

# PETROM

## Annual Report 2012

## Contents

At a glance .....	3
1. Company .....	4
1.1. Highlights 2012.....	4
1.2. Members of the Executive Board .....	5
1.3. Statement of the Chief Executive Officer .....	7
1.4. Our strategic directions and objectives .....	10
1.5. Members of the Supervisory Board.....	15
1.6. Petrom shares.....	16
1.7. Business environment.....	19
2. Business segments.....	21
2.1. Exploration and Production (E&P) .....	21
2.2. Gas and Power (G&P) .....	26
2.3. Refining and Marketing (R&M) .....	29
3. Sustainability .....	33
4. Report of the Governing Bodies.....	38
4.1. Report of the Supervisory Board .....	38
4.2. Directors' report.....	43
4.3. Financial highlights .....	46
4.4.1. Risk management .....	50
4.4.2. Description of internal control main characteristics .....	52
4.5. Information required as per Regulation no. 1/2006 issued by the National Securities Commission .....	54
4.6. Subsequent events.....	55
4.7. Outlook for 2013 .....	56
4.8. Corporate Governance Report .....	58
4.8.1. Comply or Explain Statement .....	63
4.9. Declaration of the management .....	75
Abbreviations and definitions .....	76

**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

## At a glance

<b>Operational results</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Total hydrocarbon production (mn boe)	67.08	67.77	66.87
Refinery capacity utilization rate (%) <sup>1</sup>	49	79	73
Total refined product sales (mn t)	5.47	5.23	5.00
Number of filling stations	801	793	798
Number of employees at the end of period	24,662	22,912	21,650

<sup>1</sup> Arpechim refinery was in economic shut-down for nearly nine months of 2010. Starting with 2011, the Arpechim refinery is no longer included in the calculation.

<b>Financial results</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Sales (RON mn)	18,616	22,614	26,258
EBIT (RON mn)	2,986	4,936	5,662
Net income attributable to stockholders (RON mn)	2,201	3,757	3,953
Clean CCS EBIT (RON mn) <sup>2</sup>	3,325	5,475	5,855
Clean CCS net income attributable to stockholders (RON mn) <sup>2</sup>	2,457	4,206	4,307
Cash flow from operating activities (RON mn)	4,630	6,442	7,185
Capital expenditure (RON mn)	4,863	4,803	4,930
EPS (RON)	0.0389	0.0663	0.0698
ROACE (%)	10.7	17.3	16.5

<sup>2</sup> Clean CCS figures exclude special items and inventory holding effects (current cost of supply – CCS- effects) resulting from R&M

# 1. Company

## 1.1. Highlights 2012

---

### January

On **January 1**, Gerald Kappes began his appointment as interim member of the Petrom Supervisory Board, following Werner Auli's waiver of the mandate.

On **January 9**, Petrom announced having started exploration drilling on Domino-1, the first deepwater exploration well in the Romanian sector of the Black Sea, together with ExxonMobil Exploration and Production Romania Limited (EMEPRL).

On **January 10**, Petrom announced that the Romanian Competition Council imposed a fine of RON 366,530,965 on Petrom and RON 137,288,031 on OMV Petrom Marketing SRL as a result of the antitrust investigation regarding the withdrawal of the retail product Eco Premium (unleaded gasoline pre-mixed with lead substitute) from the Romanian fuels market.

On **January 17**, Petrom announced that although the construction of the Brazi power plant had been successfully completed by the end of 2011, final tests were interrupted due to external technical factors.

### February

On **February 3**, Petrom announced having encountered natural gas in Domino-1. On February 22, Petrom confirmed a potentially significant gas discovery in Domino-1: the exploration well encountered 70.7 meters of net gas pay, resulting in a preliminary estimate for the accumulation ranging from 1.5 to 3 trillion cubic feet (42 to 84 billion cubic meters).

### March

On **March 16**, OMV Bulgaria OOD, a 99.9% subsidiary of OMV Petrom S.A., was notified of an alleged breach of antitrust regulations by the Bulgarian Commission for Protection of Competition (CPC). According to its subsequent decision, CPC terminated the proceedings because no further grounds existed for their continuation.

On **March 23**, Petrom announced the appointment of Hans-Peter Floren as interim member of the Supervisory Board, following Gerald Kappes' waiver of the mandate.

### April

On **April 27** the Ordinary General Meeting of Shareholders took place. For details please refer to page 17, section General Meeting of Shareholders.

### May

### June

On **June 19**, Petrom announced its strategy update for 2021.

On **June 27**, Petrom announced the finalization of the upgrade of the crude vacuum distillation unit in Petrobrazi refinery, which enables it to process the entire domestic crude production of Petrom, while increasing middle distillates yield and reducing energy consumption.

On **June 29**, Petrom announced its decision to sell the 99.99% stake in the subsidiary Petrom LPG SA to Crimbo Gas International. The transaction was finalized on January 7, 2013.

### July

### August

On **August 1**, Petrom began commercial operations at the Brazi power plant.

### September

On **September 1**, Cristian Secoșan began his appointment as member of the Petrom Executive Board, responsible for Gas and Power (including Chemicals), following Hilmar Kroat-Reder's waiver of his mandate.

### October

### November

On **November 27**, Petrom announced the appointment of Andreas Peter Matje starting January 1, 2013 as member of the Executive Board and Chief Financial Officer of Petrom, following Daniel Turnheim's waiver of his mandate.

On **November 27**, Petrom inaugurated its third greenfield fuel terminal at Isalnita.

### December

On **December 5**, Petrom announced having started, together with EMEPRL, the largest 3D seismic study in the Black Sea, on approximately 6,000 km<sup>2</sup> in the deepwater area of the Neptun block.

On **December 17**, Petrom announced the start of the first 3D seismic campaign in the shallow water sector of Neptun block, conducted on an area of 1,600 km<sup>2</sup>.

On **December 21**, Petrom announced the signing of a 15-year agreement with Expert Petroleum for production enhancement services on 13 small mature fields (producing around 2.4 kboe/d at that moment), some of them exploited for more than 40 years, situated in the Western part of Romania, nearby Timisoara.

## 1.2. Members of the Executive Board

---

The Executive Board is elected by the Supervisory Board and consists of five members.

It manages the day-to-day business of the Company and supervises the management of its group companies in accordance with the law, the Company's Articles of Association, the internal rules and guidelines as well as the resolutions of the Supervisory Board and of the General Meeting of Shareholders.

The Executive Board has the following structure as of the date of this report:

### **Mariana Gheorghe (1956)**

**Chief Executive Officer and President of the Executive Board, responsible for: Corporate Affairs and Compliance; Communications and Sustainability; Legal; Strategy, Corporate Development and Investor Relations; Health, Safety, Security and Environment; Human Resources; Operational Procurement; Regulatory and Corporate Public Affairs**

Mariana Gheorghe graduated from the Academy of Economic Studies, International Relations in 1979, the University of Bucharest, Law School in 1989 and London Business School, Corporate Finance in 1995. She worked for various Romanian companies and for the Ministry of Finance. Between 1993 and June 2006 she worked for the European Bank for Reconstruction and Development in London where she held various banking positions with a geographical focus on Southeastern Europe and the Caucasus Region, her last position being Senior Banker. After Petrom's privatization in 2004 and following the EBRD's proposal, she became a member of the Board of Directors of Petrom until June 15, 2006, when she was appointed as Chief Executive Officer of Petrom. As of April 17, 2007, following the adoption of the two-tier management system, she is also the President of the Executive Board.

### **Andreas Peter Matje (1964)**

**Chief Financial Officer, responsible for: Corporate Finance; Corporate Controlling; Internal Audit; Global Solutions**

Andreas Peter Matje studied Business Administration at the University of Vienna, specializing in Industrial Management and Marketing. He then followed a doctoral and various management programs, including a Global Executive MBA with Rotman Business School, University of Toronto. Between 1995 and 1999 he was employed with OMV Aktiengesellschaft as division controller upstream. After several years spent on management positions with Polyfelt GmbH (a subsidiary of OMV Aktiengesellschaft until 2005, then known as TenCate Geosynthetics Austria), Matje rejoined OMV Aktiengesellschaft in 2009 as Senior Vice President Controlling. He joined Petrom on January 1, 2013.

### **Johann Pleininger (1962)**

**Responsible for Exploration and Production**

Johann Pleininger attended the Technical College for Mechanical Engineering and Economics in Vienna; he obtained the International Project Management certificate and graduated in Industrial Engineering. His positions at OMV have ranged from field operator to shift foreman and then to production supervisor, Facility & Cost engineer, project manager and Head of the Investments Department. He was then appointed manager within the Project Management and Investments Department. He has been working in the oil and gas industry since 1977. He joined Petrom in 2005 and was appointed as Executive Board member in charge with Exploration and Production division in June 2007. Since January 1, 2008, Johann Pleininger had headed the entire activity of Exploration and Production, including E&P International. Following the integration of the E&P Services business division into the E&P business division, Johann Pleininger also took over the responsibilities of the former Executive Board member responsible for E&P Services, Siegfried Gugu, starting April 17, 2011.

### **Neil Anthony Morgan (1959)**

**Responsible for Refining and Marketing**

Neil Anthony Morgan graduated in Chemical Engineering from the University of Salford (Manchester, UK). His experience in the Refining and Petrochemicals business spans over 20 years. Before joining Petrom, he worked four years for Petronas Penapisan (Malaysia), where he held the position of Project Director, Refinery Expansion Project. Prior to Petronas, he worked for 12 years for Engen Petroleum (Durban, South Africa). After joining the company in 1992 as a Process Control Specialist, he held several positions during

his tenure there, from Chief Engineer Process Control and Information Technology to Technical Services Manager and Operations Manager. During 1985-1990, he was Production Manager, Operations Manager and Chief Process Engineer in Sentrachem Ltd (Johannesburg, South Africa). He joined Petrom in 2008 and was assigned responsibility for Refining and Petrochemicals. Further to the consolidation of Petrom Group's marketing activities in OMV Petrom Marketing S.R.L., under the management of Rainer Schlang, the latter's responsibilities as former Executive Board member responsible for Marketing were taken over by Neil Anthony Morgan, starting April 17, 2011.

#### **Cristian Secoșan (1967)**

##### **Responsible for Gas and Power (including Chemicals)**

Cristian Secoșan studied Mechanical Engineering at Polytechnic University in Timisoara and throughout his career held various management positions in multinational companies active in the energy sector in Romania, such as ABB, ALSTOM and E.ON. Prior to joining Petrom he held the position of the General Manager of Siemens in Romania. He joined Petrom in September 2012 as member of the Executive Board, responsible for Gas and Power (including Chemicals).

##### **Changes in the Executive Board structure in the past year**

Andreas Peter Matje took over the responsibilities of **Daniel Turnheim**, who was a member of Petrom's Executive Board and Chief Financial Officer between January 2011 and December 2012.

Cristian Secoșan took over the responsibilities of **Hilmar Kroat-Reder**, who was a member of Petrom's Executive Board responsible for Gas and Power (including Chemicals) between January 2011 and August 2012.

## 1.3. Statement of the Chief Executive Officer

---

**Dear shareholders,**

2012 was another year of strong operational and financial performance for Petrom as a result of preceding years of high capital investments in our core business, our focus on operational excellence and also supportive crude price environment.

In June, we have reconfirmed Petrom's strategic directions for 2021 in line with the previous strategy for 2015, ensuring continuity in the company's development as integral part of the OMV Group's strategy "Profitable Growth". To this end, with the support of our employees, we continued to deliver on Petrom's strategy of sustainable performance needed to support potential upstream growth in the neighboring Black Sea region.

In line with our strategic initiatives, we achieved strong results due to overall production stabilization, operational performance and portfolio optimization through partnerships. Moreover, the Brazi power plant was brought on-stream in August, which allows us to enhance the value of equity gas, while the Petrobrazî refinery progressed with the modernization program. Most notably, we also delivered on our mid-term goals and advanced with the Neptun block exploration in the deepwaters of the Black Sea, with remarkable success.

### **Business environment**

**At a global level**, economic growth failed to meet expectations last year and reached 3.2% (3.5% in 2011), as mature economies still faced headwinds while emerging markets did not pick up the pace as expected. The euro area GDP was also significantly lower than expected, rising by only 0.7%, which is lower compared to the 1.6% increase in 2011.

**Romania** benefited of a relative stability at domestic macroeconomic level, nevertheless with almost flat economic growth, as agricultural industries suffered following a severe summer drought. Industrial production was weak due to falling external demand while both government and household consumption remained low. Labor market conditions continued to ease slightly, with the unemployment rate falling to 6.5% at the end of 2012 (2011: 7.0%).

### **Financial results and operational performance**

In spite of the weak support from economic growth, we managed to deliver a very good set of operational and financial results, mostly helped by a favorable crude price and FX environment and also efficiency initiatives. The average price for Urals, our reference crude price, was broadly flat compared with 2011, at USD 110.8/bbl (2011: USD 109.6/bbl). At Group level, sales increased 16% compared with 2011, due to the contribution from the power segment and the higher products prices triggered by favorable FX rates.

EBIT adjusted for special items and inventory holding effects (clean CCS EBIT) increased 7% over the previous year to RON 5.9 bn, driven by improved operating performance and a favorable crude price environment. Clean CCS net income attributable to stockholders stood at RON 4.3 bn, 2% higher than in 2011. Reported net income attributable to stockholders, reflecting exceptional, non-recurring items and inventory holding effects, reached RON 4.0 bn, up by 5% compared with 2011 and our earnings per share (EPS) came in at RON 0.0698. In 2012, cash from operations advanced 12% to RON 7.2 bn, also helped by working capital reduction.

In terms of capital expenditures, out of the RON 4.9 bn total investments made in 2012 (2011: RON 4.8 bn), some 76% were directed to E&P, while R&M and G&P accounted for 18% and 4%, respectively.

Our year-end gearing ratio decreased to 7.3% from 9.3% in 2011, positively influenced mostly by the net debt decrease, while ROACE stood at 16.5% in 2012 from 17.3% in 2011.

Based on the strong 2012 results and financial position, the executive management and Supervisory Board will recommend at our General Meeting of Shareholders on April 22, a dividend of RON 0.028 per share for the year 2012, corresponding to a payout ratio of 40%.

Throughout the year, we remained committed to Petrom's goal of sustainable performance for growth, and focused our efforts on enhancing value of equity hydrocarbons. We pursued exploration opportunities, started commercial operations at the Brazi power plant and achieved incremental improvements of our refinery yield structure.

In **E&P**, we broadly stabilized domestic hydrocarbon production volumes at 171 kboe/d on average, as the negative effects of the severe winter conditions in the first months were compensated by the positive trend in the last two quarters of the year. The natural decline was mostly offset through field redevelopment, workover activities, drilling and new technologies. Through operational excellence initiatives, we progressed the development of the Totea field and finalized the second Early Production Facility on site, reaching an average production of 5 kboe/d in 2012.

At Group level, we also managed to broadly stabilize production to 183 kboe/d (186 kboe/d in 2011), helped by higher volumes in Kazakhstan. The three-year average reserves replacement rate in Romania stood at 61%, lower than in 2011 (71%), as the previous years' revisions of mature fields reached their limits. Moreover, prevailing gas market conditions prevented us from pursuing additional projects, which could have contributed to a higher rate. At Group level, the three-year average reserve replacement rate dropped to 61% from 70% in 2011.

Production costs in Romania expressed in USD/boe decreased by 6%, as USD strengthened against RON. When expressed in RON terms, in absolute value, they increased by 5%, as higher personnel expenses and costs of materials were only partially offset by the positive effects from our initiatives to control the cost position. At Group level, production costs in USD/boe decreased by 5% against 2011, driven by a favorable FX rate.

In 2012, our focus on exploration activities increased significantly, and we registered the highest exploration expenditures (RON 530 mn) since privatization. At the end of February we finished the drilling operations at Domino-1, using state-of-the-art industry technology with preliminary estimates indicating a potentially significant gas discovery. At the end of the year, we started the largest 3D seismic studies in the Black Sea, covering almost the entire acreage of Neptun Block (both shallow and deep waters), estimated to be finalized by mid-2013. Data collected in the two seismic campaigns will be used to further assess the commercial and technical feasibility of the Domino gas discovery and to determine targets for future exploration drilling, estimated for end 2013.

In July 2012, the consortium consisting of Petrom together with ExxonMobil, Shell and Nadra Ukrayny won the tender for the Skifska block in Ukraine, and negotiations for a Production Sharing Agreement (PSA) are ongoing.

In October 2012, together with ExxonMobil Exploration and Production Romania Limited we signed a Transfer Agreement with Sterling Resources Ltd and Petro Ventures Europe B.V. for the purchase of an 85% interest in the hydrocarbon exploration and production rights to a portion of the XV Midia Block in the Romanian Black Sea, which is adjacent to Neptun Block. The Transfer Agreement is not yet effective and is subject to several conditions which are in the process of being fulfilled, including approvals from relevant authorities.

In **G&P**, we maintained a strong position in the Romanian gas market. Nevertheless, our consolidated gas sales volumes decreased by 4% to 4.8 bcm compared to 2011, still, in line with market trends. 2012 was the first year with both our power assets in operations, with a net positive contribution to EBIT. The Brazi power plant started commercial operations on August 1, while the wind power park Dorobantu was in operations for the full year. The Brazi power plant covered approximately 6% of Romania's electricity production since its start of operations and, from September 2012 onwards, the plant has been supplied with equity gas only.

In **R&M**, we registered a second year with positive Clean CCS EBIT since privatization, due to good operational performance, improved yield structure and energy efficiency measures. We further progressed with the modernization program of the Petrobrazi refinery and, following a six-week planned shutdown, we upgraded the crude vacuum distillation unit which enables the processing of Petrom's entire domestic crude production while increasing the middle distillates yield and reducing energy consumption.

Last year, our marketing sales volumes decreased by 6% compared with 2011, broadly in line with market demand in our operating region. In terms of commercial sales, volumes dropped 13%, a negative trend reflected in all products, while in retail, volumes decreased 2%, mostly due to harsh winter conditions in the first part of 2012 and weak demand triggered by the high crude oil price environment.

### **Sustainability**

Sustainability represents the foundation of all projects and activities at Petrom. This starts with performance and goes through growth and diversification principles, financial discipline, corporate governance and business practices, up to employees' development, community and other stakeholders' involvement. At Petrom, our top priority is to strive for best practice HSSE standards including zero-fatalities and to continue reducing the lost-time injury rate (LTIR). Proactive behavior helped us create a safe work environment for our employees and contractors which is further reflected in the LTIR. Unfortunately, in 2012 Petrom had two fatalities, one of its own employees and one contractor, although we permanently focus on implementing rigorous safety practices. The LTIR for employees in 2012 was 0.41 injuries per million hours worked. This is lower compared with the 2011 level of 0.47 and compares positively with the European oil and gas industry benchmark. But our efforts go well beyond that.



Our employees' development continued and in 2012 we counted more than 460,000 training hours in both technical and managerial programs. We implemented talent management initiatives and further enhanced our business ethics standards and human rights observance.

As a major employer and key player in Romania's economy, we are an integral part of the communities where we operate. 2012 also marked our sixth year of social and community involvement. Since 2006, we have had an extensive engagement and involvement with our stakeholders, reaching up to a million people through our community projects.

We remain committed to our strategic direction to enable sustainable performance for growth. In doing so, we strive to develop a sustainability culture for efficient use of natural resources, with high safety and environmental standards. We also place further emphasis on developing a performance-based organizational culture and a skill pool to achieve business growth and operational excellence. This allows us to continue the good progress we made in 2012 and underpins our endeavour towards shared value creation for our stakeholders for common long-term growth.

### **Outlook and objectives for 2013**

In terms of market environment, we expect the Brent price to be above USD 100/bbl while the Brent-Urals spread stays relatively tight. In local gas and electricity markets, we see stable demand, reflecting rather weak economic growth foreseen in 2013 and prospective energy efficiency measures. In terms of prices, the gas market is set to gradually increase regulated domestic gas prices for both households and non-households, provisioned through official timetables endorsed by the Government in January this year. Electricity prices are expected to be under pressure due to supply dynamics, with additional capacity coming on stream from renewables.

The previous years' robust financial and operational results and the healthy cash flow position at the end of 2012 are good prerequisites for continuing our focus on operational excellence, stabilizing production volumes and capitalizing on growth opportunities via exploration works and exploration license acquisitions. In line with our strategy, we will continue our significant investment efforts with CAPEX plans for 2013 being above EUR 1 bn. Moreover, one of our top priorities is the discussion with authorities to define a long-term, stable and reasonable fiscal and regulatory framework, required for the high, long-term investments needed by the oil and gas industry.

Our successes in 2012 strengthened our reputation as a sustainable business and are due to the skills, experience and sheer passion of our people. On behalf of the Executive Board I thank them unreservedly. I also wish to express our appreciation for the support of our customers, suppliers, other partners and shareholders as we continue to build a sustainable business for the long-term.

Whatever challenges 2013 will bring, one thing is clear: the spirit and values of Petrom and our commitment to a sustainable performance and growth will remain constant and help us achieve our strategic objectives.

**Mariana Gheorghe**



## 1.4. Our strategic directions and objectives

---

### Petrom in 2012

Petrom is the largest oil and gas group in Southeastern Europe, with activities in the business segments of Exploration and Production, Gas and Power as well as Refining and Marketing. The Group consolidated its position in the oil and gas market in Southeastern Europe following a comprehensive modernization and efficiency increase process backed by investments accounting for more than EUR 8.8 bn over the past eight years. Petrom is part of the OMV Group, which is also an integrated, international oil and gas player. OMV Aktiengesellschaft, the mother-company of the OMV Group, holds a 51.01% share in Petrom and is one of Austria's largest listed industrial companies.

