

Bucharest,  
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## While in the middle of the restructuring process, Petrom's Q1 results were influenced by a challenging environment

- ▶ Lower EBIT compared to the same period of 2006, but increased from the one registered in Q4/06
- ▶ Investments for the company's efficiency and modernization up by 24% in Q1/07 compared to Q1/06
- ▶ Lower production decline rate demonstrates the efficiency of modernization measures

Mariana Gheorghe, CEO of Petrom: "In the first three months of the year we were confronted with a challenging environment characterized by a lower crude price and a strong appreciation of the local currency adversely impacting our results. The expected natural decline of production, that we are estimating to stabilize by end of this year, also influenced the results.

Such situations confirm once again the necessity of successfully implementing our strategy of restructuring and efficiency increase. We started the modernization process, first results can be seen, we benefit from the necessary financial and management resources and the know-how of OMV in order to achieve the results we are committed to.

The investments went up comparing to the same period of last year and we will continue to do so: in 2007 alone, the investments' value is more than EUR 1 billion.

Petrom has the largest investments budget in the Romanian energy sector and its efficient utilization, in accordance with the strategic objectives, strengthens the company's position to successfully develop even under less favorable conditions."

### Financial highlights

Q4/06	Q1/07	Q1/06	DQ1/06	Key performance indicators(RON mn)	2006	2005	%
317	394	1,053	-63%	EBIT	2,777	1,884	47%
551	623	1,219	-49%	EBITDA	3,596	2,775	30%
289	381	881	-57%	Net income	2,285	1,416	61%
3,403	2,757	3,126	-12%	Turnover	13,078	10,760	22%
1,376	551	443	24%	Investments*	2,937	1,117	163%
32,837	31,115	40,821	-24%	Employees at the end of period	32,837	43,546	-25%

*\*the investments include increases of Petrom share participations*

The financials are unaudited and prepared according to RAS; all the figures refer to Petrom SA unless otherwise stated.

The **turnover** of the company decreased by 12% in comparison to the first quarter of 2006 as a result of the decrease in delivered quantities for export and of the realised oil prices compared to Q1 2006.

The **operating expenses** increased in 2007 only by 7%, due to the negative influence of higher expenses with: third party services, raw materials, goods for resale and depreciation, partially offset by lower expenses with: utilities (as a result of the renegotiation of the contracts), salaries (decrease as a

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result of the decrease of the number of employees according to the restructuring programme in place) and provisions (due to improved credit management and less litigations in place).

The **EBIT** of the company amounted to RON 394 mn in Q1/07, decreasing by 62.6% from RON 1,053 mn in Q1/06 mainly due to the weaker EBIT generated by the E&P. This business was adversely affected by the declining oil price, production decline and negative impact of the RON appreciation by 13%. The revenues are USD-related whereas the costs are RON-related, thus the negative impact is two-fold.

In Refining and Marketing, the EBIT recorded a negative value, however above the Q4/06, reflecting higher refining margins and positive developments in the Marketing business. The refineries benefited from increased margins and yield improvement, partly offset by the adverse inventory effects due to lower product prices at the end of the quarter and the lower export sales.

In Gas, the EBIT was positively impacted by increased sales as a result of both higher quantities and selling prices during the first quarter of 2007.

In addition, in Q1/06 the results included the revenues from sale of rigs [RON 231 mn] which reduces the comparability of the EBIT yoy.

The **net profit** decreased in Q1 2007 by 56.7% in comparison with the same period of 2006 as a consequence of the weaker operational result.

The taxes paid by Petrom to the state budget in the first quarter of 2007 amounted to RON 1,404 mn, 10 % higher than in the same period last year.

As previously announced, the geological quota was discontinued starting with Jan 1, 2007 adversely affecting tax expenses.

## Investments

For this year, Petrom budgeted investments of approximately RON 3.7 billion out of which around 50% will be used in Exploration and Production and the rest in Refining and Marketing.

