

Bucharest,  
November 15<sup>th</sup>, 2006

## Results for January - September and Q3, 2006<sup>1</sup>

Good results and sustainable development in a rapidly changing environment

- EBIT up by 40% to RON 2,460 mn [EUR 694mn]
- Earning per share growth of 40% to RON 0.035
- Investments pick up by 124% to RON 1,561 mn [EUR 441 mn]
- The Board of Directors confirms the strategic targets for 2010

Petrom, the largest oil and gas producer in South Eastern Europe, reports improved results for the first nine months of 2006, despite the weakening and volatile environment in both upstream and downstream. Decreasing but still high crude quotations and continuously growing sales contributed to the 40% yoy rise of the EBIT to RON 2,460 mn [EUR 694 mn]. The investments continued to grow along this period reaching a peak in the third quarter with drilling activity and retail network expansion as main drivers.

Mariana Gheorghe, CEO: The first nine months of this year brought a visible improvement of the company's evolution comparing to last year's period. "Investments" is the key word for this period as their total value went up by more than 120% comparing to the value recorded in the first nine months of 2005. Petrom entered a new development stage as we strengthened the expansion and improvement of core business. In addition we are evaluating the possibilities offered by new fields of activities, such as biofuels.

1-9/06	1-9/05	%	Key performance indicators (RON mn)	Q3/06	Q3/05	%
2,460	1,755	40	EBIT	697	895	-22
3,045	2,456	24	EBITDA	896	1,138	-21
1,997	1,406	42	Net income	569	805	-29
9,675	7,865	23	Turnover	3,363	3,252	3
1,561	696	124	Investments*	801	253	217
36,011	48,903	-26	Employees at the end of period	36,011	48,903	-26

\*the investments include increases of Petrom share participations

### Outlook 2006

The macroeconomic business environment is expected to follow the same trends as earlier this year. Petrom's target remains to repeat the performance of 2005.

Despite the declining tendency of the crude prices in the last quarters, they are estimated to remain at high levels; hence, the spread between Brent and Urals prices should be above 2005 levels.

<sup>1</sup> The figures are not audited and refer to Petrom SA unless otherwise stated

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E&P will continue to benefit from the high crude price environment with production volumes still below last year. After seasonally lower gas volumes in Q2 and Q3 higher production volumes in Q4/06 are expected. Investments will continue to focus on production optimization and energy saving projects, however first benefits are expected to be visible only at the end of next year. The Romanian gas authority (ANRGN) announced to increase the regulated gas price for producers from USD 119/1,000 cm in Q3/06 to about USD 144/1,000 cm, an increase of 20% as of November 11. A roadmap for further gas price increases is expected to be published in Q4/06.

Refining margins are not expected to improve, thus remaining significantly below the last year levels. In Q4/06 a 12-day scheduled crude distillation shut down at the Petrobrazi refinery will affect results. Refining business will continue to be hurt by the high energy consumption and continued high oil price environment.

The retail margin will be under continuous pressure as a result of continued high price levels and increased competition for market shares.

In order to continue the modernization program at Petrom further restructuring expenses are expected to be booked in Q4/06.

## Business environment

**World crude demand** recorded in 1-9/06 an increase of 0.6 mn bbl/d against 1-9/05, representing an average of 84 mn bbl/day.

**World crude production** increased by 1% or 0.9 mn bbl/day to 85.3 mn bbl/day in 1-9/06.

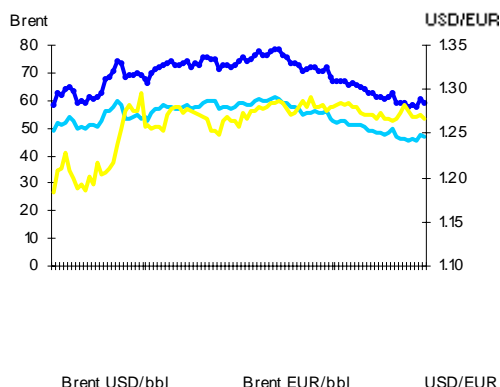
The **RON/USD average forex** kept the same level yoy of RON 2.86. The **RON/Euro average forex** decreased yoy by 2.2%, from RON 3.62 to RON 3.54.