In E&P, Petrom is the largest hydrocarbon producer in Southeastern Europe. The proved and probable oil and gas reserves in Petrom Group's portfolio at the end of 2012 amounted to approximately 1,091 mn boe and hydrocarbon production averaged 183 kboe/d throughout the year.

In G&P, Petrom maintains a strong position in the Romanian gas market and leveraged its value chain by having entered the power generation industry. In 2012, Petrom sold approximately 4.8 bcm of gas and had a total net electrical output of 1.58 TWh from the Brazi plant, which was on stream starting August 2012, and 0.09 TWh from the Dorobantu wind park.

In R&M, Petrom processed 3,146 kt of crude oil at the Petrobrazi refinery and had a wide geographical market stretching over Romania, Bulgaria, Serbia and the Republic of Moldova with approximately 800 filling stations. The company maintains a leading position in the Romanian market, having a total market share of approximately 36%.

With Group sales of RON 26.3 bn and a workforce of 21,650 employees, Petrom has proven strong execution capabilities to deliver on its strategic objectives and focuses on key enablers to achieve its long-term targets.

### Our strategy "Sustainable performance for growth"

In June 2012, the Supervisory Board approved Petrom's strategic directions for 2021. Petrom remains committed to delivering sustainable performance and focusing on potential upstream growth opportunities. Petrom aims to remain the leading regional, integrated oil and gas company with sustainable performance needed to support potential upstream growth in the neighboring Black Sea region. The company will continue to invest in a competitive, investment-friendly regulatory and fiscal environment to sustain performance and position for growth in upstream.

Our strategic directions aim to maximize the portfolio value and capture growth opportunities in upstream while optimizing midstream and downstream operations. In doing so, we will experience and aim to properly address both organic and external challenges posed by the operating environment across our entire value chain. Top challenges include our onshore portfolio of mature fields with declining production, market demand, gas and power market regulations, pressure on fuel and refining margins and the uncertain nature of the fiscal and regulatory regime.

#### Maximize portfolio value and position for growth

Exploration and Production continues to be the company's backbone and is positioned to capture future growth potential. In the short-term, upstream activities are set to continue the efforts towards operational excellence, stabilizing production and optimizing the portfolio through partnerships, while mid and long-term value will be built on increasing oil and gas recovery and exploring additional opportunities, including the neighbouring Black Sea.

Petrom will direct approximately 80% of future capital investments towards its upstream activities and aims at increasing its share in total assets in E&P from 70%, currently, to 80-85% in 2021. The implementation of the upstream strategy will ensure the sustainability of the E&P portfolio and will enhance the value delivery potential.

### Enhance the value of equity gas

Gas and Power aims to enhance the integrated value of Petrom's equity gas by strengthening gas sales and optimizing across commodities in order to leverage fair market conditions. The conversion of gas into electricity through Brazi power plant extends the value chain and ensures an additional important marketing platform for gas. It allows Petrom to optimize between different sales channels: gas can either be sold as such or it can be fed into the Brazi gas-fired power plant for power generation.

### Optimize integrated equity oil

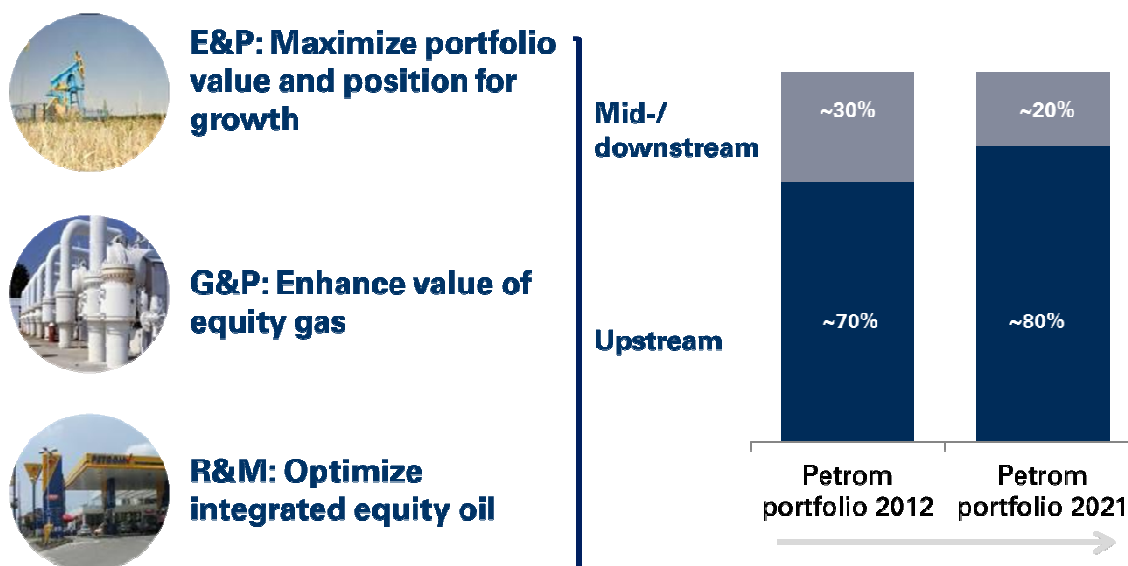
Petrom's potential in value delivery in Refining and Marketing is based on optimization of integrated equity oil. The international downstream business faces pressures on fuel and refining margins mainly due to overcapacity. The Petrobrazil refinery is currently being upgraded and improved to maximize Petrom's integration value. The modernization process will be finalized by 2014. Going forward, the segment will be focused on reducing costs, increasing efficiency and improving operations through an optimized R&M portfolio.

### Successful strategy implementation

To successfully implement its strategy in the coming years, Petrom will continue to invest at a similar pace as in the past to support the company's future growth (annual average over the past eight years around EUR 1.1 bn). Considering the large exposure of Petrom's portfolio to volatile oil prices, an investment-friendly environment with predictable, fair and transparent fiscal and regulatory regimes is needed to achieve our strategic objectives and to realize the envisaged investments.

Performance growth requires focus on people and sustainability. To support this path, Petrom develops a performance-based organization culture and skill pool to achieve business growth and operational excellence. In order to develop a resourcefulness culture, the company uses natural resources efficiently, applying high safety and environmental standards, and shares value with stakeholders for common long-term growth.

### Petrom total assets 2021



## Exploration and Production

Our Exploration and Production business explores for and extracts oil and natural gas in Romania and in the Caspian region, specifically Kazakhstan. In Romania, Petrom accounts for almost the entire crude oil production and for approximately half of the gas production. Petrom Group oil and gas production amounted to approximately 183 kboe/d in 2012, of which 171 kboe/d was produced in Romania with an oil/gas split of roughly 45/55%. Proven oil and gas reserves in Petrom Group's portfolio stood at 775 mn boe at year-end, of which 750 mn was in Romania. As part of Petrom's exploration focus, deep water exploration successfully started in the Romanian Black Sea with a discovered gas accumulation with a potential size of 42 to 84 bn cbm.

### Our strategy "Maximize current portfolio value and position for growth"

The Exploration and Production focus over the short-term will be on stabilizing conventional production to largely offset natural decline, and on achieving operational excellence. For this purpose, the company will: i) continue field redevelopment projects, ii) explore and develop near field opportunities, iii) apply state of the art technologies and iv) optimize the E&P portfolio through partnerships.

To enhance its medium-term value, E&P will continue with: i) activities to increase ultimate oil and gas recovery, ii) exploration, appraisal and development of the Neptun gas discovery in the Black Sea, if commercial viability is confirmed and iii) the exploration of deeper and frontier hydrocarbons.

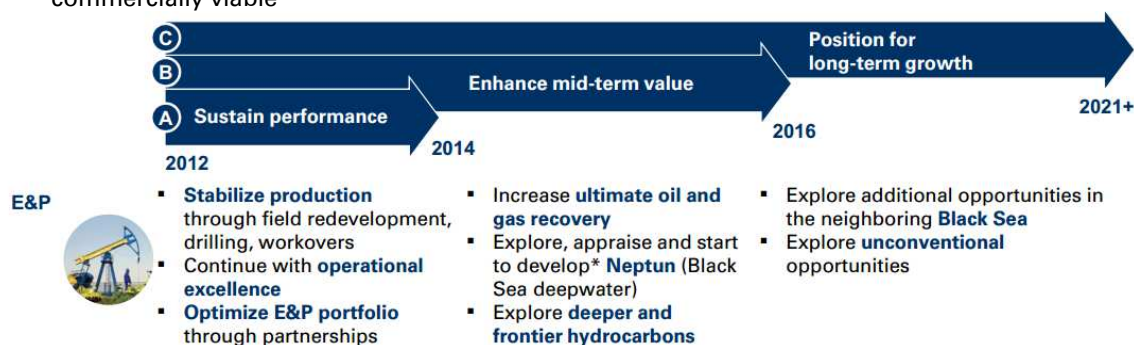
E&P will strive to position itself for long-term growth by exploring the neighboring Black Sea region and unconventional opportunities.

### Our achievements in 2012 towards fulfilling our strategic directions

- ▶ Petrom Group production successfully stabilized at approximately 183 kboe/day, with an average annual decline rate of 0.8% in Romania since 2010
- ▶ Further progress in maturation process for re-development of key fields
- ▶ Continued to optimize gas production systems and to modernize surface facilities and equipment in selected major fields
- ▶ Group production costs in USD/boe decreased by 5% against 2011 and by 6% in Romania
- ▶ Signed 15-year agreement with Expert Petroleum for production enhancement services on 13 small mature fields situated in the Western part of Romania, targeting a significant increase of cumulative oil and gas production above estimated natural decline
- ▶ Domino-1 well, first deepwater exploration well drilling realized in joint venture with ExxonMobil Exploration and Production Romania Limited, resulting in a preliminary estimated gas potential ranging from 42 to 84 bn cbm
- ▶ Initiated the largest 3D seismic program in the Romanian sector of the Black Sea, covering 6,000 km<sup>2</sup> in the deepwaters and an additional 1,600 km<sup>2</sup> in shallow waters of the Neptun block
- ▶ Steps to secure additional exploration licences in the Black Sea deep water areas adjacent to Neptun block

### Our key initiatives

- ▶ Stabilize production through field redevelopment, drilling, high number of workovers and new technologies
- ▶ Prioritize investment on high impact fields
- ▶ Optimize asset portfolio through partnership
- ▶ Finalize six up to eight field redevelopment projects until 2015
- ▶ Deep Offshore Black Sea – explore and appraise further prospects and start developing Domino if commercially viable



## Gas and Power

Petrom has a strong sustainable position in the Romanian gas market, covering all gas market segments with a focus on industrial and distribution companies. With the start of commercial operations at the 860 MW Brazi gas-fired power plant in August 2012, Petrom expanded the gas value chain by converting gas into electricity.

### Our strategy: "Enhance the value of equity gas"

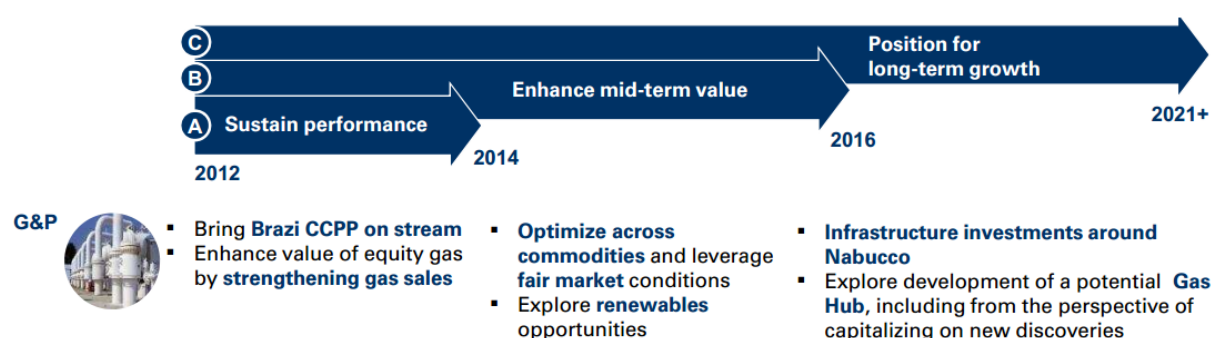
Gas and Power aims at generating additional value by expanding the integrated business chain into the power market. In the G&P activity, Petrom will seek to ensure a sustainable operation of the Brazi power plant in the short term. To further enhance the value of equity gas, Petrom will focus on strengthening its gas sales and leverage fair market conditions. In the medium to long term, we will assess infrastructure investments around the Nabucco gas pipeline project. Also, we will explore the development of a potential gas hub.

### Our achievements in 2012 towards fulfilling our strategic directions

- ▶ Consolidated gas market share (28% in the free market) and increased gas business profitability
- ▶ Started commercial operations at the Brazi power plant in August 2012 with plant availability during August-December at 89%
- ▶ Developed a customer base in the power business
- ▶ Dorobantu wind park focused on maximizing availability (92% achieved in 2012), while optimizing operational costs
- ▶ Modernized small metering stations

### Our key initiatives

- ▶ Implement gas price liberalization in the sales strategy
- ▶ Maintain the leading position on the free gas market
- ▶ Realize synergies by bundling electricity sales with natural gas sales to existing customer base
- ▶ Enhance value of equity gas by further optimizing operations of the gas-fired power plant Brazi and consolidating position in the market
- ▶ Maximize the operational performance of Dorobantu wind park



## Refining and Marketing

Petrom is the number one downstream operator in Romania, with a total market share of 36%, operating 546 filling stations and is also the leading supplier of aviation fuel services. Through our affiliates, we also operate 252 stations in the neighboring countries of Bulgaria, Serbia and the Republic of Moldova. Along the value chain, we run Petrobrazî as an upstream integrated refinery that exclusively processes equity crude to maximize its integration value.

### Our strategy: "Optimize integrated equity oil"

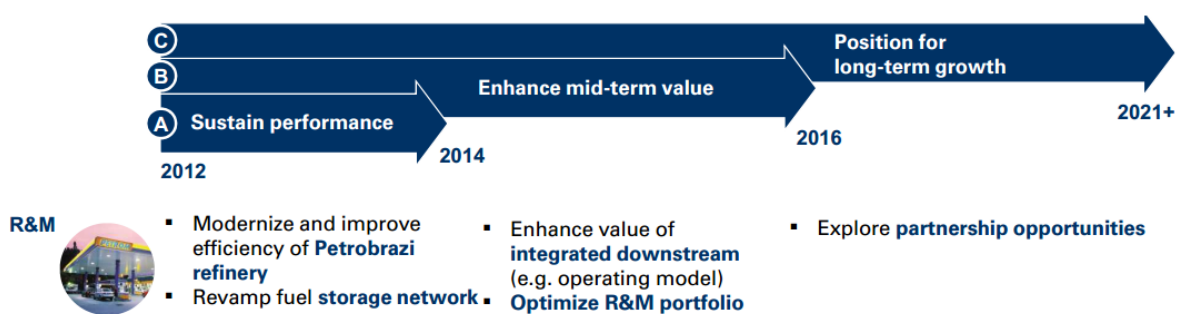
Leveraging its integrated business model, Petrom will continue with the modernization of its upstream integrated Petrobrazî refinery, which will be finalized by 2014, aimed to improve our operations, reduce costs and increase efficiency. Additionally, we further enhance our supply network with revamped storage facilities to fully support the retail network. Petrom will undertake a continuous business review and portfolio measures (partnerships and divestments of non-core/non-economical units) based on market conditions and network performance.

### Our achievements in 2012 towards fulfilling our strategic directions

- ▶ Consolidated business position in a depressed market environment
- ▶ Successful commissioning of the crude distillation unit modernization in Petrobrazî refinery
- ▶ Centralization of administrative marketing activities in the region into a single functional organization run from Bucharest
- ▶ Divestment of non-core LPG bottling business in Romania
- ▶ Commissioning and start of operations at new Isalnita terminal

### Our key initiatives

- ▶ Further improvement of HSSE awareness and performance
- ▶ Continue Petrobrazî refinery modernization program, with coker unit upgrade and installing a new gas desulfurization unit
- ▶ Continue energy efficiency improvements and reduce CO<sub>2</sub> emissions
- ▶ Further optimize retail filling station network to increase profitability
- ▶ Progress with terminals' optimization strategy by revamping Bacau storage unit



## 1.5. Members of the Supervisory Board

---

The Supervisory Board represents the interests of the Company and of its shareholders and is responsible for the overall management of the Company. At the date of the report, the Supervisory Board of Petrom consists of nine members, as follows:

### **Gerhard Roiss (1952) – President**

Chief Executive Officer of OMV and Chairman of the OMV Executive Board. He followed economics studies at Vienna, Linz and Stanford Universities and started to work at OMV in 1990. First elected at the GMS held on January 11, 2005, he was appointed President of the Supervisory Board on April 26, 2011.

### **David C. Davies (1955) – Deputy-President**

Chief Financial Officer of OMV and Deputy Chairman of the OMV Executive Board. Graduated from Liverpool University and joined OMV in 2002. First elected at the GMS held on January 11, 2005.

### **Manfred Leitner (1960)**

Member of the OMV Executive Board, responsible for Refining and Marketing. Studied commerce at the Vienna University of Economics and Business and began his career with OMV in 1985 in the E&P division. First elected at the GMS held on April 26, 2011.

### **Jacobus Gerardus Huijskes (1965)**

Member of the OMV Executive Board, responsible for Exploration and Production. Studied mechanical engineering at Delft University of Technology in the Netherlands and started to work at OMV in 2010. First elected at the GMS held on August 3, 2010.

### **Hans-Peter Floren (1961)**

Member of the OMV Executive Board, responsible for Gas and Power. He succeeded **Gerald Kappes**, who was interim member of the Petrom Supervisory Board during January-March 2012, after replacing **Werner Auli** (former member of the Petrom Supervisory Board between 2006 and 2011). Studied mechanical engineering and economics at the University of Essen, Germany. He began his career with OMV in 2012. First elected at the GMS on April 27, 2012.

### **Constantin Dascălu (1973)**

Personal Counselor to the Minister of Economy, Trade and Business Environment. Graduated from the Babes-Bolyai University of Cluj-Napoca, Faculty of Economic Sciences and from the Bogdan Voda University of Cluj-Napoca, Management Faculty. First elected at the GMS on April 26, 2011.

### **Gheorghe Ionescu (1953)**

Member of the Petrom Supervisory Board appointed following the Ministry of Economy's proposal. Graduated from the Polytechnic Institute of Pitești, Department of Mechanical Engineering, and from the Academy of Economic Studies. He holds a master degree in financial and economic administration granted by the Conservatoire National d'Art et Metieres of Paris. First elected at the GMS on April 28, 2009.

### **Joseph Bernard Mark Mobius (1936)**

Executive Chairman, Templeton Asset Management Ltd. appointed to the Petrom Supervisory Board following the Property Fund's proposal. He earned Bachelors and Masters degrees from Boston University, and a PhD in economics and political science from the Massachusetts Institute of Technology. First elected at the GMS on April 29, 2010.

### **Riccardo Puliti (1962)**

Managing Director in charge of the energy and natural resources sectors at the EBRD; appointed to the Petrom Supervisory Board following the EBRD's proposal. He is an MBA alumnus of Instituto de Estudios Superiores de la Empresa (IESE) and a postgraduate alumnus of the Kennedy School of Government (Harvard University) and Imperial College. He started working for the EBRD in 1996. First elected at the GMS on April 28, 2009.



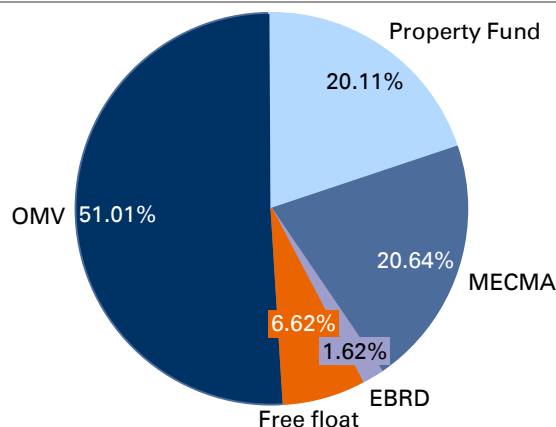
## 1.6. Petrom shares

### Shareholder structure

At the date of the report, OMV Petrom S.A. has the following shareholder structure: 51.01% - OMV Aktiengesellschaft, 20.64% - the Ministry of Economy, Trade and Business Environment (MECMA), 20.11% - the Property Fund, a fund created by the Romanian state in order to compensate the persons who suffered from the nationalization of their assets during the communist regime (the fund manages a portfolio of shares with different stakes in Romanian and foreign companies and was listed on the Bucharest Stock Exchange (BSE) in January 2011), and 1.62% - the European Bank for Reconstruction and Development (EBRD). The remaining share of 6.62% is

free float, traded at the first tier of the Bucharest Stock Exchange (BSE). At the end of 2012, around 500 institutional investors from both Romania and abroad held approximately 5.2% out of the 6.6% free float shares, with the remainder (1.4%) held by more than 463,000 private individuals.

**Petrom Shareholding structure**



### Shares

In 2012, the local stock market experienced a consolidation period, with an upward trend in the first five months of the year, followed by a small correction and a rebound in the second half of 2012, with main indices performing better year-on-year, taking their cue from international markets.

In terms of trading, Petrom's share price advanced in 2012, rebounding from the previous year's weak performance. In early January, the stock registered its year low of RON 0.2900 and then steadily increased to year high of RON 0.4327/ share, reached in late December.

