

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

In 2011, the Supervisory Board thoroughly reviewed the position and prospects of Petrom Group (“the Group”), and performed its functions according to the relevant laws, the Articles of Association, the applicable Corporate Governance Code and the relevant internal regulations. We supervised the Executive Board on the management of Petrom and monitored its work, and we were involved in the Group’s key decisions. Where required by law, the Articles of Association, or internal regulations, the Supervisory Board adopted resolutions following a comprehensive analysis.

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

The consolidated financial statements and audit reports were presented for Supervisory Board examination in a timely manner. Ernst & Young audited the 2011 consolidated financial statements, reviewed the conformity of the Directors’ report with the consolidated financial statements and issued unqualified audit opinions. The auditors attended the relevant meeting of the Audit Committee convened to adopt the accounts. The Audit Committee discussed the consolidated financial statements with the auditors and examined them carefully. The 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. We have also reviewed and analyzed attached Report of the Executive Board (“Directors’ Report) presented as Appendix 1 which gives a true and fair view of the development and performance of the business and the financial position of the Group, together with a description of the principal risks and associated uncertainties as of December 31, 2011.

Hence, the consolidated financial statements of Petrom Group prepared in accordance with IFRS were approved in today’s Supervisory Board meeting in line with the Audit Committee’s recommendation and will further be submitted for discussion in the General Meeting of Shareholders to be held on April 27, 2012.

Bucharest, March 23, 2012

Roiss Gerhard
President of the Supervisory Board

A handwritten signature in blue ink, consisting of a stylized 'R' followed by a horizontal line and a small upward stroke.

Appendix 1

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

Directors' Report

Petrom Group financials (RON mn)	2010	2011	Δ(%)
Sales revenues	18,616	22,614	21
Earnings before interest and taxes (EBIT)	2,986	4,936	65
Net income	2,190	3,759	72
Net income attributable to stockholders	2,201	3,757	71
Cash flow from operations	4,630	6,442	39
Capital expenditures	4,863	4,803	(1)
Number of employees at the end of period	24,662	22,912	(7)

Against the backdrop of a volatile market environment in our operating region, our strong financial results and outstanding operational performance reflect the high investment efforts and effective cost and operational management but also supportive crude prices. Moreover, throughout the year, we achieved several important milestones and had very successful results.

Compared to 2010, the operating result (EBIT) increased by 65% to RON 4,936 mn, supported by a favorable crude price environment and continuously high investments. Net special charges totaled RON (852) mn mainly related to the provision for the fine received from the Competition Council and expected closure costs for Arpechim in R&M, as well as the impairment of the Kultuk exploration license in Kazakhstan and the impairment of obsolete materials in the E&P business. The Competition Council decision was issued following an antitrust investigation regarding the withdrawal of the retail product Eco Premium, and the total fine amounts to RON 504 mn, of which RON 367 mn applies to OMV Petrom S.A. and RON 137 mn applies to OMV Petrom Marketing S.R.L. Petrom strongly believes that the fines imposed are not justified and will challenge the Competition Council's decision in the courts. The net financial result improved compared to the previous year, positively influenced by lower interest costs and the lower unwinding effect for provisions, partially offset by the negative effect of lower FX gains in 2011 compared with 2010, mainly related to USD loans given by Petrom to its Kazakh subsidiaries. The effective corporate tax rate was 18%, compared to 16% a year before, as a result of higher non-deductible expenses such as the impairment of the Kultuk exploration license in Kazakhstan and the fine received from the Competition Council. Consequently, net income attributable to stockholders was 71% higher versus 2010. As a result, the return on average capital employed¹ (ROACE) indicator increased to 17.3% in 2011, compared to 10.7% registered in 2010. Our gearing ratio improved, positively influenced by the net profit recorded in 2011, standing at 9.28% at the end of 2011 compared to 12.45% in December 2010.

In 2011, we maintained our investment momentum in line with our commitment for growth and modernization even in challenging years. We are the largest investor in the energy sector in Romania with capital expenditures of RON 4,803 mn in 2011.

