

# 2010

## Annual Report



**PETROM**  
Member of OMV Group

## Petrom Group – at a glance

### Operational results

|  | 2008   | 2009   | 2010            |
|--|--------|--------|-----------------|
| Total hydrocarbon production (mn boe)    | 71.08  | 68.29  | 67.08           |
| Refinery capacity utilization rate (%)   | 77     | 65     | 49 <sup>1</sup> |
| Total refined product sales (mn t)       | 6.49   | 6.18   | 5.47            |
| Number of filling stations               | 819    | 814    | 801             |
| Number of employees at the end of period | 35,588 | 28,984 | 24,662          |

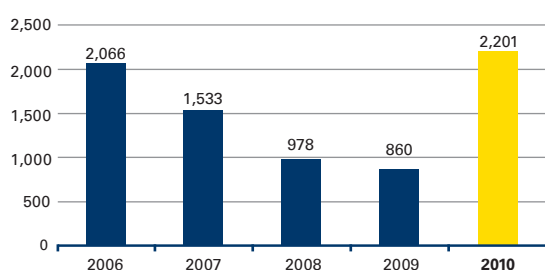
<sup>1</sup> Arpechim refinery was in economic shut down for nearly nine months

### Financial results

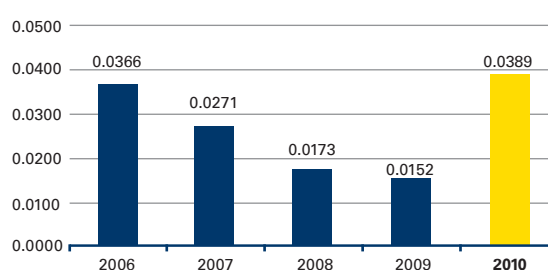
|   | 2008   | 2009   | 2010   |
|---|--------|--------|--------|
| Sales (RON mn)  | 20,127 | 16,090 | 18,616 |
| EBIT (RON mn)   | 1,205  | 1,620  | 2,986  |
| Net income after minorities (RON mn)                        | 978    | 860    | 2,201  |
| Clean CCS EBIT (RON mn) <sup>1</sup>                        | 3,815  | 1,870  | 3,325  |
| Clean CCS net income after minorities (RON mn) <sup>1</sup> | 1,154  | 1,056  | 2,457  |
| Cash flow from operating activities (RON mn)                | 4,295  | 2,726  | 4,630  |
| Capital expenditure (RON mn)                                | 6,759  | 4,219  | 4,863  |
| EPS (RON)   | 0.0173 | 0.0152 | 0.0389 |
| ROACE (%)   | 5.3    | 5.2    | 10.7   |

<sup>1</sup> Clean CCS figures exclude special items and inventory holding effects (CCS effects) resulting from the fuels refineries

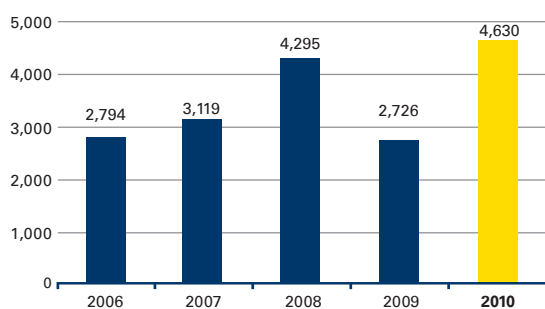
#### Net income after minorities (RON mn)



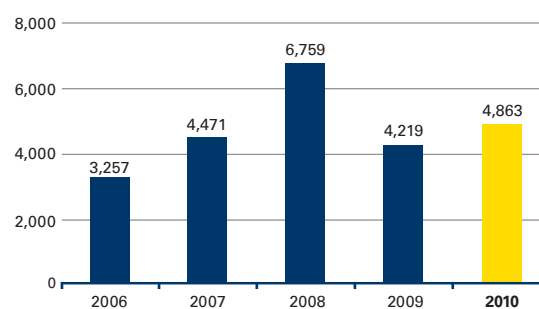
#### Earnings per share (RON)



#### Cash flow from operating activities (RON mn)

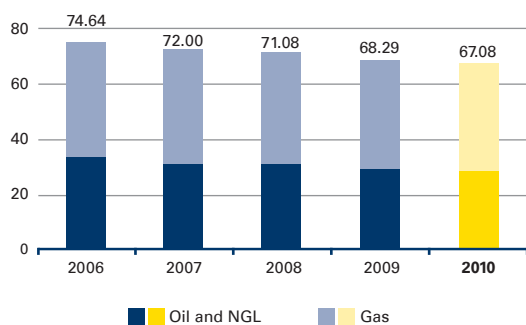


#### Capital expenditure (RON mn)

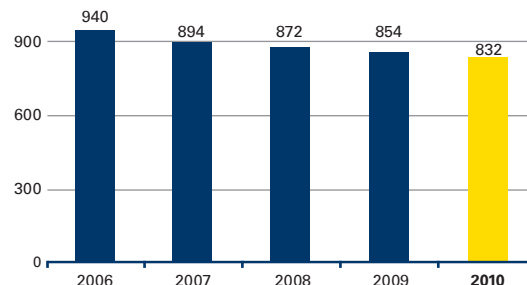


## Exploration and Production

Production (mn boe)

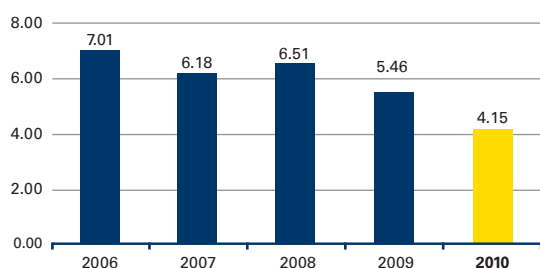


Proved reserves (mn boe)

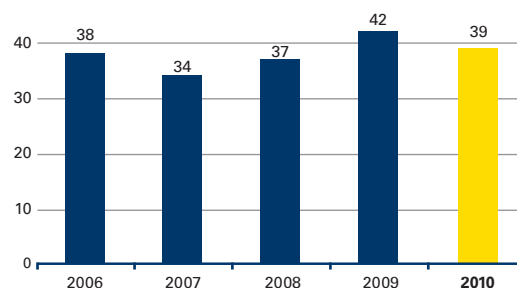


## Refining and Marketing

Refining input (mn t)

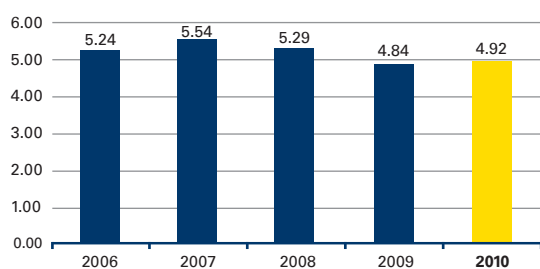


Romania market share (%)

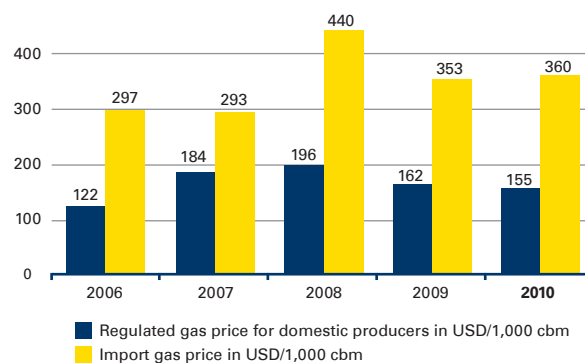


## Gas and Power

Gas sales (bcm)



Gas prices





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**Note:** All the figures refer to Petrom Group unless otherwise stated.





## The pursuit of strategic goals means addressing the relevant issues with proper action.

In order to bolster our solid position, we continuously challenge our ways of doing things and engage in constructive dialog with shareholders. The strong improvements in our operational performance, along with the steady business progress of our major investment projects, stand as proof of our commitment to finding the best solutions to changing market dynamics while making best use of all available opportunities.

Our investors require sustainable value creation and high levels of transparency in order to form their opinions about our progress. Starting with 2010, we report Petrom's consolidated results in line with International Financial Reporting Standards in our interim and annual reports. Also effective 2010, a "Comply or Explain" Statement is included in the annual report, in line with the provisions set forth by the Corporate Governance Code issued by the Bucharest Stock Exchange.

Within the annual report, you will find details on the progress we made during the year in both our operations and financial performance, as well as our corporate governance framework, that we hope will comprehensively address your interest in Petrom's performance in 2010.









How do we reach our objectives?

Through teamwork, know-how  
and innovation.

## Highlights 2010

### January

- ▶ Effective **January 1**, the company's name is OMV PETROM S.A., following the Decision of the Extraordinary General Meeting of Shareholders held on October 20, 2009. The company's brand and logo remain unchanged.
- ▶ On **January 6**, Petrom announced the acquisition of Korned LLP in Kazakhstan (transaction closed on December 31, 2009). Korned LLP holds 100% interests in an exploration license including the undeveloped Kultuk oilfield, located onshore in the Pre-Caspian Basin, 34 km to the Northwest of Petrom's Komsomolskoe Field.
- ▶ On **January 8**, Petrom started a share buy-back program. As part of the program, Petrom purchased 6,195,500 shares, representing 0.011% of the company's share capital from the organized securities market, at a total value of RON 1,772,177, in order to distribute them free of charge to the entitled persons (former or current employees) between February 25 and December 31, 2010.

### February

- ▶ On **February 1**, Rainer Schlang became member of OMV Petrom S.A.'s Executive Board, responsible for Marketing. He replaced Tamas Mayer, who took over new responsibilities within OMV Group.

### March



### April

- ▶ On **April 15**, Petrom announced the extension of its power production projects portfolio by acquiring S.C. Wind Power Park S.R.L. Wind Power Park owns a fully permitted wind power generation project in Dobrogea (Southeast Romania) with a designated capacity of 45 MW, which can be extended to 54 MW. Petrom will construct and operate the wind power plant, which is estimated to enter production in the second half of 2011.
- ▶ On **April 29**, both the Ordinary and Extraordinary General Meetings of Shareholders were held. For details please refer to page 20, section General Meeting of Shareholders.

### May

- ▶ On **May 18**, Petrom announced the conclusion of a very successful offshore campaign in the Lebada Est and Lebada Vest fields, located at the Histria block in the Black Sea, using pioneering technology in Romania. Following this offshore campaign, additional production of more than 300,000 boe is expected in 2010 from two existing wells (LO2 and LO4) and a new well drilled (LV05).

### June

- ▶ On **June 1**, Petrom announced the start-up of the Hurezani gas delivery system, a project intended to optimize gas delivery into the national transportation network in periods when pressure in the system is very high.



## July

- ▶ On **July 12**, Petrom announced the signing of a 15-year production enhancement contract for several fields in the area of Ticleni, Southwest Romania, with Petrofac, a leading international provider of facilities solutions to the oil and gas production and processing industry. Petrofac will perform services in the respective fields in order to maximize production while improving operational efficiency. The partnership targets cumulative production enhancement out of nine onshore fields in the Ticleni area by at least 50% in the next five years.

## August

- ▶ On **August 3**, both the Ordinary and Extraordinary General Meetings of Shareholders were held. For details please refer to page 20, section General Meeting of Shareholders.

## September

- ▶ On **September 6**, Petrom announced the sale of the 74.9% stake in Ring Oil (Russia) to its minority partner Mineral and Bio Oil Fuels Limited (MBO).
- ▶ On **September 23**, Petrom announced having entered a partnership for onshore exploration with Hunt Oil Company of Romania, an affiliate of the American company Hunt Oil, one of the world's largest privately owned oil companies. The partnership facilitates joint exploration of two onshore blocks located in Eastern Romania (Adjud and Urziceni). Within the partnership, an extensive seismic data acquisition and study program will be performed in 2010 and 2011. The new seismic data will be jointly evaluated to determine oil and gas opportunities for exploration drilling.

## October

- ▶ On **October 1**, the spin-off of OMV Petrom S.A.'s marketing activities to OMV Petrom Marketing S.R.L. (a company fully owned by Petrom) became effective as approved in the EGMS of August 3, 2010.
- ▶ On **October 18**, Petrom announced the signing of a 17-year production enhancement contract for nine onshore fields in the Arad area, with PetroSantander, a private Canadian company specialized in the operation and rehabilitation of mature fields. In the first five years, through specific operations, PetroSantander expects production to be enhanced by at least 50% compared to the production trend.

## November

- ▶ On **November 9**, Petrom announced having finalized the construction of the Brazi fuel terminal, on the Petrobrazi refinery industrial platform, thus achieving the target for 2010 with regards to the modernization of the terminals' infrastructure. The Brazi fuel terminal has a total capacity (including additives) of 8,120 cbm and will ensure the supply for the Central and Eastern part of Romania. The total investment value amounts to EUR 29 mn.
- ▶ On **November 24**, Petrom announced two changes in its Executive Board. Starting January 1, 2011, by the decision of Petrom's Supervisory Board, the Executive Board will have two new members: Daniel Turnheim, Chief Financial Officer and Hilmar Kroat-Reder, responsible for Gas and Power. The two new members succeed Reinhard Pichler and Gerald Kappes respectively, who took over new responsibilities within OMV Group.

## December

- ▶ On **December 2**, Petrom inaugurated Petrom City, the headquarters that will host the company's central operations. Situated in the Northern part of Bucharest, it will be used by around 2,500 employees from 7 headquarters of the company in Bucharest and Ploiesti. The employee relocation process started in the fourth quarter of 2010 and is estimated to be finalized in the first half of 2011.

## Members of the Executive Board

The Executive Board is elected by the Supervisory Board and consists of seven 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 Communications and Public Affairs; Sustainability: Health, Safety, Security and Environment; Corporate Human Resources; Corporate Development, Strategy and Investor Relations; Corporate Affairs and Compliance; Legal; Procurement; IT Demand; Global Solutions

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 2006 she worked for the European Bank for Reconstruction and Development as Senior Banker for Southeastern Europe and the Caucasus Region. After the Petrom privatization in 2004 and following EBRD's proposal, she became 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

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 the Petrol Ofisi's Board of Directors at the end of 2009. He joined Petrom starting 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.



**Siegfried Gugu** – Responsible for Exploration and Production Services

Siegfried Gugu obtained his Master and Doctoral Degrees in Petroleum Engineering at the Mining University in Leoben. Since he joined OMV he has held various technical and managerial positions in Austria, the UK (1995–1997) and Libya (2000–2004). Most recently he held the position of Asset Manager (responsible for OMV oil production in Austria). He has worked in the oil and gas industry since 1990. He joined Petrom in 2007 and was appointed as head of the E&P Services division at the beginning of 2008.





#### **Neil Anthony Morgan – Responsible for Refining**

Neil Anthony Morgan graduated in Chemical Engineering from the University of Salford, Manchester, UK. His experience spans over 20 years in the Refining and Petrochemicals business. 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 in 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 he is responsible for Refining and Petrochemicals as of July 2008.



#### **Rainer Schlang – Responsible for Marketing**

Rainer Schlang, graduate of the Academy of Commerce and holder of an MBA from Krems University (Austria), joined OMV in 1980 and occupied various positions within OMV Group. In the last 15 years, Rainer Schlang has coordinated the marketing activities of OMV in Southeastern Europe, spending the last 12 years in Romania. From 2007, he occupied the position of General Manager of OMV Romania, responsible for retail and commercial distribution in OMV's networks in Romania, Bulgaria and Serbia and was also General Manager of OMV Croatia. He was appointed member of Petrom's Executive Board starting February 1, 2010.



#### **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. In OMV, he held various positions: Head of Corporate Development & M&A/Legal, Vice President of the CEO's Office, Senior Vice President at Corporate Affairs & Sustainability.

Hilmar Kroat-Reder joined Petrom starting January 1, 2011.

Daniel Turnheim succeeded **Reinhard Pichler**, Petrom's CFO during 2005-2010, who took over new responsibilities within OMV Group.

Hilmar Kroat-Reder succeeded **Gerald Kappes**, who took over new responsibilities within OMV Group. Gerald Kappes was a member of Petrom's Executive Board responsible for Gas and Power (including Chemicals) during 2008-2009.

## Statement of the Chief Executive Officer

### Dear shareholders,

First and foremost, 2010 was an important milestone in Petrom's strategic path towards becoming a leading integrated energy player in Southeastern Europe. It was also a proof of management's ability to adapt and successfully steer the company through challenging market conditions. After a thorough review of our achievements since privatization and careful consideration of the present challenges, we defined our way forward for the next five years. Moreover, our focus on streamlining operations and strict cost management enabled us to deliver a strong set of results, in spite of a weak economic environment. The combination of the two makes us confident we are properly equipped to deliver significant value to our shareholders over the next years.

### Results for 2010

2010 marked the continuous recovery of the main Western economies after the financial turmoil started in late 2008, contrasted by lingering recession in our operating countries in Southeastern Europe. Overall, the Romanian economy remained mired in recession in 2010, with a notably restrictive fiscal policy and low government expenditures. The five percentage point rise in VAT and the reduction in public sector wages in July 2010 dented any hopes of a potential revival in domestic consumption in the second half of the year. Data from the Institute of National Statistics show GDP falling by only 1.3% in 2010, compared to 7.1% in 2009. However, the economy has been showing signs of stabilization over the last quarter of 2010 as the level of domestic economic activity started to increase towards the end of 2010.

Over this background of weakening market conditions in our operating region, our strong financial results reflect the effectiveness of optimization initiatives and a favorable crude price environment. Despite relatively high volatility, the average price for Urals, our reference crude price, increased by 28% compared to 2009 levels, at USD 78/bbl. In 2010, the indicator refining margin remained very low (2010: USD 0.33/bbl, compared to USD 0.02/bbl

in 2009), mainly as a result of increasing crude prices and therefore higher cost for own crude consumption offsetting higher product spreads.

Driven by an overall favorable crude price environment and strong efficiency improvements in R&M, clean EBIT increased to RON 3.5 bn, up by 53% compared to 2009. Clean CCS net income after minorities more than doubled compared to 2009, reaching RON 2.5 bn (2009: RON 1.1 bn). Our capital expenditure increased by 15% compared to 2009, standing at RON 4.9 bn, with a substantial increase in investments in G&P as we progressed with the construction of our power plant in Brazi and entered the renewable business by acquiring a wind farm project. The gearing ratio decreased to 12.4%, from 16.2% in December 2009, which was also driven by the favorable price environment.

Against the backdrop of strong cash generation and a low gearing ratio we were in a position to finance our business without requiring an increase in our share capital, as was authorized by shareholders in April 2010. We do not envisage requesting a renewal of the authorization period at the next GMS as we remain confident going forward about maintaining a strong balance sheet and cash flow generation capacity which will enable us to finance our operations and investments.

In addition to the strong financial performance, we are proud to report for 2010 the completion of several key projects and strong improvements in our operational efficiency.

In **Exploration and Production**, a number of critical milestones were achieved. For the third consecutive year, we maintained the reserve replacement rate in Romania above 70%. Furthermore, we successfully started the Hurezani gas delivery system by mid-year, aimed at optimizing our gas deliveries and unlocking the E&P potential. Onshore, production was started at new key wells (like Mamu) towards the end of the year. Offshore, additional production came on stream from applying advanced technology at both existing and new key wells. In order to mitigate production decline, strategic

**Strong set of results despite a weak economic environment**

**1.3% GDP fall in 2010**



partnerships were signed with reputed operators like Petrofac and PetroSantander, which are specialized in the management and rehabilitation of mature fields, aimed at enhancing production from onshore fields in the Ticleni and Arad areas by at least 50% in the next five years. An additional partnership was signed with Hunt Oil to facilitate joint exploration of two onshore blocks located in Eastern Romania. In Kazakhstan, we continued to further develop the key Komsomolskoe field taking measures to address start-up difficulties and also acquired 3D seismic at the recently acquired Kultuk field. The sale of our assets in Russia was a logical step towards a stronger regional focus.

In **Refining and Marketing**, the economic downturn affected our fuels sales and burdened our margins. Nonetheless, we managed to significantly improve the R&M clean CCS EBIT by more than RON 500 mn, due to structural improvements and optimized operations, with the Arpechim refinery remaining in economic shutdown for most of the period. The Petrobrazii utilization rate increased significantly towards the second half of the year, averaging 86% in the last quarter of 2010, compared to 66% in the same period of the previous year. We finalized the construction of the Brazi fuel terminal on the Petrobrazii refinery industrial platform. Together with the Jilava terminal (finalized in 2009), we achieved our target for 2010 with regards to the modernization of the terminals' infrastructure. In Marketing, the core aspect of 2010 activities was the consolidation process of the marketing activities of Petrom Group in Romania, effective as of October 1, 2010. This brought together activities that had been performed through three legal entities – OMV Petrom SA, M.P. Petroleum Distribuție S.R.L. and OMV România S.R.L., within a single legal entity – OMV Petrom Marketing S.R.L. (former OMV Romania), entirely owned by Petrom. The consolidation is expected to deliver several benefits; most notably, enhanced value creation by taking advantage of synergies at group level and increased cost efficiency. Alongside the consolidation, we decided to streamline our brand portfolio by pursuing a two brand strategy: the international brand – OMV alongside the strong Romanian

brand – Petrom. To this end, in the second half of 2010, we rebranded the majority of PetromV premium stations with the OMV brand, while the remaining filling stations were rebranded with the Petrom brand.

In the **Gas and Power** business, we made steady progress at our key power projects, the gas-fired power plant in Brazi – aimed at leveraging the value of our equity gas – and the Dorobantu wind farm acquired in April, both on track to start commercial operations in the second half of 2011. The downstream gas activities of OMV Petrom S.A. were consolidated into OMV Petrom Gas S.R.L., in order to streamline processes and better react to market opportunities and needs. In line with our decision to exit the chemical business, methanol production at the Doljchim chemical plant was halted in October 2010.

#### **Becoming a leading integrated energy player in Southeastern Europe**

After a profound and successful restructuring and modernization process that strengthened our operational and financial performance and position as the largest oil and gas player in Southeastern Europe, Petrom is set to transform into a leading integrated energy player in our operating region. We remain 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. In doing so, we will focus on maximizing the performance potential of our people, and to strengthen the organization and its management.

Against the background of major economic and environmental challenges, Petrom continues to invest in key projects to maximize performance. In the context of growing electricity demand and the obligations undertaken by Romania in terms of CO<sub>2</sub> reduction and clean energy development, Petrom now has a major competitive advantage: the first modern power plant - a greenfield project - in an industry characterized by the prevalence of aging assets which face difficulties

**Steady progress at our key power projects**

**Focus on consolidating E&P and developing power business**

in reaching European environmental standards. In this way, we secure our sustainable growth and ensure a diversified portfolio of energy products, from fuels to gas and power, at EU quality specifications for our customers. With annual investments of more than EUR 1 bn, we will continue to be a significant key player in the regional energy market.

**Best practice  
HSEQ standards:  
our top priority**

**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 CSR. At Petrom, we set as top priority to strive for best practice HSEQ standards including zero-fatalities and to continue reducing the LTI rate. In addition, we will continue to grant special attention to energy efficiency measures and people performance.

**Outlook for 2011**

We look forward to the opportunities that arise with another challenging year, as the Romanian economy is expected to come out of recession. Political support for the continuation of economic reforms would be paramount for consolidating the macroeconomic stability and kickstarting economic growth.

**Power business  
projects to start  
commercial  
operations by  
end 2011**

For Petrom, 2011 will mark the transition from an oil and gas player to an integrated energy player, as we start commercial operations in our power business projects towards the end of the year. In addition, we will continue our efforts to largely offset the natural decline of our production assets and to unlock the E&P potential. Operational optimization, Petrobrazil modernization and the pursuit of further strict cost management measures will also be key priorities in 2011. At the same time, 2011 marks the relocation of the company's central operations to the new headquarters, Petrom City – an architectural landmark for the Northern area of Bucharest, to whose development it contributed, and a milestone for our evolution as a company, for our objectives and values.

**Dividend**

Based on the strong 2010 results and financial position, we, the management and the Supervisory Board will recommend at our General Meeting of Shareholders on April 26, an annual dividend of RON 0.0177 per share for 2010, corresponding to a payout ratio of 46%. It is the first proposal to allocate a dividend after two years marked by economic turmoil and it reflects our confidence in Petrom's strong financial position and ability to drive further value within the current economic environment. We therefore thank you, our shareholders, for your loyalty and support, in particular over the last two years, and assure you of our commitment to strive to deliver sustainable value for the years to come.

I also want to express my appreciation to our clients and business partners for their loyalty and support within this challenging environment – we wouldn't be here without them. 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.



Mariana Gheorghe



# Our strategic directions and objectives

## Petrom in 2010

Petrom, a member of the OMV Group, is the largest oil and gas producer in Southeastern Europe. Our business segments are Exploration and Production, Refining and Marketing, and Gas and Power. They represent the core activities of the company and our main focus to increase efficiency.

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 184,000 boe/d in 2010 while total proved oil and gas reserves were approximately 832 mn boe at the end of December 2010.

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. Given the challenging mid- to long-term outlook for the refining industry, we aim to divest our second refining asset, Arpechim, by 2012 at the latest. In line with the strategy to exit non-core businesses, Petrom sold the assets related to the petrochemical activities from Arpechim at the beginning of 2010. We supply our products through a network of more than 800 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 39% and operating 546 filling stations. We are also the leading provider of aviation fuel services in Romania and the number one player in the local LPG market.

We are an important player in the Romanian gas market, covering all gas market segments. In 2010, 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, management decided to further expand the value chain and develop a power generation business utilizing both conventional

and renewable energy sources. In 2010, the construction works on our key power projects – the Brazi gas fired power plant and the Dorobantu wind farm, progressed according to schedule.

## Our strategic directions

### Enhance value of integration, key element to value creation

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 consolidating and expanding the hydrocarbons business, on business portfolio diversification through power production, on improving efficiency and maximizing the integration value in all units. To the same end, we will constantly pursue financial discipline and strict cost management to maximize our earnings strength.

### Capitalize on leading position as oil and gas producer in SEE to become a key energy player

We are committed to transforming ourselves from a leading integrated oil and gas company in Southeastern Europe to a key energy player by expanding into power generation. As an integrated oil and gas company accounting for approximately half of the Romanian gas production, with extensive market knowledge and experience, Petrom is best positioned to seize the opportunities in both oil and gas as well as in power markets. We are consolidating our strong operational asset base by strengthening E&P and G&P as we continue to leverage our role as the OMV Group operational hub for exploration and production, our core priority, in Romania and the Caspian region and for marketing in Southeastern Europe. In E&P, we aim to unlock the potential of our assets in Romania while further developing our upstream activities in Kazakhstan. In Romania, we focus on largely offsetting natural decline by (1) redeveloping key fields with different recovery schemes and (2) enhancing production

**Pursue and optimize synergies along the value chain**

**Strengthen E&P and G&P**

### Brazi: the first modern power plant put on stream in Romania

from mature fields through partnerships with specialized operators in selected fields. In addition, we seek to unlock the deep onshore and deepwater offshore exploration potential. In G&P, we stay committed to developing a power generation portfolio from both conventional and renewable energy sources. In the context of growing electricity demand and the obligations undertaken by Romania in terms of CO<sub>2</sub> reduction and clean energy development, Petrom puts on stream the first modern power plant – a greenfield project – in an industry characterized by the prevalence of aging assets which face difficulties in reaching European environmental standards. The additional renewable capacities, especially wind power, will help Petrom benefit from the advantages of both technologies.

### Sustainable development through diversification of energy sources

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 CSR. Against the background of major economic and environmental challenges Petrom continues to invest in key projects to maximize performance. In this way, we will secure our sustainable growth and ensure a diversified portfolio of energy products, from fuels to gas and power.

The extension of our activities in the energy sector is a significant component for the sustainable development of the company. To this end, we are currently developing a portfolio of projects covering energy from both conventional and renewable sources. As part of this process, we are expanding our value chain to leverage the value of the natural gas by developing our own power generation business and we are positioning ourselves to enter the renewable energy market, with a focus on wind projects in order to reduce carbon intensity.

## 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 to strengthen the organization and its management.

In **Exploration and Production**, our main objective is to largely offset natural decline and unlock E&P potential. The exploration and production activity is focusing on securing long-term oil and gas supply and develop 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 fields, mainly focusing on water and steam injection. Furthermore, we will 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. This will be accompanied by continued strict cost management, further streamlining of the organization and the complete integration of E&P services within E&P.

In Kazakhstan, the focus will be on increasing production from the Komsomolskoe field and developing the Kultuk field based on its commercial evaluation in 2011.

In **Refining**, we will direct our efforts into streamlining our business by upgrading and improving the Petrobrazi performance to maximize the Petrom integration value and enable the processing of 100% of Romanian crude production. Against the background of major economic and environmental challenges, we decided to exit the Arpechim refinery business and we currently aim at finalizing the business solution for Arpechim in order to implement the divestment plans for the refinery by 2012 at the latest. We do not expect to resume operations at our Arpechim refinery in 2011. Furthermore, we continue the next stage of our terminal modernization program, the construction of the Isalnita storage facility (approximately 11,000 cbm

### Develop power projects portfolio with conventional (gas) and renewable (wind) sources



of capacity). In **Marketing**, we focus on consolidating our market position by pursuing a two brand strategy (OMV & Petrom). At the same time, we will further bring in line our organizational structures and processes (OMV & Petrom) to optimize the organization and increase efficiency through integration within downstream activities.

In **Gas and Power**, we continue to concentrate on core activities and aim to tap gas potential by extending the value chain to power production. Our focus is on successfully commissioning the two power plants currently under construction. Both the Dorobantu wind power plant and Brazi combined cycle gas fired power plant are scheduled to begin commercial operation in the second half of 2011. We also pursue gas infrastructure modernization and aim for

selectively entering the new markets in the region. We will pursue our decision to exit the non-core businesses, such as the gas distribution activity. To the same end, production of methanol at the Doljchim chemical plant has been halted since the middle of October 2010.

**Pursue exit  
from non-core  
business**

## 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. In Romania, Petrom accounts for almost the entire crude oil production and for approximately half of the gas production. Petrom Group oil and gas production amounted to approximately 184,000 boe/day in 2010, with 173,900 boe/day produced in Romania. Petrom Group had proved reserves of approximately 832 mn boe at the end of December 2010, of which 805 mn boe were in Romania.**

**72% RRR in Romania**

### Our achievements in 2010

- ▶ Petrom Group annual average production amounted to approximately 184,000 boe/day
- ▶ Romanian reserves replacement rate increased to 72%
- ▶ Lost time injury rate for the Petrom Group E&P employees maintained below 0.3, significantly better than industry benchmark
- ▶ Engineering and execution of seven field redevelopment projects started and progressed
- ▶ Hurezani gas compressor station successfully finalized with first gas delivery in May 2010
- ▶ Production enhancement contracts concluded with Petrofac and PetroSantander for 18 fields in Ticleni and Arad areas
- ▶ Partnership concluded with Hunt Oil Company for joint exploration of the onshore blocks Adjud and Urziceni Est
- ▶ Successful offshore multistage drilling campaign achieved in the Lebada Est and Lebada Vest fields
- ▶ Further streamlining of the organization
- ▶ Production in Kazakhstan increased by 58% compared to 2009

- ▶ Further develop partnerships
- ▶ 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 cost efficiency
- ▶ Further streamline organization and integrate E&P Services
- ▶ Develop upstream activities in the Caspian Region
- ▶ Improve contractors' safety performance

### Our objectives for 2011

- ▶ Continue to largely offset the natural decline
- ▶ Sustain the reserves replacement rate in Romania above 70%
- ▶ Progress with the integrated field redevelopment projects
- ▶ Focus on water injection facilities optimization
- ▶ Decide on offshore deepwater drilling in Neptun block in the Black Sea
- ▶ Further pursue strict cost management measures
- ▶ Launch two major facility modernization and optimization initiatives
- ▶ Complete processing and interpretation of 3D seismic data in Kultuk field from Kazakhstan

**Leading oil and gas producer in SEE**

### 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

- ▶ Redevelop key fields and optimize gas production systems
- ▶ Focus on water flooding
- ▶ Unlock deep onshore and deepwater offshore exploration potential

## Refining and Marketing

Petrom is the number one downstream operator in Romania, with a total market share of 39% and operating 546 filling stations. We are also the leading supplier of aviation fuel services and the number one player in the local LPG market. Through our affiliates, we operate another 255 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 processes exclusively equity crude to maximize its integration value. In line with our strategic directions, we aim at finalizing the business solution for Arpechim in order to implement the divestment plans for the refinery by 2012 at the latest.

### Our achievements in 2010

- ▶ Significant improvement of the results driven by downstream optimization and cost control efficiency
- ▶ Efficient response to the prevailing market challenges with flexible utilization of our refining and logistic assets
- ▶ Finalized construction of the Brazi terminal, the second one under the terminal modernization program
- ▶ Finalized divestment of the Arpechim petrochemical business
- ▶ DuPont 2010 Safety Award given for a broad-based program implemented in Petrom Refining, aimed at increasing awareness and creating a stronger safety culture
- ▶ Successful consolidation of marketing activities in Romania in a single entity, OMV Petrom Marketing S.R.L.
- ▶ Implemented rebranding of PetromV filling stations in Romania into OMV or Petrom

### Our strengths

- ▶ High degree of integration with domestic crude resources and regional distribution outlets
- ▶ Demonstrated effectiveness in responding to challenging market conditions
- ▶ Leading position in the Romanian market, with two strong brands, clearly positioned and complementing each other
- ▶ High product and service quality and environmental standards
- ▶ Strong network of filling stations with a wide geographical coverage

### Our strategic directions

- ▶ Low cost conversion of Romanian crude oil into high quality transport fuels for the Southeast European market

- ▶ Modernization of the Petrobrazî refinery and maximization of upstream integration value
- ▶ Energy efficiency and yield performance improvements
- ▶ Further optimize organization by alignment of organizational structures and processes (OMV and Petrom)
- ▶ Consolidate market position pursuing a two brand strategy (OMV and Petrom) and by providing best-in-class customer service
- ▶ Secure construction and industry market segments with high quality products
- ▶ Maintain our leading position on the LPG market in Romania and penetrate bitumen market

### Our objectives for 2011

- ▶ Progress with the Petrobrazî modernization
- ▶ Capitalize on the flexible utilization of refining assets during 2011 and prepare business solution for Arpechim to finalize divestment by latest 2012
- ▶ Continue energy efficiency improvements and reduce CO<sub>2</sub> emissions
- ▶ Further optimization of our retail filling station network
- ▶ Expand non-oil portfolio and become a comprehensive service provider
- ▶ Further roll-out EuroTruck network in Romania and Bulgaria

**Modernize and run Petrobrazî as upstream integrated refinery**



## Gas and Power

Petrom is a leading player in the Romanian gas market, covering all gas market user segments from small households to large-scale industrial consumers and power producers. In order to maximize the value of natural gas, we took the decision to move the value chain one step further by developing our own power generation business complemented with renewable energy (wind), thus creating significant synergies. Gas and Power also includes chemicals, represented by the Doljchim chemical plant, where methanol production was stopped since mid of October 2010. The plant will be dismantled in line with the decision to exit the non-core fertilizer business.

**Works and tests at Brazi power plant progressed according to schedule**

**Pursue a 10% share of the electricity market in Romania**

### Our achievements in 2010

- ▶ Maintained a strong position in the Romanian gas market within a difficult business environment
- ▶ Consolidation of the gas supply and sale activities of OMV Petrom S.A. and OMV Petrom Gas S.R.L. in one company, OMV Petrom Gas S.R.L.
- ▶ Acquisition of a wind power project and start of construction works
- ▶ Finalization of CCPP Brazi gas pipeline and gas receiving station
- ▶ Start of tests of CCPP Brazi main components and systems
- ▶ Exit from the non-core chemical business by stopping also the methanol production at Doljchim

### Our strengths

- ▶ One of the leading gas producers and marketers in Romania
- ▶ High degree of flexibility and competence, taking advantage of our vertical integration
- ▶ Full coverage of the requirements of all gas market segments in Romania
- ▶ Best placed to further expand the gas value chain with highly efficient and flexible power generation assets

### Our strategic directions

- ▶ Strengthen the leading position on the gas market, while selectively entering new markets in the region
- ▶ Become an important power generation supplier by achieving an electricity market share in Romania of up to 10% also by developing a renewable power portfolio

### Our objectives for 2011

- ▶ Leverage integrated gas value chain and consolidate market position
- ▶ First power projects operational in 2011: Dorobantu wind farm and Brazi gas fired power plant
- ▶ Create a competence center for energy management in Petrom
- ▶ Continue dismantling and decontaminating Doljchim plants, in compliance with European environmental and safety standards

## 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. The Supervisory Board of Petrom consists of nine members, as follows:

**Wolfgang Ruttenstorfer** – President

Chief Executive Officer of OMV and Chairman of the OMV Executive Board

First elected at the GMS held on January 11, 2005

**Gerhard Roiss** – Deputy

Deputy Chairman of the OMV Executive Board, responsible for Refining and Marketing including Petrochemicals and Chemicals

First elected at the GMS held on January 11, 2005

**David C. Davies**

Chief Financial Officer of OMV and member of the OMV Executive Board

First elected at the GMS held on January 11, 2005

**Jacobus Gerardus Huijskes**

Member of the OMV Executive Board, responsible for Exploration and Production replacing **Helmut Langanger** whose tenure as a member of the Petrom Supervisory Board started January 11, 2005

First elected at the GMS held on August 3, 2010

**Werner Auli**

Member of the OMV Executive Board, responsible for Gas and Power

First elected at the GMS held on April 25, 2006

**Marian Turlea**

Head of Minister of Economy Cabinet; appointed to the Petrom Supervisory Board following the Ministry of Economy's proposal

First elected at the GMS on April 28, 2009

**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; he replaced **Daniel Costea** whose tenure as a member of the Petrom Supervisory Board started April 28, 2009

First elected at the GMS on April 29, 2010

**Riccardo Puliti**

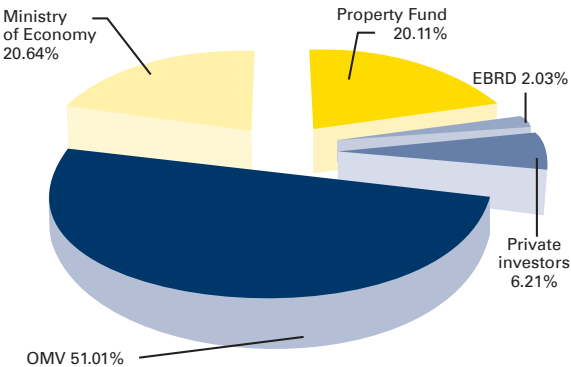
Managing Director in charge of the energy and natural resources sectors at the EBRD; appointed to the Petrom Supervisory Board following the EBRD's proposal

First elected at the GMS on April 28, 2009

## Petrom shares

### Shareholder structure

Currently, OMV Petrom S.A. has the following shareholder structure: 51.01% - OMV Aktiengesellschaft, 20.64% - the Ministry of Economy, 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 companies), and 2.03% - the European Bank for Reconstruction and Development (EBRD). The remaining share of 6.21% is free float, traded on the Bucharest Stock Exchange (BSE).



which includes all companies listed on the BSE, increased by 15%. Vienna Stock Exchange's ROTX Index which comprises the 14 most liquid blue chip stocks traded at the BSE, increased by 12% in 2010. The BET-NG sectorial index which comprises stocks in the energy and utilities sectors, also increased by 29% year-on-year in 2010.

