

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

In 2014, the Supervisory Board thoroughly reviewed the position and prospects of OMV Petrom Group ("the Group") and performed its functions according to the relevant laws, the Articles of Association, the applicable Corporate Governance Code and the relevant internal regulations. We coordinated with the Executive Board on important management matters of OMV Petrom S.A. and its subsidiaries, monitored their work, and we were involved in the Group's key decisions. Where required by law, the Articles of Association, or internal regulations, the Supervisory Board adopted resolutions following a comprehensive analysis.

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

The consolidated financial statements and audit report were presented to the Supervisory Board for examination in a timely manner. Ernst & Young audited the 2014 consolidated financial statements, reviewed the conformity of the Directors' Report with the consolidated financial statements and issued an unqualified audit opinion. The auditors attended the relevant meeting of the Audit Committee convened to adopt the accounts. The Audit Committee discussed the consolidated financial statements with the auditors and examined them carefully. The Audit Committee reported to the Supervisory Board on its examination and recommended the approval of the annual consolidated financial statements, including the management reports.

We have also reviewed and analyzed attached report of the Executive Board ("Directors' Report") presented as Appendix 1 which gives a true and fair view of the development and performance of the business and the financial position of the Group, together with a description of the principal risks and associated uncertainties as of December 31, 2014.

Hence, the consolidated financial statements of OMV Petrom Group prepared in accordance with IFRS were approved in today's Supervisory Board meeting in line with the Audit Committee's recommendation and will further be submitted for discussion in the General Meeting of Shareholders to be held on April 28, 2015.

**Bucharest, March 24, 2015**

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



# Appendix 1

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

OMV Petrom Group financials <sup>1</sup> (RON mn)	2013	2014	Δ(%)
Sales revenues	24,185	21,541	(11)
Earnings before interest and taxes (EBIT)	5,958	3,338	(44)
Net income	4,824	2,100	(56)
Net income attributable to stockholders	4,821	2,103	(56)
Cash flow from operations	8,048	6,830	(15)
Capital expenditures	5,303	6,239	18
Employees at the end of period	19,619	16,948	(14)

In 2014, OMV Petrom generated an operating result (EBIT) of RON 3,338 mn, 44% below previous year's level, mainly due to the impact of lower selling prices for petroleum products following the decrease of international quotations and the impairments in the G&P segment and in the E&P segment (Kazakhstan). The introduction of the construction tax and higher additional tax on natural gas sales in Romania further negatively affected the EBIT of the year. Net special charges totaled RON (1,592) mn, mainly related to impairment in Kazakhstan triggered by unsuccessful field redevelopment results in the TOC fields and the impairment of the Brazil power plant due to the revised long-term market perspective.

The return on average capital employed (ROACE)<sup>2</sup> stood at 7.6% while Clean CCS ROACE was 13.6%. The gearing ratio was 3%, helped by the low level at the beginning of the year as well as the good cash flow from operations.

In 2014, we remained the largest investor in the energy sector in Romania with capital expenditures of RON 6,239 mn, 18% higher than in 2013, mostly dedicated to our E&P projects.

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

In exploration, in 2014 we have intensified our activity, with a focus on offshore exploration drilling. In the deepwater sector of the Neptun block, in joint venture with EMEPRL, we progressed further the exploration activity, with the drilling of Domino-2. This well started in July and was completed in October 2014 in order to determine the commercial viability of the Domino discovery. Drilling sequence continued with Pelican-South-1 exploration well.

In the shallow waters of the Black Sea, we have made the Marina 1 oil discovery, which is currently under assessment.

Onshore, we made the largest oil and gas discovery in the Moesian platform during the last 30 years with the Padina North well, drilled in JV with Hunt Oil. The well was tested and indicates a potential production of 1,200 – 2,100 boe/day from two geological layers.

<sup>1</sup> **Note:** In this report, "the company", "OMV Petrom", "OMV 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 OMV Petrom Group's consolidated results prepared according to IFRS; all the figures refer to OMV Petrom Group unless otherwise stated. Figures may not add up due to rounding differences.

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

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

The exploration license for nine blocks covering an area of approx. 19,000 km<sup>2</sup> has been prolonged until September 2017 and one block was relinquished. All nine blocks currently in exploration are under a single concession agreement for exploration, development and production. OMV Petrom has entered into partnerships with Hunt Oil for two blocks, and respectively with Repsol for four blocks.

In **G&P**, OMV Petrom's gas sales volumes reached 4.4 bcm, supplying more than one-third of Romania's estimated gas consumption in 2014. In line with our strategy to optimize downstream operations, we sold the 28.59% interest in the non-core gas distribution and supply company Congaz S.A. to GDF SUEZ Energy Romania S.A. in 2014. The power business generated a total net electrical output of 1.3 TWh (accounting for ~2% of the national electricity production), mostly from the Brazi power plant.

In **R&M**, 2014 was the first year after privatization with positive Clean CCS EBIT contribution from both businesses, supported by increased refining margins, improved operational performance after the refinery modernization and good marketing result.

Following the finalization of the Petrobrazi refinery modernization program in Romania, the opportunity has been taken to adapt the standard yield for the calculation of the indicator refining margin in Q3/14. The successful completion of this program adds approx. USD 5/bbl to the standard profitability of the refinery prior to modernization.

The utilization rate for Petrobrazi refinery stood at 89%, reflecting the one-month planned refinery shutdown in Q2/14. Last year, we also started operations at Bacău fuel terminal and began reconstruction works at the Cluj terminal, both part of the fuel terminal network optimization program.

In Marketing, total sales volumes decreased by 7% compared with 2013, affected by increased taxation in Romania and higher competition in our operating region. The Group market share stood at 24%, broadly in line with the previous year.