To maintain our solid financial position in a highly volatile environment, we extended our financing maturity and contracted a multi-currency revolving credit facility amounting to EUR 930 mn in November 2011. The loan has a tenure of three years and a possibility of prolongation for two more consecutive years and replaces the credit facilities amounting to EUR 875 mn contracted in 2008 and 2009, which were due in 2012. The credit will be used for general corporate purposes including financing the current investment program. The initial margin is set at 190 bps p.a. over the relevant reference rate.

¹ Return On Average Capital Employed = NOPAT / Average Capital Employed

NOPAT= Net Operating Profit After Taxes = Net income + (Interest Expense – Interest income)*(1-tax rate)

Dividend

The strong 2011 results and financial position not only enable us to invest in the Company's future sustainable growth, but also to propose to the forthcoming General Meeting of Shareholders on April 27, 2012, the payment of a dividend of RON 0.0310 per share, corresponding to a payout ratio of 47% of the net profit.

In **E&P**, we managed to stabilize the production volumes in Romania for the first time since privatization, driven by workover activities, new wells and exploration discoveries, which offset natural decline. We are pleased by our positive exploration developments in Romania: we renewed exploration licenses and had successful results. Offshore, a new exploration phase of the Neptun block was entered in 2011, following the Government decision to amend the Neptun concession agreement to extend the time allowed for exploration of the block by five years. In a joint venture with ExxonMobil Exploration and Production Romania Limited, we started exploration drilling on Domino-1, the first deepwater exploration well in the Neptun block in December 2011, which already confirmed gas discovery (in February 2012). Onshore, we made an important gas discovery – exploration well Totea, Southwestern Romania. Further appraisal drilling is planned to assess what may be the most important onshore gas discovery in Romania in the last six years. In 2011, we started the joint exploration work related to the partnership with Hunt Oil for two onshore blocks. The first drilling project of the joint venture was also carried out in 2011 with encouraging preliminary interpretation. At the end of the year, field redevelopment projects were in various stages of development, ranging from concept identification to execution. Continuous reserve revisions, achievement of the drilling program combined with diversification of the recovery mechanisms applied in 2011 led the reserve replacement rate in Romania being maintained at 70% for the fourth consecutive year. Total production in Kazakhstan significantly increased by 20% in 2011 due to the ramp up of production from the Komsomolskoe field. At the TOC fields (Tasbulat, Turkmenoi, Aktas), a swap in multiphase pumps contributed to the increase of production. After shooting and processing the 3D seismic data over the Kultuk field, it was decided not to proceed with development due to a reduction of initially assumed reserves. The Kultuk field license was sold at an auction in December 2011.

In **G&P**, we managed to maintain a strong position in the Romanian gas market. We made good progress with the power projects development as we marked our entry into the power business in 2011. In October, we started commercial operations at the wind park Dorobantu (project acquired in early 2010), with an installed capacity of 45 MW. In addition, we successfully completed construction of the Brazi gas fired power plant, where we performed the first power deliveries to the grid in June 2011, as part of the hot commissioning phase. However, final tests were interrupted due to external technical factors, with full commercial operation now being anticipated for the second half of 2012. The plant is the largest private greenfield electricity project in Romania, with 860 MW capacity. In line with our strategy to exit non-core segments, the restructuring of Doljchim activities continued according to plan in 2011, progressing with the dismantling and decontamination of the plant in compliance with European environmental and safety standards in order to prepare the site for alternative use.

In **R&M**, significant improvements were made despite subdued retail market demand, as we enhanced underlying operational performance in refining. Throughout the year, we capitalized on our effective response to the persisting macroeconomic challenges with flexible utilization of our refining and logistics assets. We processed exclusively domestic crude and optimized operations – the Arpechim refinery did not operate, while the utilization rate at our higher conversion refinery at Petrobrazi increased to 79%. The closure of the Arpechim refinery is in its final stages with ongoing measures taking place 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, we continue to prepare for the permanent closure as approved by the Supervisory Board in March 2011 while, at the same time, pursuing discussions with MECMA regarding their expressed intention to take over the refinery related assets. At the same time, we continued the modernization program of the Petrobrazi refinery, advancing with the crude vacuum distillation unit modernization, which will contribute to increasing middle distillate yields and reducing refinery energy consumption. In addition, last year we put in place in the Petrobrazi refinery the world's largest wireless network of its kind for tanks online measurement, which contributed to the reduction of own crude consumption and better inventory management. In 2011, we also started the construction of a new state-of-the-art terminal at Isalnita. In Marketing, the persisting unfavorable market conditions affected our fuels sales and burdened our margins. 2011 was the first year of operations after the consolidation of all domestic marketing activities into one legal entity (OMV Petrom Marketing S.R.L.), which ensured better coordination of activities and enhanced value creation by taking advantage of synergies at Group level. The previous year's