Overall, Petrom's share price gained 47.6% on a full year basis, outperforming the BET index (ten most liquid blue chip stocks listed on BSE), which advanced 18.7% and the BET-C (BET Composite) index, which increased 6.3% over the same period. Vienna Stock Exchange's ROTX index that comprises the 14 most liquid blue chip stocks traded at the BSE, was up 29.1% in 2012 while the BET-NG sector index (stocks in the energy and utilities sectors) was only slightly up over the year (+2.6%).

Petrom's market capitalization at the end of 2012 stood at RON 24.2 bn, accounting for 24.8% of total market capitalization of all companies listed at the BSE.

### Petrom share symbols

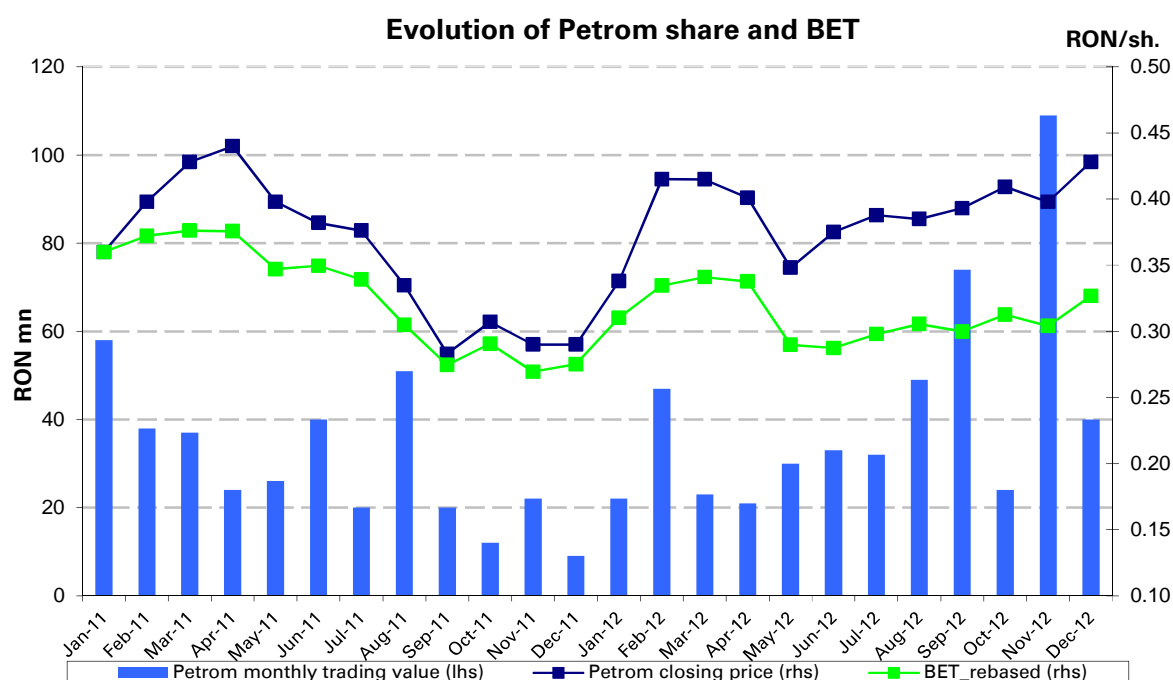
ISIN	ROSNPPACNOR9
Bucharest Stock Exchange	SNP
Bloomberg	SNP RO
Reuters	ROSNP.BX



At a glance	2010	2011	2012
Number of shares	56,644,108,335	56,644,108,335	56,644,108,335
Market capitalization (RON mn) <sup>1</sup>	18,976	16,427	24,249
Market capitalization (EUR mn) <sup>1</sup>	4,429	3,803	5,475
Year's high (RON)	0.3660	0.4500	0.4327
Year's low (RON)	0.2520	0.2750	0.2900
Year end (RON)	0.3350	0.2900	0.4281
EPS (RON/share)	0.0389	0.0663	0.0698
Dividend per share (RON)	0.0177	0.031	0.028 <sup>2</sup>
Dividend yield <sup>1</sup>	5.2%	10.7%	6.5% <sup>2</sup>
Payout ratio	46%	47%	40% <sup>2</sup>

<sup>1</sup> Calculated based on the closing share price as of the last trading day of the respective year

<sup>2</sup> Proposed dividend, subject to GMS approval



### General Meeting of Shareholders

On April 27, 2012, the Ordinary (OGMS) General Meeting of Shareholders was held. The OGMS approved OMV Petrom S.A.'s Revenues and Expenditures Budget for the financial year 2012 and the distribution of a gross dividend of RON 0.031/share for the financial year 2011, at the total amount of RON 1,756 mn, corresponding to a 47% payout ratio. The OGMS also approved the appointment of Mr Hans-Peter Floren (member of the OMV Executive Board) as the new member of Petrom's Supervisory Board for the remaining term of Mr Werner Auli's mandate (i.e. until 28 April, 2013). The OGMS also reappointed Ernst & Young Assurance Service S.R.L. as financial auditor for 2012.

### Investor Relations activities

In 2012, senior management and the Investor Relations team held meetings and conference calls with numerous local and foreign analysts and institutional investors. The company also attended analyst and investor conferences, organized in Romania and abroad (London, Prague). At the meetings, analysts and investors had the opportunity to address questions directly to the company's representatives, including the CEO and/or CFO and the IR representatives, and discuss the company's reported results and strategic directions. A total of around 60 one-to-one or group meetings and presentations were held throughout 2012, including more than 100 investors and analysts.

Starting from 2010, Petrom reports consolidated financial statements prepared according to International Financial Reporting Standards (IFRS) to the capital markets on a quarterly basis. This provides for a high

degree of transparency and facilitates comparability with our international peers. In line with Romanian legal requirements applicable for listed companies, starting 2012 Petrom also prepares separate individual financial statements in accordance with IFRS.

In the interests of transparency and timeliness, all company reports, releases and important information for shareholders, analysts and investors are promptly posted and archived, after dissemination to the Stock Exchange, on our corporate website [www.petrom.com](http://www.petrom.com), under the Investor Relations section.

### Dividends

On March 21, 2013, the Supervisory Board endorsed the management's proposal to distribute dividends of RON 0.028 per share, resulting in a payout ratio of 40%. The dividend proposal is subject to further approval by the General Meeting of Shareholders, on April 22, 2013.

### Own shares

At year-end 2012, OMV Petrom held a total of 204,776 own shares, representing 0.0003% of issued share capital.

In the year under review, Petrom did not buy back or cancel any of its own shares.

### Financial calendar 2013

Financial events	Date
Presentation of the results for January-December and Q4 2012 <sup>1</sup>	February 21, 2013
Publication of the Annual Report 2012	April 22, 2013
General Meeting of Shareholders	April 22, 2013
Presentation of the results for January-March 2013	May 14, 2013
Presentation of the results for January-June and Q2 2013	August 13, 2013
Presentation of the results for January-September and Q3 2013	November 7, 2013

<sup>1</sup> Petrom Group preliminary, unaudited consolidated results prepared according to the International Financial Reporting Standards (IFRS)

### Contact at Investor Relations

Sorana Baci  
Strategy, Corporate Development & Investor Relations  
OMV Petrom S.A.  
Mailing address: 22 Coralilor Street, District 1, Bucharest  
Tel: +40 (0) 214022206; Fax: +40 (0) 372868518  
E-mail: [investor.relations.petrom@petrom.com](mailto:investor.relations.petrom@petrom.com)

### Mailing service

To obtain the printed version of quarterly and annual reports in Romanian and English, please e-mail [investor.relations.petrom@petrom.com](mailto:investor.relations.petrom@petrom.com) or use the ordering service at [www.petrom.com](http://www.petrom.com).

## 1.7. Business environment

---

### World

The global economy continued to stabilise in 2012, but growth slowed down to 3.2% growth from 3.9% in 2011. The pace of economic recovery remained fragile and uneven across economic regions. Emerging economies grew by 5.1% in 2012 while both the US and Japan recorded positive growth of 2.3% and 1.7% respectively. In contrast, the EU economy entered into a mild recession, falling by 0.3%. A more coordinated and strengthened EU policy response to the euro crisis significantly lowered the risks related to a potential euro zone break-up. This, together with the implementation of structural reforms across several euro zone countries reduced market spreads, diminishing pressures on sovereign borrowing costs. Consumer price inflation in advanced economies stood at 2.0% in 2012 as demand remained weak and excess supply capacity stayed ample. The goods and services world trade volume grew at a slower pace than it did in 2011, rising by only 2.8%, thus reinforcing the view that recovery will be sluggish. Global non-fuel commodity prices fell by 9.8% in 2012, after growing by 7.8% a year before.

In 2012, total **global oil demand** rose by 1% to 89.8 mn bbl/d compared to 2011. Although oil demand in OECD countries continued to fall in 2012, dropping by 0.4 mn bbl/d or 0.9%, demand in non-OECD countries was strong enough to compensate for that loss. Oil demand in Asia and China was particularly robust, raising total non-OECD demand by 1.5 mn bbl/d, or 3.5% in 2012. **Global oil supply** staged a forceful increase in 2012 going up by 2.5 mn bbl/d compared to 2011, or 2.8%, to 90.9 mn bbl/d. Total OPEC oil supply alone rose by 1.9 mn bbl/d compared to 2011, with the sharp rebound in Libyan supply accounting for a large part of this increase. Meanwhile, OECD oil supply also rose by 4.8% to 19.8 mn bbl/d. The increase was partly driven by higher crude oil output in the US, where drilling companies started to benefit from enhanced efficiency gains.

In 2012, the average Brent price stood at USD 111.67/bbl, only 0.4% higher compared to its 2011 level. Brent crude oil prices traded in the range of USD 92-126 per barrel in 2012, displaying a more elevated volatility during the first three quarters of the year, when the euro zone break-up risk was still heightened. The trading range narrowed significantly towards the end of the year to USD 102-107 per barrel, bringing the Brent oil price close to trading levels seen a year ago. In 2012, the average Urals price was USD 110.76/bbl, 1% higher compared to 2011.

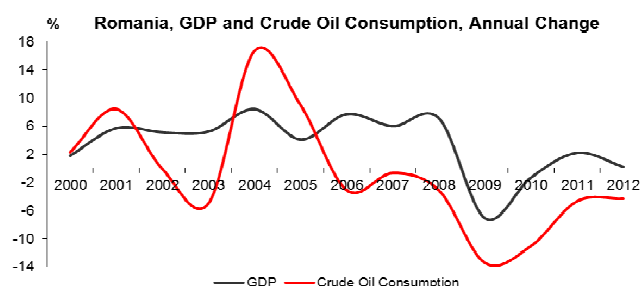
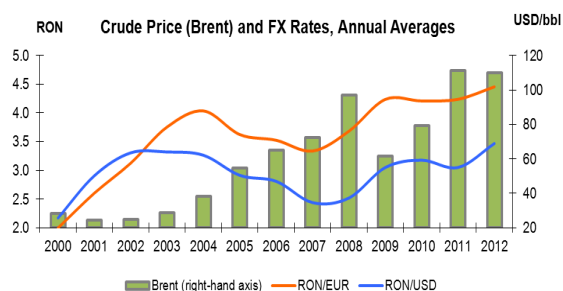
### Romania

The Romanian economy displayed a lackluster performance in 2012, with initial estimates showing GDP growing by 0.3% compared to 2011. The economy slowed down markedly in the second half of the year as external demand waned and the effects of political gridlock, which saw two government changes in 2012 prior to the December Parliamentary elections, impeded economic recovery prospects. The absorption of EU funds, the main source of envisaged growth, was plagued by the interruption of several operational programmes in 2012 and thus remained exceptionally weak. The performance of the agriculture sector was particularly feeble, with output in the sector falling by a third compared to the previous year. The industry sector output growth was virtually flat versus 2011 as diminishing demand in the EU impacted negatively on domestic production. Exports, one of the main engines of economic recovery, were also affected by unfavorable EU conditions, falling at an annual rate of 0.5% in EUR-denominated terms. Foreign direct investment continued to trend downwards reaching almost EUR 1.6 bn in 2012, a sixth of its 2008 value. Although households' purchasing power reversed its negative trend from 2011, domestic private consumption growth remained subdued as the high level of household indebtedness and a reduced rate of job creation continued to weigh down on demand.

Official provisional data appear to show that labor market conditions eased slightly, with end-year unemployment rate standing at 6.7%, down compared to end-2011. However the economy failed to add jobs on a consistent basis, as at the end of December the total number of registered employees in the economy was still by some 10% less than its pre-crisis level.

In spite of difficult economic conditions, macroeconomic stability marginally strengthened in 2012. For the first time in more than two decades, the effects of political business cycle onto the economy, triggered by December's Parliamentary elections, were weak. Budgetary constraints laid out in both the IMF Agreement and EU's Fiscal Compact restrained government spending. This led to a further consolidation of government's fiscal balance which recorded a deficit of 2.5% of GDP in 2012.

Annual **consumer price inflation (CPI)** stood at 5.0% at the end of 2012, higher than initial forecasts. The rise in inflation was partially due to the increase in agricultural produce prices. The pass-through effects of the RON depreciation against the EUR and USD were mostly triggered by the heightened level of political risk. However, producer price inflation fell to 4.9% at the end of 2012, its lowest level in two years. The National Bank of Romania (NBR) continued its prudent approach to monetary policy cutting its benchmark interest rate by a cumulative 75 basis points since the beginning of the year to 5.25% at the end of December 2012. In 2012, the RON fell against both the EUR and the USD by 5.1% and 13.8% respectively. Towards the end of 2012 the RON started to reverse its depreciating trend as political risk eased. Romanian **energy supply** fell in 2012 by 2.2% to 34.0 mn toe as the pace of economic activity weakened. Overall, energy imports also fell by 1.2% with domestic demand for both oil and natural gas dwindling.



### Outlook for 2013

According to the European Commission, Romania's economy is forecast to grow by 1.5% in 2013 on the back of stronger private consumption and increased EU funds absorption. External demand will continue to play an important role in the revival of the economy. However, domestic economic policies will play a pivotal role in kick-starting the economy.

## 2. Business segments

### 2.1. Exploration and Production (E&P)

2012 was a year of broadly stable production in E&P and stepped up exploration efforts and opportunities. Deep water exploration successfully started and Domino-1, the first deep water well drilled in Romanian Black Sea waters, revealed a gas accumulation with a potential size of 42 to 84 bn cbm. Proven oil and gas reserves in Petrom Group's portfolio stood at approximately 775 mn boe at year-end while Group production was around 183 kboe/d over the year. Domestic production decline successfully minimized at only 1.6% as production optimization initiatives counterbalanced the harsh winter conditions in early 2012 and production decline at key fields. Production in Kazakhstan increased by 2.8% in 2012 due to the ramp up of production from the Komsomolskoe field.

#### At a glance

	2010	2011	2012
Segment sales (RON mn) <sup>1</sup>	9,534	11,743	12,992
EBIT (RON mn) <sup>2</sup>	3,012	5,236	5,467
Capital expenditures (RON mn) <sup>3</sup>	2,774	3,254	3,753
Total Group production (mn boe)	67.08	67.77	66.87
thereof in Romania	63.46	63.41	62.39
Proved reserves as of December 31 (mn boe)	832	812	775
thereof in Romania	805	786	750

<sup>1</sup> Include inter-segment sales

<sup>2</sup> Excluding intersegmental profit elimination

<sup>3</sup> Capital expenditures also include increases of Petrom share participations in other companies

**Clean E&P EBIT** increased by 6% compared to 2011 to RON 5,754 mn, mainly driven by favorable FX effects (stronger USD against RON) and higher oil prices (the Group average realized oil price increased by 1% to USD 94.00/bbl). These factors more than offset higher depreciation, production costs and royalties. Additionally, in 2012, E&P result was negatively influenced by harsh weather conditions during the first two months of 2012 and by write-off of obsolete stocks.

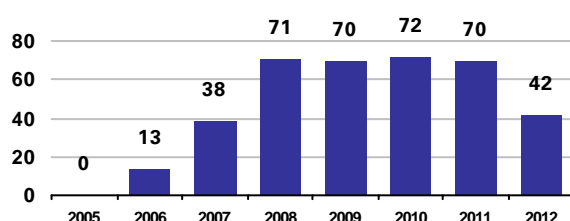
**2012 reported EBIT** amounted to RON 5,467 mn, an increase of 4% compared to 2011. In 2012, reported EBIT reflects net special charges of RON (287) mn, mostly related to a legal case in Kazakhstan for uncollected receivables, a restructuring provision related to personnel and a net special charge in relation to a community project.

In 2012, Petrom Group's hydrocarbon production amounted to 66.87 mn boe (thereof 62.39 mn boe in Romania), 1.3% lower compared to 2011 with 2.8% higher production in Kazakhstan and a domestic production decline minimized at 1.6%. On average, daily oil and gas production was 182.7 kboe/day (thereof 170.5 kboe/day in Romania). In 2012, Group production costs decreased by 5% to USD 15.37/boe (production costs in Romania decreased by 6% to USD14.91/boe) due to favorable FX effects (USD appreciated by 14% against RON).

In Romania, total production costs in RON terms, in absolute values, were higher by 5% compared to 2011 mainly due to higher personnel costs following collective labor agreement negotiations.

#### Reserve replacement rate (RRR)

##### Single year RRR (Romania)



As of December 31, 2012, total proved oil and gas reserves in Petrom Group's portfolio amounted to 775 mn boe (Romania: 750 mn boe), while proved and probable oil and gas reserves amounted to 1,091 mn boe (Romania: 1,039 mn boe). The Group's three-year average reserve replacement rate stood at 61% in 2012 (2011: 70%), while in Romania it also stood at 61% (2011: 71%). For the single year 2012, the Group's rate was 44% (2011: 70%), while the reserve replacement rate in Romania was 42% (2011 rate

stood at 70%, mainly as a result of reservoir studies performed).

A reserves audit was performed by De Golyer & Mac Naughton for the 2011 reported figures. The report was finalized mid-2012 and the auditor's estimates are in material agreement with Petrom's 2011 reserves assessment.

In recent history, Petrom was able to keep its reserve replacement rate around the 70% level mainly thanks to continuous revisions of reserves pertaining to mature fields, as a result of reservoir studies performed, involving drilling program results combined with diversification of recovery mechanisms. Nevertheless, the potential to add additional reserves via revisions organically, in a confined geographical landscape with mature fields, reached its limits in 2012.

The reverse of the 2012 downward trend depends on the implementation of ongoing redevelopment projects, with a long cycle, aimed at increasing the recovery factor at our key fields and exploration initiatives both onshore and offshore. In the last 2 years, we have increased our 3D seismic acquisition program and we expect to see its impact from 2014 onwards. Moreover, further opportunities may arise in implementing additional gas projects, currently postponed due to prevailing gas market conditions.

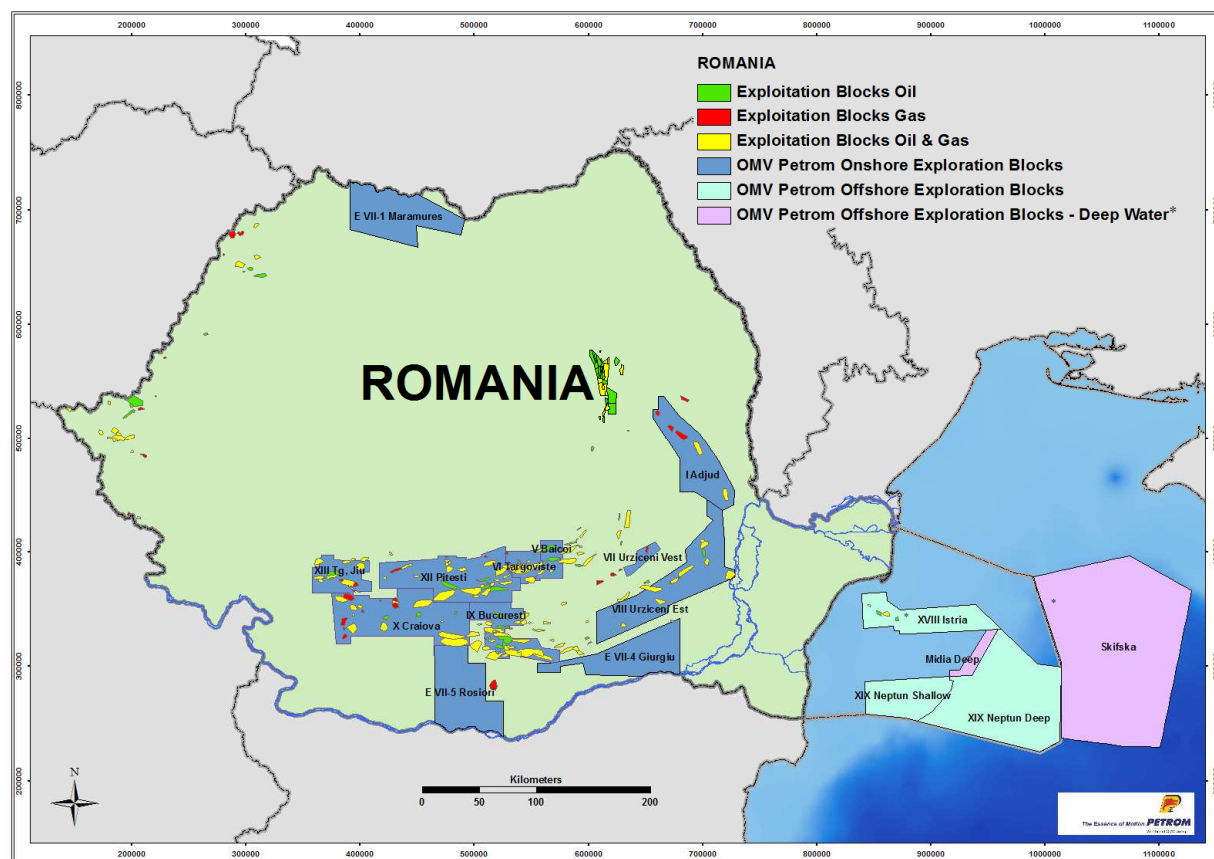
### Operational highlights 2012

#### Romania

In Romania, Petrom holds exploration licenses for twelve onshore and two offshore blocks, with a total area of 42,760 km<sup>2</sup> (of which 12,321 km<sup>2</sup> offshore) and operates 238 commercial oil and gas fields at the end of 2012.