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

EBIT (RON mn)	2013	2014	Δ %
Exploration and Production <sup>1</sup>	5,529	3,932	(29)
Gas and Power	112	(818)	n.m.
Refining and Marketing	386	(79)	n.m.
Corporate and Other	(97)	(151)	55
Consolidation: elimination of intercompany profits	29	454	n.m.
<b>OMV Petrom Group EBIT</b>	<b>5,958</b>	<b>3,338</b>	<b>(44)</b>

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

In **E&P**, EBIT decreased by 29% compared to 2013, to RON 3,932 mn, due to lower oil and NGL sales and higher special charges mainly related to impairments in Kazakhstan triggered by unsuccessful field redevelopment results in the TOC fields.

**Total Group hydrocarbon production** in 2014 was 180.3 kboe/day or 65.82 mn boe, slightly below 2013. **Total oil, gas and NGL production in Romania** totaled 62.57 mn boe, slightly higher compared to the previous year. Domestic crude oil production was 27.98 mn bbl, 2% below the value from 2013, due to planned workovers and weather conditions. Domestic gas production reached 34.58 mn boe, 2% higher compared to 2013. **Oil and gas production in Kazakhstan** decreased by 21% to 3.25 mn boe, as an effect of technical constraints. **Group sales volumes** were slightly lower compared to the 2013, supported by the higher gas sales in Romania.

In **G&P**, EBIT decreased to RON (818) mn from RON 112 mn in 2013, reflecting special charges of RON (755) mn mainly related to impairment of the Brazi power plant as a consequence of revised long-term market perspective. The **gas** business contribution continued to fall compared with 2013 due to lower volumes sold and increased storage costs. The **power** business contribution also declined compared to 2013 as a result of average negative spark spreads triggered by higher gas prices and slightly lower average electricity price.

In **R&M, EBIT** decreased to RON (79) mn as a result of lower international quotations which led to a significant adjustment to net realizable value of crude oil and petroleum products. This adjustment was done for segmental reporting purposes, and was released in Consolidation line, having a positive effect, as on Group level cost of inventories is covered by realisable value. The special charges related to impairment of marketing assets in the Republic of Serbia at the amount of RON (63) mn also had a negative impact in reported EBIT. The increased refining margin, improved operational performance after the refinery modernization and good marketing result partially compensated the negative effects mentioned above.

The **indicator refining margin** increased to USD 1.89/bbl, from USD (2.83)/bbl in 2013 reflecting the updated standard yield following the completion of the Petrobraz refinery modernization program and lower cost of crude. The Petrobraz refinery **utilization rate** stood at 89% reflecting the one month planned refinery shutdown from Q2/14.

**EBIT** in the **Corporate and Other** (Co&O) segment amounted to RON (151) mn, deteriorated compared to RON (97) mn in 2013.

## Notes to the income statement

Summarized income statement (RON mn)	2013	2014	Δ %
Sales revenues	24,185	21,541	(11)
Direct selling expenses	(646)	(480)	(26)
Cost of sales	(15,485)	(15,815)	2
Other operating income	298	316	6
Selling and administrative expenses	(1,284)	(1,267)	(1)
Exploration expenses	(423)	(156)	(63)
Other operating expenses	(687)	(801)	17
<b>Earnings before interest and taxes (EBIT)</b>	<b>5,958</b>	<b>3,338</b>	<b>(44)</b>
Net financial result	(259)	(429)	66
Taxes on income	(875)	(810)	(7)
<b>Net income</b>	<b>4,824</b>	<b>2,100</b>	<b>(56)</b>
Less net income / (loss) attributable to non-controlling interests	3	(3)	n.m.
<b>Net income attributable to stockholders of the parent</b>	<b>4,821</b>	<b>2,103</b>	<b>(56)</b>

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

Compared to 2013, **consolidated sales revenues** decreased by 11% to RON 21,541 mn mainly due to lower crude and petroleum products sales that more than offset higher sales of natural gas in 2014. After the elimination of intra-group transactions of RON 12,028 mn, the contribution of the **E&P** segment to consolidated sales revenues was RON 861 mn or about 4% of the Group's total sales revenues (2013: RON 1,108 mn). After elimination of intra-group sales, the **G&P** segment's contribution was RON 4,014 mn or approximately 19% of total sales (2013: RON 3,880 mn). Sales to external customers in the **R&M** segment amounted to RON 16,602 mn or 77% of total consolidated sales (2013: RON 19,128 mn).

Sales to external customers are split by geographical areas on the basis of where the risks and benefits are transferred to the customer. Romania and Central and Eastern Europe represent the Group's most important **geographical markets**. Sales in Romania were in amount of RON 17,140 mn or 80% of the Group's total sales (2013: RON 18,964 mn) and sales in the rest of Central and Eastern Europe were RON 4,334 mn or 20% of Group sales (2013: RON 4,222 mn).

**Direct selling expenses** followed the decline in sales revenues, with a reduction from RON 646 mn in 2013, to RON 480 mn in 2014. **Cost of sales**, which include variable and fixed production costs, as well as costs of goods and materials employed, increased by 2% to RON 15,815 mn. Higher impairments, mainly in relation to the Brazi power plant in G&P and to one of the Kazakhstan assets in E&P, as well as higher taxes, fully offset the lower cost of goods sold.

**Other operating income** slightly increased by 6%, influenced by the positive impact from retirement obligation reassessment and the gain from transfer of assets to the newly set-up associate OMV Petrom Global Solutions in 2014; last year's effect was also positive, supported by damages received in relation with termination of land sales agreements and revenues from insurance indemnities. **Selling and administrative expenses** of RON 1,267 mn slightly decreased by 1%, being influenced by higher storage costs in 2014, while 2013 was affected by the sale of Petrom LPG subsidiary.

**Exploration expenses** decreased by 63% to RON 156 mn, as 2013 figures were influenced by the largest 3D seismic campaign in the Romanian sector of the Black Sea.

**Other operating expenses** increased by 17% compared to the 2013 value of RON 687 mn, largely affected by higher restructuring provisions.