rebranding of PetromV filling stations in Romania into OMV or Petrom also contributed to network optimization. To further optimize our operations, the aviation fuel business was integrated into one company – Petrom Aviation S.A.

Secondary Public Offering by the Romanian State

In 2011, we offered due support to the Romanian State in the Secondary Public Offering (SPO) initiated by the Ministry of Economy, Trade and Business Environment (“MECMA”) for a 9.84% stake held in Petrom (out of a total of 20.64%) – outlined within the “Petrom shares” chapter. Both management and the project team of Petrom were fully committed to meet the deadlines and requirements set by the consortium appointed by MECMA and led by Renaissance Capital. We actively participated in the two week roadshow organized by the consortium and Romanian State, with company representation at CEO and CFO level. On July 22, the offering closed unsuccessfully, as the valid subscriptions did not exceed the 80% minimum threshold of the offered shares. In relation to the possible resumption by the Romanian State of the Secondary Public Offering in 2012, Petrom’s management and project team commit their due support for the success of the transaction, while drawing lessons from last year’s roadshow and efforts.

Completion of shares distribution to employees

On January 7, 2011, Petrom announced the completion of the securities distribution to the entitled persons as part of a program aimed at fulfilling the obligation assumed under the applicable Collective Labor Agreement (CLA) concerning the free distribution of shares to entitled persons (former or current employees), extensively detailed in the 2010 annual report. Out of 6,195,500 total shares (accounting for 0.011% of the company’s share capital) purchased by OMV Petrom S.A. from the Bucharest Stock Exchange regulated securities market within the buy-back program carried out in 2010, a total number of 6,133,500 securities were distributed to 61,335 entitled persons. Consequently, the number of shares held in treasury from the buy-back at the end of 2011 totalled 62,000 ordinary, nominal and dematerialized shares, with a nominal value of RON 0.1 each, representing 0.0001% of the company’s share capital.

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 with 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, 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)	2010	2011	Δ %
Exploration and Production ¹	3,012	5,236	74
Gas and Power	164	149	(9)
Refining and Marketing	106	(187)	n.m.
Corporate and Other	(135)	(79)	(42)
Consolidation: elimination of intercompany profits	(161)	(183)	14
Petrom Group reported EBIT	2,986	4,936	65

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

In **E&P, EBIT** increased by 74% compared to 2010, to RON 5,236 mn, on the back of increased oil prices and lower production costs, which more than offset the negative effects from hedging and the unfavorable FX effect due to the weaker USD against RON. The impact of hedging on EBIT amounted to RON (404) mn, compared to the negative level of RON (6) mn recorded in 2010. EBIT included special items totaling RON (195) mn, mainly related to impairment of the Kultuk exploration license in Kazakhstan, the impairment of subsea equipment related to a previous review of the Delta offshore field development and impairment of obsolete materials. **Total Group hydrocarbon production** increased by 1% compared to 2010 to 186,000 boe/day or 67.77 mn boe. **Total oil, gas and NGL production in Romania** stabilized at 63.41 mn boe compared to the previous year. Crude oil production was 29.31 mn bbl, 2% lower than in 2010, as the natural decline was not fully compensated by new wells drilled and the workover program. Gas production reached 34.1 mn boe, 2% higher compared to 2010, driven by successful workover activities and production start of key development wells like the offshore well G10, located at the Lebada East field and the exploration well 4539 Totea. **Oil and gas production in Kazakhstan** increased by 20% to 4.36 mn boe in 2011 from 3.62 mn boe in 2010, mainly due to increased gas production at the Tasbulat and Turkmenoi fields. In 2011, **Group sales volumes** increased by 1% compared to 2010.

