

Supervisory Board Report on Consolidated Financial Statements of Petrom Group prepared in accordance with International Financial Reporting Standards ("IFRS")

In 2013, the Supervisory Board thoroughly reviewed the position and prospects of Petrom Group ("the Group"), and performed its functions according to the relevant laws, the Articles of Association, the applicable Corporate Governance Code and the relevant internal regulations. We supervised the Executive Board on the management of OMV Petrom S.A. and its subsidiaries, monitored its work and we were involved in the Group's key decisions. Where required by law, the Articles of Association, or internal regulations, the Supervisory Board adopted resolutions following a comprehensive analysis.

The Supervisory Board received detailed information, both verbally and in writing, on issues of fundamental importance for the Group, including its financial position, business strategy, planned investments and risk management. We discussed all transactions significant for OMV Petrom S.A. and its subsidiaries in the plenary meetings, based on the reports of the Executive Board.

The consolidated financial statements and audit report were presented for Supervisory Board examination in a timely manner. Ernst & Young audited the 2013 consolidated financial statements, reviewed the conformity of the Directors' Report with the consolidated financial statements and issued unqualified audit opinions. The auditors attended the relevant meeting of the Audit Committee convened to adopt the accounts. The Audit Committee discussed the consolidated financial statements with the auditors and examined them carefully. The Audit Committee reported to the Supervisory Board on its examination and recommended the approval of the annual consolidated financial statements, including the management report.

We have also reviewed and analyzed attached report of the Executive Board ("Directors' Report") presented as Appendix 1 which gives a true and fair view of the development and performance of the business and the financial position of the Group, together with a description of the principal risks and associated uncertainties as of December 31, 2013.

Hence, the consolidated financial statements of Petrom Group prepared in accordance with IFRS were approved in today's Supervisory Board meeting in line with the Audit Committee's recommendation and will further be submitted for approval in the General Meeting of Shareholders to be held on April 29, 2014.

Bucharest, March 25, 2014

Gerhard Roiss

President of the Supervisory Board



Appendix 1

Directors' Report on Consolidated Financial Statements of Petrom Group prepared in accordance with International Financial Reporting Standards ("IFRS")

Petrom Group financials ¹ (RON mn)	2012	2013	Δ(%)
Sales revenues	26,258	24,185	(8)
Earnings before interest and taxes (EBIT)	5,662	5,958	5
Net income	3,946	4,824	22
Net income attributable to stockholders	3,953	4,821	22
Cash flow from operations	7,185	8,048	12
Capital expenditures	4,930	5,303	8
Employees at the end of period	21,650	19,619	(9)

In 2013, Petrom generated a strong operating result (EBIT) of RON 5,958 mn, 5% above previous year's level, mainly due to higher contribution from refining and strict overall cost management, partially offset by lower spark spreads. Net special charges totaled RON (33) mn, mainly related to non-core asset impairments. The net financial result reached RON (259) mn, compared to RON (836) mn registered in 2012, the latter reflecting special charges for alleged late payment interest following the receipt of the preliminary result of the fiscal review for the years 2009 and 2010. The negative effects of receivables discounting as well as FX exposure related to EUR-denominated bank loans also affected the financial result in 2012.

The Group's effective corporate tax rate was 15% (2012: 18%) while net income attributable to stockholders advanced 22% versus the previous year. The return on average capital employed² (ROACE) significantly increased to 19% (2012: 16.5%) and the gearing ratio further improved to 1% from 7% in 2012, due to very good cash flow from operations.

In 2013, we remained the largest investor in the energy sector in Romania with capital expenditures of RON 5,303 mn, 8% higher than in 2012, mostly dedicated to our E&P projects.

In **Exploration & Production (E&P)**, for the first time since privatization, we successfully achieved a slight increase in hydrocarbon production in 2013 in Romania, while at Group level, production was broadly stable. The natural decline of our mature hydrocarbon fields was counterbalanced by the good results of optimization initiatives including workover activities and drilling of new wells. Production in Kazakhstan dropped as an effect of technical constraints in the Komsomolskoe and TOC fields, which occurred mainly in the second half of the year.

In exploration, we have operated and finalized the largest 3D seismic campaign in the Romanian sector of the Black Sea, which included 6,000 km² in Neptun deep block, explored in joint venture with ExxonMobil Exploration and Production Romania Limited, and 1,600 km² in the shallow water of the block which is fully operated by Petrom. Our focus on exploring the potential of the block and its neighboring areas in Romania were reflected in high exploration expenditures of RON 453 mn. Further steps were made to secure additional exploration licenses in the Black Sea deep water areas adjacent to the Neptun block, in the Romanian sector (Midia block) and Ukrainian sector (Skifsa block).

¹ **Note:** In this report, "the Company", "Petrom", "Petrom Group" and "the Group" are sometimes used for convenience where references are made to OMV Petrom S.A. and its subsidiaries in general. The financials presented in the report are audited and represent Petrom Group's consolidated results prepared according to IFRS; all the figures refer to Petrom Group unless otherwise stated. Figures may not add up due to rounding differences.

Market share in Marketing includes retail and commercial sales and excludes sales to oil companies.

² Return On Average Capital Employed = NOPAT / Average Capital Employed (%); NOPAT = Net Operating Profit After Tax. Profit on ordinary activities after taxes plus net interest on net borrowings, +/- result from discontinued operations, +/- tax effect of adjustments.

Onshore, we pursued the appraisal drilling of the Totea Deep development, which is the most important onshore gas discovery in Romania in the last years. In the middle of 2013, a workover job has been done as well as an upgrade of the permanent facilities, which led to incremental production. The production of Totea Deep Development has averaged 5 kboe/day in 2013.

Farm-out of the deep part of the onshore Peri-Carpathian licenses to Repsol has been concluded and Petrom together with Repsol are jointly evaluating the seismic data to determine exploration drilling opportunities and program.

In **Gas & Power (G&P)**, Petrom's gas sales volumes reached 4.9 bcm, supplying more than one-third of Romania's estimated gas consumption in 2013. In line with our strategy to optimize downstream operations, we exited the gas distribution to end consumers by divesting Petrom Distributie Gaze S.R.L. in 2013. The power business generated a total net electrical output of 2.9 TWh (accounting for 5% of the national electricity production), mostly from the Brazi power plant, which had its first full year of commercial operation in 2013.

In **Refining & Marketing (R&M)**, 2013 was the third year after privatization with a positive Clean CCS EBIT result, significantly higher than the 2012 level, the latter reflecting the effect of the six-week planned shutdown of the refinery in 2012 and challenging market conditions. The indicator refining margin deteriorated mainly due to lower gasoline and middle distillates cracks which were only partially offset by lower technological consumption. We continued the modernization program of the Petrobrazi refinery, and upgraded the Coker unit, put in function the new gas desulfurization with sulfur recovery unit and advanced with upgrades to the Fluid Catalytic Cracking and Diesel Hydrotreater units.

The utilization rate for Petrobrazi refinery stood at 90%, a record high level since privatization. Last year, we also finalized the reconstruction of Bacau fuel terminal which will be put into operation in Q1 2014.

In Marketing, total sales volumes decreased by 6% compared with 2012, broadly in line with the market demand in our operating region which experienced a weak economic environment. The Group market share stood at 26%, in line with the previous year.

Earnings before interest and taxes (EBIT)

EBIT (RON mn)	2012	2013	Δ %
Exploration and Production ¹	5,467	5,529	1
Gas and Power	360	112	(69)
Refining and Marketing	138	386	180
Corporate and Other	(117)	(97)	(17)
Consolidation: elimination of intercompany profits	(185)	29	n.m.
Petrom Group reported EBIT	5,662	5,958	5

¹ Excluding intersegmental profit elimination shown in the line "Consolidation"

In **E&P, EBIT** increased by 1% compared to 2012, to RON 5,529 mn, due to lower special charges. The 2012 result included special items totaling RON (287) mn, mostly related to a legal case in Kazakhstan for uncollected receivables.

Total Group hydrocarbon production in 2013 was broadly stable compared to 2012 to 182.6 kboe/day or 66.6 mn boe. **Total oil, gas and NGL production in Romania** totaled 62.5 mn boe, 0.26% higher compared to the previous year. Domestic crude oil production was 28.6 mn bbl, stable versus 2012, as the projects and workover programs compensated the effects of natural decline. Domestic gas production reached 33.9 mn boe, 1% higher compared to 2012. **Oil and gas production in Kazakhstan** decreased by 9% to 4.1 mn boe, as an effect of technical constraints. **Group sales volumes** were similar to the 2012 level.