**The net financial result** shows a loss of RON (429) mn and has worsened in comparison with the previous year (2013: loss of RON (259) mn), mainly as a result of late payment interest for taxes, partially off-set by FX gains following USD appreciation versus RON.

**Taxes on income** amounting to RON 810 mn in 2014 were 7% lower compared to 2013. The effective tax rate increased to 28% (2013: 15%), being negatively impacted by non-deductible expenses related to impairment of fixed assets in Kazakhstan and by late payment interest in relation to fiscal reviews.

### Capital expenditure

Capital expenditure (RON mn)	2013	2014	Δ (%)
Exploration and Production	4,401	5,349	22
Gas and Power	18	3	(82)
Refining and Marketing	827	794	(4)
Corporate and Others	57	92	61
<b>Total capital expenditure</b>	<b>5,303</b>	<b>6,239</b>	<b>18</b>
+/- Other adjustments <sup>1</sup>	105	1,292	n.m.
- Investments in financial assets	-	(45)	n.m.
<b>Additions according to statement of non-current assets (intangible and tangible assets)</b>	<b>5,408</b>	<b>7,486</b>	<b>38</b>
+/- Non-cash changes <sup>2</sup>	(413)	(1,576)	282
<b>Cash outflow due to investments in intangible and tangible assets</b>	<b>4,995</b>	<b>5,910</b>	<b>18</b>
+ Net inflow from sale/investment in subsidiaries, non-current assets and other financial assets	(101)	(251)	149
<b>Net cash used for investing activities</b>	<b>4,895</b>	<b>5,658</b>	<b>16</b>

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

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

**Capital expenditure** increased to RON 6,239 mn (2013: RON 5,303 mn), due to substantially higher investments in E&P.

Investments in **E&P**, at RON 5,349 mn (2013: RON 4,401 mn), represented 86% of the total figure for 2014 and were focused on activities related to drilling development wells, field redevelopment initiatives, workover activities and sub-surface operations, surface facilities, as well as investments related to the Black Sea projects. Capital expenditure in the **R&M** segment of RON 794 mn (2013: RON 827 mn) accounted for 13% of 2014 Group total investments. In Refining, investments were mainly related to the planned Petrobrazi refinery shutdown for performing the works associated with the final milestones of the modernization program. In addition, investment funds were also directed to efficiency projects, as well as to legal and environmental compliance projects. Corporate & Other (**Co&O**) segment investments amounted to RON 92 mn (2013: RON 57 mn), mainly referring to investments directed to IT projects and the financial investment in the newly created OMV Petrom Global Solutions SRL, a service center which provides multiple support services exclusively to OMV Group companies.

## Balance sheet

Summarized balance sheet (RON mn)	2013	%	2014	%
<b>Assets</b>				
Non-current assets	34,560	86	37,243	86
Intangible assets and property, plant and equipment	31,474	79	33,947	79
Investments in associated companies	43	0	35	0
Other non-current assets	2,166	5	2,213	5
Deferred tax assets	877	2	1,048	2
Current assets	5,487	14	5,882	14
Inventories	1,996	5	2,250	5
Trade receivables	1,429	4	1,424	3
Other current assets	2,062	5	2,208	5
<b>Equity and liabilities</b>				
Total equity	26,642	67	27,005	63
Non-current liabilities	8,238	21	9,960	23
Pensions and similar obligations	304	1	283	1
Interest-bearing debts	1,254	3	1,589	4
Decommissioning and restoration obligations	5,778	14	7,255	17
Provisions and other liabilities	891	2	833	2
Deferred tax liabilities	11	0	0	0
Current liabilities	5,167	13	6,160	14
Trade payables	2,958	7	2,899	7
Interest-bearing debts	189	0	274	1
Provisions and other liabilities	2,020	5	2,987	7
<b>Total assets/ equity and liabilities</b>	<b>40,047</b>	<b>100</b>	<b>43,125</b>	<b>100</b>

**Total assets** increased by RON 3,078 mn to RON 43,125 mn. The increase in **intangible assets and property, plant and equipment** by RON 2,473 mn is the main driver of the net increase of non-current assets by RON 2,683 mn up to RON 37,243 mn. Additions to intangible assets and property, plant and equipment (RON 7,486 mn) exceeded the total of depreciation, amortization and impairments, as well as disposals by RON 2,473 mn. The ratio of intangible assets and property, plant and equipment to total assets amounted to 79% (2013: 79%).

The upward development in **current assets**, of RON 395 mn, is caused mainly by the RON 254 mn increase in inventories, due to higher gas in storage and higher stock of petroleum products, following the decline in sales and increased levels of compulsory stock. The increase in **other current assets** was mainly the result of prepayments for carbon emission certificates, in accordance with legal requirements, offset by reduction in cash and cash equivalents.

The increase in **total equity** by RON 364 mn was the result of the net profit generated in the current year, partially offset by the dividends distributed for the 2013 financial year (RON 1,745 mn). The equity ratio slightly decreased to 63% (2013: 67%).

The increase in **interest-bearing debts** (both **long term and short term**) by RON 420 mn is mainly related to a new loan agreement concluded by Kom Munai LLP subsidiary with the EBRD in September 2014 for a total amount of USD 200 mn (out of which USD 142 mn was drawn at year end), for refinancing of intra-group loans and future capital expenditure purposes.

The Group's **liabilities other than interest bearing debt** (both **long term and short term**) increased by RON 2,295 mn, mostly due to higher decommissioning provisions by approx. RON 1,398 mn, increased liabilities in connection with investment activities (mainly in the Black Sea) and the set-up of provisions following fiscal controls performed in Romania and Kazakhstan.

### Gearing ratio

OMV Petrom Group's **net debt**<sup>3</sup> shows an increase from RON 332 mn as of December 2013 to RON 890 mn as of December 2014. Consequently, as of December 31, 2014, the **gearing ratio**<sup>4</sup> increased to 3.3%, from 1.2% in December 2013.

