In 2009, the domestic reserves replacement rate was successfully maintained at slightly above 70%, thus already achieving the target set for 2010 in both 2008 and 2009. Despite the investment constraints and the decrease in gas demand in 2009, we were able to partially offset the natural production decline, mainly by starting production from the offshore wells Delta 6 and Lebada Vest 4 and performing around 900 workovers in oil and gas wells. At the end of December 2009, total domestic proved reserves were 823 mn boe. Despite the decrease of production in 2009, domestic production costs in RON/boe were 2% lower compared to 2008 due to strict cost management and successful integration of EPS.

<table>
<thead>
<tr>
<th>E&amp;P at a glance</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Group production (mn boe)</td>
<td>72.00</td>
<td>71.08</td>
<td>68.29</td>
</tr>
<tr>
<td>thereof Petrom S.A.</td>
<td>70.27</td>
<td>68.98</td>
<td>66.00</td>
</tr>
<tr>
<td>Group Crude and NGL production (mn t)</td>
<td>4.72</td>
<td>4.77</td>
<td>4.65</td>
</tr>
<tr>
<td>thereof Petrom S.A.</td>
<td>4.54</td>
<td>4.54</td>
<td>4.39</td>
</tr>
<tr>
<td>Group Gas production (bcm)</td>
<td>5.81</td>
<td>5.62</td>
<td>5.33</td>
</tr>
<tr>
<td>thereof Petrom S.A.</td>
<td>5.75</td>
<td>5.55</td>
<td>5.27</td>
</tr>
<tr>
<td>Group reserve replacement rate (%)</td>
<td>35.00</td>
<td>70.00</td>
<td>73.00</td>
</tr>
<tr>
<td>Reserve replacement rate in Romania (%)</td>
<td>38.00</td>
<td>71.00</td>
<td>70.00</td>
</tr>
<tr>
<td>Total net revenues (RON mn)</td>
<td>7,430</td>
<td>9,828</td>
<td>7,859</td>
</tr>
<tr>
<td>EBITDA (RON mn)</td>
<td>3,651</td>
<td>4,401</td>
<td>3,649</td>
</tr>
<tr>
<td>EBIT (RON mn)</td>
<td>2,943</td>
<td>3,139</td>
<td>2,366</td>
</tr>
<tr>
<td>OPEX (RON mn)</td>
<td>4,582</td>
<td>6,600</td>
<td>5,493</td>
</tr>
<tr>
<td>Exploration expenses (RON mn)</td>
<td>230.0</td>
<td>450.0</td>
<td>191.3</td>
</tr>
<tr>
<td>Investments (RON mn)</td>
<td>2,485</td>
<td>4,524</td>
<td>2,806</td>
</tr>
</tbody>
</table>

Financial figures in the above table refer only to Petrom S.A., excluding Kazakhstan affiliates. As of January 2008, E&P financials include the results of the Exploration and Production Services (EPS) business division.

1 Total net revenue also include inter-segment sales
2 Excluding intersegmental margin elimination; for reasons of comparability 2007 and 2008 numbers are adjusted accordingly
3 Investments also include increases of Petrom share participations in other companies and investments during the year in exploration wells that proved unsuccessful

**EBIT lower by 25%**

E&P EBIT decreased by 25% in 2009 compared to 2008. This is mainly due to a lower oil price environment. The EBIT decrease was partly offset by a significant reduction in operating expenses determined by a strict management of costs. Depreciation and amortization increased due to high investments, while royalty payments decreased due to lower oil prices. A considerable drop in exploration expenditures also had a positive impact on EBIT. E&P’s EBIT does not include the positive hedging effect, which is reported in the financial result according to Romanian Accounting Standards.
Operational highlights 2009
In Romania, Petrom holds exploration licenses for 15 onshore and 2 offshore blocks, with a total area of 59,100 km² (of which 13,730 km² is offshore) and operates 256 commercial oil and gas fields. A combined volume of 180,815 boe/d was produced in 2009 [2008: 188,476 boe/d].

Petrom’s Exploration, Development and Production Concessions in Romania

Exploration
During 2009, Petrom conducted exploration activities over the three exploration licenses granted in March 2008, over 13 historical licenses (12 onshore and 1 offshore) and over the Neptun offshore license.

Despite the investment constraints determined by the global financial crisis, exploration works have taken place in all exploration blocks. Onshore, Petrom acquired 1,195 km of 2D seismic data and 475 km² of 3D seismic data in 2009.

