

2011

Annual Report



PETROM

Member of OMV Group

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Petrom Group in figures 2011

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.

Petrom Group – at a glance

Operational results

	2009	2010	2011
Total hydrocarbon production (mn boe)	68.29	67.08	67.77
Refinery capacity utilization rate (%) ¹	65	49	79
Total refined product sales (mn t)	6.18	5.47	5.23
Number of filling stations	814	801	793
Number of employees at the end of period	28,984	24,662	22,912

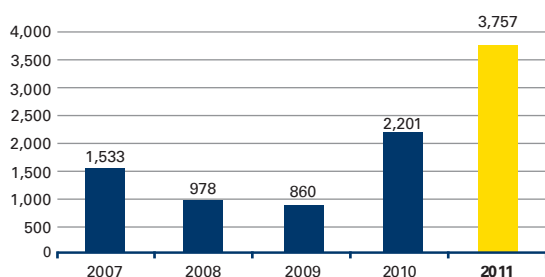
¹ Arpechim refinery was in economic shut down for nearly nine months of 2010. As of 2011, the Arpechim refinery is no longer included in the calculation.

Financial results

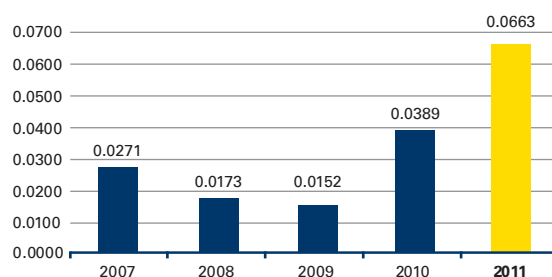
	2009	2010	2011
Sales (RON mn)	16,090	18,616	22,614
EBIT (RON mn)	1,620	2,986	4,936
Net income attributable to stockholders (RON mn)	860	2,201	3,757
Clean CCS EBIT (RON mn) ²	1,870	3,325	5,475
Clean CCS net income attributable to stockholders (RON mn) ²	1,056	2,457	4,206
Cash flow from operating activities (RON mn)	2,726	4,630	6,442
Capital expenditure (RON mn)	4,219	4,863	4,803
EPS (RON)	0.0152	0.0389	0.0663
ROACE (%)	5.2	10.7	173

² Clean CCS figures exclude special items and inventory holding effects (current cost of supply – CCS – effects) resulting from R&M.

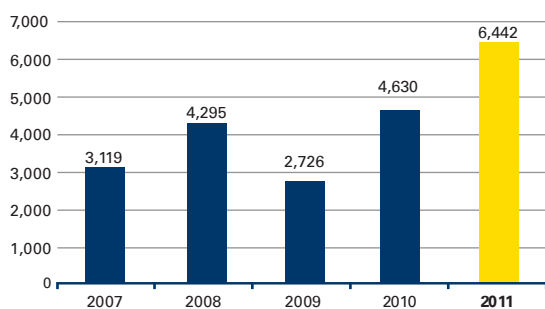
Net income attributable to stockholders (RON mn)



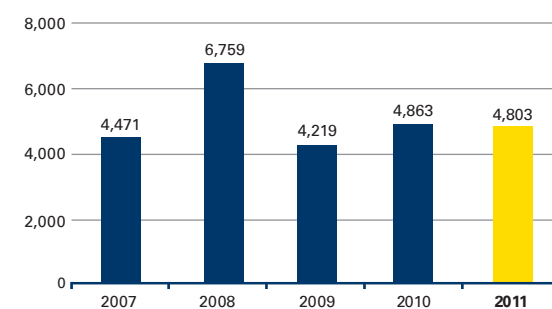
Earnings per share (RON)



Cash flow from operating activities (RON mn)

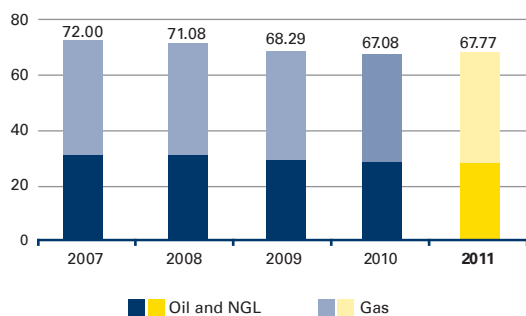


Capital expenditure (RON mn)

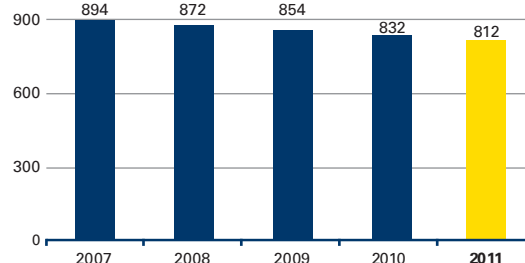


Exploration and Production

Production (mn boe)

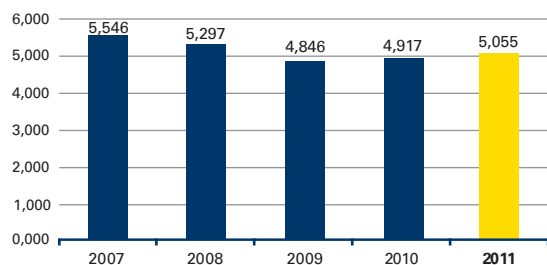


Proved reserves (mn boe)

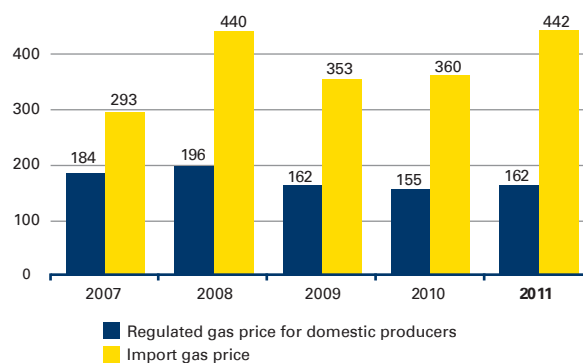


Gas and Power

Gas sales (mn cbm)

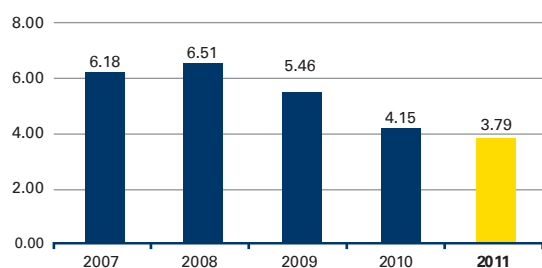


Gas prices (USD/1,000 cbm)

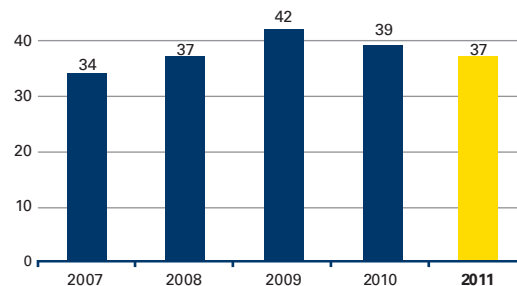


Refining and Marketing

Refining input (mn t)



Romanian fuel market share (%) ¹



¹ Retail and commercial segments (excluding sales to oilcos).

How does the road to 2015 look like?

The objectives that we fulfill each year pave the road to 2015. We continued to deliver on our strategic directions and stayed committed to remaining a pillar of stability and a solid contributor to the economic growth of Romania.

2011 was a year of outstanding operational performance and strong financial results, capitalizing on high investment efforts and effective cost and operational management. This report details on key projects progress across all divisions and driving factors for our sustainable growth and financial performance.



Highlights 2011

January

- ▶ On **January 7**, Petrom announced having completed the distribution of securities to persons entitled to receive free of charge shares issued by OMV Petrom S.A., part of the share buy-back program approved by the EGMS on December 16, 2008. The number of securities distributed was 6,133,500 securities out of a purchased total of 6,195,500.

February

- ▶ On **February 24**, Petrom announced the receipt of the valuation report from the appointed independent expert Pricewaterhouse Coopers Management Consultants S.R.L. establishing the sell-out price (RON 0.352/share - gross including any related fees and taxes) as part of the spin-off of OMV Petrom S.A.'s marketing activities to OMV Petrom Marketing S.R.L. Following the completion of the sell-out procedure on March 16, OMV Petrom S.A. had no shares to buy back from the shareholders that maintained the sell-out right request.

March

- ▶ On **March 25**, Petrom announced the decision to permanently close the Arpechim refinery, as the sale option did not prove feasible. This decision will not adversely impact the supply of the Romanian fuel market. Following permanent closure of the refinery, a number of tanks, logistic infrastructure and auxiliary facilities will continue to be operated as a terminal.
- ▶ On **March 25**, Petrom announced some changes of management: starting March 25, 2011, Gerhard Roiss replaced Wolfgang Ruttenstorfer as President of the Petrom Supervisory Board (SB) and Manfred Leitner was appointed as interim member of the SB until the GMS held on April 26, 2011 which decided on his appointment as SB member; starting April 17, 2011, Johann Pleininger, member of the Petrom Executive Board (EB) in charge of E&P activities, took over also the responsibilities of Siegfried Gugu, former EB member in charge of E&P Services, while Neil Anthony Morgan, EB member in charge of Refining activities, took over also the responsibilities corresponding to Rainer Schlang, former EB member in charge of Marketing activities.

April

- ▶ On **April 26**, both the Ordinary and Extraordinary General Meetings of Shareholders were held. For details please refer to page 18, section General Meeting of Shareholders.

May

- ▶ On **May 19**, Petrom announced having successfully brought on stream five gas wells drilled onshore on three fields located in the Oltenia region, which contributed significantly to the company's production, representing more than 6% of daily gas production.
- ▶ On **May 19**, Petrom announced the intention of MECMA - Office for the State Participations and Privatization in Industry to initiate a secondary public offering for a 9.84% stake in Petrom. The subscription period was July 11 – July 22. According to MECMA's communiqué released on July 22, 2011, the subscriptions submitted were below the 80% minimum subscription threshold required for successfully closing the offering.

June

- ▶ On **June 21**, Petrom announced having performed the first power deliveries to the grid, as part of the Brazi power plant final testing stage before starting commercial operations.

July

- ▶ On **July 7**, Petrom announced the successful result of the exploration well 4539 Totea in the Oltenia region, Southwestern Romania. The results to date indicate this may be a significant new gas field which is to be assessed by further appraisal.
- ▶ On **July 21**, Petrom confirmed its decision to enter a new exploration phase of the Neptun block in Romania, following the Government Decision to amend the Neptun concession agreement in order to extend the time allowed for exploration of the block by five years.

August



September

- ▶ On **September 7**, the Government approved the extension until September 12, 2014 of the exploration period for ten blocks (nine onshore and one offshore) covering an acreage of approximately 23,000 km². The Government Decision no. 888/2011 came into force on September 9, 2011 after it was published in the Official Gazette. In two onshore blocks, the work program is executed in partnership with Hunt Oil Company of Romania S.R.L.

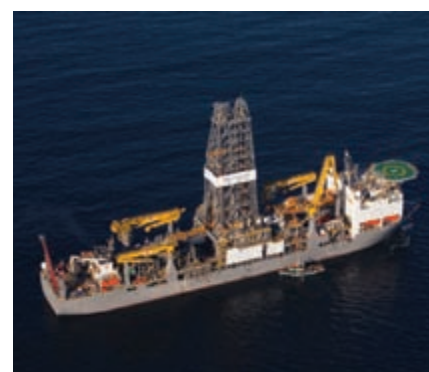
October

- ▶ On **October 1**, Petrom started commercial operations at the wind park Dorobantu. The wind park has an installed capacity of 45 MW and is located in Dobrogea, an area with a high wind potential.

November

- ▶ On **November 2**, Petrom announced having started test exploitation of the 4539 Totea well. The initial production stood at around 3,200 boe/day, accounting for approx. 3% of Petrom's daily gas production in that period. At this moment, the 4539 Totea well is the largest onshore gas and condensate well in Romania in terms of production volume.
- ▶ On **November 16**, Petrom received a statement of objections from the Romanian Competition Council concerning an alleged breach of antitrust regulations with respect to the withdrawal of the retail product Eco Premium from the Romanian fuels market. Subsequently, Petrom and OMV Petrom Marketing S.R.L. (100% subsidiary of Petrom) were informed by the Competition Council about the outcome of the antitrust investigation, resulting in a fine of RON 366,530,965 on Petrom and an additional RON 137,288,031 on OMV Petrom Marketing S.R.L.. Both companies strongly believe that the fines imposed are not justified and will challenge the Competition Council's decision in the courts.
- ▶ On **November 23**, Petrom announced having contracted a multi-currency revolving credit facility amounting to EUR 930 mn with a tenure of three years and a possibility of prolongation for two more consecutive years. This loan replaces the credit facilities amounting to EUR 875 mn contracted in 2008 and 2009, which were due in 2012 and not utilized at the date of replacement. 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.

December



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 – 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, the last being of Senior Banker. After Petrom's privatization in 2004 and following 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.



Daniel Turnheim – Chief Financial Officer, responsible for: Corporate Finance; Corporate Controlling; Internal Audit; Global Solutions

Daniel Turnheim studied Business Administration at the Vienna University of Economics and Business. In 2002, he joined OMV Group where he held several positions including Head of Controlling with OMV UK. Since 2007, Daniel Turnheim served as Head of OMV Corporate Controlling and became a member of Petrol Ofisi's Board of Directors at the end of 2009. He joined Petrom on January 1, 2011.



Johann Pleininger – 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 head of the Exploration and Production division in June 2007. Starting January 1, 2008, Johann Pleininger heads 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 – 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.



Hilmar Kroat-Reder – Responsible for Gas and Power (including Chemicals)

Hilmar Kroat-Reder obtained his Master and Doctoral degree in Law at the University of Vienna, and his Master of Laws at the University of the Pacific, McGeorge School of Law (California, USA). He also studied Law at the Université de Bourgogne (France), and Business Administration at the Vienna University of Economics and Business. Before joining OMV in 2002, Hilmar Kroat-Reder was partner in an international law firm. He held various positions at OMV: Head of Corporate Development and M&A/Legal, Vice President of the CEO's Office, Senior Vice President at Corporate Affairs and Sustainability. Hilmar Kroat-Reder joined Petrom on January 1, 2011.

Changes in the Executive Board structure during 2011

Johann Pleininger took over the responsibilities of **Siegfried Gugu**, who was a member of Petrom's Executive Board responsible for E&P Services between January 2008 and April, 2011.

Neil Anthony Morgan took over the responsibilities of **Rainer Schlang**, who was a member of Petrom's Executive Board responsible for Marketing between February 2010 and April 2011.

Statement of the Chief Executive Officer

Strong operational performance and financial results

EPS of RON 0.0663, 70% higher yoy

Proposed dividend of RON 0.031 per share

Dear shareholders,

We look back at 2011 as a year of outstanding operational performance and strong financial results for Petrom, albeit with some external challenges. This was a result of high investment efforts, effective cost and operational management but also supportive crude prices. With the great commitment of our employees, we continued to deliver on our strategic direction of leveraging Petrom's integrated business model as a key element to value creation. To this end, we successfully pursued our efficiency enhancement programs and continued to streamline our operations. Last but not least, we also brought on stream projects aimed at ensuring our sustainable development and generating future growth opportunities, most notably in our power business and exploration portfolio.

Results for 2011

The global economic outlook remained challenging in the wake of the Arab Spring and European sovereign debt crisis. The world economy experienced a loss of growth momentum, notably in the last quarter of 2011. In 2011, global economic growth was weaker than initially forecast, growing by 3.8%. The sovereign debt crisis in the EU countries continued to cast a shadow over the ability of the EU economy to quickly return to faster growth. The euro area GDP was also significantly lower than expected, rising by only 1.6%.

Romania's economic growth beat initial forecasts, advancing by around 2.5% in 2011, according to preliminary data from the National Institute of Statistics. The performance of the agriculture sector was particularly robust making an important contribution to total 2011 GDP growth. The industry sector continued its strong recovery across all subsectors, increasing at an annual rate of 6.1% in 2011. Meanwhile, labor market conditions continued to ease slightly, with the unemployment rate falling to 7.0% at the end of 2011, down from a peak of 7.7% reached in September. Although latest data indicate that domestic households' consumption has shown some signs of revival with overall household consumption increasing marginally

in the third quarter of 2011, retail sales displayed a weak performance falling at an annual rate of 3.3% in 2011, burdened by the subdued demand in a still volatile economic environment.

Financial and operational performance

Against the backdrop of this mixed macroeconomic environment, underscored by high crude prices, we delivered a very good set of financial results. As the average price for Urals, our reference crude price, increased by 40% compared to 2010 levels at USD 109.6/bbl, our sales for the year reached RON 22.6 bn, up 21% from 2010. EBIT adjusted for special items and inventory holding effects (clean CCS EBIT) increased 65% over the previous year to reach RON 5.5 bn, driven by improved operating performance and the favorable crude price environment. Clean CCS net income attributable to stockholders reached RON 4.2 bn, more than 70% higher than in 2010. Reported net income attributable to stockholders, reflecting exceptional, non-recurring items and inventory holding effects, stood at RON 3.8 bn, up 71% from 2010 and our earnings per share (EPS) reached RON 0.0663, an increase of 70% over the previous year. In 2011, cash from operations stood at RON 6.4 bn, up 39% compared to 2010. Overall, our capital expenditure remained at a similar level as in 2010, with most of the RON 4.8 bn investments directed to E&P (68%) and R&M (20%), with lower investments in G&P over 2010 as the two power projects were in their final stage of completion in 2011. Positively influenced by the net profit recorded in 2011, our ROACE reached 17.3% (2010: 10.7%) whilst our gearing ratio decreased to 9.3% at the end of 2011 from 12.4% in December 2010.

Based on the strong 2011 results and financial position, the executive management and Supervisory Board will recommend at our General Meeting of Shareholders on April 27, an annual dividend of RON 0.031 per share for the year, corresponding to a payout ratio of 47%.

Throughout the year, we remained committed to Petrom's sustainable development, focusing our efforts on consolidating and expanding the hydrocarbons business, on business portfolio

diversification through power production, underpinned by our endeavors to realize full efficiency potential and maximize the integration value. We are pleased to report several key projects that matured in 2011 and strong improvements in our operational efficiency.

In **Exploration and Production**, we managed to stabilize hydrocarbon production volumes in Romania at 174 kboe/d for the first time since privatization, driven by workover activities, new wells and exploration discoveries, which offset the natural decline. At Group level, we slightly increased production to 186 kboe/d, from 184 kboe/d in 2010, driven by higher volumes in Kazakhstan. For the fourth consecutive year, we maintained our reserves replacement rate in Romania at 70% due to continuous revisions of mature fields and the achievement of the drilling program, combined with diversification of the recovery mechanisms applied. Moreover, the Petrom Group reserve replacement rate increased to 70% from 67% in 2010. We successfully integrated the former E&P Services division into our E&P operations, streamlining our operations and processes. This, together with other strict cost management measures, has helped us improve our cost position. In 2011, Group production costs decreased by 3% to USD 16.22/boe while in Romania production costs went down by 1% to USD 15.85/boe.

Nevertheless, we take pride in our positive exploration developments in Romania. We renewed exploration licenses and our sustained efforts started to mature successful results. In the last quarter of 2011, we put in production the exploration well 4539Totea, the largest onshore gas and condensate well in Romania in terms of production volumes, with initial production of approximately 3,200 boe/d. Towards the end of 2011, we started drilling operations at the first deepwater exploration well (Domino-1, joint venture with ExxonMobil) with encouraging first data. Preliminary estimates indicate this could be a potentially significant gas discovery, with accumulation ranging from 42 to 84 bn cbm.

In **Gas and Power**, we managed to maintain a strong position in the Romanian gas market. Our consolidated gas sales volumes increased by 3%

to 5.1 bcm compared to 2010, driven by higher sales to industrial customers. 2011 marked our entry into the power business, as we started commercial operations at the wind power park Dorobantu. We also successfully completed construction of the Brazi gas fired power plant. However, final tests were interrupted due to external technical factors, with full commercial operation now anticipated for the second half of 2012.

In **Refining and Marketing**, we made good progress in restructuring and optimizing our operations, in particular our refineries. The modernization program at Petrobrazi is on track and the refinery processed only equity crude in 2011. The Arpechim refinery did not operate throughout the year and its closure is in final stages. Supported by improved underlying operational performance in refining, 2011 was the first year after privatization with a positive clean CCS operational result in R&M. Our marketing sales volumes stood at 4.07 mn t, down 2% from 2010, due to the subdued retail market demand.

Sustainability

Sustainability represents the foundation of all projects and activities at Petrom, starting from growth and diversification principles, financial discipline, corporate governance and business practices, up to employees' development and community involvement. At Petrom, our top priority is to strive for best practice HSEQ standards including zero-fatalities and to continue reducing the LTI rate. Proactive behavior helped us create a safe work environment for our employees and contractors which is further reflected in the LTIR. In 2011, Petrom achieved zero fatalities of its own employees and the LTIR for employees was 0.47 injuries per million hours worked, compared to 0.64 in 2010. Regrettably, we still had one work-related contractor fatality in E&P business division in 2011, so we strive to continue implementing rigorous safety practices. In addition, we remain committed to placing further emphasis on energy efficiency measures and unlocking people's potential in order to continue the good progress we made in 2011.

Stabilized hydrocarbon production volumes in Romania and positive exploration developments; entry into power business

Substantial LTIR improvement compared to 2010

**Significant
investments
continue – 2012
planned CAPEX
above EUR 1 bn**

Outlook and ambitions for 2012

With a solid financial position and strong cash flow generation, we are properly equipped for an envisaged highly volatile period in our industry and economic landscape. We continue our significant investment efforts with CAPEX plans for 2012 being above EUR 1 bn. Our focus remains on efficiency and sound financial discipline. This will help us maintain our business sustainability, achieve our growth potential and, nonetheless, enhance our ability to deliver significant value to our shareholders over the coming years. In E&P, we will further pursue stabilization of production volumes, mainly through field redevelopment projects, production optimization and exploration. We maintain an increased focus on G&P with full commercial operation of the Brazi power plant now anticipated for the second half of 2012. The progress of the Petrobrazi modernization program will be a key priority in R&M. As we aim for operational excellence, we continue optimization programs throughout all divisions. In relation to the possible resumption of the Secondary Public Offering by the Romanian State for a 9.84% stake it holds in Petrom, we

commit our due support to the success of the transaction, capitalizing on last year's roadshow and efforts.

I also want to convey, notably on behalf of the Executive Board, our appreciation to customers, partners and shareholders alike. Their loyalty and support help us to be the solid company they can rely on in the long run. Finally, and equally important, a word of thanks to our employees for the skill, teamwork and enterprise they put in to meet everyday challenges. Their high level of commitment made these achievements and results possible.

As we look forward to the challenges of 2012, we stay committed to remaining a pillar of stability and a solid contributor to the economic growth of Romania while further delivering on our strategic directions.



Mariana Gheorghe

Our strategic directions and objectives

Petrom in 2011

Petrom, a member of the OMV Group, is the largest oil and gas producer in Southeastern Europe. Our business segments are Exploration and Production, Gas and Power and Refining and Marketing. They represent the core activities of the company and have a high degree of integration between them.

Our Exploration and Production business explores for and extracts oil and natural gas in Romania and the Caspian Region (Kazakhstan). Petrom accounts for almost the entire oil production and for approximately half of the gas production in Romania. Our domestic and international oil and gas production amounted to around 186,000 boe/d in 2011 while total proved oil and gas reserves were approximately 812 mn boe at the end of December 2011.

We are an important player in the Romanian gas market, covering all gas market segments. In 2011, Petrom Group maintained its strong presence in all sectors of the gas market. In order to leverage the value of natural gas and ensure the sustainable development of the company, Petrom further expanded the value chain and developed a power generation business utilizing both conventional and renewable energy sources. 2011 was a milestone for our power business, marking Petrom's entry into power production with the start of operations at the wind farm Dorobantu, followed by the finalization of construction work at the gas-fired power plant Brazi.

We run an upstream integrated refinery (Petrobrazi) with a nominal capacity of 4.5 mn t per year that processes exclusively equity crude to maximize its integration value. We supply our products through a network of more than 790 filling stations, both in Romania and in the neighboring countries: Bulgaria, Serbia and the Republic of Moldova. In Romania, Petrom is the number one downstream operator, with a total market share of 37% and operating 545 filling stations and also the leading provider of aviation fuel services.

Our strategic directions for 2015

We derive our value from integration in our business model and we constantly endeavor to identify and make the most of the synergies along our value chain. In order to leverage our integration and increase performance and flexibility, we will focus our efforts on our strategic pillars: consolidating and expanding the hydrocarbons business, business portfolio diversification through power generation, improving efficiency across all units. To the same end, we will constantly pursue financial discipline and strict cost management to maximize our earnings strength.

Consolidate the hydrocarbon business

In E&P, we aim to unlock the potential of our assets in Romania while further developing our upstream activities in Kazakhstan. In Romania, our main objective is to mitigate the natural decline by applying the latest technologies and through partnerships with specialized operators in selected fields. We will further progress with the redevelopment of our key oil fields, mainly focusing on water and steam injection. In addition, we seek to unlock the deep onshore and deepwater offshore exploration potential.

Diversify business portfolio by developing power generation

2011 was a milestone year for our power business, as we started commercial operations at the wind park Dorobantu and finalized the Brazi power plant construction, which is expected to be available for commercial operation in the second half of 2012. The conversion of gas into electricity extends the value chain and ensures an additional marketing platform for gas.

Realize full efficiency potential and maximize the integration value of our business model

We are committed to retaining our position as a leading integrated oil and gas company in Southeastern Europe. We are consolidating our strong operational asset base by strengthening the E&P business and maximizing the integration value. In G&P, we develop a power generation portfolio, focused on equity gas

Pursue and optimize synergies along the value chain

Strengthen E&P business and maximize integration value

Embedded sustainability in projects and activities

and depending on an effective regulatory framework. In Refining, we will continue our efforts toward streamlining the business by upgrading and improving the Petrobrazî refinery to enable the processing of 100% domestically produced crude so as to maximize the integration value. In Marketing, we will pursue the two brand strategy (OMV & Petrom) and aim to deliver further efficiency through integration of downstream activities.

Sustainable development through modern business practices

Sustainability is embedded in all projects and activities at Petrom and underlines our growth and diversification principles, financial discipline, corporate governance and business practices, up to employees' development and community involvement. Against the background of a challenging economic environment, Petrom will continue to invest in key projects so as to maximize performance and to ensure sustainability of the business. Our focus remains on efficiency and sound financial discipline to achieve our growth potential.

Our objectives

In line with our strategic directions, our objective is to continue increasing productivity and profitability through unlocking the E&P potential, maximizing the integration value of our business model and realizing the efficiency and cost reduction potential of Petrom. In doing so, we will focus on maximizing the performance potential of our people, and strengthening the organization and its management.

In **Exploration and Production**, our main objective is to further stabilize production volumes and unlock E&P potential. The exploration and production activity is focusing on securing long-term domestic oil and gas supply and developing activities in the Caspian Region.

In Romania, optimization of oil and gas production will be achieved by both applying the latest technologies as well as through partnerships with other operators in selected fields. We will further progress the

redevelopment of our key oil fields, mainly focusing on water and steam injection. By setting up additional gas field redevelopment projects, we will continue to optimize gas production systems and modernize facilities and equipment in selected major gas fields. Furthermore, in 2012 we will progress the appraisal of the Totea field, which might confirm the most important onshore gas discovery in Romania in the past six years.

Concerning exploration, our aim is to unlock the deep onshore and deepwater offshore exploration potential. After finalizing the drilling of the first deepwater exploration well in the Romanian sector of the Black Sea together with ExxonMobil Exploration and Production Romania Limited we will proceed with a new extensive 3D seismic acquisition in the Neptun offshore block. This is part of a unique project for Romania, which could potentially yield significant positive industrial, social and economic benefits for Romania if commercial discoveries are made. All these activities will be accompanied by continued strict cost management and further streamlining the organization.

In Kazakhstan, we will focus our efforts on stabilizing production in the Komsomolskoe field through artificial lift installation, water injection and drilling additional producer wells. Furthermore, we will pursue a field re-development plan in the Tasbulat, Aktas, Turkmenoi (TOC) fields.

In **Gas and Power**, we aim at consolidating our gas market share and further increasing profitability by focusing on core activities. As an integrated company, the conversion of gas into electricity extends the value chain and ensures an additional marketing platform for gas. After starting commercial operations at the Brazi power plant, we will concentrate on achieving operational excellence in the power activity and maximizing the availability of both the Dorobantu and Brazi plants. In 2012, we aim to complete the restructuring of our chemicals business in Doljchim and, in line with management's decision, we will prepare the site for alternative use.

In **Refining**, we will continue our efforts toward streamlining our business by upgrading and

Key success factors: unlock E&P potential, maximize integration value, realize efficiency and cost reduction potential

improving the Petrobrazi refinery performance to maximize the Petrom integration value and enable the processing of 100% of Romanian crude production. The closure of the Arpechim refinery, including employees' restructuring process, is progressing with ongoing measures in order to enable further utilization of selected assets (mainly logistic facilities) as a crude and products 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 the Ministry of Economy, Commerce and Business Environment regarding their expressed intention to take over the remaining refinery related assets. Our terminal modernization program continues as we progress with the

final construction works of the Isalnita storage facility (approximately 11,000 cbm of capacity), due for commissioning by the end of 2012.

In **Marketing**, we focus on consolidating our market position by pursuing a dual-brand strategy, with OMV as a premium brand, and Petrom as a strong Romanian brand, covering all market segments with high level products and services. At the same time, we further strive to streamline and centralize our organization and processes, as we pursue efficiency through integration of downstream activities.

Pursue efficiency through integration of downstream activities

Exploration and Production

Our Exploration and Production business explores for and extracts oil and natural gas in Romania and in the Caspian Region, namely Kazakhstan. Petrom accounts for almost the entire crude oil production and for approximately half of the gas production in Romania.

Petrom Group oil and gas production amounted to approximately 185,700 boe/day in 2011, of which 173,700 boe/day produced in Romania. The Group had proved reserves of approximately 812 mn boe at the end of December 2011, of which 786 mn boe in Romania.

70% RRR in Romania

Our achievements in 2011

- ▶ Petrom Group production increased by 1% compared to 2010
- ▶ Group reserve replacement rate increased to 70% from 67% in 2010; reserve replacement rate in Romania maintained at 70% for the fourth consecutive year
- ▶ Group production costs decreased by 3% over 2010 in USD terms; production costs in Romania decreased by 5% in RON terms and by 1% in USD terms
- ▶ Potentially significant deep gas discovery was made in Southwestern Romania, Totea area
- ▶ Redevelopment of major fields significantly progressed
- ▶ World record in shallow horizontal drilling achieved in Suplacu de Barcău
- ▶ Exploration licenses successfully extended
- ▶ First deepwater exploration well drilling started in joint venture with Exxon Mobil
- ▶ Integration of E&P Services within E&P successfully finalized

Leader in SEE upstream market

Our strengths

- ▶ Leader in the Southeast European upstream market
- ▶ Strict cost management and focused investment program
- ▶ Large scale application of proven and new technologies
- ▶ Successful implementation of partnerships with experienced international companies

Our strategic directions

- ▶ Improve employees' and contractors' safety performance
- ▶ Redevelop key fields
- ▶ Focus on water flooding
- ▶ Implement international best practices and technologies in key fields
- ▶ Further optimize our cost position through strict cost management
- ▶ Modernize facilities and equipment in selected key fields to increase efficiency
- ▶ Unlock deep onshore and deepwater offshore exploration potential
- ▶ Further develop partnerships
- ▶ Further streamline organization
- ▶ Develop upstream activities in the Caspian Region

Our objectives for 2012

- ▶ Further stabilize production volumes
- ▶ Progress the appraisal of the Totea Deep field
- ▶ Finalize drilling of the first deepwater offshore exploration well
- ▶ Progress with the redevelopment of major fields
- ▶ Focus on water flooding for key oil fields
- ▶ Further implement partnerships for exploration and enhanced production
- ▶ Continue streamlining the organization and applying strict cost management

Gas and Power

Petrom has a strong sustainable position in the Romanian gas market, covering all gas market user segments. Through our own sales channels, gas can be sold to large industrial customers and gas distributors. Alternatively, it can be fed into our gas-fired power plant for power generation. The conversion of gas into electricity extends the value chain and ensures an additional marketing platform for gas. 2011 was a milestone for our power business, marking Petrom's entry into power production with the start of operations at the wind farm Dorobantu, followed by the finalization of construction works at the gas-fired power plant Brazi, expected to be available for full commercial operation in the second half of 2012.