### Cash flow

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

**Cash flow from operating activities** decreased by RON 1,218 mn or 15% compared to 2013, reaching RON 6,830 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 4,240 mn for 2014 (2013: RON 2,426 mn), mainly deriving from depreciation, amortization and net impairment of RON 4,806 mn (2013: RON 3,355 mn) and net increase in provisions (including decommissioning and restoration obligations and other provisions for risks and charges) of RON 257 mn (2013: decrease of RON 60 mn). The net gain on disposal of non-current assets, Group companies and transfer of business, together with other non-cash adjustments led to an increase of RON 165 mn (2013: increase of RON 101 mn). Net interest and tax on profit paid generated a cash outflow of RON 988 mn (2013: cash outflow of RON 969 mn)<sup>5</sup>.

In 2014, net working capital generated a cash outflow of RON 320 mn (2013: cash outflow of RON 77 mn). The main contributors to the movements are an increase in inventories by RON 315 mn (2013: decrease by RON 146 mn), increase in receivables by RON 152 mn (2013: decrease by RON 340 mn) and an increase in liabilities by RON 147 mn (2013: decrease by RON 562 mn).

Cash outflows for investments in non-current assets of RON 5,955 mn (2013: RON 4,995 mn) were partially offset by proceeds from disposals of RON 297 mn (2013: RON 101 mn). **Net cash outflow from investment activities** totaled RON 5,658 mn (2013: RON 4,895 mn).

Cash inflows from the net increase of short and long-term borrowings amounted to RON 397 mn (2013: outflow RON 837 mn). Cash outflows for dividend payments amounted to RON 1,731 mn in 2014 (2013: RON 1,574 mn). **Net cash outflow from financing activities** amounted to RON 1,334 mn (2013: outflow RON 2,412 mn).

### Risk management

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

To assess the risks associated with OMV Petrom's entire portfolio of operations, the Executive Board has empowered a dedicated Risk and Insurance Management Department with the objective to lead and coordinate the company's risk management related processes.

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

In 2014, OMV Petrom has implemented together with the Institute of Risk Management UK an internal company-wide training program called "Petrom Risk Academy" which contributed to the enhancement of the risk management competences within top and middle management, as well as within employees without managerial responsibilities. This program has won an International Award for Commitment to Learning and Development at the IRM Global Risk Awards 2015. Through its risk management process, OMV Petrom secures its liquidity and long-term sustainability, and decreases the uncertainty over its strategic objectives and financial targets.

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

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

<sup>3</sup> **Net debt** is calculated as interest bearing debts and financial lease liabilities less liquid funds (cash and cash equivalents)

<sup>4</sup> **Gearing ratio** is calculated as net debt divided by equity expressed as a percentage

<sup>5</sup> Starting 2013, net interest received/(paid) and tax on profit paid were reclassified as sources of funds items.

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

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

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

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

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

As regards to **market price risk**, OMV Petrom is naturally exposed to the price-driven volatility of cash flows generated by production, refining and marketing activities associated with crude oil, oil products, gas and electricity. Market risk has core strategic importance within OMV Petrom's risk profile and liquidity. The market price risks of OMV Petrom commodities are closely analyzed, quantified and evaluated. In 2014, no financial instruments were used for commodity hedging.

Derivative financial instruments are used for the purposes of managing exposure to commodity price, currency, stocks, which are being evaluated, considering OMV Petrom's needs and being approved by OMV Petrom's Executive Board in consistency with the company's risk appetite.

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

From an **operational risk** perspective, OMV Petrom is an integrated company with a wide asset base, most of these assets being hydrocarbon production and processing plants. A special focus is awarded to process safety risks where OMV Petrom's policy is to "prevent incidents, ensure safe operations". 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. Besides emergency, crisis and disaster recovery plans, OMV Petrom's policy with regard to insurable risks is to cover them via insurance instruments. These risks are closely analyzed, quantified and monitored by the risk organization and are managed via detailed internal procedures.

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

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



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

In 2014, the internal risk analysis resulted in no need for hedging the interest rate risk, hence no financial instruments were used for interest rate hedging in 2014.

OMV Petrom's consolidated risk profile is regularly reported in comparison with the company's risk appetite for the Executive Board's approval and for the Audit Committee's information. In 2014, in March and October, the consolidated risk profile was reported and approved by OMV Petrom's Executive Board in accordance with the company's risk appetite and was also presented for information to the Audit Committee which took notice of the information.

#### **Internal control**

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

OMV 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 as well as Process and Compliance risk.
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.

OMV Petrom's successful management and operation means creating value for all stakeholders and requires a systematic and transparent management of the Company and the Group, while applying the best corporate governance principles. To attain this objective, it is very important to establish and to maintain a rigorous Business Management System (BMS).

BMS represents the set of policies, management objectives, directives and corporate standards whose purpose is the management and control of the organization, created to match the integrated set of processes and tools used by the Company and the Group for the development and implementation of its strategy.

Corporate Affairs and Compliance department is responsible for the coordination of BMS and governance model for regulations at OMV Petrom Group level. Also, this department provides support to various entities of OMV Petrom to meet regulatory requirements, coordinates the elaboration of corporate regulations and performs the verification of their quality. Through the Directive "Regulation Management" the requirements for classification, definition and standardized structure of corporate regulations have been set, as well as for the development, approval, communication, monitoring and reporting thereof.

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

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

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

#### **Subsequent events**

Please refer to Note 36 in the Consolidated Financial Statements.

## Outlook 2015

### Market, regulatory and fiscal environment

For 2015, we expect the **Brent** oil price to average between USD 50-60/bbl. The Brent-Urals spread is anticipated to stay relatively tight.

The **gas and power markets and regulatory framework** are undergoing continuous changes that may adversely impact the company's financial and operating results.

In 2015, **gas** demand in Romania is not expected to recover, which will lead to increased competition and further margin pressure.

