

## Directors' report – operational review

### Business developments in 2013

**Sales** for the 2013 financial year were EUR 131.80 mn (2012: EUR 133.66 mn). As OMV Aktiengesellschaft is a pure holding company most of the sales consist of corporate service charges billed to the subsidiaries, which slightly declined compared to the previous year.

**Earnings Before Interest and Taxes (EBIT)** were EUR (48.24) mn (2012: EUR (34.73) mn). Lower EBIT in 2013 was mainly coming from higher marketing and selling expenses.

The **financial result** in 2013 was EUR 193.07 mn (2012: EUR 811.34 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 at EUR 320.75 mn and thus substantially below 2012 (EUR 1,013.69 mn).

The contribution of the companies in the **Exploration and Production (E&P)** segment excluding Petrom showed a decrease in income from investments compared to previous year and was at EUR 220.00 mn (2012: EUR 666.40 mn) mainly due to the cancelation of the profit pooling agreement with OMV Exploration & Production GmbH and lower production volumes.

The investment income contribution from the **Gas and Power (G&P)** segment excluding Petrom of EUR (102.85) mn was lower than the previous year (2012: EUR 37.16 mn). The lower result reflects the challenging market environment.

Investment income from the **Refining and Marketing (R&M)** segment excluding Petrom decreased to EUR nil (2012: EUR 48.82 mn). This decrease was mainly due to an allocation of revenue reserves in OMV Refining & Marketing GmbH, based on articles of association.

### Investment

Key investment items in 2013 were capital injections to OMV Australia PTY LTD, OMV Solutions GmbH, and to OMV Exploration & Production GmbH.

**Cash flows** from operating activities for 2013 amounted to EUR 948.72 mn (2012: EUR 603.45 mn), and cash flows from investing activities to EUR (1,697.99) mn (2012: EUR (103.74) mn) and cash flows from financing activities to EUR 133.38 mn (2012: EUR 240.71 mn).

**Net income** for the year amounted EUR 192.37 mn (2012: EUR 817.75 mn).

**Total assets** rose to EUR 14,332.30 mn (2012: EUR 13,889.14 mn).

At balance sheet date, **stockholders' equity** including untaxed reserves stood at EUR 7,657.55 mn (2012: EUR 7,855.30 mn). The equity ratio as of December 31, 2013 was 53.43% (2012: 56.56%).

The ratio of **fixed assets** to total assets was 87.98% at balance sheet date (2012: 65.16%).

Return On Equity (**ROE**), i.e. net income for the year divided by average stockholders' equity, was 2.48% (2012: 10.74%).

In 2013, the average **number of employees** at the holding company was 405 (2012: 419).

### 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, Österreichische Industrieholding Aktiengesellschaft (ÖIAG) and International Petroleum Investment Company (IPIC), 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 has been 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 any 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 of up to 10% of the capital stock during a period of 30 months from the day of the resolution in question. Treasury shares could be repurchased via the stock exchange, by way of public tender or in any other legally permitted way and to any legally permitted purpose until November 16, 2013. The Executive Board had 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 until the same date.

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 with a size of EUR 750 mn was placed on the market on May 25, 2011. As the repayment of principal and the payments of interest are solely at the discretion of OMV, according to IFRS, the proceeds of the hybrid bond (less costs of issuance) were fully treated as equity. The hybrid bears a fixed interest rate of 6.75% until April 26, 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 bond has 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 bond at certain dates. In the case of a change of control, OMV may call the hybrid bond 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, 2013, no other material agreements to which OMV is a party are in place which in case of change of control due to a takeover 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, based on the annual audit plan approved by the audit committee, or through ad-hoc audits. The results of those audits are presented to the audit committee. 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. For the main "End-to-end" processes (e.g. Purchase-to-Pay, Order-to-Cash) group-wide standards are defined. Based on a rolling time plan, the implementation and the effectiveness are being monitored. 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**

OMV is an integrated, international oil and gas Group. Its operations extend from hydrocarbon exploration and production and processing through to trading and marketing of mineral products and gas. Furthermore, OMV is operating two gas-fired power plants, in Romania and in Turkey. In common with the entire oil and gas industry, OMV is exposed to a variety of risks – including market, operational, strategic, regulatory and political as well as hazard risks. It is OMV's view that the Group's overall risk is significantly reduced due to its substantial diversification and the related, partially offsetting effects of different risks. The balancing effects of offsetting industry risks, however, often lag or can weaken. Therefore, OMV's risk management activities focus on the group-wide net risk exposure of the existing and future portfolio. The areas of risk management and insurance are centrally coordinated within the Corporate Finance department, which ensures that well-defined and consistent risk management processes, tools and techniques are applied in the entire organization.