Petrom's market capitalization (on December 30, the last day of trading) of RON 18,976 mn represented 19% of the total market capitalization of share listed on the BSE.

### Petrom share symbols

| ISIN                     | SNPPACNOR9 |
|--------------------------|------------|
| Bucharest Stock Exchange | SNP        |
| Bloomberg                | SNP RO     |
| Reuters                  | SNPP.BX    |

### SNP increased by 35% yoy

### Shares

In the year 2010, Petrom's share price embarked on an increasing trend, with a similar performance as in 2009. Price growth started from the beginning of the year, and after reaching its year low value of RON 0.252/share on January 4, the share price increased to RON 0.335/share on December 30. Overall, Petrom's share price increased by 35% on a full year basis, reaching its year high of RON 0.366/share on April 9, outperforming the local and the international capital markets.

During 2010, the BET Index, which comprises the ten most liquid blue chip stocks listed on the Bucharest Stock Exchange (BSE), was outperformed by Petrom, rising by 12% on a yearly basis. The BET C (BET Composite) index,



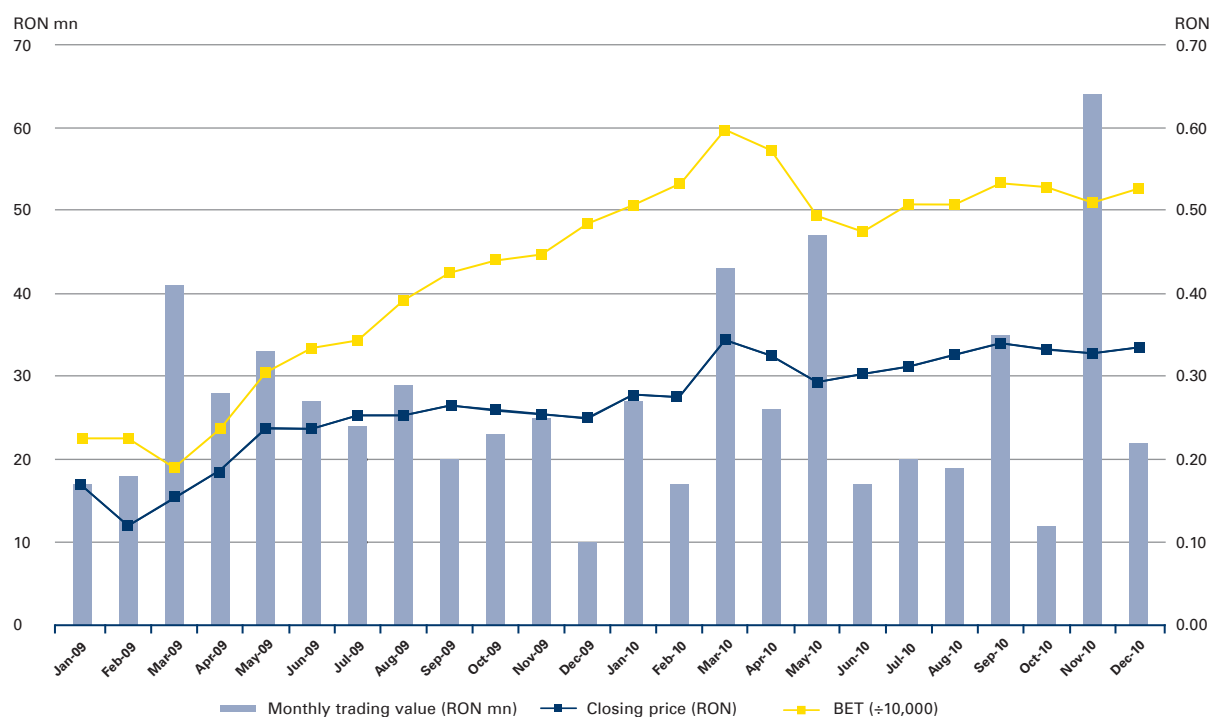
## At a glance

|   | 2008           | 2009           | 2010                |
|---|----------------|----------------|---------------------|
| Number of shares                            | 56,644,108,335 | 56,644,108,335 | 56,644,108,335      |
| Market capitalization (RON mn) <sup>1</sup> | 10,253         | 14,104         | 18,976              |
| Market capitalization (EUR mn) <sup>1</sup> | 2,609          | 3,356          | 4,429               |
| Year's high (RON)                           | 0.5600         | 0.2920         | 0.3660              |
| Year's low (RON)                            | 0.1290         | 0.1160         | 0.2520              |
| Year end (RON)                              | 0.1810         | 0.2490         | 0.3350              |
| EPS (RON/share)                             | 0.0173         | 0.0152         | 0.0389              |
| Dividend per share (RON)                    | 0              | 0              | 0.0177 <sup>2</sup> |
| Dividend yield <sup>1</sup>                 | 0              | 0              | 5.2% <sup>2</sup>   |
| Payout ratio                                | 0              | 0              | 46% <sup>2</sup>    |

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

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

## Evolution of Petrom share price and BET



**EGMS approved the spin-off of marketing activities into a fully owned subsidiary**

### General Meeting of Shareholders

On **April 29, 2010** 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 2010 was approved and it was decided not to distribute dividends for the financial year 2009. Mark Mobius, fund manager at Franklin Templeton Investments in Singapore, was appointed as a member of the OMV Petrom S.A. Supervisory Board succeeding Daniel Costea. The EGMS approved the delegation of competences relating to the increase of the share capital of OMV Petrom S.A., for one year, to the Executive Board, which is authorized to carry out a share capital increase of up to a maximum of 50% of the existing subscribed capital. The EGMS also approved the initiation of the spin-off of assets and liabilities related to three business units of the Marketing Division of the company to OMV Petrom Marketing S.R.L.

On **August 3, 2010** both the Ordinary and Extraordinary General Meetings of Shareholders were held. At the OGMS, Jacobus Gerardus Huijskes, member of the OMV Executive Board responsible for Exploration and Production, was appointed as a member of the OMV Petrom S.A. Supervisory Board succeeding Helmut Langanger. The EGMS approved in substance the spin-off of the OMV Petrom S.A. marketing activities and the legal transfer to OMV Petrom Marketing S.R.L. (a company fully owned by Petrom), by means of universal title legal transfer of assets and liabilities pertaining to such activities, together with the spin-off plan including its effects. The date on which the spin-off became effective was October 1, 2010. The EGMS also approved the sell-out procedure with respect to the shareholders of the Company in accordance with article 134 of Company Law no. 31/1990. On September 23, the Trade Registry appointed PricewaterhouseCoopers Management Consultants S.R.L. as the independent expert to define the price of the shares to be paid to those shareholders which exercised their sell-out right.

### Investor Relations activities

Throughout the year, management and the Investor Relations team aimed in a variety

of ways to meet investors' and analysts' heightened demand for information in response to the challenging environment and increased interest towards the Romanian capital markets, in light of the envisaged listing of the Property Fund. Petrom hosted a series of one-to-one meetings and conference calls with analysts and institutional investors both from Romania and abroad and also attended analyst and investor conferences, organized in Romania and abroad. At the meetings, analysts and investors had the opportunity to address questions directly to the company's representatives, including the IR team and/or the CEO, and discuss about the company's reported results and strategic directions with the management. A total of over 50 one-to-one meetings and presentations were held, including more than 100 investors and analysts.

In the interests of transparency and timeliness, all important information and news for shareholders, analysts and investors is promptly posted on our corporate website [www.petrom.com](http://www.petrom.com), under the Investor Relations section.

### Dividends

On March 24, 2011, the Supervisory Board endorsed management's proposal to distribute dividends of RON 0.0177 per share, resulting in a payout ratio of 46%. The dividend proposal is subject to further approval by the General Meeting of Shareholders, on April 26, 2011.

### Own shares

#### Minor share buy-backs

The Extraordinary General Meeting of Shareholders approved, with the majority of votes, by the decision dated December 16, 2008 the buy-back by Petrom of its own shares from the regulated securities market, under art. 103<sup>1</sup> of the Law no. 31/1990 on trade companies („Law no. 31/1990”), with a view to distributing the same free of charge to the persons entitled to receive shares (former or current employees). The reason for the share offering was to fulfil the obligation assumed under article 168, paragraph 5 of the Collective Labor Agreement (CLA) applicable in 2008, under which „In case of entering the privatization phase, the employees who are part of this agreement shall benefit from

a number of shares negotiated by FSLI Petrom with Petrom S.A. – granted free of charge [...]” also stipulated under art. 107 of the CLA applicable in 2009.

The buy-back program commenced on January 8, 2010 and was completed on January 18, 2010. OMV Petrom S.A. purchased 6,195,500 shares, representing 0.011% of the company’s share capital from the regulated securities market, at a total value of RON 1,772,177. The purchase price ranged from RON 0.2730 to RON 0.2930.

The effective allocation of the free of charge shares was made between June 23 and December 16, 2010 – according to the simplified prospectus, the period for the effective allocation of the free of charge securities to the entitled persons could run between February 25, 2010 and December 31, 2010. OMV Petrom S.A. distributed free of charge, to each person so entitled a number of 100 (one hundred) ordinary, nominal and dematerialized shares, traded on the first tier of the Bucharest Stock Exchange, 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 total shares purchased of 6,195,500, a total number of securities of 6,133,500 were distributed to 61,335 entitled persons.

As per December 31, 2010, the number of shares held in treasury from the buy-back 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. No shares were cancelled in the year under review.

**62,000 shares in treasury from buy-back**

#### Contact at Investor Relations

Sorana Baci

Strategy, Corporate Development & Investor Relations

OMV Petrom S.A.

Mailing address: 22 Coralilor Street, district 1, Bucharest

Tel: +40 (0) 372 868 930; Fax: +40 (0) 372 868 518

E-mail: [investor.relations.petrom@petrom.com](mailto:investor.relations.petrom@petrom.com)

#### Mailing service

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

#### Financial Calendar 2011

| Financial events  | Date              |
|---|-------------------|
| Presentation of the results for January-December and Q4 2010 <sup>1</sup> | February 23, 2011 |
| Publication of the Annual Report 2010                                     | April 26, 2011    |
| General Meeting of Shareholders   | April 26, 2011    |
| Presentation of the results for January-March 2011                        | May 11, 2011      |
| Presentation of the results for January-June and Q2 2011                  | August 10, 2011   |
| Presentation of the results for January-September and Q3 2011             | November 9, 2011  |

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



## Business environment

### 4% increase of world output over 2009

#### World

During 2010, **world economic growth** became increasingly more self-sustained, with world output rising by 4% in real terms from the fall recorded in 2009. A stronger than expected activity in the second half of 2010 together with the extension of stimulus plans in the US lifted GDP growth in 2010. However, the recovery proceeded unevenly. In developed economies, growth remained rather subdued as relatively high unemployment rates and elevated levels of indebtedness kept the uncertainty high about future households' income, thus adding to concerns about the speed of the recovery. In contrast, emerging markets displayed buoyant levels of economic activity. The mix of loose monetary policies by the world's most prominent central banks and increased demand in emerging economies reignited global inflation pressures, driven particularly by commodity, energy and food prices. Euro area economic growth advanced by 1.8% in 2010, powered by a vigorous German economy. But doubts about the fiscal sustainability in several euro area countries led to widening sovereign risk premiums within the euro area and raised uncertainty over the speed of its future growth.

### 3% increase of total world crude demand over 2009

In 2010, total **world crude demand** rose by more than 3% yoy to 87.7 mn bbl/d. This was the second highest rate of growth over the last three decades. Global demand was largely driven by an acceleration of economic recovery in the second half of the year. The OECD oil demand rose by 0.7 mn bbl/d or 1.5%, driven by increased demand for industrial and transportation fuels. Oil product demand rose particularly strongly in North America, going up by 3.2% compared to 2009. In Europe, the strong oil product demand in Germany counterbalanced the falls in the UK, France, Italy and Spain. Non-OECD demand was up by 2 mn bbl/d or over 5% year-on-year, with Asia accounting for 70% of the increase. China remained the single largest contributor to the increase in Asian demand, making up for more than half of non-OECD growth. **Global oil production** also rose by 2.5% to 87.3 mn bbl/d in 2010. OPEC boosted daily production to 29.2 mn bbl of crude and 5.3 mn bbl of NGLs. The overall gain of 1 mn bbl/d pushed up the OPEC's

market share to around 40% of the total. Non-OPEC oil supply rose by around 1%, with OECD output continuing to stay virtually flat and non-OECD supply rising by almost 1 mn bbl/d to approximately 30 mn bbl/d compared to 2009.

Throughout 2010, **oil prices** continued to trend upwards as demand from the booming emerging economies expanded. The average Brent price was USD 79.5/bbl, 29% higher compared to 2009. After hovering between USD 76-78/bbl during the first three quarters of 2010, the Brent price rose to USD 86.5/bbl in the last quarter (with a year's high of USD 94/bbl in the last week of December), driven by buoyant demand. The average Urals price in 2010 was USD 78.3/bbl, 28% higher compared to 2009.

#### Romania

The Romanian economy remained mired in recession in 2010, contracting by another 1.3% after falling by 7.1% on the previous year. Domestic consumption, the main engine of growth in the preceeding boom years, stayed weak as credit availability continued to be scarce and uncertainty about future income remained high. In spite of that, the economy has been showing signs of stabilizing over the last quarter of 2010 and indicators point towards an imminent resumption of growth. The level of domestic economic activity, although still low, increased towards the end of 2010. **Industrial production** continued to exhibit a positive performance throughout 2010.

Although the country risk, as assessed by international rating agencies, remained virtually unchanged, the macroeconomic outlook improved visibly. The correction of macroeconomic imbalances, both internal and external, consolidated.

Fiscal policy was notably restrictive in 2010. Public sector reforms were initiated in earnest towards the end of 2010, when the authorities took highly important structural measures including pension and public sector wage reform as well as the education law. Lower government expenditures and higher revenues generated mainly through the VAT rise brought down the budget deficit to 6.5% of GDP in 2010, from 7.4%

in 2009. However, public sector arrears remained an unresolved issue in 2010. The reform of the public sector proceeded ahead rather slowly and is expected to continue in the coming years. Annual **CPI inflation** rose to 8% at the end of 2010, largely reflecting price increases due to the VAT rise. Demand side inflationary pressures remained weak throughout 2010 as consumers' purchasing power was subdued. Real wage growth was negative by a large margin in the second half of the year as nominal wage growth failed to match the increase in inflation. Additional supply side inflationary pressures emerged at the end of 2010 as global commodity prices embarked on an upward trend. The monetary policy stance of the Romanian authorities continued to remain loose in 2010. Over the year, the Monetary Policy Council reduced the NBR benchmark **interest rate** by a cumulative 175 basis points, from 8% to 6.25%.

In 2010, the RON marginally rose against the EUR but fell against the USD. The exchange rate volatility continued to diminish in 2010 with annual changes of the RON/EUR average monthly rates ranging between -4.6% and

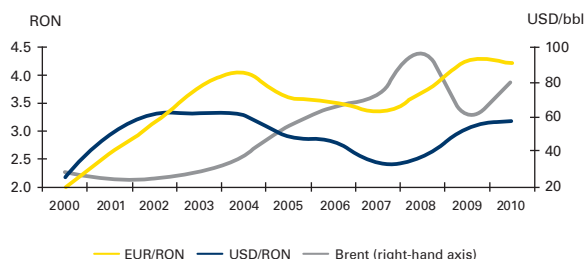
1.6%. Reduced uncertainty in foreign exchange markets and macroeconomic stabilization lowered the variation in exchange rate. The 2010 yearly average **USD/RON** rate appreciated by around 4% compared to the value recorded in 2009, while the average **EUR/RON** rate fell by almost 1% over the same period.

**Less volatility of FX rate**

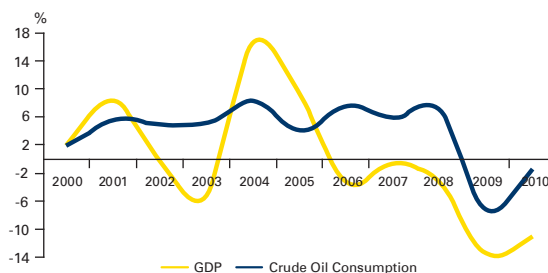
Romanian **primary energy resources** continued to fall in 2010, albeit at a much lower rate. They were down by 0.3% compared to 2009, to 34 mn toe, as domestic energy consumption remained low, in line with a subdued level of economic activity. Imports of primary energy resources were down by 1% while domestic production stayed unchanged compared to 2009. Romania's oil demand continued to fall and the corresponding adjustment in supply materialized mainly through lower imports. These fell at an annual rate of 15.5% to 5.8 mn toe while domestic oil production dropped by around 5% at 4 mn toe. The demand for natural gas increased by approximately 5% in 2010 to 10.4 mn toe with gas imports rising annually by almost 15% to countereffect lower domestic production activity.

**Romania's oil demand shrunk further**

**Crude price (Brent) and FX rates, annual averages**



**Romanian GDP and crude oil consumption annual change**



### Outlook for 2011

The Romanian economy is expected to come out of recession in 2011. Consumption growth should resume, albeit marginally, as real wage growth is expected to pick up. Consumers' purchasing power should increase gradually throughout the year as inflation falls and economic recovery

takes hold. Fiscal consolidation should continue in 2011 with public sector reform measures envisaged to take center stage. Political support for the continuation of economic reforms in a pre-election year would be paramount for consolidating macroeconomic stability.





What proves our commitment?

Our investments for the future.





## Exploration and Production (E&P)

In 2010, the Group's reserve replacement rate decreased from 73% to 67% due to reserves revisions in Kazakhstan while the domestic reserves replacement rate increased to 72% from 70% in 2009 as result of revisions of mature fields, achievement of the drilling program combined with diversification of the recovery mechanisms. Production in Kazakhstan was increased significantly due to the ramp up of production from the Komsomolskoe field, while the domestic production decreased by 4% due to the natural decline of production.

### E&P at a glance

|  | 2008  | 2009  | 2010  |
|--|-------|-------|-------|
| Segment sales (RON mn) <sup>1</sup>        | 9,813 | 8,249 | 9,534 |
| EBIT (RON mn) <sup>2</sup>                 | 2,931 | 2,468 | 3,012 |
| Capital expenditure (RON mn) <sup>3</sup>  | 4,745 | 2,869 | 2,774 |
| Total Group production (mn boe)            | 71.08 | 68.29 | 67.08 |
| thereof in Romania                         | 68.98 | 66.00 | 63.46 |
| Proved reserves as of December 31 (mn boe) | 872   | 854   | 832   |
| thereof in Romania                         | 843   | 823   | 805   |

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

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

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

### 22% EBIT increase over 2009

**E&P EBIT** increased by 22% in 2010 compared to 2009. Higher costs associated with the ramp-up of production in Kazakhstan (Komsomolskoe field) were offset by higher revenues due to higher oil price.

Group average realized oil prices increased by 18% (from USD 58.45/bbl to USD 68.72/bbl). The 2010 result was affected by impairments of assets in Kazakhstan amounting to RON 441 mn. Further restructuring provision for 2011 were created amounting to RON 77 mn, whereas restructuring expenses not covered by provision in 2010 amounted to RON 15 mn. The **clean EBIT** without special items increased by 32% compared to 2009 to RON 3,544 mn.

In 2010, Petrom **Group's hydrocarbon production** stood at 67.1 mn boe (thereof 63.5 mn boe in Romania), slightly lower compared to 2009 as a result of lower production levels in Romania. On average, daily oil and gas production was 184,000 boe/day (thereof 173,900 boe/day in Romania). Higher production volumes in Kazakhstan, where the Komsomolskoe field was brought gradually on stream, partly compensated for the lower volumes in Romania. In 2010, **Group production cost** increased by 11% to USD 16.74/boe and in Romania by 10% to USD 16.05/boe. Since 2010 production costs per boe are based on production available for

sale. This change in calculation represents 8 percentage points of the increase in production costs expressed in USD/boe.

### Exploration

The 3D seismic data acquired in the offshore Neptun permit by the Petrom/Exxon JV has been processed and evaluated in 2010 to identify potential commercial prospects. Additional geological and geophysical studies, including a seabed geochemical drop core survey, were conducted.

The most complex 3D onshore survey ever acquired in Romania was conducted over the Moreni field, during the first phase of the Moreni-Runcu-Baicoi 3D survey.

In September 2010, Petrom and an affiliate of the American company Hunt Oil, have embarked on a joint partnership for onshore exploration in Romania. The partnership facilitates joint exploration of the onshore blocks Adjud and Urziceni Est, which are located in Eastern Romania. Petrom and Hunt Oil Company of Romania started performing an extensive seismic data acquisition and study program in 2010, set to continue in 2011.

Onshore, Petrom finished drilling works for 7 exploration and appraisal wells, acquired 550 km of 2D seismic data and 530 km<sup>2</sup> of 3D seismic

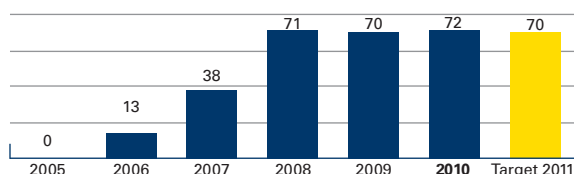


data in 2010. Offshore, a 459 km<sup>2</sup> 3D survey was completed in the Istria Block and 1 exploration well was drilled in shallow waters within the Neptun Block.

#### Reserve replacement rate (RRR)

As of December 31, 2010, Petrom Group's total **proved oil and gas reserves** amounted to 832 mn boe (Romania: 805 mn boe), while the proved and probable oil and gas reserves amounted to 1,172 mn boe (Romania: 1,120 mn boe).

#### Reserve replacement rate in Romania



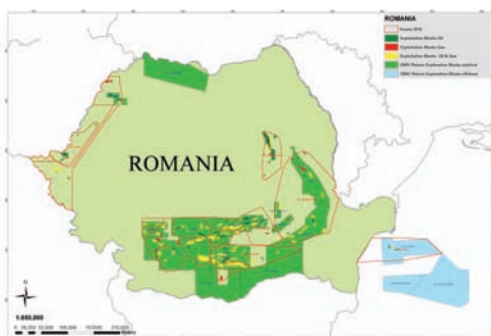
Continuous revisions of mature fields, achievement of the drilling program combined with diversification of the recovery mechanisms applied in 2010 led to an increase of the reserve replacement rate in Romania from 70% in 2009 to 72% in 2010. Petrom Group reserve replacement rate decreased to 67% due to reserves revisions in Kazakhstan.

#### Romania

##### Operational highlights 2010

In Romania, Petrom holds exploration licenses for 15 onshore and 2 offshore blocks, with a total area of 59,100 km<sup>2</sup> (of which 13,730 km<sup>2</sup> offshore) and operates 255 commercial oil and gas fields. A combined volume of 173,900 boe/d was produced in 2010 (2009: 180,815 boe/d).

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



#### Production

In 2010, Petrom produced 4.17 mn t of crude oil and condensate and 5.12 bcm of natural gas or an equivalent of 63.46 mn boe in Romania. The average daily equivalent production in Romania reached 173,900 boe/d, 4% lower than 2009. In the second half of the year, the natural production decline was steadily reduced by concentrating on reservoir management initiatives, finalization of key wells, increased workovers and infill drilling. To this end, 134 new development wells were drilled, more than 25,000 well interventions were performed and more than 1,400 workover jobs were carried out throughout 2010.

Petrom's domestic crude oil production was 82,100 boe/d, 5% lower than the level recorded in 2009. The decrease was caused by the weather conditions (snow and flooding) in the first 4 months of the year, and also by the lower drilling activities in 2009, which impacted the 2010 production and caused a delay in the drilling activities at the beginning of 2010. Petrom's domestic gas production was 91,700 boe/d, 3% lower than in 2009. In the first few months of the year, the production decline was caused by a delay in completion of key gas wells (Mamu), and also lower drilling activities in 2009, which impacted the 2010 production, and Transgaz network restrictions. In Q4/10, gas production was increased by the start of production at the key wells in Mamu and Radinesti and a successful offshore acid stimulation campaign wells.

#### Key projects in 2010

In 2010, we focused on our initiatives to redevelop key fields, finalize the Hurezani gas optimization system and to enter partnerships with reputed operators for selective fields in order to optimize production.

Our seven ongoing integrated field redevelopment projects further progressed in 2010. In Suplac, the modernization activity targeting critical equipment necessary for steam production and the first pilot consisting of drilling three shallow horizontal injection/production wells was successfully completed.

**63.46 mn boe  
produced in  
Romania in 2010**



Three world records (shallowest horizontal well, shallowest open-hole sidetrack, shallowest kick off point) were achieved.

#### Hurezani compressor station



#### Hurezani project put on stream to optimize gas deliveries from Southwest Romania

In May 2010, the Hurezani gas delivery system started operations with the first delivery on May 29 and network pressure restrictions in the Western area have been almost eliminated. The system optimizes Petrom's gas deliveries from the fields situated in Southwestern Romania and contributes to the security of gas supply in Romania. The works included a new compressor station at Bulbuceni, 11.5 km of new connection pipeline and an upgrade of the Hurezani delivery point in order to meet the new gas flow and pressure parameters.

In July 2010, Petrom signed a 15-year production enhancement contract for 9 fields in the area of Ticleni with Petrofac, a leading international provider of facilities solutions to the oil and gas production and processing industry. According to this partnership, Petrofac will perform services in the respective fields in order to maximize production while improving operational efficiency. In October 2010, Petrom concluded a 17-year production enhancement contract for nine onshore fields in the Arad area, with PetroSantander, a private Canadian company specializing in the operation and rehabilitation of mature fields. According to this contract, PetroSantander will manage the respective fields, provide the necessary expertise and technologies as well as the financial and human resources. In both partnerships, Petrom will remain the title holder of concession contracts

and hydrocarbons production. Both partnerships target cumulative production enhancement in the respective fields by at least 50% compared to the current production decline in the next five years.

A total of 142 wells finished drilling in 2010. Offshore, six new wells have been successfully drilled, stimulated and completed using multi-stage hydraulic fracturing in the Lebada East and Lebada West fields.

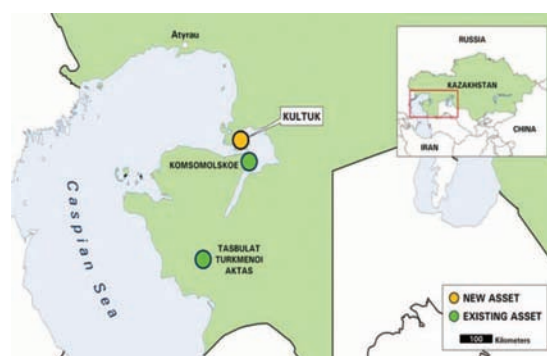
#### Capital expenditures

Capital expenditures of Petrom E&P Group decreased to RON 2,774 mn, a reduction of 3% compared to 2009. The focus of investments was on drilling of development wells, workover and subsurface operations, finalization of the Hurezani gas delivery system and other surface facilities. Petrom E&P Group's exploration expenditure increased by RON 122 mn to RON 341 mn, thereof RON 187 mn were expensed and RON 154 mn were capitalized.

#### International E&P operations

In **Kazakhstan**, Petrom holds exploration and production licenses for the fields Tasbulat, Aktas, Turkmenoi (TOC fields), Komsomolskoe and Kultuk. In 2010, Kazakhstan oil and gas average production further increased to 9,900 boe/day (up 58% compared to 2009).

At the **Komsomolskoe** field, the activities focused on ramping up production and process stabilization in production facilities. As a result of a recent technical assessment of the Kazakh activities, the production forecast for Komsomolskoe was revised downwards to reflect the actual performance of the reservoir as well as its facilities.



### Komsomolskoe oil receiving facilities



At the **TOC fields** (Tasbulat, Turkmenoi, Aktas), a workover and stimulation campaign was undertaken to reduce the effects of natural decline and to stabilize production.

At the **Kultuk** field, acquired in December 2009, Petrom successfully completed the 3D seismic acquisition and started data processing and interpretation.

In December 2010, the sale of the Jusaly exploration license from Kazakhstan was finalized, with no material impact on results. In Russia, given the current economic environment and following a prioritization of its investment projects, Petrom sold its 74.9% stake in Ring Oil to its minority partner Mineral and Bio Oil Fuels Limited. The sale of our assets in Russia was a logical step towards a tighter regional focus.

### Exploration and Production Services (E&P Services)

#### Integration and achievements of E&P Services

The mission of E&P Services is to provide state-of-the-art services to Petrom E&P. In order to accomplish this mission, the E&P Services transformation was continued on the basis of two main pillars: efficiency increase-cost reduction and service portfolio optimization, while adapting to E&P new structures and strategy. The success of its integration into Petrom in 2008 was, once more, confirmed as E&P Services operational costs decreased for the third consecutive year.

Starting January 2010, E&P Services has rolled out a new project to stabilize costs and increase efficiency in all assets and at all levels which led to business and organization optimization.

The restructuring process started and was finalized without any business interruption. By implementing a streamlined organizational structure, brought in line with E&P's new asset organization, and strengthening the service management organization, E&P Services made further steps towards integration into E&P. The service portfolio optimization project continued with a thorough analysis of business opportunities which led to strategic business decisions. A focused investment program was implemented to further improve the quality and safety of E&P Services operations.

#### Operational highlights

In **Logistics**, the optimization of vehicle management finished with the introduction of the fleet management system (FMS). This led to improved resource usage (vehicles and drivers), handling of transportation requests, and a fuel consumption reduction of approximately 3%.

In **Maintenance**, mean time between failure (MTBF) improvement projects provided a set of solutions for increasing the availability of production equipment, e.g. beam pumping units, compressors, electrical motors.

In **Workover**, the performance management program was finalized at field cluster level and was also rolled out at crew level. The special workover operations department successfully performed their first offshore jobs. Following the E&P/ E&P Services reorganization new core processes for well intervention, workover and well abandonment jobs were developed and implemented.

#### Outlook for 2011

In 2011, we will continue our efforts to largely offset the natural decline whilst further pursuing strict cost management measures. The investment program will concentrate on drilling of development and production wells, surface facilities replacement, well workovers and optimization of water injection facilities. In addition, a key focus will be on further progressing the integrated field redevelopment projects of selected key fields with engineering and implementation of the most advanced projects. After the successful start-up of our Hurezani gas delivery system, we will continue

**Further steps  
towards E&P  
Services  
integration into  
E&P**

**Focus to offset  
natural decline**

### Decision to be made on deepwater drilling in the Neptun Block

our progress by launching a major initiative to optimize the gas production systems in the Southwestern region of Romania. In 2011, we aim to maintain the reserves replacement rate in Romania above 70% through continuous revisions of mature fields and implementation of modern reservoir management techniques at field level.

Exploration activity will continue at the same budget level as in 2010 and efforts will be focused on high impact prospects. The joint venture with ExxonMobil in the deepwater Neptun Block will enter a phase when the decision will be made on deepwater drilling. The exploration prospect portfolio will continue to be developed. The joint venture with Hunt Oil will progress with the Adjud 2D seismic acquisition survey for a total of more than 600 km. The Moreni-Runcu-Baicoi 3D survey will continue with the second phase, covering most of Baicoi block, and more than 300 km<sup>2</sup> 3D project will be acquired in the Getic Depression (Pitesti block). It aims to open new exploration frontiers for deep drilling in structurally complex areas.

In Kazakhstan, we will continue to further develop the Komsomolskoe field where we

expect increased production levels following the measures taken to address the start-up difficulties. In Kultuk, we aim to complete processing and interpretation of 3D seismic data and decide about further appraisal activities.

For E&P Services, the focus will continue to be on efficiency increase and service portfolio optimization in order to achieve cost reduction and consolidate E&P Services, as a service management provider. In parallel, the last phase of the integration within E&P will be implemented in 2011. Further investments will be made to continue modernization of E&P Services equipment, facilities, tools and working conditions for staff. The implementation of industry best practices will continue. Efficiency improvement measures at well intervention services will result in decreasing the number of well interventions, improving the processes and rig performance thus contributing to increasing the mean time between interventions and reducing operating costs. Improving the safety culture will remain a high priority within E&P Services and will be supported by further training and empowerment of middle management, acquisition of modern equipment, utilization of safer working techniques.

#### Production in 2010

|                     | Oil and NGL |              | Natural gas  |              | Total        |
|---------------------|-------------|--------------|--------------|--------------|--------------|
|                     | mn t        | mn bbl       | mn mc        | mn boe       | mn boe       |
| Romania             | 4.17        | 29.98        | 5,120        | 33.48        | 63.46        |
| Kazakhstan          | 0.43        | 3.37         | 43.88        | 0.25         | 3.62         |
| <b>Petrom Group</b> | <b>4.60</b> | <b>33.34</b> | <b>5,164</b> | <b>33.74</b> | <b>67.08</b> |

#### Proved reserves as of December 31, 2010

|                     | Oil and NGL  |               | Natural gas     |               | Total         |
|---------------------|--------------|---------------|-----------------|---------------|---------------|
|                     | mn t         | mn bbl        | bcf             | mn boe        | mn boe        |
| Romania             | 58.27        | 419.10        | 2,083.65        | 385.86        | 804.96        |
| Kazakhstan          | 3.08         | 23.93         | 18.73           | 3.12          | 27.06         |
| <b>Petrom Group</b> | <b>61.35</b> | <b>443.04</b> | <b>2,102.38</b> | <b>388.98</b> | <b>832.02</b> |



## 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 was significantly improved, capitalizing on optimized asset utilization across the entire downstream chain as well as integration with upstream. The Romanian marketing business was consolidated into a single entity, namely OMV Petrom Marketing, to ensure better coordination of activities and enhance value creation by taking advantage of the synergies at Group level. We adapted our brand strategy by rebranding PetromV filling stations in Romania into OMV or Petrom.

### R&M at a glance

|  | 2008    | 2009   | 2010   |
|--|---------|--------|--------|
| Segment sales (RON mn)                           | 16,528  | 12,701 | 15,176 |
| EBIT (RON mn)                                    | (1,800) | (618)  | 106    |
| Capital expenditure (RON mn) <sup>1</sup>        | 1,436   | 601    | 758    |
| Total refined product sales (kt) <sup>2</sup>    | 6,495   | 6,180  | 5,472  |
| hereof Marketing sales volumes (kt) <sup>3</sup> | 4,508   | 4,668  | 4,157  |
| thereof: Gasoline                                | 1,106   | 1,204  | 1,036  |
| Diesel   | 2,292   | 2,267  | 2,264  |
| Kerosene/Jet fuel                                | 218     | 211    | 214    |
| HFO  | 289     | 460    | 98     |
| Number of filling stations                       | 819     | 814    | 801    |

<sup>1</sup> Investments also include increases of Petrom share participations in other companies

<sup>2</sup> Include all products sold by Petrom Group. The figure also includes marginal petrochemical sales volumes for previous periods.

<sup>3</sup> As of 2010, the figure excludes export sales which are included in total refined product sales. Figures for previous periods have been restated

**R&M EBIT** improved significantly in 2010, compared to the last 6 years, as it reached a positive figure for the first time since privatization, of RON 106 mn. The result was mainly driven by strong operational improvements in refining, which more than compensated for the lower marketing result where margins and volumes, especially in the commercial sector, were negatively affected by the weak economic environment. The refining result improved considerably due to the added benefit from flexible refining asset utilization and cost control efficiency, with the Arpechim refinery in economic shutdown for most of the period and increased utilization of our higher conversion refinery at Petrobrazi. The refining result further benefited from the sale of Arpechim's petrochemicals activities at the beginning of 2010. Also, the adjustment in the internal transfer price regime between E&P and R&M, carried out at the beginning of 2010 in order to properly reflect the high integration

value of Petrom's refineries, supported the result. However, R&M strong operational improvements were partly offset, at the end of the year, by one-off costs related to impairments of tank storages and spare parts mainly at the site of the Arpechim refinery, with the divestment to be completed by 2012 at the latest.

In 2010, the **refining margin**<sup>1</sup> remained at a low level, slightly higher compared to last year's levels, as steadily increasing crude prices almost offset the higher product spreads. Diesel and gasoline cracks remained fairly volatile throughout the year but average spreads for both were above last year's level.

The overall utilization rate was only 49% due to the economic shutdown of the Arpechim refinery. The utilization of the Petrobrazi refinery increased significantly in the second half of the year, averaging at 70% on an annual level, three percentage points higher than in 2009.

**Strong operational improvements in R&M: first positive EBIT after privatization**

<sup>1</sup> Indicator refining margin is based on the international quotations for products (Augusta) and Urals crude and a standardized yield set typical for Petrom's refineries.

**Crude oil processed (kt)\***

|              | 2008         | 2009         | 2010         |
|--------------|--------------|--------------|--------------|
| Arpechim     | 3,078        | 2,170        | 749          |
| Petrobrazî   | 3,043        | 2,991        | 3,153        |
| <b>Total</b> | <b>6,121</b> | <b>5,161</b> | <b>3,902</b> |

\*Including condensate

**Production (kt)**

|                   | 2008  | 2009  | 2010  |
|-------------------|-------|-------|-------|
| Gasoline          | 1,654 | 1,518 | 1,183 |
| Diesel            | 2,006 | 1,662 | 1,178 |
| Kerosene/Jet fuel | 224   | 212   | 204   |
| HFO               | 752   | 593   | 473   |
| LPG total         | 252   | 269   | 220   |
| Bitumen           | 192   | 118   | 42    |
| Petroleum coke    | 195   | 177   | 177   |

**39% total market share in Romania****Sales**

Total marketing sales amounted to 4,157 kt in 2010, which was lower by 11% in comparison with 2009 due to persisting unfavorable market conditions.

Weakening economic conditions burdened the marketing business in 2010 and Petrom Group's retail sales decreased by 7% compared to the previous year, reaching 3,337 mn liters. Retail sales in the domestic market reached 2,581 mn liters in 2010, decreasing by 5% compared to 2009, in line with the overall retail market evolution.

The sustained investments in Petrom's retail network in the last years, several retail marketing campaigns and the rebranding of the PetromV filling stations ensured an optimum network configuration that enabled us to successfully withstand the severe economic conditions and maintain our position in the market.

**Commercial domestic sales** amounted to 1,492 kt, 18% below the 2009 level, mainly driven by the significant decrease in HFO sales compared to a 2009 level inflated by the Russian-Ukrainian gas crisis that forced the district heating power

plants to use HFO as substitute for gas.

Total Romanian market share decreased by three percentage points in 2010, compared to 2009, to 39% from 42% respectively.