**Brent price** increased with 8.05 USD/bbl in Q3/06 [69.60 USD/bbl] against Q3/05[61.55 USD/bbl]. As for the period January – September 2006, the Brent price registered an average of 66.96 USD/bbl, by 13.42 USD/bbl higher compared with the average of 53.54 USD/bbl in 1-9/05. The specific reasons for the summer price peaks were the outbreak of hostilities in Lebanon, fears of hurricanes in the Gulf of Mexico, coupled with the sudden shutdown of the Prudhoe Bay oil field in Alaska.

By the end of September, the oil price was at 62 USD/barrel, 20% lower than the historical maximum of 78.69 USD/barrel a level registered in mid-July.

**Fuel international prices** maintained high levels in the first 9 months of the year. Diesel Platts quotations reached the maximum value in August/06, increasing in the first 9 months of the year by 14% as compared with the same period of 2005. The maximum value of Gasoline Platts quotation has been reached in July/06. Gasoline quotation was up by 25% in 1-9/2006 as compared with 1-9/2005

**Imported gas price** in Romania was higher by 39% yoy, with an average of USD 290/1000 cm [1-9/05: USD 208/1000 cm]. The regulated gas price for industry (which includes both domestic and imported price components as well as infrastructure costs) increased to 276 USD/1000 cm [1-9/05: 191 USD/1000 cm], reflecting the commitment assumed by Romania to gradually liberalize the gas market and reach import parity.



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## Exploration and Production

1-9/06	1-9/05	%	Key performance indicators	Q3/06	Q3/05	%
54.67	58.59	-6.7	Total production (mn boe)	17.67	19.31	-8.5
3,603	3,936	-8.5	Crude and NGL production (kt)	1,192	1,293	-7.8
4,397	4,630	-5.0	Gas production (mn cm)	1,392	1,531	-9.1
3,019	2,036	48.3	EBIT (RON mn)	851	1,067	-20.2
3,472	2,538	36.8	EBITDA (RON mn)	1,004	1,239	-19.0
536	367	46.0	Investments* (RON mn)	285	52	448.1
20,431	25,779	-20.7	No of employees	20,431	25,779	-20.7

\*the investments include increases of Petrom share participations and only for 2005, Corporate investments

### January - September 2006 (1- 9/06)

E&P's Strategy execution requires a substantial Transformation Program which covers business organization, the redesign of field operations and efficiency measures. It is expected to show the results at the end of the 5-year strategy period. The management is confident this target will be achieved. This has been recently confirmed when the Board of Directors has reaffirmed the 2010 strategy.

The production decline could be reduced in the last quarter, but remains partly the reason for the increase in production cost. The investment to improve production is increasing, after major pilots were successfully finalized, furthermore production drilling activity has reached a record level since the privatization. The completion of the implementation of the major improvement programs will last up to end 2008.

In Exploration, the new 3D seismic campaign including six new surveys (3 last year) is being completed and drilling of the first exploration wells based on 2005 3D has started in Q3/06.

Total production in Romania amounted to 54.67 mn boe. Natural decline and market restrictions are the major reasons for the decline of 6.7% in comparison to the first three quarters of 2005 production volumes. Nevertheless, the decline from Q2/06 to Q3/06 was slower i.e. of only 2%. This is in line with the forecast and the strategic target of stabilizing production at 210,000 boe/day beyond 2010 remains unchanged.

The oil and gas production in Kazakhstan reached 1,152 thousand boe or 4,221 boe/day.

The Group oil and gas production decreased by 5.2 %, reaching 55.82 mn boe [1-9/05: 58.87 mn boe], due to the lower production levels in Romania. Over the analyzed period the total daily production of the Group amounted to 204,484 boe/day.

The Group crude sales volume decreased by 6.5 % to 3,711 thousand tons, as a result of the lower oil production. Crude sales in Kazakhstan maintained an increasing trend as a result of a higher production level, reaching 119 thousand tons. This positive result was mainly achieved by the application of new hydraulic fracturing technologies in the last two years.

The investment program the company has embarked in continued at a faster pace, increasing by 42%<sup>2</sup> to RON 520 mn. The program includes modernization of subsurface and surface facilities and drilling of new wells. After the technical upgrade of the drilling rigs a record drilling activity has been achieved in Q3/06 since the privatization of Petrom.