The overall objective of the risk policy is to safeguard the cash flows required by the Group for growth and to maintain a strong investment grade credit rating in line with the Group's risk appetite. New business strategies and the associated risks are also monitored with respect to rating implications. Financial risks (e.g. market prices, currencies) are reviewed quarterly by the Financial Risk Committee. A cross functional committee with senior management members of OMV Group – the Risk Committee – ensures that an Enterprise Wide Risk Management (EWRM) program is in place to effectively manage the integrated risks across OMV.

EWRM is continuously enhanced. The main purpose is to deliver value through risk-based management decision making. Thorough assessment of financial, operational and strategic risks should support the exploitation of business opportunities in a systematic manner in order to ensure sustainable growth in OMV's value. Since 2003, the EWRM system has helped to enhance risk awareness and risk management skills across the entire organization, including subsidiaries in more than 20 countries.

The risk culture is supported by an IT application facilitating the risk management processes established within OMV Group: Risk identification, risk analysis, risk evaluation, risk treatment, reporting and risk reviewing through continuous surveillance of changes to the risk profile. Overall risk resulting from the bottom-up risk management process is computed with the aid of Monte Carlo simulations and compared against planning data. This is further combined with a senior management view from a top-down approach to capture the strategic risks. Reports on the findings of the EWRM process, together with risk reports from material associated companies, are submitted to the Executive Board and to the Audit Committee twice a year. In compliance with the Austrian Code of Corporate Governance, the effectiveness of the EWRM system is evaluated by the external auditor on an annual basis. The key non-financial and financial risks identified in respect of OMV's medium-term plan are market price risks, political risks, regulatory and compliance risks, business process risks, foreign exchange risks (particularly relating to the USD, RON and TRY), project risks, personnel risks as well as hazard risks.

Although OMV has extensive experience in the political environment in CEE and SEE and in its core oil and gas production areas, political developments in all markets where OMV operates are kept under constant observation. Furthermore, country-specific risks are assessed before entering new countries. Risks related to the EU Emission Trading Scheme (EU ETS) are separately recorded, aggregated for the Group as a whole, and monitored by a group-wide committee (Carbon Steering Committee) at an ongoing basis. In particular, the impact of the revised allocation rules in the EU ETS from 2013 onwards is being analyzed in detail. Furthermore, OMV is monitoring emerging regulations related to climate change in all operating countries. Through systematic staff succession and development planning, Corporate Human Resources plans for suitable managerial staff to meet future growth requirements in order to mitigate personnel risks.

Control and mitigation of identified and assessed risks takes place at all organizational levels using clearly defined risk policies and responsibilities. The key Group risks are governed centrally to ensure the ability to meet the strategic objectives, through the essence of corporate directives, including 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.

Analysis and management of financial risks arising from foreign currencies, interest rates, commodity prices, counterparties, CO<sub>2</sub> emissions, liquidity as well as insurable risks are undertaken in a consolidated way within Corporate Finance.

Market price risk is monitored and analyzed centrally as to the potential cash flow impact using a specific risk analysis model that considers portfolio effects. Results of the risk analysis are discussed by the Financial Risk Committee comprising senior management of the business segments and corporate functions. Proposals for hedging strategies are submitted to the Executive Board for approval.

The primary foreign currency risks are related to the exposure of the USD against the EUR, the RON and the TRY. The Group has a net USD long position, mainly

resulting from sales of oil and gas production. The effects on cash flows and/or the statement of financial position (translation risk) as well as the correlation with the oil price are regularly monitored. Translation exposure also arises from consolidation of assets in Turkey, Romania and Norway.

