Directors' report – operational review

Business developments in 2011
Sales for the 2011 financial year were EUR 185.69 mn (2010: EUR 64.26 mn). As OMV Aktiengesellschaft is a pure holding company most of the sales consist of corporate service charges billed to the subsidiaries. Compared to the previous year the organizational structure together with the associated revenue and cost situation of the Group substantially changed due to the centralisation of Group functions in OMV Aktiengesellschaft. OMV Aktiengesellschaft did a one-time transaction with foreign legal entities for the sale and purchase of gasoil and condensate in 2011. All services out of this contract have been fully performed.

Earnings before interest and taxes (EBIT) were EUR (71.14) mn (2010: EUR (25.97) mn). Lower EBIT in 2011 is largely a reflection of higher consulting costs for executed refinancing measures in 2011 and the restructuring per January 1, 2011.

The **financial result** in 2011 was EUR 547.81 mn (2010: EUR 585.23 mn). The financial items of OMV Aktiengesellschaft as a pure holding company mainly consist of the dividends and other income from investments of the operative companies. Net income from investments was EUR 688.32 mn up on 2010 (EUR 769.69 mn).

The contribution of the companies in the **Exploration and Production (E&P)** segment excluding Petrom to income from investments rose to EUR 571.37 mn (2010: EUR 444.04 mn), the main factor behind this increase being higher crude prices.

The investment income contribution from the **Gas and Power (G&P)** segment excluding Petrom was EUR 16.36 mn, lower than the previous year (2010: EUR 79.24 mn). This was due to the termination of the profit and loss transfer agreement with Gas Connect Austria GmbH (previously OMV Gas GmbH) and the dividend payment was therefore shifted by one year.

Investment income from the **Refining and Marketing (R&M)** segment excluding Petrom decreased to EUR (82.72) (2010: EUR 35.6). This reduction was on the one hand mainly driven by the tense European refining margins and on the other hand by the dividend payment made by OMV Supply & Trading AG, established in Switzerland, and the sale of the participation of OMV Italia srl in 2010.

Investment
Key investment items in 2011 were capital injections to OMV Petrol Ofisi Holding Anonim Şirketi (previously OMV Enerji Holding Anonim Şirketi), and OMV Solutions GmbH, due to activities in Turkey, and to OMV E&P GmbH.

Cash flows from operating activities for 2011 came in at EUR 647 mn (2010: EUR 569.19 mn), and cash flows from investing activities negative by EUR (2,268.03) mn (2010: EUR (891.01) mn), while cash flows from financing activities came in at EUR 1,588.28 mn (2010: EUR 105.25 mn).

Net income for the year was EUR 531.60 mn (2010: EUR 602.58 mn). **Total assets** rose to EUR 12,913.60 mn (2010: EUR 10,545.72 mn).

At balance sheet date **stockholders' equity** including untaxed reserves stood at EUR 7,390.00 mn (2010: EUR 6,408.00 mn). The equity ratio as of December 31, 2011 was 57.23% (2010: 60.76%).

The ratio of **fixed assets** to total assets was 68.74% at balance sheet date (2010: 62.54%).

Return on equity (**ROE**), i.e. net income for the year divided by average shareholders' equity, was 7.71% (2010: 9.63%).

In 2011, the average **number of employees** at the holding company was 398 (2010: 128).

Information required by section 243a Unternehmensgesetzbuch (Austrian Commercial Code)

The following information is disclosed according to section 243a Austrian Commercial Code:

1. The capital stock amounts to EUR 327,272,727 and is divided into 327,272,727 bearer shares of no par value. There is only one class of shares.

2. There is a consortium agreement between the two core shareholders International Petroleum Investment Company (IPIC) and Österreichische Industrieholding Aktiengesellschaft (ÖIAG) which provides for coordinated behavior and certain limitations to transfers of stockholdings.

3. ÖIAG holds 31.5% and IPIC holds 24.9% of the capital stock.