Our achievements in 2011

- ▶ Finalization of the Hurezani-Corbu-Bucuresti gas pipeline rehabilitation together with E&P and Transgaz (the National Gas Transmission System operator)
- ▶ Finalization of Brazi power plant (860 MW) construction
- ▶ Start of Dorobantu wind park (45 MW) commercial operation in October 2011
- ▶ Start of preparations for alternative use of the Doljchim site

Our strengths

- ▶ Strong sustainable position in the Romanian gas market, covering all gas market segments
- ▶ Leading gas wholesale distribution company in Romania
- ▶ Competitively positioned to seize opportunities in energy markets
- ▶ Diversified business portfolio by entering power generation

Our strategic directions

- ▶ Leverage Petrom gas value chain and consolidate market position
- ▶ Evaluate gas storage infrastructure opportunities
- ▶ Develop a power generation portfolio, focused on equity gas

Our objectives for 2012

- ▶ Consolidate gas market share and further increase gas business profitability by focusing on core activities
- ▶ Maximize both Dorobantu and Brazi power plants availability
- ▶ Achieve and retain operational performance standards of power assets
- ▶ Develop and strengthen customer base in the power business, set up commercial arrangements for power and CO₂ certificates
- ▶ Prepare Doljchim site for alternative use

Entry into power business

Refining and Marketing

Petrom is the number one downstream operator in Romania, with a total market share¹ of 37%, operating 545 filling stations and is also the leading supplier of aviation fuel services. Through our affiliates, we also operate 248 stations in the neighboring countries of Bulgaria, Serbia and the Republic of Moldova. Within the value chain, we run Petrobrazî as an upstream integrated refinery that exclusively processes equity crude to maximize its integration value.

Improved operational performance

Our achievements in 2011

- ▶ Continuous improvement of the results driven by operational performance and stringent cost management
- ▶ Efficient response to the prevailing market challenges with flexible utilization of our refining and logistic assets
- ▶ Decision to permanently close the Arpechim refinery taken at the end of March 2011
- ▶ Inventories management improvement in Petrobrazî refinery
- ▶ Successful integration of the aviation fuel business into one company (Petrom Aviation)
- ▶ Successful implementation of the Agri-Brand Partner concept in Romania led to improved commercial sales to the agriculture sector

Our strengths

- ▶ High degree of integration with domestic crude resources and regional distribution outlets
- ▶ Demonstrated effectiveness in responding to challenging market conditions
- ▶ High product and service quality and environmental standards
- ▶ Strong network of filling stations with a wide geographical coverage
- ▶ Local commercial sales force embedded in an international set-up that facilitates exploitation of synergies

Our strategic directions

- ▶ Low cost conversion of Romanian crude oil into high quality transport fuels for the Southeast European market
- ▶ Strengthen product yield through the Petrobrazî refinery modernization to maximize upstream integration value
- ▶ Energy efficiency and yield performance improvements
- ▶ Further optimize organization by alignment of organizational structures and processes within OMV/ Petrom Group

- ▶ Develop range of services provided in the filling stations and provide best-in-class customer service
- ▶ Consolidate market position by pursuing our two brand strategy, with OMV as a premium brand and Petrom as a strong Romanian brand

Our objectives for 2012

- ▶ Finalize modernization of the crude distillation unit in Petrobrazî by mid-2012
- ▶ Continue energy efficiency improvements and reduce CO₂ emissions
- ▶ Further optimization of retail filling station network
- ▶ Strengthen non-oil business (NOB) whilst consolidating retail logistics at Petrom Group level under one international logistics services supplier
- ▶ Optimize our market position in the bitumen business and further develop competitive advantage

Petrobrazî refinery modernization to maximize integration value

¹ Total market share covering retail and commercial segments (excludes sales to oilcos).

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 – President

Chief Executive Officer of OMV and Chairman of the OMV Executive Board; he became President of the Petrom Supervisory Board following **Wolfgang Ruttenstorfer's** waiver of mandate, whose tenure as a member of the Petrom Supervisory Board started January 11, 2005.
First elected at the GMS held on January 11, 2005.

David C. Davies – Deputy-President

Chief Financial Officer of OMV and Deputy Chairman of the OMV Executive Board.
First elected at the GMS held on January 11, 2005.

Manfred Leitner

Member of the OMV Executive Board, responsible for Refining and Marketing, replacing **Wolfgang Ruttenstorfer** as member of the Petrom Supervisory Board.
First elected at the GMS held on April 26, 2011.

Jacobus Gerardus Huijskes

Member of the OMV Executive Board, responsible for Exploration and Production.
First elected at the GMS held on August 3, 2010.

Hans-Peter Floren – Interim member

Member of the OMV Executive Board, responsible for Gas and Power, starting March 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 interim member of the Petrom Supervisory Board starting March 23, 2012, with effect until the GMS on April 27, 2012.

Constantin Dascalu

Personal Counselor to the Minister of Economy, Trade and Business Environment, replacing **Marian Turlea**, whose tenure as a member of the Petrom Supervisory Board started April 28, 2009.
First elected at the GMS on April 26, 2011.

Gheorghe Ionescu

Member of the Petrom Supervisory Board appointed following the Ministry of Economy's proposal.
First elected at the GMS on April 28, 2009.

Joseph Bernard Mark Mobius

Executive Chairman, Templeton Asset Management Ltd; appointed to the Petrom Supervisory Board following the Property Fund's proposal.
First elected at the GMS on April 29, 2010.

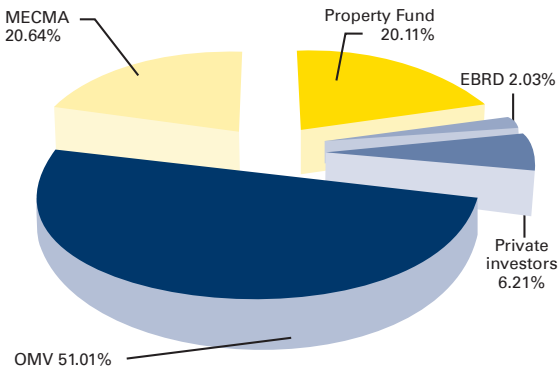
Riccardo Puliti

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.
First elected at the GMS on April 28, 2009.

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 in January 2011), and 2.03% - the European Bank for Reconstruction and Development (EBRD). The remaining share of 6.21% is free float, traded at the first tier of the Bucharest Stock Exchange (BSE), and held by around 465,000 private and institutional investors, from both Romania and abroad.



on an upward trend in the first quarter of 2011 and reached the year high of RON 0.4500/ share on April 8. In the subsequent quarters, the stock gave up previous gains and maintained a negative trend, reflecting international markets turbulence. The year low of RON 0.2750 was reached on October 5, with trading volumes below average.

Overall, Petrom's share price lost 13.4% on a full year basis, still outperforming the BET index (ten most liquid blue chip stocks listed on BSE), which dropped 17.7% and the BET-C (BET Composite) index, which decreased 15.7% over the same period. Vienna Stock Exchange's ROTX index that comprises the 14 most liquid blue chip stocks traded at the BSE, was down 20.7% in 2011 while the BET-NG sector index (stocks in the energy and utilities sectors) slid 20.7% over the year.

Petrom's market capitalization at the end of 2011 stood at RON 16.4 bn, accounting for 23.2% of total market capitalization of all companies listed at the BSE.

Petrom share symbols

ISIN	ROSNNPACNOR9
Bucharest Stock Exchange	SNP
Bloomberg	SNP RO
Reuters	ROSNP.BX

Share price evolution coupled to capital market performance

Shares

2011 brought high level of turbulence and increased volatility to global capital markets. The European countries' sovereign debt crisis coupled with weaker than expected economic data increased investors' risk aversion and led to wild swings in the performance of both regional and local capital markets. In terms of trading, Petrom's share price moved

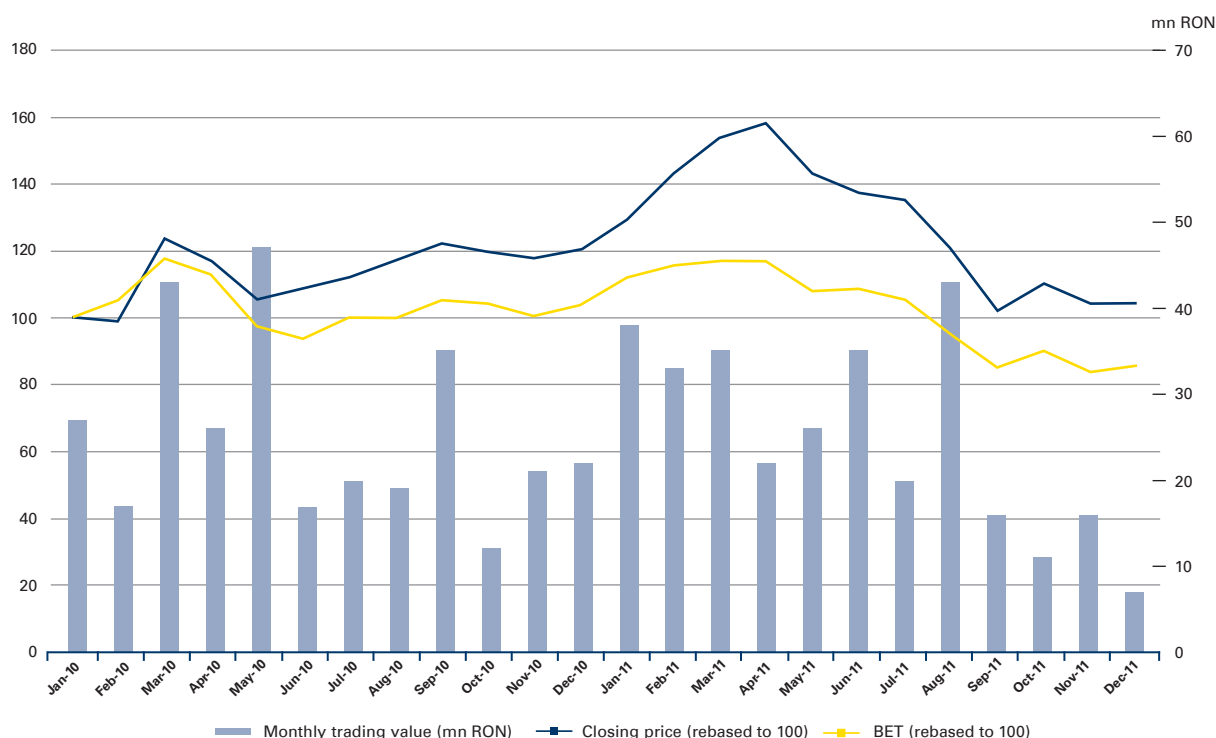
At a glance

	2009	2010	2011
Number of shares	56,644,108,335	56,644,108,335	56,644,108,335
Market capitalization (RON mn) ¹	14,104	18,976	16,427
Market capitalization (EUR mn) ¹	3,356	4,429	3,803
Year's high (RON)	0.2920	0.3660	0.4500
Year's low (RON)	0.1160	0.2520	0.2750
Year end (RON)	0.2490	0.3350	0.2900
EPS (RON/share)	0.0152	0.0389	0.0663
Dividend per share (RON)	0	0.0177	0.031 ²
Dividend yield ¹	0%	5.2%	10.7% ²
Payout ratio	0%	46%	47% ²

¹ Calculated based on the closing share price as of the last trading day of the respective year.

² Proposed dividend, subject to GMS approval.

Evolution of Petrom share price and BET



**OGMS approved
gross dividend of
RON 0.0177 per
share for 2010**

General Meeting of Shareholders

On April 26, 2011, both the Ordinary (OGMS) and Extraordinary (EGMS) General Meetings of Shareholders were held. At the OGMS, OMV Petrom S.A.'s Revenues and Expenditures Budget for the financial year 2011 was approved. The OGMS also approved a gross dividend of RON 0.0177/share for the financial year 2010, at the total amount of RON 1,003 mn, corresponding to a 46% payout ratio. The OGMS acknowledged Wolfgang Ruttenstorfer's waiver of his mandate as member of the Petrom Supervisory Board and approved the appointment of Manfred Leitner (member of the OMV Executive Board) in his place, whilst Gerhard Roiss became President of the Petrom Supervisory Board. Moreover, the OGMS approved the revocation of Marian Turlea's tenure as a member of the Petrom Supervisory Board upon the request of the MECMA. The OGMS also approved MECMA's proposal to appoint Constantin Dascalu, personal counselor to the Minister of Economy, Trade and Business Environment as a new member of the Supervisory Board for a mandate effective until April 28, 2013. The OGMS also approved the appointment of Ernst & Young Assurance Service S.R.L. as the new financial auditor for 2011, replacing Deloitte Audit S.R.L. The EGMS approved the change of the company's headquarters as of May 23, 2011. The address of the new headquarters is 22 Coralilor Street, District 1, Bucharest ("Petrom City").

Secondary Public Offering

On February 15, 2011, the Office for State Ownership and Privatization in Industry (OPSPI), on behalf of the MECMA started the selection of the underwriter for the Secondary Public Offering (SPO) for the sale of 5.57 mn shares, representing 9.84% of Petrom's share capital (total shares held by MECMA correspond to a 20.64% stake in the share capital).

MECMA received bids from six different consortia interested in managing the State's sales process. Following the selection process, the consortium comprising Renaissance Capital Limited, SSIF EFG Eurobank Securities S.A., SSIF BT Securities S.A. and SSIF Romcapital

S.A. was mandated to run the offering. Throughout the SPO process, Petrom's management and the project team were fully committed to meet the requirements made by both the Romanian State and the consortium. Petrom's management and project team remained available for information and clarifications. Petrom's CEO and CFO actively participated in the two week roadshow organized by the consortium and the Romanian State, meeting institutional investors in several European financial centers (London, Frankfurt, Geneva, Zürich, Vienna) as well as in Bucharest. The final prospectus was approved by the National Securities Commission on June 20 and the offering took place between July 11 and July 22, 2011 and entailed two tranches: one for retail investors, amounting to 15% of the offering and one for institutional investors, accounting for 85% of the offering. A maximum price was set at RON 0.46/share, while the State reserved the right to publish at any time (no later than two business days prior to the last day of the offering) a minimum threshold (reference price) below which it would not sell any of the offered shares. On July 15, the Government set the minimum reference price of the SPO at RON 0.3708/share. 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 of the SPO by the Romanian State in 2012, Petrom's management and project team will commit their due support to the success of the transaction, while also drawing lessons from last year's roadshow and efforts.

Investor Relations activities

In 2011, the management and the Investor Relations team were highly dedicated to meet investors' and analysts' heightened demand for information in response to the challenging environment and increased interest towards the company, triggered by the SPO initiated by MECMA through OPSPI. Petrom hosted one-to-one meetings and conference calls with local and foreign analysts and institutional investors. The company also attended analyst and investor conferences, organized in

Romania and abroad. At the meetings, the 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 with the management. A total of almost 100 one-to-one or group meetings and presentations were held throughout 2011, including more than 200 investors and analysts. Starting 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 local requirements, Petrom also prepares standalone financial statements in accordance with the Romanian Accounting Standards (RAS). 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, under the Investor Relations section.

Dividends

On March 23, 2012, the Supervisory Board endorsed the management's proposal to distribute dividends of RON 0.031 per share, resulting in a payout ratio of 47%. The dividend proposal is subject to further approval by the GMS, on April 27, 2012.

Own shares

At year-end 2011, 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 cancelled any of its own shares.

Completion of share distribution to employees

Petrom commenced a buy-back program on January 8, 2010, in view of fulfilling the obligation assumed under the applicable Collective Labor Agreement (CLA) concerning free distribution of shares to entitled persons (former or current employees), which was

extensively explained in the 2010 annual report. The buy-back program commenced on January 8, 2010 and was completed on January 18, 2010 whilst the effective allocation of free shares was made between June 23 and December 16, 2010. OMV Petrom S.A. distributed to each entitled person a number of 100 (one hundred) ordinary, nominal and dematerialized shares, traded at the first tier of the BSE, with a nominal value of RON 0.1 each.

On January 7, 2011, Petrom announced the completion of the securities distribution to the entitled persons. Out of a total of 6,195,500 shares purchased (accounting for 0.011% of the company's share capital) by OMV Petrom S.A. from the BSE regulated market, a total number of 6,133,500 securities were distributed to 61,335 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.

Sell-out outcome following spin-off activities

On February 24, 2011, the company publicly disclosed the sell-out price set by the independent expert appointed by the Trade Registry on September 23, 2010 (Pricewaterhouse Coopers Management Consultants S.R.L.) to define the price of the shares to be paid to those shareholders which exercised their sell-out right. The publication of the sell-out price followed the spin-off and the transfer of the marketing activities of OMV Petrom S.A. to OMV Petrom Marketing S.R.L. (an entity 100% held by OMV Petrom S.A.) and the sell-out procedure with respect to the shareholders of the Company in accordance with article 134 of Company Law no. 31/1990 approved by EGMS held on August 3, 2010. The sell-out price stood at RON 0.352/share - gross, including any fees and taxes. Following the completion of the sell-out procedure on March 16, OMV Petrom S.A. had no shares to buy back from the shareholders that maintained the sell-out right request.

**Proposed
dividend of RON
0.031 per share
for 2011**

Financial calendar 2012

Financial events	Date
Presentation of the results for January-December and Q4 2011 ¹	February 22, 2012
Publication of the Annual Report 2011	April 27, 2012
General Meeting of Shareholders	April 27, 2012
Presentation of the results for January-March 2012	May 9, 2012
Presentation of the results for January-June and Q2 2012	August 8, 2012
Presentation of the results for January-September and Q3 2012	November 7, 2012

¹ Petrom Group preliminary, unaudited consolidated results prepared according to the International Financial Reporting Standards (IFRS).

Contact at Investor Relations

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Business environment

World

In 2011, **global economic growth** was weaker than initially forecast, slowing down to 3.8% from 5.2% in 2010. The growth momentum diminished as the ongoing adjustment in both private and public sector balance sheets in several major developed economies had a negative influence on demand.

The deepening effects of the sovereign debt crisis in the EU countries continued to cast a shadow over the ability of the EU economy to return to faster growth.

The euro zone economy grew by an estimated 1.6% in 2011 after it rose by 1.9% a year ago. Intensifying strains in the euro area were fueled by deterioration in financial conditions, which drove sovereign yields in several euro zone member states to unsustainable levels. Although these came down towards the end of the year, pressures on sovereign borrowing costs will continue in the months ahead.

Growth in emerging and developing economies also slowed down to 6.2% from 7.3% in 2010, mainly due to a worsening external environment and weakening domestic demand.

Global consumer price inflation stood at 7.3% in 2011 as demand weakened and weighted global commodity prices fell. The existing ample spare capacity in developed economies helped to keep inflation expectations subdued.

In 2011, the total **global oil demand** rose by 0.8% to 89.0 mn bbl/d compared to 2010. Oil demand in non-OECD countries rose by 1.3 mn bbl/d, or 3.1%, in 2011 as demand in OECD countries fell by 0.6 mn bbl/d, or 1.2%. In 2011, **global oil supply** rose by 1 mn bbl/d year-on-year, to 88.5 mn bbl/d. Total OECD oil supply remained unchanged at 2010 levels at 18.9 mn bbl/d. Meanwhile, OPEC oil supply rose to 35.8 mn bbl/d year-on-year, thereof NGLs supply of 5.8 mn bbl/d.

In 2011, the average Brent price was USD 111.26/ bbl, 40% higher compared to 2010. Oil prices continued to stay elevated largely because of supply developments and geopolitical risks although uncertainties over the strength of the global economy in the fourth quarter of 2011 slightly inverted the growth trend recorded over

the previous quarters.

In 2011, the average Urals price was USD 109.60/ bbl, 40% higher compared to 2010.

Romania

The Romanian economy turned back to growth in 2011 after two consecutive years of falling output. GDP grew by an estimated 2.5%, exceeding forecasts made at the beginning of the year.

The performance of the agriculture sector was particularly robust making an important contribution to total 2011 GDP growth.

The industry sector continued its strong recovery, increasing at an annual rate of 6.1% in 2011.

Construction, one of the main drivers of economic growth in the pre-crisis period, showed signs of revival, going up by 1.1%, largely due to investments in the non-residential sector.

Households' consumption turned positive in 2011, advancing by 0.7%. A combination of factors such as the high level of household indebtedness, uncertainty over future income as well as high borrowing costs continued to weigh down on demand.

Meanwhile, labor market conditions continued to ease slightly. At the end of 2011, the unemployment rate fell to 7%, down from a peak of 7.7% reached in September. The number of total economy employees stood at 4.2 mn at the end of 2011, an increase of 2.5% compared to the same period a year ago. The supply of labor rose during the last quarter of 2011 when real wage growth turned again positive during the last months of the year with nominal wage growth outpacing inflation.

The macroeconomic outlook improved in 2011 as the correction of macroeconomic imbalances, both internal and external, was consolidated.

Fiscal policy continued to be restrictive in 2011.

Cuts in current public expenditure led to a further reduction in budget deficit which reached (4.4)% of GDP. The process of fiscal consolidation continued throughout 2011, although the pace of public sector reform proceeded at a slower pace than initially envisaged. Public sector arrears remained an unresolved issue in 2011.

**2.5% GDP growth
in Romania in
2011**

**Macroeconomic
outlook improved
in 2011**

Annual **consumer price inflation (CPI)** fell much faster than expected, pushing inflation down to 3.1% at the end of 2011, a historical low over the last two decades. The effects of both seasonal factors and low demand put downward pressure on CPI prices. However, the producer price inflation continued to remain elevated, falling down to 7% at the end of December 2011. The National Bank of Romania (NBR) embarked on a cautious cycle of monetary loosening, cutting its benchmark interest rate by a cumulative 25 basis points since the beginning of the year to 6.0% at the end of December 2011. The improved inflation outlook has provided the NBR with more scope for reducing real interest rates, thus improving the economy's revival prospects.

RON relatively stable against EUR but rising vs. USD

In 2011, the RON marginally fell against the EUR but rose against the USD. The exchange rate volatility continued to remain contained in spite of the prevailing uncertainty in foreign exchange markets.

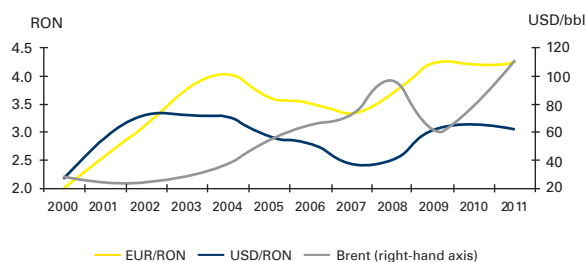
Over the last three years, the yearly average **RON/EUR** exchange rate was relatively stable,

falling by 0.6% in 2011 after rising by 0.7% a year before.

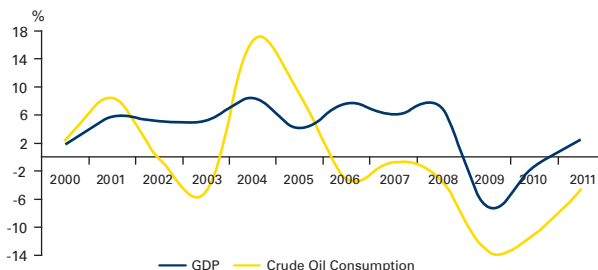
In contrast, the yearly average **RON/USD** exchange rate was more volatile and showed an opposite trend, rising by 4.2% in 2011.

Romanian **primary energy resources** rose in 2011 as the economic recovery took hold. They were up by 2.1% compared to 2010, to 34.9 mn toe, as domestic energy consumption was boosted by an increased level of economic activity. Imports of primary energy resources were up by 3.3%, with domestic production also rising by 1.6% compared to 2010. Romania's oil demand however, dropped by 4.7% as higher oil prices restrained consumption. The demand for natural gas increased by 7% in 2011, with imports accounting for a large share of this.

Crude price (Brent) and FX rates, Annual Averages



Romania, GDP and Crude Oil Consumption, Annual Change



Market indicators

	2009	2010	2011
Average crude price for Brent (USD/bbl)	61.67	79.50	111.26
Average crude price for Urals (USD/bbl)	61.18	78.29	109.60
Average exchange rate USD/RON	3.04	3.18	3.05
Average exchange rate EUR/RON	4.24	4.21	4.24
World crude demand (mn bbl/d)	84.9	87.7	89.0
World crude output (mn bbl/d)	84.9	87.3	88.5

Outlook for 2012

According to official statistical data, the outlook for Romania's GDP envisages a 1.5% growth in 2012 but there is a considerable uncertainty surrounding this figure. External demand is expected to continue playing an important role in the revival of the economy. This, in turn, will

be conditioned to a large extent by economic and financial developments in the euro area. The continuation of domestic structural reforms should increase the economy's ability to respond better to economic shocks.

**Envisaged 1.5%
GDP growth for
Romania in 2012**





Consolidating and expanding hydrocarbons business

Stabilized production volumes in Romania, maintained RRR at 70% and remarkable exploration developments both onshore (Totea) and deep offshore (Neptun).

Exploration and Production (E&P)

In 2011, the Group's reserve replacement rate increased to 70% from 67% due to revisions of mature fields and drilling program results combined with diversification of recovery mechanisms. Exploration efforts increasingly bear fruit: 2011 showed an excellent success rate of 65%, brought potentially the largest onshore gas discovery in the past six years and we progressed key initiatives offshore. Total production in Kazakhstan significantly increased by 20% in 2011 due to the ramp up of production from the Komsomolskoe field, while domestic production stabilized for the first time since privatization, driven by workover activities, new wells and exploration discoveries, which offset the natural decline.

E&P at a glance

	2009	2010	2011
Segment sales (RON mn) ¹	8,249	9,534	11,743
EBIT (RON mn) ²	2,468	3,012	5,236
Capital expenditures (RON mn) ³	2,869	2,774	3,254
Total Group production (mn boe)	68.29	67.08	67.77
thereof in Romania	66.00	63.46	63.41
Proved reserves as of December 31 (mn boe)	854	832	812
thereof in Romania	823	805	786

¹ Include inter-segment sales.

² Excluding intersegmental profit elimination.

³ Capital expenditures also include increases of Petrom share participations in other companies.

Clean E&P EBIT (adjusted for exceptional, non-recurring items) increased by 53% compared to 2010 to RON 5,432 mn, mainly driven by a high oil price environment (Group average realized oil price increased by 36% to USD 93.30/bbl) and lower production costs, which more than offset hedging losses of RON (404) mn and an unfavorable FX effect due to the weaker USD against RON.

2011 reported EBIT amounted to RON 5,236 mn, an increase of 74% compared to 2010. In 2011, reported EBIT reflects net special charges of RON (195) mn mainly related to the impairments of the Kultuk field in Kazakhstan, subsea equipment in relation to a previous review of the Delta offshore field development and obsolete materials. In 2010, E&P EBIT was mostly affected by the RON 441 mn impairment recorded following a technical assessment of the Kazakhstan activities and also the re-establishment of an export customs duty in Kazakhstan.

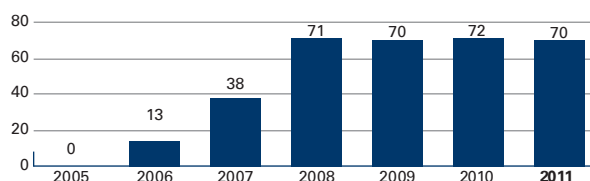
In 2011, Petrom Group's hydrocarbon production amounted to 67.77 mn boe (thereof 63.41 mn boe in Romania), 1% higher compared to 2010 as a result of increased production levels in Kazakhstan. On average, daily oil and gas

production was 185,700 boe/day, of which 173,700 boe/day were recorded in Romania. Despite the unfavorable FX effect (USD weakened by 4% against the RON), Group production costs decreased by 3% to USD 16.22/boe from 2010 (in Romania by 1% to USD 15.85/boe over the same period) due to cost savings and higher production volumes in Kazakhstan. In Romania, production costs in RON/boe terms were lower by 5% compared to 2010.

Reserve replacement rate (RRR)

As of December 31, 2011, Petrom Group's **total proved oil and gas reserves** amounted to 812 mn boe (Romania: 786 mn boe), while the proved and probable oil and gas reserves amounted to 1,126 mn boe (Romania: 1,083 mn boe).

Reserve replacement rate in Romania



Continuous revisions of mature fields, achievement of the drilling program combined with diversification of the recovery mechanisms applied in 2011, led to maintaining the reserve replacement rate in Romania at 70% for the fourth consecutive year.

The Petrom Group reserve replacement rate increased in 2011 to 70% from 67% in 2010 due to reserves revisions in Romania and Kazakhstan.

Operational highlights 2011 Romania

In Romania, Petrom held exploration licenses for twelve onshore and two offshore blocks, with a total area of 43,511 km² (of which 12,321 km² offshore) and operated 237 commercial oil and gas fields at the end of 2011.

A combined volume of 173,700 boe/d was produced in 2011 in Romania (2010: 173,900 boe/d).

Petrom's exploration, development and production concessions in Romania



Exploration

In June 2011, three onshore exploration licenses, covering an acreage of approximately 9,700 km², were prolonged until September 2013.

Furthermore, in September 2011, an exploration license for nine onshore and one offshore blocks covering an overall acreage of approximately 24,000 km² was prolonged until September 2014, as part of Petrom's portfolio subject to a single concession agreement. Three exploration blocks were relinquished as a result of due and thorough deliberations.

A new exploration phase of the Neptun block in

Romania (including deep offshore) 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. Petrom and ExxonMobil Exploration and Production Romania Limited evaluated the recently acquired Neptun 3D seismic data in the offshore Neptun Deep sub-permit and the first drilling candidate was selected. Consequently, exploration drilling started in December 2011 on Domino-1, the first deepwater exploration well in the Romanian sector of the Black Sea. Please refer to Subsequent events at page 68 for further developments.

Petrom made a potentially significant gas discovery in Southwestern Romania, Oltenia region last year. The exploration well Totea 4539 was drilled at a depth of 3,600 m and targeted a potentially large, high pressure accumulation. Further appraisal drilling is planned to assess what may be the most important onshore gas discovery in Romania in the last six years. In addition to the Totea Deep discovery, an ambitious exploration drilling campaign was carried out on some further 16 exploration wells, of which 10 wells were declared technical discoveries, leading to an overall exploration success rate of 65%.

Onshore, Petrom acquired 1,638 km of 2D seismic data and 1,134 km² of 3D seismic data in 2011. The main survey was represented by the second phase of the most complex 3D onshore survey ever acquired in Romania (Moreni – Runcu – Tintea – Baicoi) which was finalized over the Moreni block. Processing and evaluation of this acquisition was still ongoing at the date of the report. An additional major 3D seismic acquisition (in Blejesti-Videle area) started in 2011 and is expected to be finalized by mid-2012.