A combined volume of 170.5 kboe/d was produced in 2012 in Romania (2011: 173.7 kboe/d).

#### *Petrom's exploration, development and production concessions in Romania*



\*Skifska Block (ExxonMobil 40%, Shell 35%, OMV Petrom 15%, Nadra Ukrayina 10%): Exploration block awarded in Q3/12, PSA is undergoing negotiations; Midia Block: Petrom and ExxonMobil signed Transfer Agreement with Sterling Resources and Petro Ventures for 85%; 15% held by Gas Plus International

### Exploration

Exploration efforts intensified in 2012 with a focus on offshore initiatives and additional licence awards opportunities in the areas adjacent to the Neptun block.

In the first quarter of 2012, Domino-1, the first deep water exploration well offshore Romania, was successfully drilled. The well was located in the Neptun Block, 170 kilometers offshore at a water depth of about 930 meters. Drilling operations at Domino-1 started in December 2011 and on February 22, 2012 a potentially significant gas discovery was confirmed. The exploration well encountered 70.7 meters of net gas pay, resulting in a preliminary estimate for the accumulation ranging from 1.5 to 3 trillion cf (42 to 84 bn cbm). Domino-1 was drilled using state-of-the-art industry technology and had a total depth of more than 3,000 meters below sea level.

The evaluation of the Domino-1 well results and new seismic acquisition are key to determine the next steps. Following the discovery, a 3D seismic program of approximately 6,000 km<sup>2</sup> was planned and started in December 2012, in the deepwater sector of the Neptun Block. Further evaluation and additional appraisal work is planned for the near future to indicate if the deep offshore gas discovery Domino-1 is commercially recoverable. However, should further work confirm the technical and commercial feasibility of deep water gas production from the Neptun block, further investment during both the exploration and development phases could reach several billion USD with the potential for first production towards the end of the decade at the earliest. An additional 3D seismic program of 1,600 km<sup>2</sup> has been achieved in the shallow water sector of the Neptun block.

Following the Domino-1 exploration success, additional acreage in the neighboring area of the Neptun block was pursued.

In August 2012, following a bidding round organized by the Ukrainian Government, the consortium in which Petrom partners with ExxonMobil (project operator), Shell and Nadra Ukrayny won the tender for the Skifska block in the deep waters of the Ukrainian Black Sea, adjacent to Neptun Block. Within the consortium, Petrom has a 15% participating interest. The Production Sharing Agreement was undergoing negotiations by the end of 2012.

In October 2012, Petrom and ExxonMobil Exploration and Production Romania Limited (EMEPRL) signed a Transfer Agreement for the purchase of an 85% interest in the hydrocarbon exploration and production rights to a portion of the XV Midia Block ("Midia Deep") in the Romanian Black Sea, also adjacent to the Neptun Block. The Transfer Agreement signed with Sterling Resources Ltd. and Petro Ventures Europe B.V. is subject to several conditions which are in the process of being fulfilled, including approvals from relevant authorities before becoming effective. At the time when the transfer becomes effective, Petrom's participating interest will be 42.5%. In early 2013, an option agreement was signed by Petrom and EMEPRL with State majority-owned company Romgaz, the other large gas producer in Romania. The agreement grants Romgaz the option to purchase 10% of the participating interest in the Midia Deep operations. Romgaz's option to enter is triggered by the Transfer Agreement becoming effective and an announcement of a commercial discovery.

Onshore, Petrom concluded exploration works focused mainly on seismic acquisitions, summing up 1,196 km<sup>2</sup> of 2D seismic data and 915 km<sup>2</sup> of 3D seismic data. Other exploration works started in 2012 and ongoing at year-end are expected to be finalized in the first quarter of 2013. The interpretation of the seismic data acquired throughout 2012 is expected to provide the best locations for the exploration drilling, which needs to be done in 2013 and 2014.

During 2012, we successfully drilled one exploration well in the Giurgiu license while another two wells were ongoing at year end. The experimental production of the Totea deep well proved the significant size and production potential of the new field and we expect the appraisal drilling to continue in 2013, although in very challenging deep, high pressure and high temperature formations.

### **Production**

In 2012, Petrom produced in Romania 3.98 mn tons of crude oil, including condensate, and 5.16 bcm of natural gas, which is the equivalent of 62.4 mn boe total oil and gas. The daily average equivalent production reached 171 kboe/d, compared to 174 kboe/d in 2011. After the steep decrease at the beginning of the year, production has been stabilized starting with the third quarter, helped by production optimization initiatives including workovers, drilling of new wells and field redevelopment activities. In the last quarter, production was positively impacted by the start of the second Totea Deep well.

In 2012, crude oil average production was 78.3 kboe/d, 2.5% lower compared to the level recorded in 2011, as the drilling and workover program could not fully compensate the effects of harsh winter conditions at the beginning of the year and natural decline.

The domestic gas production was 92.2 kboe/d, 1.4% lower than last year due to the decline of key fields (Mamu, Bulbuceni, Radinesti). The decrease could not be offset by higher production of the Totea field, the performed workover jobs and the performance of the new wells.

### **Key projects in 2012**

Petrom is constantly investing in new technologies and secondary recovery methods to redevelop mature fields in Romania in order to improve the oil and gas recovery rates and stabilize production levels. The projects pursued mainly focus on field redevelopment using technologies such as on water, steam and



polymer injection, but can also encompass modernizing operations and performing additional drillings and workovers.

Throughout the year, the maturation process for re-development of key fields made significant progress. At the end of 2012, six field redevelopment projects have been developed closer to execution (Videle, Suplac and Oprisenesti – oil, Lebada East, Bulbuceni, Burcioaia - gas). Thereof, two key projects had already passed Final Investment Decision and entered implementation phase, namely Suplac and Oprisenesti. These are among Petrom's most important oil fields located in the Northwest and Southeastern part of Romania, respectively. The Suplac field re-development is a cyclic steam injection project using Horizontal Alternative Steam Drive with in-situ combustion. The Oprisenesti field redevelopment envisaged the drilling of 30 wells between 2009 -2012, using water injection and high pressure injection stations. The investments requirement for the projects under development phase amounts to approximately EUR 400 mn over 2013-2015. Other projects are in appraisal phase (Tazlau, Phoenix, Independenta and Balaria-Blejesti– oil fields), with investments requirements estimated at around EUR 100 mn. These are expected to progress in the next years and reach implementation phase between 2014 and 2016.

The cumulative recoverable resources from the above mentioned field redevelopment projects are estimated at around 150 mn boe.

In addition, new opportunities have been identified by setting up additional field redevelopment projects and continue to optimize the gas production system and modernize surface facilities and equipment in the selected major fields. The outcome of the implementation of a newly developed concept called the "Multidisciplinary Asset Review" was a promising offshore opportunity at the Istria oil field. The aim is to develop an offshore rig campaign (drilling sequence) to realize workover, sidetrack, infill well and exploration opportunities as soon as practically possible. The optimisation of artificial lift installations has been another focus of Petrom, leading to operational efficiency improvements. Water injection projects stepped up throughout the year, with an 8% increase. The cumulative oil production from projects using water injection and thermal recovery methods (steam injection and in situ combustion) accounted for 25% of total domestic oil production in 2012.

Throughout 2012, we pursued the appraisal drilling of the Totea Deep development, to confirm the most important onshore gas discovery in Romania in the past six years. The exploration well 4539 Totea Deep was put in production in October 2011, and an appraisal well started experimental production in the second half of 2012. A second Early Production Facility (EPF2) installation was finalized by the end of November 2012, which allowed the start of production while still working on the field development plan and permanent facilities construction. The production of Totea Deep Development averaged 5 kboe/d in 2012.

Picture: Appraisal well 4540 Totea



Some 118 new development and exploration wells were drilled, more than 12,400 well interventions were performed and 1,600 workover jobs were carried out throughout 2012.

In 2012, a cost saving program was rolled-out, focusing on timely execution of measures with significant savings potential of energy costs. By the end of the year, the project target was reached and production costs could be reduced by more than RON 200 mn.

#### **Production Enhancement Contracts**

To optimize its portfolio, Petrom entered partnerships with reputed international companies for production enhancement on 18 smaller, mature fields: Turnu fields, in western Romania, with PetroSantander and Ticleni area, in Southwest Romania, with Petrofac. Total production of the two projects increased by 5% compared with the 2011 level, to approximately 7

kboe/d. Ticleni area contributed with 4 kboe/d and Turnu area with 3 kboe/d to total production in 2012. In July 2012, PetroSantander achieved the contractual production guarantee requiring a 50% production increase for a continuous 12 months over the oil baseline.

Petrofac started an ambitious drilling campaign which began to yield good production results. A further outcome of the drilling campaign is that Petrofac substantially exceeded their contractual investment commitment already.

At the end of 2012, Petrom entered a third partnership, signing a 15-year agreement with Expert Petroleum for production enhancement services on 13 small mature fields (currently producing around 2.4 kboe/d), some of them exploited for more than 40 years, situated in the Western part of Romania, near Timisoara. Expert Petroleum is a Romanian company with international expertise in the oil and gas industry. The current production of the fields accounts for approximately 1% of the daily production of Petrom in Romania, with production costs substantially higher compared to the average production costs of the



company. The new contract follows the model of the previous production enhancement contracts. Expert Petroleum will take over and finance the operations and, together with Petrom, commits to their future development in order to maximize production while improving efficiency. Petrom remains the sole titleholder of the concession contracts and the owner of the hydrocarbon production, the existing assets as well as of the rights and obligations as defined by the Petroleum Act. Also, Petrom will supervise the operations and will remunerate Expert Petroleum based on a services fee, which will vary depending on the production level delivered.

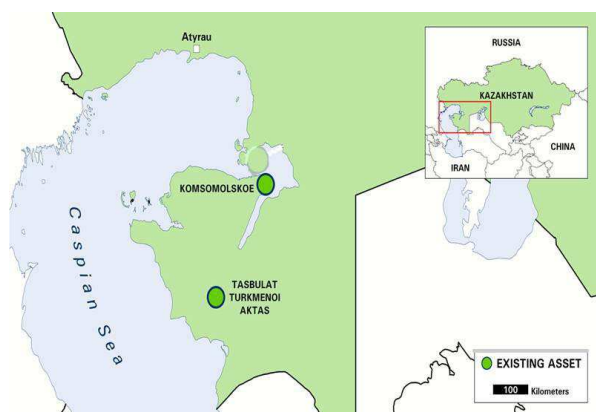
### Capital expenditures

The Group's E&P capital expenditures increased by 15% compared to 2011, to RON 3,753 mn. The investments focused on Neptun Deep and Totea Deep projects, drilling development wells, field redevelopment initiatives, workover activities and sub-surface operations, as well as surface facilities. Petrom Group's exploration expenditures increased by RON 94 mn to RON 530 mn, thereof RON 328 mn were expensed and RON 202 mn were capitalized.

### International E&P operations

In **Kazakhstan**, Petrom currently holds development and production licenses for the fields Tasbulat, Aktas, Turkmenoi (TOC fields) and Komsomolskoe (KomMunai field). In 2012, average oil and gas production in Kazakhstan increased by 2.5%, reaching 12.2 kboe/d.

Throughout 2012, we continued to develop the **Komsomolskoe** field, focusing on artificial lift measures and start-up of the water injection program that will generate reservoir pressure support for long-term production. The artificial lift program has been completed and 13 electrical submersible pumps were installed. Average production in the Komsomolskoe field amounted to 6.9 kboe/d in 2012, 11.3% higher than the level recorded in 2011.



*Picture: Location of Petrom fields in Kazakhstan*

*Picture: Production separator in Komsomolskoe field*

At the **TOC fields** (Tasbulat, Turkmenoi, Aktas), four additional producing wells were drilled, supporting production in 2012. Average production at the TOC fields amounted to 5.4 kboe/d in 2012, 6.9% lower than in 2011 mainly due to external technical factors which led to temporary disruptions in the second half of the year.

Production in 2012	Oil and NGL		Natural gas		Total
	mn t	mn bbl	mn cm	mn boe	mn boe
Romania	3.98	28.66	5,158	33.73	62.39
Kazakhstan	0.49	3.83	112	0.65	4.48
<b>Petrom Group</b>	<b>4.47</b>	<b>32.49</b>	<b>5,270</b>	<b>34.38</b>	<b>66.87</b>

Group's portfolio Proved Reserves as of December 31, 2012	Oil and NGL		Natural gas		Total
	mn t	mn bbl	bcf	mn boe	mn boe
Romania	53	383	1,985	368	750
Kazakhstan	3	21	21	3	24
<b>Petrom Group</b>	<b>56</b>	<b>404</b>	<b>2,005</b>	<b>371</b>	<b>775</b>

## 2.2. Gas and Power (G&P)

In the gas business, Petrom managed to maintain a strong position in the Romanian market covering all gas market segments, with approximately 28% market share on the free gas market during 2012. In line with our strategic directions, we commenced commercial operations at the Brazi power plant in August, which delivered a total net electrical output of 1.58 TWh in 2012, serving both free and regulated markets. With the commissioning of the Brazi power plant, Petrom expanded the gas value chain by converting gas into electricity and thus contributing to the security of the Romanian energy system.

### G&P at a glance

	2010	2011	2012
Segment sales (RON mn)	3,065	3,627	4,143
EBIT (RON mn)	164	149	360
Capital expenditure (RON mn)	1,211	515	221
Consolidated gas sales (mn cbm) <sup>1</sup>	4,917	5,055	4,841
Consolidated gas sales (TWh) <sup>1</sup>	53.0	54.2	52.2
Total net electrical output (TWh) <sup>2</sup>	-	0.31	1.68

<sup>1</sup> Consolidated gas sales include internal transfers to other segments.

<sup>2</sup> It includes net electrical output generated by the power plants during commissioning phase. The Dorobantu wind park commenced commercial operations on October 1, 2011 and the Brazi power plant – on August 1, 2012

EBIT generated by the G&P business in 2012 (RON 360 mn) more than doubled compared to 2011 (RON 149 mn), driven by increased performance on gas sales, the contribution of the power business (Dorobantu wind park which started commercial operations in October 2011; and Brazi power plant, which commenced operations in August 2012), as well as the optimization of cost management.

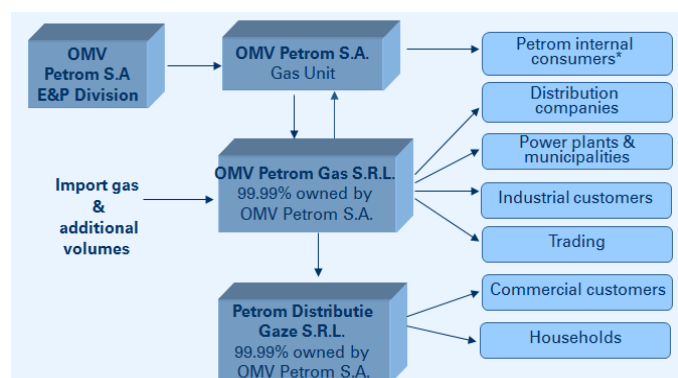
G&P investments in 2012 (RON 221 mn) focused mainly on the Brazi power plant.

### Legislative and regulatory highlights

With regards to the gas and electricity markets, Romania is required to implement the Third Energy Package in its legislation, which foresees the gradual liberalization of energy markets. In this context, a new electricity and gas law was issued in 2012, which foresees the liberalization deadlines. For gas, the deadlines for gradually phasing out regulated prices are end-2014 for the non-household sector (with the possibility of extension until end-2015) and end-2018 for households. For electricity, the deadlines for gradually phasing out regulated quantities are end-2013 for non-household consumers and end-2017 for households.

The ANRE regulations setting up two different "gas baskets" (a pre-set mixture of domestic and import gas), for households, on the one hand, and non-households on the other, continued in 2012. The average import quota for households was 8%, while the import quota for non-households averaged 34% in 2012. Starting September 2012, the Brazi power plant has been supplied exclusively with domestic gas (this applies until end-2014).

### Gas



\*Internal consumers refer to Petrom Group businesses

Picture: Gas business model of Petrom Group

Romanian gas consumption decreased by 4% compared to the previous year, from 14.2 bcm in 2011 to 13.6 bcm in 2012, due to overall lower market demand.

Petrom managed to maintain a strong position in the Romanian gas market covering all gas market segments, with approximately 28% market share on the free gas market during 2012.

Petrom's consolidated gas sales volumes decreased in line with Romanian gas

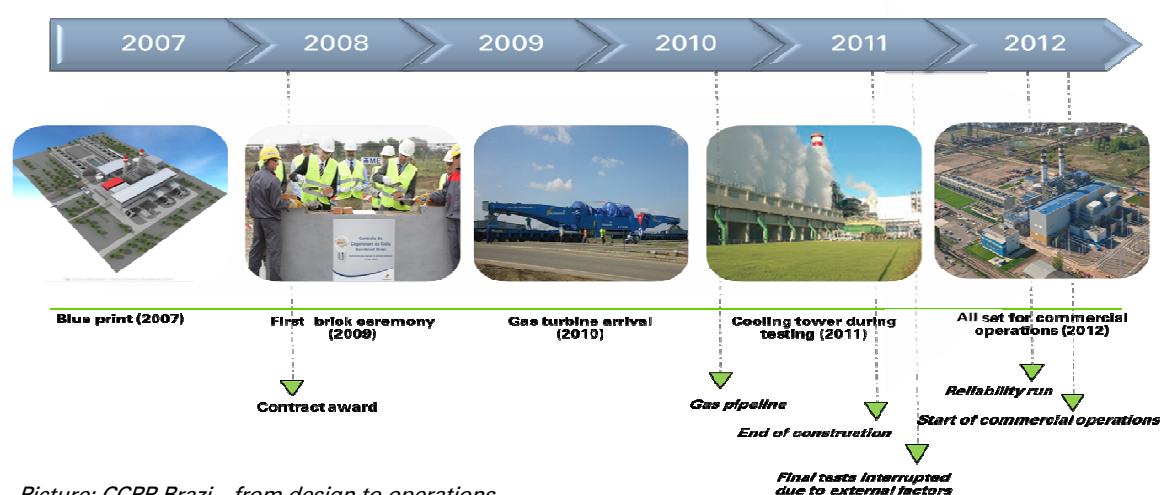
consumption by 4% to 4.8 bcm in 2012 as compared to 5.1 bcm in 2011, which reflects the Group's customer profile – mainly large customers supplying mostly domestic gas from Petrom.

In 2012, the domestic gas price recognized by ANRE was RON 495/1,000 cbm (or the equivalent RON 45.71/MWh) unchanged since February 2008. Petrom managed to negotiate better commercial terms for its domestic gas sales in 2012.

A total volume of 618 mn cbm of natural gas was injected into storage by Petrom in 2012, compared to 704 mn cbm in 2011. The total volume of natural gas in storage owned by Petrom amounted to 398 mn cbm at the end of 2012 compared to 406 mn cbm at the end of 2011.

In 2012, the G&P division continued the modernization of the gas metering stations taken over from E&P in 2011 (CAPEX 2012: RON 12 mn). 90 out of the total 110 measurement and quality control stations were modernized by Petrom during the past few years. This will ensure the accurate measurement of gas quality and quantity, while enabling us to operate the stations safely and remotely.

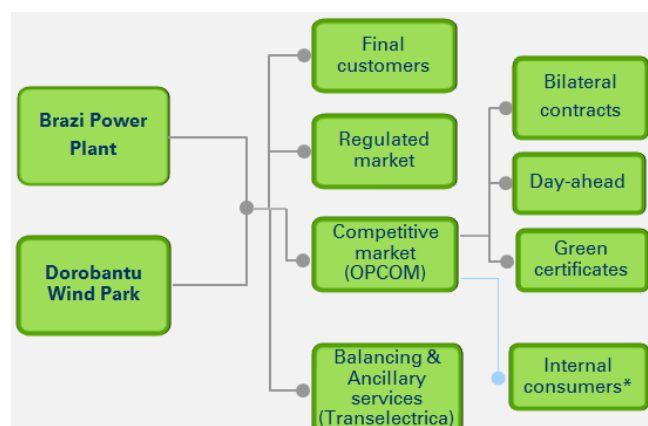
## Power



Picture: CCPP Brazi – from design to operations

After successfully completing the construction of the 860 MW Brazi power plant in 2011, final tests were interrupted due to external technical factors in December 2011. As a consequence, cleaning operations and technical improvement on some of the power plant's ancillary equipment, the gas supply pipeline and the gas metering station were performed in the first part of 2012 and tests were resumed in June. Even before the start of commercial operations, the Brazi power plant ran at maximum capacity in order to support the production-consumption balance during the period of extended drought, thus contributing to the stability of the national energy system.

The Brazi power plant started commercial operation on August 1, 2012. Since then, the plant has delivered electricity on a commercial basis to the national grid, depending on the power market and observing the regulatory environment in Romania. If operated at maximum capacity, the power plant could cover 8 to 9% of the electricity market, making Petrom one of the most important electricity producers in Romania. The Brazi power plant has been supplied exclusively with domestic gas since September 2012.



