Directors’ report – operational review

Business developments in 2014

Sales for the 2014 financial year were EUR 132.09 mn (2013: EUR 131.80 mn). As OMV Aktiengesellschaft is a pure holding company most of the sales consist of corporate service charges billed to the subsidiaries, which slightly increased compared to the previous year.

Earnings Before Interest and Taxes (EBIT) were EUR (36.35) mn (2013: EUR (48.24) mn). Higher EBIT in 2014 was mainly coming from lower personnel expenses related to incentive programs.

The **financial result** in 2014 was EUR (775.24) mn (2013: EUR 193.07 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 (697.36) mn and thus substantially below 2013 (EUR 320.75 mn), mainly because of impairments of participations in 2014. For the investment in OMV Petrol Ofisi A.Ş., an impairment of EUR 1,067.57 mn (2013: EUR nil) has been reported, mainly due to a regulatory intervention (margin ceiling) and an overall higher risk assessment in Turkey.

The contribution of the companies in the **Exploration and Production (E&P)** segment excluding OMV Petrom was in line with previous year’s dividend, at EUR 200.00 mn (2013: EUR 220.00 mn).

The investment income contribution from the **Gas and Power (G&P)** segment excluding OMV Petrom of EUR 13.32 mn was above the previous year (2013: EUR (102.85) mn). The result 2013 was substantially influenced by the challenging market environment and impairments of participations.

Investment income from the **Refining and Marketing (R&M)** segment excluding OMV Petrom decreased to EUR (67.40) mn (2013: EUR nil). The lower result compared to 2013 was mainly related to the drastic decrease of oil and product prices at year end, which lead to substantial effects from inventory valuation. In 2013, revenue reserves were allocated in OMV Refining & Marketing GmbH, based on articles of association.

Investment

Key investment items in 2014 were capital injections to OMV Petrol Ofisi Holding Anonim Şirketi, OMV Solutions GmbH, and to OMV Exploration & Production GmbH.

Cash flows from operating activities for 2014 amounted to EUR 64.48 mn (2013: EUR 948.72 mn), and cash flows from investing activities to EUR (160.18) mn (2013: EUR (1,697.99) mn) and cash flows from financing activities to EUR 17.10 mn (2013: EUR 133.38 mn).

Net loss for the year amounted to EUR (920.31) mn (2013: EUR 192.37 mn net income for the year).

Total assets decreased to EUR 13,386.42 mn (2013: EUR 14,332.30 mn).

At balance sheet date, **stockholders’ equity** including untaxed reserves stood at EUR 6,333.26 mn (2013: EUR 7,657.55 mn). The equity ratio as of December 31, 2014, was 47.31% (2013: 53.43%).

The ratio of **fixed assets** to total assets was 93.69% at balance sheet date (2013: 87.98%).

Return On Equity (**ROE**) was (13.16)% (2013: 2.48%).

In 2014, the average **number of employees** at the holding company was 442 (2013: 405).

For definitions of these ratios, readers are referred to the glossary of abbreviations and definitions, which is an integral part of the Directors’ report.

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 was 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) With regard to the expiration on May 13, 2014 of the authorized capital decided upon by the Annual General Meeting on May 13, 2009, the Annual General Meeting has authorized the Executive Board on May 14, 2014, subject to the approval of the Supervisory Board, to increase by May 14, 2019, once or in several tranches, also by way of indirect offer for subscription after taking over by one or several credit institutions according to Section 153 Paragraph 6 Stock Corporation Act, against cash contributions, the share capital by not more than EUR 32,727,272 by issuing up to 32,727,272 new no-par value common voting shares in bearer form. Subject to the approval of the Supervisory Board, the Executive Board has been authorized to exclude in this connection the subscription right of the shareholders (i) to adjust fractional amounts or (ii) to satisfy stock options or Long Term Incentive Plans including Matching Share Plans for employees, senior employees and members of the Executive Board/ management boards of the Company or one of its affiliates, or other employees' stock ownership plans and subject to the approval of the Supervisory Board, to set the issue price and conditions of issuance (authorized capital).

The Supervisory Board has been authorized to adopt amendments to the Articles of Association resulting from the issuance of shares according to the authorized capital.

c) 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.

d) 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. 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, 2014, 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 company. 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, financial 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 across the entire organization.

The overall objective of the risk policy is to safeguard the cash flows required by the Group 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 the OMV Group – the Risk Committee – ensures that an Enterprise Wide Risk Management (EWRM) program is in place to effectively manage the integrated risks across the OMV Group.

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, NOK 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) on 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_2 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 RON, USD, TRY and NOK currency exposure. 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 Romania, Turkey, Norway and USD functional affiliates.

To balance the Group's interest rate portfolio, loans can be 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, OMV Petrom and Petrol Ofisi level.

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

At OMV, we have a long tradition of responsibility towards society and the environment. In 2014, we embedded sustainability further in our operations. Together with the wider oil, gas and energy sectors, we face a global rise in demand, increased scrutiny and more stringent environmental and social requirements. Our industry is facing stricter environmental regulatory requirements, notably in Europe in relation to the European Union's 2020 emissions reduction targets. The OMV sustainability strategy, "Resourcefulness", focuses on achieving profitable growth in a sustainable and responsible way. Being in the natural resources business, we see it as our responsibility to secure energy supply for the present and for the future.

Sustainability Governance: Our "Resourcefulness" strategy is managed and overseen by two governance bodies: the Resourcefulness Executive Team comprises representatives of each "Resourcefulness" topic and business segment and is responsible for further developing the "Resourcefulness" strategy and implementing it into operations; the Resourcefulness Advisory Board comprises high ranking external experts who advise us on how we can best develop the strategy, as well as providing feedback on current programs.

HSSE is a key value of our business. The physical and mental well-being and safety of our people, as well as the integrity of our operating facilities is of crucial importance to us. Loss prevention and proactive risk management are essential to maintaining OMV's license to operate. In 2014, OMV provided group-wide 281,952 HSSE training hours for its employees. OMV's goal is to optimize the processes in order to use natural resources as efficiently as possible, and to reduce emissions and discharges.

Research and Development

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

Subsequent events

The Supervisory Board decided to integrate the business segment Gas and Power into the business segment Refining and Marketing, thereby creating a combined business segment Downstream headed by Executive Board member Manfred Leitner as of January 1, 2015.

Outlook for OMV Group

In order to reflect the significant decline of the oil price together with the unpredictability of our Libyan production, we have scaled back our investment program. The guidance for the average Group CAPEX for the period 2015-2017 is at approximately EUR 2.5 to 3.0 bn p.a. (the lower end of the range represents an oil price assumption of approximately USD 50/bbl going forward for the next three years) with roughly 80% being directed to Upstream. While we remain committed to the major projects expected to contribute to our previously stated 2016 production target of ~400 kboe/d, the changes to the investment program will inevitably lead to a delay in reaching this production level. Our target remains to achieve a broadly neutral free cash flow after dividends over the medium term. The revisions to the investment program support us in this objective. ROACE performance in the mid-term will be adversely affected by capital invested in field development projects as well as by the low oil price. We continue to stay committed to our long-term gearing ratio target of ≤30% and to our dividend policy (long-term payout ratio target of 30%).

Vienna, March 18, 2015

The Executive Board

Gerhard Roiss
Chairman

David C. Davies
Deputy-Chairman

Jaap Huijskes

Manfred Leitner