In 2010, total **non-oil business (NOB)** turnover recorded an increase of 11% over the previous year, due to the portfolio and purchase process optimization. The marketing campaign unfolded in the first half of 2010 contributed significantly to the increase of NOB turnover.

**Operational highlights 2010****Refining**

In response to the market challenges in 2010, we adapted our operations towards more flexible refining asset utilization. To capitalize on upstream integration and process 100% domestic crude, we stopped crude imports and optimized operations by keeping the Arpechim refinery in economic shutdown for nearly nine months. Consequently, we increased the utilization rate at our higher conversion refinery at Petrobrazî.

In the first part of the year, one of the major

activities was the cycle-end turnaround scheduled at Petrobrazî for approximately one month and completed at the beginning of May. The turnaround represented a significant effort involving mechanical inspection works encompassing some 550 pieces of equipment and over 0.75 mn man-hours, out of which 0.5 mn work hours were performed by contractors only. The turnaround was also a success by means of safety requirements, with no lost time incidents registered during the period.

#### **Petrobrazî modernization program**

In order to maximize the value of the integrated operations at Petrom, the Petrobrazî refinery is conducting a modernization program and its nameplate capacity will be streamlined to process 100% domestic crude.

During the year, we advanced with one of the program's key elements – the crude and vacuum distillation unit modernization – and continued with the product storage and crude logistics facilities modernization. The site infrastructure upgrade continued as well and we progressed with remediation of the environmental legacy, finalizing remediation of the internal waste sludge lagoons.

#### **Arpechim restructuring program**

In line with our focus on the core activities of the company to increase efficiency, the Arpechim petrochemicals business was divested to Oltchim, effective as of the beginning of 2010. In adaptation to the macroeconomic environment, Arpechim refinery was operated in a "stop-and-go" mode and was in economic shutdown for nearly nine months throughout the year. In fact, the refinery remained offline since June 2010 in adaptation to the prevailing poor macroeconomic environment. The effectiveness of this flexible operation mode contributed significantly to the steady improvements of our R&M results, derived from better cost position and enhanced supply optimization.

#### **Supply and Logistics**

Starting 2010, the activities related to the optimization of logistics and storage facilities were transferred from Marketing to Refining as part of our efforts to adjust the organizational

structure within Petrom Group R&M activities with OMV R&M and drive further synergies. The supply and logistics activities consist of storage facilities and all means of transportation, providing support to the retail and commercial segments in marketing.

With the construction of the Brazi terminal being finalized in the third quarter of 2010, and the Jilava terminal being completed in 2009, we achieved our target for 2010 with regards to the modernization of the terminals infrastructure. The Brazi and Jilava terminals' capacities stand at approximately 8,000 cbm, respectively 27,000 cbm.

According to the terminal modernization strategy, all 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, vapour recovery units, fire fighting systems, station control units and tank management systems.

#### **Marketing**

In **Marketing**, we focused on optimization of operations through adjustments of the organizational structure and processes and increased efficiency.

#### **Marketing activity consolidation**

The core aspect of 2010 activities was the consolidation process of the marketing activities of Petrom Group in Romania, effective as of October 1, 2010. The marketing activities in Romania, previously performed through three legal entities – OMV Petrom S.A., M.P. Petroleum Distribuție S.R.L. and OMV Romania S.R.L., were consolidated in a single entity, OMV Petrom Marketing S.R.L., 100% owned by Petrom. Enabling one organizational unit to steer all marketing activities in Romania allows Petrom to benefit from an efficient coordination of this activity and pursue operations' optimization and increased efficiency of cost management.

**Modernization of the terminals infrastructure on track**

**Marketing activities in Romania consolidated in OMV Petrom Marketing**

## Pursue two brands strategy: OMV and Petrom

Moreover, it enables for more flexibility and a prompt response to market challenges, thus strengthening Petrom's market position. The activities' consolidation was done following two operations: spin-off of assets, liabilities and equity related to OMV Petrom S.A.'s marketing activities, previously carried out via three business units of its marketing division, namely retail, commercial (wholesale) and business administration, and the merger through absorption of M.P. Petroleum Distributie S.R.L. to OMV Petrom Marketing S.R.L.

Taking into account that one entity, OMV Petrom Marketing S.R.L., was in the position to administrate one mass affluent brand (Petrom) and two premium brands in the same market – OMV and PetromV, we decided to streamline our brand portfolio by pursuing a two brand strategy: the international brand – OMV alongside the strong Romanian brand – Petrom. To this end, we rebranded in the second half of 2010 the majority of PetromV premium stations into OMV, with the remaining filling stations rebranded into Petrom. Out of 124 PetromV filling stations, 81 were rebranded into OMV and 43 into Petrom filling stations.

At the end of 2010, OMV Petrom Marketing performed the fuel distribution activity of Petrom Group in Romania, through a filling stations network of 387 for Petrom and 159 for OMV.

Due to the weakening demand in a generally unfavorable economic environment, average fuel sales per filling station in Romania was slightly below 2009 (4.9 mn liters), standing at 4.7 mn liters. At Group level (including affiliates in the neighboring countries), the average throughput was 4.1 mn liters in 2010 (2009: 4.35 mn liters).

### Affiliated companies

In 2010, the main focus was to maintain our market share in the retail business within the current economic environment.

In Moldova, we optimized our filling station network in 2010 whilst aligning retail activity processes with Group standards. In 2010, we improved our results in Bulgaria as we introduced new petroleum products and consolidated retail non-oil business logistics under one logistic supplier. In Serbia, we also improved our operations and results as new petroleum products and customer facilities were introduced.

In Romania, Petrom further consolidated its aviation related business as Petrom Aviation S.A. and Aviation Petroleum S.R.L. were turned into service providers for into-plane operations, while sales of kerosene (jet fuel) to airline companies are performed directly by OMV Petrom Marketing S.R.L.

### Number of filling stations per country

|                     | 2008       | 2009       | 2010       |
|---------------------|------------|------------|------------|
| Romania             | 550        | 546        | 546        |
| Republic of Moldova | 115        | 113        | 102        |
| Bulgaria            | 95         | 96         | 94         |
| Serbia              | 59         | 59         | 59         |
| <b>Total</b>        | <b>819</b> | <b>814</b> | <b>801</b> |

### 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 the fiscal policy and the exchange rate.

As quotations' volatility 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 of storage tanks for oil products, the cycle end turnaround, the crude and vacuum distillation unit revamping in Petrobrazi and the Brazi terminal which was finalized in 2010. In **Marketing**, small investments were directed for signage, rebranding and the modernization of filling station complementary equipment at various



sites. Further investments were directed in the first two EuroTruck – Commercial RoadTransport dedicated stations on A1 and A2 motorways.

#### **Outlook for 2011**

Given the current economic environment together with the medium-term industry outlook, in 2011 we will continue to pursue flexible asset utilization and to drive incremental improvements from downstream modernization. No major shutdown is scheduled for our Petrobrazî refinery. Here, we aim to further optimize utilization and to pursue

the investment program, progressing with the modernization of the crude and vacuum distillation unit in order to begin operations in 2012. We do not expect to resume operations at the Arpechim refinery. In line with our strategic directions, during 2011 we aim at finalizing the business solution for Arpechim in order to implement the divestment plans for the refinery by 2012 at the latest.

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

**2011: focus  
on Petrobrazî  
refinery  
modernization**

## Gas and Power (G&P)

During 2010, the gas and power business of Petrom further stabilized and pursued its strategic direction of expanding the gas value chain into power generation to create additional value for our equity gas. In order to streamline processes and better react to market opportunities and needs, the downstream gas activities of OMV Petrom S.A. were consolidated into OMV Petrom Gas S.R.L. The construction of the 860 MW gas-fired power plant in the vicinity of Ploiesti marks one of the milestones in implementing the strategic direction of forward integration of the existing gas value chain.

In April 2010, Petrom entered the renewable energy field by acquiring a wind power park in Dobrogea region. Since mid October 2010, also the methanol production at the Doljchim chemical plant was stopped in line with the decision to exit the chemical business.

### G&P at a glance

|  | 2008  | 2009  | 2010  |
|--|-------|-------|-------|
| Segment sales (RON mn)                       | 3,387 | 2,969 | 3,065 |
| EBIT (RON mn)                                | 109   | 71    | 164   |
| Capital expenditure (RON mn)                 | 387   | 348   | 1,211 |
| Consolidated gas sales (mn cbm) <sup>1</sup> | 5,297 | 4,846 | 4,917 |

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

### Significantly improved EBIT over 2009

The **EBIT** generated by the G&P business of Petrom Group more than doubled in 2010 as compared to 2009, when it was impacted by losses recorded at Doljchim and the provisions set up for closing the chemicals business. Adverse market conditions due to the economic downturn negatively affected the gas business, which generated a 10% lower EBIT versus 2009, when the Group benefited from higher margins on import gas extracted from storage.

In 2010, G&P investments efforts were directed mainly to the construction of the power plant at Brazi (RON 1,044 mn), including the connection pipeline to the National Gas Transmission System, while RON 61 mn were allocated to the construction works for the Dorobantu wind park.

### Gas

2010 started with a colder than usual first quarter and ended with a colder than usual December, which both contributed to a higher total gas consumption in Romania, 13.8 bcm in 2010 compared to 13.1 bcm in 2009. A major part of this increase can be attributed to the chemical industry, which increased their consumption, from 2.6 bcm in 2009 to 2.8 bcm in 2010, driven by favourable market conditions for fertilizers

and the advantage to use only cheap domestic gas.

Under these circumstances, Petrom Group managed to maintain its strong position in the market with consolidated sales increasing by 1.5% to 4.9 bcm, up from 4.8 bcm in 2009.

In 2010, ANRE, the Romanian National Authority for Energy Regulation, ceased to publish the domestic and import prices taken into account for the regulated end user/basket gas price calculation. The latest gas price for domestic producers published by ANRE was RON 495/1,000 cbm. Therefore, the domestic gas price charged by Petrom remained unchanged at RON 495/1,000 cbm (USD 155/1,000 cbm in 2010).

In 2010, Petrom injected a total volume of 708 mn cbm of natural gas into storage, compared to 549 mn cbm in 2009. The total volume of natural gas in storage at the end of December was 275 mn cbm.

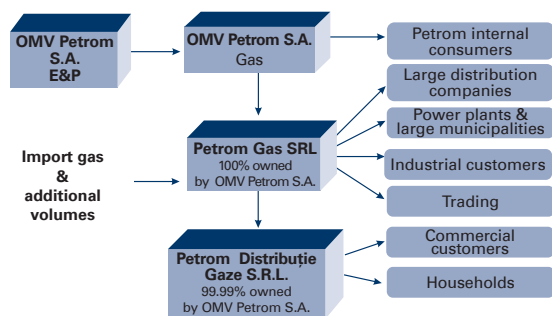
### Operational highlights 2010

Petrom Group maintained its strong presence in all of the gas market sectors, from small households to large-scale consumers.

The start of operation of the Szeged-Arad pipeline in August opened the opportunity for a diversification of natural gas imports. In 2010, OMV Petrom Gas S.R.L. was the first and only company to import commercial volumes via this interconnection with the Hungarian and West-European gas transportation system.

The regional presence of Petrom in areas remote from Bucharest helped the company to mitigate the effects of the adverse market situation, visible especially in the communal district heating plants, which suffered from insufficient funds to properly pay their gas invoices. The strategy to be as close as possible to the customer was continued successfully, being also reflected by the high receivables collection rate in 2010. Partnership and, with it, customer orientation is one of the main values of Petrom. To emphasize this, the Customer Care Centre was further developed, increasing its staff number, responsibilities and activities while refining its processes.

#### Business model as of February 2010



#### Outlook for 2011

For the year 2011, total gas consumption in Romania is anticipated to slightly decrease due to reduced demand from the fertilizer industry. Their high consumption in 2010 was mainly driven by the advantage to use only cheap domestic gas, which expired at the end of October. Further demand in the Romanian market will be created by the Brazi power plant, which will start commercial operations in the second part of 2011. Petrom's own production will not be negatively affected even by a weak gas market, since the demand for locally produced

gas will remain high and a decline in demand would predominantly affect gas imports. In order to be prepared for a reduced consumption during the summer period, sufficient capacity in the Romanian storages will be booked.

At the end of 2010, the domestic gas price was around 40% of the import gas price. Considering the current public statements based on the discussions between the Romanian Government and IMF/ EU, a draft schedule to liberalize the Romanian gas market – likely to positively affect the domestic gas price – is expected to be agreed in 2011.

The distribution of natural gas and the sale to households is not a core activity. Petrom will continue to look for a qualified partner to take over Petrom Distributie Gaze S.R.L., to further develop this company and to guarantee continuity in its activity. In 2010, this process was suspended due to the financial crisis.

#### Power

In 2010, we continued the construction of the **Brazi power plant**, the largest private greenfield project for electricity generation in Romania. The power plant has a 860 MW designated capacity and an average gas consumption of 0.8-0.9 bcm per year. The construction timeline is closely monitored by the project management team, the commissioning of the plant being scheduled in the second part of 2011.

**First power projects operational in 2011**



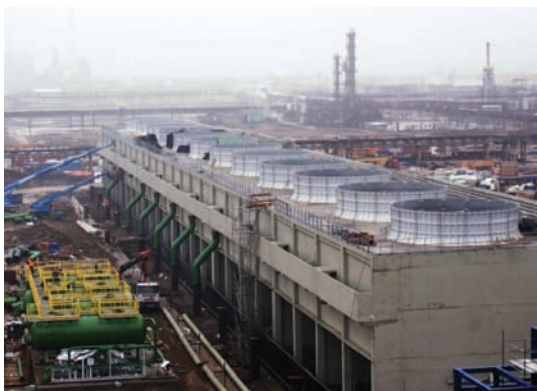
Testing of the main components and systems of the power plant has started: gas turbines, distributed control system, heat recovery steam

generators, electrical system, gas turbine batteries and INERGEN system for electrical building – all entered cold commissioning phase at the end of 2010.

Gas pipeline and gas receiving station were completed and handed over to Transgaz in mid August 2010.

Extension of Brazi Vest substation was finished and handed over to Transelectrica, high voltage connection project being finalized.

#### Cooling tower



#### Construction works at Brazi power plant on track

The civil and mechanical construction activities are ongoing with a clear visible progress in all areas of the power plant. All main equipments are in place, installation of the gas turbines, steam turbine, gas compressors and heat recovery steam generators was finalized. On December 2, 2010 the gas turbine 1 main step-up transformer was energized from the grid.

With the upcoming commissioning of the Brazi power plant and Dorobantu wind park, in 2010 we focused on finalizing the transition process from a project-oriented organization to an operational organization. Intensive recruiting activities were conducted and CCPP Brazi operation team is now complete.

Diversification into wind power is another initiative in line with Petrom sustainability efforts to make the transition from a pure oil and gas company to an energy player. To this end, Petrom extended its portfolio of power projects by acquiring S.C. Wind Power Park S.R.L. (on April 15, 2010), who owns a fully permitted wind

generation project (Dorobantu) with a capacity of 45 MW, situated in Dobrogea region.

#### Dorobantu: connection between 110 kV main equipments



Located in a very favourable wind area, the project will be equipped with Vestas-V90 3.0 MW wind turbines. Considering the high potential of the area, Petrom evaluated the possibility to expand the capacity of the project to 54 MW. On commissioning, the wind power park will have a yearly electricity production of 113 GWh and will generate a number of green certificates which will be used primarily to cover the internal demand of Petrom, while the remaining certificates will be sold on the Romanian market. The main achievements in 2010 regarding the construction of the wind power park relate to the erection of the roads and crane hard stands, start of soil improvement for the turbine foundations; erection of the overhead line and civil works on the transformer station were finished.



Also, as part of the sustainability efforts, in 2010 Petrom finalized the feasibility study for a zero emission power plant concept within the OMV Group's carbon capture and storage



program. The objective is to fully engineer a new combustion technology which will use CO<sub>2</sub> rich gas and produce CO<sub>2</sub> free electricity.

#### **Outlook for 2011**

The main goals of the Power division regarding Brazi power plant in 2011 include finalizing civil works, hot commissioning and plant performance testing in order to start commercial operation in the second half of 2011.

For the Dorobantu wind park, the focus will be on finalizing soil improvement works and foundations, erection of the wind turbines, finalizing electrification works and recruiting of an operations team, in order to start commercial operation in the second half of 2011.

As both projects will still only be in the start-up phase in 2011, we do not expect a material contribution from the Power business this year. On January 19, ANRE, MECMA and ANRM jointly issued an order enforcing the gas basket consumption to internal non-technological usage that will also include our power project in Brazi. However, we do not expect it to have a material impact on our Group results in 2011. In line with our business principles, we are observing this regulation. However, we have taken all legal steps in order to contest the legality of the

Order, which contradicts the Romanian Gas Law, European legislation and EU Internal Market principles.

#### **Doljchim**

At the end of 2009, management decided to permanently close down the fertilizer plants in Doljchim. In 2010, only the methanol plant was still in operation and ran on an "as needed" basis, according to the company's integration needs. Methanol production was stopped since mid of October 2010. As a result, the negative result of Doljchim was reduced by 72% in 2010.

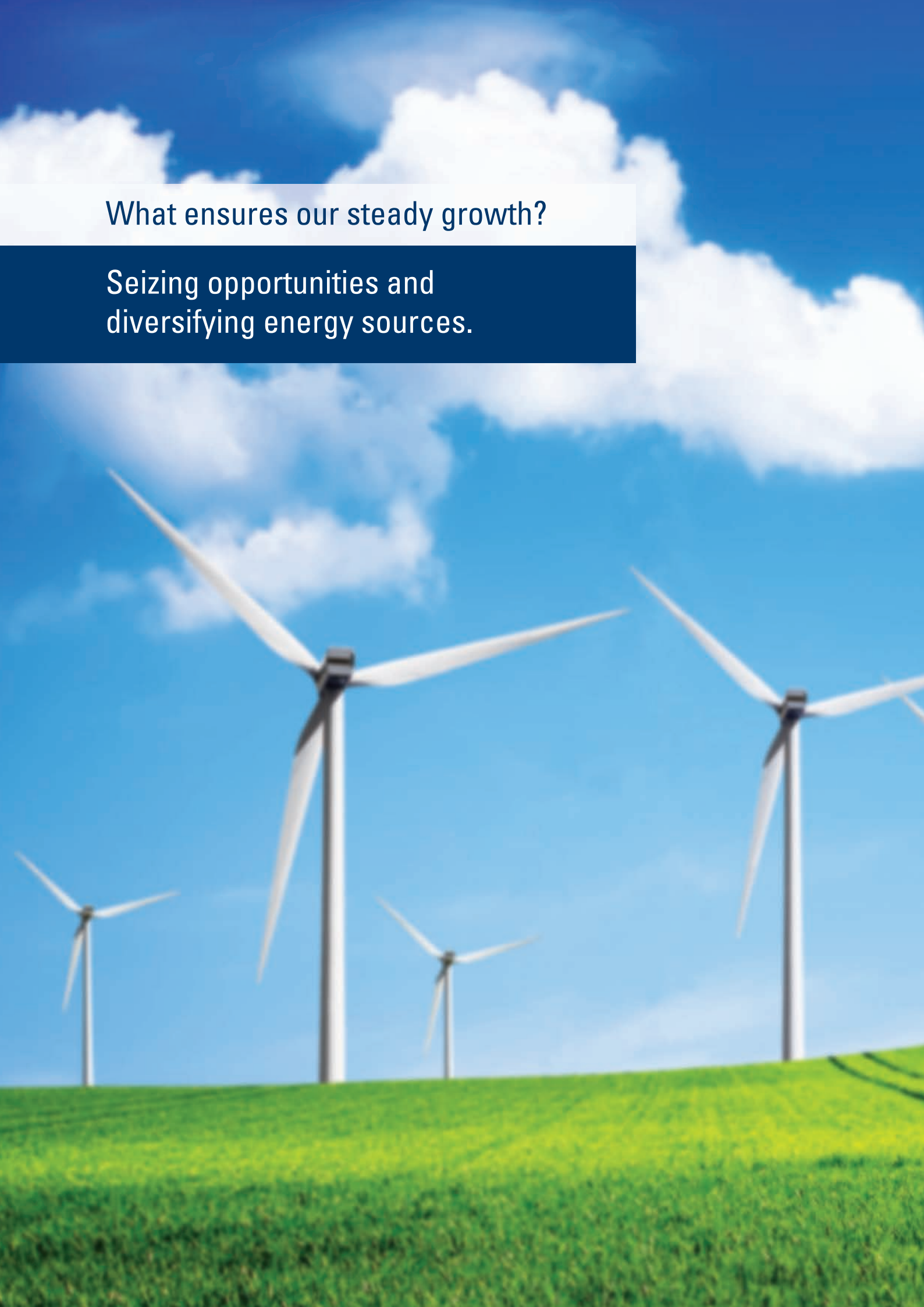
#### **Outlook for 2011**

Careful attention will be given to mitigate the impact on the employees affected by the closing of Doljchim, while progressing with the dismantling and decontamination of the plant in compliance with European environmental and safety standards.

**Focus on commercial commissioning of power projects**

What ensures our steady growth?

Seizing opportunities and  
diversifying energy sources.





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## Sustainability approach

Petrom integrates sustainability aspects into its business development strategy. The current section of the Annual Report provides descriptions, data and perspectives on our social and environmental performance for 2010. They complement the economic performance presented in the rest of this report, and reflect the efforts toward conducting our business in a sustainable way.

Petrom operates in a highly challenging business environment. Any major incident at our operational sites would have a significant impact on the environment, health and safety of our people, on our community relations, and potentially on the survivability of the company. We are aware of the risks our business poses to people, planet and profit, and we are committed to manage them appropriately. Thus, sustainability represents our way across health, safety, security, environment, community relations and social affairs priorities. We implement sustainable business practices by striving to apply high Sustainability: HSSE standards, act responsibly and promote value added for the benefit of all stakeholders. Functional strategies ensure our business heads 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 order to ensure sustainable value creation, Petrom established two management systems addressing HSE and social responsibility aspects. Thus, in 2006, we introduced a corporate HSE management system based on international environmental standards such as ISO 14001 and health and safety standards such as OHSAS

18001. Petrom requires its contractors to adhere to the policies and standards of the HSE management systems and monitor their performance on a systematic basis. In 2008, the HSE management system was followed by the adoption of corporate directive "Management of Corporate Social Responsibility" based on the social accountability standard SA 8000. To further strengthen the integration of sustainability issues into the daily business, we focus on three areas of activity for the medium term:

- ▶ **Diversity and education:** Promote the development of a multicultural and international workforce; provide equal opportunities for women and men
- ▶ **Health and safety:** Create occupational health programs to ensure employees are fit for their work; integrate community health projects into the sustainability strategy of our occupational health program; strengthen safety performance
- ▶ **CO<sub>2</sub> emissions reduction and energy efficiency:** Promote energy efficiency; decrease direct and indirect emissions; build awareness and foster behavioral changes on the part of employees, suppliers, and customers.

As of 2010, these three sustainability-focused areas are included in the individual yearly goals, through the company's specific systems.

### Organization of sustainability in Petrom

The CSR Advisory Board continued in 2010 to support the Petrom Executive Board, which is ultimately responsible for integrating sustainability into the company's management. This committee analyzes risks in terms of sustainability and recommends strategic objectives, goals and priority areas for actions.

**Conducting our business in a sustainable way**

## Pursue high standard business principles

### Code of conduct

As part of the OMV Group, Petrom is committed to act according to the principles of the "OMV Code of Conduct", which are in line with those of the United Nations Global Compact. This forms a fundamental commitment to making efforts directed towards compliance with high standards in business ethics and the applicable legal requirements wherever we operate. The code of conduct provides rules and clear guidance in the key areas relating to employees, human rights, environmental management, social responsibility, and governance. The code of conduct constitutes the compass that helps the company live its values. Our values and the code of conduct are guides for our corporate culture and they are applied in any activity conducted within the company.

### Driving values

Petrom's sustainable development is driven by three values: Professionalism, Pioneering and Partnership:

- ▶ **Professionalism** – Professional excellence for lasting success. We learn, we perform, we succeed.
- ▶ **Pioneering** – Spirit of change for continuous development. We explore, we move, we grow.
- ▶ **Partnership** – Responsible relationships for mutual benefit. We respect, we connect, we care.

#### Living the driving values

Petrom's values are the foundation of our activity and define our professional conduct, both as individuals and as a team. In 2010 we continued to communicate these values as being the fundamental principles and essential points of reference in the company's activity. In order to ease the perception of the driving values, one of our internal communication campaigns, targeting the workforce in the fields, used a culinary metaphor, comparing them with the ingredients necessary to achieve performance, regardless of professional area. The campaign promoter was the well-known Romanian chef, Petrisor Tanase, who interacted with Petrom employees all over the country and proposed activities in which he

managed to integrate our values.

Over 250 oilworkers shared their professional experience with us, showing how they have succeeded in living the company values. Just like every year, the most impressive stories were awarded.

Petrom's employees are a valuable resource for our company, and each of them has his own, well established role. Fulfilling business responsibilities in a professional way was proved by the results of over 600 employees who joined the competition "the best in us Oilmen".

Petrom's values represent the driver of successful professional projects developed by various divisional teams. That is why, each year, we organize the "best in us" awards, aimed to emphasize and acknowledge the dedicated and innovative work of our white collar colleagues.



The 54 projects that were qualified in the final stage of the competition, selected from over 70 submitted projects, were assessed by our own colleagues, through online voting and by a dedicated jury. Nine colleagues, representing all business divisions, have been awarded, together with the Champion of Values and Volunteer of the Year.

### Petrom in dialogue with its stakeholders

#### Stakeholder dialogue as a tool of Petrom management

Fully aware of societal changes and the way they are reflected in its performance, Petrom promotes the establishment of good relationships with all relevant stakeholders (e.g. authorities, investors, capital markets,

## Petrom's sustainable development is based on our driving values

customers, suppliers, business partners, local communities, NGOs, employees or their representatives) as a means of managing the direct or indirect impact of these changes. Stakeholder engagement is essential for our sustainable development and brings mutual benefits. It helps us to learn from our stakeholders, identify and manage risks, build trust and strong relationships, and to identify business improvement methods. In addition, this helps the company to acknowledge, understand and respond to the expectations of its stakeholders.

We have developed and implemented systematic rules meant to achieve an efficient management of Petrom stakeholders. Hence, Petrom corporate standard "Management of Stakeholder Engagement" sets out the framework for a documented approach of all aspects to be considered. An important achievement in 2010 was the development of a stakeholder database covering all our business activities. It helps to identify and effectively manage the relationship with our stakeholders. Apart from this, it provides information to make substantiated management decisions, including situations when a new activity is started.



#### **Dialog with external stakeholders** **Corporate stakeholder forum**

Our stakeholder engagement takes various forms including forums with key stakeholders, expert committees, discussions, working groups and organizing common projects (partnerships). In 2010, Petrom organized the second Corporate Stakeholder Dialog Forum on a topical matter for the business environment in Romania

i.e. "Gas Market between Regulation and Liberalization". The objective was to get a better understanding of the expectations of various stakeholder categories (e.g. representatives of authorities, gas industry companies, NGOs, the academic environment) concerned with natural gas for a sustainable development within this sector. Open dialog enabled a better mutual understanding of stakeholders views and needs and identifying real cooperation opportunities.

#### **Local stakeholder dialogue**

In 2010, we continued to regularly engage in dialog with our stakeholders in the communities where we operate. Internal workshops were held with the aim of acting proactively towards the needs of these stakeholders, and to have a strategic approach on their engagement. Guidelines of best practices for stakeholder engagement were drafted.

For example, in Schela (Galati County), the Community Resource Center established by Petrom in 2009 engaged members of the community, civil society and local authorities in monthly dialog sessions during which community needs were identified and solved through four local projects financed by a EUR 35,000 donation from Petrom in 2010.

Moreover, Petrom continued to pay significant attention to educational issues in rural communities. In partnership with the OvidiuRom NGO, Petrom representatives, local authorities and representatives of learning units organized summer seminars in several local communities with the aim of integrating children in the educational process.

#### **Dialog with internal stakeholders** **CEO dialog with the employees**

Petrom operates in a large geographical area within Romania. Dialog with each of our employees generates internal unity, reduces distances and makes activity more efficient. In this respect, we have continued with the Online Chat project. In 2010, this project ensured direct communication between the company's top management and about 15,000 employees who have intranet access, both in the headquarters and in the other locations. To ensure transparency and provide access to information to as many colleagues as possible, each chat

**Further steps  
to achieve  
an efficient  
management of  
our stakeholders**

## **Engaging with employers**

session archive is made available on the Petrom intranet site. Approximately 2,900 employees used this facility and over 130 employees communicated directly with the company's management representatives last year.

### **Dialog with Trade Unions**

We consider that the most valuable resources for us are our employees; therefore, the dialog with the trade union is one of our main concerns. In 2010, our HR Department continued to focus on the essential elements of social dialog, in order to identify the optimal solution for both the employees and the company.

Thus, the trust, the mutual and factual respect of dialog partners, the good faith and transparency shown in the relationship Employer-Trade Unions, combined with effective communication have become the main levers for maintaining the social equilibrium within the company.

In 2010, the HR Department participated in the negotiations between company representatives and Trade Unions resulting in some adjustments to the Collective Labour Agreement, concluded in a Contract addendum.



# Environmental protection

## Environmental management

We address issues involving environmental impacts, along the entire business value chain from upstream to downstream activities as well as to product quality. We are working towards the efficient management of energy and natural resources as well as control of emissions and discharges into environment.

### Our approach

We take a precautionary approach with respect to environment. Our environmental management system ensures a continuous improvement of environmental performance. A certification against ISO 14001 and ISO 9001 requirements was obtained for all activities in the Petrom Refining business division and Petrom Gas business division, Petrom Distributie Gaze S.R.L., OMV Petrom Gas S.R.L., as well as for maintenance activity in the Petrom E&P Services business division.

### Legal compliance

Compliance with environmental regulations is monitored at the site level and by business segments using several IT tools and programs. HSE legal compliance audits were also performed in 2010 for all Petrom operations. By the end of 2010, the two Petrom refineries and also the chemicals production facility have updated their integrated pollution prevention control permits according to the activities status on the industrial platforms. All the conformity measures are managed to achieve the expected results in due time. No delay was identified in compliance programs' implementation. Any change of plans was announced to local authorities and a proper management of compliance status was in place. Consequently, no responsibility deriving from the previous activity of Petrom was overlooked. Within the Exploration & Production activity all over the country, 89.50% of all operational units have valid environmental permits and the remaining 10.50% are undergoing reauthorization processes. The systematic follow-up, based on appropriate IT systems, also allows the identification of non-compliance related risk so that actions can be taken prior to deadlines.

In 2010, about 90.8% of all operational filling stations had valid environmental permits and the remaining 9.2% have to carry out a reauthorization process due to some activity changes. All operating fuels terminals (22) are compliant with specific legal requirements for volatile organic compounds emissions limits and operate according to new valid environmental permits.

Our company was levied monetary fines for non-compliance totaling EUR 0.52 mn in 2010 (2009: EUR 0.44 mn). The fines were imposed for environmental incidents covering spills and exceeded discharge limits, waste management related non-conformities, and exceeded deadlines of several measures set in instructions by the authorities. Non-compliance also resulted in non-monetary sanctions, such as warnings from authorities.

### Environmental expenditures and investments

Petrom has followed international guidelines for environmental management accounting (EMA) since 2007, in order to have accurate and comparable data on environment expenditures and investments. Fines and revenues related to the environment are also centralized and provided by EMA.

In 2010, Petrom spent RON 837 mn for environmental protection measures, out of which RON 238 mn represent the investment value of finalized environment relevant constructions and modernizations, and RON 597 mn represent expenses with external services, internal personnel, fees and taxes for environment related activities, expenses related to remediation activities, research & development, waste management and the maintenance of environment-related installations, as well as consumption of water, energy, operating materials and the depreciation of environment-related installations.

Most of the 2010 environmental investment in the Petrobrazi refinery focused on the modernization and optimization of existing operations (e.g. automatic crude oil sampling, revamp of the sulphur recovery plant, rehabilitation of railway infrastructure, flares modernization, tank farm revamp).

## Managing environmental impact

## Energy and carbon management

Today's energy and climate change aspects represent major challenges for the oil and gas industry. The industry has a primary responsibility to contribute to the security of energy supply as energy demand grows, and fossil resources are limited. Yet in order to mitigate climate change, greenhouse gas (GHG) emissions must be reduced in all economic sectors.

### Energy management

In 2010, Petrom continued its focus on energy management with the aim of continuous improvements of energy efficiency. Thus, total energy consumption in Petrom was 50.6 PJ, which compared to 61.36 PJ consumption in 2009, shows the results of our active energy management activities.

### Energy efficiency in upstream activities

Petrom E&P has recently launched an energy efficiency program focusing on the utilization of gas. The gas-to-power (G2P) and combined heat and power (CHP) represent two categories of projects aiming at the utilization of gas from marginal natural gas fields in locations with significant distance to infrastructure. The gas will be used in high efficiency engines or turbines to produce electric power and thermal energy for Petrom E&P operations. The main benefits are:

- ▶ Increased efficiency by utilizing the generated heat for internal processes such as heating for oil separation, thus reducing gas consumption of boiler plants;
- ▶ Reduction of GHG emissions;
- ▶ Avoidance of flaring and venting, so a reduction of air emissions.

The energy efficiency program in E&P contributes to Petrom's economic competitiveness as operator and to extended economic life of extraction fields. Petrom plans to install G2P/CHP projects with an installed capacity of around 13 MW in 2011.

### Energy efficiency in downstream activities

Petrom Refining underwent the international benchmark studies by Solomon Associates which showed that the energy intensity index (EII) of the fuels part of the refineries has been reduced significantly (petrochemicals are not part of the study). For Petrom refineries (covering Arpechim

and Petrobazi), EII declined by 20% between 2004 and 2010.

In 2010, the Petrom Refining division established and certified (according to EN 16001:2009 requirements) an energy management system as part of the existing integrated management system. This will lead to a better control and management of energy consumption.

### Carbon management

Following OMV Group's carbon strategy and targets, Petrom is committed to promote projects that both secure energy supply and reduce the environmental impact related to climate change. In addition to the energy efficiency projects mentioned above, such initiatives cover renewable energy and innovative solutions for reduction of greenhouse gases emissions during production.

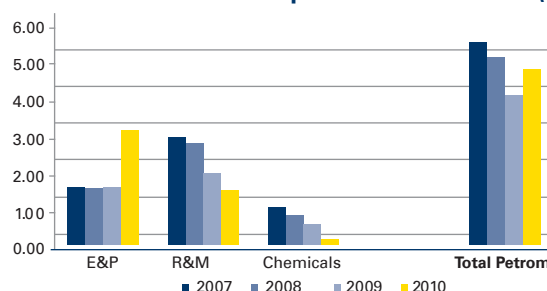
In this respect, Petrom focused on two important projects:

- ▶ Wind Park Project - The project capacity is 45 MW which can be extended to 54 MW, considering the high potential of the wind area in Southeast Romania. Total investments amount to around EUR 100 mn. The construction of the wind park was started in 2010 and is estimated to be finalized in the second half of 2011.
- ▶ Near Zero Emission Power Plant Project - As part of the OMV Group's carbon strategy, in 2010 Petrom carried out a feasibility study for a zero emissions power plant concept. The aim is to fully engineer a new combustion technology which will use CO<sub>2</sub> rich gas and produce CO<sub>2</sub> free electricity.

### Greenhouse gas accounting

Petrom's direct emissions of carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), and nitrous oxide (N<sub>2</sub>O) were 4.7 mn tonnes equivalent CO<sub>2</sub> in 2010 (2009: 4.1 mn t; 2008: 5 mn t).

### Petrom GHG emissions per business division (mn t)



### Direct emissions

Petrom's extensive investment programs will lead to significant reduction of GHG emissions. Apart from this, structural changes in our company contribute to achieve further reduction of GHG emissions. For example, the restructuring process in Petrom Refining, including shutting down some production facilities in Arpechim and selling petrochemical plant, mainly contributed to a reduction of 50% CO<sub>2</sub> emissions in 2010 compared to 2007. In order to obtain a better GHG emissions management, new metering devices for fuels streams have been installed in the Petrobrazî refinery to improve the data quality for CO<sub>2</sub> emissions monitoring and reporting under the European Union Emission Trading Scheme (EU ETS). Also related to GHG emissions management, we tackle awareness aspects. For example, Petrom E&P started an idea competition for GHG reduction. At the same time, they reviewed reporting standards in order to develop a more robust baseline that will enable it to properly quantify measures that have been implemented. We expect that facilities upgrade projects at Petrom, particularly in the E&P division, will result in further significant reductions in GHG emissions by 2015 compared with the current baseline (2010).

### Emissions trading

Petrom is subject to the EU ETS, with 16 installations in Romania operating under the scheme in 2010. During 2009-2010, an assessment of the production efficiency was performed and it was decided that old ETS installations with low efficiency be shut down. All necessary legal forms were completed and according to legal requirements two installations were taken out of ETS. Another two low efficiency installations are expected to be taken out from the scheme in 2011 after all legal steps have been followed. Consequently, emissions reduction, as well as supplementary allocations and stoppages, resulted in a surplus of 2.3 mn allowances for OMV Petrom S.A. at the end of 2010. According to the trading strategy, fully aligned with that of OMV Group, the allowances will be used to cover the necessary amount for new entrants not covered by the National New Entrants Reserve but put in operation during 2010.

## Sustainable resource management

Our sustainable resource management activities are aimed at professionally minimizing the impacts of our operations on the ecosystem. These efforts include efficient use of water, proper waste treatment and disposal, sensitivity to areas of high biodiversity, and prevention of harmful emissions.

### Water management

We use water in industrial processes, for cooling, steam generation etc. The water supply is represented by surface and underground water sources as well as by municipal networks. Large amounts of formation waters had to be managed in E&P operations: 37 mn cbm in 2010. Since 2005, Petrom Refining has considerably reduced its total water consumption and improved its wastewater management systems. Due to restructuring and optimization activities, the total water consumption of Petrom Refining decreased by 46%.

### Water management at the Petrobrazî refinery

The rehabilitation of the sewage system will minimize the amount of treated waste water by segregation of waste water streams based on their level of contamination, safe collection, avoidance of any leakage into the ground and any infiltration of underground water into the sewage system.

The revamp of the waste water treatment plant with a planned investment of EUR 10.6 mn will lead to a better quality of the discharged waste water and a reduced amount of the resulted sludge. The project focuses on an efficiency increase in the mechanical stage, optimization of the denitrification stage and modernization of the chemical substances dosing unit and stream monitoring.

### Waste management

Petrom activities generate solid and liquid wastes, including oily sludge, hazardous waste, spent catalysts, and construction debris.