\*Internal consumers refer to Petrom Group businesses which acquire electricity from OPCOM

The electricity generated by the Brazi plant is sold on platforms managed by OPCOM S.A. – the electricity market operator – and on the regulated market, as well as to final clients, while providing also balancing services. In 2012, the total net electrical output of the plant was 1.58 TWh (including the commissioning phase), negatively influenced by the extended repair works performed by the national grid operator in its switchyard as well as some scheduled preventative maintenance works performed inside the plant. The Brazi plant

Picture: Power business model of Petrom Group

started deliveries to the regulated market in October 2012 and delivered 0.34 TWh to this market during October-December. Since its start of commercial operations in August 2012, Brazi covered approximately 6% of Romania's electricity production over the same period.

In 2012, the Dorobantu wind park (45 MW) continued its commercial operation, with net electrical output of 0.09 TWh (2011: 0.04 TWh, including commissioning phase), for which Petrom received 182,784 green certificates (2011: 33,050 green certificates).

Estimated Romanian gross electricity production decreased by 5% in 2012 versus 2011, to 59 TWh, while estimated net consumption increased by 0.2%, to 53 TWh. According to the export-import balance, Romania was a net importer of electricity in 2012. According to preliminary data published by OPCOM, electricity prices on the Romanian day ahead market averaged RON 217/MWh for base load and RON 275/MWh for peak load in 2012.

### **Doljchim**

Petrom continued the dismantling and decontamination activities at Doljchim in compliance with European environmental and safety standards, to prepare the site for future alternative use. In this respect, several development alternatives were considered and will be evaluated for future development. In 2012, we set up a non-profit organization - CERC (Community Resource Center), a multi stakeholder forum aimed at managing local community initiatives and to ensure sustainable development of the region.

## 2.3. Refining and Marketing (R&M)

The Refining and Marketing business benefited from incremental improvements of the refinery yield structure. However, the high international price environment and subdued demand burdened the results. As part of the Petrobrazî refinery modernization program, the crude vacuum distillation unit was upgraded during the six-week-long planned shutdown in May-June 2012, enabling Petrom to process its entire domestic crude production. This prevented the refining business from benefiting from the high gasoline prices in mid-2012. In marketing, commercial volumes dropped and retail margins were under pressure for most of the year, due to the high crude oil prices and a depressed economic environment in the region. The Group marketing business implemented a program by which it centralized its administrative activities in order to reduce costs and better face the challenging environment.

### R&M at a glance

	2010	2011	2012
Segment sales (RON mn)	15,176	18,957	21,750
EBIT (RON mn)	106	(187)	138
Clean CCS EBIT <sup>1</sup>	(104)	152	31
Capital expenditure (RON mn) <sup>2</sup>	758	980	899
Total refined product sales (kt) <sup>3</sup>	5,472	5,234	5,004
thereof Marketing sales volumes (kt) <sup>4</sup>	4,157	4,066	3,829
thereof: Gasoline	1,036	949	879
Diesel	2,264	2,293	2,258
Kerosene/Jet fuel	214	222	186
HFO	98	196	132
Number of filling stations	801	793	798

<sup>1</sup> Adjusted for exceptional, non-recurring items; clean CCS figures exclude special items and inventory holding effects (current cost of supply -CCS- effects) resulting from R&M.

<sup>2</sup> Investments also include increases of Petrom share participations in other companies.

<sup>3</sup> Include all products sold by Petrom Group.

<sup>4</sup> As of 2010, the figure excludes export sales which are included in total refined product sales.

**Clean CCS EBIT in R&M** decreased to RON 31 mn compared to RON 152 mn in 2011, mainly due to the weak economic environment which negatively affected the marketing result. The high crude price environment coupled with a stronger USD compared to RON further burdened the refining result. 2012 was the second year after privatization with a positive clean CCS EBIT, which reflects the incremental increases in the yield structure and improvements of energy efficiency, as a result of the ongoing modernization program.

Clean CCS EBIT is stated after eliminating CCS effects of RON 169 mn and net special charges of RON (63) mn mainly related to impairment of marketing assets in the Republic of Moldova. **Reported EBIT** came in at RON 138 mn, in contrast to a negative RON (187) mn in 2011. The 2011 EBIT was negatively impacted by significantly higher net special charges reflecting the RON 504 mn fine imposed by the Competition Council, provisioned in Q4/11.

In 2012, the **indicator refining margin**<sup>i</sup> improved to USD (1.39)/ bbl, from USD (2.40)/ bbl in 2011 as, overall higher middle distillates and gasoline cracks compensated for higher costs of crude consumption. Nevertheless, the six-week long planned shutdown of Petrobrazî prevented the refining business from benefiting from the mid-year high gasoline prices.

The Petrobrazî refinery utilization rate decreased by six percentage points to 73% in 2012 (2011: 79%), reflecting the six-week-long planned refinery shutdown during May-June 2012. After a gradual restart of the refinery in the third quarter, the utilization picked up steadily in the last quarter of the year, when it averaged at 93%, supported by the improvements performed during the turnaround. After the modernization of the crude vacuum distillation unit, Petrobrazî refinery capacity stands at 4.2 mn t/y (previously 4.5 mn t/y), allowing it to process 100% of Petrom's Romanian crude production while improving energy efficiency and

<sup>i</sup> Indicator refining margin is based on the international quotations for products (Augusta) and Urals crude and a standardized yield set typical for Petrom's refineries. Actual refining margins realized by Petrom may vary from the Petrom indicator refining margin as well as from the market margins due to factors including a different crude slate, product yield and operating conditions

product yields. Accordingly, the utilization rate also reflected the nameplate capacity adjustment to 4.2 mn t/y from July onwards.

Crude oil processed (kt) *	2010	2011	2012
Arpechim **	749	-	-
Petrobrazi***	3,153	3,567	3,146
<b>Total</b>	<b>3,902</b>	<b>3,567</b>	<b>3,146</b>

\*Including condensate.

\*\* Permanent closure approved by the Supervisory Board in March 2011

\*\*\* Nominal capacity of 4.5 mn t/y until Q2/12. Starting Q3/12 it was streamlined to 4.2 mn t/y

Production (kt)	2010	2011	2012
Gasoline	1,183	1,105	946
Diesel	1,178	1,184	1,035
Kerosene/Jet fuel	204	195	144
HFO	473	394	350
LPG total	220	205	162
Bitumen	42	0	0
Petroleum coke	177	216	196

## Sales

The harsh weather conditions at the beginning of the year and the challenging price environment burdened the marketing business in 2012. Petrom Group's total marketing sales amounted to 3,829 kt in 2012, 6% lower compared to 2011, due to persisting unfavorable market conditions.

Group **retail sales** decreased by 2% compared to the previous year, reaching 3,117 mn liters. Retail sales in the domestic market reached 2,405 mn liters in 2012, also 2% lower compared to last year due to continued pressure on purchasing power, in line with the total retail market.

Group **commercial sales** amounted to 1,344 kt, 13% lower against 2011, with lower volumes in all products. In Romania, commercial sales stood at 857 kt, 12% below the previous year's level (2011: 969 kt) while the local market decreased by 7%.

Total Romanian market share was in line with 2011, at 36% mainly as a result of business optimization and product portfolio revision. Overall market share in the operating region was broadly at the same level as last year, reaching 26%.

Retail margins fell to a lower level compared to the previous year as a result of the high price environment. The pressure on margins came mainly in the first eight months of the year and gradually reduced in the last quarter as international product prices for gasoline and diesel dropped in comparison to previous quarters of 2012.

In 2012, total **non-oil business (NOB)** turnover improved by 5% compared to last year mainly due to the implementation of a new logistic system. Since 2011, one international supplier of logistics services has been catering to the NOB segment in Bulgaria and Serbia, and the same concept was rolled out in Romania in 2012 as well.

## Operational highlights 2012

### Refining

In 2012, the main challenges were to successfully commission the modernized crude vacuum distillation unit in the Petrobrazi refinery, following the six-week-long shutdown and to further improve the operational performance of the refinery.

The upgraded unit allows for product mix improvement enabling a better response to market demand: Romanian refineries produce excess gasoline compared to the demand, whereas for diesel, around 30% comes from imports.

The main goal of the unit modernization was the technical adjustment in order to process the entire domestic crude production and will lead to an increase of the middle distillates yield in the product mix and improved the energy efficiency.

The modernization project of the crude vacuum distillation unit was initiated in 2009 and the commissioning was done in the first half of 2012. Petrobrazi refinery resumed operations in late June. In parallel with the commissioning of the unit, several modernization and maintenance projects were performed.

The 2012 investments for the Petrobrazi modernization program amounted to approximately EUR 90 mn, part of the EUR 600 mn investment plan throughout 2010-2014 (of which approximately EUR 450 mn was already invested by end of 2012). Further milestones in the Petrobrazi modernization were passed with the commissioning of the Coker unit upgrade (performed in January 2013). The next steps envisage the new Gas Desulfurization unit, scheduled for 2013 and the Vacuum Gas Oil conversion project in 2014.

During the year, the Petrobrazi refinery obtained its renewed ISO recertification in terms of quality, environment, energy and occupational health and safety management, which reconfirmed the products quality of the refinery.

The closure of the Arpechim refinery, including the employees' restructuring process, progressed with ongoing measures in order to enable further utilization of selected assets (mainly logistic facilities) as a terminal within the R&M downstream operations. With regards to the remaining assets, the preparation for the permanent closure as approved by the Supervisory Board in March 2011 continues.

### **Supply and Logistics**

In November, Petrom inaugurated at Isalnita its third greenfield fuel terminal. The project is part of a far-reaching investment program, including the construction of three new terminals (Jilava, Brazi, Isalnita) and the modernization of other three. With a capacity of 11,000 m<sup>3</sup>, the terminal at Isalnita, located in Dolj county, could ensure the supply for most of the Southern region of Romania. The investment value for the construction of the fuel terminal at Isalnita amounted to approximately EUR 26 mn.

All three newly built terminals, Jilava, Brazi and Isalnita, are fully automated and comply with the Romanian and European norms and standards. They have a total storage capacity of 46,000 m<sup>3</sup> (Jilava: 27,000 m<sup>3</sup>, Brazi: 8,000 m<sup>3</sup>, Isalnita: 11,000 m<sup>3</sup>).

Due to the high standards used for its construction and equipment, the three terminals at Jilava, Brazi and Isalnita are among the most modern and safest fuel terminals in Europe.

### **Marketing**

In marketing, the main focus in 2012 was to maintain the market share in the retail business in a difficult economic environment while increasing efficiency through integration within downstream activities.

To consolidate its market position in Romania, the marketing business unit further pursued its two brand strategy - the international premium brand, OMV, and the Romanian brand, Petrom, positioned as economy brand. Focus was put on providing best-in-class customer services as well as further diversifying the existing range of customer services (e.g. money transfer, car insurances, utilities payments) within OMV filling stations functioning under the Service Corner concept. Furthermore, a significant number of Petrom filling stations were further revamped with a new refreshed look.

Marketing continued to optimize its operations in a challenging market environment, with focus on its business-to-business activities, and centralization of the management structure and processes within the Petrom Group. To bolster commercial sales, tailor-made concepts have been optimized for the agriculture and construction sectors, as well as for the transports business (road and sea). The multi-channel approach (using different channels to reach our commercial customer target groups) has also been optimized for the diesel and aviation business in Romania, strengthening sustainable profitability.

The weak economic environment in the region throughout 2012 and the pressure on customer purchasing power led to slightly lower average fuel sales per filling station. In Romania, it decreased by 1% compared to the previous year, standing at 4.4 mn liters per station (2011: 4.5 mn liters per station), while at Group level, the average throughput per station decreased by 2% to 3.9 mn liters in 2012 (2011: 4.0 mn liters per station).



### Marketing activity consolidation

In 2012, Petrom implemented a cross border program, centralizing the administrative marketing activities into a functional organization managed from Bucharest. A single structure with a centralized management team was created, with common services and common support functions, aimed at optimizing the marketing activities in the region, bringing efficiency to the use of resources and helping to better promote Group's products across a region that comprises countries with similar business activities. This supports the improvement of the cost position, as well as for further synergies at Group level, while allowing for faster response to the highly competitive market in the region.

### Affiliated companies

In 2012, Petrom entered into a selling contract of its 99.99% stake held in Petrom LPG SA to Crimbo Gas International. The sale of Petrom LPG, a non-core business with high complexity, managing a high number of small clients was in line with Petrom's strategy to focus on the company's core operations in order to increase efficiency. Following this transaction, Petrom exited the bottling and distribution market while it continued to produce LPG and sell gas cylinders and auto gas through its filling stations. Petrom continues to supply LPG from its refinery to the company subject to the transaction while the latter supplies cylinders and auto gas to OMV Petrom Marketing SRL. The transaction was signed in June 2012 and completed in January 2013.

In the **Republic of Moldova**, Petrom pursued further optimization of its filling stations portfolio. In **Bulgaria**, the upgrade of OMV sites to the newly developed shop concept (VIVA Smart) was completed. In **Serbia**, similarly to Bulgaria, the sales volumes showed a decrease, reflecting the depressed economic environment.

Number of filling stations per country	2010	2011	2012
Romania	546	545	546
Republic of Moldova	102	94	98
Bulgaria	94	93	93
Serbia	59	61	61
<b>Total</b>	<b>801</b>	<b>793</b>	<b>798</b>

### Prices

Petrom fuel prices have a dynamic evolution based on international fuels quotations, namely Platts Mediterranean, as well as competition in the market. In addition, prices are influenced by fiscal policy and the exchange rate.

As the volatility of quotations is extremely high and an immediate reflection in product prices would make the market unstable, Petrom fuels prices only reflect the trend, not the peaks.

### Investments

In **refining**, a major part of the Petrobrazi modernization program was completed in 2012 (modernization of the crude and vacuum distillation unit), as well as the commissioning of the third greenfield fuel terminal at Isalnita. In addition to the modernization projects, investments in environmental, legal compliance and energy efficiency projects were made.

**Marketing** investments focused on optimizing the current filling stations portfolio and several newly built filling stations in key locations. Upgrades were performed in a number of Petrom and OMV filling stations to improve the facilities and to refresh the outlook.



### 3. Sustainability

Over the years, Petrom has developed a true culture of responsibility towards the environment and the society in which we operate. When the Company joined the OMV Group in 2004, management took the decision to formalize efforts in this area.

Petrom's key sustainability principles were incorporated and assimilated gradually into the business strategy and its organization.

In 2012, the Company reaffirmed a common commitment to sustainability under the shared concept of „Resourcefulness“.

#### **Our sustainability concept: Resourcefulness**

Resourcefulness is our way of achieving profitable growth in a sustainable and responsible manner. This helps us to create long term win-win situations for society, the environment and Petrom as we aim to secure energy supplies for the present and the future.

As the largest oil and gas producer in South Eastern Europe, Petrom faces major challenges.

With global demand for energy growing at a steady pace, resources are increasingly scarce. Furthermore, concerns regarding energy affordability and climate change are of growing importance.

Responsible behavior, careful management of resources and investment in innovation are the underlying principles that guide our conduct. This is why 'being careful with our resources' is one of our basic business principles.

Launched in 2011, the Group's Resourcefulness concept builds on our commitment and efforts to put sustainability right at the heart of our business. It is our approach for implementing initiatives in the areas of environmental management, new energies, education and development, health, safety, diversity, business ethics, human rights, stakeholder engagement and community engagement under a single, overarching strategy.

The year 2012 marks a change in gear for Petrom as we take Resourcefulness to the next level, concentrating on tangible commitments in three focus areas: "Eco-Efficiency", "Eco-Innovation" and "Skills to Succeed".

#### **The three pillars of our Resourcefulness concept**



#### **Eco-Efficiency**

We have a special responsibility because we work with finite natural resources. We do this as efficiently and safely as possible and commit to the best environmental practices and processes. As it is the cleanest fossil fuel, we will focus even more on gas as the most important raw material for generating electricity. A particular focus of our Eco-Efficiency efforts is on carbon and water management.

We have a number of projects underway that address the impacts of Petrom activities.

For example, we invested approximately EUR 530 mn in our Brazi power plant. This 860 MW plant is one of the largest combined cycle power plants in Eastern Europe and can supply up to 8-9% of Romania's electricity demand – enough to meet the electricity needs of Bucharest. The plant uses state-of-the-art technology that is twice as efficient as the sector average, and also contributes to

emission reductions.

Another example of Eco-Efficiency can be seen in our investment of EUR 6 mn at a waste water treatment plant which resulted in improved quality of discharged waste water as well as a reduced amount of sludge waste. This project was finalized in 2012 and encompassed an increase in efficiency during the mechanical stage, optimization of the de-nitrification stage, modernization of the dosing unit for chemical substances, and utilities monitoring.

### **Eco-Innovation**

Eco-Innovation has the potential to provide valuable alternatives to traditional fossil fuels, while also reducing CO<sub>2</sub> emissions. At Petrom, we are playing our part and support the Eco-Innovation commitment of the OMV Group, notably in handling and transporting gas.

Within the Group, Petrom is exploring new and better ways of using our energy expertise to innovate in areas such as alternative energy, with a particular focus on second generation biofuels, in order to underpin company's sustainable development.

Innovation and expertise is shared throughout the whole of the OMV Group to provide valuable alternatives to traditional fossil fuels and mobility solutions.

### **Skills to Succeed**

We foster and promote the skills that people need to be successful. This applies not only to our workforce of around 21,600, but also to our stakeholders. We primarily focus on investing in the economic development of the communities in which we operate through vocational training, local workforce support and local supplier development. In the communities where we operate, we support education linked to energy and entrepreneurship.

One of our highlights of 2012 was helping to organize a job fair in Pitesti, which brought together around 400 of our former employees with 40 subcontractors looking to expand their workforces.

In addition, a training center dedicated to Petrom employees will start operating by the end of 2013. The new center will deliver high quality training for the continuous development of our employees, with a clear focus on programs that meet the specific needs of our oil & gas workforce. These programs will take full account of the latest innovations, while also looking to incorporate future developments to ensure that our people are familiar with international best practice.

### **Reporting on our material issues**

We have identified six key topics outlined below, that materially influence our performance. We measure the effects of our actions, which in turn enables us to make the best decisions for Petrom and our stakeholders in the future.

Some selected KPIs are reported on [page 37]. More detailed KPI information can be found in our standalone Sustainability Report.

### **1. Environmental and energy management**

We responsibly address issues involving environmental impacts along our entire value chain. Our goal is to use natural resources efficiently and to minimize waste, emissions and discharges.

We aim to continuously reduce our CO<sub>2</sub> emissions and water withdrawal through Eco-Efficiency measures and careful environmental management.

With respect to CO<sub>2</sub> emissions, in Exploration and Production we continued to make good progress, including:

- An investment of EUR 8 mn during 2012 on Gas to Power (G2P) and Combined Heat and Power / Cogeneration (CHP) projects to reduce our own energy consumption as well as GHG emissions. This work resulted in a CO<sub>2</sub> emissions reduction of 24,000 t CO<sub>2</sub> equivalent in 2012. Starting with 2014, we expect the program to generate a total reduction of around 170,000 t CO<sub>2</sub> equivalent/year compared to 2009.
- The initiation of a wells automation program to ensure that pumps run only when necessary. This program, which saw a 2012 investment of approximately EUR 7 mn, optimizes production and saves energy at the same time for 1,526 wells.

We continued to implement optimization and energy efficiency projects to reduce CO<sub>2</sub> emissions also in Petrobrazi Refinery, as the next three examples: the switch to gas fuel for the turbines used for electricity production; the reduction of steam losses by re-engineering a pipe and the revamp of the atmospheric and vacuum distillation plant.

In our day to day operations we also aim to reduce the amounts of withdrawn water by an efficient usage. Therefore, in 2012 we increased the efficiency of the heating and cooling systems and optimized the water supply systems.

A broad range of mutually supportive activities were also implemented in 2012 to reduce and prevent the environmental impact of oil spills, including:

- The Spill Risk Map project is developing a tool to provide detailed information regarding the risk of pollution from pipelines in E&P. A pilot was run in one of E&P's assets and the Risk Map will be rolled out throughout 2013.
- In conjunction with other environmental initiatives on pipelines, we are close to completing a Risk Based Inspection (RBI) study under our new Pipeline Integrity program. Dedicated teams in each asset will ensure effective implementation of ongoing inspection works, with repair and replacement carried out on a risk-based prioritization basis.
- A Spill Preparedness and Response program was also implemented during 2012 with the aim of identifying measures to increase our ability to prevent and respond effectively to oil spills. This started with 10 spill drills conducted onshore in all E&P assets and will continue in 2013 with the implementation of an action plan and strategic program containing technical, organizational and skills development measures.

## **2. Health, safety and security**

Health, safety and security management are of the highest priority for Petrom. They are basic requirements for business success and fundamental to our Resourcefulness concept. They are also key elements in our risk management strategy and essential to our ability to maintain our license to operate.

One of our main concerns is therefore to ensure our employees' physical wellbeing and safety. In the workplace we focus on process reliability, workplace safety and health promotion as well as road safety. We believe accidents can be prevented through hazard analyses, risk management and safety training, among other initiatives.

Unfortunately 2012 was overshadowed by two fatalities: one Petrom employee and one contractor tragically died as a consequence of work-related accidents. The accidents were investigated; we identified the root causes and set up a mitigation plan in order to avoid similar cases in the future.

We are putting a number of programs in place, including crisis management, to ensure that all employees understand and act according to our Health, Safety and Security (HSS) standards. By recording and investigating incidents and near misses, we can ensure we learn from previous experience and prevent recurrences.