In **G&P, EBIT** decreased by 69% compared to 2012, to RON 112 mn, largely due to a lower **gas** business contribution, as the upside from gas price liberalization is reflected in E&P starting February 2013. The **power** business contribution also declined compared to 2012, due to decreasing demand and stronger competition, especially from renewables, which led to a contraction of more than 28% in electricity market prices. The 2013 reported result was impacted by special charges of RON (55) mn, mainly reflecting the RON (42) mn non-core assets impairment in Q1 2013 and the RON (13) mn special charge for decontamination activities related to the historical asset base in Q4 2013.

In **R&M**, **EBIT** significantly improved to RON 386 mn compared to RON 138 mn in 2012, mainly helped by a strong marketing performance. The **indicator refining margin** decreased to USD (2.83)/bbl, from USD (1.39)/bbl in 2012 reflecting lower margins for the main products. The Petrobrazil refinery **utilization rate** increased to 90%, as compared to 73% in 2012, as the latter was impacted by the planned shutdown in Q2 2012.

EBIT in the **Corporate and Other** (Co&O) segment amounting to RON (97) mn, improved by 17% in 2013 compared with RON (117) mn in 2012.

Notes to the income statement

Summarized income statement (RON mn)	2012	2013	Δ %
Sales revenues	26,258	24,185	(8)
Direct selling expenses	(696)	(646)	(7)
Cost of sales	(17,306)	(15,485)	(11)
Other operating income	187	298	60
Selling and administrative expenses	(1,415)	(1,284)	(9)
Exploration expenses	(328)	(423)	29
Other operating expenses	(1,038)	(687)	(34)
Earnings before interest and taxes (EBIT)	5,662	5,958	5
Net financial result	(836)	(259)	(69)
Taxes on income	(880)	(875)	(1)
Net income	3,946	4,824	22
Less net income / (loss) attributable to non-controlling interests	(7)	3	n.m.
Net income attributable to stockholders of the parent	3,953	4,821	22

Petrom is an integrated oil and gas company. As oil produced by the E&P segment is mainly processed at the Petrobrazil refinery, the R&M business segment represents the largest share of the Group's consolidated sales.

Compared to 2012, **consolidated sales revenues** decreased by 8% to RON 24,185 mn mainly due to lower crude and petroleum products sales that more than offset higher sales of electricity in 2013. After the elimination of intra-group transactions of RON 12,113 mn, the contribution of the **E&P** segment to consolidated sales revenues was RON 1,108 mn or about 5% of the Group's total sales revenues (2012: RON 920 mn). After elimination of intra-group sales, the **G&P** segment's contribution was RON 3,880 mn or approximately 16% of total sales (2012: RON 3,696 mn). Sales to external customers in the **R&M** segment amounted to RON 19,128 mn or 79% of total consolidated sales (2012: RON 21,587 mn).

Sales to external customers are split by geographical areas on the basis of where the risks and benefits are transferred to the customer. Romania represents the Group's most important **geographical market** with sales of RON 18,964 mn or 79% of the Group's total sales (2012: RON 20,534 mn). Sales in the rest of Central and Eastern Europe were RON 4,222 mn or 17% of Group sales (2012: RON 4,485 mn) and sales revenues in the rest of the world (Kazakhstan) decreased to RON 1,000 mn, representing 4% of total sales revenues (2012: RON 1,239 mn).

Direct selling expenses followed the same decreasing trend as sales revenues, with a 7% reduction from RON 696 mn in 2012, to RON 646 mn in 2013. **Cost of sales**, which include variable and fixed production costs, as well as costs of goods and materials employed, decreased by 11% to RON 15,485 mn. This was mainly due to decreased cost of sales for traded goods being higher in 2012 due to the impact of the Petrobrazil refinery shutdown, partially offset by higher impairments and new taxes in 2013. A 60% increase in **Other operating income** relates mainly to damages received in relation with termination of land sales agreements and revenues from insurance indemnities within Power business.

Selling and administrative expenses of RON 1,284 mn decreased by 9% compared to last year mainly in connection with the sale of the Petrom LPG subsidiary at the beginning of 2013 and to optimization of retail filling station network.

Exploration expenses increased by 29% to RON 423 mn, mostly due to relinquishment of some exploration blocks and higher provisions for unsuccessful exploration wells.

Other operating expenses decreased by 34% compared to the 2012 value of RON 1,038 mn, the latter being impacted by higher expenses related to uncollected receivables and higher restructuring provisions.

The net financial result shows a loss of RON 259 mn and has improved in comparison with the previous year (2012: loss of RON 836 mn), when it was negatively influenced by special charges of RON 209 mn for alleged late payment interest following the receipt of the preliminary results of the fiscal review for the years 2009 and 2010 concluded in Petrom in 2012 and by discounting effect of receivables.

Taxes on income amounting to RON 875 mn in 2013 were slightly lower compared to 2012, being positively impacted by deferred tax asset in the Kazakh subsidiaries. Consequently, the effective tax rate decreased to 15% (2012: 18% as during the last year it was burdened by the expense for the fiscal review).

Capital expenditure

Capital expenditure (RON mn)	2012	2013	Δ (%)
Exploration and Production	3,753	4,401	17
Gas and Power	221	18	(92)
Refining and Marketing	899	827	(8)
Corporate and Others	57	57	0
Total capital expenditure	4,930	5,303	8
+/- Other adjustments ¹	145	105	(28)
Additions according to statement of non-current assets (intangible and tangible assets)	5,075	5,408	7
+/- Non-cash changes ²	55	(413)	(851)
Cash outflow due to investments in intangible and tangible assets	5,130	4,995	(3)
+ Cash outflow due to investments in securities, loans and other financial assets	-	0	-
Investments as shown in the cash flow statement	5,130	4,995	(3)

¹ Capital expenditure is adjusted for capitalized decommissioning costs, exploration wells that have not found proved reserves, borrowing costs and other additions which by definition are not considered as capital expenditures

² Additions are adjusted for items that did not affect cash flows during the period (including acquisitions through financial leasing, reassessment of decommissioning provisions and changes of payables arising from investments)

Capital expenditure increased to RON 5,303 mn (2012: RON 4,930 mn), due to higher investments in E&P, partly offset by lower CAPEX in G&P and R&M.

Investments in **E&P**, at RON 4,401 mn (2012: RON 3,753 mn), represented 83% of the total figure for 2013 and were predominantly spent on drilling development wells, integrated field redevelopment initiatives, workover activities and sub-surface operations, surface facilities, as well as for investments related to the Totea Deep project. Investments in **G&P** at the amount of RON 18 mn were significantly below 2012 (RON 221 mn), as the Brazi power plant started commercial operations in August 2012. Capital expenditure in the **R&M** segment of RON 827 mn (2012: RON 899 mn) accounted for 16% of 2013 Group total investments. In Refining, investments were mainly related to the Petrobrazi modernization program (including modernization of the Gas Desulfurization with Sulfur Recovery unit and of the Vacuum Gas Oil conversion). In addition, investment funds were also directed to efficiency projects, as well as to legal and environmental compliance projects. Corporate & Other (**Co&O**) segment investments stood at RON 57 mn, mainly referring to investments directed to IT projects.

Balance sheet

Summarized balance sheet (RON mn)	2012	%	2013	%
Assets				
Non-current assets	32,777	86	34,560	86
Intangible assets and property, plant and equipment	29,479	77	31,474	79
Investments in associated companies	39	0	43	0
Other non-current assets	2,393	6	2,166	5
Deferred tax assets	866	2	877	2
Current assets	5,368	14	5,487	14
Inventories	2,251	6	1,996	5
Trade receivables	1,968	5	1,429	4
Other current assets	1,149	3	2,062	5
Equity and liabilities				
Equity	23,405	61	26,642	67
Non-current liabilities	8,646	23	8,238	21
Pensions and similar obligations	241	1	304	1
Interest-bearing debts	1,717	5	1,254	3
Decommissioning and restoration obligations	5,866	15	5,778	14
Provisions and other liabilities	813	2	891	2
Deferred tax liabilities	8	0	11	0
Current liabilities	6,094	16	5,167	13
Trade payables	2,880	8	2,958	7
Interest-bearing debts	525	1	189	0
Provisions and other liabilities	2,689	7	2,020	5
Total assets/ equity and liabilities	38,145	100	40,047	100

Total assets increased slightly by RON 1,902 mn to RON 40,047 mn. The increase in **intangible assets and property, plant and equipment** by RON 1,995 mn is the main driver of the net increase of non-current assets by RON 1,783 mn up to RON 34,560 mn. Additions to intangible assets and property, plant and equipment (RON 5,408 mn) exceeded the total of depreciation, amortization and impairments, as well as disposals by RON 1,995 mn. The ratio of intangible assets and property, plant and equipment to total assets amounted to 79% (2012: 77%).