In 2010, Petrom E&P continued to clean up the 44 sludge pits containing about 450,000 cbm of sludge. The three phases (water, oil and solids) are separated. Then, the water is re-injected in the residual and technological wells, oil is

**Focus on  
minimizing the  
impacts of our  
operations on the  
ecosystem**

## Mitigate waste impact

reintroduced in the production process, and residual solids are treated by thermal desorption before final disposal. During the implementation of its waste infrastructure program needed for the clean-up of contaminated soil, abandonment of over 10,000 oil wells and hundreds of production facilities, Petrom E&P is building a total of 15 bioremediation plants, 8 landfills and 8 temporary waste storage facilities. Construction of one combined landfill and bioremediation plant and one bioremediation plant will be finalized in 2011.



State of the art waste treatment facilities were installed by Petrom's contractors near both the Arpechim and Petrobrazi refineries in 2010, and they started to treat the waste from the refineries' sludge lagoons. These facilities enable land remediation integrated with waste and water management.



### Remediation

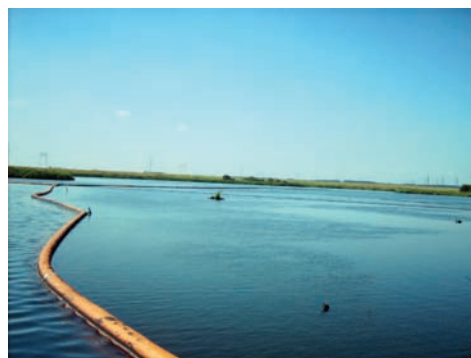
#### Clean-up of the Petrobrazi site

The project is aimed at dismantling old, unused installations, pipes, and railway lines at the Petrobrazi site. Clean soil, gravel and vegetation were left behind on the intervention sites. During

the dismantling of old unused installations, more than 10,000 tonnes of scrap iron and over 560,000 tonnes of concrete were recycled. More than 800 people from 16 Romanian and international companies worked on the project.

#### Remediation of the Dambovnica and Suseni lakes at Arpechim

The Dambovnica and Suseni lakes were artificially created between 1965 and 1969 for Arpechim refinery discharges. The Dambovnica lake is located at about 6 km South of Arpechim and is connected with the Suseni lake through a discharge channel of 5.8 km. Solid suspensions and sludge deposits were historically accumulated in the lakes which are both currently under Petrom land ownership. Site conditions have been improved by way of bioremediation, combining ex-situ biopile remediation of contaminated sediments and in-situ bioremediation of water. This method uses natural aerobic bacteria, which have not been genetically modified, and are therefore not dangerous to humans. Contaminated sediments removed from the Dambovnica lake are constructed into engineered piles and aerated with perforated pipes; floating dams and aeration systems are installed in the Dambovnica and Suseni lakes and a wetland area will be constructed in the Western part of the Dambovnica lake.



At the Dambovnica lake's first compartment, biopile construction started in 2010. About 85% of a total estimated volume of 40,000 cbm of contaminated sediments to be bioremediated has been moved from this compartment to the biopile in 2010. At the second compartment, water diversion and site preparation for biopile



construction started in 2010. In the Dambovnic lake's third and fourth compartments and in the Suseni lake, floating dams and aeration systems for water bioremediation were installed in 2010.

#### **Disposal of hazardous waste at Arpechim**

A project of EUR 0.7 mn was contracted for the disposal of the hazardous waste generated by Arpechim's past activities. The objective of the project is to minimize both waste quantities and risks to the workforce, to local communities, and to the environment. The hazardous waste was accumulated in two triazine waste storage basins and in one acrylonitrile waste storage site. The first triazine storage basin (1,500 tons of waste) was emptied in the period April-August 2010, the waste being subsequently removed and disposed of. An additional 400 tons out of 2,000 tons of triazine (from the second storage basin) and 500 tons of acrylonitrile from the Arpechim site have been removed and disposed of in 2010. Waste is disposed by high-temperature incineration in two commercial, third-party hazardous waste incinerators. Site remediation and waste management operations began in 2010 and are currently in progress. Site conditions will be improved to meet international refinery standards and national legislation.

#### **Drilling mud**

Drilling waste management was greatly improved by changing the chemicals and drilling fluids used. This allowed us to stop the discharge of fluids as cuttings become potentially recyclable. Petrom is the first oil company to drill an extended reach well offshore in the Black Sea, using – also for the first time – low aromatic synthetic oil base drilling fluid (non-water base mud). The rig and the equipment were installed in a way to ensure zero discharge of cuttings or fluids into the Black Sea.

#### **Spills and leakages**

In 2010, Petrom recorded 6 significant hydrocarbon spills (>1,000 liters) and 2,199 minor releases (2009: 16 and 2,591 respectively). The amount of hydrocarbons spilled was 126,415 liters (2009: 90,674 liters).

Spills were mostly caused by corrosion of aging infrastructure, and sometimes by safety or security incidents. Programs to improve

pipeline integrity will continue. Anti-corrosion measures were optimized with new trucks and revised monitoring and treatment procedures. The impact of spills on adjacent soils, water bodies, or local communities was limited and immediately controlled and cleaned up.



#### **Air emissions**

The main air emissions from Petrom activities consist of sulphur dioxide (SO<sub>2</sub>), nitrogen oxides (NO<sub>x</sub>), non-methane volatile organic carbon compounds (NM-VOCs) and particulates. In the Petrobrazi refinery, air emissions were reduced by the installation of low NO<sub>x</sub> burners in process plants (coker, isomerisation plant). Ongoing modernization of the tank farm is expected to result in a significant reduction of volatile organic compound emissions.

#### **Biodiversity**

Before we launch new projects and operations, biodiversity issues are addressed through environmental impact assessments and permitting processes. Developments in the vicinity of protected areas or areas where protected species exist need to be undertaken with special attention to these vulnerable resources. Subsequently, they are closely monitored to ensure that no adverse impacts occur as a result of Petrom's operations.

#### **Product responsibility**

Our objective is to provide high-quality products that meet our customers' expectations, comply with rigorous safety standards, and have a low environmental impact. Petrom's fuels are compliant with Euro V specifications and with legal requirements for bio-components. Along with gasoline and diesel fuels, our product range includes bitumen, oils, lubricants, gas, and heating oil, as well as specialty products, such

**Ongoing modernization to reduce our air emissions**

**Further steps  
towards  
managing  
chemicals usage**

as petrochemical products and fertilizers, for our industrial customers. We provide our partners and customers with detailed information about our products and the materials used to produce them.

**REACH**

In 2010, Petrom continued the steps towards managing and handling the chemicals used in its activities according to REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) provisions where applicable. Thus, all the pre-registered chemicals were carefully inward evaluated from the technical and financial perspective, in the context of registration needs. After deciding on the chemical substances portfolio, Petrom started the preparation of technical dossiers and submissions to the European Chemicals Agency accordingly. Part of

the registration numbers was received prior to the registration deadline.

In line with the REACH requirements and derived obligations, in 2010 Petrom initiated an assessment on chemicals reporting needs, in order to analyze possible optimal/modern solutions for data collection, consolidation and preparation for particular reports.

**Challenges and goals for 2011**

In 2011, we will continue to work towards mitigating the environmental impact of Petrom's operations, with focus on increasing energy efficiency, improving waste management and reducing spills.

## Social progress

### Employees

In 2010 Petrom continued its progress in developing and implementing a performance-oriented culture. In this regard, we developed and communicated the Petrom strategy for 2015 internally and externally and continued other performance-related initiatives: strengthening positive communication, making people objectives as important as business objectives, implementing a consistent performance management system, designing talent management process and programs and closing the communication gap between the HQ and territories. The ultimate objective of these programs is to develop the managerial base within Petrom and create a unitary organizational culture based on transparency and performance.



In order to be more effective and meet both business and employees' needs, the reorganization of activity and of responsibilities of corporate functions took place in 2010. The new structure has been in place since January 1, 2011, providing synergies of processes at group level.

We revised a series of internal regulations referring to employees' rights (e.g. granting social benefits to the family in case of employee's death, and, related to the Relocation Directive, clarifications to the principles of allocation were made, in terms of eligibility). In 2010, despite the financial difficulties resulting from the economic crisis, Petrom continued to organize training activities for employees. The various training courses and development programs initiated in the past years continued to run, at corporate, divisional or group level,

with an increased focus on: quality of delivery, quality of participation and subject relevance to the business. Training programs were available to all employees through the training catalogue posted on the intranet. In 2010, Petrom spent EUR 6.5 mn for training activities in which external trainers were involved. Training courses covered various areas of interest (e.g. foreign languages, management, IT, technical knowledge, as well as customized courses), resulting in an average of 1.5 training days per employee.



Through career and succession planning, Petrom has invested in identifying and retaining talent at corporate level but also within each division. Thus, top management directed their time and attention to over 200 key positions, defining the best professionals to be developed and retained for a successful career within the company. In 2010, Petrom employees had the opportunity to use an upgraded PDS (Performance Development System) in order to follow on their own performance and to communicate their interests and professional goals; the PDS tool was improved – for example offering a direct link to the online training catalogue; in order to provide a prompt response to all users, we have created a first level contact for employees using PDS with the purpose of offering support if needed.

Ongoing restructuring measures were accompanied by an outplacement program started in 2006, to assist former employees in finding a new job or starting a small business. Fifteen transition centres were set up around Romania in this sense, with costs fully borne by Petrom. Participation in this program is free of

**Focus on  
developing a  
performance  
oriented culture**

## Striving to improve employees' health

charge and unconditional. The employee himself has the initiative of signing into the program. It does not affect the right of former employees to unemployment benefits or compensation wages. In 2010, the transition centres provided support services to over 800 people with a success rate of 83%.

In 2010, Petrom HR succeeded in attracting EUR 5 mn from European Structural Funds in order to start a program of counselling and labor market reintegration targeting over 25,000 unemployed people across the country, including former employees of Petrom.

## Health

Health is a universal value and equal access to health promotion must be available to all. Every employee is a beneficiary of our high occupational health standards and wide-ranging health initiatives. Since sustainable success depends on a healthy, motivated workforce, health management makes a fundamental contribution to our company's performance.

### Our approach

The health of our employees is a primary asset and resource. We have committed ourselves in our HSE Policy to promoting people's physical and mental well-being. We want to ensure that our employees are fit to carry out the work assigned to them. Our objectives include the roll-out of internationally applied health standards and the systematic assessment and reduction of health risks. The occupational health organization at Petrom is based on the shared services concept and regular performance monitoring enables continuous improvement.

### Quality in occupational healthcare (OH)

OH services are provided to Petrom by its own legal entity, PetroMed, founded in 2008. Through a network of 28 clinics all over Romania, curative healthcare and prevention programs are offered to our employees. The high quality of these services often exceeded local legal requirements. Petrom OH teams promote good health by offering up-to-date medical treatment, preventive health care, and psychological counselling. Through regular input on health

topics and practices, OH experts support line management to take the ultimate responsibility for occupational health. The operative OH teams have a strong focus adapting international activities to the specific needs of the business units and invest much effort in motivating all employees to play an active role in promoting their personal health.

In 2010, our efforts focused on improving the three dimensions of our OH services as follows:

- **Structural quality** (clinics, equipment) – three clinics serving over 1,700 employees are now undergoing an extensive refurbishment process. Modern IT equipment was installed in all clinics. A revised plan for the refurbishment (starting with 2011) of the next clinics was approved in 2010;
- **Trained staff** (doctors, nurses and administrative staff) – PetroMed staff were re-trained according to OMV group-wide OH standards and focused on specific Romanian legal requirements and issues (preventive orthopedics, emergency drills);
- **Process quality** (procedures and processes) – OH procedures were updated (e.g. Health Risk Assessment) and new ones were developed. As part of the health risk assessment program, after assessing 14,126 employees in 2009, another 5,903 were assessed in 2010, and the results will be the basis for improvement of work conditions and health risk reductions measures.



According to the commitment to quality, OH audits have been carried out in 11 PetroMed



clinics. The main findings have revealed that new and updated corporate health regulations and internal working procedures have mostly been implemented and the medical activities performed adequately, on a solid competence basis. Strengthening of communication and alignment at local level with regard to health-related activities will support further development of this positive trend in 2011.

### Health promotion initiatives

In 2010, Petrom continued the actions dedicated to promote the health of its employees. The main actions include:

- ▶ Specialized preventive screening program for spine and joint disorders, vaccination campaigns against flu and hepatitis.
- ▶ Healthy eating campaign – “Cardiovascular Diseases Prevention Program” in 2009 revealed that one of the major causes of cardiovascular diseases were the unhealthy eating habits; this campaign was intended to promote a healthy lifestyle and healthy eating and was well received by Petrom employees; activities: distribution of posters/flyers on healthy living and nutritional pyramid, articles on Intranet, calculator for body mass index and calories.
- ▶ Emergency preparedness – emergency drills at Petrobrazi refinery, Arpechim, Doljchim and off-shore platforms, resulting in update of training plans and equipment; first aid training (2,500 first aiders and 1,000 drivers).
- ▶ Medical support abroad – over 1,000 examinations for expats and their families.
- ▶ Voluntary health checks – about 10,500 employees took part.
- ▶ Blood donation campaigns – support of Petrom blood donation campaign in 9 communities where we operate.
- ▶ Psychological support – a round-the-clock psychological counselling hotline for emergencies is available to our employees.

### Challenges and goals for 2011

Occupational health programs are based on health risk assessments, medical exam results and current epidemiological evidence. In 2011, we will focus on:

- ▶ Health promotion activities focusing on healthy living and cardiovascular prevention,

eyes, and spine and joints;

- ▶ Prevention of alcohol misuse and support for addicted;
- ▶ Vaccination campaigns (flu, hepatitis, tick-borne encephalitis)

In 2011, we will also focus on the harmonization of OH and medical regulations, continued implementation of our health standard including audits, review and development of processes for interrelationships internally and externally with the local healthcare providers. Health management will focus on: development of the health risk register and a knowledge management system, evaluation of examination results as a basis for future health programs and development of training and communication material related to preventive health management. The refurbishment of OH clinics in Romania is planned to be completed in 2011.

## Safety

To create a safe work environment for our employees and contractors is one of the top priorities for Petrom. We work hard to prevent accidents and to ensure safe operations based on the standards set out in our corporate directives. We continue to train and empower people to work safely, and we apply hazard identification and risk management practices to reduce incidents and losses.

### Our approach

All workplaces and processes must be safe and secure for Petrom, for our stakeholders, and for the environment. We believe that all accidents are preventable. Petrom’s safety directives and standards, reporting, management tools, and training courses contribute to improving safety performance. We are particularly concerned about transportation safety and contractor management. Safety is a line management responsibility, supported by expert advice. Leading and lagging safety indicators are monthly monitored to provide information for management decisions.

Our safety management system ensures a continuous improvement of the company’s safety performance. The health and safety

**Continuous improvement of our safety performance**

## Working safely every day

management system in Petrom's Refining division (Arpechim and Petrobrazî refineries and the refining headquarters) was certified according to OHSAS 18001 by TÜV Rheinland in 2009. Thus, 10% of Petrom's employees are working in compliance with an OHSAS 18001 certified management system.

### Safety training and awareness

We promote workplace safety by various actions, including education, information, instruction and training throughout Petrom.

#### Safety training

Safety training accounted for most of the 177,382 HSE training hours delivered in 2010. Specific safety topics were presented and discussed during the training courses in the refineries: e.g. working in confined spaces; working at height; managing incidents, investigation techniques; traffic rules; slipping, falling, and stumbling; working with dangerous substances; breathing devices; and others. Following the improvement of Petrobrazî work permit system, all foremen and chiefs of units as well as contractor representatives were trained on the reviewed procedure. All these training sessions are essential to further develop a strong safety culture across Petrom.

#### Building a safety culture

In 2010, Petrom Refining developed the project „Improvement of Safety Culture“. The goal was to improve safety performance by building awareness at all levels within the organization, in order to create a sense of personal commitment to safety and to promote a mentality change. The focus was to eliminate the belief that accidents can be expected as part of daily work and that only operational staff needs to be concerned about safety. This project created a strategic structure for cultural change and developed as follows:

- ▶ Safety committees in the refineries and headquarter were set up in order to take care of work safety aspects at all levels of the organization;
- ▶ Safety task teams including key employees from different important activities for the subject areas were set up to improve critical processes;

- ▶ Customized workshops and seminars were conducted at all levels in the organization;
- ▶ A communication process related to safety aspects was managed and included the main contractors.

The project had an exceptional commitment of line management, an outstanding participation of the employees at all levels, creating a safety momentum, credibility and empathy among the Refining division. Petrom received for this project the 2010 DuPont Safety Award for the category „Sustainable Business Impact“.

#### Safety reporting

By recording and investigating incidents and near misses, we can be sure we learn from previous experience and prevent recurrences. Proactively collecting reports about near misses, hazards and findings, using assessments and lessons learnt, helps us to reduce the likelihood of an incident occurring in the first place and reduce incidents rates. The figures below show our efforts to increase safety awareness and reduce workplace incidents by promoting safety reporting:

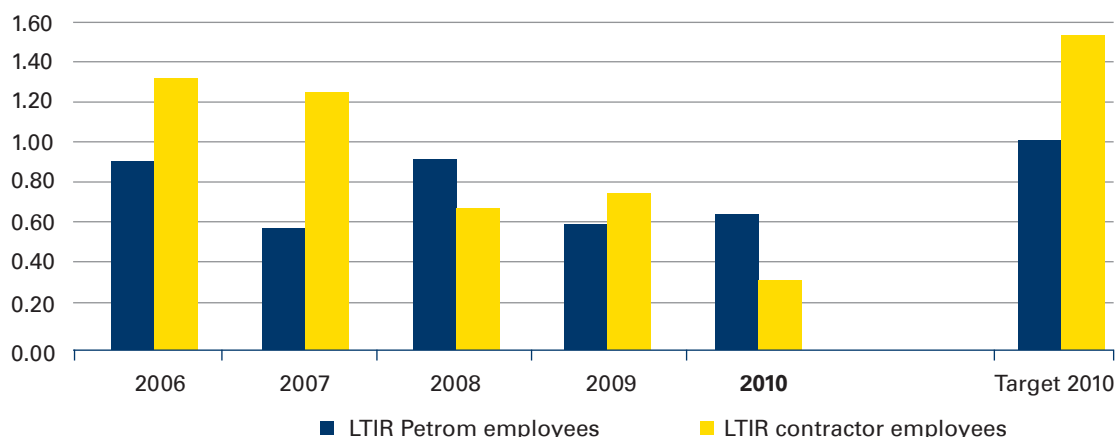
- ▶ Over 148,471 records (incidents, near misses, investigations, findings, hazards, assessments, and measures) were entered into CARE;
- ▶ Over 64,757 findings and hazards were reported and followed up; with 43,268 measures
- ▶ Over 50,324 measures were assigned and 89% were completed within the scheduled timeframe.

#### Workplace safety

As a result of our actions to promote workplace safety, in 2010 an overall reduction of work accidents compared to 2009 was noticed. Sadly, however, there were three fatalities, all of them in Exploration and Production division: three Petrom employees died as a consequence of work accidents.

In 2010, the LTIR for the entire Petrom Group was 0.64 injuries per 1 mn hours worked for own employees and decreased to 0.32 for contractors.

**Petrom Group LTIR\***



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

### Contractor safety

Petrom works with various contractors for the supply of services and goods. Our contractors represent a key stakeholder group and therefore we attach utmost importance to promote safety for mutual benefits.

### Safety management of contractors

The procurement department supervises the pre-qualification and selection of the suppliers and contractors while taking into consideration not only the financial, technical, production and organizational requirements but also those related to HSEQ. Contractor safety performance is assessed and monitored during contract execution on a systematic basis. In order to increase the assessment objectivity, Petrom Refining implemented a key performance indicators matrix to measure and rate contractors' safety performance against established goals. Monthly meetings with contractors are held in order to improve communication and safety performance monitoring. In case of rules breaching, a penalty system is in place. On the other hand, there is also a safety reward system for contractor employees titled "I catch you working safely". In 2010, the internal trainers of the refineries delivered safety and audit training to 90 contractors and conducted empowerment sessions with another 230 contractors, focusing on actions employees can take in the field. Another measure to improve contractor safety management was the implementation of new

first safety training for contractors in Petrom refineries.

### Safety during construction of Petrom City

The construction of the new Petrom headquarters named Petrom City started in February 2007 and ended in September 2010. Three main construction companies were dedicated to demolishing and decontaminating the related land, building the construction and infrastructure.

During the construction phase, the main contractors were permanently supervised by Petrom HSE experts. They conducted daily site visits, registered findings, monitored the implementation of corrective/preventive actions, and periodically reviewed and audited HSE contractors' documentation, safety procedures and working instructions. During weekly meetings, Petrom HSE experts discussed with all contractors and subcontractors about measures to ensure and improve safety on site. Evacuation drills were performed periodically to ensure that all employees are aware about escape routes, assembly points, and evacuation procedures. The facts below show the magnitude of our efforts to ensure safety works at Petrom City:

- ▶ Inductions to contractor employees: 4,524
- ▶ Toolbox talks with contractor employees: 124
- ▶ Total man hours worked: 3,174,216
- ▶ Number of employees last week of construction (peak): 923
- ▶ Number of accidents: 5 (thereof one fatality in 2009)

**Petrom City – a safe workplace built for our employees**

### **Safety aspects regarding moving people into Petrom City**

Moving employees into Petrom City started in May 2010, continued in November 2010 and the process is still ongoing. During the project development, a risk assessment was performed in order to ensure that new workplaces are safe. All employees received an induction training prior to commencing their activities in the new Petrom headquarters, including information about the building, escape routes, assembly points, evacuation procedures, and work facilities.

### **Safety aspects regarding decommissioning of the Doljchim chemical plant**

The decommissioning activities for the Doljchim chemical plant, planned to be finished in 2012, will include demolishing of all related installations and rehabilitation of the site. These high-risk activities require careful planning and compliance with high safety standards. After shutting down, the preservation of installations was performed on best conditions, in order to avoid equipment degradation. A significant number of old, shut down installations have been sold and their decommissioning is in progress. The final receptions for demolishing work of more than ten old shut down plants and associated utilities were carried out. The procedure of decommissioning the remaining eight old installations has been started. No incidents occurred during the demolishing work. HSSE representatives were present every day on the demolishing areas. Additionally, TUV Austria supports the teams on site in HSSE activities to ensure a safe demolition of the units at Doljchim according to international best practice.

### **Process safety**

Process safety management is focused on reducing the likelihood and severity of unplanned releases that can result in environmental or safety incidents.

The oldest assets within Petrom present significant challenges and we are addressing these through a comprehensive approach to asset integrity.

In 2010, a process safety management working group focused on the implementation of Group-

wide reporting of process safety performance indicators as well as establishing a group standard for management of change.

### **Major accident hazards and risk reduction measures in E&P**

In 2010, four of Petrom's E&P facilities were downgraded by the regulator from Seveso II sites, due to the reduction of the production versus the design capacities. This triggered the decision to assess the implementation of the risk reduction plans which were developed for the original HSE cases. The evaluation revealed that the implementation of actions in the risk reduction plans needs to be intensified.

The main progress was achieved in the offshore operations, where the key risk reduction measures were implemented or started and significant investment made.

In addition, a significant effort was made to upgrade the offshore HSSE case to a field HSSE case, which helped in further reducing major HSSE hazards. However, all assessments have revealed that the integrity of equipment is continuing to decline all across the assets, particularly equipment considered as safety critical elements relevant to safety or environmental protection.

The HSSE management system was rolled out in the course of the last three years. The organization made a significant effort to reduce transportation-related incidents. The permit-to-work system was totally redesigned and rolled out and considerable effort was invested in following up environmental compliance projects. After the strong focus on personal safety improvements, now follow-up on major accident hazards and risk reduction measures will be intensified and centralized in CARE, the Group's action tracking tool. Furthermore, a budget was defined for facilities with the most significant risks, and training for line management was set up.

For the new combined-cycle power plant in Romania, a pre-start-up assessment related to asset integrity, training, competencies and management system was conducted.

### **Road safety**

In 2010, Petrom continued the road safety

## **Strengthening process safety**



initiative aiming to decrease the number of road accidents. After installation of about 1,000 electronic black boxes in company cars in 2009, further training on road safety was organized in 2010 as follows:

- ▶ 1,013 Petrom drivers attended the Romanian Red Cross's six-hour first aid training course.
- ▶ 1,013 drivers took part in PetroMed's medical and psychological testing program to identify problems that could affect driving behaviour.
- ▶ 2,798 drivers underwent a two-day driving skills course that emphasized road safety.

The awareness campaign "Have a safe travel with Petrom Refining" also focused on defensive driving. Cards with safety tips for travelling in Romania were distributed and posted on intranet. The "Drive for Life" campaign about defensive driving inside the refineries included radar checks, tests, training and monitoring driving behaviors inside the refineries.

In 2010, a number of 152 road accidents were reported for Petrom, with reduced number of injured people and no fatalities.

### **Emergency and crisis management**

Good crisis communication means providing clear, in-depth information to the media and the public as well as to our employees. Communication between the crisis management team and emergency services must be managed effectively. Simulation drills are held in the business segments and at corporate level several times a year.

### **Challenges and goals for 2011**

In 2011 we will continue to focus on contractor management in order to ensure they comply with the requirements of the Petrom HSE management system. Thus, we demonstrate that HSE risks are given equal priority to the technical and commercial ones. In addition, we will attach great importance to high potential incidents, so that they are properly investigated, actions established and closed out.

## **Human rights**

Human rights are considered an essential element of the social pillar within the sustainable

development efforts of Petrom. Through its Human Rights Policy, Petrom management expresses their involvement in and commitment to a comprehensive approach of human rights. Although the responsibility for ensuring human rights observance is primarily incumbent on governments, Petrom feels it has the responsibility to observe the implementation and promotion of human rights in its sphere of influence, and not to become an accomplice in violations of the human rights and implicitly of the international legislation in force.

Considering the different character of the interests and needs of various groups and players, Petrom sees observance of human rights as a way to balance the interests and needs of all relevant stakeholders, by showing respect towards their cultural values and practices.

Petrom has regulated its responsibilities in the area of human rights through the Human Rights Matrix document. This is complemented by other regulations developed and implemented to fulfill our responsibilities in the area of human rights.

In order to obtain an overview on the implementation of the Human Rights Matrix in Petrom, in 2010 we conducted assessments, based on self-evaluation questionnaires. Depending on the results, we will determine and implement the required actions.

In this context, it is of utmost importance that the increase in awareness, ability development and human rights knowledge process be an integral part of the training programs for all employees. To this effect, we plan for 2011 to create an e-Learning tool dedicated to human rights, available for use by all Petrom's employees.

## **Business ethics**

Consistent with the principles of the code of conduct, Petrom fosters business ethics as one of the essential components determining the build-up of our values and organizational culture. We are aware that each of us represents the whole company and, therefore, is accountable for the integrity and fairness of his or her actions. In this respect, we promote a transparent behavior of our business. Our corporate directive "Business Ethics" lays

## Operating responsibly and ethically

down rules for all employees with respect to existing or potential conflicts of interest, offering or receiving gifts, facilitation payments, and third-party assessment. In order to raise awareness and provide clear and comprehensive understanding of this regulation, we continued to train around 1,018 employees in 2010. To this end, we made additional tools available related to business ethics such as:

- ▶ e-Learning application, which went live in 2010 and was accessed by 2,115 employees;
- ▶ A help-line and dedicated e-mail address were used for an effective counselling of those seeking support from the Corporate Compliance Officer in business ethics related situations;
- ▶ „Conflict of Interest Statement“ document was signed by around 1,160 high level managers, thus demonstrating their commitment to treat ethically the potential conflict of interest cases.

With the aim of disseminating the provisions of corporate directive “Business Ethics”, we plan to continue the training process in 2011, and to undertake various educational actions, including internal newsletters.

## Community involvement

In 2010 our involvement in communities was an important strategic direction and it consolidated our position as a role model for the business community in Romania. Despite the challenging economic environment, Petrom continued to develop various projects in addressing the problems of local communities and Romanian society at large. The domains in which we concentrated our efforts were education, health and environment.

### Main community projects

**TaraluiAndrei.ro** – The civic initiative, the care for the environment and the respect for the community we live in are at the heart of our programs. In 2010, TaraluiAndrei.ro became a community of over 240,000 citizens who wanted to change Romania for the better. Over 300 people all around the country submitted projects meant to solve a problem in their community. Petrom financed with EUR 110,000 a number

of 23 projects for local communities, including refurbishment of learning units, selective waste collection systems, cleaning and building of green areas etc. About 390,000 people around Romania benefit from all these projects.

In 2010, TaraluiAndrei.ro was elected by young Romanians as second most important volunteering platform in Romania (after Greenpeace) according to a GFK study. Over 2,000 people participated in volunteering activities in Andrei's Country.

In 2010, 1,400 volunteers planted 46,000 trees on 9.5 hectares of land, transposing all online efforts of Andrei's Country citizens into real actions. The planting actions took place in Ploiesti (Prahova) and Moinesti, two communities affected either by land slip or by lack of green spaces and where the company develops its daily business.



In the spring of 2010, **Andrei's School** welcomed all responsible children in the primary schools of Romania to get involved in solving the problems of their communities. Guided by their teachers and with the help of key opinion leaders, children identified a problem in their community, drafted an action plan to solve it and started to actually implement it. Over 5,600 pupils coordinated by 241 teachers in 240 schools from all over the country participated in the contest and submitted 241 projects for their communities. Over 65,000 people got involved in the voting process. Petrom awarded the first 3 winning teams EUR 24,000, which were granted to solve the specific issues of the 3 schools. Following the public voting in “Andrei's School”, about 600 children (part of the first 20 teams voted) won the participation in “Andrei's Country Summer Camp” organized in the Cheia mountain resort, Prahova County. In the camp, children learned about the responsible use of natural resources through interactive experiments, received advice on how to survive

in nature, developed their skills on team work and leadership and received guidance on writing news reports.

**Telemedicine emergency network** – Out of respect for the lives of Romanians and for the company's employees' needs, Petrom in partnership with the Ministry of Health came to support the Romanian national emergency medical system by investing over EUR 410,000 in a telemedicine network and a training system for emergency medical staff. Thus, the current telemedicine network developed in 2009 was extended through Petrom's support with 17 hospitals, out of which 3 PetroMed clinics. All hospitals included in the program are linked through a high definition video-audio system that enables emergency doctors to receive help in real time from specialists in the Floreasca Emergency Hospital in Bucharest. This means shortening the time of intervention, providing patients with the adequate diagnosis, exchange of experience for the emergency medical staff and, in the end, saving lives. Over 4.7 mn people will benefit from this extension of the telemedicine network supported by Petrom.



**The blood donation campaign** – In the autumn of 2010, Petrom in partnership with the National Institute of Hematology, the Bucharest Blood Transfusion Centre and React Association developed the first voluntary blood donation campaign in which donors did not receive any material incentives. The program aimed at raising awareness with respect to the importance of blood donation and encouraged Romanians to become permanent donors. In less than one month, about 500 people donated blood through the mobile donation centers placed in 9 communities (Bucharest, Constanta, Ploiesti,

Craiova, Timisoara, Suplacu de Barcau, Oradea, Bacau and Moinesti) in which the company operates.

**Support for the Future** – In 2010, Petrom continued the campaign "Romania takes roots", a project developed in public-private partnership with RealitateaTV, the Romanian National Authority of Forests (Romsilva) and the NGO MaiMultVerde.

The campaign's objectives are to enrich the surface of forests in Romania, to act in view of preventing future floods and to improve the air quality. In 2010, Petrom and its partners planted 87,500 trees on 22 hectares of land in 4 local communities from Romania (Vaslui, Suceava, Galati and Dolj Counties). Petrom invested EUR 130,000 in the forestation program. "Romania takes roots" stands out from other reforestation campaigns through the long-term approach regarding flood prevention and through the involvement of local authorities, civil society, business community and media in this environmental issue.

**Volunteering in Petrom** – We understand that human resources are a vital component of a company's sustainable progress. That is why, in Petrom, each employee is considered a representative of the company who, through his or her actions, conveys our social responsibility message to the community. In 2010, over 600 employees volunteered in Petrom projects, either by taking part in planting actions or by helping the children with poor social status.

**You can be Santa Claus** – Since 2008, Petrom has been involved in the project "You can be Santa Claus" through which colleagues from Petrom



**87,500 trees planted in 2010 as part of the "Romania takes roots" campaign**

had the chance to bring hope in the life of poor children around the country. In 2010, about 400 children with a difficult social background from Podu Turcului (Bacau County) and Potlogi (Dambovită County) wrote letters to Santa asking for simple things that would bring them a bit of happiness for Christmas. The program was welcomed with enthusiasm by company's employees who responded promptly to the invitation and bought presents for the children.

#### Other community projects

In 2010, Petrom, in partnership with local authorities, suppliers, non-governmental organizations and local volunteers, implemented local projects in the communities where the company operates. These projects included supporting the learning infrastructure in rural areas (either by building or refurbishing learning facilities, by training seminars on safety or eco-civic themes or by granting poor children access to education), encouraging the civil society's efforts to raise awareness on environmental issues and be an active part in the development of the community and helping people of disadvantaged categories.

Through an investment of EUR 380,000, 18 schools were refurbished. About 4,600 children now benefit from improved learning facilities.

Petrom employees all over the country acted promptly when natural disasters affected 4 local communities and donated EUR 50,000 and other goods for 975 people.

In 2010, Petrom supported the "Community Support Foundation" NGO with EUR 15,000 for the finalization of the educational center in Slobozia village (Bacau County). All children in the village will have access to modern learning conditions.

CSR projects developed in Petrom's filling stations communicated the social responsibility message of the company to our customers and other stakeholders. Together with the NGOs "Ecopolis" and "Save the Danube Delta", Petrom developed the campaign "Plant a Tree" aiming to raise awareness on the importance of tree-planting activities. For each car air freshener sold in Petrom filling stations, Petrom committed to plant a tree. 27,559 trees were planted and Petrom invested EUR 55,000 in the project.

For one month, Petrom filling stations ran a campaign about the importance of drivers' responsible behavior towards the environment. For every fuel purchase exceeding 30 litres, Petrom provided its clients with a car waste paper basket for a discounted price. Petrom invested EUR 300,000 in this campaign. In 2010, Petrom supported different orphanages by donating all playgrounds furniture from the rebranded PetromV filling stations and other educational materials, involving children in educational activities and providing them with medical check-ups. The company's contribution was of EUR 93,000.

#### Challenges and goals for 2011

In 2011, we aim to maintain our top position in the Romanian business community regarding our involvement in solving the specific needs of the communities in which we operate and of the Romanian society at large. In addition to community-related actions, we will focus on developing competencies of our employees at local level in view of improving our community relations, whether local authorities, NGOs or people living in these areas.

#### External recognitions

Petrom's sustainability business practices were recognized by various awards granted in 2010, as follows:

- ▶ Ruban d'Honneur distinction (top 10 companies in the European Union) in the category „The Award for Corporate Sustainability“ at European Business Awards competition
- ▶ „Ten for Romania“ awards for „Projects for communities“
- ▶ „Sustainable Business Practices Award“ at Business Review Annual Gala
- ▶ „Petrom, the company with the largest investments in CSR“ at Top philanthropists (Forbes Magazine)
- ▶ Best CSR Program – Andrei's School
- ▶ The investment of the Year (Brazi power plant)
- ▶ Best company – at Debizz Business Gala (monthly magazine for German speaking business community in Romania)

**18 schools  
refurbished with  
4,600 children  
benefiting thereof**



# Sustainability indicators<sup>1</sup>

|   | 2010 <sup>1</sup> |
|---|-------------------|
| <b>Financial and operating</b>  |                   |
| Total hydrocarbons produced (thousand boe per day)  | 184               |
| Total refining input (mn t)   | 4.15              |
| Chemicals sales (kt)  | 109               |
| Sales revenues (RON mn)   | 18,616            |
| Contributions of OMV Petrom S.A. and its major subsidiaries to Romanian State Budget (RON mn) | 7,607             |
| Dividends paid to shareholders for previous financial year (RON mn)                           | 0                 |
| Wages and salaries (RON mn)   | 1,836             |
| <b>Safety <sup>2</sup></b>  |                   |
| Fatalities - employees  | 3                 |
| Lost workday injury (LWDI) - employees  | 29                |
| Fatality rate (FAR) - employees   | 6.01              |
| Lost time injury rate (LTIR) - employees  | 0.64              |
| Lost time injury severity (LTIS) - employees  | 24.79             |
| Total reportable injuries rate (TRIR) - employees   | 0.90              |
| Fatal commuting accident - employees  | 0                 |
| Commuting accident with lost working days - employees   | 2                 |
| Fatalities - contractor employees   | 0                 |
| Lost workday injury (LWDI) - contractor employees   | 16                |
| Fatality rate (FAR) - contractor employees  | 0.00              |
| Lost time injury rate (LTIR) - contractor employees   | 0.32              |
| Lost time injury severity (LTIS) - contractor employees                                       | 10.76             |
| Total reportable injuries rate (TRIR) - contractor employees                                  | 0.55              |
| Fatal commuting accident - contractor employees   | 0                 |
| Commuting accident with lost working days - contractor employees                              | 2                 |
| <b>Environment <sup>2</sup></b>   |                   |
| Energy consumption (PJ)   | 50.6              |
| Water consumption (mn cbm)  | 39.94             |
| Groundwater consumption (mn cbm)  | 16.07             |
| GHG (direct, scope 1) (mn t equivalent CO <sub>2</sub> )                                      | 4.73              |
| CO <sub>2</sub> (mn t)  | 3.15              |
| CH <sub>4</sub> (t)   | 73,299            |
| SO <sub>2</sub> (t)   | 2,409.5           |
| NO <sub>2</sub> (t)   | 140.4             |
| NO <sub>x</sub> (t)   | 9,338.6           |
| Non-methane-volatile organic compounds (NM-VOC) (t)   | 3,639.1           |
| Particulate emissions (t)   | 368.9             |
| <b>Waste water emissions</b>  |                   |
| Chemical oxygen demand (COD) (t)  | 1,256             |
| Hydrocarbons (t)  | 39.62             |
| Total nitrogen (t)  | 134.4             |
| Spills (number)   | 2,205             |
| <b>Waste</b>  |                   |
| Non-hazardous production waste (t)  | 213,336.9         |
| Hazardous production waste (t)  | 172,118.5         |
| Total production waste (t)  | 385,455.4         |
| <b>Employees <sup>3</sup></b>   |                   |
| Number of employees as of December 31   | 24,111            |
| Number of employees in leadership   | 1,428             |
| Women in leadership (%)   | 30                |
| People from beyond Romania in leadership (%)  | 1.3               |
| Dismissals for non-compliance and unethical behavior  | 20                |
| <b>Contribution to communities (RON mn)</b>   | <b>18.14</b>      |

<sup>1</sup> Starting 2010, Petrom reports its consolidated results to the capital markets prepared according to IFRS. Consequently, sustainability indicators are also reported at Group level as of 2010 and historical figures which reflected standalone KPIs have not been restated.