Q4/06	Q1/07	Q1/06	DQ1 yoy	lei mn	2006	2005	%
800	403	107	276%	Exploration and Production*	1,336	530.5	152 %
407	95	307	-69%	Refining&Marketing	1,298	585.1	122 %
0.1	1	-		Gas	1	-	
1.9	2.1	1.8	18%	Chemicals	5.50	1.6	244 %
167	51	27		Corporate	297	-	-
<b>1,376</b>	<b>551</b>	<b>443</b>	<b>24%</b>	<b>Total investments</b>	<b>2,937</b>	<b>1,117</b>	<b>163 %</b>

The investment program started in 2005 continues to unfold in 2007. The total investments realised in Q1 2007 amounted to RON 551 mn, exceeding by 24% the amount performed in Q1 2006.

The investments have been directed mostly to E&P – 73%, while the R&M business benefited from a 17% of the investments. The rest of 10% represents investments in Corporate (mainly Petrom Solutions), Gas and Chemicals.

Within R&M, the investments have been directed mainly to the development of the retail network (reconstruction or new construction of filling stations).

The investments in E&P amounted in Q1 /07 to RON 403 mn and focused on production and modernization of both subsurface and surface facilities as well as growth and development projects.

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## Exploration and Production

In the same time with the development of exploration business based on new technologies, the company focuses on the stabilization of production and reduction of production costs. By the end of this year, first results are expected from an ambitious modernization program of downhole technology that targets the improvement of production level and costs reduction. In the first quarter of this year, the company reported the first exploration success after the implementation of modern exploration technologies, an oil and gas discovery at Torcești. During testing period, a production volume of 130,000 cm per day of natural gas and 11 tons of condensate gas (approx. 900 boe/day) was reported.

The **EBIT** of the exploration and production business of Petrom SA decreased by 52% in the first quarter of 2007 to RON 630 mn over the same period of the last year mainly as a result of the declining oil price, higher level of stocks, production decline and adverse impact of the local currency appreciation by 13% (revenues are USD-related whereas the costs are RON-related). In addition, in Q1/06 the results included the revenues from sale of rigs (RON 231 mn) as well as the gas business which is reported separately starting with Q1/06, both of them affecting the comparability of the results on yoy basis.

**The total Group daily production rate** in Q1/07 was 202,000 boe/day, a decline of now only 1.2% in comparison with the value of Q4/06 (205,000 boe/day), clearly indicating that measures start to impact the decline rate. Overall the **group oil and gas production** decreased by 6 % to 18.18 mn boe (Q1/06: 19.30 mn boe), under the influence of the decline of the domestic production for oil by 7% and for gas by 5%.

**Total production in Romania** amounted to 17.77 mn boe in Q1/07. The natural decline in combination with the warm winter, pressure issues in the Transgaz system and technical reservoir problems in the North West of Romania are the major reasons for the decline of 6% in comparison to Q1/06 production volumes.

**A significant reduction of the oil production decline** could be achieved. During Q1/06 the average rate of oil decline was 14.2% p.a, while in Q1/07 the same rate was only 2.6% p.a. This is a strong indicator that the modernization measures and the rollout of new technologies start to counterbalance the natural decline of the Romanian oil production.

**The oil and gas production in Kazakhstan** reached 414,000 boe (or 4,600 boe/day), increasing by 9% over Q1/06 volumes (4,200 boe/day).

E&P Petrom **investments** in Romania amounted to RON 403 mn, four times higher than last year's level. They targeted production & modernization of both subsurface and surface facilities.

## Refining and Marketing

In 2007, in Refining, the focus continues to be on optimization and starting the ambitious investments program targeted to improving the product mix in Petrobrazi, increase production capacity to 6 mn tons and further reduce the energy consumption. In the same time investments in Arpechim will focus on EU compliance and on high return efficiency investments.

It is estimated that the most significant profit improvements will become visible only after achieving the investments objectives in 2011.

In the first quarter of 2007, the key performance indicators were significantly improved, as diesel yield improved by 4 percentage points.

Through significant investments planned in Marketing, a slight increase of sales volumes is expected. Petrom will continue to shut down inefficient filling stations a process which is expected to be finalized by end 2007. Also, it is estimated that, in the second part of the year, all Petrom filling stations will be

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operated under Full Agency System. In the first quarter of this year, 16 new filling stations were opened and 32 new filling stations are under construction.

During the first quarter, in the Refining segment, capital investment projects were progressed, with the new EUR 40 million hydrogen plant commissioned at Arpechim, and with mechanical completion of a new, high efficiency, high pressure steam boiler. At Petrobrazi, civil construction and equipment erection of the new HDS (hydraulic desulphuration) unit continued. The site was prepared for delivery of the new 400 t reactor from Germany in April. Construction started at both refineries on biofuel storage and blending systems.