<sup>2</sup> E&P investment figures reported in 2005 included Petrom's corporate investments, which, starting with 1 Jan 2006, are reported separately. The percentage growth of the 'net E&P investments' was 75 %.

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**Reinterpretation** with new technologies and 3D applications, based on OMV know-how, is already improving the new wells' target quality. Drilling performance is also improved by applying incentive based drilling contracts and introducing higher HSEQ standards.

Petrom invested through its affiliated companies RON 122 mn in Kazakhstan.

The **Production Costs** of 13.56 USD/boe were lower than last quarter. Nevertheless they show an increase (9.1%) in comparison to the level achieved in 1-9/05, due to the lower production level, personnel and material cost increases as well as the impact of fx-rates.

The domestic **realised oil price** was of 57 USD/bbl, higher by 20 % than the level recorded in 1-9/05, as a result of the increasing trend of the international price for commodities during this period.

The **EBIT and EBITDA** were higher than in the same period of 2005 mainly reflecting the higher oil price levels.

An **important pilot test** to improve production and reduce cost was successfully performed in the Pitesti area. The tests in this pilot area proved that the tailor made application of new technologies is substantially improving well efficiency, reducing the number of interventions. About 5,000 wells all over Romania will become part of a roll-out program based on the results of this pilot program. Its implementation is scheduled to be finished by the end of 2008. In Q3 the relevant contracts for the first 200 wells were prepared and operations are expected to commence in December 2006

**Exploration** has started drilling of the first wells based on the 2005 3D seismic.

A **significant 3D seismic program** is currently underway, including six new 3D surveys in 2006. The program is close to be completed and represents the double amount of last years 3D activity.

**The concession contracts for 3 new exploration licences** in Romania have been concluded with NAMR. The work program comprises 2D and 3D seismic and drilling.

Petrom has signed an **agreement for the acquisition** of a 74.9% majority stake of Ring Oil Holding & Trading Ltd which in turn holds a portfolio consisting of eight exploration licenses and one exploration and production license in **Russia**. By 2011, Petrom plans to acquire approx. 20,000 km of 2D- and approx. 3,000 km<sup>2</sup> of 3D-Seismic. By 2013, it is planned to have completed about 40 exploration wells.

A major step forward was made in Kazakhstan, by Petrom's approval for the development of the Komsomolskoe oil field. Key to this decision was the successful application of 3D seismic and modern simulation technologies. The field will add a production of 10,000 boe/day from 2008 onwards. Overall, the investments for the project will amount to USD 190 mn.

## Third quarter 2006 (Q3/06)

In the third quarter of 2006, **crude oil production** in Romania amounted to 1,192 thousand tons, lower by 8% as compared with the level recorded in Q3/05, while the **natural gas production** reached 1,392 mn m<sup>3</sup>, decreasing by approximately 9%. The Group production amounted to 1,235 thousand tons.

The **Group sales of crude** stood at 1,222 thousand tons, by 6.6 % lower in comparison to the same period of the previous year. The **domestic realized crude price** increased by 4% to USD 59.16 from the level of USD/bbl 56.92 reached in Q3/05.

The **E&P investments** during Q3/06 accelerated, reaching a level of RON 268 mn four times higher than those in Q3/05. The sharp increase of investments is caused by the high level of drilling activities in Q3/06 and the ongoing modernization projects for surface and subsurface equipment.

The **Production Cost** of 14.29 USD/boe could be reduced by 0.46 USD/boe compared to Q2/06, but cost levels per boe are still high due to the lower production volumes, higher costs for personnel and materials and the impact of fx-rates.

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## Refining and Marketing

1-9/06	1-9/05	%	Key performance indicators	Q3/06	Q3/05	%
5,173	4,902	5.5	Crude input (kt)	1743	1,752	-0.5
1,595	1,066	49.6	o/w imported crude (kt)	561	491	14.3
86	82	4.9	Utilization rate (%)	86	88	-2.3
4,053	3,883	4.4	Marketing sales (kt)	1,392	1,496	-7.0
-641	-303	-	EBIT (RON mn)	-151	-172	-
-513	-108	-	EBITDA (RON mn)	-106	-102	-
891	327.9	171.8	Investments (RON mn)	463.8	200	131.9
12,965	20,998	-38.3	No of employees	12,965	20,998	-38.3

### January – September 2006 (1 - 9/06)

According to the strategy recently reaffirmed by the BoD, Petrobrazii will be repositioned as the largest and most efficient refinery in Romania by 2011, with investments of around EUR 1 bn. The main projects on Petrobrazii include the crude distillation expansion from 4.5 mn to 6 mn to/year, the new hydrocracker (Romania's first), the hydrogen plant and the delayed coker expansion.