The upward development in **current assets**, of RON 119 mn, is triggered by the RON 913 mn increase in other assets, partially offset by the reduction in inventories and trade receivables by RON 739 mn. The increase in **other current assets** was mainly due to a positive evolution of cash and cash equivalents following higher free cash flows, compensated by higher bank loans reimbursements. The decrease in **trade receivables** was influenced by lower commercial sales in the R&M segment and lower gas sales due to milder winter compared to the previous year.

The increase in **equity** by RON 3,237 mn resulting from higher net profit of the year improved the equity ratio to 67% (2012: 61%).

The decrease in **interest-bearing debts** (both, **long term and short term**) by RON 799 mn is mainly related to reimbursements of loans from the European Bank for Reconstruction and Development of RON 675 mn, the European Investment Bank of RON 84 mn and the Black Sea Trade and Development Bank of RON 66 mn.

Trade payables increased slightly by RON 78 mn mainly related to intensive investment activities. **Provisions and other liabilities** (current portion) show a decrease of RON 669 mn in 2013 mainly due to the payments made in Q1 2013 related to the fiscal review for the years 2009 and 2010 concluded in Petrom in 2012; but also due to reduction in provisions and decreases of liabilities associated with assets held for sale after finalization of the sale of the Petrom LPG subsidiary.

Gearing ratio

Petrom Group's **net debt**³ shows a significant decrease to RON 332 mn, compared to RON 1,711 mn at the end of 2012, as the cash flows generated by operations more than exceeded the cash outflows from investments and financing. Consequently, as of December 31, 2013, the **gearing ratio**⁴ further decreased to 1.2%, from 7.3% in December 2012.

Cash flow

The Group's cash flow statement is prepared using the indirect method.

Cash flow from operating activities increased by RON 863 mn or 12% compared to 2012, reaching RON 8,048 mn. The reconciliation of profit before taxation for the year to the cash flow from operating activities (before changes in working capital) resulted in a net upward adjustment of RON 2,426 mn for 2013 (2012: RON 2,352 mn). While depreciation, amortization and write-ups added RON 3,355 mn (2012: RON 2,852 mn), net movement in provisions (including decommissioning and restoration obligations and other provisions for risks and charges) contributed a decrease of RON 60 mn (2012: decrease of RON 227 mn) to the cash flow. The disposal of non-current assets and other non-cash adjustments led to an increase of RON 101 mn (2012: increase of RON 781 mn). Net interest and tax on profit paid generated a cash outflow of RON 969 mn (2012: cash outflow of RON 1,053 mn)⁵.

In 2013, net working capital generated a cash outflow of RON 77 mn (2012: cash inflow of RON 7 mn). From cash flow perspective, inventories decreased by RON 146 mn (2012: increase by RON 25 mn), receivables decreased by RON 340 mn (2012: increased by RON 162 mn) and liabilities decreased by RON 562 mn (2012: increased by RON 194 mn).

Cash outflows for investments in non-current assets of RON 4,995 mn (2012: RON 5,130 mn) were slightly offset by proceeds from the sale of non-current assets of RON 47 mn (2012: RON 64 mn) and cash inflows related to the sale of subsidiaries of RON 54 mn (2012: RON 10 mn). **Net cash outflow from investment activities** totaled RON 4,895 mn (2012: RON 5,055 mn).

Cash outflows from the reimbursements of short and long-term borrowings amounted to RON 837 mn (2012: outflow RON 478 mn). Cash outflows for dividend payments amounted to RON 1,574 mn in 2013 (2012: RON 1,741 mn). **Net cash outflow from financing activities** amounted to RON 2,412 mn (2012: outflow RON 2,220 mn).

Risk management

As per the Code of Corporate Governance, Petrom's Supervisory Board's role is to adopt strict rules and obtain assurance via its specialized Audit Committee that the company has an effective risk management system in force. Furthermore, Petrom's Executive Board is continuously executing oversight and steers the company's risk management system by close involvement in the risk management process and its development.

For assessing the risks associated with Petrom's entire portfolio of operations, the Executive Board has empowered a dedicated Risk & Insurance Management Department with the objective to lead and coordinate the company's risk management.

Furthermore, Petrom's risk management system is part of the corporate decision-making process. For any new major projects, new strategies or market directions, workshops are organized for assessing the risks associated with the benefits of the respective opportunity, while the risk information collected in the workshops as well as any relevant third party opinions are used for taking informed decisions.

In 2013, Petrom has developed together with the Institute of Risk Management UK an internal company-wide training program called "Petrom Risk Academy" which will unfold in 2014 and enhance the risk management competences within top and middle management. Through its risk management process, Petrom secures its liquidity and long-term sustainability, and decreases the uncertainty over its strategic objectives and financial targets.

Petrom's Enterprise Wide Risk Management (EWRM) system is recognized via various benchmarks of external consultants as part of best practice at international level. The EWRM system actively and formally pursues the identification, analysis, evaluation and treatment of all risks (market and financial, operational and strategic) in order to manage their effects on the company's cash flow up to an acceptable level agreed as per the risk appetite.

³ Net debt is calculated as interest bearing debts and financial lease liabilities less cash and cash equivalents

⁴ Gearing ratio is calculated as net debt/(equity) x 100

⁵ Starting 2013, net interest received/(paid) and tax on profit paid were reclassified as sources of funds items. December 31, 2012 figures were reclassified accordingly.

The EWRM system follows ISO31000 and comprises a dedicated risk organization working under a robust internal regulation framework with quantitative information technology infrastructure as well as assuring that the process is embedded into the day-to-day operational business and delivers against its intended purpose.

Petrom has four levels of risk management roles in a pyramid-type risk organization. The first bottom layer comprises the risk owners represented in all areas of activity by managers of various areas, the second level are the business units and divisional risk coordinators who facilitate and coordinate the risk management process in their division, the third layer is the risk manager function represented by the Risk Management department who coordinates the entire risk management process assisted by the specialized corporate functions (HSSE, Compliance, Legal, Finance, Controlling). The top level role is represented by Petrom's Executive Board which steers and approves Petrom's consolidated risk profile in accordance with the company's objectives and risk appetite. The risk management system and its effectiveness are monitored by the Audit Committee of the Supervisory Board via regular reports.

The objective of Petrom's risk management system is to secure its capacity to deliver positive economic value added for a medium-term time horizon by managing the company's risks and their potential cash flow impact within the limits of the risk appetite. High potential single event risks as well as Long Term Strategic risks are also identified and managed consistently.

The risk categories currently used within Petrom's EWRM system are organized within the market and financial, operational and strategic categories, containing, among others, also market, financial, project, process, health, safety and security, tax, compliance, personnel, legal, regulatory and reputational risks.

In terms of tools and techniques, Petrom follows the best international practices in risk management and uses stochastic quantitative models to measure the potential loss associated with the company's risk portfolio under a 95% confidence level and a three-year horizon. All risks are analyzed based on their causes, consequences, historical trends, volatilities and cash flow potential impact.

Petrom's key financial and non-financial exposures are commodity market price risk, foreign exchange risk and single event hazard operational risks.

As regards **market price risk**, Petrom is naturally exposed to the price driven volatility of cash flows generated by production, refining and marketing activities associated with crude oil, oil products, gas and electricity. Market risk has core strategic importance within Petrom's risk profile and liquidity. The market price risks of Petrom commodities are closely analyzed, quantified and evaluated. Petrom may use hedging instruments to mitigate its exposure to commodity market price risks in order to secure minimum expected cash needs.

Petrom does not enter into or trade financial instruments, including derivative financial instruments for speculative purposes. Derivative financial instruments are used solely for the purposes of managing exposure to commodity price and currency, which are being evaluated, considering Petrom's needs and being approved by Petrom's Executive Board in consistency with the company's risk appetite.