In 2011, Petrom started the joint exploration work related to the partnership with Hunt Oil for the onshore exploration blocks Adjud and Urziceni East. An extensive 2D seismic acquisition program was completed and a follow-up project is planned for 2012. The first drilling project of the joint venture was also carried out in 2011 with encouraging preliminary interpretation. The well testing is planned for 2012.

**First deepwater
exploration well
in Romania**

**Overall
exploration
success rate of
65%**

Stabilized production in Romania

Production

In 2011, Petrom produced 4.08 mn t of crude oil and condensate and 5.21 bcm of natural gas or an equivalent of 63.41 mn boe in Romania. The average daily equivalent production in Romania reached 173,700 boe/d, stabilized overall compared to 2010. 142 new development and exploration wells were drilled, more than 14,500 well interventions were performed and more than 1,400 workover jobs were carried out throughout 2011. In the last quarter, production was augmented by the production start of the gas exploration well 4539 Totea Deep. In 2011, Petrom's domestic crude oil average production was 80,300 boe/d, 2% lower compared to the level recorded in 2010. The decrease was caused by natural decline, which was not fully compensated by the drilling and workover program.

Petrom's domestic gas production was 93,400 boe/d, 2% up the level recorded in 2010. The increase was determined by the successful workover activities and production start of key development wells like the offshore well G10, located at the Lebada East field and the test exploitation of the well 4539 Totea.

Key projects in 2011

In 2011, the field redevelopment program within Petrom made significant progress, focusing on water injection, steam injection and gas systems optimization. Additional oil and gas projects were initiated and, by the end of the year, nine field redevelopment projects were in various stages of development, ranging from concept identification to execution.

The field redevelopment project targeting the optimization of the water injection system in Oprisenesti field, one of the most important oil fields of Petrom located in the Southeastern part of Romania, achieved the final investment decision in 2011.

In October 2011, Petrom put in production the exploration well 4539 Totea Deep, the largest gas and condensate well in Romania with initial production of 3,200 boe/day. The well was connected to the gas pipeline infrastructure in record time and was put in production only 100 days after discovery, by using an early production facility which allows the operator

to start production while still working on the field development plan and permanent facilities construction. As of end 2011, the well was producing at a rate of 4,400 boe/day.

Exploration well 4539 Totea



Drilling of a total 142 new wells was finalized in 2011. Furthermore, the first deepwater well in the Black Sea (Domino-1) was spud in December 2011 in cooperation with ExxonMobil Exploration and Production Romania Limited.

The workover activities in Petrom were maintained at approximately 1,400 jobs with a highly significant contribution to production in 2011.

The optimization of artificial lift installations has been another focus of Petrom, leading to a strong improvement of operational efficiency. For example, more than 1,000 wells were equipped with pump-off controllers within the well automation project, which is part of the optimization of the artificial lift installations program.

As of July 1, 2011, the former division Exploration and Production Services (E&P Services) was successfully integrated within Exploration and Production division. This step increased the efficiency and realized synergies of the two divisions. The project further optimized processes and transformed the former E&P Services division into a single "one-stop-shop" service center for production operations.

Capital expenditures

The Group's capital expenditures in E&P increased by 17% compared to 2010, to RON

Significant progress of field redevelopment program

Exploration well Totea put in production

3,254 mn. The investments were focused on drilling, workover activity, field redevelopment, water injection facilities, surface facility modernization and the spud of the first deepwater well in December 2011. Petrom E&P Group's exploration expenditure increased by RON 95 mn to RON 436 mn, thereof RON 221 mn were expensed and RON 215 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. In 2011, the average oil and gas production in Kazakhstan increased to 12,000 boe/day (up 20% compared to 2010). Throughout 2011, we continued to develop the **Komsomolskoe** field, focusing on measures to address the start-up difficulties and ramp up production. The functioning of the central processing facility was stabilized after commissioning and three injection wells and one water source well were drilled, in order to prepare the water injection activities for 2012. Average production at the Komsomolskoe field amounted to 6,200 boe/d in 2011.

Location of Petrom fields in Kazakhstan



At the **TOC fields** (Tasbulat, Turkmenoi, Aktas), the transfer of multiphase pumps to the Turkmenoi field contributed to the increase of production. Drilling of four additional producer wells was initiated in November 2011. Average production at the TOC fields amounted to 5,800 boe/d in 2011.

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.

Outlook for 2012

In 2012, we will continue our efforts to stabilize production and to pursue strict cost management measures. The investment program will concentrate on progressing the integrated redevelopment projects of selected key fields, drilling of development wells, well workovers, surface facilities modernization and expanding the water flooding program. After putting in production the exploration well 4539 Totea, we plan to drill two appraisal wells this year, which will provide additional information regarding the field's potential. Based on the results obtained, additional development drillings will be taken into consideration.

Together with ExxonMobil Exploration and Production Romania Limited, in 2012 we will finalize drilling the first deepwater exploration well in the Romanian sector of the Black Sea, located in the Neptun block. Exploration efforts will also be focused on seismic acquisition and generation of high impact prospects.

As part of its strategy, Petrom will actively look to initiate new exploration and production enhancement partnerships in Romania with reputed international players.

In Kazakhstan, we will continue to implement artificial lifting and water injection measures at the Komsomolskoe field, in order to keep the production stable. In the TOC fields, we will drill additional producer wells and pursue the redevelopment plan that is expected to contribute to the increase of production.

We are continuously monitoring the market and appraising opportunities that could be added to our existing portfolio.

Continue efforts to stabilize production

Pursue new exploration and production enhancement partnerships in Romania

**Production and
proved reserves**
Production in 2011

	Oil and NGL		Natural gas		Total
	mn t	mn bbl	mn cm	mn boe	mn boe
Romania	4.08	29.31	5,214	34.10	63.41
Kazakhstan	0.48	3.77	102	0.59	4.36
Petrom Group	4.56	33.08	5,316	34.69	67.77

Proved reserves as of December 31, 2011

	Oil and NGL		Natural gas		Total
	mn t	mn bbl	bcf	mn boe	mn boe
Romania	54.90	394.86	2,112.91	391.28	786.14
Kazakhstan	2.85	22.15	20.90	3.48	25.63
Petrom Group	57.75	417.01	2,133.81	394.76	811.77

Gas and Power (G&P)

In the G&P business, after starting commercial operations of the wind park Dorobantu in October 2011, the focus has remained on the power plant in Brazi, which entered the final stages of the testing process and is anticipated to be available for full commercial operation in 2012. The restructuring of Doljchim activities continues according to plan, 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.

G&P at a glance

	2009	2010	2011
Segment sales (RON mn)	2,969	3,065	3,627
EBIT (RON mn)	71	164	149
Capital expenditure (RON mn)	348	1,211	515
Consolidated gas sales (mn cbm) ¹	4,846	4,917	5,055

¹Consolidated gas sales include internal transfers to other segments.

In 2011, **G&P EBIT** decreased by 9% compared to 2010. The **gas business** was mainly affected by the increased cost of gas supply, due to 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.

G&P investments in 2011, amounting to RON 515 mn, were mainly allocated to the completion of construction works at the two power projects, Brazi power plant and Dorobantu wind park.

Gas

As Romania slowly recovered from the economic downturn of the past two years, gas consumption showed a moderate 3% increase in 2011 compared to the previous year, from 13.8 bcm in 2010 to 14.2 bcm in 2011. This was the effect of the high demand coming from the fertilizer industry as well as from the power-producing sector, which had to compensate the lower energy production from hydroelectric power stations.

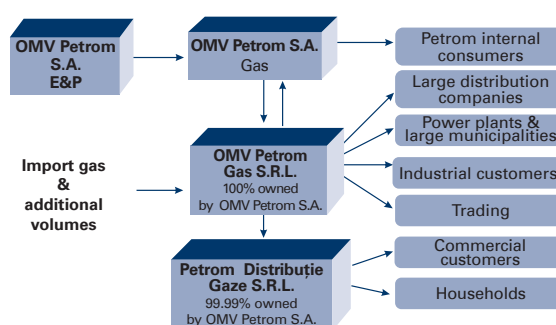
Petrom's consolidated gas sales volumes increased by 3% to 5.1 bcm in 2011 compared to 4.9 bcm in 2010, due to higher sales to industrial customers. This increase was supported by additional domestic gas volumes available for sale as a result of Petrom's higher gas production in Romania, lower injection of domestic volumes into storage, and lower internal consumption due to the final shutdown of the Doljchim

fertilizer plant and the Arpechim refinery.

The gas price for domestic producers recognized by the Romanian Energy Regulatory Authority (ANRE) has remained unchanged at RON 495/1,000 m³ since February 2008 and has not been adjusted even to reflect the inflation since then.

A total volume of 704 mn cbm of natural gas was injected in 2011 by Petrom into storage, compared to 708 mn cbm in 2010. The total volume of natural gas in storage at the end of December was 406 mn cbm.

Business model effective as of 2011



Operational highlights 2011

In January 2011, the ANRE decided to extend the "gas basket" to internal non-technological usage. As such, Petrom must use a quota of imported gas for the power plant Brazi, rather than use its own natural gas production, imposing a substantial financial burden on the

Gas basket enforcement to internal non-technological usage

G&P segment's profitability. New regulations setting up two different "gas baskets" for households, on the one hand, and non-households on the other, were put in place with effect from July 1, 2011. These regulations have temporarily frozen the gas price for households until the end of March 2012, while allowing for the implementation of three consecutive increases in gas prices for non-households (10% in July 2011, 8% in October 2011 and an additional 5% starting January 2012) to accommodate a higher import quota than that applicable for the former "gas basket" and higher import gas prices. Petrom is pursuing all available options in order to contest the legality of these regulatory measures, which contravene the Romanian Gas Law, European legislation and EU internal market principles.

Rehabilitation of Hurezani-Corbu-Bucuresti pipeline together with Transgaz

In September 2011, the rehabilitation of the Hurezani-Corbu-Bucuresti pipeline together with Transgaz (the National Gas Transmission System operator) was finalized. This project was initiated in 2009 due to the gas production increase in the Oltenia area and will ensure the corresponding gas flow and pressure parameters in order to resolve production restrictions.

In October 2011, Petrom successfully finalized the transfer of 111 natural gas metering stations from the E&P division to the business unit (BU) Gas, ensuring full operations, maintenance and administration for this activity. The expertise of BU Gas specialists will contribute to the future modernization project of metering stations and future investments.

Power

On June 21, 2011, Petrom performed the first power deliveries to the grid as part of the **Brazi combined cycle gas fired power plant** hot commissioning phase, which represents the final testing stage before starting commercial operations. The construction of the Brazi power plant was successfully completed by the end of 2011, however final tests were interrupted due to external technical factors. As a consequence, a cleaning operation on some of the power plant's ancillary equipment, the gas supply pipeline and the gas metering station was initiated and is currently in progress.

Cooling tower of the Brazi power plant during testing



The Brazi project is a very important achievement, considering the future role of the power plant within the Romanian electricity market, as well as the fact that it is the first project of such dimensions in Romania during the last 20 years. The benefits of the Brazi power plant range from contributing to Romania's security of energy supply and high investments with multiplying effect in the Romanian economy, to facilitating Romania's achievement of some of the objectives committed to the EU, such as emissions reduction and stimulation of the renewables' share increase in the production mix.

On October 1, 2011, Petrom started commercial operations of the **wind park Dorobantu** (project acquired in early 2010), marking Petrom's entry into the power business. The wind park Dorobantu has an installed capacity of 45 MW and is located in Dobrogea, an area with a high wind potential. The construction of the park began during the second half of 2010 and was finalized in July 2011.

Dorobantu wind park



All necessary tests for turbines commissioning were performed together with Vestas, the turbine supplier. A series of tests were also performed with Transelectrica, the national grid operator, in order to verify the integration of the park in the national power grid.

Petrom received 33,050 green certificates for the 20,848 MWh of power generated by Dorobantu, which were used to cover the regulated quota for the electricity consumption of Petrom Group.

Doljchim

In line with management's decision, the restructuring activities of Doljchim continued according to plan. Further progress was made with the dismantling and decontamination of the plant in compliance with European environmental and safety standards.

Outlook for 2012

As regards the liberalization of gas and electricity prices, we will closely follow the regulatory requirements as outlined by the IMF/EU and the Romanian Government, to be reflected in the implementation of the EU Third Energy Package (unbundling) in Romania. In line with its strategy, Petrom will continue to look for qualified partners to take over Petrom

Distributie Gaze S.R.L to further develop this company. At the same time, we will focus on consolidating our gas market share.

In our Power business, we will pursue a smooth transition from a project-oriented organization to an operational organization, managing a portfolio of production assets. We will continue our efforts to finalize the testing process at the Brazi plant in order to make this strategic project available for commercial operations in the second half of 2012. We will also focus on optimizing the Brazi plant within the existing regulatory framework. At the same time, we will concentrate on ensuring high availability for the Dorobantu wind park in order to maximize production and achieve an efficient operational regime.

In 2012, we aim to complete the restructuring of our chemicals business in Doljchim and, in line with the management's decision, we will prepare the site for alternative use with the aim of successfully converting it into a sustainable alternative for the benefit of the local community. At the same time, we will support local community initiatives through CERC (Community Resource Center), a multi stakeholder forum and through the Business Incubator developed with UNDP (United Nations Development Programme).

Brazi power plant commercial operations anticipated for H2/12

Complete chemicals business restructuring

Refining and Marketing (R&M)

The Refining and Marketing business demonstrated an effective response to the persisting macroeconomic challenges throughout the year. The operating performance improved significantly, capitalizing on optimized asset utilization across the entire downstream chain as well as integration with upstream. 2011 was the first year of operations after the consolidation of all marketing activities in Romania into one legal entity, namely OMV Petrom Marketing, 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 to OMV or Petrom also contributed to network optimization.

R&M at a glance

	2009	2010	2011
Segment sales (RON mn)	12,701	15,176	18,957
EBIT (RON mn)	(618)	106	(187)
Clean CCS EBIT ¹	(675)	(104)	152
Capital expenditure (RON mn) ²	601	758	980
Total refined product sales (kt) ³	6,180	5,472	5,234
thereof Marketing sales volumes (kt) ⁴	4,668	4,157	4,066
thereof: Gasoline	1,204	1,036	949
Diesel	2,267	2,264	2,293
Kerosene/Jet fuel	211	214	222
HFO	460	98	196
Number of filling stations	814	801	793

¹ 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.

² Investments also include increases of Petrom share participations in other companies.

³ Include all products sold by Petrom Group.

⁴ As of 2010, the figure excludes export sales which are included in total refined product sales. Figures for previous periods have been restated.

Clean CCS EBIT in R&M stood at RON 152 mn, driven by strong operational improvements in refining, which more than compensated for the lower marketing result where margins and volumes, especially in the retail sector, were negatively affected by the weak economic environment. The refining result improved considerably due to the added benefit from cost control efficiency, including the impact from the Arpechim refinery closure decision taken in March 2011, and increased utilization of the Petrobrazi refinery. Clean CCS EBIT is stated after eliminating CCS effects of RON 312 mn and net special expenses of RON (651) mn mainly related to the RON 504 mn fine received from the Competition Council (of which RON 367 mn to OMV Petrom S.A. and RON 137 mn to OMV Petrom Marketing S.R.L.), impairment of LPG related assets and expected closure costs following the Supervisory Board's decision to permanently

close the Arpechim refinery. The latter does 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 privatization contract. The Competition Council's decision was issued following an antitrust investigation regarding the withdrawal of the retail product Eco Premium. Petrom strongly believes that the fines imposed are not justified and will challenge the Competition Council's decision in the courts. **Reported EBIT** came in at RON (187) mn, compared to RON 106 mn recorded in 2010.

In 2011, the **indicator refining margin** ⁱⁱ reached its lowest level in recent years, influenced by a steadily increasing crude price, which was not timely reflected in the refined products quotations.

ⁱⁱ 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.

Cost control efficiency and improved operational performance

Middle distillates and gasoline cracks remained volatile throughout the year; however, average spreads for diesel, jet and gasoline were above previous year's levels.

The utilization rate of the Petrobrazî refinery increased significantly throughout the year, averaging 79% on an annual level, nine percentage points higher than in 2010.

Higher utilization rate for Petrobrazî in 2011: 79% vs. 70% in 2010

Crude oil processed (kt) ¹

	2009	2010	2011
Arpechim ²	2,170	749	-
Petrobrazî ³	2,991	3,153	3,567
Total	5,161	3,902	3,567

¹ Including condensate.

² Permanent closure approved by the Supervisory Board in March 2011.

³ Nominal capacity of 4.5 mn t/y.

Production (kt)

	2009	2010	2011
Gasoline	1,518	1,183	1,105
Diesel	1,662	1,178	1,184
Kerosene/Jet fuel	212	204	195
HFO	593	473	394
LPG total	269	220	205
Bitumen	118	42	0
Petroleum coke	177	177	216

Sales

Total marketing sales amounted to 4,066 kt in 2011, 2% lower compared to 2010, due to persisting unfavorable market conditions. Subdued demand in the retail segment burdened the marketing business in 2011 as Petrom Group's **retail sales** decreased by 5% compared to the previous year, reaching 3,170 mn liters. Retail sales in the domestic market reached 2,445 mn liters in 2011, 5% lower compared to last year due to continued pressure on purchasing power and broadly in line with the total retail market.

Group **commercial sales** amounted to 1,538 kt, 3% above 2010, mainly driven by an increase in diesel and bitumen sales compared to 2010. Commercial sales in Romania stood at 969 kt, slightly above previous year's level (2010: 965 kt) and below market increase on the commercial segment of 7%. Compared to 2010, sales to the agriculture sector increased more than threefold

due to the newly implemented concept of AGRI Brand Partners.

Total Romanian market share ⁱⁱⁱ decreased by two percentage points in 2011 to reach 37%, mainly as a result of business optimization and product portfolio revision. We maintained overall market share in our operating region at 30%.

In 2011, total **non-oil business (NOB)** turnover improved compared to last year mainly due to the implementation of a new logistic system. From 2011 onward, one international supplier of logistics services caters to the NOB segment in Bulgaria and Serbia, with the ongoing takeover of retail logistics in Romania.

Maintained overall market share at 30% in our operating region

Operational highlights 2011

Refining

In 2011, we continued our efforts concerning stringent cost management and optimization of the underlying operational performance of the business. In order to strengthen product

ⁱⁱⁱ Market volumes based on Petrom's estimates. Excludes sales to oilcos.

Progress of the Petrobrazî modernization program

yield, we progressed with our investment program at Petrobrazî, with special focus on the modernization of the crude vacuum distillation unit. The site infrastructure upgrade continued as well and we progressed with remediation of the environmental legacy, finalizing remediation of one external waste sludge lagoon.

Petrobrazî modernization program

The modernization program of the Petrobrazî refinery aims to maximize the value of the Group's integrated operations, while its nameplate capacity is streamlined to process 100% domestic crude.

During the year, we advanced with one of the program's key elements, the crude vacuum distillation unit modernization, by awarding the construction contract and completion of the detailed engineering of the unit modernization. When finalized, the Petrobrazî modernization program will lead to an increase of the middle distillates yield and reduce the refinery's energy consumption.

In addition, we put in place at the Petrobrazî 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.

Arpechim closure program

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 regard 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 the Ministry of Economy, Commerce and Business Environment regarding their expressed intention to take over the refinery related assets.

Supply and Logistics

According to the terminal modernization strategy, existing storage facilities are planned to be streamlined and replaced with both new storage units as well as revamped units, upgraded with new facilities. With a modern network of terminals, we will be more efficient and we will supply products to our clients in full

compliance with the Romanian and European industry operational, safety and environmental standards. The new terminals include modern loading and unloading facilities, new tank farms, vapor recovery units, fire fighting systems, station control units and tank management systems.

In 2011, we also started the construction of a new state of the art terminal at Isalnita (approximately 11,000 cbm of capacity) and finalized the modernization of crude unloading logistic facilities.

Marketing

In Marketing, the main focus in 2011 was to maintain our market share in the retail business, given the adverse economic environment and to increase efficiency through integration within downstream activities.

To consolidate our market position, we further pursued our two brand strategy - the international brand, OMV, and the strong Romanian brand, Petrom. We focused on providing best-in-class customer service as well as further diversifying the existing range of services within filling stations functioning under the Service Corner concept, such as payment of telecommunication invoices, facilities to purchase tickets to certain events and provision of insurance services. Furthermore, we upgraded OMV sites in Romania and Bulgaria to the newly developed concept for shops, the VIVA Smart concept.

We continued to optimize our operations in a challenging market environment, with a focus on our business-to-business activities, and we further brought in line our structures and processes within the Group (OMV and Petrom). To bolster our commercial sales, we developed and implemented tailor-made concepts for the agriculture, construction and transportation sectors. We implemented the Agri-Brand Partner concept in Romania, consisting of three partners serving large numbers of local (and widely dispersed) agricultural customers. In addition, we further developed commercial road transport (CRT) card system, driven by strong sales development at EuroTruck CRT filling stations. Due to subdued retail demand, with customer purchasing power remaining under pressure, average fuel sales per filling station in Romania was 5% lower compared to the previous year,

standing at 4.5 mn liters per station (2010: 4.7 mn liters per station). At Group level, the average throughput per station was 4.0 mn liters in 2011, 4% lower than in 2010 (4.1 mn liters per station).

Marketing activity consolidation

2011 was the first full year of operations after the consolidation of all domestic marketing activities in one legal entity, OMV Petrom Marketing S.R.L. Throughout 2011, OMV Petrom Marketing S.R.L. successfully performed the fuel distribution activity of Petrom Group in Romania through a network of 545 filling stations, 386 branded Petrom and 159 OMV.

Affiliated companies

In **Romania**, to optimize our operations, the aviation fuel business was integrated into one

company, as Aviation Petroleum S.R.L. merged into Petrom Aviation S.A., effective December 1, 2011. Following an assessment of the LPG business, we impaired the LPG related assets to reflect worsening market conditions.

In the **Republic of Moldova**, we further optimized the network portfolio of filling stations whilst aligning company activity processes with Group standards. The market share improved as a result of increased customer portfolio and volumes due to the enhanced implementation of the cards system and additional wholesale accounts.

In **Bulgaria**, we consolidated retail non-oil business logistics under one logistic supplier and upgraded the OMV sites to the newly developed shop concept (VIVA Smart).

In **Serbia**, we maintained our market share while adapting to the market liberalization process started in January 2011.

Consolidated aviation fuel business in Romania

Number of filling stations per country

	2009	2010	2011
Romania	546	546	545
Republic of Moldova	113	102	94
Bulgaria	96	94	93
Serbia	59	59	61
Total	814	801	793

Prices

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

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

Investments

In **Refining**, the investments were mainly directed to the rehabilitation and building of storage tanks for crude and oil products and to the revamping of the crude vacuum distillation unit in Petrobraz. In **Marketing**, investments were directed to the VIVA Smart project and reconstruction in Serbia of two flagship filling stations under VIVA Smart standards, as well as opening one new filling station in Bulgaria.

Outlook for 2012

In 2012, we will continue our efforts concerning stringent cost management and optimization of the underlying operational performance of the business. At Petrobraz, we aim to finalize the modernization of the crude vacuum distillation unit by mid-2012, thus improving refinery utilization and product yields and enabling the processing of 100% of Romanian crude production. A six-week planned shutdown is scheduled for the second quarter in order to commission the modernization project. This will adjust Petrobraz processing capacity to 4.2 mn t whilst allowing us to process 100% of domestic crude production and drive incremental improvements from downstream modernization.

We will continue to consolidate our position in the market by further optimizing our retail filling stations network and becoming a comprehensive service provider.

A six-week shutdown scheduled for Petrobraz refinery in Q2/12





Business portfolio diversification through power production

2011 marked our entry into the power business, with commercial operations at the wind park Dorobantu and successfully completed construction of the Brazi gas fired power plant.

Sustainability

Sustainable business practices implementation

Sustainability approach

In 2011, Petrom continued the integration of sustainability aspects into the business development strategy. This section of the Annual Report provides a brief description on how we moved forward on social and environmental topics as well as our performance in these matters for 2011. A more detailed description can be found in the Petrom Sustainability Report 2011 which is available online on our corporate website www.petrom.com.

We implement sustainable business practices by striving to apply industry best practice and act responsibly.

Functional strategies ensure our business moves towards 2015 and beyond in an economically, environmentally and socially balanced way:

- **Health, safety, security, and environment (HSSE):** HSSE is a natural and integrated part of our activities. We apply best industry practices, act responsibly, and are accountable for our actions.
- **Community relations and social affairs:** We manage our business responsibly, live a culture of integrity, and seek to gain and maintain our license to operate.
- **Human resources (HR):** In all our HR activities our aim is to position Petrom as an employer of choice on a truly international level.

In 2011, the functional HSSE strategy was updated for 2016, taking into consideration the increasing expectations of stakeholders, lessons learnt from major accidents in our industry, our present performance and future challenges. In 2012, we want to maintain our position of being the company most involved in Romania in issues of communities and society at large by integrating in all our actions the values of the new OMV Group sustainability strategy – Resourcefulness. Since we operate in a resource intensive industry, Resourcefulness describes the Group's way of achieving profitable growth in a sustainable and responsible way. Through careful and responsible management of our human, natural and financial resources we aim to generate benefits for people and environment while securing long-term business success.

Driving values

Petrom's values - Professionalism, Pioneering and Partnership - represent the basis of our activity and describe our professional behaviour, both as individuals and as a company. These values are continuously communicated to all the company's employees, involving them in various activities in which they can integrate these values. For instance, the Petrom annual competition "the best in us Oilmen" involved more than 800 employees in 2011, thus demonstrating a high level of interest and ability to understand and integrate Petrom's values.

Dialog with stakeholders

In 2011, Petrom organized the third edition of its Stakeholder Forum. The event aimed to stir a debate concerning the Romanian energy industry and the role of Petrom as a key player in the market was attended by representatives of authorities, industry, academic environment, professional associations, Petrom and OMV experts. An important output of the Forum consisted of a special study aimed at highlighting the role of the energy market players in securing economic growth of Romania.

Environmental management

We address issues involving environmental impacts responsibly along the entire value chain, from upstream to downstream, including product quality requirements. The ways in which we can improve energy, water, waste and spill management are high on our agenda. We also put emphasis on continuing the development of a low carbon energy portfolio.

Carbon and energy management

Generally, all measures taken by Petrom to improve energy efficiency contribute directly to the reduction of greenhouse gases, in both the Refining and E&P segments. The Petrobrazi refinery implemented optimization projects and energy efficiency projects, implying 100,000 t CO₂ equivalent savings in 2011 and showing reduction potential of another ~200,000 t CO₂ equivalent by 2015. Petrom E&P achieved reductions of 19,000 t CO₂ equivalent per year in 2011 through modernization programs. Petrom

also pursued the development of low carbon energy projects. To this end, Petrom built a 45 MW wind farm in Dorobantu, which started commercial operation in 2011 and an 860 MW gas-fired power plant in Brazi, with an efficiency of 57%, expected to start commercial operation in the second half of 2012.

Water management

Efficient water management is a key issue in Petrom's operations, especially in E&P and Refining. In 2011, the external sewage system at the Petrobrazî refinery was refurbished while the internal sewage system was revamped to minimize the amount of treated waste water. Project design for revamping the waste water treatment plant was finalized. Petrom E&P – Petromar asset implemented a water management plan which resulted in 9% reduction of fresh water consumption, 4% more than initially planned.

Thanks to our efforts to optimize process and improve water management, overall water consumption reduced by 19%, whilst ground water consumption reduced by 30% compared to 2010.

Waste and spill management

Waste management is a key issue for Petrom. Remediation of Petrobrazî refinery's external sludge lagoons continued and, by the end of 2011, one of the lagoons was completely emptied, the works for the other one have been started, and the waste removed was treated. At Arpechim, works for emptying and treatment of hazardous waste were in progress for three lagoons as at December 31, 2011.

Between 2010 and 2011, roughly 4,000 t of hazardous waste from the two triazine storage basins and 500 t from the acrylonitrile storage site were removed at the Arpechim facility. Site remediation and waste management operations were finalized in 2011, with total costs of approximately EUR 1 mn.

The E&P division is in the process of cleaning 44 sludge pits containing about 600,000 m³ of sludge, out of which 42 were already completed. Four bio-remediation plants and two landfills were built in 2011, as part of the E&P program to create the waste infrastructure needed for the clean-up of contaminated soil, as

well as for the abandonment of around 26,000 oil wells and 1,100 production facilities.

Due to remediation and demolishing projects, the total amount of waste increased by 40%.

As spills are of major concern, Petrom continuously focuses on reducing them. In 2011, upgrades were performed to reduce leakages at gathering stations, metering points and processing parks in the E&P business. Replacement of old and obsolete oil and gas gathering facilities with new production manifolds was finalized. Petrom is also in the process of constructing and re-lining its priority oil and gas pipelines to restore system integrity. In 2011, Petrom replaced and modernized around 220 km of pipelines.

Employees

Continuing our efforts in acknowledging employees' views, we reinitiated the HCM (Have your say, Commit to change, Make things better) survey, which represents a platform for employees to make an active contribution toward shaping their own work environment by assessing and strengthening key dimensions of human cooperation. In 2011, this survey targeted 18,000 Petrom employees. The rate of response achieved was 68% and the overall engagement index was 90%, which is a very promising result. The engagement index quantifies the employees engagement, showing how motivated, enabled and energized are in delivering their best performance.

Health and safety management

In 2011, all workplaces throughout Petrom were assessed using a standardized approach. Every health hazard was identified, its risk to our employees' health was evaluated and appropriate control and recovery measures were determined.

For emergency preparedness, 130 medical emergency exercises as well as internal and external emergency resilience groups were conducted in many Petrom operations in Romania.

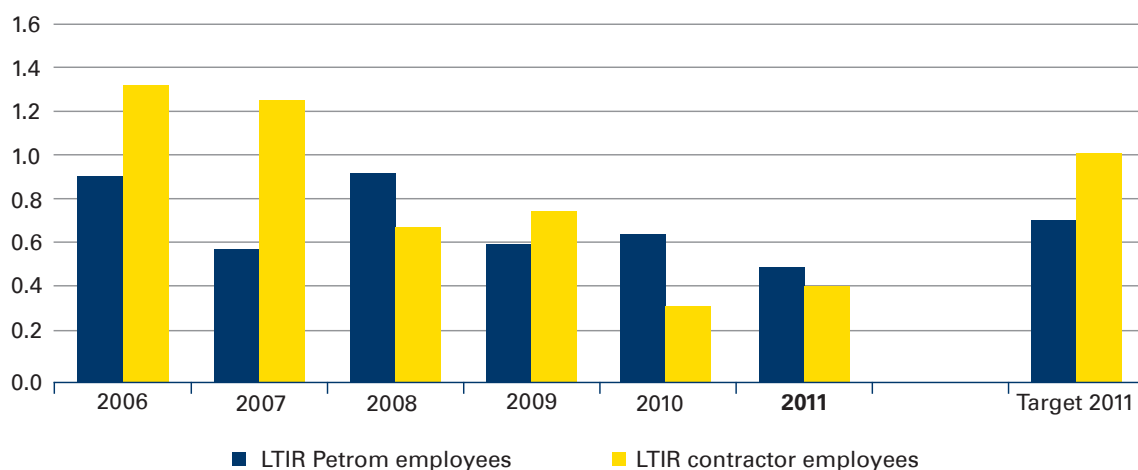
HSSE training courses and a maturing reporting culture are considered key factors in further improving safety performance. Proactive behaviour regarding the reporting of findings, hazards and near misses helped us create a

Improved LTIR vs. 2010

safe work environment for our employees and contractors which is further reflected in the LTIR (Lost Time Injury Rate). In 2011, Petrom achieved zero fatalities of its own employees and the LTIR for employees was 0.47 injuries per million hours worked, compared to 0.64 in 2010. Regrettably, we still had one work-related

contractor fatality in the E&P activity in 2011, so we strive to continue implementing rigorous safety practices. The LTIR for contractors was 0.39 injuries per million hours worked compared to 0.32 injuries per million hours worked in 2010.