Regulated gas prices and import obligation for non-household consumers have been abolished starting January 2015, while the price for domestic production to be paid by regulated households during H1/15 was set at RON 53.3/MWh (EUR 12.0/MWh), unchanged since July 1, 2014. The same price applies for the domestic gas volumes which Romanian gas producers are obliged to supply to the district heating sector (only for the quantities used to produce heat for household consumption). In addition, gas producers must sell via Romanian centralized trading platforms approximately one third of their domestic gas quantities for the free market, which has proven to be a challenge in 2014.

In the **power** market, demand is anticipated to be relatively stable and prices remain under pressure.

In 2015, **refining** margins are expected to come down from the recent levels, due to persisting overcapacity in local and European markets.

The lower product prices resulting from the decline in the oil price are expected to support demand in the **marketing** business, though with increased competition.

The package of fiscal measures introduced in February 2013 imposing a supplementary taxation for oil and gas producers was extended for 2015. The constructions tax, however, was reduced to 1.0% from 1.5% in 2014.

This year, we expect public consultations with respect to upstream oil and gas taxation envisaged to be applicable starting 2016, as publicly announced by the authorities. Our aim remains to achieve a long term, stable and investment-friendly taxation and regulatory framework, a key precondition for future investments.

### Sizeable investments

In light of the volatile and potentially prolonged weaker market fundamentals, we are scaling back our investment plans for 2015 and have intensified cost optimization programs whilst maintaining our potential growth projects in the Black Sea. The Group CAPEX plans for 2015 is in the range of EUR 0.8 – 1.1 bn. of which approx. 85% will be dedicated to E&P.

In **E&P**<sup>6</sup>, following the abrupt decrease in oil price in the second half of 2014, we leveraged our investment portfolio mix, by project prioritization and CAPEX re-phasing and reduction. Moreover, we have intensified cost optimization programs whilst maintaining our potential growth projects in the Black Sea. In 2015, we will continue our operational excellence initiatives focusing on efficiency, also taking into account the market operating environment. The E&P portfolio will be further optimized, by selling selected marginal fields.

OMV Petrom's operational activities will focus on delivering around 1,200 workovers and up to 70 new wells, dependent on market and fiscal environment. Moreover, important new wells (e.g. wells on Bustuchin field and offshore Istria) are expected to contribute to the overall production.

We will concentrate on value based prioritization of the FRD projects, therefore those under development or execution will be slowed-down, while those under appraisal will be re-engineered or reduced.

The joint venture with Repsol continues with two exploration drilling wells on-going and another two leads expected to progress. The Padina North discovery under the joint venture with Hunt Oil will further advance and development options are under consideration.

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<sup>6</sup> On March 24, 2015, the Supervisory Board decided to rename OMV Petrom's business divisions with effect from April 1, 2015 as follows: Exploration and Production division to become Upstream; Refining and Marketing division to become Downstream Oil; Gas and Power division to become Downstream Gas.

We will continue our joint venture with EMEPRL as further exploration operations and appraisal drilling are expected in 2015. Domino-2 and Pelican South-1 results together with data from additional exploration wells will be used for the evaluation of the consolidated block potential.

In Kazakhstan, we will pursue water injection schemes in both the TOC and Komsomolskoe fields in order to secure reservoir pressure support and slow down the natural decline of production.

In **G&P**<sup>6</sup>, we will focus on further optimizing the gas value chain in an integrated manner so as to dynamically address challenges in the market and regulatory environment, whilst maximizing value creation. Our priority remains on maintaining a leading position in the free gas market, whilst capturing synergies from bundling electricity sales with natural gas sales. In the context of anticipated pressure on spark spreads, which may lead to a negative result of the power business in 2015, we will pursue strict cost management, portfolio optimization and aim to capture available market opportunities by capitalizing on the operational flexibility of the Brazi power plant.

In **R&M**<sup>6</sup>, we will further capitalize on the successful completion of the Petrobrazi modernization along the whole value chain. Moreover, the refinery will continue to deliver on economic energy efficiency improvements. The fuel terminal network optimization program will continue with the reconstruction works at the Cluj terminal expected to be finalized by the end of 2015. We will further pursue cost discipline and optimization of the downstream business. The marketing business will continue to focus on strengthening the marketing position and consolidating the two brands strategy in Romania.

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<sup>6</sup> On March 24, 2015, the Supervisory Board decided to rename OMV Petrom's business divisions with effect from April 1, 2015 as follows: Exploration and Production division to become Upstream; Refining and Marketing division to become Downstream Oil; Gas and Power division to become Downstream Gas.

## Corporate Governance Report

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

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

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

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

### **Commitment to good corporate governance**

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

### **General Meeting of Shareholders**

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

### **General Meeting of the Shareholders organization**

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

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

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

**General Meeting of the Shareholders main duties**

The main duties of the Ordinary GMS are the following:

- (a) to discuss, approve or modify the annual financial statements after having reviewed the reports of the Executive Board, of the Supervisory Board, of the financial auditor and of the internal auditors;
- (b) to distribute the profit and to establish the dividends;
- (c) to elect the members of the Supervisory Board and the financial auditor and to revoke the appointment of each of the foregoing; to approve the minimum term of the audit contract;
- (d) to establish the remuneration of the members of the Supervisory Board and of the financial auditor for the current fiscal year;
- (e) to assess the activity of the Executive Board members and of the Supervisory Board members, to evaluate their performance and to discharge them of their duties in accordance with the provisions of law;
- (f) to approve the income and expenditure budget, as well as the business program for the next fiscal year;
- (g) to approve the reports of the Supervisory Board with respect to the supervision activity performed by it.

The Extraordinary GMS is entitled to decide mainly upon:

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

**Supervisory Board**

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

**Supervisory Board members**

At the end of 2014, the membership of the Supervisory Board comprised the following individuals:

Gerhard Roiss, David Charles Davies, Joseph Bernhard Mark Mobius, Manfred Leitner, Hans-Peter Floren, Riccardo Puliti, Lucian-Dan Vladescu, George Băeșu and Johann Pleininger.