In 2013, the internal commodity risk analysis resulted in no need for hedging the risk of the oil price, hence no financial instruments were used for crude oil hedging during 2013.

In terms of **foreign exchange risk management**, Petrom cash is essentially exposed to the volatility of RON against USD and also to EUR. The effect of foreign exchange risk on cash flows, as well as the correlation with the oil price, are regularly monitored.

From an **operational risk** perspective, Petrom is an integrated company with a wide asset base, most of these assets being hydrocarbon production and processing plants. A special focus is awarded to process safety risks where Petrom's policy is "prevent incidents, ensure safe operations". The high potential single-event risks associated with the operational activity (e.g. blow outs, explosions, earthquakes etc.) are consistently identified and for each of them incident scenarios are developed and assessed. Where required, treatment plans are developed for each specific location. Besides emergency, crisis and disaster recovery plans, Petrom's policy with regard to insurable risks is to cover them via insurance instruments. These risks are closely analyzed, quantified and monitored by the risk organization and are managed via detailed internal procedures.

Counterparty credit risk management refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to Petrom. Group's counterparty credit risks are assessed, monitored and managed at company level using predetermined limits for specific countries, banks, business partners and suppliers. On the basis of creditworthiness and available rating information, all counterparties are assigned maximum permitted exposures in terms of credit limits (amounts and maturities), and the creditworthiness assessments and granted limits are reviewed on a regular basis.

For the purpose of assessing **liquidity risk** in the short term, the budgeted operating and financial cash inflows and outflows throughout Petrom are monitored and analyzed on a monthly basis in order to establish the expected net change in liquidity. This analysis provides the basis for financing decisions and capital commitments. For mid-term risks, to ensure that Petrom remains solvent at all times and retains the necessary financial flexibility, liquidity reserves in form of committed credit lines are maintained.

Petrom is inherently exposed to **interest rate risk** due to its financing activities. The volatility of EURIBOR may trigger less or additional cash flow resources necessary to finance the interest payments associated with Petrom's debt. The interest rate risks are closely analyzed, quantified and monitored.

In 2013, the internal risk analysis resulted in no need for hedging the interest rate risk, hence no financial instruments were used for interest rate hedging in 2013.

Petrom's consolidated risk profile is regularly reported in comparison with the company's risk appetite for the Executive Board's approval and for the Audit Committee's information. In 2013, in March and October, the consolidated risk profile was reported and approved by Petrom's Executive Board in accordance with the company's risk appetite and was also presented for information to the Audit Committee which took notice of the information.

Internal control

The Group has implemented an internal control system, which includes activities implemented in order to prevent or detect undesirable events and risks such as fraud, errors, damages, non-compliance, unauthorized transactions and misstatements in financial reporting.

Petrom's internal control system covers all areas of group operations with the following goals:

- Compliance with laws and internal regulations
- Reliability of financial reporting (accuracy, completeness and correct disclosure)
- Prevention and detection of fraud and error
- Effective and efficient business operations

OMV Petrom's internal control system framework consists of the following elements:

Element	Description
Internal control environment	The existence of a control environment forms the basis for an effective internal control system. It consists of the definition and adherence to group-wide values and principles (e.g. business ethics) and of organizational measures (e.g. clear assignment of responsibility and authority, commitment to competence, signature rules and segregation of duties).
Assessment of process and compliance risks	Generally all business, management and support processes are within the scope of the internal control system. They are assessed to identify risky and critical activities.
Risk mitigation via control activities	Control activities and measures (such as segregation of duties, checks, approvals, IT access rights) are defined, implemented and performed to mitigate significant process and compliance risks.
Documentation and information	Related duties include the documentation of main processes and procedures containing a description of key control activities performed.
Monitoring and audit	Management and Internal Audit evaluate the effective implementation of the internal control system.

For Petrom, an important prerequisite to form a comprehensive set of standards is to establish and maintain a rigorous Business Management System (BMS) designed to match the integrated set of processes and tools used by the company in developing its strategy, and translated into proper actions and in monitoring and improving effectiveness of both.

The Corporate Affairs and Compliance Department is responsible for BMS coordination. This department provides support to the various Petrom entities in view of achieving regulatory requirements, coordinates the elaboration of corporate regulations and provides a quality check. The Directive "Regulation Management" sets out the classification, definition and standardized structure of corporate regulations (directives, standards, procedures, instructions, recommendations etc.) as well as their elaboration, approval, communication, monitoring and reporting process.

Internal Audit assesses the effectiveness and efficiency of the organization's policies, procedures and systems which are in place to ensure: proper identification and management of risks, reliability and integrity of information, compliance with laws and regulations, safeguarding of assets, economical and efficient use of resources and accomplishment of established objectives and goals.

Internal Audit carries out regular audits of individual group companies and informs the Audit Committee about the results of the audits performed.

The Group has an Accounting Manual that is applied consistently in all group companies in order to ensure uniform accounting treatment is applied for the same business cases. The Group Accounting Manual is updated regularly with changes in International Financial Reporting Standards. Furthermore, the organization of the accounting and financial reporting departments is set up in order to achieve a high quality financial reporting process. Roles and responsibilities are specifically defined and a revision process – the "four-eyes' principle" – is applied in order to ensure correctness and accuracy of the financial reporting process. The establishment of group-wide standards for the preparation of annual and interim financial statements by means of the Group Accounting Manual is also regulated by an internal Corporate Guideline.

Subsequent events

Please refer to Note 35 in the Consolidated Financial Statements.

Outlook and Management Agenda for 2014

The consolidation of economic recovery requires fiscal and political stability

According to the European Commission, Romania's economy is forecast to grow by 2.3% in 2014 driven primarily by domestic demand, supported by a pick-up in the pace of both consumption and investment. External environment is expected to have an impact on the demand for domestic exports as well as on sovereign borrowing costs. However, the timing and the direction of domestic economic policies will determine the strength of the consolidation of economic growth.

Markets development

We expect the average Brent oil price to remain above USD 100/bbl and the Brent-Urals spread to stay relatively tight.

In the local **gas** market, demand is expected to further decrease, which will lead to increased competition and margin pressure. The gas price liberalization calendars foresee four domestic gas price increases to occur this year for both households and non-households (first in January, already implemented). The Energy Law no. 123/2012 stipulates the option to postpone the gas price liberalization for non-households by one year.

In the **power** market, demand is anticipated to contract which reflects, in part, prospective energy efficiency measures. Prices are expected to remain under significant pressure due to decreasing demand and stronger competition, taking into account the impact of renewables and overcapacity. The intra-day market became functional in January 2014, while the over-the-counter (OTC) platform for electricity trading is planned to become operational in the first quarter of 2014.

Refining margins and **marketing** volumes are expected to be further challenged by high price levels for international crude and oil products, marginal economic recovery in our operating region and fiscal measures mainly in Romania.

Regulatory and fiscal environment

For 2014, we anticipate discussions with respect to the implementation of the gas deregulation calendars and the extraordinary taxation measures introduced at the beginning of 2013 with a view to be applied until the end of 2014, which will have an impact on our financial results. Moreover, this year we are prepared to continue our discussions with the Romanian authorities to achieve a long term, stable and investment-friendly taxation and regulatory framework.

Given the long-term cycle of investments in the oil and gas sector, the recent changes in the fiscal regime have a direct impact on the company's business. These affect both market supply and demand and impact the company's financials and the operating performance. The newly introduced tax of 1.5% applied to the gross value of special constructions, will have a direct negative impact on the operating costs in all segments (mostly in E&P) as well as on the business cases of some of our investment projects.

Sizeable investments

In order to support the company's sustainable development and growth potential, we continue our significant investment efforts while maintaining a sound financial position, with CAPEX plans for 2014 set at over EUR 1 bn.

In **E&P**, we will continue our focus on developing growth opportunities as well as on implementing the performance improvement initiatives throughout the organization. Our investment efforts will be directed towards projects that envisage production stabilization through field redevelopment, drilling and workovers, operational excellence initiatives as well as portfolio optimization through partnerships.

We aim to bring four field re-development projects into the implementation phase in order to sustain our efforts of increasing the ultimate oil and gas recovery. We plan to drill more than 140 wells, using advanced technologies like sidetracking, horizontal, casing and cluster drilling.