Petrom Group LTIR ¹



¹ LTIR = average injury frequency with one or more lost workday related to the working time performed.

Despite the decrease in total injuries and frequency rates in 2011, total days lost because of injuries have risen throughout this period. The severity rate (LTIS) for own employees of 28.09 and for contractors 13.22 days per million hours worked increased compared to the previous year (2010: – 24.79, respectively 10.76 days per million hours worked).

A best-practice, patented training program entitled “Stepping, Lifting and Manual Handling. Working at heights” was provided to more than 6,400 E&P employees. Initial results indicate that the number of incidents decreased in the months following training sessions. As contractors perform an increasing amount of work on behalf of Petrom, the “Road Transportation Contractor Safety’s Forum” was organized in 2011. The event brought together representatives of Petrom and its contractors in the road transportation services.

Approximately 80 people participated in the discussions opened with speeches by board members, who underlined the importance of road transportation safety as well as Petrom’s serious approach toward this matter. Petrom continued its road safety initiatives in 2011 by organizing special driving skills exercises. Thus, 2,463 drivers underwent a two-day driving skills course on light vehicles that emphasized road safety and 1,602 E&P employees were trained on heavy vehicles.

Security and resilience

In 2011, we recorded a 70% increase in the number of reported security incidents, compared to 2010, mainly due to an awareness campaign on security by intensive internal communication on this matter and by organizing more than 13 road shows on theft prevention, according to our zero tolerance regarding theft policy.

Human rights

Human rights are considered an essential element of the sustainable development efforts of Petrom. Through its Human Rights Policy and Human Rights Matrix, our management expresses its involvement and commitment to a comprehensive approach of human rights. An e-learning tool covering human rights issues was created in 2011 and is available on the Intranet for all Petrom employees, representing a useful method in acquiring knowledge in this area.

Business ethics

Gaining and maintaining trust in the communities where we operate is based on honesty and integrity. As a distinct element reflecting a qualitative change in the business ethics approach, we launched our "zero tolerance for bribery and corruption" policy. In order to raise awareness on this subject, we continued the ethics training program for more than 800 employees in 2011.

From an operational perspective, in 2011 we made the Electronic Register available as an additional tool which enables consistent reporting of received gifts received in a corporate context.

Community involvement

In 2011, Petrom allocated about EUR 4.2 mn for programs supporting the sustainable development of the communities where the company operates and addressing strategic areas concerning Romanian society at large (environment, education and healthcare). This constant involvement positioned the company as a leader in social involvement among the Romanian business community.

Over ten mn Romanians were exposed to messages promoted by Petrom's largest community involvement platform – Andrei's Country. About 230,000 people accessed Andrei's Country website and learnt about civic involvement, environmental friendly behaviour and community development. Over 1,100 citizens developed their project management skills by submitting community projects on the platform. Petrom was nominated by Romanian blogging community as the most involved company in community issues, thanks to Andrei's Country.

In 2011, Andrei's Country also stood for over 100,000 trees planted in seven counties across Romania in communities facing landslides or deforestation, more than 9,500 pupils that became young leaders by designing projects for their communities in Andrei's School, EUR 115,000 allocated by Petrom for the implementation of 23 local community projects and about 3,000 volunteers involved across Romania.

In the same time, 9.5 mn citizens across Romania benefit from quality emergency services through the expansion of tele-medicine emergency network in 56 local hospitals in 19 counties, through Petrom program "Access to life".

To support education, Petrom also focused on providing basic learning conditions for about 6,000 students and teachers in the rural areas where the company operates by refurbishing 20 learning units.

Over 2,500 Petrom employees actively engaged in community programs either by volunteering for local non-governmental organizations where the company performs its activity, being Santa Claus for children with poor social status, taking part in planting activities or by redirecting 2% of their income tax to support Romanian civil society.

**EUR 4.2 mn
allocated for
programs
supporting the
sustainable
development of
the communities**

Sustainability indicators

	2010	2011
Financial and operating		
Total hydrocarbons produced (thousand boe per day)	184	186
Total refining input (mn t)	4.15	3.79
Chemicals sales (kt)	109	1
Sales revenues (RON mn)	18,616	22,614
Contributions of OMV Petrom S.A. and its major subsidiaries to the Romanian State budget (RON mn)	7,607	8,381
Dividends paid to shareholders for previous financial year (RON mn)	0	1,003
Wages and salaries (RON mn)	1,836	1,800
Safety ¹		
Fatalities - employees	3	0
Lost workday injury (LWDI) - employees	29	19
Fatality rate (FAR) - employees	6.01	0
Lost time injury rate (LTIR) - employees	0.64	0.47
Lost time injury severity (LTIS) - employees	24.79	28.09
Total reportable injuries rate (TRIR) - employees	0.90	0.74
Fatal commuting accident - employees	0	0
Commuting accident with lost working days - employees	2	5
Fatalities - contractor employees	0	1
Lost workday injury (LWDI) - contractor employees	16	21
Fatality rate (FAR) - contractor employees	0.00	1.73
Lost time injury rate (LTIR) - contractor employees	0.32	0.39
Lost time injury severity (LTIS) - contractor employees	10.76	13.22
Total reportable injuries rate (TRIR) - contractor employees	0.55	0.59
Fatal commuting accident - contractor employees	0	1
Commuting accident with lost working days - contractor employees	2	1
Environment ¹		
Energy consumption (PJ)	50.6	45.44
Water consumption (mn cbm)	39.94	32.51
Groundwater consumption (mn cbm)	16.07	11.29
GHG (direct, scope 1) (mn t equivalent CO ₂)	4.73	4.28
CO ₂ (mn t)	3.15	2.75
CH ₄ (t)	73,299	70,837
SO ₂ (t)	2,409.5	2,196.9
NO ₂ (t)	140.4	129.5
NO _x (t)	9,338.6	7,459.1
Non-methane-volatile organic compounds (NM-VOC) (t)	3,639.1	2,739.6
Particulate emissions (t)	368.9	343.4
Waste water emissions		
Chemical oxygen demand (COD) (t)	1,256	822
Hydrocarbons (t)	39.62	34.24
Total nitrogen (t)	134.4	57.0
Spills	2,205	1,961

¹ Safety and environment related indicators are audited by Ernst & Young and exclude Kazakhstan.

	2010	2011
Waste		
Non-hazardous production waste (t)	213,336.9	287,694.2
Hazardous production waste (t)	172,118.5	263,861.4
Total production waste (t)	385,455.4	551,555.6
Employees ²		
Employees as of December 31	24,662	22,912
Employees in leadership	1,428	1,310
Women in leadership (%)	30	28
People from beyond Romania in leadership (%)	13	6.7
Dismissals for non-compliance and unethical behavior	20	31
Contribution to communities (RON mn)	18.14	17.80

² Employees are defined as individuals who have a contract of employment with Petrom Group (excluding expatriates).





Tapping full efficiency potential and maximizing integration value of our business model

Good progress in restructuring and optimizing our operations, particularly in the refining business, where we improved underlying operational performance.

Report of the Supervisory Board

Transparency and accountability towards shareholders

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 subsidiaries consolidated within Petrom Group. A detailed structure of the consolidated companies in Petrom Group at December 31, 2011 is presented under the corresponding section 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 the activity during 2011. 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, which has been substantially upgraded and 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 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 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 manages 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 shareholders meeting; (iv) to present a report regarding its supervision activity at least once a year to the general shareholders meeting; (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 25, 2011 the Supervisory Board consisted of the following members: Wolfgang Rutenstorfer (President of the Supervisory Board), Gerhard Roiss (Deputy President of the Supervisory Board), David Charles Davies, Jacobus Gerardus Huijskes, Werner Auli, Marian Turlea, Gheorghe Ionescu, Joseph Bernard Mark Mobius and Riccardo Puliti.

Due to Wolfgang Rutenstorfer's waiver of the mandate as President and member of the Supervisory Board, Gerhard Roiss, former Deputy President of the Supervisory Board, was appointed as President of the Supervisory Board starting March 25, 2011. Consequently, David Charles Davies took over the position of Deputy President of the Supervisory Board.

Likewise, considering that Wolfgang Rutenstorfer's seat became vacant, Manfred Leitner was appointed as interim member of the Supervisory Board starting on March 25, 2011 until the Ordinary General Shareholders Meeting held on April 26, 2011. Manfred Leitner was appointed as member of the Supervisory Board by the Ordinary General Shareholders Meeting held on April 26, 2011.

Likewise, following the Ministry of Economy, Trade and Business Environment's proposal, Marian Turlea was replaced by Constantin Dascalu as member of the Supervisory Board, by the Ordinary General Shareholders Meeting held on April 26, 2011.

Starting March 23, 2012, Hans-Peter Floren was appointed as interim member of the Petrom Supervisory Board, until the Company's next Ordinary General Meeting of Shareholders. 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).

The Supervisory Board would once again like to thank Wolfgang Rutenstorfer, Marian Turlea and Werner Auli for their constructive work and commitment towards the Company during their 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.

Starting January 1, 2011, by decision of the Supervisory Board, two new members of the Executive Board were appointed, as follows:

Daniel Turnheim (Executive Board member and Chief Financial Officer) and Hilmar Kroat-Reder (Executive Board member in charge of Gas, Power and Chemicals activity). The two new members of the Executive Board succeed Reinhard Pichler and Gerald Kappes.

Until April 17, 2011, the Executive Board of the Company comprised seven members, as follows:

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), Hilmar Kroat-Reder (Executive Board member in charge of Gas, Power and Chemicals), Siegfried Gugu (Executive Board member in charge of Exploration and Production Services), Rainer Schlang (Executive Board member in charge of Marketing).

As of April 17, 2011, following the integration of the Exploration and Production Services (E&P Services) business division into Exploration and Production (E&P), the responsibilities of the Executive Board member in charge of E&P Services were taken over by the Executive Board member in charge of E&P, Johann Pleininger.

Likewise, as of April 17, 2011, following the consolidation of Petrom Group's marketing activities in OMV Petrom Marketing S.R.L., the responsibilities of the Executive Board member in charge of Marketing were taken over by the Executive Board member in charge of Refining, Neil Anthony Morgan.

Consequently, starting April 17, 2011, by resolution of the Supervisory Board, the Executive Board consists of five members, appointed for a four-year period, as follows: 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

**Five members
in the Executive
Board starting
April 2011**

Board member in charge of Refining and Marketing), Hilmar Kroat-Reder (Executive Board member in charge of Gas, Power and Chemicals).

The Supervisory Board would once again like to thank Siegfried Gugu and Rainer Schlang for their successful work and commitment to the Company during their mandate, thus significantly contributing to the Company's great achievements.

Supervisory Board's activity during 2011

In 2011, 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 five 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 two occasions. Almost all members of the Supervisory Board attended more than half of the meetings of the Supervisory Board in 2011, while Werner Auli attended twice and was duly represented on three occasions. The average participation rate was over 80%.

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 good 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.

March 24 Supervisory Board meeting

During the Supervisory Board meeting of March 24, we thoroughly discussed the 2010 annual and consolidated financial statements as well as the respective management reports. The 2010 annual and 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 Company. Given the promising results achieved in 2010 and the good gearing ratio, another topic on which we focused during the meeting was the distribution of dividends, where we embraced and approved the management proposal to distribute the amount of RON 1,003 mn as dividends.

We took notice on March 24 of Wolfgang Rutenstorfer's waiver of his mandate as President and member of the Supervisory Board and in full compliance with applicable regulations, voted in Gerhard Roiss as President of the Supervisory Board, David Davies as Deputy President and Manfred Leitner as interim member of the Supervisory Board until the next GMS.

During the same meeting, in the context of the challenging international and Romanian fuel and refining markets and after reviewing the negative performance of the Arpechim refinery, we decided to permanently close this refinery. Last but not least, on March 24 our attention was focused on the exploration and production business segment, where we endorsed the management proposal and approved the drilling, in joint-venture with ExxonMobil, of the Domino prospect at the Neptun Block in the Romanian deepwater area of the Black Sea, subject to the extension of the exploration licenses by the

SB members' average participation rate above 80%

competent governmental authority. Concerning the said business segment, in order to maximize the value creation chain and capitalize on synergies, we also approved the integration of the Exploration and Production Services business division into the Exploration and Production division.

April 26 Supervisory Board meeting

During the regular meeting of April 26, we discussed and reviewed the issues raised during the GMS held on the same date and received reports on the business developments occurred since the last meeting, with an emphasis on hydrocarbon production.

June 17 Supervisory Board meeting

At our meeting of June 17, we received reports and were consulted by the Executive Board on market and business developments that occurred since the previous meeting in the context of the constantly changing regulatory framework. Furthermore, we also analyzed and discussed the Company's investments in the Kultuk field in Kazakhstan.

September 20 Supervisory Board meeting

At its meeting on September 20, the Supervisory Board, besides the reports received from the Executive Board with regard to the day-to-day activities of the Company, also dealt with issues regarding the financing capability of the Company. In this context, we discussed and approved the refinancing of the existing revolving credit facilities at the time and the conclusion of a new and larger revolving credit facility with a syndicate of banks.

November 24 Supervisory Board meeting

At the regular meeting of November 24, the Supervisory Board took notice of the conclusion of the new revolving credit facility approved in the previous meeting and focused its attention on the Company's hedging measures and risk management. We also discussed regular business developments with an emphasis on hydrocarbon exploration activity, where we saluted the positive results of the Totea Deep discovery, and agreed with the continuation of the project of preparing former Doljchim for alternative use. During the same plenary meeting, given

Gerhard Roiss's new quality of President of the Supervisory Board, we decided to appoint Manfred Leitner as member of the Audit Committee on the vacant seat of Gerhard Roiss in the said committee.

At the very end of the year, via a circular motion, given Werner Auli's waiver of his mandate as member of the Supervisory Board, we appointed Gerald Kappes as interim replacement member of the Supervisory Board

We thank shareholders for their confidence in Petrom. The Company continued its successful path of development in 2011 through difficulties caused by the external 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 2011 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.

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. The four members of the Audit Committee are: David C. Davies, Gerhard Roiss, Gheorghe Ionescu and Riccardo Puliti. As of November 24, 2011 Manfred Leitner replaced Gerhard Roiss in the Audit Committee.

In 2011, 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 2012. 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's independent auditor in 2011, after their appointment by the GMS held in April 2011. A motion for the reappointment of Ernst & Young as Petrom's auditor will be submitted to the next Ordinary General Meeting of Shareholders.

Annual financial statements

Ernst & Young audited the 2011 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 27, 2012.

Financial reporting in compliance with international standards

Petrom prepares Group consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) - presented within this report. In line with local requirements, Petrom also prepares standalone financial

statements in accordance with the Romanian Accounting Standards (RAS). Starting in 2010, Petrom reports consolidated financial statements prepared according to the IFRS to the capital markets on a quarterly basis. This provides for a high degree of transparency and facilitates comparability with our international peers.

Dividend

The Supervisory Board has accepted the Executive Board's proposal to the General Meeting of Shareholders to pay a dividend of RON 0.031 per share, corresponding to a payout ratio of 47% of the net profit recorded in 2011. The proposal is subject to the approval of the forthcoming General Meeting of Shareholders on April 27, 2012.

Corporate governance

The Supervisory Board also approved the Directors' Report which includes the Corporate Governance Report. Starting in 2010, 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.

Bucharest, March 23, 2012



Gerhard Roiss
President of the Supervisory Board

**Ernst & Young
selected as new
auditor in 2011**

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)
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 totalled 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's 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 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 to 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 employed (ROACE) ^{iv} 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.

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

ROACE significantly improved to 17.3% from 10.7% in 2010

Extended financing maturity

^{iv} For definitions of these ratios please refer to page 90, section "Abbreviations and definitions".

Proposed dividend of RON 0.031 per share for 2011; 47% payout ratio

forthcoming General Meeting of Shareholders on April 27, 2012, the payment of a dividend of RON 0.031 per share, corresponding to a payout ratio of 47% of the net profit.

Stabilized production volumes in Romania

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 to 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.

RRR maintained at 70% in Romania for the fourth consecutive year

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 logistic 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 Petrobrazî 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 the management and the project team of Petrom were fully committed to meet the deadlines and requirements set by the consortium appointed by the 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 SPO in 2012, the Petrom's management and project team commit their due support for the success of the transaction, while drawing lessons from the 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 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 Corporate Governance Code (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 Corporate Governance Code and the Corporate Governance Code Guidelines.

**Adherence to
BSE Corporate
Governance Code
principles**

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"

**E&P reported
EBIT 74% up yoy**

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 totalling 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 the 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.

**G&P reported
EBIT 9% lower
yoy**

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's 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 privatization 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 Petrobrazzi 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

Consolidated sales revenues up 21% yoy

Provision for the fine received from the Romanian Competition Council

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.

CAPEX amounted to RON 4.8 bn

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, workover 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 October 1, 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).

Reconciliation of total CAPEX to additions according to non-current assets statement

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

Total assets of RON 36.5 bn

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

Gearing ratio stood at 9.3% at year-end

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 the 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**^v 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**^{vi} 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

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

^{vi} Gearing ratio is calculated as net debt/(equity) x 100.

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 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 totalled 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).

Net cash outflow from investment activities of RON 5.1 bn

Risk management and internal control ^{vii}

Secure positive economic value added

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 facilitate and coordinate 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 and financial, operational and strategic) in order to minimize their effects on company's cash flow up to an acceptable level

^{vii} Information required by Ministry of Finance Ordinance no. 3055/2009 under Chapter II, Section 10.

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 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.

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 three 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

Crude price swaps to protect cash flow for 2012

**Audit Committee
authorized to
review Internal
Control**

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.

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 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.'s 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 the 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 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 corporate IFRS Accounting Manual is also regulated by an internal Corporate Guideline.

**High quality
financial
reporting process
set up**

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 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 the 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.

Provision booked in 2008 for litigations on CLA was not increased

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 either in 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 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, 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 no. 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. The 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 five years

To the best of our knowledge, at the time of drafting this report, 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.

No litigations or administrative procedures against EB/SB members with significant impact

Subsequent events

Potentially significant gas discovery in deep offshore Black Sea

Changes in the Supervisory Board

Starting January 1, 2012, Gerald Kappes was appointed as interim member of the Petrom Supervisory Board, following Werner Auli's waiver of the mandate. On March 23, 2012, Gerald Kappes was replaced by Hans-Peter Floren as interim member of the Petrom Supervisory Board, with effect until the next GMS. Hans-Peter Floren is a member of the OMV Executive Board, responsible for Gas and Power, starting March 2012.

Exploration drilling in the Neptun block

On January 9, 2012, 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 (EEPRL), an affiliate of Exxon Mobil Corporation. On February 22, 2012, Petrom confirmed a potentially significant gas discovery in Domino-1. The exploration well encountered 70.7 m of net gas pay, resulting in a preliminary estimate for the accumulation ranging from 1.5 to 3 trillion cf (42 to 84 bcm). Still, it is too early in the data

evaluation and exploration process to determine whether the Neptun block will ultimately prove to be commercially viable or not.

Completion of the Brazi power plant construction

On January 17, 2012, 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. Petrom undertakes all efforts to resume the final tests within the shortest possible timeframe.

Investigation by the Bulgarian Commission for Protection of Competition

On March 16, 2012, OMV Bulgaria OOD, a 99.9% subsidiary of OMV Petrom S.A., was notified upon infringement of the competition rules by the Bulgarian Commission for Protection of Competition. OMV Bulgaria OOD has been provided 30 days to provide written arguments and evidence. At the date of these financial statements, we are not able to evaluate the outcome of this investigation and we did not record any provision.

Outlook for 2012

Crude price to remain above USD 100/bbl

We expect the average oil price for 2012 to be above USD 100/bbl and the Brent-Urals spread to remain tight.

The continuation of reforms, a key to maintaining economic growth

According to official statistical data, the outlook for Romania's GDP envisages a 1.5% growth in 2012 but there is a considerable uncertainty surrounding this figure. External demand is expected to continue to play an important role in the revival of the economy. This, in turn, will depend to a large extent on economic and financial developments in the euro area. The continuation of domestic structural reforms should increase the economy's ability to respond better to economic shocks.

Sizeable investments and dividend

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 2012 being above EUR 1 bn. Furthermore, based on the strong results and financial position, the management will propose at the GMS on April 27, an annual dividend of RON 0.031 per share for 2011, corresponding to a payout ratio of 47%. The Company's investment budget and dividend allocation are subject to further approval by the GMS, on April 27, 2012. To protect the company's cash flow in 2012 and support this year's investment program, Petrom entered into new oil price swaps in 2011, locking in a Brent price of approximately USD 101.0/bbl for a production volume of 30,000 bbl/d for 2012.

E&P focus: further stabilize production volumes and unlock potential

In **E&P**, our main objective is to further stabilize production volumes and unlock the E&P potential, mainly through field redevelopment projects, production optimization and exploration. Moreover, our focus will be on continued strict cost management and further streamlining the organization.

In Romania, optimization of oil and gas production will be achieved by applying the latest technologies as well as through partnerships with other operators in selected fields. We will further

progress the redevelopment of our key oil fields, mainly focusing on water and steam injection. By setting up additional gas field redevelopment projects, we will continue to optimize the gas production systems and modernize facilities and equipment in selected major fields.

Concerning exploration, our aim is to unlock the deep onshore and deepwater offshore exploration potential. Together with ExxonMobil Exploration and Production Romania Limited, we will finalize drilling the first deepwater exploration well in the Romanian sector of the Black Sea, located in the Neptun block.

Furthermore, in 2012 we pursue the appraisal of the Totea field, which might confirm the most important onshore gas discovery in Romania in the past six years.

In Kazakhstan, we focus our efforts on the Komsomolskoe field through artificial lift installation, water injection and drilling additional producer wells. Furthermore, we will pursue a field redevelopment plan in the TOC fields (Tasbulat, Turkmenoi, Aktas).

G&P: start of the Brazi power plant commercial operations anticipated for H2/12

In **G&P**, we maintain an increased focus on the Brazi power plant where full commercial operation is now anticipated for the second half of 2012. The start-up of the gas-fired power plant in Brazi and the already active wind farm in Dorobantu will mark 2012 as Petrom's first operational year in the power business. Further to recent changes in gas legislation, the Brazi power plant must be supplied with "basket gas". As such, Petrom must use a quota of imported gas for the power plant rather than use its own natural gas production, imposing a substantial financial burden on the G&P segment's profitability. As regards the liberalization of gas and electricity prices, we will closely follow the regulatory requirements as outlined by the IMF/EU and the Romanian Government, to be reflected in the implementation of the EU Third Energy Package (unbundling) in Romania.

R&M to pursue operational optimization and the Petrobrazii modernization

In **R&M**, we will continue our efforts concerning stringent cost management and optimization of the underlying operational performance of the

Progress redevelopment of key oil fields with focus on water and steam injection

Full commercial operation of Brazi power plant anticipated for H2/12

Margins expected to remain under pressure

business. Refining margins, while expected to improve from the lows in 2011 due to capacity reductions, will remain under pressure. Marketing margins and volumes are also anticipated to be challenged by high crude prices and the weak economic environment in our operating region. At Petrobrazi, we aim to finalize the modernization of the crude vacuum

distillation unit by mid-2012, thus improving refinery utilization and product yields and enabling the processing of 100% of Romanian crude production. A six-week planned shutdown is scheduled for the second quarter in order to commission the modernization project.

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 - 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 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 National Securities Commission in accordance with capital markets regulations. The convening notice will also be made available on the Company's website under the respective General Meeting of the Shareholders menu, 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 fulfillment 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 under the respective General Meeting of the Shareholders menu.

Commitment to good corporate governance

**GMS
main duties****General Meeting of the Shareholders main duties**

The main duties of the Ordinary GMS are the following:

- ▶ 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;
- ▶ to distribute the profit and to establish the dividends;
- ▶ 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.
- ▶ to establish the remuneration of the members of the Supervisory Board and of the financial auditor for the current fiscal year;
- ▶ to assess the activity of the members of the Executive Board and of the members of the Supervisory Board, to evaluate their performance and to discharge them of their liability in accordance with the provisions of law;
- ▶ to approve the income and expenditure budget, as well as the business programme for the next fiscal year;
- ▶ 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:

- ▶ changing the corporate form of the Company;
- ▶ altering the scope of business of the Company;
- ▶ increasing the share capital of the Company;
- ▶ reducing the share capital of the Company;
- ▶ merging with other companies;
- ▶ spin-offs from the Company;
- ▶ an early dissolution of the Company;
- ▶ converting shares from one class into another;
- ▶ any changes to the Articles of Association.

Supervisory Board

The Supervisory Board (SB) 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

The membership of the Supervisory Board, as appointed by the Ordinary General Meeting of Shareholders in April 2011, was the following:

SB members

Name	Age (years)	Position	Other information
Gerhard Roiss	60	President First elected at the GMS held on January 11, 2005.	Economics studies in Vienna, Linz and Stanford, USA. Started to work at OMV in 1990. CEO and Chairman of the OMV Executive Board.
David Davies	57	Deputy-President First elected at the GMS held on January 11, 2005.	Graduated Liverpool University. Since April 1, 2002, he is member of the Executive Board and Chief Financial Officer of OMV.
Jacobus Gerardus Huijskes	47	Member First elected at the GMS held on August 3, 2010.	Studied mechanical engineering at Delft University of Technology in the Netherlands and started to work at OMV in 2010. Member of the OMV Executive Board, responsible for Exploration and Production.

				SB members
Name	Age (years)	Position	Other information	
Manfred Leitner	52	Member First elected at the GMS held on April 26, 2011. Manfred Leitner replaced Wolfgang Ruttenstorfer as member of the Petrom SB.	Studied commerce at the Vienna University of Economics and Business and began his career with OMV in 1985 in the Exploration and Production division. Member of the OMV Executive Board, responsible for Refining and Marketing.	
Werner Auli	52	Member First elected at the GMS held on April 25, 2006.	Graduated Technical University of Vienna and he is a Doctor of Technical Sciences. He started working for OMV in 1987. Member of the Petrom SB until end of 2011. Starting January 1, 2012, Werner Auli was replaced by Gerald Kappes who was appointed as interim member of the Petrom SB. On March 23, 2012, Gerald Kappes was replaced by Hans-Peter Floren as interim member of the Petrom SB, with effect until the next GMS. Hans-Peter Floren is a member of the OMV Executive Board, responsible for Gas and Power, starting March 2012.	
Riccardo Puliti	50	Member Appointed following the EBRD's proposal. First elected at the GMS on April 28, 2009.	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. Business Group Director in charge of the energy and natural resources sectors within the EBRD.	
Constantin Dascalu	39	Member Appointed following the MECMA's proposal. First elected at the GMS on April 26, 2011.	Graduated from the Babes-Bolyai University of Cluj-Napoca, Faculty of Economic Sciences and from the Bogdan Voda University of Cluj-Napoca, Management Faculty. Personal Counselor to the Minister of Economy, Trade and Business Environment.	
Gheorghe Ionescu	59	Member Appointed following the MECMA's proposal. First elected at the GMS on April 28, 2009.	Graduated the Polytechnic Institute of Pitești, Department of Mechanical Engineering, and the Academy of Economic Studies. He holds a master degree in financial and economic administration granted by the Conservatoire National d'Art et Metiers of Paris.	
Joseph Bernard Mark Mobius	76	Member Appointed following the Property Fund's proposal. First elected at the GMS on April 29, 2010.	He earned Bachelors and Masters degrees from the Boston University, and a PhD in economics and political science from the Massachusetts Institute of Technology. Executive Chairman, Templeton Asset Management Ltd.	

During 2011, the Supervisory Board had two other members. Until March 25, 2011, when he waived his mandate, Wolfgang Rutenstorfer was President of the Supervisory Board. Likewise, until April 26, 2011, Marian Turlea was member of the Supervisory Board.

SB main powers

Supervisory Board main powers

The Supervisory Board has the following main powers:

- ▶ to exercise control over the management of the Company by the Executive Board;
- ▶ to determine the structure and the number of positions in the Executive Board; to appoint and revoke the members of the Executive Board;
- ▶ to create an audit committee and other specialized committees, if appropriate;
- ▶ 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;
- ▶ to submit to the General Meeting of Shareholders a report concerning the supervision activity undertaken;
- ▶ to represent the Company in relation to the Executive Board;
- ▶ to verify the Company's financial statements;
- ▶ to verify the report of the members of the Executive Board;
- ▶ 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 of the 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 2011 financial year, the Supervisory Board met seven times (more details are presented within the report of the Supervisory Board).

Special Committees

The Supervisory Board may assign limited issues to certain of its members, acting individually or as part of special committees,

and may also resort 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 line with Company Law, the Audit Committee includes members that have the necessary expertise in the area of financial audit and accounting.

During the 2011 financial year, the Audit Committee members were: David C. Davies, Gerhard Roiss, Gheorghe Ionescu and Riccardo Puliti. As of November 24, 2011, Manfred Leitner replaced Gerhard Roiss as member of the Audit Committee.

During the 2011 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 “CEO” 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

Following the reduction in the number of the

Executive Board members from seven to five due to business integration reasons, at December 31, 2011 the Executive Board had five members.

Until April 17, 2011, the Executive Board had two additional members, namely Siegfried Gugu (Executive Board member in charge with Exploration and Production Services) and Rainer Schlang (Executive Board member in charge with Marketing).

On April 17, 2011 the Supervisory Board granted a new four-year mandate to the Executive Board whose membership is presented below.

Name	Age (years)	Position	Other information
Mariana Gheorghe	56	President of the EB and Chief Executive Officer of the Company. She has been a member of the corporate bodies of the Company since 2006.	She began her career in 1979, holding various positions in two Romanian companies, Policolor and Chimica / Romferchim until 1991. Between 1991 and 1993, she was Deputy General Director of the International Finance Department of Romanian 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, the last being of Senior Banker. After Petrom’s privatization in 2004 and following 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.
Daniel Turnheim	37	EB member and Chief Financial Officer of the Company. He has been a member of the EB of the Company since January 1, 2011, when he replaced Reinhard Pichler.	He joined OMV Group in 2002 and held several positions including Head of Controlling with OMV UK. In 2007, Daniel Turnheim became Head of OMV Corporate Controlling. Between 2009 and 2010 he was a member of the Petrol Ofisi’s Board of Directors.
Johann Pleininger	50	EB member in charge with Exploration and Production. He has been a member of the EB of the Company since 2007.	Johann Pleininger’s positions in OMV ranged from field operator to shift foreman and then to production supervisor, Facility and Cost Engineer, Project Manager and Head of the Investments Department.
Neil Anthony Morgan	52	EB member in charge with Refining and Marketing. He has been a member of the EB of the Company since 2008.	His experience accounts over 20 years in the refining and petrochemicals business progressing through several promotions varying from Chief Engineer Process Control and Information Technology to Technical Services Manager and Operations Manager and Chief Process Engineer.
Hilmar Kroat-Reder	41	EB member in charge with Gas and Power (including Chemicals). He has been a member of the EB of the Company since January 1, 2011, when he replaced Gerald Kappes.	Before joining OMV in 2002, he was partner in an international law firm. In OMV, he held various positions: Head of Corporate Development and M&A/Legal, Vice President of the CEO’s Office, Senior Vice President at Corporate Affairs and Sustainability.

