.

The **taxes** paid by Petrom to the state budget in 2006 amounted to lei 5,218 mn, 13% higher than in the last year. 52% of the total taxes paid represented **excise tax** [lei 2,692 mn] and 14% **VAT** [lei 741 mn]. The oil and gas royalty paid to the state amounted to lei 555 mn, 9% above last year's payments. The **corporate tax** paid for the year 2006 was of lei 259 mn.

Shareholders' equity in 2006 was 15% above the 2005 figure. This was mainly the result of the higher profit of the year, cash subscriptions to share capital by OMV (lei 38 mn), an increase of the revaluation reserve related to buildings (revaluation performed as of the year end lei 75 mn) and decrease due to the 2005 dividends allocation in amount of lei 738 mn. In addition, the equity was adjusted with the reserve for the umbrella funds purchased in 2005 (lei 90 mn - the negative difference between the fair value as of the year end and the acquisition cost).

The net cash generated from operating activities recorded an increase in comparison with the previous year (+7%), mainly due to higher profit before taxation, positive working capital movements, higher interest received and decreased due to the higher taxes paid to the State.

The net cash from investing activities decreased in comparison with 2005, recording a negative amount of lei 3,170 mn, mainly due to the significant investments in companies, due to the increase in loans given to subsidiaries and also due to higher acquisitions of both tangible and intangible assets.

In 2006, the cash flow from financial activities decreased to a negative amount of lei 836 mn, as the company repaid its debts to IBRD and the Eurobonds (lei 478 mn), paid dividends to the shareholders in amount of lei 396 mn, and received cash subscriptions of lei 38 mn to the share capital from OMV.

The cash and cash equivalents at the end of the year amounted to lei 3,451 mn, 23% lower than in 2005.

6. Annexes.

Please find attached the following documents:

a) The Constitutive Act of SC Petrom SA.
b) The list of the subsidiaries and of the companies controlled by Petrom;
c) The list of the persons affiliated to the company.

The financial statements for 2006 have been prepared in accordance with the Romanian Accounting Standards and offer a fair and appropriate image with the situation of Petrom's assets, liabilities, financial positioning and profit and statements of operations, whilst the information presented in this report reflect fairly and completely the company's activity.

President of the Board of Directors
Wolfgang Ruttenstorfer

Chief Executive Officer
Mariana Gheorghe

Chief Financial Officer
Reinhard Pichler