In **G&P, EBIT** decreased by 9% compared to 2010, to RON 149 mn. **The gas business** was mainly affected by the increased cost of gas supply, due to the higher import quota, higher import prices and also by the negative effect of the ANRE order, enforcing gas basket consumption to internal non-technological usage. **Doljchim's** negative result was further reduced in 2011, due to the ongoing closure process. **Consolidated gas sales volumes** increased by 3% compared to 2010, due to higher sales to industrial customers.

In **R&M, EBIT** considerably decreased to RON (187) mn in 2011, versus RON 106 mn in 2010, strongly affected by net special charges of RON (651) mn. These charges relate to the provision set up for the fine received from the Competition Council, recognition of expected closure costs following the Supervisory Board decision to permanently close the Arpechim refinery and the impairment of LPG related assets. Expected closure costs do not include decontamination costs, which will be determined only after obtaining the closure certificate from the Romanian authorities and which are expected to be covered by the indemnities provided under the privatisation contract. The **indicator refining margin** of USD (2.40)/bbl was below the 2010 level as the higher gasoline and middle distillates cracks were more than offset by higher costs of crude driven by the significant increase in crude oil prices. During 2011, a high **utilization rate** was maintained at the Petrobrazi refinery (79%), versus the 70% rate during 2010, when the refinery was stopped for one month. Total **refining output** was down 5% compared to 2010.

EBIT in the **Corporate and Other (Co&O)** segment amounting to RON (79) mn improved by 42% compared to the previous year's result of RON (135) mn.

Financial highlights

Notes to the income statement

Summarized income statement (RON mn)	2010	2011	Δ %
Sales revenues	18,616	22,614	21
Direct selling expenses	(437)	(564)	29
Production costs of sales	(12,791)	(14,321)	12
Other operating income	514	433	(16)
Selling and administrative expenses	(1,450)	(1,398)	(4)
Exploration expenses	(187)	(420)	125
Other operating expenses	(1,280)	(1,407)	10
Earnings before interest and taxes (EBIT)	2,986	4,936	65
Net financial result	(380)	(327)	(14)
Taxes on income	(416)	(850)	104
Net income	2,190	3,759	72
Thereof attributable to non-controlling interests	(11)	2	n.m.
Net income attributable to stockholders of the parent	2,201	3,757	71

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 2010, **consolidated sales revenues** increased by 21% to RON 22,614 mn, mainly driven by higher crude and product prices and increased gas sales volumes. After the elimination of intra-group transactions of RON 11,172 mn, the contribution of the **E&P** segment to consolidated sales revenues was RON 571 mn or about 3% of the Group's total sales revenues (2010: RON 673 mn). After elimination of intra-group sales, the **G&P** segment's contribution was RON 3,191 mn or approximately 14% of total sales (2010: RON 2,880 mn). Sales to external customers in the **R&M** segment amounted to RON 18,795 mn or 83% of total consolidated sales (2010: RON 15,050 mn).

In line with IFRS 8 "Operating segments", sales to external customers are split up 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 17,411 mn or 77% of the Group's total sales (2010: RON 14,484 mn or 78%). Sales in the rest of Central and Eastern Europe were RON 4,291 mn or 19% of Group sales revenues (2010: RON 3,508 mn) and sales revenues in the rest of the world (Kazakhstan) increased to RON 911 mn, representing 4% of total sales revenues (2010: RON 624 mn).

Direct selling expenses, mainly consisting of third-party freight-out expenses, increased by 29% to RON 564 mn in principal related to Kazakhstan activities. **Cost of sales**, which include variable and fixed production costs, as well as costs of goods and materials employed, increased by 12% to RON 14,321 mn, in line with the increase in sales. **Other operating income** went down by 16%, negatively impacted by a decrease in FX exchange gains and decreased sales of carbon certificates compared to 2010. **Selling expenses** of RON 1,161 mn were reduced by 5% compared to last year, while **administrative expenses** increased by 3% to RON 237 mn.

Exploration costs went up by 125% to RON 420 mn, mainly due to impairments for unsuccessful wells in Romania and impairments of exploration assets in Kazakhstan (Kultuk exploration license).

Other operating expenses increased by 10% compared to 2010, amounting to RON 1,407 mn in 2011. The negative effect is mainly due to the provision for the fine received from the Romanian Competition Council.