4. All shares have the same control rights.

5. Employees who are shareholders directly exercise their voting right at the Annual General Meeting.

6. The Company's Executive Board must consist of two to six members. The Company's Supervisory Board must consist of at least six members elected by the Annual General Meeting and of the members nominated under section 110 (1) Arbeitsverfassungsgesetz (Austrian Labor Constitution Act). To approve capital increases pursuant to section 149 Aktiengesetz (Austrian Stock Corporation Act) and alterations of the Articles of Association (except those concerning the Company's objects), simple majorities of the votes and capital represented in adopting the resolution is sufficient.

7. a) The Executive Board was authorized by resolution of the Annual General Meeting held on May 13, 2009, to increase, subject to the consent of the Supervisory Board, the capital stock of the Company by May 13, 2014, in one or more tranches, by an aggregate amount not exceeding EUR 77.9 mn by issuance of up to 77,900,000 new common shares in bearer form against cash or contributions in kind, also to the exclusion of shareholders' rights of subscription in the event of contributions in kind and, subject to the consent of the Supervisory Board, to set the issue price and conditions of issuance (authorized capital). By partly exercising the said authorization, the Executive Board, based on its resolutions dated May 16, 2011 and June 6, 2011 and upon approval by the Supervisory Board, increased the capital stock from EUR 300,000,000 by EUR 27,272,727 to EUR 327,272,727 by issuing 27,272,727 new shares (capital increase in cash from authorized capital). As a result of the mentioned capital increase, the Executive Board is now authorized to increase, subject to the consent of the Supervisory Board, the capital stock of the Company by May 13, 2014, in one or more tranches, by an aggregate amount not exceeding EUR 50.6 mn by issuance of up to 50,627,273 new common shares in bearer form against cash or contributions in kind, also to the exclusion of shareholders' rights of subscription in the event of contributions in kind and, subject to the consent of the Supervisory Board, to set the issue price and conditions of issuance (authorized capital).

b) The capital stock has been conditionally increased by EUR 50.6 mn under section 159 (2) (1) Austrian Stock Corporation Act by issuance of up to 50,627,273 common shares in bearer form (conditional capital). The conditional capital increase will only be carried out if holders of the convertible bonds issued on the basis of the Annual General Meeting resolution held on May 13, 2009, exercise their right to convert them into the Company's stock.

c) The total number of new shares currently or potentially to be issued under the terms of the convertible bonds and the number of shares to be issued from the authorized capital may not exceed 50,627,273 (amount-related determination of authorizations in accordance with paragraphs a and b), whereby the conversion right of the holders of the convertible bonds must be granted in any case.

d) On May 17, 2011, the Annual General Meeting authorized the Executive Board to repurchase treasury shares up to 10% of the capital stock during a period of 30 months from the day of the resolution in question. Treasury shares can be repurchased via the stock exchange, by way of public tender or in any other legally permitted way and to any legally permitted purpose. The Executive Board has also been authorized to rescind treasury shares upon repurchase as well as treasury shares currently owned by the Company without any further resolution by the Annual General Meeting.

e) The Executive Board has also been authorized until May 16, 2016, upon approval by the Supervisory Board but without any further resolution by the Annual General Meeting, to sell or use treasury shares upon repurchase as well as treasury shares currently owned by the Company via the stock exchange, by way of public tender, or in any other way. In particular, treasury shares can be utilized (i) to satisfy stock option and Long Term Incentive plans for employees, executive staff and members of the Executive Board or the management of the Company or affiliated subsidiaries as well as other employees' bonus schemes, (ii) for convertible bonds, if issued, (iii) as a compensation for the acquisition of enterprises, participations or other assets and (iv) to any other legally permitted purpose. The general shareholders' subscription rights can be excluded and this authorization can be exercised wholly or partly.

8. In addition to the capital increase, a hybrid bond issue with a size of EUR 750 mn was completed on May 25, 2011. The hybrid will bear a fixed interest rate until April 16, 2018, thereafter a reset fixed rate (to be determined) until April 26, 2023 and thereafter a floating interest rate with a 100 basis points step up. The hybrid notes have no scheduled maturity date and may be redeemed at the option of OMV under certain circumstances. OMV has in particular the right to repay the hybrid notes at certain dates. In the case of a change of control OMV may call the hybrid notes for redemption or else the applicable interest rate will be subject to an increase according to the terms and conditions of the hybrid bond.