EB members

During 2011, 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:

- ▶ to establish the strategy and the policies regarding the development of the Company, including the organizational structure of the Company and the operational divisions;
- ▶ to annually submit for the approval of the General Meeting of Shareholders, within four months of the end of the fiscal year, the report regarding the business activity of the Company, the financial statements for the previous year, as well as the business activity project and the budget project of the Company for the current year;
- ▶ 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;
- ▶ to hire and to dismiss, to establish the duties and responsibilities of the Company's personnel, in line with the Company's overall personnel policy;
- ▶ 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.
- ▶ to exercise any competence delegated by the Extraordinary General Meeting of Shareholders, including the share capital increase competence as set forth by the Articles of Association.

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 Valorilor Mobiliare) any and all trading/business performed for their own account with (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 2011, 56 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 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.

Likewise, the shareholders are entitled to elect and revoke the members of the Supervisory Board.

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 on 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's headquarters and/ or can be found on the Company's website, under the respective General Meeting of Shareholders menu item. 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 answers will be provided during the GMS based on public information or non-public and non-material information. Should the questions require elaborate answers, a Q&A (questions and answers) form will be made available on the Company's website under the respective General Meeting of Shareholders menu. 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.

GMS attendance

**Adherence
to BSE Code
of Corporate
Governance since
2010**

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 2011, around 30% of the first line directors were women whilst the percentage of women in middle management was 34%. 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, of which Petrom is part.

**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.

**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.

**Statement based
on two tier
management
system**

Principle / Recommendation		Question	YES	NO	Please EXPLAIN
P19		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.
P1	R1	Has the Issuer drawn up a Statute/Corporate Governance Regulation which describes the main aspects of the corporate governance?	✓		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.
	R2	In the Statute/Corporate Governance Regulation, are there defined corporate governance structures, positions, competences and responsibilities of the Supervisory Board and of the Executive Board?	✓		The corporate governance structures, positions, competences and responsibilities of the Supervisory Board and of the Executive Board are defined in the Articles of Association of the Issuer. They are also laid out in the Corporate Governance Statute.
	R3	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 2011 Annual Report has a chapter describing all the relevant events related to the corporate governance issues in the 2011 financial year.

Principle / Recommendation		Question	YES	NO	Please EXPLAIN
P1	R3	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 internal regulations 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?	✓		This "Comply or Explain" Statement on 2010 financial year is posted on Petrom's website. Likewise, after obtaining the relevant corporate approvals, the "Comply or Explain" Statement for the 2011 financial year will be posted on Petrom's website.
		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.
P2		Does the Issuer respect the rights of the holders of the financial instruments issued by the Issuer, ensuring equal treatment for them while also submitting any change of the granted rights for approval by the special meetings of such holders?	✓		The Issuer complies with the regulations setting forth the rights of the shareholders. During the relevant period the Issuer has not issued any financial instruments other than shares.

Principle / Recommendation		Question	YES	NO	Please EXPLAIN
P3	R4	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) 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.
		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.
	R6	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. However, 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.
	R8	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 the GMS?	✓		The rules and procedure for the attendance at the GMS and the rights of the shareholders are always described in the convening notice which is always posted on Issuer's website. Likewise, the rights of the shareholders are outlined on the 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
P3	R8	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.
	R9	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 +40 372 868 930 or via e-mail: investor.relations.petrom@petrom.com. Likewise, a special section of the Company's website is dedicated to investors.
P4, P5	R10	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 2011, the SB met five times in person and passed resolutions by circulation on two further occasions.
	R12	Has the Issuer a set of rules referring to the conduct and the reporting obligations relating to the trading of the shares or of other financial instruments issued by the Issuer ("Issuer securities") made on their account by the members of the Executive Board and other related natural persons?	✓		Such rules are laid down in the internal regulations of the Issuer.
		Are the trades with the Issuer's securities made by the members of Supervisory Board, Executive Board or any other insiders on their on account disclosed via Issuer's website, according to the applicable rules?	✓		All 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 dedicated to market news related to Petrom.

Principle / Recommendation		Question	YES	NO	Please EXPLAIN
P6		Does the structure of the corporate bodies of the Issuer ensure a balance between the executive and non-executive members (and especially independent non-executive members) so that the decision-making is not to be dominated by a single person or a group of persons?	✓		The Supervisory Board comprises nine members who are non-executives and who monitor and control the activity of the five members of the Executive Board. Therefore, the balance between executives and non-executives is ensured.
P7		Does the structure of the Supervisory Board provide a sufficient number of independent members?	✓		The Supervisory Board structure complies with the provisions of Company Law no. 31/1990 on the number of independent members of the Supervisory Board.
P8	R15	In the course of its activity, is the Supervisory Board supported by any consultative commissions/committees nominated by the Supervisory Board, which deal with the analysis of some specific subjects in order to counsel the Supervisory Board on such topics?	✓		The Audit Committee supports the Supervisory Board by performing the following main activities: <ul style="list-style-type: none"> ► reviews and prepares the adoption of the annual accounts, ► prepares the proposal for the distribution of profits ► prepares a proposal of an independent financial auditor ► supervises Petrom's risk management arrangements and its financial performance ► monitors the reports delivered by the internal auditors
		Do the consultative commissions/committees submit activity reports to the Supervisory Board on the specific subjects assigned to them?	✓		The Audit Committee submits activity reports to the Supervisory Board on the specific subjects assigned to it.
	R16	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
P8	R17	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.
P9		Is the appointment of the Supervisory Board members based on a transparent procedure (objective criteria regarding personal/ professional qualifications etc.)?	✓		The Supervisory Board members are appointed by the 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.
P10		Is there a Nomination Committee within the Issuer set-up?		✓	Petrom currently assesses the possibility to establish a Nomination Committee.
P11	R21	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. Petrom is in the process of assessing the setup of a Remuneration Committee.
		Has the remuneration policy been approved by the GMS?		✓	Please see above.
	R22	Is there a Remuneration Committee made exclusively of non-executive members of the Supervisory Board?		✓	Please see above.
	R24	Is the remuneration policy of the Issuer mentioned in the Statute/Corporate Governance Regulation?		✓	Please see above.

Principle / Recommendation		Question	YES	NO	Please EXPLAIN
P12, P13	R25	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.
	R26	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 almost 100 one-to-one or group meetings and presentations were held throughout 2011, including more than 200 investors and analysts. The company also attended analyst and investor conferences, organized in Romania (1) and abroad (3).
	R27	Is there an Audit Committee within the Issuer?	✓		Petrom's Supervisory Board has set up an Audit Committee.
	R28	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.

Principle / Recommendation		Question	YES	NO	Please EXPLAIN
P12, P13	R29	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.
	R30	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.
	R32	Does the Audit Committee make proposals to the Supervisory Board regarding the selection, the appointment, the re-appointment and the replacement of the financial auditor, as well as the terms and conditions of its remuneration?	✓		Petrom's Audit Committee makes proposals to the Supervisory Board regarding the selection, the appointment, the re-appointment and the replacement of the financial auditor, as well as the terms and conditions of its remuneration.
P14		Has the Issuer approved a procedure with a view to identifying and to settling any conflicts of interest?	✓		The Issuer has set up an adequate internal procedure on how to deal with conflicts of interest.
P15	R33	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
P16	R34/ R35	Has the Issuer approved the specific procedures in order to provide the procedural compliance (criteria to identify the significant impact transactions, of transparency, impartiality, non-competition etc.) with the view to identify the transactions between related parties?	✓		Petrom has adequate internal regulations in place and submits monthly 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.
P17	R36	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 adequate internal regulations in place.
P18	R37/ R38	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.

Consolidated companies in Petrom Group at December 31, 2011

Parent company	
OMV Petrom S.A.	
Subsidiaries	
	Equity interest (%)
Exploration and Production	
Tasbulat Oil Corporation LLP (Kazakhstan) ¹	100.00
Korned LLP (Kazakhstan)	100.00
Kom Munai LLP (Kazakhstan)	95.00
Petrom Exploration and Production Ltd.	50.00
Gas and Power	
OMV Petrom Gas S.R.L.	99.99
Petrom Distributie Gaze S.R.L.	99.99
OMV Petrom Wind Power S.R.L. ²	99.99
Refining and Marketing	
OMV Petrom Marketing S.R.L. (Romania)	100.00
Petrom Aviation S.A. (Romania) ³	99.99
Petrom LPG S.A. (Romania)	99.99
ICS Petrom Moldova S.A. (Republic of Moldova)	100.00
OMV Bulgaria OOD (Bulgaria)	99.90
OMV Srbija DOO (Serbia)	99.90
Corporate and Other	
Petromed Solutions S.R.L.	99.99
Associated company, accounted for at equity	
	Equity interest (%)
Congaz S.A. (Romania)	28.59

¹ Owned through Tasbulat Oil Corporation BVI as holding company.

² Formerly named Wind Power Park S.R.L. (name changed as of November 7, 2011).

³ The activities of Aviation Petroleum S.R.L. were merged into Petrom Aviation S.A. as of December 1, 2011.

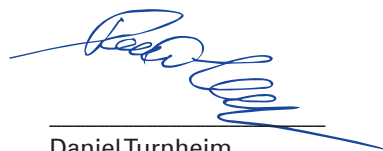
Declaration of the management

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, 2011, 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 23, 2012
The Executive Board



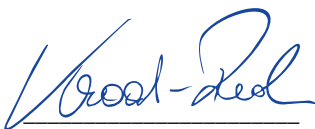
Mariana Gheorghe
Chief Executive Officer
and President of the EB



Daniel Turnheim
Chief Financial Officer



Johann Pleininger
Responsible for E&P



Hilmar Kroat-Reder
Responsible for G&P



Neil Anthony Morgan
Responsible for R&M

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
bps	basis points
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
CH ₄	Methane
CO ₂	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)
EGMS	Extraordinary General Meeting of Shareholders
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
HSEQ	Health, Safety, Security, Environment and Quality
HSSE	Health, Safety, Security and Environment
HFO	Heavy Fuel Oil
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
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)

NO _x	Nitrous oxides
NO ₂	Nitrogen dioxide
OECD	Organization for Economic Co-operation and Development
OGMS	Ordinary General Meeting of Shareholders
OPEC	Organization of Petroleum Exporting Countries
OPSPI	The Office for State Ownership and Privatization in Industry (Oficiul Participațiilor Statului și Privatizării în Industrie)
PJ	Petajoule = 10 ¹⁶ Joule
ppm	parts per million
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 Acțiuni)
SB	Supervisory Board
SO ₂	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)





Sustainable shareholder value creation

Strong results and financial position – 17% ROACE, 9% gearing ratio at the end of 2011 – underpinned by sustained investment efforts averaging EUR 1 bn p.a. after privatization.

Independent auditor's report

To the Shareholders of S.C. OMV Petrom S.A.

1. We have audited the accompanying consolidated financial statements of OMV Petrom S.A. and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December, 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

2. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

3. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

6. In our opinion, the consolidated financial statements give a true and fair view of the financial position of OMV Petrom S.A. and its subsidiaries as of 31 December 2011 and of its financial performance and cashflows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

In accordance with the Order of the Minister of Public Finance no 3055/2009, article no. 108 point e) from Chapter II, we have read the Directors' Report. The Directors' Report is not a part of the

consolidated financial statements. In the Directors' Report we have not identified any financial information which is not in accordance, in all material respects, with the information presented in the accompanying consolidated financial statements as at 31 December 2011.

The logo for Ernst & Young, featuring the company name in a stylized, handwritten blue font.

Ernst & Young Assurance Services S.R.L.
Bucharest, Romania
23 March 2012

S.C. OMV PETROM S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2011
(all amounts are expressed in million RON, unless otherwise specified)

	Notes	December 31, 2010	December 31, 2011
ASSETS			
Intangible assets	5	1,369.49	1,120.98
Property, plant and equipment	6	23,777.15	26,334.28
Investments in associated companies	7	40.65	40.91
Other financial assets	8	2,492.84	2,669.22
Other assets	9	45.23	48.90
Deferred tax assets	17	734.11	807.22
Non-current assets		28,459.47	31,021.51
Inventories	10	2,500.12	2,349.04
Trade receivables	9	1,397.98	1,825.72
Other financial assets	8	138.72	112.10
Other assets	9	603.08	349.79
Cash and cash equivalents		1,588.60	753.84
Assets held for sale	11	77.29	76.44
Current assets		6,305.79	5,466.93
Total assets		34,765.26	36,488.44
EQUITY AND LIABILITIES			
Capital stock	12	18,983.37	18,983.37
Reserves		(497.79)	2,119.03
Stockholders' equity		18,485.58	21,102.40
Non-controlling interests		(26.54)	(25.79)
Equity		18,459.04	21,076.61
Provisions for pensions and similar obligations	13	297.16	195.23
Interest-bearing debts	14	3,465.51	2,173.30
Provisions for decommissioning and restoration obligations	13	5,917.85	5,897.65
Other provisions	13	842.32	860.09
Other financial liabilities	15	178.38	148.54
Deferred tax liabilities	17	26.70	12.27
Non-current liabilities		10,727.92	9,287.08

The notes on pages 103 to 160 form part of these consolidated financial statements.

	Notes	December 31, 2010	December 31, 2011
Trade payables	15	3,453.35	2,982.58
Interest-bearing debts	14	391.05	463.95
Current income tax payable		214.64	276.05
Other provisions and decommissioning	13	739.07	1,311.45
Other financial liabilities	15	302.10	479.16
Other liabilities	16	478.09	611.56
Current liabilities		5,578.30	6,124.75
Total equity and liabilities		34,765.26	36,488.44

These consolidated financial statements were approved on March 23, 2012.



Mariana Gheorghe,
Chief Executive Officer



Daniel Turnheim,
Chief Financial Officer



Johann Pleininger,
E.B. Member E&P



Hilmar Kroat-Reder,
E.B. Member Gas,
Power & Chemicals



Neil Morgan,
E.B. Member
Refining & Marketing



Siegfried Ehn,
Director Corporate Finance



Alina Popa,
Head of Corporate
Financial Reporting

The notes on pages 103 to 160 form part of these consolidated financial statements.

S.C. OMV PETROM S.A. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2011
(all amounts are expressed in million RON, unless otherwise specified)

	Notes	December 31, 2010	December 31, 2011
Sales revenues		18,615.69	22,613.65
Direct selling expenses		(436.61)	(564.14)
Production costs of sales		(12,790.98)	(14,320.74)
Gross profit		5,388.10	7,728.77
Other operating income	18	513.85	432.51
Selling expenses		(1,218.63)	(1,160.71)
Administrative expenses		(231.17)	(237.36)
Exploration expenses		(186.59)	(420.25)
Other operating expenses	19	(1,280.05)	(1,407.20)
Earnings before interest and taxes (EBIT)	20	2,985.51	4,935.76
Income from associated companies	21	6.72	3.12
Net interest expense	22	(537.00)	(332.88)
Other financial income and expenses	23	150.09	2.59
Net financial result		(380.19)	(327.17)
Profit from ordinary activities		2,605.32	4,608.59
Taxes on income	24	(415.67)	(849.97)
Net income for the year		2,189.65	3,758.62
thereof attributable to stockholders of the parent		2,201.22	3,756.75
thereof attributable to non-controlling interests		(11.57)	1.87
Basic earnings per share in RON	25	0.0389	0.0663

The notes on pages 103 to 160 form part of these consolidated financial statements.

S.C. OMV PETROM S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2011

(all amounts are expressed in million RON, unless otherwise specified)

	Notes	December 31, 2010	December 31, 2011
Net income for the year		2,189.65	3,758.62
Exchange differences from translation of foreign operations		(39.12)	(10.78)
Unrealized gains/ (losses) on hedges		19.58	(557.72)
Realized gains / (losses) on hedges recycled to income statement		195.42	405.83
Income tax relating to components of other comprehensive income		(34.40)	24.30
Other comprehensive income for the year, net of tax		141.48	(138.37)
Total comprehensive income for the year		2,331.13	3,620.25
thereof attributable to stockholders of the parent		2,349.68	3,619.42
thereof attributable to non-controlling interests		(18.55)	0.83

These consolidated financial statements were approved on March 23, 2012.



Mariana Gheorghe,
Chief Executive Officer



Daniel Turnheim,
Chief Financial Officer



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Alina Popa,
Head of Corporate
Financial Reporting

The notes on pages 103 to 160 form part of these consolidated financial statements.

S.C. OMV PETROM S.A. AND SUBSIDIARIES**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2011**

(all amounts are expressed in million RON, unless otherwise specified)

Consolidated statement of changes in equity for the year ended December 31, 2011

	Share capital	Revenue reserves	Cash flow hedging reserve	Foreign currency translation reserve	Other reserves	Treasury shares	Stockholders' equity	Non-controlling interests	Total equity
Balance at January 1, 2011	18,983.37	(555.42)	-	62.26	(4.61)	(0.02)	18,485.58	(26.54)	18,459.04
Total comprehensive income for the year	-	3,756.75	(127.59)	(9.74)	-	-	3,619.42	0.83	3,620.25
Dividend distribution	-	(1,002.60)	-	-	-	-	(1,002.60)	(0.08)	(1,002.68)
Purchase of own shares	-	-	-	-	-	-	-	-	-
Distribution of own shares	-	-	-	-	-	-	-	-	-
Change in non-controlling interests	-	-	-	-	-	-	-	-	-
Balance at December 31, 2011	18,983.37	2,198.73	(127.59)	52.52	(4.61)	(0.02)	21,102.40	(25.79)	21,076.61

Note: For details on reserves, see Note 12.

Consolidated statement of changes in equity for the year ended December 31, 2010

	Share capital	Revenue reserves	Cash flow hedging reserve	Foreign currency translation reserve	Other reserves	Treasury shares	Stockholders' equity	Non-controlling interests	Total equity
Balance at January 1, 2010	18,983.37	(2,756.64)	(180.60)	137.53	(4.13)	-	16,179.53	11.30	16,190.83
Total comprehensive income for the year	-	2,201.22	180.60	(32.14)	-	-	2,349.68	(18.55)	2,331.13
Dividend distribution	-	-	-	-	-	-	-	(0.05)	(0.05)
Purchase of own shares	-	-	-	-	-	(1.78)	(1.78)	-	(1.78)
Distribution of own shares	-	-	-	-	-	1.76	1.76	-	1.76
Change in non-controlling interests	-	-	-	(43.13)	(0.48)	-	(43.61)	(19.24)	(62.85)
Balance at December 31, 2010	18,983.37	(555.42)	-	62.26	(4.61)	(0.02)	18,485.58	(26.54)	18,459.04

Note: For details on reserves, see Note 12.

The notes on pages 103 to 160 form part of these consolidated financial statements.

S.C. OMV PETROM S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW FOR THE YEAR ENDED DECEMBER 31, 2011
(all amounts are expressed in million RON, unless otherwise specified)

	Notes	December 31, 2010	December 31, 2011
Cash flow from operating activities			
Profit before taxation		2,605.32	4,608.59
Adjustments for:			
Interest expenses and other financing costs	22, 23	219.40	126.03
Interest income	22	(58.28)	(43.32)
Net movement in provisions for:			
- Financial assets		(0.62)	9.10
- Inventories		19.06	63.38
- Receivables		(119.78)	(28.92)
- Pensions and similar liabilities		14.09	(101.93)
- Decommissioning and restoration obligations		50.36	(6.27)
- Other provisions for risk and charges		(288.48)	264.71
Write-off of receivables and other similar items		248.78	131.00
Income from investments in associates	21	(4.43)	(0.26)
(Gain)/Loss on disposal of subsidiaries		(30.90)	-
Cash flow hedge recycled through income statement		(196.65)	95.49
(Gain)/Loss on disposals of fixed assets		(8.71)	(4.68)
(Gain)/Loss on disposals of financial assets		(0.77)	-
Depreciation, amortization and impairment expense	5, 6, 20	2,811.62	2,830.21
Other non cash items		(196.23)	(105.08)
Cash generated from operating activities before working capital movements		5,063.78	7,838.05
(Increase)/Decrease in inventories		4.01	33.61
(Increase)/Decrease in receivables and other assets		(523.01)	(432.42)
Increase/(Decrease) in liabilities		559.36	(53.45)
Interest received		56.36	43.28
Interest paid		(165.08)	(142.98)
Tax on profit paid		(365.60)	(844.47)
Net cash generated from operating activities		4,629.82	6,441.62

The notes on pages 103 to 160 form part of these consolidated financial statements.

	Notes	December 31, 2010	December 31, 2011
Cash flow from investment activities			
Purchase of tangible and intangible assets		(4,322.07)	(5,264.87)
Proceeds from sale of fixed assets		134.53	113.17
Proceeds from sale of financial assets		0.77	-
Acquisition of own shares		(1.78)	-
Acquisition of subsidiaries net of cash acquired	30	(68.41)	-
Proceeds from sale of Petrom Group companies less cash and cash equivalents	30	(6.93)	59.25
Net cash used from investment activities		(4,263.89)	(5,092.45)
Cash flow from financing activities			
Net increase in / Net (Repayment of) loans	30	832.43	(1,199.23)
Dividends paid		(0.28)	(993.32)
Net cash provided by / (used) for financial activities		832.15	(2,192.55)
Effect of foreign exchange rate changes on cash and cash equivalents		6.52	8.62
Total cash flows		1,204.60	(834.76)
Cash and cash equivalents at the beginning of the year		384.00	1,588.60
Cash and cash equivalents at the end of the year		1,588.60	753.84

The notes on pages 103 to 160 form part of these consolidated financial statements.

1. LEGAL PRINCIPLES AND ACCOUNTING POLICIES

OMV Petrom S.A. (22 Coralilor Street, 013329 Bucharest, Romania), has activities in Exploration and Production (E&P), Gas and Power (G&P), Refining and Marketing (R&M) segments and is listed on Bucharest Stock Exchange under "SNP" code.

Shareholders' structure as at December 31, 2011	Percent
OMV Aktiengesellschaft	51.01%
Ministry of Economy	20.64%
Property Fund S.A.	20.11%
European Bank for Reconstruction and Development	2.03%
Legal entities and physical persons	6.21%
Total	100.00%

There were no changes in the shareholders' structure in 2011 compared to prior year.

Statement of compliance

These consolidated financial statements have been drawn up in compliance with International Financial Reporting Standards as endorsed by the EU (IFRSs).

Romanian listed Companies such as OMV Petrom S.A. are required by Ministry of Finance Order 1121/2006 to submit the consolidated financial statements prepared in accordance with IFRS as endorsed by EU starting 2007.

Basis of preparation

Consolidated financial statements of Petrom Group are presented in RON ("Romanian Lei"), using going concern principles. All values are presented in millions, rounded to the nearest 2 decimals. The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain non-current assets and financial instruments.

Standards and Interpretations effective in the current period

The following new interpretations and amendments to the existing standards and interpretations issued by the International Accounting Standards Board and adopted by EU became effective in the current period:

- ▶ IFRIC 14 Prepayments of a Minimum Funding Requirement (Amended)
- ▶ IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- ▶ IAS 24 Related Party Disclosures (Amended)
- ▶ IAS 32 Financial Instruments: Presentation - Classification of Rights Issues (Amended)
- ▶ Improvements to IFRSs (May 2010). Other amendments resulting from Improvements to IFRSs to the following standards and interpretations did not have any impact on the accounting policies, financial position or performance of the Group:
 - IFRS 1 First-time adoption
 - IFRS 3 Business Combinations
 - IFRS 7 Financial Instruments – Disclosures
 - IAS 1 Presentation of Financial Statements
 - IAS 27 Consolidated and Separate Financial Statements

1. LEGAL PRINCIPLES AND ACCOUNTING POLICIES (continued)

- IAS 34 Interim Financial Reporting
- IFRIC 13 Customer Loyalty Programmes

The adoption of these new interpretations and amendments to existing standards and interpretations has not led to any significant changes.

Standards and Interpretations issued by IASB but not yet effective and not yet early adopted by EU

At the date of authorization of these financial statements the following standards, revisions and interpretations were issued by IASB, but are not yet effective and were not early adopted by the Group:

► IAS 1 Financial Statement Presentation (Amended) – Presentation of Items of Other Comprehensive Income

The amendment is effective for annual periods beginning on or after 1 July 2012. The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. This amendment has not yet been endorsed by the EU.

► IAS 12 Income Taxes (Amended) – Recovery of Underlying Assets

The amendment is effective for annual periods beginning on or after 1 January 2012. The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. This amendment has not yet been endorsed by the EU.

► IAS 19 Employee Benefits (Amended)

The amendment is effective for annual periods beginning on or after 1 January 2013. The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. Early application is permitted. This amendment has not yet been endorsed by the EU.

► IAS 27 Separate Financial Statements (Revised)

The Standard is effective for annual periods beginning on or after 1 January 2013. As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. Earlier application is permitted.

► IAS 28 Investments in Associates and Joint Ventures (Revised)

The Standard is effective for annual periods beginning on or after 1 January 2013. As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. Earlier application is permitted.

1. LEGAL PRINCIPLES AND ACCOUNTING POLICIES (continued)

► IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities

The amendment is effective for annual periods beginning on or after 1 January 2014. This amendment clarifies the meaning of “currently has a legally enforceable right to set-off” and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to IAS 32 are to be retrospectively applied. Earlier application is permitted. However, if an entity chooses to early adopt, it must disclose that fact and also make the disclosures required by the IFRS 7 Offsetting Financial Assets and Financial Liabilities amendments. This amendment has not yet been endorsed by the EU.

► IFRS 7 Financial Instruments: Disclosures (Amended) - Enhanced Derecognition Disclosure Requirements

The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity’s continuing involvement in those derecognised assets. The amendment has only disclosure effects.

► IFRS 7 Financial Instruments: Disclosures (Amended) - Offsetting Financial Assets and Financial Liabilities

The amendment is effective for annual periods beginning on or after 1 January 2013. The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity’s financial position. The amendments to IFRS 7 are to be retrospectively applied. This amendment has not yet been endorsed by the EU.

► IFRS 9 Financial Instruments - Classification and Measurement

The new standard is effective for annual periods beginning on or after 1 January 2015. IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. Phase 1 of IFRS 9 will have a significant impact on (i) the classification and measurement of financial assets and (ii) a change in reporting for those entities that have designated financial liabilities using the FVO. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the first half of 2012. Early application is permitted. This standard has not yet been endorsed by the EU.

► IFRS 10 Consolidated Financial Statements

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

1. LEGAL PRINCIPLES AND ACCOUNTING POLICIES (continued)

► IFRS 11 Joint Arrangements

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

► IFRS 12 Disclosures of Involvement with Other Entities

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.

► IFRS 13 Fair Value Measurement

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard should be applied prospectively and early adoption is permitted. This standard has not yet been endorsed by the EU.

► IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine

The interpretation is effective for annual periods beginning on or after 1 January 2013. This interpretation only applies to stripping costs incurred in surface mining activity during the production phase of the mine ('production stripping costs'). Costs incurred in undertaking stripping activities are considered to create two possible benefits a) the production of inventory in the current period and/or b) improved access to ore to be mined in a future period (stripping activity asset). Where cost cannot be specifically allocated between the inventory produced during the period and the stripping activity asset, IFRIC 20 requires an entity to use an allocation basis that is based on a relevant production measure. Early application is permitted. IFRIC 20 has not yet been endorsed by the EU.

The Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Group anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of Petrom Group in the period of initial application.

Significant accounting judgments, estimates and assumptions

Preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported for assets, liabilities and recognized contingent liabilities at the end of the reporting period and amounts of revenues and expenses recognized during the reporting period, as well as the amounts disclosed in the notes. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. However, uncertainty about these assumptions and estimates could result in actual outcomes that may differ from these estimates and may require a material adjustment to the carrying amount of the assets or liabilities in future periods. The management believes that any deviations from these estimates will not have a material influence on the consolidated financial statements in the near-term.

1. LEGAL PRINCIPLES AND ACCOUNTING POLICIES (continued)

Estimates and assumptions need to be made particularly with respect to the following:

- a) Mineral reserves (oil and gas reserves) are estimated by Petrom Group's own engineers. The estimates are audited externally every two years. Commercial reserves are determined using estimates of oil in place, recovery factors and future oil prices.

The oil and gas development and production properties are depreciated on a unit of production basis at a rate calculated by reference to either total proved or proved developed reserves (please refer to Depreciation, amortization and depletion accounting policy below), determined as presented above. The carrying amount of oil and gas development and production assets at December 31, 2011 is shown in Note 6.

The level of estimated commercial reserves is also a key determinant in assessing whether the carrying value of any of the Group's development and production assets has been impaired.

- b) Decommissioning costs will be incurred by the Group at the end of the operating life of some of the Group's facilities and properties.

Estimates of future restoration costs are based on reports by Petrom Group engineers and on past experience. Provisions for restoration costs require estimates of discount rates and inflation rates. These estimates have a material effect on the amount of the provisions (see Note 13).

The ultimate decommissioning and restoration costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future results.

- c) In accordance with IAS 36, both intangible assets and property, plant and equipment are reviewed at balance sheet date for any indications of impairment. If indicators that an impairment loss may have occurred are present, the Group makes a formal estimate of the recoverable amount of the cash generating unit or asset. The recoverable value is the higher of value in use and fair value less costs to sell. In most cases the Group formally estimates the value in use. The value in use computation is based on budgets and forecasts and requires the use of a wide range of estimates and assumptions, such as future product prices and/or gross margins, growth rates, inflation rates, foreign exchange rates, discount rates etc.

The post-tax discount rates used as of December 31, 2011 for the computation of value in use (being pre-tax discount rates that reflect current market assessments of the time value of money and the risks specific to the asset / cash generating unit) are country specific and vary between:

- ▶ 7.3% to 7.4% for E&P
- ▶ 5.9% for G&P
- ▶ 6.2% to 7.6% for R&M.

1. LEGAL PRINCIPLES AND ACCOUNTING POLICIES (continued)

In addition, management exercises judgment in determining the appropriate level of grouping E&P assets into CGUs, in particular with respect to the E&P assets which share significant common infrastructure and are consequently grouped into the same CGU.

- d) The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement in determining whether it is likely that future economic benefits are likely either from future exploitation or sale or where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of reserves and resources is itself an estimation process that requires varying degrees of uncertainty depending on sub-classification and these estimates directly impact the point of deferral of exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalised amount is written off in profit or loss in the period when the new information becomes available.
- e) By their nature, contingencies will only be resolved when one of more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

2. CONSOLIDATION

a) Subsidiaries

The consolidated financial statements comprise the financial statements of OMV Petrom S.A. and its subsidiaries ("Petrom Group") as at December 31, 2011, prepared in accordance with consistent accounting and valuation principles. The financial statements of the subsidiaries are prepared for the same reporting date, December 31, 2011, as the parent company.

The valuation of assets and liabilities from subsidiaries is based on fair values at acquisition dates. Goodwill arising on acquisition is recognized as an asset, being the excess of the initially measured cost of the business combination over Petrom Group's interest in the net fair value of the identifiable assets and liabilities recognized. If Petrom Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized in profit and loss account. Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Goodwill is recognized as an asset and reviewed for impairment at least annually. All impairments are immediately charged against income, and there are no subsequent reversals of goodwill impairment.

Non-controlling interests represent the portion of profit and loss and net assets not held by Petrom Group and are presented separately in the statement of comprehensive income and within equity in the consolidated statement of financial position, separately from parent's shareholders' equity.

The number of consolidated companies is as follows:

	Full consolidation	Equity consolidation
As at January 1, 2011	16	1
Included for the first time	-	-
Merged*	(1)	-
Deconsolidated during the year	-	-
As at December 31, 2011	15	1
Romanian companies	8	1
Foreign companies	7	-

*) As of December 1, 2011, the activities of Aviation Petroleum S.R.L. were merged into Petrom Aviation S.A.