The **EBIT** for R&M business recorded a negative value (RON -307 mn), but above the Q4/06, reflecting higher refining margins and positive developments in the Marketing business. Both refineries benefited from increased margins and yield improvement, partly offset by the adverse inventory effects due to lower product prices at the end of the quarter.

In Q1/2007, Petrom's refineries processed a volume of crude oil of 1.67 mn tons, down by 3.6% yoy, due to limited opportunities to generate profit from the marginal barrel of imported crude oil.

Total marketing sales were lower by 18% yoy which is related to a reduction of export sales due to economical reasons, reaching a volume of 1,115 thousand tons (Q1/06: 1,361 thousand tons).

Domestic sales are 11% higher than compared to Q1 of last year, reaching 769 thousand tons.

Commercial domestic sales were higher by 5% against the level recorded in Q1/06, amounting to 518 thousand tons, while exports were 347 thousand tons, from a previously 670 thousand tons achieved in Q1/06 (-48%).

Retail sales reached 315 mn liters, by 25% higher compared to Q1 2006 (Q1/06: 253 mn liters).

Throughput per station improved by 43% to 0.66 million liters (Q1/06: 0.46 million liters), mainly as a result of continuing the implementation of the Full Agency System and of the modernized stations.

## Gas

The EBIT generated by the Gas business of Petrom SA in Q1/07 amounted to RON 58 mn, more than double against the Q4/06 (RON 28 mn).

The **consolidated gas sales** volume (Petrom S.A. together with its 100% daughter company Petrom Gas) amounted to 1,605 mn cm in Q1/07, up by 4 % compared to the same period of 2006.

As a result of the mild winter, the overall gas consumption of Romania continued to be lower than usual. This, in combination with rather high imports continued to create an imbalance which could neither be fully absorbed by the market, nor by the National Transmission System.

The imported gas price for Q1 was USD 300/1,000 cm while the realized gas price for the domestic production was around USD 154 /1,000 cm. While the price achieved for domestic natural gas remained at around 51% of the international level, an increasing trend is anticipated for the year 2007.

## Chemicals

In Q1/07 the volume of Doljchim sales increased by 18%, to 176,000 tons (Q1/06: 149 thousand tons), out of which export sales accounted approx. 50 %. Doljchim's products were exported mainly in the neighboring countries, such as Hungary, Bulgaria, Serbia but also in other countries like Slovakia, Austria, Macedonia, Italy, Spain and Turkey.

In Q1/07, the investments in Doljchim, amounting to RON 2.1 mn, were directed mainly towards the works for environmental protection, health and safety and the plants safety of operation for fire risk.

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## **Petrom's Executive board to be strengthened**

In order to reflect the increasing focus on Petrom's international portfolio in the Caspian Region, Russia and Black Sea, areas where substantial growth and investments are planned, the E&P management resources in Petrom will be strengthened. Johann Pleininger, an experienced E&P manager working with Petrom for the past two years, will take over responsibility for the domestic E&P business, which remains our core focus. Werner Ladwein, who has been heading Petrom E&P and has extensive experience and a strong track record in international expansion, will be in charge of Petrom's international portfolio.

In addition, Mr. Schinhan, who is Petrom's Deputy CEO and has been a key driver for the successful development of the company since privatization, will retire end of 2007. Currently, he is responsible for Investor Relations, Treasury, Corporate Legal Affairs, Gas and Doljchim. Gerald Kappes, currently OMV Procurement director, will take over responsibility for the Gas segment and Doljchim. The corporate functions will then be taken on by Mariana Gheorghe and Reinhard Pichler.

"With the appointment of Mr. Pleininger and of Mr. Kappes as new Executive Board Members, we welcome two excellent OMV managers who are specially appointed to focus on the further development and expansion of these divisions. Through these measures we show once again our commitment to successfully achieve our growth objectives, both nationally and internationally", Mariana Gheorghe, CEO Petrom stated.

The final decision will be made at the Petrom Supervisory Board Meeting on June 15<sup>th</sup> 2007, when E&P changes will become effective.

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