Net financial result shows an expense of RON 327 mn and improved in comparison with the previous year (2010: RON 380 mn). Positive influences of lower interest costs and unwinding of provisions were

partially compensated by the negative effect of lower FX gains in 2011 compared to 2010, mainly related to the USD loans given by Petrom to its Kazakh subsidiaries.

Taxes on income increased by RON 434 mn to RON 850 mn compared to 2010. **Current taxes on income** went up by RON 409 mn to RON 910 mn, mainly driven by higher profits resulting from the increase in oil prices. In 2011, a **deferred tax income** of RON 60 mn (2010: RON 86 mn) was recognized. The Group's effective tax rate slightly increased to 18% (2010: 16%) mainly due to the impairment of the Kultuk exploration license and the fine received from the Romanian Competition Council.

Capital expenditure

Capital expenditure ¹ (RON mn)	2010	2011	Δ (%)
Exploration and Production	2,774	3,254	17
Gas and Power	1,211	515	(57)
Refining and Marketing	758	980	29
Corporate and Others	120	54	(55)
Total capital expenditure ¹	4,863	4,803	(1)
+/- Other adjustments	338	438	30
- Investments in financial assets	(35)	0	n.m.
Additions according to statement of non-current assets (intangible and tangible assets)	5,166	5,241	(2)
+/- Non-cash changes	(844)	24	n.m.
Cash outflow due to investments in intangible and tangible assets	4,322	5,265	22
+ Cash outflow due to investments in securities, loans and other financial assets	2	0	n.m.
Investments as shown in the cash flow statement	4,324	5,265	22

¹ Includes acquisitions as well as investments in associated companies and other interests; 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 slightly decreased to RON 4,803 mn (2010: RON 4,863 mn), due to substantially lower investments in G&P, broadly compensated by higher CAPEX in E&P and R&M.

Investments in **E&P**, at RON 3,254 mn (2010: RON 2,774 mn), represented 68% of the total figure for 2011 and were predominantly spent on drilling development wells, work-over activities and sub-surface operations, field redevelopment projects, production equipments and waste infrastructure. Approximately 11% of investments were realized in **G&P** at the amount of RON 515 mn, (2010: RON 1,211 mn), split almost equally between investments related to the Brazi power plant and final construction work for the Dorobantu wind park, which started commercial operations on 1 October 2011. Capital expenditure in the **R&M** segment of RON 980 mn (2010: RON 758 mn) accounted for 20% of 2011 group total investments. In Refining, investments were mainly related to the Petrobrazi modernization (especially for the modernization of the crude vacuum distillation unit, the coker installation as well as projects for site infrastructure). Additional funds were directed to legal and environmental compliance, as well as for the construction of the Islanita terminal in Romania. CAPEX for Corporate & Other (**Co&O**) segment amounted to RON 54 mn (2010: RON 120 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 interest 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 change of liabilities arising from investments and from financial leasing and reassessment of decommissioning provisions).

Balance sheet

Summarized balance sheet (RON mn)	2010	%	2011	%
Assets				
Non-current assets ¹	28,459	82	31,022	85
Intangible assets and property, plant and equipment	25,147	72	27,455	75
Investments in associated companies	41	0	41	0
Other non-current assets	2,537	7	2,718	7
Deferred tax assets	734	2	807	2
Current assets	6,306	18	5,467	15
Inventories	2,500	7	2,349	6
Trade receivables	1,398	4	1,826	5
Other current assets	2,408	7	1,292	4
Equity and liabilities				
Equity	18,459	53	21,077	58
Non-current liabilities ¹	10,728	31	9,287	25
Pensions and similar obligations	297	1	195	1
Interest-bearing debts	3,466	10	2,173	6
Decommissioning and restoration obligations	5,918	17	5,898	16
Provisions and other liabilities	1,020	3	1,009	3
Deferred tax liabilities	27	0	12	0
Current liabilities	5,578	16	6,125	17
Trade payables	3,453	10	2,983	8
Interest-bearing debts	391	1	464	1
Provisions and other liabilities	1,734	5	2,678	7
Total assets/ equity and liabilities	34,765	100	36,488	100

¹ Starting in 2011, deferred tax assets and deferred tax liabilities are included in non-current assets and non-current liabilities; prior year figures have been adapted accordingly.