The workover activities in Petrom will be maintained at a high level of around 1,600 jobs and aim for an important contribution to production. Moreover, important new wells (e.g. 4545 Totea, 4340 Mamu) are expected to bring additional gas production.

In the Black Sea, in joint venture with ExxonMobil Exploration and Production Romania Limited, in the Neptun Deep we plan to resume the drilling campaign mid-2014 while in Midia block we will continue with seismic data interpretation.

Under the joint ventures with Repsol and Hunt Oil, we will further progress the onshore exploration drilling programs. Additional seismic interpretation works will focus on all the recent 3D seismic acquisition projects.

In Kazakhstan, we will further implement water injection schemes in the Komsomolskoe field and carry out TOC (Tasbulat, Aktas, Turkmenoi) field redevelopment plan to sustain production levels.

In **G&P**, we will mainly focus on further optimizing the gas value chain to address challenges in the market and regulatory environment.

In the gas market, our priorities will be set on maintaining a leading position in the gas market, whilst capturing synergies from bundling electricity sales with natural gas sales to the existing customer base. Further deterioration of spark spreads is expected, leading to a negative result of the power business in 2014, but we will try to mitigate this by consolidating the Brazi power plant's position in the balancing and ancillary services markets, capitalizing on plant flexibility. In addition, we will work on maximizing the operational performance of the Dorobantu wind park.

In **R&M**, we will continue our optimization and strict cost management activities, expecting another year with a challenging market environment. Moreover, we will continue energy efficiency improvements and target the reduction of CO₂ emissions.

In the Petrobrazi refinery, the planned modernization will continue and a 30-day planned shutdown and turnaround is scheduled starting at the end of May in order to upgrade the Diesel Hydrotreater and Fluid Catalytic Cracking conversion units. This will improve product yields (higher share of middle distillates) and energy efficiency.

The modernization program of revamping and optimizing the fuel terminals network will continue with the start of commercial operations in the revamped Bacau terminal by end of Q1 2014. The reconstruction of the Cluj terminal will also commence.

Corporate Governance Report

To remain competitive in a changing world, Petrom develops and updates its corporate governance practices, so that it can meet new demands and opportunities.

A transparent decision-making process, relying on clear and objective rules, enhances shareholders' confidence in the company. It also contributes to the protection of shareholders' rights, improving the overall performance of the company and providing better access to capital and risk mitigation.

The company has, therefore, always placed great importance on good corporate governance and has adhered to the principles laid down in the Corporate Governance Code issued by the Bucharest Stock Exchange.

In April 2007, a two-tier system of governance was implemented in the company. Since then, Petrom's governance has been run by an Executive Board, which manages the daily operations of the company, and a Supervisory Board elected by the shareholders to act as a monitoring body, supervising and controlling the Executive Board. The powers and duties of the above-mentioned bodies are described in the company's Articles of Association, available on our website (within the Corporate Governance section) and in the relevant internal regulations.

Commitment to good corporate governance

In accordance with best corporate governance practice, the company is managed in a climate of openness, based on honest discussions between the Executive Board and the Supervisory Board, as well as within each of these corporate bodies. Members of the aforementioned corporate bodies have a duty of care and loyalty towards the company. Hence, the Executive Board and the Supervisory Board pass their resolutions as required for the welfare of the company, primarily in consideration of the interests of shareholders and employees.

General Meeting of Shareholders

The General Meeting of Shareholders (GMS) shall be convened by the Executive Board whenever this is necessary, in accordance with the provisions of law. The date of the GMS may not be within less than 30 (thirty) days after publishing the convening notice in the Official Gazette of Romania, part IV. The convening notice shall be also published in one of the widely-distributed newspapers in Romania. In exceptional cases, when the company's interest requires it, the Supervisory Board may convene the GMS. The convening notice will be disseminated to the Bucharest Stock Exchange and the Financial Supervisory Authority (former National Securities Commission) in accordance with capital markets regulations. The convening notice will also be made available on the company's website, within the General Meeting of the Shareholders section, together with any explanatory document related to items included on the GMS agenda. The annual financial statements are made available starting with the date of the convening notice of the Ordinary GMS convened to resolve upon them.

General Meeting of the Shareholders organization

The GMS is usually chaired by the President of the Supervisory Board, who may designate another person to chair the assembly. The chairman of the GMS designates two or more technical secretaries to verify the fulfillment of the formalities required by law for carrying out the GMS and for drafting the minutes thereof.

The minutes, signed by the President and by the secretaries, shall ascertain the fulfilment of the formalities relating to the convening notice, the date and place of the GMS, the agenda, the shareholders present, the number of shares, a summary of the issues discussed, the resolutions passed and, upon the request of the shareholders, the statements made by such shareholders during the GMS.

The resolutions of the GMS shall be drafted pursuant to the minutes and shall be signed by the President of the Supervisory Board or by another person appointed by the President. In observance of capital market regulations, the resolutions of the GMS will be disseminated to the Bucharest Stock Exchange and the Financial Supervisory Authority (former National Securities Commission) within 24 hours after the event. The resolutions will also be made available on the company's website, within the General Meeting of the Shareholders section.

General Meeting of the Shareholders main duties

The main duties of the Ordinary GMS are the following:

- (a) to discuss, approve or modify the annual financial statements after having reviewed the reports of the Executive Board, of the Supervisory Board, of the financial auditor and of the internal auditors;
- (b) to distribute the profit and to establish the dividends;
- (c) to elect the members of the Supervisory Board and the financial auditor and to revoke the appointment of each of the foregoing; to approve the minimum term of the audit contract;

- (d) to establish the remuneration of the members of the Supervisory Board and of the financial auditor for the current fiscal year;
- (e) to assess the activity of the Executive Board members and of the Supervisory Board members, to evaluate their performance and to discharge them of their duties in accordance with the provisions of law;
- (f) to approve the income and expenditure budget, as well as the business program for the next fiscal year;
- (g) to approve the reports of the Supervisory Board with respect to the supervision activity performed by it.

The Extraordinary GMS is entitled to decide mainly upon:

- (a) changing the corporate form of the company;
- (b) altering the scope of business of the company;
- (c) increasing the share capital of the company;
- (d) reducing the share capital of the company;
- (e) merging with other companies;
- (f) spin-offs from the company;
- (g) an early dissolution of the company;
- (h) converting shares from one class into another;
- (i) any changes to the Articles of Association.

Supervisory Board

The Supervisory Board consists of nine members elected by the Ordinary GMS, in accordance with the provisions of company Law. The Supervisory Board's current mandate started in 2013 and runs until 2017. The members of the Supervisory Board may be shareholders of the company, but they cannot be members of the Executive Board.

Supervisory Board members

At the end of 2013, the membership of the Supervisory Board comprised the following individuals: Gerhard Roiss, David Charles Davies, Joseph Bernhard Mark Mobius, Manfred Leitner, Hans-Peter Floren, Riccardo Puliti, Lucian-Dan Vladescu, George Băeșu and Johann Pleininger (interim member of the Supervisory Board until the next Ordinary General Meeting of Shareholders).

Supervisory Board main powers

The Supervisory Board has the following main powers:

- (a) to exercise control over the management of the company by the Executive Board;
- (b) to determine the structure and the number of positions in the Executive Board; to appoint and revoke the members of the Executive Board;
- (c) to create an audit committee and other specialized committees, if appropriate;
- (d) to check that the acts undertaken in the course of the management of the company are compatible with law, the Articles of Association and any relevant resolutions of the General Meeting of Shareholders;
- (e) to submit to the General Meeting of Shareholders a report concerning the supervision activity undertaken;
- (f) to represent the company in relation to the Executive Board;
- (g) to verify the company's financial statements;
- (h) to verify the report of the members of the Executive Board;
- (i) to propose to the General Meeting of Shareholders the appointment and the revocation of the financial auditor, as well as the minimum term of the audit contract.

The responsibilities of the members of the Supervisory Board, as well as the working procedures and the approach to conflicts of interest and own account dealings are governed by relevant internal regulations. As required by company Law, none of the Supervisory Board members holds an executive position in the company. During the 2013 financial year, the Supervisory Board met six times in person and submitted its approval in writing on four occasions (more details are presented within the report of the Supervisory Board).

Special Committees

The Supervisory Board may assign particular issues to certain of its members, acting individually or as part of special committees, and may also refer to experts to analyze certain issues. The task of the committees is to issue recommendations for the purpose of preparing resolutions to be passed by the Supervisory Board itself, without thereby preventing the entire Supervisory Board from dealing with matters assigned to the committees.