R&M performance was influenced by depressed refining margins partially compensated by higher sales in Romania

Petrom's refineries processed a higher volume of crude oil [+5.5%] in 1-9/06 yoy, mainly as a result of improved refinery utilization. The increase was similar for the two refineries: 5.6% at Arpechim and 5.4% at Petrobrazii.

The refining margin decreased to 19.94 EUR/t [1-9/05: 30.5 EUR/t] reflecting lower product cracks, higher prices for raw materials as well as the effects of relatively high energy consumption in Petrom's refineries. The product cracks narrowed substantially in Q3 as the summer driving season came to an end and crude prices fell throughout the period.

Petrochemical sales amounted to 304 thousand tons while the sales of special products (mainly petcoke) recorded a volume of 201 thousand tons.

The weak EBIT for R&M business was the result of the lower and volatile margins and to a lesser extent, to the special items (e.g. provisions for the missing stocks at Conpet and Petrotrans). A positive influence on the results was triggered by the higher domestic sales.

Marketing sales increased by 4.4% reaching a volume of 4,053 thousand tons [1-9/05: 3,883 thousand tons]. The gasoline sales continued to grow at a faster pace than diesel [12% to 1594 thousand tons for gasoline versus 9% to 1291 thousand tons for diesel]. This was mainly the result of the higher export sales for gasoline, only partially offset by the increasing diesel sales in Romania.

Commercial domestic sales increased by 20% against the level recorded in 1-9/05, amounting to 1,554 thousand tons, while exports reached 1,787 thousand tons, from a previously 1,925 thousand tons achieved in 1-9/05 (-7%). The decrease of product export is due to the introduction of the tax for product exports of 1 USD cent/liter for gasoline and diesel in Q2. Retail sales amounted to 712 thousand tons, by 7% higher as compared with the 1-9/05 figure. The throughput per station improved by 17% to 2.28 million liters per year (estimated).

Petrom retail international sales were two times higher than in 1-9/05, reaching 248 thousand tons, mainly as a result of the quantities sold by OMV Bulgaria, part of Petrom Group starting with March 2006.

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At the end of the first nine months of 2006 Petrom owned 520 **filling stations** in Romania, which is a reduction of 12% compared to 1-9/05 as a result of the ongoing reorganization process, which started in 2005 and resulted in the closure of unprofitable sites. At international level, Petrom also operates a retail network of 157 filling stations in Republic of Moldova, Bulgaria and Hungary. The sale of OMV's marketing operations in Serbia and Romania has been completed and will be therefore transferred from OMV to Petrom in Q4/06.

At the end of the 9-month period, 271 filling stations were operating under the Full Agency system out of which 18 are PetromV stations.

The **R&M investments** almost tripled during the first nine months of 2006, mainly due to the acquisitions of the three OMV retail networks in Marketing. Refining is undergoing a complex process aiming at restructuring and transforming the business in the next few years. This is backed by an intensive investment program targeting the efficiency increase as well as the yield optimization which is ongoing and showing the first results: the yield increase for the low sulphur diesel and gasoline (10 ppm diesel produced for the first time, most of the gasoline is 50 ppm), lower yield for the HFO and energy efficiency improvements.

As part of the rationalization of the petrochemicals portfolio, some of the units which did not meet the economic and environment requirements were closed (e.g. acrylonitrile, plastics, sodium cyanide units)

In addition, the investments in Refining included the acquisition of the majority stakes in the two Rafiserv companies (service providers for refining business).