Total assets increased slightly by RON 1,723 mn to RON 36,488 mn. **Non-current assets** grew by RON 2,562 mn to RON 31,022 mn, of which RON 2,309 mn related to the increase in **intangible assets and property, plant and equipment**. Additions to intangible assets and property, plant and equipment (RON 5,241 mn) exceeded the total of depreciation, amortization and impairments, as well as disposals by RON 2,246 mn. The ratio of intangible assets and property, plant and equipment to total assets amounted to 75% (2010: 72%).

The increase of **other non-current assets**, which primarily comprise receivables of OMV Petrom S.A. over the Romanian State, was driven mainly by the unwinding effect of provisions partially offset by the discounting of the receivable amount.

The decrease in **current assets** of RON 839 mn is mainly related to the decrease in cash and cash equivalents by RON 835 mn, presented within **other current assets**. An increase in **current trade receivables** by RON 428 mn was mainly influenced by higher prices in R&M and increased payment terms for large gas customers. This was offset by a decrease in **other assets** by RON 253 mn (mainly due to the decrease in excise duties paid in advance) and decrease in **inventories** by RON 151 mn.

Equity (including minorities) improved by RON 2,617 mn, improving the equity ratio to 58% (2010: 53%). The increase in equity resulting from the higher net income generated during the year was only partially offset by the distribution of dividends for the financial year 2010.

Reimbursements of the first and the second club deal loan at a total of RON 1,424 mn as well as of loans from the EBRD (European Bank for Reconstruction and Development) of RON 303 mn were partly offset mainly by drawings from the EIB (European Investment Bank) at RON 280 mn, thereby decreasing **long-term borrowings** by RON 1,293 mn.

New short-term drawings from the EBRD of RON 62 mn mainly reflect the net increase of short term **interest bearing debts** by RON 73 mn.

Trade payables are lower due to significant investments performed at the end of 2010 mainly in the E&P segment. The significant increase of **other liabilities and provisions** by RON 944 mn mainly results from the set-up of a provision for the fine received from the Romanian Competition Council (RON 504 mn) and a provision booked for closure of the Arpechim refinery (RON 120 mn) and liabilities for hedging contracts amounting to RON 142 mn in 2011.

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**² to RON 1,955 mn, compared to RON 2,299 mn at the end of 2010. Consequently, as of December 31, 2011, the **gearing ratio**³ further decreased to 9.3%, from 12.4% in December 2010.

Cash flow

The Group's cash flow statement is prepared using the indirect method, whereby adjustments are made for changes in the group of consolidated companies, foreign exchange differences and other non-cash transactions.

Cash flow from operating activities increased by RON 1,812 mn or 39% compared to 2010, reaching RON 6,442 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 3,229 mn for 2011 (2010: RON 2,458 mn). While depreciation, amortization and write-ups added RON 2,830 mn (2010: RON 2,812 mn), net movement in provisions (including decommissioning and restoration obligations and other provisions for risks and charges) contributed an increase of RON 200 mn (2010: decrease by RON 325 mn) to the cash flow. The disposal of non-current assets and other non-cash adjustments led to an increase of RON 199 mn (2010: RON 28 mn decrease).

In 2011, net working capital, interest and taxes generated a cash outflow of RON 1,396 mn (2010: cash outflow of RON 434 mn). Receivables increased by RON 432 mn (2010: increase by RON 523 mn) and liabilities decreased by RON 53 mn (2010: increase by RON 559 mn). Net interest and tax on profit paid generated a cash outflow of RON 944 mn (2010: cash outflow of RON 474 mn), encompassing the further positive evolution of results in the current year.

Cash outflows for investments in non-current assets of RON 5,265 mn (2010: RON 4,322 mn) were partly offset by proceeds from the sale of non-current assets of RON 113 mn (2010: RON 135 mn) and cash inflows in 2011 from the prior year sale of Ring Oil Holding & Trading Ltd and its subsidiaries (RON 59 mn).