**Supervisory Board main powers**

The Supervisory Board has the following main powers:

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

The responsibilities of the members of the Supervisory Board, as well as the working procedures and the approach to conflicts of interest and own account dealings are governed by relevant internal regulations. As required by company Law, none of the Supervisory Board members holds an executive position in the company. During 2014 financial year, the Supervisory Board met five times in person and submitted its approval in writing on three occasions (more details are presented within the report of the Supervisory Board).

### **Special Committees**

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

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

An **Audit Committee** composed of four Supervisory Board members was established to provide assistance to the governing bodies of the company in the area of risk management and financial reporting and to monitor the information provided by its internal auditors. This committee reviews the annual accounts and the proposal for profit distribution.

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

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

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

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

At the end of 2014 the Audit Committee consisted of the following members: David Charles Davies (President of the Audit Committee), Manfred Leitner (Deputy President of the Audit Committee), Riccardo Puliti (Member) and George Băeșu (Member).

During the 2014 financial year, the Audit Committee met three times (more details presented under the corresponding section within the report of the Supervisory Board).

### **Executive Board**

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

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

### **Executive Board members**

During 2014 the Executive Board of the company consisted of the following members: Mariana Gheorghe (President of the Executive Board and Chief Executive Officer), Andreas Matje (Executive Board member and Chief Financial Officer), Gabriel Selischi (Executive Board member in charge with Exploration and Production activity), Neil Anthony Morgan (Executive Board member in charge with Refining and Marketing activity), Cristian Nicolae Secoșan (Executive Board member in charge with Gas and Power activity).

On March 24, 2015, the Supervisory Board appointed the following OMV Petrom Executive Board members for a four year term starting April 17, 2015 until April 17, 2019: Mariana Gheorghe (Chief Executive Officer and President of the Executive Board); Andreas Matje (Chief Financial Officer and Executive Board member); Gabriel Selischi (Executive Board member in charge with the Upstream activity); Neil Anthony Morgan (Executive Board member in charge with the Downstream Oil activity); Lăcrămioara Diaconu-Pințea (Executive Board member in charge with the Downstream Gas activity)<sup>6</sup>. Cristian Secoșan's mandate as member of the Executive Board will cease starting with April 17, 2015.

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<sup>6</sup> On March 24, 2015, the Supervisory Board decided to rename OMV Petrom's business divisions with effect from April 1, 2015 as follows: Exploration and Production division to become Upstream; Refining and Marketing division to become Downstream Oil; Gas and Power division to become Downstream Gas.

**Executive Board main duties**

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

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

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

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

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

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

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

In 2014, 59 meetings of the Executive Board were held in order to pass resolutions on all matters requiring its approval in accordance with the Articles of Association and the company's internal regulations, as well as to allow the members of the Executive Board to be aware of all significant matters concerning the company and to inform each other about all relevant issues of their activity.

**Shareholders' rights**

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

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



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

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

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

#### **One share, one vote, one dividend**

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

#### **GMS calling**

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

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

#### **GMS attendance**

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

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

#### **Taking shareholders' questions**

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

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

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

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

**Company shares held by the Supervisory Board members**

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

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

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

**Company shares held by the Executive Board members**

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 OMV Petrom.

**Women's advancement**

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

By the end of 2014, around 27% of the first line directors Executive Board were women whilst the percentage of women in middle management was around 39%. Given the strong industrial bias of our operations, the proportion of women in the Group as a whole by year end was 24%, which is in line with the equivalent figure for the OMV Group, of which OMV 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.

## “Comply or Explain” statement

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

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

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

Principle/ Recommendation	Question	YES	NO	Please EXPLAIN
<b>R3</b>	Does the Annual Report of the Issuer contain a chapter referring to corporate governance, which describes all the relevant events related to corporate governance registered in the previous financial year?	*		OMV Petrom's 2014 Annual Report has a chapter describing all the relevant events related to the corporate governance issues in the 2014 financial year.
	Does the Issuer disclose on its website the information related to the following aspects of its corporate governance: a) a description of the Issuer's corporate governance structures?	*		OMV Petrom's website has a special section where details about corporate governance bodies are entered. The structure of the Executive Board and of the Supervisory Board is presented on the website. Likewise, the details regarding the organization of the GMS of the company are also presented on the website.
	b) the updated Articles of Association?	*		The last version of OMV Petrom's Articles of Association is posted on its website, under the Corporate Governance section.
	c) the internal regulation governing the functioning /its essential aspects for each special commission/ specialized committee?	*		The rules governing the functioning of each special commission/committee are bundled in the Corporate Governance Statute which is posted on the website of the Issuer.
	d) the "Comply or Explain" Statement?	*		"Comply or Explain" Statements are posted on OMV Petrom's website.

Principle/ Recommendation	Question		YES	NO	Please EXPLAIN
		e) the list of the Supervisory Board members specifying which members are independent, of the Executive Board and of the special commissions/committees?	*		Details about the members of the Supervisory Board, the Executive Board and the Audit Committee are presented on the Issuer's website.
		f) a brief version of the CV of each Supervisory Board and Executive Board member?	*		OMV Petrom has a special section on its website where short versions of the CVs of the members of the corporate bodies are posted.
<b>P2</b>	Does the Issuer respect the rights of the holders of the financial instruments issued by the Issuer, ensuring equal treatment for them while also submitting any change of the granted rights for approval by the special meetings of such holders?		*		The Issuer complies with the regulations setting forth the rights of the shareholders. Any changes of the already granted rights are submitted for the approval of the shareholders.
<b>P3</b>	<b>R4</b>	Does the Issuer publish in a special section of its website the details of the holding of the General Meetings of Shareholders ("GMS"):  a) the GMS convening notice?	*		OMV Petrom's website has a special section where the GMS convening notices are posted.
	<b>R4</b>	b) the materials/documents relating to the items on the agenda, as well as any other information about the items on the agenda?	*		OMV Petrom's website has a special section where materials/ documents / any other information relating to the items on the agenda of the GMS are posted.