Please refer to Note 29 for further details.

The results of subsidiaries acquired or disposed off during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of Petrom Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

2. CONSOLIDATION (continued)

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

b) Associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee. The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to Group's net investment in the associate.

The income statement reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of the changes and discloses it in other comprehensive income and/or the statement of changes in equity. The Group recognizes the dividend from an associate when the right to receive a dividend is established, and presents separately (Note 21) the share of the results of operations of the associate corresponding to dividends received.

Where a Group enterprise transacts with an associate of the Group, unrealized profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

c) Interests in joint ventures

IFRS defines joint control as contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions regarding the activity require the unanimous consent of the parties sharing the control (the venturers).

The Group has interests in jointly controlled assets, which involve the joint control, and often the joint ownership, by the venturers of one or more assets contributed to, or acquired for the purpose of, the joint venture and dedicated to the purposes of the joint venture. The assets are used to obtain benefits for the venturers. Each venturer takes a share of the output from the assets and each bears an agreed share of the expenses incurred.

In respect of its interest in jointly controlled assets, the Group recognises in its financial statements:

- ▶ its share of the jointly controlled assets, classified according to the nature of the assets;
- ▶ any liabilities that it has incurred;
- ▶ its share of any liabilities incurred jointly with the other venturers in relation to the joint venture;
- ▶ any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture; and
- ▶ any expenses that it has incurred in respect of its interest in the joint venture.

3. ACCOUNTING AND VALUATION PRINCIPLES

a) Exploration and appraisal costs

Exploration and appraisal costs are accounted for using the successful efforts method of accounting. Costs related to geological and geophysical activity are expensed as and when incurred. The costs associated to exploration and appraisal drilling are initially capitalized as unproved mineral properties and related assets pending determination of the commercial viability of the relevant oil and gas properties. If prospects are subsequently deemed to be unsuccessful on completion of evaluation, the associated costs are included in the profit and loss account for the year. If the prospects are deemed commercially viable, such costs are transferred to tangible oil and gas assets upon commencement of the production. The status of such prospects and related costs are reviewed regularly by technical, commercial and executive management including review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off.

b) Development and production costs

Development costs including costs incurred to gain access to proved reserves and to prepare well locations for drilling, to drill and equip development wells and to construct and install production facilities, are capitalized as proved mineral properties and related assets.

Production costs, including those costs incurred to operate and maintain wells and related equipment and facilities (including depletion, depreciation and amortization charges as described below) and other costs of operating and maintaining those wells and related equipment and facilities, are expensed as incurred.

c) Intangible assets and property, plant and equipment

Intangible assets acquired by the Group are stated at cost less accumulated amortization and impairment losses.

Property, plant and equipment are recognized at cost of acquisition or construction and is presented net of accumulated depreciation and impairment losses.

The cost of purchased tangible assets is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to their present location and condition necessary for their intended use. The cost of self-constructed assets includes cost of direct materials, labour, overheads and other directly attributable costs that have been incurred in bringing the assets to their present location and condition.

Capitalized exploration and appraisal activities are generally not depreciated as long as they are related to unproved reserves, but tested for impairment. Once the reserves are proved and commercial viability is established, the related assets are reclassified into tangible assets and once production starts depreciation commences. Capitalized exploration and development costs and

3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

support equipment are generally depreciated based on proved developed reserves by applying the unit-of-production method; only capitalized exploration rights and acquired reserves are amortized on the basis of total proved reserves.

In accordance with IAS 36, both, intangible assets and property, plant and equipment are reviewed at balance sheet date for any indications of impairment. For intangible assets with undetermined useful lives, impairment tests are carried out annually. This applies even if there are no indications of impairment.

If the carrying amount of an asset or cash generating unit exceeds its recoverable amount, an impairment loss is recognized to reduce the asset to its lower recoverable amount. The asset's value is written back up to its depreciated cost if the reasons for recognition of an impairment loss disappear in subsequent periods. The difference is disclosed under other operating income.

Scheduled depreciation and amortization calculated on a straight line basis is largely based on the following useful lives:

Intangible assets	Useful life (years)
Goodwill	Indefinite
Software	3-5
Concessions, licenses and other intangibles	4-20, or contract duration
Business-specific property, plant and equipment	
E&P Oil and gas core assets	Unit of production method
G&P Gas pipelines	20
R&M Storage tanks and Refinery facilities	25-40
Pipeline systems	20
Filling stations components	5-20
Other property, plant and equipment	
Production and office buildings	20 or 40-50
Other plant and equipment	10-20
Fixtures and fittings	5-10

The amortization of intangible assets is included in the income statement according to its function (mainly under "Production cost of sales").

An item of property, plant and equipment and any significant part initially recognised are derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised. E&P oil and gas core assets which are depreciated using the unit of production method are generally not derecognized, while at the same time any related replacements are generally capitalized only if they generate increases of economic benefits.

3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

Assets classified as held for sale are disclosed at the lower of carrying value and fair value net of any disposal costs. Non-current assets and groups of assets are classified as held for sale if their carrying value will be recovered principally through a sale transaction rather than through continuing use. This classification requires that the sale must be estimated as extremely probable, and that the asset must be available for immediate disposal in its present condition.

Advances for the acquisition of tangible and intangible assets are non-monetary items presented within property, plant and equipment.

d) Major maintenance and repairs

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets of parts of assets, inspection costs and overhaul costs.

Inspection (overhaul) costs associated with major maintenance programmes, typically in refining, are capitalized and depreciated over the period to the next inspection. Cost of major remedial activities for wells workover is also capitalized and depreciated using the unit-of-production method.

All other minor repairs and maintenance costs are expensed as incurred.

e) Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Goodwill is not amortized, and instead it is tested annually for impairment at least once a year. Impairment losses are recognized against income immediately, and there are no subsequent reversals of goodwill impairment.

f) Leases

Property, plant and equipment contains assets being used under finance leases. Since the Group has all the risks and benefits incidental to ownership of the leased item, the assets must be capitalized at the commencement of the lease at the lower of the present value of minimum lease obligation and fair value of leased property, and then depreciated over their expected useful life or the duration of the lease, if shorter. A liability equivalent to the capitalized amount is recognized, and future lease payments are split into the finance charge and the capital repayment element.

All lease agreements not classified as finance leases are treated as operating leases and the operating lease payments then form part of the operating expenses in the income statement on a straight line basis over the lease term.

3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

g) Financial instruments

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognized on the settlement date, i.e. the date on which the agreement is settled by delivery of assets that are subject of the agreement. Derivatives are recognized on trade date basis, i.e. the date that the Group commits to purchase or sell the asset.

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

The Group's financial assets include trade receivables and other receivables, cash and cash equivalents and available-for-sale investments.

After initial measurement, trade and other receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment.

After initial measurement, available-for-sale securities are recognized at fair value. Changes in their fair value are however not recognized as income, but included directly as part of stockholders' equity. The losses arising from impairment of such investments are recognized in the profit or loss and removed from the available-for-sale reserve.

Available-for-sale securities which are not listed and for which the fair value cannot be reliably established are carried at acquisition cost less any impairment losses, and are tested yearly for impairment.

The Group's financial liabilities include trade liabilities and other liabilities, loans and borrowings, and derivative financial instruments.

Liabilities other than derivatives are carried at amortized cost using the effective interest rate method. If goods and services supplied in connection with operating activities have not yet been invoiced but both the dates and amounts of supply are already incurred, the obligations are included under liabilities rather than as provisions.

Derivative instruments are used to hedge risks resulting from changes in interest rates, currency exchange rates and commodity prices and are subsequently measured at fair value.

The fair value of derivative financial instruments reflects the estimated amounts that Group would pay or receive if the positions were closed at year end date, and thus the unrealized gains and losses on open positions. Quotations from banks or appropriate pricing models have been used to estimate the fair value of financial instruments at year end date.

Unrealized gains and losses are recognized as income or expense, except where the requirements for hedge accounting are met. For hedge accounting to be applied the hedging relationship must be

3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

documented and actual hedge effectiveness must be in the range 80%–125%.

In the case of fair value hedges, changes in the fair value resulting from the risk being hedged for both the hedged item and the hedging instrument are recognized as income or expense.

For cash flow hedges, the effective part of the changes in fair value is recognized directly in equity, while the ineffective part is recognized immediately in the income statement. Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognized in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognized immediately in profit or loss.

Derivatives embedded in other financial instruments or host contracts are treated as independent instruments if their risks and characteristics are not closely associated with the host instruments and the host instruments were not recognized at fair value, so that the related unrealized gains and losses are recognized as income or expense.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets than can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in payments, the probability that they will enter in bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease on the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- ▶ The rights to receive cash flows from the asset have expired
- ▶ The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Management believes that the carrying amount of financial assets and liabilities measured at

3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

amortized cost substantially approximates their fair value, as most of such assets are either short term or are bearing variable interest rates or are repriced regularly using the current market interest rates.

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if:

- ▶ There is a currently enforceable legal right to offset the recognised amounts; and
- ▶ There is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously

h) Borrowing costs

Borrowing costs incurred directly for the acquisition, construction or production of qualifying assets are capitalized until the assets are effectively ready for their intended use or for sale. Borrowing costs include interest on bank short-term and long-term loans, amortisation of ancillary costs incurred in connection with the arrangement of borrowings and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. All other costs of borrowing are expensed in the period in which they are incurred.

i) Inventories

Inventories are recorded at the lower of cost and net realizable value. Net realizable value is estimated on selling price in the normal course of activity less estimated costs of completion and selling expenses.

Cost of producing crude oil and gas and refining petroleum products is accounted on weighted average basis, and includes all costs incurred in the normal course of business in bringing each product to its present location and condition, including the appropriate proportion of depreciation, depletion and amortization and overheads based on normal capacity.

Appropriate allowances are made for any obsolete or slow moving stocks based on the management's assessments.

j) Provisions

Provisions are normally made for all present obligations (legal or constructive) to third parties resulting from a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can reliably be estimated. Provision for individual obligations is based on the best estimate of the amount necessary to settle the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

Decommissioning of oil and gas production assets describes the process of:

- ▶ plugging and abandoning wells;
- ▶ cleaning of sludge pits;
- ▶ dismantlement of wellheads and production facilities;
- ▶ restoration of producing areas in accordance with license requirements and the relevant legislation.

The Group's core activities regularly give rise to dismantling and removal, asset retirement and soil remediation obligations. These decommissioning and restoration obligations are mainly of material importance in the E&P segment (oil and gas wells, above-ground facilities). They are therefore disclosed as a separate item. At the time the obligation arises, it is provided for in full by recognizing as a liability the present value of future decommissioning and restoration expenses. An equivalent amount is capitalized as part of the carrying value of related property, plant and equipment. The obligation is calculated on the basis of best estimates. The capitalized asset is depreciated using the unit-of-production method for upstream activities and on straight-line basis for downstream assets.

Changes in the assumptions related to decommissioning costs are dealt with prospectively, by recording an adjustment to the provision and a corresponding adjustment to property, plant and equipment (for Petrom part) or to the related receivable from the Romanian State (for State part). The unwinding of the discount on the decommissioning provision is included as a finance cost.

For present obligations relating to other environmental risks and measures, provisions are made where it is likely that such obligations will arise and the amount of the obligation can reasonably be estimated.

Emission allowances received free of cost from governmental authorities (EU Emissions Trading Scheme for greenhouse gas emissions allowances) reduce obligations for CO₂ emissions, and provisions are recognized only for shortfalls. The provision for a shortfall is initially measured at the best estimation of expenditure required to settle the obligation, which is the market price of the emission rights at the closing date. The related expense is recognised as emission costs, which are part of cost of sales. If subsequently to the recognition of a provision emission rights are purchased an asset is only recognised for the excess of the emission rights over the CO₂ emissions. Any price difference between the provision and the quantity of offsetting emission rights is expensed as emission cost.

Based on the privatization agreement of OMV Petrom S.A., part of OMV Petrom decommissioning and environmental cost will be reimbursed by the Romanian State. The portion to be reimbursed by the Romanian State has been presented as receivable and reassessed in order to reflect the current best estimate of the cost at its present value, using the same discount rate as for the related provisions.

The unwinding of the discount on the receivables from the Romanian State related to decommissioning and environmental provisions (including any changes in the estimated timing of recovery) is included as a finance cost.

3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

Provisions for pensions and severance payments are calculated using the projected-unit-credit method, which divides the costs of the estimated benefit entitlements over the whole period of employment and thus takes future increases in remuneration into account. Actuarial gains/losses are recognized fully through the income statement.

Provisions for voluntary and involuntary separations under restructuring programs are recognized if a detailed plan has been approved by management prior to balance sheet date, and an irrevocable commitment is thereby established. Voluntary amendments to employees' remuneration arrangements are recognized if the respective employees have accepted the company's offer. Provisions for obligations under individual separation agreements are recognized at the present value of the obligation where the amounts and dates of payment are fixed and known.

k) Taxes on income including deferred taxes

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date, in the countries where the Group operates and generates taxable income.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- ▶ Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- ▶ In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax

3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

credits and unused tax losses can be utilised except:

- ▶ Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- ▶ In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Production taxes

Royalties are based on the value of oil and gas production and are included in the income statement under production cost of sales.

1) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other incentives.

Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- ▶ the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- ▶ the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- ▶ the amount of revenue can be measured reliably;
- ▶ it is probable that the economic benefits associated with the transaction will flow to the entity; and
- ▶ the costs incurred or to be incurred in respect of the transaction can be measured reliably.

3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

Rendering of services

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- ▶ installation fees are recognized by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the balance sheet date;
- ▶ servicing fees included in the price of products sold are recognized by reference to the proportion of the total cost of providing the servicing for the product sold, taking into account historical trends in the number of services actually provided on past goods sold; and
- ▶ revenue from time and material contracts is recognized at the contractual rates as labour hours are delivered and direct expenses are incurred.

Dividend and interest revenue

Dividend revenue from investments is recognized when the shareholder's right to receive payment has been established.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

m) Components of cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash is considered to be cash on hand and in operating accounts in banks. Cash equivalents represent deposits and highly liquid investments with maturities of less than three months.

n) Comparatives

Certain comparative information of the previous year have been reclassified in order to ensure comparability with the presentation of the financial statements for the current year, as follows:

- ▶ into Consolidated Statement of Financial Position, deferred tax assets and deferred tax liabilities were included in non-current assets and non-current liabilities;
- ▶ into Note 20 Earnings before interest and tax presentation using a classification based on nature of expenses, the amount of RON 5.48 million was reclassified from other operating income to impairment of tangible and intangible assets.

4. FOREIGN CURRENCY TRANSLATION

The consolidated financial statements are presented in RON, which is OMV Petrom S.A. functional currency. Each entity in Petrom Group determines its own functional currency, and items included in its financial statements are measured using the functional currency. The functional currency of the foreign operations is generally their local currency (which for the majority of the Group's operations is the RON), except for Kazakhstan entities that have USD as functional currency.

Where the functional currency differs from the national currency, monetary assets are valued at closing rates and non-monetary assets at transaction rates.

Where the functional currency differs from Petrom Group presentation currency, financial statements are translated using closing rate method. Differences arising between balance sheet items translated at closing and historical rates are disclosed as a separate balancing item directly in changes in stockholders' equity (foreign exchange differences). Income statement items are translated at average rates for the year. Differences arising from the use of average rather than closing rates also result in direct adjustments to equity. On disposal of a foreign operation, the component of other comprehensive income relating to the translation of that particular foreign operation is recognised in the income statement.

The rates applied in translating currencies were as follows:

Exchange rates	Year ended December 31, 2010	Average for the year ended December 31, 2010	Year ended December 31, 2011	Average for the year ended December 31, 2011
US dollar (USD)	3.2045	3.1804	3.3393	3.0475
Euro (EUR)	4.2848	4.2110	4.3197	4.2377
Moldavian Leu (MDL)	0.2661	0.2573	0.2866	0.2598
Russian Ruble (RUB)	0.1034	0.1054	0.1035	0.1036
Serbian Dinar (RSD)	0.0403	0.0409	0.0406	0.0416
Bulgarian Leva (BGN)	2.1908	2.1531	2.2087	2.1667

5. INTANGIBLE ASSETS

	Concessions, licenses, and other intangible assets	Unproved mineral properties and related assets	Total
COST			
Balance as at January 1, 2011	1,782.13	883.43	2,665.56
Exchange differences	0.36	1.95	2.31
Additions	29.84	386.52	416.36
Transfers to tangible assets (Note 6)	2.70	(5.80)	(3.10)
Disposals *)	(14.74)	(388.80)	(403.54)
Balance as at December 31, 2011	1,800.29	877.30	2,677.59
ACCUMULATED AMORTISATION AND IMPAIRMENT			
Balance as at January 1, 2011	813.92	482.15	1,296.07
Exchange differences	0.08	10.22	10.30
Amortization	243.46	-	243.46
Impairment **)	46.03	309.63	355.66
Disposals	(12.85)	(335.72)	(348.57)
Write-ups	-	(0.31)	(0.31)
Balance as at December 31, 2011	1,090.64	465.97	1,556.61
CARRYING AMOUNT			
As at January 1, 2011	968.21	401.28	1,369.49
As at December 31, 2011	709.65	411.33	1,120.98

*) Includes the amount of RON 53.08 million representing decrease from the reassessment of decommissioning asset for exploration wells (RON 7.52 million) and write-off of the decommissioning asset in Korneid (RON 45.56 million).

**) Includes the amount of RON 106.75 million impairment of the Kultuk exploration license in Kazakhstan.

6. PROPERTY, PLANT AND EQUIPMENT

	Land, land rights and buildings, incl. buildings on third-party property	Proved mineral properties and related assets	Plant and machinery	Other fixtures and fittings, tools and equipment	Assets under construction	Payments in advance	Total
COST							
Balance as at January 1, 2011	4,180.18	21,078.63	3,234.14	876.07	1,558.31	1,628.19	32,555.52
Exchange differences	9.73	113.13	2.53	8.77	0.07	(0.68)	133.55
Additions**	109.82	2,767.77	349.17	67.29	1,214.99	315.45	4,824.49
Transfers*	260.11	(293.83)	783.75	65.42	(689.80)	(122.55)	3.10
Assets Held for Sale	0.10	-	-	-	-	-	0.10
Disposals	(73.07)	(27.85)	(58.70)	(151.89)	(23.48)	-	(334.99)
Balance as at December 31, 2011	4,486.87	23,637.85	4,310.89	865.66	2,060.09	1,820.41	37,181.77
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
Balance as at January 1, 2011	887.50	5,536.96	1,829.74	465.01	58.77	0.39	8,778.37
Exchange differences	1.91	61.28	1.40	2.30	-	-	66.89
Depreciation	200.00	1,454.00	333.92	96.41	-	-	2,084.33
Impairment	44.49	-	32.18	4.41	69.31	-	150.39
Transfers*	1.09	(70.83)	64.47	(1.34)	6.61	-	-
Assets Held for Sale	-	-	-	-	-	-	-
Disposals	(41.61)	(13.82)	(52.88)	(102.24)	(18.62)	-	(229.17)
Write-ups	(2.40)	-	(0.47)	(0.12)	(0.16)	(0.17)	(3.32)
Balance as at December 31, 2011	1,090.98	6,967.59	2,208.36	464.43	115.91	0.22	10,847.49
CARRYING AMOUNT							
As at January 1, 2011	3,292.68	15,541.67	1,404.40	411.06	1,499.54	1,627.80	23,777.15
As at December 31, 2011	3,395.89	16,670.26	2,102.53	401.23	1,944.18	1,820.19	26,334.28

*) Net amount represents transfers to intangibles. See Note 5.

**) Includes the amount of RON 46.32 million representing additions in finance leasing, RON 12.93 million representing land deeds and RON 75.06 million representing increase from reassessment of the decommissioning asset.

Property, plant and equipment include fixed assets acquired through finance lease with a carrying amount of RON 74.97 million as at December 31, 2011 (December 31, 2010: RON 33.23 million).

During 2011, the Group has capitalized in the value of tangible and intangible assets of OMV Petrom S.A. borrowing costs related to current period in amount of RON 141.86 million (December 31, 2010: RON 113.76 million).

Net impairment losses booked during the year ended December 31, 2011 for tangible and intangible assets were mainly related to E&P segment amounting RON 410.14 million, R&M amounting RON 89.31 million (mainly related to LPG assets due to difficult market conditions and closed terminals) and also other segments RON 2.97 million. These are net of write-ups amounting to RON 3.63 million that are presented under other operating income line from Income Statement. The impairment losses are mainly included under exploration expenses (RON 309.64 million), production cost of sales (RON 122.35 million) and selling expenses (RON 73.77 million) within the Income Statement.

7. INVESTMENTS IN ASSOCIATED COMPANIES

Changes in investments in associated companies during the year were as follows:

COST	Associated companies
Balance as at January 1, 2011	40.65
Changes in consolidated Group	-
Increases in value	0.26
Disposals	-
Balance as at December 31, 2011	40.91

As at December 31, 2011 and December 31, 2010 Petrom Group had one associated company: Congaz S.A.

8. OTHER FINANCIAL ASSETS

	Liquidity term		
	December 31, 2011	less than 1 year	over 1 year
Investments	4.93	-	4.93
Expenditure recoverable from Romanian State	2,633.70	-	2,633.70
Other financial assets	142.69	112.10	30.59
Total	2,781.32	112.10	2,669.22

	Liquidity term		
	December 31, 2010	less than 1 year	over 1 year
Investments	8.81	-	8.81
Expenditure recoverable from Romanian State	2,458.95	-	2,458.95
Other financial assets	163.80	138.72	25.08
Total	2,631.56	138.72	2,492.84

Investments

The position "Investments" comprises all the investments in subsidiaries and associates that were not consolidated, as the Group does not have control or significant influence over their operations or they were considered immaterial for the Group. These financial assets are accounted for at amortized cost.

Expenditure recoverable from Romanian State

As part of the privatization agreement, OMV Petrom S.A. is required to close wells, which are abandoned and are awaiting closure. However, such expenditures will be recoverable by the OMV Petrom S.A. from the Romanian State as these pertain to E&P activities prior to privatization

8. OTHER FINANCIAL ASSETS (continued)

of the OMV Petrom S.A. in 2004. Consequently, OMV Petrom S.A. has recorded the estimated decommissioning expenditures against receivable from the Romanian State in amount of RON 2,163.08 million as at December 31, 2011 (2010: RON 1,992.84 million). OMV Petrom S.A. also recorded receivable from the Romanian State related to environmental liabilities in E&P, R&M and Doljchim amounting to RON 470.62 million (2010: RON 466.11 million) as these were existing prior to privatization of OMV Petrom S.A.

OMV Petrom filed two claims for reimbursement of environmental cleanup costs in the amount of RON 91.68 million. Up to now the Romanian State has not paid the claimed amounts.

The movement of write down allowances for financial assets was as follows:

	Investments	Total
January 1, 2011	21.76	21.76
Impairment	3.88	3.88
Disposals	(11.53)	(11.53)
Write-ups	-	-
December 31, 2011	14.11	14.11

The aging of other financial assets which were past due but not impaired was as follows:

	December 31, 2010	December 31, 2011
Up to 60 days overdue	0.12	0.18
61 to 120 days overdue	-	-
More than 120 days overdue	3.67	-
Total	3.79	0.18

9. RECEIVABLES AND OTHER ASSETS

a) Trade receivables are amounting to RON 1,825.72 million as at December 2011 and to RON 1,397.98 million as at December 2010. They are presented net of allowances, which are detailed in the movement below.

b) Other assets (net of allowances)

	Liquidity term		
	December 31, 2011	less than 1 year	over 1 year
Prepaid expenses and deferred charges	89.65	63.63	26.02
Rental and lease prepayments	32.27	32.27	-
Other receivables	276.77	253.89	22.88
Total	398.69	349.79	48.90

	Liquidity term		
	December 31, 2010	less than 1 year	over 1 year
Prepaid expenses and deferred charges	71.69	46.34	25.35
Rental and lease prepayments	27.91	27.91	-
Other receivables	548.71	528.83	19.88
Total	648.31	603.08	45.23

c) Valuation allowances for trade receivables and other assets

The movement of valuation allowances for trade and other assets were as follows:

	Trade receivables	Other assets	Total
January 1, 2011	209.02	380.76	589.78
Additions/ (releases)	(20.54)	1.08	(19.46)
Used	(3.82)	(0.42)	(4.24)
Exchange differences and changes in consolidated Group	0.15	0.08	0.23
December 31, 2011	184.81	381.50	566.31

The gross value of the impaired receivables as at December 31, 2011 is of RON 193.57 million for trade receivables and of RON 386.41 million for other assets.

d) The aging of trade receivables which were past due but not impaired was as follows:

	December 31, 2010	December 31, 2011
Up to 60 days overdue	177.59	182.92
61 to 120 days overdue	6.92	6.80
More than 120 days overdue	1.21	1.46
Total	185.72	191.18

In relation to other receivables, the amount of RON 0.18 million is past due up to 60 days, but not impaired as at December 31, 2011 (December 31, 2010: RON 0.12 million up to 60 days and RON 3.67 million more than 120 days overdue).

10. INVENTORIES

	December 31, 2010	December 31, 2011
Crude oil	417.78	393.81
Natural gas	57.12	142.71
Other raw materials	597.92	479.50
Work in progress	127.35	115.31
Finished products	1,225.15	1,210.63
Advances paid for inventories	74.80	7.08
Total	2,500.12	2,349.04

11. ASSETS HELD FOR SALE

	December 31, 2010	December 31, 2011
Land	74.54	74.30
Property, plant and equipment	2.37	1.58
Deferred tax asset (see Note 17)	0.38	0.56
Assets held for sale	77.29	76.44

Assets held for sale relate mainly to plots of land located in Straulesti, Bucharest, committed for sale by OMV Petrom S.A. based on a contract concluded with Raiffeisen Evolution. These plots of land have a cost of RON 74.04 million and are presented in Corporate & Other business segment.

12. STOCKHOLDERS' EQUITY

Share capital

The share capital of OMV Petrom S.A. consists of 56,644,108,335 fully paid shares as at December 31, 2011 (December 31, 2010: same number) with a total nominal value of RON 5,664.41 million.

The balance up to RON 18,983.37 million represents inflation adjustment, as Romania was a hyperinflationary economy until January 2004.

Cash flow hedging reserve

In order to protect the Group's cash flow in 2011, OMV Petrom S.A. entered in January 2011 into oil price swaps, locking in a Brent price of approximately USD 97/bbl for a volume of 25,000 bbl/d. The oil price swaps were accounted as cash flow hedge and the effective part of the changes in fair value was recognized directly in equity. During the year 2011 the oil price hedge was realized, resulting in an expense of RON 403.34 million in OMV Petrom S.A. (Please refer also to Notes 15 and 33).

In order to protect the Group's cash flow in 2012, OMV Petrom S.A. entered in September 2011 into oil price swaps, locking in a Brent price of approximately USD 101/bbl for a volume of 30,000 bbl/d. The oil price swaps were accounted as cash flow. The liability from hedge contracts is valued at the market

12. STOCKHOLDERS' EQUITY (continued)

value as at December 31, 2011 (RON 142.63 million) (see Note 31). The effective part of the changes in fair value is recognized directly in equity amounting to RON 119.67 million, net of deferred tax asset, while the ineffective part is recognized in the income statement in amount of RON (0.17) million as at December 31, 2011. (Please refer also to Notes 15 and 33).

Furthermore, in June 2011, OMV Petrom Gas S.R.L. concluded RON/USD average rate forward contracts for the period November 2011 – February 2012 where OMV Petrom Gas sells USD 29.97 million with monthly pricing and settlement, locking in the RON/USD average rate.

This instrument is aimed to protect the cash flows from planned sales of gas to domestic clients during November 2011 – February 2012 against depreciation of USD versus RON, as the sales formula price is linked to USD/RON exchange rate. The forward contracts were accounted for as cash flow hedges and the fair values were negative as of December 31, 2011, amounting to RON 7.92 million net of deferred tax asset. This value is reflected as a decrease in equity, net of tax and a correspondent financial liability. (Please refer also to Notes 15 and 33).

Revenue reserves

Revenue reserves include retained earnings, as well as other non-distributable reserves (legal and geological quota facility reserves).

Geological quota included in revenue reserves is amounting to RON 5,062.84 million (2010: same amount). Until December 31, 2006 OMV Petrom S.A. benefited from geological quota facility whereby it could charge up to 35% of the market value of the volume of oil and gas extracted during the year. This facility was recognized directly in reserves. This quota was restricted to investment purposes and is not distributable. The quota was non-taxable.

Legal reserves included in revenue reserves are amounting to RON 826.10 million (2010: RON 616.70 million). OMV Petrom S.A. sets its legal reserve in accordance with the provisions of the Romanian Companies Law, which requires that 5% of the annual accounting profit before tax is transferred to "legal reserve" until the balance of this reserve reaches 20% of the share capital of the Company.

13. PROVISIONS

	Pensions and similar obligations	Decommissioning and restoration	Other provisions	Total
January 1, 2011	297.16	5,917.85	1,581.39	7,796.40
Exchange differences	-	(0.69)	0.22	(0.47)
Used	(14.26)	(231.19)	(403.68)	(649.13)
Allocations/(releases)	(87.67)	536.25	669.04	1,117.62
December 31, 2011	195.23	6,222.22	1,846.97	8,264.42
thereof short-term	-	324.57	986.88	1,311.45
thereof long-term	195.23	5,897.65	860.09	6,952.97

Provisions for defined benefit obligations

Employees of Group companies are entitled to receive severance payments upon termination of employment or on reaching normal retirement age. The entitlements depend on years of service and final compensation levels. Provisions have been set up based on qualified actuarial calculations using the following parameters: a discount rate of 7.35% (2010: 4.75%), an inflation rate of 3.52 % (2010: 3.00%) and an average salary increase of 6.02% (2010: 7.00%).

Provisions for decommissioning and restoration

Changes in provisions for decommissioning and restoration are shown in the table below. In the event of subsequent changes in estimated restoration costs only the effect of the change in present value is recognized in the period concerned. If the value increases, the increase is depreciated over the remaining useful life of the asset, and if it decreases, the decrease is deducted from capitalized asset value. Decommissioning and restoration provision for the year ended December 31, 2011 was calculated using a time profile spread up to 35 years by using a discount rate of 7.35% (2010: 6.25%) and an inflation rate of 3.52% (2010: 2.73%) for Romania (RON) and a discount rate of 2.95% and an inflation rate of 1.36% for Kazakhstan (USD).

The provision for decommissioning and restoration costs includes obligations in respect of OMV Petrom S.A. amounting to RON 6,102.32 million (2010: RON 5,702.80 million). There is a corresponding claim against the Romanian State of RON 2,163.08 million (2010: RON 1,992.84 million), which is disclosed under "Other financial assets" item.

Details on the Decommissioning and restoration obligations are as follows:

	December 31, 2010	December 31, 2011
Balance as at January 1	5,564.28	5,917.85
Exchange differences	3.85	(0.69)
New obligations	99.42	1.70
Changes in consolidated Group	(0.98)	-
Revisions in estimates	42.37	174.03
Unwinding effect	453.09	360.52
Settlements current year	(244.18)	(231.19)
Balance as at December 31	5,917.85	6,222.22

13. PROVISIONS (continued)

The unwinding effect is included in the income Statement under the net interest expense line. The revisions in estimates impact either the assets subject to decommissioning (as presented in Note 6) or the related receivable from State.