The Supervisory Board members are appointed by the Ordinary GMS, based on a transparent procedure of appointment and with the majority of votes of the shareholders. Likewise, the remuneration of the Supervisory Board members is established by the Ordinary GMS.

An **Audit Committee** composed of four Supervisory Board members was established to provide assistance to the governing bodies of the company in the area of internal control and financial reporting. This committee reviews the annual accounts and the proposal for profit distribution.

In addition, the Audit Committee prepares the proposal of the independent financial auditor to the Supervisory Board, which is to be elected by the Ordinary GMS.

Moreover, this committee supervises the company's risk management strategy and its financial performance and assesses the issues subject to the reports of the internal auditors.

The Executive Board reports to the Audit Committee at least once a year on the audit plan and any material findings.

In accordance with company Law, the Audit Committee includes members that have the necessary expertise in the area of financial audit and accounting.

Until April 28, the Audit Committee members were: David Charles Davies, Manfred Leitner, Gheorghe Ionescu and Riccardo Puliti. Following the start of the new mandate of the Supervisory Board, four members of the Audit Committee were appointed, including the President and the Deputy. The Audit Committee consists of the following members: David C. Davies (President of the Audit Committee), Manfred Leitner (Deputy President of the Audit Committee), Riccardo Puliti (Member) and George Băeșu (Member).

During the 2013 financial year, the Audit Committee met three times (more details presented under the corresponding section within the report of the Supervisory Board).

Executive Board

The Executive Board is appointed and/or revoked by the Supervisory Board. The number of members shall be determined by the Supervisory Board, provided that such number is not lower than three and not higher than seven. One Executive Board member is appointed as the President of the Executive Board (also named Chief Executive Officer of the company). The Executive Board's current mandate started in 2011 and runs until 2015.

The meetings of the Executive Board are held regularly (usually every week) and whenever necessary for the operative management of the company's daily business.

Executive Board members

As of December 31, 2013 the Executive Board of the company consisted of the following members: Mariana Gheorghe (President of the Executive Board and Chief Executive Officer), Andreas Matje (Executive Board member and Chief Financial Officer), Gabriel Selischi (Executive Board member in charge of Exploration and Production), Neil Anthony Morgan (Executive Board member in charge of Refining and Marketing), Cristian Nicolae Secoșan (Executive Board member in charge of Gas and Power).

Executive Board main duties

As provided by the Articles of Association, the main duties of the Executive Board, performed under the supervision and control of the Supervisory Board, are:

- (a) to establish the strategy and the policies regarding the development of the company, including the organizational structure of the company and the operational divisions;
- (b) to submit annually for the approval of the General Meeting of Shareholders, within four months of the end of the fiscal year, the report regarding the business activity of the company, the financial statements for the previous year, as well as the business activity and budget projects of the company for the current year;
- (c) to conclude legal acts on behalf of and for the account of the company, with observance of matters reserved to the General Meeting of Shareholders or to the Supervisory Board;
- (d) to hire and to dismiss, and to establish the duties and responsibilities of the company's personnel, in line with the company's overall personnel policy;
- (e) to undertake all the measures necessary and useful for the management of the company, implied by the daily management of each division or delegated by the General Meeting of Shareholders or by the Supervisory Board, with the exception of those reserved to the General Meeting of Shareholders or to the Supervisory Board through operation of law or of the Articles of Association;
- (f) to exercise any competence delegated by the Extraordinary General Meeting of Shareholders.

The Executive Board coordinates the strategic orientation of the company and reports to the Supervisory Board on a regular basis on all relevant issues concerning the course of business, strategy implementation, the risk situation and risk management of the company.

The Executive Board ensures that the provisions of the relevant Romanian capital markets legislation are complied with and implemented by the company, as earlier presented within this chapter. Likewise, the Executive Board ensures the implementation and operation of an accounting, risk management and internal controlling system which meets the requirements of the company.

The members of the Executive Board and persons closely related to them (the latter term as defined in the applicable capital markets regulations under the Romanian phrase of "*persoană aflată în relații apropiate cu persoane exercitând funcții de conducere*") have the duty to report to the Executive Board, to the Supervisory Board and to the Financial Supervisory Authority (former National Securities Commission) any and all trading/business performed for their own account involving (i) shares or other securities issued by the company and admitted for trading on regulated markets; and/or (ii) derivative financial instruments using securities issued by the company and/or (iii) any other instruments relating thereto.

The members of the Executive Board have the duty to disclose immediately to the Supervisory Board any material personal interests they may have in transactions of the company as well as all other conflicts of interest. Furthermore, they have the duty to notify other Executive Board colleagues of such interests forthwith.

All business transactions between the company and the members of the Executive Board as well as persons or companies closely related to them must be in accordance with normal industry standards and applicable corporate regulation. Such business transactions as well as their terms and conditions require the prior approval of the Supervisory Board.

In 2013, 57 meetings of the Executive Board were held in order to pass resolutions on all matters requiring its approval in accordance with the Articles of Association and the company's internal regulations, as well as to allow the members of the Executive Board to be aware of all significant matters concerning the company and to inform each other about all relevant issues of their activity.

Shareholders' rights

Rights of the company's minority shareholders are adequately protected according to relevant domestic legislation.

The shareholders have the right to obtain relevant information on the company on a timely and regular basis. They have the right to be informed about the decisions concerning fundamental corporate changes with the view to understand their rights.

Several key decisions are assigned to shareholders via the General Meeting of Shareholders. Among these decisions are included:

- appointment and revocation of the members of the Supervisory Board and auditors;
- approval of the remuneration for the members of the Supervisory Board and auditors;
- approval of the annual financial statements;
- approval of any amendments to the Articles of Association;
- resolutions on share capital increase / decrease, mergers and/or spin-offs.

Moreover, the shareholders have the right to participate effectively and vote in the GMS and to be informed of the rules, including voting procedures that govern the General Meetings of the Shareholders.

One share, one vote, one dividend

Petrom observes the one share, one vote, one dividend principle. There are no preference shares without voting rights or shares conferring the right to more than one vote.

GMS calling

Shareholders holding at least 5% of the share capital may request that a GMS be called. Such shareholders have also the right to add new items to the agenda of a GMS, provided such proposals are accompanied by a justification or a draft resolution proposed for approval and copies of the identification documents of the shareholders who make the proposals. Proposals with respect to adding new items on the agenda of such GMS can be submitted at the headquarters of the company, or by e-mail having attached an extended electronic signature, in compliance with Law no. 455/2001 using a digital signature.

Likewise, shareholders holding at least 5% of the share capital are entitled to submit draft resolutions for the items listed on the agenda or proposed by other shareholders to be added on the agenda of such GMS.

GMS attendance

The company actively promotes the participation of its shareholders in the GMS, as they are invited to raise questions concerning items to be debated during such meetings. The shareholders may attend in person or may be represented in the GMS either by their legal representatives or by representatives having a special proxy, based on the special proxy template made available by the company. Such proxy template may be obtained from the company headquarters and/ or can be found on the company's website, within the General Meeting of Shareholders section.

The shareholders duly registered in the shareholders' register may vote by correspondence, prior to the GMS, by using the voting bulletin for the votes by correspondence made available by the company at the headquarters and/ or on the company's website.

Taking shareholders' questions

The shareholders of the company, regardless of the stake of the share capital held, may submit written questions with respect to the items on the agenda of the GMS, provided that such questions are accompanied by copies of their valid identification at the headquarters of the company. The shareholders may also send such questions by e-mail having attached an extended electronic signature. The disclosure of commercially sensitive information that could result in a loss or competitive disadvantage for the company will be avoided when providing the answers, in order to protect the interests of our shareholders.

Any agreements, understanding or family connection between the Supervisory Board members and another person who is responsible for appointing of the respective person in the position of Director

Petrom's governance follows a two-tier system, with the Executive Board ensuring the management of the company under the control and supervision of the Supervisory Board.

The members of the Supervisory Board are not appointed by certain persons or certain shareholders. They are appointed by the Ordinary General Meeting of Shareholders based on shareholders' votes and in compliance with the statutory requirements relating to quorum and majority. Therefore, there are no such agreements and understandings to be disclosed herein.