Principle/ Recommendation	Question	YES	NO	Please EXPLAIN
	<b>R4</b> c) the templates of the special power of attorney?	*		OMV Petrom's website has a special section where the templates of the special power of attorney can be found.
	<b>R6</b> Has the Issuer drawn up and submitted for the GMS approval procedures for an efficient and methodical holding of the GMS according to procedure, however without prejudice to the right of any shareholder to freely express their opinion on the topics subject to the debates?	*		The details of the organization of the GMS are mentioned in the Issuer's Articles of Association and Statute of Corporate Governance. Likewise, OMV Petrom publishes at every GMS extensive convening notices describing in detail the procedure to be followed for the respective meeting. In this manner, the Issuer ensures that the General Meetings of Shareholders are adequately conducted and well organized while the shareholders' rights are duly communicated and observed.
	<b>R8</b> Does the Issuer disclose in a special section of its website the shareholders' rights as well as the rules and procedures for the attendance at GMS?	*		The rights of the shareholders are outlined on the Issuer's website. Likewise, the rules and procedures for attendance at the GMS, as well as the rights of the shareholders, are always described in the convening notice which is always posted on Issuer's website. The rights of the shareholders are laid down in each and every annual report.
	Does the Issuer provide the information in due time (immediately after the GMS) to all shareholders through the special section on the Issuer's website:  a) the resolutions passed by GMS?	*		OMV Petrom's website has a special section where the resolutions passed by the GMS are posted in due time.

Principle/ Recommendation	Question	YES	NO	Please EXPLAIN
	b) the detailed results of voting?	*		OMV Petrom's website has a special section where detailed results of voting are posted in due time.
	Does the Issuer disseminate through the special section of the Issuer's website, which is easily identifiable and accessible:  a) ad-hoc reports/official statements?	*		OMV Petrom's website has special section where ad-hoc reports and official statements are posted.
	b) the financial calendar, the annual, quarterly and half-yearly reports?	*		OMV Petrom's website has an easily accessible special section where the financial calendar and periodical reports are posted.
	<b>R9</b> Has the Issuer set-up a special department or has appointed a person dedicated to the relation with investors?	*		OMV Petrom has set up a special department dedicated to investor relations that can be contacted at phone number +40 (0) 214022206 or via e-mail: <a href="mailto:investor.relations.petrom@petrom.com">investor.relations.petrom@petrom.com</a> . Likewise, a special section of the company's website is dedicated to investors.
<b>P4, P5</b>	<b>R10</b> Does the Supervisory Board meet at least once a quarter for supervising the activity of the Issuer?	*		The Supervisory Board meets whenever necessary, but at least once every three months. In 2014, the Supervisory Board met five times in person and passed resolutions by circulation on three additional occasions.
	<b>R12</b> Has the Issuer a set of rules referring to the conduct and the reporting obligations relating to the trading of the shares or of other financial instruments issued by the Issuer ("issuer securities") made on their account by the members of the Executive Board and other related natural persons?	*		Such rules are laid down in the internal regulations of the Issuer, while the Issuer has set up special structures to follow the implementation of such internal regulations.

Principle/ Recommendation	Question	YES	NO	Please EXPLAIN
	Are the trades with the issuer's securities made by the members of Supervisory Board, Executive Board or any other insiders on their own account disclosed via the Issuer's website, according to applicable rules?	*		All these transactions are posted on the Bucharest Stock Exchange website, in the section dedicated to the market news related to OMV Petrom. OMV Petrom's website also contains a link to the Bucharest Stock Exchange website, in the section OMV Petrom>Investor Relations>Corporate Governance>Insider Trading.
<b>P6</b>	Does the structure of the corporate bodies of the Issuer ensure a balance between the executive and non-executive members (and especially independent non-executive members) so that the decision-making is not to be dominated by a single person or a group of persons?	*		The Supervisory Board comprises nine members who are non-executives and who supervise the activity of the five members of the Executive Board. Therefore, the balance between executives and non-executives is ensured.
<b>P7</b>	Does the structure of the Supervisory Board provide a sufficient number of independent members?	*		The membership of the Supervisory Board considers the Company Law no. 31/1990 specific provisions on independence criteria and the number of independent members.



Principle/ Recommendation	Question	YES	NO	Please EXPLAIN
<b>P8</b>	<b>R15</b> In the course of its activity, is the Supervisory Board supported by any consultative commissions/committees nominated by the Supervisory Board, which deal with the analysis of some specific subjects in order to counsel the Supervisory Board on such topics?	*		The Audit Committee supports the Supervisory Board by performing the following main activities: <ul style="list-style-type: none"> <li>• reviews and prepares the adoption of the annual accounts,</li> <li>• prepares the proposal for the distribution of profits</li> <li>• prepares a proposal of an independent financial auditor</li> <li>• supervises OMV Petrom's risk management arrangements and its financial performance</li> <li>• monitors the reports delivered by the internal auditors.</li> </ul>
	Do the consultative commissions/committees submit activity reports to the Supervisory Board on the specific subjects assigned to them?	*		The Audit Committee submits activity reports to the Supervisory Board on the specific subjects assigned to it.
	<b>R16</b> For the assessment of the independence of their members, does the Supervisory Board use the assessment criteria listed in Recommendation 16?	*		The criteria used for the assessment of Supervisory Board independence are those mentioned in Company Law no. 31/1990, which are substantially similar to those provided by Corporate Governance Code.
	<b>R17</b> Do Executive Board members permanently improve their knowledge through training/information in the corporate governance field?	*		The Executive Board members permanently improve their corporate governance knowledge via training/ roundtable discussion meant to enhance the corporate governance practice in the company. The CEO is also President of the Corporate Governance Institute at the Bucharest Stock Exchange and regularly attends conferences on this topic.