<sup>2</sup> Safety and environment related indicators are audited by Deloitte.

<sup>3</sup> Employees are defined as individuals who have a contract of employment with Petrom Group.

"Lucrurile nu sunt greu de făcut. Greu e

"Vision is the

Is there any recipe to success?

Vision and good corporate governance.

"Profesionalismul înseamnă să știi cum să fa





art, of seen

aci, când să faci și să faci" Fran

## Report of the Supervisory Board

### Practice 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) and in the neighboring countries of Bulgaria, Republic of Moldova and Serbia (marketing business). 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, 2010 is presented under the corresponding section at the end 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 has continued in 2010 to devote close attention to the strategic focus and business performance of the Company in all areas of the activity. The following report gives an overview with regard to the Supervisory Board main points of interest during the year under review. In addition to this report, the shareholders, as well as other stakeholders have various means to access relevant information about the Company by:

- ▶ visiting our corporate website, [www.petrom.com](http://www.petrom.com), which 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 in person 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 protecting 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 since the 2010 financial year has 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 to 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 April 29, 2010, the Supervisory Board consisted of the following members: Wolfgang Rutenstorfer (President of the Supervisory Board), Gerhard Roiss (Deputy of the Supervisory Board), David C. Davies, Helmut Langanger, Werner Auli, Marian Turlea, Gheorghe Ionescu, Daniel Costea and Riccardo Puliti. Following Fondul Proprietatea S.A.'s proposal, on April 29, 2010 Daniel Costea was replaced by Joseph Bernard Mark Mobius. Likewise, on August 3, 2010 due to Helmut Langanger's waiver of the mandate, Jacobus Gerardus Huijskes was appointed as member of the Supervisory Board of the Company. The Supervisory Board would once again like to thank Daniel Costea and Helmut Langanger for their constructive work and commitment towards the Company during their mandate. As required by the Company Law, none of the Supervisory Board members holds an executive position in the Company.

### Executive Board members

The Executive Board of the Company comprises seven members, as of the date of this report. Until February 1, 2010, the Executive Board of the Company consisted of the following members: Mariana Gheorghe (President of the Executive Board and Chief Executive Officer), Reinhard Pichler (Chief Financial Officer), Johann Pleininger (responsible for Exploration and Production), Siegfried Gugu (responsible for Exploration and Production Services), Neil Anthony Morgan (responsible for Refining), Tamas Mayer (responsible for Marketing) and Gerald Kappes (responsible for Gas and Power). Due to Tamas Mayer's waiver of the mandate, on February 1, 2010, Rainer Schlang was elected as member of the Executive Board of the Company. After successfully developing Petrom's marketing operations, Tamas Mayer took over a different responsibility at Petrol Ofisi, Turkey's leading fuel and lubricants distribution company in which OMV recently acquired control. Starting January 1, 2011, by decision of the Petrom Supervisory Board, the Executive Board has two new members: Daniel Turnheim, Chief Financial

Officer and Hilmar Kroat-Reder, responsible for Gas and Power (including Chemicals). The two new members of the Petrom Executive Board succeed Reinhard Pichler and Gerald Kappes respectively, who took over new responsibilities within OMV Group.

### Supervisory Board's activity during 2010

In 2010, 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 three occasions. All members of the Supervisory Board attended more than half of the meetings of the Supervisory Board in 2010. The average participation rate was of almost 90%. In line with the Collective Labor Agreement, invitations to attend the Supervisory Board meetings were extended to the 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.

**Close coordination with EB on the management of the Company**

**Focal points:  
consolidation  
of marketing  
activities in  
Romania and  
review of  
the strategic  
directions for the  
next five years**

**March 25 Supervisory Board meeting**

During the Supervisory Board meeting convened on March 25, we discussed the 2009 annual and consolidated financial statements as well as the respective management reports in detail. The 2009 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. Another focal point of discussion during this meeting was the spin-off and transfer of the marketing activities of OMV Petrom S.A. to OMV Petrom Marketing S.R.L. Subject to approval by the Extraordinary General Meeting of Shareholders, the spin-off of the marketing activities of OMV Petrom S.A. by way of universal legal transfer to Petrom Marketing S.R.L. (an entity in which OMV Petrom S.A. holds 100% of the share capital) in exchange for shares in OMV Petrom Marketing S.R.L. granted to OMV Petrom S.A. was approved in principle, as well as the preparation of the spin-off plan. Taking into consideration that OMV Petrom must continue its high level of investments in order to maintain business sustainability and to achieve additional growth potential, we endorsed management's proposal not to distribute dividends for the financial year 2009. Furthermore, the authorization of the increase of the share capital of Petrom by delegation for 1 year to the Executive Board of the exercise of the competence to increase the share capital was approved, subject to its subsequent approval by the Extraordinary General Meeting of Shareholders. Any decisions of the Executive Board approving share capital increases performed under this delegation of authority (other than the final decisions implementing the share capital increases) would be subject to the approval of the Supervisory Board.

**April 29 Supervisory Board meeting**

Another meeting of the Supervisory Board was held on April 29. During this meeting the spin-off plan for the spin-off and transfer of the marketing activities of OMV Petrom S.A. to OMV Petrom Marketing S.R.L. was approved. An important milestone was the review of the Company's strategic directions for the next five years. After a profound and successful restructuring and modernization process that strengthened

our financial performance and position as the largest oil and gas player in Southeastern Europe, Petrom is set to transform into a leading integrated energy player in our operating region. The management will stay committed to Petrom's sustainable development and its efforts will focus on consolidating and expanding the hydrocarbons business and on business portfolio diversification through power production. This aim will be further underpinned by our endeavors to realize our full efficiency potential, maximize integration value and to unlock our employees' performance potential.

**June 18 Supervisory Board meeting**

At the regular meeting of June 18, the Supervisory Board took notice of Helmut Langanger's resignation as of July 1, 2010 and approved the appointment of Jacobus Gerardus Huijskes as member of the Supervisory Board starting with that date. Within the same meeting, the Supervisory Board was informed about and took notice of the envisaged conclusion of the production enhancement contracts with PetroSantander and Petrofac for provision of long-term operations, investment and production enhancement services in Arad and Ticleni fields groups. Likewise, in line with the Draft Emergency Ordinance proposed by the Government for anti-fraud purposes, the Supervisory Board approved the increase of the value of the excise duty guarantees issued in favor of the Ministry of Public Finance and extension of their validity.

**September 23 Supervisory Board meeting**

At its meeting on September 23, the Supervisory Board mainly dealt with issues regarding the Company's exploration and production activities, such as the drilling of a new offshore well in Lebada Est. The Supervisory Board also approved Petrom's representation in certain associations by the following members of the Executive Board: Mariana Gheorghe, Johann Pleininger and Rainer Schlang. Moreover, the Supervisory Board was informed about the investment progress within the E&P division and particular challenges.

**November 23 Supervisory Board meeting**

At the regular meeting of November 23, the Supervisory Board took notice that two Executive

Board members, Reinhard Pichler and Gerald Kappes, will take over new responsibilities outside OMV Petrom S.A. and hence Daniel Turnheim and Hilmar Kroat-Reder, respectively were approved to replace them starting January 1, 2011. The Supervisory Board expressed its appreciation to Reinhard Pichler and Gerald Kappes for their remarkable activity in OMV Petrom S.A. and welcomed the newly appointed members. Furthermore, the Supervisory Board approved the increase of equity in Kom Munai LLP and took notice of the developments of the process of internal reorganization for the corporate center of the Company put in place starting January 1, 2011.

We thank shareholders for their confidence in Petrom. The Company continued its successful path of development in 2010, despite the difficulties caused by the lingering effects of the global economic and financial turmoil and industry volatility. With a clear strategy, we firmly believe that Petrom is best placed to overcome the challenges and seize the opportunities of the next years, as we strongly believe that the Petrom management team's commitment to its stakeholders will stay firm. 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 2010 and this is a tribute to their high level of professionalism, partnership and pioneering. We would also like to show our appreciation to clients and business partners of our Company. The Supervisory Board has no doubt that the sustainable development accomplished by Petrom since its privatization will enable the Company 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.

In 2010, 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. It further prepared a proposal of an independent financial auditor to the Supervisory Board and to the General Meeting of Shareholders.

#### **External auditor**

Deloitte Audit S.R.L. was Petrom's independent auditor since 2004. Further to an international tender, a motion for the appointment of local Ernst&Young Assurance Services S.R.L. as Petrom's auditor will be submitted to the next General Meeting of Shareholders.

#### **Annual financial statements**

Deloitte audited the 2010 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 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 26, 2011.

#### **Appointment of Ernst&Young as external auditor**

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

Petrom prepares Group consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) – presented within this report. In line with the 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 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 0.0177 per share, corresponding to a payout ratio of 46% of the net profit. The proposal is subject to the approval of the forthcoming General Meeting of Shareholders on April 26, 2011.

**SB approval of management's proposed dividend (RON 0.0177 per share)**

### **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 for 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 2010, the "Comply or Explain" Statement is included in the Corporate Governance chapter within the Annual Report.

Bucharest, March 24, 2011



Wolfgang Rutenstorfer  
President of the Supervisory Board



## Directors' report

### Petrom Group financials (RON mn)

|   | 2009   | 2010   | Δ (%) |
|---|--------|--------|-------|
| Sales revenues                            | 16,090 | 18,616 | 16    |
| Earnings before interest and taxes (EBIT) | 1,620  | 2,986  | 84    |
| Net income                                | 833    | 2,190  | 163   |
| Net income after minorities               | 860    | 2,201  | 156   |
| Cash flow from operations                 | 2,726  | 4,630  | 70    |
| Capital expenditures                      | 4,219  | 4,863  | 15    |
| Employees as of December 31, 2010         | 28,984 | 24,662 | (15)  |

Against the background of weakening market conditions in our operating region, our strong financial results reflect the effectiveness of optimization initiatives and the favorable crude price environment. Moreover, throughout the year, we achieved several important milestones and took further steps in line with our strategy to become a leading integrated energy player. Compared to 2009, the operating result (EBIT) increased by 84% to RON 2,986 mn, as high oil prices and stringent cost management, such as optimization of supply in Refining more than offset the one-off charges and lower volumes sold by the R&M business. Net special charges mainly related to the impairment recorded following the technical re-assessment of the Kazakhstan activities and also the re-establishment of an export customs duty in Kazakhstan. The net financial result improved compared to previous year's level, positively influenced by FX gains related to our intercompany USD loans given to our Kazakh subsidiaries. The effective corporate tax rate was 16%, compared to 29% in 2009, mainly due to the provisions related to the tax review recorded in Q4/09, the disposal of Russian operations and the impairment of Kazakh assets where the tax rate is above the Group's effective tax rate level. Consequently, net income after minorities was more than double compared to 2009. As a result, the return on average capital employed<sup>2</sup> (ROACE) indicator increased to 10.7% in 2010, compared to 5.2% registered in 2009. Our gearing ratio improved as new liabilities contracted for financing needs were compensated by the increase in cash and cash equivalents, standing at 12.4% at the end of 2010 compared to 16.2% in December 2009.

Against the backdrop of strong cash generation and a low gearing ratio we were in a position to finance our business without requiring an increase in our share capital, as it was authorized by shareholders in April 2010. We do not envisage requesting a renewal of the authorization period at the next GMS as we remain confident going forward about maintaining a strong balance sheet and cash flow generation capacity which will enable us to finance our operations and investments. In 2010, 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 EUR 1.1 bn in 2010.

#### Dividend

The strong 2010 results and financial position not only enable us to invest in the Company's future sustainable growth, but also to propose to the forthcoming General Meeting of Shareholders on April 26, 2011, the payment of a dividend of RON 0.0177 per share, corresponding to a payout ratio of 46% of the net profit.

In **Exploration and Production**, the natural production decline was steadily reduced in the second half of the year by concentrating on reservoir management initiatives, finalization of key wells, increased workovers and infill drilling. We successfully started the Hurezani gas delivery system by mid-year and made further progress with our seven ongoing integrated field redevelopment projects and started production at key gas wells (Mamu, Radinesti). Offshore, additional production came on stream from

**Strong operational performance and financial position**

**Proposed dividend corresponding to a 46% payout ratio**

<sup>2</sup> For definitions of these ratios please refer to page 106, section "Abbreviations and definitions"

### Strategic partnerships to ensure long-term production enhancement

applying advanced technology at both existing and new key wells. Throughout the year, we embarked on three strategic partnerships. We signed two long-term production enhancement projects with Petrofac and PetroSantander, for 15 and 17 years respectively. Both partnerships target cumulative production enhancement in the selected mature fields by at least 50% compared to current production decline, in the next five years. Continuous revision of mature fields, achievement of the drilling program combined with diversification of the recovery mechanisms applied in 2010 led to an increase of the reserve replacement rate in Romania from 70% in 2009 to 72% in 2010. In Kazakhstan, oil and gas average production increased significantly compared to 2009 mainly due to Komsomolskoe field being gradually brought on stream, in spite of some start-up difficulties. In addition, we acquired 3D seismic data at the Kultuk field that was recently added to our international portfolio. Given the current economic environment and due to our prioritization program for investment projects, we sold our assets in Russia.

### Flexible utilization of refining and logistic assets

In **Refining and Marketing** significant improvements were made, as we increased our clean CCS EBIT by more than RON 500 mn, driven by downstream optimization and cost control efficiency. Throughout the year we capitalized on our efficient response to the prevailing market challenges with flexible utilization of our refining and logistics assets. We processed 100% domestic crude, halted crude imports and optimized operations by keeping the Arpechim refinery in economic shutdown for nearly nine months. Consequently, we increased the utilization rate at our higher conversion refinery at Petrobrazi. One of the major activities was the cycle-end turnaround scheduled at Petrobrazi for approximately one month, in the first part of the year. The turnaround represented a significant effort involving some 750,000 man-hours and no lost time incidents were registered during the period, thus we continued to improve our HSEQ performance. Therefore, our efforts were recognized through a prestigious award – the DuPont Safety Award, granted for the first time to a Romanian company. An important

achievement was the finalization of the Brazi terminal construction, and together with the Jilava terminal we reached our target set for 2010 with regards to the modernization of the terminals' infrastructure. In the first part of 2010, we also finalized the divestment of the Arpechim petrochemical business to Oltechim. In Marketing, the economic downturn affected our fuels sales and burdened our margins. In order to optimize our operations and increase the efficiency of cost management, we consolidated our activities in Romania, previously performed through three legal entities, in one single entity – OMV Petrom Marketing S.R.L., 100% owned by Petrom.

In **Gas and Power**, the year 2010 was marked by progress and new steps taken to become a key integrated energy player. In the Romanian gas market we maintained a strong position within a difficult business environment. In 2010, we consolidated the gas supply and sale activities of OMV Petrom S.A. and OMV Petrom Gas S.R.L. in one company, OMV Petrom Gas S.R.L., 99.99% owned by Petrom. Through the start of operation of the Szeged-Arad pipeline, OMV Petrom Gas S.R.L. seized the opportunity and was the first and only company to import commercial volumes via this interconnection with the Hungarian and West-European gas transportation system. During the year we continued the construction of Brazi power plant which is on track to start commercial operation in late 2011. The plant is the largest private greenfield project for electricity in Romania, with an 860 MW designated capacity and an average gas consumption of 0.8-0.9 bcm per year. An important milestone achieved in 2010 was the acquisition of S.C. Wind Power Park S.R.L., who owns a fully permitted wind generation project – Dorobantu – with a capacity of 45 MW, situated in Dobrogea region, thus extending our power projects portfolio. In line with our strategy to exit non-core segments, we also stopped methanol production at the Doljchim chemical plant in October 2010.

#### Minor share buybacks

On January 8, 2010, OMV Petrom S.A. commenced the purchase by the company of a number of its own shares (referred to

as “buy-back program”) from the regulated securities market, based on the decision of the Extraordinary General Meeting of Shareholders of December 16, 2008, published in the Official Gazette, Part IV, no. 359/19.01.2009, with a view to distributing the same shares free of charge to the persons entitled to receive them (former or current employees).

The reason for offering shares was to fulfil the obligation assumed under article 168, paragraph 5 of the Collective Labour Agreement (CLA) applicable in 2008, under which “In case of entering the privatization phase, the employees who are part of this agreement shall benefit from a number of shares negotiated by FSLI Petrom with Petrom S.A. – granted free of charge [...]”; also stipulated under art. 107 of the CLA applicable in 2009.

The buy-back program commenced on January 8, 2010 and was completed on January 18, 2010. OMV Petrom S.A. purchased 6,195,500 shares, representing 0.011% of the company’s share capital from the regulated securities market, at a total value of RON 1,772,177. The purchase price varied from RON 0.2730 to RON 0.2930.

The effective allocation of the free-of-charge shares was made between June 23 and December 16, 2010 – according to the simplified prospectus, the period for the effective allocation of the free of charge securities to the entitled persons could run between February 25, 2010 and December 31, 2010. OMV Petrom S.A. distributed free of charge, to each person so entitled a number of 100 (one hundred) ordinary, nominal and dematerialized shares, traded on the first tier of the Bucharest Stock Exchange, 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 total shares purchased of 6,195,500, a total number of securities of 6,133,500 were distributed to 61,335 entitled persons.

As per December 31, 2010, the number of shares held in treasury from buy-back 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. No shares were cancelled in the year under review.

### **New headquarters – Petrom City**

In December we inaugurated Petrom City, the headquarters that will host the company’s central operations. Situated in the Northern part of Bucharest, it will host around 2,500 employees from seven former headquarters of the company in Bucharest and Ploiesti. The employees’ relocation process started in the fourth quarter of 2010 and is expected to be finalized in the first half of 2011.

### **Corporate Governance**

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

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

**Relocation to Petrom City starting Q4/10**

**Compliance with BSE Code of Corporate Governance, effective starting 2010**

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

|  | 2009         | 2010         | Δ (%)     |
|--|--------------|--------------|-----------|
| Exploration and Production <sup>1</sup>            | 2,468        | 3,012        | 22        |
| Refining and Marketing                             | (618)        | 106          | n.m.      |
| Gas and Power                                      | 71           | 164          | 130       |
| Corporate and Other                                | (140)        | (135)        | (3)       |
| Consolidation: elimination of intercompany profits | (161)        | (161)        | 0         |
| <b>Petrom Group reported EBIT</b>                  | <b>1,620</b> | <b>2,986</b> | <b>84</b> |

<sup>1</sup> Excluding intersegmental profit elimination**E&P EBIT increased by 22% yoy due to higher crude prices**

In **E&P, EBIT** increased by 22% compared to 2009, to RON 3,012 mn, due to higher oil and condensate prices, although it was affected by the significant impairment of the Kazakhstan assets in Q3/10. **Total Group hydrocarbon production** decreased by 2% compared to 2009 to 184,000 boe/day, due to lower production in Romania. **Crude oil production** was 29.98 mn bbl, 5% lower than the level recorded in 2009, as a consequence of adverse weather conditions, with heavy snow and flooding in the first part of the year, followed by a delay in drilling activities. Lower drilling activities throughout 2009 also impacted the 2010 production. **Gas production** reached 33.48 mn boe, 3% lower than in 2009 due to the delay in completion of key gas wells (Mamu) coupled with the negative effect of lower drilling activities in 2009. **Oil and gas production in Kazakhstan** increased by 58% to 3.62 mn boe in 2010, due to the Komsomolskoe field being brought gradually on stream.

**R&M positive EBIT for the first time after privatization**

In **R&M, EBIT** improved significantly in 2010, compared to the last 6 years, as it reached a positive figure, for the first time since privatization, of RON 106 mn. The result was driven by flexible refining asset utilization with optimized operations at the Arpechim refinery ("stop-and-go" mode) coupled with increased utilization of our higher conversion refinery at Petrobrazî, which more than compensated for the lower marketing result where margins and volumes, especially in the commercial sector, were negatively affected by the weak economic environment. Despite the increase versus last year's level, in 2010 the **indicator refining margin** remained very low, mainly as a result of increasing crude prices offsetting higher product

spreads. On account of the changed operations mode in Refining, the overall **utilization rate** was maintained at 49%, mainly due to the Arpechim refinery being in economic shutdown for most of the period. However, the Petrobrazî utilization rate increased significantly towards the second half of the year, averaging 70%, three percentage points higher than last year. Total **refining output** was down 24% compared to 2009.

The **EBIT** generated by the **G&P** business more than doubled in 2010 as compared to 2009, when it was impacted by losses recorded at Doljchim and the provisions set up for closing the chemicals business. Adverse market conditions due to the economic downturn negatively affected the gas business, which generated a 10% lower EBIT versus 2009, when the Group benefited from higher margins on import gas extracted from storage. **The negative result in Doljchim** in 2010 was reduced by 72%, as the methanol plant was operated according to the company's integration needs. **Consolidated gas sales volume** increased by around 1.5% compared to 2009, while the increase in total gas consumption in Romania was 4.9%, mainly driven by higher demand from the fertilizer industry and the colder winter. This development offsets the opposite trend experienced in 2009, when Petrom sales decreased at a much lower pace than Romanian total consumption, since the demand for domestically produced gas was less influenced by the market development.

**EBIT** in the **Corporate and Other (Co&O)** segment amounting to RON (135) mn remained similar to the one from previous year, of RON (140) mn.



## Financial highlights

### Notes to the income statement

#### Summarized income statement (RON mn)

|  | 2009         | 2010         | Δ (%)      |
|--|--------------|--------------|------------|
| Sales revenues   | 16,090       | 18,616       | 16         |
| Direct selling expenses                                | (364)        | (437)        | 20         |
| Production costs of sales                              | (11,256)     | (12,791)     | 14         |
| Other operating income                                 | 409          | 514          | 26         |
| Selling and administrative expenses                    | (1,503)      | (1,450)      | (4)        |
| Exploration expenses                                   | (275)        | (187)        | (32)       |
| Other operating expenses                               | (1,480)      | (1,280)      | (14)       |
| <b>Earnings before interest and taxes (EBIT)</b>       | <b>1,620</b> | <b>2,986</b> | <b>84</b>  |
| Net financial result                                   | (451)        | (380)        | (16)       |
| Taxes on income  | (336)        | (416)        | 24         |
| <b>Net income</b>                                      | <b>833</b>   | <b>2,190</b> | <b>163</b> |
| Thereof attributable to non-controlling interests      | (27)         | (11)         | (59)       |
| <b>Net income attributable to owners of the parent</b> | <b>860</b>   | <b>2,201</b> | <b>156</b> |

Petrom is an integrated oil and gas company on its way to become a key integrated energy player. As oil produced by the E&P segment is mainly processed at Petrom refineries, the R&M business segment represents the largest share of the Group's consolidated sales.

Compared to 2009, **consolidated sales revenues** increased by 16% to RON 18,616 mn, mainly driven by high crude and product prices. After the elimination of intra-group transactions of RON 8,862 mn, the contribution of the **E&P** segment to consolidated sales revenues was RON 673 mn or about 4% of the Group's total sales revenues (2009: RON 698 mn). Consolidated sales in the **R&M** segment amounted to RON 15,050 mn or 81% of total consolidated sales (2009: RON 12,620 mn). After elimination of intra-group sales to refineries, the **G&P** segment's contribution was RON 2,880 mn or approximately 15% of total sales (2009: RON 2,769 mn).

In line with IFRS 8 "Operating segments", sales to external customers are split up by geographical areas on the basis of where the delivery of goods or services is effective. Romania represents the Group's most important **geographical market** with sales of RON 14,484 mn or 78% of the Group's total sales (2009: RON 13,237 mn or 82%). Sales in the Rest of Central and Eastern

Europe were RON 3,508 mn or 19% of Group sales revenues (2009: RON 2,577 mn) and sales revenues in the Rest of the World increased to RON 624 mn, representing 3% of total sales revenues (2009: RON 276 mn).

**Direct selling expenses**, mainly consisting of third-party freight-out expenses, increased by 20% to RON 437 mn. **Cost of sales**, which include variable and fixed production costs, as well as costs of goods and materials employed, increased by 14% to RON 12,791 mn in line with the increase in sales. **Other operating income** went up by 26%, positively impacted by FX exchange gains and gains on disposal of assets. **Selling expenses** of RON 1,218 mn were reduced by 5% compared to last year, while **administrative expenses** increased by 3% to RON 231 mn.

**Exploration costs** were down by 32% to RON 187 mn, mainly driven by decreased activities in Romania partially compensated by the increase of geological and geophysical expenses in the Kazakh company acquired in 2009, Korneed LLP.

**Other operating expenses** decreased by 14% compared to 2009, amounting to RON 1,280 mn. This positive effect is mainly due to lower provisions for restructuring, and lower FX losses.

**Sales in Romania represented 78% of Group's total sales**

### Net financial result improved by 16% over 2009

**Net financial result** showing an expense of RON 380 mn, improved in comparison with the previous year (2009: expense of RON 451 mn), due to an increase of RON 191 mn in net financial income and in spite of higher net interest expenses by RON 121 mn. Other financial income and expenses in 2010 amounted to RON 150 mn, while in 2009 it showed an expense balance of RON 41 mn. This positive effect results mainly from FX gains made by Petrom, driven by the USD appreciation against RON in relation with the USD loans given to its Kazakh subsidiaries. As the USD is the functional and reporting currency of the Kazakh subsidiaries, FX effects resulting in Petrom are not compensated by a corresponding effect in Kazakhstan.

**Taxes on income** increased by RON 80 mn to RON 416 mn compared to 2009. **Current taxes on income** went up by RON 82 mn, mainly driven by higher profits resulting from the increase in oil prices. In 2010, **deferred tax income** of RON 86 mn (2009: RON 83 mn) was recognized. The Group's effective tax rate decreased to 16% (2009: 29%). This improvement in the effective tax rate was mainly due to the disposal of Russian operations and the impairment of Kazakh assets where the tax rate is above the Group's effective tax rate level. Furthermore, the previous year's effective tax rate was burdened by one-time negative impacts such as non-deductible expenses following the tax review of Petrom.

### Capital expenditure

| <b>Capital expenditure <sup>1</sup> (RON mn)</b>   |              |              |            |
|--|--------------|--------------|------------|
|  | 2009         | 2010         | Δ (%)      |
| Exploration and Production   | 2,869        | 2,774        | (3)        |
| Refining and Marketing   | 601          | 758          | 26         |
| Gas and Power  | 348          | 1,211        | 248        |
| Corporate and Other  | 401          | 120          | (70)       |
| <b>Total capital expenditure <sup>1</sup></b>  | <b>4,219</b> | <b>4,863</b> | <b>15</b>  |
| +/- Other adjustments  | 250          | 338          | 35         |
| - Investments in financial assets  | 0            | (35)         | n.m.       |
| <b>Additions according to statement of non-current assets (intangible and tangible assets)</b> | <b>4,469</b> | <b>5,166</b> | <b>16</b>  |
| +/- Non-cash changes   | (66)         | (844)        | n.m.       |
| <b>Cash outflow due to investments in intangible and tangible assets</b>                       | <b>4,403</b> | <b>4,322</b> | <b>(2)</b> |
| + Cash outflow due to investments in securities, loans and other financial assets              | (199)        | 2            | n.m.       |
| <b>Investments as shown in the cash flow statement</b>   | <b>4,204</b> | <b>4,324</b> | <b>3</b>   |

<sup>1</sup> Includes acquisitions as well as investments in associated companies and other interests; adjusted for capitalized decommissioning costs, exploration wells that have not found proved reserves, borrowing costs and other additions which by definition are not considered as capital expenditures.

### Capital expenditure increased by 15% over 2009

**Capital expenditure** increased to RON 4,863 mn (2009: RON 4,219 mn), with substantially increased investments in G&P and slightly lower CAPEX in Corporate & Other (Co&O) and E&P.

**E&P** investments of RON 2,774 mn (2009: RON 2,869) represented 57% of the total figure for 2010 and were predominantly spent on development wells, to sustain the continuous field development strategy, workover activities

and subsurface operations in Romania and Kazakhstan. Approximately 25% of investments were realized in **G&P**, RON 1,211 mn (2009: RON 348 mn), mainly comprising the investments related to the Brazi power plant, including the connection pipeline to the National Gas Transportation System and construction works for the Dorobantu wind park within a newly acquired subsidiary Wind Power Park S.R.L. Capital expenditure in **R&M** segment, RON 758

mn (2009: RON 601 mn) accounted for 16% of the 2010 Group total investments. In Refining, investments were mainly related to quality enhancement projects, such as the rehabilitation of storage tanks for oil products, crude unit modernization, the cycle end turnaround in Petrobrazil and the Brazil terminal. Investments in the Marketing division accounted for signage, rebranding and the modernization of filling station complementary equipment at various sites. CAPEX for Corporate & Other (Co&O) segment amounted to RON 120 mn (2009: RON 401 mn). This refers mainly to the finalization of construction works at "Petro City" in Bucharest, Petrom's new headquarters inaugurated in December 2010, and also other small investments that were realized for IT projects.

The reconciliation of total capital expenditure to additions according to the statement of non-current assets (intangible and tangible) mainly relates to investments in financial assets, and additions which by definition are not considered capital expenditure, such as reassessment of decommissioning asset 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). In addition, cash outflows due to investments in financial assets are included in the overall investments shown in the cash flow statement.

## Balance sheet

### Summarized balance sheet (RON mn)

|   | 2009          | %          | 2010          | %          |
|---|---------------|------------|---------------|------------|
| <b>Assets</b>                                       |               |            |               |            |
| Non-current assets                                  | 25,228        | 83         | 27,725        | 80         |
| Intangible assets and property, plant and equipment | 22,791        | 75         | 25,147        | 72         |
| Investments in associated companies                 | 36            | 0          | 41            | 0          |
| Other non-current assets                            | 2,401         | 8          | 2,537         | 7          |
| Deferred tax assets                                 | 713           | 2          | 734           | 2          |
| Current assets                                      | 4,586         | 15         | 6,306         | 18         |
| Inventories   | 2,583         | 8          | 2,500         | 7          |
| Trade receivables                                   | 1,048         | 3          | 1,398         | 4          |
| Other current assets                                | 955           | 3          | 2,408         | 7          |
| <b>Equity and liabilities</b>                       |               |            |               |            |
| Equity  | 16,191        | 53         | 18,459        | 53         |
| Non-current liabilities                             | 9,567         | 31         | 10,701        | 31         |
| Pensions and similar obligations                    | 283           | 1          | 297           | 1          |
| Interest-bearing debts                              | 2,810         | 9          | 3,466         | 10         |
| Decommissioning and restoration obligations         | 5,564         | 18         | 5,918         | 17         |
| Provisions and other liabilities                    | 910           | 3          | 1,020         | 3          |
| Deferred tax liabilities                            | 62            | 0          | 27            | 0          |
| Current liabilities                                 | 4,707         | 15         | 5,578         | 16         |
| Trade payables                                      | 2,295         | 8          | 3,453         | 10         |
| Interest-bearing debts                              | 188           | 1          | 391           | 1          |
| Provisions and other liabilities                    | 2,224         | 7          | 1,734         | 5          |
| <b>Total assets/ equity and liabilities</b>         | <b>30,527</b> | <b>100</b> | <b>34,765</b> | <b>100</b> |

**Total assets of  
RON 35 bn**

**Total assets** increased slightly by RON 4,239 mn to RON 34,765 mn. **Non-current assets** grew by RON 2,497 mn to RON 27,725 mn, out of which RON 2,356 mn related to the increase in **intangible assets and property, plant and equipment**. Additions to intangible assets and property, plant and equipment (RON 5,166 mn) exceeded the total of depreciation, amortization and impairments, as well as disposals by RON 2,227 mn. The ratio of intangible assets and property, plant and equipment to total assets amounted to 72% (2009: 75%).

**Investments in associated companies** rose moderately by a total of RON 5 mn, with positive results from the associated company Congaz. The slight 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 strong increase in **current assets** of RON 1,720 mn is mainly related to positive evolution in cash and cash equivalents of RON 1,205 mn, presented within **other current assets**. **Current trade** receivables increased by RON 350 mn following the increased sales in R&M segment and increase of crude oil sold from production obtained from the Kazakhstan region, and were partially compensated by slight decrease of **inventories**.

**Equity** (including minorities) improved by RON 2,268 mn, maintaining the equity ratio at 53%. Equity increased due to net income generated during the year and also due to the positive effect from hedges and slightly reduced by exchange rate differences.

**Non-current decommissioning and restoration obligations** rose by RON 354 mn, because of parameter changes and unwinding effects. Additional amounts drawn from EBRD (European Bank for Reconstruction and Development), EIB (European Investment Bank), BSTDB (Black Sea Trade Development Bank) and the second club deal (facility obtained in December 2009) exceeded the repayment of loan taken from OMV AG and partial repayment of the first club deal loan, thereby increasing **long term borrowings** by RON 655 mn.

Repayments of the overdraft at the beginning of the year and the change of maturity profile of financing sources were reflected into a net increase of short term **interest bearing debts** by RON 204 mn.

Significant investments carried out, especially in E&P activities, combined with higher environmental restoration works led to a significant increase in **trade payables**, which was partially offset by a reduction of **other liabilities and provisions** by RON 380 mn, as a result of settlement of hedging contracts signed for year 2010 and also due to the reduction in provisions for announced personnel restructuring plans.

#### Gearing ratio

Considering that new liabilities contracted for financing needs were compensated by the positive free cash flow (defined as excess of net cash from operating activities over net cash used in investing activities), Petrom Group's **net debt** shows a slight decrease to RON 2,299 mn, compared to RON 2,614 mn at the end of 2009. Consequently, as of December 31, 2010, the **gearing ratio** decreased to 12.4%, from 16.2% in December 2009.

#### 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 1,904 mn or 70% from RON 2,726 mn to RON 4,630 mn. The reconciliation of profit before taxation for the year to the cash flow from operating activities (before changes in working capital) resulted in a net upward adjustment of RON 2,458 mn for 2010 (2009: RON 2,550 mn). While depreciation, amortization and write-ups added RON 2,812 mn (2009: RON 2,466 mn), net movement in provisions (including decommissioning and restoration obligations and other provisions for risks and charges) contributed a decrease of RON 325 mn (2009: RON 221 mn) to the cash flow. Result on the disposal of non-current assets and other adjustments led to a decrease of RON 28 mn (2009: RON 305 mn increase).

**53% equity ratio maintained**



In 2010, net working capital, interest and taxes generated a cash outflow of RON 434 mn (2009: cash outflow of RON 994 mn). Receivables increased by RON 523 mn (2009: increase by RON 148 mn) and liabilities increased by RON 559 mn (2009: decreased by RON 652 mn). Net interest and tax on profit paid generated a cash outflow of RON 474 mn (2009: cash outflow of RON 323 mn), encompassing a higher level of financing and positive evolution of results in current year.

**Cash outflows for investments in non-current assets** of RON 4,322 mn (2009: RON 4,403 mn) were partly offset by proceeds from the sale of non-current assets amounting to RON 135 mn (2009: RON 141 mn).

Acquisitions and increases in interests in consolidated subsidiaries less cash acquired caused cash outflows of RON 68 mn (2009: RON 9 mn). **Net cash outflow from investment activities** totaled RON 4,264 mn (2009: RON 4,071 mn).

Cash inflows from the net increase of short-term and long-term borrowings amounted to RON 832 mn (2009: RON 1,164 mn). Cash outflows for dividend payments were below RON 1 mn (2009: RON 15 mn). **Net cash inflow from financing activities** amounted to RON 832 mn (2009: RON 1,149 mn).

**RON 4.3 bn net cash outflow from investment activities**

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

### Enterprise Wide Risk Management system to identify and counteract uncertainties

### Risk management

As an integrated oil and gas company with international operations, Petrom's business extends from hydrocarbon exploration and production and processing through to marketing of oil products and gas. Furthermore, Petrom is on its way to becoming an integrated energy player through its power projects portfolio – the Brazi gas-fired power plant and Dorobantu wind farm.

#### Comprehensive risk management system

The Enterprise Wide Risk Management (EWRM) system in Petrom has been designed to identify and counteract uncertainty through the risk management process. The system comprises a dedicated and representative risk organization working under a robust internal regulation framework, well integrated into the OMV risk management umbrella.

Petrom, as would any blue chip oil and gas company, is continuously reassessing its existing inventory of risks, identifying its new exposures and adding value to the business by properly enforcing the best available and cost efficient countermeasures. Some of the risks currently managed within Petrom's system are focused on market risks, financial risks, project risks, process risks, health safety and security risks, tax risks, compliance risks, personnel risks, legal risks and reputational risks.

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

#### Objectives

The general objective of Petrom's risk management system is to provide a professional risk mitigation process by reducing the uncertainty of Petrom's objectives, through the very best available risk management techniques for securing the sustainability of the organization. Some of the main specific objectives of the system are to closely monitor and safeguard Petrom's exposure to market risk, credit risk, liquidity risks 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 manage and coordinate the risk 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 its objectives, risk perception and 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 managed or treated through the following steps "avoid", "decrease" and/or "accept". 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. Most risks are managed locally in the business units. However, the management of some key risks is strictly governed by corporate directives, for example those relating to health, safety, security and environment, legal matters and compliance, human resources and corporate social responsibility with special emphasis on human rights and market price risks.

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 effects and risk retention. The treatment of risks focuses on reaching the optimal risk balance of the company under economically efficiency constraints.

A special focus is awarded to the market and financial risks such as crude oil price risk, gas price risk, FX risks, interest rate risk, price risk, credit risk, liquidity risk and cashflow risk. These risks are closely monitored by the entire risk organization and treated as high risks. Petrom does not enter into or trade financial instruments, including derivative financial instruments for speculative purposes.

Various financial instruments are used for the purposes of managing exposure to currency, commodity price and interest rate movements, being evaluated at OMV Group level, considering Petrom's needs and being approved by Petrom's Executive Board.

In order to protect the company's cash flow in 2010, Petrom entered into crude oil hedges for a volume of 38,000 bbl/d (approximately 41% of total production) securing a price floor of USD 54/bbl via the sale of a price cap of USD 75/bbl (zero cost collar), whereby the Group would not be able to profit from oil prices above USD 75/bbl in 2010 for the above stated volume.

As part of the continuous examination of options to ensure financial stability, Petrom has decided at the end of January 2011 to hedge part of its crude production for the third consecutive year by entering into oil price swaps, locking in a Brent price of around USD 97/bbl for a production volume of 25,000 bbl/d, which counts for approximately 30% from the planned crude oil production in 2011. Settlement takes place quarterly for the difference between the fixed price and the arithmetic average of the Brent Commodity Reference Price.

With regard to hazard risks, Petrom is an integrated company with a wide asset base, most of these assets being hydrocarbon production and process plants. Therefore relevant hazard risks (e.g. explosions, earthquakes etc.) were identified and incident scenarios were developed and assessed. In addition to the operational preventive and proactive countermeasures, Petrom's policy is to transfer these risks through high rating insurance placements to the international insurance market.

Decision risk wise, in addition to the EWRM process, all executive decisions of the company go through an individual risk assessment process prior to their approval. This way, all executive approvals are made based on a transparent view of the risks associated with each decision.