Other provisions were as follows:

2011	Total	less than 1 year	over 1 year
Environmental provision	490.29	204.63	285.66
Other personnel provisions	143.91	143.91	-
Provisions for litigations	566.09	116.73	449.36
Other	646.68	521.61	125.07
Total	1,846.97	986.88	860.09
2010	Total	less than 1 year	over 1 year
Environmental provision	638.05	282.59	355.46
Other personnel provisions	223.52	223.52	-
Provisions for litigations	698.97	217.53	481.44
Other	20.85	15.43	5.42
Total	1,581.39	739.07	842.32

Environmental provisions

The environmental provision is estimated by the management based on the list of environment related projects that must be completed by Petrom Group. Petrom Group experts in environmental issues made their best estimates in order to determine the necessary provisions recorded as at December 31, 2011. OMV Petrom S.A. recorded environmental liabilities against receivable from the Romanian State in E&P, R&M and Doljchim, as these obligations existed prior to privatization.

Emissions certificates

Directive 2003/87/EC of the European Parliament and of the European Council established a greenhouse gas emissions trading scheme, requiring member states to draw up national plans to allocate emissions certificates. Romania was admitted to the scheme in January 2007, when it joined the EU.

OMV Petrom S.A. is the only company from Petrom Group included into the emission certificates allocation scheme. Under this scheme OMV Petrom S.A. received a total of 4,444,349 free emissions certificates for the year 2011 (2010: 4,650,862).

During 2011 Petrom Group had sales of 1,165,000 (2010: 2,650,000) emissions certificates.

As at December 31, 2011, Petrom Group had no shortfall in EU allowances allocated compared to the CO₂ emissions of installations subject to the EU Emission Trading Scheme.

Other personnel provisions

Included in other personnel provisions is mainly the restructuring provision recorded by OMV Petrom S.A. further to approved restructuring plan that has been communicated to those affected by it.

13. PROVISIONS (continued)

Provisions for litigations

Petrom Group monitors all litigations instigated against it and assesses the likelihood of losses and related financial cost using in house lawyers and outside legal advisors. Petrom Group has assessed the potential liabilities with respect to ongoing cases and recorded its best estimate of likely cash outflows.

Other provisions

The main short-term provision included under this line is the amount of RON 503.82 million representing the fine imposed by the Romanian Competition Council to OMV Petrom S.A. and to OMV Petrom Marketing S.R.L. as a result of the antitrust investigation.

Under other long-term provisions it is included the amount of RON 120.17 million representing estimated costs in relation to Arpechim refinery permanent closure announced in March 2011.

14. INTEREST-BEARING DEBTS

December 31, 2011	Total	Less than 1 year	Over 1 year
Interest-bearing financial liabilities	2,637.25	463.95	2,173.30
TOTAL	2,637.25	463.95	2,173.30
December 31, 2010	Total	Less than 1 year	Over 1 year
Interest-bearing financial liabilities	3,856.56	391.05	3,465.51
TOTAL	3,856.56	391.05	3,465.51

As at December 31, 2011 and 2010 Petrom Group had the following loans:

Interest bearing debts short-term			
Borrower	Lender	December 31, 2010	December 31, 2011
OMV Petrom S.A.	European Bank for Reconstruction and Development (a)	336.64	401.19
OMV Petrom S.A.	Black Sea Trade and Development Bank (b)	21.42	21.60
OMV Petrom S.A.	European Investment Bank (c)	-	26.74
OMV Petrom S.A.	Raiffeisen Bank S.A. (d)	-	0.01
OMV Petrom S.A.	Accrued interest	32.99	20.62
OMV Petrom S.A.	Prepayments in relation with loan amounts drawn	-	(6.21)
Total interest bearing debts short term		391.05	463.95

14. INTEREST-BEARING DEBTS (continued)

As at December 31, 2011 and 2010 Petrom Group had the following loans:

Interest-bearing debts long-term			
Borrower	Lender	December 31, 2010	December 31, 2011
OMV Petrom S.A.	European Bank for Reconstruction and Development (a)	1,398.71	1,295.26
OMV Petrom S.A.	Black Sea Trade and Development Bank (b)	85.70	64.79
OMV Petrom S.A.	European Investment Bank (c)	557.02	837.20
OMV Petrom S.A.	Banks Consortium (agent: UniCredit Bank Austria AG) (e)	1,074.08	-
OMV Petrom S.A.	Banks Consortium (agent: UniCredit Bank Austria AG) (f)	350.00	-
OMV Petrom S.A.	Prepayments in relation with loan amounts drawn	-	(23.95)
Total interest-bearing debts long term		3,465.51	2,173.30

(a) During 2009, OMV Petrom S.A. concluded two loan agreements with European Bank for Reconstruction and Development:

(i) An unsecured corporate loan agreement for a maximum amount of EUR 200.00 million for the construction of the Power Plant in Petrobrazi. The agreement was signed on May 8, 2009 and the final maturity date is November 10, 2020. The drawings as at December 31, 2011 amounted to RON 818.15 million (equivalent of EUR 189.40 million) (December 31, 2010: RON 557.02 million, equivalent of EUR 130.00 million).

(ii) An unsecured corporate loan agreement for a maximum amount of EUR 275.00 million with the purpose of funding an environmental projects program in respect of various operations (upstream, midstream and downstream), dated March 31, 2009, with final maturity date November 16, 2015 (for an amount of EUR 150.00 million) and November 15, 2013 (for the remaining EUR 125.00 million). The drawings as at December 31, 2011 were RON 878.30 million (equivalent of EUR 203.33 million) (December 31, 2010: RON 1,178.33 million, equivalent of EUR 275.00 million).

(b) For the funding of the environmental program OMV Petrom S.A. concluded also a parallel unsecured corporate loan agreement with Black Sea Trade and Development Bank, for a maximum amount of EUR 25.00 million. The agreement was signed on April 27, 2009 and the final maturity date is November 15, 2015. The drawings as at December 31, 2011 amounted to RON 86.39 million (equivalent of EUR 20.00 million) (December 31, 2010: RON 107.12 million, equivalent of EUR 25.00 million).

(c) For funding the construction of the Petrobrazi Power Plant, OMV Petrom S.A. concluded also an unsecured loan agreement for an amount of EUR 200.00 million with European Investment Bank. The agreement was signed on May 8, 2009 and the final maturity date is June 15, 2023. The drawings as at December 31, 2011 were in value of RON 863.94 million (equivalent of EUR 200.00 million) (December 31, 2010: RON 557.02 million, equivalent of EUR 130.00 million).

14. INTEREST-BEARING DEBTS (continued)

- (d) Credit facility granted by Raiffeisen Bank S.A. up to EUR 95.00 million, with maturity date prolonged to December 31, 2013. The facility is not secured. This facility can be used as overdraft and for issuance of letters of guarantee and letters of credit in multi-currencies. Starting with September 29, 2010, the facility can be used in the same limit also by OMV Petrom Marketing S.R.L. but only for issuance of letters of guarantee and letters of credit.
- (e) On October 14, 2008 OMV Petrom SA concluded an unsecured revolving credit facility, for a maximum amount of EUR 375.00 million, with a consortium of banks that includes BRD – Groupe Société Générale S.A., Crédit Agricole Luxembourg S.A., Emporiki Bank-Romania S.A., Erste Group Bank AG, Raiffeisen Zentralbank Österreich AG, Société Générale Bank & Trust S.A. and UniCredit Bank Austria AG. In 2009 the final maturity was prolonged to October 14, 2012, however the agreement was canceled in November 2011 when a new facility with a different Banks Consortium, was signed (see Note (g)). The drawings as of December 31, 2010, in amount of RON 964.08 million (equivalent of EUR 225.00 million) and RON 110.00 million were fully reimbursed during 2011.
- (f) On December 21, 2009 OMV Petrom S.A. concluded a second revolving credit facility, unsecured, for a maximum amount of EUR 500.00 million, with a consortium of banks, as follows: Banca Românească S.A., BAWAG P.S.K. Bank, Caja de Ahorros y Pensiones de Barcelona, Erste Group Bank AG, Banca Comercială Română S.A., Eurobank EFG Private Bank Luxembourg AG, ING Bank N.V., Marfin Egnatia Bank S.A., Raiffeisen Bank S.A., Raiffeisen Zentralbank Österreich AG and UniCredit Tiriatic Bank S.A.. The final maturity date was December 21, 2012, but the agreement was canceled in November 2011 when a new facility was signed (see Note (g)). The drawings as at December 31, 2010, in value of RON 350.00 million, were fully reimbursed during 2011.
- (g) On November 22, 2011, OMV Petrom S.A. replaced the revolving credit facilities amounting to EUR 875.00 million contracted in 2008 and 2009 (see Notes (e) and (f)) with a new unsecured facility amounting to EUR 930.00 million. The Banks Consortium includes Banca Comercială Romana S.A., Banca Transilvania S.A., Barclays Bank PLC, BAWAG P.S.K. Bank, BRD – Groupe Société Générale S.A., CaixaBank SA, Citibank Europe plc, Fortis Bank SA/NV, ING Bank N.V., J.P. Morgan Europe Limited, OTP Bank Romania SA, Raiffeisen Bank International AG, Raiffeisen Bank SA, Bank of Tokyo Mitsubishi UFJ, Unicredit Bank Austria AG, Unicredit Tiriatic Bank SA. The final maturity date is November 22, 2014 with another two years extension option. No drawings from this facility were made as at December 31, 2011.
- (h) A Credit Offer of EUR 500.00 million was signed by OMV Petrom S.A. with OMV Aktiengesellschaft for funding the general corporate purposes. The agreement was signed on January 15, 2009 and the final maturity date is January 15, 2014. The facility was not used at December 31, 2011 and December 31, 2010. The facility is unsecured.

The Group companies have several overdraft facilities signed as at December 31, 2011 as follows:

- (i) An unsecured facility contracted by OMV Bulgaria OOD from Citibank Sofia, existing at December 31, 2011, with a maximum limit of BGN 39.48 million (equivalent of RON 87.20 million) and maturity date July 15, 2012. The destination of the facility is financing current operational activities

14. INTEREST-BEARING DEBTS (continued)

(overdraft) and issuance of letters of guarantee without cash collateral. There were no drawings under the overdraft facility as at December 31, 2011.

- (j) An unsecured facility contracted by OMV Bulgaria OOD from UniCredit Bulbank Sofia with a maximum limit of BGN 33.00 million (equivalent of RON 72.89 million) and maturity on June 30, 2012. The destination of the facility is financing current operational activities (overdraft) and issuance of letters of guarantee without cash collateral. No drawings were made under the overdraft facility as at December 31, 2011
- (k) An unsecured facility contracted by OMV Srbija DOO from Raiffeisen Bank Belgrade, with a maximum limit of EUR 4.50 million (equivalent of RON 19.44 million) and maturity prolonged to January 31, 2013. The destination of the facility is general corporate purposes financing on a roll-over basis and issuance of letters of guarantee without cash collateral. No drawings were made under the revolving facility as at December 31, 2011.
- (l) An overdraft facility of RON 85.00 million is in place with Banca Comerciala Intesa Sanpaolo Romania S.A. for general corporate expenditure, with maturity date April 23, 2012. No drawings were made under the facility as at December 31, 2011. The facility is not secured.
- (m) An uncommitted, unsecured facility contracted by OMV Petrom S.A. from ING Bank N.V., that can be used in USD, RON or EUR, in total amount of EUR 70.00 million (equivalent of RON 302.38 million), for the purpose of issuing guarantees and working capital financing. The portion for overdraft is of EUR 30.00 million (equivalent of RON 129.59 million). No drawings under the overdraft facility were made as at December 31, 2011.
- (n) A committed credit facility contracted by OMV Petrom S.A. from BRD – Groupe Société Générale S.A. that can be used in USD, RON or EUR, with maximum limit of EUR 53.00 million (equivalent of RON 228.94 million) and maturity date April 30, 2012. The credit is destined to finance the borrower's current activity. No drawings under the facility were made as at December 31, 2011. The credit is unsecured.

The Group companies have signed also facilities with several banks for issuing letters of guarantee, as follows:

- (o) A facility agreement was signed by OMV Petrom S.A. with Fortis Bank – Bucharest branch – for up to EUR 30.00 million (equivalent of RON 129.59 million), to be utilized only for issuance of letters of guarantee, with maturity date December 16, 2012. The facility is not secured.
- (p) Credit facility up to EUR 74.33 million (equivalent of RON 321.10 million) obtained by OMV Petrom S.A. from BRD – Groupe Société Générale S.A., to be utilized only for issuance of a letter of guarantee for fiscal authorities. The validity period for the credit facility is until April 30, 2012. The facility is not secured.
- (q) Credit facility received by OMV Petrom S.A. from Bancpost S.A., up to EUR 25.00 million (equivalent of RON 107.99 million), to be utilized only for issuance of letters of guarantee. The facility is not secured.

14. INTEREST-BEARING DEBTS (continued)

(r) Credit facility up to USD 3.00 million (equivalent of RON 10.02 million) obtained by OMV Petrom S.A. from RBS Bank Romania S.A, to be utilized only for issuance of letters of guarantee, with maturity date October 28, 2011 but with the possibility of utilization by tacit consent of the parties. The facility is not secured.

(s) The credit facility up to EUR 5.60 million (equivalent of RON 24.19 million) obtained by Petrom Aviation S.A. from Raiffeisen Bank for issuing of bank guarantees, prolonged until December 15, 2012.

As at December 31, 2011, Petrom Group is in compliance with financial covenants stipulated by the loan agreements.

Please refer also to Note 34 for details regarding fixed and variable interest rates of interest-bearing debt.

15. OTHER FINANCIAL LIABILITIES

	December 31, 2011	less than 1 year	over 1 year
Liabilities from hedge contracts	152.06	152.06	-
Finance lease liabilities	72.06	10.49	61.57
Other financial liabilities	403.58	316.61	86.97
Total	627.70	479.16	148.54
	December 31, 2010	less than 1 year	over 1 year
Finance lease liabilities	30.62	4.85	25.77
Other financial liabilities	449.86	297.25	152.61
Total	480.48	302.10	178.38

Liabilities from hedge contracts

To protect the Group's cash flow in 2012, OMV Petrom S.A. entered into crude oil hedges for a volume of 30,000 bbl/d. Liabilities from hedge contracts are valued at the market value of RON 142.63 million as at December 31, 2011. Furthermore, OMV Petrom Gas concluded RON/USD average rate forward contracts for the period November 2011 – February 2012, valued at the market value of RON 9.43 million as at December 31, 2011 (Please refer also to Notes 12 and 33).

Finance lease liabilities

Petrom Group acquired through finance lease mainly cars, trucks and power generators, which are held by OMV Petrom S.A., Petrom Aviation S.A. and OMV Petrom Marketing S.R.L.

A breakdown of present value of finance lease liabilities is presented below.

	December 31, 2010	December 31, 2011
Obligations under finance leases		
Amounts due within 1 year	6.92	14.60
Amounts due after more than 1 year but not later than 5 years	16.39	56.47
Amounts due after 5 years	49.54	49.30
Total lease obligations	72.85	120.37
Less future finance charges on finance leases	(42.23)	(48.31)
Present value of finance lease liabilities	30.62	72.06
Analysed as follows:		
Maturing within 1 year	4.85	10.49
Maturing after more than 1 year but not later than 5 years	9.78	45.23
Maturing after 5 years	15.99	16.34
Total present value of finance lease liabilities	30.62	72.06

15. OTHER FINANCIAL LIABILITIES (continued)

Maturity profile of financial liabilities

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted cash flows:

	< 1 year	1-5 years	> 5 years	Total
2011				
Interest-bearing debts	556.30	1,563.07	956.28	3,075.65
Trade payables	2,982.58	-	-	2,982.58
Other financial liabilities	483.26	105.76	93.53	682.55
Total	4,022.14	1,668.83	1,049.81	6,740.78
2010				
Interest-bearing debts	562.98	3,143.93	749.34	4,456.25
Trade payables	3,453.35	-	-	3,453.35
Other financial liabilities	304.13	103.93	123.58	531.64
Total	4,320.46	3,247.86	872.92	8,441.24

16. OTHER LIABILITIES

	December 31, 2011	less than 1 year	over 1 year
Deferred income	102.81	102.81	-
Tax liabilities	408.75	408.75	-
Social security	38.92	38.92	-
Other liabilities	61.08	61.08	-
Total	611.56	611.56	-
	December 31, 2010	less than 1 year	over 1 year
Deferred income	93.06	93.06	-
Tax liabilities	275.67	275.67	-
Social security	27.81	27.81	-
Other liabilities	81.55	81.55	-
Total	478.09	478.09	-

17. DEFERRED TAX

2011	Deferred tax assets before allowances	Allowances	Net deferred tax assets	Deferred tax liabilities
Tangible and intangible assets	170.91	23.10	147.81	405.61
Financial assets	45.62	-	45.62	7.26
Inventories	54.95	-	54.95	1.73
Receivables and other assets	82.10	42.86	39.24	-
Untaxed reserves	-	-	-	14.64
Provisions for pensions and severance payments	31.24	-	31.24	-
Other provisions	771.75	10.03	761.72	-
Liabilities	49.65	-	49.65	0.09
Tax loss carried forward	94.05	-	94.05	-
TOTAL	1,300.27	75.99	1,224.28	429.33
Netting (same tax jurisdiction/ country)			(417.06)	(417.06)
Deferred tax, net			807.22	12.27
Deferred tax for assets held for sale (see Note 11)	0.56	-	0.56	-
Deferred tax, TOTAL			807.78	12.27

2010	Deferred tax assets before allowances	Allowances	Net deferred tax assets	Deferred tax liabilities
Tangible and intangible assets	94.02	1.52	92.50	445.98
Financial assets	48.85	2.08	46.77	6.62
Inventories	50.25	-	50.25	-
Receivables and other assets	78.30	39.76	38.54	-
Untaxed reserves	-	-	-	17.89
Provisions for pensions and severance payments	47.55	-	47.55	-
Other provisions	777.55	35.06	742.49	-
Liabilities	35.46	-	35.46	0.07
Tax loss carried forward	124.41	-	124.41	-
TOTAL	1,256.39	78.42	1,177.97	470.56
Netting (same tax jurisdiction/ country)			(443.86)	(443.86)
Deferred tax, net			734.11	26.70
Deferred tax for assets held for sale (see Note 11)	0.38	-	0.38	-
Deferred tax, TOTAL			734.49	26.70

17. DEFERRED TAX (continued)

At the end of 2011, losses carry-forward for tax purposes amounted to RON 502.72 million (2010: RON 655.98 million). Eligibility of losses for carry-forward expires as follows:

	2010	2011
2011	8.01	-
2012	25.77	16.75
2013	11.06	3.54
2014	7.28	2.55
2015	71.38	14.95
2016/ After 2015	532.48	31.52
After 2016	-	433.41
Total	655.98	502.72

18. OTHER OPERATING INCOME

	December 31, 2010	December 31, 2011
Exchange gains from operating activities	149.48	104.05
Gains from the disposal of fixed assets	39.04	36.72
Write-up tangible and intangible assets	5.48	3.63
Other operating income	319.85	288.11
Total	513.85	432.51

Other operating income include sales of carbon certificates amounting to RON 67.69 million (2010: RON 168.32 million) and reassessment of retirement provision of RON 102.74 million following change in parameters as described in Note 13.

19. OTHER OPERATING EXPENSES

	December 31, 2010	December 31, 2011
Exchange losses from operating activities	122.10	120.02
Losses from the disposal of fixed assets	20.39	32.04
Expenses/ (Income) with provisions for litigations	71.87	(3.47)
Other operating expenses	1,065.69	1,258.61
Total	1,280.05	1,407.20

Other operating expenses include an amount of RON 8.03 million in 2011 (2010: RON 129.28 million) representing restructuring expenses. Also, other operating expenses for the year ended December 31, 2011 include an amount of RON 503.82 million representing the provision for the fine received from Romanian Competition Council and RON 120.17 million representing estimated costs in relation to Arpechim refinery permanent closure.

20. EARNINGS BEFORE INTEREST AND TAX PRESENTATION USING A CLASSIFICATION BASED ON NATURE OF EXPENSES

As at December 31, 2011 and December 31, 2010 earnings before interest and tax under the total cost method were as follows:

	December 31, 2010	December 31, 2011
Revenues	18,615.69	22,613.65
Inventory changes	82.80	(202.98)
Own work accounted for in fixed assets	247.34	475.93
Other operating income	508.37	428.88
Costs of material	(6,441.14)	(7,897.28)
Costs of energy	(460.03)	(426.23)
Other costs of production	(2,121.60)	(2,176.38)
Cost of material and services	(9,022.77)	(10,499.89)
Wages and salaries	(1,836.23)	(1,800.14)
Other personnel expenses	(248.67)	(123.32)
Personnel expenses	(2,084.90)	(1,923.46)
Depreciation and amortization	(2,130.22)	(2,327.79)
Impairment tangible and intangible assets	(681.40)	(502.42)
Depreciation, amortization and impairment	(2,811.62)	(2,830.21)
Transportation and postage expenses	(542.62)	(648.84)
Rental expenses	(218.00)	(225.22)
Advertising and protocol expenses	(75.89)	(77.73)
Insurance expenses	(41.38)	(49.99)
Travel expenses and daily allowances	(52.68)	(63.05)
Other operating expenses	(1,618.83)	(2,061.33)
Total other operating expenses	(2,549.40)	(3,126.16)
EARNINGS BEFORE INTEREST AND TAX	2,985.51	4,935.76

21. INCOME FROM ASSOCIATED COMPANIES

	December 31, 2010	December 31, 2011
Income from associated companies	4.43	0.26
Dividends from associated companies	2.29	2.86
Total income from associated companies	6.72	3.12

22. NET INTEREST EXPENSE

	December 31, 2010	December 31, 2011
Interest income		
Interest income from receivables	27.51	27.55
Interest income from short term bank deposits	30.77	15.77
Total interest income	58.28	43.32
Interest expense		
Interest expenses	(174.95)	(58.95)
Unwinding expenses for retirement benefits provision	(15.42)	(14.08)
Unwinding expenses for decommissioning provision	(303.15)	(226.85)
Other unwinding/ discounting expenses	(101.76)	(76.32)
Total interest expense	(595.28)	(376.20)
Net interest result	(537.00)	(332.88)

Total finance costs comprise mainly the interest expenses above but also other financing costs included in Note 23 below, as well as exchange losses (net) from financing activities, as per Note 23 below.

23. OTHER FINANCIAL INCOME AND EXPENSES

	December 31, 2010	December 31, 2011
Financial income		
Exchange gains from financing activities	366.03	172.61
Gains from disposal of investments	1.37	2.52
Total financial income	367.4	175.13
Financial expense		
Exchange losses from financing activities	(172.86)	(96.35)
Losses related to financial assets and securities	-	(9.11)
Other financing costs	(44.45)	(67.08)
Total financial expense	(217.31)	(172.54)
Other financial income and expenses	150.09	2.59

24. TAXES ON INCOME

	December 31, 2010	December 31, 2011
Taxes on income - current year	501.44	909.83
Deferred tax	(85.77)	(59.86)
Total taxes on income	415.67	849.97

The reconciliation of deferred taxes is as follows:

	December 31, 2010	December 31, 2011
Deferred taxes January 1	654.74	707.79
Deferred taxes December 31	707.79	795.51
Changes in deferred taxes	53.05	87.72
Deferred taxes on revaluation of securities and hedges charged directly to equity	(34.40)	24.30
Changes in consolidated Group, exchange differences and similar items	1.68	3.56
Deferred taxes per income statement	85.77	59.86
Reconciliation		
Net profit before taxation	2,605.32	4,608.59
Income tax rate applicable for Parent company	16.00%	16.00%
Profits tax based on income tax rate of the Parent	416.85	737.37
Effect of differing foreign tax rates	(61.09)	(13.91)
Profits tax based on applicable rates	355.76	723.46
Tax effect of permanent differences	59.91	126.51
Profits tax expense in Income Statement	415.67	849.97

Permanent differences in 2011 were generated mainly by the fine imposed by Romanian Competition Council to OMV Petrom S.A. and to OMV Petrom Marketing S.R.L. (Note 19) and by the impairment of the Kultuk exploration license in Kazakhstan (Note 5).

25. EARNINGS PER SHARE

Calculation of earnings per share is based on the following data:

	December 31, 2010	December 31, 2011
Net profit attributable to own shareholders	2,201.22	3,756.75
Weighted average number of shares	56,641,009,185	56,643,903,559
Earnings per share	0.0389	0.0663

The basic and diluted earnings per share are the same as there are no instruments that have a dilutive effect on earnings.

At the Annual General Meeting held on April 26, 2011, the shareholders of OMV Petrom S.A. approved the distribution of dividends for the financial year 2010 for the amount of RON 1,003 million, resulting into a dividend per share of 0.0177 RON.

26. SEGMENT INFORMATION

OMV Petrom is organized into four operating segments: Exploration and Production (E&P), Gas and Power and Refining and Marketing while Petrom Group management, financing activities and certain service functions are concentrated in the Corporate & Other segment.

Petrom Group's involvement in the oil and gas industry, by its nature, exposes it to certain risks. These include political stability, economic conditions, changes in legislation or fiscal regimes, as well as other operating risks inherent in the industry such as the high volatility of crude prices and US dollar. A variety of measures are used to manage these risks.

Apart from the integration of Petrom Group's upstream and downstream operations, and the policy of maintaining a balanced portfolio of assets in the E&P segment, the main instruments used are operational in nature. There is a Group-wide environmental risk reporting system in operation, designed to identify existing and potential obligations and to enable timely action to be taken. Insurance and taxation are also dealt with on a Group-wide basis.

Regular surveys are undertaken across Petrom Group to identify current litigation and pending court and administrative proceedings.

Business decisions of fundamental importance are made by the Executive Board of OMV Petrom S.A. The business segments are independently managed, as each represents a strategic unit with different products and markets.

E&P activities are mainly focused on Romania and Kazakhstan. In Romania, OMV Petrom S.A. is the only crude oil producer. E&P products are crude oil and natural gas.

Gas business unit has the objective to focus on gas sales and on the best use of the potential and opportunities resulting from the market liberalization. Business division **Power** is a newly established

26. SEGMENT INFORMATION (continued)

business with the purpose of diversifying the activity of OMV Petrom S.A. in the Romanian energy sector.

R&M produces and delivers gasoline, diesel and other petroleum products to its customers. **Refining** division includes two Romanian refineries, Arpechim and Petrobrazi. In March 2011 OMV Petrom S.A. announced the permanent closure of the Arpechim refinery. **Marketing** division delivers products to both Retail and Wholesales customers and operates in Romania, Bulgaria, Serbia and Moldova. OMV Petrom S.A. is the main player on the Romanian fuels market.

Operating segments:

December 31, 2011	E&P	Gas & Power	Refining & Marketing	Corporate & Other	Total	Consolidation	Consolidated total
Intersegment sales	11,172.10	436.24	161.96	576.91	12,347.21	(12,347.21)	-
Sales with third parties	571.34	3,190.68	18,795.16	56.47	22,613.65	-	22,613.65
Total sales	11,743.44	3,626.92	18,957.12	633.38	34,960.86	(12,347.21)	22,613.65
EBIT	5,236.32	148.84	(187.37)	(78.98)	5,118.82	(183.06)	4,935.76
Total assets*	18,716.01	2,930.96	5,079.04	729.25	27,455.26	-	27,455.26
Investments in PPE/IA	3,575.19	611.49	1,003.10	51.07	5,240.85	-	5,240.85
Depreciation and amortization	1,731.08	17.16	475.03	104.52	2,327.79	-	2,327.79
Impairment losses	410.14	-	89.31	2.97	502.42	-	502.42

*) Intangible assets (IA), property, plant and equipment (PPE).

Information about geographical areas:

December 31, 2011	Romania	Rest of CEE	Rest of world	Consolidation	Consolidated total
Sales with third parties**	17,411.27	4,291.35	911.03	-	22,613.65
Total assets*	25,050.77	1,030.37	1,374.12	-	27,455.26
Investments in PPE/IA	5,010.38	74.47	156.00	-	5,240.85

*) Intangible assets (IA), property, plant and equipment (PPE).

**) Sales are allocated per countries/regions based on the location where the risks and benefits are transferred to the customer.

Sales with third parties made in Rest of CEE include sales made in Bulgaria amounting to RON 2,939.46 million in 2011 (2010: RON 2,373.08 million).

The key figure of operating performance for Petrom Group is earnings before interest and tax (EBIT). In compiling the segment results, business activities with similar characteristics have been aggregated. Intra-Group sales and cost allocations by the parent company are determined in accordance with internal group policies. Management is of the opinion that the transfer prices of goods and services exchanged between segments correspond to market prices.

26. SEGMENT INFORMATION (continued)

Operating segments:

December 31, 2010	E&P	Gas & Power	Refining & Marketing	Corporate & Other	Total	Consolidation	Consolidated total
Intersegment sales	8,861.74	185.69	126.31	485.70	9,659.44	(9,659.44)	-
Sales with third parties	672.66	2,879.68	15,050.18	13.17	18,615.69	-	18,615.69
Total sales	9,534.40	3,065.37	15,176.49	498.87	28,275.13	(9,659.44)	18,615.69
EBIT	3,012.12	163.85	106.30	(135.48)	3,146.79	(161.28)	2,985.51
Total assets*	17,604.91	2,016.25	4,657.06	868.42	25,146.64	-	25,146.64
Investments in PPE/IA	3,021.50	1,207.98	782.02	154.33	5,165.83	-	5,165.83
Depreciation and amortization	1,570.08	5.54	433.94	120.66	2,130.22	-	2,130.22
Impairment losses	520.79	1.63	153.45	5.53	681.40	-	681.40

*) Intangible assets (IA), property, plant and equipment (PPE).

Information about geographical areas:

December 31, 2010	Romania	Rest of CEE	Rest of world	Consolidation	Consolidated total
Sales with third parties**	14,484.18	3,507.64	623.87	-	18,615.69
Total assets*	22,597.48	1,009.58	1,539.59	-	25,146.64
Investments in PPE/IA	4,798.16	65.39	302.28	-	5,165.83

*) Intangible assets (IA), property, plant and equipment (PPE).

**) Sales are allocated per countries/regions based on the location where the risks and benefits are transferred to the customer.

27. AVERAGE NUMBER OF EMPLOYEES

	December 31, 2010	December 31, 2011
Total Petrom Group	26,718	23,909
thereof:		
OMV Petrom S.A.	25,058	22,037
Other subsidiaries	1,660	1,872

Note: The number of employees was calculated as average headcount of 12 months number of employees.

28. RELATED PARTIES

Under IAS 24, details of relationships with related parties not included in consolidation must be disclosed. Enterprises and individuals are considered to be related if one party is able to control or exercise significant influence over the business of the other or if the parties are under common control.

The terms of the outstanding balances receivable from/payable to related parties are typically 10 to 60 days. The balances are unsecured and will be settled in cash. There are no significant provisions for doubtful debts relating to these balances and no significant expense recognized in the income statement in respect of bad or doubtful debts. There are no guarantees given or paid to related parties as at December 31, 2011 and December 31, 2010. Dividends receivable are not included in the below balances and revenues.