In March 2009, Petrom commenced preparation of seismic studies for the deepwater area of Neptun Block in the Black Sea whilst the data acquisition process started in August. The 3D seismic survey was completed in November and covered an area of approximately 3,200 km². This is the largest area surveyed in Romania using 3D seismic. ExxonMobil Exploration and Production Romania Ltd, an affiliate of ExxonMobil Corporation, is a joint-venture partner with Petrom for this permit.

Reserve replacement rate (RRR)
As of December 31, 2009, Petrom Group’s total proved oil and gas reserves amounted to 854 mn boe (Romania 823 mn boe), while the proved and probable oil and gas reserves amounted to 1,254 mn boe (Romania 1,176 mn boe).

Continuous revisions of mature fields, achievement of the drilling program combined with diversification of the recovery mechanisms applied in 2009 helped maintain a high reserve replacement rate of 70% in Romania. Petrom’s Group reserve replacement rate reached 73% in 2009, up 3 percentage points above the RRR reached in 2008.

Production
In 2009, Petrom produced 4.39 mn t of crude oil and condensate and 5.27 bcm of natural gas or an equivalent of 66 mn boe in Romania. The average daily equivalent production in Romania reached 180,815 boe/d (4 % lower than 2008). Crude oil production of Petrom S.A. in Romania was 86,420 boe/d, 3% lower than the level recorded in 2008. The decrease was mainly due to the reduced number of new wells drilled and the delay of key wells, mainly Delta 6.

Initial production of the offshore well Delta 6 started through the existing Petrom offshore facilities at end of July, at an initial rate of 530 boe/d. At the end of 2009, the well was producing 2,500 boe/d. The newly drilled well, Lebăda Vest 4, brought onstream at the end of August, was producing around 1,000 boe/d at the
end of the year. Both wells account for over 10% of Petrom’s offshore production. The 2009 gas production level was affected by a reduction of demand. Furthermore, the delay in the completion of key producers such as Mamu 4335 and 4338, meant they were not available to counter the natural decline of production, led to a lower level of gas production.

During the Russian-Ukrainian gas crisis in January 2009, Petrom has made a significant contribution to ensure the security of gas supply for Romania by putting on stream 3 additional high producer wells: 20 Văleni, 571 Torcești and 19 Pârăieni.

Investments

E&P investments decreased to RON 2,806 mn, a reduction of 38% compared to 2008. The main reason for the deviation is the acquisition of the oil services business of Petromservice in 2008. The focus of investments was on optimization of gas delivery and processing, mainly at Hurezani, Midia and Mădulari, the drilling of development and production wells, e.g. offshore wells Delta 6 and Lebăda Vest 4, workovers and production facilities. However, compared to 2007 there is still an increase of 14% in investments that underlines Petrom’s commitment to continue to invest in Romania.

Petrom S.A. exploration expenditure amounted to RON 200 mn in 2009, of which RON 156 mn was expensed and RON 44 mn was capitalized. Additionally, RON 35 mn were expensed for wells that commenced drilling in 2008 and were evaluated as being unsuccessful.

Key projects in 2009

In 2009, project activities were substantially influenced by the global financial downturn and weakening environment, nevertheless substantial progress was achieved. The Well Modernization Program that was completed in 2008 with over 5,000 wells modernized in 27 months, was honored as the winner of the International Excellence Award for large projects by the International Project Management Association in June 2009. The prize represents an international recognition of the project, in addition to the Excellence Award for the best project in Romania, awarded in 2008 by the same association. More than 600 Petrom employees and 3,000 contractor employees spent 11.6 mn man-hours making the program a success.

The Hurezani Project aims to secure the current and future gas delivery into the existing National Transportation System, to overcome decreasing reservoir pressures and the seasonal gas demand. The project comprises a new compressor station at Bulbuceni, a new 11 km downstream pipeline connection, 4 km of new upstream pipeline and the construction of a new gas metering station. The phase of front-end engineering and design has been completed and EPCC (engineering, procurement, construction and commissioning) contracts have been awarded for all sub projects. Construction works commenced in August 2009 and are progressing as scheduled.

The Midia C3+ (propane) gas processing plant located near Constanta went operational at the end of September 2009. This new plant processes the entire offshore gas production to sales gas quality, achieving a recovery efficiency of above 99% for C3+.