The participation of the Supervisory Board members at the share capital of the company

Lucian - Dan Vladescu holds a number of 985 shares since 2002. Petrom does not have knowledge of any other member of the Supervisory Board holding shares issued by the Company during the year under review.

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

Petrom does not have knowledge of any such agreement or understanding.

The participation of the Executive Board members at the share capital of the company

Following the share buy-back program, 100 shares were assigned to Mariana Gheorghe, President of the Executive Board. Likewise, as a matter of good corporate governance, we outline that Mariana Gheorghe's husband holds 60,000 shares issued by Petrom.

Women's advancement

The company supports gender diversity and promotion of women in management positions. While there are no female members of the Supervisory Board of the company, the President of the Executive Board is Mariana Gheorghe.

By the end of 2013, around 24% of the first line directors Executive Board were women whilst the percentage of women in middle management was around 36%. Given the strong technical bias of our operations, the proportion of women in the Group as a whole by year end was 23%, in line with that of the OMV Group, which Petrom is part of.

Bucharest Stock Exchange Corporate Governance Code

The company adheres to the Corporate Governance Code issued by the Bucharest Stock Exchange starting from the 2010 financial year. The details about the compliance with the principles and recommendations stipulated under the Corporate Governance Code issued by the Bucharest Stock Exchange are presented in the "Comply or Explain" statement, which is a part of this annual report.

“Comply or Explain” statement

“Comply or Explain” statement BSE Corporate Governance Code

The “Comply or Explain” statement below was prepared taking into account the particularities of the two-tier system applicable to OMV Petrom S.A. (“Petrom” , or “the company” or “the Issuer”), whereas the statement template is structured according to the one-tier management system.

Principle/ Recommendation	Question	YES	NO	Please EXPLAIN
P19	Is the Issuer managed in a two tier system?	*		Since April 2007, Petrom is managed in a two-tier system by an Executive Board, which manages the daily operations under the supervision of the Supervisory Board.
P1	R1 Has the Issuer drawn up a Statute/Corporate Governance Regulation which describes the main aspects of the corporate governance principles?	*		The corporate governance principles are also laid down in the Issuer’s Articles of Association, the internal rules of the Supervisory Board and the Executive Board, as well as in other internal regulations. The Issuer has drawn up a Corporate Governance Statute which describes the overall picture of the company’s corporate governance.
	Is the Statute/Corporate Governance Regulation (mentioning the date of its last update) posted on the website of the Issuer?	*		The Corporate Governance Statute is posted on the website of the Issuer bearing the date of its last update.
	R2 In the Statute/Corporate Governance Regulation, are there defined corporate governance structures, positions, competences and responsibilities of the Supervisory Board and of the Executive Board?	*		The corporate governance structures, positions, competences and responsibilities of the Supervisory Board and of the Executive Board are defined in the Articles of Association of the Issuer. They are also laid out in the Corporate Governance Statute.

Principle/ Recommendation	Question	YES	NO	Please EXPLAIN
R 3	Does the Annual Report of the Issuer contain a chapter referring to corporate governance, which describes all the relevant events related to corporate governance registered in the previous financial year?	*		Petrom's 2013 Annual Report has a chapter describing all the relevant events related to the corporate governance issues in the 2013 financial year.
	Does the Issuer disclose on its website the information related to the following aspects of its corporate governance: a) a description of the Issuer's corporate governance structures?	*		Petrom's website has a special section where details about corporate governance bodies are entered. The structure of the Executive Board and of the Supervisory Board is presented on the website. Likewise, the details regarding the organization of the GMS of the company are also presented on the website.
	b) the updated Articles of Association?	*		The last version of Petrom's Articles of Association is posted on its website, under the Corporate Governance section.
	c) the internal regulation governing the functioning /its essential aspects for each special commission/ specialized committee?	*		The rules governing the functioning of each special commission/committee are bundled in the Corporate Governance Statute which is posted on the website of the Issuer.
	d) the "Comply or Explain" Statement?	*		"Comply or Explain" Statements are posted on Petrom's website.

Principle/ Recommendation	Question	YES	NO	Please EXPLAIN
	e) the list of the Supervisory Board members specifying which members are independent, of the Executive Board and of the special commissions/committees?	*		Details about the members of the Supervisory Board, the Executive Board and the Audit Committee are presented on the Issuer's website.
	f) a brief version of the CV of each Supervisory Board and Executive Board member?	*		Petrom has a special section on its website where short versions of the CVs of the members of the corporate bodies are posted.
P2	Does the Issuer respect the rights of the holders of the financial instruments issued by the Issuer, ensuring equal treatment for them while also submitting any change of the granted rights for approval by the special meetings of such holders?	*		The Issuer complies with the regulations setting forth the rights of the shareholders. Any changes of the already granted rights are submitted for the approval of the shareholders.
P3	R 4 Does the Issuer publish in a special section of its website the details of the holding of the General Meetings of Shareholders ("GMS"): a) the GMS convening notice?	*		Petrom's website has a special section where the GMS convening notices are posted.
	R 4 b) the materials/documents relating to the items on the agenda, as well as any other information about the items on the agenda?	*		Petrom's website has a special section where materials/ documents / any other information relating to the items on the agenda of the GMS are posted.

Principle/ Recommendation	Question	YES	NO	Please EXPLAIN
	R 4 c) the templates of the special power of attorney?	*		Petrom's website has a special section where the templates of the special power of attorney can be found.
	R 6 Has the Issuer drawn up and submitted for the GMS approval procedures for an efficient and methodical holding of the GMS according to procedure, however without prejudice to the right of any shareholder to freely express their opinion on the topics subject to the debates?	*		The details of the organization of the GMS are mentioned in the Issuer's Articles of Association and Statute of Corporate Governance. Likewise, Petrom publishes at every GMS extensive convening notices describing in detail the procedure to be followed for the respective meeting. In this manner, the Issuer ensures that the General Meetings of Shareholders are adequately conducted and well organized while the shareholders' rights are duly communicated and observed.
	R 8 Does the Issuer disclose in a special section of its website the shareholders' rights as well as the rules and procedures for the attendance at GMS?	*		The rights of the shareholders are outlined on the Issuer's website. Likewise, the rules and procedures for attendance at the GMS, as well as the rights of the shareholders, are always described in the convening notice which is always posted on Issuer's website. The rights of the shareholders are laid down in each and every annual report.
	Does the Issuer provide the information in due time (immediately after the GMS) to all shareholders through the special section on the Issuer's website: a) the resolutions passed by GMS?	*		Petrom's website has a special section where the resolutions passed by the GMS are posted in due time.

Principle/ Recommendation	Question	YES	NO	Please EXPLAIN
	b) the detailed results of voting?	*		Petrom's website has a special section where detailed results of voting are posted in due time.
	Does the Issuer disseminate through the special section of the Issuer's website, which is easily identifiable and accessible: a) ad-hoc reports/official statements?	*		Petrom's website has special section where ad-hoc reports and official statements are posted.
	b) the financial calendar, the annual, quarterly and half-yearly reports?	*		Petrom's website has an easily accessible special section where the financial calendar and periodical reports are posted.
	R 9 Has the Issuer set-up a special department or has appointed a person dedicated to the relation with investors?	*		Petrom has set up a special department dedicated to investor relations that can be contacted at phone number +40 (0) 214022206 or via e-mail: investor.relations.petrom@petrom.com . Likewise, a special section of the company's website is dedicated to investors.
P4, P5	R 10 Does the Supervisory Board meet at least once a quarter for supervising the activity of the Issuer?	*		The Supervisory Board meets whenever necessary, but at least once every three months. In 2013, the Supervisory Board met six times in person and passed resolutions by circulation on four additional occasions.

Principle/ Recommendation	Question	YES	NO	Please EXPLAIN
	R 1 2 Has the Issuer a set of rules referring to the conduct and the reporting obligations relating to the trading of the shares or of other financial instruments issued by the Issuer (“ issuer securities ”) made on their account by the members of the Executive Board and other related natural persons?	*		Such rules are laid down in the internal regulations of the Issuer, while the Issuer has set up special structures to follow the implementation of such internal regulations.
	Are the trades with the issuer’s securities made by the members of Supervisory Board, Executive Board or any other insiders on their own account disclosed via the Issuer’s website, according to applicable rules?	*		All these transactions are posted on the Bucharest Stock Exchange website, in the section dedicated to the market news related to Petrom. Petrom’s website also contains a link to the Bucharest Stock Exchange website, in the section Petrom>Investor Relations>Corporate Governance>Insider Trading.
P6	Does the structure of the corporate bodies of the Issuer ensure a balance between the executive and non-executive members (and especially independent non-executive members) so that the decision-making is not to be dominated by a single person or a group of persons?	*		The Supervisory Board comprises nine members who are non-executives and who supervise the activity of the five members of the Executive Board. Therefore, the balance between executives and non-executives is ensured.