9. At December 31, 2011 no material agreements to which OMV is a party are in place which in case of change of control due to a take over offer would come into effect, be amended or terminated.

10. There are no agreements between the Company and members of the Executive Board and Supervisory Board or employees regarding the payment of compensation in the event of a public takeover bid.

11. The most important elements of the internal control and risk management system regarding the accounting process are the following: Standards for the internal control system are defined by internal Corporate Guidelines. Corporate Internal Audit controls the compliance with these standards through regular audits of individual group companies and informs the Audit Committee of the Supervisory Board about the results of the audits performed. 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, benchmarked against best practice (e.g. derivatives, debtors' management, accounting for fixed assets) and audited by the Company's auditors. 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.

Risk management

Risk management is a group-wide integrated function based in the Corporate Finance department at OMV Aktiengesellschaft. The group-wide risk identification and assessment process is coordinated by the department, while the entire risk portfolio is aggregated as a net position. A variety of risk management measures are taken on the basis of this position (which is mitigated by diversification effects), as part of the overall risk avoidance strategy. In particular, these measures address direct financial risks including interest rate, foreign exchange, liquidity and pension risk. Corporate Finance is also responsible for analyzing strategic market risk. In addition, OMV Aktiengesellschaft monitors the Group's exposure to investment risk (value at risk), as well as the transaction risks associated with major investments.

Interest rate and liquidity risk are managed by imposing limits. Derivatives (swaps) may be employed by Group Treasury for risk management purposes. For instance, some of the existing dollar and euro denominated loans were converted from fixed to variable rates in order to balance the Group's debt portfolio.

Price hedges are proposed to the Executive Board by the Financial Risk Committee, and are centrally managed. For 2011 OMV entered into USD hedges for an exposure of USD 1.621 bn at an average exchange rate of 1.3655. The USD hedges lead to a positive cash flow of EUR 26 mn (thereof EUR (3.6) mn in 2012). For 2012, swaps for 50,000 bbl/d were entered to secure an average price of USD 101/bbl throughout the year. To secure cash flow of USD 748 mn from currency fluctuations OMV entered into USD hedges at an average rate of 1.3616 for 2012. The currency hedges were concluded on behalf of OMV Aktiengesellschaft's affiliates and are disclosed in the affiliates' financial statements.

The key foreign currency risks are associated with the fluctuations of the USD against the EUR, RON and TRY. The Group has a net USD long position resulting mainly from sales of oil and gas production. Their effects on cash flow and/or the balance sheet (translation risk) as well as the correlation with the oil price are also regularly monitored. The currency risk associated with investments (translation risk) – i.e. the potential impact on the income statement and balance sheet – is centrally monitored. OMV is exposed to currency translation risk by major investments in Romania and Turkey.

Credit risk exposure associated with the Group's main counterparties is managed on the basis of counterparty limits and bank limits. The risks related to banks, financial institutions, security provider and counterparties are centrally managed by Corporate Finance and at segment level based on centrally managed limits.

The fact that Group financing is highly centralized means that OMV Aktiengesellschaft is necessarily obliged to assume the default risk on behalf of Group companies. Frequent reviews of corporate intra-year liquidity planning permit constant monitoring of Group companies' status, and enable countermeasures to be taken where necessary. The investments are regularly tested for impairment, using generally accepted valuation methods. Impairment is recognized as necessary.

Sustainability & HSSE
(health, safety, security, environment)

As an integrated, international oil and gas company, our vision is to secure future energy resources for the common good. Our approach to achieve this has been revised in 2011. The new Resourcefulness concept covers all sustainability issues. Overall responsibility lies with the CEO of OMV who also established a corporate Sustainability department.

The formulation of the Group's HSSE Strategy and the setting of annual Balanced Score Card targets for the entire Group is lead and coordinated by the Corporate HSSE department in consultation with all Business Segments and Petrom. In 2011, the group-wide functional HSSE Strategy was reviewed and updated in light of the new business strategy.