The Delta offshore development started in 2008 and achieved first oil in July 2009. The knowledge gained from Delta 6 was successfully applied to the new well Lebăda Vest 4, which was brought on stream at the end of August 2009.

The upgrade of the existing Madulari gas treatment facilities for the Mamu gas field was completed but the key wells 4335 and 4338 drilled at Mamu faced problems arising from geological uncertainty. Technical reviews are currently being conducted that will determine the reparation program to be pursued in 2010. In 2009, the drilling of 115 development,
exploration and appraisal wells was completed. The new introduced technologies, e.g. utilization of synthetic based mud, enabled us to drill difficult wells like Delta 6 and Lebada Vest 4.

**International E&P operations**

In **Kazakhstan**, Petrom holds exploration and production licenses for the fields Tasbulat, Aktas, Turkmenoi (TOC fields), Komsomolskoe and Kultuk.

Petrom’s activities in Kazakhstan are run through three companies, Tasbulat Oil Corporation LLP (100% owned by Petrom), Kom Munai LLP (95% owned by Petrom), and Korned LLP (100% owned by Petrom). In 2009, Kazakhstan oil and gas production further increased to 6,300 boe/d (up 10% compared to 2008). This production increase was driven by the production start-up of the Komsomolskoe oil field, which more than compensated the natural decline of the TOC fields.

The development of the **Komsomolskoe field** comprised drilling and completion of horizontal and vertical wells, construction of gathering stations, central processing facilities, pipeline, oil receiving facilities, as well as the required roads and infrastructure were commissioned in 2009; production started in June and oil sales in August.

On 31 December 2009, Petrom successfully completed the **acquisition of Korned LLP, which owns the Kultuk oilfield**, located 34 km North West of the Komsomolskoe field.

In the **TOC fields** (Tasbulat, Turkmenoi, Aktas) the additional ten wells drilled that will be tied up in to the facilities should contribute to further production increase in 2010.

In **Russia**, Petrom operates through its 74.9% majority-owned Ring Oil Holding & Trading Ltd. Together with the minority shareholder, Petrom is exploring eight blocks in the Saratov Region and two in the Komi area.

In August 2009, the first **exploration success** in Russia was reported in well **Lugovaya-1**. The well is located in the Kamenski license in the Saratov Region.

The **Lugovaya-1** well was drilled at a depth of 3,882 m. The tests showed a flow rate of over 2,500 bbl/d light sweet oil in one zone; two gas-bearing formations produced combined 4,000 boe/d of sweet gas and condensate. Additional seismic activity was carried out in the Komi Region.

**Exploration and Production Services (EPS)**

**Integration and achievements of E&P Services**

The Vision of EPS is to provide state-of-the-art services to Petrom E&P. In order to accomplish this vision, the turnaround program was continued, mainly targeting increased efficiency, cost reduction and service portfolio optimization. The success of the integration of EPS into Petrom in 2008 was confirmed by several important achievements in 2009. First and foremost, it was a key driver of the significant production cost reduction in 2009 and the Petromservice acquisition target to achieve an additional reduction of production costs by 1.5 USD/ boe is on track to be delivered.

Starting with January 2009, EPS has rolled out a project to increase efficiency in all field clusters and at all levels. Significant operational improvements have been achieved: improved work planning in full alignment with E&P.
more efficient use of EPS resources, e.g. well intervention, maintenance crews and the logistics fleet. In parallel with the efficiency increase project, the restructuring process started and was finalized successfully without any business interruption. Starting with April 1, EPS also implemented a streamlined organizational structure by removing management layers and utilizing administrative synergies at field cluster level. All these efforts, together with strong financial management, have led to significant cost reductions (EPS costs 2009, without depreciation, are 21% lower than in 2008) thus more than fulfilling the business case assumptions.

Operational highlights
The successful implementation of the EPS turnaround program supported the achievement of E&P’s strategic objectives: the stabilization of the oil and gas production volumes and the reduction of service costs. The following improvements were achieved in 2009 at operational level:

► In Logistics, the fleet optimization process led to a reduction of the total number of vehicles by 30% and an increased utilization rate. An improved vehicle management system led to a reduction in the use of third party vehicles by 77%. Selective investments guaranteed fleet availability and quality of service.