Principle/ Recommendation	Question	YES	NO	Please EXPLAIN
P7	Does the structure of the Supervisory Board provide a sufficient number of independent members?	*		The Supervisory Board structure complies with the provisions of company Law no. 31/1990 on the number of independent members of the Supervisory Board.
P8	R 15 In the course of its activity, is the Supervisory Board supported by any consultative commissions/committees nominated by the Supervisory Board, which deal with the analysis of some specific subjects in order to counsel the Supervisory Board on such topics?	*		The Audit Committee supports the Supervisory Board by performing the following main activities: <ul style="list-style-type: none"> • reviews and prepares the adoption of the annual accounts, • prepares the proposal for the distribution of profits • prepares a proposal of an independent financial auditor • supervises Petrom's risk management arrangements and its financial performance • monitors the reports delivered by the internal auditors.
	Do the consultative commissions/committees submit activity reports to the Supervisory Board on the specific subjects assigned to them?	*		The Audit Committee submits activity reports to the Supervisory Board on the specific subjects assigned to it.
	R 16 For the assessment of the independence of their members, does the Supervisory Board use the assessment criteria listed in Recommendation 16?	*		The criteria used for the assessment of Supervisory Board independence are those mentioned in Company Law no. 31/1990, which are substantially similar to those provided by Corporate Governance Code.

Principle/ Recommendation	Question	YES	NO	Please EXPLAIN
	R 1 7 Do Executive Board members permanently improve their knowledge through training/information in the corporate governance field?	*		The Executive Board members permanently improve their corporate governance knowledge via training/ roundtable discussion meant to enhance the corporate governance practice in the company. The CEO is also President of the Corporate Governance Institute at the Bucharest Stock Exchange and regularly attends conferences on this topic.
P9	Is the appointment of the Supervisory Board members based on a transparent procedure (objective criteria regarding personal/ professional qualifications etc.)?	*		The Supervisory Board members are appointed by the GMS, based on a transparent procedure of appointment and with the majority of votes of the shareholders, as provided for in the Issuer's Articles of Association and applicable law. Prior to the GMS, their CVs are available for the shareholders for consultation, while the shareholders are allowed to supplement the candidates list for the position of member of the Supervisory Board
P10	Is there a Nomination Committee within the Issuer set-up?		*	Establishment of the Nomination Committee is a pending subject for the assessment of the corporate bodies of the company.
P11	R 2 1 Does the Supervisory Board assess the necessity to have a Remuneration Committee/remuneration policy for the Supervisory Board and Executive Board members at least once a year?		*	The remuneration of the Supervisory Board members is resolved upon by the GMS every year. The setting up of a Remuneration Committee is being considered.
	Has the remuneration policy been approved by the GMS?		*	The remuneration of the Supervisory Board members is resolved upon by the GMS and it is made public.
	R 2 2 Is there a Remuneration Committee made exclusively of non-executive members of the Supervisory Board?		*	The Remuneration Committee has not been established yet.

Principle/ Recommendation	Question	YES	NO	Please EXPLAIN
	R 2 4 Is the remuneration policy of the Issuer mentioned in the Statute/Corporate Governance Regulation?		*	Please see above.
P12 , P13	R 2 5 Does the Issuer disclose the information subject of the reporting requirements in English: a) periodical information (regular providing information)?	*		Petrom discloses periodical information in English.
	b) permanent information (continuous providing information)?	*		Petrom discloses permanent information in English.
	Does the Issuer prepare and make public the financial report according to the IFRS standards?	*		Petrom has prepared and published consolidated financial statements in accordance with IFRS for the year ended December 31, 2006 for the first time. Starting 2010, Petrom also reports on a quarterly basis the condensed consolidated interim financial statements in accordance with the IFRS standards. Furthermore, in line with Romanian legal requirements applicable for listed companies, starting December 31, 2012 Petrom also prepares separate individual financial statements in accordance with IFRS.

Principle/ Recommendation	Question	YES	NO	Please EXPLAIN
	R 2 6 Does the Issuer organize, at least once a year, meetings with financial analysts, brokers, rating agencies and other market specialists with the view to presenting the financial elements relevant for the investment decision?	*		Petrom organizes one-to-one meetings and conference calls with financial analysts, investors, brokers and other market specialists with a view to presenting the financial elements relevant for investment decision. A total of more than 100 one-to-one or group meetings and presentations were held throughout 2013, including more than 150 investors and analysts. The company also attended analyst and investor conferences, organized in Romania and abroad.
	R 2 7 Is there an Audit Committee within the Issuer?	*		Petrom's Supervisory Board has set up an Audit Committee.
	R 2 8 Does the Supervisory Board or the Audit Committee, as the case may be, assess on a regular basis the efficiency of financial reporting, internal control and the risk management system implemented by the Issuer?	*		The Audit Committee assesses on a regular basis the efficiency of financial reporting, internal control and the risk management system implemented by Petrom.
	R 2 9 Is the Audit Committee comprised exclusively of non-executive members of the Supervisory Board and is it comprised of a sufficient number of independent members of the Supervisory Board?	*		The Audit Committee comprises exclusively non-executive members of the corporate bodies and a sufficient number of independent members of the Supervisory Board, as provided for by Company Law no. 31/1990.
	R 3 0 Does the Audit Committee meet at least twice a year, with the view to draw up and disclose to the shareholders half-yearly and annual financial statements?	*		Petrom's Audit Committee meets at least quarterly in order to deal with significant accounting, reporting and risk management issues as well as with the review on the financial statements.

Principle/ Recommendation	Question	YES	NO	Please EXPLAIN
	R 3 2 Does the Audit Committee make proposals to the Supervisory Board regarding the selection, the appointment, the re-appointment and the replacement of the financial auditor, as well as the terms and conditions of its remuneration?	*		Petrom's Audit Committee makes proposals to the Supervisory Board regarding the selection, the appointment, the re-appointment and the replacement of the financial auditor, as well as the terms and conditions of its remuneration.
P14	Has the Issuer approved a procedure with a view to identifying and to settling any conflicts of interest?	*		The Issuer has established internal rules on how to deal with conflicts of interest.
P15	R 3 3 Do the members of the Supervisory Board inform the Supervisory Board on conflicts of interests as they occur and do they refrain from debates and the vote on such matters, according to relevant legal provisions?	*		Petrom Supervisory Board has put in place rules relating to conflicts of interest as well as the approach in this respect.
P16	R 3 4 / Has the Issuer approved the specific procedures in order to provide procedural compliance (criteria to identify the significant impact of transactions, transparency, impartiality, non-competition, etc.) with the view to identify the transactions between related parties? R 3 5	*		Petrom has internal regulations in place and submits reports on transactions with related parties to the Financial Supervisory Authority and to the Bucharest Stock Exchange. During 2013 Petrom has revised the internal processes and databases in order to achieve the highest standards in reporting.

Principle/ Recommendation	Question	YES	NO	Please EXPLAIN
P17	R Has the Issuer approved a procedure regarding the internal flow and disclosure to third parties of the documents and information referring to the Issuer, considering especially inside information? 3 6	*		Petrom has internal regulations in place for such matters.
P18	R Does the Issuer carry on activities regarding the Issuer's social and environmental responsibility? 3 7 / R 3 8	*		Petrom conducts various activities regarding social and environmental responsibility. Please see the Annual Report's section relating to community involvement.

Declaration of the management

We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the financial position of the Group as of December 31, 2013, its financial performance and cash flows for the year then ended, in accordance with applicable accounting standards, and that the Directors' report gives a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties associated with the expected development of the Group.

Bucharest, March 25, 2014

The Executive Board

Mariana Gheorghe
Chief Executive Officer
President of the Executive Board



Andreas Matje
Chief Financial Officer
Member of the Executive Board



Gabriel Selischi
Member of the Executive Board
Exploration & Production



Cristian Secosan
Member of the Executive Board
Gas & Power



Neil Anthony Morgan
Member of the Executive Board
Refining & Marketing