In 2011, there was no work accident registered in OMV Aktiengesellschaft. One near miss and 139 hazards and findings were reported. On November 4, the first OMV Global Safety day took place in the Vienna head office with a live transmission to 41 other OMV locations worldwide. Awareness for health, safety, security and environmental issues was further raised through training courses and information events like HSSE Hours with the topics: Road Safety, High Potential Incidents, Process Safety, and Work-Life-Balance. Safety management in the head office in Vienna focused on ergonomics including training and practice alarm trainings with more than 1,800 employees participating in several drills. A new emergency hotline was installed.

The Center of Occupational Health provides regular medical service and a number of health-related training workshops. Physiotherapists and nutritionists are available on a regular basis. Voluntary health checks on life-style related health risks, such as cholesterol, blood sugar levels, nutrition, smoking and drinking habits were offered to the employees. The prevention programs 2011 were dedicated to eyes, skin and intestinal checking aspects with a large number of employees participating. A self-defense course for women and men in cooperation with the Vienna police was conducted in autumn and will be offered again 2012.

In 2011, the Annual General Meeting, the Supervisory Board meetings and the annual meeting of the legal experts were organized carbon neutral.

Subsequent events

On February 22, 2012 ExxonMobil Exploration and Production Romania Limited (EMEPRL), an affiliate of ExxonMobil Corporation and OMV Petrom SA, the 51% subsidiary of OMV Aktiengesellschaft, confirmed a potentially significant gas discovery offshore Romania.

Operated by ExxonMobil, the Domino-1 well is the first deep water exploration well offshore Romania and has a total depth of more than 3,000 meters below sea level. The Domino-1 well is located in the Neptun Block, 170 kilometers offshore in water approximately 930 meters deep.

The exploration well encountered 70.7 meters of net gas pay, resulting in a preliminary estimate for the accumulation ranging from 1.5 to 3 trillion cubic feet (42 to 84 billion cubic meters). Drilling operations started at year-end 2011 and are in the process to be finalized.

ExxonMobil and OMV plan new 3D seismic acquisition during 2012. The evaluation of the Domino-1 well results and the new seismic will determine next steps. It is too early in the data evaluation and exploration process to determine whether the Neptun block will ultimately prove to be commercially developable or not. However, should further work confirm the technical and commercial feasibility of deep water gas production from the Neptun block, further investment during both the exploration and development phases could reach several billion USD with the potential for first production towards the end of the decade at the earliest.

Outlook for 2012 for OMV Group

For 2012, we expect the main market drivers to remain highly volatile. We expect the average Brent oil price for the year to be above 100 USD/bbl. We would also anticipate continuing volatility for the relevant FX rates. Refining margins are expected to recover somewhat due to improved demand for middle distillates. Whereas Petrochemical margins are expected to decrease compared to 2010 due to world-wide additional production capacities. Marketing volumes as well as margins are expected to remain under pressure due to the weak economic environment. To partly secure the Group's cash flow in 2012, OMV entered into oil price swaps in 2011, locking in a Brent price of approx. USD 101.5/bbl for a volume of 50,000 bbl/d (thereof 30,000 bbl/d at Petrom level) for 2012. Furthermore, EUR-USD average rate forwards at USD 1.36 are used to hedge an exposure of approx. USD 750 mn in 2012. Maintaining the Group's strong investment grade credit rating and a stable financial position remains a key focus. It is one of OMV's highest priorities to reach world class HSSE standards including the reduction of the LTI rate (lost-time injury).

Vienna, March 20, 2012

The Executive Board

Gerhard Roiss
Chief Executive Officer and Chairman
of the Executive Board

David C. Davies
Deputy Chairman of the Executive Board
Chief Financial Officer

Hans-Peter Floren
Member of the Executive Board
Gas and Power

Jacobus Gerardus Huijskes
Member of the Executive Board
Exploration and Production

Manfred Leitner
Member of the Executive Board
Refining and Marketing including
petrochemicals