► In Maintenance, the implementation of modern technologies and procedures was continued, with a focus on predictive maintenance (thermography, vibration monitoring, lubrication, etc.). Technical training (‘Teacher Program’) together with international assistance contributed to improving the employees’ skills. Two projects (‘Re-engineering’ and ‘Material Data Enrichment’) were launched to increase the quality of spare parts and will be finalized in the first half of 2010. These measures helped to increase ‘Mean Time between Failures’ (MTBF) and thus the availability of E&P production equipment.

► In Workover, a Performance Management Program was rolled out at headquarters and field cluster level; monthly reports and meetings, monitoring 42 performance indicators and more than 300 technical audits ensured the successful implementation of the project. Following the cessation of drilling activities in the second half of 2009, the Heavy Workover and Off-shore Workover departments were set up. The installation of weight and fuel indicators on 110 rigs contributed to optimizing of the intervention work of the crews. ‘Enterprise’ application (a software and system rollout for gathering and interpretation of work over/well intervention data) was finalized and live testing started in the last quarter of 2009.

Outlook for 2010
In order to cope with the financial downturn and the volatility of the international oil price, Petrom E&P will continue to apply strict cost management measures. In 2010, the investment program will focus on optimization of the gas delivery at Hurezani, the drilling of development and production wells, well workovers, production facilities and infrastructure.

Our efforts to minimize the natural decline of production will focus on reservoir management initiatives, infill drilling and maintaining the workovers program at around the same number of operations as in 2009. Exploration activity is expected to increase in 2010 compared with 2009. The drilling program includes drilling of 11 exploration and appraisal wells, with a focus on larger, high impact prospects located in deeper, more frontier areas. In 2010, one of the most ambitious onshore 3D seismic surveys will be started in Moreni area, the first step of a bigger 3D project covering old fields in production since the late 19th to early 20th centuries. The survey aims to improve the knowledge of the geological models in the actual production fields but also to explore for deeper horizons or neighboring complex structures. The 3D seismic data acquired in the offshore Neptun area explored in joint venture with ExxonMobil will be processed and evaluated in 2010.
identify potential commercial prospects. Our efforts to improve the efficiency of the drilling activity will be enhanced by reducing the drilling cost per meter drilled and the number of drilled days per 1,000 m and by generalizing the utilization of synthetic-based mud. For projects, the focus shall be on completion of the gas de-bottlenecking project in Hurezani, the identification, planning and execution of field redevelopment projects and organizational streamlining. Through continuous revisions of mature fields and implementation of modern reservoir management techniques at field level, our efforts to develop near field opportunities for transforming probable reserves in the proved category will continue.

In Kazakhstan, the Komsomolskoe oil field is expected to reach its full production rate of 10,000 boe/d over the course of 2010. Appraisal of the recently acquired Kultuk oilfield will commence with 3D seismic acquisition. In the TOC fields (Tasbulat, Turkmenoi, Aktas), the performance evaluation of the ten new wells is planned before deciding on the way forward. The upgrade of production facilities and maturing additional reserves into 1P category will continue.

In Russia, selective exploration activities will be undertaken to mature additional prospects.

In E&P Services, the 2 pillars of the turnaround program (efficiency increase-cost reduction and service portfolio optimization) will be continued in 2010. Focused investments will be made to continue modernization of EPS equipment, facilities, tools and working conditions for staff. The implementation of industry best practices will continue together with training and development of staff. This will help to increase service quality and thus to improve availability of E&P production equipment. The implementation of OMV HSE standards will also continue. The implemented reporting and managing tools (fleet management for logistics and weight indicators in combination with ‘Enterprise’ system for rigs) will help to improve the utilization of internal resources. Further service portfolio optimization will ensure the focus on core business to leverage internal and external market opportunities but also to enhance key competencies for Petrom. These measures together with a further optimization of the EPS organization and adaptation to the changed level of service demand will help E&P to achieve its production and cost targets.

### Production in 2009

<table>
<thead>
<tr>
<th></th>
<th>Oil and NGL</th>
<th>Natural gas</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>mn t</td>
<td>mn bbl</td>
<td>mn Smc</td>
</tr>
<tr>
<td>Romania</td>
<td>4.39</td>
<td>31.54</td>
<td>5,268.39</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>0.26</td>
<td>1.95</td>
<td>60.64</td>
</tr>
<tr>
<td>Petrom Group</td>
<td>4.65</td>
<td>33.49</td>
<td>5,329.03</td>
</tr>
</tbody>
</table>