During 2011, Petrom Group had the following transactions with related parties (including balances as of December 31, 2011):

	Nature of transaction	Purchases	Balances payables
OMV Petrom S.A. - mother company			
OMV Supply & Trading AG	Acquisition of petroleum products	862.52	12.11
OMV Refining & Marketing GmbH	Acquisition of petroleum products	177.06	14.22
OMV Hungária Ásványolaj Korlátolt Felelősségű Társaság	Acquisition of bitumen	36.34	0.69
OMV Trading GmbH	Acquisition of electricity and other	53.74	16.97
OMV Exploration & Production GmbH	Delegation of personnel and other	28.93	7.02
OMV Solutions GmbH	Delegation of personnel and other	17.53	9.65
OMV Aktiengesellschaft	Delegation of personnel and other	18.79	13.31
OMV Austria Exploration & Production GmbH	Various services	2.48	-
OMV Deutschland GmbH	Various services	2.45	-
OMV Power International GmbH	Delegation of personnel and other	0.19	0.19
OMV Gas & Power GmbH	Delegation of personnel and other	0.98	-
Gas Connect Austria GmbH	Delegation of personnel and other	0.61	0.03
Congaz SA	Various services	0.03	0.01
Trans Gas LPG Services SRL	Various services	0.01	-
Total OMV Petrom S.A.		1,201.66	74.20

28. RELATED PARTIES (continued)

	Nature of transaction	Purchases	Balances payables
Petrom Group subsidiaries			
OMV Refining & Marketing GmbH	Acquisition of petroleum products	114.16	6.77
EconGas Hungária Földgázkereskedelmi Kft.	Acquisition of gas	198.41	11.84
OMV Hungária Ásványolaj Korlátolt Felelősségű Társaság	Acquisition of petroleum products	21.50	0.39
OMV Exploration & Production GmbH	Delegation of personnel	9.27	8.24
OMV Solutions GmbH	Delegation of personnel and other	7.32	1.22
OMV Aktiengesellschaft	Delegation of personnel and other	0.52	0.03
OMV - International Services Ges.m.b.H.	Financial services	1.03	24.00
OMV Slovenija trgovina z nafto in naftnimi derivati, d.o.o.	Acquisition of petroleum products	3.26	3.23
OMV Power International GmbH	Delegation of personnel and other	1.75	0.87
Petrol Ofisi A.Ş.	Acquisition of petroleum products	4.99	0.92
Congaz SA	Various services	0.01	1.63
Trans Gas LPG Services SRL	Various services	0.17	0.02
Petrom Nadlac SRL	Various services	0.50	-
Total subsidiaries		362.89	59.16
Total Petrom Group		1,564.55	133.36

28. RELATED PARTIES (continued)

	Nature of transaction	Revenues	Balances receivable
OMV Petrom S.A. - mother company			
OMV Supply & Trading AG	Sales of petroleum products	1,096.10	2.74
OMV Deutschland GmbH	Sales of propylene	276.30	32.10
OMV Solutions GmbH	Financial, IT and other services	34.59	15.30
OMV Aktiengesellschaft	Delegation of personnel and other	12.82	6.55
OMV Trading GmbH	Delegation of personnel and other	12.62	2.73
OMV Exploration & Production GmbH	Delegation of personnel and other	7.23	1.17
OMV Refining & Marketing GmbH	Delegation of personnel and other	1.45	0.25
Petrol Ofisi A.Ş.	Sales of petroleum products	0.18	-
OMV Finance Limited	Financial, IT and other services	0.07	0.01
OMV Southeast Caspian Upstream GmbH	Various services	0.02	-
OMV Gas & Power GmbH	Delegation of personnel and other	0.08	0.08
OMV Power International GmbH	Delegation of personnel and other	0.04	-
Total OMV Petrom S.A.		1,441.50	60.93
Petrom Group subsidiaries			
OMV - International Services Ges.m.b.H.	Other services	31.77	10.45
OMV Aktiengesellschaft	Delegation of personnel and other	2.87	0.37
OMV Trading GmbH	Delegation of personnel and other	-	0.01
OMV Refining & Marketing GmbH	Delegation of personnel and other	4.18	0.25
OMV Hrvatska d.o.o.	Sales of petroleum products	0.15	-
Linzer Agrotrade Romania	Sales of chemicals products	0.12	-
OMV Finance Limited	Financial, IT and other services	0.01	-
OMV BH d.o.o.	Sales of petroleum products	0.07	-
OMV Slovensko s.r.o.	Sales of petroleum products	0.01	-
OMV Power International GmbH	Delegation of personnel and other	0.03	0.03
Trans Gas LPG Services SRL	Various services	0.07	-
Total subsidiaries		39.28	11.11
Total Petrom Group		1,480.78	72.04

28. RELATED PARTIES (continued)

During 2010, Petrom Group had the following transactions with related parties (including balances as of December 31, 2010):

	Nature of transaction	Purchases	Balances payable
OMV Petrom S.A. - mother company			
OMV Deutschland GmbH	Acquisition of petroleum products	5.46	-
OMV Gas GmbH	Delegation of personnel and other	0.59	0.04
OMV Exploration & Production GmbH	Delegation of personnel and other	35.31	14.06
OMV Gas & Power GmbH	Delegation of personnel and other	1.94	0.03
OMV Hungária Ásványolaj Korlátolt Felelősségű Társaság	Acquisition of petroleum products	2.00	0.71
OMV Refining & Marketing GmbH	Acquisition of petroleum products	229.19	24.59
OMV Solutions GmbH	Delegation of personnel and other	6.91	1.31
OMV Supply & Trading AG	Acquisition of petroleum products	675.46	99.84
OMV Austria Exploration & Production GmbH	Various services	1.37	-
OMV Power International GmbH	Delegation of personnel and other	0.19	0.19
Borealis AG	Various services	0.61	-
Congaz SA	Various services	0.04	-
Petrol Ofisi A.Ş.	Acquisition of petroleum products	5.67	-
OMV Aktiengesellschaft	Delegation of personnel and other	4.21	0.65
Petrom Nadlac SRL	Various services	0.66	-
Trans Gas Services SRL	Various services	0.57	0.18
Total OMV Petrom S.A.		970.18	141.60
Petrom Group subsidiaries			
OMV - International Services Ges.m.b.H.	Other services	7.58	43.61
OMV Exploration & Production GmbH	Delegation of personnel and other	3.49	3.29
OMV Hungária Ásványolaj Korlátolt Felelősségű Társaság	Acquisition of petroleum products	17.94	0.04
OMV Refining & Marketing GmbH	Acquisition of petroleum products	71.60	16.64
OMV Solutions GmbH	Delegation of personnel and other	15.40	6.32
OMV Power International GmbH	Delegation of personnel and other	1.53	1.52
Congaz SA	Various services	0.15	-
OMV Aktiengesellschaft	Delegation of personnel and other	0.02	-
Petrom Nadlac SRL	Various services	0.11	-
OMV Hrvatska d.o.o.	Acquisition of petroleum products	0.03	0.02
EconGas Hungária Földgázkereskedelmi Kft.	Acquisition of gas	61.84	11.77
Petrol Ofisi A.Ş.	Acquisition of petroleum products	1.15	1.15
Trans Gas Services SRL	Various services	0.71	-
Total subsidiaries		181.55	84.36
Total Petrom Group		1,151.73	225.96

28. RELATED PARTIES (continued)

	Nature of transaction	Revenues	Balances receivable
OMV Petrom S.A. - mother company			
OMV Deutschland GmbH	Sales of propylene	224.64	31.76
OMV Refining & Marketing GmbH	Delegation of personnel and other	43.52	-
OMV Supply & Trading AG	Sales of petroleum products	610.25	62.22
OMV Solutions GmbH	Financial, IT and other services	13.28	4.49
Borealis AG	Various services	0.06	-
Petrol Ofisi A.Ş.	Sales of petroleum products	0.16	-
Petrom Nadlac SRL	Sales of petroleum products	0.01	-
OMV Finance Limited	Financial, IT and other services	0.12	0.14
Trans Gas Services SRL	Various services	0.01	-
Total OMV Petrom S.A.		892.05	98.61
Petrom Group subsidiaries			
OMV - International Services Ges.m.b.H.	Other services	54.28	20.52
OMV BH d.o.o.	Sales of petroleum products	0.51	-
OMV Hrvatska d.o.o.	Sales of petroleum products	1.03	0.04
OMV Refining & Marketing GmbH	Delegation of personnel and other	4.22	0.42
OMV Slovenija trgovina z nafto in naftnimi derivati, d.o.o.	Sales of petroleum products	0.27	-
OMV Slovensko s.r.o.	Sales of petroleum products	0.27	0.02
OMV Solutions GmbH	Financial, IT and other services	0.27	0.06
Borealis AG	Sales of petroleum products	0.02	-
Trans Gas Services SRL	Sales of petroleum products	0.08	0.02
Total subsidiaries		60.95	21.08
Total Petrom Group		953.00	119.69

Ultimate parent

As disclosed in Note 1, OMV Petrom S.A.'s major shareholder is OMV Aktiengesellschaft, being the ultimate parent of the Group and it is based in Austria. The majority of OMV Aktiengesellschaft shares are held by Österreichische Industrieholding AG (ÖIAG – 31.5%) and International Petroleum Investment Company (IPIC, Abu Dhabi – 24.9%).

Key management remuneration

Each member of the Supervisory Board is entitled to receive a net amount of EUR 20,000 per year as remuneration for its service for the year ended December 31, 2011.

At December 31, 2011 there are no loans or advances granted by the Group to the members of the Supervisory Board.

At December 31, 2011, the Group does not have any obligations regarding pension payments to former members of the Supervisory Board.

29. DIRECT AND INDIRECT INVESTMENTS OF PETROM GROUP WITH AN INTEREST OF AT LEAST 20% AS OF DECEMBER 31, 2011

Company Name	Share interest percentage	Consolidation treatment*	Activity	Country of incorporation
Subsidiaries (>50%)				
TASBULAT OIL CORPORATION LLP	100.00%	FC	Oil exploration and drilling in Kazakhstan	Kazakhstan
OMV PETROM WIND POWER S.R.L. ¹	99.99%	FC	Eolian power production	Romania
KORNED LLP	100.00%	FC	Oil exploration and drilling in Kazakhstan	Kazakhstan
OMV PETROM GAS S.R.L.	99.99%	FC	Gas distribution	Romania
ICS PETROM MOLDOVA S.A.	100.00%	FC	Fuel distribution	Moldova
PETROMED SOLUTIONS S.R.L.	99.99%	FC	Medical services	Romania
PETROM DISTRIBUTIE GAZE S.R.L.	99.99%	FC	Gas distribution	Romania
PETROM LPG S.A.	99.99%	FC	LPG distribution	Romania
OMV BULGARIA OOD	99.90%	FC	Fuel distribution	Bulgaria
OMV PETROM MARKETING S.R.L.	100.00%	FC	Fuel distribution	Romania
OMV SRBIJA DOO	99.90%	FC	Fuel distribution	Serbia
TASBULAT OIL CORPORATION BVI	100.00%	NC	Holding company	British Virgin Islands
PETROM NADLAC S.R.L.	98.51%	NC	Fuel distribution	Romania
PETROM AVIATION S.A. ²	99.99%	FC	Airport services	Romania
KOM MUNAI LLP	95.00%	FC	Oil exploration and drilling in Kazakhstan	Kazakhstan
PETROCHEMICALS ARGES S.R.L.	95.00%	NC	Refining petrochemicals production	Romania
TRANS GAS LPG SERVICES S.R.L.	80.00%	NC	LPG transportation related services	Romania
PETROM EXPLORATION & PRODUCTION LIMITED	50.00%	FC	Exploration and production services	Isle of Man
Associated companies (20-50%)				
FRANCIZA PETROM 2001 S.A.	40.00%	NAE	Oil products distribution	Romania
BRAZI OIL & ANGHELESCU PROD COM SRL	37.70%	NAE	Oil products distribution	Romania
Fontegas PECO MEHEDINTI S.A.	37.40%	NAE	Fuel distribution	Romania
CONGAZ S.A.	28.59%	EM	Natural gas distribution	Romania
ASOCIATIA ROMANA PENTRU RELATIA CU INVESTITORII	20.00%	NAE	Public relations and public representation	Romania

¹ Wind Power Park S.R.L. changed its name into OMV Petrom Wind Power S.R.L. as of November 7, 2011.

² As of December 1, 2011, the activities of Aviation Petroleum S.R.L. were merged into Petrom Aviation S.A.

*) Consolidation treatment:

FC Full consolidation

EM Accounted for at equity (associated company)

NC Not – consolidated subsidiary (companies of relative insignificance individually and collectively to the consolidated financial statements)

NAE Other investment recognized at cost (associated companies of relatively little importance to the assets and earnings of the consolidated financial statements).

Most of the subsidiaries which are not consolidated have very low volumes of business; the total sales, net income/losses and equity of such companies represent less than 1% of the consolidated totals.

30. CASH FLOW STATEMENT INFORMATION

a) Drawings and repayments of borrowings

During 2011 OMV Petrom S.A. has repaid borrowings amounting to RON 2,632.97 million and has drawn borrowings amounting to RON 1,433.74 million (2010: repaid borrowings amounting to RON 2,284.49 million and has drawn borrowings amounting to RON 3,116.92 million).

b) Acquisition of subsidiaries

During the year ended December 31, 2010, Petrom Group acquired 99.99% of shares of OMV Petrom Wind Power S.R.L., a company based in Romania that has as object of activity the production of eolian power. This transaction has been accounted for as a business combination in accordance with IFRS 3.

During 2011, Petrom Group did not acquire any company.

Net assets of acquired subsidiaries and businesses at the date of acquisition were as follows:

	December 31, 2010	December 31, 2011
Intangible assets	39.38	-
Property, plant and equipment	12.69	-
Trade and other receivables	0.54	-
Trade and other liabilities	(11.31)	-
Deferred tax liability, net	(6.44)	-
Share of net assets at the acquisition date	34.86	-
Goodwill arising on acquisition	0.56	-
Total consideration transferred	35.42	-
- thereof paid until end of the year	35.42	-
Consideration paid on acquisition of subsidiaries during the year	35.42	-
Payments of cash for subsidiaries previously consolidated	32.99	-
Cash used on acquisition net of cash acquired	68.41	-

30. CASH FLOW STATEMENT INFORMATION (continued)

c) Disposal of subsidiaries

During August 2010, Petrom Group disposed Ring Oil Holding & Trading Ltd and its subsidiaries (LLC Management Company Corsarneft, LLC Artamira, OJSC Chalykneft, OJSC Karneft, Oil Company Renata LLC, LLC Neftepoisk, CJSC Saratovneftedobycha).

During 2011, Petrom Group did not dispose any company.

Net assets of disposed subsidiaries at the date of disposal were as follows:

	December 31, 2010	December 31, 2011
Mineral interests unproved reserves and other intangibles	77.07	-
Property, plant and equipment	2.37	-
Investments	237.26	-
Inventories	0.92	-
Trade and other receivables	5.30	-
Cash and cash equivalents	13.28	-
Deferred tax liability, net	(7.91)	-
Provisions for decommissioning and restoration obligations	(0.98)	-
Loans payable	(21.92)	-
Trade and other liabilities	(2.11)	-
Less cost of investment in indirect holdings	(237.26)	-
Net assets disposed off	66.02	-

Gain on disposal of subsidiaries

	December 31, 2010	December 31, 2011
Consideration to be received	52.04	-
Net assets disposed off	(66.02)	-
Non-controlling interests	16.57	-
Cumulative exchange differences in respect of the net assets of the subsidiaries reclassified from equity on loss of control of subsidiaries	28.31	-
Gain on disposal of subsidiaries	30.90	-

Net cash flow on disposal of subsidiaries

	December 31, 2010	December 31, 2011
Net consideration received in cash and cash equivalents	6.35	49.02
Less cash and cash equivalents balances disposed off	(13.28)	-
Net cash inflow / (outflow) on disposal of subsidiaries	(6.93)	49.02

30. CASH FLOW STATEMENT INFORMATION (continued)

In addition to the consideration above, during 2011 Ring Oil Holding & Trading Ltd reimbursed to Petrom Group a loan in amount of RON 10.23 million, therefore the total cash inflow on disposal of subsidiaries during 2011 amounted to RON 59.25 million.

d) Exploration cash-flows

The amount of cash outflows in relation to exploration activities incurred by Petrom Group for the year ended December 31, 2011 is of RON 495.71 million (2010: RON 288.27 million), out of which the amount of RON 108.75 million is related to operating activities (2010: RON 89.80) and the amount of RON 386.96 million represents cash outflows for exploration investing activities (2010: RON 198.47 million).

31. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Estimates of fair value at year end date, discussed below, are normally based on the market information available. The fair value of other financial assets and securities and investments is calculated primarily on the basis of quoted market prices. Where no quoted price and no present value can be established, the determination of a fair value is not feasible.

The book values of accounts receivable and other assets and cash in hand, checks and cash at bank are reasonable estimates of their fair values, as the assets in question generally have maturities of less than one year.

The fair value of financial liabilities, for which market prices are not available, was established by discounting future cash flows using the interest rates prevailing at year end date for similar liabilities with like maturities.

The carrying values of tax provisions and other current provisions is the same as their fair value. The fair value of non-current provisions is not considered to differ materially from their carrying value.

The carrying value of other liabilities is effectively the same as their fair value, because they are predominantly short-term. The fair value of derivative financial instruments corresponds to their market value.

The following overview presents the measurement of financial instruments (assets and liabilities) recognized at fair value. In accordance with IFRS 7, the individual levels are defined as follows:

Level 1: Using quoted prices in active markets for identical assets or liabilities.

Level 2: Using inputs for the asset or liability, other than quoted prices, that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Using inputs for the asset or liability that are not based on observable market data such as prices, but on internal models or other valuation methods.

31. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Fair value hierarchy as at December 31, 2011

Financial instruments on liability side	Level 1	Level 2	Level 3	Total
Derivatives designated and effective as hedging instruments	9.43	142.63	-	152.06
Other derivatives	(0.05)	-	-	(0.05)
Total	9.38	142.63	-	152.01

As at December 31, 2010 there are no balances in relation to derivative financial instruments.

32. COMMITMENTS AND CONTINGENCIES

Commitments

As at December 31, 2011 the total commitments engaged by Petrom Group for investments is of 1,323.57 million (December 31, 2010: RON 1,816.86 million), out of which RON 1,250.16 million related to property, plant and equipment (December 31, 2010: RON 1,767.67 million) and RON 73.41 million for intangible assets (December 31, 2010: RON 49.19 million).

Other contingencies

Cash and bank accounts as at December 31, 2011 include an amount of RON 102.98 million representing cash restricted, mainly in relation with several litigation cases (December 31, 2010: RON 140.30 million).

Litigations

Petrom Group provides for litigations that are likely to result in obligations. Management is of the opinion that litigations, to the extent not covered by provisions or insurance, will not materially affect Petrom Group's financial position. The production facilities and properties of all Group companies are subject to a variety of environmental protection laws and regulations in the countries where they operate; provisions are made for probable obligations arising from environmental protection measures. The management believes that compliance with current laws and regulations, and future more stringent laws and regulations, will not have a material negative impact on consolidated results.

Contingent liabilities

Petrom Group has contingent liabilities representing performance guarantees in amount of RON 19.76 million as at December 31, 2011 (December 31, 2010: RON 10.46 million).

33. INTERESTS IN JOINT VENTURES

OMV Petrom S.A. entered into a farmout arrangement with ExxonMobil Exploration and Production Romania Limited with the purpose to explore and develop the Neptun Deepwater block in Black Sea and has a participating interest of 50%. Starting August 2011, ExxonMobil has been appointed as operator (previously OMV Petrom S.A. was operator).

OMV Petrom S.A. entered into a farmout arrangement with Hunt Oil Company of Romania SRL with the purpose to explore and develop Adjud and Urziceni East onshore blocks and has a participating interest of 50%. OMV Petrom S.A. has been appointed as operator.

Joint activities described above are classified as jointly controlled asset according with IAS 31.

OMV Petrom's share of the aggregate capital commitments for the two joint ventures as at December 31, 2011 is amounting RON 39.00 million. These commitments do not include commitments relating to the extensions that are optional after November 9, 2013.

34. RISK MANAGEMENT

Capital risk management

Petrom Group continuously manages its capital adequacy to ensure that its entities will be optimally capitalized in balance with their risks exposure in order to maximize the return to stakeholders. The capital structure of Petrom Group consists of equity attributable to equity holders of the parent (comprising issued capital, reserves and revenue reserves as disclosed in the "Consolidated Statement of Changes in Equity") and debt (which includes the short and long term borrowings disclosed in Note 14, cash and cash equivalents). Capital risk management at Petrom Group is part of the value management and it is based on permanent review of the gearing ratio of the group.

The gearing ratio of Petrom Group calculated as $\text{net debt}/(\text{equity}) \times 100$ was 9% as at December 31, 2011 (December 31, 2010: 12%) showing a decreasing exposure to leverage risk. Net debt is calculated as interest-bearing debts including financial lease liability, less cash and cash equivalents.

Petrom Group's management reviews the capital structure as well as group risk reports regularly. As part of this review, the cost of capital and the risks associated with each class of capital are being considered.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 3 to the financial statements.

Financial risk management objectives and policies

Petrom Group does not enter into or trade financial instruments for speculative purposes. The Risk Management function reports twice per year to Petrom Group's Executive Board and Supervisory

34. RISK MANAGEMENT (continued)

Board's Audit Committee, that monitors all risks and policies implemented to mitigate Petrom Group's risk exposures.

Risk exposures and responses

Petrom Group's Risk Management function 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 Risk Management function monitors and manages all risks of Petrom Group companies through and integrated process in line with ISO 31000, by internal risk reports and regular assessments which analyze all risk exposures and their cash flow magnitude in comparison with the risk appetite.

Aside the business operational and strategic category of exposures, the market & financial risk category plays an important role in Petrom Group's risk profile and is managed with special diligence – market & financial risk includes, among others, foreign exchange risk, interest rate risk, counterparty credit risk, commodity market price risk and liquidity risk.

The objective of Petrom Group's Risk Management function is to secure positive economic value added for medium term time horizon by managing the company's consolidated cash flow exposure below the risk appetite. High potential single event risks are monitored individually.

Response wise, any risk coming near to their significance levels or rapidly developing risks which are sensitive to the risk appetite level are monitored and alerts are issued; for these situations individual and case specific treatment plans are proposed, approved and implemented immediately in order to decrease the exposures up to acceptable levels.

Commodity Market Price Risk

Commodity Market Risk 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 midterm liquidity. The market price risks of Petrom Group commodities are very closely analyzed, quantified, evaluated and mitigated when required in order to secure their expected returns within Petrom Group's midterm objectives.

Financial instruments are used where appropriate to hedge the main industry risks associated with price volatility such as the highly negative impact of low oil prices on cash flow.

In order to protect the Group's cash flow in 2012, OMV Petrom S.A. continued using the same hedging strategy for 2012 as well and in September 2011 entered into oil price swaps, locking in a Brent price of USD 101/bbl for a volume of 30,000 bbl/d, which is around 30% 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. As at December 31, 2011 the fair value amounted to RON 142.63 million, same as the related liability (see Note 15).

In 2011, OMV Petrom S.A. entered into oil price swaps, locking in a Brent price of approximately USD

34. RISK MANAGEMENT (continued)

97/bbl for a volume of 25,000 bbl/d, which was around 30% of the domestic crude oil production. The hedge was realized until end of 2011, resulting in an expense of RON 403.34 million in OMV Petrom S.A..

In order to protect Petrom Group's cash flow from the adverse impact of falling oil prices, derivative instruments have been used to hedge the proceeds from the production of 38,000 bbl/d in 2010, securing a price floor of USD 54/bbl via the sale of a price cap of USD 75/bbl (zero-cost structure). The hedges were over-the-counter (OTC) contracts with first class banks and were settled on a quarterly basis in 2010. As at December 31, 2009 the fair value of the hedges for 2010 production amounted to RON 411.65 million and represented a financial liability. The hedge was realized until end of 2010 resulting in an expense of RON 6.17 million in 2010 income statement in OMV Petrom S.A..

There is no balance sheet exposure as of December 31, 2011 or 2010 for which a sensitivity analysis to be presented.

Foreign exchange risk management

Because Petrom Group operates in many countries and currencies, industry specific activities and the corresponding exchange risks are being analyzed. Petrom Group is mostly exposed to the movement of the US dollar and Euro against Romanian leu. Other currencies have only limited impact on cash flow and EBIT.

Foreign currency sensitivity analysis

The carrying amounts of Petrom Group's foreign currency denominated monetary assets and liabilities at the reporting date are as follows:

	Assets		Liabilities	
	December 31, 2010	December 31, 2011	December 31, 2010	December 31, 2011
Thousand USD	782,203	654,005	107,032	96,566
Thousand EUR	95,669	107,413	886,585	705,019

Translation risk arises on the consolidation of subsidiaries preparing their financial statements in other currencies than in Romanian lei but also from the consolidation of assets and liabilities naturally denominated in foreign currency. The largest exposures result from changes in the value of the US dollar and Euro against the Romanian lei.

The following table details Petrom Group's sensitivity to a 10% increase and decrease in the USD and EUR against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit generated by a 10% currency fluctuation and a negative number below indicates a decrease in profit with the same value.

34. RISK MANAGEMENT (continued)

+10% Sensitivity increase in the foreign currencies rates

	Thousand USD Impact (i)		Thousand EUR Impact (ii)	
	2010	2011	2010	2011
Profit/ (Loss)	67,517	60,010	(79,092)	(59,761)
Other equity	-	(4,266)	-	-

-10% Sensitivity decrease in the foreign currencies rates

	Thousand USD Impact (i)		Thousand EUR Impact (ii)	
	2010	2011	2010	2011
Profit/ (Loss)	(67,517)	(60,010)	79,092	59,761
Other equity	-	4,266	-	-

(i) This is mainly attributable to the exposure on USD cash, receivables, payables, financial assets and financial liabilities at the year end.

(ii) This is mainly attributable to the exposure on EUR loans and trade payables at the year end.

The above sensitivity analysis of the inherent foreign exchange risk shows the exposure at the end of the year; however the exposure during the year is continuously monitored and managed by Petrom Group.

In June 2011, OMV Petrom Gas S.R.L. concluded RON/USD average rate forward contracts for the period November 2011 – February 2012 where OMV Petrom Gas sells USD 29.97 million with monthly pricing and settlement, locking in the RON/USD average rate. This instrument is aimed to protect the cash flows from planned sales of gas to domestic clients during November 2011 – February 2012 against depreciation of USD versus RON, as gas purchases were linked to USD/RON exchange rate, while the sales formula price is linked to USD/RON exchange rate.

Interest rate risk management

To facilitate management of interest rate risk, Petrom Group's liabilities are analyzed in terms of fixed and variable rate borrowings, currencies and maturities.

The sensitivity analyses below have been determined based on the exposure to interest rates for borrowings at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 1% increase or decrease is represents management's assessment of the reasonably possible change in interest rates (with all other variables held constant).

Analysis for change in interest rate risk

Variable rate borrowings:

	Balance as at		Effect of 1% change in interest rate	
	December 31, 2010	December 31, 2011	December 31, 2010	December 31, 2011
Short term borrowings	358.06	449.54	3.58	4.50
Long term borrowings	3,465.51	2,197.25	34.66	21.97

34. RISK MANAGEMENT (continued)

Counterparty Credit Risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to Petrom Group. The main counterparty credit risks are assessed, monitored and managed at Petrom Group level using predetermined limits for specific countries, banks and business partners. 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. For all counterparties depending on their liquidity class, parts of their credit limits is secured via liquid contractual securities such as bank guarantee letters, credit insurance and other similar instruments. The credit limit monitoring procedures are governed by strict guidelines.

Petrom Group does not have any significant credit risk concentration exposure to any single counterparty or any group of counterparties having similar characteristics. Petrom Group defines counterparties as having similar characteristics if they are related entities.

Liquidity risk management

For the purpose of assessing liquidity risk, budgeted operating and financial cash inflows and outflows throughout Petrom Group 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. To ensure that Petrom Group remains solvent all the times and retains the necessary financial flexibility, liquidity reserves in form of committed credit lines are maintained. The maturity profile of the Group financial liabilities is presented in Note 15.

35. SUBSEQUENT EVENTS

On January 9, 2012, OMV Petrom S.A. 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 (EEPRL), an affiliate of Exxon Mobil Corporation. On February 22, 2012, OMV Petrom S.A. 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 cf (42 to 84 billion cubic meters). Still, it is too early in the data evaluation and exploration process to determine whether the Neptun block will ultimately prove to be commercially developable or not.

On March 16, 2012, OMV Bulgaria OOD was notified upon infringement of the competition rules by the Bulgarian Commission for Protection of Competition. OMV Bulgaria OOD has been provided 30 days to provide written arguments and evidence. At the date of these financial statements, we are not able to evaluate the outcome of this investigation and we did not record any provision.

Image Glossary



Petrom City

OMV Petrom S.A.'s new official headquarters was inaugurated in December 2010 and hosts the company's central operations (around 2,500 employees). It represents an architectural landmark for the Northern area of Bucharest and a milestone for our evolution as a company, for our objectives and values.

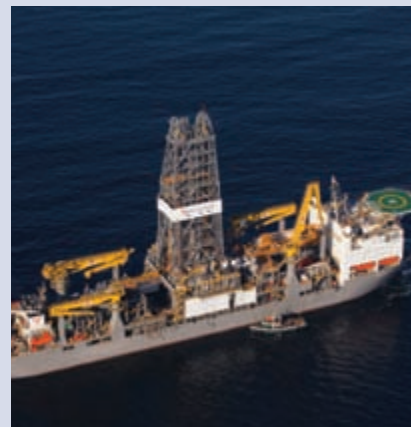
Petrom City is formed of two office buildings, a modern data center, a 5 MW power plant and a 900 spaces parking area, on a constructed surface of 100,000 m² being one of the biggest projects on the Romanian real estate market.

The high energy efficiency of the buildings, around 90%, compared to an average of 40 – 60% present in most recently constructed buildings, contributes to the uniqueness of the project in Romania.



Gloria Platform

Built in Galati Shipyard between 1974 and 1976, the platform started drilling in the Black Sea in 1976, with the first oil discovery registered in 1980 – East Lebada field. In May 1987 started oil production from East Lebada field using Gloria as production unit. Since 1998 Gloria platform has been located on Sinoe field to facilitate the oil field production and to perform workovers.



Deepwater Champion (DWC)

Transocean's ultra-deepwater drillship, Deepwater Champion, was contracted by the joint venture OMV Petrom S.A.-ExxonMobil Exploration and Production Romania Limited with the purpose of performing drilling operations in the deepwater Neptun block of the Black Sea. Drilling operations in the Neptun block started at the end of 2011, with Domino-1, the first deepwater exploration well in Romania. The DWC is equipped with the most advanced offshore drilling technology and holds the record for drilling in the deepest water depth in Romanian history. The rig features Transocean's patented dual-activity drilling technology for conducting work in parallel steps using two drilling systems in one derrick. The DWC can drill wells as deep as 12,191 m and operate in water depths up to 3,048 m.



Dorobantu wind park

The wind park Dorobantu started commercial operations in October 2011, marking Petrom's entry into the power business.

The park has an installed capacity of 45 MW and is located in Dobrogea (Southeast Romania), an area with a high wind potential. The park is equipped with 15 Vestas-V90 turbines.

The total investments amounted to approximately EUR 90 mn.



FCC Gasoline Hydrotreater

Petrobrazi refinery's new hydrotreating unit with Axen's Prime technology was put in production in March 2009. The unit, with a capacity of 2,100 t/h is used for the production of gasoline with low sulphur content (max. 10 ppm) while minimizing octane loss. Since the beginning of 2009 Petrom supplies only low sulphur fuels in compliance with the EU environment and quality standards.

The total investments amounted to more than EUR 90 mn.



Tank Farm Albotesti

The tank farm, with a storage capacity of 14,300 cbm, takes over oil from parks, treats and delivers oil and treats the water for injection. The tank farm was modernized between 2006 and 2009 and put in function in 2010. It is the first and only modernized tank farm from Petrom. Main benefits of the modernization are: reduction of maintenance costs, reduction of electrical and thermal energy consumption, reduction of operations personnel.

Petrom Group in figures 2011



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