- During 2012, we continued the roll out of our "Stepping, Lifting, Handling and Working at Heights" campaign. The main objective is to increase our employees' awareness of and responsibility for HSS in the environment in which they operate. Over 9,000 E&P and R&M employees and contractors received this practical and theoretical training, compared to 7,000 in 2011.
- In line with the concern for the health of our employees, during 2012 we have offered, besides the legally required medical examinations, three different screening programs (for cardiovascular, liver and respiratory diseases) with a participation of over 17.000 employees.
- In 2012, Petrom achieved a lost time injury (LTIR) rate of 0.41 injuries per million hours worked, compared to 0.47 in 2011. Contractors' LTIR increased to 0.55 injuries per million hours worked compared to 0.39 in 2011.

## **3. Human rights**

Human rights are a core element of our Resourcefulness concept. We adopted the provisions of the UN Global Compact (UNGC) and included them in our human rights policy and Code of Conduct.

In order to implement our human rights matrix, we work together with an independent expert to conduct internal checks to assess our human rights compliance. We have demonstrated that we have taken additional measures in order to closely align to EU legislation in these matters. The recommendations help us on our journey towards full compliance with European Directives.

In addition, all our suppliers are required to commit to our Code of Conduct. For some of them, including security contractors, checks were conducted by independent auditors to ensure compliance with our Human Rights policy.

## **4. Diversity and human resources**

Petrom employs people of around 43 different nationalities. The issues of diversity, equal opportunity, and the chance to build a career are common themes that run across all our operating locations.

We continuously strive to attract talented people and we give them the tools and skills they need to perform to their full potential. Petrom is acknowledged as an employer of choice and we are committed to remaining so.

Our human resources planning strategy includes regular global employee surveys (Human Capital Management - HCM), which help us monitor our progress and identify areas where we can improve. This year, 38 workshops were conducted to follow up HCM actions and measures identified in 2011 – 32

workshops were dedicated to the business units, with the remainder for mixed groups such as expatriates and for those with less than five years' service within Petrom. A total of 821 employees participated in the survey, including Executive Board members and senior management.

In terms of diversity, we envisage that by the end of 2013 at least 30% of employees in the Group development programs and potential pools will be female. By the end of 2012 the proportion of women in Petrom Group as a whole was 23%.

We greatly value the personal commitment of our employees in implementing the Resourcefulness concept. Top management leads by example, by being involved in Resourcefulness projects and by inspiring our people to pursue responsible and sustainable business behavior. In the spirit of Resourcefulness, employees are encouraged to assume responsibility towards stakeholders, the environment and society, and to anchor this thinking in their individual agreements on goals and objectives.

## **5. Business ethics and governance**

Trust and integrity form the basis for all our corporate activities. We expect our employees to have an ethical and responsible attitude, and to be committed to honesty, transparency and integrity in all their business dealings.

Our governance procedures are centered on a Code of Business Ethics which includes clear rules on conflicts of interest, gifts and hospitality as well as the assessment of third parties. A compliance system and the relevant processes help to ensure adherence to our regulations. Behaving fairly towards our stakeholders substantially enhances our good reputation as an employer and business partner.

Petrom adopted the OMV Group's Code of Conduct thus adhering to the UNGC principles. Together with the Business Ethics Code, the UNGC is a guideline for actions, for both employees and suppliers.

In addition to training courses, we develop annual compliance communication programs. From 2012 onwards, these programs include compliance dedicated professional events ("Compliance Days") which emphasize our approach to compliance, underline the benefits for business of compliant conduct and encourage employees' compliant behavior.

## **6. Stakeholder engagement and community management**

We cannot operate in isolation, and depend on the support and co-operation of a wide range of stakeholders. Stakeholder engagement is a key part of our work. We want to understand our stakeholders' views and interests so that we are in an even better position to meet both our sustainability objectives and future challenges. Only then can we continuously improve our activities.

We have therefore initiated and maintained regular dialog with all our stakeholders, creating meaningful long-term relationships. For example, since 2009 we have organized an annual stakeholder dialog forum that brings together Petrom executives with representatives of Ministries, the European Bank for Reconstruction and Development, non-governmental organizations, and academia.

Based on dialog and engagement with stakeholders as well as documents prepared through stakeholder forums – such as the book "Energy Industry, A Growth Driver for Romania" - we have helped our business and also Romanian authorities in the energy area meet EU requirements regarding legislation and the implementation of the energy and gas markets liberalization process.

As a major employer and key player in Romania's economy, we are an integral part of the communities where we operate. Every year, through volunteering and investments, we support a wide range of projects that benefit local communities under the umbrella of our 'Andrei's Country' social platform. The overall goal of Petrom, through its dedicated Community Relations and Social Affairs Department is to improve relations with these communities so that we can operate effectively and build a sustainable business.

In 2012 we celebrated our sixth year of social and community involvement, and have so far allocated a total budget of over EUR 30 mn for initiatives to support initiatives in areas such as innovation, education and leadership.

	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Lost-time injury rate (LTIR) per million hours worked for own employees</b>	0.64	0.47	0.41
<b>Lost-time injury rate (LTIR) per million hours worked for contractors</b>	0.32	0.39	0.55
<b>Total recordable injury rate (TRIR) per million hours worked for own employees</b>	0.92	0.74	0.78
<b>Total recordable injury rate (TRIR) per million hours worked for contractors</b>	0.89	0.52	0.51

For more detailed information about Petrom's Sustainability performance, a dedicated report will be made available by end of April 2013.

## 4. Report of the Governing Bodies

### 4.1. Report of the Supervisory Board

---

#### Core activities

OMV Petrom S.A. (hereinafter also referred to as “Petrom” or the “Company”) is an integrated oil and gas Company, operating mainly in Romania, but also through its subsidiaries in Kazakhstan (exploration and production activity) and in the neighboring countries of Bulgaria, Republic of Moldova and Serbia (marketing activity). OMV Petrom S.A. is also the parent company of all companies consolidated within Petrom Group. A detailed structure of the consolidated companies in Petrom Group at December 31, 2012 is presented under the corresponding note to the consolidated financial statements, included in the last chapter of this report.

#### Aim of the report

Transparency and accountability towards shareholders is a practice put in place in the Company. Hence, the Supervisory Board continued to devote close attention to the strategic focus and business performance of the Company in all areas of activity during 2012.

The following report gives an overview with regard to the Supervisory Board’s main points of interest during the year under review.

In addition to this report, the shareholders, as well as other stakeholders have various means to access relevant information about the Company by:

- visiting our corporate website, [www.petrom.com](http://www.petrom.com), which is continuously updated;
- contacting the Company directly – shareholders and equity analysts can address their requests to our Investor Relations department;
- asking questions at the General Meetings of Shareholders.

#### Corporate governance

A transparent decision-making process, relying on clear and objective rules, is a prerequisite for shareholders’ confidence in the Company. It also contributes to protection of shareholders’ rights, improving the overall performance of the Company, offering better access to capital and risk mitigation.

The Company has always conferred great importance to the principles of good corporate governance and adhered to the principles laid down in the Code of Corporate Governance issued by the Bucharest Stock Exchange.

In accordance with the aforementioned principles, the Company is managed in an atmosphere 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 always paid due attention to their duty of care and loyalty. Hence, the Executive Board and the Supervisory Board have passed their resolutions as required for the welfare of the Company, primarily in consideration of the interests of shareholders and employees.

#### Governance structures

Since April 2007, the Company is managed in a two-tier system, by the Executive Board, which runs the daily operations under the supervision and control of the Supervisory Board.

In the two-tier system, the management of the company falls under the competence of the Executive Board, which manages the business of the Company according to the relevant laws and the Company's Articles of Association.

In accordance with the statutory provisions, by virtue of the mandate granted by the Company's shareholders, the Supervisory Board has the power to control the management of the Company. The main duties set forth under the Company Law for the members of the Supervisory Board are: (i) to exercise the continuous supervision of the activity of the Executive Board; (ii) to appoint and to revoke the members of the Executive Board; (iii) to verify the compliance of the management of the Company with the laws, the Company's Articles of Association and the resolutions of the General Meeting of Shareholders; (iv) to present a report regarding its supervision activity at least once a year to the General Meeting of Shareholders; (v) to represent the Company in relation with the Executive Board.

The members of the Executive Board and of the Supervisory Board are under the obligation to fulfill their responsibilities and exercise their powers in the best interest of the Company and all its shareholders.

### **Supervisory Board members**

In accordance with the Company's Articles of Association, the Supervisory Board of the Company comprises nine members.

Until March 23, 2012 the Supervisory Board consisted of the following members: Gerhard Roiss (President of the Supervisory Board), David Charles Davies (Deputy President of the Supervisory Board), Jacobus Gerardus Huijskes, Manfred Leitner, Gerald Kappes, Gheorghe Ionescu, Constantin Dascalu, Joseph Bernard Mark Mobius and Riccardo Puliti.

Starting March 23, 2012, Hans-Peter Floren was appointed as interim member of the Petrom Supervisory Board, until the Company's Ordinary General Meeting of Shareholders of April 27, 2012. He succeeded Gerald Kappes, who was interim member of the Petrom Supervisory Board starting January 1, 2012, when he replaced Werner Auli (former member of the Petrom Supervisory Board between 2006 and 2011).

Hans Peter Floren was appointed as member of the Supervisory Board by the Ordinary General Meeting of Shareholders held on April 27, 2012.

The Supervisory Board would once again like to thank Gerald Kappes for his constructive work and commitment towards the Company during his mandate.

As required by Company Law, none of the Supervisory Board members holds an executive position within the Company.

### **Executive Board members**

The Executive Board of the Company comprises five members as of the date of this report.

Until September 1, 2012, the Executive Board of the Company consisted of the following members: Mariana Gheorghe (President of the Executive Board and Chief Executive Officer), Daniel Turnheim (Executive Board member and Chief Financial Officer), Johann Pleininger (Executive Board member in charge of Exploration and Production), Neil Anthony Morgan (Executive Board member in charge of Refining and Marketing), Hilmar Kroat-Reder (Executive Board member in charge of Gas, Power and Chemicals).

Following Hilmar Kroat-Reder's waiver of his mandate, Cristian Nicolae Secoșan was appointed as Executive Board member in charge of Gas, Power and Chemicals as of September 1, 2012.

Likewise, following Daniel Turnheim's waiver of his mandate, Andreas Matje was appointed as Executive Board member and Chief Financial Officer as of January 1, 2013.

The Supervisory Board would once again like to thank Hilmar Kroat-Reder and Daniel Turnheim for their commitment to the Company during their mandates and their significant contribution to the Company's achievements.

### **Supervisory Board activity during 2012**

In 2012, the Supervisory Board thoroughly reviewed the position and prospects of the Company and performed its functions according to the relevant laws, the Articles of Association, the applicable Corporate Governance Code and the relevant internal regulations. We coordinated with the Executive Board on the management of Petrom and monitored its work, and we were involved in the Company's key decisions. Where required by law, the Articles of Association, or internal regulations, the Supervisory Board adopted resolutions following a comprehensive analysis.

During the year under review, the Supervisory Board met six times in person. Moreover, for specific and particularly urgent plans and projects arising between the actual meetings, the Supervisory Board submitted its approval in writing on four occasions. All members of the Supervisory Board attended more than half of the meetings of the Supervisory Board in 2012. The average participation rate was over 90%.

In line with the Collective Labor Agreement, invitations to attend the Supervisory Board meetings were extended to trade union representatives and the meeting agenda and related documents were provided in a timely manner in that respect.

At our meetings, the Executive Board duly provided detailed information, both verbally and in writing, on issues of fundamental importance for the Company, including its financial position, business strategy, planned investments and risk management. We discussed all transactions significant for Petrom in the plenary meetings, based on the reports of the Executive Board. The high frequency of both plenary and committee meetings facilitated an intensive dialog between the Executive Board and the Supervisory Board. In addition, the President of the Executive Board constantly informed the Supervisory Board of current developments in the Company's business, significant transactions and upcoming decisions.

At the beginning of the year, on **January 19**, we approved **via a circular motion**, a secondary professional engagement for Hilmar Kroat-Reder as Board member for OMV Group entities in Turkey. In **February, via a circular motion**, we approved an investment project in Tazlau, which aims to implement a water injection solution which requires less energy and therefore should reduce CO<sub>2</sub> emissions.

#### **March 23 Supervisory Board meeting**

During the Supervisory Board meeting of March 23, we thoroughly discussed the 2011 annual consolidated financial statements as well as the respective management reports. The 2011 annual consolidated financial statements were duly adopted following the recommendation of the Audit Committee, which had conducted an in-depth examination of the documents together with the auditors and based also on the auditors' letter to the management. Additionally, during the said meeting we discussed and decided, based on the analysis and proposal of the Audit Committee, the appointment of Ernst & Young Assurance Services S.R.L. as financial auditor of the Group. Based on the results achieved in 2011 and the good gearing ratio, another topic on which we focused during the meeting was the distribution of dividends, where we approved the management proposal to distribute the amount of RON 1,755.96 mn as dividends.

On March 23, we took notice of Gerald Kappes's waiver of his mandate as interim member of the Supervisory Board and in full compliance with applicable regulations, voted in Hans-Peter Floren as interim member of the Supervisory Board until the next GMS.

#### **April 20 Supervisory Board meeting**

During the meeting of April 20, we were informed by the Executive Board on the measures envisaged by the Government of Romania in order to deal with item 17 from the Letter of Intent issued by Romania under the Stand-by Precautionary Agreement with IMF, World Bank, European Commission. Within the aforementioned Letter, in respect to the gas market, the Romanian Government was undertaking to draw up by the end of April 2012 a package covering fiscal measures, royalties and regulations to govern the oil and gas sector.

#### **April 27 Supervisory Board meeting**

At our regular meeting of April 27, we received reports and were consulted by the Executive Board on market and business developments that had occurred since the previous meeting. We also discussed in preparation of the GMS which followed the meeting during the same day.

#### **June 15 Supervisory Board meeting**

During the meeting of June 15 which took place outside of Bucharest and was combined with a 2-day seminar to give the Supervisory Board sufficient time to discuss matters, the Supervisory Board focused its attention on, discussed and approved the Petrom Strategy Update 2021. At this meeting we approved the sale of OMV Petrom S.A.'s 99.99% share in S.C. Petrom LPG S.A. and, hence, Petrom's exit from the gas cylinders bottling and distribution business.

#### **July 12 Supervisory Board (via circulation)**

On July 12, via a **circular motion**, the Supervisory Board took notice of Hilmar Kroat-Reder's waiver of his mandate as member of the Executive Board as of September 1, 2012 and voted in Cristian Nicolae Secoșan as member of the Executive Board for the remainder of Hilmar Kroat-Reder's mandate.

#### **September 28 Supervisory Board meeting**

At its meeting on September 28, the Supervisory Board reviewed the reports received from the Executive Board with regard to the day-to-day activities of the Company.



### **November 27 Supervisory Board meeting**

At the regular meeting of November 27, the Supervisory Board took notice of Daniel Turnheim's waiver of his mandate as member of the Executive Board starting January 1, 2013 and voted in Andreas Matje as Executive Board member for the remainder of Daniel Turnheim's mandate. During the same plenary meeting, we were consulted by the Executive Board on market and business developments that occurred since the previous meeting and were informed of the endeavours to enter a production enhancement contract for Timis area.

Towards the end of **December, via a circular motion**, we approved the budget for 2013.

### **The Audit Committee**

An Audit Committee comprised of four Supervisory Board members is established to provide assistance to the Supervisory Board in the area of internal control and financial reporting. In line with Company Law, the Audit Committee also includes members that have the necessary financial, audit and accounting expertise.

As of the date of this report, the four members of the Audit Committee are: David Charles Davies, Manfred Leitner, Gheorghe Ionescu and Riccardo Puliti.

In 2012, the Audit Committee met three times. On these occasions, the committee reviewed and prepared the adoption of the annual accounts and the proposal for the allocation of profit. In addition, the Audit Committee supervised Petrom's risk management arrangements and its financial performance and monitored the reports delivered by its internal auditors and reviewed their plans for 2013. It further prepared a proposal of an independent financial auditor to the Supervisory Board and to the General Meeting of Shareholders.

### **External auditor**

Ernst & Young Assurance Services S.R.L. (Ernst & Young) was Petrom Group's independent auditor in 2012. A motion for the reappointment of Ernst & Young as Petrom Group's auditor will be submitted to the next Ordinary General Meeting of Shareholders.

### **Annual financial statements**

Ernst & Young audited the 2012 financial statements, reviewed the conformity of the annual report with the financial statements and issued unqualified audit opinions.

The financial statements and audit reports were presented for Supervisory Board examination in a timely manner. The auditors attended the relevant meeting of the Audit Committee convened to adopt the accounts. The Audit Committee discussed the financial statements with the auditors and examined them carefully. The Committee reported to the Supervisory Board on its examination and recommended the approval of the annual consolidated financial statements, including the management reports.

Based on our own examination of the consolidated financial statements and the management report, we concurred with the results of the audit. The final results of our examination did not lead to any objections. Hence, the consolidated financial statements were approved at today's Supervisory Board meeting in line with the Audit Committee's recommendation and will further be submitted for discussion in the General Meeting of Shareholders to be held on April 22, 2013.

### **Financial reporting in compliance with international standards**

Petrom prepares Group consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as endorsed by EU - presented within this report.

Separate individual financial statements for the year ended December 31, 2012 are also prepared in accordance with IFRS, as the Ministry of Finance Order no. 1286/2012 stipulates that Romanian listed companies must prepare financial statements in accordance with IFRS as endorsed by EU, starting with the year ended December 31, 2012.

### **Dividend**

The Supervisory Board has accepted the Executive Board's proposal to the General Meeting of Shareholders to pay a dividend of RON 0.028 per share, corresponding to a payout ratio of 40% of the net

profit recorded in 2012. The proposal is subject to the approval of the forthcoming General Meeting of Shareholders on April 22, 2013.

### **Corporate Governance**

The Supervisory Board also approved the Directors' Report which includes the Corporate Governance Report. Petrom adheres to and complies with the vast majority of the provisions set forth in the Corporate Governance Code issued by the Bucharest Stock Exchange. The Corporate Governance Code's requirements are broader than the legal requirements for listed companies. Effective since 2010, the "Comply or Explain" Statement is included in the Corporate Governance chapter of the Annual Report.

We thank shareholders for their confidence in Petrom. The Company continued its successful path of development in 2012 through difficulties caused by the effects of the fragile global economic environment.

To this end, the Supervisory Board would like to convey their appreciation to the Executive Board, managers, employees and trade union representatives for their commitment and hard work. They successfully met the challenges of a demanding 2012 and achieved very good results. We would also like to show our appreciation to the clients and business partners of our Company. Thanks to the sound operational performance and financial position, the Supervisory Board is confident that the Company is best positioned to surmount further challenges ahead and unlock its full potential in the years to come.

**Bucharest, March 21, 2013**

**Gerhard Roiss**  
**President of the Supervisory Board**



## 4.2. Directors' report

Petrom Group financials (RON mn)	2011	2012	Δ(%)
Sales revenues	22,614	26,258	16
Earnings before interest and taxes (EBIT)	4,936	5,662	15
Net income	3,759	3,946	5
Net income attributable to stockholders	3,757	3,953	5
Cash flow from operations	6,442	7,185	12
Capital expenditures	4,803	4,930	3
Employees at the end of period	22,912	21,650	(6)

Capitalizing on previous years' large investments in our core business and helped by relative stability at macroeconomic level in Romania, 2012 was another year of strong financial results and outstanding operational performance for our company. This was also the result of effective cost and operational management and supportive crude price environment. Moreover, throughout the year, we achieved several important milestones and had very successful results.

The operating result (EBIT) increased by 15% to RON 5,662 mn compared to the 2011 level, with positive contribution across all business segments. Net special charges totaled RON (362) mn mainly related to a legal case in Kazakhstan for uncollected receivables, personnel restructuring and impairment of marketing assets in the Republic of Moldova.

The net financial result of RON (836) mn, which was significantly lower than the RON (327) mn registered in 2011, reflected the special charges of RON (209) mn 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 the EUR bank loans also burdened on the financial result.

The Group effective corporate tax rate was 18%, in line with 2011, while net income attributable to stockholders was 5% higher versus 2011. The return on average capital employed (ROACE)<sup>2</sup> slightly decreased to 16.5%, from 17.3% in 2011, due to the large, long-term investment program. Positively, the gearing ratio improved to 7.3% from 9.3% in 2011, influenced by lower interest-bearing debt.

In 2012, we remained the largest investor in the energy sector in Romania with capital expenditures of RON 4,930 mn, slightly higher than in 2011, mostly dedicated to our E&P projects.

Going forward, in order to ensure production stability, in Romania we will progress several field redevelopment projects, focusing on drilling, workovers and advanced technologies aimed at increasing hydrocarbon recovery. Following data interpretation from the 3D seismic studies initiated in December 2012 on the deepwater sector of the Neptun block, further exploration is anticipated for end-2013. As regards Skifska (Ukraine) and Midia (Romania) blocks, we plan to progress with our discussions with the local authorities.

In G&P, we aim to maintain our leading position in the free gas market and enhance the value of equity gas by further optimizing the Brazi power plant operations. In R&M, the modernization program of Petrobrazi refinery progress is planned to further progress in 2013, with the commissioning of the Coker unit upgrade and the new Gas Desulfurization unit. Stringent cost management and business optimization are envisaged for all business segments.

### Dividend

The strong 2012 results and healthy financial position enable us to invest in the Company's future sustainable growth and also to propose to the forthcoming General Meeting of Shareholders of April 22, 2013, the payment of a dividend of RON 0.028 per share, corresponding to a payout ratio of 40% of the net profit.

In **E&P**, for the second year since privatization, we broadly stabilized our hydrocarbon production volumes. In Romania we successfully minimized the natural decline of our mature hydrocarbon fields at only 1.6% through several production optimization initiatives including workover activities and drilling of new wells

<sup>2</sup> For definitions of these ratios please refer to page 76, section "Abbreviations and definitions"

and higher production from the Totea deep gas field. Production in Kazakhstan increased by 2.8% thanks to increased volumes from the Komsomolskoe field.