The main projects underway and respectively completed are as follows:

Petrobrazî	Arpechim
<ul style="list-style-type: none"> <li>▪ Revamping Gas oil hydro treating Unit</li> <li>▪ DCS Implementation</li> <li>▪ Revamping FCC Plant (completed in Q1 2006)</li> <li>▪ FCC Gasoline Post Treatment</li> </ul>	<ul style="list-style-type: none"> <li>▪ DCS Implementation</li> <li>▪ New hydrogen Unit</li> <li>▪ FCC Feed hydrotreating Unit (completed in Q1 2006)</li> <li>▪ Utility System Optimization</li> </ul>

### Third quarter 2006 (Q3/06)

The R&M results remained at similar levels as recorded in Q3/05. The weak gasoline spreads in this period created a competitive disadvantage and additional pressure on Refining business as this product accounts for a significant part of the yield. The volume of processed crude in the third quarter of 2006 amounted to 1,743 thousand tons, out of which 32% represented imported crude oil.

Refining utilisation rate of the period stood at 86% [Q3/05: 88%] due to depressed export product margins, coupled with the new excise tax on exported products and the increased processing to cover the shut down at Petrobrazî in Q4/05.

Marketing sales recorded a decrease by 7% in comparison with Q3/05, amounting to 1,392 thousand tons, due to lower export sales. Export volumes decreased substantially mainly due to the introduction of a new tax for product exports of 1 USD cent/liter for gasoline and diesel. Retail sales increased in comparison with Q3/05 by 7%, to 266 thousand tons while commercial domestic sales were by 26% higher than the level reached in Q3/05, i.e. 582 thousand tons.

R&M investments doubled in the third quarter of 2006 against the level reached in Q3/05 as the closing of the transactions for the acquisition of OMV Romania and OMV Yugoslavjia took place within this period.

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## Gas

### January – September 2006 (1-9/06)

The EBIT generated by the Gas business of Petrom SA in the first nine months amounted to RON 89 mn. A comparison with the same period of the last year is not possible as the results for this business were separated from E&P and started to be reported in 2006.

The gas sales amounted to 3,390 mn cm, were down by 12% compared to 1-9/05 reflecting the reduced production levels and the summer season lower demand. Petrom sells its gas only in the Romanian market.

The gas sales to the third parties reached 2,630 mn cm, lower by 13% than in the same period of the previous year. The quantity supplied to Arpechim, Petrobrazii and Doljchim slightly decreased to 760 mn cm in comparison with the level of 834 mn cm recorded in 1-9/05. The sales decline does not reflect the production capacity of Petrom SA. In the first three quarters of the year 2006 the overall gas consumption of Romania dropped by 3% compared to the same period of the previous year, whilst the imports increased by 12%. This imbalance could not fully be absorbed by the National Transmission System, causing a higher pressure which in turn led to a reduced off take from Petrom's production facilities.

The Gas business of Petrom SA together with Petrom Gas SRL [subsidiary with 99.9%] - also referred to as the Business Unit Gas - had sales of 3,594 mn cm.

Due to the seasonal demand as well as the relevant regulations, by the end of the 9-month period Petrom had stored almost 530 million cm of gas.

### Third quarter 2006 (Q3/06)

The EBIT generated by the Gas business unit of Petrom SA stood at RON 16 mn while the gas sales amounted to 888 mn cm [Q3/05: 1,050 mn cm].

As a result of the new regulation introduced as of July 1, new gas does not any more substitute imports which results in the necessity for Petrom to import for the eligible customers in order to offer basket gas. 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. Starting from January 2007 the category of new gas will disappear completely, based on current regulations. The imported gas price for Q3 was at USD 295 per 1,000 cm while the regulated price for the industry in the same period had a level of USD 287 per 1,000 cm. The latter is an average of the regulated prices for various types of customers and has only an indirect influence on Petrom's realized gas price. A price increase in the next two years seems inevitable in order to meet the requirements of Romania's EU membership.

## Chemicals (Doljchim)

1-9/06	1-9/05	%	Key performance indicators	Q3/06	Q3/05	%
416	468	-11.1	Sales (kt)	120	147	-18.4
3.6	1.5	-	Investments (RON mn)	0.52	1.3	-60.0
1,556	1,582	-1.6	No of employees	1,556	1,582	-1.6

**Total sales** amounted to 416 thousand tones, lower by 11% than in 1-9/2005, driven by the reduced methanol and ammonium nitrate sales. During the months of August and September Doljchim plant was

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closed for a planned and routine turnaround for around 28 days. The deliveries for ammonium nitrate on the domestic market were negatively influenced by the bad weather conditions – floods and low temperatures resulting in a low demand for fertilizers in agriculture. The state subsidies came very late – only in October 2006 causing a low demand from companies and private farmers.