To balance the Group's interest rate portfolio, some USD and EUR denominated loans were converted from fixed to floating rates and vice versa, according to predefined rules. The main counterparty credit risks are assessed, monitored and controlled at Group and segment level, using predetermined credit limits for all counterparties, banks and security providers. The procedures are governed by guidelines at OMV, Petrom and Petrol Ofisi level.

#### **Sustainability & HSSE (Health, Safety, Security, Environment)**

OMV has a long history of sustainability management, and a track record that reflects its sense of responsibility towards society and the environment. During 2013, OMV made good progress in implementing the sustainability concept "Resourcefulness" which puts sustainability at the heart of OMV's business and aims to create long-term, sustainable win-win situations for society, environment and OMV. It is a key enabler of the strategy "Profitable Growth". Resourcefulness initiatives focus on Education & Development, Environmental Management and New Energies. While the overall responsibility lies with the CEO of OMV, OMV set up a clear Sustainability governance structure, including a central Sustainability department, an internal steering committee and an external "Resourcefulness Advisory Board", consisting of experts advising OMV on the further development of Resourcefulness.

The Corporate HSSE department leads and coordinates, according to the business' and Petrom's demands, the formulation of the group-wide HSSE-Strategy and targets in the balanced scorecard.

In 2013, there has not been any accident within OMV Aktiengesellschaft. One near miss and 126 findings and hazards were reported.

Awareness for HSSE was strengthened in 2013 by various info and training events.

On June, 20, 2013 the OMV Global Safety day took place for the second time. At this global event, OMV headoffice's and OMV facilities' employees had the opportunity to discuss process safety related topics as well as the 8 Golden Rules, introduced in 2012. 353,349 hours of HSE training were completed group-wide in 2013.

Besides medical consultation, the medical center offers various training opportunities. Employees, specialized on physiotherapy and dieticians, are available on a regular basis. Relating health care, one blood donation event and a pilot scheme to evaluate and prevent psychological stress, to be continued in the upcoming years, have been conducted.

In 2013, the annual stakeholder's meeting, the Supervisory Board meetings and the annual meeting of legal experts took place climate neutrally.

#### Research and Development

OMV Aktiengesellschaft is not performing research and development projects itself, but coordinates the group-wide research and development projects.

#### Subsequent events

At the end of **January 2014**, the Matuku-1 exploration well (New Zealand) completed drilling. The final results did not confirm the presence of commercial quantities of hydrocarbons. This will lead to a write-off in Q1/14 amounting to approximately EUR 40 mn.

On February 28, 2014, Austria published the „Abgabenänderungsgesetz 2014“ amending several

federal tax laws. Some of these amendments already became effective on March 1, 2014. The most important amendment for OMV was a change within the Corporate Income Tax Law which requires under certain conditions a recapture of foreign tax losses resulting from foreign permanent establishments. The recapture amount would be added to the tax base spread over the years 2016 to 2018. As the affected losses would have been recaptured according to the previously valid legislation once the respective foreign operations turned positive and the foreign losses were utilized locally, an early recapture would have only immaterial interest effects.

#### Outlook for OMV Group

The current upstream portfolio, including the completion of projects under development, should enable OMV to reach a production level of approximately 400 kboe/d and a three-year average Reserve Replacement Rate of 100% by 2016. Average group CAPEX for the period 2014-2016 is expected to be EUR ~3.9 bn p.a. with roughly 80% being directed to E&P. Assuming market conditions similar to those currently prevailing, the Group's operating cash flow and planned divestments are expected to be adequate to fund this investment program as well as the dividends to shareholders with the gearing ratio remaining in line with the long-term target of  $\leq 30\%$ . ROACE performance in the mid-term will be adversely affected by capital consumed in project developments, though it will return towards target levels as these developments come on stream. The dividend is expected to increase in line with net income attributable to stockholders (payout ratio 30%).

Vienna, March 19, 2014

The Executive Board



Gerhard Roiss



David C. Davies



Hans-Peter Floren



Jaap Huijskes



Manfred Leitner