2012 is the first year with successful exploration results in deepwater offshore. In February, we confirmed the first gas discovery in the deepwater sector of Neptun block, explored in joint venture with ExxonMobil Exploration and Production Romania Limited, who acts as operator. Our focus on exploring the potential of the Neptun block and its neighbouring areas in Romania reflected into record high exploration expenditures of RON 530 mn, 21% higher than in 2011. Following the discovery, a 3D seismic program of 6,000 km<sup>2</sup> started at the end of the year. Further evaluation and additional appraisal work are required to indicate if the deep offshore gas discovery Domino-1 is commercially recoverable. An additional 3D seismic study of 1,600 km<sup>2</sup> has been finalized in the shallow water sector of Neptun block in the last part of 2012.

Onshore, we pursued the appraisal drilling of the Totea Deep development, to confirm the most important onshore gas discovery in Romania in the past six years. An appraisal well started experimental production in the second half of 2012 while a second Early Production Facility (EPF2) installation was finalized by the end of November 2012, which allows the operator to start production while still working on the field development plan and permanent facilities construction. The production of Totea Deep averaged 5 kboe/d in 2012.

In **G&P**, we maintained a strong position in the Romanian gas market, covering all gas market segments, and accounting for 28% of the free gas market in 2012. In the power sector, we delivered a total net electrical output of 1.68 TWh, mostly from the Brazi combined-cycle gas-fired power plant contribution, which was brought on stream in August. With the commissioning of the Brazi power plant, Petrom expanded the equity gas value chain by converting gas into electricity and thus contributing to the security of the Romanian energy system.

In **R&M**, 2012 was the second year after privatization with positive Clean CCS EBIT result, nevertheless lower than the 2011 level, reflecting the poor marketing result. The indicator refining margin improved as higher gasoline and middle distillates cracks were only partially offset by the higher own consumption costs due to slightly higher crude prices. We continued the modernization program of the Petrobrazi refinery, and commissioned the modernization of the crude vacuum distillation unit in June, after a six-week shutdown, which led to incremental improvements of our refinery yield structure and lower refinery energy consumption. The utilization rate stood at 73%, reflecting the planned shutdown, slightly lower than the 79% in 2011. Last year, we also finalized the construction of a new state-of-the-art terminal at Isalnita.

In Marketing, total sales volumes decreased by 6% compared with 2011, broadly in line with the market demand in our operating region which experienced a weak economic environment. The previous years' rebranding of PetromV filling stations in Romania into OMV or Petrom also contributed to network optimization.

### **Corporate Governance**

In order to consolidate market and stakeholder confidence, we pursue transparency in our management and internal control structures. To meet the expectations placed in Petrom in terms of good corporate governance, we strive to comply with the principles set out in the Code of Corporate Governance (hereinafter referred to as "the CGC" or "the code") issued by the Bucharest Stock Exchange. The code applies to the issuers listed on the Bucharest Stock Exchange and the enclosure of the "Comply or Explain" Statement to the provisions set forth by the CGC became effective starting in 2010. The Corporate Governance Code's requirements are broader than the legal requirements for listed companies. A detailed report on Corporate Governance together with the "Comply or Explain" Statement is enclosed in our report.

The current version of the CGC is available on the website of the Bucharest Stock Exchange [www.bvb.ro](http://www.bvb.ro), under the item Companies/ Corporate Governance. The website also includes an English translation of the Code of Corporate Governance and the Corporate Governance Code Guidelines.

**Earnings before interest and taxes (EBIT)**

EBIT (RON mn)	2011	2012	Δ %
Exploration and Production <sup>1</sup>	5,236	5,467	4
Gas and Power	149	360	142
Refining and Marketing	(187)	138	n.m.
Corporate and Other	(79)	(117)	48
Consolidation: elimination of intercompany profits	(183)	(185)	1
<b>Petrom Group reported EBIT</b>	<b>4,936</b>	<b>5,662</b>	<b>15</b>

<sup>1</sup> Excluding intersegmental profit elimination shown in the line "Consolidation"

In **E&P**, **EBIT** increased by 4% compared to 2011, to RON 5,467 mn, on the back of favorable FX effects (stronger USD against RON) and higher oil prices, which more than offset the increased operating and exploration expenses. The impact of hedging on the EBIT amounted to RON (394) mn, broadly flat compared to 2011. EBIT included special items totaling RON (287) mn, mainly related to a legal case in Kazakhstan for uncollected receivables, restructuring charges and also in relation to a community project.

**Total Group hydrocarbon production** decreased by 1.3% compared to 2011 to 183 kboe/day or 66.9 mn boe.

**Total oil, gas and NGL production in Romania** totaled 62.4 mn boe, 1.6% lower compared to the previous year. Crude oil production was 28.7 mn bbl, 2.2% lower than in 2011, as the new wells drilled and the workover programs could not fully offset the effects of harsh winter conditions at the beginning of the year and also natural decline.

Gas production reached 33.7 mn boe, 1.1% lower compared to 2011. **Oil and gas production in Kazakhstan** increased by 2.8% to 4.5 mn boe, mainly due to increased production at the Komsomolskoe fields. In 2012, **Group sales volumes** decreased by 1.3% compared to 2011.

In **G&P**, **EBIT** more than doubled to RON 360 mn, compared to 2011, driven by the better terms for domestic gas sales, positive contribution from the power segment as well as cost optimization. In **the gas business**, sales volumes decreased by 4% compared to 2011, still in line with the overall market trend. Since its start of commercial operations in August 2012, Brazi covered approximately 6% of Romania's electricity production over the same period and, together with the Dorobantu wind park had a marginal positive contribution to EBIT. Since September 2012, Brazi power plant has been supplied only with equity gas.

In **R&M**, **EBIT** considerably improved to RON 138 mn against RON (187) mn in 2011, as the latter was strongly affected by net special charges of RON (651) mn, mainly in relation with the provision set up for the fine received from the Competition Council. The **indicator refining margin** improved to USD (1.39)/bbl, from USD (2.40)/bbl in 2011, supported by the higher gasoline and middle distillates cracks, which were only partially offset by the slightly higher costs of crude. During 2012, the **utilization rate** of Petrobrazi refinery stood at 73%, down from 79% in 2011, due to a six weeks shutdown needed to commission the modernized crude vacuum distillation unit.

**EBIT** in the **Corporate and Other** (Co&O) segment amounted to RON (117) mn, 48% lower than in 2011, when it stood at RON (79) mn.

## 4.3. Financial highlights

### Notes to the income statement

Summarized income statement (RON mn)	2011	2012	Δ %
Sales revenues	22,614	26,258	16
Direct selling expenses	(564)	(696)	23
Production costs of sales	(14,321)	(17,306)	21
Other operating income	433	187	(57)
Selling and administrative expenses	(1,398)	(1,415)	1
Exploration expenses	(420)	(328)	(22)
Other operating expenses	(1,407)	(1,038)	(26)
<b>Earnings before interest and taxes (EBIT)</b>	<b>4,936</b>	<b>5,662</b>	<b>15</b>
Net financial result	(327)	(836)	155
Taxes on income	(850)	(880)	4
<b>Net income</b>	<b>3,759</b>	<b>3,946</b>	<b>5</b>
Less net income / (loss) attributable to non-controlling interests	2	(7)	n.m.
<b>Net income attributable to stockholders of the parent</b>	<b>3,757</b>	<b>3,953</b>	<b>5</b>

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

Compared to 2011, **consolidated sales revenues** increased by 16% to RON 26,258 mn, mainly driven by increased oil and product prices together with higher crude sales and higher electricity sales in 2012. After the elimination of intra-group transactions of RON 12,072 mn, the contribution of the **E&P** segment to consolidated sales revenues was RON 920 mn or about 3% of the Group's total sales revenues (2011: RON 571 mn). After elimination of intra-group sales, the **G&P** segment's contribution was RON 3,696 mn or approximately 15% of total sales (2011: RON 3,191 mn). Sales to external customers in the **R&M** segment amounted to RON 21,587 mn or 82% of total consolidated sales (2011: RON 18,795 mn).

In line with IFRS 8 "Operating segments", 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 20,534 mn or 78% of the Group's total sales (2011: RON 17,411 mn). Sales in the rest of Central and Eastern Europe were RON 4,485 mn or 17% of Group sales revenues (2011: RON 4,291 mn) and sales revenues in the rest of the world (Kazakhstan) increased to RON 1,239 mn, representing 5% of total sales revenues (2011: RON 911 mn).

**Direct selling expenses**, mainly consisting of third-party freight-out expenses, increased by 23% to RON 696 mn mostly related to activities in Kazakhstan. **Cost of sales**, which include variable and fixed production costs, as well as costs of goods and materials employed, increased by 21% to RON 17,306 mn, mainly due to higher expenses for the acquisition of products from third parties in relation to the scheduled Petrobrazi refinery shut-down in 2012. **Other operating income** went down by 57%, and the result in 2011 included the reassessment of retirement provision following the change in parameters (in 2012 the reassessment of retirement provision resulted in an operating expense) and significantly higher incomes from carbon certificates. **Selling expenses** of RON 1,173 mn slightly increased by 1% compared to last year, while **administrative expenses** increased by 2% to RON 242 mn.

**Exploration costs** decreased by 22% to RON 328 mn, mainly due to lower provisions for unsuccessful wells in Romania in 2012; in addition, 2011 also included impairments of exploration assets in Kazakhstan.

**Other operating expenses** decreased 26% to a value of RON 1,038 mn in 2012 resulting from the fact that significant provisions in relation with Competition Council antitrust investigation and the Arpechim refinery closure were booked in 2011.

**The net financial result** shows a loss of RON 836 mn and decreased significantly in comparison with the previous year (2011: loss of RON 327 mn) influenced by the special charges for alleged late payment interest following the receipt of the preliminary results of the fiscal review of the years 2009 and 2010 for Petrom, higher discount of receivables and lower FX gains related to USD loans given by Petrom to its Kazakh subsidiaries as well as negative FX effect related to the EUR bank loans.

**Taxes on income** amounting to RON 880 mn in 2012 slightly increased compared to 2011. **Current expenses with taxes on income** went up by RON 54 mn to RON 964 mn, mainly driven by higher profits. In 2012, **deferred tax income** of RON 84 mn (2011: RON 60 mn) was recognized. The Group's effective tax rate remained stable at 18% (2011: 18%) as 2012 was burdened by the expense for the fiscal review, while 2011 included the non tax-deductible fine imposed by the Romanian Competition Council.

## Capital expenditure

Capital expenditure <sup>1</sup> (RON mn)	2011	2012	Δ (%)
Exploration and Production	3,254	3,753	15
Gas and Power	515	221	(57)
Refining and Marketing	980	899	(8)
Corporate and Others	54	57	6
<b>Total capital expenditure</b>	<b>4,803</b>	<b>4,930</b>	<b>3</b>
+/- Other adjustments	438	145	(67)
<b>Additions according to statement of non-current assets (intangible and tangible assets)</b>	<b>5,241</b>	<b>5,075</b>	<b>(3)</b>
+/- Non-cash changes	24	55	129
<b>Cash outflow due to investments in intangible and tangible assets</b>	<b>5,265</b>	<b>5,130</b>	<b>(3)</b>
+ Cash outflow due to investments in securities, loans and other financial assets	-	-	-
<b>Investments as shown in the cash flow statement</b>	<b>5,265</b>	<b>5,130</b>	<b>(3)</b>

*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*

**Capital expenditure** increased to RON 4,930 mn (2011: RON 4,803 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 3,753 mn (2011: RON 3,254 mn), represented 76% of the total figure for 2012 and were predominantly spent on drilling development wells, workover activities and sub-surface operations, field redevelopment projects, as well as investments related to Neptun Deep Water and Totea Deep projects. Approximately 4% of investments were realized in **G&P** at the amount of RON 221 mn (2011: RON 515 mn), the majority of this amount related to the Brazi power plant, which started commercial operations in August 2012. Capital expenditure in the **R&M** segment of RON 899 mn (2011: RON 980 mn) accounted for 18% of 2012 Group total investments. In Refining, investments were mainly related to the Petrobrazi modernization program (especially for the modernization of the crude vacuum distillation unit and of the Coker installation). Additional funds were directed to legal and environmental compliance. Corporate & Other (**Co&O**) segment investments amounted to RON 57 mn (2011: RON 54 mn), mainly referring to investments related to IT projects.

The reconciliation of total capital expenditure to additions according to the statement of non-current assets (intangible and tangible) mainly relates to additions which by definition are not considered capital expenditure, such as capitalizations resulting from the reassessment of decommissioning and loans associated interest, fees and forex capitalized. The difference between the additions shown in the statement of non-current assets and the investments reported in the cash flow statement partly arise from investments that did not affect cash flows during the period (including financial leasing and reassessment of decommissioning provisions) and from change of liabilities arising from investments.



## Balance sheet

Summarized balance sheet (RON mn)	2011	%	2012	%
<b>Assets</b>				
Non-current assets	31,022	85	32,777	86
Intangible assets and property, plant and equipment	27,455	75	29,479	77
Investments in associated companies	41	0	39	0
Other non-current assets	2,718	7	2,393	6
Deferred tax assets	807	2	866	2
Current assets	5,467	15	5,368	14
Inventories	2,349	6	2,251	6
Trade receivables	1,826	5	1,968	5
Other current assets	1,292	4	1,149	3
<b>Equity and liabilities</b>				
Equity	21,077	58	23,405	61
Non-current liabilities	9,287	25	8,646	23
Pensions and similar obligations	195	1	241	1
Interest-bearing debts	2,173	6	1,717	5
Decommissioning and restoration obligations	5,898	16	5,866	15
Provisions and other liabilities	1,009	3	813	2
Deferred tax liabilities	12	0	8	0
Current liabilities	6,125	17	6,094	16
Trade payables	2,983	8	2,880	8
Interest-bearing debts	464	1	525	1
Provisions and other liabilities	2,678	7	2,689	7
<b>Total assets/ equity and liabilities</b>	<b>36,488</b>	<b>100</b>	<b>38,145</b>	<b>100</b>

**Total assets** increased slightly by RON 1,657 mn to RON 38,145 mn. The increase in **intangible assets and property, plant and equipment** by RON 2,024 mn is the main driver of the net increase of non-current assets by RON 1,755 mn up to RON 32,777 mn. Additions to intangible assets and property, plant and equipment (RON 5,075 mn) exceeded the total of depreciation, amortization and impairments, as well as disposals by RON 2,085 mn. The ratio of intangible assets and property, plant and equipment to total assets amounted to 77% (2011: 75%).

The decrease of **other non-current assets** was driven mainly by the reassessment of the receivable from the Romanian State following updates of cost and timing assumptions, which was only partly offset by the increase effect from the unwinding of the related provisions.

The slight decrease in **current assets** of RON 99 mn is related to the decrease in inventories by RON 98 mn and to the decrease in other assets by RON 143 mn, partially compensated by an increase in **trade receivables** by RON 142 mn. The decrease in **other current assets** was mainly due to decrease of cash and cash equivalents following dividend payments and bank loan reimbursements, while the increase in **trade receivables** was influenced by higher sales in R&M and higher receivables from Kazakhstan crude exports at the end of December 2012 compared to 2011.

The increase in **equity** by RON 2,328 mn resulting from higher net income generated during the year, partially offset by the higher distribution of dividends for the financial year 2011 improved the equity ratio to 61% (2011: 58%).

The decrease in **long-term borrowings** by RON 456 mn is mainly related to reimbursements of loans from the EBRD (European Bank for Reconstruction and Development) of RON 416 mn and from the EIB (European Investment Bank) of RON 28 mn. The increase due to FX rates was almost offset by the reclassification of the short-term parts to current interest-bearing debts. This reclassification led also to the net increase of short-term **interest-bearing debts** by RON 61 mn.

**Trade payables** are lower mainly due to the finalization of investments projects in 2012, while **provisions and other liabilities** show a slight increase of RON 11 mn in 2012.



### Gearing ratio

Reimbursements of long-term borrowings – partly compensated by a decrease in cash and cash equivalents – led to a decrease of Petrom Group's **net debt**<sup>3</sup> to RON 1,711 mn, compared to RON 1,955 mn at the end of 2011. Consequently, as of December 31, 2012, the **gearing ratio**<sup>4</sup> further decreased to 7.3%, from 9.3% in December 2011.

### Cash flow

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

**Cash flow from operating activities** increased by RON 744 mn or 12% compared to 2011, reaching RON 7,185 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 3,406 mn for 2012 (2011: RON 3,229 mn). While depreciation, amortization and write-ups added RON 2,852 mn (2011: RON 2,830 mn), net movement in provisions (including decommissioning and restoration obligations and other provisions for risks and charges) contributed a decrease of RON 227 mn (2011: increase by RON 200 mn) to the cash flow. The disposal of non-current assets and other non-cash adjustments led to an increase of RON 781 mn (2011: increase of RON 199 mn).

In 2012, net working capital, interest and taxes generated a cash outflow of RON 1,046 mn (2011: cash outflow of RON 1,396 mn). Receivables increased by RON 162 mn (2011: increase by RON 432 mn) and liabilities increased by RON 194 mn (2011: decrease by RON 53 mn). Net interest and tax on profit paid generated a cash outflow of RON 1,053 mn (2011: cash outflow of RON 944 mn).

Cash outflows for investments in non-current assets of RON 5,130 mn (2011: RON 5,265 mn) were slightly offset by proceeds from the sale of non-current assets of RON 64 mn (2011: RON 113 mn) and cash inflows related to the sale of subsidiaries of RON 10 mn (2011: RON 59 mn). **Net cash outflow from investment activities** totaled RON 5,055 mn (2011: RON 5,092 mn).

Cash outflows for the net decrease of short-term and long-term borrowings amounted to RON 478 mn (2011: outflow RON 1,199 mn). Cash outflows for dividend payments amounted to RON 1,741 mn in 2012 (2011: RON 993 mn). **Net cash outflow from financing activities** amounted to RON 2,220 mn (2011: outflow RON 2,193 mn).

---

<sup>3</sup> Net debt is calculated as interest bearing debts including financial lease liability less cash and cash equivalents

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

## 4.4.1. 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 supporting, steers and enhances our company's risk management system by close involvement and monitoring.

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.

### **Integrated risk management system**

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.

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.

### **Risk Management Objectives**

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 risks, financial risks, project risks, process risks, health, safety and security risks, tax risks, compliance risks, personnel risks, legal risks, 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 2012, in order to protect the Group's cash flow, Petrom entered into oil price swaps, locking in a Brent price of USD 101/bbl for a volume of 30,000 bbl/d, accounting for approximately one-third of its crude oil production. The hedge operation was efficient in securing a floor price of 101 USD/bbl for 30% of Petrom's crude oil production resulting from a negative cashflow on the derivative instrument offset by a corresponding positive cash flow on the sales side.

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 the 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, 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.

## Results

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. The awareness and understanding of the company's risk profile as well as risk management skills in the company have improved substantially along the years. In 2012, 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. The Audit Committee was presented with the company's risk report in March and October 2012 and took notice of the information.

Through its risk management process, Petrom secures its liquidity and long-term sustainability, and decreases the uncertainty over its strategic objectives and financial targets.

## 4.4.2. Description of internal control main characteristics

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.

### Comprehensive set of standards, prerequisite for a proper internal control

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.

### Established group-wide standards for the preparation of annual and interim financial statements

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-eye 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.

## **4.5. Information required as per Regulation no. 1/2006 issued by the National Securities Commission**

### **1. The relationship between management and employees as well as any conflict elements which characterize this relationship**

The dialog between unions and management continues on a regular basis. The key elements of the framework outlining the relationship between management and employees are the Collective Labor Agreement, Internal Rules and Parity Commissions. All the steps of any reorganization process that the Company has entered were discussed and agreed by both parties.

The wording of some stipulations in the Collective Labor Agreement of Petrom resulted in a chain of labor litigations through which employees requested the payment of bonuses allegedly unpaid to them. Most of the claims reach back to issues prior to the privatization of Petrom. These litigations are still in progress at various stages, in Bucharest and across the country. Petrom's defence is based on the fact that the respective bonuses were included and maintained in the base salary of the employees, therefore the claims are unjustified. This fact is considered by the courts in the vast majority of the cases which have been won irrevocably by Petrom in final appeal.

During 2012, Petrom continued to receive some claims relating to these matters. Following the assessment of the potential liabilities with respect to ongoing cases, the provision booked to cover the risk in line with prudence principles did not require any increase until the date of this report. Petrom has taken all possible actions and committed all necessary resources to defend itself against these lawsuits, and also to prevent a further increase in litigation. Furthermore, employee information was substantially increased in order to raise awareness of the topic. These clarifying discussions with claimants resulted in withdrawals of pending lawsuits as well as many intentions to pay back amounts.

### **2. Potential issues related to ownership rights over the company's tangible assets**

The Company received notifications regarding the restitution of the assets confiscated by the Romanian State between March 6, 1945 and December 22, 1989, which falls under the incidence of Law no. 10/2001; this law provides the modalities, the terms and the legal framework for the restitution of these assets. The summarized status and the resolutions to these notifications as of December 31, 2012 are the following – 1,126 notifications were transmitted to Petrom, out of which:

- ▶ 16 buildings were restored;
- ▶ 1,082 notifications were rejected due to the failure to comply with the requirement of Law no.10/2001;
- ▶ 27 notifications were redirected towards other entities;
- ▶ 1 notification (file) is currently under analysis.