For any newly identified exposures, the risk management cycle is triggered ad-hoc and the new risk is analyzed, evaluated and mitigated in accordance with the risk management process and company's risk perception.

Regularly, all risks are reported on a Petrom Group consolidated basis for the Executive Board's approval and for the Audit Committee's information. Further, the consolidated Petrom Group regular risk reports are submitted to the OMV Enterprise Operating Risk Committee for including them in the risk profile presented to OMV's Executive Board and Supervisory Board.

## Results

The awareness and understanding of the company's risk profile as well as risk management skills improved substantially throughout Petrom. With regard to tools and techniques, Petrom follows the best international practices in risk management and uses stochastic models (Monte Carlo simulation) to quantify the range of potential deviations from the company's planned cash flow under a 95% confidence level and a 3-year horizon. All risks are analyzed based on their historical trends and volatilities and quantified based on their most likely future estimates.

In 2010, 175 risks were analyzed, evaluated, managed and reported, ten of them representing more than 90% of the total exposure (mainly market price, business processes risks, financial risks).

Petrom being in continuous development, all new business processes are fully integrated in the risk management process, with systematic understanding and analysis of the risks. Based on the consolidated risk report for 2010, the risk profile has been approved by Petrom's Executive Board in accordance with company's risk perception.

**Individual risk assessment for every executive decision**

**10 out of 175 risks evaluated in 2010 represent more than 90% of total exposure**

## Back testing and regular internal audit

### Risk management audit

For a healthy process, Petrom's risk management system uses back testing and is also regularly audited by internal audit. These audit reports are used for the risk management system's benchmarking and steering purposes. Another important role played by the Internal Audit with regard to the risk management process is supporting the quality of the process. This is done by providing assurance services on 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.

### Description of internal control main characteristics

The Supervisory Board is responsible for the Group's system of internal control and for reviewing its 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 control framework in place is designed to manage rather than eliminate the risk of failure to achieve business objectives. It therefore only provides a reasonable assurance against material misstatement or loss. In general, OMV Petrom S.A.'s control framework applies to all the companies where the Company, directly or indirectly, has a controlling interest.

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

For OMV Petrom S.A., an important prerequisite to set a comprehensive set of standards is establishing and maintaining a rigorous Business Management System (BMS) designed so as 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 documentation areas: Business Management Manual, which is a description of the Business Management System and OMV Petrom S.A.'s corporate regulations; a special designated department – Corporate Affairs and Compliance – is responsible for the BMS coordination. This department provides

support to the various entities in view of achieving regulatory requirements, coordinates the elaboration of corporate regulation drafts and provides a quality check, ensures posting of Executive Board approved corporate regulations on OMV Petrom S.A.'s intranet and communicates their enactment. There is a corporate directive in place that sets out the classification, definition and standardized structure of corporate regulations (e.g. instructions, standards, directives, guidelines, recommendations etc.) as well as their elaboration, communication, monitoring and reporting process.

Corporate regulations ensure that appropriate internal controls are designed and implemented for all business cycles, that responsibilities are clearly defined within the organization in order to achieve necessary reviews and checks for all processes within the Group.

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 most important elements of the internal control and risk management system regarding the accounting process consist in the standards for the internal control systems that are defined by internal corporate guidelines.

The Group has an Accounting Manual that is applied consistently in all Group companies in order to ensure consistent 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 – “four



eyes principle” – is applied for business processes with effects in financial reporting, accounting and reporting operations as well as for the set up of the financial statements.

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. The Group uses a comprehensive risk management system. The

essential processes of the financial reporting system have been identified and analyzed. The effectiveness of these processes is evaluated based on a rolling time schedule and benchmarked against best practice (e.g. derivatives, debtors’ management, accounting for fixed assets). In addition, the effectiveness of the risk management system is regularly evaluated by external auditors. The results of the evaluation are reported to the Audit Committee.

**Group-wide standards for preparation of annual and interim financial statements according to IFRS**

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

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

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

The defective wording of stipulations from the Collective Labor Agreement of Petrom resulted in a chain of labor litigations through which several employees requested the payment of bonuses allegedly unpaid to them. These litigations are in progress at various stages, in Bucharest and across the country. Petrom's defence is based on the argument that the respective bonuses were included and maintained in the base salary of the employees, therefore the claims are unjustified. Throughout 2010, Petrom continued to receive claims relating to this matter, although there were fewer claims than in previous years. Following the management 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, was not increased. 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.

**Provision booked in 2008 for litigations on CLA was not increased**

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

The company received notifications regarding the restitution of the assets confiscated by the state between March 6, 1945 and December 22, 1989, which falls under the incidence of the Law no. 10/2001; this law provides the modalities, the terms and the legal framework for the restitution of these assets. The summarized status and the resolutions to these notifications as of December 31, 2010 are the following – 1,126 notifications were transmitted to Petrom, out of which:

- ▶ 16 buildings were restored;
- ▶ 1,075 notifications were rejected;
- ▶ 27 notifications were redirected towards other entities;

- ▶ 8 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 communicated 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 is still in progress the activity of solving notifications within the City Halls' and Prefectures' Commissions, part of the notifications received may be further directed to Petrom.

**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.**

### 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

There are no such agreements and understandings. 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.

### 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 throughout 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**

There are no such agreements or understandings.

**6. The participation of the executive management members in the share capital of the Company**

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

**7. Potential litigations and administrative procedures in which the company's administrators and the members of the Executive Board were involved over the last 5 years**

Petrom does not have knowledge of the existence of such litigation or administrative procedure having a significant impact on the management and operation of the Company.

## Subsequent events

### **Completion of the securities distribution within the buy-back program**

On January 7, 2011, Petrom announced the completion of the securities distribution to the persons entitled to receive free of charge shares issued by S.C. OMV Petrom S.A. in the share buy-back program approved at the Extraordinary General Meeting of Shareholders held on December 16, 2008. The number of securities distributed was 6,133,500 securities out of a purchased total of 6,195,500.

### **Petrom Supervisory Board decisions on March 24, 2011**

#### **Changes in the Supervisory Board**

Given Wolfgang Rutenstorfer's waiver of the mandate as President of the Supervisory Board, Gerhard Roiss, former Vice-president of Petrom Supervisory Board, who is to become CEO of OMV Aktiengesellschaft starting April 1, 2011, was appointed as President of the Supervisory Board starting with March 25, 2011. Likewise, considering that Wolfgang Rutenstorfer's seat becomes vacant, Manfred Leitner was appointed as interim member of the Supervisory Board starting with March 25, 2011 until the next Ordinary General Meeting of Shareholders to be held on April 26, 2011.

#### **Changes in the Executive Board**

Following Supervisory Board's decision to integrate E&P Services business division into E&P business division, the responsibilities corresponding to Siegfried Gugu, Executive Board member responsible for E&P Services are taken over by the Executive Board member responsible for E&P activities, namely Johann Pleininger. Furthermore, the refining and marketing activities will be coordinated at Executive Board level by only one Executive Board member, namely Mr Neil Anthony Morgan. Thus, starting April 17, 2011, OMV Petrom Executive Board will be composed of the remaining five members, appointed for a new period of four years.

#### **Permanently close Arpechim refinery**

In line with Petrom's strategy to maximize the integration value of the company and to increase efficiency, Petrom's Supervisory Board decided

upon the closure of the Arpechim refinery. The sale option, which the company investigated in the past year, is not feasible as no credible buyer was identified that would have the experience and financial resources necessary to safely and sustainably operate the refinery. On the other hand, Arpechim refinery is a challenging investment case considering that it is a landlocked refinery needing to import crude oil and mainly exporting finished products. 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.

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

**Number of EB  
members to be  
reduced to five**



## Outlook for 2011

### Crude price to remain volatile

In 2011, we expect the key market drivers to remain volatile. We anticipate the oil price will trade broadly within a range of USD/bbl 80-100 and envisage a volatile FX environment. The market for refined products is forecast to recover somewhat throughout 2011, driven by improved demand for middle distillates. In Romania, we expect a relatively stable fuels market, in line with the development of the economy.

### Re-launching economic growth

The Romanian economy is expected to come out of recession in 2011. Consumption growth should resume, albeit marginally, as real wage growth is expected to pick up. Consumer purchasing power should increase gradually throughout the year as inflation falls and economic recovery takes hold. Fiscal consolidation should continue in 2011 with public sector reform measures envisaged to take center stage. Political support for the continuation of economic reforms in a pre-election year would be paramount for consolidating the macroeconomic stability.

### Sizeable investments and dividend

In order to support the company's sustainable development and growth potential, we continue our significant investment efforts while maintaining our sound financial position, with CAPEX plans for 2011 above EUR 1 bn. Furthermore, based on the strong 2010 preliminary results and financial position, the management will propose at the General Meeting of Shareholders on April 26, an annual dividend of RON 0.0177 per share for 2010, corresponding to a payout ratio of 46%. The Company's investment budget and dividend allocation are subject to further approval by the General Meeting of Shareholders, in April 2011.

In order to protect the company's cash flow in 2011 and support this year's investment program, Petrom 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. These hedged volumes are covered until the end of 2011. At Petrom, we set as top priority to strive for high HSEQ standards including zero fatalities and to continue reducing the LTI rate.

### E&P focus: largely offset natural decline and unlock potential

In **E&P**, we will continue our efforts to largely offset the natural decline of our production assets whilst further pursuing strict cost management measures. The investment program will concentrate on drilling of development and production wells, surface facilities replacement, well workovers and optimization of water injection facilities. In addition, a key focus will be on further progressing the integrated field redevelopment projects of selected key fields with engineering and implementation of the most advanced projects. After the successful start-up of our Hurezani gas delivery system, we will continue our progress by launching a major initiative to optimize the gas production systems in the Southwestern region of Romania. The joint venture with ExxonMobil in the deepwater Neptun Block will enter a phase when the decision will be made on deepwater drilling. In 2011, we aim to maintain the reserves replacement rate in Romania at 70% through continuous revisions of mature fields and implementation of modern reservoir management techniques at field level. Nonetheless, in 2011 we aim to complete the integration of E&P Services with E&P. In Kazakhstan, we will continue to further develop the Komsomolskoe field where we expect increased production levels following the measures taken to address start-up difficulties there.

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

In **R&M**, given the current economic environment together with the medium-term industry outlook, we will continue to pursue flexible asset utilization and to drive incremental improvements from downstream modernization. No major shutdown is scheduled for our Petrobrazî refinery. Here, we aim to optimize utilization and to pursue the investment program, progressing with the modernization of the crude and vacuum distillation unit in order to begin operations in 2012. We do not expect to resume operations at our Arpechim refinery. In line with our strategic directions, we aim at finalizing the business solution for Arpechim in order to implement

### E&P focus in 2011

### R&M focus in 2011

**G&P focus  
in 2011**

the divestment plans for the refinery by 2012 at the latest. We will continue to consolidate our position in the market by further optimizing our retail filling station network and by becoming a comprehensive service provider.

**G&P: start of operations in the power business in H2/11**

In the **G&P** business, our focus is on successfully commissioning the two power plants currently under construction, marking the operational entry in the power business. The wind power plant Dorobantu and the combined cycle gas fired power plant at Brazi are both scheduled to begin commercial operation in the second half of 2011. As both projects will still only be in the start-up phase in 2011, we do not expect a material contribution from the Power business this year. On January 19, ANRE, MECMA and ANRM jointly issued an order enforcing the gas basket

consumption to internal non-technological usage that will also include our power project in Brazi. However, we do not expect it to have a material impact on our Group results in 2011. In line with our business principles, we are observing this regulation. However, we have taken all legal steps in order to contest the legality of the Order, which contradicts the Romanian Gas Law, European legislation and EU Internal Market principles. At the end of 2010, the gas price for domestic producers in Romania stood at around 40% of the imported gas price. Considering the current public statements based on the discussions between the Romanian Government and IMF/ EU, a draft schedule to liberalize the Romanian gas market – likely to positively affect the domestic gas price – is expected to be agreed in 2011. We expect total gas consumption in Romania to slightly decrease in 2011, due to reduced demand from the fertilizer industry.

# Corporate Governance Report

To remain competitive in a changing world, OMV Petrom S.A. (the "Company") 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 attached great importance to the principles of good corporate governance and, starting with the 2010 financial year, adheres to the Bucharest Stock Exchange Code of Corporate Governance.

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 the law. The date of

the Meeting 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 General Meeting of the Shareholders. The convening notice will be disseminated to the Bucharest Stock Exchange and the National Securities Commission in accordance with the capital markets regulations. The convening notice will also be made available on the Company's website under the respective General Meeting of Shareholders menu, together with any explanatory document related to items included on the General Meeting of Shareholders agenda. The annual financial statements are made available starting with the date of the convening notice of the Ordinary General Meeting of Shareholders convened to resolve upon them.

## **General Meeting of Shareholders organization**

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

The resolutions of the General Meeting of Shareholders 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 the capital market regulations, the resolutions of the General Meeting of Shareholders will be disseminated to the Bucharest Stock Exchange and the National Securities Commission within 24

**Commitment to  
good corporate  
governance**

## GMS main duties

hours after the event. The resolutions will also be made available on the Company's website under the respective General Meeting of Shareholders menu.

### General Meeting of Shareholders main duties

The main duties of the Ordinary General Meeting of Shareholders 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 the law;
- ▶ to approve the income and expenditure budget, as well as the business program for the next fiscal year;
- ▶ to approve the reports of the Supervisory Board with respect to the supervision activity performed by it;

The Extraordinary General Meeting of Shareholders 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 consists of nine members

elected by the Ordinary General Meeting of Shareholders in accordance with the provisions of the Company Law. The Supervisory Board's current mandate started in 2009 and runs until 2013. The members of the Supervisory Board may be shareholders of the Company, but they cannot be members of the Executive Board.

### Supervisory Board members

At the end of the 2010 financial year the Supervisory Board members were:

Wolfgang Ruttenstorfer – President of the Supervisory Board. He is a member of the corporate bodies of the Company since 11 January 2005.

Gerhard Roiss – Deputy of the Supervisory Board. He is a member of the corporate bodies of the Company since 11 January 2005.

David C. Davies – member of the Supervisory Board. He is a member of the corporate bodies of the Company since 11 January 2005.

Jacobus Gerardus Huijskes – member of the Supervisory Board. He was appointed as member of the Supervisory Board on August 3, 2010, replacing Helmut Langanger.

Werner Auli – member of the Supervisory Board. He is a member of the corporate bodies of the Company since 25 April 2006.

Marian Țurlea – member of the Supervisory Board. He is a member of the Supervisory Board since April 28, 2009.

Gheorghe Ionescu – member of the Supervisory Board. He is a member of the Supervisory Board since April 28, 2009.

Joseph Bernard Mark Mobius – member of the Supervisory Board. He was appointed as member of the Supervisory Board on April 29, 2010, replacing Daniel Costea.

Riccardo Puliti – member of the Supervisory Board. He is a member of the Supervisory Board since April 28, 2009.



### 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 the 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 the relevant internal regulations.

As required by the Company Law, none of the Supervisory Board members holds an executive position in the Company. During the 2010 financial year, the Supervisory Board met eight times (more details 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 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 General Meeting of Shareholders, 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 General Meeting of Shareholders.

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 General Meeting of Shareholders. 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 the Company Law, the Audit Committee includes members that have the necessary expertise in the area of financial audit and accounting.

During the 2010 financial year the Audit Committee members were: David C. Davies, Gerhard Roiss, Gheorghe Ionescu and Riccardo Puliti.

Three meetings of the Audit Committee were held during the year under review (more details presented under 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

**Audit Committee provides assistance to the governing bodies on internal control and financial reporting**

**EB members  
presentation**

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 2007 and runs until 2011 (please refer to page 86, section "Subsequent Events"). 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 2010 financial year the Executive Board members were:

Mariana Gheorghe – President of the Executive Board and Chief Executive Officer of the Company. She is member of the Executive Board of the Company since 2006.

Reinhard Pichler – Member of the Executive Board and Chief Financial Officer of the Company. Since January 1, 2011, he has been replaced by Daniel Turnheim.

Johann Pleininger – Member of the Executive Board in charge of Exploration and Production. He is member of the Executive Board of the Company since 2007.

Rainer Schlang – Member of the Executive Board in charge of Marketing. He was appointed as member of the Executive Board in charge with Marketing on February 1, 2010, replacing Tamas Mayer.

Gerald Kappes – Member of the Executive Board in charge of Gas, Power and Chemicals. Since January 1, 2011 he has been replaced by Hilmar Kroat-Reder.

Siegfried Gugu – Member of the Executive Board in charge of Exploration and Production Services. He is member of the Executive Board of the Company since 2008.

Neil Anthony Morgan - Member of the Executive Board in charge of Refining. He was appointed

as member of the Executive Board in charge of Refining on March 18 2008, replacing Jeffrey Earle Rinker.

**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:

- ▶ 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 to 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 the 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 the 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, the strategy implementation, the

risk situation and the risk management in 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 meet the requirements of the Company.

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.

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

In 2010, 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 the 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 General Meetings of Shareholders and to be informed of the rules, including voting procedures that govern the General Meetings of Shareholders.

Petrom observes the one share, one vote, one dividend principle. There are no shares conferring the right to more than one vote or preference shares.

Shareholders holding at least 5% of the share capital may ask for calling of a General Meeting of Shareholders. Such shareholders have also the right to add new items on the agenda of a General Meeting of Shareholders, provided such proposals to be 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 General Meeting of Shareholders can be submitted at the headquarters of the Company, or by e-mail having attached an extended electronic signature, in compliance with the Law no. 455/2001 on digital signature.

Likewise, the shareholders holding at least 5% of the share capital are entitled to submit draft

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

**GMS calling**

resolutions for the items listed on the agenda or proposed by other shareholders to be added on the agenda of such General Meeting of Shareholders.

#### **GMS attendance**

The Company actively promotes the participation of its shareholders in the General Meetings of Shareholders, 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 General Meetings of Shareholders 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 General Meetings of Shareholders, 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 General Meetings of Shareholders, provided that such questions be 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 General Meeting of Shareholders 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 interest of our shareholders.

#### **Women's advancement**

The Company supports gender diversity and promotion of women in management positions. While there are no female members of the Supervisory Board of the Company, the President of the Executive Board is Mariana Gheorghe. Likewise, around 30% of the first line directors Executive Board are women. Given the strong technical bias of our operations, the proportion of women in the Group as a whole is about 23%, in line with that of the OMV Group, of which we are a part.

#### **Bucharest Stock Exchange Code of Corporate Governance**

The Company adheres to the Bucharest Stock Exchange Code of Corporate Governance starting from the 2010 financial year. The details about the compliance with the principles and recommendations stipulated under the Bucharest Stock Exchange Code of Corporate Governance are presented in the "Comply or Explain" Statement, which is a part of the 2010 Annual Report.



### Statement "Comply or Explain"

#### Bucharest Stock Exchange Corporate Governance Code

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

| Principle / Recommendation |           | Question   | YES | NO | Please EXPLAIN   |
|----------------------------|-----------|--|-----|----|--|
| <b>P19</b>                 |           | Is the Issuer managed in a two tier system?  | ✓   |    | As of April 2007, Petrom is managed in a two-tier system by an Executive Board, which manages the daily operations under the supervision and control of the Supervisory Board, appointed by the shareholders.  |
| <b>P1</b>                  | <b>R1</b> | Has the Issuer drawn up a Statute/Corporate Governance Regulation which describes the main aspects of the corporate governance?  | ✓   |    | 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 Articles of Association are posted on the website of the Issuer and it mentions the date when last updated. Likewise, upon the issuance thereof, the Corporate Governance Statute is posted on the website of the Issuer and a note is made with respect to its issuance date. |
|                            | <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 detailed in the Corporate Governance Statute.                              |
|                            | <b>R3</b> | Has the Annual Report of the Issuer a chapter referring to corporate governance which describes all the relevant events related to the corporate governance registered in the previous financial year? | ✓   |    | Petrom's 2010 Annual Report has a chapter describing all the relevant events related to the corporate governance registered in the previous 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:<br>a) a description of Issuer's corporate governance structures?  | ✓   |    | Petrom's website has a special section where there are posted details about corporate governance bodies along with the short version of the CV of the members of these bodies.           |
|                            |    | 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 will be posted on Petrom's website, the present one being the first of its kind.  |
|                            |    | 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 there are posted short versions of the CVs of the members of the corporate bodies.   |
| 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"):<br>a) The GMS convening notice?  | ✓   |    | Petrom's website has a special section where there are posted the GMS convening notices.   |
|                            |    | 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 there are posted materials/ documents/ any other information relating to the items on the agenda of the GMS.  |
|                            |    | 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 express freely 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 detailed 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 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 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 the 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) of all shareholders through the special section on the Issuer's website:<br>a) the resolutions passed by the GMS?  | ✓   |    | Petrom's website has a special section where there are posted in due time the resolutions passed by the GMS.   |
|                            |    | b) the detailed results of the voting?   | ✓   |    | Petrom's website has a special section where detailed results of the voting are posted in due time.  |

| Principle / Recommendation |            | Question   | YES | NO | Please EXPLAIN  |
|----------------------------|------------|--|-----|----|---|
| <b>P3</b>                  | <b>R8</b>  | Does the Issuer disseminate through the special section of the Issuer's website, which is easily identifiable and accessible:<br><br>a) ad-hoc reports/official statements?  | ✓   |    | Petrom's website has a special section which is easy to find and where ad-hoc reports and official statements are posted in due time.   |
|                            |            | b) the financial calendar, the annual, quarter and half year reports?  | ✓   |    | Petrom's website has a special section which is easy to find and where the financial calendar and periodical reports are posted in due time.  |
|                            | <b>R9</b>  | Has the Issuer set-up a special department or has appointed a person dedicated to the relation with the 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  |
| <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 is necessary, but at least once every three months. In 2010, the SB met five times in person and passed resolutions by circulation on other three 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 the 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 own account disclosed via the 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 hosts a dedicated section to Insider Trading where transactions reported by the Insiders to the Compliance Officer are disclosed. |



| Principle / Recommendation |            | Question  | YES | NO | Please EXPLAIN   |
|----------------------------|------------|---|-----|----|--|
| <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 monitor and control the activity of the seven 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 Supervisory Board structure observes the provisions of Company Law no. 31/1990 on the number of independent members of the Supervisory Board.  |
| <b>P8</b>                  | <b>R15</b> | In the course of its activity, is the Supervisory Board supported by any consultative commissions/ committees nominated by the Supervisory Board, which deal with the analysis of some specific subjects in order to counsel the Supervisory Board on such topics?        | ✓   |    | The Supervisory Board has the support of the Audit Committee.  |
|                            |            | 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 them.   |
|                            | <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 the Supervisory Board independence are those mentioned in Company Law no. 31/1990, which are substantially similar to those provided by Recommendation 16.                                 |

| Principle / Recommendation |            | Question  | YES | NO | Please EXPLAIN   |
|----------------------------|------------|---|-----|----|--|
| <b>P8</b>                  | <b>R17</b> | Do Executive Board members permanently improve their knowledge through training/ information in the corporate governance field?   | ✓   |    | The Executive Board members do permanently improve their corporate governance knowledge via training/ roundtable discussion meant to make their whole management activity and Petrom's activity to match all corporate governance principles. The CEO is also President of the Corporate Governance Institute at the Bucharest Stock Exchange. |
| <b>P9</b>                  |            | Is the appointment of the Supervisory Board members based on a transparent procedure (objective criteria regarding personal/professional qualifications etc.)?                    | ✓   |    | The Supervisory Board members are appointed by the GSM, based on a transparent procedure of appointment and with the majority of votes of the shareholders, as mentioned in the Issuer's Articles of Association and applicable law. Prior to the GSM, their CV is available for the shareholders for consultation.                            |
| <b>P10</b>                 |            | Is a Nomination Committee within the Issuer set-up?   |     | ✓  | Petrom will assess the opportunity to establish a dedicated Nomination Committee.  |
| <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 established by the GMS. Petrom is in the process of assessing the set up of this Remuneration Committee.  |
|                            |            | Is the remuneration policy approved by the GMS?   |     | ✓  | Please see above   |
|                            | <b>R22</b> | Is there a Remuneration Committee made exclusively of non-executive members of the Supervisory Board?   |     | ✓  | Please see above   |
|                            | <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  |
|----------------------------|-----|--|-----|----|---|
| 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 IFRS standards?  | ✓   |    | Petrom prepared and disclosed first time consolidated financial statements in accordance with IFRS for the year ended December 31, 2006. Starting 2010, Petrom also reports on a quarterly basis consolidated financial statements according with 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 the view to presenting the financial elements relevant for investment decision.   |
|                            | 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  |
|----------------------------|------------|--|-----|----|---|
| <b>P12, P13</b>            | <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 includes exclusively non-executive members of the corporate bodies and a sufficient number of independent members of the Supervisory Board, as mentioned in the 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 year and annual financial statements?  | ✓   |    | Petrom's Audit Committee meets at least quarterly in order to review significant accounting and reporting issues and underline their impact 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? | ✓   |    | Petrom's Audit Committee makes proposals to the Supervisory Board regarding the selection, the appointment, the re-appointment and the replacement of the financial auditor, as well as the terms and conditions of its remuneration. |
| <b>P14</b>                 |            | Has the Issuer approved a procedure with the view to identify and to settle any conflicts of interest?   | ✓   |    | The Issuer has an internal procedure 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 the conflicts of interests as they occur and do they refrain from the debates and the vote on such matters, according to the relevant legal provisions?      | ✓   |    | Petrom explicitly brings to the attention of the Supervisory Board members the internal rules for the Supervisory Board which spell out these two requirements.   |



| Principle / Recommendation |                 | Question  | YES | NO | Please EXPLAIN  |
|----------------------------|-----------------|---|-----|----|---|
| <b>P16</b>                 | <b>R34/ R35</b> | 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 such internal regulations and submits monthly reports on transactions with related parties to the National Securities Commission and to the Buchares Stock Exchange. The specific procedure is also covered in the Corporate Governance Statute. |
| <b>P17</b>                 | <b>R36</b>      | Has the Issuer approved a procedure regarding the internal flow and the disclosure to third parties of the documents and information referring to the Issuer, considering especially the inside information?  | ✓   |    | Petrom has such internal regulations.   |
| <b>P18</b>                 | <b>R37/ R38</b> | Does the Issuer carry on activities regarding the Issuer's social and environmental responsibility?   | ✓   |    | Petrom conducts various activities regarding social and environmental responsibility, many of them publicly known.  |

## Consolidated companies in Petrom Group at December 31, 2010

|  |                     |
|--|---------------------|
| <b>Parent company</b>                              |                     |
| OMV Petrom S.A.                                    |                     |
| <b>Subsidiaries</b>                                |                     |
|  | Equity interest (%) |
| <b>Exploration &amp; Production</b>                |                     |
| Tasbulat Oil Corporation LLP (Kazakhstan)          | 100.00              |
| Korned LLP (Kazakhstan)                            | 100.00              |
| Kom Munai LLP (Kazakhstan)                         | 95.00               |
| Petrom Exploration & Production Ltd.               | 50.00               |
| <b>Gas &amp; Power</b>                             |                     |
| OMV Petrom Gas S.R.L. <sup>2</sup>                 | 99.99               |
| Petrom Distributie Gaze S.R.L.                     | 99.99               |
| Wind Power Park S.R.L.                             | 99.99               |
| <b>Refining &amp; Marketing</b>                    |                     |
| OMV Petrom Marketing S.R.L. (Romania) <sup>1</sup> | 100.00              |
| Aviation Petroleum S.R.L. (Romania)                | 100.00              |
| Petrom Aviation S.A. (Romania)                     | 100.00              |
| 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               |
| <b>Corporate &amp; Other</b>                       |                     |
| Petromed Solutions S.R.L.                          | 99.99               |

<sup>1</sup> Formerly named OMV Romania Mineraloel S.R.L. (name changed as of March 17, 2010)

<sup>2</sup> Formerly named Petrom Gas S.R.L. (name changed as of March 1, 2010)

|  |                     |
|--|---------------------|
| <b>Associated company, accounted for at equity</b> | Equity interest (%) |
| Congaz S.A. (Romania)                              | 28.59               |

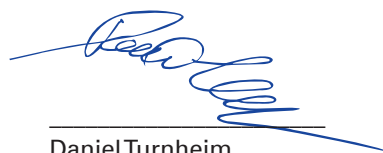
## Declaration of the management

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, 2010, and their financial performance and their 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, 2011  
The Executive Board



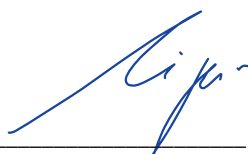
Mariana Gheorghe  
Chief Executive Officer  
and President of the EB



Daniel Turnheim  
Chief Financial Officer



Johann Pleiniger  
Responsible for E&P



Siegfried Gugu  
Responsible for E&P Services



Hilmar Kroat-Reder  
Responsible for G&P



Neil Anthony Morgan  
Responsible for Refining



Rainer Schlang  
Responsible for Marketing

## Abbreviations and definitions

|                  |   |
|------------------|---|
| bbbl             | Barrel  |
| bbbl/d           | Bbl per day   |
| bcf              | Billion standard cubic feet   |
| bcm              | Billion cubic meters  |
| bn               | Billion   |
| boe              | Barrels of oil equivalent   |
| boe/d            | Boe per day   |
| BSE              | Bucharest Stock Exchange  |
| CAPEX            | Capital Expenditure   |
| Capital employed | Equity + (Financial Current liabilities + Financial Non-current liabilities – Cash)   |
| cbm              | Cubic meter   |
| CCPP             | Combined cycle power plant  |
| CGC              | Code of Corporate Governance  |
| CH <sub>4</sub>  | Methane   |
| CLA              | Collective Labor Agreement  |
| CO <sub>2</sub>  | Carbon Dioxide  |
| CSR              | Corporate social responsibility   |
| CV               | Curriculum Vitae  |
| E&P              | Exploration and Production  |
| EB               | Executive Board   |
| EBIT             | Earnings Before Interest and Taxes  |
| EBRD             | European Bank for Reconstruction and Development  |
| EIB              | European Investment Bank  |
| EU, EUR          | European Union, euro  |
| EGMS             | Extraordinary General Meeting of Shareholders   |
| Equity ratio     | Stockholders' equity divided by balance sheet total expressed as a percentage   |
| G&P              | Gas and Power   |
| Gearing ratio    | Net debt divided by stockholders' equity express as a percentage  |
| GDP              | Gross Domestic Production   |
| GHG              | Green House Gas   |
| GMS              | General Meeting of Shareholders   |
| HR               | Human Resources   |
| HSE/HSSE         | Health, Safety, Security and Environment  |
| HSEQ             | Health, Safety, Security, Environment and Quality   |
| HFO              | Heavy Fuel Oil  |
| IFRS             | International Financial Reporting Standards   |
| INERGEN          | A trademarked fire suppression product of Ansul Corporation. Inergen is a blend of inert atmospheric gases that contains 52% nitrogen, 40% argon, 8% carbon dioxide [ref: Ansul Inergen MSDS Form F-9313-7]. It is considered a clean agent for use in gaseous fire suppression applications. Inergen does not contain halocarbons, and has no ozone depletion potential. It is non-toxic. Inergen is used at design concentrations of 40-50% to lower the concentration of oxygen to a point that cannot support combustion. |
| ISO 9001         | International standard for Quality management systems   |
| ISO 14001        | International standard for Environmental management systems   |
| IT               | Information Technology  |
| kt               | Thousand tonnes   |
| km               | kilometers  |
| LPG              | Liquefied Petroleum Gas   |
| LTIR             | Lost time injury rate   |
| 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   |
| NGO             | NonGovernmental Organization  |
| NOPAT           | Net Operating Profit After Taxes = Net income + (Interest Expense – Interest income)*(1-tax rate)         |
| NO <sub>x</sub> | Nitrous oxides  |
| NO <sub>2</sub> | Nitrogen dioxide  |
| OGMS            | Ordinary General Meeting of Shareholders  |
| OHSAS 18001     | International Occupational Health and Safety Assessment management system specification                   |
| OPEC            | Organization of Petroleum Exporting Countries   |
| PJ              | Petajoule = 1015Joule   |
| Q               | Quarter   |
| R&M             | Refining and Marketing  |
| ROACE           | Return On Average Capital Employed = NOPAT / Average Capital Employed                                     |
| RON             | New Romanian Leu  |
| SB              | Supervisory Board   |
| SO <sub>2</sub> | Sulfur dioxide  |
| S.A.            | JSC - Joint stock company (Societate pe Actiuni)  |
| S.R.L.          | Ltd - Limited liability company (Societate cu Raspundere Limitata)  |
| t               | Tonnes  |
| VAT             | Value added tax   |
| toe             | Tonnes of oil equivalent  |
| yoy             | Year-on-year  |

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Comprehensive and reliable reporting.







## Independent auditor's report

To the Supervisory Board and the shareholders  
of S.C. OMV Petrom S.A.  
Bucharest, Romania

### Report on the consolidated financial statements

1. We have audited the accompanying consolidated financial statements of S.C. OMV Petrom S.A. and its subsidiaries ("the Group") as at December 31, 2010 which comprise the consolidated statement of financial position, the consolidated income statement, consolidated comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### Management's responsibility for the consolidated financial statements

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

#### Auditor's 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 whether the consolidated financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 balance sheet 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 entities' 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 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 S.C. OMV Petrom S.A. and its subsidiaries as of December 31, 2010, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by European Union.

#### Other matters

7. This report is made solely to shareholders of the Group companies, as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and the shareholders of the Group companies as a body, for our audit work, for this report, or for the opinion we have formed.

## Report on conformity of the Directors' report with the consolidated financial statements

In accordance with the Order of the Minister of Public Finance no. 3055/2009 with the subsequent amendments, article no. 318 point 2) we have read the Annual Report that includes the Directors' Report accompanying the consolidated financial statements. 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.



Deloitte Audit S.R.L.  
Bucharest,  
March 24, 2011



**S.C. OMV PETROM S.A. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2010**  
(all amounts are expressed in million RON, unless otherwise specified)

|  | Notes     | December 31,<br>2009 | December 31,<br>2010 |
|--|-----------|----------------------|----------------------|
| <b>ASSETS</b>  |           |                      |                      |
| Intangible assets  | 5         | 1,360.06             | 1,369.49             |
| Property, plant, equipment                                 | 6         | 21,430.58            | 23,777.15            |
| Investment in associated companies                         | 7         | 36.22                | 40.65                |
| Other financial assets                                     | 8         | 2,298.20             | 2,492.84             |
| Other assets   | 9         | 102.53               | 45.23                |
| <b>Non-current assets</b>                                  |           | <b>25,227.59</b>     | <b>27,725.36</b>     |
| <b>Deferred tax assets</b>                                 | <b>17</b> | <b>712.60</b>        | <b>734.11</b>        |
| Inventories  | 10        | 2,582.69             | 2,500.12             |
| Trade receivables  | 9         | 1,047.74             | 1,397.98             |
| Other financial assets                                     | 8         | 227.11               | 138.72               |
| Other assets   | 9         | 284.58               | 603.08               |
| Cash and cash equivalents                                  |           | 384.00               | 1,588.60             |
| Assets held for sale                                       | 11        | 60.33                | 77.29                |
| <b>Current assets</b>                                      |           | <b>4,586.45</b>      | <b>6,305.79</b>      |
| <b>Total assets</b>  |           | <b>30,526.64</b>     | <b>34,765.26</b>     |
| <b>EQUITY AND LIABILITIES</b>                              |           |                      |                      |
| Capital stock  | 12        | 18,983.37            | 18,983.37            |
| Reserves   |           | (2,803.84)           | (497.79)             |
| <b>Stockholders' equity</b>                                |           | <b>16,179.53</b>     | <b>18,485.58</b>     |
| Non-controlling interests                                  |           | 11.30                | (26.54)              |
| <b>Equity</b>  |           | <b>16,190.83</b>     | <b>18,459.04</b>     |
| Provisions for pensions and similar obligations            | 13        | 283.07               | 297.16               |
| Interest bearing debts                                     | 14        | 2,810.45             | 3,465.51             |
| Provisions for decommissioning and restoration obligations | 13        | 5,564.28             | 5,917.85             |
| Other provisions   | 13        | 786.43               | 842.32               |
| Other financial liabilities                                | 15        | 122.48               | 178.38               |
| <b>Non-current liabilities</b>                             |           | <b>9,566.71</b>      | <b>10,701.22</b>     |

The notes on pages 119 to 163 form part of these consolidated financial statements.

|                                     | Notes     | December 31,<br>2009 | December 31,<br>2010 |
|-------------------------------------|-----------|----------------------|----------------------|
| <b>Deferred tax liabilities</b>     | <b>17</b> | <b>62.14</b>         | <b>26.70</b>         |
| Trade payables                      |           | 2,295.41             | 3,453.35             |
| Interest-bearing debts              | <b>14</b> | 187.52               | 391.05               |
| Provisions for income taxes         | <b>13</b> | 111.01               | 214.64               |
| Other provisions                    | <b>13</b> | 928.19               | 739.07               |
| Other financial liabilities         | <b>15</b> | 657.06               | 302.10               |
| Other liabilities                   | <b>16</b> | 527.77               | 478.09               |
| <b>Current liabilities</b>          |           | <b>4,706.96</b>      | <b>5,578.30</b>      |
| <b>Total equity and liabilities</b> |           | <b>30,526.64</b>     | <b>34,765.26</b>     |

These consolidated financial statements were approved on March 24, 2011.



Mariana Gheorghe  
Chief Executive Officer



Daniel Turnheim  
Chief Financial Officer



Johann Pleininger  
E.B. Member E&P



Siegfried Gugu  
E.B. Member E&P Services



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



Neil Morgan  
E.B. Member Refining



Rainer Schlang  
E.B. Member Marketing



Siegfried Ehn  
Director Corporate Finance



Alina Popa  
Head of Corporate Financial  
Reporting

The notes on pages 119 to 163 form part of these consolidated financial statements.