**The domestic sales** for urea comparing with 1-9/ 2005 increased by 49% and the domestic sales for methanol decreased by 9%.

**Export sales** volumes in 1-9/06 represented 49% of total sales volumes. The export volumes of ammonium nitrate amounted 35 thousand tones and increased by 22% in comparison with 1-9/05 (mainly due to the decreasing sales on domestic market), while urea exports increased by 5%.

In the first nine months of 2006 the **investments** in Doljchim more than doubled as compared with 1-9/05 amounting to RON 3.6 mn and were directed mainly towards the modernization of the infrastructure and logistics combined with environment-related projects.

## Financial highlights

### Profit and Loss Account

The **turnover** of the company increased by 23% yoy as a result of the continuously increasing trend of the international oil prices and the product sales.

The **operating expenses** increased in 1-9/06 by 26%, mainly determined by increasing costs of raw materials (imported crude oil, with higher prices and volumes). The rise of the staff-cost was the result of the restructuring costs, yearly increase of salaries in accordance with the Collective Labor Agreement and bonuses paid. The higher operating expenses were also due to higher third party services, expenses with Petrotrans, taxes (mainly royalties) and provisions (mainly due to litigation with Conpet).

As previously announced, the accounting treatment of the geological quota has changed in 2005, whereby this was booked as a reserve instead of an expense. This resulted *inter alia* in an adjustment of the value of the current assets (inventories having included the geological quota) which reduced the operating expenses by RON 393 mn in 2005.

The **EBIT** of the company amounting to RON 2,460 mn is higher by 40% than RON1,755 registered in 1-9/05. This is the effect of the increase of oil and gas prices as well as of the growth of the product sales volumes. The increase of the oil price had a positive impact to the Exploration and Production business, but had a negative effect on the Refining and Marketing, due to lower margins in Refining.

The **financial** result improved from a negative RON 332 mn in 1-9/05 to a negative RON 205 mn. This is mainly due to the investment of umbrella funds in 2<sup>nd</sup> half of 2005, which significantly reduced the foreign exchange risk of the company. Consequently, the exchange rate exposure was lower in 2006.

The **net profit** increased by 42% in comparison with the figures of 1-9/05 while the EPS amounted to RON 0.035 [1-9/05: 0.025].

The **taxes** paid by Petrom to the state budget in the first nine months of the year amounted to RON 3,951 mn, by 29% higher than in the same period last year. 50% of the total taxes paid represented excise tax [RON 1,965 mn] and 15% VAT [RON 577 mn]. The oil and gas royalty paid to the state amounted to RON 417 mn, by 13% above same period last year. The corporate tax amounted to RON 259 mn.

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## Investments

1-9/06	1-9/05	%	RON mn	Q3/06	Q3/05	%
536	367	46.0	Exploration and Production	285	52	448.1
891	328	171.8	Refining&Marketing	464	200	131.9
3.6	1.5	140.0	Doljchim	0.52	1.3	-60.0
130	0	-	Corporate	52	0	-
1,561	696	124.1	<b>Total investments</b>	801	253	216.4

As part of the complex transformation program running across the company, the total investments peaked up in 1-9/06 to an amount of RON 1,561 mn, exceeding by 124% the figures of the same period last year.

57% of the investments were performed in Refining & Marketing while 35% in Exploration & Production. The remainder of 8% represent investments in Corporate projects (IT, Petrom City, as well as the HQs of E&P and R&M) and Doljchim.

The **investments** in E&P<sup>3</sup> targeted the drilling of new wells and the modernization of subsurface and surface facilities. After the technical upgrade of the drilling rigs a record drilling activity has been achieved in Q3/06 since the privatization of Petrom.

The R&M investments were directed to the intensive modernization efforts, the acquisitions of the marketing companies from OMV and the refining service companies as well as to the expansion of the retail network by building the PetromV stations.

<sup>3</sup> E&P investment figures reported in 2005 included Petrom's corporate investments, which, starting with 1 Jan 2006, are reported separately. The percentage growth of the 'net E&P investments' was 75 %.

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