As per Article 7.2, in conjunction with the provisions of Article 26 of the Methodological Norms for the application of Law no. 10/2001, approved through Government Decision no. 498/2002, the City Halls or the notified Prefectures are under the obligation to identify the owning entity and to direct the notifications to these entities for resolution. At the same time, those who submitted the notifications are informed that the requested asset is not under administration of these entities and also the name of the entity in charge to solve the notification. Due to the fact that up to this date the activity of solving notifications within the City Halls' and Prefectures' Commissions is still in progress, part of the notifications received may be further directed to Petrom.

### **3. Any agreements, understanding or family connection between the Company's administrators and another person who is responsible for appointing the respective person in the position of administrator**

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.

### **4. The participation of the Supervisory Board members in the share capital of the Company**

Petrom does not have knowledge of any member of the Supervisory Board holding shares issued by the Company during the year under review.

**5. Any agreement, understanding or family connection between the members of the executive management 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.

**6. The participation of the executive management members in 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.

**7. Potential litigations and administrative procedures in which the Company's administrators and the members of the Executive Board were involved over the last five years**

To the best of our knowledge, at the time of drafting this report, in 2012 there were no litigations or administrative procedures against any members of the Executive or Supervisory Board of the Company directly linked with their activity in the Company having a significant impact upon the price of the Company shares or the capacity to hold the position of members of such corporate bodies. However, members of the Executive Board are involved in some court cases or preliminary procedures which do not fall under the aforementioned categories.

## **4.6. Subsequent events**

**Changes in the Executive Board**

Starting January 1, 2013, Andreas Peter Matje was appointed as member of the Executive Board and Chief Financial Officer of Petrom, following Daniel Turnheim's waiver of his mandate.

**Exit from the gas cylinders bottling and distribution business**

On January 7, 2013 OMV Petrom finalized the sale of the interest percentage of its 99.99% interest in Petrom LPG subsidiary to Crimbo Gas International. The sale of this participation is in line with Petrom Group's strategy to focus on the core activities of the Group.

**Option agreement for Romgaz to participate in operations in the offshore Midia Block**

On February 13, 2013, ExxonMobil Exploration and Production Romania Limited ("EMEPRL") and OMV Petrom S.A. announced the signing of an agreement with Romgaz S.A. ("Romgaz") to grant Romgaz the option to participate in petroleum operations in the deeper water portion of the Midia Block in the Black Sea offshore Romania. EMEPRL and OMV Petrom S.A. signed in October 2012 a Transfer Agreement with Sterling Resources Ltd. and Petro Ventures Europe B.V. for the purchase of an 85% interest in the hydrocarbon exploration and production rights to a portion of the XV Midia Block. Romgaz's option to enter is triggered by the Transfer Agreement becoming effective and an announcement of a commercial discovery. EMEPRL will be the operator of the petroleum operations in the deeper water portion of the Midia Block.

**Petrom and Repsol will jointly explore deep onshore in Romania**

On February 22, 2013, Petrom signed a farm-out agreement with Repsol by which the latter acquires a 49% working interest for the area deeper than 2,500 – 3,000 m of the onshore exploration blocks Băicoi V, Târgoviște VI, Pitești XII and Târgu Jiu XIII, located south of the Southern and Eastern Carpathians. This partnership is in line with our strategy to unlock the deep onshore exploration potential in Romania and targets investments estimated at approximately EUR 50 mn in the next two years.

**Changes in the Executive Board**

On March 21, Petrom announced the appointment of Gabriel Selischi as member of the Executive Board in charge with Exploration and Production activity starting with September 1, 2013. This follows Johann Pleininger's waiver of mandate as member of the Executive Board as he will assume the new position of Senior Vice President for the Central Eastern Europe Region (CEE) in OMV's E&P division. Gabriel Selischi joined Petrom E&P team in 2006, serving as Head of Strategy, Project & Engineering and more recently as Director of Domestic Asset Business Unit. Prior to joining Petrom, Selischi served as Senior Manager at Schlumberger Paris and as Principal at Bossard Gemini Consulting company in Paris and Johannesburg.

## 4.7. Outlook for 2013

### **Crude price to remain above USD 100/bbl**

We expect the average Brent oil price for 2013 to be above USD 100/bbl and the Brent-Urals spread to stay relatively tight.

### **Domestic economic policies need to focus on stimulating growth**

According to the European Commission, Romania's economy is forecast to grow by 1.5% in 2013 on the back of stronger private consumption and increased EU funds absorption. External demand will continue to play an important role in the revival of the economy. However, domestic economic policies will play a pivotal role kick-starting the economy.

### **New fiscal and regulatory measures**

In the local gas market, we anticipate a stable demand, albeit not without challenges. The effects of weak economic growth are expected to be counterbalanced by industry's efficiency improvement measures, in the context of gas price liberalization. In terms of gas prices, the Government enforced a roadmap for the gradual increase of regulated domestic gas prices during 2013-2014, in line with the provisions of the new electricity and gas law and the seventh review by the IMF and the European Commission of Romania's economic program. The first increase applies to the non-household sector starting in February 2013. According to law, the deadline for full gas market liberalization envisaged for the non-household sector is end of 2014, with the possibility of extension until 2015, while a deadline of end-2018 is anticipated for the household sector. Starting February 2013, the Government also introduced a package of fiscal measures that impacts oil and gas producers, imposing a 60% tax on additional revenues resulting from domestic gas price liberalization net of corresponding royalties and upstream investments (the latter capped at 30% of the additional revenues) and a 0.5% tax on extraction of crude.

While the package of fiscal measures is pending approval in Parliament and secondary legislation for its implementation still needs to be adopted, **we do not expect a substantial impact on 2013 financials** from gas price liberalization and the implementation of the new fiscal and regulatory measures. This is mainly due to the fact that the Petrom 2012 results already reflected better commercial terms for domestic gas sales, above the officially introduced baseline of RON 495/1,000 cbm for the regulated domestic gas price. The two measures are enforced until the end of 2014, which coincides with the expiry of the current oil and gas taxation regime. In 2013, we will engage in discussions with the Romanian authorities to define a long term, stable and investment-friendly taxation and regulatory framework.

In the power market, prices are expected to be under pressure due to supply dynamics, with additional capacity coming on stream from renewables, as well as lingering demand, which reflects weak economic growth and prospective energy efficiency measures.

### **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 2013 being over EUR 1 bn.

### **E&P to further stabilize production volumes and unlock potential**

In 2013, we will focus on growth opportunities in E&P and implementing performance improvement initiatives throughout the organization. We will continue to sustain our investment efforts to stabilize production through field redevelopment, drilling and workovers, operational excellence initiatives and portfolio optimization through partnerships. We plan to drill more than 110 wells, out of which two will be appraisal wells in the Totea field. We also aim to bring five field re-development projects to the implementation phase in order to sustain our efforts of increasing ultimate oil and gas recovery.

The workover activities in Petrom will be maintained at a high level of around 1,600 jobs with an important contribution in 2013.

Both offshore exploration – deep or shallow water – as well as onshore exploration, account for an important share in our business.

After the success recorded with the first deep water well drilled in Romanian waters in the first quarter last year, in 2013 we will focus on additional seismic surveys and data interpretation, while further exploration is anticipated to start at the end of the year. Together with ExxonMobil Exploration and Production Romania Limited, we will pursue the biggest 3D seismic acquisition program ever performed in the Black Sea which started at the end of 2012.

Additional seismic interpretation works will focus on the shallow water area of Neptun and Istria blocks in order to generate candidates for the next offshore exploration drilling activity.

In the Ukraine, the Production Sharing Agreement is currently under negotiations.



In Kazakhstan, we will continue to implement the water injection scheme in field Komsomolskoe in order to secure reservoir pressure support for the long-term production. A TOC field re-development plan was approved in September 2012 and will be carried out during 2013 in order to sustain production levels.

#### **G&P to capture synergies from the sale of natural gas and electricity to enhance value of equity gas**

In the gas business, our priorities for 2013 will be to maintain the leading position in the free gas market whilst adapting our sales strategy to the expected liberalization under the new energy law. A first increase of the domestic gas price for non-households was enforced starting February 1, 2013 (from RON 45.71/MWh to RON 49.00/MWh). The prices for non-households are set to gradually increase to RON 68.30/MWh during 2013, while the prices for households are set to reach RON 49.80/MWh, with a first increase scheduled for July 1, 2013 (RON 48.50/MWh).

In the power business, we aim to enhance the value of equity gas by further optimizing the operations of the Brazi power plant and consolidating our position in the power market, as well as maximizing the operational performance of the Dorobantu wind park.

An important focus will be on capturing the synergies from bundling electricity sales with natural gas sales to existing customer base.

#### **R&M to pursue operational optimization and the Petrobrazî modernization**

In **R&M**, margins and volumes are expected to be further challenged by high price levels for international crude and oil products and the marginal economic recovery in our operating region. We will continue the optimization and strict cost management of our business segment, expecting another year under a challenging market environment. In the Petrobrazî modernization further milestones were passed, with the commissioning of the Coker unit upgrade performed in January 2013 while next steps envisage the new Gas Desulfurization unit, scheduled for 2013, the Vacuum Gas Oil conversion project in 2014 and other environment and energy efficiency projects. We intend to run Petrobrazî at an optimized utilization rate in order to cope with the market demand and crude supply, maintaining a good energy efficiency and tight cost management. No major shutdowns are expected during the year.

The modernization program of revamping and optimizing the fuel terminal network will continue, and we target to finalize and commence operations at Bacau terminal by year-end.

## 4.8. 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, offering better access to capital and risk mitigation.

The Company has therefore always placed great importance on good corporate governance and adheres 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 is 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 published in the Official Gazette of Romania, part IV and 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 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 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 (SB)**

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 2009 and runs until 2013. 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 2012, the membership of the Supervisory Board comprised the following individuals: Gerhard Roiss, David Davies, Jacobus Gerardus Huijskes, Manfred Leitner, Hans Peter Floren, Riccardo Puliti, Constantin Dascalu, Gheorghe Ionescu and Joseph Bernard Mark Mobius.

Until March 23, 2012, Gerald Kappes was interim member of the Petrom Supervisory Board starting January 1, 2012, when he replaced Werner Auli (former member of the Petrom Supervisory Board between 2006 and 2011).

### **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 2012 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 analyse 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.

During the 2012 financial year, the Audit Committee members were: David C. Davies, Manfred Leitner, Gheorghe Ionescu and Riccardo Puliti.

During the 2012 financial year, the Audit Committee met three times (more details presented under the corresponding section within the report of the Supervisory Board).

### **Executive Board (EB)**

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**

At December 31, 2012 the Executive Board had five members. Until September 1, 2012, the Executive Board of the Company consisted of the following members: Mariana Gheorghe (President of the Executive Board and Chief Executive Officer), Daniel Turnheim (Executive Board member and Chief Financial Officer), Johann Pleininger (Executive Board member in charge of Exploration & Production), Neil Anthony Morgan (Executive Board member in charge of Refining & Marketing), Hilmar Kroat-Reder (Executive Board member in charge of Gas, Power and Chemicals).

Following Hilmar Kroat-Reder's waiver of his mandate, Cristian Nicolae Secoşan was appointed as Executive Board member in charge of Gas, Power and Chemicals as of September 1, 2012.

Likewise, following Daniel Turnheim's waiver of his mandate, Andreas Matje was appointed as Executive Board member and Chief Financial Officer as of January 1, 2013.

Starting January 1, 2013, the Executive Board of the Company consists of the following members: Mariana Gheorghe (President of the Executive Board and Chief Executive Officer), Andreas Matje (Executive Board member and Chief Financial Officer), Johann Pleininger (Executive Board member in charge of Exploration & Production), Neil Anthony Morgan (Executive Board member in charge of Refining & Marketing), Cristian Nicolae Secoşan (Executive Board member in charge of Gas, Power and Chemicals). During 2012, the members of the Executive Board of the Company did not hold other positions as members of the corporate bodies of companies outside Petrom Group.

### **EB 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 annually submit for the approval of the General Meeting of Shareholders, within four months since 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 National Securities Commission (Romanian: Comisia Națională a Valoriilor Mobiliare) 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 2012, 62 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;
- resolving 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.

#### **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 2012, around 30% of the first line directors Executive Board were women whilst the percentage of women in middle management was around 35%. 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.

### 4.8.1. Comply or Explain Statement

#### Statement “Comply or Explain” BSE Corporate Governance Code

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

Principle/ Recommendation	Question	YES	NO	Please EXPLAIN
<b>P19</b>	Is the issuer managed in a two tier system?	*		As of April 2007, Petrom is managed in a two-tier system by an Executive Board, which manages the daily operations under the supervision and control of the Supervisory Board, appointed by the shareholders.
<b>P1</b>	<b>R1</b> 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 described in the Issuer’s Articles of Association, the Corporate Governance Statute, the internal rules of the Supervisory Board and the Executive Board, as well as in other internal regulations.
	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. Likewise the Articles of Association are posted on the website of the Issuer, mentioning the date when last updated.
	<b>R2</b> 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
<b>R 3</b>	Has the Annual Report of the Issuer a chapter referring to corporate governance, which describes all the relevant events related to corporate governance registered in the previous financial year?	*		Petrom's 2012 Annual Report has a chapter describing all the relevant events related to the corporate governance issues in the 2012 financial year.
	Does the Issuer disclose on its website the information related to the following aspects of its corporate governance: a) a description of Issuer's corporate governance structures?	*		Petrom's website has a special section where details about corporate governance bodies along with the short version of the CV of the members of these bodies are posted.
	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?	*		The members of the Supervisory Board, the Executive Board and the Audit Committee are listed 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.
<b>P2</b>	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. In 2012, the Issuer has not issued any financial instruments.
<b>P3</b>	<b>R4</b> 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.
	<b>R4</b> 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 procedure is mentioned in the Issuer's Articles of Association and Statute of Corporate Governance. Likewise, Petrom publishes at every GMS extensive convening notices describing the procedure to be followed for the respective meeting in detail. In this manner, the Issuer ensures that the General Meetings of Shareholders are adequately conducted and well organized while the shareholders' rights are duly 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 procedure for the 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.
	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.
	b) the detailed results of voting?	*		Petrom's website has a special section where detailed results of voting are posted in due time.

Principle/ Recommendation	Question	YES	NO	Please EXPLAIN
	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 an easily accessible and identifiable special section where ad-hoc reports and official statements are posted in due time.
	b) the financial calendar, the annual, quarterly and half-yearly reports?	*		Petrom's website has an easily accessible and identifiable special section where the financial calendar and periodical reports are posted in due time.
	<b>R 9</b> 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: <a href="mailto:investor.relations.petrom@petrom.com">investor.relations.petrom@petrom.com</a> . Likewise, a special section of the Company's website is dedicated to investors.
<b>P4, P5</b>	<b>R 10</b> 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 2012, the SB met six times in person and passed resolutions by circulation on four additional occasions.

Principle/ Recommendation	Question	YES	NO	Please EXPLAIN
	<b>R 1 2</b> 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 (“ <b>issuer securities</b> ”) 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.
	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.
<b>P6</b>	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
<b>P7</b>	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.
<b>P8</b>	<b>R15</b> 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"> <li>• reviews and prepares the adoption of the annual accounts,</li> <li>• prepares the proposal for the distribution of profits</li> <li>• prepares a proposal of an independent financial auditor</li> <li>• supervises Petrom's risk management arrangements and its financial performance</li> <li>• monitors the reports delivered by the internal auditors.</li> </ul>
	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.
	<b>R16</b> 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
	<b>R 1 7</b> 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.
<b>P9</b>	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 GSM, 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 GSM, their CV is available for the shareholders for consultation.
<b>P10</b>	Is there a Nomination Committee within the Issuer set-up?		*	Petrom is assessing the possibility of establishing a Nomination Committee.
<b>P11</b>	<b>R 2 1</b> 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 setup of a Remuneration Committee is under assessment.
	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.
	<b>R 2 2</b> Is there a Remuneration Committee made exclusively of non-executive members of the Supervisory Board?		*	The setup of a Remuneration Committee is under assessment.

Principle/ Recommendation	Question	YES	NO	Please EXPLAIN
	<b>R 2 4</b> Is the remuneration policy of the Issuer mentioned in the Statute/Corporate Governance Regulation?		*	Please see above.
<b>P12 , P13</b>	<b>R 2 5</b> 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 prepared and disclosed 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 consolidated financial statements in accordance to the IFRS standards. Furthermore, in line with Romanian legal requirements applicable for listed companies, starting 2012 Petrom also prepares separate individual financial statements in accordance with IFRS.

Principle/ Recommendation	Question	YES	NO	Please EXPLAIN
	<b>R 2 6</b> Does the Issuer organize, at least once a year, meetings with the 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 60 one-to-one or group meetings and presentations were held throughout 2012, including more than 100 investors and analysts. The company also attended analyst and investor conferences, organized in Romania (2) and abroad (3).
	<b>R 2 7</b> Is there an Audit Committee within the Issuer?	*		Petrom's Supervisory Board has set up an Audit Committee.
	<b>R 2 8</b> 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.
	<b>R 2 9</b> 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 in Company Law no. 31/1990.



Principle/ Recommendation	Question	YES	NO	Please EXPLAIN
	<b>R 3 0</b> 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 and reporting issues and review on the financial statements.
	<b>R 3 2</b> 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.
<b>P14</b>	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.
<b>P15</b>	<b>R 3 3</b> Do the members of the Supervisory Board inform the Supervisory Board on the 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 laid down rules relating to conflicts of interest and the approach in this respect.

Principle/ Recommendation	Question	YES	NO	Please EXPLAIN
<b>P16</b>	<b>R 34 / R 35</b> Has the Issuer approved the specific procedures in order to provide the 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?	*		Petrom has internal regulations in place and submits reports on transactions with related parties to the National Securities Commission and to the Bucharest Stock Exchange. The specific procedure is also covered in the Corporate Governance Statute.
<b>P17</b>	<b>R 36</b> 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?	*		Petrom has internal regulations in place for such matters.
<b>P18</b>	<b>R 37 / R 38</b> Does the Issuer carry on activities regarding the Issuer's social and environmental responsibility?	*		Petrom conducts various activities regarding social and environmental responsibility. Please see the Annual Report's section relating to community involvement.

## 4.9. 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, 2012, 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 21, 2013**

### **The Executive Board**

**Mariana Gheorghe**  
Chief Executive Officer  
President of the Executive Board



**Andreas Matje**  
Chief Financial Officer  
Member of the Executive Board



**Johann Pleininger**  
Member of the Executive Board  
Exploration & Production



**Cristian Secoșan**  
Member of the Executive Board  
Gas & Power (including Chemicals)



**Neil Anthony Morgan**  
Member of the Executive Board  
Refining & Marketing



## Abbreviations and definitions

ANRE	Romanian Energy Regulatory Authority
bbl	barrel(s), i.e. 159 liters
bbl/d	bbl per day
bcf	billion cubic feet; 1,000 standard cubic meters = 35.3147 bcf for Romania or 34.7793 bcf for Kazakhstan
bcm	billion cubic meters
bn	billion
boe	barrels of oil equivalent
boe/d	boe per day
BSE	Bucharest Stock Exchange
CAPEX	Capital Expenditure
Capital employed	Equity + (Financial current liabilities + Financial non-current liabilities – Cash)
cbm	cubic meter(s)
CCS	Current cost of supply
CEO	Chief Executive Officer
CO <sub>2</sub>	Carbon Dioxide
CV	Curriculum Vitae
E&P	Exploration and Production
EB	Executive Board
EBIT	Earnings Before Interest and Taxes
EBRD	European Bank for Reconstruction and Development
EU, EUR	European Union, euro(s)
EPS	Earnings per share
Equity ratio	Stockholders' equity divided by balance sheet total expressed as a percentage
FX	Foreign Exchange
G&P	Gas and Power
Gearing ratio	Net debt divided by stockholders' equity expressed as a percentage
GDP	Gross Domestic Production
GHG	Green House Gas
GMS	General Meeting of Shareholders
H	Half year
HSSE	Health, Safety, Security and Environment
HFO	Heavy Fuel Oil
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
ISO	International Organization for Standardization
ISO31000	International standard for risk management
IT	Information Technology
kboe/d	thousand barrels of oil equivalent per day
kt	thousand tonnes
km	kilometers
LPG	Liquefied Petroleum Gas
LTIR	Lost time injury rate
MECMA	Ministry on Economy, Trade and Business Environment (Ministerul Economiei, Comerțului și Mediului de Afaceri)
mn	million
MW	megawatt
n.m.	not meaningful
Net debt	Financial liabilities including financial lease liabilities less liquid funds (cash and cash equivalents)
NGL	Natural Gas Liquids
NOPAT	Net Operating Profit After Taxes = Net income + (Interest Expense – Interest income)*(1-tax rate)
OECD	Organization for Economic Co-operation and Development
OGMS	Ordinary General Meeting of Shareholders
OPEC	Organization of Petroleum Exporting Countries
Q	Quarter
R&M	Refining and Marketing
ROACE	Return On Average Capital Employed = NOPAT / Average Capital Employed
RON	New Romanian leu
ROTX	Romanian Traded Index (made up of 15 Romanian blue chips stocks traded at the Bucharest Stock Exchange)
RRR	Reserve Replacement Rate

S.A.	JSC - Joint stock company (Societate pe Actiuni)
SB	Supervisory Board
SO <sub>2</sub>	Sulfur dioxide
SPO	Secondary Public Offering
S.R.L.	Ltd - Limited liability company (Societate cu Raspundere Limitata)
t	metric tonne(s)
toe	tonne(s) of oil equivalent
USD	United States dollar(s)

**Contact****OMV PETROM S.A.**

Mailing address: 22 Coralilor Street, District 1, Bucharest, Romania

Phone: +40 (0) 214022206

Fax: +40 (0) 372868518

Web: [www.petrom.com](http://www.petrom.com)