**S.C. OMV PETROM S.A. AND SUBSIDIARIES**  
**CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2010**  
(all amounts are expressed in million RON, unless otherwise specified)

|   | Notes | December 31,<br>2009 | December 31,<br>2010 |
|---|-------|----------------------|----------------------|
| Sales revenues                                      |       | 16,089.73            | 18,615.69            |
| Direct selling expenses                             |       | (364.02)             | (436.61)             |
| Production costs of sales                           |       | (11,256.27)          | (12,790.98)          |
| <b>Gross profit</b>                                 |       | <b>4,469.44</b>      | <b>5,388.10</b>      |
| Other operating income                              | 18    | 408.70               | 513.85               |
| Selling expenses                                    |       | (1,277.45)           | (1,218.63)           |
| Administrative expenses                             |       | (225.34)             | (231.17)             |
| Exploration expenses                                |       | (274.60)             | (186.59)             |
| Other operating expenses                            | 19    | (1,480.28)           | (1,280.05)           |
| <b>Earnings before interest and taxes</b>           | 20    | <b>1,620.47</b>      | <b>2,985.51</b>      |
| Income from associated companies                    | 21    | 6.07                 | 6.72                 |
| Net interest expense                                | 22    | (416.01)             | (537.00)             |
| Other financial income and expenses                 | 23    | (41.11)              | 150.09               |
| <b>Net financial result</b>                         |       | <b>(451.05)</b>      | <b>(380.19)</b>      |
| <b>Profit from ordinary activities</b>              |       | <b>1,169.42</b>      | <b>2,605.32</b>      |
| Taxes on income                                     | 24    | (336.14)             | (415.67)             |
| <b>Net income for the year</b>                      |       | <b>833.28</b>        | <b>2,189.65</b>      |
| <b>thereof attributable to owners of the parent</b> |       | <b>860.24</b>        | <b>2,201.22</b>      |
| thereof attributable to non-controlling interests   |       | (26.96)              | (11.57)              |
| <b>Basic earnings per share in RON</b>              | 25    | <b>0.0152</b>        | <b>0.0389</b>        |

The notes on pages 119 to 163 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, 2010

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

|   | Notes | December 31,<br>2009 | December 31,<br>2010 |
|---|-------|----------------------|----------------------|
| <b>Net income for the year</b>                                    |       | <b>833.28</b>        | <b>2,189.65</b>      |
| Exchange differences from translation of foreign operations       |       | 26.40                | (39.12)              |
| Unrealized gains/ (losses) on available-for-sale financial assets |       | 15.20                | -                    |
| Unrealized gains/ (losses) on hedges                              |       | (789.97)             | 215.00               |
| Income tax relating to components of other comprehensive income   |       | 123.96               | (34.40)              |
| <b>Other comprehensive income for the year, net of tax</b>        |       | <b>(624.41)</b>      | <b>141.48</b>        |
| <b>Total comprehensive income for the year</b>                    |       | <b>208.87</b>        | <b>2,331.13</b>      |
| <b>thereof attributable to owners of the parent</b>               |       | <b>232.29</b>        | <b>2,349.68</b>      |
| thereof attributable to non-controlling interests                 |       | (23.42)              | (18.55)              |

These consolidated financial statements were approved on March 24, 2011.



Mariana Gheorghe  
Chief Executive Officer



Daniel Turnheim  
Chief Financial Officer



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Siegfried Ehn  
Director Corporate Finance



Alina Popa  
Head of Corporate Financial Reporting

The notes on pages 119 to 163 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, 2010**

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

**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     |
|---|------------------|-------------------|---------------------------|--------------------------------------|----------------|-----------------|----------------------|---------------------------|------------------|
| <b>Balance at January 1, 2010</b>       | <b>18,983.37</b> | <b>(2,756.64)</b> | <b>(180.60)</b>           | <b>137.53</b>                        | <b>(4.13)</b>  | <b>-</b>        | <b>16,179.53</b>     | <b>11.30</b>              | <b>16,190.83</b> |
| 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)          |
| <b>Balance at December 31, 2010</b>     | <b>18,983.37</b> | <b>(555.42)</b>   | <b>-</b>                  | <b>62.26</b>                         | <b>(4.61)</b>  | <b>(0.02)</b>   | <b>18,485.58</b>     | <b>(26.54)</b>            | <b>18,459.04</b> |

Note: For details on reserves, please see Note 12.

**Consolidated statement of changes in equity for the year ended December 31, 2009**

|   | Share capital    | Revenue reserves  | Cash flow hedging reserve | Foreign currency translation reserve | Other reserves | Treasury shares | Stockholders' equity | Non-controlling interests | Total equity     |
|---|------------------|-------------------|---------------------------|--------------------------------------|----------------|-----------------|----------------------|---------------------------|------------------|
| <b>Balance at January 1, 2009</b>       | <b>18,983.37</b> | <b>(3,616.88)</b> | <b>482.97</b>             | <b>114.67</b>                        | <b>(19.25)</b> | <b>-</b>        | <b>15,944.88</b>     | <b>44.87</b>              | <b>15,989.75</b> |
| Total comprehensive income for the year | -                | 860.24            | (663.57)                  | 22.86                                | 12.76          | -               | 232.29               | (23.42)                   | 208.87           |
| Dividend distribution                   | -                | -                 | -                         | -                                    | -              | -               | -                    | (0.07)                    | (0.07)           |
| Change in non-controlling interests     | -                | -                 | -                         | -                                    | 2.36           | -               | 2.36                 | (10.08)                   | (7.72)           |
| <b>Balance at December 31, 2009</b>     | <b>18,983.37</b> | <b>(2,756.64)</b> | <b>(180.60)</b>           | <b>137.53</b>                        | <b>(4.13)</b>  | <b>-</b>        | <b>16,179.53</b>     | <b>11.30</b>              | <b>16,190.83</b> |

Note: For details on reserves, please see Note 12.

The notes on pages 119 to 163 form part of these consolidated financial statements.



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

CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

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

|  | Notes  | December 31,<br>2009 | December 31,<br>2010 |
|--|--------|----------------------|----------------------|
| <b>Cash flow from operating activities</b>                                       |        |                      |                      |
| <b>Profit before taxation</b>  |        | <b>1,169.42</b>      | <b>2,605.32</b>      |
| <b>Adjustments for:</b>  |        |                      |                      |
| Interest expenses  | 22, 23 | 216.24               | 219.40               |
| Interest income  | 22     | (94.22)              | (58.28)              |
| Net movement in provisions for:  |        |                      |                      |
| - Financial assets   |        | 5.11                 | (0.62)               |
| - Inventories  |        | 47.23                | 19.06                |
| - Receivables  |        | 52.03                | (119.78)             |
| - Pensions and similar liabilities   |        | 31.61                | 14.09                |
| - Decommissioning and restoration obligations                                    |        | 231.20               | 50.36                |
| - Other provisions for risk and charges  |        | (588.43)             | (288.48)             |
| Write off of receivables and other similar items                                 |        | 63.33                | 248.78               |
| Income from investments in associates  | 21     | (3.21)               | (4.43)               |
| (Gain)/ Loss on disposal of subsidiaries   |        | -                    | (30.90)              |
| Cash flow hedge recycled through income statement                                |        | 196.65               | (196.65)             |
| Gain on disposals of fixed assets  |        | (72.00)              | (8.71)               |
| (Gain)/ Loss on disposals of financial assets                                    |        | (0.26)               | (0.77)               |
| Depreciation, amortization and impairment expense                                |        | 2,466.27             | 2,811.62             |
| Other non cash items   |        | (1.17)               | (196.23)             |
| <b>Cash generated from operating activities before working capital movements</b> |        | <b>3,719.80</b>      | <b>5,063.78</b>      |
| (Increase)/ decrease in inventories  |        | 128.99               | 4.01                 |
| (Increase)/ decrease in receivables and other assets                             |        | (147.55)             | (523.01)             |
| Increase/ (decrease) in liabilities  |        | (652.48)             | 559.36               |
| Interest received  |        | 94.22                | 56.36                |
| Interest paid  |        | (122.91)             | (165.08)             |
| Tax on profit paid   |        | (293.91)             | (365.60)             |
| <b>Net cash generated from operating activities</b>                              |        | <b>2,726.16</b>      | <b>4,629.82</b>      |

The notes on pages 119 to 163 form part of these consolidated financial statements.

|   | Notes | December 31,<br>2009 | December 31,<br>2010 |
|---|-------|----------------------|----------------------|
| <b>Cash flow from investment activities</b>                                 |       |                      |                      |
| Purchase of tangible and intangible assets                                  |       | (4,402.65)           | (4,322.07)           |
| Proceeds from sale of fixed assets  |       | 139.66               | 134.53               |
| Proceeds from sale of financial assets                                      |       | 1.80                 | 0.77                 |
| Acquisition of financial assets   |       | (7.73)               | (1.78)               |
| Acquisition of subsidiaries net of cash acquired                            | 30    | (8.68)               | (68.41)              |
| Proceeds from bonds issued by World Bank                                    |       | 206.38               | -                    |
| Proceeds from sale of Petrom Group companies less cash and cash equivalents | 30    | -                    | (6.93)               |
| <b>Net cash used from investment activities</b>                             |       | <b>(4,071.22)</b>    | <b>(4,263.89)</b>    |
| <b>Cash flow from financing activities</b>                                  |       |                      |                      |
| Net increase in loans   |       | 1,163.78             | 832.43               |
| Dividends paid  |       | (14.68)              | (0.28)               |
| <b>Net cash provided by financial activities</b>                            |       | <b>1,149.10</b>      | <b>832.15</b>        |
| Effect of foreign exchange rate changes on cash and cash equivalents        |       | 7.46                 | 6.52                 |
| <b>Total cash flows</b>   |       | <b>(188.50)</b>      | <b>1,204.60</b>      |
| <b>Cash and cash equivalents at the beginning of the year</b>               |       | <b>572.50</b>        | <b>384.00</b>        |
| <b>Cash and cash equivalents at the end of the year</b>                     |       | <b>384.00</b>        | <b>1,588.60</b>      |

The notes on pages 119 to 163 form part of these consolidated financial statements.

## 1. LEGAL PRINCIPLES AND ACCOUNTING POLICIES

OMV Petrom S.A. (239, Calea Dorobantilor, 010567 Bucharest, Romania) has activities in Exploration and Production (E&P), Refining and Marketing (R&M), Gas and Power (G&P) segments and is listed on Bucharest Stock Exchange under "SNP" code.

| Shareholders' structure as at December 31, 2010  | 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%          |
| <b>Total</b>                                     | <b>100.00%</b> |

### 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. In addition, according to Ministry of Finance Order 2001/22.11.2006, companies can choose to prepare first time consolidated financial statements for the year ended December 31, 2006 in accordance with IFRS. As a result, OMV Petrom S.A. prepared first time consolidated financial statements in accordance with IFRS starting with the year ended December 31, 2006.

### Basis of preparation

Consolidated financial statements of Petrom Group are presented in RON ("Romanian Lei"), using going concern principles. 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 amendments to the existing standards issued by the International Accounting Standards Board and adopted by EU are effective for the current period:

- ▶ IFRS 1 (revised) "First-time Adoption of IFRS" adopted by the EU on November 25, 2009 (effective for annual periods beginning on or after January 1, 2010);
- ▶ IFRS 3 (revised) "Business Combinations" adopted by the EU on June 3, 2009 (effective for annual periods beginning on or after July 1, 2009);
- ▶ Amendments to IFRS 1 "First-time Adoption of IFRS" – Additional Exemptions for First-time Adopters, adopted by the EU on June 23, 2010 (effective for annual periods beginning on or after January 1, 2010);
- ▶ Amendments to IFRS 2 "Share-based Payment" – Group cash-settled share-based payment transactions adopted by the EU on March 23, 2010 (effective for annual periods beginning on or after January 1, 2010);

## 1. LEGAL PRINCIPLES AND ACCOUNTING POLICIES (continued)

- ▶ Amendments to IAS 27 "Consolidated and Separate Financial Statements" adopted by the EU on June 3, 2009 (effective for annual periods beginning on or after July 1, 2009);
- ▶ Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – Eligible hedged items, adopted by the EU on September 15, 2009 (effective for annual periods beginning on or after July 1, 2009);
- ▶ Amendments to various standards and interpretations "Improvements to IFRSs (2009)" resulting from the annual improvement project of IFRS published on April 16, 2009, adopted by the EU on March 23, 2010 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after January 1, 2010);
- ▶ IFRIC 12 "Service Concession Arrangements" adopted by the EU on March 25, 2009 (effective for annual periods beginning on or after March 30, 2009);
- ▶ IFRIC 15 "Agreements for the Construction of Real Estate" adopted by the EU on July 22, 2009 (effective for annual periods beginning on or after January 1, 2010);
- ▶ IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" adopted by the EU on June 4, 2009 (effective for annual periods beginning on or after July 1, 2009);
- ▶ IFRIC 17 "Distributions of Non-Cash Assets to Owners" adopted by the EU on November 26, 2009 (effective for annual periods beginning on or after November 1, 2009);
- ▶ IFRIC 18 "Transfers of Assets from Customers" adopted by the EU on November 27, 2009 (effective for annual periods beginning on or after November 1, 2009).

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

### Standards and interpretations issued by IASB and adopted by EU but not yet effective

At the date of authorization of these financial statements the following standards, revisions and interpretations adopted by EU were in issue but not yet effective:

- ▶ Amendments to IAS 24 "Related Party Disclosures" - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party, adopted by the EU on July 19, 2010 (effective for annual periods beginning on or after January 1, 2011);
- ▶ Amendments to IAS 32 "Financial Instruments: Presentation" – Accounting for rights issues, adopted by the EU on December 23, 2009 (effective for annual periods beginning on or after February 1, 2010);
- ▶ Amendments to IFRS 1 "First-time Adoption of IFRS" – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, adopted by the EU on June 30, 2010 (effective for annual periods beginning on or after July 1, 2010);
- ▶ Amendments to IFRIC 14 "IAS 19 – The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction" – Prepayments of a Minimum Funding Requirement, adopted by the EU on July 19, 2010 (effective for annual periods beginning on or after January 1, 2011);
- ▶ IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments," adopted by the EU on July 23, 2010 (effective for annual periods beginning on or after July 1, 2010).

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

## 1. LEGAL PRINCIPLES AND ACCOUNTING POLICIES (continued)

interpretations will have no material impact on the financial statements of Petrom Group in the period of initial application.

### **Critical areas and use of management judgment**

Preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported for assets, liabilities, income and expenses, as well as the amounts disclosed in the notes. Actual outcomes may differ from these estimates. The management believes that any deviations from these estimates will not have a material influence on the consolidated financial statements in the near-term.

Estimates and assumptions need to be made particularly with respect to reserves, provisions for restoration costs and impairment of fixed assets.

- a) Mineral reserves (oil and gas reserves) are estimated by Petrom Group's own engineers. The estimates are audited externally every two years.
- b) Estimates of future restoration costs are also based on reports by Petrom Group engineers and on past experience. Provisions for restoration costs and impairment losses require estimates of interest rates. These estimates have a material effect on the amount of the provisions (See Note 13).
- 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 the carrying amount of an asset exceeds the 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.



## 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, 2010, prepared in accordance with consistent accounting and valuation principles. The financial statements of the subsidiaries are prepared for the same reporting date, December 31, 2010, 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 write-backs to amortized cost.

Non-controlling interests represent the portion of profit and loss and net assets not held by Petrom Group and are presented separately in the income statement 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 |
|--------------------------------|--------------------|----------------------|
| <b>As at January 1, 2010</b>   | <b>22</b>          | <b>1</b>             |
| Included for the first time    | 3                  | -                    |
| Merged                         | (1)                | -                    |
| Deconsolidated during the year | (8)                | -                    |
| <b>As at December 31, 2010</b> | <b>16</b>          | <b>1</b>             |
| Romanian companies             | 9                  | 1                    |
| Foreign companies              | 7                  | -                    |

The results of subsidiaries acquired or disposed off during the year are included in the consolidated income statement 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)

### 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. The carrying amount of such investments is reduced to recognize any decline, other than a temporary decline, in the value of individual investments. 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.

### 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 is reviewed regularly by executive management.

#### 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 incurred. 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.

Depreciation and amortization are calculated on a straight-line basis, except for core items within E&P activities which are depreciated using the unit of production method.

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 exceeds the 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.

### 3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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

| <b>Intangible assets</b>                               | <b>Useful life (years)</b> |
|--|----------------------------|
| Goodwill   | Indefinite                 |
| Software   | 3-5                        |
| Concessions, licenses and other intangibles            | 4-20, or contract duration |
| <b>Business-specific property, plant and equipment</b> |                            |
| E&P Oil and gas core assets                            | Unit of production method  |
| R&M Storage tanks                                      | 40                         |
| Refinery facilities                                    | 25                         |
| Pipeline systems                                       | 20                         |
| Filling stations components                            | 5-20                       |
| Gas pipelines  | 20                         |
| Chemicals plant  | 8-20                       |
| <b>Other property, plant and equipment</b>             |                            |
| Production and office buildings                        | 20 or 40-50                |
| Other plant and equipment                              | 10-20                      |
| Fixtures and fittings                                  | 5-10                       |

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 can better be realized by sale than by continuous usage. 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.

#### d) 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 write-backs to amortized cost.

#### e) Leases

Property, plant and equipment contains assets being used under finance leases. Since the Group benefits from the economic benefits of ownership, the assets must be capitalized, at the lower of the present value of minimum lease obligation and fair value, and then depreciated over their expected useful life or the duration of the lease, if shorter. A liability equivalent to the capitalized amount is

### 3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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 lease payments then form part of the expenses of the period.

#### f) Investments in associates

The Group's investment in its associate is accounted for under the equity method. An associate is an entity in which the Group has significant influence and which is not a subsidiary.

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 the statement of changes in equity.

#### g) Financial assets

Companies and other investments for which there is no listed market price on an active market are carried at acquisition cost or at an appropriate lower value if there is impairment which is expected to be permanent. Associated companies are recognized at the proportionate share of equity. Interest-bearing loans are disclosed at nominal value, and interest-free loans, and loans at low rates of interest, at present value.

Available-for-sale securities are recognized at fair value. Temporary decreases in value and all increases in fair value are however not recognized as income, but included directly as part of stockholders' equity. Permanent decreases in fair value are recognized in the income statement.

Held-to-maturity securities and investments are carried at amortized cost (subject to temporary impairment). Securities designated as assets at fair value through profit or loss are recognized in the income statement for the period at fair value including gains and losses. Securities and investments without stock exchange listings or market values, whose fair value cannot be reliably estimated, are disclosed at acquisition cost less any impairment losses.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss. 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.



### 3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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.

#### h) Borrowings costs

Interest on borrowings incurred directly for the acquisition, construction or production of qualifying assets is capitalized until the assets are effectively ready for their intended use or for sale. All other costs of borrowing are expensed in the period in which they are incurred.

#### i) Government grants

In accordance with IAS 20, government grants are only recognized where there is reasonable assurance that the conditions attaching to them will be fulfilled and that the grants will be received. Grants satisfying these criteria are disclosed under other liabilities and released over the depreciable life of the assets to which they relate.

#### j) 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. Appropriate provisions are made for any obsolete or slow moving stocks based on the management's assessments.

#### k) Receivables and other assets

With the exception of derivative financial instruments, which are recognized at fair value, and foreign currency items, which are translated at closing rates, receivables and other assets are carried at amortized cost. This can be taken to be a reasonable estimate of fair value, since in the majority of cases the residual maturity is less than a year. Long-term receivables are discounted using the effective interest rate method.

#### l) Provisions

Provisions are normally made for all present obligations to third parties where it is probable that the obligation will be settled 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.

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

### 3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

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 the long-lived asset. In general, 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 marketing assets, and compound interest is accrued on the obligation at each balance sheet date until decommissioning and restoration.

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 CO<sub>2</sub> emissions, and provisions are recognized only for shortfalls.

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 present value.

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. 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.

#### m) Liabilities

Liabilities are carried at amortized cost, with the exception of derivative financial instruments, which are recognized at fair value, and foreign currency liabilities, which are translated at closing rates. Long-term liabilities are discounted using the effective interest rate method. The interest rate used for this purpose is the rate ruling at balance sheet date for similar securities with similar maturities. The carrying value of other liabilities is effectively the same as their fair value, because they are predominantly short-term.

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.

Convertible bonds are considered as composite instruments, consisting of a debt component and an equity component. The fair value of the debt component is calculated as of the date of issue

### 3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

by applying the market interest rate for comparable non-convertible debt prevailing at the time. The difference between the proceeds of issue of the convertible bond and the fair value of the debt component gives the value of the option to convert the debt into equity, which is disclosed at equity.

#### n) 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.

##### **Deferred tax**

Provision is made for deferred taxes on temporary differences (differences between Group carrying values and tax bases which reverse in subsequent years). Tax loss carry-forwards are taken into account in calculating deferred tax assets. Deferred tax assets and liabilities at Group level are shown netted where there is a right of setoff and the taxes relate to matters subject to the same tax jurisdiction. If the probability of deferred tax assets being realized is greater than 50%, then the values are retained. Otherwise a valuation allowance is deducted.

#### o) 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 similar allowances.

##### **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.

##### **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.

### 3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

#### **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.

#### **p) 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.

#### **r) Derivatives**

Derivative instruments are used to hedge risks resulting from changes in interest rates, currency exchange rates and commodity prices. Valuation is at market value (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 as a general rule 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 regularly 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. Where the hedging of cash flows results in an asset or liability, the amounts that are provided under equity are recognized in the income statement in the period in which the hedged position affects earnings.

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.

### 3. ACCOUNTING AND VALUATION PRINCIPLES (continued)

#### s) 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.

IAS 1 has been revised to enhance the usefulness of information presented in the financial statements. According to IAS 1 revised, entities need to consider whether to present the statement of comprehensive income as a single statement or two statements. Petrom Group applied IAS 1 (Amended) from January 1, 2009 and chose to present two statements.



## 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, except for Kazakhstan entities that use 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. Also, 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.

| <b>Exchange rates</b> | <b>Year ended<br/>December 31,<br/>2009</b> | <b>Average for<br/>the year ended<br/>December 31, 2009</b> | <b>Year ended<br/>December 31,<br/>2010</b> | <b>Average for<br/>the year ended<br/>December 31, 2010</b> |
|-----------------------|---|---|---|---|
| US dollar (USD)       | 2.9361                                      | 3.0469  | 3.2045                                      | 3.1804  |
| Euro (EUR)            | 4.2282                                      | 4.2376  | 4.2848                                      | 4.2110  |
| Moldavian Leu (MDL)   | 0.2397                                      | 0.2747  | 0.2661                                      | 0.2573  |
| Russian Ruble (RUB)   | 0.0977                                      | 0.0960  | 0.1034                                      | 0.1054  |
| Serbian Dinar (RSD)   | 0.0440                                      | 0.0451  | 0.0403                                      | 0.0409  |
| Bulgarian Leva (BGN)  | 2.1619                                      | 2.1667  | 2.1908                                      | 2.1531  |

## 5. INTANGIBLE ASSETS

|  | Concessions, licenses,<br>and other intangible<br>assets | Unproved mineral<br>properties and related<br>assets | Total           |
|--|--|--|-----------------|
| <b>COST</b>  |  |  |                 |
| <b>Balance as at January 1, 2010</b>               | <b>1,602.09</b>  | <b>1,080.53</b>                                      | <b>2,682.62</b> |
| Exchange differences                               | (2.45)   | 49.64  | 47.19           |
| Changes in consolidated Group                      | 38.39  | (367.02)   | (328.63)        |
| Additions  | 90.09  | 207.66   | 297.75          |
| Transfers (Note 6)                                 | 62.56  | 4.70   | 67.26           |
| Disposals *)                                       | (8.55)   | (92.08)  | (100.63)        |
| <b>Balance as at December 31, 2010</b>             | <b>1,782.13</b>  | <b>883.43</b>  | <b>2,665.56</b> |
| <b>ACCUMULATED AMORTISATION AND<br/>IMPAIRMENT</b> |  |  |                 |
| <b>Balance as at January 1, 2010</b>               | <b>549.44</b>  | <b>773.12</b>  | <b>1,322.56</b> |
| Exchange differences                               | (0.55)   | 28.64  | 28.09           |
| Changes in consolidated Group                      | (0.61)   | (290.33)   | (290.94)        |
| Amortization                                       | 272.05   | 0.24   | 272.29          |
| Impairment   | 1.83   | 46.61  | 48.44           |
| Transfers (Note 6)                                 | 0.01   | 9.11   | 9.12            |
| Disposals  | (8.25)   | (84.90)  | (93.15)         |
| Write-ups  | -  | (0.34)   | (0.34)          |
| <b>Balance as at December 31, 2010</b>             | <b>813.92</b>  | <b>482.15</b>  | <b>1,296.07</b> |
| <b>CARRYING AMOUNT</b>                             |  |  |                 |
| <b>As at January 1, 2010</b>                       | <b>1,052.65</b>  | <b>307.41</b>  | <b>1,360.06</b> |
| <b>As at December 31, 2010</b>                     | <b>968.21</b>  | <b>401.28</b>  | <b>1,369.49</b> |

\*) Includes the amount of RON 0.88 million representing decrease from the reassessment of decommissioning asset for exploration wells.

## 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            |
|--|--|--|---------------------|--|---------------------------|---------------------|------------------|
| <b>COST</b>                                    |  |  |                     |  |                           |                     |                  |
| <b>Balance as at January 1, 2010</b>           | <b>3,528.44</b>  | <b>17,767.19</b>                             | <b>2,943.06</b>     | <b>897.22</b>                                    | <b>2,174.14</b>           | <b>776.30</b>       | <b>28,086.35</b> |
| Exchange differences                           | (25.65)  | 112.54                                       | 1.81                | 5.44   | 58.17                     | 5.83                | 158.14           |
| Changes in consolidated Group                  | 0.01   | -  | -                   | (6.73)   | (3.15)                    | 8.84                | (1.03)           |
| Additions**                                    | 171.78   | 2,490.58                                     | 203.17              | 51.98  | 862.59                    | 1,087.98            | 4,868.08         |
| Transfers*                                     | 549.98   | 773.97                                       | 228.56              | 78.10  | (1,447.18)                | (250.69)            | (67.26)          |
| Assets Held for Sale                           | (5.33)   | -  | (0.50)              | (0.29)   | 12.56                     | -                   | 6.44             |
| Disposals                                      | (39.05)  | (65.65)                                      | (141.96)            | (149.65)   | (98.82)                   | (0.07)              | (495.20)         |
| <b>Balance as at December 31, 2010</b>         | <b>4,180.18</b>  | <b>21,078.63</b>                             | <b>3,234.14</b>     | <b>876.07</b>                                    | <b>1,558.31</b>           | <b>1,628.19</b>     | <b>32,555.52</b> |
| <b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b> |  |  |                     |  |                           |                     |                  |
| <b>Balance as at January 1, 2010</b>           | <b>716.09</b>  | <b>3,779.64</b>                              | <b>1,552.95</b>     | <b>449.19</b>                                    | <b>156.79</b>             | <b>1.11</b>         | <b>6,655.77</b>  |
| Exchange differences                           | (1.91)   | 36.34  | 1.09                | 1.16   | 0.70                      | -                   | 37.38            |
| Changes in consolidated Group                  | -  | -  | -                   | (4.36)   | (6.99)                    | -                   | (11.35)          |
| Depreciation                                   | 166.06   | 1,301.13                                     | 296.83              | 93.91  | -                         | -                   | 1,857.93         |
| Impairment                                     | 43.27  | 438.80                                       | 99.82               | 2.85   | 53.52                     | 0.18                | 638.44           |
| Transfers*                                     | 0.43   | 4.62   | 14.26               | 27.64  | (56.32)                   | 0.25                | (9.12)           |
| Assets Held for Sale                           | (3.61)   | -  | (0.38)              | (0.23)   | -                         | -                   | (4.22)           |
| Disposals                                      | (32.72)  | (22.76)                                      | (134.51)            | (105.07)   | (86.26)                   | -                   | (381.32)         |
| Write-ups                                      | (0.11)   | (0.81)                                       | (0.32)              | (0.08)   | (2.67)                    | (1.15)              | (5.14)           |
| <b>Balance as at December 31, 2010</b>         | <b>887.50</b>  | <b>5,536.96</b>                              | <b>1,829.74</b>     | <b>465.01</b>                                    | <b>58.77</b>              | <b>0.39</b>         | <b>8,778.37</b>  |
| <b>CARRYING AMOUNT</b>                         |  |  |                     |  |                           |                     |                  |
| <b>As at January 1, 2010</b>                   | <b>2,812.35</b>  | <b>13,987.55</b>                             | <b>1,390.11</b>     | <b>448.03</b>                                    | <b>2,017.35</b>           | <b>775.19</b>       | <b>21,430.58</b> |
| <b>As at December 31, 2010</b>                 | <b>3,292.68</b>  | <b>15,541.67</b>                             | <b>1,404.40</b>     | <b>411.06</b>                                    | <b>1,499.54</b>           | <b>1,627.80</b>     | <b>23,777.15</b> |

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

\*\*) Includes the amount of RON 9.81 million representing land deeds, RON 30.94 million representing capitalized environmental works to be performed for land and RON 137.37 million increase of decommissioning asset.

Property, plant and equipment include fixed assets acquired through finance lease with a carrying amount of RON 33.23 million as at December 31, 2010 (December 31, 2009: RON 5.64 million).

Net impairments losses booked during the year ended December 31, 2010 for tangible and intangible assets were mainly related to E&P segment amounting RON 520.79 million, R&M amounting RON 153.45 million and also other segments RON 7.16 million.

## 7. INVESTMENTS IN ASSOCIATED COMPANIES

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

| <b>COST</b>                            | <b>Associated companies</b> |
|--|-----------------------------|
| <b>Balance as at January 1, 2010</b>   | <b>36.22</b>                |
| Changes in consolidated Group          | -                           |
| Increases in value                     | 4.43                        |
| Disposals                              | -                           |
| <b>Balance as at December 31, 2010</b> | <b>40.65</b>                |

As at December 31, 2010 and December 31, 2009 Petrom Group had one associated company: Congaz S.A.

## 8. OTHER FINANCIAL ASSETS

|   | <b>Liquidity term</b>    |                         |                    |
|---|--------------------------|-------------------------|--------------------|
|   | <b>December 31, 2010</b> | <b>less than 1 year</b> | <b>over 1 year</b> |
| 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              |
| <b>Total</b>                                | <b>2,631.56</b>          | <b>138.72</b>           | <b>2,492.84</b>    |

|   | <b>Liquidity term</b>    |                         |                    |
|---|--------------------------|-------------------------|--------------------|
|   | <b>December 31, 2009</b> | <b>less than 1 year</b> | <b>over 1 year</b> |
| Investments                                 | 11.82                    | -                       | 11.82              |
| Expenditure recoverable from Romanian State | 2,372.68                 | 99.81                   | 2,272.87           |
| Other financial assets                      | 140.81                   | 127.30                  | 13.51              |
| <b>Total</b>                                | <b>2,525.31</b>          | <b>227.11</b>           | <b>2,298.20</b>    |

### 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 of the OMV Petrom S.A. in 2004. Consequently, OMV Petrom S.A. has recorded the estimated decommissioning expenditures against

## 8. OTHER FINANCIAL ASSETS (continued)

receivable from the Romanian State in amount of RON 1,992.84 million as at December 31, 2010 (2009: RON 1,835.22 million). OMV Petrom S.A. also recorded receivable from the Romanian State related to environmental liabilities in E&P, Refining and Doljchim amounting to RON 466.11 million (2009: RON 537.46 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. Contractual reimbursement procedures are ongoing.

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

|                          | Investments  | Other financial assets | Total        |
|--------------------------|--------------|------------------------|--------------|
| <b>January 1, 2010</b>   | <b>50.80</b> | <b>20.21</b>           | <b>71.01</b> |
| Impairment               | -            | -                      | -            |
| Disposals                | (29.04)      | (19.59)                | (48.63)      |
| Write-ups                | -            | (0.62)                 | (0.62)       |
| <b>December 31, 2010</b> | <b>21.76</b> | <b>-</b>               | <b>21.76</b> |

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

|                            | December 31, 2009 | December 31, 2010 |
|----------------------------|-------------------|-------------------|
| Up to 60 days overdue      | 0.13              | 0.12              |
| 61 to 120 days overdue     | -                 | -                 |
| More than 120 days overdue | 32.69             | 3.67              |
| <b>Total</b>               | <b>32.82</b>      | <b>3.79</b>       |



## 9. RECEIVABLES AND OTHER ASSETS

a) Trade receivables are amounting to RON 1,397.98 million as at December 2010 and to RON 1,047.74 million as at December 2009. They are presented net of provisions, which are detailed in the movement below.

b) Other assets

|                                       | 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        |
| <b>Total</b>                          | <b>648.31</b>     | <b>603.08</b>    | <b>45.23</b> |

|                                       | Liquidity term    |                  |               |
|---------------------------------------|-------------------|------------------|---------------|
|                                       | December 31, 2009 | less than 1 year | over 1 year   |
| Prepaid expenses and deferred charges | 55.03             | 55.03            | -             |
| Rental and lease prepayments          | 27.73             | 27.28            | 0.45          |
| Other receivables                     | 304.35            | 202.27           | 102.08        |
| <b>Total</b>                          | <b>387.11</b>     | <b>284.58</b>    | <b>102.53</b> |

c) Valuation allowances for trade receivables and other assets

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

|  | Trade receivables | Other assets  | Total         |
|--|-------------------|---------------|---------------|
| <b>January 1, 2010</b>                                 | <b>253.15</b>     | <b>455.77</b> | <b>708.92</b> |
| Additions/ (releases)                                  | (10.56)           | 5.92          | (4.64)        |
| Disposals  | (33.94)           | (81.20)       | (115.14)      |
| Exchange differences and changes in consolidated Group | 0.37              | 0.27          | 0.64          |
| <b>December 31, 2010</b>                               | <b>209.02</b>     | <b>380.76</b> | <b>589.78</b> |

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

|                            | December 31, 2009 | December 31, 2010 |
|----------------------------|-------------------|-------------------|
| Up to 60 days overdue      | 137.00            | 177.59            |
| 61 to 120 days overdue     | 0.94              | 6.92              |
| More than 120 days overdue | 1.61              | 1.21              |
| <b>Total</b>               | <b>139.55</b>     | <b>185.72</b>     |

## 10. INVENTORIES

|                               | December 31, 2009 | December 31, 2010 |
|-------------------------------|-------------------|-------------------|
| Crude oil                     | 483.04            | 417.78            |
| Natural gas                   | 63.11             | 57.12             |
| Other raw materials           | 787.38            | 597.92            |
| Work in progress              | 125.83            | 127.35            |
| Finished products             | 1,069.58          | 1,225.15          |
| Advances paid for inventories | 53.75             | 74.80             |
| <b>Total</b>                  | <b>2,582.69</b>   | <b>2,500.12</b>   |

## 11. ASSETS HELD FOR SALE

|                                  | December 31, 2009 | December 31, 2010 |
|----------------------------------|-------------------|-------------------|
| Land                             | 49.40             | 74.54             |
| Property, plant and equipment    | 6.65              | 2.37              |
| Deferred tax asset (see Note 17) | 4.28              | 0.38              |
| <b>Assets held for sale</b>      | <b>60.33</b>      | <b>77.29</b>      |

## 12. STOCKHOLDERS' EQUITY

The share capital of OMV Petrom S.A. consists of 56,644,108,335 fully paid shares 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.

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. The derivative instruments were accounted as cash flow hedge and the effective part of the changes in fair value was recognized directly in equity (December 31, 2009: RON 215.00 million), including the related deferred tax asset (December 31, 2009: RON 34.40 million). During the year 2010 the oil price hedge was realized, resulting in expense of RON 6.16 million in OMV Petrom S.A. There are no related balances for this hedge as of December 31, 2010.

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. Legal reserves included in revenue reserves are amounting to RON 616.70 million.

## 13. PROVISIONS

|                               | Pensions and similar obligations | Current Income Taxes | Decommissioning and restoration | Other provisions | Total           |
|-------------------------------|----------------------------------|----------------------|---------------------------------|------------------|-----------------|
| <b>January 1, 2010</b>        | <b>283.07</b>                    | <b>111.01</b>        | <b>5,564.28</b>                 | <b>1,714.62</b>  | <b>7,672.98</b> |
| Exchange differences          | -                                | 0.29                 | 3.85                            | 0.15             | 4.29            |
| Changes in consolidated Group | -                                | -                    | (0.98)                          | -                | (0.98)          |
| Used                          | (15.66)                          | (111.01)             | (244.18)                        | (583.23)         | (954.08)        |
| Allocations                   | 29.75                            | 214.35               | 594.88                          | 449.85           | 1,288.83        |
| <b>December 31, 2010</b>      | <b>297.16</b>                    | <b>214.64</b>        | <b>5,917.85</b>                 | <b>1,581.39</b>  | <b>8,011.04</b> |
| thereof short-term            | -                                | 214.64               | -                               | 739.07           | 953.71          |
| thereof long-term             | 297.16                           | -                    | 5,917.85                        | 842.32           | 7,057.33        |

### 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 a discount rate of 4.75%.

### 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, 2010 was calculated using a time profile spread over 35 years by using a discount rate of 6.25% and an inflation rate of 2.73%.

The provision for decommissioning and restoration costs includes obligations in respect of OMV Petrom S.A. amounting to RON 5,702.80 million (2009: RON 5,532.58 million). There is a corresponding claim against the Romanian State of RON 1,992.84 million (2009: RON 1,835.22 million), which is disclosed under "Other financial assets" item.

Details on the decommissioning and restoration obligations are as follows:

|                                  | December 31, 2009 | December 31, 2010 |
|----------------------------------|-------------------|-------------------|
| <b>Balance as at January 1</b>   | <b>5,103.32</b>   | <b>5,564.28</b>   |
| Exchange differences             | 0.79              | 3.85              |
| New obligations                  | 9.56              | 99.42             |
| Changes in consolidated Group    | 5.99              | (0.98)            |
| Revisions in estimates           | 88.10             | 42.37             |
| Unwinding effect                 | 384.70            | 453.09            |
| Settlements current year         | (28.18)           | (244.18)          |
| <b>Balance as at December 31</b> | <b>5,564.28</b>   | <b>5,917.85</b>   |

### 13. PROVISIONS (continued)

Other provisions were as follows:

| 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          |
| <b>Total</b>               | <b>1,581.39</b> | <b>739.07</b>    | <b>842.32</b> |

#### 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, 2010. OMV Petrom S.A. recorded environmental liabilities against receivable from the Romanian State in E&P, Refining 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 4,650,862 free emissions certificates for the year 2010 (2009: 4,282,612).

During 2010 Petrom Group had net sales of 2,650,000 emissions certificates.

As at December 31, 2010, Petrom Group had not shortfall in EU allowances allocated compared to the CO<sub>2</sub> 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.