In 2011, there was no cash outflow related to acquisitions and increases in interests in consolidated subsidiaries (2010: RON 68 mn). **Net cash outflow from investment activities** totaled RON 5,092 mn (2010: RON 4,264 mn). Cash outflows for the net decrease of short-term and long-term borrowings amounted to RON 1,199 mn (2010: inflow from increase RON 832 mn). Cash outflows for dividend payments amounted to RON 993 mn in 2011 (2010: below RON 1 mn). **Net cash outflow from financing activities** amounted to RON 2,193 mn (2010: inflow RON 832 mn).

² Net debt is calculated as interest bearing debts including financial lease liability less cash and cash equivalents

³ Gearing ratio is calculated as Net debt/(equity) x 100

Information required by Ministry of Finance Ordinance no 3055/2009 under Chapter II, Section 10

Risk management

Starting with 2011, Petrom's oil and gas integrated business model has extended its value chain by adding also electricity production to its portfolio. The international financial environment is marked by the new exposures coming from the European Sovereign Debt crisis, concerns on the world economy slowing down and political turmoil in the Middle East.

Objectives

The objective of Petrom Group's Risk Management function is to secure positive economic value added for a medium term time horizon by managing the company's consolidated cash flow exposure. Strategic Risks and high potential single event risks are monitored individually. Some of the specific objectives of the system are to closely monitor and safeguard Petrom's exposure to market risk, counterparty credit risk, liquidity and cashflow risk and enforce proper countermeasures for limiting their effects.

Organization

Petrom's risk management system is fully embedded in the business and all personnel have the general responsibility of identifying and reporting risks. Formally, there are four levels of management in a pyramid-type risk organization. The first layer are the risk owners represented in all areas of activity, second levels are the divisional risk coordinators who are facilitating and coordinating the risk management process and all risk owners in their division, the third layer is the risk manager represented by the Risk Management department who manages all divisional risk coordinators and the entire risk management process. The top level is represented by Petrom's Executive Board who approves the risk reports in accordance with the company's risk appetite and its objectives and also steers the process effectively.

Risk management process

Risk Management in Petrom is a continuous cycle where all risks (existing and new) are identified, analyzed, evaluated and treated. Each phase of the risk management process is documented and recorded into a risk register. Risk control and mitigation of identified and assessed risks takes place at all organizational levels using clearly defined risk policies and responsibilities.

The treatment of risks focuses on reaching the optimal risk balance of the company's results under economic efficiency constraints.

Risk treatment consists of proactive countermeasures implemented for decreasing the risk's occurrence likelihood but also reactive countermeasures which reduce the risk's impact. The reactive countermeasures are done either through transfer (insurance policies and hedging for financial risk) or through containment of impact and risk retention.

A special focus is awarded to the market and financial risks including among others crude oil price risk, gas price risk, FX risks, interest rate risk. These risks are closely monitored by the risk organization and are managed via detailed internal procedures.

Risk Management Audit

For process assurance, Petrom's risk management system uses back testing and is also regularly audited by the internal audit function. These audit reports are used for the risk management system's benchmarking and steering purposes. The Internal Audit has as well an important role with regard to the risk management process by supporting the quality of the process. This is done by regular audits of the risk management process, giving assurance that risks are evaluated correctly, assessing the reporting process of the risks as well as checking the existence and implementation of the relevant risk management guidelines.

Integrated risk management system

Petrom's Enterprise Wide Risk Management (EWRM) system actively pursues the identification, analysis, evaluation and treatment of all risks (market & financial, operational and strategic) in order to minimize their effects on company's cash flow up to an acceptable level agreed as the risk appetite.

The EWRM system in Petrom is integrated into the OMV risk management process. The system follows ISO31000 and comprises a dedicated risk organization working under a robust internal regulation framework, a quantitative information technology infrastructure as well as risk champions assuring that the process is embedded into the day to day operational business.

Petrom is continuously reassessing its existing inventory of risks, identifying its new exposures and adding value to the business by properly enforcing when needed the best cost efficient countermeasures. The risks currently managed within Petrom's system are organized within the market & 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.

With regard to tools and techniques, Petrom follows the best international practices in risk management and uses stochastic models to quantify the uncertainty associated with the company's planned cash flows under a 95% confidence level and a 3 year horizon. All risks are analyzed based on their historical trends and volatilities. The quantification is done based on historical data and most likely future estimates calibration.