Principle/ Recommendation	Question	YES	NO	Please EXPLAIN
<b>P9</b>	Is the appointment of the Supervisory Board members based on a transparent procedure (objective criteria regarding personal/professional qualifications etc.)?	*		The Supervisory Board members are appointed by the GMS, based on a transparent procedure of appointment and with the majority of votes of the shareholders, as provided for in the Issuer's Articles of Association and applicable law. Prior to the GMS, their CVs are available for the shareholders for consultation, while the shareholders are allowed to supplement the candidates list for the position of member of the Supervisory Board
<b>P10</b>	Is there a Nomination Committee within the Issuer set-up?		*	Establishment of the Nomination Committee is a pending subject for the assessment of the corporate bodies of the company.
<b>P11</b>	<b>R21</b> Does the Supervisory Board assess the necessity to have a Remuneration Committee/remuneration policy for the Supervisory Board and Executive Board members at least once a year?		*	The remuneration of the Supervisory Board members is resolved upon by the GMS every year. The setting up of a Remuneration Committee is being considered.
	Has the remuneration policy been approved by the GMS?		*	The remuneration of the Supervisory Board members is resolved upon by the GMS and it is made public.
	<b>R22</b> Is there a Remuneration Committee made exclusively of non-executive members of the Supervisory Board?		*	The Remuneration Committee has not been established yet.
	<b>R24</b> Is the remuneration policy of the Issuer mentioned in the Statute/Corporate Governance Regulation?		*	Please see above.

Principle/ Recommendation	Question	YES	NO	Please EXPLAIN
<b>P12</b> <b>,</b> <b>P13</b>	<b>R25</b> Does the Issuer disclose the information subject of the reporting requirements in English: a) periodical information (regular providing information)?	*		OMV Petrom discloses periodical information in English.
	b) permanent information (continuous providing information)?	*		OMV Petrom discloses permanent information in English.
	Does the Issuer prepare and make public the financial report according to the IFRS standards?	*		OMV Petrom has prepared and published consolidated financial statements in accordance with IFRS for the year ended December 31, 2006 for the first time. Starting 2010, OMV Petrom also reports on a quarterly basis the condensed consolidated interim financial statements in accordance with the IFRS standards. Furthermore, in line with Romanian legal requirements applicable for listed companies, starting December 31, 2012 OMV Petrom also prepares separate individual financial statements in accordance with IFRS.
	<b>R26</b> Does the Issuer organize, at least once a year, meetings with financial analysts, brokers, rating agencies and other market specialists with the view to presenting the financial elements relevant for the investment decision?	*		OMV Petrom organizes one-to-one meetings and conference calls with financial analysts, investors, brokers and other market specialists with a view to presenting the financial elements relevant for investment decision. A total of more than 100 one-to-one or group meetings and presentations were held throughout 2014. The company also attended analyst and investor conferences, organized in Romania and abroad.
	<b>R27</b> Is there an Audit Committee within the Issuer?	*		OMV Petrom's Supervisory Board has set up an Audit Committee.

Principle/ Recommendation	Question	YES	NO	Please EXPLAIN
	<b>R28</b> Does the Supervisory Board or the Audit Committee, as the case may be, assess on a regular basis the efficiency of financial reporting, internal control and the risk management system implemented by the Issuer?	*		The Audit Committee assesses on a regular basis the efficiency of financial reporting and the risk management system implemented by OMV Petrom.
	<b>R29</b> Is the Audit Committee comprised exclusively of non-executive members of the Supervisory Board and is it comprised of a sufficient number of independent members of the Supervisory Board?	*		The Audit Committee comprises exclusively non-executive members of the corporate bodies and a sufficient number of independent members of the Supervisory Board, as provided for by Company Law no. 31/1990.
	<b>R30</b> Does the Audit Committee meet at least twice a year, with the view to draw up and disclose to the shareholders half-yearly and annual financial statements?	*		OMV Petrom's Audit Committee met three times in 2014 in order to deal with significant accounting, reporting and risk management issues as well as with the review on the financial statements.
	<b>R32</b> Does the Audit Committee make proposals to the Supervisory Board regarding the selection, the appointment, the re-appointment and the replacement of the financial auditor, as well as the terms and conditions of its remuneration?	*		OMV 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.

Principle/ Recommendation	Question		YES	NO	Please EXPLAIN
<b>P14</b>	Has the Issuer approved a procedure with a view to identifying and to settling any conflicts of interest?		*		The Issuer has established internal rules on how to deal with conflicts of interest.
<b>P15</b>	<b>R33</b>	Do the members of the Supervisory Board inform the Supervisory Board on conflicts of interests as they occur and do they refrain from debates and the vote on such matters, according to relevant legal provisions?	*		OMV Petrom Supervisory Board has put in place rules relating to conflicts of interest as well as the approach in this respect.
<b>P16</b>	<b>R34 / R35</b>	Has the Issuer approved the specific procedures in order to provide procedural compliance (criteria to identify the significant impact of transactions, transparency, impartiality, non-competition, etc.) with the view to identify the transactions between related parties?	*		OMV Petrom has internal regulations in place and submits reports on transactions with related parties to the Financial Supervisory Authority and to the Bucharest Stock Exchange.
<b>P17</b>	<b>R36</b>	Has the Issuer approved a procedure regarding the internal flow and disclosure to third parties of the documents and information referring to the Issuer, considering especially inside information?	*		OMV Petrom has internal regulations in place for such matters.
<b>P18</b>	<b>R37 / R38</b>	Does the Issuer carry on activities regarding the Issuer's social and environmental responsibility?	*		OMV Petrom conducts various activities regarding social and environmental responsibility. Please see the Annual Report's section relating to community involvement.

## Declaration of the management

We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the financial position of the Group as of December 31, 2014, 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 24, 2015**

### **The Executive Board**



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



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



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**Gabriel Selischi**  
**Member of the Executive Board**  
**Exploration and Production**



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**Cristian Secoșan**  
**Member of the Executive Board**  
**Gas and Power**



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