#### 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.

### 13. PROVISIONS (continued)

| 2009                       | Total           | less than 1 year | over 1 year   |
|----------------------------|-----------------|------------------|---------------|
| Environmental provision    | 585.03          | 150.99           | 434.04        |
| Other personnel provisions | 295.23          | 295.23           | -             |
| Provisions for litigations | 700.89          | 348.51           | 352.38        |
| Other                      | 133.47          | 133.46           | 0.01          |
| <b>Total</b>               | <b>1,714.62</b> | <b>928.19</b>    | <b>786.43</b> |

### 14. INTEREST BEARING DEBTS

| December 31, 2010                      | Total           | less than 1 year | over 1 year     |
|--|-----------------|------------------|-----------------|
| Interest-bearing financial liabilities | 3,856.56        | 391.05           | 3,465.51        |
| <b>TOTAL</b>                           | <b>3,856.56</b> | <b>391.05</b>    | <b>3,465.51</b> |
| December 31, 2009                      | Total           | less than 1 year | over 1 year     |
| Interest-bearing financial liabilities | 2,997.97        | 187.52           | 2,810.45        |
| <b>TOTAL</b>                           | <b>2,997.97</b> | <b>187.52</b>    | <b>2,810.45</b> |

As at December 31, 2010 and 2009 Petrom Group had the following loans:

#### Interest bearing debts short-term

| Borrower                                       | Lender   | 31-Dec-09     | 31-Dec-10     |
|--|--|---------------|---------------|
| OMV Petrom S.A.                                | European Bank for Reconstruction and Development (a) | -             | 336.64        |
| OMV Petrom S.A.                                | Black Sea Trade and Development Bank (b)             | -             | 21.42         |
| OMV Petrom S.A.                                | Banca Comerciala Intesa Sanpaolo Romania S.A. (c)    | 105.79        | -             |
| OMV Petrom S.A.                                | Raiffeisen Bank S.A. (d)                             | 52.28         | -             |
| OMV Petrom S.A.                                | Petromed Solutions S.R.L. (e)                        | 3.62          | -             |
| OMV Petrom S.A.                                | Accrued interest                                     | 25.83         | 32.99         |
| <b>Total interest bearing debts short term</b> |  | <b>187.52</b> | <b>391.05</b> |

#### Interest bearing debts long-term

| Borrower                                      | Lender  | 31-Dec-09       | 31-Dec-10       |
|---|---|-----------------|-----------------|
| OMV Petrom S.A.                               | European Bank for Reconstruction and Development (a)    | 618.37          | 1,398.71        |
| OMV Petrom S.A.                               | Black Sea Trade and Development Bank (b)                | 37.00           | 85.70           |
| OMV Petrom S.A.                               | Banks Consortium (agent: UniCredit Bank Austria AG) (f) | 1,520.85        | 1,074.08        |
| OMV Petrom S.A.                               | Banks Consortium (agent: UniCredit Bank Austria AG) (g) | -               | 350.00          |
| OMV Petrom S.A.                               | European Investment Bank (h)                            | -               | 557.02          |
| OMV Petrom S.A.                               | OMV Aktiengesellschaft (i)                              | 634.23          | -               |
| <b>Total interest bearing debts long term</b> |   | <b>2,810.45</b> | <b>3,465.51</b> |



## 14. INTEREST BEARING DEBTS (continued)

- (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. Interest rate is calculated as the interbank rate applicable for interest period plus an applicable margin. The drawings as at December 31, 2010 amounted to RON 557.02 million (equivalent of EUR 130.00 million) (December 31, 2009: RON 211.41 million, equivalent of EUR 50.00 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 maximum amount of EUR 150.00 million) and November 15, 2013 (for rest of amount). Interest rate is calculated as the interbank rate applicable for interest period plus an applicable margin. The drawings as at December 31, 2010 were RON 1,178.33 million (equivalent of EUR 275.00 million) (December 31, 2009: RON 406.96 million, equivalent of EUR 96.25 million).
- (b) For the funding of the environmental program OMV Petrom S.A. concluded also a parallel 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. Interest rate is calculated as the interbank rate applicable for interest period plus an applicable margin. The drawings as at December 31, 2010 amounted to RON 107.12 million (equivalent of EUR 25.00 million) (December 31, 2009: RON 37.00 million, equivalent of EUR 8.75 million).
- (c) Overdraft facility contracted from Banca Comerciala Intesa Sanpaolo Romania S.A. in April 2009 for a limit of RON 106.00 million obtained by the OMV Petrom S.A. for general corporate expenditure, with maturity date April 24, 2012 and interest rate 1 month ROBOR plus an applicable margin. Starting with July 2010 the limit was adjusted to RON 85.00 million. The facility is not secured.
- (d) Credit facility received from Raiffeisen Bank S.A. up to EUR 95.00 million obtained by OMV Petrom S.A., with maturity date December 31, 2011 and interest rate 1 month ROBOR plus an applicable margin. The facility is not secured. This limit could be used for issuance of letter of guarantee and Letters of Credit in multi-currencies. Starting with September 29, 2010, the facility can be used in the same limit by OMV Petrom Marketing S.R.L.
- (e) A cash pooling agreement was signed by OMV Petrom S.A. and Petromed Solutions S.R.L., with the applicable interest rate minimum between National Bank of Romania reference interest rate and 1 month ROBOR valid on the first day of each month and with maturity April 29, 2011. As of December 31, 2010, Petromed Solutions S.R.L. became a consolidated subsidiary.
- (f) Banks Consortium loan represents a revolving unsecured credit facility given to OMV Petrom S.A. by a Consortium of Banks that includes BRD – Groupe Société Générale S.A., Crédit Agricole

## 14. INTEREST BEARING DEBTS (continued)

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. The agreement was signed on October 14, 2008 and the final maturity date was prolonged to October 14, 2012. The total facility is EUR 375.00 million and the drawings can be made in EUR, USD or RON. The interest rates are based on EURIBOR, LIBOR and respectively ROBOR plus an applicable margin. The drawings as of December 31, 2010 were RON 964.08 million (equivalent of EUR 225.00 million) (December 31, 2009: RON 1,006.35 million, equivalent of EUR 238.01 million) and RON 110.00 million (December 31, 2009: RON 514.50 million).

- (g) On December 21, 2009 OMV Petrom S.A. concluded a second Banks Consortium agreement, 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 UniCreditTiriac Bank S.A.. The Agent is UniCredit Bank Austria AG. The final maturity date is December 21, 2012 and the interest rates are calculated as the interbank rates (EURIBOR for drawings in EUR, LIBOR for drawings in USD and ROBOR for drawings in RON) plus an applicable margin. The drawings as at December 31, 2010 were in value of RON 350.00 million.
- (h) During 2009 OMV Petrom S.A. concluded an unsecured loan agreement for a maximum amount of EUR 200.00 million with European Investment Bank also for the construction of the Petrobrazi Power Plant. The agreement was signed on May 8, 2009 and the final maturity date is October 12, 2022. The drawings as at December 31, 2010 were in value of RON 557.02 million (equivalent of EUR 130.00 million).
- (i) A Credit Offer of EUR 500.00 million was signed by OMV Petrom S.A. with OMV AG for funding the general corporate purposes. The agreement was signed on January 15, 2009 and the final maturity date is January 15, 2014. The interest rate is based on 3 years interest rate swap plus an applicable margin. The drawings as at December 31, 2009, in value of RON 634.23 million (equivalent of EUR 150.00 million) were fully reimbursed during 2010 and no other amount was drawn in 2010.
- (j) The overdraft facility contracted by OMV Bulgaria OOD from Citibank Sofia, existing at December 31, 2010, with a maximum limit of BGN 58.49 million (equivalent of RON 128.15 million) was prolonged until July 15, 2011. The destination of the overdraft is issuance of letters of guarantee without cash collateral.
- (k) The overdraft facility contracted by OMV Bulgaria OOD from UniCredit Bulbank Sofia, existing at December 31, 2010, with a maximum limit of BGN 33.00 million (equivalent of RON 72.30 million) was prolonged until October 30, 2011. The destination of the overdraft is issuance of letters of guarantee without cash collateral.
- (l) The overdraft facility contracted by OMV Srbija from Raiffeisen Bank Belgrade, existing at December 31, 2010, with a maximum limit of EUR 4.50 million (equivalent of RON 19.28 million) was prolonged until January 12, 2012. The destination of the overdraft is issuance of letters of guarantee without cash collateral.

## 14. INTEREST BEARING DEBTS (continued)

OMV Petrom S.A. has signed also facilities with several banks for issuing letters of guarantees, as follows:

- (m) A Facility Agreement was signed with Fortis Bank – Bucharest branch – for up to EUR 30.00 million, to be utilized only for issuance of letters of guarantee, with maturity date December 16, 2012. The facility is not secured.
- (n) Credit Facility up to EUR 127.40 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 April 30, 2011. The facility is not secured.
- (o) Credit Facility received from Bancpost, up to EUR 25.00 million, to be utilized only for issuance of letters of guarantee, with maturity date February 28, 2012. The facility is not secured.
- (p) Credit facility up to USD 3.00 million obtained by OMV Petrom S.A. from RBS Bank S.A, to be utilized only for issuance of letters of guarantee, with maturity date October 28, 2011. The facility is not secured.
- (q) Credit facility up to EUR 1.50 million obtained by Aviation Petroleum from Raiffeisen Bank for issuing of bank guarantees, with maturity date December 31, 2011.
- (r) Credit facility up to EUR 3.60 million obtained by Petrom Aviation from Raiffeisen Bank for issuing of bank guarantees, with maturity date May 15, 2011.

As at December 31, 2010, Petrom Group is in compliance with financial covenants stipulated by the loan agreements.

## 15. OTHER FINANCIAL LIABILITIES

|                                  | December 31, 2010 | less than 1 year | over 1 year   |
|----------------------------------|-------------------|------------------|---------------|
| Liabilities on finance leases    | 30.62             | 4.85             | 25.77         |
| Other financial liabilities      | 449.86            | 297.25           | 152.61        |
| <b>Total</b>                     | <b>480.48</b>     | <b>302.10</b>    | <b>178.38</b> |
|                                  | December 31, 2009 | less than 1 year | over 1 year   |
| Liabilities from hedge contracts | 411.65            | 411.65           | -             |
| Liabilities on financial lease   | 2.72              | 1.07             | 1.65          |
| Other financial liabilities      | 365.17            | 244.34           | 120.83        |
| <b>Total</b>                     | <b>779.54</b>     | <b>657.06</b>    | <b>122.48</b> |

### Liabilities from hedge contracts

To protect Petrom Group's cash flow, OMV Petrom S.A. entered into crude oil hedges in the second quarter of 2009 for a volume of 38,000 bbl/d. Liabilities from hedge contracts were valued at the market value of RON 411.65 million as at December 31, 2009. As at December 31, 2010 an amount of RON 128.36 million is included in other financial liabilities, representing payable related to fourth quarter hedge settlement.

### Finance lease liability

In other financial liabilities as at December 31, 2010 is included the finance lease liability. Petrom Group acquired through finance lease mainly cars, trucks and few 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, 2009 | December 31, 2010 |
|---|-------------------|-------------------|
| <b>Obligations under finance leases</b>                       |                   |                   |
| Amounts due within 1 year                                     | 1.19              | 6.92              |
| Amounts due after more than 1 year but not later than 5 years | 1.74              | 16.39             |
| Amounts due after 5 years                                     | -                 | 49.54             |
| <b>Total lease obligations</b>                                | <b>2.93</b>       | <b>72.85</b>      |
| <b>Less future finance charges on finance leases</b>          | <b>(0.21)</b>     | <b>(42.23)</b>    |
| <b>Present value of finance lease liabilities</b>             | <b>2.72</b>       | <b>30.62</b>      |
| Analysed as follows:  |                   |                   |
| Maturing within 1 year  | 1.07              | 4.85              |
| Maturing after more than 1 year but not later than 5 years    | 1.65              | 9.78              |
| Maturing after 5 years  | -                 | 15.99             |
| <b>Total present value of finance lease liabilities</b>       | <b>2.72</b>       | <b>30.62</b>      |

## 16. OTHER LIABILITIES

|                   | 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            | -           |
| <b>Total</b>      | <b>478.09</b>     | <b>478.09</b>    | <b>-</b>    |
|                   | December 31, 2009 | less than 1 year | over 1 year |
| Deferred income   | 122.10            | 122.10           | -           |
| Tax liabilities   | 302.07            | 302.07           | -           |
| Social security   | 20.57             | 20.57            | -           |
| Other liabilities | 83.03             | 83.03            | -           |
| <b>Total</b>      | <b>527.77</b>     | <b>527.77</b>    | <b>-</b>    |



## 17. DEFERRED TAX

| 2010   | Deferred tax assets<br>before allowances | Allowances   | Net deferred tax<br>assets | Deferred tax<br>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<br>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                     | -                           |
| <b>TOTAL</b>   | <b>1,256.39</b>                          | <b>78.42</b> | <b>1,177.97</b>            | <b>470.56</b>               |
| Netting (same tax jurisdiction/<br>country)            |  |              | (443.86)                   | (443.86)                    |
| <b>Deferred tax, net</b>                               |  |              | <b>734.11</b>              | <b>26.70</b>                |
| Deferred tax for assets held for<br>sale (see Note 11) | 0.38                                     | -            | 0.38                       | -                           |
| <b>Deferred tax, TOTAL</b>                             |  |              | <b>734.49</b>              | <b>26.70</b>                |

| 2009   | Deferred tax assets<br>before allowances | Allowances   | Net deferred tax<br>assets | Deferred tax<br>liabilities |
|--|--|--------------|----------------------------|-----------------------------|
| Tangible and Intangible assets                         | 8.23                                     | 3.70         | 4.53                       | 421.43                      |
| Financial assets                                       | 31.42                                    | -            | 31.42                      | 4.59                        |
| Inventories  | 35.57                                    | 0.20         | 35.37                      | -                           |
| Receivables and other assets                           | 123.62                                   | 58.11        | 65.51                      | -                           |
| Untaxed reserves                                       | -  | -            | -                          | 41.36                       |
| Provisions for pensions and<br>severance payments      | 45.29                                    | -            | 45.29                      | -                           |
| Other provisions                                       | 748.94                                   | 1.38         | 747.56                     | -                           |
| Liabilities  | 86.96                                    | 0.06         | 86.90                      | 0.12                        |
| Tax loss carried forward                               | 101.38                                   | -            | 101.38                     | -                           |
| <b>TOTAL</b>   | <b>1,181.41</b>                          | <b>63.45</b> | <b>1,117.96</b>            | <b>467.50</b>               |
| Netting (same tax jurisdiction/<br>country)            |  |              | (405.36)                   | (405.36)                    |
| <b>Deferred tax, net</b>                               |  |              | <b>712.60</b>              | <b>62.14</b>                |
| Deferred tax for assets held for<br>sale (see Note 11) | 4.28                                     | -            | 4.28                       | -                           |
| <b>Deferred tax, TOTAL</b>                             |  |              | <b>716.88</b>              | <b>62.14</b>                |

## 17. DEFERRED TAX (continued)

At the end of 2010, losses carry-forward for tax purposes amounted to RON 655.98 million (2009: RON 679.13 million). Eligibility of losses for carry-forward expires as follows:

|                  | 2009          | 2010          |
|------------------|---------------|---------------|
| 2010             | 8.24          | -             |
| 2011             | 13.39         | 8.01          |
| 2012             | 7.59          | 25.77         |
| 2013             | -             | 11.06         |
| 2014             | 71.27         | 7.28          |
| 2015/ After 2014 | 578.64        | 71.38         |
| After 2015       | -             | 532.48        |
| <b>Total</b>     | <b>679.13</b> | <b>655.98</b> |

## 18. OTHER OPERATING INCOME

|  | December 31, 2009 | December 31, 2010 |
|--|-------------------|-------------------|
| Exchange gains from operating activities | 127.93            | 149.48            |
| Gains from the disposal of fixed assets  | 96.89             | 39.04             |
| Write-up tangible and intangible assets  | 22.86             | 5.48              |
| Other operating income                   | 161.02            | 319.85            |
| <b>Total</b>                             | <b>408.70</b>     | <b>513.85</b>     |

Other operating income include sales of carbon certificates amounting to RON 168.32 million (2009: RON 58.57 million).

## 19. OTHER OPERATING EXPENSES

|  | December 31, 2009 | December 31, 2010 |
|--|-------------------|-------------------|
| Exchange losses from operating activities          | 172.05            | 122.10            |
| Losses from the disposal of fixed assets           | 24.89             | 20.39             |
| Expenses/ (Income) with provisions for litigations | (4.99)            | 71.87             |
| Other operating expenses                           | 1,288.33          | 1,065.69          |
| <b>Total</b>                                       | <b>1,480.28</b>   | <b>1,280.05</b>   |

Other operating expenses include an amount of RON 129.28 million in 2010 (2009: RON 211.10 million) representing restructuring expenses. Restructuring expenses have been booked based on the management approval and communication of the restructuring plan.

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

As at December 31, 2010 and December 31, 2009 earnings before interest and tax under the total cost method were as follows:

|  | December 31, 2009 | December 31, 2010 |
|--|-------------------|-------------------|
| <b>Revenues</b>                                  | <b>16,089.73</b>  | <b>18,615.69</b>  |
| Inventory changes                                | 15.13             | 82.80             |
| Own work accounted for in fixed assets           | 217.32            | 247.34            |
| Other operating income                           | 408.70            | 513.85            |
| Costs of material                                | (5,555.11)        | (6,441.14)        |
| Costs of energy                                  | (513.09)          | (460.03)          |
| Other costs of production                        | (1,878.01)        | (2,121.60)        |
| <b>Cost of material and services</b>             | <b>(7,946.21)</b> | <b>(9,022.77)</b> |
| Wages and salaries                               | (1,740.18)        | (1,836.23)        |
| Other personnel expenses                         | (352.60)          | (248.67)          |
| <b>Personnel expenses</b>                        | <b>(2,092.78)</b> | <b>(2,084.90)</b> |
| Depreciation and amortization                    | (1,877.72)        | (2,130.22)        |
| Impairment tangible and intangible assets        | (611.41)          | (686.88)          |
| <b>Depreciation, amortization and impairment</b> | <b>(2,489.13)</b> | <b>(2,817.10)</b> |
| Transportation and postage expenses              | (618.54)          | (542.62)          |
| Rental expenses                                  | (197.04)          | (218.00)          |
| Advertising and protocol expenses                | (78.41)           | (75.89)           |
| Insurance expenses                               | (52.67)           | (41.38)           |
| Travel expenses and daily allowances             | (52.08)           | (52.68)           |
| Other operating expenses                         | (1,583.55)        | (1,618.83)        |
| <b>Total other operating expenses</b>            | <b>(2,582.29)</b> | <b>(2,549.40)</b> |
| <b>EARNINGS BEFORE INTEREST AND TAX</b>          | <b>1,620.47</b>   | <b>2,985.51</b>   |

## 21. NET INCOME FROM ASSOCIATED COMPANIES

|   | December 31, 2009 | December 31, 2010 |
|---|-------------------|-------------------|
| Income from associated companies              | 3.21              | 4.43              |
| Dividends from associated companies           | 2.86              | 2.29              |
| <b>Total income from associated companies</b> | <b>6.07</b>       | <b>6.72</b>       |

## 22. NET INTEREST EXPENSE

|   | December 31,<br>2009 | December 31,<br>2010 |
|---|----------------------|----------------------|
| <b>Interest income</b>  |                      |                      |
| Interest income from available-for-sale financial instruments | 9.59                 | -                    |
| Interest income from receivables                              | 38.13                | 27.51                |
| Interest income from short term bank deposits                 | 46.50                | 30.77                |
| <b>Total interest income</b>                                  | <b>94.22</b>         | <b>58.28</b>         |
| <b>Interest expense</b>                                       |                      |                      |
| Interest expenses   | (195.04)             | (174.95)             |
| Unwinding expenses for retirement benefits provision          | (13.71)              | (15.42)              |
| Unwinding expenses for decommissioning provision              | (251.73)             | (303.15)             |
| Other unwinding/ discounting expenses                         | (49.75)              | (101.76)             |
| <b>Total interest expense</b>                                 | <b>(510.23)</b>      | <b>(595.28)</b>      |
| <b>Net interest result</b>                                    | <b>(416.01)</b>      | <b>(537.00)</b>      |

## 23. OTHER FINANCIAL INCOME AND EXPENSES

|   | December 31,<br>2009 | December 31,<br>2010 |
|---|----------------------|----------------------|
| <b>Financial income</b>                           |                      |                      |
| Exchange gains from financing activities          | 178.49               | 366.03               |
| Gains from disposal of investments                | 0.27                 | 1.37                 |
| <b>Total financial income</b>                     | <b>178.76</b>        | <b>367.40</b>        |
| <b>Financial expense</b>                          |                      |                      |
| Exchange losses from financing activities         | (196.30)             | (172.86)             |
| Losses related to financial assets and securities | (2.37)               | -                    |
| Other financing costs                             | (21.20)              | (44.45)              |
| <b>Total financial expense</b>                    | <b>(219.87)</b>      | <b>(217.31)</b>      |
| <b>Other financial income and expenses</b>        | <b>(41.11)</b>       | <b>150.09</b>        |

## 24. TAXES ON INCOME

|                                | December 31, 2009 | December 31, 2010 |
|--------------------------------|-------------------|-------------------|
| Taxes on income - current year | 419.46            | 501.44            |
| Deferred tax                   | (83.32)           | (85.77)           |
| <b>Total taxes on income</b>   | <b>336.14</b>     | <b>415.67</b>     |

The reconciliation of deferred taxes is as follows:

|   | December 31, 2009 | December 31, 2010 |
|---|-------------------|-------------------|
| Deferred taxes January 1  | 457.30            | 654.74            |
| Deferred taxes December 31  | 654.74            | 707.79            |
| <b>Changes in deferred taxes</b>  | <b>197.44</b>     | <b>53.05</b>      |
| Deferred taxes on revaluation of securities and hedges charged directly to equity | 123.96            | (34.40)           |
| Changes in consolidated Group, exchange differences and similar items             | (9.84)            | 1.68              |
| <b>Deferred taxes per income statement</b>  | <b>83.32</b>      | <b>85.77</b>      |
| <b>Reconciliation</b>   |                   |                   |
| <b>Net profit before taxation</b>   | <b>1,169.42</b>   | <b>2,605.32</b>   |
| Income tax rate applicable for Parent company                                     | 16.00%            | 16.00%            |
| Profits tax based on income tax rate of the Parent                                | 187.11            | 416.85            |
| Effect of differing foreign tax rates   | 107.70            | (61.09)           |
| Profits tax based on applicable rates   | 294.81            | 355.76            |
| Tax effect of permanent differences   | 41.33             | 59.91             |
| Profits tax expense in Income Statement   | 336.14            | 415.67            |
| Tax effect of other temporary differences   | 83.32             | 85.77             |
| <b>Profits tax to be paid for the year</b>  | <b>419.46</b>     | <b>501.44</b>     |

## 25. EARNINGS PER SHARE

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

|   | December 31, 2009 | December 31, 2010 |
|---|-------------------|-------------------|
| Net profit attributable to own shareholders | 860.24            | 2,201.22          |
| Weighted average number of shares           | 56,644,108,335    | 56,641,009,185    |
| <b>Earnings per share</b>                   | <b>0.0152</b>     | <b>0.0389</b>     |



## 26. SEGMENT INFORMATION

OMV Petrom is organized into four operating segments: Exploration and Production (E&P), Refining and Marketing (R&M), Gas and Power (G&P), while Petrom Group management, financing activities and certain service functions are concentrated in the Corporate 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 business with the purpose of diversifying the activity of OMV Petrom S.A. in the Romanian energy sector. Chemicals division assimilated to G&P segment operates the main fertilizer plant in Romania, Doljchim Craiova.

**R&M** produces and delivers gasoline, diesel and other petroleum products to its customers. **Refining** division includes two Romanian refineries, Arpechim and Petrobrazi. **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.

## 26. SEGMENT INFORMATION (continued)

### Primary segment reporting

|                                    | E&P             | R&M              | G&P             | Corporate<br>& Other | Total            | Consolidation     | Consolidated<br>total |
|------------------------------------|-----------------|------------------|-----------------|----------------------|------------------|-------------------|-----------------------|
| Intersegment sales                 | 8,861.74        | 126.31           | 185.69          | 485.70               | <b>9,659.44</b>  | <b>(9,659.44)</b> | -                     |
| Sales with third parties           | 672.66          | 15,050.18        | 2,879.68        | 13.17                | <b>18,615.69</b> | -                 | <b>18,615.69</b>      |
| <b>Total sales</b>                 | <b>9,534.40</b> | <b>15,176.49</b> | <b>3,065.37</b> | <b>498.87</b>        | <b>28,275.13</b> | <b>(9,659.44)</b> | <b>18,615.69</b>      |
| <b>EBIT</b>                        | <b>3,012.12</b> | <b>106.30</b>    | <b>163.85</b>   | <b>(135.48)</b>      | <b>3,146.79</b>  | <b>(161.28)</b>   | <b>2,985.51</b>       |
| Total assets                       | 21,092.35       | 8,263.11         | 2,678.50        | 3,013.27             | <b>35,047.23</b> | (281.97)          | <b>34,765.26</b>      |
| Investments in PPE/IA              | 3,021.50        | 782.02           | 1,207.98        | 154.33               | <b>5,165.83</b>  | -                 | <b>5,165.83</b>       |
| Investment in associated companies | -               | -                | 40.65           | -                    | <b>40.65</b>     | -                 | <b>40.65</b>          |
| Assets Held for Sale               | -               | 2.85             | -               | 74.44                | <b>77.29</b>     | -                 | <b>77.29</b>          |
| Total liabilities                  | 8,906.21        | 2,080.90         | 350.47          | 4,968.64             | <b>16,306.22</b> | -                 | <b>16,306.22</b>      |
| Depreciation and amortization      | 1,570.08        | 433.94           | 5.54            | 120.66               | <b>2,130.22</b>  | -                 | <b>2,130.22</b>       |
| Impairment losses                  | 520.79          | 153.45           | 1.63            | 5.53                 | <b>681.40</b>    | -                 | <b>681.40</b>         |
| Result from associated companies   | -               | -                | 6.72            | -                    | <b>6.72</b>      | -                 | <b>6.72</b>           |

### Secondary segment reporting

|                          | Romania   | Rest of<br>CEE | Rest of<br>Europe | Rest of<br>world | Consolidation | Consolidated<br>total |
|--------------------------|-----------|----------------|-------------------|------------------|---------------|-----------------------|
| Sales with third parties | 14,484.18 | 3,507.64       | -                 | 623.87           | -             | 18,615.69             |
| EBIT                     | 3,568.08  | 120.03         | -                 | (541.32)         | (161.28)      | 2,985.51              |
| Total assets             | 31,370.75 | 1,567.21       | -                 | 2,109.27         | (281.97)      | 34,765.26             |
| Investments in PPE/IA    | 4,798.16  | 65.39          | -                 | 302.28           | -             | 5,165.83              |

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.

## 27. AVERAGE NUMBER OF EMPLOYEES

|                           | December 31, 2009 | December 31, 2010 |
|---------------------------|-------------------|-------------------|
| <b>Total Petrom Group</b> | <b>31,767</b>     | <b>26,718</b>     |
| thereof:                  |                   |                   |
| OMV Petrom S.A.           | 29,417            | 25,058            |
| Other subsidiaries        | 2,350             | 1,660             |

\*) The number of employees was calculated as average headcount of 12 months number of employees. Figures for December 31, 2009 were adjusted accordingly.

## 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.

During 2010, Petrom Group had the following transactions with related parties:

|  | Purchases       | Payables      |
|--|-----------------|---------------|
| OMV Deutschland GmbH                                   | 5.46            | -             |
| OMV Exploration & Production GmbH                      | 38.80           | 17.35         |
| OMV Gas & Power GmbH                                   | 1.94            | 0.03          |
| OMV Gas GmbH   | 0.59            | 0.04          |
| OMV Hungária Ásványolaj Korlátolt Felelősségű Társaság | 19.94           | 0.75          |
| OMV Refining & Marketing GmbH                          | 300.79          | 41.23         |
| OMV Solutions GmbH                                     | 22.31           | 7.63          |
| OMV Supply & Trading AG                                | 675.46          | 99.84         |
| OMV International Services GmbH                        | 7.58            | 43.61         |
| OMV Austria Exploration & Production GmbH              | 1.37            | -             |
| OMV Power International GmbH                           | 1.72            | 1.71          |
| Borealis AG  | 0.61            | -             |
| Congaz S.A.  | 0.19            | -             |
| Petrol Ofisi A.Ş.                                      | 6.82            | 1.15          |
| OMV Aktiengesellschaft                                 | 4.23            | 0.65          |
| Petrom Nadlac S.R.L.                                   | 0.77            | -             |
| OMV Hrvatska d.o.o.                                    | 0.03            | 0.02          |
| EconGas Hungária Földgázkereskedelmi Kft.              | 61.84           | 11.77         |
| Trans Gas Services S.R.L.                              | 1.28            | 0.18          |
| <b>Total</b>   | <b>1,151.73</b> | <b>225.96</b> |

## 28. RELATED PARTIES (continued)

|   | Revenues      | Receivables   |
|---|---------------|---------------|
| OMV BH d.o.o.   | 0.51          | -             |
| OMV Deutschland GmbH  | 224.64        | 31.76         |
| OMV Hrvatska d.o.o.   | 1.03          | 0.04          |
| OMV Refining & Marketing GmbH                               | 47.74         | 0.42          |
| OMV Slovenija trgovina z nafto in naftnimi derivati, d.o.o. | 0.28          | -             |
| OMV Slovensko s.r.o.  | 0.27          | 0.02          |
| OMV Solutions GmbH  | 13.55         | 4.55          |
| OMV Supply & Trading AG                                     | 610.25        | 62.22         |
| OMV International Services GmbH                             | 54.28         | 20.52         |
| Borealis AG   | 0.08          | -             |
| Petrol Ofisi A.Ş.   | 0.16          | -             |
| Petrom Nadlac   | 0.01          | -             |
| Trans Gas Services S.R.L.                                   | 0.08          | 0.02          |
| OMV Finance Ltd.  | 0.12          | 0.14          |
| <b>Total</b>  | <b>953.00</b> | <b>119.69</b> |

As disclosed in Note 1, OMV Petrom S.A.'s major shareholder is OMV Aktiengesellschaft. The majority of OMV Aktiengesellschaft shares are held by Österreichische Industrieholding AG (ÖIAG – 31.5%) and International Petroleum Investment Company (IPIC, Abu Dhabi – 20.0%).

## 29. DIRECT AND INDIRECT INVESTMENTS OF PETROM GROUP WITH AN INTEREST OF AT LEAST 20% AS OF DECEMBER 31, 2010

| Company Name                                    | Share interest percentage | Consolidation treatment* | Activity                                   | Country of incorporation |
|---|---------------------------|--------------------------|--|--------------------------|
| <b>Subsidiaries (&gt;50%)</b>                   |                           |                          |  |                          |
| TASBULAT OIL CORPORATION LLP                    | 100.00%                   | FC                       | Oil exploration and drilling in Kazakhstan | Kazakhstan               |
| WIND POWER PARK S.R.L.                          | 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                   |
| PETROM NADLAC S.R.L.                            | 98.51%                    | NC                       | Fuel distribution                          | Romania                  |
| AVIATION PETROLEUM S.R.L.                       | 100.00%                   | FC                       | Kerosene distribution                      | Romania                  |
| PETROM AVIATION S.A.                            | 100.00%                   | FC                       | Kerosene distribution                      | 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 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              |
| <b>Associated companies (20-50%)</b>            |                           |                          |  |                          |
| FRANCIZA PETROM 2001 S.A.                       | 40.00%                    | NAE                      | Other financial services                   | Romania                  |
| BRAZI OIL & ANGHELESCU PROD COM S.R.L.          | 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                  |

\*) 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. ACQUISITION AND DISPOSALS OF SUBSIDIARIES

### a) Acquisition of subsidiaries

During the year ended December 31, 2009, Petrom Group acquired 100% interest in the company KORNED LLP that activates in exploration and production area.

During 2010, Petrom Group acquired 99.99% of shares of Wind Power Park 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.

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

|   | December 31, 2009 | December 31, 2010 |
|---|-------------------|-------------------|
| Intangible assets   | -                 | 39.38             |
| Mineral interests unproved reserves                               | 146.31            | -                 |
| Property, plant and equipment                                     | -                 | 12.69             |
| Trade and other receivables                                       | -                 | 0.54              |
| Provisions  | (6.03)            | -                 |
| Trade and other liabilities                                       | (92.50)           | (11.31)           |
| Deferred tax liability, net                                       | (9.59)            | (6.44)            |
| <b>Share of net assets at the acquisition date</b>                | <b>38.19</b>      | <b>34.86</b>      |
| Goodwill arising on acquisition                                   | -                 | 0.56              |
| Total consideration transferred                                   | 38.19             | 35.42             |
| - thereof paid until end of the year                              | 8.68              | 35.42             |
| - thereof not paid until end of the year                          | 29.51             | -                 |
| Consideration paid on acquisition of subsidiaries during the year | 8.68              | 35.42             |
| Payments of cash for subsidiaries previously consolidated         | -                 | 32.99             |
| <b>Cash used on acquisition net of cash acquired</b>              | <b>8.68</b>       | <b>68.41</b>      |

## 30. ACQUISITION AND DISPOSALS OF SUBSIDIARIES (continued)

### b) Disposal of subsidiaries

During August 2010, Petrom Group disposed of 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).

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

|  | December 31, 2009 | December 31, 2010 |
|--|-------------------|-------------------|
| 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)          |
| <b>Net assets disposed off</b>                             | <b>-</b>          | <b>66.02</b>      |

#### Gain on disposal of subsidiaries

|  | December 31, 2009 | December 31, 2010 |
|--|-------------------|-------------------|
| 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             |
| <b>Gain on disposal of subsidiaries</b>  | <b>-</b>          | <b>30.90</b>      |

#### Net cash outflow on disposal of subsidiaries

|   | December 31, 2009 | December 31, 2010 |
|---|-------------------|-------------------|
| Net consideration received in cash and cash equivalents | -                 | 6.35              |
| Less cash and cash equivalents balances disposed off    | -                 | (13.28)           |
| <b>Net cash outflow on disposal of subsidiaries</b>     | <b>-</b>          | <b>(6.93)</b>     |

## 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.

## 32. COMMITMENTS AND CONTINGENCIES

### Commitments

As at December 31, 2010 the total commitments engaged by Petrom Group for investments amount to RON 1,816.86 million (December 31, 2009: RON 2,338.00 million).

### Other contingencies

Cash and bank accounts as at December 31, 2010 include an amount of RON 140.3 million representing cash restricted, mainly in relation with several litigation cases.

### Litigations

Petrom Group is making provisions against litigations that is 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.

## 32. COMMITMENTS AND CONTINGENCIES (continued)

### Contingent liabilities

OMV Petrom S.A. has granted a guarantee amounting to EUR 40.88 million (RON 175.17 million) to Vestas consortium, supplier of wind turbines installations for the newly acquired subsidiary Wind Power Park S.R.L. Taking into account the advance payment made to the supplier during the period (RON 43.79 million), the outstanding contingent liability as at December 31, 2010 is of RON 131.38 million. In addition, Petrom Group has other contingent liabilities amounting to RON 10.46 million, representing performance guarantees.

## 33. RISK MANAGEMENT

### Capital risk management

Petrom Group continuously manages its capital to ensure that entities in Petrom Group 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). The gearing ratio of Petrom Group as at December 31, 2010 was 12% (December 31, 2009: 16%) showing a decreasing exposure to leverage risk.

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

Petrom Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The Corporate Treasury function reports twice per year to Petrom Group's risk management committee, that monitors risks and policies implemented to mitigate risk exposures. Petrom Group's Risk Management actively pursues to minimize the effects of manageable risks (operational and financial as well).

Petrom Group's Corporate Treasury function supports the business with services and co-ordinates the access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of Petrom Group through internal risk reports which analyze the financial exposures degree and magnitude of risks. These financial risks include currency risk, fair value risk, interest rate risk, credit risk, market risk and liquidity risk.

### 33. RISK MANAGEMENT (continued)

#### Market risk management

Market Risk wise, Petrom Group's activities are exposed naturally to the risks arising out of marketing petroleum products and their accessory price volatility. This risk is considered, analyzed, evaluated and constantly mitigated for limited exposure in Petrom Group.

There has been no change to Petrom Group's exposure to market risks or the manner in which it manages and measures the risk.

#### Foreign currency 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.

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, 2009 | December 31, 2010 | December 31, 2009 | December 31, 2010 |
| Thousand USD | 676,572           | 782,203           | 303,411           | 107,032           |
| Thousand EUR | 22,369            | 95,669            | 629,250           | 886,585           |

#### Foreign currency sensitivity analysis

**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.

#### +10% Sensitivity increase in the foreign currencies rates

|                | Thousand USD Impact (i) |        | Thousand EUR Impact (ii) |          |
|----------------|-------------------------|--------|--------------------------|----------|
|                | 2009                    | 2010   | 2009                     | 2010     |
| Profit/ (Loss) | 58,659                  | 67,517 | (60,688)                 | (79,092) |
| Other equity   | (7,323)                 | -      | -                        | -        |

(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.



### 33. RISK MANAGEMENT (continued)

#### -10% Sensitivity decrease in the foreign currencies rates

|                | Thousand USD Impact (i) |          | Thousand EUR Impact (ii) |        |
|----------------|-------------------------|----------|--------------------------|--------|
|                | 2009                    | 2010     | 2009                     | 2010   |
| Profit/ (Loss) | (58,659)                | (67,517) | 60,688                   | 79,092 |
| Other equity   | 7,323                   | -        | -                        | -      |

(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.

From risk management perspective, Petrom Group is permanently monitoring and mitigating the FX risk exposure across its entire base of operations.

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.

#### 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 both derivatives and non-derivative instruments 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 used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

#### Analysis for change in interest rate risk

##### Variable rate borrowings

|                       | Balance as at     |                   | Effect of 1% change in interest rate |                   |
|-----------------------|-------------------|-------------------|--------------------------------------|-------------------|
|                       | December 31, 2009 | December 31, 2010 | December 31, 2009                    | December 31, 2010 |
| Short term borrowings | 161.69            | 358.06            | 1.62                                 | 3.58              |
| Long term borrowings  | 2,810.45          | 3,465.51          | 28.10                                | 34.66             |

#### Commodity price risk management

Petrom Group produces crude oil & gas and uses the crude oil mainly for its own production, but Petrom Group may also acquire crude oil from third parties. Financial instruments are used where appropriate to hedge the main industry risks associated with crude oil price volatility, such as the highly negative impact of oil price volatility on cash flow.

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.

### 33. RISK MANAGEMENT (continued)

These hedged volumes are covered until the end of 2011. The hedges will be settled on a quarterly basis in 2011.

In 2009, 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). For the period when the oil price was below USD 54/bbl in 2010, the hedge paid out the difference to the realized market price, while the Petrom Group was not able to profit from oil prices above USD 75/bbl in 2010 for the above stated volume. In case the oil price in 2010 was between the two intervals, no cash settlement was required. 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 amounted to RON 411.65 million, same as the related liability (see Note 15).

#### **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 and monitored at Petrom Group level using predetermined limits for specific countries, banks and business partners. On the basis of creditworthiness, customers are assigned maximum permitted exposures in terms of amounts and maturities, and the creditworthiness assessments are reviewed on a regular basis. The procedures are governed by guidelines.

Petrom Group does not have any significant credit risk 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.

Details of Petrom Group financial liabilities are shown in Note 14 and 16 to the Financial Statements.

### 34. SUBSEQUENT EVENTS

No significant events subsequent to the balance sheet date.









Petrom Group in figures 2010



**OMV PETROM S.A.**

Mailing address:

22 Coralilor Street, district 1

Bucharest, Romania

Phone: +40 (0) 372 868 930

Fax: +40 (0) 372 868 518

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