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

Commodity Market Price Risk Management wise, Petrom Group is naturally exposed to the market risks arising out of the price driven volatility of the cash flows generated by production, refining and marketing activities associated with crude oil, oil products, gas and electricity. The market risk has core strategic importance within Petrom Group risk profile and the company's mid term liquidity. The market price risks of Petrom Group commodities are closely analyzed, quantified, evaluated and mitigated when required in order to secure their expected returns within Petrom Group's objectives.

In order to protect the Group's cash flow in 2012. Petrom has entered into oil price swaps, locking in a Brent price of USD 101/bbl for a volume of 30,000 bbl/d, which is approximately 1/3 of its 2012 total planned crude oil production. These hedged volumes are covered until the end of 2012. The hedge results will be settled on a quarterly basis for the difference between the fixed price and the dated Brent.

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. The high potential single event risks associated with the operational activity (e.g. blow outs, explosions, earthquakes etc.) are identified and for each of them incident scenarios are developed and assessed. Where required, treatment plans are developed for each specific location.

Counterparty Credit Risk management risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to Petrom. The main counterparty credit risks are assessed, monitored and managed at Petrom level using predetermined limits for specific countries, banks, business partners and suppliers. On the basis of creditworthiness, 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.

Results

Regularly, Petrom Group's consolidated risk profile is being 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 companies' risk profile as well as risk management skills improved substantially throughout Petrom. In 2011, the consolidated risk profile was reported and approved by Petrom's Executive Board in accordance with company's risk appetite.

Description of internal control main characteristics

The Supervisory Board is responsible for reviewing the Group's system of internal control effectiveness and has delegated authority to the Audit Committee to assist it in fulfilling its responsibilities in relation to internal control and financial reporting.

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.

OMV Petrom 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 and evaluating the effective implementation of the internal control system

Comprehensive set of standards, prerequisite for a proper internal control

For OMV Petrom S.A., an important prerequisite to form a comprehensive set of standards is in establishing and maintaining a rigorous Business Management System (BMS) designed to match the integrated set of processes and tools used by the Company in developing its strategy, translated into actual actions and in monitoring and improving effectiveness of both.

BMS includes the following elements: Business Management Manual, which is a description of the Business Management System and OMV Petrom S.A. Corporate Regulations. The Corporate Affairs and Compliance department is responsible for BMS coordination. This department provides support to the various group entities in view of achieving regulatory requirements, coordinates the elaboration of corporate regulations and provides a quality check, ensures posting of Executive Board approved corporate regulations on OMV Petrom S.A.'s intranet and communicates their enactment. There is a corporate directive in place that sets out the classification, definition and standardized structure of corporate regulations (e.g. instructions, standards, directives, guidelines, recommendations etc.) as well as their elaboration, 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 eyes principle” – is applied in order to ensure correctness and accuracy of the financial reporting process. The establishment of group-wide standards for the preparation of annual and interim financial statements by means of the corporate IFRS Accounting Manual is also regulated by an internal Corporate Guideline.

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

1. The relationship between management and employees as well as of 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 consist in 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 respective bonuses were included and maintained in the base salary of the employees, therefore the claims are unjustified. This fact is considered in the vast majority of the cases which are currently won irrevocably in final appeal.

During 2011, Petrom continued to receive some claims relating to this matter. Following the assessment of the potential liabilities with respect to ongoing cases, the provision of **RON 1.3 bn** booked in 2008 to cover the risk in line with prudence principles did not require an increase in either 2010 or 2011. Petrom has taken all possible action 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 intense discussions 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 state between March 6, 1945 and December 22, 1989, which falls under the incidence of the 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, 2011 are the following – 1,126 notifications were transmitted to Petrom, out of which:

- ▶ 16 buildings were restored;
- ▶ 1,081 notifications were rejected due to the failure to comply with the requirement of Law 10/2001;
- ▶ 27 notifications were redirected towards other entities;
- ▶ 2 notifications (files) are 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.

Members of the Supervisory Board are not appointed by certain persons or certain shareholders. They are appointed by the Ordinary General Shareholders Meeting 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 5 years

To the best of our knowledge, at the time of the drafting of this report, there were no litigations or administrative procedures against 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.

**March 23, 2012
Bucharest**

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

